COMMONWEALTH OF THE BAHAMAS

2024 FISCAL STRATEGY REPORT

Published & Edited by The Ministry of Finance
Printed by Government Printing
Creative Design by Hilltop Designs

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The 2024 Fiscal Strategy Report (2024 FSR) is prepared in accordance with the Public Finance Management Act, 2023. It is an annual refresh of the Government's medium-term fiscal framework which shapes the FY2024/2025 budget, annual borrowing plan, and medium-term debt strategy—based on the macroeconomic projections, fiscal policies and objectives detailed within.

Despite the risks in the global economy, macroeconomic developments during FY2022/2023 and into FY2023/2024 have provided an encouraging environment for the government's fiscal operations and are expected to contribute to the achievement of fiscal sustainability over the medium-term. Following the reduction of the overall balance to a deficit of 3.8 percent of GDP in FY2022/2023, the medium-term fiscal framework targets a decrease in the deficit to 0.5 percent of GDP in FY2024/25. In the remaining two years, the overall balance is expected to switch to a surplus equivalent to an average 2.8 percent of GDP.

Maintaining a revenue strategy based on the principles of fairness, simplicity and adequacy is central to the Government achieving its overarching goal of fiscal sustainability. Using a combination of ongoing improvements to revenue administration, tax policy initiatives and targeted tax reforms, the Government anticipates achieving a revenue to GDP target of 25.0 percent by FY2025/2026, which is to be sustained throughout the balance of the medium-term horizon. On the spending side, the focus is on cost-effective spending initiatives to secure our desired policy outcomes. Government aims to limit recurrent expenditure to 20.0 percent of GDP and maintain capital expenditure to 2.3 percent of GDP by FY2025/2026. Expenditure measures prioritize capital projects such as hospitals, and digitization of government services, SOEs and pension reform to rationalize costs.

Looking ahead, the Government remains steadfast in its adherence to the statutory principles of accountability, intergenerational equity, responsibility, stability, transparency, and inclusive growth. This is evidenced, in part, by the introduction of the new fiscal targets covering expenditures in the Public Finance Management Act, 2023, by amendments to the Public Procurement Act, 2023 to broadened opportunities for the participation of small and medium size enterprises and to enhance operational efficiency, and the pursuit of important cost-savings from the proposed introduction of the Pensions Bill, 2023. The policies and strategies outlined in this document also acknowledge the importance of identifying and managing fiscal risks to ensure economic resilience and stability over the coming years. The Government will continually review the fiscal and macroeconomic outcomes to assess whether the medium-term fiscal framework would require adjustments.

The undersigned attest that, to the extent feasible and practicable at the date of publication, the 2024 FSR contains information that is accurate, reliable, and complete in respect of the requirements of the Act.

Philip Davis
Prime Minister & Minister of Finance

Simon Wilson
Financial Secretary

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Introduction

1.1 Report

The 2024 FSR is the first to be submitted to Cabinet and Parliament under the Public Finance Management Act, 2023 ("the Act"). As per section 23 of the Act, the Minister of Finance is required to prepare and submit a Fiscal Strategy Report (FSR) to Parliament immediately after presenting the annual budget and no later than the last Wednesday in May of the financial year. On approval, the FSR is to be presented to the Fiscal Responsibility Council by the 31st day of July of each fiscal year for their review and recommendations.

The 2024 FSR provides the Government's medium-term fiscal framework to achieve the fiscal targets mandated in the Act. Following this section, and in compliance with the Act, the remainder of this report is organized as follows:

- Section 2 reports on the economic and fiscal performance in the most recently concluded financial year, namely 2022/23;
- Section 3 presents the required macroeconomic forecasts for the current and next four fiscal years;
- Section 4 outlines the proposed fiscal policy measures over the medium-term and the estimated impact for the next three to five fiscal years;
- Section 5 depicts the required fiscal forecasts for the current and next four fiscal years—to show the intended path towards convergence with the fiscal targets;
- Section 6 frames an analysis of fiscal risks and mitigation strategies; and
- Section 7 provides a summary of Government's debt management policy and analysis of debt sustainability.

The information to be included in the 2024 FSR, as specified in the Act, is presented as ***Annex A***.

1.2 Accounting Principles & Methods

The budgetary data presented in the 2024 FSR are prepared using a modified cash basis of accounting and guided by the International Public Sector Accounting Standards (IPSAS) financial reporting under the cash basis. Therefore, revenue is recognized when received and not when earned; expenditure is recorded in the period it is incurred and paid; and purchases of fixed assets, including immovable property, plant and equipment are fully expensed in the year of purchase.

Fiscal data are compiled in line with the International Monetary Fund's (IMF) Government Finance Statistics (GFS) 2014 reporting framework for analyzing and evaluating the performance of government finances. As data reconciliation is ongoing, annual data for FY2021/2022 and FY2022/2023 are subject to change, until audited by the Auditor General; therefore, their status is provisional.

The Government presented the FY2023/2024 budget estimates to Parliament during the annual budget exercise in May 2023. These estimates are reflected throughout this document.

1.3 Macroeconomic & National Accounts Estimates

Official annual and quarterly national accounts statistics are compiled by the Bahamas National Statistical Institute (BNSI) utilizing both survey and administratively sourced data and provide a baseline for the development of the macroeconomic forecasts. As is typical with these statistical systems, from time to time, revisions are made to the data sets to incorporate better or more complete source data, improvements in methodology or concepts, and for updating the base period.

In preparing the medium-term outlook for the economy, the traditional practice at the Ministry of Finance (the "Ministry") has been to utilize the macroeconomic forecasts developed by the IMF for its World Economic Outlook (WEO) reports as well its annual Article IV Staff Reports prepared on The Bahamas. Historically, the adoption of this approach had been reflective of the unavailability of GDP projections within the Ministry as well as the desire to utilize fiscal projections which were based on an independent assessment of domestic conditions. This approach also ensures the macroeconomic forecasts align with the views articulated by a broad cross-section of international agencies and experts.

In 2021, the Ministry, with support from the Inter-American Development Bank and the University of The Bahamas, developed a fully integrated Computable General Equilibrium (CGE) model for The Bahamas. The implementation of the CGE model into the general work stream at the Ministry has facilitated preparation of internally generated macroeconomic forecasts which incorporate both prevailing economic conditions and the outcomes of Government decisions. The results of the internally generated macroeconomic forecasts are compared to the independently generated forecasts to ensure consistency with the consensus view.

Overview of Economic and Fiscal Performance in FY2022/23

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2.1 Economic Performance

a. International Economic Context

Global economic conditions remained relatively resilient during 2023, despite the drag effect of supply chain disruptions, the widening geopolitical tensions and policy rate hikes to quell inflationary pressures. According to the April 2024 WEO[1] published by the IMF, the pace of global growth moderated slightly to an estimated 3.2 percent in 2023 from 3.5 percent in 2022, and with persistent divergences across countries and regions. After intensifying to 8.7 percent in 2022, global headline inflation remained elevated at an estimated 6.8 percent in 2023, and the unemployment rate narrowed to 5.1 percent from 5.3 percent in 2022.

Surpassing earlier expectations, the United States economy expanded by 2.5 percent in 2023 (2022: 2.1 percent), largely attributed to increases in consumer and government spending, and non-residential investments. After reaching a four decade high of 7.0 percent in 2022, lower food, energy and transportation services costs curtailed inflation to an annualized 4.1 percent in 2023, while the unemployment rate stabilized at 3.6 percent.

In the euro area, real GDP gains slackened to 0.4 percent in 2023 from 3.4 percent in 2022, as faster rate hikes by the European Central Bank to contain inflation eroded real incomes and muted domestic demand which was also adversely impacted by the war in Ukraine. Inflation, which was 8.4 percent in 2022, subsided to 6.0 percent in 2023; and the jobless rate was slightly improved at 6.5 percent.

As high interest rates weighed on consumers spending and business investment, Canada's real economic growth moderated to 1.1 percent in 2023 from the 3.4 percent in 2022, although still outperforming expectations. The interest rate factor, combined with falling energy prices and the easing of global supply chain challenges, also caused the rise in average consumer prices to moderate to 3.9 percent from 6.8 percent in 2022. The unemployment rate was marginally higher at 5.4 percent in 2023 from 5.3 percent in 2022.

In the United Kingdom, real GDP growth decelerated to 0.1 percent in 2023 from 4.0 percent in 2022, largely attributed to a slowdown in household spending, government consumer and fixed investment. Average consumer price gains moderated to a still elevated 7.3 percent in 2023 from 9.1 percent in 2022; while the unemployment rate was higher at 4.0 percent in 2023 from 3.7 percent in 2022.

Despite ongoing stresses in the real estate market, China posted better-than-expected annual economic growth of 5.4 percent (2022: 3.0 percent), benefitting from strong outturns for industry, manufacturing, services, and consumption following the lifting of COVID-19 restrictions at the beginning of the year. Reflecting weakness in domestic demand, the annual rate of inflation slackened to 0.4 percent in 2023 from 2.0 percent in 2022, while the annual unemployment rate was lower by 4 basis point at 5.2 percent.

According to the Inter-American Development Bank's 2024 Latin American and The Caribbean Macroeconomic Report, Latin America and Caribbean economies exhibited unexpected strength in 2023. The region experienced growth of 2.3 percent in 2023, to exceed the initial estimate of 1 percent—benefitting from a better-than-expected global growth performance and strengthened macroeconomic fundamentals amid the unwinding of steep COVID-19 related spending. The ongoing recovery in tourism, alongside remittances and infrastructure development were key positives sustaining the economic vibrancy of the Caribbean nations.

1. "World Economic Outlook, April 2024: Steady But Slow: Resilience amid Divergence," IMF, April 16, 2024.

b. Domestic Economic Context

Based on preliminary estimates produced by the BNSI, the Bahamian economy grew in real terms at a slackened pace of 2.6 percent (FY2022/2023: 6.7 percent) in calendar year 2023, with the total value of goods and services placed at $12,831.4 million (FY2022/2023: $12,827.7 million). See ***Table 1*** for a comparison of calendar and fiscal year GDP estimates at current and constant prices.

Among the expenditure components, household consumption, which accounts for nearly 63 percent of total output, advanced at an accelerated rate of 8.4 percent (2022: 1.2 percent)—fuelled primarily by steady tourism led gains in domestic demand and employment conditions. Reflecting the higher costs associated with purchases of goods and services and compensation of employees, the rate of increase in general government consumption tracked lower at 4.5 percent (2022: 12.8 percent). Spending on gross fixed capital formation, pegged at 19.4 percent of total real output, rebounded by 4.5 percent, following the year-earlier contraction of 5.6 percent, and was supported by a similar turnaround for investments in buildings and infrastructure and machinery and equipment. Meanwhile, net export of goods

Table 1: Forecast and Actual Economic Performance

	Fiscal Year GDP Forecasts for FY2022/2023[1]		
INDICATORS	BUDGET FORECAST	ACTUAL	VARIANCE
Gross Domestic Product, current prices (% change)	6.6	13.1	6.5
Gross Domestic Product, constant prices (% change)	3.0	6.7	3.7
Inflation (%,)	3.8	3.1	-0.7

	Calendar Year GDP Estimates for 2023[2]		
INDICATORS	FORECAST	ACTUAL	VARIANCE
Gross Domestic Product, current prices (% change)	8.3	9.2	0.9
Gross Domestic Product, constant prices (% change)	4.3	2.6	-1.7
Inflation (%,)	3.8	3.1	-0.7

1: Budget forecasts are from the FY2022/2023 Supplementary Budget Estimates, actual GDP estimates are those of the BNSI released in April 2024, and the inflation forecast is from the IMF

2:Forecasts are from the 2023 WEO, actual GDP estimates are those of the BNSI released in April 2024; and the 2024 forecast is from the 2024 IMF WEO.

On a sectoral basis, the gross value-added for construction rebounded by 21.8 percent, following the prior years' 21.1 percent contraction, and was mainly fuelled by a firming in tourism-related foreign direct investments as domestic private sector investments remained subdued. Although the gross value-added gains from accommodation and food services subsided to 25.6 percent from the sharp post-pandemic 61.1 percent in 2022, this outcome was more than double that for 2019. Also benefitting from the recovery in tourism-related and construction activity, the transport and storage sector value added, settled lower at 16.5 percent from 27.3 percent a year earlier. Some offsets were provided by declines in the value-added for wholesale and retail trade and motor vehicle repairs (12.4 percent), electricity and gas, water supply and sewerage (17.3 percent) and financial and insurance (11.0 percent).

A further analysis of tourism sector performance for 2023 showed strong recoveries in both air and sea travel segments, following on renewed post-pandemic demand for travel from key source markets. Based on data published by the Ministry of Tourism, Investments and Aviation, the total number of visitor arrivals to The Bahamas surged by 37.9 percent to a new peak of 9.7 million in 2023. Sea visitors continued to dominate—accounting for 81 percent of the total and posting a 43.5 percent upturn to 7.9 visitors. Stopovers, who stay longer and spend more, strengthened by 24.1 percent to 1.8 million passengers.

Figure 1: Bahamas GDP Growth Trends

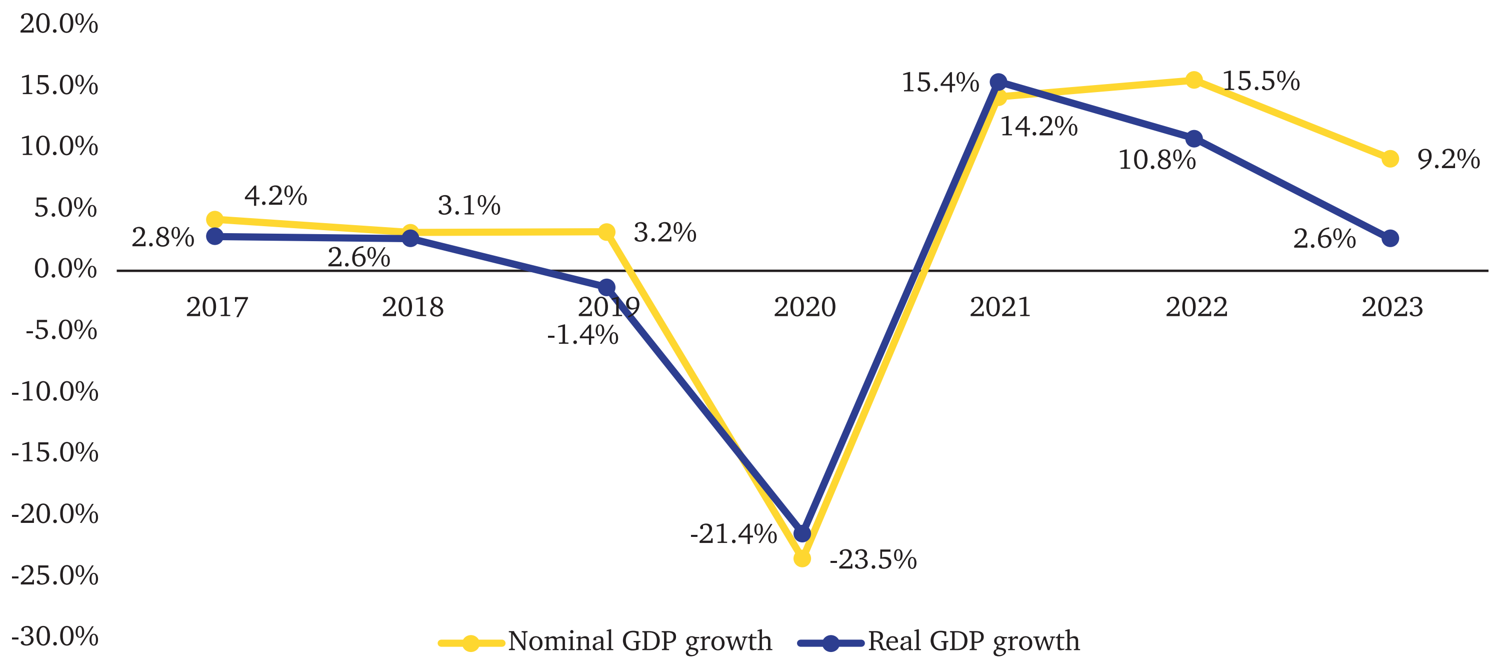
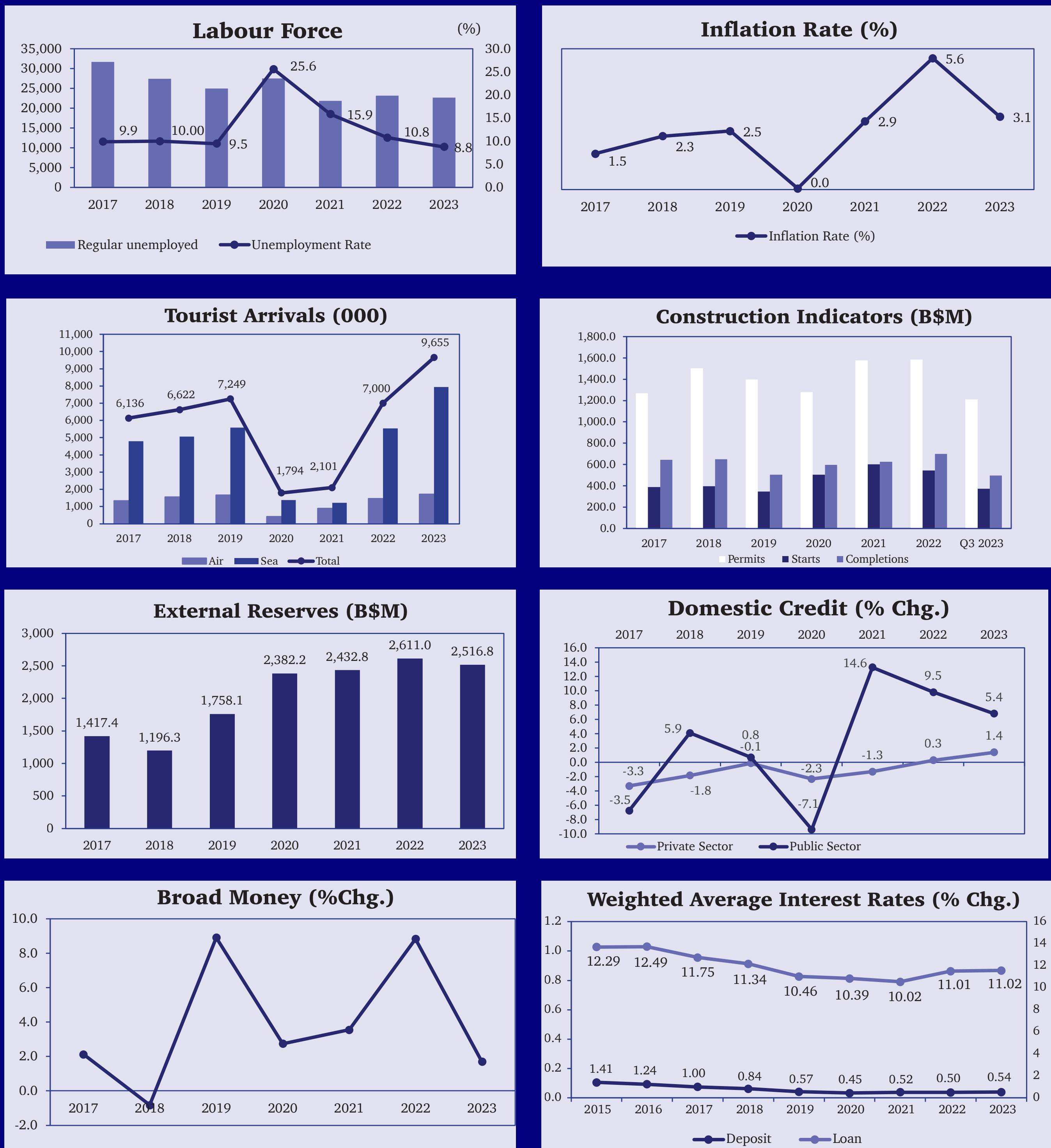


Figure 2: Key Macroeconomic Indicators



Following the sharp contractions caused by the COVID-19 pandemic, labour market conditions improved significantly in 2023, amid the positive and broadening gains in domestic demand. Based on the BNSI's Labour Force Survey for May 2023, the unemployment rate decelerated by 70 basis points to 8.8 percent, relative to May 2019—when the national statistics were last available, and from an IMF estimated 10.8 percent in 2022.

Consumer price inflation, measured by variations in the average Retail Price Index, subsided to 3.1 percent in 2023 from 5.6 percent in 2022, reflecting the pass-through effects of the moderation in global oil prices and the costs of other imported goods and services. Among the key underlying factors were declines in average prices for transport and communication costs, and slower average gains for recreation & culture, food and non-alcoholic beverages, restaurant & hotels, and clothing & footwear prices.

In the monetary sector, broad money (M2) posted sharply moderated gains of $143.3 million (1.7 percent) to $8.6 million, compared with $687.0 million (8.8 percent) in 2022. The demand deposit component was a key driver of this outcome, with growth tapering to 0.4 percent from 16.4 percent a year earlier. The recovery in domestic demand, alongside increases in claims on the government supported domestic credit expansion of $391.0 million (4.2 percent) compared with $289.6 million (3.2 percent) in 2022. The 3.5 percent rebound in private sector credit from the previous years' 0.3 percent contraction was reinforced by gains in personal loans and sectoral lending to the distribution, private financial institutions, manufacturing and professional and other services sectors. Growth in public sector credit was primarily explained by net claims on the government, which grew by 6.7 percent—although slowing from the year-earlier 9.4 percent. Meanwhile, credit to the rest of the public sector contracted by 6.1 percent, in contrast to the prior years' hike of 10.2 percent.

Interest rates exhibited moderate annual fluctuations. [2]The weighted average spread on bank loans and deposits softened by 3 basis points to 10.48 percentage points, as the weighted average rate eased to 0.54 percent for deposit sand stabilized for loans at 11.02 percent. In other interest rate outcomes, the average Treasury bill rate steadied at 2.91 percent, and both the Central Bank's Discount rate and the commercial banks' Prime rate were unchanged at 4.00 percent and 4.25 percent, respectively.

Exchange rate arrangements in The Bahamas are classified as a conventional peg vis-à-vis the US dollar, established at B$1 = US$1 since 1973. External reserve developments during 2023 continued to support the stability of the exchange rate peg. At end-2023, the external reserve balances stood at $2,517.4 million—a contraction of $93.6 million since 2022. The stock equated to an estimated 30.0 weeks of the years' total merchandise imports compared with 33.9 weeks in 2022—remaining well above the international benchmark of 12.0 weeks.

2. Quarterly Statistical Digest February 2024." Central Bank of The Bahamas, May 3, 2024.

2.2 Budget & Fiscal Performance

a. Overall Balance

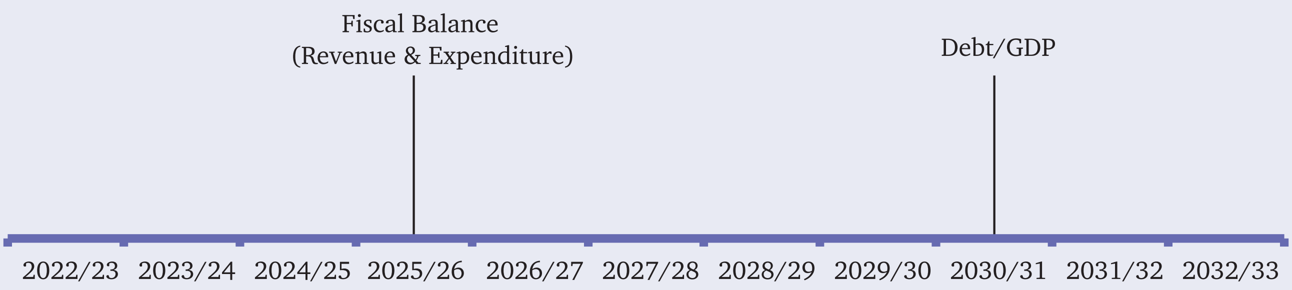
Building upon the fiscal transparency and accountability frameworks in The Bahamas, the government effected changes to the Public Finance Management Act, 2021—an exercise which culminated in the repeal and incorporation of the Fiscal Responsibility Act, 2018 into the new Public Finance Management Act, 2023 (the "PFMA 2023"). The latter legislation retained fiscal targets for debt, the overall balance, and recurrent expenditure, and also included new targets for revenue and capital expenditure (see ***Table 1*** and ***Figure 3***).

Table 2: Fiscal Objectives

FISCAL INDICATOR	2022 OBJECTIVES	2023 OBJECTIVES
Debt Target1	Reduce debt to GDP ratio to no more than 50 percent of GDP by 2030/31.	Reduce debt to GDP ratio to no more than 50 percent of GDP by 2030/31.
Fiscal Balance Target	FY2020/21: 11.6 percent FY2021/2022: 7.8 percent FY2022/2023:2.5 percent FY2023/2024: 1.5 percent FY2024/2025: 0.5 percent	Reduce the fiscal balance (Overall Balance) so that it does not exceed a deficit of 0.5 percent of GDP from FY2024/2025 onwards
Revenue	FY2020/21: 20.4 percent FY2021/2022: 19.8 percent FY2022/2023: 19.7 percent FY2023/2024: 18.8 percent FY2024/2025: 18.6 percent	Increase the gross revenue to GDP ratio to a target of 25.0 percent by FY2025/2026.
Recurrent Expenditure	After the attainment of a deficit of *no more than 0.5 percent of GDP*, the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.	Reduce recurrent expenditure to a target of 20.0 percent of GDP by 2025/26.
Capital Expenditure	No prior provisions stated.	Increase the capital expenditure to GDP ratio to a target of 3.5 percent by FY2025/2026.

[1]Debt is defined in the Act as central Government debt only.

Figure 3: Fiscal Responsibility Achievement Timeline



Provisional fiscal data for FY2022/2023 (see ***Table 3***) maintained a positive trajectory towards achievement of the fiscal consolidation targets. The overall balance registered a contraction in the fiscal deficit to $534.6 million (3.8 percent of GDP) from $722.2 million (5.8 percent of GDP) in FY2021/2022, and exceeded expectations when compared to the revised target established in the supplementary budget of $575.5 million (4.3 percent of GDP). As a consequence, the primary position switched to a surplus of $38.5 million (0.3 percent of GDP) in contrast to a deficit of $170.4 million (1.4 percent of GDP) in FY2021/2022.

Table 3: FY2022/2023 Forecast and Actual Fiscal Performance (B$M)

Table 3(a): B$M

	FY2022/2023		
	REVISED BUDGET	ACTUAL	VARIANCE
1. Revenue	2,857.3	2,855.4	-1.9
2. Expenditure	3,432.8	3,390.0	-42.8
Recurrent	3,073.7	3,062.5	-11.2
Capital	359.1	327.5	-31.6
3. Surplus/(Deficit) [1-2]	-575.5	-534.6	40.9
4. Gov't Direct Charge	11,609.0	11,260.0	-349.0
5. GDP estimate	13,264.0	14,029.5	765.5

Table 3(b): % of GDP

	FY2022/2023		
	REVISED BUDGET	ACTUAL	VARIANCE
1. Revenue	21.5	20.4	-1.2
2. Expenditure	25.9	24.2	-1.7
Recurrent	23.2	21.8	-1.3
Capital	2.7	2.3	-0.4
3. Surplus/(Deficit) [1-2]	-4.3	-3.8	0.5
4. Gov't Direct Charge	87.5	80.3	-7.3

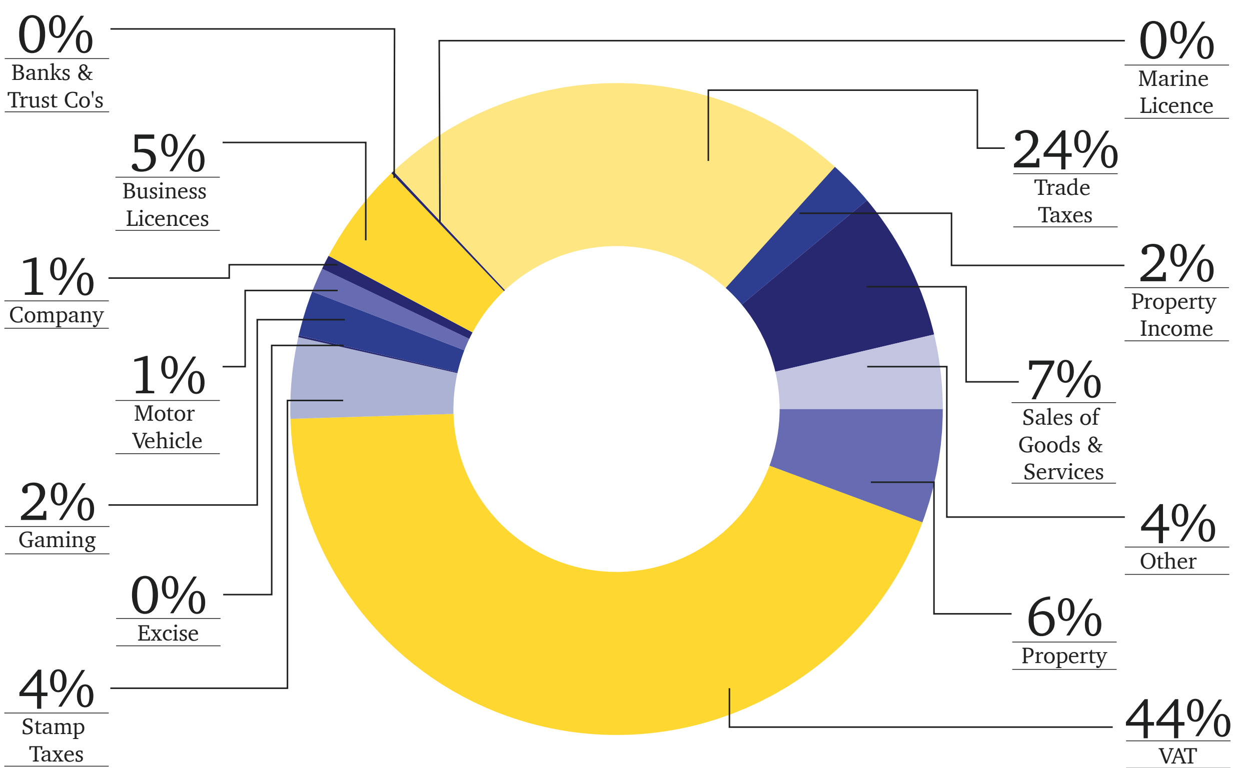
b. Revenue

Benefitting from the resilience in economic activity, the revenue outturn of $2,855.4 million (20.4 percent of GDP) was $246.5 million above the FY2021/2022 intake, and a mild shortfall of $1.9 million below the revised budget target set at 21.5 percent of GDP (see ***Table 2***).

Tax receipts, which aggregated $2,473.6 million for 86.6 percent of the total intake, posted an overall improvement of 14.6 percent vis-à-vis FY2021/2022. Annual gains were recorded for most major components with these revenue streams exceeding the budget targets. Financial and realty stamp taxes (54.4 percent), taxes on gaming services (21.2 percent), license to conduct special business activities (10.9 percent), and taxes on international trade and transactions (9.6 percent) exceeded their respective budget forecasts (see ***Table 3***). However, there was an overall negative variance of 0.1 percent compared with the revised budget expectation—led by below budget yields for VAT receipts (11.3 percent), taxes on property (4.7 percent), general stamp taxes (26.3 percent), excise tax (26.4 percent), motor vehicle taxes (24.5 percent), company taxes (10.7 percent), and marine license activities (13.9 percent).

Non-tax collections at $380.6 million surpassed receipts for FY2021/2022 by 19.9 percent, although 14.9 percent below the FY2021/2022 performance. Budget variances were associated with the incidence of dividends and extinguished dormant funds in the prior years' miscellaneous receipts. The latter, alongside the nearly 71.5 percent improvement in fees associated with property income, were key factors behind the gains vis-à-vis the budget for FY2022/2023.

Figure 4: FY2022/23 Revenue by Source (%)



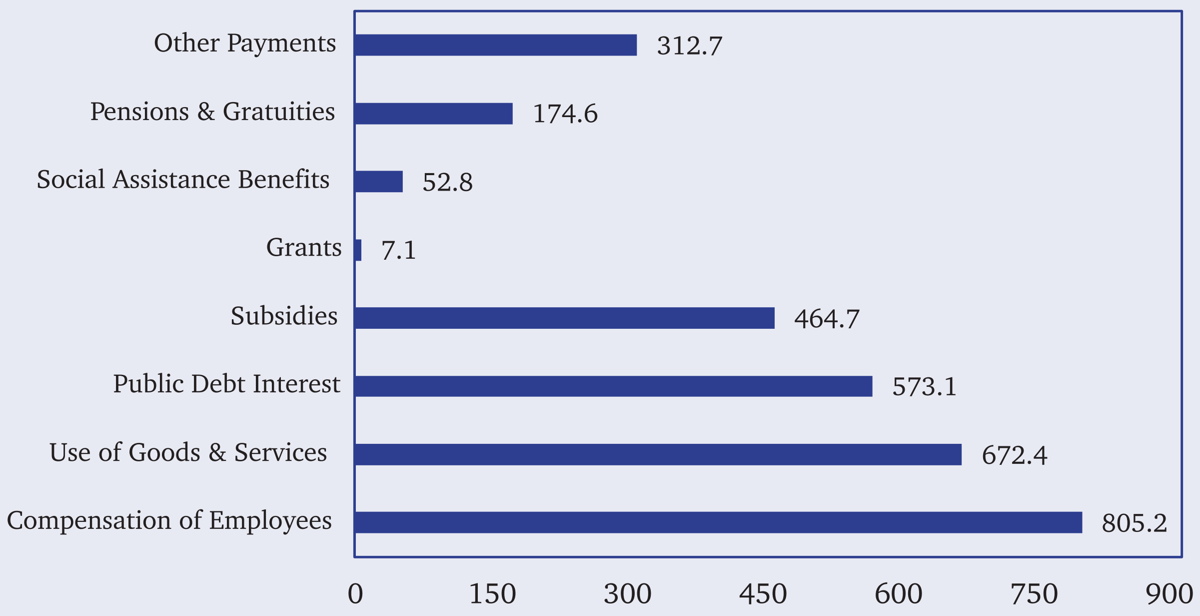
For the nine-months to March 2024, total revenue amounted to $2,191.5 million, for 66.0 percent of the budget forecast. The bulk of receipts was attributed to VAT at $993.9 million (62.5 percent of budget); taxes on international trade and transactions at $502.3 million (70.9 percent of budget); taxes collected on property at $145.6 million (74.6 percent of budget); and non-tax revenues at $235.4 million (59.2 percent of budget).

c. Expenditure

Aggregate spending for FY2022/2023, at $3,390.0 million, was $42.8 million (1.2 percent) below the budget target and represented 24.2 percent of GDP (see Table 4). Consolidating improvement in economic conditions lessened the government's COVID-19 expenditure.

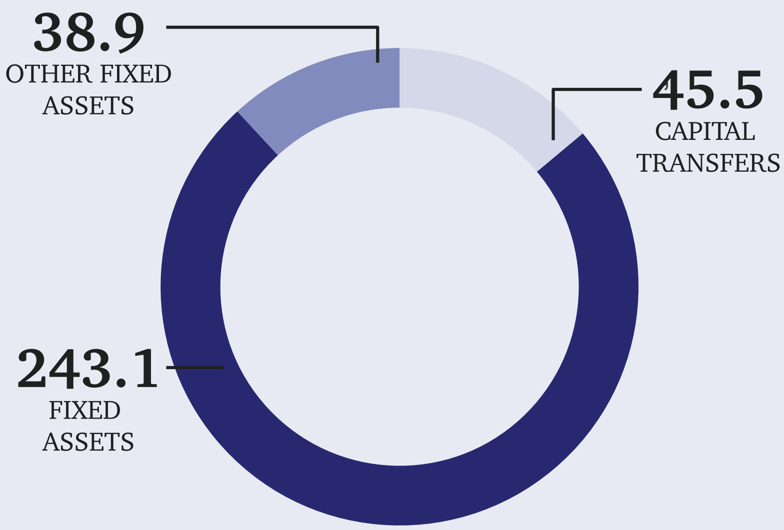
Recurrent expenditures of $3,062.5 million (21.8 percent of GDP) were $11.2 million (0.4 percent) less than budgeted. Below budgeted proportions were posted for outlays for compensation of employees (2.7 percent), which represented a leading 26.3 percent of the total recurrent spending. The savings on social assistance benefits (4.8 percent) and grants (16.3 percent) were largely explained by reductions in COVID-19 social and economic assistance. Meanwhile, spending on the use of goods and services registered a moderate negative variance of 0.3 percent. Higher spend in travel & subsistence, rent, services and other categories where significantly offset by reductions in utilities & telecommunications, finance charges, and special financial transactions. Outlays for public debt interest payments exceeded the budget target by $13.1 million (2.3 percent), while subsidies had a positive variance of 7.5 percent.

Figure 5: FY2022/23 Recurrent Expenditure (B$M)



Capital expenditure amounted to $327.5 million, for an under-spend relative to the budget of $31.6 million (8.8 percent) and positioning at 2.3 percent of GDP (see ***Table 4***). Capital transfers amounted to a total of $45.5 million (0.3 percent of GDP) and accounted for 47.9 percent of the budget target. This reflected normalization of the previous hikes in outlays to support businesses impacted by Hurricane Dorian and COVID-19. Acquisitions of non-financial assets totalled $282.0 million (2.0 percent of GDP) and surpassed the budget target by 6.8 percent. Relative to the budget estimates, a lower spend was posted for buildings other than dwellings, other structures, transport equipment, and other machinery and equipment.

Figure 6: FY2022/23 Capital Expenditure (B$M)



For the nine-months to March 2024, total expenditure amounted to $2,405.6 million, for 69.7 percent of the budget forecast. Of this total, recurrent expenditure accounted for $2,170.7 million (70.3 percent of budget), while capital expenditure was $235.0 million (64.5 percent of budget).

Under recurrent outlays, compensation of employees amounted to $629 million (73.5 percent of budget), and was boosted by recent industrial relations linked increases, and employee promotions and classification reforms. Current transfers not elsewhere classified amounted to $158.5 million (62.5 percent of budget) and primarily included educational scholarships and grants, beach and park development expenses. Government subsidies, which aggregated $312.8 million (76.7 percent of budget, largely constituted transfers to the Public Hospital Authority. Interest Payments on Public Debt was $409.1 million (66.8 percent of budget); and spending on the use of goods and services amounted to $431.7 million (68.7 percent of budget).

Expenditures incurred for the acquisition of non-financial assets totalled $194.3 million (77.3 percent of budget), and primarily covered building maintenance for educational facilities, road works, sporting infrastructure development, and family island capital development.

Table 4: Detailed Summary of Provisional Fiscal Outturn, 2022/23 (B$M)

(B$M)

	FY2022/23			As Percent of GDP	
	Budget	Actual	Variance	Budget	Actual
TAX REVENUE	(B$M)				
Taxes on Property	169.4	161.5	-4.7%	1.3%	1.2%
Taxes on Goods & Services	1,741.0	1,629.0	-6.4%	13.1%	11.6%
VAT	1,411.8	1,252.0	-11.3%	10.6%	8.9%
Stamp Taxes (Financial & Realty)	69.3	107.0	54.4%	0.5%	0.8%
Excise Tax	3.6	2.7	-26.4%	0.0%	0.0%
Taxes on Specific Servcs. (Gaming)	52.7	63.9	21.2%	0.4%	0.5%
Motor Vehicle Taxes	46.0	34.7	-24.5%	0.3%	0.2%
Company Taxes	22.5	20.1	-10.7%	0.2%	0.1%
License to Conduct Special Bus. Act.	130.6	144.8	10.9%	1.0%	1.0%
Marine License Activities	4.5	3.9	-13.9%	0.0%	0.0%
Taxes on Int'l Trade & Transactions	616.3	675.4	9.6%	4.6%	4.8%
General Stamp Taxes	10.4	7.7	-26.3%	0.1%	0.1%
TOTAL TAX REVENUE	2,537.2	2,473.6	-2.5%	19.1%	17.6%
NON-TAX REVENUE					
Property Income	37.7	64.6	71.5%	0.3%	0.5%
Sales of Goods & Services	212.8	211.2	-0.8%	1.6%	1.5%
Other	67.0	104.8	56.5%	0.5%	0.7%
TOTAL NON-TAX REVENUE	317.4	380.6	19.9%	2.4%	2.7%
TOTAL TAX & NON-TAX REVENUE	2,854.6	2,854.2	0.0%	21.5%	20.3%
CAPITAL REVENUE					
Grants	2.8	1.1	0.0%	0.0%	0.0%
Capital Revenue	0.0	0.1	1086.7%	0.0%	0.0%
TOTAL CAPITAL REVENUE	2.8	1.2	-55.9%	0.0%	0.0%
GRAND TOTAL ALL REVENUE	2,857.3	2,855.4	-0.1%	21.5%	20.4%
EXPENDITURES					
RECURRENT EXPENDITURE					
Compensation of Employees	827.9	805.2	-2.7%	6.2%	5.7%
Use of Goods & Services	674.1	672.4	-0.3%	5.1%	4.8%
Travel & Subsistence	10.7	18.8	76.1%	0.1%	0.1%
Rent	84.5	106.1	25.6%	0.6%	0.8%
Utilities & Telecommunications	103.7	79.0	-23.8%	0.8%	0.6%
Supplies & Materials	36.0	35.5	-1.5%	0.3%	0.3%
Services	231.0	288.4	24.9%	1.7%	2.1%

Table 4: Detailed Summary of Provisional Fiscal Outturn, 2022/23 (B$M) cont'd

(B$M)

	FY2022/23			As Percent of GDP	
	Budget	Actual	Variance	Budget	Actual
Minor capital repairs	5.4	5.2	-4.1%	0.0%	0.0%
Finance charges	30.0	10.7	-64.3%	0.2%	0.1%
Special Financial Transactions	148.5	93.6	-37.0%	1.1%	0.7%
Tourism Related	4.8	2.0	-58.3%	0.0%	0.0%
Local Gov't Districts	13.3	13.3	0.0%	0.1%	0.1%
School Boards	0.1	0.1	0.0%	0.0%	0.0%
Other	13.4	19.7	47.5%	0.1%	0.1%
Public Debt Interest	560.0	573.1	2.3%	4.2%	4.1%
Subsidies	432.4	464.7	7.5%	3.3%	3.3%
Grants	8.4	7.1	-16.3%	0.1%	0.1%
Social Assistance Benefits	55.5	52.8	-4.8%	0.4%	0.4%
Pensions & Gratuities	176.6	174.6	-1.2%	1.3%	1.2%
Other Payments	338.8	312.7	-7.7%	2.6%	2.2%
TOTAL RECURENT EXPENDITURE	3,073.7	3,062.5	-0.4%	23.2%	21.8%
CAPITAL EXPENDITURE	359.1	327.5	-8.8%	2.7%	2.3%
TOTAL EXPENDITURE	3,432.8	3,390.0	-1.2%	25.9%	24.2%
FISCAL DEFICIT	-575.5	-534.6	-7.1%	-4.3%	-3.8%
Less: Public Debt Interest	560.0	573.1	2.3%	4.2%	4.1%
PRIMARY DEFICIT	-15.5	38.5	-348.9%	-0.1%	0.3%

MEMO: Nominal GDP of $14,029.5 [B$M]

d. Financing Activities

The Government's net incurrence of liabilities, at $451.9 million for FY2022/2023, was $112.1 million (19.9 percent) below the budget target (see ***Table 5***). The higher levels of gross borrowing and debt repayment primarily reflected the usual intra-year short-term financing activities with the Central Bank, although the net increase was $118.1 million. Consequent on these developments, the outstanding Direct Charge at end-June 2023 was an estimated $11,260.1 million or 82.0 percent of GDP. Domestic debt represented 55.6 percent of Government liabilities at $6,255.2 million. Further details on Government debt are provided in **Section 7**.

Table 5: Financing Activities in 2022/23 (B$M)

	FY2022/2023		Variance
	Budget	Actual	
Overall Balance [Surplus/(Deficit)]	**-575.5**	**-534.6**	**40.9**
Net Incurrence of Liabilities (a-b) [+]	**564.0**	**451.9**	**-112.1**
a. Borrowings	1,840.7	2,989.0	1,148.3
b. Debt Repayment	1,276.7	2,537.1	1,260.4
Net Acquisition of Financial Assets [-]	**46.5**	**226.5**	**180.0**
Sinking Funds	46.5	116.5	70.0
Equity	0.0	0.0	0.0
Other	0.0	110.0	110.0
Other Financing & Change in Cash Balance (incl. Overdraft) [() = increase]	58.0	309.2	251.2

During the fiscal year, voluntary contributions to the sinking funds established to retire future debt obligations—inclusive of amounts arising from the collection of tax arrears, totalled $116.5 million. At end-June 2023, these arrangements held a cumulative value of $378.6 million and were invested predominantly in US securities. As a result of the February 2022 repurchase agreement, approximately $141.3 million of the portfolio was sold for repurchase in two (2) years.

In other investment activities, the government extended a $110.0 million loan to the Bahamas Power and Light Company, the state-owned electrical utility, to assist with liquidating past due and outstanding fuel-related debts.

2.3 Government Net Worth

As the Government currently utilizes a modified cash basis of accounting under the Cash Basis International Public Sector Accounting Standards (Cash IPSAS), the preparation of estimates of Government net worth is not available at this time. As per the requirements of the PFM, Second Schedule 9 (k), estimates of Government net worth as a share of GDP and in nominal terms shall be disclosed when estimates of net worth can be estimated.

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

Economic Outlook

TABLES

FIGURES

BOX

3.1 Medium Term Macroeconomic Outlook

The economic outlook for the global economy and The Bahamas provides important context for the government's formulation of fiscal policy. According to the IMF's April 2024 WEOs[3], the baseline forecasts show global economic growth stabilizing at the 2023 pace of 3.2 percent for both 2024 and 2025. Contributing to this low pace of expansion include the near-term persistence of high borrowing costs and the withdrawal of fiscal support, alongside the longer-term effects of the COVID-19 pandemic and Russia's invasion of Ukraine. Global inflation is expected decline to 5.9 percent in 2024 and further to 4.5 percent in 2025, as central banks shift to policy easing rates moving closer to target levels.

In the United States, the 2024 growth outlook was revised upwards from 1.1 percent to 2.7 percent in the April 2024 WEO, as the stronger momentum in the fourth quarter of 2023 is expected to continue into 2024. However, the rate of growth is forecast to decelerate to 1.9 percent in 2025, under the impact of gradual fiscal tightening. With the expectation of continued tightening in the labour market, unemployment rates are projected to firm to 4.0 percent in 2024 and 4.2 percent in 2025, although inflation is expected to fall to 2.9 percent in 2024 and further to 2.0 percent in 2025.

Euro area growth is projected to improve to 0.8 percent in 2024 and then 1.5 percent in 2025, reflecting a rebound from a comparatively high level of exposure to the conflict in Ukraine. As the effects of the energy-price-shock wane, rising household consumption and declining inflation are expected to promote real income growth. Inflation in 2024 is expected to moderate to 2.4 percent and further to 2.1 percent in 2025. Unemployment levels are projected to remain relatively stable at 6.6 percent in 2024 and decrease slightly to 6.4 percent in 2025.

Canada, The Bahamas' second largest source market for tourists, is expected to experience modest growth of 1.2 percent in 2024, before improving to 2.3 percent in 2025. Reflecting the gradual relaxation of monetary policy tightening, inflation is projected to ease to 2.6 percent in 2024 and further to 1.9 percent in 2025. However, the jobless rate is forecast to increase and remain at 6.3 percent in both 2024 and 2025.

China's economy is projected to post moderately slower real GDP growth of 4.6 percent in 2024 and 4.1 percent in 2025, with the economy being supported by fiscal stimulus and exports. However, inflation is projected to increase to 1.0 percent in 2024 and further to 2.0 percent in 2025, while the unemployment rate is expected to marginally decline and stabilize at 5.1 percent in 2024 and 2025.

Real GDP growth in the United Kingdom is poised to rise to 0.5 percent in 2024, as negative effects of high energy prices diminish, and to accelerate to 1.5 percent in 2025 on expectations that disinflation will ease financial conditions and restore real incomes. Therefore, inflation in 2024 is expected to fall to 2.5 percent and further to 2.0 percent in 2025. Unemployment levels are projected to remain relatively stable at 4.2 percent in 2024 and 4.1 percent in 2025.

In Latin America and the Caribbean, growth is forecast at 1.9 percent in 2024 and improving to 2.5 percent in 2025. By sub region, 2024 growth is estimated to be 1.4 percent for South America; 2.7 percent for the group comprising Central America and Mexico; 2.6 percent for the Caribbean (excluding Guyana); and 28.9 percent for Guyana . These figures reflect expectations for all sub regions to experience lower growth in 2024 than in 2023. As 2023 progressed, the outlook for 2024 deteriorated for the region, although a better-than-expected performance of the U.S. economy in 2023 led to more favourable outcomes in Brazil, Mexico, Central America, and the Caribbean. Nevertheless, the regions' growth prospects deteriorated, due to the overall challenges of improving social conditions, strengthening fiscal accounts, and promoting long-term growth. Current expectations anticipate that growth will return to its long-term average of 2.0 percent by 2025 . Inflation in 2024 is expected to increase to 16.7 percent, before declining sharply to 7.7 percent in 2025.

The Bahamas' medium-term macroeconomic forecast and outlook, as presented in this document, reflect the prevailing forecasts for global markets and Government's own forecasts for the domestic economy. The forecasts also incorporate Government's planned and commenced economic and fiscal strategies as articulated herein. These goals and strategies are anchored in the policy priorities and goals articulated in the "Blueprint for Change", the Speech from the Throne, and past and the upcoming Budget Communications.

3. "World Economic Outlook, April 2024: Steady But Slow: Resilience amid Divergence," IMF, April 16, 2024.

The IMF's April 2024 WEO projects real growth for The Bahamas of 2.3 percent in 2024, tapering off to 1.5 percent by 2028, which closely aligned with the medium-term trajectory outlined the year prior in the IMF's April 2023 WEO. However, real growth for 2024 was revised upwards from 1.8 percent to 2.3 percent, incorporating the positive impact of the robust tourist performance on economic growth and the fiscal situation. Over the medium term, increases in tourist arrivals and real average spending are expected to boost real GDP and ease further external and fiscal imbalances. However, risks to this outlook include the prospect of costly natural disasters and an economic slowdown in major tourist supply economies.

The 2024 GDP deflator has been revised downward to 1.8 percent from the prior year's estimate of 2.7 percent and is expected to converge to 2.0 percent by 2028. Similarly, inflation, as measured by the average change in the Consumer Price Index, is forecasted at 2.4 percent in 2024, down from the original forecast of 3.4 percent for the year prior. As external price pressures moderate over the medium-term, inflation levels are forecasted to recede to 2.0 percent by 2028.

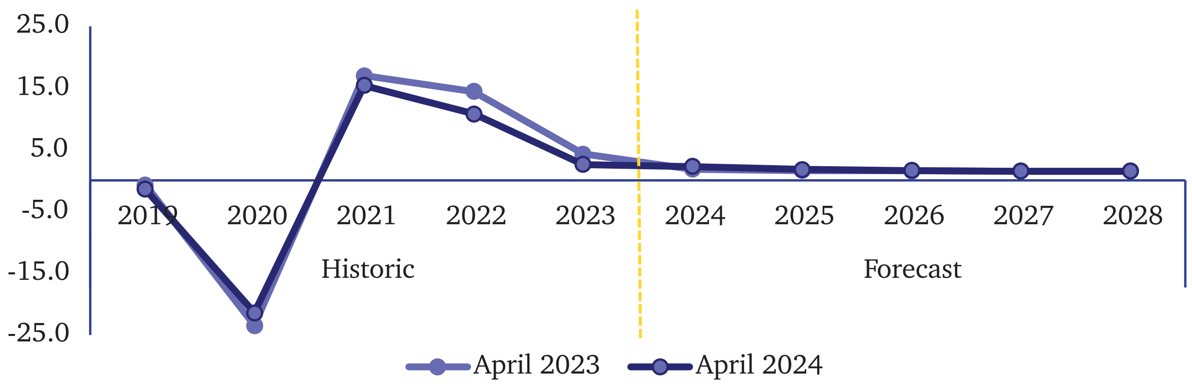
As a result of the above, 2024 nominal GDP growth is forecasted at 4.2 percent, as compared to the original forecast of 4.6 percent estimated a year prior. As global and domestic prices moderate over the medium term, the IMF has projected that nominal GDP growth will taper to an upwardly revised 3.5 percent by 2028 (see Table 6 and Figure 7). Projections place the unemployment rate relatively flat at 8.8 percent in 2024 and a moderate increase to 8.9 percent in 2025.

Table 6: Macroeconomic Forecasts

INDICATORS	2024	2025	2026	2027	2028
	GDP Growth at Constant Prices (%)				
April 2023	1.8	1.6	1.6	1.5	1.5
April 2024	2.3	1.8	1.6	1.5	1.5
	GDP Growth at Current Prices (%)				
April 2023	4.6	3.8	3.6	3.4	3.3
April 2024	4.2	3.7	3.5	3.3	3.5
	GDP Deflator (%)				
April 2023	2.7	2.2	2.0	1.9	1.8
April 2024	1.8	1.9	1.8	1.8	2.0
	Inflation Rate - Period Average (%)				
April 2023	3.4	2.7	2.5	2.2	2.0
April 2024	2.4	2.1	1.9	1.9	2.0

Data sources: The forecast data are from the IMF World Economic Outlook, April 2023 & 2024

Figure 7: Real GDP Growth (in percent)



Note: 2019 to 2023 GDP data are based on BNSI calculations. 2024 to 2028 GDP data are based on the April 2024

Box 1: Ministry of Finance Computable General Equilibrium Model

Using the Ministry of Finance's internal Computable General Equilibrium (CGE) model, The Bahamas' Gross Domestic Product is presented at a disaggregated level across the following main sectors: transformation, trade, tourism, financial, and other services.

- The transformation sector includes total output from manufacturing; construction; agriculture, forestry and fishing; mining; and electricity, gas, water supply and sewerage.
- The trade sector includes total output via the wholesale and retail industries, and motor vehicle repairs.
- The tourism sector covers total output from the accommodation and food service industries.
- The financial sector comprises total output from financial and insurance activities; real estate activities; professional, scientific and technical services; and administrative and support services.
- The other services sector represents total output from transport and storage; information and communication; public administration and defense and social security; education; human health and social work; and arts, household employment, extraterritorial organizations, and any other services.

Over the medium-term, the transformation sector is forecast to generate nominal growth of 12.9 percent over the period FY2023/2024 to FY2027/2028, as agricultural activity benefits from increased government support, via grants and concessions, in an effort to promote food security. Government has identified specific focus areas including egg production, greenhouse investments, training in the area of fisheries, and other farming projects.

The transformation sector is also expected to benefit from construction and related employment gains associated with small to medium-scale foreign investment projects.

For the trade sector, nominal growth of 11.7 percent is expected over the reference five-year horizon, as the government exploits existing economic partnership agreements and technical assistance to support trade development. The National Trade Policy of The Bahamas, which was adopted by the Cabinet in January 2023, seeks to promote a stronger trade environment through reducing imports, expanding and diversifying exports and strengthening domestic competitiveness.

Although the creative industry makes up a very small percentage of the Bahamas' exports, efforts are underway to bolster this sector's value added to the economy as part of the country's economic diversification strategy. The work on the Creative Sector Trade Strategy is expected to commence in the 2024/2025 budget period, and secure measured gains in these niche activities.

The tourism sector, limited only to its direct contribution such as hospitality and dining, is expected to experience the most significant growth over the period, pegged at an estimated 33.5 percent. The demand for The Bahamas as a premier tourism destination is expected to remain high over the medium-term, with new investments underway to expand accommodations, alongside activities to enhance visitors' experience, anticipated to revitalize the sector and improve the sectors' contributions to domestic growth.

In the financial services space, nominal growth of 14.8 percent is expected over the reference period, benefitting from initiatives underway to enhance The Bahamas' competitiveness. Over the medium term, positive contributions to growth are expected from the real estate component of this sector, together with new domestic housing developments.

The Bahamas' trade policy includes plans to strengthen services trade, especially professional services. These progressions are expected to weigh on growth in this sector over the medium-term.

Box 1: Ministry of Finance Computable General Equilibrium Model cont'd

Table 7: Gross Macroeconomic Contribution By Sector (percent of GDP)

Fiscal Year	S1 Transformation	S2 Trade	S3 Tourism	S4 Financial	S5 Other Serv.	TOTAL
2021/2022	23.3%	11.3%	10.5%	30.4%	24.6%	**100.0%**
2022/2023	23.2%	11.2%	11.3%	30.3%	24.0%	**100.0%**
2023/2024	23.1%	11.2%	12.2%	30.0%	23.6%	**100.0%**
2024/2025	22.9%	11.1%	12.6%	30.0%	23.3%	**100.0%**
2025/2026	22.8%	11.0%	13.1%	30.0%	23.1%	**100.0%**
2026/2027	22.7%	10.9%	13.6%	29.9%	22.9%	**100.0%**
2027/2028	22.5%	10.8%	14.1%	29.8%	22.8%	**100.0%**

Table 8: Gross Macroeconomic Contribution By Sector (B$ million)

Fiscal Year	S1 Transformation	S2 Trade	S3 Tourism	S4 Financial	S5 Other Serv.	TOTAL
2021/2022	2,886.74	1,398.24	1,300.81	3,773.60	3,050.14	**12,409.5**
2022/2023	3,249.73	1,574.06	1,588.71	4,248.10	3,368.89	**14,029.5**
2023/2024	3,364.36	1,629.58	1,777.26	4,377.10	3,438.13	**14,586.4**
2024/2025	3,493.75	1,684.08	1,925.86	4,567.40	3,553.11	**15,224.2**
2025/2026	3,597.55	1,730.76	2,069.38	4,725.84	3,648.06	**15,771.6**
2026/2027	3,697.23	1,775.27	2,217.21	4,875.57	3,741.88	**16,307.2**
2027/2028	3,799.11	1,820.67	2,373.06	5,024.46	3,844.99	**16,862.3**

Government Fiscal Strategy & Priorities

4.1 Key Budget Priorities & Considerations

The medium-term fiscal strategy, covering the period FY2024/2025 to FY2027/2028, represents a continuation of the government's commitment to achieve fiscal and debt sustainability, improve fiscal transparency and accountability and pursue economic policies that support sustainable growth outcomes.

The fiscal strategy is designed to:

- control expenditure growth, while maintaining the efficiency and quality of government spending and the delivery of essential services;
- support revenue growth through enhanced administrative measures, and tax reforms built on the principles of fairness, simplicity and revenue adequacy.
- provide resilient health infrastructures for all Bahamians;
- develop community centered/bottom up development strategies for each island/community empowered with greater financial resources to achieve these objectives;
- leverage investment and financing opportunities associated with the Bahamian blue economy and promote economic diversification; and
- elevate economic growth through structural reform initiatives.

a. Revenue Strategies

Over the medium-term horizon, government revenue is expected to grow to the targeted 25.0 percent of GDP by FY2025/26, employing a combination of initiatives that will improve the efficiency of tax administration and enhance the tax base. This strategy is supportive of the government's goal to have greater fiscal flexibility for dealing with future unanticipated macroeconomic shocks that would derail stability.

Tax administrative Measures

Both ongoing and new tax administration measures to secure greater efficiency through reduction in arrears, and stabilization in revenue mobilization and collections across the medium-term horizon, include the following:

- Increase of Customs post-clearance audits and introduction of the Customs exemption application.
- Increase in VAT audits by the reconstituted and strengthened Revenue Enhancement Unit (REU).
- Recent establishment of the Large Taxpayers Unit within the Department of Inland Revenue to provide improved services to taxpayers who contribute the majority of tax revenues.
- Establishment of the Tax Audit Committee to promote greater tax compliance, revenue collection, and financial reporting.
- Recent establishment of the Government's Revenue Policy Committee (RPC) to identify opportunities to increase revenue and reduce leakages and gaps in revenue administration.

- Automation of the 'Desk Audit Selection Process' at the Department of Inland Revenue.
- Digitization and implementation of the new portals for first home exemptions, VAT Stamp duty collections, and real property tax declarations.
- Launch of a targeted programme to collect tax arrears owing on VAT, Real Property Tax (RPT) and Business License fees.
- Collection of RPT on properties under mortgage by requiring domestic commercial banks to include such fees in mortgage payments and remitting the same to Government.
- Requirement for landowners to show proof of real property tax registration and payments before being granted a building permit.
- Commencement of the power of sale proceedings against delinquent property owners for undeveloped land and high-end commercial and residential properties.
- Use of big data techniques to detect tax evasion, avoidance, leakage and underutilized capacities of taxation where commercial goods and services are rendered.
- Requirement for property owners operating short-term vacation rentals to register their properties which will promote tax compliance.
- Gradual implementation of VAT e-Invoicing to streamline the VAT billing and remittance procedure—to assist with minimizing leakages.
- Procurement of a new fully automated, fully integrated tax system.
- Proposal to restructure the DIR to better pursue execution of its tax collection mandates.

Tax Policy Reforms

- The introduction of a hotel condominium tax in FY2023/24.
- Introduction of a $5 tourism environmental tax on cruise passengers; and increases in the departure tax for cruise passengers.
- Requirement for new IBCs to pay a Business Licence fee on revenues/turnover earned outside The Bahamas as part of this nation's drive to meet its commitments to the European Union (EU) and Organisation for Economic Co-Operation and Development (OECD).
- Review of the Government's tax concession regime structure, with a view to limiting broad based tax concessions and offering more targeted relief programmes on a needs basis.

Legal Reforms

- Recent clarification made to provisions in the Business License Act, Real Property Tax Act, and Stamp Tax Act to provide the DIR with the enforcement powers to penalize offenses under these legislations.
- Proposed revision in registration fees and taxes in the maritime sector to reduce tax avoidance and achieve regionally comparable tax outcomes.
- Assess current tax legislation to identify opportunities for modernization and simplification, keeping in mind the efficiency, equity, and stability of taxes, and to ensure compliance with best practices.

Tax Reform

- **Corporate Income Tax.** The Bahamas is in the process of drafting legislation to facilitate the implementation of the Organization of Economic Corporation and Development's Pillar II tax framework. This entails the implementation of a global minimum corporate tax of 15 percent through a Qualified Domestic Minimum Top-up Tax, for all in-scope entities in the Bahamas—i.e., multinational enterprises with net income in excess of the equivalent of 750 million euros. A draft of the legislation is expected to be tabled along with the FY2024/25 budget. Early estimates of the additional revenue yield to be generated from this new tax is set at $140 million; however, the medium-term forecasts do not include these amounts.
- **Exploitation of investments in the blue economy.** The government is actively advocating for innovative climate financing solutions on a global scale, due to The Bahamas' high vulnerability to the impacts of global climate change. Initiatives are underway to commercialize blue carbon credits from marine preservation efforts, building on previous national actions to protect the marine environment. Expert scientific assistance has been enlisted to assess the value of sea grass meadows in carbon sequestration. Through a partnership with Carbon Management Ltd., the Government has developed a management and financial strategy that is expected to bring economic and social benefits to the country. While the quantified and verified carbon credits generated from this strategy could potentially generate significant revenues in the future, these impacts are excluded from the medium-term projections.

b. Recurrent Expenditure Policy & Priorities

The Government's target for recurrent expenditure of 20.0 percent of GDP by FY2025/26, together with the revenue target, is intended to ensure achievement of its goal of ensuring a fiscal deficit that does not exceed 0.5 percent of GDP from FY2024/25 onwards. The development of a structure aimed at delivering targeted spending initiatives is essential to the achievement of this goal. In meeting this goal, the government intends to be guided by the principles of securing improvement in the delivery of public services, strengthening social protection, maintaining critical infrastructure, addressing HR needs, and better achievement of other socio-economic and development goals. The reduction of debt burden will be the guiding principle for managing planned spending on education, health, social support, and transportation initiatives.

As part of the plan to secure fiscal sustainability, areas of focus will include the following initiatives.

- **Implementing targeted public expenditure reforms.** The Public Expenditure Review of 2022 facilitated by the Inter-American Development Bank (IDB), outlined several areas of reform in public spending to achieve the goals of equity and sustainable development. Increased funding has been allocated to pre-primary, primary, and secondary education—including job readiness programs, and the social safety net widened through higher social support spending in order to guarantee a more equitable redistribution of financial resources towards those who are most in need.
- **Continue State Owned Enterprise (SOE) rationalization program.** This includes the reduction in funding allocation for SOEs, the resumption of the State-Owned Enterprise reform agenda to realise savings, and the requirement for SOEs to operate under clear expenditure guidelines, particularly on hiring, salary increases, employee benefits, and capital commitments made without securing funding.
- **Digitization of Government services.** Continued promotion of innovation and transformation initiatives to bring excellence and enhanced efficiency in doing business.
  - Among the initiatives are the upcoming launch of the revamped and modernized platform for the "bahamas.gov.bs" in July 2024, featuring shortened URLs for information and service transactions for individual agencies. Also, the morphing of a number of independent agency website services into the one "Bahamas.gov.bs" platform will be a part of this initiative.
  - The "Nassau Smart Port" application which will provide visitors, inter alia, with access to information about business offerings, and a self-pace walking guide of the downtown area. Revenue opportunities are also associated with the latter via a onetime cost for Wi-Fi accessible in the cruise port and downtown area.
  - Other initiatives include the availability of the ZNS National News notification Portal Application providing mobile device access to centralized applications for news alerts; enhanced digitization of public sector financial data though a real-time graphical fiscal data dashboard; increase in MyGateway service offerings with a total of forty-four services now being offered on the portal. As of April 2024, a total of 168,512 transactions have been conducted via the portal, accounting for $4.9 million in total revenue.
- **Public Financial Management Reforms:** The recent rollout of the digital transformation initiative for HR Management information system in the public sector will essentially eliminate time consuming manual processes. The Government also intends to continue to identify savings across government departments and agencies, and keep a tight control of government spending while funding high priority government policy commitments.

» **Reform of Government pension scheme.** An initial evaluation and assessment of the Government's current defined benefit pension plan was carried out by the accounting firm KPMG, indicating the necessity for modernization and reform. Pension payments for FY2022/2023 equated to $174.6 million (5.7 percent of recurrent expenditure). To curtail the risk associated with increased future pension liabilities, Government is introducing a contributory pension scheme for the public sector. The Pensions Bill, 2023 has already received public feedback. This strategy is estimated to improve cash flow by $6.0 million over 10 years and will also include reform of SOE pension schemes.

Across the medium term, the expenditure estimates will continue to include:

» the impact of recent provisions for employee compensation increases due to various public sector union agreements; and increases in allowances for promotions, increments and staff reclassifications reflecting the ongoing alignment undertaken by the Ministry of Public Service.

» recent increase in the social safety net to promote greater social security.

» a decline in interest costs as the stock of debt declines.

c. Capital Expenditure Policy

The Government understands the importance of striking a balance between the need to preserve the nation's fiscal health and to provide essential service. Planned investments, using innovative financing mechanisms in education, healthcare, defense & safety, roads and airports, are prioritized as outlined below.

» **Enhance the provision of public health services.** The recent twin shocks of Hurricane Dorian and COVID-19 pandemic highlighted the fragility of the Bahamian health care sector, and the need for improvement in infrastructure. Targeted investments, utilizing semi-concessional bilateral funding, include the construction of new hospital facilities in New Providence and Grand Bahama to modernize and enhance the delivery of health and wellness services across the nation.

» **Greater use of Public Private Partnerships.** To address critical infrastructure needs, public-private partnership (PPP) opportunities, based on enhancements to 2018 policy framework, will be considered, whenever practical.

» **Improvement of roadworks.** As part of a larger initiative to enhance ground transportation in the nation, the Government has implemented a plan to improve roadwork nationwide, including a traffic management plan in New Providence. The $60 million road redevelopment project in Exuma, the Village Road Improvement Project in New Providence, and the planned widening and reconstruction of Gladstone Road in New Providence constituted key phases of this project which is expected to continue throughout the medium-term.

d. Structural Reforms and Economic Policy

The government acknowledges that structural reforms and economic policy initiatives are required to increase competitiveness, facilitate business transactions, and foster investment.

» **Institutionalize the National Development planning process.** The government intends to introduce the Bahamas National Development Plan (NDP) Bill, which will place the NDP, which was released in 2016, on a statutory footing and provide for an oversight entity to monitor its implementation. The NDP, which is aligned with the United Nations Sustainable Development Goals, outlines a bottom-up, inclusive framework for priority development areas to ensure long-term sustainable growth targets are achieved, includes recommendations for education, healthcare, and economic development, that align with the government's economic and social policy goals and objectives.

» **Encourage economic diversification through trade opportunities.** The Bahamas received assistance from the UN in the first half of 2021 to develop a comprehensive trade policy, which received feedback from targeted stakeholder groups, as part of the broader mandate to exploit trade opportunities. To this end, the National Trade Policy was adopted by Cabinet in January 2023, and is framed upon four pillars: reducing imports, expanding exports, diversifying exports and strengthening domestic competitiveness. Under the terms of the Economic Partnership Agreement (EPA), The Bahamas was recipient of technical assistance to develop a comprehensive framework with the goal of creating job opportunities, fostering the expansion and growth of the cultural industry, and increasing trade. To further this framework, legislative reform and expansion were prepared to update laws impacting intellectual property rights through copyright, geographical indications, integrated circuits, protection of new plant varieties, patent, and trademark. The consultation phase ended April 30, 2024 and the Government plans to have the legislation passed by December 2024. Work on the Creative Sector Trade Strategy is expected to commence in the FY2024/2025 budget.

» **Promoting energy reform through the use of renewables.** The Government is fully committed to utilizing more efficient and environmentally friendly energy sources in order to enhance energy security and reduce costs. A crucial aspect of the Government's socio-economic transformation agenda and economic resilience plan is to optimize energy efficiency by incorporating renewable resources across the Family Islands. To this end, the Government has initiated micro-grid installations in the southern Islands to support national energy policies and uphold its dedication to combatting the effects of climate change. To strengthen climate resilience, the Government utilized funds from the $170 million IDB Credit Line for Investment Projects to invest in climate resilient initiatives aimed at reducing The Bahamas' carbon footprint and greenhouse gas emissions. Other efforts to enhance climate resiliency and decrease reliance on fossil fuel-generated electricity include the Government's progress with the streetlight retrofitting project, to incorporate solar installations in public buildings. Concurrently, geotechnical works are being carried out in the settlements of Freetown, High Rock, Sweeting's Cay, McClean's Town, and Water Cay in East End Grand Bahama, which will be followed by Environmental, Social, and Impact Assessments in preparation for the installation of micro-grids in these settlements.

» **The promotion of foreign investment to support economic growth.** In other medium-term developments, the following newly announced foreign direct investment projects are expected to boost economic activity in the Bahamas—all having significant employment, government revenue and other direct and indirect economic impacts.

- Development of Royal Caribbean's 17-acre Royal Beach Club on Paradise Island at an estimated cost of $110.0 million—under a public-private partnership in which Bahamians will own up to 49 percent equity and with an expected opening in 2025;
- Development of Celebration Key, a private cruise destination in Grand Bahama designed exclusively for Carnival Cruise Lines, at an investment outlay of $200 million. The facility is expected to open in the summer of 2025;
- Development of a cruise port and entertainment facility in Eleuthera by DCL Island Development Limited, a subsidiary of Disney Cruise Line. A funding commitment between $250 million and $400 million was undertaken for this project;
- Development of a $20.0 million investment on the island of Eleuthera for the Governor's Harbour Resort & Marina Ltd. and French Leave Resort & Marina Limited;
- Development by G.E.S Bahamas Limited for Butterfly Beach, a boutique condo-hotel and residential resort community in the island of Eleuthera, which costed $12.0 million;
- Development by CMK Holdings Limited in the island of Eleuthera for renovations to the Coral Sands Hotel, at an estimated cost of $22.4 million; and
- Commencement of Phase I of the SSKL Ltd development on Abaco for a residential subdivision, at an estimated cost of $1.8 million.

Medium-Term Fiscal & Debt Financing Outlook

TABLES

FIGURES

5.1 Medium-Term Fiscal Outlook

The Bahamas' medium-term outlook for key fiscal aggregates was developed within the context of the economic outlook and projections outlined above and are highlighted in **Table 9**. The baseline macroeconomic projections and related medium-term fiscal framework which underpin the FY2023/2024 budget have been updated to reflect economic outcomes and revised forecasts since its preparation. These forecasts continue to assume there is no resurgence of COVID-19 infections to prior elevated levels, and a positive economic outcome as tourism and sustained gains in domestic demand support improvements in revenue collections and the overall fiscal position.

Promoting fiscal sustainability and stabilizing the fiscal finances while ensuring the necessary pace of capital expenditures represent the core objective of the government and supported by good public finance management reforms.

The medium-term fiscal framework contained in this 2024 FSR seeks to accomplish the statutory fiscal objectives articulated in the Act, namely:

» revenue to GDP ratio of 25.0 percent by FY2025/2026;

» recurrent expenditure to GDP ratio of 20.0 percent by FY2025/2026; and

» capital expenditure to GDP ratio of 3.5 percent by FY2025/2026, which includes funding for both central government and government business entities and agencies (SOEs).

Table 9 takes into account Government's plans to fund most capital expenditure projects undertaken by government business entities and agencies via PPPs and Government guaranteed loans. With these projects not being funded through Government revenues via the consolidated fund, **Table 9** reflects a downward trend in the capital expenditure ratio over time.

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue	**2,605.7**	**2,855.4**	**3,319.0**	**3,543.3**	**3,958.9**	**4,087.7**	**4,213.0**
Recurrent	2,605.3	2,854.2	3,316.3	3,537.0	3,949.7	4,078.5	4,203.5
Capital & Grants	0.4	1.2	2.8	6.3	9.2	9.2	9.5
Expenditure	**3,327.9**	**3,390.0**	**3,450.2**	**3,613.1**	**3,510.7**	**3,629.8**	**3,753.5**
Recurrent Expenditure	3,044.1	3,062.5	3,085.5	3,268.6	3,154.3	3,261.4	3,372.5
Capital Expenditure	283.8	327.5	364.6	344.5	356.4	368.4	381.0
Overall Balance: Surplus/(Deficit)	**(722.2)**	**(534.6)**	**(131.1)**	**(69.8)**	**448.2**	**457.9**	**459.5**
Less: Interest Payments	551.8	573.1	612.7	656.7	557.0	551.9	573.3
Primary Balance	**(170.4)**	**38.5**	**481.6**	**586.9**	**1,005.2**	**1,009.8**	**1,032.8**
GDP (Current Prices)	12,409.5	14,029.5	14,586.4	15,224.2	15,771.6	16,307.2	16,862.3
Government Debt	10,792.8	11,260.1	11,391.2	11,461.0	11,012.8	10,554.9	10,095.4
Overall balance as % of GDP	-5.8%	-3.8%	-0.9%	-0.5%	2.8%	2.8%	2.7%
Revenue as % of GDP	21.0%	20.4%	22.8%	23.3%	25.1%	25.1%	25.0%
Total Expenditure % of GDP; of which	26.8%	24.2%	23.7%	23.7%	22.3%	22.3%	22.3%
Recurrent Expenditure as % of GDP	24.5%	21.8%	21.2%	21.5%	20.0%	20.0%	20.0%
CAPEX as % of GDP	2.3%	2.3%	2.5%	2.3%	2.3%	2.3%	2.3%
Gov't Debt as % of GDP	87.0%	80.3%	78.1%	75.3%	69.8%	64.7%	59.9%

a. Revenue Forecast

Baseline revenue forecasts for the medium-term show steady gains in revenue performance, based on assumptions of positive economic growth fundamentals, the continuing impact of recent revenue mobilization efforts, alongside strengthened tax administrative and reforms to improve collections. However, projections remain policy neutral for the anticipated positive contributions from the proposed commercialization of The Bahamas' blue carbon credits and the implementation of the qualified domestic minimum top-up tax (QDMTT) under the OECD's Pillar Two global minimum tax requirements.

The resultant impact of the phased implementation of the above revenue enhancement measures over the medium-term allows for achievement of revenue targets of 23.3 percent of GDP in FY2024/2025 and stabilizing at 25.0 percent over the subsequent three years to FY2027/2028 (see Table 10). The benefits of these revenue initiatives, combined with improved economic conditions have had a positive impact on revenue collections for the first nine (9) months of FY2023/2024, with preliminary estimates of total revenue posting an increase of $112.4 million to $2.2 billion.

b. Recurrent Expenditure Forecast

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

The government's overarching expenditure goals include the delivery of more efficient, effective and responsive public services. The strategy is to pursue responsible spending consistent with the overarching goal of efficiency, strengthen the management and control of non-interest expenditures, improve the efficiency of public investment management and improve the sustainability of the government compensation bill.

In this context, the baseline expenditure forecasts outline targets for achievement of the Government's recurrent expenditure target of 20.0 percent of GDP by FY2025/2026.

c. Capital Expenditure

The multi-year capital budget reflects the government's intent to take a deliberate approach to building a sustainable pipeline of investments, including:

- Road maintenance and development
- Construction of new and maintenance of existing health facilities
- Airport development
- Housing development

Government realizes the correlation between infrastructure development and sustainable long-term growth. As such, over the medium-term, capital projects will be financed via more PPPs and Government guaranteed loans for Government business entities and agencies to a greater extent rather than via Government revenues. Thus, capital outlays are aimed to be maintained at 2.3 percent of GDP over the medium-term, as presented in Tables 14, 15 and 16.

Table 10: Medium-term Revenue Estimates (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
TAX REVENUE (a+b+c+d)	**2,158.2**	**2,473.6**	**2,918.8**	**3,142.6**	**3,537.9**	**3,652.9**	**3,764.9**
a. Taxes on Property	**146.9**	**161.5**	**195.3**	**230.0**	**254.5**	**265.0**	**273.1**
b. Taxes on Goods & Services (i+ii+iii)	**1,488.6**	**1,629.0**	**2,006.8**	**2,066.1**	**2,346.2**	**2,403.3**	**2,477.0**
i. General	**1,265.3**	**1,361.7**	**1,708.7**	**1,661.4**	**1,888.0**	**1,929.4**	**1,988.5**
VAT	**1,135.8**	**1,252.0**	**1,591.4**	**1,515.6**	**1,731.4**	**1,762.4**	**1,816.5**
Stamp Taxes (Financial & Realty)	83.0	107.0	114.8	141.9	151.6	160.6	165.5
Excise Tax	46.5	2.7	2.4	3.8	5.0	6.3	6.5
ii. Specific (Gaming taxes)	**51.3**	**63.9**	**63.3**	**62.3**	**72.3**	**75.7**	**78.0**
iii. Taxes on Use of Goods/Permission to Use	**172.0**	**203.5**	**234.9**	**342.3**	**386.0**	**398.3**	**410.5**
Motor Vehicle Taxes	34.0	34.7	42.3	51.2	56.8	61.5	63.4
Company Taxes	19.9	20.1	24.1	30.2	30.7	32.1	33.1
Licence to Conduct Special Bus. Activity	112.7	144.8	157.7	242.1	278.3	283.5	292.1
Marine License Activities	5.4	3.9	10.7	18.8	20.2	21.2	21.8
c. Taxes on Int'l Trade & Transactions	**511.6**	**675.4**	**708.5**	**830.5**	**919.2**	**965.0**	**994.6**
Customs & other import duties	248.6	248.9	250.5	295.3	330.1	350.1	360.8
Taxes on Exports	177.4	253.5	257.9	293.0	325.3	332.5	342.7
Departure Taxes	84.9	172.2	199.3	241.3	262.9	281.4	290.0
Other	0.7	0.9	0.8	1.0	1.0	1.0	1.1
d. General Stamp Taxes	**11.1**	**7.7**	**8.1**	**16.1**	**17.8**	**19.6**	**20.1**
NON-TAX REVENUE (e+f+g+h+i+j)	**447.1**	**380.5**	**397.5**	**394.4**	**411.8**	**425.6**	**438.6**
e. Property Income	**82.8**	**64.6**	**65.5**	**61.8**	**63.6**	**64.4**	**66.3**
Interest & Dividends	56.6	45.7	47.2	43.5	45.3	46.1	47.5
Revenue_Gov't Property	26.2	18.9	18.3	18.3	18.3	18.3	18.8
f. Sales of Goods & Services	**225.2**	**211.1**	**236.3**	**240.1**	**253.4**	**264.1**	**272.2**
i. Fees & Service Charges	**208.9**	**194.2**	**215.3**	**215.3**	**225.8**	**234.6**	**241.8**
General Registration	4.5	4.6	4.4	5.4	5.5	5.7	5.9
General Service	14.1	15.4	18.2	17.4	18.0	18.5	19.1
Immigration	127.0	108.2	123.9	118.4	122.0	125.4	129.2
Land & Building	2.4	2.7	2.3	3.1	3.2	3.3	3.4
Legal	1.2	1.1	1.0	1.1	1.2	1.2	1.2
Customs	50.2	52.7	54.9	59.5	65.3	69.5	71.6
Port & Harbour	5.9	7.9	9.5	9.0	9.2	9.5	9.8
Health	1.2	1.3	1.1	1.4	1.5	1.5	1.5
Other Fees	2.4	0.3	0.0	0.0	0.0	0.0	0.0
ii. Other	**16.3**	**16.9**	**21.0**	**24.8**	**27.5**	**29.5**	**30.4**
g. Fines, Penalties & Forfeits	**5.5**	**5.3**	**5.6**	**6.1**	**6.1**	**6.2**	**6.3**
h. Reimbursements & Repayments	**42.6**	**44.2**	**49.2**	**51.3**	**51.3**	**51.4**	**53.0**
i. Misc. & Unidentified Revenue	**90.6**	**54.8**	**40.3**	**34.0**	**36.3**	**38.3**	**39.5**
j. Sales of Other Non-Financial Assets	**0.4**	**0.5**	**0.5**	**1.1**	**1.2**	**1.2**	**1.2**
TOTAL TAX & NON-TAX REVENUE	**2,605.3**	**2,854.2**	**3,316.3**	**3,537.0**	**3,949.7**	**4,078.5**	**4,203.5**
Grants	0.2	1.1	2.8	3.0	5.8	5.8	6.0
Capital Revenue	0.2	0.1	0.0	3.4	3.4	3.4	3.5
GRAND TOTAL	**2,605.7**	**2,855.4**	**3,319.0**	**3,543.3**	**3,958.9**	**4,087.7**	**4,213.0**
VAT Rev (% of GDP)	9.2	8.9	10.9	10.0	11.0	10.8	10.8
Tax Revenue (% of GDP)	17.4	17.6	20.0	20.6	22.4	22.4	22.3
Non-Tax Revenue (% of GDP)	3.6	2.7	2.7	2.6	2.6	2.6	2.6
Total Revenue (% of GDP)	21.0	20.4	22.8	23.3	25.1	25.1	25.0

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Compensation of Employees	**738.4**	**805.2**	**856.3**	**888.8**	**879.6**	**907.9**	**1,027.2**
Wages & Salaries	649.1	701.8	742.5	768.0	758.1	784.7	890.7
Allowances	58.4	68.2	79.3	85.0	85.2	86.5	95.1
NIB Contribution	30.8	35.3	34.5	35.9	36.3	36.7	41.4
Use of Goods & Services	**638.6**	**672.4**	**628.6**	**687.3**	**688.5**	**727.0**	**707.9**
of which:							
Travel & Subsistence	11.8	18.8	12.3	12.5	12.5	13.2	13.9
Rent	83.6	106.1	94.8	120.8	120.8	123.1	107.5
Utilities & Telecommunications	89.1	70.5	97.8	100.9	100.9	106.6	110.9
Supplies & Materials	32.0	44.0	44.8	44.4	44.4	48.9	50.8
Services	198.4	288.4	273.3	306.4	311.5	327.5	309.9
Minor capital repairs	4.1	5.2	5.1	5.2	5.2	6.0	5.8
Finance charges	23.6	14.5	22.0	20.0	16.0	20.0	20.0
Special Financial Transactions	167.6	93.6	46.8	47.1	47.1	50.5	53.1
Tourism Related	1.9	2.0	3.0	3.0	3.0	3.0	3.4
Local Gov't Districts	13.3	13.3	14.8	14.8	14.8	14.8	16.8
School Boards	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	13.1	15.9	13.8	12.0	12.0	13.3	15.6
Public Debt Interest	**551.8**	**573.1**	**612.7**	**656.7**	**557.0**	**551.9**	**573.3**
Subsidies	**495.9**	**464.7**	**408.1**	**411.8**	**411.8**	**411.8**	**434.7**
Grants	**8.7**	**7.1**	**9.5**	**10.7**	**10.7**	**10.7**	**10.8**
Social Assistance Benefits	**120.4**	**52.8**	**60.1**	**62.5**	**58.2**	**59.2**	**68.2**
Pensions & Gratuities	**165.5**	**174.6**	**176.5**	**189.7**	**197.1**	**209.2**	**200.1**
Other Payments	**324.8**	**312.7**	**333.7**	**361.1**	**351.4**	**383.7**	**350.3**
Current Transfers n.e.c.	189.1	232.0	253.5	280.1	267.7	297.8	259.4
Insurance Premiums	135.8	80.7	80.2	81.0	83.7	85.9	91.0
TOTAL	**3,044.1**	**3,062.5**	**3,085.5**	**3,268.6**	**3,154.3**	**3,261.4**	**3,372.5**
Total Recurrent Expenditure	24.5	21.8	21.2	21.5	20.0	20.0	20.0
Compensation of Employees	5.9	5.7	5.9	5.8	5.6	5.6	6.1
Use of Goods & Services	5.1	4.8	4.3	4.5	4.4	4.5	4.2
Public Debt Interest	4.4	4.1	4.2	4.3	3.5	3.4	3.4
Subsidies	4.0	3.3	2.8	2.7	2.6	2.5	2.6
Social Assistance Benefits	1.0	0.4	0.4	0.4	0.4	0.4	0.4
Pensions & Gratuities	1.3	1.2	1.2	1.2	1.2	1.3	1.2
Other Payments	2.6	2.2	2.3	2.4	2.2	2.4	2.1

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Governor General and Staff	1.6	1.1	1.2	1.9	1.9	1.9	2.0
The Senate[1]	0.2	0.3	0.3	0.0	0.0	0.0	0.0
House of Assembly	3.4	3.6	3.4	0.0	0.0	0.0	0.0
Department of the Auditor General	2.0	2.1	2.5	2.6	2.7	2.7	2.8
Ministry of Public Service	376.0	355.6	344.1	376.3	386.6	401.3	414.7
Cabinet Office	4.4	10.6	6.1	11.5	11.5	13.2	13.6
Attorney General's Office and Ministry of Legal Affairs	32.2	35.1	21.8	46.2	46.9	52.8	54.6
Office of the Judiciary[2]	14.8	15.6	16.5	0.0	0.0	0.0	0.0
Court of Appeal	2.1	2.5	2.4	0.0	0.0	0.0	0.0
Registrar General's Department	2.6	3.0	3.4	3.5	3.6	3.8	3.9
Bahamas Department of Correctional Services	28.5	27.8	32.8	34.4	35.4	36.7	37.9
Parliamentary Registration Department	3.4	1.0	1.5	1.5	1.9	3.6	3.7
Ministry of Foreign Affairs	29.1	41.8	43.9	50.7	50.7	50.9	52.6
Office of the Prime Minister	28.7	30.2	27.4	57.8	57.8	57.8	59.8
Bahamas Information Services	2.0	2.5	2.6	2.6	2.6	2.6	2.7
Government Printing Department	1.2	1.2	1.2	1.2	1.2	1.2	1.3
Department of Local Government	23.7	25.0	28.9	29.9	30.1	30.4	31.4
Department of Physical Planning	0.9	0.9	1.0	1.1	1.1	1.2	1.2
Department of Lands and Surveys	2.7	1.5	2.2	2.3	2.3	2.3	2.4
Ministry of Finance	278.5	259.1	338.6	346.6	309.2	352.2	363.9
Treasury Department	79.6	57.4	60.0	64.6	65.1	68.3	70.6
Customs Department	34.8	39.2	37.0	41.7	41.9	42.7	44.1
Public Debt Servicing -Interest and Other Charges	575.4	587.6	634.7	676.7	573.0	571.9	593.3
Department of Inland Revenue	6.0	8.8	8.9	10.1	10.1	10.2	10.5
Ministry of National Security	12.8	13.9	13.5	20.5	20.6	20.7	21.4
Ministry of Immigration and National Insurance	30.8	32.8	35.1	35.0	35.5	37.2	38.4
Royal Bahamas Police Force	124.0	125.6	126.6	126.6	128.9	130.9	135.2
Royal Bahamas Defence Force	63.9	64.5	68.7	71.4	72.0	74.1	76.5
Ministry of Works and Family Island Affairs	113.6	111.1	71.0	36.2	36.2	36.3	37.5
Department of Public Works	17.2	17.0	18.8	19.0	19.0	19.2	19.9
Department of Education	180.9	201.4	202.3	209.4	211.0	217.2	224.5
Department of Archives	0.6	0.7	0.7	0.7	0.7	0.7	0.8
Ministry of Education and Technical and Vacational Training	108.1	119.5	123.2	123.3	123.3	124.2	128.3
Ministry of Energy and Transport	10.1	10.3	10.5	13.9	13.9	14.0	14.5
Ministry of Social Services, Information and Broadcasting	11.9	13.0	15.3	19.2	19.2	19.3	19.9
Department of Social Service	53.8	49.3	46.2	48.0	48.1	48.2	49.8
Ministry of Housing and Urban Renewal	1.8	2.8	3.2	10.8	11.2	11.7	12.1
Ministry of Youth, Sports and Culture	14.5	30.7	26.7	25.6	25.7	27.3	28.2
Department of Labor	1.9	3.7	4.0	4.0	4.2	4.4	4.5
Ministry of Economic Affairs	5.9	11.2	11.6	5.9	5.9	5.9	6.1
Post Office Department	6.8	8.7	9.3	9.9	10.2	10.7	11.0
Port Department	8.2	8.2	9.1	9.4	9.5	9.7	10.0
Department of Road Traffic	5.3	6.7	7.0	7.5	7.6	8.2	8.4
Department of Meteorology	2.1	2.0	2.4	2.7	2.7	2.8	2.9
Ministry of Agriculture and Marine Resources	21.2	26.6	28.2	33.0	33.4	36.7	37.9
Department of Agriculture	5.0	5.1	5.6	5.8	5.8	6.1	6.3
Department of Marine Resources	2.3	2.2	2.4	2.5	2.6	2.7	2.8
Ministry of Health and Wellness	373.8	324.4	299.4	332.7	332.8	336.3	347.5
Department of Environmental Health Services	50.3	61.1	59.5	60.7	60.9	63.8	65.9
Department of Public Health	45.3	52.4	48.7	53.0	53.3	55.2	57.1
Ministry of Tourism, Investment and Aviation	148.1	153.8	135.0	131.4	136.7	136.9	141.4
Ministry of Labour and the Public Service	5.0	4.1	5.0	5.0	5.2	5.6	5.8
Ministry of Environment and Natural Resources	17.9	13.3	13.9	14.1	14.1	14.2	14.7

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Department of Information, Communications and Technology	53.3	33.2	29.2	37.0	37.1	41.6	43.0
Ministry for Grand Bahama	10.0	19.3	18.0	19.2	19.2	20.2	20.9
Ministry of Disaster Risk Management	1.5	18.3	9.9	10.5	10.5	10.5	10.9
Office of the Director of Public Prosecutions	2.4	2.2	2.9	1.3	1.3	1.3	1.3
GRAND TOTAL	**3044.1**	**3062.5**	**3085.5**	**3268.6**	**3154.3**	**3261.4**	**3372.5**

1. The Senate and House of Assembly estimates have been rolled up into Cabinet's Office.
2. Office of the Judiciary and Court of Appeal estimates have been rolled up into Attorney General's Office and Ministry of Legal Affairs.

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
General Public Service	1,259.8	1276.4	1,374.4	1,515.4	1,378.9	1,436.7	1,485.6
Defense	63.9	64.5	68.7	71.4	72.0	74.1	76.6
Public Order and Safety	252.8	262.8	259.3	271.1	275.8	287.1	296.9
Economic Affairs	270.0	272.0	282.5	291.1	297.8	304.6	315.0
Environmental Protection	168.9	173.1	131.8	97.2	97.4	100.4	103.8
Housing and Community Amenities	8.7	20.3	21.0	21.5	21.8	22.3	23.1
Health	440.8	390.1	365.5	385.2	385.6	391.0	404.3
Recreation, Culture and Religion	27.6	47.1	40.1	33.9	34.1	35.7	36.9
Education	293.9	327.6	321.6	329.7	331.3	337.9	349.4
Social Protection	257.7	228.7	220.7	252.1	259.6	271.6	280.9
GRAND TOTAL	**3,044.1**	**3062.5**	**3,085.5**	**3,268.6**	**3,154.3**	**3,261.4**	**3,372.5**

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Capital Transfers	**58.8**	**45.5**	**113.2**	**108.6**	**100.6**	**73.8**	**73.1**
Acquisition of Non-financial assets	**225.0**	**282.0**	**251.4**	**235.9**	**255.8**	**294.6**	**307.9**
Fixed Assets	**223.6**	**271.2**	**249.4**	**233.9**	**253.8**	**292.6**	**305.9**
Buildings other than dwellings	80.8	119.7	83.8	86.1	87.6	112.9	120.6
Other structures	99.3	84.6	109.6	90.5	113.2	127.8	130.4
Transport equipment	5.1	10.7	10.6	12.0	9.0	9.0	9.0
Other Machinery & equipment	15.3	20.1	18.4	21.5	22.7	22.9	22.9
Land Improvements	5.2	8.0	7.2	5.3	5.0	5.0	6.0
Other fixed assets	17.8	28.1	19.8	18.5	16.3	15.0	17.1
Land	**1.4**	**10.8**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
TOTAL	**283.8**	**327.5**	**364.6**	**344.5**	**356.4**	**368.4**	**381.0**
Capital Transfers	0.5	0.3	0.8	0.7	0.6	0.5	0.4
Acquisition of Non-financial Assets	1.8	2.0	1.7	1.5	1.6	1.8	1.8
CAPEX (in percent of GDP)	2.3	2.3	2.5	2.3	2.3	2.3	2.3
CAPEX (as percent of total expenditure)	0.1	0.1	0.1	0.1	0.1	0.1	0.1

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Ministry of Foreign Affairs	0.3	1.7	5.7	7.2	2.3	1.1	1.1
Office of The Attorney General and Ministry of Legal Affairs	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Customs Department	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Ministry for Grand Bahama	0.9	1.0	0.5	3.5	3.5	2.5	2.6
Ministry of Finance	51.2	72.6	117.4	113.0	107.8	86.1	89.0
Ministry of National Security	12.0	10.7	11.7	18.5	18.2	13.9	14.3
Royal Bahamas Defense Force	5.1	11.4	11.1	9.7	10.1	10.1	10.4
Ministry of Works and Family Island Affairs	125.8	100.2	115.2	87.0	82.4	86.6	89.6
Ministry of Education and Technical and Vocational Training	50.8	72.3	48.7	51.0	63.0	81.5	84.3
Ministry of Agriculture and Marine Resources	2.8	3.5	3.3	3.4	2.6	2.4	2.5
Ministry of Health and Wellness	20.5	41.0	40.3	25.1	44.8	64.3	66.5
Ministry of the Environment and Natural Resource	2.9	0.8	2.4	2.3	1.6	1.1	1.2
Ministry of Tourism, Investment and Aviation	3.7	6.1	0.0	0.0	0.0	0.0	0.0
Department of Information, Communications and Technology	3.5	3.5	5.9	3.9	1.5	1.2	1.3
Ministry of Energy and Transport	2.8	2.7	2.3	20.0	18.7	17.7	18.2
Ministry of Disaster Risk Management	0.4	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL	**283.8**	**327.5**	**364.6**	**344.5**	**356.4**	**368.5**	**381.0**

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
General Public Service	24.0	44.4	71.4	64.9	58.2	61.5	63.6
Defense	5.1	11.4	11.1	9.7	10.1	10.1	10.4
Public Order and Safety	12.1	10.7	11.7	18.5	18.2	13.9	14.3
Economic Affairs	163.3	143.5	174.5	167.1	154.3	129.7	134.1
Environmental Protection	4.1	2.3	4.2	5.9	5.6	5.1	5.3
Health	20.5	41.0	40.3	25.1	44.8	64.3	66.5
Recreation, Culture and Religion	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Education	50.8	72.3	48.7	51.0	63.0	81.5	84.3
Social Protection	3.2	1.9	2.7	2.4	2.4	2.4	2.5
GRAND TOTAL	**283.8**	**327.5**	**364.6**	**344.5**	**356.4**	**368.5**	**381.0**

5.2 Overall Fiscal Balance & Debt Financing

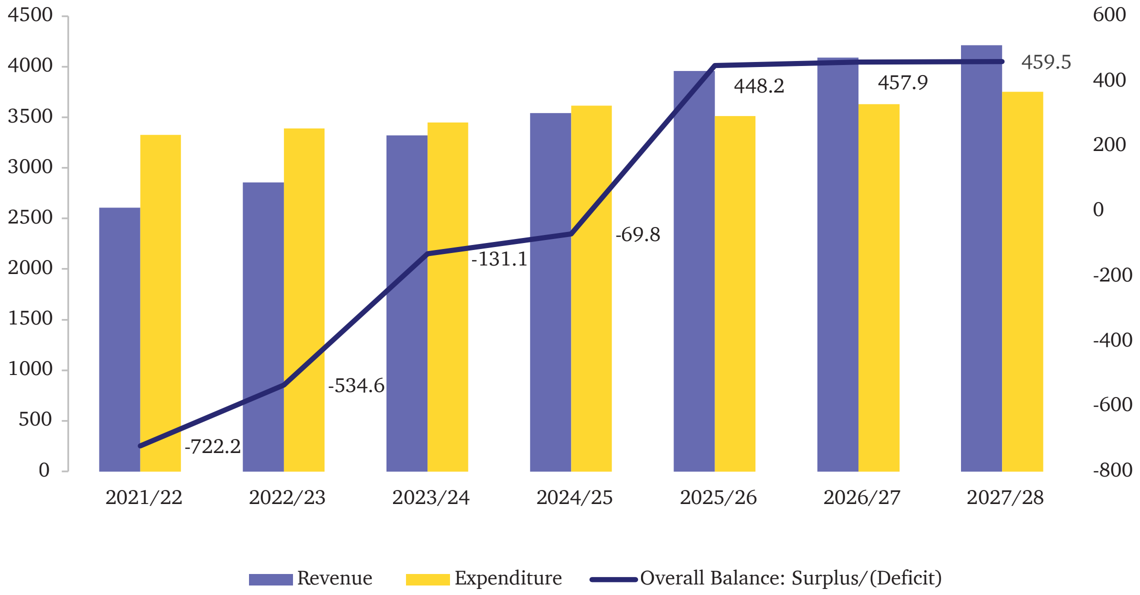
The overall fiscal balance and the financing structure for the medium-term fiscal framework are outlined in Table 17. As a result of the proposed medium-term revenue and expenditure operations, and the assumptions of sustained improvement in economic conditions, the overall position is expected to narrow from a deficit of $722.2 million in FY2021/2022 to $131.1 million in FY2023/2024 and then to $69.8 million in FY2024/2025. A surplus outcome is projected at $448.2 million in FY2025/2026, $457.9 in FY2026/2027, and $603.7 million in FY2027/2028.

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

	ACTUALS		BUDGET	FORECASTS			
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Overall Balance [Surplus/(Deficit]	**(722.2)**	**(534.6)**	**(131.1)**	**(69.8)**	**448.2**	**457.9**	**603.7**
Net Incurrence of Liabilities (a-b) [+]	**891.9**	**451.9**	**131.1**	**135.3**	**(130.5)**	**(1,248.9)**	**(1,283.3)**
a. Borrowings	3,036.9	2,989.0	2,198.7	1,968.8	1,122.5	37.3	36.0
b. Debt Repayment	2,145.0	2,537.1	2,067.6	1,833.5	1,253.0	1,286.1	1,319.3
Net Acquisition of Financial Assets [-]	**66.3**	**226.5**	**59.8**	**46.5**	**46.5**	**256.5**	**46.5**
Sinking Funds	66.3	116.5	59.8	46.5	46.5	256.5	46.5
Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	110.0	0.0	0.0	0.0	0.0	0.0
Other Financing & Cash Balance Change (incl. Overdraft) [()= increase]	103.4	(309.2)	(59.8)	19.0	271.2	(1,047.5)	(726.1)

Based on this fiscal trajectory, the Government continues to anticipate maintaining achievement of its 50 percent debt target by 2030/2031, with the assumption that the accumulation of primary surpluses in the intervening years would be applied toward reduction of the central Government debt and obviate the need for additional borrowing. Details on the Government debt and debt sustainability analysis are presented in **Section 7**.

Figure 8: Summary of Fiscal Data (B$M)



5.3 Fiscal Responsibility

The Government continued to enhance public performance management through legislative initiatives.

In July 1, 2023, the Public Financial Management Act 2021, was replaced with the Public Finance Management Act, 2023, which now integrates the provisions of the repealed Fiscal Responsibility Act, 2021, with several amendments to the fiscal targets. The PFMA 2023 continues to promote accountability, transparency, and stability in managing the country's finances.

In October 2022, the Public Procurement Bill was tabled in Parliament and opened for public consultation to address operational inefficiencies identified by stakeholders since the passage of the Public Procurement Act, 2021. The new Public Procurement Act, 2023, which entered into force on June 16, 2023 focuses on expanding procurement opportunities for micro, small, and medium-sized businesses to increase their participation in government procurement processes. To meet the requirements of the Public Procurement Act, 2023 the legacy electronic public procurement portal has been upgraded to facilitate the publication of procurement opportunities, award notices, and other statutory obligations.

Table 18: Current and Planned Actions on Fiscal Responsibility Principles

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

Table 18 outlines Government's current and planned actions to achieve fiscal responsibility principles across various key areas. The actions are designed to promote accountability, intergenerational equity, responsibility, stability, transparency, and inclusive growth within the country's fiscal framework. Each action is marked with an "X" under the relevant fiscal responsibility principle(s) it aims to support.

Fiscal Risk Identification & Mitigation Strategies

TABLE

6.0 Fiscal Risk Identification & Mitigation Strategies

Fiscal risks refer to events that could cause fiscal outcomes to deviate from fiscal projections, and therefore have the potential to adversely impact achievement of strategic fiscal objectives. These risks could crystalize from macroeconomic shocks, crystallization of contingent liabilities of the state-owned enterprises. While potential risks may never materialize, the Government recognizes the importance of risk identification, analysis, and mitigation in its fiscal planning exercise.

Pursuant to the Public Finance Management Act, 2023 Second Schedule (10), Government seeks to identify the source, scale, and likelihood of the risks disclosed herein to ensure accountability in preparation of appropriate risk mitigation. Summarized in Table 20 are the principal risks identified over the medium-term, along various risk mitigation measures which Government has devised/or could implement should one or more of these risks emerge during the forecast period. The below presents fiscal risks based on categories of macroeconomic (which has feedback effects on both revenue and expenditure), exogenous/external (which includes natural disasters and other external shocks), and other Government liabilities (which includes Government guarantees and other contingent liabilities).

6.1 Macroeconomic Risks

For the Bahamas, macroeconomic risks entail shocks to real GDP, high inflation, supply side shocks, and natural disasters.

Because of its openness, characterized by a high dependence on imports along with the persistence of geopolitical tensions, the Bahamian economy faces risk of supply shocks that could have adverse implications for domestic prices and transportation costs. Any slowdown in global economic activity, especially in the key source markets, could adversely impact demand for tourism services and foreign direct investments, and interrupt the fiscal plan and attainment of the objectives, as is the case for a rise in overseas interest rates on the cost of the debt. Events impacting this sector have significant implications on the wider economy. The persistence of the ongoing global unrest could also undermine the growth prospects and derail achievement of the fiscal objectives. Likewise, high inflation arising from disruptions in supplies of basic commodities could jeopardize achievement of the fiscal objectives. Although the Bahamas has a significant portion of its debt denominated in Bahamian Dollars, increases in oversea rates could add to the overall fiscal costs.

6.2 Disaster Risks

a. Natural Disasters

As an archipelago in a subtropical biome, The Bahamas has always been highly susceptible to hurricane exposure, as evidenced by the six severe storms which have made landfall on Bahamian shores in the past decade and caused widespread damage to infrastructure, businesses, and families. Climate-related disasters are occurring more frequently and with greater intensity, resulting in the risk of extensive collateral, social, and infrastructural damage. Depending on the magnitude of the catastrophe, possible increases in financial, fiscal, and social costs could be incurred. The Government understands that implementing comprehensive disaster risk management strategies is essential to improving fiscal and economic resilience, especially in the context of limited fiscal space.

The Government continues to maintain a number of measures to address these vulnerabilities and reduce the risk of financial exposure and other vulnerabilities to disaster:

» **Contingent Credit Line:** The Government maintains a contingent credit line with the IDB of up to $100 million to provide rapid financing in the event of a natural disaster.

» **Disaster Insurance:** The Government maintains a risk transfer mechanism in the form of a parametric insurance policy with the Caribbean Risk Catastrophe Insurance Facility, which divides coverage for The Bahamas into three zones—the Northwest, Southeast and Central Bahamas, each with separate parametric triggers. The Government is also seeking to explore the use of catastrophe bonds similar to the facility offered by the World Bank to cover hurricane risk; and is supportive of encouraging private sector risk financing to limit the potential for unplanned fiscal costs.

» **Disaster Relief Fund:** The Fund currently has $27.6 million in proceeds from the extinguished dormant bank accounts, which should be utilized to meet needs arising from disasters. The Fund is continually replenished on an ongoing basis via transfers from dormant accounts. As originally contemplated, the Government remains committed to growing the Fund to the optimal size—estimated by the IMF to be between 2 and 4 percent of GDP—once budgetary conditions permit.

» **Coastal Protection and Risk Management:** The IDB funded project to strengthen The Bahamas' resilience to coastal risks through the implementation and adoption of sustainable coastal protection infrastructure and management, is ongoing. The $35 million loan from the IDB covers activities related to reinforcing natural infrastructure, restoring coastal natural habitat, and improving coastal flood control measures particularly in the islands of Grand Bahama and Andros where natural banks exist.

» **Disaster Risk Management Governance Program:** A collaborative effort between the Bahamas Government and the Inter-American Development Bank is ongoing to strengthen the country's capacity to manage and mitigate the impact of disasters and climate change. The program focuses on enhancing governance frameworks related to disaster preparedness, risk identification, reduction, recovery planning, and financial protection.

» **Principal Payment Deferral Opportunities:** As a means of managing risks associated with natural disasters, The Bahamas, Under the IDB's Flexible Financing Facility, has incorporated in most of its IDB credit facilities the Principal Payment Option (PPO) that could be exercised in the event of a natural disaster. The PPO essential provides for a deferral of principal payments for 2 years, where the natural disaster complies with certain determined parametric and non-parametric conditions.

Aside from the aforementioned, The Bahamas continues to be one of the most prominent supporters on the global scene of providing climate finance to Small Island Development States in accordance with the clauses and pledges made in the Paris Accord. Although it is still in its infancy, the agreement made at the most recent COP27 conference to establish a "Loss and Damage" fund for vulnerable nations offers potential in the years to come to lower the cost of financing the effects of climatic hazards.

b. Disease and Pandemic Management

COVID-19 has exposed weaknesses in the Bahamian healthcare sector, monopolizing resources and straining the system's capacity to respond to non-pandemic-related issues. To address these challenges, the government is moving ahead with plans to construct new hospital facilities in Grand Bahama and New Providence.

COMMONWEALTH OF THE BAHAMAS

6.3 Other Fiscal Risks

a. Contingent Labilities

State owned enterprises represent a significant source of fiscal risk, as any material weaknesses in their financial and operational performance could threaten the fiscal position as well as compromise economic growth prospects.

As shown in Table 19, the current balance for contingent liabilities, which are all guaranteed by the government, was estimated at $326.2 million at end-FY2023/2024, with net repayment positions brining the outstanding balance progressively lower to over the forward three years, to $184.7 million by end-FY2027/2028.

To assist with managing the fiscal risk associated with their liabilities, the Government released its guarantee policy framework which includes, inter alia, explicit eligibility criteria as part of the decision as to whether or not to grant a guarantee, limits on the annual amount of guarantees to be granted, requirements for a credit risk assessment and the imposition of a guarantee fee. In other risk mitigation initiatives, the Ministry collects quarterly financial data from the various SOEs, which are used to maintain updated indicators and assessments of their financial conditions.

Table 19: Contingent Liabilities (B$M)

	Actuals		Budget	Forecast			
	FY2021/22	FY2022/23	FY2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Bahamas Development Bank	40.7	38.1	37.1	31.7	30.2	28.7	27.1
Bahamas Water & Sewerage Corporation	62.8	55.8	51.2	47.1	43.0	38.9	34.8
Bridge Authority	16.0	16.0	8.0	8.0	8.0	8.0	8.0
Broadcasting Corporation	160.0	0.0	0.0	0.0	0.0	0.0	0.0
Bahamasair	47.0	0.0	0.0	0.0	0.0	0.0	0.0
Bahamas Mortgage Corporation	24.0	160.0	141.3	115.0	65.0	50.0	50.0
Educational Guarantee Fund	47.1	0.0	0.0	0.0	0.0	0.0	0.0
Hurricane Loan Programme	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Education Loan Authority	0.0	47.0	20.0	20.0	20.0	20.0	20.0
The Clifton Heritage Authority	24.0	24.0	24.0	16.0	16.0	16.0	16.0
Public Hospitals Authority	47.1	43.2	39.2	35.3	31.4	27.5	23.5
SBDC Bahamas	2.2	3.1	5.3	5.2	5.2	5.2	5.2
Total Contingent Liabilities	**473.0**	**387.2**	**326.2**	**278.4**	**218.9**	**194.3**	**184.7**
Contingent Liabilities as a % of GDP	*3.8%*	*2.9%*	*2.3%*	*1.9%*	*1.4%*	*1.2%*	*1.1%*
GDP (current)	12,413.6	13,236.1	14,138.8	14,790.6	15,336.4	15,871.9	16,132.0

b. Pension Liabilities

The Government has historically operated a non-contributory defined benefit pension scheme for eligible permanent public service officials, which operates independently from the defined contribution pension scheme managed by the National Insurance Board (NIB) for the general public. Based on a comprehensive feasibility study by KPMG Advisory Services Ltd., these pension liabilities are projected to reach up to $3.5 billion by 2030, and future cash outflows are anticipated to grow from approximately $165 million to $219 million by 2030, including pension payments and gratuities.

To address this major risk to the stability of the government's finances, the government issued the Draft Pensions Bill (the "Pension Bill'), February 21, 2024 for public consultation—which was recently concluded and now awaits finalization. In summary, the Pension Bill proposes transitioning from a non-funded, non-contributory scheme to a funded defined contributory pension plan, while providing for continuation of a reasonably funded pension benefit.

c. Payment Arrears

In the normal course of business, accounts payables and arrears arise due to timing and cash flow considerations, resulting in fluctuations in the Accounts Payable position as invoices are processed for settlement. Recognizing the importance of addressing financial obligations, the Government engaged an independent accounting firm in September 2021 to conduct a comprehensive review of all government arrears, payables, and outstanding liabilities. Subsequently, a strategic plan was implemented to reduce payment arrears. Including unsettled legal claims and working capital balances.

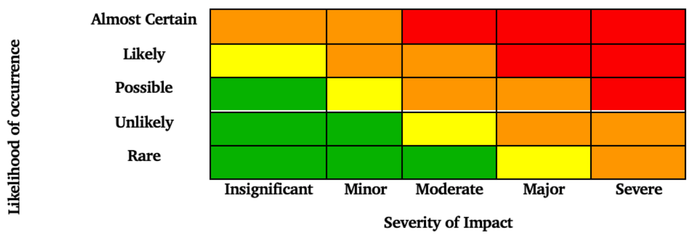
The strategy was successfully implemented, leading to significant progress in managing payment arrears. Vendor arrears, defined as arrears overdue by more than 90 days, have been largely eliminated, underscoring the government's commitment to timely financial obligations and improved cash flow management. Looking ahead, a key focus for the medium-term is the elimination of intra-government payables, facilitated by more streamlined internal processes and optimized resource allocations.

At the end of 2023, the arrears stood at 2.1 percent of nominal GDP. This is an improvement over the prior year where the arrears accounted for 3.7 percent of nominal GDP.

Table 20: Risks and Mitigation Strategies

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

Risk Assessment Grid



Debt Sustainability Analysis

FIGURES

TABLE

7.0 Debt Sustainability Analysis

The attainment of the Government's fiscal goals and strategies hinges on meeting precise fiscal targets, improving operational efficiencies, and realizing key macroeconomic outcomes. While the threat of negative fiscal and macroeconomic effects from external economic shocks has greatly diminished, the decreasing trend in inflation in The Bahamas was a positive development. However, rising global inflationary pressures along with global monetary policies aimed at curbing inflation still posed a notable downside risk to the growth forecasts.

Table 21: Central Government Baseline Indicators

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Total Public Debt (B$M)	10,792.80	11,260.06	11,391.16	11,460.99	11,012.79	10,554.89	10,095.38
% of GDP	86.97%	80.26%	78.09%	75.28%	69.83%	64.73%	59.87%
Local Currency (B$M)	5,687.20	5,936.60	6,005.72	6,042.53	5,806.23	5,564.81	5,322.55
Foreign Currency (B$M)	5,105.60	5,323.40	5,385.38	5,418.39	5,206.50	4,990.02	4,772.78
Short Term Debt (B$M)	1,138.90	1,329.50	1,344.98	1,353.22	1,300.30	1,246.24	1,191.98
Medium Term & Long Term Debt (B$M)	9,653.90	9,930.50	10,046.11	10,107.70	9,712.42	9,308.59	8,903.34
Total Revenue (B$M)	2,605.70	2,855.39	3,319.02	3,543.29	3,958.92	4,087.71	4,213.04
Total Non-Interest Expenditure (B$M)	2,776.11	2,816.91	2,837.43	2,956.40	2,953.70	3,077.94	3,180.22
Overall Balance (B$M)	(722.18)	(534.64)	(131.13)	(69.83)	448.20	457.90	459.50
Primary Deficit (B$M)	(170.41)	38.48	481.60	586.89	1,005.23	1,009.77	1,032.82
Gross Financing Needs (B$M)	3,036.93	2,989.00	2,198.72	1,968.79	1,122.51	37.26	36.02
% of GDP	24.47%	21.31%	15.07%	12.93%	7.12%	0.23%	0.21%
% of Revenue	116.55%	104.68%	66.25%	55.56%	28.35%	0.91%	0.85%

Table 21: Central Government Baseline Indicators cont'd

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Interest Payments (B$M)	551.77	573.12	612.73	656.72	557.03	551.87	573.32
Amortization (B$M)	2696.7	3110.2	3,146.41	3,165.70	3,041.90	2,915.42	2,788.50
Effective Interest Rates	6.68%	7.48%	5.30%	5.50%	5.40%	5.10%	5.10%
Domestic	3.80%	4.25%	3.01%	3.13%	3.07%	2.90%	2.90%
External	4.78%	5.35%	3.79%	3.93%	3.86%	3.65%	3.65%
Real Interest Rates	4.00%	3.50%	3.00%	2.50%	2.70%	2.50%	2.40%
Debt Service to GDP	21.73%	22.17%	21.57%	20.79%	19.29%	17.88%	16.54%
Nominal GDP (B$ M)	12,409.52	14,029.50	14,586.42	15,224.19	15,771.60	16,307.16	16,862.28
Real GDP (B$ M)	12,019.10	12,827.72	13,021.11	13,246.81	13,471.63	13,680.25	13,885.46
Unemployment	10.80%	8.80%	8.80%	8.90%	9.00%	9.10%	9.20%

When assessing The Bahamas's debt sustainability according to the assumptions outlined in the 2024 FSR, the prevailing inflationary pressures in the current market were considered. However, with actual inflation rates turning out to be lower than expected, inflationary pressures may not be as significant as previously thought. This suggests a more optimistic outlook for inflation in the medium term which could support the ongoing improvement of global credit conditions. Moreover, alongside continued rationalization efforts and revenue-boosting measures, the Government anticipates achieving its objective of a budget surplus by the 2024/2025 fiscal year. Over the long term, it is projected that both the Government debt level and the gross financing need, including the budget deficit and principal repayments, will steadily decline as the Government sustains primary surpluses and reduces the need for financing.

Table 21 provides The Bahamas's foundational data utilized for conducting the Debt Sustainability Analysis (DSA) using the IMF's Market Access Country (MAC) analytical tool. The fiscal year data spans from FY2021/2022 to FY2027/2028. Due to the recent trajectory of debt, where the debt-to-GDP ratio surpassed 50 percent, the classification of 'higher scrutiny country' was applied in conducting the debt sustainability assessment.

Looking at the trajectory of The Bahamas' direct charge and overall debt sustainability, central Government debt fell to 80.3 percent of GDP for FY2022/2023, with projections indicating a further decrease to 59.5 percent in FY2027/2028.

The direction of the direct charge is supported by several assumptions, with notable emphasis on:

» Continuation of the global economic rebound. Projections from organizations like the IMF and IDB anticipate that global output will sustain improvement, with muted inflationary pressures. Global credit conditions will gradually improve, further stabilizing the inflationary situation over the long term.

» Maintenance of stable credit conditions. In April 2024, Moody's Investor Services affirmed The Bahamas' credit rating at B1 with a stable outlook. In September 2023, S&P Global Ratings reaffirmed The Bahamas' credit rating at B+ with a stable outlook. The Debt Sustainability Analysis (DSA) assumes that credit conditions will remain at least stable in the medium term, with potential for improvement in the long term.

» Absence of significant short-term external shocks. As The Bahamas is prone to hurricanes, the DSA assumes that such external shocks will not occur in the short term. Additionally, it is assumed that any natural disasters in the medium-term will be of minimal intensity upon landfall.

Figure 9: Evolution of Debt to GDP Ratio

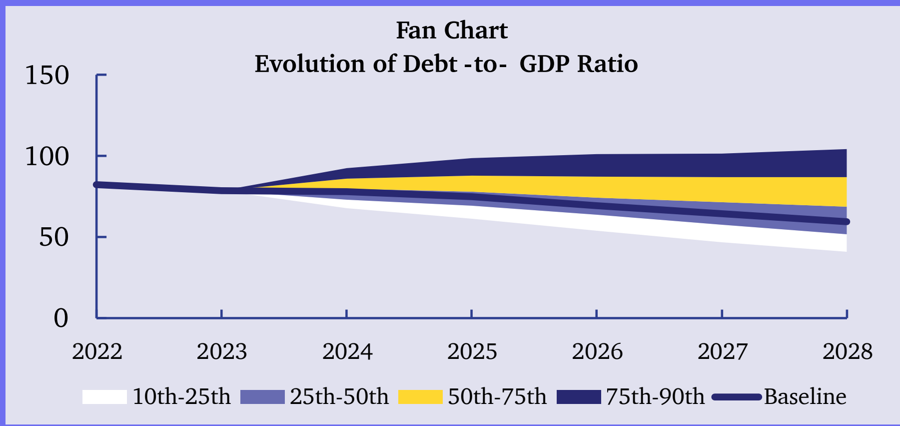


Figure 10: Effect of a 1% Negative Primary Balance Shock on Debt to GDP Ratio

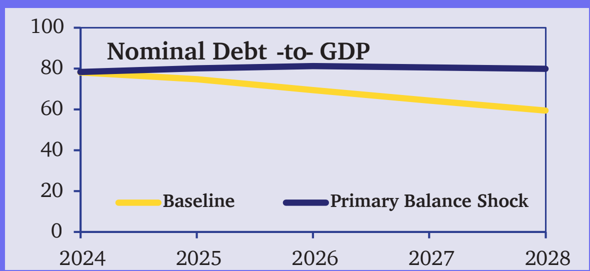


Figure 11: Effect of a 1% Negative Growth Shock on Debt to GDP Ratio

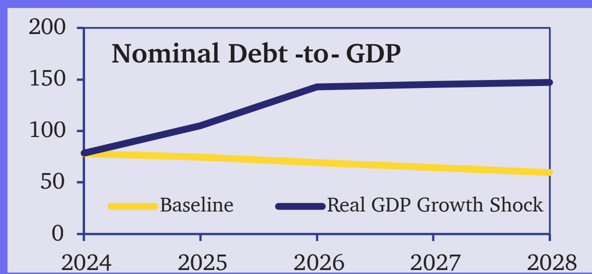


Figure 12: Effect of a 1% Negative Real Interest Rate Shock on Debt to GDP Ratio

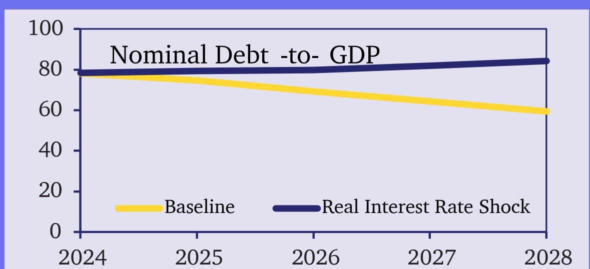
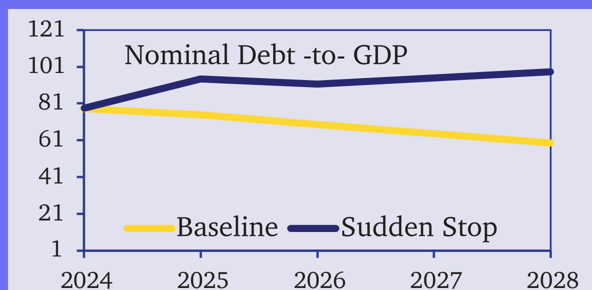


Figure 13: Effect of a Sudden Stop



Based on the above assumptions, Figure 9 displays the baseline debt trajectory over the medium to long term. The debt-to-GDP ratios for central Government debt for The Bahamas represent a projected consistent decline until FY2027/2028. Despite potential threats from external and macroeconomic shocks, the current debt profile indicates a sustainable path for The Bahamas over the medium to longer term.

Figures 10 to 13 illustrate the impact of various shocks on the baseline scenario depicted in Figure 9. The fiscal projections hinge on the attainment of the Government's growth forecasts, and commitment to the revenue and expenditure targeted outcomes. As shown in Figure 11, a 1 percent contraction in output levels could escalate the debt-to-GDP ratio to exceed 131.7 percent by FY2027/2028. Conversely, a 1 percent increase in real interest rates, as depicted in Figure 12, poses a moderate threat to debt sustainability, with projected levels reaching 70.3 percent by FY2027/2028. Further, a negative 1 percent shock to the primary balance, outlined in Figure 10, sets The Bahamas on a trajectory toward a 68.1 percent debt-to-GDP ratio over the medium-term. As shown in Figure 13, for a more severe scenario, similar to a "sudden stop" in economic activity, the impact on domestic macroeconomic conditions would be significant. The absence of adherence to fiscal responsibility targets, operational efficiencies, and revenue-boosting measures could potentially elevate debt-to-GDP ratios to approximately 86.7 percent by FY2027/2028.

Annex A – Public Finance Management Act, 2023

Annex A – Public Finance Management Act, 2023

Second Schedule (section 23)

Contents of a Fiscal Strategy Report

1 . The fiscal strategy report shall contain a report for the recently concluded financial year which shall include—

(a) analysis of any difference in results from the macroeconomic forecasts and fiscal forecasts in the previous fiscal strategy report;

(b) a summary of budget execution compared to the appropriations and statutory expenditure;

(c) summary of the performance compared to the general principles in section 19, the fiscal responsibility principles in section 20, and the fiscal objectives in the previous fiscal strategy report;

(d) reasons for any deviations from the general principles, fiscal responsibility principles and fiscal objectives in the previous fiscal strategy report;

(e) report on the extent to which the risks identified in the previous fiscal strategy report were realised and the effect on fiscal performance; and

(f) other matters on performance the Minister considers relevant.

2. The fiscal strategy report shall contain medium-term macroeconomic forecasts setting out actual, estimated and projected values of the following economic variables for no less than the previous two years, the current year, and the next three years including—

(a) gross domestic product and its components;

(b) inflation;

(c) employment and unemployment;

(d) exchange rates with major trading partners;

(e) interest rates; and

(f) money supply and monetary conditions including credit to the private sector, and for (a) to (f) the source of the data shall be identified, and for historical information, a statement provided of whether it is official or estimated in cases where official data are not available.

3. The fiscal strategy report shall contain information on the longer term macroeconomic forecasts.

4. The fiscal strategy report shall contain a statement of assumptions and methodologies underpinning the economic forecasts.

5. The fiscal strategy report shall contain medium-term fiscal forecasts setting out actual, estimated, and projected values of the following fiscal variables for no less than the previous two years, the current year, and the next three years including—

(a) revenues by type;

(b) aggregate expenditures by economic, administrative, and functional classifications;

(c) fiscal balance for the overall budget;

(d) a summary of the sources of budget financing;

(e) the level of debt by external source, domestic source and total;

(f) level of financial and performance guarantees;

(g) the accounting principles and methods used in the fiscal strategy report and key assumptions on which the above numbers are based;

(h) sensitivity analysis taking account of possible changes in macroeconomic conditions; and

(i) any other information the Minister determines is material to the fiscal forecasts.

Annex A – Public Finance Management Act, 2023 cont'd

6. The fiscal strategy report shall contain fiscal forecasts for the longer term that have been used in formulating the fiscal policies in the fiscal strategy report and such forecasts shall take account of the impacts of changes in demographics and other factors.

7. The fiscal strategy report shall contain a statement of intention with regard to the general principles in section 19 of this Act.

8. The fiscal strategy report shall contain a statement of intention with regard to the fiscal responsibility principles in section 20 of this Act.

9. The fiscal strategy report shall contain a description of the fiscal policy including— (1) a table containing the fiscal information for the previous two years, the current year and the forthcoming three years and longer term where relevant including —

(a) aggregate Government expenditure as a percentage of GDP and in nominal terms;

(b) recurrent Government expenditure as a percentage of GDP and in nominal terms;

(c) primary Government expenditure as a percentage of GDP and in nominal terms;

(d)capital Government expenditure as a percentage of aggregate Government expenditure, as a percentage of GDP and in nominal terms;

(e) Government expenditure on wages and benefits as a percentage of GDP and in nominal terms for all positions funded from the annual budget including all positions funded by direct charge on the Consolidated Fund and all positions funded by appropriation;

(f) Government revenues as a percentage of GDP and in nominal terms;

(g) overall fiscal balance as a percentage of GOP and in nominal terms;

(h) Government debt as a percentage of GDP and in nominal terms;

(i) Government arrears as percentage of budget expenditure and in nominal terms;

(j) Government guarantees as a percentage of GDP and in nominal terms; and

(k) Government net worth as a percentage of GOP and in nominal terms when net worth can be measured.

(2) Table of fiscal objectives to measure the fiscal position of the government against the fiscal responsibility principles for the forthcoming year and each of the next three years which shall at a minimum include measurable fiscal objectives for the fiscal balance, debt, guarantees, expenditure growth rate, wage expenditure limit, proposition of proposed capital Government expenditure as a percentage of aggregate Government expenditure and any measures for an adjustment plan if in force;

(3) information on the fiscal policies for medium-term including—

(a) the revenue policy with planned changes to taxes and policies affecting other revenues and intentions regarding revenue collection activities;

(b) policy on the fiscal balance;

(c) debt policy with a summary of the debt management strategy, a summary of the debt sustainability analysis, debt ceilings, and guarantee ceilings; and

(d) expenditure policy including expenditure priorities linked to ceilings.

(4) an assessment of the consistency of the planned fiscal policy aggregates and measurable fiscal objectives in paragraph 9(2) of this Schedule with the fiscal responsibility principles and the requirements of section 20(2);

Annex A – Public Finance Management Act, 2023 cont'd

(5) a medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions and an explanation of any changes in the proposed ceilings from the previous fiscal strategy report including—

(a) the aggregate expenditure ceiling to be used in the preparation of the annual budget which shall include indicative ceilings for two familiar outer years;

(b) ceilings for central Government expenditure by Ministry and other budget entity for the budget year and next two years to be used as the basis for the preparation of the annual budget;

(c) forecast non-financial performance information at a suitable level of aggregation linked to the budget to show what is planned to be provided and achieved for the proposed expenditure, for strategic changes only; and

(d) information on major public investments including priorities and rationale for these and forecast costs for the forthcoming budget year and two outer years related to expenditure ceilings.

10. The fiscal strategy report shall contain a fiscal risk statement with quantified risks where practicable including—

(a) contingent liabilities;

(b) any commitments not included in the fiscal forecasts;

(c) all other circumstances which may have a material effect on the fiscal and economic forecasts and which have not already been incorporated into the fiscal forecasts; and

(d) risk management intentions.

11. The fiscal strategy report shall contain a statement of responsibility signed by the Minister and the Financial Secretary attesting to the reliability and completeness of the information in the fiscal strategy report and its compliance with the law.

12. If the Government is unable to provide any of the information required by this Schedule the Ministry shall state in the fiscal strategy report the reasons for any missing information and shall ensure that such information is available as soon as practicable for future fiscal strategy reports.

13. For the purposes of this Schedule—

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

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

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

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

"total expenditure" means the sum of recurrent and capital expenditure less debt principal repayment and acquisition of financial assets.

2024 FISCAL STRATEGY REPORT

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