



THE COMMONWEALTH OF THE BAHAMAS

2019 FISCAL STRATEGY REPORT

TABLED IN THE HONOURABLE HOUSE OF ASSEMBLY

BY

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DEPUTY PRIME MINISTER AND MINISTER OF FINANCE

ON

WEDNESDAY NOVEMBER 20, 2019

Mr. Speaker,

It is an honour to table the Government's 2019 Fiscal Strategy Report (FSR). As mandated by the Fiscal Responsibility Act, 2018, the Government is obliged to present the FSR to Parliament and the newly established Fiscal Responsibility Council, by the third Wednesday of November, which is today.

The Fiscal Strategy Report outlines the macroeconomic and fiscal outlook that will guide the framework for the upcoming budget—in this case being FY2020/21, and the medium-term horizon.

The context for this Fiscal Strategy Report is quite different from the previous one, as it comes on the heels of the strongest and most destructive storm ever recorded in the Atlantic Ocean, which, in early September 2019, decimated parts of the northern Bahamas, leaving behind total damages, losses and additional costs estimated at \$3.4 billion. For the Government, Hurricane Dorian has been a stark reminder of our vulnerability as an island nation to climate change. It is a reminder that the best of fiscal plans can be usurped by external factors outside of our control.

The Government's commitment to fiscal discipline has been steady and unquestionable. In the two years leading up to Hurricane Dorian, the Government achieved success in its fiscal consolidation plans, by reducing the deficit from \$660.0 million in FY2016/7 to \$212.8 million in FY2018/19—the lowest deficit recorded in nearly a decade.

It is clear that the impact of this monstrous and unprecedented hurricane will prevent the Government from achieving the fiscal objective for the overall balance of 1.0 percent for FY2019/20, and the deviation will exceed the 0.5 percent compliance margin allowed in the Fiscal Responsibility Act, 2018. As such, the Government is invoking the Exceptional Circumstances clause (13), which allows for a temporary departure from the fiscal targets because of exceptional events. Under this clause, the Minister of Finance is mandated to bring to Parliament and the Fiscal Responsibility Council a Fiscal Adjustment Plan, which should outline the reason for the departure from the fiscal targets—which, in this case, is due to Hurricane Dorian; measures to be taken to address the issues, and a revised timeline for achieving compliance with the targets.

Due to the timing of Hurricane Dorian, the Government is presenting the Fiscal Adjustment Plan within the 2019 Fiscal Strategy Report, as permitted in the Fiscal Responsibility Act.

Mr. Speaker,

The expenditure, revenue, and corresponding deficit targets for FY2019/20 have been changed, given the additional costs associated with the provision of social assistance programmes and restoration and reconstruction activities in the aftermath of Hurricane Dorian. These direct expenditures are compounded by the estimated \$236 million in revenue losses on account of the disruption in business activity on the affected islands of Abaco and Grand Bahama. As such, the

projected revenue yield for FY2019/20 has been adjusted downwards from the approved estimate of \$2,628.0 to \$2,395.6 million.

On the expenditure front, the Government expects to spend an additional \$182.7 million in hurricane related outlays—of which \$82.7 million will be used to facilitate recurrent expenses such as landfill operations for cleanup, food assistance programmes, and unemployment benefits, among others. Capital expenditure is anticipated to increase by \$100.0 million for hurricane initiatives, which will include the restoration of water and electricity in Abaco and Grand Bahama, the provision of temporary housing, vehicle replacement, and other repairs to critical infrastructure, such as hospitals and clinics on the storm-ridden islands.

Mr. Speaker,

The Government has also identified several spending imperatives, aggregating nearly \$120 million for FY2019/20, which represent urgent priorities and are critical to stable governance of the public sector and the provision of much needed infrastructure improvements.

Thus, in total, aggregate expenditure is estimated to increase by \$302.6 million in FY2019/20 to \$3,073.1 million, as compared to the \$2,765.0 approved estimate.

As a result, we now estimate the fiscal deficit to stand at \$677.5 million, or 5.3 percent of GDP for FY2019/20 compared with the approved estimate of \$137.0 million or 1.0 percent of GDP.

Mr. Speaker,

To finance the increased deficit position, the Government will table new resolutions to Parliament for approval to borrow \$507.9 million—which is the \$540.5 million adjustment in the fiscal deficit for FY2019/20 net of the payouts from the Caribbean Catastrophic Risk Insurance Facility (CCRIF) of \$12.9 million and the \$20 million earmarked from the extinguished dormant accounts fund. Aside from the \$100 million, IDB Contingent Loan for Natural Disaster Emergencies, which has already been approved by Parliament, the Government intends to source funding from the domestic banks, which have already provided positive indications of their willingness to provide new credit facilities; the Caribbean Development Bank which has given an initial loan amount indication of \$50.0 million, and other offshore lending institutions. I wish to point out that the steps that the government had taken prior to the storm—over the opposition of some—to re-establish catastrophic insurance, to establish the IDB line of credit for disaster response, and the allowance to make use of extinguished funds from the dormant accounts, all of these have allowed the government to have the financial facilities to undertake urgent expenditure with little disruption to existing services.

The legislative measures to fund the deficit will be tabled in approximately two weeks, with a Supplementary Budget, to address in an orderly and transparent manner the extraordinary expenditures and revenue losses associated with the passage of Hurricane Dorian, together with

the identified pressing expenditure requirements to be met over the current budget and the medium-term fiscal horizon.

Over the medium term, it is anticipated that Hurricane Dorian and other spending imperatives related costs will taper, allowing for lower deficits beginning in FY2020/21, which will see a reduction in the deficit to \$498.9 million from \$677.5 million, with further reductions occurring in FY2021/22 to \$301.2 million and eventually to \$82.0 million in FY2024/25, when the Government is expected to return to compliance with a deficit ratio of 0.5 percent. And how do we intend to do this?

Mr. Speaker,

It is important to note that, in the aftermath of Hurricane Dorian, the Government has integrated into the current budget year and the medium term a number of policy initiatives that will serve to incentivize and ignite economic recovery and growth. Among these initiatives is the designation of the Special Economic Recovery Zones (SERZ) in Abaco and Grand Bahama, facilitating an extension in NIB unemployment benefit payments, invoking the Exigency Order, and injecting an additional \$10 million in Micro, Small and Medium Sized Enterprises (MSMEs). Furthermore, the Foreign Direct Investment Projects (FDI) poised for Grand Bahama such as the redevelopment of the Grand Lucaya properties and the new cruise port are anticipated to boost economic activity in the near term.

Mr. Speaker,

In closing, I wish to reiterate that the impact of Hurricane Dorian has imposed huge fiscal costs on the Government, resulting in a temporary deviation from the fiscal objectives in the Fiscal Responsibility Act. As a responsible Government, we have devised several supportive initiatives important for the resumption of growth and employment in the affected islands of Abaco and Grand Bahama. With the measures I have outlined earlier, we now anticipate returning to compliance in FY2024/25, which will allow the debt to GDP ratio to resume its downward trajectory towards the 50 percent target by FY2028/29.

Despite the impact that Hurricane Dorian has had on our nation, both socially and economically, we will not be derailed. The recovery of our people and our economy is a key priority of this Administration, and we will continue to create policies that will be beneficial to the citizens of the Commonwealth of The Bahamas. Notwithstanding, we will remain committed to fiscal responsibility, and to converging with the established fiscal objectives outlined in the Fiscal Responsibility Act. We do not regard this experience with Hurricane Dorian as an opportunity to spend wildly, but to target our resources towards achieving enhanced macroeconomic resilience as we rebuild a better, stronger, Bahamas.

Thank you.