



**GOVERNMENT OF  
THE BAHAMAS**

# **FOURTH QUARTER FISCAL SNAPSHOT AND REPORT** *on Budgetary Performance*

Published by The Ministry of Finance, August 2019

*Fiscal Year  
2018/19  
July-June*

**SECTION 1**  
The Snapshot

**SECTION 2**  
The Report

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# Fiscal Balance

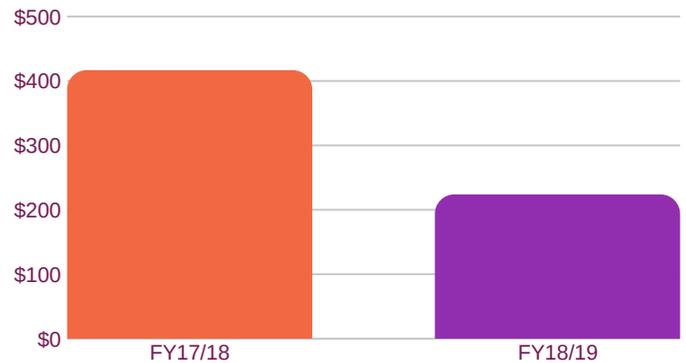
During FY2018/19, the fiscal deficit improved by \$192.8 million (46.4%) to \$222.4 million relative to the previous fiscal year. This equated to some 1.7% of GDP, in line with the 1.8 percent budgetary target for FY2018/19.

In the underlying developments, revenue increased year over year (YOY) by \$373.9 million, or 18.3%, while expenditure advanced by \$181.1 million, or 7.4% over the last fiscal year.

In particular, recurrent expenses rose by \$232.6 million, representing a 10.6% rise over the prior year; however, capital expenditure narrowed by \$51.5 million, or 19.2% as compared to FY2017/18.

## DEFICIT POSITION \$222.4M

YOY Performance Comparison  
12-Months Fiscal Balance



**YOY Deficit reduced by 46%**

### SPECIAL NOTE

The fiscal data presented in this quarterly snapshot is provisional and subject to change until audited by the Auditor General. Because of rounding, some totals may not agree with the sum of their component parts.

38.2%: 11

31.2%: 11

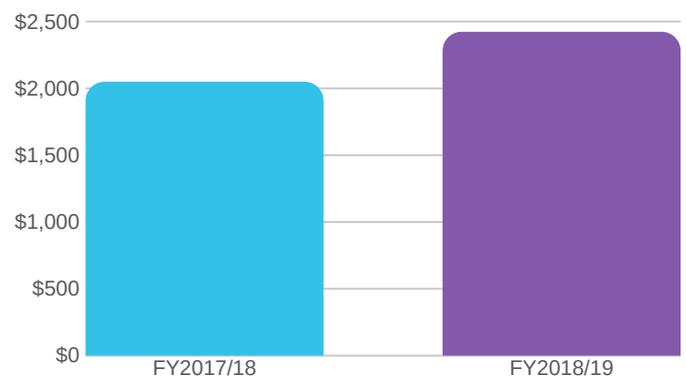
61.6%: 99

Fourth Quarter Fiscal Snapshot on Budgetary Performance FY2018/19

## REVENUE \$2,416.0M

Aggregate revenue for the 2018/19 fiscal year totaled \$2,416.0 million, which equated to some 91.1% of the budget. Key factors supporting this outcome were the one-time rate hike in VAT, significant gains in stamp tax on realty transactions, due to the transition of realty tax from VAT to Stamp Tax, and uplift in business license receipts.

YOY Performance Comparison  
12-Months Revenue (B\$M)



**YOY Revenue Increased by 18%**

## EXPENDITURE \$2,638.4M

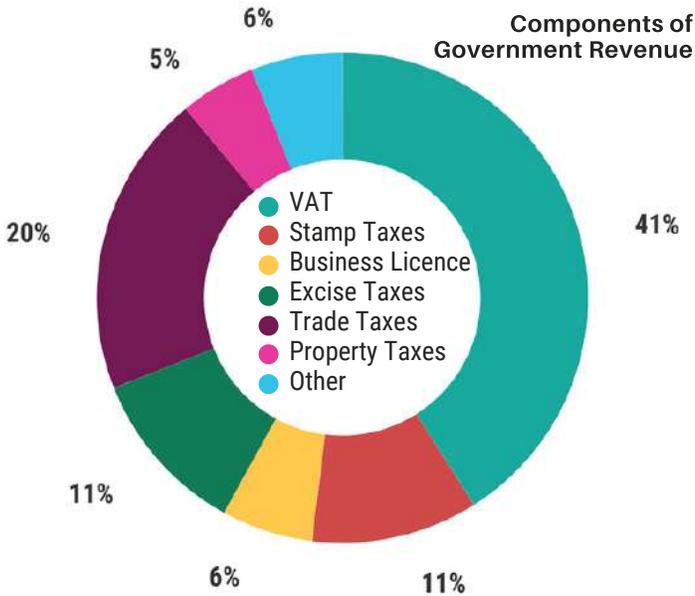
Total spending stood at \$2,638.4 million for FY2018/19, representing 91.3% of the budget allocation, with recurrent expenses comprising the bulk of expenses, at \$2,421.2 million and capital outlays totaling \$217.2 million.

YOY Performance Comparison  
12-Months Expenditure (B\$M)



**YOY Expenditure increased by 7%**

# Revenue Performance



Stamp tax receipts more than doubled to \$225.3 million from \$109.5 million in the previous fiscal year, exceeding the budgeted amount by some 56.8%, while VAT receipts surged by \$214.3 million to \$894.9 million. Intake from licences to conduct special business activity—which includes Business Licence fees—firmed by \$31.8 million or 28.1%. Taxes on international trade rose marginally by \$10.4 million (2.4%) over the year, owing to gains in customs and other import duties and departure taxes.

Yearly Revenue Performance Comparison (B\$M)



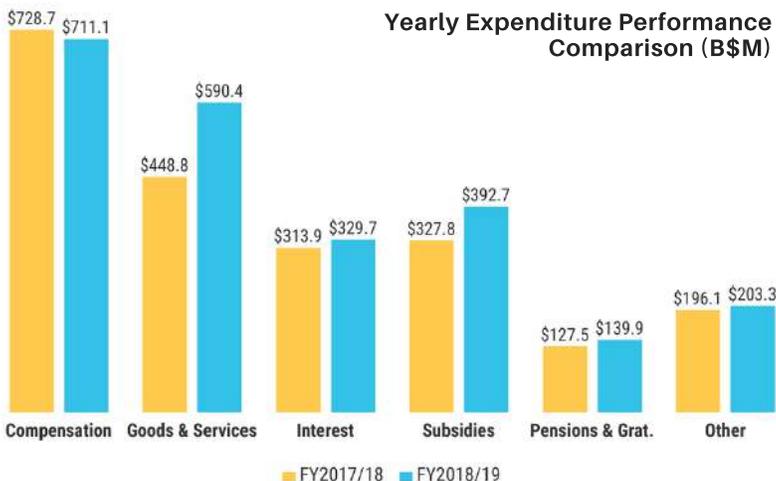
## Non-Tax Revenue Summary

Total non-tax revenue grew by \$19.5 million, or 9.5% YOY, to surpass the budget allocation by 2.0%. Collections of fee charges outperformed the budget target by 6.5% or \$10.6 million, reflecting some fee increases in FY2018/19. For example, immigration fees expanded by \$28.7 million or 45.2% to \$92.3 million. Fines, penalties and forfeits grew to \$5.3 million from \$1.2 million in FY2017/18, and exceeded the budget allocation by 55.9%.

## Recurrent Expenditure

Outlays on the use of goods and services, including special financial transactions—which mostly consisted of arrears—rent, travel and subsistence, and others, increased over the review period. In addition, spending on public debt interest, subsidies—particularly for non-financial public corporations (including but not limited to the Public Hospital Authority) moved higher, as was the case with pension and gratuity payments. The uplift in transfer payments included the settlement of electricity arrears for a number of public corporations.

Yearly Expenditure Performance Comparison (B\$M)



## Settlement of Arrears

Approximately \$184.6 million in arrears were paid in FY2018/19, exceeding the budgeted \$172.3 million, owing mostly to the settlement of arrears between BPL and the Government. These payments are captured across a number of line items.

# Financing Activities



To meet operational requirements for FY2018/19, the Government incurred an increase in its net liabilities of \$293.1 million. Borrowings were in the form of bonds (\$619.7 million), bank loans (\$190.0 million), advances (\$44.0 million) and Treasury bills (\$231.3 million).

Fourth Quarter  
FY2018/19

**\$1,094.2M** — **\$801.1M**  
(FY2017/18: \$1,987.0M) (FY2017/18: \$1,302.6M)

**= \$293.1M**  
(FY2017/18: \$684.4M)

## NEW BORROWING

The Government borrowed \$1,094.2 million in FY2018/19, of which \$1,085.0 million was in Bahamian Dollars, with the remainder in foreign currency, and included amounts to finance the deficit as well as to refinance maturing debt.

## DEBT REPAYMENT

The Government repaid approximately \$801.1 million, 89.5% of which was facilitated in Bahamian Dollars.

## NET LIABILITY

The net liability represents the change in Government Debt (Direct Charge on Government) over a period of time.

At end-June 2019, **GOVERNMENT DEBT** grew to an estimated \$7,535.8 million, from \$7,242.7 million at end-June 2018. The increases in the Debt to GDP ratio stabilized, as the fiscal year ended with an estimated debt-to-GDP ratio of 58.8% at end-June 2019, compared with 58.7% at end-June 2018

## Contributions to Sinking Fund

Over FY2018/19, the Government contributed a total of \$46.5 million to various sinking funds earmarked for future debt amortization payments.



**Did you know that Government Debt and National Debt are two different indicators?**

Government Debt (also called the Direct Charge on Government) is money owed directly by the Government. Note: The Government reports on this number by fiscal year (See "Government Debt" above). National Debt is calculated by adding Government Debt together with Contingent Liabilities, which are all of the debts owed by State Owned Enterprises that are guaranteed by the Government. The Central Bank of The Bahamas reports on the National Debt by calendar year: As of December 2018 the National Debt was \$8,216 million.

## Equity Acquisitions & Loans



### Shareholder Loans

To assist government owned entities with their various obligations, the Government granted two shareholder loans in the last quarter of FY2018/19, under formalized loan agreements. The first was to HoldingCo2015 Ltd.—the vehicle that holds the Government's 51.75% equity stake in Be Aliv Ltd., of \$10.75 million, which is to be repaid with interest over four years. The second loan was to BPL, of \$15 million, which is also to be repaid with interest over a six-month period. These loans were recorded below-the-line and therefore have no impact on the fiscal balance.

### Lucayan Renewal Holdings

Transactions related to Lucayan Renewal Holdings Ltd—the special purpose vehicle created to purchase the Lucayan properties in Grand Bahama—dominated equity transactions in FY2018/19. Total investment by the Government into this project stood at \$47.0 million at end-June, \$32.4 million of which constituted the Government's initial capital injection.

### Other Transactions

Equity transactions for FY2018/19 also included the recoverable portion (\$3.0 million) of the settlement of the defaulted education and hurricane government guaranteed loan programmes of nearly \$17.0 million combined.



GOVERNMENT  
OF THE BAHAMAS

# FOURTH QUARTER REPORT

*on Budgetary Performance*

FY2018/19 July-June

Published by  
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August, 2019

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## 1. About This Report

### General Statement

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

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

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

**Publication:** To be released on the Ministry of Finance website ([www.bahamas.gov.bs](http://www.bahamas.gov.bs)).

### Basis of Preparation

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

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

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

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

### Unaudited Data

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

### Rounding

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

## 2. Summary of Fiscal Performance for FY2018/19

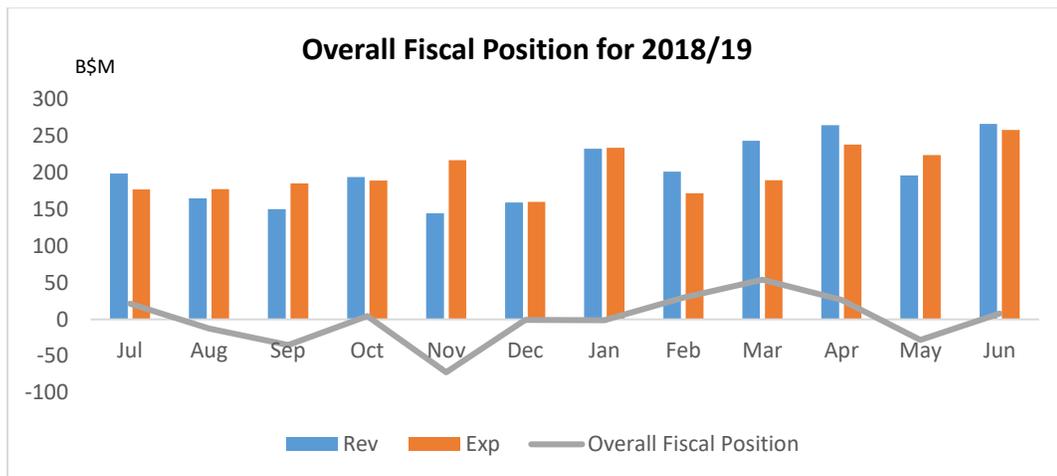
According to preliminary data, the Central Government recorded an estimated overall deficit of \$222.4 million in FY2018/19, compared with a budgeted \$237.6 million. The outturn also represented a \$192.8 million (46.4%) improvement over the \$415.2 million deficit in FY2017/18 (*see Table 1*). As the deficit equated to an estimated 1.7% of GDP, the Government was, therefore, in compliance with the 1.8% target mandated in the Fiscal Responsibility Act for FY2018/19.

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

(B\$M)	[a]	[b]	[c]	[b] - [c]	[b/a]
	Budget		July - June		
	FY2018/19	FY2018/19 <sup>p</sup> Actual	FY2017/18 <sup>p</sup> Actual	Variance	% of Budget
<b>Revenue</b>	<b>2,650.9</b>	<b>2,416.0</b>	<b>2,042.1</b>	<b>373.9</b>	<b>91.1%</b>
Tax	2,429.9	2,192.7	1,835.7	357.0	90.2%
Non-tax	218.8	223.3	203.8	19.5	102.0%
Grants	2.2	0.1	2.6	(2.5)	2.3%
<b>Expenditure</b>	<b>2,888.5</b>	<b>2,638.4</b>	<b>2,457.3</b>	<b>181.1</b>	<b>91.3%</b>
Recurrent	2,589.2	2,421.2	2,188.6	232.6	93.5%
Capital	299.3	217.2	268.7	(51.5)	72.6%
<b>Surplus/(Deficit)</b>	<b>(237.6)</b>	<b>(222.4)</b>	<b>(415.2)</b>	<b>192.8</b>	<b>93.6%</b>
<b>Financing Activities</b>	<b>237.6</b>	<b>222.4</b>	<b>415.2</b>	<b>(192.8)</b>	<b>93.6%</b>
<b>Net Acquisition of financial assets (-)</b>	<b>46.4</b>	<b>119.6</b>	<b>25.4</b>	<b>94.2</b>	<b>257.7%</b>
Sinking Funds	46.4	46.5	5.4	41.1	100.2%
Equity	0.0	50.3	0.0	50.3	0.0%
Other	0.0	22.8	20.0	2.8	0.0%
<b>Net Incurrence of Liabilities (+)</b>	<b>237.6</b>	<b>293.1</b>	<b>684.4</b>	<b>(391.3)</b>	<b>123.3%</b>
Borrowings	947.0	1,094.2	1,987.0	(892.8)	115.5%
Debt Repayment	709.4	801.1	1,302.6	(501.5)	112.9%
<b>Change in Cash Balance [(I)= increase]</b>	<b>46.4</b>	<b>48.9</b>	<b>(243.8)</b>	<b>292.7</b>	<b>105.3%</b>

- Total revenue intake strengthened by \$373.9 million (18.3%) to \$2,416.0 million, relative to FY2017/18, which represented some 91.1% of the budgeted amount. The \$357.0 million (19.4%) increase in tax receipts was primarily explained by the combination of the rate hike in the Value Added Tax (VAT) in July (from 7.5% to 12%), the impact of the shift from VAT to stamp taxes on realty transactions, and the agreed settlement of substantial tax arrears owed by Bahamas Power & Light Ltd. (BPL) to government, and payables owed by government to BPL. Comparative annual gains in non-tax revenue of \$19.5 million or 9.6% were primarily associated with higher fees and charges for various immigration services.

- Aggregate expenditure rose by \$181.1 million (7.4%) to \$2,638.4 million during the 2018/19 fiscal year, equating to approximately 91.3% of the budget allocation. In the underlying developments, recurrent expenditure grew by \$232.6 million (10.6%) to \$2,421.2 million, elevated by the ongoing settlement of expenditure arrears, which totaled nearly \$185.0 million. The latter exceeded the budgeted \$172.3 million, and was primarily explained by the settlement of electricity arrears originally scheduled through FY2020/21. Capital spending decreased by \$51.5 million (19.2%) to \$217.2 million, as last years' outcome would have been boosted by the settlement of the non-recoverable portion (\$80.0 million) of the \$100 million Bahamas Resolve Limited Promissory Note to Bank of The Bahamas Ltd. The balance, of \$20.0 million, was assessed as recoverable and included below the line as a financial asset.

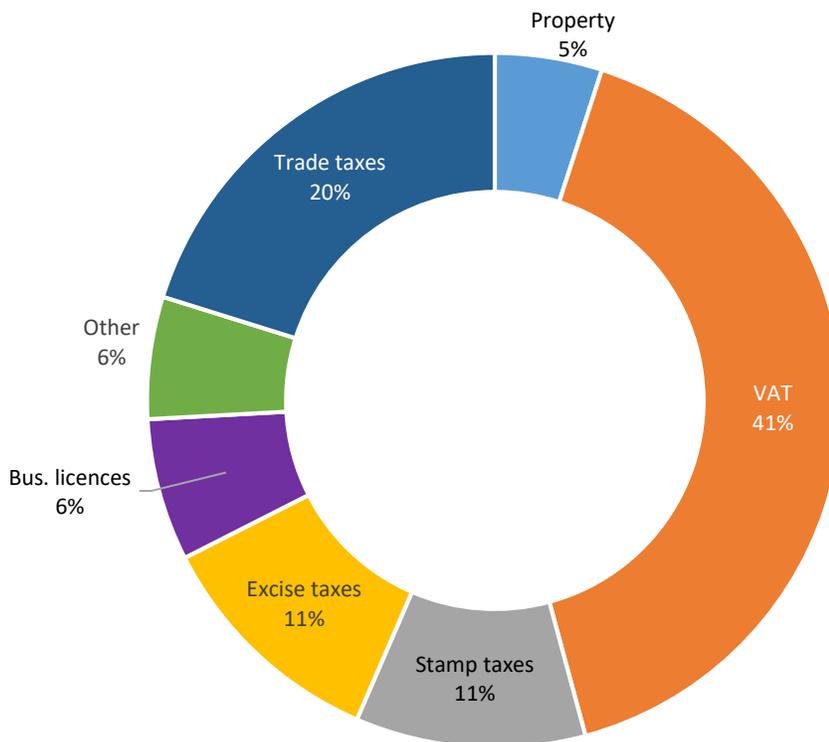


- Under financing transactions, the Government added an additional \$19.9 million to its sinking funds for future debt obligations, since end-March, bringing annual contributions to \$46.5 million. The Government's capitalization of Lucayan Renewal Holdings Ltd.—a special purpose vehicle formed to acquire the Our Lucaya properties in Grand Bahama—continued to dominate equity transactions over the year. Its total investment remained unchanged between the third and fourth quarter of the year, at \$47.0 million. The “other” component under net acquisition of financial assets included two shareholder loans made by the Government in the final quarter of FY2018/19—\$10.75 million to Be Aliv Ltd. (Aliv) and \$15.0 million to Bahamas Power & Light (BPL).
- Budgetary operations for the 2018/2019 fiscal year featured new borrowings of \$1,094.2 million, as compared to \$1,987.0 million in the previous year. Of this total, approximately \$809.7 million was earmarked against the FY2018/19 Borrowing Resolution—which allowed the Government to raise \$187.7 million to finance the deficit, along with amounts required to refinance maturing debt budgeted at \$709.4 million. Short-term borrowings, by way of Treasury bills and advances, amounted to \$275.3 million and the remaining \$9.2 million represented drawdowns on existing foreign currency loan facilities.
- Debt redemption decreased to \$801.1 million from \$1,302.6 million in the previous fiscal year, when short-term financing was repaid out of proceeds of the \$750 million international bond issue.
- Given these developments, the Direct Charge on the Government (exclusive of exchange rate adjustments) increased to an estimated \$7,535.8 million or 58.7% of GDP, at end-June 2019 from \$7,242.7 million at end-June 2018.

### 3. Revenue Performance

Total revenue grew by an estimated \$373.9 million (18.3%) to \$2,416.0 million in FY2018/19, vis-à-vis the previous fiscal year, accounting for 91.1% of the budgeted amount (*see Table 2*). Tax receipts rose by \$357.0 million (19.4%) to \$2,192.7 million (90.2% of the budget), and the \$19.5 million (9.6%) gain in non-tax revenue to \$223.3 million was 2.0% in excess of the budget target.

**Percentage Composition of Tax Revenue (FY2018/19)**



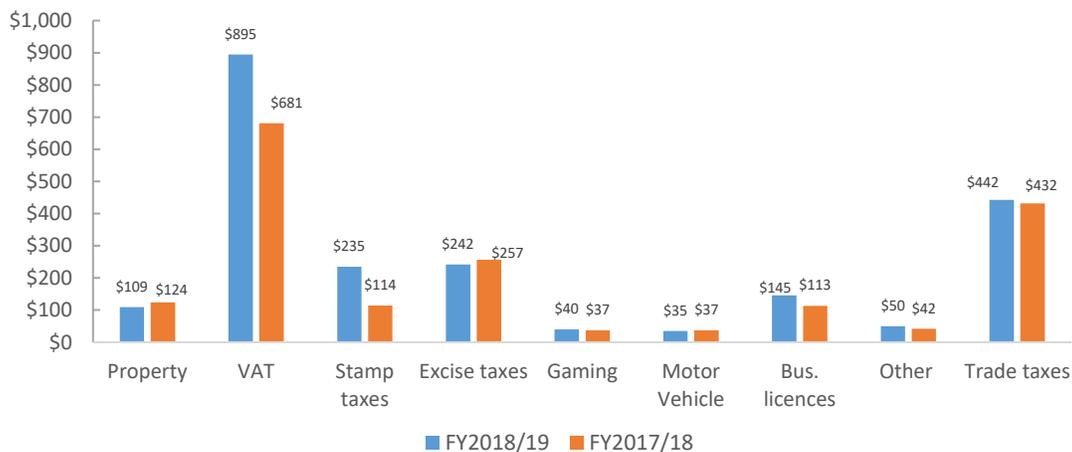
Key comparative developments for the FY2018/19 revenue performance are the following:

- Taxes on Goods & Services—which collectively comprise 74.4% of tax receipts—advanced by an estimated \$356.1 million, or 27.9%, to \$1,631.8 million.
  - Value Added Tax (VAT) receipts firmed by \$214.3 million (31.5%) to \$894.9 million, although a tapered 84.5% of the budget. This outcome reflected only three quarterly filings (October, January and April) at the 12.0% rate, and the impact of the early grace period granted to the hotel and construction industry to honor the old rate for existing bookings/contracts. Receipts also benefitted from approximately \$39.8 million in tax arrears payments by BPL, as the government and the utility agreed jointly to settle arrears owed respectively to each party.
  - Collections of stamp taxes on financial and realty transactions surged two-fold, from \$109.5 million in FY2017/18 to \$225.3 million in FY2018/19, outpacing the budgeted \$143.7 million. Specifically, stamp tax on realty transactions increased more than three-fold to \$137.6 million,

on account of the establishment of a 10% rate on transactions over \$100,000, which became effective July 1, 2018, which had replaced the VAT charged on realty deals. Stamp taxes on banking transactions accounted for \$46.1 million (20.5%) of these receipts.

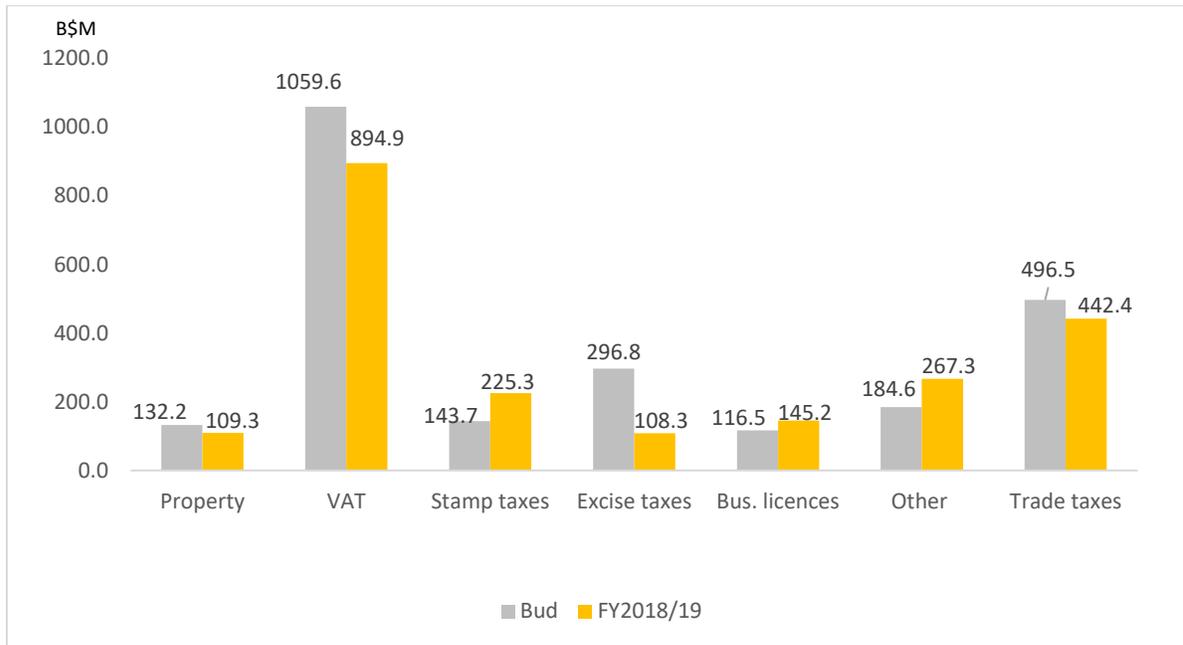
- Excise taxes fell by \$15.1 million (5.9%) to \$241.7 million, which equated to 81.4% of the budget.
- Gaming taxes increased marginally, by \$2.6 million (7.0%), to \$39.8 million in FY2018/19 which represented 56.8% of the budget. Performance was constrained by the concession granted to the gaming house industry to submit taxes at the old rate for the first half of the fiscal year, following the court settlement, and the incidence of outstanding payments at year end.
- Although General Stamp taxes improved to \$9.2 million from \$4.4 million in the previous fiscal year, they comprised only 32.7% of the budget target. This outcome was due to the non-introduction of the 5% stamp tax on gaming patrons which was estimated to add an additional \$20.0 million in receipts.
- Revenue intake from licences to conduct special business activity, primarily associated with the business licence and communication levy categories, expanded by \$31.8 million (28.1%) to \$145.2 million, which exceeded the budgeted \$116.5 million by 25.0%. Business licences also included an \$8.2 million uplift associated with arrears payments by BPL in the arrears settlement arrangement with the Government, and administrative processes benefitted from several business facilitation measures, including moving a number of processes online.
- Taxes on international trade and transactions increased by \$10.4 million (2.4%) to an estimated \$442.4 million, and represented 89.1% of the budget. In the underlying transactions, customs and other import duties were higher by \$12.7 million (4.7%), although \$52.2 million (15.6%) below budget expectations. The \$3.4 million (2.4%) year-over-year gain in departure taxes was \$0.6 million less than the budget, but basically in line with the increased level of visitor arrivals to The Bahamas. By contrast, taxes on exports tapered by \$5.8 million (31.7%) to \$12.5 million, and by a lesser \$1.4 million (11.2%) from the budget target.

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



- Property income, comprising interest, dividends and revenue from government property, narrowed by \$3.4 million (14.8%) to \$19.6 million, which equated to 87.5% of the budget.

### Revenue as a Percentage of Budget for 2018/19



- Receipts from the sale of goods and services were boosted by \$30.2 million (18.5%) to \$193.5 million, to outpace the budget target by 7.8%.
  - Leading this outcome, fees & service charges grew by \$27.5 million (18.9%) to an estimated \$172.7 million. Reflecting the recent increases in the schedule of fees, immigration fees firmed by \$28.7 million (45.2%) to \$92.3 million, which represented 120.5% of the budget.
- Fines, penalties and forfeits contributed \$5.3 million in revenue receipts, vis-à-vis \$1.2 million in FY2017/18.
- Grants and capital revenue, at \$0.1 million for FY2018/19, were below the comparative year's \$2.8 million inflow.

FOURTH QUARTER REPORT ON BUDGETARY PERFORMANCE FY2018/19 JULY - JUNE

TABLE 2: REVENUE SUMMARY (B\$M)

	[a]	[b]	[c]	[b] - [c]	[b]/[a]
	Budget		July - June		
	FY2018/19	FY2018/19 <sup>P</sup> Actual	FY2017/18 <sup>P</sup> Actual	Variance	% of Budget
<b>TAX REVENUE (a+b+c+d)</b>	<b>2,429.9</b>	<b>2,192.7</b>	<b>1,835.7</b>	<b>357.0</b>	<b>90.2%</b>
<b>a. Taxes on Property</b>	<b>132.2</b>	<b>109.3</b>	<b>123.6</b>	<b>(14.3)</b>	<b>82.7%</b>
<b>b. Taxes on Goods &amp; Services (i+ii+iii)</b>	<b>1,773.1</b>	<b>1,631.8</b>	<b>1,275.7</b>	<b>356.1</b>	<b>92.0%</b>
<b>i. General</b>	<b>1,500.1</b>	<b>1,361.9</b>	<b>1,046.9</b>	<b>315.0</b>	<b>90.8%</b>
VAT	1,059.6	894.9	680.6	214.3	84.5%
Stamp taxes (Financial & Realty)	143.7	225.3	109.5	115.8	156.8%
Excise Tax	296.8	241.7	256.8	(15.1)	81.4%
<b>ii. Specific (Gaming taxes)</b>	<b>70.0</b>	<b>39.8</b>	<b>37.2</b>	<b>2.6</b>	<b>56.8%</b>
<b>iii. Taxes on Use of Goods/Permission to Use</b>	<b>203.0</b>	<b>230.1</b>	<b>191.7</b>	<b>38.4</b>	<b>113.3%</b>
Motor Vehicle Taxes	36.2	35.0	36.6	(1.6)	96.7%
Company Taxes	20.7	20.1	21.0	(0.9)	97.1%
Licence to Conduct Special Bus. Activity	116.5	145.2	113.4	31.8	125.0%
Marine License Activities	3.6	2.1	2.5	(0.4)	58.9%
Banks & Trust Companies	26.0	27.6	18.2	9.4	106.2%
<b>c. Taxes on Int'l Trade &amp; Transactions</b>	<b>496.5</b>	<b>442.4</b>	<b>432.0</b>	<b>10.4</b>	<b>89.1%</b>
Customs & other import duties	335.3	283.1	270.4	12.7	84.4%
Taxes on Exports	13.9	12.5	18.3	(5.8)	89.9%
Departure Taxes	147.3	146.7	143.2	3.4	99.6%
Other	0.0	0.2	0.1	0.1	0.0%
<b>d. General Stamp Taxes</b>	<b>28.1</b>	<b>9.2</b>	<b>4.4</b>	<b>4.8</b>	<b>32.7%</b>
<b>NON-TAX REVENUE (e+f+g+h+i+j)</b>	<b>218.8</b>	<b>223.3</b>	<b>203.8</b>	<b>19.5</b>	<b>102.0%</b>
<b>e. Property Income</b>	<b>22.4</b>	<b>19.6</b>	<b>23.0</b>	<b>(3.4)</b>	<b>87.5%</b>
Interest & Dividends	6.9	5.4	6.6	(1.2)	78.3%
Revenue_Gov't Property	15.5	14.2	16.4	(2.2)	91.7%
<b>f. Sales of goods &amp; services (i+ii)</b>	<b>179.5</b>	<b>193.5</b>	<b>163.3</b>	<b>30.2</b>	<b>107.8%</b>
<b>i. Fees &amp; Service Charges</b>	<b>162.1</b>	<b>172.7</b>	<b>145.2</b>	<b>27.5</b>	<b>106.5%</b>
General Registration	5.1	5.6	4.7	0.9	109.2%
General Service	14.0	13.4	14.1	(0.7)	95.7%
Immigration	76.6	92.3	63.6	28.7	120.5%
Land & Building	1.9	2.4	2.2	0.2	126.3%
Legal	4.9	1.1	5.6	(4.5)	22.4%
Customs	46.7	49.4	46.2	3.2	105.9%
Port & Harbour	10.8	6.5	7.2	(0.7)	60.1%
Health	1.3	1.4	1.0	0.4	107.7%
Other Fees	0.8	0.6	0.7	(0.1)	0.8%
<b>ii. Other</b>	<b>17.4</b>	<b>20.8</b>	<b>18.1</b>	<b>2.7</b>	<b>119.5%</b>
<b>g. Fines, Penalties &amp; Forfeits</b>	<b>3.4</b>	<b>5.3</b>	<b>1.2</b>	<b>4.1</b>	<b>155.9%</b>
<b>h. Reimbursements &amp; Repayments</b>	<b>2.5</b>	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1%</b>
<b>i. Misc. &amp; Unidentified Revenue</b>	<b>9.6</b>	<b>2.0</b>	<b>14.9</b>	<b>(12.9)</b>	<b>21.0%</b>
<b>j. Sales of other Non-Financial Assets</b>	<b>1.4</b>	<b>2.7</b>	<b>1.3</b>	<b>1.4</b>	<b>192.9%</b>
<b>TOTAL TAX &amp; NON-TAX REVENUE</b>	<b>2,648.7</b>	<b>2,416.0</b>	<b>2,039.5</b>	<b>376.5</b>	<b>91.2%</b>
<b>GRANTS</b>	<b>2.2</b>	<b>0.1</b>	<b>2.6</b>	<b>(2.5)</b>	<b>2.3%</b>
<b>CAPITAL REVENUE</b>	<b>0.0</b>	<b>0.0</b>	<b>0.2</b>	<b>(0.2)</b>	<b>0.0%</b>
<b>GRAND TOTAL</b>	<b>2,650.9</b>	<b>2,416.0</b>	<b>2,042.3</b>	<b>373.7</b>	<b>91.1%</b>

## 4. Expenditure Developments

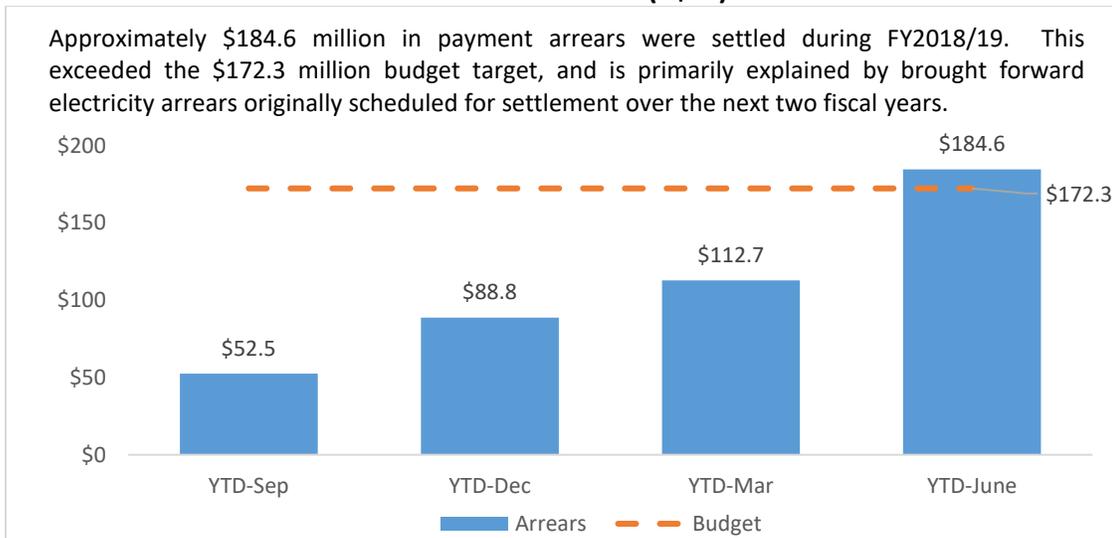
### a. Recurrent Expenditure

Recurrent expenditure, at a provisional \$2,421.2 million, registered a gain over the comparative fiscal year of \$232.6 million, or 10.6%, and represented 93.5% of the budget (*see Table 3*).

The main factors underlying the annual expenditure outcome were as follows:

- Compensation of employees narrowed by \$17.7 million (2.4%) to \$711.1 million in FY2018/19, relative to the previous fiscal year, which equated to 89.6% of the budget. Wages and salaries, at 87.3% of the total, were lower by \$17.5 million (2.7%) at \$621.1 million—mostly reflecting timing related factors associated with recruitment exercises across the public service—while allowances were marginally higher at \$58.9 million.

#### Settlement of Arrears (B\$M)

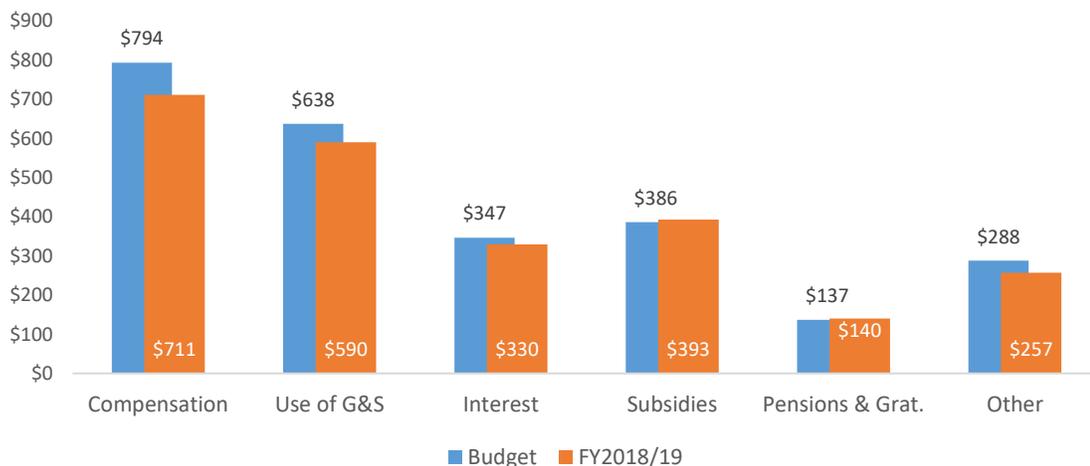


Note: Payment arrears are included across several expenditure categories.

- Spending on goods and services expanded by \$141.6 million (31.6%) to \$590.4 million, for 92.6% of the budget. Special financing transactions—its largest component—rose nearly five-fold to \$121.2 million, largely attributed to the settlement of arrears, which grew by \$80.0 million over the third quarter of the fiscal year. Payments of arrears also dominated the hike in outlays for utilities, of \$30.3 million (45.3%), rent, of \$24.9 million (56.7%), and services, of \$25.3 million (30.1%). More muted gains were recorded for outlays on other goods & services, travel & subsistence and school boards, of \$0.8 million (3.4%), \$0.5 million (5.5%) and \$0.1 million (1.8%), respectively. Providing some offset, recurrent outlays declined for supplies and materials (\$18.3 million, or 26.1%), finance charges (\$10.9 million, or 29.5%), tourism-related payments (\$5.8 million, or 8.9%), and local government districts (\$0.8 million, or 5.2%).
- Public debt interest payments were higher by \$15.8 million (5.0%) at \$329.7 million and constituted 95.1% of the budget. By currency composition, \$145.8 million (44.2%) was directed to foreign currency obligations, with the remaining \$183.9 million (55.8%) settling Bahamian Dollar debt.

- Subsidies—which comprise transfers to Government owned and/or controlled units that provide commercial goods and services to the public—rose by \$64.9 million (19.8%) to \$392.7 million.
  - Subsidies to public non-financial corporations expanded by \$38.2 million (12.3%) to \$348.2 million, vis-à-vis FY2017/18. Of this total, approximately \$230.2 million (66.1%) was allocated to the Public Hospital Authority (PHA)—a gain of \$18.6 million over the previous year. In addition, transfers to the University of The Bahamas and the Bahamas Technical and Vocational Institute grew by \$5.8 million and \$3.1 million, respectively. Subsidies to the national airline carrier and the water and sewerage utilities company were marginally increased by \$0.2 million and \$1.0 million, respectively, whereas transfers to the National Health Insurance Scheme were relatively stable at \$14.9 million.
  - Subsidies to private non-financial enterprises were higher at \$42.0 million from \$13.5 million in the previous fiscal year, largely owing to arrears settlements with cruise line operators, of \$21.6 million, and the \$5.5 million spend for small business development as a part of the Government’s \$25 million five-year commitment to support small businesses.

**Recurrent Expenditure vs Budget (B\$M)**



- Grants, which represent gifts and donations to foreign governments and international organizations (including membership fees) rose marginally by \$0.4 million (5.3%) to \$8.0 million over the fiscal year, equating to 91.5% of the budget allocation.
- Social Assistance Benefits, which can occur in cash or in kind—for example, medical services—were higher by \$8.1 million (21.3%) at \$46.2 million. These payments were driven primarily by the \$17.5 million spend under the National Drug Plan Programme, compared with the budgeted \$16.0 million.
- Pension and gratuity payments, at \$139.9 million, increased by \$12.4 million (9.7%) over the prior fiscal year, and exceeded the budgeted spend by 2.4%. Of this total, \$104.3 million was allocated to pensions for officials, parliamentarians, war veterans, and widows, while the remaining \$35.6 million constituted staff gratuities due upon retirement.

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

	[a]	[b]	[c]	[b] - [c]	[b]/[a]
	Budget		July - June		
	FY2018/19	FY2018/19 <sup>P</sup> Actual	FY2017/18 <sup>P</sup> Actual	Variance	% of Budget
<b>RECURRENT EXPENDITURE</b>					
<b>Compensation of Employees</b>	<b>793.6</b>	<b>711.1</b>	<b>728.7</b>	<b>(17.7)</b>	<b>89.6%</b>
<b>Use of Goods &amp; Services</b>	<b>637.5</b>	<b>590.4</b>	<b>448.8</b>	<b>141.6</b>	<b>92.6%</b>
Travel & Subsistence	8.9	9.6	9.1	0.5	107.8%
Rent	81.7	68.8	43.9	24.9	84.2%
Utilities & Telecommunications	72.6	97.4	67.1	30.3	134.2%
Supplies & Materials	46.6	51.7	70.0	(18.3)	110.9%
Services	120.7	109.3	84.0	25.3	90.6%
Minor capital repairs	5.1	4.4	4.8	(0.4)	86.3%
Finance charges	34.6	26.1	37.0	(10.9)	75.4%
Special Financial Transactions	124.1	121.2	25.4	95.8	97.7%
Tourism Related	96.2	59.1	64.9	(5.8)	61.4%
Local Gov't Districts	13.3	12.7	13.5	(0.8)	95.5%
School Boards	5.9	5.8	5.7	0.1	98.3%
Other	27.8	24.3	23.6	0.7	87.4%
<b>Public Debt Interest</b>	<b>346.8</b>	<b>329.7</b>	<b>313.9</b>	<b>15.8</b>	<b>95.1%</b>
<b>Subsidies</b>	<b>386.4</b>	<b>392.7</b>	<b>327.8</b>	<b>64.9</b>	<b>101.6%</b>
<b>Grants</b>	<b>8.7</b>	<b>8.0</b>	<b>7.6</b>	<b>0.4</b>	<b>92.0%</b>
<b>Social Assistance Benefits</b>	<b>51.3</b>	<b>46.2</b>	<b>38.1</b>	<b>8.1</b>	<b>90.1%</b>
<b>Pensions &amp; Gratuities</b>	<b>136.7</b>	<b>139.9</b>	<b>127.5</b>	<b>12.4</b>	<b>102.4%</b>
<b>Other Payments</b>	<b>228.2</b>	<b>203.3</b>	<b>196.1</b>	<b>7.2</b>	<b>89.1%</b>
Current Transfers n.e.c.	152.0	150.5	128.8	21.7	99.0%
Insurance Premiums	76.2	52.8	67.2	(14.4)	69.2%
<b>TOTAL</b>	<b>2,589.2</b>	<b>2,421.2</b>	<b>2,188.6</b>	<b>232.6</b>	<b>93.5%</b>

- Current transfers that are not elsewhere classified (n.e.c.) include other direct and indirect Government support to households and non-profit institutions that assist households, and subventions to public corporations that do not otherwise classify as subsidies. In FY2018/19, outlays for current transfers firmed by \$21.7 million (16.8%) to \$150.5 million, which was 99.0% of the budget.
  - Transfers to households, which are earmarked to provide financial relief, totaled some \$37.1 million, or 24.7% of the total. As budgeted, another annual outlay of \$12.5 million was absorbed by Clico severance payments, and the amount directed toward scholarships was unchanged from FY2017/18 at \$17.8 million.
  - Other transfers doubled to \$35.6 million from \$17.8 million, reflecting the Government's settlement of nearly \$13.7 million in contingent liabilities being the non-recoverable portion of the nearly \$17.0 million in defaults under the education and hurricane loan programs with Bank of The Bahamas. The outcome was also driven by the \$7.2 million interest payment on Bahamas Resolve's \$167.7 million promissory note to Bank of The Bahamas.
  - Approximately \$13.4 million in additional subventions to public corporations was

provided to assist with bringing closure to their electricity payment arrears owed to BPL as part of the settlement arrangement between BPL and the Government.

## b. Capital Spending

For the 2018/19 fiscal year, preliminary estimates place capital spending at \$217.2 million—a \$51.5 million (19.2%) decline relative to FY2017/18 (*see Table 4*). However, when the previous fiscal years' position is adjusted for the extraordinary write-off of the Bahamas Resolve transaction, of \$80.0 million, FY2018/19 would record a small gain of \$3.1 million.

**TABLE 4: CAPITAL EXPENDITURE SUMMARY**

(B\$M)

	[a]	[b]	[c]	[b] - [c]	[b]/[a]
	<b>Budget</b>		<b>July - June</b>		
	<b>FY2018/19</b>	<b>FY2018/19<sup>P</sup> Actual</b>	<b>FY2017/18<sup>P</sup> Actual</b>	<b>Variance</b>	<b>% of Budget</b>
<b>Capital Transfers</b>	62.2	29.6	40.0	(10.4)	47.6%
<b>Acquisition of Non-financial assets</b>	237.1	187.6	228.7	(41.1)	79.1%
<b>Fixed Assets</b>	236.6	187.6	228.7	(41.1)	79.3%
Buildings other than dwellings	71.0	62.1	54.1	8.0	87.5%
Other structures	102.1	83.7	64.9	18.8	82.0%
Transport equipment	11.3	10.3	15.0	(4.7)	91.2%
Other Machinery & equipment	42.1	10.0	4.4	5.6	23.8%
Land Improvements	1.1	0.8	1.2	(0.4)	72.7%
Other Fixed Assets	9.0	20.7	89.1	(68.4)	230.0%
<b>Land</b>	0.5	0.0	0.0	0.0	0.0%
<b>TOTAL</b>	299.3	217.2	268.7	(51.5)	72.6%

- Compared to FY2017/18, capital transfers were reduced by \$10.4 million (26.0%) to \$29.6 million, which represented roughly 47.6% of the budget.
- Spending on the acquisition of non-financial assets was lower by \$41.1 million (18.0%) at \$187.6 million.
  - Investments in fixed assets (i.e., buildings, machinery and equipment) fell by \$41.1 million (18.0%) to \$187.6 million, largely explained by respective declines in transport equipment and land improvements, of \$4.7 million (31.3%) and \$0.4 million (33.3%), respectively. Other machinery and equipment, at \$10.0 million, equated to some 23.8% of the budget, as a result of a delay in technology related projects by various uniformed branches of the government. In addition, the 18.0% underspend for other structures was partly associated with delays in Government Housing Subdivision projects.
  - Other fixed assets recorded a decline of \$68.4 million (76.8%) to \$20.7 million, following the year earlier boost associated with the Bahamas Resolve write-off. However, total outlays for this item were more than doubled the budgeted \$9.0 million.

## 5. Financing Activities

### Net Increase in Liabilities

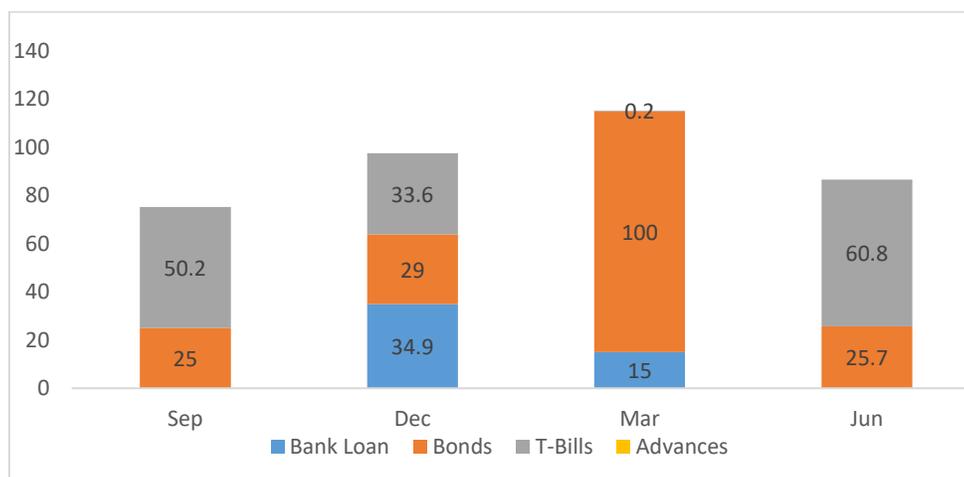
To meet operational requirements, the Government incurred a net increase in its liabilities of \$293.1 million.

- In financing the deficit, the Government borrowed an aggregate of \$1,094.2 million over the 2018/19 fiscal year. Of this total, \$1,085.0 million was in Bahamian dollars, with the remaining \$9.2 million representing drawdowns on existing foreign currency loans.
- As for the breakdown, approximately \$619.7 million was issued in new bonds to facilitate the conversion of the prior years' \$134.7 million in outstanding Central Bank advances to bonds, as well as to refinance maturing series. At end-June 2018, the outstanding balance on advances was \$15.0 million. Treasury bill taps totaled \$231.3 million for the fiscal year, with \$51.2 million repaid by end-June 2019; and a further \$190.0 million was borrowed by way of domestic bank loans.
- Of the \$801.1 million in debt repayment, some 89.5% was for Bahamian dollar obligations.
- As a result of the \$293.1 million net increase in liabilities, the Direct Charge on the Government grew to an estimated \$7,535.8 million, or 58.8% of GDP, at end-June, vis-à-vis \$7,242.7 million at end-June 2018 or 58.7% of GDP.

#### CHANGE IN LIABILITIES (By Currency and Instrument)

(B\$M)

	FY2018/19: July - June		
	Borrowings	Repayment	Net Change
<b>Bahamian Dollars</b>	<b>1,085.0</b>	<b>717.2</b>	<b>367.8</b>
Bonds	619.7	433.1	186.6
Treasury Bills/Notes	231.3	51.2	180.1
Bank Loans	190.0	69.2	120.8
Central Bank Advances	44.0	163.7	(119.7)
<b>Foreign Currency</b>	<b>9.2</b>	<b>83.9</b>	<b>(74.7)</b>
Bank Loans	1.3	58.8	(57.5)
Loans from Int'l Dev. Agencies	7.9	25.1	(17.2)
<b>TOTAL</b>	<b>1,094.2</b>	<b>801.1</b>	<b>293.1</b>

**Composition of Government Borrowings for First Six Months of FY2018/19****Contribution to Sinking Funds**

During FY2018/19, the Government contributed a total of \$46.5 million to the sinking fund designated for future debt amortization payments. The accumulated value for the three arrangements established to retire external bonds stood at US\$144.6 million as at end-June, while the two (2) local funds held a collective value of \$9.6 million.

**Equity Acquisition**

Transactions related to the special purpose vehicle Lucayan Renewal Holdings Ltd. dominated equity acquisitions over the fiscal year. At end-June, the Government's total investment stood at \$47.0 million, of which \$32.4 million constituted the initial capital. Additionally, in settling the defaulted education and hurricane government guaranteed loan programmes at a total outlay of nearly \$17.0 million, the recoverable portion was estimated at \$3.0 million.

**Other Loans**

In the closing quarter of FY2018/19, the Government extended shareholder loans to two (2) public entities which, as financial investments, are also recorded as below-the-line transactions and therefore have no impact on the fiscal balance.

In May, the Government granted HoldingCo2015 Ltd (HoldingCo), the vehicle created to hold the Government's 51.75% equity in Be Aliv Ltd (Aliv), a loan of \$10.750 million to enable it to comply with Aliv's request for loan funding from its strategic partners to bridge cash flow requirements. HoldingCo and the Government executed a promissory note, which provides for scheduled payments of principal and interest that mirror those to be received by HoldingCo from Aliv over the four-year loan period.

In June, Bahamas Power & Light also received a six-month \$15.0 million shareholder's loan, to meet the company's debt amortization payments. The credit agreement executed between the Government and BPL provides for the loan to be repaid, in whole, by end-December 2019 and for the payment of interest at the 91-day Treasury bill rate.

## 6. Policy Initiatives for Enhanced Public Financial Management

### Ongoing Initiatives

Consistent with the Government's commitment to improve the governance framework for public financial management, policy initiatives over the FY2018/19 were centered on advancing draft legislation necessary to enhance the functioning of key operational areas of the public finances (see Box A below). Prior to the start of the fiscal year, the Government drafted, passed, and enacted the inaugural Fiscal Responsibility Act, which places stringent, but prudent fiscal targets for the Government's fiscal performance, in an aim to reduce the current deficit and debt levels to more sustainable levels. In its first year, the Government's fiscal performance met its targets successfully, highlighting its commitment to improve the overall fiscal position of the country.

The Ministry is engaging further with external consultants and internal stakeholders on several draft Bills, namely, the Public Financial Management Bill, the Public Debt Management Bill, and the Public Procurement Bill to progress its overall objective of proper, transparent, and consistent public financial management. The Government also drafted a Disaster Relief Bill, under which funds from dormant accounts, and other designated sources, are to be earmarked for a disaster relief fund that, is intended to provide a fiscal buffer to cover the potential cost of a natural disaster. These bills remain under inter-agency review presently.

<b>Box A: Public Sector Financial Legislative Initiatives</b>	
<b>Initiatives</b>	<b>Key Features</b>
<b>Fiscal Responsibility Act, 2018</b>	<p>Bill enacted in October 2018. The Government produced and tabled in Parliament the inaugural Fiscal Strategy Report in November 2018.</p> <p>Fiscal Targets</p> <ul style="list-style-type: none"> <li>▪ Reduce debt to no more than 50 percent of GDP</li> <li>▪ Reduce the fiscal balance to no more than 0.5% of GDP, from FY2020/21 onwards; transition path requires the fiscal balance not to exceed 1.8% of GDP in 2018/19 and 1.0% of GDP in FY2019/20.</li> <li>▪ After attainment of 0.5% of GDP fiscal balance objective, growth of recurrent expenditure not to exceed estimated long-term rate of growth of nominal GDP.</li> </ul>
<b>Public Financial Management Bill</b>	<p>The draft bill seeks to replace the existing Financial Administration and Audit Act, 2010 and provide, inter alia, for clarity in specification of roles and responsibilities; enhanced reporting requirements, accountability expectations for government agencies, oversight of state-owned enterprises, expanded budget disclosure requirements, and criminal penalties for malfeasance in public financial matters.</p>
<b>Disaster Relief Bill</b>	<p>The draft bill seeks to provide for the establishment and management of a Disaster Relief and Resilience Fund and for matters incidental thereto.</p>
<b>Public Procurement Bill</b>	<p>The draft bill seeks to modernize and align procurement systems and processes with regional and international best practices and standards. To include establishment of a public procurement board, the use of different procurement methods, the establishment of a digital procurement platform and electronic vendor registry and the publication of all contracts awarded by government.</p>