



Ministry of
Finance

**THE COMMONWEALTH OF THE BAHAMAS 2023/2024 MID-YEAR BUDGET STATEMENT
PRESENTED TO THE HONOURABLE HOUSE OF ASSEMBLY**

**THE HONOURABLE PHILIP DAVIS
PRIME MINISTER
MINISTER OF FINANCE**

WEDNESDAY FEBRUARY 21, 2024

i. Introduction

Madam Speaker:

It is always an honour to rise in this House as the representative of the exceptional people of Cat Island, San Salvador and Rum Cay.

However, I am pleased to stand before you today, in my capacity as Minister of Finance, to present the Mid-Year Review of fiscal performance for the fiscal year 2023/24, as mandated by the law we passed in this very House last year, the Public Finance Management Act of 2023.

This Mid-Year Review provides us with an important opportunity to present to the Bahamian people an update on our progress in carrying out the priorities and plans laid out in our FY2023/24 budget, under the theme, “A Budget for Security and Progress”.

It is with immense gratitude that I am able to report that although we face serious and complex challenges, as do all nations, The Commonwealth of The Bahamas is moving forward decisively, and growing stronger.

Together, we are creating a more dynamic, more inclusive, and more resilient economy, and building the country our people deserve.

The choices made in the budget reflect our profound belief in the dignity of every one of our citizens. Our policies are designed to lift Bahamians up, to create new opportunities and build broader and more meaningful participation in our economy, to protect our borders and strengthen our communities, and to help us care for one another.

Madam Speaker:

In this Communication:

- I will first provide an overview of domestic and international macroeconomic developments during the first half of the fiscal year;
- I will also present an update on the Government's outlook with respect to macroeconomic conditions for the remainder of the fiscal year;
- I will then report on Government's fiscal performance over the first six months; and
- Finally, I will provide an update on the policy priorities articulated to the Bahamian people in the 2023/24 Budget.

2. Macroeconomic Developments

Madam Speaker:

I now turn to a consideration of the most recent macroeconomic developments. As a Small Island Developing State, with an economy greatly impacted by economic developments abroad, reporting on our fiscal health and performance requires reference to developments in the global markets.

Global Economic Overview

The global economy has experienced a slowdown in GDP growth, which is primarily attributable to a deceleration in advanced economies. This, in turn, has largely reflected ongoing and concerted efforts to implement tighter monetary policies, as a means of reining in persistent and damaging inflationary pressures. As a result, we have witnessed a gradual decline in global inflation.

United States Economic Overview

Madam Speaker:

Despite this general, rather muted, global outlook, the economy of our major trading partner, the United States of America, posted real growth to the tune of 3.3 percent in the final quarter of 2023, and a slight lowering of the rate of unemployment to 3.9 per cent. This stronger-than-expected performance was achieved alongside a decline in the rate of inflation to 2.4 per cent during the quarter.

The forecast for 2024 sees economic growth at 1.5 percent, attributed to the anticipated reduction in savings, and tightening monetary policy by the Federal Reserve. Consequently, the unemployment rate is forecasted to peak at 4.0 percent by the last quarter of 2024. These projections suggest a gradual moderation in economic activity in the United States over the coming years, influenced by both domestic and global economic dynamics.

Overview of the Domestic Economy

Madam Speaker:

In 2023, The Bahamas experienced a robust economic rebound, primarily fueled by significant tourism inflows, leading to an estimated real GDP growth of 4.3 percent. This growth, while lower than the previous year's remarkable 14.4 percent, produced an unemployment rate below 9 percent. Inflation peaked in mid-2022. The current account deficit also narrowed to 6.2 percent of GDP, showcasing a positive trend in external balances.

Preliminary indications suggest that the domestic economy maintained its growth trajectory in the latter half of 2023, at a gentler pace, as economic conditions continued to normalize. Strong tourism performance was supported by increases in both air traffic and sea arrivals, reflecting continued demand for travel in our key source markets.

As consumer activity expanded, so did inflationary pressures, albeit in a more subdued manner, compared to recent experience, as measured by changes in the average Consumer Price Index. At the end of November, the Index rose 2.0 percent as compared to the prior year – largely owing to increased health prices, as well as domestic adjustments to the rise in global commodity prices. However, transportation prices had a noteworthy decline, reflecting a moderation in the rate of increase in global oil prices compared to the previous year.

Madam Speaker:

Looking ahead to 2024, the economic outlook remains favorable, with continued growth anticipated, especially in the tourism sector.

The government remains aware of the risks we face as a developing small island nation, including the possibility of economic slowdowns in tourism source markets, or costly natural disasters.

The government is taking multiple steps to address these risks and bolster our economic resilience, including measures to build fiscal buffers, as well as exploring investments in renewable energy infrastructure.

3. Fiscal Performance during the First Half the the 2023/24 Fiscal Year

Revenue

Madam Speaker: I now turn to the fiscal performance for the first half of the 2023/24 fiscal year, starting with the provisional revenue estimates.

For the first six months of the year, preliminary total revenue collections are assessed at \$1.30 billion, which represented a \$43.8 million increase over the same period of the prior year. To date, revenue collections accounted for 39.2 percent of the annual budget target.

Stronger collections are expected in the second half of this fiscal year, reflecting the cyclical nature of the fiscal year. In addition, the revenue yield in the second half of the fiscal year will benefit from new measures such as the increase of the cruise departure tax and the new Business Licence Act. This Act introduces new fees for International Businesses Companies (IBCs) for the first time. We have not forecasted any major uplift as IBCs by their very nature are mobile.

Madam Speaker:

I will share some key highlights:

- Tax revenue collections improved by \$72.9 million, and stood at \$1.2 billion for the first six months of the fiscal year. This represented 40.1 percent of the budget target.
- This administration implemented a structural reform in the VAT regime, effective January 2022, which reduced the rate from 12.0 percent to 10.0 percent. Value-added tax collections accounted for 55.2 percent of tax revenues, and totaled \$646.0 million at the half-year mark. This represented growth of \$47.2 million relative to the same period in the previous year, and equated to 40.6 percent of the annual budget target. Compared to FY2021/2022, before the VAT rate reform, the six-months VAT collections this year have increased by 18.6 percent or \$101.4 million. We reduced the rate of VAT, but the strength of our growing economy, along with significant improvements to our enforcement efforts, has led to increased VAT revenues.
- Excise tax during the period improved to \$15.4 million, a \$14.3 million increase compared to the previous year. At the half-year mark, excise tax surpassed the budget target by 540.9 percent or by \$13.0 million.
- With the sustained improvement in the tourism sector, departure tax collections totaled \$84.8 million, and improved by \$13.3 million relative to the previous year. At the half-year mark, Departure tax accounted for 42.5 percent of the budget target. With introduction of the departure tax adjustments for cruise passengers, we expect a further and significant increase in this revenue component for the remaining six months of the fiscal year.

- In the non-tax revenue component, collections were mainly higher for fees and service charges as they relate to customs fees, which increased by \$5.4 million to \$27.6 million, and equated to 50.3 percent of the budget target.

Total and Recurrent Expenditure

Madam Speaker:

For the first six months of the year, preliminary aggregate expenditure was \$1.56 billion, which represented an increase of \$24.7 million over the previous year. To date, total expenditure represents 45.2 percent of the annual budget target.

Preliminary valuations of recurrent spending for the period made up 46.2 percent of the budget target amounting to \$1.43 billion. Recurrent spending increased by \$8.5 million year-over-year.

Key spending components were as follows:

- An increase in compensation of employees by \$18.2 million, to \$417.6 million, and representing 48.8 percent of the budget target. Increased spending in this component is explained by higher employment costs because of planned promotions, and other staff and salary adjustments during the period.
- Public debt interest payments increased by \$20.2 million to \$301.1 million and equated to 49.1 percent of the budget forecast.
- Spending on the use of goods and services decreased by \$23.2 million to \$251.7 million, and accounted for 40.0 percent of the annual budget target.

Madam Speaker:

Direct COVID-related spending during the period significantly eased to \$1.0 million, a contraction of 78.2 percent relative to the same period in the previous year. Social assistance spending, on the other hand, rose by 44.3 percent, reflecting the Government's broader objective of providing enhanced assistance to households.

Capital Expenditure

Madam Speaker:

Capital expenditure for the first half of the fiscal year totaled \$134.1 million, a \$16.2 million increase over the same period in the previous year. Capital expenditure accounted for 36.8 percent of the annual budget target.

It is expected that there will be increased levels of capital expenditure in the latter half of the year, as several important projects are currently being carried out. These projects primarily focus on repairing education facilities, improving family island airports and road infrastructure, and undertaking various other initiatives that will contribute to the growth and development of our nation.

Key capital expenditure during the period included:

Investments in other structures, which amounted to \$40.7 million, representing an increase of \$15.5 million over the previous year. This spending component accounts for 37.1 percent of the budget target and includes school repairs and rebuilding, including schools such as Government High, T.A. Thompson Junior High, and Uriah McPhee Primary School.

Structural investments during the period reflected a \$7.5 million outlay on Family Island development projects; a \$5.3 million outlay on the redevelopment of the Queen Elizabeth Sports Centre; and a year-over-year increase of \$4.6 million on road repairs and maintenance.

Deficit, Debt and Financing

Madam Speaker:

During the period, The Government experienced a net deficit of \$258.7 million, which represented a decrease of \$19.1 million relative to the previous comparable period. At the half-way mark in this fiscal year, the deficit exceeded the Budget forecast by \$127.6 million. However, the Primary Balance improved from \$3 million in the first half of the 22/23 fiscal year to \$42.4 million for the first half of the 23/24 fiscal year. The Primary Balance is the best measure of fiscal health

Progress back to the forecasted target is expected in the second half of the fiscal year, on the basis of ongoing control of expenditure and continuing efforts to further enhance revenue collections.

As a result of net borrowing activities, central Government debt increased by \$156.9 million to \$11,428.0 million, which equated to 83.8 percent of GDP at the end of December 2023, a significant improvement when compared to the 100.4% Debt-to GDP ratio at the end of June 2021.

Our country's debt-to-GDP ratio continues to decrease; again -- these figures reflect that the majority of revenue is collected in the second half of the fiscal year.

Update on Arrears

Madam Speaker:

As directed by the Public Finance Management Act, I will now detail known obligations that were still outstanding at the end of December 2023 – while noting that as February comes to a close, some of these obligations have in fact been met.

I also want to note that these bills are provided for in the current budget.

At the halfway point in the fiscal year, at the end of December, the Government's obligations totaled \$166.0 million, and mainly comprised the following:

- \$104.5 million in obligations for State Owned Enterprises, of which, 55.9 percent, or \$50.6 million were to the Water and Sewerage Corporation; \$27.7 million to Public Hospital Authority; \$6.1 million to the Broadcasting Corporation of the Bahamas; and \$5.9 million to Bahamasair Holdings Ltd;
- \$13.6 million to the Ministry of Public Service;
- \$10.1 million to the Ministry of Works and Utilities;
- \$8.4 million to the Department of Information and Communications Technology;
- \$6.5 million to the Office of the Attorney General and Ministry of Legal Affairs; and

- \$6.5 million to the Ministry of Education and Technical and Vocational Training.

Madam Speaker:

I will now turn to Government's financing activities.

The \$500 million US Dollar Loan

On the 12th of January 2024, the government announced a \$500 million foreign currency loan, supported by a policy-based guarantee from the IDB, and arranged by Banco Santander, as the global coordinator and the mandated lead arranger, together with BNP Paribas. This represents the largest Debt-for-Climate Swap in the region to-date.

Interest rate details were not included in the initial press release, as some transitory elements to the transaction had not yet been concluded.

However, these considerations have now waned, and we are able to share that the IDB's first-loss guarantee solution allowed The Bahamas to close this transaction at the Secured Overnight Financing Rate (SOFR—the replacement to LIBOR as the benchmark interest rate for dollar-denominated loans), plus a spread of 3.45 percent.

This margin, together with the IDB Guarantee Fee, was equivalent to nearly 400 basis points for the first interest period, which ends on 2nd July 2024; SOFR was set at 5.1967 percent, resulting in an all-in rate of 8.6467 percent.

Clearly, the IDB Guarantee allowed the government to borrow at a much more favourable rate and on more favourable terms relative to those available on the international bond market.

Like any other financing transaction, this deal also featured typical structuring and legal fees. The selection process was competitive; an RFP was launched to identify the lender with the best pricing proposal, and quotes were solicited in respect of other professional services.

Use of Proceeds

Regarding the use of the loan proceeds: As documented in the loan agreement and communicated by the Ministry of Finance, the proceeds are not to be used for debt refinancing but for financing budgetary expenditures arising during the fiscal year.

And as the Financial Secretary has reiterated, the proceeds from the \$500 million foreign currency facility obtained on January 10th were not used to pay a \$300 million liability that came due on January 16th.

I can assure you that the government was able to successfully liquidate this liability, through recourse to its short-term credit line from the central bank, bond issuances in the domestic market, and use of sinking fund proceeds.

IDB-Related Policy Conditions

Madam Speaker:

Typically, the IDB publishes details of its guarantee programmes, once the underlying commercial transactions are concluded. However, in this case, when the IDB Board approved two guarantee instruments for \$200 million each, to be issued at two separate time periods, they

were considered as a single indivisible guarantee by the Bank with a single set of policy conditions. Because the additional \$200 million market-sensitive guaranteed transaction was still pending, a decision was taken early in our application process and agreed with the IDB, to delay the release of policy conditions until both transactions were concluded.

Madam Speaker:

As is typical with IDB policy-based instruments, the \$400 million in aggregate guarantees will support a matrix of specific governmental policy reforms and institutional changes—in this case, reinforcing our commitment to sound environmental governance for sustainability and biodiversity protection and the institutional capacities to manage conservation and sustainability financing, and improving The Bahamas’ debt management institutional framework and capacities.

Among the environmental governance objectives are commitments to measure the management effectiveness of existing Marine Protected Areas, and complete Marine Spatial Plans.

The government also pledges to strengthen the institutional capabilities of the Ministry of the Environment and the Ministry of Agriculture and Marine Resources, including the development of a curricula content of core courses for the Blue Economy, an analysis and roadmap for strengthening the governance of the Bahamas Protected Area Fund and ensuring the finalization of other climate change-related legislative initiatives.

As always, improving The Bahamas’ debt management institutional framework and capacities remain at the forefront of the government’s policy activities, and many of the commitments are already underway.

For example, in the first half of the fiscal year, the government finalized an agency agreement with the Central Bank which outlined the latter’s role in the domestic government securities market; policy frameworks were approved and published for government guarantees and lending/on-lending activities, and the Central Bank has introduced a plethora of guidance documents to support activities in the domestic debt market.

Going forward, the government is working to articulate our country’s strategy for developing new debt instruments and for implementing debt-for-nature conversion type transactions, and sustainability link bond frameworks and guidelines—in keeping with international best practices.

We are very pleased that these steps will enhance our country’s ability to participate in innovative transactions that can both protect our environment and strengthen our fiscal position.

The details of all such undertakings will of course be published, as is typical with all IDB lending facilities.

Residual Financing Requirements for FY2023/24

Madam Speaker:

In this fiscal year, we are pursuing our Annual Borrowing Plan (ABP), with deviations primarily explained by higher-than-anticipated financing volumes obtained from the domestic debt market—which correspondingly reduces the amount of foreign currency borrowings by the government.

As outlined in the 2023/24 budget and the 2023/24 ABP, the government established that its financing needs would comprise deficit financing of \$131.1 million together with amounts to cover approximately \$2,067.6 million in maturing debt—which excluded the \$908.8 million in rollovers of the short-term Treasury bills and notes.

Regarding how we anticipated meeting these requirements:

On the external side, we programmed borrowing \$700 million from banks and a combination of \$295.9 million from the international financial institutions—mainly IDB and the Caribbean Development Bank.

Then, the projected uptake from domestic sources was targeted at \$1,202.8 million—to be derived from \$967.3 million in new bond and T-bill issuances and another \$235.5 million from the roll-over of the SDR short-term facility from the Central Bank.

As at mid-February 2024, the government’s financing mix included the following transactions:

- The \$500 million USD IDB-guaranteed commercial facility.
- A \$248.8 million Eurodollar loan.
- Approximately \$13.1 million in loan drawings from the international financial institutions.
- Extension of the repo facility by \$82.6 million.
- Extension of the 235.5 million SDR facility with the Central Bank.
- Refinancing of \$335.5 million in maturing bonds

- New bond issuance totaling \$230.6 million.
- Approximately \$166.9 million in short-term debt (Treasury bills and advances from the Central Bank).

For the balance of the fiscal year, the significant financing activities will include the drawdown of a \$50 million CDB policy loan, refinancing of the remaining maturing bonds with new issuances and rolling over existing short-term debt.

Credit Rating

Madam Speaker:

The latest credit opinions give the Bahamas a stable outlook due to continued growth, mainly attributed to improvements in the tourism sector, which supports government revenues and smaller deficits.

Fiscal Risks and Mitigation

Madam Speaker:

I now turn to a brief discussion of fiscal risks and mitigation measures.

Fiscal risks refer to the exposure of public finances to unexpected or unlikely events that could lead to fiscal outcomes deviating from macroeconomic and fiscal targets.

Natural disasters, for one, have devastated The Bahamas in the past and pose an ongoing threat to our country, and especially to our fiscal sustainability.

Hurricane Joaquin in 2015, Hurricane Matthew in 2016, Hurricane Irma in 2017, and Hurricane Dorian in 2019 – four major storms in under a decade, adding up to billions in damages.

This is why we have worked so hard to stand up for The Bahamas on the global stage, and to build a coalition of small island nations who, like us, have contributed only a tiny fraction of global emissions, yet face the existential threat posed by rising seas and more intense hurricanes.

And this is why we are investing in our preparation: The Bahamas has invested in disaster insurance and maintains a contingent credit line for rapid financing in the event of a disaster. Further, we are investing in resilient building to better withstand disasters in this current climate environment. We are taking additional steps, which I will detail later in this communication, to strengthen our country's readiness.

Madam Speaker:

We are engaging in other initiatives to reduce our fiscal risk. For example, we are advancing efforts to introduce a contributory pension scheme for public sector employees to ensure that all can benefit upon retirement, which helps to limit the risk associated with future pension liabilities on the Government. Public consultation on the draft legislation for the creation of a contributory pension plan for all public sector employees will commence before the end of the month.

Madam Speaker:

State-Owned Enterprises provide significant social benefit, and support Bahamians across our archipelago, but continue to require strong support from the public purse.

There are some activities which are unlikely to turn a profit, but still are deemed important to the culture, character and quality of life of a nation.

For example: a regular flight to some of our smaller islands, such as Rum Cay or Ragged Island, is unlikely to attract sufficient private investment.

This is a major reason why we have our national flag-carrier, Bahamasair, whose flights across our archipelago support our national development.

Similarly, the Broadcasting Corporation of The Bahamas is able to assert that when it comes to the reach of their coverage, “only the sun covers The Bahamas better than ZNS Bahamas”.

We do not believe SOEs should be shut down or privatised. This does not preclude private sector partnership and participation. Instead, we seek to make them as effective, as efficient and as sustainable as possible, long into the future, and profitable as well, where practical.

We have provided comprehensive expenditure guidelines to State-Owned Enterprises, in order to promote financial accountability and to align their business practices with national fiscal objectives. In addition, we have provided formal training for Board members of SoEs and we are seeking to roll-out a comprehensive programme to improve financial accountability.

International Obligations

Madam Speaker:

The Bahamas has several initiatives which fall under the purview of the Organization for Economic and Co-Operation Development (“OECD”), Financial Action Task Force (“FATF”) and European Union (“EU”).

The Bahamas will undergo the 2nd round effectiveness review for the OECD and Global Forum's Common Reporting Standard - Automatic Exchange of Information (“CRS – AEOI standards”) during the year 2025. The Bahamas’s legal framework on CRS-AEOI will be revised to keep pace with international standards and we are implementing an Administrative Compliance Framework. These efforts are to continue to improve our rating.

The Bahamas remains a member of the Base Erosion and Profit Shifting (“BEPS”) Inclusive Framework.

The introduction of a 15 percent corporate tax on Multinational Entities (“MNEs”) operating in The Bahamas and generating income of 750 million Euros in turnover, will ensure that we meet our international obligations under the OECD’s BEPS Pillar Two. I will speak to this in detail later in this presentation.

Madam Speaker:

The Ministry of Finance was very pleased to announce yesterday that The Bahamas has been removed from Annex I of the European Union’s list of non-cooperative jurisdictions for tax purposes.

The removal of The Bahamas from the EU's list is evidence of the significant progress made by The Bahamas in addressing the concerns identified by the OECD's Forum on Harmful Tax Practices ("FHTP") and the EU last year.

Over the past year, The Bahamas implemented a three-pronged approach to bolster its Economic Substance Regime:

In September of 2023, a new and dedicated Economic Substance reporting portal (the "ESS Portal") was launched, to ensure the proper collection and exchange of information on the activities of companies and partnerships in The Bahamas.

The regulatory regime was strengthened by the implementation of the Commercial Entities (Substance Requirements) Act, 2023 and subsequent amendments along with the Commercial Entities (Substance Requirements) Regulations, 2023 and Guidance Notes, which together provide greater legal clarity.

And finally, focused compliance and monitoring activities increased to ensure strict adherence to the regulatory regime and international standards.

The Bahamas is committed to continuing our cooperation and our adherence to international standards and best practices.

The Bahamas has been invited to attend the OECD's CRYPTO Assets Reporting Framework Working Group which is in its initial stages. This is a digital asset application of the automatic exchange of information.

The Bahamas continues to maintain the “Compliant and Largely Compliant” ratings in 40 of the 40 Financial Action Task Force Recommendations (FATF) – International Anti-Money Laundering, Countering of Terrorism and Proliferation Standards. It is estimated that The Bahamas’ FATF 5th round of Mutual Evaluation conducted by Caribbean Financial Action Task Force (CFATF) will take place in September of 2026. In the interim, all members of the IRF Steering Committee are currently reviewing their governing laws, regulations, guidelines, policies and procedures to ensure that there are no compliance gaps vis-a-vis the revisions to several FATF recommendations which were approved for implementation since the comprehensive 2012 review.

The current National Money Laundering and Terrorist Financing Risk Assessment is near completion and any deficiencies identified in the National AML/CFT/CFP regime will be incorporated into the revised National AML/CFT/CFP Strategy.

The Bahamas and the United States Foreign Accounts Tax Compliance inter-governmental Agreement remains in place. A few minor amendments are slated to be made to the Act in the near future.

The Bahamas continues to meet and maintain its international obligations and adhere to international best practices and standards.

International Advocacy

Madam Speaker:

I would like to point out what is perhaps obvious, which is that all the progress I'm describing only happens when talented people put in very long hours.

I am very proud of the immensely hard-working members of my Cabinet who take seriously the responsibilities of this moment, and are navigating with skill the difficult challenges before us, as well as taking advantage of new opportunities for our country.

We are fighting for a better life for our citizens, and for fair treatment in the international arena.

Let me give you an example: yesterday, our Attorney-General was in New York, at the United Nations, where he made the case that international tax policies have discriminated against countries like ours, stifling our country's development, and therefore are undermining international humanitarian law.

He stood up for The Bahamas, and described how arbitrary policies devised in capitals thousands of miles from ours were contributing to our country's economic disenfranchisement.

Madam Speaker:

Our government is now and will continue to be a leading voice in ending systemic inequities in the international tax order, which harm Small Island Developing States like The Bahamas, and creating instead systems which are inclusive, diverse, and equitable.

And indeed, we are standing up for The Bahamas on many issues, taking responsibility for our security and our future.

Deadly emissions, deadly viruses, deadly weapons – none are contained by national borders.

And we know that no one is going to fight our battles for us – we have to do it ourselves.

4. Update on Policy Initiatives in the 2023/23 Budget

Madam Speaker:

This brings us to an update on our Government's key policy priorities, set out in the 2023/24 Budget.

The policies and investments in this budget reflect our conviction that in order to build enduring and inclusive progress – in order to build a better today and a better tomorrow -- we must grow stronger.

National, economic and personal security are central to this budget.

I will begin by describing how we are moving forward, out of the fiscal crisis we inherited.

Achieving Revenue at 25 percent of GDP

Madam Speaker:

This administration has been working tirelessly to achieve the financial goals set forth in the 2023/34 budget and the Public Finance Management Act of 2023.

We have implemented multiple revenue enhancement measures in order to secure the achievement of revenue as 25 percent of GDP over the medium-term.

At 25 percent, the yield of the revenue system will be sufficient to fully finance both Recurrent and Capital Expenditure, while also leading to the gradual elimination of the annual deficit, and fiscal headroom will give the Government flexibility to deal with unforeseen eventualities.

Maritime Revenue Collections

Madam Speaker:

In July 2023, the Ministry of Finance’s “Maritime Revenue Enhancement Task Force” began the process of combatting excessive revenue loss in the maritime industry.

This Task Force is strengthened by the Ministry of Finance’s collaboration with the Royal Bahamas Police and Defence Forces; Customs, Immigration and Port Departments; the Department of Marine Resources; and the Bahamas National Trust.

This collaborative effort seeks to recover and collect delinquent revenue, and create and enforce new ways to retrieve revenue loss in the maritime field.

Let me give you just one example: We discovered a foreign yacht company with more than fifty vessels, which had not paid any fees for two full years.

Over the past six months, the Task Force has carried out “Operation Revenue Fortification”, which began in Bimini and has expanded to Abaco, the Berry Islands, and the Exuma Cays.

Madam Speaker:

Notable progress has been made over the past few months.

An online platform was introduced into Port Departments in Abaco and the Berry Islands, as well as in the Administrator’s Office in Great Harbour Cay. The platform enables these offices to receive credit card and Bankers Cheque payments, along with cash payments.

The Maritime Revenue Enhancement Task Force was able to collect \$1.2 million in maritime revenue in just the first three months of operations.

Large Tax Payers Unit

Madam Speaker:

The large tax payers unit has been established in the Department of Inland Revenue, and focuses on compliance for businesses making more than \$5 million per year.

Bahamians know that too often, some who can afford to pay have simply ignored their tax bills. We make no apology for asking our country's largest businesses to be accountable for their tax obligations under the law.

Improving the Operations of the Department of Inland Revenue

Madam Speaker:

Recently, the Department of Inland Revenue experienced challenges while upgrading of the tax portal. I am happy to report that these issues have been resolved. The DIR stands out among its peers in the Caribbean for the volume of business we are able to conduct online.

However, there is still room for improvement. The Ministry of Finance is developing a strategy for a "One Tax Bahamas Portal". This implementation of this strategy will require a significant

investment in technology and human resources, an investment that will pay dividends many times over as we improve efficiencies for government and taxpayers alike.

Corporate Income Tax

Madam Speaker:

I hope we have been clear that we are committed to fiscal strength and to fairness.

This brings us to the Qualified Domestic Minimum Top-Up Tax (QDMTT), part of the OECD Pillar Two tax framework.

This is a tax that affects ONLY multinational enterprises earning more than 750 million euros annually.

We are talking about very, very big companies. The QDMTT is a way to make sure these very big companies pay at least a minimum amount in taxes on their profits in every country where they do business.

The implementation of Pillar Two in The Bahamas would unlock a new revenue source, with initial estimates expected to exceed more than \$140 million annually.

We have two interrelated goals – to make sure The Bahamas captures the tax revenues of these very large multinationals doing business here, and to use the fiscal space created by the new revenue to, among other things, provide substantial relief for Bahamian taxpayers.

We have issued a consultative Green Paper on Corporate Income Tax Strategies for The Bahamas, and engaged in extensive bilateral discussions with various in-scope companies for Pillar 2 in our jurisdiction.

During the first two weeks of February, policymakers and our technical teams participated in a workshop facilitated by the International Monetary Fund, in order to discuss policy design elements that would inform the legislative drafting exercise.

Madam Speaker:

The goal is to have draft legislation available by the end of May 2024—at which time we will meet to present the budget proposals for the upcoming 2024/25 Fiscal Year.

We intend to issue the draft for public consultation over the summer months, and then move to finalize the document for submission to Parliament after the summer recess.

We are reviewing options that would entail the Pillar Two multinationals accruing those taxes for 2024 in The Bahamas.

I note here that there has been a lot of discussion regarding a corporate income tax for domestic companies with revenues above a certain threshold.

However, we believe that currently, addressing only Pillar 2 multinational enterprises is the proper approach. Any consideration of a wider business income tax would only happen if it is a more equitable approach for Bahamian businesses, and would only be done after proper consultation, with considerable lead time in order for Bahamian businesses to properly prepare.

Other revenue measures

Madam Speaker:

I am pleased to report that considerable progress is being made in improving our tax system.

Let's take real property tax, for example. I want to note that the vast majority of back taxes owed are owed by foreign property owners-- this is not an issue affecting most Bahamians.

For real property tax, I can report that billings are in excess of \$340 million, compared to less than \$250 million at the beginning of this term. This translates into a higher expected tax yield.

In addition, the Department has accelerated in its property collection efforts, inclusive of the use of the power of sale for foreign-owned and commercial properties.

Madam Speaker:

When it comes to VAT, customs and business licence enforcement, the Ministry of Finance has adopted a data-driven approach, supported by the creation of an analytical unit in the Ministry of Finance. The results so far have been impressive, as the work of the unit has uncovered multiple and significant instances of tax avoidance.

Within just the last three months, the government has seized over \$400,000 in cash, and close to \$1 million in alcohol, part of a large alcohol smuggling operation. Our efforts against alcohol and tobacco smuggling are intensifying – in fact, we believe the country loses close to \$100

million a year through alcohol and tobaccos smuggling. Thus we are committing significant resources to combat this source of revenue loss.

Our efforts have discovered numerous tax avoidance schemes which we are actively combatting through audits and investigations. The potential loss in revenue is in the order of another \$100million.

The Ministry is also working with consultants to build analytical tools to detect tax fraud. These tools would allow work which is now done manually to be automated. The net result of these efforts would be an increase in overall revenue in VAT, Customs and Business Licence.

A Budget for Security and Progress

Madam Speaker:

When we came into office, our country's finances were in terrible shape – and we faced a really serious fiscal crisis, along with economic, health and educational crises.

Thanks to the right rescue and recovery and growth policies, and the hard work and ingenuity of the Bahamian people, and God's grace above all, we have come so far since those dark days.

Today, we have spoken not of crisis, but instead about all the ways in which our country can keep moving forward, to create enduring fiscal resilience and strength.

A healthy balance sheet is important because it means we can invest in our people, our country, and our future.

This year's fiscal budget reflects our commitment to strengthening national security, economic security, and personal safety and security.

While the strength of our economic recovery is not in doubt, there is still an extraordinary amount of work to do, if we are to bring down the cost of living, expand the reach of opportunities, and create real security for each of our citizens.

That is why the vision and the policies of our government are so ambitious.

Things are changing in The Bahamas. Here is just some of what is underway:

- A new energy policy and an expansion of renewable energy, including microgrids, and an emphasis on engaging local Bahamian firms and building local professional capacity;
- An expansion of Bahamian ownership in our economy, including support for entrepreneurs, small and medium sized enterprises, and an expansion of affordable housing –with hundreds of families moving into new homes by this summer;
- A modern and award-winning specialized tourism product, with new investments across our archipelago, and major visibility and branding campaigns in New York, Florida, and the UK;
- Progress on redeveloping downtown Nassau, long overdue;
- New commitments to education, including a Parental Engagement Unit; more teacher training, modernizing the curriculum, classroom enhancements, improving school attendance, and using the Renaissance testing results to design individualized support for students;
- An expansion of technical and vocational training, including certification at the high school level;

- An Empower Grand Bahama micro-grant programme for entrepreneurs; \$1.5 billion in investments for Grand Bahama in the pipeline; the Beautiful Grand Bahama programme, in which collaboration has led to safer communities; and Collab Grand Bahama, which fosters partnerships between the government and the private sector to bring change and progress to Grand Bahama;
- Major upgrades to our health infrastructure;
- More support for our athletes and sports programmes;
- We're on track to pave 65 miles of road in New Providence alone this year;
- Investments in NIB to improve fairness and efficiency;
- A National School Breakfast pilot programme, which is already giving thousands of our children breakfast in their primary schools, and is ready to expand;
- New classes, camps, lessons, and programmes at our Urban Renewal Centres;
- A Youth Guard to strengthen our capacity during national emergencies, and give more young Bahamians a path forward;
- A Task Force addressing unregulated shantytowns in New Providence and Abaco, with other islands to follow;
- The selection and training of new immigration officers;
- Saturation patrols and new investments and collaboration in crime prevention;
- A juvenile detention facility;
- A cadre of officers trained to recognize and manage psychiatric issues;
- Stronger partnerships and new patrol vessels to secure our nation's borders;

- Major new investments across our Family Islands, including new airports, and road paving in Andros, Bimini, Cat Island, Abaco, Long Island; Great Harbour Cay, and Crooked Island;
- The development of our nation's blue carbon credits strategy; and
- A major investment in agriculture and national food security.

In each of these areas, good things are happening. For example, the last policy I mentioned – our commitment to investing in national food security and agriculture – let me give you just a glimpse of what I mean – over 100 Bahamians in New Providence received an acre of farming land to start their new farms; there are new agriculture-related programmes in our schools; we are working with SBC to provide grants for Bahamian food producers; a deal was signed to restore Potter's Cay stalls; we have new food safety technology; and there is a new feed mill for BAIC – the first in 40 years.

I know it can take time before progress on some of these policies becomes visible.

But I feel confident that my energetic team will make sure everyone is included in our national progress.

Madam Speaker:

This is a budget that reflects core Bahamian values:

We believe our schoolchildren are full of promise, and we don't want them to start the day hungry.

We believe everyone deserves to live in a safe home and in a safe community.

We believe in the strength and ingenuity of our brothers and sisters.

We believe that if we create the opportunities, young Bahamians will choose to build their lives, raise their children, start their companies, and contribute their expertise here, at home.

This budget makes new investments toward these goals, and many others.

There is much more to do, and with God's grace, we shall continue forward, onward, upward, together.

Thank you, and may God continue to bless us all!

END