INTERNATIONAL MONETARY FUND

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THE BAHAMAS

May 2022

2022 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 2022 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 May 4, 2022 consideration of the staff report that concluded 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 May 4, 2022, following discussions that ended on March 11, 2022, 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 April 15, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for The Bahamas.

The document listed below has been or will be separately released.

Selected Issues

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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PRESS RELEASE

PR22/141

IMF Executive Board Concludes 2022 Article IV Consultation with The Bahamas

FOR IMMEDIATE RELEASE

Washington, DC – **May 09, 2022:** On May 4, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with The Bahamas.

The Bahamas is experiencing a tourism-led rebound. The economy expanded by almost 14 percent in 2021, as net tourism receipts tripled relative to 2020. The strong recovery is expected to continue in 2022, with real GDP growth projected at 8 percent. The war in Ukraine, which adds considerable uncertainty to the outlook, is expected to affect The Bahamas primarily through higher commodity prices. Staff expects average inflation to increase to 6¾ percent in 2022 and to only gradually decrease as supply chain constraints wane.

The pandemic has deepened medium-term growth challenges and public finances have deteriorated. The young experienced significant learning losses, and employment will take time to recover. Additionally, there may be lasting effects of the pandemic on travel, shifts in technology and climate risks. The new administration has pledged relief through tax cuts and increasing outlays on investment and education. However, with public debt close to 100 percent of GDP amid elevated financing costs, there is limited room for maneuver.

The government seeks to rebuild fiscal buffers over the medium-term. The fiscal deficit is expected to halve this year, to about 6¾ percent of GDP. The authorities plan to achieve a medium-term fiscal surplus of 1½ percent of GDP, mainly through tax collection enhancements to reduce public debt to the target of 50 percent over the next ten years. The central bank continues to focus on preserving the peg to the U.S. dollar and phased out the pandemic-related capital flow management measures last year. The banking sector has strong capital positions, and the expiration of the pandemic-related loan moratoria led to only a small increase in non-performing loans. The current account deficit improved to 19.7 percent in 2021 in line with the tourism recovery but is expected to remain elevated in the near-term given import price pressures. International reserves remain at a comfortable level, boosted by the IMF's new general allocation of SDRs last year.

[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.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the strong economic rebound, supported by the authorities' decisive policy response and the recovery in tourism. Directors cautioned that downside risks to growth persist, including from rising inflationary pressures and pandemic-related uncertainty. In that context, Directorsstressed the need to safeguard the recovery, preserve debt sustainability, and promote sustainable, inclusive, and diversified growth.

Directors emphasized the importance of rebuilding buffers and ensuring debt sustainability in the context of a medium-term fiscal consolidation plan. Noting that sizable financing needs are likely to persist, Directors also encouraged a more robust debt management strategy. They commended the authorities' efforts to enhance revenue administration and stressed the need for a meaningful tax reform and expenditure rationalization to create space for health, education, and investment spending, as well as targeted support to the most vulnerable. Reforms of state-owned enterprises and pensions aswell as improvements in fiscal transparency and accountability would be important steps to help strengthen credibility.

Directors noted that the peg to the US dollar has been an anchor for macroeconomic stability. They encouraged the central bank to allow interest rates to rise, as necessitated bymarket conditions. Directors highlighted that a temporary tightening of capital flow management measures could be appropriate if the global market environment deteriorated sharply. They also called for amendments to the Central Bank Act to safeguard its independence.

Directors recognized the potential of the Sand Dollar to foster financial inclusion and recommended that the central bank accelerate its education campaigns and continue strengthening internal capacity and oversight. A robust supervisory and regulatory framework for the growing virtual assets sector would also be important.

Noting the resilient financial sector, Directors highlighted the importance of further strengthening bank recovery and resolution and the AML/CFT frameworks. They encouraged measures to update the supervisory framework for bank intervention to ensure effective utilization of early warning indicators.

Directors emphasized that well-targeted structural reforms would enhance productivity and resilience. They called for measures to address education gaps and the expected

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[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.

slow recovery in private investment. Directors recommended advancing energy sector reforms and modernizing public services. They called for strong efforts to address vulnerabilities to climate change and natural disasters, including through a comprehensivedisaster resilience strategy, and highlighted the important role of the donor community.

The Bahamas: Selected Economic Indicators

	2020	2021	2022	2023	2024	2025	2026	2027
		est.				proj.		
Real GDP (annual % change)	-23.8	13.7	8.0	4.1	3.0	1.9	1.6	1.5
Unemployment rate (%)	25.6	18.1	13.9	12.7	12.3	11.9	11.6	11.4
Current account balance (% of GDP)	-24.0	-19.7	-18.0	-12.5	-8.8	-7.7	-6.8	-6.2
CPI inflation (%, end of period)	1.2	4.1	7.3	3.4	3.1	2.7	2.6	2.2
CPI inflation (%, period average)	0.0	2.9	6.7	4.8	3.3	2.9	2.6	2.4
Fiscal overall balance (% of GDP) 1/	-7.2	-13.7	-6.7	-3.0	-3.0	-2.6	-2.3	-2.1
Fiscal primary balance (% of GDP) 1/	-4.1	-9.4	-2.7	0.7	1.0	1.4	1.6	1.8
Government debt (% of GDP) 1/	75.0	103.3	90.6	84.2	82.8	81.7	81.1	80.4

Sources: The Bahamian authorities; and IMF staff calculations.

1/ Fiscal year (FY, July 1 - June 30)

THE BAHAMAS

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

April 15, 2022

KEY ISSUES

Context. The Bahamas is experiencing a tourism-led rebound. Real GDP growth in 2021 was close to 14 percent, as stayover tourist arrivals doubled relative to 2020. The economy is projected to expand by 8 percent in 2022. Nonetheless, it will likely take until 2024 to return to the 2019 level of GDP and the pandemic has given rise to significant human and social costs. The country's medium-term growth challenges are likely worse than before, and public finances are in a more precarious state. Risks are skewed downwards given a difficult near-term financing situation, rising inflationary—and potentially BOP—pressures because of the war in Ukraine, an ongoing threat from the evolving pandemic, and the country's high vulnerability to natural disasters.

Fiscal policy. Ensuring debt sustainability is key. A credible medium-term fiscal plan should aim to rebuild fiscal space through tax administration enhancements, a well-designed tax reform, and a substitution from unproductive spending to greater outlays on resilience, education, and health. Enhancing fiscal transparency and accountability would help strengthen credibility.

Exchange rate peg. In the face of sustained outflows caused by either domestic or global factors, domestic short-term interest rates should be allowed to rise to levels that would support the pegged exchange rate regime without a loss of international reserves. In a more extreme scenario, temporary capital flow management measures could be considered to provide some breathing space to put in place a macroeconomic policy response.

Supply-side policies. The Bahamas can exploit its comparative advantages of high levels of human capital and a developed international financial system to advance digitization, modernize the insolvency regime, facilitate job and skills-matching, advance mitigation and adaptation investments, and establish a robust, multi-year disaster resilience strategy.

Approved By
Nigel Chalk (WHD) (SPR) and Andrea Schaechter (SPR)

Discussions took place in hybrid format during March 1–11, 2022. The team comprised Anke Weber (head), Katharina Bergant, Andrea Medici, and Atsushi Oshima, with assistance from Sheng Tibung and Tianle Zhu (all WHD). Input to the consultation was also provided by Serhan Cevik (EUR), Sebastian Grund (LEG), Shafik Hebous (FAD), Gregor Schwerhoff (RES), Gabriel Soderberg (MCM), Tessy Vasquez Baos (WHD), Nate Vernon (FAD), and Enrico Mallucci (Federal Reserve Board of Governors). Latoya Smith (OED) participated in the meetings and Philip Jennings (OED) joined the concluding meeting. The mission held discussions with Prime Minister Davis, Deputy Prime Minister and Minister of Tourism Cooper, Minister of Economy Halkitis, Central Bank Governor Rolle, Financial Secretary Wilson, other Ministers and senior government officials, the Fiscal Council, and private sector and civil society representatives.

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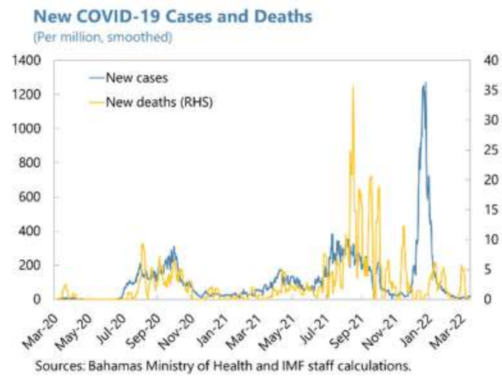
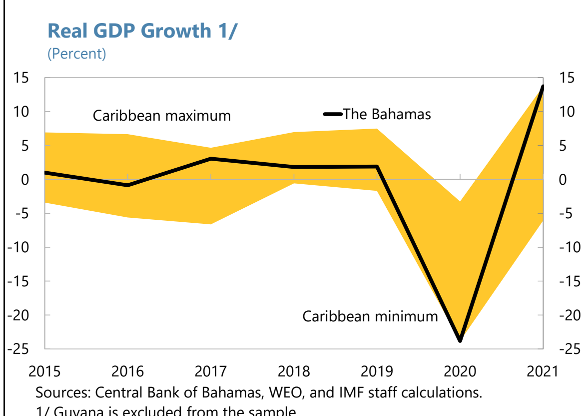
ANNEXES

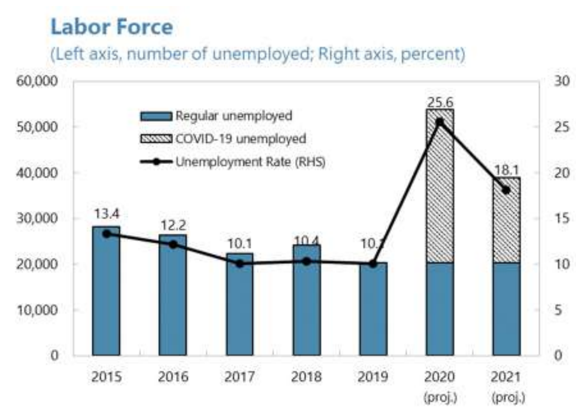
RECOVERY FROM THE PANDEMIC

1. **COVID-19 has exacted a tragic toll on The Bahamas, but the economy is starting to get back on its feet.** More than 33,368 cases have been reported as of April 2022, with over 789 deaths (Figure 1). Containment measures were put in place in March 2020 and subsequently eased through successive waves of the pandemic. The rapid surge in cases in late 2021 because of the Omicron variant has now quickly subsided. With about forty percent of the population fully vaccinated, The Bahamas is lagging other countries in the region.



2. **There was a significant economic rebound in 2021.** The economy contracted by almost 24 percent in 2020, as tourism receipts fell by more than 75 percent. Starting in the second half of 2021, air arrivals saw a steep rebound, recovering to half of 2019 levels in 2021, while cruise arrivals, that were initially more subdued, have recently ticked up (Figure 2). Coupled with a rebound in construction activity, output expanded by around 14 percent in 2021. Labor market conditions are improving, but remain challenging, with unemployment estimated at around 18 percent at end-2021 compared to over 25 percent in 2020.[1]



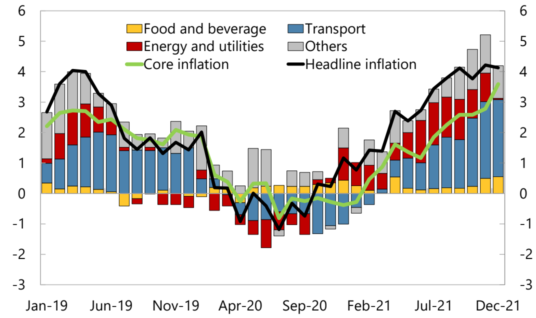


Sources: Central Bank of Bahamas, Bahamas National Statistical Institute, WEO, and IMF staff calculations.
Notes: Unemployment estimates based on unemployment benefit recipients' data.

[1] The latest available unemployment data are from 2019, with the next labor force survey planned in May 2023.

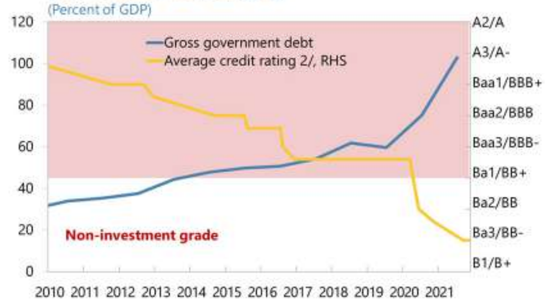
3. Price pressures are building. Given the one-to-one peg to the U.S. dollar and high import content of the consumer basket, domestic prices are strongly influenced by U.S. and global developments. The consumer price index (CPI) increased by 4.1 percent year-on-year (y-o-y) in December, driven by energy and transportation and, more recently, food prices.

Headline and Core Inflation
(Percent, yoy)



Sources: Central Bank of Bahamas and IMF staff calculations.

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.

4. Public finances are in a perilous state. Fiscal buffers were already drawn down to fund recovery and reconstruction from Hurricane Dorian. The collapse in revenues that followed the pandemic, combined with the government's swift response measures—food assistance, extension of unemployment benefits duration, tax deferrals and business loans—pushed the fiscal deficit up to 13.7 percent of GDP in FY2020/21 (July to June) (Figure 3). Public debt rose steeply to over 100 percent of GDP by end-2021. The authorities met their increased financing needs from external borrowing (including the IMF's Rapid Financing Instrument in June 2020). While revenues have doubled year-on-year in the first half of FY2021/22, spending remains elevated given continued support to the unemployed and vulnerable population.

5. The current account deficit is gradually falling. Net travel receipts in 2021 tripled compared to 2020 (Figure 4). The current account deficit was 19.7 percent in 2021 (compared to 24 percent in 2020). This deficit continued to be financed by a combination of foreign direct investment and public sector borrowing from nonresidents. The external position in 2021 is assessed to be broadly in line with medium-term fundamentals and desirable policies, although the extraordinary impact of the pandemic makes this assessment highly uncertain (Annex I).

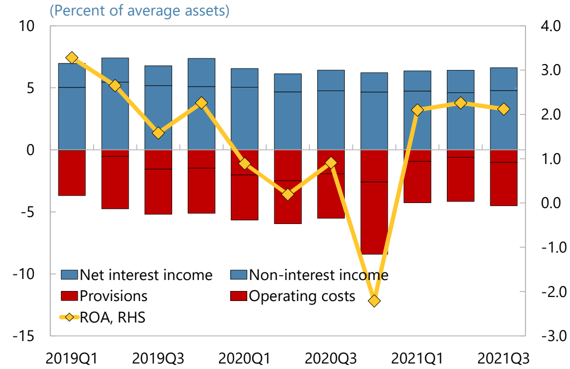
6. International reserves are at historically high levels. Gross reserves were close to 5 months of imports at the end of 2021 (about 700 percent of estimated external debt maturing in 2022), in part due to the IMF's general SDR allocation of 174.8 million[2] in August 2021. The authorities plan to keep the SDRs as reserves given legal limits on central bank lending to the government, which is appropriate given the uncertain balance of payments outlook. In line with previous staff advice, the authorities have phased out pandemic-related changes to capital flow management measures in 2021 which included (i) providing more latitude to commercial banks to supply foreign exchange to the public before approaching the central bank to replenish such funds; (ii) suspending access to foreign exchange for residents' offshore capital market and real estate

[2] As of March 15, 2022, this corresponds to US$241 million.

investments.[3] The authorities have also eliminated the suspension of exchange control approvals for commercial banks' dividends.

7. Bahamian banks' financial positions remain strong. The average ratio of capital to risk-weighted assets stood at 26½ percent in the fourth quarter, well above regulatory requirements (Figure 5). The average return on assets was just over 2 percent in the third quarter of 2021 from a reduced need to provision and from improving net operating income. The pandemic-related loan moratoria have expired leading to a small increase in non-performing loans. However, private sector credit is still contracting due to bank concerns over the credit quality of local borrowers.

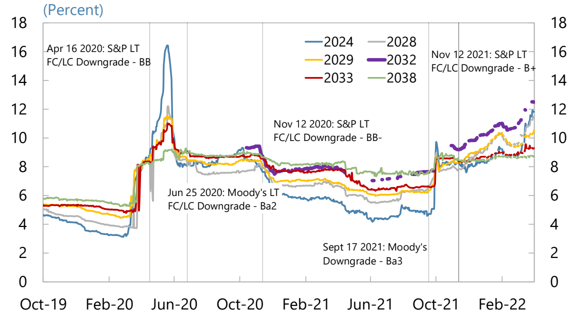
Banks' Income Statements
(Percent of average assets)



Source: CBOB.

8. The September 2021 parliamentary elections have altered the political landscape. The conservative Free National Movement lost the election and the center-left Progressive Liberal Party formed a new administration. The new government has pledged immediate relief to the population through cuts in the value-added tax to kickstart consumption.[4] The government also aims to increase investment in resilience. However, the new government needs to contend with significantly diminished fiscal space as a result of further credit rating downgrades and constrained access to international capital markets.

External Bond Yields 1/
(Percent)



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

OUTLOOK AND RISKS

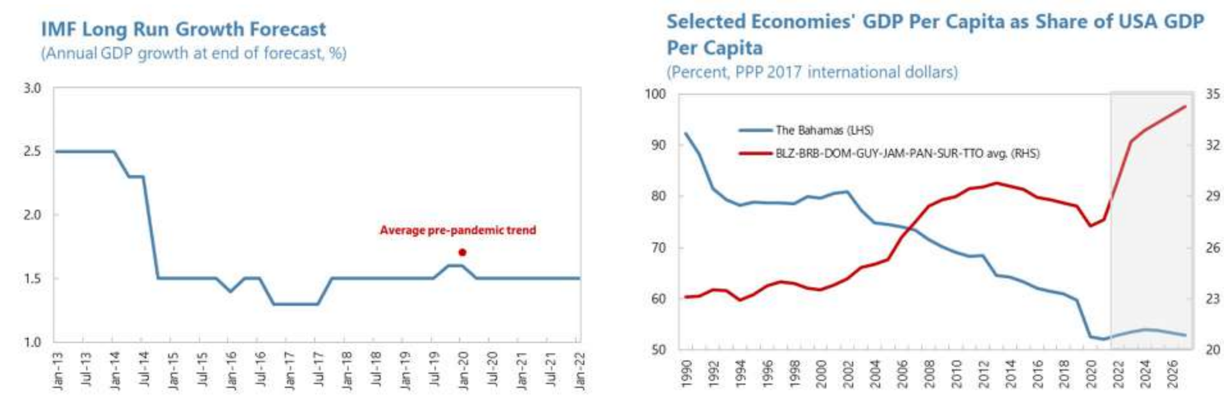
9. The recovery is expected to continue in 2022. The war in Ukraine, which adds considerable uncertainty to the outlook, will affect The Bahamas primarily through commodity prices and to a lesser extent, external demand (with growth in the main trading partners, the U.S. and Canada, expected to be robust). Staff's baseline projects real GDP growth at 8 percent in 2022, supported by a continuing recovery in tourism, further strengthening of construction activity, and a pickup in domestic demand. This baseline would still leave real output about 6 percent below its pre-pandemic level in 2022, with a full recovery to pre-pandemic levels not expected until 2024. Staff expects average inflation to increase to 6¾ percent in 2022 given increases in imported fuel and food prices and to only gradually decrease as supply-demand imbalances wane and imported inflation declines

[3] See also IMF Country Report No. 21/24.

[4] https://plpbahamas.org/wp-content/uploads/2021/09/PLP-EconomicPlan.pdf

in the fourth quarter of 2022 (including because of the monetary policy response in major economies).[5] Despite high imported inflation in the short-term, staff's baseline projects that the ongoing recovery in international tourism will narrow external imbalances over the medium term and keep international reserves at an adequate level.

10. The pandemic will likely exacerbate The Bahamas' long-standing record of low growth. Staff projects medium-term potential growth at just 1½ percent, owing to the slow structural reform implementation, including in the energy sector (Figure 6). Education gaps were large even before the pandemic and likely have worsened, given the varied quality of remote learning.[6] Private investment and employment will take time to recover. Additionally, the economy will have to contend with lasting effects of the pandemic on travel preferences, technological shifts, and climate change. Without decisive reforms to raise productivity and incentivize private investment, the secular divergence that The Bahamas has seen in GDP per capita vis-à-vis the U.S. is expected to persist.



Source: World Economic Outlook (IMF).

11. Risks to growth are skewed downward (Annex II)**.** The principal risks are (i) the emergence of new COVID-19 variants, which could prolong the pandemic and induce renewed economic disruptions, (ii) additional upward pressures on global food and oil prices, including because of the war in Ukraine, which could erode consumer demand, impose a heavy burden on the vulnerable, put pressure on the balance of payments, and induce the government to put in place policies to mitigate pass-through further straining the fiscal situation, (iii) a sharp rise in global risk premia that could further strain public and private balance sheets, and (iv) natural disasters related to climate change, which would have significant social, economic, fiscal, and financial repercussions. On the upside, the global recovery could prove stronger than is currently anticipated, which would help support tourism. In the event of downside risks materializing, the government will need to find ways to provide additional fiscal support—including well-targeted social assistance—which may prove

[5] The Bahamas Power and Light Company has a hedge facility for fuel used to generate electricity. The percentage of fuel imports falling under this arrangement decreases over time.

[6] https://www.cepal.org/sites/default/files/events/files/education_during_the_covid-19_pandemic.pdf

challenging given the significantly diminished fiscal space and potential inability to tap new sources of financing.

12. Authorities' Views. The authorities are cautiously optimistic on the outlook. Given the proximity to the U.S. and pent-up demand for travel, The Bahamas is seen as leading the Caribbean tourism recovery, and the authorities expect tourist arrivals to reach pre-pandemic levels by early 2023. While the authorities do not believe the favorable tourism trends to be impacted by the war in Ukraine, they agree that higher imported inflation will present social challenges. Moreover, global supply chain disruptions and elevated costs could delay some key capital projects. The government is engaging with wholesale retailers to limit price increases and has appointed a Cabinet subcommittee that is exploring reform options to ensure a more sustainable and affordable energy and electricity supply.

POLICY DISCUSSIONS

The policy priorities ahead are to safeguard the recovery, preserve debt sustainability and promote sustained and inclusive growth. First and foremost, this will require vaccinating the population as swiftly as possible (including overcoming vaccine hesitancy). As the pandemic's impact recedes, policies should refocus on tackling long-standing challenges by improving the structure of both revenues and spending, rebuilding fiscal space, and making the economy more resilient to the effects of climate change.

A. Fiscal Policy

Near-Term Policies

13. The deficit is expected to narrow this fiscal year. The supplementary budget kept around one-third of the pandemic-related spending in place (mostly for social programs), cut the VAT rate from 12 to 10 percent (starting on January 1, 2022), and marginally raised public salaries and non-contributory pensions. To offset the impact of these steps on the deficit, the authorities removed some zero-rated VAT items and expanded the VAT to rentals paid on vacation properties, while steps to strengthen tax administration are ongoing. Staff estimate that these various measures, combined with the impact of the recovery (which is stronger than anticipated at the time of the budget) and less

The Bahamas: FY2021/22 Budget
(Percent of GDP) 1/

	FY20/21 outturn	Original budget	Supplementary budget	IMF projection
Revenue	19.0	18.5	19.3	19.8
Tax	16.3	15.9	16.6	16.9
of which: VAT	7.5	7.0	7.6	7.7
VAT rate change				-0.5
Elimination of zero rate items				0.1
VAT on vacation rental				0.2
Others				0.4
Non-tax	2.7	2.6	2.6	2.9
Expenditure	32.7	26.4	26.4	26.5
Current expense	29.9	24.9	24.6	24.7
of which : COVID-19-related spending	2.8	1.1	1.1	0.4
Capital expenditure	2.8	1.5	1.8	1.8
Overall balance	-13.7	-7.8	-7.1	-6.7
Primary balance	-9.4	-3.9	-3.1	-2.7

Sources: The Bahamian authorities; and IMF staff calculations.
1/ Nominal GDP is the latest baseline projection for all three columns.

demand for COVID-related spending, will reduce the primary deficit to below 3 percent of GDP this fiscal year.

14. Financing needs will remain substantial over the near-term, necessitating a reliance of relatively high-cost market borrowing. The government's gross financing needs remain around 16 percent of GDP in FY2021/22 (excluding short-term Treasury bills, notes, and central bank advances of about 10 percent of GDP). Domestic banks are expected to rollover their maturing debt (around 8 percent of GDP), with the remainder expected to be mostly covered by external sources. The authorities agreed on a repurchase agreement with an international investment bank at an interest rate of 2½ percent in February, using U.S. Treasuries with a nominal value of close to US$236 million—that were previously escrowed in sinking funds to repay maturing Eurobonds—as collateral. The authorities will receive US$206.5 million in return and will purchase the U.S. Treasuries back within the next 2 years. Since the transaction was made public, average external bond spreads have increased by more than 100 basis points. The timing of the planned Eurobond issuance (for which the IDB approved a partial guarantee of US$200 to create a blue economy) remains uncertain. The authorities should develop a contingency plan to allow low priority spending (including by state-owned enterprises (SOEs)) to be cut quickly and flexibly, should the need arise. It will also be important to allow higher international food and energy costs to pass through to domestic prices, accompanied by targeted support to protect the poorest members of society, to ensure the limited fiscal space does not get absorbed by an uncertain and rising subsidy bill.

Policies for a Sustained Recovery

15. Under current policies, public debt would remain more than 15 percentage points above pre-pandemic levels by FY2026/27. This assumes a modest fiscal adjustment of around 1½ percent of GDP over the medium-term. Most COVID and Dorian-related spending measures are assumed to be phased out by FY2022/23 and revenue collections are assumed to benefit from the broader economic recovery and an updated property tax roll. Under these assumptions, consolidated public sector debt, including SOE debt, is assessed to be sustainable but vulnerable to shocks (Annex III).[7,8]

Medium-Term Fiscal Consolidation under Baseline
(Percent of GDP)

Baseline	FY2021/22	FY2026/27	Difference
Primary balance	-2.7	1.8	4.5
Cyclically adjusted primary balance	0.3	1.8	1.5
VAT decline			-0.4
Revenue administration reforms			1.0
COVID-19-spending			0.4
Other			0.5

Source: IMF staff calculations
Note: Other measures include some reduction in subventions to SOEs, and administration expenses as detailed in the 2021/2022 budget.

16. The authorities' 2021 Fiscal Strategy Report (FSR) lays out an ambitious medium-term plan which includes an increase in revenues of more than 5 percent of GDP. The authorities

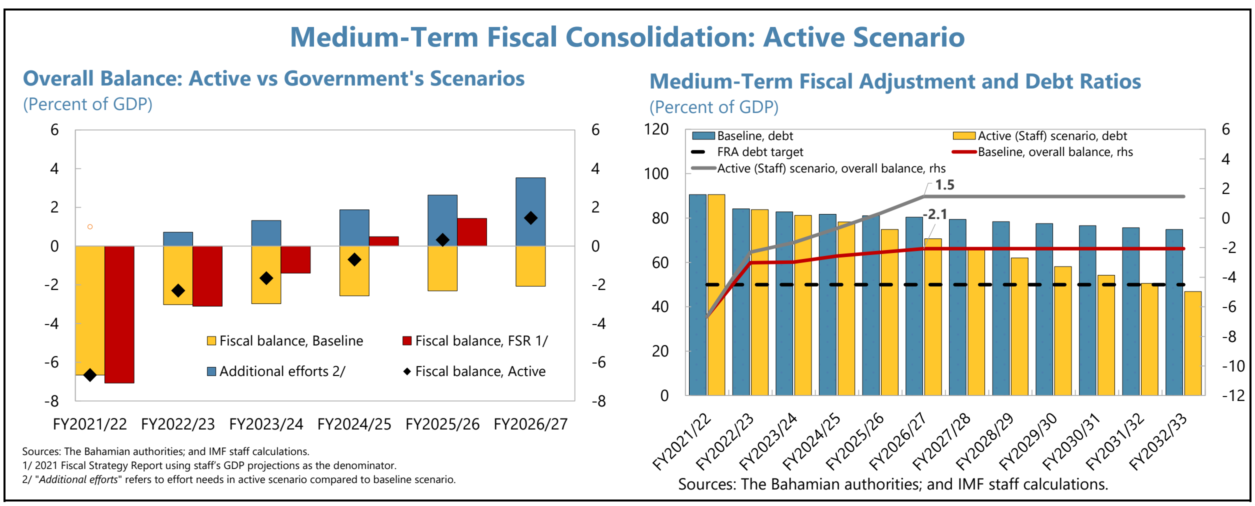
[7] In early March the government published the stock of arrears, unpaid invoices, and unbudgeted expenditure as of December 31, 2021, totaling B$938 million (7.7 percent of GDP). During the process of clarifying the details of these liabilities as well as the government's plan to clear them, the baseline macro framework does not include them.

[8] The Bahamas's capacity to repay the Fund remains adequate. Obligations to the Fund have been declining steadily with the economic recovery and will be below 1 percent of GDP by 2024 as expected at the time the Rapid Financing Instrument was requested.

have invested considerable resources in strengthening tax administration, including the re-establishment of the Revenue-Enhancement Unit. At the same time, the authorities plan to raise public investment to 3½ percent of GDP and limit current spending to 20 percent of GDP, while targeting an overall surplus of 1½ percent by FY2025/26. They still envisage reducing (central government) debt to 50 percent of GDP by FY2030/31 (as targeted in the Fiscal Responsibility Act (FRA)). The Fiscal Council is expected to review and assess the FSR by May 2022.

17. The 50 percent central government debt-to-GDP ratio remains an appropriate anchor given the Bahamas' susceptibility to large shocks, including from natural disasters (Selected Issues Paper). Rebuilding fiscal buffers will need to be a core component of an effective disaster resilience strategy (Annex IV). However, given the severity of the COVID-shock and current high debt levels the country may need to delay achieving the 50 percent debt ratio by at least two years.

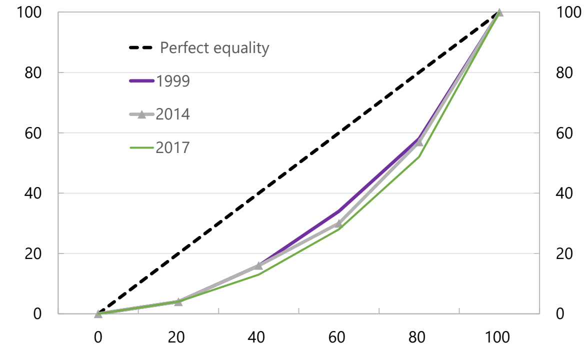
18. A medium-term surplus of 1½ percent of GDP is consistent with reducing debt-to-GDP to 50 percent by 2032/33. The authorities' fiscal plan needs to be backed by concrete, feasible, and growth-friendly spending and revenue measures. Staff proposes a somewhat more gradual adjustment than the FSR, with around ¾ percent of GDP additional measures per year. This adjustment could come from an increase in the revenue-GDP ratio by 5 percent through a credible tax reform, permanent cuts to unproductive spending (of 1½ percent of GDP), and higher spending on capital investment, education and health (of 2½ percent of GDP). Protecting the vulnerable through better targeting of social spending will also be key. Staff's proposed path would reduce cumulative gross financing requirements by about 10 percent of GDP between FY2022/23 and FY2026/27.



19. A meaningful tax reform should go hand-in-hand with efforts to strengthen tax administration.[9] Tax policy reforms should address shortcomings of the current system, including high income inequality and a heavy reliance on distortionary taxes. A well-calibrated and gradual reform could draw on the following menu of options:

Lorenz Curve of Household Income

(X-axis: Percent of Households; Y-axis: Percent of Aggregate Household Income)



Source: Labor Force Survey.

- ***Value-added taxes***. A gradual increase of the VAT rate to the regional average of 15 percent would raise around 2.7 percent of GDP.

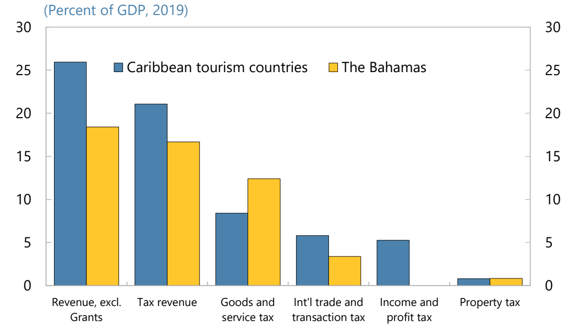
- ***Further eliminating various indirect tax expenditures*** (zero-rated or exempted items, including for insurance, gambling and building supplies) could raise an additional 0.8 percent of GDP.

- ***Property taxes***. Building comprehensive real estate price indices on all islands would provide a basis for a market-value-based property tax and the current system could be made progressive by increasing the rate on higher value residences.

- ***Personal income taxes.*** A progressive tax on employment income, applied to the top 10 percent of earners at a 10 - 15 percent rate, coupled with a flat 5 percent withholding tax on capital income, would raise around 2 percent of GDP.[10]

Government Revenue 1/

(Percent of GDP, 2019)



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.

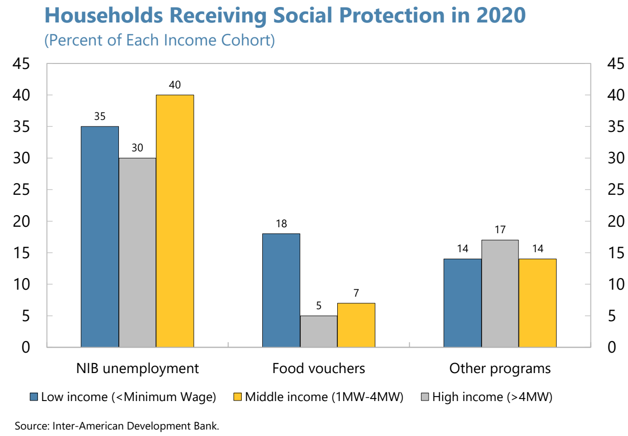
- ***Corporate income taxes***. The October 2021 Inclusive Framework's agreement foresees a global minimum tax of 15 percent, among other measures. To the extent that others impose a minimum tax on payments to, or profits in, The Bahamas, it would be in The Bahamas' interest to impose that same level of taxation itself. This can be done with a top-up tax on in-scope multinational enterprises or a general corporate income tax at a 10 percent statutory rate combined with a 5 percent withholding tax (which would still be competitive internationally) and a threshold of

[9] See IMF Country Report No. 21/24 for specific recommendations on tax and customs administration. 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.

[10] This estimate is static, as it does not consider potential changes to the tax base because of taxation, including possible effects on the labor supply due to a reduced after-tax income and behavioral responses of capital income.

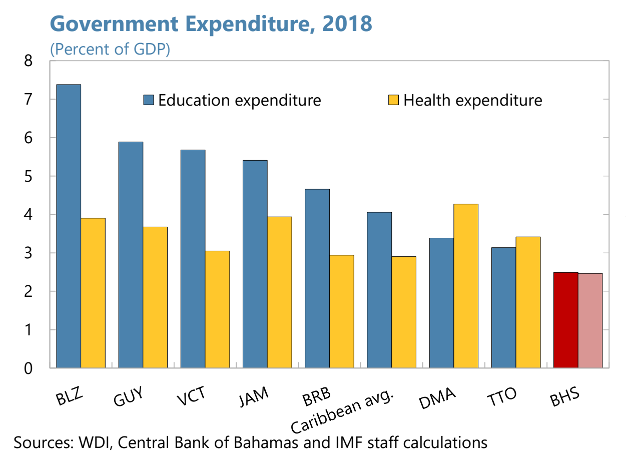
B$500,000 below which a simple turnover tax is applied. A Bahamian corporate income tax on large businesses could generate around 2 percent of GDP.[11]

- ***Excise Taxes.*** Excise taxes are key policy tools to achieve emissions reduction and correct for negative externalities and could increase revenues by up to 3 percent of GDP but would need to be complemented by measures to support the vulnerable (Box 1).



20. Measures are needed to contain rising outlays to SOEs and on pensions. The high and rising outlays to SOEs underline the critical importance of strengthening their governance, and operational efficiency. The authorities plan to reassess the various responsibilities of civil servants to improve efficiency. Discussions are ongoing on civil service pension reforms.[12] According to the International Labor Organization (ILO), without ambitious parametric reforms, the country's social security system will run out of funds by 2029.[13] Staff recommends various changes to private and public pension systems, including raising the retirement age and contribution rates (Selected Issues Paper).

21. Revenue reforms, improving the financial position of SOEs, and addressing structural problems in the pension system would create room to increase spending on areas that would improve potential growth and resilience. Conducting rigorous and transparent cost-benefit analyses would help ensure sound project selection of capital spending and increase their longer-run growth impact. Increased spending on health and education, which is well below regional peers, would help make progress towards the Sustainable-Development Goals.[14] Improving social assistance will require obtaining better information (including a timely and comprehensive household survey), better targeting, and reducing overlaps and coverage



[11] This is a static upper-bound estimate that does not consider firm behavioral responses.

[12] Civil servants have a non-contributory pension scheme. Spending on pension benefits has trended up to an estimated 1¼ percent of GDP in 2020-21, and population aging will increase this further.

[13] http://ilo.ch/global/topics/dw4sd/WCMS_568715/lang--en/index.htm.

[14] https://sustainabledevelopment.un.org/memberstates/bahamas

gaps (e.g. by simplifying the system, creating a single registry of beneficiaries, and strengthening administrative capacity).

22. The Bahamas would benefit from a more robust, multi-year debt management strategy. Even with significant fiscal consolidation, financing needs will decline only gradually over the medium-term. The new debt management committee should receive adequate staffing and resources to be able to systematically track and evaluate implementation of the recently published multi-year government financing strategy. The committee should also be undertaking regular contingency planning to ensure their financing strategy remains robust even in a less favorable market environment. The government should avoid undertaking strategies that may appear to reduce costs in the short-term but potentially exacerbate the costs of debt distress. There is scope to access a growing stream of international financing for climate change-related investment projects and green bonds. The Bahamas would also benefit from including natural disaster clauses in its debt contracts, similar to instruments in Barbados and Grenada (Annex V).

23. Improving fiscal transparency and accountability would help strengthen credibility. Key legislation in these areas (the Public Financial Management (PFM)-Amendment and Public Procurement Act) was enacted in 2021Q3 but implementation is lacking in various areas (Annex VI). For example, the procurement report has not yet been published as the relevant units have not been set up and SOEs do not publish regular audited financial statements. Completion of audits with respect to COVID-related spending and the publication of the reports should be prioritized. The authorities should require collection and publication of beneficial ownership information in public procurement contracts, consistent with the 2020 RFI commitments (Annex VII) and recent revisions to the international AML/CFT standards set by the Financial Action Task Force (FATF). There is scope to align medium-term budget processes with the requirements of the PFM Act and FRA and improving medium term budget planning and preparation, with IMF technical assistance planned in these areas.

24. Authorities' Views. The authorities broadly concurred with the fiscal challenges ahead. They are confident that they can raise the needed financing for this fiscal year and beyond using both domestic and external sources. They emphasized that nearly 5 percent of GDP of additional revenues have been identified by the Revenue Enhancement unit, of which 3 percent of GDP would be recurrent revenues. Raising tax rates or introducing new taxes is thus seen as a last resort. The new administration views the recently enacted PFM acts and 2018 Fiscal Responsibility Act as overly restricting its room for maneuver and not reflective of the specifics of the Bahamian public sector and is planning legislative changes following next year's budget discussions. With regards to beneficial ownership information of COVID-related spending, the Ministry of Finance flagged difficulties with collecting the necessary historical data. The authorities are exploring options to access climate financing, including carbon credits.

Box 1. Environmental Taxation

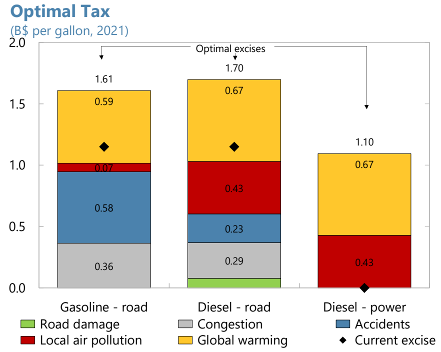
The current taxation of gasoline and diesel in The Bahamas does not fully capture the social costs of consuming these fuels. According to staff calculations, these social costs amount to about B$1.70 per gallon for gasoline and diesel used for transportation and B$1.10 for diesel used for power generation. Current tax rates of

Box 1. Environmental Taxation (Concluded)

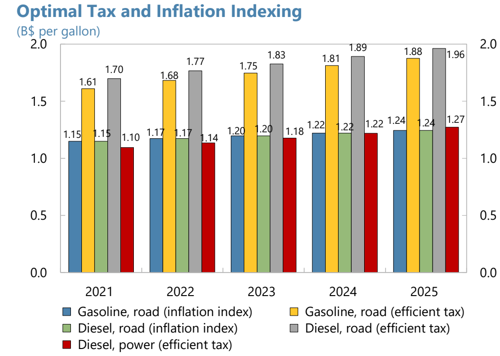
B$1.15 for road use and no taxation for diesel used for power generation are too low.

A phased increase in taxation of fuels, accompanied by compensation for vulnerable households, would raise revenues and more appropriately price the social costs. Increased and then indexed taxation of road fuels would raise revenue of an additional 1.5 and 0.2 percent of GDP by 2025, respectively. Removing the tax exemption on the Bahamas Electricity Corporation (BEC) would raise significant revenues (about 1.4 percent of GDP) and could improve incentives for shifting to renewable electricity. However, the elimination of the BEC exemption could lead to an increase of up to 60 percent of residential electricity prices and a sizable portion of the increase in road fuels taxes would be passed on to consumers. Financial support would therefore be needed to compensate poorer households (and potentially some smaller firms). A thorough review should be commissioned to assess the economic and distributional effects of eliminating the BEC's excise exemption. A feebate scheme could be integrated into vehicle duties, building off the existing favorable rates for electric vehicles.

Optimal Tax



Optimal Tax and Inflation Indexing



Source: IMF Staff Estimates.
Notes: Calculated using the FAD's Climate Policy Assessment Tool (CPAT) presented in the IMF's October 2019 Fiscal Monitor. The revenue estimate assumes annual inflation of 2 percent and changes in consumption that depend on GDP growth and the elasticity of demand to end-use gasoline and diesel prices.

B. Monetary and Exchange Rate Policies

25. **The exchange rate peg to the U.S. dollar has served as an anchor of macroeconomic stability.** The country maintains a system that allows the central bank (CBOB) room to control domestic liquidity, mainly through cash reserve requirements. In recent years, long-standing capital flow management measures (CFMs) had been gradually relaxed by reducing the premium charged on buy and sell rates in the Investment Currency Market. During the pandemic, the CBOB supported the currency by keeping the policy rate at 4 percent (even as the U.S. reduced interest rates) and introducing temporary CFMs on outflows (that have now been phased out). Higher imported inflation and the expected policy rate increases in the U.S. create a potential for pressures on the exchange rate peg. As such, the central bank should be willing to allow interest rates to rise as needed to support the currency peg without a loss of reserves. In a more volatile scenario, these efforts may need to be accompanied by renewed, temporary capital flow management measures.

26. **The new 2020 Central Bank Act strengthened the governance framework and autonomy of the CBOB but requires further amendments to better safeguard institutional and**

financial autonomy. The 2021 IMF safeguards assessment found that some gaps remain, which include an absence of explicit prohibitions of external influence on the decision-making at the central bank (to safeguard institutional autonomy) and overly high limits on central bank credit to the government. Amendments to the Act should lower the ceiling on credit to the government and restrict central bank purchases of securities issued by public corporations to prevent quasi-fiscal activities.

27. The *Sand Dollar* digital currency (CBDC) has the potential to foster financial inclusion. The *Sand Dollar*—a digital version of the Bahamian dollar introduced in October 2020—is comparable to other advanced CBDC projects (Box 2). The CBDC currently makes up less than 0.1 percent of currency in circulation and there are limited avenues to use the *Sand Dollar*. The central bank recently completed the initial integration of the Sand Dollar with the Automated Clearing House system. In line with the 2021 IMF safeguards assessment, the CBOB should continue strengthening internal capacity—including on cybersecurity and the resilience of systems associated with the *Sand Dollar*—and maintain careful oversight of the CBDC project, including to safeguard financial integrity.

Box 2. *The Sand Dollar*: Main Design Features in International Comparison

	Carry Interest	Quantitative Restrictions	Anonymity	Offline functionality	Cross-Border Payments
Bahamas	No	Yes	For lower tier	Yes / exploring	Future project
Canada	Undecided	Undecided	Undecided	Exploring	International collaboration
China	No	Yes	For lower tier	Yes	Experimenting / international collaboration
ECCU	No	Yes	For lower tier	No	Future project
Nigeria	No	Yes	No	No	Future project
Sweden	Undecided	Exploring	Undecided	Exploring	International collaboration
Uruguay	No	Yes	Yes, but traceable	No	Possible future project

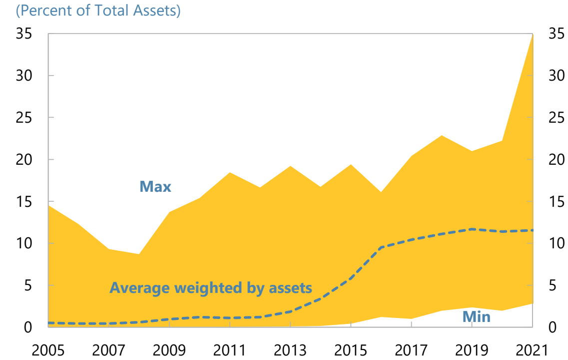
Source: IMF (2022). https://www.imf.org/en/Publications/fintech-notes/Issues/2022/02/07/Behind-the-Scenes-of-Central-Bank-Digital-Currency-512174.

28. Authorities' views. The CBOB views the current level of reserves as adequate to support the exchange rate peg. If reserves were to fall under internal minimums, tightening capital flow management measures is seen as the first line of defense. The CBOB stressed that increasing interest rates now could discourage banks from lending to the private sector. The CBOB is not concerned about a negative impact on reserves of an increase in policy rates in advanced countries given its capital flow management measures as well as the nature of foreign currency inflows that are often linked to large tourism-related investment projects. The CBOB also opined that the relatively low degree of integration between domestic and international capital markets render interest tools less effective in regulating short-term flows. The central bank has plans to accelerate CBDC public education campaigns now that the pandemic has subsided and is confident that the recent integration of wallets with the banking system will lead to increased adoption.

C. Financial Sector Policies

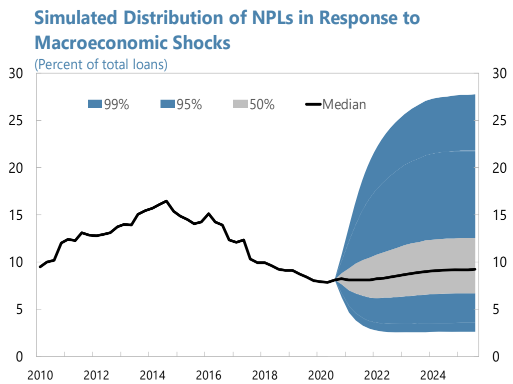
29. Stress tests show that the banking system is stable even under pessimistic scenarios although there is some heterogeneity. The weighted average capital ratio of commercial banks remains above regulatory limits in a severe scenario in which the ratio of NPLs to gross loans increases by 15 percentage points, although some banks experience modest shortfalls. There are also pockets of weakness related to some small credit unions (around 3 percent of total banking system assets) that have large exposures to employees in the tourism sector. Sovereign-bank linkages have increased over time, with government debt accounting for more than 10 percent of banking sector assets. The deeper nexus between the sovereign and banks poses potential risks of an adverse feedback loop that could threaten macro-financial stability. The CBOB should require regular loan portfolio reviews and risk assessments by all banks and work with banks to facilitate the effective work-out of their NPLs.

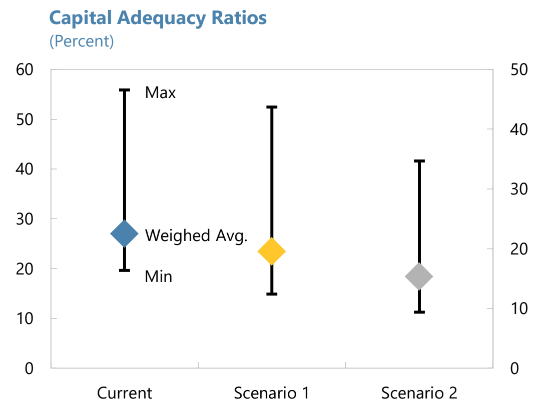
Holdings of Domestic Sovereign Securities by Bank
(Percent of Total Assets)



Sources: Central Bank of Bahamas.

The Potential Impact of Macroeconomic Shocks on NPLs and Capital





Sources: CBOB and IMF staff calculations.

Notes: Based on bank-level data for the 7 onshore commercial banks as of December 2021. 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 75 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. The stress tests do not model sovereign linkages.

30. **Some of the 2019 FSAP recommendations have yet to be addressed.** A countercyclical capital buffer will be introduced as part of the Basel III reforms when they are implemented in 2022. The operationalization of the recently established credit bureau 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. The CBOB should also have the authority to recommend regulatory policies for non-bank financial institutions that pose a systemic risk. The CBOB is encouraged to improve its analytical capacity for assessing solvency and liquidity risks.

31. **The Bahamas has made good progress in setting up a bank recovery and resolution regime, but there is scope for further enhancements.** The CBOB should update its supervisory framework for bank intervention to ensure that early warning indicators are used more effectively. A separate Resolution Unit should be established. Further enhancements to the Deposit Insurance Corporation are warranted, including strengthening its governance, organizational structure and funding arrangement (with a higher target set for capitalization of the deposit insurance scheme over the next five years). Interagency coordination on systemic matters should be enhanced, and a new inter-agency coordination body (i.e., a Financial Stability Council) could facilitate regular information exchange and cooperation on financial stability and crisis management issues.

32. **The Bahamas exited the FATF "grey-list", and the authorities are working to ensure effective implementation of a strengthening of AML/CFT regulation and supervision.** The offshore sector has been declining in recent years but still poses significant reputational risks.[15] In

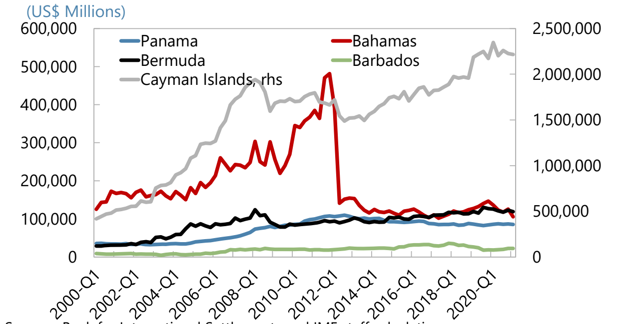
[15] International banks and trust companies (IBCs) had about US$420m in deposits and US$2.5bn in custody or trust assets for which the ultimate beneficial owners were from or connected to Russia, as of February 2022, representing 0.2 and 2½ percent of total deposits and assets of IBCs.

line with an action plan agreed with the FATF in October 2018, the authorities set up a register of beneficial ownership, introduced an automated system to collect suspicious transaction reports, and have applied fines for non-compliance. Progress continues in ensuring accuracy of beneficial ownership information in the register, enhancing AML/CFT supervisory effectiveness, and reforming the economic permanent residency program. A large crypto asset trading platform has recently established its headquarters in the Bahamas. Given the potential significant risks from this sector, the authorities should establish and implement a robust supervisory framework to regulate registration, ensure prudential supervision, and AML/CFT compliance.

International Banking Sector

International Assets Banking Sector

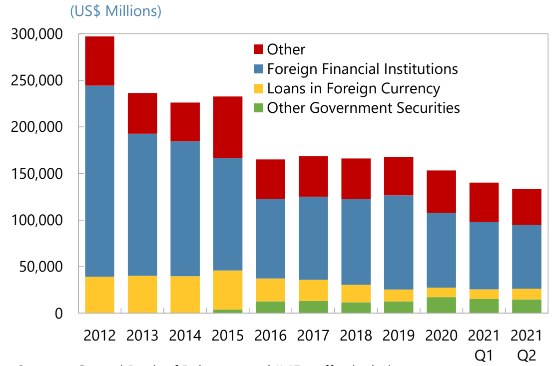
(US$ Millions)



Sources: Bank for International Settlements and IMF staff calculations.
Note: This graph shows cross-border claims of BIS reporting institutions. The assumption is that the majority of assets in the banking sector is international as domestic assets would not be recorded. The decrease in assets in Bahamas in 2011/2012 coincides with significant institutions leaving the Bahamian market.

Balance Sheet International Banks in The Bahamas

(US$ Millions)



Sources: Central Bank of Bahamas and IMF staff calculations.

33. Authorities' Views. The authorities attributed the strength of the banking system to sound regulation and supervision over the years and the support provided during the pandemic. The central bank was pleased that as of end-2021 only $3.4 million of loans remained on the loan deferral program, compared to $400 million at the height of the pandemic. The central bank views improvements to the beneficial ownership register as instrumental in facilitating the country's exit from the FATF "grey list". The authorities would like to establish The Bahamas as a leader in digital assets and crypto currencies. They are pleased to have put in place a designated legal framework for the digital asset space (the 2020 Bahamas' Digital Assets and Registered Exchanges Bill, DARE) and are working to facilitate the granting of approvals and licenses in a fair and transparent manner.

D. Building a More Competitive and Resilient Economy

34. While tourism will remain systemically important, the authorities have long recognized the need to diversify growth and transition to a knowledge-based economy. Priorities include:

- **Fostering an enabling environment for more sustainable tourism.** Tourism is not only vulnerable to climate change but is a significant contributor to environmental degradation. The authorities have strengthened their commitment to climate adaptation policies but should put in place a comprehensive disaster resilience strategy (Annex IV). Mitigation measures that invest in renewable energy and make tourism more sustainable will preserve The Bahamas's natural beauty, reduce its carbon footprint, and enhance its status as a leading tourist destination.

Moving to renewable energy will also have the benefit of enhancing resilience to oil/gas price volatility.

- **Advancing energy sector reforms**. Reforms include upgrading infrastructure in electricity generation, transmission, and distribution, improving governance at the state-owned electricity company, and increasing private sector participation in the electricity sector, with accompanying regulatory oversight.

- **Creating opportunities for young workers.** Expanding vocational and apprenticeship programs could help build skills and reduce youth unemployment. Improving skill databases and job placement services would help matching employers and job seekers. The authorities are working with the ILO and employers to implement a three-pillar strategy on job and skills, social dialogue, and governance.

- **Advancing digitization and streamlining administrative processes**. Modernizing government registration/filing processes and establishing intra-agency information exchange systems will improve efficiency. The authorities are planning to further streamline review and approval processes at Invest Bahamas and regulatory requirements for starting a business. Establishing the Department of Transformation and Digitization (DTD) in November 2019 was an important first step. Further advancing digitization of public services will be a useful complement to efforts to promote The Bahamas as a technology and research hub.

- **Reforming the corporate insolvency regime**. The current system allows for liquidation but does not provide a rehabilitative component to allow the firm to continue to operate as a going concern while its finances are being restructured. Addressing this omission is particularly urgent in light of a potential tightening of global financial conditions which could lead to increased borrower distress.

- **Closing data gaps and publishing statistics according to international standards.** Employment, GDP, and inflation data are published with long lags, making it difficult for investors to assess economic developments in a timely manner. The IMF technical staff is working with the new Statistical Office on closing data gaps in Balance of Payments data.

Authorities' Views

35. The authorities stressed that more support from the international community for climate change adaptation is needed in the form of grants rather than loans. As for climate change mitigation, the authorities cautioned that the envisaged 30 percent share of renewable energy by 2030 will be difficult and costly to achieve. Another focus of the new administration is to promote digitization. The authorities view the revamped Invest Bahamas as key to streamline administrative processes. While the authorities are making considerable efforts towards a more inclusive labor market, they are concerned that education gaps were further exacerbated by the pandemic and are seeking technical assistance from international organizations in this area.

STAFF APPRAISAL

36. The Bahamian economy is recovering from an unprecedented downturn. Tourist arrivals have rebounded strongly, although a full recovery to pre-pandemic levels is not expected before 2024. Inflationary pressures are building in line with global developments and are projected to ease only gradually. Despite this, it will be important to allow higher international food and energy costs to pass through to domestic prices alongside targeted support to protect the vulnerable. Risks to the outlook are significant and include an ongoing threat from the evolving pandemic and the country's vulnerability to natural disasters.

37. The pandemic has deepened the country's medium-term growth challenges and public finances have deteriorated. Education gaps have increased given the varied quality and access to remote learning. Private investment and employment will take time to recover. Additionally, the economy will have to contend with lasting effects of the pandemic on travel preferences as well as broader shifts in technology. The new administration has pledged relief through tax cuts and increasing investment in resilience. However, fiscal space has been eroded, limiting the room for maneuver. Public debt is close to 100 percent of GDP and fiscal financing costs are elevated.

38. Ensuring debt sustainability is key. Under staff's baseline projections, consolidated public sector debt, including SOE debt, is assessed to be sustainable but vulnerable to shocks. The government's goal to achieve a 1½ percent of GDP fiscal surplus over the medium term is well-calibrated but needs to be backed by credible and growth friendly measures. The planned surplus would be consistent with rebuilding fiscal buffers and putting public debt-GDP on a decisive downward path. The envisaged revenue administration enhancements should go hand-in-hand with a meaningful tax reform. Options include gradually raising VAT rates to the regional average of 15 percent, increasing the property tax rate on higher value residences, and introducing corporate and personal income taxes on large businesses and high earners.

39. A reprioritization of public spending could promote better social and economic outcomes. Measures are needed to contain rising outlays to SOEs and on pensions. Conducting rigorous cost-benefit analyses would help ensure sound capital projects selection. Improving social assistance will require obtaining better information on potential recipients (including a timely and comprehensive household survey). A more effective allocation of scarce public resources would create room for increased spending on health and education. Improving fiscal transparency and accountability would help strengthen credibility. Fiscal transparency would be further enhanced by the timely publication of audited financial statements for public sector entities (including beneficial ownership information of companies awarded public procurement contracts).

40. The Bahamas would benefit from a more robust multi-year debt management strategy. Even with significant fiscal consolidation, financing needs will remain elevated and decline only gradually over the medium-term. The new debt management committee should systematically track performance of the government financing strategy and undertake contingency planning to ensure the strategy is robust in a less favorable market environment.

41. The exchange rate peg to the U.S. dollar has served as an anchor of macroeconomic stability. It is recommended that the central bank allows interest rates to rise, as needed by market conditions, to support the currency peg and preserve international reserves. If the market environment were to deteriorate markedly, consideration may need to be given to a temporary tightening of capital flow management measures. Further amendments to the 2020 Central Bank Act—including lowering the ceiling on credit to the government and restricting purchases of securities issued by public corporations—would help safeguard the central bank's institutional and financial autonomy.

42. The *Sand Dollar* digital currency (CBDC) has the potential to help foster financial inclusion and payment system resilience. The CBDC currently makes up less than 0.1 percent of currency in circulation and there are limited avenues to use the *Sand Dollar*. The central bank should accelerate its education campaigns and continue strengthening internal capacity—including on cybersecurity—and oversight of the CBDC project to safeguard financial integrity.

43. The financial system is well-capitalized, but there is scope for further enhancements to the bank recovery and resolution regime and the AML/CFT framework. The central bank should update its supervisory framework for bank intervention to ensure that early warning indicators are used more effectively. Interagency coordination on systemic matters could be enhanced, including through a new inter-agency coordination body. The authorities should ensure effective collection of beneficial ownership information in the register and ensure AML/CFT compliance and supervision, particularly of the growing virtual assets sector.

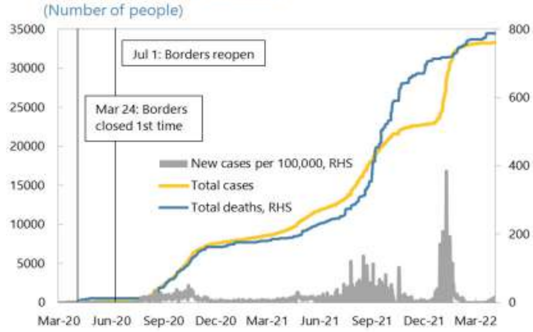
44. Well-targeted structural reforms would improve productivity, foster inclusion, and enhance resilience. Energy reforms should include upgrading infrastructure and improving governance of the state-owned electricity company. The planned expansion of vocational and apprenticeship programs, in collaboration with the ILO, will help build skills and reduce youth unemployment. Encouraging digitalization, streamlining administrative processes, closing data gaps, and publishing statistics in line with international standards will all improve the business climate. The Bahamas would benefit from a comprehensive disaster resilience strategy. Mitigation measures that make tourism more sustainable will help preserve its status as a leading tourist destination.

45. It is proposed that the next Article IV consultation with The Bahamas take place on the standard 12-month cycle.

Figure 1. The Bahamas: COVID-19

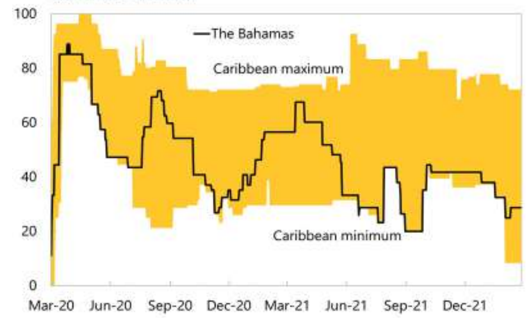
Cases increased exponentially due to Omicron, but seem to have peaked…

COVID Cases and Deaths
(Number of people)



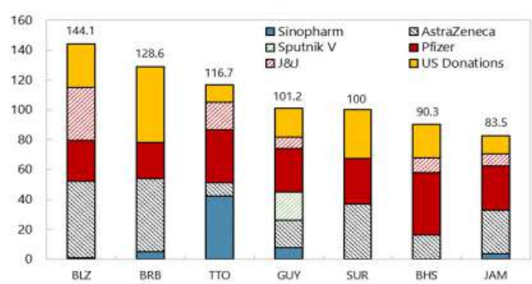
…while stringency measures are relatively lenient.

Covid-19 Government Response Stringency
(Index, 100 = strictest)



While the supply of vaccines has been ample,…

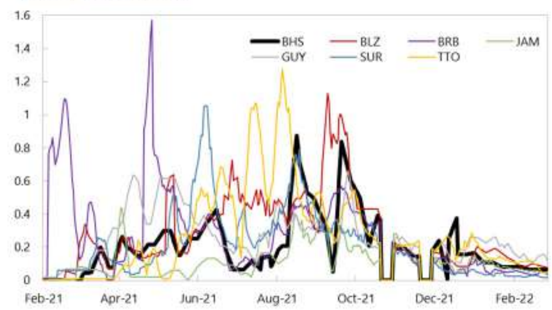
Vaccines Supplied 1/
(dose-adjusted, per 100 people; as of Mar 15 2022)



1/ Do not include vaccine donations other than from the United States.

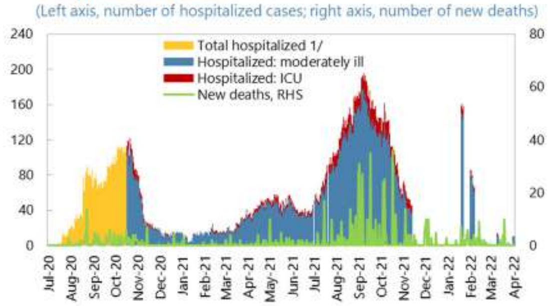
…low vaccination rates are the result of administrative difficulties and widespread vaccine hesitancy.

Daily Share of Population Receiving a COVID-19 Vaccine
(percent, as of April 4 2022)



Although hospitalizations declined significantly,….

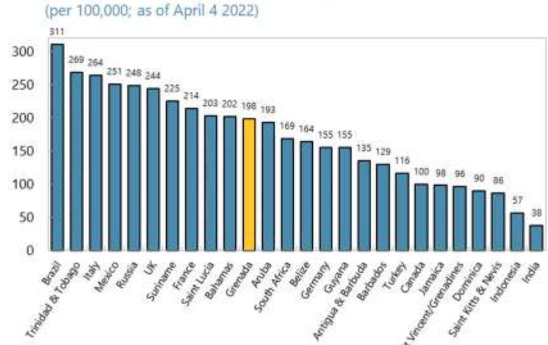
Hospitalized Cases
(Left axis, number of hospitalized cases; right axis, number of new deaths)



1/ Breakdown not yet available.

…total deaths-to-inhabitants are among the highest in the region.

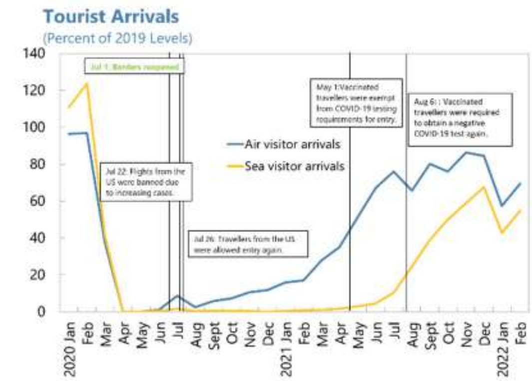
Cumulative COVID-19 Deaths
(per 100,000; as of April 4 2022)



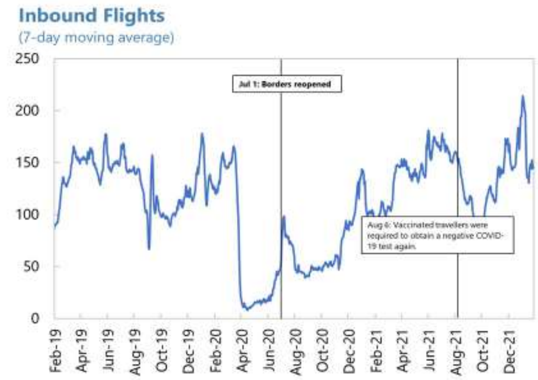
Sources: Ministry of Health, Johns Hopkins University, Oxford COVID-19 Government Response Tracker, Oxford University, Blavatnik School of Government, Our World in Data, Kaiser Family Foundation, IMF staff calculations.

Figure 2. The Bahamas: Real Sector Developments

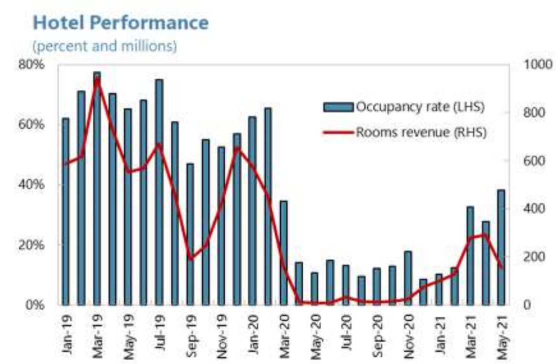
Tourism rebounded strongly…



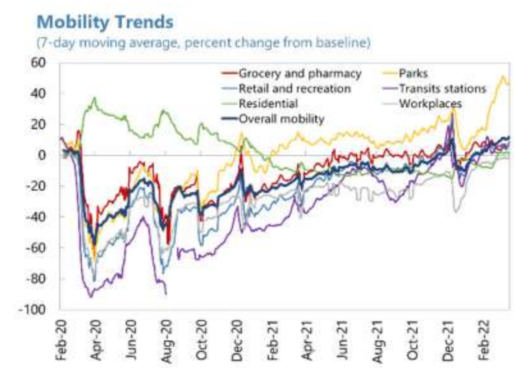
…with flight arrivals at pre-pandemic levels at end-2021.



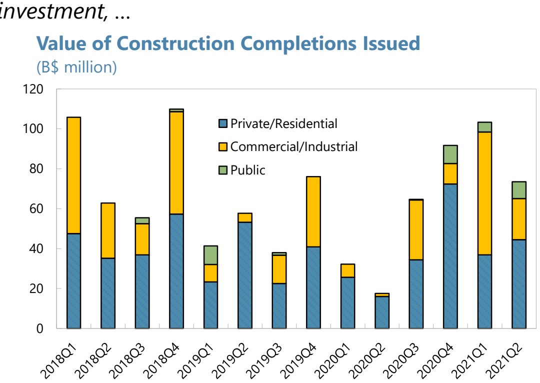
Similarly, hotels showed signs of recovery…



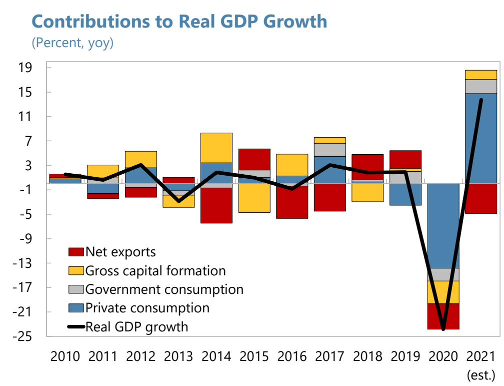
…as mobility reached pre-pandemic trends by end 2021.



Coupled with a significant pick up in construction and investment, …



…the Bahamian economy experienced a rapid rebound in 2021.

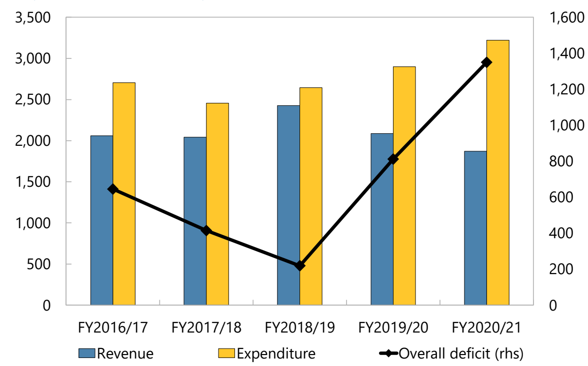


Sources: Ministry of Tourism, Bahamas National Statistical Institute, FlightRadar24, Google, IMF staff calculations.

Figure 3. The Bahamas: Fiscal Developments

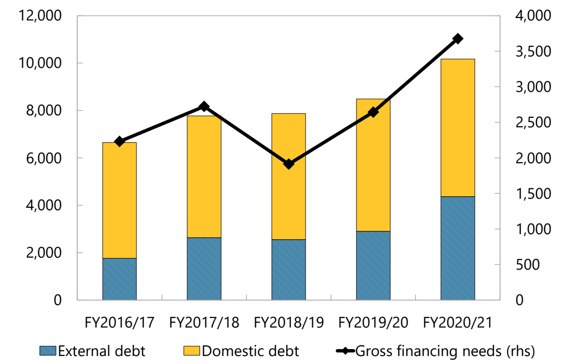
The fiscal situation deteriorated due to the pandemic…

Fiscal Operations
(Millions of Bahamian dollars)



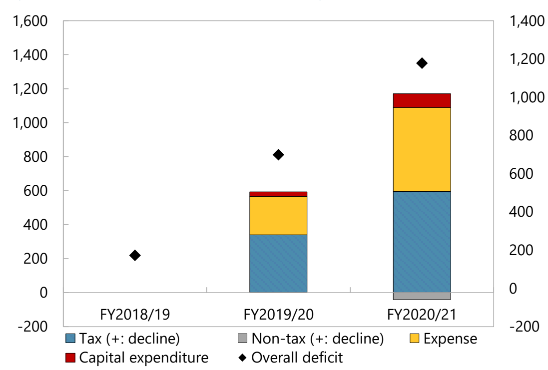
… increasing government debt [1] and gross financing needs.

Government Debt and Gross Financing Needs
(Millions of Bahamian dollars)



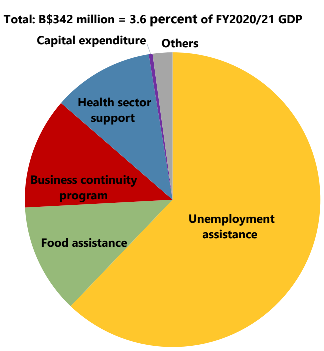
The deterioration was driven by significant revenue shortfalls…

Contributors to Deficit Expansion
(Millions of Bahamian dollars, relative to FY2018/19)



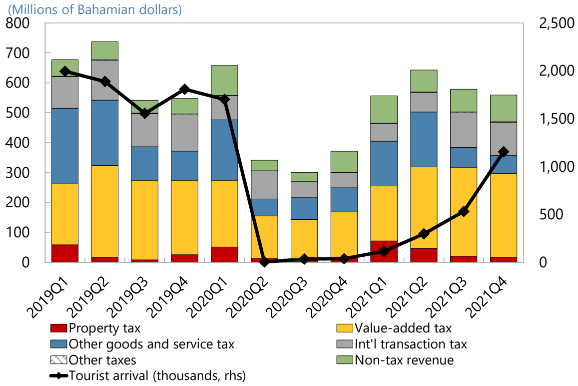
…and pandemic-related spending.

Pandemic-Related Expenditure, Cumulative from FY2019/20 & 20/21
(Millions of Bahamian dollars)



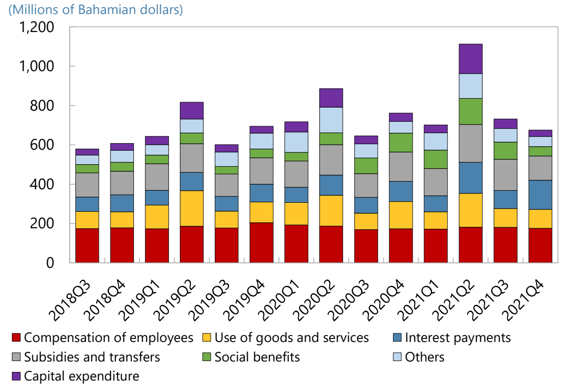
Revenues recovered in late 2021 …

Total Revenue
(Millions of Bahamian dollars)



…but spending needs remained high.

Total Expenditure
(Millions of Bahamian dollars)



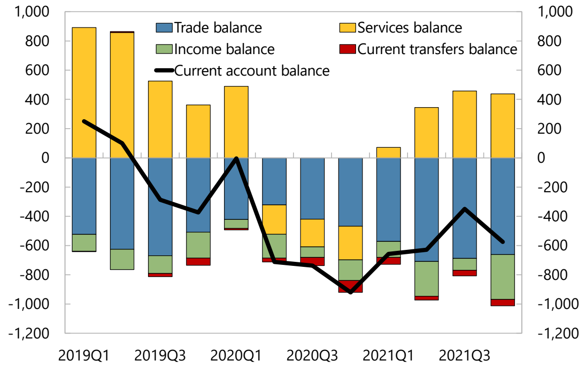
Sources: The Bahamian authorties; and IMF staff calculations.

1/ In early March the government published the stock of arrears, unpaid invoices, and unbudgeted expenditure as of December 31, 2021, totaling B$938 million (7.7 percent of GDP). During the process of clarifying the details of these liabilities as well as the government's plan to clear them, the baseline macro framework does not include them.

Figure 4. The Bahamas: External Sector Developments

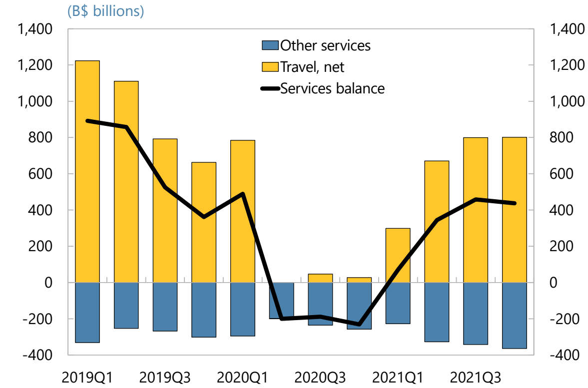
After historic lows, the CA deficit started to improve in 2021, …

Current Account Balance
(B$ billions)



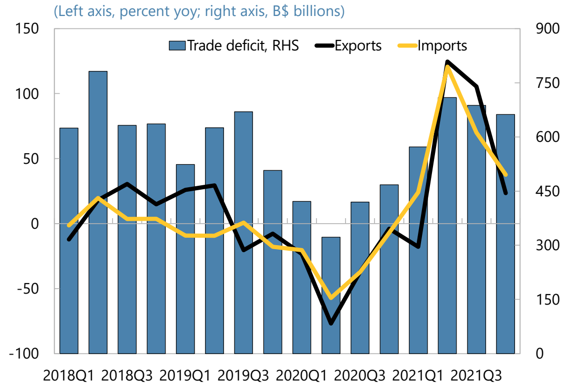
… driven by the recovery in net travel receipts.

Services Balance
(B$ billions)



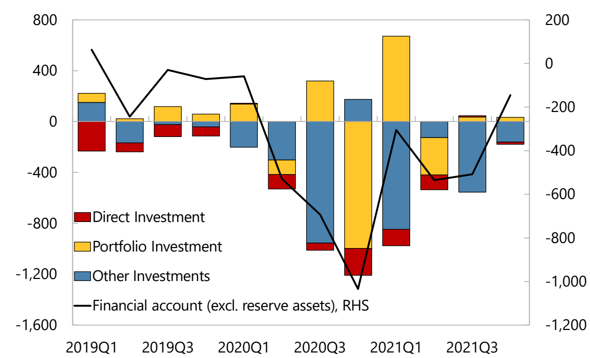
Imports recovered faster than exports, ….

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



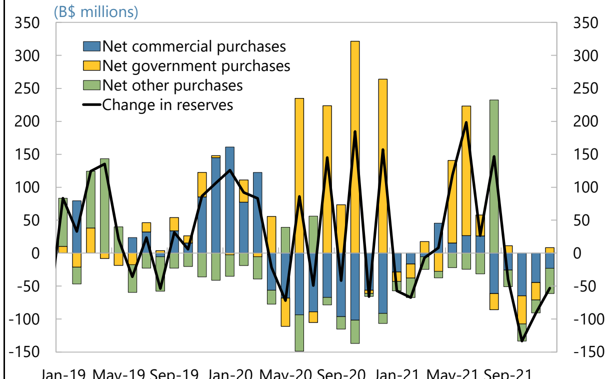
…which had to be supported by net capital inflows.

Capital Flows 1/
(B$ billions)



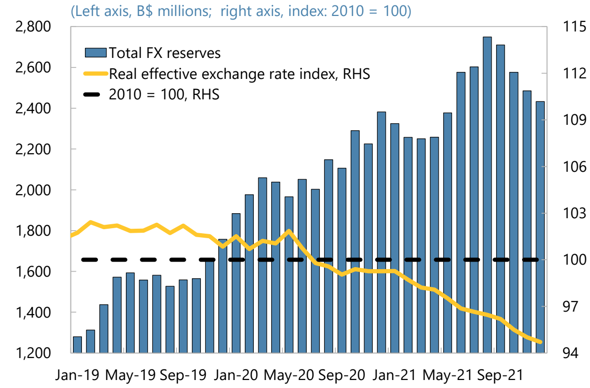
Foreign exchange reserves were well supported, …

Change in Central Bank FX Reserves
(B$ millions)



… reaching their highest level in Q3 2021 after the general SDR allocation.

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

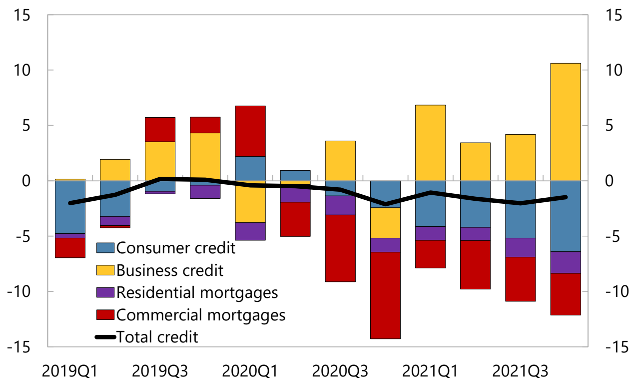


Sources: Ministry of Tourism, Bahamas National Statistical Institute, IMF staff calculations.
1/ Negative signs means a capital inflow; positive sign means a capital outflow.

Figure 5. The Bahamas: Financial Sector Developments

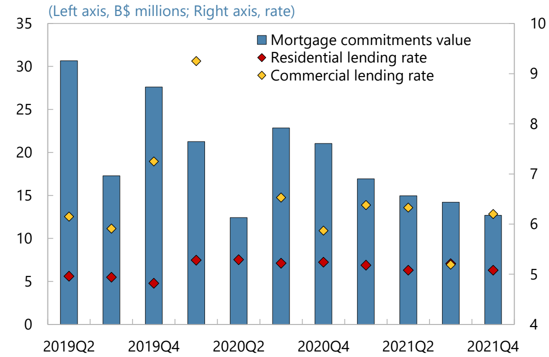
Private sector credit continued to contract in 2021...

Credit Growth by Sector
(Percent, yoy)



... with new mortgage commitments remaining subdued.

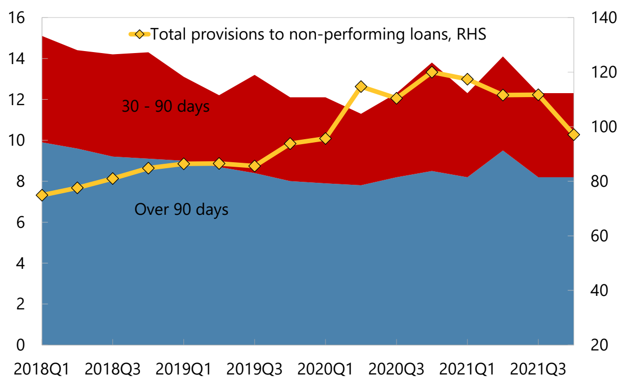
Mortgage Commitments and Lending Rates 1/
(Left axis, B$ millions; Right axis, rate)



1/ Including residential and commercial mortgage commitments value.

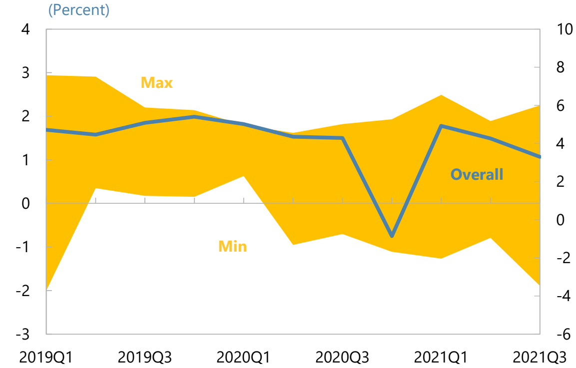
NPLs initially increased as widespread moratoria were phased out, amid increased provisioning.

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



Profitability recovered, but remained uneven across banks.

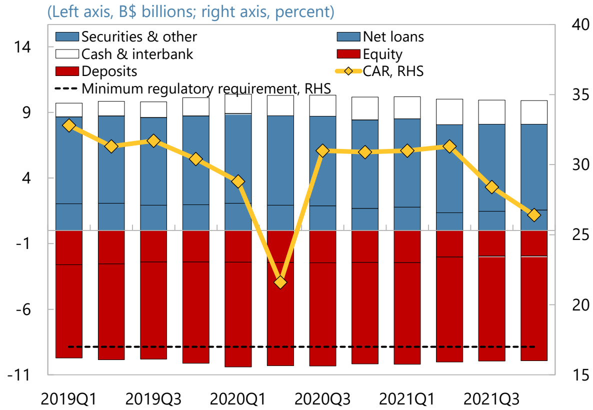
Return on Assets 1/
(Percent)



1. Max-min based on 4 domestic onshore banks.

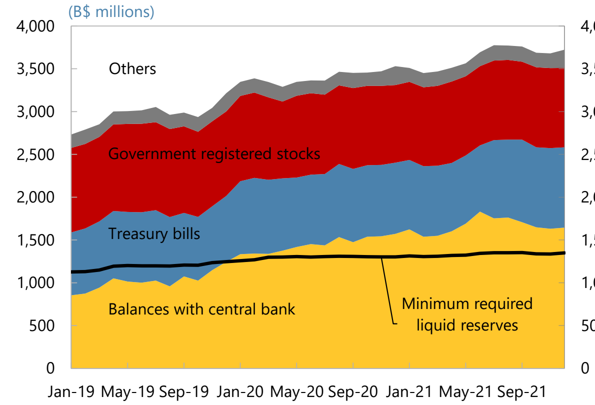
Capital ratios remained well above the regulatory minimum,...

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



... and liquidity was ample.

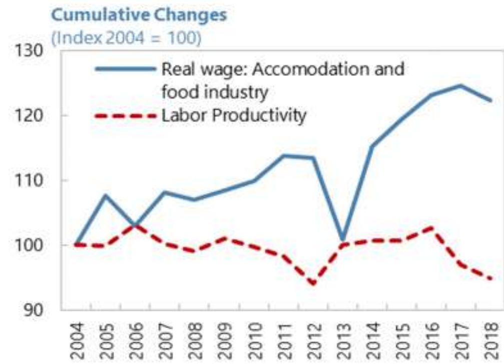
Banking Sector Liquid Assets
(B$ millions)



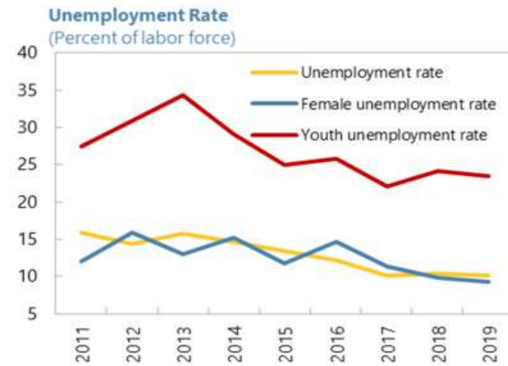
Sources: CBOB, S&P Global Market Intelligence, and IMF staff calculations.
1/ Max-min based on 4 domestic onshore banks.

Figure 6. The Bahamas: Competitiveness Indicators

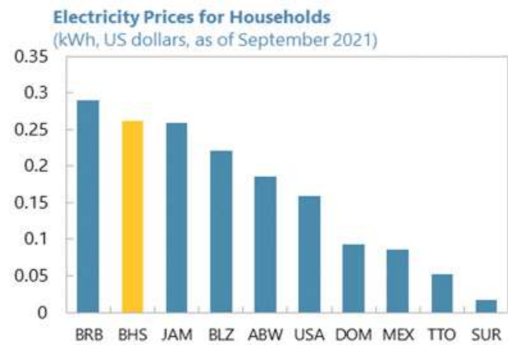
Wages have outpaced labor productivity gains…



…and youth unemployment remained high.



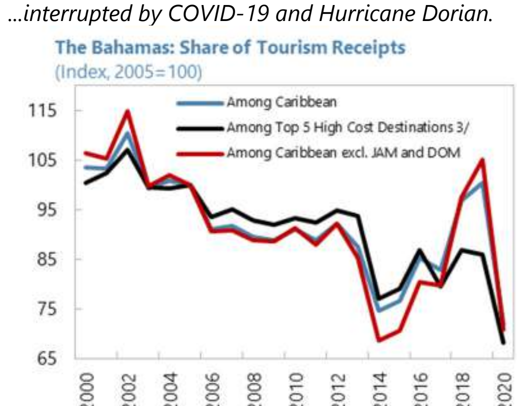
Electricity costs are relatively elevated…



…and terms of trade are unfavorable.

Recent gains in tourism market shares have been…

…interrupted by COVID-19 and Hurricane Dorian.



Sources: The Bahamian authorities, WDI, DoT and BOP database (IMF), and IMF staff calculations.
1/ Calculated as the ratio of export unit value index to import unit value index.
2/ Excludes Anguilla and Montserrat.
3/ Includes Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and The Bahamas.

Table 1. The Bahamas: Selected Social and Economic Indicators, 2018–27

I. Social Indicators

GDP (US$ millions), 2021	11,209	Poverty rate (percent), 2017	14.8
GDP per capita (US$), 2021	28,239	Unemployment rate (percent), Dec 2019	10.7
Population (thousands), 2021	397	Infant mortality rate (per 1,000 live births), 2020	10.5
Life expectancy at birth (years), 2020	74.1	Human development index (rank), 2020	58
Adult literacy rate, 15 & up (percent), 2007	96		

II. Economic Indicators

	Average 1991-2018	2018	2019	Est. 2020	Est. 2021	Projections 2022	2023	2024	2025	2026	2027
	(Annual percentage changes, unless otherwise indicated)										
Real sector											
Real GDP	1.4	1.8	1.9	-23.8	13.7	8.0	4.1	3.0	1.9	1.6	1.5
Nominal GDP	3.3	3.2	3.4	-26.5	15.6	13.4	8.1	5.7	4.5	3.9	3.8
GDP deflator	1.8	1.4	1.5	-3.5	1.6	5.0	3.9	2.6	2.5	2.3	2.3
Consumer price index (annual average)	2.1	2.3	2.5	0.0	2.9	6.7	4.8	3.3	2.9	2.6	2.4
Consumer price index (end of period)	2.0	2.0	1.4	1.2	4.1	7.3	3.4	3.1	2.7	2.6	2.2
Unemployment rate (in percent)	11.1	10.4	10.1	25.6	18.1	13.9	12.7	12.3	11.9	11.6	11.4
Gross national saving rate (percent of GDP)	18.9	16.2	23.1	2.8	10.1	10.6	15.4	18.8	19.8	20.3	20.3
Investment rate (percent of GDP, constant price)	27.9	25.6	25.9	26.8	29.8	28.6	27.9	27.6	27.5	27.2	26.5
Financial sector											
Credit to the nonfinancial public sector	10.7	6.6	1.5	-7.8	15.6	10.1	8.5	7.7	6.9	6.2	5.5
Credit to the private sector	4.8	-1.6	0.1	-2.1	-1.5	0.4	1.5	2.3	3.2	1.6	1.5
External sector											
Exports of goods and services	4.0	26.3	8.6	-68.3	82.2	47.0	22.4	13.6	6.1	5.3	4.9
Of which: Travel receipts (gross)	4.2	27.2	10.7	-76.6	126.0	55.8	25.3	15.3	6.1	5.2	4.8
Imports of goods and services	14.2	4.0	-5.2	-30.9	34.1	32.0	6.4	4.3	3.4	3.5	3.7
	(In percent of GDP, unless otherwise indicated)										
Central government 1/											
Revenue and grants	13.3	16.3	18.4	18.4	19.0	19.8	19.9	20.0	20.2	20.3	20.3
Expenditure	15.3	19.6	20.1	25.6	32.7	26.5	22.9	23.0	22.8	22.6	22.4
Expense	13.6	17.8	18.6	23.7	29.9	24.7	21.5	21.5	21.2	21.0	20.7
Net acquisition of nonfinancial assets	1.7	1.8	1.5	1.9	2.8	1.8	1.4	1.5	1.6	1.7	1.7
Overall balance	-2.0	-3.3	-1.7	-7.2	-13.7	-6.7	-3.0	-3.0	-2.6	-2.3	-2.1
Primary balance	-0.3	-0.8	0.8	-4.1	-9.4	-2.7	0.7	1.0	1.4	1.6	1.8
Central government debt	29.2	61.9	59.7	75.0	103.3	90.6	84.2	82.8	81.7	81.1	80.4
External sector											
Current account balance	-5.8	-9.4	-2.7	-24.0	-19.7	-18.0	-12.5	-8.8	-7.7	-6.8	-6.2
Change in NIR 2/	-0.1	-1.7	4.3	6.4	0.5	-2.9	-0.3	-0.1	0.1	-0.4	0.0
Central government external debt	5.9	20.3	19.5	41.6	38.8	39.3	37.7	36.9	36.4	36.0	35.2
Memorandum items											
Gross international reserves											
(End of period; millions of U.S. dollars)	1082	1,196	1,758	2,382	2,434	2,065	2,021	2,011	2,025	1,956	1,964
(In months of next year's G&S imports)	5.2	3.0	6.3	6.4	4.9	3.9	3.7	3.5	3.5	3.2	3.1
GDP (in millions of Bahamian dollars)		12,756	13,193	9,700	11,209	12,714	13,745	14,527	15,178	15,764	16,363
Output gap (percent)		0.3	1.0	-18.4	-9.6	-4.1	-1.8	-0.5	-0.2	-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 data refer to fiscal years ending on June 30.

2/ Net International Reserves.

Table 2a. The Bahamas: Operations of the Central Government, FY2019–27 1/
(In millions of Bahamian dollars)

		Est.	Proj.					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Revenue	2,087	1,871	2,403	2,657	2,830	3,006	3,142	3,268
Taxes	1,858	1,603	2,056	2,277	2,429	2,586	2,707	2,818
Taxes on property	99	143	137	181	211	226	237	248
Taxes on goods and services	1,347	1,228	1,551	1,648	1,739	1,849	1,936	2,019
of which: VAT	880	742	940	995	1,050	1,123	1,178	1,232
Taxes on international trade and transactions	406	229	364	444	476	508	529	546
Other taxes	7	3	3	4	4	4	4	4
Grants	0	0	2	2	2	2	2	2
Other revenue	229	267	345	377	398	418	433	448
Expenditure	2,899	3,221	3,211	3,060	3,251	3,387	3,501	3,601
Expense	2,678	2,947	2,996	2,871	3,035	3,152	3,245	3,323
Compensation of employees	761	695	783	789	806	831	854	876
Goods and Services	462	481	526	496	504	520	534	548
Interest Payments	345	422	482	503	562	590	610	623
Subsidies	428	470	390	434	460	475	488	500
Grants	109	131	108	89	92	104	106	107
Social Benefits	188	403	337	213	224	231	237	243
Other Expense	387	345	370	347	386	402	416	428
of which: Transfers to public entities	152	96	104	80	90	95	100	102
Net acquisition of nonfinancial assets	221	274	215	190	215	235	256	278
Overall Balance	-812	-1,350	-808	-404	-421	-382	-358	-333
Primary Balance	-467	-928	-325	99	142	209	252	290
Net acquisition of financial assets	-149	353	46	46	46	46	46	46
Net incurrence of liabilities	662	1,703	854	450	467	428	405	380
Debt securities	187	834	347	256	266	244	230	216
Loans	475	869	507	194	201	185	174	164
of which : Usage of RFI resource	252				-130	-131		
Other net liabilities	0	0	0	0	0	0	0	0
Memorandum items								
Gross operating balance	-591	-1,076	-593	-214	-205	-147	-102	-55
Central government debt	8,484	10,167	10,988	11,240	11,707	12,135	12,540	12,919
of which : External	2,901	4,368	4,902	5,083	5,269	5,441	5,603	5,754
Central government debt in FRA 2/	8,191	9,935	10,790	11,240	11,707	12,135	12,540	12,919
Nominal GDP (In millions of B$) (FY)	11,317	9,842	12,133	13,357	14,136	14,853	15,471	16,064

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, FY2019–27 1/
(In percent of GDP)

		Est.	Proj.					
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Revenue	18.4	19.0	19.8	19.9	20.0	20.2	20.3	20.3
Taxes	16.4	16.3	16.9	17.1	17.2	17.4	17.5	17.5
Taxes on property	0.9	1.5	1.1	1.4	1.5	1.5	1.5	1.5
Taxes on goods and services	11.9	12.5	12.8	12.3	12.3	12.4	12.5	12.6
of which: VAT	7.8	7.5	7.7	7.4	7.4	7.6	7.6	7.7
Taxes on international trade and transactions	3.6	2.3	3.0	3.3	3.4	3.4	3.4	3.4
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.0	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Expenditure	25.6	32.7	26.5	22.9	23.0	22.8	22.6	22.4
Expense	23.7	29.9	24.7	21.5	21.5	21.2	21.0	20.7
Compensation of employees	6.7	7.1	6.5	5.9	5.7	5.6	5.5	5.5
Goods and Services	4.1	4.9	4.3	3.7	3.6	3.5	3.5	3.4
Interest Payments	3.0	4.3	4.0	3.8	4.0	4.0	3.9	3.9
Subsidies	3.8	4.8	3.2	3.2	3.3	3.2	3.2	3.1
Grants	1.0	1.3	0.9	0.7	0.7	0.7	0.7	0.7
Social Benefits	1.7	4.1	2.8	1.6	1.6	1.6	1.5	1.5
Other Expense	3.4	3.5	3.0	2.6	2.7	2.7	2.7	2.7
of which: Transfers to public entities	1.3	1.0	0.9	0.6	0.6	0.6	0.6	0.6
Net acquisition of nonfinancial assets	1.9	2.8	1.8	1.4	1.5	1.6	1.7	1.7
Overall Balance	-7.2	-13.7	-6.7	-3.0	-3.0	-2.6	-2.3	-2.1
Primary Balance	-4.1	-9.4	-2.7	0.7	1.0	1.4	1.6	1.8
Net acquisition of financial assets	-1.3	3.6	0.4	0.3	0.3	0.3	0.3	0.3
Net incurrence of liabilities	5.9	17.3	7.0	3.4	3.3	2.9	2.6	2.4
Debt securities	1.7	8.5	2.9	1.9	1.9	1.6	1.5	1.3
Loans	4.2	8.8	4.2	1.5	1.4	1.2	1.1	1.0
of which : Usage of RFI resource	2.2				-0.9	-0.9		
Other net liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items								
Gross operating balance	-5.2	-10.9	-4.9	-1.6	-1.5	-1.0	-0.7	-0.3
Central government debt	75.0	103.3	90.6	84.2	82.8	81.7	81.1	80.4
of which : External	25.6	44.4	40.4	38.1	37.3	36.6	36.2	35.8
Central government debt in FRA 2/	72.4	101.0	88.9	84.2	82.8	81.7	81.1	80.4
Nominal GDP (In millions of B$) (FY)	11,317	9,842	12,133	13,357	14,136	14,853	15,471	16,064

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, 2019–27

	2019	2020	Est. 2021	Projections 2022	2023	2024	2025	2026	2027
			(In millions of U.S. dollars)						
Current account balance	**-359**	**-2,330**	**-2,210**	**-2,290**	**-1,716**	**-1,284**	**-1,162**	**-1,077**	**-1,012**
Goods (trade balance)	-2,326	-1,585	-2,344	-3,318	-3,426	-3,521	-3,589	-3,663	-3,767
Exports	694	378	467	598	687	742	793	843	892
Imports	3,020	1,963	2,811	3,917	4,113	4,263	4,381	4,506	4,659
Services	2,637	-133	827	1,766	2,475	3,029	3,244	3,418	3,591
Travel (net)	3,790	857	1,977	3,082	3,909	4,535	4,809	5,055	5,292
Travel (credit)	4,125	967	2,187	3,407	4,269	4,922	5,221	5,490	5,752
Travel (debit)	335	110	210	325	360	387	411	435	460
Other services	-1,153	-990	-1,149	-1,316	-1,435	-1,506	-1,566	-1,636	-1,701
Income	-670	-613	-693	-737	-764	-791	-817	-832	-836
Capital Account	**908**	**547**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Transfers	908	547	0	0	0	0	0	0	0
o/w Hurricane insurance payout	908	547	0	0	0	0	0	0	0
Financial Account	**382**	**-1,681**	**-2,210**	**-2,290**	**-1,716**	**-1,284**	**-1,162**	**-1,077**	**-1,012**
Direct investment	-369	-375	-411	-441	-462	-477	-491	-503	-516
Portfolio investment	270	-657	-711	-774	-811	-841	-871	-901	-932
Other Investement	-83	-1,270	-1,140	-705	-399	44	186	397	428
Reserve Assets	564	621	52	-369	-44	-10	14	-69	8
Net errors and omissions	**167**	**-102**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
				(In percent of GDP)					
Current account balance	**-2.7**	**-24.0**	**-19.7**	**-18.0**	**-12.5**	**-8.8**	**-7.7**	**-6.8**	**-6.2**
Goods (trade balance)	-17.6	-16.3	-20.9	-26.1	-24.9	-24.2	-23.6	-23.2	-23.0
Exports	5.3	3.9	4.2	4.7	5.0	5.1	5.2	5.3	5.5
Imports	22.9	20.2	25.1	30.8	29.9	29.3	28.9	28.6	28.5
Services	20.0	-1.4	7.4	13.9	18.0	20.8	21.4	21.7	21.9
Travel (net)	28.7	8.8	17.6	24.2	28.4	31.2	31.7	32.1	32.3
Travel (credit)	31.3	10.0	19.5	26.8	31.1	33.9	34.4	34.8	35.1
Travel (debit)	2.5	1.1	1.9	2.6	2.6	2.7	2.7	2.8	2.8
Other services	-8.7	-10.2	-10.3	-10.4	-10.4	-10.4	-10.3	-10.4	-10.4
Income	-5.1	-6.3	-6.2	-5.8	-5.6	-5.4	-5.4	-5.3	-5.1
Capital Account	**6.9**	**5.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital transfers	6.9	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Hurricane insurance payout	6.9	5.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	**2.9**	**-17.3**	**-19.7**	**-18.0**	**-12.5**	**-8.8**	**-7.7**	**-6.8**	**-6.2**
Direct investment	-2.8	-3.9	-3.7	-3.5	-3.4	-3.3	-3.2	-3.2	-3.2
Portfolio investment	2.0	-6.8	-6.3	-6.1	-5.9	-5.8	-5.7	-5.7	-5.7
Other Investment	-0.6	-13.1	-10.2	-5.5	-2.9	0.3	1.2	2.5	2.6
Reserve Assets	4.3	6.4	0.5	-2.9	-0.3	-0.1	0.1	-0.4	0.0
Net errors and omissions	**1.3**	**-1.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items									
Net international reserves									
(End of period; millions of U.S. dollars)	1,758	2,382	2,434	2,065	2,021	2,011	2,025	1,956	1,964
(In percent of base money)	101.5	112.5	110.6	89.4	83.6	79.8	77.2	71.6	69.1
(In months of next year's G&S imports)	6.3	6.4	4.9	3.9	3.7	3.5	3.5	3.2	3.1
Nominal GDP (millions of U.S. dollars)	13,193	9,700	11,209	12,714	13,745	14,527	15,178	15,764	16,363

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

Note: with the exception of the overall CA for 2021, which is based on the March 2022 CBOB's Quarterly Economic Review, historical data are based on the November 2021 Quarterly Statistical Digest.

Table 4. The Bahamas: Summary Accounts of the Central Bank and the Financial System, 2019–27

			Prel.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
	(In millions of Bahamian dollars, end of period)								
Central Bank									
Net international reserves 1/	N.A.	2,382	2,434	2,065	2,021	2,011	2,025	1,956	1,964
Net domestic assets	-27	-264	-233	-159	-70	33	94	140	197
Credit to nonfinancial public sector (net)	353	132	395	395	395	395	395	395	395
Of which: Central Government	396	178	458	458	458	458	458	458	458
Other	-380	-397	-628	-555	-465	-362	-301	-255	-198
Reserve money	1,731	2,118	2,200	2,310	2,416	2,519	2,624	2,731	2,841
Currency held by the private sector	489	547	557	588	621	656	693	732	773
Liabilities with financial institutions	1,243	1,571	1,643	1,722	1,795	1,863	1,931	1,999	2,067
Financial system									
Net foreign assets	1,790	2,141	2,338	1,820	1,809	1,839	1,860	1,803	1,807
Of which : Commercial banks and OFIs	32	-241	-95	-244	-212	-172	-165	-153	-156
Net domestic assets	6,103	5,722	5,875	6,788	7,170	7,490	7,819	8,227	8,576
Credit to nonfinancial public sector, net	2,775	2,558	2,958	3,256	3,534	3,806	4,068	4,319	4,557
Of which : Central Government, net	2,621	2,524	2,933	3,182	3,410	3,632	3,843	4,039	4,220
Credit to private sector	5,892	5,766	5,681	5,705	5,791	5,924	6,112	6,208	6,301
Other	-2,564	-2,602	-2,764	-2,173	-2,155	-2,240	-2,362	-2,300	-2,282
Liabilities to the private sector (broad money)	7,893	7,863	8,213	8,608	8,979	9,330	9,679	10,030	10,384
Money	3,248	3,471	3,708	3,970	4,226	4,483	4,747	5,022	5,304
Currency	337	373	386	408	431	455	480	507	536
Demand deposits	2,912	3,098	3,322	3,562	3,796	4,028	4,267	4,515	4,768
Quasi-money	4,644	4,392	4,504	4,639	4,753	4,846	4,931	5,008	5,080
	(Change in percent of liabilities to the private sector at the beginning of the period)								
Net foreign assets	10.1	4.4	2.5	-6.3	-0.1	0.3	0.2	-0.6	0.0
Net domestic assets	0.9	-4.8	1.9	11.1	4.4	3.6	3.5	4.2	3.5
Credit to nonfinancial public sector	0.6	-2.8	5.1	3.6	3.2	3.0	2.8	2.6	2.4
Credit to private sector	0.1	-1.6	-1.1	0.3	1.0	1.5	2.0	1.0	0.9
Liabilities to private sector (broad money)	11.0	-0.4	4.4	4.8	4.3	3.9	3.7	3.6	3.5
Money	7.3	2.8	3.0	3.2	3.0	2.9	2.8	2.8	2.8
Quasi-money	3.7	-3.2	1.4	1.6	1.3	1.0	0.9	0.8	0.7
	(Annual percentage change)								
Net domestic assets	1.1	-6.2	2.7	15.5	5.6	4.5	4.4	5.2	4.3
Credit to nonfinancial public sector	1.5	-7.8	15.6	10.1	8.5	7.7	6.9	6.2	5.5
Credit to private sector	0.1	-2.1	-1.5	0.4	1.5	2.3	3.2	1.6	1.5
Liabilities to private sector (broad money)	11.0	-0.4	4.4	4.8	4.3	3.9	3.7	3.6	3.5
Money	19.1	6.9	6.8	7.0	6.5	6.1	5.9	5.8	5.6
Quasi-money	6.0	-5.4	2.6	3.0	2.5	2.0	1.8	1.6	1.4

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, 2012–20

(In percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Capital Adequacy									
Regulatory capital to risk-weighted assets	29.1	31.1	32.8	33.3	28.6	32.5	32.3	28.1	28.4
Regulatory Tier I capital to risk-weighted assets	...	...	...	...	27.0	31.0	31.4	27.0	26.7
Credit to economic sectors 1/									
Nonfinancial corporations	24.3	22.5	19.0	18.0	17.2	15.5	16.4	16.3	14.0
Households	73.3	73.7	75.6	75.6	75.3	77.5	74.7	73.1	72.3
Financial institutions	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3
Government	2.1	3.6	5.1	6.0	7.3	6.7	8.5	10.2	13.4
Asset Quality 2/ 3/									
Nonperforming loans to total gross loans	13.6	15.3	15.3	14.2	11.4	9.2	9.1	8.0	8.5
Specific provisions to nonperforming loans 3/	33.0	29.5	41.1	47.5	56.0	52.0	68.6	76.4	83.4
Profitability									
Return on assets	1.5	1.4	-1.2	1.9	2.0	1.8	2.3	2.4	-0.1
Return on equity	5.9	5.4	-4.6	7.0	7.9	6.8	8.8	10.6	-0.3
Noninterest expenses to gross income	40.8	47.1	66.3	47.4	48.4	52.1	48.0	49.0	60.5
Personnel expenses to noninterest expenses	51.2	50.3	34.8	46.8	44.0	40.8	42.6	40.2	34.0
Liquidity 2/									
Liquid asset to total assets	20.2	21.8	22.6	24.1	25.9	29.0	26.6	29.6	32.4
Liquid asset to short-term liabilities 4/	31.2	34.0	34.4	37.0	37.8	42.7	38.3	40.9	45.7
Memo items 2/									
Total private sector credit to GDP	61.8	62.4	57.1	53.0	51.5	48.4	45.9	44.8	58.2
Spread between domestic lending and deposit rates	8.9	9.4	10.4	10.9	11.3	10.8	10.5	9.9	9.9
Loans to assets	74.0	72.8	72.2	70.6	69.1	64.8	67.9	62.4	61.8

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. External Sector Assessment

Update as of April15, 2022

Overall Assessment: *Based on preliminary data and EBA-lite model results, the external position of The Bahamas in 2021 was broadly in line with levels implied by fundamentals and desirable policies, although subject to a wide margin of error given the prolonged uncertainty due to the pandemic and its effect on tourism. The pandemic-related unprecedented shock to tourism caused a sharp fall in services receipts and therefore the current account. As exports decreased more than imports, the current account (CA) reached a deficit of 24 percent of GDP in 2020. In 2021, the CA improved by over four percentage points to 19.7 percent of GDP as tourism recovered. International reserves remained adequate in 2021, also due to the IMF's SDR allocation of $249 million in August.*

Potential Policy Responses: *Given The Bahamas' strong commitment to the exchange rate peg, fiscal consolidation to ensure debt sustainability alongside structural reforms to improve competitiveness are the primary policy tools to preserve external buffers. The focus should be on the commitments to implement pro-growth and inclusive fiscal reforms that raise productivity and put the public debt ratio on a decisive downward path. Reinvigorating structural reforms will assist in the rebound of key sectors and encourage additional FDI. After pandemic and hurricane-related government external borrowing provided temporary relief in the last two years, the authorities should focus on improving competitiveness and the investment climate. Priorities should be the renewable energy sector and agriculture where local products could substitute imports in the medium term. Should economic conditions deteriorate significantly, capital flow management measures – similar to the ones used during the first year of the pandemic – could be considered.*

Current Account

Background. As a small, open, and service-based economy, The Bahamas relies heavily on imports to meet its consumption and investment needs. In the five years before the pandemic, the CA deficit averaged 10.1 percent of GDP. Goods imports, of which about 30 percent are tourism related, persistently exceed exports, resulting in a trade deficit averaging around 19.2 percent of GDP between 2015-19. On the services side, net inflows, mainly tourism receipts, have averaged about 23 percent of GDP. In 2020, the pandemic-related decrease in tourism receipts caused a sharp decline of the CA to -24 percent of GDP. The 2021 CA still records a large deficit of 19.7 percent of GDP even with the recovery in tourism. The key risks to staff's forecasts of a gradual reduction in the CA deficit over the medium-term are the uncertain path of the pandemic, which could undermine tourism flows going forward, as well as increasing price pressures on imports, including because of the war in Ukraine.

Assessment. According to the EBA-lite CA model, in 2021, the cyclically adjusted CA deficit is 12.3 percent of GDP, after an IMF staff adjustment of 10.1 percent of GDP to account for the impact of the pandemic on the CA. The CA norm is estimated at -0.3 percent of GDP, inferring a CA gap of -12.0 percent of GDP. Policy gaps contribute 0.5 percentage points to the model-estimated CA gap and the remainder reflects unidentified country-specific factors and/or regression residuals. 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 shown a better fit over time. The REER model suggests a CA gap that is broadly in line with fundamentals and desired policies, at -0.7 percent.

The Bahamas: Model Estimates for 2021 (in percent of GDP)

	CA model	REER model
CA-Actual	**-19.7**	
Cyclical contributions (from model) (-)	1.2	
COVID-19 adjustor (+) 1/	10.1	
Natural disasters and conflicts (-)	1.5	
Adjusted CA	**-12.3**	
CA Norm (from model) 2/	**-0.3**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-0.3**	
CA Gap	**-12.0**	**-0.7**
o/w Relative policy gap	0.5	
Elasticity	-0.24	
REER Gap (in percent)	**49.3**	**2.8**

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on decrease of tourism.
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER has been relatively stable, at an average of 100.3 with a standard deviation of only 1.2 in the 10 years before the pandemic (2010-2019). In 2021, the REER declined to a historical low of 94.7, with a year average of 96.9.

Assessment. Based on the results of the REER model, the REER gap at end-2021 is estimated at 2.8 percent, therefore indicating a slight overvaluation. This is significantly lower than the previous assessment where the REER gap was at 7.5 percent for 2020. The large decrease in overvaluation was driven by a decrease in the REER in line with lower inflation in The Bahamas compared to its main trading partners. The remaining overvaluation can be associated with a lack of competitiveness, e.g., relatively high wages compared to productivity and high costs of trade (see Figure 6).

Capital and Financial Accounts: Flows and Policy Measures

Background. In the Bahamas, FDI has been a stable source of financing averaging of 3.5 percent of GDP since 2015. In contrast, portfolio outflows were highly volatile between 10.4 and -1.9 percent of GDP for the same period. In addition to some FDI and reconstruction projects which have continued throughout the pandemic, government external borrowing from IFIs, Eurobond issuances, and an increase in domestic banks' short-term liabilities, are behind the large increase in the financial account for 2020 and 2021. Measures to control the outflow of capital introduced at the onset of the pandemic in 2020 were lifted in 2021 without significant repercussions.

Assessment. Numerous large and mid-scale tourism related FDI projects are scheduled over the next 5 years which are projected to keep FDI around the mid-term average. However, the high degree of uncertainty about the scarring effects of COVID-19 increase the uncertainty around this estimate. A renewed spike in international risk aversion, potentially linked to a tightening in global financial conditions, could hinder investment appetite and the ability to obtain financing from nonresidents. Reinvigorating structural reforms, to improve competitiveness and the investment climate would help increase and sustain FDI flows.

FX Intervention and Reserves Level

Background. During the pandemic, external reserves were increased to an all-time high of approximately $2.7 billion at the end of September 2021. This is due to front-loading of the government's external borrowing activity in 2020 and the recent IMF SDR allocation of $249 million. By the end of 2021, reserves remained at elevated levels, near $2.4 billion, and higher than the previous year. The central bank has undertaken some FX sales during the past year to ensure the smooth functioning of foreign currency markets.

Assessment. The end-2021 level of foreign reserves results in reserves being around 218 percent of the Fund's adequacy metric, above the suggested range of (100-150 percent). Despite global uncertainties caused by the pandemic and in the absence of escalating upward price pressures of imports, reserve metrics are projected to remain adequate over the medium-term.

Annex II. Risk Assessment Matrix[1]

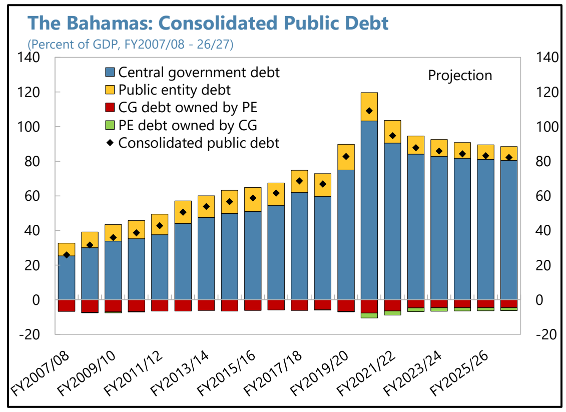
Potential Deviations from Baseline		
Source of Risk		**Policy Response**
	External	
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries.	**High Likelihood** **High Impact**	Institute robust screening and quarantine processes, strengthen health system, establish effective channels of communication, well-targeted social assistance programs
De-anchoring of inflation expectations in the U.S. and/or advanced European economies prompts central banks to tighten policies abruptly, resulting in a sharp tightening of global financial conditions and spiking risk premia	**Medium Likelihood** **High Impact**	Implement prudent fiscal policies and structural reforms to build buffers and improve competitiveness. CBOB should be willing to allow interest rates to rise to support the currency peg. In an imminent crisis scenario, impose temporary capital flow management measures.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility	**High Likelihood** **Medium Impact**	Allow higher international food and energy costs to pass through to domestic prices alongside targeted support to protect the poorest members of society. CBOB should be willing to allow interest rates to rise to support the currency peg. In an imminent crisis scenario, impose temporary capital flow management measures. Over the medium term, reform utility SOEs. Improve agriculture quality to reduce reliance on imports.
Geopolitical tensions and de-globalization cause economic and political disruptions, and lower investor confidence. Associated supply chain disruptions/commodity price shocks give rise to inflationary pressures.	**High Likelihood** **Medium Impact**	
	Domestic	
Natural disasters related to climate change negatively impact tourism activity, worsening fiscal and external balances and dampening medium-term outlook.	**Medium Likelihood** **High Impact**	Enhance ex-ante preparedness and risk reduction strategies, invest in resilient infrastructure, rebuild financial resilience
Revenue reforms fall short of envisaged yields, inability to cover large short-term liquidity needs with external financing	**Medium Likelihood** **High Impact**	Review expenditure (including by SOEs) to reprioritize spending flexibly and timely should the need arise. Systematically evaluate performance of multi-year financing strategy and undertake contingency planning
Information infrastructure failure. Cyber-attacks on critical infrastructure and institutions trigger financial instability or widespread disruptions	**Medium Likelihood** **High Impact**	Strengthen cybersecurity 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 III. Public Debt Sustainability Analysis[1]

The Bahamas public debt is assessed as sustainable, but vulnerable to shocks, including from a more prolonged pandemic and sharp rises in global risk premia. Staff's baseline projection and most risk scenarios indicate a downward trajectory of the debt-to-GDP ratio. However, by 2027, the debt ratio would still be above 80 percent, more than 15 percentage points higher than pre-pandemic, and significantly above the MAC DSA threshold of 70 percent of GDP. Gross financing needs will remain significantly above the MAC DSA threshold of 15 percent of GDP and decline only gradually over the medium-term, creating elevated risks of the country finding itself in debt distress.

1. Coverage. In contrast to past Article IV consultations, this DSA covers both the central government and other public entities. Debt crossholdings between the central government and public entities were consolidated.[2] All non-financial public entities, which report debt, are covered. Debt of the seven largest state-owned enterprises and the remainder of entities were separately projected, mainly based on their historical trend due to limited information availability (including a lack of annual financial audited statements).



2. Debt stock and financing needs. FY2021/22 public debt/GDP is expected to decrease to 94.8 percent from 109.2 percent in FY2020/21 thanks to the strong growth in nominal GDP. Gross public sector financing needs (GFN) decline from a historical high of 37.8 percent of GDP in FY2020/21 to 24.8 percent of GDP in FY2021/22. Among the GFN, treasury bills and notes and central bank advances for central government's short-term liquidity purposes last fiscal year account for about 10 percent of GDP, and the domestic financial system is expected to roll them over. Among the remaining financing needs for this fiscal year, the repo arrangement accounts for about 12 percent with the remainder to be covered by a combination of domestic issuance, IDB guaranteed Eurobond issuances, and other external loans. Over the medium term, public debt is expected to decline to 82.2 percent, assuming a continued recovery, phasing-out of COVID-related support measures and a modest increase in revenue collection efficiency. GFNs are projected to decline to 19 percent of GDP by FY2026/27, but remain

FY2024/25 Projection: MTDS vs IMF Baseline 1/
(Millions of Bahamian dollars)

	MTDS	IMF
GFN	2,266	3,081
Primary deficit (-: surplus)	-651	-209
Debt services	2,916	3,290
Foreign currency financing	722	656
Domestic currency financing	1,544	2,426
Government debt	11,845	12,135
Memorandum		
Nominal GDP	13,985	14,853

Sources: The Medium-Term Debt Management Strategy; and IMF staff calculations.
1/ The numbers cover only budgetary central government. Other public sector debt and financing activities are excluded.

[1] The public sector DSA is based on the fiscal year (July – June). The external sector DSA is based on the calendar year.

[2] In early March the government published the stock of arrears, unpaid invoices and unbudgeted expenditure as of December 31, 2021, totaling B$938 million (7.7 percent of GDP). During the process of clarifying the details of these liabilities as well as the government's plan to clear them, the baseline macro framework does not include them.

above pre-pandemic levels and the MAC DSA threshold of 15 percent of GDP. These staff projections differ from the government's medium-term debt management strategy[3], including due to differences in the primary balance. Interest rates for FY2021/22 are based on the average rates in FY2021/22Q1 and then projected according to IMF World Economic Outlook assumptions on global interest rates (LIBOR).

3. Debt profile. Last fiscal year, the central government relied significantly on foreign currency external borrowing to cover its financing needs, and this trend is expected to continue in FY2021/22, with a foreign currency debt share of close to 48 percent by the end of the fiscal year. Given the government's intention to increase the reliance on domestic financing and longer-term debt, the foreign-currency, and short-term debt shares are expected to decline gradually over time.

4. Debt vulnerability. Risks in the heatmap remain high given the high debt level and gross financing needs. The market perception also remains weak as spreads are high and The Bahamas sovereign rating was further downgraded into non-investment territory by two rating agencies in the second half of 2021. External financing risks are high because of the deterioration of the current account deficit. The external debt share was just below the higher risk thresholds (45 percent). The FY2020/2021 foreign currency debt share remains between the lower and higher thresholds (20 and 60 percent).

5. Realism of baseline assumptions. Past growth forecast errors are largely explained by substantial revisions to national accounts in 2017, resulting in large downward revisions to GDP, unexpected events such as the bankruptcy of a major hotel 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. The projected large adjustment in the cyclically adjusted primary balance is associated with the expected normalization of policies between FY2020/21 and FY2023/24. By that time, most of the COVID-19 and Dorian-related measures are expected to be withdrawn, rapidly improving the fiscal situation.

6. Macro-fiscal stress test. Stress scenarios indicate the vulnerability of The Bahamas' public debt.

- A temporary growth shock of one standard deviation for two consecutive years would bring up the debt ratio to more than 100 percent again, before it would slightly decrease. A contingent liabilities shock scenario, where the same growth shock is combined with a one-time increase in the primary expenditure-to-GDP ratio by 10 percent of banking sector assets, would raise debt even further.

[3] The government published its first medium-term debt management strategy (MTDS) in January 2022. The MTDS, covering the central budgetary government's debt up to FY2024/25, shows the financing mix together with the debt and gross financing needs projections.

- Under a real interest rate shock and combined macro-fiscal shock, the debt-to GDP ratio would not display a decreasing trend.[4] In the former, the interest rate is assumed to increase by the difference between the average projected real interest rate level over the projection horizon and the maximum real historical level (about 606 basis points). The macro-fiscal scenario assumes shocks to real GDP, inflation, government revenue, expenditure, interest and exchange rates.

- A major hurricane scenario ("combined macro-fiscal shock II") shows that debt would increase to 109 percent over the medium term. This scenario assumes a devastating impact on infrastructure resulting in a sharp contraction in FY2022/23 and zero growth in FY2023/24. The government response would likely include wide-ranging tax exemptions. On average, revenue would be lower by about 3.5 percentage points of GDP. The scenario assumes a long-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 for construction workers.

7. External debt.[5] 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 2023 would put the public external debt ratio on an increasing trajectory, reaching 52 percent of GDP by 2027. A permanent one-time 30 percent real effective exchange rate depreciation in 2022 would shift the 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 47 percent by 2027.

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[4] The substantial decline in the GDP deflator during the pandemic sharply increased the real interest rate magnifying the shock under the DSA framework.

[5] Defined as central government and public corporations' 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 Debt, FY2014/15–20/21
(In percent of GDP)

	FY2014/15	FY2015/16	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21
Consolidated public sector 1/	56.6	58.8	61.6	68.7	66.9	82.8	109.2
External	18.5	20.0	19.6	25.9	23.7	30.4	48.8
Domestic	38.2	38.7	42.0	42.8	43.2	52.3	60.4
Of which: in foreign currency	21.6	22.9	21.7	27.9	26.1	33.5	51.7
Central government debt	49.8	51.0	54.5	61.9	59.7	75.0	103.3
External	13.8	14.7	14.5	21.0	19.4	25.6	44.4
Domestic	36.0	36.3	40.0	40.9	40.4	49.3	58.9
Of which: in foreign currency	13.8	14.7	14.5	21.0	19.4	26.1	46.2
Public entities' debt	13.4	13.9	13.0	12.9	13.1	14.8	16.4
External	4.6	5.3	5.1	4.9	4.3	4.8	4.4
Domestic	8.8	8.6	7.8	8.0	8.8	10.0	12.0
Of which: in foreign currency	7.8	8.1	7.3	6.9	6.7	7.4	5.5
Public sector, gross	63.2	64.9	67.5	74.8	72.8	89.8	119.7
External	18.5	20.0	19.6	25.9	23.7	30.4	48.8
Domestic	44.7	44.9	47.9	48.9	49.2	59.4	70.9
Of which: in foreign currency	21.6	22.9	21.7	27.9	26.1	33.5	51.7

Sources: The Bahamian authorities; and IMF staff calculations.

1/ Cross-holding of the debt between the central government and public entities are excluded.

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

(In percent of GDP unless otherwise stated)

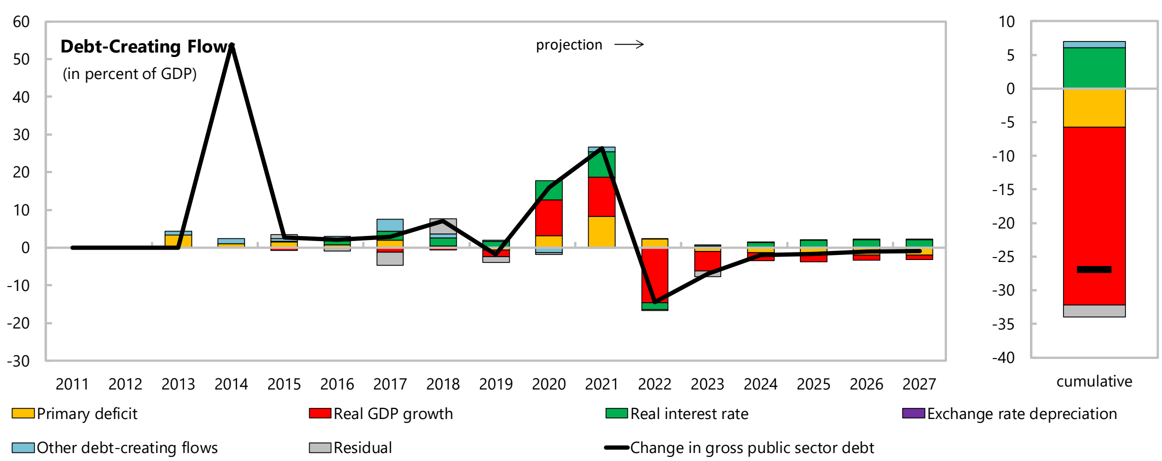
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2015-2019 [2/]	2020	2021	2022	2023	2024	2025	2026	2027
Nominal gross public debt	62.5	82.8	109.2	94.8	87.8	85.9	84.3	83.2	82.2
Public gross financing needs [3/]	15.3	21.2	37.8	24.8	22.6	22.7	19.7	17.7	19.0
Real GDP growth (in percent)	1.5	-12.1	-10.9	16.5	6.0	2.5	2.4	1.7	1.5
Inflation (GDP deflator, in percent)	2.4	-2.3	-2.4	5.9	3.8	3.2	2.6	2.4	2.3
Nominal GDP growth (in percent)	3.9	-14.1	-13.0	23.3	10.1	5.8	5.1	4.2	3.8
Effective interest rate (in percent) [5/]	4.9	4.6	4.9	4.7	4.5	5.0	5.0	5.0	4.9

As of April 04, 2022		
Sovereign Spreads		
EMBIG (bp) 4/		868
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	B+	B+
Fitch	n.a.	n.a.

Contribution to Changes in Public Debt

	Actual			Projections							
	2015-2019	2020	2021	2022	2023	2024	2025	2026	2027	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	2.6	15.9	26.4	-14.4	-7.0	-1.9	-1.6	-1.1	-0.9	-26.9	
Identified debt-creating flows	2.7	16.3	26.6	-14.1	-5.5	-1.9	-1.6	-1.1	-0.9	-25.2	
Primary deficit	0.8	3.1	8.3	2.2	-1.0	-1.3	-1.8	-1.9	-2.0	-5.7	1.0
Primary (noninterest) revenue and grants	16.3	18.2	18.7	19.4	19.5	19.7	20.0	20.0	20.1	118.8	
Primary (noninterest) expenditure	17.1	21.3	27.0	21.7	18.5	18.4	18.2	18.1	18.1	113.0	
Automatic debt dynamics [6/]	0.6	14.6	17.1	-16.5	-4.8	-0.7	0.0	0.7	0.9	-20.4	
Interest rate/growth differential [7/]	0.6	14.6	17.1	-16.5	-4.8	-0.7	0.0	0.7	0.9	-20.4	
Of which: real interest rate	1.5	5.2	6.7	-1.9	0.4	1.4	2.0	2.1	2.1	6.1	
Of which: real GDP growth	-0.9	9.5	10.4	-14.6	-5.2	-2.1	-2.0	-1.4	-1.2	-26.5	
Exchange rate depreciation [8/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.3	-1.4	1.2	0.1	0.3	0.1	0.2	0.2	0.1	1.0	
Net acquisition of assets (+: reduce financing needs) (negative)	1.1	-1.4	1.2	0.1	0.3	0.1	0.2	0.2	0.1	1.0	
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	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [9/]	-0.1	-0.5	-0.2	-0.3	-1.5	0.0	0.0	0.0	0.0	-1.8	



Source: IMF staff.

1/ Public sector is defined as consolidated public sector. The cross-holding of debt between the central government and other public entities are excluded, but cross-holding among public entities are included. All the analyses are based on fiscal year (July - June).

2/ Based on available data.

3/ Gross financing needs include the expected rollover of the short-term treasury bills and notes, which amounted about 10 percent of GDP.

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

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

6/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ 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).

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

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

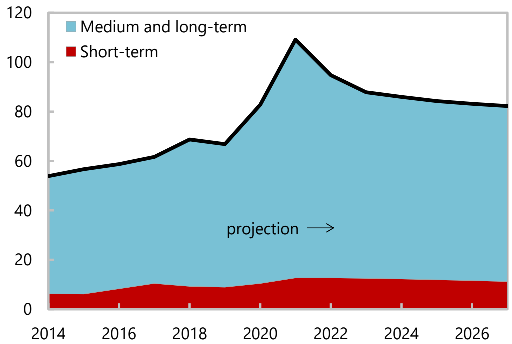
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period. 2023 includes the execution of the promissory note to the Bank of Bahamas (B$167.7 million / 1.2 percent of GDP).

10/ 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.

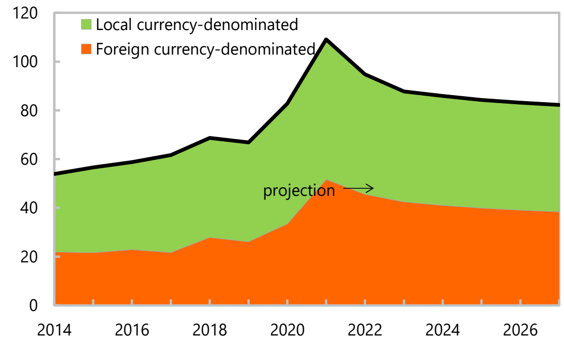
Figure 2. The Bahamas: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



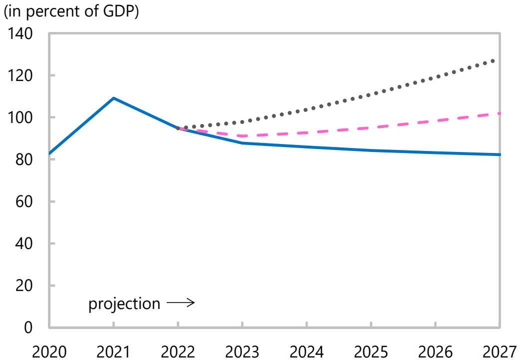
By Currency
(in percent of GDP)



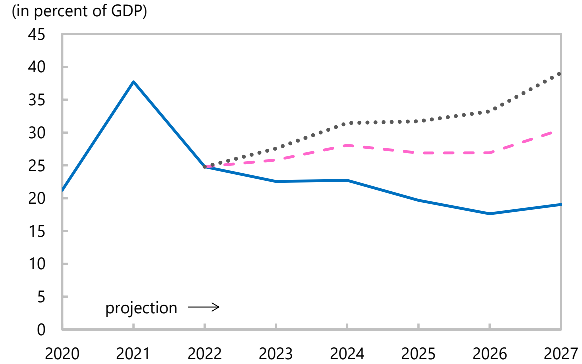
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



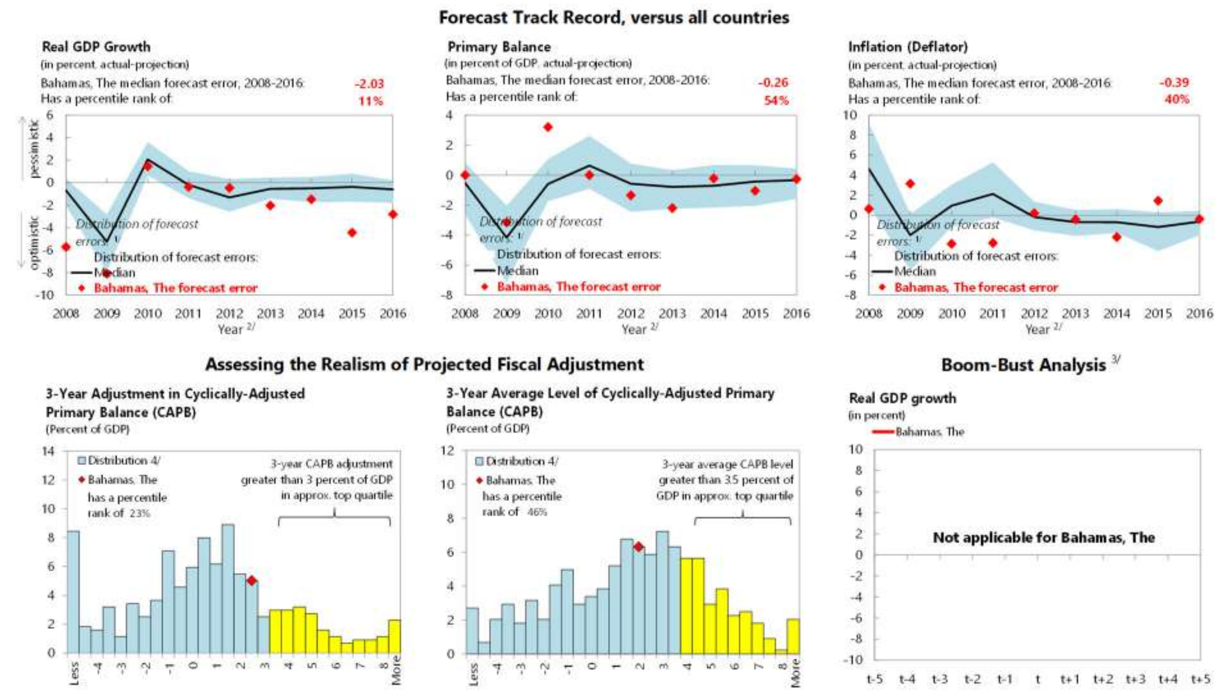
Underlying Assumptions
(in percent)

Baseline Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	16.5	6.0	2.5	2.4	1.7	1.5
Inflation	5.9	3.8	3.2	2.6	2.4	2.3
Primary Balance	-2.2	1.0	1.3	1.8	1.9	2.0
Effective interest rate	4.7	4.5	5.0	5.0	5.0	4.9
Constant Primary Balance Scenario						
Real GDP growth	16.5	6.0	2.5	2.4	1.7	1.5
Inflation	5.9	3.8	3.2	2.6	2.4	2.3
Primary Balance	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	4.7	4.5	4.9	5.1	5.1	5.1

Historical Scenario	2022	2023	2024	2025	2026	2027
Real GDP growth	16.5	-1.4	-1.4	-1.4	-1.4	-1.4
Inflation	5.9	3.8	3.2	2.6	2.4	2.3
Primary Balance	-2.2	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	4.7	4.5	5.4	5.9	6.1	6.2

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.

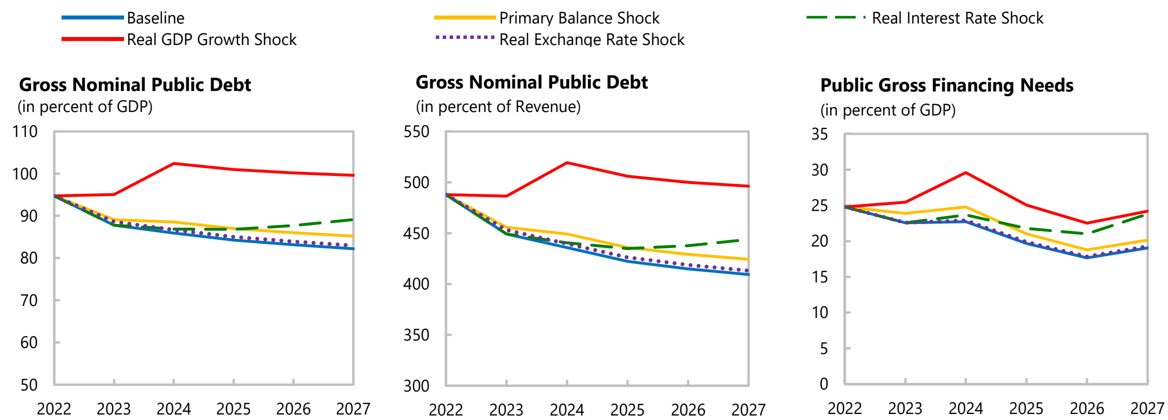
2/ Projections made in the spring WEO vintage of the preceding year.

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

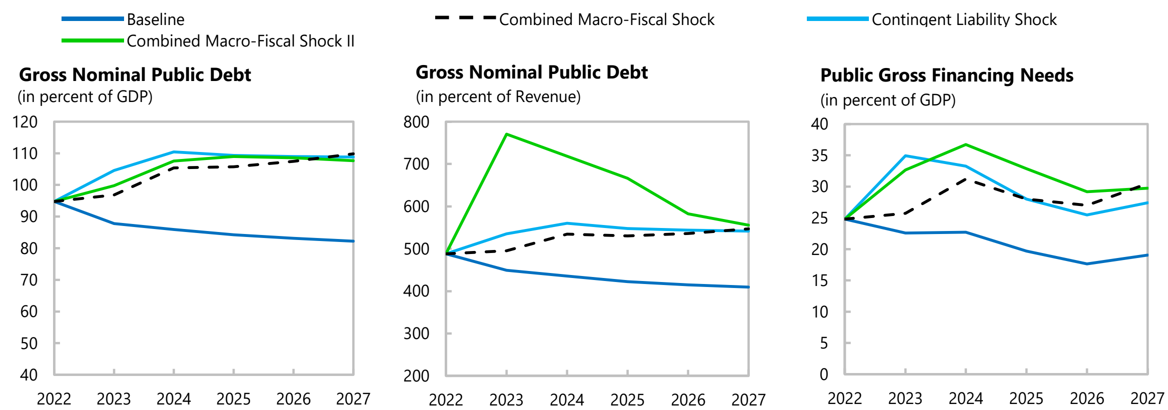
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 4. The Bahamas: Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	16.5	6.0	2.5	2.4	1.7	1.5
Inflation	5.9	3.8	3.2	2.6	2.4	2.3
Primary balance	-2.2	-0.3	0.0	1.8	1.9	2.0
Effective interest rate	4.7	4.5	5.0	5.1	5.1	5.1
Real Interest Rate Shock						
Real GDP growth	16.5	6.0	2.5	2.4	1.7	1.5
Inflation	5.9	3.8	3.2	2.6	2.4	2.3
Primary balance	-2.2	1.0	1.3	1.8	1.9	2.0
Effective interest rate	4.7	4.5	6.1	6.9	7.4	7.7
Combined Shock						
Real GDP growth	16.5	0.6	-2.9	2.4	1.7	1.5
Inflation	5.9	2.5	1.9	2.6	2.4	2.3
Primary balance	-2.2	-0.3	-1.3	1.8	1.9	2.0
Effective interest rate	4.7	4.6	6.1	7.0	7.6	7.9
Combined Macro-Fiscal Shock II						
Real GDP growth	16.5	3.0	0.0	3.9	2.7	2.0
Inflation	5.9	3.8	3.2	2.8	3.0	3.3
Primary balance	-2.2	-8.4	-5.9	-2.8	0.0	1.0
Effective interest rate	4.7	4.5	5.0	5.2	5.3	5.4

Real GDP Growth Shock	2022	2023	2024	2025	2026	2027
Real GDP growth	16.5	0.6	-2.9	2.4	1.7	1.5
Inflation	5.9	2.5	1.9	2.6	2.4	2.3
Primary balance	-2.2	-0.2	-1.3	1.8	1.9	2.0
Effective interest rate	4.7	4.5	5.0	5.2	5.2	5.1
Real Exchange Rate Shock						
Real GDP growth	16.5	6.0	2.5	2.4	1.7	1.5
Inflation	5.9	4.8	3.2	2.6	2.4	2.3
Primary balance	-2.2	1.0	1.3	1.8	1.9	2.0
Effective interest rate	4.7	4.6	4.9	5.0	5.0	4.9
Contingent Liability Shock						
Real GDP growth	16.5	0.6	-2.9	2.4	1.7	1.5
Inflation	5.9	2.5	1.9	2.6	2.4	2.3
Primary balance	-2.2	-9.5	1.3	1.8	1.9	2.0
Effective interest rate	4.7	4.8	5.5	5.5	5.5	5.4

Source: IMF staff.

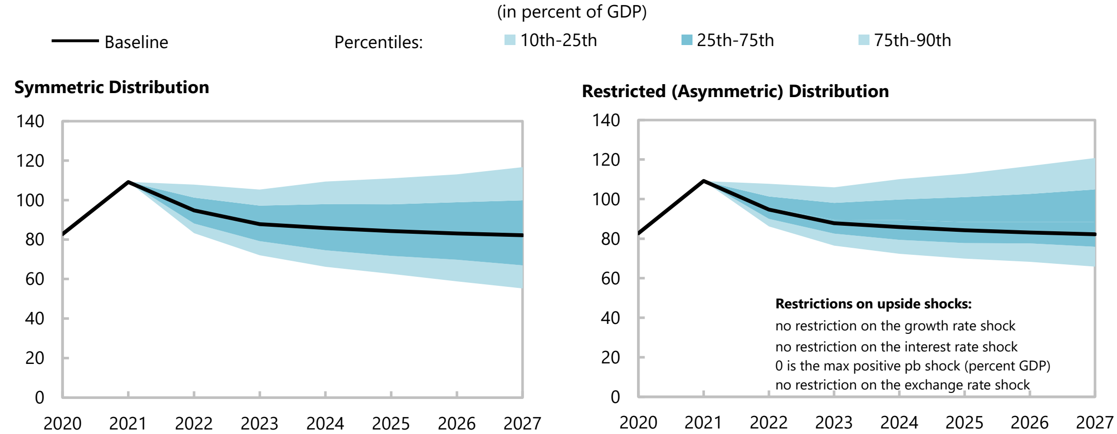
Figure 5. The Bahamas: Public DSA Risk Assessment

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

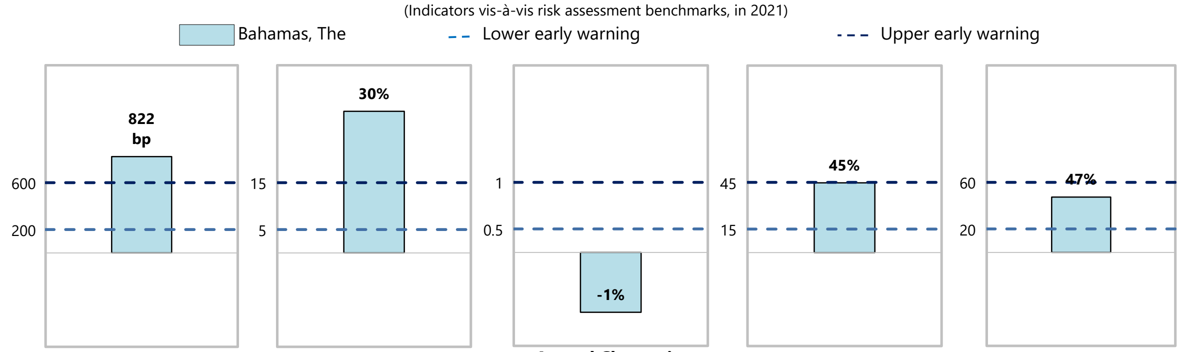
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)



Bond spread
(in basis points) 4/

External Financing Requirement
(in percent of GDP) 5/

Annual Change in Short-Term Public Debt
(in percent of total)

Public Debt Held by Non-Residents
(in percent of total)

Public Debt in Foreign Currency
(in percent of total)

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:

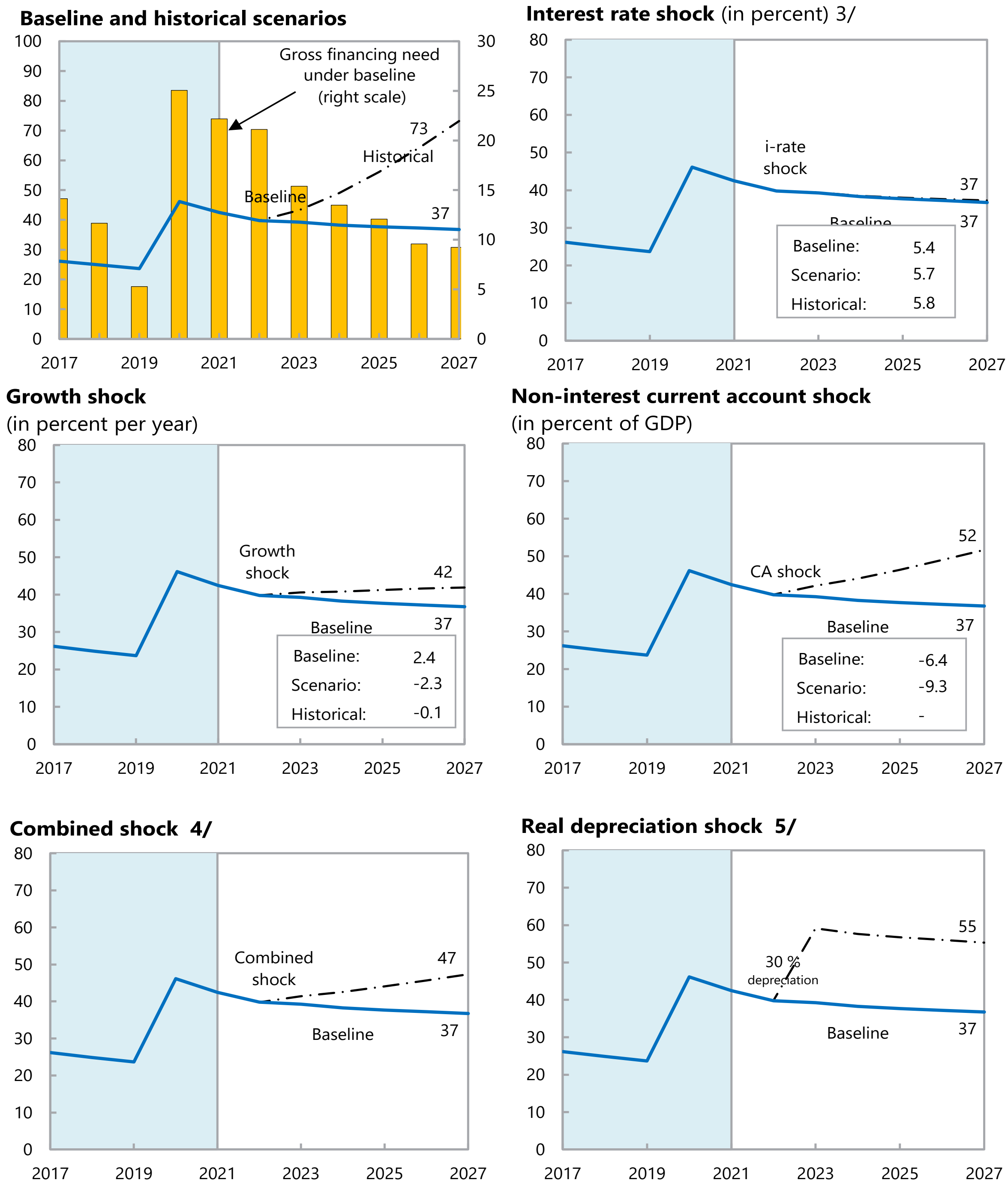
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 04-Jan-22 through 04-Apr-22.

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/

(In percent of GDP unless otherwise stated)



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 1/2 standard deviation shocks applied to nominal interest rate.
4/ Permanent 1/4 standard deviation shocks applied to nominal interest rate, growth rate, and current account balance.
5/ One-time real depreciation of 30 percent occurs in 2021.

Table 2. The Bahamas: External Debt Sustainability Framework: 2017–27

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2017	2018	2019	2020	2021			2022	2023	2024	2025	2026	2027	Debt-stabilizing non-interest current account 6/
Baseline: External debt	26.2	24.9	23.7	46.2	42.5			**39.8**	**39.3**	**38.3**	**37.7**	**37.2**	**36.8**	**-2.5**
Change in external debt	6.1	-1.3	-1.2	22.5	-3.7			-2.7	-0.5	-1.0	-0.6	-0.5	-0.5	
Identified external debt-creating flows (4+8+9)	9.6	4.2	-0.9	28.7	9.8			11.5	7.6	4.4	3.7	3.1	2.5	
Current account deficit, excluding interest payments	12.7	8.0	1.4	22.2	17.4			16.2	10.7	7.0	5.6	4.8	4.1	
Deficit in balance of goods and services	9.4	2.9	-2.4	17.7	13.5			12.2	6.9	3.4	2.3	1.5	1.1	
Exports	30.4	37.3	39.1	16.9	26.6			34.5	39.0	41.9	42.6	43.1	43.6	
Imports	39.8	40.1	36.8	34.6	40.1			46.7	45.9	45.3	44.8	44.7	44.7	
Net non-debt creating capital inflows (negative)	-3.3	-4.4	-2.8	-3.9	-3.7			-3.5	-3.4	-3.3	-3.2	-3.2	-3.2	
Automatic debt dynamics 1/	0.2	0.6	0.5	10.3	-3.8			-1.2	0.3	0.8	1.3	1.5	1.5	
Contribution from nominal interest rate	1.0	1.4	1.4	1.8	2.4			1.8	1.8	1.9	2.0	2.1	2.1	
Contribution from real GDP growth	-0.6	-0.5	-0.5	7.7	-5.5			-3.0	-1.5	-1.1	-0.7	-0.6	-0.5	
Contribution from price and exchange rate changes 2/	-0.3	-0.4	-0.4	0.9	-0.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-3.4	-5.5	-0.3	-6.2	-13.5			-14.2	-8.1	-5.4	-4.3	-3.5	-3.0	
External debt-to-exports ratio (in percent)	85.9	66.7	60.5	273.8	159.8			115.4	100.6	91.3	88.6	86.3	84.3	
Gross external financing need (in billions of US dollars) 4/	1.7	1.5	0.7	2.4	2.5			2.7	2.1	2.0	1.8	1.5	1.5	
in percent of GDP	14.1	11.7	5.3	25.0	22.2	10-Year	10-Year	21.1	15.4	13.5	12.1	9.6	9.2	
Scenario with key variables at their historical averages 5/								**39.8**	**43.2**	**49.0**	**56.1**	**64.2**	**73.2**	**-1.1**
Key Macroeconomic Assumptions Underlying Baseline						Historical Average	Standard Deviation							
Real GDP growth (in percent)	3.1	1.8	1.9	-23.8	13.7	-0.1	9.4	8.0	4.1	3.0	1.9	1.6	1.5	
GDP deflator in US dollars (change in percent)	1.3	1.4	1.5	-3.5	1.6	1.7	2.3	5.0	3.9	2.6	2.5	2.3	2.3	
Nominal external interest rate (in percent)	5.4	5.4	5.7	5.5	5.9	5.8	0.6	4.8	4.9	5.1	5.5	5.7	5.7	
Growth of exports (US dollar terms, in percent)	6.5	26.3	8.6	-68.3	82.2	6.2	36.5	47.0	22.4	13.6	6.1	5.3	4.9	
Growth of imports (US dollar terms, in percent)	10.2	4.0	-5.2	-30.9	34.1	2.1	18.3	32.0	6.4	4.3	3.4	3.5	3.7	
Current account balance, excluding interest payments	-12.7	-8.0	-1.4	-22.2	-17.4	-13.0	5.8	-16.2	-10.7	-7.0	-5.6	-4.8	-4.1	
Net non-debt creating capital inflows	3.3	4.4	2.8	3.9	3.7	4.2	1.5	3.5	3.4	3.3	3.2	3.2	3.2	

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 IV. Building Resilience to Natural Disasters and Climate Change[1]

The Bahamas is highly vulnerable to climate change and is already feeling its effects. The country has been hit by six major hurricanes and several tropical storms in the last decade, including Hurricane Dorian in 2019, a category 5 hurricane that caused damages of up to 25 percent of GDP. Putting in place a comprehensive disaster resilience strategy is thus key. A strategy that invests in physical adaptation and builds fiscal space to cover residual damages is found to be a cost-effective option.

A. The Bahamas' Exposure to Climate Change Risks

1. The Bahamas is vulnerable to climate change. The Bahamas comprises an archipelago of over 700 islands and more than 200 cays and islets along the Atlantic Hurricane Belt, with 80 percent of the land less than 1½ meters above sea level. The Bahamas is classified as highly vulnerable to climate change, with one of the highest exposures to tropical cyclones, and with an overall vulnerability index above the average for Latin America and the Caribbean, according to the Notre Dame Global Adaptation Initiative (ND-GAIN) (Figure 1).[2]

2. The Bahamas is already feeling the impacts of climate change. In 2019, Hurricane Dorian caused $3.4 billion in damages, around 25 percent of GDP. Considering the most recent decade, The Bahamas has been hit by six hurricanes and several tropical storms, which had significant and enduring economic impacts, including physical and human capital destruction. During 2011-2020, damages related to natural disasters in The Bahamas accounted for 3.2 percent of GDP per year on average, the second largest in the region.

3. Climate change will heavily affect The Bahamas' main source of income—tourism. Tourism has a contribution to GDP of around 50 percent, making The Bahamas one of the most tourism-dependent countries in the world. There are indications that disasters such as floods, droughts, and hurricanes are becoming more frequent and severe due to warmer global temperatures and rising sea levels, and those changes would hit tourism, result in lower agricultural productivity, reduced availability and quality of water resources, and loss of forested areas and biodiversity (IPCC, 2021).[3] More broadly, the literature has shown hurricanes to affect wages and employment (Belasen and Polachek, 2008), as well as household income and finances (Deryugina et al., 2018; Gallagher and Hartley, 2017).

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[1] Prepared by Gregor Schwerhoff (IMF Research Department) and Tessy Vasquez Baos (World Bank)

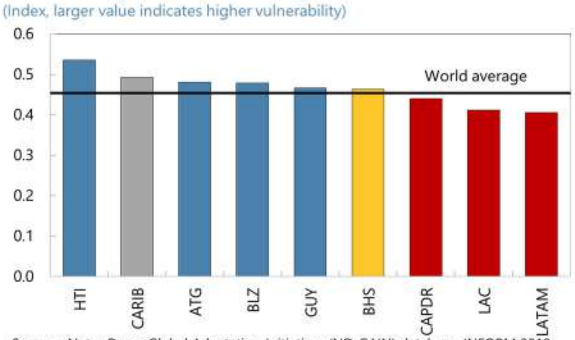
[2] The ND-GAIN index assesses the vulnerability of a country to climate change risks by considering the exposure to climate-related hazards, the sensitivity to the hazards' impacts, and the adaptive capacity to cope with or adapt to these impacts. Raw data are scaled to a range from zero to one and the arithmetic average is used to construct each index. See details in ND-GAIN data technical document.

[3] For instance, Stony Coral Tissue Loss Disease (SCTLD) has plagued The Bahamian waters for several years, traveling up to 50 meters per day and killing thousands of corals in its wake.

Figure 1. The Bahamas: Climate Risk Exposure

Vulnerability to Climate Change

(Index, larger value indicates higher vulnerability)



Sources: Notre Dame Global Adaptation Initiatives (ND-GAIN) database, INFORM 2019, EM-DAT, World Development Indicators, WEO; and IMF staff calculations.
1/ CAPDR refers to Central America, Panama, and the Dominican Republic

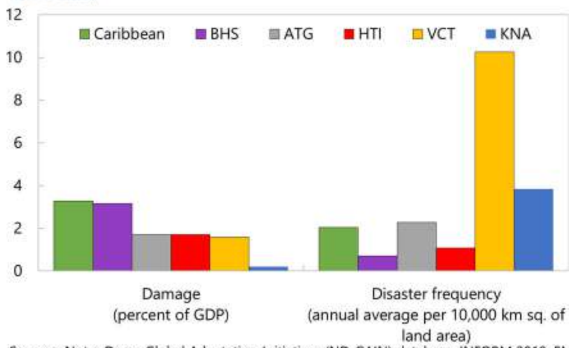
Exposure to Tropical Cyclones

Country	Physical exposure to tropical cyclons index*
Bahamas	9.2
Jamaica	9.2
Cuba	8.9
Mexico	8.9
Dominican Republic	8.7
Haiti	8.7
Antigua and Barbuda	8.6
Dominica	8.2
Belize	7.8

Sources: IMFORM 2019; and IMF staff calculations.
Note: Based on the number of people exposed to tropical storms which category was higher than 1 in the Saffir-Simpson scale, per year. It is the result of danger zone and total population that lives in there. It indicates, the foreseen number of people exposed in a danger zone in a year.
* This index is based in the estimated number of people exposed to a tropical cyclon of a category 1 or higher according to the Saffir-Simpson scale, per year.

Average Annual Effects of Natural Disasters

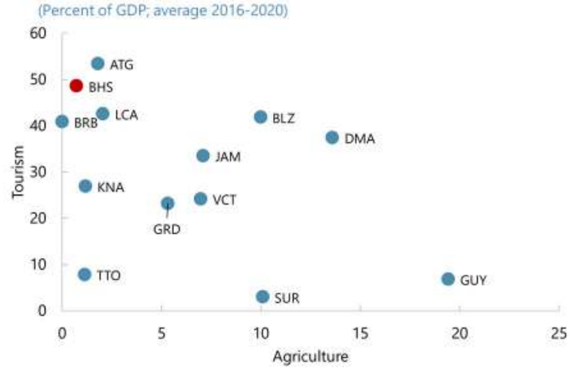
(2011-2020)



Sources: Notre Dame Global Adaptation Initiatives (ND-GAIN) database, INFORM 2019, EM DAT, World Development Indicators, WEO; and IMF staff calculations.

Agriculture and Tourism

(Percent of GDP; average 2016-2020)



Sources: WDI and IMF staff calculations

B. Ongoing Mitigation and Adaptation Measures in The Bahamas

4. **The Bahamas has established initial mitigation and adaptation measures in its Intended Nationally Determined Contributions (Government of the Bahamas, 2015).** The authorities are currently working on updating the national adaptation plan. The country is committed to an economy-wide reduction of greenhouse gas emissions of 30 percent by 2030 compared to the Business as Usual (BAU) scenario. It also set a national target of achieving a minimum of 30 percent renewables in the energy matrix by 2030. By designating a 20 percent permanent forest state under the Forestry Act, The Bahamas aims to ensure efficient and focused environmental conservation, including improvement in the harvesting practices, reduction of vulnerabilities of the forest ecosystems to climate change and human-induced impact, and increasing carbon sequestration across several pine islands. The authorities are also in the process of upgrading the country's building code and zoning rules. There are various tax incentives in place (for instance when purchasing an electric vehicle or installing solar panels).

5. The Bahamas introduced measures to protect its marine environment, enhance food security and sustainable food production, and improve water conservation. By protecting 20 percent of the nearshore marine environments, The Bahamas is committed to conserving and protecting habitats. The nearshore environment plays an integral role in preserving the infrastructure across the archipelago, including the conservation and protection of habitats for grouper and bonefish, coral reefs, seagrass meadows, mangrove nurseries, and migratory birds.

6. The Bahamas lacks fiscal buffers to deal with potential future natural disasters as well as comprehensive insurance coverage. The country's natural disaster fund was depleted following Hurricane Dorian in 2019. The country has 3 tropical cyclone policies with the Caribbean Catastrophe Risk Insurance Facility (CCRIF), each one covering a section or zone of the archipelago. In the case of Hurricane Dorian, the policy paid out about $11 million (0.1 percent of GDP), a fraction of the total damages. The Bahamas also has access to a $100 million contingent loan arrangement from the Inter-American Development Bank (IDB), providing a source of liquidity after natural disasters, which was drawn fully following Hurricane Dorian. The Bahamas' insurance penetration relative to average climate-related damages is 1.7 percent, above the average for the Caribbean region but much lower than the average for LAC countries, around 11 percent. Barbados is a benchmark for the Caribbean region, with an insurance penetration of 32 percent. The lack of household insurance in the Bahamas to safeguard against the effects of extreme weather is one of the main challenges. Currently, most homeowners hold insurance only when they have an outstanding mortgage (IMF, 2021).

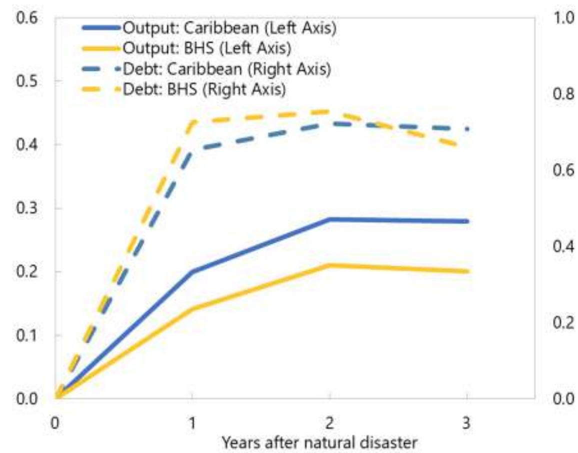
C. The Macroeconomics of Disaster Resilience

7. A comprehensive medium-term approach to prepare for climate-related disasters is critical for The Bahamas. Dominica and Grenada have developed their Disaster Resilience Strategy (DRS) with IMF support. A DRS entails a three-pillar approach, including (i) enhancing *structural resilience* through infrastructure and other ex-ante investments (e.g., ensuring the resiliency of roads, bridges, buildings, early warning systems, customizing building codes and zoning rules), (ii) building *financial resilience* by creating fiscal buffers and using pre-arranged financial instruments, and (iii) post-disaster *and social resilience* to ensure a speedy response to a disaster.

8. Physical adaptation measures should undergo careful cost-benefit analyses. When calculating the benefits, it is important to include indirect benefits like crowding in private investment (Marto, Papageorgiou, and Klyuev 2018). When calculating the cost, it is important to consider the option of using external support to reduce the net cost for the country (Cantelmo, Melina, and Papageorgiou 2019). The most efficient adaptation measures should be implemented until the marginal avoided damages from hurricanes and other disasters are equal to adaptation project costs (Hallegatte, Rentschler, and Rozenberg 2020). Optimal adaptation will thus reduce damages, but residual damages will remain as eliminating these residual damages would be disproportionally costly (Bellon and Massetti, 2022).

9. Building physical resilience would yield long-run benefits for the Bahamas. In the short term, investing in resilient public capital can increase employment and wages, in turn increasing tax revenues and improving the fiscal balance. According to staff simulations, for The Bahamas, investment in resilient capital can boost GDP by about 2 percent and the fiscal balance by around 1.6 percent over a 30-year horizon.[4] The simulations also suggest that once resilient capital is installed, it can offer significant output and fiscal gains in the aftermath of a natural disaster.[5] The output level for the Bahamas would be around 0.2 percent higher three years after a natural disaster and the level of public debt 1/3 percentage point lower. The improvement in public debt derives from lower reconstruction spending (less capital needed to be replaced) and lower revenue losses due to the smaller decline in economic activity.

Output and Public Debt Gains from Resilient Investment After Natural Disaster Event
(Left Axis: Percent; Right Axis: Percentage points)



Sources: Caribbean Catastrophe Risk Insurance Facility; EM-DAT database; and IMF staff calculations

10. Physical adaptation needs to be complemented by financial resilience measures, since building physical resilience takes time and residual hurricane damages can overwhelm public finances. There are three major options, namely (i) purchasing commercial insurance, (ii) creation of a contingency fund, (iii) lowering government debt through higher primary balances to create fiscal space. There is also scope to decrease post disaster financing needs through hurricane clauses in public debt (see Annex VI).

Which Financial Resilience Measures are Best Suited?

- **Sovereign Insurance.** The premia to be paid to the insurance company can be decomposed into the actuarially fair premium and the markup. The actuarially fair premium is the expected annual average of the insured damages. It means that a country insuring against hurricanes needs to pay the entire hurricane damage, just in a smoother way than in the uninsured case. In addition, the markup for disaster insurance has been observed to far exceed 100 percent of the actuarially fair premium (Froot 2001). The World Bank assumes a markup of 50 percent (World Bank 2017). The cost of insuring hurricane risk is thus high.

[4] The analysis considers annual public investment of 1½ percent of GDP in line with staff's baseline projections. In the long-run steady-state to be reached in 30 years, 80 percent of the existing capital stock becomes resilient. If the authorities instead raised public investment to 2½ percent of GDP, the steady state would be reached in 20 years.

[5] These are temporary short-run gains that accrue once capital is 8 percent resilient and occur in the aftermath of a natural disaster shock. These gains are on top of the long-run gains discussed above.

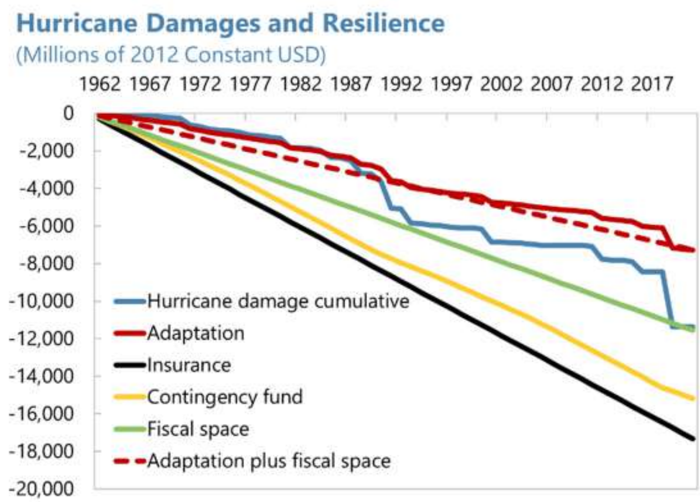
- **Contingency fund.** This fund would receive regular contributions from the government and stands ready in case of an emergency. The net return on the volume of the contingency fund is given by the return earned with the capital less the administrative cost of the fund. Given that the fund would need to invest into liquid assets, it can be expected that the return earned on the money held in the contingency fund is lower than the interest rate paid on debt by the government. The government would thus simultaneously borrow money at a high interest rate and invest it at a low interest rate.

- **Paying down government debt to create fiscal space.** This would save interest payments on the loans not taken (if the creation of fiscal space starts some time before a major hurricane strikes). In addition, it would reduce the risk of default and thus lower interest payments on the entire stock of outstanding debt. A disadvantage of paying down debt as a strategy for disaster resilience is that issuing government debt in the case of an emergency typically takes more time than a payout from an insurance or a contingency fund. However, an agreement where a government systematically reduces debt and an international organization like the IDB providing fast-track lending in case of a disaster should be beneficial for both sides.

An Example

11. The above comparison can be illustrated with a hypothetical calculation based on the actual hurricane damages in The Bahamas. The cumulative hurricane damage is based on data from Acevedo (2016). Since 1962, average annual damages according to this dataset amounted to 1.7 percent of 2021 GDP. The damage caused by Hurricane Dorian in 2019, for example, shows as a substantial increase in the cumulative damage. In the absence of available data on the split between private and public sector damages, the calculation makes the simplifying assumption that the average damages fell entirely on the government (directly or indirectly as a result of transfers to affected private sector individuals). For the disaster resilience options identified above (physical adaptation plus three financial options), it is assumed that the government started using that option in 1962, the year the data on hurricane damages in The Bahamas start. Since building up resilient infrastructure takes time, the simulation assumes that the fiscal space, contingency fund and insurance cover all damages from hurricanes (i.e. does not take into account reduced damages thanks to adaptation). The simulation also shows a combined scenario (physical adaptation and fiscal space).

- **Adaptation.** 25 percent of the annual average hurricane damage is assumed to be invested into adaptation capital every year, with the dark red line showing the cumulative cost to the government. Therefore, the expenditure curve of adaptation is initially below that of the hurricane damage. The adaptation capital slowly accumulates and protection against hurricanes improves over time. Some of the adaptation capital depreciates and needs to be replaced, so that the reduction of damages converges to 65 percent. The residual damages add to the government expenditure, but not as much as the full damages would. Therefore, total spending in the adaptation case is lower than in the unprotected case from 1985 onwards.



Sources: EM-DAT, Central Bank of Bahamas, Acevedo (2016), and IMF staff calculations

- **Insurance**. The expenditure on insurance is assumed to be composed of the actuarially fair premium and the markup (50 percent in line with the World Bank (2017). Since the sovereign insurance will cover the cost of the damages fully, the expenditure of the government consists only of the yearly payments to the insurance.

- **Contingency fund**. The annual average hurricane damage is paid into the contingency fund. 1 percent of the fund's volume is used for administrative expenses. The main cost of the fund is the interest rate differential. The money held in the fund means that the government foregoes reducing debt interest payments (5 percent) and earns a smaller interest rate on the capital of the fund (2 percent).

- **Fiscal space scenario**. The government pays down debt equivalent to average annual hurricane damages. Since the major hurricanes started hitting The Bahamas only after 1962, the government would have considerable savings on interest payments on debt. However, these savings are not counted as lower expenses in this illustration, because they should be considered a reserve for the reverse case where hurricane damages temporarily exceed the fiscal space created for disaster resilience (which would entail elevated debt levels and symmetrically higher interest payments).

- **Fiscal space and adaptation**. This combines the fiscal space and adaptation scenarios (red dashed line), in which the government invests until the until the cost equal marginal benefits in terms of expected average reductions in damages and reduces debt by the average residual damage per year. This scenario is the most cost effective one.

D. Additional Considerations

12. A disaster resilience strategy that invests in physical adaptation and builds fiscal space is a cost-effective option. As explained in Burns, Jooste, and Schwerhoff (2021), the first component of an efficient strategy is to invest in adaptation until the cost equal marginal benefits in terms of expected average reductions in damages. Second, it is optimal to reduce the level of public debt by the average residual damage per year (in the illustrative simulations, with adaptation reducing damages by 65 percent, this would amount to 0.6 percent of GDP per year). This is well within staff's recommended overall budget surplus of 1.5 percent of GDP over the medium term, which brings debt to 50 percent of GDP by FY2032/33, and which aims to reduce gross financing needs and rebuild buffers to accommodate a broader set of shocks. The envisaged adaptation investment (25 percent of damages in the simulations, or 0.4 percent of GDP per year) is also aligned with staff's proposed consolidation path, which permanently raises productive spending by 2½ percent of GDP over the medium-term (while raising the revenue-to-GDP ratio by 5 percent of GDP and cutting unproductive spending by 1½ percent of GDP).

13. The international community could support the authorities' adaptation efforts, including through concessional financing. Investing in resilience measures is a more efficient use of resources than the emergency support that the international community often provides following large uninsured disasters. A recent example of concessional financing for prevention includes the 2022 Blue Bond guarantee by the IDB, which is set to foster resilience of the Blue Economy through improved climate risk management in coastal and offshore areas. The authorities have also secured some support from the Green Climate Fund. Integrating transparency and accountability measures to climate adaptation efforts will engender trust with the donor community, ensure high quality investments, and deter opportunities for misappropriation of funds.

14. There is room for greater cost-sharing by domestic households and firms. Extending mandatory private sector property insurance beyond properties under a mortgage, alongside targeted subsidies to assist the poorest households, would reduce the impact of hurricanes on the public purse (IMF, 2021). The new building codes that are being put in place provide an opportunity to ensure that buildings are more resilient to natural disasters. Although more costly than building fiscal buffers through debt reduction, there may be benefits in rebuilding the existing precautionary government natural disaster fund for immediate post-disaster liquidity needs. The latter would require liquid resources from fiscal savings and thus additional revenue collection from the private sector relative to staff's current active fiscal consolidation scenario. There may be benefits to reconsidering the setup of the existing natural disaster fund (that was depleted following Hurricane Dorian and took the form of government's dormant bank accounts). The revamped fund could be built with liquid assets such as U.S. Treasuries and managed alongside the external reserves' portfolio at the central bank while being accessible to the government following a natural disaster that meets pre-defined conditions.

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Annex V. Natural Disaster Clauses in Sovereign Debt[1]

This annex first describes experiences with natural disaster clauses in other countries and then assesses the potential benefits of hurricane clauses for The Bahamas. Model-based simulations, which use historical correlations between hurricane damages, sovereign spreads, and GDP in The Bahamas, show that hurricane clauses can help reduce default risk and thus sovereign yields at the current elevated levels of public debt.

1. "Natural Disaster Clauses" in debt contracts can help mitigate risks from natural disasters in vulnerable countries. These provisions allow for an automatic extension of debt service in the event of a natural disaster that meets specified parameters (IMF, 2019). Should a disaster as defined in the clause occur, either principal or interest payments or both would be deferred for a specific period, thereby reducing the sovereign's gross financing needs. The International Capital Markets Association (ICMA) developed a standard template for sovereign borrowers in 2018 ("Terms for Extendible Hurricane Bonds").[2]

2. Natural disaster clauses have first been used in Caribbean countries. As part of their debt restructuring operations, Grenada (2014/15) and Barbados (2018/19) introduced natural disaster clauses in their newly issued debt instruments to increase their financial resilience to future climate shocks:

- Grenada's hurricane clause defers up to two semi-annual payments (i.e., 12 months) for all debt service in the event of a qualifying tropical cyclone (determined by wind and storm surge damage). The deferred interest payment is capitalized, and the deferred principal is distributed equally on top of the remaining scheduled payments until final maturity. The trigger event is verified on the basis of parametric measures by the Caribbean Catastrophe Risk Insurance Facility (CCRIF), an independent third party. Depending on the timing of the event, the hurricane clause could provide significant cash flow relief, e.g. of up to 2.6 percent of GDP in 2018 (IMF, 2018).

- Barbados introduced disaster clauses into most of the domestic and foreign debt exchanged in the 2018-19 restructuring. The disaster clause in Barbadian bonds allows to defer principal and interest payments for up to 24 months when a qualifying natural disaster occurs. Compared to Grenada's clause, Barbados expanded the trigger events to also cover earthquakes and excessive rainfall (in addition to tropical cyclones) and reduced the respective threshold of losses for the clause to be activated (Ho and Fontana, 2021).

3. Natural disaster clauses could be included in all new sovereign debt issuances by The Bahamas. Changes to existing debt obligations may not be feasible or desirable. However, The

[1] Prepared by Katharina Bergant, Sebastian Grund (both IMF) and Enrico Mallucci (Federal Reserve Board of Governors).

[2] https://www.icmagroup.org/assets/documents/Resources/Indicative-Heads-of-Terms-for-Hurricane-Bonds---Amortization-271118.pdf

Bahamas may consider including natural disaster clauses in new sovereign bond and loan issuances, similar to the inclusion of enhanced contractual clauses in international sovereign bonds since 2014 (IMF, 2020a). These clauses could be based on the above-mentioned ICMA Terms for Extendible Hurricane Bonds, which are linked to trigger events under the CCRIF framework. While it is not uncommon for legal terms of countries' outstanding sovereign debt to vary, the transition from debt instruments without hurricane clauses to instruments with such clauses should be carefully planned and executed, in particular by taking account of potentially diverging price dynamics for the respective types of obligations.

4. **The literature on the effects of hurricane clauses on asset prices is inconclusive**. Natural disaster clauses are typically introduced after countries are hit by such events. Therefore, an empirical counterfactual analysis as well as cross-country analyses on the effect of such provisions on sovereign debt yields are difficult to conduct and generally sparse.

5. **Yields on debt contracts with natural disaster clauses could rise as investors want to be compensated for the additional risk.** Investors will consider the expected loss from a deferral of interest and principal payments. Regarding broader state-contingent debt instruments, Igan et al. (2021) show that risk and liquidity premia are higher and more volatile than for plain vanilla bonds.

6. **However, if a significant share of the outstanding debt portfolio contains natural disaster clauses, this could lead to lower yields at a given level of debt.** A deferral of payments of a significant share of debt service costs can provide a substantial liquidity relief that decreases the overall sovereign probability of default (IMF, 2020b). This effect is particularly strong if there are concerns about debt sustainability (Mallucci, 2020).

7. **A simulation can help project asset prices of sovereign debt with natural disaster clauses.** The simulation focuses on hurricanes, rather than natural disasters more broadly, as hurricanes have been prevalent in The Bahamas in recent years and actual damages can be correlated with GDP. The simulation follows Mallucci (2020) where international investors price government bonds by arbitrage taking into consideration the existence of a hurricane clause in all sovereign debt outstanding. The price $q(y', h', b')$ of the hurricane bond *b* with realization of the endowment process *y*, and the realization of the hurricane *h* is defined as:

$$q(y', h', b') = \frac{1}{1+r^{rf}} E\,[\,(1-d'-rel')\,(1+(1-\psi)\,q')$$

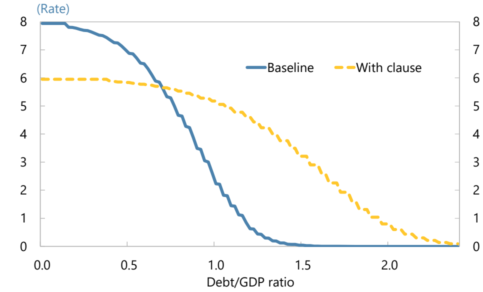
$$+\frac{rel'}{1+r^{rf}}\,E[(1-d''-rel'')\,(1+(1-\psi)q''|y'\,]\,|y]$$

where the first term on the right-hand-side is the same as a standard plain vanilla bond[3] with the only exception that in addition to default risk *d*, investors also need to consider the risk that

[3] This is a perpetuity contract with coupon payments that decay geometrically at rate ψ.

repayments are delayed, as highlighted by the dummy variable rel which takes the value of one when the government decides to activate the hurricane clause. The latter term is unique to the bond with a hurricane clause and accounts for the expected discounted value of maturing bonds after the government resumes payments. More specifically, r^{rf} is the risk-free rate, d is the default risk, and ψ is the decay parameter. In this setting, the expected value of the endowment is calculated considering the probability of hurricanes.

Price of Government Debt
(Rate)



Sources: Central Bank of Bahamas, EM-DAT and IMF staff calculations.

Notes: The chart shows the results of a full calibration of the model in Mallucci (2020) using data on GDP, sovereign spreads, and hurricanes (frequency and damages) for The Bahamas from 1962 to 2020, subject to data availability. The y-axis reflects a parameter of the price of government debt to show price dynamics as a function of the debt-to-GDP ratio. This baseline model relies on historical data on natural disasters and therefore serves as a lower bound for the effects as it does not account for an increase in the frequency or intensity of hurricanes that are caused by climate change. The steady state of debt-to-GDP was set to 50 percent in accordance with The Bahamas' fiscal rules.

8. Hurricane clauses reduce default risk and therefore yields for high and intermediate debt levels. However, yields increase for low debt levels as investors need to be compensated for the risk that the clause is triggered. This finding is explained by the fact that in the baseline model, default risk is zero for very low levels of debt. In the model with hurricane clauses, instead, repayments may still be delayed even with very low levels of debt, when a hurricane hits. Figure 1 compares the price schedule of government bonds in the baseline model (no hurricane clauses) and in the model with the hurricane clauses (all outstanding sovereign debt contains hurricane clauses) as a function of the country's debt-to-GDP ratio. It suggests that at current levels of sovereign debt (around 100 percent of GDP), hurricane clauses have the potential to increase the price of public debt and therefore lower debt service costs for The Bahamas.

9. This result only holds if The Bahamas' borrowing choices remain constant and do not respond to the effects of the hurricane clauses. The findings presented in this Annex are true for the unconditional price of government bonds. In a setting where The Bahamas would borrow more in response to a decrease of yields due to the hurricane clause, overall debt and yields could increase. Conducting fiscal policy in line with the Bahamian Fiscal Responsibility Act and its debt and deficit targets would prevent this from happening in The Bahamas.

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Annex VI. Past Policy Advice

Recommendations	Current Status
Fiscal Policy	
Enact PFM reforms and operationalize the fiscal council	The PFM act amendment, public debt management act, and public procurement act were all enacted in 2021Q3. However, some key units / structures / positions specified in the acts have not yet been fully operationalized, including the Director of the Debt Management Office (DMO), the Debt Management Committee (DMC) 1/, and Chief Procurement Officer. The Ministry of Finance activated some functions of the DMO, publishing quarterly debt reports and the Medium-term Debt Management Strategy. On the other hand, the public procurement report has not yet been published as the relevant units have not been set up. The fiscal council was established and published its first report in Q3 2021. 1/The government established a "Private Sector Debt Advisory Committee" (PSDAC) to advise the Ministry of Finance on the national debt strategy. While the DMC under the Public Debt Management Act is supposed to comprise of representatives from the government and the central bank, the PSDAC consists of representatives from the domestic private sector and an independent international advisory firm.
Conduct a spending review and enhance the operational efficiency of SOEs.	The Inter-American Development Bank is conducting an expenditure review. Monthly reporting of SOEs will start in FY2022/23.
Review tax expenditures and consider a comprehensive tax reform	Some VAT exemptions will be eliminated stating in 2022. There is some discussion about reforms to property and corporate income taxes.
Structural Policy	
Increase resilience to natural disasters	Catastrophe insurance policy helped improve financial resilience to natural disasters. The 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. 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. The Department is working with the ILO to revive various skills and training programs.
Monetary and Financial Policy	
Gradually remove pandemic-related capital flow management measures once the economy is on a stronger footing	The measures were phased out in 2021.
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. The authorities are developing a reform plan for the investment regime, including the economic permanent residency program, and aim to have Cabinet discussions before the end of the fiscal year.
Develop a local real estate price index	Discussions are ongoing.
Operationalize the Credit Bureau	The Credit Bureau has been established and has started collecting data from banks. Utilities will be added next year.
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	The Department of Statistics completed and published quarterly National Accounts, but data are only available with long lags. Movement to BPM6 has been completed, but data on the NFA are still missing.
Conduct a household survey	The last report was published in 2013. The 2022 census is currently underway with the results expected in May 2022.

Annex VII. Progress on Commitments in Rapid Financing (RFI) Request (June 2020)

Authorities' Commitments in Letter of Intent	Status and Recommendations
Publish procurement contracts of crisis mitigation spending, including beneficial ownership information of companies awarded procurement contracts	**No progress**. The authorities are encouraged to obtain and publish beneficial ownership information of companies awarded procurement contracts in the future to enhance transparency and accountability of public funds consistent with the 2020 RFI commitments and recent revision to the international AML/CFT standards set by the FATF.
Report quarterly on COVID-19 mitigation spending	**Done.** The relevant information is in the quarterly budget performance reports.
COVID-19 mitigation spending and revenue measures should be audited withing 9 months of the end of the fiscal year	**Partially implemented.** The Auditor General published a financial audit report covering FY2019-20 of expenditures related to the response to COVID pandemic and Hurricane Dorian, but a performance or value-for-money audit is still ongoing. The other audit report covering FY2020-21 is expected to be completed by end-June, while a special audit of the Food Assistance Program under the COVID program will be done by end-May.
Finalize the Public Procurement Act by end-June 2020 and submit Public Financial Management Bill and Public Debt Management Bill to Parliament by end-2020.	**Done with delay.** The Public Procurement Bill was finalized on time, but the Public Financial Management Bill and Public Debt Management Bill were tabled in parliament in early 2021. All bills were passed and enacted in 2021Q3.

INTERNATIONAL MONETARY FUND

THE BAHAMAS

April 15, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2022)

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	299.24	100.00
Holdings	299.25	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				
	2022	2023	2024	2025	2026
Principal	. . .	45.60	91.20	45.60	. . .
Charges/Interest	1.77	2.36	1.46	0.31	0.01
Total	1.77	47.96	92.66	45.91	0.01

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 multiple currency practices and restrictions on the making of payments and transfers for current international transactions. There has 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.

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"* and the Ministry of Finance's *"Quarterly Report on Budgetary Performance*." The government started publishing the quarterly data of the public sector, including state-owned enterprises, in its "*Quarterly Public Debt Statistics Bulletin*" in November 2021. Subscription to the enhanced General Data Dissemination System (e-GDDS) in December 2018 has improved timelines and accessibility. At the same time, the authorities have yet to compile data on the international investment position (IIP) statistics and general government accounts data. Staff continues to support the authorities' efforts towards addressing data gaps, including continuing technical assistance to compile and publish 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 January 22, 2021 (IMF Country Report No. 21/24).

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

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
CARTAC	January 2021	Public Financial Management
FAD	August 2021	Tax policy
ICD	September 2021	Financial Programming and Policies
STA	September 2021	External Sector Statistics
MCM	October 2021	Crisis Management
ICD	November 2021	Financial Programming and Policies
ICD	March 2022	Financial Programming and Policies
STA	April 2022	External Sector Statistics

Resident Representative: None

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

(As of March 17, 2022)

Country Strategy with The Bahamas 2018–2022

Currently the IDB has an approved loan portfolio of US$398 million and an approved guarantee of US$200 million for The Bahamas. The IDB Country Strategy with The Bahamas (2018–2022) aims to support the country in achieving a sustainable path of higher growth in a fiscally prudent manner. The Country Strategy priority areas include:

- Enhancing public sector effectiveness;
- Supporting resilient infrastructure for growth; and
- Fostering an enabling environment for private sector competitiveness.

Cross cutting considerations of data, gender, and climate resilience and disaster risk management will also be factored into all strategic partnership efforts. Operations in these areas aim to support The Bahamas' efforts to improve total factor productivity by encouraging innovation and efficiency, which will increase output levels and spur private-sector-led growth.

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

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of March 17, 2022)

Country Strategy (CS) with The Bahamas 2018–2022

The overriding 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 program of assistance was proposed to help the country achieve faster, more inclusive and environmentally sustainable development, buttressed by macroeconomic stability and citizen security. The CS responds to these development priorities and is aligned with the Bank's strategic objectives of: supporting inclusive and sustainable growth and development; promoting good governance; and cross-cutting objectives of gender equality, regional cooperation and integration, and energy security. In this context, the proposed CS rests on the following pillars: (a) Environmental Protection and Infrastructure Enhancement; (b) Inclusive Social Development; and (c) Improved Governance and Productivity. The indicative program of assistance has been designed to achieve the following outcomes: (i) increasing access to quality climate resilient infrastructure; (ii) broadening EE and sustainable energy options; (iii) enhancing educational outcomes; (iv) improving governance; and (v) increasing productivity, competitiveness and economic diversification. CDB currently has four (4) active projects in The Bahamas, one each in the areas of education, energy, water infrastructure, and governance.

Other areas for future dialogue: As the current strategy nears its end, a project completion report of the existing strategy will be prepared towards the end of 2022. This will inform the next strategy, due to commence in early 2023. Discussions are likely to focus on consolidating the work of the existing strategy, with focus on further development needs in relation to resilient infrastructure, education, and climate resilience.

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

RELATIONS WITH THE WORLD BANK

(As of March 18, 2022)

Given the disproportionate and severe economic impacts of the COVID-19 crisis on The Bahamas due to its small size, heavy dependence on tourism, and vulnerability to natural disasters, in 2021 the World Bank Group provided support on an exceptional basis to the country, which graduated from the International Bank for Reconstruction and Development (IBRD) in 1989. In April 2021, the Multilateral Investment Guarantee Agency (MIGA) Board approved a guarantee for US$128.15 million for Non-Honoring of Sovereign Financial Obligation coverage of a non-shareholder loan provided to The Bahamas by Banco Santander SA of Spain. Proceeds of the loan facility supports the Public Hospitals Authority (PHA) and the Small Business Development Center (SBDC), as part of the country's COVID-19 response program, and will be used to modernize the public health system and support MSMEs at a critical juncture. In May 2021, the IBRD Board approved a US$100 million COVID-19 Response and Recovery Development Policy Loan for The Bahamas. The operation supports the country's efforts to provide COVID-19 relief and lay the foundation for a resilient economic recovery by strengthening financial stability and the business environment and by improving fiscal sustainability and resilience.

- COVID-19 response: https://financesapp.worldbank.org/countries/Bahamas,%20The/
- Multilateral Investment Guarantee Agency: https://www.miga.org/projects?host_country%5B%5D=342&project_status=All&env_category=All&project_type=All&board_date%5Bmin%5D=&board_date%5Bmax%5D=&title=&project_id=

STATISTICAL ISSUES

(As of April 4, 2022)

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. For example, price data are available with three-month lags. Both national account and balance of payments data are sometimes revised substantially in the following years. The activities by some state-owned enterprises and autonomous entities have not been published or are published with long delays.
National Accounts: The Bahamas National Institute of Statistics (BNIS)[3] started publishing quarterly GDP estimates by expenditure consistent with 2008 SNA recommendations in August 2020. With the support of CARTAC missions the supply and use tables were finalized and rebased GDP estimates were released by the BNIS on September 29, 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. CARTAC plans to provide TA for the national account statistics for the next fiscal year.
Price Statistics: The BNIS 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 five years old now and require updating. The November 2017 mission recommended conducting a Household Expenditure Survey (HES) in 2018/19. The authorities plan to conduct the HES after the ongoing National Census. The IMF Statistics Department will also provide support to improve the CPI data.
Government Finance Statistics: The Bahamas has been submitting data according with the *Government Finance Statistics Manual 2014,* and the data covers operations of the budgetary central government. However, some very experimental consolidated General Government data exists, but further improvements are needed: 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. The Ministry of Finance has published quarterly budgetary performance reports since FY2018/19 with a lag of one to two months. Also, the government started publishing its monthly fiscal report in March 2022. The first detailed public debt report was released in November 2021 in line with the Public Debt Management Act (2021). The report includes not only central government debt, but also debt by other public agencies and state-owned enterprises. The authorities are not reporting debt data to the World Bank's Public Sector Debt Statistics database.
Monetary and Financial Statistics: Following an April 2018 technical assistance mission, The Central Bank of The Bahamas (CBOB) migrated to the standardized report forms (SRFs) for the central bank (1SR), other

[3] Department of Statistics was restructured to The Bahamas National Statistical Institute in March 2021.

depository corporations (2SR), and other financial corporations (4SR) regularly reporting them to STA. The Bahamas reports data on some basic series and indicators of the financial access survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.

Financial Sector Surveillance: The CBOB compiles for internal use 16 financial soundness indicators (FSIs), but publishes them only in its annual *Financial Stability Report* and does not report them to STA.

External Sector Statistics (ESS): The CBOB does not yet compile international investment position (IIP) statistics. Meanwhile, the CBOB adopted the compilation methodology consistent with the *Balance of Payment Manual 6* in November 2021. The compilation methods and presentation tables addressed various shortcomings identified by CARTAC technical assistance in June 2017 for this area. Recently, the country has participated—with a first partial submission—in the IMF-led data initiative on cross border statistics of Special Purpose Entities (SPEs). However, the balance of payments of The Bahamas does not yet include cross-border flows of SPEs. The April 2022 TA mission will focus on assisting the CBOB in the identification of SPEs operating in the country and the assessment of the availability of cross-border transactions and positions and will assess the available data sources for the compilation of the IIP.

II. Data Standards and Quality

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

The Bahamas: Table of Common Indicators Required for Surveillance
(As of April 12, 2022)

	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	01/22	02/22	M	M	M
Reserve/Base Money	01/22	02/22	M	M	M
Broad Money	01/22	02/22	M	M	M
Central Bank Balance Sheet	01/22	02/22	M	M	M
Consolidated Balance Sheet of the Banking System	01/22	02/22	M	M	Q
Interest Rates[2]	01/22	02/22	M	M	M
Consumer Price Index	12/21	03/22	M	M	M
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	01/22	03/22	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/21	01/22	Q	Q	Q
External Current Account Balance	Q4/21	03/22	Q	Q	Q
Exports and Imports of Goods and Services	Q4/21	03/22	Q	Q	Q
GDP/GNP	Q4/21	04/22	Q	A	A
Gross External Debt[6]	Q4/21	02/22	Q	Q	Q
International Investment Position[7]	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] Only public sector external debt.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[8] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by Philip Jennings, Executive Director for The Bahamas and Latoya Smith, Senior Advisor to the Executive Director
May 4, 2022

The Bahamian economy has been hit by three recent consecutive shocks; hurricane Dorian — a category 5 storm; the COVID-19 pandemic — which brought tourism output, the dominant income earner for the country, to a halt; and Russia's invasion of Ukraine and its impacts on inflationary pressures will likely have a disproportionate effect on the vulnerable amid higher food and energy costs. Although the COVID-19 pandemic took a significant toll on the Bahamian economy, the rebound in tourism following the re-opening of borders and relaxation of mitigation measures have supported a strong recovery in economic activity. Nevertheless, as a small island state very vulnerable to external shocks, risks to the outlook remain high.

Following a peaceful election on September 16, 2021, a new government administration transitioned into office, with an expressed commitment to policies which foster a dynamic, inclusive, and resilient economy. Our authorities are grateful to the Fund for the constructive engagement during the Article IV consultation, as well as the analysis provided in the staff report.

Recent Performance and Economic Outlook

Our authorities' proximity to the United States and robust safety measures allowed them to benefit from pent up demand for travel when international boarders re-opened. In 2021 real GDP grew by an estimated 13.7 percent, following the sharp 23.8 percent contraction in 2020. The rebound in tourism, combined with foreign investment-led construction, supported the economic expansion. Specifically, total tourist arrivals grew by 17.1 percent in 2021, after a 75.2 percent reduction in the previous year. The Centers for Disease Control and Prevention (CDC) de-escalated The Bahamas' COVID-19 risk advisory rating to Level 1 (low) on April 14, 2022, which should support further gains in tourist arrivals. Like staff, our Bahamian authorities expect growth to remain strong in 2022, before decelerating over the 2023-2025 period. The outlook remains dependent on global tourism trends and the pandemic's trajectory.

Labor market conditions have started to gradually recover. The unemployment rate declined to an estimated 18.1 percent, from approximately 25.6 percent in 2020, but remains above the 10.7 percent noted prior to the pandemic. Our authorities expect that employment will continue to increase in line with the strengthening in tourism and related sectors, as well as the foreign investment-driven projects coming on stream. The government's policies to promote entrepreneurship among micro, small, and medium-sized businesses (MSMEs) should also encourage employment.

Inflation is expected to remain elevated, as supply chain challenges and geopolitical tensions continue to exert upward pressure on food and energy costs. The Bahamas has historically observed low inflation, however, the country imports most of its consumption, making it very sensitive to global price developments. Average annual prices rose by an estimated 2.9 percent in 2021 and are expected to rise by 6.7 percent in 2022. Consistent with US inflation projections, inflation in the Bahamas is projected to remain above average until 2024, when global pressures are expected to abate.

To alleviate some of these price pressures and offer relief to households and businesses, as well as simplify tax administration, the authorities lowered the VAT rate to 10 percent from 12 percent and have eliminated VAT zero-rating for several items.

Fiscal Responsibility and Sustainability

As with most tourism-dependent countries, the border closures and lockdown measures occasioned a sharp decline in Government revenue. This, combined with an increase in social spending to support the vulnerable—including through food assistance, unemployment benefits, and tax deferrals—resulted in further deterioration in the fiscal position. Also taking the magnitude of the decline in nominal GDP into account, the overall fiscal deficit rose to 13.7 percent of GDP in 2021, from 7.2 percent of GDP in 2020. Staff projects that the fiscal outturn will gradually improve as the GDP base recovers, with the deficit narrowing to 6.7 percent of GDP in 2022, and reaching 2.2% by 2027. In this context, the debt to GDP ratio, which is estimated to have reached 103.3 percent of GDP in 2021, is forecasted to decline to 80.4 percent by 2027.

Our authorities are committed to rebuilding the fiscal buffers that were depleted while preserving lives and livelihoods, following two historic shocks. They have placed emphasis on expenditure efficiency and reallocation of resources to priority areas. Our authorities have also committed to limiting the overall growth in public sector employment, enhancing the performance and profitability of state-owned enterprises, and reforming the government's pension scheme. Focus has also been directed on increasing revenue by strengthening tax compliance—especially for vacation rentals and real property taxes—digitizing revenue collection and limiting tax concessions. These efforts will be supported by the re-established Revenue Enhancement Unit. Similarly, the Revenue Policy Committee, comprising the Financial Secretary, the Controllers of Inland Revenue and of Customs, as well as representatives from other relevant agencies, has been re-established to review government revenue, determine leakages, and provide recommendations to strengthen revenue generation.

Our authorities project that their policy measures, combined with the strong economic recovery, will yield a faster improvement in fiscal indicators—with a small fiscal surplus expected by 2025.

The authorities note staff's debt sustainability analysis and the detailed selective issues paper on the fiscal framework. Work is ongoing to recalibrate the fiscal strategy and strengthen the legislation surrounding fiscal responsibility, public financial management, and debt management. In particular, the suite of Acts will be amended to increase flexibility, enhance transparency, and improve operational efficiency. The authorities are also keen on exploring opportunities to monetize carbon credits, issue resilient debt, and leverage debt for climate swaps. They have reached out to staff to determine technical assistance opportunities to support these efforts.

Monetary and Financial Sector

The measures put in place to mitigate the pandemic's impact on the financial sector have expired and the sector remains stable. Our authorities note that nearly all loans previously under the moratoria in 2020, have returned to regular payments. The non-performing loans rate firmed to 9.6 percent at end-2021, from 8 percent at the start of the pandemic, but remained below the 15.3 percent high noted following the global financial crisis. Meanwhile, private sector credit continued to weaken, amid banks' conservative lending stance. The authorities expect that the recently operationalized credit bureau should reduce information asymmetries and support credit growth. Banks are highly capitalized, with the capital to risk weighted assets exceeding regulatory benchmarks.

Our authorities are of the view that the current monetary policy posture remains appropriate. The Central Bank agrees with staff that the increase in global prices will impact domestic prices, however, they do not agree that raising the discount rate would be an effective policy response. As a small open economy with a fixed exchange rate and capital controls, arbitrage opportunities are very limited and raising the policy rate is not likely to yield the same results. Further, with the strong rebound in tourism, and the 2021 Fund special drawing rights (SDRs) allocation, external reserves are at historic highs and are more than adequate to support the peg. The authorities do note however, that monetary tightening in the US will likely increase the cost of government foreign currency borrowing.

The Central Bank is committed to maintaining robust regulatory and supervisory standards, as well as sustaining efforts to strengthen their AML/CFT framework. Recent improvements to the beneficial ownership registry supported the country's removal from the FATF "grey list". To ensure the viability and integrity of The Bahamas' emerging digital assets industry, our authorities have developed and enacted the Digital Assets and Registered Exchanges Bill 2022 (DARE). They are also developing a framework for the transparent and efficient issuance of approvals and licenses in a fair and transparent manner.

The Central Bank views the Sand Dollar, its central bank issued digital currency (CBDC), as an important vehicle for payments systems modernization and resilience, as well as financial inclusion. The COVID-19 pandemic slowed the momentum of public education and roll out to businesses, but our authorities plan to accelerate public information campaigns and other initiatives since the pandemic has subsided. Further, they continue to build internal capacity, especially in cyber security and surveillance. Our authorities welcome the Fund's prioritization of developing internal and external capacity in the area of CBDCs and other forms of digital currency. They also look forward to sustaining mutually beneficial engagement in this space.

Long-term, Inclusive Growth

Our authorities view economic diversification, digitalization, and innovation as means of achieving resilient growth. To this end, they are working to further diversify into the digital assets industry, with a leading cryptocurrency exchange breaking ground in April 2022. They have also presented a White Paper to parliament which explores opportunities, in the digital asset landscape. They are also exploring ways to leverage the country's wellregulated financial system and identify areas to build capacity and strengthen the legislative framework to support the digital industry.

The authorities have refocused the Bahamas Investment Board to promote the country and attract foreign investors across various industries. Additionally, initiatives which support MSMEs are being implemented to encourage Bahamian entrepreneurship. The authorities are also working to improve the ease of doing business by streamlining and enhancing processes at the Bahamas Investment Authority, Registrar General, Department of Inland Revenue and other related entities.

The authorities, appreciate staff's detailed discussion on resilience building in the context of The Bahamas, as well as the findings on natural disaster clauses in sovereign debt. As a small island country, highly susceptible to hurricanes—which have been increasing in severity—building resilience to climate change is a priority. In terms of mitigation measures, the country's building code and zoning rules are being upgraded, and tax incentives have been implemented to encourage energy efficient investments—including electric vehicles and use of solar panels. The authorities are in the process of updating the national adaptation plan and have committed to a 30 percent reduction of greenhouse gas emissions by 2030, as well as sourcing a minimum of 30 percent of energy from renewables by 2030. The Bahamian authorities are also actively exploring carbon credits, which have revenue earning potential. The government, with support from the World Bank, commenced climate tagging during the FY2021/22 budget exercise, to identify, allocate, and manage expenditures on climate mitigation and disaster risk management. They also plan to continue climate tagging for the upcoming FY2022/23 Budget.

In the event of a natural disaster, the Bahamian authorities can obtain limited support through its Contingent Credit Line at the International Development Bank, a payout from the CCRIF, for qualifying events, and resources from the Disaster Relief Fund, which must be replenished following Hurricane Dorian.

Conclusion

The past five years have been particularly challenging for The Bahamas and have highlighted their vulnerability to external shocks. Our authorities are encouraged by the strong rebound in tourism and sustained foreign direct investment activity, but are cognizant of the downside risks, as well as the need to diversify their economy. They are optimistic about the opportunities in digital financial services and in the blue and green economies but are adopting a measured and cautious approach.

The Bahamian authorities are sensitive to the risks to the fiscal outlook and are committed to measures that will support an improvement in fiscal indicators and place debt on a downward trajectory, while maintaining investment in critical infrastructure and resilience building. Our authorities, together with other vulnerable countries in the region, continue to call for more support from the international community for concessional and grant support to finance climate change adaptation, and welcome the efforts being made by the Fund in this regard.