



Commonwealth of The Bahamas

**MINISTRY OF FINANCE COVID-19
UPDATE**

Communication to the House of Assembly

by

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Deputy Prime Minister and Minister of Finance

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I. Introduction

Mr Speaker,

Today, I will present an update on the fiscal and economic plan that the Government is currently implementing; this is the Resilient Bahamas Plan outlined during the budget exercise in June to respond to the ongoing coronavirus (COVID-19) pandemic. The report will include initial data and preliminary analysis on the first few months of the new fiscal year, and a full report to the House of Assembly, and the Bahamian people, based on our end of year budget performance for the 2019/20 fiscal year.

My report this morning will be accompanied by a press conference this afternoon at 1.30 pm. Note also that I will provide a comprehensive update at the end of October, when we represent the first quarter budget performance report for FY2020/21.

I want to remind the public that the Fiscal Responsibility Act, 2018 requires the Government to adhere to principles of accountability and transparency in its fiscal affairs. Although not legally mandated to do so, since 2018 we instituted quarterly reporting to the Bahamian public on the Government's fiscal affairs, in addition to the presentation of the required annual fiscal strategy report every November. Because of this, there is little room to equivocate on matters of transparency. Report to the Bahamian people we should, we must, and we gladly do.

II. Current Fiscal Realities

Mr Speaker,

The Minnis-Administration presented a pragmatic budget in June 2020 that anticipated a year of economic hardship, driven by significant shortfalls in government revenue, subdued economic activity and high levels of unemployment because of the ongoing COVID-19 crisis. Today, we are all living the realities of this public health emergency and experiencing the socioeconomic fall-out foreshadowed in the Budget. In response, the Government continues to implement its fiscal and economic plan to manage the ongoing crisis, mitigate further economic fall-out, stimulate economic consumption, and prepare for a reopening.

The budget was predicated on a base case scenario which anticipated muted economic activity in tourism for the first quarter of the fiscal year - that being July to September 2020. However, the necessary but protracted shutdown in August had a significant impact on the business

community and has caused some deviation to our initial revenue forecasts for that month. Further, a failure to jump start tourism before the end of the year would likely result in a more troublesome scenario.

Fortunately, the Minister of Tourism in his update on Monday, showed evidence of the significant pent up demand for travel to The Bahamas, and we have reason to anticipate a successful winter season provided that our efforts to safely reopen continue.

There is no denying however that what happens in the global and domestic economy over the next few months will have a significant impact on the way forward and on the possible adjustments the Government may have to contemplate. It is for this reason why I shall provide a further update at the end of the October, to keep the public informed on the latest fiscal information we have at our disposal.

Although partial and complete lockdowns and curfews are effective in flattening the curve of the pandemic, and have been a necessary response in the interest of saving lives, early performance indicators for July and August clearly demonstrate their significant dampening effect on revenue receipts. For the first two months of the fiscal year, total revenue came in at approximately 77 percent of the budget projection for the related period, largely reflecting the slowdown in economic activity in August, as a result of the lockdown.

As for expenditure, since June, we have seen the expected ramp up in spending related to unemployment support, food assistance and other forms of emergency relief, in line with budget expectations. The first two months of the current fiscal year also show that expenditure was slightly higher than anticipated.

As a country, we cannot readily afford more protracted lockdowns without significant and painful adjustments to the Government's fiscal plan. We join all Bahamians in our desire to see businesses fully reopen and commerce getting back to normal. But as has been stated often, our ability to open fully and stay open will be dependent upon our collective effort and discipline in following the established COVID-19 safety protocols.

The Ministry of Finance is currently reassessing its projections to adjust possible outcomes and policy responses where necessary, even if it means having to make difficult decisions in the future. We will do whatever is necessary and possible within the boundaries of what we can afford.

III. Fiscal Outcomes for FY2019/20

Mr. Speaker,

What we are experiencing now is the fall-out of two exogenous shocks that hit in FY2019/20. As laid out in the Government's fourth quarter fiscal report issued last week, fiscal outcomes for the 2019/20 fiscal year were predominantly driven by the unprecedented impacts of Hurricane Dorian and the COVID-19 pandemic. The Government had tabled and passed a Supplementary Budget in January of this year, which revised the new estimated deficit upwards to some \$677.5 million, or 5.3 percent of GDP. The expected revenue loss and increased outlays for rebuilding and restoration necessitated such a fiscal adjustment. Still, the impact of yet another external shock—COVID-19—altered the revised estimated outcome and resulted in an estimated fiscal deficit of some \$788.1 million, or 6.5 percent of GDP for the 2019/20 fiscal year. This was roughly in line with the \$770.0 million projected for the year-end at the time of the 2020/21 Budget Communication.

Mr. Speaker,

During the last fiscal year, revenue performance weakened by \$337.1 million to \$2.1 billion, comprising 87.2 percent of the revised budget. This happened against the backdrop of subdued economic activity in the final quarter of the fiscal year amid the shutdown of the economy.

Expenditure grew by \$231.7 million to \$2.9 billion. Specifically, recurrent expenses increased by \$86.3 million to \$2.5 billion, featuring approximately \$34.7 million in expenditure related to Hurricane Dorian, and another \$17.8 million to support the COVID-19 measures. A further breakdown of these expenditures include unemployment assistance, food assistance, and more.

Similarly, capital outlays expanded by \$145.3 million to \$368.7 million, owing mostly to water and electricity restoration activities in Abaco and Freeport, clean up, and other repairs in the aftermath of Hurricane Dorian, which totalled \$94.0 million for the year. In addition, \$39.5 million was spent toward COVID-19 initiatives, which mostly consisted of business continuity loans to small and medium businesses through the Small Business Development Center (SDBC).

IV. Implementing the Fiscal & Economic Plan

Mr. Speaker,

I now turn to the implementation of the Government's fiscal and economic plan. So far, we are enforcing the planned cut in non-essential expenditure allocations by 20% across all ministries so as to contain discretionary expenditure. As part of our economic mitigation strategy, however, we have maintained critical expenditures in priority areas such as public health, social support, public infrastructure, small business support, and employment retention, including the retention of public sector employment levels.

Public health spending has accounted for the largest COVID-19 related outlays to date, between last fiscal year and the current; it remains a priority focus and a core part of our fiscal and economic strategy. The Government allocated some \$35.2 million in the current budget to the Ministry of Health, to assist with the detection, treatment, and mitigation of COVID-19.

Actual health-related COVID-19 expenditures as of June 30 included over \$10.8 million, including funds to set up and manage quarantine facilities, expand existing healthcare facilities, purchase protective equipment and other medical supplies, support the COVID-19 response in the Family Islands..

Mr. Speaker,

Expanding social support continues to be a core part of our fiscal and economic plan. Hence, from the onset of the pandemic in the country, the Government quickly executed an expanded unemployment assistance program to support self-employed persons who would not ordinarily qualify for the unemployment benefit under the National Insurance Board (NIB) benefit scheme. This program ran from late March to June and was extended in the 2020/21 Budget to run into the first half of the new fiscal year. To date, 7,115 persons have benefitted from this program, with a total of \$15.4 million paid out, and into the hands of Bahamians.

The House would recall that the Government also funded a special extension of unemployment benefits for unemployed persons who had exhausted their standard NIB benefit. This programme is continuing its 13-week time period. There are 28,478 persons who have benefitted from the initiative, with payments to date totalling \$37.9 million.

It is important to remind the House that these outlays are not standard NIB benefits, but instead represent a special and targeted programme designed and financed by the Government to help address the vast economic dislocation caused by the pandemic.

For the information of the House, under the regular unemployment benefit scheme funded directly through NIB contributions, some 38,598 persons have applied to date. From its own resources, NIB has paid out some \$93.3 million directly to those beneficiaries.

Combined, these programs have supported approximately 43,200 persons, and poured some \$146.5 million into the domestic economy.

Regarding food support, the Government was allocating approximately \$1 million per week to the National Food Distribution Task Force, which to date has assisted some 110,000 persons. Beginning last week, the Government increased this allocation to \$1.3 million per week, given the increased demand for support. Data from the Department of Social Services indicates that to date, approximately \$11.9 million has been disbursed through the task force to participating non-governmental organisations, who have been working tirelessly to assist those in need.

I pause to say thank you to all of those who are volunteering to be a part of this massive undertaking. I say thank you as well to the thousands of Bahamians who are making donations regularly to supplement the effort.

Mr. Speaker,

Employment retention continues to be a priority focus, and a core component of our fiscal and economic plan. The Government rolled out the Tax Credit and Deferral Employee Retention program at the Department of Inland Revenue which, in its first phase, allowed businesses with a turnover of \$3 million or more to receive a mix of VAT and Business Licence credits and deferrals for up to three months. In the second phase, which runs until October 2020, the Department of Inland Revenue extended the application to all qualified VAT registrants, which meant that once a company had a turnover of \$100,000 or more, it could apply to receive these credits and deferrals. To date, some 80 businesses were approved under this program and have received some \$22.9 million in tax credits and deferrals. This has translated into saving some 9,004 jobs within the domestic economy, as companies are required to spend the amount granted in credits and deferrals on payroll expenses.

Further, the Government made the conscious decision as part of its commitment to employment retention to maintain the employment of civil servants and persons employed in state owned enterprises.

Lastly, Mr. Speaker,

Strengthening the domestic economy by supporting small businesses continues to be a priority focus, and a core component of our fiscal and economic plan. In the FY2020/21 budget, the Government has allocated some \$55 million to radically expand its support for Bahamian entrepreneurs and small business – in large part to assist them through this most challenging economic period. As of June 30, however, the Government disbursed \$39 million to SBDC for its business continuity and other programs. Approximately 545 small businesses and entrepreneurs benefited directly from the SBDC’s COVID-19 business continuity initiative... Collectively, these businesses represented 4,304 jobs, which were protected because businesses were able to use the proceeds to support their operations, and to help meet payroll.

V. The Way Forward

Mr Speaker,

To meet these and other obligations, the Ministry of Finance is currently using the \$1.3 billion borrowing authority approved by Parliament under the FY2020/21 Budget. Under this authority, last month, we accessed \$248 million as part of a \$300 million bridge financing deal. We are also in the process of concluding a \$200 million transaction with the Inter-American Development Bank and a \$40 million facility with the Caribbean Development Bank. Further, we are readying ourselves for a capital market transaction as soon as market conditions permit and have under consideration other transactions to ensure that we can cover our budgetary requirements for this fiscal year.

I am pleased to advise the House that, notwithstanding the country’s formidable economic challenges, the domestic and international markets continue to have confidence in The Bahamas. The success of the government in raising the necessary funds is a testament to this. Even in this constrained environment, the government remains extremely vigilant in the management of its fiscal resources. The position of the Public Treasury is secure, and the viability of the Bahamian dollar and the exchange regime remain robust.

We intend to continue our commitment to not raise taxes. The economy is still in a fragile position and adding additional taxes to that is not going to help with the growth and expansion that we need or the stabilization of the existing economic base.

Of course, the Government is contemplating economic growth strategies as part of a long-term recovery plan, including diversification within the tourism sector and within the broader

economy. The Prime Minister will speak to these areas when he reports on the recommendations of the Economic Recovery Committee. However, our immediate priority in the middle of the crisis is to remain true to the Resilient Bahamas Plan we articulated during the budget exercise - the plan to do as much as possible to support the public health care system and to provide tens of millions of dollars to support Bahamians displaced by COVID-19, as well as the Bahamian business community. While this is happening, the Government and the Economic Recovery Committee are shaping the plans and strategies for what is to happen as we emerge from the crisis.

As the Prime Minister announced in his national address to the nation on August 24th, the Economic Recovery Committee has provided some interim recommendations ahead of its final report, which is expected to be submitted this month. These early recommendations include fast-tracking the approval of all pending viable private sector and construction projects that are currently under consideration, which the Government has already begun to facilitate. In addition, the Government is looking for ways to provide special support for the creative community and further support for small businesses and entrepreneurs, to ensure that they have the necessary resources to provide their goods and services. These initiatives help to provide jobs and increase economic activity, which is critical to the reopening of the economy.

Consistent with our plan, we are seeking external financing to cover our budgetary shortfalls and to support healthy external reserve levels. It is a strategy that is working: Notwithstanding the fact that we are five months plus into the near full shut down of our primary export sector - the international tourism market - our reserves remain at a fairly healthy \$2.1 billion - equal to 38 weeks of import cover and close to levels at the start of the pandemic. The position of the Public Treasury is secure, and the viability of the Bahamian dollar and the exchange regime remain robust.

This government has a plan. It is working its plan. And despite all the challenges, the viability of the Bahamian dollar and the exchange regime remains robust. Although the situation is fluid, we are confident that we have enough reserves to take us through this difficult time until we fully reopen the tourism sector.

Mr. Speaker,

The bottom line for the way forward is that we need the domestic economy up and running, and we need to get the tourism sector moving again: urgently and safely.

Public anxiety about the economic crisis is real and valid; however, if lives are at stake, public health priorities must take precedence. If our cases continue to increase, that too will dampen consumer demand, participation in the economy, and curtail any visitor arrivals. No one wants to live in or travel to a COVID-19 hotspot, particularly one that is offshore with medical facilities that are already taxed by local demand.

Unfortunately, there is no magic wand to reconcile the public health and the economic welfare objectives amid a global pandemic. We must tackle and achieve success on both fronts by working together.

This is not a job for the government alone. It is dependent on us and our collective behaviour. Each one of us must do our part to reduce the transmission of this virus in order to safely restart the economy. In our homes, on our jobs and on the road, each one of us must take this virus seriously and do our part to reduce transmission.

If we can adhere to the health protocols and govern ourselves with discipline and accountability, we can and will safely reopen our economy. Our fiscal and economic health, and the livelihood of Bahamians depends on it.