



COMMONWEALTH OF THE BAHAMAS

2018/19

MID-YEAR BUDGET STATEMENT

Presented to the Honourable House of Assembly

By

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Deputy Prime Minister

And

Minister of Finance

On Wednesday, February 27 2019

i. Introduction

Mr. Speaker,

It is my honour to present the 2018/19 mid-year budget statement, as mandated by the Financial Administration and Audit Act, as well as the Fiscal Responsibility Act, 2018. This statement gives a provisional account of fiscal developments during the first half of the 2018/19 financial year; an update on the progress of the initiatives set out in the 2018/19 budget communication; and the outlook for the remainder of the fiscal year.

In May of last year, this Government presented a landmark Budget that is centered on ending the past practice of artificially under budgeting and over spending, and instead applying sound fiscal management strategies to the use of the nation's public financial resources. In fact, the past practice of unrealistic and flat out reckless budgeting had resulted in a buildup of arrears to the tune of \$360 million. Settling these old bills once and for all was also a focal objective of the 2018/19 Budget.

The transformative 2018/19 Budget set the tone for enhanced and more effective accountability, transparency and responsibility, as it adopted the framework for responsible fiscal management set out in the Fiscal

Responsibility Act, even before it was enacted last October. This framework, with its legally binding objectives and fiscal targets, establishes a new standard for fiscal management, performance, and reporting. No longer will government be allowed to mismanage taxpayer dollars for indefinite periods without having to report to the people in writing. Instead, Bahamians, as they should, will be informed regarding the decisions made about their hard earned dollars, so that they become and remain aware of what the parliamentary custodians of their affairs are doing with their money.

Finally, the People's Budget established a sound and credible plan for addressing the needs of the current fiscal

period and, as documented in the inaugural Fiscal Strategy Report that was laid before the House last November, a strategy for securing favorable outcomes in the deficit-to-GDP and debt-to-GDP ratios for the next three years. Since the Budget Communication, we have made noteworthy progress in realizing the goals set out for the full fiscal year. Specifically, the Fiscal Responsibility Act has been enacted, and the first ever Fiscal Strategy Report has been published and debated in Parliament.

These efforts to improve public financial management have certainly not gone without notice. International agencies are already seeing the value in our commitment and have provided several independent and impartial

assessments documenting our actions and the resulting progress. Last week, Moody's Investor Service changed the outlook on our credit rating from negative to stable, and affirmed our overall rating at Baa3. The upward revision in the outlook was attributed to a strengthening in our fiscal policy framework; namely, the new fiscal legislation and reporting initiatives. Our fiscal consolidation efforts were highlighted as supporting our debt stabilization objective and the soon to be established Disaster Relief Fund was recognized for promoting greater economic resilience.

The credit rating agency also noted that though our debt ratios remain in line with our Baa-rated peers, such as

Russia, Romania, South Africa, and Italy, our relatively high wealth levels enhance our economy's capabilities to absorb sudden shocks. The report concluded that this reality, paired with our recent measures to respond to climate-related risks will help to mitigate the underlying credit vulnerability that natural disasters pose. The House would recall that the proposed Disaster Relief Fund will be funded initially with the extinguished claims from the dormant accounts as now provided for in the law. As our Prime Minister has committed, those funds will not be used for any other purpose.

Complementing the sentiments shared by Moody's, the International Monetary Fund (IMF) similarly provided

positive commentary on domestic economic developments in its Mission to The Bahamas in December of last year. In particular, the Fund noted that the new fiscal legislation will support our efforts toward fiscal sustainability and to set debt on a downward trajectory. In addition, they welcomed our transparent and lucid approach to eliminating accumulated arrears, and our plans for expenditure control as key provisions in achieving better fiscal and debt ratios.

Together, these developments substantiate our commitment to fiscal prudence and a new era of public financial management. As even external observers have noted, the efforts of this Minnis led government are the

precise steps—the right prescription if I may use that metaphor—that need to be taken to strengthen the fiscal and economic health and well-being of the country. We are all aware that our credit rating is a crucial indicator in helping potential investors determine the stability and prospects of our country. It can be the deciding factor for international investors that may have projects they would like to bring to The Bahamas—the investments that we know are critical to our economy for job creation, foreign currency inflows, and higher economic growth.

Mr. Speaker,

Our efforts and successes with fiscal reform are not only about securing good credit ratings, new investment flows

and balanced budgets. Fundamentally, fiscal responsibility is about social wellness and economic strength. When countries fall into a fiscal hole they often have to cut benefits and scale back on programmes and social services. The approach we are taking allows us to maintain a social and economic environment for Bahamians to maximize their potential and fulfill their goals and aspirations. When we make judicious use of the public purse and avoid careless and ruinous actions, we can provide assurance to the people that we have the resources and the flexibility to meet both the opportunities and challenges of a 21st century global community.

In this vein, the government recognizes the need to remain focused and resolute in our efforts to strengthen our fiscal position. We are not under the delusion that we have completed the task of righting the fiscal ship. Much more work needs to be done; much more reform needs to happen. As this side has demonstrated, we are up to the task. We will not be distracted.

The Fiscal Responsibility Act mandates that for FY2018/19, the fiscal deficit should total \$237.6 million, which represents a significant improvement of 42.7 percent or \$177.3 million, as compared to the previous fiscal year. That, in turn, will result in a corresponding 45.5 percent reduction in the deficit-to-GDP ratio to 1.8 percent. Given

this development, we anticipate a corresponding reduction in the debt-to-GDP ratio of approximately 1.1 percentage points to 56.7 percent at the end of June 2019.

I am pleased to assert that, so far, we are well on our way to materializing our objective, to meet a fiscal deficit that is slightly lower than had been forecasted.

We remain soberly cognizant of the potential risks that can arise over the three-year horizon laid out in our Fiscal Strategy Report. Nonetheless, we are confident that this Government's continued efforts to effectively manage this and future budgets in a way that is responsible, transparent, stable, and fair, will render favorable results.

Indeed, I would stress yet again that we are pursuing the aggressive three-year fiscal plan of the last Budget not for some theoretical or academic purpose, but rather as a means of promoting stronger economic growth and job creation. These are the fundamental economic objectives that truly matter to Bahamian citizens and to their daily lives.

ii. **International and Domestic Economic Developments**

Mr. Speaker,

I believe it is essential to begin our discussion of the fiscal performance in the first half of the fiscal year with an overview of international and domestic economic

developments. These not only shape the course of the financial year, but also inform prospects for the near-term outlook.

According to the International Monetary Fund's (IMF) most recent World Economic Outlook (WEO), global growth is estimated to have softened by 10 basis points to 3.7 percent in 2018, as compared to the previous forecast; this is against the backdrop of weaker performance in some of the advanced economies, particularly in Europe and Asia. Specifically, factors such as new fuel emission standards in Germany, natural disasters in Japan, along with weakening financial market sentiment, trade policy uncertainty, and concerns regarding China's outlook,

weigh heavily on activity in the large economies. These factors have underpinned a further downward revision for global growth forecasts to 3.5 percent in 2019, and 3.6 percent in 2020.

Despite the more challenging global environment, the economic outlook for the United States, our dominant trading partner, remains relatively more buoyant. Indeed, the U.S. economy grew by an estimated 2.9 percent in 2018, supported by increased private sector activity, sizable fiscal stimulus, and higher consumer spending—particularly in the second quarter of the year. Growth was accompanied by improvement in the unemployment rate by 50 basis points to 3.9 percent, and consumer inflation

eased to 1.9 percent from 2.1 percent, owing to a reduction in energy prices.

Growth in the U.S. is anticipated to slow modestly to 2.5 percent in 2019, partly reflecting the winding down of the fiscal stimulus, and the continued tightening of monetary policy by the Federal Reserve.

As for the other major economies, their economic performance lagged that of the U.S. in 2018, and near-term prospects remain more modest. Real growth in the Euro area averaged 1.8 per cent last year, which is expected to soften to 1.6 per cent in 2019. Following a 1.4 percent expansion in 2018, the United Kingdom's real growth for 2019 and 2020 is placed around 1.5 percent

each year, on the assumption of a smooth resolution of, and transition to Brexit. We do watch the developments in Britain closely, as the prospects for an orderly Brexit continue to diminish amid greater political uncertainty in the U.K. If the transition proves disorderly, it is likely to have a dampening effect on economic growth across Europe and around the world.

The expansion in real GDP for China slowed by 30 basis points to an annual rate of 6.6 percent for 2018, its slowest pace in nearly three decades, amid the government's continuous struggles to contain ballooning debt and ongoing trade tensions with the US. Real growth is forecast to soften further to 6.2 per cent per year in

2019 and 2020. Similarly, growth in Japan contracted by 80 basis points to 1.6 percent in 2018, against the backdrop of several natural disasters during the summer. Real output is expected to continue its downward trajectory, with projections of 1.1 percent for 2019, and 0.5 percent in 2020.

Global oil prices increased by 30.3 percent to \$71.64 in 2018, with the pass through effects of this rise evident in an uptick in Bahamas Power & Light's (BPL) fuel charge in October, and a firming in the price of both gasoline and diesel at the pump over the year.

Mr. Speaker,

A stronger U.S. economy was indeed the pillar on which our domestic economic growth pace maintained its momentum in 2018, with the most favorable gains posted by our tourism industry. You may recall that the Prime Minister recently noted the IMF's growth forecasts for The Bahamas continue to stand at 2.3 percent for 2018 and 2.1 percent in 2019, as was projected in the May Budget. Quite remarkably, this will be the first time in 12 years that The Bahamas will have seen projected growth of over 2.0 percent for consecutive years.

While this performance is encouraging, the government understands that the country will need to post multiple years of sustained strong growth if we are to provide

sufficient employment and economic opportunities to maintain and improve the standard of living for all Bahamians. Thus, we remain strongly committed to finding innovative ways to bolster economic activity, through expanded support for Bahamian entrepreneurs, better educational and training opportunities, and greater efforts to facilitate an accelerated pace of private sector investment across the country.

Preliminary data from the Ministry of Tourism showed a 7.9 percent strengthening in total visitors for 2018 to 6.6 million, rebounding from the year-earlier 2.1 percent falloff to 6.1 million. Supporting this outcome, air arrivals surged by 16.7 percent to 1.6 million, reversing 2017's

decrease of 4.0 percent, and the sea component recovered by 5.5 percent, from a 1.5 percent contraction.

A breakdown by island revealed that the rebound in total arrivals was largely explained by growth in arrivals to the Family Islands. Benefitting from various cruise line-related activities in private islands located in the Family Islands, total visitor arrivals to the Family Islands improved by 14.9 percent for the review period, with sea arrivals growing by 15.7 percent and air arrivals by 10.6 percent. Similarly, total arrivals to Grand Bahama increased by 9.1 percent to 0.7 million, as the sea component grew by 9.6 percent and a 5.4 percent gain in the high-value-added air segment. In New Providence, total visitor arrivals firmed by 4.1

percent, with air arrivals advancing by 19.2 percent to 1.2 million, while the sea component fell by 1.5 percent to 2.6 million, reflecting cruise lines' shift to making their private islands the first port of entry, as opposed to the Capital.

Indications are that construction activity continued to be dominated by varied-scale foreign investment projects, although domestic private sector investment showed modest signs of recovery. Using total mortgage disbursements for new construction and repairs as a proxy, an 8.5 percent increase to \$86.7 million signaled an expansion in domestic activity for the first nine months of 2018.

The more forward looking indicator—total mortgage commitments for new construction and repairs—fell by 8.6 percent to \$94.7 million, suggesting relatively mild domestic construction activity in the near-term.

The economy benefitted from the completion of a number of Foreign Direct Investment (FDI) projects last year, including the opening of the final phase of the Baha Mar Resort—the Rosewood Hotel—and the official opening of the entertainment complex at The Pointe. In addition, other FDI projects that have already received approval and are in their infancy stages, include the \$194 million Sterling Hurricane Hole Community Resort and Marina, the \$5.2 million Pinder’s Bay Ltd project that is to feature

28 residential beach front bungalows and a club house, and the \$580 million South Abaco investment, for the development of a 5-star Residential Resort and Marina. Approximately nine companies have been approved under the Commercial Enterprises Act, some of which would have contributed to FDI, as well. With more projects in the pipeline, we can expect to realize further gains in the rate of economic growth and employment opportunities in the short to medium term.

Preliminary results from the Department of Statistics' latest Labour Force Survey reveal that the jobless rate for The Bahamas featured a 70-basis point uptick to 10.7 percent for the six months to November 2018. While the

number of employed persons rose by 2,305—the bulk of which were absorbed by the private sector—the total labour force grew by 4,250, due in part to a 6.7 percent decline in the number of discouraged workers to 2,030, and the seasonal intake of school leavers into the labour force. Encouraging was the gain in the number of self-employed persons by 11.9 percent over the six months to November, totaling 32,475 persons. While these results show that our initiatives to create jobs through support of small businesses and entrepreneurship are beginning to produce concrete economic and employment benefits, it is clear that our efforts will have to be enhanced to meet the demand of the market.

A breakdown by island showed a 1 percentage point rise in the jobless rate in New Providence, while trends for Abaco and Grand Bahama contrasted with declines of 3 percentage points and 0.5 percentage point to 7.7 percent and 11.9 percent, respectively.

It is also notable that the unemployment rate among youths moved lower to 23.1 percent from 24.1 percent in May.

Price developments is yet another important economic indicator that we monitor, because of the direct impact on the ability of our people to purchase goods and services. The rate of increase in consumer prices rose to 3.8 percent for the 12 months to September 2018, from 1.0 percent in

the previous year, reflecting the one-time pass-through effects of the increase in Value-Added Tax.

Mr. Speaker,

Rolling on the cusp of the seemingly strong performance in 2018, the prospects for a resilient 2019 and 2020 are contingent upon the execution of our plans to bolster productivity and investment. In the near-term, it is anticipated that tourism sector output will provide an impetus to growth, benefitting from the seasonal increase in airlift and the completion of varied-scale foreign direct investment projects. Employment prospects are also poised to improve, driven by private sector investment

initiatives, while inflationary pressures are expected to remain contained amid lowering global oil prices.

iii. Fiscal Performance in the First Half of FY2018/19

Mr. Speaker,

I now turn to a review of the Government's fiscal performance in the first half of the 2018/19 fiscal year.

Our 2018/19 Budget was indeed a watershed budget, as it was guided by the stringent fiscal requirements of the then-pending Fiscal Responsibility Act. The subsequent Fiscal Strategy Report of November then set the stage for the medium-term framework that will underpin the development of the 2019/20 Budget. In that framework, we projected that to completely eliminate the deficit from

its level of 5.5 percent of GDP in 2016/17 and the debt to GDP ratio eventually from 57 percent to no more than 50 percent, we would have a fiscal deficit to GDP ratio of 1.8 percent this fiscal year, a deficit of 0.8 percent in the subsequent year, and a surplus of 0.1 percent in the following year; and corresponding debt to GDP ratios of 56.7 percent, 55.3 percent and 53.8 percent, respectively. What is more, our framework forecasts a fiscal surplus of \$9.4 million in FY2020/21, and \$15.1 million in the subsequent fiscal year.

Mr. Speaker,

In the first six months of the current fiscal year, the fiscal deficit contracted by 31.0 percent or \$78.7 million to

\$175.3 million, in comparison to the same period in the previous fiscal year. I repeat: We saw a near \$80 million reduction year on year in the deficit at the midpoint of the year.

The outturn for revenue showed a \$129.5 million or 14.7 percent increase in total receipts to \$1,010.3 million, representing 38.1 percent of the budgeted amount. We know that historically, revenue collections are typically higher in the second half of the fiscal year, when several annual payments, such as Real Property Tax, Business Licences and Bank and Trust Company Licences are collected. Nevertheless, with the timing of VAT payments at the old vs. the new rate during the year, as well as the

concession granted to hotels in respect of previously booked reservations, we now expect total VAT collections in 2018/19 to be somewhat under the Budget forecast.

Another important development that will impact the revenue outcome is the new agreement between the Government and the Bahamas Gaming House Operators Association. At the time of the 2018/19 Budget Communication, a sliding scale gaming tax was announced; effective July 1, 2018, a six-tier scale of tax rates was to apply, ranging from 20 per cent to 50 per cent, depending on the magnitude of each house's revenue. The then proposed reform also included a 5

percent stamp tax on deposits and any non-online games or digital sales.

After extended discussions, the Government and the Gaming House Operators have agreed to a new scale, which, effective January 1, 2019, will tax gaming houses with net taxable revenue from \$0 to \$24 million at a rate of 15 percent, and those with net taxable revenue over \$24 million at a rate of 17.5 percent. In the new agreement, instead of a stamp tax on deposits, a 5 percent tax on winnings between \$0 and \$1,000 will be applied, and on winnings over \$1,000, a rate of 7.5 percent will be applied. As well, all back taxes will be collected before the end of this fiscal year at the previous 11 percent rate.

With this new agreement, projected revenues to be collected from the gaming houses will be somewhat below the amounts that had been included in the 2018/18 Budget, in the sum of approximately \$18 million. In the Budget we had also projected some \$80 million in incremental revenue to be secured by the Revenue Enhancement Unit. As that Unit will now be fully established in the second half of the fiscal year—later than anticipated—we are projecting a dip in the incremental revenue this fiscal year. All told, we now estimate that revenues will fall short of the Budget projection by some 7 percent, but still come in some \$400 million higher than the last fiscal year.

Expenditure outcomes for the first half of FY2018/19 showed a \$50.9 million or 4.5 percent increase in spending to \$1,185.6 million, with recurrent outlays higher by \$94.9 million or 9.5 percent to \$1,098.6 million. Yet, total expenditure and recurrent expenditure were both below the budgeted halfway mark, at 41.0 percent and 42.4 percent, respectively. Under recurrent expenditure, compensation of employees—which covers spending on wages and related personnel costs—was reduced by \$27.5 million or 7.4 percent to \$345.8 million, and was only 43.6% of the budgeted amount. Primary expenditure grew by \$31.7 million or 3.2 percent to \$1,024.7 million.

In contrast, capital expenditure fell by \$44 million or 33.6 percent over the six-month period, to \$86.9 million.

Arrear payments contributed to the overall increase in expenditure. As I mentioned before, this administration made the identification, the documentation, and the settlement of the mountain of arrears left by the previous administration one of its chief objectives. And we are doing exactly that. We committed to paying \$172 million in this fiscal year and have already paid \$65.1 million, or 37.8 percent of the total budgeted amount. Out of the \$65.1 million spent, the bulk went toward clearing up arrears with CTF Holdings Ltd (Baha Mar) (\$11.0 million), PHA Medical Suppliers (\$8.2 million), Consolidated Water

(\$6.0 million), Carnival Cruise Line (\$6.0 million), various Garbage Collection Vendors (\$5.4 million), and the University of the West Indies (\$5.4 million).

Based on expenditure trends in the first half of the fiscal year, it is now estimated that both Recurrent and Capital expenditure will come in somewhat lower than had been projected at the time of 2018/19 Budget. That, in large measure, of course reflects the Government's dedicated commitment to stringent expenditure restraint. Accordingly, Recurrent Expenditure is now projected at a level some 5 percent below the Budget forecast. Capital expenditure was particularly subdued in the first half of the fiscal year but, with our commitment to significantly

invest in new and modern public infrastructure, we expect the pace of spending in this area to pick up appreciably in the second half of the year. The estimated outturn for capital expenditure is nonetheless now expected to come in below the amount budgeted for the entire year.

With the fiscal outturn in the first half and projected developments in the second half, we now foresee a fiscal deficit in 2018/19 slightly under the Budget forecast, by some \$5-10 million. Thus, we project presently a budget deficit of somewhere near \$230 million, which means we remain firmly on target. During the Annual Budget Exercise in May, I shall update the projected outturns,

based on the results of three full quarters of the fiscal year.

iv. Update on Initiatives in 2018/19 Budget Communication

Mr. Speaker,

I now turn to a brief update on some of the major initiatives in the 2018/19 Budget Communication.

In the six months to December 2018, this government has made some landmark improvements in the fiscal affairs of this country. We promised transparency, we promised accountability, we promised responsibility, and we have delivered just that. The historic launch of prudent fiscal legislation has indeed birthed a new era of public financial

management that serves as a precursor to the vision that we have for this country. We also announced several new policy initiatives, many of which we are pleased to say have made steady progress, thereby positively impacting domestic economic outcomes and prospects. We on this side of the aisle are proud to be the ones that are not known for talk, but for action.

Fiscal Legislation

In October of 2018, this government enacted the Fiscal Responsibility Act, and subsequently produced, published and debated the Fiscal Strategy Report mandated by the Act. As a result, responsibly and transparently managing the people's taxpayer dollars is no longer an option, but

law. Gone are the days when governments could spend carelessly without explanation as to why the country's fiscal position was worsening exponentially. For ourselves and for future governments, it is now required that administrations demonstrate and publish how they intend to act in the interest of the people and the people's public finances, to ensure that the country's fiscal affairs are put in order and remain so.

Governments will also now be held accountable by a private sector Fiscal Responsibility Council whose role is to assess compliance with the law and report on their findings to the public without any interference by the government. Should the government not meet the stated

objectives of the Fiscal Responsibility Act in any given fiscal year, an adjustment plan will have to be produced and presented to both Parliament and the public; this report will have to state why the government did not achieve its target, how it intends to get back on course, and give a timeline for how soon it will return to course. This embraces the essence of accountability, responsibility and transparency, and is unparalleled in the history of The Bahamas.

To achieve the goals we set forth, we have had to take a hard look at the processes currently in place and make adjustments where we deemed appropriate. This ongoing process entails a review of all government programs and

services to see where we can cut spending, enhance value for money, improve services to make them more efficient and effective, and identify savings and reallocations to accommodate higher priority policy objectives. To this end, we have already implemented regular budget meetings between the Ministry of Finance and government agencies. We will be mandating the creation of monthly spending plans by agencies, so as to foster proper financial planning and cash management, and minimize the accumulation of further arrears.

Enhancing the Ease of Doing Business

Mr. Speaker, in the area of enhancing the ease of doing business in this country, we have reformed the Business

License tax regime, with regard to fees, processing platforms and time, and structure. Specifically, in addition, the process of starting up a new low-risk business will be made simpler through the allocation of a 90-day provisional license. Once businesses are approved for the provisional licence, they will be allowed to be up and running, while they collect the remaining documents required for a full Business Licence. Though this has not been rolled out as yet, we anticipate the launch very soon.

Additionally, approvals for Business License renewals have been given in a matter of hours recently, as opposed to weeks and months in the past. This is the result of our policies to streamline the Business Licence processes and

improve the efficiency of our internal checks. The government's efforts to improve customer service through the use of digitization has certainly benefited scores of businesses all over the Bahamas, who now experience less turnaround time for their renewals.

Members would note that the business community has provided very positive feedback on these changes. Once again, I would like to commend the committed and hardworking public servants at the Department of Inland Revenue who have eagerly embraced the opportunity for positive change. I want to let them know that their efforts have been noticed and that I will be coming to pay them a visit shortly to say thank you in person.

As for new Business Licences, the government has launched a consolidated application form on the Department of Inland Revenue website. Now, instead of having to go to multiple agencies to get different approvals, businesses can complete one comprehensive application in one place, at one time. Moreover, the fee for starting a new business has been waived, and companies with a turnover of less than \$100,000 will be exempt from Business Licence fees.

More reforms will be forthcoming, as we work to find ways to continue easing the process of doing business in The Bahamas, so as to ensure that we are truly facilitating commerce and entrepreneurship, as opposed to being an

unwitting obstacle to those who are simply trying to earn a living in our country.

Enhanced Accountability and Transparency at the
Ministry of Finance

Mr. Speaker, we promised a transparent, responsible, and accountable government, and those are the precise principles we embodied in our introduction of the Fiscal Strategy Report, and the implementation of quarterly reporting on fiscal performance. We have given the public a strategic outline for the medium term that sets out how we intend to achieve the fiscal objectives mandated by law in the Fiscal Responsibility Act, as well as an analysis

on how we intend to mitigate the possible risks that might occur.

We have made available for the public a detailed account of how taxpayers' money was earned and spent throughout each quarter. These steps are a testament to our dedication to exemplifying good governance, prudent fiscal management, and an overall change for the good of all Bahamians.

What is more, the need to strengthen the institutional capacity of government agencies is ever-present. For too long, governments have delayed the transition of its own agencies to the operating standards of the 21st Century. We know too well that if we are going to keep up in an

increasingly global marketplace, we have to quickly align ourselves with global best practices for modern governance.

For ourselves, in the arena of public finance, this report continues the move toward globally accepted standards of public sector accountancy with the implementation of the government's new Chart of Accounts and related classifications. As we implement this going forward, the Bahamas will now meet international standards for Government Finance Statistics (GFS). The transition to the new Chart of Accounts began on July 1, 2018, and the mid-year statement has been compiled using the new system. The full transition to this new system is expected to be

complete by July 1st 2019, with the budget for the fiscal year 2019/20 being fully GFS compliant. The new Chart of Accounts is expected to improve the budget process by:

- Allowing for real time queries and report against budget data and real-time actuals,
- Reducing data entry time,
- Eliminating duplication issues,
- Increasing the ease of online use,
- Improving interactive feedback, and,
- Leveraging existing software for data storage.

This is a part of the Government's overall commitment to modernizing and enhancing Governmental processes, to allow for more efficiency, accuracy, and ultimately better

management of our internal systems so that we have more scope to achieve our desired outcomes.

Mr. Speaker, the Prime Minister announced in January that the Government will be providing the top four University of The Bahamas' graduates in either Economics and/or Accounts with jobs at the Ministry of Finance for one year, after which completing a government funded one-year Master's program, which is contingent on them returning to The Bahamas upon completion. The Government has already made good on that commitment, with three students currently employed within the Ministry, who will soon be beginning their Master's programs. This, in addition to the internal restructuring

within the Ministry will allow for the recruitment of additional Bahamian professionals, not only ensuring the Ministry is equipped to provide its optimal level of fiscal, economic, and budgetary management and support, but also that young Bahamians are being given the training and education required to take this country to the next level.

Furthermore, strengthening both tax administration and revenue avenues remain a priority for this government. These areas will be thoroughly explored by our Revenue Enhancement Unit, which will soon be fully established. The unit's main objective will be to identify weaknesses and deficiencies in our revenue collection efforts, and

make use of empirical analysis and surgical tactics to ensure all levied taxes are properly and fully collected across all of the major revenue agencies.

In line with strengthening revenue, the need to reign in unchecked expenditure growth remains a top priority. Historically, successive governments have not had the effective means to evaluate the fiscal stewardship of State Owned Enterprises (or SOEs). Some 15.4 percent of the government recurrent expenditure is allocated to these SOEs, which translates to some \$398 million. Yet, even as their share of the public purse has grown, the framework to obtain the timely and consistent information necessary

to assess the value for money obtained by these SOEs simply has not been developed.

We intend to change this: We will in the month of March be kicking off a project to evaluate the government's State Owned Enterprises—the public corporations, statutory authorities, commissions, etc.—who are funded substantially from the public purse, but with little established and structured fiscal oversight at the macro level.

The project is expected to take place over three phases; the first being an analysis of SOEs, Authorities, and other quasi-government entities and their operations, so as to provide forward looking strategies for each entity. The

second phase will include the formation of a comprehensive strategy to cost rationalization and cost recovery for SOEs—in line with international best practices—as well as an efficient Financial and Management Reporting Model. The third stage will include the implementation of the strategic model, and the roll out of new budgeting, accounting and performance management.

What is more, the Ministry undertook significant developments in its efforts toward prudent fiscal management via the drafting of several Bills centered on strengthening our fiscal landscape. Specifically, the Public Financial Management Bill (or PFM bill) is being drafted

with assistance from the IMF's Caribbean Technical Assistance Centre (CARTAC), and is expected to modernize and eventually replace the Financial Administration and Audit Act, 2010. Its main objective is to provide a more comprehensive legal framework that will provide the necessary support to strengthening the oversight, management and control of public funds. Specifically, the PFM Bill sets out to:

- Enhance, clarify and clearly specify the roles and responsibilities of financial officers who have been entrusted with management and control of public funds, assets, liabilities, and other resources

- Identify provisions related to financial management, inclusive of the requirements for the preparation of cash flow forecasts
- Enhance the adequacy of reporting provisions, especially pertaining to in-year reporting of fiscal information
- Specify accountability expectations for government agencies
- Include provisions related to sanctions for financial misconduct, financial crimes, institutional sanctions, recovery of losses other than by surcharge and publication of offences

- Consider improved oversight provisions for government agencies
- Expand provisions related to annual budget information disclosure requirements

While in its nascent stage, the drafting of the PFM bill is being informed by input from internal stakeholders, and it is our intent to eventually broaden this input by way of public consultation. It is essential that we are as inclusive as possible in this legislation, so as to garner the desired outcome.

In addition, we will continue to develop the draft Public Debt Management Bill, which seeks to consolidate and amend existing laws relating to public debt management

in The Bahamas, and provide a governance framework for the prudent management of Government debt activities guided by defined objectives. This work will also include the establishment of a Public Debt Management Office within the Ministry of Finance, and a Public Debt Management Unit, whose central objective will be to ensure policy coordination in the preparation of an annual debt management strategy.

This development will eradicate the past practice of inefficiently managing the country's debt portfolio, and will instead create a framework for actively managing the country's debt, with the aim of achieving the overarching

goal of the Fiscal Responsibility Act of reducing the debt to GDP ratio to a more sustainable level.

Lastly, in December 2018 the Government introduced several amendments to the dormant account regime within the Banks and Trust Companies Regulation (Amendment) Act, 2018 and the Central Bank of The Bahamas (Amendment) Act, 2018. These amendments not only modernize the current regime to align with international best practices, but also codify existing administrative practices by the Central Bank of The Bahamas.

Bolstering Economic Growth and Job Creation

Mr. Speaker,

When we look at the latest unemployment figures, which I presented earlier, we see that there is clearly a lag between the growth of the labour force and the growth of new jobs. This simply means that the economy is not growing quickly enough to absorb the new entrants into the job market. The transformative, socio-economic growth agenda of this administration is vitally critical to driving a turnaround in key indicators such as the unemployment rate. In realizing that, we have committed our efforts to providing an impetus to private sector growth via the support of Small and Medium-sized Enterprises (SMEs), as they account for the bulk of new job opportunities.

Many are the business ideas in the minds of thousands of young Bahamians. However, the harsh reality that most of their dreams awaken to is the absence of proper and willing capital channels to bring their ideas to fruition. If no business ideas are being realized, then no new businesses are starting up, thereby meaning no new jobs, no new products, and essentially, no new economic activity. That is why putting capital into the hands of scores of young Bahamians is a key area in our growth strategy.

Through our partnership with the private sector via the Small Business Development Center (SBDC) we pledged that we would fund capital to small businesses via

guaranteed loans, equity, or grants, to the tune of \$25 million over a five year period. However, we have exceeded our first year objective by leveraging the government's \$5.5 million allocation, to provide nearly \$9 million in funding to small businesses. This was made possible as three of our commercial banks have committed to joining the Bahamas Entrepreneurial Venture Fund and Bahamas Development Bank as funding partners. We expect more local banks to join in.

Successful applicants referred from the SBDC will be eligible for one or more of the following:

- Loans of up to \$250,000 from the participating commercial banks or the Bahamas Development Bank, with the government backing up to 75 percent,
- Equity financing generally between \$20,000 to \$50,000 from the Bahamas Entrepreneurial Venture Fund, though in exceptional cases, this can go up to as much as \$100,000,
- Grants for up to \$20,000 to young Bahamians under 40 to support the startup of their businesses; these grants will be focused on persons from disadvantaged backgrounds, with a specific allotment set aside for Grand Bahama and the Family Islands.

Thus far, the SBDC has over 2,400 entrepreneurs registered, with over 500 of these registrants having already met with an advisor. The first seven companies that were ready for funding were identified in December, and we anticipate news of the first disbursements shortly.

Mr. Speaker,

I want to remind the House and the Public that by design, the SBDC does its day to day work and its evaluation of candidates far removed from the direction and control of politicians. No one has to come to me, or the Prime Minister, or any Minister, or any MP to get “sorted out”. We recognize that this initiative will fail if it becomes a mechanism to dole out political favors. The only

qualifications are that applicants only be Bahamian, and able to demonstrate that they otherwise have the attitude, wherewithal, experience and commitment to make their specific project happen. As I have noted, both grants and equity injections are key elements of the program, which thus provides relief to many persons who would not be able to find their full measure of cash counterpart funding to qualify for access to formal capital. Again Mr. Speaker, many before us have come and talked and talked about doing something significant for Bahamian small businesses and the small Bahamian entrepreneur. This administration though is not just

about talking. This administration is about doing. And here again, we are demonstrating that to be the case.

v. Conclusion

Finally, Mr. Speaker,

This mid-year statement in both presentation and substance represents what this Minnis-led administration is all about. We take our jobs seriously and are all about doing what we promised for the benefit of the Bahamian people.

Last May, this government accepted the difficult decision of raising taxes and the tax burden on Bahamians. We did this knowing full well the political consequences and the

harsh criticism that the government would face. We realized that this sacrifice asked of Bahamians was not the politically popular thing to do, but it was the right thing to do.

When we did so, we committed that we would not squander the money. We said then that the additional funds would be used to

- Pay off the \$360 million in old bills;
- Help to bring down the deficit and;
- Fund the critical elements of the Manifesto platform upon which we were elected.

And, as is the hallmark of this administration, we are keeping our promises. Through the first six months of the new fiscal year, we have used the increased revenues from the new tax measures to pay off \$65 million in old bills while bringing down the year on year deficit by \$78.7 million. We have implemented our Manifesto promises to establish the comprehensive Over the Hill Development Partnership, to expand support for tertiary education with the new BTVI scholarship program and give \$9 million in support to entrepreneurs through the Small Business Development Centre. We have provided more equipment and technology to the Police Force to aid in the fight against crime. We have rolled out an ambitious plan

to improve the health care facilities across the country. We are rapidly improving the rehabilitation and upkeep of roads across the islands, our roadsides and verges are now cleaner and better maintained, and we are investing in Family Island infrastructure development, in any number of critical projects.

Most excitingly, Mr. Speaker, we are just getting started. It is better now. And better is yet to come.