COMMONWEALTH OF THE BAHAMAS

THE MINISTRY OF FINANCE

FY2022/23 QUARTER I

THREE MONTH REPORT ON

BUDGETARY PERFORMANCE

FY2022/23 JULY – SEPTEMBER

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1. ABOUT THIS REPORT

GENERAL STATEMENT

In keeping with its commitment to transparency in the public finances and align with global fiscal disclosure standards and best practices, the Ministry of Finance provides in-year reporting on the performance of the central Government's revenue, expenditure and financing operations vis-à-vis the approved budget.

- **Periodicity:** Quarterly (Qtr. I: July – September; Qtr. II: July – December; Qtr. III: July – March; and Qtr. IV: July – June).
- **Timeliness:** Within four (4) weeks after the end of the referenced quarter, except for Qtr. IV report which will be released two months after the end of the quarter given year-end closing activities.
- **Publication:** To be released on the Ministry of Finance's Budget website (www.bahamasbudget.gov.bs).

BASIS OF PREPARATION

The budgetary data are prepared using a modified cash basis of accounting and guided by International Public Sector Accounting Standards (IPSAS) cash basis. As such, revenue is recognized when received and not when earned, expenditure is recorded in the period it is incurred and paid, and purchases of fixed assets, including immovable property, plant and equipment, are fully expensed in the year of purchase.

The fiscal data tables compiled in the quarterly reports are presented using the new modified chart of accounts introduced on July 1, 2018, which accomplishes two (2) important objectives, namely:

- prepares for the eventual conversion of the accounting presentation to the IPSAS accrual basis,
- facilitates the aggregation and presentation of the fiscal data to meet the International Monetary Fund's Government Finance Statistics (GFS) 2014 reporting standards. The primary purpose of the GFS is to provide a comprehensive conceptual and reporting framework for analyzing and evaluating the performance of the Government's finances.

UNAUDITED DATA

As reconciliation is ongoing, the fiscal data presented in these quarterly reports are subject to change and, therefore, their status is provisional (denoted as "p") until audited by the Auditor General.

ROUNDING

Because of rounding, some totals may not agree with the sum of their component parts.

2. EXECUTIVE SUMMARY

During Q1 FY2022/23, preliminary fiscal data suggests a continued acceleration in the rebound of domestic economic activity to pre-COVID-19 performance levels. While global inflationary levels remain elevated, dampening projections of economic conditions in major tourism source markets, domestic economic growth continued to be supported by a rebound in tourism performance.

Globally, economic growth is projected to have slowed during the quarter, underpinned by the cost-of-living crisis, tightening financial conditions in most regions, Russia's invasion of Ukraine, and the lingering COVID-19 pandemic. Despite the broad-based slowing in global economic output, domestic output continued to expand, supported by strong tourism demand. Year-over-year, Q1 air arrivals improved by 29.7 percent to approximately 95 percent of 2019 levels.

Globally, inflationary pressures persisted resulting in Central Banks in many advanced economies enacting prudent monetary policies. As a result, this period is marked with some of the highest interest rates recorded in decades.

Government fiscal performance for the first three months of FY2022/2023 indicate resilient revenue collections with revenues exceeding budget targets. Amidst strengthened economic activity, Government spending reflected prudential financial management and returned to historic trends as the need for Government outlays for COVID-19 related programs continue to wane.

» Total revenue during the quarter settled at $654.3 million— advancing $57.8 million (9.7 percent) over the prior year and represents 23.3 percent of the budget target. Tax receipts widened by $54.1 million (10.4 percent) to settle at $574.4 million and 23.0 percent of the budget. Notable advances were seen in: Value Added Tax (VAT) of $35.2 million; $123.7 million in excise duties; $26.9 million in departure taxes. Declines were noted in excise taxes ($27.4 million). Non-tax performance improved by $3.7 million (4.8 percent) to $79.9 million, owing to a $14.8 million increase in miscellaneous income.

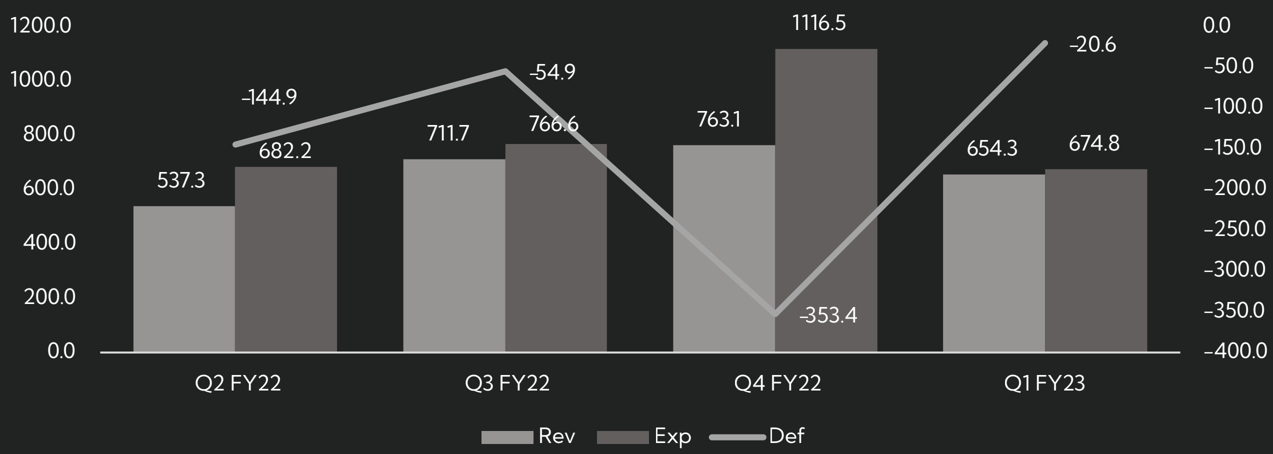
TABLE 1: FISCAL SUMMARY (STATEMENT OF SOURCES & USES OF CASH)

(B$M)	[a]	[b]	[c]	[b] -[c]	[b/a]
	Budget	July - September			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
Revenue	**2,804.3**	**654.3**	**596.4**	**57.8**	**23.3%**
Tax	2,492.1	574.4	520.3	54.1	23.0%
Non-tax	309.4	79.9	76.1	3.7	25.8%
Grants	2.8	0.0	0.0	0.0	0.0%
Expenditure	**3,368.4**	**674.8**	**732.8**	**(58.0)**	**20.0%**
Recurrent	2,997.2	620.6	668.5	(47.8)	20.7%
Capital	371.1	54.2	64.3	(10.2)	14.6%
Surplus/(Deficit)	**(564.0)**	**(20.6)**	**(136.4)**	**115.8**	**3.6%**
Financing Activities	**564.0**	**20.6**	**136.4**	**(115.8)**	**3.6%**
Net Acquisition of financial assets (-)	**46.5**	**10.0**	**13.6**	**(3.6)**	**21.5%**
Sinking Funds	46.5	10.0	13.6	(3.6)	21.5%
Equity	0.0	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0	0.0%
Net Incurrence of Liabilities (+)	**688.8**	**12.1**	**154.6**	**(142.5)**	**1.8%**
Borrowings	1,965.5	399.8	497.4	(97.6)	20.3%
Debt Repayment	1,276.7	387.8	342.9	44.9	30.4%
Change in Cash Balance [()= increase]	**(78.2)**	**18.5**	**(4.6)**	**23.1**	**-23.6%**

» Total expenditure aggregated to $674.8 million, a decrease of $58.0 million (7.9 percent) compared to the same period of the previous year and 20.0 percent of the budget targett.

- Recurrent spending totaled $620.6 million, contracting $47.8 million (7.2 percent) and accounting for 20.7 percent of the budget target. Key changes were made in the amount of: $13.2 million in the acquisition of goods and services, $16.7 million in subsidies spending and $41.9 million in social assistance benefits with the repeal of COVID assistance programmes. Despite the overall fall in public spending there were increases of: $11.4 million in compensation of employees, $10.5 million in public debt interest payments, and $4.4 million in pensions and gratuities. A $124.7 million reduction in social assistance benefit spending was noted owing to elimination of COVID-19 social assistance and benefits through the year.
- Capital expenditure contracted by $11.5 million (69.8 percent) to $54.2 million and 14.6 percent of the budget target. The fall in capital spending was driven by an $11.5 million (69.8 percent) decrease in capital transfers.

FIGURE 1: BUDGETARY PERFORMANCE (B$M)



- During the first three months of the FY2022/23, the Government experienced a net deficit of $35.5 million, which represented a decrease of $101.1 million (74.1 percent) as compared to the prior fiscal year. Net financing totaled $12.1 million, a $142.5 million (92.2 percent) decrease in the net liability as compared to the $154.6 million experienced in the prior fiscal year for the same period.
- During the period, voluntary contributions to the sinking funds established to retire future debt obligations totaled $10.0 million.
- Government's gross borrowing totaled $399.8 million as compared to $497.5 million in the same period of the prior fiscal year to satisfy budgetary financing requirements and to settle maturing debt instruments. Of this total, $118.2 million was provided via domestic bond issuances, $30.6 million in treasury bills and notes, $205.0 million in Central Bank advances. Foreign currency loan financing of EUR$43.5 was drawn on existing facilities, and $2.5 million drawn from an existing IDB loan.
- Repayments of Government debt increased to $387.8 million compared to $342.9 million in the same period of the prior year. Bahamian Dollar repayments included reductions in Central Bank advances ($205.0 million); Bahamas Government Registered Stock ($105.5 million); and bank loans ($34.2 million). Foreign repayments amounted to $43.1 million consisting of $36.1 million in foreign bank loan repayments and $6.9 million to international development agencies.
- As a result of net borrowing activities, the Direct Charge on the Government—exclusive of exchange rate adjustments, increased by $17.8 million. When exchange rate adjustments are applied, the total Direct Charge at end-September 2022 totaled $10,775.0 million or 86.1 percent of GDP, as compared to 86.9 percent of GDP at end-June 2022.

BOX A: SUMMARY OF COVID-19 EXPENDITURE

During first three months of FY2022/23, Government continued the process of contracting its COVID-19 related health containment, mitigation and support programs for impacted families and businesses. These outlays are estimated at $2.2 million and, together with past outlays, brings the aggregate spend to approximately $457.2 million.

TABLE 2: SUMMARY OF COVID-19 RELATED EXPENSES (B$M)

	FY2019/20	FY2020/21p	FY2021/22p	FY2022/23	Total
	Mar – June	July – June	July – June	July – Sept	
Recurrent Expenditure	**39.2**	**268.5**	**96.6**	**2.2**	**406.5**
Public Health Safety	1.9	36.6	14.8	0.4	53.7
Unemployment Assistance	10	164.7	62.3	0.0	237.0
Goods & Services Acquisition	1.8	2.2	2.7	0.2	6.9
Job Retention Programs	21.4	23	6.4	1.2	52.0
Food Assistance	2	40.4	7.8	0.0	50.2
Other	2.1	1.5	2.6	0.4	6.6
Capital Expenditure	**40.3**	**4.7**	**5.7**	**0.0**	**50.7**
Public Health Safety	0.4	0	0	0	0.4
Goods & Services Acquisition	0.6	0.1	0	0	0.7
COVID-19 Unit	0.3	0.5	0	0	0.8
Small Business Loans	39	4.1	5.7	0.0	48.8
Total	**79.5**	**273.3**	**102.3**	**2.2**	**457.2**

3. ECONOMIC OVERVIEW

During the first quarter FY2022/23, data suggests a continued accelerated rebound in domestic economic activity to pre-COVID-19 performance levels, despite the continued impact of elevated global inflation. Notwithstanding projections of dampening economic conditions in major tourism source markets, domestic economic growth continued to be supported by a rebound in tourism performance.

In its October 2022 World Economic Outlook, the IMF maintains that global economic activity continues to slow alongside inflationary pressures not experienced in decades. The combined impacts of the war in Ukraine, continued impact of the COVID-19 virus in some countries and elevated prices all contribute to the outlook and forecast of global growth slowing from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023.

At the open of the quarter, US consumer prices remained stable in July, rose 0.1 percent in August and grew an additional 0.4 percent in September on a seasonally adjusted basis. Employment conditions fluctuated during the period rising 3.5 percent in July before falling 3.7 percent in August and rising 3.5 percent in September. Similarly, Euro area consumer prices increased during the quarter, peaking at 9.9 percent at the end-September. Despite rising prices, employment levels remained steady at 6.6 percent. Revised estimates suggest the regional economy will maintain 0.0 percent growth in 2022, and contract by 0.2 percent in 2023. In contrast the Chinese economy is projected to grow over the near term with 3.2 percent expansion in 2022 and 4.4 percent growth in 2023. China maintained unemployment levels, falling 5.4 percent in July and 5.3 percent in August. In terms of inflation consumer prices increased 2.7 percent in July, contracted 2.5 percent in August and rebounded by 2.8 percent in September.

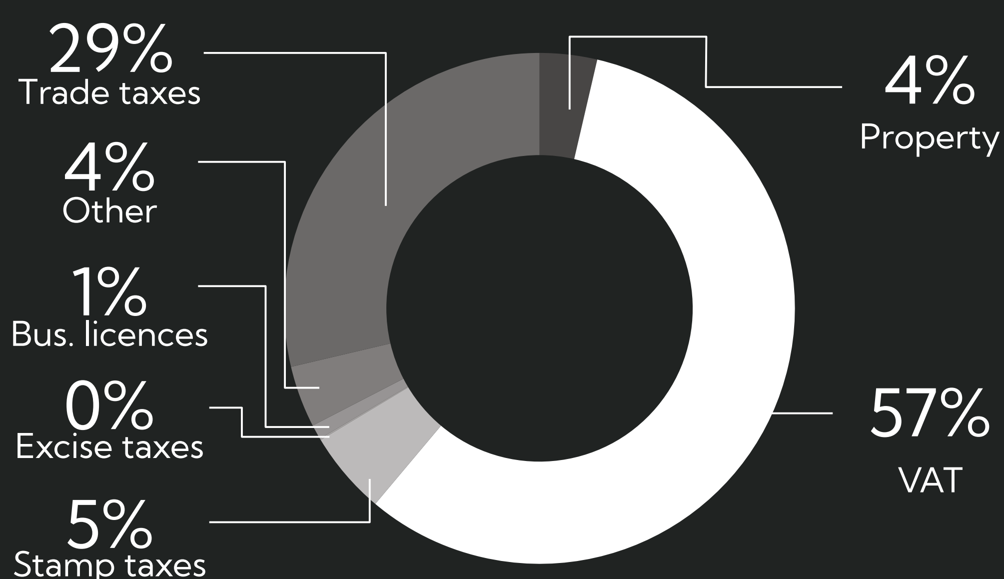
In line with expectations, the heightened economic activity experienced in the prior quarter persisted into the period. Feverish economic activity continues to grow in tandem with inflationary pressures as both phenomena feed into one another. According to the BNSI, July 2022 prices increased by 1.5 percent compared to June 2022, and 7.1 percent compared to the prior year. July 2022 prices mark the highest recorded in The Bahamas in recent years. Consumers paid more in July 2022, for products such as alcoholic beverages, tobacco and narcotics (6.0 percent), transport (6.1 percent) and recreation (18.9 percent) as prices of goods in these groups rose over the month. As a result, price controls on specific items have been proposed in an aim to reduce average living costs. The impact of these reforms may be observable, in terms of taming inflation, in the ensuing period.

Travel demand from major source markets remained resilient, with stopover arrivals improving by 269.5 percent in July 2022 compared to the year prior. Increased arrivals are owing to 470,860 thousand (948.3 percent) additional sea arrivals and 23,833 thousand (17.8 percent) additional air arrivals year-over-year. On average, the Nassau Cruise Port and Lynden Pindling International airport welcomed 15,000 passengers and 4,000 travelers per day respectively during the period. Advanced sea arrivals are partially owing to the easing of COVID-19 protocols onboard Carnival cruises. Persistent demand within the tourism sector supported employment within the economy, as properties and local business sought to service higher than usual market demand.

4. REVENUE PERFORMANCE

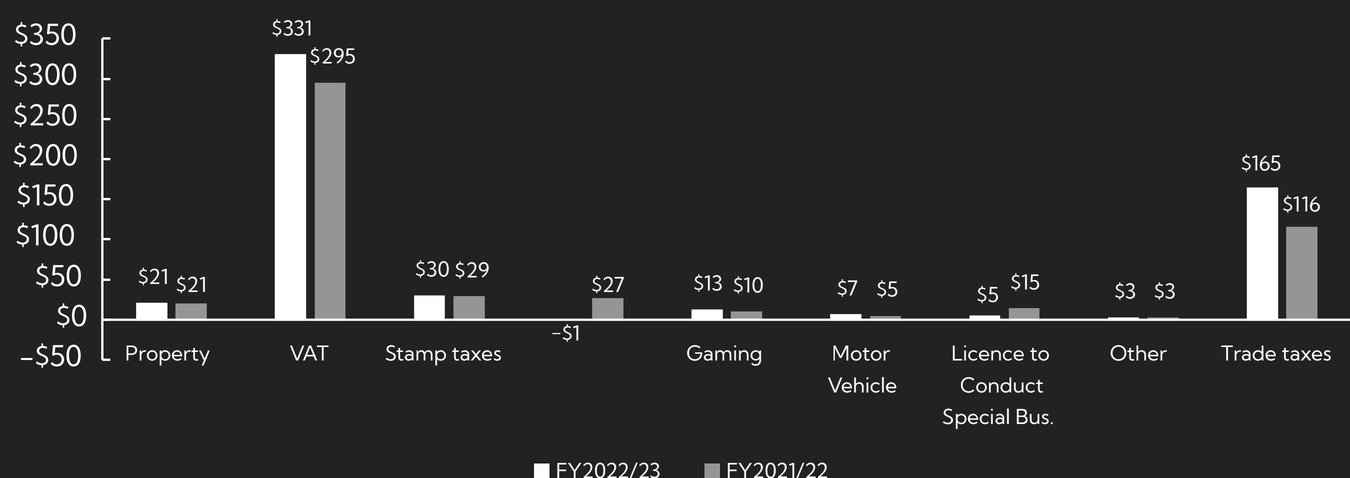
Mirroring the continued accelerating pace of the economic rebound, revenue receipts during the first three months of FY2022/23 improved by $57.8 million (9.7 percent)as compared to the same period of the prior year. At an estimated $654.3 million, total revenue stands at 23.3 percent of the budget target (see Table 3). Year-to-date revenue collections are consistent with pre-Dorian/pre-COVID-19 fiscal revenue trends as evidenced by Q1 FY2018/19 revenue collections of $471.8 million, representing 21.5 percent of FY2018/19 total revenue. The positive revenue performance was supported by increases in tax revenue of $54.1 million (10.4 percent) to $574.4 million (23.0 percent of budget) while non-tax revenue firmed by $3.7 million (4.9 percent) to $79.9 million (25.8 percent of the budget).

FIGURE 2: PERCENTAGE COMPOSITION OF TAX REVENUE (FIRST THREE MONTHS FY2022/23)



- » Taxes on Property improved by an estimated $0.2 million to $20.9 million, and represented 12.3 percent of the annual budget.
- » Taxes on Goods & Services, increased by $4.9 million (1.3 percent), representing 21.4 percent of the budget.
  - Period-over-period VAT receipts improved 11.9 percent ($35.2 million) to $330.5 million. Representing 23.4 percent of the budget target, improved first quarter VAT collections are attributed to improved economic conditions as compared to the year prior during the early stages of the post-COVID-19 economic rebound. Efforts of the reconstituted Revenue Enhancement Unit have also aided in tax administration to support timely tax collections.
  - Stamp Taxes on financial and real estate transactions grew by $2.1 million (7.7 percent) to $28.8 million, for 41.6 percent of the budget.
  - Excise Tax outturn indicated a net loss of $0.5 million during the period owing to timing differences associated with the payment of tax refunds.
  - Taxes on Specific Services (Gaming Taxes) increased by $2.3 million (22.2percent) to total $12.8 million and 24.2 percent of the budget target. Improved Gaming tax revenue reflects increased activity in the sector as economic and employment levels improve as compared to the prior year when COVID-19 Emergency Orders remained in effect, limiting business activity.
  - Motor vehicle taxes firmed by $2.2 million (44.8 percent) to total $7.0 million and 15.1 percent of the annual budget.
  - License to conduct special business activity – which comprises specific business licenses and communication levies – declined $9.2 million (62.7 percent) to $5.4 million.

FIGURE 3: YEAR-ON-YEAR 3- MONTH COMPARISON OF TAX REVENUE PERFORMANCE (B$M)



- » Taxes on International Trade & Transactions broadened by $49.4 million (42.7 percent) to $165.0 million during the period compared to the prior year. This rebound is supported by rebounds in the travel industry with the elimination of COVID-19 Emergency Orders and health & safety restrictions which remained in place during the prior year. Reflecting 32.5 percent of budget projections, performance in this category is largely explained by:
  - Excise & Export Duties firmed by $23.6 million (55.6 percent) to $66.2 million reflecting 41.0 percent of budget; and
  - Departure Tax collections increased by $26.9 million (253.9 percent) to total $37.5 million, representing 41.0 percent of budget largely as a result of improved airlift as the tourism industry rebounds.
  - Overall improvements in other areas of international trade and transactions were slightly offset by a $1.2 million (2.0 percent) decline in customs and import duties, which totaled $61.1 million (24.5 percent of budget), largely owing to tariff reductions.
- » General stamp taxes decreased by $0.4 million (19.6 percent) to an estimated $1.8 million, representing 17.2 percent expected collections.

Non-tax revenue improved modestly during the period by $3.7 million when compared to the prior year, owing to:

- Property income contracted by $1.5 million (9.4 percent) to total $14.8 million (39.4 percent of the budget). Advances in Interest & Dividends of $7.2 million owing to improved interest on Government loans were outpaced by a contraction of $8.7 million revenue in Government property revenue. The decline in property revenue is explained by settlement of seabed lease arrears of $8.6 million in the year prior.
- Sale of goods & service revenue declined by $9.4 million (16.2 percent) to totaling $48.6 million and 2.8 percent of the budget. Depressed revenue collections were attributed to:
  - Decrease in immigration related receipts of $7.6 million (21.3 percent) to $28.3 million and 26.6 percent of budget. Chief among these receipts were $64.3 million in work & residency permits, tourist health visa collections of $31.8 million and $19.5 million in other immigration fees;
  - Lowered customs fee collections of $2.8 million (21.4 percent) to $10.2 million (19.4 percent of budget).
  - The overall decline in revenue from fees and service charges were partially offset by $1.3 million (60.7 percent) increase in general service fee collections.
- Receipts from miscellaneous and unidentified collections firmed by $14.8 million to $15.2 million owing to receipt of an equivalent amount from hurricane proceeds.

TABLE 3: REVENUE SUMMARY (B$M)

	[a]	[b]	[c]	[b] –[c]	[b]/[a]
	Budget	**July – September**			
	FY2022/23	**FY2022/23p Actual**	**FY2021/22p Actual**	**Variance**	**% of Budget**
TAX REVENUE (a+b+c+d)	**2,492.1**	**574.4**	**520.3**	**54.1**	**23.0%**
a. Taxes on Property	**169.4**	**20.9**	**20.6**	**0.3**	**12.3%**
b. Taxes on Goods & Services (i+ii+iii)	**1,804.0**	**386.7**	**381.8**	**4.9**	**21.4%**
i. General	**1,547.7**	**358.8**	**349.0**	**9.8**	**23.2%**
VAT	1,411.8	330.8	295.4	35.4	23.4%
Stamp taxes (Financial & Realty)	69.3	28.5	26.7	1.8	41.1%
Excise Tax	66.6	(0.5)	26.9	(27.4)	-0.8%
ii. Specific (Gaming taxes)	**52.7**	**12.8**	**10.5**	**2.3**	**24.3%**
iii. Taxes on Use of Goods/ Permission to Use	**203.6**	**15.1**	**22.3**	**(7.2)**	**7.4%**
Motor Vehicle Taxes	46.0	7.0	4.8	2.2	15.2%
Company Taxes	22.5	2.0	1.8	0.2	8.9%
Licence to Conduct Special Bus. Activity	130.6	5.4	14.6	(9.2)	4.1%
Marine License Activities	4.5	0.7	1.1	(0.4)	15.6%
c. Taxes on Int'l Trade & Transactions	**508.3**	**165.0**	**115.6**	**49.4**	**32.5%**
Customs & other import duties	249.7	61.1	62.3	(1.2)	24.5%
Excise and Export Duties	161.5	66.2	42.6	23.6	41.0%
Departure Taxes	97.0	37.5	10.6	26.9	38.7%
Other	0.1	0.2	0.1	0.1	157.5%
d. General Stamp Taxes	**10.4**	**1.8**	**2.2**	**(0.4)**	**17.3%**

TABLE 3: REVENUE SUMMARY (B$M) CONT"D

	[a]	[b]	[c]	[b] –[c]	[b]/[a]
	Budget	July – September			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
NON-TAX REVENUE (e+f+g+h+i+j)	**309.4**	**79.9**	**76.1**	**3.7**	**25.8%**
e. Property Income	**37.7**	**14.8**	**16.4**	**(1.5)**	**39.4%**
Interest & Dividends	19.4	13.1	5.9	7.2	67.9%
Revenue_Gov't Property	18.3	1.7	10.4	(8.7)	9.3%
f. Sales of goods & services	**212.8**	**48.6**	**58.0**	**(9.4)**	**22.8%**
i. Fees & Service Charges	**194.1**	**45.4**	**54.4**	**(9.0)**	**23.4%**
General Registration	4.1	0.8	0.7	0.1	19.4%
General Service	18.0	3.5	2.2	1.3	19.5%
Immigration	106.2	28.3	35.9	(7.6)	26.6%
Land & Building	2.3	0.4	0.6	(0.2)	17.6%
Legal	1.3	0.3	0.2	0.1	23.7%
Customs	52.7	10.2	13.0	(2.8)	19.4%
Port & Harbour	7.7	1.5	1.3	0.2	19.5%
Health	1.0	0.2	0.1	0.1	20.7%
Other Fees	0.9	0.2	0.3	(0.1)	23.4%
ii. Other	**18.7**	**3.2**	**3.6**	**(0.4)**	**17.1%**
g. Fines, Penalties & Forfeits	**5.7**	**1.1**	**1.3**	**(0.2)**	**19.0%**
h. Reimbursements & Repayments	**49.2**	**0.0**	**0.0**	**(0.0)**	**0.0%**
i. Misc. & Unidentified Revenue	**3.9**	**15.2**	**0.4**	**14.8**	**391.5%**
j. Sales of other Non-Financial Assets	**0.1**	**0.1**	**0.1**	**0.0**	**85.9%**
TOTAL TAX & NON-TAX REVENUE	**2,801.6**	**654.3**	**596.4**	**57.8**	**23.4%**
GRANTS	**2.8**	**0.0**	**0.0**	**0.0**	**0.0%**
CAPITAL REVENUE	**0.0**	**0.0**	**0.0**	**(0.0)**	**0.0%**
GRAND TOTAL	**2,804.3**	**654.3**	**596.4**	**57.8**	**23.3%**

BOX B: TRENDS IN GOVERNMENT REVENUE PERFORMANCE & POLICY INITIATIVES

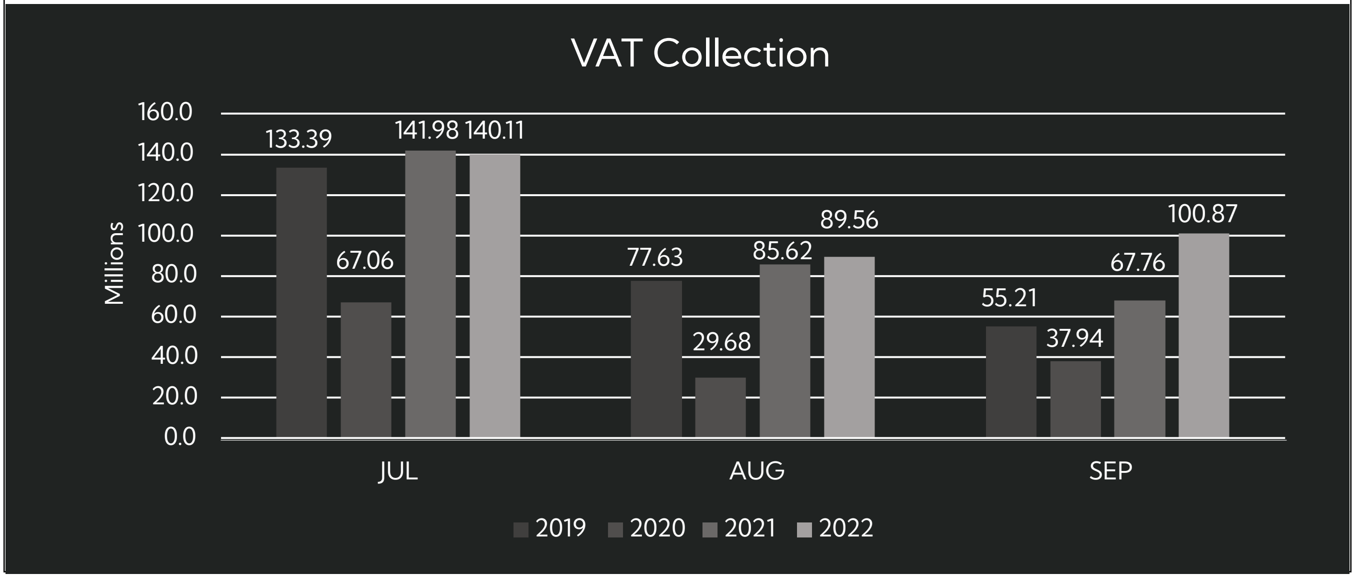
Preliminary data of Q1 FY2022/2023 revenue performance indicates a continued strengthening of Government revenue collections toward the peak figures experienced pre-pandemic and pre-Hurricane Dorian. Tax revenue collections improved 10.4 percent (54.1 million) when compared to the same quarter of the prior year. Improved tax revenue collections can be explained by increases of $35.2 million in VAT, and $49.9 million in international trade and transaction fees.

TABLE 4: REVENUE SUMMARY (B$M)

	FY2021/22					FY2022/23
	QI	QII	QIII	QIV	Total	QI
TAX REVENUE (a+b+c+d)	**520.3**	**445.6**	**592.7**	**603.2**	**2,161.8**	**574.4**
a. Taxes on Property	**20.6**	**16.2**	**69.6**	**40.5**	**147.0**	**20.9**
b. Taxes on Goods & Services (i+ii+iii)	**381.8**	**317.3**	**397.5**	**395.5**	**1,492.0**	**386.7**
i. General	**349.0**	**283.6**	**300.3**	**332.3**	**1,265.3**	**358.9**
VAT	295.4	249.2	290.5	300.8	1,135.8	330.5
Stamp taxes (Financial & Realty)	26.7	21.0	3.9	31.3	83.0	28.8
Excise Tax	26.9	13.4	5.9	0.3	46.5	(0.5)
ii. Specific (Gaming taxes)	**10.5**	**7.3**	**19.7**	**13.8**	**51.3**	**12.8**
iii. Taxes on Use of Goods/ Permission to Use	**22.3**	**26.3**	**77.4**	**49.3**	**175.4**	**15.1**
Motor Vehicle Taxes	4.8	9.4	10.5	9.0	33.7	7.0
Company Taxes	1.8	3.4	11.7	2.6	19.5	2.0
Licence to Conduct Special Bus. Activity	14.6	12.6	53.8	35.9	116.8	5.4
Marine License Activities	1.1	0.9	1.5	1.8	5.3	0.7
c. Taxes on Int'l Trade & Transactions	**115.6**	**110.2**	**120.8**	**165.2**	**511.8**	**165.0**
Customs & other import duties	62.3	55.1	63.5	67.6	248.6	61.1
Taxes on Exports	42.6	39.0	35.0	60.9	177.5	66.2
Departure Taxes	10.6	15.9	22.2	36.3	84.9	37.5
Other	0.1	0.1	0.1	0.4	0.7	0.2
d. General Stamp Taxes	**2.2**	**2.0**	**4.8**	**2.0**	**11.1**	**1.8**

In January 2022, the Government launched of its expansionary fiscal policy by reducing the nominal rate of VAT from 12 percent to 10 and eliminated many zero rating categories to improve equitability in the domestic tax structure. This new policy was implemented with effect 1 January 2022. Despite the reduction in the nominal VAT rate, revenue outturn from VAT receipts grew period-over-period by 11.9 percent to $330.5 million for the first three months of FY2022/23. The same total increased over the first quarter of FY2021/22 by $160.7 million (119.3 percent) when compared to the depressed FY2020/21 figure of $134.7 million.

BOX B: TRENDS IN GOVERNMENT REVENUE PERFORMANCE & POLICY INITIATIVES



5. EXPENDITURE DEVELOPMENTS

A. RECURRENT EXPENDITURE – ECONOMIC CLASSIFICATION

Compensation of employees increased by $11.4 million (6.3 percent) to $192.8 million and represented 22.8 percent of the budget target. This widening of expenditure is largely explained by period-over-period expansions in employee wages ($9.8 million), summer employment ($1.3 million), and overtime payments ($1.2 million). The increased wage bill is reflective of adjustments in salaries as a result of promotions, salary adjustments and additional hires to staff new and existing Government Ministries and agencies following the change in administration with the 16 September 2021 general election.

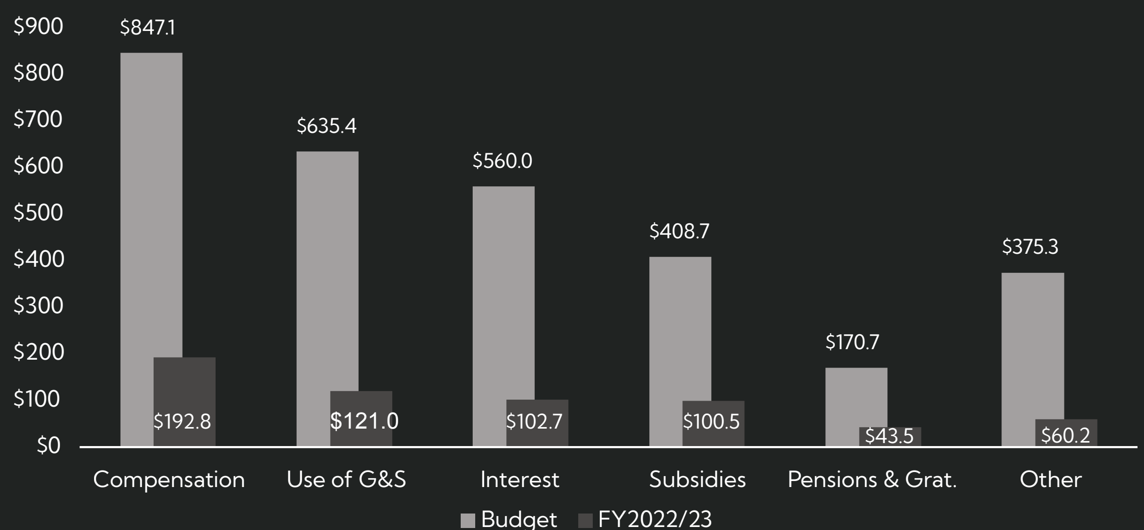
» Spending on the use of goods and services narrowed by $13.2 million (9.8 percent) to $121.0 million, relative to the same period in the prior year. This accounted for 19.0 percent of the annual budget.

- Rental costs fell by $4.2 million (21.7 percent) to $15.2 million, for 17.6 percent of the budget. This was mainly driven by lower lease payments relative to the National Insurance Board ($5.1 million) and other entities as Government continued to rationalize its use of rental spaces.
- Special financial transactions, which include payment of arrears, decreased by $27.5 million (73.9 percent) to $9.7 mil-

lion, and accounted for 16.7 percent of budget.

- Outlays for travel and subsistence grew by $2.3 million (122.7 percent) to $4.2 million, for 26.8 percent of budget.
- Utilities and telecommunications payments increased by $4.1 million (41.1 percent) to $14.0 million and represented 13.6 percent of the budget. The increased spend was primarily attributed to a period-over-period increase in street lighting ($2.3 million) and water services ($2.0 million).
- Finance charges widened by $3.2 million (117.4 percent) to $6.0 million (20.7 percent of the budget) primarily owing to increased foreign exchange hedging activities.
- Expenditure on supplies and materials increased by $2.6 million (37.5 percent) to $9.6 million, for 20.7 percent of the budget.
- Spending on services increased by $4.2 million (8.7 percent) to $53.2 million, for 20.4 percent of the budget as broad savings in this category were outpaced by increased outlays of $8.8 million for consultancy services.

FIGURE 5: 3-MONTH COMPARISON OF RECURRENT EXPENDITURE VS BUDGET FOR FY2021/22 (B$M)



» Public debt interest payments increased by $10.5 million (11.4 percent) to $102.7 million and 18.3 percent of budget. By currency, payments on foreign currency obligations totaled $36.7 million (35.8 percent) while payments on domestic debt obligations totaled $66.0 million (64.2 percent).

» Government subsidies, which include transfers to Government-owned and/or controlled enterprises that provide commercial goods and services to the public, narrowed by $16.7 million (14.2 percent) to $100.5 million, which equaled 24.6 percent of the budget.

- Subsidies to public non-financial corporations declined by $20.5 million (17.7 percent) to $95.7 million. Owing to the ending of Emergency Orders and the reduced need for COVID-19 support, transfers tightened for Bahamasair ($2.7 million); Water and Sewerage ($4.7 million); and the Public Hospital Authority ($13.4 million).
- Subsidies to private enterprises and other sectors rose by $3.9 million (412.4 percent) to equate $4.8 million owing to payment of the $4.0 million equity contribution to Bahamar, suspended during the prior year.

» Social benefit payments declined by $41.9 million to aggregate $6.5 million and 12.7 percent of the budget as COVID-19 Emergency Orders ended and domestic economic conditions continue to improve, obviating the need for related Government support.

- Social assistance benefits, elevated in the prior year as a result of the continued provision of COVID-19 assistance, declined by $41.9 million (86.5 percent) to more moderate levels of $6.5 million and 12.7 percent of the budget. The current spend represents a 12.1 percent increase over Q1 FY2019/2020 pre-COVID-19 and pre-Hurricane Dorian social assistance levels of $5.8 million as the Department of Social Services prepares to relaunch its RISE social support programme.

- Pension and gratuity payments increased by $4.4 million (11.3 percent) to $43.5 million and 25.5 percent of the budget, largely attributed to Government's cost of living increase to pensions as outlined in the FY2021/22 Supplementary Budget implemented following the change in administration as a result of the 16 September 2021 general elections.

» Other Payments contracted by $2.6 million to $49.8 million (15.8 percent of budget) during the period as increased recurrent transfers were contained by reduced payments on insurance premiums for public service officials.

- Current transfers not elsewhere classified increased by $3.1 million (8.0 percent) to $42.3 million and 18.2 percent of the budget, primarily due to increased allocations for the Airport Authority ($3.1 million).
- Payment of insurance premiums decreased by $5.8 million (43.6 percent) to $7.5 million (9.0 percent of budget) as compared to the prior year, largely owing to timing differences.

TABLE 5: RECURRENT EXPENDITURE BY ECONOMIC CLASSIFICATION (B$M)

	[a]	[b]	[c]	[b] –[c]	[b]/[a]
	Budget	**July – September**			
	FY2022/23	**FY2022/23p Actual**	**FY2021/22p Actual**	**Variance**	**% of Budget**
RECURRENT EXPENDITURE					
Compensation of Employees	**847.1**	**192.8**	**181.4**	**11.4**	**22.8%**
Use of Goods & Services	**635.4**	**121.0**	**134.2**	**(13.2)**	**19.0%**
Travel & Subsistence	14.9	4.2	1.9	2.3	28.6%
Rent	86.7	15.2	19.5	(4.2)	17.6%
Utilities & Telecommunications	103.3	14.0	9.9	4.1	13.6%
Supplies & Materials	46.1	9.6	7.0	2.6	20.7%
Services	260.8	53.2	49.0	4.2	20.4%
Minor capital repairs	5.4	0.9	0.7	0.2	16.4%
Finance charges	29.0	6.0	2.8	3.2	20.7%
Special Financial Transactions	58.1	9.7	37.2	(27.5)	16.7%
Tourism Related	3.0	2.0	0.0	2.0	66.1%
Local Gov't Districts	13.3	3.2	3.1	0.2	24.3%
School Boards	0.1	0.0	0.0	0.0	0.0%
Other	14.7	2.9	3.3	(0.4)	19.8%
Public Debt Interest	**560.0**	**102.7**	**92.2**	**10.5**	**18.3%**
Subsidies	**408.7**	**100.5**	**117.1**	**(16.7)**	**24.6%**
Grants	**8.4**	**3.8**	**3.5**	**0.3**	**45.1%**
Social Assistance Benefits	**51.5**	**6.5**	**48.4**	**(41.9)**	**12.7%**
Pensions & Gratuities	**170.7**	**43.5**	**39.1**	**4.4**	**25.5%**
Other Payments	**315.4**	**49.8**	**52.5**	**(2.6)**	**15.8%**
Current Transfers n.e.c.	232.0	42.3	39.2	3.1	18.2%
Insurance Premiums	83.4	7.5	13.3	(5.8)	9.0%
TOTAL	**2,997.2**	**620.6**	**668.5**	**(47.8)**	**20.7%**

B. RECURRENT EXPENDITURE – FUNCTIONAL CLASSIFICATION

On a functional basis, preliminary data for Q1 FY2022/23 Recurrent Expenditure, as outlined below (*see **Table 6***), largely reflect contractions in expenditure of $47.8 million (7.2 percent) to $620.6 million and 20.7 percent of the budget, in areas inflated as a result of provision of COVID-19 related support.

- Outlays for general public service increased by $16.2 million (7.3 percent) to $238.7 million relative to the prior year, and accounted for 18.1 percent of the budget target. This widening is explained by increases in employment costs, such as salary increases associated with promotions or other staff adjustments. General public service expenditure increases also reflect the creation and restructuring of Ministries and Departments as a result of the 16 September 2021 General Elections and the change in political administration after the close of the comparable period in the prior year.
- Disbursements for health expenditure contracted by $28.3 million (23.7 percent) to $90.9 million and 23.7 percent of the budget. At a functional level, the reduced health expenditure is attributed to health expenditure returning to historic levels with containment of the COVID-19 pandemic as infection rates continue to decline.
- Similarly, expenditure on social protection, elevated due to the COVID-19 pandemic, declined by $33.1 million (39.9 percent) to $50.0 million (24.2 percent of the budget) compared to the prior year. The elimination of Emergency Orders and broad resumption of business activity reduced the dependence for continuation of a COVID-19 specific social support program.

TABLE 6: RECURRENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION (B$M)

	[a]	[b]	[c]	[b] -[c]	[b]/[a]
	Budget	**July - September**			
	FY2022/23	**FY2022/23p Actual**	**FY2021/22p Actual**	**Variance**	**% of Budget**
General Public Service	1,319.7	238.7	222.5	16.2	18.1%
Defense	62.1	15.1	16.7	(1.5)	24.4%
Public Order & Safety	253.6	58.6	58.7	(0.1)	23.1%
Economic Affairs	264.5	54.3	57.6	(3.3)	20.5%
Environmental Protection	128.7	30.6	36.3	(5.6)	23.8%
Housing & Community Amenities	20.2	3.0	2.1	0.9	14.7%
Health	382.8	90.9	119.1	(28.3)	23.7%
Recreation, Culture & Religion	36.9	10.2	6.7	3.6	27.8%
Education	322.6	69.3	65.8	3.4	21.5%
Social Protection	206.1	50.0	83.1	(33.1)	24.2%
GRAND TOTAL	**2,997.2**	**620.6**	**668.5**	**(47.8)**	**20.7%**

C. CAPITAL EXPENDITURE – ECONOMIC CLASSIFICATION

Capital outlays contracted by $10.2 million (15.8 percent) to $54.2 million – representing 14.6 percent of the budget (*see **Table 7***).

- Capital transfers declined by $11.5 million (69.8 percent) to $5.0 million, representing 4.4 percent of the budget target. Significant reductions in capital spending were noted in energy restoration and renewable energy ($3.3 million) and National disaster recovery ($6.3 million).
- Expenditure on the acquisition of non-financial assets increased by $1.3 million (2.8 percent) to $49.2 million and represented 19.2 percent of the budget target. Key components include:
  - Investments in buildings, other than dwellings, increased by $15.1 million (80.1 percent) to $33.9 million and accounted for 41.3 percent of budget. Owing to the refund of project financing for the refurbishment of hospital & medical facilities in New Providence and Grand in the final quarter FY2021/22, medical facility refurbishment expenditure was elevated ($6.5 million) during the period. During the period, improved expenditure

for upgrades and maintenance of Government buildings ($10.9 million) was made.

- Outlays for other structures contracted by $7.6 million (49.1 percent) to $7.9 million, representing 7.0 percent of budget. The relative declines in expenditure components under this category reflect a reduction in Government stimulus activity during the period reflected by lower outlays for road repairs and maintenance ($5.2 million) and airport infrastructure ($3.7 million).
- Other machinery and equipment spend lessened by $4.1 million (58.5 percent) to $2.9 million, or 10.8 percent of budget. A significant component of the expenditure related to declines in military, police and prison equipment ($3.6 million).
- Land improvement expenditures was reduced by $2.2 million (87.5 percent) to $0.3 million, accounting for 4.8 percent of budget. Expenditure in this category was elevated in the prior year in the advent of National Elections on 16 September 2021. As a result, a reduction of $0.8 million for parks and ground improvement and $1.5 million for food security capital developments is observed in the following year.

TABLE 7: CAPITAL EXPENDITURE BY ECONOMIC CLASSIFICATION (B$M)

	[a]	[b]	[c]	[b] –[c]	[b]/[a]
	Budget	July - September			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
Capital Transfers	**113.1**	**5.0**	**16.5**	**(11.5)**	**4.4%**
Acquisition of Non-financial assets	**258.1**	**49.2**	**47.8**	**1.3**	**19.1%**
Fixed Assets	**256.1**	**49.2**	**47.8**	**1.3**	**19.2%**
Buildings other than dwellings	82.2	33.9	18.8	15.1	41.3%
Other structures	113.4	7.9	15.5	(7.6)	7.0%
Transport equipment	13.0	1.3	1.7	(0.4)	10.3%
Other Machinery & equipment	26.8	2.9	7.0	(4.1)	10.8%
Land Improvements	6.5	0.3	2.5	(2.2)	4.8%
Other Fixed Assets	14.2	2.8	2.3	0.5	19.7%
Land	**2.0**	**0.0**	**0.0**	**0.0**	**0.0%**
TOTAL	**371.1**	**54.2**	**64.3**	**(10.2)**	**14.6%**

D. CAPITAL EXPENDITURE – FUNCTIONAL CLASSIFICATION

During the first quarter FY2023/2023, capital expenditure by function (see Table 8) narrowed by $10.2 million (15.8 percent) to $54.2 million relative to the same period in the prior fiscal year and accounted for 14.6 percent of the budget target.

» Outlays towards economic affairs decreased by $16.8 million (48.4 percent) to $17.9 million (9.9 percent of budget). However, during the period, investment outlays went towards construction ($11.5 million), fuel and energy ($2.7 million), and transport ($1.6 million).

» Conversely, health disbursements increased by $6.1 million (182.8 percent) to $9.5 million (16.3 percent of budget) owing to additional spending on hospital services ($6.1 million).

TABLE 8: CAPITAL EXPENDITURE BY FUNCTIONAL CLASSIFICATION (B$M)

	[a]	[b]	[c]	[b] –[c]	[b]/[a]
	Budget	**July – September**			
	FY2022/23	**FY2022/23p Actual**	**FY2021/22p Actual**	**Variance**	**% of Budget**
General Public Service	53.6	3.6	2.9	0.7	6.6%
Defense	14.7	0.3	2.0	(1.7)	2.3%
Public Order & Safety	14.1	1.4	5.8	(4.4)	9.8%
Economic Affairs	181.7	17.9	34.7	(16.8)	9.9%
Environmental Protection	5.3	0.1	1.1	(1.1)	1.5%
Health	58.1	9.5	3.4	6.1	16.3%
Recreation, Culture & Religion	0.0	0.0	0.0	0.0	#DIV/0!
Education	41.1	21.4	12.6	8.8	52.1%
Social Protection	2.5	0.0	1.9	(1.9)	0.0%
GRAND TOTAL	**371.1**	**54.2**	**64.3**	**(10.2)**	**14.6%**

6. FINANCING ACTIVITIES

NET INCREASE IN LIABILITIES

During the first three months of the FY2022/23, a net deficit of $20.6 million was estimated based on preliminary data. This represents a decrease of $115.8 million (84.9 percent) as compared to the prior fiscal year. As a result, net financing during the period totaled $12.1 million, a $142.5 million (92.2 percent) decrease in the net liability as compared to the $154.6 million experienced in the prior fiscal year for the same period.

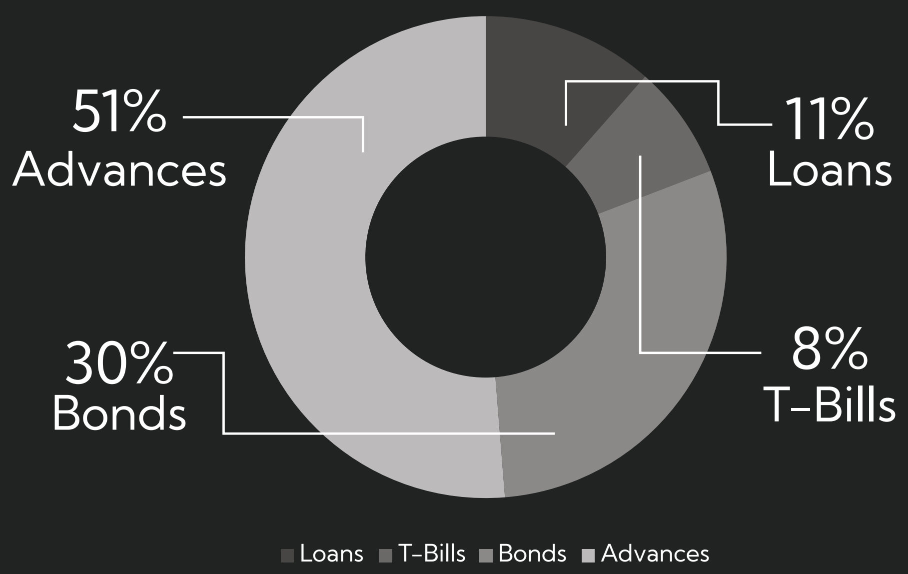
- Government utilized gross borrowings of $399.8 million as compared to $497.5 million in the prior fiscal year to satisfy budgetary financing requirements and to settle maturing debt instruments.
  - Domestic bond issuances totaled $118.2 million, chiefly utilized to refinance $105.5 million of maturing bonds.
  - Treasury bills and notes of $30.6 million were issued during the period to meet short term financing needs while $205.0 million in advances were received from the Central Bank.
  - Drawings were made on Deutsche Bank Senior Loan facility of EUR$43.5.
  - Drawings on existing loans from the Inter-American Development Bank totaled $2.5 million for the Airport Infrastructure Program.
- Repayments of Government debt increased to $387.8 million compared to $342.9 million in the same period of the prior year, and included:
  - Repayment to the CDB of $1.6 million for the Fiscal Stability and Resilience Building Policy-Based Loan.
  - A repayment to the Chinese Export-Import Bank of $1.8 million towards the Airport Gateway Project and $1.2 million for the North Abaco Port & Little Abaco Bridge Project.
  - Repayments were made on an export credit facility from Deutsche Bank of EUR6.6 million.
  - Loan repayments to Credit Suisse of 8.2 million Swiss Francs and US$12.6 million.
  - Former BPL loan repayments to the National Bank of Jamaica and Credit Suisse totaling US$5.5 million, and US$3.5 million for a credit agreement between Bank of the Bahamas, Royal Bank of Canada, National Insurance Board, and Scotia Bank Limited.
  - Bahamian Dollar repayments included reductions in Central Bank advances ($205.0 million); Bahamas Government Registered Stock ($105.5 million); and bank loans ($34.2 million).

As a result of net borrowing activities, the Direct Charge on the Government—exclusive of exchange rate adjustments, increased by $12.1 million. When exchange rate adjustments are applied, the total Direct Charge at end-September 2022 totaled $10,775.0 million or 86.1 percent of GDP, as compared to 86.9 percent of GDP at end-June 2022.

TABLE 9. CHANGE IN LIABILITIES BY CURRENCY AND INSTRUMENT (B$M)

	FY2022/23 July – September		
	Borrowings	Repayment	Net Change
Bahamian Dollars	**353.8**	**344.7**	**9.1**
Bonds	118.2	105.5	12.7
Treasury Bills/Notes	30.6	–	30.6
Bank Loans	–	34.2	(34.2)
Central Bank Advances	205.0	205.0	–
Foreign Currency	**46.0**	**43.1**	**2.9**
Bank Loans	43.5	36.1	7.4
International Bonds	–	–	–
Loans from Int'l Dev. Agencies	2.5	6.9	(4.4)
TOTAL	**399.8**	**387.8**	**12.1**

FIGURE 6: COMPOSITION OF GOVERNMENT BORROWINGS FOR FIRST 3 MONTHS FY2022/23



CONTRIBUTION TO SINKING FUNDS

During the period, contributions were made to the sinking funds established to retire future debt obligations totaled $10.0 million. At end-September 2022, the three (3) arrangements earmarked for scheduled retirement of external bonds held a cumulative value of USD 274.8 million, while the fuNds set aside for the two (2) local arrangements stood at B$ 15.6 million.

THREE MONTH REPORT ON BUDGETARY PERFORMANCE FY2022/23 JULY – SEPTEMBER

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