Economic Alert iQ

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Economic Alert: Moody's affirms the Bahamas' Baa3 ratings and changes outlook to negative

- Moody's review for downgrade was prompted by a significant deterioration in the Bahamas' fiscal position that was revealed earlier in 2017. During the review, Moody's focused on the prospects for fiscal consolidation and debt stabilization such that the Bahamas' fiscal strength and credit profile will be consistent with its Baa3 rating.
- According to Moody's, the Free National Movement (FNM) government's fiscal consolidation program, if successfully implemented, could stabilize government debt metrics. The government has announced a series of measures to rein in expenditure and enhance revenues.
- The authorities are targeting a 10% cut in current spending in addition to a hiring freeze. On the revenue front, the government has taken steps to strengthen tax enforcement, particularly in property tax collections where evasion is relatively high, as well as reinforcing customs revenue administration to raise additional income.
- The authorities anticipate a substantial reduction in the deficit this year, compared to the deficit for FY 2016/17, which Moody's estimates was around 7% of GDP.
- Moody's expects that the ongoing review of the national accounts and work on the accompanying supply and use tables will likely result in upward revision of gross domestic product (GDP) figures for the Bahamas, as usually happens in this kind of exercise, as GDP statistics will better capture domestic consumption using value added tax information as a new data input.
- As of March 2017, domestic debt accounted for 73% of total government debt with commercial banks holding 40% of the domestic debt and the Central Bank and other public corporations 28%.
- The Bahamas debt profile incorporates relatively low refinancing risks given the dominant share of local creditors and the presence of capital controls, conditions that allow the government to enjoy access to a deep pool of domestic savings.
- The negative outlook reflects the view that the government's fiscal consolidation efforts are subject to implementation risks as the authorities move to rein in expenditure growth and take steps to enhance revenues.

- Compliance with the proposed fiscal rule, which is expected to be introduced over the coming year, will necessitate a sustained commitment to implement fiscal consolidation measures. In addition, government debt metrics will stabilize only if implemented measures are effective in increasing revenues and decreasing expenditure growth over the near and medium term.
- The outlook also contemplates that the fiscal performance could be adversely affected if the economic recovery anticipated in the government's macroeconomic scenario turns out be weaker than expected.
- Bahamas is rated BB+ (Stable) by S&P.

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