2020 FISCAL STRATEGY REPORT

December 2020

Government of The Bahamas
The Ministry of Finance
www.bahamasbudget.gov.bs

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The 2020 Fiscal Strategy Report (2020 FSR) is the third to be approved by Cabinet and submitted to Parliament under the Fiscal Responsibility Act, 2018 (the Act)—in keeping with the government's commitment to ensure budget credibility, transparency and fiscal sustainability. As required by the Act, the document sets out the medium-term fiscal framework to guide the preparation of the 2021/2022 budget, using projections of the macroeconomy, the fiscal objectives set out in the FSR, and the recommendations of Parliament.

Fiscal year 2019/2020 has been extremely challenging for The Bahamas, and the 2020 FSR is being prepared under circumstances that are fraught with uncertainties and amplified downside risks to macroeconomic stability. In the first instance, the devastating impact of Hurricane Dorian on the fiscal situation led to the government triggering the Exceptional Clause in the Act, and postponing the original timeline for achieving the fiscal and debt targets. Shortly after preparation of the Fiscal Adjustment Plan, the country's resilience continues to be tested by the corona virus (COVID-19) which was declared a global pandemic on March 11, 2020. As at end-November 2020, almost 1.5 million lives have been lost worldwide due to the COVID-19 pandemic, including over 160 in The Bahamas; and the numbers continue to rise.

Like countries across the world, The Bahamas imposed lockdown and containment measures of varying severity and duration to halt the spread of the COVID-19 virus and save the lives of Bahamians. The consequences have been far reaching, including a severe contraction in economic activity and a record increase in unemployment. To cushion the impact, the government implemented several relief initiatives to support health care, business continuity, employment, and social assistance needs—amounting to nearly 1.5 percent of GDP in the 2020/2021 fiscal year.

In preparing the medium-term fiscal framework for the 2020/2021 budget, the government incorporated early estimates of the costs of COVID-19. The magnitude of the fiscal shock, in terms of actual and forecasted revenue losses and extraordinary spending, is easily the most significant faced in The Bahamas' recorded history—leading to a sharp widening of the fiscal deficit for the 2020/2021 budget, and with assumed spillover effects into the early part of the medium-term fiscal framework. At the time of the 2020/2021 budget preparation, our underlying assumption was for a gradual recovery in economic conditions, led by a restart of tourism activity in the second quarter of 2020/2021 and progressive firming through the end of the fiscal year and into 2021/2022.

The nature of the pandemic and its unpredictable disruption of commerce and everyday life means that the path to recovery remains highly uncertain, which impacts the stability and reliability of the forecasts for fiscal performance and economic growth. As this report is being prepared, many parts of the world are now experiencing a second wave of infections, with many countries reverting to the more severe containment measures instituted early in the year. It is prudent to assume that the risks of the COVID-19 pandemic to the fiscal plan are likely to remain elevated in the near term.

Since the preparation of the 2020/2021 budget forecasts the government has experienced additional costs to support necessary social service intervention and unanticipated revenue losses, due to increased commercial restrictions brought on by surges in domestic COVID-19 cases. The government is monitoring the situation and will make the necessary adjustments to remain within the fiscal targets established for the current fiscal year. Using scenario analysis, the government will also continue to review possible outcomes for the fiscal position, to determine whether additional changes are required to the medium-term fiscal framework at the time of the mid-year budget presentation, and to be in a position to select the most appropriate policy actions to address any new emerging pressures.

Although the 2020 FSR maintains the revised 2024/2025 timeline for achieving the mandated steady state fiscal objective of 0.5 percent of GDP, the unexpected disruption caused by COVID-19 altered the fiscal ratio projected for 2019/20 and will cause a similar deviation in forecasted outcomes in the current budget year and the intervening years. To address these deviations brought on by the devastating COVID-19 shock to macro-fiscal conditions, the government is invoking the Exceptional Clause under the Act in recognition of the amended fiscal adjustment plan presented within the 2020 FSR.

Despite the setbacks posed by the COVID-19 pandemic to the fiscal outcome, the Government's overarching policy objective is to resume convergence along the path to sustainable fiscal consolidation, over the medium-term horizon presented in this 2020 FSR. The focus of our fiscal strategy, therefore, is on risk mitigation and executing on key fiscal and economic policy strategies to secure economic resilience beyond COVID-19.

The undersigned attest that, to the extent feasible and practicable at the date of publication, the 2020 FSR contains information that is accurate, reliable and complete in respect of requirements of the Act.

Dr. Hubert A. Minnis, Prime Minister &
Minister of Finance

Marlon Johnson
Financial Secretary (Actg.)

1. INTRODUCTION

1.1 Report

The 2020 FSR is the third such report to be submitted to Cabinet under the Act. As per section 10 of the Act, the Minister of Finance is required to prepare and submit a Fiscal Strategy Report (FSR) to Cabinet, for approval no later than the 1st Tuesday of November of each fiscal year, in this case November 3, 2020. On approval, the FSR is to be presented to both Parliament and the Fiscal Responsibility Council by the 3rd Wednesday of November (i.e., November 18, 2020) for their review and recommendations. On November 18, 2020, however, the government informed Parliament that the 2020 FSR would be delayed until December 2020, to enable the government to make use of the most current information, to the extent possible, in framing the critical policy responses and initiatives needed to address the challenges confronting the economy.

In keeping with the statutory obligations, the 2020 FSR provides the government's medium-term fiscal framework to achieve compliance with the fiscal targets as mandated in the Act, set out in the revised targets in the 2019 Fiscal Adjustment Plan (2019 FAP) presented to Parliament in January 2020, and which have been updated in the 2020/2021 approved budget proposals for the devastating impact of the COVID-19 pandemic and adjusted for more recent developments in the macro-economy.

Following this section, and in compliance with the Act, the remainder of this report is organized as follows:

- Section 2 reports on the economic and fiscal performance in the most recently completed fiscal year, namely 2019/2020;
- Section 3 presents the required macroeconomic and fiscal forecasts for the current and next four fiscal years—to show the intended path towards convergence with the fiscal targets;
- Section 4 outlines the proposed fiscal policy for the next five fiscal years;
- Section 5 frames an analysis of fiscal risks and mitigation strategies; and
- Section 6 provides an analysis of recent debt trends and debt sustainability.

The information to be covered in the 2020 FSR, as specified in the Act, is presented as ***Annex A***.

1.2 Accounting Principles and Methods

The budgetary data presented in the 2020 FSR are prepared using a modified cash basis of accounting and guided by the International Public Sector Accounting Standards (IPSAS) financial reporting under the 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.

Data tables are prepared using the new chart of accounts introduced on July 1, 2019 which allows for aggregation and presentation of the fiscal data according to the International Monetary Fund's (IMF) Government Finance Statistics (GFS) 2014 reporting framework for analyzing and evaluating the performance of the government finances. The new framework also lays the basis for the eventual conversion of the accounting presentation to the IPSAS financial reporting under the accrual basis, as underscored by various ongoing initiatives to strengthen public financial management institutional arrangements—including the implementation of the Integrated Financial Management Information Systems and the supportive legislative frameworks and technology systems.

As data reconciliation is ongoing, annual data for FY2018/19 and FY2019/20 are subject to change, until audited by the Auditor General; therefore, their status is provisional.

1.3 National Accounts Estimates

In considering prospects for the economy through the medium-term, to date, the practice at the Ministry of Finance has been to utilize the GDP forecasts developed by the IMF in the context of its World Economic Outlook (WEO) exercise and the Article IV Staff Reports on The Bahamas. Aside from the unavailability of GDP projections by the Ministry, the rationale underpinning this choice has related to the desire to develop fiscal projections that are based on an independent assessment of economic prospects in The Bahamas, and one that aligns with the consensus view of the various international agencies.

Institutional strengthening initiatives remain underway to improve the timeliness, scope and periodicity of national accounts statistics, and macro-fiscal forecasting and analysis capability within the Ministry of Finance. Progress in these areas will be reflected in future FSRs and serve to better guide fiscal policy formulation and the budget preparation process.

2. OVERVIEW OF ECONOMIC AND FISCAL PERFORMANCE IN FY2019/20

2.1 Economic Performance

a. International Economic Context

The economic outturn for The Bahamas over the 2019/2020 fiscal year evolved within the context of a slowing momentum in global economic growth for 2019, which transitioned to sharply recessionary conditions in the first half of 2020, amid the containment measures imposed by countries to address the devastating health crisis caused by the COVID-19 pandemic.

Based on the IMF's October 2020 WEO, the global economy registered its lowest gains in a decade, of 2.9 percent in 2019 compared with 3.6 percent in 2018, as a consequence of protracted trade disputes and declines in investment. A similar pattern was observed in the United States, The Bahamas' major trading partner, where significant weakness in the manufacturing sector, continued Sino-US trade tensions and global Brexit fears during the first half of 2019, curtailed real GDP growth to 2.2 percent in 2019 from 3.0 percent in 2018.

Conditions worsened in the first half of 2020, as COVID-19 lockdown measures, which included border closings and restrictions on the movement of people and goods, unleashed the strongest recession since the Great Depression. Except for China, which grew at a more moderated 0.4 percent, the collapse in global output for the major economies produced GDP declines of 10.2 percent for the US and 14.3 percent for the EU. Indications are that the US economy contracted by 5.0 percent in the first quarter of 2020 and by a staggering 31.4 percent in the second quarter, due to the strongly recessionary impact of COVID-19 on both private and government consumption and investment, and exports.

Labour markets have been significantly impacted by COVID-19 in the first half of 2020, following on an unchanged global unemployment rate of 5.4 percent for 2019, although the United States achieved an improvement of 20 basis points in its jobless rate to 3.7 percent. Based on reports from the International Labour Organization, the slump in work hours experienced in the first quarter of 2020 relative to the final quarter of 2019 was the equivalent of 155 million full time jobs, which deteriorated to 400 million full time jobs in the second quarter comparison.

Global inflation rates remained relatively mild throughout 2019, despite an energy-led firming episode during the year. The annual inflation rate for the United States tapered to 1.8 percent in 2019 from 2.4 percent in 2018. For the first half of 2020, global inflationary pressures eased, on balance, given the dampening impact of COVID-19 on oil prices and consumption.

b. Domestic Economic Development

The economic outturn for the Bahamian economy during fiscal year 2019/20 was shaped by two devastating external shocks. In September 2019, Hurricane Dorian, the strongest storm in recent history, interrupted economic activity in Abaco and Grand Bahama, causing appreciable loss in output and unplanned fiscal costs to address revenue losses and expenditures associated with recovery and restoration efforts. Almost six months later, the onset of the spread of the coronavirus, which is without precedent in recent times, triggered the most severe health and economic crisis in The Bahamas as the imposition of lockdown measures in late March 2020, to slow the spread of the virus, brought the economy to a near standstill for almost 4 months.

As analysis of the economic outturn for 2019 shows that, despite the loss of output attributed to Hurricane Dorian, the performance of the economy in 2019 was much stronger than originally anticipated. According to official estimates released by the Department of Statistics in July 2020, real GDP expanded at an annual rate of 1.2 percent in 2019, which exceeded the revised estimate post-Hurricane Dorian of 0.4 percent but was below the original 1.8 percent estimate used in the government's 2019/20 budgetary framework. The more favourable outturn was attributed to the incorporation of new and more detailed and comprehensive sources of data, leading to revisions across the GDP series for the previous six years commencing 2013.

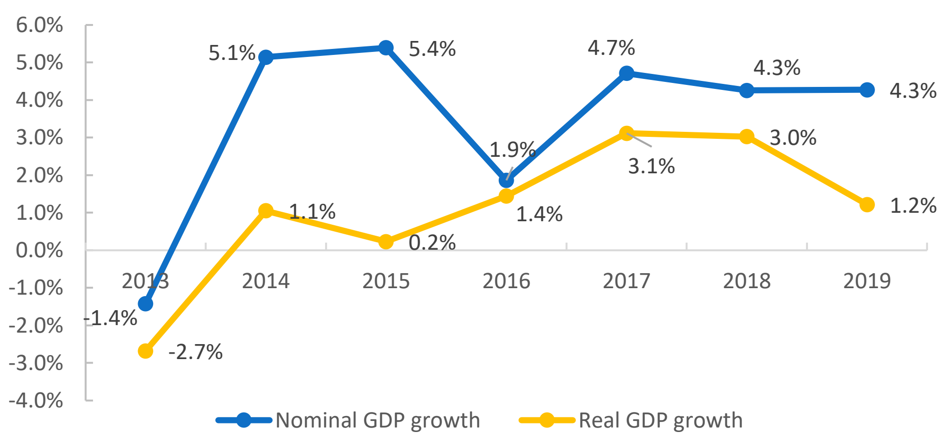
Table 1: Forecast and Actual Economic Performance

	2019				2020
INDICATORS	**ORIGINAL FORECAST**	**POST-DORIAN FORECAST**	**ACTUAL**	**VARIANCE**	**Budget Forecast**
Gross Domestic Product, current prices (% change)	3.5	1.6	4.3	2.7	-4.8
Gross Domestic Product, constant prices (% change)	1.8	0.4	1.2	0.8	-1.1
Inflation (GDP deflator %)	1.5	1.2	1.3	0.1	1.7

Note: Original Forecast is from the 2019/2020 Budget; Post-Dorian Forecast is from the 2019/2020 Supplementary Budget released February 2020; actual GDP estimates are from the Department of Statistics' Gross Domestic Product estimates released 1 July 2020; and the 2020 Budget Forecast is as stated in the 2020/2021 Budget.

By expenditure components, real GDP growth was led by a 6.2 percent ($178.3 million) gain in gross capital formation, which was concentrated in buildings and infrastructure. Final consumption, at nearly 81.0 percent of GDP, contracted by 0.6 percent. Underlying this was a 13.5 percent ($218.9 million) boost in the government component, associated with increased outlays for goods and services and Hurricane Dorian-related social assistance and transfers, which was offset by a 3.6 percent ($275.7 million) reduction in the dominant private component, amid continuation of soft job growth momentum. The trade deficit narrowed by 10.9 percent ($106.7 million), as gains in exports of goods and services of 3.5 percent ($161.0 million) exceeded the 1.0 percent ($54.3 million) rise in imports of goods and services.

Figure 1: Bahamas GDP Growth Trends



Analyzed by sector, the gross value added from construction sector activities strengthened by $88.0 million (12.6 percent), reflecting the completion of projects in the hotel sector, alongside post-Hurricane Dorian clean-up, repairs and rebuilding activities. Higher gross value added was also posted for public administration, of $41 million (6.4 percent); health and social work, of $22 million (5.2 percent); and professional, scientific, and technical services, of $25 million (6.3 percent).

The gross value gains in the wholesale and retail trade sectors ($71 million or 5.0 percent) and real estate activities ($30 million or 1.7 percent) were linked to the strong performance of the tourism sector, which accounts for more than 45 percent of GDP and employs directly and indirectly in excess of 50 percent of the labour force. Visitor arrivals increased over 2018 by 9.4 percent to 7.2 million. The dominant sea visitors achieved growth of 10.2 percent, associated with stepped up activity at private cruise ports of calls and a gain in cruise ship visits, of 2.0 percent to 2,271 calls. Benefitting from the final phase opening of Baha Mar and additional flight routes, the higher spending stopover visitor segment grew by 11.0 percent to number 1.8 million. This, alongside the uplift in average occupancy and average daily rates boosted tourist spending to an estimated $4.1 billion in 2019—an improvement of 10.7 percent over 2018.

Employment conditions deteriorated during 2019, although the impact of Hurricane Dorian on employment is not yet measured in the Department of Statistics' Labour Force Survey which is only available through May 2019. Based on estimates published by the IMF in its October 2020 WEO, the rate was projected at 10.7 percent for 2019, as against the improvement to 9.5 percent observed in the twelve months to May 2019 and the 10.0 percent posted for 2018. This trajectory is supported by data from the National Insurance Board which reported payouts to 2,998 beneficiaries under its 13 weeks unemployment programme for Hurricane Dorian totaling $6.70 million through end-June 2020. In the governments' extension to the programme (for another 13 weeks), 964 persons benefitted, and the payout was $1.65 million.

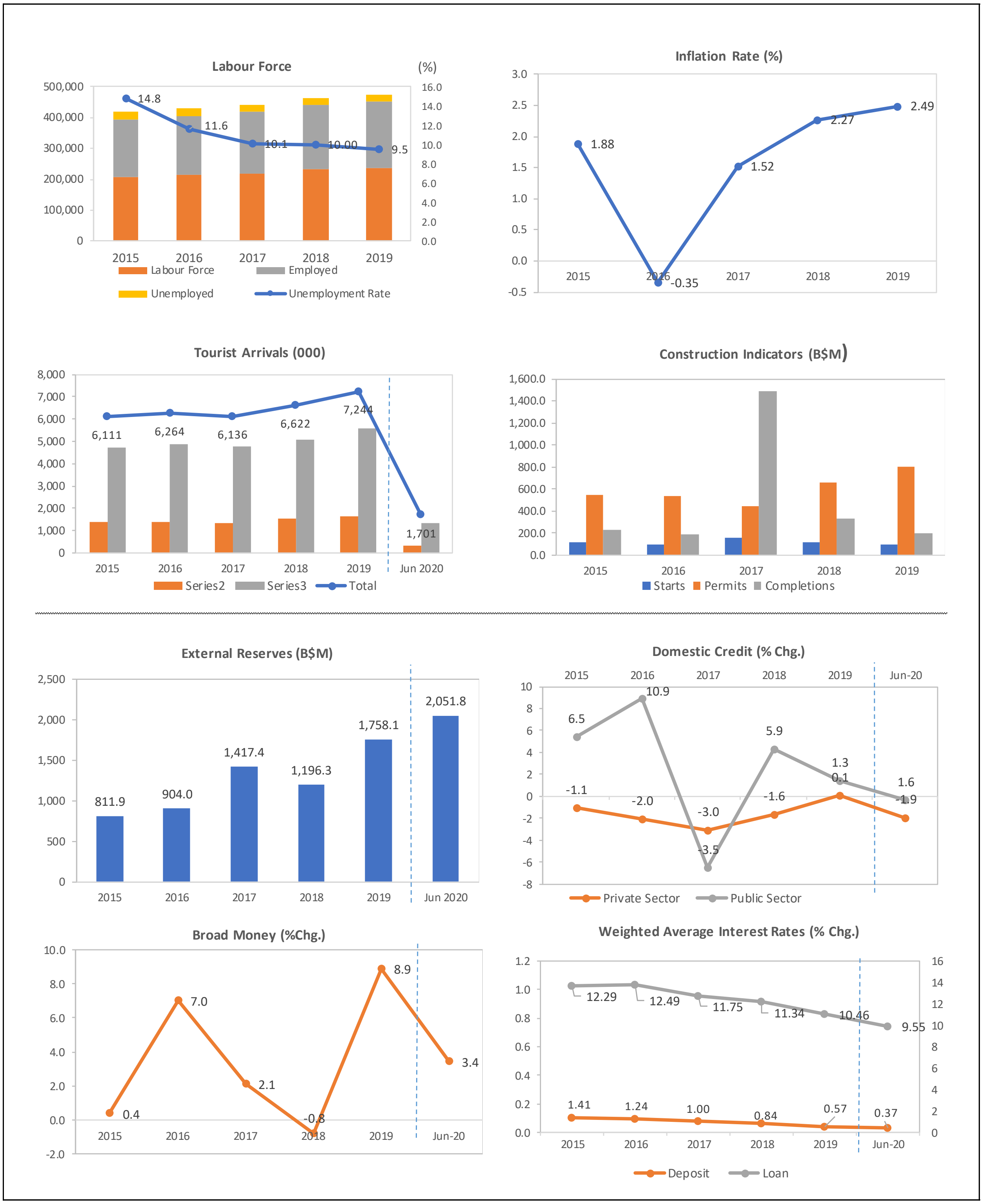
In price developments, The Bahamas continued to experience relatively stable inflation rates throughout 2019. Consumer price inflation, as measured by the average increase in the All Bahamas Retail Price Index (RPI), was 2.5 percent in 2019 compared to 2.3 percent in 2018. The outcome was driven by hikes in global oil prices, which fed through to transportation costs and the average prices for most goods and services.

On the external sector, the current account on the balance of payments reversed to a notable surplus of $525.6 million in 2019, from an estimated deficit of $1.1 billion in 2018. This was primarily associated with inflows of Hurricane Dorian-related insurance payouts which supported a reversal in current transfers—to a net receipt of $846.2 million in 2019 from a net outflow of $68.6 million in 2018. The net receipt under travel also posted a strong gain of $394.3 million, based on the improved tourism performance. On the capital account, the surplus narrowed sharply to $230.7 million from $609.0 million in 2018, as net financing inflows receded following the completion of the Baha Mar resort project.

Monetary developments in 2019 featured broad money growth of 8.9 percent ($597.7 million), compared with more modest expansions in public and private sector credit, of 1.3 percent and 0.1 percent, respectively. Amid soft credit conditions and buoyant banking system liquidity, the average bank deposit rate receded by 32.1 percent to 0.57 percent in 2019, extending the year-earlier decline of 0.84 percent. The average lending rate also subsided, by 7.8 percent to 10.46 percent in 2019, relative to 11.3 percent in 2018.

Benefitting from a combination of Hurricane Dorian insurance receipts and strong gains in net travel inflows, the overall balance on the external account, measured by the changes in international reserves, improved over 2018, by $561.8 million to $1,758.1 million at end-December 2019. Consequently, the stock of external reserves equated to an extended 37.9 weeks of import cover at end-2019, compared with 22.3 week for 2018.

Figure 2: Key Macroeconomic Indicators



Economic conditions worsened dramatically in the first half of 2020, as the government responded to the first instances of confirmed cases of COVID-19 in The Bahamas. The closing of domestic and international borders to commercial passenger traffic and institution of a system of curfews and lockdowns to curb the viral spread severely reduced economy activity, with the dominant tourism sector being hardest hit. As travel restrictions and risk aversion weighted on global tourism and travel, the number of visitor arrivals fell precipitously to 1.7 million in the first half of 2020 from 3.9 million in the first half of 2019—a loss of 56.4 percent. Following the US Center for Disease Control and Prevention's (CDC) no-sail ban on cruise ship sailings since March, the number of cruise visitors plunged to 1.3 million in the first six months of 2020 from 2.8 million in 2019's comparative period, and restrictions on air travel led to a steep fall-off in stopover visitors to 0.3 million from 1.1 million.

With a large segment of employees being either terminated or furloughed, unemployment surged and is estimated by the IMF in its October 2020 WEO report to have exceeded 25.0 percent. The deterioration in employment conditions is corroborated by the increase in COVID-19 related unemployment insurance claims submitted and settled under both the NIB unemployment and the government's special assistance programme for persons who did not qualify for the NIB programme. Between March and September 2020, NIB reported that 38,400 COVID-19 related claims for unemployment were submitted and $93.4 million paid out for thirteen weeks, as per the standard benefit programme. In addition, as at mid-September 2020 some 37,000 COVID-19 claims were submitted and $63.5 million paid out under the government funded COVID-19 special extended unemployment assistance program.

In price developments, The Bahamas continued to experience relatively stable and modest inflation rates in the first half of 2020. The collapse of the production agreement between OPEC and its partners contributed to a softening in oil prices which resulted in a reduction in average consumer price inflation, to 0.48 percent in the six months to June 2020 from 0.58 percent a year earlier.

In the monetary sector, credit and interest rate conditions remained mild during the six months period ending June 2020. Bank credit quality indicators improved, amid banks' implementation of COVID-19 loan deferral schemes, with private sector loan arrears down by $50.4 million across both short- and long-term delinquencies. Total bank credit declined by $11.6 million (0.1 percent), attributed to a $73.2 million contraction in private sector credit, which was partially offset by the $58.7 million increase in net credit to government from a $3.0 million fall-off a year earlier. On interest rate developments, the continued easing in the weighted average deposit rate, by 16 basis points to 0.37 percent, over the six months period, was outpaced by a decline in the weighted average lending rate, by 86 basis points to 9.58 percent.

The external reserves position also remained favourable through the first half of 2020, posting a gain of $263.8 million over end-December 2019 to $2,051.8 million at end-June 2020, and representing an improved 36.7 weeks of imports. This outcome was almost entirely attributed to the government's foreign currency borrowings.

2.2 Budget and Fiscal Performance

a. Overall Balance

Prior to Hurricane Dorian, the government's fiscal policy framework for 2019/2020 was aligned with achieving the fiscal responsibility objective of 1.0 percent of GDP for the overall deficit—building on the successful attainment of the corresponding targets for 2017/2018 (1.7 percent) and 2018/2019 (3.4 percent). However, the severity of the economic and fiscal costs associated with Hurricane Dorian prompted the government to invoke the Exceptional Circumstances clause (13) of the Act, which allowed for a temporary deviation from the fiscal objectives and debt targets (see **Table 2**).

Table 2: Fiscal Responsibility Targets

Fiscal Indicator	Objectives	Revised Objectives[1]
Debt Target	Reduce debt from 58.9 percent in FY2017/18 of GDP to a debt level of no more than 50 percent of GDP by 2024/25.	Reduce debt to GDP ratio to no more than 50 percent of GDP by 2028/29.
Fiscal Balance Target	FY2018/19: 1.8 percent FY2019/20: 1.0 percent FY2020/21: 0.5 percent	FY2019/20: 5.3 percent FY2020/21: 3.8 percent FY2021/22: 2.2 percent FY2022/23:1.7 percent FY2023/24: 1.0 percent FY2024/25: 0.5 percent
Recurrent Expenditure	After the attainment of a deficit *of no more than 0.5 percent of GDP,* the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.	After the attainment of a deficit *of no more than 0.5 percent of GDP,* the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.

[1]Objectives revised in the Fiscal Adjustment Plan presented to Parliament in January 2020, following Hurricane Dorian.

Against this backdrop, preliminary data for the 2019/2020 fiscal outturn indicate an overall deficit of $811.7 million—up approximately $134.2 million or 19.8 percent from the revised budget estimate and equating to an elevated 6.5 percent of GDP compared with the adjusted fiscal target of 5.3 percent. This deviation was entirely explained by the devastating impact of the COVID-19 pandemic on domestic economic conditions. Following the border closures and other containment measures to control the spread of the virus, government revenue declined precipitously, and expenditures were augmented to address the emerging health, social and economic challenges posed by the pandemic. See **Box A** for a summary of the evolution of the COVID-19 pandemic in the domestic economy and details of the government's policy response initiatives.

Table 3: FY2019/20 Forecast and Actual Fiscal Performance (B$M)

	ORIGINAL BUDGET	REVISED BUDGET	ACTUAL	VARIANCE
1. Revenue	2,628.0	2,395.6	2,086.9	-308.7
2. Expenditure	2,765.0	3,073.1	2,898.6	-174.5
Recurrent	2,530.0	2,687.6	2,526.4	-161.2
Capital	235.0	385.5	372.2	-13.3
3. Surplus/(Deficit) [1-2]	-137.0	-677.5	-811.7	-134.2
4. GFS Deficit as % of GDP	-1.0%	-5.3%	-6.5%	-1.2%
5. Govt Direct Charge	7,612.0	8,179.7	8,191.2	11.5
6. Gov't Direct Charge as % of GDP	56.4%	64.2%	66.0%	1.8%
7. GDP (Current Prices)	13,064.5	12,739.3	12,404.0	-335.3

Box A: Government's Response to the COVID-19 Pandemic

At end-2019, COVID-19, which was first reported in Wuhan, China, began to spread rapidly around the world and on March 11, 2020 the World Health Organization characterized the outbreak as a pandemic. The first positive case of COVID-19 in The Bahamas was recorded on March 15, 2020 prompting the government to take swift preventative and reactionary measures to contain the spread of COVID-19.

On March 17, 2020, the government declared a state of emergency, and closed air and sea borders to all incoming passengers, and on March 24 instituted a strict curfew establishing full stay-at-home lockdowns during the weekends, with some differences between various islands, which remained in place through end-June 2020.

To reduce the economic effects of COVID-19, the government announced and implemented several initiatives targeted at public health and safety, job protection and social and economic support for households and businesses. These included budgetary allocations in the final quarter of the 2019/2020 fiscal years and continuing for the 2020/2021 budget. Details of these initiatives are as follows:

- **Public Health Safety** –Additional allocations to support the Ministry of Health in its detection, treatment, and containment of COVID-19 viral spread.
- **Unemployment Assistance**–Partial income support for self-employed persons and sole entrepreneurs who would not ordinarily qualify for unemployment benefits under the National Insurance Board benefit scheme.
- **Other Social Support Network**—Food and other social assistance programmes for persons adversely affected by COVID-19.
- **Utility Payment Support**—A commitment to provide utility bill payment waivers for persons directly impacted by COVID-19 and a moratorium on utility disconnection.
- **Business continuity programs**—The provision of loans and grants to small businesses together with business continuity loans to help weather the sustained lockdowns.
- **Payroll support programs**—The provision of tax credits and deferrals for businesses to help meet payroll obligations.

The following table outlines actual cash outlays through end-October 2020.

SUMMARY OF GOVERNMENT COVID-19 RELATED EXPENSES (B$M)

	FY2019/20	FY2020/21P July - Oct.	Total
Recurrent Expenditure	**41.5**	**84.5**	**126.1**
Public Health Safety	3.5	7.9	11.5
Unemployment Assistance	10.0	35.5	45.5
Goods & Services Acquisition	2.4	2.6	5.0
Payroll Support Programs	21.4	23.0	44.4
Food Assistance	2.0	15.2	17.2
Other	2.2	0.3	2.5
Capital Expenditure	**40.3**	**14.0**	**54.3**
Public Health Safety	0.4	0.3	0.7
Goods & Services Acquisition	0.6	5.0	5.6
COVID-19 Unit	0.3	0.4	0.7
Small Business Support	39.0	8.3	47.3
Total	**81.8**	**98.5**	**177.3**

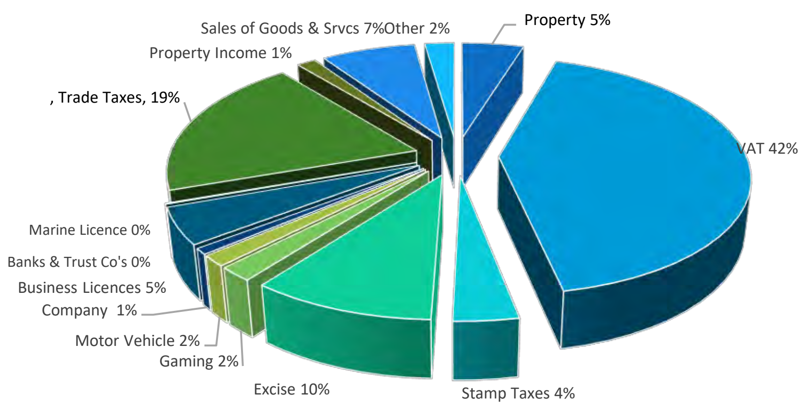
Recognizing both the fiscal and social challenges associated with the COVID-19 pandemic, the government appointed an Economic Recovery Committee (ERC) to provide recommendations on how to improve economic resilience and reduce the impact of global crises in the future. On September 29, 2020, the ERC submitted a summary of its report to the government, which is considering the recommendations. One of the ERC's recommendation, the extended stay visa programme for persons wishing to work or study from The Bahamas for a year, was accepted and implemented by the government in October, 2020. The government has also begun work on creation of a National Digital Marketplace.

b. Revenue

Initial estimates of government revenue collections for the 2019/2020 fiscal year approximated $2,086.9 million. This represented a $308.7 million or 12.9 percent broad-based decline in total receipts from the post-Dorian revised budget estimate of $2,395.6 million—to position at a lower 16.8 percent of GDP relative to the original 18.8 percent of GDP estimate (see **Table 4**).

Among the key underlying developments, the downturn in domestic economic activity precipitated by the twin external shocks translated into a $93.6 million (9.6 percent) contraction in VAT receipts to $879.7 million, which equated to 47.4 percent of tax revenue. Aside from the general decline in economic activity, the fall-off in VAT receipts also included the impact of the government's COVID-19 tax credit and deferral initiative to support payroll obligations and so encourage businesses to retain staff. Through June 2020, a total of $10.7 million in tax deferrals and an equivalent amount of tax credits were availed of by 65 businesses. Business license fee deferrals offered to medium and large businesses under the same program also partly accounted for the decline in receipts from licenses to conduct special business, by $11.9 million (10.4 percent) to $103.0 million. Given the timeline of the COVID-19 pandemic and the imposition of lock down measures in The Bahamas, the corresponding impact on revenue performance was most pronounced in the final quarter of 2019/2020, which registered a relatively broad based decline in receipts, of $396.5 million, to contrast with the year-earlier gain of $165.2 million.

Figure 3: FY2019/20 Revenue by Source (%)



Taxes on international trade were below the revised budget by $30.8 million (7.1 percent) at $405.6 million, to account for 21.2 percent of tax revenue. Stamp taxes on financial and real estate transactions declined by $34.7 million (34.1 percent) to $66.9 million, partly reflecting the lower level of financial transaction and a softening in domestic and second homes market real estate transactions amid the COVID-19 pandemic. COVID-19 lockdown measures also adversely impacted vehicle registrations, as motor vehicle taxes weakened by $8.2 million (21.1 percent) to $30.6 million.

Receipts for the sale of goods and services contracted by $55.3 million (26.8 percent) to $151.2 million. Reduced economic activity in the hurricane affected islands of Abaco and Grand Bahama, combined with the impact of COVID-19 on employment and general business activity, contributed to a steep fall-off in immigration fees, by $26.4 million (28.3 percent) to $66.8 million. Customs fees also receded, by $10.9 million (21.7 percent) to $39.5 million, with smaller declines posted for port and harbour, general registration, and health-related fees.

Table 4: Detailed Summary of Provisional Fiscal Outturn, 2019/20 (B$M)

	FY2019/20			As Percent of GDP	
	Revised Budget	Actual	Variance	Budget	Actual
TAX REVENUE	(B$M)				
Taxes on Property	113.6	99.1	-12.7%	0.9%	0.8%
Taxes on Goods & Services	1,547.5	1,346.8	-13.0%	12.1%	10.9%
VAT	973.3	879.7	-9.6%	7.6%	7.1%
Stamp Taxes (Financial & Realty)	101.5	66.9	-34.1%	0.8%	0.5%
Excise Tax	254.8	208.0	-18.4%	2.0%	1.7%
Taxes on Specific Servcs. (Gaming)	36.2	39.9	10.3%	0.3%	0.3%
Motor Vehicle Taxes	38.8	30.6	-21.1%	0.3%	0.2%
Company Taxes	25.4	16.8	-33.9%	0.2%	0.1%
License to Conduct Special Bus. Act.	114.9	103.0	-10.4%	0.9%	0.8%
Marine License Activities	2.0	1.7	-15.0%	0.0%	0.0%
Banks & Trust Companies	0.6	0.2	-66.7%	0.0%	0.0%
Taxes on Int'l Trade & Transactions	436.4	405.6	-7.1%	3.4%	3.3%
General Stamp Taxes	10.4	6.7	-35.3%	0.1%	0.1%
TOTAL TAX REVENUE	2,107.8	1,858.2	-11.8%	16.5%	15.0%
NON-TAX REVENUE					
Property Income	39.5	30.4	-22.9%	0.3%	0.2%
Sales of Goods & Services	206.5	151.2	-26.8%	1.6%	1.2%
Other	39.9	47.0	17.8%	0.3%	0.4%
TOTAL NON-TAX REVENUE	285.8	228.6	-20.0%	2.2%	1.8%
TOTAL TAX & NON-TAX REVENUE	2,393.6	2,086.8	-12.8%	18.8%	16.8%
CAPITAL REVENUE					
Capital Revenue	0.0	0.0	0.0%	0.0%	0.0%
Grants	2.0	0.1	-95.0%	0.0%	0.0%
TOTAL CAPITAL REVENUE	2.0	0.1	-95.0%	0.0%	0.0%
GRAND TOTAL ALL REVENUE	2,395.6	2,086.9	-12.9%	18.8%	16.8%
EXPENDITURES					
RECURRENT EXPENDITURE					
Compensation of Employees	787.2	760.8	-3.4%	6.2%	6.1%
Use of Goods & Services	659.1	561.8	-14.8%	5.2%	4.5%
Travel & Subsistence	23.0	12.8	-44.3%	0.2%	0.1%
Rent	70.3	72.4	2.9%	0.6%	0.6%
Utilities & Telecommunications	88.0	80.5	-8.5%	0.7%	0.6%
Supplies & Materials	52.4	50.7	-3.2%	0.4%	0.4%
Services	224.0	183.9	-17.9%	1.8%	1.5%
Minor capital repairs	5.2	3.7	-28.8%	0.0%	0.0%
Finance charges	45.6	13.6	-70.2%	0.4%	0.1%
Special Financial Transactions	110.6	100.1	-9.5%	0.9%	0.8%
Tourism Related	10.0	6.9	-31.0%	0.1%	0.1%
Local Gov't Districts	13.1	13.0	-0.8%	0.1%	0.1%
School Boards	0.1	0.1	0.0%	0.0%	0.0%
Other	16.8	24.1	43.5%	0.1%	0.2%
Public Debt Interest	377.1	344.6	-8.6%	3.0%	3.0%
Subsidies	382.6	427.5	11.7%	3.0%	3.4%
Grants	9.2	8.6	-6.5%	0.1%	0.1%
Social Assistance Benefits	58.8	47.6	-19.0%	0.5%	0.4%
Pensions & Gratuities	140.7	140.3	-0.3%	1.1%	1.1%
Other Payments	272.9	235.1	-13.9%	2.1%	1.9%
TOTAL RECURENT EXPENDITURE	2,687.6	2,526.4	-6.0%	21.1%	20.6%
CAPITAL EXPENDITURE	385.5	372.2	-3.5%	3.0%	3.0%
TOTAL EXPENDITURE	3,073.1	2,898.6	-5.7%	24.1%	23.6%
FISCAL DEFICIT	-677.5	-811.7	19.8%	-5.3%	-6.8%
Less: Public Debt Interest	377.1	344.6	-8.6%	3.0%	3.0%
PRIMARY DEFICIT	-300.4	-467.1	55.4%	-2.4%	-3.8%

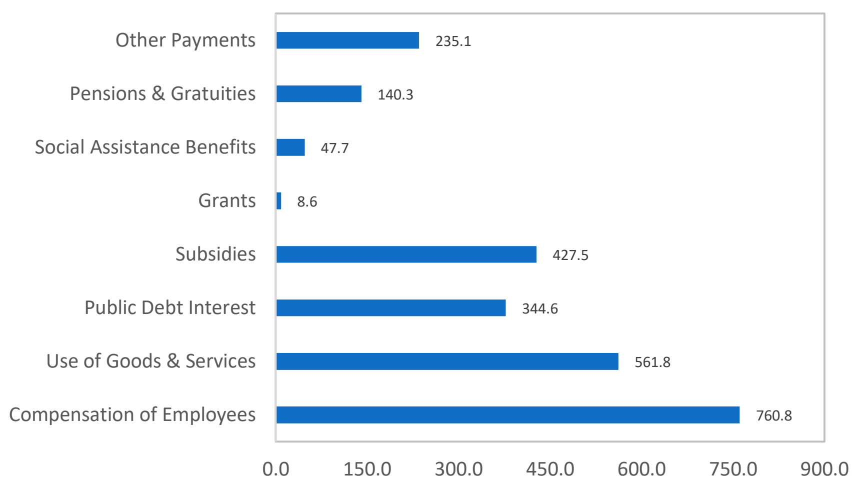
MEMO: Nominal GDP of $12, 739.5 million used for Budget calculations; and $12, 404.0 million for actual FY20219/2020.

Gains in the "other revenue" category, of approximately $7.1 million to $47.0 million, were primarily associated with the $12.8 million Hurricane Dorian-related insurance payout received in September 2019 from the Caribbean Catastrophic Risk Insurance Facility (CCRIF).

c. Expenditure

Total spending for the 2019/2020 fiscal year, at $2,898.6 million, was $174.5 million (5.7 percent) below budget and represented 23.3 percent of GDP relative to the targeted 24.1 percent (see **Table 4**). Reflecting various cuts in discretionary spending to help offset the higher demands posed by COVID-19, compensation of employees, which constituted a dominant 30.1 percent of recurrent expenditure, settled at $26.4 million (3.4 percent) below the budget. Outlays for the acquisition of goods and services were reduced by $97.3 million (14.8 percent), explained by a $40.1 million (17.9 percent) contraction in payments for various services; budget savings in finance charges, of $32.0 million (70.2 percent); COVID-19 occasioned declines in travel & subsistence expenditure, of $10.3 million (44.3 percent); and a fall-off in tourism-related expenses by $3.1 million (31.0 percent), amid the suspension of several marketing subventions for hotel properties.

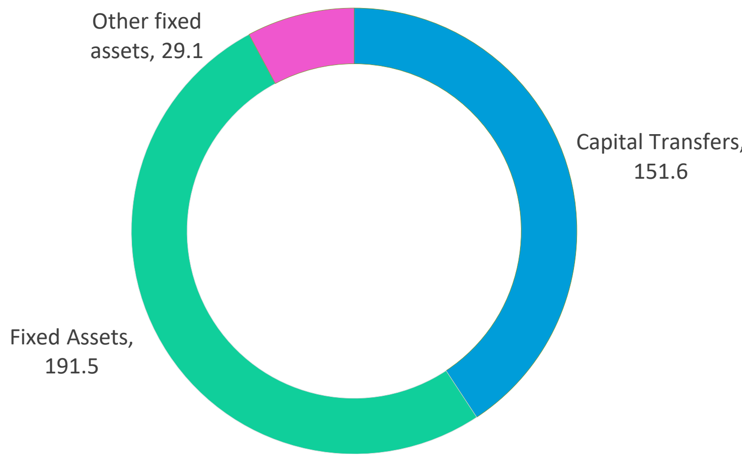
Figure 4: FY2019/20 Recurrent Expenditure (B$M)



Among the other expenditure items, positive budget variances were posted for subsidies, of $44.9 million (11.7 percent), mainly explained by increased allocations to the Public Health Authority of $29.0 million (13.0 percent) to assist with the COVID-19 health response. There was also the provision of $10.0 million to the National Insurance Board as part of the initial unemployment assistance support; and additional allocations to Bahamasair of $5.0 million (22.5 percent), largely to assist with operational expenses amid revenue losses incurred because of the COVID-19 restrictions.

Below budget variances were recorded for social assistance benefits and other payments, down $11.2 million (19.0 percent) and $37.8 million (13.9 percent), respectively, as increased emphasis was placed on the COVID-19 support programmes funded under the subsidy expenditure line.

Figure 5: FY2019/20 Capital Expenditure (B$M)



Capital outlays for the 2019/2020 fiscal year registered an under-spend of $13.3 million (3.5 percent) at $372.2 million, to constitute an estimated 3.0 percent of GDP. Of the $151.6 million in capital transfers, approximately $46.6 million (30.1 percent) was appropriated to the Small Business Development Center (SBDC) to support its existing programs as well as businesses displaced by Hurricane Dorian, and to provide business continuity loans and grants to businesses impacted by the COVID-19 pandemic. Other transfers included the government's contribution to hurricane-related activities dealing with electricity restoration ($30.0 million), water rehabilitation ($11.0 million), clean up ($21.8 million) and temporary housing ($8.0 million). The $220.6 million in fixed asset investments was explained by $74.1 million in outlays for repairs and maintenance of public buildings and schools; $83.9 million for other structures; and $28.8 million for acquisition of other machinery and equipment. See **Table 5** for a summary of Hurricane Dorian expenditures.

Table 5: Summary of Hurricane Dorian Related Expenses (B$M)

Expenditure Categories	FY2019/20
Recurrent Expenditure	**34.1**
Landfill operations	8.2
Subsistence	14.5
Ministry of Disaster Preparedness	1.2
School assistance	2.0
Food assistance	1.0
Acquisition of goods & services	7.2
Capital Expenditure	**104.1**
Rehabilitation of water supply	11.7
Rehabilitation of electricity supply	41.0
Temporary housing	8.0
Other repairs, machinery & equipment	10.4
Hurricane cleanup activities	21.9
SME assistance	10.0
Other contingencies	1.1
Total	**138.2**

d. Financing Activities

During the 2019/2020 fiscal year, government borrowings totalled $1,541.3 million (see **Table 6**). This included financing of the deficit ($74.5 million), together with debt repayment ($879.0 million) against the long-term borrowing resolution for the 2019/20 budget and the incremental $587.9 million borrowing approved in the February 2020 supplementary budget to fund elevated fiscal costs associated with Hurricane Dorian.

Table 6: Financing Activities in 2019/20 (B$M)

	FY2019/20		Variance
	Budget	Actual	
Overall Balance [Surplus/(Deficit]	-677.5	-811.7	-134.2
Net Incurrence of Liabilities (a-b) [+]	494.8	662.3	167.5
a. Borrowings	1,352.8	1,541.3	188.5
b. Debt Repayment	858.0	879.0	21.0
Net Acquisition of Financial Assets [-]	46.5	75.1	28.6
Sinking Funds	46.5	49.8	3.3
Equity	0.0	10.3	10.3
Other	0.0	15.0	15.0
Other Financing & Change in Cash Balance (incl. Overdraft) [()= increase]	229.2	224.5	-4.7

Debt transactions to cover the deficit comprised an $80.0 million policy-based loan under the IDB Contingent Credit Line; a $50 million policy loan from the Caribbean Development Bank (CDB); a $252 million loan from the International Monetary Fund under the Rapid Financing Instrument facility; and $295 million in loans from a syndicate of domestic banks. Short-term borrowings included $228 million in Treasury bill taps, and $60 million in advances from the Central Bank. The government also raised $562.6 million via domestic bond issuances, with proceeds mainly used to refinance bond maturities.

e. Direct Charge

Consequent on the above financing activities, the government incurred a net increase in liabilities of $662.3 million for 2019/2020, bringing the outstanding Direct Charge to an estimated $8,191.2 million or 60.3 percent of GDP at end-June 2020. Details on the government's debt activities are presented in **Section 6**.

f. Other Financing Activities

Consistent with the government's debt management strategy, an additional $49.8 million was set aside in sinking funds established to retire future debt obligations. At end-September 2020, total funds invested in the three (3) sinking funds approximated $192.4 million, of which $13.2 million was for the account of the two domestic sinking funds.

During 2019, the government made further investments totaling $10.3 million in Lucayan Renewal Holdings Ltd., the special purpose vehicle holding the Grand Lucayan Hotel properties acquired by the government in 2018—mainly to assist with its debt servicing obligations.

There were no changes in the other equity transactions of the government. Given the continuing delay in the issuance of the rate reduction bonds by the Bahamas Power & Light (BPL), repayment dates for the two $15.0 million loans shareholder loans, initially scheduled for end-December 2019, were further extended—from end-March 2020 to end-September 2020, and more recently to end-March 2021. The $10.8 million shareholder loan to HoldingCo 2015 (HoldingCo), the commercial structure holding the government's 51.75 percent equity in Be Aliv Ltd. (Aliv), is being serviced in accordance with the promissory note executed between the government and HoldingCo.

3. ECONOMIC AND FISCAL OUTLOOK

3.1 Macroeconomic Outlook for the Medium Term

The preparation of the 2020 FSR coincides with the deepening of the COVID-19 pandemic which has been among the most serious health and economic challenges confronting the world in the last 100 years. The massive disruption to global economic growth caused by the containment measures to curb the spread of the virus continue to trigger sharp revisions to GDP growth forecasts across the world, including the outlook for The Bahamian economy.

The IMF, in its October 2020 WEO, revised downward the estimate for global output growth for 2020 to -4.9 percent, a reduction of 8.3 percent from its year-earlier forecast of 3.4 percent. On the assumption that COVID-19 containment measures are steadily lifted, growth is anticipated to rebound to 4.8 percent in 2021. For the US economy, 2020 growth forecasts have been lowered from 2.1 percent a year ago to -4.3 percent, with a turnaround to 4.5 percent projected for 2021. A similar trend is envisaged for most advanced economies, where real GDP growth is expected to recover from a -8.0 growth rate in 2020, to a gain of 4.8 percent in 2021. Notwithstanding, the consensus view remains that the depth and duration of the shock of the COVID-19 pandemic on growth forecasts is highly uncertain, and these conditions are expected to continue to exert downward pressure on global economies, pending the roll-out of the COVID-19 vaccine and restoration of global confidence.

The government's baseline macroeconomic projections underlying the 2020/2021 budget and accompanying medium-term fiscal frameworks incorporated a set assumptions that called for a reopening of the vital tourism sector by October 2020. However that opening has effectively been postponed to December 2020 when the major resorts on the island of New Providence intend to reopen for business. This delay in the restart of the country's principal export sector and the ongoing uncertainty of COVID-19 surges in source markets have meant that projections of economic growth for The Bahamas have likewise been adjusted downwards and remain highly susceptible to change.

Table 7: Macroeconomic Forecasts

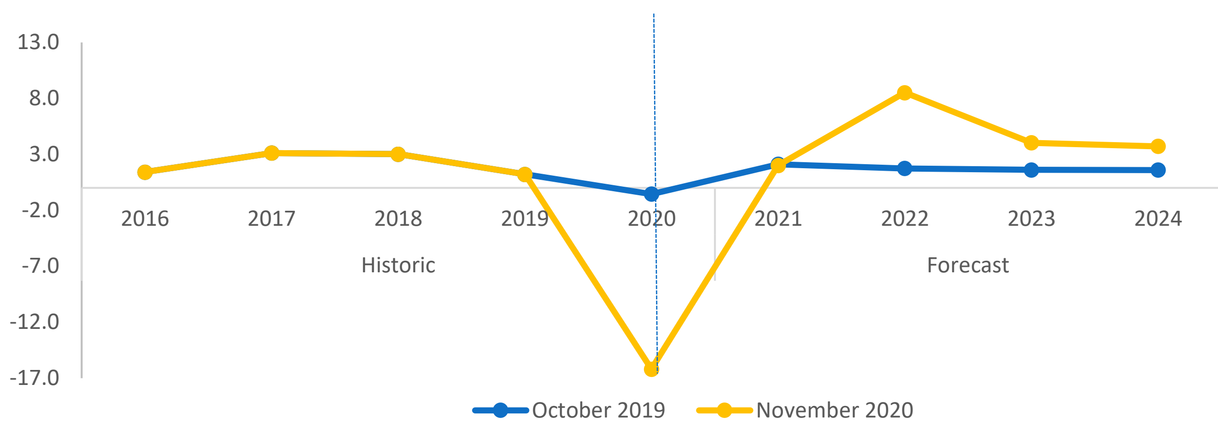
	2020	2021	2022	2023	2024
	GDP Growth at Constant Prices (%)				
October 2019	-0.6	2.1	1.7	1.6	1.6
November 2020	-16.2	2.0	8.5	4.0	3.7
	GDP Growth at Current Prices (%)				
October 2019	1.2	3.7	3.4	3.4	3.4
November 2020	-17.3	3.4	10.6	6.1	5.9
	GDP Deflator (%)				
October 2019	2.1	2.1	2.1	2.3	2.4
November 2020	-1.4	1.4	2.0	2.0	2.1
	Inflation Rate - Period Average (%)				
October 2019	2.6	2.3	2.2	2.2	2.2
November 2020	-0.2	1.5	2.2	2.2	2.1

Note: October 2019 values based on the IMF October 2019 WEO; November 2019 values based on the IMF November 2020 Article IV Mission.

Based on more recent estimates produced by the IMF, in the context of its December 2020 Concluding Statement on the Article IV Mission to The Bahamas, the expectation is for real GDP to decline by 16.2 percent in 2020, followed by a modest rebound of 2.0 percent in 2021, and to converge back to its pre-pandemic level by 2024 (see **Table 7** and **Figure 6)**.

A similar evolution is anticipated for consumer price inflation. The IMF estimates that, depressed incomes and spending coupled with lower oil prices will result in a contraction of average consumer price inflation to -0.2 percent in 2020, down from 2.5 percent in 2019. In the context of the projected recovery anticipated through 2021, inflation rates are expected to firm to 1.5 percent, peak at 2.2 percent in 2022 and then trend slightly lower to 2.1 percent in 2025.

Figure 6: Real GDP Growth (in percent)



Note: 2016 to 2019 GDP data are based on Deparment of Statistics estimates. 2020 to 2024 pre-reopening real GDP estimates are based on the IMF's October 2019 WEO forecasts. 2020 to 2024 post-reopening GDP data are based on the November 2020 IMF Article IV mission forecasts.

The growth outlook is hugely dependent on the pace of the recovery of the tourism sector, and the assumption of a gradual return in international air visitors over the final months of 2020, with progressive strengthening through 2021.

The restoration in employment conditions is expected to lag the pace anticipated for economic growth. The IMF's projections from the October 2020 WEO show the unemployment rate remaining elevated in the near-term—gradually levelling-off from its COVID-19 peak estimate of 25.4 percent for 2020, to 16.1 percent by 2023 but not attaining the pre-crisis rate within the medium-term forecast period. This trajectory is partially explained by the phased reopening of the large hotel properties, the likely longer recovery horizon for smaller businesses from the financial fragility caused by the COVID-19 shock, and the delay in the return of cruise ship activity, until the first half of 2021, which will limit the rebound in the employment numbers over the near term.

The outlook for other key economic activity, such as construction and foreign direct investment, remain positive over the medium-term, given the number of approved public and private sector projects in the pipeline. The roll-out of these projects is expected to quicken as the government continues its digitization and other initiatives geared at improving the enabling environment for both domestic and foreign businesses. Generally, economic conditions are expected to be supported by favourable price developments, with the rise in consumer prices not expected to exceed 2.5 percent across the forward forecast years.

3.2 Medium Term Fiscal Outlook

The medium-term outlook for the key fiscal aggregates, developed within the context of the economic projections outlined above, is presented in **Table 8**.

This updated framework reflects the government's revised baseline macroeconomic projections underlying the 2020/2021 budget and the accompanying medium-term fiscal framework. The earlier forecasts assumed that forward outbreaks in the virus would not be as impactful and that mass tourism would restart in early October 2020, although activity would not return to pre-COVID-19 levels until well into the first half of 2021/2022. The projections also assume the cessation of the COVID-19 fiscal stimulus and income support during the first quarter of 2021.

In this exercise, the government has updated the forecasts to take account of changes in both revenue and expenditure arising from the impact of COVID-19 on the fiscal performance in the opening quarter of 2020/2021 and the assumptions about its future path and possible outcomes for economic activity.

a. Revenue Forecasts

i. FY2020/2021

- The original budget estimates envisaged a decline in revenue of nearly 26.4 percent from the previous year's performance, under the assumption that the COVID-19 pandemic would begin to recede to allow for a reopening of the tourism sector towards early October. These conditions would facilitate a gradual recovery in revenue performance through the balance of the fiscal year, although not attaining pre-crisis levels until later in the fiscal year 2021/2022. See **Table 9**.
- Since the preparation of these forecasts, the government's imposition of more restrictive lockdown measures in the opening quarter of the fiscal year, in response to the sharp increase in the number of domestic COVID-19 cases, had a larger than anticipated impact on the revenue outturn. First quarter revenue loss was placed at nearly $68.0 million relative to the first quarter budget projections, with the contraction in the month of August deviating from the original projections by approximately $50.9 million or 56.9 percent.
- To protect the credibility of the fiscal stance, the government considers it prudent to keep the level of budgeted borrowings unchanged, and to compensate for the additional revenue shortfall initially through expenditure containment initiatives over the balance of the fiscal year. The intent is to undertake a review in January, and to determine if additional measures will be required. The government is also placing additional emphasis on strengthening revenue administration, which is discussed in **Section 4** of the report.

ii. FY2021/2022 to FY2024/2025

- Revenue forecasts for the upcoming budget and the medium-term horizon assume a gradual rebuilding of revenue along a similar trajectory as signalled in the 2019 FAP. The underlying assumption is that the disruptive effects of COVID-19 on economic activity are mitigated by the roll-out of the COVID-19 vaccine to support a rebound in nominal GDP growth to a forecasted 7.1 percent in 2021/2022.
- Premised on this reflation of economic activity and return to a more normal state of economic affairs, revenue is forecasted to strengthen to 17.5 percent of GDP for 2021/2022, up from the 14.5 percent trough in 2020/2021—although still below the pre-COVID-19 and Hurricane Dorian 18.2 percent of GDP achieved in 2018/2019.

Table 8: Medium-Term Fiscal Outlook (B$M)

Budget Forecasts

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	**2,426.4**	**2,090.6**	**1,762.5**	**2,238.7**	**2,558.0**	**2,876.8**	**3,010.4**
Recurrent	2,426.3	2,,090.6	1,760.5	2,236.7	2,556.0	2,874.8	3,008.4
Capital & Grants	0.1	-	2.0	2.0	2.0	2.0	2.0
Expenditure	**2,635.2**	**2,851.8**	**3,089.6**	**3,052.1**	**2,925.2**	**2,999.4**	**3,092.4**
Recurrent Expenditure	2,422.2	2,,526.3	2,574.1	2,665.9	2,672.2	2,723.5	2,793.4
Capital Expenditure	223.4	325.5	515.5	386.2	252.5	275.9	299.0
Overall Balance: Surplus/(Deficit)	**(219.3)**	**(761.2)**	**(1,327.1)**	**(813.4)**	**(367.2)**	**(122.6)**	**(82.0)**
Less: Interest Payments	328.4	344.6	396.9	432.1	435.5	400.8	395.3
Primary Balance	**109.2**	**(416.6)**	**(930.2)**	**(381.3)**	**68.3**	**278.2**	**313.3**
Government Debt	7,527.0	8,179.7	9,506.8	10,320.2	10,614.4	9,365.8	9,447.8
GDP (Current Prices)	12,544.3	12,055.0	11,481.0	12,058.0	12,780.0	14,519.0	15,027.2
Overall balance as % of GDP	-1.7%	-6.3%	-11.6%	-6.0%	-1.9%	-0.8%	-0.5%
Expenditure as % of GDP	21.1%	23.8%	26.9%	25.3%	22.9%	20.7%	20.6%
Gov't Debt as % of GDP	60.0%	67.9%	82.8%	85.6%	83.1%	64.5%	62.9%

Note: 2023/2024 and 2024/2025 are from the 2019 FAP post-Hurricane Dorian and ratios reflect earlier estimates of GDP by the IMF.

November 2020 Forecasts

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	**2,426.3**	**2,086.9**	**1,658.2**	**2,139.5**	**2,579.9**	**2,803.9**	**3,012.8**
Recurrent	2,426.3.	2,086.8	1,656.2	2,137.5	2,577.9	2,801.9	3,010.8
Capital & Grants	-	0.1	2.0	2.0	2.0	2.0	2.0
Expenditure	**2,645.6**	**2,898.6**	**2,985.3**	**3,094.1**	**2,910.6**	**3,014.2**	**3,086.2**
Recurrent Expenditure	2,422.2	2,526.4	2,555.8	2,677.9	2,646.0	2,733.8	2,792.3
Capital Expenditure	223.4	372.2	429.5	416.2	264.6	280.4	293.9
Overall Balance: Surplus/(Deficit)	**(219.3)**	**(811.7)**	**(1,327.1)**	**(954.6)**	**(330.7)**	**(210.3)**	**(73.5)**
Less: Interest Payments	329.7	344.6	396.9	441.8	443.7	429.1	398.4
Primary Balance	**116.9**	**(467.1)**	**(930.2)**	**(512.8)**	**113.0**	**218.8**	**324.9**
Government Debt	7,527.0	8,191.2	9,476.2	10,386.4	10,594.7	10,755.0	10,828.5
GDP (Current Prices)	13,300.5	12,404.0	11,419.5	12,225.5	13,230.0	14,019.5	14,696.5
Overall balance as % of GDP	-1.6%	-6.5%	-11.6%	-7.8%	-2.5%	-1.5%	-0.5%
Expenditure as % of GDP	19.9%	23.6%	26.1%	25.3%	22.0%	21.5%	21.0%
Gov't Debt as % of GDP	56.6%	66.0%	83.0%	85.0%	80.1%	76.7%	73.7%

- On the assumption that there would be little to no effect of the COVID-19 pandemic during 2022/2023, and with nominal GDP growth projected at 8.2 percent, the revenue to GDP ratio is forecast to strengthen to 19.5 percent, and trend higher to 20.0 percent and 20.5 percent in the ensuring two years to 2024/2025. As with the 2019 FAP, this firming scenario is predicated upon the government continuing to address gaps in revenue administration and to secure progress on other critical reform efforts to ensure fiscal sustainability.

- Apart from the positive growth trajectory, the revenue performance across the medium-term horizon is expected to be supported by a combination of revenue positive developments, including the termination of the incentives programmes associated with Hurricane Dorian by end-June, 2021; the winding up of the COVID-19 initiatives by end-March, 2021; increased returns from the ongoing Real Property tax roll project; the accumulating benefits delivered by the efficiency of the Click2Clear custom clearing arrangement; and the positive spinoffs from the restart or commencement of significant foreign and domestic investment projects. These and other strategies for improving the revenue yield are discussed in **Section 4** of the report.

b. Recurrent Expenditure Forecasts

Tables 10 and **11** present the details of recurrent expenditure by economic and administrative classifications. The Ministry continues to make progress on compiling the functional classification of expenditure. The recurrent expenditure forecasts include further adjustments to the earlier estimates for the impact of the COVID-19 policies implemented by the government in the FY2020/21 budget.

Despite initial increases in expenditure forecasts to meet the immediate COVID-19 social support needs, over the medium-term, the forecasts anticipate a reduction in the ratio of recurrent expenditures to GDP to no more than 19 percent of GDP over the medium-term horizon.

i. FY2020/21

- The 2020/2021 budget estimate of recurrent expenditure represents the baseline scenario which has been adjusted to reflect the new spending requirements and further expenditure savings measures to lessen the impact on the overall budget. Among the unbudgeted expenses are the following:
  - An additional $45.0 million for the unemployment assistance programme though end-December 2020.
  - Increased funding of $10.0 million to support the Rapid Food Distribution Task Force to end-December 2020.
  - Increased support to the state-owned enterprises (SOEs) in the amount of $20.8 million.
- To assist with the increasing pressures exerted by the lower than forecasted revenue performance, the government has signalled its intention to pursue adjustments to both recurrent and capital expenditure, with due consideration to ensuring the continuation of priority projects.

ii. FY2021/22 to FY2024/2025

- The assumed trajectory is for recurrent expenditure to GDP to gradually trend downwards from the COVID-19 and Hurricane Dorian peak of an estimated 22.4 percent of GDP in 2020/2021 to 21.9 percent of GDP in 2021/2022 and lowered progressively to 19.0 percent of GDP in 2024/2025—which is not materially different from the pre-crisis 18.2 percent recorded in 2018/2019.
- The key elements of the medium-term forecasts are government's commitment to reductions in subventions to SOEs, through a programme of activities aimed at making these entities more self-sufficient and efficient. The forecasts also reflect the cost savings emanating from the cessation of the special expenditures associated with Hurricane Dorian by end-June, 2021 and COVID-19 by end-March, 2021.

As globally acknowledged, the still unpredictable nature and timing of COVID-19 surges and resulting commercial and social restrictions create a substantial measure of variability to potential economic forecasts. These risks and implications of alternative upside and downside scenarios are presented in **Section 5** of the report.

c. Capital Expenditure

The government's capital programmes for 2020/2021 and the medium-term years, as presented in **Tables 12, and 13**, seek to maintain these outlays at a minimum of 2.0 percent of GDP.

- After peaking at 3.8 percent of GDP in 2020/2021, capital outlays are forecast to recede to 3.4 percent in 2021/2022 as the need for immediate fiscal stimulus lessens with the expected gradual reflation of the economy.
- In the outer three years of the medium-term framework, the assumption is that capital spending would level-off and stabilize at 2.0 percent of GDP, with the government making much greater use of private capital to facilitate infrastructural development through mutually beneficial public private partnership (PPP) arrangements. The capital expenditure strategy is discussed in **Section 4** of the report.

Table 9: Medium-term Revenue Estimates (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
TAX REVENUE (a+b+c+d)	**2,198.7**	**1,858.2**	**1,434.3**	**1,836.5**	**2,214.9**	**2,407.3**	**2,586.8**
a. Taxes on Property	**109.3**	**99.1**	**108.7**	**127.2**	**153.4**	**166.7**	**179.2**
b. Taxes on Goods & Services (i+ii+iii)	**1,634.4**	**1,346.8**	**1,017.2**	**1,291.0**	**1,557.0**	**1,692.4**	**1,818.6**
i. General	**1,363.8**	**1,154.6**	**849.0**	**1,084.0**	**1,307.4**	**1,421.1**	**1,527.0**
VAT	896.6	879.7	620.9	808.6	975.2	1,060.0	1,139.0
Stamp Taxes (Financial & Realty)	225.3	66.9	58.3	79.1	95.4	103.7	111.4
Excise Tax	241.9	208.0	169.7	196.4	236.8	257.4	276.6
ii. Specific (Gaming taxes)	**39.8**	**39.9**	**46.3**	**41.5**	**50.1**	**54.4**	**58.5**
iii. Taxes on Use of Goods/Permission to Use	**230.8**	**152.3**	**122.0**	**165.5**	**199.6**	**216.9**	**233.1**
Motor Vehicle Taxes	35.4	30.6	29.5	40.0	48.3	52.5	56.4
Company Taxes	20.3	16.8	14.2	19.2	23.2	25.2	27.1
License to Conduct Special Bus. Activity	145.2	103.0	76.5	103.7	125.1	136.0	146.1
Marine License Activities	2.2	1.7	1.8	2.5	3.0	3.2	3.5
Banks & Trust Companies	27.6	0.2	0.0	0.0	0.0	0.0	0.0
c. Taxes on Int'l Trade & Transactions	**444.9**	**405.6**	**301.7**	**409.5**	**493.8**	**536.6**	**576.6**
Customs & other import duties	284.5	227.0	200.9	272.6	328.7	357.3	384.0
Taxes on Exports	13.1	53.1	26.2	35.6	42.9	46.6	50.1
Departure Taxes	147.2	125.3	74.6	101.2	122.0	132.6	142.5
Other	0.2	0.2	0.1	0.1	0.1	0.2	0.2
d. General Stamp Taxes	**10.1**	**6.7**	**6.6**	**8.8**	**10.6**	**11.6**	**12.4**
NON-TAX REVENUE (e+f+g+h+i+j)	**227.6**	**228.6**	**221.9**	**301.0**	**363.0**	**394.6**	**424.0**
e. Property Income	**19.6**	**30.4**	**37.0**	**50.2**	**60.6**	**65.8**	**70.7**
Interest & Dividends	5.4	10.9	23.7	32.2	38.8	42.2	45.3
Revenue - Gov't Property	14.2	19.5	13.3	18.1	21.8	23.7	25.4
f. Sales of Goods & Services	**196.0**	**151.2**	**138.3**	**187.7**	**226.4**	**246.1**	**264.4**
i. Fees & Service Charges	**175.1**	**132.1**	**120.4**	**163.4**	**197.1**	**214.2**	**230.2**
General Registration	5.6	4.3	3.6	4.8	5.8	6.3	6.8
General Service	13.5	12.1	10.3	13.9	16.8	18.2	19.6
Immigration	93.2	67.2	58.3	79.1	95.4	103.7	111.4
Land & Building	2.5	2.1	2.2	2.9	3.5	3.8	4.1
Legal	1.1	1.2	0.8	1.1	1.3	1.4	1.5
Customs	50.4	40.0	40.5	55.0	66.3	72.1	77.4
Port & Harbour	6.7	4.4	3.1	4.2	5.1	5.5	5.9
Health	1.5	0.5	1.8	2.4	2.9	3.1	3.4
Other Fees	0.6	0.3	0.0	0.0	0.0	0.0	0.0
ii. Other	**20.9**	**19.1**	**17.9**	**24.3**	**29.3**	**31.8**	**34.2**
g. Fines, Penalties & Forfeits	**6.7**	**4.8**	**4.1**	**5.6**	**6.7**	**7.3**	**7.9**
h. Reimbursements & Repayments	**0.2**	**39.4**	**38.1**	**51.7**	**62.4**	**67.8**	**72.9**
i. Misc. & Unidentified Revenue	**2.4**	**2.8**	**1.6**	**2.1**	**2.6**	**2.8**	**3.0**
j. Sales of Other Non-Financial Assets	**2.7**	**0.0**	**2.7**	**3.6**	**4.4**	**4.8**	**5.1**
TOTAL TAX & NON-TAX REVENUE	**2,426.3**	**2,086.8**	**1,656.2**	**2,137.5**	**2,577.9**	**2,801.9**	**3,010.8**
Grants	0.0	0.1	2.0	2.0	2.0	2.0	2.0
Capital Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRAND TOTAL	**2,426.3**	**2,086.9**	**1,658.2**	**2,139.5**	**2,579.9**	**2,803.9**	**3,012.8**

Table 10: Medium-term Recurrent Expenditure Estimates by Economic Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Compensation of Employees	**712.2**	**760.8**	**736.9**	**772.4**	**760.3**	**786.0**	**801.5**
Wages & Salaries	621.9	657.5	642.5	669.9	659.4	681.7	695.1
Allowances	59.1	76.1	60.9	68.0	66.9	69.2	70.5
NIB Contribution	31.2	27.2	33.5	34.5	34.0	35.1	35.8
Use of Goods & Services	**591.2**	**561.8**	**496.3**	**575.2**	**566.2**	**585.3**	**596.9**
of which:							
Travel & Subsistence	9.6	12.8	9.5	9.8	9.7	10.0	10.2
Rent	69.0	72.4	64.4	66.4	65.3	67.5	68.9
Utilities & Telecommunications	97.8	80.5	76.6	94.9	93.4	96.5	98.4
Supplies & Materials	52.0	50.7	41.9	43.3	42.6	44.0	44.9
Services	109.9	183.9	155.9	192.4	189.4	195.8	199.6
Minor capital repairs	4.5	3.7	4.1	4.2	4.1	4.3	4.3
Finance charges	23.7	13.6	25.0	25.8	25.4	26.2	26.8
Special Financial Transactions	121.9	100.1	85.3	103.8	102.2	105.6	107.7
Tourism Related	59.1	6.9	8.4	8.7	8.5	8.8	9.0
Local Gov't Districts	13.3	13.0	13.3	13.7	13.5	14.0	14.3
School Boards	5.8	0.1	0.1	0.1	0.1	0.1	0.1
Other	24.6	24.1	11.9	12.2	12.0	12.4	12.7
Public Debt Interest	**328.5**	**344.6**	**396.9**	**432.1**	**435.5**	**448.6**	**462.0**
Subsidies	**392.7**	**427.5**	**370.9**	**382.5**	**376.5**	**389.3**	**396.9**
Grants	**8.2**	**8.6**	**7.5**	**7.7**	**7.6**	**7.8**	**8.0**
Social Assistance Benefits	**46.3**	**47.7**	**147.4**	**141.7**	**139.5**	**144.2**	**147.1**
Pensions & Gratuities	**139.8**	**140.3**	**140.9**	**145.3**	**143.0**	**147.8**	**150.8**
Other Payments	**203.3**	**235.1**	**259.1**	**220.9**	**217.4**	**224.7**	**229.2**
Current Transfers n.e.c.	150.5	158.4	191.3	150.9	148.5	153.5	156.5
Insurance Premiums	52.8	76.7	67.8	70.0	68.9	71.2	72.6
TOTAL	**2,422.2**	**2,526.4**	**2,555.8**	**2,677.9**	**2,646.0**	**2,733.8**	**2,792.3**
			(in percent of GDP)				
Total Recurrent Expenditure	18.2	20.4	22.4	21.9	20.0	19.5	19.0
Compensation of Employees	5.4	6.1	6.5	6.3	5.7	5.6	5.5
Use of Goods & Services	4.4	4.5	4.3	4.7	4.3	4.2	4.1
Public Debt Interest	2.5	2.8	3.5	3.5	3.3	3.2	3.1
Subsidies	3.0	3.4	3.2	3.1	2.8	2.8	2.7
Social Assistance Benefits	0.3	0.4	1.3	1.2	1.1	1.0	1.0
Pensions & Gratuities	1.1	1.1	1.2	1.2	1.1	1.1	1.0
Other Payments	1.5	1.9	2.3	1.8	1.6	1.6	1.6

Table 11: Recurrent Expenditure Estimates by Administrative Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Governor General & Staff	1.0	1.1	1.1	1.1	1.1	1.2	1.2
The Senate	0.3	0.3	0.4	0.4	0.4	0.4	0.4
House of Assembly	2.1	6.1	6.6	6.8	6.7	6.9	7.1
Dept. of the Auditor General	2.2	2.3	3.4	3.5	3.5	3.6	3.6
Department of Public Service	246.4	278.3	283.5	292.4	287.8	297.6	303.4
Cabinet Office	7.1	6.8	7.5	7.7	7.6	7.9	8.0
Attorney General's Office	18.0	19.7	19.2	19.8	19.5	20.2	20.6
Judicial Department	12.5	13.3	14.0	14.4	14.2	14.7	15.0
Court of Appeal	2.0	2.0	2.4	2.5	2.4	2.5	2.6
Registrar General's Department	3.4	2.8	3.9	4.0	4.0	4.1	4.2
Prison Department	27.3	26.3	30.0	30.9	30.5	31.5	32.1
Parliamentary Registration Dept	0.7	1.1	1.8	1.9	1.8	1.9	1.9
Ministry of Foreign Affairs	30.7	33.4	34.0	35.1	34.5	35.7	36.4
Office of the Prime Minister	18.9	22.5	25.1	25.9	25.5	26.3	26.9
Bahamas Info Service Dept	2.0	1.9	2.0	2.1	2.0	2.1	2.1
Government Printing Dept	1.5	1.1	1.6	1.7	1.6	1.7	1.7
Department of Local Government	25.4	23.6	26.7	27.5	27.1	28.0	28.6
Department of Physical Planning	0.8	0.8	0.8	0.8	0.8	0.8	0.9
Dept of Lands & Surveys	1.2	2.5	2.3	2.4	2.3	2.4	2.5
Ministry of Finance	291.0	215.1	225.2	261.5	257.4	266.1	271.3
Treasury Department	87.5	101.7	110.0	113.5	111.7	115.5	117.7
Customs Department	35.9	35.4	36.6	37.8	37.2	38.4	39.2
Department of Statistics	2.8	3.0	5.6	5.8	5.7	5.9	6.0
Public Debt Servicing -Interest	329.7	344.6	396.9	432.1	435.5	448.6	462.0
Department of Inland Revenue	15.2	5.9	6.3	6.5	6.4	6.6	6.7
Ministry of National Security	5.2	9.9	7.0	7.2	7.1	7.3	7.5
Department of Immigration	31.7	34.1	37.5	38.7	38.1	39.4	40.1
Royal Bahamas Police Force	122.0	126.9	123.0	126.9	124.9	129.1	131.7
Royal Bahamas Defence Force	57.2	60.9	60.2	62.1	61.1	63.2	64.4
Ministry of Public Works	77.1	73.1	57.6	59.4	58.5	60.5	61.7
Department of Public Works	17.0	17.4	18.4	19.0	18.7	19.3	19.7
Department of Education	194.1	198.0	202.0	208.4	205.1	212.0	216.2
Department of Archives	0.6	0.7	0.8	0.8	0.8	0.8	0.9
Ministry of Education & Training	103.9	103.0	110.1	113.6	111.8	115.6	117.8
Ministry of Transport & Local Government	8.6	9.0	9.0	9.3	9.1	9.4	9.6
Ministry of Social Services	10.5	10.3	21.1	11.4	11.3	11.7	11.9
Social Service Department	34.4	42.6	41.0	42.3	41.6	43.0	43.9
Department of Housing	1.8	2.0	2.7	2.8	2.7	2.8	2.9
Ministry of Youth Sports & Culture	20.6	20.0	22.5	23.2	22.8	23.6	24.1
Labor Department	2.2	2.2	2.5	2.6	2.5	2.6	2.7
Ministry of Fin. Services, Trade & Industry	2.0	1.5	2.3	2.4	2.3	2.4	2.5
Post Office Department	6.4	5.9	7.0	7.2	7.1	7.3	7.5
Port Department	7.8	7.6	9.0	9.3	9.1	9.4	9.6
Department of Road Traffic	4.5	4.6	5.3	5.5	5.4	5.6	5.7
Department of Meteorology	2.3	2.2	2.6	2.7	2.6	2.7	2.8
Ministry of Agriculture & Marine Resources	20.7	22.4	25.0	25.8	25.4	26.2	26.8
Department of Agriculture	5.7	5.6	6.3	6.5	6.4	6.6	6.7
Department of Marine Resources	2.3	2.1	2.8	2.9	2.8	2.9	3.0
Ministry of Health	299.4	340.2	290.0	299.1	294.4	304.4	310.4
Dept. of Environmental Health Services	46.7	66.1	74.7	77.1	75.8	78.4	80.0
Ministry of Tourism & Aviation	114.1	125.8	90.1	92.9	91.5	94.6	96.4
Ministry of Labour	5.3	5.6	8.6	8.9	8.7	9.0	9.2
Ministry of Environment & Housing	25.0	37.3	31.5	32.5	32.0	33.1	33.7
Department of Transformation & Digitization	17.5	30.3	25.3	26.1	25.7	26.6	27.1
Ministry for Grand Bahama	10.0	7.1	13.0	13.4	13.2	13.6	13.9
GRAND TOTAL	**2,422.2**	**2,526.4**	**2,555.8**	**2,677.9**	**2,646.0**	**2,733.8**	**2,792.3**

Table 12: Capital Expenditure by Economic Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Capital Transfers	**30.6**	**151.6**	**223.3**	**152.3**	**104.4**	**110.6**	**115.9**
Acquisition of Non-financial assets	**192.8**	**220.6**	**206.2**	**263.9**	**160.2**	**169.8**	**178.0**
Fixed Assets	**192.8**	**220.6**	**201.4**	**260.3**	**157.8**	**167.2**	**175.3**
Buildings other than dwellings	62.2	74.1	56.7	97.2	56.3	59.7	62.5
Other structures	85.5	83.9	79.6	114.4	68.1	72.1	75.6
Transport equipment	11.6	3.4	11.3	8.5	5.8	6.2	6.4
Other Machinery & equipment	10.0	28.8	22.2	16.7	11.4	12.1	12.7
Land Improvements	0.7	1.3	5.6	4.2	2.9	3.1	3.2
Other fixed assets	22.7	29.1	25.9	19.4	13.3	14.1	14.8
Land	**0.0**	**0.0**	**4.8**	**3.6**	**2.5**	**2.6**	**2.7**
TOTAL	**223.4**	**372.2**	**429.5**	**416.2**	**264.6**	**280.4**	**293.9**
CAPEX (in percent of GDP)	1.7	2.8	3.8	3.4	2.0	2.0	2.0
CAPEX (as percent of total expenditure)	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Table 13: Capital Expenditure by Administrative Classification (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Ministry of Foreign Affairs	0.2	2.0	2.5	1.9	1.3	1.4	1.4
Cabinet Office	0.0	2.8	0.0	0.0	0.0	0.0	0.0
Office of The Attorney General	0.0	0.2	2.2	1.6	1.1	1.2	1.2
Office of The Prime Minister	0.0	6.7	0.0	0.0	0.0	0.0	0.0
Treasury Department	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Customs Department	0.0	3.4	2.5	1.9	1.3	1.4	1.4
Department of Inland Revenue	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Department of Labour	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Ministry for Grand Bahama	0.0	1.3	2.0	1.5	1.0	1.1	1.1
Ministry of Finance	51.9	147.4	200.4	135.1	92.6	98.1	102.8
Ministry of National Security	4.4	12.0	20.0	15.0	10.3	10.9	11.4
Department of Immigration	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Royal Bahamas Defence Force	9.0	8.9	10.0	7.5	5.1	5.4	5.7
Ministry of Public Works	98.1	94.1	45.3	143.4	77.7	82.3	86.3
Ministry of Education & Training	43.7	52.3	67.0	50.2	34.4	36.4	38.2
Department of Housing	1.2	3.0	0.0	0.0	0.0	0.0	0.0
Port & Marine Department	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Ministry of Agriculture & Fisheries	0.6	1.2	3.6	2.7	1.9	2.0	2.1
Ministry of Health	11.6	22.1	39.1	29.3	20.0	21.2	22.3
Ministry of the Environment & Housing	2.1	4.3	11.9	8.9	6.1	6.5	6.8
Ministry of Tourism & Aviation	0.0	2.0	4.0	3.0	2.1	2.2	2.3
Department of Transformation & Digitization	0.0	7.5	12.0	9.0	6.2	6.5	6.9
Ministry of Transport & Local Government	0.0	0.56	0.5	0.4	0.3	0.3	0.3
Ministry of Disaster Preparedness, Management & Reconstruction	0.0	0.0	6.5	4.9	3.3	3.5	3.7
TOTAL	**223.4**	**372.2**	**429.5**	**416.3**	**264.6**	**280.4**	**293.9**

3.3 Overall Balance and Debt Financing

The overall balance and the financing structure for the medium-term fiscal framework is outlined in **Table 14.** Based on the revenue and expenditure assumptions, the deficit on the overall fiscal position is expected to narrow from $1,327.1 million in 2020/2021 to $954.6 million in 2021/2022. This is forecasted to be followed by a significant improvement in 2022/2023 to an estimated $208.3 million, as the economy moves closer to full capacity under the assumed dissipation of the global COVID-19 crisis. The $73.5 million deficit envisaged for 2024/25 equates to an estimated 0.5 percent of GDP and would achieve convergence with the requirement fiscal deficit target under the Act and the 2019 FAP prepared after Hurricane Dorian.

Table 14: Sources of Budget Financing through the Medium Term (B$M)

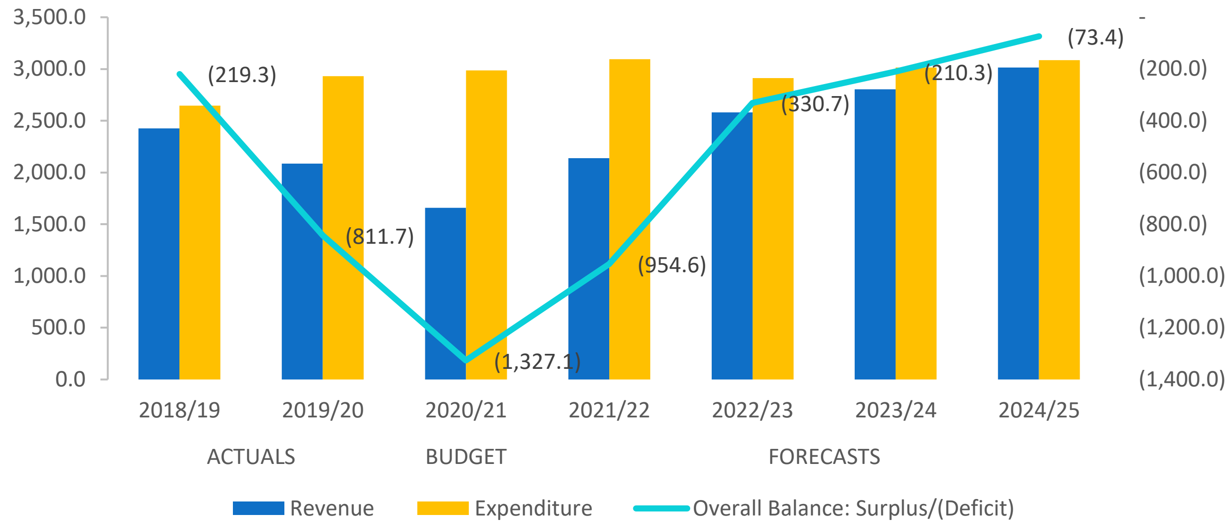
	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Overall Balance [Surplus/(Deficit)]	**(219.3)**	**(811.7)**	**(1,327.1)**	**(954.6)**	**(330.7)**	**(210.3)**	**(73.4)**
Net Incurrence of Liabilities (a-b) [+]	**580.2**	**662.3**	**1,334.2**	**954.6**	**330.7**	**210.3**	**73.4**
a. Borrowings	1,175.4	1,541.3	2,030.8	1,809.2	953.0	1,034.9	565.2
b. Debt Repayment	595.2	879.0	696.6	854.6	622.3	824.6	491.8
Net Acquisition of Financial Assets [-]	**145.4**	**75.1**	**46.5**	**46.5**	**46.5**	**46.5**	**46.5**
Sinking Funds	46.5	49.8	46.5	46.5	46.5	46.5	46.5
Equity	73.1	10.3	0.0	0.0	0.0	0.0	0.0
Other	25.8	15.0	0.0	0.0	0.0	0.0	0.0
Other Financing & Cash Balance Change (incl. Overdraft) [()= increase]	**215.5**	**224.5**	**(39.4)**	**(46.5)**	**(46.5)**	**(46.5)**	**(46.5)**

From a financing perspective, assumptions for the forward years include several one-off transactions that will have a positive impact on the deficit—namely, the contemplated sale of the government's shares in ALIV by the 2022/2023 fiscal period and the monetization of the government's proposed solar special purpose vehicle in 2023/2024. Together, these transactions are targeted to generate approximately $125 million in additional resources to the government for use in reducing financing requirement in these years.

Consistent with the projected overall balance outcomes, the debt is expected to increase in 2020/2021 to approximately $9.5 billion or 83.0 percent of GDP, and grow incrementally to an estimated 85 percent of GDP in 2021/2022. With the reduction in the overall deficit and the increasing primary surplus position in the outer years of the medium-term framework, it is envisaged that the debt would taper off to 73.7 percent of GDP by 2024/2025.

Given the already aggressive and policy weighted path to fiscal consolidation, it is unlikely that the government would achieve the 50 percent debt target by 2028/2029 as projected in the 2019 FAP. The government, therefore, envisages a more reasonable target date of 2030/2031—a further extension of two years—for achieving the debt target. This is predicated on the assumption that the accumulation of primary surpluses in the intervening years would reduce the need for borrowing. Details on the government debt and debt sustainability analysis are presented in **Section 6**.

Figure 6: Summary of Fiscal Data (B$M)



3.4 Fiscal Responsibility

In accordance with Section 7 of the Act, the government is mandated to manage its fiscal affairs in line with the principles of accountability, intergenerational equity, responsibility, stability, and transparency. Recent measures taken to promote these fiscal principles are presented in **Table 15** and underscore the government's commitment to good governance.

Table 15: Actions on Fiscal Responsibility General Principles

Action	Principles					
	Accountability	Inter-generational equity	Responsibility	Stability	Transparency	Inclusive growth
Provision of key health, business, and social COVID-19 related support	■	■	■	■	■	■
Public Procurement Bill, 2000 tabled in the House of Assembly	■		■	■	■	
Policy adopted to rationalize subventions to SOEs	■		■	■		
Regular press briefings and participation in public fora to present on the state of the public finances	■		■		■	
Publication of Quarterly Fiscal Reports	■		■		■	
Creation of new unit to manage International	■		■			

Action	Principles					
	Accountability	Inter-generational equity	Responsibility	Stability	Transparency	Inclusive growth
Financial Institutions engagements						
Public consultation on Public Finance Management Bill	■		■	■	■	
Public consultation on Debt Management Bill	■		■	■	■	
Support of a Bahamas digital currency which will reach the unbanked population	■		■			■
Preparation of a new Small, Medium Enterprises Bill for public consultation		■			■	■
Fiscal Responsibility Council appointed	■		■	■	■	
Greater funding for vocational certification courses	■		■			■
Public consultation on draft Statistics Bill	■		■		■	
Appointment of Economic Recovery Committee	■	■	■	■	■	

4. GOVERNMENT FISCAL STRATEGY AND PRIORITIES

4.1 Key Budget Priorities and Considerations

Both Hurricane Dorian and the COVID-19 pandemic have presented strong disruptions to macroeconomic stability and the government's plans for fiscal and debt sustainability. However, the government remains resolute in its commitment to pursue a fiscal strategy that will reposition the public finances on a sustainable path, which is a necessary condition for a resilient and durable economic recovery with expanding job opportunities. In this context, the medium-term fiscal strategy will focus on ensuring sustainable taxation policies and measures, and revenue growth, the efficient and judicious use of the government's resources; prioritization of infrastructure investments to effect meaningful change in the economy; and supporting a sustainable, resilient and competitive economy through a sound and progressive economic policy framework.

a. Revenue Strategies

The government recognizes the importance of pursuing a credible strategy for ensuring revenue sufficiency to support requirements for productive outlays. As previously indicated, the forecast years assume that the tax-to GDP ratio will rise from a low of 14.5 percent in 2020/2021 to a high of 20.5 percent in 2024/2025, which is necessary to support the overall fiscal and debt consolidation objectives under the recently revised medium-term fiscal framework, and the government's corresponding economic and social priorities. Given the likelihood that this outcome will not be achieved by economic growth alone, the government intends to pursue a combination of improved tax administration to increase the revenue yield and continued tax policy reforms, in addition to the expected unwinding of the existing incentive schemes necessitated by the two recent external shocks.

Tax Compliance Measures:

- Strengthen investigation and intelligence capability to reinforce the efforts undertaken by the Revenue Enhancement Unit that was established in 2019.
- Continue exploiting the use of big data techniques to detect tax evasion and avoidance.
- Increase the use of risk-based audits for Value Added Tax to protect the yield.
- Intensify use of third-party entities to improve revenue collection effectiveness and efficiency.
- Continue monitoring and adjusting the Custom's Electronic Single Window, "Click2Clear", which was launched in September 2019, to ensure efficient collection and maximization of custom revenue intake across the medium term.
- Consolidate and complete the ongoing real property tax roll project to increase the yield in line with expectations.

Legal & Administrative Reforms

- Review the existing laws to determine opportunities for modernization and simplification of tax legislation, having regard to efficiency, fairness and stability of taxes, and to achieve conformity with best practices.

Tax Reform

- Conduct a diagnostic review of the tax regime to identify and eliminate revenue administration gaps and contain leakages.
- Review existing tax regime to develop a road map of tax system reform recommendations that would introduce greater progressivity, fairness and stability to the government's revenue collection over the medium-term horizon.
- Undertake a review of tax expenditures and incentives to assess whether they are meeting the overriding economic policy goals of growth and employment, and whether the benefits justify the associated costs.

b. Recurrent Expenditure Policy & Priorities

The government remains committed to limiting the recurrent expenditure to GDP ratio to a ceiling of 19 percent over the medium-term, and in ensuring that spending is aligned with the overall efficiency goal. Areas such as education, health, and the social programmes will continue to receive priority, and in this COVID-19 environment, the government intends to ensure that additional resources are made available to meet expanding health requirements. The government also acknowledges that reducing and containing operational costs is critical for promoting operational efficiency and ensuring efficient utilization of future revenue gains. Therefore, as part of the plan to secure fiscal sustainability, areas of focus will include the following initiatives.

- **Limiting the overall growth in public sector employment**. Except for priority areas, mainly health, the uniformed branches of government, and boosting technical and professional resources and expertise necessary to meet the increasing need for policy review and support, the government intends to curtail overall growth in employment.
- **Targeted review of public expenditures to enhance the effectiveness and efficiency of spending**. Early in fiscal year 2021/2022, the government will undertake a comprehensive assessment of expenditures to ensure, *inter alia*, the effectiveness of budgetary spending controls and management of associated fiscal risks; the proper alignment of budget planning and execution with the government's priority objectives; efficiency in the delivery of services; and that the government is receiving value for money.
- **Acceleration of the SOE reform agenda.** The government has targeted $120 million in cost savings across the medium-term horizon from the SOEs, to achieve a meaningful reduction in the subvention to these entities which approximated $408.0 million for 2020/2021. In 2019, the government engaged the assistance of a firm to conduct a review of several SOEs, for the purpose of identifying cost savings through either legislative, regulatory, or institutional initiatives. The exercise has produced several recommendations that are being considered by the government to achieve this objective, including the introduction of properly phased-in cost recovery measures slated to commence by mid-2021 for Bahamasair and the Water & Sewerage Corporation. Ongoing developments in the aviation sector, relative to the introduction of overflight fees to support the delivery and long-term development of air navigation services in The Bahamas, will also provide for the elimination of the annual subventions provided to the Civil Aviation Authority of The Bahamas, budgeted at $15.3 million for 2020/2021.
- **Digitization of government services**. The government will seek to drive public sector transformation and contain a range of budgetary costs though the employment of digital technologies in the execution and delivery of key processes and services. The government's Department of Transformation and Digitization (DTaD) has made significant progress in simplifying and improving existing online portal functionality for payments and services, and is piloting several important

digitization projects, such as on-line requests for services from the Registrar General's Department (certified copies of birth, marriage and death certificates); Road Traffic (Driver's licence) and the Passport Office (e-passport renewal). Approximately $11.4 million is budgeted for these activities in 2020/21, an additional $13.5 million in 2021/2022 and $10.8 million in 2022/2023. By delivering enhanced operational efficiency and effectiveness, these activities will have a growing positive impact on the country's competitiveness, innovation and Bahamians, in general. The Government will also take steps for the onboarding of the Central Bank's digital currency (Sand Dollar) as a payment method for the collection of revenue for all government agencies.

- **Reform of pension arrangements**. The government intends to advance plans to introduce a defined contribution plan to address the long-run costs being accumulated under the existing defined benefit arrangement.

c. Capital Expenditure Policy

The government's medium-term target for capital expenditure is forecasted at 2.0 percent of GDP. Aside from the residual rebuilding activities related to Hurricane Dorian, the spending priorities through the medium-term will focus on investments in health infrastructure, roads, bridges, airports and energy.

- **Priority focus on health**. The COVID-19 pandemic has exerted tremendous strain on the countries' healthcare facilities which were not designed to address this type of high-risk viral infection. The government will ensure the provision of additional resources to continue building out the appropriate facilities that conform with best practices.
- **Expenditure Review**. The general expenditure review exercise planned by the government will give particular focus on improving the efficiency of investments made in key areas such as transport, public works, education and health—from the perspective of ensuring proper project implementation, monitoring and evaluation.
- **Greater use of Public Private Partnerships**. The government intends to leverage Public Private Partnership opportunities, as a mechanism for delivering priority infrastructure needs—building upon the policy framework established in 2018. The government will give consideration to the establishment of an Infrastructure Development Fund which will seek to leverage substantial private sector funds to support the development of critical infrastructure with emphasis on expanding commercial and economic opportunities in the Family Islands.

d. Public Sector Reforms

The government is pursuing a compendium of important public sector legislative reforms that will assist in improving efficiency, transparency and accountability in the use of public resources.

In the area of public financial management, the draft Public Financial Management Bill will provide a framework that would improve budget execution; support greater efficiency in the use of public resources, and secure greater accountability across the public sector and the SOEs, though enhanced reporting and publication requirements, and reviews. A key component of the new reporting requirements will be the preparation of an annual report on non-financial performance including measurable indicators which will achieve compliance with the Act. This initiative is being reinforced by several other public sector financial management reforms underway, including procurement plans for the new Integrated Financial Management Information System and Human Resources Management Information System (IFMIS/HRMIS) and the ongoing exercise to transition to accrual accounting.

The draft Public Debt Management Bill will introduce a more effective governance structure for the management of the government's debt, through the proposed Debt Management Unit and the Debt Management Committee. The legislation also provides for better management of contingent liabilities, based on the required risk assessment of borrowing activities aimed at minimizing potential exposure of the government.

The draft Public Procurement Bill, which is presently awaiting Parliamentary debate, will modernize the government's procurement arrangements system and achieve convergence with international best practices in the areas of efficiency, transparency and fairness in these activities. Notably, the Bill will introduce reforms in the delivery of procurement activities, the establishment of the public procurement department, and ensure that sound principles of procurement are employed across the public sector. A key part of these reforms is the establishment of the eProcurement and Supplier Registry (ePSR)—the government's electronic procurement system, that will facilitate the online posting of all public sector contract opportunities, vendor invitations, acceptance of electronic bids/quotes and proposals and contract awards and management.

The government is targeting early 2021 for enactment of these three (3) pieces of draft public financial management legislation.

e. Structural Reforms and Economic Policy

Over the medium-term fiscal horizon, the government will remain focused on eliminating obstacles to long-term economic growth and job creation, by continuing to pursue activities aimed at improving the competitiveness of the Bahamian economy with emphasis on the following:

- **Supporting the development of Micro, Small and Medium Sized Businesses (MSMEs).** The government recognizes the valuable contribution of MSMEs to sustainable and more inclusive development, in terms of contributions to economic growth, creation of jobs, provision of public goods and services, as well as poverty alleviation and reduced inequality. Ensuring their growth is, therefore, important for achievement of the government's socio-economic objectives. Appreciating the value of MSMEs to the Bahamian economy, the government, through direct budgetary support of the SBDC has indicated its intent to provide direct funding of $50 million per year for the upcoming five fiscal years ($250 million in aggregate) to further support the growth of MSMEs.

- **Promoting domestic and foreign investment**. The government recognizes the need for greater efficiency in promoting the development of larger scaled investments, which contribute significantly to new jobs and spending in the economy. Renewed focus is being given to expediting pipeline projects along the implementation stages—adding to the already important foreign direct investment (FDI) projects either approved or underway (e.g., the Grand Lucayan Project and redevelopment of the cruise port in Grand Bahama; the construction of GoldWynn's condo-hotel and residences; and the redevelopment of the downtown cruise port by Nassau Cruise Port Ltd.). In late October, 2020, the government announced its acceptance of the ERC's recommendation to restructure the FDI investment decision making process, so that applications under $10 million do not require submission to the National Economic Council. This administrative carve out would provide a more expeditious approval path for potential impact investments. The Bahamas Investment Authority (BIA) will be provided additional resources to focus on promotion of Foreign Domestic Investment.

- **Increased investments in the digitization of government**. The digitization of government processes/services will bring greater cost efficiency and effectiveness to government operations. As part of the initiatives being undertaken by the DTaD, the government intends to digitize the domestic and foreign investment processes, providing efficient, electronic access for businesses and investors to government services. Similarly, the government's service delivery framework has and continues to expand to provide digital access to passport and immigration services, vehicle and driving licenses, social safety net support (including receipt of social services), etc.

- **Promotion of a digital economy**. Acknowledging the benefits of a digital economy, the government has pledged to promote the development of a national digital marketplace. The proposed e-commerce platform will seek to provide opportunities for small businesses and other Bahamian entrepreneurs to trade their goods and services internationally. The government is also supportive of the Central Bank's digital currency as a means of promoting financial inclusion and building resiliency in the payment infrastructure to natural disasters.

- **Promoting energy reform through the use of renewables**. The government is committed to the use of more efficient and environmentally friendly energy sources, as a means of improving energy security and cost. A key prong of the government's socio-economic transformational agenda and economic resilience plan is to optimize energy efficiency by incorporating the use of renewable resources throughout the Family Islands. This imperative was reinforced by the passing of Hurricane Dorian which left the affected islands without power for extended periods. During fiscal year 2020/2021, the government intends to utilize $80 million of the $170 million IDB Contingent Credit Line for Investment Projects for advancing solar energy opportunities on a commercial scale in the Family Islands. The project will include rooftop solar installations for public buildings which will achieve fiscal savings for the government through lower electricity bills and reduce The Bahamas carbon footprint and greenhouse gas emissions. In a further move to enhance climate resiliency capacity and reduce The Bahamas' footprint in fossil fuel generated electricity, the government is continuing with the streetlight retrofitting project with solar installation. The project is being funded by a loan from the Caribbean Development Bank, which is expected to be fully disbursed by August 2021. In yet another initiative to contain energy costs, the government has supported The Bahamas Power and Light's initiatives to hedge oil prices, at no cost to the government, by utilizing commodity conversion clauses that exist in its IDB loans to facilitate such transactions. The objective is to deliver a lower fuel charge to the consumer.

- **Improving the ease of doing business**. In its Doing Business 2020 Report, the World Bank reassessed The Bahamas' spot on its Ease of Doing Business Index, from 118th to 119th out of 190 countries score. Recently, the government has made progress in meeting its targeted 20-point improvement in its score as it continues to address areas to improve the ease of doing business in The Bahamas, although the World Bank has advised that the release of its 2021 report has been delayed, while it preforms as assessment of irregularities found in previous reports. The work programme for the inter-agency working group appointed by the government in 2018 is increasing its focus on areas dealing with access to credit, the establishment of the moveable collateral registry by the Central Bank and the introduction of an electronic platform for processing of building plans to secure an improvement in construction permit issuance activities.

  In a move to further support business growth and entrepreneurship, the government intends to expand the use of the provisional license, which streamlines and accelerates the time it takes to start a new business deemed to be low risk (e.g., home-based or trading as businesses in non-regulated industries). The government also intends to take immediate steps to quicken the pace of approvals for major domestic and foreign investment projects. The current investment regime and related agencies will expedite reform efforts to ensure that prospective investors have access to all regulatory requirements and can obtain prompt responses to their applications.

- **Investment in Skill and Education Building**. The Government is committed to investing in skills and education to boost labour productivity and secure more inclusive growth for Bahamians. As part of its goal to train the workforce needed for a modern and resilient Bahamas, the government, through the Networking Academy Programme (the Programme) of the Bahamas Technical and Vocational Institute (BTVI), has secured Cisco's assistance in training one hundred (100) software developers to build local talent based on Cisco standards. This programme, alongside other educational initiatives of the BTVI to develop a Bahamian workforce, skilled in information and communication technologies, will underpin the government's broader goal of establishing Grand Bahama as a technology hub and help to drive down the unemployment rate.

- **Expanding Potential Financial Sector Opportunities.** The government recognizes the value of the financial services sector to economic growth, in providing significant high-end employment opportunities for Bahamians, and the important linkages to tourism and the second-homes market. Significant effort has been placed on ensuring that the jurisdiction remains competitive, and agile in in the context of the dynamic changes underway in the financial technology space. In a signature piece of legislation, the government passed on November 3, 2020, the Securities Commission's most progressive piece of legislation to date, the Digital Assets and Registered Exchanges (DARE) Act, 2020. The DARE Act creates a compliant legislative regime to regulate the issue and sale of digital assets, including digital tokens and digital asset businesses.

5. Fiscal Risk and Mitigation Strategies

Fiscal risks are driven by developments or events that may cause the government's fiscal performance to deviate from the expected budget outcome or the medium-term forecasts, or that threaten long-term fiscal sustainability. Crystallization of potential shocks to forecasts of government revenue and expenditure could increase the overall deficit and the public debt. The government acknowledges the importance of risk identification, analysis, and mitigation in its fiscal planning exercise, and recognizes that sound management of fiscal risks contributes to macroeconomic stability.

In managing the principal risks, the government seeks to identify the source, scale, and likelihood of the risk which are disclosed in the 2020 FSR to ensure accountability. The principal risks over the medium-term horizon are summarized in **Table 16**, along various risk mitigation measures that the Government has either devised/or could implement should one or more of these risks materialize during the forecast period. The presentation below groups fiscal risks into the categories of macroeconomic (which has feedback effects on both revenue and expenditure), natural disasters and government guarantees.

5.1 Macroeconomic Risks

Beyond the uncertainties inherent in key economic, revenue and expenditure forecasts, posed by the usual volatility in external macroeconomic variables (e.g., commodity prices, global GDP growth, interest and exchange rates), the COVID-19 pandemic has triggered a significant intensification of fiscal risks.

The extreme uncertainty about the duration and intensity of this health and economic crisis, and the second wave of outbreaks underway as this report is being prepared, represent significant downside risks to the forecasts, which the government view as medium to high. The potential for an upside outcome would be predicated on the availability of more effective medical treatment and containment measures for COVID-19 and the fast-tracking of the roll-out of promising vaccines. To illustrate a range of other plausible outcomes around the forecasts, two scenarios were considered: an extreme downside risk scenario and a moderate downside risk scenario.

Under the extreme downside risk scenario, the assumptions considered are a widespread resurgence of COVID-19 infections across the world and in The Bahamas, which would lead to imposition of containment measures—similar in stringency and duration to conditions imposed in the earlier months of the COVID-19 lockdown and in August, and with low or no cross border activity until July 2021. Based on the revenue performance to date, these conditions could potentially lead to additional revenue losses in excess of 30 percent of budgeted levels over the remainder of 2020/2021.

A more moderate downside scenario envisaged the continuation of the temporary, intermittent, and less restrictive containment measures as resorted to over the month of October until April 2021. This scenario could produce potential revenue losses in excess of 22 percent of current projected levels.

It is apparent that the longer COVID-19 persists, the greater the adverse impacts on economic growth, investment and the fiscal situation, and the increased financial stress for households and businesses. The government recognizes these risks and seeks to, inter alia, ensure the prudent management of the public finances, and address structural impediments to growth to counter these vulnerabilities posed by global macroeconomic conditions and the health pandemic.

5.2 Natural Disasters

The Bahamas is exposed to extreme weather-related events, such as hurricanes, which are increasing in intensity and frequency, and a source of potential widespread damage to lives and infrastructure, and increased financial, fiscal and social costs that may be catastrophic in scope. In the context of constrained fiscal space, the Government recognizes the importance of disaster risk management strategies as indispensable for enhancing fiscal and economic resilience.

To address these vulnerabilities, the Government has access to a range of measures to reduce the financial exposure and other vulnerabilities to disaster risk

- **Contingent Credit Line**: As with Hurricane Dorian, the government can continue to leverage the IDB's contingent credit line.
- **Disaster Insurance**. The government maintains a risk transfer mechanism in the form of a parametric insurance policy with the CCRIF, which divides coverage for The Bahamas into three zones—the North West, South East and Central Bahamas, each with separate parametric triggers. The Government is also seeking to explore the use of catastrophe bonds; and is supportive of encouraging private sector risk financing to limit the potential for unplanned fiscal costs.
- **Disaster Relief Fund.** The Fund was initially constituted with $40 million in proceeds from the extinguished dormant accounts, which was utilized to meet needs arising from Hurricane Dorian. The Fund currently has a balance of $14.5 million at end-June 2020. As originally contemplated, the government remains committed to growing the Fund to the optimal size—estimated by the IMF to be between 2 and 4 percent of GDP—once budgetary conditions permit.
- **Coastal Protection and Risk Management.** The IDB funded project, to strengthen The Bahamas' resilience to coastal risks through the implementation and adoption of sustainable coastal protection infrastructure and management, is ongoing. The $35 million loan from the IDB covers activities related to reinforcing natural infrastructure, restoring coastal natural habitat, and improving coastal flood control measures.

To ensure responsive and comprehensive management of disaster risk, the government established the Ministry of Disaster Preparedness, Management and Reconstruction (MDPMR) following Hurricane Dorian. The MDPMR's activities cover prevention, mitigation, and emergency preparedness in the pre-disaster phase to reduce disaster risks, through to disaster response, rehabilitation, and reconstruction in the post-disaster phase to minimize their destructive impact and support recovery.

5.3 Disease and Pandemic Management

COVID-19 has challenged the readiness of the health sector in The Bahamas and placed a strain on the capacity of resources to respond and undertake case management. This experience reinforces the importance of building a resilient health system to effectively deal with health emergencies and address constraints to the continuous delivery of quality essential health services.

In the current environment, risks are elevated due to insufficient isolation rooms and equipment for the treatment of patients with severe respiratory diseases; and inadequate frontline health workers to address the intensification of demands on the health system.

While funds have been made available in the 2020/2021 budget to address COVID-19 containment and tracking measures, the government recognizes the need for major investments in the areas of quarantine and isolation, case management, and risk communication to curtail and control transmission of viral conditions. Additional budgetary allocations are planned and included in the forward years to improve the health infrastructure, ensure the continued provision of essential health services and mitigate risks to the sector.

5.4 Contingent Liabilities

Contingent liabilities represent the explicit loan guarantees provided to SOEs by the government. Should these obligations not be met because of events not within the control of government, they pose significant risk to the fiscal situation—reinforcing the government's goal to ensure proper oversight and management of these entities.

As shown in **Table 16**, contingent liabilities were estimated at $714.2 million at end-June 2020, moving lower to approximately $394.0 million at end-June 2021. Of the $319 million decline, $246 million represented the transfer of the BEC legacy debt to the government's Direct Charge, pending the issuance of the rate reduction bonds (RRB) by BPL. The direct impact of this transaction on the fiscal situation is mitigated via an agreement executed with BPL to service the loan until the earliest of its maturity date of July 2021 or the issuance of the RRB. Contingent liabilities show a progressively declining outstanding balances in the forward three years, to $257.4 million at end-June 2025.

Table 16: Contingent Liabilities (B$M)

	Actual	Projected	Forecasts			
	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
Bahamas Development Bank	41.0	41.0	30.0	27.0	23.0	16.0
Bahamas Electricity Corporation	246.0	246.0	0.0	0.0	0.0	0.0
Bahamas Water & Sewerage Corporation	74.3	69.7	65.1	60.5	55.8	51.2
Bridge Authority	16.0	16.0	16.0	16.0	16.0	8.0
Bahamas Mortgage Corporation	160.0	160.0	160.0	160.0	145.0	126.3
Education Loan Authority	62.0	62.0	47.0	47.0	47.0	20.0
The Clifton Heritage Authority	24.0	24.0	24.0	24.0	24.0	24.0
Public Hospitals Authority	82.9	74.3	50.7	46.8	42.9	39.0
Small Business Development Center	0.3	1.3	1.3	1.3	1.3	1.3
Lucayan Renewal Holdings Ltd.	30.0	20.0	10.0	0.0	0.0	0.0
Total Contingent Liabilities	736.5	714.2	394.0	382.5	355.0	285.8
Contingent Liabilities as % of GDP	5.9%	6.3%	3.2%	2.9%	2.5%	1.9%

Apart from these explicit risks, the SOEs also receive significant budgetary support from the government, which represent, on average, nearly 16% of the government's recurrent spend. The reform of the SOEs remains integral to the government's fiscal consolidation plans, and the objective is to make them self-sustained entities and alleviate the ongoing need for subventions. Notwithstanding, as already pointed out in this report, several of the SOEs have required increased funding assistance given the financial stress brought on by the COVID-19 pandemic.

Alongside the broader cost saving objective, the government is also intent on ensuring the proper governance of the SOEs. A recent amendment to the Financial Administration and Audit Act during the 2020/2021 budget requires SOEs receiving more than 50 percent of their operating budget from the government, to submit monthly and quarterly reports to the Ministry of Finance. These requirements will be reinforced by the accountability regime in the proposed Public Finance Management Bill, which incorporates a more comprehensive reporting and transparency regime.

5.5 Pension Liabilities

The growing liability on the government's unfunded defined pension plan remains a significant source of fiscal risk. Discussions are ongoing with advisors on initiatives to limit this exposure, including the proposed introduction of a defined contribution plan for new employees.

5.6 Payment Arrears

The Government continued to address the outstanding challenge faced since 2018/2018 with payment arrears, when the liability was assessed at $360 million. Since that time, this outstanding amount has been reduced to $120.0 million at end-September, 2020, and improved monitoring and systems have been implemented to mitigate the reoccurrence of this issue.

5.7 Other

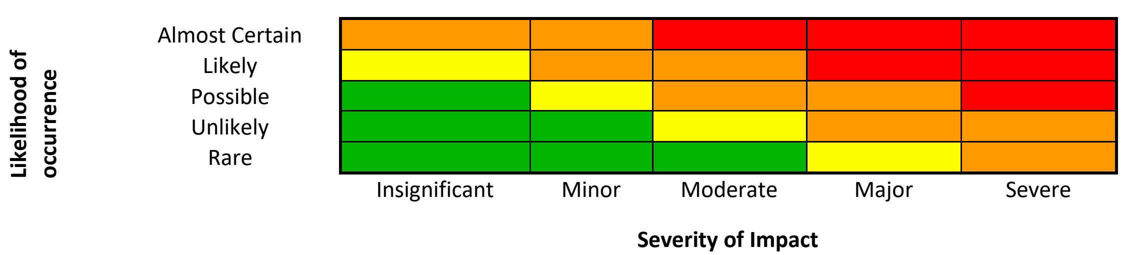
The outstanding second promissory note (PN) of Bahamas Resolve Limited (Resolve) to the Bank of The Bahamas, becomes due in August, 2022, and represents a fiscal cost to the government which has been incorporated in the forecasts. Although Resolve has been able to make this semi-annual payment on the PN, which is $5.878 quarterly, it estimates being able to meet at least 40 percent of the $167.7 million liability through loan recoveries. Therefore, the government has provisioned in the estimates for 2022/2023, an additional outlay of $100.0 million.

The Government continues to work with Resolve to establish greater operational transparency through regular financial reporting and publication of asset sales information. The first audited financial statements, covering activities for the years 2014 through 2018, is scheduled to be released in December, 2020.

Table 17: Risks and Mitigation Strategies

Risk	Impact narrative	Gross risk			Mitigation	Net risk		
		Impact	Likelihood	Risk factor		Impact	Likelihood	Risk factor
Persistence of COVID-19	Economy grows more slowly than forecast; revenues do not reach estimates; increase in expenditures.	Major	Likely	Major	Continuous updating of scenarios and assessment of implications for the fiscal position; rationalize expenditures and consider interim revenue measures before undertaking further borrowings.	Major	Possible	Major
Credit rating downgrade	Reduction in credit rating could increase borrowing costs and limit investors' uptake of government paper.	Major	Possible	Major	Advance recovery programmes to promote economic growth—including the removal of structural impediments.	Major	Possible	Major
State-owned enterprises	SOEs incur substantial losses requiring intervention	Major	Likely	Severe	Accelerate plans for greater cost recovery in select SOEs; enact public debt management and public financial management legislation which provide more rigorous oversight of borrowing activities.	Major	Possible	Major
Public sector wages	Costs of wage agreement exceed available resources	Moderate	Possible	Moderate	Resource reallocation within budget; hiring restrictions and attrition.	Moderate	Possible	Moderate
Higher interest rates	Increased borrowing costs	Moderate	Likely	Major	Reassess/restructure financing; decrease debt.	Moderate	Likely	Major
Natural disaster	Hurricane or other substantial natural disaster	Severe	Possible	Severe	CCRIF insurance policy; continue building disaster relief fund; renew IDB $100m contingent credit line; continue with implementing improvement in building standards; more comprehensive planning.; coastal improvement; continue to build fiscal buffers	Major	Possible	Severe
Pension costs	Pension liabilities higher than anticipated	Major	Likely	Severe	Implement longer-term actions to improve fund sustainability; introduction of defined contribution plan.	Major	Possible	Major

Risk Assessment Grid



6. Public Debt Trends, Management Strategy & Sustainability Analysis

6.1 Recent Developments in the Direct Charge

Debt management is central to the management of the fiscal finances, as the government seeks to achieve fiscal sustainability and contribute to stable long-term economic growth. The government's debt management strategy for 2019/2020 continued to be guided by the fiscal responsibility principles and objectives in the Fiscal Responsibility Act, 2018 and macroeconomic assumptions outlined in the budget and the FSR. The key objectives of the strategy are to ensure that the government's financing needs, and payment obligations are met on a timely basis and at the lowest possible cost that is consistent with a prudent degree of risk; and to encourage the development of efficient primary and secondary domestic markets for government securities.

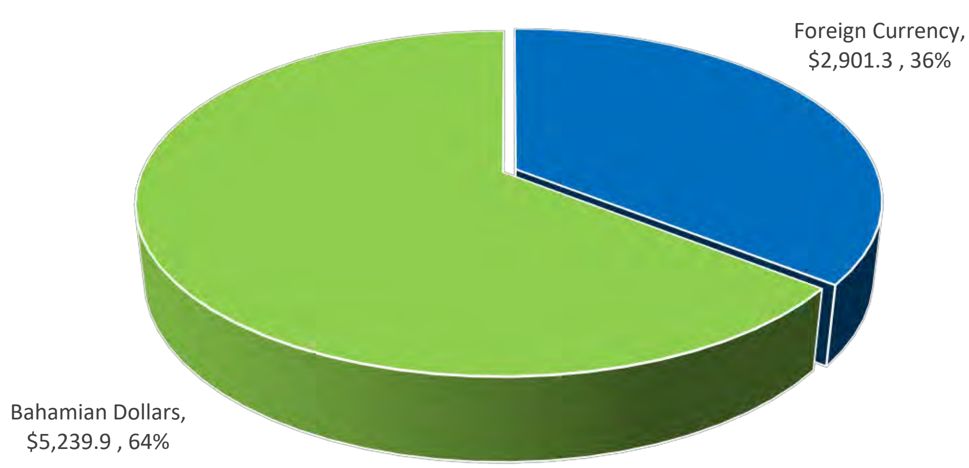
Against the backdrop of these objectives, the government continued to rely on a mix of domestic borrowings through the issuance of bonds, Treasury bills, short-term advances and commercial loans; and foreign borrowings from the international financial (multilateral) institutions, commercial sources and private capital markets.

The 2019/2020 debt strategy was framed within the context of achieving further progress towards debt sustainability, with deficit financing established at $74.5 million in new long-term borrowings. However, the crisis arising from Hurricane Dorian necessitated additional borrowings of $587.9 million for the fiscal year, along with short-term debt aggregating $233.6 million. The financing mix was 28.8 percent foreign and 71.2 percent domestic.

a. Composition of the Debt Portfolio

Provisional data place the Direct Charge at $8.191 billion at end-June, 2020—an increase of $664.2 million (8.8 percent) over the previous year, to represent 66.0 percent of GDP relative to 56.6 percent in June 2019.

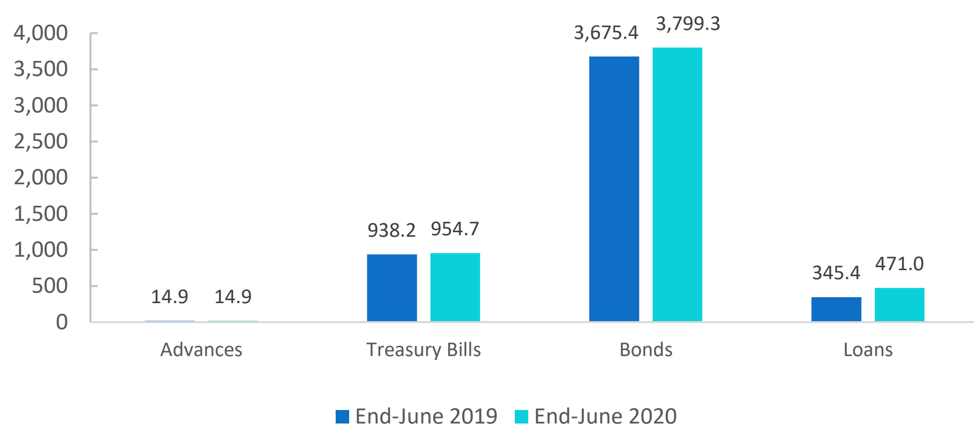
Figure 7: Distribution of Direct Charge at end-June 2019



b. Bahamian Dollar Debt

Domestic debt amounted to $5.240 billion or 64.0 percent of total Direct Charge—for an increase of $266.0 million (5.4 percent) over June 2019. By instrument, the bulk of the debt was in bonds (72.5 percent), followed by Treasury bills (18.2 percent), commercial loans (9.0 percent) and short-term advances from the Central Bank (0.3 percent).

Figure 8: Direct Charge in Bahamian Dollars (B$M)



c. External Debt

At end-June 2020, external debt stood at $2.951 million, a gain of $398.1 million over the corresponding period in 2019. According to the holder profile, private capital markets represented 55.9 percent; other financial institutions, 22.2 percent; international financial institutions, 19.6 percent; and bilateral financial institutions, 2.3 percent. Included in the other financial institutions total is a US$50.0 million loan sourced from a domestic financial institution.

The international bonds held by private capital markets aggregated US$1,650 million at end-June 2020, bearing the following maturity and coupon profile.

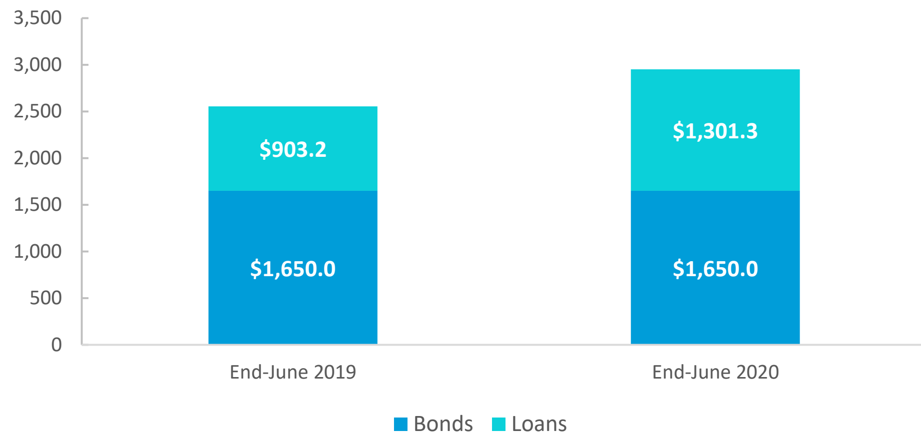
- US$200 million 6.625% Notes issued in July 2003 and due May 2033
- US$100 million 7.125% Notes issued in April 2008 and due April 2038
- US$300 million 6.950% Notes issued in November 2009 and due November 2028
- US$300 million 5.750% Notes issued in January 2014 and due January 2024
- US750 million 6.00% Notes issued in 2017 and due in three equal instalments, beginning November 2026

Future debt servicing commitments for the external bonds are partially managed via sinking funds. Accumulated provisions for the $100 million, the US200 million and the US$750 million issues stood at $192.4 million at end-September 2020.

Debt commitments with multilateral institutions, which are a mix of policy-based and project financing loans, have increased in share of total debt in recent years. Of the $579.3 million outstanding at end-June 2020, $253.9 million (43.8 percent) was owing to the Inter-American Development Bank; $250.9 million (43.3 percent) to the International Monetary Fund; $73.9 million (12.8 percent) to the Caribbean Development Bank;

and $0.3 million (0.1 percent) to the European Economic Community. The bilateral credit of $68.5 million, at 20.0 percent of external debt, is due to the Export Import Bank of China.

Figure 9: Direct Charge in Foreign Currency (B$M)



Three significant subsequent events to June 2020 include the government's assumption in July 2020 of the BEC legacy US$246 million loan as Direct Charge—the loan previously being a part of the contingent liabilities of the government. The loan, which matures in July 2021, is being serviced by BPL under a separate agreement with the government, until the RRBs are issued. Further, on October 7, the government issued a benchmark US$600 million bond, at a weighted average life of 11-years and priced at an interest rate of 8.950%, payable semi-annually in arrears. Principal payments are to be made in three equal annual installments, commencing on October 15, 2030 and with a final maturity date of October 15, 2032. This transaction was subsequently reopened on December 2, 2020, for an additional US$225.0 million, at similar terms, but secured a lower yield of 8.000% compared with the 9.2500% of the October issuance.

d. Debt Service

Debt service payments aggregated $1,256.1 million for the fiscal year, an increase of $332.4 million or 36.0 percent over the corresponding fiscal year with interest payments totaling $377.1 million, and amortizations of $879.0 million. Debt service payments absorbed 60.2 percent of total revenue, and represented 1.0 percent of GDP.

6.2 Summary of Risk Profile

The debt portfolio has varying degrees of inherent risk related to changes in currency exchange rates, interest rates, risk related to refinancing of outstanding debt.

a. Exchange rate risk

Exchange rate risk is the risk that The Bahamas' debt position will deteriorate due to changes in the Bahamian Dollar relative to other currencies. As shown in **Table 18**, The Bahamas' exchange rate risk is limited, as approximately 64.0 percent is in Bahamian Dollars and an additional 24.6 percent in US Dollars—to which the Bahamian Dollar has parity. To mitigate the currency risk in the portfolio posed by non-US Dollar denominated debt, the government has in place several currency swap arrangements.

Table 18: Currency Distribution of Direct Charge (end-June 2020)

Currency	B$M	% Share
Bahamian Dollar	5,239.9	64.0
US Dollars	2,253.1	27.5
IMF SDRs	250.9	3.1
Swiss Francs	208.2	2.5
Euros	170.6	2.1
Chinese Yuan	68.5	0.8
Total	8,191.2	100.0

b. Refinancing Risk

Refinancing risk shows the vulnerability of the debt portfolio to higher refinancing costs for maturing debt obligations within a period or in extreme cases, the inability to rollover the debt.

As shown in **Table 19**, the share of debt maturing in one year is 17.9 percent—of which 92.0 percent is attributable to the dominance of domestic Treasuries and bonds. Government Treasuries have the shortest maturities, with Bills maturing in 91 and 182 days and the Notes, in 30, 90 and 180 days. Bond issues have varying maturities—ranging from one year up to 30 years. To limit the refinance risk inherent in Treasuries, the government has embarked on a strategic annual exercise to convert, over time, a segment of these into bonds.

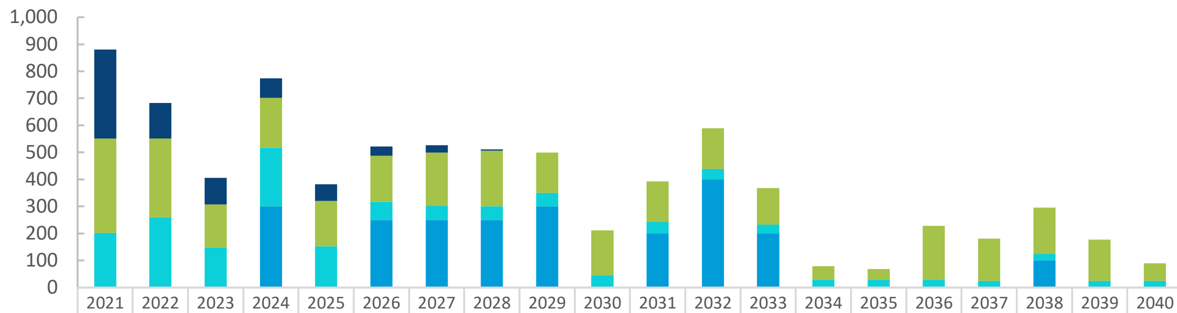
The share of the debt maturing in the 1 to 5 years band was 22.6 percent, with the largest share of 59.5 percent in the over 5 years maturity bucket.

Table 19: Debt by Remaining Years to Maturity (end-June 2020)

	B$M	%
LESS THAN 1 YEAR	**1,469.6**	**17.9**
External	85.5	
Internal	1,384.1	
1 TO 5 YEARS	**1,847.8**	**22.6**
External	744.9	
Internal	1,102.9	
OVER 5 YEARS	**4,873.8**	**59.5**
External	2,070.9	
Internal	2,802.9	
Total	**8,191.2**	**100.0**

The distribution of forecasted redemptions between 2021 and 2040, (see **Figure 10**) indicated the dominance of the local bonds in the portfolio mix. These are held mostly by commercial banks, the public corporations, and institutional investors, who tend to refinance issues, given the lack of alternative investment instruments in the domestic space. The projected spike in external loans in 2022 is explained by the maturity of the previous BEC loan assumed by the government, with external bond redemptions commencing in 2024 through 2033.

Figure 10: Forecasted Redemptions of Government Debt: 2021 to 2040 (as at end-Sept 2020)



	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Int_Loans	329.8	131.0	98.5	73.0	61.7	34.6	27.1	5.0	-	-	-	-	-	-	-	-	-	-	-	-
Int_Bonds	348.8	291.1	158.6	183.9	167.4	170.5	197.9	206.0	149.2	165.9	150.0	150.0	135.0	50.0	40.0	200.0	157.0	171.0	153.2	65.4
Ext_Loans	202.2	260.6	148.8	217.6	152.6	66.9	51.2	50.4	50.4	45.7	42.4	39.1	33.3	28.5	28.5	28.1	24.2	24.2	24.2	24.2
Ext_Bonds	-	-	-	300.0	-	250.0	250.0	250.0	300.0	-	200.0	400.0	200.0	-	-	-	-	100.0	-	-

Note: Excludes Treasury bills ($736.8 million: mature in 91 and 182 days) and Notes ($208.2 million:30, 90, and 180 days)

Includes the $600 million external bond issued in October, 2020

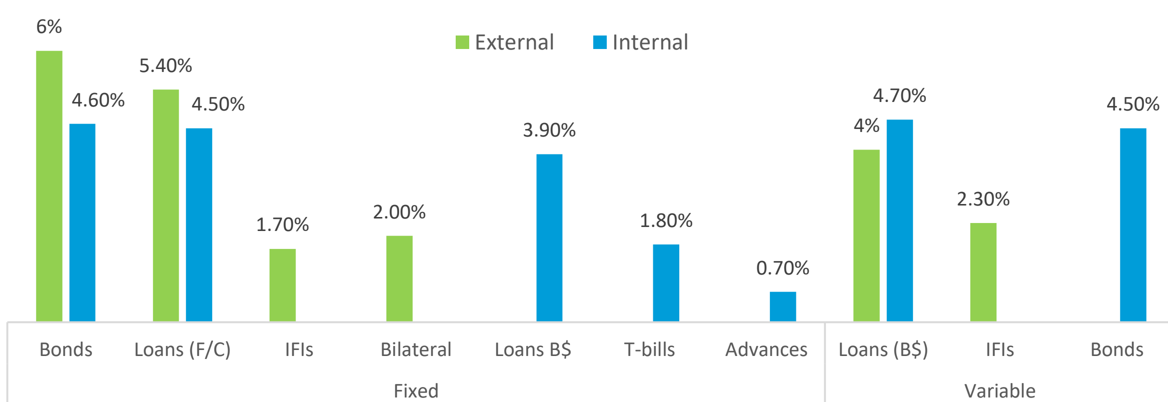
c. *Interest rate risk*

Interest rate risk relates to the changes in debt service costs arising from variability in market interest. At end-2019, the average time to refixing indicator was 8.1 years, which translates into a low level of interest rate risk for the debt portfolio. Interest rate risk is mainly inherent in domestic debt given the relatively short average time to refixing for the significant Treasury bill portfolio which mature within one year.

As shown in **Figure 11**, at end-June 2020, approximately 58.6 percent of the total debt bore fixed rates of interest, with the external debt component at a high of 63.7 percent—thereby mitigating the floating interest rate component.

Figure 11: Weighted Average Interest Rate on Debt Portfolio

(end-June, 2020)



The average interest rate for the government's debt portfolio was 4.3 percent at end-June 2020.

6.3 Debt Management Initiatives

a. Liability Management Operations

The government continued to pursue debt liability management operations, as opportunities presented themselves during 2019/2020

Amid the ongoing decline in US Libor rates, the government took advantage of another opportunity to lock in competitive fixed interest rates over the remaining life of the disbursed amounts of thirteen (13) eligible IDB loans, which totalled $246.1 million at the time of conversion, and with maturities ranging from 2021 through 2044.

The government also continued its programme of conversion of Treasury bills to long term bonds, which would serve to increase the average time to maturity of the debt portfolio and mitigate refinancing risk. Of the $80.0 million budgeted for conversions, approximately $61.0 million was converted within the fiscal year.

b. Development of the Primary and Secondary Markets for Government Bonds

The development of the bond market remained a strategic objective of the government, from the perspective of maintaining manageability and limiting foreign exchange risk in the debt portfolio.

After migrating the portfolio of bonds to BISX in August of 2019, trading commenced on July 9, 2020—positioning the government to obtain more efficient, market determined pricing of its securities, which will be a key input into the pricing of other private and public sector market issuances. At the time, the total face value of the 220 bond instruments migrated totaled $3.6 billion, with maturities ranging from one year to 30 years, and dating back to 1999.

In other developments, the passage and coming into force of the Bahamas Registered Stock (Amendment) Act, 2020 allowed for the elimination of physical securities which, together with plans underway to replace the existing manual processes for applying and redeeming bonds, to introduce an online auction for the BISX broker dealers and commercial banks, and the proposed non-competitive carve out for small, individual investors, will bring greater cost and administrative efficiency to the bond issuance process.

c. Institutional Arrangements

The government advanced plans towards institutionalizing a comprehensive framework for debt management with the preparation of a Public Debt Management Bill, which will provide for, inter alia:

- the establishment of a Debt Management Unit within the Ministry of Finance to oversee the debt management function—along the lines of widely accepted front, middle and back office functionality;
- the establishment of a Debt Management Committee—to advise the Minister on debt matters;
- the preparation and publication of a medium-term debt management strategy, which will outline how the government intends to management its debt activities against the backdrop of the fiscal responsibility objectives and goals;
- the preparation of an annual borrowing plan; and
- regular in year-and annual reporting of debt activities to the Parliament.

The Bill was issued for public consultation in late September for 45 days and the intention is to advance to the parliamentary approval stage by early 2021.

6.4 Debt Sustainability Analysis

In examining The Bahamas's debt sustainability in this 2020 FSR, consideration was given to the twin exogenous shocks of Hurricane Dorian and the COVID-19 pandemic during 2019/2020. Despite these challenges, the government remains committed to achieving a budget deficit of 0.5 percent of GDP by the 2024/2025 fiscal year. It is anticipated that the level of Government debt and the gross financing need (calculated as budget deficit plus old and new principal repayments), will increase slightly before moving along a steadily declining trajectory in the outer years of the medium-term framework, as the government is able to achieve primary surpluses and reduce the need for financing.

Table 20: Central Government Debt Sustainability Indicators

	2019	2020	2021	2022	2023	2024	2025
Total Public Debt (B$M)	7,733.0	8,692.8	9,878.4	10,417.1	10,570.7	10,670.4	10,898.3
% of GDP	56.9%	77.4%	85.1%	81.1%	77.6%	74.0%	72.8%
Local Currency (B$M)	5,165.00	5,163.55	5,006.44	5,909.51	6,223.69	7,252.48	8,073.65
Foreign Currency (B$M)	2,568.00	3,529.22	4,871.98	4,507.57	4,346.99	3,417.89	2,824.68
Short Term Debt (B$ M)	1,051.00	333.13	785.57	1,221.67	1,539.16	1,400.29	1,296.12
Medium Term & Long Term Debt (B$)	6,682.00	8,359.65	9,092.86	9,195.42	9,031.52	9,270.09	9,602.21
Total Revenue	2,426.0	1,873.9	1,901.2	2,361.8	2,693.9	2,910.3	2,998.0
Total Non-Interest Expenditure (B$M)	2,646.0	2,427.0	2,563.3	2,620.4	2,559.6	2,526.0	2,636.5
Overall Balance (B$M)	(702.1)	(923.3)	(1,149.1)	(802.2)	(417.1)	(163.2)	(191.5)
Primary Deficit (B$M)	(220.0)	(553.1)	(662.0)	(258.6)	134.4	384.4	361.6
Gross Financing Needs (B$M)	1.6	1.8	2.3	1.8	1.7	1.6	2.2
% of GDP	11.6%	16.2%	20.4%	14.9%	14.7%	15.9%	23.5%
% of Revenue	64.8%	97.0%	124.5%	81.1%	74.2%	78.8%	117.2%
Interest Payments (B$M)	482.1	370.2	487.1	543.6	551.5	547.6	553.0
Amortization (B$M)	879.0	865.3	1,213.9	1,472.0	1,641.6	2,324.6	2,256.5
Effective Interest Rates	6.4%	4.8%	5.6%	5.5%	5.3%	5.2%	5.2%
Domestic	6.9%	4.1%	4.2%	4.2%	3.9%	3.9%	3.8%
External	5.5%	6.1%	7.6%	6.8%	7.1%	7.0%	8.2%
Average Nominal Interest Rates	6.4%	4.8%	5.6%	5.5%	5.3%	5.2%	5.2%
Debt Service to GDP	10.0%	11.0%	14.7%	15.7%	16.1%	19.9%	18.8%
Nominal GDP (B$ M)	13,579.0	11,229.0	11,610.0	12,841.0	13,619.0	14,420.0	14,973.0
Unemployment	10.1%	25.6%	24.0%	17.2%	13.5%	12.8%	12.5%

Note: Estimates of nominal GDP and unemployment are based on the November 2020 IMF Article IV mission forecasts.

Table 20 presents The Bahamas' debt sustainability analysis (DSA) using the IMF's Market Access Country (MAC) analytical tool, and calendar year data for the period 2019 to 2025. Based on current debt projections, the Direct Charge is expected to peak at 85.1 percent of GDP by 2021, as the economy continues to recover from the lingering effects of the COVID-19 pandemic. As the economy rebounds in 2022 and then returns to pre-COVID levels by 2023, the Direct Charge is expected to decline to 72.8 percent of GDP by 2025.

a. Sensitivity Analysis

The debt trajectory is underpinned by several key factors/assumptions, most notably:

- **Rebound in global output by 2022**. Estimates released by the IMF, IDB and other international agencies, anticipate that, with the anticipated imminent roll-out of a COVID-19 vaccine by pharmaceutical companies, such as Pfizer and Oxford-Astra Zeneca, a rebound is expected in the travel, leisure and tourism industry.

- **No serious deterioration in credit conditions**. Notwithstanding the downgrade in The Bahamas' sovereign debt rating by the credit rating agencies in 2020, the DSA assumes that, at a minimum, the government will have a reduced need for foreign currency financing, given the forecasted improvement in the deficit to 0.5 percent of GDP over the medium-term.

- **Cessation of further extensive lockdowns**. While the country is experiencing a downward trend in domestic COVID-19 infection rates at the time of this report, the possibility of a third wave of COVID-19 pandemic outbreak cannot be ruled out. However, the DSA assumes that further extensive lockdowns are no longer necessary to contain viral spread.

- **No major external shocks in the short term**. Despite the looming possibility of a late season hurricane impacting The Bahamas, the DSA assumes that over the short-term, such exogenous shocks do not occur and that the economy firmly rebounds.

Figure 12 shows that a 1.0 percentage point decline in real GDP (a reduction in output in the local economy) will likely increase the debt to GDP ratio by 9.4 percentage points over the medium terms. Similarly, a 1.0 percentage negative shock to the primary balance produces a 4.2 percentage point rise in the debt to GDP ratio. An increase in the nominal interest rate of 100 basis points resultantly increases the debt to GDP ratio by 7.5 percent over the medium term.

Among the major scenarios examined is the potential of a sudden stop in economic activity, similar to the prolonged instance of economic lockdowns experienced in August 2020. The impact of such a shock implies a further contraction in real GDP growth in 2021 of 5.0 percent and a deterioration of the debt to GDP ratio by 24.3 percent to 97.1 by 2025.

As illustrated in the fan chart at **Figure 15**, The Bahamas' debt ratio is sustainable over the forecast medium-term under the parameters outlined. This implies there is a 90 percent probability that the debt to GDP ratio will not exceed 90 percent by 2025 – or alternatively that the probability of the debt to GDP ratio exceeding 90 percent is less than 10 percent.

Figure 12: Effect of a 1% Negative Growth Shock on Debt to GDP Ratio

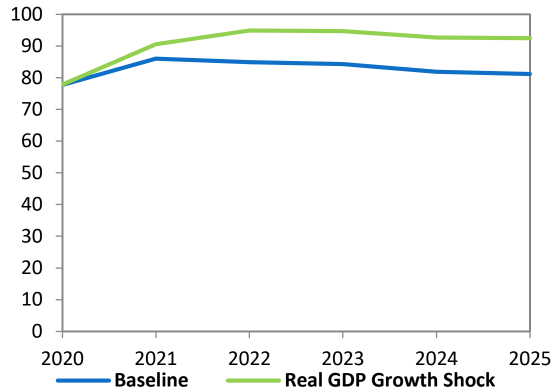


Figure 13: Effect of a 1% Negative Primary Shock on Debt to GDP Ratio

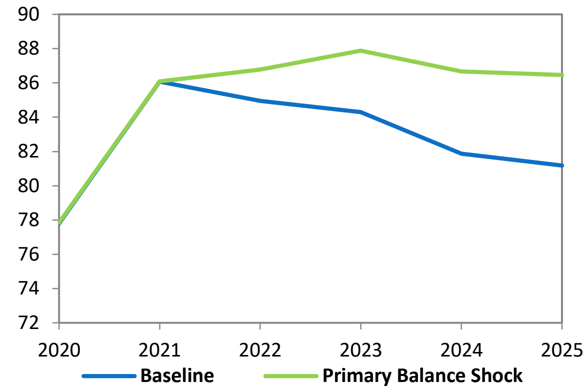


Figure 14: Effect of 1% Negative Nominal R-Rate Shock on Debt to GDP Ratio

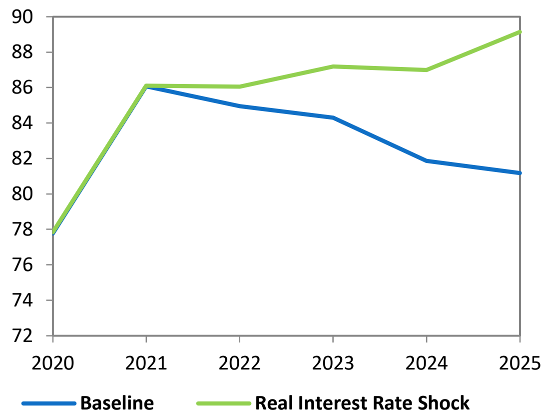


Figure 15: Evolution of Debt to GDP Ratio

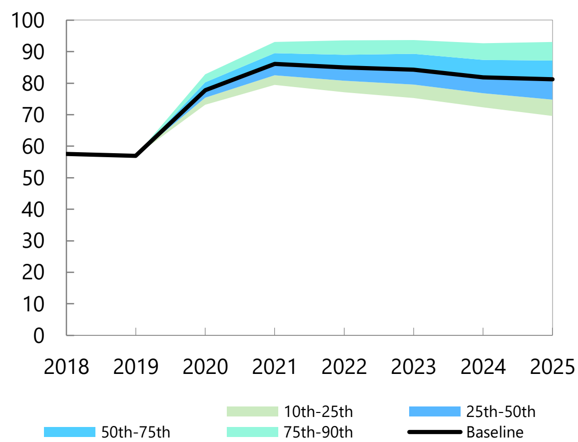
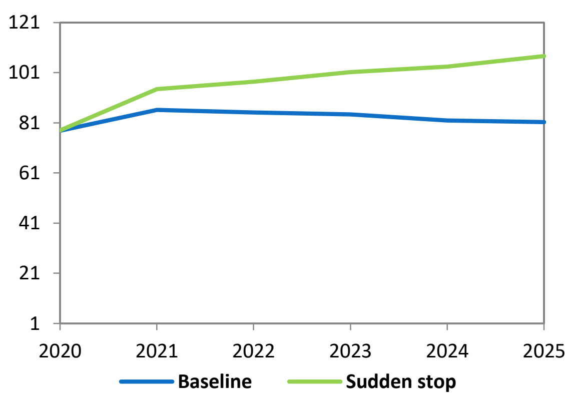


Figure 16: Effect of a Sudden Stop



Annex A: Fiscal Responsibility Act, 2018

SECOND SCHEDULE (Section 10)
CONTENTS OF A FISCAL STRATEGY REPORT

1. The fiscal strategy report shall contain a report for the recently concluded financial year which shall include —

   (a) analysis of any difference in results from the macroeconomic forecasts and fiscal forecasts in the previous fiscal strategy report;

   (b) a summary of budget execution compared to the appropriations and statutory expenditure;

   (c) summary of the performance compared to the general principles in section 6, the fiscal responsibility principles in section 7, and the fiscal objectives in the previous fiscal strategy report;

   (d) reasons for any deviations from the general principles, fiscal responsibility principles and fiscal objectives in the previous fiscal strategy report with a fiscal adjustment plan to address any such deviations, and the expected time to achieve this;

   (e) report on the extent to which the risks identified in the previous fiscal strategy report were realised and the effect on fiscal performance; and

   (f) other matters on performance the Minister considers relevant.

2. The fiscal strategy report shall contain medium-term macroeconomic forecasts setting out actual, estimated, and projected values of the following economic variables for no less than the previous two years, the current year, and the next three years including—

   (a) gross domestic product and its components;
   (b) inflation;
   (c) employment and unemployment;
   (d) exchange rates with major trading partners;
   (e) interest rates; and
   (f) money supply and monetary conditions including credit to the private sector;

   and for (a) to (f) the source of the data shall be identified, and for historical information, a statement provided of whether it is official or estimated in cases where official data are not available.

3. The fiscal strategy report shall contain information on the longer-term macroeconomic forecasts.

4. The fiscal strategy report shall contain a statement of assumptions and methodologies underpinning the economic forecasts.

5. The fiscal strategy report shall contain medium-term fiscal forecasts setting out actual, estimated, and projected values of the following fiscal variables for no less than the previous two years, the current year, and the next three years including —

   (a) revenues by type;
   (b) aggregate expenditures by economic, administrative, and functional classifications;
   (c) fiscal balance for the overall budget;
   (d) a summary of the sources of budget financing;
   (e) the level of debt by external source, domestic source and total;
   (f) level of financial and performance guarantees;
   (g) the accounting principles and methods used in the fiscal strategy report and key assumptions on which the above numbers are based;
   (h) sensitivity analysis taking account of possible changes in macroeconomic conditions; and

(i) any other information the Minister determines is material to the fiscal forecasts.

6. The fiscal strategy report shall contain fiscal forecasts for the longer term that have been used in formulating the fiscal policies in the fiscal strategy report and such forecasts shall take account of the impacts of changes in demographics and other factors.

7. The fiscal strategy report shall contain a statement of intention about the general principles in section 6 of the Act.

8. The fiscal strategy report shall contain a statement of intention about the fiscal responsibility principles in section 7 of the Act consistent with the First Schedule.

9. The fiscal strategy report shall contain a description of the fiscal policy including —

(1) a table containing the fiscal information for the previous two years, the current year and the forthcoming three years and longer term where relevant including —

(a) aggregate Government expenditure as a percentage of GDP and in nominal terms;

(b) recurrent Government expenditure as a percentage of GDP and in nominal terms;

(c) primary Government expenditure as a percentage of GDP and in nominal terms;

(d) capital Government expenditure as a percentage of aggregate Government expenditure, as a percentage of GDP and in nominal terms;

(e) Government expenditure on wages and benefits as a percentage of GDP and in nominal terms for all positions funded from the annual budget including all positions funded by direct charge on the Consolidated Fund and all positions funded by appropriation;

(f) Government revenues as a percentage of GDP and in nominal terms;

(g) overall fiscal balance as a percentage of GDP and in nominal terms;

(h) Government debt as a percentage of GDP and in nominal terms;

(i) Government arrears as percentage of budget expenditure and in nominal terms;

(j) Government guarantees as a percentage of GDP and in nominal terms; and

(k) Government net worth as a percentage of GDP and in nominal terms when net worth can be measured; and

(2) Table of fiscal objectives to measure the fiscal position of the government against the fiscal responsibility principles consistent with the First Schedule for the forthcoming year and each of the next three years which shall at a minimum include measurable fiscal objectives for the fiscal balance, debt, guarantees, expenditure growth rate, wage expenditure limit, proportion of proposed capital Government expenditure as a percentage of aggregate Government expenditure and any measures for an adjustment plan if in force;

(3) information on the fiscal policies for medium-term including—

(a) the revenue policy with planned changes to taxes and policies affecting other revenues and intentions regarding revenue collection activities;

(b) policy on the fiscal balance;

(c) debt policy with a summary of the debt management strategy, a summary of the debt sustainability analysis, debt ceilings, and guarantee ceilings; and

(d) expenditure policy including expenditure priorities linked to ceilings;

(4) an assessment of the consistency of the planned fiscal policy aggregates and measurable fiscal objectives in paragraph 9(2) of this Schedule with the fiscal responsibility principles, the requirements in the First Schedule and the requirements of section 8(2);

(5) a medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions and an explanation of any changes in the proposed ceilings from the previous fiscal strategy report including —

(a) the aggregate expenditure ceiling to be used in the preparation of the annual budget which shall include indicative ceilings for two further outer years;

(b) ceilings for central Government expenditure by Ministry and other budget entity for the budget year and next two years to be used as the basis for the preparation of the annual budget;

(c) forecast non-financial performance information at a suitable level of aggregation linked to the budget to show what is planned to be provided and achieved for the proposed expenditure, for strategic changes only; and

(d) information on major public investments including priorities and rationale for these and forecast costs for the forthcoming budget year and two outer years related to expenditure ceilings.

10. The fiscal strategy report shall contain a fiscal risk statement with quantified risks where practicable including—

(a) contingent liabilities;

(b) any commitments not included in the fiscal forecasts;

(c) all other circumstances which may have a material effect on the fiscal and economic forecasts, and which have not already been incorporated into the fiscal forecasts; and

(d) risk management intentions.

11. The fiscal strategy report shall contain a statement of responsibility signed by the Minister and the Financial Secretary attesting to the reliability and completeness of the information in the fiscal strategy report and its compliance with the law.

12. If the Government is unable to provide any of the information required by this Schedule the Ministry shall state in the fiscal strategy report the reasons for any missing information and shall ensure that such information is available as soon as practicable for future fiscal strategy reports.

13. For the purposes of this Schedule —

"**current expenditure"** means spending for acquisition of all goods and services, personnel cost including salaries, emoluments and other employee benefits; and transfer payments, inclusive of interest payments, subsidies, transfers to non-financial public enterprises, public corporations, to households, abroad and to non-profit institutions which excludes all outlays that result in debt reduction and the acquisition of financial assets;

"**debt"** means all direct charge on the central government that require payments of interest and principal to both resident and non-resident creditor;

"**fiscal balance"** means total revenues and grants minus total expenditure where revenues and grants are computed as total revenues less borrowings, refunds, and sales of financial assets;

"**Gross Domestic Product"** means the nominal value of all goods and services produced in the economy within a year, as compiled by the Department of Statistics and in the absence of official statistics, estimates produced by the Ministry of Finance shall be utilized and subsequently updated once the official statistics are available and until quarterly official GDP statistics become available, estimates for the fiscal year shall be derived by taking the average of the current and the preceding calendar year.