PRESS RELEASE

Central Bank takes a Comprehensive Approach to Reducing Lending to the Government

In line with the Central Bank's role as banker to the Government, the Bank does from time to time provide the Government with financing. More recent transactions have positioned this support as bridge financing that is subsequently marked for sale in the secondary market or for accelerated repayment by the Government.

In this regard, the Central Bank continues to focus on reducing total lending to the Bahamas Government in a comprehensive fashion, both in coordination with the Ministry of Finance and through direct engagement with the investor community. This addresses the legal constraint on holdings of medium and longer term debt issued by the Government, which is stipulated in the current Central Bank Act. It also addresses holdings of other debt of a shorter-term nature.

Nevertheless, the recent 2017 IMF Article IV Consultation Report refers to an increase in the Central Bank's holdings of Government securities with maturities of five or more years, above the limit of 20 percent of the Bank's demand liabilities[1]. This ratio has trended very close to the ceiling for a number of years, before the Bank took action in 2016 to begin the process of achieving a permanent reduction in the measure and in total holdings of debt over time, irrespective of maturity. Indeed an initial restructuring of the Central Bank's balance sheet resulted in a reduction in longer-term bond holdings in June 2016. This transaction, with institutional investors, swapped $25 million of long bonds for shorter-term instruments. Afterwards, the programme of secondary sales was launched in August 2016, resulting so far in total sales of $80 million off the Central Bank's balance sheet. At least another $150 million is destined to be repaid by the Government in the short-term under the terms of the bridge financing that was provided during 2017.

This goal notwithstanding, it is important to note that following the passage of Hurricane Mathew in October 2016, the Bank participated in the Government's subsequent $150 million hurricane relief facility, investing in a $20 million Bahamas Government Registered Stock issue, while the commercial banks provided $130 million in financing via a long-term loan. This transaction, when added to the Bank's prior holdings on Government securities, contributed to the ratio of Government Securities to

[1] The demand liabilities are the stock of Bahamian dollar currency issued by the Central Bank plus deposits placed with the Central Bank. These are mainly deposits of commercial banks and to lesser extent public entities and international agencies.

demand liabilities rising marginally above the 20% ceiling for a few months during 2017. However, in light of the Bank's ongoing efforts to reduce its exposure to Government debt by, *inter alia*, selling certain tranches of its medium and long-term securities' holdings to the public, the statutory ratio has been gradually reduced to 12.52% at the end of September 2017; this program of secondary sales is continuing.

Going forward, the proposals for a revamped legal framework for the Central Bank have already been developed, in consultation with the IMF, which advocates limits on the total value of Government debt that the Bank can hold on its balance sheet. The proposals are expected to be submitted for public consultation before the end of 2017.

It should also be noted that the present limits on holdings of government debt, referenced by the IMF, are less comprehensive than those which a new governance framework for the Central Bank would introduce. The current operations targets for Central Bank are also more comprehensive, and are geared towards strengthening the overall backing for the Bahamian dollar.

October 11, 2017