



COMMONWEALTH OF
THE BAHAMAS

BUDGET COMMUNICATION

FY2022/2023

THE WAY FORWARD

*Presented to the House of Assembly by The Hon. Philip Davis
Prime Minister and Minister of Finance
On Wednesday, May 25th, 2022*

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**FY2022/2023 BUDGET COMMUNICATION
BUDGET 2022: THE WAY FORWARD**

**THE HONOURABLE PHILIP DAVIS, QC, MP
PRIME MINISTER & MINISTER OF FINANCE**

**WEDNESDAY 25TH MAY 2022
HOUSE OF ASSEMBLY**



1. Introduction

Madam Speaker:

The wonderful people of Cat Island, Rum Cay and San Salvador, whom I represent in this House, and in whose name I rise today, are famous for their long histories, their deep-rooted sense of tradition, their unshakeable bonds of friendship and family, and their proud connection to the lands they inhabit.

And the most famous landmarks on these islands, amplify and echo the spirit and character of the people:

The expressive rock carvings in Hartford Cave on Rum Cay, that hold the secrets of the Lucayan and Arawak people who once lived there;

The pioneering spirit of Landfall Park, San Salvador, where Christopher Columbus is thought to have first landed; and the sacred peak of the Hermitage on Mount Alvernia, the highest point in our Bahamas.

Madam Speaker:

It remains the greatest privilege of my life to represent the people of these islands, and the greatest honour to lead our country, especially at a time when the country yearns for a change in progress.

And as a new Administration, for the first time able to fully set out its priorities and choices in a national budget, we wish to present a landmark budget, one that steers the country in a new direction, better able to both take advantage of the many opportunities with which we have been blessed, and also to withstand and overcome the many challenges currently facing the world in which we live.

Madam Speaker:

I am pleased to present to the House, the Fiscal Year 2022/23 Draft Estimates of Revenue and Expenditure or the Budget, along with this accompanying Budget Communication.

On coming into office last September 2021 – eight months ago – Bahamians will well remember that the country was in the throes of the worst health crisis, and the worst economic crisis in living memory.

Madam Speaker:

At the end of the summer of 2021, last year, the public finances were on the edge of a fiscal cliff.

It was in these circumstances that former Prime Minister Minnis called a snap election.

In his explanation as to why he did so, he said to the congregation at the New Mount Olive Baptist Church in November 2021:

“I would say to you we have some headwinds that are coming.... In order to manage those headwinds that we see coming, it was essential to have a new mandate because very, very difficult decisions have to be made.”

Madam Speaker:

My government was elected on a mandate to tackle that economic crisis and change The Bahamas for the better.

We were elected on a 10–point Plan to Recover, Rebuild, and ultimately Revolutionize the economy, details of which are contained in the document, ‘Our Blueprint For Change’.

This is the daily roadmap for our Administration.

We instantly set to work implementing changes, which had immediate beneficial impacts on the economy.

My first action was to abolish the curfew, the first step in removing unnecessary COVID–19 protocols and restrictions. Immediately, Madam Speaker, businesses were able to re-open, and employees were able to return to work.

VAT and other revenues therefore immediately increased, such that the government’s surplus cash balance in October 2021 had improved by nearly \$35 million.

Over the ensuing weeks, we set about implementing the plans we had made to address the country’s most urgent problems.

We introduced free Covid–19 testing, distributed free masks, and increased the number of doctors and nurses in hospitals.

We ended the ‘Emergency Orders’, and the economy sprang back to life, Bahamians returned to work, young people returned to school, and investor confidence increased.

We were keen not merely to jump–start the economy to stimulate economic activity and growth, but to do so in compassionate ways, that brought hope and dignity back to people.

We paid nurses, doctors, teachers and other public sector workers, what they were owed up to the current year.

And in December 2021, we ensured that every single Bahamian who was receiving a \$100 weekly payment from the National Insurance Board, received a \$500 lump–sum payment.

Madam Speaker:

In total, over \$6.8 million was distributed to Bahamians who had been restricted from being able to earn an honest living for so long.

The country’s credibility and standing is much improved. The economy is on the right track.

Madam Speaker:

This ‘Budget 2022: The Way Forward’, puts us firmly on course to continue to rescue the economy.

It also charts a course to help us navigate some of the new challenges facing the global economy, especially since the be-



gining of 2022, as well as maximise the opportunities and deliver the growth necessary to support national development.

Madam Speaker:

This Budget is organized around three central priorities:

The first priority is to help Bahamians cope with a cost-of-living crisis. Bahamians were already struggling with high energy prices, high food prices, and expensive housing costs. In recent months, geopolitical conflict and continued supply chain disruptions around the world have caused prices here at home to go up even further, which has put the squeeze on everyone, especially the middle class and the most vulnerable.

Our strategy for softening the impact of this global inflation crisis includes:

- a mix of broad-based import duty reductions;
 - increased enforcement of price controls;
 - an increase in the minimum wage for public servants;
 - increased social services assistance;
 - important new support for Catastrophic Health Care;
 - the establishment of the Universal Service Fund, to make technology more accessible and affordable throughout our islands; and
 - a substantial investment in promoting home ownership.
- Energy reform to reduce cost.

And we are thinking medium-and-long-term, too, with significant investments in agriculture, to increase the nation's food security.

The more we are able to feed ourselves, the better we can withstand external shocks in international markets, and ensure that good, healthy, affordable food choices are always available for our people.

Madam Speaker:

Investing in an agriculture sector will not only help our country weather volatility in global markets. Investing in agriculture means opportunity, which brings me to our second priority: the creation and expansion of jobs and ownership opportunities for Bahamians.

These include planned investments in the Orange, Green and Blue economies, and the monetization of carbon credits and associated technologies to ensure the long-term development of the country.

Education and training are fundamental to our national development.

And so this budget includes measures to strengthen education and address the learning loss experienced by so many of our young people during the past few years.

A key element in our recovery is to stimulate the creation of good jobs.

This budget increases investment in public infrastructure, and creates direct partnerships with institutions to provide expanded job training opportunities.

And finally, the third priority addresses various security issues, to make our communities and homes safer and our borders more secure.

We will make significant investments in the three core national security agencies, namely the Department of Corrections, the Royal Bahamas Police Force, and the Royal Bahamas Defence Force.

And as one of the top ten countries in the world most vulnerable to climate change, we have already made it one of our top priorities to ensure that our Bahamas is better able to withstand the impacts of rising sea levels, erosion of our coastal and marine resources, and adverse weather events. These considerations are reflected in the budget.

Madam Speaker:

Before I go further in this Communication, I wish to highlight the fact that, even though this Budget represents an important part of the Government's overall strategy to grow the economy, it does not represent the entire effort.

Aside from the allocation of resources from the Consolidated Fund, the Government intends to leverage other mechanisms to bolster economic activity and stimulate job creation.

For example: our Government is intent on fostering a partnership between the Bahamas Maritime Authority and the LJM Marine Academy, to offer more training opportunities for Bahamians in the maritime sector.

While this arrangement will not fully be reflected in a single line-item in the budget, this initiative is poised to provide real and significant job opportunities to hundreds, if not thousands of Bahamians.

It's also important to note, when looking at the budget, that any individual line-item is often only one aspect of a larger, interwoven set of policies.

Let me give an example from another area of special focus, which is our support for Small Businesses.

Part of the core ideology of our party is to support small business development, because we view this as an extremely effective means of empowering the majority of citizens in this country.

During previous terms in office, we created 'The Bahamas Development Bank', 'The Bahamas Agriculture and Industrial Corporation', 'The Venture Capital Fund' and 'The Small Business Development Centre'.

We have committed \$50 million per annum to small business development, through these various institutions.

We still hold fast to this commitment.

We believe that these institutions will be leading this effort, especially The 'Small Business Development Centre' (which has unused loan resources), and 'The Bahamas Development Bank' (which is in discussions with the Caribbean Development Bank to receive substantial funding).

As part of an overall effort to increase access to capital for small businesses, in this fiscal year we also propose to study the operations of our capital markets.

We recognize that \$50 million on per annum basis is just a portion of the required funding that small businesses need to grow in this economy.

With commercial bank lending focused primarily on the consumer market, we have to create other avenues for small business financing.

In partnership with The Central Bank of The Bahamas, we also propose to increase efforts to increase the circulation and use of the Sand Dollar. We believe it is a great tool, which will help to reduce the transaction costs many small businesses face when handling cash. The Sand Dollar makes digital financial services available to micro, small and medium-sized businesses, that will also make transactions for those businesses faster and more secure.

Taken together, Madam Speaker, our support for maritime training, and for the development of small businesses, is substantial.

However, it is impossible to fully understand this without referring to several areas of the budget.

Investment and support in these two important areas of national development are reflected across a number of lines in the budget, and so should be interpreted accordingly.

Madam Speaker:

For the remainder of this Communication, I will first highlight additional Key Priorities of the government.

I will summarize the Domestic and International macro-economic conditions within which we are operating, many of which will influence, support and/or constrain our policy actions.

Madam Speaker, I will then report on the Fiscal Performance of the government for the first nine months of the fiscal year, from July 2021 to March 2022.

In order to support investors, lenders and the Bahamian people in their planning, I will finally set out the government's projections for the Fiscal Year 2022/2023, so that we share a common understanding of 'The Way Forward'.

2. Priorities from The Speech From the Throne

Madam Speaker:

In our first Speech from the Throne, my government articulated a list of Key Priorities that we aim to fulfill in our first five-year term.

It was more than a 'To-Do' list of things that we want to achieve.

It was also a statement of the values and principles upon which we would govern.

We called upon every sector of the community to partner with us in order to achieve national success.

We promised to be fair and inclusive, and to operate at the highest standards of integrity.

We promised to restore competence to governance, to be compassionate in all our dealings, and to govern in the interests of the many, not the few.

We promised to be Transparent, Open and Accountable in our decision-making and actions.

These are the values and principles which we hold dear, Madam Speaker, which remain the guiding lights of our administration.

I believe that one of the most tangible expressions of our commitment in this regard, is to be found in our weekly press conferences, and in our engagements with the media and members of the public.

Because of this new openness and desire for public participation, we hope that this budget exercise prompts many voices and contributions from a wide cross-section of the Bahamian public.

In respect of the specific commitments made in 'The Speech from The Throne', I am happy to report that we have already fulfilled many of these goals and are making substantial progress on others.

Just to highlight a few:

- » We have already begun the process of improving government revenues by reconstituting the Revenue Enhancement Unit. Among other benefits, this will ensure equity in government taxation, and increase the yields on our real property tax.
- » We have appointed a private sector Debt Management Committee, assisted by an Independent Financial Advisor, who will devise clear objectives, and a strategy to manage the high levels of debt accumu-



lated in the past three years.

- » During the first half of the new fiscal year, legislation will be brought to this Honourable House to amend and improve The Public Procurement Act, The Fiscal Responsibility Act and The Public Financial Management Act. In previous communications, I have reported to the House on the many deficiencies contained in these hastily-enacted pieces of legislation. Work is already well underway, and the proposed reforms will be brought soon.
- » We have reduced the rate of VAT from 12 percent to 10 percent across the board. We can already see signs that it is having the desired effect, which is to reduce the overall tax burden. When Bahamians purchase meat, vegetables, fruit, poultry, fuel for cooking or transportation, we now pay VAT of 10 percent rather than the previous 12 percent. We had hoped that the reduction from 12 to 10 percent across goods and services would be experienced as real relief for Bahamians. Unfortunately, a very rapid rise in global prices coincided with this new measure; we are very aware it is hard to experience relief from a tax cut when underlying prices are high and rising and life feels so unaffordable.

Overall, the changes to VAT have been good for The Bahamas; for example, the fast-food franchises and hotels had been the biggest beneficiaries of zero-rated bread – now the country is earning much-needed revenue from those sources.

Continuing the list of achievements from the promises made in the Speech from The Throne:

- » As you will soon hear, work has already begun to increase the share of renewable energy in the country's energy mix to achieve the target of 30 percent reliance on renewables by 2030.
- » When the Minister of Works brings his contribution, the House will also hear how work is already progressed well to improve and introduce new Building Code standards, in order to provide greater resilience to climate change.
- » As a matter of priority, we have already accelerated investments in the agricultural sector to improve food security and reduce our reliance on imports, a point that the Minister of Agriculture will further expand upon during his contribution.

Other notable goals already fulfilled from the Speech from The Throne also include:

- » Legislation which has already been enacted, to allow The Bahamas to monetize its natural resources in the form of carbon credits.
- » The Merchant Shipping Bill which has been enacted, and is already leading to improvements in the sector.

- » We have improved relations with international partners and now have a fully crafted trade policy and strategy to increase trade opportunities.
- » Our Diplomatic Corps has been strengthened, and The Bahamas is already benefiting from the appointments of new cultural and trade ambassadors.

Madam Speaker:

- » We have already re-launched our "Sports in Paradise" initiative to diversify our tourism product, and have already secured a pipeline of sporting events such as the Babe Ruth Caribbean Championships.
- » Senior citizens are already enjoying the benefit of increased pension support, which has been augmented to allow for increases in the cost of living.
- » We have also enhanced access to housing with the construction of new homes in New Providence, and new homes in Abaco are on the way.
- » Improved training and better career opportunities are already being made available to members of the public service, which is enhancing and streamlining service delivery for the benefit of the public.
- » We are also putting into practice our commitment to "inclusive governance". As an example, just two weeks ago I hosted the first Business Roundtable, with key business leaders from various sectors of the community.

Added to all this Madam Speaker, there is new hope on the horizon for Grand Bahama.

- » An agreement has been reached for the sale of the Grand Lucayan Hotel for \$100 million. The renovations are estimated at \$300 million and once completed, the project promises to provide 2,000 construction jobs and approximately 1,000 permanent jobs.
- » Ground has also been broken for the construction of a new cruise port in Freeport, at an estimated cost of \$200 million, that will make it easier to transport many more visitors to the shores of Grand Bahama.
- » And, Madam Speaker, the Public Private Partnership or PPP process is underway for the redevelopment of the Grand Bahama International airport, which was abandoned and left to rot since Hurricane Dorian almost three years ago.

Madam Speaker:

The achievements of these last eight months are just the beginning. We know how many Bahamians are hurting. We know how many families are depending on change and progress.

We're only getting started.

3. Overview of Domestic Economic Conditions and Outlook

Madam Speaker:

I now turn to a discussion of recent economic performance and prospects for the Bahamian economy—a discussion which, because of our openness, must be positioned within the context of economic conditions in the global economy.

The International Monetary Fund (IMF), in its April 2022 edition of the World Economic Outlook, estimates that real world output recovered by 6.1% in 2021, from the 3.1 percent COVID-19 induced contraction in 2020. This recovery is attributed to travel and social restrictions being relaxed, and an improvement in inoculation rates.

This recovery was broadly-based across the major economies. Real GDP growth for our major trading partner, the United States, expanded by 5.7 percent in 2021. This followed the decline in 2020 of 3.4 percent, and was accompanied by a reduction in the jobless rate, by 2.5 percentage points, to 5.6% in 2021.

Similar factors were behind the favourable performance of The Bahamian economy, which posted an estimated real GDP growth of 13.7 percent in 2021.

This followed a contraction of 23.8 percent in 2020.

This out-turn was paced by strong gains in tourism, our major export, and benefited from the return of the high value-added stopover market segment—of which approximately 90 percent (year to date March 2022) is from the United States.

Total air arrivals grew by 17.1 percent to approximately 2.1 million, following a 75.2 percent downturn in 2020.

Although the sea component decreased by 11.8 percent to 1.2 million visitors, this was markedly improved from the 75.4 percent decline in the prior year.

Aside from the leading tourism contribution, economic output also benefited from increased construction investments, linked to a number of varied-scale foreign projects and ongoing post-hurricane Dorian reconstruction works.

Madam Speaker:

The world continues to grapple with waves of the COVID-19 pandemic.

New challenges have emerged here, as elsewhere, as we re-establish a positive growth trajectory.

Around the world, inflation is now the main focus of both policymakers and consumers.

Global trade is still being disrupted by issues arising out of the pandemic.

This has led to shortages, supply chain interruptions, and higher prices for imported consumer goods.

These factors, together with high energy prices and geopolitical tensions, have caused a spike in inflationary pressures.

In commodity markets, average prices of crude oil rose by 68.1 percent to \$71.04 per barrel in 2021.

According to the United Nations' Food and Agriculture Organization (the FAO), growth in the overall food price index advanced by 28.1 percent in 2021, from the 3.2 percent growth in 2020.

Based on the IMF's World Economic Outlook report, these conditions caused a firming in global inflation to 5.7% for the advanced economies in 2021.

In The Bahamas, because of our high dependence on imported goods, we also contended with the harsh reality of less-favourable price conditions.

Reflecting the pass-through effects of high global oil prices and prevailing supply dislocations, average consumer price inflation – as measured by changes in the Retail Price Index – accelerated to 2.9% in 2021 from a negligible 0.04% in 2020.

A key component was the firming in the average per-gallon prices of both gasoline and diesel, by 8.1 percent and by 33.9 percent, to \$4.39 and \$4.91 per gallon, respectively.

Which previously declined by 10.9 percent and 15.3 percent.

Madam Speaker:

Based on the IMF's projections, high rates of price gains are likely to persist for some time, because of these ongoing adverse impacts.

This is not good news for the global economy, which means that it's not good news for us.

High inflation erodes purchasing power.

It reduces the amount of money which businesses and consumers spend.

It also invokes a tightening in macro-economic policy, as observed by recent increases in policy rates in the United States.

This has implications for a slowing in domestic demand and economic growth.

The IMF projects that global output will expand by 3.6 percent in 2022.

This is lower than the previous year's expansion of 6.1 percent, and reflects adaptive monetary policy measures in the major economies, to address higher global oil prices and impose stringent financial conditions that will no doubt dampen recovery.



Madam Speaker:
Notwithstanding the risks, the outlook for a tourism-based economy such as ours remains encouraging.

This is especially because my government is proceeding with a strategy to address the harmful effects of the ongoing inflation pressures on consumers, and is taking proactive, decisive, and targeted steps to ensure a more durable and broad-based economic growth momentum in the fiscal year ahead.

Domestic economic activity is expected to maintain its growth momentum in 2022, bolstered by the sustained recovery in tourism output, along with several varied-scale foreign investment projects in the Capital and Family Islands and by post hurricane rebuilding works.

However, the speed of the rebound in the tourism sector toward pre-COVID-19 levels remains reliant on the alleviation of all globally imposed travel restrictions and broadening of vaccination efforts across countries.

Madam Speaker:
In other key economic indicators, monetary conditions in The Bahamas remain favourable, and support stability in our exchange rate.

At the same time, the subdued level of private-sector lending activity contributed to ongoing buoyancy in liquidity levels, and growth in external reserves.

With the relaxation of the COVID-19 restrictions, external sector developments featured a narrowing of the estimated current account deficit by \$163.4 million (6.9%), to \$2,210.0 million.

This was because the services account reverted to a surplus position from a deficit in the previous year, owing to a recovery in tourism earnings.

In contrast, the capital account surplus returned to trend in 2021, following a sharp rise in inflows in 2020.

These were boosted by Hurricane Dorian re-insurance inflows, while the financial account inflows slowed because of a reduced level of public sector borrowings.

Madam Speaker:
A further note on the current increasing trend in oil prices. Given the corresponding upward pressure on most goods and services that we consume, this is of significant concern to the government.

My government is committed to alleviating and addressing in a more sustainable manner, the firming trend in global prices, including the impact of higher fuel prices on electricity costs.

I will speak to these measures later in my communication. The Minister of Works will also elaborate on the plans of BPL's

Board and management to secure greater operational efficiency.

This will be achieved, in part by leveraging independent power providers to bring to The Bahamas, generation powered by solar power or natural gas. Our commitment to energy reform and lowering the cost of electricity to Bahamians across the board is more than just talk. The Government shortly on coming to office appointed a Cabinet Energy Sub Committee that has been focused on advancing our commitment in the Blueprint for Change to transform to LNG powered generation. The Sub-Committee is advanced in discussions with providers to develop a LNG bunkering facility, LNG conversion of our generation and incorporating solar solutions.

It is expected that these initiatives will keep the long-term average cost of electricity below \$0.20 a Kwh for The Bahamas—which is a 20% reduction from the current levels. We look to have a definitive agreed framework this fiscal year to announce to the Bahamian people

4. Fiscal Performance in FY2021/22

Madam Speaker:
I now turn to an examination of the fiscal outlook for FY2021/22, beginning with fiscal performance for the first nine months of the fiscal year.

These operational trends to-date provide the basis for our revenue and expenditure forecasts for the upcoming year, and over the medium term.

During the first nine months of FY2021/22, total revenue increased by \$617.6 million or 50.2 percent to \$1,847.3 million, as compared to the previous year.

This largely reflected improvements in tax revenue of \$526.4 million or 50.9 percent, and non-tax revenue increases of \$90.9 million or 46.5 percent.

Key developments underlying revenue performance were as follows:

- » Property Taxes increased by an estimated \$9.8 million to \$96.6 million
- » Notwithstanding the reduction in the nominal rate of VAT from 12 percent to 10 percent in January 2022, VAT receipts increased by \$366.3 million or 78.0 percent to \$836.1 million over the nine-month period
- » Excise taxes were estimated at \$46.2 million
- » Gaming taxes improved by \$21.0 million to total \$37.5 million.

Taxes on international trade and transactions broadened by \$183.5 million to \$346.6 million and 83.1 percent of budget.

The improved trade tax performance is largely explained by:

- » Increases in customs and other import duty collections of \$46.7 million to \$180.9 million; and

- » Improvements in departure tax collections of \$42.8 million to \$48.7 million.

Revenue from the sale of goods and services rose by \$58.7 million to \$170.5 million.

Increased revenue collections were attributed to:

- » Increases in immigration related receipts of \$43.6 million to \$99.8 million
- » Customs fee collections increased by \$8.7 million to \$36.9 million and 61.5 percent of budget

Madam Speaker:

During the nine-month period of the FY2021/2022, outlays for recurrent expenditure expanded by \$80.7 million or 4.2 percent to total \$2,021.5 million as compared to the same period in the prior year – representing 70.2 percent of the targeted spend.

- » Compensation of employees increased by \$24.4 million to \$538.3 million largely owing to the resumption of promotions, staff reclassifications, payment of increments and other employee costs which were delayed in the past year.

Spending on the use of goods and services widened by \$21.8 million to \$403.0 million, relative to the same period in the previous year:

- » Rental costs rose by \$7.0 million, driven by the payments of arrears to private sector landlords of \$2.9 million, and to the National Insurance Board of \$5.3 million.
- » Spending on services were elevated by \$34.1 million due to unbudgeted expenses related to the COVID-19 response, and outstanding health insurance premiums.
- » Conversely, finance charges contracted by \$37.4 million to \$15.4 million, primarily due to reduced outlays related to Government debt financing and foreign exchange hedging activities.

Public debt interest payments widened by \$69.7 million to \$333.8 million; reflecting from the elevated levels of borrowing since the onset of the COVID-19 pandemic.

Government subsidies, which include transfers to Government-owned and/or controlled enterprises that provide commercial goods and services to the public, also increased by \$21.3 million to \$351.3 million.

Subsidies to public non-financial corporations were higher by \$25.3 million at \$335.9 million, owing to the unwinding of certain COVID-19 support programs.

Pension and gratuity payments increased by \$17.8 million to \$120.9 million, and 70.9 percent of the budget, due to the government's promised cost-of-living adjustment for pensioners, as outlined in the FY2021/22 Supplementary Budget.

Madam Speaker:

During the first nine months of the fiscal year, capital spending contracted by \$7.8 million to \$160.1 million, mainly reflecting the reduction in the extraordinary COVID-19 related support to small and medium sized businesses .

Based on the revenue and expenditure activities, the overall fiscal position for the nine months to March 2022 recorded an estimated deficit of \$334.3 million, which was \$544.8 million below the same period of the year prior and only 38.9 percent of the forecast deficit.

To finance operations, government net debt increased over the 9 months by \$677.4 million, resulting in a total Direct Charge, or direct claims on government at end-March 2022 of just over \$10.5 billion, or 87.5 percent of GDP.

This represents a significant decline from the position at the end of June 2021, when the government's debt was 101.0 percent of GDP.

I'll say that again: at the end of June 2021, debt were at 101 percent of GDP and now we are at 87.5 percent of GDP.

Madam Speaker:

I am pleased to report that, based on current projections, we anticipate revenue collections for the full fiscal year to total \$2,455.1 million.

This equates to \$208.6 million above the revenue targets established in June 2021.

On the expenditure front, current trends suggest total recurrent expenditure will settle at an estimated \$2,731.7 million, and capital expenditure at \$230.6 million.

Madam Speaker:

A few short weeks ago, during my mid-term budget contribution, I reported to the House that, upon coming to office, we encountered an estimated \$1 billion in unsettled claims, unpaid bills and arrears.

Madam Speaker, I am now happy to report that, over as many months, we have conducted an extensive exercise to pay down arrears, and reconcile outstanding balances.

However, we still have a number of inherited arrears which we believe it is important to liquidate.

In this regard, we will be seeking Parliamentary approval for a Supplementary Budget for additional recurrent expenditure of \$216,928,017 and capital expenditure of \$34,491,123.

These balances are owed to hardworking women and men, who have given their time, energy and resources, to contribute to the development of this nation ,and months later, still haven't been paid.



This harmful practice cannot be allowed to continue.

These outstanding balances include:

- \$56.7 million owed on insurance for public servants;
- \$45.0 million in arrears owed to the Water & Sewerage Corporation to settle balances with vendors;
- \$30.0 million for the completion of the Andre Rodgers Baseball Stadium;
- \$19.0 million in outstanding payments owed to Doctor's Hospital for COVID-19 emergency support;
- \$6.4 million in outstanding rent payments;
- \$6.0 million in outstanding legal claims; and
- \$4.0 million for the restoration and refurbishment of public clinics.

Just as our recently established credit bureau encourages citizens to make timely payments, so too must we in government be timely in paying our bills.

In short order, Madam Speaker, we will bring to this House, amendments to the Public Financial Management Act that will help to address these challenges.

Going forward, the new PFM Act will allow all tax arrears collected to be deposited directly into the Sinking Fund.

These funds will be directly earmarked to the settlement of debt, because in many cases we have already borrowed to settle the arrears.

This amendment would increase fiscal discipline, as future governments would not be able to rely on arrears to fund current expenditure.

Madam Speaker:

As a result of operations, the resultant deficit in FY2021/22 is estimated at \$756.6 million or 6.0 percent of GDP.

This represents a \$100.0 million reduction in the projected deficit for the fiscal year.

5. Key Budget Priorities

Madam Speaker:

Notwithstanding the increasingly challenging global economic environment, my government remains confident that the way forward which we are charting for the benefit of our country and the Bahamian people, will secure our national development for years to come.

And so I will now set out a number of the Key Policy Initiatives which we will be pursuing in the coming Fiscal Year.

As I said earlier in this Communication, this budget is focused around three themes or priorities:

Firstly, efforts to cushion the impact of increases in the costs of living, currently being driven to new heights by global economic forces;

Secondly, to implement frameworks to grow the economy and expand opportunities for Bahamians;

And thirdly, measures to enhance issues relating to the long-term security of our country.

I shall begin by highlighting the expenditure proposed in the budget.

EXPENDITURE: COST OF LIVING SUPPORT

Madam Speaker:

I shall begin by setting out our expenditure relating to reducing the impact of rising costs.

We have included amounts for pay increases for most public officers.

This is because we recognize that public officers have not had a general salary increase since we were last in office, and we have therefore engaged the leadership of the various public service unions to reach an agreement. At this time, we also like to announce the full reinstatement and payment of all outstanding increments.

We also believe that the rate of minimum wage needs to increase because of the general erosion of spending power of ordinary Bahamians – an imperative which has been made more urgent by the current level of inflation.

To this end, we have submitted the proposal to BPSU to increase minimum wage in the public sector with incremental increases starting in July 2022.

We have also engaged union leadership on the issue of a contributory pension plan.

Contrary to popular belief, a significant portion of the public service workforce has no pension.

This is simply untenable and we hope that our partners in the labour movement share our view, and seek to correct this anomaly within this fiscal period.

We have made a permanent increase in social assistance by 50 percent in comparison to pre-pandemic levels.

This increased assistance is to be disbursed through the re-introduction of a conditional cash transfer programme, commonly referred to as the RISE programme.

The audit of the food programme recently tabled in the House, showed that there was no accounting for a sizeable portion of the funds allocated to assist citizens during the pandemic. We are intent on taking the steps necessary to avoid a repeat of this outcome in the future.

We have also increased funding for NGOs by 10 percent across the board, and have provided allocations to the two feeding programmes headed by Bishop Walter Hanchell and Bishop Lawrence Rolle. They have provided meals through-

out the pandemic, and continue to do so now with little to no public sector support.

I'm sure the whole House will want to join me in thanking Bishop Hanchell and Bishop Rolle., who, with such little support, fed thousands of people during the pandemic.

However, Madam Speaker, our support to these hard-working NGOs goes even further. Under this new budget, all property owned by religious organizations, trade unions, civic organizations and burial societies will now be exempt from the payment of Real Property Tax. This reduction in taxes will put money back in the pockets of the entities to allow them to further their reach in communities.

Madam Speaker:

Coming out of the pandemic, one of the glaring critical national needs which can no longer be ignored, is the need to enhance the level of individual and national healthcare provided.

Madam Speaker, I am extremely pleased to be able to announce that we have allocated \$10 million for catastrophic health care in this budget. This means that, for the first time, the Government can provide meaningful assistance to long-term dialysis patients, heart patients and others facing serious medical issues.

We have also provided funding to capitalize the Grand Bahama Health Centre Development Company, the entity which will construct the Grand Bahama Hospital. This is being facilitated through a loan for \$150 million, which is now being finalized.

Subject to agreement with the various unions, Madam Speaker we have also provided funding to increase the salary of teachers, and to pay a retention bonus to teachers and nurses.

EXPENDITURE: OPPORTUNITIES FOR BAHAMIANS

Madam Speaker:

In our 'Blueprint For Change' we detailed a number of initiatives which will expand opportunities for Bahamians, especially in the Orange, Green and Blue Economies.

Our athletes have contributed so much to The Bahamas. Their successes inspire our student-athletes at home and promote our country on the international stage.

Recognizing this, we have restored the funding to the Elite Athletes Programme as part of our effort to enhance support for our athletes and sporting programs.

We have also included a \$1 million allocation to facilitate the hosting of CARIFTA, funding for our bid to again host the World Relay Games, funding to support the return of The Bahamas Games, and a 10 percent increase in grants for the Ministry of Youth Sports and Culture.

We have increased the allocation to Urban Renewal by an additional \$500 thousand. This will allow for expanded reach into inner city communities, through more meaningful educational and community programmes, including its world-renowned marching band.

We have provided adequate funding for the activities surrounding the 50th Anniversary of our independence.

For many years, our creative communities have emphasized the need for a national School for the Creative & Performing Arts.

Madam Speaker, this coming year we are taking active steps to make this vision a reality, and in the coming months will be making more specific announcements in this regard.

EXPENDITURE: SECURITY

Madam Speaker:

I have already spoken to the increased investment we are making in the national security services.

To make our communities safer, we are also investing in our efforts to combat crime by investing in the construction of a new prison complex, using a Public Private Partnership vehicle.

We are also allocating \$6 million in funding for the purchase of new vessels for the Royal Bahamas Defence Force. We have also increased our capital allocation for the RBPF to allow them to purchase the necessary crime fighting tools.

Madam Speaker:

Turning to wider issues of security: we have increased the funding related to food security and increased our direct support to farmers, because growing a greater share of our own food will dampen the impact of inflation and provides economic benefits and opportunities.

A significant component of this support will be provided through a re-focused Bahamas Development Bank and Small Business Development Agency. These agencies will work with the Ministry of Agriculture and Marine in providing that support.

Madam Speaker:

We have allocated 10 percent of overall revenue collected in the Family Islands from property tax and road traffic fees, to the creation of a Family Island Development Trust Fund in the amount of \$200 million.

This fund will facilitate the Government in making immediate and significant investment in Family Island infrastructure.

This fund would be a sub-fund of the National Infrastructure Fund.

We also propose to leverage the aviation-related revenue to create a fund for aviation infrastructure, which would be another sub-fund of the National Infrastructure Fund.



This, combined with the Family Island Development Trust, will accelerate the reconstruction of Family Island airports.

It will also end the practice of Family Island infrastructure improvements being made a lesser priority than infrastructure improvements in New Providence.

It is important to note, however, Madam Speaker, that this does not mean that we will exclude Family Island projects from future capital budgets of the Ministry of Public Works.

Far from it.

It just means that the Family Islands will have their own dedicated fund to ensure that they keep pace with national development.

Madam Speaker:

We have allocated funding to reduce the Government's carbon footprint through the installation of renewable energy systems throughout the Family Islands, and increased the number of electric vehicles in the Government's fleet.

Madam Speaker,

I am pleased to advise that this ambitious agenda is being funded without any general increase in taxes or rates. There are, however, some new and very targeted fees.

For example, the maximum cap on property tax on owner-occupied property has increased from \$60,000 to \$120,000.

We are now imposing a minimum tax fee of 75 percent of the real property tax assessment for high end properties which are exempt from property tax because they are in a rental pool, if these properties do not generate VAT revenue equivalent to the Real Property Tax assessment.

To demonstrate that we are serious about collecting property tax, we are updating the law to simplify the process by which we can take action against all classes of property owners, with the exception of Bahamian owner-occupied properties.

Madam Speaker:

We are bringing into force legislation to cover vanity plates for motor vehicles, and there will be annual fees attached to those plates.

We are introducing a new class of commercial driver's licence for operators of heavy equipment or haulers of hazard materials.

We are clarifying the law on foreign yacht charters to ensure that operators of foreign yacht charters register and pay VAT. Operators will therefore now be subject to the stringent policies of the VAT Act.

We are also introducing business licences for financial service providers, and reintroducing business licence fees for com-

mercial banks. To ensure equity with insurance companies we are eliminating the premium tax, and are now requiring insurance companies to pay business licence fees.

Madam Speaker:

We are increasing royalty fees for the export of seafood, and we are also formally prohibiting the export of conch in commercial quantities, in order to encourage sustainable fishing of this precious resource.

We are also implementing a service fee for those individuals who want to obtain their passport within three hours.

Madam Speaker:

Our emphasis is to ensure that the tax system is fair and equitable, and that no single taxpayer has an advantage. In that regard, we have standardized the excise duty for the production of beer.

It is actions like these which demonstrate our willingness to make the decisions which benefit the many and not the few.

Madam Speaker:

In this budget we have also sought to introduce revenue measures to do the following:

- » Lower the cost of living
- » Lower the cost for acquiring property and homes; and
- » Encourage investment in key sectors.

To achieve these goals, in this budget we have reduced the duty on a significant number of food items to bring relief to our citizens and residents. You will hear more about it during the debate.

We also recognize that an important part of our tourism experience is our unique culinary products – and we need to ensure that the sector remains competitive. We have also therefore reduced the duty on food items used mostly in the restaurant and tourism sector.

Among the list of foods are those produced locally, such as chicken parts. Local production of chicken is less than 5 percent of total consumption, but we want and need to expand local production of all agriculture products.

In this regard, the Government will provide support to local poultry producers by assisting in lowering the cost of electricity, one of the primary inputs in organized poultry production.

This support is in addition to the increased support being provided by the Ministry of Agriculture and other agencies.

For instance, Madam Speaker:

- » We have increased our food security allocation by \$1.5 million to aid the provision of greenhouses and other smart technology for food production in the Family Islands, as well as to provide training and capacity-building for farmers in the use of more mod-

ern technology;

- » In the new budget, we are continuing to provide support to farms by allocating \$500 thousand to secure broilers, and \$600 thousand in the form of livestock to increase the supply of fresh meats in the market;
- » We are investing \$300 thousand to restore the feed mill at our Gladstone Road location to ensure that farmers have ample domestic supply of feed for livestock; and
- » We are also providing \$500 thousand in grant support to farmers.

Through the use of modern technology and resources which we have in abundance, we plan to reduce our food import bills. This, Madam Speaker, is how you ensure food security. This, Madam Speaker, is how you ensure food sovereignty. This, Madam Speaker, is how we will feed our nation and bring down the cost of living.

Madam Speaker:

We are reducing the duty on roofing materials, plumbing materials and electrical supplies.

This will make it more affordable for everyone in The Bahamas to undertake any construction project.

We have also reduced the duty on electric cars with a value of under \$70,000 to 10%.

For vehicles over \$70,000 the duty will be 25 percent, the same framework that presently exists for all hybrid cars.

These duty adjustments are part of a deliberate strategy to reduce national our carbon footprint.

Madam Speaker:

For Bahamians who dream of home ownership, this dream can soon become a reality.

Currently, concessions are available for persons who purchase a home for the first time.

We are expanding these concessions so that people who purchase a home, or purchase land and construct their first home, or purchase a house and renovate it to be their first home, will receive the same level of concession.

For those who are constructing or renovating their first home, we also are refunding up to \$40,000 in cash for any VAT paid for construction services or materials purchased, once the occupancy certificate is provided within eighteen months of the commencement of construction.

We are also increasing the level of exemption for first home buyers from \$250,000 to \$300,000 and reducing VAT on property transfers below \$1 million for individuals.

We are increasing the real property tax exemption on owner-occupied properties from 250k to 300k.

We are also eliminating VAT on property transfers between joint tenants of property. This is especially important to Bahamians who have inherited land jointly with siblings.

We have also simplified the rules around transfers of property with similar but not identical beneficial ownership.

We have, as well, eliminated nuisance fees in the Stamp Act for documents unrelated to the transfer of property or registering a financial instrument.

Madam Speaker:

We want to encourage investment by Bahamians, which is why we have reduced real property rates for commercial property, which will come into effect for the 2022 tax year.

We have eliminated the duty on telecommunications equipment and established a regime whereby URCA licencees can benefit from a reduction in their Communication fee for investments in emerging technologies, such as 5G technology, or fibre in the Family Islands.

Madam Speaker:

We have eliminated import duty on lithium ion and lithium phosphate batteries. These batteries are predominantly used for renewal energy. We have also simplified the process for bringing in renewal energy parts.

We have also adjusted the current regime so that Bahamians in the Family Islands investing in short term rental property in The Bahamas can not only purchase building material duty free, but get furniture and appliances duty free as well.

To complement this effort, we will work with the Board of the Bahamas Development Bank to develop a loan programme for short term rental property development.

Madam Speaker:

This budget also includes funding to comprehensively address the scourge of crime. We need to catch and punish those who break our laws. But we also desperately need more solutions that focus on the prevention of crime, so that we can break the terrible cycles of violence that grip our country. In addition, our Second Chance programme will reduce recidivism, and give people who have paid their dues to society a chance at a future.

Madam Speaker:

Since coming into government, The Bahamas has been a leading voice on the global stage addressing the urgency of fighting climate change.

Bahamians are clear: climate change is an existential threat for our country, and we cannot sit at home and just hope for progress. We have to fight for change.



Madam Speaker:

The reality of the situation for The Bahamas is as follows:

- » As a low-lying Small Island Development State, more than 70 percent of our land mass is highly vulnerable to the impact of a 2.5 degree increase in global temperatures via its resultant increase in sea levels;
- » We are in a region that is highly prone to climate disasters, such as hurricanes, which have increased in frequency and intensity in recent years; and
- » Given the small size of our nation, we are a minor player in the contribution to global CO2 emissions which result in increases in global temperatures.

It is for this reason that one of my first actions upon taking the helm of government was to address the General Assembly of the United Nations to reiterate our country's position. I also issued a strong challenge to carbon-producing nations to honour their previous commitments to help us in this fight against climate change.

Two months later, I attended the World Leaders Summit at the United Nations Climate Change Conference (or COP26) in Glasgow, Scotland.

Our advocacy in these arenas captured the attention of the world, and our voice, influence and negotiating strength has increased as a result.

In addition, we have created a specialized team in the Office of the Prime Minister dedicated to helping The Bahamas address the impacts of climate change at the national level.

Madam Speaker:

As a result of these coordinated international activities, we have seen a massive global shift in the perception of The Bahamas in relation to climate change matters.

Along with this shift, have been tangible results such as:

- » an increase in support for The Bahamas to explore climate resilient efforts;
- » greater access to research and other opportunities in this area; and
- » greater access to funding to support building resilience in this area.

We have embraced these opportunities, Madam Speaker, and as a result, for the first time, The Bahamas is positioned to commercialize and earn financial benefits from our natural resources. I refer, of course, to our recent Climate Change and Carbon Market Initiatives Act, which will enable The Bahamas to earn revenues from our investments to preserve our marine habitats.

Madam Speaker:

During our recent debate on this matter, we went to great lengths to outline the opportunities for the country to earn "Carbon Credits".

What we have not stressed enough is the opportunities for education, training and development for both Bahamians and international students that accompany this.

Madam Speaker:

However, as we expand our role and presence in the Blue Economy, there are increased areas for educational opportunities at the University of The Bahamas and international universities, to focus on marine and climate change courses.

Madam Speaker:

The Bahamian public, investors and international agencies should know that our plans are part of a well-coordinated effort to ensure sustainability and consistency in our approach to adopting a climate resilient framework in The Bahamas.

In line with international best practice, my climate change advisory team in the Office of the Prime Minister has begun the process of creating a national strategy focused on incorporating best practice in Environmental, Social and Governance (ESG) in our long-term investment practices. This strategy will incorporate advice from local and international experts in the field. It will also ensure that The Bahamas is consistent in its application of the principles of climate adaptation and climate mitigation.

Madam Speaker:

It has long been a major complaint of businesses that a key challenge to the Ease of Doing Business over the years has been the very high costs of electricity, the unreliable supply of electricity, and the limited inclusion of solar technologies in our energy mix, even despite our abundant potential for solar power and the tools at our disposal to solve this problem.

Members may well remember that on the 5th August, 2020, the then Government executed an \$80 million loan with the Inter-American Development Bank for the Reconstruction with Resilience in the Energy Sector in The Bahamas.

The objective of the loan was to support the Government with the rehabilitation of critical energy infrastructure and restoration of electricity service in islands heavily-affected by hurricane Dorian, while facilitating the integration of Renewable Energy (RE).

The specific objectives were to:

- (i) support the rehabilitation of the electricity transmission and distribution system and installation of new and resilient RE capacity in Abaco and East Grand Bahama;
- (ii) promote the adoption of solar PV technologies in the Family Islands; and
- (iii) contribute to the improvement of the regulatory framework for RE technologies and the mechanisms for its deployment.

Unfortunately, Madam Speaker, two years later, when my administration came to office, the project had shown very little progress.

Madam Speaker:

An RFP for a renewal contractor had been issued with a provision that the contractor needed to demonstrate that they have \$500,000 deposit in a bank account. This automatically disqualified most Bahamian contractors. They then awarded a contract where the Government pays 85% of the contract amount before the first panel is installed.

Madam Speaker:

There had been no widespread effort to support solar adoption in any of our islands. The framework for renewables has seen little movement, including no work to update the Energy Sector Policy, which expired in 2020.

Madam Speaker:

Since coming to office, my administration has moved quickly to rectify this and to capitalize on this missed opportunity by strengthening the Project Execution Unit (PEU) in the Ministry of Finance to ensure timely delivery, value for money and to co-ordinate activities with other relevant stakeholders on this project. The result has been substantial progress on this project in the past few months.

Madam Speaker:

My administration will use these loan funds properly. The immediate focus is the introduction and implementation of new models to develop resilient solar PV installations in The Bahamas.

To accomplish this an assessment of energy systems in New Providence and the Family Islands will need to be done. This work will start in the southeastern islands, namely Inagua, Mayaguana, Acklins, Crooked Island and Long Cay.

This year we will deploy in those islands, public decentralized solar PV plants; rooftop systems and innovative microgrids with storage capacity; and grid modernization technologies to improve the reliability and resiliency of the power network on these islands.

Additionally, pilot installations of Solar Photovoltaic Systems on public Building in Andros will also be carried out. Thereafter, the installations of Solar Photovoltaic Systems will be extended to the Central and Northern Bahamas.

Madam Speaker:

A key aspect of this project is to ensure Bahamian participation and ownership in this industry. What this means, Madam Speaker, is that going forward, we are committed that all future maintenance, installation, site works or the like, will be conducted by Bahamians.

As part of this project, we are committed to have in its first cohort, a minimum of 25 Bahamians, trained and certified to operate in this sector. We will also commit and ensure that government funding agencies make resources available to those individuals who have successfully completed this course, in order to support them in opening their own business in this

sector. We will also encourage the inclusion of green technology in all new major construction, and eventually provide the opportunity to offer similar services around the region.

6. Fiscal Outlook in FY2022/23

Madam Speaker:

Finally, I wish to consider the outlook for the upcoming fiscal year.

The current budget projects a significant rebound in the Bahamian economy.

Total revenue is projected at \$2,804.4 billion, a 19.9 percent increase over the prior fiscal year when the economy was in the early stages of an economic rebound from the COVID-19 pandemic. It incorporates many of our revenue enhancing strategies and outcomes such as:

- » Increasing Real Property Tax collections and compliance;
- » An improved VAT performance, based on the economic rebound; and
- » Growth in other fees as a result of improved revenue administration.

In the budget for fiscal year 2022/23, VAT collections are estimated at \$1,411.8 million, a 52.4 percent increase over the prior year budget.

The increase is largely attributed to a rebound in economic activity, the economic stimulus associated with the reduction in VAT from 12 percent to 10 percent, as well as the positive benefits of the removal of the COVID-19 Emergency Orders.

Real property tax revenue is also forecast to improve by 6.7 percent to \$169.4 million, but remain below the more than \$280 million in Real Property Tax invoices issued annually. Enhancements in revenue administration are critical in further improving collections in this area. One such transformative policy is the agreement of banks to assist in the collection of Real Property Tax from mortgage holders.

Madam Speaker:

Total expenditure is forecast at \$3,368.4 million, with recurrent expenditure projected at \$2,997.2 million, and capital expenditure estimated at \$371.1 million.

As a result of these operations which incorporate prudent fiscal management principles, the fiscal deficit under the current budget is estimated at \$564.3 million or 4.3 percent of GDP.

I wish to remind this Honorable House that this projected outturn does not include potential revenues from asset sales, such as receipts from the sale of the Grand Lucayan Hotel in Grand Bahama.



Conclusion

Madam Speaker:

As I come to the end of my presentation in my first full budget communication, I wish to share this reflection: this is a time of great challenge for our country, but also a time of great opportunity. There is no doubt that the world's problems -- from intensifying hurricanes to deadly viruses to energy shocks and supply chain interruptions -- have all washed up on our shores. The perils are real -- but so is the promise of what we can become, if we move forward together. This budget provides a foundation to strengthen our nation, to lift ourselves up, to face the future with strength and optimism.

This budget provides support for the here and now, and also charts the way forward for a brighter tomorrow.

Madam Speaker:

In taking our country forward, I am confident that this budget does just that, and I commend it to the House.

END

22/23

THE MINISTRY OF FINANCE

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