



COMMONWEALTH OF THE BAHAMAS

**2017/18
BUDGET COMMUNICATION**

ENTERING A NEW ERA OF PUBLIC SECTOR ACCOUNTABILITY

Presented to the Honourable House of Assembly

By

**The Hon. K. Peter Turnquest, M.P.
Deputy Prime Minister and Minister of Finance**

on

Wednesday, 31st May 2017

2017/18 BUDGET COMMUNICATION

It is my honour to present the 2017/18 Budget Communication.

I. INTRODUCTION

Mr. Speaker,

A new day has dawned over our beloved Bahamaland. Our fellow citizens have voted decisively and overwhelmingly for a desperately needed and progressive change in direction.

Understandably, Bahamians yearn for a better future for themselves and their children. They want a Government that works for their benefit rather than its own. They want real progress rather than false optimism and

broken promises. Accordingly, they rightfully expect from their Government:

- strong and decisive leadership
- transparency and accountability
- prudent management of their tax dollars
- a growing economy that supports new job growth
- rising rather than stagnant wages
- Bahamian ownership opportunities
- less burdensome taxes
- a business and regulatory environment that promotes entrepreneurship
- more effective education and training systems and youth empowerment

- access to affordable and high-quality healthcare,
and
- safe and secure communities.

Mr. Speaker,

Through our 2017 Manifesto, our Government has set out a detailed and concrete agenda that will deliver the new direction that is required to secure the better future that our citizens so desperately desire. Our vision is driven, in the words of the Manifesto, by “the fundamental truth that the country will only succeed if our people succeed”. In implementing that vision, we will restore good governance and build a country that works for the people.

Going back to the first mandate of the Free National Movement in 1992, our party has had a strong and unwavering tradition of providing impeccable and effective

leadership, including transparency and accountability in governance that has served our nation well. We remained faithful to those core principles of governance through our second mandate, from 1997 to 2002, and again during our third mandate, beginning in 2007.

Our record of solid achievements while in Office speaks for itself. During the full decade beginning in 1992, we succeeded in pulling our nation out of the very deep economic decline that had stemmed from the culture of self-indulgence and poor governance of the prior Administration. At the start of the 1990s, our nation had witnessed a severe shrinkage in its Gross Domestic Product (GDP) and a concomitant sharp increase in the national rate of unemployment to shocking levels. Under FNM guidance, the economy rebounded strongly from the moribund state into which it had fallen and it posted solid and significant rates of

growth through 2002. During this period, the unemployment rate was reduced by more than half.

From the very outset of our next mandate in 2007, and on the heels of yet another five years of gross mismanagement and poor governance by the side opposite, it was left yet again to our Party to strengthen and support the country's economy and employment prospects. And this was in the face of the most pronounced economic recession in four generations. In large measure, through significant investments in major public infrastructure projects, the FNM Government was able to both provide much-needed near-term support to the economy and begin to build a stronger foundation for more buoyant growth and job creation, going forward.

Mr. Speaker,

In presenting this very first Budget of our Government's current mandate, we are once again confronted with the same challenges that have been left by our predecessors in the past. In fact, the Administration that we now replace may well have surpassed itself in the level of incompetence displayed in any of their previous mandates, as they managed to generate either zero or negative growth in the Bahamian economy over four straight years after the 2012 election. Quite astonishingly, it is estimated that the economy will still be smaller in 2017 than it was in 2012, and this, despite five years of steady population and labour force growth. That is a dubious achievement indeed that may arguably be unsurpassed in the history of our nation.

It is little wonder then that the electorate returned such a justifiably harsh and decisive verdict as it did on our predecessors' performance and fitness to govern. For it is

evident that a dismal economic performance, on such a scale over the last five years, flowed directly from the ineptitude of the previous Administration, their weak leadership and their complete disregard for the basic transparency and accountability requirements of sound governance.

In addition, their lax management of the nation's public finances, in large part through questionable and excessive expenditure, led directly to miss fiscal targets, sharp increases in the level of public debt and credit rating downgrades to "junk" status. And this has transpired, despite the sharp and significant increases in revenue that were garnered from the new Value Added Tax that they introduced in 2015, with over \$1.1 billion collected in the first two years of the tax.

Mr. Speaker,

As all will readily appreciate, the matter of those VAT dollars collected from hard-working Bahamians and, more specifically, the uses to which those VAT dollars were put, has been and remains a sore point, indeed. Despite repeated public requests and pressure on our predecessors to provide clarification on this issue, they stalled and prevaricated to the point of obfuscation.

Finally, the previous Administration relented and, only a couple of months ago, set out the details on how, in its estimation, VAT moneys were allocated and used. It was clearly evident from that presentation that those moneys were not fully dedicated to the grave need to reduce the level of Government Debt in this country. By their own admission, significant portions of the VAT dollars were used to finance some tax reductions and, more significantly, to finance new

spending on the previous Government's so-called and self-proclaimed priority spending programmes.

These programmes include \$30 million in the current fiscal year for roadside contracts in New Providence under the aegis of the Beaches and Parks Authority, \$25 million over three years for Bahamas Junkanoo Carnival and over \$10 million in consultant fees for an incomplete NHI programme.

Mr. Speaker,

I submit that those choices for the use of the large sums of VAT dollars collected did not correspond to the wishes and expectations of Bahamian citizens. In fact, they recently expressed their views on those choices and gave our Government a clear and resounding mandate to do much better in the matter of transparency, accountability and good governance.

II. OUR SOCIO-ECONOMIC GROWTH AGENDA

Strong Leadership and Prudent Management

Mr. Speaker,

With a strong and clear mandate from Bahamian citizens, our Government has come to office firmly committed to addressing the grave economic and social challenges that confront our nation. As I mentioned, we published, prior to the election, a detailed and concrete transformational socio-economic growth agenda that continues in the solid and progressive traditions espoused by our Party over the past quarter century. At its fundamental level, our plan is founded on the principles of strong leadership, ethical government, solid transparency and accountability and firm and prudent fiscal management.

Strengthened Fiscal Discipline and Public Sector Accountability

Fiscal discipline and public sector accountability will be a hallmark of our Government. For it cannot be stressed strongly enough how vital it is to our future growth and prosperity to address the grave fiscal situation that the previous Administration has left us. In their five years in Office, they failed miserably to contain spending within the means of the hard-earned tax dollars given to them by our citizens. Year after year, they failed to meet the crucial fiscal targets that they themselves had established. As a result, they continued to post large annual Deficits and an ever-growing stock of Debt.

In their five years, they incurred a total cumulative Deficit of over \$2.2 billion and the outstanding Government Direct Debt mushroomed to \$6.5 billion, or fully

71.5 per cent of GDP. That represents a five-year increase of 23.5 percentage points, arguably the single largest run-up in public debt in the history of our nation.

As an overriding priority, our Government will restore discipline and prudence to the management of the nation's public finances and we will do so in a manner that is transparent and accountable to both Parliament and our citizens. I will return later to the specific measures that we will implement to redress the public finances and secure the expeditious elimination of the Deficit, after I present the details of the actual severity of the current fiscal situation and prospects going forward.

Having said this, let there be no doubt that we will implement the vision and plans in our Manifesto. The Bahamian economy and society are in dire need of transformation if we are to secure stronger growth, new jobs

and a better life for our citizens. We will, however, pursue our growth agenda in a manner that is fiscally responsible and, in so doing, we will also ensure that the annual Deficit is steadily reduced and eliminated and the burden of Government Debt is returned to a more desirable and sustainable level

Economic Growth and Jobs

Our guiding principles for facilitating and strengthening economic growth and job opportunities are based on meaningful collaboration with, and participation of, the private sector. For a small economy such as ours to compete and prosper in today's global environment, we must build an open, productive and competitive society and economy. Sustainable growth must be driven by a judicious combination of Bahamian entrepreneurs, domestic

investment and creativity, as well as strategic foreign investment.

For its part, Government must strive to both build an efficient public sector and tailor its investments in public infrastructure to support and spur economic growth. Opportunities for productive and effective Public-Private Partnerships in the building or upgrading of public infrastructure must also be exploited.

We also believe that the strength and stability of the economy depend critically on the strength of our middle class and our small and medium sized enterprises. To that end, our Government will utilize the various instruments at its disposal to facilitate and invigorate domestic entrepreneurship, be it through its procurement and other programmes, legislation to streamline procedures and improve the ease of doing business, its leverage with the

private sector and commercial banks, as well as targeted inducements and incentives.

Our Government will also act to deliver on the longstanding need to diversify our economy beyond the dominant sectors of tourism and banking. Of course, these sectors will continue to drive our economic fortunes and we will strive to rejuvenate and strengthen the competitiveness of both. In addition, we believe that we can support the development of new opportunities in, for instance, the cultural sector, energy sector, the aviation sector, and the agriculture, fisheries and marine sector.

As well, we are firmly committed to transforming and reinvigorating our inner city communities through the encouragement of entrepreneurship and investment in those areas. Our fellow citizens in these communities must also be given access to the same basic public amenities and social

services that are enjoyed by other communities, as well as a safe and secure environment in which to live and thrive.

Revitalization of the Grand Bahama Economy

Mr. Speaker,

It goes without saying that the health of the Grand Bahama economy is vital to the strength of our national economy. Unfortunately, its economy has been poorly served by the previous Administration whose attitude and policies have sapped its energy and vitality and rendered it stagnant and depressed. That is a tragedy that must come to an end and my Government will move proactively, in concert with community stakeholders, to jumpstart and revitalize economic development in Freeport and Grand Bahama. Our 2017 Manifesto outlines several measures that will be implemented to that end, including the repeal and replacement of The Grand Bahama (Port Area) Investment Incentives Act

2016, to ensure that all licensees receive equal treatment under the law. Among other measures, we will promote the air, sea and land Business Park as a logistic hub focused on international air and sea transshipment; focus on the development of Freeport as an offshore technology hub; revitalize the tourism sector by working to create a destination brand; facilitate the further development of the medical tourism industry; and promote Grand Bahama as a primary location for the local and international film and television production industries.

Education for the Modern Economy

Mr. Speaker,

The deficiencies of our education system in effectively equipping our young people to meet the needs of a 21st Century economy are well documented. As is clearly set out in our Manifesto, we face a national skills deficit, sub-

standard numeracy, literacy and communication levels, lack of inclusiveness in education and society and chronic unemployment and un-employability.

Our Government is committed to building a knowledge-based society and will, accordingly, pursue enhanced investments in our education system and its infrastructure, in the continuous training and development of our teachers and educational professionals, and in technical and vocational training. We see a particularly important role for the private sector in education and training and will strive to facilitate its contributions in this area. We will embrace e-learning tools and will provide the students with the required computer equipment to begin the process of modernizing teaching and learning techniques.

Toward that goal, I am pleased to announce that, as a start of a new project to put technology in the hands of

every student, a \$2 million provision has been made in this Budget for electronic notepads for two of our preschools. The Prime Minister and the Minister of Education will expand on this initiative in their contributions to the Budget debate.

Access to Affordable Healthcare

As with the education system, it is equally evident that our public healthcare system has been allowed to deteriorate in recent years, with long waiting times, overcrowding, shortages of drugs and equipment and less than desirable outcomes.

To improve access to affordable and quality healthcare during our current mandate, our Government will, among the many measures set out in our Manifesto, extend the focus of NHI to secondary and tertiary care, develop a functional NHI plan with a viable catastrophic healthcare component, strive to upgrade our health infrastructure, seek

to modernize medical staff, open and modernize mini-hospitals in the Family Islands, renegotiate the procurement of drugs and medical supplies, as well as promote a quality health and wellness industry.

Safe and Secure Communities

Beyond access to effective education and affordable healthcare, Bahamian citizens also have a right to live in safe and secure communities. Indeed, that is a vital requirement for the attainment of the social and economic goals to which we all aspire. Thus, attacking the root causes of the crime problem in our society is a fundamental priority of our Government and one that we will pursue through the use of the latest, state-of-the-art technology. As explained in our Manifesto, we will target prevention, deterrence, enforcement, rehabilitation and re-integration. Among the initiatives comprising our plan of attack, we will develop a

modern and efficient crime fighting force, work with community partners to develop neighbourhood safety programmes, establish a National Intelligence Agency and a Public Sector Anti-Corruption Agency, as well as enforce Marco's Law and establish a Sexual Offenders Register. We will also strive to reform our judicial system, in order to improve its functioning and secure justice within reasonable timeframes.

Mr. Speaker,

Ours is an ambitious agenda of change for the next five years and I have merely touched on some of the more salient features of that plan. After five long years of repeated broken promises from our predecessors, Bahamians expect us to deliver on that plan and they expect concrete results.

In this Budget cycle, our Government begins the implementation of the numerous measures in our 2017

Manifesto and we will do so in a fiscally prudent and responsible manner. I will, therefore, turn to a discussion of the current fiscal position and near-term prospects. I will also review our fiscal plan over the medium-term horizon and present the fiscal objectives that we will pursue as a means of moving to eliminate the Government Deficit and return the Debt burden to a downward path.

To set the context for that discussion, I will now turn to a brief review of the global economic environment and the state of, and prospects for, the Bahamian economy.

III. THE GLOBAL ECONOMY

Mr. Speaker,

Honourable Members and Bahamians fully appreciate that The Bahamas is a small economy that is open to, and highly dependent on, the global economic environment. As such, in assessing the near- and longer-term

prospects for economic growth and employment, it is vitally important to review consensus expectations for prospective developments abroad.

It is, by now, well known that the global economic environment has remained difficult and challenging since the Global Recession of 2008-09. The recovery of growth rates in both the major and developing economies has been more modest than in previous post-recession expansions, partly reflecting the severe financial strains, in both the private and public sectors, that have surfaced and that continue to dampen near-term economic prospects.

At the same time, we are witnessing the impact of several so-called structural impediments that are weighing down prospects for growth over the medium-term horizon. These structural factors relate to ageing populations and weaker than desired investment and productivity growth.

Policymakers around the globe thus face the very daunting challenge of stimulating near-term demand and growth and supporting longer term supply-side expansion of potential growth, all the while confronting, in many cases, the need to address persistent fiscal imbalances and debt burdens.

It is against this backdrop that the International Monetary Fund (IMF) recently published its latest World Economic Outlook in April of this year. The projections for the growth of the world economy, and that of the U.S., in particular, as our dominant trading partner, provide the foundation on which we can assess realistic prospects for the potential growth of our own domestic economy and, in turn, job creation.

However, I wish to stress that, unlike our predecessors, our Government does not view this as the end of the story. Nor do we intend, as they were inclined to do, to

artificially embellish the outlook to present “pie-in-the-sky” forecasts for growth and jobs.

Our view, as responsible policymakers, is that, while prospects for the global and U.S. economies do set general parameters for growth in The Bahamas, we can do much better on the growth and jobs front through our own proactive and aggressive agenda of economic and social transformation. We see clear examples of nations in the region that have implemented policies and programmes to enhance the productivity and competitiveness of their economies. We, as well, can and must act to significantly improve the productivity and competitiveness of our major economic sectors and thereby gain valuable market share. So, despite weaker than optimal global growth, a small economy such as ours can do better through the judicious implementation of supply-side policies that will enhance the

skills and training of our workforce and support the growth of the private sector. In this respect, we are committed to replacing the empty boasts of misplaced optimism of our predecessors with concrete policy actions that are clearly focused and targeted on real economic improvement in the lives of Bahamians.

As for the latest global outlook, the IMF is now forecasting slightly stronger growth in the near term than it had at the time of its previous forecast in October of last year. On the heels of 3.1 per cent real growth in 2016, the Fund now foresees global economic growth on the order of 3.5 per cent this year and 3.6 per cent next year. This very modest improvement reflects the early signs of a long-awaited recovery in investment, manufacturing and world trade.

However, while confidence and market sentiment have concurrently become somewhat more buoyant, thus

bolstering short-term prospects, the Fund remains less bullish on medium-term growth prospects. In this area, it is felt that growth could be significantly constrained by ongoing low productivity growth and the persistent high inequality of incomes that has arisen in recent years. In turn, the Fund notes that these problems have bolstered pressures for inward-looking policies in the major advanced economies, potentially further dampening prospects for world growth.

Against this background, the IMF thus asserts the need for appropriate policies to boost and secure the recovery beyond the near-term. Such policies include structural reforms to enhance productivity, targeted infrastructure spending and other supply-side enhancing measures, support for workers displaced by technological and trade-related changes and credible policies to reduce the burden of public

debt. That is a sensible, though daunting, prescription for what will be required on the part of policymakers globally.

For its part, our Government fully recognizes the need for just such a proactive, targeted and fiscally responsible approach to bolstering growth. As I outlined earlier, our 2017 Manifesto sets out, in detail, the actions that we plan to implement and pursue during the course of our current mandate to achieve more buoyant growth and enhanced job opportunities for our country.

As for the U.S. economy, the IMF forecast calls for slightly stronger growth in both 2017 and 2018 than it did six months ago. This reflects increased momentum from the second half of 2016 that is driven by a near-term cyclical recovery in consumption growth and the prospects of more expansionary fiscal policies that have boosted financial market and business confidence.

Projected growth in the Euro area this year and next is in line with the mild performance last year, stemming from modestly expansionary fiscal policies, a weaker Euro and the spin-off effects of the U.S. expansion. These factors supporting growth are counterbalanced by ongoing uncertainty from political developments in several countries, as well as from the EU's future relationship with the U.K. Real growth in the Euro area in 2017 and 2018 is thus pegged at the ongoing modest rates of 1.7 per cent and 1.6 per cent, respectively.

Projected growth of the U.K. economy, at 2 per cent this year and 1.5 per cent next year, is dampened by the effects of BREXIT (the withdrawal of the U.K. from the EU), through potential future trade barriers, the possible downsizing of the financial services sector and potential barriers to cross-border financial activity.

Canada's economy is expected to benefit in the short-term from somewhat more buoyant growth in the U.S. and the appreciation of the U.S. dollar. Real growth is forecast at 1.9 per cent in 2017 and 2 per cent in 2018, still relatively modest by historical norms.

The Chinese economy is also poised to perform somewhat more modestly than in previous years, although growth of 6.6 per cent and 6.2 per cent is still projected for 2017 and 2018, respectively. Positive factors in this outlook include an expected ongoing policy support through stronger credit growth as well as public investment targeted to achieve the Government's growth objectives.

The IMF projects a weaker than anticipated recovery in the Latin American and Caribbean region, with forecast growth of 1.1 per cent in 2017 and 2 per cent in 2018. Of note, these growth rates are marked down by 0.5 per cent

and 0.2 per cent, respectively, from only six months ago. In this regard, the Fund notes that domestic fundamentals in some large countries in the region continue to play an important role in constraining growth. As well, the outlook for Mexico, one of the largest economies in the region, has weakened by over one-half a percentage point in both 2017 and 2018. According to the Fund, this is linked to subdued prospects for investment and consumption, due to increased uncertainty about U.S.-Mexico trade relations.

IV. THE BAHAMIAN ECONOMY

I now turn to recent domestic economic developments and prospects for the future. In this context, I would note that the Department of Statistics has delayed the publication of data in respect of the Gross Domestic Product and its components until June of this year, as the Department

is finalizing a major revision and update exercise of the National Accounts.

As I mentioned earlier, our domestic economy has not performed to the levels required of a nation such as ours with a relatively healthy growth of both the population and the labour force. In fact, the level of total output in our economy has either remained stagnant or has declined every year after 2012.

In 2015, real GDP shrank by 1.7 per cent and last year it is estimated to have been virtually unchanged from the prior year.

Some degree of momentum in economic activity last year was evidenced in construction related output that was supported by a number of foreign investment projects in both New Providence and the Family Islands. While the domestic construction sector remained soft, it did receive a temporary

boost in the wake of Hurricane Matthew with the rebuilding of residential and commercial properties and repairs to public infrastructure.

Otherwise, the softness of the construction sector, as a whole, was reflected in total mortgage disbursements for new construction and repairs, which declined by almost 7 per cent, following a gain of 24 per cent in 2015. As for the two main components of the sector, the residential element contracted by 3 per cent last year, while the commercial segment decreased sharply by 51 per cent, and this on the heels of a 35 per cent downturn in 2015.

Activity in the important tourism industry improved only modestly in 2016. While overall arrivals increased by 2.5 per cent to 6.3 million, the significant high-value stopover segment of the market barely improved, with air arrivals up by only 0.1 per cent to 1.4 million. Of course,

the latter is the segment that is of particular significance for economic activity and employment in our country. However, the data unfortunately show that the level of stay-over visitors has essentially remained stagnant over the past twenty years, at or around the level recorded last year. Such lackluster performance is quite simply unacceptable and pales in comparison to the significant gains recorded in other major tourist destinations in the region.

Conditions in the labour market did improve modestly last year, although this reflected the temporary hiring related to the hosting of several international events, as well as one-off hiring for reconstruction in the wake of the hurricane.

Despite these near-term developments, the national rate of unemployment remains at an unacceptably high level of 11.6 per cent in November 2016. That is still a

far cry from the unemployment rate of 6.9 per cent that was recorded in 2001, during the favourable days of a previous FNM Administration.

Within the nation, the jobless rate stood at 12.9 per cent in New Providence while, in the second and third largest markets of Grand Bahama and Abaco, unemployment represented 13.3 per cent and 9.1 per cent of the labour force.

More troubling still, from both an economic and a social perspective, is the fact that our economy has not been able to generate sufficient new job opportunities for the youth of our nation. As I stressed earlier, our Government will address the scourge of youth unemployment, in collaboration with stakeholders, through specialized programmes focused on building essential job-related skills to enhance employability.

Consumer price inflation last year remained muted, actually falling by 0.35 per cent, largely due to lower international oil prices, alongside the expected tapering of the pass-through effects of the VAT following its implementation. This outcome compared favourably to the 1.9 per cent rise in prices recorded in 2015.

As a result of world oil price developments, domestic fuel costs fell in 2016, with the average price of diesel and gasoline declining by 10.5 per cent and 10 per cent, respectively. This also translated into a reduction in the average fuel charge of Bahamas Power and Light, by over 50 per cent to 9.8 cents per kilowatt hour in September. However, during the first quarter of this year, domestic fuel costs rebounded with both gasoline and diesel prices up by roughly 15 per cent, due to efforts by the major world producers to restrain supply.

As for the Balance of Payments, the Current Account deficit declined slightly in 2016, to a level of \$1.1 billion, benefitting from re-insurance inflows to finance post-hurricane reconstruction. The merchandise trade deficit shrank by almost 12 per cent to \$2.3 billion, largely due to a fall in both non-oil and net fuel imports.

The surplus on the capital and financial account narrowed from \$350 million in 2015 to \$33 million last year. Influential in this development was the repayment of net short-term liabilities by the commercial banks, to the tune of \$306 million. Net public sector loan inflows more than doubled to \$211 million, partly due to the receipt of the proceeds of the Government's US \$100 million loan.

External reserves rose by \$92 million during 2016 to a level of \$904 million. At end-December, they

represented 16.8 weeks of total merchandise imports, up from 13.3 weeks in 2015.

As for other monetary developments, bank credit quality improved significantly last year, due to the sale by one institution of several tranches of its non-performing portfolio. As well, the commercial banks continued their ongoing loan restructuring activities.

Based on these developments, total private sector loan arrears fell sharply by 17 per cent to \$1.0 billion and the ratio of arrears to total loans was lowered by over 3 percentage points to 17.1 per cent. These trends continued through the first quarter of 2017, as total private sector arrears fell by a further 2.6 per cent.

The near-term outlook for domestic economic activity appears modestly positive in 2017, with the phased opening of the Baha Mar resort and the ongoing support

provided by other foreign investment-led projects. Projected developments in the U.S., as I mentioned earlier, will also provide modest stimulus to economic activity in the short-term.

In its latest World Outlook, the IMF projects the Bahamian economy to expand by 1.4 per cent this year, followed by 2.2 per cent in 2018. However, such growth in the near term reflects developments in the tourism sector with the opening of Baha Mar providing a boost over a couple of years.

Going forward, real growth of the economy is expected to be restrained by the ongoing influence of structural impediments, such as the ease of doing business and skill mismatches, with the rate of growth receding to around 1.3 per cent per year at the start of the next decade.

It is precisely these types of unacceptable and inadequate economic growth trends that are of critical concern to our Government. We are thus firmly committed to delivering on the commitments that are set out in our 2017 Manifesto and pursuing our stated policy initiatives to address the important structural impediments to stronger growth and job creation.

We can do better than the growth rates projected by the IMF; we must do better; and we will do better.

V. FISCAL PERFORMANCE IN 2016/17

I now turn to fiscal performance in the 2016/17 fiscal year.

I would stress, at this juncture, with our very recent coming to Office that it is not for me to attempt to justify the actions of our predecessors, nor the fiscal impacts

of those actions. However, for the sake of transparency and understanding on the part of the Bahamian public, I do want to describe the facts of the fiscal situation objectively and as they present themselves.

To foreshadow what I am about to discuss, let me be quite blunt: the fiscal situation in the current fiscal year is far bleaker than we could ever have imagined. Our predecessors have literally left us with a cupboard that is bare.

The stark facts are as follows. The Deficit outturn in the current fiscal year features a significant deterioration as compared to the fiscal projections contained in the previous Administration's final Budget. While they had forecast a GFS Deficit of \$100 million, the actual outturn is now expected to be on the order of \$500 million. That is an astonishing five times the Budget forecast of only twelve months ago. The sharp deterioration in the state of the public

finances in 2016/17 did admittedly flow, to some extent, from the multi-faceted impacts of Hurricane Matthew in early October 2016. On one hand, the hurricane severely dampened economic activity in October, with the impact extended and through to the fourth quarter of the year. As a result, it is estimated that real GDP in 2016 posted a zero rate of growth for the year as a whole, as compared to the Budget forecast of 0.5 per cent growth. This directly weakened revenue collections.

Recurrent Revenues were also reduced through the effects of the exigency order implemented by our predecessors, as a means of providing relief to those impacted by the hurricane. In combination, these factors resulted in a shortfall in Recurrent Revenue collections to the tune of \$216 million, to a level of \$1,960 million vs. the \$2,176 million budgeted. Weaker revenues thus account for a significant

portion of the \$400 million slippage in the GFS Deficit in the current fiscal year.

Hurricane Matthew also affected the expenditure side of the Budget, through the actions implemented by the Government to assist in the rebuilding efforts and the repair of public infrastructure. For example, the capital expenditures of the Ministry of Public Works were bolstered by over \$55 million above and beyond its Budget allocation. Total Capital Expenditures thus amounted to \$310 million vs. the \$242 million budgeted.

In addition, Recurrent Expenditures during the year amounted to some \$137 million more than had been forecast, i.e., \$2,458 million vs. \$2,321 million. Key contributors to this increase were a higher level of Debt Redemption, at \$21 million, as well as higher interest payments on Government debt, at \$27 million.

Total Government Direct Debt at the end of the 2016/17 fiscal year is estimated to amount to \$6.5 billion, or 71.5 per cent of GDP.

However, that is not the end of the story in the current fiscal year. It is also important to note that the combination of revenue shortfalls and accelerated spending has contributed to a greater than usual backlog of payments and commitments as we approach the end of the fiscal year. The latest information has this backlog in excess of \$300 million and it is possible that this number could increase before the end of the year as we get a greater understanding of the many deals of the former Administration. This high level of outstanding payables is directly responsible for the Government seeking emergency funding to meet the obligations of the 2016/2017 budget, as vendors are clamoring for payments. It is our intention to fully pay all of

this backlog of payments and commitments this fiscal year and minimize, to the greatest extent possible, any carryovers into the 2017/18 fiscal year.

I would also stress that this funding does not indicate insolvency but rather gross imprudence in the management of the fiscal affairs by our predecessors, as demonstrated by the large amount of financial commitments made in the run-up to the General Election.

VI. REVENUE MEASURES IN THIS BUDGET

Mr. Speaker,

Before I turn to a review of the fiscal outlook for the 2017/18 fiscal year and beyond, it is appropriate that I first begin with a discussion of the various revenue measures that are being announced in this Budget Communication, as these will have a direct impact on the Government's projections for

Recurrent Revenues going forward. Specifically, I am today announcing a number of revenue measures that are designed to:

- provide prompt effect to some of our Government's commitments to Bahamians;
- provide further tax relief to consumers and businesses through customs and excise duty rate reductions; and
- enhance administration and compliance in respect of our major taxes.

The details on these various measures are set out in an Annex to the Budget Document. Needless to say, the extent of tax relief that we are responsibly able to announce at this time is severely constrained by the very grave fiscal position that we have inherited from the previous Administration. The implementation of the other tax relief

commitments in our Manifesto must therefore be deferred until we have succeeded in putting in place the measures that will result in a more sustainable fiscal structure that leads to the elimination of deficit financing and a lower burden of debt.

Commitments to Bahamians

As for the measures that respond immediately to our commitments to citizens and businesses:

- we are reducing the rate of Business License tax from 1.5 per cent to 1.25 per cent of turnover and, for hotels with turnover exceeding \$400 million, from 1.25 per cent to 1 per cent of turnover, the latter to follow through on a commitment of the previous Administration to Brookfield, the owners of Atlantis; this arrangement also calls for further reduction in their

business licence fee in the next year and reductions in duty on salmon and shrimp;

- we are extending the City of Nassau Revitalization Act for a further year, to June 30, 2018;
- we are extending the Family Island Development Encouragement Act for a further year, to June 30, 2018; and
- to facilitate access to medical supplies and equipment, we are eliminating Customs duties on products such as: X-ray machines and parts; breathing apparatus and masks; ophthalmic instruments and appliances; blood grouping reagents; nutritional preparations for tube feeding; dental cements and fillings and bone reconstruction cements; medical gel; sterile tissue adhesives; and parts for carriages for disabled persons.

Further Tax Relief Measures

Within the measures that we are implementing to provide further tax relief to individuals and businesses:

- we are eliminating or reducing import duties on a number of food and beverage products, including: milk, yogurt and ice cream; bread, cakes, pastries and chips; salmon fillet; shrimp and prawns; pastas and pizza sauce; fruit drinks; canned or preserved vegetables; jams, fruit jellies and marmalades and fruit or nut purees; mixtures of fruits and nuts; and soy sauce;
- we are eliminating or reducing import duties on a number of personal care and other personal products, as well as household items, including: shampoo; hair products; soap; toilet tissue; low-flow shower heads; sunglasses; exercise and gym equipment; clothes hangers; shoe parts; water heater parts; sound and video

equipment parts; microphones; massage apparatus; fans and air purifiers; toys; primary cell batteries; lead acid accumulators batteries; rodenticides and insecticides; and tires and inner tubes and paints;

- we are eliminating or reducing import duties on a number of building materials, including: sheets of veneers; wood flooring of various materials; wooden forms for concrete pouring; wooden posts and beams; asphalt shingles; Durock and cement panel boards; and other cement panels and sheets;
- we are reducing the excise duty on electric motorcycles, from 65 per cent to 25 per cent;
- we are providing duty exemption on equipment and machinery specifically designed for ground repair,

maintenance and service of cruise ships and sea vessels that conduct domestic and international travel;

- we are providing duty exemption on imported original artwork, once approved under the conditions outlined by the National Art Gallery.

Enhancing Tax Administration and Compliance

We are introducing measures that seek to enhance tax administration and compliance, thereby securing Government revenues. Specifically, we are amending the Customs Management Act to add definitions in the Interpretation Section of the Act to better accommodate a paperless Customs process.

VII. FISCAL POLICY IN 2017/18 AND BEYOND

The 2017/18 Fiscal Year

As for the fiscal outlook going forward, I want to signal that the expenditure figures that are presented in the Estimates tabled here today represent the outcome of ongoing work at the Ministry of Finance in collaboration with the various Ministries and Departments. It should go without saying that, since our Government has only very recently come to Office, we simply have not had the time required to perform an in-depth and thorough review and assessment of both Recurrent and Capital Expenditures, nor of the efficiency and effectiveness of our revenue system. I will return to these issues shortly.

With that in mind, I now turn to a discussion of the projected fiscal situation in the 2017/18 fiscal year.

Recurrent Expenditure next year is posted at a level of \$2,676 million, which represents an increase of \$218 million over the \$2,458 million outturn for 2016/17.

A significantly higher level of Debt Redemption of \$125 million, from \$308 million to \$433 million, accounts for the lion's share of the spending increase—and is primarily explained by refinancing activities.

Of the remaining rise in Recurrent Expenditure, of \$93 million, the following increases are noteworthy:

- \$40 million to the Ministry of Health for the NHI Authority;
- within the Ministry of Public Service and National Insurance, \$35 million for medical insurance premiums; \$16 million for pensions; \$6 million for gratuities; and \$10.6 million for office rent;
- for the Royal Bahamas Police Force, \$5.6 million to cover the balance of overtime payments; and

- overall the budget includes a \$27 million increase for persons engaged during the 2016/2017 fiscal year, \$8 million for increments and \$7.5 million to accommodate payments as per industrial agreements with various public sector unions.

As these other increases total some \$155 million, it may be seen that, in reality, we have held the line on expenditure and are accommodating only the highest priority obligations.

Capital Expenditure in 2017/18 is projected at \$230 million, down from the hurricane-impacted level of \$310 million in 2016/17, to represent 2.5 per cent of GDP, which is fully in line with historical trends.

For its part, Recurrent Revenue for 2017/18 is projected to return, post-hurricane, to the trend ratio to GDP that had been targeted through the previous Administration's

programme of revenue reform, including VAT implementation. Accordingly, with the somewhat more buoyant growth in the economy that is projected for both 2017 and 2018, and including the fiscal impact of the revenue measures in this Budget, Recurrent Revenue is forecast at \$2,150 million in the coming fiscal year, up \$190 million from the previous, depressed year.

On the basis of these projected fiscal developments, the GFS Deficit in 2017/18 is targeted at \$323 million, or 3.5 per cent of GDP. While that is a marked improvement from the estimated \$500 million deficit recorded this year, it is still higher than the \$310 million deficit posted in 2015/16.

With an ongoing Deficit of the magnitude projected for the upcoming year, the level of the Government

Direct Charge is forecast to reach \$6.8 billion at the end of 2017/18, or a new all-time high of 72.7 per cent of GDP.

Fiscal Policy Beyond 2017/18

The fiscal projections for the two years beyond 2017/18 that are set out in the Budget documentation are essentially straightforward extrapolations on the basis of current trends and the assumption of a so-called “status quo” policy stance. In essence, this represents a base case scenario that will inform our Government as to the appropriate and fiscally prudent choice and phasing of its policy interventions for stronger growth and job creation going forward. It will also guide us as to the fiscal actions that will be needed to achieve our priority objective of eliminating the GFS Deficit as soon as is practicable and getting the burden of Government Debt to more sustainable levels.

In the multi-year scenario, Recurrent Expenditure is projected lower by some \$200 million, in each of 2018/19 and 2019/20, to levels in the area of \$2,450 million. This is largely due to significantly lower Debt Redemption payments each year.

Capital Expenditure is projected to remain around 2.3 per cent to 2.4 per cent of GDP in the outer years, with annual levels on the order of \$230 million, essentially unchanged from 2017/18.

For its part, Recurrent Revenue is assumed to remain at 23 per cent of GDP going forward, implying levels on the order of \$2.2 billion and \$2.3 billion in 2018/19 and 2019/20, respectively.

As a result, the GFS Deficit may be expected to decline steadily to levels of \$228 million in 2018/19 and \$106

million in 2019/20. That would represent 2.3 per cent and 1.1 per cent of GDP, respectively.

With these developments, the level of Government Debt would still continue to rise, reaching \$7.1 billion at the end of the projection horizon. However, with the smaller annual Deficits that are projected, the ratio of Government Debt to GDP would begin to decline in 2018/19, from the peak of 72.7 per cent in 2017/18, and would reach 70.8 per cent of GDP in 2019/20.

Having said all of this, I do want to stress once again, for the sake of both Honourable Members and the Bahamian public, that the mandate given to us by our citizens features a clear and unequivocal commitment to fiscal discipline and prudence. While our transformational growth agenda is visionary and critical to the creation of a better future for our citizens, the very grave condition of our nation's

public finances mandates that we give the utmost priority to getting our fiscal house in order. That is critical to any success that we hope to achieve on the growth and jobs front; ignoring the state of our finances would have deleterious consequences for the viability of our agenda and future prospects for the Bahamian society and economy.

Our Government is thus committed, as a first priority, to working diligently in the months ahead to improve on the fiscal situation and prospects that have been left to us. To that end, we will take action on several fronts over the next three months, namely:

- we will undertake a judicious and in-depth review of Government expenditure programmes to determine where and how value for money can be enhanced, how effectiveness and efficiency of service can be improved and where savings and reallocations can be

secured to both finance the Government's policy priorities and facilitate a more expeditious reduction and elimination of the GFS Deficit;

- as was announced in the Speech from the Throne, we will strengthen the accountability and transparency of the fiscal operations of Government in the Ministry of Finance as such we have embraced and would vigorously implement the IDB funded Public Financial Management project details of which are on the Government's website;
- also as part of this initiative, to bring transparency and accountability to the Government's fiscal operations we intend to table in Parliament a full list of financial subsidies provided to developers so the Bahamian

public can see not only where the VAT money has gone but where all of the tax money has gone;

- we will also seek to reduce these subsidies to an irreducible minimum and apply a very rigid test on future requests for financial subsidies to ensure that more money is available to finance the operations of the Government;
- this budget includes funding in the amount of \$429 million for 25 SOEs. This is \$79 million more than last year, primarily because of the introduction of National Health Insurance. As this is clearly unsustainable, this Administration will develop concrete action plans to transform these enterprises either into viable, efficient and self-sufficient entities

or transfer them to the private sector and use any gains from these transactions to retire debt;

- in a further effort to enhance accountability and transparency in Government, we are implementing rules and procedures, through the Constituency Capital Grant Act, to govern the use by MPs of their annual \$100,000 constituency capital grant allocation;
- we will introduce Fiscal Responsibility legislation that would make it difficult for future administrations to incur deficits unabated. This law would also prevent Ministries and Departments from introducing new spending initiatives in-year without identifying the requisite financing from within their Budget allocations;

- we will introduce Public Procurement Regulations to support the amendments to the Financial Administration and Audit Act. These amendments will make it mandatory for the Government to use transparent bidding procedures when it acquires goods or services from the private sector. It will also mandate a certain percentage of Government procurement being available for small and medium sized businesses;
- we will also introduce legislation to strengthen the Office of the Auditor General and provide it with the resources necessary to effectively and properly discharge its responsibilities as mandated by the Constitution, without any undue interference from the Government; and

- we will introduce Revenue Administration legislation which, if approved, would formally create the Department of Inland Revenue and strengthen the Government's enforcement powers and revenue collections. Individuals and businesses should be alerted that, in this new era of accountability and transparency, this Government will adopt a zero tolerance approach to those who do not pay their taxes. We will be fair and transparent in our enforcement efforts but we will also be decisive.

Mr. Speaker,

As we move into the coming fiscal year, we are committed to implement the in-year fiscal adjustments that are necessary to achieve our deficit and debt reduction objectives. A core target will be to secure a lower Deficit in

2017/18 than is currently projected, as well as a lower trajectory for the Deficit, going forward. To that end, we will strive to eliminate the primary deficit of \$31 million that is currently projected for the coming fiscal year and, to the extent feasible, achieve a primary surplus.

VIII. CONCLUDING REMARKS

Mr. Speaker,

In conclusion, I want to reiterate that our Government and the nation are off to a fresh start after five years of mismanagement and poor governance by the previous Administration. We promised a change of direction, enhanced transparency and accountability and good governance. We are firmly committed to the implementation of a progressive, transformational agenda for strengthened economic growth and job creation.

As I have explained, however, we come to office from a starting position of very difficult fiscal challenges and a historically high burden of Government Debt.

In this Budget Communication, I have set out our Government's economic and fiscal plan for the coming fiscal year and beyond, fully taking account of the fiscal constraints that we face. I have made it clear that, as prudent fiscal managers, we will pursue our agenda of change in a proactive and responsible manner while, at the same time, according due priority to the need to eliminate the Government Deficit and return the burden of Government Debt to more sustainable levels.

The balancing of the many challenges and priorities before us may seem daunting, but, as we have demonstrated in the past, we clearly measure up to the task. Indeed, we have a solid track record of success in

reinvigorating growth and jobs, while restoring order to the public finances. We are steadfastly committed to doing so again and we pray for the guidance of Almighty God as we move ahead to build a better future for all.