6-MONTH FISCAL SNAPSHOT

on Budgetary Performance

THE BAHAMAS
MINISTRY OF FINANCE

JULY-DECEMBER

Fiscal Year '18/19

FULL REPORT ONLINE: WWW.BAHAMAS.GOV.BS/FINANCE

Fiscal Balance

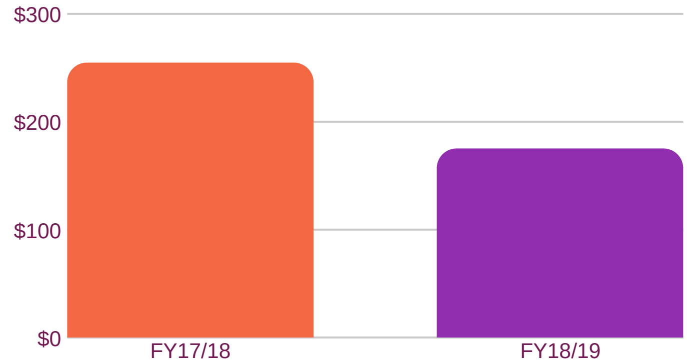
Revenue increased by $129.5M in the first six months of Fiscal Year (FY) 2018/19, representing a 14.7% year on year (YOY) improvement when compared to the first half budget performance in FY2017/18.

Overall expenditure increased by $49.9M, accounted for by a $93.9M increase in recurrent expenditure and a $44.1M decrease in capital expenditure. The settlement of payment arrears contributed $65.1M of the recurrent expenditure increase. In FY2017/18, the capital expenditure was inflated due to the extraordinary booking of $55.2M for the $100M Bahamas Resolve Promissory note to the Bank of The Bahamas.

DEFICIT POSITION

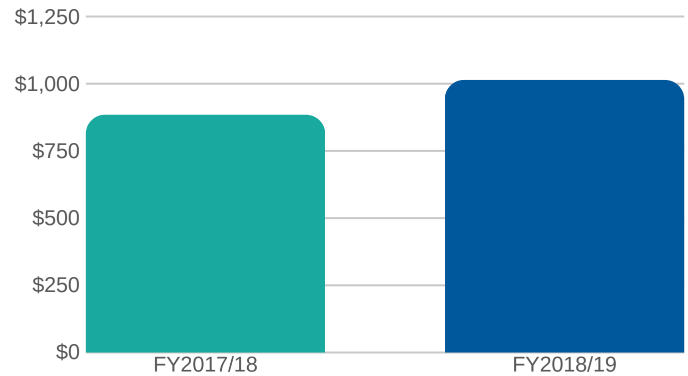
$174.3M

YOY Performance Comparison
6-Month Deficit



YOY Deficit reduced by 31.4%

YOY Performance Comparison
6-Month Revenue



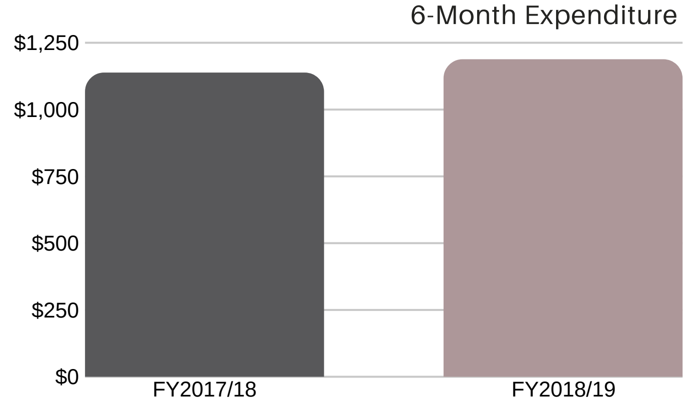
YOY Revenue increased by 14.7%

REVENUE

$1,010.3M

The improved YOY revenue performance is largely associated with higher receipts of value added tax (VAT) and stamp tax on financial and realty transactions. **Revenue collections equated to 38.1% of the annual budget target.**

YOY Performance Comparison
6-Month Expenditure



YOY Expenditure increased by 4.4%

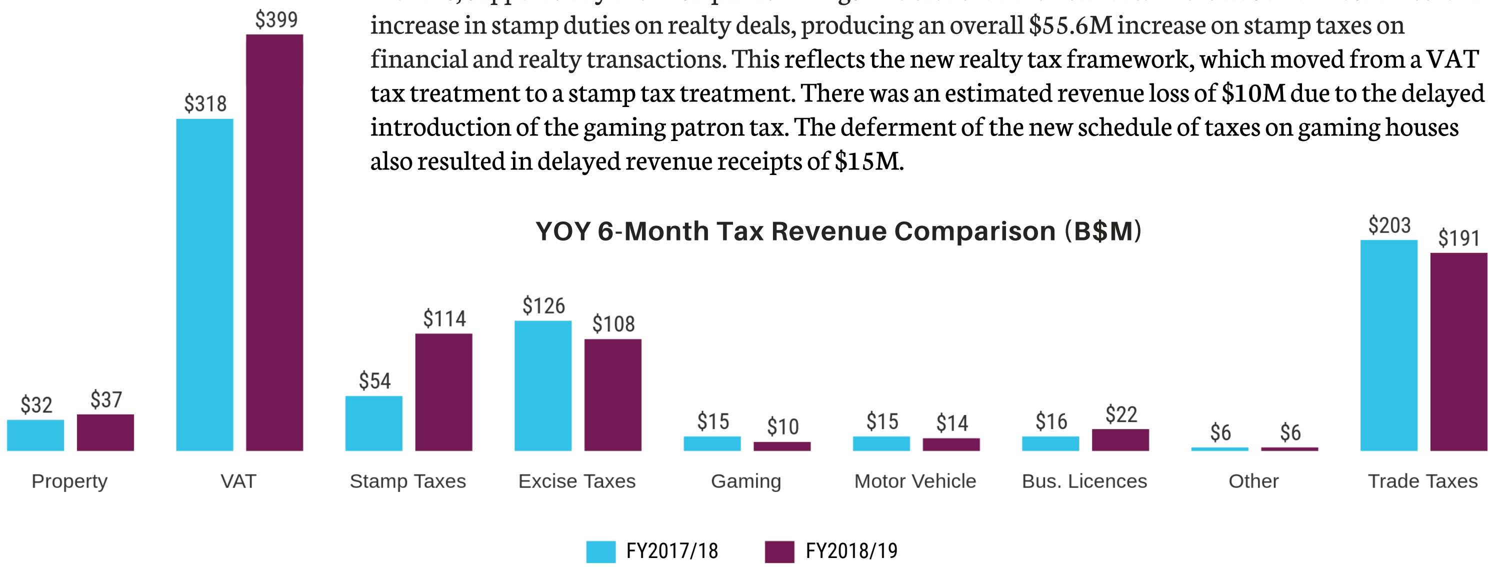
EXPENDITURE

$1,184.6M

The comparatively higher growth in recurrent expenditure continued to reflect the settlement of budgeted arrears. **Expenditures in the first six months represented 41.0% of the annual budget allocation.**

Tax Revenue Comparison

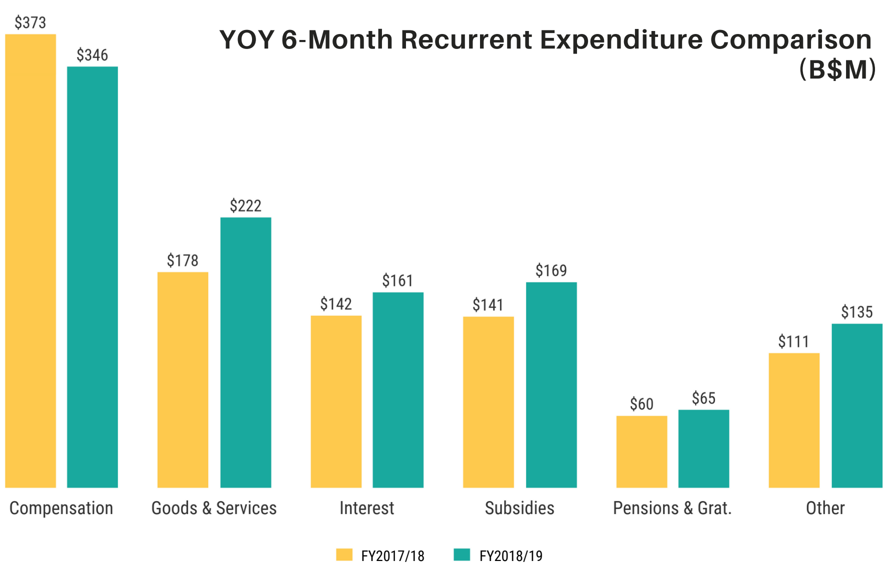
Opening quarter VAT receipts were tempered due to the phased roll-out of the new rate in the hotel sector for bookings. However, VAT receipts were boosted by an estimated $81.2M in the first six-months, supported by the first quarter filings in October at the new rate. There was an almost threefold increase in stamp duties on realty deals, producing an overall $55.6M increase on stamp taxes on financial and realty transactions. This reflects the new realty tax framework, which moved from a VAT tax treatment to a stamp tax treatment. There was an estimated revenue loss of $10M due to the delayed introduction of the gaming patron tax. The deferment of the new schedule of taxes on gaming houses also resulted in delayed revenue receipts of $15M.



Non-Tax Revenue Summary

Non-tax revenue recorded a gain of $12.4M to $108.3M. Immigration fees, which were higher by $10.7M, accounted for 56% of the dominant fees and service charges category.

Recurrent Expenditure Comparison



Employee compensation was lowered by $27.6M, primarily due to the timing of the execution of planned recruitment exercises. In addition to the settlement of budgeted arrears, higher payments were recorded under goods and services for utilities and communications (up $3.7M), operational and other expenses (up $1.9M), and services (up $6.7M). Rent expenses also increased in the YOY comparison (up $11.8M) due to the Government's enhanced efforts to keep current with its obligations.

Budgeted Arrears

The significant increase in goods and services came from the payment of budgeted arrears. 35.5% (or $65.1M) of the arrears were settled in the first six months.

Major Arrears Payments
July - December FY2018/19 (B$M)

	$M
Bank of The Bahamas	1.7
CTF Holdings Ltd (BahaMar)	11.0
Consolidated Water	6.0
Miya Bahamas Ltd	1.5
University of The Bahamas (Pension)	1.5
University of the West Indies	5.4
PHA Medical Suppliers	8.2
Vendors - Garbage Collection	5.4
Carnival Cruise Line	6.0
Norwegian Cruise Line	1.0

Note: Payment arrears are included across several expenditure categories. Settled payments also include individuals and small businesses.

Financial Transactions

Comparative Debt Activity

Fiscal Year 2018/19

$670M (FY2017/18: $1,640.3M) – **$415.7M** (FY2017/18: $1,025.7M) = **$254.3M** (FY2017/18: $614.6M)

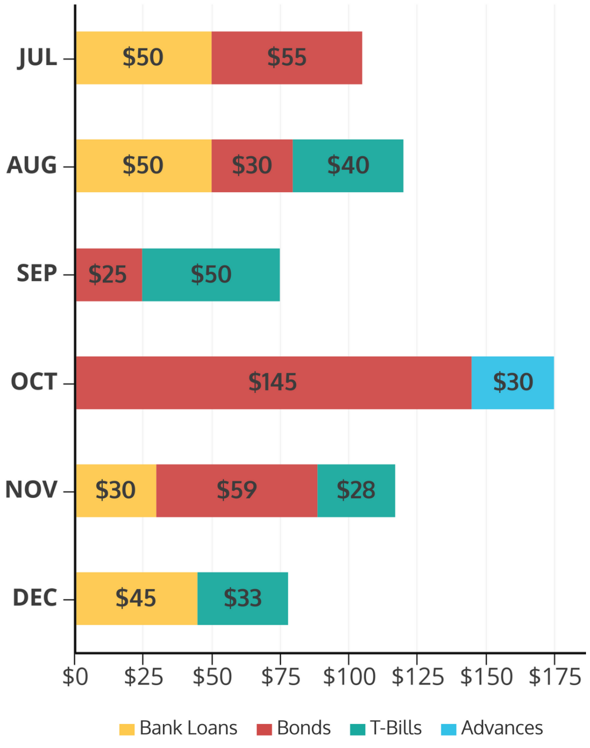
New Borrowing decreased by 59%

Debt Repayment decreased by 59%

Net Liability decreased by 59%

Estimated Direct Debt *(December 2018)* **$7.5B**

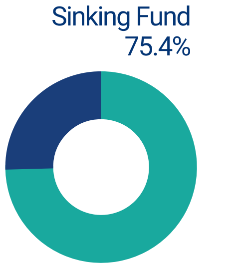
Composition of Government Borrowings for First Six Months of FY2018/19



All borrowings were in Bahamian Dollars. They included a combination of medium-term bank credit facilities, the issuance of bonds, Treasury bills and advances. In line with the bond auction calendar prepared at the beginning of the fiscal year, $314 million in new Bahamian Dollar bonds was issued to refinance maturing bonds and to commence the budgeted conversion of $134.7 million in Central Bank advances to bonds. The Government also borrowed a total of $30 million via short- term advances, of which $15.0 million was repaid during the period.

Net Acquisition of Financial Assets

$65.3M



Sinking funds established to assist with future debt retirement were incremented by $16.6 million in the first six months to US$117.8M at end-December 2018. The key component of equity investments was the provision of an additional $13M to Lucayan Renewal Holdings Ltd, which increased the Government's equity contribution to $45.4M.

**Minor differences are due to rounding.*

FIRST SIX MONTHS REPORT

ON BUDGETARY PERFORMANCE

FY2018/19
JULY-DECEMBER

THE BAHAMAS
MINISTRY OF FINANCE

Contents

1. About This Report

General Statement

To promote greater transparency in the public finances and align with global fiscal disclosure standards and best practices, the Ministry of Finance has commenced in-year reporting on the performance of the central government's revenue, expenditure and financing operations vis-à-vis the approved budget.

Periodicity: Quarterly (Qtr. I: July – September; Qtr. II: July – December; Qtr. III: July – March; and Qtr. IV: July – June).

Timeliness: Within four (4) weeks after the end of the referenced quarter.

Publication: To be released on the Ministry of Finance website (www.bahamas.gov.bs).

Basis of Preparation

The budgetary data are prepared using a modified cash basis of accounting and guided by International Public Sector Accounting Standards (IPSAS) cash basis. As such, revenue is recognized when received and not when earned, expenditure is recorded in the period it is incurred and paid, and purchases of fixed assets, including immovable property, plant and equipment, are fully expensed in the year of purchase.

The fiscal data tables compiled in the quarterly reports are presented using the new chart of accounts introduced in July 1, 2018 which accomplishes two (2) important objectives, namely:

- prepares for the eventual conversion of the accounting presentation to the IPSAS accrual basis,
- facilitates the aggregation and presentation of the fiscal data to meet the International Monetary Fund's Government Finance Statistics (GFS) 2014 reporting standards. The primary purpose of the GFS is to provide a comprehensive conceptual and reporting framework for analyzing and evaluating the performance of the government's finances.

It should be noted that, while the progressive shift to GFS (2014) brings several changes in the categorization of the budgetary data from the previous budget presentation, the overall revenue and expenditure figures are unchanged. The Ministry intends to adopt the full GFS (2014) presentation for the FY2019/20 budget.

Unaudited Data

As reconciliation is ongoing, the fiscal data presented in these quarterly reports are subject to change and, therefore, their status is provisional (denoted as "p") until audited by the Auditor General.

Rounding

Because of rounding, some totals may not agree with the sum of their component parts.

2. Summary of Fiscal Performance for First Six Months of FY2018/19

Preliminary data on the Government's fiscal outturn for the first six months of FY2018/19 reveal an estimated deficit of $174.2 million, an improvement of $79.7 million from the $253.9 million shortfall in the corresponding period of FY2017/18 (***see Table 1***).

TABLE 1: FISCAL SUMMARY (Statement of Sources & Uses of Cash)

(B$M)	[a]	[b]	[c]	[b] -[c]	[b/a]
	Budget	July - December			
	FY2018/19	FY2018/19p Actual	FY2017/18p Actual	Variance	% of Budget
Revenue	**2,650.9**	**1,010.3**	**880.8**	**129.5**	**38.1%**
Tax	2,429.9	902.0	784.9	117.1	37.1%
Non-tax	218.8	108.3	95.9	12.4	49.5%
Grants	2.2	0.0	0.0	0.0	0.0%
Expenditure	**2,888.5**	**1,184.6**	**1,134.7**	**49.9**	**41.0%**
Recurrent	2,589.2	1,097.6	1,003.7	93.9	42.4%
Capital	299.3	86.9	131.0	(44.0)	29.1%
Surplus/(Deficit)	**(237.6)**	**(174.2)**	**(253.9)**	**79.7**	**73.3%**
Financing Activities	**237.6**	**174.2**	**253.9**	**(79.7)**	**73.3%**
Net Acquisition of financial assets (-)	**46.4**	**65.3**	**62.8**	**2.5**	**140.7%**
Sinking Funds	46.4	16.6	0.0	16.6	35.8%
Equity	0.0	48.7	13.8	34.9	0.0%
Other	0.0	0.0	49.0	(49.0)	0.0%
Net Incurrence of Liabilities (+)	**237.6**	**254.3**	**614.6**	**(360.3)**	**107.0%**
Borrowings	947.0	670.0	1,640.3	(970.3)	70.7%
Debt Repayment	709.4	415.7	1,025.7	(610.0)	58.6%
Change in Cash Balance [() = increase]	**46.4**	**(14.8)**	**(297.9)**	**283.1**	**-31.9%**

- Revenue collections, at $1,010.3 million, recorded an estimated gain of $129.5 million (14.7%) over the same period last year and equated to a slightly lower 38.1% of the budget target relative to 40.9% a year-earlier. As observed in the opening quarter, the improvement was largely associated with higher receipts of VAT and stamp taxes on financial and realty transactions. However, the full impact of the VAT at the new 12% rate will not be recorded until the second half of the year, which is also typically a stronger revenue period when several annual fees, such as business and banks and trust companies licences, become due.
- Expenditures increased by nearly $50 million (4.4%) to $1,184.6 million for the first six months of the fiscal year, to represent 41.0% of the budget allocation. The comparatively higher growth in

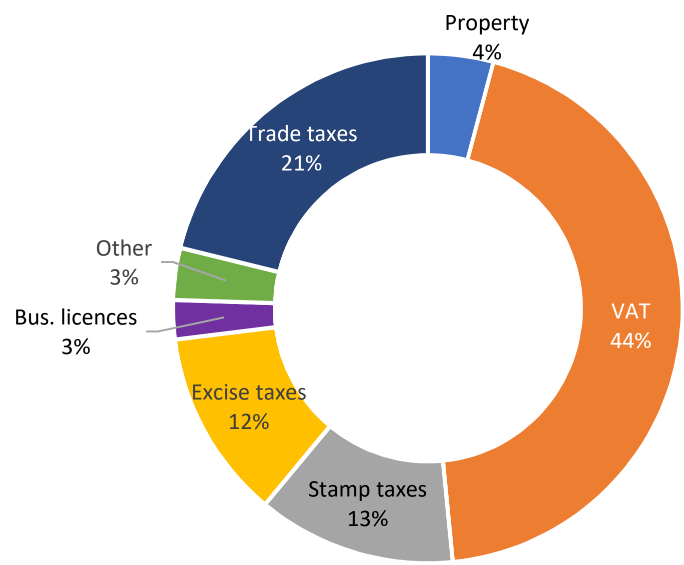
recurrent spending, of $93.9 million to $1,097.6 million, continued to reflect settlement of budgeted arrears which aggregated $65.1 million over the period. Capital spending was lower at $86.9 million from $131.0 million in the comparable period. The latter included the non-recoverable portion ($55.2 million) of the Government's year-to-date payments ($69.0 million) towards settlement of the $100 million Bahamas Resolve Limited Promissory Note to Bank of The Bahamas Ltd. The $13.8 million assessed as recoverable was included below the line as a financial asset.

- In financing transactions, an additional $10.0 million contribution during the second quarter brought the debt sinking fund allocations to $16.6 million for the review six months. On the equity side, developments continued to be dominated by the Government's investment in the special purpose vehicle, Lucayan Renewal Holdings Ltd, formed to acquire the Our Lucaya properties in Grand Bahama during the first quarter of the fiscal year. For the first half of FY2018/19 these investments totaled $45.4 million—reflective of the original $32.4 million in equity contribution alongside an additional $13.0 million for operational expenses. The $49.0 million in the comparative period included the collateralization of a restructured swap transaction, with part of these funds to be released to the Government over an agreed timeframe.
- Budgetary operations for the six months period featured new borrowings of $670.0 million, compared with $1,640.3 million a year earlier. Using the FY2018/19 Borrowing Resolution (which makes provision for the Government to raise $187.7 million for deficit financing, together with amounts required to refinance the maturing debt budgeted at $709.4 million), approximately $314.0 million (47%) was earmarked to refinance maturing government bonds. Additionally, new medium-term bank credit facilities amounted to $175.0 million. Under short-term borrowing authorities, $30.0 million was derived from advances, and $151.0 million by way of Treasury bills—although there were combined repayments during the period totaling $51.0 million.
- Debt redemption receded to $415.7 million from an extraordinary boost to $1,025.7 million in the comparable fiscal year review period. The latter position was primarily explained by the Government's replacement of short-term interim budgetary funding with longer-term financing via the $750 million international bond issuance in November 2017.
- Based on the net borrowing activities, the Direct Charge on the Government (exclusive of exchange rate adjustments) increased by an estimated $254.3 million in the first six months of FY2018/19 to $7.497 billion at end-December 2018.

3. Revenue Performance

Revenue receipts for the first half of FY2018/19 amounted to an estimated $1,010.3 million, a gain of $129.5 million (14.7%) over the comparative period in FY2017/18 and represented some 38.1% of the fiscal year target (***see Table 2***). Tax receipts grew by $117.1 million to $902.0 million (37.1% of the budget), with non-tax revenue recording a smaller gain of $12.4 million to $108.3 million (49.5% of the budget).

Percentage Composition of Tax Revenue (First Six Months of FY2018/19)

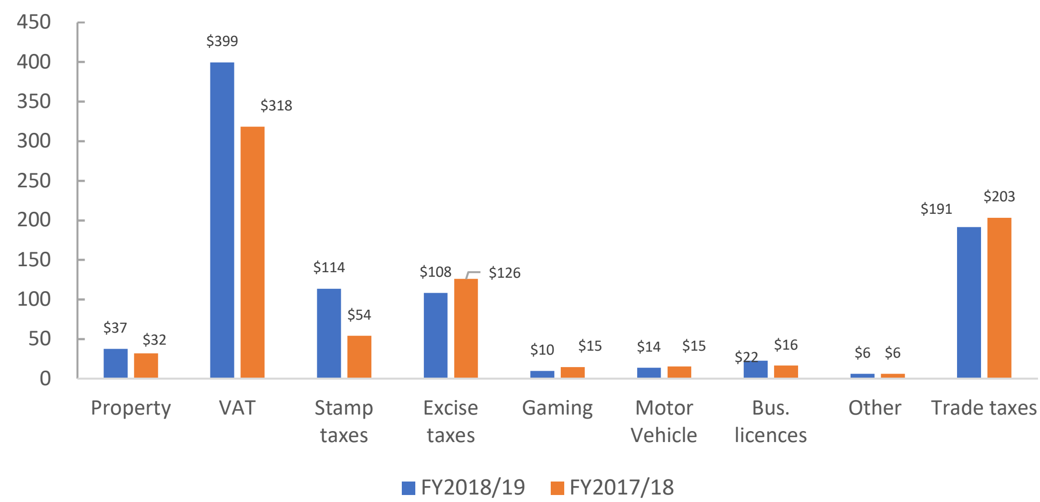


Key comparative developments for the first half performance are the following:

- Taxes on Goods & Services, at 74.0% of tax receipts, were boosted by an estimated $119.4 million or 21.8% to $667.5 million.
  - Value Added Tax (VAT) receipts improved by $81.2 million (25.5%) to $399.5 million. At 38% of the budget target, this outturn included only one quarterly VAT filing (October 2019) at the 12% rate, which became effective July 1, 2018, and was also tempered by the Government's accommodation to hotels and resorts and development projects, to honor business booked/secured, prior to September 30, 2018, at the old rate.
  - Collections of stamp taxes on financial and realty transactions more than doubled, to $107.7 million from $52.1 million a year ago, and represented almost 75% of the projected annual intake. The $45.5 million or almost threefold hike in the realty component was reinforced by the increase in stamp duties on realty transactions in excess of $100,000, to 10%, effective July 1, 2018, following the corresponding removal of VAT from all realty deals. Stamp taxes on banking transactions, at $46.7 million, accounted for an additional $10.1 million in receipts.
  - Excise taxes declined by $17.5 million (13.9%) to $108.3 million, which equated to 36.5% of the budget.

- Gaming taxes, at $9.8 million, remained below the year-earlier intake of $14.6 million. The ongoing delay in the implementation of the new schedule of taxes on gaming houses contributed to a $15.0 million shortfall in budgeted receipts, and placed receipts at only 14.0% of the $70.0 million anticipated annual yield.
- General Stamp taxes increased to $5.9 million from $1.8 million a year ago, although attaining only 20.9% of the budget. This outcome was primarily explained by an estimated revenue loss of $10.0 million, due to the delayed introduction of the new 5% stamp tax on gaming patrons.
- Revenue generated from licences to conduct special business activity, primarily associated with the business licence and communication levy categories, increased by $6.0 million to $22.4 million. However, payments equated to only 19.2% of the budgeted amount, as most of the major receipts, such as business and bank and trust company licences, occur in the second half of the fiscal year.
- Taxes on international trade and transactions were lower by $12.1 million at an estimated $191.2 million, for 38.5% of the budget. The decline was broad-based across customs and other import duties (by $4.4 million to $132.5 million); export receipts (by $2.7 million to $4.2 million) and departure taxes (by $5.1 million to $54.4 million).

Six Months Comparison of Tax Revenue Performance (B$M)



- Property income, comprising interest, dividends and revenue from government property, yielded $17.4 million—a gain of $0.9 million from the comparable fiscal year period and settling at 77.7% of budget.
- Receipts from the sale of goods and services increased by $9.2 million over the comparative period last year, to $84.2 million or 46.9% of budget.
  - The dominant fees & service charges category recorded a gain of $7.7 million to an estimated $75.8 million. Reflecting the recent fee hikes, immigration fees were boosted by $10.7 million to $42.4 million, to account for nearly 56% of the total, with the other categories recording comparatively minor changes.
- Fines, penalties and forfeits contributed $2.9 million in receipts, compared with $0.4 million a year earlier, of which $2.6 million was derived from judicial-related activities.

TABLE 2: REVENUE SUMMARY
(B$M)

	[a]	[b]	[c]	[b] -[c]	[b]/[a]
	Budget	**July - December**			
	FY2018/19	**FY2018/19P Actual**	**FY2017/18P Actual**	**Variance**	**% of Budget**
TAX REVENUE (a+b+c+d)	**2,429.9**	**902.0**	**784.9**	**117.1**	**37.1%**
a. Taxes on Property	**132.2**	**37.5**	**31.8**	**5.7**	**28.3%**
b. Taxes on Goods & Services (i+ii+iii)	**1,773.1**	**667.5**	**548.1**	**119.4**	**37.6%**
i. General	**1,500.1**	**615.4**	**496.1**	**119.3**	**41.0%**
VAT	1,059.6	399.5	318.3	81.2	37.7%
Stamp taxes (Financial & Realty)	143.7	107.7	52.1	55.6	74.9%
Excise Tax	296.8	108.3	125.8	(17.5)	36.5%
ii. Specific (Gaming taxes)	**70.0**	**9.8**	**14.6**	**(4.8)**	**14.0%**
iii. Taxes on Use of Goods/Permission to Use	**203.0**	**42.3**	**37.4**	**4.9**	**20.8%**
Motor Vehicle Taxes	36.2	13.8	15.1	(1.3)	38.2%
Company Taxes	20.7	5.4	4.7	0.7	25.9%
Licence to Conduct Special Bus. Activity	116.5	22.4	16.4	6.0	19.2%
Marine License Activities	3.6	0.7	1.0	(0.4)	19.1%
Banks & Trust Companies	26.0	0.0	0.2	(0.2)	0.0%
c. Taxes on Int'l Trade & Transactions	**496.5**	**191.2**	**203.3**	**(12.1)**	**38.5%**
Customs & other import duties	335.3	132.5	136.9	(4.4)	39.5%
Taxes on Exports	13.9	4.2	6.9	(2.7)	30.4%
Departure Taxes	147.3	54.4	59.5	(5.1)	36.9%
Other	0.0	0.1	0.0	0.1	0.0%
d. General Stamp Taxes	**28.1**	**5.9**	**1.8**	**4.1**	**20.9%**
NON-TAX REVENUE (e+f+g+h+i+j)	**218.8**	**108.3**	**95.9**	**12.4**	**49.5%**
e. Property Income	**22.4**	**17.4**	**16.5**	**0.9**	**77.7%**
Interest & Dividends	6.9	3.8	3.6	0.2	55.7%
Revenue_Gov't Property	15.5	13.6	12.9	0.7	87.7%
f. Sales of goods & services	**179.5**	**84.2**	**75.0**	**9.2**	**46.9%**
i. Fees & Service Charges	**162.1**	**75.8**	**68.2**	**7.7**	**46.8%**
General Registration	5.1	2.7	2.3	0.4	52.9%
General Service	14.0	5.8	6.8	(1.0)	41.4%
Immigration	76.6	42.4	31.7	10.7	55.4%
Land & Building	1.9	1.2	0.7	0.5	63.2%
Legal	4.9	0.4	2.2	(1.8)	8.2%
Customs	46.7	19.9	20.5	(0.6)	42.6%
Port & Harbour	10.8	2.7	3.1	(0.4)	25.0%
Health	1.3	0.4	0.3	0.1	30.8%
Other Fees	0.8	0.3	0.6	(0.3)	0.0%
ii. Other	**17.4**	**3.3**	**3.3**	**(0.0)**	**19.0%**
g. Fines, Penalties & Forfeits	**3.4**	**2.9**	**0.4**	**2.5**	**85.6%**
h. Reimbursements & Repayments	**2.5**	**0.1**	**0.1**	**0.0**	**3.6%**
i. Misc. & Unidentified Revenue	**9.6**	**1.4**	**2.6**	**(1.2)**	**14.6%**
j. Sales of other Non-Financial Assets	1.4	**2.3**	**1.3**	**1.0**	**164.3%**
TOTAL TAX & NON-TAX REVENUE	**2,648.7**	**1,010.3**	**880.8**	**129.5**	**38.1%**
Grants	2.2	0.0	0.0	0.0	0.0%
Capital Revenue	0.0	0.0	**0.0**	0.0	0.0%
GRAND TOTAL	**2,650.9**	**1,010.3**	**880.8**	**129.5**	**38.1%**

4. Expenditure Developments

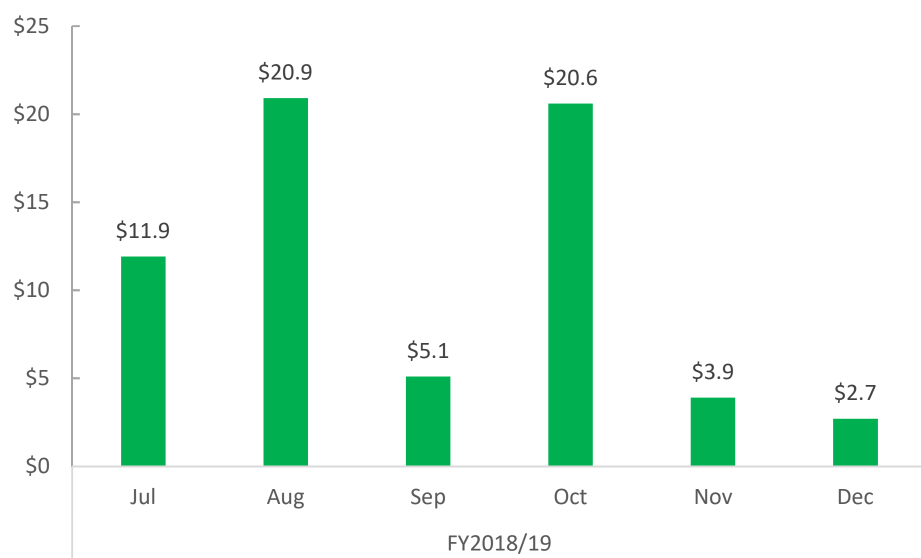
a. Recurrent Expenditure

Recurrent expenditure totaled $1,097.6 million, an increase of $93.9 million or 9.4% from the corresponding six-month period of FY2017/18, and accounted for 42.4% of the budget target (***see Table 3***).

The main factors underlying the expenditure outcome were as follows:

- Compensation of employees at $345.8 million was some $27.6 million (7.4%) below last year and equivalent to 43.6% of budgeted provision. At 89.1% of the total, wages and salaries were below the year-earlier spend by $19.9 million at $153.7 million, primarily explained by the timing of the execution of planned and budgeted recruitment exercises. Allowances were reduced by $7.1 million to $22.2 million, partly due to timing-related factors in overtime payments to the security forces. Consistent with the tempered employment trends, the employer's NIB contribution declined by $0.5 million to $15.4 million.
- Outlays on goods & services amounted to $222.2 million, up $44.5 million from the comparable period a year earlier, and were 36.9% of the budget. The largest component, special financing transactions, increased by $39.6 million to $52.1 million and included nearly $42.0 million in arrears payments. Among the remaining categories, higher payments were recorded for rent (up $11.8 million to $28.6 million); services (up $6.7 million to $41.3 million); utilities & communications, (up $3.7 million to $26.7 million) and other operational expenses (up $1.9 million to $10.7 million). Finance charges, comprising non-interest related fees on government borrowing and hedging activities, declined by $13.3 million to $6.4 million, with spending on supplies & materials also lower by $3.8 million at $20.9 million.

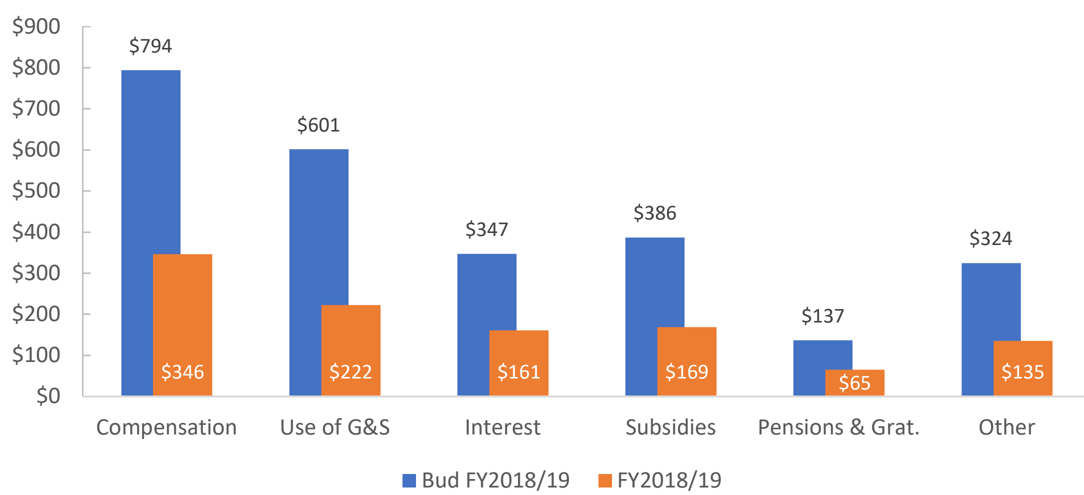
Settlement of Arrears (B$M)



Note: Payment arrears are included across several expenditure categories.

- Public debt interest payments rose by $19.2 million (13.6%) to $160.9 million, to position at 46.4% of budget. Of the total, $72.8 million was on foreign currency obligations and the remaining $88.1 million was for Bahamian Dollar debt.
- Subsidies, constituting transfers to Government-owned and/or controlled units which provide commercial goods and services to the public, aggregated $168.8 million—an increase of $28.1 million (20.0%) from the same period in the prior fiscal year. The key factors were the following:
    - Transfers to public non-financial corporations, at $151.6 million, exceeded last year's spend by $28.1 million. Approximately $110.6 million or 73.0% of the total was directed to the Public Hospitals Authority—an increase of $27.2 million over the comparative fiscal period. Some offsets were provided by timing-related reductions in support to the Water & Sewerage Corporation ($5.5 million) and the national airline carrier ($2.9 million).
    - Transfers to private non-financial enterprises were significantly higher at $16.8 million from $4.2 million in the corresponding review period. This outcome was boosted by arrears payments to cruise line operators and payments to a hotel property in the context of a Heads of Agreement.

Recurrent Expenditure vs Budget (B$M)



- Grants, representing gifts and donations to foreign governments and international organizations (inclusive of membership fees) amounted to $1.5 million, compared with $3.7 million in the year-earlier period.
- Social Assistance Benefits, which could be in cash or in kind (e.g. medical services) totaled $23.0 million—a gain of $5.3 million from last year and were approximately 46.4% of the budget. Continuing the observation in the first quarter, this outcome was primarily attributed to higher payments under the National Drug Plan Programme, of $6.3 million to $10.0 million.
- Pension and gratuity payments amounted to $64.9 million, compared with $59.5 million a year earlier, and approached 48.0% of the budget allocation. Spending on pensionable officers who either have reached normal or early retirement age, opted for early exit from the service or died while in the service, was $49.8 million—for a gain of $4.2 million. Gratuity payments increased by $2.0 million to $14.2 million which equated to 43.0% of the budget.

TABLE 3: RECURRENT EXPENDITURE SUMMARY (B$M)

	[a]	[b]	[c]	[b] -[c]	[b]/[a]
	Budget	July - December			
	FY2018/19	FY2018/19P Actual	FY2017/18P Actual	Variance	% of Budget
RECURRENT EXPENDITURE					
Compensation of Employees	**793.6**	**345.8**	**373.4**	**(27.6)**	**43.6%**
Use of Goods & Services	**601.4**	**222.2**	**177.7**	**44.5**	**36.9%**
of which:					
Travel & Subsistence	8.9	3.7	3.7	(0.0)	41.7%
Rent	81.7	28.6	16.8	11.8	35.0%
Utilities & Telecommunications	88.4	26.7	23.0	3.7	30.2%
Supplies & Materials	45.8	20.9	24.7	(3.8)	45.6%
Services	115.9	41.3	34.6	6.7	35.6%
Minor capital repairs	2.8	0.9	1.0	(0.1)	32.7%
Finance charges	34.6	6.4	19.7	(13.3)	18.5%
Special Financial Transactions	80.6	52.1	12.5	39.6	64.6%
Tourism Related	96.2	22.5	24.7	(2.2)	23.4%
Local Gov't Districts	13.3	5.5	5.6	(0.1)	41.4%
School Boards	5.9	2.9	2.7	0.2	49.4%
Other	27.3	10.7	8.8	1.9	39.2%
Public Debt Interest	**346.8**	**160.9**	**141.7**	**19.2**	**46.4%**
Subsidies	**386.4**	**168.8**	**140.7**	**28.1**	**43.7%**
Grants	**8.7**	**1.5**	**3.7**	**(2.2)**	**17.1%**
Social Assistance Benefits	**49.5**	**23.0**	**17.7**	**5.3**	**46.4%**
Pensions & Gratuities	**136.7**	**64.9**	**59.5**	**5.4**	**47.5%**
Other Payments	**245.0**	**101.0**	**81.7**	**19.3**	**41.2%**
Current Transfers n.e.c.	168.8	76.9	62.2	14.7	45.6%
Insurance Premiums	76.2	24.1	19.5	4.6	31.6%
Acquisition of Non-financial Assets	**21.1**	**9.5**	**7.7**	**1.8**	**45.2%**
TOTAL	**2,589.2**	**1,097.6**	**1,003.7**	**93.9**	**42.4%**

- Current transfers (not elsewhere classified) comprise other Government direct and indirect support to households and to non-profit institutions that assist households, as well as subventions to public corporations that do not classify as subsidies. These outlays increased by $14.7 million (23.6%) to $76.9 million, which was 45.6% of the budget.
  - Transfers to Non-profit Institutions were relatively flat at $3.2 million.
  - Transfers to Non-financial Public Enterprises were boosted by $22.3 million to $49.8 million. Key factors included the Government's settlement of nearly $17.0 million in contingent liabilities with the Bank of The Bahamas, primarily related to the non-performance of the Hurricane and Student Loan programmes. Although $13.7 million was assessed as non-recoverable and expensed, the collections of these outstanding liabilities to the Government will now be pursued by the relevant Government agencies. As budgeted, the Government

also facilitated $5.7 million in interest payment on Bahamas Resolve's $167.7 million promissory note to the Bank of The Bahamas.

- Insurance payments of $24.1 million compared with $19.5 million last year—of which approximately $23.4 million represented health insurance premiums.

b. Capital Spending

Capital outlays totaled $86.9 million, a reduction of $44.0 million from the corresponding year-earlier period (***see Table 4***). Spending on goods and services increased from $2.3 million last year to $7.2 million–of which $1.6 million was related to arrears settlements.

TABLE 4: CAPITAL EXPENDITURE SUMMARY
(B$M)

	[a]	[b]	[c]	[b] -[c]	[b]/[a]
	Budget	**July - December**			
	FY2018/19	**FY2018/19P Actual**	**FY2017/18P Actual**	**Variance**	**% of Budget**
Uses of Goods & Services	**38.4**	**7.2**	**4.8**	**2.3**	**18.6%**
Capital Transfers	**46.6**	**14.1**	**13.6**	**0.5**	**30.2%**
Acquisition of Non-financial assets	**214.3**	**65.7**	**112.6**	**(46.8)**	**30.7%**
Fixed Assets	**204.7**	**54.0**	**55.4**	**(1.4)**	**26.4%**
Buildings other than dwellings	51.2	25.6	23.5	2.1	50.0%
Other structures	101.6	25.3	30.6	(5.3)	24.9%
Transport equipment	11.3	1.4	0.1	1.4	12.7%
Other Machinery & equipment	40.6	1.7	1.2	0.5	4.2%
Land Improvements	**0.1**	**0.0**	**0.0**	**0.0**	**0.0%**
Land	**0.5**	**0.0**	**0.0**	**0.0**	**0.0%**
Other Fixed Assets	**9.0**	**11.7**	**57.2**	**(45.5)**	**130.1%**
TOTAL	**299.3**	**86.9**	**131.0**	**(44.0)**	**29.1%**

- Capital transfers were marginally higher at $14.1 million, which represent 30.2% of the budget.
- Some $65.7 million was spent to acquire non-financial assets, a decline of $46.8 million from last year.
  - Acquisition of fixed assets (e.g. buildings, machinery and equipment) increased by $2.1 million (8.8%) to $25.6 million.
  - Outlays to acquire other fixed assets contracted by $45.5 million to $11.7 million, which was explained by the previous years' provisioning of 80% ($55.2 million) of the $69.0 million year-to-date payment on the $100 million Bahamas Resolve Promissory note to the Bank of The Bahamas.

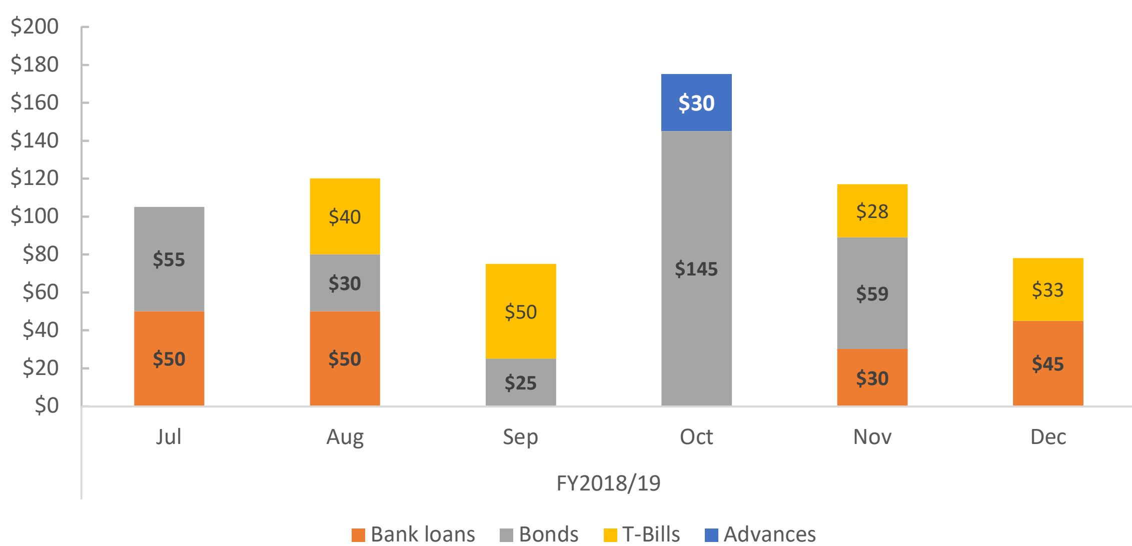
5. Financing Activities

Net Increase in Liabilities

To meet operational requirements, the Government incurred a net increase in its liabilities of $254.3 million.

- Repayment of maturing debt in the first six months of FY2017/18 totaled $415.7 million. This comprised $373.6 million in Bahamian dollar liabilities, and the balance of $42.1 million in foreign currency obligations.
- To finance the deficit and meet other funding requirements, the Government borrowed an aggregate of $670.0 million comprising a combination of medium-term bank credit facilities, the issuance of bonds, Treasury bills and advances. All borrowings were in Bahamian Dollars. In line with the bond auction calendar prepared at the beginning of the fiscal year, $314 million in new Bahamian Dollar bonds were issued to refinance maturing bonds and to commence the budgeted conversion of $134.7 million in Central Bank advances to bonds. The Government also borrowed a total of $30 million via short-term advances, of which $15.0 million was repaid during the period. Recourse to short-term borrowings via Treasury bills generate an additional $151.0 million in funding—with $36.0 million being repaid.
- Given the $254.3 million net increase in liabilities, the Direct Charge on the Government rose to an estimated $7,497.0 million from a preliminary $7,242.7 million at end-June 2018.

Composition of Government Borrowings for First Six Months of FY2018/19



Contribution to Sinking Funds

Sinking funds established to assist with future debt retirement were incremented by $16.6 million in the first six months of FY2018/19. At end-December 2018, the accumulated value of these arrangements was US$117.8 million for three (3) of the Government's international bond issues, and $9.6 million for the two (2) local arrangements.

Equity Acquisition

For the first half of FY2018/19, the Government contributed some $32.4 million to the initial capital funding for the acquisition of the Lucayan Properties, via its special purpose vehicle, Lucayan Renewal Holdings Ltd. (LRHL). Through end-December, a further $13.0 million was advanced to LRHL to meet operational costs. Smaller balances, totaling $3.3 million, represented the estimated collectible portion on the settlement of defaulted hurricane and educational loan programmes which were guaranteed by the Government.

6. Policy Initiatives for Enhanced Public Financial Management

Ongoing Initiatives

During the first six months of FY2017/18, further progress was made on several important public sector financial legislative initiatives (see Box A below), aimed at strengthening the governance framework for public financial management and securing alignment with international best practices.

Effort are ongoing to conclude the Public Financial Management Bill, the Public Debt Management Bill and the Public Procurement Bill within the new calendar year.

Box A: Public Sector Financial Legislative Initiatives

Initiatives	Key Features
Fiscal Responsibility Act, 2018	Bill enacted in October 2018. The Government produced and tabled in Parliament the inaugural Fiscal Strategy Report in November 2018. **Fiscal Targets**: ▪ Reduce debt to no more than 50 per cent of GDP. ▪ Reduce the fiscal balance to no more than 0.5% of GDP, from FY2020/21 onwards; transition path requires the fiscal balance not to exceed 1.8% of GDP in 2018/19 and 1.0% of GDP in FY2019/20. ▪ After attainment of 0.5% of GDP fiscal balance objective, growth of recurrent expenditure not to exceed estimated long-term rate of growth of nominal GDP.
Public Financial Management Bill	Bill will substantially replace existing Financial Administration and Audit Act, 2010 and provide, inter alia, for clarity in specification of roles and responsibilities; enhanced reporting requirements, accountability expectations for government agencies, oversight of state-owned enterprises and expanded budget disclosure requirements.
Public Debt Management Bill	Seeks to consolidate and amend existing laws for public debt management, institute a governance framework oversight of Government debt activities, guided by defined objectives. As provided for in the Bill, the Ministry of Finance to establish a Debt Management Unit and the Debt Management Committee. An annual Debt Management Strategy Report to be produced and presented to Parliament at the time of the annual budget exercise.
Public Procurement Bill	Seeks to modernize and align procurement systems and processes with regional and international best practices and standards. To include establishment of a public procurement board, the use of different procurement methods, establishment of a digital procurement platform and electronic vendor registry.

New Legislative Initiatives

Dormant Account Legislation

In December 2018, Parliament passed the Banks and Trust Companies Regulation (Amendment) Act, 2018 and the Central Bank of The Bahamas (Amendment) Act, 2018—which amended the dormant account regime to address problematic administrative issues encountered by banks, codify existing administrative practices by the Central Bank of The Bahamas (the Central Bank) and modernize the regime in line with prevailing international practices. Some of the key provisions of these legislation provide for:

- expanded and clearer identification of the types of accounts and facilities subject to dormant account requirements.
- a new limitation, which requires a claim to be brought within ten (10) years of the funds being transferred to the Central Bank, effectively extinguishing a claimant's right to dormant accounts after that period has elapsed.
- the Central Bank to pay to the Treasurer:
    - all dormant account balances valued at five hundred dollars ($500) or less, within two (2) months after being received by the Bank; and
    - dormant account balances above five hundred dollars ($500), plus accrued interest, after ten (10) years of receipt by the Central Bank.
- funds transferred to the Treasurer to form part of the Consolidated Fund, vest in the Treasurer for the benefit of The Bahamas, to cease to accrue interest.
- dormant account owners, their representatives or successors to reclaim dormant account balances (plus accrued interest, where applicable) at any time prior to the expiry of ten (10) years after receipt of such balances by the Central Bank.

Consistent with the overarching fiscal sustainability and economic resilience objectives, the Government announced plans to establish a Disaster Relief Fund (the Fund), which will be funded, in part, from the dormant account proceeds to be transferred from the Central Bank to the Treasurer. Efforts are presently underway to develop the governance framework for the proposed Fund, with due consideration to international best practices.

Business Licence Regime

In December 2018, the Government introduced several amendments to the business licence regime, aimed at streamlining business processes and supporting small businesses. Key among these was the repeal of previous amendments passed during the recent budget that required the production of audited financial and bank statements.

The Minister also made an Order, the Business Licence (Amendment of First Schedule), 2018, to allow for businesses with turnover less than $100,000 per annum to be excluded from having to pay a business licence.