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MEDIUM-TERM DEBT MANAGEMENT STRATEGY

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LIST OF ABBREVIATIONS AND ACRONYMS

CREDITORS

CDB	CARIBBEAN DEVELOPMENT BANK
EEC	EUROPEAN ECONOMIC COMMUNITY
IBRD	INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (WORLD BANK)
IDB	INTER-AMERICAN DEVELOPMENT BANK
IMF	INTERNATIONAL MONETARY FUND
CAF	DEVELOPMENT BANK OF LATIN AMERICA AND THE CARIBBEAN

CURRENCIES

BSD	BAHAMIAN DOLLAR
CHF	SWISS FRANC
CYN	CHINESE YUAN RENMINBI
EUR	EURO
GBP	BRITISH POUND STERLING
SDR	SPECIAL DRAWING RIGHTS
USD	UNITED STATES DOLLAR

OTHERS

ATM	AVERAGE TIME TO MATURITY
ATR	AVERAGE TIME TO RE-FIXING
COMSEC	COMMONWEALTH SECRETARIAT
DOD	DISBURSED AND OUTSTANDING DEBT
GBE	GOVERNMENT BUSINESS ENTERPRISE
GDP	GROSS DOMESTIC PRODUCT
SOFR	SECURED OVERNIGHT FINANCING RATE
WAIR	WEIGHTED AVERAGE INTEREST RATE

DEFINITIONS

Average Time to Maturity (ATM)	A measure of the weighted average time to maturity of all principal repayments in the portfolio. A longer ATM implies lower financing risk, and vice versa.
Average Time to Refixing (ATR)	A measure of the weighted average time until all principal repayments in the debt portfolio become subject to a new interest rate.
Gross Domestic Product (GDP)	The market value of all final goods and services produced within a country in a given period. The GDP is determined using data for production, expenditures, or income, and is presented in current or constant prices.
Refinancing Risk	The possibility that a borrower cannot refinance its debt by borrowing to repay existing debt.
Weighted Average Interest Rate (WAIR)	The weighted average interest rate or implied interest rate on outstanding debt is determined by the value of the debt as a percentage of the total outstanding amount.
Yield Curve	A graph that plots the structure of interest rates, at a set point in time, of government securities with different maturities, ranging from the 3-months T-bills to the 30-year bonds. It enables investors to compare yields offered on short, medium and long-term government paper.

NOTES

Fiscal Year	The Bahamas' fiscal year runs from July 1 to June 30.
Reporting Currency	The domestic currency of The Bahamas is the Bahamian Dollar, which is pegged to the USD at 1:1. Unless otherwise stated, all values are in Bahamian Dollar equivalents.
Coverage	The medium-term debt management strategy (MTDS) includes only central government existing debt and projected borrowings. However, guarantees are included in a simulation exercise, as presented in Annex I.
Classification	For the purposes of the MTDS, debt is classified by currency and not residency.
Source	The source of all tables and figures is the Ministry of Finance. Statistics on GDP and prices are obtained from the Bahamas National Statistical Institute (BNSI) and the respective projections from the International Monetary Fund (IMF). Projections for international reserves are also from the IMF. Fiscal Year GDP data are derived from the quarterly series produced by the BNSI.

FOREWORD

The Bahamas continues to make notable progress towards achieving its macroeconomic stability goals, through a well-structured medium-term strategy aimed at promoting economic growth and securing fiscal and debt sustainability.

Following a 1.9 percent growth rate in FY2023/24, real GDP growth of 4.3 percent is estimated for FY2024/25, 2.3 percent for FY2025/26, and an average 1.8 percent over the medium term, supported by healthy levels of tourism, FDI-led construction activity and resilient domestic demand. The government's commitment to fiscal consolidation, through a combination of strong revenue base enhancements and prudent expenditure management, has generated a reduction in the fiscal deficit from 1.2 percent to 0.5 percent in FY2024/25, and an improvement to a budget surplus of 0.5 percent of GDP is projected for FY2025/26. These outcomes are expected to unlock sizeable fiscal savings, maintain debt on a downward trajectory towards the target of 50 percent debt-to-GDP and strengthen The Bahamas' credit profile.

The Medium-Term Debt Management Strategy for FY2025/26 to FY2027/28, as mandated by the Public Debt Management Act, 2021, leverages this improving fiscal position to secure the government's financing requirements and refinance maturing debt at the lowest cost and prudent risk levels.

From among the four (4) alternative financing options evaluated, the government adopted Strategy 3, which is expected to improve debt sustainability by reducing refinancing and interest rate risks in the existing portfolio, while keeping costs broadly comparable to the other strategies and supporting further development of the domestic debt market. Looking ahead, the government will monitor and review the MTDS in the context of changing market conditions so as to maintain consistency with key debt management objectives.

The annual release of this publication demonstrates the government's ongoing commitment to promoting credibility and transparency in debt management operations, and proactive engagement with The Bahamas' investor base.

Considerable effort has gone into the preparation of this document, which benefitted from continued collaboration among several key stakeholders to ensure the quality and comprehensiveness of the analysis. Special thanks is conveyed to the Financial Secretary and the team in the Debt Management Office, Ministry of Finance for coordinating this very important undertaking. Our gratitude is also extended to the Central Bank of The Bahamas and the Commonwealth Secretariat for providing invaluable technical guidance and input to the exercise.

Hon. Philip E. Davis
PRIME MINISTER AND MINISTER OF FINANCE

ACKNOWLEDGMENT

As we move forward towards achieving our medium-term fiscal consolidation goals, it is essential to have a credible roadmap for a sustainable debt management strategy that is supportive of the country's growth objectives. The FY2025/26 – FY2027/28 Medium-term Debt Strategy (the "MTDS") represents the 4th report to be produced under the requirements of the PDMA, updating our approach to managing The Bahamas' debt obligations over the coming years.

Based on the analysis of the cost risk trade-offs among the four (4) alternative strategies, Strategy 3 has been identified as the optimal solution, proposing foreign currency and domestic currency borrowings of 22 percent and 78 percent of gross financing needs, respectively. The strategy is the result of a careful analysis of macroeconomic and market conditions, future borrowing requirements, key risks and opportunities and is designed to achieve fiscal prudence. Strategy 3 also emphasizes the development of the domestic market, while simultaneously maximizing opportunities for concessional and semi-concessional borrowings and credit enhancements to contain portfolio costs and risks.

Preparation of this document is a culmination of the dedicated efforts and collaboration of multiple stakeholders. I wish to commend the Debt Management Office (the "DMO") team of the Ministry of Finance, which oversees the MTDS exercise, for their diligent work in developing this comprehensive debt strategy. I also extend special recognition to the Central Bank of The Bahamas' Debt Management Unit, the Research Department, for its dedicated back-office debt management support to the DMO.

The Commonwealth Secretariat's Debt Management Unit is to be commended for the invaluable technical support and guidance provided to The Bahamas' team, especially in the use of the various debt management analytical tools.

The DMO is committed to an annual review of the MTDS in line with the medium-term fiscal framework and prevailing macroeconomic and financial conditions to provide guidance on the risk and costs trade-offs that can be accommodated consistent with the long-term debt management framework.

In keeping with the government's advocacy of the principles of good governance in fiscal affairs, all medium-term debt strategy reports are available on the government's website at www.bahamas.gov.bs.

Simon Wilson
FINANCIAL SECRETARY

EXECUTIVE SUMMARY

The FY2025/26 – FY2027/28 MTDS (the "MTDS"), prepared under the requirements of the Public Debt Management Act, 2021 (the "PDMA"), guides the government's borrowing decisions to fund its overall financing needs within the context of explicit cost and risk objectives. The strategy is prepared taking into account macroeconomic and financial market conditions, available financing envelopes from various creditors, and vulnerabilities that could impact future borrowing requirements and debt service costs.

Preparation of the MTDS takes place against the backdrop of continued positive macroeconomic conditions in The Bahamas. Real GDP expansion is estimated at 4.3 percent in FY2024/25, up from 1.9 percent in the prior fiscal year, supported by resilient tourism activity and a steady pipeline of foreign direct investments. Robust domestic demand conditions contributed to ongoing fiscal consolidation, as the recovery in revenue performance and prudent expenditure measures reduced the estimated FY2024/25 deficit to GDP ratio to 0.5 percent from 1.2 percent in FY2023/24 and in line with budget targets. The stock of government debt, at $11,769.2 million at end-June 2025, represented a slightly reduced 72.1 percent of fiscal year GDP.

Over the three-year MTDS timeframe, the economic outlook envisages moderate growth momentum, with real GDP poised to average an estimated 1.8 percent, which is consistent with the projected long-run potential. Enhanced tax administration, targeted tax policy measures and judicious cost containment controls are forecasted to reduce the overall deficit to GDP ratio to the medium-term statutory target of 0.5 percent in FY2024/25 and secure surpluses averaging an estimated 1.7 percent of GDP over the MTDS horizon.

During FY2024/25, the government's funding requirements were met from both domestic currency borrowings, comprising government securities of various tenors, and foreign currency financing from multilateral and commercial sources. Demonstrating diversified access to external liquidity, the government, in its first return to capital markets since 2022, raised $1.067 billion through an 11-year USD-denominated bond issuance. Of this total, $767.4 million was used to repurchase outstanding Eurobonds and secure an improvement in the debt maturity profile. At end-June 2025, foreign currency debt constituted a stable 47.2 percent of the outstanding portfolio when compared with the prior year. Exposure to foreign-exchange risk remains limited, given the predominance of Bahamian dollar obligations and the fact that most foreign currency liabilities are denominated in USD, the currency to which the Bahamian Dollar is pegged.

In determining the optimal MTDS strategy, four (4) alternative financing options were deemed feasible under current domestic and international financial market conditions, evaluated in terms of their cost risk profile and tested against various stress scenarios. The analysis indicated that Strategy 3 ("S3") would perform the best in balancing the cost and risks of meeting gross financing needs under both the baseline economic projections and shocks to the baseline. Consistent with the government's debt management objectives, certain benchmarks for the cost and market risk indicators were also established for (i) foreign currency (FX) risk, (ii) interest rate risk, and (iii) refinancing risk.

The optimal debt strategy selected through this process emphasizes the use of domestic financing to reduce foreign currency exposure and encourage development of the domestic capital market. It also prioritizes fixed interest rate instruments, extending maturities, and implementing liability management operations to manage refinancing risk, lengthen the average time to maturity of the portfolio and control interest rate risk, while balancing cost. Under S3, the optimal financing mix comprises 22 percent and 78 percent in external and domestic borrowing, respectively.

Although S3 was selected as the optimal approach, uncertainties related to the global economy, market conditions and geopolitical developments may necessitate deviations from this strategy. Hence, the strategy will be monitored in the context of emerging changes and adjusted accordingly.

Investor relations activities continue to reinforce the effective flow of information between the government and creditors, demonstrating policymakers' commitment to maintain the highest level of debt transparency to foster market confidence in both domestic and foreign currency debt operations. Regular engagement with private and public creditors, as well as rating agencies, is undertaken through deal and non-deal road shows and targeted interactions with market participants. The government's investor relations portal has significantly bridged information asymmetries by offering investors access to a centralized repository of the latest financial information, project updates and economic, fiscal and public debt publications on The Bahamas.

1 INTRODUCTION

1.1. Background

Section 11 of the Public Debt Management Act, 2021 ("the PDMA") assigns the Debt Management Office (the "DMO"), Ministry of Finance, the responsibility for formulating a medium term debt management strategy to guide the government's approach to borrowing and debt issuance, considering fiscal sustainability and macroeconomic stability objectives.

1.2. Objectives

Section 4 of the PDMA specifies that the principal objectives of public debt management are to:

» ensure that the government's financing requirements and debt service obligations are met in a timely manner at the lowest possible cost over the medium to long-term, while maintaining an acceptable level of risk; and

» promote the development of an efficient government securities market, thereby facilitating enhanced access to financing and fostering investor confidence.

These objectives are aligned with the fiscal responsibility principles and objectives in the Public Finance Management Act, 2023 (the "PFMA"), and the government's FY2025/26 Budget which incorporates updated macroeconomic assumptions from the medium-term fiscal strategy outlined in the 2025 Fiscal Strategy Report (the "2025 FSR").

1.3. Scope of the MTDS

The MTDS analysis covers foreign currency and Bahamian Dollar debt obligations of the central government and considers assessed financing needs of the Agencies and Government Business Entities (GBEs) to the extent related government transfers have been incorporated in the budget forecasts. As detailed in **Annex 1**, a secondary assessment evaluates the potential impact of guaranteed debt on the overall risk and cost profile of government debt.

To more accurately assess portfolio risks, debt is categorized by currency rather than the residency of holders. Therefore, throughout the document, external debt encompasses all foreign currency obligations, while domestic debt refers to Bahamian dollar debt.

The baseline for the MTDS analysis is the stock of government debt outstanding and disbursed as of June 30, 2025, and projected issuance of securities and other financing instruments during FY2025/26.

The MTDS covers a three-year rolling horizon, extending from FY2026/27 through FY2028/29. The strategy is reviewed and updated annually, utilizing the World Bank/IMF analytical toolkit to simulate and compare various financing options and identify the optimal cost-risk strategy.

1.4. Legal and Institutional Framework for the MTDS

a. Legal Framework

Public debt management operations in The Bahamas are governed by the PDMA and the PFMA, which establish the government's commitment to fiscal and debt sustainability, within a framework of accountability and transparency.

The MTDS guides government borrowing policies and debt management operations and is based on a detailed assessment of the costs and risks of alternative borrowing strategies, taking into account the government's fiscal policy, the annual budget, the fiscal strategy report, the macroeconomic environment, market conditions and other relevant factors.

b. Institutional Arrangements

The DMO, Ministry of Finance, has primary responsibility for public debt management operations in The Bahamas. Under the April 2023 inter-agency agreement executed between the Ministry of Finance and the Central Bank of The Bahamas (the "Central Bank"), the Central Bank conducts front office operations related to the issuance and administration of government domestic securities and provides transitional support for selected back-office debt activities. The Central Bank's Domestic Markets and Financial Markets divisions, together with the Debt Management Unit of its Research Department, work closely with the Ministry of Finance in executing these functions.

The Ministry of Finance continues to collaborate with several development partners to strengthen institutional capacity for debt management in The Bahamas. Initiatives include efforts to enhance technical expertise and arrangements for effective debt analysis and management, which incorporate further development of the local currency bond market.

Other important components of the institutional debt arrangements include the government-appointed private sector debt committee and independent international debt advisor, which assist the government to explore, identify and implement financing alternatives that optimize the cost-risk tradeoffs.

c. Organization of the Document

The remainder of the document is organized as follows. Section 2 discusses the key macro-fiscal and market backdrop to the preparation of the MTDS. Section 3 analyzes the FY2024/25 actual costs and risks relative to the projected debt strategy, while Section 4 reviews the existing debt portfolio. In Section 5, we present the medium-term macroeconomic context for the MTDS, Section 6 assesses potential financing sources, Section 7 details the medium-term debt strategy, and Section 8 summarizes the optimal debt management strategy. Comments on debt sustainability are presented in Section 9, while Section 10 outlines the MTDS implementation, monitoring, review and reporting processes, and Section 11 provides an assessment of the government's costs and risks, should government-guaranteed debt be included in the MTDS analysis.

2 RECENT MACROECONOMIC AND MARKET DEVELOPMENTS

2.1. Economic Developments

During 2024 and the nine months to September of 2025, the Bahamian economy maintained positive momentum, bolstered by tourism exports, private investments and consumption—even as global trade and policy tensions persisted and growth slowed in several advanced economies.

Calendar year data produced by the Bahamas National Statistical Institute ("BNSI") show that real GDP growth strengthened to an estimated 3.4 percent from 3.0 percent in 2023. This outturn was driven by gains in final consumption, especially of households, and by growth in exports of goods and services reinforced by the solid performance of the tourism sector. Buoyant travel demand from key source markets elevated tourist arrivals by 16.2 percent to a record 11.2 million in 2024, with the economic impact from the 9.4 million cruise visitors further supported by the expansion of private cruise infrastructure. Meanwhile, stopover visitors totaled 1.7 million. For the nine (9) months to September 2025, the recorded 9.1 million visitors represented an 8.7 percent increase relative to the same period in 2024, with total arrivals expected to reach 12.0 million in 2025—an annual gain of 7.1 percent.

Construction output in 2024 continued to be sustained by diversified small- and medium-sized foreign investment projects throughout the Family Islands, as well as bank-financed domestic residential and commercial activity, with these activities extended through the first half of 2025. As surveyed by BNSI, labour market conditions improved in 2024, with the unemployment rate declining by 1.2 percentage points from end-2023 to 8.7 percent in June 2024, the lowest recorded rate in sixteen (16) years. Although the unemployment rate rose to 10.8 percent in the first quarter of 2025 amid transitory skills mismatch factors, the rate fell to 9.3 percent for the second quarter, benefitting from strong job gains in construction, community and personal services, retail and wholesale and the hospitality sector.

Price developments benefitted from lower global oil prices, with average consumer price inflation, as measured by changes in the Retail Price Index, dropping sharply to 0.4 percent in 2024 from 3.1 percent in 2023. Although average prices for diesel, petroleum and food and non-alcoholic beverages posted year-over-year declines, the twelve month change in average consumer prices rose to 1.3 percent amid increases in several other key components of the Index.

The financial sector remained sound with ample liquidity, strong private sector-led credit growth, lower loan delinquencies, and capital buffers well above the regulatory minimum.

Monetary outcomes for 2024 featured a $40.6 million reduction in bank liquidity to $1,792.0 million, in the context of strengthened domestic credit growth of $494.8 million (5.2 percent) to $10,103.4 million, nearly doubling the rate of private sector credit expansion. This trend continued over the nine months to September 2025, with banks' excess cash reserves falling by $72.6 million to $1,864.6 million, alongside a $302.7 million private sector-led increase in bank credit to $10,406.1 million.

Supported by recovered domestic demand conditions, credit quality indicators improved. Loan arrears fell by $92.2 million (16.4 percent) to $469.5 million, while the ratio of arrears to private sector loans declined by 2.2 percentage points to 8.2 percent. Banks remained well capitalized, with the slight decline in average ratio of capital to risk weighted assets to 30.7 percent—still significantly exceeding the regulatory minimum.

On the external account, the 2024 estimated current account deficit widened by $19.3 million (1.8 percent) to $1,088.4 million, as the expansion in the merchandise trade deficit outpaced the tourism-led expansion in the services account surplus.

Strong services exports and stable liquid buffers continued to support external resilience and the credibility of The Bahamas' United States dollar exchange rate peg. Reflecting lower public sector borrowing, international reserves declined by $115.5 million (4.6 percent) to $2,633.0 million at end-2024. This stock represented an estimated 27.3 weeks of total merchandise imports, compared with 30.0 weeks in 2023—both well above reserve-adequacy benchmarks. Over the nine months to September 2025, reserve growth moderated to an estimated $192.8 million relative to $217.0 million in the prior year, bringing the stock to $2,825.8 million, equivalent to an estimated 29.6 weeks of import cover.

The Bahamas' positive macroeconomic performance, improved investor perception and renewed access to primary capital markets have translated into favourable rating actions from all three credit rating agencies. On April 7, 2025, Moody's revised The Bahamas' outlook to positive from stable—for the first time in seventeen years—while maintaining the 'B1' rating. On April 9, 2025, Fitch Ratings assigned The Bahamas an inaugural Long-Term Foreign Currency Issuer Default Rating of 'BB-' with a stable outlook, above existing ratings from other agencies. On September 26, 2025, Standard & Poor's Global Ratings upgraded The Bahamas' long-term sovereign rating to 'BB-' from 'B+', with a stable outlook. In their reports, all three agencies acknowledged the government's demonstrated commitment to prudent fiscal management and debt containment, with increased confidence in the potential for continued fiscal consolidation, while acknowledging the country's ongoing exposure to external shocks.

2.2. Fiscal Developments

Provisional data for FY2024/25 confirmed a sustained momentum in the government's fiscal consolidation, amid the growing economy and supported by cost-effective spending, new revenue base reforms, and ongoing improvement in tax compliance. Although marginally above the budgeted $69.8 million, the estimated overall deficit of $78.9 million equated to a reduced 0.5 percent of GDP, in line with the budget target. The resulting primary surplus was appreciably higher at $593.5 million (3.6 percent of GDP) compared with $419.2 million (2.7 percent of GDP) in the previous year.

Revenue collections for FY2024/25 expanded by $326.9 million to $3,396.0 million (20.8 percent of GDP), or 95.8 percent of the budget. The $290.3 million gain in tax receipts to $3,026.4 million benefitted from a $146.4 million (20.2 percent) upturn in taxes on international trade and transactions fueled by tax policy changes affecting cruise visitors, alongside enhanced enforcement measures. Higher yields were also derived from value added and business-related taxes of $143.3 million (8.0 percent), while administrative fees supported growth in non-tax revenues of $36.2 million (10.9 percent) to $369.2 million.

Prudent expenditure management limited annual growth in outlays to $211.8 million (6.5 percent), with the total spend of $3,474.9 million (21.3 percent of GDP) representing 96.2 percent of the budget target. Recurrent expenditure increased by $227.8 million to $3,189.3 million (19.5 percent of GDP), primarily associated with higher outlays for the use of goods and services, public debt payments and employment compensation. Capital spending, at $285.6 million (1.7 percent of GDP), equated to an annual decline of $16.1 million (5.3 percent), reflecting a combination of lower expenditure for the acquisition of non-financial assets and fixed assets.

Consistent with the government's fiscal consolidation commitment, the overall balance for FY2025/26 is targeted to shift to a surplus of $75.5 million, representing 0.5 percent of fiscal year real GDP. During the opening quarter of FY2025/26, the government's overall deficit narrowed to $141.1 million from $177.6 million in the same period a year earlier. Total revenue expanded by $107.0 million (15.7 percent), derived mainly from gains in value added taxes, taxes on international trade and transactions and stamp taxes. Cumulative expenditure was higher by $70.6 million (8.2 percent) at $930.7 million, with recurrent outlays growing by $64.6 million (8.7 percent) to $803.8 million. The capital component edged up by $6.0 million (5.0 percent) to $127.0 million.

2.3. Market Developments

During the recent fiscal year, the government successfully managed the debt portfolio in line with macro-fiscal objectives, government financing needs and medium-term debt management priorities.

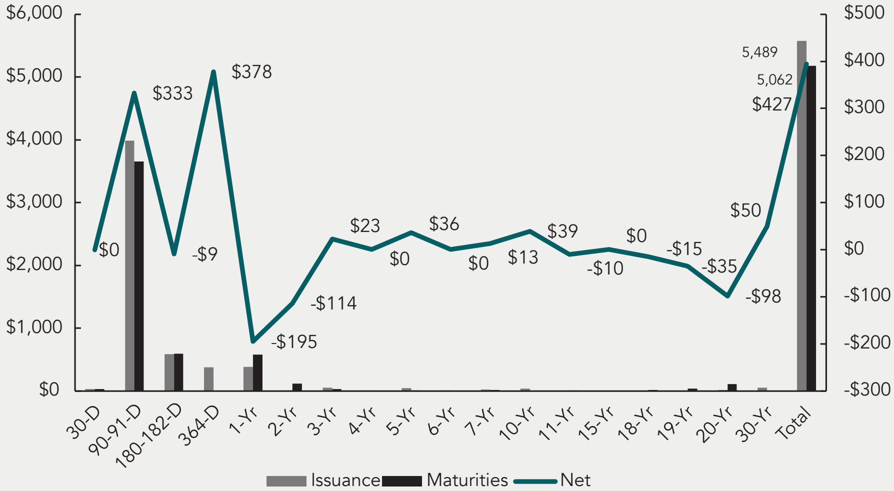
a. Domestic

During FY2024/25, investor demand for government securities remained resilient and broadly aligned with funding requirements, enabling effective refinancing of maturing obligations, liquidity management, and the achievement of debt targets at reasonable costs and contained risk levels.

Favorable domestic liquidity conditions continued to underpin the market's strong absorption capacity for government paper throughout the fiscal year. Total issuances at $5.489 billion comprised $598.8 million in Bahamas Registered Stocks ("BRS") and $4.886 billion in Treasury Bills and Notes ("T-Bills" and "T-Notes"). Correspondingly, BRS redemptions totaled $5.063 billion, representing 92.2 percent of total issuances. This outcome reflected an 8.0 percent contraction in gross issuance volume, attributable primarily to the replacement of the one-year BRS with a 364-day T-Bill, effective March 2025. This transition better aligned the issuance framework with international best practices, promoting improved yield curve development, market pricing efficiency, and liquidity management at the shorter end of the curve.

Investor participation patterns further demonstrated sustained market confidence. The BRS segment recorded an average absorption rate of 85 percent, reflecting selective investor positioning toward medium- and longer-term tenors. Conversely, T-Bill subscriptions exceeded offering sizes by approximately 30 percent, reflecting strong investor demand volumes for government paper. This performance provided the government with greater operational flexibility to meet funding needs domestically, in line with the overarching strategy to manage the risk exposure in the debt portfolio. See **Figure 1** for a consolidated summary of issuances and redemptions of government securities for FY2024/25.

FIGURE 1: ISSUANCES AND REDEMPTIONS OF BAHAMIAN DOLLAR DEBT SECURITIES, FY2024/25 (B$B)



During FY2024/25, secondary market activity in government bonds continued to reflect investors' traditional buy-and-hold preference. A total of 101 trades were facilitated by the Central Bank on the Bahamas International Securities Exchange (BISX), with a trading volume of 36,974, representing an aggregate value of approximately $3.7 million.

In alignment with international best practices, the Central Bank implemented a benchmark bond issuance policy, which has played a pivotal role in strengthening the management of the government's domestic debt portfolio. This policy has enhanced market transparency, improved liquidity in benchmark securities, and supported more effective debt and yield curve management.

b. External

Global economic conditions remained challenging during FY2024/25 and through November 2025, marked by persistent geopolitical uncertainty, new policy measures and only gradual disinflation.

Following sluggish growth of 3.3 percent in 2024, global real GDP expansion is projected to moderate to 3.2 percent in 2025 and 3.1 percent in 2026, within a high interest rate environment. Advanced economies are generally expected to experience subdued growth, with inflation gradually easing, while emerging markets are projected to expand at a slower-than-anticipated pace, amid tighter financial conditions, lingering uncertainty from trade fragmentation and elevated funding costs driven by global risk repricing.

Following heightened volatility after the "Liberation Day" tariff announcements in April 2025, market conditions have shown an improving trend, as reflected in a 30 basis-point decline in the six-month SOFR to 4.1 percent and a 50 basis-point decline in 10-year U.S. Treasury yields to 4.1 percent since January 2025. Emerging market spreads have also contracted to 240 basis points, 60 basis points below January 2025 levels. However, above-target inflation in the United States and continued volatility have kept borrowing costs above historical levels and could represent downside risks to current conditions.

For The Bahamas, international market conditions have continued to normalize, supported by the June 2025 capital markets operation. The Bahamas' yield curve performance has strengthened, with the 2032 Eurobond yield declining by 1,070 basis points to 6.67 percent and the synthetic 10-year USD yield dropping by 670 basis points since August 2022 to 7.35 percent.

The DMO has continued regular engagement with international investors, including through a deal roadshow in June 2025 and a Global Investor Call held in October 2025, to align market perceptions with The Bahamas' macroeconomic fundamentals and communicate the government's diversified external funding strategy. Nevertheless, alternative external funding sources remain comparatively more attractive than the Eurobond market until further easing in USD yields occurs.

As in June 2025, the Government will continue monitoring market conditions and may conduct operations in international capital markets in support of proactive refinancing and yield-curve management. In this regard, discretion will be retained over the final composition of external funding sources, taking into account cost-risk factors and cash flow requirements.

3 REVIEW OF THE FY2024/25 ABP AND MTDS OUTCOMES

a. Annual Borrowing Plan vs Actual Borrowing

The FY2024/25 Annual Borrowing Plan ("ABP") contemplated a mix of domestic and foreign currency borrowings that would achieve progress towards the optimal debt strategy selected for the FY2024/25 – FY2026/27 MTDS. The strategy combined an extension of the average time to maturity, elevation of the share of domestic borrowings and incorporation of opportunistic liability management operations, while balancing cost.

Under the FY2024/25 ABP, gross financing needs ("GFN") were assessed at approximately $1,803.3 million, of which 34.8 percent was to be sourced in foreign currency and the remaining 65.2 percent in Bahamian Dollars. The bulk of foreign currency financing was to be met from commercial credit, along with the roll-over of the SDR facility from the Central Bank, while 75.6 percent of Bahamian Dollar financing was to be raised from issuance of bonds and the balance from commercial facilities. The actual financing mix achieved the directional increase in Bahamian Dollar borrowings relative to foreign currency, although with a greater proportion raised in the form of T-Bills.

During the year, the government borrowed an additional $300.0 million in foreign currency, as approved by Parliament, for supporting national investments in infrastructure.

b. Cost and Risk Performance vs Optimal Strategy

During FY2024/25, the government succeeded in broadly achieving its debt objectives and targets as outlined in the selected MTDS strategy "S2". Apart from improvements in cost-risk indicators of the debt portfolio, progress was also made towards the long-term targets (see **Table 1**).

TABLE 1: COST AND RISK OUTCOMES VS STRATEGY 2 FOR FY2024/25

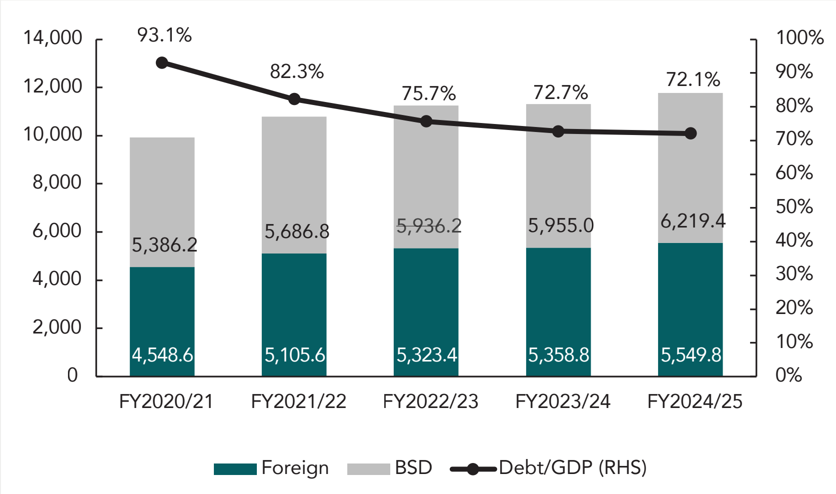
Cost and Risk Indicators		Actual	S3	Var.	LT Targets	Comments
Cost of debt	Interest payment as % of GDP	4.0	3.5	+0.5	<5%	Impact of market condition on new debt.
	Weighted Av. IR (%)	5.5	5.1	+0.4		
Refinancing risk	ATM (Years)	6.6	5.8	+0.8	>7yrs	Favourable impact of LMO transaction.
	Debt maturing in 1 Year (% of total)	25.9	17.6	+8.3		Increased recourse to T-bills in financing mix.
	Debt maturing in 1 Year (% of GDP)	18.7	13.1	+5.5		
Interest rate risk	ATR (Years)	5.2	3.7	+1.5	>5yrs	Positive impact of MO and increase in fixed rate debt.
	Debt refixing in 1 Year (%of total)	50.9	47.2	+3.8		
	Fixed rate debt (% of total)	70.0	65.1	+4.9		
	T-bills (% of total)	15.6	9.4	+6.2		
Forex risk	FX debt (% of total)	47.2	46.3	+0.9		Additional FX borrowing approved.
	ST FX debt (% of external reserves)	17.0	30.2	-13.2		Favourable growth in external reserves.

4 REVIEW OF EXISTING DEBT PORTFOLIO

4.1. Overview

As of end-June 2025, central government's debt outstanding reached an estimated $11,769.2 billion, an annual increase of $455.4 million (4.0 percent) and with approximately 52.8 percent denominated in Bahamian dollars and the remaining 47.2 percent across several foreign currencies (see **Figure 2**). Sustained improvements in macroeconomic conditions kept debt on a downward trajectory, with the debt to GDP ratio lower by 0.6 percentage points at 72.1 percent at end-June 2025.

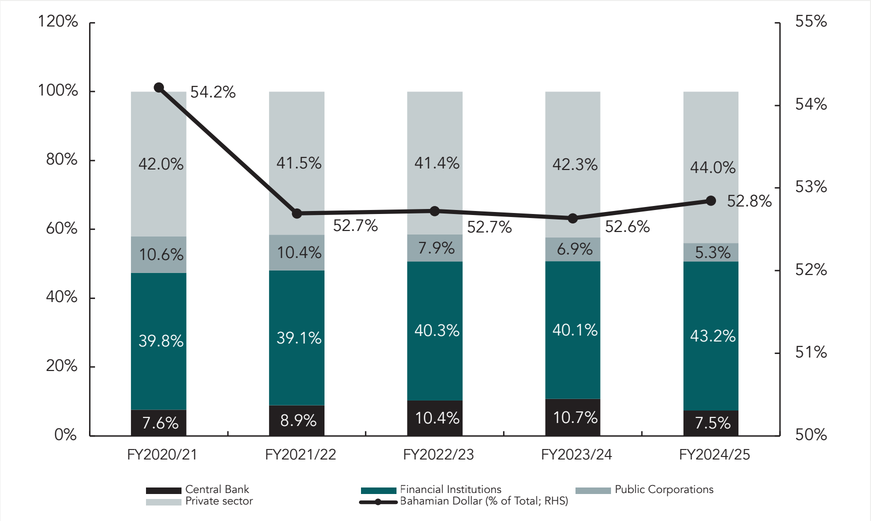
FIGURE 2: GOVERNMENT DEBT PORTFOLIO (END-JUNE)



4.2 Bahamian Dollar Debt

Bahamian Dollar debt stock posted an estimated year-on-year gain of $264.4 million (4.4 percent) to $6,219.4 million at end-June 2025, constituting a relatively stable annual 52.8 percent of total debt and an estimated 38.1 percent of GDP (see Figure 3). Growth reflected net issuance of $730.1 million in T-Bills, inclusive of short- and medium-term bond conversions of $378.0 million, being partly offset by net payments of domestic bond ($307.7 million), T-Notes ($28.4 million), loans ($3.8 million) and Central Bank advances ($125.8 million). As a consequence, the instrument composition at end-June 2025 was dominated by bonds (66.1 percent), followed by T-Bills (29.5 percent), loans (3.7 percent), Central Bank advances (0.6 percent) and T-Notes (0.1 percent).

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



a. Government Securities

i. Bahamian Dollar Bonds

The creditor distribution reveal a dominant 57.2 percent of outstanding bonds being held by the private sector, and largely in long-dated maturities. Next were commercial banks with 22.1 percent, which was concentrated in the short- to medium-term maturity horizon. Public corporations' share at 7.7 percent was slightly reduced, while the Central Bank's proportion fell to 10.4 percent. The remaining 2.6 percent was held by insurance companies, primarily in the longer dated paper to match their liability structure.

Based on original maturity profile, over 67.5 percent of bonds was in the over 15 year bucket compared with 65.1 percent in the prior year. The share of the 1 year or less maturity bucket was reduced to 9.1 percent from 12.8 percent, reflecting the recent shift in the short-term bonds to T-Bills. The over 5 – 10 year bucket advanced in proportion by 2.1 percentage points to 10.3 percent, for 9.2 percent of the total, following on reductions in both the 1 – 5 year and the over 10 – 15 year maturity ranges. By end-June 2025, the weighted average years to maturity on bonds was 9.5 years, with an average tenor of 17.3 years.

ii. Treasury Bills and Notes

T-Bills and T-Notes tenors extended across 30, 90 and 182 days, with T-Bills being issued through multiple price auctions and the aggregate portfolio having an average life of 5.3 months.

Of the total $1,839.2 million outstanding at end-June 2025, the bulk was in the 91-day (64.6 percent), followed by the 180 -182 day (14.7 percent), the 364-day (20.6 percent) and the 30-day (0.1 percent) range. Commercial banks held 85.9 percent of the total, reflecting these securities' qualification as regulatory liquid assets. The balance was held by public sector entities and small business enterprises.

In keeping with the strategy to reduce interest rate volatility in the portfolio, the share of fixed rate Bahamian dollar debt was higher at 76.8 percent of Bahamian dollar debt, compared to 76.2 percent a year earlier, lowering the variable rate component to 23.2 percent.

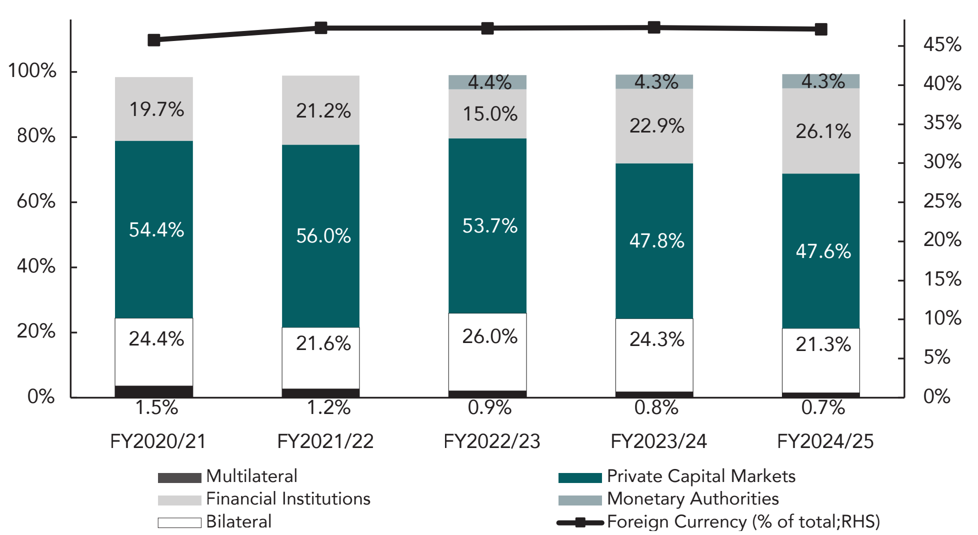
4.3 Foreign Currency Debt

Foreign currency debt posted a year-over-year increase of $191.0 million (3.6 percent) to $5,549.8 million at end-June 2025, with gains primarily associated with new commercial borrowings. The stock equated to 47.2 percent of the total debt portfolio and 36.0 percent of estimated fiscal year GDP (see **Figure 4**).

By creditor composition, private capital markets remained the largest holders, accounting for 47.6 percent of foreign currency debt, followed by financial institutions (26.1 percent) and multilateral lenders (21.3 percent). The share of bilateral creditors was marginal at 0.7 percent.

In terms of interest rate structure, the proportion of foreign currency fixed rate debt increased by 5.2 percentage points to 54.9 percent, reducing the variable rate share to 45.1 percent.

FIGURE 4: FOREIGN CURRENCY DEBT BY CREDITOR TYPE (END-JUNE; %)



b. Private Capital Markets

The government's international credit market operations resulted in a net increase of approximately $81.3 million in outstanding Eurobond liabilities to private capital markets, to $2,641.3 million at end-June 2025 (**see Box 1**). This stock represented a leading 47.6 percent of the government's foreign currency exposure.

BOX 1. LIABILITY MANAGEMENT OPERATIONS

In line with the Annual Borrowing Plan and the government's external financing strategy, authorities took advantage of favourable market conditions during FY2024/25 to execute a liability management operation ("LMO"), supported by positive credit outlook actions from Moody's (outlook revision to 'Positive') and Fitch ('BB-' / 'Stable' inaugural rating, above existing ratings from other agencies) in April 2025.

Marking The Bahamas' first international bond issuance since 2022, the LMO was successfully executed in the international capital markets through the issuance of an 11-year USD-denominated bond totalling $1.067 billion. Proceeds were used to repurchase $767.4 million of outstanding Eurobonds, with the remaining balance allocated to support national infrastructure and development priorities.

Consistent with the government's debt management objectives of reducing costs and mitigating portfolio risks, the operation extended the average maturity of the Eurobond portfolio by 2.1 years and reduced principal repayments by $451.0 million over the subsequent three-year period.

Pricing of the new issuance was achieved inside the existing yield curve, contributing to a material repricing of The Bahamas' international curve. Beyond mitigating refinancing risk, the consolidation of outstanding series into a larger and more liquid benchmark instrument enhanced secondary market trading dynamics and supported the government's broader debt management strategy aimed at credit re-rating and strengthening the case for inclusion in J.P. Morgan's future index review cycles.

The June 2025 LMO built on the successful execution of the Debt Conversion Project for Marine Conservation completed in November 2024, which exchanged approximately $220.0 million of outstanding Eurobonds and $80.0 million of higher-cost external commercial debt for new 15-year financing carrying a 4.7 percent annual coupon. That transaction is expected to generate nearly $124.0 million in dedicated funding for marine conservation over a 15-year period, supporting the management of Marine Protected Areas in The Bahamas.

c. Multilateral Debt

Debt owing to multilateral institutions, which offer more concessional facilities with longer maturities, contracted by $121.3 million (9.3 percent) over the year, largely reflecting the full repayment of the balance on the US$120.0 million IMF Rapid Financing Instrument obtained in 2021. Consequently, the multilateral's share in total foreign debt declined to 21.3 percent. Within the group, the Inter-American Development Bank (IDB) maintained the largest share at 70.8 percent (15.5 percent of total foreign currency debt), followed by the Caribbean Development Bank (CDB) with 19.8 percent (4.6 percent of the total) and the World Bank with 8.5 percent (1.8 percent of the total).

d. Bilateral Debt

Obligations due to the single bilateral creditor (three credit facilities from the Export-Import Bank of China) remained marginal, at approximately $37.9 million, for 0.7 percent of total foreign currency debt.

e. Financial Institutions

Debt held by financial institutions expanded by $225.9 million (18.4 percent) to $1,450.6 million, with a rise in share to 26.1 percent of total foreign currency debt.

f. Monetary Authorities

Reflecting exchange rate movements, SDR-denominated obligations to the Central Bank increased to $240.2 million, although equivalent to a stable 4.3 percent of the total foreign currency exposure.

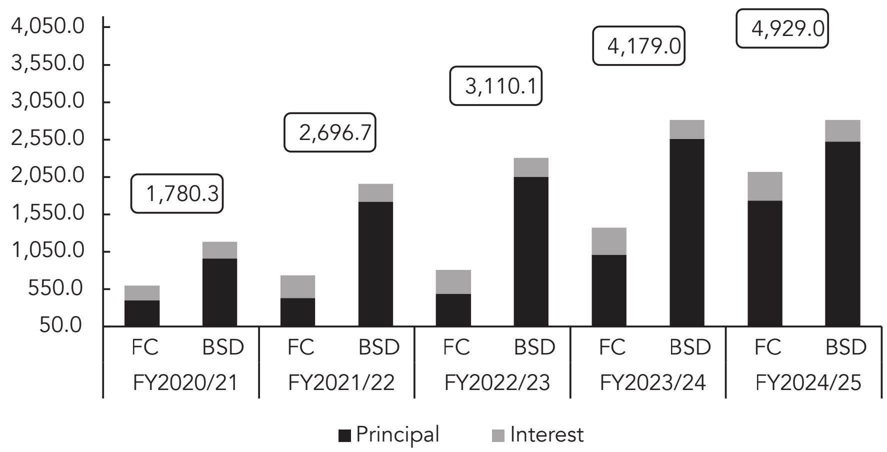
4.4. Debt Service Payments

Aggregate debt service payments for FY2024/25 exceeded the prior year by $750.0 million (17.9 percent) to reach $4,929.0 million. Approximately 57.1 percent was denominated in Bahamian dollars and 42.9 percent in foreign currency (see **Figure 5**).

The $744.7 million (54.4 percent) increase in the foreign currency component was almost entirely attributed to the recent Eurobond buyback transaction, as foreign currency interest costs of $378.5 million were only marginally higher than in the previous year. The weighted average interest rate stood at 5.96 percent for foreign currency loans and 7.85 percent for foreign currency bonds, compared with 6.06 percent and 4.79 percent, respectively, for corresponding domestic obligations.

Meanwhile, Bahamian dollar debt service continued to track the refinancing activities associated with bond issuance, with moderate yield adjustments along the curve.

FIGURE 5: GOVERNMENT DEBT SERVICE (B$M)



4.5. Cost and Risk Analysis of the Debt Portfolio

The Bahamas' debt portfolio is predominantly exposed to refinancing risk, due to changes in interest and foreign exchange rates. **Table 2** illustrates key cost and risk indicators for the debt portfolio at end-June 2025.

a. Cost Indicators

The weighted average interest rate (WAIR), or implied interest rate of the overall debt portfolio, increased slightly by 0.2 basis points on an annual basis to 5.52 percent at end-June 2025. The WAIR on the external bond portfolio firmed by 52 basis points to 7.85 percent, and was completed offset by the 55 basis points reduction in the foreign currency loan WAIR to 5.96 percent, partly reflecting the comparatively lower WAIR on multilateral and bilateral loans, at 4.05 percent and 2.0 percent, respectively.

In the domestic market, government bonds featured a slightly higher WAIR of 4.79 percent at end-June 2025, with approximately 67.6 percent of the portfolio being issued at fixed interest rates and having a higher WAIR of 4.93 percent that was 46 basis points above that for the variable rate bonds. Treasury bills and notes featured an elevated combined WAIR of 3.16 percent, while Bahamian Dollar commercial loans and advances carried a WAIR of approximately 6.06 percent—as the 6.2 percent for variable rate commercial loans was moderated by the 3.1 percent for advances from the Central Bank, which are linked to the 90-day Treasury bill rate (see **Figure 6**).

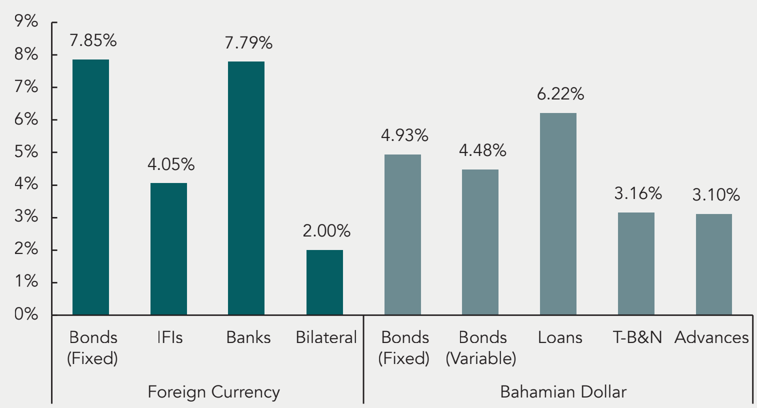
TABLE 2: COST AND RISK INDICATORS OF EXISTING DEBT

Cost and Risk Indicators			Jun-23	Jun-24	Jun-25
Nominal debt (B$M)			**11,260**	**11,314**	**11,769**
Nominal debt as (% of GDP)			**75.7**	**72.7**	**72.1**
NPV debt (B$M)			**11,180**	**11,233**	**11,639**
Cost of debt	**Interest (% of Gov't Revenue)**		**20.07**	**19.98**	**19.80**
	Interest (% of GDP)		**3.85**	**3.94**	**4.12**
	Weighted Average Interest Rate (%)	**Total**	**5.40**	**5.50**	**5.52**
		FC Bonds	7.17	7.33	7.85
		FC Loans	5.98	6.51	5.96
		BSD Bonds	4.63	4.64	4.79
		BSD T-Bills & Notes	2.85	2.91	3.16
		BSD Loans	4.45	4.74	6.06
Refinancing risk	**ATM (Years)**	**Total**	**6.22**	**6.06**	**6.61**
		FC	5.41	5.20	6.90
		BSD	6.94	6.83	6.34
	Debt maturing in 1 Year (% of total)	**Total**	**27.31**	**35.50**	**26.79**
		FC	18.78	31.58	9.38
		BSD	34.96	39.04	42.28
Interest rate risk	**ATR (Years)**	**Total**	**4.28**	**4.12**	**5.20**
		FC	3.20	2.65	5.00
		BSD	5.26	5.45	5.30
	Debt refixing in 1 Year (% of total)	**Total**	**56.95**	**65.39**	**54.41**
		FC	49.95	68.84	45.07
		BSD	63.24	62.28	62.75
	Fixed rate debt (% of total)		**61.58**	**61.33**	**66.49**
Forex risk	**Foreign currency debt (% of total)**		**47.28**	**47.37**	**47.16**

Total interest payment on the debt portfolio of $672.4 million for FY2024/25 corresponded to an estimated 19.8 percent of government revenue and 4.1 percent of GDP.

The present value of the debt at end-June 2025 increased to $11,232.5 million (77.1 percent of GDP compared with 79.9 percent a year earlier), due to the growing importance of semi-concessional debt in the portfolio.

FIGURE 6: WEIGHTED AVERAGE INTEREST RATE COST BY INSTRUMENT (END-JUNE, 2025)



b. Risk Indicators

i. Refinancing/Rollover Risk

Rollover/refinancing risk captures the exposure of the debt portfolio to higher costs for refinancing maturing debt obligations within a specified period or, in extreme cases, the inability to roll over the debt. The key indicators for measuring refinancing risk are debt maturing in one year as a percent of total debt and Average Time to Maturity (ATM).

Refinancing risk is main source of vulnerability in The Bahamas' debt portfolio, given the share of short-term domestic financing instruments (15.9 percent of the portfolio).

Refinancing risk remained moderate in the government's debt portfolio, with the ATM improving to 6.61 years at end-June 2025. The increase in the ATM for foreign currency debt by 1.7 years to 6.90 years was driven from the recent LMO, with the proportion of the portfolio maturing within one year lowered to 9.38 percent from 31.58 percent in the prior year.

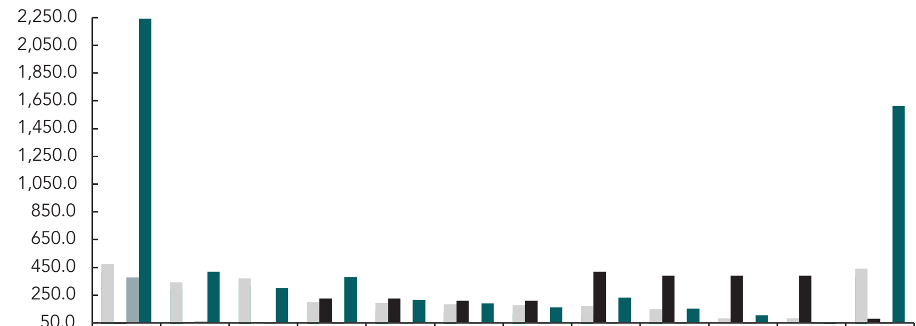
The ATM on Bahamian Dollar debt eased further to 6.34 years, with 42.28 percent of the portfolio maturing in 1 year driven by the growth in of short-term market instruments.

ii. Redemption Profile

The maturity profile of the outstanding debt, as presented in **Figure 7**, highlights the amortization of the outstanding debt at end-June 2025.

The distribution of forecasted redemptions between 2025 and 2033 is dominated by the share of domestic and foreign bonds in the portfolio. The maturity profile for external bonds is more evenly spaced, as the recent LMO allowed for the refinancing of 34.8 percent of the then-existing bonds outstanding, including approximately 74 percent of the 2028 bond, the shortest maturity, reduced rescheduled principal payments over the next three years by $451.0 million, with no maturity peaks anticipated over the medium term. The profile also continues to benefit from the longer maturities and amortizing structure of multilateral and bilateral credits.

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



	Oct25-Jun26	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037-2065
FC Loans	476.5	342.6	369.8	200.5	194.0	185.8	176.9	170.2	149.0	84.3	84.1	440.5
FC Securities	-	52.7	52.7	225.9	226.1	208.8	208.8	418.2	389.4	389.4	389.4	79.9
BSD Loans	378.4	60.9	37.9	19.9	10.0	-	-	-	-	-	-	-
BSD Securities	2,243.1	417.9	301.1	379.2	214.8	189.5	161.5	232.0	153.5	103.7	39.1	1,611.4

iii. Interest Rate Risk

Interest rate risk relates to the changes in debt service cost arising from variability in market interest rates. The Average Time to Re-fixing (ATR) captures the portfolio's vulnerability to higher market interest rates at the point when interest rates are reset or when fixed rate debt is refinanced.

Interest rate risk remains more moderate for domestic debt, which carried an ATR of 5.3 years; however, 62.8 percent of the portfolio will be refixed in one year, reflecting the predominance of short-term debt in the portfolio.

The debt portfolio showed an increase in the overall ATR to 5.2 years, with a reduced 54.4 percent of the total debt subject to a change in interest rate in one year. This improvement was primarily driven by the liability management operation, as the foreign currency ATR increased to 5.0 years from 2.65 years in the prior year. On average, interest rates on Bahamian dollar debt are expected to be re-fixed over approximately 5.3 years, compared with 5.5 years at end-June 2024.

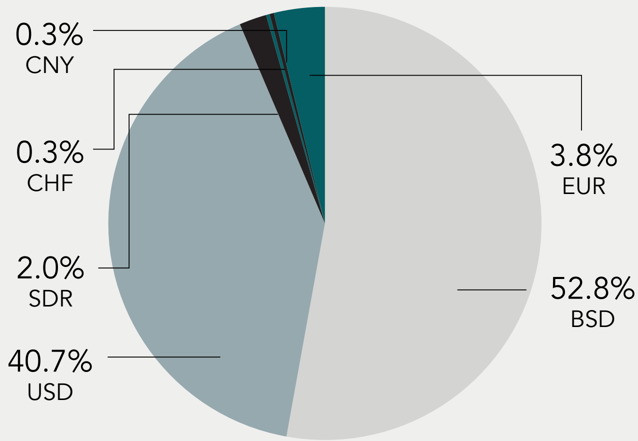
The proportion of fixed rate debt was higher at 66.49 percent of the portfolio, compared with 61.33 percent at end-June 2024.

iv. Exchange Rate risk

Foreign exchange risk is the risk that The Bahamas' debt position will deteriorate due to changes in the value of the Bahamian Dollar relative to other currencies.

Exposure to exchange rate risk continues to be low, as the bulk of the debt is in BSD (52.8 percent), followed by USD (40.7 percent) to which the Bahamian Dollar is pegged at parity and EUR (3.8 percent) debt (see **Figure 8**). Among the remaining 2.7 percent, 2.0 percent represents SDR-denominated debt for which the USD is among the main currencies.

FIGURE 8: CURRENCY DISTRIBUTION OF GOVERNMENT DEBT (END-JUNE 2025)



In FY2024/25, the USD weakened relative to other foreign currencies, resulting in an unfavourable exchange rate movement for the foreign currency debt. However, as part of the government's proactive debt management strategy, CHF and CNY foreign exchange hedging transactions are in place to increase the predictability of foreign currency debt service costs.

5 MEDIUM-TERM MACROECONOMIC FRAMEWORK

5.1. Macroeconomic Assumptions

The macroeconomic assumptions informing the MTDS analysis are derived from the FY2025/26 budget forecasts and the fiscal targets stipulated by the PFMA. Buoyancy in tourism, foreign investment, and favourable employment conditions are expected to facilitate medium-term fiscal consolidation and promote a sustainable long-term debt path, as well as underpin external account stability. **Table 3** summarizes the key macroeconomic assumptions employed in the MTDS to generate the future e volution of debt service and its composition.

As reported by the BNSI, real GDP growth for The Bahamas grew from 1.9 percent FY2023/24 to 4.3 percent in FY2024/25. Based on the IMF's October 2025 World Economic Outlook, real output growth for FY2025/26 is expected to taper to 2.3 percent, towards its long-run growth rate potential of 1.7 percent in FY2028/29, and averaging 1.8 percent over the three year horizon. Inflationary pressures, which subsided from 3.1 percent in 2023 to an estimated 0.4 percent in 2024, are expected to remain relatively mild at 2.2 percent in 2025 and 2.0 percent by 2029.

Conditions remain supportive of the government's fiscal strategy objectives, which include an improved revenue outturn of nearly 25.0 percent of GDP by FY2026/27.

Revenue growth is targeted through progressive measures aimed at enhancing the efficiency of tax administration and broadening the taxable income base—the latter being highlighted by the recently introduced Domestic Minimum Top Up Tax, which is modelled after the OECDs minimum corporate income tax initiative, and is expected to generate an estimated $131.0 million during FY2025/26, alongside additional yields from the inclusion of private cruise developments. Baseline fiscal assumptions also incorporate the government's commitment to stabilize recurrent expenditure at approximately 20.0 percent of GDP over the 3-year horizon to be achieved through targeted spending initiatives. Collectively, these measures are projected to strengthen the overall fiscal surplus from 0.5 percent to an average 1.7 percent of GDP over the medium-term, with primary balances averaging 4.8 percent of GDP.

TABLE 3: BASELINE MACROECONOMIC ASSUMPTIONS

	Unit	Actuals			Budget	Forecasts		
		2022/23P	2023/24P	2024/25P	2025/26f	2026/27f	2027/28f	2028/29f
Total Revenue	**B$M**	2,855.4	3,069.1	3,396.0	3,896.3	4,263.1	4,405.2	4,556.3
Total Expenditure	**B$M**	3,390.0	3,263.1	3,474.9	3,820.8	3,971.7	4,105.6	4,246.5
Recurrent Expenditure	**B$M**	3,062.5	2,961.4	3,189.3	3,444.5	3,579.6	3,700.3	3,827.3
of which: Interest Payments	**B$M**	573.1	613.2	672.4	668.0	602.7	565.1	511.5
Capital Expenditure	**B$M**	327.5	301.7	285.6	376.3	392.1	405.3	419.2
Overall Fiscal Balance	**B$M**	(534.6)	(194.0)	(78.9)	75.5	291.4	299.6	309.8
Primary Fiscal Balance	**B$M**	38.5	419.2	593.5	743.5	894.1	864.6	821.3
GDP (Nominal)	**B$M**	14,867.6	15,552.4	16,327.5	16,591.3	17,224.4	17,772.6	18,376.8
GDP (Real)	**B$M**	13,585.1	13,847.8	14,440.9	14,771.6	15,066.5	15,337.3	15,597.8
GDP (Real) Growth	**%**	6.6	1.9	4.3	2.3	2.0	1.8	1.7
GDP (Nomical) Growth	**%**	13.3	4.6	5.0	1.6	3.8	3.2	3.4
Total Revenue	**% of GDP (Nominal)**	19.2	19.7	20.8	23.5	24.8	24.8	24.8
Total Expenditure	**% of GDP (Nominal)**	22.8	21.0	21.3	23.0	23.1	23.1	23.1
Recurrent Expenditure	**% of GDP (Nominal)**	20.6	19.0	19.5	20.8	20.8	20.8	20.8
Capital Expenditure	**% of GDP (Nominal)**	2.2	1.9	1.7	2.3	2.3	2.3	2.3
Overall Balance	**% of GDP (Nominal)**	(3.6)	(1.2)	(0.5)	0.5	1.7	1.7	1.7
Primary Balance	**% of GDP (Nominal)**	0.3	2.7	3.6	4.5	5.2	4.9	4.5

Note: Fiscal Year GDP data are based from the November 2025 quarterly GDP series compiled by the Bahamas Statistical Institute; forecasts are based on IMF WEO GDP data.

5.2. Risks Associated with the Macroeconomic Projections

Projections based on baseline macroeconomic assumptions are subject to a range of risks and vulnerabilities, with the potential to cause deviations from expected outcomes and adversely impact the medium term debt management strategy. Among the main risk factors are the following:

- Commodity price volatility on account of climate shocks and escalation in geopolitical tensions could disrupt trade.
- Severe climate events and global growth slowdown in major economies could have adverse spillovers on tourism and negatively impact household consumption and business investment, employment and fiscal outcomes.
- Underperformance in revenue collections, because of delays in implementing enhanced tax administration and reforms, may hinder the government's ability to meet medium-term revenue goals—posing risks to fiscal consolidation and potentially increasing borrowing and debt servicing requirements.
- Fiscal risks arising from Agencies and Government Business Enterprises (GBEs) operations.
- Deteriorating economic conditions could negatively impact the country's sovereign credit rating, increase borrowing costs and constrain market access.

In response to these risk exposures, the government's overarching macro-fiscal risk management strategy incorporates a combination of measures and initiatives designed to enhance resilience. Credibility in the budgetary performance is expected to benefit from specific tax policy reforms and enhanced revenue administration, alongside the use of sustainable sources of financing which also consider responses to natural disasters and climate change. Tourism expansion is expected to be supported by various pipeline projects and renewed efforts to further diversify the tourism product. Comprehensive energy sector reforms, which include the transition to LNG renewable energy sources, are anticipated to support private sector growth, with estimated reduction in costs contributing to an improvement in the current account deficit and potential fiscal savings.

6 ASSESSMENT OF POTENTIAL SOURCES OF FINANCING

6.1. Domestic Sources

The domestic market is expected to continue as the predominant source of medium-term financing for the government needs, as the ongoing objective of further improving borrowing costs and limiting refinancing risks in the overall portfolio is favoured by deep market liquidity conditions and strong domestic appetite. Funding is planned to be secured through issuance of bonds at varying maturities and at fixed interest rates, and T-Bill issuances will support active management of the government's liquidity needs. Commercial debt will also be considered to replace maturing obligations.

Domestic debt market operations will be anchored in the continuation of initiatives underway to:

- build out benchmark issues across the yield curve, based on the recently released benchmark issuance policy that defines, inter alia, the number of benchmark securities and range of issue sizes.
- fully operationalize the governance framework for conducting liability management operations (e.g., buy backs and exchange/switches and auctions) to manage roll-over and refinancing risks by consolidating the large and outstanding securities into fewer and more liquid instruments.
- broaden the investor base, including the ongoing promotion of the Bahamas Savings Bond, promoting a solid platform for meeting the government's financing needs through the increased involvement of retail investors in the domestic market. Further, financial literacy campaigns will be aimed at increasing portfolio preferences for longer-term government paper.

6.2. External Financing Sources

External financing sources are expected to include a combination of commercial and semi-concessional borrowings, with both multilateral and bilateral sources providing increased opportunities for optimizing portfolio risks and costs. The government's recent completion of membership in the Development Bank of Latin America and the Caribbean ("CAF") unlocks access to additional funding for policy initiatives related to climate change mitigation and infrastructure and the digital economy. Where possible, the government also intends to leverage credit enhancement options such as guarantees, and continue to explore potential opportunities for capital market financing.

In the area of new financing alternatives, the government will continue to explore emerging funding instruments, such as sustainability-linked instruments and other thematic financing structures to combat climate change and enhance public debt management.

7 MODELLING OF THE MEDIUM-TERM DEBT STRATEGY

In developing the MTDS, the cost and risk trade-offs of several alternative financing strategies were evaluated under both the baseline macroeconomic scenario and a range of plausible shocks and scenarios. The strategy options reflected different policy options regarding the composition, maturity profile, and funding mix of the debt portfolio, as well as the possible use of complementary cash or liability-management measures. Each strategy was evaluated against baseline financing conditions and under standard shock scenarios including interest rate, exchange rate, and combined shocks, to test the portfolio's resilience under various market conditions.

The preferred was selected based on its overall cost-risk performance, feasibility and alignment with the government's objectives, including continued development of the domestic market. Consistent with the medium-term fiscal objectives, the MTDS is framed to finance the projected amortization requirements over the next four fiscal years while maintaining prudent risk exposure.

7.1. Baseline-Pricing Assumptions and Description of Shock Scenarios

This section deals with the government's projections and the assumptions of the expected market interest and exchange rates during the strategy period.

a. Description of Stylized Instruments

For the MTDS analysis, nineteen (19) representative debt instruments were constructed to capture the key characteristics of The Bahamas' existing debt portfolio. The domestic stylized instruments reflected the main BSD-denominated borrowing sources, including market-based securities and loans with varying maturities and interest-rate structures. The external representative instruments covered the government's principal sources of concessional, semi-concessional, and commercial financing, grouped into stylized instruments across USD, EUR, CNY, and SDR currencies. These instruments provide a simplified but realistic analytical foundation for evaluating the cost and risk performance of the alternative debt strategies. A detailed summary of instrument terms is presented in **Table 4**.

b. Interest Rate Assumptions

To ensure that the MTDS baseline projections reflected prevailing market conditions, a combination of methodologies and data sources was applied to model both domestic and international interest-rate dynamics. Overall, the baseline assumed a moderately rising interest-rate environment over the projection horizon. Given the current macroeconomic outlook, inflation pressures, and central bank policies in major economies, the modelling assumed a baseline of non-declining to moderately rising interest rates over the next four years, although with significant uncertainty given the geopolitical environment.

» Foreign-currency floating-rate instruments were priced using SOFR forward curves, with interest costs estimated as the applicable credit spread over the forward SOFR path, based on data sourced from Bloomberg. For fixed-rate external instruments, the existing coupon rates were held constant throughout the projection period.

» For BSD-denominated domestic instruments, the domestic yield curve was anchored to the Bahamas Prime Rate published by the Central Bank, which has remained unchanged since December 2016.

c. Exchange Rate Assumptions

For the MTDS, it is assumed that the majority of new foreign-currency borrowing will continue to be contracted in USD, consistent with current portfolio patterns. The BSD is assumed to remain pegged to the USD at the existing 1:1 exchange rate throughout the projection horizon. For non-USD currencies, the projected cross-currency exchange rates are derived from the implicit exchange rates embedded in the IMF's October 2025 WEO, ensuring consistency with internationally recognized macroeconomic forecasts.

TABLE 4: BASELINE PRICING ASSUMPTIONS

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

d. Description of Shocks

Within the MTDS framework, a set of shock scenarios was applied to capture potential adverse deviations from the baseline, including further increases in interest rates and the appreciation of non-USD currencies, both of which would raise the cost and risk profile of the portfolio. The moderate and extreme shocks to the baseline assumptions are outlined below.

» **Exchange rate shocks.** The extreme risk scenario modelled a 30 percent depreciation to the non-USD baseline exchange rate projections, applied throughout the period of analysis.

» **Interest rate shock.** The extreme risk scenario assumes a stand-alone 500 basis points rise over the baseline reference rate projections and, where applicable, variable spreads for floating rate instruments, for each year of the strategy period, allowing a parallel shift or change in the yield curve.

» **Combination shocks.** The scenario simulates a moderate risk scenario of a 250 basis point interest rate hike over the baseline projections applied to floating rate instruments for each year in the projection period. For exchange rates, a moderate shock of 15 percent depreciation is applied to the non-USD baseline exchange rate projections in FY2025/26.

7.2. Strategic Benchmark and Targets

Effective public debt management requires the identification of the key risks embedded in the debt portfolio and the establishment of quantitative targets for the associated risk indicators. These targets help articulate the government's cost-risk objectives more clearly and support the design of a predictable and sustainable borrowing strategy that is resilient to political or exogenous influences. Quantitative targets also enable systematic comparison between planned and actual outcomes. Given the potential for unexpected shocks and shifts in market conditions, which would require rapid response by the debt management office to respond, these indicators are typically defined as ranges rather than fixed points.

For The Bahamas, the primary portfolio risks are foreign exchange risk, interest rate risk, and refinancing risk. The aim of the MTDS is to manage these risks within prudent thresholds. The indicative benchmarks and target ranges for the key risk indicators are summarised below.

a. Foreign Currency Risk Benchmark

» The currency and interest rate composition of debt, as well as its maturity structure, are important determinants of debt vulnerability. Therefore, foreign currency debt will be maintained at 30 percent (+/-5 percent) of total debt.

Foreign currency borrowings are targeted at financing government's capital expenditures, refinancing the global bond issuances, and achieving policy action reforms designed to promote private sector-led growth, secure improvements in the policy, legal, and institutional framework for state-owned entities, public–private partnerships, fiscal management and the business and investment climate, and build resilience to climate change, including emergency and disaster response.

b. Interest Rate Risk Benchmark

» The MTDS will place emphasis on stabilizing debt service costs by increasing the share of fixed rate debt in the total debt portfolio to keep average time for refixing greater than or equal to 5 years.

c. Re-Financing Risk Benchmark

» The MTDS would seek to ensure a stable and affordable maturity structure to reduce refinancing risk exposure by maintaining an ATM of greater than or equal to 6.5 years.

7.3. Description of Alternative Debt Management Strategies

Considering the government's debt management objectives, four (4) alternative financing strategies were formulated to guide the financing of the budget and inform borrowing decisions over the MTDS four-year horizon. For each strategy, the cost and risk implications on the future debt profile were assessed to identify the most suitable approach for The Bahamas.

Each strategy reflects a distinct financing mix, combining BSD-denominated domestic instruments with foreign-currency financing. Domestic financing options include treasury bills, treasury notes, bonds, advances and loans, while external financing encompasses both concessional and commercial loans from multilateral, bilateral and commercial sources. Consistent with the government's fiscal projections, net financing requirements are expected to gradually decline over the medium term as primary surpluses materialize.

A summary of the alternative strategies considered is presented in **Table 5**.

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TABLE 5: DESCRIPTION OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES

Strategy	Objective
S1 [Status Quo]	» Reducing refinancing risk by building sinking fund for future debt repayments
S2	» Reducing refinancing risk by balancing debt reduction and building a smaller sinking fund than S1 for future debt repayments
S3	» Reducing refinancing risk by increasing portfolio maturing through Multilateral and Bilateral financing
S4	» S4: Reducing refinancing and FX risk using domestic financing and building sinking fund with 30% of the projected overall surplus.

Table 6 presents new financing and the gross borrowing by financing sources from the alternative strategies considered for the period ending FY2028/29. Each alternative strategy featured different combinations of borrowing instruments, resulting in various debt compositions at the end of the strategy period.

TABLE 6: GROSS BORROWING BY INSTRUMENT UNDER ALTERNATIVE STRATEGIES
(IN B$M OF GROSS FINANCING NEEDS BY END-FY2028/29)

Gross Financing Source	Total Gross Borrowing (FY2025/26- FY2028/29)			
	S1	S2	S3	S4
FX Multilateral Loans	870	870	1,089	856
FX Bilateral Loans	201	201	305	202
FX Commercial Loans	306	306	302	312
Fixed Rate Bonds USD	633	633	648	623
FX overdrafts	335	335	257	257
BSD Overdrafts	0	0	0	0
BSD Commercial Loans	110	110	0	0
BSD Long Term Bonds (over 15 years)	0	0	0	0
BSD Long Term Bonds (over 11-15 years)	144	144	143	144
BSD Medium Term Bonds (6 to 10 years)	316	316	272	453
BSD Short Term Bonds (1 to 5 years)	689	689	687	724
BSD Treasury Bills	8,353	8,353	8,071	8,311
Gross Foreign Financing	2,346	2,346	2,602	2,250
Gross Bahamian Financing	9,611	9,611	9,173	9,632
Gross Financing	11,957	11,957	11,775	11,883
Net Financing Source	**Total Net Borrowing (FY2025/26- FY2028/29)**			
	S1	S2	S3	S4
Net Foreign Currency Financing*	374	374	708	357
Net Bahamian Dollar Financing	-876	-876	-1,185	-876
Total Net Financing	-502	-502	-476	-519

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

7.4. Result Analysis: Costs and Risks of Alternative Strategies

The assessment of the cost-risk trade-offs across the alternative strategies provides insight into how each financing mix performs under the baseline and shock scenarios. These results inform the selection of the most appropriate strategy by illustrating the balance between borrowing costs and exposure to key risks. **Table 7** and **Figure 9** summarize the projected cost and risk indicators for the debt portfolio under the four alternative strategies, based on the underlying assumptions.

TABLE 7: COST AND RISK INDICATORS UNDER ALTERNATIVE STRATEGIES

Cost and Risk Indicators		FY2024/25	As at End FY2028/29				Long-term Targets
		Current	S1	S2	S3	S4	
Nominal debt (% of GDP)		72.08	62.57	61.32	61.46	61.23	<50%
Present value debt (% of GDP)		71.71	62.14	60.91	61.05	60.82	
Interest payment (% of GDP)		3.98	3.09	3.07	3.02	3.07	
Weighted average interest rate (%)		5.52	5.02	5.06	4.98	5.04	<5%
Refinancing risk	Debt maturing in 1 yr. (% of total)	25.89	26.17	24.87	23.08	24.27	
	Debt maturing in 1 yr. (% of GDP)	18.66	16.37	15.25	14.19	14.86	
	ATM Foreign Currency Portfolio (yrs.)	6.70	7.12	7.06	7.44	7.03	
	ATM Domestic Portfolio (yrs.)	6.53	5.67	5.89	6.13	6.03	
	ATM Total Portfolio (yrs.)	6.61	6.41	6.49	6.84	6.55	>6.5 yrs.
Interest rate risk	ATR (yrs.)	5.19	5.75	5.82	6.18	5.89	>5 yrs.
	Debt refixing in 1 yr. (% of total)	50.95	40.79	39.76	37.35	38.59	
	Fixed rate debt (% of total)	70.03	82.60	82.28	83.09	83.03	
	T-bills (% of total)	15.63	18.55	17.14	15.56	16.41	
FX risk	FX debt (% of total)	47.16	52.15	52.59	55.43	52.51	
	ST FX debt (% of FX reserves)	17.01	19.62	19.62	19.62	19.62	
	Non-USD FX debt (% of total)	6.15	3.04	3.02	3.02	3.04	
	Non-USD ST FX debt (% of FX reserves)	11.13	3.44	3.44	3.44	3.44	

Note: Fixed rate debt includes T-bills.

a. Growth of Public Debt

» **Nominal Debt to GDP:** For all four strategies, the combination of positive projected fiscal balances and the chosen financing mixes results in broadly similar reductions in the nominal debt to GDP ratio. Each strategy produced a lower ratio relative to the current baseline, with a clear downward trajectory toward the government's long-term target of 50 percent of GDP.

b. Cost of Debt

» **Implied Interest Rate:** Across all four strategies, the implied interest rate declines gradually over the MTDS horizon, supported by lower net financing needs and a more balanced portfolio structure. By FY2028/29, the implied rate under each strategy moves closer to the government's long-term target of 5 percent, with only marginal variations across strategies under the baseline assumptions.

c. Evaluation of Risks

» **Refinancing Risk:** Overall, S3 performed the strongest in managing refinancing risk. S3 delivered the largest reduction in debt maturing within one year, supported by both fiscal surpluses and a portfolio shift toward instruments with more concessional debt and longer maturities. S3 also achieved the longest ATM across the strategies, moving the portfolio closer to the long-term target of 6.5 years. Although ATM increased under all strategies, S3 provided the most sustained improvement, particularly for the foreign currency portfolio.

» **Interest Rate Risk:** S3 also outperformed the other strategies in reducing interest rate risk. It achieved the lowest share of debt refixing within one year and the highest ATR, benefiting from fiscal surpluses that help reduce short-term borrowing and the natural roll-off of floating-rate debt being replaced by fixed options. As a result, S3 shows the most favourable decline in interest rate vulnerability over the MTDS horizon.

» **Foreign Exchange Risk:** All strategies produce similar outcomes with respect to FX risk. The portfolio remains largely insulated because the majority of foreign currency debt is USD-denominated, consistent with the BSD's 1:1 peg to the USD. Exposure to non-USD currencies remains low under all strategies and, where present, is primarily managed through currency swaps and the continued predominance of USD borrowing.

Across all strategies, the medium-term cost and risk indicators improve relative to FY2024/25. Both nominal and present-value debt-to-GDP ratios decline steadily, reflecting the government's commitment to fiscal consolidation over the medium-term and continued interim progress towards achieving the long-term debt target set out in the PFM. The improvements in ATM, ATR, and FX exposure underscore progress toward the long-term debt management targets established under the PFM framework, with S3 offering the most balanced and robust performance across the key risk dimensions.

As shown in **Table 7**, under current market conditions, S3 emerges as the most feasible and resilient option. It performs best under stressed conditions, particularly in managing refinancing and interest rate risks, and therefore provides greater support to the government's debt management objectives. S3 aligns well with the gradual approach toward achieving long-term debt targets, offering a balanced and sustainable improvement in the portfolio's cost–risk profile. Taken overall, S3 achieves the government's broad debt management objectives at a prudent level of risk and at costs comparable to the other strategies, despite the uncertain global financial and geopolitical environment. Further, the cost outcomes under S3 remain broadly comparable to the other strategies. S3 provided significantly lower portfolio risk, making it the most efficient option overall in an environment of heightened global financial and geopolitical uncertainty. In addition, S3 reinforces domestic market development through a more diversified and extended maturity structure.

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

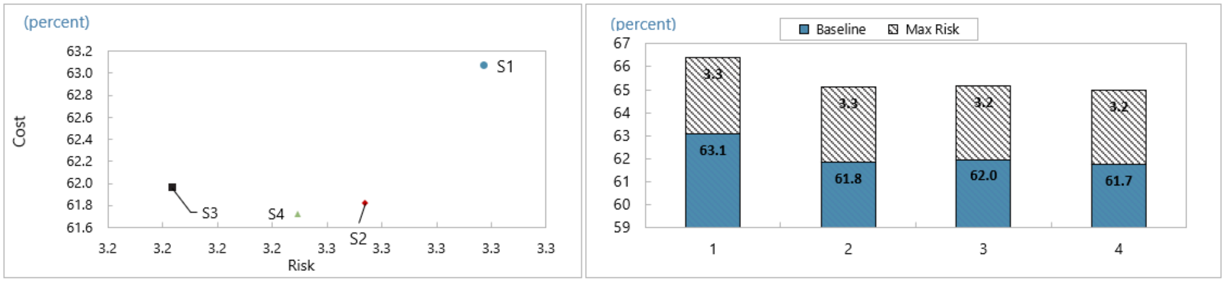
Several shocks were applied to the projected macroeconomic and market conditions, to assess the resilience of the alternative strategies and ensure that the government adopts a financing approach that is both robust and sustainable. **Figure 9** illustrates the effects of the baseline pricing assumptions and the shock scenarios on key cost and risk measures. Specifically, the analysis evaluates the potential impact of these shocks on the debt-to-GDP ratio and the increase in debt service costs, measured by interest payments-to-revenue and interest payments-to-GDP.

Risk outcomes capture the potential unexpected increase in debt service payments arising from adverse movements in key market variables, namely changes in interest or exchange rates. In a deterministic setting, risk is measured as the difference between projected costs under a shock scenario and the baseline.

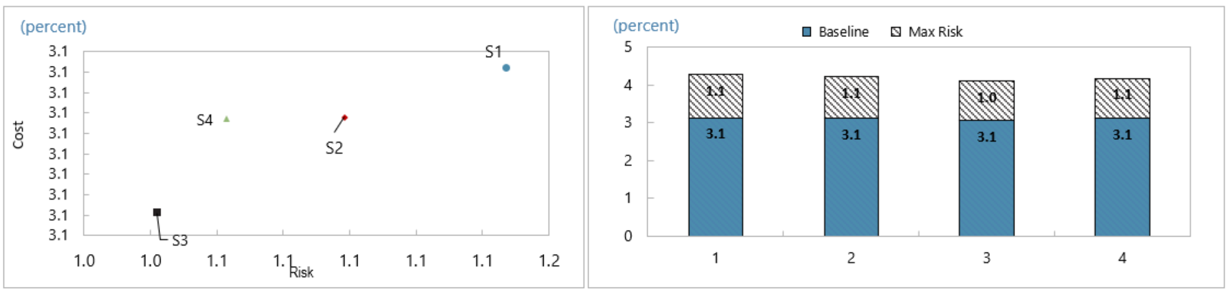
Overall, the strategies exhibit marginally similar cost levels, but their risk profiles differ more substantially. Under current market conditions, S3 offers the most balanced and realistic approach to achieving the government's debt management objectives. S3 provides the strongest performance under stressed conditions, with lower exposure to refinancing and interest rate risks, while maintaining costs broadly comparable to the other strategies. Given the heightened uncertainty in global financial conditions, S3 demonstrates greater robustness and represents the most efficient cost–risk trade-off among the alternatives.

FIGURE 9: COST-RISK REPRESENTATION OF ALTERNATIVE BORROWING STRATEGIES

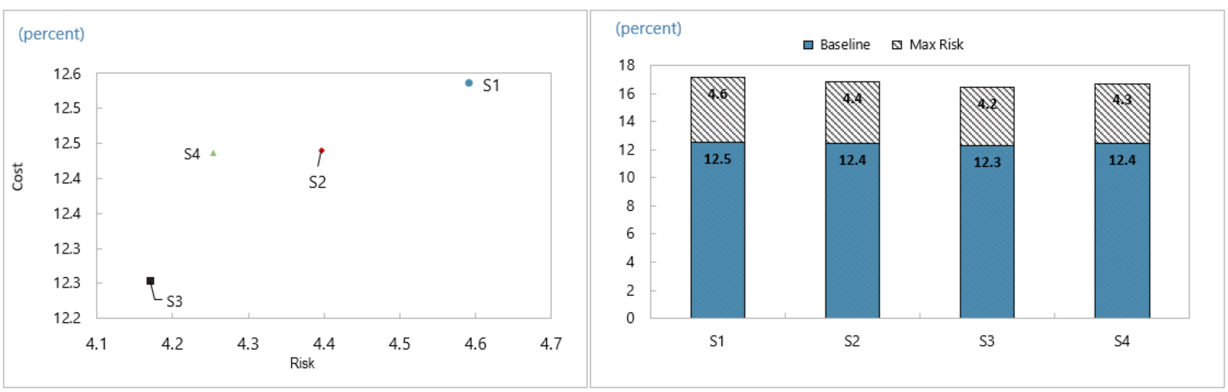
Debt to GDP as at end 2028



Interest to Revenue as at end 2028



Interest to GDP as at end 2028



8 OPTIMAL DEBT MANAGEMENT STRATEGY

As outlined in the previous sections, the government intends to pursue Strategy 3 ("S3"). S3 is the most feasible and resilient option, performing best under stressed conditions, particularly in managing refinancing and interest rate risks, while keeping costs broadly comparable to the other strategies. This balanced performance aligns with the government's gradual approach toward achieving its long-term debt targets and remaining within prudent risk benchmarks.

The key benefits of S3 are as follows:

» **Strengthening portfolio resilience while maintaining comparable costs:** S3 achieves a longer maturity profile through increased reliance on multilateral and bilateral financing, complemented by domestic issuances at various tenors. This reduces refinancing pressures, improves the ATM of the portfolio, and maintains borrowing costs at levels similar to the alternative strategies.

» **Keeping foreign exchange risk low:** FX risk remains contained under S3, given the predominance of USD-denominated borrowing and the BSD's 1:1 peg to the USD. Exposure to non-USD currencies stays minimal and is managed through currency swaps where needed. Although FX outcomes are similar across strategies, S3 outperforms in the more critical areas of interest rate and refinancing risks.

» **Supporting domestic market development and deepening the yield curve:** S3 promotes the development of the domestic securities market by continuing the issuance of BSD-denominated instruments at various maturities at fixed interest rates. This helps extend the maturity profile of domestic debt, improves predictability in domestic financing, and supports the government's objectives for market deepening.

» **Reducing exposure to interest rate risk through a more stable external debt profile:** S3 strengthens the portfolio's interest rate risk position by prioritising fixed rate borrowing on the external side, thereby limiting exposure to global interest rate volatility. In addition, floating-rate instruments that mature over the MTDS horizon are replaced with fixed-rate instruments, further stabilising debt service costs. This gradual shift toward a more fixed-rate structure and reductions in short term debt contributes to a higher ATR and reduces sensitivity to unexpected increases in market rates.

TABLE 8: SELECTED STRATEGY DETAILS (B$M)

Indicators	Fiscal Year Ended			
	2026	2027	2028	2029
Revenue	3896.3	4263.1	4405.2	4556.3
Expenditure	3820.8	3971.7	4105.6	4246.5
Overall Surplus/(Deficit)	75.5	291.4	299.6	309.8
Add: Budgeted Interest Payments	668.0	602.7	565.1	511.5
Primary Surplus/(Deficit)	743.5	894.1	864.6	821.3
Less: Non-budgeted expenses that increase GFN	0.0	65.0	65.0	65.0
Primary Surplus/(Deficit) after non-budgetary expenses	743.5	829.1	799.6	756.3
Less: Interest on Existing Debt (incl. T-Bills and Overdraft)	649.6	528.8	486.0	447.9
Less: Amortization on Existing Debt (incl. T-Bills and Overdraft)	3047.1	755.0	680.4	766.5
Less: Interest on New debt (based on S3 financing)	0.0	96.2	94.3	107.5
Less: Amortization on New debt (based on S3 financing)	0.0	2412.8	2371.3	2217.9
Less: Cash buffer additions or (usage)	28.6	0.0	0.0	213.6
Gross Financing Needs	2981.7	2963.7	2832.3	2997.1
Gross Financing				
FX Multilateral Loans	311.6	363.0	225.9	188.7
FX Bilateral Loans	0.0	65.5	115.6	124.3
FX Commercial Loans	0.0	100.7	201.0	0.0
FX Fixed Rate Bonds (USD)	0.0	0.0	0.0	648.3
FX overdrafts	256.9	0.0	0.0	0.0
BSD Overdrafts	0.0	0.0	0.0	0.0
BSD Commercial Loans	0.0	0.0	0.0	0.0
BSD Long-Term Bonds (over 15 years)	0.0	0.0	0.0	0.0
BSD Long-Term Bonds (over 11-15 years)	0.0	44.5	48.0	50.8
BSD Medium -Term Bonds (6 to 10 years)	0.0	107.2	71.2	93.7
BSD Short-Term Bonds (1 to 5 years)	259.1	170.5	123.0	134.4
BSD Treasury Bills	2,154.1	2,112.2	2,047.4	1,756.9
Gross Foreign Currency Financing	568.5	529.2	542.5	961.3
Gross Bahamian Dollar Financing	2,413.2	2,434.4	2,289.6	2,035.7
Total Gross Financing	2,981.7	2,963.6	2,832.2	2,997.0
Net Financing**				
Net Foreign Financing	568.5	529.2	542.5	961.3
Net Bahamian Dollar Financing	(217.6)	(102.7)	(371.5)	(493.1)
Total Net Financing	(65.4)	(204.2)	(219.5)	12.6

***A negative signifies higher principal repayments than disbursements.*

8.1 Expected Cost-Risk Performance for FY2025/26 Under Selected Strategy (S3)

The projected cost and risk indicators for FY2025/26 under Strategy 3 (S3) show early progress toward the government's long-term debt management targets (see **Table 9**). The financing mix for the year is characterised by longer-term issuances and the refinancing of short-dated and floating-rate instruments. Together, these actions support improvements in the portfolio's cost and risk profile, with a gradual but steady trend toward the long-term benchmarks for refinancing, interest rate, and foreign exchange risk.

The government's commitment to effective implementation of the ABP and to seizing opportunities that arise from favourable macroeconomic or market conditions, will be essential to maintaining this trajectory. This will help ensure that issuance patterns remain aligned with the MTDS and strengthen the portfolio over the medium term.

TABLE 9: PROJECTED COST AND RISK INDICATORS FOR FY2025/26

Cost and Risk Indicators		Jun-25	As at End FY2028/29		Long-term Targets
		Current	S3	S3 with Guarantees	
Nominal debt (% of GDP)		72.1	61.5	63.5	<50%
Present value debt (% of GDP		71.7	61.1	63.0	
Interest payment (% of GDP		4.0	3.0	3.1	
Weighted Average interest rate (%))		5.5	5.0	4.9	<5%
Refinancing risk	Debt maturing in 1 yr. (% of Total)	25.9	23.1	21.5	
	Debt maturing in 1 yr. (% of GDP)	18.7	14.2	13.6	
	ATM FX Portfolio (yrs.)	6.7	7.4	7.5	
	ATM BSD Portfolio (yrs.)	6.5	6.1	6.3	
	ATM Total Portfolio (yrs.)	6.6	6.8	7.0	>6.5 yrs.
Interest rate risk	ATR (yrs.)	5.2	6.2	6.3	>5 yrs.
	Debt refixing in 1 yr. (% of total)	50.9	37.4	36.1	
	Fixed rate debt (% of total)	70.0	83.1	82.8	
	T-Bills (% of total)	15.6	15.6	13.6	
Forex risk	FX debt (% of total)	47.2	55.4	55.4	
	ST FX debt as % of FX reserves	17.0	19.6	19.8	
	Non-USD FX debt (% of total)	6.2	3.0	1.5	
	Non-USD ST FX debt (% of FX reserves	11.1	3.4	3.4	

Note: Fixed rate debt includes T-Bills.

9 DEBT SUSTAINABILITY

The most recent Debt Sustainability Analysis ("DSA") undertaken by the Ministry of Finance confirmed that central government's debt is projected to decline steadily over the medium-term, converging with the target of maintaining debt at or below 50.0 percent of GDP by FY2030/31. This assessment is predicated on the projected improvements in the primary balance, steady nominal GDP growth, and favourable automatic debt dynamics, particularly the positive differential between real GDP growth and the effective interest rate.

Despite the favourable baseline, The Bahamas' overall risk of sovereign stress remains high, similar to most small open economies. Vulnerability to climate-related shocks, especially hurricanes, along with financing shocks and elevated risks from global market conditions, could adversely impact the fiscal consolidation progress and debt sustainability.

To mitigate these risks, the optimal MTDS Strategy, S3, seeks to increase borrowing from domestic sources in local currency and further capitalize on semi-concessional financing from multilateral and bilateral sources. The optimal strategy prioritizes extending maturities to smooth out redemption profiles, gradually reducing FX-denominated liabilities, leveraging domestic and semi-concessional financing sources, and maintaining adherence to fiscal targets and public sector reform initiatives. Together, these measures are expected to support debt sustainability and strengthen resilience against external and macro-fiscal shocks over the medium term.

10 MTDS IMPLEMENTATION, MONITORING, REVIEW AND REPORTING

10.1. Annual Borrowing Plan

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

The instrument mix will be aligned with the MTDS objectives and include loans and bonds of medium to long-term tenor, mainly contracted in BSD and USD, with a preference for fixed interest rates to reduce refinancing, interest rate and FX risks in the debt portfolio. The strategy will also gradually reduce the stock of T-Bills and other short-term debt and include liability management operations to achieve the preferred debt portfolio structure.

10.2. Review and Monitoring

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

10.3. Reporting

Progress on the implementation of the MTDS will be monitored and reported through regular debt management reports which include the quarterly Public Debt Bulletins. Access to vital information, timely and accurate data relative to government's debt operations will continue to be made available on websites of the government and the Central Bank as well as the dedicated investor relations website. To improve communications with market players, these activities will continue to be reinforced by regular dialogue with investors and market participants which will take the form of structured meetings and deal- and non-deal roadshows.

ANNEX I: IMPACT OF GOVERNMENT GUARANTEED DEBT ON MTDS

The government has a portfolio of sovereign guarantees issued on behalf of several state-owned entities to support projects which contribute positively to the country's development priorities, at reasonable costs and risks. Because these are explicit contingent liabilities, if called, they would increase the debt service cost of the government. To mitigate potential risks to fiscal sustainability and macroeconomic stability, the Ministry of Finance monitors debt servicing and the financial stability of the state-owned entities, which allows the government to provide any necessary assistance in a timely manner.

The oversight mechanisms was recently enhanced with the implementation of the policy framework and associated credit risk assessment process for determining whether to grant guarantees, the charging of a guarantee fee, specific eligibility criteria, and a process of monitoring, evaluation and reporting of guarantees.

10.4 Guaranteed Debt Outstanding

At end-June 2025, the stock of guarantees to state-owned entities was estimated at $311.5 million, with 84.9 percent denominated in Bahamian Dollars. The foreign currency exposure represented one (1) USD IDB-financed water and sewerage related project.

The government continues to monitor the cost and risk profile of the government guaranteed debt portfolio (see **Table 10**), which depict the following trends.

» The nominal government guaranteed debt to GDP ratio continued on a downward trajectory, moving from 2.6 percent of GDP at end-June 2023 to 1.9 percent of GDP at end-June 2025.

» The weighted average interest rate improved by a steady 2 basis points over the three years to June 2025, at 4.40 percent.

» Refinancing risk of the guaranteed debt portfolio, in terms of the ATM, stood one year lower at 4.0 years; and debt maturing within one year advanced sharply from 6.2 percent at end-June 2024 to 39.5 percent due to upcoming bond maturities.

» Interest rate risk in terms of debt refixing in 1 year was moderately higher at 80.4 percent of the total guaranteed debt portfolio, as the BSD component increased to 77.0 percent.

» Foreign currency debt as a proportion of the total portfolio tapered slightly to 15.1 percent.

» Interest rate risk in terms of debt refixing in 1 year firmed to 79.8 percent of the total portfolio from 74.7 percent a year earlier, as the BSD component increased by 6.26 percent.

» Foreign currency debt positioned slightly higher at 15.4 percent of the total portfolio, compared with 14.5 percent in the previous two years.

TABLE 10: COST AND RISK INDICATORS FOR GOVERNMENT GUARANTEED DEBT

Cost and Risk Indicators			Jun-23	Jun-24	Jun-25
Nominal Debt (B$M)			**384.2**	**332.9**	**311.5**
NPV Debt (B$M)			**372.9**	**324.4**	
Nominal debt (% of GDP)			**2.6**	**2.1**	**1.9**
Cost of debt	**Interest as % GDP**		**0.10**	**0.1**	**0.1**
	Weighted Average Interest Rate (%)	**Total**	**4.8**	**4.6**	**4.4**
		FC Loans	1.7	1.7	1.7
		BSD Bonds	4.5	4.4	4.4
		BSD Loans	3.9	3.9	3.9
Refinancing risk	**ATM (Years)**	**Total**	**5.2**	**5.0**	**4.0**
		FC	6.9	6.5	6.0
		BSD	4.9	4.7	4.0
	Debt maturing in 1 Year (% of total)	**Total**	**16.6**	**6.2**	**34.8**
		FC	6.9	8.0	8.7
		BSD	18.0	5.8	39.5
Interest rate risk	**ATR (Years)**	**Total**	**1.5**	**1.5**	**1.4**
		FC	0.0	0.0	0.0
		BSD	1.7	1.8	1.6
	Debt refixing in 1 Year (% of total)	**Total**	**74.7**	**79.8**	**80.4**
		FC	100.0	100.0	100.0
		BSD	69.9	76.1	77.0
	Fixed rate debt (% of total)		**20.1**	**21.8**	**20.0**
Forex risk	**Foreign currency debt (% of total)**		**14.5**	**15.4**	**15.1**

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

Guaranteed debt represents an additional 1.9 percent of GDP in potential exposure to the government and therefore its impact on the central government's cost and risk indicators is not significant.

The simulation exercise utilized the borrowing patterns for S3 and, to address the additional financing need, a new stylized instrument was created using the average terms (the ATM and the WAIR) of the guaranteed debt portfolio.

a. Results

As presented in **Table 11**, the simulation exercise produced only marginal increases in cost and risk. The stock of nominal debt as a percentage of GDP increased by 2.3 percentage points, indicative of the additional financing that would be required under this scenario. Interest payment as a percentage of GDP increases by 0.1 percentage points. The ATM remained increased to 7.0 years on account of similar maturity of guaranteed debt at concessional sources and longer-term domestic sources. Taken together, the risk indicators signal a marginal increase in risk, in most cases being less than 1 unit.

TABLE 11: COST AND RISK INDICATORS FOR GOVERNMENT & GOVERNMENT GUARANTEED DEBT

Cost and Risk Indicators		Jun-25	As at End FY2028/29		Long-term Targets
		Current	S3	S3 with Guarantees	
Nominal debt (% of GDP)		72.1	61.5	63.5	<50%
Present value debt (% of GDP)		71.7	61.1	63.0	
Interest payment (% of GDP)		4.0	3.0	3.1	
Weighted Average interest rate (%))		5.5	5.0	4.9	<5%
Refinancing risk	Debt maturing in 1 yr. (% of Total)	25.9	23.1	21.5	
	Debt maturing in 1 yr. (% of GDP)	18.7	14.2	13.6	
	ATM FX Portfolio (yrs.)	6.7	7.4	7.5	
	ATM BSD Portfolio (yrs.)	6.5	6.1	6.3	
	ATM Total Portfolio (yrs.)	6.6	6.8	7.0	>6.5 yrs.
Interest rate risk	ATR (yrs.)	5.2	6.2	6.3	>5 yrs.
	Debt refixing in 1 yr. (% of total)	50.9	37.4	36.1	
	Fixed rate debt (% of total)	70.0	83.1	82.8	
	T-Bills (% of total)	15.6	15.6	13.6	
Forex risk	FX debt (% of total)	47.2	55.4	55.4	
	ST FX debt as % of FX reserves	17.0	19.6	19.8	
	Non-USD FX debt (% of total)	6.2	3.0	1.5	
	Non-USD ST FX debt (% of FX reserves	11.1	3.4	3.4	

Note: Fixed rate debt includes T-Bills.

FY2026/27 TO FY2028/29

MEDIUM-TERM DEBT MANAGEMENT STRATEGY

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