INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/039

THE BAHAMAS

January 2024

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with The Bahamas, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on November 21, 2023, with the officials of The Bahamas on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 3, 2024.
- An **Informational Annex** prepared by the IMF staff.

The document listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR24/36

IMF Executive Board Concludes 2023 Article IV Consultation with The Bahamas

FOR IMMEDIATE RELEASE

Washington, DC – **February 2, 2024:** On January 19, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with The Bahamas and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

The Bahamas' economy continues to rebound vigorously, driven by large tourism inflows. Real GDP growth is estimated to have reached 4.3 percent in 2023 (from 14.4 percent in 2022), while the unemployment rate fell below 9 percent. Inflation has been on a downward path since mid-2022. Backed by a strong recovery of tourism, the current account deficit is projected to have narrowed to 6.2 percent of GDP in 2023 (from 8.2 percent in 2022).

A strong cyclical recovery in revenues and a wind down of pandemic-related spending improved the fiscal balance. The fiscal deficit narrowed to 3.9 percent of GDP in 2022/23, while central government debt fell to 84 percent of GDP. Under current policies, staff projects a deficit of 2.6 percent of GDP in 2023/24 with debt falling to 78 percent of GDP by 2027/28. The financial sector remains robust, with abundant liquidity and declining NPLs. Private credit growth is muted and underperforming relative to output growth.

The economic outlook is favorable, albeit with downside risks. Tourist arrivals and real average spending, which surpassed pre-pandemic levels in 2023, should continue to rise in the near-term, boosting real GDP and helping to narrow external and fiscal imbalances. Risks to the outlook include an economic slowdown in tourism source markets and the potential for costly natural disasters. Building fiscal buffers and investing in renewable energy infrastructure will help address downside risks stemming from natural disasters, global economic uncertainty, and climate change. Raising potential growth beyond 1.5 percent is conditional on addressing bottlenecks in the energy sector and labor markets.

Executive Board Assessment[2]

The Bahamas near-term growth prospects are favorable, but policy adjustments will be needed to strengthen potential growth and ease downside risks. The economy is in the midst of a solid expansion, with signs of continuing strength across sectors. A strong recovery of tourism has helped regain the ground that was lost after hurricane Dorian and the Covid crisis. Unemployment is at its lowest level since 2008 while inflation has been on a downward path and is lower than in regional peers. The more favorable economic environment provides

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

space for the authorities to reorient their policy framework toward the pursuit of greater fiscal sustainability, social equity, and climate resilience.

The fiscal stance would benefit from a faster reduction in debt-to-GDP. The implementation of the OECD global minimum corporate income tax provides an opportunity to introduce a well-designed corporate income tax and a personal income tax on highest earners. There is scope to revise existing tax preferences and exemptions, aiming for a more progressive and efficient tax system. Moreover, rationalizing SOEs' spending would alleviate current expenditure pressures. Efficiency gains in spending and improvements in the financial management of SOEs would not only support debt reduction, but also free up resources to invest on social outcomes and infrastructure.

Enhancing debt management and improving fiscal transparency and accountability would soften investors' concerns about high rollover needs and potentially reduce the reliance on international markets for fiscal financing. Particularly, the authorities should consider extending competitive auctions to domestic government securities across maturities, increasing the predictability of sovereign issuance plans, and lowering the limit on central bank advances to the government. The publication of beneficial ownership information for providers that obtain public contracts, as well as publication of audited financial statements of SOEs, and an independent process to select members of the fiscal council are best practices that would be beneficial for The Bahamas. Finally, any deviations from the targets mandated in the PFM Act should be time-bound and underpinned by clear guidance on the speed at which the authorities will revert to their goals.

Continued efforts to implement the 2019 FSAP recommendations and enhance the supervision and regulation of crypto assets would help better identify and mitigate risks to the financial system. The Resolution Unit within the central bank and the Financial Stability Council should be adequately staffed and made operational, while deposit insurance coverage should be increased, and the Deposit Insurance Corporation's governance could be improved. Additionally, further amendments to the DARE Act could be considered to align the framework with global standards – accompanied by additional resources for onsite inspections. Lastly, the expansion of financial sector data collection would assist in identifying systemic risk and designing macroprudential policies.

To mitigate climate related risks, the authorities should take advantage of climate financing opportunities and consider reforms to the property insurance market. To fully exploit new avenues for climate finance, the authorities should build effective measurement, reporting and verification frameworks for climate-related projects, develop projects that have co-benefits across other SDG, and partner with established institutions in climate finance. Regarding the insurance sector, a public mandate to carry a minimum level of property insurance could be considered in combination with an expansion of partial public funding of micro-insurance products, land-planning, and incentives for resilient infrastructure investments.

Accelerating the transition to renewable energy would improve electricity affordability and reliance in The Bahamas, consequently supporting private sector growth and reducing the country's vulnerability to terms of trade shocks. Hastening solar projects and improving the national electricity company's governance structure could help lower costs, increase the reliability of energy supply, and raise the share of renewables toward the authorities' goal of 30 percent by 2030. A higher base rate for electricity would help cover the cost of needed investments in renewable energy, while private-public partnerships could be expanded and private investments in renewables incentivized through direct subsidies or tax credits.

Rising potential growth beyond 1.5 percent and improving social outcomes entail a reorientation of spending towards education, healthcare, targeted social transfers and infrastructure. Bottlenecks related to the reliability of energy transmission and shortages of skilled labor need to be addressed. Closing remaining gaps in digitalization of public services and data gathering can help reduce frictions that dis-incentivize private investment as well as improve the targeting of social assistance programs. By failing to target social assistance, public spending is regressive, contributing to poor outcomes in health, education, and energy provision.

The Bahamas: Selected Economic Indicators

	2021	2022	2023	2024	2025	2026	2027	2028
					proj.			
Real GDP (annual % change)	17.0	14.4	4.3	2.3	1.8	1.6	1.5	1.5
Unemployment rate (%)	17.6	10.8	8.8	8.8	8.8	8.9	9.0	9.1
Current account balance (% of GDP)	-21.1	-8.2	-6.2	-6.1	-5.8	-5.7	-5.5	-5.5
CPI inflation (%, end of period)	4.1	5.5	3.6	2.9	2.4	2.1	2.1	2.0
CPI inflation (%, period average)	2.9	5.6	3.4	3.1	2.6	2.2	2.1	2.1
Fiscal overall balance (% of GDP) 1/	-13.1	-5.8	-3.9	-2.6	-2.0	-1.7	-1.2	-1.0
Fiscal primary balance (% of GDP) 1/	-9.0	-1.3	0.3	1.7	2.4	2.6	2.8	2.9
Government debt (% of GDP) 1/	100.0	88.9	84.2	83.2	81.9	80.8	79.5	78.1

Sources: The Bahamian authorities; and IMF staff calculations.

1/ Fiscal year (FY, July 1 - June 30)

INTERNATIONAL MONETARY FUND

THE BAHAMAS

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

January 3, 2024

KEY ISSUES

Macro context: The Bahamas economy is in the midst of a solid expansion. A strong recovery of tourism has helped regain the ground that was lost after hurricane Dorian and the Covid crisis. Unemployment is at its lowest level since 2008 while inflation has been on a downward path and is lower than in most regional peers. Public finances are improving, although debt remains high. The more favorable economic environment provides space for the authorities to reorient their policy framework toward the pursuit of greater fiscal sustainability, social equity, and climate resilience.

Fiscal policy: Debt sustainability should be reinforced through institutional reforms that improve the progressivity of tax and spending. In particular, the tax system should be made more efficient and progressive through the introduction of a corporate and personal income tax. Efficiency gains and improving the functioning of SOEs will be necessary to create fiscal space and offset the expenditure needs associated with an aging population.

Financial sector policies: More effective liquidity management and the phasing out of monetary financing of the budget will reduce tensions within the pegged exchange system. Strengthening the domestic debt market would lessen the reliance on international markets for fiscal financing. Increasing the scope of deposit insurance and better oversight of digital assets would reduce financial stability risks.

Climate and structural policies: Tapping into international climate finance resources, encouraging investment in renewable energies, and addressing insurance market failures would support progress towards climate resilience. Increased efforts to close data gaps and leverage digitization would reinforce the impact of public policy.

Approved By
Nigel Chalk (WHD) and Jarkko Turunen (SPR)

Discussions took place in Nassau during November 9–21, 2023. The team comprised Alexandre Chailloux (head), Shane Lowe, Josef Platzer, and Beatriz Garcia-Nunes, with assistance from Sheng Tibung (all WHD). Mitch Villeneuve (OED) participated in the meetings and Philip Jennings (OED) joined the concluding meeting. The mission held discussions with Prime Minister Davis, Minister of Economy Halkitis, Central Bank Governor Rolle, Financial Secretary Wilson, other Ministers and senior government officials, and private sector and civil society representatives.

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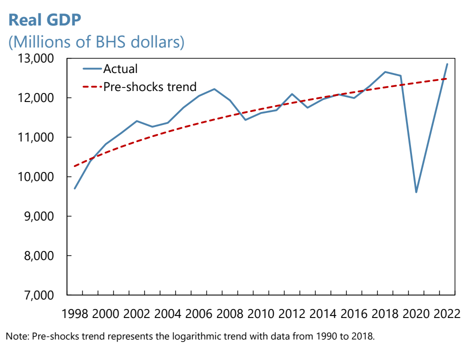
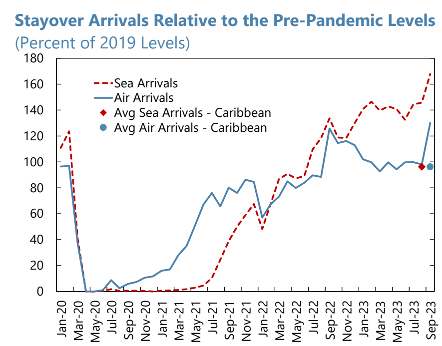
ANNEXES

RECENT DEVELOPMENTS

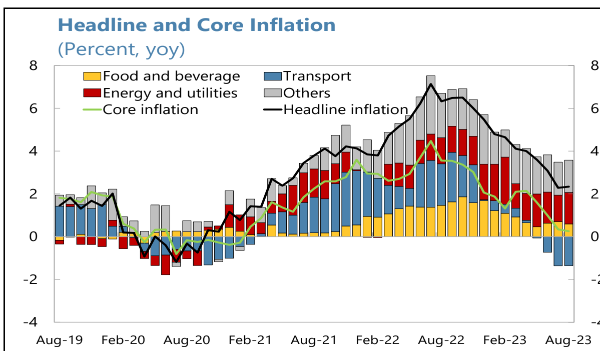
1. **There was a significant economic rebound in 2022-23.** Real GDP growth reached 14 percent in 2022, supported by a broad-based recovery, especially in tourism activity. The economy recovered to its pre-pandemic level in 2022. The strong recovery led to a decline in the unemployment rate to 8.8 percent, the lowest level since 2008. However, this also reflects lower labor force participation (at 76 percent, below the pre-pandemic level of 81 percent). International flights and cruise arrivals are well above their pre-pandemic levels, as is the average real spending of cruise and stayover visitors.[1] This reflects both pent-up demand in source markets and the government's efforts to attract new cruise companies and airlines (including opening a new cruise terminal in May 2023). Growth is expected to reach 4.3 percent in 2023, closing the output gap.

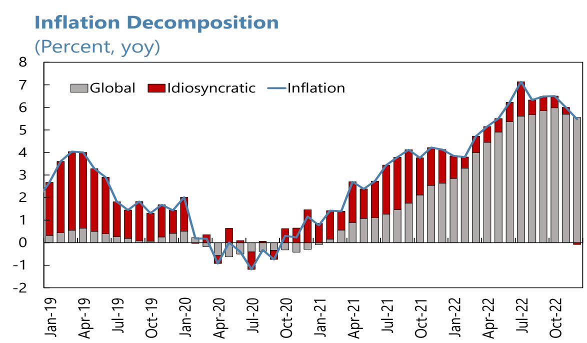




Sources: WEO database, National authorities, CTO, WHD Tourism Monitor project, and IMF staff calculations.

2. **Price pressures are waning.** Inflation peaked in July 2022 at 7.1 percent yoy, driven by energy and food. Global factors explain the bulk of the recent upswing in inflation (based on a principal components analysis using inflation data for 68 countries from 2000 to 2022). The fall in global energy prices has supported a faster-than-expected disinflation leaving August 2023 inflation at 2.3 percent. Temporary price controls on a number of staples, introduced in 2022 to limit the increase in the cost of living, expired in April 2023.

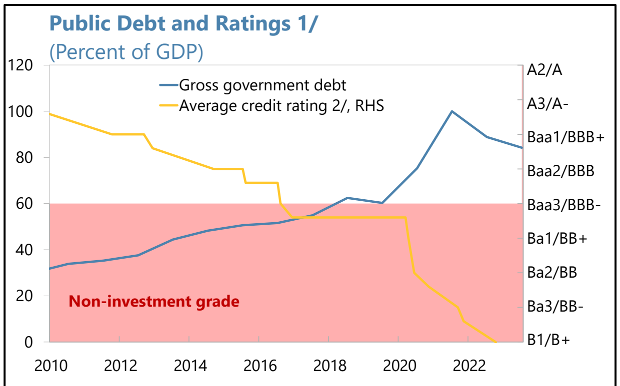




Sources: Central Bank of the Bahamas, National authorities, and IMF staff calculations.

[1] Average real spending increased by 59 percent for cruise and 18 percent for stayover visitors from 2019 to 2022.

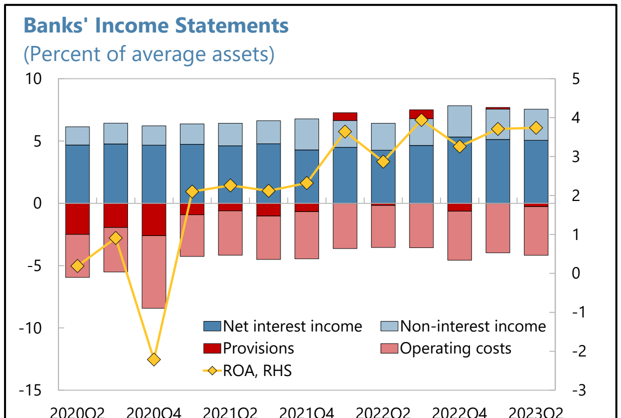
3. **The strong economic recovery and phasing-out of pandemic-related support have improved public finances, reducing the deficit to 3.9 percent of GDP in 2022/23.** The falling fiscal deficit was despite the provision of tax relief to compensate for rising inflationary pressures[2] and a hike in public sector wages. Central government debt has fallen from 100 percent of GDP in FY2021 to 84 percent of GDP by mid-2023. External sovereign spreads remain high (at around 700bp, see Box 2) and the high gross financing needs (of around 22 percent of GDP) were largely met through domestic issuance and central bank loans.



Sources: CBOB, Moody's, and S&P.
1/ General government debt and LT foreign currency sovereign rating.
2/ Average of Moody's and S&P.

4. **The external position in 2023 is moderately weaker than the level implied by medium-term fundamentals and desirable policies** (see Annex I). Preliminary data suggest that the current account deficit will decrease from 8.2 percent of GDP in 2022 to 6.2 percent of GDP in 2023. This deficit was financed by foreign direct investment and public sector borrowing. International reserves are adequate at 4.9 months of imports (430 percent of the external debt maturing in 2023 and 162 percent of the Fund's reserve adequacy metric). In December 2022, SDR 174.8 million were drawn down from reserves to settle foreign currency obligations of the government. The Central Bank Act has also been amended to exclude such on-lending of SDRs from the limits on central bank credit to the government.

5. **The banking sector is robust and holds adequate capital**. NPLs have declined rapidly, after peaking in early 2022 when COVID-19 forbearance measures expired. This has allowed for a sharp reduction in provisioning. The average return on assets (ROA) was 3.7 percent in Q2 2023, despite an increase in operating expenses, a large share of unremunerated deposits held at the central bank, and relatively low yields on government debt holdings.[3] The banking system regulatory capital to risk-weighted assets ratio increased to 36 percent in the first quarter of 2023, well above the 17 percent minimum requirement. The large holdings of low yielding assets result in high spreads between deposits and private sector loan rates that undermines the demand for credit. As a result, credit to the private sector continues to fall as a share of GDP and the credit gap (calculated according to BIS methodology) is expected to close by 2023.



Source: CBOB.

[2] These included reduced duties on several food items, construction materials, and electric vehicles.

[3] Higher ROA benefited from the reduction in provisioning and widening margins on U.S. dollar assets.

6. The central bank relaxed its macroprudential policy stance in 2022. The maximum debt-to-income ratio for banks and credit union loans was raised from 40 – 45 percent to 50 percent and banks are now permitted to lend up to 100 percent of the value of collateral, except in the case of mortgages which are limited to 85-95 percent (depending on whether the loan carries indemnity insurance). The central bank expects the impact on credit growth of this loosening of requirements to be moderate, given the cyclical position of the economy and the size of the current stock of nonperforming loans on bank balances sheets.

OUTLOOK AND RISKS

7. Strong growth momentum is expected to continue, with growth projected at 2.3 percent in 2024. Capacity limits in tourism will mean that growth will slow over the medium-term to its long-run potential of 1½ percent. Inflation is projected at 3.6 percent by end 2023 (a modest rise from August levels due to higher global oil prices) , falling back to 2 percent over the medium term.

Box 1. The Bahamas: Tourism Demand and the U.S. Business Cycle

The economy of The Bahamas is highly dependent on tourism. Tourism receipts, at 33 percent of GDP in 2022, are the main driver of economic growth and employment and a key source of tax revenues. With a share of over 80 percent of visitors, the United States is the most important source country, making the Bahamas economy largely exposed to the U.S. business cycle.

Air arrivals account for 90% of tourism revenue in 2022. U.S. growth explains the bulk of the variation in air arrivals with a 1 percentage point (pp) increase in U.S. GDP growth associated with a 2.1 pp increase in arrivals growth in The Bahamas (see Table). A possible explanation for the relatively low elasticity to U.S. growth is that U.S. travelers are mostly at the higher end of the U.S. income distribution, for whom tourism demand is less income elastic.

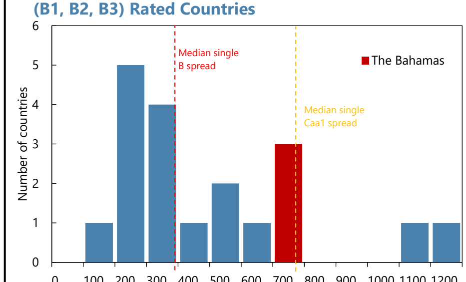
Dependent Variable: Arrivals Growth		
U.S. GDP growth	1.776***	2.121***
Oil price growth		0.005
Lag 4Q Arrivals growth		-0.281**
Lag 4Q U.S. GDP growth		-0.257
Lag 4Q Oil price growth		0.039*
Observations	120	120
R-squared	0.134	0.229

***, **, * denote significance at 1%, 5%, 10% level, respectively, based on robust standard errors. Other coefficients not reported. Growth is on a year-on-year basis for all variables.
Source: IMF staff calculations.

Box 2. The Bahamas: Sovereign Spread Decomposition

The Bahamas' sovereign bond spread has retreated from recent peaks yet remains elevated. Covid led to a spike in spreads, peaking at 1,400 basis points (bp) as public debt rose and the outlook for tourism was uncertain. As of September 2023, better economic outturns have allowed these spreads to fall to around 700 bp, still well above the pre-pandemic average of around 300 bp.

Sovereign Spread for Moody's Single B (B1, B2, B3) Rated Countries

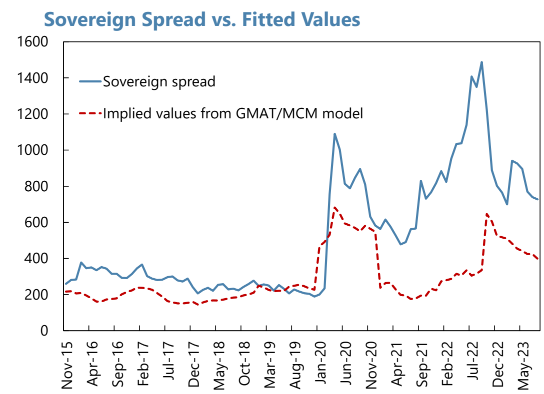


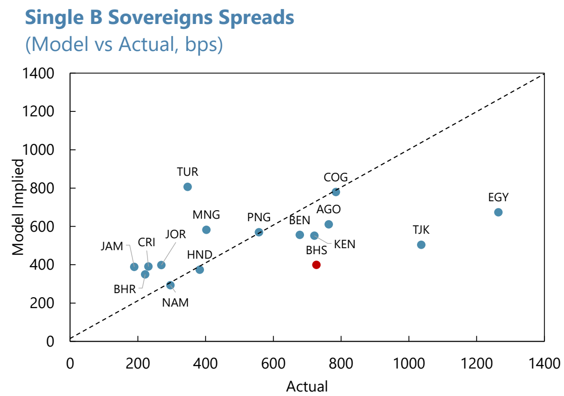
Sources: MCM/October 2019 GFSR, and IMF staff calculations.

The median rating for similarly rated countries is 400 bp. The Bahamas has one of the highest spreads in this

Box 2. The Bahamas: Sovereign Spread Decomposition (Concluded)

group (and is closer to the median spread of the next lower rating group). A panel of 60 countries is used to model spreads using domestic factors (growth, inflation, debt) and external factors (global growth, the U.S. dollar value, VIX, and sovereign credit ratings). The model-implied spread for 300bp lower than the actual spread with one of the largest positive deviations of actual vs model fitted spreads among sovereigns with similar ratings.





Sources: MCM/October 2019 GFSR, and IMF staff calculations.

8. **Current account imbalances are narrowing.** The trade deficit is expected to narrow in the medium-term due to lower international commodity prices and still-strong tourism demand. The current account should continue to be financed by a combination of FDI and sovereign borrowing. International reserves are expected to remain above 4 months of imports.

9. **Risks to the outlook are skewed downward (see Annex II).** Renewed pressures on global food and oil prices could erode consumer demand, impose a heavy burden on the most vulnerable, put pressure on the balance of payments, and induce the government to put in place policies to mitigate pass-through which would strain the fiscal position. A fall in tourism demand due to an economic slowdown of key source markets like the U.S. and Canada (Box 1) would have important implications for the local economy. Domestic banks' large exposures to the public sector could threaten macrofinancial stability, should downside risks materialize and the government face difficulties in servicing its debt. Finally, the Bahamas is highly exposed to tropical cyclones (the country was hit by 160 hurricanes since 1944, with four major hurricanes since 2015).

Authorities' Views

10. **The authorities remain optimistic about the medium-term outlook.** With tourist arrivals back to pre-pandemic levels, the authorities acknowledge that boosting long-term growth beyond 1.5 percent will require investments in new hotel capacity, including in the Family Islands, where several projects are already underway. Improving the domestic supply of skilled workers is also acknowledged as a means to reduce labor shortages in construction and tourism and amplify the

economic impact of projects in these sectors. The authorities also concur that a slowdown in U.S. growth, amid monetary tightening and global uncertainty, as well as the ever-present risk of natural disasters pose downside risks to the outlook.

POLICY DISCUSSIONS

A. A More Efficient and Progressive Fiscal Framework

11. The authorities' strategy is to reduce the deficit to 0.9 percent of GDP in 2023/24 and move to an overall surplus of 2.1 percent by FY2026/27. This adjustment involves increasing the ratio of revenue-to-GDP to 25 percent by 2025/26 through enhanced revenue administration and improved compliance (including by strengthening the revenue enhancement unit and revaluing real estate in the Family Islands for the property tax). In addition, ½ percent of GDP in additional capital expenditure and transfers are expected to be funded from lower current spending (despite the rising costs from an aging population, social spending needs). This fiscal path is expected by the authorities to bring central government debt to 68 percent of GDP by FY2026/27.

12. Assuming more realistic revenue forecasts, the fiscal deficit is likely to be closer to 2.6 percent of GDP in 2023/24. Over the medium-term, central government debt would fall to 80 percent of GDP by 2026/27[4] and gross financing needs would remain high (at around 20 percent of GDP) for the next several years. Even though, under this path, debt is judged to be sustainable, a faster reduction in debt would lessen the risk of sovereign stress, lower the interest burden (Annex III), and reduce the current account deficit. .

13. Tax and expenditure reforms would improve the progressivity of the fiscal system and reinforce debt sustainability. The implementation of the OECD global minimum corporate tax increases the urgency of introducing a well-designed corporate income tax and there is scope to increase the progressivity and efficiency of the tax system. Efficiency gains in spending programs and improving the financial position of SOEs would help offset the budgetary pressures from an aging population and create space for a modest increase in spending on education, healthcare, targeted social transfers, and infrastructure. Together these reforms could bring central government debt to around 50 percent of GDP by 2032/33.

[4] Consolidated public sector debt, which includes debt owed by SOEs (excluding the cross-holdings of debt between the central government and SOEs), would fall to 83.0 percent of GDP by 2026/27 from 89.5 percent of GDP in 2022/23 (see Annex III: Debt Sustainability Analysis).

Text Table 1. The Bahamas: Baseline and Active Scenarios, 2022/23–2032/33
(Percent of GDP)

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
Baseline Scenario											
Revenue	21.1	21.8	22.0	22.0	22.0	21.9	21.8	21.8	21.7	21.7	21.6
Current Expenditure	22.9	22.8	22.4	22.0	21.4	21.0	20.9	20.8	20.7	20.6	20.4
Capital Expenditure 2/	2.1	1.6	1.6	1.7	1.8	1.9	1.9	1.9	1.9	1.9	2.0
Overall fiscal balance	-3.9	-2.6	-2.0	-1.7	-1.2	-1.0	-0.9	-0.9	-0.9	-0.8	-0.8
Primary fiscal balance	0.3	1.7	2.4	2.6	2.8	2.9	2.8	2.8	2.7	2.6	2.5
Gross Financing Needs	22.4	25.9	21.8	19.9	19.0	22.0	22.4	21.5	19.6	22.9	22.8
Central government debt	84.2	83.2	81.9	80.8	79.5	78.1	76.6	75.1	73.6	72.2	70.7
Active Scenario: Fiscal Measures 1/											
Revenue	21.1	21.8	23.3	24.4	25.1	25.6	25.6	25.6	25.6	25.6	25.6
Current Expenditure	22.9	22.8	23.0	22.1	21.3	20.8	20.6	20.3	20.2	19.9	19.7
Capital Expenditure 2/	2.1	1.6	2.0	2.5	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Overall fiscal balance	-3.9	-2.6	-1.6	-0.2	0.9	1.7	2.0	2.2	2.4	2.6	2.8
Primary fiscal balance	0.3	1.7	2.8	4.1	4.8	5.5	5.5	5.5	5.5	5.5	5.5
Gross Financing Needs	22.4	25.9	21.4	18.4	16.9	19.2	19.2	17.5	15.2	17.9	17.3
Central government debt	84.2	83.2	81.5	78.9	75.6	71.5	67.3	63.1	58.8	54.3	49.9

Source: IMF Staff estimates.
1/ The active scenario assumes the implementation of fiscal consolidation, in line with the recommendations in Text Table 2, which increases the primary fiscal balance to 5½ percent of GDP over the medium-term.
2/ Capital expenditure excludes capital transfers to SOEs, which staff includes under current expenditure. Together, capital expenditure and capital transfers reach 3½ percent of GDP over the medium-term in the active scenario, up from 2½ percent of GDP under staff's baseline.

14. A tax reform should[5] (Text Table 2):

- *Introduce a corporate income tax*. Replacing the business license fee with a 15 percent tax on corporate profits for large corporations could raise an additional 1.4 percent of GDP and would be compatible with the OECD’s global minimum tax rules. Designing the profits tax as a cashflow tax that allows full expensing of investment and includes an unlimited carryover of losses would simplify implementation and prevent disincentivizing business investment. A lower tax rate could be provided for SMEs (instead of retaining the business license fee for small entities).

- *Introduce a tax on personal income (PIT)*. The PIT would have high standard deduction so as to impact only the top ten percent of earners and would be accompanied by a 5 percent tax on capital gains, dividends and interest income. Setting the marginal PIT rate equal to that of the corporate income tax rate would help reduce avoidance through the recharacterization of profits as labor income and would raise around 2 percent of GDP annually.

- *Increase the property tax rate for higher value residences* and remove the cap on the property tax liability on owner-occupied residences (0.1 percent of GDP).

[5] See IMF Country Report No. 22/131 for more detailed recommendations on tax and customs administration.

- *Eliminate tax expenditures* on gambling and lotteries which are currently not taxed at the 10 percent VAT (0.2 percent of GDP).

15. Greater cost recovery by public corporations would reduce the net subsidy they receive from the budget (Annex V).[6] Collecting payment from patients and enforcing fees for health services would reduce transfers to the Public Hospital Authority (PHA) by around 0.7 percent of GDP. A more graduated water rate based on usage would encourage conservation and reduce transfers to the Water and Sewerage Corporation by 0.1 percent of GDP. There is also scope to improve the operations, lower costs, and optimize the capital structure at the energy company to support the achievement of The Bahamas' energy policy goals.

16. Payroll contributions should be introduced for civil servant pensions and increased for the national pension system. The Bahamas operates a dual pension system – one for civil servants and one for all employees (the National Insurance Board, NIB). Defined pension benefits are paid by the NIB, based on the length of time employees pay contributions and a reference wage. For the NIB, contribution rates equal 9.8 percent of insurable wages while civil servants' pensions are paid from general tax revenues.[7] Under current policies, the assets of the NIB will be depleted by 2028[8]. Incrementally raising the contribution rate to the NIB for both public and private sector employees over the next 20 years to 15 percent would add 0.1 percent of GDP in spending (i.e., for the contributions for public workers) but would put the pension scheme on a sustainable footing.[9]

17. There is a need to increase spending on education, health, social transfers, and climate resilience (Text Table 2). Of particular importance would be investments to:

- Primary and secondary education (0.4 percent of GDP), including,
    - Increase student retention and expand primary education, including a gender-responsive focus on education programs aimed at improving boys' retention/completion rates to counteract "reverse" gender gap in education and employment.[10]
    - Undertake a national learning assessment of primary and secondary education and drawing on the results to identify shortcomings and better target K-12 spending.
    - Increase training for administrators and teachers, fill teacher shortages in key areas and support student remediation needs.

[6] See the Public Expenditure Review for The Bahamas (IDB, 2022).

[7] 3.9 percent for the employee and 5.9 percent for the employer.

[8] See Eleventh actuarial valuation of The National Insurance Board of The Bahamas as of 31 December 2018 (International Labour Organization, 2022).

[9] See IMF Country Report No. 22/132 for a more thorough review of issues and policy options for pension reform.

[10] See Box 4.

- Increase targeted social spending to the most vulnerable households (0.3 percent of GDP).
- Reprioritize healthcare spending to primary healthcare (rather than the current focus on tertiary care[11]).
- Undertake projects to accelerate the transition to renewable energy and build resilience to natural disasters, including through investments in resilient public housing to relieve housing shortages in the Family Islands (1.1 percent of GDP).

Text Table 2. The Bahamas: Recommended Fiscal Consolidation Measures
(Percent of GDP, deviations from staff's baseline)

	Annual Yields/Savings				
	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue Measures	**0.0**	**1.3**	**2.4**	**3.2**	**3.7**
Corporate Income Tax		0.0	0.8	1.2	1.4
Personal income tax		1.0	1.3	1.7	2.0
Real Property Tax		0.1	0.1	0.1	0.1
Tax expenditures 1/		0.2	0.2	0.2	0.2
Expenditure Measures	**0.0**	**-0.9**	**-0.9**	**-1.1**	**-1.1**
Public Hospital Authority		0.2	0.5	0.7	0.7
Water & Sewerage Corporation		0.0	0.0	0.1	0.1
Education		-0.4	-0.4	-0.4	-0.4
NIB contribution 2/		0.0	0.0	-0.1	-0.1
Social expenditure		-0.3	-0.3	-0.3	-0.3
Infrastructure investment		-0.4	-0.7	-1.1	-1.1
Total Fiscal Consolidation	**0.0**	**0.4**	**1.5**	**2.0**	**2.6**
Memorandum items					
Primary balance (baseline scenario)	1.7	2.4	2.6	2.8	2.9
Primary balance (active scenario)	1.7	2.8	4.1	4.8	5.5
Primary balance (2023/24 budget)	3.3	4.8	5.8	6.0	…

Sources: IMF staff estimates.

1/ Additional revenue from removing VAT exemptions on gambling

2/ Additional expenditure from increasing the contribution rate to the NIB

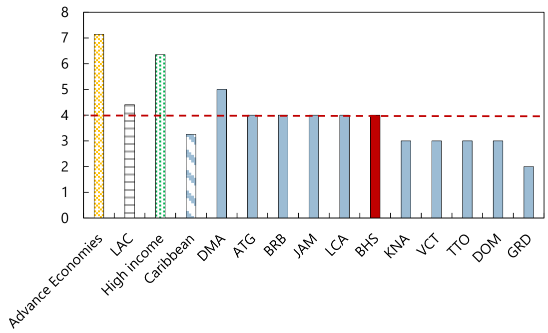
18. There is scope to increase revenues from other sources should the proposed fiscal measures prove difficult to implement or macroeconomic conditions worsen and widen the fiscal deficit. The introduction of corporate and personal income tax regimes would require broad public support as well as a significant investment to build human and technological capacity to administer the taxes. In the event that introducing a corporate and personal income tax proves infeasible, the government could introduce excise taxes on energy to reduce emissions, or raise the VAT rate to 15 percent, in line with regional peers. However, further increases in indirect taxes would be regressive and would need to be partially compensated with an increase in social transfers for the poor. Should economic activity slow faster than expected, the proposed tax reform could prioritize less procyclical measures while the authorities could phase-in or delay the increase in expenditure measures until revenues recover.

[11] 2022 IDB Public Expenditure Review for The Bahamas.

Figure 1. The Bahamas: Expenditure Policy Challenges, and Social and Health Outcomes

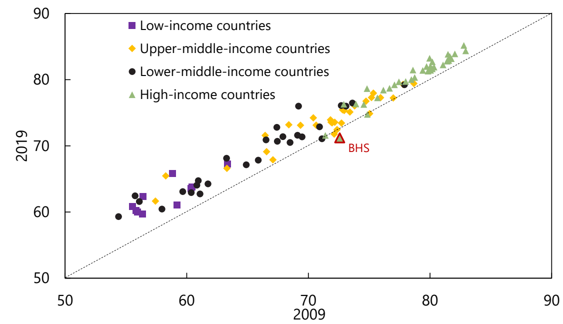
Health expenditure is low when comparing to high-income peers...

Public Health Expenditure 1/
(Percent of GDP)



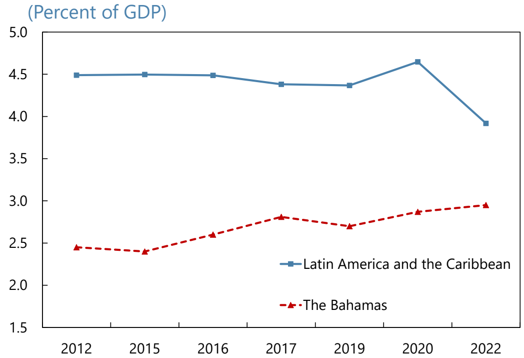
...and worsening outcomes in the last decade reflect it.

Life Expectancy at Birth 1/
(Years)



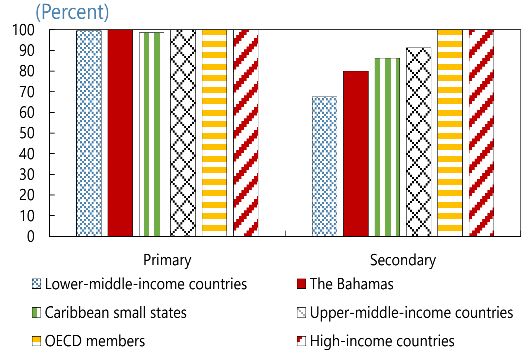
Expenditure in education has also been historically low...

Government Expenditure on Education
(Percent of GDP)

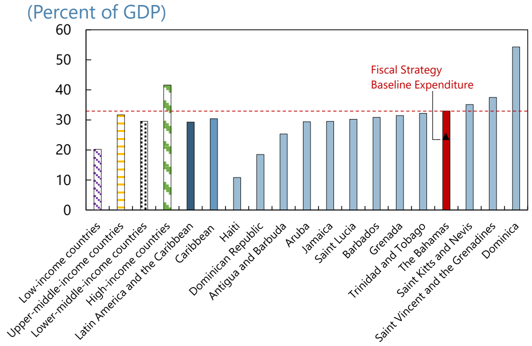


...while secondary enrollment rate is below the regional average.

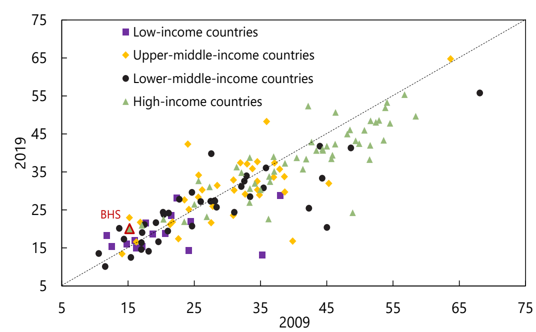
Gross Enrolment Ratio 2/
(Percent)



Government Expenditure in 2021
(Percent of GDP)



Government Expenditure Development 1/
(Percent of GDP)



Sources: World Bank database, IMF staff calculations, UNESCO Institute of Statistics, World Health Organization, and IDB Public Expenditure Review for The Bahamas.
1/ World Bank income classification.
2/ Gross Enrolment Ratio represents the number of children enrrolled at any age divided by the number of children age appropriate to the level in 2018.

19. A strengthened debt management strategy would improve access to financing and reduce rollover risks. The authorities' medium-term debt strategy relies on meeting most of its gross financing needs from domestic investors and MDBs. However, domestic financial institutions hold substantial excess liquidity and reforms to the primary, secondary, and money markets could help attract these funds into longer duration sovereign liabilities (Annex XI). Key changes should include instituting a market-based auction for domestic government securities, a greater focus on investor relations, and increasing the transparency and predictability of sovereign issuance plans (including by providing greater details on the annual borrowing plan).

20. Recent amendments to the new Public Finance Management (PFM) and Public Procurement Acts should strengthen the governance framework for Government Business Enterprises and statutory bodies and improve the transparency of public procurement. The publication of beneficial ownership information for public contracts funded by an international funding agency is now mandatory. This requirement should be expanded to all public contracts. Similarly, procurement documents, the audited financial statements of SOEs, and the final audits of COVID-related spending should all be published. An independent selection process for members of the fiscal council would help bolster the council's independence. The PFM Act requires a fiscal deficit of no more than 0.5 percent of GDP (with a 0.5 percent of GDP compliance margin) from 2024/25 onward and to bring central government debt below 50 percent of GDP by the date specified in the Fiscal Strategy Report.[12] The provision in the PFM Act that allows for temporary deviations from the targets should be implemented in a way that is time-bound and underpinned by clear guidance on the speed at which the authorities revert to their debt goals after the deviation.

Authorities' Views

21. The authorities stressed their resolve to keep debt on a downward trajectory and remain committed to their fiscal targets. They believe that their deficit target of 0.9 percent of GDP for 2023/24 is attainable with existing taxes, improved compliance in VAT and property taxes. New taxes such as the hotel condominium tax and the tourism environmental tax, in addition to the recent changes to existing taxes, including extending the business license fee to exempt companies, higher cap on real property taxes, are also expected to bolster revenues. Furthermore, additional streamlining of tax expenditures and impending adjustments to large multinational corporations' taxation in the context of the OECD Pillar II should generate additional medium-term revenues as a percentage of GDP. They are also planning to launch a strategic review of the tax framework in 2024. On expenditure, the authorities agree with the need to prioritize spending on education, healthcare, and social transfers, but caution that increased transfers to SOEs could threaten their fiscal objectives. On pensions, the authorities have drafted legislation to introduce a contributory pension system for civil servants and are planning to increase the contribution rate for the NIB from 2024/25. The authorities also agree that sustained fiscal consolidation would reduce both borrowing needs and costs but believe that spreads on their foreign currency debt are still too high given economic fundamentals.

[12] The 2022 Fiscal Strategy Report aims to reach the 50 percent of GDP debt target by 2030/31.

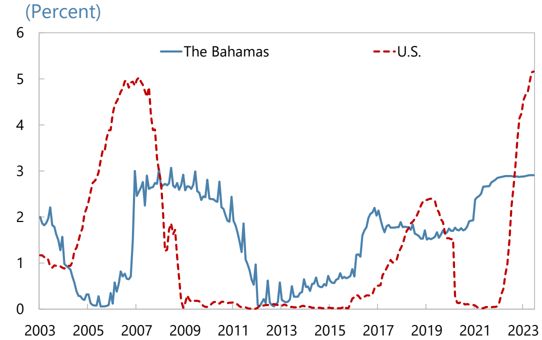
22. The central bank and the ministry of finance have introduced measures to strengthen the domestic debt market and improve cash management. The authorities agree that having more defined fiscal rules would support the achievement of their budgetary objectives but believe that current legislation is sufficiently robust. The authorities have made progress with operationalizing the new Public Procurement Act 2023 and started the publication of central government contracts, with plans to extend this to SOEs. Finally, the 2021 auditor general's report has been completed and is expected to be tabled in parliament.

B. Strengthening the Financial System

The Exchange Rate Peg and Monetary Management

23. Protecting the exchange rate peg requires the sustained preservation of international reserves. The recovery in tourism, external public sector borrowing, and the presence of long-standing capital flow management measures have supported international reserves accumulation, even though domestic short-term interest rates are currently 250bp below those in the U.S. However, capital flows remain sensitive to interest rate differentials, especially during uncertain market conditions (see Selected Issues Paper). Liquidity management operations and allowing short term interest rates to rise toward those in the U.S. would help mitigate these risks, reduce banks' carrying cost of reserves, and narrow the spreads between deposit rates and rates on loans to private borrower.

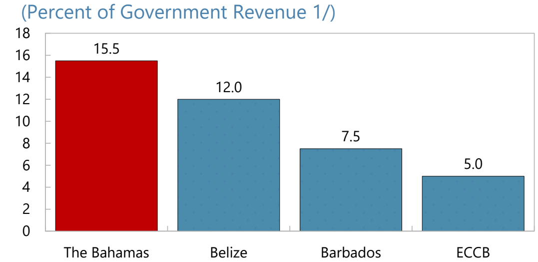
91-day Treasury Bill Rates
(Percent)



Sources: Central Bank of the Bahamas, Haver Analytics, and IMF staff calculations.

24. Central bank financing of the fiscal deficit should be reduced and more tightly circumscribed. Recent amendments to the Central Bank Act now prohibit the central bank financing the government via the primary bond market and impose a limit on the central bank's advances to the government (of 15½ percent of the government's ordinary revenues).[13] However, this limit on central bank financing is well above that of regional peers with pegged regimes. Also, the on lending of SDRs to the government is not included within this limit (following a recent amendment of

Limits on Central Bank Advances to the Government
(Percent of Government Revenue 1/)



Sources: Regional central banks, and IMF staff calculations.
1/ Government revenue is defined as average current revenue over the previous three financial years for Barbados and the ECCU, current revenues in the preceding financial year for Belize, and the lesser of average and estimated revenue for the Bahamas.

[13] Previously, the central bank's financing to the government was permitted to 30 percent of revenues and included advances plus lending through purchases of securities issued by the government. The amendments to the Central Bank Act 2023 have prohibited the bank's purchases in the primary market and reduced the limit on direct lending to the government to 15½ percent of revenues.

Central Bank Act). Consideration should be given to reducing the limit on central bank financing of the government, perhaps with the introduction of a well-designed "escape clause" that would be triggered in exceptional circumstances. Repaying central bank advances would require larger recourse to domestic market issuance but doing so would help strengthen the credibility of the exchange rate regime.

25. The Central Bank has implemented all the recommendations from the 2021 safeguards assessment. The first-time assessment found a well-established control environment, and financial reporting practices that are aligned with international standards. Notably, the CBOB Act has been amended consistent with the safeguards recommendation to enhance the autonomy of the central bank.

26. Usage of the Sand Dollar, the central bank digital currency (CBDC), remains limited. 30 percent of the population had a CBDC wallet by November 2023, up from 5 percent at the end of 2021, and merchant wallets increased to 1752 from 565 over the same timeframe. However, despite efforts to advertise the advantages of the Sand Dollar, it still represents less than 1 percent of total currency in circulation and the monthly transaction volume in 2023 is low (only B$25,000). The central bank continues to improve its capacity to identify and manage cybersecurity risks and has formalized the governance framework surrounding the Sand Dollar. Ongoing efforts to implement additional technical improvements could strengthen the security infrastructure and improve operational resiliency.

Authorities' Views

27. The authorities acknowledged the risks posed by the large domestic liquidity overhang. The central bank is formulating a medium-term strategy to reduce the overhang, which would include a gradual reduction in its holding of government debt, and increased shift in the existing holdings towards the private sector. The central bank is also open to issuing interest yielding instruments to reduce the excess reserves of banks, but stress that the liquidity management operations will be most effective in a framework of sustained fiscal consolidation, as the overhang has significant monetary financing component. They also acknowledged the importance of reducing the budget dependency on central bank financing to restore buffers in case of emergency. Regarding the sensitivity of capital flows to interest rate differentials, the authorities believe that the risk of sudden capital flight is insignificant, given existing capital flow management measures, and that interest rate differentials could only play a role in exceptional circumstances. The central bank highlighted that the growing diffusion of electronic wallets would support the expansion of the Sand-Dollar going forward and anticipates that the introduction of new features in 2024, coupled with ongoing educational campaigns, will further increase CBDC usage.

The Financial Sector

28. Systemic financial stability risks are moderate. Domestic banks have weathered the Dorian and Covid shocks thanks to strong liquidity and capital buffers, and profitability remains high.

The stress-tests run by the Central Bank in the summer of 2023 found that a large shock[14] would bring the systems capital adequacy down to 29.1 percent, about twice the level required by regulations. However, macro-financial linkages are complex owing to a diversified and sophisticated financial ecosystem, the dependency on the US economy, large holdings of low yielding claims on the public sector, and substantial climate risks. The hospitality and tourism sector are largely financed from FDI (rather than domestic credit). However, the mortgage market is having to contend with increasingly uninsurable natural disaster risks which could limit future lending[15] or make homeowners unwilling or unable to service their debt in the event of a disaster.

29. The regulatory framework for crypto assets requires additional strengthening. Significant deficiencies have been revealed in the regulation and oversight of crypto assets and trading platforms globally which led the authorities to propose amendments to their Digital Assets and Registered Exchanges (DARE) Act. Strengthening the regulation and supervision of crypto assets, including providing more resources for onsite inspections, is needed to tackle deficiencies in oversight and reduce reputational risks (see Annex. VI).

30. Progress has been made in implementing the 2019 FSAP recommendations but some areas remain to be addressed. A separate Resolution Unit within the central bank has been established but will require adequate staffing to become fully operational. Plans are underway to establish the Bahamas Financial Stability Council to improve interagency coordination and information exchange among financial stability regulators. There is a need to increase the coverage of deposit insurance for domestic banks (including for U.S. dollar deposits), funded through higher premiums levied on banks, and to enhance the Deposit Insurance Corporation's governance and operational structure. The collection of loan-level data by supervisors would assist in identifying systemic risks and, if needed, designing macroprudential policies to contain such risks.[16]

Authorities' Views

31. The authorities believe that their legislative and supervisory framework is robust enough to regulate the digital assets industry. The new DARE Act, 2023, broadens the definition of digital asset business activities, bolsters consumer and investor protection, as well as enhances risk management, and market innovation and development provisions. It also strengthens the financial and reporting requirements for digital asset businesses. The revised legislation is expected to be passed by the end of 2023 and the Securities Commission believes that it has sufficient resources to supervise the industry. In support of financial sector risk mitigation the central bank has also developed guidelines for supervised financial institutions engaging in digital asset activities, broadly subscribing to the philosophy of "same risk, same activity, and same treatment", adopted from the comprehensive standards on the prudential treatment of crypto assets recommended by the Basel Committee on Banking Supervision. The authorities also continue to review their existing AML/CFT

[14] A doubling and tripling of Domestic Systematically Important Banks NPLs (DSIBs).

[15] Private properties under a mortgage are currently required to have insurance.

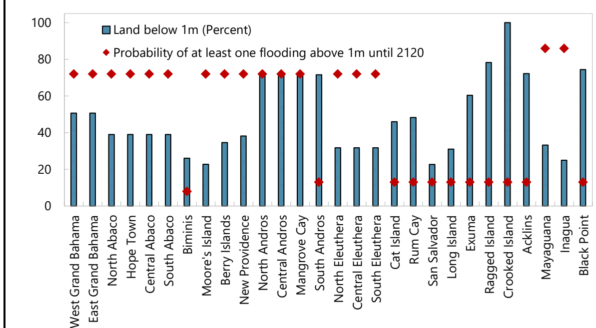
[16] The Central Bank of the Bahamas' macroprudential toolkit includes regulatory limits to leverage and lending.

framework and progress has also been made towards exiting the EU non-cooperative jurisdictions for tax purposes list. The authorities expect to be removed from this list in early 2024. The Deposit Insurance Corporation has approved an increase in the premiums levied on banks from 2023, but the authorities see no systemic risk from the absence of a safety net on U.S. dollar deposits.

C. Climate and Structural Policies

32. The Bahamas has a high vulnerability to climate change due to its flat and low-lying topography and propensity for hurricanes. The Bahamas faces one of the highest threats in the Caribbean region from rising sea levels[17] since one third of its land and one quarter of its population are less than 0.5m above sea-level. Investing in physical adaptation and building specialized capacity in the public sector to prepare for the impacts of climate change is vital (see Selected Issues Paper). Higher fiscal buffers are also needed, through both lower debt and immediate access to liquidity in the event of a natural disaster[18].

Expected Land Under Water in The Bahamas
(Percent)



Sources: Findings from Surging Seas at http://riskfinder.org/, a project of the sea level program at Climate Central (http://climatecentral.org/), Kopp et al. (2014). and IMF staff calculations.

33. Increasing recourse to lower cost climate finance would help The Bahamas improve both its fiscal and environmental sustainability (see Box 3). Building credible measurement, reporting and verification frameworks, developing projects with SDG co-benefits, and partnering with established institutions in climate finance can both help ensure that projects can be properly assessed through an environmental lens and underpin a reputation for the high quality of green / blue debt instruments. Additionally, developing an ESG framework that introduces reporting standards on sustainability disclosures for companies[19] would help catalyze funding for private climate projects.

34. Accelerating the transition to renewable energy would support private sector growth and reduce the country's vulnerability to terms of trade shocks. Accelerating solar projects and improving the national electricity company's governance structure could help lower costs, increase the continuity of energy supply, and raise the share of renewables toward the authorities' goal of 30 percent by 2030. A higher base rate for electricity would help cover the cost of needed investments in renewable energy, while private investments in renewables—such as roof-top solar—should be

[17] See "Sea-Level Rise Threats in the Caribbean" (IDB 2018).

[18] IMF Country Report No. 2022/131.

[19] The International Sustainability Standards Board (from the IFRS Foundation) is developing cost-effective sustainability disclosure standards.

incentivized[20] through direct subsidies or tax credits. The authorities should work to expand private-public partnerships related to the energy sector, especially on remote islands.

35. Market failures in the insurance sector need to be addressed. Property and marine insurance premiums are expected to keep rising due to the high costs of reinsurance. Currently, most homeowners only hold insurance when they have an outstanding mortgage. As a result, an extreme weather event would have significant consequences for the population (and ultimately the fiscal position). A minimum level of private sector property insurance should be made mandatory[21], and the authorities should establish clear land-use requirements. The partial public funding of insurance (such as through the CCRIF micro-insurance “Livelihood Protection Policy”) could be expanded. Also, the government should keep purchasing parametric insurance[22] to secure rapid payments in the case of a disaster. The government should work with insurance companies to incentivize ex-ante risk mitigation[23] and to pay property owners an additional payment if, after a disaster, they rebuild in a more resilient way[24]. Finally, the authorities could consider designing financial instruments that partially subsidize property owners who set aside resources to self-insure.

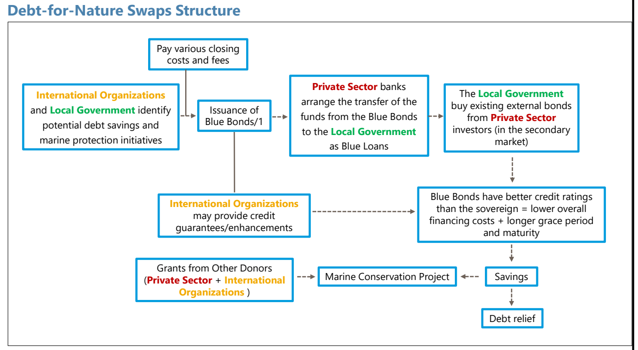
Box 3. The Bahamas: Climate Finance Opportunities

The Bahamas has the second largest coral reef in the Atlantic and one of the most important seagrass meadows in the world[1]. Both ecosystems are important sea life refuges and carbon sinks. There are several instruments that could help protect these natural resources:

Debt-for-nature swaps. Through the issuance of guaranteed blue/green bonds, countries can buy back existing public external debt at a discount or replace expensive debt with cheaper debt. Some part of the fiscal savings that are generated should be allocated to conservation projects.

Blue carbon credits[2] are created by growing/conserving carbon-absorbing plants

Debt-for-Nature Swaps Structure



Source: Regional Economic Outlook Western Hemisphere Department – October 2023.
Note: 1/ Blue Bonds: securities that commit the borrower to use a large part of the proceeds for marine conservation projects.

[1] The Bahamas has five percent of the world’s coral reefs and the world’s third longest barrier reef (Simpson et al., 2009).

[2] A carbon credit is a tradable certificate that represents one ton of CO2-equivalent emission reduced, avoided, or sequestered through technology and nature or technology-based solutions.

[20] In 2023 the authorities signed a contract with the Caribbean Centre for Renewable Energy and Energy Efficiency (CCREEE) to produce an integrated resource and resilience plan (IRRP).

[21] IMF Country Report No. 2021/24.

[22] A type of insurance contract that insures a policyholder against the occurrence of a specific event and pays out a set amount based on the magnitude of the event (rather than based on the assessed losses in a traditional policy).

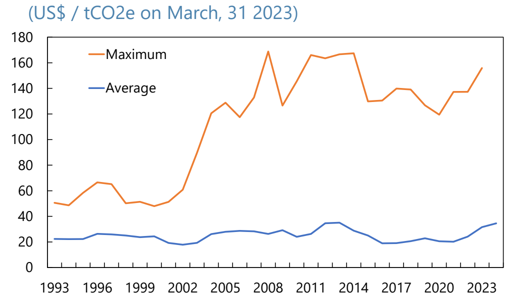
[23] In the US, insurers are required to provide wildfire safety discounts to property owners who implement mitigation measures in their properties.

[24] An insurance scheme in the UK called Build Back Better (BBB) offers up to £10,000 in additional payments to policyholders for flood resilience measures.

Box 3. The Bahamas: Climate Finance Opportunities (Concluded)

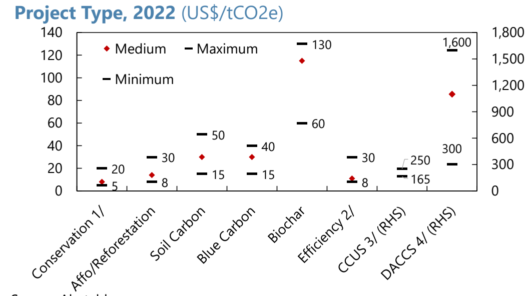
in coastal ecosystems (e.g., mangroves and seagrasses). The Bahamas' seagrass has the potential to capture up to 123 million tons of CO2 per year. Projects in Colombia, Sweden, and Norway have raised revenues by selling carbon credits and could be replicated in The Bahamas. International carbon credits could be sold in voluntary markets, but it will be important to adhere to international best practices[3] to bolster The Bahamas' reputation. The authorities have passed a bill to regulate this market (Climate Change and Carbon Markets Initiative Bill) and are aiming to accredit their seagrass to be eligible as a blue carbon credits.

Carbon Credit Prices
(US$ / tCO2e on March, 31 2023)



Source: The World Bank.
Note: Prices are not necessarily comparable between carbon pricing initiatives because of differences in the number of sectors covered and allocation methods applied, specific exemptions, and different compensation methods. Missing data was completed with a linear interpolation.

Prices in the Voluntary Carbon Market by Project Type, 2022 (US$/tCO2e)



Source: Abatable.
Notes: 1/ Forest Conservation (REDD+); 2/ Household Devices and Fuel Efficiency; 3/Carbon Capture Utilization and Storage; 4/ Direct Air Carbon Capture and Storage.

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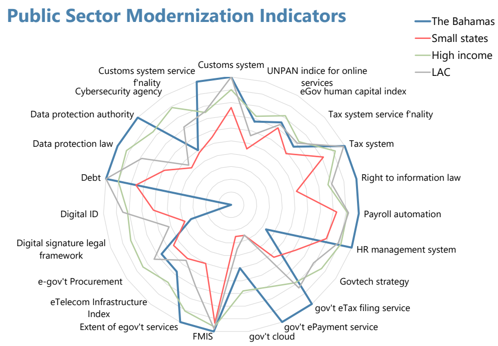
[3] The Oxford Principles for Net Zero Aligned Carbon Offsetting and the Harvard Five Principles of a Functioning Offset Marketplace outline several best practices.

Public Sector Modernization Indicators

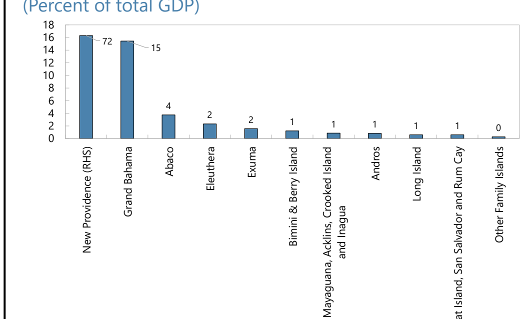


Sources: IDB Public expenditure review for The Bahamas, Demer et al/World Bank, Govtech 2020 dataset.
Note: The closer to the outer circle, the more developed the country is on the given indicator.

36. The government has made significant progress in the digitalization of public services. The ongoing digitalization of government registration/filing processes should be completed. An inter-agency system for digital information exchange would increase government efficiency and improve the quality of public sector data, supporting tax enforcement and a better targeting of social transfers.

37. There is a need to close data gaps and publish the full range of statistics, including gender-disaggregated data, according to international standards. Employment, GDP, and inflation data are published with long lags, making it difficult to assess economic developments in a timely manner. Continuing to improve data quality and timeliness is essential to catalyze foreign investment.

Real GDP by Island in 2022
(Percent of total GDP)



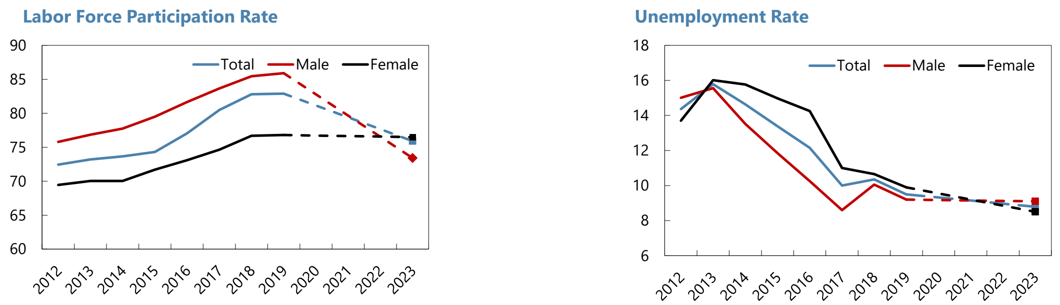
Sources: National authorities, and IMF staff calculations.

38. The results of the recent census should be drawn upon to better target social policies. There is a high degree of heterogeneity among islands in

The Bahamas, with more than 70 percent of the economic activity concentrated in New Providence. The recent census can provide important information to design policies that best serve each region and to identify gender and other socioeconomic inequities (see Box 4).

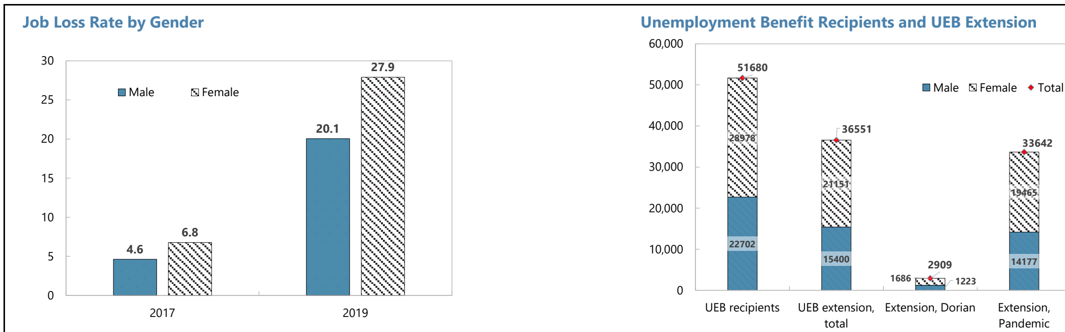
Box 4. The Bahamas: Gender Gap in Labor Markets

In 2023, for the first time in over a decade, labor force participation is higher and the unemployment rate is lower for women than men. This is largely due to the sectoral strength of various service industries that disproportionately employ women. Women constitute almost two-thirds of public employees and over one half of private employees (although the self-employed are predominantly male). Women are on average more highly educated, with 40 percent having tertiary education (29 percent for men).



Sources: Bahamas National Statistical Institute (BNSI), and IMF staff calculations.
Note: Values for 2020, 2021, and 2022 are not available. Value for 2023 corresponds to May 2023.

During COVID, unemployment benefits disproportionately supported women. 28 percent of women employees received benefits (20 percent for men) due to the higher share of females working in the most affected service industries. Furthermore, over two thirds of benefit recipients received an extension during COVID, a majority of which were women (see Figure).



Sources: NIB, BNSI, and IMF Staff calculations.
Note: Left Panel: UEB recipients for 2017 and 2019 are the sum from June 2017 through May 2019 and in June 2019 through May 2021, respectively. Right Panel: UEB recipients between September 2019 and December 2021.

Authorities' Views

39. The authorities are continuing their efforts to support climate change mitigation and adaptation. They are on track to achieve the 30 percent of renewable energy target by 2030, given the number of renewable energy projects earmarked for implementation. Adaptation efforts focus on improving the resilience of healthcare facilities and supporting economic development through resilient infrastructure development. The authorities continue to work to leverage climate finance opportunities. The Bahamas Sustainable Investment Program will provide a roadmap for investment related to attaining the SDGs and efforts made to meet the highest standards for their carbon credit issuance plans. The authorities echo staff's concerns about the potential impacts of the rise in reinsurance costs for The Bahamas, especially with insurance cost already elevated and rising. Further, the Government's digitization efforts continue with a view to enhance public sector efficiency and reduce leakages. To this end, progress has been made towards launching a single digital gateway for tax payments that should improve administration and compliance.

STAFF APPRAISAL

40. The Bahamian economy continues to strengthen. A record number of tourists visited the country in 2023 and output has exceeded the pre-pandemic trend. The unemployment rate has fallen to its lowest level since 2008. Inflation has been on a downward path since mid-2022. Risks to the outlook are skewed to the downside and include an economic slowdown in tourism source markets and the potential for costly natural disasters.

41. Debt is assessed to be sustainable but a faster reduction in debt-GDP would lessen the risk of sovereign stress. Based on current policies, staff expects the fiscal deficit at 2.6 percent of GDP and debt at 83 percent of GDP in 2023/24. Debt is expected to fall to 78 percent of GDP by 2027/28 but average gross financing needs will be high for several years (at around 20 percent of GDP).

42. The government's medium-term fiscal targets need to be backed by credible measures. The implementation of the OECD global minimum corporate income tax provides an opportunity for The Bahamas to introduce a well-designed corporate income tax and a personal income tax that is levied on the very highest earners. There is scope to rationalize existing tax preferences and exemptions. Efficiency gains in spending and improvements in the financial management of SOEs would support debt reduction.

43. Better debt management could reduce the vulnerabilities created by the current high rollover needs. The central bank should extend competitive auctions to domestic government securities across maturities, improve investor relations and increase the transparency and predictability of sovereign issuance plans. Central bank financing of the deficit should be reduced by lowering the limit on central bank advances and allowing for a well-defined "escape clause" to that limit that would apply in exceptional circumstances (e.g. natural disaster).

44. Improving fiscal transparency and accountability would help strengthen credibility. The publication of beneficial ownership information should be made standard for all private providers that obtain public contracts. Procurement documents and audited financial statements of SOEs should be published on a regular basis. An independent process should be put in place to select members of the fiscal council. Finally, any deviations from the targets mandated in the PFM Act should be time-bound and underpinned by clear guidance on the speed at which the authorities will revert back to their goals.

45. The exchange rate peg to the U.S. dollar has served as an anchor of macroeconomic stability. Capital flows can be sensitive to interest rate differentials, especially during periods of uncertainty or volatility. Tightening liquidity and allowing interest rates to rise toward U.S. levels would help mitigate those risks, reduce banks' carrying cost of reserves, and narrow the spreads between rates on deposits and on loans to private borrowers. The external position in 2023 is assessed as moderately weaker than warranted by fundamentals and desirable policies. Investing in renewable energy and ensuring a faster fiscal consolidation, mainly through a comprehensive tax reform, would increase productivity and economic diversification, narrow external imbalances, protect the level of international reserves, and ensure debt sustainability.

46. Deeper efforts are recommended to analyze, monitor, and mitigate financial stability risks from crypto assets. Recently legislated amendment to the DARE Act should be accompanied by additional resources for onsite inspections that would help identify and rectify operational deficiencies. Further amendments should be considered to align the framework with global standards (such as the Financial Stability Board's high-level recommendations on crypto assets, the Basel Committee standards on the prudential treatment of crypto exposures, and the prevailing international standard on AML/CFT matters set by the Financial Action Task Force).

47. The progress made by the authorities in implementing the 2019 FSAP recommendations are welcome but some areas remain to be addressed. The central bank Resolution Unit and the Financial Stability Council should be adequately staffed and made operational. Deposit insurance coverage should be increased and funded from higher premiums levied on banks' deposit liabilities. The governance and operational structure of the Deposit Insurance Corporation could also be strengthened. The collection of loan-level data by supervisors would assist in identifying systemic risk and designing macroprudential policies.

48. New avenues for climate finance have the potential to bolster fiscal and environmental sustainability. Building credible measurement, reporting and verification frameworks for climate-related projects, developing projects that have co-benefits across other SDG, and partnering with established institutions in climate finance will help set high standards in assessing projects. Creating a credible domestic framework for climate-related investments would help catalyze investor interest in green and blue debt instruments as well as the sale of carbon credits.

49. Property insurance premiums have been steadily increasing due to the high costs of reinsurance. This is leading to decreased insurance coverage which, in the event of an extreme weather event, can potentially lead to significant losses for the population and, ultimately, create large fiscal needs. Partial public funding of micro-insurance products could be expanded in combination with a public mandate to carry a minimum level of property insurance. Together with land-planning and incentives for resilient infrastructure investments, increased fiscal buffers will be needed to provide some relief to those that may be affected in a future disaster.

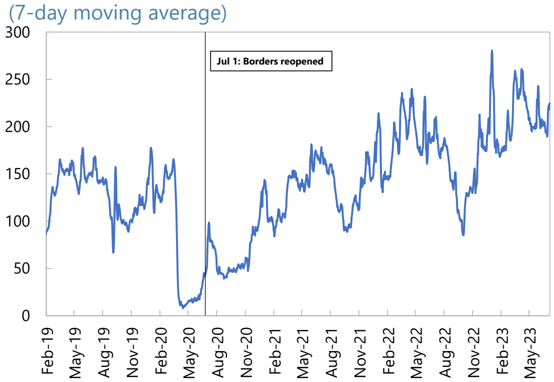
50. Improving potential growth and strengthening social inclusion will require a reorientation of spending toward education, healthcare, targeted social transfers and infrastructure. Problems with the reliability of energy transmission and shortages of skilled labor should be addressed. Closing remaining gaps in digitalization of public services and data gathering can help reduce frictions that dis-incentivize private investment as well as improve the targeting of social assistance programs. Accelerating the transition to renewable energy has the potential to provide more affordable energy and increase the resilience of the energy infrastructure.

51. It is proposed that the next Article IV consultation with The Bahamas take place on the standard 12-month cycle.

Figure 2. The Bahamas: Real Sector Developments

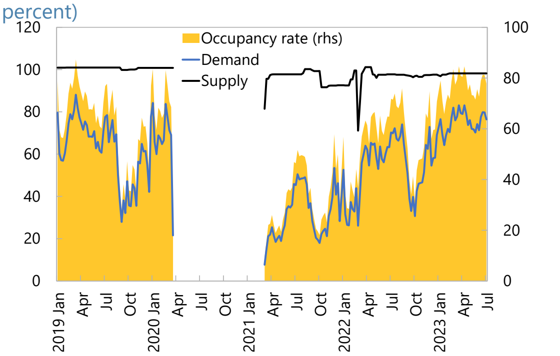
Flight arrivals are well above pre-pandemic levels…

Inbound Flights
(7-day moving average)



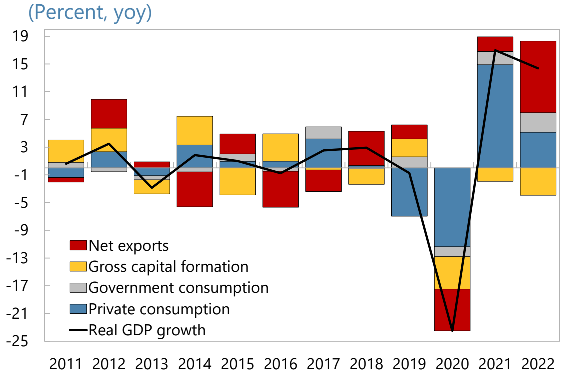
…and hotel occupancy is approaching capacity.

Hotel Demand and Supply
(Left axis: number of nights per week in thousands; right axis: percent)



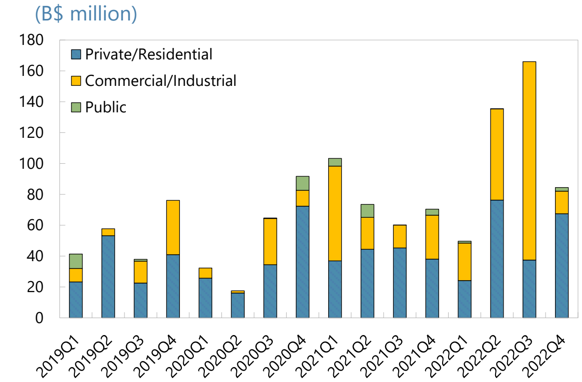
The Bahamian economy experienced a strong rebound…

Contributions to Real GDP Growth
(Percent, yoy)



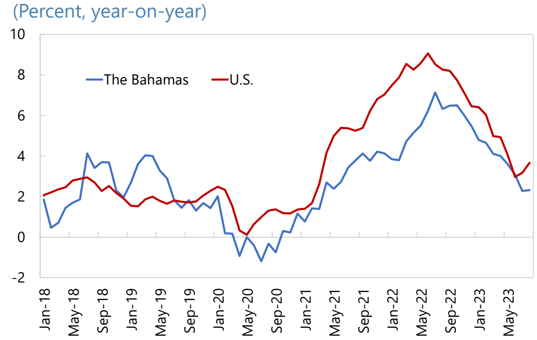
…supported by a recovery in construction.

Value of Construction Completions Issued
(B$ million)



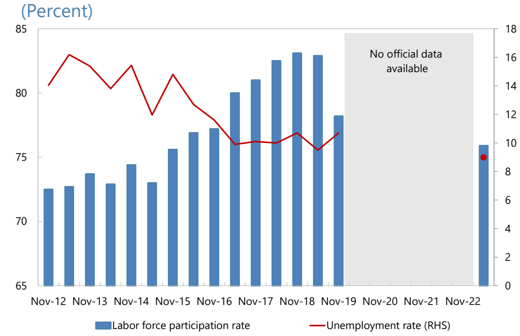
Disinflation is well underway.

Headline Inflation
(Percent, year-on-year)



The unemployment rate is at its lowest level in more than a decade, but participation has not yet fully recovered.

Labor Force Participation and Unemployment Rate
(Percent)

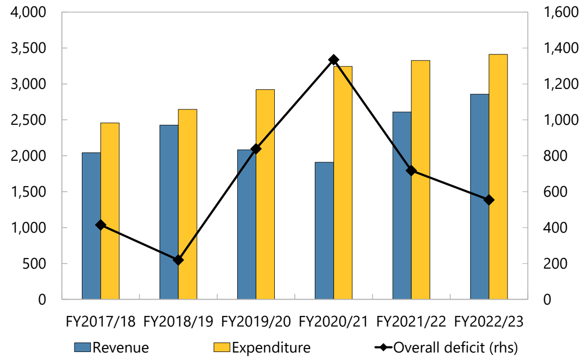


Sources: Ministry of Tourism, Bahamas National Statistical Institute, FlightRadar24, Google, Smith Travel Research (STR) database, and IMF staff calculations.

Figure 3. The Bahamas: Fiscal Developments

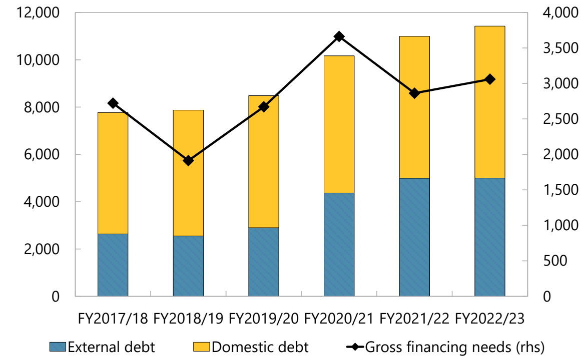
The fiscal situation has improved…

Fiscal Operations
(Millions of Bahamian dollars)



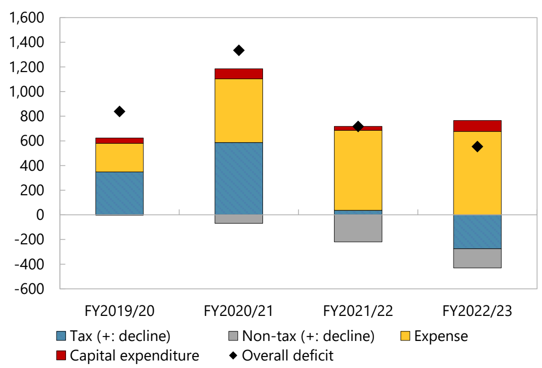
…but debt and gross financing needs remain high.

Government Debt and Gross Financing Needs
(Millions of Bahamian dollars)



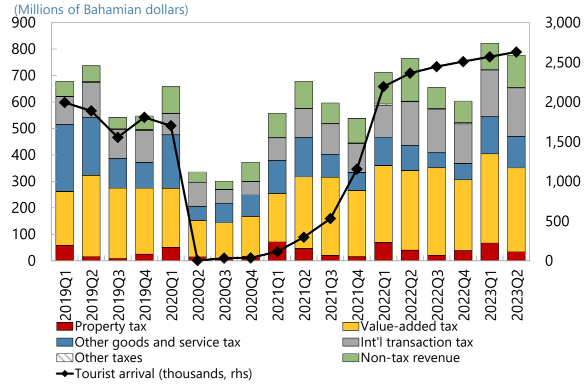
Revenues have contributed to the fiscal improvement…

Contributors to Deficit Expansion
(Millions of Bahamian dollars, relative to FY2018/19)



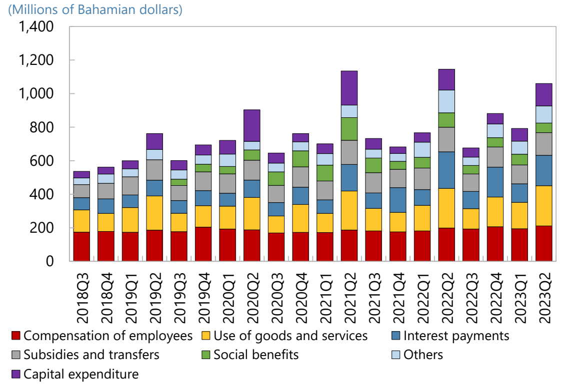
… mainly due to a strong economic recovery.

Total Revenue
(Millions of Bahamian dollars)



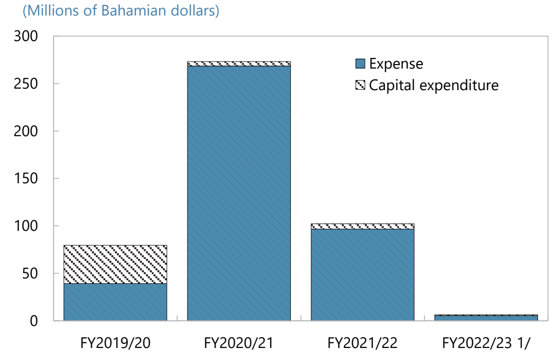
Expenditure levels stabilized in 2022/23…

Total Expenditure
(Millions of Bahamian dollars)



… in part due to a reduction in pandemic-related support.

Pandemic-Related Expenditure
(Millions of Bahamian dollars)



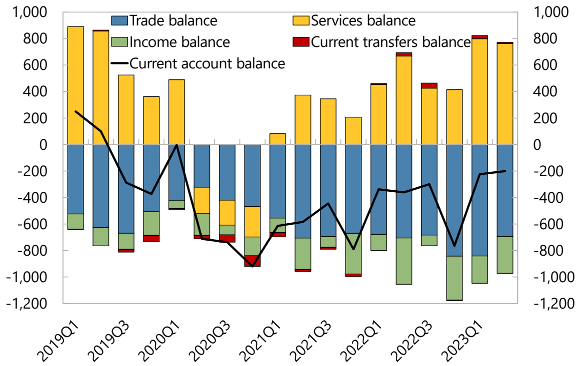
Sources: The Bahamian authorities, and IMF staff calculations.
1/ July 2022–March 2023

Figure 4. The Bahamas: External Sector Developments

The current account deficit started to decrease…

Current Account Balance

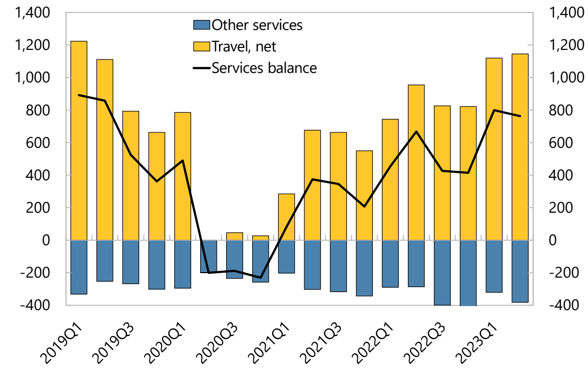
(B$ billions)



… driven by the recovery in travel receipts.

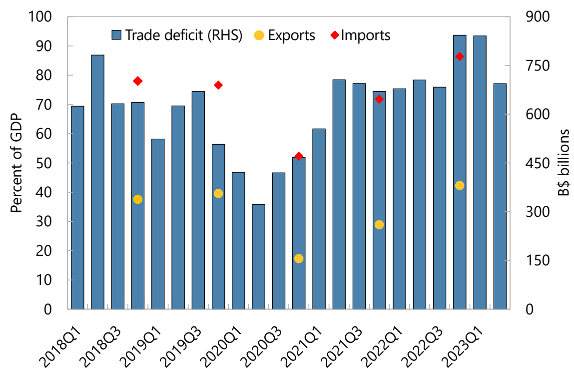
Services Balance

(B$ billions)



Exports surpassed pre-pandemic levels…

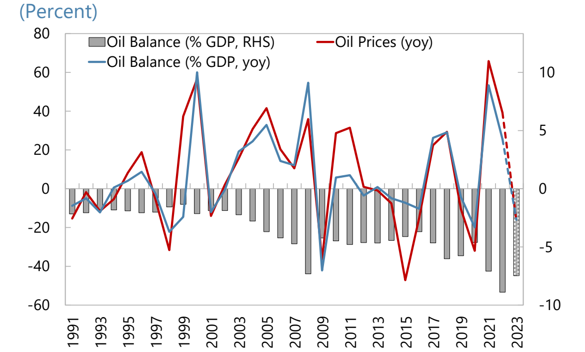
Trade Deficit



…but high international oil prices hampered the recovery in the trade balance.

Oil Trade Balance and International Oil Prices

(Percent)

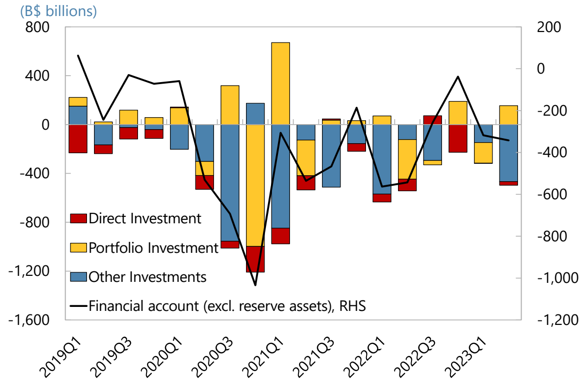


Sources: WEO database, National authorities, and IMF staff calculations.

Net capital inflows financed the trade deficit…

Capital Flows 1/

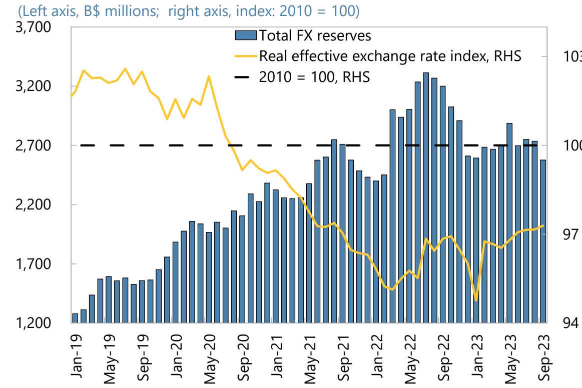
(B$ billions)



… and foreign exchange reserves remained well supported.

REER and Reserves

(Left axis, B$ millions; right axis, index: 2010 = 100)

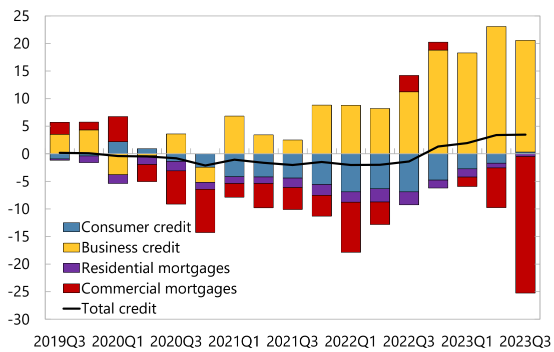


Sources: Ministry of Tourism, Bahamas National Statistical Institute, and IMF staff calculations.
1/ Negative signs means a capital inflow; positive sign means a capital outflow.

Figure 5. The Bahamas: Financial Sector Developments

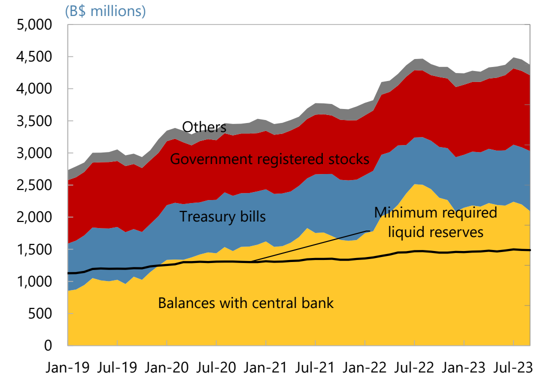
Private sector credit remains depressed…

Credit Growth by Sector 1/
(Percent, yoy)



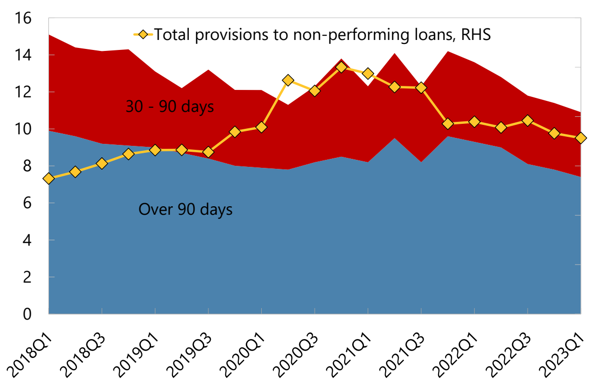
…and liquidity is ample.

Banking Sector Liquid Assets
(B$ millions)



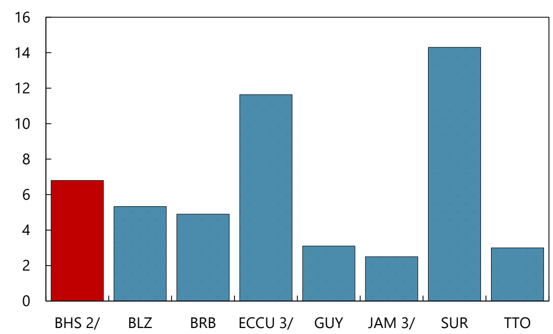
NPLs have been decreasing since 2021…

Non Performing Loans (NPLs)
(Percent of total loans)



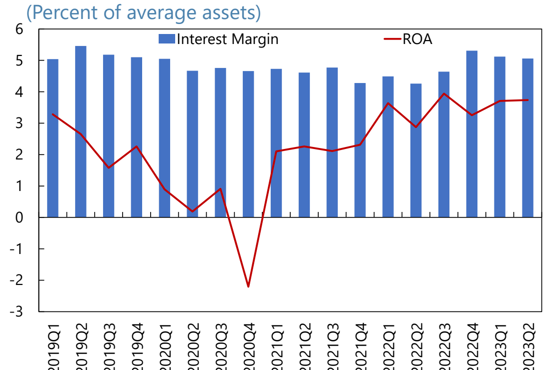
… but remain higher than most regional peers.

Banking Sector NPLs - 2023Q3
(Percent of total loans)



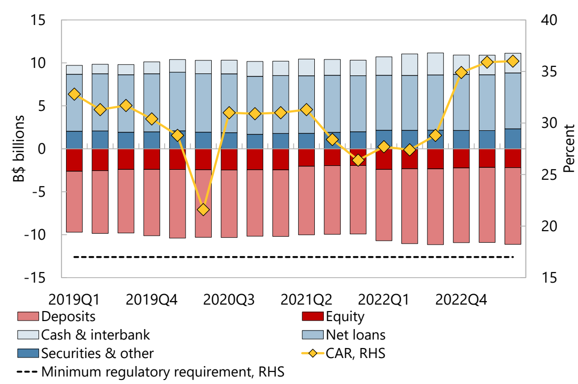
Banks' profitability recovered…

Bank's Profitability
(Percent of average assets)



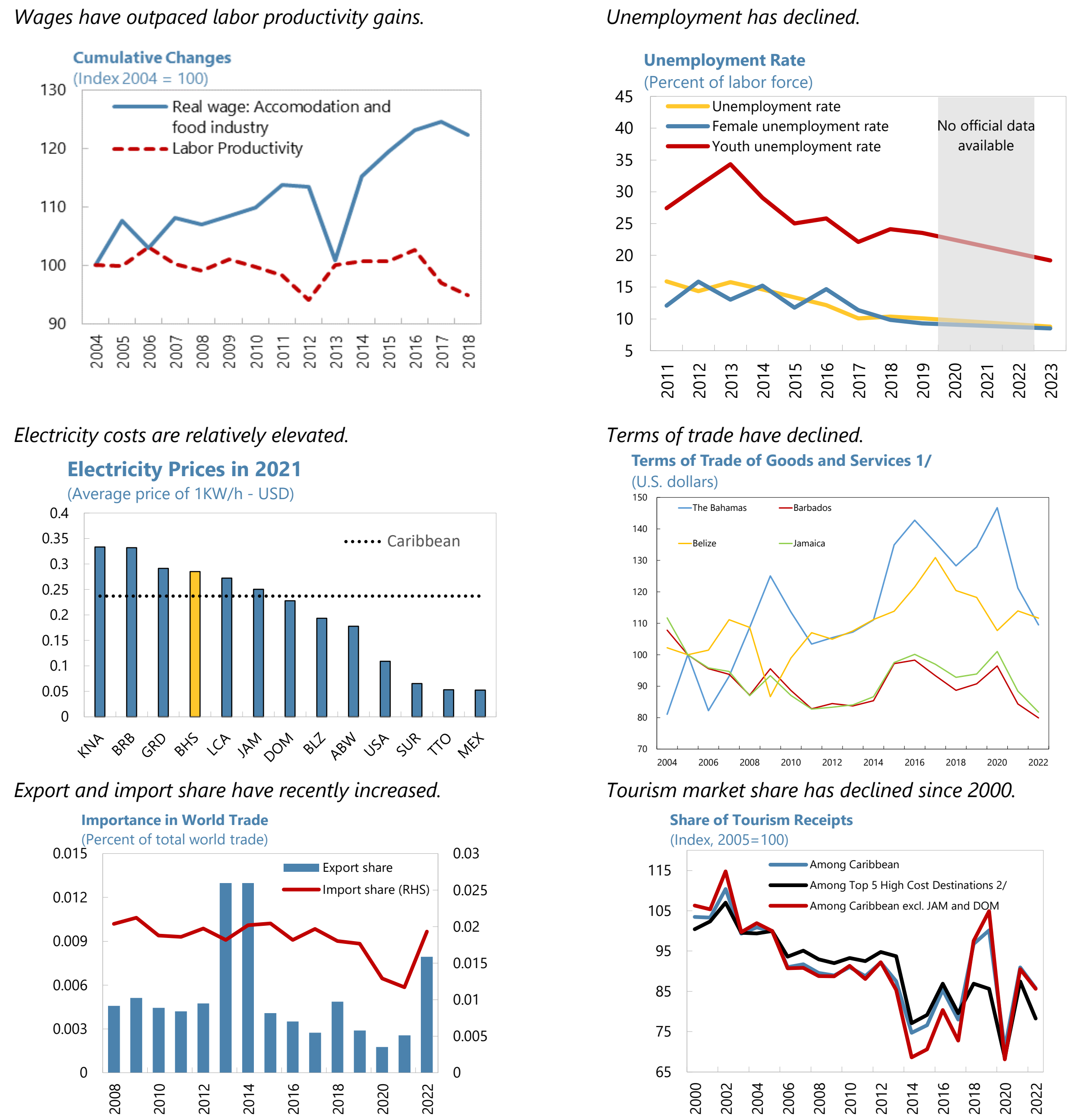
… with capital ratios at twice the regulatory minimum.

Banks' Balance Sheets



Sources: CBOB, Caribbean central banks, and IMF staff calculations.
1/ A stock of U.S. dollar loans previously classified as nonresident was reclassified as resident loans from Q4 2022.
2/ NPLs as a ratio of private sector loans
3/ As of June 2023

Figure 6. The Bahamas: Competitiveness Indicators



Sources: The Bahamian authorities, WDI, DoT and BOP database (IMF), Cable.co.uk., and IMF staff calculations.
1/ Calculated as the ratio of export unit value index to import unit value index.
2/ Includes Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and The Bahamas.

Table 1. The Bahamas: Selected Social and Economic Indicators, 2018–28

I. Social Indicators

GDP (US$ millions), 2022	12,897	Poverty rate (percent), 2017	14.8
GDP per capita (US$), 2022	32,299	Unemployment rate (percent), Mar 2023	8.7896
Population (thousands), 2022	399	Infant mortality rate (per 1,000 live births), 2021	11.4
Life expectancy at birth (years), 2020	74.1	Human development index (rank), 2021	55
Adult literacy rate, 15 & up (percent), 2007	96		

II. Economic Indicators

	Average						Est.	Projections				
	1991-2018	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(Annual percentage changes, unless otherwise indicated)											
Real Sector												
Real GDP	1.5	2.9	-0.7	-23.5	17.0	14.4	4.3	2.3	1.8	1.6	1.5	1.5
Nominal GDP	3.3	3.3	3.2	-25.3	18.2	11.9	7.5	5.2	4.2	3.7	3.5	3.6
GDP Deflator	1.8	0.3	4.0	-2.3	1.0	-2.2	3.1	2.9	2.3	2.1	2.0	2.1
Consumer Price Index (Annual average)	2.1	2.3	2.5	0.0	2.9	5.6	3.4	3.1	2.6	2.2	2.1	2.1
Consumer Price Index (End of period)	2.0	2.0	1.4	1.2	4.1	5.5	3.6	2.9	2.4	2.1	2.1	2.0
Unemployment rate (In Percent)	11.1	10.4	10.1	26.2	17.6	10.8	8.8	8.8	8.9	9.0	9.1	9.2
Gross National Saving rate (Percent of GDP)	23.3	16.7	25.5	4.4	5.3	14.9	16.2	17.2	18.7	18.9	18.5	18.4
Investment rate (Percent of GDP, constant price)	32.3	26.2	27.7	27.8	26.4	23.1	22.4	23.3	24.5	24.6	24.0	23.8
Financial Sector												
Credit to the Nonfinancial Public Sector	10.5	6.6	1.5	-7.8	15.6	10.9	7.2	5.4	4.6	3.9	2.9	2.3
Credit to the private sector	4.8	-1.6	0.1	-2.1	-1.5	-0.3	-0.2	0.0	0.1	0.1	0.0	0.1
External Sector												
Exports of Goods and Services	4.0	26.4	8.7	-67.3	97.2	63.7	17.0	7.4	5.4	4.4	4.0	3.7
Of which: Travel Receipts (Gross)	4.2	27.2	10.7	-76.6	140.0	81.8	21.7	8.6	6.0	4.9	4.5	4.0
Imports of Goods and Services	14.2	5.0	-5.4	-29.5	45.0	15.0	11.5	7.0	4.4	4.1	3.7	3.5
	(In percent of GDP, unless otherwise indicated)											
Central Government 1/												
Revenue and Grants	13.4	16.4	18.6	18.5	18.8	21.1	21.1	21.8	22.0	22.0	22.0	21.9
Expenditure	15.5	19.7	20.3	25.9	31.9	26.9	25.0	24.4	24.1	23.7	23.2	22.9
Expense	13.9	17.9	18.8	23.8	29.2	25.1	22.9	22.8	22.4	22.0	21.4	21.0
Net Acquisition of Nonfinancial Assets	1.7	1.8	1.5	2.1	2.7	1.8	2.1	1.6	1.6	1.7	1.8	1.9
Overall Balance	-2.2	-3.3	-1.7	-7.4	-13.1	-5.8	-3.9	-2.6	-2.0	-1.7	-1.2	-1.0
Primary Balance	-0.5	-0.8	0.8	-4.4	-9.0	-1.3	0.3	1.7	2.4	2.6	2.8	2.9
Central Government Debt	29.3	62.4	60.3	75.3	100.0	88.9	84.2	83.2	81.9	80.8	79.5	78.1
External Sector												
Current Account Balance	-5.8	-9.5	-2.2	-23.4	-21.1	-8.2	-6.2	-6.1	-5.8	-5.7	-5.5	-5.5
Change in NIR 2/	-0.1	-1.7	4.3	6.4	0.4	1.4	1.1	0.5	-0.6	0.0	0.1	0.0
Central Government External Debt	6.0	20.5	19.7	41.3	37.7	37.6	36.7	35.9	35.4	34.8	34.2	33.5
Memorandum Items												
Gross International Reserves												
(End of period; millions of U.S. dollars)	1082	1,196	1,758	2,382	2,433	2,611	2,769	2,836	2,746	2,739	2,758	2,756
(In months of next year's G&S imports)	5.2	3.0	6.2	5.8	5.1	4.9	4.9	4.8	4.5	4.3	4.2	4.0
GDP (In millions of Bahamian dollars)		12,654	13,059	9,755	11,528	12,897	13,865	14,590	15,198	15,760	16,312	16,905
Output gap (Percent)		1.6	0.0	-18.8	-9.0	-1.5	0.0	0.1	0.1	0.1	0.0	0.0

Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; and Fund staff projections.

1/ The data refer to fiscal years ending on June 30.

2/ Net International Reserves.

Table 2a. The Bahamas: Operations of the Central Government, FY2019–28 1/

(In millions of Bahamian dollars)

				Est.	Proj.				
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue	2,082	1,909	2,609	2,856	3,104	3,285	3,407	3,522	3,638
Taxes	1,850	1,612	2,162	2,474	2,707	2,859	2,965	3,065	3,165
Taxes on property	100	143	147	162	195	204	212	220	228
Taxes on goods and services 2/	1,340	1,167	1,492	1,630	1,774	1,887	1,962	2,033	2,107
of which: VAT	876	740	1,136	1,252	1,355	1,447	1,503	1,557	1,613
Taxes on international trade and transactions 2/	403	299	512	675	730	759	782	802	822
Other taxes	7	3	11	8	8	8	9	9	9
Grants	0	0	0	1	1	1	1	1	1
Other revenue	232	297	447	381	397	425	441	456	472
Expenditure	2,921	3,244	3,327	3,389	3,469	3,586	3,665	3,719	3,805
Expense	2,684	2,969	3,102	3,107	3,245	3,341	3,400	3,433	3,495
Compensation of employees	762	701	737	805	832	851	867	884	899
Goods and Services	466	487	478	578	619	635	649	663	677
Interest Payments	345	423	552	573	610	661	666	643	653
Subsidies	427	474	496	465	467	477	485	493	501
Grants	110	133	170	101	56	57	58	59	59
Social Benefits	188	405	286	227	239	242	242	247	253
Other Expense	386	346	383	358	422	418	433	443	454
of which: Transfers to public entities	151	96	59	45	88	78	96	98	100
Net acquisition of nonfinancial assets	236	275	225	282	224	245	265	287	310
Overall Balance	-839	-1,335	-717	-533	-364	-301	-258	-197	-166
Primary Balance	-493	-912	-166	40	245	360	408	446	486
Net acquisition of financial assets	-171	368	175	-107	60	60	46	46	46
Net incurrence of liabilities	668	1,703	893	427	424	360	304	244	213
Debt securities	187	834	680	-295	181	205	173	139	121
Loans	481	869	212	731	243	155	131	105	92
of which : Usage of RFI resource	252				-122	-123			
Other net liabilities	0	0	0	-9	0	0	0	0	0
Memorandum items									
Gross operating balance	-602	-1,060	-492	-251	-140	-56	7	89	144
Central government debt	8,484	10,167	10,991	11,423	11,847	12,208	12,512	12,756	12,969
of which : External	2,901	4,368	4,997	5,000	5,170	5,314	5,436	5,533	5,618
Central government debt in FRA 3/	8,191	9,935	10,793	11,255	11,680	12,040	12,512	12,756	12,969
Nominal GDP (In millions of B$) (FY)	11,270	10,170	12,370	13,561	14,234	14,900	15,484	16,041	16,614

Sources: Ministry of Finance; and Fund staff projections.

1/ Fiscal year ends June 30.

2/ The authorities re-classifies some "Excise tax" under "Taxes on goods and services" to "Taxes on exports" under "Taxes on international trades and transactions" from FY2021/22.

3/ Excludes payment arrears and promissory notes for the resolution of Bank of The Bahamas.

Table 2b. The Bahamas: Operations of the Central Government, FY2019–28 1/

(In percent of GDP)

				Est.	Proj.				
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue	18.5	18.8	21.1	21.1	21.8	22.0	22.0	22.0	21.9
Taxes	16.4	15.8	17.5	18.2	19.0	19.2	19.1	19.1	19.1
Taxes on income and profits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on property	0.9	1.4	1.2	1.2	1.4	1.4	1.4	1.4	1.4
Taxes on goods and services 2/	11.9	11.5	12.1	12.0	12.5	12.7	12.7	12.7	12.7
of which: VAT	7.8	7.3	9.2	9.2	9.5	9.7	9.7	9.7	9.7
Taxes on international trade and transactions 2/	3.6	2.9	4.1	5.0	5.1	5.1	5.0	5.0	4.9
Other taxes	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.1	2.9	3.6	2.8	2.8	2.9	2.8	2.8	2.8
Expenditure	25.9	31.9	26.9	25.0	24.4	24.1	23.7	23.2	22.9
Expense	23.8	29.2	25.1	22.9	22.8	22.4	22.0	21.4	21.0
Compensation of employees	6.8	6.9	6.0	5.9	5.8	5.7	5.6	5.5	5.4
Goods and Services	4.1	4.8	3.9	4.3	4.3	4.3	4.2	4.1	4.1
Interest Payments	3.1	4.2	4.5	4.2	4.3	4.4	4.3	4.0	3.9
Subsidies	3.8	4.7	4.0	3.4	3.3	3.2	3.1	3.1	3.0
Grants	1.0	1.3	1.4	0.7	0.4	0.4	0.4	0.4	0.4
Social Benefits	1.7	4.0	2.3	1.7	1.7	1.6	1.6	1.5	1.5
Other Expense	3.4	3.4	3.1	2.6	3.0	2.8	2.8	2.8	2.7
of which: Transfers to public entities	1.3	0.9	0.5	0.3	0.6	0.5	0.6	0.6	0.6
Net acquisition of nonfinancial assets	2.1	2.7	1.8	2.1	1.6	1.6	1.7	1.8	1.9
Overall Balance	-7.4	-13.1	-5.8	-3.9	-2.6	-2.0	-1.7	-1.2	-1.0
Primary Balance	-4.4	-9.0	-1.3	0.3	1.7	2.4	2.6	2.8	2.9
Net acquisition of financial assets	-1.5	3.6	1.4	-0.8	0.4	0.4	0.3	0.3	0.3
Net incurrence of liabilities	5.9	16.7	7.2	3.1	3.0	2.4	2.0	1.5	1.3
Debt securities	1.7	8.2	5.5	-2.2	1.3	1.4	1.1	0.9	0.7
Loans	4.3	8.5	1.7	5.4	1.7	1.0	0.8	0.7	0.6
of which : Usage of RFI resource	2.2				-0.9	-0.8			0.0
Other net liabilities	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0
Memorandum items									
Gross operating balance	-5.3	-10.4	-4.0	-1.9	-1.0	-0.4	0.0	0.6	0.9
Central government debt	75.3	100.0	88.9	84.2	83.2	81.9	80.8	79.5	78.1
of which : External	25.7	43.0	40.4	36.9	36.3	35.7	35.1	34.5	33.8
Central government debt in FRA 3/	72.7	97.7	87.3	83.0	82.1	80.8	80.8	79.5	78.1
Nominal GDP (In millions of B$) (FY)	11,270	10,170	12,370	13,561	14,234	14,900	15,484	16,041	16,614

Sources: Ministry of Finance; and IMF staff projections.

1/ Fiscal year ends June 30.

2/ The authorities re-classifies some "Excise tax" under "Taxes on goods and services" to "Taxes on exports" under "Taxes on international trades and transactions" from FY2021/22.

3/ Excludes payment arrears and promissory notes for the resolution of Bank of The Bahamas.

Table 3. The Bahamas: Balance of Payments, 2019–28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
	(In millions of U.S. dollars)									
Current account balance	**-281**	**-2,285**	**-2,434**	**-1,056**	**-859**	**-889**	**-881**	**-892**	**-897**	**-925**
Goods (trade balance)	-2,314	-1,593	-2,626	-2,910	-3,145	-3,354	-3,497	-3,641	-3,776	-3,909
Exports	695	431	639	838	843	867	888	905	921	938
Imports	3,009	2,024	3,264	3,748	3,988	4,221	4,385	4,546	4,697	4,847
Services	2,638	-130	1,008	2,669	3,174	3,413	3,626	3,798	3,966	4,118
Travel (net)	3,790	857	2,173	4,052	4,918	5,299	5,618	5,892	6,155	6,399
Travel (credit)	4,125	967	2,322	4,222	5,138	5,577	5,914	6,204	6,485	6,748
Travel (debit)	335	110	149	170	220	278	296	313	330	348
Other services	-1,152	-987	-1,165	-1,383	-1,744	-1,886	-1,992	-2,094	-2,189	-2,282
Income	-605	-562	-817	-815	-888	-948	-1,010	-1,049	-1,087	-1,134
Capital Account	**908**	**650**	**54**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Transfers	908	650	54	0	0	0	0	0	0	0
o/w Hurricane insurance payout	908	650	0	0	0	0	0	0	0	0
Financial Account	**375**	**-1,692**	**-1,443**	**-1,223**	**-859**	**-889**	**-881**	**-892**	**-897**	**-925**
Direct investment	-369	-375	-298	-316	-349	-432	-462	-472	-483	-493
Portfolio investment	270	-657	447	-100	275	587	129	34	-115	31
Other Investement	-88	-1,285	-1,643	-985	-943	-1,111	-458	-447	-318	-461
Reserve Assets	562	624	51	178	158	66	-90	-7	19	-2
Net errors and omissions	**-252**	**-58**	**937**	**-167**	**0**	**0**	**0**	**0**	**0**	**0**
	(In percent of GDP)									
Current account balance	**-2.2**	**-23.4**	**-21.1**	**-8.2**	**-6.2**	**-6.1**	**-5.8**	**-5.7**	**-5.5**	**-5.5**
Goods (trade balance)	-17.7	-16.3	-22.8	-22.6	-22.7	-23.0	-23.0	-23.1	-23.1	-23.1
Exports	5.3	4.4	5.5	6.5	6.1	5.9	5.8	5.7	5.6	5.5
Imports	23.0	20.7	28.3	29.1	28.8	28.9	28.9	28.8	28.8	28.7
Services	20.2	-1.3	8.7	20.7	22.9	23.4	23.9	24.1	24.3	24.4
Travel (net)	29.0	8.8	18.9	31.4	35.5	36.3	37.0	37.4	37.7	37.9
Travel (credit)	31.6	9.9	20.1	32.7	37.1	38.2	38.9	39.4	39.8	39.9
Travel (debit)	2.6	1.1	1.3	1.3	1.6	1.9	1.9	2.0	2.0	2.1
Other services	-8.8	-10.1	-10.1	-10.7	-12.6	-12.9	-13.1	-13.3	-13.4	-13.5
Income	-4.6	-5.8	-7.1	-6.3	-6.4	-6.5	-6.6	-6.7	-6.7	-6.7
Capital Account	**7.0**	**6.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital transfers	7.0	6.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Hurricane insurance payout	7.0	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	**2.9**	**-17.3**	**-12.5**	**-9.5**	**-6.2**	**-6.1**	**-5.8**	**-5.7**	**-5.5**	**-5.5**
Direct investment	-2.8	-3.8	-2.6	-2.5	-2.5	-3.0	-3.0	-3.0	-3.0	-2.9
Portfolio investment	2.1	-6.7	3.9	-0.8	2.0	4.0	0.8	0.2	-0.7	0.2
Other Investment	-0.7	-13.2	-14.2	-7.6	-6.8	-7.6	-3.0	-2.8	-2.0	-2.7
Reserve Assets	4.3	6.4	0.4	1.4	1.1	0.5	-0.6	0.0	0.1	0.0
Net errors and omissions	**-1.9**	**-0.6**	**8.1**	**-1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items										
Net international reserves										
(End of period; millions of U.S. dollars)	1,758	2,382	2,433	2,611	2,769	2,836	2,746	2,739	2,758	2,756
(In percent of base money)	101.5	112.5	110.6	97.2	98.4	96.4	89.4	85.6	82.7	79.7
(In months of next year's G&S imports)	6.2	5.8	5.1	4.9	4.9	4.8	4.5	4.3	4.2	4.0
Nominal GDP (millions of U.S. dollars)	13,059	9,755	11,528	12,897	13,865	14,590	15,198	15,760	16,312	16,905

Sources: Central Bank of The Bahamas; Department of Statistics; and IMF staff projections.

Table 4. The Bahamas: Summary Accounts of the Central Bank and the Financial System, 2019–28

					Projections					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(In millions of Bahamian dollars, end of period)									
Central Bank										
Net international reserves 1/	N.A.	2,382	2,433	2,611	2,769	2,836	2,746	2,739	2,758	2,756
Net domestic assets	-27	-264	-232	74	-112	-62	126	134	205	1,403
Credit to nonfinancial public sector (net)	353	132	395	702	702	702	702	702	702	702
Of which: Central Government	396	178	458	791	791	791	791	791	791	791
Other	-380	-397	-628	-628	-815	-764	-576	-568	-497	701
Reserve money	1,731	2,118	2,200	2,685	2,815	2,941	3,070	3,201	3,336	3,457
Currency held by the private sector	489	547	557	601	635	672	710	751	794	823
Liabilities with financial institutions	1,243	1,571	1,643	2,085	2,180	2,269	2,359	2,450	2,541	2,634
Financial system										
Net foreign assets	1,790	2,141	2,586	2,796	2,893	2,890	2,879	2,878	2,888	2,878
Of which : Commercial banks and OFIs	32	-241	153	185	123	55	134	139	130	122
Net domestic assets	6,103	5,722	5,634	6,195	6,512	6,909	7,317	7,719	8,115	8,526
Credit to nonfinancial public sector, net	2,775	2,558	2,958	3,282	3,519	3,709	3,881	4,033	4,148	4,245
Of which : Central Government, net	2,621	2,524	2,933	3,225	3,446	3,622	3,778	3,914	4,014	4,095
Credit to private sector	5,892	5,766	5,681	5,662	5,650	5,652	5,656	5,661	5,661	5,669
Other	-2,564	-2,602	-3,005	-2,749	-2,656	-2,452	-2,220	-1,974	-1,694	-1,389
Liabilities to the private sector (broad money)	7,893	7,863	8,220	8,991	9,405	9,800	10,196	10,598	11,004	11,404
Money	3,248	3,471	3,715	4,298	4,589	4,883	5,185	5,501	5,826	6,037
Currency	337	373	386	423	447	473	500	529	559	579
Demand deposits	2,912	3,098	3,330	3,875	4,142	4,410	4,685	4,972	5,267	5,458
Quasi-money	4,644	4,392	4,504	4,692	4,816	4,917	5,011	5,097	5,178	5,366
	(Change in percent of liabilities to the private sector at the beginning of the period)									
Net foreign assets	10.1	4.4	5.7	2.6	1.1	0.0	-0.1	0.0	0.1	-0.1
Net domestic assets	0.9	-4.8	-1.1	6.8	3.5	4.2	4.2	3.9	3.7	3.7
Credit to nonfinancial public sector	0.6	-2.8	5.1	3.9	2.6	2.0	1.8	1.5	1.1	0.9
Credit to private sector	0.1	-1.6	-1.1	-0.2	-0.1	0.0	0.0	0.1	0.0	0.1
Liabilities to private sector (broad money)	11.0	-0.4	4.5	9.4	4.6	4.2	4.0	3.9	3.8	3.6
Money	7.3	2.8	3.1	7.1	3.2	3.1	3.1	3.1	3.1	1.9
Quasi-money	3.7	-3.2	1.4	2.3	1.4	1.1	1.0	0.8	0.8	1.7
	(Annual percentage change)									
Net domestic assets	1.1	-6.2	-1.5	9.9	5.1	6.1	5.9	5.5	5.1	5.1
Credit to nonfinancial public sector	1.5	-7.8	15.6	10.9	7.2	5.4	4.6	3.9	2.9	2.3
Credit to private sector	0.1	-2.1	-1.5	-0.3	-0.2	0.0	0.1	0.1	0.0	0.1
Liabilities to private sector (broad money)	11.0	-0.4	4.5	9.4	4.6	4.2	4.0	3.9	3.8	3.6
Money	19.1	6.9	7.0	15.7	6.8	6.4	6.2	6.1	5.9	3.6
Quasi-money	6.0	-5.4	2.6	4.2	2.6	2.1	1.9	1.7	1.6	3.6

Sources: Central Bank of The Bahamas; and IMF staff projections.

1/ Under the assumption that reserves are used to sterilize the monetary impact of government drawing down on its deposits at the central bank.

Table 5. The Bahamas: Financial Soundness Indicators for the Banking System, 2013–22

(In percent, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Capital Adequacy										
Regulatory capital to risk-weighted assets	31.1	32.8	33.3	28.6	32.5	34.1	30.8	30.9	28.7	34.5
Credit to economic sectors 1/										
Nonfinancial corporations	18.5	15.5	14.3	14.4	12.9	14.6	14.9	12.6	13.5	15.1
Households	77.7	79.2	79.3	78.0	80.1	76.5	74.6	73.7	73.6	73.8
Financial institutions	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3
Government	3.6	5.1	6.0	7.3	6.7	8.5	10.2	13.4	12.6	10.9
Asset Quality 2/ 3/										
Nonperforming loans to total gross loans	15.3	15.3	14.2	11.4	9.2	9.1	8.0	8.5	9.6	7.7
Total provisions to nonperforming loans 3/	39.2	51.2	59.7	70.6	74.6	84.8	93.8	121.2	97.1	89.6
Profitability										
Return on assets	1.4	-1.2	1.9	2.0	1.8	2.3	2.4	-0.1	2.3	3.5
Return on equity	5.4	-4.6	7.0	7.9	6.8	8.8	10.6	-0.3	10.9	17.9
Noninterest expenses to gross income	47.1	66.3	47.4	48.4	52.1	49.7	50.5	62.9	52.7	51.3
Personnel expenses to noninterest expenses	50.3	34.8	46.8	44.0	40.8	41.2	39.0	32.7	38.1	36.0
Liquidity 2/										
Liquid asset to total assets	21.8	22.6	24.1	25.9	29.0	26.6	30.1	32.4	33.8	37.3
Liquid asset to short-term liabilities 4/	34.0	34.4	37.0	37.8	42.7	38.3	41.6	45.7	46.7	48.8
Memo items 2/										
Total private sector credit to GDP	62.4	57.1	53.0	50.4	47.3	45.1	60.4	50.0	44.0	40.8
Spread between domestic lending and deposit rates	9.4	10.4	10.9	11.3	10.8	10.5	9.9	9.9	5.0	6.0

Sources: Central Bank of The Bahamas and IMF staff calculations.

1/ In percent of total credit.

2/ Includes the two largest credit unions.

3/ 2018 & 2019 data does not include Credit Union data for Asset Quality.

4/ Short-term liabilities are defined as resident deposits.

Table 6. The Bahamas: Indicators of Capacity to Repay the Fund, 2023–28

	Projections					
	2023	2024	2025	2026	2027	2028
Fund obligations based on existing and prospective credit						
Total (in millions of SDRs)	22.8	104.5	54.4	7.6	7.6	7.6
Principal (in millions of SDRs)	22.8	91.2	45.6	0.0	0.0	0.0
Charges/interest (in millions of SDRs)	0.0	13.3	8.8	7.6	7.6	7.6
Total (in millions of US dollars)	30.5	140.4	73.4	10.3	10.3	10.3
Principal (in millions of US dollars)	30.5	122.5	61.6	0.0	0.0	0.0
Charges/interest (in millions of US dollars)	0.0	17.9	11.8	10.3	10.3	10.3
Total obligations based on existing and prospective credit						
in percent of GDP	0.2	1.0	0.5	0.1	0.1	0.1
In percent of exports of goods and services	0.5	2.0	1.0	0.1	0.1	0.0
In percent of quota	12.5	57.3	29.8	4.2	4.2	0.0
In percent of gross international reserves	1.1	5.0	2.7	0.4	0.4	0.0
Fund credit outstanding						
In millions of SDRs	136.8	45.6	0.0	0.0	0.0	0.0
In millions of U.S. dollars	183.0	61.3	0.0	0.0	0.0	0.0
in percent of GDP	1.3	0.4	0.0	0.0	0.0	0.0
In percent of exports of goods and services	2.9	0.9	0.0	0.0	0.0	0.0
In percent of quota	75.0	25.0	0.0	0.0	0.0	0.0
In percent of gross international reserves	6.6	2.2	0.0	0.0	0.0	0.0
In percent of public external debt	3.6	1.2	0.0	0.0	0.0	0.0
Net use of Fund credit						
Total (in millions of SDRs)	-22.8	-91.2	-45.6	0.0	0.0	0.0
Disbursements (millions of SDRs)	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of SDRs)	22.8	91.2	45.6	0.0	0.0	0.0
Total (in millions of US dollars)	-30.5	-122.5	-61.6	0.0	0.0	0.0
Disbursements (millions of US dollars)	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of US dollars)	30.5	122.5	61.6	0.0	0.0	0.0
Memorandum items:						
Exports of goods and services (millions of US dollars)	6,375.8	6,850.1	7,218.3	7,533.6	7,838.1	8,125.4
Public sector external debt (millions of US dollars)	5,085.1	5,242.1	5,375.1	5,484.7	5,575.9	5,659.9
Quota (millions of SDRs)	182.4	182.4	182.4	182.4	182.4	182.4
Quota (millions of US dollars)	244.0	245.1	246.4	246.9	247.6	248.5
Gross international reserves (millions of US dollars)	2,769.3	2,835.5	2,745.7	2,739.2	2,758.2	2,756.5
GDP (millions of US dollars)	13,864.8	14,590.1	15,198.1	15,759.5	16,311.7	16,904.5

Sources: Central Bank of The Bahamas. and IMF staff estimates and projections.

Annex I. External Sector Assessment

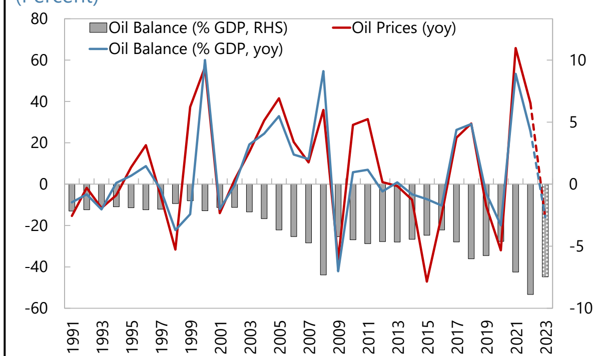
Update as of November 27, 2023

Overall Assessment: *Based on preliminary data, The Bahamas' external position in 2023 was assessed as moderately weaker than warranted by fundamentals and desirable policies*[1]*. The CA deficit is expected to remain financed by FDI and government external borrowing, and pressures on the trade balance should decrease as oil prices decline. International reserves are projected to remain adequate in 2023 at 4.9 months of imports and above the ARA metric.*

Potential Policy Responses: *Structural reforms which improve the ease of doing business and a comprehensive tax reform that establishes a more progressive tax structure would raise productivity, encourage economic diversification, ensure debt sustainability, and attract more foreign direct investments (FDIs). Faster fiscal consolidation would also narrow external imbalances and protect the level of international reserves. Diversifying the economy–with a special focus on the renewable energy–is essential to shield the country from external shocks and decrease the pressure on the current account through import substitution. The domestic security market needs to be strengthened to offer positive real yields to reduce the reliance on the international markets, and thus, support the currency peg and preserve international reserves.*

Current Account

Oil Trade Balance and International Oil Prices
(Percent)



Sources: WEO database, National authorities, and IMF staff calculations.

Background. With limited land area, and an open, tourism-based economy, The Bahamas is significantly vulnerable to external price shocks and global economic trends. The country has had persistent CA deficits that averaged 10.1 percent of GDP in the 5 years preceding the COVID-19 pandemic. Between 2015 and 2019, the goods trade deficit averaged 19.4 percent of GDP and the oil trade deficit averaged 4.8 percent of GDP. In 2023, the goods trade deficit is expected to remain stable at 22.7 percent of GDP (from 22.6 percent in 2022). The services trade balance averaged 14.2 percent of GDP between 2015-19. Following the strong recovery of tourism related flows in 2023, the services surplus should reach 22.9 percent of GDP (from 20.7 in 2022), as tourism receipts are expected at 37.1 percent of GDP in 2023 (from 23.3 percent during the pre-pandemic period and 32.7 in 2022). In FY2022/23, the government generated its first primary balance surplus since FY2008/09. However, public sector dissaving will likely continue in the medium-term (Table 2). All in, the 2023 CA deficit is projected to improve to 6.2 percent of GDP (from 8.2 in 2022 and 21.1 in 2021). The main external risks to staff's forecasts of a gradual reduction in the CA deficit over the medium-term are the potential impact of a

[1] The external sector assessment is based on staff's estimates.

global economic downturn and a further escalation of geopolitical tensions, which could undermine tourism and pressure commodity prices. On the domestic front, the main risk is a slower than expected fiscal consolidation.

Assessment. The EBA-lite CA model estimates a CA norm of –3.8 percent of GDP and a cyclically adjusted CA of -6.1 percent, resulting in a CA gap of –2.3 percent of GDP. Policy gaps contribute 1.7 percentage points to the model-estimated CA gap and the remainder reflects country-specific factors and/or regression residuals. The EBA-lite CA model indicates a real effective exchange rate overvaluation of 8.9 percentage points. With the improvement of balance of payments data collection, the CA model performed better than in the previous assessment. However, given its better fit historically, staff's bottom-line assessment draws on the REER model. The REER model suggests a -1.1 percent CA gap, placing The Bahamas in the range of [-2%, -1%] percent of GDP – moderately weaker than the level implied by fundamentals and desirable policies.

The Bahamas: Model Estimates for 2023 (Percent of GDP)

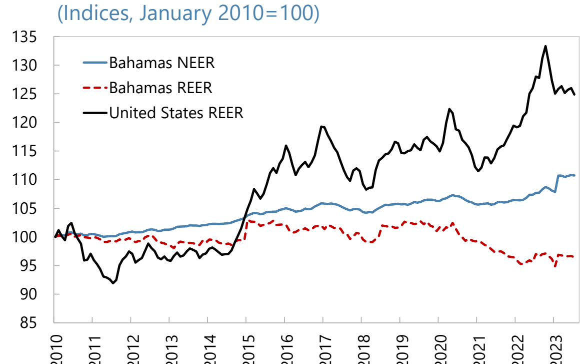
	CA model 1/	REER model 1/
	(Percent of GDP)	
CA-Actual	**-6.2**	
Cyclical contributions (from model) (-)	-0.1	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-6.1**	
CA Norm (from model) 2/	**-3.8**	
Adjusted CA Norm	**-3.8**	
CA Gap	**-2.3**	**-1.1**
o/w Relative policy gap	1.7	
Elasticity	-0.3	
REER Gap (in percent)	**8.9**	**4.3**

1/ Based on the EBA-lite 3.0 methodology.
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The real effective exchange rate (REER) is projected to remain broadly unchanged by the end of 2023 (an appreciation of 0.02 percent when compared to December 2022). Historically, the REER has been relatively stable, with a standard deviation of only 1.3 in the decade before the pandemic (2010-2019), and just 0.7 between January 2022 and October 2023.

Nominal and Real Effective Exchange Rates
(Indices, January 2010=100)



Sources: INS, and IMF staff calculations.

Assessment. The EBA-Lite REER model estimates an overvaluation of 4.3 percent in 2023. This is broadly in line with the previous assessment, where the REER gap was estimated as 2.8 percent (and the CA gap as -0.7 percent, suggesting that the external conditions in 2021 were broadly in line with fundamentals and desirable policies). The modest change in the assessment was mainly driven by an increase of The Bahamas' dependency ratio, and a small deterioration of competitiveness (e.g., decrease of terms of trade, see Figure 6).

Capital and Financial Accounts: Flows and Policy Measures

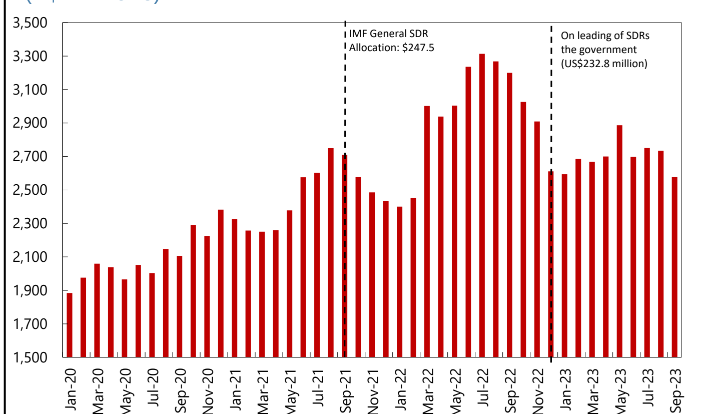
Background. The 2023 financial account is projected at 6.2 percent of GDP (from 9.5 percent in 2022), slowly reverting to its average level before Hurricane Dorian and the COVID-19 pandemic. FDI should remain stable at 2.5 percent of GDP, while the public sector external borrowing is expected to increase to 9.5 percent of GDP (from 9.1 percent in the previous year).

Assessment. Increased risk-aversion and higher global interest rates have affected The Bahamas' cost of funding and the authorities' appetite for external bond financing. In this context, the authorities plan to rely on funding from MDBs and international banks in the near-term. The resilient tourism sector should attract and sustain the level of FDI in the medium-term, with a focus on refurbishing existing capacity, and enhancing the stock of cruise infrastructure and vacation homes. Further improvements in the domestic bond market, investor relations, statistics, and prudential regulation and supervision, should not only support the authorities' goal to shift funding to the domestic securities market, but also improve competitiveness and increase foreign investments.

FX Intervention and Reserves Level

Background. Reserves are projected to remain at elevated levels by the end of 2023, above $2.7 billion ($158 million higher than in 2022) or 4.9 months of imports. The central bank continued to sell FX to the private sector to ensure the smooth functioning of foreign currency markets and the stability of the exchange rate peg.

External Reserves
(B$ Millions)



Sources: Central Bank of the Bahamas, and IMF staff calculations.

Assessment. Gross international reserves by the end of 2023 should correspond to 162 percent of the Fund's adequacy metric, above the recommended range (100-150 percent). Reserves are projected to remain adequate over the medium-term, above 4 months of imports. Risks to this outlook include the continuing tightening of global financial conditions and persistently high commodity prices.

Foreign Assets and Liabilities: Position and Trajectory

Background. Considering the reliance on imports, foreign direct investment, and public external borrowing, The Bahamas' net international investment position (NIIP) is likely to be negative[2], with direct investments likely accounting for a large share of foreign liabilities.

Assessment. In the medium-term, current account deficits are expected to persist, weakening the underlying NIIP, however, stronger economic growth and a projected decline of external debt could mitigate the deterioration. As the overall risk of sovereign stress is assessed as high (see Annex III), compiling the country NIIP is critical to properly assessing other sources of risks.

[2] The Central Bank of The Bahamas does not publish international investment position data.

Annex II. Risk Assessment Matrix[1]

Source of Risk	Likelihood	Impact	Policy Response
Global Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	Medium	Allow higher international food and energy costs to pass through to domestic prices alongside targeted support to protect the poorest members of society. CBOB should be willing to allow interest rates to rise to support the currency peg and reserve accumulation. In an imminent crisis scenario, temporary capital flow management measures could be considered as part of a broader macroeconomic package to address the root causes of the crisis in accordance with the IMF's Institutional View (IV). Over the medium term, reform SOEs, improve agriculture quality, and invest in renewable energy to reduce reliance on imports.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	Medium	
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. **U.S.:** Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing". **Europe:** Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. **China:** Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	Medium	Medium	Building fiscal buffers is essential to guarantee support to the most vulnerable and avoid sudden stops of public services in case of an economic slowdown. Implement structural reforms to reinvigorate growth; diversify the economy to reduce dependence on the tourism sector; and steadily execute climate-resilient investment to boost potential growth.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

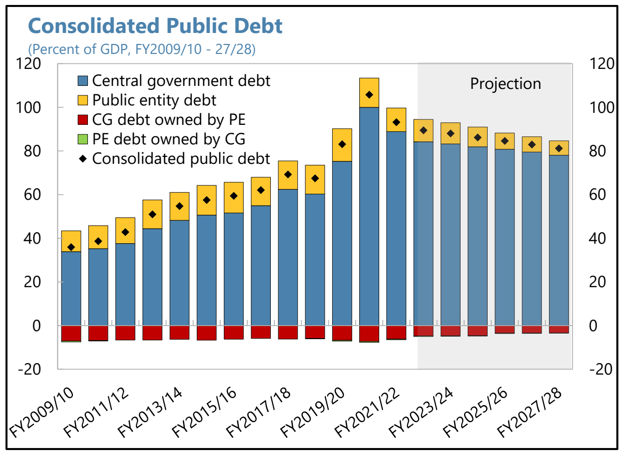
Source of Risk	Likelihood	Impact	Policy Response
Country-Specific Risks			
Natural disasters negatively impact the local economy. Hampering tourism activity would worsen fiscal and external balances and damper medium-term outlook.	**Medium**	**High**	Enhance ex-ante preparedness and risk reduction strategies, invest in resilient infrastructure, rebuild financial resilience, and ensure that most private properties are covered by insurance.
Revenue reforms fall short of envisaged yields, inability to cover short-term liquidity needs with external financing.	**Medium**	**High**	Review expenditure (including by SOEs) to reprioritize spending flexibly and timely should the need arise. Systematically evaluate performance of multi-year financing strategy and undertake contingency planning.
Information infrastructure and regulation failure. Vulnerabilities on regulation and cyber-security might be exploited by illicit actors, triggering financial instability or widespread disruptions and undermining financial integrity, which could result in reputational damages.	**Medium**	**High**	Strengthen cybersecurity and regulatory framework of digital assets and increase resources available for regulators, so regular inspections can be conducted.

Annex III. Public Debt Sustainability Analysis[1]

The Bahamas risk of sovereign stress is assessed as high. After peaking at 106 percent of GDP in 2020/21, public debt declined to 89 percent of GDP in 2022/23, supported by strong nominal GDP growth, a cyclical recovery in government revenue, and a withdrawal of COVID-19 related spending. Under staff's baseline, public debt is expected to fall to 81 percent of GDP by 2027/28, absent additional fiscal consolidation. Medium- and long-term risks are high, with debt expected to remain high and gross financing needs elevated. Faster fiscal consolidation is necessary to significantly reduce public debt and gross financing needs. Overall, public debt is sustainable but is vulnerable to shocks to natural disasters.

A. Recent Developments and Outlook

1. **Public debt declined sharply in FY2021/22 and FY2022/23, after increasingly sharply in the previous two years due to the effects of Hurricane Dorian and the COVID-19 pandemic**. Consolidated public debt peaked at 106 percent of GDP in 2020/21, due to a 22.1 percent cumulative decline in nominal GDP and a widening in the central government fiscal balance from –1.7 percent of GDP in 2018/19 to –13.1 percent in 2020/21 due to a cyclical decline in revenues and the extension of hurricane and pandemic-related fiscal support. The authorities financed larger deficits through increased external borrowing and domestic securities, of increasingly shorter maturities. Since then, the tourism-led recovery in real GDP and public sector revenues, accelerated inflation and the winddown of pandemic-related spending reduced public debt to 89 percent of GDP, by June 2023.



2. **Public debt is projected to fall to 81 percent in 2027/28.**[2] With the output gap almost closed, real GDP is projected to slow sharply to 3.1 percent in 2023/24, before converging to 1.5 percent in the medium-term. Staff expects the central government fiscal balance to narrow to –1.0 percent of GDP by 2027/28 from –3.9 of GDP in 2022/23. Average gross financing needs are expected to remain elevated, above 20 percent of GDP, representing a large share of Treasury Bills, Treasury Notes, and short-term bonds, and large external maturities coming due.[3] Local and foreign

[1] The public sector DSA is based on the fiscal year (July – June). The external sector DSA is based on the calendar year.

[2] Public debt to GDP is projected to be higher over the medium-term than assumed in the May 2022 Debt Sustainability Analysis (Annex III, IMF Country Report No. 22/131).

[3] Gross financing needs are projected to be higher over the medium-term than assumed in the May 2022 Debt Sustainability Analysis (Annex III, IMF Country Report No. 22/131), in part due to a larger share of short-term debt that is expected to be rolled over each year, including the central bank's on-lending of SDRs to the central government.

currency debt are expected to fall at a similar pace, as the authorities rely on the domestic bond market and external financing from official creditors and international banks.

B. Assessment of Sovereign Stress

3. The Bahamas' overall risk of sovereign stress is assessed as high. This assessment reflects high risks in the medium- and long-term. Although the debt-to-GDP ratio has declined sharply since 2020/21 and the stock of international reserves remains adequate, debt remains high, with a large share denominated in foreign currency. Gross financing needs are elevated, a large share representing short-term securities to be rolled over every three to six months. The domestic financial system remains liquid and well capitalized, with additional capacity to meet domestic financing needs, should risk appetite permit.

4. Medium-term risks are assessed as high, higher than that suggested by the mechanical signal. On balance, the medium-term risk index produces a score of 0.394, marginally below the high-risk threshold of 0.395, but significantly above the low-risk threshold of 0.257. Given The Bahamas' high vulnerability to natural disasters and the implications of a climate-related shock on GDP growth and public finances, staff assesses medium-term risks as high.

- The **Debt Fanchart** tool produces a score of 2.2, just above the high-risk threshold of 2.1. This score reflects elevated uncertainty around the debt trajectory, evidenced by the wide fan, and a large stock of public debt by 2027/28. Still, public debt is expected to stabilize in the medium term with relatively high probability. Faster than expected medium-term growth or faster fiscal consolidation would improve medium-term risks.

- The **GFN financeability** tool produces a score of 15.8, well above the low-risk threshold of 7.6 but below the high-risk threshold of 17.9. Gross financing needs are expected to average 22 percent of GDP over the medium-term, reflecting a large stock of short-term domestic debt and large external maturities coming due.

- **Stress tests** suggest that the trajectories of public debt and gross financing needs are vulnerable to natural disasters. A climate-related disaster which increases debt by 4.5 percent of GDP and permanently reduces real GDP by 1.3 percent in 2023/2024 pushes debt to 87 percent of GDP by 2027/28. Gross financing needs would fetch 30 percent of GDP in 2023/24 and remain elevated over the horizon.

5. Long-term risks are assessed as high. The large amortization module illustrates that gross financing needs are expected to remain elevated should the authorities maintain a public sector primary balance of 2.7 percent of GDP from 2028/29 onward. Under this scenario, public debt is expected to fall gradually to 34 percent of GDP by 2052. However, should the primary balance revert to –2.5 percent of GDP (the 10-year historical average), both gross financing needs and public debt would rise over the long-term. Long-term debt sustainability is also vulnerable to an additional 1.4 percent of GDP investment for climate adaptation per year, with debt falling only to 68 percent of GDP by 2052.

C. Public Debt Sustainability

6. Staff assesses The Bahamas's public debt as sustainable. Public debt is projected to fall to 81 percent of GDP by 2027/28, with a high probability of stabilizing in the medium term. Gross financing needs are expected to remain elevated over the medium term, with new financing sourced mostly from domestic and multilateral creditors in the short run.

D. External Debt Sustainability Analysis

7. External debt has declined but is still high and vulnerable to external shocks.[4] Public external debt is expected to fall from 42 percent of GDP in 2022 to 35 percent of GDP by 2028. External financing needs are also projected to gradually fall to 9 percent of GDP (from 11 percent of GDP in 2022), in line with the current account balance. External debt is sensitive to historical, current account, and exchange rate shocks. Under a scenario where external debt evolves in line with historical averages, external debt surges to 79 percent of GDP by 2028, while gross external financing needs rise to 24 percent of GDP. External debt increases to 52 percent of GDP by 2028 after a widening of the noninterest current account deficit by 3 percent of GDP, while a 30 percent depreciation pushes external debt to 52 percent of GDP. Shocks to real GDP growth or interest rates have much smaller effects on external debt.

[4] Given the lack of data on private external debt, the external DSA covers only external public debt.

Table 1. The Bahamas: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	High	The Bahamas' overall risk of sovereign stress is assessed as high.
Near term 1/	…	…	
Medium term	Moderate	High	Medium-term risks are assessed as high, despite the moderate mechanical signal, reflecting The Bahamas' elevated vulnerability to natural disasters. Debt is expected to fall over the medium-term but remain elevated over the baseline, but could be higher after a natural disaster. Gross financing needs are expected to remain elevated, a large share of T-Bills to be rolled over, but could exceed 30 percent of GDP in a stressed scenario.
Fanchart	High	…	
GFN	Moderate	…	
Stress test	…	…	
Long term	…	High	Long-term risks are high. GFNs are vulnerable to higher rollover risks if foreseen fiscal consolidation reverses and the primary balance reverts to its 10-year average. Debt sustainability is also vulnerable to additional spending on climate adaptation, with both debt and gross financing needs rising relative to under the baseline.
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	The projected debt path is expected to stabilize, albeit at high levels. GFNs are expected to remain elevated, but adequate FX reserves and sufficient domestic liquidity provide sufficient capacity to meet GFNs, should investors' risk appetites permit. Therefore debt is assessed as sustainable.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: The Bahamas' overall risk of sovereign stress is assessed as high. However, public debt is assessed as sustainable. Under staff's baseline, debt is projected to fall to 81 percent of GDP by 2027/28, after peaking at 106 percent of GDP in 2020/21. Debt is likely to stabilize in the medium-term, albeit at an elevated level. Gross financing needs (GFNs) are projected to remain high, due largely to a large stock of domestic Treasury Bills and external payments coming due. Moreover, debt and GFNs are vulnerable to natural disasters.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 1. The Bahamas: Debt Coverage and Disclosure

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	No	
				4	State governments	No	Not applicable
				5	Local governments	No	Not applicable
				6	Public nonfinancial corporations	Yes	
				7	Central bank	No	
				8	Other public financial corporations	Yes	Incl. Bahamas Devel. Bank

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

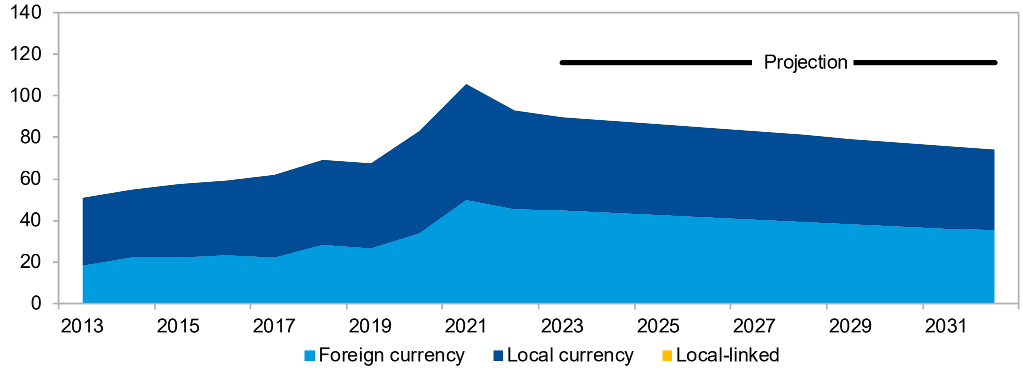
					Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The SRDSA uses the Bahamas' public sector debt, which includes central government debt and debt owed by public financial and nonfinancial corporations. Public sector debt is consolidated by netting out the cross holdings of intra-government debt holdings between the central government and public corporations.

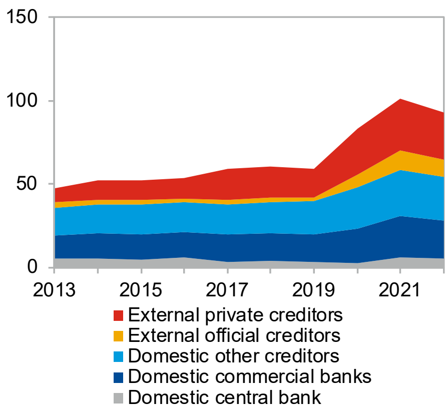
Figure 2. The Bahamas: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



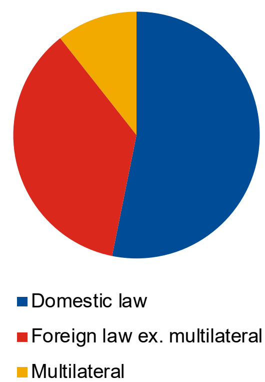
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



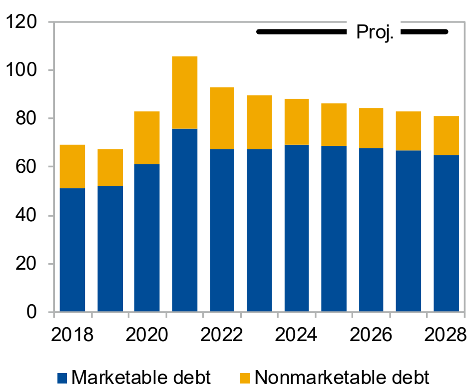
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



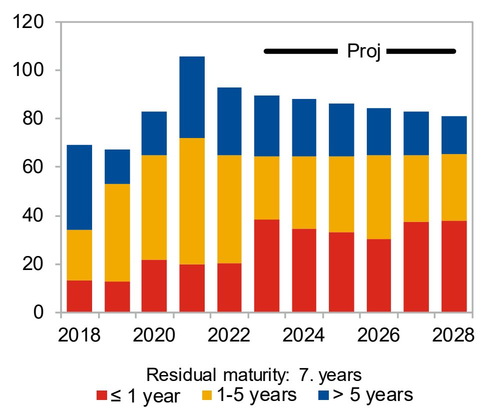
Note: The perimeter shown is consolidated public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Commentary: Since 2019, the government has relied more on external sources to meet its gross financing needs. After the cost of financing surged during 2022, the government has relied increasingly more on official sector debt, rather than external bonds. This, and greater reliance on financing from domestic bonds, is likely to continue in the medium-term.

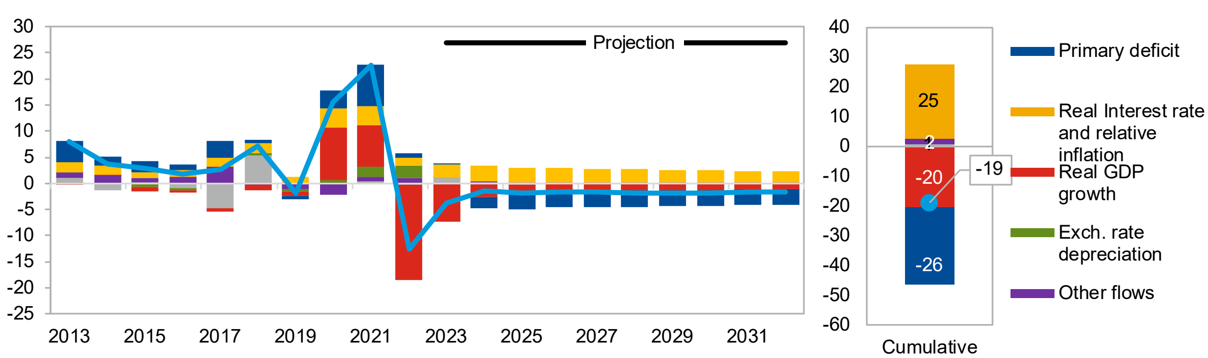
Figure 3. The Bahamas: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	93.2	89.5	88.0	86.2	84.6	83.0	81.2	79.4	77.6	75.9	74.2
Change in public debt	-12.6	-3.7	-1.4	-1.8	-1.6	-1.7	-1.8	-1.8	-1.8	-1.7	-1.7
Contribution of identified flows	-12.3	-4.8	-1.6	-1.6	-1.5	-1.6	-1.7	-1.7	-1.7	-1.7	-1.7
Primary deficit	0.9	0.0	-2.0	-2.8	-3.0	-3.1	-3.2	-3.1	-3.0	-2.9	-2.8
Noninterest revenues	20.8	20.8	21.6	21.8	21.8	21.8	21.8	21.7	21.7	21.6	21.5
Noninterest expenditures	21.7	20.9	19.6	19.0	18.8	18.7	18.5	18.6	18.6	18.7	18.7
Automatic debt dynamics	-14.1	-4.9	0.1	1.0	1.4	1.3	1.3	1.2	1.1	1.1	1.0
Real interest rate and relative inflation	1.6	2.4	2.8	2.8	2.8	2.6	2.5	2.4	2.3	2.2	2.1
Real interest rate	4.0	3.5	3.0	2.5	2.7	2.5	2.4	2.3	2.2	2.1	2.0
Relative inflation	-2.4	-1.1	-0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-18.1	-7.3	-2.7	-1.8	-1.4	-1.3	-1.2	-1.2	-1.2	-1.1	-1.1
Real exchange rate	2.4	…	…	…	…	…	…	…	…	…	…
Other identified flows	1.0	0.0	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	1.0	0.0	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contribution of residual	-0.3	1.1	0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Gross financing needs	21.8	23.1	25.0	21.0	20.7	19.0	21.6	22.4	21.3	19.6	22.7
of which: debt service	21.0	23.0	27.1	23.8	23.8	22.1	24.8	25.6	24.4	22.5	25.6
Local currency	14.6	16.4	16.6	16.7	17.8	15.3	18.4	17.8	17.9	16.1	18.8
Foreign currency	6.3	6.6	10.4	7.2	6.0	6.9	6.5	7.8	6.5	6.4	6.8
Memo:											
Real GDP growth (percent)	20.7	8.5	3.1	2.0	1.7	1.5	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator; percent)	0.8	1.0	1.8	2.6	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	21.6	9.6	5.0	4.7	3.9	3.6	3.6	3.6	3.6	3.6	3.6
Effective interest rate (percent)	5.4	5.2	5.3	5.5	5.4	5.1	5.1	5.0	4.9	4.9	4.8

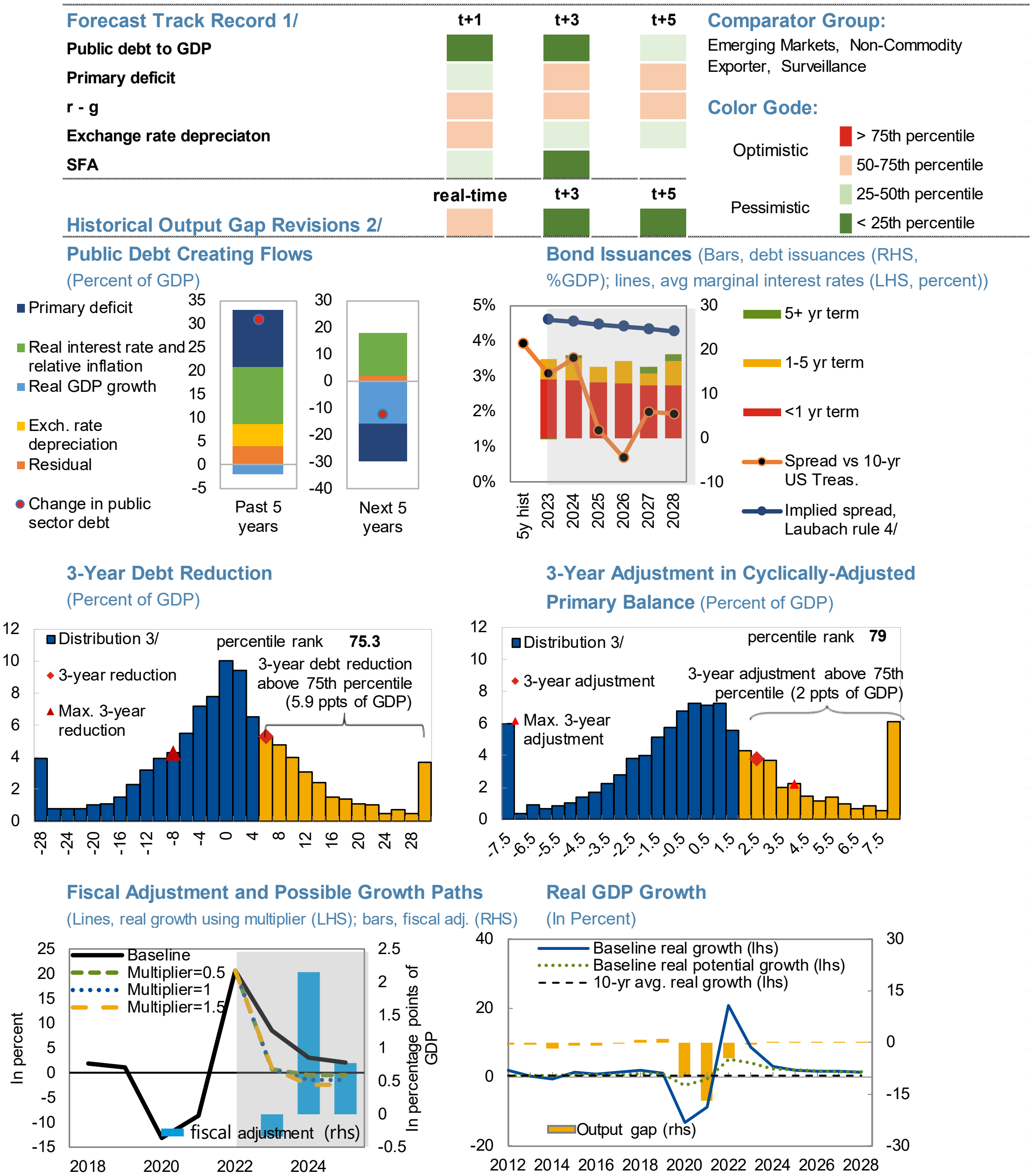
Contribution to Change in Public Debt

(Percent of GDP)



Staff commentary: Public debt is expected to fall gradually over the medium-term, reflecting expectations of stronger primary surpluses and modest nominal GDP growth, which are partially offset by positive real borrowing costs.

Figure 4. The Bahamas: Realism of Baseline Assumptions



Commentary: The recovery from COVID-19 complicates the effects on the growth path and the interpretation of the realism analysis. However, the realism analysis does not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are feasible.

Source: IMF staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

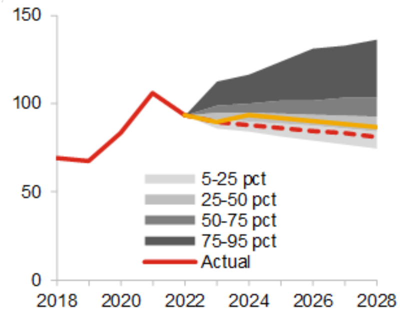
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

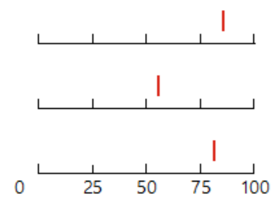
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 5. The Bahamas: Medium-Term Risk Analysis

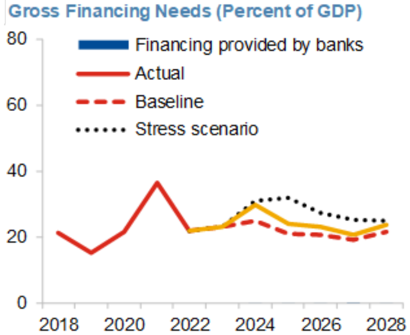
	Value	Contrib 1/	Percentile in peer group 2/
Debt Fanchart Module			
Fanchart width *(percent of GDP)*	62.1	0.9	
Probability of debt non-stabilizaiton *(percent)*	26.4	0.2	
Terminal debt-to-GDP x institutions index	48.6	1.1	
Debt fanchart index (DFI)		2.2	
Risk signal: 3/		**High**	
Gross Financing Needs (GFN) Module			
Average baseline GFN *(percent of GDP)*	21.7	7.4	
Banks' claims on the gen govt *(pct bank assets)*	13.0	4.2	
Chg. In banks' claims in stress *(pct banks' assets)*	12.4	4.2	
GFN financeability index (GFI)		15.8	
Risk signal: 4/		**Moderate**	

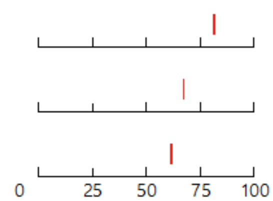
Final Fanchart (Percent of GDP)





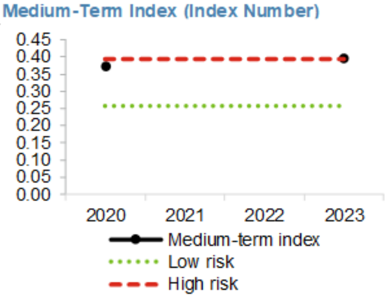
Gross Financing Needs (Percent of GDP)





Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-Term Risk Analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	2.18	0.48	0.50	0.24
GFN finaceability index	15.78	0.30	0.50	0.15
Medium-term index		0.4		
Risk signal: 5/		**Moderate**		
Final assessment:		**High**		

Prob. of missed crisis, 2023-2028, if stress not predicted: 45.5 pct.

Prob. of false alarms, 2023-2028, if stress predicted: 10.2 pct.

The aggregate mechanical signal for the medium-term risk analysis is high. This balances a high assessment of risk for the Debt Fanchart index and a moderate assessment of risk for the GFN Financeability index. Adverse shocks triggered by a natural disaster or other stress scenario would increase both debt and gross financing needs even further and support staff's overall assessment of high risk.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 6. The Bahamas: Long-Term Risk Analysis

Large Amortization Trigger

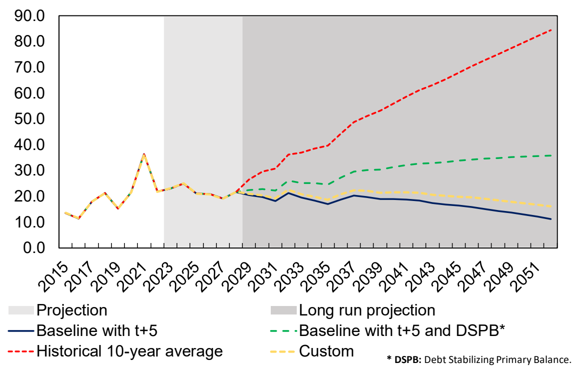
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	

Overall Risk Indication	

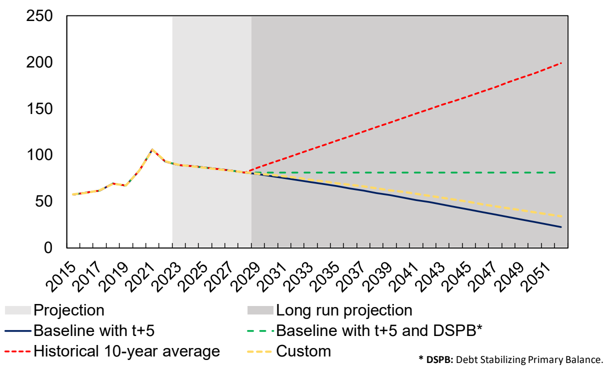
Alternative Baseline Long-term Projections (Including Custom scenario)

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	1.5%	1.5%
Primary Balance-to-GDP	3.2%	2.7%
Real depreciation	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%

GFN-to-GDP Ratio



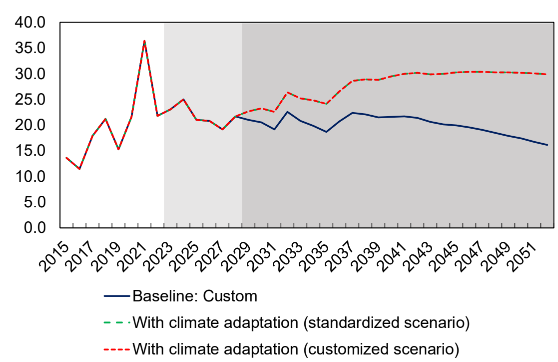
Total Public Debt-to-GDP Ratio



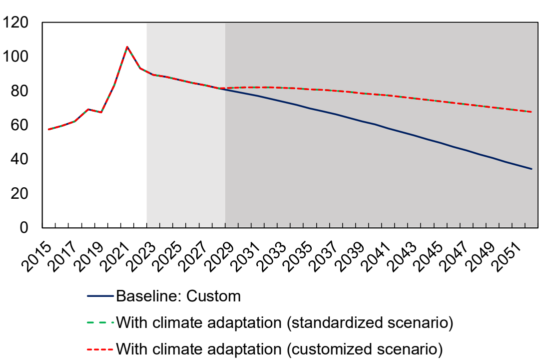
Commentary: GFNs and public debt are expected to fall slowly over the long-term but could rise sharply should the primary balance revert to its 10-year historical average.

Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Long-term debt sustainability is also vulnerable to an annual investment for climate adaptation, with debt remaining above 65 percent of GDP through 2052.

Table 2. The Bahamas: External Debt Sustainability Framework 2018–2028

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2018	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	Debt-stabilizing non-interest current account 6/
Baseline: External Debt	25.1	23.9	45.9	41.3	41.7			**39.2**	**38.2**	**37.4**	**36.7**	**35.9**	**35.0**	**-2.0**
Change in external debt	-1.3	-1.2	22.0	-4.6	0.4			-2.5	-1.0	-0.8	-0.8	-0.8	-0.9	
Identified external debt-creating flows (4+8+9)	4.2	-1.5	27.7	11.5	1.3			2.0	2.3	2.1	2.1	2.0	2.0	
Current account deficit, excluding interest payments	8.1	0.8	21.7	18.8	5.6			3.8	3.7	3.4	3.4	3.3	3.3	
Deficit in balance of goods and services	2.9	-2.5	17.7	14.0	1.9			-0.2	-0.4	-0.8	-1.0	-1.2	-1.2	
Exports	37.6	39.5	17.3	28.9	42.3			46.0	46.9	47.5	47.8	48.1	48.1	
Imports	40.4	37.1	35.0	42.9	44.1			45.8	46.5	46.6	46.8	46.9	46.8	
Net non-debt creating capital inflows (negative)	-4.4	-2.8	-3.8	-2.6	-2.5			-2.5	-3.0	-3.0	-3.0	-3.0	-2.9	
Automatic debt dynamics 1/	0.5	0.6	9.9	-4.8	-1.8			0.7	1.5	1.7	1.7	1.7	1.7	
Contribution from nominal interest rate	1.4	1.4	1.8	2.3	2.6			2.4	2.3	2.4	2.3	2.2	2.2	
Contribution from real GDP growth	-0.7	0.2	7.5	-6.6	-5.3			-1.7	-0.9	-0.7	-0.6	-0.5	-0.5	
Contribution from price and exchange rate changes 2/	-0.1	-1.0	0.6	-0.5	0.9			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-5.5	0.3	-5.7	-16.1	-0.9			-4.5	-3.3	-2.9	-2.8	-2.8	-2.9	
External debt-to-exports ratio (in percent)	66.7	60.5	265.2	143.0	98.7			85.3	81.4	78.8	76.8	74.7	72.9	
Gross External Financing Need (In Billions of US dollars) 4/	1.5	0.4	2.6	2.9	1.5			1.5	1.5	1.2	1.2	1.3	1.5	
in percent of GDP	12.2	3.0	26.4	24.7	11.3	10-Year	10-Year	11.1	10.5	7.9	7.9	8.2	8.8	
Scenario with Key Variables at their Historical Averages 5/								**39.2**	**46.7**	**54.6**	**62.6**	**70.9**	**79.3**	**-1.3**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	2.9	-0.7	-23.5	17.0	14.4	1.2	10.9	4.3	2.3	1.8	1.6	1.5	1.5	
GDP deflator in US dollars (change in percent)	0.3	4.0	-2.3	1.0	-2.2	1.3	2.5	3.1	2.9	2.3	2.1	2.0	2.1	
Nominal external interest rate (in percent)	5.4	5.7	5.5	5.9	6.9	5.8	0.5	6.2	6.3	6.5	6.4	6.3	6.3	
Growth of exports (US dollar terms, in percent)	26.4	8.7	-67.3	97.2	63.7	13.1	43.7	17.0	7.4	5.4	4.4	4.0	3.7	
Growth of imports (US dollar terms, in percent)	5.0	-5.4	-29.5	45.0	15.0	2.9	20.0	11.5	7.0	4.4	4.1	3.7	3.5	
Current account balance, excluding interest payments	-8.1	-0.8	-21.7	-18.8	-5.6	-12.3	6.4	-3.8	-3.7	-3.4	-3.4	-3.3	-3.3	
Net non-debt creating capital inflows	4.4	2.8	3.8	2.6	2.5	3.9	1.6	2.5	3.0	3.0	3.0	3.0	2.9	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

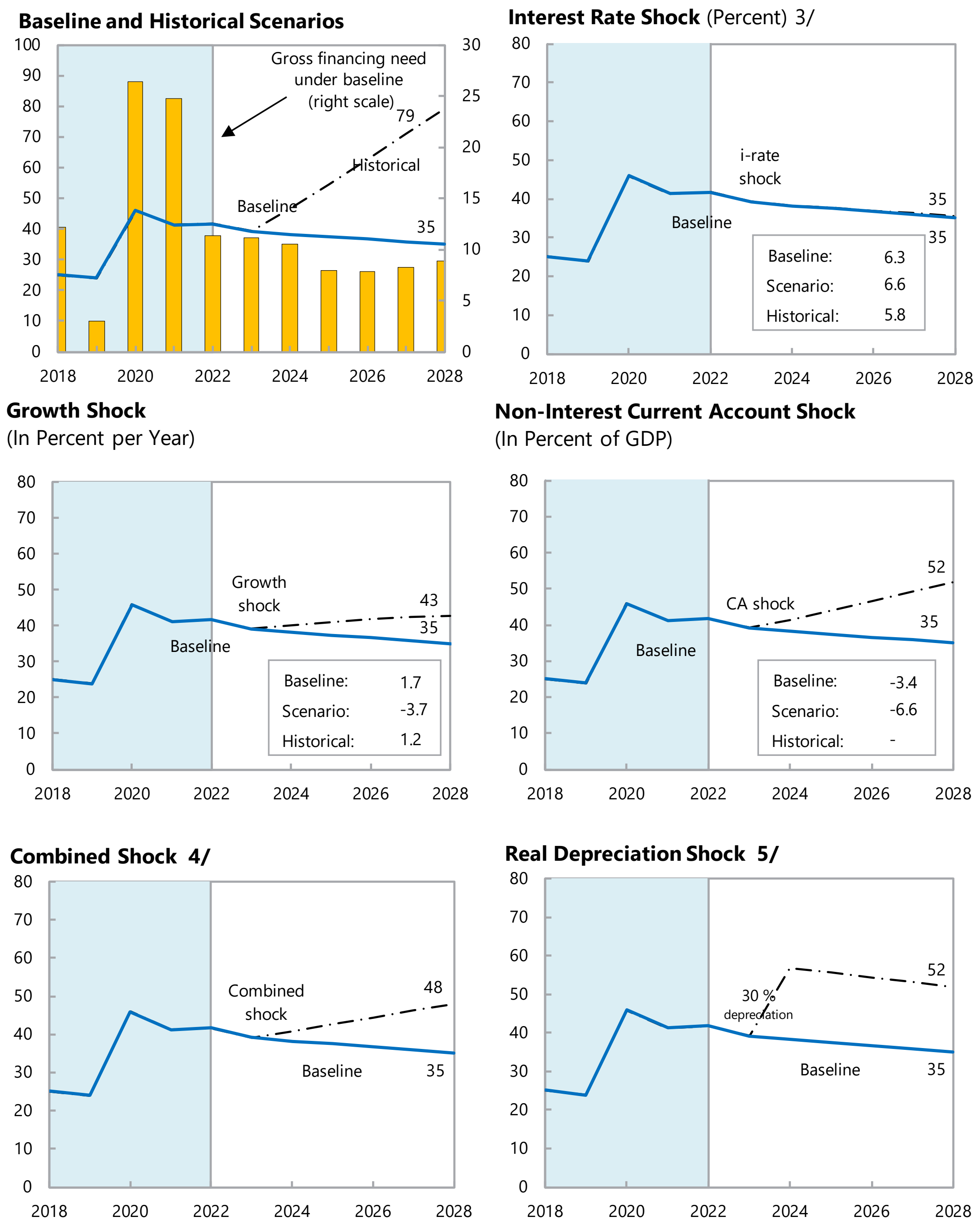
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 7. The Bahamas: External Debt Sustainability: Boundary Tests 1/ 2/

(External Debt in Percent of GDP)



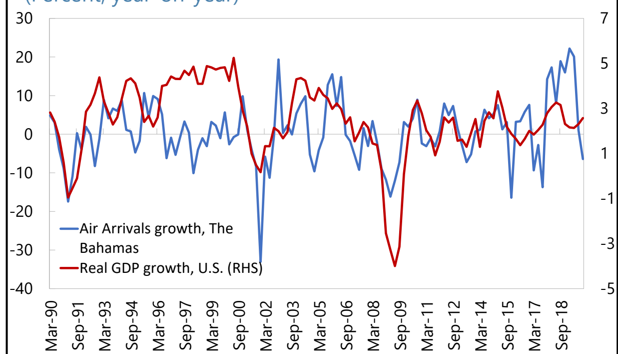
Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/2 standard deviation shocks applied to nominal interest rate.
4/ Permanent 1/4 standard deviation shocks applied to nominal interest rate, growth rate, and current account balance.
5/ One-time real depreciation of 30 percent occurs in 2024.

Annex IV. The Bahamas Tourism Demand and the U.S. Business Cycle

More than 80 percent of stopover visitors to The Bahamas are from the United States, making the economy of The Bahamas exposed to U.S. business cycle fluctuations. Using linear regression, staff finds that a one percentage point increase in U.S. GDP growth is associated with about a two-percentage point increase in air arrivals to The Bahamas. Local projections show that the effect is predominantly contemporaneous – the effect vanishes after two quarters. Other variables, like U.S. stock market growth, change in dollar index, and oil price growth are not, or only weakly, related to air arrivals.

1. **The economy of The Bahamas is highly dependent on tourism activity, with tourism receipts as a share of GDP at 33 percent in 2022.** Visitors that arrive in The Bahamas by air account for about 90 percent of tourism revenues. Air arrivals increased from about 1.6 million in 1990 to 1.8 million in 2019. The average quarterly year-on-year growth rate of air arrivals over this horizon was 0.7 percent, with a standard deviation of 8.4 percent.

Air Arrivals to The Bahamas and USA GDP
(Percent, year-on-year)



Sources: The Bahamas Ministry of Tourism, Haver, and IMF staff calculations.

2. **We analyze the response of air arrivals in The Bahamas to the U.S. business cycle, using a linear regression framework.** The dependent variable is air arrivals year-on-year growth to the Bahamas, the data coming from The Bahamas Ministry of Tourism. The main explanatory variable of interest is U.S. GDP year-on-year growth. Other explanatory variables include the growth rate of spot crude oil prices, four-quarter lags of dependent and explanatory variables, and quarter dummies.[1] Our sample ranges from 1990Q1 to 2019Q4, at quarterly frequency. We estimate the following equation using the method of Ordinary Least Squares:

$$arrivals_t = \alpha + \beta y_t^{US} + \gamma Z_t + d^Q + u_t \qquad (1)$$

where $arrivals_t$ is the growth rate of air arrivals in The Bahamas, y_t^{US} is growth rate in U.S. GDP, Z_t is a vector of additional control variables, d^Q are quarter dummies, and u_t is an error term. β is the

[1] All data for the U.S. was retrieved from Haver. We find that explanatory variables like U.S. stock market index growth and growth in the U.S. Dollar index are not significantly related to air arrivals in The Bahamas.

coefficient of interest capturing the association of air arrivals growth in The Bahamas and U.S. GDP growth.[2]

We find that a 1 percentage point (pp) increase in U.S. GDP growth is associated with about a 2.1 pp increase in arrivals growth in The Bahamas. The coefficient on U.S. GDP growth is significant at the 1% level. Of the other control variables, the four-quarter lag of arrivals growth and oil price growth are. The average decline in GDP over the last five U.S. recessions was about 4 percentage points. The results imply that a typical recession in the U.S. is associated with a 8.5 pp decline in air arrivals in The Bahamas.

The Bahamas: Dependent Variable: Arrivals Growth

U.S. GDP growth	1.776***	2.121***
Oil price growth		0.005
Lag 4Q Arrivals growth		-0.281**
Lag 4Q U.S. GDP growth		-0.257
Lag 4Q Oil price growth		0.039*
Observations	120	120
R-squared	0.134	0.229

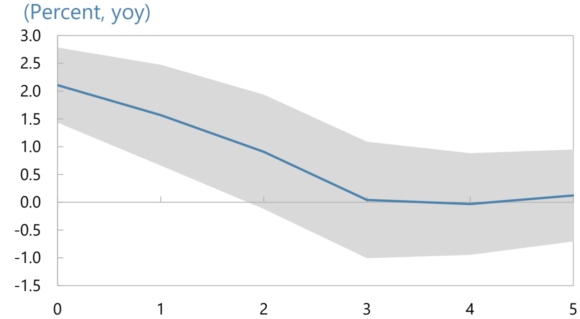
***, **, * denote significance at 1%, 5%, 10% level, respectively, based on robust standard errors. Other coefficients not reported. Growth is on a year-on-year basis for all variables.

Source: IMF staff calculations.

3. The effect of a change in U.S. GDP growth on air arrivals to The Bahamas is mostly contemporaneous. Impulse response functions derived from local projections[3] show that the coefficient on GDP growth in the U.S. falls to 1.6 percentage points after one quarter, and is statistically insignificant after two quarters.

Response of Growth Rate in Air Arrivals

(Percent, yoy)



Note: Gray area shows 90 percent confidence intervals calculated using Newey-West standard errors.

Source: IMF staff calculations.

[2] In order to estimate the causal effect of U.S. GDP growth on air arrivals in The Bahamas one would need plausibly exogenous variation in U.S. GDP growth using for example an instrumental variable. To this effect, we employed various identified U.S. monetary policy shocks commonly used in the literature (e.g. Romer and Romer (2004), Jarociński and Karadi (2020)) as instruments for U.S. GDP growth. However, we find that the instruments suffer from a weak instrument problem, and consequently do not report the results.

[3] Local projections are estimated as the following: $arrivals_{t+h} = \alpha + \beta_h y_t^{US} + \gamma Z_t + d^Q + u_{t+h},\ h = 0, \ldots, 5$, where $arrivals_{t+h}$ is growth in air arrivals in The Bahamas at horizon t+h.

References

Jarociński, Marek, and Peter Karadi. "Deconstructing monetary policy surprises—the role of information shocks." American Economic Journal: Macroeconomics 12, no. 2 (2020): 1-43.

Romer, Christina D., and David H. Romer. "A new measure of monetary shocks: Derivation and implications." American Economic Review 94, no. 4 (2004): 1055-1084.

Annex V. Expenditure Efficiency Gains

Current expenditure in the Bahamas is on par with many of its Caribbean peers, but there is scope to reduce unproductive spending and support fiscal consolidation efforts. Recurrent subventions to public sector corporations account for 15 percent of the authorities' 2023/24 budget, with 80 percent of transfers concentrated in five institutions. Staff recommends reforms that improve the efficiency of SOE operations and save 0.8 percent of GDP in annual transfers over the medium-term. Together with a comprehensive tax reform, cuts in transfers to SOEs would make room for increased social spending and targeted support to vulnerable households, while putting debt firmly on a downward trajectory.

1. In the Bahamas, spending as a share of GDP is below many of its high-income peers, but there is still space to reduce transfers to lossmaking SOEs (see Figure 1).[1] Recurrent subventions account for a nontrivial share of the government's budget (3.2 percent of GDP in 2023/24), of which 4/5th represents transfers to just five corporations – the Public Hospital Authority (PHA), Water and Sewerage Corporation (WSC), University of the Bahamas, the National Health Insurance Authority (NHIA) and Bahamasair Holdings Limited.

- Current subventions to the PHA account for approximately half of annual current subventions to SOEs, due largely to little to no cost recovery and a system of exemptions and non-payment for most services. Moreover, hospital benefits accrue primarily to those with higher incomes. The collection of fees for most services offered by the PHA, means testing to require those with greatest capacity to pay, linking future price increases to the rise in operating costs, and greater efforts to reduce the write-off of unpaid bills could yield annual savings of up to 0.7 percent of GDP over the medium-term.

- Water rates are insufficient to cover the cost of water distribution across the Bahamas. Moreover, rates have not increased in over two decades. Increasing water rates for heavy residential and commercial users and recovering the economic cost over the long-run could improve revenue collection by WSC and reduce transfers by 0.1 percent of GDP.

- The 2023/24 budget allocates $46 million per year for the National Health Insurance Authority (NHIA), but this represents just one-third of the required annual funding. Staff supports the authorities' plans to require employees and employers to directly contribute to the NHIA but will emphasize that these contributions should not place a disproportionately heavier burden on the poor. [2]

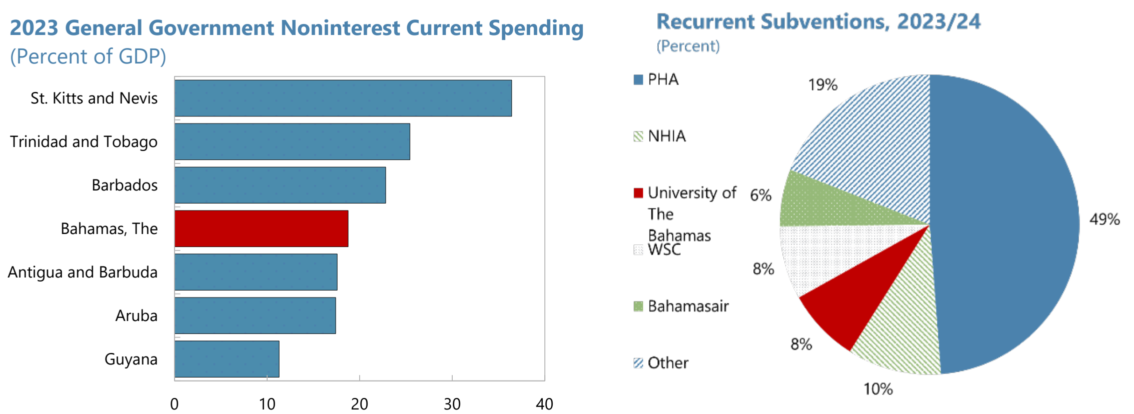
- The strong recovery in tourism presents an opportunity to improve the financial prospects of public corporations directly involved in the sector. Refinancing expensive external debt owed by

[1] See the Public Expenditure Review for The Bahamas (IDB, 2022) for more details.

[2] 2019.01.30 - Sharable Final Document - Public Consultation Paper (nhibahamas.gov.bs)

Bahamasair and expanding service to more lucrative routes could improve profitability and help reduce the $28 million annual subvention.

Figure 1. The Bahamas: Government Spending

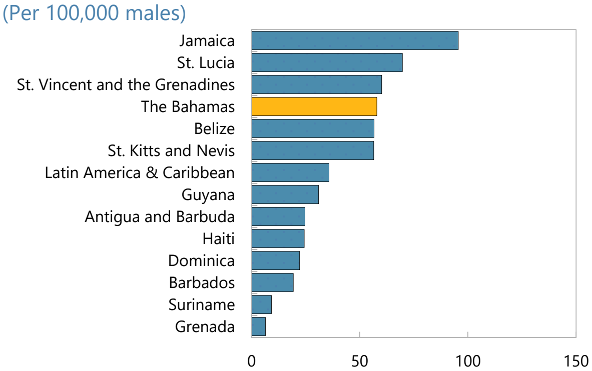


Source: IMF staff calculations.

Sources: 2023/24 Draft Estimates of Revenue and Expenditure

2. Reprioritizing public spending can improve social outcomes and support more inclusive and resilient growth. In the Bahamas, social outcomes lag many of its Caribbean peers. Pre-pandemic, life expectancy in the Bahamas was lower than in many of its regional peers – violent crime continues to be one of the leading causes of death, with homicide rates among the highest in the Caribbean, especially among males. Moreover, access to education at the secondary level remains low. Measures to sustain the expansion of pre-primary education and to improve student retention may improve educational outcomes, while expanding programs that support youth at risk could reduce youth unemployment and strengthen crime prevention. Reforming the national pension system will also require additional contributions from the government to sustain an important safety net for the elderly. Staff also recommends additional spending to support climate adaptation and mitigation efforts which require additional investment in resilient infrastructure and renewable energy.

2021 Intentional homicides, Males
(Per 100,000 males)

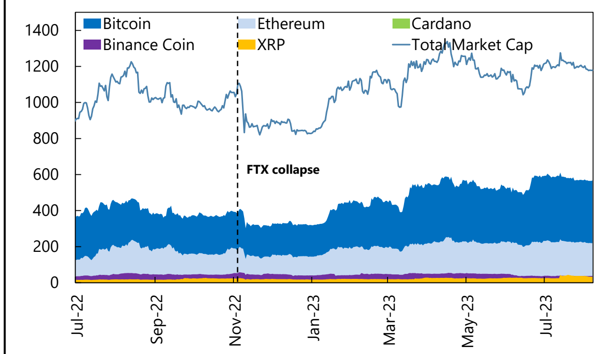


Source: World Development Indicators.

3. Staff's proposed expenditure reform could improve debt sustainability and support the attainment of the authorities' 50 percent of GDP debt target. Combined with a comprehensive tax policy reform which includes the introduction of personal and corporate income taxes and the removal of some tax expenditures, staff estimates that recommended expenditure reform could help to improve the primary balance by 2½ percent of GDP over the medium-term (see Text Table 2).

Annex VI. Regulatory Framework for Crypto Assets

Crypto Market Capitalization
(Billions of US Dollars)



Sources: Coingecko, and IMF staff calculations.

In 2020, The Bahamas launched one of the first designated legal frameworks for the crypto asset space, the Digital Assets and Registered Exchanges (DARE) Act. The FTX failure in 2022 impacted the confidence in crypto assets globally and uncovered vulnerabilities in the regulatory framework for crypto assets in The Bahamas[1]. To update the DARE Act in line with current international standards and best practices, the authorities started in 2022 to draft the new DARE Bill 2023, which was published for consultation in April 2023 and is expected to become effective in 2024. For investor protection, robust risk management, and market development, the amendment would expand the coverage of digital asset business including staking services; strengthen financial reporting and disclosure requirements; and provide standards for addressing conflicts of interest and/or connected third party relationships. It would establish a regulatory framework for stablecoins, which would prohibit the issuance of algorithmic stablecoins. The issuance of privacy tokens and mining of crypto assets as a business would be also prohibited.

1. **The Bahamas faces several risks related to the crypto market.** These include: (i) a possible circumvention of capital flow measures using crypto assets; (ii) cyber risks; (iii) exposure of crypto assets firms to criminal activities and/or exposure of local banks to illegal crypto assets schemes; (iv) uncertainty regarding the legal framework regulating crypto products; (v) currency substitution, also known as cryptoisation; and (vi) exposure of the domestic financial system to unbacked tokens and stablecoins with a liquidity mismatch.[2] Each of these risks could jeopardize the soundness and integrity of the financial system in The Bahamas.

2. **Regulatory bodies need to take measures to mitigate risks associated with crypto assets.** These notably include: implement clear and comprehensive governance requirements in the regulatory framework, demand information on the corporate structure from licensees (covering the function of senior management and the decision-making process) and enforce disclosure and transparency requirements—including disclosing the interconnectedness of the company with

[1] FTX was a crypto exchange based in The Bahamas that was valued at $32 billion. The company filed for bankruptcy in November 2022 after interlinkages between FTX and Alameda Research—a crypto asset trading firm—were discovered. Both companies had the same owner and Alameda was the price maker of FTX's self-issued unbacked token (FTT). By owning most of the FTT stock, Alameda was highly exposed to FTX. At the same time, FTX investors' deposits were used as loans to Alameda, which used FTTs as collateral, making FTX also vulnerable to Alameda's exposures.

[2] Tether is the most popular USD backed stablecoin. The company that launched Tether has been reported to have connections with Bahamian banks and has a high degree of liquidity mismatch. Tether's reserves consist of cash, fiduciary deposits, reverse repo notes, and government securities (most of which have medium term liquidity).

affiliates. Competent authorities also should adequately mitigate the money laundering and terrorism financing risks, notably through appropriate AML/CFT oversight of licensees. Where crypto asset entities are carrying out multiple activities, they should be subject to greater regulatory oversight that reflects their size, scope and complexity. In all cases, regulators should receive sufficient resources to conduct regular onsite inspections.

3. Given the cross-border nature of the crypto ecosystem, the Bahamian framework should adhere to international standards to more effectively mitigate risks. The government might consider requiring all crypto firms to be onshore, to ensure that they are subject to the country's regulatory framework for crypto assets. Addressing data gaps would be essential in effectively monitoring the crypto ecosystem to detect and disrupt criminal activities. Countries should adhere to global standards for crypto markets including the FATF standard relating to virtual assets for AML/CFT purposes, FSB high-level recommendations on crypto assets and the BCBS standards on the prudential treatment of banks' crypto exposures. If firms in The Bahamas are issuing stablecoins that are marketed across borders, the FSB high-level recommendations for Global Stablecoins and the CPMI-IOSCO principles for financial market infrastructures could also apply. These standards can help minimize the potential for regulatory arbitrage.

Annex VII. Past Policy Advice

Recommendations	Current Status
Fiscal Policy	
Implement key elements of the PFM and Public Procurement Act. Enhance fiscal transparency by the timely publication of audited financial statements for public sector entities, including beneficial ownership information of companies awarded public procurement contracts.	The authorities passed amendments to the Public Finance Management (PFM) and Public Procurement Acts in 2023. Amendments to the PFM Act insert ministerial discretion in the selection of the fiscal council and make provisions for deviations away from established fiscal rules. Amendments to the Public Procurement Act require the Ministry of Finance to publish beneficial ownership information for new procurement contracts awarded to a successful bidder funded through the proceeds of a lending arrangement between the government and an international funding agency. The authorities have recently published the details of the first suite of publicly awarded contracts. Key units/structures/positions specified in the Public Financial Management Act and the Public Debt Management Act have not yet been fully operationalized, including the Director of the Debt Management Office (DMO), the Debt Management Committee (DMC), and Chief Procurement Officer. The Ministry of Finance is in the process of appointing a new executive director for the Fiscal Council.
Contain rising outlays to SOEs and pensions	The authorities announced plans to introduce a contributory pension scheme for public sector employees in the 2023/24 budget, but the timeline has not yet been communicated. The 2023/24 budget also assumes a reduction in transfers to public nonfinancial corporations as a share of GDP over the medium-term.
Review tax expenditures and consider a comprehensive tax reform	The authorities have published a green paper for comment on the implementation of a corporate income tax. Moreover, the 2023/24 budget makes provision for the introduction of a hotel condominium tax, a tourism environmental tax and increases in departure taxes.

Recommendations	Current Status
Structural Policy	
Advance energy sector reforms to improve the reliability of the electricity grid and reduce costs	Equipment fires and load shedding plagued The Bahamas in the summer of 2023. Investments in renewable energy and storage facilities have been made.
Encourage digitalization, streamline administrative processes, close data gaps, publish statistics in line with international standards.	A new online companies portal at the Registrar General's Department is scheduled to be launched in early December 2023.
Reforming the corporate insolvency regime.	Discussions are ongoing.
Monetary and Financial Policy	
Allow interest rates to rise, as needed by market conditions, to support the currency peg and preserve international reserves.	The central bank has kept its policy rate unchanged, but international reserves remain adequate, supported by the recovery in tourism, public sector borrowing, and capital flow management measures.
Make amendments to the 2020 Central Bank Act, including lowering the ceiling on credit to the government and restricting purchases of securities issued by public corporations, to help safeguard the central bank's institutional and financial autonomy.	The 2023 amendments to the Central Bank Act now prohibit financing to the government via the primary bond market and impose a limit of 15½ percent of the government's ordinary revenues on the central bank's advances to the government.
Develop a local real estate price index	Discussions are ongoing.
Establish and implement a robust supervisory framework to regulate registration, ensure prudential supervision, and AML/CFT compliance of crypto assets.	The Bahamas' technical compliance was assessed as being "Compliant and Largely Compliant" in 40 of the 40 FATF's Recommendations in December 2022. The authorities have started to conduct a new National Risk Assessment ahead of the next mutual evaluation. The authorities amended the DARE Act in 2022 to permit the Securities Commission to sanction unlicensed persons conducting digital assets business. Moreover, the DARE Bill, 2023 expands the range of activities considered digital asset business activities, seeks to improve financial and reporting requirements for digital asset businesses, and aims to strengthen the framework for consumer and investor protection, and risk management.

Recommendations	Current Status
Monetary and Financial Policy	
Accelerate education campaigns on Sand Dollar, and continue strengthening internal capacity, including on cybersecurity, and oversight of the CBDC project. Mitigate risk.	Risk mitigation underway. Authorities invested in cybersecurity and internal capacity. Several educational outreach events have been hosted.
Update the central bank's supervisory framework for bank intervention to ensure that early warning indicators are used more effectively.	Little progress made to date. Stress tests of the domestic banking system rely on ad hoc shocks to nonperforming loans and interest rates, rather than shocks driven by deteriorating macroeconomic conditions.
Strengthen the Deposit Insurance Corporation's governance, organizational structure and funding arrangement.	The authorities plan to increase premiums payable to the deposit insurance fund from 2024 to increase its size from $80 million to $120 million by 2026.
Enhance interagency coordination on systemic matters, including through a new inter-agency coordination body.	The authorities have drafted a memorandum of understanding amongst the relative supervisory agencies to establish the Bahamas Financial Stability Council and improve interagency coordination and information exchange.
Data	
Close data gaps and publish statistics according to international standards.	The IMF technical staff delivered several technical missions, and is continuing to work with the Statistical Office on closing data gaps in Balance of Payments and National Accounts data.
Conduct a household survey.	The last report was published in 2013. The 2022 census has been conducted and preliminary results have been released.

Annex VIII. Integrating Surveillance and Capacity Development

Sector	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Tax Policy and Administration	Review tax expenditures and consider a comprehensive tax reform.	FAD provided TA on tax policy, CARTAC on tax administration, and LEG on tax appeals.
Expenditure Policy	Contain rising outlays to SOEs and pensions. Enhance fiscal transparency by the timely publication of audited financial statements for public sector entities, including beneficial ownership information of companies awarded public procurement contracts.	The Inter-American Development Bank released a public expenditure review in February 2022.
Public Financial Management	Implement key elements of the PFM and Public Procurement Act.	CARTAC provided several TA missions on public financial management.
Financial Sector	Update the central bank's supervisory framework for bank intervention to ensure that early warning indicators are used more effectively. Make amendments to the 2020 Central Bank Act to help safeguard the central bank's institutional and financial autonomy. Develop a local real estate price index and operationalize the Credit Bureau. Accelerate education campaigns on Sand Dollar, and continue strengthening internal capacity, including on cybersecurity, and oversight of the CBDC project. Mitigate risk. Enhance interagency coordination on systemic matters, including through a new inter-agency coordination body.	CARTAC delivered technical assistance on a financial stability framework and macro-prudential and systemic risk indicators for financial stability assessment. MCM and CARTAC delivered in March 2023 a TA on developing the local currency debt market. The mission assessed the current stage of The Bahamas domestic sovereign debt market and formulated policy recommendations in line with the IMF's Guidance Note for Developing Local Currency Bond Markets.
AML/CFT	Establish and implement a robust supervisory framework to regulate registration, ensure prudential supervision, and AML/CFT compliance of crypto assets.	CARTAC delivered technical assistance on corresponding bank relationship monitoring toolkit in 2018.
Statistics	Close data gaps and publish statistics according to international standards. Conduct a household survey.	ICD delivered in 2023 a TA to implement a macro forecasting model, and CARTAC several missions on BoP statistics and national accounts to reduce error and omissions (CARTAC March 2023). STA provided several technical assistance missions to BNIS on external sector statistics, and to CBOB to implement

Sector	Surveillance Recommendations	Capacity Development Recent Actions/Plans
		standardized report forms (SRFs). CARTAC provided several TA on national account statistics, as well as tax administration, and price statistics. Staff continues to support the authorities' efforts towards addressing data gaps, including continuing technical assistance to compile and publish international investment position (IIP) statistics. With Statistics Canada's support, a National Accounts Advisory Committee has been established and MOUs are being implemented to improve administrative data classification, quality assurance and sharing.

Annex IX. Progress on Commitments in Rapid Financing (RFI) Request (June 2020)

Authorities' Commitments in Letter of Intent	Status and Recommendations
Publish procurement contracts of crisis mitigation spending, including beneficial ownership information of companies awarded procurement contracts	**No progress**. The authorities are encouraged to obtain and publish beneficial ownership information of companies awarded procurement contracts in the future to enhance transparency and accountability of public funds consistent with the 2020 RFI commitments and recent revision to the international AML/CFT standards set by the FATF. The Public Procurement Act 2023 makes provision for the publication of beneficial ownership information for new procurement contracts awarded to a successful bidder funded through the proceeds of a lending arrangement between the Government of the Bahamas and an international funding agency.
Report quarterly on COVID-19 mitigation spending	**Done.** The relevant information is in the quarterly budget performance reports.
COVID-19 mitigation spending and revenue measures should be audited withing 9 months of the end of the fiscal year	**Partially implemented.** The Auditor General published a financial audit report covering FY2019-20 of expenditures related to the response to COVID pandemic and Hurricane Dorian, but a performance or value-for-money audit is still ongoing. The other audit report covering FY2020-21 has been completed and is expected to be laid in Parliament.
Finalize the Public Procurement Act by end-June 2020 and submit Public Financial Management Bill and Public Debt Management Bill to Parliament by end-2020.	**Done with delay.** The Public Procurement Bill was finalized on time, but the Public Financial Management Bill and Public Debt Management Bill were tabled in parliament in early 2021. All bills were passed and enacted in 2021Q3. The authorities have since tabled and passed new PFM and Public Procurement Acts in March 2023.

Annex X. Implementation of 2019 FSAP Recommendations—Assessment (as of December 2023)

Recommendation	Status
Banking Supervision	
Strengthen assessments of credit underwriting and enhance credit risk management and ICAAP reviews. Update guidelines on impaired assets and other asset classifications.	**The CBOB continues to advance work on revisions to the guidelines for credit risk, impaired assets, and ICAAP as part of its Policy Work Agenda. This includes issuing updated credit risk guidelines in 2022.**
Ensure strong governance arrangements for state-controlled financial institutions.	**Implemented. Governance at the Bank of Bahamas has improved and the previous moratorium on commercial lending has been lifted.**
Strengthen effectiveness assessments of bank boards of directors, senior management, and internal audits.	**In progress. The central bank periodically reviews the corporate governance guidelines as a part of the policy work agenda.**
Increase the number of on-site examinations of onshore banks. Perform on-site examinations of offshore banks that have not been subject to visits in the past five years.	**The central bank continues to conduct onsite examinations of both domestic and international banks, most of which are generally risk-based. In some cases, where risks are assessed as high, the Bank conducts special reviews. The Bank notes that their complement of onsite examiners could benefit from adding inspectors with special skillsets.**
Financial Crisis Management and Safety Nets	
Enact bank resolution legislation, including guidance for public AMCs.	**Parliament enacted the Banks and Trust Companies Regulations Act, 2020; the Central Bank Act, 2020 and the Protection of Depositors (Amendment) Act, 2020, all of which came into force on 1st September, 2020.**
Create a Crisis Management Committee to improve coordination and operationalize reforms.	**A Crisis Preparedness Working Group was formed by the Group of Financial Service Regulators. Plans are underway to establish a Financial Stability Council which will have a financial stability and crisis management role.**
Increase DIC funding to reach 2 percent of insurable deposits. Establish a pre-arranged emergency funding facility.	**In progress. The Deposit Insurance Corporation has approved an increase in the premiums levied on banks. However, with the proposed increase, DIC funding would not reach 2 percent of insurable deposits.**
Issue Resolve financial statements and asset sales information, and commission a thirdparty comprehensive review of its operations.	**In progress. The third-party review was provided to the Government.**

Recommendation	Status
Financial Stability Analysis and Stress Testing	
Operationalize the proposed Consumer Credit Bureau.	**Implemented. The credit bureau began operations in 2021.**
Improve data collection and analytical capacity for assessing solvency and liquidity risks; strengthen focus on key systemic and macroeconomic risks.	**The Central Bank conducts ad hoc collections and surveys as required.**
Develop a real estate price index.	**Central Bank staff has begun preliminary work on constructing a real estate price index.**
Systemic Risk Oversight and Macroprudential Policy	
Introduce a macroprudential capital buffer above a core common equity requirement.	**Implemented. The Bahamas Capital Regulations (2022) and the associated Guidelines for the Management of Capital and the Calculation of Capital Adequacy took effect July 15, 2022. These include the requirement of additional capital buffers including a capital conservation buffer and a systemic risk buffer.**
Collect loan-level data for potential implementation of LTV/DTI mortgage lending standards.	**The central bank collects data on the largest credit exposures from banks but has not yet started collection of detailed loan-level data for all loans.**
Introduce CBOB recommendations regarding lending standards in NBFIs.	**This has been placed on hold.**
Strengthen the role of the Group of Financial Services Regulators in systemic risk surveillance and oversight.	**The Group of Financial Services Regulators formed 3 working groups to assist in this regard, the AML External Relations, Crisis Preparedness and Joint Guidance Working Groups. Moreover, plans are underway to establish a Financial Stability Council which will have a financial stability and crisis management role.**
Anti-Money Laundering/ Countering the Financing of Terrorism (AML/CFT)	
Continue to strengthen AML/CFT risk-based supervision of FIs and DNFBPs by enhancing risk analysis, dedicating resources, and using enforcement actions.	**Central Bank supervised financial institutions are all routinely supervised with respect to AML. The Bank has asked institutions to provide self-risk assessments and has noted more timely completion of remediation requests.**
Assess potential ML/TF risks related to Fintech initiatives.	**In progress. The central bank has developed a Digital Assets Framework and Guidelines to identify and address any issues which may threaten financial stability.**

Recommendation	Status
Anti-Money Laundering/ Countering the Financing of Terrorism (AML/CFT)	
Prevent pressure on correspondent banking relationships, including by ensuring availability of accurate beneficial ownership information.	**The Register of Beneficial Ownership Act was passed in 2018. Progress continues in ensuring accuracy of beneficial ownership information in the register.**
Developmental Recommendations: Financial Inclusion – Payment Systems and SMEs	
Open the ACH to regulated and supervised non-bank financial institutions and modernize the electronic payment infrastructure. Differentiate debit and credit merchant discount rates.	**The 2023 Central Bank Act allows supervised non-bank financial institutions to have direct access to the ACH. Regulated credit unions, international banks, PSPs and MTBs are now permitted to establish settlement accounts directly with the Central Bank as opposed to having to negotiate settlement arrangements with commercial banks.**
Promote digitizing government payments and allow Treasury participation in the ACH.	**The 2023 Central Bank Act allows supervised non-bank financial institutions to have direct access to the ACH. In the past, the Bank has also proposed that the Government and the National Insurance Board would be allowed to join the ACH, as the two largest single originators and recipients of payments.**
Improve operations and coordination of public empowerment funds targeting SMEs.	**The Small Business Development Center (SBDC), established in 2018, is an institute to promote small business under the partnership among the government, University of The Bahamas, and The Bahamas Chamber of Commerce and Employers Confederation. SMEs access financing and training via the SBDC, including in collaboration with the IDB.**

Annex XI. Developing the Domestic Bond Market

1. **The Bahamas has many of the elements of a well-functioning local currency bond market, but there is scope for improvement**. A strong legal and regulatory framework protects investors and facilitates the issuance of various securities. A diverse set of sophisticated investors (including domestic commercial banks, insurance companies, pensions funds, and brokers) has sufficient capacity to absorb the government's domestic financing needs and benefits from strong technology platforms. Primary market issuance is regular at various points of the curve, but only the prices of 91- and 182-day T-Bills are market-determined (albeit with a ceiling sometimes placed on rates). The market yields on all other securities are determined by the issuer, occasionally leading to undersubscribed primary issuance. Secondary market trading is limited.

2. **The authorities have announced plans to introduce competitive bidding for government bond auctions, launch a government savings bond to broaden the participation of small investors, and improve the transparency of public finance operations (through more detailed publication and greater fiscal and financial reporting via a newly developed investor relations website)**. The central bank has also established cash buffer account for the government to assist with the latter's cash management. Accepting market-driven outcomes of auctions for primary issuances across the yield curve will be necessary to ensure auctions are fully subscribed. Extending issuance to include 30 and 364-day T-Bills would improve both the Treasury's and banks' liquidity management and offer additional price points on the yield curve.

INTERNATIONAL MONETARY FUND

THE BAHAMAS

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 3, 2024

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of November 30, 2023)

Membership Status: Joined August 21, 1973; Article VIII

General Resources Account:

	SDR Millions	Percent of Quota
Quota	182.40	100.00
Fund holdings of currency	322.72	176.93
Reserve position in the Fund	19.29	10.57

SDR Department:

	SDR Millions	Percent of Quota
Net cumulative allocation	299.24	100.00
Holdings	119.22	39.84

Outstanding Purchases and Loans:

	SDR Millions	Percent of Quota
Emergency Assistance[1]	159.60	87.50

Latest Financial Commitments:

Outright Loans	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	Jun 01, 2020	Jun 03, 2020	182.40	182.40

Overdue Obligations and Projected Payments to Fund[2]:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal	22.80	91.20	45.60	. . .	. . .
Charges/Interest		13.24	8.71	7.52	7.52
Total	22.80	104.44	54.31	7.52	7.52

Implementation of HIPC Initiative: Not Applicable

[1] Emergency Assistance may include ENDA, EPCA, and RFI.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangements

The de jure and de facto exchange rate arrangements in The Bahamas are classified as a conventional peg, vis-à-vis the US dollar. The Bahamian dollar has been pegged to the U.S. dollar at B$1 per US$1. The Bahamas has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Assessment of Data Adequacy for Surveillance:

Data provision is broadly adequate for surveillance. All critical macroeconomic data, including comprehensive central government finance statistics, are regularly published in the Central Bank of The Bahamas' "*Monthly Economic and Financial Developments"* and *"Quarterly Statistical Digest"* and the Ministry of Finance's *"Quarterly Report on Budgetary Performance*." The government started publishing the quarterly data of the public sector, including state-owned enterprises, in its "*Quarterly Public Debt Statistics Bulletin*" in November 2021. Subscription to the enhanced General Data Dissemination System (e-GDDS) in December 2018 has improved timelines and accessibility. At the same time, the authorities have yet to compile data on the international investment position (IIP) statistics and general government accounts data. Staff continues to support the authorities' efforts towards addressing data gaps, including continuing technical assistance to compile and publish IIP statistics.

Last Article IV Consultation

The Bahamas is on a 12-month cycle. The last Article IV consultation was concluded by the Executive Board on May 19, 2022 (IMF Country Report No. 2022/131).

Resident Representative: None

Technical Assistance		
Department	**Dates**	**Purpose**
LEG	July 2012	Payment System Laws
STA	Jan 2013	Government Finance Statistics
MCM	February 2013	Financial Stability Reporting
FAD	April 2013	Tax Reforms for Increased Buoyancy
CARTAC	April 2013	Draft VAT Bill
MCM	May 2013	Basel II Implementation
CARTAC	May/September 2013	Central Revenue Agency
CARTAC	July 2013	Support for Customs and Excise Department's Preparation of VAT
FAD	January/February 2014	Revenue Administration
FAD	March 2014	Tax Administration Readiness to Successfully Launch and Administer VAT
FAD	March 2014	Goods and Services Tax
FAD	March 2014	VAT Revenue Projection
FAD	April 2014	Revenue Impact of Implementing VAT
MCM	March 2014	Financial Crisis Management Planning
MCM	April 2014	Debt Management
CARTAC	June 2014	Price Statistics
CARTAC	August 2014	Balance of Payment and International Investment Position
FAD	September/October 2014	Revenue Administration
FAD	October 2014	Preparation to Launch a Value Added Tax
CARTAC	November 2014	Quarterly National Accounts
CARTAC	December 2014	Price Statistics
CARTAC	December 2014	Risk-Based Supervision of the Securities Market
LEG	March 2015	Strengthening the Legal Framework for Bank Resolution and Crisis Management
CARTAC	August/September 2015	Quarterly National Accounts
FAD	February/March 2016	Assessment of VAT Launch and Administration
CARTAC	August 2016	National Accounts Statistics
CARTAC	August 2016	Financial Health and Stability Indicators for the Pension Sector in the Bahamas
CARTAC	May/June 2017	External Sector Statistics

Technical Assistance (continued)		
CARTAC	June 2017	Macro-Prudential and Systemic Risk Indicators for Financial Stability Assessment
CARTAC	August 2017	National Accounts Statistics
CARTAC	November/December 2017	Price Statistics
CARTAC	April 2018	Public Financial Management
STA	April 2018	Monetary and Financial Statistics
CARTAC	May 2018	Financial Stability Framework
CARTAC	June 2018	Corresponding Bank Relationship Monitoring Toolkit
CARTAC	August 2018	National Accounts Statistics
CARTAC	September 2018	Public Financial Management
STA	October 2018	e-GDDS
CARTAC	November 2018	Tax Administration
LEG	July 2019	Tax Appeals
CARTAC	September 2019	National Account Statistics
CARTAC	October 2019	Public Financial Management
CARTAC	February 2020	Public Financial Management
STA	October 2020	External Sector Statistics
ICD	November 2020	Financial Programming and Policies
CARTAC	January 2021	Public Financial Management
FAD	August 2021	Tax policy
ICD	September 2021	Financial Programming and Policies
STA	September 2021	External Sector Statistics
MCM	October 2021	Crisis Management
ICD	November 2021	Financial Programming and Policies
ICD	March 2022	Financial Programming and Policies
STA	April 2022	External Sector Statistics
MCM	December 2022	Bank Regulation
CARTAC	September 2022	National Account Statistics
MCM	September 2022	Financial Sector Infrastructure
CARTAC	October 2023	Macroeconomic Program
CARTAC	March 2023	External Sector Statistics
CARTAC	September 2023	Debt management (local-currency bond market)
CARTAC	April 2023	CPI Statistics

RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK (IDB)

(As of November 28, 2023)

Currently the IDB has an approved loan portfolio of US$1178 million for The Bahamas. The loans are directed to different sectors, including environment and natural disasters; health; private firms and SME development; and modernization of the state. The IDB Country Strategy with The Bahamas (2018–2022) aims to support the country in achieving a sustainable path of higher growth in a fiscally prudent manner. The Country Strategy priority areas include:

- Enhancing public sector effectiveness;
- Supporting resilient infrastructure for growth; and
- Fostering an enabling environment for private sector competitiveness.

Cross cutting considerations of data, gender, and climate resilience and disaster risk management will also be factored into all strategic partnership efforts. Operations in these areas aim to support The Bahamas' efforts to improve total factor productivity by encouraging innovation and efficiency, which will increase output levels and spur private-sector-led growth.

https://www.iadb.org/en/countries/bahamas/overview

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of November 28, 2023)

The overriding aim of the CDB's current strategy for The Bahamas is to support the country's advancement as a progressively stable and vibrant economy, as well as an increasingly safe society with enhanced opportunities for productive employment and improved living standards. An indicative program of assistance was proposed to help the country achieve faster, more inclusive and environmentally sustainable development, buttressed by macroeconomic stability and citizen security. The Bahamas is a borrowing member of the CDB and the largest share of the loans were allocated to the power, energy, water and sanitation sectors. In 2022, the CDB also approved projects related to education. In December 2022, The Bahamas had US$114 of outstanding loans with the CDB.

https://www.caribank.org/countries-and-members/borrowing-members/bahamas

RELATIONS WITH THE WORLD BANK

(As of November 28, 2023)

Given the disproportionate and severe economic impacts of the COVID-19 crisis on The Bahamas due to its small size, heavy dependence on tourism, and vulnerability to natural disasters, in 2021 the World Bank Group provided support on an exceptional basis to the country, which graduated from the International Bank for Reconstruction and Development (IBRD) in 1989. In April 2021, the Multilateral Investment Guarantee Agency (MIGA) Board approved a guarantee for US$128.15 million for Non-Honoring of Sovereign Financial Obligation coverage of a non-shareholder loan provided to The Bahamas by Banco Santander SA of Spain. Proceeds of the loan facility supported the Public Hospitals Authority (PHA) and the Small Business Development Center (SBDC), as part of the country's COVID-19 response program. In May 2021, the IBRD Board approved a US$100 million COVID-19 Response and Recovery Development Policy Loan for The Bahamas. The operation supported the country's efforts to provide COVID-19 relief and laid the foundation for a resilient economic recovery by strengthening financial stability and the business environment and by improving fiscal sustainability and resilience.

- COVID-19 response: https://financesapp.worldbank.org/countries/Bahamas,%20The/
- Multilateral Investment Guarantee Agency: https://www.miga.org/projects?host_country%5B%5D=342&project_status=All&env_category=All&project_type=All&board_date%5Bmin%5D=&board_date%5Bmax%5D=&title=&project_id=

STATISTICAL ISSUES

(As of November 28, 2023)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. However, some weaknesses remain in both coverage and timeliness, partly reflecting capacity constraints. For example, price data are available with three to four-month lags and the publication of some months was skipped. Both national account and balance of payments data are sometimes revised substantially in the following years. The activities by some state-owned enterprises and autonomous entities have not been published or are published with long delays and incomplete data.
National Accounts: The Bahamas National Institute of Statistics (BNIS)[3] rebased GDP estimates to base year 2018 with the publication of the National Accounts Annual Report 2022 released on May 16th2023. The 2018 base year was selected as the most 'normal' year between 2015 and 2021, and allowed for the incorporation of new and revised data sets. The release contains historical data series that cover the years 1997 to 2011. In the historical series for GDP by expenditure at current prices individual components of expenditure do not sum to the reported total GDP by expenditure. The growth rates from 2011 to 2012, the link year, for several items in tables of both nominal and real GDP by expenditure differ from previous releases, e.g. the 2018 National Accounts Report. BNIS is working with CARTAC on a revision for the historical series.
Price Statistics: The BNIS last updated the weight reference period and basket of items for CPI using the results of the 2013 Household Expenditure Survey (HES); these weights are almost ten years old now and require updating. The November 2017 mission recommended conducting a Household Expenditure Survey (HES) in 2018/19. The authorities plan to conduct the HES after the ongoing National Census (released in 2023). The IMF Statistics Department will also provide support to improve the CPI data. CARTAC is working with the authorities to update the index.
Government Finance Statistics: The Bahamas has been submitting data according with the *Government Finance Statistics Manual 2014,* and the data covers operations of the budgetary central government. Some very experimental consolidated General Government data exists, but further improvements are needed: data coverage should be expanded to include all the public bodies classified outside the existing budgetary central government and consequently to compile the General Government. The government has published monthly fiscal reports since 2022 with a lag of four months. The first detailed public debt report was released in November 2021 in line with the Public Debt Management Act (2021). The report includes not only central government debt, but also debt by other public agencies and state-owned enterprises.
Monetary and Financial Statistics: Following an April 2018 technical assistance mission, The Central Bank of The Bahamas (CBOB) migrated to the standardized report forms (SRFs) for the central bank (1SR), other

[3] Department of Statistics was restructured to The Bahamas National Statistical Institute in March 2021.

depository corporations (2SR), and other financial corporations (4SR) regularly reporting them to STA. The Bahamas reports data on some basic series and indicators of the financial access survey (FAS), including the two indicators of the U.N. Sustainable Development Goals. **Financial Sector Surveillance:** The CBOB compiles for internal use 16 financial soundness indicators (FSIs), but publishes them only in its annual *Financial Stability Report* and does not report them to STA. The report was not published in 2019, 2020, and 2021, but the CBOB resumed the publication in 2022.	
External Sector Statistics (ESS): The CBOB does not yet compile international investment position (IIP) statistics. Meanwhile, the CBOB adopted the compilation methodology consistent with the *Balance of Payment Manual 6* in November 2021. The compilation methods and presentation tables addressed various shortcomings identified by CARTAC technical assistance in June 2017 for this area. The country has participated in the IMF-led data initiative on cross border statistics of Special Purpose Entities (SPEs). However, the balance of payments of The Bahamas does not yet include cross-border flows of SPEs. The authorities, alongside with CARTAC specialists, are assessing relevant data sources for the compilation of IIP as well as to improve the coverage of the credit side of the current account of the balance of payments and of the liability side of the financial account with the aim to reduce the persistent net errors and omissions.	
II. Data Standards and Quality	
The country participates in the Enhanced General Data Dissemination System (e-GDDS) and launched a National Summary Data Page in December 2018 with the assistance of STA.	Data *Reports on the Observance of Standards and Codes* (ROSC) are not available.

The Bahamas: Table of Common Indicators Required for Surveillance
(As of September 12, 2023)

	Date of Latest Observation (mm/yy)	Date Received	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates	Fixed				
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	09/23	11/23	M	M	M
Reserve/Base Money	09/23	11/23	M	M	M
Broad Money	09/23	11/23	M	M	M
Central Bank Balance Sheet	09/23	11/23	M	M	M
Consolidated Balance Sheet of the Banking System	09/23	11/23	M	M	Q
Interest Rates[2]	09/23	11/23	M	M	M
Consumer Price Index	08/23	11/23	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government	06/23	11/23	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	06/23	11/23	M	M	M
External Current Account Balance	Q2/23	10/23	Q	Q	Q
Exports and Imports of Goods and Services	Q2/23	10/23	Q	Q	Q
GDP/GNP	Q4/22	05/23	Q	A	A
Gross External Debt[6]	Q2/23	08/23	Q	Q	Q
International Investment Position[7]	NA	NA	NA	NA	NA

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic banks, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Only public sector external debt.
[7] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[8] Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).