COMMONWEALTH OF THE BAHAMAS

2019 FISCAL STRATEGY REPORT

November 2019

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The 2019 Fiscal Strategy Report (2019 FSR) is the second report to be prepared under the Fiscal Responsibility Act, 2018 (the Act), as part of the Government's initiatives to restore macroeconomic stability through prudent and sustainable fiscal and debt management policies. The document outlines the medium-term macroeconomic and fiscal outlook and the Government's fiscal strategy that will serve to guide the preparation of the next annual Budget, in accordance with the Act, the fiscal objectives set out in the FSR and the recommendations of Parliament.

The backdrop for the preparation of the 2019 FSR is mixed and is a stark reminder of the vulnerability of The Bahamas' macroeconomic and fiscal outcomes to climate-related events. On the upside, it is taking place after the Government has successfully achieved its fiscal target for FY2018/19, cementing three consecutive years of fiscal consolidation. However, it is also positioned on the heels of Hurricane Dorian which, in early September 2019, caused significant loss of lives and social and economic upheaval on the islands of Abaco, and, to a lesser extent, Grand Bahama. Post–disaster expenditures, associated with emergency response and social, employment and economic recovery and restoration programmes are set to impose huge near to medium-term fiscal costs on the public sector. The necessity to provide tax incentives to assist with the recovery will also result in loss of revenue to the Government, and there are several other critical, unavoidable spending imperatives that the Government considers prudent to incorporate into the revised budget and medium-term forecasts.

Faced with these additional multi-year fiscal costs, the Government is challenged to meet its original fiscal plan outlined in the recent FY2019/20 budget, which projected a downward track for the deficit to GDP ratio—to 1.0 percent in FY2019/20 and further to 0.5 percent in FY2020/21 and 0.1 percent in FY2021/22. Given the changed circumstances, the Government has invoked the Exceptional Circumstances clause (13) in the Act, which provides for the Government to temporarily depart from the fiscal objectives, because of sudden and unexpected events arising from external shocks or natural disasters. Consistent with the requirements of the Act, the 2019 FSR sets out a fiscal adjustment plan within the context of a revised budget and medium-term fiscal framework, which now envisages a delay in compliance with the mandated FY2020/21 deficit to GDP target of 0.5%, until FY2024/25, as the country deals with the direct costs of Hurricane Dorian and several other pressing expenditures demands.

Despite this temporary setback, the 2019 FSR reinforces the Government's strategy to pursue sound and resilient financial management, through revenue and expenditure policies that support long-run debt sustainability, and structural reforms initiatives aimed at eliminating impediments to employment generating growth for the benefit of all Bahamians.

With that noted, the undersigned attest that, to the extent feasible and practicable at the date of publication, the 2019 FSR contains information that is accurate, reliable and complete in respect of the requirements of the Fiscal Responsibility Act.

K. Peter Turnquest, Deputy Prime Minister &
Minister of Finance

Marlon Johnson
Financial Secretary (Actg.)

1. INTRODUCTION

1.1 Report

The 2019 Fiscal Strategy Report (2019 FSR) is the second to be submitted to Cabinet under the Fiscal Responsibility Act, 2018 (the Act). Consistent with section 10 of the Act, the Minister of Finance is required to prepare and submit a Fiscal Strategy Report to Cabinet for approval no later than the 1st Tuesday of November of each fiscal year, in this case November 5, 2019. On approval, the report is to be presented to both Parliament and the Fiscal Responsibility Council by the 3rd Wednesday of November (i.e., November 20, 2019) for their review and recommendations.

In keeping with the requirements of the Act, the main purpose of the 2019 FSR is to provide the medium-term fiscal framework to achieve compliance with the mandated fiscal targets, as part of the Government's efforts to ensure budget credibility, transparency, and fiscal and debt sustainability. While this path was essentially established in the formulation of the FY2019/20 Budget and accompanying two-year forecasts, the occurrence of Hurricane Dorian and the attendant sizeable fiscal costs necessitate a temporary departure from this plan. As required by the Act, the Government has prepared a Fiscal Adjustment Plan (FAP), which essentially is a revision of the recently approved budget for FY2019/20 and the medium-term fiscal forecasts through FY2024/25. The FAP incorporates the expected revenue and expenditure impacts of Hurricane Dorian, together with several specific expenditure imperatives associated with building resilience to weather related events, capital development works, settlement of an outstanding pension liability foreshadowed in the 2018/19 Budget Communications, and public sector employment reforms and skill enhancement initiatives.

Following this section, and in compliance with the Act, the rest of this report is organized as follows:

- Section 2 provides a report on economic and fiscal performance in the most recently completed fiscal year, namely 2018/19;
- Section 3 presents the required macroeconomic and fiscal forecasts for the current and next three fiscal years, and extended through FY2024/25—to incorporate both the impact of Hurricane Dorian and the other outlined expenditure imperatives;
- Section 4 outlines the proposed fiscal policy for the next five fiscal years;
- Section 5 frames an analysis of fiscal risks and mitigation strategies; and
- Section 6 provides an analysis of recent debt trends and debt sustainability.

The information to be included in the Fiscal Strategy Report, as specified in the Act, is included in this document as ***Annex A***.

1.2 Accounting Principles and Methods

The budgetary data presented in the FSR 2019 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.

Data tables are presented using the new chart of accounts introduced in July 1, 2019 which facilitate the aggregation and presentation of the fiscal data to meet the International Monetary Fund's Government Finance Statistics (GFS) 2014 reporting framework for analyzing and evaluating the performance of the government finances. The new framework also prepares for the eventual conversion of the accounting presentation to the IPSAS accrual basis, as underscored by various ongoing initiatives to strengthen public financial management institutional arrangements—to include the implementation of new budgeting and accounting software and standards and the supportive legislative frameworks and technology systems.

As data reconciliation is ongoing, annual data for FY2017/18 and FY2018/19 are subject to change, until audited by the Auditor General; therefore, their status is provisional.

1.3 National Accounts Estimates

In considering prospects for the economy through the medium-term, to date, the practice at the Ministry of Finance has been to utilize the GDP forecasts developed by the International Monetary Fund (IMF) in the context of its World Economic Outlook (WEO) exercise. Apart from the unavailability of GDP projections by the Ministry, the rationale underpinning this choice has related to the desire to develop fiscal projections that are based on an independent assessment of economic prospects in The Bahamas, and one that aligns with the consensus view of the various international agencies.

Institutional strengthening initiatives are underway to improve the timeliness, scope and periodicity of national accounts statistics, and macro-fiscal forecasting and analysis capability within the Ministry of Finance. Progress in these areas will be reflected in future FSRs and serve to better guide fiscal policy formulation and the budget preparation process.

2. OVERVIEW OF ECONOMIC AND FISCAL PERFORMANCE IN FY2018/19

2.1 Economic Performance

The performance of the Bahamian economy in 2018 was set against the backdrop of a mild slowdown in world output expansion, to 3.6 percent from 3.8 percent in 2017, with mixed performance among the advanced economies, emerging markets and developing countries. Real GDP growth for the United States—The Bahamas' largest trading partner—was higher at 2.9 percent in 2018 from 2.2 percent in 2017, attributed to positive contributions from personal consumption expenditure, non-residential fixed investment, exports, government spending and private inventory investment.

Domestic economic conditions supporting the fiscal outturn in The Bahamas improved in 2018, primarily aided by strong tourism and construction activity. Preliminary data released by the Department of Statistics revealed an increase in real GDP for 2018, of 1.6 percent to $10,763 million, following an average gain of 0.45 percent over the preceding three years. However, as shown in ***Table 1***, the outturn was below the initial 2.5 percent rise forecasted by the IMF, which was later lowered to 2.3 percent in the July 2019 edition of the World Economic Outlook.

The inflation rate—as measured by the GDP deflator—stood at 0.7 percent, below its forecast at the outset of the 2018/19 fiscal year. Given this development, GDP in nominal or current terms expanded by 2.2 percent in 2018 as compared to 2017, which came in below the 5.8 percent accretion projected for the 2018/19 Budget.

Table 1: Forecast and Actual Economic Performance

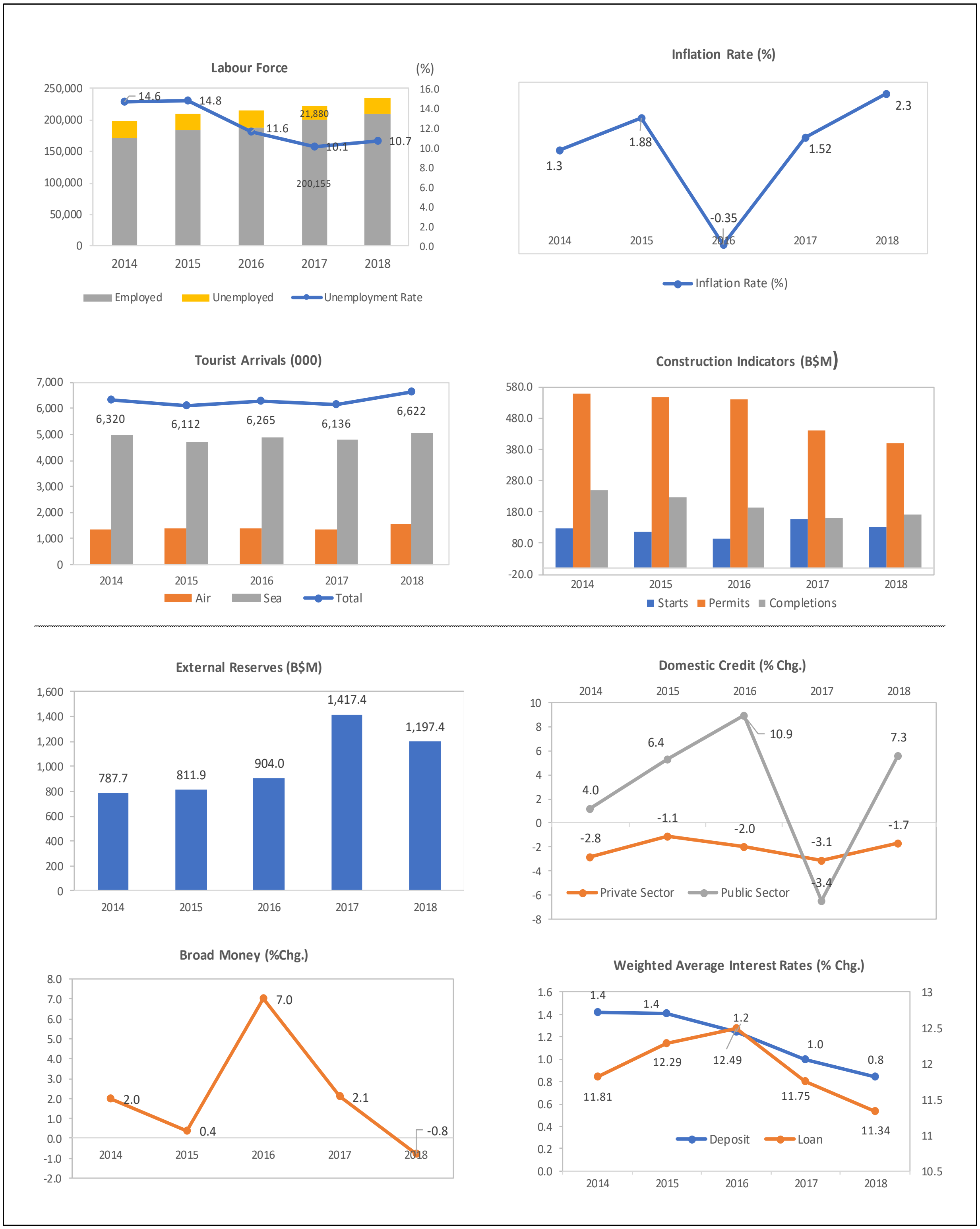
	2018			2019
INDICATORS	**FORECAST**	**ACTUAL**	**VARIANCE**	**Budget Forecast**
Gross Domestic Product, current prices (% change)	5.8	2.2	-3.6	3.6
Gross Domestic Product, constant prices (% change)	2.5	1.6	-0.9	2.1
Inflation (GDP deflator %)	1.2	0.7	-0.5	1.5

Note: Forecast is from 2019/20 Budget and April 2019 IMF World Economic Outlook; preliminary 2018 is from Department of Statistics' National Accounts Report 2018, May 2019.

GDP growth for 2018 featured strong contributions in sectoral gross value added from accommodation and food services, real estate, wholesale and retail trade, and financial and insurance services sectors. The $252.7 million (50.5 percent) rebound in the value added from accommodation and food services was primarily associated with positive developments in the tourism sector—underpinned by the completion and official opening of the final phase of the Baha Mar hotel resort development, and a number of international sporting and cultural events. Total visitor arrivals recovered by 7.9 percent in 2018 from the year-earlier 2.1 percent contraction which was linked to hurricane-related reductions in both cruise and air visitors, and room capacity in the nation's second largest city, Grand Bahama.

Wholesale and retail trade activities, which generally move in tandem with overall growth of the economy, experienced a gain in gross value added of $42.5 million (3.2 percent), and the corresponding contribution for real estate was an additional $15.7 million (0.9 percent). Gross value added for the financial and insurance sector improved to $41.9 million (4.2 percent), benefitting from more favourable trends in bank lending and non-performing loans.

Figure 1: Key Macroeconomic Indicators



Construction sector investments contributed positively to value added in the economy during 2018, against the backdrop of improved economic outcomes in key sectors. Construction starts advanced by 31.7 percent in 2018, reflecting broad gains across the residential, commercial and public sectors, although reductions in the public and residential segments led to a 28.6 percent decline in value to $33.9 million. Completions grew by 8.1 percent in number, as public sector completions advanced to 10 from 2 in 2017. Buoyed by a 42.1 percent rise in the residential sector, the value of completions was higher by 15.8 percent at $35.5 million.

Labour market conditions for the twelve months to November 2018 continued to benefit from strengthened tourism-related activity, with the number of employed growing by 6,830 (3.4 percent) to 235,695 persons. However, the 4.0 percent expansion in the labour force—linked to the entrance of new job seekers and previously discouraged workers, elevated the unemployment rate on an annual basis, to 10.7% from 10.1 percent in November 2017. The outcome was mixed among the major economic centres, with the jobless rate for New Providence firming by an annualized 40 basis points to 11.0 percent, while the corresponding rates for Abaco and Grand Bahama were marginally improved—from 8.0 percent to 7.7 percent and 12.1 percent to 11.9 percent, respectively. At end-November 2018, youth unemployment (the age cohort between 15 and 24) remained high at 23.1 percent; and the jobless rate for females stood at 9.9 percent, compared with 9.2 percent for males.

Consumer price inflation, as measured by the average increase in the All Bahamas Retail Price Index (RPI), advanced to 2.3 percent from 1.5 percent in 2017. This firming bias was primarily explained by the Valued Added Tax (VAT) rate hike, from 7.5 percent to 12 percent, which became effective July 1, 2018 and, to a lesser extent, rising global oil prices.

In monetary sector developments, the rate of expansion for both bank liquidity and external reserves moderated from the 2017 levels which were boosted by the net proceeds from the Government's $750 million external bond issuance. At end-2018, banking sector liquidity stood 16.1 percent lower, vis-à-vis 2017, at $1,533.2 million. Although the stock of external reserves declined by $221.1 million (15.6 percent) to $1,196.3 million—which equated to a reduced 21.9 estimated weeks of merchandise import cover, it remained well above the 12 weeks international benchmark. Reflecting a resumption in bank lending, the reduction in private sector credit growth narrowed to 1.7 percent from 3.1 percent in 2017, amid ongoing improvement in banks' credit quality indicators.

2.2 Budget and Fiscal Performance

a. Overall Balance

The Government's primary fiscal policy objective for FY2018/19 was to achieve steady and durable consolidation in the public finances, in line with the fiscal responsibility objective for the overall deficit of 1.8% of GDP. To accomplish this numerical target, the Government set out a strategy to improve domestic revenue mobilization, through enhanced tax compliance alongside the introduction of new revenue measures announced during the budget, and to contain expenditure growth.

Based on preliminary fiscal data, as summarized in ***Table 2***, the budgetary outturn for FY2018/19 was largely in line with projections set at the outset of the year. Confirming the Government's commitment to fiscal sustainability, the deficit on the overall balance declined to an estimated $212.8 million, which represented 1.7 percent of GDP, compared with the 3.4 percent of GDP recorded for FY2017/18 when the deficit was $414.9 million. In this performance, however, both revenue and expenditure were respectively 8.6 percent and 8.8 percent below the budget targets, although exceeding the levels obtained in FY2017/18.

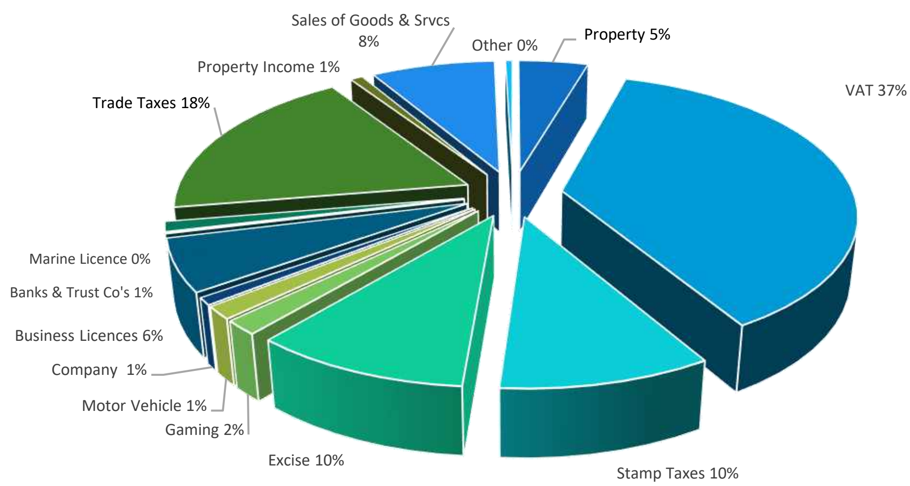
Table 2: FY2018/19 Forecast and Actual Fiscal Performance (B$M)

	FORECAST	ACTUAL	VARIANCE
1. Revenue	2,650.9	2,422.4	-228.5
2. Expenditure	2,888.5	2,635.2	-253.3
Recurrent	2,589.2	2,418.0	-171.2
Capital	299.3	217.2	-82.1
3. Surplus/(Deficit) [1-2]	-237.6	-212.8	24.8
4. GFS Deficit as % of GDP	-1.8%	-1.7%	0.1%
5. Government Debt	7,397.0	7,527.0	130.0
6. Government Debt as % of GDP	56.1%	58.6%	-2.5%

b. Revenue

Revenue collections for FY2018/19, at an estimated $2,422.4 million, were $228.5 million (8.6 percent) below projections, for a reduced 19.3 percent of GDP vis-à-vis the targeted 20.6 percent (see ***Table 3***). VAT receipts—which represented 40.8 percent of tax revenue—were some 15.4 percent lower than forecasted, partly attributed to concessions granted to industry (construction and tourism) to honor prior bookings and contracts at the old VAT rate in the opening quarter of the fiscal year. Gaming taxes, initially projected to contribute an additional $30.0 million to the funding envelope, were 43.2 percent or $30.3 million less than budgeted, due to the delayed implementation of the adjusted schedule of taxes for Gaming Houses.

Figure 2: FY2018/19 Revenue by Source (%)



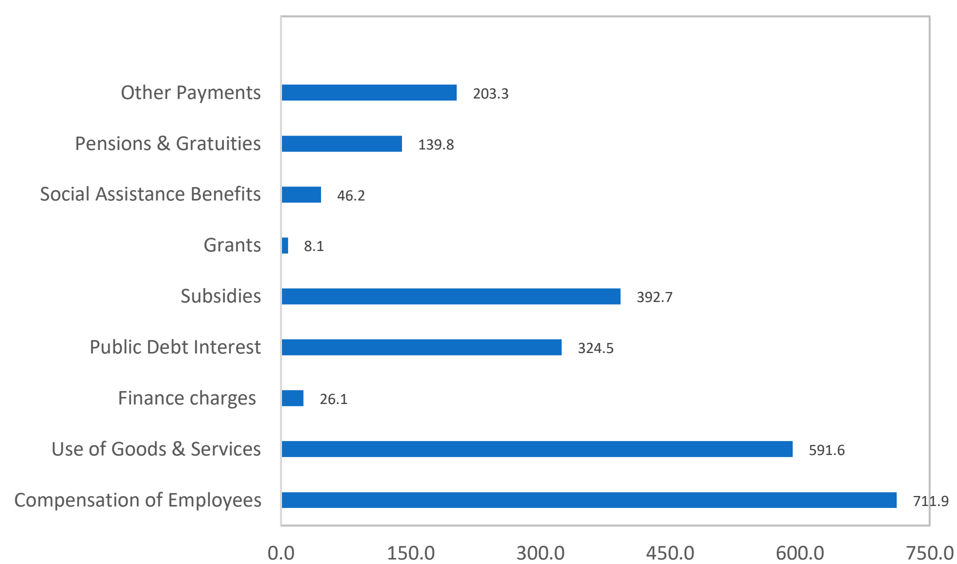
The delayed establishment of the Revenue Enhancement Unit limited the anticipated improvement in both taxes on property and international trade, which were respectively $22.9 million (17.3 percent) and $52.5 million (10.6 percent) lower than initial estimates. In contrast, stamp taxes significantly exceeded the forecast, by 56.8 percent or $81.6 million, reflecting the shift in the tax base on realty and financial transactions, from VAT to stamp tax. Likewise, receipts for licenses to conduct special business activity (mainly business licences) and banks and trust companies' taxes outperformed the budget projections, by 24.7 percent and 6.3 percent, respectively. Although general stamp taxes improved more than twofold to $9.9 million, the outcome was below forecast because of the decision not to proceed with the 5 percent tax on gaming house patrons, which was expected to yield an addition $10 million in revenue.

Collections from non-tax sources at $225.6 million surpassed the budget by 3.1 percent. Fees and service charges from the sale of goods and services, of $195.2 million, exceeded the forecast by 8.7 percent. Property income—comprising interest and dividend earnings and other revenue from Government owned property—were less than budgeted by 12.6 percent, or $2.8 million, at $19.6 million.

c. *Expenditure*

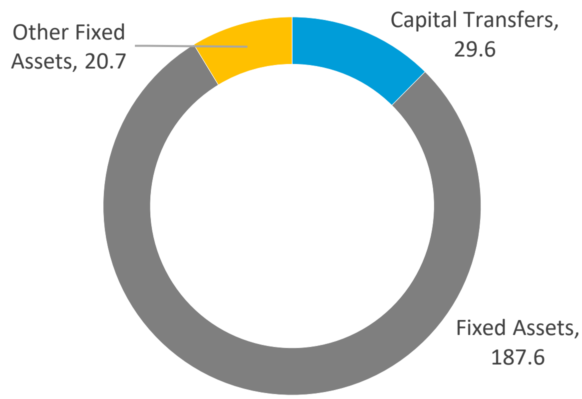
Aggregate expenditure at $2,635.2 million was $253.2 million (8.8 percent) below forecast and equated to an estimated 21.0 percent of GDP (see ***Table 3***). Growth in primary recurrent outlays—which excludes interest payments—was 6.7 percent or $150.8 million lower than projected. Timing-related factors affecting recruitment exercises throughout the public service was a key factor underlying the 10.3 percent below budget outlays for employee compensation. Expenditures on goods and services were 7.2 percent less than the target, owing mostly to the 38.6 percent underspend in tourism-linked payments. As part of a three-year plan to address the nearly $360 million in arrears payments, the Government settled $184.6 million in these liabilities during FY2018/19, the bulk of which are captured under the goods and services expense line item. Interest payments were 6.4 percent less than budgeted, while subsidies outpaced the forecast by 1.6 percent.

Figure 3: FY2018/19 Recurrent Expenditure (B$M)



Capital outlays, at $217.2 million (1.7 percent), were 27.4 percent under the forecast and nearly 19 percent or $51 million less than the FY2017/18 outlay which was boosted by the extraordinary $80 million write-off related to the settlement of Bahamas Resolve Limited's $100 million Promissory Note to the Bank of The Bahamas. This is reflected in the $49.0 million or 20.7 per cent underspend for the acquisition of fixed assets, which represented 86.4 percent of the total and included lower than forecasted expenditures for technology-related projects by various uniformed branches of the government and new transport equipment. Capital transfers, which cover payments associated with public private partnerships and subscriptions for membership in international agencies, were also 52.4 percent less than budgeted at $29.6 million.

Figure 4: FY2018/19 Capital Expenditure (B$M)



d. Financing Activities

The Government borrowed an aggregate of $1,094.2 million during FY2018/19 (see ***Table 4***), the bulk of which was facilitated in Bahamian dollars ($1,085.0 million). Of this total, approximately $809.7 million was earmarked against the FY2018/19 Borrowing Resolution, which allowed the Government to finance the deficit and refinance maturing debt budgeted at $709.4 million. In addition, $275.3 million was secured via Treasury bills and advances, while the remaining $9.2 million was facilitated by drawdowns on existing foreign currency loan facilities. Of the $801.1 million in debt repayment, approximately 89.5 percent settled Bahamian dollar obligations.

e. Direct Charge

Based on borrowings and debt repayment activities, the Government recorded an estimated net increase in its liabilities of $293.1 million—bringing the outstanding Direct Charge at end-June 2019 to an estimated $7,527.0 million or 60.0 percent of the revised GDP estimate. The latter compared with a Direct Charge position of $7,242.7 million or 58.9 percent of GDP at end-June 2017. Details on debt are provided in ***Section 6***.

Table 3: Detailed Summary of Provisional Fiscal Outturn, 2018/19 (B$M)

	FY2018/19			As Percent of GDP	
	Budget	Actual	Variance	Budget	Actual
TAX REVENUE					
Taxes on Property	132.2	109.3	-17.3%	1.1%	0.9%
Taxes on Goods & Services	1,773.1	1,633.6	-7.9%	14.1%	13.0%
VAT	1,059.6	896.1	-15.4%	8.4%	7.1%
Stamp Taxes (Financial & Realty)	143.7	225.3	56.8%	1.1%	1.8%
Excise Tax	296.8	242.0	-18.5%	2.4%	1.9%
Taxes on Specific Services (Gaming)	70.0	39.8	-43.2%	0.6%	0.3%
Motor Vehicle Taxes	36.2	35.4	-2.3%	0.3%	0.3%
Company Taxes	20.7	20.1	-2.9%	0.2%	0.2%
License to Conduct Special Bus. Act.	116.5	145.2	24.7%	0.9%	1.2%
Marine License Activities	3.6	2.2	-39.2%	0.0%	0.0%
Banks & Trust Companies	26.0	27.6	6.2%	0.2%	0.2%
Taxes on Int'l Trade & Transactions	496.5	444.0	-10.6%	4.0%	3.5%
General Stamp Taxes	28.1	9.9	-64.8%	0.2%	0.1%
TOTAL TAX REVENUE	2,429.9	2,196.8	-9.6%	19.4%	17.5%
NON-TAX REVENUE					
Property Income	22.4	19.6	-12.5%	0.2%	0.2%
Sales of Goods & Services	179.5	195.2	8.7%	1.4%	1.6%
Other	16.9	10.7	-36.5%	0.1%	0.1%
TOTAL NON-TAX REVENUE	218.8	225.5	3.1%	1.7%	1.8%
TOTAL TAX & NON-TAX REVENUE	2,648.7	2,422.3	-8.5%	21.1%	19.3%
CAPITAL REVENUE					
Capital Revenue	0.0	0.0	0.0%	0.0%	0.0%
Grants	2.2	0.1	-95.5%	0.0%	0.0%
TOTAL CAPITAL REVENUE	2.2	0.1	-95.5%	0.0%	0.0%
GRAND TOTAL ALL REVENUE	2,650.9	2,422.4	-8.6%	21.1%	19.3%
EXPENDITURES					
RECURRENT EXPENDITURE					
Compensation of Employees	793.6	711.9	-10.3%	6.3%	5.7%
Use of Goods & Services	637.5	591.6	-7.2%	5.1%	4.7%
Travel & Subsistence	8.9	9.6	7.9%	0.1%	0.1%
Rent	81.7	68.9	-15.6%	0.7%	0.5%
Utilities & Telecommunications	72.6	97.8	34.7%	0.6%	0.8%
Supplies & Materials	46.6	51.8	11.1%	0.4%	0.4%
Services	120.7	109.6	-9.2%	1.0%	0.9%
Minor capital repairs	5.1	4.4	-13.7%	0.0%	0.0%
Finance charges	34.6	26.1	-24.7%	0.3%	0.2%
Special Financial Transactions	124.1	121.2	-2.3%	1.0%	1.0%
Tourism Related	96.2	59.1	-38.6%	0.8%	0.5%
Local Gov't Districts	13.3	12.7	-4.5%	0.1%	0.1%
School Boards	5.9	5.8	-1.7%	0.0%	0.0%
Other	27.8	24.6	-11.4%	0.2%	0.2%
Public Debt Interest	346.8	324.5	-6.4%	2.8%	2.6%
Subsidies	386.4	392.7	1.6%	3.1%	3.1%
Grants	8.7	8.1	-6.9%	0.1%	0.1%
Social Assistance Benefits	51.3	46.2	-9.9%	0.4%	0.4%
Pensions & Gratuities	136.7	139.8	2.3%	1.1%	1.1%
Other Payments	228.2	203.3	-10.9%	1.8%	1.6%
TOTAL RECURENT EXPENDITURE	2,589.2	2,418.0	-6.6%	20.6%	19.3%
CAPITAL EXPENDITURE	299.3	217.2	-27.4%	2.4%	1.7%
TOTAL EXPENDITURE	2,888.5	2,635.2	-8.8%	23.0%	21.0%
FISCAL DEFICIT	-237.6	-212.8	-10.4%	-1.8%	-1.7%
Less: Public Debt Interest	346.8	324.5	-6.4%	2.8%	2.6%
PRIMARY DEFICIT	109.2	111.7	2.3%	0.9%	0.9%

MEMO: GDP $12,544 [B$M]

In other financing activities, the Government maintained its commitment to pursue prudent debt management strategies—incrementing sinking funds for future debt amortization by $46.5 million. At end-June 2019, the accumulated value for the three (3) arrangements earmarked for the retirement of external bonds stood at US$144.6 million, and the overall value of the two (2) local sinking funds was $9.6 million.

During FY2018/19, the Government engaged in several equity transactions, aggregating $73.1 million in value. These included a $43 million investment in Lucayan Renewal Holdings Ltd., the special purpose vehicle formed to hold the assets of the Lucayan hotel properties acquired in October 2018. The Government's intention is to dispose of these assets and, in March 2019, a letter of intent with signed with Royal Caribbean Cruises Ltd. and the ITM Group for the sale of the properties and the redevelopment of the Freeport Harbour. An additional $3.0 million in assets was included on the balance sheet, being the portion assessed as recoverable of the nearly $17.0 million budgeted settlement of defaulted credit facilities under the government's guaranteed education and hurricane loan programmes.

Table 4: Financing Activities in 2018/19 (B$M)

	FY2018/19		Variance
	Budget	Actual	
Overall Balance [Surplus/(Deficit]	**-237.6**	**-212.8**	**24.8**
Net Incurrence of Liabilities (a-b) [+]	**237.6**	**293.1**	**55.5**
a. Borrowings	947.0	1,094.2	147.2
b. Debt Repayment	709.4	801.1	91.7
Net Acquisition of Financial Assets [-]	46.4	119.6	73.2
Sinking Funds	46.4	46.5	0.1
Equity	0.0	73.1	73.1
Other Financing & Change in Cash Balance (incl. Overdraft) [()= increase]	-46.4	-39.3	7.1

Other equity transactions featured shareholder loans with a collective value of $25.750 million to two (2) public entities. In May, the Government granted HoldingCo2015 Ltd (HoldingCo), the vehicle created to hold the Government's 51.75% equity in Be Aliv Ltd (Aliv), a loan of $10.750 million to enable it to comply with Aliv's request for loan funding from its strategic partners to bridge emerging cash flow requirements. HoldingCo and the Government executed a promissory note, which provides for scheduled payments of principal and interest that mirror those to be received by HoldingCo from Aliv over the four-year loan period. In a similar transaction, the Government extended Bahamas Power & Light a six-month $15.0 million shareholder's loan, used to meet the company's debt amortization payments. The credit agreement between the Government and BPL provided for the loan to be repaid, in whole, by end-December 2019 and for the payment of interest at the 91-day Treasury bill rate.

3. ECONOMIC AND FISCAL OUTLOOK

3.1 Macroeconomic Outlook for the Medium Term

The 2019 FSR is being prepared against the backdrop of a synchronized moderation in global economic activity which, together with the impact of Hurricane Dorian, exert a downward impact on growth prospects for the Bahamian economy over the near to medium-term horizon.

According to the IMF's October 2019 WEO, global output growth for 2019 has been lowered by 0.2 percent since the July forecast, to 3.0 percent—the weakest level since 2009, firming thereafter to a moderately reduced 3.4 percent in 2020. Key drivers of this weakening are the intensified trade tensions and barriers between the United States and China which have dampened investment and manufacturing, alongside rising geopolitical uncertainties in Europe and the Middle East. Among the advanced economies, the growth estimate for the United States was revised downward by 0.2 percentage point to 2.4 percent for 2019 and is expected to weaken further to 2.1 percent in 2020, amid an assumed shift in the fiscal policy stance from expansionary to neutral.

On the domestic front, since the preparation of the FY2019/20 budget, which included forecasts for the two fiscal years to 2021/22, the IMF's GDP projections for the Bahamian economy have undergone a major revision to reflect both the changing global economic landscape and very early estimates of the impact of Hurricane Dorian. The most recent growth forecasts through the medium-term horizon, are provided in ***Table 5*** and ***Figure 5*** and are subject to revision as more comprehensive information becomes available on the extent of the impact of Hurricane Dorian on economic activity.

a. Pre-Hurricane Dorian

Pre-Hurricane Dorian, the Bahamian economy was expected to grow by 1.8 percent in 2019, an uplift from the 1.6 percent gain in 2018 and the average 0.2 percent contraction for the previous five years. The likelihood of this outcome was reinforced by the recent performance of the dominant tourism sector, which registered a strong 11.6 percent upturn in stayover visitor arrivals for the first 9 months of 2019 relative to the same period in 2018, alongside spending gains for the traditional hotel stays and the off-resort short-term vacation rental market. Sea arrivals were boosted by 10.1 percent over the period, to 4.1 million visitors. First port of entry data revealed a 15.6 percent hike in air arrivals to New Providence, while the hurricane-impacted islands of Abaco and Grand Bahama experienced declines of 14.7 percent and 7.9 percent, respectively.

Consistent with earlier expectations, economic conditions also benefitted from steady increases in construction output, linked to both foreign direct and domestic private sector investments, which supported ongoing improvement in employment. In the six months to May 2019, the number of employed persons grew by 4,330, which resulted in a 1.2 percentage point reduction in the jobless rate since November 2018, to 9.5 percent. Employment gains were private sector driven, with a 1.8 percent increase in the number of employed persons to 137,605. The number of discouraged workers also fell, by 2.0 percent over the six months, with New Providence registering a decline of 1.0 percent and Grand Bahama, 5.4 percent. However, the number of discouraged workers in Abaco grew by 7.3 percent.

Conditions in the real sector supported positive outcomes in the monetary sector, with healthy gains in external reserves since end-2018, of $352.1 million to $1,548.1 million at end-September 2019 for an improved import cover ratio estimated at a little over 21 weeks. There was also further recovery in private sector lending trends, as the rate of credit decline eased to 1.5 percent in the 12 months ended June 2019 from 3.8 percent in the year-earlier period.

Table 5: Macroeconomic Forecasts

	2019	2020	2021	2022	2023
	GDP Growth at Constant Prices (%)				
Pre-Dorian	1.8	1.7	2.1	1.7	1.6
Post-Dorian	0.9	-0.6	2.1	1.7	1.6
	GDP Growth at Current Prices (%)				
Pre-Dorian	6.7	3.4	3.8	3.9	3.8
Post-Dorian	1.9	1.2	3.9	3.5	3.5
	GDP Deflator (%)				
Pre-Dorian	1.5	1.8	2.3	2.4	2.3
Post-Dorian	1	1.8	1.8	1.8	1.9
	Inflation Rate - Period Average (%)				
Pre-Dorian	2.4	2.3	2.2	2.2	2.2
Post-Dorian	1.8	2.6	2.3	2.2	2.2

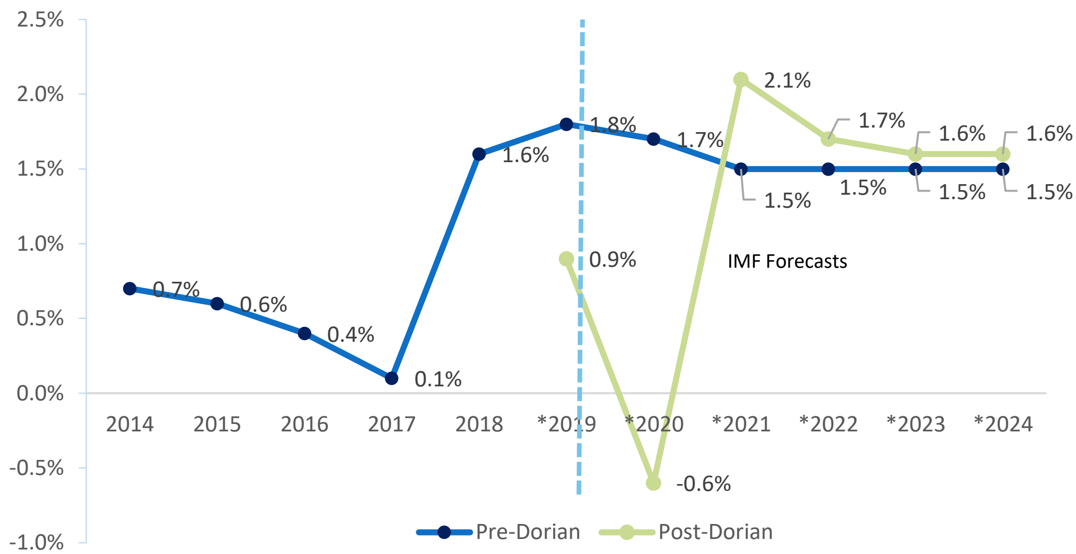
b. Post-Hurricane Dorian

Based on a very preliminary assessment of the impact of Hurricane Dorian, the real GDP growth projection for 2019 has been halved to 0.9 percent as assumptions now incorporate a projected falloff in visitor arrivals in the fourth quarter, amid the loss of accommodation facilities in Abaco and the Grand Bahama islands, which together account for approximately 12 percent of total stayover arrivals and 18 percent of sea visitors. This negative shock was evident from the September arrivals data, which, in the context closed airports and damaged ports, registered a 12.8 percent contraction when compared with the same period of 2018. Both air and sea visitors posted declines of 14.7 percent and 12.4 percent, respectively; and in the hurricane affected islands, Abaco recorded no arrivals vis-à-vis 2,383 a year earlier and visitors to Grand Bahama fell from 2,702 in September 2018 to 486 in 2019.

Given the importance of the tourism sector, the premise is that the spill-over effects from the loss of tourism-related income will be transmitted to other ancillary services sectors, such as the dominant transport and wholesale and retail trade. The impact will be most severe in Abaco and Grand Bahama where, prior to Hurricane Dorian, registered businesses numbered 1,752 and 1,812, respectively. Employment conditions in The Bahamas are also expected to worsen due to the disruption to business activity and productive capacity in both Abaco and Grand Bahamas, which account for 2.6 percent and 13.8 percent of the labour force, respectively.

The revised 2020 outlook is for the Bahamian economy to contract by 0.6 percent, contrasting with the previous forecast of a 1.7 percent expansion. This is driven by the assumed persistence of weakness in tourism activity into the first half of 2020, with the likelihood of a gradual recovery in the second half of 2020 being bolstered by the commencement of major private and public sector post-hurricane reconstruction and rehabilitation activities in Abaco and Grand Bahama. Notwithstanding this less optimistic outlook, the assumption of a tourism-led decline in real GDP for 2020 could be moderated by the probability of a more buoyant performance for tourist arrivals in the first quarter of 2020 over the corresponding 2019 period, as suggested by recent forward booking indicators. Positive opportunities also exist for shifting of displaced travel in the affected islands of Abaco and Grand Bahama to other island destinations within The Bahamas.

Figure 5: Real GDP and Forecasts (in percent)



Gains from both Government and private sector post-reconstruction activities in the hurricane affected islands, together with the impact of several large foreign direct investment (FDI) projects, are expected to underpin a rebound in GDP growth to an estimated 2.1 percent in 2021. These activities, alongside the Government's tax relief in the hurricane ravaged islands, to support and incentivize small business recovery, could result in near to full employment in the construction sector, restore previously lost jobs and increment direct and indirect final employment opportunities.

At the outer margins of the medium-term horizon, the IMF expects real GDP growth to ease to 1.7 percent in 2022, before gradually reverting to its long-term potential growth rate—projected at an average annual 1.6 per cent. The Government's ongoing commitment to growing the real sector, through the removal of structural impediments, and targeted initiatives to support both domestic and foreign direct investment, could improve this outlook.

On the prices front, the outlook is for the rate of inflation to firm to an average 2.3 percent in the medium term, influenced mainly by increases in import prices for fuel and construction materials.

Box A: Summary Macroeconomic Impact of Hurricane Dorian

Only two months into the new fiscal year, on September 1, 2019, Hurricane Dorian made landfall as a category 5 on Elbow Cay in the Abaco islands with wind speed of 185 mph and wind gust up to 220 mph, causing life-threatening storm surge of 18 – 23 feet above normal tide levels. The storm then moved westward towards Grand Bahama at a slow speed of approximately 1 mph, effectively stalling over the north of the island—exposing Grand Bahama to extreme winds, intense rainfall and strong storm surge. The monstrous hurricane, which decimated Abaco and Grand Bahama—our third and second largest economic cities, was deemed the second strongest ever recorded in the Atlantic Ocean, and the most dangerous to ever hit the northern Bahamas.

Hurricane Dorian carried with it significant social, economic and personal costs, which will impose an extraordinary burden on the public finances. Primary costs include emergency response services and relief activities, with post disaster expenditures having to cover reconstruction of public infrastructure (electricity and water) and buildings (e.g. clinics, hospitals, schools); and outlays on social, employment and economic recovery support programmes. The Government is also faced with the additional fiscal cost of revenue loss, as economic conditions on these islands, especially Abaco, were adversely impacted.

Following the passage of Hurricane Dorian, the Inter-American Development Bank (IDB), in conjunction with the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC), the Pan American Health Organization (PAHO) and the World Health Organization (WHO) conducted a Damage and Loss Assessment (DaLA) on the four primary sectors (social, infrastructure, productive and environment) on the affected islands. Costs were divided into three elements: direct physical damage, revenue and other income losses, and additional costs—mainly debris removal.

- The findings of the DaLa report placed the total estimated cost of damages at $2.5 billion—of which approximately 9 percent ($225 million) is attributed to the public sector and the remaining 91 percent ($2,275 million) for the account of the private sector.
- Total revenue and other income losses resulting from the Hurricane are estimated at $717.3 million, with the public sector accounting for 16 percent ($114.8 million).
- Additional costs, which mostly feature clean-up costs, were estimated at $220.9 million—of which $102.5 million (46.4 percent) was associated with the oil spill in Grand Bahama

Given the level of damages and losses incurred, the estimated economic impact of Hurricane Dorian is 1 percentage point of GDP. A breakdown by island showed that Hurricane Dorian claimed 7.1 percent of GDP in Abaco—which sustained 87 percent of total damages—and a lesser 1.9 percent in Grand Bahama.

By economic sectors, findings show that the bulk of the impact was in the social sector, which recorded estimated damages of $1,597.3 million, losses of $92.4 million, and additional costs of $82.3 million. Housing accounted for the majority of damages in the social sector, at an estimated cost of $1,487.2 million, as 9,000 homes were affected, accounting for over 11 million square feet of structures. Losses for this subsector are estimated at $65.0 million, which is primarily associated with the interruption in accommodation and rental services due to damages. Education and health accounted for less of the sector's total impact, with incurred estimated damages of $72.4 million and $37.7 million, respectively.

The productive sector, which includes tourism, commerce and fisheries and agriculture, sustained damages estimated at $620.7 million, losses at $400.3 million, and additional costs at $20.0 million. The tourism sector—which constituted 83.6 percent of the grouping—suffered damages estimated at $529.6 million, losses at $325.2 million and incurred additional costs of $15.2 million to facilitate clean-up. Infrastructure losses on both islands were estimated at $239.1 million in damages, principally associated with the power transmission and distribution networks on Abaco and a flooded power generation plant on Grand Bahama. Another $197.1 million in losses, and $16.2 million in additional costs related to extraordinary labour and labour support.

As suggested by the report, estimated transportation infrastructure damages of $51.0 million, inclusive of international airports on both Abaco and Grand Bahama, signal a slow recovery in the productive sector on these islands. In particular, the tourism sector is anticipated to sustain the bulk of its losses through the end of 2019, as a result of airport damages, and the hurricane's impact on The Bahamas' perception as a tourist destination. As a mitigating factor, the report acknowledged the Ministry of Tourism's increased marketing initiatives which could boost arrivals in the first quarter of 2020, as the airports, along with some hotels and properties return to market.

The DaLa report emphasized that the complete rehabilitation and restoration of the affected islands will take time, will alter the Government's fiscal consolidation plans, and that ensuring the efficient use of resources and the correct mix of policy measures, from both a monetary and fiscal perspective, will be essential to a quick and sustainable recovery.

3.2 Fiscal Adjustment Plan and Medium-Term Fiscal Outlook

Alongside the economic fallout reflected changes in both nominal and real GDP estimates, the direct and indirect fiscal costs associated with Hurricane Dorian and the additional expenditures identified below will materially revise the fiscal outturn expected for FY2019/20 and the most recent medium-term framework outlined in the 2018/19 Budget. The fiscal responsibility targets are presented in ***Table 6***; and the revised budget for FY2019/20 and the medium-term outlook through FY2024/25 for the key fiscal aggregates, based on the economic projections discussed above, are set out in ***Table 7***.

a. Pre-Hurricane Dorian

As presented in the pre-Hurricane Dorian 2019/20 budget, medium term fiscal projections had fully satisfied the legally defined targets for the overall deficit. For FY2019/20, the overall deficit to GDP forecast was equivalent to the statutory 1.0 percent, with projected outcomes for the subsequent two years slightly better than the targets, i.e., a deficit of 0.5 per cent of GDP in FY2020/21, trending lower to 0.1 percent relative to a mandated deficit target of 0.5 per cent of GDP. Based on this projected improvement in fiscal outcomes, debt was forecast to move along a declining trajectory, throughout the medium term, from 58.2 percent of GDP in FY2019/20 to 53.9 percent of GDP in FY2021/22. As cited in the 2018 FSR, the long-term debt fiscal objective of 50 percent was expected to be achieved by 2024/25.

Table 6: Fiscal Responsibility Targets

Fiscal Indicator	Objective
Debt Target	Reduce debt from 58.9 percent in FY2017/18 of GDP to a debt level of no more than 50 percent of GDP by 2024/25.
Fiscal Balance Target	FY2018/19: 1.8% FY2019/20: 1.0% FY2020/21: 0.5%
Recurrent Expenditure	After the attainment of a deficit *of no more than 0.5% of GDP,* the growth of recurrent expenditure shall not exceed the estimated long-term rate of growth of nominal GDP.

b. Post-Hurricane Dorian

Based on the initial assessments of the fiscal costs of Hurricane Dorian, it is unavoidable that the Government will miss the original targets for FY2019/20 through FY2021/22 established during the recent budget exercise. Dealing with these fiscal costs within the existing budget and medium-term framework would require unrealistically large spending cuts or new revenue measures—which would destabilize an economy already impacted substantially from the effects of Hurricane Dorian. Therefore, as permitted under the Act, the Government is invoking the Exceptional Circumstances clause (13), which allows for a temporary departure from the requirements of the fiscal objectives because of sudden and unexpected events arising, in this case, from a natural disaster—Hurricane Dorian. As requested by the Act, the Minister is to provide a Fiscal Adjustment Plan (FAP) to Parliament, setting out the reasons for departing from the requirements for the fiscal objectives in the First Schedule; and the measures and period of time the Government intends to take to return to compliance with these requirements.

Table 7: Medium-Term Fiscal Outlook (B$M)

Pre-Hurricane Dorian

	ACTUALS		BUDGET	FORECASTS				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	2,042.4	2,422.4	2,628.0	2,726.0	2,831.0	2,835.2	2,876.8	3,010.4
Recurrent	2,039.8	2,422.3	2,626.0	2,724.0	2,829.0	2,833.2	2,874.8	3,008.4
Capital & Grants	2.6	0.1	2.0	2.0	2.0	2.0	2.0	2.0
Expenditure	2,457.3	2,635.2	2,765.0	2,799.1	2,850.0	2,847.2	2961.9	3,079.0
Recurrent Expenditure	2,188.6	2,418.0	2,530.0	2,551.1	2,593.0	2,594.7	2,686.0	2,780.0
Capital Expenditure	268.7	217.2	235.0	248.0	257.0	252.5	275.9	299.0
Overall Balance: Surplus/(Deficit)	**(414.9)**	**(212.8)**	**(137.0)**	**(73.1)**	**(19.0)**	**(12.0)**	(85.1)	(68.6)
Less: Interest Payments	313.9	329.7	371.6	345.3	327.6	340.0	342.0	345.0
Primary Balance	**-101.0**	**116.9**	**234.6**	**272.2**	**308.5**	**328.0**	256.9	276.4
GDP (Current Prices)	12,287.5	12,843.3	13,486.0	13,970.5	14,508.0	15,065.5	15,628.0	16,211.5
Overall balance as % of GDP	-3.4%	-1.7%	-1.0%	-0.5%	-0.1%	-0.1%	-0.5%	-0.4%
Government Debt	7,242.7	7,527.0	7,612.0	7,685.0	7,704.0	7,752.0	7,875.1	7,981.8
Gov't Debt as % of GDP	58.9%	58.6%	56.4%	55.0%	53.1%	51.5%	50.4%	49.2%

Post-Hurricane Dorian

	ACTUALS		BUDGET	FORECASTS				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Revenue	2,042.4	2,422.4	2,395.6	2,556.2	2,697.7	2,805.1	2,876.8	3,010.4
Recurrent	2,039.8	2,422.3	2,393.5	2,554.2	2,695.7	2,803.1	2874.8	3008.4
Capital & Grants	2.6	0.1	2.1	2.0	2.0	2.0	2.0	2.0
Expenditure	2,457.3	2,635.2	3,073.1	3,055.1	2,998.9	3,043.7	2,999.4	3,092.4
Recurrent Expenditure	2,188.6	2,418.0	2,687.6	2,661.7	2,682.7	2,761.2	2723.5	2793.4
Capital Expenditure	268.7	217.2	385.5	393.4	316.2	282.5	275.9	299
Overall Balance: Surplus/(Deficit)	**(414.9)**	**(212.8)**	**(677.5)**	**(498.9)**	**(301.2)**	**(238.6)**	**(122.6)**	**(82.0)**
Less: Interest Payments	313.9	329.7	377.1	381.2	377.9	397.8	400.8	395.3
Primary Balance	**-101.0**	**116.9**	**-300.4**	**-117.7**	**76.7**	**159.2**	**278.2**	**313.3**
GDP (Current Prices)	12,287.0	12,544.3	12,739.5	13,064.5	13,549.5	14,025.5	14,519.0	15,027.2
Overall balance as % of GDP	-3.4%	-1.7%	-5.3%	-3.8%	-2.2%	-1.7%	-0.8%	-0.5%
Government Debt	7,242.7	7,527.0	8,204.5	8,703.4	9,004.6	9,243.2	9,365.8	9,447.8
Gov't Debt as % of GDP	58.9%	60.0%	64.4%	66.6%	66.5%	65.9%	64.5%	62.9%

Early estimates of the fiscal costs of Hurricane Dorian are presented in ***Table 8***. Recurrent outlays, updated to include emergency response and relief activities, clean-up, restoration of public infrastructure and buildings and the provision of various social assistance programmes, are estimated at $2,687.6 million. On the capital side, estimates of spending needs, at $385.5 million, are dominated by capital transfers to state-owned enterprises to rehabilitate and restore electricity and water supply infrastructure and to harden resilience to weather related events; and outlays for repairs to educational, health and administrative facilities and the acquisition of replacement vehicles. Given the disruption in business activities in both Abaco and Grand Bahama, revenue loss is estimated at a combined $565.8 million or an average 1.0 percent of GDP over the four affected years. Non-Hurricane Dorian costs (see discussion below) aggregate $119.9 million, comprising $69.4 million (57.9 percent) in current outlays and $50.5 million (42.8 percent) in capital outlays.

Table 8: Estimates of Hurricane Dorian Fiscal Costs (B$M)

	FY2019/20	FY2020/21	FY2021/22	FY2022/23
1. Recurrent Expenditure	82.7	24.7	0.0	0.0
Landfill operations	23.1	23.1	0.0	0.0
Unemployment Benefits	11.4	0.0	0.0	0.0
Subsistence/Support of Persons	3.5	0.0	0.0	0.0
Ministry of Disaster Preparedness	1.5	0.0	0.0	0.0
Uniform & Footwear Assistance	1.5	0.0	0.0	0.0
School Bus Service	2.0	0.0	0.0	0.0
National Lunch Benefit	2.5	0.0	0.0	0.0
Food Assistance Programme	3.9	0.0	0.0	0.0
Food & Drinking Water	1.5	0.0	0.0	0.0
Consultancy Services	3.6	1.6	0.0	0.0
Contingencies	1.5	0.0	0.0	0.0
Allowances	11.1	0.0	0.0	0.0
Supplies	5.4	0.0	0.0	0.0
Other (e.g. Security, advertising, etc.)	10.2	0.0	0.0	0.0
2. Capital Expenditure	100.0	85.0	29.2	0.0
Rehabilitation of Water Supply	6.0	2.3	0.3	0.0
Rehabilitation of Electricity Supply	40.0	32.3	7.7	0.0
Vehicles	1.8	0.7	0.0	0.0
Temporary Housing	16.5	19.5	2.3	0.0
Building Repairs	5.7	2.5	7.0	0.0
Small & Medium Size Business	7.0	3.0	2.5	0.0
Clinics Repairs	4.1	4.6	3.0	0.0
The Rand Hospital	3.0	13.0	1.0	0.0
Ministry of Disaster Preparedness	2.5	2.5	0.0	0.0
Office Equipment	1.0	0.0	0.0	0.0
Other Machinery & Equipment	6.0	4.6	3.6	0.0
Other (e.g. Research and surveys, etc.)	6.4	0.0	1.8	0.0
3. Revenue Loss	232.5	169.8	133.3	30
Abaco	100.3	87.9	65.4	13.1
Grand Bahama	132.2	81.9	67.9	16.9

c. Revenue Forecasts

The detailed revenue projections set out in ***Table 9*** were developed by staff at the Ministry of Finance, in consultation with the major revenue agencies, and adjusted for the Hurricane Dorian impacts. Based on the outturn for FY2018/19, Abaco and Grand Bahama contributed approximately 6.4 percent and 7.3 percent, respectively, to aggregate revenue—mostly in the form of VAT, customs duties, real property taxes, business licence, departure taxes and other customs fees and charges.

- **FY2019/20**: Revised estimates are reduced from the pre-Hurricane Dorian 19.5 percent of GDP down to 18.8 percent of GDP—being adjusted for the assumed revenue losses stemming from Hurricane Dorian. For both Abaco and Grand Bahama, the latter is 100 percent revenue loss for ten months of FY2019/20 (i.e., from September 2019 to June 2020)—which equate to a combined estimated 1.8 percent of GDP.

- **FY2020/21 to FY2023/24:** Revenue is assumed to be a fixed ratio to nominal GDP of, on average, approximately 19.8 percent—adjusted to account for the diminishing revenue losses linked to Hurricane Dorian. In line with the expected recovery in economic activity, staggered rates of revenue losses were assumed for the three fiscal years through 2022/23—decreasing from 70 percent to 10 percent for Abaco, and from 50 percent to 10 percent for Grand Bahama. Across the medium-term forecast years, cumulative Hurricane Dorian estimated revenue losses are in the region of just over $333 million, for an average 0.8 percent of GDP.

- **FY2024/25:** Revenue is assumed to stabilize at around 20 percent of GDP, as the economy stabilizes.

d. Recurrent Expenditure Forecasts

Recurrent expenditure forecasts developed by Ministry of Finance staff, in consultation with line Ministries and Departments, were made to conform, in the aggregate, to the overall level of recurrent expenditure set out in the fiscal framework in ***Table 10***. The pre-Dorian projections reflect the Government's overarching policy commitment to maintain the level of recurrent expenditure at no more than 20 per cent of GDP through the medium-term fiscal planning horizon, and to restrain the growth of primary recurrent expenditure—recurrent spending less interest payments—to 2.5 percent.

i. FY2019/20

Post-Dorian costs are estimated to elevate recurrent outlays in FY2019/20, by $157.6 million (6.2 percent) to $2,687.6 million which is approximately 21.1 percent of GDP compared with a corresponding pre-Dorian estimate of 18.8 percent.

- Hurricane Dorian related outlays, as outlined in table 8, aggregate $82.7 million or 0.6 percent of GDP, with non-Hurricane Dorian expenditures at $69.4 million or 0.5 percent of GDP.

- As disclosed in the 2019/20 Budget Communication, pursuant to the April 2011 Shareholders' Agreement (SA) between the Government and C&W, (when the Bahamas Telecommunications Company (BTC) was sold to Cable & Wireless Communications Ltd. (C&W) for $210 million in April 2011), the Government was required to inject an initial $39 million into a Feeder Trust and annual top-ups, as required, to fund future pension obligations

Table 9: Medium-term Revenue Estimates (B$M)

	ACTUALS		BUDGET	FORECASTS				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
TAX REVENUE (a+b+c+d)	**1,835.8**	**2,196.8**	**2,107.7**	**2,259.1**	**2,388.3**	**2,480.1**	**2,543.6**	**2,662.3**
a. Taxes on Property	**123.6**	**109.3**	**113.6**	**130.2**	**143.5**	**148.3**	**152.2**	**159.1**
b. Taxes on Goods & Services (i+ii+iii)	**1,275.8**	**1,633.7**	**1,547.4**	**1,651.2**	**1,736.5**	**1,804.2**	**1,850.4**	**1,936.4**
i. General	**1,046.9**	**1,363.4**	**1,329.6**	**1,424.2**	**1,501.4**	**1,558.1**	**1,598.0**	**1,672.7**
VAT	680.6	896.1	973.3	1,028.8	1,087.6	1,127.0	1,155.9	1,209.5
Stamp Taxes (Financial & Realty)	109.5	225.3	101.5	105.3	109.4	114.9	117.8	123.1
Excise Tax	256.8	242.0	254.8	290.1	304.5	316.2	324.3	340.1
ii. Specific (Gaming taxes)	**37.2**	**39.8**	**36.2**	**37.5**	**39.0**	**41.0**	**42.0**	**43.9**
iii. Taxes on Use of Goods/Permission to Use	**191.7**	**230.5**	**181.6**	**189.4**	**196.0**	**205.1**	**210.3**	**219.8**
Motor Vehicle Taxes	36.6	35.4	38.8	40.2	40.8	42.9	43.9	45.9
Company Taxes	21.0	20.1	25.4	26.4	27.4	28.8	29.5	30.8
Licence to Conduct Special Bus. Activity	113.4	145.2	114.9	120.2	125.1	130.6	133.9	139.9
Marine License Activities	2.5	2.2	2.0	2.1	2.1	2.2	2.3	2.4
Banks & Trust Companies	18.2	27.6	0.6	0.6	0.6	0.6	0.7	0.7
c. Taxes on Int'l Trade & Transactions	**432.0**	**443.9**	**436.4**	**466.9**	**497.1**	**515.8**	**529.0**	**554.2**
Customs & other import duties	270.4	284.0	282.2	303.1	325.7	338.0	346.7	363.6
Taxes on Exports	18.3	12.5	8.8	10.2	11.4	11.5	11.8	12.4
Departure Taxes	143.2	147.2	145.4	153.6	160.0	166.3	170.5	178.3
Other	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
d. General Stamp Taxes	**4.4**	**9.9**	**10.4**	**10.8**	**11.2**	**11.8**	**12.1**	**12.6**
NON-TAX REVENUE (e+f+g+h+i+j)	**204.0**	**225.6**	**285.9**	**295.1**	**307.4**	**323.0**	**331.2**	**346.0**
e. Property Income	**23.0**	**19.6**	**39.5**	**41.4**	**43.6**	**45.8**	**47.0**	**49.1**
Interest & Dividends	6.6	5.4	24.6	26.5	28.5	30.0	30.7	32.1
Revenue_Gov't Property	16.4	14.2	14.8	15.0	15.1	15.9	16.3	17.0
f. Sales of Goods & Services	**163.4**	**195.2**	**206.5**	**211.5**	**219.0**	**230.1**	**235.9**	**246.5**
i. Fees & Service Charges	**145.3**	**174.4**	**185.8**	**189.9**	**196.6**	**206.6**	**211.8**	**221.4**
General Registration	4.7	5.6	6.4	6.6	6.9	7.2	7.4	7.8
General Service	14.1	13.5	15.0	15.6	16.2	17.0	17.4	18.2
Immigration	63.6	92.7	97.3	98.1	102.3	107.5	110.2	115.2
Land & Building	2.2	2.5	2.6	2.7	2.8	3.0	3.0	3.2
Legal	5.6	1.1	1.3	1.3	1.4	1.4	1.5	1.5
Customs	46.2	50.3	53.6	55.7	56.8	59.7	61.2	64.0
Port & Harbour	7.2	6.6	7.0	7.3	7.6	8.0	8.2	8.5
Health	1.0	1.5	1.9	2.0	2.0	2.1	2.2	2.3
Other Fees	0.7	0.6	0.6	0.6	0.6	0.7	0.7	0.7
ii. Other	**18.1**	**20.8**	**20.8**	**21.5**	**22.4**	**23.5**	**24.1**	**25.2**
g. Fines, Penalties & Forfeits	1.2	5.4	6.1	6.3	6.6	6.9	7.1	7.4
h. Reimbursements & Repayments	0.2	0.2	27.6	29.6	31.7	33.3	34.1	35.671
i. Misc. & Unidentified Revenue	14.9	2.5	2.5	2.6	2.7	2.9	2.9	3.055
j. Sales of Other Non-Financial Assets	1.3	2.7	3.7	3.7	3.9	4.0	4.2	4.3
TOTAL TAX & NON-TAX REVENUE	**2,039.8**	**2,422.3**	**2,393.6**	**2,554.2**	**2,695.7**	**2,803.1**	**2,874.8**	**3,008.4**
Grants	2.6	0.0	2.0	2.0	2.0	2.0	2.0	2.0
Capital Revenue	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0
GRAND TOTAL	**2,042.4**	**2,422.4**	**2,395.6**	**2,556.2**	**2,697.7**	**2,805.1**	**2,876.8**	**3,010.4**

relating to BTC's defined benefit plan. According to the recent actuarial assessment, the deficit in the plan is pegged at nearly $160 million. To satisfy this legal obligation, the Government is proposing to do so over eight years, making annual contributions of $20.0 million, commencing in FY2020/21.

- Given the pressing need to make various HR reforms and increase technical capacity across the public sector to enable the Government to deal more effectively with its administrative and policy agenda, the Government has provisioned an aggregate of $130 million to be spent—with $30 million for FY2019/20 and the balance spread almost equally over the ensuing three fiscal years.
- In keeping with good governance, the Government is regularizing several supplementary outlays made relative to the Lucayan Renewal Holdings limited ($16.1 million)—part of which will be recouped from the pending sale of the properties; for the upkeep of parks and beaches, and towards the operating cost of the Public Hospital Authority.
- Interest costs associated with increased borrowings requirements is assumed to add an additional $263.6 million (9.7 percent) to the forecast spend across the budget and medium-term horizon.

ii. ***FY2020/21 to FY2024/25***

- Estimates of current outlays include a further nearly $25.0 million in Hurricane Dorian related outlays in FY2020/21, the annual provision ($20 million) for the BTC pension liability and the previously mentioned provision for HR reforms.
- In FY2022/23, the Government has made a $100 million provision for a possible outlay related to Resolve Bahamas Limited. See section 5.6 for a full discussion of this matter.
- Benefits from the ongoing rationalization initiatives with the state-owned enterprises (SOEs) are expected to deliver cost savings—building from 5 percent of the budgeted subventions in FY2021/22 to 10 percent for FY2022/23 through FY2023/24 and further to 15 percent for FY204/25. See section 5.3 for a discussion of SOE risks and mitigation initiatives.

The Government is committed to maintaining a close rein on expenditure, and acknowledges that these estimates are both contingent on a sustained recovery in the economy from 2021 onwards and its commitment to exercise fiscal discipline. Should developments through the medium-term feature budgetary pressures in specific areas of expenditure, the Government will implement the necessary reallocation of spending among the various spending items to ensure compliance with the revised fiscal plan.

The two (2) tables that follow present the details of recurrent expenditure using the economic classification (Table 8) and the administrative breakout (Table 9). The exercise to complete the functional classification of expenditures consistent with the disaggregated requirements under the IMF's 2014 classification scheme is still ongoing, and the Government intends to commence reporting on this basis by the release of its third quarterly fiscal report for FY2019/20.

Table 10: Medium-term Recurrent Expenditure Estimates by Economic Classification (B$M)

	ACTUALS		BUDGET	FORECASTS				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Compensation of Employees	**728.7**	**711.9**	**787.2**	**791.3**	**825.1**	**825.6**	**852.3**	**882.0**
Wages & Salaries	638.5	621.6	671.7	688.7	720.2	720.7	746.1	772.2
Allowances	58.2	59.1	82.0	67.2	68.5	68.6	68.6	70.8
NIB Contribution	32.0	31.2	33.5	35.5	36.4	36.4	37.7	39.0
Use of Goods & Services	**449.0**	**591.6**	**659.1**	**681.0**	**671.3**	**761.6**	**658.0**	**697.0**
of which:								
Travel & Subsistence	9.1	9.6	23.0	20.5	21.0	21.0	21.8	22.6
Rent	43.9	68.9	70.3	70.1	70.4	70.5	73.0	75.5
Utilities & Telecoms	67.1	97.8	88.0	94.0	98.3	98.3	104.8	111.5
Supplies & Materials	70.0	51.8	52.4	58.9	65.6	65.3	68.7	84.2
Services	84.0	109.6	224.0	227.0	212.1	212.3	219.7	227.4
Minor capital repairs	4.8	4.4	5.2	5.9	6.2	6.2	6.5	6.8
Finance charges	37.0	26.1	45.6	42.0	38.5	38.6	39.9	41.3
Special Financial Transactions	25.4	121.2	110.6	124.0	120.2	210.2	82.9	85.7
Tourism Related	64.9	59.1	10.0	10.0	10.0	10.0	10.4	10.7
Local Gov't Districts	13.5	12.7	13.1	13.2	13.5	13.7	14.1	14.6
School Boards	5.7	5.8	0.1	0.2	0.2	0.1	0.1	0.2
Other	23.6	24.6	16.8	15.3	15.5	15.5	16.0	16.5
Public Debt Interest	**313.9**	**324.5**	**377.1**	**381.2**	**377.9**	**397.8**	**400.8**	**395.3**
Subsidies	**327.8**	**392.7**	**382.6**	**357.1**	**343.2**	**326.9**	**345.12**	**347.7**
Grants	**7.6**	**8.1**	**9.2**	**9.2**	**9.4**	**9.4**	**9.4**	**9.4**
Social Assistance Benefits	**38.1**	**46.2**	**58.8**	**49.2**	**51.5**	**51.5**	**53.3**	**55.5**
Pensions & Gratuities	**127.5**	**139.8**	**140.7**	**140.9**	**146.7**	**146.7**	**151.9**	**157.2**
Other Payments	**196.0**	**203.3**	**273.0**	**251.7**	**257.7**	**241.6**	**252.6**	**249.3**
Current Transfers n.e.c.	128.8	150.5	195.5	173.6	165.2	149.1	156.3	149.6
Insurance Premiums	67.2	52.8	77.5	78.1	92.5	92.5	96.3	99.6
TOTAL	**2,188.6**	**2,418.0**	**2,687.6**	**2,661.7**	**2,682.7**	**2,761.2**	**2,723.5**	**2,793.4**
			(in percent of GDP)					
Total Recurrent Expenditure	17.8	19.3	21.1	20.4	19.8	19.7	18.8	18.6
Compensation of Employees	5.9	5.7	6.2	6.1	6.1	5.9	5.9	5.9
Use of Goods & Services	3.7	4.7	5.2	5.2	5.0	5.4	4.5	4.6
Public Debt Interest	2.6	2.6	3.0	2.9	2.8	2.8	2.8	2.6
Subsidies	2.7	3.1	3.0	2.7	2.5	2.3	2.4	2.3
Social Assistance Benefits	0.3	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Pensions & Gratuities	1.0	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Other Payments	1.6	1.6	2.1	1.9	1.9	1.7	1.7	1.7

Table 11: Recurrent Expenditure Estimates by Administrative Classification (B$M)

	ACTUALS		BUDGET	FORECASTS				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Governor General & Staff	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.3
The Senate	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4
House of Assembly	2.1	2.1	6.6	6.6	6.6	6.6	6.8	7.0
Dept. of the Auditor General	2.1	2.2	3.2	3.4	3.8	3.9	4.0	4.2
Department of Public Service	219.7	246.4	288.0	288.5	318.7	318.7	330.5	342.0
Cabinet Office	6.6	7.1	7.7	7.5	8.3	8.3	8.5	8.8
Attorney General's Office	18.8	18.0	19.1	19.2	19.3	19.3	19.9	20.6
Judicial Department	13.3	12.5	13.9	14.6	14.8	14.8	15.3	15.8
Court of Appeal	1.9	2.0	2.2	2.4	2.6	2.6	2.6	2.7
Registrar General's Department	3.4	3.4	3.7	3.9	4.0	4.0	4.1	4.3
Prison Department	24.6	27.3	28.9	31.0	32.7	32.8	33.8	35.0
Parliamentary Registration Dept	1.1	0.7	1.3	1.8	2.8	2.8	2.9	3.0
Ministry of Foreign Affairs	30.0	30.7	33.7	35.0	35.9	36.0	36.8	37.8
Office of the Prime Minister	10.2	18.9	26.7	25.1	25.5	25.5	25.3	25.8
Bahamas Info Service Dept	2.2	2.0	2.0	2.0	2.1	2.1	2.1	2.2
Government Printing Dept	1.5	1.5	1.5	1.6	1.6	1.7	1.8	1.8
Department of Local Government	22.9	25.4	26.3	26.7	27.0	27.2	28.3	29.3
Department of Physical Planning	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.9
Dept of Lands & Surveys	1.4	1.2	2.8	2.3	2.4	2.4	2.5	2.5
Ministry of Finance	216.5	291.0	280.6	267.2	244.4	301.3	193.4	194.7
Treasury Department	414.7	62.8	109.2	114.1	118.4	118.4	122.3	127.0
Customs Department	36.9	35.9	36.2	36.6	36.8	37.0	38.0	39.3
Department of Statistics	2.8	2.8	5.2	5.6	5.6	5.6	5.8	6.0
Public Debt Servicing -Interest	0.0	350.6	377.1	381.2	377.9	397.8	400.8	395.3
Department of Inland Revenue	6.1	15.2	6.3	6.3	6.4	6.4	6.6	6.8
Ministry of National Security	12.3	5.2	6.7	7.0	7.4	7.4	7.6	7.8
Department of Immigration	21.3	31.7	37.6	37.5	37.7	37.7	38.9	40.2
Royal Bahamas Police Force	127.2	122.0	125.8	129.9	129.3	129.3	133.4	138.1
Royal Bahamas Defence Force	54.8	57.2	60.8	60.2	61.0	61.0	63.0	65.1
Ministry of Public Works	37.3	77.1	53.4	57.6	58.8	58.8	61.7	64.8
Department of Public Works	17.8	17.0	17.7	18.4	19.2	19.2	19.8	20.5
Department of Education	194.2	194.1	211.1	207.5	222.9	223.1	230.7	239.1
Department of Archives	0.6	0.6	0.7	0.8	0.8	0.8	0.8	0.9
Ministry of Education & Training	86.4	103.9	111.0	110.1	111.2	111.7	115.3	119.8
Ministry of Transport & Local Government	8.6	8.6	9.7	9.8	10.0	10.0	10.3	10.8
Ministry of Social Services	10.2	10.5	11.0	11.1	11.2	11.3	11.5	11.7
Social Service Department	38.3	34.4	49.1	41.1	42.3	42.3	43.7	45.1
Department of Housing	2.5	1.8	2.5	2.7	2.7	2.7	2.8	2.9
Ministry of Youth Sports & Culture	24.3	20.6	24.1	23.3	23.5	23.6	23.9	24.6
Labor Department	2.2	2.2	2.4	2.5	2.5	2.5	2.6	2.7
Ministry of Financial Services, Trade & Industry	2.1	2.0	2.1	2.3	2.4	2.4	2.5	2.5
Post Office Department	6.7	6.4	6.7	7.3	7.5	7.5	7.8	8.0
Port Department	6.3	7.8	8.9	9.2	10.0	10.0	10.4	10.8
Department of Road Traffic	4.6	4.5	4.7	5.3	5.5	5.5	5.7	5.9
Department of Meteorology	2.0	2.3	2.5	2.6	2.6	2.6	2.7	2.8
Ministry of Agriculture & Marine Resources	21.5	20.7	26.1	25.5	26.5	26.5	26.5	26.4
Department of Agriculture	5.6	5.7	6.5	6.3	6.5	6.5	6.7	6.9
Department of Marine Resources	2.6	2.3	2.4	2.8	2.9	2.9	3.0	3.1
Ministry of Health	277.8	299.4	324.5	305.7	306.8	306.8	318.0	331.7
Department of Environmental Health Services	33.5	46.7	76.6	77.8	55.9	55.9	57.8	59.8
Ministry of Tourism & Aviation	105.2	114.1	130.4	130.1	131.4	131.4	135.1	137.3
Ministry of Labour	3.5	5.3	8.5	8.6	8.7	8.7	8.9	9.2
Ministry of Environment & Housing	25.7	25.0	41.2	32.8	31.4	31.4	31.8	32.9
Department of Transformation & Digitization	2.8	17.5	26.0	27.3	29.6	29.7	30.8	31.9
Ministry for Grand Bahama	10.1	10.0	12.7	13.9	14.7	14.7	15.2	15.7
GRAND TOTAL	**2,188.3**	**2,418.0**	**2,687.6**	**2,661.7**	**2,682.6**	**2,761.2**	**2,723.5**	**2,793.4**

e. Capital Expenditure

The Pre-Dorian capital expenditure forecasts, as presented in ***Table 12***, maintain the level of outlays up to 1.8 per cent of GDP. The bulk of the spend (approximately 70 per cent, on average) is earmarked for the acquisition of non-financial assets, mainly the provision of infrastructure, such as roads, schools etc. Based on the administrative classification (see ***Table 11***), these outlays are largely concentrated within the Ministry of Works, followed by the Ministry of Finance and the Ministry of Education & Training.

Table 12: Capital Expenditure by Economic Classification (B$M)

	ACTUALS		BUDGET	FORECASTS				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Capital Transfers	**40.0**	**29.6**	**162.2**	**115.5**	**62.8**	**49.9**	**54.9**	**59.0**
Acquisition of Non-financial assets	**228.7**	**187.6**	**223.2**	**277.8**	**253.3**	**232.6**	**221.0**	**240.0**
Fixed Assets	**228.7**	**187.6**	**218.5**	**272.8**	**248.3**	**227.6**	**217.0**	**236.7**
Buildings other than dwellings	54.1	62.2	61.4	79.3	79.1	71.6	**78.4**	84.2
Other structures	64.9	83.7	97.0	100.1	74.9	74.3	**78.5**	84.2
Transport equipment	15.0	10.3	6.6	5.5	5.6	5.6	**6.0**	6.2
Other Machinery & equipment	4.4	10.0	41.2	74.3	78.5	66.0	**38.0**	40.0
Land Improvements	**1.2**	**0.8**	**3.2**	**1.2**	**1.2**	**1.2**	**1.2**	1.2
Other Fixed Assets	89.1	20.7	9.1	12.5	9.0	8.9	14.9	20.9
Land	**0.0**	**0.0**	**4.8**	**5.0**	**5.0**	**5.0**	**4.0**	3.3
TOTAL	**268.7**	**217.2**	**385.5**	**393.4**	**316.2**	**282.5**	**275.9**	**299.0**
			(in percent of GDP)					
Capital Transfers	0.3	0.2	1.3	0.9	0.5	0.4	0.4	0.4
Acquisition of Non-financial Assets	1.9	1.5	1.8	2.1	1.9	1.7	1.5	1.6
Total Capital Expenditure	2.2	1.7	3.0	3.0	2.3	2.0	1.9	2.0

Post the approved FY2019/20 budget, new capital outlays identified aggregated $385.1 million, with the capital to GDP ratio set to move from a peak of 3.0 percent in FY2019/20 to a low of 1.9 percent in FY2023/24, before rising to 2.0 percent in FY2024/25.

- Hurricane Dorian related outlays, at an estimated $214.2 million, are spread across FY2019/20 ($100.0 million, FY2020/21 ($85.0 million) and FY2021/22 ($29.2 million). As outlined in ***Table 8***, the bulk of these expenditures will be capital transfers to state-owned enterprises, the Bahamas Power & Light ($85 million), and the Water & Sewerage Corporation ($15 million) to facilitate the restoration of critical electricity and water supply services in both Abaco and Grand Bahama.

- To complement ongoing policy imperatives related to enhanced economic and disaster resilience and stability, the Government intends to acquire, at a cost of $30 million, a mobile gas turbine generator plant.

- Hurricane Dorian has reinforced the need for the Government to proactively pursue plans to introduce transformational initiatives to modernize the energy sector, through diversifying the energy matrix with cleaner, reliable, cost-efficient and indigenous renewable energy sources. The Government proposes to seek some $100 million in multilateral creditor funding, to be drawn over the course of three years beginning in FY2020/21, as a direct investment into solar energy plans within selected Family Islands. This investment is to be made within the context of a special purpose vehicle, to facilitate a planned privatization to Bahamians, upon completion of the project.

- Brought forward project costs to deal with critical renovation/upgrade works at the Princess Margaret Hospital are pegged at $20.5 million and $20.4 million, for FY2019/20 and FY2020/21, respectively.

Table 13: Capital Expenditure by Administrative Classification (B$M)

	ACTUALS		BUDGET	FORECASTS				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Ministry of Foreign Affairs	0.0	0.1	2.0	3.0	3.0	3.0	3.0	2.6
Cabinet Office	0.0	0.0	2.8	2.4	1.2	0.0	0.0	0.0
Office of The Attorney General	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Office of The Prime Minister	0.0	0.0	6.7	4.0	0.0	0.0	0.0	0.0
Treasury Department	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Customs Department	0.0	0.0	3.4	5.0	4.0	2.0	2.0	2.0
Department of Inland Revenue	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Department of Labour	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Ministry for Grand Bahama	0.0	0.0	1.3	0.5	0.5	0.0	0.0	0.0
Ministry of Finance	125.5	51.9	160.7	144.1	97.9	78.3	57.5	66.6
Ministry of National Security	0.0	4.4	12.0	14.0	14.0	14.0	13.2	13.2
Department of Immigration	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Royal Bahamas Defence Force	17.5	7.8	8.9	10.0	8.0	8.0	11.8	15.2
Ministry of Public Works	91.9	96.1	94.1	101.0	96.0	97.4	97.9	99.1
Ministry of Education & Training	33.9	43.7	52.3	52.9	58.0	51.1	56.4	61.0
Department of Housing	0.0	1.2	3.0	3.8	3.0	3.0	4.2	5.4
Ministry of Agriculture & Fisheries	0.0	0.6	0.8	0.8	0.8	0.8	0.8	0.8
Department of Marine Resources	0.0	0.0	0.4	0.0	0.0	0.0	0	0
Ministry of Health	0.0	9.3	22.1	38.5	16.5	12.0	13.2	14.7
Ministry of the Environment & Housing	0.0	2.1	4.3	3.2	3.5	3.3	3.33	3.33
Ministry of Tourism & Aviation	0.0	0.0	2.0	2.0	2.0	2.0	2	2
Department of Transformation & Digitization	0.0	0.0	7.5	7.6	7.1	7.0	10	12.5
Ministry of Transport & Local Government	0.0	0.0	0.6	0.5	0.5	0.5	0.5	0.5
TOTAL	**268.7**	**217.2**	**385.5**	**393.4**	**316.2**	**282.5**	**275.9**	**299.0**

3.3 Overall Balance and Debt Financing

Table 13 sets out the anticipated overall balance for the medium-term forecast horizon through FY2024/25, alongside the structure of budget financing. The pre-Dorian Budget provided for borrowings to cover the projected overall deficit of $137 million, and to refinance maturing debt placed at $628.0 million.

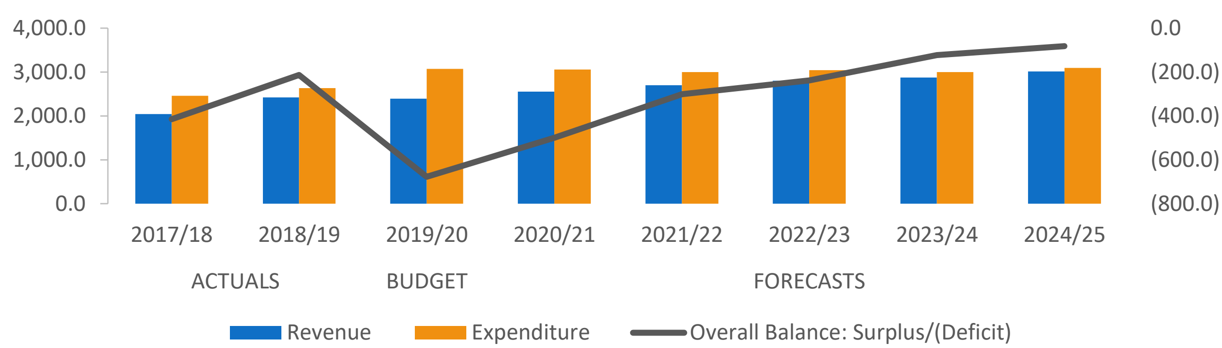
Using these planning revenue and expenditure assumptions, the deficit is projected to rise significantly to $677.5 million—equivalent to an estimated 5.3 percent of GDP—compared with a pre-hurricane target of 1.0 percent. Given the multi-year nature of the cost impacts, a higher deficit of $498.9 million (3.8 percent) is envisaged for FY2020/21, with a steady tapering-off over the medium-term forecast horizon, to $82.0 million (0.5 percent of GDP) in FY2024/25. **It is therefore projected that the Government's departure from the fiscal targets will span the next five budget periods, with compliance resuming in FY2024/25, when the deficit to GDP ratio is projected to converge to 0.5%--the legally binding fiscal objective.**

As set out in ***Table 14***, the enlarged projected deficits will elevate gross financing needs across the revised FY2019/20 budget position and the medium-term horizon. For FY2019/20, the incremental estimated funding requirement of $507.9 million represents 4.0 percent of GDP. The Government is committed to pursuing a path of fiscal prudence and, to the extent possible, will explore all opportunities for rationalizing expenditures over the course of the medium-term horizon. However, given the limited scope available for further adjustments and the less than favourable outlook for economic growth, it is anticipated that the additional requirements will be funded from borrowings. So far, confirmed and available sources are the IDB $100 million contingent credit line, $20 million of the extinguished dormant account proceeds and the $12.8 million pay-out from the CCRIF. To cover the balance of financing requirement, the Government is presently exploring funding opportunities from other multilateral institutions and banks—both international and domestics – and the possibility of a bond offering. In FY2022/23, the Government's prospective sale of its shares in Aliv is expected to reduce financing requirements by at least $73.0 million—the initial purchase cost of these assets; and in FY2023/24, sale proceeds from the proposed solarization SVP are expected to lessen borrowing requirements.

Table 14: Sources of Budget Financing through the Medium Term (B$M)

	Actuals		Budget	Forecasts				
	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Overall Balance [Surplus/(Deficit]	**-414.9**	**-212.8**	**-677.5**	**-498.9**	**-301.3**	**-238.6**	**-122.6**	**-82.0**
Net Incurrence of Liabilities (a-b) [+]	**701.1**	**293.1**	**677.5**	**498.9**	**301.3**	**238.5**	**122.6**	**82.0**
a. Borrowings	1,989.7	1,094.2	1,385.5	1,051.0	739.9	808.1	753.2	373.5
b. Debt Repayment	1,288.6	801.1	708.0	552.1	438.6	569.6	630.6	291.5
Net Acquisition of Financial Assets [-]	25.4	119.6	46.5	46.5	46.5	46.5	46.5	46.5
Sinking Funds	5.4	46.5	46.5	46.5	46.5	46.5	46.5	46.5
Equity	20.0	73.1	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing & Change in Cash Balance (incl. Overdraft) [()= increase]	260.8	-39.3	-46.5	-46.5	-46.5	-46.6	-46.5	-46.5

Figure 6: Summary of Fiscal Data (B$M)



Unexpected costs associated with Hurricane Dorian, together with the other expenditure imperatives, will cause a temporary increase in the Government's funding requirements and debt profile over the medium term. Total public debt is estimated to increase to $8,217.0 million or nearly 65.0% of GDP in FY2019/20 compared with the pre-Dorian estimate of 56.4%. During the medium term, the debt ratio is forecast to rise further to 66.9% in FY2020/21, declining steadily thereafter to 63.8 percent in FY2024/25, as the fiscal deficit converges to the previous consolidation path, thereby reducing borrowing needs. Given the debt objective of 50 percent of GDP, the Government acknowledges the need to revise its previous timeline for this achievement, from FY2024/25 to FY2028/29. A more comprehensive presentation of debt trends, within the context of the debt sustainability analysis, is outlined in Section 6.

3.4 Fiscal Responsibility

The Act prescribes that Government must manage its fiscal affairs in accordance with the principles of accountability, intergenerational equity, responsibility, stability and transparency.

Since FY2017/18, budgetary practices have been characterized by enhanced transparency and accountability. Today, the public has enhanced access to more frequent publication of budgetary performance information and in a user-friendly format; the Government has demonstrated its commitment to macroeconomic stability having successfully achieved substantive fiscal consolidation over the past three years; and accountability is to be enhanced by the recently established Fiscal Responsibility Council. The Government's convergence with the IMF's Government Finance Statistics classification system, also brings its presentation of the fiscal information in line with international standards enhancing comparability and transparency. Governance of the public finances will soon be strengthened by the Public Procurement Bill, the Public Debt Management Bill and the Public Financial Management Bill—all of which are in the final stages of internal review.

Recent measures taken to promote these fiscal principles are presented in Table 15.

Table 15: Actions on Fiscal Responsibility General Principles

Action	Principles					
	Accountability	Inter-generational equity	Responsibility	Stability	Transparency	Inclusive growth
Enactment of the Fiscal Responsibility Bill	■		■		■	
Preparation of Fiscal Strategy Reports	■		■		■	
Timely publication of quarterly reports on budgetary performance	■		■		■	
Creation of New Budget Website and Citizen Budget	■		■	■	■	
Quarterly Expenditure Reviews			■	■		
Adoption of IMF GFS 2014 reporting standards	■		■		■	
Ongoing work on IDB funded PFM reform programme	■		■		■	
Preparation of new Procurement Bill for public consultation	■				■	
Focused attention placed on transforming and rejuvenating the inner-city communities						■
Moved to address the growth challenges of the Grand Bahama economy						■

4. GOVERNMENT FISCAL STRATEGY AND PRIORITIES

4.1 Key Budget Priorities and Considerations

The Government acknowledges that the strategies used to frame the fiscal targets to achieve its broader fiscal objectives are integral to both the timeliness and effectiveness with which it fulfills its socio-economic agenda. In planning and framing the 2020/21 Budget and the medium-term forecasts, the Government will be mindful to set fiscal strategies that seek to support the economy's recovery from the impact of Hurricane Dorian, while maintaining the general principles of the Fiscal Responsibility Act, 2018 and its responsibility to achieve compliance with the revised fiscal plan at the earliest opportunity. Broadly, the Government intends to pursue measures aimed at improving the fiscal balance, alongside structural reforms to foster a more robust economy with additional job creation opportunities. In the medium term, fiscal consolidation and structural reforms should help to improve the business climate and promote private sector growth and employment. The overall objective is to build fiscal buffers to absorb any unexpected shocks to long-term macroeconomic and fiscal sustainability. In this context, revenue and expenditure policies will be reviewed continuously to ensure that they are supportive of this overarching objective.

a. Post-Dorian: Rebuilding in the Aftermath

Dorian, with winds of over 185 mph and gusts of up to 225 mph, damaged the country's second and third largest economic centers. Key sources of infrastructure were destroyed, including electricity across much of Abaco, and water utilities on both Abaco and Grand Bahama. Restoration of these basic infrastructure are essential to the full recovery of business and residential life in these islands—with estimates of $75.0 million for power supply and $15.0 million for water services. The rehabilitation of key structures, such as clinics and hospitals on both Abaco and Freeport, as well as to several critical Government administrative buildings, is also essential to support the delivery of these important services. In rebuilding critical infrastructure, efforts are also taking into account improvement in resilience and sustainability, as Bahamas Power & Light (BPL) will convert a portion of Abaco to underground lines, which will increase the reliability of electricity restoration in the aftermath of any natural disaster, and significantly reduce the fiscal impact from any potential disasters in the future. From the perspective of resilience, the Government also intends to advance plans to introduce more renewal energy-based initiatives within the Family Islands.

Given the hurricane-related damage to the affected islands' productive capacity, which will take years to rebuild, the importance of restoring economic activity to both growth and employment, the Government is keen implement a strategy for igniting the pace of the recovery and rebuilding efforts. In the Government's recent declaration of both Abaco and Grand Bahama as Special Economic Recovery Zones for a period of three years, businesses and persons within these communities would be able to benefit from a menu of tax relief measures and economic incentives (***see Box B***).

Box B: Special Economic Recovery Zones (SERZ)

In addition to the Exigency Order, the Government announced the establishment of Special Economic Recovery Zones (SERZ) in Abaco and Grand Bahama for a period of three years. These communities will benefit from the following tax relief measures and economic incentives:

- All materials, fixtures, furniture, vehicles and equipment for approved commercial projects and residential construction and rehabilitation efforts will be duty free, including domestic purchases for qualifying items. In essence, this will be structured similar to the bonded items facility of the Port Authority area in Grand Bahama, in that residents in Abaco and East Grand Bahama can purchase their building materials duty free on the respective islands. Approval will be subject to ongoing oversight and validation, and items will attract duty if moved, at any point, outside of the designated SERZ.
- Business Licence fees will be waived for all operations within the SERZ for all new businesses, and for existing businesses that return their employee count to at least 60 percent of its pre-Dorian level by December 2020. This will be tracked and monitored, and any company that fails to meet the criteria will have to pay their Business Licence fees.
- Real Property Tax will be waived on all eligible properties that are reconstructed, restored or otherwise inhabitable by October 2020. This is only applicable to foreign homeowners, as property in the Family Islands owned by Bahamians is not subject to Real Property Tax. Properties that are not repaired or refurbished will not be able to benefit from this tax break.
- A VAT credit of up to 50 percent will be granted on the sale of qualifying real property. There are however requirements to qualify, which are dependent on the current status of the property (vacant, developed, etc.). These requirements must be met within 75 days of the close of the sale.
- A $10.0 million loan guarantee and equity financing programme will be established to allow eligible Bahamian SMEs to secure up to $500,000 in financing, in an effort to restore existing businesses impacted by the Hurricane, as well as to create new businesses. This is a syndicate venture of the Small Business Development Centre (SBDC), the Bahamas Venture Capital Fund, the Bahamas Development Bank, and the commercial banks.
- The Provisional Business Licence Programme will be extended to all businesses within the SERZ to allow all qualifying businesses to get their operations up and running within 2 business days of their completed application. This will impact all business in the SERZ, with the exception of potentially hazardous undertakings; and obtaining the provisional license is contingent upon the receipt of fully completed applications.
- A One Stop Shop for business assistance will be created in Abaco and Grand Bahama, to aid with the facilitation of regulatory requirements within five working days of making an application. The One Stop Shop will feature representatives from the various ministries and will act as the Point of Contact for registering projects and initiatives that qualify for the concessions, as well as for tracking and monitoring the respective projects.

b. Revenue Strategies

The Government's taxation strategy for FY2020/21 and the medium-term horizon seeks to ensure that revenue streams are sustainable and supportive to the attainment of its fiscal targets. The policy focus for revenue will include a combination of initiatives to maintain a revenue to GDP ratio of approximately 20.0 percent, through measures that deliver further simplification of the tax system to alleviate administrative costs and that support compliance, expedited service and address tax leakages.

i. **Enhanced focus on tax compliance across the different revenue streams within the current tax regime**.

The Government will continue to examine ways of enhancing revenue mobilization and achieving greater efficiency in the existing tax regime—through measures that improve capacity in tax administration, automation, increasing the level of risk-based audits and simplification of the tax regime. The overall objective is to promote voluntary compliance and deter non-compliance.

In keeping with these objectives, the Government's recently established Revenue Enhancement Unit (REU) is tasked with reconciling past due tax receipts for Business Licence, Customs and VAT. The goal is to ensure that the Government is collecting what is due.

Ongoing transformation of the antiquated and inefficient tax systems to more customer-centric frameworks, particularly for Real Property Tax and Customs administration, will also help achieve a higher tax compliance by eliminating instances of fraud. IT-based solutions such as the Electronic Single Window dubbed 'Click2Clear, as well as the completion of the revamp of the Real Property Tax system, are expected to secure higher revenues into FY2020/21, by providing more timely and efficient processing and enhancing connectivity across public agencies that not only make the process less cumbersome, but also increase the level of accuracy across tax matters. ***See Box C***.

ii. **Ensuring a fair and stable tax system**

A fair and stable tax system is key to promoting the long-run sustainability of the fiscal position. Over the medium term, the Government will continue its efforts to review the existing tax regime for avenues to introduce greater fairness and stability to the system. Consistent with these developments, further reforms will be made in international trade-related taxes to increase competitiveness.

c. Recurrent Expenditure Policy & Priorities

The Government's overarching expenditure policy is to maintain recurrent outlays at no more than 20 percent of GDP. Ensuring that expenditure leads to high quality outcomes and its growth does not exceed the economy's growth potential remain key objectives in the fiscal strategy. Apart from spending necessitated in the aftermath of Hurricane Dorian, expenditure policies for the remainder of FY2019/20 and into FY2020/21, will continue to prioritize health, education and social programmes—in line with the Government's commitment to improve the standard of living of Bahamians. Reforms in the public health system to ensure delivery of cost effective and efficient service remain high on the agenda. Notwithstanding the need for expenditure restraint, the Government is mindful of the imperative for increasing the technical capacity of the public service, particularly in key ministries such as the Ministry of Finance, which has purview of the Public Treasury, the Department of Statistics, and the Department of Inland Revenue. This will allow more critical functions to be performed within the Ministry that will result in improved policy determination. Along with these priorities, the Government is making steps to ensure that expenditures lead to high quality outturns, with the regularly scheduled expenditure review process seeking to secure better public sector outcomes. The Government will also be mindful to consider any shifts or reallocations that may be required to accommodate its policy objectives.

Transparency and accountability across the public service will be enhanced with the Public Procurement Bill, which was issued for public consultation in October 2019. The Bill seeks to modernize the current procurement systems and processes by establishing a Public Procurement Board, using a different procurement methodology that is in line with international best practices, and establishing a digital procurement platform and electronic vendor registry. Plans underway to finalize and enact the Public Financial Management Bill and the eventual roll-out of the integrated financial management system (IFMIS) will secure further improvements in the governance framework for public finance and support efforts to control expenditures and reduce leakages.

In the area of spending reforms, the Government remains committed to proceed with pension reforms and other measures to strengthen the sustainability of pensions over the medium-term forecast.

Box C: Revenue Enhancement Initiatives

The Government is committed to implementing revenue administration reforms to support fiscal consolidation and has recently launched several initiatives to support this objective.

- **The Electronic Single Window (ESW) – Click2Clear.** In September 2019, the Government officially launched the new Electronic Single Window, which was dubbed 'Click2Clear', as a part of the Customs Modernization Programme at the Bahamas Department of Customs. This new system will increase the pace and efficiency at which customs' clearing processes were completed under the old Electronic Customs Automated System (eCAS), bringing processes in line with international standards. Click2Clear is expected to provide convenient and paperless protocols, allowing persons to clear their goods at any time using the online system; reduce opportunities for revenue leakages, as payments can be processed online; minimize fraud through tighter controls and generally increase transparency and accountability in tax administration.
- **Real Property Tax Assessment Project.** As a part of the long-awaited reform, the Department of Inland Revenue (DIR) commenced the first phase of a complete overhaul of the existing Real Property Tax system. This entails a massive data collection initiative which is expected to add an additional 9,000 unregistered properties on the tax roll and secure a projected annual boost of $21 million in Government revenues. The project began in June and is anticipated to be completed by December 2020, having created up to 40 interim jobs.
- **Revenue Enhancement Unit**. To further strengthen tax administration and redress tax leakages, the Revenue Enhancement Unit was established in July 2019. The team is tasked with building capacity and improving compliance through conducting tax audits for VAT and Real Property Tax matters.
- **Simplified Business Licence Process**. The DIR simplified the process to obtain a Business Licence, making getting and staying in business easier for Bahamians. The new online system and the movement of some validation checks from the front to the back end now facilitate renewals of Business Licence in less than 48 hours. Also introduced was a Provisional Licence, which is valid for 90 days and allows low-risk businesses to commence some business operations immediately while their full Business Licence is being processed. These developments have been welcomed by the private sector, and the Government will continue its efforts to remove the high level of bureaucracy and red tape associated with doing business in The Bahamas.

d. Capital Expenditure Policy

The Government acknowledges the critical nature of infrastructure to sustainable economic development, and the primary role played by investments in public infrastructure, such as roads, energy and water.

Spending priorities through the medium term will address the hurricane-related rebuilding and rehabilitation of critical infrastructure in the hurricane-affected islands, alongside initiatives to address the state of the health care infrastructure in New Providence and to support transformational initiatives in the area of indigenous renewable energy sources., To the extent possible, over the medium-term, the Government's intent is to rebalance expenditures towards productive investments to ensure that the reduced fiscal space does not hamper growth, and to achieve its target of growing capital expenditures to a minimum of 2.5 percent of GDP.

To better manage the Government's scare resources, Public Private Partnerships (P3s) will be encouraged to assume a greater role in modernizing and developing public infrastructure—especially in the areas of health, water supply and other public infrastructure, as outlined in the 2018 P3 policy.

e. Structural Reforms and Economic Policy

Creating an environment that is conducive for economic growth, particularly over the long term, remains a priority of the Government's socio-economic agenda. Ongoing initiatives to address challenges to growth, long-term fiscal sustainability, labor markets, the business environment and competitiveness include, but are not limited to:

- Promoting investment and entrepreneurship
- Investing in enhanced education and training
- Enhancing tourism growth throughout the capital and the Family Islands
- Promoting growth opportunities in Grand Bahama
- Achieving self-sustained State-Owned Enterprises (SOEs)
- Investing in the digitization of government procedures, in line with the ease of doing business initiatives to benefit both the public and private sectors

During FY2020/2021 and over the medium term, the Government will continue to focus on promoting investment and entrepreneurship, through support for small and medium size enterprises, and the removal of structural impediments to growth. In September 2018, the Government launched the Small Business Development Centre (SBDC) which is helping Bahamian entrepreneurs achieve their dreams of business ownership, while contributing new products and services to the domestic economy. Under the SBDC, individuals with business aspirations are trained and mentored to fully develop their businesses into quality, viable companies that not only support job creation, but also boost domestic economic activity. In the 2019/20 Budget, the Government allocated $8.5 million to the SBDC, which will be leveraged to expand this allocation to up to $12 million. In keeping with this priority focus, an additional $10.0 million was guaranteed by the Government for businesses that fall within the SERZ.

The Government also acknowledges the importance of structural reforms to lifting growth in the medium term, including the streamlining of administrative processes to improve the ease of doing business, pursuing energy sector reforms to secure better reliability of electricity supply and reduce costs, and to enhancing human capital. In its Business 2020 Report, the World Bank reassessed The Bahamas' spot on its Ease of Doing Business Index, from 118th to 119th in 2020, out of 190 countries**.** The Government is targeting a 20-point improvement in its index score on the World Bank's Ease of Doing Business Index over the next two years, and has appointed an inter-agency working group to address the areas most in need of improvement which include: access to credit, registering property, and trading across borders. Substantial progress has already been achieved in confronting several of these issues, as the Government rolled out new initiatives—such as the new business licence application improvements and the creation of the Provisional Licence, that make doing business in The Bahamas easier.

Under the direction of the new Department of Transformation and Digitization, the Government's digitization project is also underway, and will allow for more timely and efficient processing of several government processes. The initiative commenced with the Road Traffic and the Registrar General Departments in FY2018/19 and is being extended to other agencies including the Passport Department as the project progresses. Annual budgeted provisions for this increased to $15.0 million in FY2019/20, including an additional $7 million allocation for capital spending, which is expected to continue throughout the medium term.

Addressing the skills gap, which can cause labour market rigidities, remains a priority focus of the Government for the upcoming budget and the medium-term horizon. As announced in the FY2019/20 budget, the Government commenced the provision of paid tuition to full time Bahamian students at the University of The Bahamas and the Bahamas Technical and Vocational Institute. In addition, students under the age of 2 are being offered free education by the Government, as a part of its early childhood education programme that allows preschoolers to attend school free of charge.

These initiatives are supported by the joint skills for current and future jobs initiative, a $50 million loan facility that will be financed in equal parts by the IDB and the Government over a six-year period which started in 2018, to address the skills gap in The Bahamas. The goal is to increase employability, as well as the quality of employment for the beneficiaries of this program, by improving access to quality jobs—especially for youth.

The availability of reliable and cost-effective energy supply is critical to improving The Bahamas' cost competitiveness and plans are underway to ensure the achievement of these goals. The BPL is presently preparing to issue rate reduction bonds, with part of these proceeds being earmarked for capital investments in a new plant that offers greater efficiency and reliability in power generation. Over time, the use of more efficient equipment and fuel sources are expected to result in lower cost of energy to the consumers.

In line with improving energy supply, the Government has prioritized the move toward renewable energy, particularly in the Family Islands. As announced in the 2019/20 Budget Communication, the Government is seeking to provide over $170 million throughout the next 8 to 10 years, in partnership with the multilateral community, to introduce solar energy opportunities on a commercial scale. The intent is to create energy solutions that are not only more reliable, but also more sustainable.

The Government recognizes the important role played by both domestic and foreign investment in promoting economic growth and job creation opportunities in The Bahamas, and continues to support the start of several sizeable FDI projects. These are poised to underpin the expected gains in economic growth over the forecast years as well as provide new employment opportunities—especially in Grand Bahama and New Providence. See **Box D** for a list of some of the more prominent projects.

f. Fiscal Balance

The Government remains committed to meeting the objectives set out in the Fiscal Responsibility Act. Under the revised fiscal plan, the Government envisages a steady improvement in the overall balance--from a deficit of 5.3 percent in FY2019/20 to 0.5 percent in FY2024/25. This will place the debt-to-GDP ratio on a downward path toward the long-term objective of 50 per cent of GDP.

Box D: Key Foreign Direct Investment Projects

There are several key foreign direct investment projects that will support economic and employment growth through the medium-term forecast horizon.

- **Disney $400 million Lighthouse Point Project.** In March 2019, the Government and Disney Island Development Ltd. signed a Heads of Agreement for a $250 million to $400 million cruise port and entertainment facility at the Lighthouse Point Beach in Eleuthera, Bahamas, which is anticipated to handle up to 20,000 passengers per week. The agreement also allows for the conveyance of land valued at $6.3 million to the Government for the establishment of a National Park. The project is expected to provide a minimum of 120 jobs for Bahamians during the construction phase, with an additional 150 permanent jobs once construction is completed. Apart from job opportunities, the project is intended to provide business opportunities for local vendors and other residents of Eleuthera for the provision of authentic Bahamian arts and crafts, tours, and other tourist attractions. The project also proposes to construct a sustainable development that features a 100-unit eco-lodge and learning and research centre. Its total economic impact is estimated to provide 190 jobs, $7.7 million in annual earnings, $13.8 million in economic output annually, and $11.6 million increase in GDP.

- **Holland America Line $80 million Expansion of Half Moon Cay, Eleuthera**. Half Moon Cay will be expanded to include a cruise pier on a north end of the cay, and landside facilities at the pier site. A Heads of Agreement was signed in September 2019 for the project, which will include a shopping plaza, aquatic facilities, sports and entertainment facilities, restaurants and night-clubs, beach restoration, nature trails, as well as the development of park and natural reserves areas.

- **Royal Caribbean and ITM $275 million Development Project**. The Government and Royal Caribbean International, in conjunction with its partners the ITM Group, signed a Letter of Intent (LOI) in March 2019 for the purchase of the Grand Lucayan Resort and the redevelopment of the Freeport Harbour. The first phase of the project will feature a $195 million initial investment—inclusive of the $65 million resort purchase—and will span over a 24-month period, providing 2,000 jobs. The project is poised to act as an economic stimulus to Grand Bahama, bringing approximately two million passengers annually, to make use of the associated facilities, which will include a five-star hotel property, water-based family entertainment, as well as dining, gaming and other entertainment options. The additional cruise passengers will also present an opportunity for local vendors, taxi drivers, arts and crafts artisans and other souvenir businesses to benefit from increased sales. Negotiations to finalize this sale are expected to be completed by end-2019.

- **$100 million Carnival Cruise Port in Grand Bahama**. The Government signed a Heads of Agreement with Carnival Corporation in late September 2019 for the construction of a cruise port in Sharp Rock, Freeport which is poised to be the largest Carnival cruise port in the world. The port is expected to provide 1,000 direct and indirect permanent jobs to Grand Bahama, with a number of entrepreneurial opportunities available for local vendors. Once completed, the port is anticipated to feature aquatic facilities, a shopping plaza, restaurants and night-clubs, food and beverage pavilions, open air concert facilities, and other entertainment amenities.

- **Baha Mar $300 million Resort Expansion**. In October, Baha Mar announced an expansion in its resort facilities by $100 million in renovations to the existing Melia Hotel, and a $200 million investment project for a private island that will be situated on the grounds of the old Crystal Palace Hotel. Collectively, this will bring the property's total investment to $4.8 billion. The new 15-acre private island is expected to feature family and adult-oriented water parks, a beach club restaurant, spa facility, and a number of other experiences and amenities. It is anticipated that the development will be completed in 12 to 24 months and will provide 500 direct and 1,000 indirect jobs.

5. FISCAL RISK AND MITIGATION STRATEGIES

Fiscal risks are factors that may cause fiscal outcomes to diverge from forecasts, and include potential shocks to Government revenue, expenditure assets or liabilities that may not be reflected in the forecasts. Crystallization of such risks could impose additional unplanned costs to the Government, increasing the public debt and worsening the fiscal situation. The Government acknowledges the importance of identifying, analysing and mitigating such risks in its fiscal planning exercise, and recognizes that sound management of the public finances is key to managing fiscal risks.

There are a number of risks over the medium-term horizon that could affect the fiscal outcome. The principal risks are set out in ***Table 17***, assessed according to their likelihood and their potential impact on the public finances, and accompanied by the various risk mitigation measures that the Government has put in place and/or could implement should one or more of these risks materialize during the fiscal year.

5.1 Macroeconomic Risks

Macroeconomic developments can alter assumptions used for key economic variables underpinning the Government's fiscal forecasts and cause significant deviations in outcomes. The Bahamas' heavy dependence on tourism and economic openness expose the country to external risks stemming from the global economic and trade environment and commodity price volatility. In the current environment, the escalation of trade tensions and the likely corresponding drag on global economic growth, could result in milder tourism and foreign investment activities, with knock on effects for government revenue and expenditure outcomes, employment and private consumption.

The Government recognizes these risks and seeks to, inter alia, ensure the prudent management of the public finances, and removal of structural impediments to growth, as buffers to variability in external global economic conditions.

5.2 Natural Disasters

Hurricanes pose several threats to the islands of The Bahamas, and predictions that climate change is likely to increase the frequency and intensity of these threats reinforce the importance of increased preparedness and risk reduction policies to achieving resilience in the face of potential high economic loss likelihoods and associated fiscal costs.

The Government acknowledges these significant downside risks and has put in place a range of ex-ante measures to reduce the financial exposure and other vulnerabilities to disaster risk, which better positioned it to respond to the recent Hurricane Dorian.

- **Contingent Credit Line**: In 2019, the Government executed an agreement with the Inter-American Development Bank (IDB) to access a US$100 million credit facility, which provides liquidity to meet immediate disaster recovery financing needs natural disasters. It features parametric triggers to activate loan disbursements.
- **Disaster Insurance**. To improve the Government's capacity to meet post-disaster funding needs without compromising the budget, in June 2017, The Bahamas reactivated its parametric insurance policy with the Caribbean Catastrophe Risk Insurance Facility (CCRIF). In the redesigned arrangement, the coverage splits The Bahamas into three zones, each with separate parametric triggers—covering

the North West, South East and Central Bahamas. Hurricane Dorian, which caused widespread havoc in Abaco and Grand Bahama, which are in the North West Zone, provided a pay-out of approximately $12.9 million to assist with recovery efforts. The Government is also seeking to encourage the broader use of private insurance to contain possible fiscal costs.

- **Disaster Relief Fund.** Following on an IMF study, which placed the optimal size of a Disaster Relief Fund for The Bahamas at between 2 and 4 percent of GDP, the Government committed to seeding the Fund with an initial contribution of $40.1 million representing extinguished dormant account funds. Over time, the Fund, which will be fully established under the framework of the ***Proposed Disaster Relief Fund Act***, will benefit from further transfers of dormant proceeds, alongside budgetary contributions and insurance pay-outs under the CCRIF.
- **Coastal Protection and Risk Management.** The Government has embarked on a multi-year initiative to build resilience to coastal risks through sustainable coastal protection infrastructure and management. A $35 million loan from the IDB was secured to strengthen natural infrastructure, restore coastal natural habitat and improve coastal flood control measures.
- **Disaster Preparedness and Response (Amendment) Bill, 2019.** Once enacted, this Bill will provide, inter alia, for the mandatory evacuation of persons in the predicted path of a hurricane—protecting against loss of life and contributing to more effective and efficient use of fiscal resources. It will also promote social and economic resilience through its fast provision of relief measures via orders from the Prime Minister.
- **Ministry of Disaster Preparedness, Management and Reconstruction.** Following Hurricane Dorian, the Government announced the establishment of this new ministry to respond more comprehensively to the increasing planning and management demanded by the more active climate and rising sea level challenges confronting The Bahamas, and to assist in the recovery of Abaco and Grand Bahama from Hurricane Dorian. The Ministry will focus on ensuring the adequacy and responsiveness of the national disaster risk management strategy, that the principles of resilient development are incorporated into project design and national policies governing building codes, land use and other critical planning–all with the objective of reducing the exposure of populations and assets to weather-related events.

Apart from this toolkit of measures, the Government remains mindful of the importance of achieving its fiscal target to ensuring financial resilience and providing scope to deal with such unplanned events.

5.3 Contingent Liabilities

Explicit loan guarantees provided to SOEs expose the Government to the possibility of unexpected and substantial risk, which could lead to a severe strain on the fiscal resources—hence the Government's resolve to ensure that these entities are closely monitored and managed.

As presented in ***Table 16***, contingent liabilities were an estimated $736.1 million at end-June 2019 and, based on existing debt levels and repayment schedules, are forecasted to move sharply lower to $416.6 million at end-December 2020, then taper off to $317.9 million over the three-year period ending 2023. This more favourable liability profile reflects the expected swap out of the Bahamas Electricity Corporations' contingent liability debt with the proposed rate reduction bond, scheduled for issuance in early 2020—and which is not intended to be guaranteed by the Government but serviced from a rate reduction fee. Other developments that will provide an upside to the profile include the pending sale of the Lucayan Renewal Properties which will extinguish the bulk of the noted liability.

Based on the projected debt servicing schedule, contingent risks, if any, are not expected to materialize within the forecast period. Based on future likelihood factors, the Government is seeking to address, through a more aggressive management of delinquencies, the ongoing exposure posed by the various educational loan programmes which, barring no change in the repayment experience, could result in the crystallization of this risk in the future.

Table 16: Contingent Liabilities (B$M)

	Actual	Projected	Forecasts			
	2018	**2019**	**2020**	**2021**	**2022**	**2023**
Bahamas Development Bank	41.0	41.0	30.0	28.0	23.0	21.0
Bahamas Electricity Corporation	246.0	246.0	0	0	0	0
Bahamas Water & Sewerage Corporation	76.5	72.0	67.4	62.8	58.2	53.6
Bridge Authority	23.0	16.0	16.0	16.0	16.0	16.0
Bahamas Mortgage Corporation	160.0	159.9	159.9	159.9	159.9	139.9
Education Loan Authority	62.0	62.0	47.0	47.0	47.0	20.0
The Clifton Heritage Authority	24.0	24.0	24.0	24.0	24.0	24.0
Public Hospitals Authority	84.7	81.0	72.0	51.0	47.1	43.2
Small Business Development Center	0	0.3	0.3	0.3	0.3	0.3
Lucayan Renewal Holdings Ltd.	35.0	35.0	0	0	0	0
Total Contingent Liabilities	**752.2**	**737.2**	**416.6**	**389.0**	**375.5**	**318.0**

SOEs receive a significant budgetary subvention from the Government, hence the importance of ongoing initiatives for cost rationalization as part of the transformation of SOEs to more sustainable, efficient and financially independent entities. This includes examining and pursuing opportunities for services provided by these entities to be more aligned with cost recovery levels and avenues for improving efficiency and achieving effective financial oversight. SOEs accounted for almost 14.0 percent of the FY2019/20 budget, with this proportion relatively unchanged at 13.9 throughout the medium term. However, initiatives underway, particularly in the aviation sector, could generate significant cost savings which should free more resources to be devoted to other uses, such as healthcare, education, renewable energy, and national security. The draft Public Financial Management Bill, slated for enactment before the end of FY2019/20, also envisages an enhanced governance framework for the SOEs, to increase accountability and transparency in their operations, and provides a basis for the eventual consolidation of the public financial position.

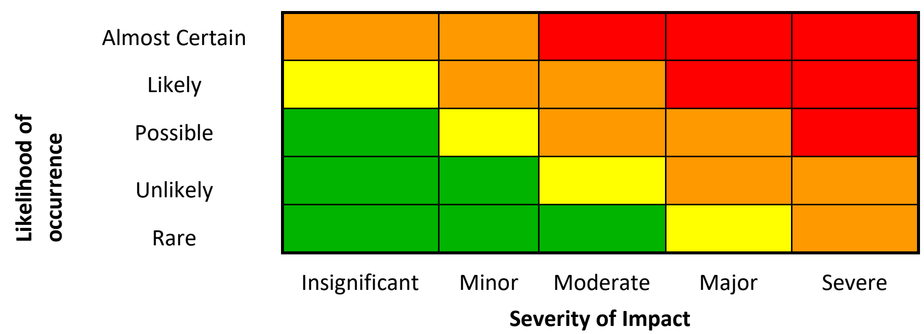
5.4 Pension Liabilities

The central Government has an unfunded defined pension arrangement, with a growing liability which is a significant fiscal risk. The Government acknowledges this exposure and is in discussion with advisors on initiatives to limit this exposure. As part of its mitigation initiatives during the fiscal planning horizon, the Government is intending to introduce a defined contribution-type pension plan for new employees which will allow for greater sustainability of these costs.

Table 17: Risks and Mitigation Strategies

Risk	Impact narrative	Gross risk			Mitigation	Net risk		
		Impact	Likelihood	Risk factor		Impact	Likelihood	Risk factor
Lower economic growth	Economy grows more slowly than forecast; revenues do not reach estimates.	Major	Possible	Major	Periodic review of revenues; reduction in expenditures to help compensate; undertake further borrowing	Major	Possible	Major
Credit rating downgrade	Reduction in credit rating could increase borrowing costs and trigger termination clause for derivatives.	Major	Possible	Major	Promote economic growth; remove structural impediments to growth.	Major	Possible	Major
Higher energy prices	Energy prices increase substantially affecting budgetary costs and economic growth.	Moderate	Likely	Major	Energy efficiency incentives; alternative energy sources; budget realignment.	Moderate	Likely	Major
State-owned enterprises	SOEs incur substantial losses requiring intervention	Major	Likely	Severe	Ongoing monitoring of fiscal conditions; move towards greater cost recovery; both proposed debt management and public financial management legislation provide more rigorous oversight of borrowing activities.	Major	Possible	Major
Public sector wages	Costs of wage agreement exceed available resources	Moderate	Possible	Moderate	Resource reallocation within budget; hiring restrictions and attrition.	Moderate	Possible	Moderate
Higher interest rates	Increased borrowing costs for debt financing	Moderate	Likely	Major	Reassess and restructure financing; decrease debt.	Moderate	Likely	Major
Natural disaster	Hurricane or other substantial natural disaster	Severe	Possible	Severe	CCRIF insurance policy; continue building disaster relief fund; IDB $100m contingent credit line; improvement in building standards; more comprehensive planning.	Major	Possible	Severe
Pension cost overrun	Pension liabilities higher than anticipated	Major	Likely	Severe	Longer-term actions to improve fund sustainability	Major	Possible	Major

Risk Assessment Grid



5.5 Payment Arrears

Since 2018/19, the Government has undertaken to address the payments arrears issue, then assessed at $360 million. Following the payment of $184.6 million in FY2018/19, an additional $100.9 million is to be paid in FY2019/20, followed by runoff amounts, of $79.9 million in 2020/21 and $5.9 million in FY2021/22. Enhanced monitoring and systems have been implemented to avoid the reoccurrence of an accumulation in arrears payments.

5.6 Other

Under a promissory note executed in August 2017, a second tranche of non-performing assets were transferred from the Bank of The Bahamas to Bahamas Resolve Limited (Resolve), the special purpose asset management company formed for this purpose. The gross book value and corresponding value of the promissory note was $167.7 million, bearing interest at a rate of 3.5 percent semi-annually and with the principal becoming due on August 31, 2022. The first transfer, which took place during October 2014, was for $100 million, and the liability was eventually settled by the Government in August 2017.

Resolve envisages being in a position to make its semi-annual payments on the $167.7 million note, which aggregates $5.878 annually and, to date, has been budgeted for and made by the Government. While Resolve is also making progress with the sale of properties, the degree of toxicity in the asset pool is likely to limit recovery of the gross book value of the loans which is significantly higher than the appraised value of the underlying security. Based on early estimates and, barring no change in status of several large exposures, it is likely that the Government will be required to redeem at least 60 percent of the $167.7 million note. It should also be noted that the Government is examining the possibility of acquiring suitable commercial properties out of Resolve's asset pool for administrative offices.

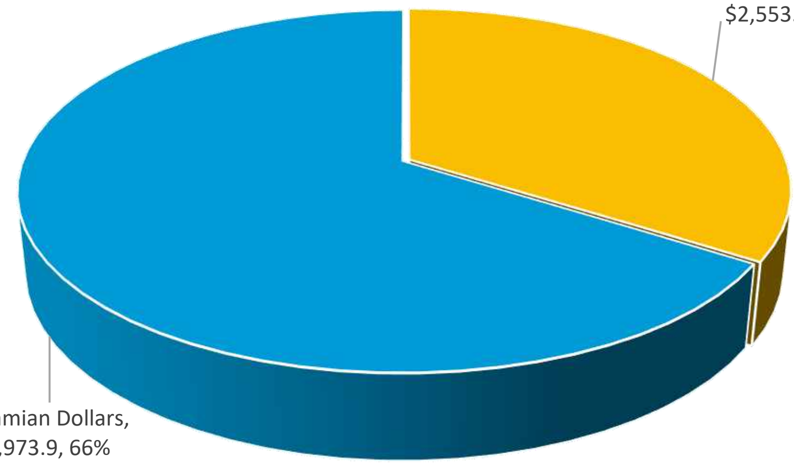
From the perspective of governance, the Government is working with Resolve to establish greater transparency in its operations, through the requirements for regular financial reporting and release of information on asset sales to the public. The first audited financial statements, covering activities through 2018, should be released prior to end-2019.

6. PUBLIC DEBT TRENDS, MANAGEMENT STRATEGY & SUSTAINABILITY ANALYSIS

6.1 Recent Developments in the Direct Charge

At end-June 2019, the Government's outstanding debt stock (Direct Charge) stood at an estimated $7,527.0 million—up $284.3 million from a year earlier and representing approximately 60.0 percent of GDP (*see section 2.2.d*).

Figure 7: Distribution of Direct Charge at end-June 2019

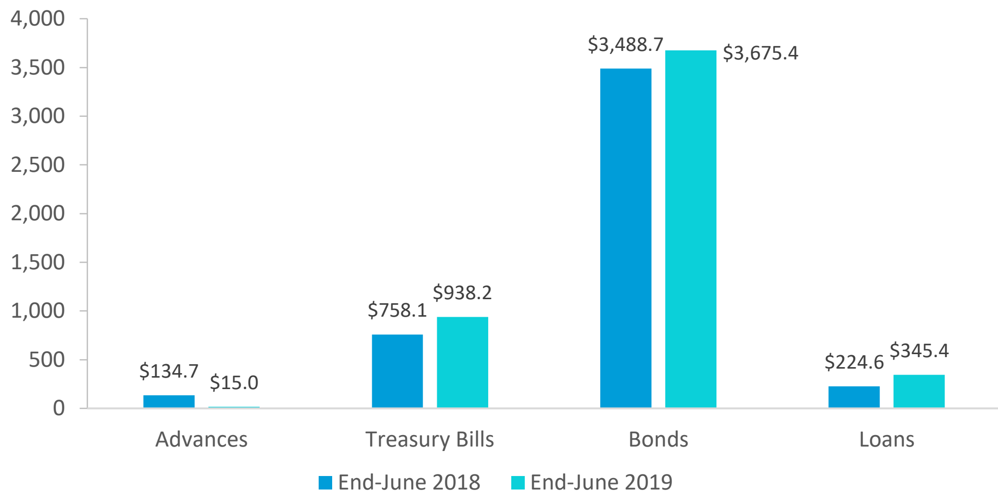


a. Domestic Debt

Domestic debt at $4,973.9 million, constituted 66.1 percent of the Direct Charge at end-June 2019 and an estimated 39.6 percent of GDP. Of this total, approximately 74 percent was sourced by way of long-term bonds, followed by Treasury bills—which are short-term in nature, representing 12.5 percent of the total debt. By maturity profile, 38.9 percent of domestic bonds mature in less than five years, 23.7 percent will mature in five to ten years and the remaining 37.4 percent, in over ten years. Any risks associated with refinancing remain moderately low, given the low level of alternative investment grade opportunities in the domestic market and the expected benefits to be derived from their imminent trading on the Bahamas International Securities Exchange (BISX). The remainder of domestic debt was comprised of bank loans (7 percent) and advances (0.3 percent).

The Sinking Fund, established as a part of the Government's debt management strategy, was valued at $9.6 million for domestic debt, at end-June 2019.

Figure 8: Direct Charge in Bahamian Dollars (B$M)

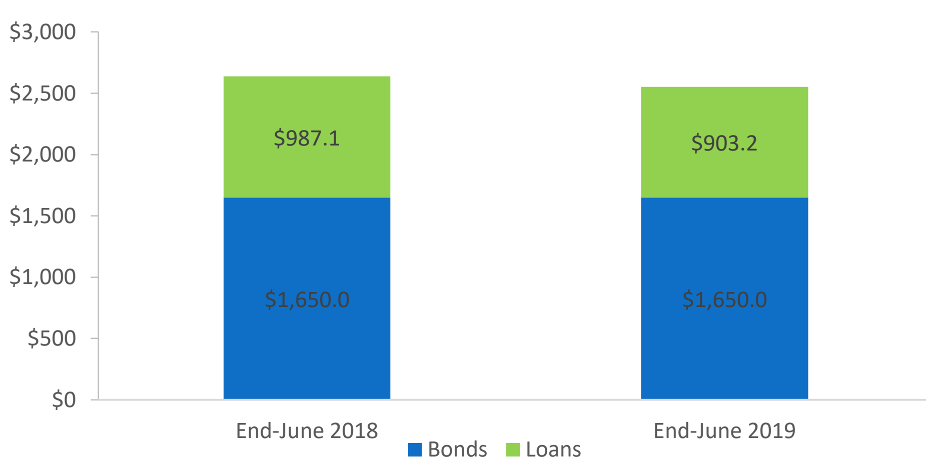


b. Foreign Currency Debt

Foreign currency debt totaled $2,553.2 million (20.4 percent of GDP) for nearly 34 percent of the Direct Charge, and of which roughly $1,650.0 million was sourced from international bonds—all issued at fixed interest rates but with varying maturities. At end-June 2019, the Government held a US$100 million 7.125 percent Note that becomes due in 2038, a US$200 million 6.625 percent Note which matures in 2033, two US$300 million Notes which become due in 2024 and 2029, respectively, and US$750 million 6.00 percent Notes, which are due by 2028. Sinking funds earmarked for the retirement of selected international bond obligations aggregated $144.6 million at end-June 2019.

As for the remaining $903.2 million in external debt, $201.0 million was from international financial institutions, $76.7 million was due to bilateral creditors, and $625.5 million is owing to other financial institutions.

Figure 9: Direct Charge in Foreign Currency (B$M)



By currency breakdown, the bulk of foreign currency debt obligations were in United States Dollars (86.1 percent). The remaining 13.9 percent was comprised of Swiss Francs (6.1 percent), euros (5.6 percent) and Chinese Renminbi (2.2 percent). Given this composition, the Government is a participant to several foreign currency hedging arrangements, to mitigate exchange and interest rate risks.

The interest rate profile continued to be driven by the fixed rate international bond issues. In terms of maturity, some $300.0 million in external bonds will become due in less than 5 years, approximately $1,050.0 million will fall in the over 5 and under 10 year bucket, and $200.0 million will mature in 10 to 15 years. The remaining $100.0 million is set to mature beyond 15 years, in the year 2038.

c. Debt Management Strategy & Initiatives

The Government remains committed to a debt management strategy that will continue to utilize a variety of instruments to fund its budgetary requirements—to include:

- domestic bonds;
- Treasury bills;
- short-term advances from the banking sector;
- loans from the domestic and international banking institutions;
- international bonds; and
- loans from international development agencies

Key considerations in choice depend on domestic liquidity conditions and assessments regarding major market players' appetite for extending credit, the borrowing purpose, as well as any balance of payment needs.

Efforts are ongoing to introduce greater efficiency into Government bond market activities. Primary issuance strategy remains focused on issuing new securities under multiple benchmark maturities. Beginning in August 2019, Government bonds were listed on the Bahamas International Securities Exchange (BISX), although trading on BISX is delayed until the end of the year. This move, together with the plans for a paperless registry and the introduction of a bond auction mechanism, will modernize the operations of the Government bond market.

In keeping with the broader debt management strategy, the Government is intent on exploring debt liability management options to better manage costs such as interest risk exposure over the life of loan obligations. Recently, the Government took advantage of a discretionary option to convert several US Libor-based rate loans with the International American Development Bank (IDB), to US fixed rates. The recent decline in US Libor rates presented a unique and attractive opportunity for the Government to lock in competitive fixed interest rates over the remaining life of the disbursed amounts of ten (10) eligible loans, which totaled $159.770 million at the time of conversion on August 8, 2019 and bearing maturities ranging from 2021 through 2041.

In terms of governance, the draft Public Debt Management Bill, which is intended to set the framework for the Government's debt strategy, is currently under review by both internal stakeholders and external consultants, prior to dissemination for public consultation and then presentation to Parliament. Importantly, the Public Debt Management Bill provides for the establishment of a Debt Management Unit (DMU) within the Ministry of Finance, as well as Debt Management Committee (DMC) which will be comprised of members from the Ministry of Finance and the Central Bank. Both the DMU and the DMC will be tasked with advancing the Government's overall debt strategy to ultimately meet the targets of the Fiscal Responsibility Act, i.e., a sustainable level of debt of no more than 50 percent of GDP.

Once passed, the PDM Bill will facilitate the establishment of the processes for facilitating both Government financing needs and payment objectives in a timely manner, promote the development and functionality of the domestic securities market and raise stable and low-cost funding. The achievement of these goals will be aligned with the principles and objectives laid out in the Fiscal Responsibility Act, 2018.

6.2 Debt Sustainability Analysis

The Government's Fiscal Adjustment Plan entails reducing the budget deficit to 0.5 percent of GDP by the year 2024/25—from a peak of 5.3 percent in 2019/20. During the adjustment period (2019/20 to 2024/25), the Government will be engaging in significant borrowing to finance the larger deficit, elevated primarily by recurrent and capital programmes associated with the rehabilitation of the country in the wake of Hurricane Dorian. Government's debt levels are expected to rise across the medium term, as will the gross financing needs, which comprises the overall budget deficit and principal repayments –inclusive of those arising from the new borrowing obtained during the period. As interest payments account for an average of 12 percent of total expenditure, the increase in borrowing will have feedback effects on current and future spending—as incorporated into the expenditure estimates.

An analysis of The Bahamas' debt sustainability using the IMF's Market Access Country (MAC) analytical tool, and calendar year data, reveals that total Government's Direct Charge will increase moderately to 62.3 percent of GDP at the end of 2019 from 60.4 percent in 2018. Consistent with the assumed funding schedule, much of the impact of the additional borrowing will be reflected in the period 2020 to 2022—with total debt increasing to 65.8 percent of GDP in 2020, peaking at 66.2 percent in 2021 and gradually declining through 2024, to 64.7 percent.

Table 18: Central Government Debt Sustainability Indicators

	2018	2019	2020	2021	2022	2023	2024
Total Public Debt (B$M)	7,499.0	7,893.5	8,434.4	8,813.4	9,093.8	9,273.5	9,551.8
% of GDP	60.4%	62.3%	65.8%	66.2%	66.0%	65.0%	64.7%
Local Currency (B$M)	5,441.0	5,667.0	609.4	6,517.0	7,039.4	7,351.8	7,897.7
Foreign Currency (B$M)	2,058.0	2,216.5	2,344.0	2,296.4	2,054.3	1,921.7	1,654.1
Short Term Debt (B$ M)	1,198.8	1,422.4	1,470.0	1,455.0	1,481.1	1,395.0	1,436.7
Medium Term & Long Term Debt (B$)	6,299.2	6,471.1	6,963.8	7,358.4	7,613.6	7,878.6	81,156.1
Total Revenue	2,228.7	2,406.5	2,475.9	2,626.9	2,737.3	2,826.9	2,942.1
Total Non-Interest Expenditure (B$M)	2,226.1	2,471.2	2,661.0	2,605.1	2,593.9	2,608.9	2,844.9
Overall Balance (B$M)	-327.2	-394.5	-540.9	-3,769.0	-280.4	-179.8	-278.3
Primary Deficit (B$M)	2.5	-64.7	-185.1	21.8	143.4	218.0	97.2
Gross Financing Needs (B$M)	1,156.6	1,113.1	1,353.8	1,275.9	1,406.5	975.8	1,184.4
% of GDP	9.3%	8.8%	10.6%	9.6%	10.2%	6.8%	8.0%
% of Revenue	51.9%	46.3%	54.7%	48.6%	51.4%	34.5%	40.3%
Interest Payments (B$M)	329.7	329.8	355.7	400.9	423.8	397.8	375.5
Amortization (B$M)	829.4	718.7	813.0	896.8	1,126.2	796.0	906.2
Effective Interest Rates	4.6	4.4	4.5	4.8	4.8	4.4	4.1
Domestic		3.5	3.6	4.0	4.1	3.6	3.3
External		6.9	6.8	6.7	6.8	7.0	6.8
Average Nominal Interest Rates	4.6%	4.4%	4.5%	4.8%	4.8%	4.4%	4.1%
Debt Service to GDP	9.3%	8.3%	9.1%	9.7%	11.2%	8.4%	9.75
Debt Service to Revenue	52.0%	43.6%	47.2%	49.4%	56.6%	42.2%	43.6%
Nominal GDP (B$ M)	12,424.5	12,664.0	12,814.9	13,313.9	13,784.8	14,266.3	14,771.8

The main contributory factors to the 2.0 percentage point hike in the debt ratio in 2020 will be the higher budget deficit and negative GDP growth forecasted for that year. The projected narrowing of the budget deficit, combined with the forecasted strengthening of economic growth from 2021 onwards, are expected to secure a decline in the debt stock by 2024 relative to the2021 peak. After increasing by 3.5 percentage points of GDP in 2020, growth in the stock of debt is forecast to slow to 0.4 percentage point of GDP in 2021, followed by declines in 2022 (0.2 percentage points), 2023 (1.0 percentage point) and in 2024 (0.4 percentage points).

The trajectory of the debt in the medium term is contingent on new borrowing undertaken by the government. Based on the estimated budget deficit and servicing of current and new debt, the gross financing needs for calendar year 2019 is estimated at $1,113.1 million (8.8 percent of GDP) and is projected to increase to $1,353.8 million (10.6 percent of GDP) in 2021 and peak at $1,406.5 million in 2022.

a. Sensitivity Analysis

The DSA template allows for sensitivity analysis by assuming shocks to selected macroeconomic variables to assess the impact on the debt to GDP ratio. We assumed a 1 percent negative shock to real GDP growth for the period 2019 to 2024 and similar shocks to the primary balance and nominal interest rates.

Figure 10: Effect of 1% Negative Growth Shock on Debt to GDP Ratio

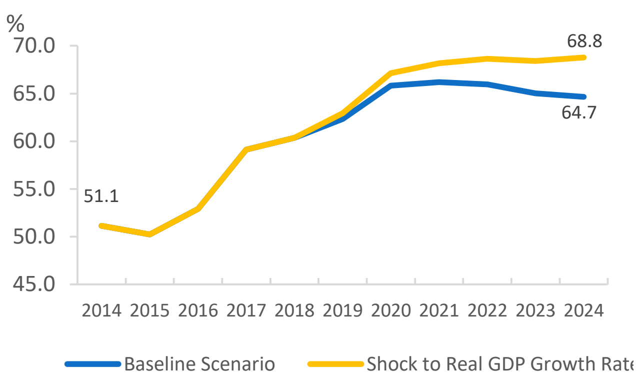


Figure 11: Effect of 1% Negative Primary Shock on Debt to GDP Ratio

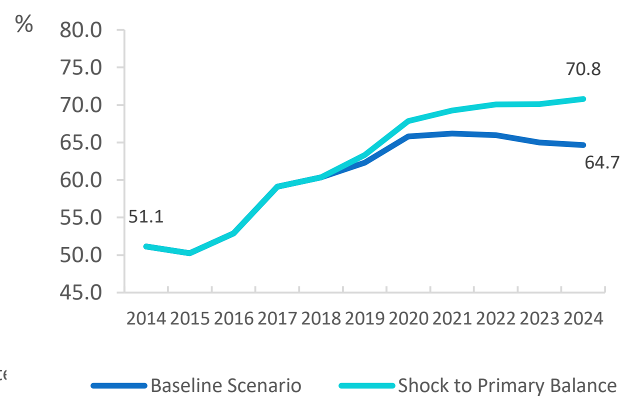


Figure 10 shows that a 1 percentage point negative shock to real GDP will likely increase the debt to GDP ratio by 4.1 percentage points from the baseline forecast of 64.7 percent, to 68.8 percent by 2024. Similarly, a 1 percentage point reduction in the primary balance as a share of GDP is likely to result in a higher debt ratio of 70.8 percent—a rise of 6.1 percentage points. An increase in nominal interest rate by 100 basis points will cause the debt ratio to move up by 3.9 percentage points to 68.6 percent of GDP by 2024.

Among the three macroeconomic variables, the primary balance has the most impact on the debt ratio, which invariably the Government is better able to directly influence, compared with the other two variables

Figure 12: Effect of 1% Negative Nominal R-Rate Shock on Debt to GDP Ratio

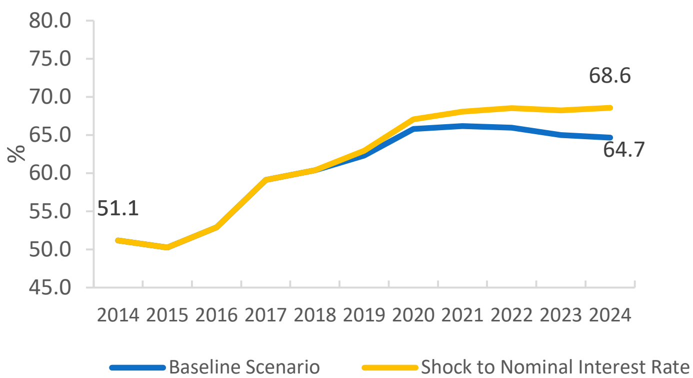
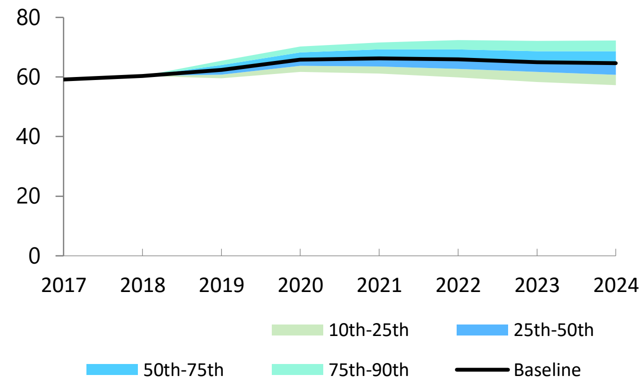


Figure 13: Evolution of Debt to GDP Ratio



Given the importance of maintaining a healthy primary balance for the debt to remain sustainable over time, the debt stabilizing primary balance was also estimated. If the debt to GDP ratio is to converge back to the 60 percent of 2018, a primary surplus averaging 1.0 percent of GDP will have to be maintained during the 2019 to 2024 period. As the Government will inevitably have to increase spending during the next two to three years to respond to the needs of the country following Hurricane, much of the adjustments to achieving the average primary surplus of 1.0 percent of GDP would have to be back loaded to the outer years. Given that the primary balance ratio for the period 2019 to 2021 is estimated to average -0.7 percent of GDP, back loading the adjustment to reach the 60 percent debt ratio by 2024 translates into achieving a higher primary surplus averaging 2.7 percent from 2022 to 2024.

The Fan Chart depicted in Figure 13 indicates that The Bahamas' debt ratio is sustainable over the forecast horizon. This can be interpreted to mean that The Bahamas has a 90 percent probability that its debt to GDP ratio will not exceed 75 percent by 2024—or alternatively, that the probability of the debt ratio exceeding 75 percent of GDP is less than 10 percent.

Annex A: Fiscal Responsibility Act, 2018

SECOND SCHEDULE (Section 10)
CONTENTS OF A FISCAL STRATEGY REPORT

1. The fiscal strategy report shall contain a report for the recently concluded financial year which shall include —
   - (a) analysis of any difference in results from the macroeconomic forecasts and fiscal forecasts in the previous fiscal strategy report;
   - (b) a summary of budget execution compared to the appropriations and statutory expenditure;
   - (c) summary of the performance compared to the general principles in section 6, the fiscal responsibility principles in section 7, and the fiscal objectives in the previous fiscal strategy report;
   - (d) reasons for any deviations from the general principles, fiscal responsibility principles and fiscal objectives in the previous fiscal strategy report with a fiscal adjustment plan to address any such deviations, and the expected time to achieve this;
   - (e) report on the extent to which the risks identified in the previous fiscal strategy report were realised and the effect on fiscal performance; and
   - (f) other matters on performance the Minister considers relevant.
2. The fiscal strategy report shall contain medium-term macroeconomic forecasts setting out actual, estimated and projected values of the following economic variables for no less than the previous two years, the current year, and the next three years including—
   - (a) gross domestic product and its components;
   - (b) inflation;
   - (c) employment and unemployment;
   - (d) exchange rates with major trading partners;
   - (e) interest rates; and
   - (f) money supply and monetary conditions including credit to the private sector;

   and for (a) to (f) the source of the data shall be identified, and for historical information, a statement provided of whether it is official or estimated in cases where official data are not available.
3. The fiscal strategy report shall contain information on the longer-term macroeconomic forecasts.
4. The fiscal strategy report shall contain a statement of assumptions and methodologies underpinning the economic forecasts.
5. The fiscal strategy report shall contain medium-term fiscal forecasts setting out actual, estimated, and projected values of the following fiscal variables for no less than the previous two years, the current year, and the next three years including —
   - (a) revenues by type;
   - (b) aggregate expenditures by economic, administrative, and functional classifications;
   - (c) fiscal balance for the overall budget;
   - (d) a summary of the sources of budget financing;
   - (e) the level of debt by external source, domestic source and total;
   - (f) level of financial and performance guarantees;
   - (g) the accounting principles and methods used in the fiscal strategy report and key assumptions on which the above numbers are based;
   - (h) sensitivity analysis taking account of possible changes in macroeconomic conditions; and

(i) any other information the Minister determines is material to the fiscal forecasts.

6. The fiscal strategy report shall contain fiscal forecasts for the longer term that have been used in formulating the fiscal policies in the fiscal strategy report and such forecasts shall take account of the impacts of changes in demographics and other factors.

7. The fiscal strategy report shall contain a statement of intention with regard to the general principles in section 6 of the Act.

8. The fiscal strategy report shall contain a statement of intention with regard to the fiscal responsibility principles in section 7 of the Act consistent with the First Schedule.

9. The fiscal strategy report shall contain a description of the fiscal policy including —

(1) a table containing the fiscal information for the previous two years, the current year and the forthcoming three years and longer term where relevant including —

(a) aggregate Government expenditure as a percentage of GDP and in nominal terms;

(b) recurrent Government expenditure as a percentage of GDP and in nominal terms;

(c) primary Government expenditure as a percentage of GDP and in nominal terms;

(d) capital Government expenditure as a percentage of aggregate Government expenditure, as a percentage of GDP and in nominal terms;

(e) Government expenditure on wages and benefits as a percentage of GDP and in nominal terms for all positions funded from the annual budget including all positions funded by direct charge on the Consolidated Fund and all positions funded by appropriation;

(f) Government revenues as a percentage of GDP and in nominal terms;

(g) overall fiscal balance as a percentage of GDP and in nominal terms;

(h) Government debt as a percentage of GDP and in nominal terms;

(i) Government arrears as percentage of budget expenditure and in nominal terms;

(j) Government guarantees as a percentage of GDP and in nominal terms; and

(k) Government net worth as a percentage of GDP and in nominal terms when net worth can be measured; and

(2) Table of fiscal objectives to measure the fiscal position of the government against the fiscal responsibility principles consistent with the First Schedule for the forthcoming year and each of the next three years which shall at a minimum include measurable fiscal objectives for the fiscal balance, debt, guarantees, expenditure growth rate, wage expenditure limit, proportion of proposed capital Government expenditure as a percentage of aggregate Government expenditure and any measures for an adjustment plan if in force;

(3) information on the fiscal policies for medium-term including—

(a) the revenue policy with planned changes to taxes and policies affecting other revenues and intentions regarding revenue collection activities;

(b) policy on the fiscal balance;

(c) debt policy with a summary of the debt management strategy, a summary of the debt sustainability analysis, debt ceilings, and guarantee ceilings; and

(d) expenditure policy including expenditure priorities linked to ceilings;

(4) an assessment of the consistency of the planned fiscal policy aggregates and measurable fiscal objectives in paragraph 9(2) of this Schedule with the fiscal responsibility principles, the requirements in the First Schedule and the requirements of section 8(2);

(5) a medium-term expenditure framework stating the Government's annual and medium-term expenditure intentions and an explanation of any changes in the proposed ceilings from the previous fiscal strategy report including —

(a) the aggregate expenditure ceiling to be used in the preparation of the annual budget which shall include indicative ceilings for two further outer years;

(b) ceilings for central Government expenditure by Ministry and other budget entity for the budget year and next two years to be used as the basis for the preparation of the annual budget;

(c) forecast non-financial performance information at a suitable level of aggregation linked to the budget to show what is planned to be provided and achieved for the proposed expenditure, for strategic changes only; and

(d) information on major public investments including priorities and rationale for these and forecast costs for the forthcoming budget year and two outer years related to expenditure ceilings.

10. The fiscal strategy report shall contain a fiscal risk statement with quantified risks where practicable including—

(a) contingent liabilities;

(b) any commitments not included in the fiscal forecasts;

(c) all other circumstances which may have a material effect on the fiscal and economic forecasts, and which have not already been incorporated into the fiscal forecasts; and

(d) risk management intentions.

11. The fiscal strategy report shall contain a statement of responsibility signed by the Minister and the Financial Secretary attesting to the reliability and completeness of the information in the fiscal strategy report and its compliance with the law.

12. If the Government is unable to provide any of the information required by this Schedule the Ministry shall state in the fiscal strategy report the reasons for any missing information and shall ensure that such information is available as soon as practicable for future fiscal strategy reports.

13. For the purposes of this Schedule —

"**current expenditure**" means spending for acquisition of all goods and services, personnel cost including salaries, emoluments and other employee benefits; and transfer payments, inclusive of interest payments, subsidies, transfers to non-financial public enterprises, public corporations, to households, abroad and to non-profit institutions which excludes all outlays that result in debt reduction and the acquisition of financial assets;

"**debt**" means all direct charge on the central government that require payments of interest and principal to both resident and non-resident creditor;

"**fiscal balance**" means total revenues and grants minus total expenditure where revenues and grants are computed as total revenues less borrowings, refunds, and sales of financial assets;

"**Gross Domestic Product**" means the nominal value of all goods and services produced in the economy within a year, as compiled by the Department of Statistics and in the absence of official statistics, estimates produced by the Ministry of Finance shall be utilized and subsequently updated once the official statistics are available and until quarterly official GDP statistics become available, estimates for the fiscal year shall be derived by taking the average of the current and the preceding calendar year.