

**COMMONWEALTH OF THE BAHAMAS**

**2020/21**

**MID-YEAR BUDGET STATEMENT**

**ON THE SIX MONTHS ENDING DECEMBER 31, 2020**

**Presented to the Honourable House of Assembly**

**By**

**DR. THE MOST HONOURABLE HUBERT ALEXANDER MINNIS**

**PRIME MINISTER**

**&**

**MINISTER OF FINANCE**

**WEDNESDAY FEBRUARY 24, 2021**

Mr. Speaker,

It is my privilege to present to this honourable house the 2020/21 Mid-Year Budget Statement, as required by the Financial Administration and Audit Act, 2010 and the Fiscal Responsibility Act, 2018.

Mr. Speaker,

This Mid-Year Budget Statement is presented at an unprecedented time in modern Bahamian history.

It comes at a time when The Bahamas is still rebuilding from Hurricane Dorian -- when, the country is contending with the persistent threat of the COVID-19 pandemic.

To address these challenges, in May of last year, my government brought to this house its budget for the 2020/21 fiscal year entitled, “Resilient Bahamas: A Plan for Restoration”.

This macroeconomic plan was designed to allow the country to successfully weather the ravages of the coronavirus pandemic and to also emerge stronger and more resilient.

Mr. Speaker,

During the 2020/21 budget debate, we outlined the government’s plan and strategy to navigate these challenging times, by including provisions to:

* Protect the wellbeing of our citizens and residents;
* Maintain economic stability during the COVID-19 induced crisis; and
* Plant seeds for an accelerated recovery.

To achieve these goals in an environment of fiscal constraint, we decided to focus on five priority areas:

1. In the Resilient Bahamas Plan, my government said, we would not compromise on public health and safety. To date, we have led a science driven COVID response that has curtailed the spread of the virus and made our response the envy of the Caribbean;
2. The plan stated we would seek to protect and sustain employment. At the mid-year point, we have protected over 14,000 private sector jobs by funding $44.4 million in payroll support through tax credits and deferrals;
3. The plan stated we would not let our citizens go hungry; 6-months later, we have spent $24 million on food assistance through the National Food Distribution Taskforce to feed 72,000 households.
4. In the Resilient Bahamas Plan, my government said, we would sustain the domestic economy and relieve the economic burden on citizens; 6-months later, we have invested $45 million in business continuity loans and grants and $83.5 million in construction projects to stimulate the economy.
5. The Plan articulated the government’s intent to use this time to accelerate economic and public governance reforms and prepare the country for a strong and robust rebound.

To date, we have made significant progress in digital transformation and advancing key public financial management legislative reforms.

Mr. Speaker,

Today’s Mid-Year budget statement will present to this house a summary of the government’s performance for the six months ending December 2020.

I am happy to report that, despite the enormous challenges we face, we have been successful in delivering on the precepts of our Resilient Bahamas Plan.

Mr. Speaker,

I begin with the global and domestic economic context in which we find ourselves. In 2020, the world faced perhaps the most severe economic downturn in modern history as a result of the fallout of the COVID-19 pandemic.

According to the IMF’s October 2020 World Economic Outlook, the global economy was estimated to have contracted by 3.5 percent in 2020, which exceeded the 3.3 percent downturn estimated in April, and represented a marked deterioration from the 2.8 percent growth achieved in 2019.

Based on the assumption that the COVID-19 restrictions would be gradually lifted, and the roll-out of the vaccination programmes, the world economy is expected to rebound at an estimated 5.5 percent growth rate in 2021 and 4.2 percent in 2022.

Mr. Speaker,

For our major trading partners, the United States (US) and Canada, the IMF estimated that their economies contracted by 3.4 percent and 5.5 percent, respectively in 2020.

The Financial Times estimated that the United Kingdom’s economy contracted by 9.9 .percent in 2020 - describing it as the worst economic performance in more than 300 years.

Mr. Speaker,

When we take a look at macroeconomic conditions in our major trading partner, the US, the last 12 months was undoubtedly a time of tremendous change and challenge.

According to the US Center for Disease Control, as of Monday 22 February, 2021, the US recorded 27.9 million COVID-19 cases and almost 500 thousand deaths.

The economic fallout arising from the pandemic led the US authorities to implement a massive economic stimulus package to support employment, households, and business activity and vaccination.

With increased political certainty in the US, as the result of the completion of the 2020 election cycle and the mass deployment of vaccines, the IMF forecasts that the US economy will rebound in 2021 to achieve a 5.1 percent real growth, which represents a 2.0 percent improvement on previous GDP forecasts.

Real GDP growth is then expected to level off to 2.5 percent in 2022.

Reflecting the global economic contraction, global crude oil prices contracted during the year and closed at $39.17 per barrel in December, down from $56.99 per barrel in December of the prior year.

Mr. Speaker,

For The Bahamas, which is ranked 3rd in the Caribbean by the Inter-American Development Bank in its Tourism Dependency Index, the slowdown in travel and the contraction in the economies of our source markets, the COVID-19 pandemic has translated into a more acute impact on economic performance.

Mr. Speaker, let me be clear, COVID-19 has had an unprecedented effect on our country.

Our country's primary business is tourism and the shock has been severe.

According to the Central Bank’s December 2020 Monthly Economic Report, total tourist arrivals in the country were down by 73.1 percent for the first 11 months of 2020 when compared to the previous year. These are not just numbers but underscores the difficult, harsh realities faced by hotels, straw vendors, taxi drivers, and the thousands employed in this industry.

We have fared much better in terms of inflation as global oil prices softened amid the general slowing in global economic activity.

Domestic inflation, measured by the All Bahamas Retail Price Index, advanced by just 0.1 percent compared to 2.5 percent in 2019.

On the monetary side, banks continued to experience growth in liquidity of $264.4 million in 2020, although below the $433.6 million build up posted in 2019.

With the government’s decision to source the bulk of its budgetary financing in foreign currency, and the decline in domestic credit, external reserves remained healthy during the year.

Our country recorded a gain in our external reserves of $622.4 million to total $2.4 billion at the end of December, 2020.

This represented approximately 43.6 weeks of import coverage, compared with 27.7 weeks in 2019.

A guiding principle of my government is the assurance that we never put the Bahamian dollar under any threat of devaluation.

Despite the twin economic catastrophes of Hurricane Dorian and the Covid-19 pandemic, the Bahamian dollar remains as strong as it has ever been.

I repeat: The Bahamas maintains a record level of foreign reserves and our Bahamian dollar is as secure as it has ever been.

Mr. Speaker,

Hurricane Dorian was the most devastating storm in our history and COVID-19 has been the most harmful pandemic in modern history.

It is therefore not surprising that in its most recent assessment of The Bahamian economy, in November 2020, the IMF estimated that the Bahamian economy contracted by 16.2 percent in real terms in 2020, representing the most significant economic downtown in any single year in Bahamian history.

However, in line with the anticipated improvement in global economic conditions in 2021, in the context of the vaccine rollout which will support a recovery in tourism, the US, real GDP for the Bahamas is expected to rebound by 2.0 percent and strengthen to 8.5 percent in 2022.

I am fully confident that, although these two recent shocks have delivered a hard blow, we remain resilient.

Mr. Speaker, we are still standing and we will emerge even better and stronger!

Mr. Speaker,

I will now turn to the provisional revenue and expenditure for the first six months of the fiscal year, and the outlook for the remainder of the year.

You would note that, while we are indeed facing unprecedented times and incredible challenges, we are remaining true to our pledge of fiscal probity.

While times are indeed tough, we have sought to manage the country’s finances in a responsible manner to ensure that where there are revenue shortfalls, we have made and will continue to make reductions in expenditures.

The goal is to ensure we maintain the originally budgeted deficit position of $1.3 billion dollars throughout the fiscal year.

Mr. Speaker,

Balancing the priorities of saving lives, rebuilding two islands, and maintaining our economy has not been without its challenges.

During the first six months of the 2020/21 fiscal year, total revenue contracted by an estimated $415.3 million to $673.4 million when compared to the same period last year. This amounted to 38.1 percent of the full year budget estimate.

When we take a closer look at the components of this revenue, we understand the following:

1. Collection of taxes contracted by $425.0 million to $568.5 million. This is largely driven by reductions in VAT collections of $228.9 million to $286.4 million, lower intake from international trade taxes, by $128.7 to $103.2 million and excise tax reductions of $43.6 million to $88.9 million.
2. The reductions are largely a result of the reimposition of certain COVID-19 health and safety measures as the country experienced its second wave resulting in a slower than anticipated economic recovery and consequently lower government tax receipts.
3. The extension of the government’s Special Economic Recovery Zone (SERZ) program to December 31, to allow persons in Grand Bahama and Abaco to continue to rebuild in the aftermath of Hurricane Dorian, also - as anticipated - had the effect of reducing government tax revenue.
4. Non-tax revenue, however, improved by $9.9 million to $103.9 million supported by an increase in rent revenue of $11.9 million attributed to the timing of the AUTEC lease payment.
5. Premiums, fees and claims also improved by $17.7 million, owing a $18 million premium on the government’s December US dollar bond offering

Mr. Speaker,

Due to the very trying economic times faced, during the first half of the year, the government has sought where possible to limit the growth in overall expenditure.

The year- over- year growth in expenditure of $112.1 million at the mid-point of the fiscal year has been fueled by the massive increases in funding to support social programmes.

This has driven expenditure up to $1.41 billion.

As the economy rebounds and tourism activities resume, we anticipate a significant moderation in expenditure as persons go back to work, and the government begins a slow wind down of its current outlays on social support programmes.

In terms of recurrent expenditure, outlays grew by $119.5 million to $1.3 billion, which equated to 50.4 percent of the budget.

Key components of recurrent spending include the following:

1. Compensation of employees, which comprises wages, salaries, allowances and NIB contributions, declined to $342.3 million, as the previous midyear tally included the public lump sum payment done in December 2019. The government continued its commitment to reduce the $360 million in arrears it inherited in 2017 and as of December 2020, approximately $282.7 million in arrears have been settled since the start of the programme.
2. Subsidies and transfers to non-financial public corporations increased to $205.7 million to support operational costs, in particular, salaries due to COVID-19 economic hardship and to support health and safety measures. These transfers include:
   1. $117.1 million to the Public Hospitals Authority (PHA),
   2. $34.8 million to Bahamasair;
   3. $19.0 million to the National Health Insurance; and
   4. $15.2 million to the Water and Sewerage Corporation
3. Transfers to private non-financial corporations increased by $2.7 million to $12.7 million and includes an increase of $5.0 million to independent schools who would have also faced economic hardships due to the COVID-19 economic downturn
4. Social assistance benefits increased by $91.6 million to $104.4 million compared the same period in the previous year, largely due to increased demand on the government’s social support programs such as the unemployment assistance program managed by NIB, the specially created National Food Distribution Task Force and the Department of Social Services ordinary food assistance program.

Mr. Speaker, I want to emphasize and put this into context.

We understood the crisis and the severe effect on our revenue, but we recognized that our priority was and is always to do what is necessary to save lives and support people.

We also made the deliberate decision that even though we collected less revenue, we must spend more to take care of the most vulnerable.

Our focus has at all times been on the people.

Mr. Speaker,

Given the current economic climate, the government has sought to be as judicious as possible with its capital expenditure.

At the same time, we are mindful that during an economic downturn such as now, the government can and should help stimulate economic activity through targeted infrastructure and other capital spending. During the first half of the year, capital spending contracted by $7.4 million to $109.3 million compared to the prior year.

1. Capital transfers declined by $17.5 million despite $5.5 million in transfers related to Hurricane Dorian restoration and $9.0 million in support for small and medium sized businesses managed through the governments Access Accelerator Small Business Center.
2. Spending of physical infrastructure expanded by $10.1 million to $83.5 million and included works such as:

a. $3.2 million on bridges;

1. $4.5 million on New Providence roads; and

c. $3.1 million on airport repairs and upgrades.

As a result of these activities, the fiscal deficit widened to $736.1 million, or 55.5 percent of the estimated deficit based on the fiscal year 2020/21 budget.

To meet its financing need for the year, government GROSS borrowing totaled $2.12 billion million in the first half.

It is important to understand that a significant portion of this amount was to refinance existing debt.

Mr. Speaker, the government’s NET borrowing increased by $1.2 billion during the period indicating that the government’s debt to GDP ratio was estimated at 78.8 percent, as at December 31, 2020.

Mr. Speaker,

As I conclude this Mid-Year budget statement, I must emphasize that there is still great uncertainty in the world, and people in The Bahamas are still experiencing hardship from this unprecedented COVID-19 crisis.

However, the Bahamian people can feel assured that this Government is taking care of its citizens and will continue to do so.

At every step of the way, civil society and the private sector have been vital partners in delivering charity and hope to the community.

I applaud these efforts which are taking place in neighbourhoods and often with the assistance of major corporations and hundreds of volunteers.

Together, we have weathered the storm far better than most, and our prospects for recovery are strong.

Right now, our Caribbean neighbours are managing new waves with more restrictive curfews and lockdowns than we currently have in place.

Our own experience has shown how fast conditions can change and reverse hard earned gains.

So we must remain proactive and steadfast.

Our plan for restoration is working and will continue to produce results.

As we look towards a future beyond COVID-19, I am encouraged by the following:

* Since the reopening of the tourism economy in November, Government revenues for the months of November, December and January have modestly exceeded our revenue forecasts for those months;
* We continue to see progress on substantial investment projects, as highlighted by the ongoing work on the Wynn property in Cable Beach, and the soon to be opened Pointe Property downtown.
* The work on the new port development downtown is moving into high gear.
* Major hotels, such as the Atlantis property, boast strong advanced bookings. In fact, Atlantis is getting set to reopen its Royal Towers next month.
* The Sandals properties in New Providence and in Exuma will also reopen soon.
* Cruise lines, such as MSC, have already resumed services in other parts of the world with plans to restore Caribbean sailing in the very near future.
* The government continues to make investments and encourage entrepreneurship in untapped business sectors which will soon begin to bear fruit as we plant seeds to diversify our economy.

Mr. Speaker,

I wish to remind the House of major elements of our economic plan which I will elaborate on during the debate next week:

* Continuing our aggressive response to COVID-19 particularly distributing the vaccine
* Continuing the provision of social support to the most vulnerable
* Digitization of Government business services
* Continued Focus on the Ease of Doing Business
* Reforming fiscal management legislation with the Public Financial Management Bill, the Public Procurement Bill, and the Public Debt Management Bill.
* Promotion of a Digital Economy--with support for the Central Bank’s Sand Dollar
* Implementing elements of the Economic Recovery Committee’s recommendations
* Supporting the development of Micro, Small and Medium Sized Businesses (MSMEs)
* Accelerating and promoting domestic and foreign investment to stimulate job creation
* Investment in skill and education building

Additionally, Mr. Speaker, I will also speak about the government’s plan to use creative financing from the private sector in the form of Public Private Partnerships.

In the coming years, this approach will allow the government to progress several key infrastructure development plans, such as the Family Island airports redevelopment project, while limiting its direct financial outlays.

This will allow the government to generate economic activity and much needed job opportunities, while building the core infrastructure necessary for sustained economic and social development across The Bahamas.

Thank you.