



COMMONWEALTH OF THE BAHAMAS

2015/2016

MID-YEAR BUDGET STATEMENT

ON THE SIX MONTHS ENDING 31st DECEMBER 2015

Presented to The Honourable House of Assembly

by

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Minister of Finance

On Monday, 7th March, 2016

Introduction

Mr. Speaker,

I have the honour to present the 2015/16 Mid-Year Budget Statement, the fourth such Statement of my Administration, as mandated by the Financial Administration and Audit Act of the Commonwealth of The Bahamas.

This Statement and accompanying documents set forth provisional expenditure and revenue estimates for the six-month period ending December 31, 2015.

This is an important occasion indeed during the course of the fiscal year as it is a time for taking stock of where we find ourselves at the mid-point of the year and where we are headed over the balance of the year in respect of the economic and fiscal programme that I set out in the 2015/16 Budget Communication last May.

However, having said this, I want to reiterate for the benefit of Honourable Members as well as the Bahamian public, as forcefully and as simply as I can, that this year's Budget is but one integral component of my Government's overarching and targeted strategy and action plan to bring better economic and social outcomes for all of our citizens. Since the very first day of our taking office in 2012, we have been steadfast in both our message and our resolve in respect of this plan.

The mandate given to my Government by Bahamian citizens is to implement a programme of comprehensive and fundamental change in order to develop a stronger and more prosperous Bahamas of the future. As I stated last May, the overriding theme of the 2015/16 Budget, "Building a Stronger Bahamas", succinctly encapsulates the Government's unflinching commitment to that programme of reform and modernization. Through a modern approach to governance, policy development and communication, we are engaging Bahamians in a national dialogue on the future of our country.

Our Stronger Bahamas initiative is designed to strengthen public engagement, transparency and governance. In that spirit, the Government is also developing an innovative model for investment and development planning in our country in which the Bahamian public is being fully engaged. If we are to be successful in building a safer, more prosperous and modern Bahamas for the benefit of all citizens, it is critical that we do so with a broad, non-partisan consensus on our national priorities and policy approaches going forward.

We fully appreciate that the challenges that confront us are numerous and complex. Our plan of action is commensurate with those challenges. It offers innovative solutions for the wide range of economic and social challenges facing the nation.

Over the past few years, my Government has been assiduous in the pursuit of difficult and demanding reforms in a number of areas. One of these has been in the area of fiscal redress and sustainability. As we have clearly explained since our current mandate began, if our ambitious plan of action is to be sustained and successful, it must without question be underpinned by a solid fiscal foundation. To be quite blunt, the Government's fiscal position was untenable and simply not up to the task of modern governance. We needed to place Government in a position to be able to meet the many and varied demands placed on it in a modern democratic society, doubly so in an archipelagic country such as ours.

As I highlighted at the 25th Annual Business Outlook Conference, we have also implemented important reforms in other key areas such as education through a re-focused commitment to "every child counts by introducing STAR Academy where students who are deemed vulnerable and difficult to integrate in the formal school system are given special attention to ensure a successful integration. In addition, we have introduced higher standards for school graduates. In the area of training we have created through legislation the National Training Agency to work with the private sector to ensure that our citizens have the requisite skills to successfully enter the job market.;

In social services, we have introduced debit cards as a form of payment to better tie assistance to improved life style choices for recipients of assistance; in energy we have introduced a national energy policy and placed The Bahamas Electricity Corporation under private management with a target mandate to reduce electricity cost and improve reliability; in financial services we have introduced regulatory reform in line with international standards; in gaming we have also introduced regulation and appropriate taxation; and, of course, the introduction of National Health Insurance.

Mr. Speaker,

This is not an exhaustive list and before the end of this Communication I would have highlighted additional areas.

Mr. Speaker,

Our approach to reform is thus broad-based, targeted and balanced on a multitude of fronts that both require reform and are critical to economic and social success. Since 2012, we have transformed our plan from words and objectives into concrete actions on a wide front. We will persevere in the further implementation of our agenda of change.

In the area of fiscal reform, we set out three years ago an unprecedented Medium-Term Fiscal Consolidation Plan whose primary goal is the gradual elimination of the Government Deficit which, in turn, will return the burden of Government Debt to lower and more sustainable levels. From a responsible governance and sound strategic planning perspective, we were clear that this plan would necessarily be supple and adaptable to evolving circumstances, be they in respect of economic developments or natural disasters. We were equally clear, however, that our focus would not deviate from the ultimate fiscal targets.

Mr. Speaker,

This fiscal plan has to date been successful. Despite a more muted recovery of the global economy than had been widely expected and the resulting less robust expansion of our domestic economy, we have nonetheless succeeded in reducing the Government Deficit from \$539 million three years ago to the projected \$141 million this fiscal year. I will shortly report on the progress that we have made on this score through the first half of the year. That is a Deficit reduction of almost 75 per cent or \$398 million.

Our Medium-Term Fiscal Plan is targeted and balanced, consisting of four equally vital components, namely:

- restraining the growth of public expenditure;
- modernizing and enhancing revenue administration;
- securing new sources of revenue; and
- growing the economy.

On the expenditure front, the Government is striving to become more efficient and effective in the allocation and use of public resources. This is especially important given the National Development Plan that is in preparation as it will require sound planning and implementation monitoring. In addition, Tax Reform has expanded the revenue base and the additional resources will need to be effectively managed.

To those ends and with the financial support of the Inter-American Development Bank, a programme of reform of the Public Financial Management System is being launched. The programme is expected to have a positive impact on the performance of the Bahamas public sector by:

- strengthening the capacity of the Office of the Prime Minister to monitor performance in the implementation of public policies in key line ministries;
- improving the quality of statistical production, increased access to official statistics and a more effective use of statistics for policymaking in line with regional and international standards;
- instituting a more efficient Public Financial Management system with a new upgraded Integrated Financial Management Information System (IFMIS) fully implemented and functional in line ministries and relevant public entities; and
- developing an improved public procurement system with fair and transparent rules, generating savings and value for line ministries and relevant public entities.

Mr. Speaker,

While we are admittedly in the early stages of the full implementation of this ambitious though critical public sector reform plan, I am pleased to report that we are already making concrete and visible progress in a number of areas. For instance, we are moving diligently to eliminate all payments by cheque. Presently, a large

percentage of payments are made by direct deposit, specifically those made in respect of employee remuneration and payments to pensioners. The focus now is on eliminating cheque payments to vendors. We are currently on track to effect direct deposits for payments to vendors by the end of March. This will be facilitated through the Bank of The Bahamas. For small businesses this would eliminate the increasingly significant fees banks are now charging to negotiate cheques drawn on another bank.

In addition, work is proceeding expeditiously on the publication of a concept paper on public sector accounting standards. The Treasury is working with a BICA representative on this very important initiative as it sets the stage for reform as envisaged by the IDB IFMIS project. The target date for completion is also the end of March.

The concept paper would provide the blueprint for reform of the Government's reporting of its fiscal results in a professional and non-partisan manner. This is very important in a world where national governments are under close scrutiny from international ratings agencies, banks and investors. This is an important component of our fiscal consolidation initiative.

CLICO

While I am on the subject of public expenditure, I would wish to address the matter of the CLICO Bahamas liquidation as many Bahamians were impacted by this development and have grown impatient waiting for a resolution.

It will be recalled that, at the onset of the liquidation, the previous administration proposed to provide a conditional guarantee of \$30 million to any entity that would purchase the insurance operations of CLICO. However, this guarantee did not actually guarantee that the policyholders would be made whole but rather was to serve as comfort to a potential purchaser. In any event it proved academic, as the sale of the portfolio never materialized.

Happily, however, a solution is now at hand. The liquidator of CLICO has proposed and the Government has agreed a plan to make all existing policyholders whole. This plan involves the creation of a special purpose vehicle to assume the insurance operations of CLICO and to pay out the policyholders who have been unable to receive the full pay-out of their benefit, subject to the policy not lapsing during the period of liquidation.

Under the plan, surrendered policies, death benefits, medical claims and staff pensions will be paid in full. Executive Flexible Premium Annuities holders and surrendered pension policies will be settled in cash to a maximum of \$10,000 per person and the balance will be supported by 7-year promissory notes with interest at Prime payable quarterly. Cash payouts are estimated at \$16 million.

I can advise that the Ministry of Finance has formally requested the liquidator to commence payments before the end of this month.

Mr. Speaker,

This represents yet another demonstration of a caring and compassionate Government.

REVENUE ADMINISTRATION

As for the matter of strengthening revenue administration, the Government is pursuing comprehensive reform and modernization projects. This applies to Customs operations as well as Real Property Tax and Business License.

In addition, a Central Revenue Administration has been implemented that will integrate the major domestic sources of revenue with enhanced client service and more efficient tax collection. In this latter regard, I would also wish to signal our ongoing efforts to implement E-Government in a number of areas, including Customs, Value Added Tax, Business License and company registration. E-government will also be extended in due course to motor vehicle and driver licensing and border and passport systems.

Tax administration efficiency and the ease of taxpayer compliance have also been enhanced with the introduction of revenue collections either electronically or through the banking system.

For Family Islands residents and Bahamians living abroad these reforms have dramatically increased the ease of doing business with the Government.

On the subject of tax administration efficiency, I would like to comment briefly on one subject that has given rise to much public discussion recently, namely, that of real property tax arrears. I want to stress in this regard that the Government is fully cognizant of the gravity of this matter and indeed has responded in recent years with a series of measures to address such arrears. In 2013, for instance, we announced initiatives to reduce arrears and enhance collections, including an amnesty programme that incentivized increased payments. Strides were also made to add new properties to the tax register.

If one examines the total amount of arrears outstanding each year, it will be noted that the annual increase has actually been decelerating. This is a positive trend.

It must be emphasized that, under the structure of property tax legislation, surcharges are not applied until 13 months after the bill is issued. As bills are issued in October/November of each year, it is natural then that outstanding taxes would increase annually. However, as I mentioned in the 2015/2016 Budget Communication we are addressing this by providing a 10% incentive for payment within three months of the calendar year for owner occupied residences as well as providing incentives for persons rehabilitating dilapidated structures in the City of Nassau. Accordingly, we expect the growth in arrears in real property tax to decrease even further.

In the area of revenue reform to secure new sources of revenue, the centrepiece initiative has, of course, been the introduction of Value Added Tax in January of last year. Based on experience to date, implementation of the VAT has been relatively smooth and indeed perhaps even smoother than might have been expected for such a major reform of our tax system. That, I would suggest, owes a great deal to the collaborative approach to the introduction of the tax that was developed between the Government and the private sector. So far, revenue collections from the VAT have been buoyant and more than satisfactory in relation to our initial expectations.

The fourth major component of the Government's Medium-Term Fiscal Consolidation Plan relates to strengthening economic growth. Our plan in this area encompasses a variety of measures including strengthening our key tourism industry; promoting additional foreign direct investment across the country, and particularly in Grand Bahama and the Family Islands, the details of which I will return to shortly; exploring avenues for further diversifying our economy, especially in the agricultural area; further diversifying our financial services sector; the further development and expansion of our yachting and shipping registries; and, as I mentioned earlier, expanding our investments in education and strengthening national training.

We have, as well, placed increased emphasis on, and devoted supplemental financial resources to, addressing the issue of "at-risk" youth in our society. The aim is to increase the long-term employability of young persons and help eliminate incentives for criminal activity.

Strengthening the growth of our economy also requires the requisite capital for infrastructural development. For Government, this means investment in roads, airports, harbours, ports, and basic public utilities. However, with the magnitude of the requirements and the need for ongoing fiscal discipline, the Government sees an enhanced role going forward for Public-Private Partnerships, or PPPs, in the future development of public infrastructure in this country.

To that end, we included seed capital in the 2015/16 Budget with which the Government will be in position to promote up to a targeted \$200 million in PPP investments across the breadth of the nation.

I am pleased therefore to announce that we are in the advanced stages of concluding PPP agreements in the areas of roads, and Government buildings, which are in a state of disrepair such the Clarence A. Bain Building, the Levy Building and the Post Office Building.

We have focused our attention on these and the other major areas of our Change-and-Growth agenda. We will persist in planning and further developing initiatives that will get our economy growing more strongly in the years ahead.

National Development Plan (NDP)

Earlier, I touched briefly on a new approach to national planning that we are pursuing, in the form of a National Development Plan (NDP).

In a nutshell, the NDP will:

- set out a vision and roadmap for the future;
- elaborate short, medium and long-term economic and social objectives;
- include wide non-partisan consultations such that all stakeholders are engaged and committed; and
- be institutionalized in law and be continuously monitored and evaluated.

The development process for the NDP has begun, with an in-depth diagnostic of The Bahamian economy and society leading to a State of the Nation Report that will be focused on the economy, human capital and social policy, the environment and governance.

As for the economic issues, the diagnostic is focused on an analysis of what drives the Bahamian economy and how sectors are performing; an examination of our competitiveness in terms of our endowments and strengths; and a forward-looking assessment of our growth potential and what is required to achieve it.

On human capital and social policy, work is geared to the development of assessments of our education and training systems; issues of poverty, gender and culture; our health and healthcare system and their impacts on society; and crime and our justice system.

In the area of the natural and built environment, the diagnostic is looking at the infrastructure that is needed to build a modern economy, including energy, transportation and ICT as facilitators of growth. In terms of the natural environment, work is progressing on issues of sustainability and requirements, especially in the context of climate change.

Finally, in the area of governance, the diagnostic is developing an assessment of our critical needs in respect of the institution of more effective strategic planning and results-based management; how to make public services more efficient and effective; how to better coordinate Government actions across agencies; and how to strengthen our interactions with our citizens and the private sector.

Following the completion of the diagnostic and the State of the Nation Report, we have moved to an intensive and extensive consultation phase across the breadth of the nation, involving all sectors of the economy and all segments of society, notably including our youth.

The third phase of the NDP will involve the development of a plan that sets out a vision for our country over the next 25 years based on the attainment of a number of short, medium and long-term objectives as well as the strategic and concrete actions required to reach these goals. The NDP will shape budget allocations and identify actions for the public service and opportunities for the private sector that are critical to achieving our transformation and enhancing the quality of life for Bahamians over the next quarter century.

The plan will also feature a clear and transparent monitoring and evaluation process to ensure that we respond appropriately and effectively to evolving needs and stay on course toward our economic and social targets.

Economic Developments and Prospects

Mr. Speaker,

In order to properly frame the discussion of our fiscal performance in the first half of the current fiscal year, it is appropriate to begin with a brief review of recent domestic and international economic conditions and near-term prospects.

Mr. Speaker, it would be an understatement to say that, over the last several years, the global economic environment has been challenging. Indeed, over this period, it has been a virtual certainty that the International Monetary Fund (IMF) would shade down its forecast for world growth in each of its successive World Economic Outlooks.

The Fund's latest World Outlook published just a few weeks ago is no exception. Under the heading "Subdued Demand, Diminished Prospects", the latest forecast calls for real growth in world output in the area of 3.5 per cent this year and next. That represents a downgrade of 0.2 percentage points in each year as compared to the forecast of only four months ago. The key messages in the new forecast speak volumes:

- Modest and uneven recovery in the advanced economies;
- Slowdown and rebalancing of the Chinese economy;
- Diverse and challenging outlook for the emerging market and developing economies; and
- Risks to the global outlook tilted to the downside.

Despite this uncertain and volatile global environment, it is notable that the U.S., our major trading partner, has continued to experience a steady though admittedly still moderate expansion in economic activity. Real growth in the U.S. this year and next is projected by the IMF to come in at roughly the same rate as was posted in 2015, namely 2.5 per cent. This is in contrast to the previous view that the recovery would gather further steam going forward.

This level of modest resiliency in the U.S. reflects ongoing accommodative monetary policy, even with the modest tightening announced in December, as well as a further strengthening of housing and labour markets. Moderating pressures are emanating from the effects on manufacturing of a stronger dollar and the impact of lower oil prices on investment in the drilling and mining sector.

The news on the labour market front in the U.S. is particularly encouraging for future prospects for our own economy. Quite striking is the fact that just under 3 million jobs were created in 2015 and through January of this year, resulting in an unemployment rate of 4.9 per cent. This buoyancy in job growth has buttressed the growth of household spending. Lower oil prices have also supported the solid growth in

real disposable incomes.

In light of these myriad countervailing and complex global and U.S economic developments, the evolution of the Bahamian economy has been more modest than we had previously expected. The Ministry of Finance and the IMF now estimate that our economy grew by just over 1 per cent in 2015 as compared to the projected 2.3 per cent in the May Budget Communication. Besides the impact of more moderate growth in our major trading partners, this more muted performance of our economy, of course, also reflected the delayed completion and opening of the Baha Mar resort project. The moderate pace of growth in our economy continued to reflect the ongoing though still modest expansion of output in our tourism sector as well as the boost to construction activity provided by foreign investment projects.

Looking ahead, both the Ministry of Finance and the IMF project an ongoing further strengthening of economic growth in The Bahamas over the next two years, abstracting from any developments in respect of the Baha Mar project.

Real growth is forecast to rise to 1.5 per cent this year and to just over 2 per cent in 2017. The completion and opening of Baha Mar will bolster growth even higher and to a significant extent.

As reported by the Department of Statistics, the national rate on unemployment increased by 2.8 percentage points in the six month period to November, to a rate of 14.8 per cent. This reflected a variety of factors including the entry of graduates into the labour force, the return of previously discouraged workers into the labour force, the impact of Hurricane Joaquin and the release of workers from the Baha Mar project.

As I have stressed previously, it is critical that we generate significant increases in the rate of economic growth in this country as a means of absorbing those seeking employment and get us to an acceptable level of employment. As I have explained, through our reform agenda and the National Development Plan, my Government is fully and firmly committed to this goal, both in the near term and beyond.

Our dedicated efforts to promote and support new and exciting foreign and domestic investment projects are also bearing fruit in terms of significant new investment activity and job opportunities for Bahamians.

Mr. Speaker,

With over six (\$6) billion dollars in resort development committed, and with over seven thousand (7,000) construction jobs and five thousand (5,000) permanent jobs either on stream or in the pipeline, our efforts to expand the economy and increase direct investment in the tourism sector and other sectors continues unabated. Coupled with these developments and strategic PPPs with developers, the Government has committed millions of dollars of infrastructure spending to improve roads and airports in several of the Family Islands to modernize the country's infrastructure and improve access.

Mr. Speaker,

Freeport and Grand Bahama

I want to focus briefly on my Government's approach to promoting an environment favourable to the vigorous expansion of the economy of Freeport and Grand Bahama as well as job opportunities in that area.

As you are aware the Government, assisted by international advisors and a bipartisan Review Committee, is currently considering the extension of the expiring concessions under the Hawksbill Creek Agreement and related matters. This has entailed a study of the economic situation within the Port Area and the implication of renewing expiring concessions. We are also considering the adoption of new measures aimed at accelerating, broadening and sustaining economic development in Freeport and Grand Bahama generally. This exercise entailed an in-depth and comprehensive study and consultations with the Grand Bahamian community including the Grand Bahama Port Authority have resulted in far reaching recommendations now under consideration by the Government, and which have been communicated to this House.

The Government is on target to complete this exercise and negotiations with stakeholders by the time of the presentation to Parliament of the 2016/2017 Budget Communication to Parliament in May of this year. It is our expectation that the outcome will provide for a regime of concessions and revenue that will result in:

- new major investments in Grand Bahama, expansion of certain existing businesses
- greater and more direct Government involvement
- more efficient, competitive and relevant re-organization of regulatory, licensing and governmental, promotional and public infrastructural functions in keeping with international best practices, and the expectations of present and future generations of Bahamians.

Nassau & Paradise Island

As for Nassau and Paradise Island, it is clear that they continue to excel as a sought-after destination for investors as over one billion dollars has been undertaken or committed in resort development and refurbishment. This is in addition to the \$3.4 billion investment in Baha Mar.

Mr. Speaker,

BAHA MAR

Because of its enormous economic importance, the Government remains fully engaged with all the relevant parties in finding suitable arrangements in moving forward for the completion and re-opening of the stalled Baha Mar project as quickly as possible.

Baha Mar remains in provisional liquidation by order of the Bahamas Supreme Court. Parallel with that, the secured lender, China Export-Import Bank (Eximbank) has appointed Receivers/Managers under the terms of the loan agreement as a result of the default of the Developer, Baha Mar Ltd and its associated companies.

Make no mistake about it we are dealing with an extremely complicated situation that involves among others the previous Developer, Eximbank, the general contractor, China State Construction and Engineering Company (CSCEC), various hotel and casino operators, subcontractors and suppliers, retailers and concessioners, unsecured creditors, terminated employees, potential investors, the Provisional Liquidators and the Receiver Managers, as well as the interests of the Bahamas Government and the People's Republic of China.

Amongst a myriad of other matters being addressed, the main focus of my Government with the relevant parties has been the re-mobilization of the project and the securing of new investors and suitable operators within the shortest possible time.

Regarding the re-mobilization of the project, local subcontractors hired by the receivers/managers have been carrying out work for the completion of the Convention Center. The Eximbank and receivers-managers are making every effort to ensure completion of the Convention Center in time to accommodate the 2016 IDB Annual Meeting next month.

With regard to the full remobilization arrangements, I am informed that intensive discussions are taking place between China Eximbank and CSCEC on the detailed plans of remobilization.

Although some progress has been made, there are still some issues left to be resolved. In addition, the final agreement between China Eximbank and CSCEC will have to go through internal procedures and obtain approval from regulatory authorities of both parties. Once the full remobilization arrangement is approved, CSCEC will be responsible for working out the construction timetable and plan, and by then China Eximbank will be able to update the Bahamian Government about the remobilization timetable and construction plan.

The process of securing major investors/operators is underway and several substantial groups have already been introduced to the Government while the process gathers pace.

OTHER PROJECTS IN NEW PROVIDENCE

As for other projects in New Providence, the past year has seen the opening of the Island House and Ocean West, two locally owned and operated upscale boutique properties in Western New Providence which together have resulted in expenditures of forty-five (\$45) million, and the creation of an additional 143 jobs.

The Pointe, a two hundred (\$200) million investment on Nassau's waterfront property by China Construction America, will reboot revitalization efforts to transform

the local and visitor experience in the downtown area, spur new residential and commercial waterfront development, create new retail and commercial products, and when completed in late 2017, will provide over 500 new jobs for young Bahamians.

Albany, a destination within a resort and the only one of its kind within this hemisphere, continues its phased expansion with a five hundred (\$500) million capital investment of residential, education, commercial, sports, music, financial and marina operations, generation 1500 jobs in construction and operations in each of the next five years.

In other areas of New Providence, Sandals is spending three (\$3) million to upgrade its back of house facilities, Sunset Palm, formerly Nassau Palm Resort, continues its twenty (\$20) million property upgrade and the Marley Resort will re-open this month after a quarter million renovation project.

Almost eight (\$8) million dollars is being invested in resort properties on Paradise Island. The Warwick Hotel, formerly Paradise Island Harbour Resort, will open its doors in July this year after an eighteen (\$18) million property renovation.

The Ocean Club continues to maintain its signature brand with twelve (\$12) million in upgrades to the Harford Wing and other areas. The Atlantis Resort's forty-eight (\$48) million renovation continues with new restaurants and complete refurbishment of the Cove Suites by this summer.

And Lyford Cay home owners have undertaken a twenty (\$20) million dollar, single phase development of a commercial and residential complex to replace the existing shopping centre inclusive of townhouses, high end retail shops, a community park and police station.

AIRLIFT

The Bahamas continues to attract strong seat capacity from airlines at major hubs and non-stop gateways across the USA and Canada, working in partnership with the Ministry of Tourism.

The destination continues to be well served by leading carriers such as American, Delta, Jet Blue, United, Air Canada, West Jet, and Copa Airlines. Moreover, beginning in August, British Airways will deploy its larger and modern Boeing 777 jet on the Nassau route from London (Heathrow). In addition, Bahamasair is upgrading its fleet with the acquisition of new ATR aircraft for the provision of enhanced air services to points in South Florida, Havana and within The Bahamas.

Also in August this year, new non-stop flights to Nassau will originate on Southwest from Ft. Lauderdale, Delta from Detroit and Minneapolis, Sun Country from Minneapolis, Air Canada from Montreal and Silver Airways from Jacksonville, Naples and Fort Myers Florida.

In Grand Bahama, Sunwing which operates out of several Canadian cities is being challenged due to the devaluation of the Canadian dollar. However continuing promotional efforts have bolstered lift by American Airlines, Delta, Bahamasair and Silver Airways from US gateways and Sunwing from Canada and six US cities. Effective in June, American Airlines will reinstate its early morning and evening flights, restoring the destination's ability to attract same-day European passengers.

OTHER RESORT DEVELOPMENTS: FAMILY ISLANDS

Although there has been much focus in the media on the industrial sector developments in Grand Bahama, economic stimulus is beginning to take root with the recent re-opening of the Lighthouse Point after five (\$5) million dollar renovation and announcement of the investment of one hundred ten (\$110) million in expansion of the Deep Water Cay Resort at the eastern end of the Island which will create over 100 construction jobs between now and 2018. An additional 280 permanent jobs will come on stream when the resort to be operated by the Six Senses brand is completed.

Carnival Cruise Lines remains in active and positive negotiations with the Government and Freeport Harbour Company for the creation of a new cruise port in East Grand Bahama which will have a major impact on the economy of that area as well as Freeport.

With the growing number of committed projects underway or on the drawing board, the Family Islands are increasingly becoming an attractive proposition for airline partners such as Air Canada, Delta and American Airlines all of which have recently introduced scheduled, biweekly non-stop service to the established destinations of Abaco & Eleuthera (Delta) and San Salvador (American Airlines).

San Salvador

In San Salvador, Club Med is undergoing a ninety (\$90) million modernization of its 226-room resort and, in conjunction with a Canadian developer, will expand its plant with the construction of 125-room boutique hotel and employee housing. Just over 300 construction employees will be engaged in the project, and a total of 250 new permanent jobs will be available to Bahamians. Although there has been a setback due to the ravages of the recent hurricane, renovations have been carried out and new construction delayed temporarily.

Abaco

Abaco continues to attract quality investments by recession-resistant developers with sterling reputations for excellence in resort development.

At Baker's Bay the developer continues resort expansion with one hundred seven (\$107) million invested last year in additional infrastructure and home construction bringing the total investment to date to four hundred forty (\$440) million, and 1180 persons employed in construction and operations. An

additional four hundred forty-five (\$445) million in a phased expansion is planned over the next 10 years.

A one hundred twenty three (\$123) million investment in refurbishment is planned at the Abaco Club at Winding Bay. Some two hundred twenty-five (\$225) million in home construction planned with the hiring of several hundred persons in construction and operations during the expansion period. An Aman Resort has been approved for Matt Lowe's Cay at cost of \$100 million. The developer plans to hire several hundred construction and operational personnel.

Eleuthera

The new one hundred (\$100) million luxury development at Cotton Bay will be a Four Seasons Resort when completed and will provide over 200 permanent new jobs on the island of Eleuthera. Also on Eleuthera, the new owners of the Potlach Club near Governors Harbour are planning a three (\$3) million phased renovation of the property.

Bimini

On Bimini, the new 305-room, five-star luxury Hilton at Resorts World opened recently with 248 rooms with the remaining 57 rooms, public spaces, private gaming, spa, meeting rooms, retail outlets and amenities completing phase II of a five hundred seventy five (\$575) million capital expansion project. The resort has 160 construction employees on property and will have 564 permanent employees when completed.

On the private island of South Cat Cay just north of Bimini, ninety-four (\$94) million is being spent for development of a 53-room, five-star boutique hotel, marina, condominiums, home sites and amenities, with 195 construction and permanent jobs in the making. At the nearby Sandy Cay, Mediterranean Shipping Company is investing some \$100 million in development of a private cruise port destination offering 542 construction jobs beginning shortly and 200 permanent jobs when completed in 2018.

The Exumas

The Exumas will become The Bahamas' newest major resort destination as a significant portion of the new investment in the Family Islands is committed to projects throughout the Exuma Cays.

On Stocking Island, the Stocking Island Club is investing in a three hundred (\$300) million 48-suite luxury resort and residential development along with a sailing school that will function as a benefactor to the Exuma

Regatta. The project will generate 250 construction jobs and permanent employment for 200 persons when completed.

Three hundred fifty construction jobs and two hundred twenty three permanent jobs will be created on Children's Bay Cay where the owner has committed two hundred forty (\$240) million for development of a mixed-use, eco-resort and a private development with villas and a 18-hole Tom Fazio golf course on William's Cay. Portions of Barratarre will be leased for development of a staff village and other facilities.

On Norman's Cay, a thirty (\$30) million boutique hotel and infrastructure and luxury home-sites will generate several hundred construction and operations jobs.

The Bahamian developer of Plainbay of Black Point will start phase one construction of a marina and boutique hotel and infrastructure for luxury townhomes, residences, administration buildings and restaurants. Once completed the resort is expected to employ 240 Bahamians.

February Point in Georgetown, Exuma is undergoing a forty (\$40) million expansion which will include a five-star boutique hotel, condo units, restaurants and marina expansion. Additionally, the Government has entered into a joint venture with the developers of February Point for the master planning and development of a site for the extension of the Georgetown township to include housing, recreational facilities, commercial and tourist entrepreneurs.

Other significant new projects for Grand Bahama, Abaco, Bimini, Eleuthera and Exuma are under active negotiations and will be announced over the coming months.

And so, Mr. Speaker, my Government continues to attract significant foreign direct investment across the length and breadth of The Bahamas which bodes well for balanced economic growth and future employment throughout the Bahamian archipelago.

Fiscal Performance in the First Half of FY 2015/16

Mr. Speaker,

I now turn to a review of fiscal performance over the first six months of the 2015/16 fiscal year.

In the 2015/16 Budget Communication, I was explicit that we would continue to build on the fiscal improvement that we have achieved and that we will stay the course with the Medium-Term Fiscal Consolidation Plan that we established early on in this mandate. As such, we will continue to move decisively to transform Recurrent Expenditure, Capital Expenditure and Recurrent Revenue in a manner that is phased, measured and balanced such that our public finances are returned to a structurally sound and sustainable position.

As was clearly set out in my May 2015 Communication, our fiscal plan is expected to produce significant further improvements in the nation's public finances this fiscal year. Specifically, we projected that the GFS Deficit would decline to \$141 million this fiscal year. As I stated earlier, this represents a \$398million improvement from the Deficit of \$539 million posted in 2012/13.

Mr. Speaker,

The Government's fiscal performance for the six-month period ending 31st December 2015 reveals that we are broadly on track to achieve this projected improvement in the deficit this fiscal year. By any measure this is a major fiscal achievement that, in light of the challenging global environment, merits acknowledgement both at home and abroad.

I should add that this was achieved without public sector layoffs or diminution in the provision of essential public services.

At the mid-point of the fiscal year, the major components of the public finances are generally in line with what we had originally forecasted. Recurrent Expenditure, at \$1,084 million, is at 51.7% of the full-year budget estimate and Capital Expenditure, at \$91 million, is at 38% of the budgeted amount.

Recurrent Revenue in the first half of the fiscal year is estimated at \$905 million or 44% of the forecast. I hasten to add that that is not unusual as historically a disproportionate share of the Government's annual revenue is collected in the 3rd and 4th quarters of the fiscal year, or between January and June of the calendar year. Indeed over the past three fiscal years, for instance, Recurrent Revenue at the mid-point has ranged between 39% and 45% of the full year total.

On the basis of these developments, the GFS deficit for the first half of the fiscal year is provisionally estimated at \$157 million, slightly in excess of the full-year estimate. However, I would again stress the impact on the Deficit of the seasonality of our revenue flows. Were there no such seasonality and had revenues come in at 50% of the full-year estimate, the GFS Deficit in the first half would have come in at roughly \$40 million, readily on target to achieve the \$141 million Deficit target for the year. I am therefore confident that, as our revenue flows pick up in the second half as expected, we will indeed succeed in bringing in the Deficit at a level close to the estimate in the Budget Communication.

One area of fiscal performance on which I want to focus briefly is our revenue performance in the first half of the current fiscal year in comparison to the first half of the previous fiscal year. On a year-over-year basis, Recurrent Revenues are some 31 per cent, or \$217 million, higher this year than they were in the first half of 2014/15. The most significant contributor to this increase was, of course, the VAT that we introduced in January of 2015, to the tune of \$317 million. Other non-VAT revenues were thus \$100 million lower this year than they were the previous year, by and large reflecting the rate reductions that were announced in certain areas to coincide with VAT implementation. As such:

- Import Duties were down by \$26.9 million year-over-year;
- Excise Taxes were lower by \$16.3 million;
- Tourism Taxes were down by \$24.9 million, primarily reflecting the elimination of the hotel occupancy tax; and
- Stamp Taxes on realty transactions were down by \$38.2 million on the basis of the replacement of a large portion of these taxes on real property conveyances by VAT.

I also want to address an issue that has arisen in respect of the uses to which new VAT revenues have been put. This is important as I perceive there to be some degree of confusion on this matter. Quite simply, VAT collections are no different than any other source of Government revenue. They are not earmarked for any specific purpose but rather are allocated to the Consolidated Fund. As such, they are an integral and highly significant, part of the Government's overall fiscal plan for the year. They contribute both to further reductions in the Deficit as well as to the viable and sustainable financing of vital public expenditure and good governance.

Conclusion

Mr. Speaker,

In closing, I stress again that my Government has a well- conceived, well-articulated agenda for change and reform that it has pursued with great determination and consistency since coming to office. Ours is a plan that eschews capricious and opportunistic short-term quick fixes that invariably fail to produce lasting results. Instead our action plan is targeted, balanced and focused on the attainment of sustainable economic and social progress for the benefit of all Bahamians.

The achievements in executing the plan have been significant to date. Earlier in this Communication, I listed a few of these achievements and I would now like to provide this House a more comprehensive list.

- **Fiscal Reform:** We have reduced the deficit by \$398 million since coming into office.
- **Tax Reform:** We have introduced Value Added Tax and at the lowest rate in the Caribbean. Having done so, we must continue to review its impact on the most disadvantaged in our country with a view to ensuring at all times that the Government can move to bring relief.

- **Energy Reform:** We have reformed BEC and brought in private management setting the framework for substantially lower electricity bills in the near future. This also sets the framework for the immediate elimination of up \$200 million of Government Guaranteed debt.
 - **Healthcare reform:** We have created a new industry by passing legislation for Stem Cell Research and made substantial investment in both tertiary and primary care facilities. PMH and Rand Memorial are undergoing the most sustained period of investment in our history and we have new healthcare facilities or substantially renovated facilities in our major Family Islands.
 - **Education Reform:** We have introduced new standards for high school graduation and established the STAR Academy for the most vulnerable of our student population. We are committed to a policy that every child counts and that none should be left behind.
 - **Training:** We have created the National Training Agency and are actively working with the private sector to create sustainable and permanent employment for our citizens.
 - **Aviation:** We have invested over \$30 million in the upgrade of aviation infrastructure in New Providence and the Family Islands. In addition we have invested over 100 million to re-fleet Bahamasair.
 - **Social Services:** We have modernized the delivery of assistance to the most vulnerable through the issuance of debit cards and we have through the RISE Programme tied social assistance to positive behavior.
 - **Sports and Cultural Industry:** We have put The Bahamas on the map with the successful hosting of events like Junkanoo Carnival, the IAAF World Relays, the Popeye Bowl and next year we will host the Commonwealth Youth Games. We have also significantly increased government's support to Junkanoo.
 - **Communication:** We have successfully re-vested the majority economic ownership of BTC in Bahamians and provisionally awarded the 2nd cellular licence.
- National Resources Management:** We have passed legislation to govern the exploration of oil and develop new regimes for the export of salt and aragonite. We have created the Bahamas Agriculture and Marine Institute, providing a roadmap for the reduction in our \$1 billion food import bill.
- **Family Island Infrastructure:** We have commenced an aggressive infrastructural upgrade programme in the Family Island inclusive of roads in Andros, airport facilities in Bimini and San Salvador.
 - We have invested over \$250 million to modernize the Royal Bahamas Defence Force Fleet and bases throughout The Bahamas.
 - **Corrections:** We have passed legislation to modernize the Prison System to better address the chronic problem of recidivism and to better provide for rehabilitation.
 - **Judicial System:** We have added 10 more courts and additional legal officers to address the backlog in the criminal justice system
 - **Immigration:** We have invested over \$20 million to modernize the Immigration Management system to more effectively protect our borders while at the same time allowing legitimate visitors and intended Economic Permanent Residents quicker responses.
 - **Law Enforcement:** We have provided more law enforcement officers and

equipment to the Royal Bahamas Police Force, including CCTV and automobiles and protective equipment.

Mortgage Relief: The Government has held considerable discussion with the clearing banks on mortgage relief and an Associated Memorandum of Understanding. The required steps will now be taken to move forward with the legislation currently before the House of Assembly, as well to introduce a new mortgage policy initiative which together should set the framework for meaningful mortgage relief in The Bahamas. This would not preclude any of the clearing banks from pursuing on a unilateral basis their own mortgage relief initiatives.

Mr. Speaker:

The fiscal update that is set out in this Statement is a testament to our resolve in pursuing our agenda of change. We remain firmly on course to achieve the further and sustainable improvement in the public finances of the nation that we projected in the 2015/16 Budget Communication.