COMMONWEALTH OF THE BAHAMAS

THE MINISTRY OF FINANCE

FY2022/23 QUARTER II

SIX MONTH REPORT ON BUDGETARY PERFORMANCE

FY2022/23 JULY – DECEMBER

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1. ABOUT THIS REPORT

GENERAL STATEMENT

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

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

BASIS OF PREPARATION

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

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

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

UNAUDITED DATA

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

ROUNDING

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

2. EXECUTIVE SUMMARY

During the first half of the 2022/23 fiscal year, The Bahamas sustained an active economy owing to feverish activity within the tourism sector. Despite elevated global prices and diminished growth amongst major source markets, the domestic tourism sector remained lively, surpassing pre-COVID levels. As a result, employment within the sector has been elevated to facilitate improved visitor arrivals from released pent up demand. As gasoline prices declined in the final months of 2022, global and domestic month-on-month inflation rates begun to show rates of contraction. Additionally, price controls have been expanded to include a variety of items over the short term in an aim to further reduce average living costs. The impact of these reforms may be observable, in terms of taming inflation, in the ensuing period.

Government fiscal performance during the second quarter FY2022/23 indicates continued levels of strong revenue collections exceeding those of the prior year. Owing to improved economic conditions Government expenditure continues to return to historic trends as Government spending is refocused to support priorities and programs. Notwithstanding increases in pensions and restoration of promotional exercises and gratuities increasing recurrent expenditure, capital expenditure continued to be contained in proportion to GDP.

Preliminary data on central Government's fiscal performance for the first six-months of FY2022/23 indicate a deficit of $276.0 million (see Table 1), $5.4 million (1.9 percent) lower than the same period of the year prior and 48.9 percent of the budget target.

» Total revenue settled at $1,258.3 million— advancing $124.7 million (11.0 percent) over the prior year and 44.9 percent of the budget target. Tax receipts widened by $130.6 million (13.5 percent) to settle at $1,096.5 million and 44.0 percent of the budget. During the period, Value Added Tax (VAT) aggregated $598.8 million (42.4 percent of budget). Improvements were also noted in taxes on: property of $22.7 million (35.1 percent of budget); gaming taxes of $8.4 million (49.6 percent of budget); departure taxes $45.0 million (73.7 percent of budget)); excise duties of $37.4 million (73.7 percent of budget) —reflecting increased economic activity and improved collection processes. Non-tax performance moderated by $6.9 million (4.1 percent) to $160.6 million, owing to decreases of $17.5 million (35.4 percent) in property income, and $14.5 million (13.5 percent) in fee and service charges compared to the prior years.

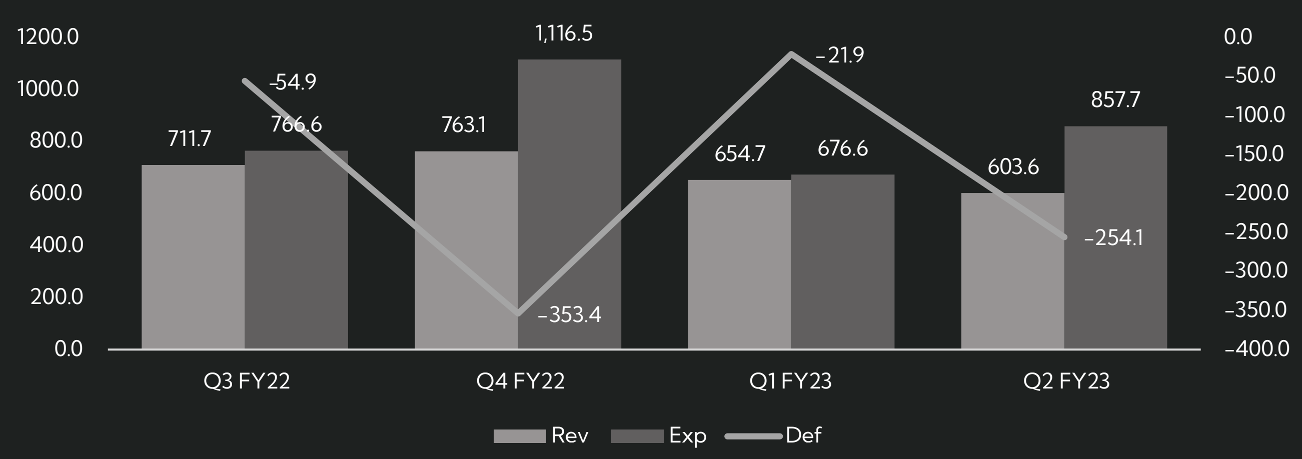
TABLE 1: FISCAL SUMMARY (STATEMENT OF SOURCES & USES OF CASH) (B$M)

(B$M)	[a]	[b]	[c]	[b] -[c]	[b/a]
	Budget	July - December			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
Revenue	**2,804.3**	**1,258.3**	**1,133.7**	**124.7**	**44.9%**
Tax	2,492.1	1,096.5	965.9	130.6	44.0%
Non-tax	309.4	160.6	167.6	(6.9)	51.9%
Grants	2.8	1.1	0.2	1.0	41.5%
Expenditure	**3,368.4**	**1,534.3**	**1,415.0**	**119.3**	**45.6%**
Recurrent	2,997.2	1,416.6	1,311.3	105.3	47.3%
Capital	371.1	117.7	103.7	14.0	31.7%
Surplus/(Deficit)	**(564.0)**	**(276.0)**	**(281.4)**	**5.4**	**48.9%**
Financing Activities	**564.0**	**276.0**	**281.4**	**(5.4)**	**48.9%**
Net Acquisition of financial assets (-)	**46.5**	**20.0**	**26.6**	**(6.6)**	**43.0%**
Sinking Funds	46.5	20.0	26.6	(6.6)	43.0%
Equity	0.0	0.0	0.0	0.0	0.0%
Other	0.0	0.0	0.0	0.0	0.0%
Net Incurrence of Liabilities (+)	**688.8**	**236.2**	**387.3**	**(151.1)**	**34.3%**
Borrowings	1,965.5	1,422.1	1,098.3	323.8	72.4%
Debt Repayment	1,276.7	1,185.9	711.0	475.0	92.9%
Change in Cash Balance [()= increase]	**(78.2)**	**59.8**	**(79.4)**	**139.1**	**-76.0%**

» Total expenditure aggregated to $1,534.3 million, an increase of $119.3 million (8.4 percent) compared to the same period of the previous year and 45.6 percent of the budget target.

- Recurrent spending totaled $1,416.6 million, expanding $105.3 million (8.0 percent) and accounting for 47.3 percent of the budget target. Key increases were in the amount of: $42.2 million in personal emoluments, $41.1 million in interest payments, $32.2 million in other payments and $24.1 in the acquisition of goods and services. Despite the overall rise in public spending there were decreases of: $36.9 million in social assistance benefits owing to elimination of COVID-19 social assistance and benefits through the year, and $5.6 million in subsidies.
- Capital expenditure increased by $14.0 million (13.5 percent) to $117.7 million and 31.7 percent of the budget target. Higher capital spending was driven by supplementary spending of $20.1 million (24.9 percent) in the acquisition of non-financial assets.

FIGURE 1: BUDGETARY PERFORMANCE (B$M)



» During the first half of FY2022/23, the Government experienced a net deficit of $276.0 million, which represented a decrease of $5.4 million (1.9 percent) as compared to the prior fiscal year. The net financing during the period totaled $236.2 million, a $151.1 million (39.0 percent) decrease in the net liability as compared to the $387.3 million experienced in the prior fiscal year for the same period.

» During the period, contributions made to the sinking funds established to retire future debt obligations totaled $20.0 million. At end-December 2022, the three (3) arrangements earmarked for scheduled retirement of external bonds held a cumulative value of USD 296.0 million, while the funds set aside for the two (2) local arrangements stood at B$ 15.6 million. As a result of the February 2022 repurchase agreement, $251.7 million of external bonds have been sold for repurchase in two (2) years.

» Additionally, to ensure liquidity in meeting its operational needs, the Government provided $30 million to BPL via loan funding. The loan remains outstanding, to be settled in the future.

» Government's gross borrowing totaled $1,422.1 million as compared to $1,098.3 million in the same period of the prior fiscal year to satisfy budgetary financing requirements and to settle maturing debt instruments. Of this total, $462.5 million was provided via domestic bond issuances, $582.0 million in Central Bank advances, and $72.1 million in treasury bills and notes. Foreign currency loan financing of $275.8 was borrowed, and $29.7 million drawn from an existing loans from development agencies.

» Repayments of Government debt increased to $1,185.9 million compared to $702.7 million in the same period of the prior year. Bahamian Dollar repayments included reductions in Central Bank advances ($452.0 million); Bahamas Government Registered Stock ($417.4 million); and bank loans ($71.4 million). Foreign repayments amounted to $245.1 million consisting of $231.3 million in foreign bank loan repayments and $13.8 million to international development agencies.

» As a result of net borrowing activities, the Direct Charge on the Government—exclusive of exchange rate adjustments, increased by $236.2 million. When exchange rate adjustments are applied, the total Direct Charge at end-December 2022 totaled $11,036.0 million or 86.9 percent of GDP, equivalent to the percentage at end-June 2022.

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

BOX A: SUMMARY OF COVID-19 EXPENDITURE

During first six months of FY2022/23, Government continued the process of contracting its COVID-19 related health containment, mitigation and support programs for impacted families and businesses. These outlays are estimated at $2.2 million and, together with past outlays, brings the aggregate spend to approximately $459.7 million.

	FY2019/20	FY2020/21p	FY2021/22p	FY2022/23	Total
	Mar – June	July – June	July – June	July – Dec	
Recurrent Expenditure	**39.2**	**268.5**	**96.6**	**4.7**	**409.0**
Public Health Safety	1.9	36.6	14.8	2.1	55.4
Unemployment Assistance	10	164.7	62.3	0.0	237.0
Goods & Services Acquisition	1.8	2.2	2.7	0.5	7.2
Job Retention Programs	21.4	23	6.4	1.2	52.0
Food Assistance	2	40.4	7.8	0.0	50.2
Other	2.1	1.5	2.6	0.9	7.2
Capital Expenditure	**40.3**	**4.7**	**5.7**	**0.0**	**50.7**
Public Health Safety	0.4	0	0	0	0.4
Goods & Services Acquisition	0.6	0.1	0	0	0.7
COVID-19 Unit	0.3	0.5	0	0	0.8
Small Business Loans	39	4.1	5.7	0.0	48.8
Total	**79.5**	**273.3**	**102.3**	**4.7**	**459.7**

3. ECONOMIC OVERVIEW

During the first half of FY2022/23, preliminary data suggests a nominal widening of domestic economic activity above pre-COVID and pre-Dorian levels as measured by Government consumption based tax receipts. The improved performance is largely explained by continued growth in demand for the local tourism product beyond pre-COVID-19 levels from major source markets, despite the protracted period of elevated inflation levels globally.

In its January 2023 release, the US Labor Department estimated month-over-month consumer prices rose 0.4 percent in October 2022, 0.1 percent in November 2022 and contracted 0.1 percent in December 2022, a continuation of the slowing in inflation experienced in the prior quarter. Owing to a decline in global gasoline prices to levels observed prior to the Ukraine conflict, the decline in the broad US Consumer Price Index (CPI) represented one of the first signs of a return to pre-COVID market conditions. On the labour front, despite sluggish job growth in the second and third quarter 2022, the US Department of Labour posted labor reported strong market growth in December. At end-December, unemployment levels were estimated at 3.5 percent, equivalent to pre-pandemic lows.

In the euro area, unemployment decreased from 7.1 percent in October 2022 to 6.5 percent in November 2022, but slightly increased to 6.6 percent at end-December 2022. Consumer prices in the euro area gradually increased over the period, growing to 10.1 percent in October 2022, and 10.6 in November 2022, which represents a drastic increase from the 4.9 percent experienced the prior year. However, in December 2022, the inflation rate fell to 9.2 percent.

In China, unemployment levels grew over the period, peaking at 5.7 percent at end- November 2022, and falling to 5.5 percent at end-December 2022. In terms of inflation, consumer prices contracted 0.5 percent in November 2022 before rising 0.2 percent in December 2022.

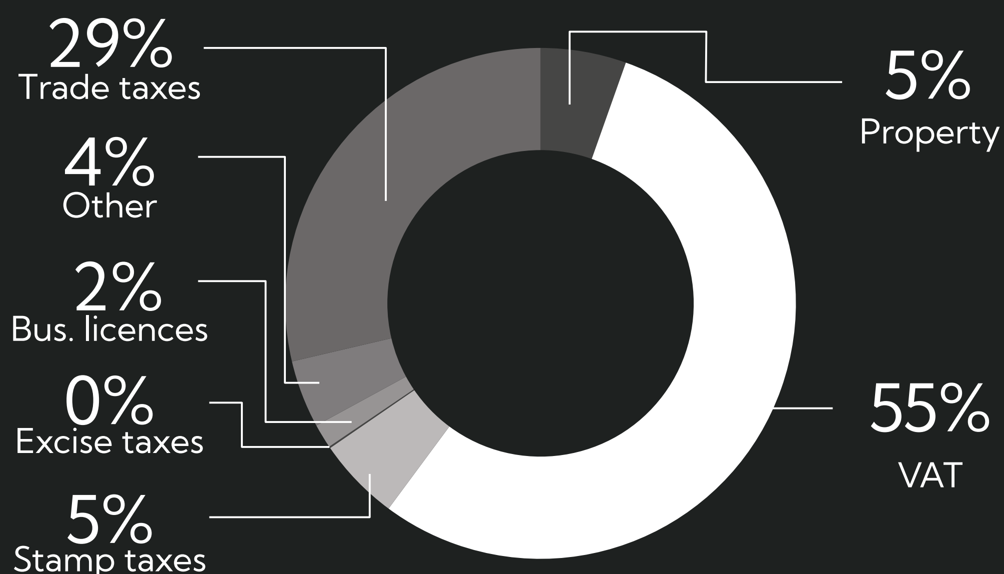
In the local economy, travel demand from major source markets remained resilient, with stopover arrivals to The Bahamas improving by 78.8 percent during the second quarter compared to the prior year. Increased arrivals are owing to 357,534 thousand (101.7 percent) additional sea arrivals and 80,647 thousand (39.4 percent) additional air arrivals, year-over-year. Further, demand for travel persisted during the quarter with numerous hotels and resorts reporting at minimum, pre-pandemic revenues for the period. Likewise, in the short term home rental market for November 2022, occupancy outperformed 2019 levels by 88.5 percent supporting revenue growth of $16.5 million (162.8 percent) beyond 2019 levels.

Persistent demand within the tourism sector supported employment within the economy, as property owners and local businesses sought to service market demand. Inflationary pressures persist in tandem with vehement economic activity as both phenomena feed into one another. According to the BNSI, the inflation rate for October 2022 was 6.5 percent and fell to 6.0 percent for November 2022, which further declined to 5.5 percent at end-December 2022. Despite falling consumer prices by quarter-end, plans to further adjust living costs were proposed via the implementation of price controls on specific items. The impact of these reforms may be observable, in terms of taming inflation, in the ensuing period.

4. REVENUE PERFORMANCE

For the first six months of FY2022/23, total revenue receipts increased by $124.7 million (11.0 percent) compared to the prior year. The aggregate $1,258.3 million, represent 44.9 percent of the budget target (see Table 3). Revenue collections benefited from the continued surge of visitor activity within the tourism sector as demand persists. Year-to-date revenue collections are consistent with pre-Dorian/pre-COVID-19 fiscal revenue trends as evidenced by Q2 FY2018/19 revenue collections of $1,011.7 million, representing 41.7 percent of FY2018/19 total revenue target. Improved revenue performance was supported by increases in tax revenue of $130.6 million (44.0 percent) to $1,096.5 million (44.0 percent of budget) despite the $6.9 million (4.1 percent) contraction of non-tax revenue to $160.6 million (51.9 percent of the budget).

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



Key developments supporting positive revenue collections during the six months of FY2021/2022 are outlined below.

» Taxes on Property grew by an estimated $22.7 million to $59.5 million, and represented 35.1 percent of the annual budget, in line with collection trends, as majority of property taxes are paid in the third quarter.

» Taxes on Goods & Services, increased by $17.8 million (2.6 percent), representing 39.8 percent of the budget.

- Period-over-period VAT receipts improved 10.0 percent ($54.2 million) to $598.8 million. Representing 42.4 percent of the budget target, improved first quarter VAT collections are attributed to improved economic conditions as compared to the year prior during the early stages of the post-COVID-19 economic rebound. Efforts of the reconstituted Revenue Enhancement Unit have also aided in tax administration to support timely tax collections.
- Stamp Taxes on financial and real estate transactions grew by $5.7 million (11.9 percent) to $53.5 million, for 77.2 percent of the budget.
- Excise Tax collections amounted to $1.1 million, representing 1.7 percent of the budget, owing to timing differences associated with the payment of tax refunds and revenue reallocations.
- Taxes on Specific Services (Gaming Taxes) grew modestly to $261 million reflecting $8.4 million (47.2 percent) improvement from the prior year, and 49.6 percent of the budget.
- Motor vehicle tax collections remained constant at $14.2 million, accounting for 30.8 percent of the budget target.
- License to conduct special business activity – which comprises specific business licenses and communication levies – declined $10.6 million (39.0 percent) to $16.6 million.

FIGURE 3: YEAR-ON-YEAR 6- MONTH COMPARISON OF TAX REVENUE PERFORMANCE (B$M)

» Taxes on International Trade & Transactions broadened by $88.5 million (39.2 percent) to $314.3 million during the period compared to the prior year. Strong international trade and transaction receipts are largely owing to rebounds in the travel industry with the release of pent up demand following repealed restrictions. Reflecting 61.8 percent of budget projections, performance in this category is mainly explained by:

- Excise & Export Duties firmed by $37.4 million (45.8 percent) to $119.0 million reflecting 73.7 percent of budget; and
- Departure Tax collections increased by $45.0 million (170.2 percent) to total $71.5 million, representing 73.7 percent of budget largely as a result of improved airlift as the tourism industry rebounds.
- Further improvements were noted $6.0 million (5.1 percent) in customs and other import duties and $0.1 million (54.0 percent) in other taxes on trade and transactions.
- General stamp taxes increased by $1.6 million (37.0 percent) to an estimated $5.8 million, representing 55.8 percent expected collections.

Non-tax revenue contracted modestly during the period by $6.9 million when compared to the prior year, owing to::

» Property income tapered by $17.5 million (35.4 percent) to total $32.0 million (85.0 percent of the budget). Interest & Dividend collections fell $22.2 million (58.0 percent), accounting for 83.3 percent of the budget target. Despite the decline in non-tax revenue Government property revenue grew $4.7 million (42.2 percent) year-over-year.

» Sale of goods & service revenue declined by $14.0 million (12.2 percent) to $100.2 million and 47.1 percent of the budget. Depressed revenue collections were attributed to normal economic activity following COVID-19 related fluctuations.

- During the period immigration related receipts returned to pre-COVID 19 levels, following elevated levels in the prior fiscal year as applicants caught up with work & residency permits and other immigration fee payments after the pandemic. At end December, collections of immigration related fees lessened by $70.9 million (55.8 percent) to $56.1 million and 52.8 percent of budget.
- General service fee receipts fell $6.7 million (48.1 percent) to 72.2 million, reaching 40.3 percent of the budget target.
- Customs fee collections also lowered during the period by $28.0 million (55.9 percent) to $22.2 million (42.1 percent of budget).

» Receipts from miscellaneous and unidentified collections firmed by $25.2 million, amounting to $25.9 million in collections and 665.0 percent of the budget. Elevated collections are partially owing to the closing of 11,101 dormant Dept. of Social Services support programmes and the return of $7.9 million in unused funds to the public purse.

TABLE 3: REVENUE SUMMARY (B$M)

	[a]	[b]	[c]	[b] -[c]	[b]/[a]
	Budget	**July - December**			
	FY2022/23	**FY2022/23p Actual**	**FY2021/22p Actual**	**Variance**	**% of Budget**
TAX REVENUE (a+b+c+d)	**2,492.1**	**1,096.5**	**965.9**	**130.6**	**44.0%**
a. Taxes on Property	**169.4**	**59.5**	**36.8**	**22.7**	**35.1%**
b. Taxes on Goods & Services (i+ii+iii)	**1,804.0**	**716.9**	**699.1**	**17.8**	**39.7%**
i. General	**1,547.7**	**653.4**	**592.3**	**61.0**	**42.2%**
VAT	1,411.8	598.8	544.5	54.2	42.4%
Stamp taxes (Financial & Realty)	69.3	53.5	47.8	5.7	77.2%
Excise Tax	66.6	1.1	40.4	(39.2)	1.7%
ii. Specific (Gaming taxes)	**52.7**	**26.1**	**17.8**	**8.4**	**49.6%**
iii. Taxes on Use of Goods/ Permission to Use	**203.6**	**37.4**	**48.7**	**11.2**	**18.4%**
Motor Vehicle Taxes	46.0	14.2	14.2	(0.0)	30.8%
Company Taxes	22.5	5.1	5.2	(0.1)	22.7%
Licence to Conduct Special Bus. Activity	130.6	16.6	27.2	(10.6)	12.7%
Marine License Activities	4.5	1.6	2.0	(0.5)	34.6%
c. Taxes on Int'l Trade & Transactions	**508.3**	**314.3**	**225.8**	**88.5**	**61.8%**
Customs & other import duties	249.7	123.4	117.4	6.0	49.4%
Excise Duties	161.5	119.0	81.6	37.4	73.7%
Departure Taxes	97.0	71.5	26.5	45.0	73.7%
Other	0.1	0.4	0.2	0.1	291.9%

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

	[a]	[b]	[c]	[b] -[c]	[b]/[a]
	Budget	July - December			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
d. General Stamp Taxes	**10.4**	**5.8**	**4.2**	**1.6**	**55.8%**
NON-TAX REVENUE (e+f+g+h+i+j)	**309.4**	**160.6**	**167.6**	**(6.9)**	**51.9%**
e. Property Income	**37.7**	**32.0**	**49.5**	**(17.5)**	**85.0%**
Interest & Dividends	19.4	16.1	38.3	(22.2)	83.3%
Revenue_Gov't Property	18.3	15.9	11.2	4.7	86.7%
f. Sales of goods & services	**212.8**	**100.2**	**114.2**	**(14.0)**	**47.1%**
i. Fees & Service Charges	**194.1**	**92.9**	**107.3**	**(14.5)**	**47.8%**
General Registration	4.1	2.2	4.5	(2.3)	52.8%
General Service	18.0	7.2	14.0	(6.7)	40.3%
Immigration	106.2	56.1	127.0	(70.9)	52.8%
Land & Building	2.3	1.3	2.4	(1.1)	56.3%
Legal	1.3	0.6	1.1	(0.5)	47.4%
Customs	52.7	22.2	50.2	(28.0)	42.1%
Port & Harbour	7.7	2.8	5.9	(3.1)	36.6%
Health	1.0	0.5	1.2	(0.8)	48.7%
Other Fees	0.9	0.0	2.4	(2.4)	0.2%
ii. Other	**18.7**	**7.4**	**6.9**	**0.5**	**39.4%**
g. Fines, Penalties & Forfeits	**5.7**	**2.2**	**2.9**	**(0.7)**	**38.8%**
h. Reimbursements & Repayments	**49.2**	**0.0**	**0.0**	**(0.0)**	**0.0%**
i. Misc. & Unidentified Revenue	**3.9**	**25.9**	**0.7**	**25.2**	**665.0%**
j. Sales of other Non-Financial Assets	**0.1**	**0.3**	**0.3**	**0.0**	**290.5%**
TOTAL TAX & NON-TAX REVENUE	**2,801.6**	**1,257.5**	**1,133.5**	**124.0**	**44.9%**
GRANTS	**2.8**	**1.1**	**0.2**	**0.9**	**39.3%**
CAPITAL REVENUE	**0.0**	**0.1**	**0.1**	**(0.0)**	**536.7%**
GRAND TOTAL	**2,804.3**	**1,258.7**	**1,133.7**	**125.0**	**44.9%**

BOX B: TRENDS IN GOVERNMENT REVENUE PERFORMANCE & POLICY INITIATIVES

Preliminary data for the first half of FY2022/2023 revenue performance indicates a continued strengthening of Government revenue collections toward the peak figures experienced pre-pandemic and pre-Hurricane Dorian. Tax revenue collections improved 17.2 percent (76.5 million) when compared to the same quarter of the prior year. Improved tax revenue collections can be explained by increases of $20.1 million in VAT, $22.5 million in property taxes, and $39.8 million in international trade and transaction fees.

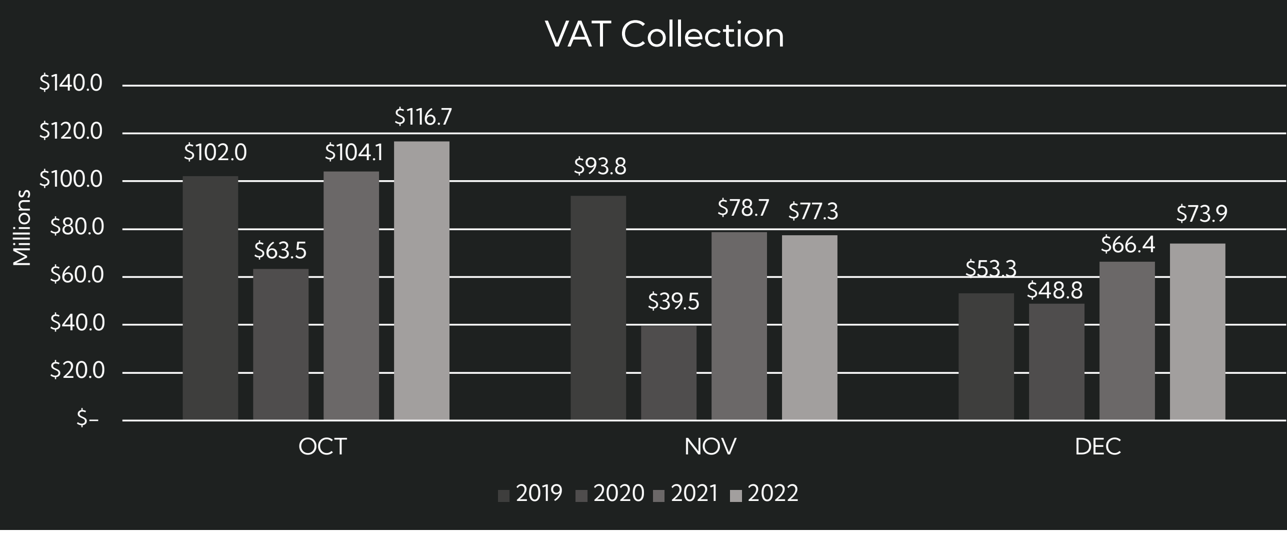
TABLE 4: REVENUE SUMMARY (B$M)

	FY2021/22					FY2022/23	
	QI	QII	QIII	QIV	Total	QI	QII
TAX REVENUE (a+b+c+d)	**520.3**	**445.6**	**592.7**	**603.2**	**2,161.8**	**574.4**	**521.8**
a. Taxes on Property	**20.6**	**16.2**	**69.6**	**40.5**	**147.0**	**20.9**	**38.6**
b. Taxes on Goods & Services (i+ii+iii)	**381.8**	**317.3**	**397.5**	**395.5**	**1,492.0**	**387.8**	**329.2**
i. General	**349.0**	**283.6**	**300.3**	**332.3**	**1,265.3**	**359.9**	**293.4**
VAT	295.4	249.2	290.5	300.8	1,135.8	331.0	267.8
Stamp taxes (Financial & Realty)	26.7	21.0	3.9	31.3	83.0	28.5	24.9
Excise Tax	26.9	13.4	5.9	0.3	46.5	0.4	0.7
ii. Specific (Gaming taxes)	**10.5**	**7.3**	**19.7**	**13.8**	**51.3**	**12.8**	**13.4**
iii. Taxes on Use of Goods/ Permission to Use	**22.3**	**26.3**	**77.4**	**49.3**	**175.4**	**15.1**	**22.4**
Motor Vehicle Taxes	4.8	9.4	10.5	9.0	33.7	7.0	7.2
Company Taxes	1.8	3.4	11.7	2.6	19.5	2.0	3.2
Licence to Conduct Special Bus. Activity	14.6	12.6	53.8	35.9	116.8	5.4	11.2
Marine License Activities	1.1	0.9	1.5	1.8	5.3	0.7	0.9
c. Taxes on Int'l Trade & Transactions	**115.6**	**110.2**	**120.8**	**165.2**	**511.8**	**164.3**	**150.0**
Customs & other import duties	62.3	55.1	63.5	67.6	248.6	61.2	62.2
Taxes on Exports	42.6	39.0	35.0	60.9	177.5	65.4	53.6
Departure Taxes	10.6	15.9	22.2	36.3	84.9	37.5	34.0
Other	0.1	0.1	0.1	0.4	0.7	0.2	0.1
d. General Stamp Taxes	**2.2**	**2.0**	**4.8**	**2.0**	**11.1**	**1.8**	**4.0**

In January 2022, the Government launched of its expansionary fiscal policy by reducing the nominal rate of VAT from 12 percent to 10 and eliminated many zero rating categories to improve equitability in the domestic tax structure. This new policy was implemented with effect 1 January 2022. Subsequently, direct transfers in the form of pension payments and other benefits were increased. Despite the reduction in the nominal VAT rate, revenue outturn from VAT receipts grew period-over-period by 4.1 percent to $600.2 million for the first six months of FY2022/23. The same total increased over the first two quarters of FY2021/22 by $ 290.2 million (101.4 percent) when compared to the depressed FY2020/21 figure of $286.3 million.

BOX B: TRENDS IN GOVERNMENT REVENUE PERFORMANCE & POLICY INITIATIVES

FIGURE 4: MONTHLY VAT COLLECTIONS BY YEAR



5. EXPENDITURE DEVELOPMENTS

A. RECURRENT EXPENDITURE – ECONOMIC CLASSIFICATION

During the first half of the FY2022/2023, total outlays for recurrent expenditure increased by $105.3 million (8.0 percent) to aggregate $1,416.6 million compared to the same period in the prior year—representing 47.3 percent of the targeted spend ***(see Table 5)***.

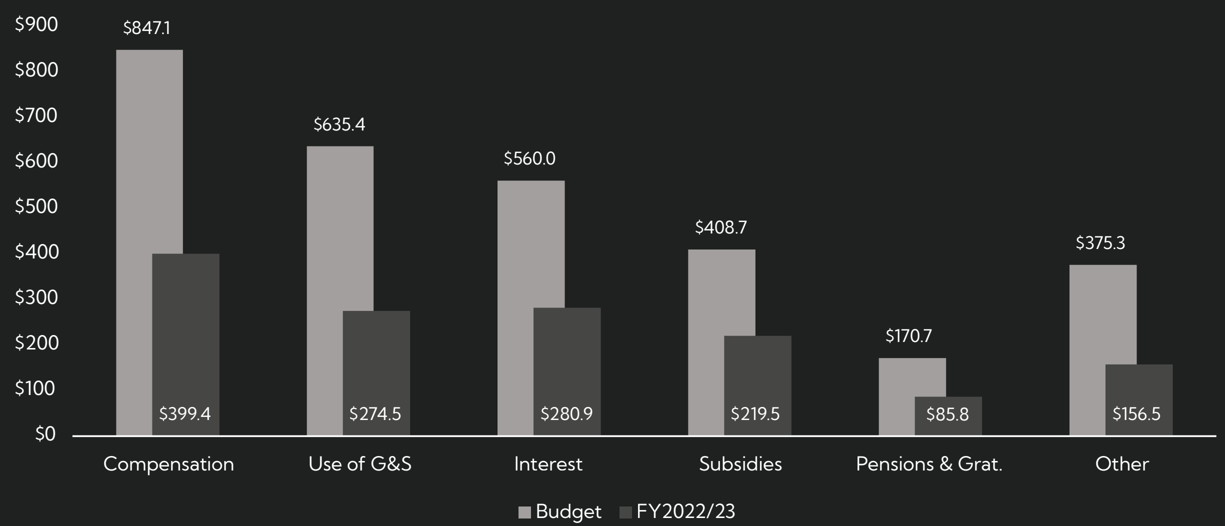
» Compensation of employees increased by $42.2 million (11.8 percent) to $399.4 million and represented 47.2 percent of the budget target. This widening of expenditure is largely explained by period-over-period expansions in employee wages ($35.9 million), summer employment ($1.2 million), special employment programs ($2.7 million), and overtime payments ($1.8 million). The increase in the public-sector wage bill reflects staff promotions, salary adjustments, and additional hires for staffing needs in new and existing Government Ministries and agencies. As such, employer's social contribution grew period-over-period by $1.4 million.

» Spending on the use of goods and services increased by $24.1 million (9.6 percent) to $274.5 million, relative to the same period in the prior year. This accounted for 43.2 percent of the annual budget.

- Rental costs increased by $11.4 million (34.8 percent) to $44.1 million, for 50.9 percent of the budget. This was mainly driven by higher lease payments relative to the National Insurance Board ($5.7 million), office rent payments ($3.4 million), vehicle lease payments ($1.3 million), and living accommodations ($0.9 million).

- Utilities and telecommunications payments increased by $3.8 million (14.1 percent) to $30.6 million and represented 29.6 percent of the budget. While electricity services was phase-down by $7.0 million period-over-period, increased spend was mainly owing to street lighting ($5.9 million), communication services ($2.7 million), and water services ($2.1 million).
- Expenditure on supplies and materials increased by $5.0 million (38.7 percent) to $17.9 million, for 38.8 percent of the budget.
- Outlays for travel and subsistence increased by $3.4 million (70.0 percent) to $8.1 million, for 54.9 percent of budget.
- Spending on services increased by $23.6 million (24.3 percent) to $121.0 million, for 46.4 percent of the budget; reflective of higher outlays for consultancy services ($16.5 million) and operation of facilities ($9.5 million), which outpaced board savings in this spending category.
- Finance charges widened by $1.6 million (20.0 percent) to $9.8 million (33.8 percent of the budget) primarily owing to increased foreign exchange hedging activities.
- Conversely, special financial transactions, which include payment of arrears, decreased by $26.9 million (50.3 percent) to $26.6 million, and accounted for 45.7 percent of budget.

FIGURE 5: 6-MONTH COMPARISON OF RECURRENT EXPENDITURE VS BUDGET FOR FY2022/23 (B$M)



» Public debt interest payments increased by $41.1 million (17.1 percent) to $280.9 million and 50.2 percent of budget. By currency, payments on foreign currency obligations totaled $153.6 million (54.7 percent) while payments on domestic debt obligations totaled $127.3 million (45.3 percent).

» Government subsidies, which include transfers to Government-owned and/or controlled enterprises that provide commercial goods and services to the public, narrowed by $5.6 million (2.5 percent) to $219.5 million, which equaled 53.7 percent of the budget.

- Subsidies to public non-financial corporations declined by $9.5 million (4.4 percent) to $208.3 million. Due to the end of Emergency Orders and reduced reliance on COVID-19 support, transfers tightened for Bahamasair ($1.4 million) and the Public Hospital Authority ($14.6 million). However, during the period, transfers increased for Water and Sewerage ($4.6 million) and the University of the Bahamas ($1.1 million).
- Subsidies to private enterprises and other sectors rose by $3.9 million (59.4 percent) to equate $11.2 million, owing to the $4.0 million equity contribution payment to Bahamar suspended during the prior year.

» Social benefit payments declined by $29.0 million to aggregate $106.6 million (21.4 percent) and 48.0 percent of the budget. As COVID-19 Emergency Orders ended and domestic economic conditions continue to improve, the need for related Government support was averted.

- Social assistance benefits declined by $36.9 million (64.0 percent) and moderated to $20.8 million (40.4 percent of the budget).
- Pension and gratuity payments increased by $7.9 million (10.1 percent) to $85.8 million and 50.3 percent of the budget, largely attributed to Government's cost of living increase to pensions as outlined in the FY2021/22 Supplementary Budget.

» Other Payments increased by $32.2 million to $131.2 million (41.6 percent of budget) due to higher recurrent transfers and payments on insurance premiums for public service officials.

- Current transfers not elsewhere classified increased by $19.6 million (24.8 percent) to $98.5 million and 42.5 percent of the budget. This was primarily attributed to increased allocations toward the Airport Authority ($5.2 million), Lucayan renewal holdings ($5.5 million), Grand Bahama beautification initiative ($2.3 million), scholarships and grants ($2.0 million), public parks ($1.6 million), CARIFTA Games ($1.0 million), and the Bahamas broadcasting corporation ($0.9 million).
- Payment of insurance premiums increased by $12.6 million (62.9 percent) to $32.7 million (39.2 percent of budget) as compared to the prior year, largely owing to timing differences.

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

	[a]	[b]	[c]	[b]- [c]	[b]/ [a]
	Budget	July - December			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
RECURRENT EXPENDITURE					
Compensation of Employees	**847.1**	**399.4**	**357.3**	**42.2**	**47.2%**
Use of Goods & Services	**635.4**	**274.5**	**250.4**	**24.1**	**43.2%**
Travel & Subsistence	14.9	8.1	4.8	3.4	54.9%
Rent	86.7	44.1	32.7	11.4	50.9%
Utilities & Telecommunications	103.3	30.6	26.8	3.8	29.6%
Supplies & Materials	46.1	17.9	12.9	5.0	38.8%
Services	260.8	121.0	97.3	23.6	46.4%
Minor capital repairs	5.4	2.5	2.1	0.4	45.8%
Finance charges	29.0	9.8	8.2	1.6	33.8%
Special Financial Transactions	58.1	26.6	53.5	(26.9)	45.7%
Tourism Related	3.0	2.0	0.0	2.0	66.1%
Local Gov't Districts	13.3	6.2	5.9	0.3	46.7%
School Boards	0.1	0.0	0.0	(0.0)	0.0%
Other	14.7	5.7	6.2	(0.5)	38.7%
Public Debt Interest	**560.0**	**280.9**	**239.8**	**41.1**	**50.2%**
Subsidies	**408.7**	**219.5**	**225.0**	**(5.6)**	**53.7%**
Grants	**8.4**	**4.5**	**4.2**	**0.3**	**53.5%**
Social Assistance Benefits	**51.5**	**20.8**	**57.7**	**(36.9)**	**40.4%**
Pensions & Gratuities	**170.7**	**85.8**	**78.0**	**7.9**	**50.3%**
Other Payments	**315.4**	**131.2**	**99.0**	**32.2**	**41.6%**
Current Transfers n.e.c.	232.0	98.5	79.0	19.6	42.5%
Insurance Premiums	83.4	32.7	20.1	12.6	39.2%
TOTAL	**2,997.2**	**1,416.6**	**1,311.3**	**105.3**	**47.3%**

B. RECURRENT EXPENDITURE – FUNCTIONAL CLASSIFICATION

On a functional basis, preliminary data for recurrent Expenditure for Q2 FY2022/23 (see Table 6) reflect increased expenditure of $105.3 million (8.0 percent) to $1,416.6 million, which accounted for 47.3 percent of the budget.

- Outlays for general public service increased by $115.3 million (24.3 percent) to $589.4 million relative to the prior year, and accounted for 44.7 percent of the budget target. This widening is explained by increased employment costs owing to promotions and other staff adjustments. The Period-over-period increase also reflect the creation and restructuring of Ministries and Departments resulting from the September 2021 General Elections and the change in political administration.
- Spending on education grew by $16.1 million (11.7 percent) to $153.3 million relative to the prior year, for 47.5 percent of the budget target. Period-over-period, further investments were made towards tertiary level and other levels of education ($15.1 million) and subsidiary services to education ($1.0 million).
- Outlays for environmental protection increased by $13.6 million (21.7 percent) to $76.5 million relative to the prior year, and accounted for 59.4 percent of the budget target. This increase reflects additional spending towards environmental protection ($7.4 million), water waste management ($4.6 million), and protection of biodiversity and landscape ($1.6 million).
- Conversely, disbursements for health expenditure contracted by $20.5 million (9.6 percent) to $192.5 million and 50.3 percent of the budget. At a functional level, the reduced health expenditure is attributed to the return of health spending to historic levels with containment of the COVID-19 pandemic.
- Expenditure on social protection, elevated due to the COVID-19 pandemic, declined by $23.2 million (18.0 percent) to $105.3 million (51.1 percent of the budget) compared to the prior year. The elimination of Emergency Orders and broad resumption of business activity reduced the dependence for continuation of COVID-19 social support programs.

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

	[a]	[b]	[c]	[b] –[c]	[b]/[a]
	Budget	**July - December**			
	FY2022/23	**FY2022/23p Actual**	**FY2021/22p Actual**	**Variance**	**% of Budget**
General Public Service	1,319.7	589.4	474.1	115.3	44.7%
Defense	62.1	31.5	31.8	(0.3)	50.7%
Public Order & Safety	253.6	120.4	119.1	1.3	47.5%
Economic Affairs	264.5	115.6	127.8	(12.2)	43.7%
Environmental Protection	128.7	76.5	62.8	13.6	59.4%
Housing & Community Amenities	20.2	11.1	4.2	6.9	54.7%
Health	382.8	192.5	213.0	(20.5)	50.3%
Recreation, Culture & Religion	36.9	21.1	12.9	8.2	57.1%
Education	322.6	153.3	137.2	16.1	47.5%
Social Protection	206.1	105.3	128.5	(23.2)	51.1%
GRAND TOTAL	**2,997.2**	**1,416.6**	**1,311.3**	**105.3**	**47.3%**

C. CAPITAL EXPENDITURE – ECONOMIC CLASSIFICATION

Capital outlays increased by $14.0 million (13.5 percent) to $117.7 million – representing 31.7 percent of the budget (*see **Table 7***).

- » Capital transfers declined by $6.1 million (26.8 percent) to $16.7 million, representing 14.7 percent of the budget target.
  - Major declines reflected the falling away of provisions for COVID-19 and hurricane Dorian support, and resulted in period-over-period reductions for small and medium size businesses ($4.4 million) and National disaster recovery ($4.6 million).
  - During the period, transfers increased primarily for energy restoration and renewable energy ($1.8 million) and pubic private partnerships ($2.7 million).
- » Expenditure on the acquisition of non-financial assets increased by $20.1 million (24.9 percent) to $101.1 million and represented 39.2 percent of the budget target.
  - Investments in buildings other than dwellings increased by $21.8 million (65.3 percent) to $55.1 million and accounted for 67.0 percent of budget. This mainly reflected higher expenditure on upgrades and maintenance of Government buildings ($14.6 million) and hospital and medical facilities ($6.4 million).
  - Expenditure on transport equipment increased by $3.1 million (158.9 percent) to $5.1 million (39.0 percent of budget), primarily owing to higher outlays on motor vehicles ($2.4 million) and air transportation equipment ($0.6 million).
  - Investment on other fixed assets increased by $3.2 million (83.3 percent) to $7.1 million, or 50.2 percent of budget. During the period, outlays increased for acquisition of government assets ($1.9 million) and sundry capital expenses ($1.7 million).
  - Conversely, outlays for other structures contracted by $5.0 million (16.5 percent) to $25.2 million, representing 22.2 percent of budget. The relative declines primarily reflect a reduction in outlays for airport infrastructure ($8.1 million). However, during the period, further investments were made towards subdivision development ($1.1 million) and construction and expansion of buildings and structures ($1.5 million).
  - Other machinery and equipment spend lessened by $1.3 million (15.7 percent) to $6.8 million, or 25.5 percent of budget. During the period, primary declines were noted for military, police and prison equipment ($2.2 million) while additional investments were made towards security and communication ($1.1 million).
  - Land improvement expenditures were reduced by $1.3 million (42.8 percent) to $1.8 million, accounting for 27.5 percent of budget. This was mainly attributed to a $1.1 million reduction for food security capital developments.

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

	[a]	[b]	[c]	[b] -[c]	[b]/[a]
	Budget	**July - December**			
	FY2022/23	**FY2022/23p Actual**	**FY2021/22p Actual**	**Variance**	**% of Budget**
Capital Transfers	**113.1**	**16.7**	**22.8**	**(6.1)**	**14.7%**
Acquisition of Non-financial assets	**258.1**	**101.1**	**80.9**	**20.1**	**39.2%**
Fixed Assets	**256.1**	**101.1**	**80.5**	**20.5**	**39.5%**
Buildings other than dwellings	82.2	55.1	33.3	21.8	67.0%
Other structures	113.4	25.2	30.1	(5.0)	22.2%
Transport equipment	13.0	5.1	2.0	3.1	39.0%
Other Machinery & equipment	26.8	6.8	8.1	(1.3)	25.5%
Land Improvements	6.5	1.8	3.1	(1.3)	27.5%
Other Fixed Assets	14.2	7.1	3.9	3.2	50.2%
Land	**2.0**	**0.0**	**0.4**	**(0.4)**	**0.0%**
TOTAL	**371.1**	**117.7**	**103.7**	**14.0**	**31.7%**

D. CAPITAL EXPENDITURE – FUNCTIONAL CLASSIFICATION

During the second quarter of the FY2023/2023, capital expenditure by function (see Table 8) increased by $14.0 million (13.5 percent) to $117.7 million relative to the same period in the prior fiscal year and accounted for 31.7 percent of the budget target.

» Outlays towards education increased by $14.0 million (61.6 percent) to $36.8 million (89.5 percent of budget) resulting from building maintenance of educational institutions and school ground improvements during the period.

» Health disbursements increased by $9.2 million (201.6 percent) to $13.8 million (23.7 percent of budget) owing to additional spending on general hospital services ($9.4 million).

» Conversely, spending on economic affairs decreased by $6.3 million (11.3 percent) to $49.8 million (27.4 percent of budget). While spending slowed period-over-period for construction ($6.9 million), further outlays went towards fuel and energy ($1.8 million).

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

	[a]	[b]	[c]	[b] –[c]	[b]/[a]
	Budget	July - December			
	FY2022/23	FY2022/23p Actual	FY2021/22p Actual	Variance	% of Budget
General Public Service	53.6	8.4	7.9	0.5	15.7%
Defense	14.7	3.7	2.4	1.4	25.5%
Public Order & Safety	14.1	4.8	6.9	(2.1)	33.7%
Economic Affairs	181.7	49.8	56.1	(6.3)	27.4%
Environmental Protection	5.3	0.4	1.2	(0.8)	7.5%
Health	58.1	13.8	4.6	9.2	23.7%
Recreation, Culture & Religion	0.0	0.0	0.0	0.0	0.0%
Education	41.1	36.8	22.8	14.0	89.5%
Social Protection	2.5	0.1	1.9	(1.8)	2.0%
GRAND TOTAL	**371.1**	**117.7**	**103.7**	**14.0**	**31.7%**

6. FINANCING ACTIVITIES

NET INCREASE IN LIABILITIES

During the first six months of the FY2022/23, a net deficit of $276.0 million was estimated based on preliminary data. This represents a decrease of $5.4 million (1.9 percent) as compared to the prior fiscal year. The net financing during the period totaled $236.2 million, a $151.1 million (39.0 percent) decrease in the net liability as compared to the $387.3 million experienced in the prior fiscal year for the same period.

- Government utilized gross borrowings of $1,422.1 million as compared to $1,098.3 million in the prior fiscal year to satisfy budgetary financing requirements and to settle maturing debt instruments.
  - Domestic bond issuances totaled $462.5 million, chiefly utilized to refinance $417.4 million of maturing bonds;
  - Treasury bills and notes of $72.1 million were issued during the period to meet short term financing needs while $582.0 million in advances were received from the Central Bank;
  - Drawings were made on Deutsche Bank Senior Loan facility of EUR$43.5.
  - Total Drawings of US$232.3 million were made via the International Monetary Fund's special drawing rights, facilitated by Central Bank in two tranches of $185.9 million and $46.3 million. .
- Drawings on existing loans from international development agencies aggregated US$29.7 million which includes:
  - Funding for the Airport Infrastructure Program of $2.5 million;
  - Government Digital Transformation to Strengthen Competitiveness drawing of US$2.8 million;
  - A drawing for Reconstruction with Resilience in the Energy Sector in The Bahamas of US$7.7 million;
  - Financing for the Credit Enhancement Program for Micro, Small and Medium Enterprises of US$1.7 million;
  - A drawing for the program to support the health sector to contain and control coronavirus and to mitigate its effects in service provision of US$5.0 million;
  - Funding to support health system strengthening US$10.0 million.
- Repayments of Government debt increased to $1,185.9 million compared to $711.0 million in the same period of the prior year, and included:
  - Repayments on an export credit facility from Deutsche Bank of EUR6.6 million;
  - A credit agreement repayment to JP Morgan of US$180.0 million;
  - A term facility agreement from Banco Santander S.A amounting to $2.0 million were repaid;
  - Loan repayments to Credit Suisse of 8.2 million Swiss Francs and US$12.3 million;
  - Former BPL loan repayments to the National Bank of Jamaica and Credit Suisse totaling US$14.6 million, and US$3.5 million for a credit agreement between Bank of the Bahamas, Royal Bank of Canada, National Insurance Board, and

Scotia Bank Limited;

- Bahamian Dollar repayments included reductions in Central Bank advances ($452.0 million); Bahamas Government Registered Stock ($417.4 million); and bank loans ($71.4 million).

» Repayments made to international development agencies totaled $13.8 million, primarily comprising:

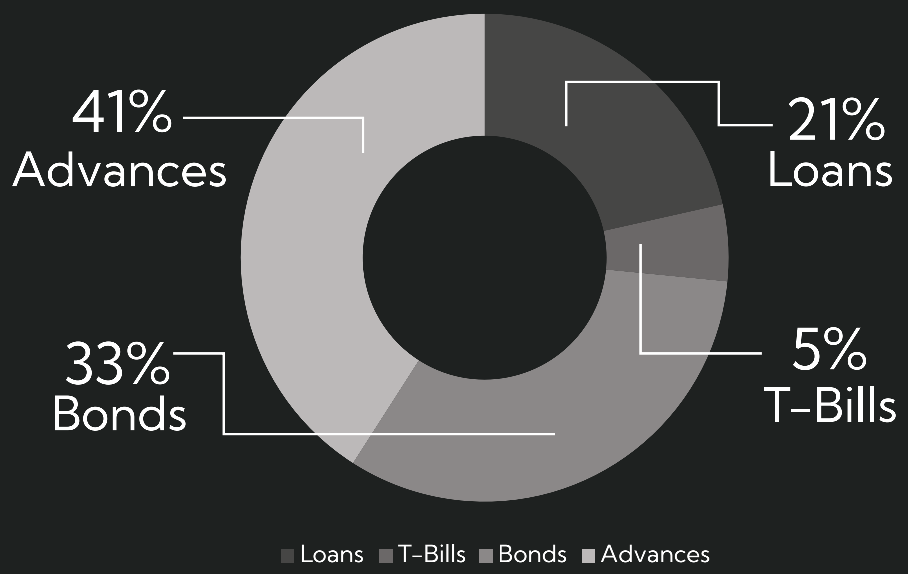
- Total repayment of $4.7 million to the Inter-American Development Bank for the Air Transport program ($0.9 million); supplementary financing for the New Providence Transportation Project, phase 1 ($2.4 million) and the Supplementary Financing for the New Providence Transportation Project, phase 2 ($1.4 million);
- Repayment to the CDB of $3.1 million for the Fiscal Stability and Resilience Building Policy-Based Loan;
- A repayment to the Chinese Export-Import Bank of $1.8 million towards the Airport Gateway Project and $1.2 million for the North Abaco Port & Little Abaco Bridge Project;
- Equity Tranche repayments of US$1.0 million;

As a result of net borrowing activities, the Direct Charge on the Government—exclusive of exchange rate adjustments, increased by $236.2 million. When exchange rate adjustments are applied, the total Direct Charge at end-December 2022 totaled $11,036.0 million or 86.9 percent of GDP, equivalent to the percentage at end-June 2022.

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

	FY2022/23 July - December		
	Borrowings	**Repayment**	**Net Change**
Bahamian Dollars	**1,116.6**	**940.8**	**175.8**
Bonds	462.5	417.4	45.0
Treasury Bills/Notes	72.1	-	72.1
Bank Loans	-	71.4	(71.4)
Central Bank Advances	582.0	452.0	130.0
Foreign Currency	**305.5**	**245.1**	**60.4**
Bank Loans	275.8	231.3	44.4
International Bonds	-	-	-
Loans from Int'l Dev. Agencies	29.7	13.8	16.0
TOTAL	**1,422.1**	**1,185.9**	**236.2**

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



CHANGE IN FINANCIAL ASSET POSITION

During the period, contributions made to the sinking funds established to retire future debt obligations totaled $20.0 million. At end-December 2022, the three (3) arrangements earmarked for scheduled retirement of external bonds held a cumulative value of USD 296.0 million, while the funds set aside for the two (2) local arrangements stood at B$ 15.6 million. As a result of the February 2022 repurchase agreement, $251.7 million of external bonds have been sold for repurchase in two (2) years.

Additionally, to ensure liquidity in meeting its operational needs, the Government provide $30 million to BPL via loan funding. The loan remains outstanding, to be settled in the future.

SIX MONTH REPORT ON BUDGETARY PERFORMANCE FY2022/23 JULY – DECEMBER

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