PRESS RELEASE

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The Bahamas Receives $247 Million SDR Allocation to Bolster External Reserves

Countries globally have been negatively impacted by the Novel Coronavirus (COVID-19) pandemic, which continues to spread. Therefore, in an effort to assist countries in their response to the COVID-19 shock, on August 23, 2021 the IMF allocated 456 billion in Special Drawing Rights (SDRs) to its entire membership of countries, in proportion to their shareholding. These SDRs, equivalent to US$650 billion, can be used unconditionally.

The Bahamas received an allocation of SDR174.8 million, which add approximately US$247.5 million to the international reserves of the Central Bank.

The SDR allocations count as official international reserves of IMF member countries. If there is no further need for their use, they can be retained with the IMF in their allocated composition. Alternatively, they can be converted into other currencies that make up the composition of the respective countries' international reserves and used directly to meet economic needs. In particular, countries can decide whether policy buffers would be used to increase the flexibility of fiscal and monetary policies, including for pandemic-related deficit financing, debt management operations, promoting external debt sustainability, financial stability or balance of payments needs.

In terms of The Bahamas, the spread of COVID-19 adversely impacted tourism, which provide the bulk of foreign currency earnings. With the sector remaining largely offline for approximately one year, the Central Bank introduced foreign exchange conservation measures to maintain external stability and protect the external reserves, and by extension, the exchange rate peg. These measures included the suspended dividend approvals for all foreign-owned commercial banks, and suspension of access to foreign exchange for investment currency purchases and financing of Bahamas Depository Receipts (BDRs), both being categories of external portfolio investments. For balance of payments sustainability, the Central Bank also endorsed a strategy that increased the Government's reliance on foreign currency borrowing to finance the larger deficits.

The Central Bank intends to use the SDR allocations for foreign reserve management operations, in particular holding them available for any increase in foreign exchange needs expressed through the private and public sectors. Any amounts converted to US dollars would attract costs to the Central Bank at the prevailing interest rate on SDRs, which is currently 0.05%. This is a weighted average of the short-term interest rates on Government debt of the countries and regions represented in the basket of currencies that make up the SDR.

The Bahamas' SDR allocations are not being earmarked for lending to the Government, and do not increase the Central Bank's ability to lend to the Government. The lending limits remain fixed by law. However, these allocations improve space for the Central Bank to relax the remaining foreign currency conservation measures, which suspended access to foreign exchange for external investments by Bahamian residents. The Central Bank will make a further announcement on these measures in the near-term.

At the macro-economic level, and as intended, the SDR allocations also strengthen The Bahamas' foreign reserve adequacy assessments, as regard to the ease of both the public and private sectors to remit external interest and dividend payments abroad without constraints. Likewise, the buffers enhance the domestic financial sector's capacity to provide Bahamian dollar funding to the public and private sectors, especially against any stimulated spending on imported goods and services of either a consumption or investment nature.

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