COMMONWEALTH OF THE BAHAMAS

THE MINISTRY OF FINANCE

2022 FISCAL STRATEGY REPORT

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1.242.**702.1500**
financemail@bahamas.gov.bs
www.**bahamas**.gov.bs
www.**bahamasbudget**.gov.bs

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The 2022 Fiscal Strategy Report (2022 FSR) is the fifth such report prepared as required under the Fiscal Responsibility Act, 2018 (the Act) and submitted to the Cabinet and Parliament to ensure budget credibility, transparency and fiscal sustainability. This document outlines the Government's medium-term fiscal framework which will in turn inform the preparation of the FY2023/24 budget, annual borrowing plan and medium-term debt strategy based on the macroeconomic projections, fiscal policies and objectives outlined herein.

The 2021/2022 fiscal year represented a watershed moment in recent Bahamian history. With the change in political administration in September 2021 and improved vaccination rates, the country saw the end of COVID-19 Emergency Orders, an end to mask mandates, a reopening of numerous sectors constrained by COVID-19 health & safety protocols and a reflating of the Bahamian economy. As the world, and the local economy, emerged from the economic depression associated with the pandemic, FY2021/22 saw the elimination of many COVID-19 support initiatives and the beginning of a return to historic budget trends and fiscal targets. Key among these targets is a return to fiscal consolidation efforts, baseline revenue yields, modest deficits and the reduced need for annual borrowing.

Largely owing to the pent up travel demand created by border closures and COVID-19 lockdowns, the first four months of FY2022/2023 has already demonstrated strong fiscal performance, with revenues exceeding budget targets by $50.6 million largely driven by tourism rebound. With advanced hotel books for the final 2 months of 2022 and first quarter of 2023, the fiscal framework supports continued strong revenue performance over the medium term. While the increasing global inflation presents the risk of economic contraction, the recent increase in minim wage, supported by broad price controls, will bolster consumer spending and the domestic economy until inflation levels moderate.

A key component of the 2022 FSR is the expansion on the policies and strategies which will allow Government to achieve its revenue to GDP target of 25.0 percent by year FY2025/2026. These efforts range from including greater use of technology, adopting digital billing solutions, increased use of risk based audits and review of various concession regimes. While a key strategy for Government has been the pursuit of the monetization of the nation's blue carbon credits, the technology remains novel. As such, Government intends to continue pursuit of this important revenue opportunity made available

LETTER OF TRANSMITTAL cont'd

through prior targeted investments in environmental conservation. As this opportunity materializes, future fiscal frames will be updated to include this feature. It is expected that the debt to GDP target remains unchanged and is expected to be achieved by FY2030/31 as a result of the discontinuation of the elevated borrowing associated with Hurricane Dorian and provision of COVID-19 support. Government remains committed to the provision of fiscal responsibility legislation which will include additional metrics that would provide a more robust monitoring and evaluation framework for accountability and transparency. These additions would include targets for revenue, interest and capital expenditure.

Through this FSR, the Government demonstrates its commitment to the principles of accountability, intergenerational equity, responsibility, stability, transparency and inclusive growth. To this end, the policies and strategies outlined in this document priorities management of fiscal risks to ensure economic resilience and stability over the coming years. As with previous fiscal strategy reports, the Government will continually review fiscal and macroeconomic outcomes, to determine whether additional changes are required to the medium-term fiscal framework to respond with the most appropriate policy action to achieve the fiscal responsibility principles.

The undersigned attest that, to the extent feasible and practicable at the date of publication, the 2022 FSR contains information that is accurate, reliable and complete in respect of the requirements of the Act.

Philip Davis
Prime Minister & Minister of Finance

Simon Wilson
Financial Secretary

Introduction

1.1 REPORT

The 2022 FSR is the fifth such report to be submitted to Cabinet and Parliament under the Act. As per section 10 of the Act, the Minister of Finance is required to prepare and submit a Fiscal Strategy Report (FSR) to Cabinet, for approval no later than the 1st Tuesday of November of each fiscal year, in this case November 1, 2022. On approval, the FSR is to be presented to both Parliament and the Fiscal Responsibility Council by the 3rd Wednesday of November (i.e., November 16, 2021) for their review and recommendations.

As a result of the biannual credit review being conducted by the international rating agency, Standard & Poor's (S&P), and out of an abundance of caution, the Government delayed the release of the 2022 FSR until the ratings evaluation was completed. The debt sustainability analysis and forecasts of interest and other calculations included, herein, benefits from inclusion of the most recent ratings review.

The 2022 FSR provides the Government's medium-term fiscal framework to achieve the fiscal targets mandated in the Act and as revised in the 2019 Fiscal Adjustment Plan (2019 FAP) and 2020 Fiscal Strategy Report owing to the devastating impact of the COVID-19 pandemic on the macro-economy.

Following this section, and in compliance with the Act, the remainder of this report is organized as follows:

- Section 2 reports on the economic and fiscal performance in the most recently completed fiscal year, namely 2021/2022;
- Section 3 presents the required macroeconomic and fiscal forecasts for the current and next four fiscal years—to show the intended path towards convergence with the fiscal targets;
- Section 4 outlines the proposed fiscal policy measures over the medium term and the estimated impact for the next five fiscal years;
- Section 5 frames an analysis of fiscal risks and mitigation strategies; and
- Section 6 provides a summary of Government's debt management policy and analysis of debt sustainability.

The information to be included in the 2022 FSR, as specified in the Act, is presented as ***Annex A***.

1.2 ACCOUNTING PRINCIPLES AND METHODS

The budgetary data presented in the 2022 FSR are prepared using a modified cash basis of accounting and guided by the International Public Sector Accounting Standards (IPSAS) financial reporting under the cash basis. As such, revenue is recognized when received and not when earned; expenditure is recorded in the period it is incurred and paid; and purchases of fixed assets, including immovable property, plant and equipment, are fully expensed in the year of purchase.

Data tables are prepared using the new chart of accounts introduced on July 1, 2019 which allows for aggregation and presentation of the fiscal data according to the International Monetary Fund's (IMF) Government Finance Statistics (GFS) 2014 reporting framework for analyzing and evaluating the performance of the government finances. The new framework also lays the basis for the eventual conversion of the accounting presentation to the IPSAS financial reporting under the accrual basis, as underscored by various ongoing initiatives to strengthen public financial management institutional arrangements—including the implementation of the Integrated Financial Management Information Systems and the supportive legislative frameworks and technology systems.

As data reconciliation is ongoing, annual data for FY2020/21 and FY2021/22 are subject to change, until audited by the Auditor General; therefore, their status is provisional.

1.3 NATIONAL ACCOUNTS ESTIMATES

The National Accounts, which provide a baseline for the development of macroeconomic forecasts, are compiled utilizing data both survey and administratively sourced. In an effort to meet the increasing demand for timely estimates, preliminary GDP numbers are produced based on data which themselves are subject to errors and omissions. It is internationally recognized that all preliminary numbers, by their very designation, are subject to change and are impacted by timeliness and accuracy issues. The years 2020 and 2021 were exceptional in that the COVID-19 pandemic had a negative effect on the availability of source data, with many data producing agencies subjected to reduced hours/staffing which rendered their data extremely delayed and prone to revisions. Due to issues surrounding the timeliness and accuracy of data received, revisions have been made to the May 2021 National Accounts estimates which have been reflected in this **2022FSR**.

Overview of Economic and Fiscal Performance in FY2020/21

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2.1 ECONOMIC PERFORMANCE

a. International Economic Context
Global economic growth was forecast to rebound during the FY2021/2022 due to improved vaccination rates and reduced COVID-19 infections. However, this forecast was tapered by the war in Ukraine and increased global prices. In its October 2022 World Economic Outlook, the IMF's projections indicated a slowdown of global growth from 6.0 percent in 2021 to 3.2 percent in 2022. This is owing to growing inflation, lingering supply-demand imbalances and geopolitical conflicts in the Euro area impeding global trade and cooperation. Due to rising food and energy prices, global inflation is estimated to increase from 4.7 percent in 2021 to 8.8 percent in 2022.

In China, continued lockdowns and the on-going real estate crisis have led to a projected slowdown of economic growth to 3.2 percent in 2022 from the 8.1 percent growth experienced in 2021. With exception to the COVID-19 crisis in 2020, this projection represent the lowest growth in more than four decades. Zero policy lockdowns continue to cause a hindrance to international trade while the outlook for recovery is bleak due to the risk of more COVID-19 outbreaks and further escalation of the real estate crisis. Consumer prices in China were 0.9 percent in 2021 and estimated to rise to 2.2 percent for 2022. The unemployment rate at end-June 2022 was 5.5 percent, a 7.8 percent increase over the 5.1 percent unemployment rate at end-December 2021.

Growth in the Euro area stood at 5.2 percent in 2021 but was projected downwards to 3.1 percent for 2022.

Market conditions were directly affected by spillovers from the war in Ukraine and tighter monetary policy. Tightened embargos on Russia are expected to stop European gas imports from Russia and inflate petrol prices further. Consequently, the Euro area inflation was 2.6 percent for 2021 and increased to 8.6 percent at end-June 2022. Unemployment remained constant at 6.6 percent at end-June 2022, a 14.3 percent decrease over the 7.7 percent unemployment rate for 2021.

The United States' economic growth projections slowed to 1.6 percent for 2022 after an outturn of 5.7 percent in 2021. This is owing to lower growth during the third quarter of FY2021/2022, reduced household purchasing power, and tighter monetary policy. Unemployment remained steady at 3.6 percent over the three months end-June 2022. The United States is currently resisting stagflation as June 2022 consumer prices reach an all-time high of 9.1 percent, the highest in over 40 years. In an effort to combat mounting prices, the Federal Reserve enacted its most stringent monetary policy action since the early 1990s, by targeting an increase in the benchmark overnight borrowing to a range of 2.25 percent to 2.5 percent. In hopes of slowing economic activity, the rate hike is expected to affect consumer products such as adjustable mortgages, auto loans and credit cards.

The United Nations most recent Economic Survey of Latin America and the Caribbean report revealed that escalating global inflation has accelerated price increases in Latin America and the Caribbean. Regional inflation trended upward since May 2020 (1.8 percent), surpassing the 2008 global financial crisis levels in 2021 (6.6 percent) and stood at 8.4 percent in June 2022. At end-2021, food inflation in the region stood at 7.4 percent, and by June 2022 it had reached 11.9 percent. Caribbean nations are highly vulnerable to rising prices for food and non-alcoholic beverages, and housing and transportation, with these indices registering gains ranging between 14 percent and 29 percent.

b. Domestic Economic Development

Domestic economic growth was tapered by lingering COVID-19 supply chain shortages and increased inflationary pressures as a result of the war in Ukraine. However, the Bahamian economy has maintained a steady pace of recovery through sustained tourism sector activity via continuous sector activity bolstered by the release of pent up demand for travel, steady conditions in source markets, and improved vaccinations rates.

Table 1: Forecast and Actual Economic Performance

	2021			2022
INDICATORS	**FORECAST**	**ACTUAL**	**VARIANCE**	**FORECAST**
Gross Domestic Product, current prices (% change)	7.8	15.6	-10.3	13.2
Gross Domestic Product, constant prices (% change)	2.0	13.7	-11.7	8.0
Inflation (%, CPI)	3.0	2.9	0.1	5.6

Note: Original forecast is from the 2021 WEO, actual GDP estimates are from the BNSI Gross Domestic Product estimates released in May 2022; and the 2022 forecast is as stated in the 2022 WEO. Where appropriate, annual estimates have been converted to fiscal estimates based on MOF calculations.

Official estimates released by BNSI place real output at $9,836.0 million for 2021—a gain of 13.7 percent from the $8,650.2 million in 2020. This represents a variance 11.7 from the original forecast of 2.0 percent used in the IMF's 2021 WEO framework as more accurate information was provided and revisions were made to current estimates. On a fiscal basis, this translates to real output of $10,535.0 million for 2021/22. The growth of real output is projected at 3.0 percent in FY 2022/23.

Figure 1: Bahamas GDP Growth Trends

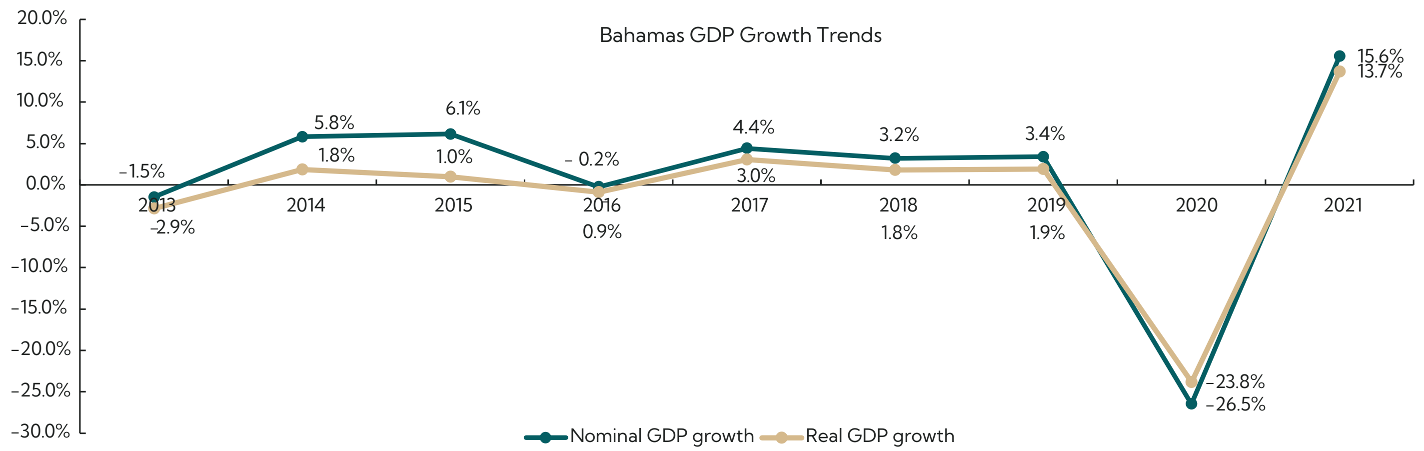


Figure 2: Key Macroeconomic Indicators

Examining the expenditure components of the 2021 GDP, the growth in real GDP was led by a $1,475.7 million (19.9 percent) expansion in final consumption. This was attributed mostly to an increase in household consumption (22.6 percent) and general government consumption (12.6 percent). Gross fixed capital formation grew by $462.2 million (22.7 percent) due to increased spending on buildings and infrastructure (13.7 percent) and machinery and equipment (54.6 percent). Expansions occurred for exports of goods and services by $447.50 million (19.6 percent) and imports of goods and services by $867.8 million (21.6 percent) – widening the trade deficit by $420.3 million (24.3 percent).

Year-over-year analysis of real GDP by sector indicate broad value-added in economic production across industries. This gain was primarily experienced by the wholesale, retail trade, and motor vehicle repairs sector, which increased by $238.0 million (16.9 percent). Similarly, notable growth were observed in the transport and storage sector by $146.8 (61.1 percent); the construction sector by $192.2 million (37.6 percent); the accommodation and food services sector by $184.4 million (65.3 percent).

As the tourism sector began its rebound, air traffic significantly increased and major hotels reopened; further boosting the demand for land transportation. Year-over-year, total tourist arrivals increased from 1.8 million visitors in 2020 to 2.1 million visitors in 2021, a 17.1 percent growth. For the first six months of 2022, tourist arrivals stood at 3.0 million tourist, a 42.7 percent improvement over the year ended-2021. With the elimination of testing requirements for domestic and international travel, and the general removal of mask mandates in October 2022, further growth in arrivals are anticipated.

Airbnb occupancy averaged 24.3 percent for 2021, a growth of 100.8 percent relative to the 12.1 percent occupancy average experienced in the prior year. Likewise, bookings improved by 76.7 percent (60,849 reservations) to 140,186 reservations for the twelve months end-June 2022. This market improvement is resultant of the influx of visitor arrivals as strict COVID-19 protocols eased. Moreover, Airbnb rentals indicated an expansion in family island tourism with an incursion of 280 new property listings, totaling 2,322 family island listings at end June 2022 (exclusive of New Providence and Grand Bahama).

Constructions indicators at end-June 2021 indicates growth relative to end-June 2020 owing to various foreign investment projects and post-hurricane reconstruction efforts. The number of construction permits grew by 69.5 percent (351 permits); the number of construction starts increased by 70.3 percent (135 starts); the number of construction completions rose by 32.7 percent (73 completions).

Increased global oil prices and supply chain shortages exacerbated by the impacts of the war in Ukraine commencing in February 2022 has impacted domestic prices. Domestic inflation, measured by the Retail Price Index, show an inflation rate of 2.9 percent for 2021. This represents an increase over the 0.04 percent inflation rate in 2020. For the first six months of the 2022, the inflation rate stood at 6.2 percent, a 113.4 percent increase over the 2021 inflation rate.

Based on estimates of unemployment prepared within the context of the October 2022 WEO, while unemployment peaked at 25.6 percent in 2020 during peak of the COVID-19 pandemic, unemployment is anticipated to contract by 29.0 percent to 18.1 percent in 2021. It is projected to decline even further to 13.9 percent in 2022 as the country continues to rebound.

In the monetary sector, for the first half of 2022, broad money (M2) grew by $672.3 million (8.6 percent) over end-December 2021, to $8,452.0 million. Private sector credit and public sector credit declined by 1.3 percent and 6.6 percent, respectively. The average bank deposit rate decreased by 3.6 percent to 0.50 percent at end-June 2022. The average lending rate increased by 9.0 percent over end-December 2021 to 10.92 percent at end-June 2022.

The overall balance on the external reserves remained favorable for the first six months of 2022, with a gain of $803.1 million over end-December 2021 to $3,235.8 million at end-June 2022, bolstered by Government external borrowing activities during the period and improvements in tourism activity. Consequently, the stock of external reserves was estimated to equate 60.2 weeks of non-oil import cover as at end-June 2022 as compared to 59.8 weeks of non-oil import cover during the same period of the prior year.

2.2 BUDGET AND FISCAL PERFORMANCE

a. Overall Balance

While the Fiscal Responsibility Act called for attainment of a fiscal balance target of a deficit of 1.0 percent of GDP in FY2019/20, the impact of Hurricane Dorian necessitated a planned deviation from this target with a new target of 5.3 percent established in the January 2020 Fiscal Adjustment Plan after invoking the Exceptional Circumstances clause (13) of the Act. As a result of the impact of the COVID-19 pandemic reaching Bahamian shores in March 2020, the 2020 Fiscal Strategy Report (2020 FSR) proposed new fiscal targets (see **Table 2**).

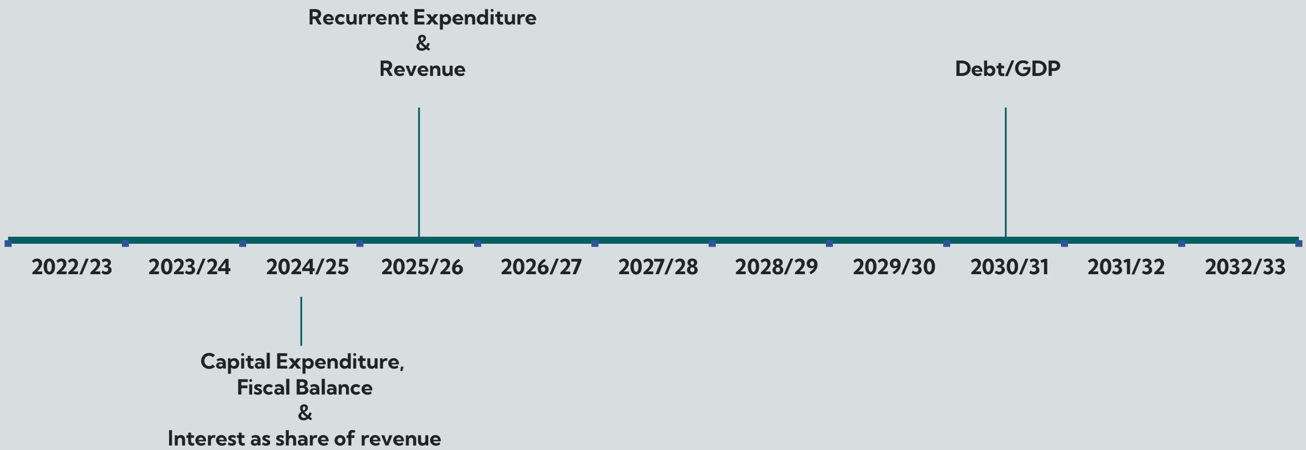
Table 2: Fiscal Responsibility Targets

FISCAL INDICATOR	OBJECTIVES	REVISED OBJECTIVES 2020FAP	2020 FSR TARGETS
Debt Target[1]	Reduce debt from 58.9 percent in FY2017/18 of GDP to a debt level of no more than 50 percent of GDP by 2024/25.	Reduce debt to GDP ratio to no more than 50 percent of GDP by 2028/29.	Achieve a debt to GDP ratio of no more than 50 percent of GDP by 2030/31
Fiscal Balance Target	FY2018/19: 1.8 percent FY2019/20: 1.0 percent FY2020/21: 0.5 percent	FY2019/20: 5.3 percent FY2020/21: 3.8 percent FY2021/22: 2.2 percent FY2022/23:1.7 percent FY2023/24: 1.0 percent FY2024/25: 0.5 percent	FY2020/21: 11.6 percent FY2021/22: 7.8 percent FY2022/23:2.5 percent FY2023/24: 1.5 percent FY2024/25: 0.5 percent
Recurrent Expenditure	After the attainment of a deficit *of no more than 0.5 percent of GDP*, the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.	After the attainment of a deficit *of no more than 0.5 percent of GDP*, the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.	After the attainment of a deficit *of no more than 0.5 percent of GDP*, the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.

[1]*Debt is defined in the Act as central government debt only*

To improve transparency and accountability framework in The Bahamas, Government has proposed amendments to the Fiscal Responsibility Act 2018 for tabling in Parliament in early 2023. This improved framework will retain targets for debt, fiscal balance and recurrent expenditure as a share of GDP but also include targets for interest, revenue and capital expenditure as a share of GDP (see ***Figure 3***).

Figure 3: Fiscal Responsibility Achievement Timeline



As presented in ***Table 3***, the fiscal deficit for FY2021/22 contracted to $717.4 million (5.8 percent of GDP) compared with the $1,335.7 million (13.5 percent of GDP) in FY2020/21 and represented a sizeable improvement of $391.9 million from the $1,110.0 million (9.6 percent of GDP) targeted in the supplementary budget. Underlying this outcome was an improved revenue outturn by $270.5 million relative to the budget forecast, supported by a corresponding containment in outlays by $122.1 million. The worsening of the coronavirus pandemic during the first half of the fiscal year resulted in lower than expected level of economic output, although revenue outturn improved in the second half of the fiscal year alongside decreased COVID-19 support measures (see ***Box 1*** for an update on Government's COVID-19 support measures).

Table 3: FY2021/22 Forecast and Actual Fiscal Performance (B$M)

	SUPPLEMENTARY BUDGET	ACTUAL	VARIANCE
1. Revenue	2,338.8	2,609.3	270.5
2. Expenditure	3,448.8	3,326.7	-122.1
Recurrent	3,096.1	3,042.9	-53.2
Capital	352.7	283.8	-68.9
3. Surplus/(Deficit) [1-2]	-1,110.0	-717.4	392.6
4. GFS Deficit as % of GDP	-9.6%	-5.8%	3.8%
5. Gov't Direct Charge	10,793.6	10,792.8	0.8
6. Gov't Direct Charge as % of GDP	93.3%	86.9%	-6.4%
7. GDP estimate	11,573.0	12,413.6	840.6

Box 1: Government's Response to the COVID-19 Pandemic

On March 17, 2020, the Government declared a state of emergency as the first case of COVID-19 was diagnosed on Bahamian shores. Air and sea borders were closed to all incoming passengers, and on March 24 a strict curfew was established requiring full stay-at-home lockdowns during the weekends, with some differences between various islands. These measures remained in place through end-June 2020.

While borders were reopened on July 1, 2020, beginning July 24, 2020 weekend lockdowns, weekly curfews and limitations on gatherings were reinstated. Effective July 28, 2020, all travelers were required to obtain The Bahamas' Health Visa and to present a negative COVID-19 RT-PCR test result for both vaccinated and unvaccinated travelers.

On March 10, 2021, the Government received its first batch of the COVID-19 AstraZeneca vaccines, to be administered to residents, as a part of its vaccination roll-out plan. Vaccines continued to be acquired and on August 12, 2021 the first tranche of the Pfizer vaccines arrived. Additional batches of Pfizer and Johnson & Johnson were received on September 23, 2021 and October 27, 2021. As of October 23, 2021 a total of 225,085[1] doses of vaccines were administered with 127,567 residents fully vaccinated. The PAHO vaccination database[2] November 5, 2021 update places The Bahamas 19th of 25 Non-Latin Caribbean countries with 32.31 completed dose schedules per 100 people.

By the end of the 2021 year, a new COVID-19 variant called Omicron emerged, and by January 2022, the Centers for Disease Control and Prevention (CDC) revised its Travel Health Notice to place The Bahamas as a Level 4 destination (High). However, as COVID-19 protocols continued and infection rates significantly declined, by April 14th, 2022, the Centers for Disease Control and Prevention de-escalated the COVID-19 Travel Risk Advisory Rating for The Bahamas to a Level 1 (low).

On June 19, 2022, The Bahamas' Health Visa and pre-travel COVID testing for fully vaccinated persons was eliminated. By September 20, 2022, the COVID-19 testing requirement regardless of vaccination status was removed. On October 1, 2022, the usage of face masks was removed, except when accessing a health care facility or educational institution.

Following the onset of the pandemic, measures were taken to reduce the economic effects of COVID-19 with focus on public health and safety, job protection and social and economic support for households and businesses. These included budgetary allocations through the FY2021/2022 and FY2022/2023 budgets. The following table outlines actual cash outlays through end-September 2022.

SUMMARY OF COVID-19 RELATED EXPENSES (B$M)

	FY2019/20 Mar – June	FY2020/21p July – June	FY2021/22p July – June	FY2022/23 July – Sept	Total
Recurrent Expenditure	**39.2**	**268.5**	**96.6**	**2.2**	**406.5**
Public Health Safety	1.9	36.6	14.8	0.4	53.7
Unemployment Assistance	10	164.7	62.3	0.0	237.0
Goods & Services Acquisition	1.8	2.2	2.7	0.2	6.9
Job Retention Programme	21.4	23	6.4	1.2	52.0
Food Assistance	2	40.4	7.8	0.0	50.2
Other	2.1	1.5	2.6	0.4	6.6
Capital Expenditure	**40.3**	**4.7**	**5.7**	**0.0**	**50.7**
Public Health Safety	0.4	0	0	0	0.4
Goods & Services Acquisition	0.6	0.1	0	0	0.7
COVID-19 Unit	0.3	0.5	0	0	0.8
Small Business Loans	39	4.1	5.7	0	48.8
Total	**79.5**	**273.3**	**102.3**	**2.2**	**457.2**

[1] https://opm.gov.bs/
[2] https://ais.paho.org/imm/IM_DosisAdmin-Vacunacion.asp

b. Revenue

Government revenue collections for the FY2021/2022 totaled $2,609.3 million. This represented an additional $270.5 million (11.6 percent) collected beyond the budgeted $2,338.8 million, for 21.0 percent of GDP vis-à-vis the targeted 20.2 percent (see **Table 4**).

Removal of COVID-19 protocols and the subsequent upturn in domestic economic activity translated into revenue receipts outperforming the approved estimates. This was mainly seen in VAT receipts which, at 52.5 percent of tax revenue, were 22.7 percent higher than forecasted.

Likewise collection excess above the budget estimates were primarily seen for general stamp taxes (174.3 percent), marine license activities (231.6 percent), stamp tax on financial and realty transactions (42.2 percent), and taxes on international trade and transactions (22.8 percent). Underperformance against their forecasts were mainly seen for taxes of property (7.5 percent), company taxes (6.1 percent), and excise tax (80.3 percent).

Collections from non-tax sources at $446.8 million surpassed the budget by 40.4 percent. Despite the overall increase for this subheading, sales of goods and services was 5.3 percent below budget.

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Figure 4: FY2021/22 Revenue by Source (%)

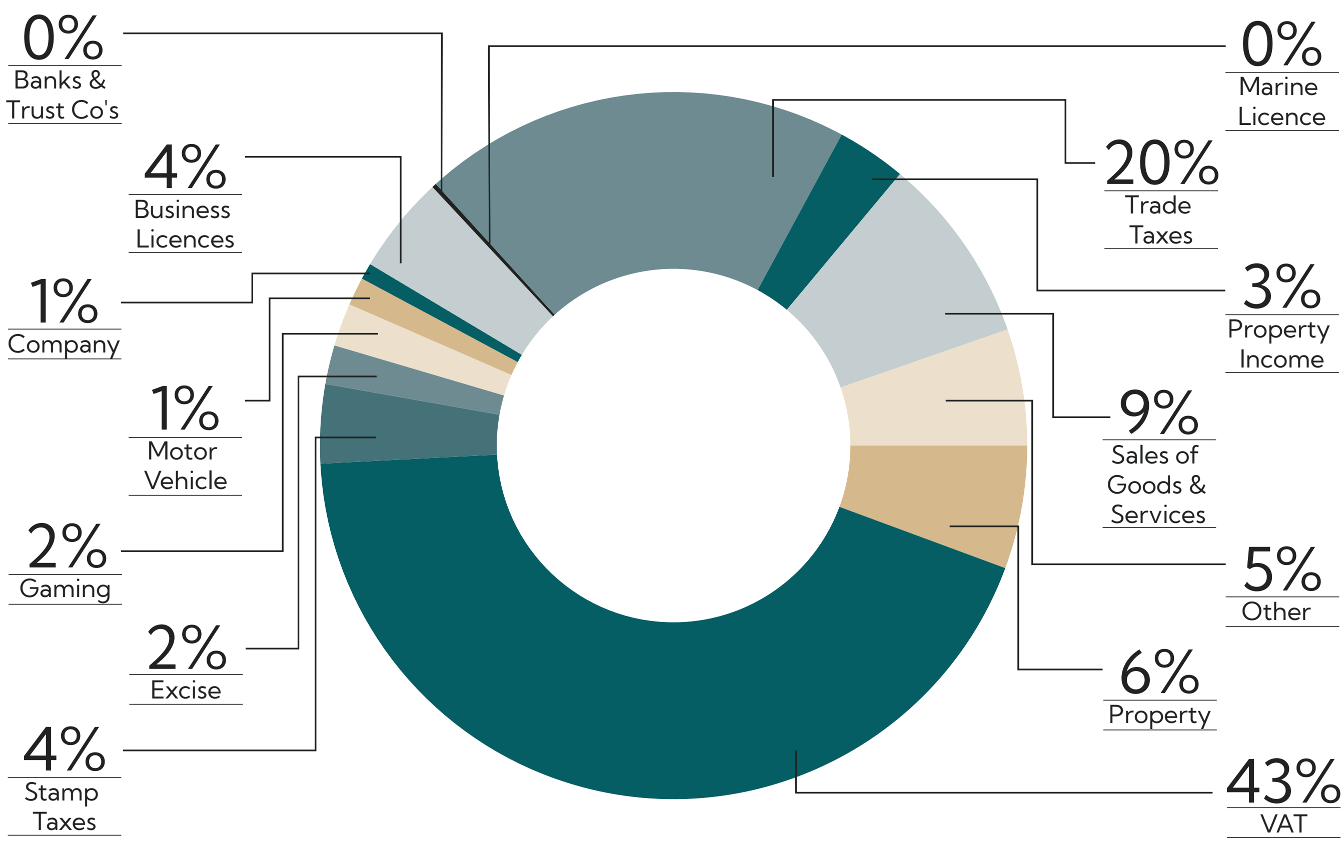


Table 4: Detailed Summary of Provisional Fiscal Outturn, 2021/22 (B$M)

	FY2021/22			As Percent of GDP	
	Budget	**Actual**	**Variance**	**Budget**	**Actual**
TAX REVENUE	(B$M)				
Taxes on Property	158.8	147.0	-7.5%	1.4%	1.2%
Taxes on Goods & Services	1,438.8	1,492.3	3.7%	12.4%	12.0%
VAT	926.0	1,135.8	22.7%	8.0%	9.1%
Stamp Taxes (Financial & Realty)	58.4	83.0	42.2%	0.5%	0.7%
Excise Tax	236.5	46.5	-80.3%	2.0%	0.4%
Taxes on Specific Servcs. (Gaming)	54.0	51.3	-5.0%	0.5%	0.4%
Motor Vehicle Taxes	35.4	33.7	-4.9%	0.3%	0.3%
Company Taxes	21.1	19.8	-7.5%	0.2%	0.2%
License to Conduct Special Bus. Act.	105.7	116.8	10.5%	0.9%	0.9%
Marine License Activities	1.6	5.3	231.6%	0.0%	0.0%
Banks & Trust Companies	0.0	0.0	0.0%	0.0%	0.0%
Taxes on Int'l Trade & Transactions	416.8	511.8	22.8%	3.6%	4.1%
General Stamp Taxes	4.0	11.1	174.1%	0.0%	0.1%
TOTAL TAX REVENUE	2,018.5	2,162.1	7.1%	17.4%	17.4%
NON-TAX REVENUE					
Property Income	21.1	82.8	291.9%	0.2%	0.7%
Sales of Goods & Services	237.5	225.0	-5.4%	2.1%	1.8%
Other	59.6	139.0	133.0%	0.5%	1.1%
TOTAL NON-TAX REVENUE	318.3	446.8	40.2%	2.8%	3.6%
TOTAL TAX & NON-TAX REVENUE	2,336.8	2,609.0	11.6%	20.2%	21.0%
CAPITAL REVENUE					
Capital Revenue	2.0	0.2	0.0%	0.0%	0.0%
Grants	0.0	0.2	7621.5%	0.0%	0.0%
TOTAL CAPITAL REVENUE	2.0	0.4	-82.2%	0.0%	0.0%
GRAND TOTAL ALL REVENUE	2,338.8	2,609.3	11.5%	20.2%	21.0%
EXPENDITURES					
RECURRENT EXPENDITURE					
Compensation of Employees	782.6	737.2	-5.8%	6.8%	5.9%
Use of Goods & Services	681.3	639.0	-6.2%	5.9%	5.1%
Travel & Subsistence	10.7	11.8	11.1%	0.1%	0.1%
Rent	84.5	83.6	-1.1%	0.7%	0.7%
Utilities & Telecommunications	103.7	89.1	-14.1%	0.9%	0.7%
Supplies & Materials	36.0	32.0	-11.1%	0.3%	0.3%
Services	231.0	198.2	-14.2%	2.0%	1.6%
Minor capital repairs	5.4	4.1	-23.5%	0.0%	0.0%

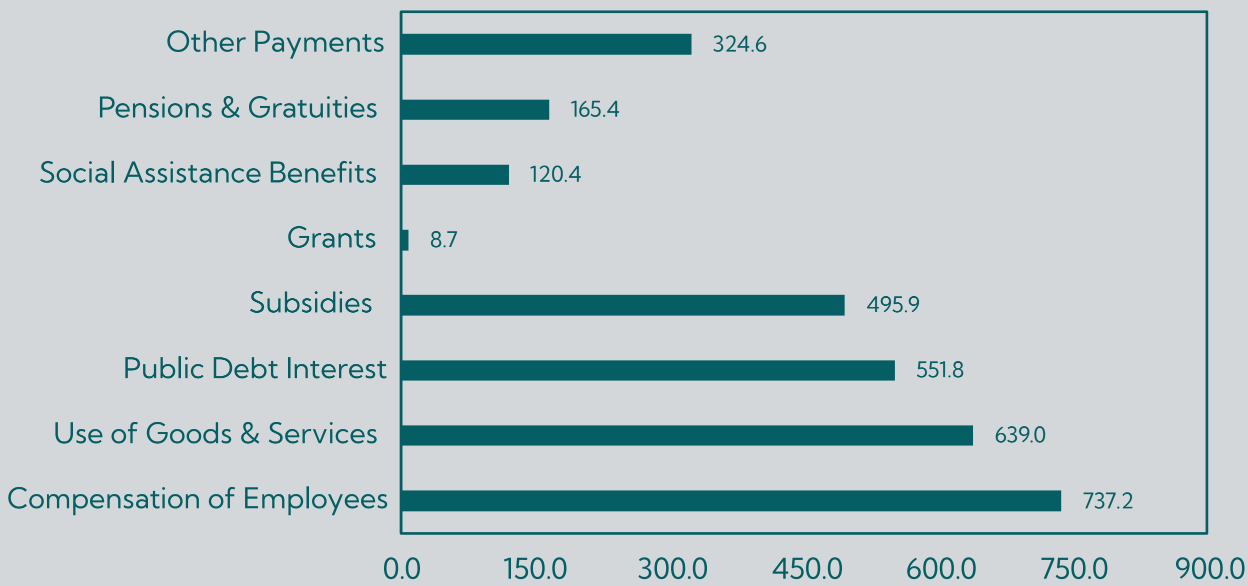
Table 4: Detailed Summary of Provisional Fiscal Outturn, 2021/22 (B$M) cont'd

	FY2020/21			As Percent of GDP	
	Budget	Actual	Variance	Budget	Actual
Finance charges	30.0	24.3	-19.0%	0.3%	0.2%
Special Financial Transactions	148.5	161.4	8.7%	1.3%	1.3%
Tourism Related	4.8	1.9	-60.9%	0.0%	0.0%
Local Gov't Districts	13.3	13.3	-0.2%	0.1%	0.1%
School Boards	0.1	0.1	0.0%	0.0%	0.0%
Other	13.4	19.2	43.2%	0.1%	0.2%
Public Debt Interest	482.5	551.8	14.4%	4.2%	4.4%
Subsidies	494.4	495.9	0.3%	4.3%	4.0%
Grants	8.5	8.7	1.5%	0.1%	0.1%
Social Assistance Benefits	152.7	120.4	-21.1%	1.3%	1.0%
Pensions & Gratuities	171.3	165.4	-3.5%	1.5%	1.3%
Other Payments	322.8	324.6	0.6%	2.8%	2.6%
TOTAL RECURRENT EXPENDITURE	3,096.1	3,042.9	-1.7%	26.8%	24.5%
CAPITAL EXPENDITURE	352.7	283.8	-19.5%	3.0%	2.3%
TOTAL EXPENDITURE	3,448.8	3,326.7	-3.5%	29.8%	26.8%
FISCAL DEFICIT	-1,110.0	-717.4	-35.3%	-9.6%	-5.8%
Less: Public Debt Interest	482.5	551.8	14.4%	4.2%	4.4%
PRIMARY DEFICIT	-627.6	-165.6	-73.5%	-5.4%	-1.3%

c. Expenditure

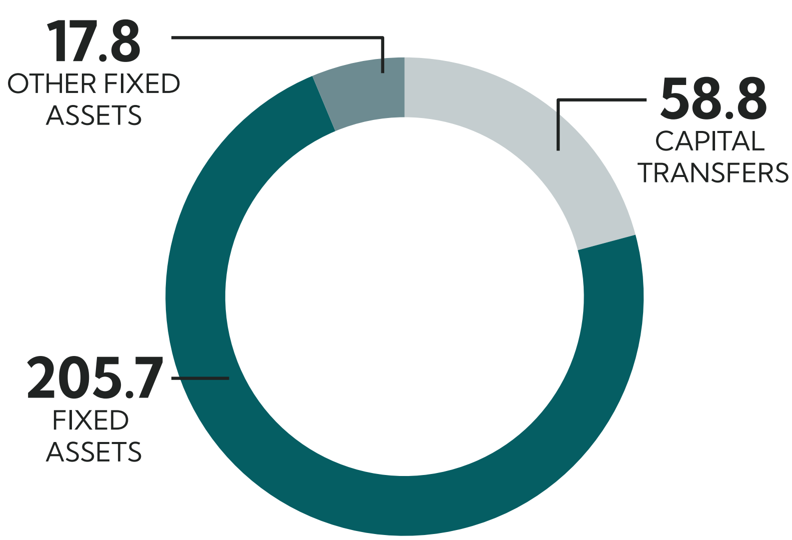
As economic conditions improved during the FY2021/22, COVID-19 expenditure measures such as various support programs were significantly reduced or eliminated. Aggregate expenditure totaled $3,326.7 million, which fell below the budget target by $122.1 million (3.5 percent), and represented 26.8 percent of GDP (see Table 4). Recurrent expenditure amounted to $3,042.9 million with a variance of $53.2 million (1.7 percent) below the budget target, and accounted for 24.5 percent of GDP. Compensation of employees amounted to $737.2 million (5.9 percent of GDP) and accounted for 94.2 percent of the budget target. Spending on the use of goods and services totaled $639.0 million or 5.1 percent of GDP and equated 93.8 percent of the budget target. This containment was primarily driven by lower expenditure on supplies and materials, services, finance charges, and utilities and telecommunication. Social assistance benefits occupied 78.9 percent of the budget target owing to reduced reliance on COVID-19 social and economic assistance as economic activity and employment rebounded to historic levels. Conversely, public debt interest payments exceeded the budget target by $69.3 million (14.4 percent).

Figure 5: FY2021/22 Recurrent Expenditure (B$M)



Capital expenditure amounted to $283.8 million with a variance of $68.9 million (19.5 percent) below the budget target of $352.7 million. Capital outlay during the period accounted for 2.3 percent of GDP (see Table 4). Capital transfers were $58.8 million (0.5 percent of GDP) and accounted for 56.7 percent of the budget target. This reflected significant easing of outlays with the removal of provisions to support businesses impacted by Hurricane Dorian and Covid-19. The Acquisition of non-financial assets totaled $225.0 million (1.8 percent of GDP) and equated 90.4 percent of the budget target. Relative to the budget estimates, lower spend during the period were mainly on transport equipment, land, and other machinery and equipment.

Figure 6: FY2021/22 Capital Expenditure (B$M)



d. Financing Activities

The Government borrowed an aggregate of $3,037.6 million during the FY2021/22 (see Table 5). The portion facilitated in foreign currency amounted to $1,021.3 million and comprised $606.6 million in bank loans, $385.0 million in international bonds, and $29.7 million in loans from international development agencies. Included in these amounts were the following: a US$105.0 million credit facility from Credit Suisse to refinance a segment of the previous BPL loan assumed by the Government with a back to back arrangement with BPL to support the debt servicing obligations;a US$206.5 million credit facility from Goldman Sachs for a repurchase agreement for US Treasuries,a EUR$228.4 million senior loan facility from Deutsche Bank, aggregate drawings on existing IDB and CDB facilities of $29.7 million—mainly earmarked for employment creation activities, airport infrastructure, coastal management, government digital transformation.

Bahamian bond issuances totaling $712.4 million, of which $484.1 million was used to refinance maturing bonds.

Treasury Notes and Bills were $308.8 million, Central Bank advances totaled $895.0 million and bank loans were $100.0 million.

Repayments in foreign currency bank loans totaled $405.7 million and loan repayments to international development agencies amounted to $23.8 million. Repayments made in Bahamian dollars comprised of $139.6 million in bank loans, and $241.9 million in Treasury Bills/Notes, $850.0 in central bank advances, and $484.1 million in bonds.

e. Direct Charge

Analysis of borrowings and debt repayment activities revealed the Government's net increase in liabilities was $891.9 million, bringing the outstanding Direct Charge at end-June 2022 to an estimated $10,792.8 million or 86.9 percent of GDP. Domestic debt represented 52.7 percent of Government liabilities with $5,687.2 million. Further details on Government debt are provided in **Section 6**.

f. Other Financing Activities

During the period, voluntary contributions to the sinking funds established to retire future debt obligations totaled $66.3 million. At end-June 2022, the three (3) arrangements earmarked for scheduled retirement of external bonds held a cumulative value of $259.0 million, while the funds set aside for the two (2) local arrangements stood at $15.6 million. As a result of the February 2022 repurchase agreement, $235.9 million of external bonds have been sold for repurchase in two (2) years.

Table 5: Financing Activities in 2021/22 (B$M)

	FY2021/22		Variance
	Budget	Actual	
Overall Balance [Surplus/(Deficit]	**-1,110.0**	**-717.4**	**392.6**
Net Incurrence of Liabilities (a-b) [+]	**951.9**	**891.9**	**-60.0**
a. Borrowings	1,851.6	3,036.9	1,185.3
b. Debt Repayment	899.7	2,145.0	1,245.3
Net Acquisition of Financial Assets [-]	**59.8**	**66.3**	**6.5**
Sinking Funds	59.8	66.3	6.5
Equity	0.0	0.0	0.0
Other	0.0	0.0	0.0
Other Financing & Change in Cash Balance (incl. Overdraft) [()= increase]	**217.9**	**-108.2**	**-326.1**

2.3 GOVERNMENT NET WORTH

As the Government currently utilizes a modified cash basis of accounting under the Cash Basis International Public Sector Accounting Standards (Cash IPSAS), the preparation of estimates of Government net worth is not available at this time.

Utilizing support from the IDB's PFM/IFMIS program, the Government continues its process of transition towards an accrual basis of accounting. This transition necessarily involves the building of capacity throughout Government, acquisition of new software and equipment and legislative reforms.

As per the requirements of the FRA, Second Schedule 9 (k), estimates of Government net worth as a share of GDP and in nominal terms shall be disclosed in line with progress achieved under this comprehensive.

Economic and Fiscal Outlook

Tables

Figures

3.1 MEDIUM TERM MACROECONOMIC OUTLOOK

The preparation of the 2022 FSR comes one year after the change in political administration as a result of the 16 September 2021 National Elections in The Bahamas. It was also prepared during a period in which global and domestic macroeconomic variables indicate a rebound from the economic contraction owing to the COVID-19 pandemic and various health & safety measures. While pent-up travel demand continues to spur domestic tourism performance to near pre-pandemic levels, the conflict in Ukraine continues to elevate global and domestic inflationary pressures.

In its October 2022 annual WEO, the IMF estimated 2022 global output growth of 3.2 percent, a decline from the 4.9 percent global growth projected for 2022 in its October 2021 WEO a year prior, as COVID-19 restrictions began to unwind and economies began to rebound. Citing the lingering impacts of the COVID-19 pandemic, rising cost-of-living, a tightening in financial markets and the conflict in Ukraine; global growth for the current year has been tempered with 2023 growth estimated at 2.7 percent. As countries adapt by introducing policies and reforms to tame the rise in prices, global inflation is forecast at 8.8 percent in 2022, declining to 6.5 percent in 2023.

In the United States, The Bahamas' major trading partner, while October 2021 indicators pointed to a rebound in the economy to near pre-pandemic output levels, the impact of the recent global shocks has resulted in the 2022 growth outlook declining from 5.2 percent to 1.6 percent. Amidst improved vaccination rates and a relaxation of COVID-19 restrictions, early-2022 unemployment rates declined to near end-2019 levels. However, the significant increase in the number of labourers opting for early retirement post emergence from the worst of the COVID-19 infection rates in the US has further increased vacation travel. While COVID-19 lingering supply chain issues were originally limited in impact on prices to specific items, the persisting conflict in Ukraine has broadened the reach of the current inflationary crisis to oil & gas and other commodities. The monetary response by the US Federal Reserve has been a freeze on asset purchases and an increase in the federal funds rate to temper rising levels of inflation and consumer spending. Within this context, growth in the US market is estimated to flatten to 1.0 percent in 2023.

Similarly, in the Canadian market, the second largest supplier of tourists to The Bahamas by volume, the IMF estimates a slowing in market conditions for 2022 from the 4.9 percent output growth estimated in October 2021 to the current estimate of 3.3 percent. Similar to the US market, to curb inflation, the Bank of Canada has begun elevating its base rate in an effort to suppress demand pressure. Over the medium term, growth in Canada is forecast to be lower at 1.5 percent for 2023 as the Bank of Canada continues to increase interest rates.

The medium-term macroeconomic forecast and outlook for The Bahamas as presented in this document represents a conservative consensus view of macroeconomic conditions reflective of prevailing forecasts for global markets and Government's own forecasts for the domestic economy. The forecasts also incorporate Government's planned and commenced economic and fiscal strategies as articulated herein and will be included in future budget documents. These goals and strategies are anchored in the policy priorities and goals articulated in the "Blueprint for Change" and the most recent Speech from the Throne.

Table 6: Macroeconomic Forecasts

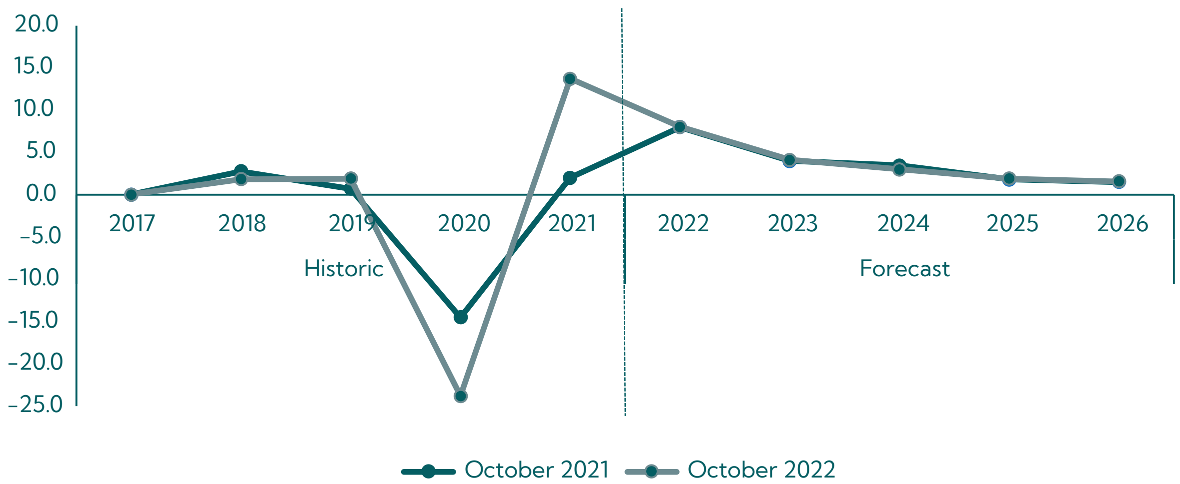
INDICATORS	2022	2023	2024	2025	2026
	GDP Growth at Constant Prices (%)				
October 2021	8.0	4.0	3.4	1.8	1.5
October 2022	8.0	4.1	3.0	1.9	1.6
	GDP Growth at Current Prices (%)				
October 2021	12.7	7.0	6.2	4.3	3.9
October 2022	13.2	8.3	5.7	4.2	3.8
	GDP Deflator (%)				
October 2021	4.4	2.9	2.7	2.5	2.4
October 2022	4.9	4.1	2.6	2.2	2.2
	Inflation Rate - Period Average (%)				
October 2021	4.2	3.2	2.9	2.7	2.5
October 2022	5.7	5.3	3.3	2.9	2.6

Note: October 2021 values based on BNSI estimates and the IMF Article IV mission; October 2022 values are based on IMF October 2022 WEO estimates.

In November 2021 The Bahamas eliminated COVID-19 Emergency Orders and restrictive measures allowing for the full reopening of the domestic economy with the removal of curfews and lockdowns. Accompanying the elimination of Emergency Orders has been a rebound in the tourism sector of the Bahamian economy. This, combined with the elimination of "mask mandates" has seen FY2022/23 tourist arrivals begin to exceed pre-COVID/pre-Hurricane Dorian levels into Q3 FY2022/23 based on recent data from tourism officials, largely attributed to exercise of the pent-up demand for travel and tourism.

As the official 2022 hurricane season came to an end on 30 November 2022, and the minimal impact of Hurricane Nicole upon making landfall in The Bahamas during the current hurricane season, the FY2022/23 fiscal forecasts have not been adjusted to include the impact of any major climactic events during the fiscal year.

Figure 7: Real GDP Growth (in percent)



Note: 2016 to 2021 GDP data are based on BNSI calculations. 2022 to 2026 GDP data are based on MOF estimates and the IMFs October 2022 WEO.

Amidst the expiration of COVID-19 Emergency Orders in November 2021, the Bahamian economy is forecast to quickly return to pre-Hurricane Dorian and pre-Pandemic levels, the IMF projects output growth of 8.0 percent in 2022, tapering off to 1.6 percent by 2026, largely consistent with the trajectory outlined the year prior in the IMF's October 2021 WEO. Reflective of the pass-through effects of the global increase in price levels, the 2022 GDP deflator has been revised upward to 4.9 percent from the prior year's estimate of 4.4 percent. The deflator is expected to converge to near historic levels of 2.2 percent by 2026. Similarly, inflation, as measured by the average change in the Consumer Price Index (CPI), is forecast at 5.7 percent in 2022, elevated from the original forecast of 4.2 percent. As price levels moderate over the medium-term, inflation levels are forecast to settle at 2.6 percent in 2026.

As a result of the above, 2022 current/nominal GDP growth is forecast at 13.2 percent, as compared to the original forecast of 2022 GDP growth expressed in current/nominal terms of 12.7 percent prepared a year prior. As global and domestic prices moderate over the medium term, the IMF projects that current/nominal GDP growth will be tempered to 3.8 percent by 2026, a mild contraction from the 3.9 percent growth forecast a year prior (see Table 6 and Figure 7).

Consequent to historic sectoral resource allocation, The Bahamas has remained a large net importer of consumable goods. While somewhat delayed, the impact of supply chain disruptions, shortage of goods and increased energy prices associated with the conflict in Ukraine were realized locally by mid-2022. Despite past efforts to improve local food security via increased agricultural initiatives (eg. Backyard farming support, increased farming and fishing grants, etc.), domestic inflation peaked at 6.23 percent in June 2022, reflective of the pass-through effect of elevated international prices. Owing to the prolonged conflict in Ukraine and the resultant impact on global oil and grain price levels, commodity prices are anticipated to remain elevated over the short term and abate over the medium term to historic levels.

While recent efforts have been made to diversify the Bahamian economy, inclusive of focusing on food security, The Bahamas remains a net importer of most items consumed locally. As such, inflationary levels will continue to be sensitive to supply chain shortages.

Following the devastation of Hurricane Dorian in late 2019 and the lockdowns associated with the COVID-19 health and safety protocols commencing in March 2020, the ability to collect employment data has been limited. During the peak of domestic COVID-19 infections in 2020 and 2021, Government unemployment estimates have relied on data provided by the National Insurance Board (NIB) of unemployment benefit and unemployment assistance payments. In December 2019, prior to the COVID-19 lockdowns BNSI data estimate unemployment upwards of 18,195 persons or 10.7 percent based on data for the New Providence market. Inclusive of the approximately 40,000 persons receiving COVID-19 unemployment assistance, unemployment estimates total 58,195 persons (34.1 percent of December 2019 labour force).

As a result of a relaxation of COVID-19 health and safety measures and a rebounding of the domestic economy, unemployment levels in 2021 are forecast by the IMF to improve to 18.1 percent from an estimated 25.6 percent in 2020, more conservative than informal Government estimates generated based on NIB administered COVID-19 unemployment assistance. The unemployment rate is expected to further reduce to 13.9 percent in 2022 and 12.7 percent by 2023.

Overall, with consideration of the prior factors, the status quo outlook for the recovery of the Bahamian economy remains largely positive. Key to the success of the achievement of this goal will be the continued containment of the COVID-19 infection rates, a continued rebound in the Government's fiscal position and limited impact from climactic shocks.

Table 7: Gross Macroeconomic Contribution per Sector (B$ million)

Fiscal Year	SECTOR 1 Transformation	Sector 2 Trade	Sector 3 Tourism	Sector 4 Fin. Services	Sector 5 Other	TOTAL B$ millions
2020/2021	2,316.07	1,111.81	715.10	3,111.71	2,587.01	9,841.7
2021/2022	2,887.59	1,398.65	1,301.19	3,774.71	3,051.04	12,413.2
2022/2023	3,065.96	1,485.05	1,498.86	4,007.87	3,178.37	13,236.1
2023/2024	3,263.81	1,580.88	1,724.14	4,246.28	3,335.37	14,150.5
2024/2025	3,405.65	1,641.61	1,877.29	4,452.23	3,463.51	14,840.3
2025/2026	3,519.02	1,692.98	2,024.20	4,622.68	3,568.42	15,427.3
2026/2027	3,626.75	1,741.43	2,174.95	4,782.63	3,670.55	15,996.3

Table 8: Gross Macroeconomic Contribution per Sector (percent of GDP)

Fiscal Year	Sector 1 Transformation	Sector 2 Trade	Sector 3 Tourism	Sector 4 Fin. Services	Sector 5 Other	TOTAL
2020/2021	23.5%	11.3%	7.3%	31.6%	26.3%	100.0%
2021/2022	23.3%	11.3%	10.5%	30.4%	24.6%	100.0%
2022/2023	23.2%	11.2%	11.3%	30.3%	24.0%	100.0%
2023/2024	23.1%	11.2%	12.2%	30.0%	23.6%	100.0%
2024/2025	22.9%	11.1%	12.6%	30.0%	23.3%	100.0%
2025/2026	22.8%	11.0%	13.1%	30.0%	23.1%	100.0%
2026/2027	22.7%	10.9%	13.6%	29.9%	22.9%	100.0%

Using the Ministry of Finance's internal Computable General Equilibrium (CGE) model, The Bahamas' Gross Domestic Product is presented at a disaggregated level across the following main sectors: transformation, trade, tourism, financial, and other services. The transformation sector includes total output from manufacturing, construction, agriculture, forestry, fishing, mining, gas, water, quarrying and electricity production. The trade sector includes total output via the wholesale and retail industries. The tourism sector specifically includes accommodation and food service industries. The financial sector is composed of financial and insurance activities; real estate activities; professional, scientific & technical services; administrative and support services. Lastly, the other services sector comprises economic activity from transport and storage; information & communication; social security; public administration & defense; education; human health and social work; arts; household employment; extraterritorial organizations and any other services.

Over the medium-term, the transformation sector is forecast to experience nominal growth of 18.3 percent over the period FY2022/2023 to FY2026/2027. Sectoral growth is attributed to improvements in agricultural activity, particularly with as a result of increased use of technology in agricultural production. The sector will continue to benefit from increased Government support to farmers and fishermen via grants and concessions in an effort to promote food security. The proliferation of innovative entities such as Eden Farms, focused on hydroponic food production.

For the trade sector, nominal growth of 17.3 percent is expected over the FY2022/2023 to FY2026/2027 period. Growth is forecast to be linked to greater exploitation of existing economic partnership agreement, technical assistance to support trade development.

The tourism sector, limited to its direct contribution only such as hospitality and dining, is expected to experience the most significant growth over the period of 45.1 percent. As global demand for travel in the mid to high-end destinations, demand for The Bahamas as a destination is expected to prevail. As developments such as phase 1 of Goldwyn development, and other hospitality developments materialize, accommodations and dining experienced are anticipated to contribute significantly to domestic growth.

In the financial services space, nominal growth of 19.3 percent is expected over the period. The sector is anticipated to benefit from continued efforts to modernize and expand the footprint of The Bahamas in the global offshore banking realm. Over the medium term, the real estate component of this sector is expected to continue to support growth in the sector. Benefiting from planned developments in high-end developments such as Albany and Lyford Cay, as well as planned Government housing developments, the sector is expected to maintain broad growth over the period.

In other developments, over the medium term, development of the $250.0 million Long Island cruise port and the family island airports are expected to boost air and sea traffic and translate growth in the other services sector vis-á-vis the transport industry. The redevelopment of Nassau Cruise Port, which is now a $300 million investment project, is scheduled for reopening end-May 2023. Once completed, the Port is expected to receive increased cruise ship volume and welcome greater levels of passengers. Spill-overs from these developments will support the tourism sector with increased accommodation bookings and demand for food services as the increased volume of travelers supports these other sectors. Development of the Legendary Marina Report at Bluewater Cay, an $80.0 million project, is expected to generated $158.0 million in Government revenue over a twenty-five year time horizon, provide employment opportunities (220 estimated workforce), and stimulate growth in the tourism sector. Further, the recently opened Hurricane Hole Superyacht Marina development is expected to improve shopping opportunities, expand the visitor experience and contribute over $100 million annually to the economy.

3.2 MEDIUM TERM FISCAL OUTLOOK

The medium-term outlook for key fiscal aggregates, developed within the context of the economic outlook and projections outlined above, are highlighted in **Table 9**.

The baseline macroeconomic projections and related medium-term fiscal framework which underpinned the FY2022/2023 budget has been updated to reflect economic outcomes and revised forecasts since its preparation. These forecasts continue to assume there is no resurgence of COVID-19 infections to levels which would require the re-imposition of curfews and lockdowns, obviating the need for future COVID-19 fiscal stimulus and income support.

The passage of the Digital Assets and Registered Exchange Act., 2020 (DARE Act) was pioneering legislation which placed The Bahamas at the forefront of the financial services sector with respect to creating an enabling environment for growth of the evolving crypto and digital aspects of the financial services sector. Given the novel and rapidly evolving nature of this new industry, the preparation of macroeconomic and fiscal forecasts of the impact of this industry are highly speculative in nature. As such, the potential macroeconomic and fiscal impacts of this industry have not yet been included in the forecasts provided herein. The impact of the collapse of FTX Markets on the local financial services, real estate and related sectors is expected to be minimal.

The medium-term fiscal framework contained in this 2022 FSR maintains many of the economic and fiscal objectives articulated in the 2021 FSR in keeping with international best practice of providing consistency in policy and governance. The framework in the 2022 FSR has also been updated to reflect the impact of policy pronouncements articulated in the 2021 Speech from the Throne which have been implemented since the preparation of the 2021 FSR, which include:

- Continued efforts to diversify The Bahamian economy through encouragement of strategic and targeted local and Foreign Direct Investment (FDI) projects. This process is supported by the expansion of the remit of The Bahamas Investment Authority and digitization of the foreign investment approval process;
- A reduction in the quantum and mix of long term financing, this includes greater use of PPPs and blue financing options in infrastructure and National Development;
- Maintenance of a nominal rate of VAT of 10.0 percent with few zero rated categories and exemption to improve the VAT revenue yield;
- An increase in the national minimum wage from $210 to $260 per week effective 1 January 2023, providing economic support to low income families and positively impacting domestic economic growth;
- Attainment of a revenue to GDP ratio of 25.0 percent by FY2025/26;
- Attainment of a recurrent expenditure to GDP ratio of 20.0 percent by FY2025/26;
- Maintenance of a capital expenditure to GDP ratio of 3.5 percent by FY2025/26; and
- Attainment of a balanced budget by FY2024/25.

Table 9: Medium-Term Fiscal Outlook (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Revenue	**1,908.8**	**2,609.3**	**2,804.4**	**3,242.5**	**3,617.1**	**3,851.1**	**4,001.7**
Recurrent	1,908.6	2,609.0	2,801.6	3,239.8	3,615.1	3,849.1	3,999.5
Capital & Grants	0.2	0.4	2.8	2.8	2.0	2.0	2.0
Expenditure	**3,243.6**	**3,326.7**	**3,368.4**	**3,348.0**	**3,329.8**	**3,641.3**	**3,759.5**
Recurrent Expenditure	2,872.5	3,042.9	2,997.2	2,982.8	2,985.8	3,099.1	3,199.6
Capital Expenditure	371.1	283.8	371.1	365.2	344.0	542.2	559.9
Overall Balance: Surplus/(Deficit)	**(1,334.8)**	**(717.4)**	**(564.0)**	**(105.5)**	**287.3**	**209.8**	**242.2**
Less: Interest Payments	377.1	551.8	560.0	543.5	526.0	511.0	490.0
Primary Balance	**(957.7)**	**(165.7)**	**(4.0)**	**438.0**	**813.2**	**720.8**	**732.2**
GDP (Current Prices)	9,842.0	12,413.6	13,236.1	14,150.5	14,840.3	15,427.3	15,996.3
Government Debt	9,935.0	10,792.8	11,356.8	11,462.3	11,175.0	10,965.2	10,723.0
Overall balance as % of GDP	-13.6%	-5.8%	-4.3%	-0.7%	1.9%	1.4%	1.5%
Revenue as % of GDP	19.4%	21.0%	21.2%	22.9%	24.4%	25.0%	25.0%
Expenditure as % of GDP	33.0%	26.8%	25.4%	23.7%	22.4%	23.6%	23.5%
Gov't Debt as % of GDP	100.9%	86.9%	85.8%	81.1%	75.4%	71.1%	67.1%

Note: Quarterly GDP estimates for calendar year 2020 and 2021 sourced from the BNSI Annual Gross Domestic Product report May 2022 were used in compiling fiscal estimates for FY2020/21 and FY2021/22. Estimates for 2022 and beyond are based on MOF internal estimates and the October 2022 WEO.

a. Revenue Forecast

Since coming to office on 16 September 2021, a key priority of the current administration has been the transformation of prior investments to preserve The Bahamas' natural marine endowments into commercial revenue at the national level. Such efforts have led to the appointment of a "Climate Change Tsar" in the Office of the Prime Minister and the creation of a unit focused on the commercialization of Bahamian blue carbon credits in the near future.

As the very important work under this initiative remains ongoing, any potential revenue windfalls from this initiative have been excluded from this exercise to avoid interference with market dynamics.

i. FY2022/2023

» Notwithstanding increased inflationary levels in major tourism source markets, such as the US and Canada, and the related fiscal and monetary policy measures to contain inflation (eg. Increasing interest rates in these markets aimed at slowing growth), domestic revenue collections are expected to improve with broader economic expansion as the tourism sector rebounds and the Bahamian economy reflates.

» Also included in the FY2022/2023 revenue projections is the initial impact of certain revenue enhancement measures, such as:

- The increased occurrence of VAT audits by the reconstituted and strengthened Revenue Enhancement Unit (REU);
- The collection of VAT on domestic vacation rental properties which is expected to commence in the second half of the fiscal year;
- The launch of a targeted programme to collect tax arrears owing on VAT, Real Property Tax (RPT) and Business License fees;
- Increase of Customs Department post-clearance audits;
- Improved RPT revenue as a result of the recently complet-

ed re-assessment of property values in New Providence and expansion of the RPT roll to include unidentified properties;

- Collection of RPT on properties under mortgage by requiring for domestic commercial banks to include such fees in mortgage payments and remitting the same to Government; and
- Reinstatement of a business license fee for all banks operating in The Bahamas.

» As a result of improved economic conditions, coupled with revenue policy and revenue administration strategies articulated during the FY2022/23 budget, revenue collections for the first four (4) months of the fiscal year have exceeded budget targets by $50.6 million. While the improved revenue performance provides important context for the fiscal forecasts in future years, FY2022/2023 fiscal forecasts remain as stated in the FY2022/2023 budget. See **Table 10**.

ii. FY2023/2024 to FY2026/2027

» Inclusive of the incremental annual revenue associated with the prior named revenue enhancement initiatives, the forward years also benefit from improved revenue performance owing to additional planned revenue enhancement initiatives:

- In line with many developed nations, the Ministry of Finance intends to leverage current investments in technology being implemented across local Government Ministries and agencies to become a pioneer in the region with the introduction of a comprehensive E-invoicing programme.

» The resultant impact of the phased implementation of the above revenue enhancement measures over the medium-term broadly aligns with the revenue targets outlined in the 2021 FSR and allows for achievement of revenue targets of 22.9 percent of GDP in FY2023/24, 24.4 percent in FY2024/25 and revenue targets of at least 25.0 percent thereafter.

b. Recurrent Expenditure Forecast

Tables 11, 12 and 13 present the details of recurrent expenditure by economic, administrative and functional classifications respectively. As the timing, magnitude, directionality and ultimately the impact of a climactic disaster remains challenging to predict, the baseline forecasts presented herein do not include estimates of the cost of such events.

Instead, the baseline expenditure forecasts outline targets for achievement of the Government's recurrent expenditure target of 20 percent of GDP by FY2025/26.

i. FY2022/23

While rebalancing recurrent expenditure to "normalized" levels with the removal of many COVID-19 economic and social programs, recurrent expenditure is forecast to trend to 22.6 percent of GDP over the period based on revised macroeconomic estimates.

» Recurrent expenditure estimates include provisions for a minimum wage increase as recently articulated by Government. The budget estimate also provides for increased allowances for promotions, increments and union negotiated payments.

» Owing to the increased global inflationary pressures as the world rebound from the COVID-19 pandemic as well as the pass through impact of global prices on the domestic economy as the conflict in Ukraine continues, recurrent expenditures include a permanent increase in the social safety net.

ii. FY2023/24 to FY2026/2027

As the Bahamian economy reflates from the impact of the COVID-19 induced economic downturn, over the medium-term, recurrent expenditures are expected to return to a new steady state level. The forecasts anticipate maintaining a ratio of recurrent expenditures to GDP of approximately 20.0 percent of GDP over the medium-term horizon.

» With the phasing out of COVID-19 related support from outlays for social assistance benefits, these expenditures are expected to revert to pre-Hurricane Dorian/pre-COVID-19 levels. To allow for the impact of inflation and cost of living, over the medium term, social assistance spend is elevated from FY2018/2019 levels by approximately $10.0 million. As a reference, FY2020/21 social assistance expenditure was inflated by an estimated $164.7 million attributed to COVID-19 support and $40.4 million in food assistance support.

» As a result of elevated levels of borrowing owing to the twin hazards of Hurricane Dorian and the recent pandemic, the national debt stock increased significantly over the past two fiscal cycles. The subsequent sovereign credit rating downgrades by S&P in November 2021 and Moodys in October 2022 have both placed upward pressure on interest rates. We the recent reaffirmation of The Bahamas' credit rating by S&P in November 2022, owing to the improved fiscal performance as the country rebounds from the COVID-19 induced economic downturn, interest rates are not anticipated to be impacted by further credit rating actions over the medium term. Resultantly, interest expenditure is forecast to remain stable over the short-term and decline over the medium term as the stock of Central Government debt is forecast to decline.

c. Capital Expenditure

» After peaking at 3.8 percent of GDP in 2020/2021 (largely as a result of transfers to support small and medium sized businesses during the initial implementation of lockdowns), capital outlays are forecasted to contract to 2.3 percent of GDP by FY2024/2025 as the need for immediate fiscal stimulus lessens with the expected gradual reflation of the economy.

» Government realizes the correlation between infrastructure development and sustainable long term growth. As such, capital outlays are maintained at 3.5 percent of GDP over the medium-term, as presented in **Tables 15 and 16**.

Table 10: Medium-term Revenue Estimates

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
TAX REVENUE (a+b+c+d)	**1,611.7**	**2,162.1**	**2,492.2**	**2,932.0**	**3,230.2**	**3,424.0**	**3,573.7**
a. Taxes on Property	**143.5**	**147.0**	**169.4**	**349.3**	**501.2**	**232.8**	**554.5**
b. Taxes on Goods & Services (i+ii+iii)	**1,166.6**	**1,492.3**	**1,804.0**	**2,003.8**	**2,108.0**	**2,478.7**	**2,332.1**
i. General	**963.9**	**1,265.3**	**1,547.7**	**1,681.6**	**1,745.1**	**2,126.5**	**1,930.7**
VAT	740.1	1,135.8	1,411.8	1,541.8	1,591.5	1,939.8	1,760.7
Stamp Taxes (Financial & Realty)	57.5	83.0	69.3	72.2	74.9	95.2	82.9
Excise Tax	176.3	46.5	66.6	67.5	78.8	91.5	87.1
ii. Specific (Gaming taxes)	**37.8**	**51.3**	**52.7**	**54.8**	**63.2**	**72.4**	**69.9**
iii. Taxes on Use of Goods/Permission to Use	**154.9**	**175.7**	**203.6**	**267.4**	**299.6**	**279.7**	**331.5**
Motor Vehicle Taxes	32.4	33.7	46.0	55.9	59.8	63.2	66.1
Company Taxes	21.7	19.8	22.5	23.9	30.8	30.9	34.1
Licence to Conduct Special Bus. Activity	97.5	116.8	130.6	182.2	202.9	179.4	224.5
Marine License Activities	3.4	5.3	4.5	5.4	6.1	6.2	6.7
Banks & Trust Companies	0.0	0.0	0.0	0.0	0.0	0.0	0.0
c. Taxes on Int'l Trade & Transactions	**299.1**	**511.8**	**508.3**	**568.1**	**609.9**	**698.2**	**674.8**
Customs & other import duties	192.4	248.6	249.7	285.7	290.1	343.1	320.9
Taxes on Exports	95.9	177.5	160.7	182.3	197.6	221.9	218.6
Departure Taxes	10.7	84.9	97.0	99.0	121.2	133.2	134.1
Other	0.2	0.7	1.0	1.1	1.1	0.2	1.2
d. General Stamp Taxes	**2.5**	**11.1**	**10.4**	**10.9**	**11.1**	**14.3**	**12.3**
NON-TAX REVENUE (e+f+g+h+i+j)	**296.9**	**446.8**	**309.4**	**307.7**	**384.9**	**425.2**	**425.8**
e. Property Income	**35.3**	**82.8**	**37.7**	**37.3**	**36.3**	**51.7**	**40.2**
Interest & Dividends	19.6	56.6	19.4	19.0	18.0	26.6	19.9
Revenue_Gov't Property	15.7	26.2	18.3	18.3	18.3	25.2	20.3
f. Sales of Goods & Services	**175.2**	**225.0**	**212.8**	**209.0**	**286.0**	**292.4**	**316.5**
i. Fees & Service Charges	**162.0**	**208.7**	**194.1**	**190.2**	**266.2**	**266.7**	**294.5**
General Registration	4.4	4.5	4.1	4.5	5.7	5.7	6.3
General Service	11.5	14.0	18.0	18.2	22.1	24.7	24.4
Immigration	95.9	127.0	106.2	99.9	168.4	145.9	186.3
Land & Building	2.2	2.4	2.3	2.3	2.4	3.1	2.6
Legal	1.1	1.1	1.3	1.3	1.4	1.7	1.5
Customs	40.3	50.2	54.8	56.1	58.1	72.4	64.3
Port & Harbour	5.0	5.9	5.6	5.9	6.1	10.6	6.7

Table 10: Medium-term Revenue Estimates cont'd

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Health	1.2	1.2	1.0	1.0	1.0	1.3	1.2
Other Fees	0.5	2.4	0.9	0.9	1.0	1.2	1.2
ii. Other	**13.2**	**16.3**	**18.7**	**18.7**	**19.8**	**25.7**	**21.9**
g. Fines, Penalties & Forfeits	**5.9**	**5.4**	**5.7**	**5.8**	**5.8**	**7.9**	**6.4**
h. Reimbursements & Repayments	**42.9**	**42.6**	**49.2**	**51.6**	**52.6**	**67.6**	**58.2**
i. Misc. & Unidentified Revenue	**37.5**	**90.6**	**3.9**	**3.9**	**4.0**	**5.3**	**4.4**
j. Sales of Other Non-Financial Assets	**0.1**	**0.4**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
TOTAL TAX & NON-TAX REVENUE	**1,908.6**	**2,609.0**	**2,801.6**	**3,239.8**	**3,615.1**	**3,849.1**	**3,999.5**
Grants	0.2	0.2	2.8	2.8	2.0	2.2	2.2
Capital Revenue	0.0	0.2	0.0	0.0	0.0	0.0	0.0
GRAND TOTAL	**1,908.8**	**2,609.3**	**2,804.4**	**3,242.5**	**3,617.1**	**3,851.1**	**4,001.7**
			(in percent of GDP)				
VAT Rev (% of GDP)	6.0	8.6	12.2	10.9	10.7	11.1	11.0
Tax Revenue (% of GDP)	13.0	16.3	21.5	20.7	21.8	22.6	22.3
Non-Tax Revenue (% of GDP)	2.4	3.4	2.7	2.2	2.6	2.7	2.7
Total Revenue (% of GDP)	15.4	19.7	24.2	22.9	24.4	25.3	25.0

Table 11: Medium-term Recurrent Expenditure Estimates by Economic Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Compensation of Employees	**700.8**	**737.2**	**847.1**	**863.9**	**878.6**	**899.5**	**941.7**
Wages & Salaries	613.8	648.1	731.7	745.2	759.9	777.0	813.5
Allowances	57.4	58.3	74.2	77.4	77.5	78.8	82.5
NIB Contribution	29.7	30.8	41.2	41.3	41.3	43.7	45.8
Use of Goods & Services	**613.6**	**639.0**	**635.4**	**638.9**	**672.8**	**674.7**	**706.4**
of which:							
Travel & Subsistence	7.1	11.8	14.9	15.4	15.5	15.8	16.5
Rent	61.9	83.6	86.7	92.5	92.6	92.1	96.4
Utilities & Telecommunications	113.2	89.1	103.3	109.8	109.9	109.7	114.8
Supplies & Materials	32.3	32.0	46.1	47.0	44.6	49.0	51.3
Services	176.3	198.2	260.8	257.1	297.5	276.9	289.9
Minor capital repairs	3.1	4.1	5.4	6.5	5.8	5.8	6.0
Finance charges	66.7	24.3	29.0	29.0	29.0	30.8	32.2
Special Financial Transactions	126.2	161.4	58.1	49.7	45.7	61.7	64.6
Tourism Related	1.8	1.9	3.0	3.0	3.0	3.2	3.4
Local Gov't Districts	13.3	13.3	13.3	13.3	13.3	14.1	14.8
School Boards	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	11.7	19.2	14.7	15.5	15.7	15.6	16.3
Public Debt Interest	**422.5**	**551.8**	**560.0**	**543.5**	**525.9**	**511.1**	**490.0**
Subsidies	**474.1**	**495.9**	**408.7**	**389.3**	**385.7**	**434.0**	**454.4**
Grants	**6.4**	**8.7**	**8.4**	**9.0**	**9.4**	**9.0**	**9.4**
Social Assistance Benefits	**245.2**	**120.4**	**51.5**	**53.5**	**51.9**	**54.7**	**57.2**
Pensions & Gratuities	**160.1**	**165.4**	**170.7**	**171.4**	**172.0**	**181.3**	**189.8**
Other Payments	**249.9**	**324.6**	**315.4**	**313.4**	**289.3**	**334.9**	**350.6**
Current Transfers n.e.c.	181.0	188.8	232.0	228.0	203.7	246.4	258.0
Insurance Premiums	68.9	135.8	83.4	85.4	85.5	88.5	92.7
TOTAL	**2,872.5**	**3,042.9**	**2,997.2**	**2,982.8**	**2,985.8**	**3,099.1**	**3,199.6**
			(in percent of GDP)				
Total Recurrent Expenditure	29.2	24.5	26.1	21.1	20.1	20.1	20.0
Compensation of Employees	7.1	5.9	6.4	6.1	5.9	5.8	5.9
Use of Goods & Services	6.2	5.1	4.8	4.5	4.5	4.4	4.4
Public Debt Interest	4.3	4.4	4.2	3.8	3.5	3.3	3.1
Subsidies	4.8	4.0	3.1	2.8	2.6	2.8	2.8
Social Assistance Benefits	2.5	1.0	0.4	0.4	0.4	0.4	0.4
Pensions & Gratuities	1.6	1.3	1.3	0.4	1.2	1.2	1.2
Other Payments	2.5	2.6	2.4	2.2	1.9	2.2	2.2

Table 12: Recurrent Expenditure Estimates by Administrative Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Governor General and Staff	0.9	1.6	1.1	1.1	1.1	1.2	1.2
The Senate	0.2	0.2	0.3	0.3	0.3	0.3	0.3
House of Assembly	3.4	3.4	4.1	4.2	4.1	4.4	4.6
Dept. of the Auditor General	2.0	2.2	2.5	2.8	3.0	2.7	2.9
Ministry of Public Service	280.8	375.8	332.2	345.8	352.5	357.0	373.8
Cabinet Office	4.7	4.4	7.7	5.9	3.9	8.3	8.7
Attorney General's Office and Ministry of Legal Affairs	18.3	32.2	19.4	21.7	24.0	20.8	21.8
Office of the Judiciary	13.0	14.8	15.8	16.0	16.2	17.0	17.8
Court of Appeal	2.1	2.3	2.3	2.3	2.4	2.4	2.6
Registrar General's Department	2.8	2.6	4.4	4.4	4.5	4.7	5.0
Bahamas Department of Correctional Services	24.5	28.5	31.6	33.6	34.7	34.0	35.6
Parliamentary Registration Department	1.6	3.4	1.2	1.7	2.0	1.3	1.3
Ministry of Foreign Affairs and Public Service	28.3	29.1	36.8	39.8	40.5	39.5	41.4
Office of the Prime Minister	21.9	28.8	25.4	25.5	26.2	27.3	28.6
Bahamas Information Services	1.9	2.0	2.7	2.8	2.8	2.9	3.0
Government Printing Department	1.0	1.2	1.3	1.3	1.4	1.4	1.5
Department of Local Government	22.1	23.7	26.2	27.5	27.7	28.2	29.5
Department of Physical Planning	0.9	0.9	1.0	1.0	1.0	1.0	1.1
Department of Lands and Surveys	1.8	2.7	2.8	2.8	2.8	3.0	3.1
Ministry of Finance	320.8	277.6	337.7	371.0	356.2	370.1	387.4
Treasury Department	152.4	79.4	63.4	63.3	62.8	68.1	71.3
Customs Department	33.3	34.8	37.9	37.4	37.4	40.7	42.6
Department of Statistics	3.1	0.0	0.0	0.0	0.0	0.0	0.0
Public Debt Servicing -Interest and Other Charges	422.5	576.1	589.0	543.5	525.9	511.1	490.0
Department of Inland Revenue	5.4	6.0	8.1	8.1	8.4	8.7	9.1
Ministry of National Security	9.3	12.8	15.5	13.0	13.1	16.6	17.4
Department of Immigration	25.0	30.8	33.9	35.8	37.7	36.5	38.2
Royal Bahamas Police Force	122.0	123.8	125.3	128.6	130.4	134.7	141.0
Royal Bahamas Defence Force	57.8	63.9	62.1	64.2	67.5	66.7	69.8
Ministry of Public Works and Utilities	78.0	113.2	67.6	58.8	58.9	72.6	76.0
Department of Public Works	16.6	17.2	18.1	18.2	18.3	19.5	20.4
Department of Education	180.1	180.9	202.2	207.1	211.4	217.3	227.5
Department of Archives	0.6	0.6	0.7	0.7	0.8	0.8	0.8
Ministry of Education and Technical and Vocational Training	118.0	107.7	114.6	115.9	117.3	123.1	128.9
Ministry of Transport and Housing	9.8	10.1	10.3	10.4	10.6	11.1	11.6
Ministry of Social Services and Urban Development	9.9	11.9	13.9	13.9	13.9	14.9	15.6
Department of Social Service	85.7	53.8	48.8	49.4	49.5	52.4	54.9
Department of Housing	1.7	1.8	2.6	2.8	2.8	2.8	3.0

Table 12: Recurrent Expenditure Estimates by Administrative Classification (B$M) cont'd

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Ministry of Youth, Sports and Culture	12.4	14.5	23.0	23.0	23.1	24.7	25.9
Department of Labor	1.9	1.9	3.3	3.4	3.4	3.6	3.8
Ministry of Financial Services, Trade & Industry	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ministry of Economic Affairs	1.3	5.9	13.7	13.7	13.8	14.7	15.4
Post Office Department	5.8	6.8	8.4	8.4	8.7	9.0	9.5
Port Department	7.3	8.2	9.4	9.4	9.9	10.1	10.5
Department of Road Traffic	4.6	5.3	6.6	6.8	7.0	7.1	7.4
Department of Meteorology	2.0	2.1	3.1	3.1	3.2	3.4	3.5
Ministry of Agriculture, Marine Resources and Family Island Affairs	20.6	21.2	27.5	28.2	29.1	29.6	30.9
Department of Agriculture	4.9	5.0	5.5	5.9	6.0	5.9	6.2
Department of Marine Resources	2.0	2.3	2.8	3.2	3.2	3.0	3.2
Ministry of Health and Wellness	324.7	373.8	316.3	316.2	318.5	339.9	355.9
Department of Environmental Health Services	55.1	50.3	57.6	58.3	59.1	61.9	64.8
Department of Public Health	42.5	45.5	52.9	52.6	53.8	56.9	59.6
Ministry of Tourism, Investment and Aviation	177.5	148.1	122.8	92.3	95.9	132.0	138.2
Ministry of Labour and Immigration	4.8	5.0	4.3	4.6	4.6	4.6	4.8
Ministry of Environment and Natural Resources	39.2	17.9	14.8	15.4	15.7	15.9	16.7
Department of Transformation and Digitization	54.0	53.2	31.5	31.6	31.9	33.8	35.4
Ministry for Grand Bahama	6.9	10.0	13.4	13.9	14.5	14.4	15.0
Ministry of Emergency Preparedness and Response	19.3	1.5	6.6	6.6	6.8	0.0	0.0
Department of Public Prosecutions	1.7	2.4	3.3	3.3	3.5	3.5	3.7
GRAND TOTAL	**2872.5**	**3042.9**	**2997.2**	**2982.7**	**2985.8**	**3099.2**	**3199.6**

Table 13: Recurrent Expenditure Estimates by Functional Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
General Public Service	996.1	993.2	1,319.7	1,327.3	1,303.2	1,364.6	1,408.9
Defense	57.8	57.8	62.1	64.2	67.5	64.2	66.3
Public Order and Safety	220.6	220.5	253.6	261.0	268.9	262.3	270.8
Economic Affairs	343.6	343.6	264.5	237.9	244.2	273.5	282.4
Environmental Protection	139.2	139.2	128.7	121.0	122.2	133.1	137.4
Housing and Community Amenities	2.1	2.1	20.2	23.4	23.5	20.9	21.6
Health	388.5	388.3	382.8	383.4	384.9	395.8	408.7
Recreation, Culture and Religion	26.0	26.0	36.9	37.0	37.3	38.2	39.4
Education	296.2	296.2	322.6	319.9	325.5	333.5	344.3
Social Protection	402.5	402.5	206.1	207.6	208.8	213.1	220.0
GRAND TOTAL	**2,872.5**	**3042.9**	**2,997.2**	**2,982.8**	**2,985.8**	**3,099.1**	**3,199.6**

Table 14: Capital Expenditure by Economic Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Capital Transfers	**96.2**	**58.8**	**113.1**	**102.6**	**90.6**	**112.4**	**116.1**
Acquisition of Non-financial assets	**274.9**	**225.0**	**258.1**	**262.6**	**253.4**	**429.8**	**443.8**
Fixed Assets	**274.9**	**223.6**	**256.1**	**260.1**	**250.9**	**427.1**	**441.0**
Buildings other than dwellings	85.1	80.8	82.2	100.8	89.4	154.4	159.4
Other structures	145.8	99.3	113.4	100.4	111.2	189.8	196.0
Transport equipment	7.5	5.1	13.0	13.8	4.3	9.8	10.1
Other Machinery & equipment	16.4	15.3	26.8	24.9	25.0	29.2	30.1
Land Improvements	6.5	5.2	6.5	12.4	13.0	10.0	10.3
Other fixed assets	13.5	17.8	14.2	7.9	8.0	34.0	35.1
Land	**0.0**	**1.4**	**2.0**	**2.5**	**2.5**	**2.7**	**2.8**
TOTAL	**371.1**	**283.8**	**371.1**	**365.2**	**344.0**	**542.2**	**559.9**
				(in percent of GDP)			
Capital Transfers	1.0	0.5	1.0	0.7	0.6	0.7	0.7
Acquisition of Non-financial Assets	2.8	1.8	2.2	1.9	1.7	2.8	2.8
CAPEX (in percent of GDP)	3.8	2.3	3.2	2.6	2.3	3.5	3.5
CAPEX (as percent of total expenditure)	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Table 15: Capital Expenditure by Administrative Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Ministry of Foreign Affairs and Public Service	1.3	0.3	2.4	2.4	2.7	3.5	3.6
Office of The Attorney General and Ministry of Legal Affairs	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Customs Department	1.2	1.1	0.0	0.0	0.0	0.0	0.0
Ministry for Grand Bahama	0.7	0.9	1.8	0.8	0.5	2.6	2.7
Ministry of Finance	65.7	51.2	99.6	99.6	101.6	145.5	150.2
Ministry of National Security	11.7	12.0	14.1	13.1	13.1	20.6	21.3
Royal Bahamas Defence Force	9.0	5.1	14.7	14.9	8.4	21.4	22.1
Ministry of Public Works and Utilities	107.5	125.8	121.4	122.6	125.0	177.3	183.1
Ministry of Education and Technical and Vocational Training	50.4	50.8	41.1	63.1	63.9	60.1	62.0
Ministry of Agriculture, Marine Resources and Family Island Affairs	0.5	2.8	4.8	2.7	2.6	7.0	7.2
Mnistry of Health and Wellness	102.2	20.5	58.1	26.2	13.7	84.9	87.7
Ministry of the Environment and Natural Resource	2.5	2.9	2.2	3.5	3.2	3.2	3.3
Ministry of Tourism, Investment and Aviation	4.0	3.7	0.0	0.0	0.0	0.0	0.0
Department of Transformation and Digitization	2.448	3.5	8.3	13.7	6.1	12.1	12.4
Ministry of Transport and Housing	0.112	2.8	2.7	2.6	3.5	3.9	4.1
Ministry of Emergency Preparedness and Response	11.7	0.4	0.0	0.0	0.0	0.0	0.0
TOTAL	**371.1**	**283.8**	**371.1**	**365.2**	**344.0**	**542.2**	**559.9**

Table 16: Capital Expenditure by Functional Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
General Public Service	50.4	24.0	53.6	57.8	57.6	78.3	80.8
Defense	9.0	5.1	14.7	14.9	8.4	21.4	22.1
Public Order and Safety	11.7	12.1	14.1	13.1	13.1	20.6	21.3
Economic Affairs	131.4	163.3	181.7	181.7	179.9	265.5	274.1
Environmental Protection	4.0	4.1	5.3	5.8	5.4	7.8	8.0
Housing and Community Amenities	–	0.0	–	–	–	–	–
Health	102.2	20.5	58.1	26.2	13.7	84.9	87.7
Recreation, Culture and Religion	–	0.8	–	–	–	–	–
Education	50.4	50.8	41.1	63.1	63.9	60.1	62.0
Social Protection	11.9	3.2	2.5	2.6	2.1	3.7	3.8
GRAND TOTAL	**371.1**	**283.8**	**371.1**	**365.2**	**344.0**	**542.2**	**559.9**

3.3 OVERALL FISCAL BALANCE AND DEBT FINANCING

The overall fiscal balance and the financing structure for the medium-term fiscal framework are outlined in Table 15. As a result of operations, and the assumptions of a continued improvement in economic conditions, the fiscal deficit and overall position is expected to narrow from $1,334.8 million in 2020/2021 to $717.4 million in 2021/2022. This reduced fiscal deficit also benefits from improved revenue performance during the first quarter of the year reducing the planned deficit. The deficit is expected to contract further over the medium term in line with budgeted increases in revenue, declining to $564.0 million in FY2022/23 and $105.5 million in FY2023/24. A surplus of $287.3 million is projected in FY2024/25 followed by a surplus of $209.8 million in FY2025/26 and 242.2 million in FY2026/27.

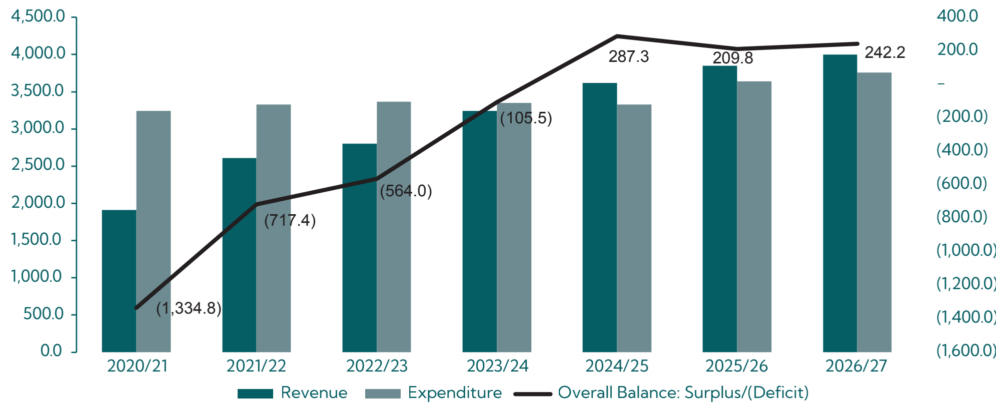
Table 17: Sources of Budget Financing through the Medium Term (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Overall Balance [Surplus/(Deficit]	**(1,334.8)**	**(717.4)**	**(564.0)**	**(105.5)**	**287.3**	**209.8**	**242.2**
Net Incurrence of Liabilities (a-b) [+]	**1,718.0**	**891.9**	**564.0**	**105.4**	**(287.3)**	**(210.0)**	**(242.2)**
a. Borrowings	3,075.8	3,036.9	1,760.8	2,274.3	1,226.3	994.0	961.7
b. Debt Repayment	1,357.8	2,145.0	1,196.8	2,168.9	1,513.6	1,204.0	1,203.9
Net Acquisition of Financial Assets [-]	**31.7**	**66.3**	**46.5**	**46.7**	**46.5**	**45.4**	**45.4**
Sinking Funds	29.6	66.3	46.5	46.7	46.5	46.5	46.5
Equity	2.1	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing & Cash Balance Change (incl. Overdraft) [()= increase]	351.5	108.2	(46.5)	(46.9)	(46.5)	(45.2)	(45.4)

In line with the projected overall balance, the nominal debt level is expected to increase in FY2020/2021 to approximately $10.8 billion or 93.3 percent of GDP, a decline from the 100.4 percent experienced during the most recent fiscal year. Debt levels are anticipated to peak at $11.2 billion in FY2023/24 before declining to $10.8 billion or 74.1 percent of GDP by FY2025/26.

Based on the current fiscal trajectory, inclusive of revenue enhancement and expenditure containment plans, the Government anticipates maintaining achievement of its 50 percent debt target 2030/2031. This is predicated on the assumption that the accumulation of primary surpluses in the intervening years would reduce the need for borrowing. Details on the Government debt and debt sustainability analysis are presented in **Section 6**.

Figure 6: Summary of Fiscal Data (B$M)



3.4 FISCAL RESPONSIBILITY

In accordance with Section 7 of the Act, the Government is mandated to manage its fiscal affairs in line with the principles of accountability, intergenerational equity, responsibility, stability, transparency and inclusive growth.

In accordance with international best practice, each fiscal year, Government reviews its policy objectives and mandate provided by the Bahamian population within the context of its fiscal performance, legislative framework and fiscal responsibility principles.

Table 18: Current and Planned Actions on Fiscal Responsibility Principles

Government Action to Achieve Fiscal Responsibility Principle	Fiscal Responsibility Principle					
	Accountability	Intergenerational Equity	Responsibility	Stability	Transparency	Inclusive Growth
Preparation and publication of an annual Fiscal Strategy Report, outlining Government's fiscal plan over the medium-term	X		X	X	X	
Preparation and publication of quarterly fiscal performance reports	X		X	X	X	
Preparation and publication of monthly fiscal performance reports	X		X	X	X	
Ongoing work on IDB funded Public Financial Management (PFM) reform programme	X		X	X		
Continued digitization of access to Government services						X
Continued integration of "Sand Dollar" and other non-cash payment solutions for Government services						X
Continued reform and enhancement of public procurement legislation and practices	X		X		X	X
Engagement of external financial advisors to aid in arresting the country's declining credit rating			X	X		
Increase in the National nominal minimum wage from $210 per week to $260 per week with effect 1 July, 2022 for public servants and 1 January, 2023 for the private sector		X				X
Reduced reliance on financing from international capital markets over the short-term		X	X	X		

In October 2022, the Public Procurement Bill, 2022 was tabled in Parliament and released for public consultation, seeking to address many of the operational inefficiencies identified by stakeholders since passage of the Public Procurement Act, 2021 (PPA 2021). Key to the new Bill is the provision of expanded procurement opportunities for micro, small and medium sized businesses as pertains to participation in Government procurement opportunities. To support the requirements of the PPA 2021 vis-à-vis publication of procurement opportunities, award notices, etc., the legacy electronic public procurement portal has already been upgraded to facilitate delivery of Government's statutory obligations.

The need for additional legislative reforms to existing fiscal legislation has previously been signalled by Government. These reforms particularly relate to: Fiscal Responsibility Act, 2018; Public Financial Management Act, 2021; and Debt Management Act, 2021. Such critical amendments provide for, among other things:

- The expansion of the fiscal framework to include fiscal targets with respect to capital expenditure, revenue and interest to allow for increased accountability and performance monitoring;
- Revisions to the timelines for production of various report to allow for practicality and usefulness of the various reports generated in alignment with Government fiscal and budgetary decision making cycles; and
- To allow for the creation of an external private sector debt management committee.

Government Fiscal Strategy and Priorities

4.1 KEY BUDGET PRIORITIES AND CONSIDERATIONS

The FY2021/22 Supplementary Budget was the first budget of the current administration upon being elected to office on 16 September, 2021. This budget began the transformation of Government budget policies and priorities which promised a more people centric budget focused on providing tax relief and increased levels of social support, while also maintaining the fiscal responsibility objectives. Over the medium-term, the revised fiscal strategy is designed to ensure:

- restoration of the fiscal health of The Bahamas based on aggressive revenue enhancement targets designed to ensure greater equity in the existing tax framework (ie. those who are able to contribute more, do contribute more);
- broadening and strengthening the existing health infrastructure while also ensuring greater resilience and access to the same for all Bahamians;
- development of community centered/bottom up development strategies for each island/community empowered with greater financial resources to achieve these objectives;
- exploitation of investments in the Bahamian blue economy to provide greater levels of economic diversification and financing opportunities;
- increased use of non-traditional financing mechanisms such as Repurchase Agreements (Repos), PPPs, blue carbon financing, etc. to finance critical infrastructure and budgetary needs; and
- continued levels of fiscal transparency and accountability to Bahamian citizens, investors and stakeholders while pursuing fiscal sustainability.

a. Revenue Strategies

Government's plan to restore the fiscal health of The Bahamas continues to include an aggressive revenue generation strategy while improving revenue administration, in order to achieve the revenue collection target of 25.0 percent of GDP by FY2025/26. This will necessitate enhancement of the tax base and improved efficiency in tax administration. Attaining this target is critical for Government's fiscal consolidation efforts and debt reduction efforts, and to provide fiscal headroom for unforeseen macroeconomic shocks in the future.

While continued strengthening of economic performance is anticipated over the near to medium-term as the economy continues to rebound and expand, a reliable strategy to achieve these fiscal goals will also necessitate concerted efforts to increase the longer term potential growth of the economy.

Tax Compliance Measures

» Continued utilization and exploitation of "big data" techniques and data collection agreements to detect tax evasion, avoidance, leakage and unexploited areas of taxation where commercial goods and services are being provided. The collection of tax revenues in the short term rental market is an area already identified under reform and estimated to soon contribute to tax revenue.

» Continue to monitor and expand the Custom's Electronic Single Window, referred to as "Click-2Clear", launched in September 2019, to ensure efficient and maximum revenue collection over the medium-term. Enhanced electronic document submission and the sharing of big data across agencies is aimed to address revenue leakages such as tariff misclassification under invoicing. Further, enhancement of risk-based inspection of air freight and containers along with strengthened analytic-based post clearance audits are expected to further improve revenue growth.

» Benefiting from the property revaluation and property identification exercise conducted with the assistance of the international firm, Tyler Technologies, the Real Property Tax roll for New Providence has been updated to reflect more accurate tax yields (the "Tyler Project"). The commencement of commercial banks collecting and remitting RPT for properties under mortgage is expected to aid in the efficiency of RPT over the medium-term.

» With the success of the New Providence aspect of the Tyler Project, the focus of RPT revenue collection efforts has shifted to Family Islands, where spatial mapping and other technology is being included in the property identification and assessment process.

» As Government continues its expansion of digitization of services, over the medium-term, Government intends to introduce the e-Invoicing and payment of VAT in a phased manner across all Government agencies and services. Based on experiences from other countries who have implemented similar reforms, this process is anticipated to significantly reduce VAT revenue leakage and loss over the medium term.

Legal & Administrative Reforms

» Institutionalize the Department of Inland Revenue (DIR), inclusive of the Revenue Enhancement Unit (REU), allowing for the ability to strengthen the capacity to conduct investigations, undertake revenue audits, and contain the amount of arrears owed to the Government of The Bahamas. Emphasis will be placed on performing Risk Based Audits to improve efficiencies and ensuring adequate staffing and training is provided.

» Review of existing laws to determine opportunities for modernization and simplification of tax legislation, having regard to efficiency, fairness and stability of taxes, and to achieve conformity with best practices.

» Continue to monitor and review the Government's tax concession regime structure to identify and reduce areas of unnecessary foregone revenue. The guiding principle for this policy will continue to remain a reliance on sound economic policy and international best practice. As such, the Government will strive, over the medium-term, to limit broad based tax concessions which benefit persons with a "willingness to pay" and offer more relief programmes targeted at those in need.

Tax Reform

- Utilizing Government's Revenue Policy Committee (RPC), continue to review the tax regime with a view of detecting and eliminating gaps in revenue administration and revenue leakages while simultaneously identifying areas for revenue enhancement. In fulfilling its mandate, the RPC will evaluate the prevailing tax regime and its ability to achieve progressivity, fairness and stability in Government revenue collections over time.
- Via a phased approach, VAT e-Invoicing will be launched, simplifying the VAT billing and remittance process. Similar to the design and strategy of similar programmes launched in other countries, such a strategy will allow for more efficient use of risk-based audit resources and the inclusion of artificial intelligence in the selection of audit cases.
- With the current electronic business license filling system, the Government has the ability to perform industry comparisons, and identify trends such as variances with VAT filings and Custom imports. This allows real-time assessment of fillings prior to approval and enhancement of the post-approval audit process. Over the medium-term, these initiatives are expected to bring in an estimated $75.0 million in revenue collections.

b. Recurrent Expenditure Policy & Priorities

Over the medium-term, Government has committed to restraining recurrent expenditure to approximately 20.0 percent of GDP to ensure achievement of its goal of ensuring a fiscal surplus by FY2024/2025. Key to the success of this goal is the implementation of a system focused on delivering targeted spending initiatives. While focus remains on areas such as education, health, social support and transportation, planned spending on these initiatives will be managed within the context of reducing the debt burden. As part of the plan to secure fiscal sustainability, areas of focus will include the following initiatives.

- **Implementing targeted public expenditure reforms.** The recently completed Public Expenditure Review, facilitated by the Inter-American Development Bank (IDB), outlines several areas of reform in public spending to achieve the goals of equity and sustainable development. Based on the report's recommendations, increased investment has been made in the areas of pre-primary, primary and secondary education, inclusive of job readiness programs. To ensure greater redistribution of financial resources towards those most in need, the social safety net has already been expanded via increased social support spending.
- **Continue State Owned Enterprise (SOE) rationalization program.** Owing to the impact of the depth and duration of the COVID-19 pandemic on the global and domestic economy; including associated health & safety measures such as curfews, lockdowns and boarder closures; Government temporarily suspended its SOE reform program in early 2020. As the domestic economic reflated amidst the reopening of borders to travel and relaxation of COVID-19 health and safety measures, the SOE reform agenda recommenced. While peaking at 4.8 percent of GDP during the worst of the COVID-19 pandemic in FY2020/2021, recurrent subventions declined to 3.9 percent of GDP in FY2021/2022 and are targeted to reduce to 2.7 percent of GDP in FY2022/2023 and 2.5 percent of GDP thereafter. The recently concluded overflight fee agreement has supported the delivery and long-term development of air navigation services in The Bahamas while eliminating the need for annual subventions to the Civil Aviation Authority of The Bahamas. Similar SOE reforms will be implemented where possible.
- **Digitization of Government services.** The Government continues to drive innovation in the public sector and contain costs though the employment of digital technologies in the execution and delivery of key processes and services. The Department of Transformation and Digitization (DTaD) continues to make significant progress in simplifying and improving existing online portal functionality for payments and services, including the launch of several services, such as on-line requests for services from the Registrar General's Department (certified copies of birth, marriage and death certificates); Royal Bahamas Police Force (character certificate); Road Traffic (Driver's licence) and the Passport Office (e-passport renewal). Recently, the project celebrated the milestone of having served 100,000 customer requests since inception. By delivering enhanced operational efficiency and effectiveness, these activities will continue to drive the country's competitiveness and innovation. Over the medium term, the Government will continue to make greater use of alternative payment mechanisms such as the Central Bank's digital currency (Sand Dollar) as a payment method for the collection of revenue for all government agencies. Over the medium term, Government intends to launch a National Digital ID to allow for increased ease of doing business by issuance of a digital electronic ID which is interoper-

able across various platforms. In 2022, the Government launched a National Computer Incident Response Team (CIRT). CIRT is tasked with providing cyber-security support services in the country and coordinating incident responses to cyber-attacks.

» **Reform of Government pension scheme.** An initial review and assessment of the Government's existing defined benefit pension scheme has been completed by the accounting firm, KPMG, which outlines the need for reform and modernization. Pension payments for FY2021/2022 equate to $166.2 million (5.5 percent of recurrent expenditure) and is budgeted to increase to $170.7 million in FY2022/2023 (5.7 percent of recurrent expenditure). To limit the risk associated with future pension liabilities, Government is advancing with the strategy where all new employees will only be eligible to participate in a defined contribution plan, with a limit on the growth in pensionable salaries for existing employees. This strategy is estimated to improve cash flow by $6.0 million over 10 years and will also include reform of SOE pension schemes.

c. Capital Expenditure Policy

To balance the need for provision of essential services within the context of the need to protect the country's fiscal health, the Govern Government has committed to a medium-term target for capital expenditure of 3.5 percent of GDP to ensure sustainable economic growth. Of priority are planned investments in education, healthcare, defense & safety, roads and airports using creative financing mechanisms.

» **Enhance the provision of public health services.** The COVID-19 pandemic demonstrated the vulnerabilities of the Bahamian health care sector Hurricane Dorian and the COVID-19 pandemic exposed many of the vulnerabilities in the Bahamian public health care system when exposed to shocks. As the health care system rebounds from the worst of the pandemic, targeted investments and planned to shore up the system inclusive of planned construction of new hospital facilities in New Providence and Grand Bahama to modernize and enhance the delivery of health and wellness services across the nation.

» **Greater use of Public Private Partnerships.** Public Private Partnership (PPP) opportunities will continue to be explored where feasible as a mechanism for delivering priority infrastructure needs—building upon the policy framework established in 2018. Health care, road building, aviation and corrections opportunities for the use of PPPs have already been identified, which represent considerable cost savings to Government in the provision of essential public services. To this end, the Government intends to continue to seek out opportunities to utilize PPPs and other cost saving modalities.

» **Improvement of roadworks.** As part of the broader strategy to improve ground transportation in the country, the Government has undertaken a strategy to improve roadwork throughout the country, inclusive of a traffic management plan in New Providence. Key components of this project include: the $60 million road redevelopment project in Exuma, the Village Road Improvement Project in New Providence and the proposed redevelopment and widening of the Gladstone Road in New Providence.

d. Structural Reforms and Economic Policy

The formulation of Government's fiscal policy is are stable, robust and comprehensive economic designed to aid in the achievement of inclusive long-term growth and achievement of key fiscal objectives. Such economic policies necessitate structural reform to improve competitiveness, improve the ease of doing business and incentivize investment.

» **Institutionalize the National Development planning process.** With support from the IDB, a draft National Development Plan (NDP) for The Bahamas was released in 2016 charting the vision for a sustainable and inclusive development framework for the nation. This plan, aligned with the United Nations Sustainable Development Goals outlines a bottom-up, inclusive framework for priority development areas to ensure long-term sustainable growth targets are achieved. Government intends to institutionalize the national development planning process, by using targeted development plans to guide public investment spending towards priority areas, which currently impede long-term growth. Family island development, namely development of airports, and infrastructural upgrades, are key points of focus for future investments. Import substitution industrialization regimes to support domestic agriculture activities are also an area of development and focus.

» **Micro, Small and Medium Sized Businesses (MSMEs) development.** Government recognizes the contribution of MSMEs to sustainable and more inclusive development, in terms of contributions to economic growth, creation of jobs, provision of public goods and services, as well as poverty alleviation and reduced inequality. During the worst of the COVID-19 lockdowns and curfew measures, MSMEs were an important source of income, with the number of licensed MSME's expanding by 24.4 percent from 38,227 in 2020 to 47,550 in 2021. Appreciating the value of MSMEs to the Bahamian economy, Government intends to continue providing funding of $50 million per year to further support the growth of MSMEs in addition to other traditional support to the farming & fishing community. In other funding support to small businesses, in July 2021 the Securities Commission of The Bahamas approved new crowd-funding regulations allowing for a low cost mechanism for MSMEs to raise capital. Using this mechanism, entrepreneurs can raise up to $5 million in equity funding via the use of online platforms from numerous micro-investors while maintaining control of their operations. To date at least one company has taken advantage of the new product to commercialize the crowdfunding process for entrepreneurs and has already resulted in several successful placements to date and a healthy pipeline of future projects.

» **Promoting domestic and foreign investment.** The Government recognizes the need for greater efficiency in promoting the development of larger scaled investments, which contribute significantly to new jobs and spending in the economy. Renewed focus is being given to expediting pipeline projects along the implementation stages—adding to the already important foreign direct investment (FDI) projects either approved or underway. To ensure the alignment of major investments with the long-term development goals of the country, the remit of the Bahamas Investment Authority (BIA) is being expanded to create the transformative Bahamas Invest authority. Capacity development within BIA has already commenced with the onboarding of new staff and development of proprietary software to improve the investment application process.

» **Encouraging economic diversification through trade opportunities.** The inherent risk of a largely single sourced economy was realized during the onset of the COVID-19 outbreak when boarders were closed and tourist activity ceased. As a means of encouraging economic diversity and resilience as well as to provide additional opportunities for business growth, The Bahamas, as part of the CARIFORUM delegation, entered into an economic partnership agreement with the European Union in 2008. Despite entering into this agreement, the duty free and quota free access to European markets has remained largely unexploited thus far with little appreciable increase in European exports since signing of the agreement. During the first half 2021, the Bahamian ambassador to the Kingdom of Belgium and Head of Mission to the European Union (EU) announced recent pledged support from the EU to assist in trade facilitation. To date, two Bahamian based rum manufacturers have been named as recipients of the technical assistance to aid in increasing exports to the EU. With the United Kingdom (UK) departing from the EU, CARIFORUM countries have entered into a similar economic partnership agreement with the UK to preserve the benefits of the EU agreement as relates to the UK. As part of the broader mandate to exploit trade opportunities, during the first half of 2021, The Bahamas received assistance from the United Nations to develop a comprehensive trade policy for The Bahamas, which has been drafted and has already received feedback from targeted stakeholder groups. The process of broad public consultation is scheduled to commence shortly before the document is institutionalized. As a means of establishing employment opportunities, supporting the growth and development of the cultural industry and expanding trade The Bahamas is receiving technical assistance to further develop a comprehensive framework as part of the Economic Partnership Agreement (EPA). To support this framework, legislative reform and expansion has begun to prepare and update legislation pertaining to intellectual property rights through trademarking, copyrighting, patents, etc.

» **Stimulating growth through specialized tourism.** A key priority of the Government's economic resilience plan is to maximize every opportunity for growth and development. The Government has committed to relaunching the Sports in Paradise programme as a means of encouraging major international sports federations and leagues to use The Bahamas as a base. Moving beyond recreational tourism will provide opportunities for enhanced revenue collection, increased employment opportunities, and potentially increased access to professional programs thus leading to development of local athletes. To this end, a suite of sporting events have been planned and/or completed including: 2022 Babe Ruth Caribbean Championships, 2024 IAAF World Relays, 2023 CARIFTA Track and Field, 2023 CARIFTA Swimming Championships. It is planned that the successful completion of these ends will develop the brand of The Bahamas as a hub for Caribbean athletics.

» **Modernizing the maritime sector through legislative reform.** The latter half of 2021 saw progressive reform to trade legislation with the amendment of the 1976 Merchant Shipping Act. The aim of this Bill is to modernise merchant shipping, stimulate creative thinking and technological innovation while addressing marine pollution. Amendments within this Bill are set to facilitate the ease of fulfilling international obligations by simplifying the process of incorporating standard international shipping conventions and codes. The Bill gave effect to international maritime instruments, the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW Convention), the Safety of Life At Sea Convention (SOLAS) and the Maritime Labour Convention (MLC) to enhance safety within the industry. Furthermore the recent amendment retains measures of regulation and development within the industry by incorporating provisions from earlier Acts of Parliament, the Limited Liability Act. Such advancements to local shipping practices are expected to amplify trade activity, and ultimately diversify government revenue.

» **Promoting energy reform through the use of renewables.** The Government is committed to the use of more efficient and environmentally friendly energy sources, as a means of improving energy security and cost. A key prong of the government's socio-economic transformational agenda and economic resilience plan is to optimize energy efficiency by incorporating the use of renewable resources throughout the Family Islands. Further, the Government commenced micro-grid installations in the southern Islands to support national energy policy and to continue its commitment to combating the impacts of climate change. This imperative was reinforced by the passing of Hurricane Dorian which left the affected islands without power for extended periods. To boost climate resilience, the Government intends to utilize proceeds of the $170 million IDB Credit Line for Investment Projects to invest in climate resilient projects aimed at reducing The Bahamas's carbon footprint and greenhouse gas emissions. In a further move to enhance climate resiliency capacity and reduce The Bahamas' footprint in fossil fuel generated electricity, the Government is continuing with the streetlight retrofitting project with solar installation. Anatol Rogers High School's Retrofits Project was launched October 23, 2020, which made it the first government owned institution in the country to utilize solar energy to provide a reliable source of power. With the successful completion of this project, the CV Bethel Senior High School has also benefited from the installation of a micro-grid on its premises and the project to complete the same at the TG Glover Primary School already underway. In order to further opportunities in the energy sector, procurement fairs held by the Inter-American Development Bank have been launched providing information and opportunities for the public to participate in the energy project bidding process.

» **Climate and Disaster Budget Tagging.** The Bahamas embarked on its first climate tagging exercise, in conjunction with the World Bank, during its FY2021/22 budget exercise. Climate and Disaster Tagging is a methodology that extracts information from the national budget on the nature, quantity and quality of its expenditures related to climate change mitigation and disaster risk management. This methodology enables countries to identify, allocate and manage the levels of these expenditures each fiscal year. By using this methodology, countries are able to improve management of spending on disasters throughout each phase of the disaster, by sector and by programme. This exercise is expected to become a regular part of the budget process for future national budgets. This effort demonstrates the country's commitment to climate action and disaster mitigation and improving transparency on climate related expenditures.

The preliminary report on the first tagging exercise will be finalized shortly, however, preliminary figures indicate that the amount budgeted for climate change mitigation and disaster risk management totaled $66.1M (2.1 percent of total budgeted expenditure) in the FY2021/22 national budget. By category, roughly $24.7M is budgeted for climate change mitigation and adaptation for FY2021/22, of which capital expenditure accounts for $19.5M and recurrent expenditure accounts for $5.2M. For disaster risk management, a total of $41.4M was budgeted, of which $17.1M is budgeted for capital expenditure, and $17.0M for recurrent expenditure, respectively. Recurrent expenditures across both categories include budgeted sums for travel, training, equipment, fuel and medical and surgical supplies. Similarly, capital expenditures across categories include allocations for large scale infrastructure projects, such as rebuilding after Hurricane Dorian and the Ministry of Health's Sector Improvement Programme. Climate adaptation continues to have a minimum target of 2.0 percent of GDP.

- **Corporate Income Tax.** In December 2021, the Organization of Economic Cooperation and Development released its Pillar Two model for the implementation of a global minimum corporate tax of 15 percent, applicable to Multinational Enterprises (MNEs). This effort, supported by 137 countries, is designed to the Global Anti-Base Erosion (GloBE) and is estimated to increase global tax revenues by US$150 billion. Within the context of the proposed global requirement for the implementation of a global minimum corporate minimum income tax, the international accounting firm, Deloitte, has been engaged to provide an assessment of the cost, regulatory reform and implementation strategy should such a framework be desirable. A green paper is now being prepared to initiate the public consultation process.

- **Exploitation of investments in the blue economy.** As a Small Island Developing State (SIDS) highly susceptible to the impacts of global climate change, the current administration has taken an active role in advocating for the adoption of innovative climate financing solutions at the global level. In an effort to capitalize on prior investments to preserve the marine environment in The Bahamas, the country has embarked on an innovate strategy to commercialize the blue carbon credits generated from marine preservation. To date, expert scientific assistance has been procured to aid in assessing the quantum and value of domestic sea grass meadow carbon sequestration. As part of the overall framework, the Government has created Carbon Management Ltd. to manage Government's blue carbon assets. Once quantified and verified, the carbon credits generated as a result of the strategy may provide significant revenues in the future.

Fiscal Risk Identification and Mitigation Strategies

Tables

5. FISCAL RISK IDENTIFICATION AND MITIGATION STRATEGIES

Inherent in the preparation of macro-economic and fiscal forecasts contained in this report are risks which impact the achievement of macro-economic performance and/or fiscal targets. While such potential risks may never materialize, the Government recognizes the importance of risk identification, analysis, and mitigation in its fiscal planning exercise. Government also recognizes that establishing policies and procedures for sound management of fiscal risks improves macroeconomic stability.

In accordance with the requirements of the FSA, Government seeks to identify the source, scale, and likelihood of the risks disclosed herein to ensure accountability in preparation of appropriate risk mitigation. The principal risks identified over the medium-term are summarized in Table 20, along various risk mitigation measures which Government has devised/or could implement should one or more of these risks materialize during the forecast period. The below presents fiscal risks based on categories of macroeconomic (which has feedback effects on both revenue and expenditure), exogenous/external (which includes natural disasters and other external shocks) and other Government liabilities (which includes Government guarantees and other contingent liabilities).

5.1 MACROECONOMIC RISKS

The preparation of fiscal forecasts involves the compilation of assumptions regarding the future behavior of various macroeconomic variables (e.g., commodity prices, global GDP growth, interest and exchange rates) and the impact of these variables on local aggregates.

In March 2020, with the identification of the first COVID-19 cases in The Bahamas, and amidst prevailing global health & safety responses to the pandemic, curfews and lockdowns were implemented at the local level. Amidst improved local and global COVID-19 vaccination rates, over the immediate to medium term the resumption of curfews and lockdowns is considered highly unlikely.

Amidst increased global vaccination rates and the rapid relaxation of COVID-19 global curfews, lockdowns and boarder closures since 2021, global economies (already constrained by the COVID-19 economic downturn) began to rapidly expand. Based on the IMF WEO October 2022, global growth, estimated to have contracted by 3.1 percent in 2020, rebounded to an estimated 6.0 percent output growth in 2021. The impact of the rapid and uneven reopening of global economies fueled supply shortages and increased pressure on global prices.

Bolstered by the Russian conflict in Ukraine which commenced in February 2022, the originally conceived transitory inflationary pressures, are now estimated to not only distort global goods prices, but are estimated to have begun impacting the price of services due to its depth and duration. In its October 2022 WEO, the IMF estimates global inflation to have increased from 4.7 percent in 2021 to 8.8 percent in 2022. In response, several developed economies have commenced aggressive fiscal tightening measures to slow growth and moderate inflation levels.

In the US, the major trading partner of the US, the Federal Reserve has been aggressive in its attempts to combat inflation. In March 2022 the Federal Funds Rate was increased by 25 basis points, and subsequently increased by 50 basis points again in May 2022, by 75 basis point in June 2022, by 75 basis points in July 2022, by 75 basis points in September 2022 and by another 75 basis points in November 2022. With the Federal Reserve Chair, Jerome Powell, signaling lower interest rate increases in the future, analysts anticipate a 50 basis point rise in the Federal Funds Rate in December 2022.

Amidst tightening monetary conditions in the US market, the IMF estimates 2022 growth to contract to 1.6 percent from an estimated 5.7 percent growth in 2021. US output growth is anticipated to slow further to 1.0 percent in 2023.

Given the reliance of the Bahamian economy on the US market for goods and supply of tourist visitors, under the extreme scenario, a slowdown in the US economy may translate into decreased demand by US visitors for travel to The Bahamas. Similarly, the prolonged impact of elevated prices on imported goods from the US may temper domestic consumption. Depending on the depth and duration of the shock, the impact may result in a contraction in output from 5.0 to 8.0 percent based on historic results. The accompanying implied impact on Government revenue ranges from 8.0 percent to 11.0 percent as wages and local spending decline.

In the moderate scenario, the depth and duration of the economic contraction is reduced and is tempered by continued travel by high net worth individuals. While the pass through impact of pressures on global prices remain, the result is tempered such that the reduction in domestic consumption is tempered. Under this scenario, the duration of global inflationary pressures is limited, allowing for resumption of historic travel and trade patterns over the short term.

5.2 EXOGENOUS /EXTERNAL SHOCKS

Natural Disasters

With its location in the Caribbean, The Bahamas is highly susceptible to hurricane exposure on an annual basis as evidenced by the six severe storms which have made landfall on Bahamian shores in the past decade, causing widespread damage to infrastructure, businesses and families. While the 2021 and 2022 hurricane seasons were fairly inactive, save for Hurricane Nicole in October 2022 which presented minimal damage upon landfall, the increasing frequency and intensity of climactic disasters present a risk of widespread damage and disruption to lives & infrastructure, as well as potential increased financial, fiscal and social costs depending on the scope of the disaster. In the context of constrained fiscal space, the Government recognizes the importance and need to implement comprehensive disaster risk management strategies as indispensable for enhancing fiscal and economic resilience.

To address these vulnerabilities, the Government continues to maintain a range of measures to mitigate the financial exposure and other vulnerabilities to disaster risk:

- **Contingent Credit Line:** The Government continues to maintain a contingent credit line with the IDB of up to $100 million to provide rapid financing in the event of a natural disaster.
- **Disaster Insurance:** The Government continues to maintain a risk transfer mechanism in the form of a parametric insurance policy with the CCRIF, which divides coverage for The Bahamas into three zones—the North West, South East and Central Bahamas, each with separate parametric triggers. The Government is also seeking to explore the use of catastrophe bonds similar that of Mexico; and is supportive of encouraging private sector risk financing to limit the potential for unplanned fiscal costs.
- **Disaster Relief Fund:** The Fund was initially constituted with $40 million in proceeds from the extinguished dormant bank accounts, which was utilized to meet needs arising from Hurricane Dorian. The Fund is continually replenished on an ongoing basis via transfers from dormant accounts. As originally contemplated, the Government remains committed to growing the Fund to the optimal size—estimated by the IMF to be between 2 and 4 percent of GDP—once budgetary conditions permit.
- **Coastal Protection and Risk Management:** The IDB funded project to strengthen The Bahamas' resilience to coastal risks through the implementation and adoption of sustainable coastal protection infrastructure and management, is ongoing. The $35 million loan from the IDB covers activities related to reinforcing natural infrastructure, restoring coastal

natural habitat, and improving coastal flood control measures particularly in the islands of Grand Bahama and Andros where natural banks exist.

In addition to the above, The Bahamas remains a key advocate on the world stage for the provision of climate financing to small island development states, based on the provisions and commitments agreed under the terms of the Paris Accord. While still in its infantile stage, within the context of the most recent COP27 conference the agreement for the creation of a "Loss and Damage" fund for vulnerable countries presents opportunities for future reduction in financing the impact of climactic hazards.

Disease and Pandemic Management

COVID-19 has exposed many of the weaknesses in the Bahamian healthcare sector. Due to the magnitude and duration of the disaster, the pandemic has monopolized healthcare resources and placed a strain on the capacity of the system to respond to non-pandemic related healthcare issues. This experience reinforces the importance of building resilience in the healthcare system to effectively manage health emergencies while addressing constraints to the continuous delivery of quality essential health services.

In an effort to bolster the domestic health care sector to support existing health care needs and build capacity manage future diseases/pandemics, the Government has revised its plans of expanding the current Rand Hospital in Grand Bahama and the Princess Margaret Hospital (PMH) in New Providence in favour of erecting new medical facilities on both islands. In addition, to address immediate patient care needs, the Public Hospitals Authority (PHA) has entered into an agreement with Doctors Hospital for the management and treatment of patients when public facilities exceed patient care capacity.

5.3 GOVERNMENT LIABILITIES

Contingent Liabilities of Government Agencies and Government Business Enterprises

Contingent liabilities represent explicit guarantees provided by the Government to assist Agencies and Government Business Enterprises (GBEs) in structuring external debt financing. Should these financing obligations not be met by the direct borrowers, meeting the financial obligation is then incumbent on the Government and as such, they pose significant risk to central Government's fiscal situation. This inherent risk reinforces the Government's goal and requirement to ensure proper oversight and management of these entities.

As shown in **Table 19**, contingent liabilities are estimated at $371.7 million at end-June 2023 moving lower to approximately $308.1 million at end-June 2024 largely due to a $18.7 million repayment on debt by the Bahamas Mortgage Corporation. Contingent liabilities show a progressively declining outstanding balances in the forward three years, to $189.9 million at end-June 2027.

Table 19: Contingent Liabilities (B$M)

	Actual		Budget	Forecasts			
	FY2020/21	FY2021/22	FY2022/23	FY2023/24	FY2024/25	FY2025/26	FY2026/27
Bahamas Development Bank	40.7	39.1	37.8	36.4	35.0	31.5	28.0
Bahamas Electricity Corporation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bahamas Water & Sewerage Corporation	65.1	60.5	55.8	51.2	47.1	43.0	38.9
Bridge Authority	16.0	16.0	16.0	8.0	8.0	8.0	8.0
Bahamas Mortgage Corporation	160.0	160.0	145.0	126.3	115.0	65.0	48.7
Education Loan Authority	47.0	47.0	47.0	20.0	20.0	20.0	20.0
The Clifton Heritage Authority	24.0	24.0	24.0	24.0	16.0	16.0	16.0
Public Hospitals Authority	66.5	47.1	43.2	39.2	35.3	31.4	27.5
Small Business Development Center	1.5	1.2	2.8	2.8	2.8	2.8	2.8
Lucayan Renewal Holdings Ltd.	0.00	0.0	0.0	0.0	0.0	0.0	0.0
Total Contingent Liabilities	**420.8**	**394.9**	**371.7**	**308.1**	**279.3**	**217.8**	**189.9**
Contingent Liabilities as a % of GDP	*4.3%*	*3.2%*	*2.8%*	*2.2%*	*1.9%*	1.4%	1.2%

Pension Liabilities

The Government has historically maintained a non-contributory defined benefit pension scheme for the benefit of qualifying permanent public service officials, inclusive of uniformed branches. The public service pension program is separate and in addition to the defined contribution pension scheme managed by the National Insurance Board (NIB) for the general public.

In 2012, Government engaged a private consulting firm to review the existing public service pension scheme to determine the sufficiency of pension reserves to meet future obligations, estimating any potential pension deficits and recommend corrective action. Government intends to proceed with the recommendations made by KPMG, to limit the risk associated with future pension liabilities. This strategy involves limiting all new employees to participation in a defined contribution plan, with a limit on the growth in pensionable salaries for existing employees. This strategy is estimated to improve cash flow by $6 million over 10 years.

Payment Arrears

As a part of the normal course of business, due to timing and cash flow considerations, accounts payables and arrears are produced from time to time. The Accounts Payable position changes daily as invoices are paid or submitted for settlement.

In September 2021 the Government engaged an independent accounting firm the review the position of all Government arrears, payables and outstanding liabilities as at September 30, 2021 and a strategy was implemented to reduce payment arrears, inclusive of unsettled legal claims and working capital balances.

Since the comprehensive review of payment arrears has been conducted, a program of careful monitoring of payment arrears has been adopted to avoid significant build-up of payment arrears in the future.

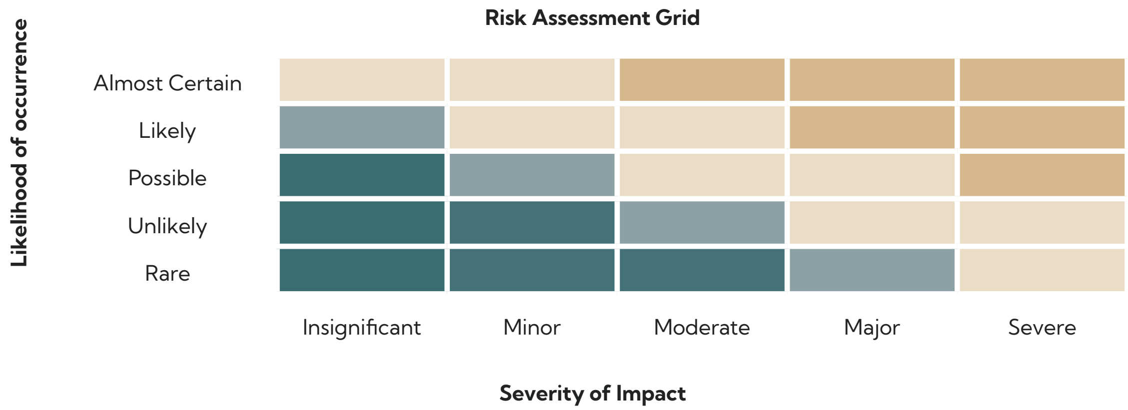
Other

The recent disclosure of approximately $150 million of payment arrears of Bahamas Power and Light (BPL) represents a significant unbudgeted liability of the Government. To ensure continued provision of essential electrical services to the public, the Government has committed to ensuring payment of this liability by the corporation.

Table 20: Risks and Mitigation Strategies

Risk	Impact	Gross risk			Mitigation	Net risk		
		Impact	Likelihood	Risk factor		Impact	Likelihood	Risk factor
Slowdown in US and global economies	Economy contracts or grows at a slower pace than forecast; reduced revenue and revenue growth; increased expenditure.	Major	Likely	Major	Continuous updating of scenarios and assessment of implications for the fiscal position; rationalize expenditures and consider interim revenue measures before undertaking further borrowings.	Moderate	Possible	Moderate
Credit rating downgrade	Reduction in credit rating could increase borrowing costs and limit investors' uptake of government paper.	Major	Possible	Major	Continue revenue enhancement strategies to improve fiscal position and reduce the risk of a downgrade.	Moderate	Possible	Low
State-owned enterprises	SOEs incur substantial losses requiring intervention.	Major	Likely	Major	Accelerate plans for greater cost recovery in select SOEs; new Public Debt Management Act and Public Financial Management Act allows for more rigorous oversight of borrowing activities.	Moderate	Possible	Moderate
Higher interest rates	Increased borrowing costs	Moderate	Likely	Major	Reassess/restructure financing; decrease debt. Implement interest rate hedging scheme.	Moderate	Likely	Major
Natural disaster	Hurricane or other substantial natural disaster.	Severe	Possible	Severe	CCRIF insurance policy; continue building disaster relief fund; renew IDB $100m contingent credit line; continue with implementing improvement in building standards; more comprehensive planning.; coastal improvement; continue to build fiscal buffers.	Major	Possible	Major
Pension costs	Pension liabilities higher than anticipated.	Major	Likely	Major	Implement longer-term actions to improve fund sustainability; introduction of defined contribution plan.	Moderate	Possible	Moderate
Undisclosed liabilities	Audit reveals significant value of undisclosed payment areas and liabilities.	Moderate	Possible	Major	Increased monitoring and disclosure of accounts payables as provided for under Public Financial Management Act.	Moderate	Possible	Moderate

Risk Assessment Grid



Sensitivity Analysis

Figures

6.

DEBT SUSTAINABILITY ANALYSIS

The achievement of Government's fiscal targets and fiscal strategy is contingent on achievement of specific fiscal targets, the implementation of operational efficiencies and the realization of certain macroeconomic outcomes. While the threat of adverse fiscal and macroeconomic impacts from the COVID-19 pandemic have severely abated, increasing inflationary pressures, coupled with global monetary policies to combat inflation present a significant downside risk to the achievement of the growth forecasts contained herein.

Table 21: Central Government Sensitivity Analysis Indicators

	2020/21	2021/22	2022/23	2023/24	2024/2025	2025/2026	2026/2027
Total Public Debt (B$M)	9,935.30	10,792.80	11,299.87	11,292.95	10,938.85	10,666.64	10,391.83
% of GDP	100.95%	86.94%	85.37%	79.81%	73.71%	69.14%	64.96%
Local Currency (B$M)	5,386.70	5687.2	5912.5	6080.3	5981.4	5595.2	5320.4
Foreign Currency (B$M)	4,548.60	5,105.6	5,387.4	5,212.7	4,957.5	5,071.4	5,071.4
Short Term Debt (B$M)	1026.9	1169.5	737.0	1381.2	1792.7	1872.4	2270.1
Medium Term & Long Term Debt (B$M)	8,908.40	9605.5	10562.9	9911.8	9146.2	8794.3	8121.7
Total Revenue (B$M)	1,890.81	2,608.40	2,804.39	3,242.51	3,617.08	3,906.45	4,001.53
Total Non-Interest Expenditure (B$M)	2,821.08	2,774.93	2,808.39	2,791.94	2,751.08	3,185.30	2,854.72
Overall Balance (B$M)	-1,352.77	-718.30	-563.99	-75.31	354.95	266.16	579.22
Primary Deficit (B$M)	-930.27	-166.53	-4.00	450.57	866.00	721.15	1,146.81
Gross Financing Needs (B$M)	2,131.00	2,046.48	1,758.21	2,193.54	1,701.43	1,472.81	1,011.88
% of GDP	21.65%	16.49%	13.28%	15.50%	11.46%	9.55%	6.33%
% of Revenue	112.70%	78.46%	62.69%	67.65%	47.04%	37.70%	25.29%
Interest Payments (B$M)	422.50	551.77	559.99	525.88	511.05	454.99	567.59
Amortization (B$M)	879	2,145.00	1,196.80	2,076.63	845.48	511.05	226.30
Effective Interest Rates	4.15%	5.55%	5.20%	4.66%	4.79%	4.86%	5.06%
Domestic	3.80%	4.10%	4.85%	4.78%	4.94%	5.06%	5.44%
External	4.78%	4.51%	5.59%	4.53%	4.61%	4.62%	4.63%
Average Nominal Interest Rates	4.15%	4.29%	5.20%	4.66%	4.79%	4.86%	5.06%
Debt Service to GDP	13.22%	21.72%	13.27%	18.39%	9.14%	6.26%	4.96%
Nominal GDP (B$ M)	9,842.00	12,413.59	13,236.11	14,150.48	14,840.30	15,427.30	15,996.32
Real GDP (B$ M)	8,866.00	10,535.17	10,846.17	11,228.89	11,501.71	11,699.41	11,877.87
Unemployment	18.1%	13.9%	12.7%	12.3%	11.9%	11.6%	11.4%

Note: Estimates of unemployment are based on the October 2022 IMF World Economic Outlook. All other estimates are based on MOF internal calculations.

In examining The Bahamas's debt sustainability within the context of the assumptions outlined in this 2022 FSR, consideration was given to the inflationary pressures prevailing in the current market. Despite this challenge, it is anticipated that the inflationary crisis will ease over the medium-term, allowing global credit conditions continue to improve. Further, amidst the continuation of rationalization efforts, coupled with revenue enhancement measures, the Government projects it will achieve its target of a budget surplus by the 2024/2025 fiscal year. It is anticipated that the level of Government debt and the gross financing need (calculated as budget deficit plus old and new principal repayments), will continue to decline over the longer-term, as the Government is able to maintain primary surpluses and reduce the need for financing.

The data in Table 21 presents The Bahamas' baseline data used to conduct the debt sustainability analysis (DSA) using the IMF's Market Access Country (MAC) analytical tool, and fiscal year data for the period FY2020/21 to FY2026/27. Given the trajectory of debt in recent years with the debt/GDP ratio exceeding 50 percent, the *"higher scrutiny"* country classification was used in performing the debt sustainability assessment.

The direct charge (Central Government debt) peaked at 100.9 percent of GDP in FY2020/21 as a result of the economic contraction associated with the coronavirus pandemic and the elevated levels of borrowing to support health and social measures. As the domestic economy continues to reflate at a rapid pace to pre-pandemic levels, and the demand for increased health and social support payments abates, the direct charge is projected to moderate to 64.96 percent of GDP by FY2026/27 amidst targeted debt reduction activities.

The trajectory of the direct charge is underpinned by several key factors/assumptions, most notably:

- **COVID-19 virus becoming endemic.** With the continued vaccine regime both domestically and abroad, it is assumed that heard immunity will be developed and allow the COVID-19 virus to become endemic, resulting in fewer cases of transmission and lower hospitalization and death rates. The result would imply more moderate levels of health expenditure in line with historic trends.
- **Rebound in global output continues.** Estimates released by the IMF, IDB and other international agencies continue to project a rebound in the global economy to pre-pandemic levels, inclusive of a rebound in the travel, leisure and tourism industry. However, the inflationary pressures caused by economic rebound that were exacerbated by the war in Ukraine still lingers. Nevertheless, over the medium-term, with improvement in global credit conditions, the inflation crisis is not expected to worsen and stabilize over the long-term.
- **No serious deterioration in credit conditions.** The Bahamas' sovereign debt rating by the credit rating agency Standard & Poor's in November 2022, affirmed the country's 'B+' long-term foreign and local currency sovereign credit ratings. A stable outlook was affirmed for the country due to reduced fiscal deficits and the slow-down in the growth of debt. The DSA assumes that, at a minimum, credit conditions will remain firm over the medium term with the possibility of improving over the long term.
- **No major external shocks in the short term.** Given the geographic location of The Bahamas in an area prone to experiencing hurricanes increasing the risk of damage from natural disasters each year, the DSA assumes that over the short-term, such exogenous shocks do not occur and that the economy firmly rebounds. The DSA also assumes that over the medium-term, any such natural disasters will be minimal in intensity upon making landfall.

Based on the above assumptions, Figure Based on the assumptions outlined, the debt to GDP ratio is anticipated to improve over the medium term to pre-COVID-19 levels by FY2026/27 with a continued trend toward the fiscal target of a 50 percent debt to GDP target thereafter. While the threats to external and macroeconomic shocks still persist, over the medium to longer term, the current debt profile places The Bahamas on a sustainable path.

Figures 8 to 11 show the impact of shocks to the baseline scenario presented in Figure 7 below. At its core, the fiscal forecasts presented are contingent on achievement of Government's growth forecasts as the global economy rebounds. As depicted in **Figure 9**, should output levels be retarded by a 1 percent contraction in projections, the subsequent debt to GDP ratio would exceed 114.6 percent by FY2026/27. While more moderate in its impact, the impact of a 1 percent increase in real interest rates still presents a threat to the sustainability of the debt to GDP ratio with levels of 66.7 percent being achieved by FY2026/27. The impact of a negative 1 percent shock to the primary balance places The Bahamas on a trajectory of 72.7 percent debt to GDP level over the medium term.

In the more extreme scenario, should The Bahamian economy experience a "sudden stop" in economic activity similar in magnitude of the COVID-19 pandemic protocols, the impact on domestic macroeconomic conditions would be more severe. As depicted in **Figure 11**, reintroducing emergency order protocols and limiting economic activity would result in debt to GDP ratios approaching 89.1 percent by FY2026/27.

Figure 7: Evolution of Debt to GDP Ratio

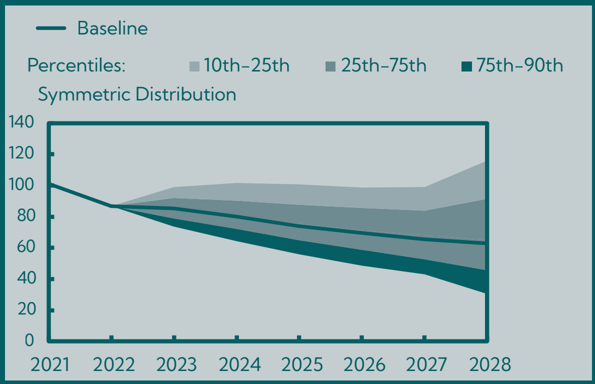


Figure 8: Effect of a 1% Negative Primary Balance Shock on Debt to GDP Ratio

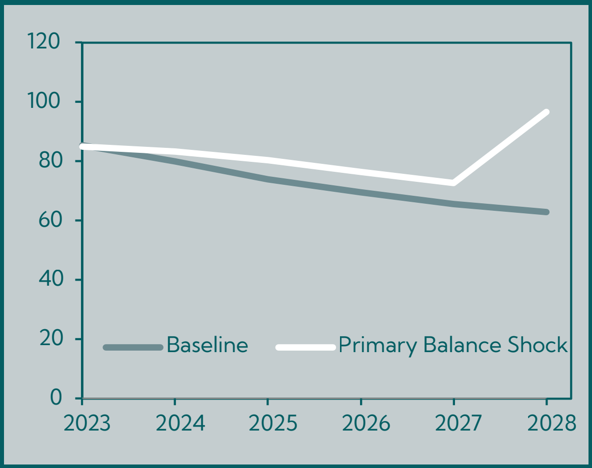


Figure 9: Effect of a 1% Negative Growth Shock on Debt to GDP Ratio

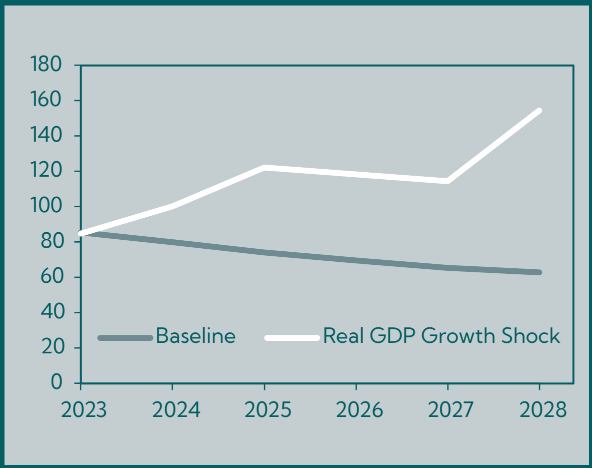


Figure 10: Effect of 1% Negative Real Interest Rate Shock on Debt to GDP Ratio

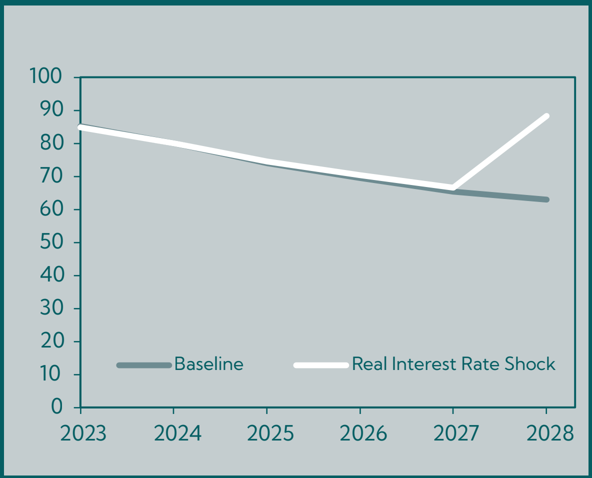
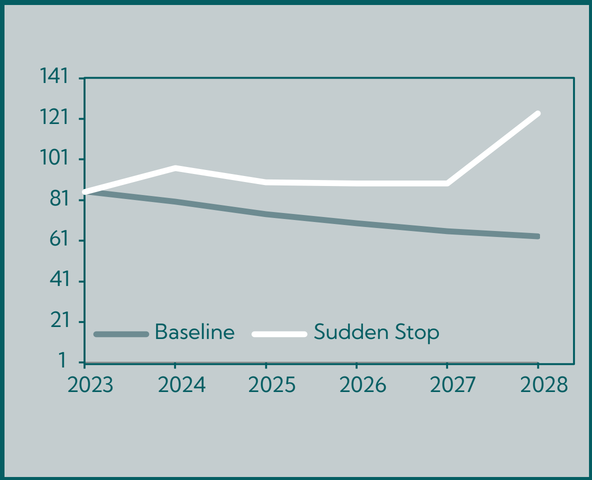


Figure 11: Effect of a Sudden Stop



Annex A: Fiscal Responsibility Act 2018

Annex A: Fiscal Responsibility Act, 2018

SECOND SCHEDULE (Section 10)
CONTENTS OF A FISCAL STRATEGY REPORT

1. The fiscal strategy report shall contain a report for the recently concluded financial year which shall include —
   (a) analysis of any difference in results from the macroeconomic forecasts and fiscal forecasts in the previous fiscal strategy report;
   (b) a summary of budget execution compared to the appropriations and statutory expenditure;
   (c) summary of the performance compared to the general principles in section 6, the fiscal responsibility principles in section 7, and the fiscal objectives in the previous fiscal strategy report;
   (d) reasons for any deviations from the general principles, fiscal responsibility principles and fiscal objectives in the previous fiscal strategy report with a fiscal adjustment plan to address any such deviations, and the expected time to achieve this;
   (e) report on the extent to which the risks identified in the previous fiscal strategy report were realised and the effect on fiscal performance; and
   (f) other matters on performance the Minister considers relevant.
2. The fiscal strategy report shall contain medium-term macroeconomic forecasts setting out actual, estimated, and projected values of the following economic variables for no less than the previous two years, the current year, and the next three years including—
   (a) gross domestic product and its components;
   (b) inflation;
   (c) employment and unemployment;
   (d) exchange rates with major trading partners;
   (e) interest rates; and
   (f) money supply and monetary conditions including credit to the private sector;
   and for (a) to (f) the source of the data shall be identified, and for historical information, a statement provided of-whether it is official or estimated in cases where official data are not available.
3. The fiscal strategy report shall contain information on the longer-term macroeconomic forecasts.
4. The fiscal strategy report shall contain a statement of assumptions and methodologies underpinning the economic forecasts.
5. The fiscal strategy report shall contain medium-term fiscal forecasts setting out actual, estimated, and projected values of the following fiscal variables for no less than the previous two years, the current year, and the next three years including —
   (a) revenues by type;
   (b) aggregate expenditures by economic, administrative, and functional classifications;
   (c) fiscal balance for the overall budget;
   (d) a summary of the sources of budget financing;
   (e) the level of debt by external source, domestic source and total;
   (f) level of financial and performance guarantees;
   (g) the accounting principles and methods used in the fiscal strategy report and key assumptions on which the above numbers are based;
   (h) sensitivity analysis taking account of possible changes in macroeconomic conditions; and
   (i) any other information the Minister determines is material to the fiscal forecasts.
6. The fiscal strategy report shall contain fiscal forecasts for the longer term that have been used in formulating the fiscal policies in the fiscal strategy report and such forecasts shall take account of the impacts of changes in demographics and other factors.

7. The fiscal strategy report shall contain a statement of intention about the general principles in section 6 of the Act.
8. The fiscal strategy report shall contain a statement of intention about the fiscal responsibility principles in section 7 of the Act consistent with the First Schedule.
9. The fiscal strategy report shall contain a description of the fiscal policy including —
   (1) a table containing the fiscal information for the previous two years, the current year and the forthcoming three years and longer term where relevant including —
   (a) aggregate Government expenditure as a percentage of GDP and in nominal terms;
   (b) recurrent Government expenditure as a percentage of GDP and in nominal terms;
   (c) primary Government expenditure as a percentage of GDP and in nominal terms;
   (d) capital Government expenditure as a percentage of aggregate Government expenditure, as a percentage of GDP and in nominal terms;
   (e) Government expenditure on wages and benefits as a percentage of GDP and in nominal terms for all positions funded from the annual budget including all positions funded by direct charge on the Consolidated Fund and all positions funded by appropriation;
   (f) Government revenues as a percentage of GDP and in nominal terms;
   (g) overall fiscal balance as a percentage of GDP and in nominal terms;
   (h) Government debt as a percentage of GDP and in nominal terms;
   (i) Government arrears as percentage of budget expenditure and in nominal terms;
   (j) Government guarantees as a percentage of GDP and in nominal terms; and
   (k) Government net worth as a percentage of GDP and in nominal terms when net worth can be measured; and
(2) Table of fiscal objectives to measure the fiscal position of the government against the fiscal responsibility principles consistent with the First Schedule for the forthcoming year and each of the next three years which shall at a minimum include measurable fiscal objectives for the fiscal balance, debt, guarantees, expenditure growth rate, wage expenditure limit, proportion of proposed capital Government expenditure as a percentage of aggregate Government expenditure and any measures for an adjustment plan if in force;
(3) information on the fiscal policies for medium-term including—
   (a) the revenue policy with planned changes to taxes and policies affecting other revenues and intentions regarding revenue collection activities;
   (b) policy on the fiscal balance;
   (c) debt policy with a summary of the debt management strategy, a summary of the debt sustainability analysis, debt ceilings, and guarantee ceilings; and
   (d) expenditure policy including expenditure priorities linked to ceilings;
(4) an assessment of the consistency of the planned fiscal policy aggregates and measurable fiscal objectives in paragraph 9(2) of this Schedule with the fiscal responsibility principles, the requirements in the First Schedule and the requirements of section 8(2);
(5) a medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions and an explanation of any changes in the proposed ceilings from the previous fiscal strategy report including —
   (a) the aggregate expenditure ceiling to be used in the preparation of the annual budget which shall include indicative ceilings for two further outer years;
   (b) ceilings for central Government expenditure by Ministry and other budget entity for the budget year and next two years to be used as the basis for the preparation of the annual budget;
   (c) forecast non-financial performance information at a suitable level of aggregation linked to the budget to show what is planned to be provided and achieved for the proposed expenditure, for strategic changes only; and
   (d) information on major public investments including priorities and rationale for these and forecast costs for the forthcoming budget year and two outer years related to expenditure ceilings.

10. The fiscal strategy report shall contain a fiscal risk statement with quantified risks where practicable including—
   (a) contingent liabilities;
   (b) any commitments not included in the fiscal forecasts;
   (c) all other circumstances which may have a material effect on the fiscal and economic forecasts, and which have not already been incorporated into the fiscal forecasts; and
   (d) risk management intentions.
11. The fiscal strategy report shall contain a statement of responsibility signed by the Minister and the Financial Secretary attesting to the reliability and completeness of the information in the fiscal strategy report and its compliance with the law.
12. If the Government is unable to provide any of the information required by this Schedule the Ministry shall state in the fiscal strategy report the reasons for any missing information and shall ensure that such information is available as soon as practicable for future fiscal strategy reports.
13. For the purposes of this Schedule —

“**current expenditure**” means spending for acquisition of all goods and services, personnel cost including salaries, emoluments and other employee benefits; and transfer payments, inclusive of interest payments, subsidies, transfers to non-financial public enterprises, public corporations, to households, abroad and to non-profit institutions which excludes all outlays that result in debt reduction and the acquisition of financial assets;

“**debt**” means all direct charge on the central government that require payments of interest and principal to both resident and non-resident creditor;

“**fiscal balance**” means total revenues and grants minus total expenditure where revenues and grants are computed as total revenues less borrowings, refunds, and sales of financial assets;

“**Gross Domestic Product**” means the nominal value of all goods and services produced in the economy within a year, as compiled by the Department of Statistics and in the absence of official statistics, estimates produced by the Ministry of Finance shall be utilized and subsequently updated once the official statistics are available and until quarterly official GDP statistics become available, estimates for the fiscal year shall be derived by taking the average of the current and the preceding calendar year.

2022 FISCAL STRATEGY REPORT

DECEMBER 2022

THE MINISTRY OF FINANCE
Cecil Wallace Whitfield Centre
West Bay Street
P.O.Box N-3017
Nassau, The Bahamas