COMMONWEALTH OF THE BAHAMAS

THE MINISTRY OF FINANCE

FY2022/23 QUARTER III

NINE MONTH REPORT ON

BUDGETARY PERFORMANCE

FY2022/23 JULY – MARCH

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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 the nine months to March of FY2022/23, the Bahamian economy continued to be underpinned by the sustained recovery in tourism output. Buoyant travel demand from major source markets underpinned a 92.3 percent gain in stopover arrivals to The Bahamas improving by during the third quarter compared to the same period of the prior year. At end-March 2023, occupancy in the short term home rental market outperformed 2019 levels by 25.0 percent, and revenue surpassed 2019 levels by $19.4 million (92.0 percent). The general upturn in domestic demand, combined with steady growth in foreign direct investment, led to improvement in employment conditions, while the rate of increase in average consumer prices begun to decline month-on-month, although recording a 0.4 percent rise at end-March 2023.

Favourable domestic demand conditions translated into ongoing improvement in the government's fiscal performance. Based on preliminary data on central government's fiscal performance for the nine months to March of FY2022/23, the overall deficit of $249.7 million (see Table 1) was $86.6 million (25.7 percent) below the same period of the prior year, and approximately 43.4 percent of the budget target.

» Revenue collection for the third quarter of the FY2022/2023 totaled $2,079.0 million, surpassing the prior year collections by $233.7 million (12.7 percent). Tax collections rose $260.7 million, a 16.7 percent increase to $1,819.2 million, representing 71.7 percent of the budget target. Improvements were noted for Value Added Tax ($100.4 million), departure tax ($78.1 million), excise duties ($61.2 million), property tax ($20.8 million), and stamp taxes on financial and realty transactions ($27.9 million). Non-tax performance moderated by $28.0 million (9.8 percent) to $258.6 million, owing to a decline in interest and dividend collections ($17.7 million), which were inflated in the prior fiscal year due to a $24.5 million dividend from BTC collected in December 2021. Nonetheless, major growth was noted for miscellaneous revenue ($22.5 million).

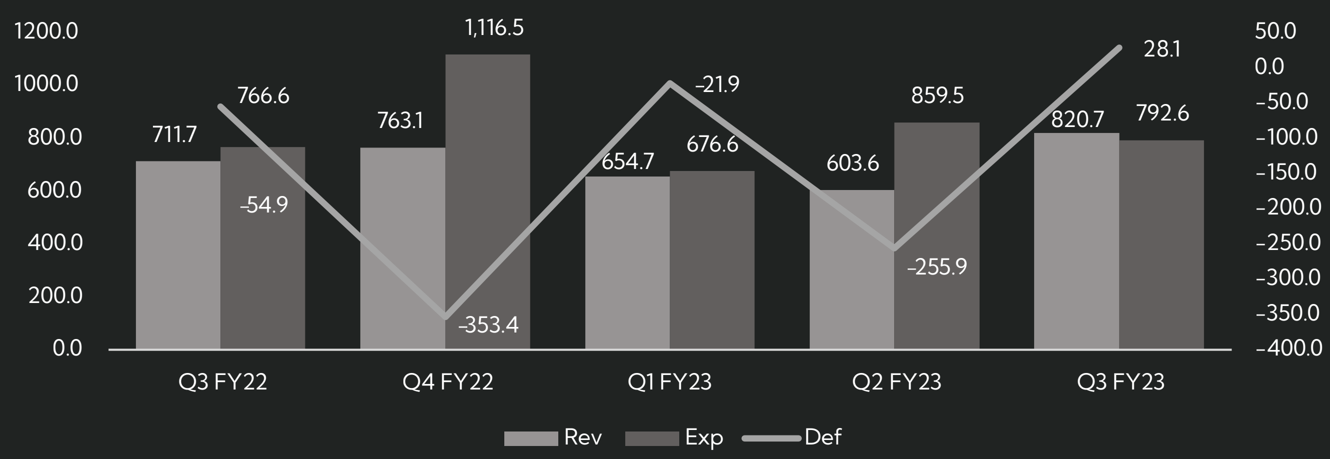
TABLE 1: FISCAL SUMMARY (STATEMENT OF SOURCES & USES OF CASH) (B$M)

(B$M)	[a]	[b]	[c]	[b] -[c]	[b/a]
	Revised Budget	July - March			
	FY2022/23	FY2022/23p	FY2021/22p	Variance	% of Budget
		Actual	Actual		
Revenue	**2,857.3**	**2,079.0**	**1,845.4**	**233.7**	**72.8%**
Tax	2,537.2	1,819.2	1,558.6	260.7	71.7%
Non-tax	317.4	258.6	286.6	(28.0)	81.5%
Grants	2.8	1.2	0.2	1.0	43.1%
Expenditure	**3,432.8**	**2,328.7**	**2,181.6**	**147.1**	**67.8%**
Recurrent	3,073.7	2,134.8	2,021.5	113.2	69.5%
Capital	359.1	193.9	160.1	33.9	54.0%
Surplus/(Deficit)	**(575.5)**	**(249.7)**	**(336.3)**	**86.6**	**43.4%**
Financing Activities	**575.5**	**249.7**	**336.3**	**(86.6)**	**43.4%**
Net Acquisition of financial assets (-)	**46.5**	**140.2**	**40.0**	**100.2**	**301.6%**
Sinking Funds	46.5	30.0	40.0	(10.0)	64.5%
Equity	0.0	0.0	0.0	0.0	0.0%
Other	0.0	110.2	0.0	110.2	0.0%
Net Incurrence of Liabilities (+)	**688.8**	**290.8**	**603.5**	**(312.7)**	**42.2%**
Borrowings	1,965.5	2,150.5	2,120.1	30.3	109.4%
Debt Repayment	1,276.7	1,859.7	1,516.7	343.0	145.7%
Change in Cash Balance [()= increase]	**(66.8)**	**99.1**	**(227.3)**	**326.3**	**-148.3%**

» Total expenditure aggregated to $2,328.7 million, an increase of $147.1 million (6.7 percent) compared to the same period of the previous year and 67.8 percent of the budget target.

- Recurrent spending totaled $2,134.8 million, expanding $113.2 million (5.6 percent) and accounting for 69.5 percent of the budget target. Key increases were in the amount of: $58.0 million in interest payments, $55.7 million in personal emoluments, $29.0 in the acquisition of goods and services and $21.4 million in other payments. Despite the overall rise in public spending there were decreases of: $38.0 million in social assistance benefits owing to elimination of COVID-19 social assistance and benefits through the year, and $20.9 million in subsidies.
- Capital expenditure increased by $33.9 million (21.1 percent) to $193.9 million and 54.0 percent of the budget target. Higher capital spending was driven by supplementary spending of $42.4 million (33.9 percent) in the acquisition of non-financial assets.

FIGURE 1: BUDGETARY PERFORMANCE (B$M)



- During the first three quarters of FY2022/23, the Government experienced a net deficit of $249.7 million, which represented a decrease of $86.6 million (25.7 percent) as compared to the prior fiscal year. The net financing during the period totaled $290.8 million, a $312.7 million (51.8 percent) decrease in the net liability as compared to the $603.5 million experienced in the prior fiscal year for the same period.
- During the period, contributions made to the sinking funds established to retire future debt obligations totaled $30.0 million. At end-March 2023, the three (3) arrangements earmarked for scheduled retirement of external bonds held a cumulative value of USD 296.0 million, while the funds set aside for the two (2) local arrangements stood at B$12.3 million. As a result of the February 2022 repurchase agreement, $251.7 million of external bonds have been sold for repurchase in two (2) years.
- Government utilized gross borrowings of $2,150.5 million as compared to $2,120.1 million in the prior fiscal year to satisfy budgetary financing requirements and to settle maturing debt instruments. Domestic bond issuances totaled $591.3 million; treasury bills and notes amounted to $104.5 million, local bank loans totaled $115.0 million, and Central Bank advances amounted to $917.0 million. Foreign currency financing of $41.5 million was drawn from existing loans with development agencies, and $381.1 million in financing was provided from foreign bank loans.
- Repayments of Government debt increased to $1,859.7 million compared to $1,516.7 million in the same period of the prior year. Repayment included: $22.1 million to international development agencies, $351.5 million to foreign commercial banks, $789.5 million for Central Bank advances, $517.3 million for Bahamas Government registered stock, $137.5 million for domestic bank loans, and $41.8 million for treasury bills and notes.
- As a result of net borrowing activities, the Direct Charge on the Government—exclusive of exchange rate adjustments, increased by $290.8 million. When exchange rate adjustments are applied, the total Direct Charge at end-March 2023 totaled $11,104.5 million or 83.4 percent of GDP, as compared to 87.3 percent of GDP at end-June 2022.

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

BOX A: SUMMARY OF COVID-19 EXPENDITURE

During FY2022/23, Government continued the process of unwinding its COVID-19 related health containment, mitigation and support programs for impacted families and businesses. These outlays are estimated at $6.2 million for the nine months of the fiscal year and, together with past outlays, brings the aggregate spend to approximately $461.2 million.

	FY2019/20	FY2020/21p	FY2021/22p	FY2022/23	Total
	Mar – June	July – June	July – June	July – Mar	
Recurrent Expenditure	**39.2**	**268.5**	**96.6**	**5.4**	**409.7**
Public Health Safety	1.9	36.6	14.8	2.4	55.7
Unemployment Assistance	10	164.7	62.3	0.0	237.0
Goods & Services Acquisition	1.8	2.2	2.7	1.5	8.2
Job Retention Programs	21.4	23	6.4	0.0	50.8
Food Assistance	2	40.4	7.8	0.0	50.2
Other	2.1	1.5	2.6	1.5	7.7
Capital Expenditure	**40.3**	**4.7**	**5.7**	**0.8**	**51.5**
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	0.8	49.6
Total	**79.5**	**273.3**	**102.3**	**6.2**	**461.2**

3. ECONOMIC OVERVIEW

Global economic growth continued to firm over the course of the fiscal year. However, the continued uptick in consumer activity coupled with geo-political tensions, elevated inflationary pressures which invoked leaders across advanced economies to maintain strict monetary policies as a means of slowing economic activity.

Average consumer prices for the Bahamas' major trading partner, the United States, rose by 0.5 percent in January 2023, 0.4 percent in February 2023 and 0.1 percent in March 2023. As means of reaching the target rate of 2 percent, the Federal Reserve responded, raising interest rate 25 basis points during the March 2023 meeting. Driven primarily by rising inflation and reaction shocks, recent hikes in U.S. interest rates continue to have a pernicious effect on the Bahamas in terms of higher borrowing costs via higher interest rates. Despite efforts to slow activity within the US economy, the rate of unemployment has remained steady at 3.4 percent in January 2023, 3.6 percent in February 2023 and 3.5 percent in March 2023.

Over the prior quarters China has been rebounding strongly following the delayed reopening of its economy. In January 2023 consumer prices increased by 0.8 percent over the previous month. However over the remainder of the quarter consumer prices decreased, 0.5 percent in February 2023 and 0.3 percent in March 2023. Unemployment levels remained at 5.5 percent at the start of the quarter before peaking at 5.6 percent at end-February 2023, and falling to 5.3 percent at end-March 2023.

In the euro area, unemployment decreased from 6.7 percent in October 2022 to 6.6 percent in February 2023, and to 6.5 percent at end-March 2023. The euro area annual inflation contracted from the 9.2 percent experienced at end December 2022. Through the quarter the inflation rare reduced gradually, narrowing to 6.9 percent in March 2023 from 8.5 percent in February 2023, and down from 8.6 percent in January. As with the Federal Reserve, the European Central Bank has maintained a restrictive monetary policy stance targeted on further reductions in the rate of inflation.

In regards to the domestic economy, the GDP estimates released by The Bahamas National Statistical Institute revealed 14.4 percent real GDP growth and 11.9 percent nominal GDP growth in the 2022 calendar year.

In the local economy, travel demand from major source markets remained resilient, with stopover arrivals to the Bahamas improving by 92.3 percent during the third quarter compared to the same period of the prior year. Increased arrivals over the three month period are owing to 1,118,063 (108.5 percent) additional sea arrivals and 137,066 thousand (41.6 percent) additional air arrivals, year-over-year. Likewise, in the short term home rental market for March 2023, occupancy outperformed 2019 levels by 25.0 percent, and revenue surpassed 2019 levels by $19.4 million (92.0 percent).

Persistent demand within the tourism sector supported employment within the economy, as property owners and local businesses sought to service market demand. Further, the considerable increase in total visitor arrivals and subsequent increased spending in the economy by tourists had a trickle-down effect which led to a noticeable rise in various components of household expenditure in 2022, which grew by 7 percent. Consumer spending for February 2023 decreased by 0.1 percent when compared to January 2023, following the 0.1 percent decrease from December 2022. Average consumer prices for March 2023 increased by 0.4 percent when compared to February 2023.

4. REVENUE PERFORMANCE

For the nine months to March of FY2022/23, revenue receipts totaled $2,079.0 million, representing a $233.7 million (12.7 percent) increase compared to the prior year and 72.8 percent of the budget target (see **Table 3**).

Vehement travel demand continues to persist and is being dubbed by international economist as revenge travel. Following the COVID-19 travel restrictions and global economic downturn built up consumer demand for goods, services and experiences (e.g. travel) surged and persists over the 2022/23 fiscal year. Revenue collections continued to benefit from the influx of visitor activity within the tourism sector.

Year-to-date revenue collections are consistent with pre-Dorian/pre-COVID-19 fiscal revenue trends as evidenced by Q3 FY2018/19 revenue collections of $1,689.1 million, representing 63.7 percent of FY2018/19 total revenue target. Improved revenue performance was supported by increases in tax revenue of $260.7 million (16.7 percent) to $1,819.2 million (71.7 percent of budget) despite the $28.0 million (9.8 percent) contraction of non-tax revenue to $258.6 million (81.5 percent of the budget).

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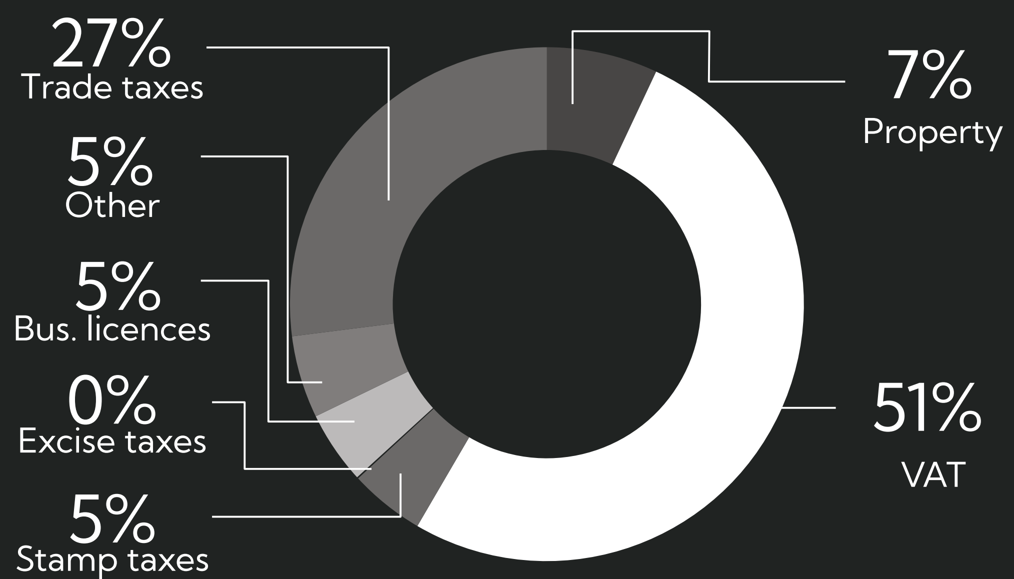
FIGURE 2: PERCENTAGE COMPOSITION OF TAX REVENUE (FIRST NINE MONTHS FY2022/23)



Key developments explaining the revenue performances during the review period are outlined below..

» Taxes on Property grew by an estimated $20.8 million to $127.2 million, and represented 75.1 percent of the annual budget, in line with collection trends, as majority of property taxes are paid in the third quarter.

» Taxes on Goods & Services, increased by $97.9 million (8.9 percent), representing 68.6 percent of the budget.

- Period-over-period VAT receipts improved 12.0 percent ($100.4 million) to $935.4 million. Representing 66.3 percent of the budget target, owing to greater economic conditions and improved legislative and tax administrative reforms through the Revenue Enhancement Unit.
- Stamp Taxes on financial and real estate transactions grew by $27.9 million (54.0 percent) to $79.7 million, for 115.0 percent of the budget.
- Excise Tax collections amounted to $1.6 million, representing 44.4 percent of the budget. Differences in excise tax collections period over period is due to the reclassification between Excise Tax and Excise Duty between fiscal periods. For FY22/23 excise tax is charged on taxable goods imported or manufactured in The Bahamas (alcohol and tobacco).
- Taxes on Specific Services (Gaming Taxes) grew to $48.5 million reflecting $11.1 million (29.5 percent) improvement from the prior year, and 92.0 percent of the budget.
- Motor vehicle tax collections grew modestly by $1.0 million (4.1 percent) to $25.7 million, accounting for 55.8 percent of the budget target.
- License to conduct special business activity – which comprises specific business licenses and communication levies – increased by $2.3 million (2.9 percent) to $83.3 million.

FIGURE 3: YEAR-ON-YEAR 9- MONTH COMPARISON OF TAX REVENUE PERFORMANCE (B$M)

» Reflecting the strong gains in domestic demand, taxes on International Trade & Transactions improved by $144.6 million (41.7 percent) to $491.2 million during the period compared to the prior year, and represented 79.7 percent of budget projections.

- Excise & Export Duties firmed by $61.2 million (52.5 percent) to $177.8 million reflecting 66.0 percent of budget; and
- Departure Taxes posted a gain of $78.1 million (160.5 percent) to $126.8 million. This outcome exceeded the budget target by 30.7 percent, largely as a result of the strong performance of tourism.

» General stamp taxes contracted by $2.6 million (29.2 percent) to an estimated $6.4 million, representing 61.6 percent expected collections.

get target 15.0 percent.

- $8.2 million (33.0 percent) fall in Government property revenue, accounting for 91.0 percent of the budget target.

» Sale of goods & service revenue declined by $15.1 million (8.9 percent) to $155.4 million and 73.0 percent of the budget.

- Depressed revenue collections were attributed to normal economic activity during the first nine months ofFY2022/2023 following COVID-19 related fluctuations. Immigration related receipts returned to pre-COVID 19 levels, following elevated levels in the prior fiscal year as applicants caught up with work & residency permits and other immigration fee payments after the pandemic. At end March, collections of immigration related fees lessened by $17.2 million (17.3 percent) to $82.6 million and 77.7 percent of budget.
- General service fee receipts increased $1.5 million (14.8 percent) to $11.7 million, reaching 65.2 percent of the budget target.
- Port and harbour fee collections also increased during the period by $1.1 million (29.8 percent) to $4.9 million (64.1 percent of budget).

» Receipts from miscellaneous and unidentified collections firmed by $22.5 million, amounting to $26.6 million in collections and 223.9 percent of the budget. Elevated collections are partially owing to the closing of 11,101 dormant Dept. of Social Services support programmes and the return of $7.9 million in unused funds to the public purse.

TABLE 3: REVENUE SUMMARY (B$M)

	Revised Budget	July - March			
	FY2022/23	FY2022/23p	FY2021/22p	Variance	% of Budget
		Actual	Actual		
TAX REVENUE (a+b+c+d)	**2,537.2**	**1,819.2**	**1,558.6**	**260.7**	**71.7%**
a. Taxes on Property	**169.4**	**127.2**	**106.4**	**20.8**	**75.1%**
b. Taxes on Goods & Services (i+ii+iii)	**1,741.0**	**1,194.5**	**1,096.5**	**97.9**	**68.6%**
i. General	**1,484.7**	**1,016.7**	**933.0**	**83.7**	**68.5%**
VAT	1,411.8	935.4	835.1	100.4	66.3%
Stamp taxes (Financial & Realty)	69.3	79.7	51.7	27.9	115.0%
Excise Tax	3.6	1.6	46.2	(44.6)	44.4%
ii. Specific (Gaming taxes)	**52.7**	**48.5**	**37.5**	**11.1**	**92.0%**
iii. Taxes on Use of Goods/Permission to Use	**203.6**	**129.2**	**126.1**	**3.2**	**63.5%**
Motor Vehicle Taxes	46.0	25.7	24.7	1.0	55.8%
Company Taxes	22.5	17.5	16.9	0.5	77.5%
Licence to Conduct Special Bus. Activity	130.6	83.3	81.0	2.3	63.8%
Marine License Activities	4.5	2.8	3.5	(0.7)	62.5%
c. Taxes on Int'l Trade & Transactions	**616.3**	**491.2**	**346.6**	**144.6**	**79.7%**
Customs & other import duties	249.7	186.1	180.9	5.2	74.5%
Excise Duties	269.5	177.8	116.6	61.2	66.0%
Departure Taxes	97.0	126.8	48.7	78.1	130.7%
Other	0.1	0.5	0.4	0.2	419.3%

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

	Revised Budget	July - March			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
d. General Stamp Taxes	**10.4**	**6.4**	**9.1**	**(2.6)**	**61.6%**
NON-TAX REVENUE (e+f+g+h+i+j)	**317.4**	**258.6**	**286.6**	**(28.0)**	**81.5%**
e. Property Income	**37.7**	**38.9**	**64.9**	**(26.0)**	**103.3%**
Interest & Dividends	19.4	22.2	40.0	(17.7)	115.0%
Revenue_Gov't Property	18.3	16.7	24.9	(8.2)	91.0%
f. Sales of goods & services	**212.8**	**155.4**	**170.5**	**(15.1)**	**73.0%**
i. Fees & Service Charges	**193.2**	**143.5**	**158.8**	**(15.3)**	**74.3%**
General Registration	4.1	3.6	2.8	0.8	86.6%
General Service	18.0	11.7	10.2	1.5	65.2%
Immigration	106.2	82.6	99.8	(17.2)	77.7%
Land & Building	2.3	1.9	1.6	0.2	81.5%
Legal	1.3	0.8	0.9	(0.0)	66.6%
Customs	52.7	37.2	36.9	0.3	70.6%
Port & Harbour	7.7	4.9	3.8	1.1	64.1%
Health	1.0	0.8	0.7	0.1	82.6%
Other Fees	0.0	0.0	2.1	(2.1)	55.0%
ii. Other	**19.6**	**11.9**	**11.6**	**0.2**	**60.7%**
g. Fines, Penalties & Forfeits	**5.7**	**3.6**	**4.2**	**(0.6)**	**63.5%**
h. Reimbursements & Repayments	**49.2**	**33.6**	**42.6**	**(9.0)**	**68.3%**
i. Misc. & Unidentified Revenue	**11.9**	**26.6**	**4.2**	**22.5**	**223.9%**
j. Sales of other Non-Financial Assets	**0.1**	**0.4**	**0.3**	**0.2**	**443.0%**
TOTAL TAX & NON-TAX REVENUE	**2,854.6**	**2,077.8**	**1,845.2**	**232.7**	**72.8%**
GRANTS	**2.8**	**1.1**	**0.2**	**0.9**	**39.3%**
CAPITAL REVENUE	**0.0**	**0.1**	**0.1**	**0.0**	**902.7%**
GRAND TOTAL	**2,857.3**	**2,079.0**	**1,845.4**	**233.7**	**72.8%**

BOX B: TRENDS IN GOVERNMENT REVENUE PERFORMANCE & POLICY INITIATIVES

Preliminary data for the first nine months of FY2022/2023 revenue performance indicates a continued strengthening of Government revenue collections beyond the figures experienced pre-pandemic and pre-Hurricane Dorian. Tax revenue collections improved 21.9 percent (130.0 million) when compared to the same quarter of the prior year. Improved tax revenue collections can be explained by increases of $56.1 million in international trade and transaction fees, and $46.1 million in VAT.

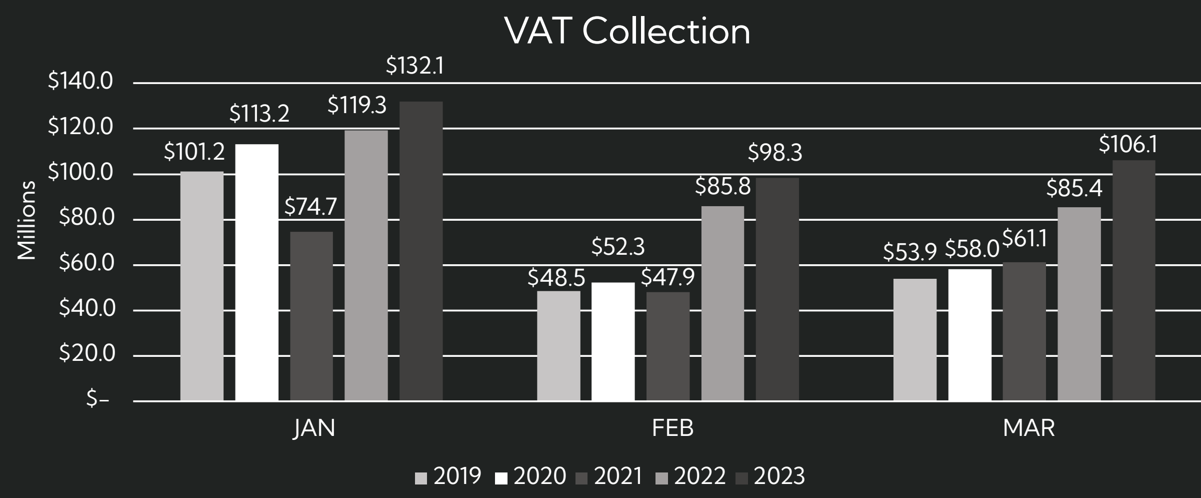
TABLE 4: REVENUE SUMMARY (B$M)

	FY2021/22					FY2022/23		
	QI	QII	QIII	QIV	Total	QI	QII	QIII
TAX REVENUE (a+b+c+d)	**520.3**	**445.6**	**592.7**	**603.2**	**2,161.8**	**574.7**	**521.8**	**722.7**
a. Taxes on Property	**20.6**	**16.2**	**69.6**	**40.5**	**147.0**	**20.9**	**38.6**	**67.7**
b. Taxes on Goods & Services (i+ii+iii)	**381.8**	**317.3**	**397.5**	**395.5**	**1,492.0**	**387.8**	**329.2**	**477.5**
i. General	**349.0**	**283.6**	**300.3**	**332.3**	**1,265.3**	**359.9**	**293.4**	**363.3**
VAT	295.4	249.2	290.5	300.8	1,135.8	331.0	267.8	336.6
Stamp taxes (Financial & Realty)	26.7	21.0	3.9	31.3	83.0	28.5	24.9	26.2
Excise Tax	26.9	13.4	5.9	0.3	46.5	0.4	0.7	0.5
ii. Specific (Gaming taxes)	**10.5**	**7.3**	**19.7**	**13.8**	**51.3**	**12.8**	**13.4**	**22.4**
iii. Taxes on Use of Goods/Permission to Use	**22.3**	**26.3**	**77.4**	**49.3**	**175.4**	**15.1**	**22.4**	**91.8**
Motor Vehicle Taxes	4.8	9.4	10.5	9.0	33.7	7.0	7.2	11.5
Company Taxes	1.8	3.4	11.7	2.6	19.5	2.0	3.2	12.3
License to Conduct Special Bus. Activity	14.6	12.6	53.8	35.9	116.8	5.4	11.2	66.7
Marine License Activities	1.1	0.9	1.5	1.8	5.3	0.7	0.9	1.2
c. Taxes on Int'l Trade & Transactions	**115.6**	**110.2**	**120.8**	**165.2**	**511.8**	**164.3**	**150.0**	**176.9**
Customs & other import duties	62.3	55.1	63.5	67.6	248.6	61.2	62.2	62.7
Taxes on Exports	42.6	39.0	35.0	60.9	177.5	65.4	53.6	58.7
Departure Taxes	10.6	15.9	22.2	36.3	84.9	37.5	34.0	55.3
Other	0.1	0.1	0.1	0.4	0.7	0.2	0.1	0.2
d. General Stamp Taxes	**2.2**	**2.0**	**4.8**	**2.0**	**11.1**	**1.8**	**4.0**	**0.6**

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 12.0 percent to $935.4 million for the first nine months of FY2022/23. The same total increased over the first three quarters of FY2021/22 by $100.4 million (12.0 percent) and when compared to the depressed FY2020/21 figure of $470.1 million.

BOX B: TRENDS IN GOVERNMENT REVENUE PERFORMANCE & POLICY INITIATIVES

FIGURE 4: MONTHLY VAT COLLECTIONS BY YEAR



5. EXPENDITURE DEVELOPMENTS

A. RECURRENT EXPENDITURE – ECONOMIC CLASSIFICATION

During the first nine months of the FY2022/2023, total outlays for recurrent expenditure increased by $113.2 million (5.6 percent) to aggregate $2,134.8 million compared to the same period in the prior year—representing 69.5 percent of the targeted spend ***(see Table 5)***.

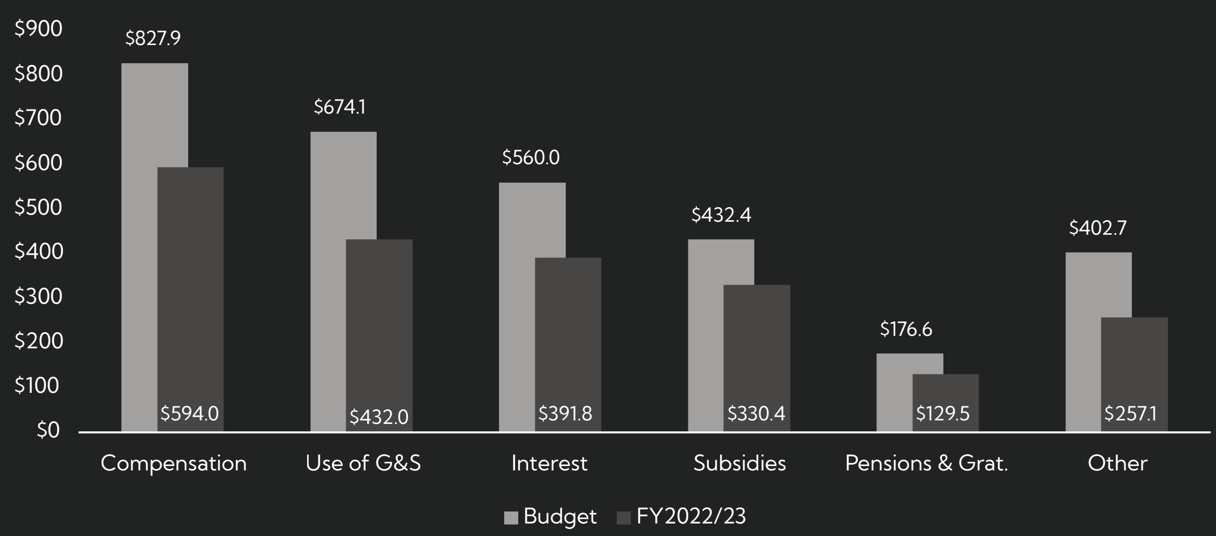
» Compensation of employees increased by $55.7 million (10.3 percent) to $594.0 million and represented 71.7 percent of the budget target. This widening of expenditure is largely explained by period-over-period expansions in employee wages ($40.8 million), summer employment ($1.2 million), special employment programs ($2.9 million), discretionary allowances ($4.9 million), and overtime payments ($2.0 million). The increase in the public-sector wage bill reflects staff promotions, salary adjustments, and additional hires for staffing needs in new and existing Government Ministries and agencies. As such, employer's social contribution grew period-over-period by $2.3 million.

» Spending on the use of goods and services increased by $29.0 million (7.2 percent) to $432.0 million, relative to the same period in the prior year. This accounted for 64.1 percent of the annual budget.

- Rental costs increased by $18.9 million (33.5 percent) to $75.2 million—comprising payments for office lease and rent, vehicle leases and living accommodations, vehicle lease payments ($2.1 million), and living accommodations ($1.9 million).

- Utilities and telecommunications payments increased by $4.2 million (9.4 percent) to $49.1 million and represented 48.8 percent of the budget. While electricity services was phase-down by $6.2 million period-over-period, increased spend was mainly owing to street lighting ($7.8 million), and water services ($4.8 million).
- Expenditure on supplies and materials increased by $8.4 million (38.8 percent) to $30.0 million, for 64.6 percent of the budget.
- Outlays for travel and subsistence increased by $5.2 million (76.5 percent) to $12.0 million, for 63.7 percent of budget.
- Spending on services increased by $38.5 million (26.0 percent) to $186.6 million, for 66.8 percent of the budget; reflective of higher outlays for consultancy services ($20.1 million) and operation of facilities ($10.1 million).
- Conversely, finance charges decreased by $1.0 million (6.2 percent) to $14.4 million (49.7 percent of the budget) primarily owing to decreased foreign exchange hedging activities.
- Special financial transactions, which include payment of arrears, decreased by $49.3 million (54.9 percent) to $40.5 million, and accounted for 68.8 percent of budget.

FIGURE 5: 9-MONTH COMPARISON OF RECURRENT EXPENDITURE VS BUDGET FOR FY2022/23 (B$M)



» Public debt interest payments increased by $58.0 million (17.4 percent) to $391.8 million and 70.0 percent of budget. By currency, payments on foreign currency obligations totaled $197.2 million (50.3 percent) while payments on domestic debt obligations totaled $194.6 million (49.7 percent).

» Government subsidies, which include transfers to Government-owned and/or controlled enterprises that provide commercial goods and services to the public, narrowed by $20.9 million (5.9 percent) to $330.4 million, which equaled 76.4 percent of the budget.

- Subsidies to public non-financial corporations declined by $22.7 million (6.8 percent) to $313.2 million, paced primarily by the $27.1 million contraction in COVID-19 support to the Public Hospital Authority following the end of Emergency Orders.
- Subsidies to private enterprises and other sectors rose by $1.9 million (12.1 percent) to equate $17.2 million, owing to the $4.0 million equity contribution payment to Bahamar suspended during the prior year.

» Social benefit payments declined by $29.5 million (14.8 percent) to aggregate $170.1 million, for 73.3 percent of the budget. As COVID-19 Emergency Orders ended and domestic economic conditions continue to improve, the need for related Government support was averted.

- Social assistance benefits declined by $38.0 million (48.3 percent) and moderated to $40.7 million (73.3 percent of the budget).

- Pension and gratuity payments increased by $8.5 million (7.1 percent) to $129.5 million and 73.3 percent of the budget, largely attributed to Government's cost of living increase to pensions as outlined in the FY2021/22 Supplementary Budget.

» Other Payments increased by $21.4 million (11.3 percent) to $210.4 million (62.1 percent of budget) due to higher recurrent transfers.

- Current transfers not elsewhere classified increased by $33.1 million (25.4 percent) to $163.3 million and 63.9 percent of the budget. This was primarily attributed to increased allocations toward the Airport Authority ($4.0 million), Lucayan renewal holdings ($9.4 million), Grand Bahama beautification initiative ($3.8 million), The Bahamas Agricultural and Industrial Corporation ($2.7 million), public parks ($1.8 million), CARIFTA Games ($3.5 million), and the Bahamas broadcasting corporation ($1.7 million).
- Payment of insurance premiums decreased by $11.6 million (19.8 percent) to $47.1 million (56.5 percent of budget) as compared to the prior year.

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

	Budget	July - March			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
RECURRENT EXPENDITURE					
Compensation of Employees	**827.9**	**594.0**	**538.3**	**55.7**	**71.7%**
Use of Goods & Services	**674.1**	**432.0**	**403.0**	**29.0**	**64.1%**
Travel & Subsistence	18.8	12.0	6.8	5.2	63.7%
Rent	103.3	75.2	56.4	18.9	72.8%
Utilities & Telecommunications	100.5	49.1	44.8	4.2	48.8%
Supplies & Materials	46.4	30.0	21.6	8.4	64.6%
Services	279.3	186.6	148.1	38.5	66.8%
Minor capital repairs	5.5	4.0	2.9	1.1	72.3%
Finance charges	29.0	14.4	15.4	(1.0)	49.7%
Special Financial Transactions	58.9	40.5	89.9	(49.3)	68.8%
Tourism Related	3.0	2.0	0.0	2.0	66.1%
Local Gov't Districts	13.3	9.8	9.3	0.4	73.3%
School Boards	0.1	0.0	0.0	0.0	0.0%
Other	15.9	8.4	7.8	0.6	52.9%
Public Debt Interest	**560.0**	**391.8**	**333.8**	**58.0**	**70.0%**
Subsidies	**432.4**	**330.4**	**351.3**	**(20.9)**	**76.4%**
Grants	**8.4**	**6.0**	**6.4**	**(0.5)**	**71.1%**
Social Assistance Benefits	**55.5**	**40.7**	**78.7**	**(38.0)**	**73.3%**
Pensions & Gratuities	**176.6**	**129.5**	**120.9**	**8.5**	**73.3%**
Other Payments	**338.8**	**210.4**	**189.0**	**21.4**	**62.1%**
Current Transfers n.e.c.	255.4	163.3	130.3	33.1	63.9%
Insurance Premiums	83.4	47.1	58.8	(11.6)	56.5%
TOTAL	**3,073.7**	**2,134.8**	**2,021.5**	**113.2**	**69.5%**

B. RECURRENT EXPENDITURE – FUNCTIONAL CLASSIFICATION

On a functional basis, preliminary data for recurrent Expenditure for Q3 FY2022/23 (see Table 6) reflect increased expenditure of $113.3 million (5.6 percent) to $2,134.8 million, which accounted for 69.5 percent of the budget.

- Outlays for general public service increased by $116.3 million (15.5 percent) to $867.4 million relative to the prior year, and accounted for 66.1 percent of the budget target. This widening is explained by increased employment costs owing to promotions and other staff adjustments. The Period-over-period increase also reflect the creation and restructuring of Ministries and Departments resulting from the September 2021 General Elections and the change in political administration.
- Spending on education grew by $23.0 million (10.9 percent) to $234.9 million relative to the prior year, for 72.4 percent of the budget target. Period-over-period, further investments were made towards tertiary level and other levels of education ($21.6 million) and subsidiary services to education ($1.4 million).
- Outlays for environmental protection increased by $13.1 million (12.7 percent) to $116.0 million relative to the prior year, and accounted for 73.9 percent of the budget target. This increase reflects additional spending towards environmental protection ($7.9 million), water waste management ($3.4 million), and protection of biodiversity and landscape ($1.8 million).
- Spending on housing and community amenities grew by $11.5 million (179.7 percent) to $17.8 million relative to the prior year, for 86.8 percent of the budget target. Period-over-period, further investments were made towards housing development ($1.5 million) and street lighting ($9.9 million).
- Conversely, disbursements for health expenditure contracted by $35.7 million (10.8 percent) to $294.0 million and 76.4 percent of the budget. At a functional level, the reduced health expenditure is attributed to the return of health spending to historic levels with containment of the COVID-19 pandemic.
- Expenditure on social protection, elevated due to the COVID-19 pandemic, declined by $13.0 million (7.3 percent) to $165.7 million (72.9 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 COVID-19 social support programs.

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

	Budget	July - March			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
General Public Service	1,313.0	867.4	751.1	116.3	66.1%
Defense	66.1	47.3	47.5	(0.2)	71.6%
Public Order & Safety	259.5	182.8	181.3	1.5	70.4%
Economic Affairs	280.2	175.6	192.1	(16.5)	62.7%
Environmental Protection	157.0	116.0	102.9	13.1	73.9%
Housing & Community Amenities	20.6	17.8	6.4	11.5	86.8%
Health	384.8	294.0	329.7	(35.7)	76.4%
Recreation, Culture & Religion	40.9	33.4	20.1	13.3	81.8%
Education	324.5	234.9	211.8	23.0	72.4%
Social Protection	227.2	165.7	178.6	(13.0)	72.9%
GRAND TOTAL	**3,073.7**	**2,134.8**	**2,021.5**	**113.3**	**69.5%**

C. CAPITAL EXPENDITURE – ECONOMIC CLASSIFICATION

Capital outlays increased by $33.9 million (21.1 percent) to $193.9 million – representing 54.0 percent of the budget (*see **Table 7***).

» Capital transfers declined by $8.5 million (24.3 percent) to $26.6 million, representing 28.0 percent of the budget target.

- Major declines reflected the falling away of provisions for COVID-19 and hurricane Dorian support, and resulted in period-over-period reductions for small and medium size businesses ($3.9 million) and National disaster recovery ($7.0 million).
- During the period, transfers increased primarily for pubic private partnerships ($1.5 million).

» Expenditure on the acquisition of non-financial assets increased by $42.4 million (33.9 percent) to $167.4 million and represented 63.4 percent of the budget target.

- Investments in buildings other than dwellings increased by $31.2 million (59.6 percent) to $83.4 million and accounted for 68.1 percent of budget. This mainly reflected higher expenditure on upgrades and maintenance of Government buildings ($18.8 million), construction of schools ($8.5 million), and upkeep of community ($1.3 million).
- Investment on other fixed assets increased by $1.4 million (15.4 percent) to $10.8 million, or 120.7 percent of budget. During the period, outlays primarily increased for acquisition of government assets ($1.1 million).
- Outlays for other structures increased by $7.3 million (15.9 percent) to $53.0 million, representing 59.2 percent of budget. During the period, further investments were made towards New Providence roadwork ($7.3 million).
- Land improvement expenditures increased by $1.2 million (31.9 percent) to $4.9 million, accounting for 81.4 percent of budget. This was mainly attributed to a $2.1 million increase for parks and ground improvements.
- Conversely, other machinery and equipment spend lessened by $0.6 million (6.3 percent) to $9.5 million, or 40.2 percent of budget. During the period, primary declines were noted for military, police and prison equipment ($1.3 million) while additional investments were made towards security and communication equipment ($2.0 million).

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

	Budget	July - March			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
Capital Transfers	**95.0**	**26.6**	**35.1**	**(8.5)**	**28.0%**
Acquisition of Non-financial assets	**264.1**	**167.4**	**125.0**	**42.4**	**63.4%**
Fixed Assets	**262.1**	**167.4**	**123.6**	**43.8**	**63.9%**
Buildings other than dwellings	122.4	83.4	52.3	31.2	68.1%
Other structures	89.5	53.0	45.8	7.3	59.2%
Transport equipment	11.5	5.7	2.3	3.4	49.3%
Other Machinery & equipment	23.6	9.5	10.1	(0.6)	40.2%
Land Improvements	6.0	4.9	3.7	1.2	81.4%
Other Fixed Assets	9.0	10.8	9.4	1.4	120.7%
Land	**2.0**	**0.0**	**1.4**	**(1.4)**	**0.0%**
TOTAL	**359.1**	**193.9**	**160.1**	**33.9**	**54.0%**

D. CAPITAL EXPENDITURE – FUNCTIONAL CLASSIFICATION

During the third quarter of the FY2023/2023, capital expenditure by function (see Table 8) increased by $33.9 million (21.1 percent) to $193.9 million relative to the same period in the prior fiscal year and accounted for 54.0 percent of the budget target.

- » Outlays towards education increased by $21.4 million (61.1 percent) to $56.6 million (71.2 percent of budget) resulting from building maintenance of educational institutions and school ground improvements during the period.
- » Health disbursements increased by $3.3 million (26.5 percent) to $15.8 million (33.5 percent of budget) owing to additional spending on general hospital services ($3.6 million).
- » Spending on economic affairs increased by $14.2 million (17.0 percent) to $97.5 million (64.6 percent of budget). During the period, further outlays went towards road, water and pipeline transport ($2.4 million) and tourism, ($3.4 million).

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

	Budget	July – March			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
General Public Service	48.3	11.5	13.6	(2.1)	23.8%
Defense	13.0	4.8	3.1	1.7	36.5%
Public Order & Safety	13.9	6.6	8.5	(1.9)	47.4%
Economic Affairs	151.0	97.5	83.4	14.2	64.6%
Environmental Protection	4.5	0.7	1.3	(0.6)	15.0%
Health	47.0	15.8	12.5	3.3	33.5%
Recreation, Culture & Religion	0.0	0.0	0.6	(0.6)	0.0%
Education	79.4	56.6	35.1	21.4	71.2%
Social Protection	2.0	0.6	2.2	(1.6)	30.0%
GRAND TOTAL	**359.1**	**193.9**	**160.1**	**33.9**	**54.0%**

6. FINANCING ACTIVITIES

NET INCREASE IN LIABILITIES

During the first nine months of the FY2022/23, a net deficit of $249.7 million was estimated based on preliminary data. This represents a decrease of $86.6 million (25.7 percent) as compared to the prior fiscal year. The net financing during the period totaled $290.8 million, a $312.7 million (51.8 percent) decrease in the net liability as compared to the $603.5 million experienced in the prior fiscal year for the same period.

- » Government utilized gross borrowings of $2,150.5 million as compared to $2,120.1 million in the prior fiscal year to satisfy budgetary financing requirements and to settle maturing debt instruments.
  - Domestic bond issuances totaled $591.3 million, chiefly utilized to refinance $517.3 million of maturing bonds;
  - Treasury bills and notes of $104.5 million were issued during the period to meet short term financing needs, $917.0 million in advances were received from the Central Bank, and domestic commercial bank loans totaled $115.0 million;
  - Drawings were made on Deutsche Bank Senior Loan facility of EUR$148.9;
  - Total Drawings of US$232.3 million were made via the International Monetary Fund's special drawing rights.
- » Drawings on existing loans from international development agencies aggregated US$41.5 million which includes:
  - Funding for the Airport Infrastructure Program of $11.2 million;
  - A drawing for the Climate Resilient Coastal Management and Infrastructure Program of $3.0 million;
  - Government Digital Transformation to Strengthen Competitiveness drawing of US$2.8 million;
  - A drawing for Reconstruction with Resilience in the Energy Sector in The Bahamas of US$7.7 million;
  - Financing for the Credit Enhancement Program for Micro, Small and Medium Enterprises of US$1.7 million;
  - A drawing for the program to support the health sector to contain and control coronavirus and to mitigate its effects in service provision of US$5.0 million;
  - Funding to support health system strengthening US$10.0 million.
- » Repayments of Government debt increased to $1,859.7 million compared to $1,516.7 million in the same period of the prior year, and included:
  - Loan repayments to Deutsche Bank on a EUR13.7 million export credit facility, and EUR41.6 million on a senior unsecured loan.
  - A credit agreement repayment to JP Morgan of US$180.0 million;
  - A term facility agreement from Banco Santander S.A amounting to $2.0 million were repaid;
  - Loan repayments to Credit Suisse of 16.6 million Swiss Francs and US$25.0 million;
  - Former BPL loan repayments to the National Bank of Jamaica and Credit Suisse totaling US$16.6 million, and US$10.6 million for a credit agreement between Bank of the Bahamas, Royal Bank of Canada, National Insurance Board, and Scotia Bank Limited;

- A repayment on a repurchase agreement related loan from Goldman Sachs of $41.3 million;
- Bahamian Dollar repayments included Central Bank advances ($789.5 million); Bahamas Government Registered Stock ($517.3 million); bank loans ($137.5 million); and Treasury Bills ($41.8 million).

» Repayments made to international development agencies totaled $22.1 million, primarily comprising:

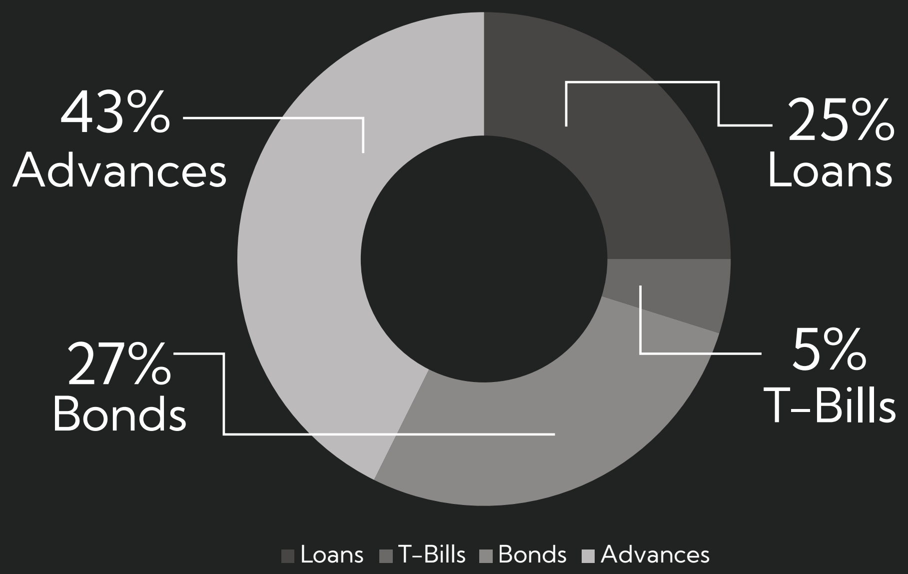
- Total repayment of $4.4 million to the Inter-American Development Bank for the Transport program ($0.6 million); supplementary financing for the New Providence Transportation Project, phrase 1 ($2.4 million) and the Supplementary Financing for the New Providence Transportation Project, phrase 2 ($1.4 million);
- Repayment to the CDB of $4.7 million for the Fiscal Stability and Resilience Building Policy-Based Loan, and $1.3 million for the Fiscal Sustainability with supplementary financing for Coronavirus Disease 2019;
- A repayment to the Chinese Export-Import Bank of $3.6 million towards the Airport Gateway Project and $2.5 million for the North Abaco Port & Little Abaco Bridge Project;
- Equity Tranche repayments of US$1.5 million;
- Repayment to IDB of $0.9 million for Support Program for Education and Training for Competitiveness, $0.8 million for the trade sector support program, $0.6 million for Performance Monitoring and Public Financial Management Reform, and $0.6 million for Citizen Security and justice Programme;

As a result of net borrowing activities, the Direct Charge on the Government—exclusive of exchange rate adjustments, increased by $290.8 million. When exchange rate adjustments are applied, the total Direct Charge at end-March 2023 totaled $11,104.5 million or 83.4 percent of GDP, as compared to 87.3 percent of GDP at end-June 2022.

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

	FY2022/23 July - March		
	Borrowings	Repayment	Net Change
Bahamian Dollars	**1,727.8**	**1,486.1**	**241.7**
Bonds	591.3	517.3	74.0
Treasury Bills/Notes	104.5	41.8	62.7
Bank Loans	115.0	137.5	(22.5)
Central Bank Advances	917.0	789.5	127.5
Foreign Currency	**422.6**	**373.5**	**49.1**
Bank Loans	381.1	351.5	29.6
International Bonds	-	-	-
Loans from Int'l Dev. Agencies	41.5	22.1	19.5
TOTAL	**2,150.5**	**1,859.7**	**290.8**

FIGURE 6: COMPOSITION OF GOVERNMENT BORROWINGS FOR FIRST 9 MONTHS FY2022/23



CHANGE IN FINANCIAL ASSET POSITION

During the period, contributions made to the sinking funds established to retire future debt obligations totaled $30.0 million. At end-March 2023, the three (3) arrangements earmarked for scheduled retirement of external bonds held a cumulative value of USD 296.0 million, while the funds set aside for the two (2) local arrangements stood at B$12.3 million. As a result of the February 2022 repurchase agreement, $251.7 million of external bonds have been sold for repurchase in two (2) years.

Other changes to the financial asset position over the review quarter include an $80.0 million increase in debt owed to the Government from Agencies and GBEs' bilateral loans, a $110.0 million change from end-June 2022.

NINE MONTH REPORT ON BUDGETARY PERFORMANCE FY2022/23 JULY – MARCH

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