FISCAL RESPONSIBILITY COUNCIL OF THE BAHAMAS

Mid-Year Budget FRC Report

March 31, 2025

Contents

Tables and Figures

1. Defined Terms

ABP	Annual Borrowing Plan
ATM	Average Time to Maturity
BNSI	Bahamas National Statistical Institute
DOGE	Department of Government Efficiency
FOMC	Federal Open Market Committee
FRA	Fiscal Responsibility Act, 2018
FRC	Fiscal Responsibility Council
FSR	Fiscal Strategy Report
FY	Fiscal Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
IDB	Inter-American Development Bank
IFI	International Financial Institution
IMF	International Monetary Fund
Minister	Minister of Finance
MTDS	Medium Term Debt Strategy
NGDP	Nominal Gross Domestic Product
PDMA	Public Debt Management Act, 2021
PFMA	Public Financial Management Act, 2023
PPP	Public Private Partnership
REO	Regional Economic Outlook
REU	Revenue Enhancement Unit
RGDP	Real Gross Domestic Product
SOE	State Owned Enterprises
SOFR	Secured Overnight Financing Rate
T-Bill	Treasury Bill
VAT	Value Added Tax
WEO	World Economic Outlook

2. Fiscal Responsibility Compliance Framework

2.1. Remit of the Fiscal Responsibility Council

Established initially under the Fiscal Responsibility Act, 2018 (FRA), the Fiscal Responsibility Council (FRC) was reconstituted under the Public Finance Management Act, 2023 (PFMA), as part of wider public financial management reforms for The Bahamas.

The FRC is an independent body corporate with a mandate to assess the Government's compliance with a fiscal responsibility framework comprising general principles of responsible fiscal management, fiscal responsibility principles and fiscal objectives; and to advise on fiscal and budgetary matters.

These functions include the FRC's review of each of the following publications of the Government:

- Fiscal Strategy Report
- Annual Budget
- Mid-Year Review
- Pre-Election Economic and Fiscal Updates
- Government Annual Accounts
- Reports on deviations from the fiscal responsibility requirements[1]

The FRC consists of five members, appointed by the Governor General on the advice of the Minister of Finance. The current membership of the FRC, whose appointments took effect on 15th October, 2024, consists of the following individuals:

- Christel Sands-Feaste, Chairman
- Dr. Gezel Farrington, Member
- Stefan Knowles, Member
- Rupert Pinder, Member
- Pedro Rolle, Member

2.2. Mid-Year Review Reporting Framework

The Minister of Finance is required to table Mid-Year review documents in the House of Assembly by the last Wednesday in February of each year. This Mid-Term review is intended to show the progress of the first six months of the fiscal year, against the fiscal responsibility principles and fiscal objectives, and the fiscal strategy report, as prescribed in Section 36 of the PFMA, and set out in Section 2.3 of this Report.

The FRC is required to submit to Parliament, a Report containing its assessment of the Mid-Year review, each year, by the 31st of March.

This Report represents the results of the assessment of the FY 2024/2025 Mid-Year review by the FRC, in accordance with Section 33 (1) (b) of the PFMA.

[1] Section 27(1), PFMA

In accordance with Section 27 (2), the FRC engaged The Vivian Group Ltd. as a qualified expert in support of this function,

2.3. Fiscal Responsibility Framework

The fiscal responsibility framework comprises fiscal responsibility principles and fiscal objectives. These principles establish the fundamental responsibilities by which the Government's fiscal policies should be guided; while the fiscal objectives establish the targets that the underlying fiscal policies are intended to achieve.

The general principles of responsible fiscal management, as established by Section 19 of the PFMA and set out in Box 1[2], provide the wider underpinnings of the fiscal responsibility framework.

2.3.1. Fiscal Responsibility Principles[3]

The fiscal responsibility principles as prescribed by Section 20 of the PFMA are:

- Achieving and maintaining a sustainable fiscal balance.
- Achieving and maintaining prudent levels of public debt.
- Prudently managing fiscal risks.

2.3.2. Fiscal Objectives[4]

The fiscal objectives as prescribed by Section 20 and the First Schedule of the PFMA, and as set out in the 2024 Fiscal Strategy Report, are defined in Table 1.

Table 1: Fiscal Objectives – 2024 Fiscal Strategy Report

INDICATOR	TARGET
Debt[5]	50 percent of GDP by FY2030/2031
Revenue	25 percent of GDP by FY2025/2026
Recurrent Expenditure	20 percent of GDP by FY2025/2026
Capital Expenditure	3.5 percent of GDP by FY2025/2026
Fiscal Balance	0.5 percent of GDP from FY2024/2025[6]

[2] Section 19, PFMA
[3] Section 20, PFMA
[4] Section 21, PFMA
[5] Debt refers to the direct charge on the central Government.
[6] The PFMA, First Schedule, Section 11, allows for a compliance margin of 0.5 percent of GDP, for the fiscal balance objective.

Box 1: General Principles of Responsible Fiscal Management

(a) Accountability, which means the Prime Minister, the Minister, all other Ministers, the heads of local governments and Chief Executive Officers are accountable to Parliament for the way the Government and local government authorities, respectively, carry out their responsibilities, with respect to managing fiscal policies.
(b) Intergenerational equity, which means the management of fiscal policies of the Government shall be conducted in a manner that takes into account the welfare of the current population and future generations.
(c) Responsibility, which means the management of public assets and liabilities, including natural resources and fiscal risks shall be conducted to maintain fiscal and environmental sustainability.
(d) Stability, which means fiscal policy shall be conducted in a manner that does not cause destabilising changes in the macroeconomic and fiscal indicators.
(e) Transparency, which means –
    (i) the roles and responsibilities of all Government entities, public officials and public office holders with respect to management of fiscal policy are clearly established and defined.
    (ii) timely financial and non-financial information related to the management of fiscal policy is made available so as to permit effective public scrutiny of the conduct of fiscal policy and the state of public finances.
    (iii) public officials and public office holders should, when lawfully required, provide financial or other performance information.
(f) Inclusive growth, which means economic growth that benefits the whole population.

2.4. Content Requirements for the Mid-Year Review

The content requirements for the Mid-Year review are set out in Section 36 and the Fifth Schedule of the PFMA.

Documents for the FY 2024/2025 Mid-Year review include a Mid-Year Budget Performance budget book, containing budgetary estimates for the six months ending on the 31st of December 2024; and a statement by the Minister of Finance. Both were presented in the House of Assembly on ,26th February 2025.

2.5. Scope of Assessment

To meet its mandate to assess the FY 2024/2025 Mid-Year review against the general principles, fiscal responsibility principles and fiscal objectives,[7] this report examines the Mid-Year review documents, taking into account the following Ministry of Finance resources:

- Draft Estimates of Revenue & Expenditure 2024/2025
- 2024 Fiscal Strategy Report
- Annual Borrowing Plan, FY 2024/2025
- Medium-Term Debt Management Strategy FY 2023/2024 to FY 2025/2026

[7] Section 33 (1) (b)

- Public Debt Statistical Bulletin, Q2, FY 2024/2025

The Central Bank's Quarterly Statistical Digest, Vol. 34, No. 1, February 2025, also served as resource document for the FRC's reporting purposes.

3. Compliance with Content Requirements

The Mid-Year review is intended as an update to the FSR and the annual budget. A measure of progress against the fiscal and budgetary frameworks. In support of these purposes, the PFMA sets out information requirements for the Mid-Year review[8]. This section assesses the Government's compliance in meeting these requirements, which is provided in Table 2.

For each requirement compliance has been assessed according to the following ratings:

Compliant

Somewhat Compliant

Non-Compliant

Table 2: Compliance – Content Requirements, FY 2024/2025 Mid-Year Review[8]

CONTENT REQUIREMENT	FY 24/25	FY 24/25 MID-YEAR REVIEW COMPLIANCE
Public Finance Management Act, 2023, Section 36		
(1) The Mid-Term review shall have updated estimates of revenue, expenditure and financing in the annual budget to which it relates and shall include the information in the Fifth Schedule of this Act and be published on an official website of the Government within one week of tabling.		**Compliant.** Mid-Year review documents were published in accordance with the requirement. Information required by the Fifth Schedule is evaluated separately below.
(2) The Mid-Term review shall measure progress against		
(a) The fiscal responsibility principles and fiscal objectives.		**Somewhat compliant.** Mid-Year review documents provide year-on-year comparisons of revenue and expenditure estimates for the first six months against the same period for the previous fiscal
(b) The fiscal strategy report.		

[8] Section 36 and Fifth Schedule, PFMA.

CONTENT REQUIREMENT	FY 24/25	FY 24/25 MID-YEAR REVIEW COMPLIANCE
		year. There are however no Mid-Year projections to benchmark progress towards achievement of the fiscal targets against.
Public Finance Management Act, 2023, Fifth Schedule		
(1) Updated macroeconomic forecasts and assumptions from the fiscal strategy report and annual budget.		**Somewhat compliant.** Projections for nominal GDP have been updated.
(a) Government revenue outlook and forecasts for the current and next three years.		**Somewhat compliant.** The Fiscal Summary in the Mid-Year Budget Performance provides revenue forecasts. However, there has been no change to the outlook relative to the forecasts presented in the annual budget, to reflect updated assumptions for GDP and inflation.
(b) Government expenditure outlook and forecasts for the current year and next three years including for expenditure, primary expenditure and expenditure on wages and related personnel costs.		**Somewhat compliant.** The Fiscal Summary in the Mid-Year Budget Performance provides forecasts for expenditure. However, there has been no change to the forecast to reflect changes in the macroeconomic outlook.
(c) Approval of new spending since the annual budget including major investment and service projects and policies.		No new spending stated.
(d) Fiscal balance forecast for the current year, fiscal balance for past two (2) years, and forecast next three years.		**Somewhat compliant.** Projections for nominal GDP have been updated. However, there were no changes in revenue and expenditure forecasts to reflect the changed macroeconomic outlook.
(e) Net and gross debt for the current year and next three years.		**Somewhat compliant**. No distinction is explicitly made in the Mid-Year Budget between net and gross debt. However information to distinguish net and gross debt is available in the analysis of debt operations in Public Debt Statistical Bulletin (February 2025).
(f) Level of guarantees.		**Compliant.** Level of guarantees provided in Annex 9 of the Mid-Year Budget Performance, although with some inconsistency to the presentation in the Public Debt Statistical Bulletin.

CONTENT REQUIREMENT	FY 24/25	FY 24/25 MID-YEAR REVIEW COMPLIANCE
(g) Tax relief, remissions, and other waivers.		**Compliant.** Tax relief, remissions, and other waivers information is outlined in Annex 2 of the Mid-Year Budget Performance.
(h) The outstanding stock of arrears for all government entities including showing separately all new unpaid invoices since the stock of arrears was last reported.		**Compliant.** The Mid-Year Budget Performance book outlines the stock of arrears as at the end of December 2024 and shows separately information on unpaid invoices in Annex 8.
(i) Other significant financing matters that have occurred or are planned.		**Compliant.** Mid-Year review documents and the Public Debt Statistical Bulletin (February 2025) provide information about a debt for nature buyback which was executed in the first half of the fiscal year.
(2) Information on virements, reallocations, use of the Contingency Fund, use of the Reserve Appropriation, use of the Supplementary Estimates and any other matters required to be reported by this Act.		**Compliant.** Recurrent and Capital Virements are presented in Annexes 5 and 6, respectively. Withdrawals from the Reserve Appropriation are outlined in Annex 7 of the Mid-Year Budget Performance book.
(3) An update of the fiscal risk position compared to the fiscal strategy report and the annual budget.		**Somewhat compliant.** Discussion of risk provided updates regarding natural disasters, SOEs and pension obligations.

4. Macro-Fiscal Assessment

4.1. Macroeconomic Context and Budget Assumptions

The underlying macroeconomic context and trajectory of key macroeconomic variables, such as real and nominal GDP growth, the inflation rate and interest rates are essential factors that influence the fiscal accounts. Growth assumptions underpinning the budget for FY2024/25 were projected by the Ministry of Finance and informed by estimates from the International Monetary Fund's (IMF's) World Economic Outlook (WEO), April 2024.

In crafting the budget, the Ministry of Finance's projection for real GDP growth (1.7 percent) was more conservative than the IMF's April 2024 estimate (2.3 percent). In its subsequent October 2024 update [Regional Economic Outlook, REO], the IMF revised its growth forecasts for The Bahamas downwards by 0.4 and 0.1 percentage points respectively for 2024 and 2025. In contrast, in the Mid-Year update, the Ministry of Finance increased its growth projection for FY2024/25 by 0.9 percentage points to 2.6 percent. Explanation however regarding the factors influencing this increase was not expressed in the update.

Nominal GDP assumptions in the Mid-Year update on the other hand, were revised downwards, from 4.4 percent and 3.6 percent in FY2024/25 and FY2025/26, to 3.7 percent and 3.4 percent.

The FRC recognises that the revised projections for growth in real GDP by the IMF are broadly in line with the initial budgetary assumptions by the Ministry of Finance. This outlook however suggests significant downside risks to the fiscal forecasts, which are predicated on stronger macroeconomic performance. The FRC notes that an explanation in the Mid-Year Review for the Ministry's revision of its growth projection from 0.9 percent to 2.6 percent would have provided helpful insight.

Table 3: Estimated Growth in Real GDP

	Original Budget		Mid-Year Budget		Variance	
	2024	2025	2024	2025	2024	2025
IMF- Real GDP (% change) for The Bahamas	2.3	1.8	1.9	1.7	-0.4	-0.1
IMF- Real GDP (% change) for The US	2.7	1.9	2.8	2.2	0.1	0.3
MOF- Real GDP (% change) for The Bahamas**	1.7	1.7	2.6	1.0	0.9	-0.7

Source: IMF WEO, April 2024; IMF REO, Western Hemisphere, October 2024; and Mid-Year Budget Performance document, Ministry of Finance, Bahamas
Notes: Real GDP growth forecasts used for the original budget are from the IMF WEO, April 2024 and those used in the Mid-Year budget review are from the IMF REO, October 2024. ** indicates that estimates are for the fiscal year - FY2024/25 and FY 2025/26.

4.2. Inflation

Inflation in The Bahamas has slowed significantly since its peak in 2022. For 2024, the inflation estimate was revised downward by 1.3 percentage points from 2.4 percent in the FSR, 2024 to 1.1 percent in the Mid-Year Budget Performance. Notably however, the cost of living has remained high. With a potential trade war between the United States and other large economies looming, the impact of inflation on budgetary estimates is uncertain.

The FRC notes that the growing uncertainty around the future trajectory of inflation leaves room for the possibility of a resumption of inflationary pressures. Further, while the FRC notes the Government's policy response of reducing VAT on unprepared food from 10 percent to 5 percent, as a means of easing the impact of the persistently high cost of living on households, no supporting projection for the forgone revenue resulting from this relief measure was provided in the Mid-Year update. In the absence of such forecasting, the impact on VAT collections specifically and more generally the fiscal balance given the importance of VAT revenue, is unclear.

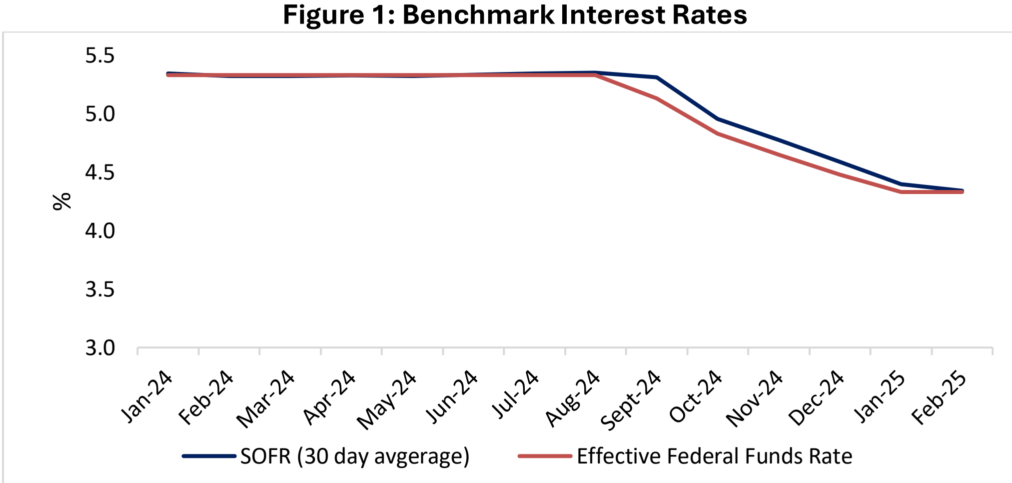
4.3. Interest Rates

General tempering of inflationary pressures, particularly in advanced economies, contributed to reductions in benchmark interest rates in the international capital markets. In the United States, the Federal Open Market Committee (FOMC) began its rate cutting cycle in September 2024 reducing the effective Federal Funds rate by 85 basis points from 5.33 percent to 4.48 percent in December 2024.

The rate cuts were transmitted to benchmark interest rates, reflecting a reduction in the Secured Overnight Financing Rate (SOFR) from an average 5.3 percent in June 2024 to 4.6 percent in December 2024 (see Figure 1).

While the FRC did not receive the interest rates assumptions underpinning the budget, it is acknowledged that more benign financing conditions in the international capital markets since tabling suggests an improved outlook for the fiscal accounts vis-à-vis the original budget. However, rising uncertainty around the potential economic effects of trade policies in the United States, gave pause to further rate cuts when the FOMC met in March 2025.

Figure 1: Benchmark Interest Rates



Source: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis.

4.4. Budget Overview [Fiscal Performance – First Half of FY2024/25]

The budget for FY2024/25 was tabled in Parliament on the 29th of May 2024, along with the accompanying Fiscal Strategy Report, 2024. Under the theme "*Changing the Status Quo, Changing Lives*", the budget was presented in the context of a Government commitment to "engendering transformational change" and "addressing deep-rooted impediments" to sustainable and inclusive economic growth and development. The budget highlighted a continued push toward balancing priorities of fiscal and debt sustainability while supporting strategic investments in key areas including renewable energy, digitalization, health, education, national security tourism and infrastructure development.

FSR 2024 and the FY2024/25 budget predict achievement of the fiscal balance target of a fiscal deficit of 0.5 percent of GDP for FY2024/25 and achievement of a 2.8 percent fiscal surplus for FY2025/26. The revenue projection relative to GDP is 23.3 percent for FY2024/25, with attainment of the 25.0 percent fiscal target projected for FY2025/26. Recurrent expenditure is estimated at 21.5 percent of GDP for FY 2024/25, and achievement of the 20 percent fiscal target is forecast for FY2025/26.

The Government has indicated that the budget is expected to be financed from revenue growth derived from improved tax administration and compliance, higher fees for business licenses and immigration applications (including work permits), supported by lower interest payments and higher capital investments from state owned enterprises and public private partnership arrangements. The Mid-Year update on the Government's budget for FY2024/25, presented in Parliament on the 26th of February 2025, provided an update on the fiscal position and policy achievements during the first six months of the fiscal year ending December 2024.

4.5. Fiscal Balance

Provisional estimates at the end of December 2024 suggest an overall deficit of $398.1 million, more than five times the budgeted deficit for FY2024/25 of $68.9 million representing the 0.5 percent of GDP target set out in the PFMA, signalling the need for a stronger second half performance to improve the year-end fiscal balance

Table 4: Mid-Year Fiscal Performance

	Budget 2024/25 ($M)	Mid-Year 2024/25 ($M)	(%) of Budget
Recurrent Revenue	3,537.0	1,441.0	40.7
of which:			
Valued Added Tax (VAT)	1,515.6	663.1	43.7
Taxes on International Trade	830.5	412.3	49.6
Recurrent Expenditure	3,268.6	1,619.0	49.5
of which:			
Primary Recurrent Expenditure	2,611.9	1,283.6	49.1
Interest payments	656.7	335.5	51.1
Recurrent Balance	268.4	-178.0	-66.3
Capital Revenue	6.3	0.0	0.0
Capital Expenditure	344.5	220.1	63.9
Capital Balance	-338.2	-220.1	65.1
Overall Balance	**-69.8**	**-398.1**	570.4
Primary Balance	**586.9**	**-62.6**	-10.7

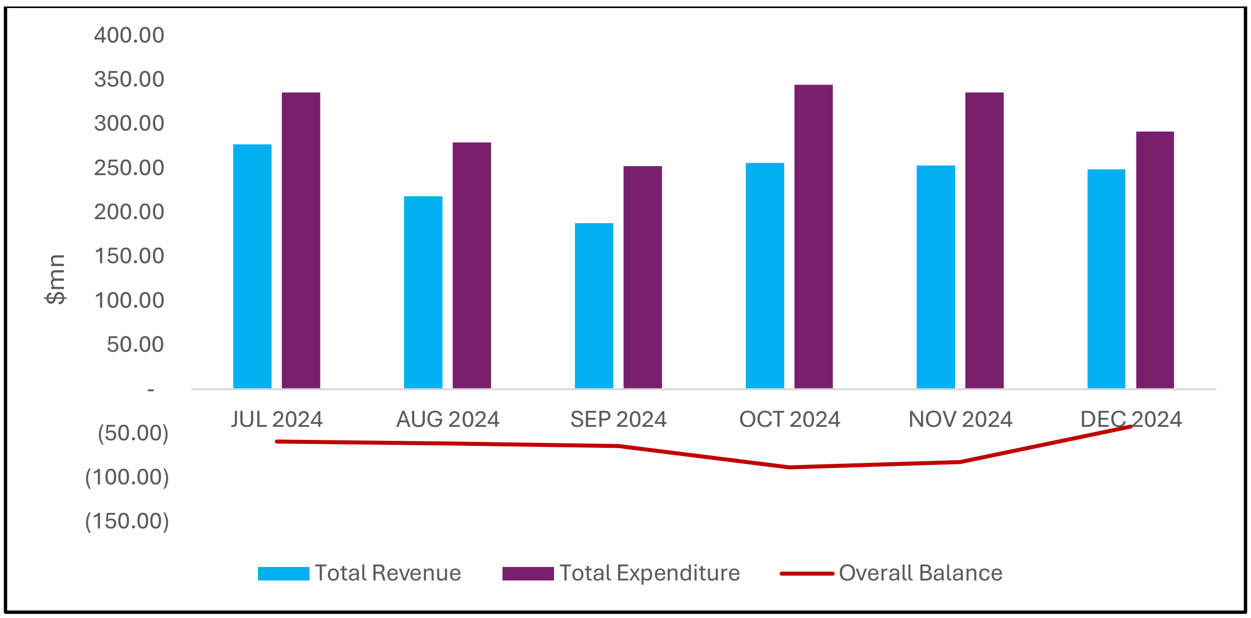
Source: Ministry of Finance, Bahamas

The primary balance produced a deficit of $62.6 million for the first six months of the fiscal year in sharp contrast to the targeted primary surplus of $586.9 million by the end of the fiscal year. The Ministry of Finance has noted that this variance is explained in part by a spike in interest payments associated with the debt buy back underpinning the debt conversion project for marine conservation.

While the Government has expressed optimism that the target deficit will be met, the FRC recognises that meeting the fiscal balance target will require revenue to outperform expenditure by $328.3 million over the remaining six months of the year. The FRC finds that the presentation of more information supporting the Government's position would have provided further insight into the rationale for the variance.

The trajectory of the overall budget balance deteriorated over the first five months of the review period, before improving in December 2024 (see Figure 2). In general, the dynamics reflected higher expenditures on average over the last three months, which were only partially offset by an increase in revenue inflows. Increased revenue collection and more tempered growth in expenditures over the next six months will be critical for the realignment of the budget toward the year-end targets.

Figure 2: Performance of Main Fiscal Components and Overall Budget Balance



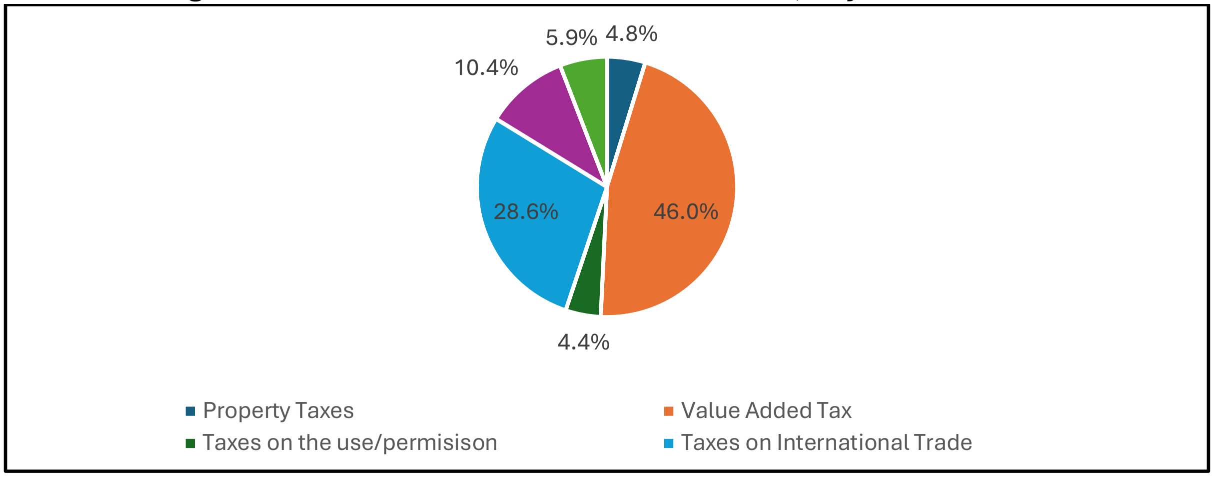
Source: Ministry of Finance, Bahamas
Notes: Figure shows the trajectory of revenue, expenditures and overall balances for the for the first six months of the fiscal year

4.6. Revenue Performance

Value added tax (VAT), taxes on international trade and non-tax revenues are main revenue sources for the Government, accounting for 85.0 percent of revenue collections for the first half of the fiscal year. Though accounting for only 4.8 percent of the revenue collections over the review period, the Government's planned implementation of administrative and compliance measures associated with real estate transactions suggest a positive impact on property tax collections during the remaining months of the fiscal year.

In general however, the fiscal outturn for the first half of FY2024/25 reflects relatively weaker performance on the revenue side of the budget, with major revenue sources tracking below 50.0 percent of their annual budgetary projections. Total revenue collected for the first six months of the fiscal year is estimated at $1,441.0 million or 40.7 percent of total budgeted revenues. This was 10.7 percent greater than the amount collected during the same period in the previous fiscal year. Tax revenues amounted to $1,291.5 million or 41.1 percent of the budget, representing a 10.4 percent increase over the previous year, while non-tax revenues of $149.4 million accounted for 37.9 percent of the annual budgeted amount and was 12.6 percent higher than the previous year's collections.

Figure 3: Contribution of Main Revenue Sources, July – December 2024



Source: Ministry of Finance, Bahamas

VAT collections for the first half of FY2024/25 of $663.1 million were 43.7 percent of the total inflows budgeted for the tax. Given that VAT accounts for a significant share of overall revenue (45.0% of budgeted revenue), underperformance of VAT would weaken the fiscal result for the year.

The FRC is of the view that a presentation of the costing of the impending halving of the VAT rate to 5.0 percent on unprepared food, including on imported food, would have been appropriate as an assessment of the impact on VAT collections and wider implications for achievement of the fiscal balance target.

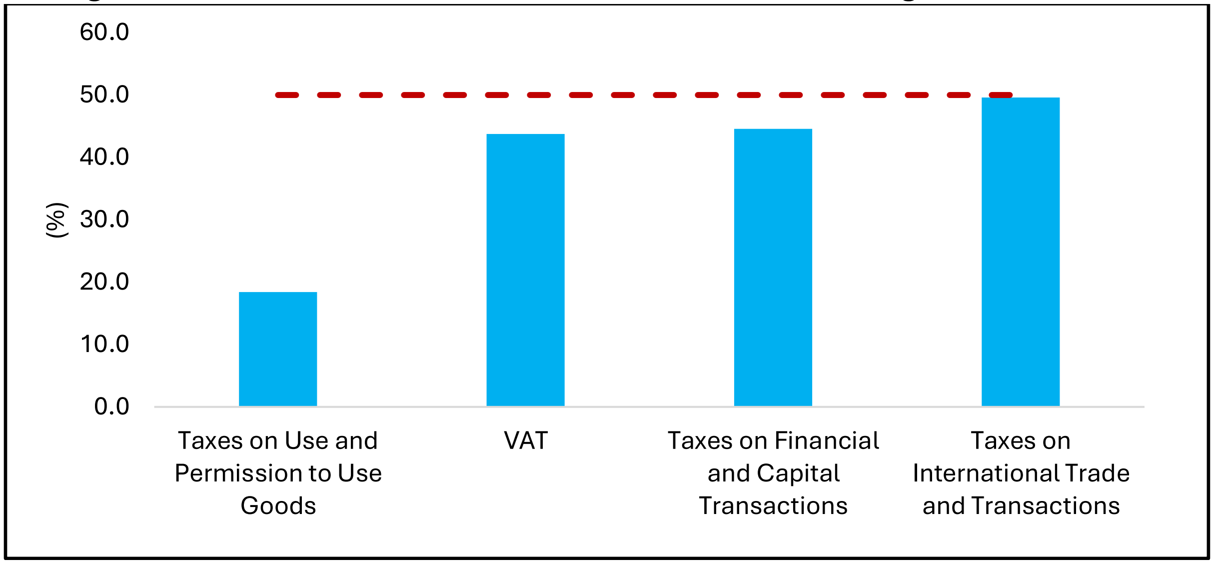
Taxes on use and permission to use goods was $63.0 million, representing 18.4 percent of the $342.3 million budgeted inflows, and 32.1 percent greater than the amount collected in the first half of FY2023/24. Collections from taxes on financial and capital transactions were $63.2 million, accounting for 44.5 percent of the amount budgeted for the year, and $7.7 million or 13.9 percent greater than in the previous fiscal year.

Despite the announced reduction in customs duties on several products, taxes on international trade and transactions performed credibly, amounting to $412.3 million or 49.6 percent of projected inflows for FY2024/25, and 23.6 percent more than the same period in the previous fiscal year. Property tax collections for the first half of the fiscal year at $68.6 million represented 29.8 percent of the $230.0 million budgeted for the fiscal year. Collections for the first six months exceeded the prior year's intake over the period by $21.4 million (45.1 percent) and according to Mid-Year update, most collections for this item are expected during the second half of the fiscal year.

Overall, revenue collections for the six months of FY2024/25 are approximately 10.6 percent higher than the corresponding period last year.

With the lion's share of collections for some taxes staggered over the year, the FRC proposes that Mid-Year projections take into consideration these collection trends as a helpful benchmark for assessing progress towards the end-of-year goals, alongside the 50 percent half-year standard and year-on-year comparison.

Figure 4: Six Month Revenue Collections Relative to Annual Budget for Selected Taxes



Source: Ministry of Finance
Notes: The selected taxes combine for approximately 85.0% of budgeted revenue inflows. Revenue collections less than 50% of the annual budget after six months may be indicative of a underperformance for some of the taxes such as the VAT and taxes on international trade.

4.7. Expenditure

Employee compensation, interest and use of goods and service are the top three expenditure categories, accounting for 60.7 percent of total spending over the first half of FY2024/25. Overall, the distribution of spending across the main expenditure categories is relatively even spread.

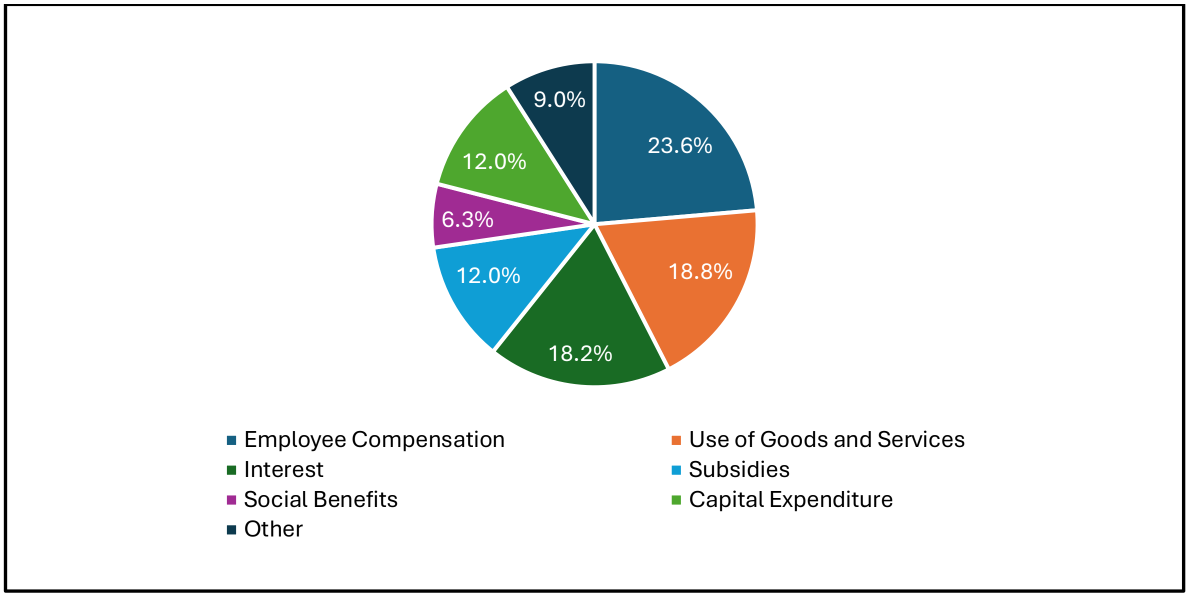
Total expenditure for the first half of FY2024/25 was $1,839.1 million or 50.9 percent of the total annual budgeted amount. This is an increase of approximately 17.0 percent compared to the same period in the previous year. The increase in expenditure was generally reflected in all major expenditure categories for the review period.

Recurrent expenditures of $1,619.0 million was 49.5 percent of the budgeted amount, of which compensation of employees and interest amounted to $434.6 million and $355.5 million – both broadly in line with the mid-year estimates but 4.0 percent and 11.4 percent higher than the previous year, respectively. Interest costs are expected to be lower over the second half of the year, due in part to savings generated from a successful debt for ocean preservation transaction. Use of goods and services recorded the largest increase over the same period a year ago, rising by 37.6 percent to $346.6 million or 50.4 percent of budget.

Capital expenditure of $220.1 million during the first half of the fiscal year, while an increase of 64.1 percent over the same period last year, represented 63.9 percent of the annual budgeted amount. The Government highlighted this shift from a previous ten-year average for capital spending of “approximately 30 percent of budget” as a means of “improving the efficiency of capital funding” with more timely start of capital projects. The Government added its intention to remain within the capital budget total for the fiscal year.

In general, the FRC finds the expenditure performance to date to track broadly around the 50 percent mark of the annual budgetary targets and notes in particular that the expenditure on capital investments is projected by the Government to be more tempered over the second half of the year. The Government’s stated focus on the capital allocation as a driver for economic growth is commendable.

Figure 5: Distribution of Government Expenditure by Economic Classification, July – December 2024



Source: Ministry of Finance

4.8. Debt

The stock of Central Government debt was $11,748.7 million at end-December 2024, representing an increase of $434.9 million dollars relative to the end of the previous fiscal year. This reflects net financing of $451.1 million, which was partially offset by an exchange rate adjustment of $16.2 million. The debt stock is expected to decrease by $287.7 million during the second half of the fiscal year to $11,461.0 million, or 75.9 percent of GDP. A further fall to $10,095.4 million or 60.4 percent of GDP by FY2027/28 is projected, facilitated by programmed fiscal surpluses of 2.7 percent of GDP to 2.9 percent of GDP over the medium term.

The debt-to-GDP projections for FY2024/25 and FY2027/28 are 0.6 percentage points and 0.5 percentage points higher than the estimates provided in the FSR,2024, based on a downward revision in nominal GDP. With the Government targeting a debt-to-GDP ratio of no more than 50.0 percent by end-FY2030/31, effective management of fiscal and debt operations is critical, particularly given the vulnerability of GDP to various external shocks.

The FRC notes that given the net increase in the debt stock during the first half of the year, net repayments will be essential going forward for planned reductions in the debt-to-GDP ratio to be achieved. Further, the FRC finds that given the deviation in planned financing recorded for the fiscal year thus far, it is appropriate that the Government outline planned debt operations for the remainder of the year.

The FRC further notes that it would be helpful for the Government to provide fiscal strategies matching the time horizon of the projected debt trajectory toward a debt-to-GDP ratio of 50 percent by FY2030/31 and supporting achievement of the projected fiscal surpluses that underpin attainment of this target.

5. The Fiscal Balance and Debt Financing

The Government's Annual Borrowing Plan (ABP) for FY2024/25 indicates that the borrowing requirement for the fiscal year is $1,803.3 million, or 11.8 percent of GDP, comprising the anticipated fiscal deficit of $69.8 million, and scheduled debt repayments of $1,733.5 million. The Plan proposes to satisfy the Government's gross financing needs through a combination of external loans from banks and international financial institutions (IFIs), and domestic financing in the form of bonds, treasury bills (T-Bills) and loans.

External financing is programmed at $392.8 million or 21.8 percent of total financing, while domestic financing is programmed at $1,410.5 million, accounting for 78.2 percent of programmed financing.

Table 5: Planned vs Actual Gross Financing

	Planned (FY2024/25)	Actual (Half Yr FY2024/25)
External Debt	**392.8**	**546.0**
Loans	392.8	546.0
Banks	360.0	535.9
IFIs	32.8	10.1
Domestic Debt	**1,410.5**	**1,609.4**
Bahamian Dollar	1,175.0	1,381.4
Bonds	1,075.0	462.7
T-Bills		166.6
Loans	100.0	100.0
Central Bank Advances		652.1
Foreign Currency Loans	235.5	228.0
Total	**1,803.3**	**2,155.4**

Source: Ministry of Finance

Mid-Year review documents distinguish between domestic and external financing according to currency, while the source of funding criterion is utilized in the ABP. In order to maintain consistency with the ABP, the FRC recommends that reporting on domestic and external financing is done with respect to the source of financing. For the purposes of this review, the source of financing criterion is used to distinguish between domestic and external financing.

5.1. Domestic Financing

Programmed sources of domestic financing include bonds/T-Bills totalling $1,175.8 million, local currency-denominated loans totalling $100.0 million, and foreign currency-denominated loans in the amount of $235.5 million. The Indicative Bond Issuance Calendar for FY2024/25 proposes bond issuances amounting to $1,075.1 million, with $441.3 million in issuances scheduled for the first half of the fiscal year. Notably, the total of the issuance amounts listed was $100.7 million less than the amount programmed in the ABP.

The Government's Schedule of Treasury Bill Issuances proposes $4,139.3 million in Treasury bill issuances for FY2024/25, with $2,069.4 million programmed for the first half of the fiscal year. However, this amount was not reflected in the ABP, despite a line item which refers to "Bonds/T-Bills". Similarly, planned T-Bill redemptions for the fiscal year have been excluded from the projected debt repayments, effectively understating the Government's gross financing needs.

Section 13 (2) of the Public Debt Management Act, 2021 states:- "*The annual borrowing plan … Shall state—(a) the projected borrowing needs of the Government, as provided in the annual budget approved by Parliament for the current financial year; and (b)* ***the various categories of debt instruments to be issued by the Government during the financial year and estimated nominal amount under each category of debt instrument***."

Given this legislative requirement, the FRC recommends that treasury bill issuances are included in the ABP, and that redemptions are reflected in debt repayment obligations. In addition to ensuring compliance with the PDMA, the explicit inclusion of treasury bill issuances in the borrowing plan will promote transparency, in accordance with the general principles of responsible fiscal management, as outlined in the PFMA.

For the first six months of the fiscal year, the Government raised $1,609.4 million in gross domestic financing, surpassing the amount programmed in the ABP for the fiscal year by 6.5 percent. Of this amount, T-Bill issuances were $166.6 million, representing just 8.1 percent of the $2,069.4 million programmed for the period. Bond issuances at $462.7 million, were 4.8 percent greater than the amount scheduled (based on the bond issuance calendar). Local currency-denominated loans totalled $100.0 million, in line with the planned amount for the fiscal year.

Unplanned Central Bank advances totalled $652.1 million, while foreign currency-denominated loans accounted for $228.0 million, 3.2 percent less than the amount programmed for the fiscal year. Debt repayments during the period totalled $1,231.0 million, resulting in a net incurrence of domestic liabilities of $378.4 million.

The FRC recommends that the Government provide an explanation for the significantly lower than planned issuances of treasury bills, and the recourse to unplanned financing through Central Bank advances.

Reliance on short term financing in the form of T-Bills and Central Bank advances exacerbates refinancing risk in the domestic portfolio. At end-December 2024, 41.5 percent of domestic debt was set to mature within a year, representing an increase of 1.5 percentage points relative to end-FY2023/24. Similarly, the average time-to-maturity (ATM) of the domestic portfolio decreased by 0.5 years from 6.6 years at the end of FY2023/24 to 6.1 percent at end-December 2024. This does not augur well for the achievement of the medium-term target of a 7.0-year ATM set out in the Medium-Term Debt Management Strategy FY2023/24-FY2025/26.

The FRC suggests greater focus on the development of the domestic bond market if the Government is to achieve the refinancing risk benchmark/target set out in the MTDS.

5.2. External Financing

During the first six months of the fiscal year, external financing consisted of disbursements totalling $546.1 million, or 139.0 percent of the amount programmed for the fiscal year. The increase in external financing relative to the budgeted amount reflects the execution of a debt conversion project during the second quarter of the fiscal year in which $300.0 million of external debt, comprising $218.2 million in nominal Eurobonds and $81.8 million in external commercial bank debt was repurchased, financed by the issuance of a new $300 million commercial loan.

The transaction is estimated to have improved the ATM of external debt, which increased from 5.9 to 6.2 years between end-September 2024 and end-December 2024. This aligns with the Government's medium-term strategy to extend the debt portfolio's ATM to 7.0 years. The Government also realised interest cost benefits, with the weighted average interest rate on central government debt decreasing from 5.8 to 5.7 percent. External debt repayments for the period totalled $473.5 million, resulting in net financing of $72.6 million.

The FRC finds that the Government's external debt operations during the half-year period have been within the budgeted parameters. While loan financing exceeded the budgeted amount for the fiscal year, the $300.0 million loan disbursement relating to the debt conversion project was completely offset by repayments. When this amount is excluded, external financing totalled $246.0 million, which was 37.4 percent less than the amount programmed for the fiscal year.

6. Macro-Fiscal Risks

The credibility of the budget as presented and the likelihood of meeting the fiscal targets embedded therein depend in part on the assumptions on which the fiscal projections are based and changes in these underlying variables over the period. This section looks ahead with discussion of the important risks to the Bahamian economy and fiscal outcomes for the second half of the fiscal year.

6.1. Risks to Real GDP Growth

Each of the following pose potential risks to the growth outlook for the economy.

- Lower external demand in major source markets and trading partners, due to rising geopolitical uncertainties and mass job cuts in the US as the Department of Government Efficiency (DOGE) attempts to streamline and improve efficiency of the federal Government's operations.
- Lower domestic demand due to lower investments given the uncertain climate.
- Higher than projected interest rates and slowed implementation of major investment projects can also stymie growth prospects.
- Supply side shocks including natural hazard events.
- Supply chain disruptions due to disturbances in the external economy represent credible risks given the temperature of current geo-politics. Fallout from the United States' recent announcement of sweeping tariffs including a 10 percent minimum on all countries and additional country-specific rates for some is yet to be determined.

The FRC notes that a key budgetary assumption for growth in real GDP of 2.6 percent in FY2024/25 is higher than the IMF's revised forecast for the Bahamas of 1.9 percent and 1.7 percent in 2024 and 2025, respectively[9]. The combination of a lower growth projection and anticipated deceleration suggests greater risk to budgetary forecasts for FY2024/25. The FRC notes downside risk to the end of year fiscal outlook, should actual growth fall short of the forecasts assumed by the budget.

6.2. Inflation Risk

While higher than expected inflation, for example from an unexpected surge in commodity prices (oil prices in particular), supply chain disruptions, and other external shocks can initially result in higher revenue collections as prices rise, higher inflation would also increase nominal expenditures. **Effects are therefore ambiguous and the FRC is unable to assess the impact of deviations from the inflation assumption.**

6.3. Interest Rate Risk

Growing uncertainty in the US around whether the trade policies of the new administration in the United States will stoke inflation and/or unemployment resulted in the Federal Reserve holding key interest rates steady at the most recent FOMC meeting on March 19, 2025. Uncertainties on the global financial markets that places upward pressure on interest rates can result in higher interest costs on variable-rate debt and new financing.

As at the end of December 2024, variable-rate debt accounted for 35.6 percent of Central Government debt. While this was an improvement relative to the end-June 2024 outturn of 38.7 percent, the share of debt re-fixing within a year increased by 0.3 percentage points over the period, and the average time-to-refixing fell by 0.1 years to 4.4 years. This was reflective of the high share of

[9] IMF REO, October 2024

short-term debt within the portfolio and indicates increased exposure to the risk of higher interest costs for new financing to rollover debt.

The FRC notes the Government's efforts to reduce the share of variable-rate debt in total debt. However, more work needs to be done on mitigating the interest rate risk posed by the portfolio's high share of short-term debt.

6.4. Contingent Liabilities

The Government's contingent liabilities generally arise from planned capital investment through public private partnerships (PPPs), the operations of state-owned enterprises (SOEs) and the offering of government guarantees. While these are longer term risks, they are highlighted here because these obligations pose ongoing crystallization financial risks.

The FRC finds that the continued implementation of measures to strengthen the legal and regulatory framework regarding the management and operation of these entities is advisable.

Additionally, the Government's targeting of training for directors of SOEs, and establishment of a guarantee-policy framework, are believed to be steps in the right direction.

The FRC also notes the slight reduction in government guarantees by $4.8 million or 1.4 percent over the half-year period, suggesting a marginal reduction in the risk posed by guarantees.

6.5. Climate Related Risks

The Bahamas is in a multi-hazard zone with vulnerability to various climate-related natural hazards. In particular, hurricanes and their effects, including storm surges and precipitation; and coastal flooding and coastal erosion. As has been the country's experience these disasters can lead to sweeping infrastructural damage while posing immediate recovery expenditure needs and eventual reconstruction investment, in circumstances of reduced revenue inflows due to constrained economic activity as a result of the disaster. These are perennial risks exacerbated by the increased frequency and intensity of storms, that the Government must continue to manage, by enhancing its disaster risk financing capabilities.

The FRC recognises the Government's continued measures to mitigate the financial impact of natural disasters, including disaster insurance, the disaster relief fund, credit lines for the specific purpose of disaster recovery need, and the availability of principal payment deferral contingency arrangements for Inter-American Development Bank (IDB) loans.

The FRC also recognises the effort to improve physical resilience through the implementation of a coastal protection programme funded by a debt for nature swap.

6.6. Pension Obligations

During the first six months of the fiscal year, the Government spent $99.7 million on pensions and gratuities in cash, which was 52.6 percent of the $189.7 million budgeted for FY2024/25. This was also $9.3 million or 10.3 percent greater than the expenditure for the similar period in the previous fiscal year. The Mid-Year review estimates that pension liabilities are expected to reach $3.5 billion by 2030. In response to these rising pension obligations, the Government's Bill to facilitate a shift to a defined contributory pension plan is expected to reduce the pension burden borne by the budget.

The FRC finds the proposed pension reform is in the interest of fiscal responsibility and stability.

7. Concluding Comments

This report assesses The Bahamas Government's Mid-Year budget review for FY2024/25. The assessment is anchored around compliance with the fiscal objectives, fiscal and general principles set out in the PFMA.

Overall, the FRC finds that the Government's programmed fiscal targets for FY2024/25 are acceptable, albeit with downside risks. However, downside risks associated primarily with what could be less than favourable revenue performance during the second half of the fiscal year are noted. Risks linked to the observed underperformance in VAT and other taxes during the first six months of the review period. While a cost projection for the planned reduction in the VAT rate on unprepared food was not provided, the measure which took effect on the 1st of April 2025, will give way to some level of abatement in collections over the remaining months.

It is also critical to note that rising geopolitical tensions spurred by the policies of the United States Government invite uncertainties around the growth prospects for the country's main trading partner, presenting implications for domestic businesses and economic growth. Notably, the United States' April 2nd, 2025 unveiling of expansive tariffs on all countries, including a 10 percent tariff for The Bahamas has been foreshadowed as the beginning of the global trade war, posing downside risk for the economy.

The FRC acknowledges significant planned policy actions and some key achievements which highlight the Government's commitment to fiscal responsibility. Policies to mitigate the potential adverse effects of natural disaster shocks, including the creation of a disaster relief fund, purchase of disaster risk insurance and establishment of a disaster credit line help to climate proof the fiscal accounts. Use of digital technology such as "OneTaxBahamas" and "Cloud Bahamas" to improve tax administration and compliance and increase efficiency of public service delivery are welcome initiatives.

The Government is also to be commended for its work to unlock innovative fiscal and financing instruments. The Government made important advances with critical tax reform policies during the review period. A 15.0 percent qualified domestic minimum top-up tax (QDMTT) on large multinational organizations, with income greater than 750 million Euros, was passed by Parliament in November 2024 and is expected to generate additional revenue equivalent to 1.0 percent of GDP, annually, beginning FY2025/26. This measure aims to broaden the Government's revenue base as well as enhance fiscal equity.

The Government continues work toward commercializing blue carbon credits from marine preservation efforts; and efforts to unlock access to climate financing – at low cost and generally favourable repayment terms are ongoing. A debt for ocean conservation swap in November 2024 signals interest in financing for environmental projects.

The FRC wishes to highlight key areas for improvement. The Mid-Term review provides an opportunity for the Government to track performance relative to the budget. In order to make this review more meaningful, the Ministry of Finance could consider developing Mid-Year forecasts against which the outturn for the first half of the fiscal year can be more purposely assessed. Consideration could also be given to the preparation of a Mid-Year FSR to accompany the Mid-Year budget. This would allow the Ministry of Finance to more comprehensively discuss new or divergent trends in the macroeconomy and any material deviation in the budgetary projections.

The update could also serve as an opportunity to provide revisions in fiscal and debt forecasts arising from changes in the macroeconomic and financial environment or changes in government policy, in keeping with Section 36 (1) and the Fifth Schedule of the PFMA.

In the interest of fiscal transparency, the Government should also estimate and provide the expected cost of proposed tax policy changes and incorporate these changes in fiscal forecasts.