

A CITIZEN'S GUIDE TO THE 2020 FISCAL STRATEGY



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Ministry of Finance
Government of The Bahamas

- 2020 FISCAL STRATEGY -

FROM CRISIS TO OPPORTUNITY

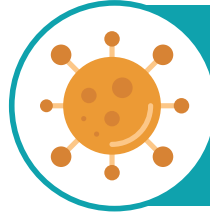
A three-year plan to restore the nation's financial health and build economic resilience beyond the coronavirus pandemic

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KEY PRIORITIES

DID YOU KNOW?

The Fiscal Strategy Report (FSR) is a three-year fiscal forecast that provides a detailed look at the state of public finances and future plans for revenue, expenditure, debt and economic growth. The Fiscal Responsibility Act, 2018 mandates the annual preparation and publication of the FSR.



CARING FOR PEOPLE

The Government plans to maintain a dynamic COVID-19 response that will save lives, provide the necessary safety net and support for the vulnerable and reduce the hardship faced by families.



RECALIBRATING PUBLIC FINANCES

Fiscal stability and sustainability are important macroeconomic goals. The plan calls for better tax enforcement, reforming State-Owned Enterprises, more focus on public private partnerships for critical infrastructure and sustainable debt management.



GROWING THE ECONOMY

The Government plans to remove structural impediments to growth, support a more digital and business friendly environment, unleash private sector investment with strong employment growth and embrace innovation.



PROACTIVE RISK MANAGEMENT

The plan calls for the government to be vigilant and proactive in managing the high levels of global uncertainty due to the pandemic and the various risks posed by the country's long-standing structural issues.

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Our plan will ensure the government has **sufficient resources** and **flexibility** to meet the opportunities and challenges of governance for **today and into the future.**

The Most Honourable
Dr. Hubert A. Minnis
Prime Minister &
Minister of Finance



STATUS CHECK

MID-TERM FISCAL OUTLOOK

MEDIUM-TERM FISCAL OUTLOOKS: BUDGET FORECASTS (B\$M)

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

ACTUALS

These numbers show the actual budget performance for the past two fiscal years.

BUDGET

These numbers show the budgeted amounts approved for the current fiscal year.

FORECASTS

These are budget projections that forecast what the budget may look like over the next four fiscal years.

MACROECONOMIC CONTEXT

Decisions made for the 2020 Fiscal Strategy takes into consideration the following macroeconomic realities:

- **Heightened uncertainty** with domestic and global economic indicators (eg. GDP estimates continue to fluctuate)
- **Revenue underperformance** of \$68M for the first quarter due to the pandemic
- **Additional budget spending** of \$177M in COVID-19 related outlays
- An **increase in the fiscal deficit** from 6.5% of GDP in FY2019/2020 to 11.6% in 2020/21
- **Historic unemployment levels** at 25.6% in 2020 vs. 10.1% in 2019 due to COVID-19
- The major **fall off in economic activity** highlighted by the sudden stop in tourism

Risk Assessment & Mitigation Strategy

Risks are situations that can derail the government's best made plans. It is important to identify key risks and act proactively to prevent or lessen the impact.

KEY RISK FACTORS

WHAT TO DO ABOUT IT



Persistence of COVID-19

Uncertainty about trajectory of COVID-19, and timing for roll-out of vaccine

Ensure continuous monitoring & rationalization of expenditures



Natural Disasters

Climate change resulting in higher frequency of strong storms

Develop a comprehensive disaster risk management framework



Pensions Costs

Accumulating pension liabilities resulting in unsustainable long-run costs

Implement longer-term actions to improve fund sustainability; introduce defined contribution plan.



Contingent Liabilities

Contingent liabilities: if state-owned enterprises cannot meet debt obligations, may result in calls on government guarantees.

Accelerate plans for better cost recovery in SOEs; enact public debt & financial management legislation

Achieving sufficient and sustainable inflows over the medium-term with major structural reforms

A PLAN FOR REVENUE

The dual shocks from Hurricane Dorian and COVID-19 have eroded government revenues significantly. Recovery to pre-crisis levels will take time. Revenue is projected at **17.5% of GDP in 2021/22**. The expectation is for a gradual firming of government revenue to **19.5% in 2022/23**; and to **20.5% in 2024/25**.

1

Accelerate transition to cashless payments across government including adoption of Sand Dollar digital currency

2

Maximize Customs' online Click2Clear platform for efficient revenue collection

3

Complete major reform of real property tax collection system

4

Conduct diagnostic review of the tax regime to eliminate revenue administration gaps & contain leakages

5

Develop tax reform roadmap to advance equity and stability in revenue

6

Increase the use of risk-based audits for Value Added Tax (VAT) to protect the yield



After weathering a catastrophic natural disaster and a destabilizing global pandemic, the government is leading the nation toward **fiscal sustainability**. Our plan will foster a **stable and dynamic macroeconomic environment** that can stimulate **growth**.

Senator Kwasi Thompson
Minister of State for Finance



A PLAN FOR EXPENDITURE


Over the medium-term fiscal horizon, the plan is to reduce recurrent spending from peak Hurricane Dorian and COVID-19 levels of **22.4% of GDP in 2020/21** to a targeted ceiling of **19.0% by 2024/25**, and to achieve a reduction in capital expenditure from **3.8% of GDP in 2020/21** to a steady **2.0%** rate in the final three years.


DISCRETIONARY SPENDING THAT SUPPORTS ECONOMIC RECOVERY AND GROWTH WILL BE PRIORITIZED

RECURRENT EXPENDITURE PRIORITIES

 Accelerate fiscal legislative reforms: Public Procurement & Public Financial Management


 Curtail overall growth in public sector employment


 Accelerate state-owned enterprise reform agenda

 Advance pension reform (defined contribution plan)

 Digitize government services


CAPITAL EXPENDITURE PRIORITIES

Increase use of public-private partnerships 

Prioritize investments in roads, bridges, airports & energy infrastructure 

Invest in health infrastructure for pandemic management 

Strengthen project execution & evaluation of capital projects 

Rebuild residential communities in Hurricane Dorian affected areas. 

MODERNIZING & ENHANCING FISCAL MANAGEMENT LEGISLATION

Legislative reforms will ensure a strong governance framework is in place to support economic and social development of The Bahamas for many years to come.

IMPROVING EFFICIENCY, TRANSPARENCY AND ACCOUNTABILITY IN THE USE OF PUBLIC RESOURCES.



MONUMENTAL SHIFTS AHEAD FOR PUBLIC FINANCIAL MANAGEMENT

PUBLIC PROCUREMENT BILL, 2020

This Bill will revolutionize governance arrangements for government contracts:

How they are advertised, how they are managed and how they are awarded. It will require all government entities, including State-Owned Enterprises (SOEs), to use an open and transparent online procurement portal for all bids, the details of which will be published online and consolidated annually in a published report.

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PUBLIC FINANCIAL MANAGEMENT BILL, 2021

To meet the realities of a modern Bahamas, this very extensive Bill will better define the roles of key officials in the public finance arena and set specific administrative and criminal penalties for lack of compliance and for malfeasance. It will expand the requirements for budgetary and fiscal reporting for central government agencies and SOEs, including the eventual introduction of published monthly summary budget reports.

PUBLIC DEBT MANAGEMENT BILL, 2021

While many of its elements have been undertaken by way of operational policy for some time, the Bill seeks to enshrine proper debt management protocols into the law and improve the transparency around the debt taken on by central government and by SOEs.

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STATISTICS BILL, 2021

This Bill will transform the current Department of Statistics into a quasi-independent National Statistics Institute that will be governed by a Board of Directors. The new institute will allow the country to leap forward with its collection, analysis and use of data for public and private policy decisions.

A PLAN FOR ECONOMIC GROWTH

BUILDING RESILIENCE BEYOND THE PANDEMIC

The government plans to remove **structural impediments to growth**, support a more **digital and business friendly environment**, unleash **private sector investment** to promote **strong employment growth and embrace innovation**.



GOVERNMENT DIGITIZATION

Many new services are now online, including **digital wallets** for social welfare support, **driver's license renewals, e-passports, cashless payments** for work permits and other immigration services and **online grants** for small businesses. Much more is underway.



INVESTMENT REFORM

The government is **modernizing and digitizing** its investment regime for Bahamian and foreign investments alike. The **INVESTBAHAMAS** framework will **cut through the bureaucracy** and expand the remit of the current Bahamas Investment Authority.



EASE OF DOING BUSINESS

The government is fast tracking its **digital land registry** and introducing **new software** at the Ministry of Works for the electronic submission of building permits. Much more is underway.

PLANS TO FOSTER A STABLE & DYNAMIC MACROECONOMIC ENVIRONMENT THAT CAN STIMULATE GROWTH

- **Invest** in skills building & education
- **Expand** financial sector opportunities
- **Sustain** investments in small businesses
- **Promote** the digital economy
- **Drive** energy reform through renewables
- **Modernize** Family Island infrastructure & restore Grand Bahama

INFRASTRUCTURE DEVELOPMENT

Bold solutions proposed to address the national infrastructure gap



\$2 BILLION

IN ESTIMATED FINANCIAL SHORTFALL TO COVER INFRASTRUCTURE NEEDS

Public infrastructure is a key catalyst to drive the economic rebound. The government plans to mobilize substantial private sector capital, resources and expertise through innovative financing mechanisms.

NATIONAL INFRASTRUCTURE FUND (NFI)

This will be structured as a **Public-Private Master Fund** or "**Fund-of-Funds**" with specific sector sub-funds created over time, such as a **Growth Fund for the Family Islands (GFFI)**, **Renewable Energy Fund** and **Food Security Fund**.

SOVEREIGN WEALTH FUND (SWF)

The government will be able to **lease, joint venture or pledge public assets** towards projects and generate **new cash flows** which would be used to fund its participation into the National Infrastructure Fund and promote **economic growth and resiliency**.



In 2019, the government engaged the assistance of a firm to conduct a review of several State-Owned Enterprises (SOEs), for the purpose of identifying cost savings through legislative, regulatory, or institutional initiatives.

The government is considering several recommendations, including the gradual introduction of cost recovery measures that allow users of the services to substantially cover the costs of operations. The government is also intent on ensuring the proper governance of the SOEs.

“The reform of the SOEs remains **integral** to the government’s fiscal consolidation plans. The objective is to make SOEs **self-sustained entities** and alleviate the ongoing need for **subventions**.”

Senator Kwasi Thompson
Minister of State for Finance

\$408 million
BUDGETED
(FY20/21)

SOEs account for major government expenditure

ON AVERAGE, NEARLY 16% OF THE GOVERNMENT’S RECURRENT SPENDING GOES TO SUBVENTIONS FOR SOEs

\$100 million
PLANNED REDUCTION
(FY20/21)

Government plans to reduce subventions annually over the next four years.

Savings from SOE reform to assist with meeting additional expected debt servicing requirements.

STATE-OWNED ENTERPRISE REFORM

Several State-Owned Enterprises required increased funding assistance given the financial stress brought on by the COVID-19 pandemic. However, reductions will take place over time, and cost-recovery measures are set to commence by mid-2021 for Bahamasair and the Water & Sewerage Corporation.