MARKETCALL
JMMB INVESTMENT RESEARCH

INVESTMENT AND SOVEREIGN RESEARCH

SOVEREIGN: The Bahamas

PLEASE SEE IMPORTANT DISCLOSURES IN THE APPENDIX

Summary

The Government of the Bahamas has announced a cash purchase offer for each registered holder or beneficial owner of its outstanding global bonds. The maximum payment for validly tendered and accepted notes will be at the Government's discretion and exclude accrued interest. The terms of the offer are outlined in the document dated June 9, 2025, and it is subject to the successful issuance of new global notes, which will fund the offer.

We recommend that bondholders accept the offer to exit their investments in Bahamian credit. Prolonged fiscal excesses, exacerbated by economic shocks, have worsened liquidity and solvency risks. Although growth metrics show improvement, the risk of default remains high, reflected in the sovereign's elevated global bond yields.

Table 1: SWOT of the Bahamas

Strengths
- ✓ The Bahamas boasts a robust governance framework and institutional strengths firmly grounded in English common law.
- ✓ A favourable tax regime and a conducive business environment make the nation a preferred destination for offshore financial activities. Moreover, it maintains a robust regulatory framework for banks, trusts, and pooled investments.

Weakness
- ✓ The nation is highly susceptible to external shocks due to its narrow economic base and small size.
- ✓ Ineffective fiscal management, coupled with high fiscal deficits and low growth, has led to elevated debt levels and increased debt servicing costs.
- ✓ Anticipated more stringent regulations in G-20 countries, particularly in the US and Europe, are expected to restrict future growth in the offshore sector.

Opportunities
- ✓ The political administration has signalled its willingness to deregulate the economy and reduce capital restrictions.
- ✓ Sustained high growth and strong job market conditions in the US could contribute to increasing the Bahamas' growth rate higher, attracting increased FDI flows, and facilitating enhancement in the external and fiscal accounts. In this scenario, the sovereign would experience material improvements in fiscal and debt sustainability.

Threats
- ✓ A substantial decrease in global growth and a recession in the US could exacerbate the Bahamas' fiscal deficit, worsen debt service challenges, and increase the debt.
- ✓ External weather-related shocks, particularly hurricanes and flooding, heighten the vulnerability of the fiscal accounts.

Ratings: S&P, B+/Stable and Moody's, B1/positive

Table 2: tender Offer Notes and Purchase Price

Title of Notes	Current Outstanding Aggregate Principal Amount (U.S.$)	Purchase Price (per Outstanding U.S. $1,000 Principal Amount)
6.000% Notes due 2028	609,336,000	1,000
9.000% Notes due 2029	225,893,000	1,063
6.950% Notes due 2029	273,874,000	988
8.950% Notes due 2032	801,803,000	1,065
6.625% Notes due 2033	199,485,000	905
7.125% Notes due 2038	96,398,000	863

The Government of the Bahamas announced a cash purchase offer for each registered holder or beneficial owner of its outstanding series of notes (global bonds) as listed above. The maximum payment for each series of notes validly tendered and accepted, excluding accrued interest, will be at the Government's discretion. The terms of the Offer are outlined in the offer to purchase document dated June 9, 2025.

The Offer does not depend on minimum participation from any series of Notes but is subject to the successful issuance of new global notes, the proceeds of which will be used to fund the Offer.

The price per U.S. $1,000 principal amount of accepted Notes will be as stated in the table above (the Purchase Price). Holders of accepted Notes will also receive any accrued interest from the last payment date up to, but not including, the settlement date. If the total purchase price for validly tendered notes exceeds the maximum purchase price for a series, the Government may apply a proration factor to those tenders.

Bahamas Macro-Fiscal Profile Brief

The Bahamas has made significant strides in recovering from Hurricane Dorian in 2019 and the COVID-19 pandemic in 2020. In 2024, real GDP grew by 1.8%, primarily driven by improvements in the tourism sector, with increases in short-term rentals and visitor arrivals. We anticipate that growth will continue at 1.7% in 2025 before stabilizing at the medium-term potential growth rate of 1.6%. This growth is expected to be fuelled by rising consumer spending, albeit to a lesser extent and increased visitor arrivals. However, there are structural challenges that weigh on growth, including bottlenecks in the tourism industry and a high number of unskilled workers in the labour force. In the short term, growth appears fairly balanced; while a greater than expected increase in visitor arrivals could enhance growth, adverse weather events could push growth into negative territory.

On the fiscal side, despite some improvements, the national debt remains high, exceeding 78% of GDP in 2024. The International Monetary Fund (IMF) projects a reduction to 72.2% by 2027 as the government consolidates its fiscal accounts. To achieve this, an ambitious plan has been proposed to lower the debt to 50% of GDP by FY 2030, primarily through spending cuts. However, the IMF has concluded that greater fiscal efforts are necessary to reach this debt target, which may include new taxes on corporations and individuals. With interest payments relative to revenue at over 20% are high, but are projected to fall according to Fitch.

Table 3: Selected Macroeconomic indicators

	2019	2020	2021	2022	2023	2024	2025 (e)	2026 (f)	2027 (f)
Real GDP,%	(1.4)	(21.4)	15.4	10.8	2.6	2.0	1.8	1.7	1.6
Per capita GDP, USD	33,778	25,573	28,829	32,897	35,517	36,167	36,784	37,518	38,374
Inflation, end of period, %	1.4	1.2	4.1	5.5	1.9	0.0	1.0	1.6	1.8
Unemployment rate, %	10.1	25.9	17.4	10.7	10.2	9.4	9.3	9.1	9.0
Domestic currency to USD	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-	-
Revenue, %	18.7	18.3	18.7	21.0	20.4	21.1	22.6	23.5	23.5
Expenditure, %	20.4	25.7	31.8	26.8	24.2	22.4	24.2	23.9	23.7
Fiscal balance, %	(1.7)	(7.4)	(13.1)	(5.8)	(3.8)	(1.3)	(1.6)	(0.4)	(0.2)
Gross debt, % of GDO	60.7	74.7	99.7	88.6	81.7	78.8	79.4	77.8	77.2
Current account, % of GDP	(2.2)	(22.9)	(21.4)	(9.4)	(7.5)	(7.4)	(7.8)	(7.4)	(6.8)

Sources: IMF and JMMBIR

The anticipated growth in tourism is expected to help reduce the current account deficit, which was 22.9% of GDP in 2020, to 7.4% in 2024. With ongoing fiscal consolidation efforts and declining external prices, we predict that the current account deficit will contract to 6.6% over the medium term. Positive net flows in the capital account are likely to cover the deficit, bolster external reserves, and support the currency peg. However, the IMF has expressed concerns about the central bank's systemic funding of the government deficit, suggesting that this practice must be addressed to strengthen the credibility of the currency peg.

Recommendation

Bondholders should take the offer as a way to exit their investments in the Bahamian sovereign credit. In our previous recommendation, **we advised bondholders to significantly underweight this credit**. If a significant number of bondholders accept the offer and you choose to hold out, you risk ending up with illiquid bonds in your portfolio. If you decide to sell before the maturity date, you may have to do so at a substantial discount. **To remain invested in these bonds, it is important to have a well-diversified portfolio and the willingness to endure potential credit losses.**

We noted that years of fiscal slippages, worsened by weather-related and other shocks, have greatly deteriorated the Bahamas' macro-fiscal metrics. High liquidity and solvency risks are evident, as reflected in the elevated ratios of interest-to-revenue and debt-to-GDP. Despite the government's efforts to consolidate fiscal accounts, our forecast indicates that the timeline to achieve the stated objectives is longer than outlined in the Fiscal Strategy Report.

Fiscal slippages resulting from economic shocks could materially impact the government's ability to roll over the debt. This risk is likely to persist in the medium to long term due to high levels of debt maturities and an increased probability of economic shocks. Although there have been improvements in the sovereign's growth metrics, high liquidity and solvency risks persist, compounded by global and local economic challenges and the possibility of climate-related events. The risk of default is consistent with the relatively high yields observed on the sovereign’s global bonds.

APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.
HOLD/MARKET WEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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