FISCAL STRATEGY REPORT

NOVEMBER 2018

GOVERNMENT OF THE BAHAMAS

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CONTENTS

TABLES

FIGURES

LETTER OF TRANSMITTAL

This Fiscal Strategy Report (or FSR) is being presented as mandated by the Fiscal Responsibility Act, 2018 (or the Act), which came into force on 1st October 2018. Section 10 of the Act requires the Minister of Finance to submit such an annual report to Cabinet, for review and approval, no later than the 1st Tuesday of November, in this case November 6, 2018. The FSR is then to be presented to both Parliament and the Fiscal Responsibility Council (FRC) by the 3rd Wednesday of November, i.e., November 21, 2018. However, with the very recent coming into force of the Act, this year is somewhat anomalous in that the FRC will not be established until July 1, 2019. The FSR shall also be published when it is presented to Parliament.

The purpose of the FSR is to guide the preparation of the annual Budget in accordance with the Act, the fiscal objectives set out in the FSR and the recommendations of Parliament.

The coming into force of the Act and the publication of this 2018 FSR represent a watershed moment in the history of The Bahamas. It heralds the dawn of a new era of public financial management that is marked by enhanced transparency, accountability and responsibility on the part of the Bahamian Government.

As explained at the time of the 2018/19 Budget, given the vital importance of promptly redressing the undesirable state of the nation's public finances, the Government developed the Budget to be fully consistent with the key principles and articulated fiscal objectives of the Fiscal Responsibility Act, even though it had not yet been enacted.

The Act is the culmination of a lengthy process of development with the technical assistance of the International Monetary Fund and its Caribbean Regional Technical Assistance Centre. In concluding work on the Act, the Government carefully considered the comments received from public and private sector stakeholders and incorporated many of the proposed amendments in the final version. The drafting process also benefitted from valuable experience gained in other jurisdictions with the development and implementation of such legislation.

It is to be noted that the Ministry of Finance is in the process of strengthening its internal analytical capabilities in macroeconomic and fiscal modeling and forecasting. This initiative, together with planned enhanced collaboration with key agencies, such as the Department of Statistics and the Central Bank of The Bahamas, will strengthen the Ministry's ability to more fully satisfy the reporting and forecasting requirements of the Act in respect of future Fiscal Strategy Reports. Details on the areas requiring further refinement are set out in this year's FSR.

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

Dr. Hubert A. Minnis, Prime Minister & Acting Minister of Finance	Marlon Johnson Financial Secretary (Actg.)

1. INTRODUCTION

1.1 Report

The Fiscal Responsibility Act, 2018 directs the Minister of Finance to prepare and submit a Fiscal Strategy Report to Cabinet for approval no later than the 1st Tuesday of November of each fiscal year. On approval, the report is submitted to Parliament and the Fiscal Responsibility Council for their review and recommendations.

Following this section, and in compliance with these requirements, this report is divided into the following four (4) sections.

- Section 2 provides a report on economic and fiscal performance in the most recently completed fiscal year, namely 2017/18;
- Section 3 presents a macroeconomic and fiscal forecast for the current and next three fiscal years;
- Section 4 outlines the proposed fiscal policy for the next three fiscal years; and
- Section 5 presents an analysis of risks and mitigation strategies.

Annex A provides a summary of the Government's debt management policy and activities.

The information to be included in the Fiscal Strategy Report, as specified in the Act, is included in this document as ***Annex B***.

1.2 Accounting Principles and Methods

The budgetary data presented in the FSR 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.

It should also be noted that the data tables herein are presented using the new chart of accounts introduced in July 1, 2018 which prepares for the eventual conversion of the accounting presentation to the IPSAS accrual basis. The Government is committed to moving to the accrual method of accounting and has commenced a comprehensive public financial management institutional strengthening initiative which will include the implementation of a new budgeting and accounting software and standards, and the supportive systems.

The new chart of accounts also facilitates the aggregation and presentation of the fiscal data to meet the International Monetary Fund's Government Finance Statistics (GFS) 2014 reporting framework for analyzing and evaluating the performance of the government's finances.

As data reconciliation is ongoing, annual data for FY2016/17 and FY2017/18 data are subject to change, until audited by the Auditor General; therefore, their status is provisional.

2. OVERVIEW OF ECONOMIC AND FISCAL PERFORMANCE IN FY 2017/18

2.1 Economic Performance

The performance of The Bahamian economy in 2017 is set against the backdrop of a moderate 3.7 per cent expansion in global economic activity, compared with the prior year's increase of 3.2 per cent. Developments reflected improved outcomes across the major economies. For our major trading partner, the United States, real output growth advanced to 2.3 per cent from 1.5 per cent in 2016, supported by gains in personal consumption expenditure, non-residential fixed investments and exports.

During the recently completed fiscal year, FY2017/18, the Bahamian economy performed in line with the forecast presented at the time of the Budget. As reported by the Department of Statistics, Gross Domestic Product (GDP), in real terms, was estimated at $10,742 million for 2017—achieving the targeted growth rate of 1.4 per cent. Although mild, this outturn represented an appreciable improvement from the 1.7 per cent decline posted in 2016. For 2018, real GDP growth is forecasted at 2.2 per cent or 1.8% on a 2017/18 fiscal year basis, which compares with a slight decline in real activity during the previous fiscal year.

Table 1: Forecast and Actual Economic Performance

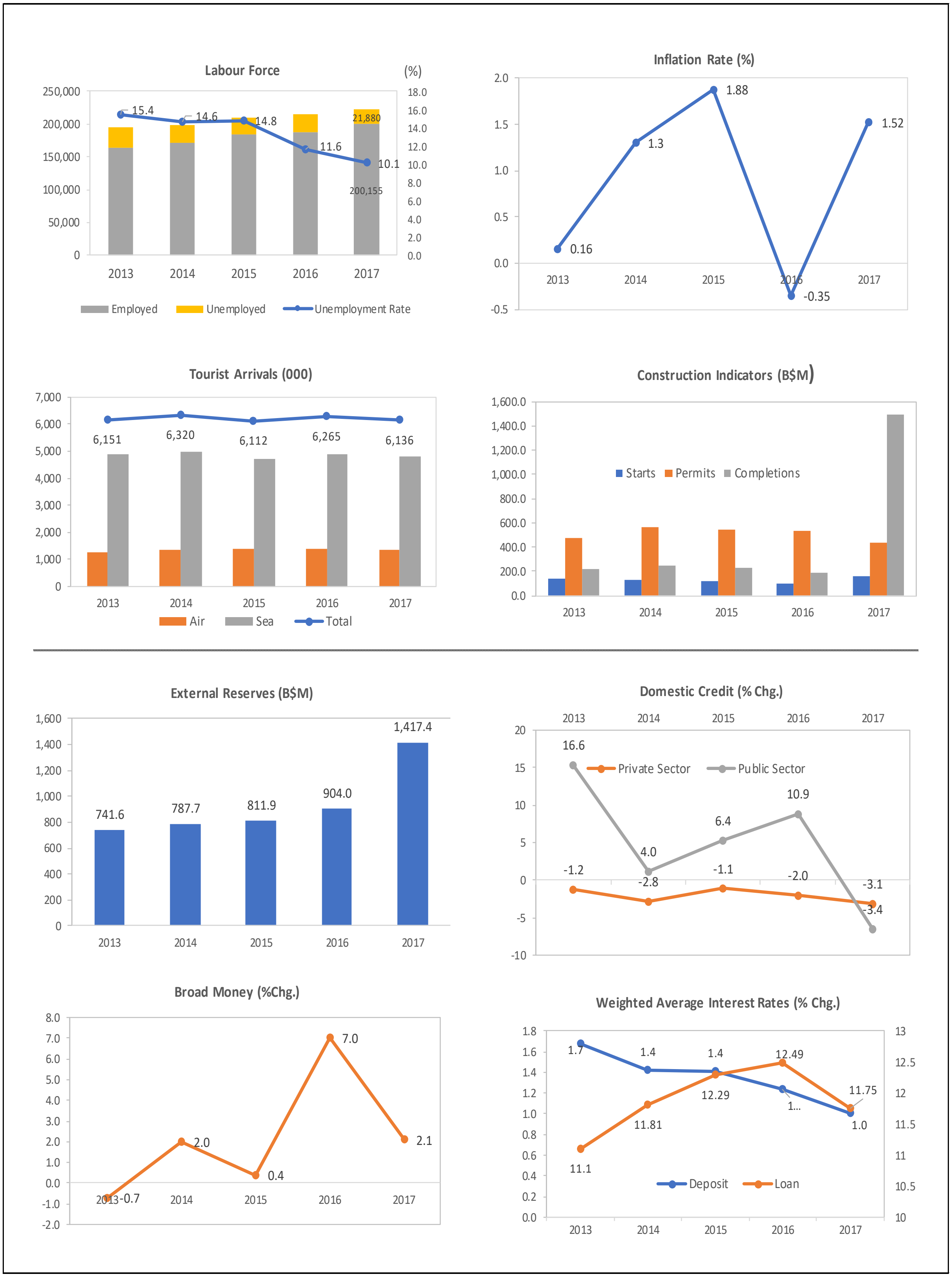
	2017			2018
INDICATORS	**FORECAST**	**ACTUAL**	**VARIANCE**	**Budget Forecast**
Gross Domestic Product, current prices (% change)	2.6	2.7	0.1	3.9
Gross Domestic Product, constant prices (% change)	1.4	1.4	0.0	2.2
Inflation, GDP deflator (%)	1.2	1.3	0.1	1.7

Note: Forecast is from 2017/18 Budget and April 2017 IMF World Economic Outlook; preliminary 2017 is from Department of Statistics' National Accounts Report 2017, May 2018.

The rate of price inflation in 2017, as measured by the GDP deflator, is estimated by the Department of Statistics at 1.3 per cent, largely in line with the 2017/18 Budget forecast of 1.2 per cent. As a result, GDP in nominal, or current dollar terms, is estimated to have expanded by 2.7 per cent in the last calendar year, only marginally higher than the projection set out in the Budget. It should be noted that the national accounts system was rebased to 2012 and underwent substantially revision, benefitting from improved coverage. The result was a 27 per cent rise in the level of nominal GDP. This measure is crucially important for fiscal planning and performance, as it effectively represents the aggregate tax base for the collection of Government revenues.

As depicted in Table 1, the FY2017/18 Budget presented in May 2017 projected a further strengthening of real and nominal GDP growth in 2018, to 2.2 per cent and 3.9 per cent, respectively. Based on improving conditions in early 2018, these forecasts were further revised upwards in the 2018/19 Budget.

Figure 1: Key Macroeconomic Indicators



For 2017, the improvement in the rate of growth largely reflected an 11.8 per cent rise in gross fixed capital formation, driven by a 16.4 per cent increase in buildings and infrastructure and an 8.1 per cent growth in machinery and equipment purchases. These developments were underpinned by continued firming in construction sector output, which benefitted from several varied-scale foreign investment projects, including the multi-billion dollar Baha Mar development and, to a lesser extent, sustained rebuilding works post-Hurricane Matthew. In aggregate, output in the construction sector expanded by almost 25 per cent in 2017, following five years of meager to negative growth over the 2012 to 2016 period. Foreign investment projects have continued to support activity in the construction sector into 2018. Household consumption expenditures, the most important component of GDP, also posted renewed buoyancy in 2017, expanding by 7.9 per cent in real terms after contracting by 2.5 per cent in 2016.

The tourism sector, however, faced several challenges in 2017 which muted its performance. Key among these were the on-going impact of the 2016 weather-related loss of room capacity in Grand Bahama, the country's second largest tourist market, and the passage of several hurricanes through the region, in September 2017, which disrupted flight and cruise ship itineraries. The sector also experienced increased competition from competitor regional destinations. In combination, these developments were behind the 2.1 per cent decline in total visitor arrivals in 2017, which contrasted with gains of 2.5 per cent in 2016. Growth of value-added in the tourism sector was constrained by a 4 per cent reduction in air arrivals.

Tourism sector output has rebounded sharply in 2018. Data from the Ministry of Tourism for the first six months of the year signal a 4.1 per cent recovery in total visitor arrivals, from the prior years' comparable contraction of 2.1 per cent. Supported by increased airlift, these gains were anchored by the high value-added air segment, which strengthened by 12.2 per cent. Data compiled by the Bahamas Hotel and Tourism Association confirmed the growth in stopover visitor arrivals, as major hotel properties experienced total room revenue gains of 32 per cent during the first half of 2018, completely offsetting the year-earlier decline of 7 per cent.

The more buoyant pace of economic activity registered in 2017, and continuing into 2018, translated into gains in the labour market. Data from the Department of Statistics Labour Force Survey for May 2018 showed an increase in employment of 4 per cent over May 2017 (8,100 jobs) and 2.2 per cent relative to November 2017. However, the unemployment rate was essentially unchanged in the twelve-month period to May 2018 (10 per cent vs. 9.9 per cent), due to the offsetting increase in the labor force. Unemployment for young persons (15-24 years) remained unacceptably high at 24.1 per cent in May 2018.

Reflecting sustained firming in global oil prices, consumer price inflation, as measured by the annual change in the average Retail Price Index, moved higher to 1.5 per cent for 2017. This followed on a 0.4 per cent decline in 2016.

Money and credit conditions for 2017 featured strong growth in both bank liquidity and external reserves, mainly due to the Government's external borrowing activities to meet budgetary requirements. This contrasted with slowed growth in broad money supply, to 2.1% from 7.0% in 2016. The extended contraction in private sector credit to 3.1 per cent from 2.0 per cent a year earlier, continued to reflect banks' cautious lending posture amid the persistent credit quality challenges.

2.2 Budget and Fiscal Performance

a. Overall Balance

As summarized in Table 2, provisional data on the fiscal outturn for FY2017/18 reveal that the performance was somewhat weaker than projections presented at the time of the 2017/18 Budget. The deficit widened to an estimated $415 million relative to the budget of $320 million and equated to an estimated 3.3 per cent of GDP, compared to the forecasted 2.6 per cent. However, this still represented a sharp improvement from the

$661 million budgetary shortfall in 2016/17, which stood at an elevated 5.5 per cent of GDP. Overall, the revenue outcome was some 5.1 per cent below budget expectations, while total expenditures were lower by 0.7 per cent.

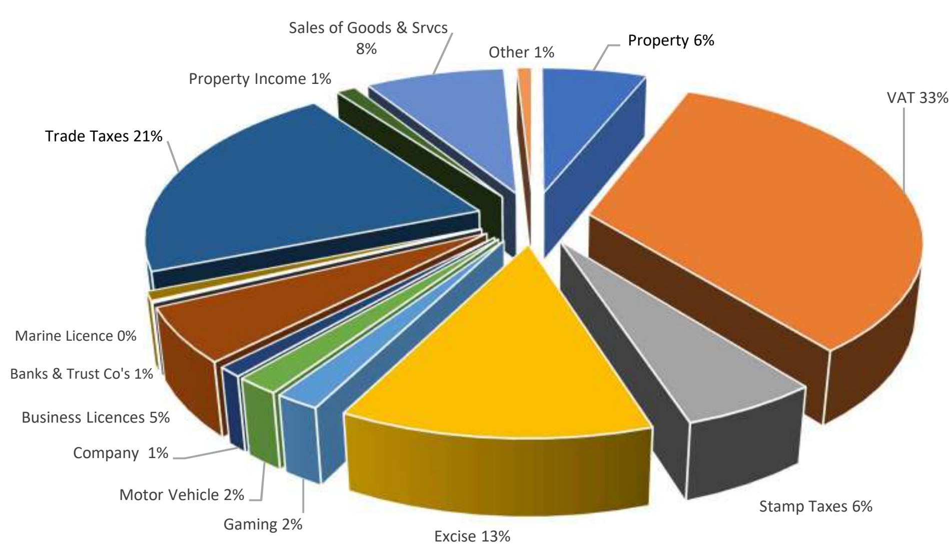
Table 2: FY2017/18 Forecast and Actual Fiscal Performance (B$M)

	FORECAST	ACTUAL	VARIANCE
1. Revenue	2,152.5	2,042.4	-110.1
2. Expenditure	2,472.8	2,457.3	-15.5
Recurrent	2,243.1	2,188.6	-54.5
Capital	229.7	268.7	39.0
3. Surplus/(Deficit) [1-2]	-320.2	-414.9	-94.6
4. GFS Deficit as % of GDP	-2.6%	-3.3%	-0.8%
5. Govt Direct Charge	6,873.0	7,245.4	372.4
6. Gov't Direct Charge as % of GDP	54.8%	57.8%	2.9

b. Revenue

A key driver of the fiscal underperformance in 2017/18 was the less buoyant outturn for recurrent revenue than had been projected at the time of the Budget Communication, even though real and nominal GDP growth performed as expected. At $2,042 million, total revenue was some $110 million below forecast and represented an estimated 16.3 per cent of GDP compared with a budget target of 17.2 per cent. As was emphasized in this year's Budget, such lackluster performance of revenue is a matter of pressing concern that is aggressively being addressed by the Ministry of Finance and its Revenue Enhancement Unit.

Figure 2: FY2017/18 Revenue by Source (%)



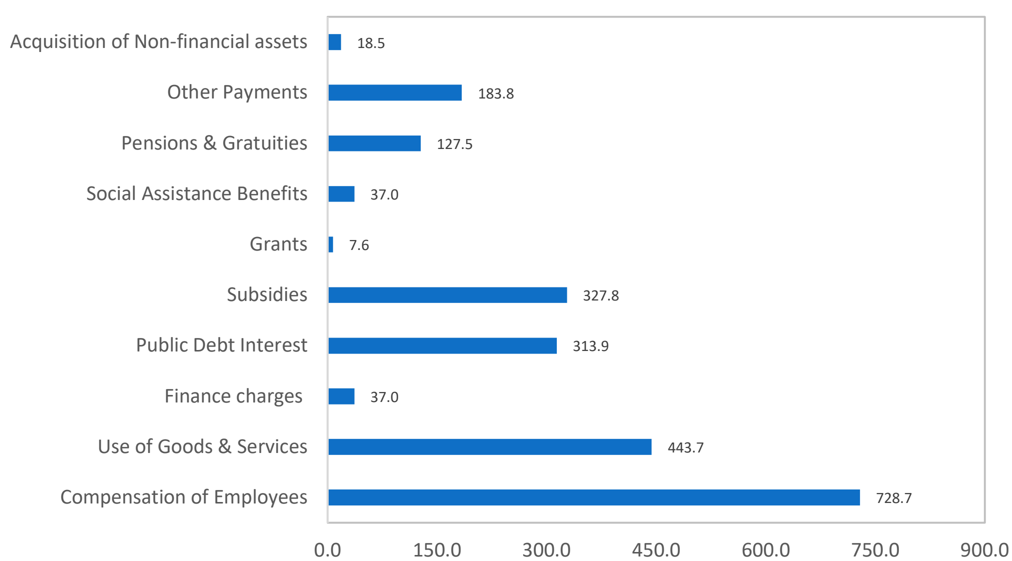
Within the major categories of revenue, taxes on goods and services were down $41 million from the Budget forecast. Among the constituent grouping, VAT, at 33.3 per cent of overall recurrent revenue, performed above expectations; receipts of $680.6 million represented a gain of 2.9 per cent over budget and an improved 5.4 per cent of GDP. Motor Vehicle taxes also overperformed relative to the budget, by 24.8 per cent to $36.6 million. However, licences to conduct special business activities (in large measure business licences) were some $53 million, or 32 per cent, lower than projected and excise taxes were $18 million under forecast. Below budget outcomes were also posted for taxes on international trade and transactions, of $41 million (8.6 per cent), and taxes on property of 14 per cent or $20 million. These latter two categories of revenue are receiving focussed attention in the Government's ongoing reform and modernization programme for revenues.

Under the traditional non-tax categories, collections of property income, comprising interest and dividend earnings along with revenue from other Government property, were more than halved to $23 million from a budgeted $48 million, reflecting some timing differences in payment. Receipts from sales of goods and services, covering fees and other service charges, improved by $18.0 million or 12 per cent.

c. *Expenditure*

Recurrent expenditure was $55 million or 2.4 per cent below forecast, reflecting a cut in primary recurrent expenditure (excludes interest payments) of $76 million. The latter outcome was associated with the Government's announcement, in July 2017, of an across-the-board 10 per cent reduction in primary, or discretionary, recurrent expenditure, relative to the budgeted sums. As a result, expenditure on the wage bill was reduced during the fiscal year by some $62 million, or 8 per cent, from budget. Interest payments, however, exceeded the budgeted allocation by $21 million, primarily consequent on commitments arising from new debt obligations incurred during the period. Outlays on goods and services were $31 million or 7 per cent above budget, and considerably exceeded the initial savings foreshadowed during the 2017/18 Mid-Year Budget presentation. The hike in outlays during the closing month of the fiscal year reflected the Government's insistence on agencies settling their payment obligations within the appropriate fiscal year, to the extent possible, as to minimize "carryover" into the ensuing fiscal period.

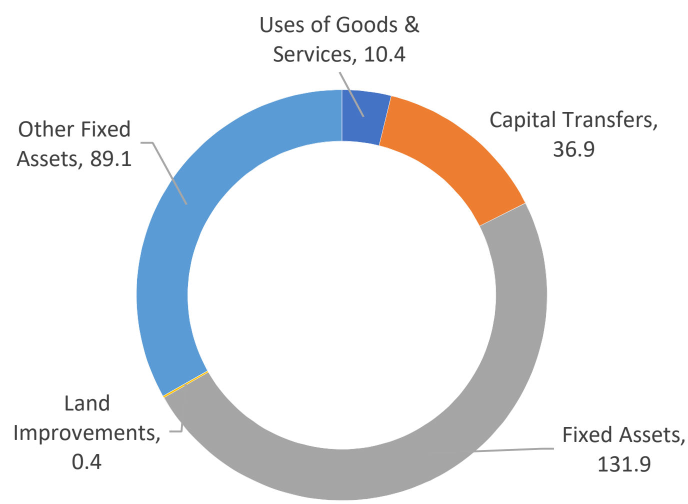
Figure 3: FY2017/18 Recurrent Expenditure (B$M)



As disclosed in the budget, subventions to the State-Owned Enterprises (or SOEs) represent an important portion of primary recurrent expenditure, at roughly one-quarter of the total. This underscores the Government's commitment to secure reductions in this area, as part of the strategy to achieve the desired fiscal goals. However, the Government is also cognizant that such savings will take time to materialize, as those enterprises fully embark on the Government directed transformation and modernization initiative.

The 2017/18 capital expenditure outcome was significantly influenced by the extraordinary transaction relating to the Government's facilitation of the Bahamas Resolve Limited's settlement of its $100 million Promissory Note to the Bank of The Bahamas. As was explained in the 2018/19 Budget Communication, it was determined that an amendment was required to the Government's accounting treatment of these payments to reflect the recoverability of the underlying assets. With $80 million being reclassified as a capital expenditure (and $20 million recorded as the Government's acquisition of a financial asset in Bahamas Resolve Limited), the outturn for Capital Expenditure in 2017/18 was boosted to $269 million, some $39 million or 17 per cent higher than the 2017/18 Budget projection. Net of the Bahamas Resolve transaction, however, growth in capital outlays was restrained during the 2017/18 fiscal year, at $189 million, which was some $41 million lower than the budgeted $230 million.

Figure 4: FY2017/18 Capital Expenditure (B$M)



d. Financing Activities

Section 17 of the Financial Administration and Audit Act provides for the Government to borrow short-term up to 60 per cent of its average ordinary revenue by way of Treasury bills and advances from banks, insurance companies or money lending institutions. The Government is also permitted to borrow, by resolution of the House of Assembly, amounts to cover its budgetary deficit and refinancing of debt repayments. The latter could be by issuance of registered stocks (bonds), under section 4 of the Bahamas Registered Stock Act (Ch. 362); loan agreements with banks, and the issue and sale of bonds under section 3 of the Development Loans Act (Ch.382).

Table 3: Detailed Summary of Provisional Fiscal Outturn, 2017/18

	FY2017/18			As Percent of GDP	
	Budget	Actual	Variance	Budget	Actual
TAX REVENUE	(B$M)				
Taxes on Property	143.5	123.6	-13.9%	1.1%	1.0%
Taxes on Goods & Services	1,316.9	1,275.7	-3.1%	10.5%	10.2%
VAT	661.6	680.6	2.9%	5.3%	5.4%
Stamp Taxes (Financial & Realty)	105.5	109.5	3.8%	0.8%	0.9%
Excise Tax	275.0	256.8	-6.6%	2.2%	2.0%
Taxes on Specific Services (Gaming)	36.5	37.2	1.8%	0.3%	0.3%
Motor Vehicle Taxes	29.4	36.6	24.8%	0.2%	0.3%
Company Taxes	21.5	21.0	-2.1%	0.2%	0.2%
License to Conduct Special Bus. Act.	166.0	113.4	-31.7%	1.3%	0.9%
Marine License Activities	2.4	2.5	3.1%	0.0%	0.0%
Banks & Trust Companies	19.0	18.1	-4.5%	0.2%	0.1%
Taxes on Int'l Trade & Transactions	472.7	432.0	-8.6%	3.8%	3.4%
General Stamp Taxes	10.1	4.4	-57.1%	0.1%	0.0%
TOTAL TAX REVENUE	1,943.3	1,835.7	-5.5%	15.5%	14.6%
NON-TAX REVENUE					
Property Income	47.6	23.0	-51.8%	0.4%	0.2%
Sales of Goods & Services	146.0	163.5	12.0%	1.2%	1.3%
Other	13.5	17.7	31.6%	0.1%	0.1%
TOTAL NON-TAX REVENUE	207.1	204.1	-1.4%	1.7%	1.6%
TOTAL TAX & NON-TAX REVENUE	2,150.3	2,039.8	-5.1%	17.1%	16.3%
CAPITAL REVENUE					
Capital Revenue	0.0	0.0	0.0%	0.0%	0.0%
Grants	2.2	2.6	17.8%	0.0%	0.0%
TOTAL CAPITAL REVENUE	2.2	2.6	17.8%	0.0%	0.0%
GRAND TOTAL ALL REVENUE	2,152.5	2,042.4	-5.1%	17.2%	16.3%
EXPENDITURES					
RECURRENT EXPENDITURE					
Compensation of Employees	790.4	728.7	-7.8%	6.3%	5.8%
Use of Goods & Services	413.1	443.7	7.4%	3.3%	3.5%
Travel & Subsistence	8.7	9.1	5.3%	0.1%	0.1%
Rent	62.9	43.9	-30.2%	0.5%	0.3%
Utilities & Telecommunications	57.3	67.0	16.9%	0.5%	0.5%
Supplies & Materials	38.1	69.9	83.5%	0.3%	0.6%
Services	84.1	81.9	-2.6%	0.7%	0.7%
Minor capital repairs	2.9	2.4	-17.5%	0.0%	0.0%
Finance charges	17.5	37.0	111.4%	0.1%	0.3%
Special Financial Transactions	27.3	25.4	-7.1%	0.2%	0.2%
Tourism Related	71.0	64.9	-8.5%	0.6%	0.5%
Local Gov't Districts	13.5	13.4	-0.4%	0.1%	0.1%
School Boards	5.8	5.7	-2.5%	0.0%	0.0%
Other	24.1	23.1	-4.2%	0.2%	0.2%
Public Debt Interest	292.5	313.9	7.3%	2.3%	2.5%
Subsidies	365.4	327.8	-10.3%	2.9%	2.6%
Grants	8.5	7.6	-11.2%	0.1%	0.1%
Social Assistance Benefits	34.9	37.0	6.2%	0.3%	0.3%
Pensions & Gratuities	130.4	127.5	-2.2%	1.0%	1.0%
Other Payments	186.3	183.8	-1.3%	1.5%	1.5%
Acquisition of Non-financial assets	21.6	18.5	-14.3%	0.2%	0.1%
TOTAL RECURENT EXPENDITURE	2,243.1	2,188.6	-2.4%	17.9%	17.4%
CAPITAL EXPENDITURE	229.7	268.7	17.0%	1.8%	2.1%
TOTAL EXPENDITURE	2,472.8	2,457.3	-0.6%	19.7%	19.6%
FISCAL DEFICIT	-320.2	-414.9	29.6%	-2.6%	-3.3%
Less: Public Debt Interest	292.5	313.9	7.3%	2.3%	2.5%
PRIMARY DEFICIT	-27.8	-101.0	263.9%	-0.2%	-0.8%

MEMO: GDP $12,545 [B$M]

Table 4: Financing Activities in 2017/18 (B$M)

	FY2017/18		Variance
	Budget	Actual	
Overall Balance [Surplus/(Deficit]	**-320.2**	**-414.9**	**-94.7**
Net Incurrence of Liabilities (a-b) [+]	**320.2**	**701.1**	**380.9**
a. Borrowings	746.4	1,989.7	1,243.3
b. Debt Repayment	426.2	1,288.6	862.4
Net Acquisition of Financial Assets [-]	5.4	25.4	20.0
Sinking Funds	5.4	5.4	0.0
Equity	0.0	20.0	20.0
Other Financing & Change in Cash Balance (incl. Overdraft) [- = increase]	-5.4	260.8	266.2

The 2017/18 budget provided for the Government to borrow to cover the projected budget deficit of $320.2 million and to refinance its debt repayment obligations, which came in over the budget at $862.4 million. The significant rise in debt repayment was primarily due to the repayment of the short-term financing secured to meet immediate funding needs in 2017/18, prior to the finalization of the longer-term US$750 million bond issued by the Government.

e. Risk assessment and realization

As this is the first FSR, there was no explicit identification of risks against which to measure fiscal performance in 2017/18.

2.3 Summary

As earlier mentioned, because the Fiscal Responsibility Act has only recently come into force, and this is the very first FSR, there are no previously identified, legally mandated and binding fiscal targets to assess compliance of fiscal performance in 2017/18.

The next FSR, to be presented in November 2019, will specifically review the Government's fiscal performance in 2018/19 relative to the fiscal objectives mandated in the Act. Further, the Fiscal Responsibility Council, to be established in July 2019, will have occasion to review and comment on 2018/19 performance in the context of its assessment of the Government's 2019/20 Budget Communication, which is to be presented to Parliament in late May 2019.

3. ECONOMIC AND FISCAL OUTLOOK

3.1 Macroeconomic Outlook Over the Medium Term

In reviewing prospects for the economy through the medium-term, it should be noted that, to date, the practice at the Ministry of Finance has been to utilize the GDP forecasts developed at the IMF in the context of its World Economic Outlook exercise. Apart from the unavailability of timely release of GDP projections by the national statistics agency, 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. In this way, the economic projections underpinning the annual Budget cannot be deemed to have been arbitrarily skewed to produce more favourable fiscal forecasts than warranted.

Institutional strengthening initiatives are underway to improve the timeliness, scope and periodicity of national accounts statistics, and macro-fiscal forecasting and analysis at the Ministry of Finance. This will be reflected in future FSRs and serve to better guide fiscal policy formulation and the budget preparation process. Cognizant of the need for broader consultation in these matters, the Ministry of Finance also intends to collaborate closely with the Department of Statistics and the Central Bank of The Bahamas, two important institution in the production of statistics on the macro-economy.

The most recent projection for real and nominal GDP, as well as for the implicit GDP deflator, through the medium-term horizon to 2022 are presented in Table 5. These data are taken from the October 2018 World Economic Outlook of the IMF. It will be noted that, relative to the projection presented in the 2018/19 Budget, the rate of real economic growth has now been lowered slightly, in both 2018 and 2019, by 0.2 per cent and 0.1 per cent, respectively. Real growth in 2018 is forecast at 2.3 per cent and in 2019, at 2.1 per cent. This largely reflects somewhat softer projected growth in the U.S. However, forecasted inflation this year and next is now somewhat higher than previously projected. As a result, the growth of nominal GDP is now expected to be higher in both 2018 and 2019 than had been projected in the May Budget.

Table 5: Macroeconomic Forecast

INDICATORS	2016	2017*	2018	2019	2020	2021	2022
GDP at current prices (% change)	0.4	2.7	6.3	5.6	3.5	2.8	3.1
GDP at constant prices (% change)	-1.7	1.4	2.3	2.1	1.6	1.5	1.5
Inflation (GDP deflator) (% change)	2.1	1.3	3.9	3.4	1.9	1.3	1.6

Data sources:

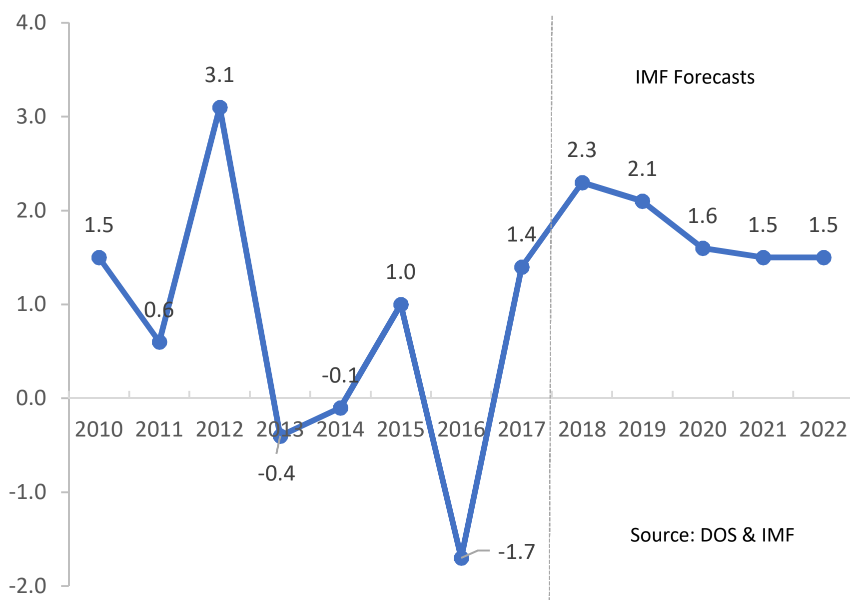
Historical data are from the Department of Statistics; where noted with an asterisk (*), the data are preliminary. The forecast data are from the IMF World Economic Outlook, April 2018

As may be seen in Table 5 and Figure 5, the domestic economy is rebounding gradually from several years of relatively weak growth, over the 2012 to 2016 period. The economy contracted in real terms, in both 2013 and 2014, by 0.4 per cent and 0.1 per cent, respectively. Real output recovered to positive territory in 2015, with a 1.0 per cent growth, before declining again in 2016, by 1.7 per cent.

In 2017, real economic activity has resumed at a positive rate of expansion, of 1.4 per cent. These improvements in growth prospects reflect anticipated further gains by the tourism sector, benefitting from the sustained expansion in the U.S. and other major source markets. Several pipeline foreign investment projects are also anticipated to buoy construction sector investments, and the now fully operational Baha Mar project is expected to underpin the growth momentum.

Looking further into the medium-term, the IMF expects the Bahamian economy to gradually revert to its long-term potential rate of real growth, which is estimated to be on the order of 1.5 per cent.

Figure 5: Real GDP History and Forecast



Given the critical importance of real growth to prospects for employment and improvements in our standard of living, it is instructive to briefly discuss the major factors that underpin the potential rate of economic growth. In a nutshell, prospects for the Bahamian economy over the longer term are dictated by the prospective interaction of three (3) key factors: the input of labour, the input of capital and the evolution of total factor productivity (TFP). For policy purposes, total factor productivity comprises all factors, beyond capital and labour, which affect the growth of the economy.

Based on studies completed on the subject, TFP has played a central role in the under-performance of the economy since, at least, the early 1980s. In the 1990s, for instance, capital and labour together contributed an average of 3 percentage points to real economic growth, but total factor productivity reduced the actual growth rate by 1 full point. In the early 2000s, the combined contribution of capital and labour was similar, but the negative impact of TFP was almost doubled to 2 full percentage points.

The theme of negative TFP growth and its damaging impact on the potential growth of the economy was also taken up in the 2017 IMF Article IV report. There, it was concluded that negative TFP growth has averaged -

1.0 per cent of GDP since at least 2000 and that the large positive contribution of capital has been falling over time. In contrast, the contribution of labour has been rising modestly since the early 2000s. It is by taking these factors into account, on a status quo basis going forward, that the potential growth rate of the Bahamian economy is estimated to be on the order of only 1.5 per cent over the medium term.

Clearly, such a relatively weak potential rate of growth is inadequate to the needs of Bahamian society and workers, both those seeking full-time employment and those entering the labour force every year. As such, beyond policies to improve human and physical capital, efforts must be devoted to addressing the key factors that impinge on the growth of total factor productivity. The Government's socio-economic transformation and growth policy agenda is directly geared to addressing these critical factors, as has been enunciated in both the Manifesto 2017 and the Speech from the Throne of May 2017.

Total factor productivity can include elements of the quality human capital since that has been shown to be an important determinant of how effectively new technologies from abroad will be transferred domestically. Sound public institutions and governance, as well as good management systems, for instance, in respect of the protection of property rights and respect of the rule of law, are also vital. Competition, through privatization and policies to facilitate market entry of new firms, and openness to trade are critical, as well. Trade liberalization also enhances competition and provides channels for technology transfer from abroad; and capital deepening and foreign direct investment, for their part, enhance the absorptive capacity of the economy through advanced technology spillovers.

The Government's agenda for growth is thus geared, not only to promoting domestic and foreign capital formation and improving skills and human capital, but also focuses on the others contributing factors to stronger growth. The overriding philosophy that inspires the actions plans being implemented is to promote private sector and entrepreneurial drivers of growth. Growth is to be underpinned primarily by Bahamian investment and creativity—especially that of Bahamian small businesses, in tandem with strategic foreign investments. To that end, the Government is moving to significantly improve both the ease of doing business and the business environment, as the goal is to enhance the competitiveness of the Bahamian economy. Another key dimension of this goal is to transform and modernize the public sector, including making the SOEs more efficient and self-sustaining. Through planned membership in the World Trade Organization, the Government is also seeking to enhance competition and openness to trade, with the potential for improved efficiency of resource allocation in The Bahamian economy and greater exposure to global technical and business knowledge. The Government is likewise committed to investing in public infrastructure that spurs economic activity, and to supporting long-run economic sustainability through redressing the public finances and promoting fiscal discipline.

3.2 Medium Term Fiscal Outlook

The medium-term outlook for the key fiscal aggregates, based on the economic projections discussed above, is presented in Table 6. This fiscal framework essentially corresponds to that which was set out in the 2018/19 Budget Communication, except for the modest upward revisions to nominal GDP based on the latest IMF forecast. As the projection incorporates the various policy measures announced in the Budget, including those geared to securing the attainment of the fiscal objectives in the Act, it now serves as the so-called "status quo" fiscal outlook going forward for the purposes of planning for the 2019/20 Budget. As well, this medium-term forecast incorporates a modest enhancement in capital expenditure in line with the priority that the Government attaches to strengthening and expanding public infrastructure in support of stronger economic growth.

The 2018/19 budget projections fully satisfy the objectives set out in the Act. For the outer years of the Budget forecast, the projected outcomes are slightly better than the targets: in 2019/20, a deficit of 0.8 per cent of GDP is projected against a target of 1 per cent and, in 2020/21, a small surplus is expected to be posted vs. a deficit target of 0.5 per cent of GDP.

Table 6: Medium-Term Fiscal Outlook (B$M)

	ACTUALS		BUDGET	FORECASTS		
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Revenue	2,070.2	2,042.4	2,650.9	2,774.2	2,884.8	2,984.9
Recurrent	2,070.2	2,039.8	2,648.7	2,774.2	2,884.8	2,984.9
Capital & Grants	0.0	2.6	2.2	0.0	0.0	0.0
Expenditure	2,730.6	2,457.3	2,888.5	2,889.8	2,875.5	2,969.8
Recurrent Expenditure	2,349.3	2,188.6	2,589.2	2,553.5	2,560.2	2,615.5
Capital Expenditure	381.4	268.7	299.3	336.3	315.3	354.3
Overall Balance: Surplus/(Deficit)	**(660.4)**	**(414.9)**	**(237.6)**	**(115.6)**	**9.4**	**15.1**
Less: Interest Payments	267.8	313.9	346.8	325.6	315.0	315.0
Primary Balance	**-392.7**	**-101.0**	**109.1**	**210.1**	**324.4**	**330.1**
GDP (Current Prices)	12,001.0	12,545.0	13,291.0	13,894.0	14,330.0	14,755.0
Overall balance as % of GDP	-5.5%	-3.3%	-1.8%	-0.8%	0.1%	0.1%
Government Debt	6,550.0	7,245.4	7,533.0	7,687.0	7,713.7	7,734.6
Gov't Debt as % of GDP	54.6%	57.8%	56.7%	55.3%	53.8%	52.4%

The Budget projections were extended to 2021/22 by assuming that:

- primary recurrent expenditure grows by 2.5 per cent that year, the same rate as in the two previous fiscal years; and
- recurrent revenue stabilizes around the 20 per cent of GDP set for 2018/19.

Using these planning assumptions, a further small budget surplus, amounting to an estimated 0.1 per cent of GDP, is projected for 2021/22. Further, the debt to GDP ratio is poised to decline steadily, from its peak of 57.8 per cent in 2017/18 to around 52.4 percent in 2021/22.

a. Revenue Forecast

The detailed revenue projections set out in Table 7 were developed by staff at the Ministry of Finance, in consultation with the major revenue agencies. They also incorporate the incremental revenue collection targets established for the Revenue Enhancement Unit, to the tune of $80 million, as outlined in the 2018/19 Budget Communication. Finally, the estimates were fine-tuned to be fully consistent, in the aggregate, with the total recurrent revenue forecast set out in Table 6.

As always, such projections are highly sensitive to the assumptions on which they are based. The forecast for GDP growth is particularly important in this respect and is heavily dependent on the performance of the U.S. economy, our major trading partner.

As we have seen in recent years, natural disasters, especially hurricanes, can also wreak havoc on projections for revenue. To mitigate the impact of such events, as was announced in the 2018/19 Budget, the Government will be establishing a Disaster Relief Fund over the medium-term horizon.

The recent litigation launched against the Government by the operators of the gaming houses poses some measure of threat to revenues, as budgeted. However, the Government believes that it is on solid ground as to the legality and feasibility of the new tax measures announced in the May Budget. Accordingly, revenues from the gaming houses remain at the levels projected in the Budget.

Table 7: Medium-term Revenue Estimates (B$M)

	ACTUALS		BUDGET	FORECASTS		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
TAX REVENUE (a+b+c+d)	**1,841.0**	**1,835.7**	**2,429.9**	**2,545.7**	**2,647.8**	**2,739.7**
a. Taxes on Property	**120.618**	**123.6**	**132.2**	**137.8**	**147.4**	**152.6**
b. Taxes on Goods & Services (i+ii+iii)	**1,282.0**	**1,275.7**	**1,773.1**	**1,860.1**	**1,927.5**	**1,994.4**
i. General	**1,032.2**	**1,046.9**	**1,500.1**	**1,575.1**	**1,632.6**	**1,689.2**
VAT	638.2	680.6	1,059.6	1,112.6	1,151.5	1,191.5
Stamp Taxes (Financial & Realty)	105.1	109.5	143.7	150.9	156.9	162.4
Excise Tax	288.9	256.8	296.8	311.6	324.1	335.3
ii. Specific (Gaming taxes)	**27.4**	**37.2**	70.0	73.5	76.5	79.1
iii. Taxes on Use of Goods/Permission to Use	**222.4**	**191.7**	**203.0**	**211.4**	**218.5**	**226.1**
Motor Vehicle Taxes	29.8	36.6	36.2	38.0	39.6	40.9
Company Taxes	21.5	21.0	20.7	21.8	22.7	23.4
Licence to Conduct Special Bus. Activity	149.7	113.4	116.5	121.9	126.4	130.8
Marine License Activities	2.7	2.5	3.6	3.7	3.9	4.0
Banks & Trust Companies	18.8	18.1	26.0	26.0	26.0	26.9
c. Taxes on Int'l Trade & Transactions	**431.2**	**432.0**	**496.5**	**518.3**	**542.1**	**560.9**
Customs & other import duties	286.1	270.4	335.3	349.1	366.1	378.8
Taxes on Exports	9.4	18.3	13.9	14.6	15.2	15.7
Departure Taxes	134.6	143.2	147.3	154.6	160.8	166.4
Other	1.2	0.1	0.0	0.0	0.0	0.0
d. General Stamp Taxes	**7.2**	**4.4**	28.1	29.5	30.7	31.8
NON-TAX REVENUE (e+f+g+h+i+j)	**229.2**	**204.1**	**218.8**	**228.5**	**237.0**	**245.2**
e. Property Income	**52.3**	**23.0**	**22.4**	**22.4**	**22.8**	**23.6**
Interest & Dividends	34.8	6.6	6.9	6.7	6.9	7.2
Revenue_Gov't Property	17.6	**16.3**	15.5	15.7	15.9	16.5
f. Sales of Goods & Services	**155.1**	**163.5**	**179.5**	**188.5**	**196.0**	**202.8**
i. Fees & Service Charges	**137.3**	**145.4**	**162.1**	**170.3**	**177.1**	**183.2**
General Registration	4.6	4.6	5.1	5.4	5.6	5.8
General Service	14.5	13.8	14.0	14.7	15.3	15.8
Immigration	59.0	63.6	76.6	80.5	83.7	86.6
Land & Building	2.2	2.1	1.9	2.0	2.0	2.1
Legal	4.5	5.6	4.9	5.2	5.4	5.6
Customs	44.6	46.6	46.7	49.2	51.0	52.5
Port & Harbour	7.0	7.1	10.8	11.3	11.8	12.2
Health	0.5	1.4	1.3	1.3	1.4	1.5
Other Fees	0.4	0.8	0.8	0.8	0.9	1.2
ii. Other	17.8	**18.1**	17.4	18.2	18.9	19.6
g. Fines, Penalties & Forfeits	1.2	**1.2**	3.4	3.5	3.7	3.8
h. Reimbursements & Repayments	0.0	**0.2**	2.5	2.5	2.5	2.6
i. Misc. & Unidentified Revenue	20.1	**14.9**	9.6	10.1	10.5	10.9
j. Sales of Other Non-Financial Assets	0.4	**1.4**	1.4	1.4	1.5	1.5
TOTAL TAX & NON-TAX REVENUE	**2,070.2**	**2,039.8**	**2,648.7**	**2,774.2**	**2,884.8**	**2,984.9**
Grants	0.0	2.6	2.2	0.0	0.0	0.0
Capital Revenue	0.0	0.0	0.0	0.0	0.0	0.0
GRAND TOTAL	**2,070.2**	**2,042.4**	**2,650.9**	**2,774.2**	**2,884.8**	**2,984.9**

b. Expenditure Forecast

As with the detailed recurrent revenue projections, the disaggregated recurrent expenditure forecasts were developed by Ministry of Finance staff, in consultation with line Ministries and Departments, before final review by the policy makers. Again, the detailed estimates were made to conform, in the aggregate, to the overall level of recurrent expenditure set out in the fiscal framework in Table 6. As well, it is the intention of the Government, as an overriding guiding principle, to maintain the level of recurrent expenditure at no more than 20 per cent of GDP through the medium-term fiscal planning horizon.

These estimates also incorporate the three-year plan laid out in the Budget to extinguish the substantial $360 million backlog of payment arrears as follows: $172 million in 2018/19; $106 million in 2019/20; $75 million in 2020/21; and a small balance thereafter.

The two (2) tables that follow present the details of recurrent expenditure using the economic classification (Table 8) and administrative breakout (Table 9). This FSR does not include the functional breakdown, which will be presented in the 2019 report.

Should developments through the medium-term feature budgetary pressures in specific areas of expenditure, the Government will need to implement the necessary relocation of spending among the various spending items to ensure compliance with the fiscal requirements of the Act.

Table 8: Medium-term Recurrent Expenditure Estimates by Economic Classification

	ACTUALS		BUDGET	FORECASTS		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
			(B$M)			
Compensation of Employees	**726.4**	**728.7**	**793.6**	**812.7**	**846.2**	**867.4**
Wages & Salaries	641.0	638.5	696.6	**715.6**	**747.0**	**765.7**
Allowances	52.9	58.2	63.5	**63.7**	**63.7**	**65.3**
NIB Contribution	32.5	32.0	33.5	**33.5**	**35.5**	**36.4**
Use of Goods & Services	**564.4**	**443.7**	**601.5**	**572.1**	**543.2**	**556.0**
of which:						
Travel & Subsistence	7.6	9.1	8.9	9.0	9.1	9.3
Rent	52.7	43.9	81.7	86.6	87.8	90.0
Utilities & Telecommunications	121.5	67.0	88.4	81.8	58.4	59.9
Supplies & Materials	99.2	69.9	45.8	42.1	40.7	41.7
Services	95.3	81.9	115.9	114.1	124.2	127.3
Minor capital repairs	2.5	2.4	2.8	2.8	4.7	4.8
Finance charges	5.6	37.0	34.6	36.5	30.0	30.0
Special Financial Transactions	25.8	25.4	80.6	55.2	43.4	44.5
Tourism Related	102.3	64.9	96.2	96.2	96.2	98.7
Local Gov't Districts	13.4	13.4	13.3	13.3	13.3	13.7
School Boards	5.5	5.7	5.9	5.9	5.9	6.0
Other	32.9	23.1	27.3	28.5	29.6	30.3
Public Debt Interest	**267.8**	**313.9**	**346.8**	**325.6**	**315.0**	**315.0**
Subsidies	**409.6**	**327.8**	**386.4**	**389.4**	**383.4**	**392.9**
Grants	**7.2**	**7.6**	**8.7**	**8.7**	**8.7**	**9.0**
Social Assistance Benefits	**36.4**	**37.0**	**49.5**	**52.0**	**48.7**	**49.9**
Pensions & Gratuities	**117.9**	**127.5**	**136.7**	**130.2**	**143.7**	**147.3**
Other Payments	**191.6**	**183.8**	**244.9**	**241.7**	**242.3**	**248.3**
Current Transfers n.e.c.	111.5	116.6	168.8	165.8	166.0	170.1
Insurance Premiums	80.1	67.2	76.2	75.9	76.3	78.2
Acquisition of Non-financial Assets	28.1	18.5	21.1	21.1	29.0	29.8
TOTAL	**2,349.3**	**2,188.6**	**2,589.2**	**2,553.5**	**2,560.2**	**2,615.5**
			(in percent of GDP)			
Total Recurrent Expenditure	19.6	17.4	19.5	18.4	17.9	17.7
Compensation of Employees	6.1	5.8	6.0	5.8	5.9	5.9
Use of Goods & Services	4.7	3.5	4.5	4.1	3.8	3.8
Public Debt Interest	2.2	2.5	2.6	2.3	2.2	2.1

Table 9: Recurrent Expenditure Estimates by Administrative Classification (B$M)

	ACTUALS		BUDGET	FORECASTS		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Governor General & Staff	1.1	1.0	1.1	1.1	1.1	1.2
The Senate	0.2	0.2	0.3	0.3	0.3	0.3
House of Assembly	2.0	2.1	2.2	2.2	2.2	2.3
Dept. of the Auditor General	2.1	2.1	2.8	3.2	3.5	3.6
Department of Public Service	236.4	219.7	289.9	282.7	303.0	310.5
Cabinet Office	8.4	6.6	7.4	7.4	7.4	7.6
Attorney General's Office	20.2	18.8	18.5	17.5	17.1	17.5
Judicial Department	14.4	13.3	14.5	14.5	14.5	14.8
Court of Appeal	1.8	1.9	2.3	2.4	2.4	2.5
Registrar General's Department	3.2	3.4	3.6	3.7	3.9	4.0
Prison Department	23.2	24.6	26.7	26.6	28.3	29.0
Parliamentary Registration Dept	5.2	1.1	1.4	1.4	1.5	1.5
Ministry of Foreign Affairs	28.0	30.0	35.5	37.1	37.5	38.4
Office of the Prime Minister	19.8	10.2	26.8	26.8	26.9	27.5
Bahamas Info Service Dept	2.1	2.2	2.0	2.0	2.0	2.1
Government Printing Dept	1.6	1.5	1.7	1.7	2.0	2.1
Department of Local Government	21.8	22.9	26.4	26.4	27.6	28.3
Department of Physical Planning	0.8	0.7	1.0	0.9	0.9	1.0
Dept of Lands & Surveys	1.4	1.4	3.7	1.6	1.7	1.7
Ministry of Finance	215.0	216.5	360.7	336.7	275.9	282.8
Treasury Department	147.7	100.8	89.0	90.9	87.9	89.2
Customs Department	26.3	36.9	34.4	34.4	35.7	36.6
Department of Statistics	2.8	2.8	3.6	3.7	3.8	3.9
Public Debt Servicing -Interest	267.8	313.9	346.8	325.6	315.0	315.0
Ministry Trade & Industry	5.1	6.1	19.0	18.9	19.0	19.4
Ministry Public Safety & Immigration	13.9	12.3	7.5	8.1	8.6	8.8
Department of Immigration	17.5	21.3	35.5	35.5	34.8	35.7
Royal Bahamas Police Force	126.9	127.2	127.9	129.8	138.7	142.2
Royal Bahamas Defence Force	53.0	54.8	59.9	57.6	58.7	60.2
Ministry of Public Works	85.4	37.3	48.7	45.7	45.9	47.1
Department of Public Works	18.4	17.8	17.9	17.9	17.9	18.4
Department of Education	200.3	194.2	205.6	224.2	247.4	253.5
Department of Archives	0.7	0.6	0.7	0.7	0.8	0.8
Ministry of Education & Training	88.4	86.4	92.7	92.8	93.1	95.4
Ministry of Youth & Culture	14.0	8.6	9.6	9.8	9.8	10.1
Ministry of Social Services	4.2	10.2	11.6	11.6	11.6	11.9
Social Service Department	39.3	38.3	39.8	39.7	44.0	45.0
Department of Housing	2.3	2.5	2.6	2.6	5.0	5.2
Min. of Labour/HR/Training	42.8	24.3	28.2	28.2	28.3	29.0
Labor Department	2.1	2.2	2.5	2.4	2.5	2.6
Min of Consumer Welfare & Aviation	2.4	2.1	2.4	2.4	2.4	2.5
Post Office Department	6.9	6.7	7.1	7.2	7.6	7.8
Department of Civil Aviation	15.3	0.0	0.0	0.0	0.0	0.0
Port & Marine Department	4.6	6.3	8.5	8.5	8.7	8.9
Road Traffic Department	4.2	4.6	5.3	5.3	5.4	5.5
Department of Meteorology	9.3	2.0	3.0	3.0	3.0	3.1
Ministry of Agriculture & Fisheries	21.7	21.5	19.3	19.5	19.9	20.4
Department of Agriculture	5.5	5.6	6.4	6.4	6.4	6.6
Department of Fisheries	2.2	2.6	2.8	2.9	3.0	3.1
Ministry of Health & Environment	333.8	277.8	293.9	293.9	301.1	308.6
Dept. Environmental Health Services.	34.0	33.5	44.8	45.9	46.7	47.8
Ministry of Tourism	94.4	105.2	120.1	120.0	121.7	124.7
Ministry of Maritime Affairs	3.9	3.5	6.5	6.4	7.3	7.5
Ministry of Energy & Environment	28.8	25.7	26.8	25.7	25.8	26.4
Department of Information Technology	2.6	2.8	17.7	17.7	20.3	20.8
Ministry for Grand Bahamas	12.2	10.1	12.5	12.0	12.9	13.2
GRAND TOTAL	**2,349.3**	**2,188.6**	**2,589.2**	**2,553.5**	**2,560.2**	**2,615.5**

c. Capital Expenditure

The capital expenditure forecasts, as presented in Table 10, seek to maintain the level of outlays up to 2.4 per cent of GDP. The bulk of outlays (approximately 70 per cent, on average) are earmarked for the acquisition of non-financial assets, mainly the provision of infrastructure, such as roads, schools etc. Based on the administrative classification (Table 11), these outlays are largely concentrated within the Ministry of Works, followed by the Ministry of Finance and the Ministry of Education & Training.

Table 10: Capital Expenditure by Economic Classification

	ACTUALS		BUDGET	FORECASTS		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
			(B$M)			
Uses of Goods & Services	**17.6**	**10.4**	**38.4**	**42.0**	**44.5**	**46.7**
Capital Transfers	**109.4**	**36.9**	**46.6**	**44.9**	**44.9**	**47.0**
Acquisition of Non-financial assets	**254.4**	**221.4**	**214.3**	**249.4**	**225.9**	**260.6**
Fixed Assets	**226.2**	**131.9**	**204.7**	**237.3**	**216.8**	**251.1**
Buildings other than dwellings	49.2	49.2	51.2	42.2	44.7	46.8
Other structures	117.8	63.8	101.6	143.1	122.1	152.0
Transport equipment	55.5	15.0	11.3	10.3	9.3	9.8
Other Machinery & equipment	3.7	3.8	40.6	41.6	40.6	42.5
Land Improvements	**1.0**	**0.4**	**0.1**	**0.1**	**0.1**	**0.1**
Land	**6.7**	**0.0**	**0.5**	**1.0**	**0.0**	**0.0**
Other Fixed Assets	**20.5**	**89.1**	**9.0**	**11.0**	**9.0**	**9.4**
TOTAL	**381.4**	**268.7**	**299.3**	**336.3**	**315.3**	**354.3**
			(in percent of GDP)			
Uses of Goods & Services	0.1	0.1	0.3	0.3	0.3	0.3
Capital Transfers	0.9	0.3	0.4	0.3	0.3	0.3
Acquisition of Non-financial Assets	2.1	1.8	1.6	1.8	1.6	1.8
Total Capital Expenditure	3.2	2.1	2.3	2.4	2.2	2.4

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

	ACTUALS		BUDGET	FORECASTS		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Ministry of Foreign Affairs	0.0	0.0	3.0	3.0	3.0	3.1
Ministry of Finance	124.2	125.5	81.1	86.5	81.5	85.4
Ministry of Public Safety & Immigration	0.0	0.0	15.0	14.6	14.6	15.3
Department of Immigration	0.0	0.0	2.0	0.0	0.0	0.0
Royal Bahamas Defence Force	59.6	17.5	10.1	10.1	10.1	10.5
Ministry of Public Works	156.5	91.9	120.7	163.5	146.5	168.5
Ministry of Education & Training	41.1	33.9	33.1	33.1	33.1	34.7
Department of Housing	0.0	0.0	5.0	5.0	6.0	6.3
Port & Marine Department	0.0	0.0	0.5	0.5	0.5	0.5
Ministry of Agriculture & Fisheries	0.0	0.0	0.8	0.8	0.8	0.9
Ministry of Health	0.0	0.0	24.0	15.0	15.0	15.7
Ministry of the Environment & Housing	0.0	0.0	4.1	4.1	4.1	4.3
TOTAL	**381.4**	**268.7**	**299.3**	**336.3**	**315.3**	**345.3**

In recognition of the roles to be played by both public and private sectors in delivering high-quality, responsive, resilient and sustainable infrastructure to meet the need of The Bahamas, the Government recently articulated a policy to govern its activities related to public private partnerships (PPPs). A summary of this policy is provided in Table 12 below.

Table 12: Summary of Public Private Partnership Policy

The major objective of this Policy is to ensure PPP projects are selected, developed, and implemented according to the following guiding principles:
▪ Value for Money (VfM) ▪ Fiscal responsibility ▪ Transparency, probity and competitive procurement ▪ Environmental and social sustainability ▪ Partnership and inclusiveness
The Government will consider PPPs for proposed investment projects that have the following characteristics:
▪ Assets with significant investment value. ▪ Output requirements that can be clearly specified and monitored. ▪ Outputs address stable needs over the contract lifetime. ▪ Scope for innovation or improved infrastructure performance. ▪ Ability to generate revenues beyond Government payments.
PPPs will be used to develop new assets and services primarily in the following economic sectors:
▪ Electricity generation and distribution, including the development of Renewable Energy (RE) sources, in the Family Islands; ▪ Ports; ▪ Airports; ▪ Roads and bridges (i.e. toll bridges and roads); ▪ Information and Communications Technology (ICT); ▪ Urban renewal; and ▪ Government buildings and facilities with independent income generation.
The Government will ensure that all PPP projects meet the following standards of competition and transparency:
▪ Open market consultations, in which information on the project is shared with the industry; ▪ National and International publication of Requests for Expressions of Interest (RFEoI); ▪ Equal access to data by all Bidders; ▪ Selection of the Winning Bidder on the basis of: ▪ Previously announced procedures and objective criteria; and ▪ Proper justification and notification of decisions ▪ Publication of the award of the contract and the justification; ▪ Registration of the decisions during the selection procedure (so that they can be referred to in disputes); and ▪ Review procedures (enabling losing Bidders who feel that they have been treated unfairly to file a complaint).

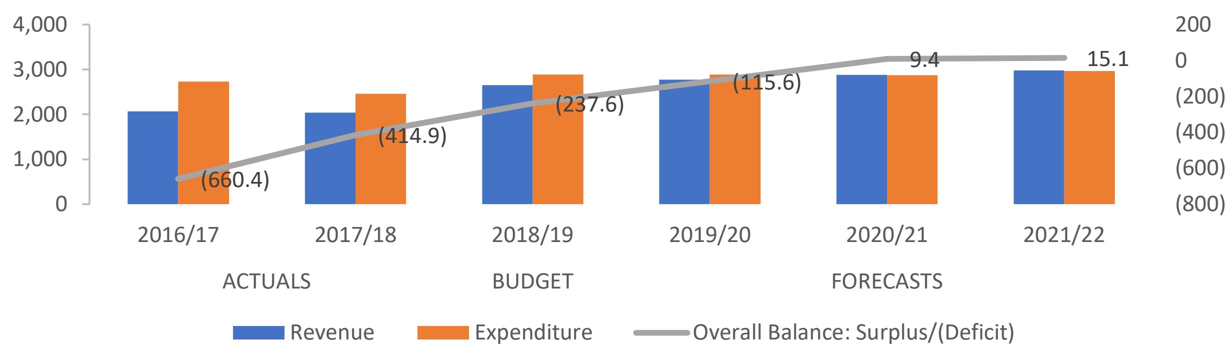
3.3 Debt Financing

Table 13 sets out the anticipated structure of budget financing through the 2021/22 fiscal year. Going forward, details of the anticipated sources of projected borrowings during the fiscal years will be provided in future Budgets and FSRs.

Table 13: Sources of Budget Financing through the Medium Term (B$M)

	ACTUALS		BUDGET	FORECASTS		
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Overall Balance [Surplus/(Deficit]	**-660.4**	**-414.9**	**-237.6**	**-115.6**	**9.4**	**15.1**
Net Incurrence of Liabilities (a-b) [+]	**580.2**	**701.1**	**237.6**	**85.7**	**-9.4**	**-15.1**
a. Borrowings	**1,175.4**	**1,989.7**	**947.0**	**440.4**	**307.9**	**304.9**
b. Debt Repayment	595.2	1,288.6	709.4	354.7	317.3	320.0
Net Acquisition of Financial Assets [-]	125.6	25.4	45.4	45.4	45.4	45.4
Sinking Funds	5.4	5.4	45.4	45.4	45.4	45.4
Equity	120.2	20.0	0.0	0.0	0.0	0.0
Other Financing & Change in Cash Balance (incl. Overdraft) [- = increase]	-205.8	260.8	-45.4	-75.3	-45.4	-45.4

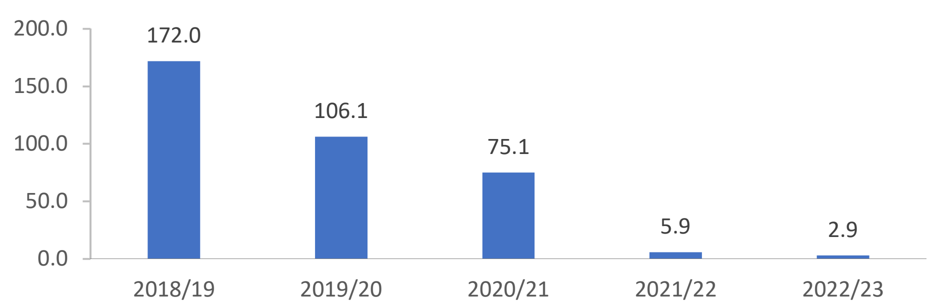
Figure 6: Summary of Fiscal Data (B$M)



3.4 Payment Arrears

The 2018/19 Budget stressed the magnitude and gravity of the payment arrears, and the Government's efforts to address the situation in a fiscally responsible manner. The budget proposals scheduled the gradual elimination of these arrears under a three-year plan, which also included the use of promissory notes to various creditors. As may be seen in Figure 7, some $172 million of the arrears is to be paid in 2018/19, $106 million in 2019/20 and a further $75 million in 2020/21.

Figure 7: Schedule for Settling Payment Arrears (B$M)



3.5 Fiscal Responsibility

In the 2018/19 Budget, the Government enunciated several measures to advance adherence to the general principles of fiscal responsibility. These measures and the principles to which they adhere are set out below.

Table 14: Actions on Fiscal Responsibility General Principles

Action	Principles					
	Accountability	Inter-generational equity	Responsibility	Stability	Transparency	Inclusive growth
Preparation of Fiscal Responsibility Act and draft Public Financial Management and Public Debt Management legislation	■		■		■	
Preparation of the first Fiscal Strategy Report	■		■		■	
Announced commitment to building a knowledge-based society and increasing investments in education, thereby enhancing prospects for future generations		■				■
Announced commitment to eliminating the deficit and reducing the debt-to-GDP ratio	■		■	■		
Determined efforts to secure improvement in the public finances through in-depth expenditure review			■	■		
Moved to strengthen the accountability and transparency of the fiscal operations of the MOF	■		■		■	
Announced and implemented the IDB funded PFM reform programme	■		■		■	
Announced the introduction of new Public Procurement regulations to make procedures transparent	■				■	
Focused attention placed on transforming and rejuvenating the inner-city communities						■
Moved to address the growth challenges of the Grand Bahama economy						■

4. GOVERNMENT FISCAL STRATEGY

4.1 Key Budget Priorities and Considerations

In planning and framing the forthcoming 2019/20 Budget, the Government will be fully mindful of the mandated requirements of the Fiscal Responsibility Act. More specifically, the Act stipulates that the Government must manage the public finances and set fiscal policy in accordance with general principles of responsible fiscal management, fiscal responsibility principles and the specific fiscal objectives and other requirements set out in the law.

The general principles of responsible fiscal management, as set out in Clause 6 of the Act, include: accountability, responsibility, macroeconomic and fiscal stability, transparency, inter-generational fairness and inclusive growth. Each of these general principles is clearly defined in the Act, leaving no doubt as to their import and application.

Clause 7 of the Act incorporates the specific fiscal responsibility principles that must be respected, which relate to:

- achieving and maintaining a sustainable fiscal balance;
- achieving and maintaining prudent levels of public debt; and
- prudently managing fiscal risks.

The fiscal objectives that have been established to operationalize the core fiscal responsibility principles are set out in the **First Schedule** of the Act and presented in Table 15.

Table 15: Fiscal Responsibility Objectives

Fiscal Indicator	Objective
Debt	The long-term debt fiscal objective is to reduce debt from 57.8 percent in FY2017/18 of GDP to a debt level of no more than 50 percent of GDP by 2024/25.
Fiscal Balance	The fiscal objective for the fiscal balance is to reduce it from a deficit of 5.8 percent of GDP in FY2016/17 to a fiscal balance that does not exceed a deficit of 0.5 percent of GDP from FY2020/21 onwards. To allow for a transition to the latter objective, the fiscal balance shall not exceed 1.8 per cent of GDP in 2018/19 and 1.0 per cent of GDP in FY2019/20.
Recurrent Expenditure	After the attainment of a deficit *of no more than -0.5% of GDP,* the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.

Recognizing that fiscal measures are necessarily based on estimates and forecasts, and therefore subject to some degree of uncertainty, a compliance margin of 0.5 per cent of GDP will apply when assessing the achievement of the legal fiscal objectives.

As earlier mentioned, the Government developed the 2018/19 Budget projections to align with these legal requirements, even though the Act had not yet come into force. More specifically, the Budget announced a three-year fiscal plan designed to address the varied fiscal pressures that the Government faced in 2018/19 and beyond, including a sizeable backlog of unpaid commitments, as well as meet the Fiscal Responsibility fiscal targets each year. Within that plan, and to advance key areas of its transformative socio-economic growth agenda, it was also announced that a fiscally responsible sum of $48 million had been allocated to select priority initiatives in respect of both Recurrent and Capital Expenditure. The plan also signalled the Government's intention to implement reductions in Customs and Excise duties going forward, in a bid to further rebalance the tax burden between the provision of goods and services.

The priorities for the 2019/20 Budget will necessarily be framed such as to respect and reinforce the actions and positive results of the 2018/19 Budget. These priorities will also continue to be inspired by the Government's 2017 Manifesto and the Speech from the Throne, both of which delineated the full policy agenda over the course of the mandate. The key themes of that agenda are as follows:

- Promoting investment and entrepreneurship
- Investing in Digital Government initiatives both to galvanize citizen and private sector engagement and secure operational efficiencies
- Enhancing the growth of the tourism sector throughout the archipelago
- Investing in enhanced education and training
- Investing to improve and strengthen the health care system
- Supporting renewable energy and securing environmental sustainability
- Ensuring safe and secure communities
- Expansion of social services and assistance and revitalization of heritage communities
- Promotion of growth opportunities for the Grand Bahama economy
- Achieving self-sufficiency for State-Owned Enterprises

In addition, the 2019/20 Budget will need to begin addressing the other fiscal pressures that are on the horizon. These include:

- the need for further reform of the tax system, to cover the elimination of distortions in the import tax regime to better align The Bahamas' tax system with international best practice; to achieve convergence with EU and OECD requirements, including the removal of so-called ring-fencing, and to ensure that any incentives or preferential treatment is linked to significant activity in The Bahamas.
- the need for ongoing modernization of the major tax agencies—including Customs and Real Property Tax.
- the need to implement the required reductions to Customs/Excise duties upon accession to the World Trade Organization, likely in 2020 upon the completion of negotiations and the passage of requisite legislation, and to address any compensating revenue enhancements.
- the desirability of reviewing and assessing the adequacy and effectiveness of the current tax concession regime.
- addressing critical public infrastructure needs to support stronger economic growth and desirable advances in productivity, and the role to be played by PPPs in meeting these needs.
- the establishment of a Disaster Relief Fund, over the medium-term horizon, to mitigate against fiscal risks posed by weather-related events.
- addressing the issue of public sector pension reform, which poses a major burden on the sustainability of the public finances.

In advancing this agenda in the 2019/20 Budget, and building on the measures announced in the 2018/19 Budget, the Government will be mindful that any new targeted revenue and expenditure measures will need to be financed responsibly within the constraints of the resources available, while continuing to respect the legally mandated fiscal objectives set out in the Act.

The next two (2) sections present an assessment of selected revenue and expenditure policy considerations that will be relevant in planning for the upcoming Budget.

a. Revenue Policy Considerations

As amply demonstrated in recent years, the revenue yield of the tax system was grossly inadequate to the needs of modern governance. The various revenue measures in the 2018/19 Budget, including the increase in the rate of VAT, from 7.5 to 12 per cent, are projected to secure a boost in revenue collections from 16.1 per cent to 19.9 per cent of GDP. While lagging regional norms at that level, the increase in the tax yield is nonetheless appreciable and is poised to make a significant contribution to the attainment of the Government's key fiscal objectives. As such, the Government is of the view that no further increases in the VAT rate will be entertained over the balance of its current mandate.

Notwithstanding, the Government recognizes that further reform of the tax system should be examined going forward. Business Licence (BL) is one area that has long been the target of dissatisfaction on the part of the private sector, partly because it taxes turnover irrespective of profitability. It has been argued that this tax, as structured, effectively represents an inefficient tax on consumption and has no role where an efficient VAT is in place. Suggestions have been advanced that a business income tax should be introduced to replace the BL tax and would represent an improvement in the efficiency and fairness of the tax system. In an exploratory initiative, the Government commissioned a private sector consulting firm to undertake a detailed assessment of the appropriateness of, and options for, alternative forms of business tax. As was highlighted in the 2018/19 Budget, the objective is to obtain an empirically based assessment of tax options and to canvass the views of a full range of Bahamian stakeholders. No policy commitment has been made to the introduction of any alternate form of tax, at this juncture. It also needs to be borne in mind, at least for the purposes of prudent fiscal planning, that the introduction of such a new tax instrument, if pursued, would require an appropriate development and implementation period that would very likely extend beyond the time horizon of the 2019/20 Budget.

Further, the Government remains firmly committed to the implementation of some $100 million in duty and excise reductions in the context of the three-year fiscal strategy that was set out in the 2018/19 Budget. These reductions will be designed to advance the objective of rebalancing the tax burden between the provision of goods and services and reduce the attendant distortionary impacts. They will also accommodate the reductions in import taxes attendant upon accession to the WTO. The current customs duty rate structure averages approximately 32 per cent and could be subject to an aggregate reduction to around 15 per cent over an anticipated relatively short transition period. While negotiations are still underway, it may be prudent to assume that the duty reductions could begin as of the 2020/21 fiscal year and be completely implemented within five years. The revenue losses stemming from these reductions will, to some extent, be compensated with revenue measures in other areas, so that the net revenue impact is contained. To provide a more accurate assessment of the potential impacts of WTO accession on government revenue, the Government commissioned the development of a dynamic equilibrium model that would take into consideration both direct and indirect impacts of tariff reductions on Government revenue.

b. Expenditure Policy Considerations

The status quo fiscal framework set out in Table 6 featured assumed growth in primary recurrent expenditure of 2.5 per cent per annum, inclusive of the expenditure arrears to be paid each year. This spending profile is a key factor in securing achievement of the legally mandated objectives for the GFS deficit through 2020/21. As was stated earlier, the Government is also committed to keeping the level of recurrent expenditure to no more than 20 per cent of GDP though the medium-term planning horizon.

Against this backdrop, the new expenditure policy initiatives that the Government will pursue in the 2019/20 Budget, to further advance its core socio-economic growth agenda, will need to be financed within the binding expenditure ceilings set out in Table 6. Where necessary, reallocations from one area to another could play a critical role in facilitating the implementation of new initiatives. As was announced in the 2017/18 Budget, and further reinforced in the 2018/19 Budget, the ongoing expenditure review and rationalization exercise will play a crucial role in securing much-needed restraint in the growth of the Government's wage bill and other operational expenses.

Enhanced focus will to be given to the critical need to strengthen public infrastructure in support of both desirable advances in productivity and stronger growth of the economy. The Government's policy framework in respect of PPPs will guide the role to be played by both the public and private sectors in the provision of the needed public infrastructure investments.

As announced in the 2018/19 Budget, the Government is committed to transforming the SOEs into self-sufficient entities, to reduce their fiscal impact. To that end, the Government has directed each SOE to begin looking at a move toward a cost-recovery operating model, which might include a mix of revenue enhancement initiatives, as well as measures to reduce expenditures in line with industry benchmarks. The SOEs are now formulating articulated strategies that are expected to achieve this optimized point within 3 to 5 years.

To better frame the Government's objectives in this area, a consulting firm will be engaged to provide an analysis of selected SOEs and Authorities, and to create a roadmap with respect to best options for them becoming self-sustaining entities. Specifically, the work will entail the creation of a detailed strategic approach to cost rationalization and cost recovery for select SOEs, consistent with global best practices for similar agencies in similar jurisdictions. Future FSRs will be able to comment more on the fiscal savings that would emanate from these initiatives.

c. Fiscal Balance

In planning for the 2019/20 Budget, the Government fully intends to respect the fiscal objectives set out in the Fiscal Responsibility Act.

Under the fiscal plan of the 2018/19 Budget, the GFS deficit will be eliminated in 2020/21 and the debt-to-GDP ratio will have been placed on a clear and steady downward path toward the long-term objective of 50 per cent of GDP. By 2021/22, the debt-to-GDP ratio is projected to stand at 52.4 per cent, down by over 5 percentage points from its peak of 57.8 per cent in 2017/18.

As depicted in Table 6, on a status quo basis, and abstracting from any new policy initiatives in the 2019/20 Budget, a small fiscal surplus on the order of 0.1 per cent of GDP would be registered in 2021/22. Were that to occur, it would result in a further fall in the debt-to-GDP ratio toward the long-term target of 50 per cent of GDP.

As mentioned earlier, the framing of the next Budget will need to address several important policy and fiscal pressures, central of which is the requirement to further implement the key priorities in the Government's socio-economic growth strategy. In that context, it will be noted that the fiscal plan set out in Table 6 does provide the Government with some much-needed fiscal room to maneuver, relative to the mandated fiscal objectives in the Act. Indeed, the law stipulates that annual deficits shall not exceed 0.5 per cent of GDP as of 2020/21 and beyond. As such, should the Government so choose, it could avail itself of that fiscal room to finance high priority policy initiatives. It also bears noting that, even with annual deficits of 0.5 per cent of GDP, should the Government so choose, the debt-to-GDP ratio would continue to decline steadily, though more gradually, toward the long-term goal of 50 per cent of GDP.

5. Risks and Sensitivity Analysis

5.1 Contingent Liabilities

State Owned Enterprises represent a fiscal risk in terms of the potential call on the budget when financial difficulties arise and an explicit guarantee is provided to the SOEs in their borrowing activities. Contingent liabilities, as presented in Table 16, are projected at an estimated $474.5 million at end-2018 and, based on existing debt levels and repayment schedules, are forecasted to move lower to $432.9 million over the four-year period ending 2022.

Cognizant of this exposure, the Government has embarked on several measures to manage these risks, including improvements in operational efficiency through enhanced cost recovery, and requirements for an effective governance framework which increases accountability and transparency in their operations.

Table 16: Contingent Liabilities (B$M)

	Actual	*Projected*	*Forecasts*			
	2017	*2018*	*2019*	*2020*	*2021*	*2022*
Bahamas Development Bank	43.1	41.0	41.0	30.0	28.0	23.0
Bahamas Electricity Corporation	203.0	203.0	-	-	-	-
Bahamas Water & Sewerage Corporation	71.8	67.7	63.6	59.5	55.4	51.3
Bridge Authority	23.0	23.0	16.0	16.0	16.0	16.0
Bahamas Mortgage Corporation	165.1	160.1	160.0	160.0	160.0	160.0
Educational Guarantee Fund	11.2	-	-	-	-	-
Hurricane Loan Programme	4.6	-	-	-	-	-
Education Loan Authority	67.0	67.0	67.0	67.0	67.0	67.0
The Clifton Heritage Authority	24.0	24.0	24.0	24.0	24.0	24.0
Public Hospitals Authority	91.6	91.6	91.6	91.6	91.6	91.6
Total Contingent Liabilities	**704.3**	**677.4**	**463.2**	**448.1**	**442.0**	**432.9**

5.2 Risk and Mitigation Strategies

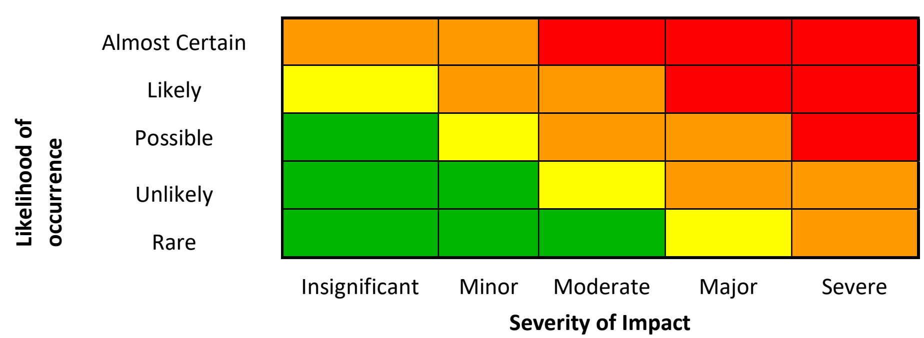
Table 17 sets out the principal risks that the Government faces in respect of its fiscal plan. These risks, many of which are not unique to The Bahamas, are assessed according to their likelihood and their potential impact on the public finances.

Also provided in the Table are the various risk mitigation measures that the Government has put in place and/or could implement should one or more of these risks materialize during the fiscal year.

Table 17: Risks and Mitigation Strategies

Risk	Impact narrative	Gross risk			Mitigation	Net risk		
		Impact	Likelihood	Risk factor		Impact	Likelihood	Risk factor
Lower economic growth	Economy grows more slowly than forecast; revenues do not reach estimates	Major	Possible	Major	Periodic review of revenues; reduction in expenditures to help compensate	Major	Possible	Major
Credit rating downgrade	Reduction in credit rating could increase borrowing costs and trigger termination clause for derivatives	Major	Possible	Major	Promote economic growth; removing structural impediments to growth	Major	Possible	Major
Higher energy prices	Energy prices increase substantially affecting budgetary costs and economic growth	Moderate	Likely	Major	Energy efficiency incentives; alternative energy sources; budget realignment	Moderate	Likely	Major
State-owned enterprises	SOEs incur substantial losses requiring intervention	Major	Likely	Severe	Ongoing monitoring of fiscal conditions; move towards greater cost recovery; debt management legislation provides more rigorous oversight of borrowing activities;	Major	Possible	Major
Public sector wages	Costs of wage agreement exceeds available resources	Moderate	Possible	Moderate	Resource reallocation within budget; hiring restrictions and attrition	Moderate	Possible	Moderate
Higher interest rates	Increased borrowing costs for debt financing	Moderate	Likely	Major	Reassess and restructure financing; decrease debt	Moderate	Likely	Major
Natural disaster	Hurricane or other substantial natural disaster	Severe	Possible	Severe	Caribbean Catastrophe Risk Insurance Facility (CCRIF); implementation of disaster relief fund; planned IDB $100m Credit Fund; improvement in building standards	Major	Possible	Severe
Pension cost overrun	Pension liabilities higher than anticipated	Major	Likely	Severe	Longer-term actions to improve fund sustainability	Major	Possible	Major

Risk Assessment Grid



Annex A: Debt Management Strategy

1. Debt Management Strategy

The Government is in the advanced stages of preparing draft legislation to oversee the comprehensive management of the public debt guided by the fundamental objectives of:

- establishing the process for meeting the financing needs and payment objectives of the Government in a timely manner;
- promoting the development and functioning of the domestic securities market; and
- raising stable and low-cost funding to meet the financing needs of the Government; and ensuring that debt management is consistent with the fiscal responsibility principles and objectives in the Fiscal Responsibility Act, 2018.

In pursuing this overarching strategy, the Government is intent on achieving a balance between the costs and risks associated with the debt structure and keeping debt costs low and maintaining risks at prudent levels.

2. Current Strategy

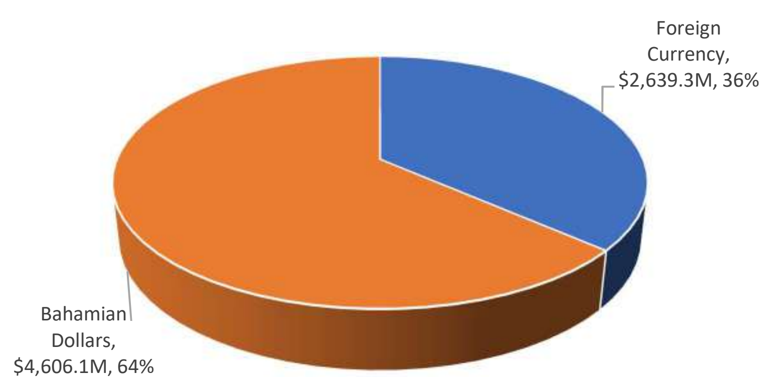
The Government will continue to utilize a variety of instrument to fund its budgetary requirements. These include:

- Domestic bonds
- Treasury bills
- Short-term advances from the banking sector
- Loans from the domestic and international banking institutions
- International bonds
- Loans from international development agencies

Key considerations in choice depend on domestic liquidity conditions and assessments regarding major market players, the borrowing purpose as well as balance of payment considerations.

At end-June 2018, the Government's outstanding debt stock (Direct Charge) stood at an estimated $7,245.4 million.

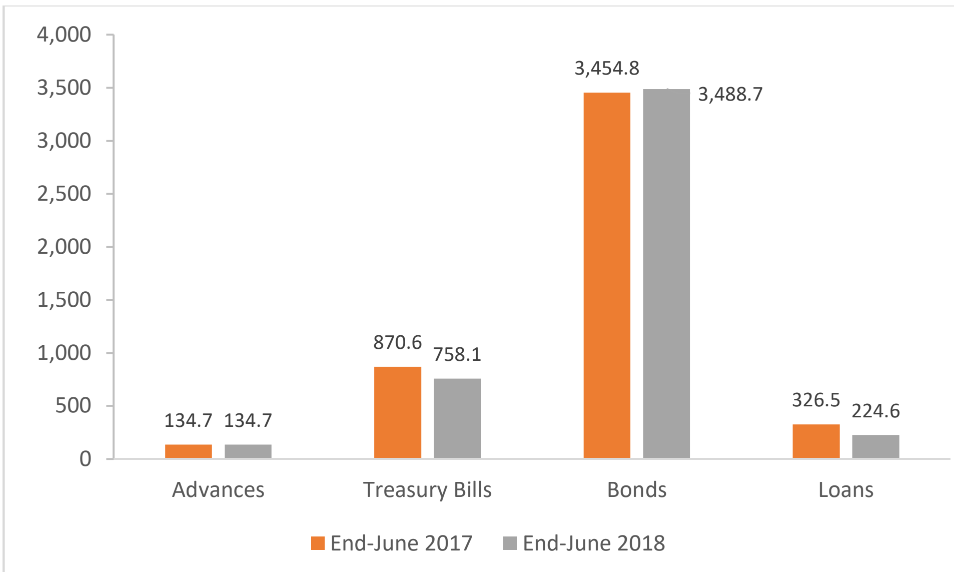
Chart 1: Distribution of Direct Charge at end-June 2018



3. Domestic Debt

At end-June 2018, domestic borrowings constituted nearly 64 per cent of the Direct Charge, being sourced predominantly from bonds (75.7 per cent) and the shorter-term Treasury bills (16.5 per cent), with the balance represented by bank loans and short-term advances. Approximately 37.9% of the bonds mature in less than five years; 23.6% are in the 5 to 10-year bucket; and the remaining 38.5% in the over 10-year grouping. Refinancing risks are relatively low as maturing issues are being replaced with longer maturities and there is an active market for Government bonds, given the paucity of alternative investment opportunities. While some 66% of existing bonds had interest rates linked to Prime, there is a deliberate move to increase the share of fixed rate debt with new issuances to lower the exposure to interest rate risks.

Chart 2: Direct Charge in Bahamian Dollars (B$M)

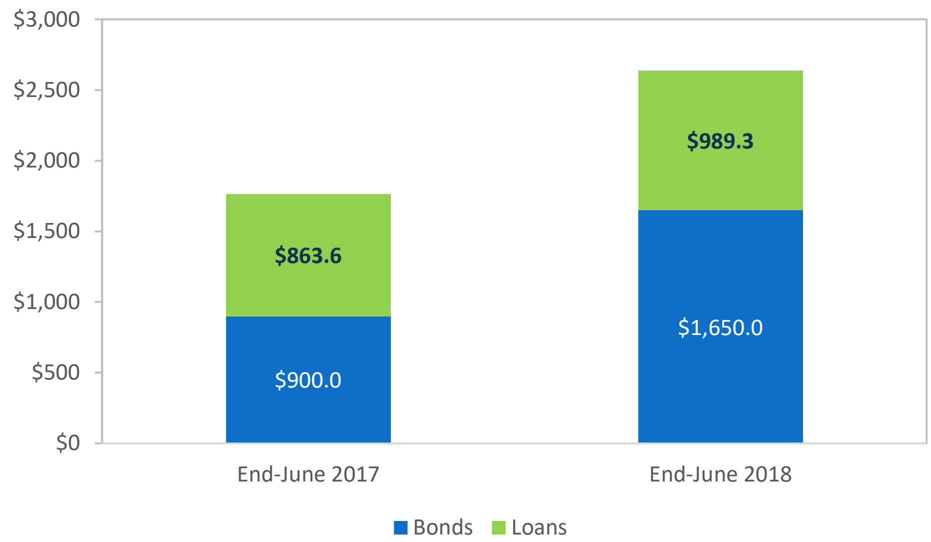


4. Foreign Currency Debt

At 36.4% of the total, foreign currency indebtedness comprised $1,650 million in international bonds (five issues) held by private capital market, and bearing fixed rates of interest: the US$200 million 6.625% Notes are due 2033; the US$100 million 7.125% notes are due 2038; the US$300 million 5.750% Notes are due 2029; the US$300 million Notes are due 2024; and the US$750 million 6.00% Notes are due 2028. To assist with future debt management, the Government has established discretionary sinking funds for the US$100 million, US$200 million and US$750 bond issues. At end-September, the sinking fund provisions amounted to $107.8 million.

Of the remaining $989.3 million in foreign currency debt: $691.5 million was from other financial institutions; $211.9 million from international financial institutions and $85.9 million from bilateral financial institutions. Typically, the Government maximizes loans from international development agencies to finance capital development projects because of their longer-term tenor and more concessionary interest rates.

Chart 3: Direct Charge in Foreign Currency (B$M)



The currency composition, which provides an overall indication of the exposure to exchange rate risks to the portfolios, show that the bulk (79.1%) of the foreign currency debt is in United States Dollars. The remaining 30.9% is held in Euros (8.3%), Swiss Francs (9.4%) and Chinese Renminbi (3.3%). To mitigate and manage this exposure, the Government has entered into several foreign currency hedging arrangements, which seek to address both exchange rate risks and interest costs.

Dominated by the international bonds issues, the interest rate profile showed 71.3% of foreign currency debt bearing fixed rates of interest, and the remaining 28.7% at floating rates. By maturity profile, some $306.1 million is scheduled to mature in under five years, $678.6 million in the over five and under 10 years bucket; $1.405 million in the over ten to 15 years maturity range and the balance of $249.7 million in the over 15 years' time range.

5. New Initiatives

The Government is committed to maintaining a well-functioning market for domestic securities, to meet its budgetary financing needs. Recent initiatives to make the market more transparent and promote participation include the publication of an auction schedule and the development of benchmark bonds to assist in creating a bond yield curve.

As foreshadowed by the Government, an initiative is also underway to migrate Government bonds to the Bahamas International Securities Exchange, to promote a deepening in capital markets, more efficient market trading and better pricing of bonds through market bidding.

Governance arrangement for debt management are also set to be enhanced through the finalization of the Debt Management Bill. This will provide for the establishment of a Debt Management Unit (DMU) within the Ministry of Finance and a Debt Management Committee, constituted by representatives of the Ministry and the Central Bank. In keeping with this framework, an annual debt management strategy report, complete with forecasts, will be produced by the DMU, and made available at the time of the upcoming budget presentation.

Annex B: 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 with regard to the general principles in section 6 of the Act.

8. The fiscal strategy report shall contain a statement of intention with regard to 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.