



A New Direction

*Citizen Briefing Sheet for
the Supplementary
Budget 2021/2022*

*presented by
Prime Minister
Hon. Philip Davis*



Introduction

Today's supplementary budget, with an effective date of 1 October 2021, will bring the Government's budget in line with its vision for progress. It will not increase the national debt more than forecasted in the May 2021 budget presentation.

The Prime Minister views implementation of the COVID-19 Action Plan as an urgent priority.

The Budget Statement aligns the Budget with the Davis Administration's vision for change, and also accounts for the critical unbudgeted commitments left behind by the previous administration.

Review of Current Challenges

The Davis Administration proposes to address the different challenges and crises found upon coming to office which include:

- Rebuilding in the aftermath of 2017 Hurricane Irma, which did significant damage to our southern islands of Ragged Island and Acklins.
- Rebuilding in the aftermath of Hurricane Dorian in 2019. Very little has been done to restore Grand Bahama or Abaco.
- During the COVID-19 pandemic, which to date has claimed more than 640 lives, very few measures were taken to expand our nation's health care capacity.
- The previous Government failed to present the state of our nation's finances in a transparent manner.

The Government today laid out plans to rebuild our islands, strengthen their infrastructure and build more resiliently.

Through the Covid-19 Action Plan, there will be expanded access to testing and to vaccines, new risk mitigation strategies will be implemented, and public health capacity in clinics and hospitals will be improved.

As Minister of Finance, the Prime Minister promised to enact fiscally prudent policies and to report to the public how their money is being used. The Government will amend the Fiscal Responsibility Act to strengthen the provisions concerning information and assistance to the Fiscal Responsibility Council.

The numbers provided by the Ministry of Finance for the period ending the 30th September 2021 reveal a \$1 billion difference from the numbers provided by the previous Government in their pre-election report.

This underreporting excluded over \$100 million of contracts executed by the Ministry of Works, for which no funding has been provided in the budget. It omits under-funding of pension and gratuity payments for public officers, which is now being addressed in this supplementary budget.

The Prime Minister said Government must always be prudent and judicious in its borrowing, and ensure Bahamian interests are protected first and foremost. Unfortunately, the previous administration did not take this obligation seriously:

- In August 2021, the public learned that a key condition of the IMF facility was to disclose publicly who received contracts from the borrowed funds, yet the former administration completely ignored that requirement and failed to provide the necessary disclosure. The Ministry of Finance has revealed that this loan was entered into without a legal opinion to confirm whether the Government could comply with the terms.

- Second, the financing provided by the \$100m World Bank Hospital Loan to expand our hospitals in Grand Bahama and New Providence was poorly planned and managed by the previous administration.

- The third matter concerns the Rate Reduction Bond for Bahamas Power and Light. This long-awaited offering promised a minimal increase in electricity costs to consumers to allow for improvements to BPL facilities and reduce electricity rates over the longer term. However, due to the delays in the offering, issuing the bond could now increase electricity costs by as much as 20%.

With visibly poor fiscal management, confidence in the Bahamian Government was weakened in international markets and our Government bonds are trading at distressed levels, five notches below the level indicated by our credit ratings. That has resulted in an increased burden of interest payments on our debt.

In order to guide this nation back to fiscal stability, a Private Sector Debt Advisory Committee has been formed to advise the Ministry of Finance on the nation's debt strategy. The Committee will be chaired by Mr. James Smith, the former Minister of State for Finance, and will have representatives from domestic as well as international financial institutions based in The Bahamas.

Current & Prospective Economic Development

Since reopening on 1 November 2020, tourism arrival numbers have increased, particularly for the high value-added air segment. Sea arrivals are likely to make a strong comeback as the cruise sector readies itself to emerge again. The Airbnb data also demonstrate positive signs of growth across the country.

Unfortunately, the country ranks near the bottom of our region in COVID vaccinations. In addition to expanding access to vaccines, the Government is preparing to launch a new public education campaign so Bahamians can get answers to their important questions about the vaccines.

The Bahamian economy has emerged from a steep double-digit contraction in 2020 and is poised to achieve some gains in real growth in 2021. Both the IMF and the technical experts at the Ministry of Finance forecast a return to positive real growth of roughly 2.0 percent in 2021, increasing to 8.0 percent in 2022 with a return to trend growth of 1.5 percent by 2026.

Building the Foundation for a New Direction

This Supplementary Budget Statement:

- reprioritizes unnecessary budgeted expenditures to areas where they are most needed;
- restores the fiscal health of the country over the medium term; and
- ensures that government continues to respond to the needs of the most vulnerable in society.

The Government will provide a lump sum payment of \$500 to all Bahamians on the COVID unemployment assistance program. Public service pension payments will increase, effective 1st December 2021 as follows:

- For the 742 persons receiving less than \$500 per month in monthly pension, they will receive an increase of \$100.
 - For the 2,012 persons receiving more than \$500 but less than \$1000 in monthly pension, they will receive a monthly increase of \$75,
 - and for the 4,432 persons receiving a monthly pension of greater than \$1,000, they will receive a monthly adjustment of \$50.
- The effective date for the reinstatement of increments to rank and file public officers is July 2021. The payment date is January 2022.

One of the most discussed and anticipated aspects of the Government's Economic Plan is the decrease in the nominal rate of Value Added Tax (or VAT) from 12% to 10%. The Prime Minister confirmed that his Government is moving forward with this reduction in the VAT rate.

The Prime Minister announced the objective of achieving a revenue-to-GDP target ratio of 25% by the end of our first five-year term in office. At the time of the Mid-Year Budget, further details of tax adjustment strategies will be presented. A fully resourced Revenue Enhancement Unit is being re-established to increase the tax base by minimizing tax avoidance and fraud. Within 24 months, we expect that this Unit will account for \$200 million in additional taxes.

The Ministry of Finance is reconstituting the Government's Revenue Policy Committee. As additional measures to strengthen fiscal credibility and enhance accountability, transparency and integrity, amendments will be made to the Public Financial Management Act, the Procurement Act, the Public Debt Management Act, along with amendments to the Fiscal Responsibility Act.

In conclusion, today's Budget Statement sets the foundation for a new era in the country's development. All Bahamians share a strong desire to finally exit this time of crisis and begin shaping a better future.

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