COMMONWEALTH OF THE BAHAMAS

THE MINISTRY OF FINANCE

THE BAHAMAS

# MEDIUM-TERM DEBT MANAGEMENT STRATEGY

## FY2023/24 – FY2025/26

PREPARED BY
THE DEBT MANAGEMENT OFFICE
MINISTRY OF FINANCE

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## CREDITORS

| | |
|---|---|
| **CDB** | Caribbean Development Bank |
| **EEC** | European Economic Community |
| **IBRD** | International Bank for Reconstruction and Development (World Bank) |
| **IDB** | Inter-American Development Bank |
| **IMF** | International Monetary Fund |

## CURRENCIES

| | |
|---|---|
| **BSD** | Bahamian Dollar |
| **CHF** | Swiss Franc |
| **CYN** | Chinese Yuan Renminbi |
| **EUR** | Euro |
| **GBP** | British Pound Sterling |
| **SDR** | Special Drawing RIghts |
| **USD** | United States Dollar |

## OTHERS

| | |
|---|---|
| **ATM** | Average Time To Maturity |
| **ATR** | Average Time To Re-fixing |
| **ComSec** | Commonwealth Secretariat |
| **DOD** | Disbursed and Outstanding Debt |
| **GBE** | Government Business Enterprise |
| **GDP** | Gross Domestic Product |
| **WAIR** | Weighted Average Interest Rate |

# DEFINITIONS

| | |
|---|---|
| **Average Time to Maturity (ATM)** | A measure of the weighted average time to maturity of all principal repayments in the portfolio. A longer ATM implies lower financing risk, and vice versa. |
| **Average Time to Refixing (ATR)** | A measure of the weighted average time until all principal repayments in the debt portfolio become subject to a new interest rate. |
| **Gross Domestic Product** | The market value of all final goods and services produced within a country in a given period. The GDP is determined using data for production, expenditures, or income, and is presented in current or constant prices. |
| **Refinancing Risk** | The possibility that a borrower cannot refinance its debt by borrowing to repay existing debt. |
| **Weighted Average Interest Rate (WAIR)** | The weighted average interest rate on outstanding debts is determined by the value of the debt as a percentage of the total outstanding amount. |
| **Yield Curve** | A graph that plots the structure of interest rates, at a set point in time, of government securities with different maturities, ranging from the 3-months T-bills to the 30 year bonds. It enables investors to compare yields offered on short, medium and long-term government paper. |

# NOTES

| | |
|---|---|
| **Fiscal Year** | The Bahamas' fiscal year runs from July 1 to June 30. |
| **Reporting Currency** | The domestic currency of The Bahamas is the Bahamian Dollar which is pegged to the USD at 1:1. Unless otherwise stated, all values are in Bahamian Dollar equivalents. |
| **Coverage** | The Medium-term Debt Management Strategy includes only central Government existing debt and projected borrowings. |
| **Classification** | For the purposes of the MTDS, debt is classified by currency and not residency. |
| **Source** | The source of all tables and figures is the Ministry of Finance. Statistics on GDP and prices are obtained from the Bahamas National Statistical Institute and the respective projections, from the International Monetary Fund (IMF). Projections for international reserves are also from the IMF. |

# FORWARD

Establishing a prudent debt management strategy remains a cornerstone of the government's policy framework to achieve meaningful fiscal consolidation and deliver strong, resilient and inclusive economic growth.

In keeping with statutory reporting requirements under the Public Debt Management Act, 2021 ("the PDMA"), the government is pleased to release the 2023/24 – 2025/26 Medium Term Debt Management Strategy ("the MTDS"). Preparation of the MTDS represents a key step in the annual budget formulation process, and the framework is aligned with the broad strategic priorities outlined in the 2022/23 budget communication and the baseline macroeconomic assumptions in the 2022 Fiscal Strategy Report. Its publication is a demonstration of the government's ongoing commitment to promote transparency and accountability in the public finances.

Through the MTDS, the government is operationalizing a roadmap for minimizing the costs and managing the risk exposures arising from the debt portfolio. Consistent with these goals, it is, therefore, noteworthy that the selected MTDS from among the four alternative financing options evaluated is targeted to achieve the right balance between costs and risks, and provide the requisite support for the development of the domestic debt market.

The government acknowledges that placing the debt on a sustained downward trajectory requires a strong commitment to fiscal consolidation and durable improvement in the economic fundamentals. This past year's macroeconomic performance has been very encouraging, with real GDP recovering to a strong positive territory and the fiscal outturn exceeding earlier expectations. These favourable outcomes continued into the first quarter of FY2022/23, and are anticipated to persist throughout the medium-term horizon, based on reasonable assumptions for economic growth and restoration of the fiscal buffer.

In keeping with best practice, the MTDS will be continuously reviewed in the context of emerging macroeconomic developments to ensure that we remain focus on our objectives.

An exercise like the MTDS cannot be completed without considerable effort and teamwork. I, therefore, extend my sincere appreciation to all involved in its preparation, especially the Financial Secretary and the team in the Debt Management Office of the Ministry of Finance.

Hon. Philip E. Davis
Prime Minister and Minister of Finance

# ACKNOWLEDGMENT

The FY2023/24 – FY2025/26 Medium-term Debt Strategy ("the MTDS") represents the second MTDS report to be prepared under the requirements of the Public Debt Management Act, 2021 ("the PDMA"). As designed, the MTDS has a strong focus on managing costs and risk exposures in the debt portfolio. The optimal strategy selected suggests external and domestic borrowings of 11 percent and 89 percent of gross financing needs, respectively, and envisages maximizing opportunities for concessional and semi-concessional borrowings, along with credit enhancements, to contain costs and lengthen the maturity structure of the debt.

Preparation of the MTDS would not have been possible without the invaluable contribution and collaboration of various stakeholders. I would like to recognize the untiring commitment of the Debt Management Office ("the DMO") team of the Ministry of Finance, which spearheaded the exercise, and the Central Bank of The Bahamas Debt Management Unit, the Research Department, which continues to play a pivotal role in the government's back-office debt management activities.

Special acknowledgement is likewise extended to the team at the Commonwealth Secretariat's Debt Management Unit that provided, for the second year, technical assistance and capacity building support to The Bahamas' team in the use of the various debt management analytical tools.

Having analyzed the cost risk trade-offs among the alternative strategies, the Ministry of Finance, via the DMO, will work towards successful implementation of the selected financing strategy to achieve the debt management objectives.

As the MTDS is not a static document, it will be reviewed for ongoing relevance and appropriateness in the context of the prevailing domestic macro-fiscal environment and global conditions.

As part of the government's commitment to transparency and good governance in fiscal matters, all debt strategy reports are available on the government's website at www.bahamas.gov.bs.

Simon Wilson
Financial Secretary

# EXECUTIVE SUMMARY

The Public Debt Management Act, 2021 ("the PDMA") sets out the framework for effective debt management in The Bahamas, and provides guidance on the preparation of the medium-term debt management strategy, which is a plan aimed at achieving the desired debt portfolio consistent with the debt management objectives in the PDMA.

The FY2023/24 – FY2025/26 MTDS ("the MTDS") guides the government's borrowing decisions to fund its overall fiscal deficit, within the context of explicit cost and risk objectives. The strategy is prepared having due consideration to the macroeconomic and financial market conditions, the availability of financing from various creditors, and vulnerabilities that could impact future borrowing requirements and debt service costs.

The MTDS is formulated against the backdrop of a robust recovery in The Bahamas' economic and fiscal performance following two years of consecutive slumps due to the combined unprecedented shocks of Hurricane Dorian and the COVID-19 pandemic. Since the reopening of the economy in November 2021, real GDP rebounded by 18.8 percent in FY2021/22 to contrast with the respective 12.2 percent and 10.9 percent contractions in FY2019/20 and FY2020/21. Fueled by a combination of stronger than expected revenue performance and the paring back of COVID-19 related spending assistance, the fiscal deficit for FY2021/22 improved to 5.8 percent of GDP from a peak of 13.6 percent of GDP in FY2020/21. In this context, the stock of government debt, at $10,775 million at end-September 2022, equated to a lower 86.1 percent of fiscal year GDP relative to 100.9 percent at end-June 2021.

The economic outlook, which is significantly dependent on the deepening of the recovery underway, envisages a continuation of this positive trajectory, with real GDP averaging an estimated 2.5 percent over the three-year MTDS timeframe. This performance, combined with the targeted upturn in revenues, is forecasted to drive the fiscal deficit to GDP ratio lower to 0.7 percent—closely approximating the 0.5 percent statutory target. In the remaining two years of the strategy, the overall fiscal position is expected to shift into surplus—averaging an estimated 1.7 percent of GDP.

During FY2021/22, financing of the deficit continued to rely more on domestic currency borrowing, including securities of various tenure and commercial loans, while foreign currency financing comprised debt from multilateral and commercial sources.

At end-September 2022, foreign currency debt constituted 47.1 percent of the outstanding portfolio, up from 45.8 percent at end June-2021. However, the portfolio's exposure to foreign exchange risk remained minimal as the bulk of the debt is in Bahamian Dollars and most of the foreign currency risk is denominated in USD to which the Bahamian Dollar is pegged.

In preparing the MTDS, an evaluation was undertaken of the cost and risks of four (4) alternative debt strategies deemed feasible under the prevailing domestic and international financial market conditions. These included increasing/reducing the proportion of foreign currency debt, increasing/reducing the tenor of the debt portfolio and the use of liability management operations. The selected strategy (S4) is one that would minimize the cost and risks of financing the fiscal deficits under both the baseline economic projections and shocks to the baseline. Consistent with the government's debt management objectives, certain benchmarks for the cost and market risk indicators were also established for (i) foreign currency (FX) risk; (ii) interest rate risk and (iii) refinancing risk.

The optimum debt strategy selected through this process seeks to use domestic sources of financing to address refinancing risk, extend average time to maturity of the portfolio, develop the domestic capital market, manage interest rate risk by utilizing more fixed interest rate instruments, and incorporate liability management operations while also balancing the cost. The financing mix under the selected MTDS that minimizes costs and risks of the debt stock suggests gross external and domestic borrowings in the ratio of 11 percent and 89 percent, respectively.

Although strategy four (S4) was selected as the optimal approach, uncertainties related to the global economy, market conditions and geopolitical developments may necessitate deviations from this strategy. Hence, the strategy will be reviewed in the context of emerging changes and adjusted accordingly.

Despite the recovery in the macro-fiscal performance, the increase in debt levels associated with the COVID-19 pandemic was a key factor in most recent credit rating actions. In October 2022, Moody's Investor Services downgraded The Bahamas from Ba3 to B1 but revised the outlook upwards to stable reflecting the strength of the tourism driven economic recovery underway and a narrowing of the fiscal deficit. S&P Global Ratings, in November 2022, affirmed The Bahamas' credit rating at B+ and the outlook at stable, based on positive economic fundamentals which are supporting a lowering of the fiscal deficit and a slowing in the growth of government debt.

Investor relations were enhanced over the course of the past year, in keeping with the government's commitment to maintain the highest level of debt transparency and to support continued market confidence in both domestic and foreign currency debt operations. Apart from the ongoing publication of public debt data on the government's website, investor outreaches took the form of deal and non-deal roadshows and targeted meetings.

# Introduction

# 1.1 BACKGROUND

Section 11 of the Public Debt Management Act, 2021 ("the PDMA") requires the Debt Management Office ("the DMO"), Ministry of Finance, to formulate a debt management strategy with medium-term focus that would guide the government's borrowing policies and debt management operation and aim at achieving the debt management objectives.

# 1.2 OBJECTIVES

The MTDS is anchored on the public debt management objectives, as set out in Section 4 of the PDMA, which are to:

- ensure that financing needs and debt service obligations are met in a timely manner at the lowest possible cost over the medium to long-term, consistent with a prudent degree of risk;
- support the development of an efficient government securities market; and
- ensure that the public debt is managed with due consideration to the general principles of responsible fiscal management (i.e., accountability, intergenerational equity, responsibility, stability, transparency and inclusive growth), the fiscal responsibility principles and the fiscal objectives in the Fiscal Responsibility Act, 2018 ("the FRA").

The formulation of the MTDS is consistent with the government's FY2022/23 budget and the macroeconomic assumptions guiding the medium-term fiscal strategy, as outlined in the 2022 Fiscal Strategy Report ("the FSR").

# 1.3

# SCOPE OF THE MTDS

The MTDS analysis incorporates foreign currency and Bahamian Dollar debt contracted by the central government and managed by the DMO. Although the scope excludes the stock of government guaranteed debt, the monitoring of these explicit contingent liabilities remains a key part of the government's overarching debt management activities.

For the purposes of the analysis, and to capture the portfolio risks more accurately, debt is classified by currency, as opposed to residency of holders. Therefore, throughout the document, external debt captures all foreign currency denominated debt and domestic debt represents Bahamian dollar debt.

The starting point for the MTDS analysis is the outstanding disbursed debt of the government on September 30, 2022, and the planned issuance of securities and other financing instruments over the balance of FY2022/23.

In accordance with the statutory requirements, the MTDS is a three-year rolling strategy covering a time horizon of the upcoming budget year (FY2023/24) and the next two fiscal years (FY2024/25 and FY2025/26). The strategy is reviewed and published on an annual basis.

In preparing the MTDS, the DMO utilized the World Bank/IMF analytical took to simulate and compare the cost risk profiles of alternative financing sources, with a view to identifying the optimal debt management strategy.

# 1.4 LEGAL AND INSTITUTIONAL FRAMEWORK FOR THE MTDS

### a. Legal Framework

Public debt management operations in The Bahamas are governed by the PDMA and the FRA, which articulate the government's commitment to fiscal and debt sustainability, and to accountability and transparency in fiscal operations.

Section 11 of the PDMA requires the DMO to develop and publish a medium-term debt management strategy that establishes the roadmap to achieve the objectives of public debt management for the upcoming budget year and at least two subsequent financial years. The MTDS guides the government's borrowing policies and debt management operation, is based on a detailed assessment of the costs and risks of alternative borrowing strategies and considers the government's fiscal policy, the annual budget, the fiscal strategy report, the macroeconomic environment, market conditions and other relevant factors.

The FRA, which is the umbrella legislation under which the government seeks to achieve fiscal consolidation and debt sustainability, established the numerical long-term ceiling on government debt at 50 percent of GDP—a level deemed consistent with this objective. As specified in the 2022 FSR, attainment of the fiscal consolidation goal of 0.5% of GDP by FY2024/25 will ensure gradual convergence towards this debt anchor by the target date of FY2030/31.

### b. Institutional Arrangements

Public debt management operations in The Bahamas are the responsibility of the DMO in the Ministry of Finance and cover front office (resource mobilization/negotiations and investor relations), middle office (preparation of the debt reports, risk management and debt analysis), and back office (recording and reporting of debt statistics) activities.

Front office operations pertaining to the issuance of domestic government securities and related tasks (e.g., preparation of the prospectuses for the issue of government securities and the announcements and the results of issuances, as well as acting as paying agent for debt servicing obligations) continue to be executed by the Central Bank of The Bahamas ("the Central Bank"), as the government's fiscal agent, in collaboration with the DMO. The Debt Management Unit of the Central Bank's Research Department also continues to provide ongoing transitional support with back-office activities.

The Ministry of Finance continues to enhance the existing institutional arrangements for debt management. Working with development partners, the ongoing focus is on building the DMO team to the optimal size required by the organizational structure, providing exposure to capacity building initiatives in debt management and promoting greater use of analytical tools.

As part of its enhanced debt management framework, the government appointed a private sector debt committee consisting of representatives from the domestic private sector and an independent international debt advisory firm. Their focus is mainly on assisting the government with identifying and exploring financing alternatives that would allow optimization of the overarching cost/risk minimizing debt management objective.

The remainder of the document is organized as follows. Section 2 presents the key macro-fiscal and market backdrop to the preparation of the MTDS. Section 3 reports on the 2021/22 actual costs and risks relative to the projected debt strategy, while Section 4 reviews the existing debt portfolio. In Section 5, we outline the medium-term macroeconomic context for the MTDS, Section 6 details the medium-term debt strategy, and Section 7 summarizes the optimal debt management strategy. Section 8 comments on debt sustainability and Section 9 sets out the MTDS implementation, monitoring, review and reporting process.

# Recent Macroeconomic and Market Developments



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# 2.1 ECONOMIC DEVELOPMENTS

Following two calendar years of contraction averaging 11.5 percent, the Bahamian economy achieved a strong recovery in 2021, as the global lockdowns to contain the spread of the COVID-19 pandemic eased amid the aggressive vaccine campaigns.

Fueled by a steady resumption in tourism activity and domestic demand, real GDP expanded by 13.7 percent, relative to a 23.8 percent contraction in 2020. The rebound in key source tourist markets translated into a 17.1 percent gain in total arrivals to 2.1 million in 2021, compared with a staggering year-earlier decline of 75.2 percent. More recent tourism performance data confirm a strengthened convergence towards pre-pandemic levels, with the year-to-date September 2022 foreign arrivals at 4.8 million representing a more than fourfold gain over the 0.9 million visitors for the prior year comparison.

In other real sector activities, construction output in 2021 and into 2022 continued to be underpinned by varied foreign investment projects, with more moderate activity in the domestic residential and commercial sectors. These developments contributed to healthy job gains, although the unemployment rate remained elevated above pre-COVID levels.

Inflationary pressures heightened throughout 2021, as the pass-through effects of higher global oil prices on imports and supply chain bottlenecks boosted the rate of increase in the All Bahamas Retail Price Index, to 2.91 percent from a mild 0.04 percent in 2020 and an average rate of 2.09 percent over 2017-2019. With the persistence of adverse oil price conditions, aggravated by the ongoing war in Ukraine, average consumer price inflation intensified to 5.1 percent for the twelve months to September 2022 from 2.0 percent in the same period in 2021.

Recent monetary sector developments featured continued growth in the deposit base, amid subdued private sector credit activity, which was adversely impacted by the high unemployment rate. As a consequence, banks' excess cash holdings remained buoyant at $1,417.5 million at end-December 2021, and posted growth of $714.2 million to $2,254.5 million at end-September 2022.

On the external account, the estimated current account deficit widened in 2021 by $230.8 million to $2,566.1 million or 22.9 percent of GDP. Reinforced by the upturn in tourism earnings, the services account reverted to a surplus of $909.4 million from the COVID-19 induced deficit of $129.8 million in 2020. However, the estimated surplus on the capital account narrowed significantly to $53.9 million from $546.8 million in 2020—the latter being boosted by Hurricane Dorian re-insurance inflows. The net inflow on the financial account moderated to $1,540.6 million from $2,316.3 million in 2020, which was amplified by government debt financing inflows.

International reserves achieved historic highs in 2021, providing ongoing credibility for The Bahamas' pegged exchange rate arrangement with the United States Dollar. Reflecting the recovery in real sector earnings, alongside inflows to the banking system arising from the receipt of IMF Special Drawing Rights (SDRs) in 2021 and the net proceeds of government's foreign currency borrowings, foreign exchange reserves closed 2021 higher at $2.433 billion—a gain of $0.051 billion over 2020. This stock was equivalent to an estimated 36.8 weeks of total merchandise imports, well above standard reserve adequacy benchmarks. Favourable real sector developments sustained gains in external reserves to $3.331 billion at end-September 2022, which was an estimated 45.7 weeks of import cover.

In recent years, the strong contractionary effects of the COVID-19 pandemic on macro-fiscal conditions adversely impacted sovereign credit ratings for The Bahamas. In its latest rating action, Moody's Investor Services downgraded The Bahamas' long-term issuer and senior unsecured ratings, from Ba3 to B1 on

October 6, 2022. Moody's perceived that The Bahamas faces constrained funding options given elevated external borrowing costs, and the potential for tighter funding conditions over a prolonged period to undermine the sovereign's ability to meet foreign currency debt repayments. However, the outlook was upgraded to stable from negative, in acknowledgment of The Bahamas' tourism driven improvement in economic conditions and a narrowing fiscal deficit. S&P Global Rating's most recent rating exercise, on November 22, 2022, maintained The Bahamas' long-term foreign and local currency credit rating at B+, and the outlook at stable. This outcome credited the improvement in the economic fundamentals and the observed contribution of higher revenue and lower spending to deficit reduction and slower growth of government debt—trends that are expected to persist into 2024.

# 2.2 FISCAL DEVELOPMENTS

The government's FY2021/22 fiscal performance benefitted from the resilience in general economic conditions, and the combined impact of fiscal policy measures aimed at improving revenue collections and the unwinding of extraordinary COIVD-19 fiscal support outlays.

Preliminary data on the fiscal outcome for FY2021/22 indicate a better-than-expected pace of consolidation. The overall fiscal deficit narrowed by 86.1 percent to $717.4 million from $1,334.8 million in FY2020/21, and a revised budgeted $1,110.0 million. The overall deficit equated to an estimated 5.8 percent of GDP, compared with a revised budgeted target of 9.6 percent of GDP.

Buoyed by the resumption of general business activity, revenue receipts for FY2021/22 were estimated at $2,609.3 million (21.0 percent of GDP)—an increase of $700.5 million (36.7 percent) over FY2020/21 and surpassing the budget target by $270.5 million (11.5 percent). Among the key contributors were the annual improvements in value added taxes, of $402.0 million (54.8 percent) to $1,135.8 million, and in trade taxes of 76.4 percent to $511.8 million.

Aggregate expenditure, which increased by $54.5 million (1.7 percent) to $3,326.7 million (26.8 percent of GDP), represented 96.4 percent of the budget target. The $170.4 million (5.9 percent) hike in recurrent outlays was primarily attributed to a $174.7 million (46.3 percent) rise in interest costs associated with the recent COVID-19 related increases in the debt stock and higher borrowing terms. Reflecting broad based reductions in investments, capital spending was $87.3 million lower at $283.8 million—equating to 80.5 percent of the budget and an estimated 2.3 percent of GDP.

Recent data on the fiscal performance confirmed the durability of the fiscal consolidation momentum, with the overall fiscal deficit for the first quarter of FY2022/23 receding to an estimated $23.4 million from $136.4 million a year earlier. The $57.8 million (9.7 percent) hike in revenue was primarily associated with gains in value added taxes and trade taxes, while the aggregate $58.0 million (7.9 percent) decline in outlays reflected the normalization in spending for subsidies and health and social services following the COVID-19 related spikes.

# 2.3 MARKET DEVELOPMENTS

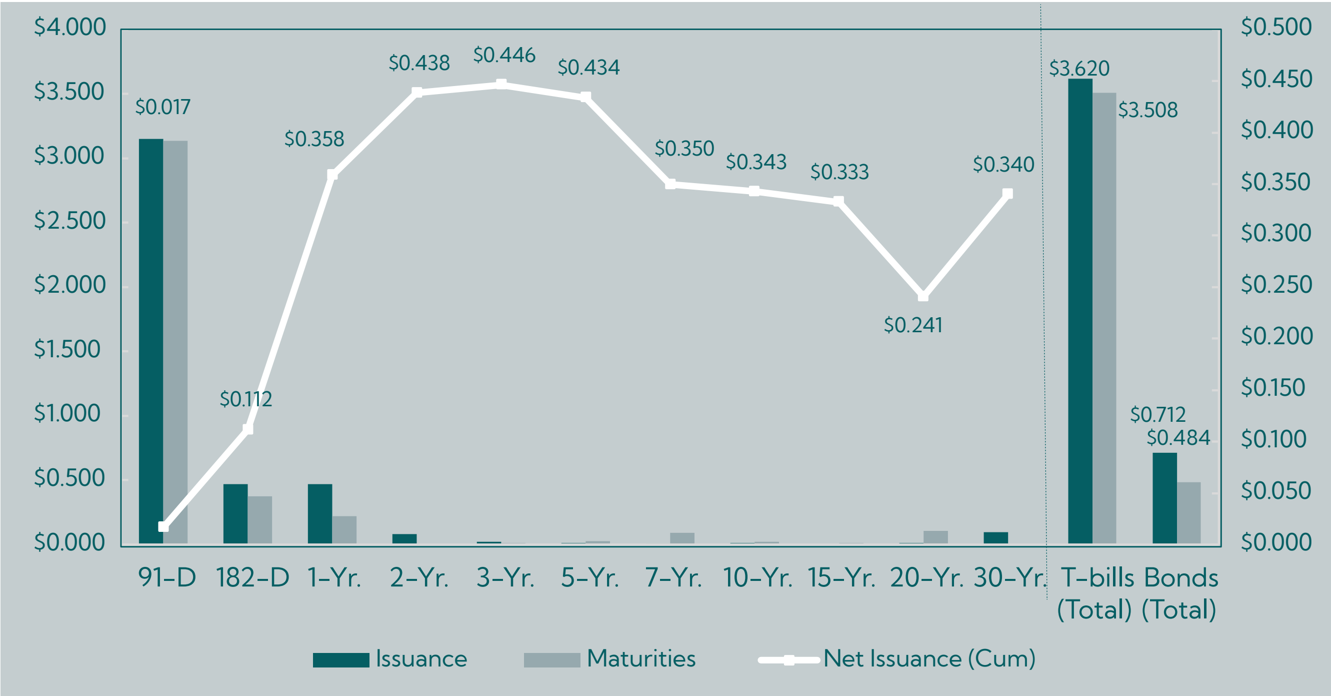
### a. Domestic

The Bahamian Dollar debt market is the primary source of financing for the government and contributes substantially to meeting financing targets, at stable costs. Government Bahamian Dollar securities (bonds and Treasury bills) are a liquid and low risk benchmark asset for the domestic investors—especially the banking sector, which held approximately 34.7 percent of the $5,101.5 million in outstanding securities at end-September, 2022.

As experienced in the two previous fiscal years, the strength of the Bahamian Dollar bond market remains tied to economic activity in the country's dominant tourism sector, which strongly influences the level of loanable funds available within the banking system. In the context of buoyant liquidity conditions, market appetite for government securities remained strong throughout FY2021/22; on average, bids offered by participants exceeded the announced size of issuance, thereby permitting the government to accept higher volumes and limit reliance on external funding. As depicted in Figure 1, bond issuances aggregated $712.4 million against maturities of $484.1 million, for a net increase of $228.3 million; and Treasury bills netted an additional $112.0 million—of which 84.8 percent was in the 182-day tranche.

For FY2021/22, secondary market activities in government bonds continued to reflect investors' preference to buy and hold these securities. Of the total $3.7 billion in securities listed on the Bahamas International Securities Exchange, there were 369 trades with

**Figure 1: Issuances and Redemptions of Bahamian Dollar Debt Securities, FY2021/22 (B$B)**




a volume of 689,973. The total value of trades at $69.2 million represented approximately 2.0 percent of the listings.

Despite a diverse investor base in the Bahamian Dollar bond market (comprising financial institutions, businesses, private individuals, credit unions, pension funds), the government acknowledges the need to encourage new market players and achieve greater efficiency in the bond issuance process. To this end, several initiatives are underway which focus on liquidity, transparency, secondary market trading, settlement mechanisms and investor diversification. Among these are the upcoming transition to an online auction for Bahamas Government Securities Depository-registered participants, the concurrent establishment of a new non-competitive bidding scheme carve-out for retail investors, and the introduction of a savings bond to promote a savings culture and support financial inclusion.

Communication initiatives remain key to the DMO's efforts to enhance market transparency, promote dialogue and reduce uncertainty in the domestic debt market. The DMO, with participation from the Central Bank, hosted quarterly meetings with major market participants to provide updates and gauge the market's sentiment towards the debt issuances, rates, tenor, and other considerations, to discuss financing operations and to review the performance of the issuance arrangements.

**b. External**

During FY2021-2022, the global economic outlook deteriorated significantly, amid the war in Ukraine and a tightening in international market conditions. Financial markets were jolted by the global shift towards a more aggressive monetary policy tightening to contain escalating inflationary pressures.

Rising interest rates in advanced economies, coupled with increasing global risk-off sentiment, exerted significant pressure on sovereign spreads and borrowing costs in emerging economies. This feed through to an increase in yields, of approximately 250 basis points through early November 2022, for the 10-year US Treasury. In addition to hikes in reference rates, the J.P. Morgan Emerging Market Bond Index spread widened by almost 100 basis points over the same period, highlighting the amplified pressure on funding costs in emerging markets.

In this challenging macroeconomic context, The Bahamas witnessed significantly higher yields on its international bonds, by an average of approximately 520 basis points, through early November 2022. Since the beginning of the COVID-19 crisis, The Bahamas synthetic 10-year USD yield firmed progressively to reach a maximum of 14.7 percent in August 2022, and has gradually decreased since then. Although foreign currency debt refinancing needs remain manageable over the medium term, The Bahamas international yield levels have made the Eurobond market an unattractive source of funding.

In late October 2022, the DMO launched a market outreach to the international investor base to: (i) realign market perception with the country's healthy macroeconomic fundamentals and (ii) explain the government's diversified funding strategy for FY2022/23. This event, inter alia, has helped to achieve a reduction of yields on the short end of the curve, with a decrease of more than 800 basis points for the 2024 Eurobond since October 2022. In the short term, The Bahamas intends to access alternative funding sources on both external and domestic markets, including structured credits involving multilateral lenders, to secure funding at a lower cost.

# Review of the FY2021/22 Actual Borrowing vs the Annual Borrowing Plan

# 3.

# REVIEW OF THE FY2021/22 ACTUAL BORROWING VS THE ANNUAL BORROWING PLAN

The FY2021/22 Annual Borrowing Plan (ABP) targeted a prudent mix of domestic and foreign currency borrowings that would secure progress towards the optimal debt strategy selected for the FY2022/23 – FY2024/25 Medium Term Debt Strategy (MTDS). The ABP sought to extend the average time to maturity, elevate the share of domestic borrowings and incorporate strategic liability management operations, while balancing cost.

The ABP envisaged gross financing needs of approximately $1,851.6 million, of which 51.8 percent was to be sourced in foreign currency and the remaining 48.2 percent in Bahamian Dollars. Net financing, which represented the projected fiscal deficit, was placed at $951.8 million, with approximately 86.8 percent to be derived in foreign currency and 13.2 percent in Bahamian Dollars. The ABP targeted the bulk of external financing from the bond market, alongside significant access to both concessional/semi-concessional borrowings and commercial credit, while Bahamian Dollar financing was expected to be met mainly through commercial loans, issuances of bonds and treasury bills.

Of the total $3,036.9 million in actual gross financing (inclusive of $995 million in rollovers of short-term advances) in FY2021/22, the foreign currency component was 33.6 percent of the total compared to the ABP target of 51.8 percent per cent, largely explained by the reduced size of the bond issuance. The gross Bahamian Dollar denominated financing, at 66.4 percent of the total, exceeded the targeted 48.2 percent. This variance reflected a deliberate shift in the financing strategy towards increased domestic borrowing sources, alongside the additional $252.0 million in financing approved in the FY2021/22 Supplementary Budget to settle outstanding expenditure arrears. On a net financing basis, the currency shares were virtually similar at 66.3 percent for foreign currency and 33.7 percent for Bahamian Dollars.

# Review of Existing Debt Portfolio



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# 4.1

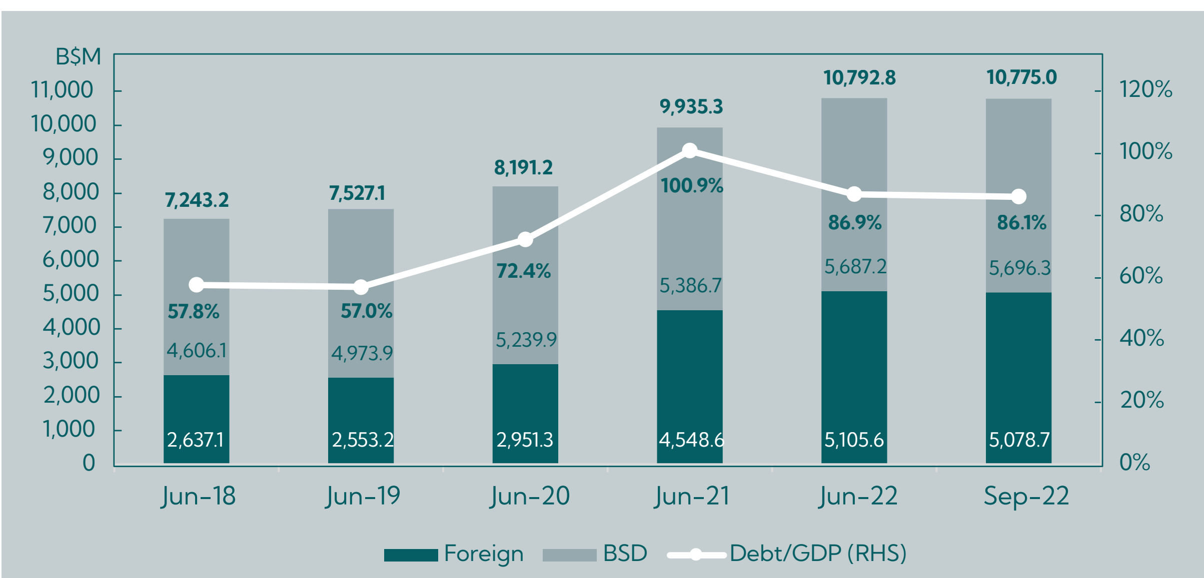
# COMPOSITION OF OUTSTANDING GOVERNMENT DEBT

As depicted in Figure 2, the debt stock rose sharply between end-June 2019 and end-June 2021, as the twin shocks of Hurricane Dorian and the COVID-19 pandemic elevated government's gross financing needs.

However, since end-June 2021, this deterioration was reversed as the adverse effects of the pandemic receded and economic growth and the fiscal performance improved.

At end-September 2022, the outstanding debt stock was estimated at $10,775.0 million or 86.1 percent of the estimated annualized gross domestic product (GDP), compared with 100.9 percent at end-June 2021.

**Figure 2: Government Debt Portfolio**



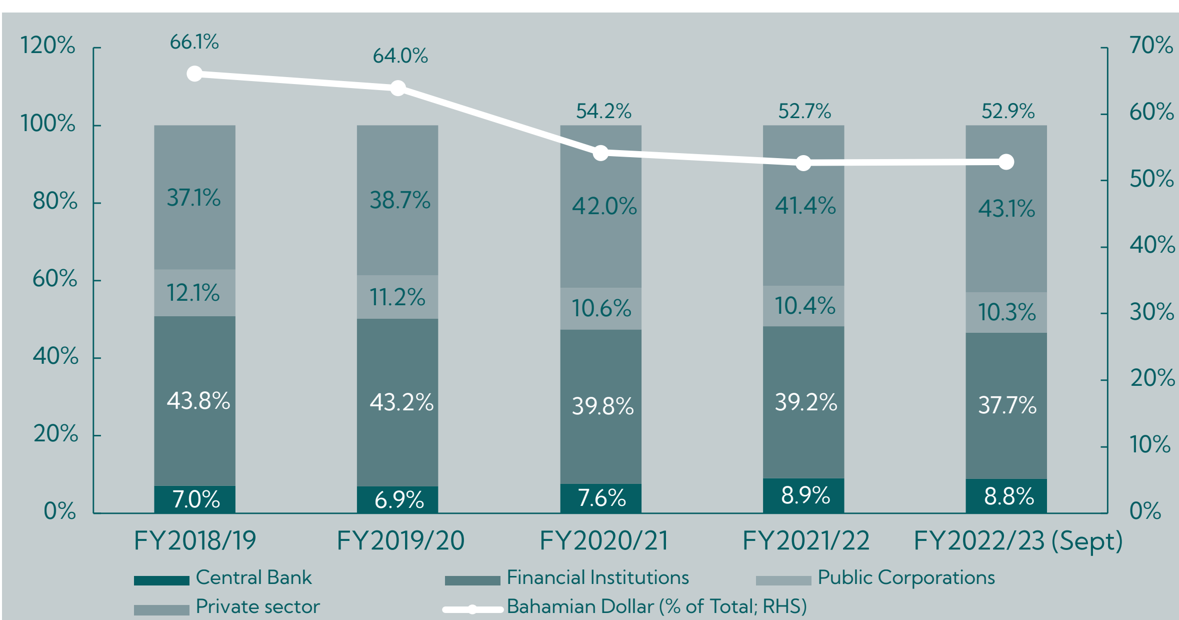

Of the $10,775.0 million in debt obligations, foreign currency debt was $5,078.7 million (47.1 percent) and Bahamian Dollar liabilities amounted to $5,696.3 million (52.9 percent).

# 4.2 BAHAMIAN DOLLAR DEBT

Between end-June 2019 and end-September 2022, Bahamian Dollar debt posted growth of $722.5 million, although its share in total debt receded to 52.9 percent from 66.1 percent (see Figure 2). The creditor profile showed higher shares held by the dominant private sector category (which includes individuals, credit unions, trust and mutual funds and businesses), contrasting with a corresponding reduction in the proportion held by financial institutions (see Figure 3).

Based on the instrument profile, the bulk of the debt was comprised of bonds (72.6 percent), followed by Treasury bills (15.2 percent), Treasury notes (1.8 percent), commercial loans (6.8 percent) and advances from the Central Bank (3.6 percent).

**Figure 3: Creditor Profile of Bahamian Dollar Debt (%)**



## a. Government Securities

### i. Bonds

Government bond issuances provide a liquid and low risk benchmark asset to domestic investors and provides a non-inflationary way for the government to finance the budget. Market appetite for domestic bonds remained strong throughout FY2021/22 and into the opening quarter of FY2022/23, favoured by the elevated levels of excess cash in the banking system.

Of the $4,137.3 million in outstanding bonds at end-September 2022, the creditor profile was dominated by private sector investors (52.0 percent)—many of whom tend to have a long-term investment preference. Next were commercial banks (24.7 percent) with liquidity requirements typically concentrated in the short to medium-term investment horizon, followed by public corporations (12.6 percent) and the Central Bank (7.2 percent). The proportion for insurance companies, which tend to match their long-term liability structure, moved lower to 3.5 percent from 4.0 percent in September 2021.

Based on the maturity structure, 72.7 percent of the portfolio was held in the over 15 year bucket, with an approximate doubling in the proportion for the 1 year or less tranche, to 11.3 percent from 5.7 percent at end-June 2021. Besides the gain in the over 1 – 5 year tranche, to 5.6 percent, lower shares were registered for the over 5 to 10 year (8.4 percent) and the over 10 - 15 year (1.9 percent) maturity buckets.

### ii. Treasury Bills and Notes

Treasury bills and notes comprised a mix of 30-, 91- and 182-day tenors issued through competitive multiple price auctions and having an average life of approximately 3.9 months. Of the aggregated $964.5 million outstanding at end-September 2022, the bulk was issued at 91-day maturities (70.8 percent), followed by the 182-day (28.9 percent) and the 30-day (0.3 percent) tenors.

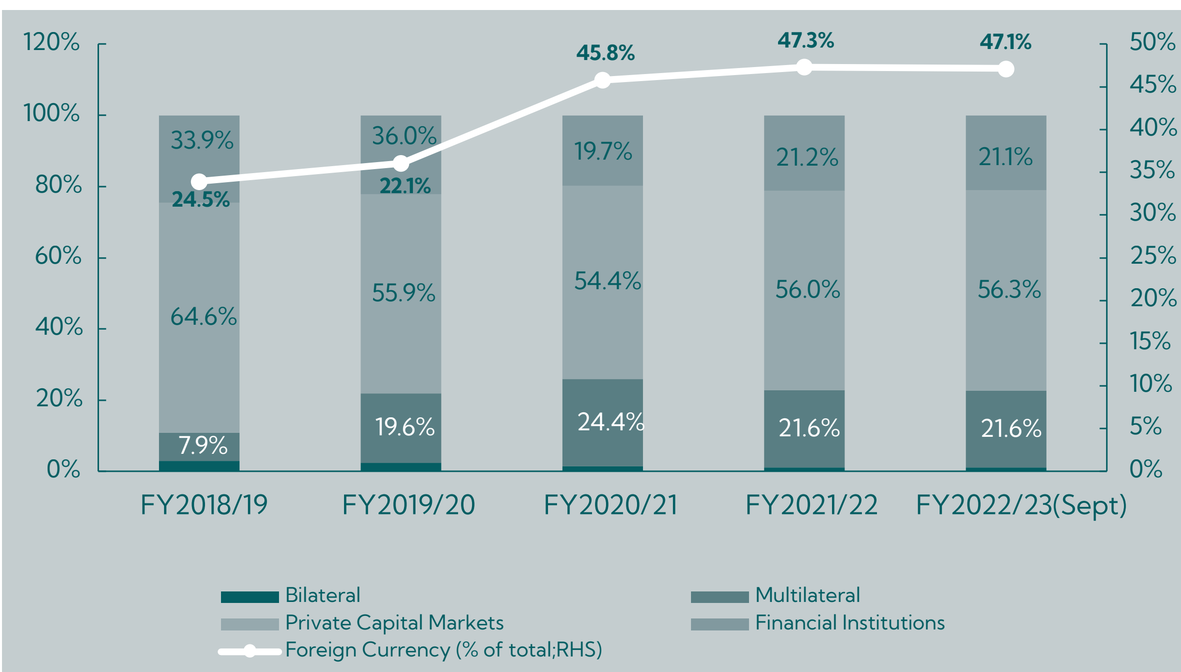
Partly reflected their qualification as regulatory liquid asset, commercial banks held the commanding share of these short-term securities—although lowered to 78.1 percent at end-September 2022. Correspondingly, the proportion held by the diverse private sector grouping (broker dealers, private sector institutions, individuals and credit unions) widened to 15.2 percent and for public corporations, to 6.7 percent.

# 4.3 FOREIGN CURRENCY DEBT

At end-September 2022, the $5,078.7 million in outstanding foreign currency debt represented a near doubling of the end-June 2019 level, an elevated 47.1 percent share of the total debt and 40.6 percent of estimated fiscal year GDP. Growth was mainly driven by new bond issuances and increases in multilateral borrowings.

The creditor mix (see Figure 4) featured private capital markets (56.3 percent), multilateral institutions (21.6 percent), financial institutions (21.1 percent) and bilateral agencies (1.0 percent).

**Figure 4: Creditor Profile of Foreign Currency Debt (%)**



### b. Private Capital Markets

As shown in Table 1, the $385.0 million increase in international bond issuances since end-June 2021 was attributed to the dual tranche offering 144A/Regulation S debt offering in June of 2022. The issuance comprised USD$135 million 3.850% Series A notes and US$250 million 9.00% Series B Notes, with the IDB providing a US$200 guarantee for the primary benefit of the bondholders for the Series A Notes. At end-September 2022, private capital markets held 56.3 percent of foreign currency debt, compared with 64.7 percent at end-June 2019.

An institutionalized component of the government's debt management strategy is the establishment of several discretionary sinking funds to help reduce refinancing risk in respect of future bond redemptions. Since the formation of the initial fund in 2003, contributions to the existing four sinking funds have been provided for direct budgetary allocations. This initiative will be reinforced by the government's recent announcement of upcoming changes to the PFM Act that would allow for all tax arrears collected to be deposited directly into the sinking funds and earmarked for the settlement of debt.

**Table 1: Government International Bond Issuances**

| Issue | Coupon | Issue Date(s) | Maturity Date(s) |
|---|---|---|---|
| USD$200 million | 6.625% | May-2003 | May-2033 |
| USD$100 million | 7.125% | Apr-2028 | Apr-2038 |
| USD$300 million | 6.950% | Nov-2009 | Nov-2029 |
| USD$300 million | 5.750% | Jan-2014 | Jan-2024 |
| USD$750 million | 6.000% | Nov-2017 | Nov-2026\|Nov-2027\|Nov-2028 |
| USD$825 million | 8.950% | Oct-2020\|Dec-2020 | Oct-2030\|Oct-2031\|Oct-2032 |
| USD$135 million | 3.850% | Jun-2022 | Jun-2033\|Jun-2034\|Jun-2035 I Jun-2036 |
| USD$250 million | 9.000% | Jun-2022 | June-2029 |

### c. Multilateral Debt

The government debt strategy targeted greater financing and credit enhancement support from multilateral institutions, which typically offer more concessional terms (comparatively lower cost and longer tenor) than commercial debt. Consequently, the share of multilateral debt rose sharply from 7.9 percent of the foreign currency debt stock at end-June 2019 to 21.6 percent at end-September 2021. New policy-based facilities expanded the IDB's claims on the government more than threefold since end-June 2019, to $643.8 million at end-September 2022. However, the IDB's corresponding share was sharply reduced to 58.8 percent of the total multilateral debt, as new facilities with the IMF, the CDB and the Word Bank—to assist with extraordinary requirements arising from the COVID-19 pandemic—elevated their shares, to 21.3 percent, 10.7 percent and 9.2 percent, respectively.

### d. Bilateral Debt

The single holder of bilateral debt was the Export-Import Bank of China, whose claims continued to decline in line with scheduled redemptions. The $53.1 million outstanding balance on the three credit facilities at end-September 2022 corresponded to 1.0 percent of the total foreign currency debt.

### e. Financial Institutions

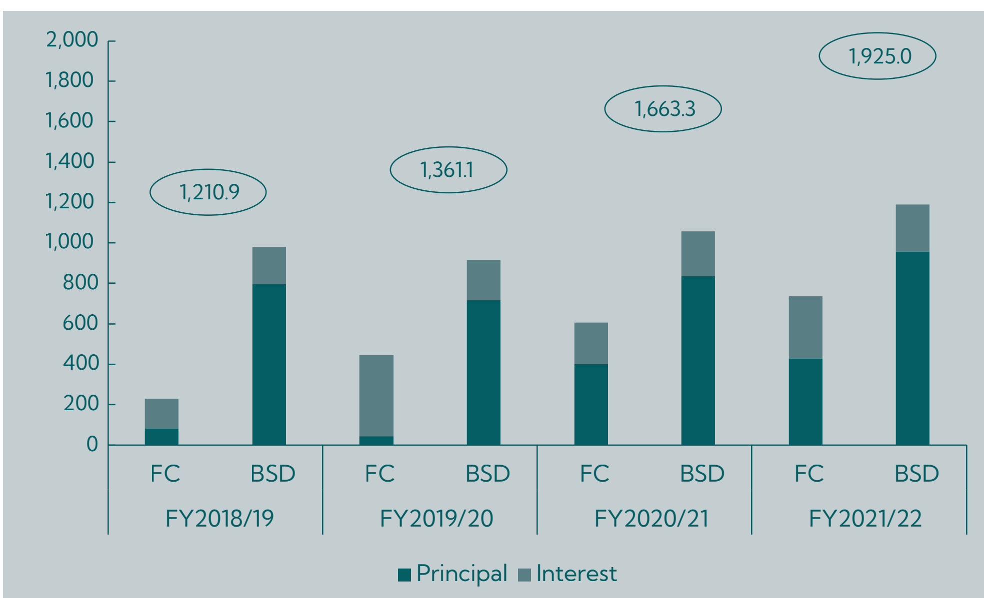
Debt owing to financial institutions in foreign currency totaled $1,071 million at end-September 2022, corresponding to an increase of $176.2 million over end-June 2021 and $445.5 million relative to end-June 2019. However, the outstanding was a relatively stable 21.1 percent of the total.

# 4.4 DEBT SERVICE PAYMENTS

As depicted in Figure 5, total debt service increased during the past four years, growing from $1,130.0 million in FY2018/19 to $2,696.9 million in FY2021/22—of which 27.3 percent was incurred in foreign currency and 72.7 percent in Bahamian dollars.

In foreign currency, the rise in interest cost to $306.2 million for FY2021/22 reflected tightened borrowing terms on newly contracted debt, with the average interest rate on foreign debt of 6.20 percent exceeding the 4.63 percent for Bahamian Dollar debt.

**Figure 5: Government Debt Service (B$M)**




Trends in Bahamian Dollar debt service costs were primarily explained by the incidence of increased issuances rather than firming in interest rates which remained relatively stable. Similarly, the steady accretions in the principal component were associated with the higher volume of refinancing activities in the context of an elevated debt stock.

# 4.5

The assessment of costs and risks in the existing debt portfolio is a key component of the government's debt management strategy. The debt portfolio is predominantly exposed to refinancing risk, given changes in interest and foreign exchange rates, and there is also the risk associated with debt refinancing. Table 2 illustrates key cost and risk indicators for the debt portfolio at end-September 2022.

# COST AND RISK ANALYSIS OF THE DEBT PORTFOLIO

### f. Cost Indicators

The weighted average interest rate (WAIR), or implied interest rate, of the overall debt portfolio increased to 5.5 percent at end-September 2022 from 4.9 percent in the comparable period of 2021. The higher WAIR on the foreign currency debt of 6.2 percent is primarily explained by the dominance of the fixed rate USD bonds in the portfolio, which carried a relatively stable weighted average interest rate of 7.2 percent compared with a firming in the WAIR for the loan segment to 5.7 percent as a consequence of tightened borrowing terms on recently contracted commercial credits. Meanwhile, the WAIR was comparatively lower for multilateral and bilateral loans, at 3.2 percent and 2.0 percent, respectively. Based on this distribution, the overall WAIR on foreign currency debt was 7.5 percent at end-September 2022 compared with 6.4 percent in the corresponding period a year earlier.

In the domestic market, government bonds carried a slightly lower WAIR of 4.7 percent at end-September 2022,

**Table 2: Cost and Risk Indicators of Existing Debt**

As at Period Ended

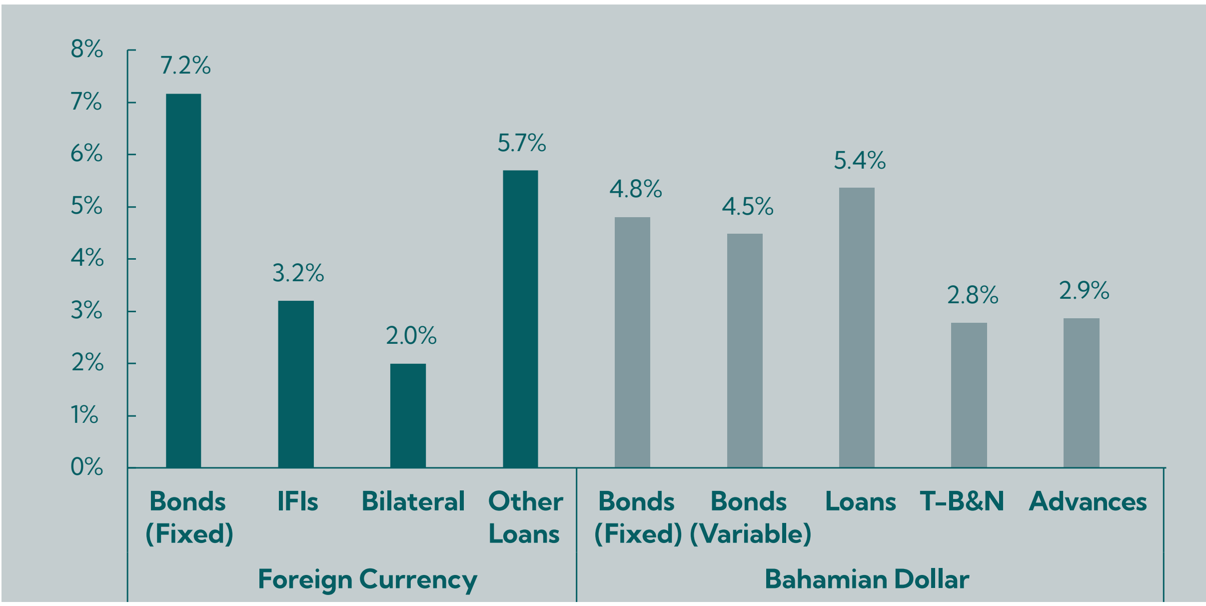
| Cost and Risk Indicators | | Sep-21 | Sep-22 |
|---|---|---|---|
| **Nominal debt** | | **10,087** | **10,775** |
| **Nominal debt as % of GDP** | | **94.9** | **86.1** |
| **Present value debt as % GDP** | | **91.6** | **85.4** |
| **Interest Payment as % GDP** | | **4.1** | **4.4** |
| **Weighted Average Interest Rate (%)** | | 4.9 | 5.5 |
| **Refinancing Risk** | Debt maturing in 1 yr. (as % of total) | 22.4 | 23.6 |
| | Debt maturing in 1 yr. (as % of GDP) | 21.2 | 20.3 |
| | **ATM Total Portfolio (years)** | **7.3** | **6.9** |
| | Foreign Currency | 7.0 | 6.3 |
| | Bahamian Dollar | 7.4 | 7.4 |
| **Interest Rate Risk** | **ATR Total Portfolio (years)** | **5.0** | **5.0** |
| | Foreign Currency | 5.0 | 4.5 |
| | Bahamian Dollar | 5.1 | 5.5 |
| | **Debt Refixing in 1 yr. (% of total)** | **56.2** | **54.5** |
| | Foreign Currency | 40.8 | 41.5 |
| | Bahamian Dollar | 68.7 | 66.0 |
| | Fixed rate debt, incl T-bills (% of total) | 59.8 | 61.3 |
| | T-bills (% of total) | 11.1 | 9.0 |
| **FX Risk** | Non-USD FX debt as % of total | 5.4 | 6.5 |
| | FX debt as % of total debt | 44.9 | 47.1 |

with approximately 53.0 percent of the portfolio being issued at fixed interest rates and having a higher WAIR of 4.8 percent, compared with a 4.5 percent WAIR for the variable rate bonds. Treasury bills and notes bore a combined WAIR of 2.8 percent, while Bahamian Dollar commercial loans carried a WAIR of approximately 5.4 percent—comprising 4.2 percent and 5.7 percent for the fixed and variable rate portions, respectively. The WAIR on advances from the Central Bank, which are linked to the 90-day Treasury bill rate, was 2.9 percent (see Figure 6).

Total interest payment on the debt portfolio of $538.8 million for FY2021/22 represented an estimated 28.2 percent of government revenue and 4.3 percent of GDP.

The present value of the debt at end-September 2021 was significantly lower, at $10.678 billion (85.4 percent of GDP compared with 91.6 percent a year earlier), due to the growing importance of concessional and semi-concessional debt in the portfolio.

**Figure 6: Weighted Average Interest Rate Cost by Instrument (end-Sept, 2022)**




## g. Risk Indicators

### iii. Refinancing/Rollover Risk

Rollover/refinancing risk captures the exposure of the debt portfolio to higher refinancing costs for maturing debt obligations within a specified period or, in extreme cases, the inability to rollover the debt. The key indicators for measuring refinancing risk are debt maturing in one year as a percent of total debt, Average Time to Maturity (ATM) and debt maturing in one year as a percent to GDP.

Refinancing risk is assessed as moderate in the government's existing debt portfolio, with the ATM lower by 0.3 years since end-September 2021 at 6.9 years at end-September 2022. The ATM for foreign currency debt narrowed to 6.3 years at end-September 2022 from 7.0 years in the prior year, and with the proportion of the portfolio maturing within 1 year higher at 10.8 percent from 7.7 percent a year ago—a change driven by the upcoming $180 million commercial credit facility maturing in December 2022.

Reflecting the short-term nature of the Treasury bills and notes, Bahamian Dollar debt had a comparatively higher, yet stable, ATM of 7.4 years, as was the case for the proportion maturing within 1 year at 35.0 percent.

### iv. Redemption Profile

Figure 7 presents the amortization of the outstanding debt and the risk inherent in the structure of the debt. Aside from the short-term domestic Treasuries, the redemption profile of the government's debt portfolio remain reasonably spaced.

The distribution pattern of the forecasted redemptions between 2023 and 2032 derives primarily from the dominant share of domestic bonds in the portfolio. The redemption profile for foreign currency debt is relatively lengthy and smooth, reflecting the longer maturity and amortizing structure of the multilateral and bilateral credits, with the projected spikes linked to the foreign bond redemptions.

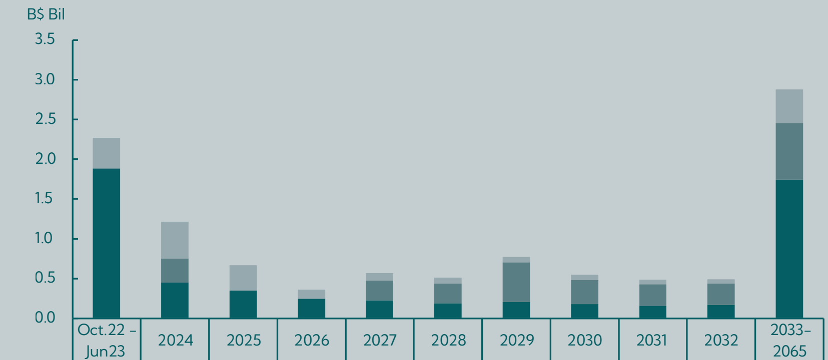
### v. Interest Rate Risk

Interest rate risk relates to the changes in debt service cost arising from variability in market interest rates. The Average Time to Re-fixing (ATR) captures the vulnerability of the portfolio to higher market interest rates at the point at which the interest is reset or fixed rate debt is refinanced.

The debt portfolio has a relatively stable overall ATR of 5.0 years, with 54.5 percent of the total debt subject to a change in interest rate in one year.

Although the ATR was virtually unchanged at 5.0 years, the proportion of debt refixing within one year lower by 1.7 percentage points at 54.5 percent. The latter position continued to reflect the prevalence of the short-term Treasury bills and notes in the portfolio. The ATR for the foreign currency debt was 4.5 years, but with a slightly higher 41.5 percent of the debt refixing in one year compared with 40.8 percent in the year earlier period. Further, fixed rate debt represented an elevated 61.3 percent of the total debt, with the foreign currency and Bahamian Dollar components at 45.1 percent and 54.9 percent, respectively.

**Figure 7: Redemption Profile of Government Debt, as at end-September 2022**




| | Oct.22 - Jun23 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033-2065 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FX_Loans | 0.4 | 0.5 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| FX_Bonds | 0.0 | 0.3 | 0.0 | 0.0 | 0.3 | 0.3 | 0.5 | 0.3 | 0.3 | 0.3 | 0.7 |
| BSD | 1.9 | 0.5 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.7 |

### vi. Exchange Rate Risk

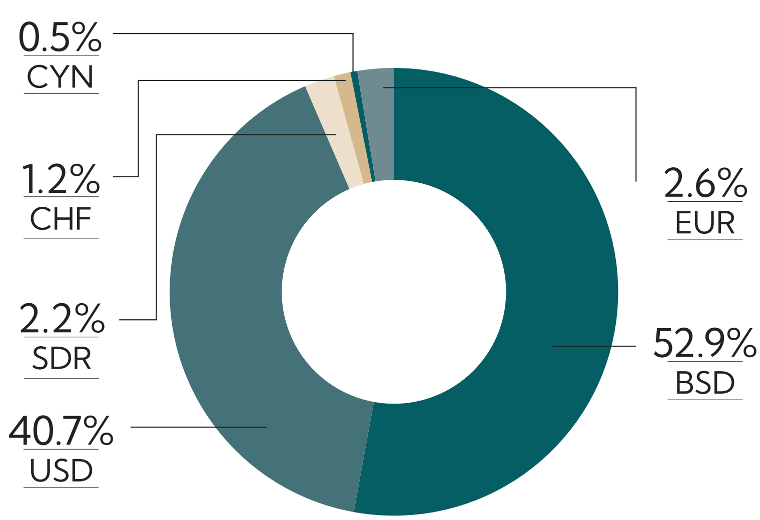
Foreign exchange risk is the risk that The Bahamas' debt position will deteriorate due to changes in the value of the Bahamian Dollar relative to other currencies.

Exchange rate risk continues to be low at end-September 2022. A dominant 52.9 percent of the debt is denominated in BSD and 40.7 percent in USD to which the Bahamian Dollar is tied at parity (see Figure 8). Among the other shares, 2.6 percent represented Euros; 2.2 percent SDRs, for which the USD is also the main currency, and with lower shares for the CHF (2.6 percent) and CNY (1.0 percent).

As part of its proactive debt management strategy, the government has in place CHF and CNY foreign exchange hedging operations to increase the predictability of foreign currency debt service.

In FY2021/22, the strength of the USD relative to other foreign currencies resulted in favourable exchange rate movement for the foreign currency debt.

**Figure 8: Currency Distribution of Government Debt (end-Sept 2022)**



# Medium-term Macroeconomic Framework



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# 5.1 MACROECONOMIC ASSUMPTIONS

The MTDS incorporates the medium-term macroeconomic forecasts presented in the 2022 FSR and FY2022/23 Budget, which outline the government's policy framework for achieving the fiscal consolidation and debt sustainability targets (see Table 3). Through a combination of economic and fiscal reform policy initiatives, the government intends to move progressively towards achieving the fiscal and debt to GDP targets, of 0.5 percent and 50 percent, respectively.

The medium-term macroeconomic forecasts for The Bahamas are positive, premised on the assumption of a durable revival in tourism and steady foreign investment flows. These are expected to support positive outcomes for the external position, as measured by the change in the international reserves position, and therefore secure stability in the exchange rate.

**Table 3: Baseline Macroeconomic Assumptions**

| | | Actuals | | | Budget | Forecasts | | |
|---|---|---|---|---|---|---|---|---|
| | Unit | 2019/20 | 2020/21P | 2021/22P | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
| **Total Revenue** | B$ M | 2,099.2 | 1,908.8 | 2,609.3 | 2,804.4 | 3,242.6 | 3,617.1 | 3,851.3 |
| **Total Expenditure** | B$ M | 2,898.2 | 3,243.6 | 3,326.7 | 3,368.3 | 3,348.0 | 3,329.8 | 3,641.3 |
| **Recurrent Expenditure** | B$ M | 2,526.0 | 2,872.5 | 3,042.9 | 2,997.2 | 2,982.8 | 2,985.8 | 3,099.1 |
| **of which: Interest Pmts** | B$M | 344.7 | 377.1 | 551.8 | 589.0 | 543.5 | 525.9 | 511.1 |
| **Capital Expenditure** | B$M | 372.2 | 371.1 | 283.8 | 371.1 | 365.2 | 344.0 | 542.2 |
| **Overall Fiscal Balance** | B$M | (799.0) | (1,334.8) | (717.4) | (563.9) | (105.4) | 287.3 | 210.0 |
| **Primary Fiscal Balance** | B$M | (454.3) | (957.7) | (165.6) | 25.1 | 438.1 | 813.2 | 721.1 |
| **GDP (Real)** | B$M | 9,949.0 | 8,866.0 | 10,535.0 | 10,846.0 | 11,229.0 | 11,502.0 | 11,699.0 |
| **GDP (Nominal)** | B$M | 11,317.0 | 9,842.0 | 12,413.6 | 13,236.1 | 14,140.5 | 14,840.3 | 15,427.3 |
| **GDP (Nominal) Growth** | % | (14.2) | (13.0) | 26.1 | 6.6 | 6.8 | 4.9 | 4.0 |
| **GDP (Real) Growth** | % | (12.2) | (10.9) | 18.8 | 3.0 | 3.5 | 2.4 | 1.7 |
| **Total Revenue** | % of GDP (Nominal) | 18.5 | 19.4 | 21.0 | 21.2 | 22.9 | 24.4 | 25.0 |
| **Total Expenditure** | % of GDP (Nominal) | 25.6 | 33.0 | 26.8 | 25.4 | 23.7 | 22.4 | 23.6 |
| **Recurrent Expenditure** | % of GDP (Nominal) | 22.3 | 29.2 | 24.5 | 22.6 | 21.1 | 20.1 | 20.1 |
| **Capital Expenditure** | % of GDP (Nominal) | 3.3 | 3.8 | 2.3 | 2.8 | 2.6 | 2.3 | 3.5 |
| **Overall Balance** | % of GDP (Nominal) | (7.1) | (13.6) | (5.8) | (4.3) | (0.7) | 1.9 | 1.4 |
| **Primary Balance** | % of GDP (Nominal) | (4.0) | (9.7) | (1.3) | 0.2 | 3.1 | 5.5 | 4.7 |

Note: Fiscal Year GDP data are derived from quarterly GDP series compiled by the Bahamas Statistical Institute; forecasts are based on IMF annual GDP data.

In particular, the outlook assumes that the economy will maintain a positive, yet moderating growth trajectory. Real GDP growth is projected at 3.0 percent in FY2022/23, with a slight firming to 3.5 percent in FY2023/24, before leveling off to a more long-run rate of 1.7 percent in FY2025/26.

Inflationary headwinds are expected to persist under the lingering impact of supply chain disruptions and oil price hikes. Based on the latest projections produced by the IMF in the October 2022 World Economic Outlook, the expectation is for The Bahamas' average consumer price gains to firm to around 5.7 percent in 2022 and 5.3 percent in 2023, before receding to 3.3 percent in 2024 and further to 2.6 percent by 2026.

The government's medium-term fiscal consolidation plan envisages a rebuilding of the fiscal buffers to reinforce the debt sustainability objective. As set out in the 2022 FSR, the government is targeting a brisk pace of fiscal consolidation, with the overall fiscal deficit forecasted to shrink to $105.4 million or 0.7 percent of GDP for FY2022/23, and thereafter revert to a surplus of $287.3 million in FY2024/25 or 1.9 percent of GDP—thereby exceeding the 0.5 percent of GDP fiscal target established in the FRA. This improvement is expected to continue in FY2025/26 with the projected surplus of $201.0 million equivalent to an estimated 1.4 percent of GDP. These medium-term outcomes imply a primary balance surplus in each year of the MTDS.

Built into these fiscal assumptions is the government's proposal to limit spending to 20 percent of GDP, scale up direct public investment to within 3.5 percent of GDP over the period, and target a progressive improvement in revenue collections, to25.1 percent of GDP by FY2025/26 through a combination of enhanced administrative measures and other tax policy reforms.

With the expected improvement in fiscal consolidation, the government's gross financing needs are programmed to subside to an estimated 6.4 percent of GDP by FY2025/26. As contemplated in the 2022 FSR, these developments should allow for a sustainable reduction in the debt to GDP ratio, to 50 percent by an unchanged target date of FY2030/31.

# 5.2 RISKS ASSOCIATED WITH THE MACROECONOMIC INDICATORS

The robustness of the MTDS analysis is based on the resilience of the baseline macroeconomic assumptions, which are exposed to certain risks and vulnerabilities of varying intensity that could cause deviations from the projections. Key among these are the following:

- Any future pandemic could disrupt the renewed economic growth momentum and cause deviations in the government's revenue, expenditure and debt projections.
- Severe climate-related events may suppress growth expectations, given the potential adverse implications for tourism performance and government revenue, while raising government expenditure to deal with the emerging economic and social dislocations.
- The persistence of geo-political tensions and supply chain disruptions on imports of fuel and food would elevate inflationary

pressures and could negatively impact consumer demand and the fiscal position.

- Delays in the implementation of proposed enhanced tax administrative measures and reforms could jeopardize the government's ability to achieve the medium-term revenue targets, with downside risks for the fiscal consolidation targets, borrowing requirements, debt levels and debt servicing costs.
- Deterioration in economic conditions could adversely affect sovereign credit rating, with markets likely to impose credit premiums on future borrowings.

Generally, the crystallization of these risks could have material implications for debt management and result in higher borrowing requirements and increased debt levels. Consequently, the government's risk management strategy envisages a range of measures to maintain fiscal discipline and credibility at all stages of the budgetary cycle. Further, a key part of the risk assessment process will include an ongoing review of the strategy and its appropriateness.

# 5.3 INDICATIVE BENCHMARK AND TARGET

For the efficient management of the government debt, it is important to identify risks inherent in the debt portfolio and to establish corresponding quantitative targets for the risk indicators. These targets help to communicate the debt management objectives more clearly, in terms of cost and risk factors, and facilitate a more sustainable and predictable debt strategy, independent of political or other exogenous impacts inherent to the debt portfolio. Quantitative targets also allow for clear comparisons with the actual outcomes of the underlying indicators. However, because unanticipated exogenous shocks and changes in market conditions create uncertainty and risks, which often give rise to the potential need for quick responses by the debt management team, these indicators are normally defined in ranges.

The key debt portfolio risks for The Bahamas are foreign exchange, interest rate and refinancing risks and the objective of the debt management strategy is managing these risks within prudent levels. The indicative benchmark and target for key risk indicators are summarized below.

### a. Foreign Currency Risk Benchmark

The currency and interest rate composition of debt, as well as its maturity structure, are important determinants of debt vulnerability. Therefore, external (FX) debt will be maintained at 30 percent (+/-5 percent) of total debt. Foreign currency borrowings are targeted at financing government's capital expenditures, refinancing the global bond issuances, and achieving policy action reforms designed to promote private sector-led growth, secure improvements in the policy, legal, and institutional framework for state-owned entities, public-private partnerships, fiscal management, and the business and investment climate and build resilience to climate change, including emergency and disaster response.

### b. Interest Rate Risk Benchmark

The MTDS will place emphasis on stabilizing debt service costs by increasing the share of fixed rate debt in total debt portfolio to keep average time for refixing greater than or equal to 5 years.

### c. Re-Financing Risk Benchmark

The MTDS would seek to ensure a stable and affordable maturity structure to reduce refinancing risk exposure by maintaining an ATM of greater than or equal to 7.0 years.

# Modelling of the Medium-Term Debt Strategy



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In formulating the MTDS, cost and risks of several alternative debt strategies were assessed, under both the baseline economic projections and shocks to the baseline. These plausible strategies were developed by increasing/reducing the tenor of the domestic securities, increasing/reducing the proportion of foreign currency debt in the portfolio and factoring a liability management operation. An optimal strategy was then selected based on cost and risk outcomes, as well as its impact on development of the domestic bond market.

Consistent with the medium-term fiscal strategy of the government, the MTDS was framed to fund the net deficit plus principal payments over the next three fiscal years. Various debt strategies were analyzed under the baseline macroeconomic and financing assumptions and with different shock scenarios, involving interest rate, exchange rates, and a combined interest rate and exchange rate shock.

# 6.1

# BASELINE-PRICING ASSUMPTIONS AND DESCRIPTION OF SHOCK SCENARIOS

For the MTDS, it is assumed that the bulk of the foreign currency denominated debt will be contracted in USD.

### a. Pricing Assumptions

The baseline projections used for the terms and pricing assumptions (see Table 4) are as follows:

- The BSD is assumed to remain pegged to the USD at the current 1:1 ratio. The projected cross currency rates were drawn from the implicit exchange rate used in the IMF's October 2022 World Economic Outlook (WEO).
- Loans from multilateral sources are priced at an average fixed rate of and floating rates (reference rate plus a margin) of up to 1.0 percent, with a 25-year tenor and 5-year grace period.
- Loans from bilateral sources are priced at prevailing market rates, with a 15-year tenor and 5-year grace period.
- Commercial loans in USD, with credit enhancements, are assumed to be contracted at fixed interest rates, with a maturity of 12 years and grace period of up to 4 years.
- Commercial loans contracted in BSD are at floating rates, at a reference rate plus a margin, with tenor up-to 7 years and 1-year grace period.
- Domestic market securities financing will comprise bonds, Treasury notes and Treasury bills. Treasury bills/notes are assumed to have a maximum tenor of up to 1-year while bonds are expected to be issued with varying maturities and grace periods of up to 30 years. Specifically, shorter-term bonds are to be issued with maturities and grace periods ranging from 1 to 5 years, while medium term bonds are to be contracted with maturities and grace periods ranging from 6 and 10 years. Longer-term bonds are assumed to have maturities and grace periods ranging from 10 to 30 years.

### Table 4: Baseline Pricing Assumptions

| Financing Source | Interest Rate Type | Maturity (Yrs.) | Grace (Yrs.) | Currency Type | Average Interest Rate |
|---|---|---|---|---|---|
| FX Multilateral Loans | Floating | 25 | 5 | USD | 3.36 |
| FX Bilateral Loans | Fixed | 15 | 5 | USD | 4.50 |
| FX Commercial Loans | Fixed | 12 | 4 | USD | Prevailing Market Rates |
| FX Bonds | Fixed | 13.29 | 13.29 | USD | Prevailing Market Rates |
| BSD Commercial Loans and Advances | Floating | 1 to 7 | 1 | BSD | Reference + Margin |
| BSD Long Term Bonds (over 10 yrs.) | Fixed | 10 to 30 | 10 to 30 | BSD | Prevailing Market Rates |
| BSD Medium-term Bonds (6 to 10 yrs.) | Fixed | 6 to 10 | 6 to 10 | BSD | Prevailing Market Rates |
| BSD Short-term Bonds (1 to 5 yrs.) | Fixed | 1 to 5 | 1 to 5 | BSD | Prevailing Market Rates |
| BSD Treasury Bills | Fixed | 1 | 1 | BSD | Prevailing Market Rates |

#### b. Forecasting Interest Rates

To ensure that the MTDS baseline projections reflected current circumstances, different methodologies and sources were utilized to appropriately model domestic and international markets rates. Overall, the baseline projected an environment of increasing interest rates.

- For floating rate foreign currency debt instruments, SOFR forward rates were used, as published on the Bloomberg portal. For the Bahamian dollar (BSD) denominated domestic debt instruments, the yield curve was projected by fitting the Nelson Siegal Method on published yields of the Central Bank and deriving forward yields from the fitted curve.

#### c. Description of Shocks

Within the MTDS framework, different shock scenarios were applied to capture possible adverse deviations from the baseline projections emanating from any further increases in the interest rates and non-USD currency appreciation that can boost the cost and risk profile of the portfolio. The extreme/moderate shocks to the baseline projects are detailed below.

- **Exchange rate shocks.** The extreme risk scenario modelled a depreciation of two standard deviations, ranging from 8 percent to 14 percent to the non-USD baseline exchange rate projections, applied throughout the period of analysis.
- **Interest rate shock.** The extreme risk scenario assumes a standalone 200 basis points rise over the baseline reference rate projections and, where applicable, variable spreads for floating rate instruments, for each year of the strategy period, allowing a parallel shift or change in the yield curve.
- **Combination shocks.** The scenario simulates a moderate risk scenario of a 100-basis point interest rate hike over the baseline projections applied to floating rate instruments, each year in the projection period. For exchange rates, a moderate shock of one standard deviation, ranging from a 2 percent to 8 percent depreciation, is applied to the non-USD baseline exchange rate projections in FY2023/24.

# 6.2 DESCRIPTION OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES

Taking into consideration the debt management objectives, four (4) financing strategies were formulated to inform the financing of the fiscal deficit and guide medium-term borrowing over the three-year period MTDS timeline.

Each strategy considers a distinctive financing mix, comprising debt instruments from both Bahamian Dollar and foreign sources. The foreign financing includes loans covering both concessional and commercial terms, while the domestic financing considers loans, bonds, treasury notes, treasury bills and advances. In net terms, financing is expected to decrease over the medium-term horizon, in line with the projected primary fiscal surpluses.

- **Strategy 1 (S1-Baseline Projection):** Assumes that the government would retain the status quo borrowing pattern. Net financing of \$235.0 million envisages \$347.0 million in Bahamian Dollars, with \$112.0 million in foreign currency repayments. Foreign currency financing is expected from concessional and semi-concessional sources and commercial borrowings. A combination of loans and advances, treasury bills and treasury bonds are the main sources of net Bahamian Dollar financing under this strategy.
- **Strategy 2 (S2):** Main focus is on domestic borrowing by prioritizing Bahamian Dollar denominated securities with longer tenure, while at the same time balancing cost. This strategy assumes \$228.0 million in net financing—constituting \$536.0 million in net Bahamian Dollar borrowings and \$308 million in net foreign currency repayments. Foreign currency financing is proposed to be derived from concessional and semi-concessional loans from multilateral creditors. A combination of loans and advances, treasury bills and shorter-term treasury bonds of 1 to 5 years are the main sources of net Bahamian Dollar financing under this strategy.
- **Strategy 3 (S3):** Seeks to address refinancing risk and balance cost, using more foreign currency sources. Net financing of \$226.0 million assumes \$434.0 million in net Bahamian Dollar borrowings and \$208.0 million in net foreign currency repayments. Foreign currency financing is to be met through concessional and semi-concessional borrowings from multilateral and bilateral sources. A combination of loans and advances, treasury bills, and shorter-term treasury bonds of 1 to 5 years are the main sources of net Bahamian Dollar financing under this strategy.
- **Strategy 4 (S4):** Addresses refinancing risk and balances cost through a combination of domestic market issuances and external facilities—the latter to include concessional/semi-concessional loans, structured credits involving multilateral lenders, and liability management transactions. This strategy assumes \$219.0 million in net financing—comprising net Bahamian Dollar and foreign currency borrowings, of \$133.0 million and \$86.0 million, respectively.

# 6.3 BASELINE PROJECTION AND ALTERNATIVE STRATEGIES

Table 5 presents new financing and the gross borrowing by financing sources from the alternative strategies considered for the period ending FY2025/26. Each alternative strategy presented different combinations of borrowing instruments, thereby resulting in the various debt compositions at the end of the strategy period (see Table 6).

**Table 5: Gross Borrowing by Instrument under Alternative Strategies**
**(In % of Gross Financing Needs by end-FY2025/26)**

| Gross Financing Source | Total Gross Borrowing (FY2023/24- FY2025/26) as a % of Gross Financing Needs | | | |
|---|---|---|---|---|
| | S1 | S2 | S3 | S4 |
| FX Multilateral Loans | 9 | 9 | 9 | 11 |
| FX Bilateral Loans | 0 | 0 | 2 | 0 |
| FX Commercial Loans | 0 | 0 | 0 | 0 |
| FX Bonds | 4 | 0 | 0 | 0 |
| BSD Commercial Loans and Advances | 20 | 19 | 19 | 18 |
| BSD Long Term Bonds (over 10 years) | -2 | 0 | -1 | 2 |
| BSD Medium Term Bonds (6 to 10 years) | 0 | 0 | 0 | 0 |
| BSD Short Term Bonds (1 to 5 years) | 14 | 17 | 15 | 15 |
| BSD Treasury Bills | 55 | 54 | 54 | 54 |
| **Gross Foreign Currency Financing** | **13** | **9** | **12** | **11** |
| **Gross Bahamian Dollar Financing** | **87** | **91** | **88** | **89** |

| Net Financing Source | Total Net Borrowing (FY2023/24- FY2025/26; (B$M) | | | |
|---|---|---|---|---|
| | S1 | S2 | S3 | S4 |
| Net Foreign Currency Financing* | (112.2) | (307.9) | (207.9) | 85.7 |
| Net Bahamian Dollar Financing | 347.2 | 535.6 | 434.0 | 133.1 |
| **Total Net Financing** | **235.0** | **227.7** | **226.2** | **218.8** |

*A negative figure represents an overall debt repayment, which means that for this representative instrument, there were more repayments than disbursements.

### Table 6: Composition of Debt Portfolio by Instrument under Alternative Strategies (In % of Outstanding Portfolio as at end-FY2025/26)

| Outstanding By Instrument | Jun-22 | As at End FY2025/26 | | | |
|---|---|---|---|---|---|
| | Current | S1 | S2 | S3 | S4 |
| FX Multilateral Loans | 10.3 | 15.9 | 15.9 | 15.9 | 15.9 |
| FX Bilateral Loans | - | 0.0 | 0.0 | 0.9 | 0.0 |
| FX Commercial Loans | 7.2 | 1.3 | 1.3 | 1.3 | 5.0 |
| FX Fixed Rate Bonds | 26.6 | 25.2 | 23.5 | 23.5 | 23.5 |
| BSD Loans and Advances | 9.2 | 12.2 | 12.1 | 12.1 | 10.5 |
| BSD Long-term Bonds (>10 yrs.) | 9.4 | 6.1 | 7.2 | 7.0 | 7.8 |
| BSD Medium-term Bonds (6 to 10 yrs.) | 7.7 | 6.9 | 7.0 | 7.0 | 7.0 |
| BSD Short-term Bonds (1 to 5 yrs.) | 4.8 | 15.1 | 16.2 | 15.5 | 14.3 |
| BSD Treasury Bills | 8.4 | 6.6 | 6.2 | 6.2 | 5.3 |
| BSD Floating Rate Bonds | 16.3 | 10.7 | 10.7 | 10.7 | 10.7 |

The outcomes of cost and risk trade-offs of the various alternative strategies reflect a balance between costs and risks and are used to inform the choice of the optimal strategy. Table 7 and Figure 7 below highlight the cost and risk characteristics of the debt portfolio under the four alternative strategies considering the underlying assumptions.

### Table 7: Cost and Risk Indicators under Alternative Strategies

| Cost and Risk Indicators | | Jun-22 | As at End FY2025/26 | | | | Long-term Targets |
|---|---|---|---|---|---|---|---|
| | | Current | S1 | S2 | S3 | S4 | |
| Nominal debt as percent of GDP | | 86.7 | 70.8 | 70.8 | 70.7 | 70.6 | <50% |
| Present value debt as percent of GDP | | 86.3 | 70.0 | 69.9 | 69.9 | 69.8 | |
| Interest payment as percent of GDP | | 4.1 | 3.4 | 3.4 | 3.4 | 3.3 | |
| Weighted Average interest rate (percent) | | 4.8 | 4.7 | 4.7 | 4.7 | 4.6 | <5% |
| Refinancing risk | Debt maturing in 1 yr. (% of total) | 22.2 | 11.9 | 11.5 | 11.5 | 10.5 | |
| | Debt maturing in 1 yr. (% of GDP) | 19.3 | 8.5 | 8.2 | 8.2 | 7.4 | |
| | ATM External Portfolio (yrs.) | 7.0 | 6.9 | 6.9 | 6.9 | 6.8 | |
| | ATM Domestic Portfolio (yrs.) | 7.1 | 8.0 | 8.1 | 8.1 | 8.3 | |
| | ATM Total Portfolio (yrs.) | 7.09 | 7.41 | 7.45 | 7.46 | 7.43 | <7yrs. |
| Interest rate risk | ATR (yrs.) | 5.88 | 5.1 | 5.1 | 5.1 | 5.1 | <5yrs. |
| | Debt refixing in 1 yr. (% of total) | 43.5 | 31.0 | 30.5 | 30.5 | 29.4 | |
| | Fixed rate debt (% of total) | 73.9 | 79.8 | 79.8 | 79.8 | 80.0 | |
| | T-bills (% of total) | 8.4 | 6.6 | 6.2 | 6.2 | 5.3 | |
| FX risk | FX debt as % of total | 44.1 | 42.4 | 40.7 | 41.6 | 44.4 | |

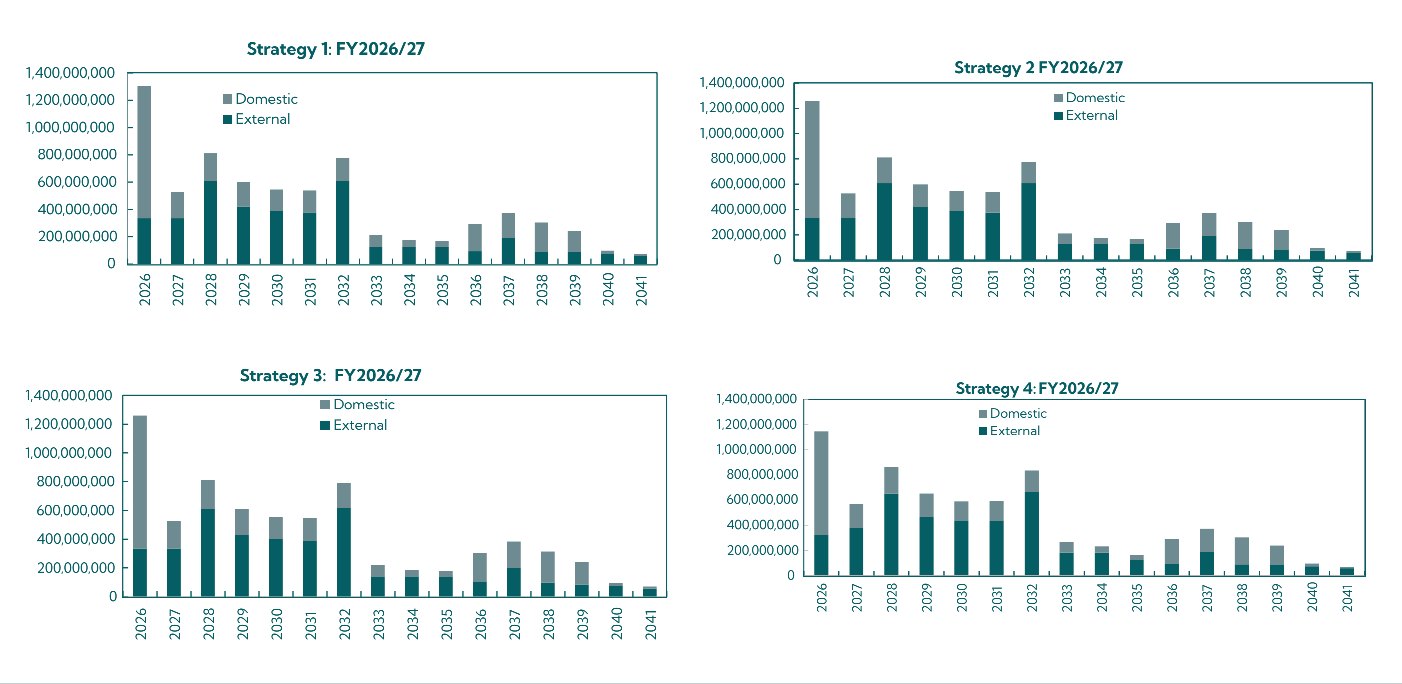
Note: Fixed rate debt includes T-bills.

Overall, the cost and risk indicators analyzed under each strategy improved over the medium-term. Both the nominal and Present Value (PV) of debt to GDP ratios across all the alternative strategies are lower than the levels in June 2022, which indicates the government's commitment to fiscal consolidation over the medium-term and interim progress towards achieving the long-term debt target set out in the FRA. As shown in Table 7, under current market conditions, Strategy 4 (S4) is more feasible, produced better performance under stressed conditions and therefore has greater benefits to debt management objectives. Aligning well with the gradual approach towards achieving long-term debt targets, when taken overall, S4:

- meets the broad debt management objectives outlined at the beginning of the document at the lowest possible cost and a prudent degree of risk, despite the uncertain global financial conditions previously outlined.
- minimizes overall refinancing risk by stabilizing the portfolio's ATM and reducing the stock of debt maturing in one year as a percentage of total debt and GDP.
- lowers overall interest rate risk by reducing the stock of debt refixing in one year as a percentage of total debt, scales down the amount of short-term debt refixing in one year and stabilizes the ATR. S4 displayed a better overall performance in managing interest rate risk with a lower stock of short-term debt.
- reduces overall FX risk by gradually, curtailing the amount of non-USD denominated debt as a percentage of total debt.
- reduces the debt to GDP ratio in both present value and nominal terms when compared to the current and projected ratios.
- reduces the cost of debt in terms of interest payments as a percent of GDP and the implied interest rate.
- more realistic to achieve given the current high level of identified financing and market conditions.

The redemption profiles for alternative strategies by end-FY2025/26 are shown in Figure 9. Although all strategies extend the maturity of debt by reducing the stock of short-term debt, including Treasury bills to varying degrees, the remaining balance of this debt is due in the FY2026/2027. The high maturities of foreign debt observed between financial year ended 2028 and 2032 are mainly associated with the upcoming retirement of bonds previously issued. However, the government has taken the proactive risk management approach of establishing and funding sinking funds to assist in redeeming these upcoming bond repayments.

**Figure 9: Redemption Profiles for Alternative Strategies (End-FY2026/27)**



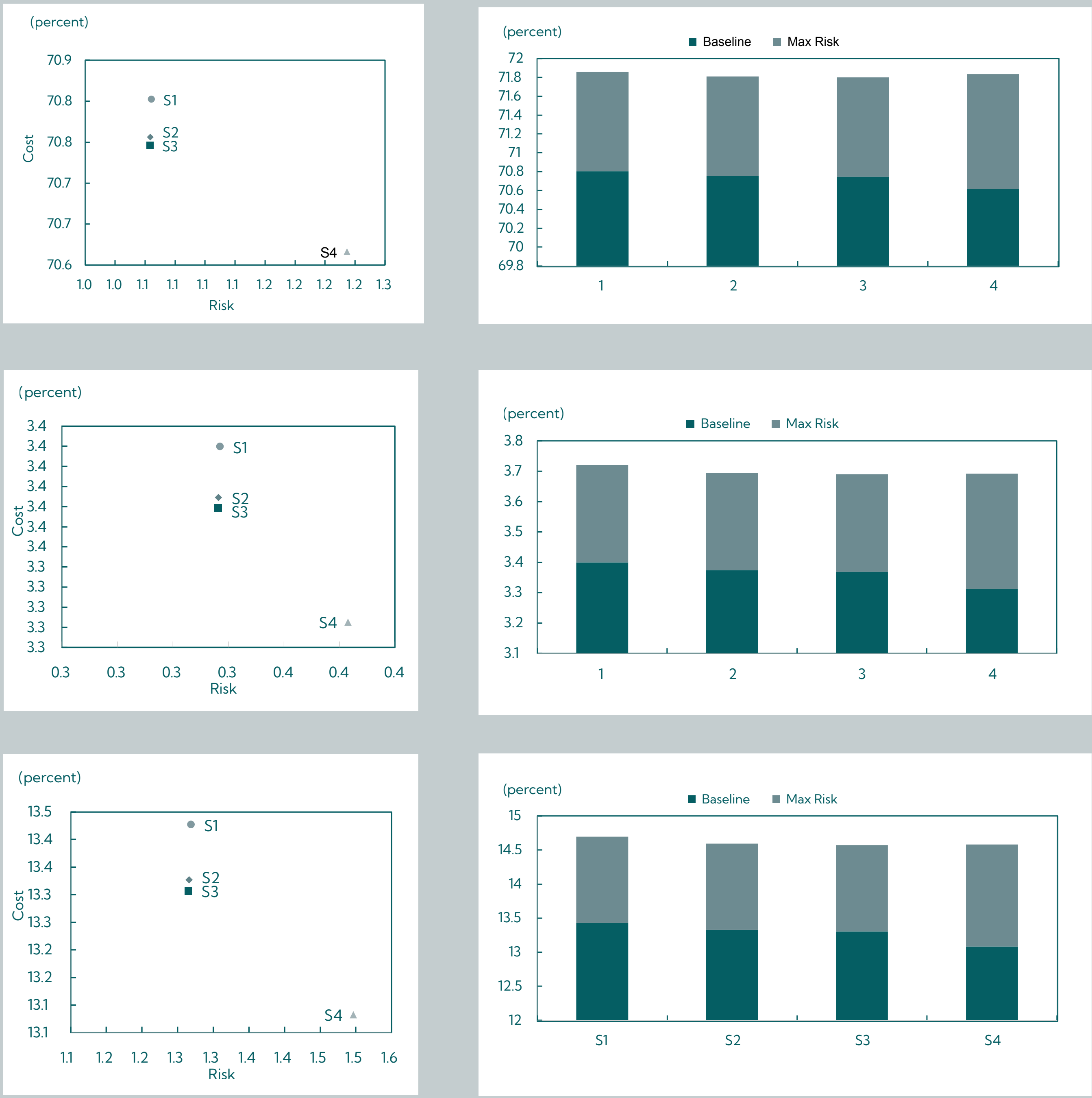
# 6.4

# EFFECT OF SHOCKS ON THE COSTS AND RISKS CHARACTERISTICS OF DEBT

Baseline pricing and shock scenario analysis considered the following indicators: Debt/GDP, interest payments/revenues and interest payments/GDP (see Figure 7). The outcome of the analysis indicates the extent of risk associated with each strategy under the baseline and shock scenarios. Risk measures estimate the potential unexpected increase in debt service payments produced by an unanticipated shift in market variables, namely, changes in interest or exchange rates. In a deterministic setting, risk is measured as the difference between the cost over the period under a shock scenario and the baseline cost.

The cost risk combinations for Strategy 4 aligns well with achieving the debt management objectives at the lowest possible cost and a prudent degree of risk, despite the uncertain global financial conditions as previously outlined. Although, the other alternative strategies present less risk under stressed scenarios, these differences are very marginal. Notwithstanding, S4 performs better when costs are considered as the cost of all other alternative strategies are higher.

**Figure 10: Cost-Risk Representation of Alternative Borrowing Strategies**



# 7 Optimal Debt Management Strategy

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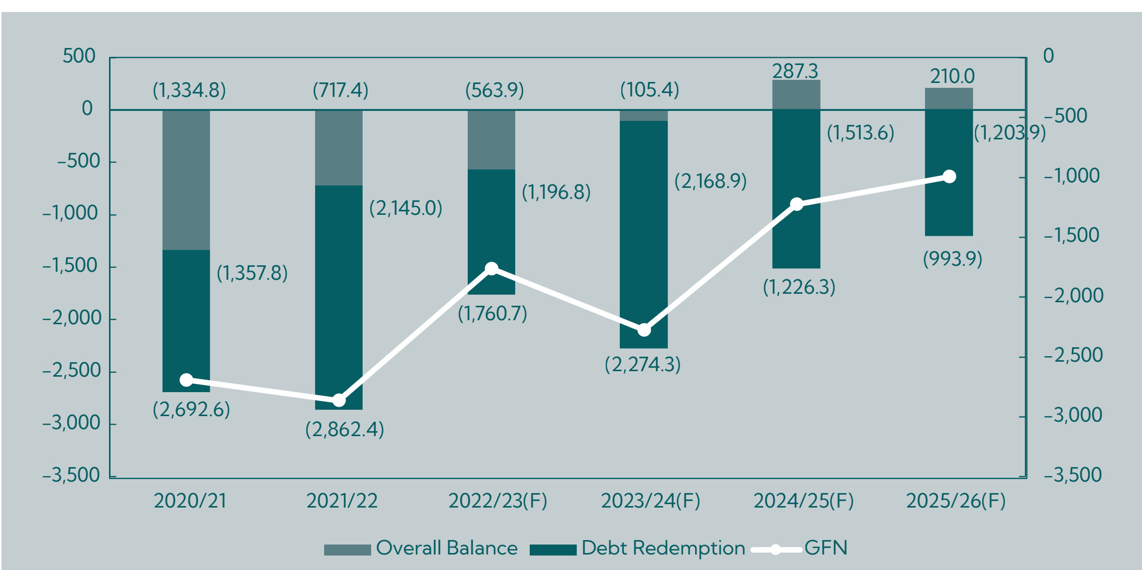
To summarize, the government intends to pursue Strategy 4 (see details in Table 8) for the following reasons:

- S4 presents the best overall performance when compared to June 2022 and projected indicators for the financial year end June 2023;
- S4 performs the best in achieving the debt management objective by reducing cost at a prudent degree of risk when compared to the other alternative strategies;
- S4 was more resilient to shocks, as measured by the lowest cost and risk combinations across all indicators under a shocked scenario (see Figure 7); and
- S4 is more feasible, given current market conditions, the ongoing pandemic and the current geopolitical situation; and due to the current level of committed and identified financing, it presents a more gradual approach towards the long-term target by minimize costs and reduce risk over the medium-term.

**Table 8: Selected Strategy Details (B$M)**

| Indicators | Fiscal Year Ended | | |
|---|---|---|---|
| | **2024** | **2025** | **2026** |
| **Primary Surplus/(Deficit)** | **438.1** | **813.2** | **721.00** |
| Interest on Existing Debt | 429.9 | 370.8 | 341.8 |
| Amortization on Existing Debt | 1,207.7 | 525.9 | 511.1 |
| Interest on New Debt | 113.6 | 155.1 | 169.2 |
| Amortization on New Debt | 961.1 | 987.7 | 692.9 |
| **Gross Financing Needs** | **2,274.3** | **1,226.3** | **994.0** |
| **Financing** | | | |
| FX Multilateral Loans | 289.6 | 64.4 | 87.9 |
| FX Bilateral Loans | - | - | - |
| FX Commercial Loans | 300.0 | - | - |
| FX Fixed Rate Bonds | - | - | - |
| Domestic Loans and Advances | - | - | - |
| Long Term Bonds (over 10 yrs.) | 85.1 | - | |
| Medium-term Bonds (6 to 10 yrs.) | 16.3 | - | - |
| Short-term Bonds (1 to 5 yrs.) | 439.8 | 105.2 | 105.2 |
| Treasury Bills | 848.8 | 851.7 | 545.9 |
| Advances | 294.7 | 205.0 | 255.0 |
| **External Financing** | **589.6** | **64.4** | **87.9** |
| **Domestic Financing** | **1,684.7** | **1,161.9** | **906.1** |
| **Total Gross Financing** | **2,274.3** | **1,226.3** | **994.0** |

**Figure 11: Gross Financing Needs**



# 8 Debt Sustainability

According to the IMF's 2021 Article IV country report, The Bahamas' debt was assessed as sustainable given the manageable interest rate costs and expected recovery of economic growth rate, but vulnerable to shocks including a more prolonged pandemic and sharp rises in global risk premia. S4 seeks to mitigate this risk by increasing borrowing from domestic sources in local currencies.

However, like most economies, the impact of the global COVID-19 crisis, current global financial conditions and geopolitical circumstances combined with local natural disasters, like Hurricane Dorian, have increased risks to debt sustainability.

Despite the pandemic and the current market conditions, The Bahamas has implemented several key Public Financial Management (PFM) reforms to support debt sustainability. This includes the FRA, which was passed in 2018 to, among other objectives, guide the formulation and implementation of fiscal objectives for debt. The long-term debt and fiscal objectives, as outlined in the FRA, are to reduce these indicators to no more than 50 percent and 0.5 percent of GDP, respectively.

The government's medium-term fiscal strategy outlines a path for a gradual, sustained and orderly achievement of the fiscal balance target, by end-FY2025/26. Accordingly, in addition to the underlying projected primary surpluses, the financing combination of the selected medium-term debt strategy (S4) is expected to achieve gradual convergence to the long-term debt target.

# MTDS Implementation, Monitoring, Review and Reporting

The recommended strategy will be implemented through the annual borrowing plan that delivers the government's gross funding needs over the medium-term. The borrowing plan will outline the timing, currency and potential terms of the expected securities to be issued and the anticipated loan disbursements per creditor.

The mix of the borrowing instruments will be aligned to the MTDS objectives, as previously outlined above. Specifically, the major financing instruments will be loans and bonds of medium to long-term tenor, mainly contracted in BSD and USD, with a preference for fixed interest rates to reduce risks (refinancing, interest rate and FX risks) in the debt portfolio. The strategy will also gradually reduce the stock of treasury bills and other short-term debt to curtail refinancing risks. Under this strategy, liability management operations will be employed as part of the risk management activities to achieve the preferred debt portfolio structure.

# 9.1 IMPLEMENTATION, MONITORING AND REVIEW

The domestic debt issuance program will be reviewed on a quarterly basis by the DMO, which will also engage market participants and other relevant stakeholders to ensure transparency of these operations. Further, the assumptions in the strategy will be compared with the outcomes of the macroeconomic environment, including the fiscal deficits, general price levels (exchange, inflation and interest rates) annually—or earlier, depending on market conditions. The assumptions may be adjusted, as appropriate, based on the outcome of this exercise during the review process.

Similarly, the actual borrowing and the cost risk indicators will be assessed against the projections under the selected strategy to gauge progress towards the long-term targets outlined in the document. Special attention will also be given to contingent liabilities to evaluate and address any changes in these risks. The resulting public debt structure will inform the revision of the budget provisions and management of associated debt costs and risks.

# 9.2 REPORTING

Consistent with good practices in debt transparency, and to ensure compliance with the PDMA, the MTDS was submitted to the Minister for review and forwarding, along with his recommendations, to the Cabinet for approval, with or without amendments. The approved debt management strategy is to be tabled in the House of Assembly at the same time as the Fiscal Strategy Report and, thereafter, the MTDS is to be published.

To improve communications with market players and ensure ease of access to vital information, timely and accurate data relative to government's debt operations will be made available on websites of the government and the Central Bank. These activities will be supported by active engagement with investors and market participants

The annual review of the strategy will be communicated through regular debt management reports. The quarterly Public Debt Bulletins will also be published as part of best practices in debt transparency. The implementation outcome of the FY2023/24 strategy will inform the update of the FY2024/25 MTDS, with a view to achieving continuous improvement in debt management and sustainability.

# MEDIUM-TERM DEBT MANAGEMENT STRATEGY

**FY2023/24 TO FY2025/26**

**DECEMBER 2022**

THE MINISTRY OF FINANCE
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