THE COMMONWEALTH OF THE BAHAMAS

2019/20 SUPPLEMENTARY BUDGET STATEMENT

Presented By

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DEPUTY PRIME MINISTER AND MINISTER OF FINANCE

ON

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Mr. Speaker,

I rise before this Honourable House to present the 2019/20 Supplementary Budget, and to table the corresponding supplementary appropriations and borrowing resolution.

Three months ago, Hurricane Dorian significantly changed the course of our lives. Characterized as the second strongest storm to ever cross the Atlantic Ocean, this catastrophe was nothing like we have ever seen before. Although the devastation caused by the monster storm was concentrated in the islands of Abaco and Grand Bahama, its broader socio-economic severity has rattled the very core of our nation and people.

As assessment reports have disclosed damages and losses in the neighborhood of $3.4 billion, the utter destruction this storm has left has altered the current and prospective medium-term economic and fiscal outlook for our country, requiring an unprecedented response from the Government.

Governments have a key role to play in disaster recovery and building, and while we have begun this work in earnest, it is important that we carefully assess and articulate how such developments will impact our fiscal situation. This is especially the case given our commitment to achieving fiscal and debt sustainability, as mandated by our Fiscal Responsibility Act.

Therefore, the Government is presenting the extraordinary and unexpected fiscal impact of Hurricane Dorian as a Supplementary Budget, so that the Bahamian people are made fully aware of exactly how the Government intends to address the challenges which have emerged.

The supplementary appropriations outline both the expected revenue losses arising from the Hurricane together with the increases in the recurrent and capital expenditure allocations necessary to deal with the emerging restoration and rebuilding activities on the islands of Abaco and Grand Bahama. The Supplementary Budget Book provided to this Honorable House presents the expected revenue loss for this fiscal year, by the respective revenue categories, which underlay the adjusted revenue budget for FY2019/20;it details the additional capital and recurrent expenditure arising from Hurricane Dorian, as well as several other policy imperatives. As these impacts are multi-year, the medium-term forecasts have been extended by one year and revised through to FY2022/23.

In circumstances like this facing substantial revenue loss and significant new expenditure requirements, governments are compelled either to raise additional funds through greater taxation – or through increased borrowing in the near term. The Government has determined that additional taxes would not be optimal at this time, given the substantial impact of Dorian to our economy and the need to maintain private consumption levels. Accordingly—and very conscientiously—the government has decided to fund the revenue loss and expenditure requirements through additional borrowings. Thus, I am also tabling a new borrowing resolution for authorization to borrow beyond the $72.4 million (which excludes the $628.0 million for refinancing of maturing debt)approved at the time of the 2019/20 Budget Communication in May of last year.

Mr. Speaker,

As I mentioned during the tabling of the 2019 Fiscal Strategy Report in November, we anticipate that total revenue for FY2019/20 will now be reduced by $232.6 million, due to revenue losses and revenue foregone from VAT, Business Licence fees, Customs, and a number of other taxes in the Hurricane-affected islands.

It is important to remind this House that given the magnitude of the impact of Dorian on the islands of Abaco and Grand Bahama, the Government unveiled an unprecedented package of tax incentives and concessions as a key part of the establishment of the Special Economic Recovery Zone (SERZ). I know that members opposite agree—like all Bahamians—that this was and is the right thing to do. However the impact of those much needed tax concessions for those island mean that over $200 million in tax revenues is being deliberately and consciously foregone. This is being done so that the government is doing as much as it reasonably can to aid the speedy recovery and restoration of those impacted communities.

Thus, at year-end, we project a revised aggregate revenue of some $2,395.6 million in FY2019/20, as opposed to the $2,628.2 estimated at the time of the annual budget exercise.

Given the total incremental spending that the Government will have to undertake to initiate rebuilding and restoration efforts, we anticipate that total expenditure will increase to $3,073.1 million for FY2019/20, in comparison to the $2,765.0 initially budgeted and approved.

Recurrent expenses are projected to be higher by $157.6 million, bringing the revised estimates to $2,687.6 million. Of this total, approximately $82.7 million is associated with Hurricane Dorian, which include:

- $23.1 million in costs associated with clean-up activities,

- $12.9 million to facilitate food and accommodation assistance programmes,
- $11.4 million to fund the extension of the unemployment benefit to eligible persons,
- $11.1 million in allowances for affected public staff,
- $5.4 million for the acquisition of supplies and materials,
- a $1.5 million allocation to the new Ministry of Disaster Preparedness, Management and Reconstruction, and,
- the remaining $17.3 million allocated to primarily cover contingencies, consultancy services, security and other costs.

This spending has and will facilitate a number of social assistance measures on the Government's part. For example, the Government has aided with rental assistance to evacuees from both Grand Bahama and Abaco, provided accommodations to hurricane victims by way of shelters, food assistance to victims outside of the shelters, and has also extended its national lunch benefit to displaced students that relocated to schools in New Providence. In addition, the Government is seeking to expand the National Insurance Board (NIB) unemployment benefit to 26 weeks from 13 weeks to eligible persons that have been impacted by the storm.

On the capital side, spending is estimated to grow by some $150.5 million to a revised $385.5 million, with $100.0 million being directly related to hurricane restoration. A breakdown of these expenses include:

- $40.0 million for electricity restoration on the affected islands,
- $16.5 million toward temporary housing and related facilities,

- $7.0 million in this fiscal period for direct support to Small and Medium Sized Businesses,
- $6.0 million for the rehabilitation of water supply on the affected islands,
- $5.7 million toward building repairs,
- $4.1 million to facilitate clinic repairs,
- $3.0 million for repairs to the Rand Hospital,
- a $2.5 million allocation to the new Ministry of Disaster Preparedness, Management and Reconstruction,
- and the remaining $15.2 million to cover the acquisition of office equipment and miscellaneous machinery and equipment, vehicle replacement, research and surveys, and other costs.

To date, the Government has already expended sums towards several of their identified needs. These include:

- $10.0 million toward the restoration of electricity,
- $6.3 million toward the rehabilitation of water supply,
- $6.5 million to initiate the repair of schools on the affected islands, and
- $3.0 million toward renovations at the Leonard Thompson International Airport in Abaco, including the purchase of equipment to meet international commercial flight requirements.

Mr. Speaker,

The Government has also identified a number of non-hurricane related spending initiatives, totaling $119.9 million for FY2019/20, which we consider imperative for orderly, stable, sustainable, and resilient governance.

- The Government has provisioned $30.0 million for the acquisition of a turbine generation plant to be used by Bahamas Power and Light (BPL), which is in line with the Government's move to a more resilience-based economic strategy. The total spend for this acquisition is $27.3 million, which will result in a $2.7 million savings in Government spending.
- The Government recognizes that the current state of the Princess Margaret Hospital (PMH) is unsatisfactory, and the renovations to this key pillar of infrastructure can no longer be delayed. Hence, the Government will bring forward an additional $37 million in FY2019/20 for spending related to the Public Hospital Authority (PHA) to initiate this renovation, as well as address a number of other critical operational needs.
- While the Government continues to foster greater discipline in its fiscal affairs, there are some challenges that it cannot ignore—one of which is the pressing transformation of the public service to achieve greater effectiveness in the delivery of public services, through skills enhancement and other HR initiatives. Towards this objective, the Government has set aside $30 million for FY2019/20 and another $100 million over the next three fiscal periods. Of the total for FY2019/20, approximately $23 million was expended in December 2019 toward lump sum payments to eligible civil servants.
- Lastly, in accordance with established practice, we are using this opportunity to regularize several contingencies which have arisen so far in this fiscal year. These

include outlays of $6.8 million allocation to Bahamas Beaches and Parks, and $16.1 million to Lucayan Renewal Holdings, the Special Purpose Vehicle created for the sale of the Lucayan hotel properties.

Mr. Speaker,

Given the revenue loss and expenditure increases the Government expects to incur, the fiscal deficitfor FY2019/20 is now expected to increase by approximately $677.5 million, to 5.3 percent of GDP. This exceeds the approved budget target of $137 million, and therefore has corresponding implications for the financing envelope.

To cover the costs associated with the hurricane, and the spending imperatives previously outlined, the Government will nowrequire new financing in the sum of some $507.9 million. It is the Government's intention to source these funds through a number of potential facilities, including:

- the $100 million IDB contingent credit line—of which $80 million is likely to be drawn down;
- a $50 million loan from the Caribbean Development Bank (CDB);
- up to $200million in a club loan from a consortium of domestic bank lenders; and,
- the remaining $177.9 million will be sourced by way of other instruments

These sources which I have identified will be supplemented with $20 million from the Dormant Accounts Fund and the $12.8 million payout from the CCRIF which, together with the $507.9 million in borrowings, will cover the $540.7 million required in new financing.

Today, I will be presenting a draft resolution for the $50 million policy-based loan from the CDB, which I mentioned as a part of the list of potential financing options for the Government. This facility is intended to provide financial support to hurricane recovery as well as to maintain ongoing reform. With an interest rate of 4.8 percent and an eight-year maturity with a grace period of two years, the Government agreed that this facility is necessary to progress restoration efforts.

Mr. Speaker,

The Government is also using this opportunity to advance its liability management initiatives. As was done in FY2018/19 with the conversion of Central Bank advances to long-term debt, the Government will convert $80 million of its short-term debt to long-term in FY2019/20. This will also meet the continuing demand of the market for longer term Government paper. In doing so, the total financing requirement will increase by this $80 million to $587.9 million; however, as the short-term debt will be repaid once the conversion is complete, the conversion of this $80 million will not increase the level of outstanding public debt.

Taking the financing requirements into consideration, the level of Government debt is, therefore, anticipated to increase from the projected $7,612.0 million at the outset of the budget, to $8,204.5 million, or some 64.4 percent of GDP.

Mr. Speaker,

It is the Government's intention to maintain a very close tracking of expenditures and revenue in the coming months, to determine the extent to which we could realize savings from the revised fiscal positions we are presenting here today. For example, we have seen particularly good performance in revenue collections up to the midpoint of FY2019/20, against the backdrop of our revenue enhancement initiatives, namely, the establishment of the Revenue Enhancement Unit (REU) in July and the rollout of the Customs Electronic Single Window, Click2Clear. The updated fiscal position of the country will be published in our Q2 Fiscal Update report that will be published in a matter of days.

Mr. Speaker,

In closing, I wish to reiterate that the blow this hurricane has dealt us is unprecedented in the history of our nation. While all of us wish we could have faced a different set of circumstances, we must remind ourselves of an all too familiar and relevant saying: "It's not what happens to you but how you respond to it that matters." None of us had any control over the tragedy that befell the people of Abaco and Grand Bahama, or the country as a whole on that ill-fated day in September. However, as a Government, we can ensure that we have the appropriate response. This Administration will do all that is within its power to restore Abaco and Grand Bahama, while we continue on the path to restructure and revitalize our economy. It will require a tremendous amount of planning, resources and time to restore what Dorian has taken from us. However, we will do whatever it takes to support and care for those who are rebuilding their lives and to be good stewards of the country, as we weather this tenuous social and economic disruption.

We can take comfort in knowing that our medium term prospects remain strong. Major capital projects are still on stream, including the airport development projects in the Family Islands. FDI inflows remain steady with development projects moving forward in New Providence, Harbour Island, Eleuthera and across the archipelago. Reconstruction is kicking into high gear in Abaco and Grand Bahama, while employment in both islands is starting to pick up. Employment in the constructions sector in particular is providing a much needed boost.

Yes, we have had to adjust our fiscal targets, and yes, we have had to increase our borrowing to respond to the fiscal pressures, but this presentation today, and our tabling of a supplementary budget, is proof that this Government does not operate with its head buried in the sand. We make practical and responsible decisions, and do so in the light of full public scrutiny.

As I have emphasized before, we will work hard to contain discretionary expenditure so that we do not place undue pressure on our fiscal position. Notwithstanding the new deficit and debt positions being projected as a result of Dorian and its economic fallout, the Ministry of Finance will remain vigilant and will work hard to come in at a number below the $677 million deficit currently being projected. In other words, while the Government has been and will continue to fully fund the recovery efforts, this unfortunate event will not be used as a pretext to go on unnecessary spending binges. This Government will remain committed to the principle of sound fiscal principles. Simply put, we will not use the hurricane as an excuse to go “buck wild” and waste the people’s money.

This Minnis-led administration will continue to deliver effective social assistance, strong economic stimuli and sound pubic financial management. Any sacrifices we have to make in the short-term will help to deliver the medium and long-term benefits the Bahamian public deserves.

Our work has just begun, but we will endure until completion, guided at our fiscal and economic helm, by the principles of fairness, responsibility and transparency.

Thank you.