



ANNUAL BORROWING PLAN

FY2021/22

Ministry of Finance
Debt Management Office

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1. General Statement

Beginning July 1, 2021, the statutory authority to manage the public debt is derived from the Public Debt Management Act, 2021 (the PDMA), which allows the Minister of Finance to borrow money up to a maximum amount as approved by Parliament.

In accordance with section 13 of the PDMA, the Minister of Finance is responsible for ensuring the preparation of the Annual Borrowing Plan (ABP) within fourteen (14) calendar days after the approval of the annual budget by Parliament. As Parliament approved the FY2021/22 budget on June 24, 2021, the deadline for production/publication of the FY2021/22 ABP is July 8, 2021.

The ABP is a key component of the government's annual debt management mechanism for conveying its commitment to fiscal accountability, and for increasing transparency and borrowing predictability in debt operations. The PDMA requires that the ABP be consistent with the limits approved under the Fiscal Responsibility Act, 2018 and the annual budget, and that it outlines:

- the projected borrowing needs of the government, as provided in the annual budget approved by Parliament for the current financial year; and
- the various categories of debt instruments to be issued by the government during the financial year and estimated nominal amounts under each category of debt instruments.

The ABP is expected to be framed within the context of the government's medium-term debt management strategy (MTDS), which is to be prepared annually and tabled in Parliament, in November, along with the fiscal strategy report. However, given timing considerations, the FY2021/22 ABP is being prepared in advance of the inaugural MTDS report, and builds on the recent debt management strategy pursued by the government. Any changes deemed necessary to the ABP will be made during the preparation of the MTDS.

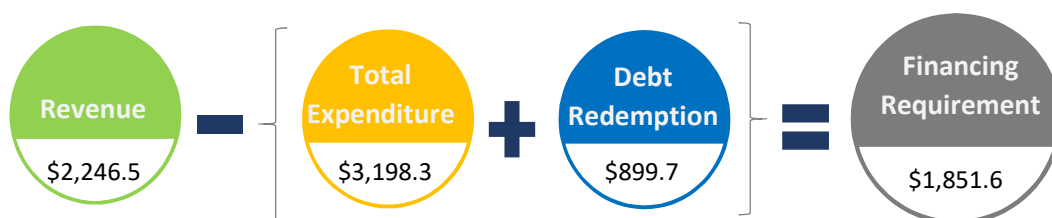
Consistent with the provisions of the PDMA, the newly established Debt Management Office (DMO) has overall responsibility for the management of the government's debt. However, the Central Bank of The Bahamas (the Central Bank) will provide transitional assistance with various back office activities and, in its capacity as the government's fiscal agent under a soon to be ratified fiscal agency agreement, will continue to conduct all domestic debt operations on behalf of the government. These activities include, with input from the DMO, issuances, buybacks, switches and redemption of bonds and Treasury bills, and publication of outcomes.

2. Overall Borrowing Requirements for FY2021/22

The FY2021/22 ABP presents the government’s annual strategy for debt operations to support sound fiscal management. It is formulated within the context of the public debt management objectives, of providing the government’s borrowing needs at the lowest cost, while maintaining prudent levels of risk and contributing to a well-functioning government domestic securities market.

The aggregate financing requirement of the government for FY2021/22, as approved by Parliament (via Borrowing Resolution dated June 21, 2021), is estimated at \$1,851.6 million (see Figure 1)¹. This comprises funding necessary to cover the shortfall between revenue and expenditures, of \$951.8 million—and by which the government’s debt is expected to increase; and a further estimated \$899.7 million to refinance maturing debt securities and loans.

Figure 1: Borrowing Requirements for FY2021/22 (B\$M)



The government will continue to pursue a judicious mix of domestic and foreign currency borrowing initiatives. The FY2021/22 ABP contemplates a domestic environment in which liquidity conditions remain favourable and provide stable opportunities for the government to refinance and increment both short- and long-term Bahamian Dollar security issuances in the market.

Given the scale of the budgetary financing required, and the observed absorption constraints in the domestic market, the government will continue to leverage foreign currency borrowing opportunities, although not with the explicit strategic objective of supporting the countries’ external reserves.

Fund raising activities will be arranged to ensure the adequacy of the government’s cash flow to meet liabilities in a timely manner. Any changes in the underlying strategy for the FY2021/22 ABP will be made during the preparation of the MTDS in November.

3. Planned Funding Sources for FY2021/22

As shown in Table 1, the government’s financing strategy would translate into the following prospective outcomes.

- Approximately \$892.4 million (48.2 percent) of borrowing needs will be sourced in Bahamian Dollars and the remaining \$959.2 million (51.8 percent) in foreign currency. However, the government will continue to surveil domestic market conditions and investor sentiment, in a bid to capitalize on opportunities for achieving a greater proportion of the financing from domestic sources.

¹ Because of rounding, some totals in data tables and in the text may not agree with the sum of their component parts.

- Of the \$959.2 million proposed in foreign currency borrowings, \$700 million or 73.0 percent is to be derived from the international capital markets—representing the bulk of the overall financing at 37.8 percent.
- Loan funding, at \$372.4 million, will constitute 20.1 percent of the aggregate financing requirement—with nearly 64.5 percent to be sourced from potential International Financial Institution (IFI) financing, inclusive of budgeted loan drawings.

The government will continue to monitor market conditions and investor responses, which could result in changes to the prospective funding plan.

Table 1: Gross Borrowing Requirements and Financing

FY2021/22	(B\$M)
BORROWING REQUIREMENTS	
Fiscal deficit	-951.9
Debt redemption	-899.7
<i>Domestic</i>	-767.1
Loans	-197.9
Securities	-569.1
<i>External</i>	-132.6
Loans	-132.6
Securities	-0.0
Total	-1,851.6
FINANCING	
Domestic debt	892.4
Bonds	779.1
Loans	113.3
External debt	959.2
Bonds	700.0
Loans	259.2
Banks	19.0
IFIs	240.2
Total	1,851.6

Source: Ministry of Finance

Note: Data excludes rollovers of short-term Treasury bills/notes, which are presented in Section 4.

3.1. Domestic Debt

a. Bond Refinance

Outstanding bonds maturing in FY2021/22 total \$484.1 million—of which \$115.3 million (23.8 percent) bear floating rates and \$368.9 million (76.2 percent) bear fixed rates (see Figure 2).

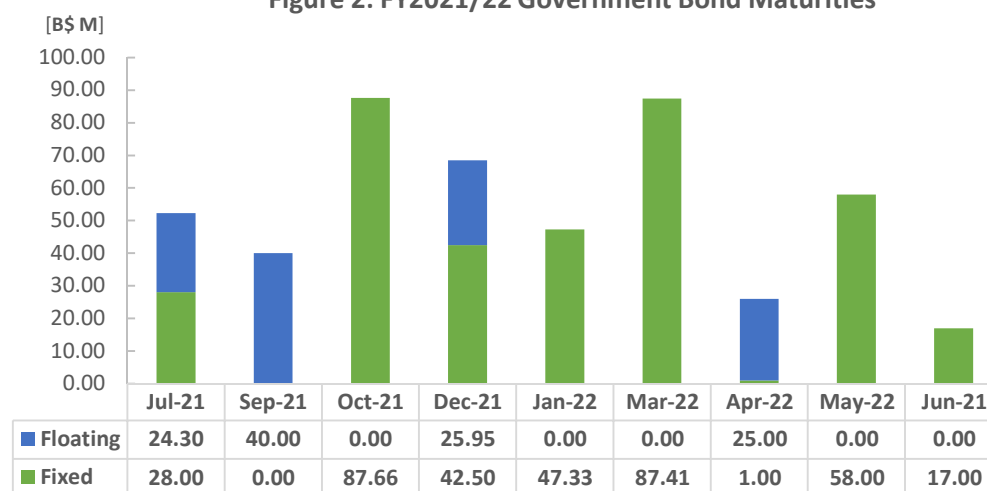
The government’s refinancing strategy will emphasize the following objectives.

- Continue to monitor market absorption metrics for each benchmark tenor (3, 5, 7, 10, 20 and 30 years) to gauge demand for upcoming issuances, and employ a grow/shrink strategy across maturity buckets. This would provide for allocation of bonds to adjust to ultimate investor demand along the yield curve.

- Seek to achieve a gradual lengthening of the maturity structure of the bonds, to minimize refinancing risk and promote a sustainable debt path over the medium to long term.
- Continue the replacement of floating rate with fixed rate bonds to reduce the outstanding debt portfolio’s exposure to interest rate risk.

To promote transparency and predictability of these operations, the Central Bank, as fiscal agent for the government, will publish, 15 days before the beginning of each quarter, the bond issuance schedule on its website detailing values and corresponding dates of the upcoming offerings.

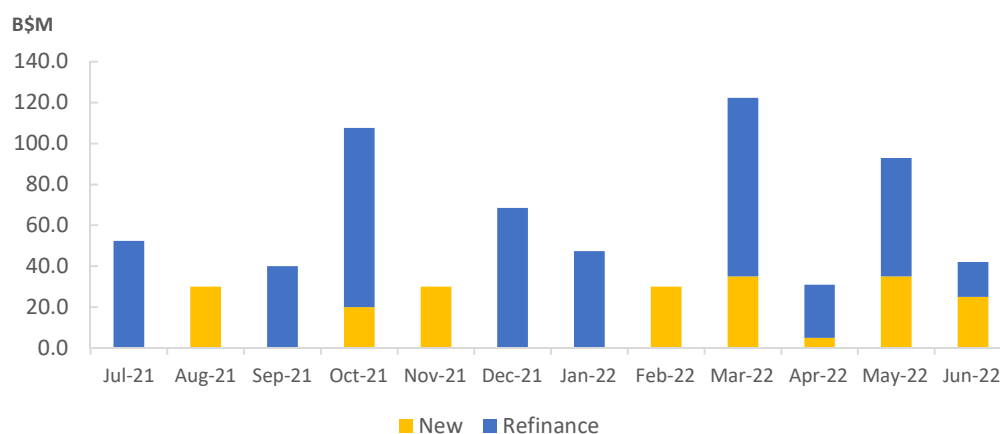
Figure 2: FY2021/22 Government Bond Maturities



b. New Bonds

To assist with financing the budget deficit, the government proposes the issuance of new bonds totaling \$210 million.

Figure 3: FY2021/22 Prospective Domestic Bond Issuances



- Based on the existing schedule for bond refinancing, the government intends to take advantage of months where there are no or low bond maturities. Flexibility will be maintained to effectively address unexpected changes in the timing of cash flow requirements, and prevailing market conditions.
- As part of the quarterly bond issuance calendar, indicative volumes and tenors of new issues will be published quarterly on the official website of the Central Bank.
- The list of benchmark bonds is to be published quarterly, 10 days before each quarter on the official website of the Central Bank.

c. Loans

During the second half of the fiscal year, the intent is to seek \$113.2 million in Bahamian Dollar loan facilities from the domestic market—representing 12.7 percent of the total domestic funding target.

3.2. External Debt

a. Bonds

The government proposes the issuance of an aggregate US\$700 million in external bonds, capitalizing on the strengthening market demand fundamentals and exploring structuring alternatives that would result in efficient pricing.

- The government will leverage a prospective US\$200 million guarantee from the IDB, to scale up fund raising in the international capital market.
- Subject to market conditions, and to reduce funding risk, bond raising initiatives will be positioned in the first half of the fiscal year.
- Bond maturities will be selected to minimize future refinancing risk.
- Bonds will be fixed rate to reduce the government's exposure to interest rate risk.

Aside from these indicative transactions, the government will explore liability management opportunities for its existing portfolio of bonds.

b. New Loans

Of the proposed \$259.2 million in foreign currency loans, US\$19 million is to be sourced from a commercial bank, leveraging a multilateral guarantee, which will enable the government to secure more favourable pricing. The government also intends to seek funding from an IFI in the amount of \$160 million—which is proposed for the second half of the fiscal year.

c. Loan Drawings

The government budgeted an estimated \$80.2 million in installment withdrawals on existing multilateral loans associated with various investment projects (see Table 2).

Table 2: Loan Drawings for FY2021/22

Creditors	B\$M
Inter-American Development Bank	68.0
Airport Infrastructure Programme	5.0
Climate Resilient Coastal Mgt. & Infrastructure Programme	5.0
Public Financial Management Reform	10.0
Citizen Security and Justice Programme	7.0
Credit Enhancement Programme for MSMEs	6.0
Reconstruction with Resilience (Energy Sector)	22.0
Health Sector Improvement Loan	8.0
Government Digital Transformation	5.0
Caribbean Development Bank	12.2
Street Lighting Retrofitting Project	5.0
Water Supply Improvement Project	4.0
BTVI Enhancement	1.4
BTVI Capacity Building	1.8
TOTAL	80.2

Source: Ministry of Finance

4. Treasury Bill Tenders and Treasury Note Rollovers

The government will continue to conduct Treasury bill tenders, to roll-over existing issues, which totaled \$721.8 million, and will roll the fixed rate Treasury notes which aggregated \$145.1 million at end-June 2021. Based on the maturity profiles, the combined volume of Treasury roll-overs will approximate \$3,175.1 million for the fiscal year (see Table 3). Outstanding Treasury notes are expected to decline by an estimated \$85.0 million, with a corresponding increase proposed for Treasury bills. Ultimately, changes in outstanding levels will depend on market conditions, investor participation, and the need for short-term funding.

Table 3: FY2021/22: Treasury Bill & Note Maturities

Maturity Date	(B\$M)					Total
	30-days	90-days	91-days	180-days	182-days	
Jul-21	2.2	24.3	313.6	42.4	0.0	382.5
Aug-21	2.2	1.2	209.9	10.3	0.0	223.6
Sep-21	2.2	52.4	106.9	0.0	30.0	191.5
Oct-21	2.2	24.4	313.6	4.4	51.3	396.0
Nov-21	2.2	1.2	209.9	0.5	0.0	213.8
Dec-21	2.3	52.7	106.9	6.8	10.0	178.7
Jan-22	2.3	24.6	313.6	43.0	0.0	383.5
Feb-22	2.3	1.2	209.9	10.4	0.0	223.8
Mar-22	2.3	52.9	106.9	0.0	30.0	192.1
Apr-22	2.3	24.7	313.6	4.5	51.3	396.5
May-22	2.3	1.2	209.9	0.5	0.0	213.9
Jun-22	2.3	53.2	106.9	6.8	10.0	179.2
TOTAL	27.1	314.0	2,521.7	129.6	182.7	3,175.1

Source: Ministry of Finance and the Central Bank of The Bahamas

Note: The 30, 90 and 180 day Treasuries were issued under the Treasury notes programme.

Informational releases remain an important part of the government's communication strategy.

- Issuance calendars for Treasury bills, showing the tenor, auction dates and settlement date, will be published on the Central Bank's website on a quarterly basis.
- Treasury bill tender instructions for participation will be released by the Central Bank, one week prior to each tender, and may be viewed on the Central Bank's website.
- To help manage debt rollover risk, the government will continue to explore opportunities for conversions of Treasury bills to bonds.

5. Investor Relations

The government will continue to consult regularly with market participants and make appropriate adjustments in its planned offerings, as required.

On a monthly basis, representatives of the Central Bank, together with the DMO, will host market intelligence briefings with the major stakeholders in the domestic market (commercial banks and other institutional creditors) to gauge market sentiment towards recent and upcoming security offerings and to obtain updates on the investment environment. A communications programme will also be established for international investors.

In the opening months of the fiscal year, the DMO's communication strategy will be enhanced through the construction of a dedicated website, which will host all statutory reports, information for investors, and provide direct linkages with the Central Bank's published information on domestic security issuances and related activities.