



COMMONWEALTH OF THE BAHAMAS

THE ANNUAL
BUDGET

2020/2021



BUDGET COMMUNICATION
FY 2020/2021

From Crisis to Opportunity
AN UNPRECEDENTED BUDGET FOR UNPRECEDENTED TIMES

PRESENTED TO THE HOUSE OF ASSEMBLY
BY THE HON. K. PETER TURNQUEST, M.P.
DEPUTY PRIME MINISTER & MINISTER OF FINANCE
ON WEDNESDAY, 27TH MAY 2020

i. Introduction

Mr. Speaker,

I rise in this Honorable House on behalf of Bahamians everywhere, most particularly the good people of East Grand Bahama, Grand Bahama as a whole, Bimini, and the Abacos, who have and are struggling with the double catastrophic effects of a Category 5 hurricane, and now a Pandemic that threatens the entire archipelago, and indeed, countries around the world.

Mr. Speaker,

The last two Budgets that I have had the honor to present have been about providing economic stability and recovering from past gross financial management, or lack of fiscal restraint by the former Administration.

This Budget is about providing support for the people of The Bahamas, creating new opportunities for our country and setting the foundation for a stronger, more resilient and sustainable economy and society, which we themed “From Crisis to Opportunity.”

This is perhaps the most important policy document published by any Government in its fiscal year—The Annual Budget. It represents the values we hold dear as the Government of the day; articulates the Government’s vision for the wellbeing of its people, during ordinary and extraordinary times, and shares how the Government plans to raise and spend public funds for the collective benefit of every man, woman and child in the Islands of The Bahamas.

a. A Change in Circumstance

Mr. Speaker,

This is not a time for soaring rhetoric or empty partisan crossfire. In the face of these historic, extraordinary times, the Bahamian people expect a plan— a strategy that is responsive to their needs and defined by the values we believe in, as a party and as a Government.

My role today is not to lull the Bahamian people into a false sense of comfort. There will be no sugarcoating of the situation we face. I trust that the Bahamian people understand the challenges with which we are confronted because COVID-19 has changed the lives of every Bahamian in one way or another.

Unprecedented times call for an unprecedented Budget; and today, Mr. Speaker, I will lay out the Government’s comprehensive Budget plan for the fiscal year 2020/2021, explaining how we intend to address the pressing fiscal and economic realities we face as a country, as we forge onwards to restore our people, and restore our nation.

This Budget is unlike any The Bahamas has ever seen before. Fittingly so, because the past 12-months have been unlike anything the country has ever experienced.

From the onset, I want to be clear. The budget has five critical aims: It is about protecting the health and safety of Bahamians; it is about providing adequate social support to vulnerable members of our community; it is about stabilizing the domestic economy; it is about sustaining employment, and it is about accelerating our Government reforms.

These are not just theoretical ideas; they are not simply aspirational. These priorities show exactly how we are investing public resources.

What does this look like in practice? A feeding program that can reach more people for a longer period of time. An unemployment assistance program that puts cash in the hands of more than 20,000 people, as a form of income replacement. In practice, it means supporting and growing more small businesses with grants and expanded investments, creating more jobs and securing more livelihoods. Mr. Speaker, what will be evident from this presentation of the 2020/2021 Annual Budget is a clear plan, grounded in the reality of our circumstances, sensitive to the needs of the most vulnerable, guided by our priorities as a Government and designed to transform this crisis into an opportunity for our future prosperity.

For the past three years, our objective has been to achieve sustainable economic growth over the medium and long-term. A key component of our strategy has been fiscal consolidation, which is about taking public finances towards a balanced position overtime through revenue enhancement and expenditure containment. While the economy was in growth mode, the Government took the necessary steps to bring down the deficit and create a plan to contain our debt growth. We did this with great success, Mr. Speaker, establishing a track record of deficit reductions and fiscal responsibility.

We did this while taking unparalleled steps to invest, first and foremost, in Bahamians. Let us not forget, this Government made one of the most significant investments in education in Bahamian history through the implementation of a free education initiative from preschool to university. In this new Budget, we are staying true to our promise to increase access to education with millions of additional resources directed towards free education for UB and BTVI students. We continue to fund the Universal Pre-Primary Education initiative to make quality preschool education more inclusive and accessible. Even with the current constraints we have, we are ensuring that Bahamians are prepared to maximize their participation in the transformed economy.

Despite the continuous attempts by some to misrepresent our record, we proved our ability to shrink a significant deficit while affirming our commitment to our citizens. All the while, we made the records of our performance public in a way no other Government has done before. As I suspect the question may come up from the Opposition during the Budget Debate, I want to remind the Opposition upfront that this Government launched the practice of releasing quarterly budget performance reports so that Members Opposite and the Bahamian people can see exactly where money is being spent. It is the most transparent action taken by any Government when it comes to in-year budget performance reporting. This practice of transparency and accountability will continue as long as this Administration has a say about it.

Further, Mr. Speaker, we have brought this idea of transparency to life with a new approach to public engagement and outreach around the Budget. While we still release the cumbersome book

of Draft Estimates of Revenue and Expenditure, thanks to the hard work of the team at the Ministry of Finance, Bahamians can find straightforward, interactive and visual representations of Budget information in ways they never have before. Transparency is not just about access to information. It is about making information accessible. In other words, plain to see and easy to understand.

This is even more important with the Budget this year, as many Bahamians are in their homes, connecting virtually. I encourage Bahamians to connect with us through our website and social media for the facts about this Budget.

b. Overview of the Crisis

Mr. Speaker,

It will be no surprise that this Budget is largely defined by the economic emergency that has been thrust on us by the Coronavirus (COVID-19) Pandemic, and the still rippling economic impact of the monstrous and catastrophic Hurricane Dorian. Together, these events have delivered the fastest, deepest economic shock to The Bahamas since the onset of the Second World War. Needless to say, these events have forced us to shift to a new course of action.

COVID-19 has increased pressure on Government revenues, and on public expenditure. It has suppressed our export sector; temporarily shut down our domestic economy; and dramatically slowed our short-term prospects for economic growth. This comes on the heels of an economy that was already just slowly recovering from a catastrophic hurricane.

Because of current realities, the landscape we operate in has completely changed. It demands a different approach and a different set of solutions from the Government. Even though our ultimate objective has not changed—to achieve sustainable growth for both the medium and long-term, in The Bahamas—our short-term strategy and our overall thinking about the future has had to shift. Today, I will do my best to clearly detail our immediate plan for restoration, including our vision, our strategy, and the solutions we propose, so that the Bahamian people can fully understand the significance of the 2020/21 Budget.

Mr. Speaker,

While many countries are now on the precipice of economic desperation, fortunately, The Bahamas has been held up as a model in the region for its effective management of the crisis, particularly for our compassionate care of people, and our structured reopening plan. The unpredictable impulses of this highly contagious and deadly virus have tested and shaken the foundation of even the largest and most well-resourced nations of the world. But here in The Bahamas, Mr. Speaker, I hope the entire House would agree, our response, although not without stumbles, has been remarkably comprehensive, targeted, compassionate and effective.

c. Hallmarks of Our Response

Mr. Speaker,

I am proud to say on this Budget morning that this Government did not waver in responding to the needs of the Bahamian people from the onset of this pandemic. For the three months to June, we allocated over \$140 million in our policy response to COVID-19. As many would be aware, this response included:

- Providing direct social assistance through the food and unemployment assistance programs,
- Supporting employee retention with tax credits and deferrals directly to support the non-executive payroll expense of impacted medium and large businesses,
- Extending business continuity grants and loan support for small businesses,
- Increasing funding allocations to the public health sector to ensure its readiness for the detection, treatment and mitigation of the virus, and
- Expanding subventions to the utility companies to support the bill payment waivers offered to impacted persons.

To illustrate the extent of our initiatives, as of mid-May, the National Insurance Board (NIB) paid out some \$6.2 million for the Government funded unemployment assistance program. We created this program to assist self-employed individuals, who would not normally be eligible for an unemployment benefit from NIB. Under the standard Unemployment Benefit Scheme, NIB also paid out \$28.8 million in benefit claims to those laid off as a result of the virus. This has covered just over 26,000 people since the end of March.

For the business community, 284 small businesses were approved for loan financing— representing a collective \$19.4 million in funding. Similarly, the Government advanced a business tax credit and deferral initiative to minimize further private sector job losses. The Department of Inland Revenue approved 44 companies, who collectively benefitted from some \$5.7 million in tax credits and deferrals. These Government loans, grants and deferrals have protected roughly 5,400 vulnerable jobs.

With respect to the health situation, the Government has expended \$3.1 million to construct a new COVID-19 support unit at the Princess Margaret Hospital, at the Rand Hospital, as well as additional beds at the Grand Bahama Cancer Association to accept overflow patients depending on the need.

Mr. Speaker,

I want to congratulate the Honorable Prime Minister for his leadership, and the entire citizen's force of essential workers in Government, the private sector and civil society, who continue to carry us through so valiantly. I must at this point express our sincere thanks for the dedicated and committed work of many doctors, nurses and allied health professionals, grocery workers, sanitation workers, bankers, and all essential personnel who work so hard on our behalf. Without them, the response I just outlined would not have been possible. We will continue to rely on them, even as we have begun our five step phased reopening, because our work is far from over.

Unfortunately, all too many Bahamians will continue to feel the hardship of these unprecedented times for weeks and months to come. Most sectors of our economy will take time to restart and

many businesses will need time to rebuild and rebound. The Government's contributions to the economy will be a vital lifeline to keep the economic engine running, and to deliver the impact we seek from our immediate restoration plan.

d. The Restoration Plan

Mr Speaker,

This Administration is still very much committed to delivering a modern Bahamas that is resilient, dynamic, inclusive, and sustainable. However, we cannot fool ourselves about where we are today. COVID-19 has thrust The Bahamas and the world into this crisis, and we are still in the thick of the emergency. The 2020/21 Annual Budget represents our answers now to the challenges we face today. In contrast to the medium and long-term **recovery**, our **restoration plan** demands that we take actions that will have an **immediate** and meaningful short-term impact.

We have named the Budget plan, "**Resilient Bahamas: A Plan for Restoration**", because we seek to achieve the following **objectives**:

1. Protect the wellbeing and engender the confidence of our citizens and residents;
2. Maintain economic stability during the COVID-19 induced crisis; and
3. Plant the seeds for accelerated recovery.

In doing so, we will transform this crisis into an opportunity for our economic and national revival.

As mentioned at the opening, our approach is clear:

1. The Government will not compromise public health and safety;
2. The Government will not contribute to any further unemployment;
3. The Government will not let its citizens go hungry; and
4. The Government will do all that it can to stabilize the economy and prepare it for a strong and robust rebound.

Mr. Speaker,

This approach reflects the important value we place on national unity in times of crisis, the value we place on responsible, proactive and forward-looking governance, and the inspiration we get from the resilient spirit of Bahamians. We maintain that this strategy is the best course of action to restore our nation from the ashes of this crisis.

ii. The Global Economy

Mr. Speaker,

I now turn to an overview of global prospects and domestic performance, which set the macroeconomic context for fiscal performance in 2019/20 and projections for the 2020/21 Budget.

The threat of COVID-19 is two-fold, given its life threatening public health ramifications, and the associated economic outcomes. The pandemic has already triggered a downward revision of global growth prospects for 2020 and into 2021, and no sector has gone untouched. As a service-based economy, this is of particular importance to The Bahamas, and will undoubtedly change the landscape for the upcoming 2020/21 fiscal year.

Prior to the outbreak of the coronavirus, global indicators signaled a slowdown in growth, due to rising trade barriers, geopolitical and trade uncertainty, and macroeconomic strain in a number of emerging market economies, among other factors. This, compounded by a pandemic, which practically halted economic activity across the globe, underpinned a severe downturn in projected global output for 2020. According to the International Monetary Fund's (IMF) World Economic Outlook for April 2020, global output is now forecasted to decline by 3.0 percent in 2020, a sharp turnaround from the 3.4 percent growth estimated in its October 2019 release.

To put this into context, at the time of the Budget Communication last year, global output was projected to grow by 3.6 percent. In just one year, a lagging trade war, structural factors, fiscal tightening, and now a global pandemic has caused a 6.6 percentage point reversal in growth projections for 2020. This is an outcome far worse than the 2008/09 global financial crisis. These are certainly uncharted waters, not only for The Bahamas, but for the entire world.

Mr. Speaker,

The redeeming characteristic of this bleak and dire outlook is that economic downturns related to pandemics are usually V-shaped. This means, they begin with stark declines, but are generally followed by a relatively quick and robust recovery. As such, global growth is projected to rebound to 5.8 percent in 2021, as a result of policy support measures to underpin the return of economic activity.

Mr. Speaker,

As our key source market for tourism and primary trading partner, prospects for the United States (U.S.) are paramount to the fiscal and economic outlook for The Bahamas. Real GDP in the U.S. is anticipated to contract by 5.9 percent in 2020. Although there has been some relaxation of social distancing and economic shutdown measures across various states, it will take some time to reverse the adverse effects of diminished confidence. Nevertheless, the large stimulus package offered by the U.S. Government and monetary measures taken by the Federal Reserve to expand liquidity are likely to provide a direct impetus to aggregate demand. These actions are posited to drive projections for 2021 that show a rebound in real GDP growth to 4.7 percent, but these estimates remain uncertain. Similarly, the Eurozone area and the countries of the pan-pacific region all anticipate major economic fallout for the rest of 2020 and beyond.

Mr. Speaker,

All told, prospects for the short- to medium-term reveal sharp contractions, followed by recoveries in the following year, barring any unforeseen shocks. In this environment, it has been

acknowledged that robust fiscal and monetary policy support programs will be vital for all economies to rebound.

iii. The Domestic Economy

Mr. Speaker,

Despite the passage of Hurricane Dorian in September 2019, the domestic economy upheld its growth momentum, against the backdrop of robust activity in the nine months leading up to the storm in a number of key sectors. Construction sector activity continued to be supported by several Foreign Direct Investment (FDI) projects, of varying sizes, which accompanied a robust tourism season.

In particular, performance in the tourism sector saw notable gains in the Family Islands that were not impacted by the September storm. Tourist arrivals exceeded 7 million in 2019, marking the highest levels of arrivals recorded in the history of The Bahamas. However, this momentum was interrupted by the initial impact from COVID-19, as the virus began to spread from China into the western hemisphere.

In the first quarter of 2020, total visitor arrivals declined by 14.7 percent to some 1.7 million visitors, as compared to the same period of 2019. A categorical breakdown shows that the high value-added air segment fell by 28.0 percent, reflecting a slowdown in international travel amid virus fears and national border closures during the last week of March 2020. Sea arrivals decreased by 10.5 percent to 1.3 million, as cruise lines suspended all of their routes until June for some, and for others until November 2020.

Mr. Speaker,

Nevertheless, the modest yet positive pace of economic activity that prevailed prior to COVID-19 set the foundation for steadying the outturn for a number of other economic indicators. In particular, the unemployment rate stabilized at 10.7 percent in December 2019, relative to November 2018.

However, when compared to May 2019, the jobless rate increased from 9.5 percent to 10.7 percent, owing mostly to job losses associated with Hurricane Dorian. Specifically, the number of employed persons decreased to 152,640 in December from 215,000 in May 2019.

Although international oil prices registered a slight rise coming toward the end of 2019, the recent low in global prices has spurred an associated decrease in domestic energy prices. In March, Brent Crude Oil prices decreased by 13.3 percent to \$50.48 per barrel, relative to April 2020. When compared to March 2019, oil prices registered a decline of 23.5 percent over the year.

There were two main drivers of this: the coronavirus pandemic on the one hand, and a price war and oversupply on the other hand, due to the failure of the two largest producing members of the Organization of Petroleum Exporting Countries (OPEC) to reach an agreement.

This has transferred into price reductions in electricity bills for Bahamian consumers and businesses. The fuel charge charged by Bahamas Power and Light (BPL) decreased by 36.3 percent to \$11.32 per kilowatt hour (kWh) in May 2020, as compared to May 2019. On a monthly basis, the fuel charge fell by 26.1 percent.

Mr. Speaker,

On the monetary front, both liquidity and external reserves were boosted by reinsurance inflows following Hurricane Dorian last September. By extension, overall money supply (M3) grew by 11.0 percent in 2019, exceeding the year earlier 1.0 percent expansion, and being underpinned by a buildup in private sector demand deposits in 2019. In addition, domestic credit showed a slight uptick, supported largely by a 3.1 percent rise in foreign currency credit, while Bahamian dollar credit grew marginally by 0.4 percent. Growth in Bahamian dollar credit was primarily explained by an increase in net claims on the Government, and credit to the private sector—the latter of which was cushioned by damage repairs in the aftermath of Hurricane Dorian.

As of this past Friday, May 22nd, external reserves stood at \$1.986 billion, which is equivalent to some 28 weeks of imports. This robust level of foreign reserves has been consistent from late February into March, and has been sustained against the backdrop of the Emergency Powers Orders, which closed all non-essential businesses, thereby dampening import demand. It is anticipated however, that once the economy reopens, there is likely to be a subsequent drawdown on reserves to respond to the rebound in consumer demand. The Central Bank, in conjunction with the Ministry of Finance is working to ensure that the level of external reserves remains at an adequate level to support the viability of the US currency peg by facilitating the bulk of the deficit financing requirements in foreign currency.

In light of the projected impact of COVID-19 on the international market, and its trickle down effects on our domestic economy, which is highly vulnerable to external shocks, the Central Bank has forecasted that real GDP in The Bahamas will contract by some 12 percent.

Mr. Speaker,

With this snapshot of the domestic economy, it is clear that the outlook for the near-term is very subdued, and our rebound will be heavily dependent on how quickly travel resumes. As sobering as this should be, we must also remember the nature of economic downturns related to pandemics; a sharp and sudden downturn followed by strong recovery.

Despite the stark decline we are seeing today in our various fiscal and economic indicators, we will move onward from this crisis. There are a number of independent economic indicators to give the Bahamian people hope and reassurance. Most recently, we have seen prospects for the near-term that indicate an appetite for private sector investment. The Cruise Port's \$130 million bond offering was oversubscribed when it closed on May 18th. This signals that, despite the uncertainty surrounding COVID-19, investors are confident in the tourism industry generally, and the recovery of the cruise industry and revitalization of Downtown Nassau, in particular.

Mr. Speaker, we can also look with pride and confidence at the entrepreneurial spirit of Bahamians, and the way small businesses have sprung into action. With shifts in manufacturing, the adoption of digital platforms and the growth of delivery services, Bahamians entrepreneurs are innovating to meet the new demands for products and services during this lockdown. Our values as an Administration dictate that we take action to reinforce this entrepreneurial spirit, and this Budget does just that.

iv. Fiscal Performance in FY2019/20

Mr. Speaker,

Now that the macroeconomic context has been set, I want to take this time to update this Honorable House and the Bahamian people on performance for the 2019/20 fiscal year.

At the time of the 2019/20 National Budget, I mentioned that this Administration had envisioned our approved budgetary operations resulting in a fiscal deficit of approximately \$137 million, or 1.0 percent of GDP. After accomplishing a 67 percent reduction in the deficit since assuming Office, we were indeed well on our way to achieving our established fiscal targets in our steady move toward a balanced budget.

However, Hurricane Dorian swept through this nation only two months into the Budget year and quickly derailed the approved estimates, which resulted in the tabling and approval of the Supplementary Budget.

Mr. Speaker,

Up to the nine month mark—the latest published and available monthly data—we were performing on target with the Supplementary Budget estimates, underpinned by what had proven to be a strong revenue performance and the roll out of a number of hurricane recovery and restoration measures. Given the robust level of economic activity in the first half of the fiscal year, despite the September storm, overall performance for the nine months to March 2020 was relatively buoyant.

Total revenue grew by \$68.9 million, or 4.1 percent to \$1.7 billion over the nine-month period—representing 73.4 percent of the budget—as compared to the same period of FY2018/19.

Mr. Speaker,

On the expenditure front, recurrent expenses moved higher by \$112.7 million or 6.6 percent to \$1.8 billion in the nine months to March 2020—equating to 67.5 percent of the Budget—being boosted by a union lump sum payment-led \$47.9 million, or 9.1 percent increase in compensation to employees. Recurrent expenses related specifically to Hurricane Dorian amounted to \$14.1 million for the nine month period, including \$7.9 million in allowances to displaced civil servants, \$2.7 million toward landfill operations, and \$0.5 million in food assistance. Further, the Government paid an additional \$48.4 million in FY2019/20 in arrears payments as at April 2020—just below 50 percent of the budgeted amount, bringing the total paid off since the beginning of

the arrears program to a revised \$230.1 million. To date, we are left with a balance of \$85.5 million to repay from the more than \$300 million backlog of old bills we met when we assumed Office.

Capital outlays widened by \$70.8 million, or 55.2 percent over the previous fiscal year to \$198.9 million, or 51.6 percent of the Budget, primarily explained by hurricane related spending. Specifically, approximately \$20.0 million was earmarked for the rehabilitation of power supply on Abaco, with another \$5.4 million spent on water restoration activities in the affected islands. An additional \$13.1 million was allocated for debris removal and clean up on both islands, and another \$0.3 million on machinery and equipment. Up to March 2020, the Small Business Development Center (SBDC) had disbursed approximately \$2.9 million in loans for businesses affected by Hurricane Dorian, in an effort to facilitate their reopening. This figure has since expanded to \$3.4 million.

Mr. Speaker,

Given these developments, the fiscal deficit widened to \$255.9 million in the nine months to March 2020, as compared to \$140.3 million in the comparable period of FY2018/19. This equates to some 37.8 percent of the revised Budget.

Mr. Speaker,

It goes without saying that the impact of COVID-19 has altered, yet again, the budget estimates for FY2019/20. To address the pressing health concerns and to ensure that resources were made available to individuals and businesses facing the brunt of this crisis, this Administration took the necessary steps to increase expenditures and forgo revenues, which placed upward pressure on the overall fiscal balance.

Total expenditure as a result of the assistance programs for food, unemployment, and additional outlays to the Ministry of Health for the detection, treatment and mitigation of the coronavirus are expected to cost the Government some \$83.6 million between March and June 2020. The Tax Credit and Tax Deferral Employee Retention Program is anticipated to undergird some \$60.0 million in revenue loss through the end of FY2019/20.

Taken together, with total revenues expected to decline to roughly \$2.1 billion, and expenditures estimated to rise to some \$2.8 billion at the end of FY2019/20, we now project a deficit of some \$770.0 million, or 6.4 percent of GDP for the current fiscal year. Compared with the Supplementary Budget estimate, this represents a widening in the deficit of some \$96.0 million, or 1.1 percentage points in the GDP measure.

Consequently, total Government Debt is forecasted at some \$8.2 billion at end-June, or 67.9 percent of GDP, as compared to the estimated 64.4 percent at the time of the Supplementary Budget.

Mr. Speaker,

The substantial impact of COVID-19 on our economy has already generated reaction from the international market. Standard & Poor's recently revised our sovereign debt rating down one notch to BB last month. Although this was expected, it is a prime example of why we are developing a robust and strategic recovery plan, so as to mitigate against future downgrades, and the attendant negative elements that are attached to downgrades.

I would note here that the Government is intent on focusing its debt management strategy over the medium term, to effect the best benefit to the citizens of The Bahamas. In this light, we are in the process of a debt conversion for a number of loan facilities that will allow us to lock-in fixed rates in a low interest rate environment. This should result in debt servicing savings even in the near term.

Though it will not be easy, we can glean on the lessons from a number of our regional counterparts that it is better to address these issues sooner, rather than later. To restore the fiscal affairs of our country, this Administration will remain disciplined in its fiscal management over the medium to long term.

v. Fiscal Policy Measures in This Budget

Mr. Speaker,

I now turn to an overview of the fiscal policy measures within this Budget, which represent one aspect of our solution to the ongoing crisis.

a. Rationale for Fiscal Policy Decisions

While I will speak to the numbers in greater detail later, let me say upfront that the Resilient Bahamas Plan will come at a necessary but unprecedented cost. What is at stake is the unquestionable need to protect the Bahamian people, stabilize our economy and transform this crisis into an opportunity for our national restoration.

To do this, we expect to run a deficit of some \$1.3 billion, or 11.6 percent of GDP in the new fiscal year. The imperative of investing in a strategy like the Resilient Bahamas Plan, coupled with the associated revenue loss from subdued business activity will result in an unprecedented fiscal deficit.

Mr. Speaker,

We have come to these decisions after careful consideration of many other options, including direct tax increases and draconian cuts in expenditure. However, there will be no tax increases. Let me say it again: There will be no increases in taxes.

While there may be headcount reductions due to retirements and expiring contracts for consultants and services, there will be no public sector layoffs. There will be no one left to fend for themselves while the economy is reeling from the worst slowdown in modern history. We will stand united in support of people and communities, businesses and consumers, who are already feeling the strain

Mr. Speaker,

We have studied the COVID-19 responses of prudent Governments in the region and around the world, and as a result of COVID-19, most Governments have found themselves in this very position of major deficit spending. Daily as we watch international news, we see Governments undertaking unprecedented spending measures. They like us recognize that a Government has a unique mandate and responsibility in times of crisis and we will do our part.

This is not the ideal circumstance we find ourselves in. Far from it. It was just last November that I reported to this House the lowest fiscal deficit in The Bahamas in nearly a decade. Prior to Dorian, we were talking about the strongest tourism arrival figures and decreasing unemployment as this Government was fulfilling its promise to restore the economy. But after back to back monumental economic catastrophes, we find ourselves in a very different place and with a very different reality. We cannot be tepid in our response. There is a substantial cost to implementing the Resilient Bahamas Plan. But the prospect of doing nothing—or of doing too little—would lead us to a much less desirable place.

Here is why, Mr. Speaker.

Impact on Government Revenue

Last September, in one single swoop, Hurricane Dorian slashed an estimated \$232 million from Government revenues. And just several months after that, we are now contending with a global pandemic that has made the outlook for Government revenue even more bleak, especially in the short-term.

1. We expect minimal to marginal contributions from our primary export sector—i.e. the tourism industry—in the first four to five months of the fiscal year even as we push for the responsible reopening of the tourism sector
2. We are forgoing millions in revenue from the continuation of Hurricane Dorian tax relief measures for the first half of the fiscal year, and we are providing an extension of tax incentives to help sustain employment and strengthen the domestic economy.
3. And overall, it will take time for businesses to rebound and consumer confidence to return.

When I presented the Budget Communication last year, we estimated the Government would generate \$2.6 billion in revenue. We are forecasting revenue of only \$1.7 billion next year, because of the dual external shocks of Dorian and COVID-19. That amounts to revenue that is \$900 million below where we were this time last year, when the economy was experiencing positive and steady, economic growth.

What does this all mean? Mr. Speaker, the impact of our revenue shortage is one of the reasons for the large deficit we are forecasting this year. The \$900 million in lost revenue potential is equivalent to some 35 percent of total Government annual spending on average. The falloff in planned revenue is an unparalleled blow from these unprecedented economic shocks.

As you can see, we are not sugar coating the severity of the situation we find ourselves in today, and the important role this Budget will play.

Impact on Expenditure

Mr. Speaker,

Now, on the expenditure side. We carefully considered our expenditure options, and ultimately designed the ‘Resilient Bahamas’ Plan in the way we have for the following reasons:

1. We had to consider the fact that the public health threat is not behind us, and that future public health emergencies could spring up at any time. Global pandemics present an existential threat to the health and safety of Bahamians, and **we believe that improving our national resiliency in the public health sector is a spending priority that cannot be delayed because the health of our people is paramount.**
 - In our plan, we increase the public health allocations specific to the COVID-19 response by \$20 million.
2. Dramatic cuts in Government spending could result in a further contraction of the economy when it is already in a weakened state. **We understand the role of government in a crisis and maintain that the Government’s ongoing contribution to commercial activity right now is a lifeline.**
 - In our plan, we made a conscious decision not to curtail spending in certain important areas like education, and to allocate targeted increases for capital expenditure projects, small business development and social welfare spending. The allocation for the Department of Social Services’ budget, for example, will increase from \$49 million to just over \$60 million in FY2020/21.
3. The spike in unemployment across the world has left millions of people without their primary source of income. In The Bahamas, this has created hardship in our communities. More than 55,000 people have already filed for unemployment benefits and assistance with the National Insurance Board, representing over 30 percent of our workforce.
 - **This Administration stands for the dignity of work. Our bond with citizens is defined by partnership, not paternalism.** Therefore, in our plan, we allocate over \$120 million to continue and expand the Tax Credit/Tax Deferral program to provide cash directly to businesses to fund their payroll expenses to help keep people employed.
 - **Our values also demand that no Bahamian is left hungry, or without shelter and care.** In our plan, we allocate over \$85 million to ensure the social safety net is strong enough and wide enough to protect the wellbeing of each and every vulnerable Bahamian and resident.

We gave thoughtful consideration of these options and how they impact the deficit, and we are confident that our proposed solutions provide the best response to the demands of the time.

Notwithstanding, the Government is being judicious in its expenditure for all non-essential areas, and we have made substantial reductions in several areas of recurrent expenditure across all ministries. Our decreases are very targeted, as we are still fundamentally practicing expenditure containment. Towards this end, we have, for example:

- Eliminated the assignment of red plate vehicles to Ministers in order to utilise them in other areas of the public service
- Cancelled all international travel, except in essential circumstances
- Ended the practice of The House of Assembly providing breakfast and lunch
- Reduced a number of allocations on discretionary items. Some 42 out of 58 agencies represented in the Budget will see a reduction in their budgetary allocations this year.

Additionally, a key focus of this Administration will continue to be improving the efficiency and sustainability of State-Owned Enterprises (SOEs). This is a project that cannot be delayed, and must, in fact, be accelerated. Likewise, Government ministries and departments must use technology and innovation to reduce cost and increase efficiency.

All together, our revenue and expenditure measures, and our policy initiatives will lift the country from the depths of crisis to the heights of opportunity. This unprecedented Budget will meet the demands of these unprecedented times. This is our commitment to the Bahamian people. This is our comprehensive plan.

Mr. Speaker, here is a detailing of the fiscal policy measures within this Budget.

b. Economic Support Measures for COVID-19 Fallout

Mr. Speaker,

The Economic Support measures from the fallout of the COVID-19 pandemic will continue to be a priority for the Government. We are allocating over \$250 million to extend and expand the initiatives we implemented in early March into the first half of the upcoming fiscal year. These measures include:

- \$48 million for continued **unemployment assistance** for persons who remain dislocated.
- \$17 million in increased social welfare spending to provide expanded **food assistance** through the Government's food voucher initiative, as well as to support the expansion of other social programs at the Ministry of Social Services.
- As a new measure, we will also fund a **temporary incremental monthly increase of \$50.00 in the Old Age Pension** administered by the National Insurance Board, to aid the elderly who may be dependent on other family members that are now jobless because of the pandemic. NIB is working on a roll-out date for this program and will communicate with the public when it begins.
- \$20 million in contingency funding allocation for **Public Health Sector Support** to ensure sufficient funding for the ongoing detection, treatment and mitigation of COVID-19 in The Bahamas. This will cover the cost for medical equipment and supplies, ensuring

suitable quarantine facilities if needed, and other measures to make certain that this country is fully equipped to combat the spread of the virus.

- \$30 million to **expand the business support and continuity loan program** for Bahamian entrepreneurs and small businesses.
- In addition to the expenditure elements noted above, as mentioned earlier the Government is seeking to defer up to \$120 million in tax collections to extend and expand the **Tax Credit and Tax Deferral Program**, allowing all VAT eligible businesses to access tax credits and waivers for a period of 3 months to cover payroll for management and line staff.

As with the Business Continuity program, this tax credit and deferral program is provided on the condition that businesses use the proceeds primarily to meet payroll needs and to keep people employed.

In addition to the expanded allocations to address the COVID-19 pandemic, the Government is increasing its allocation to National Health Insurance (or NHI) by \$18 million. When the Prime Minister discusses his Health Portfolio, during the upcoming Budget Debate, he will speak in detail of the successes that NHI has had to date and how its expansion will both improve the delivery of health care and rationalize the operations and efficiencies in the health care sector.

Primary care delivery is estimated to cost the Government \$83.3 million each year. Without significant change to the delivery model, this would escalate to \$127.7 million by 2025—an increase of \$44.4 million. The integration and streamlining of these separate healthcare delivery systems are essential to ensure better quality care of patients. Therefore, the Government is proposing for The National Health Insurance Authority (NHIA) to lead a series of reforms, which would effectively and efficiently address these ongoing challenges.

This refocused NHI initiative will require no additional taxation or employer mandate. Most importantly, it will ensure that every Bahamian and resident has consistent access to a family doctor with minimal copay requirements or deductibles. As the changes crystalize, this new streamlined approach is estimated to save the Government of The Bahamas approximately \$62 million over the next 5 years.

The enhanced NHI would help us to move to a more efficient and accountable approach, and more importantly, expand primary health care coverage to every Bahamian. Given that allocations to the Public Health Authority represents our largest subvention to SOEs, the Government cannot give effect to reform in the SOE sector without determining how it will make delivery of basic health care more efficient and effective.

Mr. Speaker,

The combination of these economic support measures are critical elements of our strategy, guided by our strategic priorities to enhance public health and safety, expand social protection, sustain employment, strengthen the domestic economy and accelerate Government reforms and national resilience.

c. Tax Relief Measures

Mr. Speaker,

As one would imagine, the scope for significant tax reductions is marginal in a situation such as the one in which we find ourselves. Nonetheless—and consistent with specific policy priorities—we do propose the reduction of taxes in a few targeted areas. Although pressed to take a conservative approach to Government revenue taxes, we are delivering a guided and focused package of relief measures and incentives.

A full schedule will be published detailing the items to be included in all of the listed categories. However, here are some of the key elements:

- For the agriculture and fisheries industry, we will reduce the duty on fishing materials from 45 percent to 20 percent, effective July 1, 2020. Some of these items include: Fishing rods, reels, lines, tackles and other materials.
- We are also reducing the duty on farming equipment for the use of backyard farming from 25 percent to 10 percent. Some of the items included in this package are spades and shovels, work benches, machetes and hedge shears.
- In an effort to spur construction activity, and thereby mobilize domestic capital, we are reducing the duty on all building materials to 20 percent. This includes but is not limited to: wood, glass, granite, steel, electrical supplies and fixtures, carpet, landscaping material and plumbing materials.
- To support the ongoing Hurricane Dorian Recovery, we will extend the Special Economic Recovery Zone (Relief Order) 2019 to December 2020 in the first instance, which will include all concessions currently available to the qualifying islands. For the period January 1, 2021 to June 30, 2021, the concessions will be extended to cover building materials only. Let me repeat: Abaco and Grand Bahama will continue to enjoy the current VAT and duty exemptions through the end of the year.
- We are removing the duty from Nitrile Examination Gloves (antibacterial gloves), which are used as Personal Protective Equipment (PPE) to make it less costly for hospitals, companies and individuals to acquire these. For a period of one year, we will remove the duty on other PPE items, such as gowns, and other surgical supplies, to ensure our healthcare workers, both private and public, are protected as we continue to fight this pandemic.
- We are expanding the tax-free transfer of land where there is no change in beneficial ownership, with the approval of the VAT Controller.
- We are also reducing duty on a few items to further encourage the adoption of more green technologies and plastic elimination, including duty reductions on environmental sea trash cans to assist in oceanic conservation and reusable metal water bottles from 45 percent to 10 percent; and duty reductions on motorcycles with an engine size of 125 cc or less and electrical motorcycles; from 75 percent to 10 percent. Off-road motorcycles will not be included in this rate reduction.
- And finally Mr. Speaker, we are pleased to announce that for the first time, the Government will provide for a ‘back-to-school’ VAT holiday on school supplies, clothing and select food items for the two-weeks leading to the reopening of schools,

thereby providing millions of dollars in savings in aggregate for parents across the country as they prepare students to return to school. I would note that the tax exemption will only apply to items that are bought inside the country and not those that are imported directly into the country. Just as we want to support Bahamian parents in this costly annual undertaking, we also want to support local businesses. So we want to encourage you to shop at home.

Again, a full schedule will be published detailing the items scheduled for duty and tax reductions.

d. Revenue Enhancement Measures

Mr. Speaker,

To achieve our medium term fiscal goals, we will also be implementing a number of revenue enhancement measures in the 2020/21 Budget. These are mainly prescribed for non-essential goods, as not to further exacerbate the financial burden of those impacted by Hurricane Dorian, and COVID-19.

Mr. Speaker,

Over time, it is common for Governments to review the fee structure within their branches to ensure that fees reflect modern day efficiencies and inflation adjustments. A recent thorough review of our existing fee structure has resulted in a small increase in a few fees, including some storage fees in Customs, and a new, optional category of custom-ordered license plates.

We are introducing vanity license plates at the Road Traffic Department at a fee of \$200 for a set. These are completely optional and will allow persons who wish to have customized plates, the option to choose their own combinations of letters and numbers for a fee.

e. Expenditure Measures

Mr. Speaker,

To help offset the revenue loss associated with the economic fallout and our tax relief measures, I mentioned earlier that we have, where possible and prudent, effected a reduction in discretionary spending across most Government agencies. In this vein, ministries were asked to prioritize spending related to the COVID-19 response and Hurricane Dorian recovery, and to defer non-essential projects which do not directly impact employment for future consideration.

All agencies were also asked to prioritize programs that would retain jobs and boost new job creation to the greatest extent possible. Hence, our push to expedite a number of capital projects that can be easily rolled out to support this objective. This push to support national employment will help to support economic activity over the near-term, which is critical as the economy emerges slowly from the shutdown.

In addition, we have begun discussions with the relevant Unions with a view to seek their support for the pausing of all increments to permanent and pensionable civil servants, as well as temporarily suspending salary increases, and deferring salary increases attendant to promotion exercises. To be clear, the intent will still be to process and grant promotions, as we recognize that some are long overdue. However, the attendant salary increases would be deferred at least until January 2021, when we have a better view of the circumstance. Similarly, any new appointments will happen on an exceptional basis only.

We will also be reviewing all consultancies to determine which can be deferred or canceled. Retirees will be allowed to naturally complete their engagements and will not be renewed over the next year. However, these measures will be monitored, and may be adjusted as the economic and fiscal situation develops, including the payment of back pay related to promotions and increments.

Mr. Speaker,

Over the past year, we have made some strides in preparing the groundwork for the reform of SOEs. However, the need to accelerate this reform has become abundantly clear, with the added pressure of COVID-19 relief on public funds. For FY2019/20, SOE subventions represented nearly 16 percent of recurrent expenditure. Notwithstanding additional outlays due to the impact of Hurricane Dorian, this level is simply unsustainable.

Thus, we have asked all SOEs to implement a mix of cost savings and revenue enhancement measures this Budget year. As a result, we are budgeting to receive some 10 percent, or roughly \$21 million in savings from a decrease in subventions to these entities. Over the medium term, it is the intent of the Government to further rationalize these entities. The main objective is to push SOEs to become self-sufficient, thereby alleviating the need for the Central Government to subsidize their operations on an annual basis. To this end, we have targeted a \$100 million annual reduction in subventions over the next four years, as these entities move to optimize efficiency and cost recovery strategies.

These cost recovery strategies may include the introduction of user fees in some cases, or an increase in existing fees for other SOEs as a way to enhance revenue. Similarly, some SOEs may opt to adopt cost reductions such as merging, reducing operating costs, or revamping services with a view to eliminating non-efficient services.

vi. Fiscal Outlook for FY2020/21

Mr. Speaker,

Given the host of policy measures I have just laid out, I wish to return to a more detailed look at the Budget numbers and assumptions associated with the fiscal outlook for 2020/21.

In November of last year, the Government invoked the Exceptional Circumstances clause (13) of the Fiscal Responsibility Act, 2018, which allowed for a temporary departure from the prescribed fiscal targets, given the impact of Hurricane Dorian. As such, we presented within the 2019 Fiscal

Strategy Report a Fiscal Adjustment Plan, which envisioned a return to compliance with a fiscal deficit ratio of 0.5 percent within five years, or by FY2024/25.

However, the impact of the COVID-19 pandemic has presented yet another exceptional circumstance for the Government, which now calls for a new Fiscal Adjustment Plan. Notwithstanding, it is especially challenging to predict the economic impact of this crisis, and how it would affect our fiscal outcomes, as developments change on a day to day basis. As such, the Government will be in a position to provide a more detailed analysis in its upcoming 2020 Fiscal Strategy Report, when additional information is available on the performance of the real economy.

Mr. Speaker,

The fiscal outlook for 2020/21 is framed within the context of the global pandemic, and the lagged impact of Hurricane Dorian, which would have been built into our forecasts at the time of the first Adjustment Plan. However, in the following years, our projections are based on the assumed pace of economic recovery, in conjunction with the Government's medium-term socio-economic agenda.

As mentioned earlier, in the aftermath of Hurricane Dorian, revenue performance was revised downward by some \$232 million for FY2019/20, but performed relatively buoyant despite subdued economic activity in the affected islands. However, the associated impact of COVID-19 has further weakened activity, which has negatively impacted revenue receipts.

We are hopeful that the downward trends in new COVID-19 infections will permit the country to reopen by July 1st as foreshadowed by the Prime Minister. We recognize however, that even should we meet this milestone, the ramp up of the tourism trade will likely be slow. While we remain hopeful that we can fill our resorts, hotels, bonefish lodges and vacation rentals immediately upon reopening, we are taking a more restrained view in our projections and modeling.

As such, we anticipate total revenue for FY2020/21 of some \$1.7 billion, which represents a \$328.1 million, or 15.7 percent decline over the projected outcome for FY2019/20.

I want to take this time to state, again, that the Government will not be increasing taxes or introducing new taxes in this Budget. Despite the projected weak performance in revenue, we are cognizant of the fact that this is not the right climate for increased taxation. It is our considered view that any such move would significantly slow down the timeliness of an economic rebound.

Mr. Speaker,

On the expenditure front, outlays are anticipated to feature continued spend for hurricane rebuilding efforts, coupled with new outlays for measures related specifically to COVID-19. As noted earlier, these measures total nearly \$136 million. Thus, we have reduced a number of discretionary spending line items. This has meant that some 42 agencies and departments are receiving reduced Budget allocations for the upcoming fiscal year. To reiterate what I mentioned earlier, we were mindful not to cut spending in critical areas. Allocations to the Department of

Public Health, for example, which now has its own Head in the Budget Book, totaled \$45 million. This, paired with the allocations to the Ministry of Health constitute funding of over \$300 million to the public healthcare system in the upcoming Budget, an increase in allocation of \$18.5 million from the previous year.

As a result, we have budgeted recurrent spending at \$2.6 billion, which is \$35.3 million or 1.4 percent higher than the revised budgeted sum of \$2.5 billion for the Supplementary Budget.

Comparatively, capital expenditure will feature a number of projects, which support hurricane restoration, as we continue to rebuild Grand Bahama and Abaco.

In addition, the Government will be maintaining its investment in education, to ensure that all eligible Bahamians are able to access free tuition, from preschool to University. In fact we have increased the allocations for the UB scholarship initiative by \$1.5 million, and the Bahamas Technical & Vocational Institute by some \$500 thousand, in anticipation of an increase in enrollment as these tertiary institutions have signaled an increase in applications in the aftermath of the COVID-19 situation.

Further, we will expand our investments in hospitals and clinics, road works and other civil projects across the Commonwealth to boost critical infrastructure and generate near-term job opportunities. All told, we are boosting capital spending to total \$515.5 million, which is equivalent to a \$190.0 million, or 58.4 percent increase over the projected outturn of FY2019/20.

Mr. Speaker,

Given these developments, the fiscal deficit is budgeted at some \$1.3 billion, or 11.6 percent of GDP for the upcoming fiscal year. This is the largest deficit to be incurred by any Government in the history of The Bahamas. This is indeed a testament to the monstrous impact Hurricane Dorian and COVID-19 has leveled back to back on our small, open economy. Almost uniformly, all countries of the region, and indeed the world, are facing similar fiscal situations and in almost every instance they are responding with expanded deficit funding to meet critical COVID-19 health care needs, to expand their social welfare spending, to keep their people employed, and to keep their economies stable. While we have sought to trim where we could, our driving ethos has been to do all we can to support Bahamians and to maintain as much employment and economic activity as we can over the near term.

During this time, the Government could have chosen to continue its fiscal restraint measures by cutting back spending and starving a deprived economy. However, we did not choose this route as we appreciate that during a downturn, Government spending is crucial to reviving a downtrodden economy. Again, these are unprecedented times that have called for unprecedented measures, and we are intent on ensuring the efficacy of our outlays in line with our overarching fiscal responsibility objectives.

The corresponding Government Debt level is expected to rise to nearly \$9.5 billion, equating to roughly 82.8 percent of GDP.

Mr. Speaker,

Over the medium-term horizon, it is anticipated that aggregate revenue will gradually rebound to its pre-hurricane and pre-COVID-19 level over the next two fiscal years. This will place revenue at some 20 percent of GDP by FY2022/23, before increasing to roughly 21 percent of GDP over the longer term horizon. To do this the Government will have to keep up its track record of economic growth and its success in improving revenue collection.

Recurrent expenditure, at some 22.4 percent of GDP in the upcoming fiscal year, is expected to remain relatively stable over the next two fiscal years, before tapering off slightly to 21 percent in FY2022/23. Capital outlays are anticipated to decline from 4.5 percent in the upcoming fiscal year to steady around 2.0 percent over the medium term, which is in line with the Government's broader fiscal policy objective to make better use of Public Private Partnerships (PPPs) and secure private financing for public projects.

That being said, the fiscal deficit is forecasted to decline from 11.6 percent in the imminent fiscal year to 6.7 percent in the subsequent year, with a further reduction to 2.9 percent in FY2022/23.

As mentioned earlier, we will deliver a more detailed timeline in the 2020 Fiscal Strategy Report; however, early estimates project that the Government is now likely to achieve its 0.5 percent fiscal ratio no earlier than FY2026/27--some two years beyond the first Fiscal Adjustment Plan. During this time, we are keen to ensure that our recovery is supported by the necessary fiscal reforms in the important areas of taxation, pension and SOEs operations, and the removal of structural obstacles to economic growth that would spur both domestic and FDI opportunities, for the objective of promoting job creation.

vii. New Policy Initiatives for FY2020/21 and Beyond

Mr. Speaker,

As a forward-looking Government, this Administration is not using the current situation as an excuse to pause or delay much of the critical reform efforts necessary to reposition The Bahamas. Indeed, we must do all we can to set the stage for a dynamic and resilient rebound of the Bahamian economy. We are not going back to business as usual; instead, we are setting the stage for a transformed Bahamas.

This Budget will still champion the means to innovate and improve our governance framework, so as to both broaden and strengthen institutional capacity and productivity across our archipelago of islands. As a Government, it is our mandate and innate duty to ensure that the interconnectedness of each sector of the economy is supported by a robust and modern platform that ultimately sets the stage for a sound and progressive economy. I will now turn to an overview of the policies this Administration believes will energize this agenda.

a. Initiatives to Transform the Economy and Accelerate Recovery

Small Business Growth and Development

We set an objective three years ago to build an entrepreneurial ecosystem, and our investments to date have made the environment for entrepreneurship stronger than ever before. We have increased the capital Budget allocation for small business growth and development from \$5 million last year to \$55 million in the new Budget.

We are pleased to see that the entrepreneurial spirit of Bahamians has been awoken, because now, people have confidence in the programs available to support their ambitions. This is largely thanks to the work of the Small Business Development Center and its partners. The SBDC will continue to innovate, by exploring ways to leverage the Government's investment to make other forms of capital available to Bahamians such as private equity through angel investing and crowdfunding.

Micros, small and medium sized businesses (or MSMEs) make the economy more resilient, as they stay ready, nimble and poised to adapt even more so than large companies. When the economy needed delivery services, MSMEs sprung into action. The economy needed quick access to online markets, and MSMEs provided online solutions for other MSMEs. Rental car companies pivoted by using their vehicles for deliveries. Tailors and seamstress pivoted to making masks. They turned a byproduct—scrap fabric—into a new source of revenue. In this time of crisis, the determination, foresight and agility that characterizes MSMEs has proven beneficial for all Bahamians.

Our approach to this Budget is very focused and targeted, and we have chosen to continue our historic investment in MSMEs to further strengthen the domestic economy and plant the seeds for greater participation in the eventual recovery.

National Digital Transformation

Mr. Speaker,

The push toward a digital transformation, particularly within the public sector, has been a priority of this Administration from the onset. While the leading motive for this transformation was to drive competitiveness by reducing the cost of doing business with the Government, that motive has since expanded. Put simply, the COVID-19 pandemic has transformed that pointed goal to an absolute imperative.

We saw the explosion of digital commerce in The Bahamas in response to the curfew and lockdowns necessary to mitigate the spread of COVID-19. Even when the virus poses no more threat, the transition to digital commerce will remain. Hence, this Government's push toward a national digital transformation comes at no better time than the present.

To date, this Government has advanced its digital agenda through the conversion from the old Electronic Customs Automated System (eCas) to the new Electronic Single Window at the Customs Department, the digitization of passport registration at the Passport Office, and the ongoing revamp of the Real Property Tax system, which will allow for the complete automation

of the existing system. We project this year that the Digitization will extend at a minimum to the Road Traffic Department and the Office of the Registrar General.

Mr. Speaker,

We recognize though that although the Government, the private sector and the banking sector have all been working toward greater use of digital transactions for payments, these efforts have often been siloed—running on separate tracks, and moving at different paces. The lessons of Dorian—and presently of COVID-19—have demonstrated that as a matter of national priority, the various stakeholders need to collaborate and move in unison to accelerate the adoption of digital payment systems. Yes, it is a matter of national efficiency and national competitiveness. But as recent hurricanes and the current pandemic have shown us, it is also a matter of national security.

Thus, I am pleased to advise that the Ministry of Finance together with the Clearing Banks Association and the Central Bank have established targets to reduce cash and cheque utilization across the country as follows:

- A 50 percent reduction in the utilization of cash within the next five years; fueled by more transparent, business and consumer friendly regulations around the use of debit and credit cards, and the full integration of the Sand Dollar.
- A 50 percent reduction of the utilization of cheques in 3 years and 80 percent reduction in 5 years; boosted by greater utilization of the electronic clearing house to allow for direct payments.

Setting these targets and establishing a task force to make this happen will ensure that we can, in a measurable way, determine our success in removing the legal, bureaucratic and even cultural obstacles in the crucial shift to digital transactions.

The aim of this initiative is not to eliminate the use of cash. Cash will continue to be a feature of the payment system. However, the further entrenchment and utilization of digital means has the opportunity to expand financial inclusion, to open new business opportunities, to bring sophisticated financial services to even the most remote parts of the country and to improve personal and business security. The work of the imminent Task Force will be to engage business communities and civil society to ensure appropriate attention to privacy, cyber security, as well as to ensure a proper understanding and buy-in of this initiative by the general public.

Energy Reform: Renewable Energy and Solarization

Mr. Speaker,

An essential pillar to our transformational socio economic agenda is to achieve and optimize energy efficiency by incorporating the use of renewable resources. The imperative of this objective was reinforced by the passing of Hurricane Dorian, which left Abaco and Grand Bahama without electricity for weeks.

To support the introduction of transformative measures to modernize the energy sector, the Government is seeking in its 2020/21 borrowing resolution approval for an \$80 million loan with the Inter-American Development Bank (IDB) to progress the solarization in the Family Islands. This is a part of the \$170 million Contingent Credit Line for Investment Projects (CCLIP) facility over eight to ten years that was foreshadowed in last year's Budget Communication. Not only will this improve our energy infrastructure's reliability and resilience to natural disasters invoked by climate change, but it will also help to rehabilitate critical infrastructure.

A key element of Phase 1 of the CCLIP program will be the introduction of rooftop solar installations in public buildings, as well as the start of commercial solar installations across the Family Islands. Once completed, this will achieve fiscal savings for the Government by lowering the monthly electric bill for public buildings, as well as decreasing the level of subsidization required by New Providence to power the Family Islands. Of course, the ultimate goal is to reduce the country's reliance on fossil fuels, thus eliminating greenhouse gas emissions and reducing our national fuel import bill.

Mr. Speaker,

In the aftermath of Hurricane Dorian and now in the midst of COVID-19, the Government has had to make sizable investments and interventions in the energy sector. Firstly, we committed to covering the cost of electricity restoration in Abaco, which included the conversion of a portion of Abaco to underground lines, thereby increasing reliability of electricity restoration in the aftermath of a natural disaster. To date, Bahamas Power & Light (BPL) has spent and committed some \$27 million to this initiative. When done, the restoration of electricity in Abaco is expected to cost some \$90 million.

In addition, as detailed in the last Budget Communication, we will begin the \$17.1 million Street Light Retrofitting project shortly, which is being spearheaded by BPL. This will also support our green energy efforts with its use of LED lighting, ultimately resulting in cash savings to the Government and a lower fuel import bill as well.

Mr. Speaker,

Although these initiatives toward solarization and renewable energy will certainly help to modernize the existing energy mix and lead to a gradual decline in domestic energy prices, this Government is also minded to capitalize on the opportunity to lock-in a number of benefits occasioned to the current environment of low international oil prices. Specifically, BPL, in collaboration with the Government, is actively pursuing a hedging arrangement with the assistance of the IDB. This facility will bring fuel price certainty to BPL allowing it to lock in reduced fuel surcharges even when oil prices inevitably rebound. This will mean lower average electricity bills for all BPL consumers.

All told, the Government will have invested over \$200 million toward energy reform through its support to BPL, and loans from multilateral institutions toward this initiative. We are intent on transforming the energy sector in The Bahamas from its existing antiquated and vulnerable state, to a more sustainable and efficient sector through the use of renewable resources.

Food Security and Sustainability

Mr. Speaker,

As a nation, The Bahamas imports over 90 percent of what it consumes. In 2018, our total imports valued some \$3.5 billion, the bulk of which comprised machinery and transport equipment, food, and fuel. This equates to roughly 33 percent of our average real GDP over the last five years. The ongoing COVID-19 pandemic has demonstrated the importance of pursuing food security to ensure that we could meet some of our domestic needs at least in the short-term and expanding over the long-term, and thereby reduce our dependence on imports.

Indeed, the lockdowns enforced by countries around the world have triggered a slowdown in harvests, cutbacks in exports, and other factors that could disrupt the supply chain. Thus, it is now imperative that we, as an island-nation, begin to revolutionize the way we view food security and sustainability. According to the Department of Statistics, agriculture, forestry and fishing accounted for less than one percent of real GDP, while manufacturing accounted for some 2.8 percent. Thus, in essence, the local production of food and other items in the domestic economy was equivalent to less than 4 percent of GDP. As a country surrounded by water, with a myriad of Family Islands with mass land availability, there is no reason why we cannot create, implement and cultivate a 21st Century plan to increase local production to sustainable levels, thereby decreasing, and in some cases completely eradicating, our persistent dependence on imports for consumption, while creating jobs within our economy.

Mr. Speaker,

To materialize this vision, the Government is considering a number of plans to increase the support of local farmers, particularly in the Family Islands. The Department of Agriculture and Marine Resources has already signaled that it is working diligently with local producers and domestic importers to closely monitor any further supply chain disruptions. This has birthed the Emergency Food Production Plan, which the Minister for Agriculture and Marine Resources would have outlined in this Honorable House last month. This \$1.6 million investment in food security in The Bahamas will support the purchasing of hydroponic, and backyard kits, and the provision of farm inputs.

The Ministry of Agriculture and Marine Resources has commissioned a Task Force to address food security and substitution. The Government will also consider recommendations made to it on this subject matter by or through the Economic Recovery Committee.

I can assert today, that this Government will make food security and sustainability a key priority over the short to medium term, as a policy that will add value for years to come. To kick off the push for greater food security, the Ministry of Agriculture has been allocated between its recurrent and capital budget the sum of \$9 million to begin to seed new and innovative projects in partnership with Bahamian farmers and the broader private sector. This will indeed secure the future of

Bahamians, and the wealth of our nation. The Minister of Agriculture will expand further during his contribution to the Debate.

b. Reform Measures to Ensure Long-Term Fiscal and Economic Stability

Public Financial Management Reform

Mr. Speaker,

Now, more than ever, it is critical that Bahamians are able to have trust and confidence that their hard-earned tax dollars are being managed in a fair, prudent and transparent way; particularly in a post-COVID-19 environment. In this light, the Government is advancing a number of legislative changes to support public financial management reform. Specifically, I am pleased to announce that the draft Public Financial Management Bill is now under final review by the external consultants. Once that review is complete, the Bill will then go to Cabinet, before being released for public consultation and subsequent tabling in this Honorable House, in early FY2020/21.

Similarly, The Public Debt Management Bill has been vetted in concert with the Public Financial Management Bill, as there are a number of sections where the two intertwine. This Bill is now also with the external consultants for final review, after which the document will be forwarded for Cabinet approval, released for public consultation and finally tabled in this Honorable House. Lastly, the draft Public Procurement Bill has already gone through the public consultation phase and will be presented this morning along with the Budget to this Honorable House. We are pleased with the progress being made on these pieces of draft legislation and are confident that they will enhance the state of the public finances once implemented.

viii. Conclusion

Mr. Speaker,

As I move to close, I want to reiterate that the 2020/21 Budget was curated under circumstances far more extraordinary than any other Budget cycle. The Bahamian people should rightly want to know why the Government finds itself projecting such a high deficit of \$1.3 billion.

The answer is relatively straightforward. It is because the alternative options are much worse. It is a lot easier to keep a person afloat than fighting to drag them back to the surface. Our economy is like that. We are investing in our restoration plan to avoid a dramatic scale back that would submerge the economy and leave Bahamians out at sea, without a liferaft. We are borrowing to keep Bahamian families, communities, and businesses above water and to keep the economy afloat, as we see our way through this extraordinary time.

Like most countries, we have had to set aside our fiscal targets to be responsive to the crises we face. We have had to run major and unplanned deficits to invest in hereto unforeseen public health and social partnership programs. But we do not do this idly. We do not do this lightly.

We are committing the funding to support displaced workers, to support budding entrepreneurs and established businesses. We are budgeting the resources to stimulate the economy through necessary civil works. We are accelerating the pace of recovery efforts in Grand Bahama and Abaco, with the support of economic and physical infrastructure rehabilitation and new builds. We are pressing forward to digitize the public service and support the roll out of the Sand Dollar digital currency.

And we are expanding and extending the innovative initiatives that we launched in the current fiscal year, will millions of additional resources directed towards our preschool to university free education strategy, and our growth plan for the small business sector.

We believe wholeheartedly that this deliberate policy mix of protective measures and broader stabilizing initiatives embodied in this Budget will provide the timely and targeted support that Bahamians and residents need, and will provide the necessary framework for a strong and robust rebound.

The biggest set of twin setbacks in the last 100 years calls for the biggest fiscal response in 100 years! And, while we pray to almighty God that we will not face compounding challenges like this again, we are prepared to face, head on, the hardships of this moment.

When we emerge from this crisis the Government will return to the success of our fiscal consolidation plan, treating this juncture in our national story as an anomaly, not as a license to engage in fiscal indiscipline.

Mr. Speaker,

That is our vision and that is our plan as we lay this 2020/21 Budget.

As burdensome as things seem, Mr. Speaker, we can all still draw inspiration from the resilient spirit of the Bahamian people and find confidence in the fact that our economy remains viable and structurally sound.

This is a response to two unprecedented and historic events in the lifetime of our country, that We ask each and every Bahamian and resident across our archipelago of islands to trust in that resilient spirit, and to lean on each other as a family, community and nation. We have every confidence in the decisions taken and the plan we have put in place to create opportunity out of this crisis.

Finally Mr. Speaker,

We recognize and accept that this is a very difficult Budget. We know that our present circumstances can be worrisome to some, but we must find a way and the courage to surmount them. I believe the road ahead will not be easy for us, as it will not be for our regional peers and even developed countries around the world. We will remain in a state of triage for a while before achieving stabilization, and we will need to be prepared to make some tough decisions, if necessary to meet this objective.

But God is STILL in control and relying on His support and our faith, we emerge stronger, battle tested and armed to move forward, upward and onward...TOGETHER!

Good bless our Bahamaland. And YES, it's still the People's Time!



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