COMMONWEALTH OF THE BAHAMAS

THE MINISTRY OF FINANCE

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

FY2025/26 TO FY2027/28

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TABLE OF CONTENTS

	TABLE OF CONTENTS	3
	LIST OF TABLES	4
	LIST OF FIGURES	4
	LIST OF ABBREVIATIONS AND ACRONYMS	4
	DEFINITIONS	5
	FOREWORD	6
	ACKNOWLEDGMENT	7
	EXECUTIVE SUMMARY	8
1.	**INTRODUCTION**	**9**
1.1	BACKGROUND	9
1.2	OBJECTIVES	9
1.3	SCOPE OF THE MTDS	9
1.4	LEGAL AND INSTITUTIONAL FRAMEWORK FOR THE MTDS	10
2.	**RECENT MACROECONOMIC AND MARKET DEVELOPMENTS**	**11**
2.1	ECONOMIC DEVELOPMENTS	11
2.2	FISCAL DEVELOPMENTS	12
2.3	MARKET DEVELOPMENTS	12
3.	**REVIEW OF THE FY2023/24 ACTUAL BORROWING VS THE ANNUAL BORROWING PLAN**	**14**
4.	**REVIEW OF EXISTING DEBT PORTFOLIO**	**14**
4.1	COMPOSITION OF OUTSTANDING GOVERNMENT DEBT	14
4.2	BAHAMIAN DOLLAR DEBT	16
4.3	FOREIGN CURRENCY DEBT	17
4.4	DEBT SERVICE PAYMENTS	18
4.5	COST AND RISK ANALYSIS OF THE DEBT PORTFOLIO	18
5.	**MEDIUM-TERM MACROECONOMIC FRAMEWORK**	**21**
5.1	MACROECONOMIC ASSUMPTIONS	21
5.2	RISKS ASSOCIATED WITH THE MACROECONOMIC INDICATORS	22
6.	**ASSESSMENT OF POTENTIAL SOURCES OF FINANCING**	**23**
6.1	DOMESTIC SOURCES	23
6.2	EXTERNAL FINANCING SOURCES	23
7.	**MODELLING OF THE MEDIUM-TERM DEBT STRATEGY**	**24**
7.1	BASELINE-PRICING ASSUMPTIONS AND DESCRIPTION OF SHOCK SCENARIOS	24
7.2	STRATEGIC BENCHMARK AND TARGETS	25
7.3	DESCRIPTION OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES	26
7.4	RESULT ANALYSIS: COSTS AND RISKS OF ALTERNATIVE STRATEGIES	27
7.5	ANALYSIS OF COST-RISK TRADE-OFF OF THE STRATEGIES	28
8.	**OPTIMAL DEBT MANAGEMENT STRATEGY**	**29**
9.	**DEBT SUSTAINABILITY**	**30**
10.	**MTDS IMPLEMENTATION, MONITORING, REVIEW AND REPORTING**	**30**
10.1	ANNUAL BORROWING PLAN	30
10.2	REVIEW AND MONITORING	30
10.3	REPORTING	30
	ANNEX I: IMPACT OF GOVERNMENT GUARANTEED DEBT ON MTDS	**31**
	GUARANTEED DEBT OUTSTANDING	**31**
	SIMULATION OF COMBINED COST RISK INDICATORS FOR GOVERNMENT & GOVERNMENT GUARANTEED DEBT	**32**

LIST OF TABLES

TABLE 1: GOVERNMENT INTERNATIONAL BOND ISSUANCES (AT END-NOVEMBER, 2024) **16**
TABLE 2: COST AND RISK INDICATORS OF EXISTING DEBT **19**
TABLE 3: BASELINE MACROECONOMIC ASSUMPTIONS **22**
TABLE 4: BASELINE PRICING ASSUMPTIONS **25**
TABLE 5: DESCRIPTION OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES **26**
TABLE 6: GROSS BORROWING BY INSTRUMENT UNDER ALTERNATIVE STRATEGIES **26**
TABLE 7: COST AND RISK INDICATORS UNDER ALTERNATIVE STRATEGIES **27**
TABLE 8: SELECTED STRATEGY DETAILS (B$M) **29**
TABLE 9: COST AND RISK INDICATORS FOR GOVERNMENT GUARANTEED DEBT **31**
TABLE 10: COST AND RISK INDICATORS FOR GOVERNMENT & GOVERNMENT GUARANTEED DEBT **32**

LIST OF FIGURES

FIGURE 1: ISSUANCES AND REDEMPTIONS OF BAHAMIAN DOLLAR DEBT SECURITIES, FY2023/24 (B$B) **13**
FIGURE 2: GOVERNMENT DEBT PORTFOLIO **14**
FIGURE 3: CREDITOR PROFILE OF BAHAMIAN DOLLAR DEBT (END-JUNE; %) **15**
FIGURE 4: CREDITOR PROFILE OF FOREIGN CURRENCY DEBT (END-JUNE; %) **16**
FIGURE 5: GOVERNMENT DEBT SERVICE (B$M) **18**
FIGURE 6: WEIGHTED AVERAGE INTEREST RATE COST BY INSTRUMENT (END-JUNE, 2024) **19**
FIGURE 7: REDEMPTION PROFILE OF GOVERNMENT DEBT, AS AT END-JUNE 2024 **20**
FIGURE 8: CURRENCY DISTRIBUTION OF GOVERNMENT DEBT (END-JUNE 2024) **21**
FIGURE 9: COST-RISK REPRESENTATION OF ALTERNATIVE BORROWING STRATEGIES **28**

LIST OF ABBREVIATIONS AND ACRONYMS

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
SOFR	SECURED OVERNIGHT FINANCING RATE
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 (GDP)	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 or implied interest rate on outstanding debt 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 (MTDS) includes only central government existing debt and projected borrowings. However, guarantees are included in a simulation exercise, as presented in Annex 1.
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 (BNSI) and the respective projections from the International Monetary Fund (IMF). Projections for international reserves are also from the IMF. Fiscal Year GDP data are derived from the quarterly series produced by the BNSI.

FOREWORD

The government of The Bahamas acknowledges the importance of having in place debt management strategies which are resilient and adaptive to changing circumstances for navigating the challenges and risks posed by external vulnerabilities. By extension, these arrangements facilitate the achievement of our desired goals of macro-fiscal stability, and long-term economic growth and development.

In fulfilment of the reporting requirements of the Public Debt Management Act, 2021 (the "PDMA"), the Ministry of Finance prepares a medium-term debt management strategy as a roadmap for the government's debt management decisions and operations. Against the backdrop of the improved macro-fiscal forecasts, as updated in the recent FY2024/25 Budget, the government is pleased to release the FY2025/26 – FY2027/28 Medium Term Debt Management Strategy (the "MTDS"). As designed, the MTDS aligns with the primary debt management objective of meeting government's financing needs at the lowest cost, consistent with a prudent degree of risk, and with the secondary objective of developing the domestic debt market.

Three (3) alternative financing options were evaluated under the macro-economic assumptions to ensure the selection of a feasible financing strategy. This process culminated in the government's adoption of Strategy 2 which is expected to improve debt sustainability by reducing refinancing and interest rate risks in the existing portfolio and achieving a lower cost risk profile of the debt stock by FY2027/28.

Ongoing reforms in the domestic securities market remain a key dimension of the government's strategy for achieving debt sustainability. Initiatives targeted at improving liquidity, price discovery, reducing fragmentation and enhancing investor relations are expected to achieve more depth and diversification in the domestic debt market and increase its role in accommodating the financing needs of the government.

The preparation and release of this document upholds the government's commitment to promoting clarity, transparency and accountability in debt management operations, and facilitating constructive dialogue with The Bahamas' investor base. As in the past, the government will continue to review the MTDS in light of changes in the macroeconomic environment so as to maintain consistency with key debt management objectives.

Completion of this very comprehensive exercise would not have been possible without the invaluable support of several stakeholders. I wish to recognize the committed efforts of the Financial Secretary and the team in the Debt Management Office, Ministry of Finance, for coordinating this exercise, and the ongoing strategic input and guidance from the Central Bank of The Bahamas and the Commonwealth Secretariat.

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

ACKNOWLEDGMENT

The Public Debt Management Act, 2021 (the “PDMA”) mandates that the government update and revise the medium-term debt management strategy, on an annual basis, so as to enable a comprehensive evaluation of measures that would minimize cost and risk in the evolving debt portfolio. In so doing, consideration is given to the macroeconomic framework, future borrowing requirements of the government, market conditions and other relevant factors.

The FY2025/26 – FY2027/28 Medium-term Debt Strategy (the “MTDS”) represents the third MTDS report to be produced under the requirements of the PDMA, and its preparation would not have been possible without the commitment and effective contribution and collaboration of various stakeholders. My sincere appreciation is extended to the Debt Management Office (the “DMO”) team of the Ministry of Finance, which oversees the MTDS exercise, and the Central Bank of The Bahamas’ Debt Management Unit, the Research Department, which provides dedicated back-office debt management support to the DMO.

I would also like to acknowledge the ongoing technical assistance and capacity building support provided by the Commonwealth Secretariat’s Debt Management Unit to The Bahamas’ team, especially in the use of the various debt management analytical tools.

Based on the analysis of the cost risk trade-offs among the three (3) alternative strategies reviewed, the optimal strategy selected, Strategy 2, suggests external and domestic borrowings of 20 percent and 80 percent of gross financing needs, respectively. It also envisages the development of the domestic market while simultaneously maximizing opportunities for concessional and semi-concessional borrowings and credit enhancements to contain portfolio costs and risks. In implementing S2, the Ministry of Finance, via the DMO, will review and monitor prevailing macroeconomic and financial conditions to ensure the continuing relevance and appropriateness of the strategy to achieve the debt management objectives.

In keeping with the government’s advocacy of the principles of good governance in fiscal affairs, all medium-term 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") provides the framework for effective debt management in The Bahamas, and establishes 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 defined debt management objectives.

The FY2025/26 – FY2027/28 MTDS (the "MTDS") guides the government's borrowing decisions to fund its overall financing needs, within the context of explicit cost and risk objectives. The strategy is prepared having regard to macroeconomic and financial market conditions, available financing envelopes from various creditors, and vulnerabilities that could impact future borrowing requirements and debt service costs.

Following the strong post-COVID-19 rebound, the Bahamian economy continued to register positive, although moderated growth. The expansion in real GDP subsided to 1.5 percent in FY2023/24 from 6.7 percent in FY2022/23, underpinned by durable gains in tourism output and contributions from foreign direct investments. Domestic demand conditions reinforced a steady improvement in the pace of fiscal consolidation, as the recovery in revenue performance, combined with expenditure containment measures, secured a reduction in the estimated FY2023/24 deficit to GDP ratio, to 1.3 percent from 3.8 percent in FY2022/23 and a COVID-19 induced peak of 13.1 percent in FY2020/21. The stock of government debt was $11,313.8 million at end-June 2024, which equated to a lower 77.7 percent of fiscal year GDP relative to 80.5 percent in the prior year and 97.4 percent at end-June 2021.

Over the three-year MTDS timeframe, the economic outlook envisages a continuation of the subdued growth trajectory, with real GDP poised to average an estimated 1.6 percent—consistent with the projected long-run potential. Enhanced tax administration combined with targeted tax policy measures and prudent expenditure controls are forecasted to reduce the overall deficit to GDP ratio to the medium-term statutory target of 0.5 percent in FY2024/25 and secure surpluses averaging an estimated 2.3 percent of GDP over the MTDS horizon.

During FY2022/23, the funding requirements of the government were met from both domestic currency borrowings, comprising government securities of various tenors and foreign currency financing from multilateral and commercial sources. At end-June 2024, foreign currency debt constituted a stable 47.4 percent of the outstanding portfolio when compared with the prior year. 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 determining the optimal strategy, three (3) alternative financing options were assessed as feasible under the prevailing domestic and international financial market conditions. These were evaluated in terms of their cost risk profile and subjected to various stress scenarios. The analysis indicated that Strategy 2 ("S2") would perform the best in balancing the cost and risks of financing the gross financing needs 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 predominantly utilize domestic sources of financing to mitigate foreign currency risk and promote the development of the domestic capital market. The strategy also prioritizes utilizing more fixed interest rate instruments, extending maturities, and implementing liability management operations to manage refinancing risk, lengthen the average time to maturity of the portfolio and control interest rate risk, while balancing cost. The financing mix under S2 that minimizes costs and risks of the debt stock suggests gross external and domestic borrowings in the ratio of 20 percent and 80 percent, respectively.

Although S2 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 monitored in the context of emerging changes and adjusted, accordingly.

Investor relations activities continued to promote the effective flow of information between the government and creditors, reinforcing policymakers' commitment to maintain the highest level of debt transparency to promote market confidence in both domestic and foreign currency debt operations. The government actively engaged both private and public creditors, as well as rating agencies, with outreaches taking the form of deal and non-deal roadshows and targeted meetings with stakeholders. Following the launch of the government's new investor relations portal, information asymmetries have been significantly bridged as investors have access to a centralized repository of the latest financial news, project updates and economic, fiscal and public debt data and reports on The Bahamas.

1 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 a medium-term focus that would guide the government's borrowing policies and debt management operations to achieve the debt management objectives.

1.2. Objectives

As set out in Section 4 of the PDMA, the principal objectives of public debt management 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, while observing an acceptable degree of risk; and

» support the development of an efficient government securities market.

These objectives are pursued having due regard 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 Public Finance Management Act, 2023 (the "PFMA").

The formulation of the MTDS is consistent with the government's FY2024/25 Budget, which provides updated macroeconomic assumptions to the medium-term fiscal strategy previously outlined in the 2024 Fiscal Strategy Report (the "2024 FSR").

1.3. Scope of the MTDS

The MTDS analysis covers foreign currency and Bahamian Dollar debt contracted by the central government and managed by the DMO. It also incorporates assessed financing needs of the Agencies and Government Business Entities (GBEs), in so far as these transfers have been incorporated in the budget forecasts. Although the analysis is statutorily limited to central government debt only, a secondary analysis considered the impact of guarantee debt on the risk and cost profile of the government (see **Annex 1**).

To assess portfolio risks more accurately, debt is grouped 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 baseline data for the MTDS analysis is the government debt outstanding and disbursed as at June 30, 2024, and the planned issuance of securities and other financing instruments over FY2024/25. The analysis also factors in changes in the debt cost and risk profile stemming from The Bahamas Debt Conversion Project for Marine Conservation concluded in November 2024.

The MTDS spans a three-year rolling time horizon of the upcoming budget year (FY2025/26) and the next two fiscal years (FY2026/27 and FY2027/28). The strategy is reviewed and published on an annual basis. In preparing the MTDS, the DMO utilized the World Bank/IMF analytical tool kit to simulate and compare the cost risk profiles of alternative financing sources, with a view to identifying the optimal 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 PFMA, which outline the government's commitment to fiscal and debt sustainability, supported by a strong framework of accountability and transparency.

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. It 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.

b. Institutional Arrangements

Ultimate responsibility for public debt management operations in The Bahamas rests with the DMO in the Ministry of Finance. However, the April 2023 inter-agency agreement executed between the Ministry of Finance and the Central Bank of The Bahamas (the "Central Bank") formalized the Central Bank' execution of front office operations pertaining to the issuance and administration of government domestic securities, as well as the provision of transitional support with various back-office debt activities. The Domestic Markets and Financial Markets divisions of the Central Bank, together with the Debt Management Unit of the Research Department, work closely with the Ministry of Finance in carrying out these operations.

The Ministry of Finance continues to collaborate with development partners to enhance the institutional arrangements for debt management in The Bahamas. Initiatives include ongoing efforts to build the team and its technical capacity for debt management analysis.

The government-appointed private sector debt committee and independent international debt advisor remain a key component of the debt management institutional arrangements—helping the government to explore, identify and implement financing alternatives that optimize the 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 FY2023/24 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 provides an assessment of potential sources of financing, Section 7 details the medium-term debt strategy, and Section 8 summarizes the optimal debt management strategy. Further, Section 9 comments on debt sustainability Section 10 sets out the MTDS implementation, monitoring, review and reporting process, and Section 11 sets out an assessment of the government's costs and risks, should government guaranteed debt be included in the MTDS analysis.

2 RECENT MACROECONOMIC AND MARKET DEVELOPMENTS

2.1. Economic Developments

The Bahamian economy continued to experience a strong tourism-led expansion during 2023 and the nine months to November, 2024, amid diminished risks posed by global inflationary pressures and heightened geopolitical uncertainties.

Following on the 10.8 percent post-COVID-19 rebound achieved in calendar year 2022, real GDP growth subsided to an estimated 2.6 percent in 2023, and continued to be reinforced by solid gains in tourism activity and healthy domestic demand conditions. Recovered travel demand from key source markets boosted tourist arrivals by 38.6 percent to an historic 9.7 million in 2023, which surpassed the pre-pandemic 7.3 million visitors recorded in 2019. Over the eleven (11) months to November 2024, the 10.1 million visitor count represented a 16.4 percent uplift from the comparative period in 2023, with annual arrivals projected to reach 12.0 million—for a year-over-year gain of 24 percent.

In other real sector activities, construction output in 2023 was supported by steady contributions from small and medium sized foreign investment-related projects, while domestic residential and commercial activity was relatively mild—a performance that was maintained through the half of 2024. As surveyed by the Bahamas National Statistical Institute, employment conditions improved, with the jobless rate receding by 1.2 percent since end-2023 to 8.7 percent in June, 2024—the lowest recorded rate in sixteen (16) years.

Benefitting from the effects of moderated global oil prices on cost increases in goods and services imports, the average consumer price inflation, as measured by changes in the Retail Price Index, eased to 3.1 percent in 2023 from 5.6 percent in 2022. This positive trend persisted into 2024, as average consumer prices declined by 0.8 percent over the twelve months to September 2024 in contrast to a 2.2 percent hike in the corresponding period of the prior year.

Monetary outcomes for 2023 highlighted a $95.6 million contraction in bank liquidity to $1,832.6 million, amid a pick-up in domestic credit growth of $296.1 million (3.2 percent) to $9,608.6 million, which reflected gains in both public and private sector components. Over the nine months to September 2024, banks' excess cash reserves strengthened by $152.1 million to $1,984.7 million, and bank credit grew by $195.4 million to $9,804.0 million, driven primarily by significant firming in private sector credit.

On the external account, the 2023 estimated current account deficit narrowed by $159.1 million (12.9 percent) to $1,073.5 million. This improvement was largely explained by an expansion of the tourism-dominated services account surplus, by $298.3 million (11.3 percent) to $2,945.9 million. For the nine months to September 2024, the deficit on the current account widened by $278.2 million (51.9 percent) to $814.0 million, as higher payments for net goods imports offset the gains in the services account surplus.

The international reserves position sustained support for the credibility of The Bahamas' pegged exchange rate arrangement with the United States Dollar, notwithstanding a decline of $93.6 million (3.6 percent) to $2,517.4 million at end-2023. This stock represented an estimated 30.0 weeks of total merchandise imports, compared with 34.2 weeks in 2022—both well above standard reserve adequacy benchmarks. Through the nine months to September 2024, steady improvements in real sector activity upheld growth in external reserves by $217.0 million to $2,734.4 million, which was equivalent to an estimated 29.6 weeks of import cover.

Credit rating for The Bahamas is undertaken by two major agencies, Moody's Investor Services and Standard and Poor's. On September 25, 2024, Standard & Poor's Global Ratings reaffirmed The Bahamas' B+ rating, with a stable outlook; and on October 11, 2024 Moody's issued a regular update which maintained The Bahamas' long-term issuer and senior unsecured ratings at B1 with a stable outlook. In their reports on The Bahamas, both agencies acknowledged the improved economic performance, driven by the robust tourism recovery, and the government's fiscal consolidation gains based on prudent expenditure management and revenue enforcement measures. Their general perspectives on the economic outlook noted the benefits to be secured from the energy sector reforms but also signaled the country's persistent vulnerability to external shocks.

2.2. Fiscal Developments

Preliminary data for FY2023/24 confirmed the steady pace of fiscal consolidation, amid positive domestic demand fundamentals and reinforced by enhanced tax administration mechanisms and discrete fiscal policy measures. The overall deficit was estimated at $186.7 million (1.3 percent of GDP) which exceeded the budgeted $131.1 million (0.9 percent of GDP) but represented a $347.9 million improvement from the FY2022/23 deficit of $533.4 million (3.8 percent of GDP). The resulting primary surplus was appreciably higher at $426.4 million (2.9 percent of GDP) from the prior years' $39.7 million (0.3 percent of GDP).

Revenue collections for FY2023/24 exceeded the prior year's yield by $220.1 million to settle at $3,075.5 million (21.1 percent of GDP), or 92.7 percent of the budget. Boosted by gains in value added taxes, tax receipts improved by $269.4 million (10.9 percent) to $2,743.1 million, while lower collections of property income curtailed the yield for non-tax revenues by $48.1 million (12.6 percent) to $332.5 million.

On the spending side, curtailment measures constrained outlays by $127.8 million (3.8 percent) to $3,262.3 million (22.4 percent of GDP), for 94.6 percent of the budget target. Recurrent expenditure declined by $101.8 million to $2,960.7 million (20.3 percent of GDP), on account of reduced outlays for use of goods and services and subsidies. Capital spending, which aggregated $301.5 million (2.1 percent of GDP), decreased by $26.0 million (7.9 percent), reflecting lower expenditure for the acquisition of non-financial assets.

Fiscal operations for the opening quarter of FY2024/25 reveal an overall deficit of $185.4 million, compared with $61.5 million a year earlier. Total revenue posted a gain of $19.3 million (2.9 percent) to $682.8 million, while planned increases in compensation outlays alongside a front-loading of capital spending for school repairs and road works elevated total expenditure by $142.6 million (19.7 percent) to $867.7 million.

2.3. Market Developments

During the recent fiscal year, the government has been able to successfully manage the debt portfolio, in line with the macro-fiscal objectives, government financing needs and the medium-term strategic objectives of debt management.

a. Domestic

The market's demand for government paper responded positively to funding requirements, enabling the government to refinance existing debt, meet liquidity needs and achieve the medium-term debt objectives at relatively stable costs and contained risk.

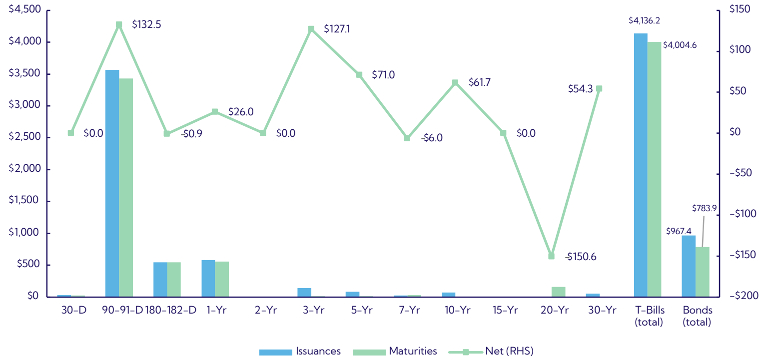
With the continuation of robust domestic liquidity conditions, market appetite for government securities remained favourable throughout FY2023/24. On average, bids offered by participants exceeded the announced size of issuances, thereby permitting the government to accept higher volumes and reduce reliance on external funding. Bond issuances aggregated $967.4 million against maturities of $783.9 million, for a net increase of $183.5 million; and Treasury bills and notes netted an additional $131.6 million—almost entirely in the 90 – 91 day tranche (see Figure 1). The collective net securities issuance of $315.1 million compared favourably with the $165.0 million targeted in the FY2023/24 Annual Borrowing Plan (the "ABP").

During FY2023/24, secondary market operations in government bonds reflected investors' longstanding tendency to buy and hold these securities. Of the total $4.42 billion in securities listed on the Bahamas International Securities Exchange, there were 152 trades at a volume of 415,694. The total value of trades was $40.2 million, corresponding to approximately 0.9 percent of the listings.

In keeping with the government's commitment to develop the domestic securities market as a primary source for funding, progress was achieved on a number of initiatives under the recently concluded debt reform project supported by the ComSec and the India UN Partnership Development Fund. Work progressed on the effective implementation of the recently published benchmark bond issuance policy, to achieve further consolidation of these securities into larger and more liquid sizes to support primary market demand and secondary market development over the medium-term horizon. The Central Bank's master repurchase agreement also established the framework for transactions in the interbank market, and the basis for the introduction of a repurchase market.

In January 2024, the government achieved a key domestic debt market reform objective with the introduction of competitive bidding for domestic bond offerings in the primary market. This initiative encouraged price discovery, as bidders bid on their assessment of future interest rates, inflation and other macroeconomic factors.

FIGURE 1: ISSUANCES AND REDEMPTIONS OF BAHAMIAN DOLLAR DEBT SECURITIES, FY2023/24 (B$B)



b. External

Global economic conditions remained challenging during FY2023/24, and through August 2024, marked by ongoing geopolitical uncertainty, and despite some easing in monetary policies aimed at addressing persistent inflationary concerns.

Following sluggish growth of 3.3 percent in 2023, real GDP expansion is projected to flatten to 3.2% in 2024, within the context of a high-interest-rate environment. Advanced economies are expected to experience slower growth with gradually lower inflation levels, while financial conditions in emerging markets are poised to remain relatively strained, as elevated interest rates and market volatility continue to impact funding costs. Despite easing monetary policies, especially in advanced economies, elevated long-term borrowing costs have persisted due to market volatility and global risk-off sentiment.

In key interest rate developments, the Federal Reserve cut rates twice in 2024, to a range of 4.50%-4.75% from 5.00%-5.25% in January 2024. These rate cuts positively influenced short-term borrowing costs, as evidenced by an 80 basis points decrease in the 6-month SOFR to 4.4% since January 2024. However, long-term reference rates remain under pressure, with 10-year U.S. Treasury yields up by 30 basis points to 4.3% since January 2024. Emerging market spreads also remain elevated, with the J.P. Morgan EMBI spread at 295 basis points as of November 2024, despite a modest 50 basis points contraction since January.

Amid this challenging macroeconomic backdrop, The Bahamas has observed a gradual normalization in international market conditions. The behaviour of The Bahamas' yield curve improved, with the 2028 Eurobond yield receding by 968 basis points to 7.26% and the synthetic 10-year USD yield dropping by 353 basis points since August 2022 to 8.78%. The DMO continued to conduct market outreach exercises with the government's international investor base to realign market perceptions with the country's macroeconomic fundamentals and explain the government's diversified external funding strategy.

Despite these improvements, alternative external funding sources are currently viewed as more favourable than the Eurobond market, until there is further easing in USD yield levels. In this context, access to funding from international banks will remain pivotal in ensuring liquidity and supporting the repayment of foreign currency-denominated debt. Nonetheless, the government retains discretion over the final composition of external funding sources, which will be determined based on market conditions, cost/risk factors and cash flow requirements.

3 REVIEW OF THE FY2023/24 ACTUAL BORROWING VS THE ANNUAL BORROWING PLAN

The FY2023/24 ABP contemplated a mix of domestic and foreign currency borrowings that would achieve progress towards the selected medium term optimal debt management strategy. The approach combined an extension of the average time to maturity, elevation of the share of domestic borrowings and incorporation of strategic liability management operations, while balancing cost.

The ABP sought to fulfill gross financing needs of approximately $2,198.7 million (exclusive of $1,006.3 million in roll-overs of outstanding short-term treasury bills and notes), of which 56.0 percent was to be sourced in foreign currency and the remaining 44.0 percent in Bahamian Dollars. The foreign currency financing ($1,231.4 million) was to be met via access to external commercial (56.9 percent) and concessional/semi-concessional (24.0 percent) borrowings, alongside the roll-over of the SDR-promissory note with the Central Bank (19.1 percent). Meanwhile, Bahamian Dollar financing of $967.3 million was expected to be secured through issuances of bonds (95.3 percent) and treasury bills (4.7 percent).

During the course of the review year, gross financing needs increased, consequent on a $30.6 million in additional bond redemptions and $10.5 million in new borrowing approved by Parliament via supplementary appropriation in June 2024.

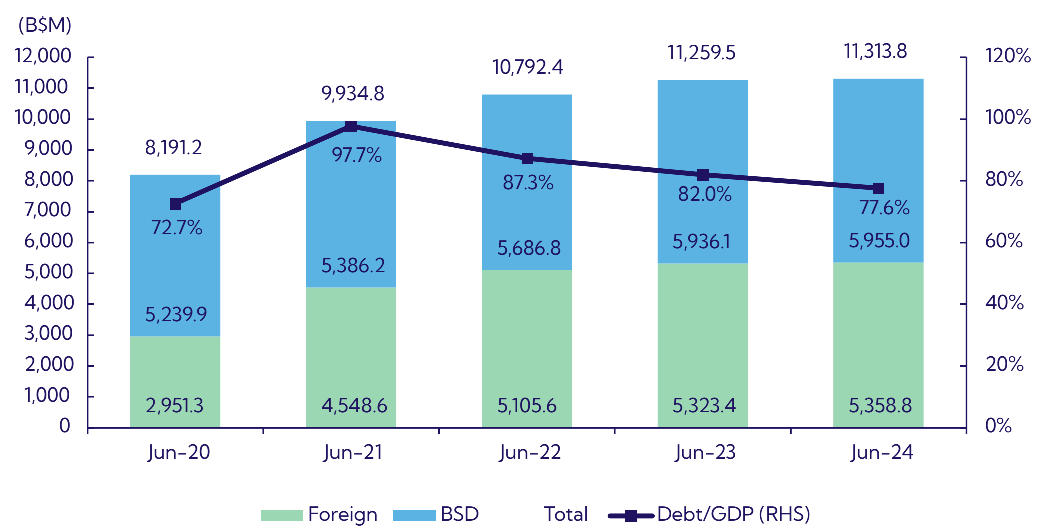
Of the estimated $2,243.6 million in gross financing in FY2023/24, the Bahamian Dollar currency component at 53.2 percent exceeded the revised ABP target by 8.1 percentage points. This increase reflected the government's deliberate efforts to extend its reliance on domestic market funding. The share of foreign currency financing, therefore, declined to 46.8 percent, and included a lower than anticipated proportion of funding from the IFIs (6.4 percent) by way of new loans and drawings, with the increased borrowings elevating the share of bank financing (71.3 percent) and the SDR-roll-over equated equating to 22.3 percent of the total.

4 REVIEW OF EXISTING DEBT PORTFOLIO

4.1. Composition of Outstanding Government Debt

As illustrated in Figure 2, the central government's outstanding debt was estimated at $11,313.8 million at end-June 2024—an increase of $54.3 million (0.5 percent) since end-June 2023. Benefitting from the positive momentum in economic activity, the stock equated to an improved 77.7 percent of nominal GDP compared with 80.5 percent a year earlier.

FIGURE 2: GOVERNMENT DEBT PORTFOLIO

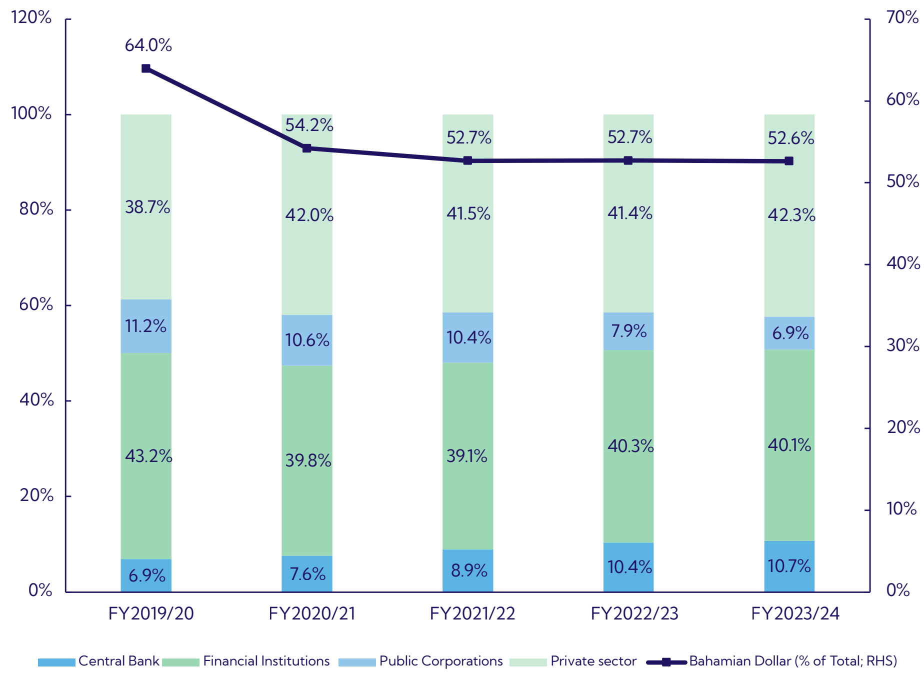


4.2. Bahamian Dollar Debt

For FY2023/24, Bahamian Dollar debt grew by $18.8 million (0.3 percent) to $5,955.0 million, corresponding to a stable 52.6 percent of total debt relative to the previous fiscal year and 40.9 percent of estimated fiscal year GDP. Within the creditor mix, there was a 0.9 percentage point firming in the dominant private sector (which includes individuals, credit unions, trust and mutual funds and businesses), alongside a 0.4 percentage point firming in the proportion for the Central Bank. Meanwhile, the respective shares for public corporations and commercial banks moderated by 1.0 and 0.3 percentage points (see Figure 3).

Based on the instrument profile, the bulk of the Bahamian Dollar debt comprised bonds (74.3 percent), followed by Treasury bills and notes (19.1 percent), commercial loans (3.9 percent) and Central Bank advances (2.7 percent).

FIGURE 3: CREDITOR PROFILE OF BAHAMIAN DOLLAR DEBT (END-JUNE)



a. Government Securities

i. Bonds

By creditor profile, the majority of the $4,422.0 million in outstanding bonds at end-June 2024 remained concentrated within the portfolio of private sector investors (49.6 percent) and skewed towards longer dated maturities. Commercial banks, with a liquidity preference typically in the short to medium-term investment horizon, posted a slight increment in share to 28.0 percent. Public corporations' share was reduced, to 9.1 percent, while the Central Bank's proportion rose to 10.8 percent. Insurance companies, which traditionally match their long-term liability structure, accounted for a lower 2.5 percent of outstanding domestic bonds.

Reflecting the private sector's preference for longer-term bonds, a dominant 65.1 percent of the domestic bond portfolio was accumulated in the over 15 year bucket, although 5.8 percentage points below the year earlier position. The proportion for the 1 year or less tranche was higher at 12.8 percent, while the share amassed in the over 1 – 5 year tranche grew to 12.1 percent. Additionally, the over 5 to 10 year maturity bucket rose by 1.7 percentage points to 8.2 percent. In contrast, there was a marginal decline in the over 10 - 15 year tranche to 1.8 percent. At end-June 2024, the weighted average years to maturity on bonds was 9.1 years, with an average tenor of 16.4 years.

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 3.7 months. Of the aggregate $1,137.5 million outstanding at end-June 2024, the largest proportion was issued at 91-day maturities (75.2 percent), followed by the 182-day (24.6 percent) and the 30-day (0.2 percent) tenors.

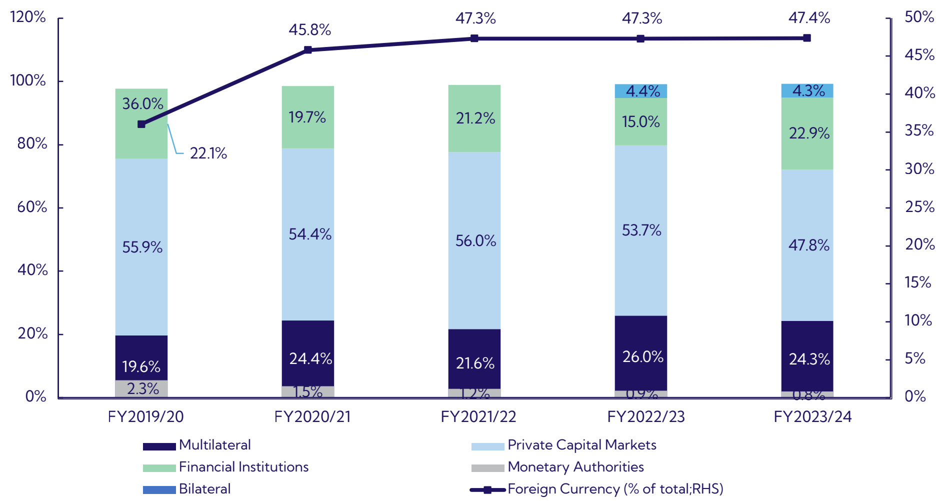
Partly reflected their qualification as regulatory liquid asset, commercial banks held an increased and commanding 80.4 percent of these short-term securities at end-June 2024. The remaining 19.6 percent was primarily for the account of a small private sector grouping and public sector entities.

4.3. Foreign Currency Debt

Foreign currency debt outstanding was higher by $35.4 million (0.7 percent) at an estimated $5,358.8 million at end-June 2024, to constitute 47.4 percent of total debt and 36.8 percent of estimated fiscal year GDP. Growth was primarily explained by increased borrowings from multilateral institutions.

Consistent with this outcome, the creditor mix of foreign currency debt (see Figure 4) continued to be led by private capital markets, although with a 6.0 percent reduction in share to 47.8 percent, as a consequence of scheduled amortizations. Reflecting the borrowing mix for 2023, the share for financial institutions increased by 7.9 percentage points to 22.9 percent, with a corresponding decline in that for multilateral institutions by 1.7 percentage point to 24.3 percent, and bilateral creditors by 1 basis points to 0.8 percent. Meanwhile, the proportion represented by the government's SDRs-related debt to the Central Bank stabilized at 4.3 percent.

FIGURE 4: CREDITOR PROFILE OF FOREIGN CURRENCY DEBT (END-JUNE; %)



b. Private *Capital* Markets

Following the repayment of the USD300 million bond in January 2024, the outstanding value of the government's international bonds was reduced to $2,560 million at end-June 2024 (see Table 1). In November 2024, the government launched a cash tender exercise, in the context of a debt conservation project for marine conservation (see Box A) which resulted in the buyback of $218,211,000 of the international bonds, and reduction in the outstanding quantum to $2,341,789,000.

In keeping with its debt management strategy, the government provided direct budgetary allocations to increment its four discretionary sinking funds to meet future debt obligations and promote investor confidence.

TABLE 1: GOVERNMENT INTERNATIONAL BOND ISSUANCES (AT END-NOVEMBER, 2024)

Issues	Coupon	Issue Date(s)	Maturity Date(s)
USD199.485 million	6.63%	May-03	May-33
USD96.398 million	7.13%	Apr-28	Apr-38
USD273.874 million	6.95%	Nov-09	Nov-29
USD609.336 million	6.00%	Nov-17	Nov-2026|Nov-2027|Nov-2028
USD801.803 million	8.95%	Oct-2020|Dec-2020	Oct-2030|Oct-2031|Oct-2032
USD135.000 million	3.85%	Jun-22	Jun-2033|Jun-2034|Jun-2035 I Jun-2036
USD225.893 million	9.00%	Jun-22	Jun-29

Box A: The Bahamas Debt Conversion Project for Marine Conservation

In November 2024, authorities launched The Bahamas Debt Conversion Project for Marine Conservation in collaboration with the Inter-American Development Bank (IDB), The Nature Conservancy (TNC), Builders Vision, AXA XL, and Standard Chartered. This program will generate an estimated USD 124 million in funding for marine conservation efforts over 15 years, helping to safeguard The Bahamas' marine ecosystems and combat climate change.

As part of the transaction, The Bahamas refinanced USD 300 million of its external debt, comprising USD 218 million in nominal Eurobonds repurchased through a Public Tender Offer (USD 216 million in cash expenditure) and USD 81 million in external commercial bank debt prepaid at par.

The Liability Management operation was financed through a new USD 300 million commercial loan with a 15-year final maturity and a 10-year average life and supported by an innovative credit enhancement package. The package comprised (i) a USD 200 million first-loss partial Policy-Based Guarantee provided by the IDB, (ii) a USD 70 million second-tier Collateralized Guarantee provided by Builders Vision and (iii) a USD 30 million third-tier credit insurance policy provided by AXA XL.

This project marked a significant milestone in the Debt-for-Nature space, as Builders Vision, an impact platform founded by Lukas Walton, and AXA XL became the first private sponsors to co-guarantee a sovereign Debt-for-Nature swap alongside a Multilateral Development Bank. The new financing also features a Natural Disaster and Pandemic Event Clause, advancing the authorities' climate resilience efforts and providing liquidity headroom in case of adverse climate events and public health emergencies.

Given its fully wrapped credit-enhancement package, the loan carried an annual fixed coupon of 4.7%, approximately 40 basis points above 10-year U.S. Treasuries at transaction close.

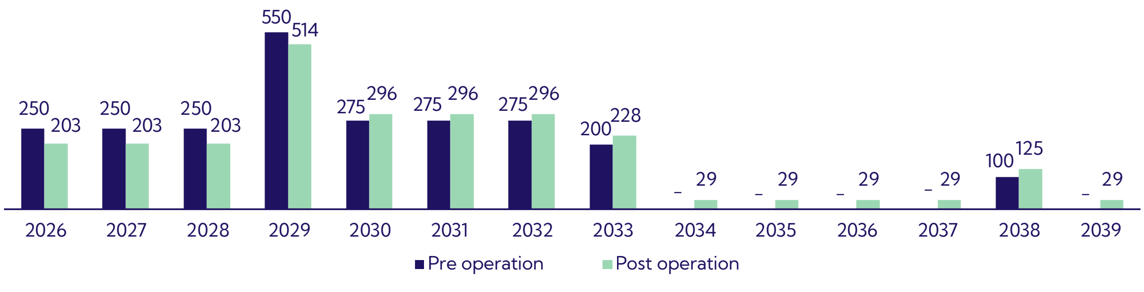
Through the operation, authorities refinanced scheduled maturities at a highly favorable cost, extending the average maturity of The Bahamas' debt portfolio and reducing its weighted average cost. By focusing primarily on short-term maturities, including over USD 140 million of the 2028 Eurobond, authorities proactively addressed upcoming refinancing pressures at the front end of the curve, decreasing total scheduled debt service by USD 242 million before 2030, including the new financing's projected debt service (incl. guarantee fees).

As of end-September 2024, the operation's USD 300 million quantum represented 7.6% of the Central Government's outstanding debt owed to external Private Capital Markets and Financial Institutions.

FIGURE 1: TENDER OFFER RESULTS ON OUTSTANDING EUROBONDS (USD)

Series	Nominal tendered	Clearing price (per $1)	Cash spend	Participation	Ask prices at TO Launch (per $1)	Premium vs. ask prices (pp)	Pre transaction outstanding	Post transaction outstanding
Nov-24	140,664,000	97.50%	137,147,400	18.76%	95.25%	2.25	750,000,000	609,336,000
Jun-24	24,107,000	106.13%	25,583,554	9.64%	104.00%	2.125	250,000,000	225,893,000
Nov-24	26,126,000	97.25%	25,407,535	8.71%	95.13%	2.125	300,000,000	273,874,000
Oct-32	23,197,000	103.50%	24,008,895	2.81%	102.88%	0.625	825,000,000	801,803,000
May-33	515,000	87.63%	451,269	0.26%	88.25%	-0.625	200,000,000	199,485,000
Apr-38	3,602,000	85.75%	3,088,715	3.60%	85.00%	0.75	100,000,000	131,398,000
Total	**218,211,000**	**98.97%**	**215,687,368**	**14.46%**	**96.96%**	**2.012**	**2,425,000,000**	**2,241,789,000**

FIGURE 2: SCHEDULED EUROBOND AMORTIZATION SCHEDULE (USD MILLION)



c. Multilateral Debt

Reflecting policy trade-offs between cost and risks, the government continued to target increased levels of financing and credit enhancement support from multilateral institutions, which typically offer more concessional terms (comparatively lower cost and longer tenor) than commercial debt. Among the multilaterals, the largest creditor is the Inter-American Development Bank (IDB), with 64.0 percent of the total and 15.5 percent of the total foreign currency debt. Next was the CDB with a share to 19.1 percent and 4.6 percent of the total. Meanwhile, indebtedness to the World Bank was unchanged at $100.0 million, for a 7.7 percent proportion of the total, while commitments to the IMF were recorded at $120.0 million (9.2 percent of multilateral debt), with a negligible proportion for the European Investment Bank.

d. Bilateral Debt

The single holder of bilateral debt was the Export-Import Bank of China. Scheduled redemptions reduced the outstanding balance on the three credit facilities, to $43.2 million at end-June 2024, for 0.8 percent of the total foreign currency debt.

e. Financial Institutions

Foreign currency debt to financial institutions advanced by $426.5 million to $1,224.7 million at end-June 2024—corresponding to an expanded 22.9 percent of the total compared with 15.0 percent a year earlier.

f. Monetary Authorities

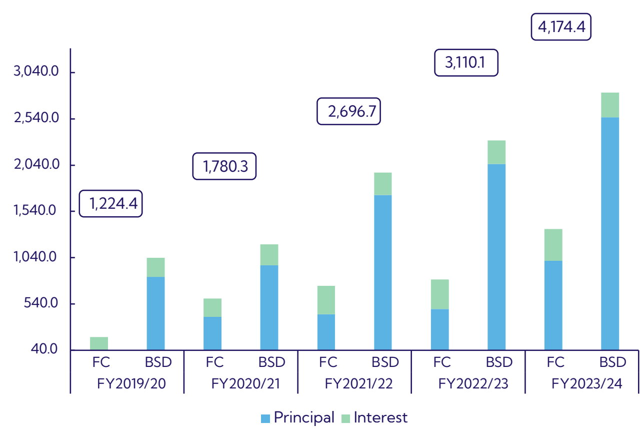
This category captures the SDR denominated debt of the government to the Central Bank, with the outstanding obligation relatively unchanged at $230.0 million—for 4.3 percent of the total foreign currency exposure.

4.4. Debt Service Payments

As presented in Figure 5, total debt service payments for FY2023/24 expanded by $1,064.6 million (34.2 percent) to $4,174.7 million, with 32.4 percent denominated in foreign currency and the remaining 67.6 percent in Bahamian dollars.

Rising foreign currency interest costs of $343.5 million reflected tightened borrowing terms on recently contracted commercial debt, with the weighted average interest rate on foreign loans of 7.15 percent exceeding the 4.56 percent for Bahamian Dollar debt.

FIGURE 5: GOVERNMENT DEBT SERVICE (B$M)



4.5. Cost and Risk Analysis of the Debt Portfolio

The Bahamas' debt portfolio is predominantly exposed to refinancing risk, due to changes in interest and foreign exchange rates. Table 2 illustrates key cost and risk indicators for the debt portfolio at end-June 2023.

a. Cost Indicators

The weighted average interest rate (WAIR), or implied interest rate, of the overall debt portfolio advanced by 16 basis points on an annual basis, to 5.8 percent at end-June 2024. The 5.8 percent WAIR on the foreign currency debt reflected the dominance of the fixed rate USD bonds in the portfolio, which posted a more subdued increase of 16 basis points to 7.3 percent, compared with the 71 basis points firming for the loan segment, to 6.7 percent, consequent on the tightened borrowing terms on recently contracted commercial credits. Meanwhile, these were tempered by the comparatively lower WAIR for multilateral and bilateral loans, at 4.6 percent and 2.0 percent, respectively.

TABLE 2: COST AND RISK INDICATORS OF EXISTING DEBT

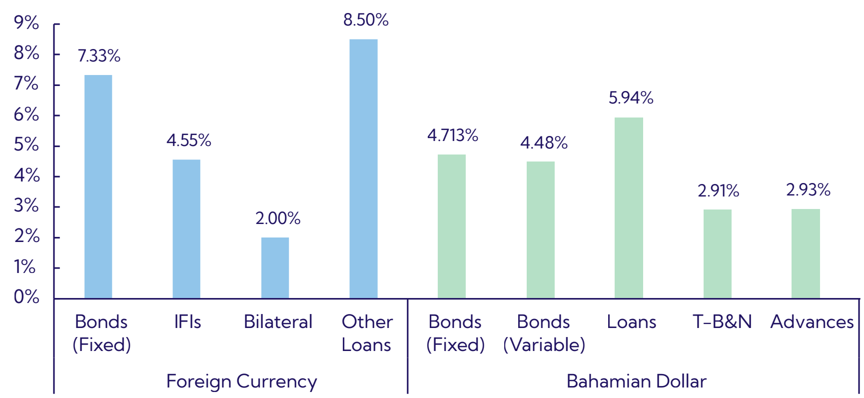
Cost and Risk Indicators			Jun-22	Jun-23	Jun-24
Nominal Debt (B$M)			**10,792**	**11,260**	**11,314**
Nominal Debt as % of GDP			**87.0**	**80.5**	**77.6**
NPV Debt (B$M)			**10,672**	**11,180**	**11,233**
Cost of Debt	**Interest as % of Gov't Revenue**		**28.67**	**23.36**	**22.61**
	Interest as % of GDP		**4.45**	**4.10**	**4.18**
	Weighted Average Interest Rate (%)	**Total**	**5.34**	**5.64**	**5.80**
		External Bonds	7.17	7.17	7.33
		External Loans	4.08	6.02	6.73
		Domestic Bonds	4.62	4.63	4.64
		Domestic Loans	4.91	4.76	4.96
Refinancing Risk	**ATM (Years)**	**Total**	**7.02**	**6.57**	**6.41**
		External	6.82	6.45	6.21
		Internal	7.19	6.66	6.57
	Debt maturing in 1 Year (as % of total)	**Total**	**21.41**	**27.31**	**25.89**
		External	8.40	14.88	7.96
		Internal	32.63	37.45	40.43
Interest Rate Risk	**ATR (Years)**	**Total**	**4.94**	**4.63**	**4.47**
	Debt refixing in 1 Year (as % of total)	**Total**	**60.16**	**56.95**	**56.46**
	Fixed rate debt (as % of total)		**60.16**	**61.58**	**61.33**
Forex Risk	**Foreign currency debt (as % of total)**		**47.31**	**47.28**	**47.37**

In the domestic market, government bonds featured a slightly lower WAIR of 4.6 percent at end-June 2024, with approximately 67.3 percent of the portfolio being issued at fixed interest rates and having a higher WAIR of 4.7 percent that was 2 basis points above that for the variable rate bonds. Treasury bills and notes featured a combined WAIR of 2.9 percent, while Bahamian Dollar commercial loans and advances carried a WAIR of approximately 4.7 percent—as the 5.9 percent for variable rate commercial loans was moderated by the 2.9 percent for advances from the Central Bank, which are linked to the 90-day Treasury bill rate (see **Figure 6**).

Total interest payment on the debt portfolio of $608.9 million for FY2023/24 corresponded to an estimated 22.6 percent of government revenue and 4.2 percent of GDP.

The present value of the debt at end-June 2024 increased to $11,232.5 million (77.1 percent of GDP, compared with 79.9 percent a year earlier), due to the growing importance of semi-concessional debt in the portfolio.

FIGURE 6: WEIGHTED AVERAGE INTEREST RATE COST BY INSTRUMENT (END-JUNE, 2024)



b. Risk Indicators

i. 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 and Average Time to Maturity (ATM).

Refinancing risk is the most prominent risk in The Bahamas' debt portfolio, given the heavy reliance on short-term domestic financing instruments. Efforts are ongoing to maintain the redemption profile of government securities as smooth as possible over the long term.

Refinancing risk remained moderate in the government's debt portfolio, with the ATM abating off in each year since 2021, to 6.4 years at end-June 2024. The easing in the ATM for external debt to 6.2 years, alongside the reduction in the proportion of the portfolio maturing within one year to 7.96 percent from 14.88 percent a year earlier, were primarily explained by the USD300 million bond redemption in January 2024.

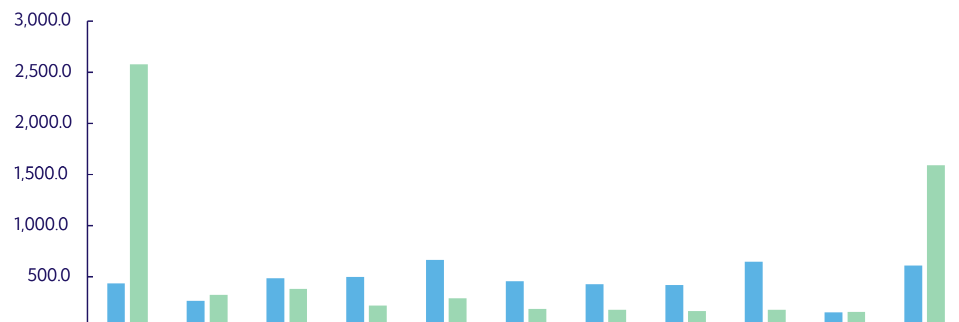
Although the ATM on Bahamian Dollar debt eased to 6.6 years, an elevated 40.43 percent of the portfolio maturing in 1 year on account of the heavy reliance on short-term funding instruments.

ii. Redemption Profile

The maturity profile of the debt, as presented in Figure 7, highlights the amortization of the outstanding debt and the associated risk inherent in the portfolio.

The distribution pattern of the forecasted redemptions between 2025 and 2033 is dominated by the share of domestic and foreign bonds in the portfolio. Although the maturity profile for domestic bonds is relatively evenly spaced, there is an increase in refinancing risk associated with external bond maturities in the coming years, which the government intends to mitigate through buybacks and switch auctions. The redemption profile for foreign currency commercial debt is relatively lengthy and smooth, reflecting the longer maturity and amortizing structure of the multilateral and bilateral credits.

FIGURE 7: REDEMPTION PROFILE OF GOVERNMENT DEBT, AS AT END-JUNE 2024 (B$M)



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035-2065
External	435.7	263.1	486.1	498.8	663.8	458.7	426.5	419.0	649.1	153.2	611.6
Domestic	2,577.0	322.3	383.1	220.3	291.2	185.9	179.2	165.9	178.3	156.7	1,588.6

iii. 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 4.5 years, with 56.5 percent of the total debt subject to a change in interest rate in one year, arising from the prevalence of short-term Treasury bills and notes in the portfolio. It is expected to take, on average, nearly 3.6 years for interest rates to be refixed on the external debt compared to 5.2 years for domestic debt. However, a comparatively higher 47.6 percent of the external debt will refix in one year—up 82 basis points from the comparative year-earlier position.

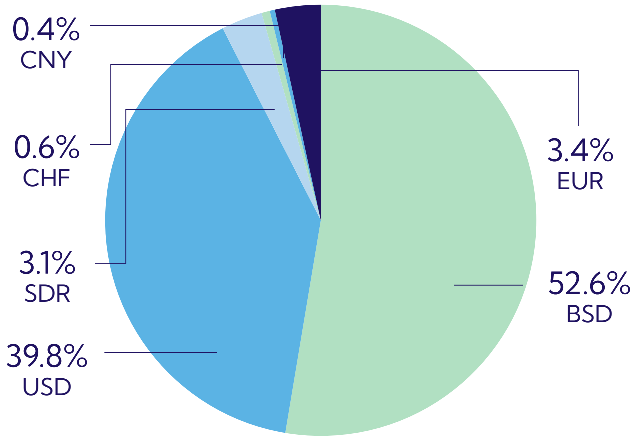
Interest rate risk is assessed as moderate, with a dominant 61.3 percent of the portfolio contracted at fixed rates, and the foreign currency and Bahamian Dollar components at 47.4 percent and 52.6 percent, respectively.

iv. 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.

Exposure to exchange rate risk continues to be low, as the bulk of the debt is in BSD (52.6 percent, followed by the USD (39.8 percent) to which the Bahamian Dollar is tied, at parity (see Figure 8). Among the remaining 7.6 percent shares, almost half represented SDR-denominated debt for which the USD is also the main currency.

FIGURE 8: CURRENCY DISTRIBUTION OF GOVERNMENT DEBT (END-JUNE 2024)



As part of the government's proactive debt management strategy, CHF and CNY foreign exchange hedging facilities are in place to increase the predictability of foreign currency debt service costs.

In FY2023/24, the strength of the USD relative to other foreign currencies resulted in favourable exchange rate movements for the foreign currency debt.

5 MEDIUM-TERM MACROECONOMIC FRAMEWORK

5.1. Macroeconomic Assumptions

The baseline macroeconomic assumptions for the MTDS analysis utilizes the forecasts outlined in the FY2023/24 budget, and the fiscal targets articulated in the PFMA that aim at achieving medium-term fiscal consolidation and a sustainable debt trajectory over the long-term (see Table 4).

The medium-term macroeconomic forecast for The Bahamas envisages stability in real sector indicators, predicated upon favourable outcomes for tourism and foreign investment, and supportive of fiscal consolidation. Growth in both the tourism industry and foreign investment inflows firm. With this positive outlook, economic growth and employment is expected to support stability in the external position.

According to the IMF's October 2024 World Economic Outlook, real GDP growth for The Bahamas is expected to taper from 2.6 percent in 2023 to 1.9 percent in 2024 and 1.7 percent in 2025 and further to its long-run potential of 1.5 percent in 2029 (averaging 1.33 percent for the three years to 2027). Inflationary pressures, which subsided from 3.1 percent in 2023 to an estimated 1.1 percent in 2024, are expected to continue on a downward trajectory, to 2.2 percent in 2025 and to 2.0 percent by 2029.

Conditions continue to support the government's fiscal strategy objectives premises upon an improved revenue outturn of approximately 25.0 percent of GDP by FY2025/26. Revenue growth is targeted through progressive measures intended to enhance the efficiency of tax administration and increase the tax base. The latter includes the recently introduced Domestic Minimum Top Up Tax, which is modeled after the OECDs minimum corporate income tax initiative, and expected to yield in excess of an estimated $140.0 million in new revenue. Baseline fiscal assumptions also incorporate the government's objective to reduce recurrent expenditure to roughly 20.0 percent of GDP by FY2025/26 through targeted spending initiatives. Altogether, these objectives are anticipated to secure an overall fiscal deficit of no more than 0.5 percent of GDP in FY2024/25, consolidating into overall surpluses and primary balances over the medium term, averaging 2.8 percent of GDP and 6.2 percent of GDP, respectively.

TABLE 3: BASELINE MACROECONOMIC ASSUMPTIONS

		Actuals			Budget	Forecasts		
	Unit	2021/22p	2022/23p	2023/24p	2024/25f	2025/26f	2026/27f	2027/28f
Total Revenue	B$M	2,605.7	2,855.4	3,075.5	3,543.3	3,958.9	4,087.7	4,223.1
Total Expenditure	B$M	3,327.9	3,390.0	3,262.3	3,613.1	3,510.7	3,629.9	3,755.2
Recurrent Expenditure	B$M	3,044.1	3,062.5	2,960.7	3,268.6	3,154.3	3,261.4	3,374.0
of which: Interest Payments	B$M	551.8	573.1	613.1	656.7	557.0	551.9	546.4
Capital Expenditure	B$M	283.8	327.5	301.5	344.5	356.4	368.5	381.2
Overall Fiscal Balance	B$M	(722.2)	(534.6)	(186.7)	(69.8)	448.2	457.8	467.9
Primary Fiscal Balance	B$M	(170.4)	38.5	426.4	586.9	1,005.2	1,009.7	1,014.4
GDP (Real)	B$M	12,054.7	12,794.7	12,946.0	13,277.1	13,405.9	13,613.5	13,817.7
GDP (Nominal)	B$M	12,398.9	13,990.5	14,566.3	15,106.4	15,620.3	16,158.9	16,725.1
GDP (Nominal) Growth	%	21.6	12.8	4.1	3.7	3.4	3.4	3.5
GDP (Real) Growth	%	18.8	6.1	1.2	2.6	1.0	1.5	1.5
Total Revenue	% of GDP (Nominal)	21.0	20.4	21.1	23.5	25.3	25.3	25.3
Total Expenditure	% of GDP (Nominal)	26.8	24.2	22.4	23.9	22.5	22.5	22.5
Recurrent Expenditure	% of GDP (Nominal)	24.6	21.9	20.3	21.6	20.2	20.2	20.2
Capital Expenditure	% of GDP (Nominal)	2.3	2.3	2.1	2.3	2.3	2.3	2.3
Overall Balance	% of GDP (Nominal)	(5.8)	(3.8)	(1.3)	(0.5)	2.9	2.8	2.8
Primary Balance	% of GDP (Nominal)	(1.4)	0.3	2.9	3.9	6.4	6.2	6.1

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.

5.2. Risks Associated with the Macroeconomic Indicators

Estimates of the baseline macroeconomic assumptions are exposed to risks and vulnerabilities of varying intensity that could cause deviations from the projections and crystallize in higher borrowing requirements and increased debt levels. Principal among these risk exposures are the following:

» Renewed spikes in commodity prices because of climate-related shocks and ongoing geopolitical tensions.

» Severe climate-related events and the possibility of a future pandemic which could disrupt growth expectations, with a negative feedback loop for tourism, fiscal performance, household spending and business investments.

» 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 objectives, borrowing requirements, debt levels and debt servicing costs.

» Possible deterioration in economic conditions could adversely affect sovereign credit rating and increase borrowing spreads .

To contend with these exposures, the government's risk management strategy envisages a range of measures to maintain fiscal discipline and credibility at all stages of the budgetary cycle, including ongoing review of the MTDS and its appropriateness.

6 ASSESSMENT OF POTENTIAL SOURCES OF FINANCING

6.1. Domestic Sources

Over the medium-term, the domestic market will remain the main source of financing for the government needs, to ensure the containment of costs in accordance with the objectives established to manage the risks of the debt portfolio. Funding is planned to be secured via bonds issued at varying maturities and at fixed interest rates, with variable rates to be considered based on conditions in the domestic market, i.e., demand preferences and interest rate trends. The issuance of Treasury bills will also support active management of the government's liquidity needs.

Several initiatives are continuing to support operations in the primary and secondary markets, key among which are the following:

» Ongoing efforts to build out benchmark issues across the yield curve, based on the recently released benchmark issuance policy that defines, inter alia, the number of benchmark securities, range of issue sizes.

» Refinement of the governance framework for conducting liability management operations (e.g., buy backs and exchange/switches and auctions) to manage roll-over and refinancing risks by consolidating the large and outstanding securities into fewer and more liquid instruments.

» Building out The Bahamas Savings Bond, which was introduced in late November 2024, to promote national savings, encourage financial inclusion and broaden the investor net.

6.2. External Financing Sources

External funding opportunities will be used to complement domestic sources. To optimize portfolio risks, the government will continue to secure external financing in the form of semi-concessional loans from bilateral and multilateral agencies, leverage credit enhancement options such as guarantees, and explore capital market financing on an opportunistic basis.

Alongside the traditional multilateral creditors, the government intends to avail itself of financing from the Development Bank of Latin America and the Caribbean ("the CAF") having completed its membership process as a "Series C" shareholder on November 27, 2024. This membership will provide The Bahamas with access to a new funding envelope of at least $200 million annually to help support, inter alia, policy initiatives in the areas of climate change, infrastructure and the digital economy.

a. New Financing Alternatives

Beyond the traditional borrowing instruments, the government acknowledges the availability of alternative financing instruments being used to address public policy concerns in confronting the effects of climate change, and for blue economy and biodiversity protection and climate change mitigation and adaptation. Addressing these concerns will require substantial financing and will need to be accompanied by a sound debt management strategy to support effective access to national and international debt markets.

As observed from international experience, and increased interest among investors, two main set of new sovereign debt instruments have emerged to improve market access and financial conditions for sustainable financing through offering opportunities for broadening the investor base, improving financing conditions (in tenor and cost), and increasing the transparency and accountability of sovereign debt markets. Among the new alternatives being evaluated by the government are the following:

» ***Sustainable, Green or Social Bonds***, styled "use of proceeds" loans or bonds that are directed to finance new or existing projects with environmental and/or social benefits (e.g., a renewable energy, social housing, clean transportation project). Typically, these bonds are aligned with the Green Bond Principles (GBP) from the 2020 International Capital Market Association (ICMA)—a set of guidelines that foster a transparent and unified reporting on the benefits and expected impact, and the 2019 Sustainability Linked loans principles form the Loan Market Association (LMA).

» ***Sustainability-linked Bonds or Loans***, which are structured using key performance indicators (KPIs) that are linked to the achievement of climate or social goals and where performance vis-à-vis the KPIs results in a decrease (step down) or increase (step up) in the instrument's coupon or interest rate.

As a first step in the development of new debt instruments to achieve sustainable development goals, like climate change mitigation and adaptation or biodiversity protection, the government intends to build a framework that is aligned with international recognized best practices, similar to those provided by the ICMA and the LMA. The framework will explain the context and background of the policy intervention and the functioning of the instruments in terms of execution, expected outcomes, monitoring and reporting. Typically, this framework requires the examination and analysis of a Second Party Opinion (SPO) provider—a reputed organization that validates compliance of the framework with international best practices. The government contemplates commencing this work during FY2025/26.

7 MODELLING OF THE MEDIUM-TERM DEBT STRATEGY

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 and increasing/reducing the proportion of foreign currency debt in the portfolio. 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.

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.

7.1. Baseline-Pricing Assumptions and Description of Shock Scenarios

This section is based on the Government's projections and the assumptions of the expected market interest and exchange rates during the strategy period.

a. Description of Stylized Instruments

Fifteen (15) representative debt instruments were created for the analysis. The domestic stylized debt instruments included eight BSD-denominated instruments—of which six are market-based securities and two are loans. The foreign representative debt instruments comprised concessional, semi-concessional and commercial loans grouped into various representative instruments, including four USD denominated instruments, one CNY denominated instrument and one SDR-denominated instrument. Table 4 presents a summary of the debt instruments and underlying terms.

b. Interest Rate Assumptions

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, pricing is estimated at a spread over SOFR forward rates, as published on the Bloomberg portal. For fixed rate debt instruments, the interest rate was kept constant throughout the projection period.

» For 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. Exchange Rate Assumptions

For the MTDS, it is assumed that the bulk of the foreign currency denominated debt will be contracted in USD. 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 2024 World Economic Outlook (WEO).

TABLE 4: BASELINE PRICING ASSUMPTIONS

Financing Source	Interest Rate Type	Maturity (Yrs.)	Grace (Yrs.)	Currency Type
FX Multilateral Loans	Floating	25	5	USD
FX Bilateral Loans	Fixed	20	5	CNY/EUR
FX Commercial Loans	Fixed	6 to 8	1 to 6	USD
BSD Commercial Loans and Advances	Floating	1 to 5	1	BSD
BSD Long Term Bonds (over 10 yrs.)	Fixed	10 to 30	10 to 30	BSD
BSD Medium-term Bonds (6 to 10 yrs.)	Fixed	6 to 10	6 to 10	BSD
BSD Short-term Bonds (1 to 5 yrs.)	Fixed	1 to 5	1 to 5	BSD
BSD Treasury Bills	Fixed	1	1	BSD

d. 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 30 percent depreciation to the non-USD baseline exchange rate projections, applied throughout the period of analysis.

» **Interest rate shock.** The extreme risk scenario assumes a stand-alone 500 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 250-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 15 percent depreciation, is applied to the non-USD baseline exchange rate projections in FY2024/25.

7.2. Strategic Benchmark and Targets

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 6.5 years.

7.3. Description of Alternative Debt Management Strategies

Taking into consideration the debt management objectives, three (3) financing strategies were formulated to inform the financing of the fiscal deficit and guide medium-term borrowing over the three-year period MTDS timeline. For each strategy, the cost and risk implications on the debt profile in the future are analyzed to determine the most suitable debt strategy for The Bahamas.

Each strategy considered a distinctive financing mix, comprising debt instruments from both Bahamian Dollar and foreign sources. The foreign financing includes loans with 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 government's projected primary fiscal surpluses. The alternative strategies considered are summarized in Table 5.

TABLE 5: DESCRIPTION OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES

Strategy	Description
S1: Status Quo	» Addressing portfolio risks predominantly through domestic sources.
S2: Domestic Market Development and Mitigating Refinancing Risk	» Addressing portfolio risks, through a preference for issuing longer term domestic instruments and semi-concessional multilateral debt.
S3: Reducing FX Risk	» Addressing portfolio risks by issuing more BSD-denominated debt and limiting the issuance of external debt to USD-denominated debt. » Roll over maturing debt at similar or better terms

Table 6 presents new financing and the gross borrowing by financing sources from the alternative strategies considered for the period ending FY2027/28. Each alternative strategy featured different combinations of borrowing instruments, thereby resulting in various debt compositions at the end of the strategy period.

TABLE 6: GROSS BORROWING BY INSTRUMENT UNDER ALTERNATIVE STRATEGIES (B$M)

Gross Financing Source	Total Gross Borrowing (FY2025/26- FY2027/28)		
	S1	S2	S3
FX Multilateral Loans	439	590	438
FX Bilateral Loans	10	10	10
FX Commercial Loans	216	274	234
FX Commercial Loans: Debt Conversion USD Loan	300	300	300
Fixed Rate Bonds USD	511	541	512
FX overdrafts	588	527	588
BSD Overdrafts	634	538	634
BSD Commercial Loans	100	149	199
BSD Long Term Bonds (over 15 years)	17	17	17
BSD Long Term Bonds (over 11-15 years)	102	102	102
BSD Medium Term Bonds (6 to 10 years)	138	141	127
BSD Short Term Bonds (1 to 5 years)	2,244	2,042	2,138
BSD Treasury Bills	3,959	3,751	3,976
Gross Foreign Financing	2,064	2,241	2,081
Gross Bahamian Financing	7,194	6,740	7,192

Net Financing Source	Total Net Borrowing (FY2025/26- FY2027/28)		
	S1	S2	S3
Net Foreign Currency Financing*	-656	-603	-656
Net Bahamian Dollar Financing	-211	-263	-210
Total Net Financing	**-867**	**-866**	**-866**

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

7.4. Result Analysis: Costs and Risks of Alternative Strategies

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 below highlight the cost and risk characteristics of the debt portfolio under the three alternative strategies considering the underlying assumptions.

TABLE 7: COST AND RISK INDICATORS UNDER ALTERNATIVE STRATEGIES

Cost and Risk Indicators		Jun-24	As at End FY2027/28			Long-term Targets
		Current	S1	S2	S3	
Nominal debt as percent of GDP		77.5	59.6	59.1	59.6	<50%
Present value debt as percent of GDP		77.1	59.4	58.8	59.3	
Interest payment as percent of GDP		3.7	3.2	3.3	3.2	
Weighted Average interest rate (percent)		4.7	5.1	5.2	5.1	<5%
Refinancing risk	Debt maturing in 1 yr. (% of total)	28.7	31.3	28.9	31.6	
	Debt maturing in 1 yr. (% of GDP)	22.2	18.6	17.1	18.8	
	ATM External Portfolio (yrs.)	5.8	5.5	5.7	5.5	
	ATM Domestic Portfolio (yrs.)	6.9	5.8	6.1	5.8	
	ATM Total Portfolio (yrs.)	6.4	5.6	5.9	5.6	≥6.5 yrs.
Interest rate risk	ATR (yrs.)	4.6	4.3	4.3	4.3	≥5 yrs.
	Debt refixing in 1 yr. (% of total)	58.6	54.5	54.6	55.5	
	Fixed rate debt (% of total)	61.3	71.8	69.3	70.9	
	T-bills (% of total)	10.0	10.3	9.5	9.8	
FX risk	FX debt (% of total)	46.8	46.8	49.5	47.0	
	ST FX debt (% of reserves)	30.2	24.0	23.5	24.0	
	Non-USD FX debt (% of total)	5.8	1.6	1.8	1.7	
	Non-USD ST FX debt (% of reserves	1.6	0.7	0.6	0.7	
Note: Fixed rate debt includes T-bills.						

a. Growth of Public Debt

Nominal Debt to GDP: In the case of nominal Debt to GDP ratio, all three alternative strategies, together with the positive fiscal balances, produced positive results. S2, however, outperformed the other strategies, having the lowest ratio compared to the baseline and trended towards the long-term target debt of 50 percent.

b. Cost of Debt

Implied Interest Rate: The inclusion of the debt conversion transaction in the first year of all three strategies had a positive impact on interest payment as a percentage of GDP—producing similar results for all strategies.

c. Evaluation of Risks Profile

Refinancing Risk: Overall, S2 performed the best at managing refinancing risk by reducing debt maturing in 1 year. Additionally, S2 outperformed the other strategies in terms of extending the maturity of both the domestic and external portfolio in line with the market development objectives, while trending towards the long-term target of 6.5 years. Overall, the ATM declined under all strategies, as fiscal surpluses provide support to debt reduction, rather than refinancing especially longer dated maturities as they become due.

Interest Rate Risk: Overall, all strategies performed similarily with S2 capitalizing on semi-concessional financing from multilateral sources to offset risk. The declining ATR is also attributed to mainly to fiscal surpluses leading to debt reductions, specifically, the reduction in short term debt and the repayment of floating rate debt with longer maturities that are becoming due.

Foreign Exchange Risk: All strategies produced similar results in managing FX risk. Notwithstanding, the majority of the FX debt in the portfolio comprises USD-denominated debt and exposure to non-USD debt is predominately managed through the use of currency swaps. Non-USD FX debt represented approximately 1.6 percent to 1.8 percent of total debt under the various strategies.

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 2024, which indicates the government's commitment to fiscal consolidation over the medium-term and continued interim progress towards achieving the long-term debt target set out in the PFM.

As shown in Table 7, S2, which capitalizes on access to longer-term financing, produces better results under stressed conditions, access longer-term financing, and therefore has greater benefits to debt management objectives, including domestic market developmment. Aligning well with the gradual approach towards achieving long-term debt targets, when taken overall, S2 balances the government's broad debt management objectives at the lowest possible cost and a prudent degree of risk, despite the uncertain global financial conditions previously outlined.

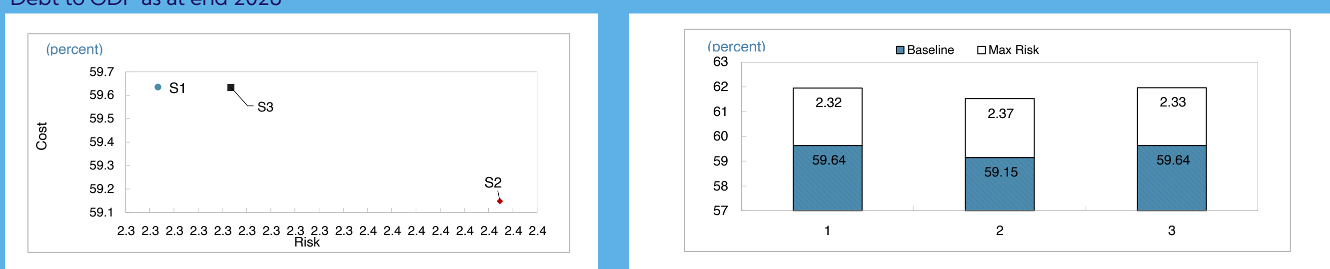
7.5. Analysis of Cost-Risk Trade-Off of the Strategies

Several shocks were applied to the projected macroeconomic and market conditions, to ensure the Government of The Bahamas implements the most robust and resilient debt management strategy among its various financing options. The capacity of the strategies considered in the analysis to withstand economic shocks are evaluated in Figure 9 which depicts the effects of baseline pricing and shock scenario analysis considered. Specifically, the effects of these shocks on Debt/GDP and potential increased costs measured by interest payments/revenues and interest payments/GDP were considered. 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.

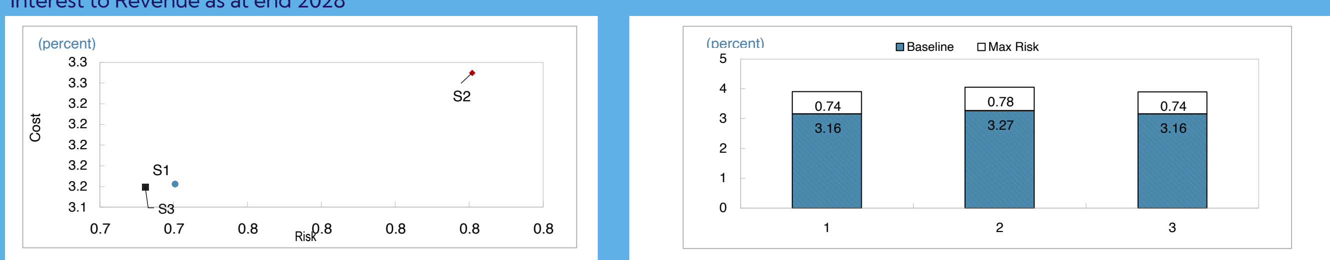
All strategies present marginally similar cost-risk tradeoffs. However, S2 presented a more realistic approach to meeting the debt management objectives at the lowest possible cost and a prudent degree of risk, particularly given current market conditions. Under a stressed scenario, S2 remained robust even with the continued uncertain global financial conditions as previously outlined.

FIGURE 9: COST-RISK REPRESENTATION OF ALTERNATIVE BORROWING STRATEGIES

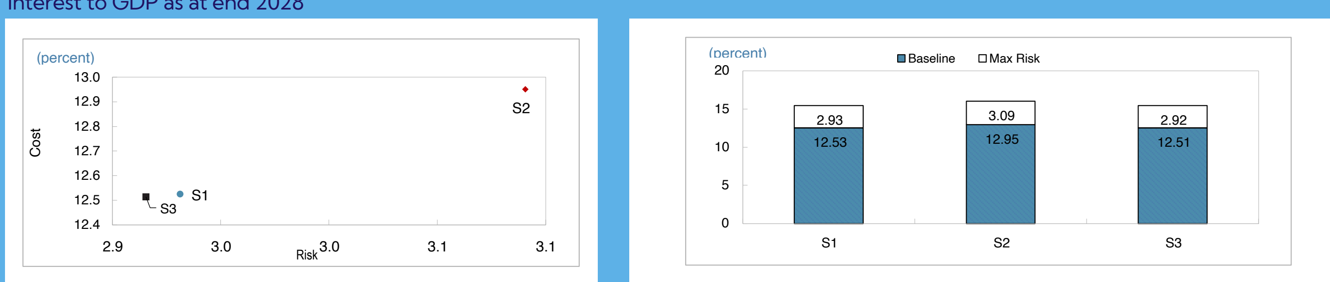
Debt to GDP as at end 2028



Interest to Revenue as at end 2028



Interest to GDP as at end 2028



8 OPTIMAL DEBT MANAGEMENT STRATEGY

As discussed in the previous section, the government intends to pursue Strategy 2 (see details in Table 8) given its feasibility, resilience and ability to satisfy the debt management objectives including domestic market development, while remaining within the long-term risk benchmarks.

The benefits and risks associated with the recommended strategy are as follows:

a. Maximizes borrowing from concessional external sources to extend the maturity of the portfolio while providing appropriate financing for budgeted projects and programs at a relatively low cost.

b. Manages the main portfolio risks, namely, interest rate and refinancing risks, and keeps non-USD FX risk low. The Bahamas enjoys a peg arrangement with the USD and the non-USD foreign currency debt is minimal and also managed with currency swaps.

c. The strategy supports domestic market development and lengthening the maturity of domestic debt, through the continued issuances of domestic market securities at various tenures.

TABLE 8: SELECTED STRATEGY DETAILS (B$M)

Indicators	Fiscal Year Ended		
	2026	2027	2028
Revenue	3,958.9	4,087.7	4,223.1
Expenditure	3,510.7	3,629.9	3,755.2
Overall Balance (Deficit)	448.2	457.8	467.9
Add: Budgeted Interest Payments	557.0	551.9	546.4
Primary Surplus/(Deficit)	1,005.2	1,009.7	1,014.3
Add: Interest on Existing Debt (incl. interest on T-bills and Overdraft for MTDS purposes)	446.8	412.5	371.3
Add: Amortization on Existing Debt (incl. T-bills and Overdraft for MTDS purposes)	508.1	883.8	761.1
Add: Interest on S2 financing	126.8	136.9	175.6
Add: Amortization on S2 Financing	1,474.7	2,115.8	1,410.8
Add: Cash buffer	100.0	150.0	(250.0)
Gross Financing Needs	**(1,651.2)**	**(2,689.3)**	**(1,454.5)**
Financing			
FX Multilateral Loans	318.5	148.5	89.8
FX Commercial Loans	-	541.0	57.9
FX overdrafts	69.2	124.4	103.3
BSD Commercial Loans	49.1	-	-
BSD Other Loan Financing	129.7	140.5	148.6
BSD Long Term Bonds (over 11-15 years)	21.6	26.2	20.6
BSD Medium Term Bonds (6 to 10 years)	36.7	27.8	64.5
BSD Short Term Bonds (1 to 5 years)	195.1	803.4	31.3
BSD Treasury Bills	880.3	877.1	938.4
Gross Foreign Financing	**387.7**	**813.9**	**251.0**
Gross Bahamian Financing	**1,263.5**	**1,875.0**	**1,203.5**
Total Gross Financing	**1,651.2**	**2,689.3**	**1,454.5**

9 DEBT SUSTAINABILITY

According to the IMF's 2023 Article IV country report, staff assessed The Bahamas' public debt as sustainable with a high probability of public debt stabilizing in the medium term. However, like most small open economies, current global financial conditions and geopolitical circumstances combined with local natural disasters, like hurricanes, elevate risks to debt sustainability. S2 seeks to mitigate this risk by increasing borrowing from domestic sources in local currencies, while still capitalizing on semi-concessional financing from multilateral sources.

Recently introduced and tightened public sector reform initiatives, led by the PFM, continue to support debt sustainability. Aside from incorporating the objectives for long-term debt (no more than 50 percent of GDP) and overall fiscal balance, (0.5 percent of GDP), the PFM also establishes ceilings on recurrent expenditure (20 percent of GDP) and capital expenditure (3.5 percent of GDP) alongside targeting revenue at 25 percent of GDP.

The government's medium-term fiscal strategy outlines a path for a gradual, sustained and orderly achievement of the fiscal balance target, by end-FY2024/25. Accordingly, in addition to the underlying projected primary surpluses, the financing combination of the selected medium-term debt strategy (S2) is expected to achieve gradual and sustained convergence to the long-term debt target.

10 MTDS IMPLEMENTATION, MONITORING, REVIEW AND REPORTING

10.1. Annual Borrowing Plan

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

The instrument mix will be aligned to the MTDS objectives, and include loans and bonds of medium to long-term tenor, mainly contracted in BSD and USD, with a preference for fixed interest rates to reduce 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, and include liability management operations to achieve the preferred debt portfolio structure.

10.2. Review and Monitoring

The ABP, which includes the domestic debt issuance program, will be reviewed on an ongoing basis by the DMO and, to promote transparency, will benefit from engagement with market participants and other relevant stakeholders. Underlying macro-fiscal assumptions, key risk parameters and targets will be evaluated against the outcomes, with adjustments undertaken in the context of prevailing market conditions.

10.3. Reporting

Progress on the implementation of the MTDS will be monitored and reported through regular debt management reports which include the quarterly Public Debt Bulletins. 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 continue to 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.

ANNEX I: IMPACT OF GOVERNMENT GUARANTEED DEBT ON MTDS

Over the years, the government has issued sovereign guarantees to several state-owned entities to undertake projects which contribute positively to the development priorities of the government, at reasonable costs and risks. These guarantees represent explicit contingent liabilities which, if called, would increase the debt service cost of the government. The government, therefore, continues to monitor the financial stability and debt repayment capacity of these entities, which allows the government to provide any assistance in a timely manner.

Administration and management of government guaranteed debt is being enhanced with the implementation of the recently developed and released policy framework which contain a credit risk assessment framework for determining whether to grant guarantees, the charging of a guarantee fee, specific eligibility criteria, and a process of monitoring, evaluation and reporting of guarantees.

Guaranteed Debt Outstanding

At end-June 2024, the stock of guarantees to state-owned entities was estimated at $332.9 million, of which 84.6 percent was denominated in Bahamian Dollars. The $51.2 million in foreign currency exposure represented one (1) USD IDB-financed water and sewerage related project.

The government continues to monitor the cost and risk profile of the government guaranteed debt portfolio (see Table 9), which are driven by domestic considerations and feature the following trends.

- The nominal debt to GDP ratio maintained a downward trajectory, moving from 4.1 percent of GDP at end-June 2021 to 2.3 percent of GDP at end-June 2024.
- The weighted average interest rate improved to 4.70 percent at end-June 2024 compared with 4.9 percent in the prior year.
- Refinancing risk, in terms of the ATM, stood 16 basis points lower at 5.0 percent; and debt maturing within one year was significantly reduced to 13.2 percent from a relatively stable 16.6 percent.
- Interest rate risk in terms of debt refixing in 1 year firmed to 79.8 percent of the total portfolio from 74.7 percent a year earlier, as the BSD component increased by 6.26 percent.
- Foreign currency debt positioned slightly higher at 15.4 percent of the total portfolio, compared with 14.5 percent in the previous two years.

TABLE 9: COST AND RISK INDICATORS FOR GOVERNMENT GUARANTEED DEBT

Cost and Risk Indicators			Jun-22	Jun-23	Jun-24
Nominal Debt (B$M)			**393.7**	**384.2**	**332.9**
NPV Debt (B$M)			**376.4**	**372.9**	**324.4**
Nominal Debt as % of GDP			**3.2**	**2.8**	**2.3**
Cost of Debt	**Interest as % of GDP**		**0.1**	**0.1**	**0.1**
	Weighted Average Interest Rate (%)	**Total**	**4.5**	**4.9**	**4.7**
		External Bonds	n.a.	n.a.	n.a.
		FC Loans	1.8	1.7	1.7
		BSD Bonds	5.1	5.6	5.4
		BSD Loans	3.9	3.9	3.9
Refinancing Risk	**ATM (Years)**	**Total**	**6.0**	**5.2**	**5.0**
		FC	7.4	6.9	6.5
		BSD	5.8	4.9	4.7
	Debt maturing in 1 Year (as % of total)	**Total**	**2.5**	**16.6**	**13.2**
		FC	7.6	8.3	8.0
		BSD	1.6	18.0	14.1
Interest Rate Risk	**ATR (years)**	**Total**	**1.7**	**1.5**	**1.5**
		FC	0.0	0.0	0.0
		BSD	2.0	1.7	1.8
	Debt refixing in 1 Year (as % of total)	**Total**	**80.5**	**74.7**	**79.8**
		FC	100.0	100.0	100.0
		BSD	76.9	69.9	76.1
	Fixed rate debt (as % of total)		20.9	20.1	21.8
Forex Risk	**Foreign currency debt (as % of total)**		**15.4**	**14.5**	**15.4**

Simulation of Combined Cost Risk Indicators for Government & Government Guaranteed Debt

Guaranteed debt represents an additional 2.3 percent of GDP in potential exposure to the government and therefore its impact on the central government's cost and risk indicators is not significant.

The simulation exercise utilized the borrowing patterns for S2 and, to address the additional financing need, a new stylized instrument was created using the average terms (the ATM and the WAIR) of the guaranteed debt portfolio.

a. Results

As presented in Table 10, the simulation exercise produced only marginal increases in cost and risk. The stock of nominal debt as a percentage of GDP increased by 2.3 percentage points indicative of the additional financing that would be required under this scenario. The interest payment as a percentage of GDP increases by 0.1 percentage points. The ATM extended on account of financing maturing guaranteed debt at concessional sources and longer term domestic sources. Taken together, the risk indicators signal a marginal increase in risk, in most cases being less than 1 unit.

TABLE 10: COST AND RISK INDICATORS FOR GOVERNMENT & GOVERNMENT GUARANTEED DEBT

Cost and Risk Indicators		Jun-24	As at End FY2027/28		Long-term Targets
		Current	S2	S2 with Guarantees	
Nominal debt as % of GDP		79.9	59.1	61.5	<50%
Present value debt as % of GDP		79.7	58.8	61.2	
Interest payment as % of GDP		3.8	3.3	3.4	
Weighted Average interest rate (%)		4.7	5.2	5.1	<5%
Refinancing risk	Debt maturing in 1 yr. (% of total)	28.2	28.9	29.3	
	Debt maturing in 1 yr. (% of GDP)	22.6	17.1	18.0	
	ATM External Portfolio (yrs.)	5.8	5.7	5.7	
	ATM Domestic Portfolio (yrs.)	6.9	6.1	5.9	
	ATM Total Portfolio (yrs.)	6.4	5.9	5.8	>6.5 yrs.
Interest rate risk	ATR (Yrs.)	4.5	4.3	4.2	>5 yrs.
	Debt refixing in 1 yr. (% of total)	59.7	54.6	55.4	
	Fixed rate debt (% of total)	59.5	69.3	68.5	
	T-bills (% of total)	9.7	9.5	8.9	
Forex risk	FX debt as % of total	45.9	49.5	47.6	
	ST FX debt as % of reserves	30.4	23.5	24.0	
	Non-USD FX debt as % of total	5.7	1.8	1.8	
	Non-USD ST FX debt as % of reserves	1.6	0.6	0.7	

Note: Fixed rate debt includes T-bills.

MEDIUM-TERM DEBT MANAGEMENT STRATEGY FY2025/26 TO FY2027/28

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