



COMMONWEALTH OF THE BAHAMAS



MID-YEAR BUDGET COMMUNICATION

DURING THE SIX MONTHS ENDING 31ST DECEMBER, 2017



COMMUNICATION

BY

The Hon. K. Peter Turnquest
Deputy Prime Minister & Minister of Finance

On

Fiscal Performance in the First Half of 2017/18

Wednesday, 21st February, 2018

Mr. Speaker,

The purpose of this statement is to provide a succinct and punctual initial update on fiscal developments during the first half of the 2017/18 fiscal year. A more detailed and comprehensive mid-year fiscal update will be presented to Parliament during my contribution to the debate on the mid-year statement and related resolution.

Mr. Speaker,

I begin by providing a brief overview of the nation's economic performance and prospects, given the immediate relationship between the country's fiscal performance and the evolution of the domestic economy. On that score, there are clear indications that the Bahamian economy has finally begun to recover from its lengthy period of under-performance. Over the four-year period between 2012 and 2016, the economy actually shrank in real terms, from \$10.7 billion to \$10.2 billion.

Mr. Speaker

However, I am pleased to advise that present estimates indicate that the economy recorded real growth on the order of 1.8 percent in 2017. This renewed buoyancy stemmed primarily from construction activity associated with ongoing foreign investment projects, as well as rebuilding work in the wake of the

hurricanes. While the rate of unemployment did rise marginally between May and November of last year, it still stood fully 1.5 percentage points lower than a year earlier. All of the islands surveyed also posted lower rates of unemployment than had been experienced in November 2016.

Mr. Speaker,

Prospects for the economy in 2018 are for yet further strengthening of activity, with real growth estimated at 2.5 percent. Conditions in the labour market are consequently also expected to improve. These developments will be underpinned by the completion of Baha Mar's phased opening and by various foreign investment-related projects. As well, we expect the growth of both the tourism sector and the national economy to be favourably impacted by stronger projected growth in the U.S., our major trading partner. In its latest forecast, the IMF has boosted its forecast for U.S. growth by 0.4 percentage points, to a level of 2.7 percent. The increase in investor and consumer confidence in the United States – our most important trading partner - augers well for continued growth in tourist travel to, and investment interest in, the Islands of The Bahamas.

Mr. Speaker,

I am pleased to point out at the very outset that the public finances of The Bahamas are in a better place than they were at the mid-point of the last financial year. The aggregate GFS Deficit for the first six months of the current fiscal year totalled some \$198.0 million, down sharply from the deficit of \$290.3 million recorded by the previous administration at the mid-point of the 2016/17 fiscal year. The latter figure at the mid-year point of last fiscal year represented nearly three times the total deficit that had been projected for the entire year. It also presaged the eventual GFS Deficit outturn for the entire 2016/17 fiscal year which, at \$676 million, dwarfed the previous Government's Budget estimate of \$100 million.

Mr. Speaker,

It is important that I pause to explain the expenditure numbers detailed in our published mid-year report being laid this morning. The recurrent expenditure number at the mid-year of \$1.79 Billion appears to show a sharp increase in recurrent expenditure. This is occasioned however, by the spike in the debt redemption (or debt repayment) of over \$540 million when compared to the same point last year – also illustrated in the summary report. This significant bump up in debt repayment was due to the repayment of short term financing

obtained to meet immediate financing needs in anticipation of the \$750 million bond secured by the government.

When you adjust for the debt repayment numbers in both years, one would readily observe that total government expenditure – both recurrent and capital - at the midpoint of the current fiscal year is \$1.078 billion as compared to \$1.146 billion last year, indicating a decrease in spending of some \$67.5 million. This coupled with an increase in revenue collection of \$24.8 million is what has led to the improvement in the deficit position by some \$92.3 million.

Mr. Speaker,

That said, this year's GFS Deficit at the mid-year does, however, represent some 61 percent of the \$323 million full-year deficit that had been projected in last May's Budget Communication. To a large extent, this development reflects the ongoing overhang of commitments of the previous administration that have had to be met during the current fiscal year. To date, Mr. Speaker, we have had to make provisions to settle more than \$30 million in verified payment arrears over and above what was known during the budget exercise last May. There are tens of millions of dollars in remaining commitments from prior years, the details of which I will provide during my substantive debate on the matter.

Mr. Speaker,

It is to be noted that, in the May Budget Communication, the Government affirmed its commitment to do better than the Budget estimate this fiscal year. To that end, the Prime Minister announced last summer an across-the-board 10 percent reduction in discretionary Recurrent Expenditure against the budgeted sums, excluding interest payments and debt redemption. We are on track in this regard, as non-debt servicing expenditure totalled \$861.1 million against a mid-year pro-rated budgeted sum of \$975.3 million. However, with prior year commitments still to be addressed, I have asked Ministries and Departments to redouble their vigilance through the second half of the fiscal year, to ensure that we meet our desired expenditure and deficit targets.

Mr. Speaker,

The \$92.3 million improvement in the GFS Deficit in the first half of this fiscal year, as compared to the previous year, largely reflected a deliberate \$76.4 million reduction in Capital Expenditure, from \$152.2 million last year to \$75.8 million this year. This fiscal year, the government has exercised extreme prudence in the commitments for capital expenditure, ensuring that only meaningful and critical public investments are approved. That said, we acknowledge that our public infrastructure plant, in too many cases, remains well

below the standards for a 21st Century Bahamas. The Government commits, over this term in office, to find creative and efficient ways to substantially increase productive investments in our hospitals, schools, clinics, airports and digital infrastructure, to allow for the sustained social and economic development of Bahamians throughout the full archipelago. These investments will be critical to underpin the much-needed improvements in productivity, boost the growth potential of the Bahamian economy and thereby contribute to enhanced job opportunities for our citizens.

Mr. Speaker,

In the first half of this fiscal year, some \$69 million was expended from current Government resources, as part of the \$100 million that the Government is to invest in RESOLVE. As I foreshadowed in my statement to Parliament on RESOLVE, in September of last year, and as was disclosed at the time of our recent international bond issuance, the Government committed to facilitate RESOLVE retiring the original \$100 million Promissory Note issued to the Bank of The Bahamas in respect of the initial tranche of toxic loan transfers, in accordance with an agreed schedule. After exploring funding options, the Government is of the view that it would be best to access the domestic market, given the ample

levels of excess liquidity. In line with this commitment, new corresponding borrowing authority will be sought from Parliament, today, to cover this sum.

Mr. Speaker,

Recurrent Expenditure (adjusted for debt repayment) during the first six months of the current fiscal year totalled some \$1,003 million, up slightly from \$994 million in the corresponding period of 2016/17. As mentioned, the outturn this year was negatively impacted by the overhang commitments of the previous administration referenced above. Despite this, the expenditure total this year represents only 44.7 percent of the amount budgeted for the entire fiscal year, as compared to 50 percent in the first half of 2016/17

Mr. Speaker,

Despite the 10 percent cut being implemented across the board, the amount spent on personal emoluments—salaries and allowances—in the first half of this year totalled \$373 million as compared to \$358 million in the corresponding period of 2016/17, a \$15 million increase. This is primarily explained by the recent industrial agreement-related lump sum payment (\$7.7 million) and outstanding overtime payments to the Police (\$6.0 million). Given the contribution of the salary bill to our overall recurrent expenditure, the

government will continue to manage this element of our budgetary spending, especially in light of pension obligations and the need still to recruit and retain professional talent into the Public Service.

In the first half, purchases of goods and services totalled \$133 million, compared with \$127 million in 2016/17. This year's total, however, represents only 35.9 percent of the full-year budgeted amount, as compared to 39.7 percent in 2016/17.

Mr. Speaker,

As mentioned, in the first six months of the 2017/18 fiscal year, Recurrent Revenue, at \$881 million, was up \$25 million from the same period the previous year.

Tax revenue was up \$18.7 million in the first half as compared to the previous year. Within this category, VAT was up by \$10 million, motor vehicle tax by \$7 million, gaming tax by \$5 million and excise taxes by \$3.8 million. Import duties, however, were down by \$6 million. Non-tax revenue was higher by \$6 million.

While we are pleased at the uptick in revenue collections so far for the fiscal year, the outturn represents 41 percent of the full-year amount forecast in

this year's Budget. While we anticipate that, consistent with past years, the outturn for the second half will be proportionately higher, the current performance further underscores the need to contain expenditure to ensure that deficit and debt targets are met.

Mr. Speaker,

In concluding, the overriding message that flows from the first half fiscal results is that the government is on track to bring the country's financial house in order, notwithstanding the dire fiscal situation that the administration met coming into office. Even though the situation has been compounded by the millions of dollars in past debt obligations that this administration continues to address, we remain on track to meet our budgetary deficit target at year end.

A lot of the financial jargon used may be confusing for some and also used by others for nothing more than to fuel political mischief. Therefore in conclusion, let me lay it out in simple terms that all would understand. For the first half of the year, I am pleased to advise the Bahamian people:

- Revenue collection is up by \$25 million compared to last year through December
- Overall spending not related to debt redemption is down by \$67 million compared to last year through December.
- The full GFS deficit position has improved by \$92.3 million when compared to last year.
- This has occurred while still paying off tens of millions of dollars in bills left by the former administration

Mr. Speaker,

Clearly, the fiscal situation has improved and continues to improve. However, ongoing dedication and vigilance are warranted for the remainder of the fiscal year to enable the government to achieve the desired level of fiscal consolidation. We shall have to maintain expenditure restraint. We shall have to maximize our revenue yield. Thus, we must remain faithful to the various restraint measures and initiatives, that were summarily set out in the May Budget and that are critical to this task. And this we shall do.

Thank you.



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