



Ministry of
Finance

2024/2025 MID-YEAR BUDGET STATEMENT PRESENTED TO THE HONOURABLE HOUSE OF ASSEMBLY

THE HON. PHILIP DAVIS KC MP

PRIME MINISTER

MINISTER OF FINANCE

WEDNESDAY, FEBRUARY 26, 2025

Introduction

Today, I have the honor of presenting the Mid-Year update on my Government's 2024/25 Budget, tabled in Parliament on May 29, 2024, the theme for which was "Changing the Status Quo, Changing Lives", reflecting our determination to usher in transformational change for our country. As a small country with big ambitions, we are challenging the old assumptions and obstacles which have held us back for too long, and working and innovating our way forward into a new era. Building on the foundations in our Blueprint for Change, and the policy choices made in our previous budgets, this budget places emphasis on national, economic, and personal security. Specifically, this year's budget focuses on:

- Ongoing improvements in fiscal discipline, transparency, and accountability;
- Continued progress in fiscal consolidation to meet our core objectives;
- Lowering the tax burden on Bahamians while enhancing tax efficiency and enforcement;
- and
- Making strategic investments in vital sectors such as tourism, education, health, national security, energy, and infrastructure.

This statement provides the Bahamian public with a comprehensive update on our progress under the current budget plan and outlines our plans for the remainder of this fiscal year.

The update is structured as follows. I will begin by providing an overview of the international and domestic macroeconomic context and outlook, followed by a review of fiscal performance for the first half of the fiscal year and the implications for the year as a whole. I will then highlight the progress made on my administration's key policy priorities. I will conclude with an overview of new and planned initiatives that are targeted to further propel our nation forward.

Madam Speaker:

As we move through this update, we remain guided by the principle of creating meaningful change—change that enhances lives, strengthens our economy, and secures a prosperous future for all Bahamians.

The Macroeconomic Context

Global Economic Overview and Outlook

Madam Speaker:

Having set the stage for a review of the Mid-Year update with an overview of our national priorities and commitments, it is vital to begin with an assessment of the broader global context in which our economy operates. The world economy has faced significant challenges in recent years, yet we have seen remarkable resilience.

The global battle against inflation is producing solid results, even as price pressures persist in many countries¹. A sharp and synchronized tightening of monetary policies by the major economies has helped to significantly reduce inflation, while enabling the global economy to avoid a recession and remain on a steady, albeit cautious, path forward. Inflation is projected to continue to decline, although the path to lower inflation may face challenges, and some experts expect inflation to remain elevated for some time.

Madam Speaker:

¹ IMF. “World Economic Outlook, October 2024: Policy Pivot, Rising Threats”

As we turn our attention to the United States, we observe that the U.S. economy achieved real GDP growth of 2.8 percent in 2024, which readily outpaced growth in other major advanced economies. In the January update to its World Economic Outlook, the IMF has boosted its 2025 growth forecast for the U.S. to 2.7 percent, up significantly from the 2.2 percent forecast of last October². Inflation has largely been successfully tempered and with the Federal Reserve's judicious easing of monetary policy, the U.S. economy has maintained its upward momentum.

Madam Speaker:

It is crucial to recognize the impact that the potential trade disruption between major global economies, especially between the United States and its trading partners, could have on our nation. The United States is our largest trading partner, accounting for a significant portion of our imports and exports, particularly in tourism, agriculture, and manufactured goods. Rising trade barriers or tariffs could increase the cost of imports, disrupt supply chains, and negatively affect the cost of living for Bahamian consumers. Moreover, any slowdown in U.S. economic growth, which may result from these tensions, impacting consumer confidence could lead to reduced demand for our exports and a potential decline in tourism numbers. We must remain alert, diversifying our markets, strengthening regional trade relationships, and exploring new trade opportunities to mitigate the potential effects of this global uncertainty on our economy.

In Canada, growth was estimated at 1.4 percent in 2024, with inflation cooling appreciably back to target on the basis of determined monetary policies³. The IMF foresees a boost in economic

² IMF, World Economic Outlook Update, January 2025

³ Government of Canada, Statistics Canada. "Gross domestic product, income and expenditure"

growth to 2 percent in 2025 though considerable uncertainty to the outlook remains, due to near-term trade policy uncertainties.

The United Kingdom experienced a modest growth of 0.9 percent in 2024, with inflationary pressures remaining a key challenge. However, despite these concerns, the UK is set to avoid a recession with growth rebounding somewhat to 1.6 percent in 2025.

In the Euro Area, a growth rate of 0.8 percent was recorded for 2024, supported by resilient domestic demand and strength in manufacturing and services. However, with ongoing inflationary pressures and policy uncertainties, the growth outlook for the region has been reduced to 1 percent in 2025.

China's economy grew at 4.8 percent in 2024, as it recovers from previous challenges. In 2025, real growth is forecast at 4.6 percent on the basis of fiscal policy measures introduced at the end of last year, though significant trade policy uncertainty remains.

These global trends will continue to shape our economic policy strategy as we stay the course in pursuit of our core fiscal policy objectives. We will work diligently to ensure that The Bahamas remains well-positioned in this evolving landscape.

Madam Speaker:

Across the region, we see varying growth trajectories. Jamaica is expected to recover moderately from a mild recession, with real GDP growth estimated at 1.3 percent in 2025. Trinidad and Tobago, benefiting from its strong energy sector, anticipates 2.5 percent growth, while Barbados, under its IMF-supported Economic Recovery and Transformation Plan, is projected to expand by

3.0 percent⁴. Here in The Bahamas, we are on track for 1.7 percent projected growth in 2025—a growth rate that we believe doesn't fully capture our economic activity, which I will explain in detail later in this Communication. While our growth outpaces Jamaica's, we recognize the need to strengthen our economic foundations to remain competitive. That is why my administration remains committed to structural reforms, energy reform, fiscal responsibility, and economic diversification, ensuring that The Bahamas is well-positioned for long-term resilience and prosperity.

Domestic Economic Overview and Outlook

Madam Speaker:

With the broader global context as background, we now turn to a discussion of recent domestic economic developments and the near-term outlook.

In 2024, real GDP growth in The Bahamas was estimated at 1.9 percent, a decrease from 2.6 percent in 2023. Looking ahead, the IMF projects relatively flat real GDP growth in 2025, with a rate of 1.7 percent.

Madam Speaker:

It is our belief that the official statistics presently available do not fully reflect the true scope of economic activity generated within The Bahamas.

One example is the growth in our cruise industry. We have established an inter-governmental committee entrusted with the task of assessing and analyzing the economic and fiscal impacts of

⁴ IMF, "IMF Executive Board Approves US\$113 Million under the Extended Fund Facility and US\$189 Million under the Resilience and Sustainability Facility for Barbados"

the cruise industry in our nation. To date, the committee has reviewed eight private destinations, and its findings will ultimately be integrated into our national economic data, thereby informing the development of a tailored and effective tax policy for the industry.

To simplify, Madam Speaker, many of today's megaships have more cabins than Baha Mar has rooms. Their average occupancy per voyage exceeds 90 percent, and most of their passengers disembark at private destinations in The Bahamas, where they engage in the purchase of goods and services. The economic and fiscal impact of private destinations in The Bahamas is akin to multiple mega resorts within our nation.

Madam Speaker:

The Bahamas National Statistical Institute is also conducting a Household Expenditure Survey for the first time in over a decade, and publishing quarterly Labor Force Survey statistics. In the absence of administrative data such as personal income tax returns, the Household Expenditure Survey is critical to developing reliable estimates with respect to consumption, the largest contributor to GDP.

Madam Speaker:

On the tourism front, we witnessed encouraging growth throughout 2024. Total tourist arrivals amounted to 11.2 million and were up by 16.2 percent compared to 2023. Cruise arrivals served as the primary driver of this increase⁵, growing by an impressive 20.3 percent. Compared to 2018, the last normal year before Hurricane Dorian and the pandemic, total tourist arrivals in

⁵ The Bahamas Ministry of Tourism. "Foreign Air Arrivals To The Bahamas"

2024 has grown by 4.5 million arrivals or 69.3 percent. Of this, cruise arrivals since 2018 has nearly doubled, growing by 4.5 million arrivals or 91.7 percent by 2024.

This is an impressive figure, and when paired with the growth in tourism expenditure recently announced by the Ministry of Tourism we expect growth in arrivals, especially cruise arrivals to be positively reflected in our economic and fiscal statistics.

This level of growth highlights a clear trend in our tourism sector, which continues to be a major contributor to the economy. This steady upward trajectory suggests a positive outlook for the industry moving forward, reflecting growing interest and demand in our destination.

Madam Speaker:

The latest unemployment rate published by BNSI was 8.7⁶ percent, close to the lowest level of unemployment since 2008, and is down sharply from the peak of 26.2 percent recorded by the IMF for 2021. The rate of unemployment is expected to remain relatively stable at this lower level in the near term based on sustained growth in tourism and foreign direct investments.

Madam Speaker:

Madam Speaker:

Furthermore, The Bahamas' most recent inflation data as at November 2024⁷ revealed a 1 percent drop in costs as compared to a 2 percent increase during the same period in November 2023.

Notable reductions were experienced for transport, and restaurants and hotels. The cost of

⁶ Bahamas National Statistical Institute. "Preliminary Results Labour Force Survey Fourth Quarter 2023"

⁷ Bahamas National Statistical Institute. Consumer Price Index – November 2024

gasoline and diesel also fell by 9.5 percent and 12.3 percent, respectively. Inflation is forecasted at 1.6 percent for 2025⁸.

Fiscal Performance during the First Half of FY2024/2025

Madam Speaker:

I now shift focus to the fiscal performance for the first six months of the 2024/2025 fiscal year, beginning with the provisional revenue estimates.

Revenue Performance

For the first six months, preliminary **total revenue** collections are estimated at \$1.4 billion, reflecting a \$138.9 million increase compared to the same period last year. So far, revenue collections have accounted for 40.7 percent of the annual budget target. When compared to FY2018/19, the last normal year before the twin disasters, total revenue for the first half of the year has grown by 42.4 percent or \$429.3 million. This was achieved without any appreciable increase in taxes since this administration came into office.

The revenue intake for **the first half of this fiscal year** stands as the highest revenue level this country has ever experienced for this period.

This achievement can be attributed to several key factors, including more rigorous enforcement measures and a significant improvement in compliance, particularly in respect of real property taxes. As well, we have seen an increase in revenue yields from new policy measures, notably in respect of business licence fees and departure taxes. The combination of these efforts has led to enhanced revenue collections, reflecting this administration's push towards fiscal consolidation.

⁸ IMF. "World Economic Outlook, October 2024: Policy Pivot, Rising Threats"

The fiscal landscape of the nation is showing promising signs of sustainability, paving the way for further investments in public services and infrastructure as well as meeting our revenue and overall fiscal objectives.

Indeed, enhanced revenues have had a major hand in narrowing the fiscal deficit from 13.1 percent of GDP in fiscal year 2020/2021 to 1.3 percent in fiscal year 2023/24.

Madam Speaker:

I now share some of the key movements in revenue:

- **Tax revenue** collections expanded by \$122.1 million, and stood at \$1.3 billion for the first six months of the fiscal year. This represents 41.1 percent of the budget target. This level of tax revenue is the highest level of collection for this review period ever experienced.
- Value-added tax collections accounted for 51.3 percent of tax revenues, and totaled \$663.1 million at the half-year mark. This represents growth of \$17.1 million relative to the same period in the previous year and equates to 43.7 percent of the annual budget target.

Madam Speaker, since the presentation of the ‘December 2024 Monthly Fiscal Report’ there has been a post-period adjustment related to VAT refunds paid in December 2024 but not posted in December 2024.

Madam speaker, although this administration reduced the VAT rate from 12 percent to 10 percent in January 2022, the strength of our growing economy and notable enhancements in our collection efforts have resulted in increased VAT revenues. In comparison to the fiscal year 2018/2019, when the VAT rate was 12.0 percent, the half-year VAT collections for this current year has risen by 72.1 percent, amounting to an increase of \$277.8 million.

This positive outcome happened despite recommendations from the IMF to raise the VAT rate to 15 percent in line with regional counterparts. Our unwavering commitment to improving VAT administration has contributed to these encouraging results. I am pleased to confirm that this administration will reduce the VAT rate on unprepared food, which I will discuss in greater detail later in this Communication.

- Departure tax collections doubled, totaling \$169.6 million and represented a rise of \$84.8 million compared to the previous year. At the half-year mark, departure tax collections accounted for 70.3 percent of the budget target. We expect that the departure tax will exceed its budget target based on the tourism results mentioned earlier in this communication.
- Property taxes amounted to \$68.6 million after expanding by \$21.4 million relative to the previous year. This equates to 29.8 percent of the budget target. It should be noted that the **majority** of property taxes are collected or due in the second half of the fiscal year, so we expect this number to increase.
- License (Special Licenses) to conduct special business activity witnessed a \$12.1 million expansion and totaled \$37.2 million as a result of gains in the business license component, which grew by \$9.0 million compared to the previous year.

In the non-tax revenue component, collections for fees and service charges, mainly for immigration and customs fees, increased by \$10.4 million to \$123.3 million, and equated to 51.4 percent of the budget target

- Another notable increase during the period occurred from Government property income, which rose \$13.2 million and amounted to \$14.4 million, meeting 78.6 percent of its budget target.

Total Expenditure Performance

Madam Speaker:

On the expenditure front, preliminary **total** expenditure was \$1.8 billion in the first half, which represented an increase of \$278.3 million over the previous year. To date, total expenditure has represented 50.9 percent of the annual budget target, which is in line with the budget estimate.

Recurrent Expenditure Performance

Preliminary **recurrent** expenditure for the period made up 49.5 percent of the budget target and amounted to \$1.6 billion. Recurrent spending increased by \$192.3 million year-over-year.

Key spending components during the period comprised the following:

- An increase in compensation of employees by \$16.9 million, to \$434.6 million, representing 48.9 percent of the budget target. Increased spending in this component is explained by higher employment costs due to promotions, and other staff and salary adjustments during the period.
- Spending on the use of goods and services increased by \$94.8 million to \$346.6 million, and accounted for 50.4 percent of the annual budget target. This increase was driven by payments for rent, utilities, acquisition of services and special financial transactions.

- Public debt interest payments were higher by \$34.3 million and totaled \$335.5 million, which represented 51.1 percent of the budget target. It is anticipated that interest payments will go down during the second half of the fiscal year due to the successful launch of the debt conversion project for marine conservation, which I will expound on later in this communication.
- Subventions to public non-financial corporations drove the \$16.6 million year-over-year increase in subsidies, which totaled \$220.4 million and accounted for 53.5 percent of the budget target.
- Further, other recurrent transfers increased by \$31.3 million and accumulated to \$132.9 million as a result of higher transfers to non-financial public corporations. At the half-year mark, recurrent transfers accounted for 47.4 percent of the budget target.

While recurrent spending for this year is higher than the previous year, it is important to note that all essential recurrent expenditures were carefully planned and incorporated into the 2024/2025 budget. So, the recurrent spending, as you have heard, remains well within the expected and acceptable range of its established budget target. . A primary factor contributing to the rise in total expenditures is attributed to capital spending, which increased relative to its share of total expenditure. I now turn to a discussion of this increase.

Capital Expenditure Performance

Madam Speaker:

The 2024/25 budget includes plans to support the ongoing development of the hospital in Grand Bahama, the renovations at the Princess Margaret Hospital, and the building of a new hospital in New Providence. Major road works were also earmarked for Exuma, Cat Island, Long Island, Grand Bahama, Eleuthera, and Abaco. Furthermore, this administration has been exploring options to improve access to housing, including in the Family Islands. Along with this, of course, we always prioritize investments in education.

As a result, major capital spending was front-loaded within the first half of this fiscal year, and has been a key driver for the growth of expenditure.

Capital expenditure for the first half of the fiscal year totaled \$220.1 million, an \$86.0 million increase over the same period in the previous year. Capital expenditure accounted for **63.9** percent of the annual budget target.

Over the last 10 years, capital spending has accounted for an average of approximately **30.0** percent of its budget within the first half of the fiscal year. This year was the first in over a decade where capital spending has been over 60 percent of its budget target in the first half of the year; nearly double the historical norm. This administration made it a priority to improve the efficiency of capital funding where we no longer wait until the last moment to start capital projects, causing fiscal distortions.

Although we have front-loaded capital funding in the first half of the fiscal year to begin and more efficiently execute projects, we intend to remain within the capital expenditure budget target for the remainder of the fiscal year since projects have already been mostly funded or have planned funding arrangements.

Madam Speaker:

Some of the major capital expenditure during the period included:

- Major roadworks mainly across the Family Islands amounting to \$36.8 million;
- A \$26.8 million payment for capital subscriptions, inclusive of \$25.0 million to the Development Bank of Latin America and the Caribbean (CAF) as the first tranche in a \$50.0 million membership fee;
- Building Maintenance and repairs of educational facilities and construction of schools amounting to \$44.5 million, along with an additional \$11.4 million for building repairs;
- \$26.3 million investment in acquisition of assets for software, digitization, and government services
- \$10.6 million for machinery and equipment mostly for CCTVs, medical equipment, and equipment maintenance;
- \$9.2 million on Family Island development;
- \$5.0 million in sporting infrastructure development;
- \$5.0 million for airport infrastructure investment;
- \$5.0 million Equity Contribution to the Grand Bahama Health Centre Development Company;
- \$3.4 million for the removal of sunken vessels; and
- \$3.2 million on land improvement inclusive of parks and school ground improvements.

Deficit, Debt and Financing

Madam Speaker:

At this juncture in the fiscal year, as I explained above, on the basis of anticipated expenditure and revenue trends in the second half, there is no need for alarm with respect to our ability to achieve our fiscal targets. Indeed, let me stress that we feel comfortable that we will stay in line with the budget and still meet our fiscal targets for FY2024/25 including:

- The 0.5 percent deficit-to-GDP ratio; and
- The 23.3 percent revenue-to-GDP ratio

Madam Speaker:

As a result of net borrowing activities, central Government debt increased by \$451.1 million to \$11.7 billion, which equated to 79.2 percent of GDP at the end of December 2024, a significant improvement when compared to the 100.4 percent debt-to GDP ratio at the end of June 2021.

Madam Speaker:

Over the past six months of this fiscal year, the financing mix included the following transactions:

- On the domestic front, a **net** borrowing of government securities totaling \$209.4 million, bank loans totaling \$42.9 million and Central Bank advances amounting to \$169.0 million.
- In terms of foreign currency, a **net** borrowing of \$315.8 million in loans from international financial institutions.

Debt Conservation Project

Madam Speaker:

The Government has recently successfully executed a debt conversion project for marine conservation, which is projected to save our country some \$124 million over the next 15 years, while also enhancing ocean conservation and the management of the Bahamas Marine Protected Areas System.

This marks the largest ever marine conservation program in the Caribbean. This project is done in collaboration with:

- The Inter-American Development Bank, who worked along with Builders Vision, an impact platform founded by Lukas Walton, and AXA XL, a global insurance specialist, who together provided key credit enhancements.
- The Nature Conservancy, an environmental nonprofit, who supplied technical expertise to help ensure the project's conservation commitments are ambitious, achievable and measurable.
- Standard Chartered Bank, a global bank, who spearheaded the structuring and financing.

Builders Vision and AXA XL are the **first** private sponsors to co-guarantee a sovereign Debt-for-Nature swap alongside a multilateral development bank, which is the IDB in our case. This project is also the **first** to be done with non-distressed debt.

As part of the transaction, we refinanced \$300 million of external debt, comprising \$218 million in nominal Eurobonds repurchased through a Public Tender Offer and \$81 million in external commercial bank debt.

The Liability Management operation was financed through a new \$300 million commercial loan with a 15-year final maturity and a 10-year average life, which was supported by an innovative credit enhancement package.

This credit enhancement package comprised:

- a \$200 million first-loss partial Policy-Based Guarantee provided by the IDB;
- a \$70 million second-tier Collateralized Guarantee provided by Builders Vision; and
- a \$30 million third-tier credit insurance policy provided by AXA XL.

This credit enhancement package carried an annual fixed coupon of 4.7 percent.

This new financing also features a Natural Disaster and Pandemic Event Clause, advancing our climate resilience efforts and providing liquidity headroom in case of adverse climate events and public health emergencies.

Madam Speaker:

Through the operation, we ensured to refinance scheduled maturities at a highly favorable cost, extending the average maturity of The Bahamas' debt portfolio and reducing its weighted average cost.

Madam Speaker:

This project aims to provide essential funding for initiatives that support effective management of the country's ocean resources, build capacity, and offer technical assistance. Key commitments include implementing climate-smart plans for marine protected areas and finalizing a national Mangrove Management Plan to safeguard crucial habitats such as coral reefs, seagrass meadows, and mangrove forests.

By improving the protection and management of marine areas, the project will help secure livelihoods, stimulate the economy, and contribute to global ocean conservation efforts.

This initiative reflects the nation's commitment to both environmental stewardship and sound fiscal practices. It is also part of the Bahamian government's efforts toward fiscal consolidation and

effective debt management, which will further the country's Blue Economy goals and bolster its resilience to climate change.

I want to note that this initiative was created after extensive research and multiple negotiations, beginning with our administration's first big climate meeting, the UN's COP meeting in Glasgow, Scotland.

I'm so grateful to our excellent Bahamian team and to our many international partners. All of our hard work is going to make a real difference: The funds generated by the savings will strengthen our investments in our environment, in our people, and in our future.

Latest Medium-Term Debt Management Strategy

Madam Speaker:

The government's debt strategy continues to prioritize debt reduction, having successfully achieved fiscal consolidation. This administration's policy goal is to reduce central government debt to 50 percent of GDP by Fiscal year end-2031. We will continue to follow the strategies outlined in our medium-term debt management strategy.

Our debt strategy includes greater use of concessional resources and membership in CAF is an important step toward this. Our debt strategy also includes leveraging policy-based guarantees from multilateral institutions to reduce the cost of external financing.

A part of our borrowing strategy will be greater use of export credit facilities which are loan funding guaranteed by export credit agencies to fund the purchase of goods or services from the countries which provide those goods or services. The Government through a guarantee provided by Altradius, the Dutch Export Credit Agency, was able to finance the purchase of nine Royal Bahamas Defence Force vessels at concessional rates some eleven years ago. We are now

proposing to finance the construction of a new Glass Window Bridge, through the use of a similar facility from the United Kingdom. This project would commence in the new fiscal period.

Further, to strengthen public debt management and to improve the function of the domestic debt market:

- price auctions for domestic government bonds have been instituted,
- cash buffers from oversubscribed securities have been created,
- repo guidelines for market participants have been issued,
- The Bahamas Benchmark Bond Issuance Policy has been published,
- a government savings bond for small retail investors has been launched, and
- an investor website has been launched and an issuance calendar for domestic securities is published.

Update on Arrears

Madam Speaker:

As directed by the Public Finance Management Act, I now detail known obligations that were still outstanding at the end of December 2024.

This information is also placed as an annex in the Mid-Year Budget Performance Book.

At the end of the halfway point in the fiscal year, the Government's obligations totaled \$122.4 million, which accounts for 3.4 percent of the expenditure budget, and the average Government arrear payment is less than 1 month. These obligations mainly comprised the following:

- \$82.6 million in invoices for recurrent expenditure;

- \$9.9 million and \$4.8 million in invoices for SOEs and capital expenditure, respectfully; and
- \$25.0 million in arrears mainly for office rent

Credit Ratings

Madam Speaker:

The latest credit opinions given by Moody's and S&P gives the Bahamas a stable outlook due to the following factors cited:

- A stable economy will support positive fiscal results and slow the rate of growth of debt
- High GDP per capita compared with peers
- Policy predictability and a stable political system

Madam Speaker:

- This administration announces an important new objective: securing an investment-grade credit rating for The Bahamas within the next three years. To support this goal, we have engaged Fitch Ratings as a third credit rating agency to assess our financial standing alongside Moody's and S&P. Achieving an investment-grade rating requires a minimum of Baa3 from Moody's and BBB- from both S&P and Fitch. Reaching this milestone would affirm The Bahamas' strong creditworthiness and low investment risk, reinforcing our commitment to sound financial management. We intend to implement the necessary reforms to make this vision a reality.

To achieve our goal of attaining investment-grade status, we have already taken decisive action through a series of comprehensive reforms, including:

- We have reduced the deficit and debt levels;
- We are implementing our country's first major, comprehensive, nationwide energy reforms;
- We are working to mitigate climate risks and exposure to external shocks, using projects such as the coastal protection programme and a disaster risk programme;
- We are implementing tax reforms to diversify the Government's revenue base and align with international best practices;
- We are successfully utilizing credit-enhanced external financing transactions to lower cost of debt and interest expenses;
- We have made reforms to the BSD market to enhance capacity and liquidity; and
- We have improved our collection of economic statistics.

Madam Speaker:

Another aspect of achieving investment grade is to demonstrate that we can access the international market without credit enhancement and under normal conditions. In this regard, we will be tabling a borrowing resolution at the end of this communication for approval to access the international capital market at an appropriate time.

While on this topic, I would like to announce that we have now engaged Fitch Ratings as a third credit rating agency to provide a credit report on the Bahamas.

Fiscal Risks and Mitigation

Madam Speaker:

As required by the Public Finance Management Act, I will now turn to a discussion on the macroeconomic and fiscal risks faced by the Bahamas, and the mitigation measures that are established to address them. Our major risks can be grouped into four major categories: climate related disasters, SOEs, Pension Liabilities, Healthcare, and Cyber Security

Madam Speaker:

Natural disasters, especially hurricanes, have caused substantial damage, with at least six severe storms impacting the country in the last decade. These natural disasters have become more intense in this era of climate change. The fiscal impact of hurricanes has been severe and recurring, causing significant damage to our economy and our finances. We are talking about billions of dollars – with our fiscal deficit widening after each hurricane. Given the severity of this impact, we believe it's imperative to fight for change, which we have done in many ways, including the building of alliances with international partners to fight for lower global emissions and fair climate finance. We have invested in disaster insurance, created a disaster relief fund, and established disaster specific credit lines, while collaborating with international organizations such as the IDB on climate mitigation and adaptation initiatives. Some of our projects include:

- coastal protection program;
- a disaster risk program to enhance governance frameworks related to disaster preparedness, risk identification, reduction, recovery planning, and financial protection;
- and
- a principal payment deferral contingency that can be used in case of a natural disaster.

Madam Speaker,

It is not right that our country – which has contributed so little to global emissions, is subject to this vicious cycle, in which hurricanes cause rising debt levels and declining economic output, reducing our capacity to invest in the very buffers that could protect us against future shocks.

After each hurricane, we must borrow to recover and rebuild, which increases our debt burden, and the more our debt grows in overall size, the more we pay in interest to compensate for that increase in risk to lenders.

And I have emphasized, the risk of *future* hurricanes is priced in as well -- our interest rates would be lower if lenders were not worried about the next Dorian or Matthew.

It is for these reasons that we remain determined to continue the fight for climate fairness and climate justice.

Madam Speaker:

Financial losses from state-owned enterprises and undisclosed liabilities present considerable fiscal challenges to the Government. The Government faces a fiscal risk by being a guarantor for loans linked to SOEs because the responsibility for interest payments inevitably shifts onto the national budget, creating a significant fiscal burden.

We are tackling these problems head-on. The government has commenced training for Directors of SOEs, and established a guarantee policy framework that includes eligibility criteria, credit risk evaluations, and guarantee fees. Additionally, reforms are being considered for the water and healthcare sectors. The major reforms we are implementing in the energy sector will also play an important role – as they will dramatically reduce, and eventually end, the reliance of that sector on the Government.

Madam Speaker:

The projected pension liabilities of the Government for **public service employees** are expected to reach \$3.5 billion by 2030 and pension and gratuity payments now account for 5.8 percent of the recurrent expenditure budget. This has prompted the drafting of a new pension legislation aimed at shifting to a funded defined contributory pension plan. This has prompted the drafting of a new pension legislation aimed at shifting to a funded defined contributory pension plan. Prior to tabling this Bill, a white paper on the Pension Bill will be circulated to fully clarify the importance of taking action now. The tabling of the Pension Bill will be done during the upcoming budget.

Madam Speaker:

The capacity in our healthcare system is a vulnerability that was boldly highlighted during the pandemic.

Our people suffer from high rates of non-communicable diseases such as diabetes and coronary heart disease, and the United Nations Food and Agriculture Organization's statistical database has confirmed the growing challenge we face with obesity.⁹

Bahamians facing health concerns deserve professional, compassionate care, across our archipelago. We are committed to changing the health care landscape in The Bahamas with the following initiatives:

⁹ United Nations Food and Agriculture Organization Selected Indicators, Bahamas

- Reforming our National Health Insurance to ensure broader coverage and services for all Bahamian citizens.
- Investing in our public healthcare sector by building new hospitals, renovating existing facilities, and establishing additional clinics to provide quality care for our people.
- Reforming our government health insurance program for its employees to expand coverage.

We are determined to create a healthier future for the Bahamas, which also has the benefit of reducing fiscal risk.

Madam Speaker:

In 2025, every nation must consider the risks of cyberattacks, and we are no different. Cyberattacks have the potential to impact our national security, to cause substantial economic losses, and to affect our ability to provide public services. We take the risk of cyberattacks very seriously, for good reason. In fact, earlier this month a ransomware attack shut down the network at the University of The Bahamas, which they have since successfully worked to recover from with the support of the Government and industry partners.

As of January 2024, our Government's firewall had blocked 75 million malicious threats. It is estimated that the cost of one data breach could total \$34.9 million. This is why we are investing in cyber security, including the following:

- We have invested in the new Oracle platform to protect employee and vendor data;
- We have established and funded a cyber-incident response team; and
- We have funded the construction of a new tier 3 Data Centre to be owned by the government.

Oracle Fusion HR System

Madam Speaker:

The new Oracle platform, which we call “Cloud Bahamas” is a transformative investment for the public service, designed to increase accountability, transparency and responsiveness within the public service.

Another key feature of this application is that it enhances security for both public sector employees along with vendors. In the current system, information mismatch is a real possibility, which can pose a data security risk for our employees. This is why “cloud Bahamas” is an important step to modernize and bring better efficiency to the public service. This allows faster processing for public sector employee and vendor needs, which are more accurate and efficient.

With the automation and digitization of all human resource processes, key features include:

- efficient communication with automatic notifications;
- ability to view and download pay slips online;
- online job applications;
- simplified leave requests; and

- Self-service portals to manage and meet the needs of the public servants.

These key features driven by the Cloud Bahamas project will result in fewer delays and a lot less time being bogged down by paperwork.

Update on Fiscal Measures in the FY2024/2025 Budget

Madam Speaker:

I will now provide updates on the fiscal measures outlined in the FY2024/2025 budget.

Bahamas Customs

Madam Speaker:

Total revenue inclusive of import duties and Customs processing fees increased by \$6.5 million in the first half of this fiscal year compared to the same period last year; thanks to better collection and enforcement efforts. Along with this, we have seen an increase of just over 5 thousand declarations processed, with import declarations accounting for 82 percent of the increase this current period compared to last year. To improve even more, we'll use technology like artificial intelligence and automation to make our processes faster and more efficient. AI will help us spot fraud, detect underreporting, and fight smuggling. We'll also use a risk-based approach, focusing inspections on higher-risk imports to ensure better compliance and a stronger Customs system.

Department of Inland Revenue

Madam Speaker:

The Department of Inland Revenue has been diligently striving to fulfill the Government's mandate to enhance tax collection efforts.

One Tax Bahamas Portal

Madam Speaker:

We're taking a big step toward digital progress with the OneTax Bahamas Portal, a new online platform that will make paying taxes easier for everyone. We've partnered with KPMG and LTI Mindtree Limited, a technology company from India, to build a simple and efficient system that will help the Department of Inland Revenue work better and more transparently. This will make it easier for businesses and individuals to pay their taxes, improve collections, and reduce paperwork. By using the latest technology, we're making the tax system more efficient and accessible, helping with national growth and better tax compliance.

Real Estate

Madam Speaker:

There has been a 45.2 percent rise in the property tax revenue for the first six months of this year compared to the same period last year. This rise was driven by an 83.4 percent increase for collection for property taxes on commercial property and a 77.9 percent increase from property taxes collected on foreign-owned undeveloped land. Compared to the same six-month period three years ago, property tax collection this year has doubled, growing by \$31.8 million.

Madam Speaker:

This administration is dedicated to implementing a property tax relief program, designed specifically to provide assistance to individuals and families who find themselves in genuine financial need. Ultimately, this effort is part of a broader commitment to enhance the quality of life for all citizens and to foster a more inclusive economy where everyone has the opportunity to thrive, regardless of their financial circumstances.

Madam Speaker:

Over the past three years, the real estate sector has publicly and consistently highlighted a growing interest in Bahamian properties. During this period, one real estate company has enjoyed over \$2 billion in sales. Despite such growth, the anticipated benefits have not been reflected in the Government's fiscal accounts, particularly as the VAT on real estate has underperformed. At present, the most straightforward means of establishing property ownership in The Bahamas involves the payment of VAT on real estate and the proper registration of property documents. Regrettably, many individuals have overlooked these essential steps, resulting in significant revenue losses for the Government due to the failure to formalize property ownership.

To improve compliance, this administration has undertaken the following steps:

- This Government has reduced VAT on real estate for Bahamians.
- VAT on real estate is now being logged and tracked electronically by the Department of Inland Revenue for auditing and compliance purposes as part of the Government's revenue enhancement strategy.
- We have reached out to agents to determine property ownership, to verify if a property has been sold, and to ensure that there are no taxes outstanding as it relates to real estate transactions.
- Lastly, we have ensured a close collaboration between the Department of Inland Revenue and the Bahamas Immigration Department to streamline the process of economic

permanent residency by requiring that all property documents are stamped for Vat and includes a real property assessment number.

Madam Speaker:

During the first half of the current fiscal year, a total of 1,679 conveyances were processed for VAT stamp tax. Companies and foreign individuals together represent 42.3 percent of these conveyances, and accounts for 79.4 percent of the total revenue from VAT stamp tax on conveyances. In contrast, Bahamian companies and Bahamian individuals together contribute only 20.6 percent of the total revenue collected from this tax.

These statistics are important because they show that VAT on real estate as well as property taxes, are primarily incurred for and paid by foreigner owners. For instance, the average VAT on real estate paid by a Bahamian is \$9,133 whereas the average paid by a foreign owner is 11 times as much at \$104,384.

Madam speaker:

The recent amnesty program for VAT stamp tax, which was extended into this fiscal year showed that the average tax paid was \$7,660 from 816 applicants. This average tax paid shows that many large properties were not in this tax net.

Madam speaker:

These figures really show why enforcement for VAT on stamp tax is so important. The buoyancy of the **high-end** real estate market should accurately be reflected in the government's revenue receipts. Since the highest level of payment for taxes on real estate are paid by foreign owners, it is increasingly vital for the government to ensure that it is capturing the full potential of this revenue stream. What is owed to the Government and the people of The Bahamas should be paid, especially by those who can afford it.

Proper enforcement of VAT on stamp tax not only helps maintain the integrity of the tax system, but also ensures that the benefits sought out by foreigner owners from a thriving real estate market in The Bahamas, are realized in terms of increased government revenue. This revenue is essential for funding public services and infrastructure, and contributing to the overall economic well-being of The Bahamas. This is why it is imperative that measures are put in place to enhance compliance and effectively monitor transactions regarding real estate.

Madam Speaker:

VAT on real estate is now being logged and tracked electronically by the Department of Inland Revenue for auditing and compliance purposes as part of the Government's revenue enhancement strategy.

For the first half of the current fiscal year, a total of 1,679 conveyance documents have been processed for VAT stamp tax. Of this, foreign companies make up only 9 percent of the total but contribute 52.2 percent of the total revenue collected from the VAT stamp tax on conveyances.

These statistics are important because they show that VAT on real estate as well as property taxes, are primarily incurred for and paid by foreign owners. For instance, the average VAT on real estate paid per Bahamian is \$9 thousand whereas the average paid per foreign owner is \$104 thousand.

Madam speaker, this is why it is important to ensure that compliance in the area of Vat on real estate and property taxes continues.

The data also shows that our strategies are working and we will continue to pursue these enhancement and enforcement strategies.

Desk and Field Audits

Madam Speaker:

By the end of 2024, The Department of Inland Revenue completed 274 desk audits, which are detailed reviews of tax returns and financial records of taxpayers done remotely. This process has identified \$3.5 million in taxes to be settled. Additionally, at least 60 successful field audits have been completed, which involve on-site examinations of taxpayers' financial records and operations. As a result, a total assessment value of \$124.2 million in outstanding fees and taxes has been discovered, with VAT accounting for 95 percent of this amount. Madam Speaker, we are confident that this sum is fully collectable.

Large Tax Payers Unit

Madam Speaker:

As at December 31, 2024, the Large Tax Payers Unit, established within the Department of Inland Revenue in 2023, monitors a total of 118 large taxpayers and 53 of their related companies, which represents less than 1 percent of all taxpayers but accounts for 39 percent of our VAT revenue. We can report that since establishing the Large Tax Payers Unit, the compliance ratio of these large taxpayers has averaged 94 percent for on-time filings and remittance, which is higher than the remaining businesses. Establishing the Large Taxpayers Unit has enhanced the efficiency of our tax administration through providing specialized services and ensuring that large businesses contribute fairly and transparently in payment of all taxes.

Marine Revenue

Madam Speaker:

We have come to realize that the marine sector is under-represented in terms of revenue collections, which has prompted the establishment of the Maritime Taskforce. The taskforce has successfully boosted the marine revenue collections. Key efforts include inspection of vessels, recovering outstanding commercial dock fees, and reassessing coastal properties. Additional enforcement including immigration-related measures have contributed to an overall \$20.0 million in revenue.

The principle behind efforts to boost revenue from this sector is simple: if you operate a business within Bahamian borders, you are subject to our country's laws. If you enter into our waters, you

are benefiting from our country's considerable and ongoing efforts to conserve our environment and to protect and patrol our seas, and you are going to pay the Bahamian people for that privilege. For example, if a foreign charter enters our waters, charging passengers tens of thousands a night, they are operating a business within Bahamian borders, and their business is subject to VAT just as is every other business operating in our country. Although the government's insistence that charter owners follow the law and contribute their fair share was initially not well received, reports indicate that this year, the charter business is thriving, even amidst increased VAT compliance.

This is perhaps a good moment to address a related issue, that of the placement, use, and maintenance of moorings throughout our archipelago. Our vast marine areas are both critical economic assets and ecological sanctuaries, and our policies must balance the needs of island residents, recreational boaters, and marina owners, while taking into consideration at all times the need for environmental protection and marine conservation.

Here again, we confront a situation in which our waters are being utilized, at a cost to Bahamians, but frequently without compensation to Bahamian business owners or Bahamian taxpayers. For example, consider the foreign charter who enters our waters, and does not dock at one of our marinas, but instead anchors on our seabed. Hotel and cruise visitors pay fees and taxes, and our position is that all visitors who cross our borders and enjoy our waters should do so.

The placement, inspection, and ongoing maintenance of hundreds of moorings over vast distances is a very expensive undertaking. There are multiple mooring sites throughout our Family Islands – for example, in Abaco, Eleuthera, and the Exumas. Those who manage the moorings earn the revenue generated from their use.

As many know, our government recently granted a Bahamian-owned company the right to install and operate moorings at specified locations in the Exumas, outside of our national marine reserve area.

However, some moorings were installed before the company obtained necessary permissions, and a cease-and-desist order was issued. The company has agreed to voluntarily relinquish their leases, and to remove any moorings already placed.

As this matter has been discussed over the last few days, many Bahamians spoke in favour of improving participation in and oversight of the process governing moorings. That makes a lot of sense – our waters belong to all of us, and our marine policies can only benefit from broader and deeper public consultation. It is important to me that we have policies which Bahamians can contribute to and trust, which is why we have committed to moving forward with developing a new national strategic plan for the management of moorings. Arrangements involving moorings have traditionally been handled ad hoc, and one at a time, within the existing legal and regulatory framework, but as science and technology and the climate are all in flux, we can benefit from updating and more clearly defining and implementing our country's policies. We intend to move forward quickly to seek advice and input from citizens, local government officials, boaters, fishermen, marine owners, marine conservation experts, and others. In fact, I read in this morning's newspaper some very thoughtful comments from Ehren Hanna, the Exuma Chamber of Commerce President, and he will be one of my first calls. We have an important opportunity to update our country's policies, with an openness to new solutions, although of course we will start from the non-negotiable premise that The Bahamas is a sovereign nation, and that if you enter our jurisdiction, you will compensate Bahamians for doing so.

Corporate Income Tax

Madam Speaker:

The government recently presented the Domestic Minimum Top-Up Tax Bill – a critical step in aligning The Bahamas with the global standards established by the Organization for Economic Cooperation and Development, through their Global Anti-Base Erosion Rules. These rules are designed to ensure a global minimum level of income tax for large multinational enterprises.

Madam Speaker:

As a matter of policy, this Administration is committed to dedicating the lion's share of revenue from this Act toward two key priorities:

- Reducing our national debt, and
- Easing the cost of living for ordinary Bahamians.

Our work doesn't stop here. During this fiscal year, before any tax becomes payable under the Domestic Minimum Top-up Tax, we intend to table the Business Development Incentives Program Bill. This legislation will provide broad incentives to reduce the cost of doing business in The Bahamas. These incentives will not be limited to businesses subject to the Domestic Minimum Top-up Tax but will apply to all qualifying businesses.

Our public consultation highlighted the need to align these incentives with attracting investment and fostering development in key sectors such as:

- Tourism,
- Finance,
- Technology, and

- Energy.

We are also considering incentives related to employment, capital expenditures, training, research and development, and local content spending, research and development costs, the creative industry and extra-territorial turnover. These initiatives are critical for positioning The Bahamas as a competitive destination for business while ensuring sustainable economic growth.

Madam Speaker:

We propose to table the draft bill for the incentives mentioned earlier by the end of this debate.

Upcoming VAT Rate Adjustment to 5 percent on Unprepared Food

Madam Speaker:

I will be tabling an amendment to the VAT Act with effect from April 1, 2025 to reduce the VAT rate on unprepared food from the current rate of 10 percent to a new rate of just 5 percent. This amendment to the VAT rate will only apply to entities whose primary business is the sale of unprepared food. This would include grocery, convenience stores and gas stations. However, this will not include restaurants. To be clear this also applies to importation of unprepared food. The amended VAT Act will include the list of food items that will attract the 5 percent VAT rate.

Madam Speaker:

When we announced the decision to reduce the VAT rate back in January we chose April 1, 2025 as the implementation date to provide merchants and food retailers with adequate time to adjust their pricing structures and systems accordingly, ensuring a smooth transition for both businesses and consumers alike.

This adjustment to the VAT rate on unprepared food will not impact our ability to achieve our fiscal targets, as I've mentioned before.

Madam Speaker:

We have worked hard to shift more of the tax burden to those who can best afford it. As I outlined, the introduction of the corporate income tax for multinationals who operate in The Bahamas (and who have more than \$750 million in annual revenue) was one important step in that direction.

In addition, instead of imposing major new taxes on Bahamians, we are working hard to collect more of the VAT already owed by larger companies, and we are improving real property tax compliance.

Our country's economic recovery after the pandemic has been robust, and it is a result of replacing bad policies with good ones.

That our recovery has been the strongest in the region confirms that there was nothing inevitable about our success – it is a testament to the work we've done in partnership with the Bahamian people.

But we have a long way to go – because despite the strength of our growing economy, and jobs numbers that are the best they've been since 2008, it's still a tough time for a lot of Bahamians.

The lockdowns and curfews were brutal – and we ended those right away. But just as we emerged from the pandemic, we were hit with the worst global inflation crisis in more than 40

years. So Bahamians have been dealing with the kinds of high prices that put a lot of pressure on families, who have to find ways to manage all the bills that need to be paid.

That's why we're working so hard on our energy reforms, because high electricity bills have been a huge burden, and why we are bringing an increased focus to housing, and why we're trying to help with smaller things, too, like school breakfast, because it all adds up.

We hope that reducing VAT on food items will help Bahamians check out more of the groceries they need to feed their families.

Madam Speaker:

In addition, I would stress that this adjustment to the VAT rate on unprepared food that has been taken judiciously to provide much-needed financial relief to Bahamians, will not impact our ability to achieve our fiscal targets. That is a hallmark of my administration's responsive and responsible approach to governance.

Conclusion

Madam Speaker:

As this communication is brought to a close I would like to reiterate the main highlights of this year to date assessment from this administration.

- Tourism is on the rise, prices are on the decline, and Bahamian citizens have found continuous employment due to tourism and Foreign Direct Investments.
- Revenue has continually increased and our goal of reaching 25 percent of GDP is on target
- Our administration's main theme is "changing the status quo, changing lives". We will continue to do so by lowering the tax burden on our citizens, modernizing our policies, and expanding opportunities for Bahamians.

Thank you all and may God continually bless The Bahama Land.

END.