



COMMONWEALTH OF THE BAHAMAS

BUDGET COMMUNICATION

PRESENTED TO THE HONOURABLE HOUSE OF ASSEMBLY
BY THE HON. K. PETER TURNQUEST, M.P.
DEPUTY PRIME MINISTER & MINISTER OF FINANCE
ON WEDNESDAY, 29TH MAY, 2019

2019/2020



COMMONWEALTH OF THE BAHAMAS

2019/20

BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

By

The Hon. K. Peter Turnquest, M.P.

Deputy Prime Minister and Minister of Finance

On

Wednesday May 29, 2019

TABLE OF CONTENTS

INTRODUCTION	3
OVERVIEW OF KEY THEMES IN THIS BUDGET	5
PROGRESS ON THE GOVERNMENT’S POLICY AGENDA	8
<i>Enhancing Transparency, Accountability, and Responsibility</i>	8
<i>Strengthening Public Financial Management</i>	11
<i>Strengthening the Ministry of Finance</i>	14
<i>Fundamental Transformation of Government Accounting</i>	15
<i>Public Debt Management Legislation</i>	16
<i>Transformation of State Owned Enterprises</i>	17
<i>Revenue Administration Reform</i>	18
<i>Ease of Doing Business</i>	20
<i>Promoting the Development of SMSEs</i>	22
THE GLOBAL ECONOMY	25
THE DOMESTIC ECONOMY	28
FISCAL PERFORMANCE IN 2018/19	31
FISCAL MEASURES IN THIS BUDGET	33
<i>Tax Relief Measures</i>	33
<i>Environmental Protection and Advancement</i>	35
<i>Strengthening Tax Compliance and Administration</i>	35
<i>Enhancing the Ease of Doing Business</i>	38
NEW POLICY INITIATIVES IN 2019/20	40
<i>Enhanced Education and Training</i>	41
<i>Renewable Energy and Solar Power Initiatives</i>	41
<i>Accession to the World Trade Organization</i>	43
<i>Addressing Critical Public Infrastructure Needs</i>	44
<i>Reviewing and Assessing the Adequacy of Current Tax Concessionary Regime</i>	45
FISCAL PROSPECTS FOR 2019/20 AND BEYOND	46
CONCLUDING REMARKS	48

2019/20 Budget Communication

It is my honour to present the 2019/20 Budget Communication.

I. Introduction

Mr. Speaker,

Those words are not spoken lightly nor flippantly, for it is indeed a deep honour for our Government to have been entrusted by the Bahamian people with the responsibility to manage the affairs of state of our beloved Bahamaland.

It is a responsibility that we sincerely heed. Our personal commitment to the betterment of the lives of our citizens is unwavering. And that commitment has motivated the policy choices we carefully weighed for the new budget. It underpins the decisions we make to advance the proactive socio-economic transformation agenda that we presented to the electorate only two years ago.

From day one, we committed ourselves to catapult our economy out of the lethargic state in which we found it. Now that we are two years in, we can report to the Bahamian people that we have improved our fiscal outlook; we have exercised fiscal restraint that has led to economic growth; and we have restored confidence in the ability of the Government to pursue responsible fiscal management. We have fundamentally introduced high standards of transparency and accountability in the management of taxpayers' money, demonstrating how a Government performs in the best interest of the nation and not for political expediency. This is the first budget that will be fully enacted under the legal framework of the Fiscal Responsibility Act, 2018.

Mr. Speaker,

In a nutshell, we have:

- through the Fiscal Responsibility Act, provided a legally binding framework for responsible fiscal management with specific annual targets for the deficit, as well as effective public and parliamentary scrutiny of our fiscal performance;
- introduced the practice of proper budgeting for known commitments, to avoid the buildup of unpaid arrears;

- provided for the clearing up of the mountain of old bills and unbudgeted commitments left behind by the previous administration, totaling some \$360 million; and,
- established a sound multi-year fiscal plan to address known fiscal pressures, finance our growth agenda in a fiscally responsible way and to meet the mandated and crucial deficit and debt targets.

It is two years in, and against some extraordinary odds we have delivered stable and steady governance instead of irresponsible and unplanned fiscal management. We secured positive economic growth at 1.6 percent last year, following the persistent economic stagnation that had characterized The Bahamas during the term of the former administration. We delivered a framework for good governance—not with superficial platitudes, but with the power of legally binding mandates.

We made this progress while operating under tight fiscal constraints, and yet, we still increased direct social assistance last year by over \$600,000, and maintained focus on human development as a key priority during the last two years of tightening our purse strings. This included millions invested in new initiatives for education, entrepreneurship, economic empowerment and the development of neglected communities.

Mr. Speaker, our critics often like to ridicule our focus on fiscal reform, on fixing the fiscal deficit. We find this very odd, because a part of our core responsibility as leaders of state is to be responsible managers of taxpayers' money. It is the hard-earned dollars of the people that we collect, and it is those very same dollars that our citizens expect the Government to spend judiciously on programmes, services and infrastructure to serve their critical needs.

May I remind our citizens that politically motivated and irresponsible boosts in Government spending are not sustainable solutions to securing stable economic growth. Excessive fiscal deficits and unsustainable borrowing compromise our standard of living and undermine the Government's ability to perform its basic functions and compete in the global economy. These quick fixes are inevitably doomed to failure; they erode confidence, worsen the fiscal position of the nation and compromise the future prosperity of our youth. That is not a gamble we are prepared to make.

The poor governance practiced prior to 2017 exposed a complete lack of a strategic plan for the way in which public funds should or would be used. This resulted in improper budgeting, unrecorded expenses, reckless spending and the inability of the country to achieve sustained economic growth and fiscal stability. Year after year, our country was faced with a rising level of public debt and a number of credit downgrades, thereby reinforcing the negative impacts on borrowing and economic growth. We were trapped in a vicious, self-reinforcing cycle of rising deficits and debt and depressed economic conditions.

In giving us a mandate to govern, the Bahamian people were clear in their choice of a government that is committed to safeguarding the fiscal health of our nation and this is not something to be treated carelessly, nor to be taken for granted or to disregard when inconvenient. No government should have the luxury to choose to abandon its obligations and responsibilities for the social and economic welfare and development of its people OR to abandon its obligations to care for the fiscal health of the nation. There is no either or. We have to do both, and more. We must never lose sight of this fact.

For the first time in a long time, we have a Government that can actually handle the full weight of this responsibility and we are steadfast in our resolve. We have a properly structured economic and fiscal policy agenda and we will be unwavering in executing our mandate.

II. Overview of Key Themes in This Budget

Mr. Speaker,

Having said this, I am pleased to assert, at the very outset of this Budget Communication, that our Government is indeed staying true to our overarching economic and fiscal policy agenda outlined in the November 2018 Fiscal Strategy Report. To that end, I can also assert that we are continuing to adhere to the principles established in the three-year fiscal reform plan that we set out in last year's Budget Communication, contrary to the misconceptions and fear-mongering that was laid out by the leader of the Opposition last week.

In line with that policy, I am also pleased to announce that in the 2019/20 Budget:

- there are NO new tax categories, and

- there is NO increase in Value Added Tax.

Our central approach to revenue is about making the Government more efficient and productive in the administration and collection of existing taxes and increasing compliance by making the tax system more transparent and fair.

Accordingly, what you will see in the new budget, Mr. Speaker, is an approach to expenditure that is about being purposeful, strategic, and intentional about planning for what is necessary and needed. This includes activities to:

- eliminate spending on unnecessary line items;
- increase Government efficiency and productivity; and
- focus spending in a more targeted and strategic way.

Mr. Speaker,

You would be interested to know what we found after doing a ministry-by-ministry, line-item-by-line-item analysis of actual government expenditure compared to budgeted sums. We found a historical pattern of over-budgeting.

In the category of personal emoluments, for example, we found that the budget included allocations for salaries that were no longer being paid. How is this possible? You have situations where the employment register is outdated and does not reflect some of the employees who retire, leave the Public Service and move into pensioner status. Although these individuals are not being paid, their salaries are still being budgeted for. It is noteworthy to mention that personal emoluments constitute roughly 30 percent of the country's total expenditure! Therefore, over-budgeting in just this area alone can reduce available spending in other key areas of the economy.

As a result, you will see a reduction in the budgeted amount for salaries, along with line items in every single Ministry. This budget cut does not mean a cut in the actual headcount, or in actual programmes. It simply means we are budgeting properly to account for the actual commitments of the Government.

Time after time, in area after area, we have found cases where agencies did not spend all of their allocations. In fact, when the assessments were conducted, on average, most agencies spent roughly 60 to 70 percent of their budgets. As a result of our in-depth review, we identified

opportunities to surgically trim the budget, decrease fiscal inefficiencies and reverse the historical pattern of improper planning resulting in over budgeting with little outcomes. This, Mr. Speaker, is responsible, effective fiscal management.

In the past, the budget exercise often involved agencies looking at their previous budget and adding on a few dollars for their new proposals. This legacy approach turned into a very shallow and superficial process of budgeting. We have turned that practice on its head and approached the budget process in a surgical manner. Our work is far from over as we work to continue to improve our budgeting process, but you will see the results of our efforts, so far, reflected in various line item reductions in the new budget.

It is important to remember that when we allocate money in the budget and Parliament approves that spending, we are not talking about an abstract exercise. Those numbers represent obligations we are imposing on hard-earned taxpayers' money. Taxpayers have sent us here to spend their money wisely and not waste it. We have to break out of the thinking that we need to spend more money to do more. To the contrary, we have an opportunity to spend the money we have more wisely and even deliver more benefits with increased efficiency and productivity.

Mr. Speaker,

I will now move on to summarize our approach to economic development in the new budget. The Minnis led government has a clear economic vision of a modern country where Bahamians are empowered and independent: free from dependency on political patronage and free from the limiting constraints of an inefficient government bureaucracy.

We have a focused approach to bring this vision to life. At the foundation is our commitment to:

- expand support for Bahamian entrepreneurs and small businesses;
- increase the Ease of Doing Business;
- build 21st century infrastructure as a new foundation for growth;
- invest in education to break the cycle of poverty;
- invest in renewable energy to create a sustainable future; and
- lead the digital transformation to a modern government.

All in all, we are talking about citizen empowerment: making the Government work for Bahamians, instead of making the citizens feel like they work for the Government.

Mr. Speaker,

In my presentation, I will provide more details about this summary, and more information will be presented about the new Budget during the Budget Debate.

However, I now turn to a brief review of what the Government has achieved during the current fiscal year in respect of the implementation of its transformational policy agenda.

III. Progress on the Government's Policy Agenda

i. Enhancing Transparency, Accountability and Responsibility

Mr. Speaker,

I begin with the initiatives that we have pursued to appreciably enhance transparency, accountability and responsibility in the area of fiscal management.

The landmark passage of the Fiscal Responsibility Act, 2018 will hold this, and future governments, accountable for the way in which public funds are collected and spent. The Fiscal Responsibility Act binds the government of The Bahamas to a strategic plan to meet core fiscal goals. These include: achieving a sustainable level of debt of no more than 50 percent of GDP over the medium term, and a target fiscal balance that does not exceed 0.5 percent of GDP by 2020/21 and beyond.

As mandated by the Act, the Government published the very first Fiscal Strategy Report last November. It was tabled and discussed in Parliament in January of this year, setting out the priorities for the next Budget, as well as a clear path to fiscal reform over the medium-term horizon. In this way, the public is clearly made aware of exactly how the Government plans to meet its fiscal objectives for each fiscal year, accompanied by a comprehensive macroeconomic assessment of the economy, and how the two intertwine. Obviously, as circumstances may change,

legislation allows the Government the opportunity to update its forecasts and projections and to provide a legitimate explanation for same.

The Fiscal Responsibility Act also mandates the establishment of a Fiscal Responsibility Council, comprised of five members with legal, business, economic, accounting, and financial backgrounds, respectively. These individuals, you would recall Mr. Speaker, are selected by specific entities named in the legislation, and not by the Government directly.

The Act states that the Council must—and it will—be established by July 1, 2019. In complying with that mandate, I would like to advise, at this time, that the Honourable Speaker has requested and received nominations from the Bahamas Bar Association, the Bahamas Chamber of Commerce and Employers Confederation, the University of The Bahamas, the Bahamas Institute of Chartered Accountants, and the Chartered Financial Analyst Society of The Bahamas.

Upon the advice of the Speaker, the nominees are now to be appointed by the Governor-General and the Council will then be in a position to begin fulfilling its mandated responsibilities as of July 1.

As is the case in other jurisdictions, such as the European Union, the United States and, in the region, Jamaica and Grenada, the core role of the Council is to foster budgetary discipline by independently evaluating the Government's compliance with the rules and principles set out in the Act, including the general principles, fiscal responsibility principles and the fiscal objectives. In doing this, the Council is expected to review and assess the Government's Fiscal Strategy Report, the Mid-Year Review, the Annual Budget, and the Government's audited annual accounts. The thorough and complete assessment of each of these documents will serve to promote the Government's adherence to sound fiscal decisions that take into account the economic impact they will have on the economy.

The Council will have access to all government information and all public servants in the fulfillment of its mandate. The Council will report directly to the Bahamian people through its direct submissions to Parliament. The deliberations and the reports of the Fiscal Responsibility Council will not be subject to any direction or intervention by any public officer or elected official.

The Government has also moved to increase fiscal transparency and accountability through the publication of regular, quarterly fiscal performance reports. Now, taxpayers are in a

position to see and evaluate how their hard-earned dollars are being collected and spent. They are also better able to assess how well the Government is managing the fiscal affairs of the nation in relation to the fiscal objectives set out in the Annual Budget. These reports have been extremely well received by Bahamian citizens—including the members of Her Majesty’s loyal opposition. The Opposition spokesman on Finance has offered on the record comments on every single one.

We on this side appreciate that they are unknowingly congratulating the government on these reports by their enthusiastic embrace of this level of openness. It apparently never crossed their minds to undertake such an initiative when they had an opportunity to, just two short years ago. We are happy that they are happy—as are all Bahamians—for this new era of openness and accountability.

We have taken our reporting measures a step further by creating a number of new avenues for communication between the Government and the general public, particularly as it relates to the Annual Budget. This year, we will be launching an official website catered to the Annual Budget that is intended to translate this policy document into simplified, non-technical language, using visual tools to make the information more relatable to the average Bahamian. Importantly, we should remember, transparency is not only about providing information, it is also about making that information easy to understand and therefore accessible. The website will be a new tool available to all successive governments, further institutionalizing the framework for transparency.

The Budget website will house all of the official budget documents, as well as the in-year reports on fiscal performance. For the official launch, the budgets for both fiscal years 2018/19 and 2019/20 will be published, along with a budget guide that simplifies common budget terms and concepts in a reader-friendly manner. The website will be launched officially on June 5th, at the start of the Budget Debate, and the Budget Guide will be available on July 1st. We will continue to introduce new ways to engage the public in dialogue and increase awareness and understanding about the country’s fiscal affairs.

Moreover, we have endeavored to increase our pursuit of transparency not only in increasing the number of reports and the way we share information, but also in ensuring our reports are accurate, and fair. In this light, we have allocated approximately \$3.2 million for the Department of the Auditor General this year, which represents an increase of nearly \$0.5 million

over the \$2.8 million allocated in 2018/19. By equipping the Department of the Auditor General with more resources, they will now be able to acquire more sophisticated audit tools that allow it to fulfill its constitutional mandate as an independent auditor.

ii. Strengthening Public Financial Management

Mr. Speaker,

I mentioned earlier that we have ushered this country into a new era of public financial management—one that is centered on a prudent use of resources, while exemplifying enhanced transparency and responsibility. This new era, however, goes beyond just dealing with the numbers. It also calls for a new day in public processes and procedures. We seek not only to redefine public programmes and services, but to improve how they are delivered in line with international best practices. No longer can we operate as an antiquated government with outdated processes. Instead, we must strive to modernize our current structure to the standards of the 21st Century, thereby making the public service more effective in its day to day operations. Put simply, we must ramp up our focus on the ease of doing business in respect to the public's interaction with Government agencies.

In this vein, our measures to strengthen public financial management continued throughout the last fiscal year, as we made progress with the \$33 million IDB-financed Public Financial Management and Performance Monitoring Reform project. The aim of this project is to strengthen the Government's capacity to allocate, manage and monitor public resources. Essentially, it will help to upgrade the Government's institutional capacity, strengthen economic performance and to improve the country's fiscal position through a reduction in overall expenditure. Indeed, it is a key mechanism for increasing fiscal responsibility and accountability across all institutions of government with respect to public funds. The project has four components: performance monitoring, national statistics, public financial management and procurement.

Under Component I, the Prime Minister's Delivery Unit (PMDU) was successfully established and staffed. Working with Ministries, Departments and Agencies, this team has applied the 'Deliverology' method to improve project performance associated with the key priorities of the

administration. In using this method, we are ensuring that the Government implements the desired reform in a way that is efficient, timely and accurate.

This Component has also resulted in two key consultancies in the Bahamas Investment Authority (BIA), creating a revised investment framework for The Bahamas and a human resource restructuring plan. Further, through this exercise the BIA is adopting a new approach as a proactive investment agency to increase The Bahamas' share of regional foreign investment. Under the project, staff at the BIA have already been trained and equipped with enhanced skills enabling them to function effectively within the new business framework.

In relation to Component II, the revised draft National Statistics Act is being finalized and the legislative process will be commencing, shortly. The increasingly data driven paradigms of the global community necessitate the review and redesign of the Statistics Act to accommodate growing demands for information across all sectors of our society. It will ensure that reliable, timely and relevant data are accessible to decision makers in both the government and the private sector. Indeed, it is likely that policy consideration will be given to the establishment of a National Statistics Agency into which the current Department of Statistics will be amalgamated. The Agency will be given independence in the law, and the ability to generate revenue through the generation of special reports and datasets of interest to various segments of society.

Component III addresses the upgrade and modernization of the data platforms that facilitate accountancy and human resource management throughout Government. This element has been conceptualized around what is termed the Integrated Financial Management of Information Systems (IFMIS) program. Transitioning from the current antiquated financial and HR protocols to modern, world class financial and HR systems is a mammoth undertaking. Accordingly, the Ministry of Finance has engaged an advisory consultancy firm, which is currently conducting a public sector wide review of all financial and human resource management systems. The completion of this work will provide the baseline that underpins the reengineering of all revenue and expenditure related business processes in the Public Financial Management sector, including payroll and human resources.

As well, manual reporting will be replaced by instant, real-time computer generated reporting on the state of revenue and expenditure in the country. The time required for periodic reporting and budget exercises will be significantly reduced, while errors and inaccuracies will be

substantially lower. The time-stamped system will track all activities ensuring that the integrity of the system is maintained.

To strengthen the overall budgeting process for more accurate, timely and comparable reporting, we will also begin the full transition to the accrual method of accounting from cash-basis accounting. To this end, a team will be engaged to act as the Bahamian coordinator on behalf of the Treasury Department's Accountants.

The new system will offer public managers greater visibility and control over budgeting and spending, as well as more effective human resource planning. Ultimately, it will allow for greater focus on long-term policy planning, strategy and effective governance.

The procurement component of the project has produced the initial drafting of the Public Procurement Bill, 2019 to oversee all national procurement. The new legislation will ensure that, going forward, the awarding and management of all contracts, vendors' accounts and logistical arrangements for products and services in the country will be conducted in a transparent and fiscally responsible manner. The Bill also provides the legislative framework for electronic government procurement.

In respect to procurement reform, the electronic supplier registry has been open for over a year and businesses are registering in anticipation of the new legislative framework. Once this component is complete, all national procurement will be executed through the E-Procurement and Supplier Registry System. Thus, the procurement process will not only be more efficient, but more transparent, as every step of the process will be done in the open. All jobs will be advertised publicly, and every contract awarded will be published online and in the newspaper.

At the end of the year, the new Procurement Department will publish an annual report that will list all Government contracts awarded throughout the year. Thus, Bahamians will be able to see, listed in one place, which individuals and companies have received their tax dollars for the performance of Government contracts.

Gone will be the days when Bahamians have to wait for the Auditor General to uncover—sometimes years after the fact—that some mysterious individual or firm has received a million dollar contract while, in return, providing no discernible service or product.

This Government promised accountability and transparency, and the work under this component will move us far along in delivering on this promise

Mr. Speaker,

In addition to the work being supported by the IDB project, the Government is advancing other legislative initiatives to solidify its efforts toward public financial management reform. To that end, the Public Financial Management Bill, which is intended to replace the existing Financial Administration and Audit Act (FAA), seeks to provide, among other things, clarification of the roles and responsibilities of finance officers, reporting requirements, accountability expectations for government agencies, expanded budget disclosure requirements and the oversight of State-Owned Enterprises (SOEs). Very importantly, this Bill will impose specific criminal penalties for those that breach the public trust and who cannot account for their actions in the management of public funds. This Bill is expected to be ready for public consultation in the coming months, with anticipation of its introduction in Parliament by the end of this calendar year.

iii. Strengthening the Ministry of Finance

Mr. Speaker,

Efforts have also continued this year to restructure the Ministry of Finance, in a bid to increase its accountability and transparency, as well as to ensure that fiscal, economic and budgetary management needs can be met with the appropriate skill levels. The government has completed a professional assessment of the Ministry against international standards of what a Ministry of Finance should look like to meet the needs of a modern Bahamas. In the coming fiscal year, we will augment the Ministry's skill sets in the key areas particular to Economics, Data Analysis and Public Sector Finance by hiring a cadre of professionals with these skill sets to add to the talent pool for the start of the new fiscal year. The Ministry will add a Debt & Cash Management Unit, a Data Analytics Unit, and it will establish a Public Procurement Department, consistent with the pending procurement legislation.

iv. Fundamental Transformation of Government Accounting

Mr. Speaker,

During the year, several measures were pursued to fundamentally transform how the Government accounts for taxpayers' dollars.

Last year, we announced that the Ministry of Finance was moving towards the adoption of new budgeting and accounting software and standards and the introduction of a new Chart of Accounts. The new Chart of Accounts, which we introduced in the Mid-Year Budget of 2018/19, and which will be fully implemented on July 1, is fully compatible with international standards. As such, I am pleased to report that the 2019/20 Budget is fully compliant with IMF Government Finance Statistics standards.

Parliamentarians and the public will note when viewing this year's Budget that the classification of some items has changed. This was also the case in the Mid-Year Budget. In addition, they will note that we have begun to shift certain Budget items to the Annex of the Budget Document as a cost-center or programme budgeting item. Under this new structure, certain elements that would have been listed as a distinct budget item before, will now be a programme or cost-centre listed in the Annex. It is important to note this, so that persons who browse the Budget Document looking for a particular item that was previously listed as a line item in the Budget, can be aware that this could have possibly been moved to the Annex. Thus, before the reader concludes that an item is no longer being funded, I would invite them to check the Annexes.

It is the intention of the Ministry of Finance to move over the near term to a full presentation of the Budget by programme and cost-centre, as is the prevailing standard for public sector budgeting around the world. I hasten to point out that, while the agencies have started along this road, persons will still find, in perusal of the Annexes, that it is very much a work in progress. The optimal assignment and break out of funding by agencies in their respective categories of programme vs. cost-centres still has a ways to go. But it is a start, and we will continue to build upon this initial effort.

In addition, we announced our planned introduction of the International Public Sector Accounting Standards (IPSAS) which will facilitate the transition to accrual accounting and its supporting systems. Using the accrual method for Government bookkeeping and reporting will

allow us to have a better view of outstanding cash requirements. This is important not only to facilitate improved cash planning, but also helps to avoid any future buildup in arrears.

In further keeping with our commitment to improve accounting and reporting, we are nearing completion of the recruitment of 35 additional accountants to be dispersed throughout the Public Service. This project will address current labour gaps, as well as strengthen the overall level of skill set throughout the Public Service, as a part of our ongoing efforts to fortify the talent set within the Ministry of Finance and the Public Treasury. Of the 35 accountants that will be recruited, 11 will be hired as Accountants, 14 as Accountant Assistants, and the remaining 10 as trainees—all of whom will come under the remit of the Treasury Department.

v. Public Debt Management Legislation

The Public Debt Management Bill is also intended to be enacted by the end of this calendar year, although the implementation of some of its parts will precede its enactment; namely, as mentioned earlier, the creation of the Debt Management Unit at the Ministry of Finance. The Bill will provide a governance framework for Government debt activities, which will be guided by defined medium and long-term fiscal objectives. The Bill will mandate that an annual Debt Management Strategy Report be produced and presented to Parliament at the time of the Annual Budget exercise, in keeping with our efforts to increase transparency and accountability in the management of public funds.

vi. Transformation of State Owned Enterprises

Mr. Speaker,

Another critical step toward fiscal reform is the need—where possible and desirable—to move our SOEs toward cost recovery and self-sufficiency. For far too long we have lamented the cost to the taxpayers to subsidize these entities but paid little more than lip service toward any serious reform. This must change if we are to manage our overall fiscal affairs in any systematic way.

In the current fiscal year, Mr. Speaker, some \$398.3 million was budgeted for subventions to our SOEs, which represents roughly 15.4 percent of budgeted recurrent expenditure. This means that 15 cents out of every dollar spent by Government is going to provide subsidies and support for Bahamian SOEs.

Recognizing that, over time, the trend in SOE expenditure will be unsustainable, the Ministry of Finance is undertaking a formal study of our Bahamian SOEs with a view to providing recommendations for cost-recovery options and for better reporting to the Government and the public on their results and their outcomes. This study will also look for duplication of efforts across the range of Public Corporations, Authorities, Commissions and Boards to see where it is prudent to consolidate operations to better serve the public and meet their specific mandates.

This exercise will no doubt force some uncomfortable discussions and it may call for some tough decisions. But, as we have proven time and again, this Administration will not bow to political expediency, but will again demonstrate the resolve to protect the long-term interests of The Bahamas and a prosperous future for all Bahamian citizens.

Mr. Speaker,

I want to pause for a moment to emphasize that the policy initiatives that I have detailed, so far, reflect a Government that has adopted a new and transformative fiscal framework. This is not business as usual and these are not cosmetic changes. The Government's policy agenda reflects steady progress towards comprehensive reform and structural change. We are getting at the root of our problems within the bureaucracy. Bit by bit, we are pulling apart outdated legacy systems across the Government to deliver true transformation. That means stability and sustainability. That means efficiency and increased productivity.

In any country around the world, structural reforms are expected to take time. They require cultural shifts within organizations; they require technological upgrades, training and retooling. In The Bahamas, we are no different; we still have a long way to go with some of our initiatives, but we are achieving measurable and meaningful progress.

vii. Revenue Administration Reform

Mr. Speaker,

Evidence of this progress is further apparent in the reform of our major revenue administration agencies: the Department of Inland Revenue and the Department of Customs. It is well known that there is leakage in Government tax revenue as a result of inefficiencies, alongside weak controls against fraud and corruption. It is our view that everyone should pay their fair share and that means we are putting taxpayers on notice who have been taking advantage of our inefficiencies to cheat and circumvent the system and avoid paying their fair share. Changing the status quo requires the Government to be better at tax administration and collection. That means the Government needs better data to make data-driven decisions about tax policies; and more seamless processes to make it easier for taxpayers to comply.

Earlier this month, the government announced the complete revamp of the existing antiquated Real Property Tax system. Starting with a massive data collection initiative that will update the real property register, the first phase of this project is expected to add as many as 9,000 unregistered properties to the tax roll. It will bring fairness and transparency to the property valuation process by establishing objective, local and internationally accepted measurements that are critical for property tax assessments. Eventually, there will be a public, online database of property values for tax purposes.

The net result of this enforcement exercise is an anticipated annual boost of \$21 million in real property tax collections. This phase of the project will create up to 40 jobs for Bahamians and will last approximately 18 months. I am advised that training would have begun this week, with the field work expected to commence next week.

Mr. Speaker, it is important to note also that this project falls largely in line with the Government's broader initiative to digitize government systems to allow for more accurate and frequent reporting, less bureaucracy and more efficiency.

In the Customs Department, the work is well underway in the Customs Modernization Programme, most notably the introduction of the Electronic Single Window that has been dubbed 'Click2Clear'. This new Click2Clear platform, which is being rolled out in phases, will bring the Bahamas in line with best in class customs clearing processes, allowing a person or company to

clear their goods from anywhere they have access to the internet. In particular, the new system allows for:

- more convenient, paperless processing, as clearance will be available at any time;
- online payment of Customs Duties;
- tight controls that will help to minimize fraud;
- less time for processing, as entries will be checked automatically in the new system and, for low-risk users, spot checks will be done as opposed to 100 percent inspections;
- automated statistical dashboards that will allow for more robust record keeping and accurate Customs statistics;
- the full integration of other Government agencies; and
- increased transparency and accountability.

Finally, the old, paper-based process of clearing Customs will be a thing of the past, and a new era of efficiency, timeliness, and enhanced convenience will be ushered in with this new system. As of February of this year, approximately 1,600 businesses were on the new 'Click2Clear' Electronic Single Window platform. So far, we have appreciated the feedback from the business community and we are making changes, based on this feedback, to ensure that the benefits of this system accrue to all stakeholders. The official launch of the system will take place in September 2019, for all users, commercial and private, across the archipelago.

Furthermore, our push to boost tax compliance will be solidified by the roll out of our Revenue Enhancement Unit (REU), which will be fully established and operational by July 1st. This Unit will be tasked with building capacity and improving overall compliance by conducting complete tax audits, particularly for VAT and Real Property Tax matters.

As it relates to Real Property Tax, the Unit has already provided a new set of algorithms to update property values in high valued neighborhoods, and has begun collection services which, to date, have garnered approximately \$15 million in incremental revenue. Once operational, the REU will include 28 new hires, in total, to fill the positions of senior tax auditors, junior tax auditors, call center officers, and collection officers. The hiring process is already underway, and is expected to be completed in time for the July 1st official start date for all of its operations. In completing this process, we will ensure that all hires will be adequately trained to operate within the Bahamian tax environment.

viii. Ease of Doing Business

Mr. Speaker,

I mentioned earlier that citizen empowerment was a central focus for the Government. That is why this Administration has made improving the Ease of Doing Business in The Bahamas a key priority, particularly as it pertains to the ease and efficiency of doing business with the Government. Bahamians have wasted too much time and money being reliant on the good favour of a politician or bureaucrat to get simple things done. Our Ease of Doing Business efforts, along with our investments in entrepreneurship and small business, which I will speak to in a few moments, are helping to make it easier for people to start a business, stay in business and to conduct personal business with the Government.

Earlier this year, the Department of Inland Revenue (or DIR) simplified the process of renewing a Business Licence. They successfully processed Business Licence renewals in under 48-hours for the majority of applicants.

Earlier this month, DIR also introduced a Provisional Licence, targeted at home-based businesses, sole proprietors and other startups deemed “low-risk”. A Provisional Licence is a temporary licence issued for 90 days to help small businesses get up and running quickly. While startups wait for approvals to be processed by other government agencies, a Provisional Licence enables eligible businesses to move forward with critical tasks, such as opening a business bank account.

The changes we are implementing will impact a host of other internal processes that will reduce the processing time between the Government, private sector entities and individuals. For example, we are moving to change the threshold to produce purchase orders in-house from \$500 to \$50,000, which will eliminate the time and hassle it takes to have small purchase orders approved and printed by the Treasury Department.

Mr. Speaker,

Currently, The Bahamas is ranked 118th out of 190 countries on the World Bank’s 2019 Ease of Doing Business Index. Though this is up one notch from our position in the 2018 edition,

and up three positions from 2017, we simply cannot be content with this position. In fact, we have made it our goal to improve our score on this index by 20 points over the next few years which, in turn, will significantly improve our ranking in the Index.

To advance this priority, the Ministry of Finance is spearheading an inter-agency working group, which consists of representatives from the Ministry of Finance, the Office of the Prime Minister, the Office of the Attorney General, the Department of Inland Revenue, the Customs Department, the Department of Public Works, the Central Bank of The Bahamas, the Registrar General's Office and the Securities Commission.

The objective of the working group is to employ a data-driven approach to tracking progress, decision-making and modeling best practices as it pertains to the areas in need of the greatest improvement as per the Index. These include getting credit, registering property, protecting minority investors, trading across borders, accessing electricity, dealing with construction permits and starting a business. To deepen our focus, sub-committees were created for each category, which meet regularly to measure progress against their plan.

Some of these areas have experienced significant progress since the creation of the working group, particularly the sub-set for protecting minority investors, which was supported by a suite of legislation and rules; namely, The Companies (Amendment) Act, 2019, the Securities Industry (Amendment) Act, 2019, and the implementation of the Corporate Governance Rules and Takeover Rules. These all move to support the growth of equity capital markets, as well as to bring The Bahamas more in line with international best practices—thereby enhancing companies' ability to raise capital and compete, while allowing greater participation in wealth creation in the domestic economy.

The sub-committee dealing with construction permits has made noteworthy progress, with a focus on the selection process for a supplier of an Electronic Plan Review and Inspection System, which seeks to revolutionize the construction permit process in The Bahamas over the coming year. It will take the process of getting a construction permit from a matter of months in some cases, to one which will take a matter of days for all but the more complex commercial projects.

Progress in respect of some of the other categories, such as trading across borders and accessing electricity, has been somewhat slower than anticipated, due to ongoing reform efforts. It is our intent to continue the developmental work that the working group has undertaken.

ix. Promoting the Development of SMSEs

Mr. Speaker,

One of our most impactful programmes this year was the investment made by the Government in entrepreneurs and young people through the Small Business Development Centre (SBDC).

Earlier I mentioned that central to our economic philosophy is breaking the cycle of dependence on Government, which requires us to empower our citizens and facilitate growth and expansion, particularly in the small business sector. Collectively, small businesses account for a large share of private sector employment. Their success is key to driving an expansion in the job market and economic growth: equitable, inclusive and sustainable growth. The importance of this sector to the general health of the Bahamian economy cannot be overemphasized. When they do well, our economy does well, which is why I am pleased to announce that approximately 13 businesses have been approved for funding that collectively total just under \$1 million in grants, equity and loans.

To date, more than 3,500 small businesses are registered with the SBDC. Approximately 73 percent of this total are startup businesses, while just over 25 percent of the businesses registered are existing companies.

The bulk of registrants are in New Providence, at 46 percent of the total; followed by Grand Bahama, where 21 percent of registered businesses are located. The SBDC has approved \$87,500 in grants, \$205,000 in equity, and \$652,500 in government guaranteed loans. Since its official launch in September of last year, the SBDC has administered roughly \$200,000 worth of training and advisement to aspiring businesses that sign up with the development center; this includes training, advising and research and site visits.

Mr. Speaker,

I want to congratulate and read into the record the names of the first crop of entrepreneurs who accessed capital through the SBDC. They were courageous enough, passionate enough, and dedicated enough to invest in their dreams and take advantage of this opportunity and persevere.

- Kelsey Bridgewater, Island Breeze, Founder
- Petula Clammons-Henfield, Better Days Pizzeria, Founder
- Don Brown, WonderTech, Founder
- Keniqua Burrows, Exuma Christian Academy, Founder
- Shaquille & Anthonique Coleby, Pulpy, Founders
- Donaita Outten, Fineena Artis, Founder,
- Jennis Thompson, A Stitch in Time, Founder
- Vanessa Miller/Kevin Knowles, Jujukanoo, Founders
- Albertha Rolle, Greene Corporate Services, Founder
- Brian Williams, Remarkable Carz Rental Service, Founder
- Juan Bethel, Vue AV, Founder
- Elvis Percentie and Melissa Darville, Shiver, Founders
- Benjamin Davis, Drive Greene, Founder

These are the first, but many more will follow.

It is important to note that these entrepreneurs went through the SBDC's rigorous process to access capital and no politician had any say whatsoever in the outcome. The system was designed to be independent and merit-based to remove any need or opportunity for these entrepreneurs to knock on a politician's door. Their only qualification is that they were Bahamian, and that is how it will continue to be.

As long as the Minnis Administration is in place, no Bahamian should feel as though they have to come to a politician to get a fair shake in their own country. The systems we put in place should work for the Bahamian people, and the SBDC is a clear example of this principle operating in practice. We do not care if a person is PLP, DNA, FNM or has no party affiliation. We care

about citizen empowerment, particularly as it relates to supporting entrepreneurs and facilitating an expansion of jobs and economic growth.

To date, the Bahamas Development Bank, the Bahamas Entrepreneurial Venture Fund, and two commercial banks have joined in as funding partners in this initiative. While I am pleased about that, I expect to see all commercial banks committing to do much more to provide tangible support for microfinance and small businesses in The Bahamas—either through the government’s loan guarantee initiative—or through their own programmes. They must realize, as I do, that to build their marketplace of large commercial clients, they have to plant the seeds that will allow today’s entrepreneur and small business to become the strong vibrant multi-million dollar business client that they all seek. I put the banks on notice that I will be meeting with them collectively to discuss this issue and to consider the options for requiring them at a minimum to publish and publicize their ongoing performance and portfolio makeup in respect to microfinance in the country and loans and facilities extended to Bahamian small businesses.

Going into the new budget year, the Government is expanding its allocation to the small business sector from \$5 million to \$8.5 million, inclusive of capital and recurrent outlays. These funds will be used to both fund operations and grants, as well as to underwrite loan guarantees, and provide for equity financing. This \$8.5 million will be leveraged to provide as much as \$12 million in financing for Bahamian MSMEs during the upcoming fiscal year.

Further, the Government is considering a \$25 million Credit Enhancement Program with the IDB to continue to expand financing of MSMEs. The project is intended to boost economic activity by providing financing for small businesses as well as improving their business skills. These objectives are largely in line with the functions of the SBDC and, as such, the SBDC will stand as the executing agency for the project, if approved.

The project would include two major components. The first component would include a Credit Enhancement Facility (CEF) which will be administered by the SBDC to facilitate the financing of MSMEs. The second component would include the support and strengthening of the SBDC’s program for advisory and technical assistance, and the SBDC itself.

Mr. Speaker,

I now turn to a summary of fiscal performance in fiscal year 2018/19; however, before I do so, I would like to give a brief synopsis on developments in the global and domestic economic environments, as these frame our fiscal planning and projected outcomes.

IV. The Global Economy

Mr. Speaker,

It goes without saying that the health of the global economy, and that of the U.S. in particular, are vital to the buoyancy of future prospects for our domestic economy. As a small and very open economy, the external environment is determinative in respect of both the strength of Bahamian exports, and of tourism activity specifically, as well as inflows of foreign direct investment that underpin the expansion of the productive capacity of our economy.

Accordingly, I now turn to a brief discussion of recent developments in, and prospects for, the world and U.S. economies. This will set a proper context for the subsequent review of recent domestic economic developments and prospects for the near term and beyond.

The stark reality is that the external economic environment has deteriorated appreciably since the last Budget Communication. Moreover, uncertainty in respect of future developments has also increased. These realities presented particularly daunting challenges for the Government as we set about developing the economic and fiscal policy framework for the 2019/20 Budget.

At the time of the last Budget, prospects for the world economy were relatively bullish and the forecast for the growth of the world economy was the most buoyant that it had been since the start of the decade. Indeed, in the IMF World Economic Outlook of twelve months ago, world growth was pegged at just under 4 percent in both 2018 and 2019. These developments reflected expansionary fiscal policies in the U.S., supportive global financial conditions and an ongoing upswing in global investment and trade.

Unfortunately, developments over the past year have now cast a definite cloud on the forecast for world economic growth. Indeed, tighter financial conditions, a softening in business confidence, increased policy uncertainty and the ongoing trade war between the world's two largest

economies, have supported a significant slowdown in the pace of the global recovery in the second half of 2018, with prospects for the near term signaling a further weakening in the first half of 2019. However, global growth is expected to rebound in the latter half of this year and into 2020, due mostly to improved momentum in emerging markets and developing economies, as some economies currently experiencing macroeconomic distress are poised to recover. Still, the gradual slowdown in advanced economies is anticipated to counteract this development, supporting a plateau in global growth for the medium term.

According to the IMF's latest World Economic Outlook of April 2019, the growth of world output narrowed by 20 basis points in 2018 to 3.6 percent, registering 30 basis points lower than its projected outcome. Underpinning this development, real GDP growth in advanced economies tapered by 20 basis points to 2.2 percent, as a weakening in external demand triggered a sizeable decrease in output growth in Japan. Similarly, real growth in the euro area contracted by 60 basis points to 1.8 percent, while output in the United Kingdom declined by 40 basis points to 1.4 percent—marking the lowest pace of growth in six years.

In contrast, real growth in the United States firmed by 70 basis points to 2.9 percent over the year, supported by positive contributions from Personal Consumption Expenditure (PCE), exports, nonresidential fixed investment, and higher federal government spending. Output in emerging markets and developing economies fell by 30 basis points to 4.5 percent, as growth in China weakened by 20 basis points to 6.6 percent in 2018—the slowest its economy has expanded in 28 years—amid trade tensions with the U.S.

When compared to the global outlook presented in the 2018/19 Budget Communication, global growth for 2019 has been revised downward by 60 basis points to 3.3 percent, with projections for 2020 now 30 basis points lower at 3.6 percent. Following a strong performance in 2017 and the first half of 2018, a myriad of factors, including a decline in investment in Italy, slowing car production in Germany and natural disasters in Japan, all underscored the weakening sentiment for growth forecasts. The pace of economic growth in advanced economies is also now projected to slow by 30 basis points to 1.8 percent in 2019, and by 50 basis points to 1.7 percent in 2020; while emerging economies are now anticipated to strengthen by 4.4 percent and 4.8 percent in 2019 and 2020, respectively, as compared to 4.9 percent and 5.1 percent one year ago.

In the United States, the growth of real output is projected at 2.3 percent for 2019, but expected to taper to 1.9 percent in the following year, partly reflecting a waning in the impact of the sizeable fiscal stimulus into 2020, the effects of the Government shutdown, and lower fiscal spending. Similarly, economic growth in the euro area is anticipated to come in at 1.3 percent in 2019 before edging up marginally to 1.5 percent in 2020, as some of the weakening factors in Germany, Italy, and France begin to dissipate. As for the U.K., output is projected to grow by 1.2 percent in 2019 and 1.4 percent in the subsequent year, as the prolonged uncertainty surrounding Brexit continues to exert a drag on economic potential. In Japan, real GDP growth is forecasted at 1.0 percent in 2019, before decreasing to 0.5 percent in 2020, while growth in China is projected to slow to 6.3 percent in 2019 and 2020, reflecting weaker underlying growth in 2018 and lingering trade tensions with the U.S.

Over the medium term, growth trends are estimated to remain benign, with world output rising marginally to 3.7 percent. Economic activity in emerging and developing markets is forecasted to grow by 4.9 percent, backed by strong investment growth, which is anticipated to trigger higher capital spending and broader policy actions geared toward easing uncertainty. However, growth in advanced economies is expected to decline slightly to 1.6 percent over the medium term, due to continued weak productivity growth and lethargic labor force expansion.

All told, a myriad of political and economic factors have underpinned a slowdown in global expansion, particularly in the advanced economies. Prospects for the near term point to some strengthening between 2019 and 2020; however, there is likely to be some stabilizing over the medium horizon, notwithstanding any adverse occurrences. While these developments present some opportunities for growth in The Bahamas, the slowing pace of the U.S. economy—our largest trading partner—offers definite challenges, particularly as it relates to tourism performance.

Thus, it is imperative that we create and incubate avenues for stronger economic activity by encouraging higher productivity within the domestic economy, so as to ensure it can withstand periods of lethargic global growth. This will be especially important to meeting the objectives of fiscal reform, and essential to securing a more buoyant economy and enhanced job creation.

V. The Domestic Economy

Mr. Speaker,

As for recent developments in the domestic economy, preliminary National Accounts data released this month by the Department of Statistics reveal that real GDP growth improved significantly to 1.6 percent in 2018, from the revised 0.1 percent real growth recorded in 2017. This outcome was supported primarily by more buoyant economic activity in several sectors, including real estate, wholesale and retail trade, accommodation and food services and financial and insurance services.

More buoyant activity in the tourism sector was also a major contributor to stronger real growth last year and into this year. The number of total visitor arrivals grew by 7.9 percent to 6.6 million in 2018, a reversal from the 2.1 percent decline in 2017, and the strongest growth since 2010. Corresponding with increased demand following an expansion in room capacity in New Providence and a surge in the Family Islands, the high value-added air component increased by 16.7 percent to 1.6 million, vis-a-vis a 4.0 percent decline in 2017—representing the largest expansion in over a decade. In addition, the larger volume sea segment grew by 5.5 percent to 5.1 million, a turnaround from the prior year’s 1.5 percent contraction.

Activity in the construction sector in 2018 was underpinned by several foreign investment-related projects, as well as an improvement in domestic construction activity.

In line with the rebound in economic activity, labour market conditions continued to improve in 2018. More specifically, the number of employed persons increased by 3.4 percent over the twelve months to November 2018. However, the growth of the labour force remained relatively buoyant, given the entrance of new job seekers and the return of previously discouraged workers. As a result, the national unemployment rate rose by 0.6 percent to 10.7 percent in November of last year.

Domestic prices rose modestly throughout 2018, largely reflecting the one-time effects of the increase in the VAT rate and higher global oil prices. According to the All Bahamas Retail Price Index, inflation rose by 75 basis points to 2.3 percent over the year, as broad-based gains were recorded for almost all the major categories of the Index. However, the average costs for communication, clothing & footwear and education contrasted by registering declines during the

year. Nevertheless, the increase in the overall price level did not appear to have an adverse impact on domestic consumption, as this component of GDP grew over the year, especially for households.

Data from the Central Bank reveal that domestic energy prices rose in 2018, in line with the rise in international oil prices. Specifically, the average cost of both gasoline and diesel rose by 11.1 percent and 15.6 percent, to \$4.74 and \$4.45 per gallon, respectively.

Mr. Speaker,

Tourism performance held its robust momentum into 2019, with total arrivals to the Bahamas strengthening by 19.3 percent in January to 0.6 million, outpacing the 4.8 percent growth registered in the same period one year ago. The high value-added air segment rose by 28.8 percent to 0.1 million, quadrupling the year earlier 7.0 percent gain, while sea arrivals firmed by 17.1 percent to 0.5 million, registering a near four-fold increase over the 4.3 percent hike last year.

Recently approved Foreign Direct Investment (FDI) projects continue to boost employment levels and foreign currency inflows. In fact, as of this month, approximately \$8 billion has been approved in FDI projects across our archipelago of islands since May 2017.

Among these projects is the \$1.5 million expansion to Rainbow Inn Boutique Resort in Eleuthera. The project, which is anticipated to be completed in three to five years, will create approximately 25 jobs in the construction phases and six operational jobs upon completion. The expansion includes the addition of 20 luxury suites and the complete rebranding of the resort as “Sunset Cove”. In addition, HAL Properties Ltd. was approved for an \$80 million cruise pier to be constructed on Half Moon Cay, as well as land side facilities.

There is also the \$100 million Carnival Cruise Port for East Grand Bahama which is expected to create 1,000 jobs for locals, as it helps to restore the nation’s second largest city. The Shore Project that is to accompany the construction of the new port will include a 20-bed hotel, an 18-hole miniature golf course, restaurants, nightclubs, shops, among many other amenities. This project is anticipated to run over 24 months.

Mr. Speaker,

According to the Central Bank of The Bahamas, monetary conditions in 2018 were dominated by a decline in banking sector liquidity, as the growth of domestic credit contrasted

with a reduction in the deposit base. As well, banks' credit quality indicators continued to improve, supported by the modest growth of the economy, combined with ongoing debt restructuring activities and loan write-offs.

External reserves declined by 15.6 percent to a level of \$1,196 million in 2018, amid an increase in private sector foreign currency demand in the latter half of the year and sustained outflows for public sector-related transactions. Reserves at year-end still represented some 17.5 weeks of total merchandise imports, well above the international benchmark of 12 weeks.

In the first quarter of 2019, both bank liquidity and external reserves expanded, attributed to the buoyant seasonal foreign currency inflows from tourism activities. At end-March 2019, external reserves stood at \$1,392 million, a gain of \$194.9 million over the three-month period, and exceeding the \$189.1 million growth experienced in the same period of the previous year.

Credit quality indicators improved throughout the quarter, as total private sector loan arrears contracted by \$67.4 million and the corresponding arrears ratio declined by 1.1 percentage points to 13.2 percent.

During the quarter, banks also increased their total provisions for bad debts by 0.5 percent to \$440.6 million. As a result, the ratio of total provisions for both arrears and nonperforming loans firmed to 59.3 percent and 86.4 percent, respectively.

VI. Fiscal Performance in 2018/19

Mr. Speaker,

I now turn to fiscal developments in the 2018/19 fiscal year.

Performance in the first ten months of the fiscal year—the latest available data—mirrored a healthy, growing economy throughout 2018. Aggregate revenue increased by \$272.6 million or 16.2 percent to \$1.9 billion, which outpaced the \$160.5 million or 8.4 percent accretion in total expenditure to \$2.1 billion. As a result, the fiscal deficit improved by \$112.1 million or

47.8 percent to \$122.5 million in the ten months to April, as compared to the same period of the previous fiscal year. That is correct, Mr. Speaker, the fiscal deficit was nearly halved in the first ten months of the fiscal year.

A breakdown by component revealed that the spike in total revenue was buoyed by a \$245.0 million, or 16.1 percent, improvement in tax revenue to \$1.8 billion, as receipts from stamp taxes on financial and realty transactions more than doubled to \$181.3 million, reflecting the conversion of taxation from VAT to stamp tax. Revenue from VAT grew by \$123.5 million, or 21.5 percent to \$699.3 million, reflecting the rate increase, from 7.5 percent to 12 percent. Likewise, earnings from the use of goods grew by \$51.5 million or 34.8 percent to \$199.3 million, while more muted gains were posted for departure taxes and taxes on property, at \$6.8 million and \$2.8 million, respectively. In contrast, the total intake from excise taxes declined by \$25.5 million or 11.6 percent to \$193.7 million over the period, with revenue from customs and other import duties falling by \$9.2 million or 3.9 percent to \$228.7 million. Non-tax revenue firmed by \$27.6 million or 17.6 percent to \$184.7 million.

As for expenditure, recurrent spending rose by \$216.0 million or 12.6 percent to \$1.9 billion, due to a \$111.2 million increase in spending on the use of goods and services, which includes arrears payments. To date, we have paid a total of \$126.9 million in arrears, representing approximately 73.8 percent of the \$172 million that we budgeted to settle during the 2018/19 Budget year. In addition, spending on subsidies advanced by \$54.7 million to \$312.7 million, while other transfers—inclusive of social assistance benefits, grants and other payments—grew by \$41.5 million to \$235.5 million.

For its part, spending on the compensation of employees tapered by \$28.9 million or 4.8 percent to \$576.9 million, reflecting more precise budgeting, as opposed to a decrease in the total headcount. To elaborate, in fiscal year 2017/2018, \$790.4 million was budgeted for employee compensation, though only \$737.5 million was spent, representing 93.3 percent of the budgeted amount. At the ten-month mark last year, only 76.6 percent of the budgeted amount had been spent.

Thus, in an effort to apply more prudent and accurate budgeting, in fiscal year 2018/19 expenditure in this area was constrained to meet its historical trends, as it usually comes in lower

than budgeted. Capital expenditure, at \$147.6 million, was \$55.5 million or 27.3 percent lower over the ten months to April 2018 when compared to the comparable period of the previous year.

All told, we project that the remaining two months of the fiscal year will perform positively. For the fiscal year as a whole, revenue is estimated to come in at about \$2.4 billion, some \$238 million or 9.0 percent lower than what was budgeted at the start of the fiscal year, largely on account of the new agreement with the gaming operators, the delayed implementation of the Revenue Enhancement Unit (REU), and the concessions granted to hotels and contractors in respect of the introduction of the higher rate of VAT.

On the expenditure front, total outlays are projected to equal approximately \$2.6 billion, which is also some 9.0 percent or \$259.1 million below the amount initially budgeted for the year. Of this total, approximately \$172.3 million is anticipated to be settled in respect of arrears, in line with the Budget projection.

Based on these developments, we therefore anticipate the fiscal deficit to total some \$229 million in 2018/19, representing 1.8 percent of GDP; that will be broadly in line with the \$237.6 million deficit projected in the last Budget.

These developments clearly signal that this Government is focused on more than merely talking about our plan to govern this country in the right manner, but also on action. Bringing our plans to fruition and realizing the goals that we set forth for fiscal reform are critical priorities for us, as they underpin and, in time, will incubate our broader economic objectives of inclusive growth, a sustainable and resilient economy, and increased productivity. The outcome is a sustainable improvement in the well-being of all Bahamian citizens.

VII. Fiscal Measures in This Budget

Mr. Speaker,

The increasing disparity between the needs of our nation and the resources available to meet them makes revenue enhancement imperative to meeting the objectives of any government. While we have demonstrated great discipline in expenditure restraint, strengthening our revenue flows from existing taxes remains a key priority for this Administration, as well. In strategizing

our revenue efforts, we are cognizant to consider both the vulnerabilities in our country and the citizens that are most affected by these vulnerabilities, as well as the necessary action that will garner the resources we require. Though striking a balance between the two can prove challenging, at times, we are, and will remain committed to putting Bahamians first as we work to better this country.

In this vein, the fiscal measures in the 2019/20 budget provide tax relief, while others are more administrative in nature. Yet, still, some measures aim to enhance the environment, with the remainder intended to shore up revenue.

I now turn to a thorough outline of each of these targeted measures; the full details of each measure can be found in the Annex to this Communication.

i. Tax Relief Measures

We have proposed a number of tax relief measures to provide some reprieve to all citizens and to encourage economic activity by making the import of certain items relatively cheaper, thereby making it comparatively easier for persons to enter existing markets and in some cases, create new ones. The tax relief measures included in this Budget include:

- Duty reductions worth \$28 million in revenue. In an effort to rebalance the tax burden between the provision of goods and services and reduce the attendant distortionary impacts, we are beginning to make good on our commitment to reduce duty and excise rates over the next three years. To that end, we will, at this time, adjust the duty on selected frequently imported items. Generally, the focus of these reductions is around educational supplies and equipment, and household implements and goods. These items include:
 - Home Refrigerators of 18 cubic feet or smaller (to become duty free)
 - Home Stoves that are 30 inches wide or smaller (to become duty free)
 - Garbage Can Liners (from 45 percent to 25 percent)
 - Fire Extinguishers (from 45 percent to free)
 - Flashlights (from 45 percent to 25 percent)
 - Pens (from 10 percent to free)
 - Pencils (from 10 percent to free)

- Crayons (from 10 percent to free)
- Sharpeners (from 45 percent to free)
- School Rulers (from 10 percent to free)
- Chart Paper (from 20 percent to free)
- Projectors (from 45 percent to 35 percent)
- Projector Screens (from 45 percent to 35 percent)
- Radios (from 45 percent to 35 percent)
- Pots/Pans (from 45 percent to 25 percent)
- And all Household Furniture (from 45 percent to 25 percent)
- Removing the duty from musical instruments.
- Allowing trailers for commercial fishing boats to be eligible for duty exemption.
- Amending the Spirits and Beer Manufacture Act (*Ch. 373*) to reduce the minimum bushel requirement for production, to now make microbreweries eligible for import duty concessions.

You would recall that the government earlier in the fiscal year increased the VAT zero-rating on Light Bills from those under \$200 to those under \$300. It was approved as a temporary measure that was to expire at the end of June. I am pleased to advise that this higher ceiling has been made permanent, and customers will continue to enjoy VAT zero-rating on electricity bills under \$300. Water Bills under \$50 per billing cycle will also continue to enjoy VAT zero-rating. I can also announce today Mr. Speaker that as of March of this year over 23,500 households have benefitted from this elimination of VAT from these utilities.

ii. Environmental Protection and Advancement

To advance our commitment to environmental sustainability, we have tailored several measures in the 2019/20 Budget with an aim to not only protect the environment, but also to increase environmental awareness across all islands. In addition, the measures aimed at environmental purposes are in line with the Government's planned ban on plastic by January 2020. These measures include:

- Reducing the duty on new vehicles between 1.5 liters (1500cc) and 2.0 liters (2000cc) valued at \$50,000 or less from 65 percent to 45 percent. In this context, only cars with less than 200 miles on the odometer will be considered ‘new’. This makes smaller, more fuel efficient vehicles more affordable.
- Harmonizing the rates on all new electric and hybrid vehicles valued up to \$50,000 to 10 percent. It should be noted here that this measure will have a sunset clause of 5 years, after which this special revision will revert closer to the rates for other small size vehicles.
- Increasing the duty on biodegradable and compostable plastic shopping bags, from 5 percent to 45 percent; but at the same time, reducing the duty on reusable cloth shopping bags from 30 percent to 5 percent.
- Banning the use of selected single-use plastic bags, plastic food utensils, and Styrofoam food containers by January 1, 2020.

iii. Strengthening Tax Compliance and Administration

Mr. Speaker,

A large part of ensuring tax compliance is making certain that tax-related legislation is sound, clear, and comprehensive as a framework for tax administration.

In the Real Property Tax Act, we have increased the current cap on Real Property Tax payments of those classified under “owner occupied” residences from \$50,000 to \$60,000 per annum so as to augment revenue capture for higher end properties.

In addition, we will amend the Stamp Tax Act, and VAT Act accordingly, to reflect that realty transactions will now attract VAT as opposed to Stamp Tax, albeit at the same 2.5 percent and 10 percent rates currently attracted for real estate transactions. Further, to facilitate appropriate estate planning, gifts of real property to immediate family for purposes of legitimate estate planning will not attract the realty VAT tax, with the proviso that the tax will become payable if the recipient seeks to sell the property within seven years of receipt.

In line with our efforts to modernize a number of Government systems and procedures, we have found value in making legal provisions for the new Electronic Single Window, commonly called Click2Clear, as referenced earlier. As such, we will amend the Customs Management Act to legally require registration on the Click2Clear website, using the Single Window Application.

Moreover, a new single Tax Commission will be created under the Tax Appeal Commission Bill, 2019, which will oversee all taxation appeals in an effort to promote tax fairness. Such a move is in keeping with the Government's objective of improving the ease of doing business and enhancing the administration of taxes.

In the past, we have had several separate review boards for appeals made to each of the types of tax in our current regime. However, only a few of them were commissioned or functional. The changes in this legislation will now set up a single Tax Commission that will act as an umbrella for the appeals for a number of different tax types, including appeals for Customs, Business Licence, Real Property Tax, and Value Added Tax. The Commission will be appropriately staffed and hear tax appeals promptly. The current members of the VAT appeals commission will become the Tax Commissioners for this new entity.

The final measure that will require administrative changes in the legislation, includes amendments to the Family Island Development Encouragement Act, and the City of Nassau Revitalization Act. We will extend these Acts, which are set to expire on June 30, 2019, for a two-year period to allow for more effective planning.

I will now turn to a summary of some of the measures we have taken that are administrative in nature, and will also help to increase the Government's revenue intake in due course.

The recent growth in the vacation home rental market has attracted the Government's attention for several reasons. Understandably, the preferred type of accommodation for tourists globally has taken a turn from hotels, to short-term rentals. For the most part, these rentals are facilitated using a marketplace such as Airbnb, HomeAway, and VRBO, among others. We are pleased to see the market growing in this way, as it presents opportunities for many Bahamians to create a new stream of income, while adding capacity to our number one industry.

We are, however, mindful of the uneven playing field that this has created concerning hotels and have moved to level the playing field. As such, all online marketplaces that advertise and facilitate vacation rentals in The Bahamas will now be required to pay VAT on their rental and related sales in The Bahamas.

Thus, companies such as Airbnb, HomeAway, and all such marketplaces with short-term rentals in The Bahamas will be required to pay VAT. I can advise today that some of these online marketplaces have already become VAT registrants and have been paying VAT, and we are in the process of ensuring that the outstanding e-commerce service providers are made compliant.

Currently, the VAT Act, 2014 states that all e-commerce services provided for the use, benefit, or advantage of persons within The Bahamas are a taxable supply, even if the providing company is domiciled outside of The Bahamas. This therefore captures all electronic service providers domiciled outside of The Bahamas that provide services to persons within The Bahamas, such as but not limited to Airbnb, HomeAway, VRBO, etc.

In another revenue raising measure, we will increase cruising permit fees from \$150 on boats up to 34' and \$300 on boats 35' and over, to a set of rates based on size and length of stay ranging from \$150 per 3 months to \$4,000 per year. These rates will become effective January 1st 2020, so as to allow a transition period for the boating industry.

I wish to note also that we will be introducing the online portal for electronic payments for both cruising permits and eventually for the charter fee. This will not only make boating in our waters more convenient, but also help to secure more revenue via increased compliance as a result of the enhanced efficiency the online portal will bring.

iv. Enhancing the Ease of Doing Business

Mr. Speaker,

A number of the tax measures contained in the 2019/20 Budget will help to facilitate the ease of doing business in The Bahamas. These are specifically associated with amendments to the Business Licence Act, which will allow for flexible dates for the submission and issuance of Business Licences. Thus, as opposed to being restricted to an application deadline of January 31,

and a payment deadline of March 31 for renewals and new applications, there will now be four periods in the calendar year, when businesses can now select a time designation as their payment date so as to better correspond to their respective fiscal years. They can choose either March 31, June 30, September 30, or December 31.

This revision is something that the business community has been requesting for some time, given that their fiscal years do not always coincide with the calendar year. The amended legislation also makes provision for a transitional phase to allow for the necessary adjustments to be made by the business community.

The Bahamas has several structural impediments that make it difficult for us to compete globally in the export of goods: We all know the barriers caused by the high cost of electricity and labour, as examples. We have several competitive niche areas as a country and we are capitalizing on those, but there is another export market that is under explored, where we can more effectively compete on an even footing. That is the export of services: accounting services, legal services, information technology services, management consulting services, and of course, financial services, just to name a few.

Consistent with the recent legislative change to equalize the playing field for Bahamians in removing preferential exemptions for non-residents, we are implementing a broader policy of incentivizing the export of services across the board for all Bahamians. Revenue derived from these services will not be taxed for Business Licence purposes or VAT, which makes it easier for Bahamians to compete on a global scale.

In this digital economy, export services are growing rapidly and we do not want Bahamians to be constrained within our territorial borders. In fact, we want to incentivize them to build clientele on the international market, taking advantage of all the business opportunities that can be delivered through a mobile device or on a computer. As Bahamians increase their skill sets and expand their reach, there will be increasing opportunities to participate in the export economy.

For the past 50 years we have approached regulation from the standpoint of whether an individual or entity was resident or non-resident. This legal framework of privileges and benefits to non-residents we inherited served its purpose to encourage the inflow of foreign exchange. However, today, it doesn't work.

We are adopting a new approach that brings fairness to the system. We are adopting a new way that positively shifts the overall value proposition of The Bahamas. Moving forward, it does not matter who you are or where you reside: taxes are due on all business activity where the benefits are derived **inside** The Bahamas. And, in order to encourage the export of services, the Government is excluding revenue derived from export services from Business Licence, consistent with the existing rules for Value Added Tax. This will apply equally, whether an individual or entity is resident or non-resident.

These amendments to the existing Business Licence Act are exemplary of our commitment to fostering opportunities for Bahamians. In particular, the fact that businesses or individuals who provide services abroad will not be taxed for Business Licence or VAT purposes acts as an incentive for persons to create businesses centered on those services, as well as removes some barriers associated with our current export industry. In an age where technology is constantly advancing and new markets are steadily emerging, it is more important now than ever to ensure that our legislative and tax environment are accommodative yet robust and aligned with best practices in the regulatory space.

As mentioned earlier, the amendments serve to create a new approach to how government revenues are derived from the financial sector. We are confident that we have shaped an enabling regime that permits the country to remain competitive in the provision of financial services, even while removing the preferential exemptions that were previously given to nonresident IBCs. In an effort to alleviate the notion of ring fencing, all banks—including both domestic and what used to be offshore banks—will no longer be subject to Business Licence fees. Instead, moving forward, all banks will be subject to supervisory fees and charges; those with Bahamian dollar liabilities of over \$100 million will incur a Domestic Systemically Important Institution (DSII) levy of 0.3 percent per annum on the leviable amount, which will be payable to the Central Bank of The Bahamas.

I want to note here, however, that this new arrangement will not mean that domestic and international banks are now paying less in taxes because they are no longer subject to Business Licence. In fact, the opposite is true. The new structure will actually result in a marginal increase in the amount raised from these fees. What is changing is the administrative process in the collection of these fees, in that the Central Bank will collect and then deduct its cost of regulation

as well as those on behalf of the Securities Commission, the Compliance Commission, the Insurance Commission, and the Financial Intelligence Unit, and remit the excess to the Government. This will obviate the need for the Government to provide direct subventions to these entities. It is important for me to repeat so as to be absolutely clear: this regime will not in any way mean a reduction in the government revenue derived from the financial sector of the Bahamian economy.

The Government is also reforming the calculation for annual supervision levies and other fees. This will allow for the better matching of costs to levies without significantly changing the charges to the individual banks subject to the levies. Thus, with these changes, both domestic and offshore banks will be treated the same, with no preferential treatment given to the latter, while adhering to international best practices.

VIII. New Policy Initiatives in 2019/20

Mr. Speaker,

So far, we have made great progress toward the attainment of the economic and fiscal objectives that we set for this mandate. The 2019/20 Budget contains a number of additional new policy initiatives and programme that I am sure will bear fruit for years to come.

i. Enhanced Education and Training

In the area of education and training, we made a commitment in 2017 to implement a tuition grant initiative at the University of The Bahamas, so as to provide more educational tertiary learning opportunities for Bahamians. In deepening our commitment to this end, we made provision for the Be Your Own Boss program at BTVI that incentivizes young students to become entrepreneurs. This year, the Budget provides funding to substantially expand the Government's commitment both to pre-school and tertiary education. Collectively, an additional \$20 million has been allocated in this budget to these related initiatives. In his contribution to the debate, the Prime Minister will provide details of this program.

In addition to the \$20 million we have allocated to education and training in the Budget, we are commencing the first phase of a \$9.3 million dollar project to enhance BTVI, with an emphasis on upgrading infrastructure. We made a commitment to not only creating more educational opportunities to our citizens, but also to dedicate resources to the upkeep and development of both new and existing institutions. Starting with the \$2.7 million allocated for this budget year the BTVI Enhancement Project will be centered on the upgrade of the current BTVI campus, with a particular focus on developments related to Information Technology. Investing in our youth is critical to the advancement of this nation, and we will see to it that we continue to pour into them accordingly.

ii. Renewable Energy and Solar Power Initiatives

In the area of energy conservation, one of the initiatives, adopted from our 2017 Manifesto, is a move toward renewable energy, particularly in the Family Islands. To this end, the government is seeking, with the funding support of the multilateral community, to provide for over \$170 million over the next 8 to 10 years to introduce commercial scale solar energy opportunities throughout The Bahamas, with particular emphasis on the Family Islands. The full outline of this plan and how it fits into our broader energy strategy will be elaborated on during the budget debate.

Our efforts around green technology this fiscal year will mark the commencement of the Street Light Retrofitting Project, which is also being funded primarily through financing from the Caribbean Development Bank. This project will facilitate the conversion of street lights to LED lights and the installation of a smart street light grid system with central controls.

Currently, street lighting accounts for more than 30 percent of our electricity consumption, and roughly 3 percent of the country's overall energy consumption. This project is intended to reduce the cost of street lighting by 20 percent. In dollars, that translates into savings in the Government's electricity bill of approximately \$3 million per year over the next two decades. It also obviously represents a corresponding reduction in the demand for fuel and the foreign exchange outflows that accompany same. In addition, the establishment of a smart street light grid with central controls will allow us to monitor conditions along the entire grid, including the ability to adjust lighting depending on overall system demands.

Mr. Speaker, among the Bills being presented today for the consideration of this Honorable House is the resolution to approve the \$14.6 million loan with the Caribbean Development Bank to fund this project. The Government will provide direct counterpart funding in the amount of \$2.4 million for the full project value of \$17 million. BPL will serve as the executing agency for this project.

Mr. Speaker,

The House will note that this Budget also makes provision for the newly expanded Department of Transformation and Digitization under Head 73 from what was formerly the Department of Information Technology. Together with its allocation in the Capital Budget, this department will receive additional allocations of some \$15 million. Some of this incremental increase is due to the fact that IT related support services are being consolidated under this agency. However, a substantial portion of this sum is being allocated for the roll out of the government's digital transformation strategy.

Within the coming fiscal year, the initial roll out of this strategy promises substantial improvements for things like passport renewals, driver's license renewals and verification of personal and company information from the Registrar General's Department. These initial small steps will have a profoundly positive impact on the lives of citizens. It will remove so much of the unnecessary stress and aggravation that citizens have suffered for years, but for which no solutions were ever implemented. But it falls to this Administration to do something about it. And that we shall. Much more will be said about the plans for the Digitization project during the Budget Debate.

iii. Accession to the World Trade Organization

Negotiations for our accession to the WTO continued throughout the fiscal year, generating—as it should—quite a bit of interest on how it will impact our economy. In short, I will reiterate here that this Government is committed first to Bahamian citizens, and ensuring that in every decision that we make, their best interests are considered in a way that is economically consistent with our objectives. The Bahamas' initial Goods and Services Offer was presented earlier this year, which included all the proposed reductions in duty rates for imports. By the end

of the accession period, we anticipate some \$50 million in foregone revenue over time, against the backdrop of the proposed 15 percent decline in the average tariff rate.

Since then, the WTO working party has met again to discuss the offers The Bahamas is willing to make on duty rate reductions, and these discussions will continue until both sides are satisfied with the offer. The protection of small businesses and the production of local farms and manufacturers remain key priorities for the WTO negotiating team, which I am confident will be reflected in the final Goods and Services Offer.

With regard to the impact of WTO accession on the Bahamian economy, I wish to draw on the findings of the recent Oxford Economics study, which estimates that the potential economic impact will be positive over the medium term, with the near term impact crucially dependent on the government's efforts to put in place structural reforms. These reforms were noted as:

- Improved transparency and consistent application of rules and regulations governing businesses;
- Reduced bureaucratic time delays with the introduction of modernized and streamlined processes;
- Rationalization of the regulatory requirements for starting a business and strengthening of the intellectual property regime;
- Policy initiatives to improve access to finance for SMEs;
- Energy sector reforms to lower electricity costs and improve reliability; and
- Expansion of training and improvement of job placement services to increase employment opportunities.

Mr. Speaker,

Most, if not all, of these reforms are addressed in the policy initiatives set out in our 2017 Manifesto, many of which we have already begun to implement. For example, as has been mentioned already, we developed and implemented the SBDC to aid small and medium-sized businesses in acquiring capital and developing them for success. We have streamlined a number of processes associated with starting a business and complying with other business requirements. And we are well on our way to rolling out our solar initiatives in our push for energy reform. Thus,

our broader policy objectives are in line with the reforms that are outlined as necessary to secure a positive impact in both the near and long term, which we will continue to advance.

iv. Addressing Critical Public Infrastructure Needs

Investment in public infrastructure acts not only as a vehicle for job creation, but also as a catalyst for economic growth. In this vein, we have made capital spending a key priority. Essential to the future for infrastructure projects in The Bahamas is the use of Public Private Partnerships (or PPPs), for which a policy was drafted in the latter part of last year to set the framework in which these ventures should be set. These investments are likely to include airports, particularly in the Family Islands, schools, Government buildings, among other projects, that underpin increased productivity and stronger growth.

The only way that we will effectively address the infrastructure deficit in the country will be to mobilize private sector resources and expertise in the provision of public infrastructure, as many other jurisdictions are now doing with great success.

This embrace of the PPP approach will require us to think about old challenges in new ways, and to foster a different kind of thinking about how public goods should be delivered. We must obviously ensure that we create scenarios where the private partner and the Bahamian public both benefit, but at the same time we cannot have a knee jerk negative reaction to anything that represents a departure from the old ways of doing things. We must ask: How can we create PPPs for constructing new roads and highways? Can there be a PPP for a school or hospital? Can private operators do car licensing or vehicle inspections? Can we use Bahamian entrepreneurs to deliver social services? Until we challenge our conventional thinking, we will not be able to unleash our full communal energies and talents to overcome our most daunting administrative and infrastructural challenges.

v. Reviewing and Assessing the Adequacy of Current Tax Concessionary Regime

In assessing revenue compliance and strengthening tax administration, it is particularly pertinent to evaluate the role that concessions play, and their impact on the tax gap. Under its

Trade Sector facility with the IDB, the Ministry of Finance has contracted a consultant to review the current concessionary regime in The Bahamas to provide input on how these concessions impact economic growth, and how this translates into our fiscal policy needs, given the requirements of our fiscal responsibility legislation. This engagement began in January of this year, and is still in the information gathering stage. However, when contemplating policy action, it is imperative to consider the impact foreign direct investment has on the domestic economy—not just for tourism but in the monetary sector as well—and how changes to our current concessionary regime may affect that.

Nonetheless, while this Administration is not opposed to the concept of concessions to drive and foster positive investment in The Bahamas, we must undertake the proper study and analysis to ensure that the concessionary regime is fit for purpose—and that it actually drives the right kinds of investment. We must measure the tenure and scope of these concessions—their investment impact, so that we are not simply giving away freebies that add no value to The Bahamas and its citizens.

IX. Fiscal Prospects for 2019/20 and Beyond

Mr. Speaker,

I will now highlight the key fiscal prospects for the coming budget year, and future prospects for the medium term horizon.

Our estimates for the 2019/20 Budget are framed within the projected outcomes of the 2018/19 fiscal year and the current and projected economic climate. Although the economy is expanding, the reality is that recovery is not occurring at the pace previously projected, against the backdrop of a number of global factors.

We are fully sensitive to the fact that a further improvement in our fiscal outcomes, and the attainment of the legally binding fiscal objectives, is contingent on both ongoing expenditure discipline and the further enhancement of revenues.

On the revenue front, we note that the revenue yield of our taxation system amounted to some 18.8 percent of GDP in 2018/19. A number of factors are expected to contribute to a further enhancement of that yield in 2019/20 and beyond.

In 2019/20, the Revenue Enhancement Unit will be fully established, thus securing a significant increase in annual revenue and thereby underpinning a further boost in the revenue yield. Additionally, VAT will be reported at the 12 percent rate for a full year for the first time since the rate increase, and the new tax agreement with the gaming houses will be fully implemented. As such, we expect to secure higher receipts for the Government accordingly. Moreover, the new Electronic Single Window at the Customs Department, with its enhanced features, is intended to secure more revenue via the Click2Clear platform, some of which will be realized in the upcoming fiscal year. All told, this should translate into an increase in the revenue yield of the tax system to the area of 19.8 percent of GDP in 2019/20 and beyond.

As such, we have budgeted for total revenue of \$2.628 billion in 2019/20, which represents a \$215 million increase over the projected outturn in 2018/19.

Recurrent expenditure is budgeted at \$2.530 billion, equating to some 19.0 percent of GDP. That represents an increase of \$95 million over this year's projected expenditure. With regard to the payment of arrears, we currently project that we will pay an additional \$100.4 million toward the \$360 million buildup we met when we came to Office two years ago.

While the Government continues to make good progress in settling the outstanding arrears, the level remains a significant percentage of outlays in the upcoming fiscal year. One important obligation yet to be factored into future arrears payments is the requirement for the Government to meet obligations relative to the BTC legacy Defined Benefit Pension Plan, based on the terms of the Shareholders' Agreement between the Government and Cable & Wireless Communications.

It has been determined that the Government never provided the \$39 million to the Feeder Trust that was created to assist in meeting its obligations to the Plan, when the corporation was sold to Cable and Wireless for \$210 million in April 2011. To commence meeting these obligations, the Government has provisioned \$3.0 million in the FY2019/20 budget and over the course of the year will seek to devise a multi-year comprehensive strategy for settling the balance,

once the full obligation has been determined. The Government will seek to provide an update on this matter in the upcoming Fiscal Strategy Report.

As for Capital Expenditure, the Budget provides for a modest increase in 2019/20 over the current projected outturn. This category of spending represented some 1.6 percent of GDP in 2018/19 and we project an increase to 1.8 per cent in the coming fiscal year. That amounts to a \$28 million increase, from \$207 million projected for this year to \$235 million next year. Going forward, we remain firmly committed to making infrastructure investment a key priority as financial resources permit.

That being said, several major infrastructure projects are already underway, and will continue. These projects are specifically geared towards building a new foundation for growth based on 21st century infrastructure. Bahamians are already feeling the positive impact from some of these projects, like the road improvement, where everyone can benefit from getting to and from work easier, and going about their business. During the Budget Debate, Ministers will elaborate more on some of these projects, including those related to renewable energy, medical facilities, national security infrastructure and digital infrastructure.

That said, the GFS deficit in 2019/20 is estimated at \$137 million, which translates to a deficit to GDP ratio of 1.0 percent. Such an outcome is fully compliant with the requirements of the Fiscal Responsibility Act.

I pause to note here, Mr. Speaker, that this will be the lowest annual fiscal deficit recorded in The Bahamas in 10 years. Also, our 1.0 percent deficit to GDP ratio target will mean the lowest fiscal deficit ratio in this country in over 17 years. That is right, this will mark the lowest deficit ratio this land has seen in nearly two decades!

For the fiscal years beyond 2019/20, the Budget projection postulates that the revenue yield will be maintained at its 2019/20 level. As well, the projection reflects our commitment to keeping a tight rein on the growth of primary recurrent expenditure. Capital spending is projected to grow in line with the economy.

With these planning assumptions, the deficit is projected at a level of 0.5 per cent of GDP in 2020/21 and 0.1 per cent of GDP in 2021/22. These estimates are fully in line with the requirements of the Fiscal Responsibility Act.

X. Concluding Remarks

Mr. Speaker,

Our Government's approach to managing the economic and fiscal affairs of the nation is governance in the truest sense of the word. We know what needs to be done during the course of our mandate. We have a sensible plan to do it; and we remain steadfast in our resolve to implement that plan. Throughout our initiatives, we are mindful of, and firmly committed to, the need to be fully transparent, accountable and responsible to the people. For it is the hard-earned dollars of the people that we collect, and it is those very same dollars that we then spend on programmes, services and infrastructure to serve their critical needs. As such, we must never lose sight of the fact that this is indeed the **People's Budget**.

Last year we introduced and enacted fiscal legislation that will shape the fiscal boundaries of this nation for this year and years to come. We have put an end to fiscal mismanagement, and we have placed a legally binding sense of accountability on the Government of The Bahamas. We have set rules, Mr. Speaker; rules that are prudent, responsible, and forward-looking.

The Budget exercise is no longer a guessing game of how much we "think" we need to raise in revenue, and how much we "think" we will need to spend. Now, our revenue intake and aggregate expenditure are set within the confines of what has been legally mandated as well as against the three-year fiscal plan that we introduced last year to bring our fiscal house in order and put our debt level on a sustainable trajectory for the betterment of our people

In doing this, we have set a new precedent for proper budgeting, in that we have now implemented monthly meetings with each government agency to go over their expenditure plans, and ensure that they remain in line with the ceilings set forth for the budget year, and that funds are utilized appropriately to advance the key policy initiatives and priorities of this Government. Our in-year reporting also ensures that we remain transparent in the way in which we both acquire and use public funds, making us accountable to our citizens, as we should be.

Our Government has ushered in a new era of sound, transparent and responsible fiscal management, supplemented by a broad spectrum of critical and transformational structural reforms that will set a proper and stable foundation for sustained private sector-led economic growth and job creation. I firmly believe that our revamped model of governance will indeed give rise to a better future for all Bahamians.

Mr. Speaker,

As I move to close this presentation, I want to summarize what this Budget is really about. This Budget stands for a Government that is a better partner to the Bahamian people. We are transforming our execution and service delivery so we can provide Bahamians with better results. We are refocusing our spending so we can provide Bahamians with better benefits. Not the type of benefits in the past that have increased the dependence of citizens on the government, but the type of benefits that allow Bahamians to be empowered and independent.

For too long, the Government has used taxpayers' money to feed a culture of political largess and Government inefficiency; to put Band-Aids over structural problems that undermine the Government's ability to play its true role. Structural reform certainly does not sound very relatable, but just think about what it is like to live in a house that needs to be renovated; to work in an environment that is falling apart. It blocks your hustle; it cramps your style; it saps your creativity; it makes you physically sick.

The reality is, the Bahamian Government is like a house that needs repairs. In some areas, the walls need to be gutted and the roof needs to be completely rebuilt. In other parts, new electrical wires need to be installed, along with new pipes and fixtures.

The Government is not supposed to be a barrier to progress. Citizens are not supposed to feel constrained in the pursuit of their dreams by a government that does not have its house in order. The Bahamas has reached adulthood, and it is time the Government acts like it.

The true role of government is to facilitate the personal pursuit and self-expansion of Bahamians, whether socially, culturally, spiritually or in business. It is the Government's role to set effective policies that facilitate economic development; that facilitate social mobility, and a flow of opportunity, quality jobs and self-employment. It is our role to make it easy for Bahamians to operate in their own country; to pursue opportunity, and to thrive.

Mr. Speaker,

This Budget is a break from the Past. This Budget invests in comprehensive structural reforms that are going to make the Government work better and be better. From ease of doing business, to the digital transformation; from the focus on tax fairness and the overhaul of revenue administration and collection; from the adoption of transparent and accountable fiscal practices to the overhaul of State Owned Enterprises. The work this Budget will enable us to do is meaningful and substantive, although gritty and often unrewarding, but it will make the Bahamian Government a better partner to Bahamian people.

This Budget invests in strategic projects and programs that are going to build 21st century infrastructure and set a new foundation for growth; that will make education more inclusive and help Bahamians to break the cycle of poverty. With this budget, we are:

- making a sizeable leap in the funding for education and training as an investment in our most important national asset—our young people;
- we are about to embark upon a \$100 million plus strategic investment in renewable energy to spark the green revolution, so as to power The Bahamas of tomorrow where we make optimal use of the abundant sunshine that God has so favorably bestowed upon us; and,
- we are expanding in a substantial way the resources available to Bahamian entrepreneurs and small businesses so that Bahamians are given the opportunity to drive economic growth and job creation.

And finally Mr. Speaker, the core priorities of this budget are aligned with the core of this Minnis-led Administration. We are an administration that believes in Bahamian empowerment and in true and meaningful investments for the long term benefit of Bahamians. We are not in the game of political dependency where we provide so called opportunities by doling out taxpayer funded contracts to partisan supporters so as to keep them loyal. That is not a formula for success.

Instead, our focus—and correspondingly the focus of the people's money—lay squarely on expanding investment and training. Our focus is on providing them with the funds— independent of political persuasion—to become their own employers and chart their own courses. We are providing the core infrastructure for today and tomorrow that allows them to create their

own social, civic and commercial opportunities. In short, we are about creating the empowered and independent Bahamian who will not ever again have to beg favors from a politician to get their rightful opportunity to better themselves.

So it is our happy task and welcomed obligation to fulfill our role; and not with empty rhetoric and populist appeals that had been leading us down a ruinous path. Instead, we shall continue unfazed and unbowed recognizing that we must be guided by what is best and not necessarily always what is popular. We are comforted in that we know the vast majority of Bahamians understand where we were as a country and they can already see that they have a Government that is delivering on its promises and implementing the initiatives that will secure a safe and prosperous tomorrow for all Bahamians.

Mr. Speaker, I thank you for this opportunity to present the people's budget for the fiscal year 2019/2020.



COMMONWEALTH OF THE BAHAMAS

THE MINISTRY OF FINANCE

CECIL WALLACE WHITEFIELD CENTRE

WEST BAY STREET | P.O. BOX N-3017 | NASSAU, BAHAMAS
T: 1.242.327.1530 | F: 1.242.327.1618 | E: MOFGENERAL@BAHAMAS.GOV.BS
WWW.BAHAMAS.GOV.BS