

Bahamas still aiming for new bond

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The Bahamas (BB-/Ba3) is still interested in its planned USD 700m bond issue, Simon Wilson, the newly appointed financial secretary, told *Debtwire*.

“The timing depends on a number of factors, not just market conditions and pricing expectations,” Wilson said in an emailed response to questions.

A new international bond before the end of the year was included in the government’s annual borrowing plan for 2021-2022, presented in June. The new administration of Prime Minister Philip Davis, sworn in on 17 September, is dealing with the impact from Hurricane Dorian and COVID-19, which led Moody’s to downgrade the country, making market access more difficult.

“The deficit and by extension the growth of debt has been cyclically driven by the effects of Hurricane Dorian and the COVID-19 pandemic,” Wilson said. “Over the medium term, the impact of these events on the budget would lessen and so would be expenditure pressures and revenue inhibitors. This, along with a proactive revenue administration policy are the main tools to reduce the deficit and the growing debt.”

As the country navigates the months ahead, Wilson said that the IMF will be involved for technical assistance, to support strengthening tax administration and the statistical office. He said current funding plans do not include more funding from the IMF and he was unaware of any talks with the IMF for a broad program.

Other multilateral institutions, such as the Interamerican Development Bank and Caribbean Development Bank, could be involved for “concessionary funding.” Although it may not be essential, “multilateral assistance has significant benefits which far outweigh the benefits of attempting fiscal consolidation reform without this assistance,” Wilson said.

As bond market access has become more difficult, multilateral support may eventually be needed to get through the fiscal and economic challenges, an economist and two analysts said.

The Bahamas’ USD 825 8.95% 2032 bond issued in 2020 last traded today at 98.2, according to MarketAxess. This compared to prices above 114 as recently as June.

Davis, also the country’s finance minister, brought back Wilson as secretary and said his administration would examine the country’s debt profile and seek to renegotiate if needed to avoid default.

The sovereign’s difficulty in financing a high fiscal deficit means higher risks of a balance of payments crisis and debt default, economist Marla Dukharan told *Debtwire*.

PROPRIETARY

Latin America

Bahamas

Issuer

The Government Of The
Commonwealth Of The Bahamas



The Bahamas' economy contracted 14.5% in 2020, led by declines in the tourism and construction sectors that were adversely affected by pandemic-related measures, according to a 29 September report by Dukharan. Government debt reached BSD 10.356bn (USD 10.356bn) at the end of June 2021, registering an increase of 16% compared to the same period in 2020. External debt rose 44% in July 2021 to USD 4.36bn, Dukharan wrote in the report.

For a Bahamian economy heavily dependent on tourism, high COVID-19 contagion rates created a particularly difficult situation, according to Fernando Losada, director of Emerging Markets research at Oppenheimer.

The economic and financial challenges as a consequence of the pandemic include a "fiscal deficit that ballooned and the debt-to-GDP ratio jumped above the 90% mark, with the [Moody's] downgrade simply adding to the difficult scenario," Losada told *Debtwire*.

The government might not have any principal payments on external bond debt coming due until 2024, but the running fiscal imbalance is close to 10% of GDP, according to Losada. "Public sector financing needs will still be sizable in the near term, and the new administration will have to make tough decisions on fiscal austerity effective immediately."

The fiscal deficit is estimated to come in at BSD 951.8m or 7.7% of GDP for full year 2021-22, Dukharan wrote.

"Honestly, I would not be surprised if the multilaterals are trying to find a way to help them finance this deficit so that they don't have to come to market and pay commercial market rate," Dukharan said. "But I think this is what happens when you're nearing a default. You are unable to refinance debt at a rate you can afford, and your rollover risk is high. So, when you have a maturity you're either unable to roll over, or you have to roll it at higher and higher rates, then the whole situation just kind of collapses on itself."

Wilson told *Debtwire* he disagreed with the suggestion that the Bahamas is among the Caribbean nations with the highest risk of default.

Multilateral financing and a restructuring program are on the table, but a default could be avoided with effective fiscal consolidation, a buy-side analyst said.

An IMF Special Drawing Rights (SDR) allocation of 174.8m added approximately USD 247.5m to international reserves in August 2021. International reserves stood at USD 2.61bn in July 2021, up 32% year-over-year, with usable reserves at USD 1.31bn, Dukharan wrote in her September report, which forecast "a debt restructure and an IMF program in the next year or two."

The country's election was held early, eight months before it was constitutionally due, and this caused speculation that the government might already be in talks with the IMF and wanted to have a sitting government to negotiate with, Dukharan said.

by Ero Partsakoulaki

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