



# THE BAHAMAS

January 2025

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE BAHAMAS

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 2024 Article IV consultation with The Bahamas, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 13, 2025 consideration of the staff report that concluded the Article IV consultation with The Bahamas.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 13, 2025, following discussions that ended on November 19, 2024, 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 December 16, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for The Bahamas.

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

\*Selected Issues

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## IMF Executive Board Concludes 2024 Article IV Consultation with The Bahamas

FOR IMMEDIATE RELEASE

**Washington, DC – January 17, 2025:** On January 13, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with The Bahamas.

The Bahamian economy has staged a remarkable recovery since the pandemic, fueled by a strong rebound in tourism. With economic activity back to pre-Hurricane Dorian levels, growth is slowing—expanding by 1.8 percent in H1 2024—constrained in part by limited hotel capacity. Inflation is now modestly negative, but the cost of living remains high.

The fiscal position improved in FY24, driven by strong revenue performance and expenditure cuts. The fiscal deficit narrowed to 1.3 percent of GDP from 3.8 percent of GDP in FY23, while government debt fell to 78.8 percent of GDP. Financing costs have declined, driven by global factors, but gross financing needs remain high.

Growth is expected to converge to its long-run potential of 1½ percent over the medium-term and risks to the outlook are balanced. Capacity constraints in the tourism sector are expected to become more binding, but there are upside risks from potential new hotel construction or a faster-than-anticipated expansion in the short-term rental market. Fiscal vulnerabilities, particularly due to high gross fiscal financing needs, and the ever-present risk from natural disasters remain constant threats.

### Executive Board Assessment<sup>2</sup>

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the remarkable recovery in tourism and economic activity following Hurricane Dorian in 2019 and the Covid 19 pandemic. However, Directors observed that elevated public debt, structural bottlenecks to growth, and high exposure to natural disasters continue to pose significant challenges and called for sustained efforts to address these challenges.

Directors welcomed the authorities' commitment to reduce government debt to 50 percent of GDP by FY31 and recent steps to increase revenues. However, they concurred that more measures will be needed to achieve that target, including by introducing taxes on corporate and personal income. These measures would also create space for priority spending on infrastructure, education, and targeted social programs. In addition, pension and SOE reforms would be important to contain expenditure pressures.

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<sup>1</sup> 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.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Directors welcomed efforts to improve fiscal accountability and the transparency and effectiveness of debt management operations. They recommended that the reconstituted Fiscal Responsibility Council and the Public Sector Audit Committee should be independently selected.

Directors emphasized the need to limit central bank financing to the government to help reduce systemic liquidity and strengthen the credibility of the currency peg. They concurred that the financial sector is resilient with large liquidity and capital buffers and welcomed the progress with the implementation of the 2019 FSAP recommendations. Directors encouraged continued efforts to strengthen the AML/CFT framework, as well as further steps to expand financial access such as improving data availability, investing in financial literacy, and fostering financial technology innovation.

Directors emphasized that efforts to boost long term growth should center on structural reforms to improve human capital, close digitalization and data gaps, relieve capacity constraints in tourism, reduce labor market informality, and fight crime. They encouraged intensified efforts to strengthen climate resilience, which would substantially decrease output losses from sea level rises and natural disasters.

Directors welcomed the planned reforms to the electricity sector given the expected positive medium term effects on growth and other macroeconomic indicators. However, they stressed that a clear delineation of risk sharing between the private and public sectors is necessary to support these efforts.

The Bahamas: Selected Economic Indicators								
	2022	2023	2024	2025	2026	2027	2028	2029
	est.				proj.			
Real GDP (annual % change)	10.8	2.6	1.9	1.7	1.6	1.5	1.5	1.5
Unemployment rate (%)	10.7	10.2	9.4	9.3	9.1	9.0	9.0	9.0
Current account balance (% of GDP)	-9.4	-7.5	-9.2	-8.5	-8.2	-7.4	-7.2	-7.0
CPI inflation (% , end of period)	5.5	1.9	0.5	1.4	1.8	1.9	2.0	2.0
CPI inflation (% , period average)	5.6	3.1	0.7	1.2	1.6	1.9	2.0	2.0
Fiscal overall balance (% of GDP) 1/	-5.8	-3.8	-1.3	-1.0	0.2	0.4	0.6	1.2
Fiscal primary balance (% of GDP) 1/	-1.3	0.3	2.9	3.3	4.6	4.6	4.8	5.0
Government debt (% of GDP) 1/	88.6	81.7	78.8	77.8	75.5	74.3	71.5	68.2
Sources: The Bahamian authorities; and IMF staff calculations.								
1/ Fiscal year (FY, July 1 - June 30)								



# THE BAHAMAS

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

December 16, 2024

### KEY ISSUES

**Context.** Activity has recovered to its pre-pandemic level and inflation is now modestly negative. Public finances are improving and borrowing costs have declined. Nonetheless, public debt remains high and its short duration represents an important vulnerability.

**Fiscal policy.** The authorities' policy goal is to reduce central government debt to 50 percent of GDP by FY31. However, more policy measures will be needed to achieve this goal including introducing taxes on corporate and personal income and improving cost recovery for key public corporations. Higher revenues would both allow for a lower deficit and create space for increased investments in education, social spending, and climate resilience. In addition to the proposed civil service pension changes, more ambitious reforms should be undertaken to the national and civil service pension systems to secure the financial viability of both.

**Financial sector policy.** Reducing the limit on central bank advances to the government and adopting new liquidity management tools would help reduce systemic liquidity. Introducing a registry of moveable assets and collateral and incentivizing digital banking would help with financial deepening.

**Supply side and climate policies.** Investing in human capital, closing digitalization gaps, relieving capacity constraints in tourism, and reducing crime would help lift long-term growth. Building more climate-resilient infrastructure could substantially decrease output losses from rising sea levels and natural disasters. There is also a need to expand property insurance coverage. Plans to upgrade the electricity grid and increase the share of renewables would, over the medium term, improve the reliability of the electricity supply, boost growth, and reduce emissions. However, such power projects should have a clear delineation of risk sharing between the private and public sector.

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

Discussions took place in Nassau during November 7–19, 2024. The team comprised Swarnali Ahmed Hannan (head), Maria Alexandra Castellanos, Beatriz Garcia-Nunes, and Shane Lowe (all WHD), with assistance from Sandra Dolores Frances (all WHD). Zamid Aligishiev (WHD) joined climate related meetings. Inputs to the consultation were provided by Josef Platzer (RES, formerly WHD). Beverly Lugay (CDB) joined several meetings. Brad Recker (OED) participated in the meetings and 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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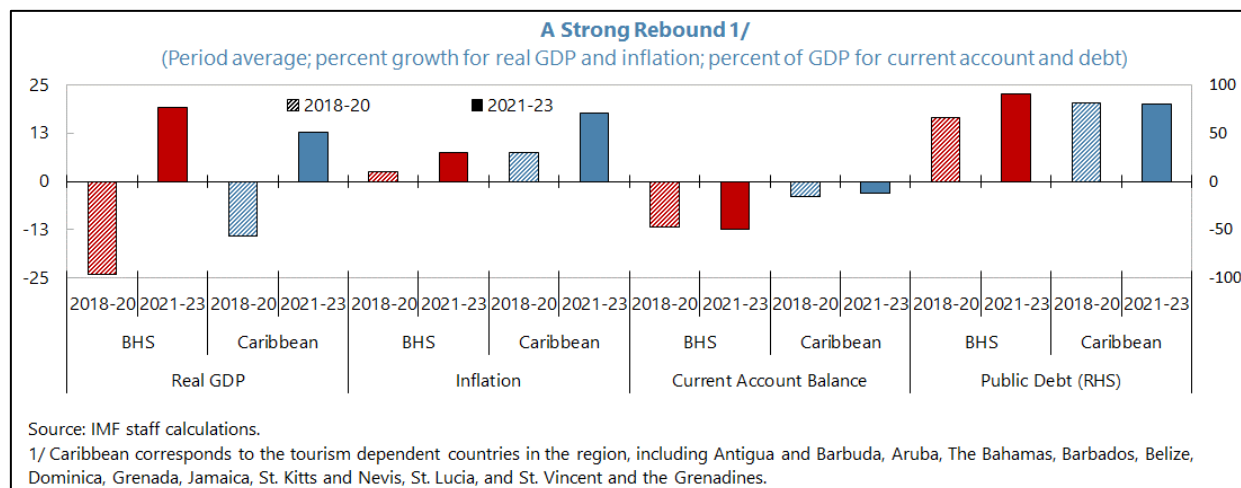
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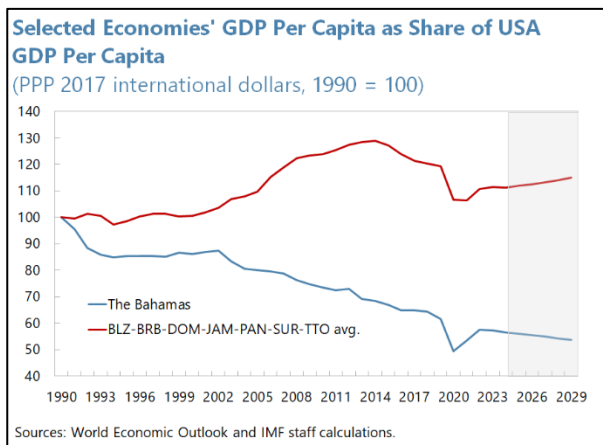
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## A STRONG REBOUND

**1. The Bahamian economy staged a remarkable recovery following Hurricane Dorian in 2019 and the Covid-19 pandemic.** After a cumulative 22 percent decline between 2018 and 2020, real GDP rebounded sharply and the current account deficit fell, buoyed by a strong increase in tourism. The cyclical recovery in revenues, improved revenue administration, and the wind-down of pandemic-related expenditures narrowed the fiscal deficit from 13.1 percent of GDP in FY21 to 3.8 percent in FY23.<sup>1</sup>



**2. Nonetheless, long-standing challenges remain.** Income per capita continues to diverge from that of the U.S. and has underperformed that of Caribbean peers. Expensive and unreliable energy, shortages in skilled labor, difficulties in business formation and expansion, and the repeated impact of natural disasters have all weighed on the economy. Central government debt shot up during the pandemic and borrowing costs remain uncomfortably high (Selected Issues Paper, Chapter 1). The archipelago is also highly susceptible to natural disasters and rising sea levels, both of which underscore the need for increased investments in resilience and building fiscal buffers so as to better respond to climate-related shocks (Selected Issues Paper, Chapter 2).



**3. To address some of these shortcomings the authorities have taken important actions.** The Electricity Act was passed in 2024 and should facilitate new investments in renewable energy

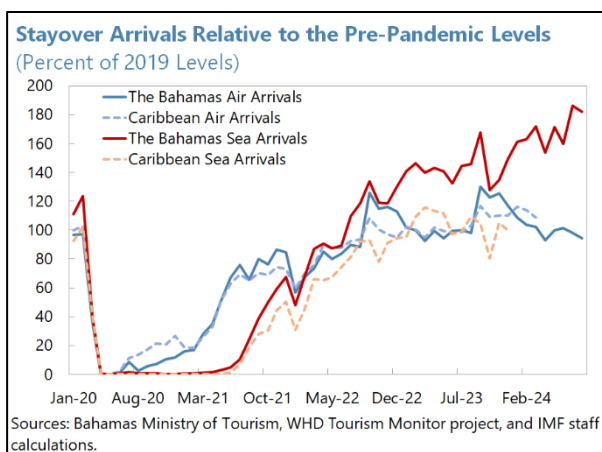
<sup>1</sup> FY21 refers to the fiscal year ending June 2021.



generation, transmission and distribution (Selected Issues Paper, Chapter 3).<sup>2</sup> There is a clear commitment to bring central government debt down to 50 percent of GDP by FY31 and to recompose the public sector's budget in favor of growth-enhancing capital spending (Annex I).<sup>3</sup> The 2024 Digital Assets and Registered Exchanges (DARE) Act was passed in July to strengthen oversight of digital assets. Finally, the Disaster Risk Management Authority—established in 2024—aims to prioritize disaster risk analysis and prevention, including through the enforcement of building codes.

## RECENT DEVELOPMENTS

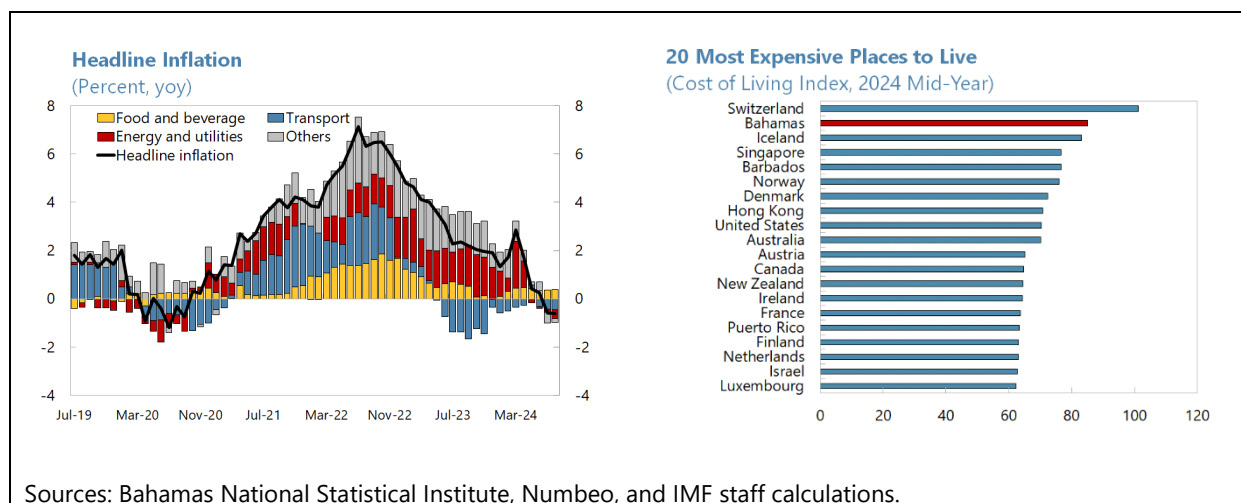
**4. After a strong post-pandemic rebound, output is returning to potential.** Real GDP expanded by 2.6 percent in 2023, led by a strong growth in tourism. As of May 2023, the unemployment rate reached 8.8 percent, close to the lowest level since 2008.<sup>4</sup> Since then, real GDP increased by 1.8 y/y percent in H12024. Growth in air tourist arrivals has slowed, constrained by hotel capacity that is only partly offset by a growing short-term rental market. However, cruise arrivals have been very strong. Hurricane Beryl, that hit the southern and western Caribbean in July, has had a relatively modest effect on the economy (Annex II). Increased home construction—supported by increased mortgage lending—continues to bolster growth. Headline inflation peaked at 7.1 percent (at a twelve-month rate) in July 2022 and has fallen to –0.6 percent y/y by August. Nonetheless, the cost of living remains high. Seasonal discounts in clothing and footwear, lower transportation, household equipment and recreation prices have been the main contributors to the recent fall in inflation. External factors including the decline in fuel prices as well as lower US inflation, which influences imported goods' prices, have also driven the low inflation.



<sup>2</sup> <http://laws.bahamas.gov.bs/cms/images/LEGISLATION/PRINCIPAL/2024/2024-0009/2024-0009.pdf>

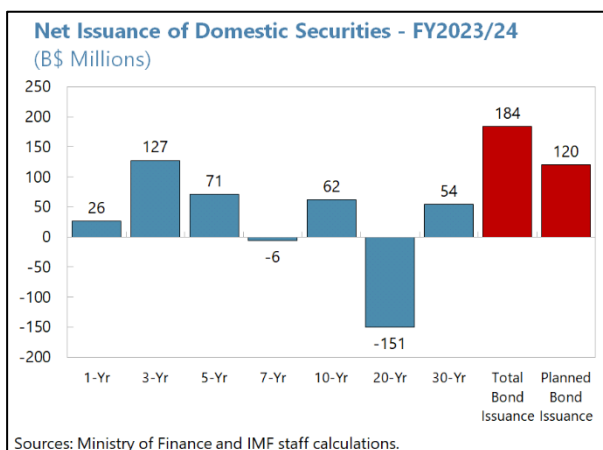
<sup>3</sup> 2024 Fiscal Strategy Report.

<sup>4</sup> Starting in Q3 2023, The Bahamas National Statistics Institute (BNSI) switched the Labor Force Survey (LFS) to a quarterly frequency and revised the methodology making newly released data not comparable to previous releases. In H1 2024, the unemployment rate reached 8.7 percent.



**5. The fiscal deficit fell to 1.3 percent of GDP in FY24 from 3.8 percent of GDP in the previous fiscal year.** Improved tax compliance (particularly in property taxes), a cyclical rebound in revenues, yields from new policy measures (notably business license fees and departure taxes), and efforts to contain expenditure all supported the adjustment. Expenditure fell by 1.8 percent of GDP due to lower spending on goods and services and transfers to public corporations, and an under-execution of capital projects. At the end of the fiscal year, the central government debt-to-GDP ratio was 78.8 percent of GDP.

**6. The FY24 deficit was largely financed by a US\$500 million foreign currency commercial loan that carried an IDB policy-based guarantee.** Bond spreads have declined sharply, driven by global factors (Selected Issues Paper, Chapter 1). Domestic financing has been at relatively short maturity with 40 percent of domestic debt due in FY25, and expected to be rolled over by domestic financial institutions. Since June, there has been an upswing in the reliance on central bank advances (reaching 2 percent of GDP in October), as financial sector liquidity has been increasingly deployed to lend to the private sector (including through domestic issuances of higher-yielding corporate securities associated with the electricity sector reform).



**7. The authorities completed a debt for nature swap on November 22, repurchasing US\$300 million in foreign currency debt.** The savings from the transaction—estimated by the authorities at US\$124 million and made possible through a US\$300 million loan from Standard Chartered Bank with third-party guarantees from the IDB (US\$200 million), Builders Vision (US\$70 million) and AXA XL (US\$30 million)—will be used to fund marine conservation projects.

**8. The 2024 external position is moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex III).** Preliminary data suggests that the current account deficit will increase to 9.2 percent of GDP in 2024, 3.9 percentage points larger than the current account norm. The increase of imports of goods in 2024 should only be partially offset by strong travel receipts. The real effective exchange rate has been broadly unchanged over the past decade. International reserves are adequate at 153 percent of the IMF's ARA metric.

**9. The domestic banking sector is well-capitalized and highly liquid.** Risk-based capital was 31 percent in September, almost twice the regulatory minimum, and nonperforming loans were 5.8 percent of the total. Commercial bank profitability is solid but credit to the private sector, as a share of GDP, has steadily declined due to high net interest margins, asymmetric information (particularly about collateral), and an overhang of nonperforming loans.<sup>5</sup>



## OUTLOOK AND RISKS

**10. Growth is expected to slow to the long-run potential growth rate (1½ percent) as capacity constraints in the tourism sector become binding.** Barring shocks to global commodity prices, headline inflation is expected to converge to around 2 percent over the medium-term. The current account deficit is expected to narrow as slower growth in tourist arrivals is more than offset by lower commodity prices.

**11. Risks to the outlook for activity are balanced.** There are upside risks from the execution of announced public and private projects in infrastructure and hotel construction or faster-than-expected growth in the short-term rental market. Downside risks revolve mainly around fiscal vulnerabilities, including those from a large stock of short-term domestic debt (gross fiscal financing needs are expected to average 19 percent of GDP over the medium-term) and the ever-present risk from natural disasters. On the external front, upside (downside) risks stem from a surge (moderation) in tourism demand in the event that economic activity accelerates (slows) faster than expected in key source markets (Annex IV).

### **Authorities' Views**

**12. The authorities agree that capacity constraints in the hotel sector have constrained growth.** However, the realization of planned investments in hotel and airport infrastructure and initiatives to encourage further expansion in the short-term rentals market are expected to relax

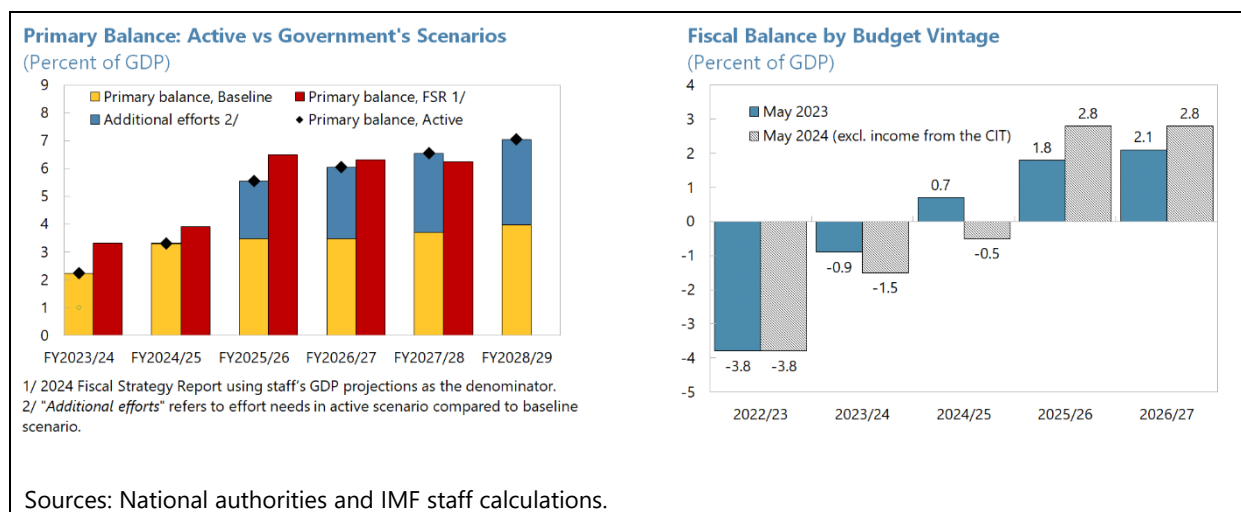
<sup>5</sup> In December 2023, the Central Bank of The Bahamas removed the requirement for borrowers to acquire mortgage indemnity insurance to qualify for a reduced down payment on residential mortgages.

constraints over the medium-term. The authorities are embarking on a project to better capture the contribution of the cruise sector to economic activity, which might be underestimated at the moment. While inflation has declined, the authorities remain concerned about the high cost of living, given the archipelago's close proximity to the U.S.

## POLICY DISCUSSIONS

### A. The Need to Restore Fiscal Buffers

**13. The authorities' aim is to reduce central government debt to 50 percent of GDP by FY31.** The FY25 budget announced in May targets an overall fiscal balance of  $-0.5$  percent of GDP, rising to a surplus of 2.8 percent of GDP in FY26. The expected adjustment is based on improved tax administration, higher fees for business licenses and immigration applications, increased taxes on international trade, lower interest payments and a shift of capital expenditure to public corporations compared to the FY24 budget. The budget also increases spending on security, training, and investments in healthcare and education. Assuming already-legislated policies, staff estimates that the fiscal adjustment is likely to be below that implied by the budget forecast, leaving debt above the 50 percent target in FY31. The main difference is due to a lower revenue buoyancy than is assumed by the budget.



**14. A 15 percent qualified domestic minimum top-up tax (QDMTT) on large multinational corporations that are resident in The Bahamas was passed by Parliament in November (in the context of the OECD's Pillar Two framework).** The new Act will become effective retroactively from January 2024, with revenues starting to be collected in FY26. The tax is expected to generate 1 percent of GDP annually, with a large share expected to accrue from the energy sector. Additional legislation is being prepared to lessen disincentives to invest in tangible depreciable assets (by providing accelerated depreciation or refundable tax credits) and to bring offshore indirect transfers of Bahamian property into the tax net.

**15. Tax policy changes, expenditure reductions, and an ambitious pension reform would help more firmly underpin achieving the government's debt objective.** The targeted 3½ percent of GDP increase in the primary balance between FY24-FY26 has been achieved only once in the 18 years prior to the pandemic (and that was as a result of an increase in the VAT rate and a sharp reduction in expenditure two years after recovery efforts following Hurricane Matthew). A more gradual adjustment—that raises the primary balance to 5½ percent of GDP by FY26 and to 7 percent of GDP by FY29—would bring debt to 50 percent of GDP by FY31 and allow the private sector a longer horizon to adjust to the withdrawal of fiscal resources. This adjustment could be supported by a range of tax measures:

**Text Table 1. The Bahamas: Recommended Fiscal Consolidation Measures**  
(In percent of GDP, deviations from staff's baseline (assuming current policies))

	Annual Yields/Savings				
	2024/25	2025/26	2026/27	2027/28	2028/29
<b>Revenue Measures (I)</b>	<b>0.0</b>	<b>1.3</b>	<b>2.1</b>	<b>2.8</b>	<b>3.6</b>
Corporate Income Tax		0.0	0.4	0.8	1.3
Personal income tax		1.0	1.4	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
<b>Other Potential Revenue Measures (II)</b>	<b>0.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>
VAT		2.0	2.0	2.0	2.0
<b>Expenditure Measures (III) 2/</b>	<b>0.0</b>	<b>0.3</b>	<b>0.6</b>	<b>1.1</b>	<b>1.6</b>
Public Hospital Authority		-0.2	-0.4	-0.6	-0.6
Water & Sewerage Corporation		0.0	0.0	-0.1	-0.1
Education		0.1	0.2	0.3	0.3
NIB contribution 3/		0.0	0.1	0.1	0.1
Social expenditure		0.2	0.2	0.3	0.3
Infrastructure investment		0.2	0.6	1.0	1.5
<b>Total Fiscal Consolidation in Active Scenario (I) - (III)</b>	<b>0.0</b>	<b>1.0</b>	<b>1.5</b>	<b>1.7</b>	<b>1.9</b>
<b>Memorandum items</b>					
Primary balance (baseline - assuming current policies)	3.3	4.6	4.6	4.8	5.0
Primary balance (active scenario)	3.3	5.5	6.0	6.5	7.0
Primary balance (2024/25 FSR)	3.9	6.5	6.3	6.2	...

Sources: IMF staff estimates.

1/ Additional revenue from removing VAT exemptions on gambling

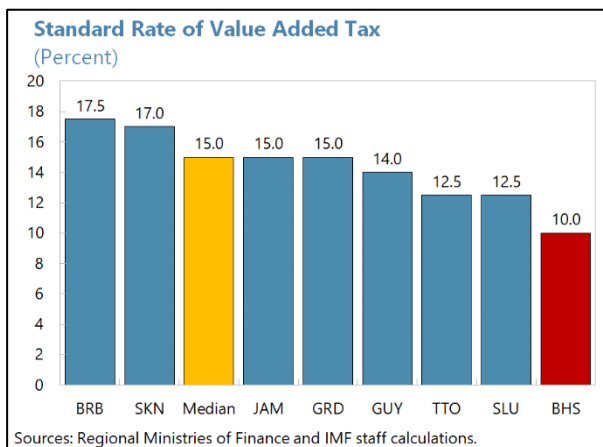
2/ Positive values represent additional spending

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

- *Corporate income tax.* Replacing the business license fee with a 15 percent profits tax on large domestic firms, while allowing for the full expensing of investment and an unlimited carryover of losses could raise revenues without disincentivizing new investments. It could be expected to yield an additional 1¼ percent of GDP in revenue by FY29.
- *Personal income tax.* A new personal income tax with a top marginal rate similar to that of the corporate income tax could be applied on the top ten percent of the income distribution which

would help reduce incentives to reclassify profits as labor income. Such a tax would yield 2 percent of GDP in revenues over the medium-term.

- *Eliminating the ceiling on the real property tax* which currently applies to owner-occupied residences would yield an additional 0.1 percent of GDP.
- *Reducing tax expenditures* including the VAT exemption for gambling and lotteries would yield 0.2 percent of GDP in additional revenue.
- *Raising the standard VAT rate* to that of regional peers could yield an additional 2 percent of GDP in revenue but would need to be complemented with targeted transfers to the most vulnerable.



**16. These additional revenues, combined with planned improvements in the finances of public corporations, would allow for expenditure increases in key areas.** The authorities have announced plans to improve the operations of the energy company.<sup>6</sup> Increasing water rates and strengthening the collection of patient fees at the Public Hospital Authority could additionally create savings of 0.7 percent of GDP over the medium-term. There may also be scope to refinance public corporation debt at lower rates. The resources from the tax measures and savings from public corporations could be used to raise spending on:

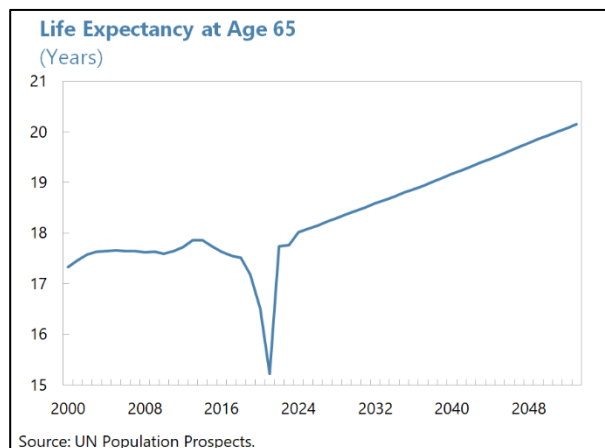
- *Primary and secondary education (0.3 percent of GDP)* to train and hire additional teachers including to expand technical and vocational offers, improve student retention rates, and conduct a national learning assessment to identify and better target areas for urgent remediation.
- *Social spending (0.3 percent of GDP)* targeted to the most vulnerable, including for training and internships of at-risk youth.
- *Climate resilient infrastructure (1.5 percent of GDP)* to build more resilient roads, bridges, public buildings, and public housing to address rising demand for housing in New Providence and housing shortages in Grand Bahama and the Family Islands that were exacerbated by Hurricane Dorian (Selected Issues Paper, Chapters 2 and 4).

<sup>6</sup> In 2024, the government announced plans to repair the existing transmission and distribution electricity grid, partially replace heavy-oil electricity production with natural gas, and expand renewable energy production of electricity (Selected Issues Paper, Chapter 3; paragraph 41). As part of this reform, the Bahamas Power and Light Company, a state-owned enterprise that currently provides electricity to most islands of The Bahamas, will enter into Power Purchase Agreements with independent power producers. The authorities anticipate that these reforms will reduce the cost of energy production and generate savings.

**17. Proposed reforms to the civil service pension system should be augmented by more holistic changes to the civil service and public pension systems.<sup>7</sup>** A draft proposal to

reduce the actuarial imbalance in the civil service pension system would introduce contributions for newer hires, raise the mandatory retirement age from 65 to 67, and eliminate the possibility of early retirement at age 55 (Box 1). The contribution rate to the National Insurance Board (NIB) has also been raised by 1.5 percentage points.<sup>8</sup> In addition to

these changes, the contribution rate for the NIB should be raised over the medium term by an additional 3 percentage points and a minimum retirement age should be introduced for civil servants (aligned with that for the NIB). The retirement age for both systems should be indexed to life expectancy. Finally, the government could consider switching all civil servants to the new, defined contribution plan on a forward going basis, while honoring the benefits accrued under the existing plan.



**Box 1. Public Sector Pension Reform**

Pensions and gratuities account for 6 percent of spending. Replacement rates are high and the unfunded liability of the civil service pension system amounts to 14 percent of GDP.<sup>1</sup>

The [Draft Pensions Bill](#) would establish a new defined contribution system that would invest pension contributions through individual accounts managed by an investment manager. Civil servants with less than 8 years of employment are required to participate in the new scheme (civil servants with over 8 years of pensionable service can continue to participate in the existing scheme). The draft bill would also increase the retirement age (although with limited savings since benefits at retirement will be higher). The introduction of contributions brings the civil servant pensions closer to that of private sector workers but the employer contributions will increase budget outlays.<sup>2</sup> Pension benefits in the new system will likely be less and more uncertain than the defined benefit scheme which will lower pension costs over the longer term.

<sup>1</sup> 2024 Government of The Bahamas Fiscal Strategy Report.

<sup>2</sup> Currently the government pays no contributions toward civil servant pensions. The FY25 budget allocates an additional 0.1 percent of GDP in employer pension contributions to the new system.

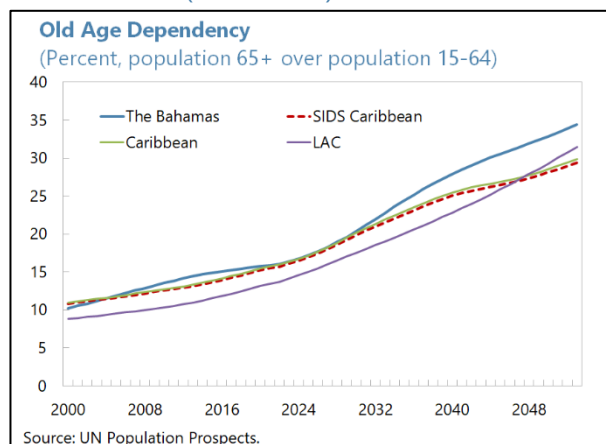
<sup>7</sup> See IMF Country Report No. 22/132 for an overview of the pension system and policy options for pension reform.

<sup>8</sup> Effective July 2024, the contribution paid by the employee increased from 3.9 percent to 4.65 percent, while that for the employer increased from 5.9 percent to 6.65 percent.



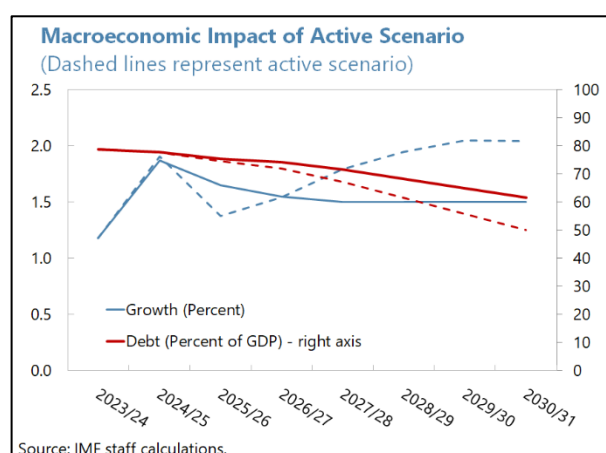
### Box 1. Public Sector Pension Reform (Concluded)

The civil servant pension fund should diversify its investments across asset classes, including possibly in external assets, and not concentrate its investment in Bahamian government bonds. The newly established public service pensions board will be critical for the fund's good governance, including to define the fund's purpose, objectives, investment horizon, risk tolerance, and asset allocation policy among other policies and procedures (see [Governance and Investment of Public Pension Assets: Practitioners' Perspectives](#)).



**18. Staff's proposed fiscal adjustment will need to be accompanied by tax policy and revenue administration reforms.** Under current policies, the risk of sovereign stress remains high, with both public debt and gross financing needs high and vulnerable to adverse shocks (Annex V). The recommended fiscal adjustment is, though, feasible and would put debt and gross financing needs on firm downward trajectories. However, the introduction of corporate and personal income tax regimes would require broad public support and should be complemented with enhancements to administrative and institutional capacity, including training of public sector officials and supporting domestic firms on the transition to profit-based taxation. Should these reforms prove difficult to implement, the government could (as a substitute) raise the VAT rate to 15 percent along with targeted social transfers to compensate the poor.

**19. Staff's proposed fiscal adjustment and implementation of the various supply side reforms (see Section C) would reduce debt to 50 percent of GDP by FY31.** This would reduce sovereign spreads, ease financing conditions and increase the likelihood of a rating upgrade (Selected Issues Paper, Chapter 1). While real GDP growth would initially slow due to the near-term fiscal consolidation, per capita incomes would be around 1 percent higher than under staff's baseline by FY31. Extending consolidation efforts beyond FY31 could unlock additional resources for climate adaptation while keeping central government debt below 50 percent of GDP. However, this approach would delay the implementation of the adaptation plans envisaged under the *Nationally Determined Contribution (NDC) 2030* target.





**Text Table 2. The Bahamas: Baseline and Active Scenarios, 2023/24–2030/31**  
(In percent of GDP)

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
<b>Baseline Scenario</b>								
Revenue	21.1	22.4	23.4	23.4	23.3	23.3	23.2	23.2
Current Expenditure	20.7	21.8	21.6	21.3	21.1	20.4	20.4	20.2
Capital Expenditure 2/	1.7	1.6	1.5	1.7	1.7	1.7	1.7	1.7
Overall fiscal balance	-1.3	-1.0	0.2	0.4	0.6	1.2	1.2	1.3
Primary fiscal balance	2.9	3.3	4.6	4.6	4.8	5.0	5.0	5.0
Central government debt	78.8	77.8	75.5	74.3	71.5	68.2	65.0	61.7
Real GDP Growth	1.2	1.9	1.6	1.5	1.5	1.5	1.5	1.5
<b>Active Scenario: Fiscal Measures 1/</b>								
Revenue	21.1	22.4	24.7	25.5	26.2	26.8	26.7	26.7
Current Expenditure	20.7	21.8	21.8	21.3	21.0	20.2	20.0	19.6
Capital Expenditure 2/	1.7	1.6	1.7	2.3	2.7	3.2	3.2	3.2
Overall fiscal balance	-1.3	-1.0	1.2	1.9	2.5	3.4	3.6	3.9
Primary fiscal balance	2.9	3.3	5.5	6.0	6.5	7.0	7.0	7.0
Central government debt	78.8	77.8	74.7	72.1	67.3	61.6	55.9	50.0
Real GDP Growth	1.2	1.9	1.4	1.5	1.8	1.9	2.0	2.0

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 7 percent of GDP by 2028/29. The scenario assumes a fiscal multiplier of -0.4 in the year of consolidation as estimated by IMF staff. The scenario also assumes the implementation of the structural reforms discussed in Section C, which incrementally increase real GDP growth to 2 percent by 2029/30.

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 2 percent of GDP under staff's baseline.

**20. The authorities have taken steps to increase the transparency and effectiveness of debt management operations (Annex VI).** Fully implementing these changes would require fully staffing the debt management office.<sup>9</sup> Also, improving the capacity for liability management operations could increase liquidity of the domestic debt market and reduce rollover risks. Finally, a financial literacy education campaign could increase portfolio preferences for longer-term government securities.

**21. The reconstitutions of the Fiscal Responsibility Council (FRC) and the Public Sector Audit Committee are welcome.** There should be an independent selection processes for members of both committees. Ensuring timely access to information is also necessary for the FRC to operate effectively. To enhance fiscal transparency, beneficial ownership information should be published for

<sup>9</sup> [The Bahamas: Technical Assistance Report-Domestic Local Currency Bond Market Development.](#)

all companies that are awarded public contracts. The audited financial statements and procurement information for public corporations should also be published.

**22. The authorities' debt target is appropriate.**<sup>10</sup> Reducing central government debt to 50 percent of GDP would provide adequate buffers to respond to a natural disaster. Moreover, operational targets that are based on the primary or overall fiscal balance are appropriate for small states with high debt and vulnerability to natural disasters.<sup>11</sup> When current expenditure falls to 20 percent of GDP, the authorities could consider modifying the expenditure target to require that any increase in spending as a share of GDP be accompanied by an equivalent increase in revenue. After the escape clause has been triggered, the Public Financial Management Act should clarify the timeframe by which the fiscal path would be required to revert to the original debt goal. This could be implemented through an automatic adjustment mechanism that defines the additional fiscal adjustment necessary following deviations from the fiscal balance target.

### ***Authorities' Views***

**23. The authorities remain firmly committed to achieving their fiscal and debt targets.** Encouraged by the revenue generated from recent administrative and compliance efforts, they are optimistic about reaching their medium-term revenue targets without additional policy measures. On expenditure, the authorities agree with the need for additional spending in priority areas, including to support climate adaptation efforts. They are confident that planned reforms—including to the civil service pension system—will help to achieve expenditure targets.

**24. The central bank and the ministry of finance continue to advance efforts to reform the domestic currency debt market.** They are working with IMF's Caribbean Regional Technical Assistance Centre (CARTAC) and the Commonwealth Secretariat to operationalize these reforms, including plans to reduce the number of outstanding government securities through liability management operations and testing recently drafted repo guidelines. The central bank continues to support efforts to increase financial literacy particularly among the youth and has worked with the ministry of finance to introduce a government savings bond program to introduce new retail investors to public debt instruments.

## **B. Supporting Financial Stability and Inclusion**

**25. Improving the central bank's liquidity management framework would allow domestic interest rates to be more responsive to external conditions.** The banking system maintains very high levels of liquidity creating a significant difference between domestic and foreign interest rates (currently short term rates are 212bps below those in the U.S. despite the peg to the U.S. dollar).<sup>12</sup>

<sup>10</sup> See IMF Country Report No. 22/132 for a more detailed assessment of The Bahamas' rules-based fiscal framework.

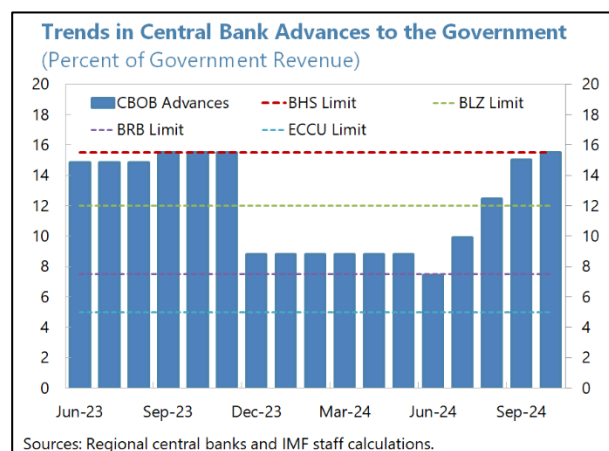
<sup>11</sup> See IMF Country Report No. 22/254.

<sup>12</sup> IMF Country Report No. 24/040, Chapter 1. The Central Bank of The Bahamas uses changes in reserve requirements and the discount rate to influence domestic liquidity conditions and interest rates. However, the

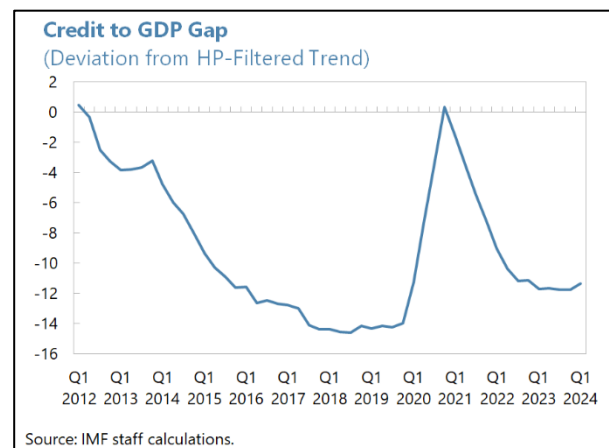
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Long-standing capital flow management measures allow the maintenance of this interest differential.<sup>13</sup> Improving liquidity forecasting and introducing tools such as interbank repos or 30-day Treasury Bills could better manage systemic liquidity over the long-term and provide a market-based, short-term reference interest rate.

**26. Reducing the stock of central bank credit and lowering the ceiling on central bank advances to the government would increase the credibility of the exchange rate regime and reduce systemic liquidity.** As of October, advances from the central bank were at the legal ceiling set by the Central Bank Act, which is higher than that of regional peers. The planned fiscal consolidation would allow the central bank to reduce its existing holdings of government securities and facilitate a reduction in the ceiling on advances. Even then and considering the small size of new domestic currency financing sought by the central government in FY25 (B\$368.5 million), systemic liquidity is expected to remain high, with cash and cash reserves held by domestic banks B\$2 billion above the minimum reserve requirement as of September. A well-defined “escape clause” could be introduced to allow a temporary increase in the limit on central bank advances in exceptional, emergency circumstances.



**27. Systemic financial stability risks are moderate.** The credit gap remains negative after several years of credit contraction and household and corporate leverage are at modest levels. Banks are well capitalized even in a stressed scenario (conducted by the Central Bank) and 20 percent of domestic assets are held in cash or reserves.<sup>14</sup> However, the high domestic bank exposure to the public sector (25 percent of domestic assets) does represent an important vulnerability. Financial stability risks stemming from NBFIs are modest compared



statutory and secondary reserve requirements have been unchanged since 1974 and 1981 respectively and the discount rate was last changed in December 2016.

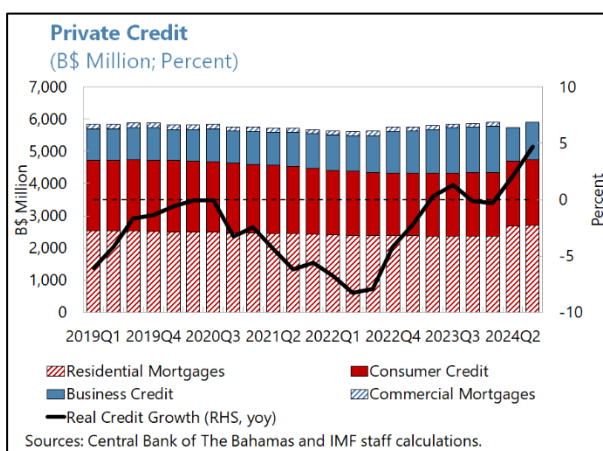
<sup>13</sup> The Central Bank supplies authorized dealers (i.e., commercial banks) with foreign currency through the Investment Currency Market since 1972. A Bahamian resident who wants to purchase foreign currency securities pays a premium of 5.0 percent on the foreign currency; the sales of the proceeds of the securities are bought back by the Central Bank at a premium of 2.5 percent. The central bank announced some relaxation of capital flow management measures effective Q2 2024, including to increase the delegated limits up to which authorized dealers can sell foreign currency to the private sector.

<sup>14</sup> [Central Bank of The Bahamas Financial Stability Report December, 2023](#).

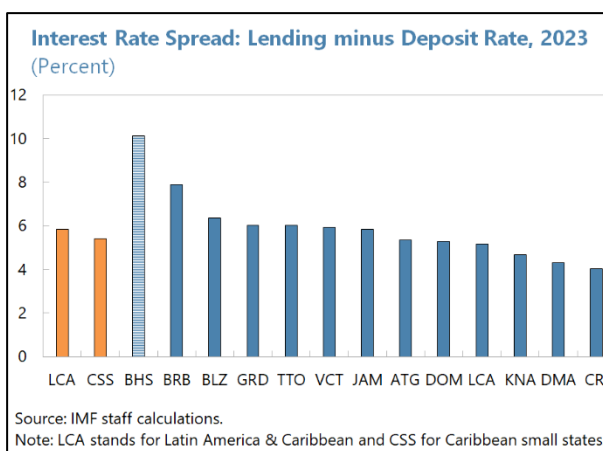
with domestic banks. Domestic assets of insurance companies and agents accounted for just 13 percent of GDP at the end of 2023, compared to 82 percent for banks. Active credit unions' capital buffers are below those of banks, but their domestic assets accounted for just 3 percent of GDP in 2023.

**28. The authorities have made good progress on implementing the 2019 FSAP recommendations (Annex VII).** Plans to establish the Bahamas Financial Stability Council (BFSC)

were finalized in end-2024. The BFSC will permit a more coordinated approach to setting macroprudential policy, including by harmonizing lending standards across banks and nonbanks. The financial safety net and bank resolution framework have been improved, including by increasing premia to fund deposit insurance and staffing a resolution unit at the central bank. The authorities are also advancing on collecting data for a real estate price index. Oversight would be aided by the collection of loan-level data from both bank and nonbank lenders.



**29. The Central Bank is working on a national financial inclusion strategy.**<sup>15</sup> The launch of the Sand Dollar digital currency has the potential to support inclusion but currently accounts for only 0.4 percent of total currency in circulation (despite extensive marketing efforts). Digital banking has the potential to improve access to banking services for underserved populations (Annex VIII). To encourage new financial technology, the authorities should continue to improve data availability, expand geographic internet connectivity, invest in financial literacy, and consider establishing regulatory sandboxes and/or innovation hubs.<sup>16</sup> Together with implementing the moveable assets and collateral registry, these measures would reduce asymmetric information, expand access to credit, and potentially reduce high private sector loan rates.



<sup>15</sup> [2024-05-06-13-22-45-2023-CBOB-Annual-Report-and-Statement-of-Accounts.pdf \(centralbankbahamas.com\)](https://www.centralbankbahamas.com/2024-05-06-13-22-45-2023-CBOB-Annual-Report-and-Statement-of-Accounts.pdf)

<sup>16</sup> The Central Bank released a [consultation paper](#) for a Regulatory Sandbox in August, aiming to strengthen its supervisory capacity and encourage the development of innovative products and technological platforms in the financial sector.

**30. The 2024 DARE Act has improved the regulatory framework for digital assets.** The new act widens the scope of regulation and coverage of oversight on digital asset activities, enhances disclosure requirements, increases investor and consumer protection measures, and strengthens the anti-money laundering and combatting the financing of terrorism (AML/CFT) requirements on digital asset businesses. The act requires registration of stablecoins, specifies appropriate forms of reserve assets to back those assets, prohibits the issuance of algorithmic stablecoins, and defines and regulates staking services. The priorities now are to ensure sufficient resources for effective oversight of digital asset businesses (including for AML/CFT), increase onsite inspections, and address data gaps. Additional steps could include introducing a requirement for digital asset businesses to collect, hold, and share originator and beneficiary information and ensuring that registrable activities do not include anonymity-enhancing services such as mixers, tumblers, and other high-anonymity technologies.<sup>17</sup> The scope of the act could be expanded to include other decentralized finance products and services.

**31. Risk-based AML/CFT supervision of financial institutions, and the enforcement of criminal penalties for such activities, continues to move forward.** Ahead of the next mutual evaluation by the Caribbean Financial Action Task Force in 2026, the authorities are finalizing a national risk assessment (NRA) for money laundering and will then turn to completing the NRA for terrorism financing. The findings of these risk assessments should feed into the update of the national AML/CFT strategy. Efforts to align the beneficial ownership regime with evolving international standards should continue. This should include ensuring that registered agents are collecting and updating adequate information on their customers and requiring that domestic companies retain beneficial ownership information.

### ***Authorities' Views***

**32. The authorities concur that reducing the stock of outstanding central bank credit to the government would reduce domestic liquidity.** However, this must be managed over the medium-term. They agreed with the need to introduce an escape clause to allow for a temporary increase in the limit on central bank advances in exceptional, emergency circumstances. High domestic liquidity would limit the usefulness of interbank repos and other liquidity management tools in the near-term but increased private sector credit would reduce systemic liquidity over the medium-term. Further, better coordination between private and public sector borrowers on the timing of debt issuance would permit greater access to available liquidity for both.

**33. The authorities noted that financial stability risks are low.** This was supported by banks' large capital buffers, a conservative approach to bank lending, and the presence of capital flow management tools which limit the risk of capital outflows from systemic liquidity. Financial stability indicators for credit unions are weaker, but these account for a small share of financial sector assets. The central bank is updating the Bahamas Co-Operative Credit Unions Act to capture credit unions within the central bank's resolution framework. Going forward, the central bank plans to build

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<sup>17</sup> These are products or services that combine various flows of possibly traceable crypto funds, hiding the path leading back to the initial source.

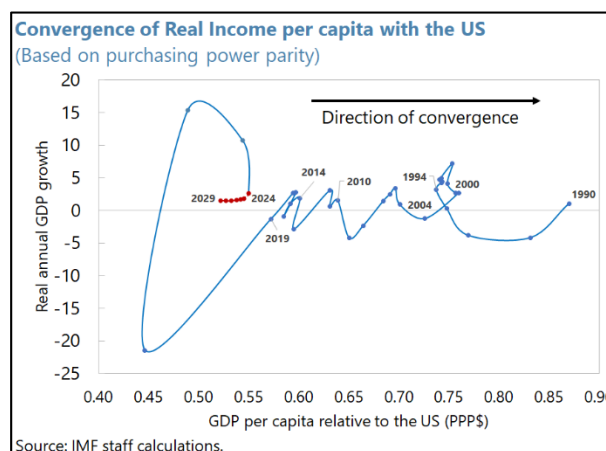
capacity to incorporate explicit climate risk assessments into its stress testing framework for financial institutions. To strengthen coordination across key regulators, in December 2024, the authorities concluded the MOU establishing the Bahamas Financial Stability Council, comprising the central bank, ministry of finance, deposit insurance corporation and the insurance and securities industries regulators. The council is expected to enhance cross communication and coordination on emerging issues that could impact domestic financial stability.

## C. Higher and More Resilient Growth

### 34. With per capita GDP expected to grow more slowly than Bahamas' peers, supply side policies should focus on:

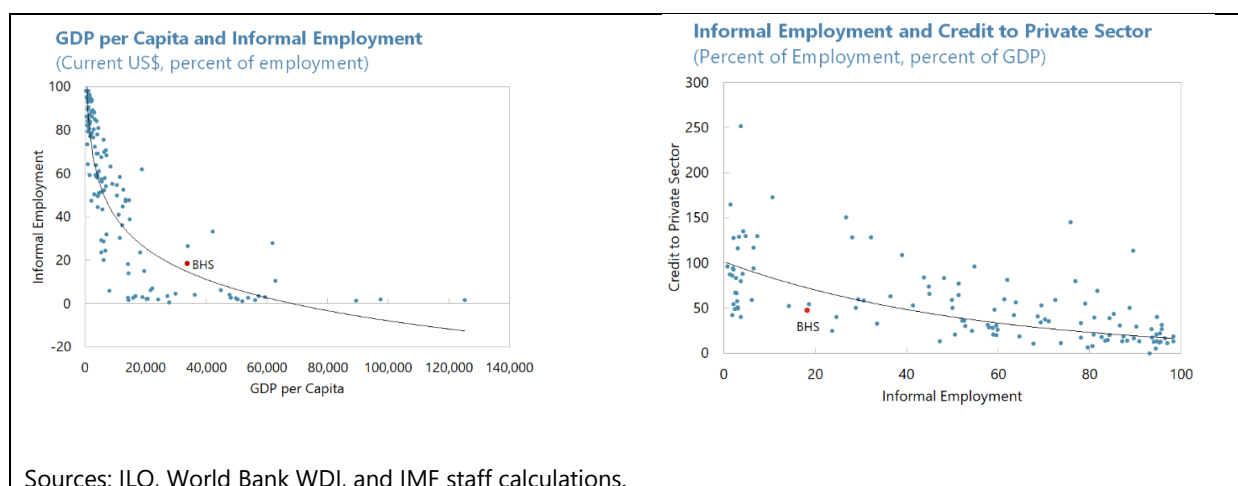
- *Relieving capacity constraints in tourism.* The stock of available hotel rooms has trended downward since 2019, exacerbated by the effects of Hurricane Dorian and the pandemic. Incentivizing private sector investments in hotel capacity, particularly outside of New Providence, would expand potential growth in the tourism sector.

- *Investing in human capital and reducing labor market informality.* Around 18 percent of workers in The Bahamas are engaged in informal employment, lower than other Caribbean countries but high relative to high-income peers. Compared to other countries, credit to the private sector in The Bahamas is low. Moreover, underemployment and insufficient work history are among the main causes for mortgage denials in the country (Selected Issues Paper, Chapter 4).<sup>18</sup> Simplifying business registration, enhancing informational outreach both on starting-up and operating a business, and conducting outreach on the benefits of formal sector participation could encourage firms to regularize their activities and create more formal jobs.<sup>19</sup> Furthermore, expanding vocational and apprenticeship programs and improving skill databases and job placement services would build skills, support job matching, reduce youth unemployment and enable workers to reach their full potential.

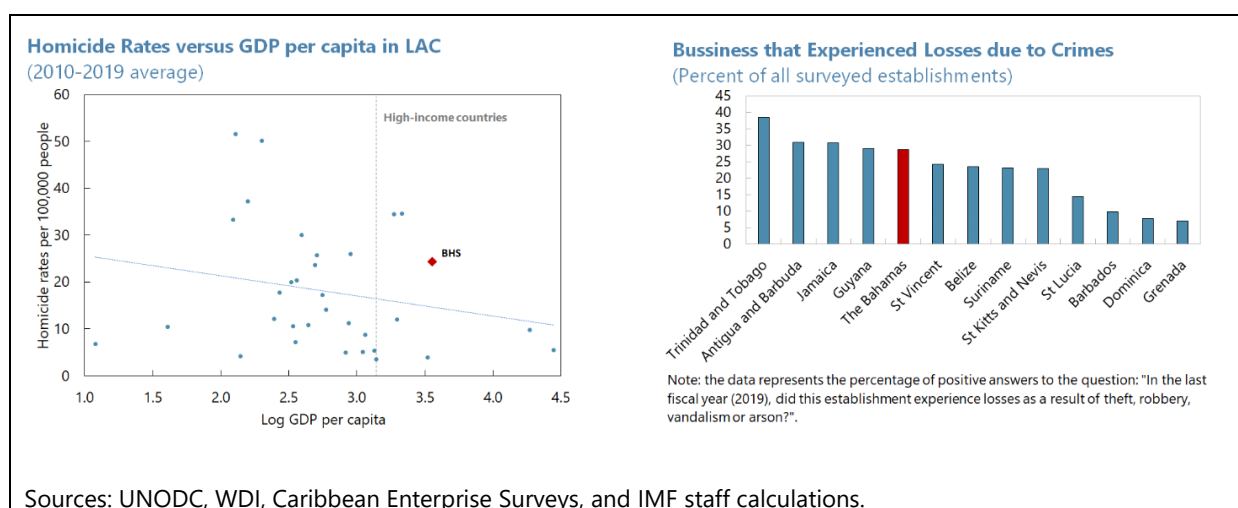


<sup>18</sup> Along with vulnerable and informal employment, short-term contractual arrangements also constitute a major limitation in qualifying for mortgage loans due to unmet "security of employment" requirements.

<sup>19</sup> Unlike policies that target tax rates and compliance burdens, which have been commonly implemented in other Latin American and Caribbean countries (Ulissea (2020); Ohnsorge and Yu (2022); Slemrod (2019); Awasthi and Engelschalk (2018)), The Bahamas faces a different challenge. Given the absence of personal and corporate income taxes along with relatively low business license fees, difficulties in understanding bureaucratic and operational procedures constitute a key driver for firms to operate informally. The problem is particularly pronounced for traditionally family-owned businesses.



- *Reducing crime.* High crime rates negatively affect local businesses and raise costs.<sup>20</sup> Reducing crime to the average of other high-income countries in Latin America and the Caribbean could increase real GDP growth by up to 0.2 percent.<sup>21</sup> This will require investments in crime mitigation strategies, a larger police force, better leveraging data analytics to target intervention, and continuing recent efforts to enhance the effectiveness of the criminal justice system.<sup>22</sup>



- *Closing digitalization gaps and improving data collection and quality.* The Bahamas ranks relatively well in the region regarding digitalization. Closing the remaining gaps in digitalization (e.g. further investment on interfaces between the government and its users including the introduction of a digital national identification and inter-departmental data sharing) would

<sup>20</sup> 2019 Caribbean Enterprise Surveys ([IFPG Platform \(competecaribbean.org\)](https://ifpgplatform.competecaribbean.org)).

<sup>21</sup> See Annex 4 of the October 2023 Regional Economic Outlook: Western Hemisphere.

<sup>22</sup> [Crime, violence, and development: trends, costs, and policy options in the Caribbean \(worldbank.org\)](https://www.worldbank.org/publications/crime). Washington, D.C.: World Bank Group.

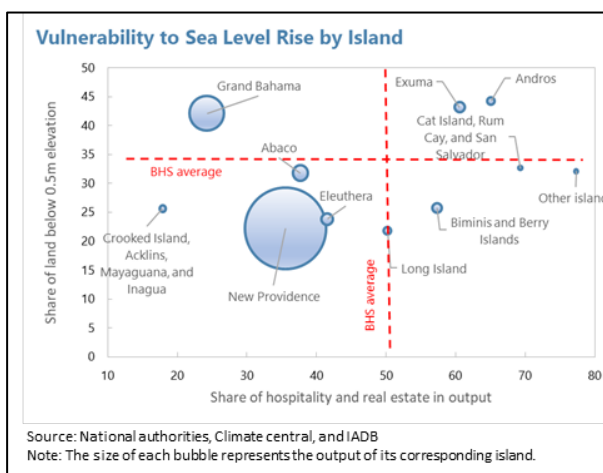
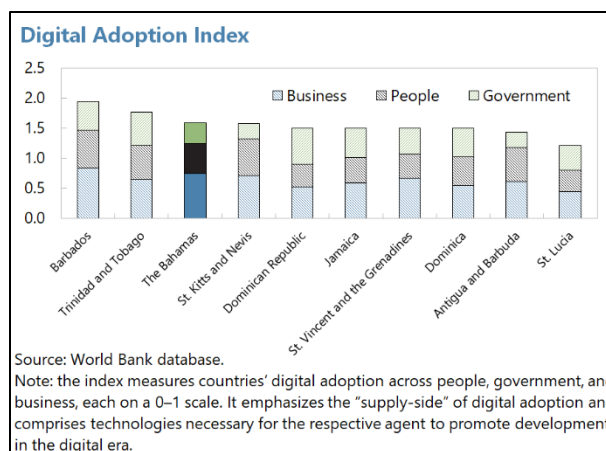


enhance revenue collection and better target social assistance programs. Lack of IIP data and publication lags of central government accounts and CPI are noteworthy data coverage weaknesses (Annex IX). Continuing to improve data quality and timeliness, which reflect capacity constraints, will help to catalyze foreign investment.

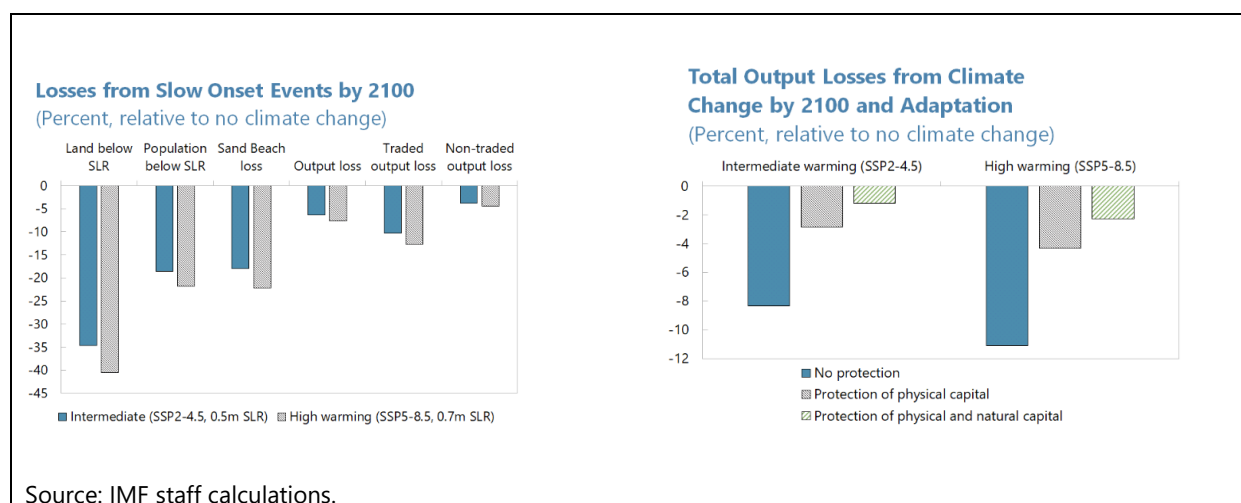
### 35. The impact of hurricane intensification and slow-moving aspects of

**climate change (e.g., sea level rises) across The Bahamas is expected to be substantial.** Over the past decade, natural disasters have averaged 3.2 percent of GDP in annual damages. Estimates in [Acevedo \(2016\)](#) suggest hurricane-related damages in The Bahamas will increase by 31 percent under 3°C warming and by 42 percent under 4.3°C. Arable land is scarce, making domestically-produced agrifoods highly dependent on fisheries. Moreover, The Bahamas has nearly half of the Caribbean's sandy beaches and vital coral reefs and mangroves. Currently, a 0.5m sea level rise would put at risk up to half of sandy beaches located near hotel infrastructure ([Spencer et al., 2022](#)).

**36. There is, therefore, an urgent need to deepen the understanding of how climate change-induced degradation of natural capital (e.g. fish stocks, coral reefs and beaches) will affect economic activity and build a comprehensive strategy to mitigate these risks.** Building resilience to climate change would require diversifying away from vulnerable activities as well as undertaking investments to protect physical assets and natural capital (e.g. breakwater construction, coral reef and mangrove protection, beach nourishment programs). Such investments could potentially yield a long-term increase in the level of GDP of up to 9 percent, including through sustainable tourism (Selected Issues Paper, Chapter 2).







**37. Efforts are ongoing to strengthen climate-resilience of public infrastructure and improve the disaster risk management (DRM) framework, but the investment needs are substantial.** The authorities continue to invest in climate-resilient infrastructure. Nevertheless, adaptation investment needs in The Bahamas are substantial, likely to be larger than the estimates in the NDC and well above current spending levels. Staff estimates that an additional 1.8 percent of GDP in annual capital expenditure would be required annually to build resilience of public assets by 2030.<sup>23</sup> Meeting these needs while adhering to the authorities' medium-term debt target will require an even larger revenue mobilization effort than is currently assumed in staff's active scenario. Increased international support in the form of grants as well as private sector investments could, though, provide some of the needed additional resources.

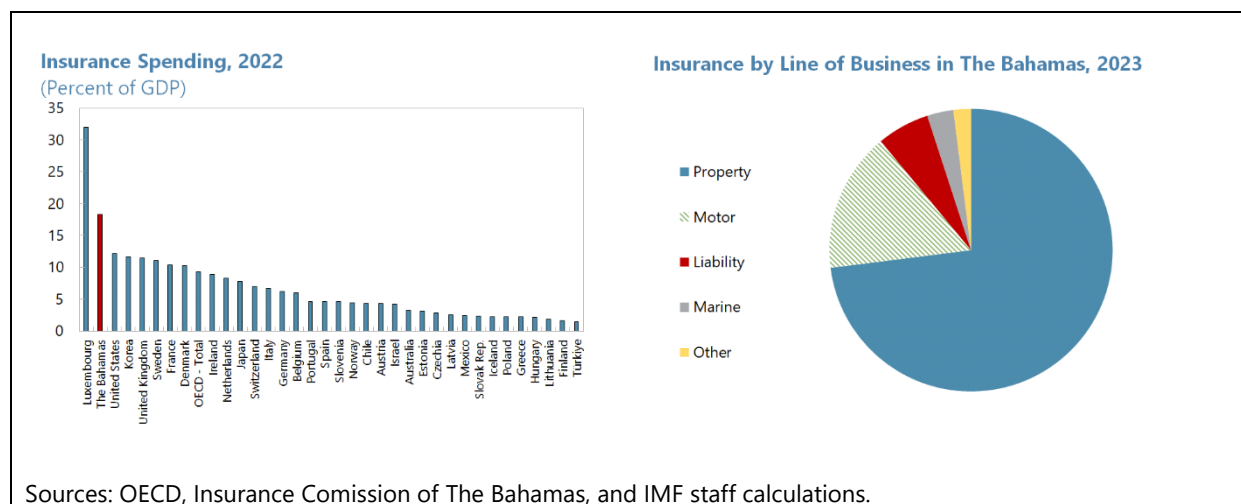
**38. The institutional framework needs to incorporate better coordination and accountability on climate objectives.** The government is incorporating climate change considerations into planning, supported by development partners, including through expected updating of the 2005 *National Policy for the Adaptation to Climate Change* and developing a detailed national adaptation plan. Similar to the 2022 *Disaster Risk Management Act*, these efforts could be strengthened with a comprehensive legislation on adaptation to climate change which identifies responsibilities of line ministries and sets up a mechanism for accountability, through an inter-ministerial commission that reports to the Parliament.

**39. Property insurance is the largest product sold by domestic insurance companies in The Bahamas.** There are mandatory insurance requirements for properties with an existing mortgage but insurance costs are rising rapidly and property insurance is becoming increasingly unaffordable.<sup>24</sup> The government is working with the private sector to design a partially subsidized

<sup>23</sup> Investment needs to build structural resilience are taken from Aligishiev, Bellon, and Massetti (2022).

<sup>24</sup> Gross premiums in the property and casualty sector increased by 12 percent in 2023 to BS\$535.4 million (or 3.7 percent of GDP), driven largely by rising rates rather than the underwriting of new business (Insurance Commission of The Bahamas 2023 Annual Report).

natural disaster micro-insurance product targeted to the most vulnerable.<sup>25</sup> To avoid leakage and minimize fiscal costs, effective targeting of this insurance subsidy will be essential. Potential moral hazard (i.e. encouraging excess risk taking with respect to climate-related risks due to underpriced insurance) would need to be curtailed through integrating disaster risk management considerations into zoning regulations, strengthening the enforcement of robust building codes, and improving access to information on climate risks.



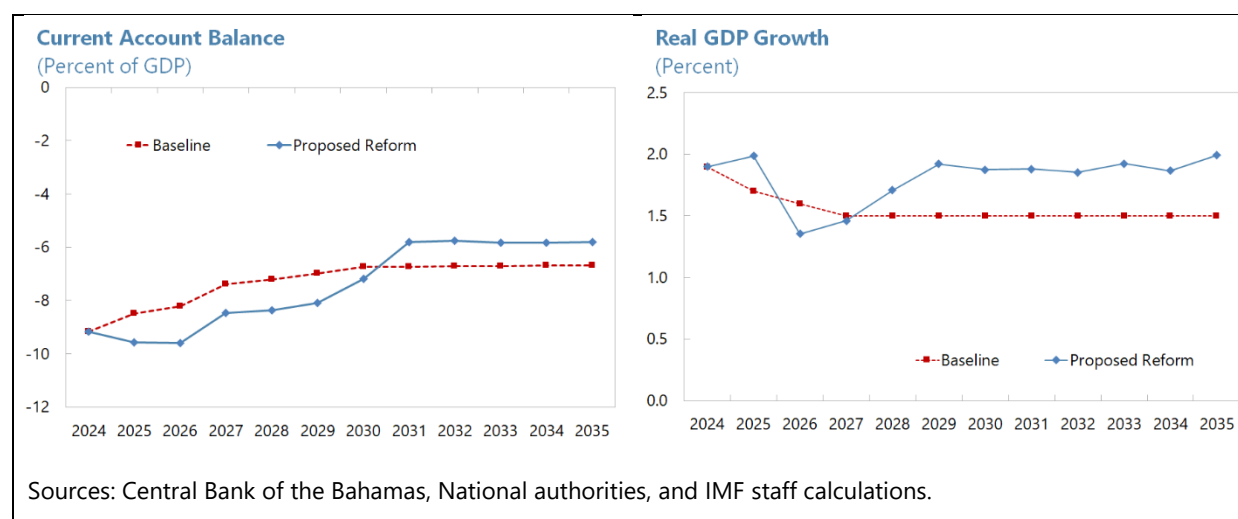
**40. Further recourse to climate financing would reduce borrowing costs.** The authorities have expanded their access to lower-cost infrastructure and climate resources to finance adaptation needs by joining the Development Bank of Latin America and the Caribbean (providing potential access to loans and lines of credit, among other instruments) and by securing policy-based guarantees from the IDB. Additional fiscal adjustment could be considered over the medium-term to create the fiscal space needed to establish a contingency fund for future natural disasters, complementing planned structural protections with financial safeguards.

**41. The planned electricity sector reforms and switch to renewables will improve competitiveness.** The reform has the potential to, over the medium-term, narrow the current account deficit and reduce vulnerability to commodity price shocks, boost growth (eventually, by around ½ percentage points over the long-run), and significantly reduce CO<sub>2</sub> emissions (Selected Issues Paper, Chapter 3).<sup>26</sup> Strengthening the institutional framework for public-private partnerships (PPPs) will be an important precondition to implementing the government’s plan. Such a framework

<sup>25</sup> Parametric insurance is 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). Micro-insurance payments usually range from US\$500 to US\$2000.

<sup>26</sup> The macroeconomic impact of the energy transition is estimated using IMF’s Renewable Energy Balance of Payments (RE-BOP) tool, which determines the marginal impact of a shift in energy production toward renewable energy on the balance of payments and electricity sector CO<sub>2</sub> emissions. Further details on the tool can be found in the Selected Issues Paper (Chapter 3) and Ungerer, C., Sridar, T., and Versailles, B. (2024, forthcoming) “Towards assessing the impact of the renewable energy transition on the balance of payments”, IMF Working Paper. The outputs from the RE-BOP, namely investment, imports, and interest payments, are then used to determine the first-round effects on real GDP growth, keeping other variables the same as the baseline.

should provide a transparent definition of risk sharing between private and public sectors. Improving the operations, lowering costs, and optimizing the capital structure of the Bahamas Power and Light Corporation would further support these reform efforts.



### Authorities' Views

**42. The authorities agree with the need to increase potential growth, particularly through additional investments in physical and human capital.** They are optimistic about the positive macroeconomic impacts of the ongoing electricity sector reform. They confirmed that the reform will not require resources from the central government, with the cost of new investments borne largely by the private sector. The authorities are also concerned about the effects of labor market informality, the use of short-term contracts, and skilled labor shortages as impediments to growth and access to credit.

**43. The authorities see climate-related shocks as a significant economic threat.** They recognize that spending on climate adaptation and disaster risk management remains below identified needs and stress that greater and faster access to international climate financing will be necessary to accelerate resilience building efforts and meet targets identified in the updated Nationally Determined Contributions (NDC).

## STAFF APPRAISAL

**44. The Bahamian economy has turned in a remarkable performance in the past few years.** Activity has recovered to its pre-pandemic level and consumer prices are now falling. Public finances are improving and borrowing costs have declined. Nonetheless, long-standing challenges remain, with income per capita continuing to diverge from that in the U.S., supply side constraints weighing on growth, and government debt-to-GDP still above pre-pandemic levels. The archipelago is also highly susceptible to climate change effects, necessitating increased investments in resilience. Over the medium-term, growth is expected to slow to its long-run potential (of 1½ percent) as capacity constraints in tourism become more binding.

**45. The authorities' debt target of 50 percent of GDP by FY31 provides a valuable anchor for fiscal policy.** The FY25 budget targets an overall fiscal balance of –0.5 percent of GDP and 2.8 percent of GDP in FY26. Improved tax administration and lower interest payments will get the fiscal position part of the way to the government's targets. However, in the absence of additional policy measures, revenues are likely to underperform, and the fiscal balance will be smaller than assumed in the authorities' forecast, putting the debt target out of reach for FY31.

**46. A more gradual fiscal adjustment would be less challenging to achieve, provide resources for investments in priority areas, and still meet the medium-term debt target.** Such an adjustment could include a combination of measures, including the replacement of the business license fee with a profit tax for large domestic firms and introducing a personal income tax for the top earners. This would build fiscal credibility and generate the resources needed to increase investments in education, targeted social transfers, and climate resilient infrastructure.

**47. Efforts to improve fiscal accountability, domestic debt management operations, and the civil service pension system are welcome.** The Fiscal Responsibility Council and the Public Sector Audit Committee have been recently reconstituted. Members of both committees should be independently selected. The authorities have increased the effectiveness of domestic debt management operations, including through instituting competitive auctions for primary issuance and building a cash buffer to accommodate potential shocks. Fully staffing the debt management office, publishing rules for changing the composition of securities issued, and improving the capacity for liability management operations would help to further strengthen debt management. Finally, in addition to the proposed civil service pension changes, more ambitious reforms should be undertaken to the national and civil service pension systems to secure the financial viability of both.

**48. New liquidity management tools and reducing central bank credit to the government would decrease systemic liquidity.** Improving liquidity forecasting and introducing tools (e.g., interbank repos) could better manage systemic liquidity. Reducing the statutory limit on central bank advances to the government and repaying the outstanding stock of advances would help absorb liquidity and strengthen the credibility of the fixed exchange rate regime. A well-defined "escape clause" could be introduced to allow a temporary increase in the limit on central bank advances in exceptional, emergency circumstances.

**49. Systemic financial stability risks are moderate.** Banks are liquid and well capitalized but their high exposure to public sector debt represents an important vulnerability. The publication of a real estate price index and harmonizing lending standards across banks and nonbanks—including through the collection of loan-level data from both—would further support supervisory oversight. The external position in 2024 is assessed as moderately weaker than warranted by fundamentals and desirable policies and the international reserves are adequate and above the IMF's ARA metric.

**50. The expansion of digital banking and the introduction of the registry for moveable assets and collateral could help with the cost of, and access to, credit.** New financial technologies would require higher data availability, geographic internet connectivity, and financial literacy. The 2024 DARE Act has improved the regulatory framework for digital assets by widening

the coverage and strengthening AML/CFT requirements. The priorities are now to ensure sufficient resources on oversight, increase onsite inspections, and address data gaps.

**51. Efforts to strengthen the framework and supervision of AML/CFT should continue.** The findings of the ongoing national risk assessments for money laundering and terrorism financing should feed into the update of the national AML/CFT strategy. Efforts to align the beneficial ownership regime with evolving international standards should continue.

**52. Long-term growth could be lifted by investing in human capital, closing digitalization gaps, improving data collection and quality, relieving capacity constraints in tourism, reducing labor market informality, and fighting crime.** This could include incentivizing private sector investments in hotel capacity, expanding vocational and apprenticeship programs, improving skill databases and job placement services, and allocating additional resources to deterring, mitigating, and solving crimes.

**53. Higher climate-resilient infrastructure will substantially decrease output losses from sea level rises and natural disasters.** The government is incorporating climate change considerations into planning. The institutional framework needs to incorporate better coordination and accountability on climate objectives, including through comprehensive legislation on adaptation to climate change. Greater revenue mobilization and international and private sector support are needed to fund adaptation and climate-resilient public infrastructure. Resources are also needed to build a contingency fund for future natural disasters.

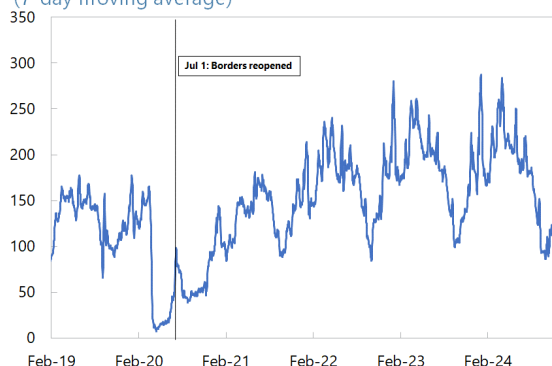
**54. Efforts to enhance disaster insurance coverage for vulnerable populations are a positive step.** Effective targeting of this insurance subsidy will be essential to minimize fiscal cost. Potential moral hazard should be curtailed through integrating disaster risk management considerations into zoning regulations, strengthening the enforcement of robust building codes, and improving access to information on climate risks.

**55. The planned electricity sector reform would, over the medium term, narrow the current account deficit and boost growth.** Strengthening the institutional framework for public-private partnerships, establishing a clear definition of risk sharing between private and public sectors, and improving the operations of the Bahamas Power and Light Corporation would be essential to support these reform efforts.

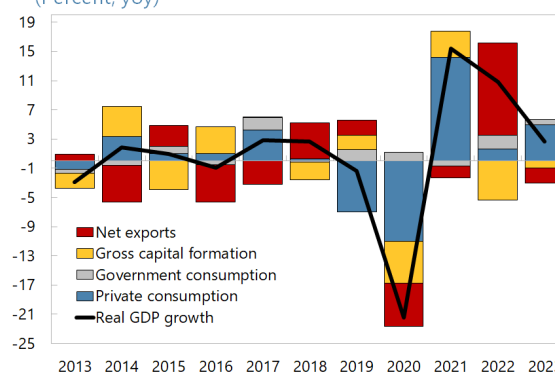
**56. It is proposed that the next Article IV consultation with The Bahamas take place on the standard 12-month cycle.**

**Figure 1. The Bahamas: Real Sector Developments***Flight arrivals are above pre-pandemic levels...***Inbound Flights**

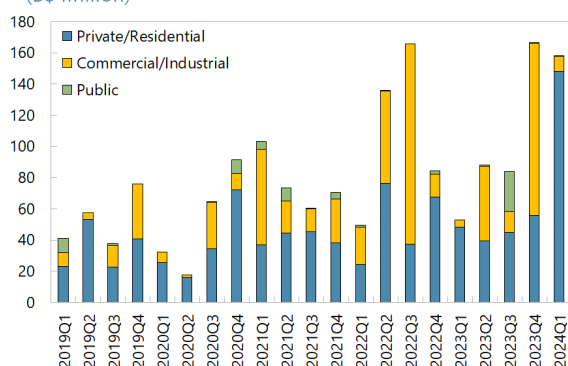
(7-day moving average)

*...supporting growth above potential in 2023.***Contributions to Real GDP Growth**

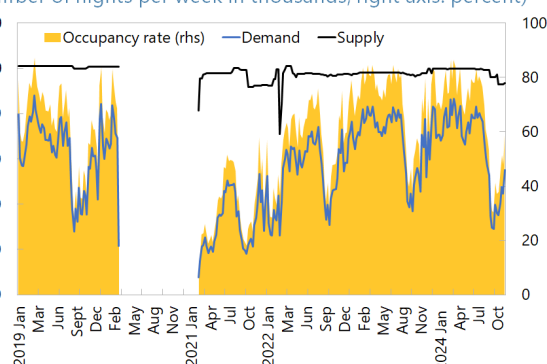
(Percent, yoy)

*Construction projects have shot up after 2023Q3...***Value of Construction Completions Issued**

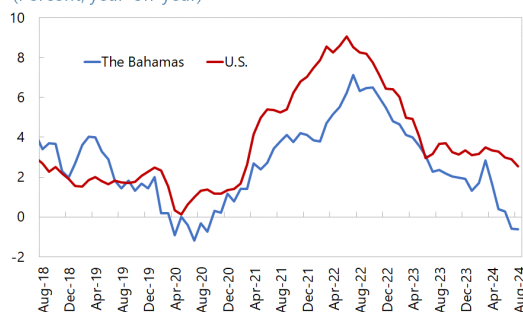
(B\$ million)

*...but hotel supply growth has been flat.***Hotel Demand and Supply**

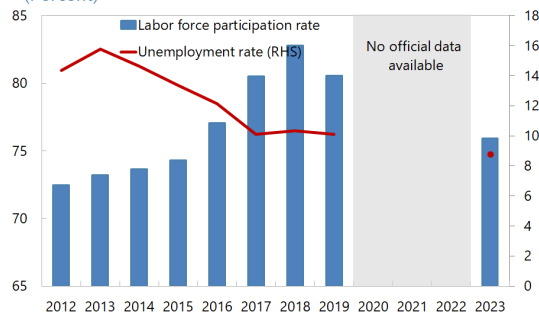
(Number of nights per week in thousands; right axis: percent)

*Disinflation is well underway.***Headline Inflation**

(Percent, year-on-year)

*The unemployment rate is at its lowest in more than a decade, but participation has not yet fully recovered.***Labor Force Participation and Unemployment Rate 1/**

(Percent)

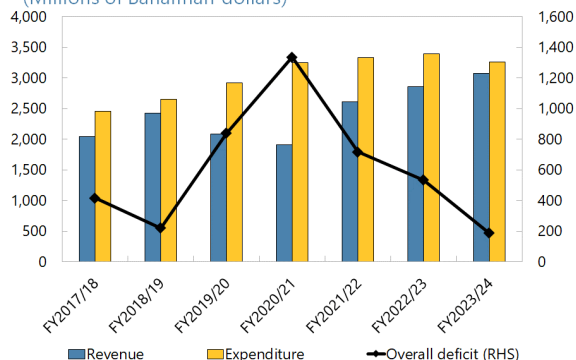


Sources: Ministry of Tourism, Bahamas National Statistical Institute, FlightRadar24, Google, Smith Travel Research (STR) database, and IMF staff calculations.

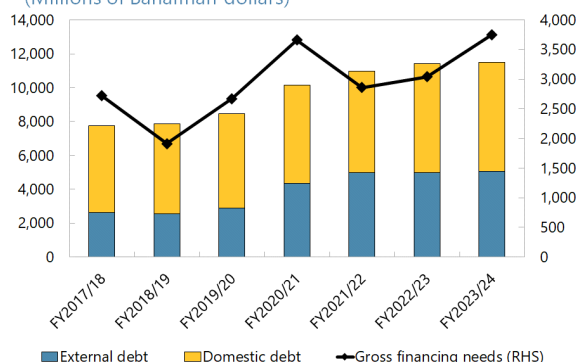
1/ Values for 2023 are based on May's survey, before the new LFS methodology was implemented.

**Figure 2. The Bahamas: Fiscal Developments***The fiscal performance has improved...***Fiscal Operations**

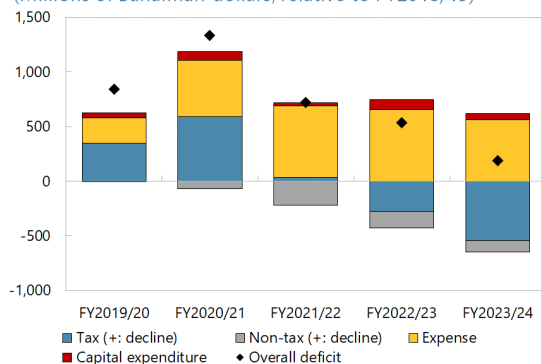
(Millions of Bahamian dollars)

*...but debt and gross financing needs remain high.***Government Debt and Gross Financing Needs**

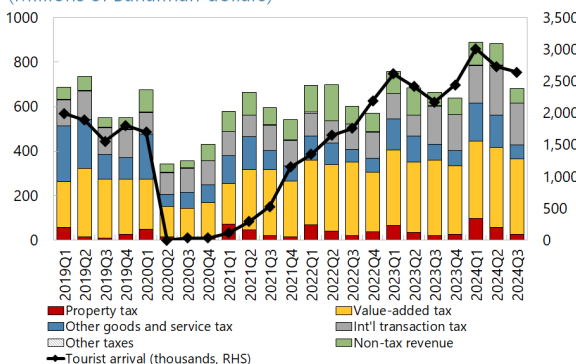
(Millions of Bahamian dollars)

*Revenues have supported the fiscal improvement...***Contributors to Deficit Reduction**

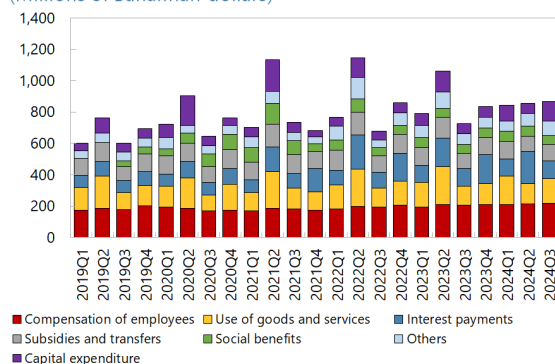
(Millions of Bahamian dollars, relative to FY2018/19)

*...due to improved tax collection and a cyclical rebound.***Total Revenue**

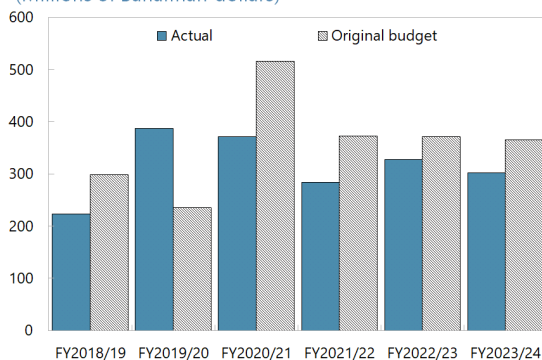
(Millions of Bahamian dollars)

*Expenditure remains curbed...***Total Expenditure**

(Millions of Bahamian dollars)

*...in part due to a reduction in capital expenditure.***Capital Expenditure and Capital Transfers**

(Millions of Bahamian dollars)



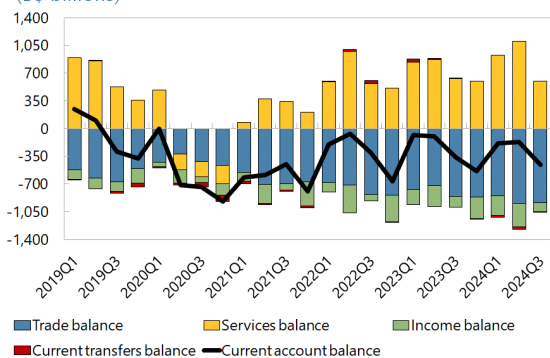
Sources: The Bahamian authorities and IMF staff calculations.



**Figure 3. The Bahamas: External Sector Developments**

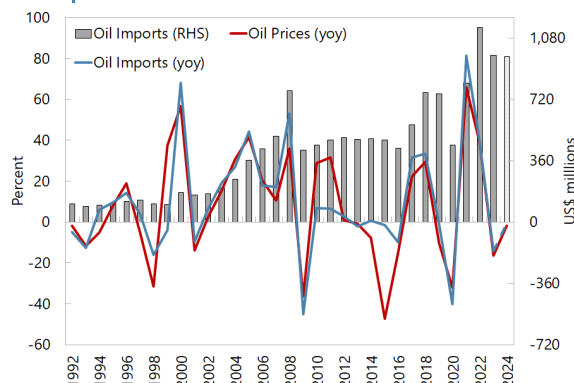
*The current account reverted to the historical average...*

#### Current Account Balance (B\$ billions)



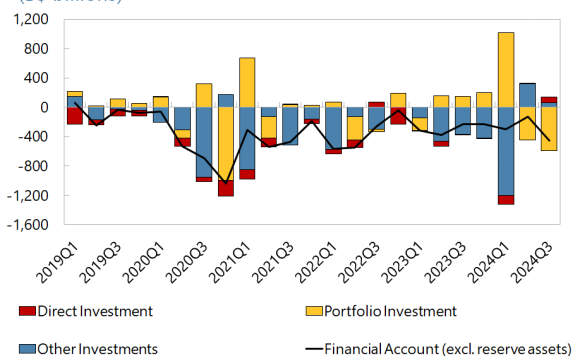
*Lower international commodity prices led to reduced oil imports...*

#### Oil Imports and International Oil Prices



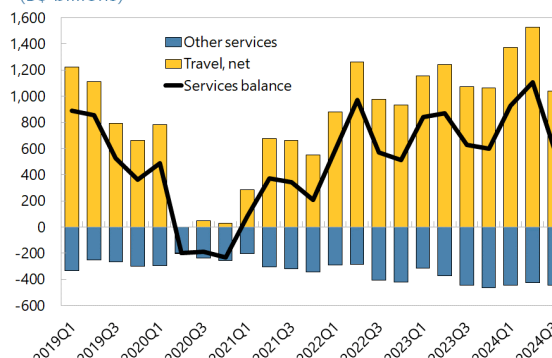
*Net capital inflows have been broadly stable and financed the trade deficit...*

#### Capital Flows 1/ (B\$ billions)



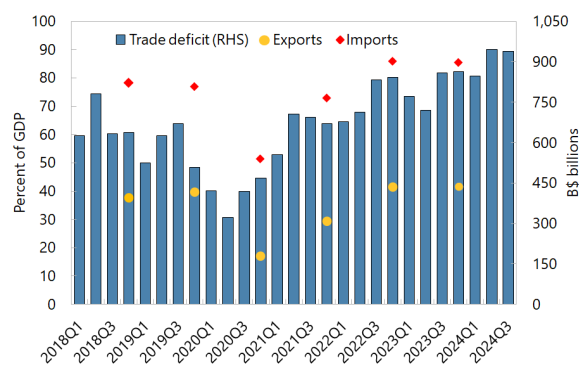
*...mostly supported by travel receipts.*

#### Services Balance (B\$ billions)



*...but an increase of other goods imports more than compensated it.*

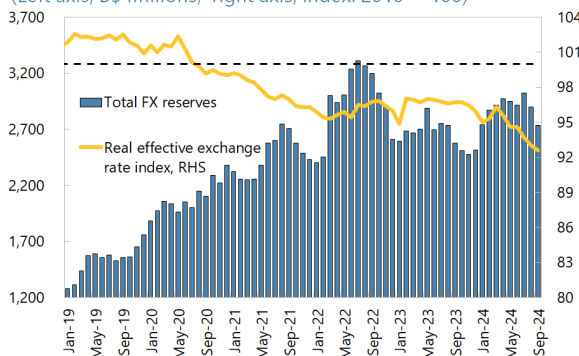
#### Trade Deficit



*...supporting the robust FX reserves' accumulation.*

#### 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.

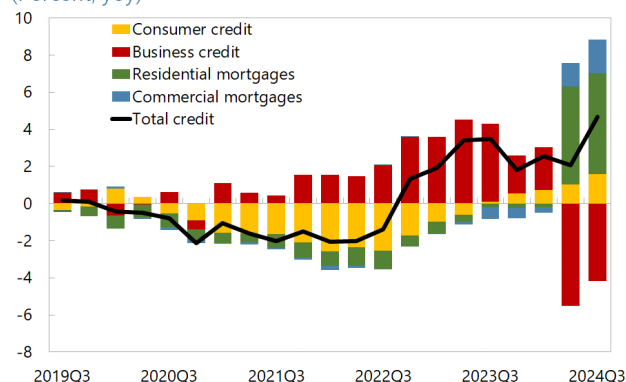


**Figure 4. The Bahamas: Financial Sector Developments**

*Private sector credit growth is picking up after years of decline...*

#### Contributions to Private Sector Credit Growth<sup>1/</sup>

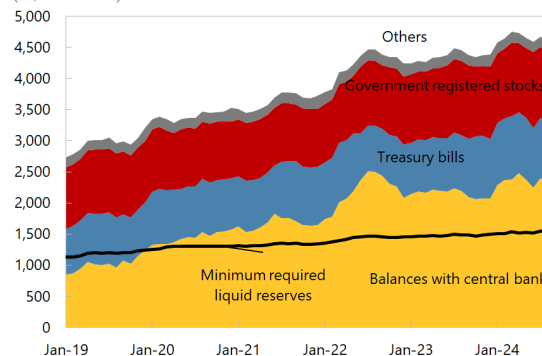
(Percent, yoy)



*...and liquidity remains ample.*

#### Banking Sector Liquid Assets

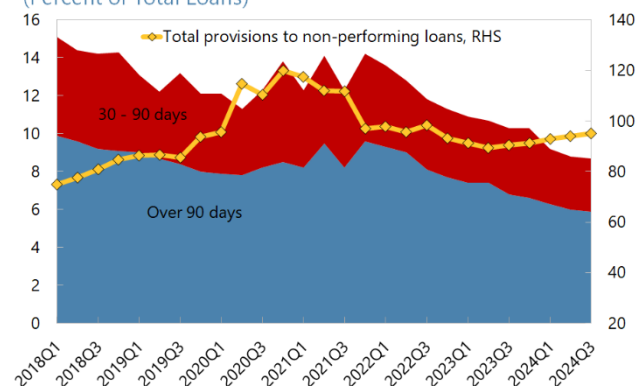
(B\$ millions)



*NPLs have been decreasing since 2021...*

#### Non Performing Loans (NPLs) 2/

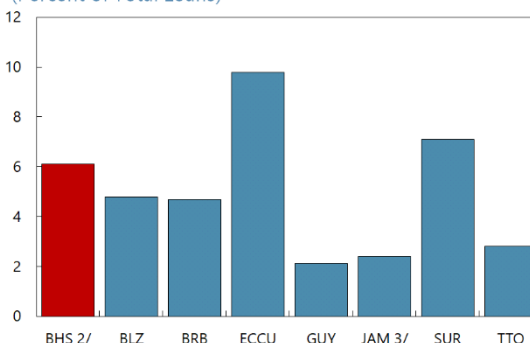
(Percent of Total Loans)



*...but remain higher than most regional peers.*

#### Banking Sector NPLs - 2024Q2

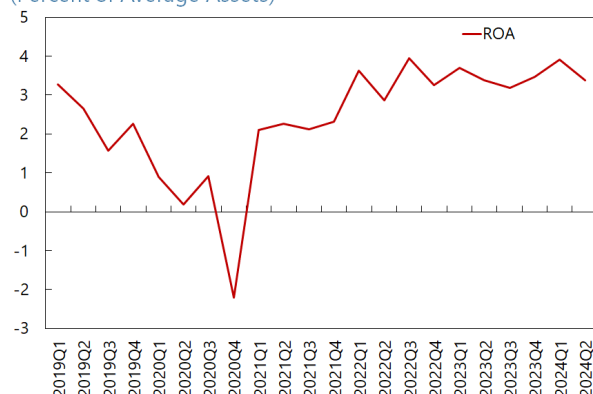
(Percent of Total Loans)



*Banks' profitability remains at high levels...*

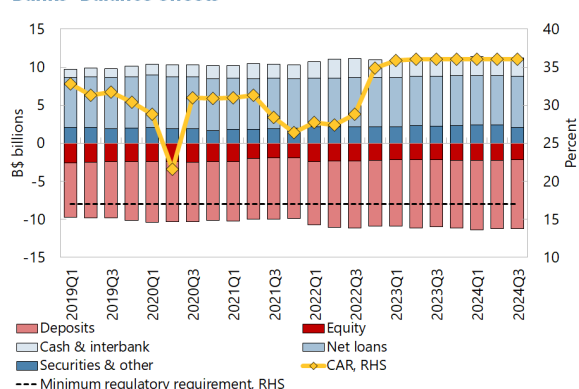
#### Bank's Profitability

(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/ NPL ratio for deposit taking institutions as of June 2024.

**Table 1. The Bahamas: Selected Social and Economic Indicators, 2019–29**

<b>I. Social Indicators</b>												
GDP (US\$ millions), 2023	14,338											
GDP per capita (US\$), 2023	35,517											
Population (thousands), 2023	404											
Life expectancy at birth (years), 2022	74.4											
Literacy rate (percent), 2020	96											
Poverty rate (percent), 2017											14.8	
Unemployment rate (percent), June 2024											8.7	
Infant mortality rate (per 1,000 live births), 2022											12.9	
Human development index (rank), 2022											57	
<b>II. Economic Indicators</b>												
	Average	Projections										
	1991-2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
(Annual percentage changes, unless otherwise indicated)												
<b>Real Sector</b>												
Real GDP	1.4	-1.4	-21.4	15.4	10.8	2.6	1.9	1.7	1.6	1.5	1.5	1.5
Nominal GDP	3.3	3.2	-23.5	14.2	15.5	9.2	3.1	3.1	3.3	3.3	3.5	3.5
GDP Deflator	1.8	4.6	-2.6	-1.1	4.3	6.3	1.2	1.4	1.7	1.8	2.0	1.9
Consumer Price Index (Annual average)	2.1	2.5	0.0	2.9	5.6	3.1	0.7	1.2	1.6	1.9	2.0	2.0
Consumer Price Index (End of period)	2.0	1.4	1.2	4.1	5.5	1.9	0.5	1.4	1.8	1.9	2.0	2.0
Unemployment rate (In Percent)	11.1	10.1	25.9	17.4	10.7	10.2	9.4	9.3	9.1	9.0	9.0	9.0
Gross National Saving rate (Percent of GDP)	19.2	25.4	2.5	7.0	15.6	15.3	10.0	11.3	11.8	12.7	13.1	13.3
Investment rate (Percent of GDP, constant price)	28.2	27.6	25.5	28.4	25.0	22.8	19.2	19.8	20.0	20.1	20.3	20.3
<b>Financial Sector</b>												
Credit to the Nonfinancial Public Sector	10.4	2.6	-3.4	16.0	9.1	6.0	-3.8	-2.9	-5.2	-7.6	-5.2	-5.8
Credit to the private sector	4.8	0.1	-2.1	-1.5	1.3	1.8	2.5	3.1	2.8	2.8	3.5	3.5
<b>External Sector</b>												
Exports of Goods and Services	4.0	8.7	-67.3	97.2	62.9	10.7	10.3	1.9	3.9	4.1	3.8	3.8
Of which: Travel Receipts (Gross)	4.2	10.7	-76.6	140.0	81.8	12.6	12.1	0.9	3.7	3.7	3.8	3.8
Imports of Goods and Services	5.6	-5.4	-29.5	45.0	18.1	7.4	13.5	0.4	3.3	2.8	3.6	2.9
(In percent of GDP, unless otherwise indicated)												
<b>Central Government 1/</b>												
Revenue and Grants	13.4	18.7	18.3	18.7	21.0	20.4	21.1	22.4	23.4	23.4	23.3	23.3
Expenditure	15.5	20.4	25.7	31.8	26.8	24.2	22.4	23.4	23.1	23.0	22.7	22.1
Expense	13.9	18.9	23.6	29.1	25.0	22.2	20.7	21.8	21.6	21.3	21.1	20.4
Net Acquisition of Nonfinancial Assets	1.7	1.5	2.1	2.7	1.8	2.0	1.7	1.6	1.5	1.7	1.7	1.7
Overall Balance	-2.1	-1.7	-7.4	-13.1	-5.8	-3.8	-1.3	-1.0	0.2	0.4	0.6	1.2
Primary Balance	-0.4	0.8	-4.3	-8.9	-1.3	0.3	2.9	3.3	4.6	4.6	4.8	5.0
Central Government Debt	29.3	60.7	74.7	99.7	88.6	81.7	78.8	77.8	75.5	74.3	71.5	68.2
<b>External Sector</b>												
Current Account Balance	-5.6	-2.2	-22.9	-21.4	-9.4	-7.5	-9.2	-8.5	-8.2	-7.4	-7.2	-7.0
Change in NIR 2/	-0.1	4.3	6.3	0.4	1.4	-0.7	0.5	-0.2	-0.5	0.0	0.2	0.4
Central Government External Debt	6.0	19.7	40.5	38.2	36.9	35.1	34.5	33.8	33.0	32.1	30.8	29.4
<b>Memorandum Items</b>												
Gross International Reserves												
(End of period; millions of U.S. dollars)	1082	1,758	2,382	2,433	2,611	2,517	2,597	2,560	2,488	2,496	2,535	2,611
(In months of next year's G&S imports)	5.2	6.2	5.8	5.0	5.0	4.2	4.4	4.2	3.9	3.8	3.8	3.7
GDP (In millions of Bahamian dollars)		13,016	9,958	11,369	13,136	14,338	14,787	15,243	15,745	16,261	16,829	17,414
Output gap (Percent)		-0.3	-16.8	-5.8	1.5	1.1	0.7	0.3	0.1	0.0	0.0	0.0
Sources: Central Bank of The Bahamas; Department of Statistics; Ministry of Finance; UNDP Human Development Report; and IMF 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, FY2019–29 1/**  
(In millions of Bahamian dollars)

	2019/20	2020/21	2021/22	2022/23	2023/24	Proj.				
						2024/25	2025/26	2026/27	2027/28	2028/29
<b>Revenue</b>	2,082	1,909	2,609	2,856	3,076	3,359	3,621	3,738	3,860	3,988
Taxes	1,850	1,612	2,162	2,474	2,743	2,998	3,250	3,356	3,467	3,582
Taxes on income and profits	0	0	0	0	0	0	150	155	160	165
Taxes on property	100	143	147	162	203	230	245	253	261	270
Taxes on goods and services 2/	1,340	1,167	1,492	1,630	1,808	1,985	2,049	2,116	2,188	2,265
of which: VAT	876	740	1,136	1,252	1,353	1,458	1,505	1,554	1,607	1,663
Taxes on international trade and transactions 2/	403	299	512	675	725	776	799	824	849	873
Other taxes	7	3	11	8	7	7	8	8	8	8
Grants	0	0	0	1	0	0	0	0	0	0
Other revenue	232	297	447	381	332	361	371	382	394	406
<b>Expenditure</b>	2,921	3,244	3,327	3,389	3,262	3,517	3,587	3,674	3,763	3,786
Expense	2,684	2,969	3,102	3,107	3,012	3,281	3,355	3,407	3,484	3,501
Compensation of employees	762	701	737	805	843	876	888	903	920	939
Goods and Services	466	487	478	578	533	591	598	607	618	629
Interest Payments	345	423	552	573	613	652	672	669	697	663
Subsidies	427	474	496	465	413	427	433	440	448	457
Grants	110	133	170	101	37	58	58	61	64	61
Social Benefits	188	405	286	227	244	252	255	268	268	274
Other Expense	386	346	383	358	329	426	451	459	469	479
of which: Transfers to public entities	151	96	59	45	51	92	91	67	66	68
Net acquisition of nonfinancial assets	236	275	225	282	250	236	232	267	279	284
<b>Overall Balance</b>	-839	-1,335	-717	-533.4	-187	-157	34	64	97	202
Primary Balance	-493	-912	-166	40	426	495	707	733	794	865
<b>Net acquisition of financial assets</b>	-171	368	175	-49	-125	46	46	257	46	46
<b>Net incurrence of liabilities</b>	668	1,703	893	484	62	204	12	193	-51	-156
Debt securities	187	834	680	186	15	116	7	110	-29	-89
Loans	481	869	212	298	47	88	5	83	-22	-67
of which : Usage of RFI resource	252				-121	-122				
Other net liabilities	0	0	0	0	0	0	0	0	0	0
<i>Memorandum items</i>										
Gross operating balance	-602	-1,060	-492	-251	63	79	266	331	376	487
Central government debt	8,484	10,167	10,991	11,427	11,483	11,687	11,699	11,892	11,841	11,685
of which : External	2,901	4,368	4,997	5,005	5,065	5,147	5,152	5,229	5,208	5,146
Central government debt in FRA 3/	8,191	9,935	10,793	11,260	11,314	11,518	11,699	11,892	11,841	11,685
Nominal GDP (In millions of B\$) (FY)	11,361	10,200	12,399	13,991	14,566	15,019	15,499	16,007	16,550	17,127

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 promissory notes for the resolution of Bank of The Bahamas.

**Table 2b. The Bahamas: Operations of the Central Government, FY2019–29 1/**  
(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24	Proj.				
						2024/25	2025/26	2026/27	2027/28	2028/29
<b>Revenue</b>	18.3	18.7	21.0	20.4	21.1	22.4	23.4	23.4	23.3	23.3
Taxes	16.3	15.8	17.4	17.7	18.8	20.0	21.0	21.0	20.9	20.9
Taxes on income and profits	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0
Taxes on property	0.9	1.4	1.2	1.2	1.4	1.5	1.6	1.6	1.6	1.6
Taxes on goods and services 2/	11.8	11.4	12.0	11.6	12.4	13.2	13.2	13.2	13.2	13.2
of which: VAT	7.7	7.3	9.2	8.9	9.3	9.7	9.7	9.7	9.7	9.7
Taxes on international trade and transactions 2/	3.5	2.9	4.1	4.8	5.0	5.2	5.2	5.1	5.1	5.1
Other taxes	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.0	2.9	3.6	2.7	2.3	2.4	2.4	2.4	2.4	2.4
<b>Expenditure</b>	25.7	31.8	26.8	24.2	22.4	23.4	23.1	23.0	22.7	22.1
Expense	23.6	29.1	25.0	22.2	20.7	21.8	21.6	21.3	21.1	20.4
Compensation of employees	6.7	6.9	5.9	5.8	5.8	5.8	5.7	5.6	5.6	5.5
Goods and Services	4.1	4.8	3.9	4.1	3.7	3.9	3.9	3.8	3.7	3.7
Interest Payments	3.0	4.1	4.5	4.1	4.2	4.3	4.3	4.2	4.2	3.9
Subsidies	3.8	4.6	4.0	3.3	2.8	2.8	2.8	2.7	2.7	2.7
Grants	1.0	1.3	1.4	0.7	0.3	0.4	0.4	0.4	0.4	0.4
Social Benefits	1.7	4.0	2.3	1.6	1.7	1.7	1.6	1.7	1.6	1.6
Other Expense	3.4	3.4	3.1	2.6	2.3	2.8	2.9	2.9	2.8	2.8
of which: Transfers to public entities	1.3	0.9	0.5	0.3	0.4	0.6	0.6	0.4	0.4	0.4
Net acquisition of nonfinancial assets	2.1	2.7	1.8	2.0	1.7	1.6	1.5	1.7	1.7	1.7
<b>Overall Balance</b>	-7.4	-13.1	-5.8	-3.8	-1.3	-1.0	0.2	0.4	0.6	1.2
Primary Balance	-4.3	-8.9	-1.3	0.3	2.9	3.3	4.6	4.6	4.8	5.0
<b>Net acquisition of financial assets</b>	-1.5	3.6	1.4	-0.4	-0.9	0.3	0.3	1.6	0.3	0.3
<b>Net incurrence of liabilities</b>	5.9	16.7	7.2	3.5	0.4	1.4	0.1	1.2	-0.3	-0.9
Debt securities	1.6	8.2	5.5	1.3	0.1	0.8	0.0	0.7	-0.2	-0.5
Loans	4.2	8.5	1.7	2.1	0.3	0.6	0.0	0.5	-0.1	-0.4
of which : Usage of RFI resource	2.2				-0.8	-0.8			0.0	0.0
Other net liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items</i>										
Gross operating balance	-5.3	-10.4	-4.0	-1.8	0.4	0.5	1.7	2.1	2.3	2.8
Central government debt	74.7	99.7	88.6	81.7	78.8	77.8	75.5	74.3	71.5	68.2
of which : External	25.5	42.8	40.3	35.8	34.8	34.3	33.2	32.7	31.5	30.0
Central government debt in FRA 3/	72.1	97.4	87.0	80.5	77.7	76.7	75.5	74.3	71.5	68.2
Nominal GDP (In millions of B\$) (FY)	11,361	10,200	12,399	13,991	14,566	15,019	15,499	16,007	16,550	17,127

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 promissory notes for the resolution of Bank of The Bahamas.

Table 3. The Bahamas: Balance of Payments, 2019–29

	Proj.										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
(In millions of U.S. dollars)											
Current account balance	-281	-2,285	-2,434	-1,233	-1,074	-1,355	-1,293	-1,292	-1,200	-1,213	-1,216
Goods (trade balance)	-2,314	-1,593	-2,626	-3,065	-3,213	-3,628	-3,543	-3,628	-3,642	-3,759	-3,841
Exports	695	431	639	814	862	890	947	994	1,051	1,089	1,129
Imports	3,009	2,024	3,264	3,879	4,075	4,518	4,490	4,622	4,693	4,847	4,970
Services	2,638	-130	1,008	2,648	2,946	3,132	3,143	3,256	3,350	3,470	3,613
Travel (net)	3,790	857	2,173	4,052	4,541	5,106	5,140	5,325	5,457	5,661	5,871
Travel (credit)	4,125	967	2,322	4,222	4,755	5,332	5,377	5,575	5,780	6,002	6,231
Travel (debit)	335	110	149	170	214	226	237	250	323	341	360
Other services	-1,152	-987	-1,165	-1,405	-1,595	-1,974	-1,997	-2,068	-2,107	-2,191	-2,258
Income	-605	-562	-817	-815	-807	-858	-893	-920	-908	-924	-988
Capital Account	908	650	54	0	0	0	0	0	0	0	0
Transfers	908	650	54	0	0	0	0	0	0	0	0
o/w Hurricane insurance payout	908	650	0	0	0	0	0	0	0	0	0
Financial Account	375	-1,692	-1,443	-1,223	-1,245	-1,355	-1,293	-1,292	-1,200	-1,213	-1,216
Direct investment	-369	-375	-298	-316	-97	-173	-213	-253	-295	-308	-321
Portfolio investment	270	-657	447	-100	330	-35	-142	-48	-49	-51	-53
Other Investment	-88	-1,285	-1,643	-985	-1,385	-1,227	-901	-920	-863	-893	-918
Reserve Assets	562	624	51	178	-94	79	-37	-71	7	39	76
Net errors and omissions	-252	-58	937	9	-172	0	0	0	0	0	0
(In percent of GDP)											
Current account balance	-2.2	-22.9	-21.4	-9.4	-7.5	-9.2	-8.5	-8.2	-7.4	-7.2	-7.0
Goods (trade balance)	-17.8	-16.0	-23.1	-23.3	-22.4	-24.5	-23.2	-23.0	-22.4	-22.3	-22.1
Exports	5.3	4.3	5.6	6.2	6.0	6.0	6.2	6.3	6.5	6.5	6.5
Imports	23.1	20.3	28.7	29.5	28.4	30.6	29.5	29.4	28.9	28.8	28.5
Services	20.3	-1.3	8.9	20.2	20.5	21.2	20.6	20.7	20.6	20.6	20.7
Travel (net)	29.1	8.6	19.1	30.8	31.7	34.5	33.7	33.8	33.6	33.6	33.7
Travel (credit)	31.7	9.7	20.4	32.1	33.2	36.1	35.3	35.4	35.5	35.7	35.8
Travel (debit)	2.6	1.1	1.3	1.3	1.5	1.5	1.6	1.6	2.0	2.0	2.1
Other services	-8.9	-9.9	-10.2	-10.7	-11.1	-13.4	-13.1	-13.1	-13.0	-13.0	-13.0
Income	-4.7	-5.6	-7.2	-6.2	-5.6	-5.8	-5.9	-5.8	-5.6	-5.5	-5.7
Capital Account	7.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfers	7.0	6.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Hurricane insurance payout	7.0	6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	2.9	-17.0	-12.7	-9.3	-8.7	-9.2	-8.5	-8.2	-7.4	-7.2	-7.0
Direct investment	-2.8	-3.8	-2.6	-2.4	-0.7	-1.2	-1.4	-1.6	-1.8	-1.8	-1.8
Portfolio investment	2.1	-6.6	3.9	-0.8	2.3	-0.2	-0.9	-0.3	-0.3	-0.3	-0.3
Other Investment	-0.7	-12.9	-14.4	-7.5	-9.7	-8.3	-5.9	-5.8	-5.3	-5.3	-5.3
Reserve Assets	4.3	6.3	0.4	1.4	-0.7	0.5	-0.2	-0.5	0.0	0.2	0.4
Net errors and omissions	-1.9	-0.6	8.2	0.1	-1.2	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	2,517	2,597	2,560	2,488	2,496	2,535	2,611
(In percent of base money)	101.5	112.5	110.6	97.2	94.0	93.0	88.1	82.3	79.4	78.0	77.6
(In months of next year's G&S imports)	6.2	5.8	5.0	5.0	4.2	4.4	4.2	3.9	3.8	3.8	3.7
Nominal GDP (millions of U.S. dollars)	13,016	9,958	11,369	13,136	14,338	14,787	15,243	15,745	16,261	16,829	17,414

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

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, 2019–29**

	2019	2020	2021	2022	2023	Proj.					
						2024	2025	2026	2027	2028	2029
(In millions of Bahamian dollars, end of period)											
<b>Central Bank</b>											
Net international reserves 1/	N.A.	2,382	2,433	2,611	2,517	2,597	2,560	2,488	2,496	2,535	2,611
Net domestic assets	-27	-264	-232	74	160	194	346	534	646	716	753
Credit to nonfinancial public sector (net)	353	132	395	702	872	872	872	872	872	872	872
Of which: Central Government	396	178	458	791	887	887	887	887	887	887	887
Other	-380	-397	-628	-628	-712	-678	-526	-338	-226	-156	-119
Reserve money	1,731	2,118	2,200	2,685	2,678	2,791	2,906	3,023	3,141	3,251	3,364
Currency held by the private sector	489	547	557	601	609	642	677	714	754	780	807
Liabilities with financial institutions	1,243	1,571	1,643	2,085	2,069	2,149	2,228	2,308	2,388	2,471	2,557
<b>Financial system</b>											
Net foreign assets	1,790	2,141	2,586	2,722	2,552	2,611	2,653	2,574	2,571	2,608	2,693
Of which: Commercial banks and OFIs	32	-241	153	111	35	14	93	86	75	73	81
Net domestic assets	6,103	5,722	5,634	6,262	6,551	6,852	7,168	7,607	7,973	8,304	8,599
Credit to nonfinancial public sector, net	2,762	2,669	3,096	3,378	3,580	3,446	3,345	3,172	2,930	2,776	2,616
Of which: Central Government, net	2,621	2,524	2,933	3,210	3,424	3,523	3,599	3,559	3,418	3,342	3,202
Credit to private sector	5,892	5,766	5,681	5,756	5,859	6,007	6,193	6,365	6,542	6,771	7,006
Other	-2,551	-2,713	-3,143	-2,872	-2,888	-2,601	-2,370	-1,931	-1,499	-1,243	-1,024
Liabilities to the private sector (broad money)	7,893	7,863	8,220	8,983	9,104	9,463	9,821	10,181	10,544	10,912	11,292
Money	3,248	3,471	3,715	4,297	4,319	4,577	4,843	5,119	5,400	5,589	5,783
Currency	337	373	386	423	431	454	479	506	533	552	571
Demand deposits	2,912	3,098	3,330	3,874	3,888	4,123	4,363	4,613	4,867	5,037	5,212
Quasi-money	4,644	4,392	4,504	4,687	4,785	4,886	4,978	5,063	5,144	5,323	5,508
(Change in percent of liabilities to the private sector at the beginning of the period)											
Net foreign assets	10.1	4.4	5.7	1.7	-1.9	0.6	0.4	-0.8	0.0	0.4	0.8
Net domestic assets	0.9	-4.8	-1.1	7.6	3.2	3.3	3.3	4.5	3.6	3.1	2.7
Credit to nonfinancial public sector	1.0	-1.2	5.4	3.4	2.3	-1.5	-1.1	-1.8	-2.4	-1.5	-1.5
Credit to private sector	0.1	-1.6	-1.1	0.9	1.2	1.6	2.0	1.8	1.7	2.2	2.2
Liabilities to private sector (broad money)	11.0	-0.4	4.5	9.3	1.3	3.9	3.8	3.7	3.6	3.5	3.5
Money	7.3	2.8	3.1	7.1	0.2	2.8	2.8	2.8	2.8	1.8	1.8
Quasi-money	3.7	-3.2	1.4	2.2	1.1	1.1	1.0	0.9	0.8	1.7	1.7
(Annual percentage change)											
Net domestic assets	1.1	-6.2	-1.5	11.1	4.6	4.6	4.6	6.1	4.8	4.2	3.5
Credit to nonfinancial public sector	2.6	-3.4	16.0	9.1	6.0	-3.8	-2.9	-5.2	-7.6	-5.2	-5.8
Credit to private sector	0.1	-2.1	-1.5	1.3	1.8	2.5	3.1	2.8	2.8	3.5	3.5
Liabilities to private sector (broad money)	11.0	-0.4	4.5	9.3	1.3	3.9	3.8	3.7	3.6	3.5	3.5
Money	19.1	6.9	7.0	15.6	0.5	6.0	5.8	5.7	5.5	3.5	3.5
Quasi-money	6.0	-5.4	2.6	4.0	2.1	2.1	1.9	1.7	1.6	3.5	3.5

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, 2014–23**  
(In percent, unless otherwise indicated)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Capital Adequacy</b>										
Regulatory capital to risk-weighted assets	32.8	33.3	28.6	32.5	34.1	30.8	30.9	28.7	34.5	32.7
<b>Credit to economic sectors <sup>1/</sup></b>										
Nonfinancial corporations	19.0	18.0	17.2	15.5	16.5	16.3	14.0	15.2	16.4	16.7
Households	75.6	75.6	75.3	77.5	74.7	73.1	72.3	72.0	72.5	72.6
Financial institutions	0.3	0.3	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.7
Government	5.1	6.0	7.3	6.7	8.5	10.2	13.4	12.6	10.9	9.9
<b>Asset Quality <sup>2/ 3/</sup></b>										
Nonperforming loans to total gross loans	15.3	14.2	11.4	9.2	9.1	8.0	8.5	9.6	7.7	6.6
Total provisions to nonperforming loans <sup>3/</sup>	51.2	59.7	70.6	74.6	84.8	93.8	121.2	97.1	89.6	91.3
<b>Profitability</b>										
Return on assets	-1.2	1.9	2.0	1.8	2.3	2.4	-0.1	2.3	3.5	3.4
Return on equity	-4.6	7.0	7.9	6.8	8.8	10.6	-0.3	10.9	17.9	18.0
Noninterest expenses to gross income	66.3	47.4	48.4	52.1	48.0	49.0	60.5	50.2	49.0	51.8
Personnel expenses to noninterest expenses	34.8	46.8	44.0	40.8	42.6	40.2	34.0	40.0	37.7	34.1
<b>Liquidity <sup>2/</sup></b>										
Liquid asset to total assets	22.6	24.1	25.9	29.0	26.6	30.1	32.4	33.8	37.0	37.4
Liquid asset to short-term liabilities <sup>4/</sup>	34.4	37.0	37.8	42.7	38.3	41.6	45.7	46.7	48.8	49.4
<b>Memo items <sup>2/</sup></b>										
Total private sector credit to GDP	57.1	53.0	52.5	48.9	46.7	45.3	57.9	50.0	43.8	40.9
Spread between domestic lending and deposit rates	10.4	10.9	11.3	10.8	10.5	9.9	9.9	9.5	10.5	10.5

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, 2024–29**

	Projections					
	2024	2025	2026	2027	2028	2029
<b>Fund obligations based on existing and prospective credit</b>						
Total (in millions of SDRs)	98.4	51.9	6.3	6.3	6.3	6.3
Principal (in millions of SDRs)	91.2	45.6	0.0	0.0	0.0	0.0
Charges/interest (in millions of SDRs)	7.2	6.3	6.3	6.3	6.3	6.3
Total (in millions of US dollars)	131.9	69.7	8.5	8.5	8.5	8.5
Principal (in millions of US dollars)	122.2	61.3	0.0	0.0	0.0	0.0
Charges/interest (in millions of US dollars)	9.7	8.4	8.5	8.5	8.5	8.5
<b>Total obligations based on existing and prospective credit</b>						
in percent of GDP	0.9	0.5	0.1	0.1	0.1	0.0
In percent of exports of goods and services	2.0	1.0	0.1	0.1	0.0	0.0
In percent of quota	53.9	28.4	3.4	3.4	0.0	0.0
In percent of gross international reserves	5.1	2.7	0.3	0.3	0.0	0.0
<b>Fund credit outstanding</b>						
In millions of SDRs	45.6	0.0	0.0	0.0	0.0	0.0
In millions of U.S. dollars	61.1	0.0	0.0	0.0	0.0	0.0
in percent of GDP	0.4	0.0	0.0	0.0	0.0	0.0
In percent of exports of goods and services	0.9	0.0	0.0	0.0	0.0	0.0
In percent of quota	25.0	0.0	0.0	0.0	0.0	0.0
In percent of gross international reserves	2.4	0.0	0.0	0.0	0.0	0.0
In percent of public external debt	1.2	0.0	0.0	0.0	0.0	0.0
<b>Net use of Fund credit</b>						
Total (in millions of SDRs)	-91.2	-45.6	0.0	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)	91.2	45.6	0.0	0.0	0.0	0.0
Total (in millions of US dollars)	-122.2	-61.3	0.0	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)	122.2	61.3	0.0	0.0	0.0	0.0
<b>Memorandum items:</b>						
Exports of goods and services (millions of US dollars)	6,622	6,747	7,011	7,296	7,572	7,858
Public sector external debt (millions of US dollars)	5,106	5,149	5,190	5,219	5,177	5,113
Quota (millions of SDRs)	182.4	182.4	182.4	182.4	182.4	182.4
Quota (millions of US dollars)	244.4	245.1	245.3	245.8	246.0	246.3
Gross international reserves (millions of US dollars)	2,596.8	2,559.7	2,488.3	2,495.7	2,535.2	2,611.3
GDP (millions of US dollars)	14,787.3	15,243.5	15,745.0	16,260.9	16,828.9	17,414.2

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



## Annex I. Country Engagement<sup>1</sup>

**1. The Government of The Bahamas' medium- and long-term goals center around four pillars—governance, human capital, the economy, and the environment.**<sup>2</sup> The authorities are working toward building a service-oriented government with well-governed public institutions. Poverty eradication would be achieved through a sustainable and diversified macroeconomy with a flexible labor market and sustainable healthcare and a best-in-class education system accessible to all. The authorities plan to target a fiscal balance of no larger than –0.5 percent of GDP from 2024/25, increase revenues to 25 percent of GDP by 2025/26, and reduce current expenditure to 20 percent of GDP by 2025/26 to reduce government debt to 50 percent of GDP by 2030/31. Increasing public sector capital expenditure to no less than 3½ percent of GDP from 2025/26 will support investments in climate resilient infrastructure and help to increase the share of renewable energy. The authorities are advancing efforts to modernize the financial system, including to enhance financial inclusion and to position The Bahamas as a leading hub for digital assets.

**2. The Bahamas faces several constraints to achieving its medium- and long-term goals.** Policy execution may suffer from capacity constraints. As with other small developing states, the authorities have a small core of well-qualified staff, but there are difficulties filling key positions within the public sector and challenges competing with the private sector. To address the latter, the government is planning a salary review to realign public sector wages with those in the private sector. Political economy considerations may also limit the suite of policy options to achieve economic objectives. Increasing government revenues to 25 percent of GDP would require additional policy measures beyond those already announced, but this may be difficult with general elections due by September 2026. Moreover, The Bahamas' high per capita income limits its access to concessional financing. Consequently, still-high gross financing needs, high borrowing costs, and the requirement to meet legislated fiscal targets may constrain additional social spending.

**3. Staff broadly agrees with the authorities' medium- and long-term objectives and stands ready to support efforts to achieve them.** Staff continues to provide policy recommendations to support macroeconomic stability and boost sustainable growth, underpinned by robust analytical work, including in the form of selected issues papers and working papers. The authorities benefit from technical assistance from CARTAC and IMF headquarters, including on the implementation of a corporate income tax (FAD), public financial management reforms (CARTAC), and developing the local currency debt market (MCM/CARTAC) and forecasting tools (ICD; Annex X). Increasingly, IMF staff has been collaborating with other key stakeholders, including regional and international development banks. This has included joint analytical work with the IDB to evaluate the macroeconomic impact of the proposed electricity sector reforms. Finally, if requested, the Fund stands ready to provide financial support via the Resilience and Sustainability Fund (RSF) to help the authorities to achieve their long-term objectives and via emergency financing to respond to natural disasters, as with the 2020 Rapid Financing Instrument (RFI).

<sup>1</sup> This annex was prepared by Shane Lowe (WHD).

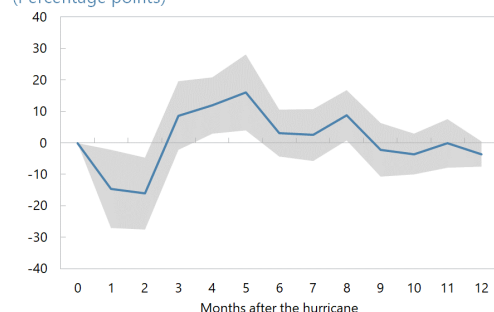
<sup>2</sup> Working Draft of the National Development Plan of The Bahamas.

## Annex II. The Impact on The Bahamas' Tourism from Natural Disasters in Other Caribbean Countries<sup>1</sup>

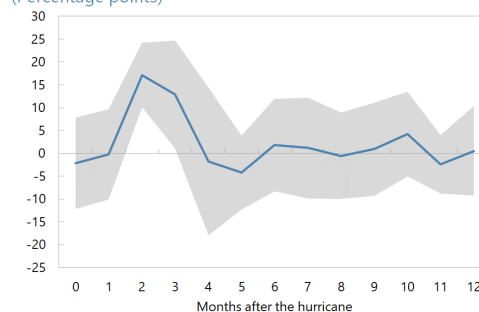
**1. Historically, hurricanes in neighboring countries temporarily increased tourist arrivals to The Bahamas.** Hurricanes elsewhere in the region could have two offsetting effects on The Bahamas: (i) boost tourism as tourists redirect to non-affected destinations in the region; (ii) hurt tourism if tourists do not distinguish between countries and avoid the entire region. Staff analysis suggests that hurricanes elsewhere increase sea arrivals by 17 percentage points after two months and air-arrivals by 15 percentage points after four months.<sup>2</sup> However, these effects become statistically insignificant five and three months post-hurricane for air and sea arrivals respectively.

### Cumulative Impulse Responses to a Hurricane in the Caribbean That Did Not Affect The Bahamas

Response of Air Tourist Arrivals  
(Percentage points)

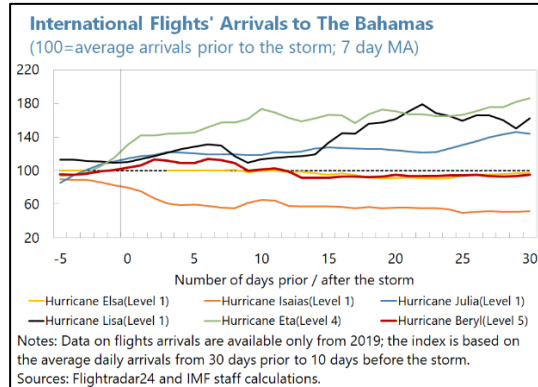


Response of Sea Tourist Arrivals  
(Percentage points)



Note: Shaded grey area shows 90 percent confidence interval. The sample spans data from January 1999 to May 2024.  
Source: IMF staff calculations.

**2. Flight arrivals data suggest a limited positive effect from Hurricane Beryl in July.** Since 2019, hurricanes in other Caribbean regions had, on average, a positive effect on flight arrivals to The Bahamas, with arrivals in the 30 days after the event increasing by 4.8 percent when comparing to the 30 days prior to the hurricane. Hurricane Beryl had a modest effect, with flight arrivals declining by 0.5 percent when making the same comparison. Air tourist arrivals declined 1.7 percent in July, while sea tourist arrivals increased by 29 percent. The muted impact could partly reflect capacity constraints.



<sup>1</sup> This annex was prepared by Beatriz Garcia-Nunes (WHD).

<sup>2</sup> The regression takes the form:  $g_{t+h} - g_t = \alpha_h + \beta_h D_t + u_t \quad \forall h = \{1, \dots, 12\}$ , where  $g_{t+h}$  denotes the monthly growth of air (or sea) tourist arrivals to The Bahamas;  $D_t$  is a dummy variable representing the onset of a hurricane in the region;  $t$  is the month of the hurricane, and  $h$  is the time horizon considered. The specification includes three lags of tourist growth. The impulse responses are constructed based on the estimated  $\beta_h$  coefficients at each horizon. Five positive outliers were removed from the sample, as those coincided to periods where other events (not related to hurricanes) boosted tourist arrivals; without removing the outliers, the impact averaged around 22 percentage points.

## Annex III. External Sector Assessment<sup>1</sup>

Update as of December 3, 2024

**Overall Assessment:** The external position of The Bahamas in 2024 was assessed as moderately weaker than warranted by fundamentals and desirable policies.<sup>1</sup> The current deficit is expected to remain financed by government external borrowing and foreign direct investments (FDI). International reserves should remain adequate in 2024 at 4.4 months of imports and marginally above the ARA metric.

**Potential Policy Responses:** Investments in digitalization, education, and climate resilient infrastructure would encourage economic diversification, improve the business environment, and attract FDI. Advancing the electricity sector reform is essential to improving competitiveness and reduce The Bahamas' vulnerability to commodity price shocks. Staff's proposed fiscal adjustment would narrow external imbalances and support the level of international reserves, ultimately strengthening the currency peg.

### Current Account

**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 and fell sharply to 21.4 percent of GDP during the Covid-19 pandemic in 2020. The current account (CA) deficit is expected to widen in 2024 to 9.2 percent of GDP from 7.5 in 2023, mostly driven by a worsening of the goods trade deficit from 22.4 in 2023 to 24.5 in 2024. The surplus on the services balance is expected to increase to 21.2 percent of GDP (from 20.5 percent in 2023) as travel receipts are expected to increase from 31.7 to 34.5 percent of GDP in 2024. The income and transfers deficit should marginally increase to 5.8 percent of GDP from -5.6 in 2023. The CA balance reflects the saving-investment deficits of both the public and private sectors. The CA balance is projected at around -7 percent in the medium-term, supported by resilient travel receipts and improved net public saving.

**Assessment.** The EBA-lite CA model estimates a CA norm of -5.3 percent of GDP and a cyclically adjusted CA of -8.9 percent,

resulting in a CA gap of -3.6 percent of GDP.

Policy gaps contribute 1.6 percentage points to the model-estimated CA gap and the remainder reflects country-specific factors and/or regression residuals.

Saving, Investment, and Current Account							
	2018	2019	2020	2021	2022	2023	Proj. 2024
	(Percent of GDP)						
<b>Current Account</b>	-9.5	-2.2	-22.9	-21.4	-9.4	-7.5	-9.2
<b>Saving (implied)</b>	16.7	25.4	2.5	7.0	15.6	15.3	10.0
CG 1/	-0.8	-2.9	-7.7	-7.2	-2.9	-0.7	0.5
Other (implied)	17.6	28.3	11.3	13.5	18.4	16.0	9.5
<b>Investment</b>	26.2	27.6	25.5	28.4	25.0	22.8	19.2
Public 2/	1.7	1.6	2.6	2.2	1.9	1.8	1.6
Other (implied)	24.6	25.9	22.9	26.2	23.1	21.0	17.5

Source: IMF staff calculations.

1/ Central government overall balance less expenditures on fixed capital formation.

2/ Central government fixed capital formation.

<sup>1</sup> The external sector assessment is based on staff's estimates.

<sup>1</sup> This annex was prepared by Beatriz Garcia-Nunes (WHD).

The EBA-lite CA model indicates a real effective exchange rate overvaluation of 13.8 percentage points. However, given its better fit historically, staff's bottom-line assessment draws on the REER model, which suggests a -1.9 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 2024 (Percent of GDP)

	CA model 1/ (Percent of GDP)	REER model 1/ (Percent of GDP)
<b>CA-Actual</b>	<b>-9.2</b>	
Cyclical contributions (from model) (-)	-0.2	
Natural disasters and conflicts (-)	0.0	
<b>Adjusted CA</b>	<b>-8.9</b>	
<b>CA Norm</b> (from model) 2/	<b>-5.3</b>	
Adjustments to the norm (+)	0.0	
<b>Adjusted CA Norm</b>	<b>-5.3</b>	
<b>CA Gap</b>	<b>-3.6</b>	<b>-1.9</b>
o/w Relative policy gap	1.6	
Elasticity	-0.3	
<b>REER Gap</b> (in percent)	<b>13.8</b>	<b>7.2</b>

1/ Based on the EBA-lite 3.0 methodology

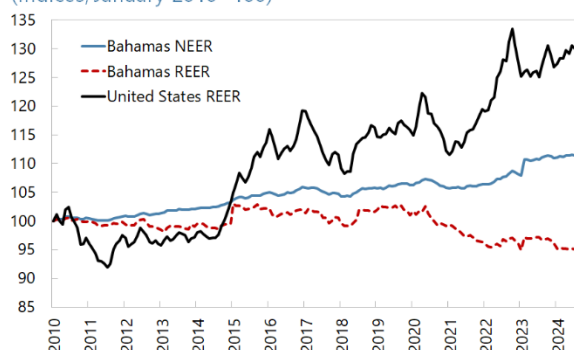
2/ Cyclically adjusted, including multilateral consistency adjustments.

### Real Exchange Rate

**Background.** The real effective exchange rate (REER) remained broadly unchanged in 2023 (a depreciation of 0.05 percent when compared to the 2022 average). 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 1.4 between January 2022 and October 2024.

**Assessment.** The EBA-Lite REER model estimates an overvaluation of 7.2 percent in 2024. This is broadly in line with the previous preliminary assessment, where the REER gap was estimated as 4.3 percent (and the CA gap as -1.1 percent).

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



Sources: INS and IMF staff calculations.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The 2024 financial account deficit is expected to increase to 9.2 percent of GDP from 8.7 percent in 2023. Net FDI inflows should expand to 1.2 percent of GDP (from 0.7 percent in 2023 and an average of 3.4 percent between 2017-21). Net public sector external borrowing is expected to broaden to 8.3 percent of GDP (from 8 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 the past few years. The authorities plan to continue to rely on the domestic market for funding in the near-term, but make some provision for external commercial bank financing during this fiscal year. New projects related to the electricity and tourism sector (refurbishing and expanding existing capacity and enhancing the stock of cruise infrastructure) could boost FDIs in the near-term. The risk of sharp capital outflows from residents is limited because of existing capital controls. Recent reforms to improve the transparency of public debt management—including by enhancing investor relations—should not only support the authorities' goal to increase domestic financing, but also increase the attractiveness of external instruments to foreign investors.

## FX Intervention and Reserves Level

**Background.** The Bahamian dollar has been pegged to the US dollar at a 1-to-1 value since 1966. Reserves remained at elevated levels by the end of 2023, around US\$2.5 billion (US\$94 million lower than in 2022) or 4.6 months of imports. Reserves rose sharply in January 2024 to US\$2.7 billion, in part due to the net effects of the government's external debt operations. Backed by strong tourism receipts, reserves increased during the first half of 2024, reaching US\$3.0 billion in July, and, reflecting seasonal patterns, mildly declined to US\$2.7 billion by September 2024. 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.

**Assessment.** Gross international reserves should correspond to 153 percent of the Fund's adequacy metric by the end of 2024, slightly above the recommended range (100-150 percent). Reserves are projected to remain adequate over the medium-term, around 4 months of imports. Risks to this outlook include an increase of commodity prices, triggered by an intensification of global political tensions, and a global growth slowdown. This could affect travel receipts and increase the chance that domestic banks reduce their appetite for domestic debt, forcing the government to recourse to more expensive external borrowing.

## 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, with direct investments likely accounting for a large share of foreign liabilities.<sup>2</sup>

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

<sup>2</sup> The Central Bank of The Bahamas does not publish international investment position data.

## Annex IV. Risk Assessment Matrix<sup>1</sup>

Source of Risk	Relative Likelihood	Impact	Policy Response
<b>Conjunctural Global Risks</b>			
<b>Intensification of regional conflicts.</b> Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase 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. Build fiscal buffers to support the most vulnerable through social transfers. In an imminent crisis scenario, temporary capital flow management (CFM) measures could be considered as part of a broader package to address the root causes of the crisis in accordance with the IMF's Institutional View (IV).
<b>Commodity price volatility.</b> Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High	Medium	
<b>Global growth surprises:</b>			
<b>Slowdown.</b> Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	Medium	High	<b>Slowdown.</b> Build fiscal buffers to support the most vulnerable. Invest in human capital, close digitalization gaps, and reduce crime to lift long-term growth prospects.  <b>Acceleration.</b> Relieve labor shortages in the construction sector through increased vocational and technical training to accelerate investments in hotel room capacity to leverage increased tourism demand.
<b>Acceleration.</b> Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	Low	Medium	
<b>Monetary policy calibration.</b> Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	Medium	Low	Allow interest rates to rise as external conditions demand to support the peg. Build fiscal buffers to provide targeted support to the most vulnerable. In an imminent crisis scenario, temporary capital flow management measures could be considered as part of a broader package to address the root causes of the crisis in accordance with the IMF's Institutional View (IV).
<b>Systemic financial instability.</b> High interest rates and risk premia and asset repricing amid economic slowdowns and elevated policy uncertainty (including from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Medium	Medium	

<sup>1</sup> This annex was prepared by Beatriz Garcia-Nunes (WHD). 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. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Relative Likelihood	Impact	Policy Response
<b>Sovereign debt distress.</b> Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	Medium	Medium	
<b>Structural Risks</b>			
<b>Cyberthreats.</b> Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	High	Enforce cybersecurity and regulatory framework of digital assets and increase resources available for regulators, so regular inspections can be conducted.
<b>Climate change.</b> Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium	High	Enhance ex-ante preparedness and risk reduction strategies, invest in more climate-resilient infrastructure through the protection of physical assets and natural capital, strengthen financial resilience by building a contingency fund, and ensure that most private properties are covered by insurance.
<b>Natural disasters negatively impact the local economy.</b> Hampering tourism activity would worsen fiscal and external balances and dampen medium-term outlook.	Medium	High	
<b>Country-Specific Risks</b>			
<b>Domestic banks reduce their appetite for domestic debt.</b> Revenue falls short of expectations and domestic banks opt not to rollover short-term debt coming due, leading to a short-term liquidity crunch, a rise in monetary financing, and recourse to more expensive external borrowing.	Medium	High	Review expenditure (including by SOEs) to reprioritize spending should the need arise. Systematically evaluate performance of multi-year financing strategy, undertake contingency planning, and continue with efforts to lengthen maturity of debt profile. Introduce a well-defined “escape clause” and reduce the stock of outstanding central bank advances to permit extraordinary access to central bank financing in exceptional, emergency circumstances.
<b>Increased capacity and spending in the tourism sector.</b> Proposed private sector projects increase hotel room capacity and supplement continued growth in the short-term rentals market. New cruise projects across the archipelago attract higher spending cruise passengers.	Medium	Medium	Relieve labor shortages in the construction sector through increased vocational and technical training. Adopt comprehensive climate strategy to ensure sustainable tourism.



## Annex V. Public Debt Sustainability Analysis<sup>1</sup>

**Annex V. Table 1. The Bahamas: Risk of Sovereign Stress**

Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	<b>High</b>	The Bahamas' overall risk of sovereign stress is assessed as high. This reflects high risk in the medium- and long-term.
<b>Near term 1/</b>	...	...	
<b>Medium term</b>	<b>Moderate</b>	<b>High</b>	Medium-term risks are assessed as high, despite the moderate mechanical signal. This reflects The Bahamas' vulnerability to natural disasters, and domestic banks' limited appetite for long-term government securities. Public debt is expected to decline over the baseline but remains high. Gross financing needs (GFNs) are also expected to remain elevated, including a large share of T-Bills to be rolled over, but should fall with ongoing fiscal consolidation. Both debt and GFNs are vulnerable to natural disasters and the realization of contingent liabilities.
Fanchart	<b>High</b>	...	
GFN	<b>Moderate</b>	...	
Stress test	Cont. Liabty. Nat. Diast.	...	
<b>Long term</b>	...	<b>High</b>	Long-term risks are assessed as high. The paths of public debt and GFNs are vulnerable to a scenario where the primary balance reverts to its 10-year average. Additional spending on climate adaptation would increase GFNs and debt, absent additional revenue-raising measures. In this scenario, both GFNs and debt remain elevated, but the debt-GDP ratio is still expected to fall over the long-term.
<b>Sustainability assessment 2/</b>	Not required for surveillance countries	Not required for surveillance countries	
<b>Debt stabilization in the baseline</b>	Yes		

### DSA Summary Assessment

The Bahamas' overall risk of sovereign stress is assessed to be high. On its current path, public debt is projected to fall to 74 percent of GDP by FY2028/29, but this projection is subject to significant uncertainty. Gross financing needs (GFNs) are high with a large share of short-term debt to be rolled over, but the banking system has significant excess cash should it choose to provide additional financing. Still, debt and GFNs are vulnerable to natural disasters, the realization of contingent liabilities, a reversal of fiscal consolidation efforts, or unfunded investments in climate adaptation.

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.

<sup>1</sup> This annex was prepared by Shane Lowe (WHD). The public sector DSA in this annex is based on the fiscal year (July – June). For example, 2024 refers to fiscal year 2023/24.



Annex V. Figure 1. The Bahamas: Debt Coverage and Disclosure

										Comments				
1. Debt coverage in the DSA: 1/														
											n.a.			
1a. If central government, are non-central government entities insignificant?														
2. Subsectors included in the chosen coverage in (1) above:										Not applicable				
Subsectors captured in the baseline														
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes			
				2	Extra budgetary funds (EBFs)						No			
				3	Social security funds (SSFs)						No			
				4	State governments						No			
				5	Local governments						No			
				6	Public nonfinancial corporations						Yes			
				7	Central bank						No			
				8	Other public financial corporations						Yes			
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		
Color code:										■ chosen coverage ■ Missing from recommended coverage ■ Not applicable				

## Reporting on Intra-Government Debt Holdings

Reporting on Intra-Government Debtholdings				Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
Issuer													
CPS	NFPS	GG: expected	CG	1	Budget. central govt								0
			2	Extra-budget. funds								0	
		CG	3	Social security funds									0
			4	State govt.									0
	CG	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.

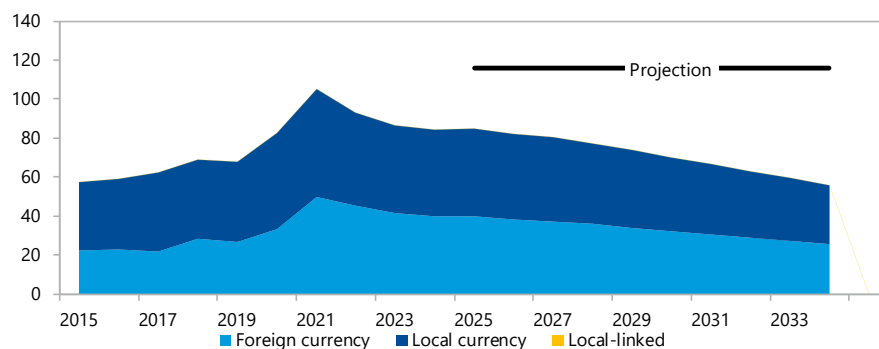
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date).

Only traded debt securities have observed market values.

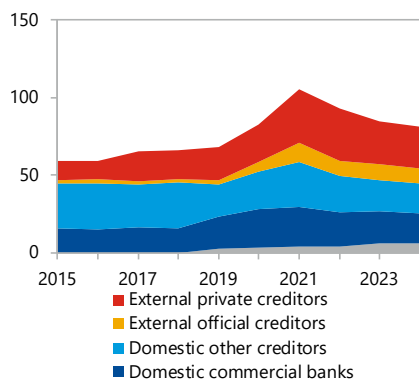
The SRDSA uses The Bahamas' public sector debt, which includes central government debt and debt owed by public financial and nonfinancial corporations. Public sector debt is consolidated by netting out the cross holdings of intra-government debt holdings between the central government and public corporations.

## Annex V. Figure 2. The Bahamas: Public Debt Structure Indicators

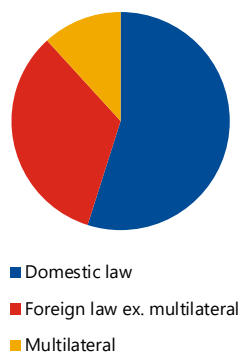
Debt by Currency (Percent of GDP)



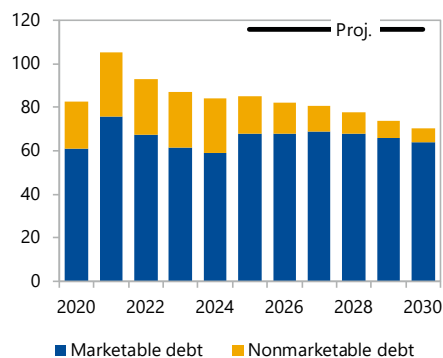
Public Debt by Holder (Percent of GDP)



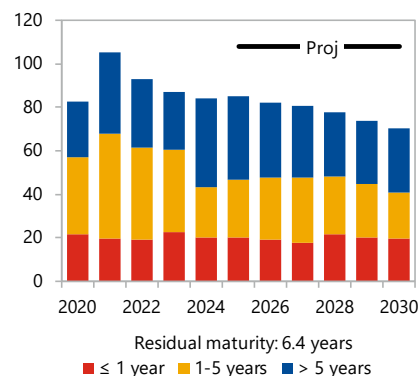
Public Debt by Governing Law, 2024 (percent)



Debt by Instruments (Percent of GDP)



Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is consolidated public sector.

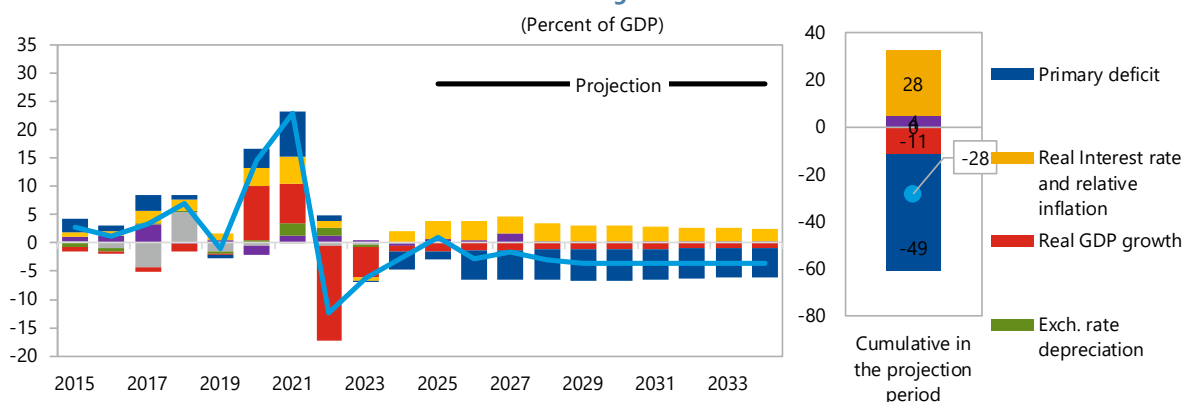
Note: The perimeter shown is consolidated public sector.

The government relied mostly on external financing during 2023/24. The authorities' 2024/25 annual borrowing plan aims to fund the GFNs largely from domestic bond financing, with some scope for external financing from foreign banks. Domestic banks are highly liquid and well capitalized and have sufficient capacity to provide additional financing should they choose to.

**Annex V. Figure 3. The Bahamas: Baseline Scenario**  
(Percent of GDP unless indicated otherwise)

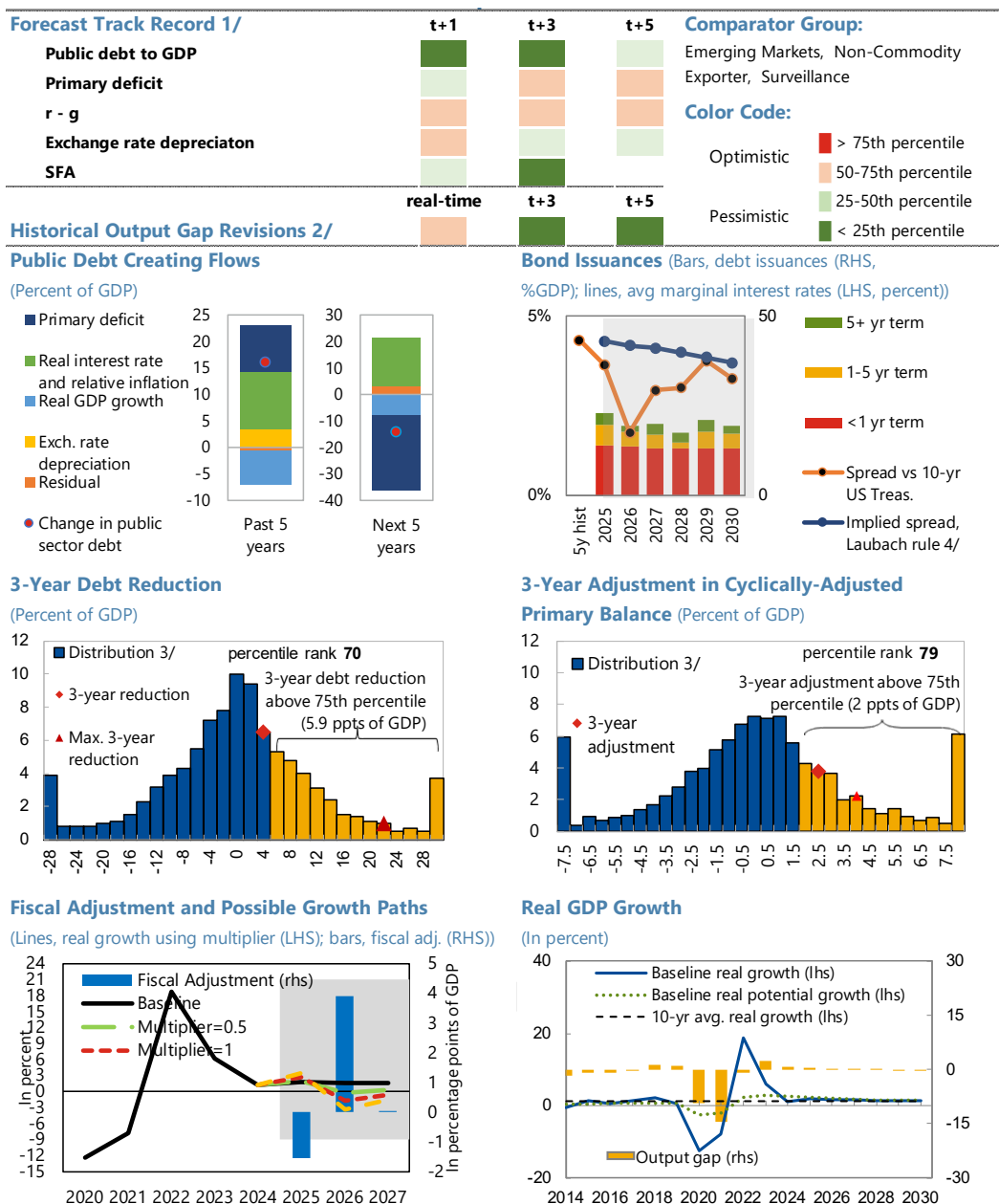
	Actual	Medium-term projection							Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Public debt	84.1	85.1	82.3	80.5	77.4	73.8	70.2	66.7	63.1	59.5	56.0	
Change in public debt	-2.7	1.0	-2.8	-1.7	-3.1	-3.6	-3.6	-3.5	-3.6	-3.6	-3.5	
Contribution of identified flows	-2.6	0.7	-2.9	-1.8	-3.1	-3.6	-3.6	-3.5	-3.6	-3.6	-3.5	
Primary deficit	-3.2	-1.3	-5.2	-5.2	-5.3	-5.5	-5.5	-5.4	-5.3	-5.2	-5.2	
Noninterest revenues	20.9	22.2	23.2	23.2	23.2	23.2	23.1	23.1	23.1	23.0	23.0	
Noninterest expenditures	17.7	20.9	18.0	18.0	17.9	17.7	17.6	17.7	17.7	17.8	17.8	
Automatic debt dynamics	1.0	1.7	2.0	1.8	1.9	1.6	1.6	1.6	1.5	1.4	1.4	
Real interest rate and relative inflation	2.0	3.3	3.3	3.1	3.1	2.7	2.7	2.6	2.5	2.3	2.2	
Real interest rate	2.0	3.6	3.5	3.2	3.1	2.7	2.7	2.6	2.4	2.3	2.2	
Relative inflation	0.0	-0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Real growth rate	-1.0	-1.5	-1.4	-1.3	-1.2	-1.1	-1.1	-1.0	-1.0	-0.9	-0.9	
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...	
Other identified flows	-0.4	0.3	0.3	1.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
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	-0.4	0.3	0.3	1.6	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Contribution of residual	0.0	0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gross financing needs	22.7	22.7	19.1	18.4	17.2	20.7	19.1	18.4	16.5	19.8	16.6	
of which: debt service	26.0	24.0	24.3	23.6	22.5	26.2	24.7	23.8	21.8	25.0	21.7	
Local currency	17.7	15.5	17.5	16.0	14.8	18.0	17.3	16.9	15.0	17.2	16.4	
Foreign currency	8.2	8.5	6.8	7.6	7.7	8.2	7.4	6.9	6.8	7.8	5.3	
Memo:												
Real GDP growth (percent)	1.2	1.9	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	
Inflation (GDP deflator; percent)	2.9	1.2	1.5	1.7	1.9	2.0	2.0	2.0	2.0	2.0	2.0	
Nominal GDP growth (percent)	4.1	3.1	3.2	3.3	3.4	3.5	3.5	3.5	3.5	3.5	3.5	
Effective interest rate (percent)	5.3	5.6	5.7	5.7	5.8	5.5	5.8	5.8	5.7	5.7	5.8	

#### Contribution to Change in Public Debt



Staff expects that stronger primary surpluses, falling nominal borrowing costs and modest nominal GDP growth should support a slow but sustained reduction in public debt over the medium-term. Consequently, public debt is projected to fall to 74 percent of GDP by FY2028/29 and to 56 percent of GDP by 2033/34.

## Annex V. Figure 4. The Bahamas: Realism of Baseline Assumptions



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.

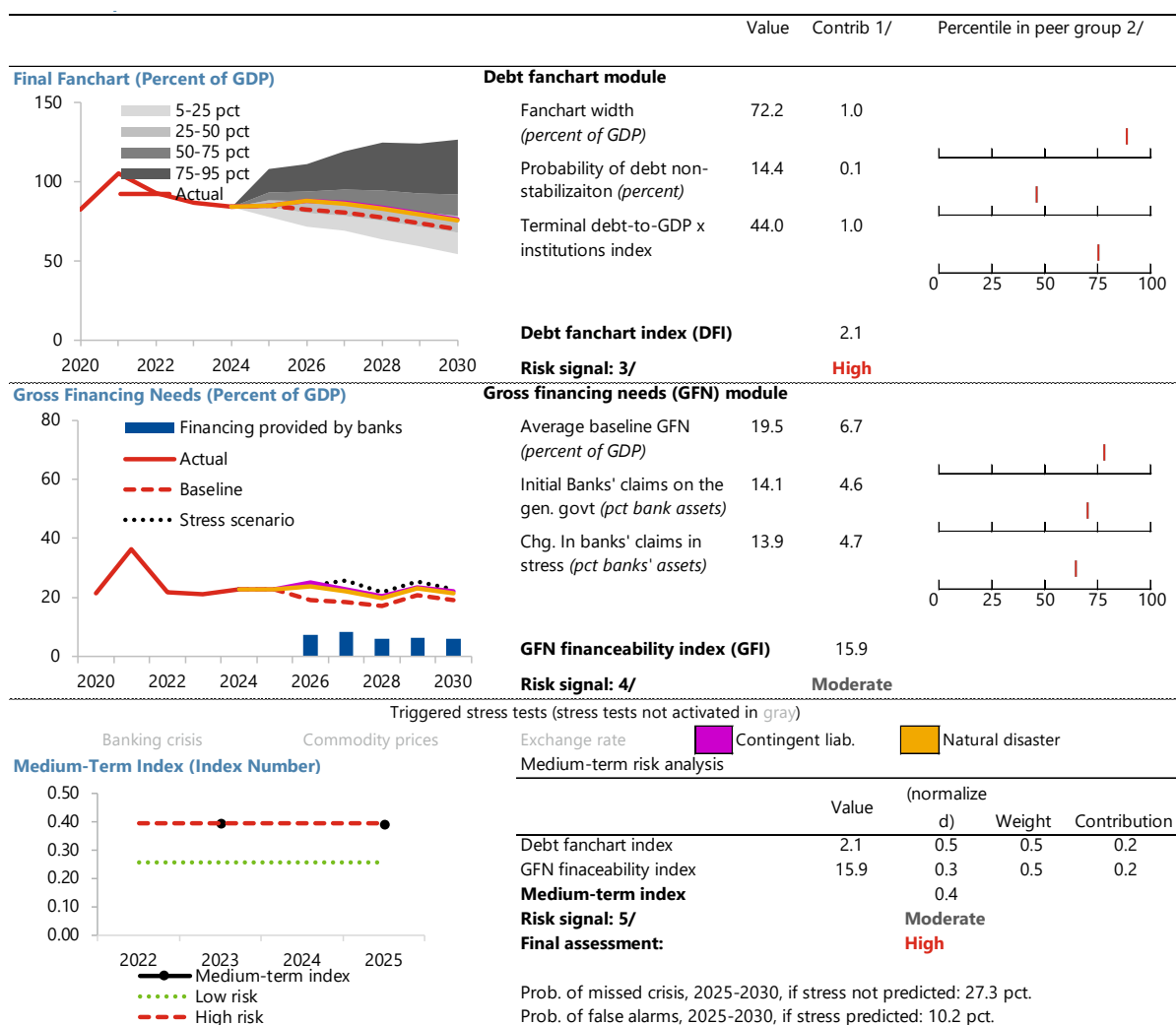
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).

3/ Data cover annual observations 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.

## Annex V. Figure 5. The Bahamas: Medium-Term Risk Analysis



Staff assesses medium-term risk as high. This balances a high assessment of risk for the Debt Fanchart index and a moderate assessment of risk for the GFN Financeability index. Negative shocks stemming from a natural disaster or the realization of contingent liabilities would increase debt and gross financing needs further, but not sufficiently to justify a more adverse assessment for the GFN Financeability index.

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.

## Annex V. Figure 6. The Bahamas: Long-Term Risk Analysis

## Triggered Modules

Large amortizations

Pensions

Climate change: Adaptation

Natural Resources

Health

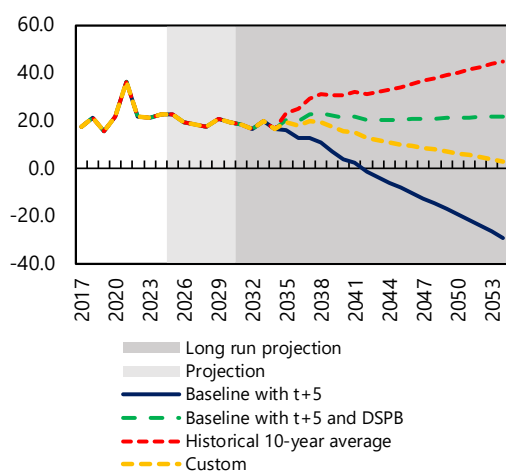
Climate change: Mitigation

## Long-Term Risk Assessment: Large Amortization Incl. Custom Scenario

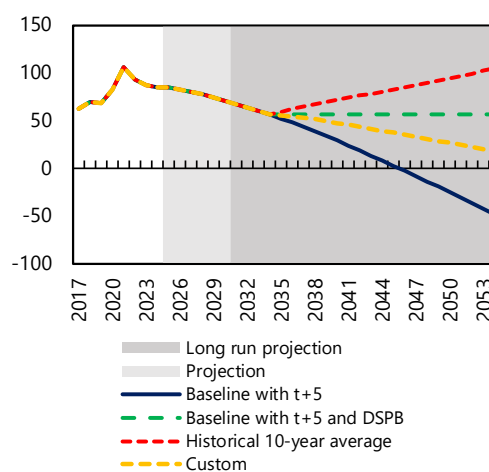
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	<div></div>
	Amortization-to-GDP ratio	<div></div>
	Amortization	<div></div>
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	<div></div>
	Amortization-to-GDP ratio	<div></div>
	Amortization	<div></div>
Historical average assumptions	GFN-to-GDP ratio	<div></div>
	Amortization-to-GDP ratio	<div></div>
	Amortization	<div></div>
Overall Risk Indication		<div></div>

Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	1.5%	1.5%	1.5%
Primary Balance-to-GDP ratio	5.5%	5.3%	2.5%
Real depreciation	-1.9%	-1.9%	-1.9%
Inflation (GDP deflator)	2.0%	2.0%	2.0%

## GFN-to-GDP Ratio



## Total Public Debt-to-GDP Ratio

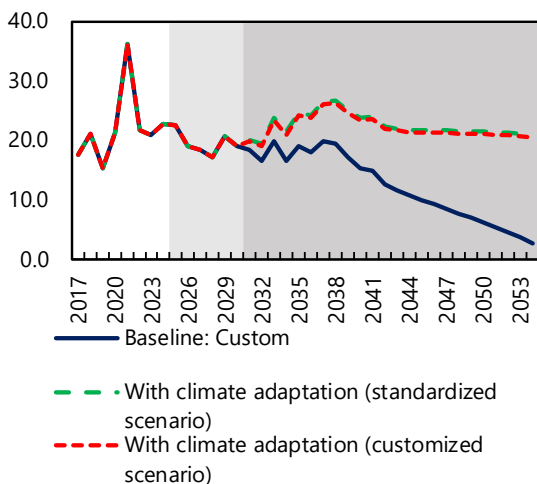


A shift in the primary balance from surplus back to the historical 10-year deficit would put gross financing needs and the debt-to-GDP ratio on upward trajectories, reaching 45 percent and 104 percent of GDP respectively by 2054. However, under the custom scenario, where the primary balance falls to 2.5 percent of GDP over the long-run, both public debt and GFNs remain on firm downward trajectories.

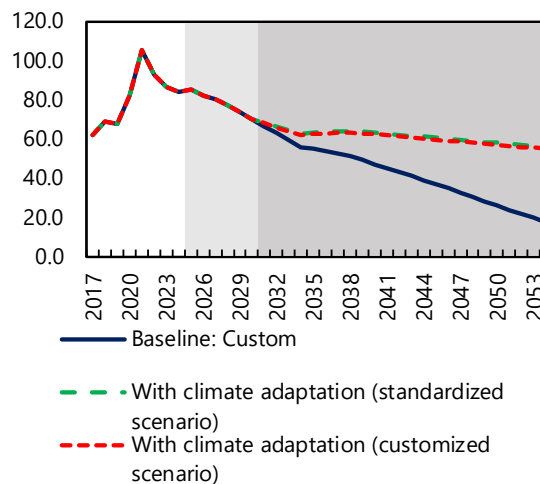
## Annex V. Figure 6. The Bahamas: Long-Term Risk Analysis (Concluded)

## Climate Change: Adaptation

## GFN-to-GDP Ratio



## Total Public Debt-to-GDP Ratio



Absent additional measures, GFNs and public debt would rise due to higher average investment of 1.4 percent of GDP associated with climate adaptation. Still, both GFNs and debt are expected to decline over the long-run. However, several caveats to this assessment are in order. This assessment does not include potential payoffs from adaptation investments, which may yield different results, particularly over the long term. Even then, investments in climate adaptation absent global mitigation efforts will not be able to completely shield The Bahamas from the effects of climate change.

## Annex VI. Past Policy Advice<sup>1</sup>

Recommendations	Current Status
<b>Fiscal Policy</b>	
<p>Expand the requirement for publication of beneficial ownership information to all public contracts, and require the publication of audited financial statements for SOEs, procurement documents and the final audits of COVID-related spending.</p> <p>Ensure an independent selection process for members of the fiscal council to bolster the council's independence.</p> <p>Ensure that deviations away from the fiscal targets permitted in the Public Finance Management Act are 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.</p>	<p>The 2021 auditor general's report was published in 2024. The Ministry of Finance receives the financial statements of SOEs, but these are not all published.</p> <p>The authorities announced the reconstitution of the Fiscal Responsibility Council. In addition, the Prime Minister announced the reconstitution of the Public Sector Audit Committee to, among other things, advise on the resources of the Internal Audit Department and the Auditor General.</p>
<p>Improve cost recovery from SOEs to reduce net subsidy from the central government and reform the national and civil service pension systems.</p>	<p>The authorities reduced subsidies to public corporations by 11 percent in 2023/24, in part due to timing related delays in payments. The government is considering reforms to the pricing of water and to improve the collection of payments due to the public hospital to reduce the reliance on subsidies from the central government. In 2024, the authorities have been conducting financial reviews of the largest SOEs and requested the SOEs' boards to present their strategic plans to cabinet. The authorities increased the contribution rate to the National Insurance Board by 1.5 percent effective July 2024 and have drafted legislation for a contributory pension scheme for civil servants.</p>
<p>Introduce taxes on personal and corporate income, increase the property tax rate for higher value residences, and eliminate tax expenditures on gambling and lotteries.</p>	<p>The authorities have introduced a corporate income tax that would be compatible with the OECD's global minimum tax rules but have not yet extended this to domestic corporations.</p>

<sup>1</sup> This annex was prepared by Beatriz Garcia-Nunes and Shane Lowe (WHD).



Recommendations	Current Status
<b>Fiscal Policy</b>	
Increase spending on priority areas, including education, health, social transfers, and climate resilient infrastructure.	In the 2024/25 budget, the authorities announced plans to secure financing to support the ongoing development of the hospital in Grand Bahama, the renovations at the Princess Margaret Hospital, and the building of a new hospital in New Providence. Major road works are also earmarked for Exuma, Cat Island, Long Island, Eleuthera, and Abaco, implemented in part through PPPs. The authorities are also exploring options to improve the access of housing, including in the Family Islands.
Strengthen public debt management including by instituting a market-based auction for domestic government securities, placing a greater focus on investor relations, and increasing the transparency and predictability of sovereign issuance plans.	The authorities have instituted price auctions for domestic government bonds, created a cash buffer from oversubscribed securities, issued repo guidelines for market participants, published The Bahamas Benchmark Bond Issuance Policy, and launched a government savings bond for small retail investors. Additionally, an investor website has been launched and an issuance calendar for domestic securities is published.
<b>Structural and Climate Policy</b>	
Increase access to liquidity in the event of a natural disaster and address market failures in the insurance sector.	The authorities and the private sector are designing a partially subsidized natural disaster micro-insurance parametric product to address insurance affordability for the most vulnerable and to minimize post-disaster losses.
Increase recourse to lower cost climate finance.	The authorities have joined the Development Bank of Latin America and the Caribbean (CAF) and have leveraged policy-based guarantees from the IDB to reduce the cost of external financing.
Accelerate the transition to renewable energy.	The new Electricity Act (2024) will help to facilitate investments in electricity transmission and distribution and to accelerate the transition toward 30 percent renewable energy by 2030.
Complete the ongoing digitalization of public services, close data gaps, publish statistics in line with international standards, and leverage the census to design targeted policies.	The Registrar General's Department launched the new Corporate Administrative Registry Services portal in June 2024. The final results for the 2022 census were published in 2024.

Recommendations	Current Status
<b><i>Monetary and Financial Policy</i></b>	
Allow short term interest rates to rise toward those in the U.S. to help 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. U.S. interest rates have since started to decline.
Reduce the limit on central bank financing of the government to help strengthen the credibility of the exchange rate regime, perhaps with the introduction of a well-designed “escape clause” that would be triggered in exceptional circumstances.	The legal limit on central bank financing of the government was reduced by the amendments to the Central Bank Act in 2023, but it is still higher than the ones in regional peers . A well-designed “escape clause” has not been introduced yet.
Strengthen the regulatory framework for digital assets.	The new DARE Act was enacted in 2024. It expands the range of activities considered and the scope of regulation on 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.
Increase the coverage of deposit insurance for domestic banks and enhance the Deposit Insurance Corporation’s governance and operational structure.	The Deposit Insurance Corporation approved an increase in the premiums levied on banks effective January 2024. DIC funding would reach 4 percent of insured deposits by 2026.
Commence the collection of loan-level data by banking supervisors to identify systemic risks and design macroprudential policies.	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. However, domestic banks and credit unions formally report data to the Credit Bureau.

## Annex VII. Implementation of 2019 FSAP Recommendations— Assessment (as of December 2024)<sup>1</sup>

Recommendation	Status
<b>Banking Supervision</b>	
Strengthen assessments of credit underwriting and enhance credit risk management and ICAAP reviews. Update guidelines on impaired assets and other asset classifications.	The Central Bank published the Guidelines for the Management of Credit Risk in 2022 which included how impaired assets are recognized. The minimum expectation for the ICAPP were incorporated into The Bahamas Capital Regulation 2022 as a component of capital governance. However, the Central Bank continues to advance work on revisions to the Guidelines for the Management of the ICAAP as part of its Policy Work Agenda.
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 Corporate Governance Guidelines is currently under review 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. The Central Bank is increasing its examination staffing by 2 full-time equivalents (FTEs) and 2 contractual specialists.
<b>Financial Crisis Management and Safety Nets</b>	
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 September 1, 2020. Guidance for Public AMCs is still to be developed.
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. The MoU for the establishment of the Financial Stability Council—which will have a financial stability and crisis management role—was concluded in December 2024. .

<sup>1</sup> This annex was prepared by Shane Lowe (WHD).

Recommendation	Status
<b>Financial Crisis Management and Safety Nets</b>	
Increase DIC funding to reach 2 percent of insurable deposits. Establish a pre-arranged emergency funding facility.	In progress. The Deposit Insurance Corporation increased the premiums levied on banks effective January 2024. DIC funding would reach 4 percent of insured deposits by 2026.
Issue Resolve financial statements and asset sales information, and commission a third-party comprehensive review of its operations.	In progress. The third-party review was provided to the Government.
<b>Financial Stability Analysis and Stress Testing</b>	
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.	<p>Financial institutions report their liquidity risk management strategy, liquidity position, and maturity-wise analysis of liabilities and asset on an ongoing basis or more frequently as needed. The Central Bank also conducts ad hoc collections and surveys as required.</p> <p>The Basel III Liquidity Risk Regulations and Guidelines are in progress. Implementation of this framework would require financial institutions to report their Liquidity Coverage Ratio (their ability to meet their liquidity needs in a 30-day stress scenario) and Net Stable Funding Ratio (to capture structural issues and provide a sustainable maturity structure over a one-year horizon).</p>
Develop a real estate price index.	Central Bank staff has begun preliminary work on constructing a real estate price index. The Central Bank is still in the process of sourcing data to complete the index.
<b>Systemic Risk Oversight and Macroprudential Policy</b>	
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 in 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.

<b>Recommendation</b>	<b>Status</b>
<b>Systemic Risk Oversight and Macroprudential Policy</b>	
Introduce CBOB recommendations regarding lending standards in NBFIs.	This action item has been placed on hold until the establishment of the Financial Stability Council.
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, the MOU has been finalized to establish a Financial Stability Council whose membership will comprise the banking, securities and insurance regulators. The financial stability council will have a financial stability and crisis management role.
<b>Anti-Money Laundering/ Countering the Financing of Terrorism (AML/CFT)</b>	
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. The Central Bank is also investing in an AML Risk Assessment tool to be rolled out by Q2 2025. This technology will allow for a more efficient risk assessment process.
Assess potential ML/TF risks related to Fintech initiatives.	In progress. The central bank has published a Digital Assets Framework and Guidelines to identify and address any issues which may threaten financial stability.
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.
<b>Recommendation</b>	<b>Status</b>
<b>Developmental Recommendations: Financial Inclusion–Payment Systems and SMEs</b>	
Open the ACH to regulated and supervised NBFIs and modernize the electronic payment infrastructure. Differentiate debit and credit merchant discount rates.	The 2023 Central Bank Act allows supervised NBFIs 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 NBFIs 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.

Recommendation	Status
<b>Developmental Recommendations: Financial Inclusion–Payment Systems and SMEs</b>	
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 VIII. Digitalization to Help Financial Inclusion and Innovation<sup>1</sup>

**1. The Bahamas has high credit cost with limited access.** The difference between the lending and the deposit rates, at 10 percent in 2023, is considerably higher than the regional average of 5.8 percent. Banks have not been able or willing to attract certain population segments—including migrants, elderly, people with low income, and people in Family islands. Access to credit for small and medium enterprises (SMEs), comprising 82 percent of total firms, is modest, with 28.4 percent of small firms and 43.6 percent of medium firms having a bank loan/line of credit, way below the LAC average.<sup>2</sup>

**2. Digital banking could incentivize growth through higher competition and cost reductions.** Many regional peers have reduced net interest margins through increased digital bank transactions.<sup>3</sup> Besides digital banks, alternative finance models are increasing in the region, including debt-based platforms (e.g., peer-to-peer lending platforms), equity-based platforms that allow investment in unlisted shares, and reward-based or donation-based crowdfunding. In addition, SMEs have enhanced specialized cloud-based business services (accounting, supply chain management, and e-commerce) and specific-tailored financing in the LAC region.

**3. Fintech has potential to enhance market access, productivity, and quality of products in The Bahamas.** Despite higher financial development, The Bahamas has less Fintech companies than regional peers. The payments market in The Bahamas could benefit from competition and new interoperable technologies to increase convenience, efficiency, and decrease reliance on cash. Recent data initiatives to reduce information asymmetry and perceived risk of lending, such as the establishment of a Credit Bureau and the mobile collateral registry, should continue. This would enable banks to further utilize new technologies and develop/upgrade electronic access channels, including full internet/mobile banking packages and tailored electronic payment products. Concomitantly, supportive policies are essential to address capacity, scalability, and infrastructure constraints. Though high as a share of population compared to LAC, internet and mobile usages are not equally distributed across all the islands in The Bahamas. Deepening geographic penetration through increased connectivity, implementing low-cost automated teller machines (ATMs), and investments on financial literacy would be important.

**4. Robust regulatory oversight and frameworks are critical for consumer protection, financial integrity, and financial stability.** The government's 2022 White Paper, "The Future of Digital Assets in The Bahamas", could be expanded to include well-defined and practical actions,

<sup>1</sup> This annex was prepared by Beatriz Garcia-Nunes. It includes findings and recommendations from the [2019 Financial Assessment Program](#).

<sup>2</sup> [2022 Compete Caribbean Innovation, Firm Performance and Gender Issues in the Caribbean survey](#) and [Enterprise Surveys Indicators Data - World Bank Group](#).

<sup>3</sup> ["The Rise and Impact of Fintech in Latin America,"](#) IMF Fintech Note 2023, International Monetary Fund, Washington, DC.

including streamlined licensing procedures, facilitating regulation, digital contracting, and digital reporting (Regtech). As risks in the digital sphere mutate and artificial intelligence becomes part of the mainstream, the authorities should continue to strengthen existing legislation regarding data protection (Data Protection Act), cybersecurity (Computer Misuse Act), and AML/CFT regulations. Given that the banks and non-banks are regulated by the Central Bank and the Securities Commission respectively, it is imperative that both institutions have joint approaches to risks (“same risk, same activity, and same treatment”) and update their frameworks regularly and uniformly to avoid regulatory arbitrage.<sup>4</sup> To this end, the establishment of the BFSC will be crucial to adopting a unified approach to financial sector regulation. Finally, updating stress-testing frameworks to account for the different risk lending and borrowing behavior related to digital banking and enhancing data collection efforts on non-banks is essential to safeguard financial stability.

## **5. Sandboxes and Innovation Hubs can help supervisors fine-tune existing regulation.<sup>5</sup>**

The success of Sandboxes in attracting new participants in the region varied.<sup>6</sup> Both innovation hubs and sandboxes enable regulators to monitor and foment innovations, and electing the correct approach and tailoring the experiment depends on available resources and the government’s objectives.<sup>7</sup>

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<sup>4</sup> Basel’s Cryptoasset Exposures Framework.

<sup>5</sup> Innovation hubs are dedicated teams that act as central contact points and can aid firms with local financial regulations, conduct outreach to attract international companies, and monitor trends; the firm engagement with an innovation hub is usually limited. Regulatory Sandboxes are controlled environments for firms to test their innovative propositions on real consumers and the engagement per firm tend to be deeper and more costly. Regulatory Sandboxes are also used as a tool for supervisors to determine the adequacy of the current regulatory framework.

<sup>6</sup> Until December 2023, the Jamaica Sandbox (created in 2020) had attracted 23 participants, while Barbados’ Sandbox (created in 2018) attracted one.

<sup>7</sup> Bains, Parma and Wu, Caroline, 2023. “Institutional arrangements for fintech regulation: supervisory monitoring”, IMF Fintech Note 2023, International Monetary Fund, Washington, DC.



## Annex IX. Data Issues<sup>1</sup>

Annex IX. Figure 1. The Bahamas: Data Adequacy Assessment for Surveillance							
Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	C	A	B	A	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	B	B	C	B		
Granularity 3/	A		A	B	A		
			A		A		
Consistency			A	B		B	
Frequency and Timeliness	B	C	C	A	A		
Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.							
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.							
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF Review of the Framework for Data Adequacy Assessment for Surveillance, January 2024, Appendix I).							
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<b>Rationale for staff assessment</b> Data provision have some shortcomings but are 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", "Monthly Fiscal Summary Report", and "Quarterly Public Debt Statistics Bulletin". 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 vet to compile data on the international investment position (IIP)							

<sup>1</sup> This annex was prepared by Beatriz Garcia-Nunes (WHD).

<b>Annex IX. Figure 1. The Bahamas: Data Adequacy Assessment for Surveillance (Concluded)</b>
<p>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. Employment, national accounts, and inflation data are published with long lags, making it difficult to assess economic developments in a timely manner. Weaknesses of coverage and timeliness reflect capacity constraints.</p>
<p><b>Changes since the last Article IV consultation.</b> None.</p>
<p><b>Corrective actions and capacity development priorities.</b> The authorities have received technical assistance in 2024 from the IMF Statistics Department and plan to publish the IIP in 2025. The authorities are in the process of completing data collection to launch a new household survey, after which they plan to rebase CPI. Staff continues to support the authorities' efforts towards addressing data gaps, including continuing technical assistance on IIP statistics.</p>
<p><b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Staff do not use data and/or estimates different from official statistics.</p>
<p><b>Other data gaps.</b> More timely and frequent publication of labor statistics and expanding the coverage to capture the informal labor market would enhance staff's analysis.</p>

<b>Annex IX. Figure 2. The Bahamas: Data Standards Initiatives</b>
<p>Implementation of the recommendations of the enhanced General Data Dissemination System (e-GDDS) in December 2018 has improved timelines and accessibility.</p>

### Annex IX. Figure 3. The Bahamas: Table of Common Indicators Required for Surveillance As of December 2

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	The Bahamas <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	The Bahamas <sup>8</sup>
Exchange Rates	Fixed				D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	Sep-24	Nov-24	W	M	M	30	1M	150
Reserve/Base Money	Sep-24	Nov-24	W	M	M	30	2M	150
Broad Money	Sep-24	Nov-24	W	M	M	30	1Q	150
Central Bank Balance Sheet	Sep-24	Nov-24	M	M	M	30	2M	150
Consolidated Balance Sheet of the Banking System	Sep-24	Nov-24	M	M	M	30	1Q	150
Interest Rates <sup>2</sup>	Sep-24	Nov-24	M	M	M	30	...	150
Consumer Price Index	Aug-24	Nov-24	M	M	M	30	2M	90
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	NA	NA	NA	NA	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	Sep-24	Nov-24	M	M	Q	90	1Q	90
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Sep-24	Nov-24	M	M	Q	90	2Q	90
External Current Account Balance	Q3 2024	Dec-24	Q	Q	Q	90	1Q	150
Exports and Imports of Goods and Services	Q3 2024	Dec-24	Q	Q	M	90	12W	120
GDP/GNP	Q2 2024	Dec-24	Q	A	Q	365	1Q	150
Gross External Debt	Sep-24	Nov-24	Q	Q	Q	90	2Q	90
International Investment Position	NA	NA	NA	NA	A	...	3Q	...

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

## Annex X. Integrating Surveillance and Capacity Development<sup>1</sup>

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, including on the implementation of a Corporate Income Tax, 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 (latest TA in April 2024).
Financial Sector	Update the central bank's supervisory framework for bank intervention to ensure that early warning indicators are used more effectively and include climate risks into its stress testing frameworks. 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 expand digitalization of financial services. Accelerate financial education campaigns and continue strengthening the regulators' internal capacity. 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 a TA on developing the local currency debt market (2023/24). 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. The authorities could benefit from capacity development in climate risk stress testing.
AML/CFT	Establish and implement a robust supervisory framework to regulate registration, ensure prudential supervision, and AML/CFT compliance of digital assets.	CARTAC delivered technical assistance on corresponding bank relationship monitoring toolkit in 2018.

<sup>1</sup> This annex was prepared by Beatriz Garcia-Nunes (WHD).

Sector	Surveillance Recommendations	Capacity Development Recent Actions/Plans
Statistics	Close data gaps and publish statistics according to international standards. Conduct a household survey.	ICD delivered in 2023/24 a TA to implement a macro forecasting model and CARTAC provided several TAs on national accounts statistics and price statistics. Regarding external sector statistics, CARTAC has engaged with the authorities during several missions to expand Balance of Payments data collection, reduce the size of errors and omissions (CARTAC March 2023), and to produce international investment position (IIP) statistics (CARTAC February 2024). STA provided several technical assistance missions to the BNSI on external sector statistics, and to the CBOB to implement the standardized report forms (SRFs). Staff continues to support the authorities' efforts towards addressing data gaps, including continuing technical assistance to compile and publish 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 XI. Progress on Commitments in Rapid Financing Request (June 2020)<sup>1</sup>

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	<p><b>No progress.</b> 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.</p> <p>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.</p>
Report quarterly on COVID-19 mitigation spending	<b>Done.</b> The relevant information is in the quarterly budget performance reports.
COVID-19 mitigation spending and revenue measures should be audited within 9 months of the end of the fiscal year	<b>Partially implemented.</b> The Auditor General published a financial audit report covering FY2019-20 of expenditures related to the response to COVID pandemic and Hurricane Dorian. The remaining reports covering expenditures related to the response to the COVID pandemic are near completion.
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.	<b>Done with delay.</b> 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.

<sup>1</sup> This annex was prepared by Shane Lowe (WHD).



# THE BAHAMAS

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department  
(In consultation with other departments)

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## FUND RELATIONS

(As of November 30, 2024)

**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	231.52	126.93
Reserve position in the Fund	19.29	10.57

### SDR Department:

	SDR Millions	Percent of Quota
Net cumulative allocation	299.24	100.00
Holdings	112.48	37.59

### Outstanding Purchases and Loans:

	SDR Millions	Percent of Quota
Emergency Assistance <sup>1</sup>	68.40	37.50

### 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<sup>2</sup>:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	22.80	45.60	...	...	...
Charges/Interest	<u>2.63</u>	<u>7.20</u>	<u>6.28</u>	<u>6.28</u>	<u>6.29</u>
Total	<u>25.43</u>	52.80	<u>6.28</u>	<u>6.28</u>	<u>6.29</u>

<sup>1</sup> Emergency Assistance may include ENDA, EPCA, and RFI.

<sup>2</sup> 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 HIPC Initiative:** Not Applicable

**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.

#### **Last Article IV Consultation**

The Bahamas is on a 12-month cycle. The last Article IV consultation was concluded by the Executive Board on January 19, 2024 (IMF Country Report No. 2024/039).

**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
CARTAC	September 2022	National Account Statistics
MCM	September 2022	Financial Sector Infrastructure
MCM	December 2022	Bank Regulation
CARTAC	March 2023	External Sector Statistics
CARTAC	April 2023	CPI Statistics
CARTAC	September 2023	Debt management (local-currency bond market)
CARTAC	October 2023	Macroeconomic Program
STA	February 2024	External Sector Statistics
FAD	February 2024	Tax Policy
FAD	April 2024	Public Financial Management

## RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- Inter-American Development Bank: [IDB | The Bahamas \(iadb.org\)](https://www.iadb.org/en/the-bahamas)
- Caribbean Development Bank: [The Bahamas | Caribbean Development Bank](https://www.caribbeandevelopmentbank.com/bahamas)
- World Bank
  - COVID-19 response: [WBG Finances One - Bahamas, The](https://www.worldbank.org/en/covid/financing/bahamas)
  - Multilateral Investment Guarantee Agency: [Projects | World Bank Group Guarantees | MIGA](https://www.mIGA.com/en/projects/world-bank-group-guarantees)

**Statement by Ms. Gina Fitzgerald and Mr. Brad Recker on  
The Bahamas Executive Board Meeting January 13, 2025**

**Introduction**

On behalf of the Bahamian authorities, we would like to thank members of the Executive Board, Management, and staff for their support and in particular the Mission Chief Swarnali Hannan and her Article IV team for their constructive engagement, policy discussions, and valuable recommendations.

**Recent Performance and Economic Outlook**

**Fueled by a rebound in tourism, the Bahamian economy has fully recovered after the major successive shocks of Hurricane Dorian and the COVID-19 pandemic.** Rapid growth in 2022 (10.8 percent) has resulted in the Bahamian economy fully recovering to its pre-pandemic level. Expansion continued into 2023 (2.6 percent) and 2024 (1.9 percent), albeit at a moderating pace, and was driven by a strong rebound in the tourism sector, as tourist arrivals reached 9.7 million visitors in 2023, a 37.9 percent increase from 2022. Growth has also been bolstered by the construction sector with support from foreign and domestic residential investment. Although somewhat more optimistic than staff, Bahamian authorities expect that growth will remain positive but decelerate over the 2024-2028 period as the economy has returned to its potential and capacity constraints become binding.

**Labor market conditions have also recovered.** The unemployment rate has reached lows not seen since 2008, at 8.7 percent in June 2024 from a peak of approximately 25.6 percent in 2020. In addition, for the first time in over a decade, labor force participation was higher, and the unemployment rate was lower for women relative to men. The authorities expect the labor market to continue to strengthen due to actions to improve Bahamian economic participation.

**Inflation, has fallen dramatically with food and energy costs, even turning slightly negative recently (-0.6 percent in August).** Most of what is consumed in The Bahamas is imported, making the country very sensitive to global price movements. The authorities expect inflation to remain subdued in 2025 and going forward at about 2 percent, in line with the expected slowing in US inflation. The Bahamian government's energy reform plan should also be a significant dampening factor on inflation.

**Housing affordability remains an important issue for authorities, who are undertaking initiatives to enable home ownership by Bahamians and reduce housing shortages.** As a result, staff's selected issues report on *Housing Affordability in The Bahamas* is timely and well received. The government will continue to work to improve mortgage lending to working Bahamians and to implement measures that encourage growth in the supply of housing.

**Fiscal Responsibility and Sustainability**

**The authorities have made significant progress in restoring the fiscal situation to a sustainable footing.** Hurricane Dorian and the COVID-19 pandemic severely impacted The Bahamas' tourism-focused economy and fiscal situation. The fiscal deficit peaked at 13.1 percent in FY2020/21 and the debt-to-GDP ratio climbed to 99.7 percent that same year. Beginning in FY2022/23, the government began implementing an aggressive revenue strategy to enhance administration and improve yields, as well as rationalizing expenditures. Together, these actions helped to bring the deficit as a percent of GDP down to 3.8 percent that year and to 1.3 percent in FY2023/24. Notably, the revenue to GDP ratio has shown consistent growth, rising from 18.7 percent in FY2020/21 to 21.1 percent in FY2023/2024. The government has also contained expenditure growth, which has fallen to 22.4 percent of GDP, while protecting the most vulnerable and maintaining necessary investment in social programs and infrastructure. The continued focus on fiscal management has seen the debt-to-GDP ratio return to a downward trend, declining by over 20 percentage points of GDP from its peak, to below 80 percent of GDP.

**The government's plan to maintain the nation's fiscal health is underpinned by its goal of reducing the debt-to-GDP ratio to 50 percent by FY2030/31.** To achieve this goal, the authorities are implementing a strategy to improve the revenue yield through enhanced revenue administration and targeted reform measures. The strategy is intended to raise revenue to the medium-term target of 25 percent of GDP. Revenue reforms include modernization and simplification of tax legislation and enforcing greater tax compliance and revenue collection. In particular, actions are being taken to address revenue underperformance in the real estate sector, in part because information provided by the local real estate sector about the buoyancy of the high-end real estate market shows that it is not fully reflected. In addition, the International Business Income Tax for large multinational corporations was passed in November 2024, which is expected to generate revenues of 1 percent of GDP by FY2025/26. Finally, the authorities believe that the impact of cruise ships' substantial use of private destinations is not adequately reflected in GDP statistics and is not being captured in revenues. As a result, they have engaged industry professionals and think tanks to undertake in-depth analysis and research to measure and capture both.

**The authorities' revenue-enhancing strategy is complemented by a continued focus on expenditure control, which over the medium-term is anticipated to moderate recurrent expenditures to a targeted ceiling of 20 percent of GDP by FY2025/26.** Key expenditure constraint priorities include the planned reform of government pensions (from a non-funded, non-contributory scheme, to a funded and defined contributory pension plan), Public Financial Management Reforms, the digitization of government services, a reduction in funding allocation for state owned enterprises (SOEs) and the resumption of the SOE reform agenda. With respect to the capital budget, the authorities plan to realize savings through greater use of Public Private Partnerships (PPP) to support infrastructure projects.

**The authorities expect that the implementation of these measures will result in an improvement in the budgetary balance to a surplus of 2.8 percent of GDP in FY2025/26 and a further reduction in the debt-to-GDP ratio below 65 percent of GDP by FY2026/27.**

**The Government of The Bahamas has made significant strides in public financial management.** The government introduced The Public Finance Management Act (the Act) in 2023,

which provides a comprehensive framework for managing public finances by promoting accountability, transparency, and stability. In accordance with the Act, the government has appointed both: i) the Public Sector Audit Committee, which will advise on internal audit and Auditor General resources, audit reports and management action plans, and deficiencies and progress against audit plans; and ii) the Fiscal Responsibility Council, which will assess compliance with fiscal responsibility principles and fiscal objectives and advise on fiscal and budgetary matters of the government. In addition, the Act importantly outlines the reporting and financial responsibilities of SOEs as achieving efficiencies in SOEs are crucial to meeting fiscal and expenditure targets.

## **Monetary and Financial Sector**

**Financial stability risks are low.** Banks have large capital buffers and follow a conservative approach to lending. Staff also note that the presence of capital flow management tools limit the risk of capital outflows from systemic liquidity. The authorities have also recently established the Bahamas Financial Stability Council, comprising the Central Bank, Ministry of Finance, Deposit Insurance Corporation and the insurance and securities industries regulators to enhance cross communication and coordination on emerging issues with domestic financial stability implications.

**The Central Bank and government authorities are committed to maintaining robust regulatory and supervisory standards, as well as continuing efforts to strengthen their AML/CFT framework.** Recent improvements include the establishment of a dedicated unit that allows continuous onsite AML/CFT supervision of financial institutions. In addition, in December 2024, the authorities published The Bahamas National Anti-Money Laundering Strategy (BNAS – 2025-2028), which addresses threats and vulnerabilities identified in the recently-completed National Risk Assessment. The BNAS provides the road map for the strengthening of the existing anti-money laundering regime and National Identified Risk Framework over the next three years. The Bahamas has undertaken four mutual evaluations by the Caribbean FATF and the country will begin the fifth in late 2026. Finally, to ensure the viability and integrity of The Bahamas’ emerging digital assets industry, the authorities have enacted the 2024 Digital Assets and Registered Exchanges Act, with notable improvements in the regulatory framework for digital assets, including, as highlighted by staff, enhanced disclosure requirements, increased investor and consumer protection measures, and strengthened AML/CFT requirements on digital asset businesses.

**The Central Bank continues to view the SandDollar, its central bank issued digital currency (CBDC) as an important vehicle for payments systems modernization and resilience, as well as financial inclusion.** Notably, many Bahamians dispersed on small islands are without banking services, which can make it difficult to distribute funds rapidly in the event of a climate event. Accordingly, CBDC adoption is of particular importance to the country’s resilience building efforts. To strengthen adoption efforts, the authorities are continuing to invest in public education and to roll out training to businesses. Further, the Central Bank continues to build internal capacity, especially in cyber security and surveillance. The authorities welcome the Fund’s prioritization of developing internal and external capacity in the area of CBDCs and other forms of digital currency. They also look forward to sustaining mutually beneficial engagement in this space.

**The authorities welcome the selected issues paper on *the Determinants of Sovereign Spreads in the Bahamas* as the elevated gap that persisted post-crises has been a concern.** While the large spread that peaked in 2022 has still not been fully explained, it is positive that the actual gap has narrowed. The government's fiscal plan to reduce the debt-to-GDP ratio to 50 percent is the best approach to support a further narrowing of spreads.

### **Long-term Growth**

**The authorities plan for achieving long-term sustainable growth is underpinned by energy reform.** Expensive and unreliable electricity has long-hindered potential growth in the Bahamian economy. The government is implementing a broad and ambitious plan to reduce inefficiency through the increased use of renewables and major upgrading of generating and transmission infrastructure. In addition, the authorities are pursuing economic growth and diversification through trade opportunities, investments in the blue economy and greater use of Public Private Partnerships. The authorities are also addressing specific obstacles to growth, such as labor market informality and the increased use of short-term contracts, which impede access to credit and ultimately growth.

**With respect to energy reform, outdated infrastructure and heavy oil-dependent electricity generation has placed a significant burden on the Bahamian economy.** As staff report in the selected issues paper *The Implications of Electricity Sector Reform in the Bahamas*, the cost of electricity in The Bahamas is above the Caribbean average and the use of renewable energy, at 2 percent of total, is far below that of peers. The authorities' reform plan will see the integration of large-scale renewable energy through major new investments in grid flexibility and energy storage. The plan envisions extensive use of solar power in New Providence and the Family Islands and the implementation of liquefied natural gas (LNG) as a partner fuel. To take advantage of efficiencies and to limit debt accumulation on the part of the government, major infrastructure investment is planned to be financed through PPPs. The Government of The Bahamas estimates that this could add up to 1.0 percent to GDP growth in 2026 while bolstering energy security and resistance to climate impacts. Other structural reforms and economic policies to improve competitiveness and incentivize investment include the elimination of import duties on machinery and equipment. The authorities also aim to improve participation in the economy of Bahamians by reducing barriers to entry and expanding Bahamian ownership.

**The authorities welcome the selected issues report on *Assessing Climate Change Risks – Potential Output Losses and Gains from Strengthening Resilience*.** The Bahamas is one of the countries most susceptible to the impacts of climate change, both through the impact of steady erosion of its natural resources due to rising sea levels and the increased incidence of major storms. The authorities have noted that a significant portion of government debt is a result of climate events, with continued annual expenses in the form of interest payments. We agree with the assessment that investments in climate resistance are both necessary to protect Bahamians and the Bahamian economy as well as to underpin potential growth over the longer term. The government is currently focusing on building back better in the continued wake of Hurricane Dorian, including updating building codes, with the help of the Inter-American Development Bank, as well as improving the enforcement of existing codes.



**The government will continue to focus on encouraging greater and faster access to international climate financing.** Innovative climate financing, such as that provided by blue carbon credits for marine preservation—notably for quantified and verified carbon credits for The Bahamas’ vast expanses of seagrass—are necessary to raise climate resiliency. Notably, the debt for nature swap completed in November 2024 demonstrated the potential for fiscal savings to be dedicated to environment-improving projects.

### **Conclusion**

**The Bahamian authorities are sensitive to the risks to the economic and fiscal outlook and are convinced that the best way to address those risks is the continued pursuit of tight fiscal policy, targeting a debt-to-GDP ratio of 50 percent, while maintaining investment in critical infrastructure and building climate resilience.** Our authorities, together with other vulnerable countries in the region, continue to call on the international community for more concessional and grant support to finance climate change adaptation, and welcome the efforts being made by the Fund in this regard.