2020 FISCAL STRATEGY OVERVIEW

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- CONTEXT FOR 2020 FSR
- 5 KEY COMPONENTS TO THE FISCAL STRATEGY

1. Continuing Dynamic COVID-19 response
2. Recalibrating public finances
3. Building economic resilience beyond the pandemic
4. Optimizing debt management to ensure ongoing debt sustainability
5. Proactively managing the ongoing macroeconomic risks

CONTEXT FOR **2020 FISCAL STRATEGY REPORT**

- Heightened uncertainty with the economic indicators.
- GDP estimates continue to fluctuate due to uncertainty
- Revenue underperformance of $68M for first quarter,
- Additional spending pressures on the budget of $177M in COVID-19 related spend
- Increased fiscal deficit from 6.5% of GDP in FY2019/2020 to 11.6% in 2020/21
- Historic unemployment levels at 25.6% in 2020 vs. 10.4% in 2019
- Major fall off in economic activity highlighted by the sudden stop in tourism

DYNAMIC COVID-19 RESPONSE

$177 million
SPENT
(End-October 2020)

$60 million
COMMITTED

Extension of COVID-19 Relief

SUMMARY OF GOVERNMENT COVID-19 RELATED EXPENSES (B$M)

	FY2019/20	FY2020/21[P] July - Oct.	Total
Recurrent Expenditure	**41.5**	**84.5**	**126.1**
Public Health Safety	3.5	7.9	11.5
Unemployment Assistance	10.0	35.5	45.5
Goods & Services Acquisition	2.4	2.6	5.0
Payroll Support Programs	21.4	23.0	44.4
Food Assistance	2.0	15.2	17.2
Other	2.2	0.3	2.5
Capital Expenditure	**40.3**	**14.0**	**54.3**
Public Health Safety	0.4	0.3	0.7
Goods & Services Acquisition	0.6	5.0	5.6
COVID-19 Unit	0.3	0.4	0.7
Small Business Support	39.0	8.3	47.3
Total	**81.8**	**98.5**	**177.3**

RESETTING PUBLIC FINANCES: **IMMEDIATE FISCAL MEASURES**

Revenue Measures

- Gaming Tax on lottery game winnings enforcement in January 2021
- Lottery Games pay 5 percent tax on winnings up to $1,000; And 7.5 percent on winnings over $1000.
- Anticipated Yield $10-15 million (FY2020/21)

Expenditure Measures – Recurrent & Capital

- Targeted **reduction in recurrent expenditure of $100 million** (FY2020/21)
- Targeted reduction of **$100 million** (FY2020/21) from deferral of **non-essential capital works** which have not yet commenced

MEDIUM-TERM **REVENUE** STRATEGIES AND POLICIES

1. Maximization of Custom’s Electronic Single Window, “Click2Clear” for efficient collection
2. Consolidate/complete ongoing real property tax roll project
3. Conduct diagnostic review of the tax regime to eliminate revenue administration gaps and contain leakages.
4. Review existing tax regime and develop road map of tax system reform recommendations that would introduce greater progressivity, fairness and stability
5. Increase the use of risk-based audits for Value Added Tax (VAT) to protect the yield

MEDIUM-TERM **EXPENDITURE** STRATEGIES AND POLICIES

Recurrent Expenditure

1. Curtail overall growth in public sector employment
2. Digitization of Government Services
3. Advance pension reform exploring defined contribution plans
4. Accelerate fiscal legislative reforms: Public Procurement & Public Financial Management
5. Acceleration of the SOE reform agenda

Capital Expenditure

1. Priority focus on health infrastructure and pandemic management, and hurricane reconstruction.
2. Prioritization of investments in roads, bridges, airports and energy infrastructure;
3. Increased use of Public-Private Partnerships;
4. Strengthened project implementation and evaluation of capital projects;

BUILDING **ECONOMIC RESILIENCE** BEYOND THE PANDEMIC

STRUCTURAL & PUBLIC SECTOR REFORM

- Expanding Support for Micro, Small and Medium Sized Businesses (MSMEs)
- Promoting domestic and foreign investment
- Increased investments in the digitization of government
- Accelerating Ease of Doing Business Initiatives
- Promotion of a digital economy
- Investment in Skill and Education Building
- Promoting energy reform through the use of renewables
- National Infrastructure Fund in 2021
- Modernize Fiscal Management Legislation

WHY STATE-OWNED ENTERPRISE **(SOE) REFORM**?

SOEs are not optimally structured to carry out their services and operational mandates. Given the increasing pressure on government spending, SOEs have mandated to optimize efficiency and pursue cost recovery

$407.9
million
BUDGETED
(FY20/21)

SOEs account for major Govt expenditure

$100
million
ANNUAL REDUCTION

Govt set mandate to reduce subventions over the next four years

- Anticipated savings to have a significant effect on overall fiscal position
- Savings from SOE reform to assist with meeting additional expected debt servicing requirements.

DEBT MANAGEMENT FOR **ONGOING DEBT SUSTAINABILITY**

Key Debt Considerations

1. **Debt ratio is sustainable over the forecast medium-term.** Public Debt Management legislation to enhance debt governance structure
2. Foreign reserve levels at $2.39 billion provide country **import cover in excess of six months**

Key Targets

- Target debt to GDP ratio of 50.0% expected for 2030/2031
- Ratio to grow from 66.0% in 2019/20 and peak at 85.0% in 2021/22 before declining to 73.7% by 2024/25

Conditions to Watch

- Rebound in global output by 2022
- No serious deterioration in credit conditions
- Cessation of further extensive lockdowns
- No major external shocks in the short term

PROACTIVE MANAGEMENT OF MACROECONOMIC RISKS

RISK FACTOR	PROACTIVE MITIGATION STRATEGY
Uncertainty about trajectory of **COVID-19**, and timing for roll-out of vaccine	Continuous monitoring and rationalization of expenditures
Climate change resulting in higher frequency of strong storms	Comprehensive disaster management framework
Pension Liabilities accumulating unsustainable long-run costs	Implement longer-term actions to improve fund sustainability; introduction of defined contribution plan.
Contingent Liabilities—possibility for calls on guarantees if SOEs cannot meet obligations.	Accelerate plans for greater cost recovery in SOEs; enact public debt management and public financial management legislation

For more information visit:

www.bahamasbudget.gov.bs

Thank you.

ANNEX

ECONOMIC PERFORMANCE 2019 – 2020

- Despite Hurricane Dorian, real economic growth for 2019 was stronger than anticipated; positive tourism performance; post-Dorian construction boost, improved GDP methodology.
- Growth outlook for 2020 deteriorated, given the deepening impact of COVID-19 with Q1 2020/21 revenue loss of $68 million vs budget, trending toward $184 million revenue loss for fiscal year
- Direct expenditure for both shocks in excess of $300 million

	2019		2020	
INDICATORS	BUDGET FORECAST	ACTUAL	BUDGET FORECAST	REVISED OUTLOOK
Gross Domestic Product, current prices (% change)	1.6	4.3	-4.8	-17.3
Gross Domestic Product, constant prices (% change)	0.4	1.2	-1.1	-16.2
Inflation (GDP deflator %)	1.2	1.3	1.7	-1.4

SOURCE: IMF, CBOB, DOS
*IMF Forecast

MACRO-ECONOMIC ASSUMPTIONS FOR MEDIUM-TERM FORECASTS

GDP Assumptions

- Decline by 16.2% in 2020—based on broad based contraction in business activity
- Recovery to 2.0% in 2021—amid steady rebound in tourism and roll-out of vaccine.
- Growth strengthen to 8.5% in 2022, given full recovery of tourism and normalization of business activity.
- G-rate trend downwards from 4.0% in 2023 to 1.8% in 2025.

Revenue Assumptions

- Recovery to 17.5% of GDP in 2021/22—still below pre-crisis 18.2% in 2018/19
- Ratio firms to 19.5% in 2022/23; and strengthens to 20.5% in 2024/25.
- Trajectory assumes additional revenue measures and policies to attain target ratios.

Expenditure Assumptions

- Recurrent exp. to decline from peak Hurricane Dorian COVID-19 and 22.4% of GDP in 2020/21.
- Steady decline to policy ceiling of 19.0% by 2024/25.
- CAPEX to trend lower from 3.8% in 2020/21 to target level of 2.0% over the medium-term.

FORECASTED OVERALL BALANCE AND DEBT POSITION

- Overall balance to move from historic deficit of 11.6% of GDP in 2020/21 to 7.8% in 2021/22.
  - Ratio to trend towards FRA deficit target of 0.5% in 2024/25.
  - Timeframe to meet target unchanged from the 2019 FSR—although changes in intervening years, given the impact of COVID-19.
- Debt to GDP ratio anticipated to grow from 66.0% in 2019/20 to a high of 85.0% in 2021/22; in line with the improvement in the overall balance, ratio expected to decline to 73.7% by 2024/25.
  - The 2019 FSR indicated that target 50% would be achieved by 2028/2029
  - 2020 FSR recommend an extension of two year to 2030/2031.

MEDIUM TERM FISCAL FRAMEWORK (B$M)

	ACTUALS		BUDGET	FORECASTS			
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	2,426.4	2,090.6	1,762.5	2,238.7	2,558.0	2,876.8	3,010.4
Recurrent	2,426.3	2,,090.6	1,760.5	2,236.7	2,556.0	2,874.8	3,008.4
Capital & Grants	0.1	-	2.0	2.0	2.0	2.0	2.0
Expenditure	2,635.2	2,851.8	3,089.6	3,052.1	2,925.2	2,999.4	3,092.4
Recurrent Expenditure	2,422.2	2,,526.3	2,574.1	2,665.9	2,672.2	2,723.5	2,793.4
Capital Expenditure	223.4	325.5	515.5	386.2	252.5	275.9	299.0
Overall Balance: Surplus/(Deficit)	(219.3)	(761.2)	(1,327.1)	(813.4)	(367.2)	(122.6)	(82.0)
Less: Interest Payments	328.4	344.6	396.9	432.1	435.5	400.8	395.3
Primary Balance	109.2	(416.6)	(930.2)	(381.3)	68.3	278.2	313.3
GDP (Current Prices)	12,544.3	12,055.0	11,481.0	12,058.0	12,780.0	14,519.0	15,027.2
Overall balance as % of GDP	-1.7%	-6.3%	-11.6%	-6.0%	-1.9%	-0.8%	-0.5%
Government Debt	7,527.0	8,179.7	9,506.8	10,320.2	10,614.4	9,365.8	9,447.8
Gov't Debt as % of GDP	60.0%	67.9%	82.8%	85.6%	83.1%	64.5%	62.9%

Note: 2023/2024 and 2024/2025 are from the FAP post -Hurricane Dorian and ratios reflect earlier estimates of GDP by the IMF.

FISCAL STRATEGIES AND POLICY CONSIDERATIONS: **IMMEDIATE MEASURES**

Revenue Measures

- **Gaming Fees (January 2021):**
  - Implement existing regulations tax on patron winnings.
  - Anticipated Yield: $10-15 million (FY2020/21)

Expenditure Measures – Recurrent & Capital

- **Targeted reduction in Recurrent expenditure (Immediate):**
  - Reduce non-essential program based recurrent expenditure across Ministries
  - A detailed review is being conducted with each Ministry to identify line items
  - Anticipated savings: $100 million (FY2020/21)

- **Target only essential and Defer non-essential Capital expenditure (Immediate):**
  - A detailed review is being conducted to identify projects with MoPW and other key Ministries
  - Target only essential and Defer non-essential capital works programs which have not commenced until 2021
  - Anticipated savings: $100 million (FY2020/21)