



Office of
the Prime Minister

THE COMMONWEALTH OF THE BAHAMAS

2021/2022 MID-YEAR BUDGET STATEMENT

PRESENTED TO THE HONOURABLE HOUSE OF ASSEMBLY

BY

THE HONOURABLE PHILIP DAVIS

PRIME MINISTER

&

MINISTER OF FINANCE

ON

WEDNESDAY MARCH 9, 2022

1. Introduction

Madam Speaker:

It is a special privilege to rise today, in this Honourable House, as the Minister of Finance to present the 2021/2022 Mid-Year Budget Statement and report on fiscal performance, the first such report under my Government's administration.

This report, as required under the Public Financial Management Act, and the Fiscal Responsibility Act, is important in the good administration of our country's finances.

It provides accountability and transparency to the Bahamian people by reporting on our fiscal performance against the budget targets at the mid-point of the fiscal year.

Madam Speaker:

It was 174 days ago that my Government was elected.

There is a palpable sense of new-found optimism that the country is now on the right track, though it is hard to forget just how bad things were just six short months ago.

We came into office at a time when the level of suffering among the Bahamian people was at an unprecedented and all-time high:

- Since 2017, the shock increase in VAT by 60% placed enormous pressure on Bahamian individuals, businesses and households.
- Before Hurricane Dorian, and before the Covid-19 pandemic, Government borrowing and interest payments had sky-rocketed which led to a tight squeeze on government spending;
- Unemployment had risen;
- There was no major investment, and a number of historically bad deals meant that the government was losing millions of dollars on white elephants such as the Grand Lucayan Hotel;
- Many families and businesses continued to suffer from the impact of Dorian, with very little relief provided to those who had lost so much;

- Citizens, businesses and employees continued to suffer from the stranglehold placed on them by irrational government policies and measures in response to the COVID-19 pandemic; and
- Public infrastructure was crumbling with not a single new major road, school or clinic, not even a house constructed or built.

Madam Speaker:

At the end of October 2021, approximately six weeks after coming into office, my Government presented to this Honourable House a Supplementary Budget.

This outlined our new vision for bolstering the economy, and restoring the health of the public finances.

This Supplementary Budget was carefully designed around three specific priorities:

- 1) To reallocate Government resources to priority areas;
- 2) To prioritize providing immediate relief to the Bahamian people; and
- 3) To lay the foundation for a robust recovery of the Bahamian economy.

Madam Speaker:

Today's Mid-Year Budget Statement will present a summary of Government's performance for the first six months, ending December 2021.

Because we came into office in mid-September, much of the performance that we are reporting on relates to the activities of the previous administration.

That said, though there has not been enough time for the full effect of some of our decisions to work through the economy, there are enough positive indications for us to be cautiously optimistic.

As I will highlight in a moment, the rapid shifts in the global economic environment, especially in the past two weeks, means that we cannot take anything for granted.

1A. Change In Covid Rules

Madam Speaker:

Before I go further, I wish to briefly update the House on changes to the rules relating to the spread of Covid-19.

With the vastly reduced numbers of infections and hospitalizations, we will relax a number of the restrictions.

- Cruise ships no longer need to present a passenger and crew manifest disclosing vaccination status.
- We have reduced testing requirements for day 5 post-travel.
- Residential care establishments are now able to set their own parameters for visitors.
- Salons, barbershops and spas will now be allowed to operate at 50% of seating capacity.
- Restrictions regarding recitals, regattas, In-person conferences, seminars or workshops, and drive-thru cookouts will be relaxed. These events will not require submissions for review and approval by the Advisory Committee.
- Restrictions surrounding large events will also be eased.

The Ministry of Health will provide more comprehensive details regarding the restrictions.

2. Review of Current & Prospective Macroeconomic Developments

Madam Speaker:

Throughout the Covid-19 pandemic, we said repeatedly in Opposition that the country would not be able to manage the economic crisis until we were effectively managing the health crisis.

Our administration has taken a very different approach than the previous one.

We immediately ended the curfew, because the data to justify it just didn't exist. Businesses were able to open for longer hours – this had a significant impact for certain sectors of our economy, as well as restoring important civil liberties to our people.

And, by ending the Emergency Orders and using regular legislation, we brought the decision-making back to a deliberative, representative body, instead of having all that power reside with a single individual.

We have conducted tens of thousands of free COVID tests and we are distributing medical-grade masks; both of these are important tools in limiting COVID transmissions.

We hired more nurses to help us prepare for crisis.

By rationalizing the travel sector requirements, and eliminating the travel health visa for Bahamians, obstacles to international and domestic tourism were removed.

By working closely with health professionals and relying on scientific advice, we have been able to safely re-open schools.

And by maximizing all available resources to repair and refurbish those school buildings which had fallen into a terrible state, we were able to open schools without delay.

Madam Speaker:

Our hotels are filling up. Our businesses are open. Many Bahamians are back at work and our children are back in school. This is progress, and indeed our economy has already begun to show promising signs of revival.

We are proud that our country has made such significant progress over the last few months despite the Delta and Omicron variants, and we are grateful to the thousands of Bahamians who worked hard to get our country back on track again.

But although we have taken such promising strides forward here at home, factors in the global economy continue to exert adverse pressures.

As a result, the near-term outlook for the global economy has become more complicated.

In its World Economic Outlook (WEO) last October, the IMF had projected a strong rebound in the rate of global output growth of 5.9 percent, followed by 4.9 percent in 2022 as markets were expected to return to more normal levels.

However, with the spread of Omicron, just last month the IMF reduced its 2022 global growth forecast to 4.4 percent, fully 1.5 percentage points lower than in the October forecast.

Similarly, for The Bahamas' major trading partner, the United States, the 2022 growth estimate was reduced by 1.2 percentage points, from 5.2 percent to 4.0 percent. Thus, while the external economic environment does still remain favourable, going forward it is clear that we will need to remain vigilant and prudent.

Labour market conditions in the major economies have also improved steadily. In the United States, the unemployment rate was down to 4 per cent in January 2022, as compared to the pandemic high of 14.7 per cent in April 2020. In the Euro area, the

unemployment rate declined to 7.2 percent in November 2021 from the pandemic peak of 8.7 percent in July 2020.

But as global demand conditions improved, fuelled by worldwide relaxation in COVID-19 restrictions, supply responses did not keep pace, and so global inflationary pressures began to increase over the period.

In the Euro area, the annual inflation rate for December 2021 rose to 5.0 percent, from 4.9 percent in November and 4.1 percent in October. Similarly, in the United States, consumer price inflation soared to 7.5 per cent in January 2022, up from 7 per cent the previous month and the highest 12-month gain in 40 years.

As an economy so heavily-dependent on imports, we have already seen a rise in prices in the country. Our reduction in the rate of VAT from 12% to 10% has softened the blow to consumers to some degree, but the underlying price increases remain.

We are in discussions with wholesalers and importers as to how we might work together to mitigate further the impact on consumers.

We are also resolved to resume and intensify our efforts to achieve greater food security by investing in BAMSII. It is a matter of continuing regret that this landmark investment was degraded and neglected by the previous administration, with the result that the country has made no progress in this area.

Madam Speaker:

Many Bahamians will already be aware from international news coverage, that the Russian invasion of Ukraine in the past two weeks, and the consequent imposition of sanctions by countries around the world, are likely to have a further impact on our economy.

At the moment, it is not easy to determine the extent of that impact, but anything that affects any of our major trading partners, such as the United States, will almost certainly impact us.

We are monitoring the situation extremely closely, especially in relation to the upward pressure on energy prices and other commodities, that are likely to affect The Bahamas most.

As a consequence of improvements in global market conditions, the rate of economic growth in The Bahamas was forecast by the IMF in October 2021 to increase by 2 percent and 8 percent in 2021 and 2022 respectively.

While the IMF has not yet revised this forecast to account for its latest global outlook, we remain confident that the upward momentum that we have witnessed to date will largely be sustained.

That said, as I stated earlier, we will need to maintain a cautious and prudent policy stance, and adjust policies as necessary to sustain both economic momentum and the health of the public finances.

Labour market conditions in our country have also continued to improve, with the number of persons relying on the COVID-19 unemployment assistance programme administered by the National Insurance Board, decreasing to fewer than 8,000 people at the end of December 2021, from more than 22,000 at the peak of the programme.

On the prices front, increasing global inflationary pressure has translated into domestic inflation peaking at 4.12 percent in September 2021.

In the short term, we expect inflationary pressures to continue throughout this fiscal year.

Madam Speaker:

The Government and its agencies are the largest providers of goods and services in this economy. This means that the Government feels the impact of inflation immediately.

Despite this, we are committed to not increasing taxes or fees in the short term as we believe that this surge in inflation is not structural in nature.

The lowering of VAT across-the-board is helping to reduce the impact of inflation on Bahamian households, although we recognize that the effect of the reduction is harder to appreciate in a time of rising prices. Nonetheless, 95% of goods and services are less expensive than they would otherwise have been because of the reduction in the tax burden.

Madam Speaker:

Tourism activity, although still below pre-pandemic levels, has continued to improve with year-over-year increases in stopover and cruise ship visitors.

The strengthening of the tourism sector ensued from the reopening of international borders and relaxed travel restrictions as compared to the previous year.

Visitor arrivals in the last quarter of 2021 totalled 1.2 million, a significant improvement over the 55,000 arrivals in the same period of the year prior. However, comparative tourism indicators remain far below pre-Dorian and pre-pandemic levels, accounting for only 64.1 percent of 2019 fourth quarter visitor totals.

The uptick in domestic market conditions supported an increase in Bahamian dollar deposits in December 2021 to \$324.5 million, compared to \$128.1 million in the previous year.

The expansion in the deposit base outweighed the \$97.1 million increase in domestic credit, ultimately resulting in a broadening of bank liquidity.

Further, external reserves declined by \$16.2 million to \$2,459.2 million, reflective of a \$30.3 million seasonal net foreign currency outflow through the public sector.

Banks weighted average loan rate firmed to 10.56% and the weighted average deposit rate was unchanged, at 0.53% at the end of the period.

All told, Madam Speaker, while uncertainty as always remains, all signs point to a gradual return to normalcy as vaccination rates continue to improve, students return to school, businesses reopen, and the economy continues to rebound.

3. Fiscal Performance: Revenue

Madam Speaker:

I now turn to a discussion of fiscal performance in the first half of the fiscal year, beginning with the provisional estimates of revenue.

As I mentioned earlier, signs are clearly pointing to a rebound in the Bahamian economy, and this has translated to improved revenue collections.

While this is encouraging news, I would remind this Honourable House that my Government remains firm in our commitment to hold steadfast to the promise that we made to the Bahamian people. That is, we will ensure that improved revenue for the Government translates to more than merely numbers on a piece of paper but rather to actual relief for our citizens. We will do this while also remaining prudent in managing the affairs of state in order to reverse the damage wrought to the economy and public finances over the past 4 ½ years.

For the first six months of the year, total revenue collections are estimated at \$1.2 billion, an increase of \$453.8 million over the prior year when the country was placed under oppressive lockdowns, stifling our economy. As such, revenue to date represents some 48.2 per cent of the full-year estimate.

Upon closer inspection of the components of revenue, I would note the following:

- 1) Tax revenue improved during the first half of the fiscal year by \$389.8 million to \$959.3 million as compared to the same period in the prior year. This equates to 47.5 percent of the full budget estimate. While some of this improvement in revenue collection may be attributed to an improvement in general economic conditions, undoubtedly, the elimination of Emergency Orders and curfews by this administration, gave Bahamian businesses more breathing room and contributed to this rebound.
- 2) Similarly, VAT receipts were elevated by 101.4 percent or \$287.2 million to total \$573.5 million and 61.9 percent of the budget.

3) Similarly, non-tax revenue improved by \$63.7 million to \$167.6 million.

Madam Speaker:

I would also like to highlight one key component of the increase in non-tax revenue, specifically the \$24.5 million dividend received from BTC in December 2021, the first such payment in a very long time.

4. Fiscal Performance: Expenditure

Madam Speaker:

As I stated earlier, my Government remains committed to balancing the priorities of supporting the most vulnerable in society while also ensuring prudent management of the country's finances.

While my Government continues to expand support and correct the injustices of the past few years, we are thus careful to limit the growth in expenditure.

Accordingly, I am pleased to report that, during the first half of the fiscal year, total expenditure increased minimally by \$3.6 million to \$1.4 billion, representing 44.1 percent of the budget.

In terms of recurrent expenditure, preliminary estimates indicate an increase of \$12.8 million to \$1.3 billion.

Key components of this spending include:

- 1) An increase in employee compensation of \$14.6 million to \$340.9 million and representing 45.7 percent of the budget target. This is largely the result of a reinstatement of promotions and raises owed to the many hard-working public servants who, for the past two years, have protected us during Dorian and the COVID-19 pandemic.
- 2) Pension and gratuity payments increased 7.3 percent or \$5.5 million to \$77.5 million as this administration delivers on its promise to provide a cost-of-living adjustment to the pensions of our many retired public servants now living on a fixed income.
- 3) Public debt interest payments increased by 30.9 percent or \$56.6 million to \$239.8 million as a result of the billions of dollars in borrowing in the past few years by the former administration
- 4) Subsidies to public non-financial corporations increased by 5.9 percent or \$12.1 million to \$217.8 million which includes:

- a. \$25.8 million in transfers to the Public Hospital Authority (PHA)
- b. \$5.1 million in transfers to Water and Sewerage Corporation; and
- c. \$3.5 million in transfers to National Health Insurance.

Conversely, direct Covid-related spending contracted by 44.8 percent or \$46.7 million to \$57.7 million.

5. Fiscal Performance: Capital Expenditure

Madam Speaker:

Our prudent approach includes our management of Capital Expenditure. While there remains a need to invest in development projects, we are also working hard to ensure that we maximize returns on investment.

As a result, capital spending during the first half of the year contracted by 8.4 percent or \$9.2 million to \$101.0 million, accounting for 27.1 percent of the budget.

Key points to note are that:

- 1) Capital transfers declined by \$6.3 million, as transfers to businesses impacted by the COVID-19 pandemic fell away;
- 2) Expenditure on non-financial assets experienced a net decline of \$2.9 million to \$80.6 million and included:
 - a. a \$4.9 million increase in spending on buildings, including investments in primary and secondary schools
 - b. a \$7.2 million reduction in spending on bridges;
 - c. a \$3.7 million reduction in spending on New Providence roadworks

6. Fiscal Performance: Borrowing & Deficit

Madam Speaker:

I turn now to the elements of Borrowing and the Deficit in respect of our fiscal performance.

During the first six months being reported, The Bahamas experienced a net fiscal deficit of \$285.7 million.

I am pleased to inform the House, that this represents a 61.1 percent or \$448.6 million reduction in the deficit as compared to \$734.3 million during the same period in the previous year.

More importantly, at the half-way mark in the fiscal cycle, the deficit stood at only 33.3 percent of the budget forecast.

Further, as a result of net borrowing activities, the Central Government debt only increased by \$395.6 million to \$10,322.6 million and stood at 96.4 percent of GDP at the end of December 2021.

This compares favourably with the previous Debt ratio of 100.2 percent of GDP at the end of June 2021, which was before this administration took office.

This provides another reason for cautious optimism, and further supports my earlier assertion that we are heading in the right direction.

Madam Speaker:

I wish our Creditors, Investors, members of the Business Community and most importantly, the Bahamian people, to all take note of the fact that, based on all accounts at the six-month mark of the current fiscal year, The Bahamas has already begun to take steps back from what I characterised in recent years as 'a fiscal cliff'.

While this is cause for momentary celebration, it is not a cause for us to rest on our laurels. We must remain steadfast in carefully monitoring our fiscal position, and remain firmly committed to our guiding principles, thereby avoiding the mistakes of the past.

7. UPHOLDING PRINCIPLES OF ACCOUNTABILITY & TRANSPARENCY

Madam Speaker:

'Accountability' and 'Transparency' are two key tenets of good governance.

The Bahamian people should know what is being done in their name, and the Government of The Bahamas should be accountable to them.

In turn, Investors and Lenders should be confident that the information upon which they base their decisions are accurate and reliable.

At any given time, the accounting figures reflect the choices and priorities of an administration. Basic principles of integrity require that those who set the priorities and make the choices at the very least, ought to report those figures accurately.

It is extremely regrettable, therefore, Madam Speaker, that the previous administration fell well short in its legal and moral duties to be as transparent as practically possible, in order that it might be held accountable for its decisions and actions.

In August last year, the former administration released its pre-election report as required under the Fiscal Responsibility Act. In part, this Act mandates the Government to disclose its account of arrears, unpaid bills and other unbudgeted financial obligations. Sadly, Madam Speaker, the report from last August fell woefully short of the standard required by law.

Madam Speaker:

In its pre-election report, the former administration reported total arrears of \$64.3 million, and \$108.8 million in unpaid invoices, a total of \$173.1 million.

Upon coming to office in September, my administration engaged the accounting firm, Deloitte, to review the contents of the previous administration's report to ensure that we

had a true accounting of unpaid invoices and arrears that my Government inherited as of 30th September 2021.

Madam Speaker, their findings are simply astounding.

The previous administration failed to disclose significant liabilities and unfunded obligations of the Government, totalling some \$821.5 million - almost \$1 billion!

These liabilities and unfunded obligations include:

- \$255.3 million in debt and interest payments related to the Government taking over the legacy debt of BPL;
- \$155.5 million in unpaid bills and other obligations for State Owned Enterprises;
- \$25.7 million for the Ministry of The Public Service, largely representing outstanding payments for insurance services;
- \$17.7 million for the Office of the Attorney General to settle outstanding legal claims;
- \$14.2 million in VAT refunds for the Department of Inland Revenue;
- \$15.8 million for the Ministry of Health, which include outstanding payments owed to Doctors Hospital for critical care COVID-19 patient support;
- \$129.5 million in unfunded contract obligations for the Ministry of Public Works;
- \$23.0 million in bills for water purchased by The Water and Sewerage Corporation;
- \$56.0 million for the Public Hospital Authority, which includes over \$25 million in potential liabilities for the 2018 union agreement; and
- \$34.2 million for the Ministry of Tourism including a significant amount of unpaid bills for Bahamasair.

Are we to assume that all these invoices and unfunded obligations magically appeared in less than two months after the election?

(TABLE DELOITTE'S 'REVIEW OF PRE-ELECTION REPORT AND ACCOUNTS PAYABLE')

Unfortunately, Madam Speaker, in trying to determine the most accurate picture of the public finances, many vendors have chosen not to co-operate in providing even the most

basic information, or continue to stall and attempt to frustrate efforts to determine who received public funds, in what amounts, for what purpose and under what terms. This is extremely unwise, and I advise those vendors who are called on to provide any information to their dealings with public funds to cooperate. Failing which, anxious consideration will be given to the options available to compel cooperation.

Our New Day administration was elected with a strong mandate to improve transparency and accountability in government finances.

In our Mid-Year Budget Review, as required by law, my government has included not only a report on where Government's expenditure lies as at end of December 2021, but for the first time, a full accounting of all other commitments and unpaid bills for the same period.

For the first time, the Bahamian people, investors and lenders now have a comprehensive picture of the progress we are making towards our fiscal targets.

Ongoing Investigations

Madam Speaker:

I also want to give an update on this administration's effort to make accountable, those who seek to to be unaccountable. This is an important undertaking. We realize that many members of the public are impatient and want to see a visible demonstration of these efforts.

However, we will not follow the path of the previous administration, and seek to inflict 'Victor's Justice'.

We will not make unsubstantiated accusations, or unfairly tarnish the reputations of anyone, just because they support our political opponents.

This practice is abhorrent, and has inflicted much pain on members of the Bahamian public. With the arrival in office of our administration, it is a practice which I hope we will never again see in public life in The Bahamas.

Everyone deserves to be treated fairly.

No matter what early suspicions have arisen, or what the evidence has partially-revealed, natural justice requires that no-one is prejudged, and everyone is granted their full constitutional right to due process.

Whatever action we take must be supported by sound evidence, evidence which has been independently collected and verified.

That said, Madam Speaker, it is becoming increasingly clear, that some in the previous administration viewed governance as an extractive industry.

They used public office to enrich themselves, their families and their friends.

They did not care that the country was devastated by a Category 5 hurricane, or was burdened by a pandemic that hadn't been experienced in a century.

They wanted theirs and they wanted it now.

And the political leadership directly contributed to this by taking steps to ensure that normal safeguards were not applied.

For example, the public officers responsible for Social Services who created a Food Programme, were isolated from the operations of the programme.

Why was this basic element of public accountability removed?

Or in the case of The Parks and Beaches Authority, specific instructions were given not to verify whether contractors were tax compliant prior to payments being made.

Again, a basic check in the system was removed.

Madam Speaker:

At the previous sitting of the House, the Auditor-General tabled a report on the Bahamas Travel Health Visa.

It was truly shocking.

The report indicated that the Ministry of Tourism allowed a vendor to receive revenue into a bank account which they, the vendor, controlled.

It was also reported that a well-known insurance company did not provide the Ministry of Tourism with the information required to ascertain whether the insurance protection represented a 'value-for-money' proposition.

I have already indicated that this report was not the end of the investigation.

A critical question which still must be answered is, who issued the instructions to transfer public funds to the various vendors mentioned in the report?

In addition, what was the supporting information used to justify these transfers, given that most of the vendors identified operated without contracts, and did not issue invoices for their services?

Madam Speaker:

A review of the Food Programme is also ongoing.

This review has produced some startling results. During a period of great food insecurity, when many Bahamians were struggling to feed themselves and their families, several NGOs failed to utilize the full amount allocated to them.

Why not?

What is the point of holding onto funds when there was such a huge need to feed people?

And if the funds were available, why was better quality food not provided to all Bahamians?

We all remember the complaints of those who week after week, had a diet imposed on them of little more than corned beef and rice?

Madam Speaker:

These NGOs were holding onto substantial amounts of cash. In one case, one had close to \$2 million sitting in their bank accounts. Why?

These amounts have since been returned as we have demanded, but this fact, coupled with the extremely poor record-keeping which characterised all elements of this programme, leaves one to question what exactly was the true purpose of this programme.

It clearly was not just to address food insecurity.

Some NGOs have, in fact, failed to provide any real information.

In Grand Bahama, the programme was run out of the political office of the then Minister for Grand Bahama, and no real cooperation has been forthcoming.

Madam Speaker:

The Bahamian people deserve answers and steps, have and will be taken to ensure that those responsible will be held accountable.

Madam Speaker:

I now turn to the Bahamas Parks and Beaches Authority.

The initial finding which is in the public domain speaks for itself.

The Authority was effectively a slush fund, with no attempt made to ensure that the services being paid for by Bahamian taxpayers were provided.

There are some vendors and employees of the Authority who seem to believe that they are not to be held accountable.

A forensic review of the Authority is nearing completion.

The records and the money trail are clear.

And the evidence of wrongdoing is overwhelming.

I have been approached by some who have pre-emptively sought forgiveness, and offered to implicate others higher up in the hierarchy.

I have not entertained these discussions as that would be highly inappropriate.

All I wish to say for now, Madam Speaker, is that the chips will fall where they may.

Madam Speaker:

The Government has also commission operational reviews of the Disaster Reconstruction Authority, The Water & Sewerage Corporation, and Bahamas Power & Light Company. I will say no more for now, and leave it to the Ministers responsible for the DRA, the WSC, BPL address these matters in their contributions.

8. Current & Future Policy Initiatives

A) Proposed Legislative Changes

Madam Speaker:

We were elected by the Bahamian people with a mandate to bring about transformational change in the country, to substantially support improvement in their lives and enhance opportunities for all.

In our 'Blueprint For Change' we detailed a number of ways in which we propose to achieve this.

Not all of the elements of the Blueprint require legislative change. However the ones that do will constitute the priorities of the government.

Along with the substantive policies, we will also do all that we can to improve governance in The Bahamas, to ensure that we can deliver for The Bahamian people in the most effective and efficient way.

In a few months, therefore, my Government will bring to this House for debate its Draft Budget for the 2022/2023 fiscal year.

Shortly thereafter it is our intention to bring amendments to several pieces of legislation, namely:

- the Fiscal Responsibility Act, 2018;
- the Public Procurement Act, 2021;
- the Public Financial Management Act, 2021;
- the Debt Management Act, 2021; and
- the Statistics Act, 2021.

While these items of legislation may have been well-intentioned, much of the detail was not properly considered.

The Bills were rushed, poorly-constructed and did not reflect the views and realities of the people who must operate under the auspices of the legislation.

We did raise objections at the time, Madam Speaker, but it is regrettable that the government at the time used its super-majority to shout down sensible debate, and allow for full and proper consideration.

We intend that revised legislation allows for increased transparency, while accommodating the need for operational efficiency.

Madam Speaker:

All the items of legislation I am about to highlight are flawed. The report laid will demonstrate the short comings of the Fiscal Responsibility Act, which we will correct. In the Fiscal Responsibility Act, we have created a Fiscal Council which is not functioning in the way which was intended.

The Public Procurement Act creates a Public Procurement Department, but no steps have been taken to create that Department.

In particular, the 'Methods of Procurement Section' of the Act needs to be re-drafted.

The 'Public Finance Management Act', created another Department, the 'Accountant General Department' but again, the previous administration which introduced it, took no action create the entity in the public service.

You can well imagine our shock when we were told that that is why we have to retroactively approve transactions made since 1st July 2021.

The PFM Act also has reporting clauses which no one seems to understand how to implement.

Matters were made worse by the fact that the 'Fiscal Responsibility Act,' the 'Public Procurement Act' and the 'Public Finance Act' were all introduced without Regulations.

These are serious impediments when implementing complex legislation, and raise further serious questions of competence regarding the previous administration.

Madam Speaker:

Continuing in this vein, The 'Debt Management Act' also creates a Debt Office, but as with the previous Acts mentioned, no work was done in implementing the legislation. So, no, there is no organization chart for the Debt Management Office, no true separation of roles between the back, middle and front offices as required by legislation, and no Procedural Manual.

For the 'Statistics Act', the major concern we have is that it deprives the members of staff of the former Department of Statistics of their pension rights. The Act, which I am advised did not have the support of the senior management of the former Department, requires all employees to be forced to resign, and then be rehired.

This provision would have been chaotic and there is no precedent in the public service for treating the staff in this manner.

Madam Speaker:

To be charitable, one might presume that the previous administration did not understand the legislation they were passing. To think otherwise suggests that they were intent on undermining the very fabric of the public sector. Such an attack on the infrastructure of the state is almost too unconscionable to imagine.

B) Digital Assets

Madam Speaker:

I turn now to other policy initiatives.

Madam Speaker:

The Bahamas has a unique opportunity to be a leader in the area of Digital Assets. To date the Government has been successful in attracting one of the major players in this area, FTX,

the crypto-currency exchange. They have already demonstrated a long-term commitment to The Bahamas by investing substantially in real estate.

We cannot allow this opportunity to grow this economy slip by.

In this respect, in the near future the Government will be promulgating a policy on digital assets. This policy will establish a framework to guide regulations in the sector, and facilitate the granting of approvals and licences by the Central Bank, Securities Commission and Insurance Commission in a fair and transparent manner.

C) VAT Reduction

Madam Speaker:

One of the key commitments made by my Government on the campaign trail was to reduce the suffering imposed on the Bahamian people by the prior administration.

We committed ourselves to reviewing the poorly-implemented tax policies, with a view to introducing greater levels of equity and fairness. We also committed to ensure that all individuals and businesses pay their fair share.

As promised, on 1 January 2022, we took the first step with our planned reduction in the rate of VAT from 12 percent to 10 percent and the elimination of zero rating on a wide variety of items.

Zero-rating and exemptions are not the most effective way to protect the less well-off in society. Indeed, for those who can afford to pay VAT, there is no reason why they should be allowed a zero-rate or an exemption.

For those who are most in need, or those who are challenged to make ends meet, we will increase the level of support that Government provides through the Department of Social Services and Urban Development.

As I mentioned earlier in this statement, we are fully aware of the rise in inflation because of supply-chain issues post-Covid.

We are also mindful of the inflationary pressure exerted by the invasion of Ukraine, and the sanctions since imposed.

Madam Speaker:

We have already implemented and will remain open to implementing a number of steps to minimise any negative impacts on Bahamians.

I have charged our Consumer Protection Commission to do whatever it takes to protect our people from rapidly escalating prices wherever possible.

We will closely monitor all sectors for price gouging.

We will continue our push to enhance food security.

Most importantly, we will continue to monitor and report on how all our tax policies are impacting the Bahamian people and the Bahamian economy.

D) Debt Management Strategy

Madam Speaker,

I have the privilege to lay before this Honourable House, the Government's 2021 Fiscal Strategy Report and 2021 Medium-Term Debt Management Strategy.

When reviewed in tandem, these documents outline this administration's strategy to:

- manage the existing stock of debt;
- contain our expenditure;
- enhance revenue; and
- achieve stronger, long-term sustainable growth.

[TABLE 2021 FISCAL STRATEGY REPORT AND MEDIUM TERM DEBT MANAGEMENT STRATEGY]

As was stated in our Supplementary Budget, one of the keys to the recovery of the nation's fiscal health is achieving a revenue to GDP level of 25 percent over the medium term, or by the 2024/2025 fiscal year.

This is a bold and aggressive plan that is designed to manage an unprecedented fiscal challenge.

It is also a reasonable, responsible and realistic plan.

Bringing us to that 25 per cent level would merely bring into line, though still at the lower limit, with the norm that prevails in other economies in the region.

Many Latin American and Caribbean countries post an average ratio of 27 per cent with regional rates of 30-31 per cent in Jamaica, Barbados and Belize.

Modern governance necessitates that Government has access to the fiscal resources needed to meet the needs of its citizenry.

Relentlessly and perpetually ignoring that need and simply financing Government activities by borrowing at home and abroad is a prescription for eventual disaster.

I have stated unequivocally that tax increases would be a last resort for this administration. As we now seek to restore the health of our public finances, our focus is clearly on being vigilant in restraining the growth of expenditure while re-allocating resources to those priority areas highlighted in our Blueprint for Change.

At the same time, we are identifying and closing the very significant collections gaps that exist in some of our key revenue streams.

I am confident that, through these actions, we will be successful in meeting the fiscal targets that are set out in our 2021 Fiscal Strategy Report.

May I remind Honourable Members that securing those targets and thereby restoring the health of our public finances is not a goal in and of itself, but rather a vital requirement to achieve more buoyant economic growth and secure higher standards of living. As such, we will push as hard as we possibly can in these areas to secure those targets.

Having said this, as prudent and responsible managers of the public purse, it is also imperative that we plan for all eventualities such that, if necessary, at some point down the road, we are able to adjust our plans and actions to keep us on track to secure our core fiscal objectives.

The team at the Ministry of Finance along with our international consultants, are continually exploring various revenue options that might be implemented if necessary.

E) Administrative Reforms

Madam Speaker:

There are several administrative reforms that the team has identified which will improve operational efficiencies and improve overall revenue collections:

1. As is done in many other countries and as is recommended in line with best practice, Inland Revenue is considering exploring the establishment of a Large Taxpayer Unit (LTU). This would effect better control of, and service to, those taxpayers who contribute the majority of tax revenues.

Establishing a LTU would (1) stabilize the collection of a large portion of national revenue collections, bringing predictability to revenue planning, (2) enhance compliance and improve service to taxpayers that provide the vast majority of revenues, (3) make more efficient use of limited resources, and (4) compensate for weaknesses in tax administration capacity.

This is a significant reform as currently the Department has about \$900 million in outstanding taxes. The vast of majority of these taxes are owed by relatively small group of businesses.

2. We must address the longstanding staffing challenges at the Department of Inland Revenue. Upon coming to office, we met DIR with 214 employees of which only 52 were permanent and 49 seconded from other departments
54 per cent of the officers were on contract, the vast majority of which have expired.

The last person to hold the post of Controller of the Department retired in 2017. Since then, no-one has been appointed to the post, or chosen to act in the capacity of

Controller.

There have also been no appointments (even on an acting basis) to the posts of Deputy or Assistant Controller.

Since 2017, the Department had also experienced a very high turnover of staff resulting in the suspension of critical functions, such as audits. As a result the DIR has performed poorly in ensuring that payments were submitted in a timely manner. Reforming the DIR with adequate staffing is an absolute necessity.

3. To further strengthen VAT collections, the establishment of VAT withholding agents and the introduction of electronic fiscal devices (EFDs) is also recommended.

As for the former option, legislation would be needed to appoint certain purchasers of goods and services as “VAT Withholding Agents”. They would be required to withhold the VAT amount when paying invoices from standard rate vendors, and remit that VAT directly to the Government on behalf of the vendor.

4. The Government is continuing, through data collection agreements, to exploit the use of big data techniques to detect tax evasion and avoidance.

For instance, the Government already collects data on Airbnb rentals, which facilitates the identification of properties collecting revenue but not paying taxes.

To build further on this initiative, Inland Revenue has engaged an international firm to provide data on a variety of online transactions.

5. Consideration could also be given to require that property taxes be included in the amortization schedules of all mortgages, through both negotiated agreements with financial institutions, and via legislation. The revenue impact could be significant as it would ensure the collection of RPT revenues, and eliminate opportunities for non-payment by mortgage holders.

Madam Speaker:

For the avoidance of doubt, that my Government stands firmly by the statements we made when in Opposition.

We still maintain that only increasing taxes as a means of resolving fiscal challenges, is a lazy approach to governance.

Increasing taxes, essentially decreases the income of citizens, increases hardship and should ONLY be used when absolutely necessary.

While the team in the Ministry of Finance, along with their consultants, have explored potential tax options, any increases would only be implemented after we have exhausted all other options. Such options might include:

1. Reform of the Business License Regime – over the past few years Business License Fees have averaged 0.9 percent of GDP. Save for the impact of COVID-19 in the most recent years, nominal GDP growth has been placed around 3 percent.

This tells us that while there may be improvements in economic activity, that is not being reflected in increased fees from businesses operating in the country.

A possible solution would be to move towards a corporate income tax regime, to provide simplicity in the manner in which businesses are taxed and improve Government revenues. Similar discussions have been held at the international level with respect to the implementation of a global minimum tax of at least 15 percent, determined on a jurisdiction-by-jurisdiction basis, to which the former administration has signed on to. The goal is to ensure that the profits of multinationals with global turnover exceeding 750 million euros are subject to the minimum effective tax rate.

Such a measure could be a significant source of revenue for The Bahamas and could avoid corporate profits of MNEs in the country being taxed elsewhere.

Additionally, not imposing a corporate income tax could pose reputational risks on the country, which could jeopardize the buoyancy of future prospects for the economy.

We fully appreciate that the introduction of a corporate income tax framework would be a complex undertaking, with important economic and fiscal ramifications. Therefore the Government has engaged the accounting firm, Deloitte's, to conduct an in-depth study of the impact of imposing the proposed global minimum corporate income tax in The Bahamas.

2. The core environmental objectives of The Bahamas include measures on adaptation, mitigation and public health, with plans to reduce greenhouse gas emissions by 30 percent below business-as-usual levels by 2030.

Excise taxes are effective policy tools to achieve reductions in emissions and correct for the negative social effects of fossil fuel use, such as global warming, local air pollution and road damage.

The option of setting excise taxes on road gasoline and diesel, for instance, at socially-optimal levels could be adopted at some point, not only for the sake of the related social benefits, but also as a means of further enhancing the revenue yield.

9. Conclusion

Madam Speaker:

Upon coming to office on 16 September 2021, my Government was faced with monumental challenges:

- Debt levels were in excess of 100 percent of GDP and increasing;
- Government revenues were narrowing;
- Expenditures were escalating day by day; and
- Our domestic economy was being suppressed by draconian policies.

While we are only 174 days into our term, in this short period of time, we have already begun to arrest the decline in our fiscal position.

- We have reduced the burden of public debt;
- Revenue collections are now on the rise;
- Expenditures is being contained; and
- Our economy is on the right path to recovery, revitalisation and growth.

We have achieved this level of success by listening to the Bahamian people and the business community.

Their feedback has been welcome and helpful, and have helped to guide us in the various policies and plans with which will move forward.

A New Day has dawned in our Bahamas.

Thank you.

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