



COMMONWEALTH OF THE BAHAMAS

**CONTRIBUTION TO THE 2019/20 SUPPLEMENTARY BUDGET
DEBATE**

Presented to the Honourable House of Assembly

By

K. Peter Turnquest

Deputy Prime Minister and Minister of Finance

On

Wednesday, February 12, 2020

Mr. Speaker,

I rise to make this presentation on behalf of the wonderful people of East Grand Bahama, who's resilience and faith in equity and fairness has been tested, battered by winds of loss and change and savaged by seas of tumult and uncertainty, but yet remain proud, strong and expectant. I encourage them today as I encourage EVEN myself, that trouble does not last always, and while weeping may endure for a night, JOY comes in the morning!

Mr. Speaker,

Two weeks ago, I presented to this Honourable House the supplementary appropriations and borrowing resolution for the 2019/20 Supplementary, or 'Hurricane Dorian' Budget. Together, those appropriations and borrowing resolutions represent the Government's revised spending and borrowing plan to rebound from the catastrophic impact of Hurricane Dorian. They represent our roadmap for restoring what Dorian destroyed, and for rebuilding a more resilient Grand Bahama and Abaco.

Introduction - We are One Nation

Mr Speaker,

When we pledge our allegiance to the flag and to the Commonwealth of The Bahamas, all of us declare as Bahamians, that we are one people united in love and service.

This oath we make is not to be spoken as if words are hollow. No, Mr Speaker, it represents a powerful premise that is as old as our African ancestry.

It is embodied in the Zulu philosophy of living: The Ubuntu principle that translates to mean, "I am because we are".

From time to time, circumstances have a way of putting this solemn promise to the test.

They have a way of checking whether this nation is truly a Family of Islands...

Or whether we are all alone, on distant rocks, spread across miles and miles of ocean.

Circumstances have a way of bringing us to our knees, to see if we are truly connected by the values we share, by the pledge we make to be our brother's keepers.

Mr Speaker,

That test of our honour came last year, on one dreaded September weekend, when Hurricane Dorian bulldozed its way through the Abacos and swallowed up parts of Grand Bahama.

And today, Mr Speaker, we are here to say and to show, our People in Grand Bahama, Abaco and, by extension, the rest of The Bahamas, the support and solidarity of their Government.

Unfortunately, Mr. Speaker, the Family Islands do not always feel they have priority as part of this Commonwealth. The truth is, sometimes the Central Government falls short.

But today is not that day...

Today, we declare, when one island suffers we all suffer, we will rise to the occasion together. **Today**, we pledge the full strength and support of the Government to make our nation whole again.

While we are here to debate the appropriations and borrowing resolutions for the 2019/20 Supplementary "Hurricane Dorian" Budget, this exercise is about much more than crunching numbers. This budget exercise represents a promise that we will not leave our people behind or turn our backs on Grand Bahama, Abaco or any of our **family**...of islands

Mr Speaker,

As I mentioned in my statement to this House during the laying of the Supplementary Budget, this Hurricane was catastrophic. Make no mistake. It evaporated \$3.4 billion in damages, losses and additional costs.

The recovery and restoration costs are of a magnitude unlike any other hurricane this country has ever experienced; **in fact...**, the damages and losses associated with Dorian are larger than those of Hurricane Irma and Hurricane Matthew, and the two prior hurricanes before them combined! It has created a massive challenge

that requires a massive response and, as we have assessed, the fiscal costs are unavoidable.

A Budget That Reflects Our Values

Mr. Speaker,

As a part of our immediate and long-term plans to support our citizens, we have committed to additional expenses to strengthen the social safety net for the most vulnerable individuals and families affected by the storm. This has meant additional investment in safety and security, education and health options, shelter and unemployment support.

We have allocated \$11.4 million toward unemployment benefits to ensure eligible persons that lost their jobs receive unemployment benefits from the National Insurance Board for an extended period. This is putting money in the pockets of storm victims, helping them to sustain themselves as best as possible while working to restore their lives.

Our policies to support individuals and families come as a necessary cost. Unfortunately, what we have in available resources is significantly less than what we need. Although counter to our fiscal consolidation objective, borrowing is the only immediate choice we have that is in the best interest of the Bahamian people given the alternatives. So, we are borrowing to lift people from hardship to a path of more stable and sustainable living.

The additional borrowing we have requested is not for idle purposes. We are also investing to sustainably rebuild the economies of Grand Bahama and Abaco. The damage and losses to infrastructure alone as a result of Hurricane Dorian is very tangible, at over \$450 million dollars. It means clinics that are no longer accessible and therefore parents, having to drive miles and miles instead of down the road to attend to a sick child. It means roads that are still impassable or severely damaged. It means water systems that are still not operating properly. The inaccessibility of these services impacts the lives of real people.

Mr. Speaker, so much work has already been done for the restoration, but we need additional resources to complete the massive task at hand.

Fellow Bahamians,

Unfortunately, we cannot just wish away the cost of this reconstruction. We have allocated approximately \$214.2 million in capital projects over the next three years, because these infrastructure investments are required so that schools, clinics, roads, electrical and water utilities are restored; so that storm victims can rebuild their homes and businesses, and get on with their lives as soon as possible.

While we are providing for the immediate needs of Grand Bahama and Abaco, we are also thinking progressively about the future needs of the country.

Our country has found itself at the frontlines of the global climate crisis, which has exposed our extreme vulnerability to this invisible threat. It demands that we make strategic, long-term investments that build even more resilient communities, benefiting us now, and in the future. We are making these investments in Grand Bahama and Abaco and for the entire nation.

Mr. Speaker,

We have also implemented several fiscal policies to make the process of restarting a business and rebuilding a home easier, cheaper, and faster. We know that these have been beneficial to the victims of Hurricane Dorian, based on the number of residents who have made use of these tax incentives and concessions.

As of early February, the Revenue Unit at the Ministry of Finance received over 2,000 applications under the Exigency Order. Of this total, over 900 applications were for the importation of replacement vehicles, and over 1,200 applications for relief goods and other non-listed items.

In addition to providing tax relief through duty and VAT exemptions, the Government designated parts of Abaco and Grand Bahama as Special Economic Recovery Zones (SERZ), which included designating these islands as VAT-free until June 2020.

Under the Special Economic Recovery Zone (or SERZ) programme, the Government waived business licence fees for all new businesses, and existing businesses with an employee count of at least 60 percent of their pre-Dorian level by December 2020. We also extended provisional licences to all businesses in Abaco and Grand Bahama with the exception of potentially hazardous undertakings; waived Real Property Tax on properties that met the criteria to ensure they were

restored; and extended a VAT credit of up to 50 percent on the sale of qualifying real property.

This means that businesses can get restarted faster, supply more jobs to the economy, and ultimately provide opportunity for people to restore their lives.

Again, we are ensuring that persons from Great Abaco, across the cays, all the way up the archipelago to East End, Grand Bahama and to the tip of West End benefit in a real and tangible way. As the residents of these communities start to put the pieces of their lives back together, these incentives will help them to do more with less, making recovery slightly easier.

I am pleased to say that the elements of this innovative SERZ programme have established a pioneering and visionary approach to providing direct support and assistance to Bahamians in a way that had never been contemplated before in the history of the country. This is yet another shining example of how this Minnis administration is about doing things, unlike others who only talk about things.

Mr. Speaker,

Since we took Office, our commitment to small businesses has been unwavering. Part of the massive response needed has been support for MSMEs. The Government established a \$10 million loan guarantee and equity financing programme to allow Bahamian MSMEs to acquire up to \$500,000 in financing to restart their businesses that were lost or damaged due to Hurricane Dorian.

I am happy to announce that \$2.2 million has already been approved in funding for businesses affected by the hurricane under this program. That's right, \$2.2 million is being injected into the economies of Grand Bahama and Abaco through small businesses to help them restart, rebuild, and recover!

Mr. Speaker,

I seem to recall the Member for Exuma and Ragged Island blasting this Administration days after we published the 2019 Fiscal Strategy Report, claiming we were too focused on managing deficits instead of fostering economic growth. While the side opposite might be incapable of multitasking, we are demonstrating true governance by being able to handle all our responsibilities at the same time.

We are putting direct funds into the dreams and aspirations of hundreds of Bahamian entrepreneurs and building their capacity to create and nurture successful businesses to foster growth as he himself has stated should be our goal.

We are rebuilding basic infrastructure and injecting money directly into the economy by way of capital projects that will stimulate economic activity and provide jobs for individuals and families to keep money in their pockets and build a more resilient Bahamas.

We are making our presence felt and using the resources at our disposal to provide tax relief and cash injections to affected individuals and the people who are most vulnerable.

No matter how many times the Opposition tries to convince the Bahamian people that we must choose between taking care of people, effectively managing the public purse and driving economic growth, we will reject that false choice.

The Best Choice in the Best Interest of the People.

Mr Speaker,

There is near universal consensus that we must honor our obligations to Grand Bahama and Abaco. In fact, the Opposition has criticized us for not providing even more tax concessions. That is all well and good, but we cannot wish away the real cost of reconstruction. And we can't forget that before Dorian, the Government was already projecting to be \$137 million short in terms of deficit financing. I remind members opposite that our deficit of \$212 Million last fiscal year happened to be the lowest deficit in nearly a decade, thanks to our ability to develop and follow through on effective budgetary management.

As much as we have been proud of our successes to date with fiscal consolidation, our efforts were no match for the ferocity of Hurricane Dorian. These efforts have helped us to be in a better position, but they were not enough to mitigate the full impact of this unprecedented storm.

Our tabling to Parliament and the Bahamian people of a Supplementary "Hurricane Dorian" Budget presents the facts of all hurricane related expenditure and shows the revised budgetary estimates for the remainder of 2019/20.

- It shows the \$232.6 million in revenue loss as a result of tax revenue lost and forgone

- It shows the \$182.7 million in new Hurricane Dorian expenditures
- It shows the \$119.9 million in liabilities deferred by previous governments
- It shows the \$5.5 million in new interest charges as a result of our new debt

The price tag of these necessary and unavoidable expenditures is \$540.7 million.

Mr. Speaker,

We are not obscuring or hiding the fact that some of the expenses in our revised estimates are targeted at other critical governing priorities. These are important policy commitments that we felt merited immediate consideration. Our accounting for them in the supplementary budget further solidifies our commitment to transparent fiscal management. The \$4.5 million we allocated for nurses' back pay, for example, was a debt we could not shift down the road. The \$20.4 million for renovations at the Princess Margaret Hospital were and are critical for the delivery of quality healthcare for Bahamians.

The truth of the matter is that the financial laws of The Bahamas contemplate contingency expenditure during the year, which is why we have a Contingency Fund. All administrations make use of this fund to address new and compelling priorities. The supplementary exercise gives us an opportunity to replenish the Contingency Fund, and this Government has availed itself of the opportunity to get this done in the most open and transparent way. What we have done to improve the integrity and credibility of our fiscal plan is to address these liabilities now.

Unlike our predecessors, we are not going to misrepresent the reality of our situation and seek to obscure our plans and hide from the truth. As is our way, we are explaining to the Bahamian people what we are doing, and to advising them of the resulting implications of our plans.

Mr. Speaker,

Unfortunately, the Government has very few immediate and realistic options to offset the legitimate obligations I just laid out.

We received a \$12.8M payout from our Caribbean Catastrophic Insurance Facility (CCRIF) as a result of a restructured policy, which I am proud to say we pioneered. In the past, insuring with the CCRIF had unfortunately become politically charged. Not everyone was convinced the insurance scheme was meeting our needs as an

archipelagic nation. We successfully renegotiated a better deal for The Bahamas, tailoring the policy to separate the archipelago into three geographic zones with unique parametric triggers for each region. Rather than throwing the baby out with the bathwater, we recognized that flexible insurance that allows for tailored coverage is essential to our multi-layered approach to disaster risk management and for meeting our country-specific disaster needs.

Aside from the CCRIF, we amended the law to allow funds transferred from the expired Dormant Accounts at the Central Bank to be used for disaster relief. The Government earmarked \$20 million from this fund: \$10 million of which is to support Micro, Small and Medium-Sized Enterprises (MSME) capital grants and credit programs.

If you look at the math, it speaks for itself: We have \$540.7 million in new and necessary financing requirements and only \$32.8 million in offsetting income. We are also looking at the possibility of GDP shrinking by one percentage point as a result of Hurricane Dorian.

As for donations, they are far less than what the public perceives: Many of the public pledges that have been reported are actually in-kind and not yet received, and many of them are actually donations to private sector organizations and not the Government.

According to data from the National Emergency Management Agency (NEMA), which receives donations on behalf of the Government, as at January 31, 2020, approximately \$9.4 million was received as actual cash donations, and another \$2.8 million in kind.

While this is certainly appreciated and has helped to cover costs associated with the acquisition of Recreational Vehicles (RV) for volunteers and staff that are on the ground working in Abaco and Grand Bahama, as well as with the temporary dome structures that are currently being erected in Spring City, Abaco, it simply is not enough to cover the greater cost of recovery of Hurricane Dorian. When you compare \$9.0 million in donated funding to cover over \$400 million in Dorian expenses and revenue losses, it is plain to see that our own resources are not enough for this massive response.

Mr. Speaker,

Faced with this reality, the Government decided that it will not impose additional tax burdens on Bahamians to cover the cost of recovery. More taxes could slow down the already strained economy as people would consume less given the need to pay more in taxes. Although we have a large budget gap to close in the immediate term, this is not a viable option.

Therefore, the Government will NOT be increasing taxes, or introducing any new taxes, to cover the cost of Hurricane Dorian.

So, what are our alternative options? Well, we could slash spending by a few hundred million, but that means starving the economy of job opportunities and commercial activities by way of reduced capital and other major projects. Large spending cuts would also reduce the resources available to assist the vulnerable with social assistance benefits and other recurrent programs. To balance the budget in one swoop, we would have to cut total expenditure, across the board, by over 20 percent, based on spending estimates at the time of the National Budget.

Indiscriminate cuts like this would affect everyone, and not just in the storm affected islands. This is not an option. The operations of the Government must continue to function. Again, the government realized that an economy of our size facing a \$3 billion hit would be further impacted negatively by massive cutbacks in public expenditure.

Mr Speaker,

The bottom-line is, the only way to finance these extraordinary expenses without breaking the backs of taxpayers, starving the economy of opportunity and draining the Government of already tight resources is to borrow - but only to do so consistent with an articulated plan to bring the budget back in line over the medium term.

Yes, we have considered that this will raise Government debt over the medium term. However, as you can see from the Fiscal Adjustment Plan laid out in our 2019 Fiscal Strategy Report, we have cautiously considered how best to manage the debt over the next five years, in an effort to reduce the debt ratio to no more than 50 percent of GDP over the next ten years, as prescribed by the Fiscal Responsibility Act, 2018.

Yes, we are departing temporarily from our original fiscal consolidation plan; however, given the options either to raise taxes higher or to cut spending

drastically, the government took what we know to be the prudent decision to raise the necessary resources through increased borrowing - and to focus this borrowing largely to fix the infrastructure and to provide direct support for persons most impacted by Dorian.

Mr. Speaker,

The Side Opposite loves to throw around misleading and bogus claims about the government's fiscal performance. They think they can scare the Bahamian people by peddling in misinformation, especially around the deficit and national debt. We are happy to compare records, because our record can stand against theirs any day of the week.

- In the first two budget cycles that the Christie/Davis Administration was solely responsible for, their cumulative deficit for 2012/13 and 2013/14 was \$1 billion
- By contrast, in our first two full budget cycles, 2017/18 and 2018/19, the cumulative deficit was \$627.7 million, and that included over \$180 million to pay off old PLP bills.
- Mr Speaker, the numbers speak for themselves. They added \$1 billion to the national debt in two years to cover their deficit shortfalls, while we were able to reduce this amount by almost \$400 million because of our effective fiscal consolidation strategy.

They are no experts on fiscal propriety, and honestly, I hate having to waste time to bring up their sorry record, but as long as they insist on spreading falsehoods, I will persist in reminding the world about their unforgivable performance as stewards of the people's money.

The Members Opposite are masters at projection. They think we don't have a plan, but that is because they are unfamiliar with planning. They claim we are borrowing by the billions, but that is because they are masters at fiscal mismanagement. While they have been talking, we have been busy reducing the PLP's massive deficit by 68% in just two years. So, let them talk with empty words, Mr Speaker. We will let our record speak for itself.

Mr Speaker,

While I am on the question of misinformation, let me address a few other questions that have come up in the media since the tabling of the Supplementary Budget.

I understand the Member for Pineridge has questions about the \$100 million IDB loan, and how these proceeds will be spent. May I remind him that we are now in a new era of fiscal transparency where all matters are disclosed for public consumption. He can go online at any time and find this information in the Fiscal Strategy Report, published on the Government's new budget website, and he can see the facts laid out in the Supplementary Budget Book. Further, he can call me at his leisure, so he has no reason to opine in the media regarding this query.

But for his benefit and the benefit of the public, let me state a few things clearly:

1. The IDB loan is one of the funding sources for our borrowing request. Specifically, we intend to draw down \$80 million from our available credit line.
2. The same is true of the \$50 million CDB loan. This amount is not separate from our borrowing resolution. The CDB is simply another funding source for our requested authorisation to borrow \$587.9 million .
3. I would have laid all of the potential sources of new financing in my statement to this House two weeks ago . The IDB loan and the CDB loan are included in these numbers.
4. There is one more thing to clear up that continues to be misrepresented: \$80 million inside this request is for debt conversion or refinancing. It is simply the Government converting short-term debt, to long term debt, as we work to manage our liabilities in a way that is fiscally prudent. This \$80 million is not new net financing that will add to our national debt.

A Temporary and Short-lived Deviation

Mr. Speaker,

Given the conduct of past Administrations, Bahamians have a legitimate reason to be concerned about a return to fiscal recklessness. The last time the country had a \$600+ million deficit, it was because the **Side Opposite** had set us on a path to fiscal ruin. For all their bluster, their track record on the subject of fiscal responsibility is only a quick Google search away.

We do things decidedly different and should not be confused with the Side Opposite. Mr Speaker, we will not use this disaster to abandon the principles of fiscal responsibility that we signed on to.

We have a proven track record of responsible fiscal management, we have a clearly articulated Fiscal Strategy, and we have a fiscal consolidation plan to guide us back towards our legally mandated targets.

As I mentioned earlier, since our coming to Office, we reduced the PLP's massive deficit by 68% in just two years. Correspondingly, the deficit ratio declined from 5.5 percent of GDP to 1.7 percent over the two-year period.

In the span of one fiscal year, this Administration slowed the growth of government debt by a full percentage point, on account of its use of fiscal discipline.

The truth, Mr. Speaker is that the Bahamian people know that the Minnis-led Government has done the hard work and exhibited the political fortitude to fix our fiscal situation. The Bahamian people now get annual fiscal strategy reports. They get comprehensive quarterly budget reports. They can go to the Government's budget website day or night and read for themselves how their tax dollars are being spent.

Remember it's the Opposition that opposed the Fiscal Strategy Report, the Council empaneled to review and comment on the Government's fiscal plans , a clear sign of their intent to return to secret and unrestrained fiscal practices.

On the other hand, by our track record, we built credibility in our fiscal planning and delivered on the commitments made to the Bahamian people and have won the commendation of ratings agencies, IMF and other objective economic observers.

Mr. Speaker,

We have not proposed these changes without a plan to get back on track with our fiscal consolidation strategy. I've said it before, but perhaps it bears repeating so that we can fully dispel this notion. I can say confidently, that at this juncture, the Government has no intention of increasing or creating new taxes!

What we are doing is:

- improving our tax administration, enhancing compliance and reducing leakage,
- digitizing the Government to make service delivery more efficient,
- introducing procurement legislation to optimize the pricing on goods and services,
- shifting to a more planned and programmatic approach to budgeting to eliminate waste in both recurrent and capital outlays,
- investing heavily in small business development to drive job creation and economic growth in the domestic economy.

In other words, Mr Speaker, we are not making haphazard decisions. We have a planned approach, unlike in the past where we saw debt spike with no plan to bring it under control; where we saw million-dollar projects start with no clear objective or discernible benefit.

That is not how we do things within this Administration. We are prioritizing policies that will maintain our fiscal health. We are investing in areas that are going to restore stability and spur economic growth now and for the future. We are spending in areas that lighten the burdens of Bahamians and residents who have suffered unimaginable loss from this tragedy. We are putting people first to get the country back on its feet as quickly as possible.

Conclusion

Mr. Speaker,

Now that we know what is before us, we can say confidently that we are not dismayed even if temporarily burdened. This unprecedented natural disaster has leveled a major blow to the people and communities of Grand Bahama and Abaco, and on the Bahamian economy nationally. The needs right now and in the foreseeable future are therefore immense. In one fell swoop, on one dreaded September weekend, all our lives changed forever. Our friends and family, our fellow citizens lost their homes, their livelihoods, their sense of security and hopefulness and, for far too many...their lives.

But beyond the dark clouds that Hurricane Dorian brought to this nation, we remain an archipelago of resilience, hope, and **strength**. This Government has made the

recovery of its people and country a key priority for the remainder of this fiscal year, and well into the medium term, as we know rebuilding will take time. We have a stable fiscal footing and strong policies that will carry us through this period of rebuilding and propel us into the future.

The potential fruits of these policies have been reinforced by key stakeholders in both the international and domestic community. Last week, the Central Bank announced that they have revised their outlook for 2020 to flat, as opposed to the mild contraction that was previously forecasted. This was backed by visible improvements in the economy, which will continue to depend on strong tourism performance in the unaffected islands, and the steady recovery of Abaco and Grand Bahama. Likewise, the International Monetary Fund (IMF) recently noted in a press release following a staff visit that gradual recovery is already underway in The Bahamas. Again, this evidences the strength of the Government's pre-Dorian fiscal strategy and supports its effective steps to proactively respond to the massive recovery effort.

Mr Speaker,

This Government will fulfill its responsibilities while maintaining our commitment to fiscal responsibility. We do not take this concept lightly. It is not just an intellectual phrase for us, or an air-filled promise for an international audience. It is a commitment to the Bahamian people to manage public resources with integrity, and in a transparent way that makes this Government accountable for exactly how these funds are used.

Fiscal responsibility is a guiding principle of this Administration's fiscal agenda, and the premise on which we will secure a large part of our socio-economic agenda. Without fiscal responsibility, our already scarce resources will be further drained. Without resources, we cannot invest in education, job training initiatives, healthcare, or renewable energy. Without investment in these initiatives, the economy will not grow.

Mr. Speaker,

A haphazard and unplanned approach to public finances is certainly not the trajectory we want to pursue for future generations. Intergenerational equality is a

guiding principle of the Fiscal Responsibility Act, which holds that future generations should not be burdened by the poor decisions of the present generation, and thereby disadvantaged in creating their own wealth. Hence, we are determined to stay true to the good work that we started, having already seen some fruit, in order to secure a sustainable future for Bahamians.

Mr Speaker,

The world is in a crisis right now as climate change continues to bring new challenges that test our faith and capacity. The Bahamas is amongst a group of small island nations that face unique threats and vulnerabilities in the face of climate uncertainty. But in our suffering, The Bahamas has become a beacon of light for the entire world. The world has seen the strength and tenacity of our people, and our determination to survive and thrive in the dueling calm and chaos of our environment.

Throughout our history we have been tested time and time again by the ferocity of nature, and every time we have built back stronger and more resilient. Hurricane Dorian will be no different..., and our story of recovery and healing...will be yet another source of inspiration for the world. Like the mysterious stillness in the eye of the storm, we are unshakable in our resolve to weather any storm we face.

The Government is a partner with the people on this assignment, and we will make the necessary investments and sacrifices to ensure we live up to our solemn oath. As I said at the outset, this budget exercise is not only about accounting for revenue and expenses, for debts and deficits. This budget reflects our commitment to stand together as one family, one nation, one people. It is a sign of our commitment to safeguard the welfare of each Bahamian citizen, for today, for tomorrow, and for our future.

I look forward to an interesting and fruitful debate.