Bahamas to reduce VAT on foods

Prime Minister of The Bahamas, Phillip Davis, as he addressed the House of Assembly. PHOTO COURTESY OFFICE OF THE PRIME MINISTER – THE BAHAMAS VIA FACEBOOK

The Bahamas government says it will remove all value added tax (VAT) on foods currently attracting a five per cent VAT.

Prime Minister Phillip Davis, in a nationwide broadcast on Monday night, said that the new measure will come into effect on April 1 this year.

“Last year, we cut VAT on food from 10 to five per cent, and tonight, I’m announcing the next step. Effective April 1, all foods currently at five per cent VAT will be VAT free. Zero VAT on those food items.”

Prime Minister Davis said that this will apply to fresh fruits and vegetables, baby food, lunch snacks, frozen foods, and other groceries—everything except prepared meals sold hot or ready to eat.

“It is a significant step, and one we hope will really help, along with our efforts to reduce costs through energy reform, the addition of new trading partners, and more homegrown food.”

Davis said that the government is also expanding property tax relief and that owner-occupied duplexes and triplexes are now eligible for the residential exemption.

He said first-time homeowner concessions have been expanded and that “these are changes which will help more Bahamian families build wealth.

“These new policies—across education, trade, taxes, housing, food security, energy, and more—together, add up to relief and progress. We responded to times of crisis with great strength.

“Now we are using those same strengths to move forward. After all, we didn’t survive all the tragedy and hard times just to settle for the status quo. The world will keep changing—but so will we, with confidence, and without leaving anyone behind,” Prime Minister Davis added.

He told the nation that in 2018, the previous government raised VAT from 7.5 to 12 per cent, which was followed by a massive US$2 billion drop in local consumer spending.

“Unfortunately, that meant our families, our economy, and our fiscal situation were weaker when we faced the terrible tragedy of Dorian, the Category 5 hurricane which followed Joaquin in 2015, Matthew in 2016, and Irma in 2017.”

He said that the Inter-American Development Bank (IDB) noted that The Bahamas sustained economic losses of US$7.7 billion in the last decade because of hurricanes.

“Then of course, there was the pandemic—and the extensive damage of the endless lockdowns, curfews, tourist visas, and emergency orders in place before we came in," he said, resulting in a further loss of US$9.5 billion.

But he said the country has been able to overcome these economic downturns with the US-based rating agency, Standards and Poors (S&P) giving us the best outlook for our country in 17 years.

"We have succeeded in removing our country from the blacklist—a critical achievement for our financial services industry.

We've attracted more than US$10 billion in new private sector investment — including from some of the most prestigious partners in the world," Prime Minister Davis said, noting, "We are on the right track."

"We aggressively promoted the country abroad. That's how we got a head start on our tourism competition—and we haven't let up since, with record investments across our islands, with public-private partnerships for those 14 expanded and new airports, with new and expanded airlift, and with innovative programmes to incentivise local partnerships."

He said the government also paid out millions in stipends and arrears that had been on hold, to nurses, teachers, and thousands of other Bahamians, while also signing 60 labour agreements and raising the minimum wage.

IMF and The Bahamas

The Bahamian economy has staged a remarkable recovery since the pandemic, fuelled by a strong rebound in tourism. With economic activity back to pre-Hurricane Dorian levels, growth is slowing—expanding by 1.8 per cent in H1 2024—constrained in part by limited hotel capacity. Inflation is now modestly negative, but the cost of living remains high. (The IMF's last Article IV Consultation with The Bahamas was in January 2025)

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

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

Executive board assessment

Executive directors agreed with the thrust of the staff appraisal. They welcomed the remarkable recovery in tourism and economic activity following Hurricane Dorian in 2019 and the COVID-19 pandemic.

However, directors observed that elevated public debt, structural bottlenecks to growth, and high exposure to natural disasters continue to pose significant challenges and called for sustained efforts to address these challenges.

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

Directors welcomed efforts to improve fiscal accountability and the transparency and effectiveness of debt management operations.

They recommended that it be reconstituted.

Fiscal Responsibility Council and the Public Sector Audit Committee should be independently selected.

Directors emphasised the need to limit central bank financing to the government to help reduce systemic liquidity and strengthen the credibility of the currency peg. They concurred that the financial sector is resilient with large liquidity and capital buffers and welcomed the progress with the implementation of the 2019 FSAP recommendations.

Directors encouraged continued efforts to strengthen the AML/CFT framework, as well as further steps to expand financial access such as improving data availability, investing in financial literacy, and fostering financial technology innovation.

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

Directors welcomed the planned reforms to the electricity sector given the expected positive medium-term effects on growth and other macroeconomic indicators.

However, they stressed that a clear delineation of risk sharing between the private and public sectors is necessary to support these efforts. (CMC)