



THE BAHAMAS

COMBINED FIRST SIX MONTHS FISCAL SNAPSHOT AND REPORT

on Budgetary Performance

FY2019/20 July - December

SECTION 1

The Snapshot

SECTION 2

The Report

SPECIAL NOTICE

WHAT'S HAPPENING?

On January 29, 2020, the Government tabled a Supplementary Hurricane Dorian Budget in the House of Parliament to obtain approval for a revised budget proposal to meet its new expenditure and funding requirements for FY2019/20.

WHY DOES IT MATTER?

In keeping with the requirements of the Fiscal Responsibility Act, 2018, the Government is fulfilling its obligation to be transparent and accountable with public funds. Hurricane Dorian had a huge impact on the Government's budget plans. This impact was outlined in the November 2019 Fiscal Strategy Report, which included a fiscal adjustment plan, and foreshadowed the Supplementary Budget.

FISCAL BALANCE

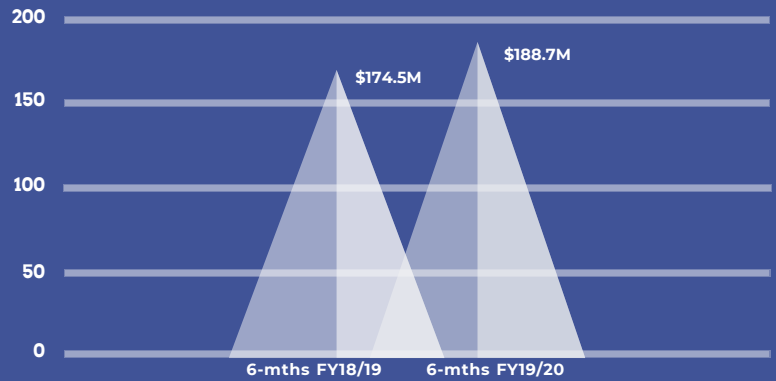
Preliminary estimates for the first six months of the fiscal year (FY2019/20) showed a marginal widening in the fiscal deficit to **\$188.7 million** from **\$174.5 million** in the same period of the previous fiscal year. Although revenue performance strengthened, the initial relief and restoration efforts following the devastating Hurricane Dorian on the islands of Abaco and Grand Bahama had a significant impact on the overall performance.

Revenue intake increased year over year (YOY) by **\$91.8 million**, or 9.1%, while total expenditure moved higher by **\$106.0 million**, or 8.9%, relative to the previous fiscal period.

DEFICIT POSITION
\$188.7M

Once the Government approves the revised estimates of revenue and expenditure contained in its Supplementary Hurricane Dorian Budget, future FY2019/20 quarterly reports will report performance against the revised estimates.

First Six Months Deficit Performance Comparison (B\$M)

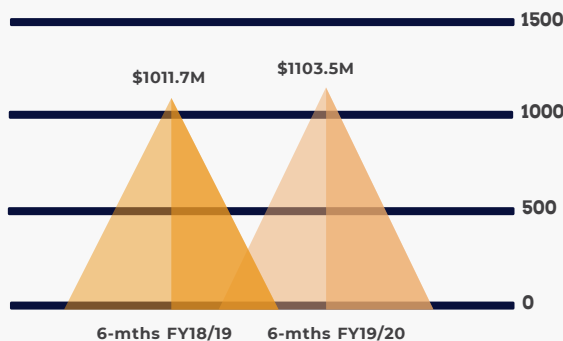


Deficit widened by 8.1%

REVENUE
\$1,103.5M

Aggregate revenue for the first half of FY2019/20 totaled **\$1,103.5 million**, which equated to some 42.0% of the budget. Tax receipts, which constituted 90.2% of total collections, grew by **\$95.3 million** (10.6%) to **\$995.2 million**, mainly associated with higher Value-Added Tax (VAT) receipts.

First Six Months Revenue Performance Comparison (B\$M)

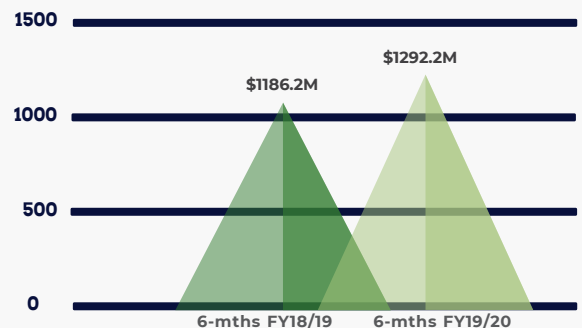


Revenue increased by 9.1%

EXPENDITURE
\$1,292.2M

Total spending stood at **\$1,292.2 million**, or 46.7% of the budget, reflecting increased spending related to hurricane relief and restoration activities and higher compensation payments. Recurrent expenses expanded by **\$69.4 million** (6.3%). Capital outlays increased **\$36.6 million** (45.8%), primarily linked to hurricane restoration efforts (water and electricity restoration, the acquisition of machinery and equipment and, building repairs).

First Six Months Expenditure Performance Comparison (B\$M)

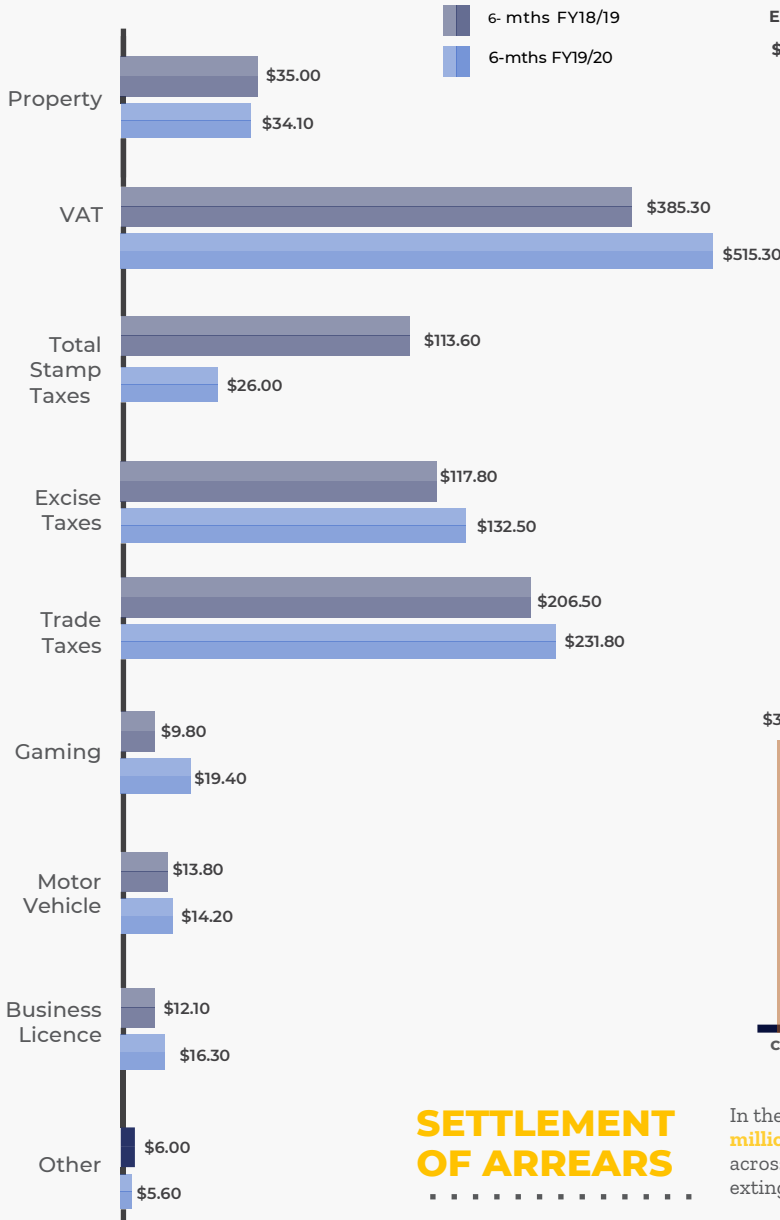


Expenditure increased by 8.9%

REVENUE PERFORMANCE

Revenue receipts increased by **\$91.8 million**, or 9.1%, over the previous fiscal year. VAT receipts strengthened by **\$130.0 million**, or 33.7% to **\$515.3 million**, to register at 46.8% of the annual target. Collections from gaming taxes nearly doubled to **\$19.4 million** (53.5% of the budget), reflecting the implementation of the revised tax regime agreed to by the Government and gaming operators, including 15% on revenues up to **\$24 million** and 17.5% on revenues greater than **\$24 million**. Despite the tax relief provided under the Exigency Order following the passage of Hurricane Dorian, taxes on international trade exceeded collections in the comparative period, by **\$25.3 million** (12.3%) at **\$231.8 million** (47.4% of the budget). The outcome benefitted from activity related to an expanding economy as well as the enhanced revenue collection initiatives.

First Six Months Recurrent Revenue Performance Comparison (B\$M)

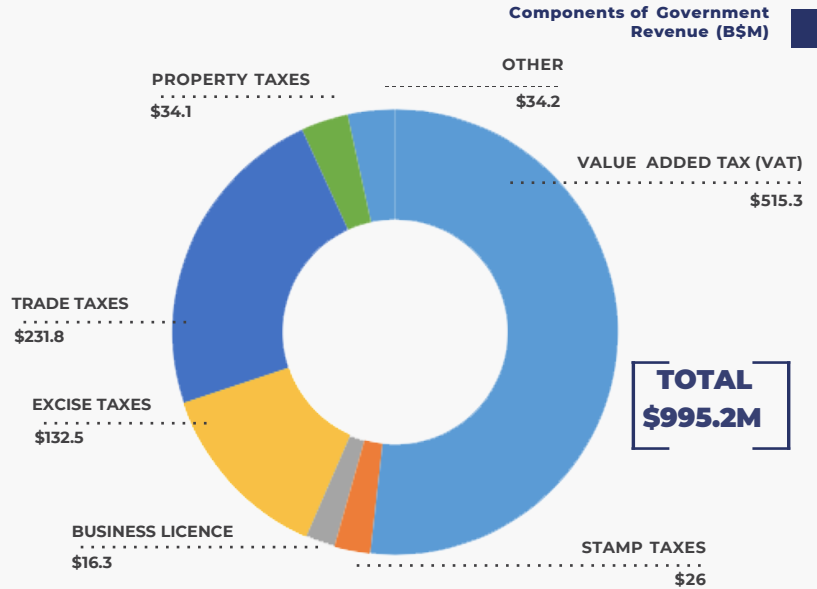


SETTLEMENT OF ARREARS

In the first six months of FY2019/20, the Government settled more than half (**\$53.7 million**) of the budgeted **\$100.9 million** in arrears payments, which are spread across several expenditure categories. Since FY2018/19, the Government has extinguished approximately **\$238.3 million** in arrears.

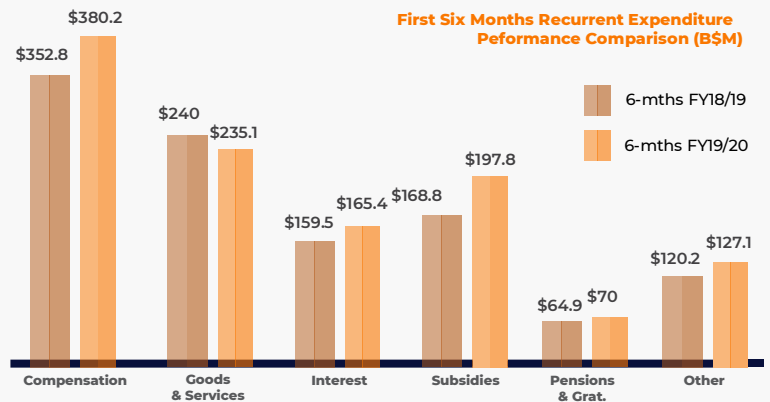
NON-TAX REVENUE SUMMARY

Total non-tax revenue declined by **\$5.0 million** or 4.5% YOY to **\$106.8 million**. Some **\$12.8 million** represented payouts under the Government's parametric insurance with the Caribbean Catastrophic Risk Insurance Facility (CCRIF) following the passage of Hurricane Dorian.



EXPENDITURE PERFORMANCE

Compensation of employees increased by **\$27.5 million** (7.8%) to **\$380.2 million** which constituted 49.4% of the budget. Wages and salaries grew by **\$26.5 million** to **\$339.0 million**, buoyed by the **\$22.8 million** lump sum payment awarded to eligible public service employees in December 2019. Higher payments of housing, hardship and other allowances to public staff in the hurricane affected islands boosted allowances by **\$3.8 million** (15.5%) to **\$28.6 million**.



FINANCING ACTIVITIES

The Government's operational requirements resulted in a net increase of **\$205.2 million** in its debt obligations over the first six months of FY2019/20.

NATIONAL DEBT

Did you know? Many people confuse national debt and government debt. Know the difference! National Debt is calculated by adding Government Debt together with Contingent Liabilities, which are monies owed by State Owned Enterprises that are guaranteed by the Government. The Central Bank of The Bahamas reports on the National Debt every calendar year.

Nationals Debt = \$8,216M
(As of December 2018)

GOVERNMENT BORROWING

Government Debt is money owed directly by the Government. It is also referred to as the Direct Charge on Government. The Government tracks and reports this data during the fiscal year.



Borrowings were in the form of bonds, short-term bank advances, Treasury bills and foreign currency loans from international development agencies.

MONEY BORROWED

\$441.9M

Bahamian Dollars

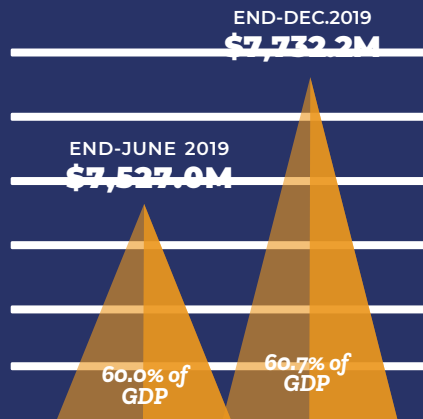
MONEY REPAID

\$325.7M

\$89M

Foreign Currency

GOVERNMENT DEBT



CONTRIBUTIONS TO SINKING FUND

In the first half of FY2019/20, the Government contributed an additional **\$13.9 million** to sinking funds designated for future debt retirement.

As at December 2019, the accumulated value of the three arrangements established to retire external bonds stood at **US\$169.3 million**, while the two (2) local funds were valued at **\$11.8 million**.

POLICY INITIATIVES FOR HURRIANCE DORIAN RESPONSE AND RESTORATION



Exigency Order

Immediately following Hurricane Dorian, the Government invoked an Exigency Order which allowed for the duty-free importation of approved relief goods. After several extensions, the Exigency Order expired at the end of 2019. Approved items included, but were not limited to, medical supplies, cots, bottled water, clothing, food for personal consumption, electrical and plumbing fixtures, and personal hygiene products.



Special Economic Recovery Zone

In late September 2019, parts of Abaco and Grand Bahama were declared Special Economic Recovery Zones (SERZ). This allows residents and businesses to benefit from several tax exemptions and incentives for a period of three (3) years, including select duty-free imports and other tax waivers.



VAT-Free Zone

In late October 2019, the Government declared Abaco and Grand Bahama VAT-free zones until June 2020. Both residents and businesses on these islands are exempt from paying VAT on various items including, but not limited to, water, fruit and vegetable juice, clothes, shoes, unprepared food of all types, cleaning supplies, household furniture, tents, air-conditioning units, electrical generators, and office supplies.



Other Policy Initiatives

Work continued on finalizing the draft Public Financial Management Bill, 2020 and the draft Public Debt Management Bill, 2020. The draft Public Procurement Bill, 2020 is currently out for public consultation and is intended to be tabled in the House of Parliament before the end of the fiscal year.

EQUITY ACQUISITIONS & LOANS

During the first half of FY2019/20, the Government provided an additional **\$5.0 million** in capital support for Lucayan Renewal Holdings Ltd. (LRHL)—the special purpose vehicle established to hold the Lucayan Hotel properties.

OTHER FINANCING ACTIVITIES

The Government has extended the repayment date for the two short-term shareholder loans made to Bahamas Power & Light Ltd. (BPL) of **\$15 million** each in June and August of 2019, from December 2019 to March 2020.



FIRST SIX MONTHS REPORT

ON BUDGETARY PERFORMANCE

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FY 2019/20 July - December

PUBLISHED BY THE MINISTRY OF FINANCE,
GOVERNMENT OF THE BAHAMAS
JANUARY, 2020

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1. About This Report

General Statement

To promote greater transparency in the public finances and align with global fiscal disclosure standards and best practices, the Ministry of Finance has commenced in-year reporting on the performance of the central government's revenue, expenditure and financing operations vis-à-vis the approved budget.

Periodicity: Quarterly (Qtr. I: July – September; Qtr. II: July – December; Qtr. III: July – March; and Qtr. IV: July – June).

Timeliness: Within four (4) weeks after the end of the referenced quarter, except for Qtr. IV report which will be released two months after the end of the quarter given year-end closing activities.

Publication: To be released on the Ministry of Finance website (www.bahamas.gov.bs).

Basis of Preparation

The budgetary data are prepared using a modified cash basis of accounting and guided by International Public Sector Accounting Standards (IPSAS) cash basis. As such, revenue is recognized when received and not when earned, expenditure is recorded in the period it is incurred and paid, and purchases of fixed assets, including immovable property, plant and equipment, are fully expensed in the year of purchase.

The fiscal data tables compiled in the quarterly reports are presented using the new modified chart of accounts introduced in July 1, 2018 which accomplishes two (2) important objectives, namely:

- prepares for the eventual conversion of the accounting presentation to the IPSAS accrual basis,
- facilitates the aggregation and presentation of the fiscal data to meet the International Monetary Fund's Government Finance Statistics (GFS) 2014 reporting standards. The primary purpose of the GFS is to provide a comprehensive conceptual and reporting framework for analyzing and evaluating the performance of the government's finances.

It should be noted that, while the progressive shift to GFS (2014) brings several changes in the categorization of the budgetary data from the previous budget presentation, the overall revenue and expenditure figures are unchanged. As reflected in the FY2019/20 budget presentation, the Ministry completed the implementation of the new chart of accounts and has adopted the full GFS (2014) presentation, which has resulted in several slight modifications to the categorization of expenditure and revenue items.

Unaudited Data

As reconciliation is ongoing, the fiscal data presented in these quarterly reports are subject to change and, therefore, their status is provisional (denoted as "p") until audited by the Auditor General.

Rounding

Because of rounding, some totals may not agree with the sum of their component parts.

2. Summary of Fiscal Performance for First Six Months of FY2019/20

Provisional data on the Central Government's budgetary operations revealed a marginal widening in the fiscal deficit to \$188.7 million from \$174.5 million in the same period of the previous fiscal year (*see Table 1*). Although revenue performance strengthened, the outturn was significantly influenced by the Government's initial relief and restoration efforts following the devastating Hurricane Dorian on the islands of Abaco and Grand Bahama.

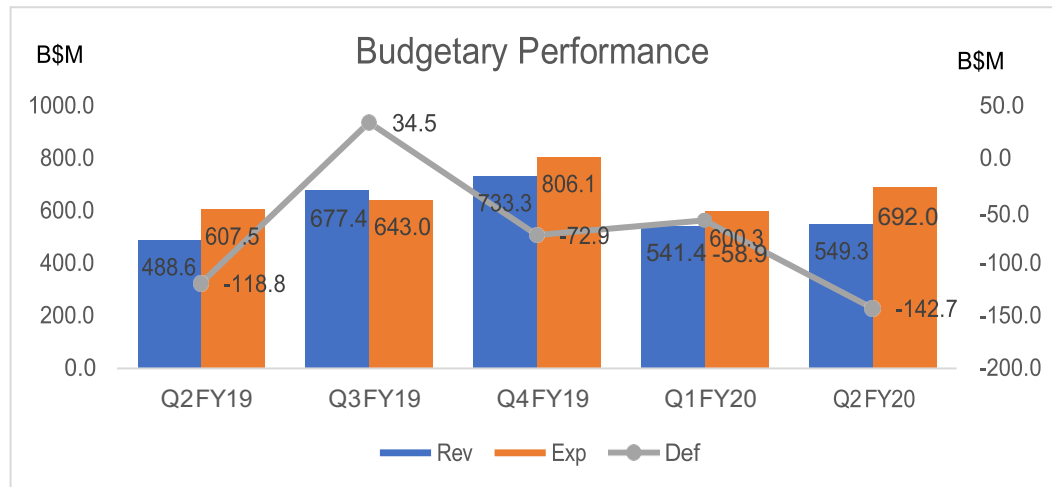
Consequent on the sizeable multi-year revenue and expenditure impacts of Hurricane Dorian, and other spending imperatives, and in keeping with the requirements of the Fiscal Responsibility Act, 2018, the Government outlined a fiscal adjustment plan (the FAP) in its November 2019 Fiscal Strategy Report (*see Box A*). Within the context of a revised FY2019/20 budget and medium-term fiscal framework, the FAP envisages a deviation from the original deficit to GDP target of 1.0 percent for FY2019/20 and a delay in compliance with the mandated FY2020/21 deficit target of 0.5 percent until FY2024/25.¹ To meet the additional expenditure and funding requirements for FY2019/20, the Government tabled a Supplementary Budget in the House of Parliament on January 29, 2020, to obtain approval of the revised budget proposals for FY2019/20.

TABLE 1: FISCAL SUMMARY (Statement of Sources & Uses of Cash)

(B\$M)	[a]	[b]	[c]	[b] - [c]	[b/a]
	Budget		July - December		
	FY2019/20	FY2019/20 ^P Actual	FY2018/19 ^P Actual	Variance	% of Budget
Revenue	2,628.0	1,103.5	1,011.7	91.8	42.0%
Tax	2,340.3	995.2	899.9	95.3	42.5%
Non-tax	285.7	106.8	111.8	(5.0)	37.4%
Grants	2.0	1.5	0.0	1.5	75.0%
Expenditure	2,765.0	1,292.2	1,186.2	106.0	46.7%
Recurrent	2,530.0	1,175.6	1,106.2	69.4	46.5%
Capital	235.0	116.6	80.0	36.6	49.6%
Surplus/(Deficit)	(137.0)	(188.7)	(174.5)	(14.2)	137.8%
Financing Activities	137.0	188.7	174.5	14.2	137.8%
Net Acquisition of financial assets (-)	46.5	25.6	65.3	(39.7)	55.0%
Sinking Funds	46.5	20.6	16.6	4.0	44.2%
Equity	0.0	5.0	48.7	(43.7)	0.0%
Other	0.0	0.0	0.0	0.0	0.0%
Net Incurrence of Liabilities (+)	136.9	205.2	254.3	(49.1)	149.9%
Borrowings	764.9	530.9	670.0	(139.1)	69.4%
Debt Repayment	628.0	325.7	415.7	(90.0)	51.9%
Change in Cash Balance [(+) = increase]	46.6	9.1	(14.5)	23.6	19.5%

¹ The 2019 Fiscal Strategy Report may be accessed on the Government's website (www.bahamas.gov.bs) or via the following link: [Fiscal Strategy Reports](#)

- Despite the loss in revenue collections from the hurricane affected islands, the overall revenue performance was comparatively stronger, partly bolstered by the Government's revenue enhancement initiatives and strategies aimed at promoting compliance—such as the establishment of the Revenue Enhancement Unit (REU) in July 2019 and the roll-out of the new Custom Electronic Single Window dubbed 'Click2Clear'. Total revenue improved by \$91.8 million (9.1%) to \$1,103.5 million in the first six months of FY2019/20, as compared to the first half of FY2018/19, and represented 42.0% of the budgeted amount. The tax component firmed by \$95.3 million (10.6%) to \$995.2 million (42.5% of the budget), led by a \$130.0 million (33.7%) surge in Value-Added Tax (VAT) receipts which was buoyed by the full impact of last year's rate hike as well as the shift in taxes on real estate transactions, from stamp duty to VAT. Meanwhile, non-tax revenue was \$5.0 million (4.5%) below the previous fiscal year, equating to approximately 37.4% of the budget target.
- Aggregate expenditure moved higher by \$106.0 million (8.9%) to \$1,292.2 million, or 46.7% of the budget, reflecting increased spending related to hurricane relief and restoration activities and salary developments. Recurrent expenditure expanded by \$69.4 million (6.3%) to \$1,175.6 million, largely associated with higher procurement of goods and services in the aftermath of Hurricane Dorian and the payment of lump sum salary awards to eligible public servants. Outlays linked to hurricane restoration efforts (water and electricity restoration, the acquisition of machinery and equipment and, building repairs) significantly explained the \$36.6 million (45.8%) uplift in capital spending to \$116.6 million.
- Financing transactions for the second quarter of FY2019/20 included the Government's contribution of an additional \$13.9 million to sinking funds for future debt amortizations, bringing total allocations, at the midpoint, to \$20.6 million. With the delay in the sale of the Our Lucaya hotel properties, a further \$5.0 million was provided to Lucayan Renewal Holdings in the second quarter of FY2019/20, to support operational requirements.
- For the first half of FY2019/20, budgetary financing requirements were met through borrowings totaling \$530.9 million, as compared to \$670.0 million in the same period of the previous fiscal year. Of this total, \$295.9 million was raised by way of bond issuances, primarily to refinance \$245.9 million of the \$438.6 million in maturing bonds budgeted for FY2019/20. Loan financing aggregated \$127.0 million, comprising internal bank credit of \$50.0 million in foreign currency and \$38.0 million in Bahamian Dollars; an initial US\$25 million drawdown on the Inter-American Bank (IDB) contingent credit line for hurricane relief; and \$14.0 million in scheduled drawings under existing foreign currency loan facilities. Short-term financing comprised \$48.0 million in Treasury bills and \$60.0 million in advances from the Central Bank.
- Debt amortization payments amounted to \$325.7 million, compared with \$415.7 million in FY2018/19, of which \$303.4 million settled Bahamian Dollar obligations.
- As a result of net borrowing activities, the Direct Charge on the Government—exclusive of exchange rate adjustments—grew by \$205.2 million to \$7,732.2 million or an estimated 60.7% of GDP at end-December 2019, as compared to 60.0% at end-June 2019.



Box A: Summary of the Fiscal Adjustment Plan following Hurricane Dorian

Based on an initial assessment of damages and losses of Hurricane Dorian conducted by the Ministry of Finance, the estimated deficit for FY2019/20 is likely to rise nearly five-fold to \$677.5 million from the budgeted \$137.0 million. As a result, the Government has invoked clause (13) of the Fiscal Responsibility Act 2018, which allows for a temporary departure from the fiscal targets in the event of a natural disaster.

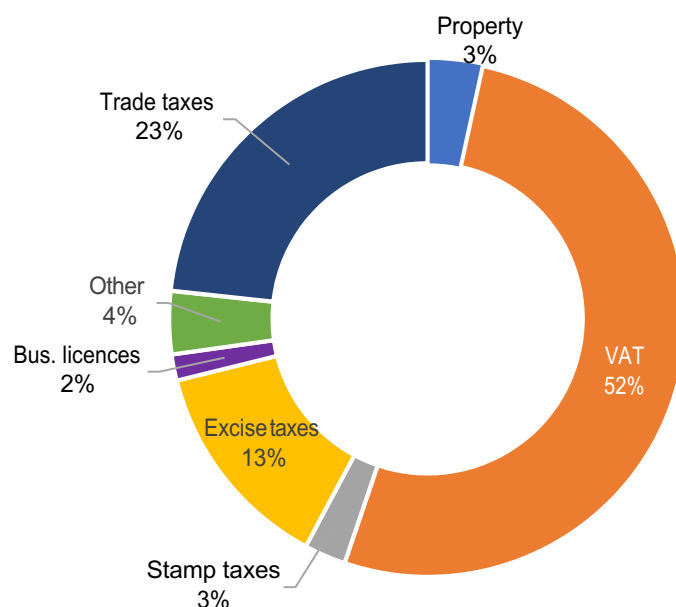
The November 2019 Fiscal Strategy Report outlined the Government's Fiscal Adjustment Plan (FAP) which, as mandated under clause (13), should include the reason for the temporary departure, and the measures and time it will take to return to compliance.

The FAP presents a five-year plan for the Government to achieve compliance. The revised overall deficit is projected to elevate at 5.3% of GDP for FY2019/20, taper-off to 3.8% in FY2020/21, 2.2% in FY2021/22, and then to 0.5% in FY2024/25—which is in line with the fiscal target mandated by the Act. Correspondingly, the debt to GDP ratio is expected to rise to 64.4% in FY2019/20 and eventually decline to 62.9% at the end of the five-year period. The timeline for achieving the 50% debt to GDP ratio target has been shifted from FY2024/25 to FY2028/29.

3. Revenue Performance

Revenue receipts for the first half of FY2019/20 stood at \$1,103.5 million or 42.0% of the budgeted amount, representing a gain of \$91.8 million (9.1%) over the previous fiscal year (see **Table 2**). Tax receipts—at 42.5% of the budget—advanced by \$95.3 million (10.6%) to \$995.2 million, while non-tax revenue decreased by \$5.0 million (4.5%) to \$106.8 million, for 37.4% of the budget.

Percentage Composition of Tax Revenue (First Half of FY2019/20)



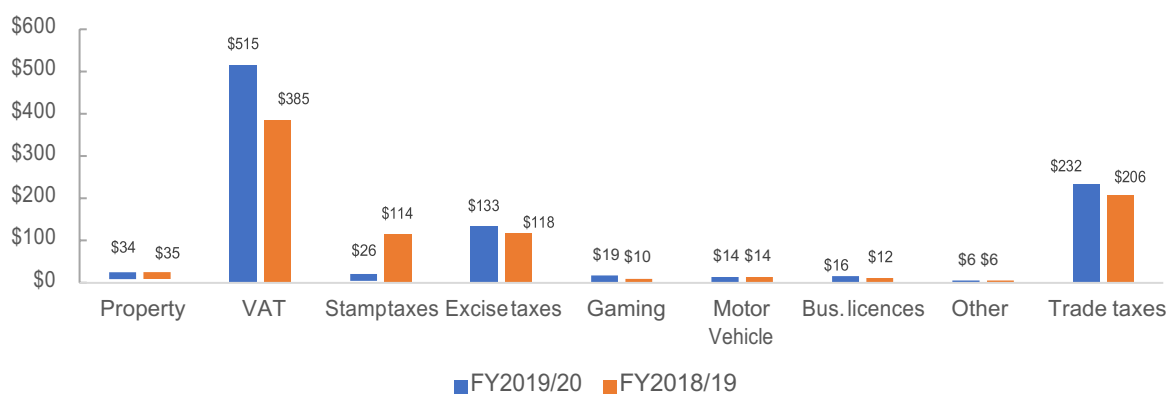
Key developments underlying the performance for the first six months of FY2019/20 are as follows:

- Taxes on Goods and Services—comprising 72.8% of total tax receipts—improved by \$72.2 million (11.1%) to \$724.6 million and represented 42.4% of the budget.
 - VAT receipts strengthened by \$130.0 million, or 33.7% to \$515.3 million, to register at 46.8% of the annual target. This performance reflected the full application of the 12% VAT rate on hotel bookings and construction sector activities compared with the year-earlier concessions at the old VAT.
 - Reflecting a combination of the transition from a stamp tax to a VAT regime and timing related developments in financial transactions, collections from stamp tax on financial and realty transactions fell by \$86.3 million (80.2%), representing only 21.0% of the budget.
 - Excise taxes increased by \$14.7 million (12.5%) to \$132.5 million, which equated to 46.8% of the budget.
 - Receipts from gaming taxes nearly doubled to \$19.4 million (53.5% of the budget), vis-à-vis the comparable period of FY2018/19. This reflected the implementation of the revised tax regime agreed to by the Government and gaming operators, of 15% on revenues up

to \$24 million and 17.5% on revenues greater than \$24 million. The regime also featured a 5.0% tax on winnings up to \$1,000, and 7.5% on all winnings of over \$1,000—although not yet in effect.

- Tax receipts from licenses to conduct special business activity—reflecting mostly business licence fees and communication levies—grew by \$4.3 million (35.2%) to \$16.3 million, for 13.4% of the budget target.
- Despite the tax relief provided under the Exigency Order following the passage of Hurricane Dorian, taxes on international trade exceeded collections in the comparative period, by \$25.3 million (12.3%) at \$231.8 million (47.4% of the budget). The outcome benefitted from the seasonal firming in imports associated with heightened year-end holiday demand, as well as the enhanced revenue collection initiatives.
- General stamp taxes were lower by \$1.2 million (21.0%) at \$4.7 million, to represent some 45.2% of the budget.

6-Month Comparison of Tax Revenue Performance (B\$M)



- Reflecting timing related factors, property income, which comprises interest, dividends and revenue from Government property contracted by \$11.2 million (64.4%) to \$6.2 million (15.9% of the budget).
- Receipts from the sale of goods and services were lower by \$1.4 million (1.6%) at \$86.4 million, which equates to 41.8% of the budget target.
 - Immigration related fees and services charges softened by \$1.1 million (2.7%), while general registration fees and health fees reported more muted declines of \$0.5 million (17.7%) and \$0.4 million (85.3%), respectively.
- Collections associated with fines, penalties and forfeits declined by \$2.0 million (69.1%) to \$0.9 million, for 14.7% of the budget.
- Miscellaneous and unidentified revenue was higher at \$13.3 million from \$1.4 million in the comparable period of the last fiscal year, reflecting receipt of \$12.8 million in payouts from the Caribbean Catastrophic Risk Insurance Facility (CCRIF) following the passage of Hurricane Dorian.

TABLE 2: REVENUE SUMMARY (B\$M)

	[a]	[b]	[c]	[b]-[c]	[b]/[a]
	Budget		July - December		
	FY2019/20	FY2019/20 ^P Actual	FY2018/19 ^P Actual	Variance	% of Budget
TAX REVENUE (a+b+c+d)	2,340.3	995.2	899.9	95.3	42.5%
a. Taxes on Property	131.0	34.1	35.0	(0.9)	26.0%
b. Taxes on Goods & Services (i+ii+iii)	1,709.8	724.6	652.5	72.2	42.4%
i. General	1,485.0	669.1	610.8	58.4	45.1%
VAT	1,100.2	515.3	385.3	130.0	46.8%
Stamp taxes (Financial & Realty)	101.5	21.3	107.7	(86.3)	21.0%
Excise Tax	283.3	132.5	117.8	14.7	46.8%
ii. Specific (Gaming taxes)	36.2	19.4	9.8	9.6	53.5%
iii. Taxes on Use of Goods/Permission to Use	188.6	36.1	31.9	4.2	19.1%
Motor Vehicle Taxes	38.8	14.2	13.8	0.4	36.5%
Company Taxes	25.4	4.9	5.4	(0.5)	19.1%
Licence to Conduct Special Bus. Activity	121.9	16.3	12.1	4.3	13.4%
Marine License Activities	2.0	0.7	0.7	0.1	35.0%
Banks & Trust Companies	0.6	0.0	0.0	0.0	5.0%
c. Taxes on Int'l Trade & Transactions	489.2	231.8	206.5	25.3	47.4%
Customs & other import duties	316.5	141.1	147.8	(6.7)	44.6%
Taxes on Exports	12.9	26.4	4.2	22.1	204.7%
Departure Taxes	159.8	64.3	54.4	9.9	40.3%
Other	0.0	0.1	0.1	0.0	0.0%
d. General Stamp Taxes	10.4	4.7	5.9	(1.2)	45.2%
NON-TAX REVENUE (e+f+g+h+i+j)	285.7	106.8	111.8	(5.0)	37.4%
e. Property Income	39.5	6.2	17.4	(11.2)	15.9%
Interest & Dividends	24.6	3.9	3.8	0.0	15.8%
Revenue_Gov't Property	14.9	2.3	13.5	(11.2)	15.5%
f. Sales of goods & services	206.5	86.4	87.8	(1.4)	41.8%
i. Fees & Service Charges	185.8	77.6	79.4	(1.8)	41.8%
General Registration	6.4	2.2	2.7	(0.5)	34.4%
General Service	15.0	6.4	5.8	0.6	42.6%
Immigration	97.3	41.3	42.4	(1.1)	42.5%
Land & Building	2.6	1.0	1.2	(0.2)	38.5%
Legal	1.3	0.6	0.4	0.1	46.2%
Customs	53.7	23.5	23.4	0.1	43.8%
Port & Harbour	7.0	2.6	2.7	(0.1)	37.1%
Health	1.9	0.1	0.5	(0.4)	5.3%
Other Fees	0.6	0.0	0.2	(0.2)	0.3%
ii. Other	20.8	8.8	8.4	0.4	42.3%
g. Fines, Penalties & Forfeits	6.1	0.9	2.9	(2.0)	14.7%
h. Reimbursements & Repayments	27.6	0.0	0.1	(0.1)	0.1%
i. Misc. & Unidentified Revenue	2.5	13.3	1.4	11.9	532.0%
j. Sales of other Non-Financial Assets	3.6	0.0	2.2	(2.2)	0.1%
TOTAL TAX & NON-TAX REVENUE	2,626.0	1,102.0	1,011.7	90.3	42.0%
GRANTS	2.0	1.5	0.0	1.5	75.0%
CAPITAL REVENUE	0.0	0.0	0.0	(0.0)	0.0%
GRAND TOTAL	2,628.0	1,103.5	1,011.7	91.8	42.0%

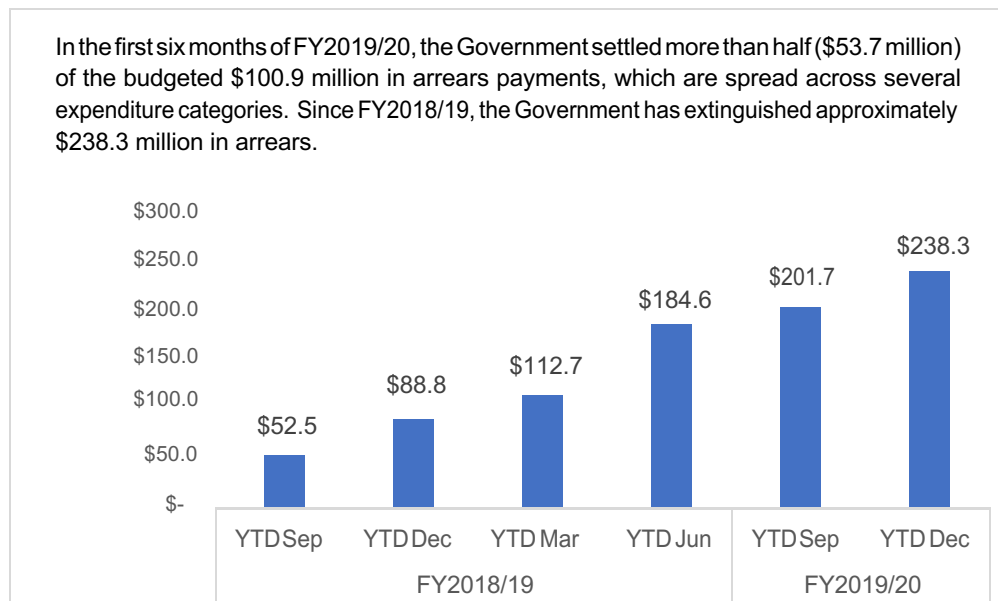
4. Expenditure Developments

a. Recurrent Expenditure

Recurrent expenditure grew by \$69.4 million (6.3%) to \$1,175.6 million over the first half of FY2019/20, when compared to the first half of FY2018/19, accounting for 46.5% of the budget target (*see Table 3*).

- Compensation of employees increased by \$27.5 million (7.8%) to \$380.2 million which constituted 49.4% of the budget. Wages and salaries firmed by \$26.5 million to \$339.0 million, buoyed by the \$22.8 million lump sum payment awarded to eligible public service employees in December 2019. Higher payments of housing, hardship and other allowances to public staff in the hurricane affected islands boosted allowances by \$3.8 million (15.5%) to \$28.6 million.

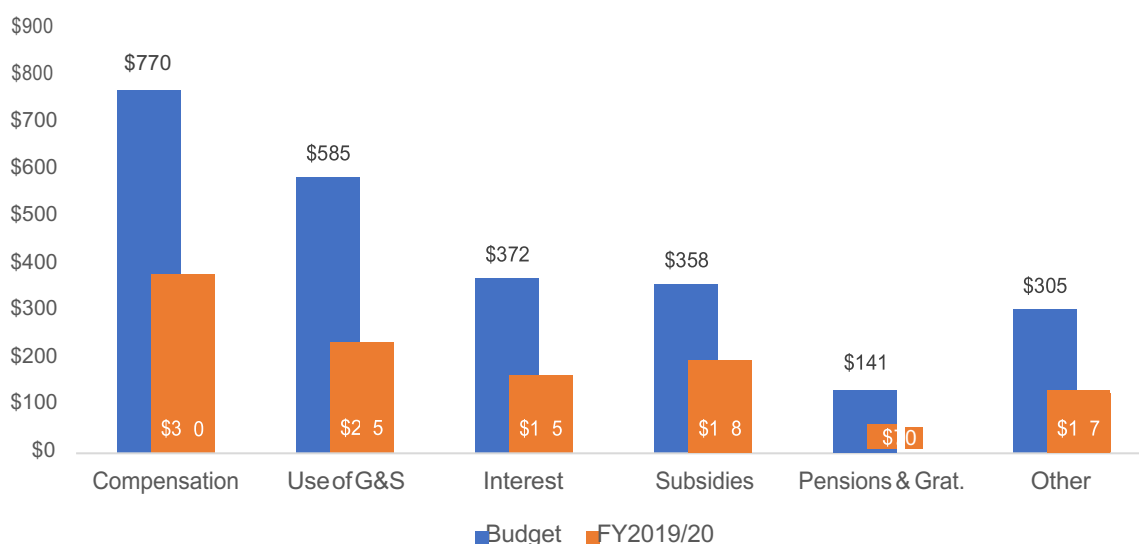
Settlement of Arrears (B\$M)



- Expenditures on the use of goods and services were slightly lower by \$5.0 million (2.1%) at \$235.1 million, to represent 40.2% of the budget target. Reflecting a lower level of payment arrears, spending for special financial transactions contracted by \$25.2 million (35.2%), while the \$19.5 million (86.6%) decline in tourism-related spending was primarily explained by reduced or temporarily suspended marketing subventions provided under various Heads of Agreements for visiting cruise ship and hotel properties in hurricane affected islands. More muted decreases were posted for other spending, school boards and finance charges, of \$4.3 million (39.5%), \$2.9 million (99.0%), and \$2.3 million (307%), respectively. In contrast, the services component grew by \$30.1 million (70.1%) to \$73.0 million (37.9% of the budgeted)—primarily associated with expenses for equipment maintenance, cleaning services and other services in the aftermath of the storm. Outlays for rent, supplies and materials, utilities and telecommunications, and travel and subsistence increased by \$4.9 million (17.3%), \$4.4 million (20.9%), \$8.7 million (41.1%), and \$2.1 million (57.6%), respectively.

- Public debt interest payments increased by \$5.9 million (3.7%) to \$165.4 million, for 44.5% of the budgeted target. Of this total, \$94.9 million (57.3%) was in respect of Bahamian dollar debt, while the remaining \$70.6 million (42.7%) was for foreign currency obligations.
- Subsidies—which are transfers to Government-owned and/or controlled units which provide goods and services to the public—rose by \$29.0 million (17.2%) to \$197.8 million, constituting 55.3% of the budget amount.
 - Subsidies to public non-financial corporations were boosted to \$186.7 million from \$151.6 million in the comparable period of FY2018/19. Of this total, \$120.1 million was directed to the Public Hospital Authority (PHA)—an increase of \$9.6 million over the same period of the last fiscal year, to assist with renovations at the critical care block of the Princess Margaret Hospital (PMH). Subsidies to the national airline carrier and the Water and Sewerage Corporation stood at \$11.8 million and \$24.5 million, respectively.
 - Transfers to private non-financial corporations were comparatively lower by \$6.8 million at \$10.0 million in the first half of FY2019/20, reflecting lower arrears payments.

6-Month Comparison of Recurrent Expenditure Performance (B\$M)



- Grants—gifts and donations to foreign governments and international organizations, including membership fees—rose to \$4.1 million from \$1.5 million in the last fiscal year, and equated to 44.6% of the budget target.
- Social Assistance Benefits, which can be in cash or in kind, were reduced to \$12.7 million from \$23.6 million in the previous fiscal year, which would have featured higher payments under the National Drug Plan Programme of some \$10.0 million.

TABLE 3: RECURRENT EXPENDITURE SUMMARY (B\$M)

	[a]	[b]	[c]	[b]-[c]	[b]/[a]
	Budget		July - December		
	FY2019/20	FY2019/20 ^P Actual	FY2018/19 ^P Actual	Variance	% of Budget
RECURRENT EXPENDITURE					
Compensation of Employees	770.3	380.2	352.8	27.5	49.4%
Use of Goods & Services	585.1	235.1	240.0	(5.0)	40.2%
Travel & Subsistence	18.9	5.9	3.7	2.1	31.1%
Rent	69.8	33.5	28.6	4.9	48.0%
Utilities & Telecommunications	87.9	30.0	21.2	8.7	34.1%
Supplies & Materials	47.0	25.5	21.1	4.4	54.3%
Services	192.5	73.0	42.9	30.1	37.9%
Minor capital repairs	5.2	1.7	1.4	0.4	32.7%
Finance charges	45.6	5.3	7.6	(2.3)	11.5%
Special Financial Transactions	80.3	46.4	71.6	(25.2)	57.8%
Tourism Related	10.0	3.0	22.5	(19.5)	30.3%
Local Gov't Districts	13.2	4.1	5.5	(1.4)	31.1%
School Boards	0.1	0.0	2.9	(2.9)	30.0%
Other	14.7	6.6	10.9	(4.3)	44.9%
Public Debt Interest	371.6	165.4	159.5	5.9	44.5%
Subsidies	357.9	197.8	168.8	29.0	55.3%
Grants	9.2	4.1	1.5	2.6	44.6%
Social Assistance Benefits	46.3	12.7	23.6	(10.8)	27.5%
Pensions & Gratuities	140.7	70.0	64.9	5.1	49.8%
Other Payments	249.1	110.3	95.2	15.1	44.3%
Current Transfers n.e.c.	171.6	80.2	71.1	9.1	46.7%
Insurance Premiums	77.5	30.1	24.1	6.0	38.8%
TOTAL	2,530.0	1,175.6	1,106.2	69.4	46.5%

- Pension and gratuity payments grew by \$5.1 million (7.9%) to \$70.0 million—equivalent to 49.8% of the budget. Of this total, \$53.5 million was for pension payments to Government officials, war veterans, widows and orphans, and \$16.5 million to settle gratuities owing to staff.
- Current transfers not elsewhere classified (n.e.c.) consist of direct and indirect Government support to households and non-profit institutions that assist households, as well as subventions to public corporations that do not classify as subsidies. In the first half of FY2019/20, current transfers expanded by \$9.1 million (12.8%) to \$80.2 million, for 46.7% of the budget target.
 - Transfers to households stood at \$24.2 million, \$13.2 million of which supported tuition grant and scholarships for Bahamian students in line with the Government's policy to expand direct support for tertiary and pre-school education.
 - Transfers to non-financial public institutions and financial public institutions totaled \$40.0 million and \$1.3 million, respectively.

- Insurance payments increased by \$6.0 million (25.0%) to \$30.1 million (38.8% of the budget)—of which approximately \$28.3 million represented health insurance premiums for eligible staff.

b. Capital Spending

For the first half of FY2019/20, capital outlays advanced by \$36.6 million (45.6%) to \$116.6 million (49.6% of the budget target), as compared to the same period of FY2018/19 (*see Table 4*).

TABLE 4: CAPITAL EXPENDITURE SUMMARY
(B\$M)

	[a] Budget	[b]	[c]	[b]-[c]	[b]/[a]
	FY2019/20	FY2019/20 ^P Actual	FY2018/19 ^P Actual	Variance	% of Budget
Capital Transfers	51.3	43.3	14.8	28.5	84.4%
Acquisition of Non-financial assets	183.7	73.3	65.2	8.1	39.9%
Fixed Assets	178.9	73.2	65.2	8.0	40.9%
Buildings other than dwellings	61.4	36.2	30.9	5.3	58.9%
Other structures	69.1	26.3	25.9	0.4	38.1%
Transport equipment	6.6	0.3	1.4	(1.1)	4.5%
Other Machinery & equipment	31.7	8.1	1.9	6.2	25.6%
Land Improvements	1.2	0.3	0.3	0.0	25.0%
Other Fixed Assets	9.0	2.0	4.7	(2.7)	22.1%
Land	4.8	0.0	0.0	0.0	0.0%
TOTAL	235.0	116.6	80.0	36.6	49.6%

- Capital transfers increased almost three-fold, to \$43.3 million from \$14.8 million in the previous fiscal year. Developments were dominated by Hurricane Dorian related outlays totaling \$16.3 million towards the cost of restoring electricity (\$10 million) and water supplies (\$6.3 million) in the impacted islands. Another \$5.0 million was expended toward the acquisition of the \$30 million turbine generation plant, \$6.5 million for school repairs and rehabilitation and \$3.0 million for renovations at the Leonard Thompson International Airport.
- Spending for the acquisition of non-financial assets was higher by \$8.1 million (12.4%) at \$73.3 million, which approximated 39.9% of the budget target.
 - Acquisition of fixed assets increased by \$8.0 million (12.3%) to \$73.2 million (40.9% of the budget). Outlays for buildings, other than dwellings, rose by \$5.3 million (17.0%), and for other structures, by \$0.4 million (1.6%). Expenditure related to land improvements steadied at \$0.3 million, while spending on other machinery and equipment rose to \$8.1 million from \$1.9 million, including \$2.8 million spend under the National Emergency Management Agency (NEMA) to facilitate hurricane related spending.

5. Financing Activities

Net Increase in Liabilities

In meeting its operational requirements, the Government incurred a net increase in liabilities of \$205.2 million over the first six months of FY2019/20.

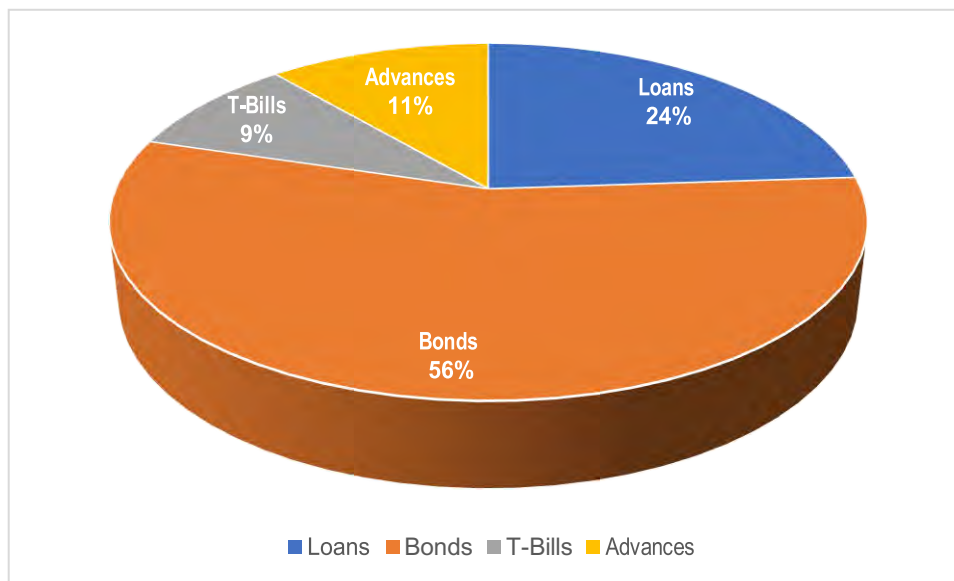
- To finance the deficit, which was boosted by hurricane-related spending, the Government borrowed approximately \$530.9 million over the first half of FY2019/20, comprised of a mix of short and long-term credit facilities. Disaggregated by instrument, some \$295.9 million was borrowed via bond issuances—of which \$245.9 million was for refinancing maturing bonds. Under loan financing, \$88.0 million was secured from domestic banks (\$50.0 million in foreign currency and \$38.0 million in Bahamian Dollars); and \$39.0 million represented loans from international development agencies—inclusive of the US\$25 million drawdown on the IDB contingent credit line in September 2019. Borrowings under short-term authorizations included Treasury bill issuances aggregating \$48.0 million—of which \$8.0 million was repaid during the period; and \$60 million in short-term advances from the Central Bank
- Debt repayment amounted to \$325.7 million for the first six months of FY2019/20, with \$303.4 million (93.2%) facilitated in Bahamian dollars.
- Given these developments, the Direct Charge on the Government (exclusive of exchange rate adjustments) grew to \$7,732.2 million (60.7% of GDP) at end-December 2019—up from \$7,527.0 million (60.0% of GDP) at end-June 2019.

CHANGE IN LIABILITIES (By Currency and Instrument)

(B\$M)

	FY2019/20: July - December		
	Borrowings	Repayment	Net Change
Bahamian Dollars	441.9	303.4	138.5
Bonds	295.9	245.9	50.0
Treasury Bills/Notes	48.0	12.2	35.8
Bank Loans	38.0	45.2	(7.2)
Central Bank Advances	60.0	0.1	59.9
Foreign Currency	89.0	22.3	66.7
Bank Loans	50.0	9.8	40.2
Loans from Int'l Dev. Agencies	39.0	12.5	26.5
TOTAL	530.9	325.7	205.2

Composition of Government Borrowings for First Six Months of FY2019/20



Contribution to Sinking Funds

Over the review period, the Government contributed an additional \$13.9 million to the sinking funds established to retire future debt obligations. As at December 31, 2019, the three (3) arrangements earmarked for scheduled retirement of external bonds held a cumulative value of US\$169.3 million, while funds set aside for the two (2) local arrangements stood at \$11.8 million.

Equity Acquisition

During the first half of FY2019/20, the Government provided an additional \$5.0 million in capital support for Lucayan Renewal Holdings Ltd. (LRHL)—the special purpose vehicle established to hold the Lucayan Hotel properties.

Other

The Government made two short-term shareholder loans to Bahamas Power & Light Ltd. (BPL) of \$15 million each in June and August of 2019. Both loans—which were to assist with the company's debt amortization payments—were to be repaid no later than December 31, 2019. However, in light of the delay in the finalization of the Rate Reduction Bond, now expected to be issued by March 2020, the Government and BPL executed amending agreements to allow for an extension to the maturity date for both loans, to March 2020.

6. Policy Initiatives for Enhanced Public Financial Management

Over the course of the first six months of FY2019/20, the Government continued to advance its policy initiatives, which are targeted at promoting fair, effective and transparent governance in fiscal policy initiatives that should have favourable impact throughout the Bahamian economy. The passing of Hurricane Dorian in early September 2019 also prompted the implementation of several new tax initiatives to support relief and recovery in the impacted islands of Grand Bahama and Abaco. These initiatives are outlined in the box below.

POLICY INITIATIVE	KEY FEATURES + DEVELOPMENTS
Public Procurement Bill, 2020	The draft Bill seeks to establish a public procurement board, a digital procurement platform, and an electronic vendor registry, to modernize existing procurement systems with international best practices. The draft Bill is currently out for public consultation and is intended to be tabled in the House of Parliament before the end of the fiscal year.
Public Debt Management Bill, 2020	The draft Bill seeks to consolidate and amend existing laws for public debt management, as well as implement a governance framework oversight of Government debt activities, which are to be guided by defined objectives. The Bill also seeks to establish a Debt Management Unit and a Debt Management Committee and requires the production of an annual Debt Management Strategy Report which is to be presented at the time of the annual budget exercise. Work continued on this Bill, which is expected to be finalized before the end of the fiscal year.
Public Financial Management Bill, 2020	The draft Bill seeks to replace the existing Financial Administration and Audit Act, 2010, and to clearly specify the roles and responsibilities of financial officers, enhance reporting requirements and accountability expectations across the public service, and solidify criminal penalties for malfeasance in public financial matters. Work continued on finalizing the draft Bill, which is expected to be completed before the end of the fiscal year.
Hurricane Dorian	
POLICY INITIATIVE	KEY FEATURES + DEVELOPMENTS
Exigency Order	Immediately following Hurricane Dorian, the Government invoked an Exigency Order which allowed for the duty-free importation of approved relief goods for 30 days for some items, and 90 days for other items. In October 2019, the Government extended the Order until the end of 2019 for all approved goods. These items include, but are not limited to, medical supplies, cots, bottled water, clothing, food for personal consumption, electrical and plumbing fixtures, and personal hygiene products.
Special Economic Recovery Zone	In late September 2019, both Abaco and Grand Bahama were declared Special Economic Recovery Zones (SERZ), which allows residents and businesses to benefit from several tax exemptions and incentives for a period of three (3) years. Features of the SERZ include: <ul style="list-style-type: none"> Duty-free imports of all materials, fixtures, furniture, vehicles, and equipment for approved commercial and residential construction and rehabilitation efforts

POLICY INITIATIVE	KEY FEATURES + DEVELOPMENTS
	<ul style="list-style-type: none"> • Waived Business Licence fees for all operations within the SERZ for new and existing businesses that return their employment count to at least 60% of its pre-Dorian level by December 2020. • Waived Real Property Tax on eligible properties that are reconstructed, restored or otherwise inhabitable by October 2020. • VAT credit of up to 50% on sale of qualifying real property • \$10.0 million loan guarantee and equity financing programme for Bahamian SMEs to secure financing for rebuilding and restarting • An extension of the provisional Business Licence program to allow fast and efficient startups • The creation of a One-Stop-Shop for business assistance in both Abaco and Grand Bahama to aid with the facilitation of regulatory requirements within five working days
<p>VAT-Free Zone</p>	<p>In late October 2019, the Government announced that Abaco and Grand Bahama would be VAT-free zones until June 2020. Both residents and businesses on these islands are exempt from paying VAT on various items including, but not limited to, water, fruit and vegetable juice, clothes, shoes, unprepared food of all types, cleaning supplies, household furniture, tents, air-conditioning units, electrical generators, and office supplies.</p>