



**COMMUNICATION**

**BY**

**THE HON. K. PETER TURNQUEST**

**DEPUTY PRIME MINISTER**

**AND**

**MINISTER OF FINANCE**

**DEBATE ON THE**

**2017/18 BUDGET**

**OPENING STATEMENT**

**WEDNESDAY, 7th JUNE 2017**

**OPENING STATEMENT  
ON THE  
2017/18 BUDGET**

**I. Introduction**

Mr. Speaker,

One week ago today, I presented the Government's Budget Communication for the 2017/18 fiscal year.

As the very first Communication of our Government during our current mandate, it marks a new and promising beginning not only for Government but, more importantly, for all Bahamians. For they have spoken loudly and clearly that the affairs of state and the management of our economy could not continue as they had for the past five

years. Accordingly, they have entrusted our Government with a clear mandate to implement its vision for a brighter future as laid out in our 2017 Manifesto.

As was reaffirmed in the Budget Communication, and though we have only been in Office for a matter of weeks, we have taken up the mantle and begun to act on the transformational socio-economic growth agenda that will guide us over the next five years. Throughout, we will be fully transparent and accountable to the people and we will provide the good governance that they rightfully deserve.

Today, I want to lead off the debate on the Budget and, in doing so, I will focus my remarks on a certain number of the critical messages in the Communication.

Specifically, I want to expand on:

1. the need for immediate funding for the 2016/2017 obligations;

2. our economic and jobs growth strategy;
3. the fiscal challenges to be addressed; and
4. our plan of action for public sector reform and fiscal redress.

**I. The need for immediate funding for the 2016/2017 Fiscal Year**

Mr. Speaker,

This was an urgent and necessary transaction and reflects the imprudent management of the fiscal affairs of the country by the previous administration. The \$400 million figure is directly attributed to the non-investment rating of the Government and an acceleration of expenditure in the last four months prior to the general election.

Upon the downgrade by Standards and Poor the Government was immediately faced with collateral calls or postings with respect to the derivatives transactions previously entered into

by the Government. The total value of the collateral calls was in excess of \$150 million and while this does not represent an expenditure, it does represent a use of cash which has to be funded by revenues.

The Ministry of Finance was partially successful in negotiating temporary waivers but the obligation has not gone away. The Government is now required to provide a minimum of \$70 million by the first week of July to meet this collateral call.

In the event of any further negative ratings action this amount would increase and given the long tenor of these transactions, exiting at this time would represent expenditure of over \$120 million and, I am advised, is not recommended.

Mr. Speaker,

In addition, as of 30<sup>th</sup> May the total outstanding payments of the Treasury was \$161,283,514.04. This represents payments approved but awaiting funding. In addition,

commitments totaled \$130,780,802.72. Commitments meaning promises to pay once the good or service has been delivered; this figure is not exhaustive as we are aware of further unrecorded commitments. While the Government is not insolvent, it is clear that it has a liquidity challenged and as a result employees and vendors have had to wait an inordinate time for payment.

The situation if allowed to continue unaddressed would severely hamper our efforts to improve the Government's fiscal position and would not be in keeping with our commitment to improve the operations of the public finances through transparency and accountability.

The numbers speak for themselves and unfortunately the emergency borrowing authority was the only prudent thing this administration can do to protect the financial reputation of The Bahamas and I am grateful that the side opposite knowing full well these fiscal realities, accrued by them, accepted this position last week.

Mr. Speaker,

I must state unequivocally that the unabated spending and indifference to the financial realities of this country, which create the need for the emergency funding has stopped, as this Government has a clear mandate for change.

## **II. Economic and Jobs Growth Strategy**

I will begin with the core tenets of our economic and jobs growth strategy.

In doing so, I would note that the Communication reiterated the reality that the Bahamian economy is very heavily dependent on developments in the global environment, especially in the U.S. as our most important trading partner. Other small, very open regional economies such as ours face the same reality.

As such, historical data reveal that the evolution of our economy has traditionally been closely aligned with that of the American economy over the years. Indeed, in general, the annual growth rates of our economy and that in the U.S. tend to move up and down together in almost lockstep fashion.

However, while that is the general pattern, I would note that there have been important negative divergences from that pattern in the past, during which Bahamian growth significantly under-performed that in the U.S.. Interestingly and, perhaps not by coincidence, these undesirable episodes have occurred during the tenure of the party opposite.

For instance, in the early 1990s, we witnessed a very sharp negative divergence in growth rates. This was a time of great distress in our nation with very real prospects of total social and economic collapse. As a result, while the



U.S. economy did register only negligible growth in 1991, our domestic economy actually shrank by 4.2 per cent. The following year, the U.S. rebounded to roughly 4 per cent positive real growth but our own economy continued to contract, this time to the tune of 3.8 per cent.

It was fortunately at this time that our party was given its first mandate to govern and it was successful in implementing a comprehensive economic and social reconstruction plan. This plan was based on a market-driven economy powered by the private sector and entrepreneurship and supported by responsible, prudent, transparent and accountable governance.

The results of this strategy were prompt and significant. By 1993, our economy had returned to modest real growth and by 1994 it was growing at over 3 per cent. In the subsequent four years, it recorded growth rates

between 4 per cent 5 per cent, which culminated in real growth of 7.1 per cent in 1999. That, in fact, has been the strongest annual growth rate in at least the last thirty-five years and was one of the very rare episodes when real growth in The Bahamas outstripped that in the U.S.

Mr. Speaker,

Developments on the economic front during this period naturally translated directly to the state of the labour market. With the very sharp contraction in economic activity in the early 1990s, our rate of unemployment reached a level of almost 15 per cent in 1992. The FNM Government's success in reinvigorating economic growth in the subsequent period resulted in a sharp reduction in the rate of unemployment to a low of 6.9 per cent in 2001. That, as well, is a buoyant labour market situation that unfortunately has not been matched since.

Mr. Speaker,

There is a clear lesson for the future here that is not lost on our Government. Stronger growth of the economy can indeed generate adequate new jobs to accommodate a growing labour force and also reduce the incidence of unemployment. And Government most definitely can and must be a proactive agent of change to facilitate private sector investment and growth and prepare its citizenry for the emerging opportunities. Our Manifesto is justifiably inspired by the successes of our predecessors.

Mr. Speaker,

Our most recent experience with the lax and shoddy governance of the party opposite occurred recently, over the past five years. And, as history would have suggested, the Bahamian economy paid the price. Over four

straight years, our economy either stagnated or shrank. The numbers tell the tale: real growth was

- zero per cent in 2013;
- -0.5 per cent in 2014;
- -1.7 per cent in 2015; and
- zero per cent again in 2016.

In contrast, it is striking to note that the U.S. economy actually expanded every year over this same period, with positive annual growth rates ranging from 1.6 per cent to 2.6 per cent. Again, another episode of a large negative divergence in growth rates between The Bahamas and the U.S. that, on the evidence, was self-inflicted by poor leadership and misguided management.

As I tried to highlight forcefully last week, it is estimated that, on the basis of this pitiful performance, the size of our economy will actually be smaller in 2017 than it

was in 2012. Again, the numbers speak for themselves: real GDP in 2012 was estimated at \$7,965 million; this year, it is expected to be on the order of \$7,904 million.

It is worthwhile to pause a moment and reflect on this data for it is simply astonishing. How is it possible that an economy with a growing labour force could actually shrink in size over a five-year period, when the economy of our dominant trading partner was expanding at modest though still decent positive rates?

It is little wonder then that we face such a chronically high rate of national unemployment as well as an even more distressing problem of youth unemployment in this country. Our economy has simply been unable to generate adequate new employment opportunities to both reduce our rate of unemployment and take up new entrants into the workplace.

Mr. Speaker,

I have provided this brief historical overview not as a mean-spirited attempt to demean the performance of our colleagues on the other side but rather to illustrate the strong and lasting tradition of **our** side in addressing the dire economic and social challenges that have confronted our nation. We have successfully either transformed deep domestic recessions with elevated levels of unemployment into periods of strong growth and falling unemployment or, striven proactively to mitigate the effects of recessionary forces and supported recovery and employment to the extent feasible when the external environment has turned unfavourable. Simply put, we did it before and we will do it again!

On coming to Office, we face similar challenges today. But, it is evident that the world has changed

significantly over the past decades and, as such, the policy agenda that we have proposed in our Manifesto is different from previous approaches in that it is attuned to the realities of the 21<sup>st</sup> Century. What has most definitely not changed from our party's long track record, is our dedication to the values that have sustained us through good times and trying times, namely: selflessness, integrity, objectivity, accountability, openness, honesty and leadership. These qualities are absolutely essential for good governance and the discipline necessary for this critical recovery.

Mr. Speaker,

It has been estimated in some circles that annual rates of real economic growth on the order of 5 per cent or more will be required if we are to absorb new labour force entrants and significantly reduce the rate of unemployment.

In light of the historical record over the past two decades and

given the modest prospects for the world and U.S. economies going forward, this is a tall order indeed.

In the circumstances, what is called for is a bold vision and agenda for stronger growth and prosperity in the future that is premised on the firm belief that we as a nation can do much better than the status quo. Our Manifesto contains just such a bold transformational socio-economic growth agenda geared to the realities of the 21<sup>st</sup> Century.

Through our plan, we will seek to create a more open, productive and competitive society and economy as that is essential to our ability to compete successfully in today's global economy, gain valuable market share and thereby boost our economic performance above and beyond the current static expectations of some economic forecast.

In practical terms, this means:

- Creating a knowledge-based society;



- Promoting Bahamian ownership, entrepreneurship, investment and creativity in tandem with strategic foreign direct investment;
- Investing in new infrastructure and upgrading existing infrastructure throughout the country, in collaboration with Public-Private Partnerships where appropriate;
- Investing in public sector reform, as efficient public services are essential to facilitating doing business and maximizing economic growth; and
- Getting the nation's public finances in order through the elimination of the Deficit and returning the burden of Government Debt to lower and more sustainable levels...and no it will not happen overnight as some would have you believe is possible after inheriting this mess.

Mr. Speaker,

I will now expand on some of these core policy thrusts.

### **Creating a Knowledge-Based Society**

I begin with our key priority of creating a knowledge-based society. To that end, we believe that it is imperative that we engage in a complete reform of our education system since progressive and sustainable economic development rests entirely upon the proper education and training of our people in the modern era. That is critical to innovation, creativity and entrepreneurship and underpins productivity growth and competitiveness.

Our reform plans for the education system are multi-faceted and, among many planned initiatives, include the further incorporation of technology in the classroom beginning at preschool level. The Minister of Education,

Science & Technology will expand further on our plans for reform in education.

**Promoting Bahamian Entrepreneurship and Ownership**

The Budget Communication was unequivocal, that we as a nation can and must do better than the status quo if we are to bolster economic growth and generate the employment opportunities that are needed for our expanding workforce. To that end, we believe that it is vital that we move beyond an undue emphasis on foreign investment to propel economic activity across the nation. While we do acknowledge an important role for such investments, if they are legitimately strategic in nature, we are firmly committed to unleashing the potential and creativity of home-grown entrepreneurs as catalysts of innovation, investment and

stronger economic growth, particularly in non-traditional industries.

In order to support and promote increased Bahamian entrepreneurship and ownership in our economy, and especially small and medium sized businesses, my Government has laid out, in its Manifesto, a detailed array of measures that it will pursue during this mandate. These include:

- the introduction of the Small and Medium Enterprise Development Agency (SMEDA) in order to consolidate the services and incentives of all relevant agencies;
- Support for Entrepreneurship and Enterprise Centers;
- providing a \$5 million capital infusion to the Venture Capital Fund;

- establishment of a one-stop shop, incorporating relevant Government agencies and services as a means of easing the burden and cost of doing business in this country;
- encouragement of the commercial banks to establish Small Business Units staffed with professionals attuned to the particular needs of SMEs, including mentorship and guidance;
- further strengthening of the Fresh Start and Jumpstart programmes established by the previous FNM Administration; and
- making available incentives and inducements that are in line with those offered to foreign investors in the same sectors of the economy. I am amazed by the millions we give away in cash incentives.

We will also strive to revitalize the Grand Bahama economy through initiatives that are geared to accelerating, broadening and sustaining its economic development. The Budget Communication announced that we would repeal and replace the disastrous Grand Bahama (Port Area) Investment Incentives Act 2016 that I have labelled as a “job killer”. Our objective is to ensure that all licensees receive equal treatment under the law, with the greatest opportunity for success, unencumbered by red tape and unreasonable cost to operate. Among other measures proposed in our Manifesto, we will in addition to the measures set out in the Communication:

- relocate The Bahamas Maritime Authority to Grand Bahama as a means of establishing it as the maritime capital of the country and we will leverage the

container port and shipyard infrastructure to attract new investment into the sector;

- further develop BTVI and the University of The Bahamas to more effectively support the island's industrial and hospitality requirements;
- promote Grand Bahama as an eco-tourism sanctuary;
- by capitalizing on the airport infrastructure, we will seek to develop the aviation sector as well as attract overnight courier services;
- utilize Crown lands in east and west Grand Bahama to create a hydro-farm and a mariculture facility to produce crops and seafood for export; and
- eliminate all preferential treatment that hinders the growth of business on the island.

Mr. Speaker,

Our inner city communities in New Providence have long been economically and socially depressed areas and have been neglected by Government for far too long. Our Government will, during this mandate, therefore move to reinvigorate and transform these so-called “Ova-da-Hill” communities through incentives for entrepreneurs, investors and especially small and medium sized businesses that will spur business growth and job creation from within these communities. We will support the construction of business premises and new or refurbished owner-occupied homes. We will establish community centres with activities that strengthen family and social cohesion for the youth and elderly. And we will ensure the provision of potable water, sewer and sanitation services in line with those available to our citizens elsewhere.



### **III. The Fiscal Challenges to be Addressed**

Mr. Speaker,

I now want to turn to a discussion of the current fiscal position that we confront at the start of our mandate.

While we did expect matters to be worse than we had been led to believe by the previous Administration, we have now discovered, as I explained last week, that the public finances of the nation are in fact in far worse condition. Indeed, we faced an immediate cash flow shortage that caused many payables and salary deductions to be delayed as we robbed Peter to pay Paul, so to speak.

The GFS Deficit in the current fiscal year is now estimated at \$500 million, fully five times the \$100 million forecast that was presented only twelve months ago.

In presenting these data last week, I made a legitimate effort to objectively explain that an important

portion of the very large \$400 million slippage reflected the impact of Hurricane Matthew. And, I in fact, went to some length to explain, again objectively, the various ways the hurricane adversely affected the fiscal situation in 2016/17, including its impact on the economy and revenues as well as its effects on Government expenditure.

But I was equally clear, that the 2016/17 fiscal story did not end there. Indeed, I explained that we have discovered, since coming to office, that the previous Administration had entered into many eye opening new spending commitments on the eve of the last election, contradicting their own stated policy that no such last-minute commitments should ever be allowed to occur. It was revealed in the Budget Communication that those commitments total in excess of \$300 million and quite

possibly much more, as we are learning from one day to the next.

Mr. Speaker,

It is therefore deceptive to assert that the huge Deficit overrun this fiscal year is solely attributable to the effects of Hurricane Matthew. It is evident that the blatant fiscal recklessness of the other side, in the run-up to the election, was a major contributing factor.

As the new, incoming Government, it is thus left to us to clean up the mess that was left by the previous Administration. To which end, we have had to obtain Parliamentary approval for an emergency borrowing resolution in the amount of \$400 million that will allow us to clear up the backlog of payments owing and unfunded commitments.

Mr. Speaker,

The sad reality is that this egregious fiscal mismanagement was not a one-time event. The record clearly documents the reality that our predecessors lacked fiscal discipline throughout their five-year mandate.

Mr. Speaker,

Let us briefly look at the cold, hard facts.

As was illustrated in the Budget Communication, over their five-year term in office, the side opposite ran up GFS Deficits totalling over \$2.2 billion. And they hoisted the burden of Government Direct Debt by virtually 50 per cent, from 48 per cent of GDP in 2011/12 to 71.5 per cent of GDP in the current fiscal year.

Beyond this year, the fiscal structure that our predecessors have left to us is projected to result in a GFS Deficit of some \$323 million in 2017/18, as well as primary

deficit of \$31 million. In turn, that will bring the debt burden to an all-time high of 72.7 per cent of GDP in the coming fiscal year.

Mr. Speaker,

I want to stress again, as was done in the Communication, that this is a so-called policy neutral projection (meaning we have not inserted our own policy changes into the forecast) that we are firmly committed to addressing in the period ahead. The fiscal affairs of the nation are in a serious state and it is imperative that we act promptly to do something about it. Doing so will both create a stable macroeconomic environment that supports more buoyant economic growth and job creation and assure the sustainable financing of our transformational growth agenda. I will return to these matters shortly.

Mr. Speaker,

Prior to doing so, I want to provide additional details on the previous Administration's fiscal track record during their recently concluded mandate. Bahamians deserve to know not only what went wrong over the past five years but they also deserve an explanation of how and why that was allowed to occur.

Again, the facts speak for themselves. The massive GFS Deficits that have been run up since 2012 reflect the actions of a Government that did not understand nor appreciate the very basic, fundamental principles of sound fiscal management. Year after year, they boosted Recurrent Expenditure well beyond the ability of the Bahamian public to pay for that spending through the various taxes that it submits to the public purse.

In other words, year after year, the previous Government incurred large deficits in its Recurrent Fiscal

Balance, that is the difference between Recurrent Expenditure and Recurrent Revenue. These deficits ranged from \$195 million in 2014/15 to a high of \$498 million in the current fiscal year.

Mr. Speaker,

That, simply put, is sheer fiscal insanity. Let us compare this situation to that of a typical Bahamian household that works hard to earn sufficient income to house and feed its family. Such a household may well seek to borrow funds with which to procure a home for its family and that is financially justifiable as the home will provide a steady and ongoing stream of services to the family. The family will then be in a position to service that loan and gradually pay it down from its future earnings.

However, should the family find itself suddenly in need to repeatedly borrow money just to pay for the weekly

grocery bills and other current expenses, that would be a dire situation that, without corrective action, could well lead to financial insolvency.

This admittedly is a simplified analogy but I have related it to stress the point that the previous Administration, through its lax financial management, had essentially engaged in substantial borrowings during its term in office merely to pay for the so called groceries, the day-to-day Recurrent Expenditures.

Mr. Speaker,

I would be remiss, in relaying this information on their track record, if I failed to mention that, all the while spending like drunken sailors, they did give “lip service” to the need for fiscal consolidation. Indeed they published, as early as the 2012/13 Mid-Year Budget Statement, a detailed plan of action to reduce Recurrent and Capital Expenditure



and enhance Recurrent Revenue as a means of eliminating the GFS Deficit within their mandate and getting the nation to a lower burden of Government Debt. And, with the wave of a wand, their plan was projected to result in a GFS surplus of \$80 million in the 2016/17 fiscal year.

Yes, Honourable Members, you did hear that right: a surplus of \$80 million. Five years later, we now know that that surplus has vanished into thin air and been transformed into an actual Deficit of \$500 million.

Now, to be fair and objective, the previous Administration did succeed in achieving the goal of enhancing the revenue yield of the tax system to more appropriate levels, more in line with the needs of modern governance and into the range of other nations in the region.

The reforms that they continued in the key areas of Customs, Real Property Tax and Business License did go

some way to contributing to the rise in the revenue yield but I would stress that these reform efforts have not been completed and will need to be pursued in the period ahead.

Of course, the key policy measure for revenue enhancement has been the introduction of the Value Added Tax in 2015. This is a tax that had been mulled by various Governments in this country for at least the past 15 years. Based on international experience, it is a tax that is an efficient instrument for generating the revenue streams needed to finance Government.

True to form, the Bahamian VAT has indeed produced as expected, with over \$1.1 billion collected over its first two years. The VAT is projected to generate some \$665 million in additional revenue in the 2017/18 fiscal year.

Mr. Speaker,

I would submit that Bahamians did accept the VAT, perhaps grudgingly, but with the full expectation that its proceeds would be utilized to reduce the debt load that so burdens and hamstrings the Government. Another failed promise of the last administration but this current FNM Administration, will follow through on that commitment in the next fiscal year by allocating a percentage of the VAT revenue directed to the reduction of debt.

Unfortunately, as I said the previous Administration chose to see matters differently. Indeed, the data in respect of the Government's Recurrent Expenditure and Revenue during the five years of their mandate reveal that they willingly chose, to a significant extent, to use the increases in Recurrent Revenue to boost Recurrent spending.

Through their revenue reform programme, including the introduction of VAT, they managed to

significantly increase the annual level of Recurrent Revenue from \$1.43 billion in 2011/12 to \$1.96 billion in the current fiscal year. That represents an increase of \$530 million.

However, over this same period, they managed to increase Recurrent Expenditure from a level of \$1.632 billion in 2011/12, the year prior to their mandate, to a level of \$2.458 billion in 2016/17, for an increase of \$826 million. Now, admittedly, some \$245 million of this higher spending level was due to higher Debt redemption requirements. And interest payments are higher this year than in 2011/12 by some \$107 million. This suggest that, over the course of its mandate, the previous Government increased the level of operating spending, excluding interest and debt repayment, by \$474 million. As such, fully 89 per cent of the revenue increase during their term was swallowed up by increases in

spending over which they had direct control, including over \$20 million to one set of foreign consultants alone.

Mr. Speaker,

As was clearly demonstrated in the Budget Communication, our Government must, as a first priority, act decisively to put order in the public finances of the nation. Our aim is to eliminate the GFS Deficit as promptly as is feasible and practical and, to that end, we will strive to identify in-year fiscal savings in 2017/18 that will transform the projected primary deficit of \$31 million into a surplus.

Having now seen the gravity of the fiscal position that has been left to us by our predecessors, we fully appreciate that fiscal redress is necessary to restore and sustain confidence in The Bahamas, strengthen our international credit rating and thereby set the stage for the full implementation of our policy agenda.

Indeed, if our aggressive 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 is untenable and simply not up to the task of modern governance. We cannot go on mortgaging the future of our children to finance the day-to-day running of Government. We must 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.

After the past five years of Government spending beyond its means, and borrowing funds that it did not have **to pay** for that spending, the time has come for decisive fiscal action. Any further delay in doing so would only make the inevitable, necessary corrective measures more drastic and painful. One need only look at what has happened in a

number of other countries around the globe to appreciate just how painful delayed fiscal adjustment can be, in both economic and social terms.

Turning around the fiscal position and placing it on a solid, sustainable basis will underpin the achievement of the other elements of the Government's plan of action for stronger growth, more jobs and further social progress.

If we were to postpone determined fiscal action, the gap between spending and revenue on the Recurrent Account would lead to an ongoing and pronounced rise in the debt burden. The debt-to-GDP ratio would rapidly escalate to yet higher and more damaging levels. Very soon, the Government would find itself in the very difficult position of having no choice but to drastically cut spending and raise taxes, as other nations have had to do.

It is therefore clearly preferable and imperative that we act now with a plan of our choosing to redress the unsustainable fiscal imbalance and rising debt burden. That is critical both for the sake of fiscal prudence and to allow the Government to play its rightful role in society in an effective and financially secure fashion.

#### **IV. Our Plan of Action for Public Sector Reform and Fiscal Redress**

Mr. Speaker,

I stressed in the Budget Communication that our Government is firmly committed to working diligently in the months ahead to improve on the near term fiscal situation and medium term prospects that have been left to us. To that end, we will take action on several fronts, on which I would now like to expand.

#### ***A Review and Assessment of Expenditure Programmes***



Mr. Speaker,

Based on the review of fiscal developments over the past five years that I have presented, it is evident that Government Expenditure in this country is at the crux of our fiscal problem. Recurrent Revenue in 2017/18 is projected at some 23 per cent of GDP and that is a 5.4 percentage point improvement from the level of 17.6 per cent of GDP in 2011/12. For its part, Recurrent Expenditure in the next fiscal year is forecast at 28.6 per cent of GDP, up fully 8.6 percentage points from 2011/12.

As such, over the period, revenue has gone up by 5.4 points but recurrent spending has increased by 8.6 points. Looked at in another way, in 2011/12 the negative gap between Recurrent Expenditure and Revenue, the so-called Recurrent Balance, amounted to 2.4 percentage points of

GDP. In the coming year, that gap is forecast at 5.6 percentage points of GDP.

Mr. Speaker,

In layman's parlance, not only did the previous Government borrow large sums to pay the grocery bill, but it engaged in further excessive spending during its term to the point that it had to borrow even more to cover the costs of everyday spending. Through its actions, it placed our nation's public finances into an impending vicious cycle of deficits and growing debt and interest payments that could begin to feed on itself automatically to disastrous levels in the absence of determined resolve to arrest it.

In light of the improvements in the revenue yield of our tax system in recent years, it is evident that more taxes are not the principal answer to correcting the fiscal mess that we inherited. While ongoing reform efforts must continue to

improve the administration of the tax system and ensure that taxes due are rightfully paid, I believe that the primary focus of our efforts must be placed on containing the growth of recurrent spending.

To that end, as was announced in the Communication, we will undertake over the next few months an in-depth review of Government expenditure programmes to determine where and how service effectiveness and efficiency can be enhanced and savings and reallocations can be secured. This review will include forensic accounting reviews where necessary to determine validity of the charges.

Mr. Speaker,

I would submit that such a review of spending is long overdue. Many of the programmes and services that are delivered by Government have been in existence for a very long time indeed and, as might be expected, have come to be

seen as simply something that Government does, year after year. However, change and transformation abound around us, whether in respect of global trading patterns or technological innovation, and the notion that “business as usual”, like building sidewalks to nowhere, is acceptable can no longer be accepted and tolerated. Indeed, our Government’s vision of a socio-economic transformational growth agenda for The Bahamas is founded on this view.

The review of Government expenditure that we envisage must be comprehensive and all-encompassing if it is to be successful and, more importantly, accepted with broad consensus. Excluding certain areas would clearly be counter-productive and would likely doom the exercise. However, while acknowledging this reality, the fact of the matter is that the gravity of the current fiscal situation requires prompt action and early results. Accordingly, we

will launch our review of programmes and services in a phased way, focusing initially on a select few of the major areas of spending where appreciable fiscal savings relative to the status quo going forward can be expected to be identified. Other areas of activity and spending will be brought into the fold as we move ahead.

The overarching goal of this exercise is to ensure that the Government's restrained level of fiscal resources is directed to the highest priority requirements and to those areas where the Government is best placed to deliver programmes and services. We seek to secure the most effective and efficient ways of delivering our programmes and services.

Such reviews and assessments will be guided by a core number of criteria, namely:

- does the programme or service continue to serve a public interest?
- is there a legitimate and necessary role for Government in this area?
- can any parts of the programmes and services be transferred to the private or voluntary sector?
- How can the delivery of programmes and services be improved?
- To the extent that there is a private rather than societal benefit from the programme or service, to what extent can cost recovery and user fees be utilized to finance these programmes and services?
- Is the resultant package of programmes and services consistent with the restrained fiscal levels?

As may be seen, the programme review exercise will, through the application of these criteria, essentially be an ongoing process that loops back on itself if sufficient fiscal savings have not been identified.

### ***Strengthened Accountability and Transparency in the Government's Fiscal Operations***

As we announced in the Speech from the Throne, our Government will also work to strengthen the accountability and transparency of the fiscal operations of Government in the Ministry of Finance. As a key component of this plan, we will vigorously pursue the further implementation and completion of the IDB funded Public Financial Management project as soon as possible.

Limited quality, production and use of information are undermining the Government's capacity to determine priority actions. Cumbersome processes and

inconsistent practices in public financial management (PFM) and procurement have reduced capabilities to align resources accordingly. The information presently available is of limited quality, difficult to access and consequently not widely used for evidence-based policy and decision-making. More importantly, it also undermines the development of a coherent narrative of government actions.

To address these issues, the Government has requested and secured financing from the Inter-American Development Bank for support in two main areas: (i) strengthening of public performance monitoring; and (ii) the modernization of public financial management and procurement.

In the area of public performance monitoring, the availability of high quality and relevant data is critical and,



therefore, a solid statistical system is central. Some of the areas where immediate attention is required relate to the institutional capacity of the Department of Statistics. Improvements are needed in internal coordination, technical resources, data dissemination, and the legal and normative environment (i.e. the current Statistics Act dates to 1973). Additionally, the outdated IT systems have hindered efforts to improve data production, create awareness of the importance of the Department of Statistics and the need to use statistics in the country for evidence-based policymaking.

In the area of Public Financial Management, the Government faces the challenge of increasing efficiency in the allocation and use of resources and in producing actionable data for decision-making. The Ministry of Finance has a set of financial management systems that are

outdated and have reached their capacity for expansion. Their main function is basic cash management and payment.

Under the terms of reference of this project, the overall objective is to increase efficiency in the use of public resources. The specific objectives are to: (i) enhance the capacity to produce and provide access to quality information for evidence-based policy-making; and (ii) improve the ability to better allocate and track public funds.

The program is expected to have a positive impact on the performance of the Bahamas public sector, in line with the following expected results:

- Better capacity to monitor performance in the implementation of public policies in key line ministries;

- Improved 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;
- More efficient Public Financial Management with an Integrated Financial Management Information System fully implemented and functional in line ministries and relevant public entities; and
- A public procurement system with fair and transparent rules, generating savings and value for line ministries and relevant public entities.

### ***Transforming the State Owned Enterprises***

Mr. Speaker,

I now turn to the issue of the many State Owned Enterprises in this country. As was highlighted in the Budget

Communication, there are 25 such entities that rely on subventions from the Government. In 2017/18, such financial support will amount to \$429 million, fully \$79 million more than last year, primarily because of NHI introduction.

The largest subvention by far relates to the Public Hospitals Authority which will receive over \$213.8 million next year, fully 50 per cent of total Government subventions. Next on the list are the new National Health Insurance Authority with \$48 million; the University of The Bahamas with \$34.5 million; the Water and Sewerage Corporation with \$30 million; the new Bahamas Civil Aviation Authority with \$17.1 million; and Bahamasair with \$14.9 million. Taken together, these 6 entities account for total subventions of \$358 million, or 83 per cent of aggregate subventions.

Mr. Speaker,

This only tells a small part of the story. There are other entities which have underperformed and not provided any benefits or static benefits to the state. For example, BEC and its operating company BPL has not been in a position to provide dividends to the Government for over 20 years. Likewise the Nassau Airport Development Company has not found a formula to provide any returns to its shareholders after 10 years.

The restructuring of the Bank of The Bahamas has cost the Government over \$200 million and counting. The Government has invested close of \$70 million in Newco, the operators of Aliv.

As can readily be appreciated, these subsidies, investments and lack of returns or dividends have a

substantial impact on the Government's fiscal resources. Given the need for prudence and restraint in the period ahead, it will therefore be imperative that such subsidies, investments and other support from these SOEs be reviewed and assessed objectively and equitably in line with other areas of direct Government programme activity. They will therefore be folded into the programme review exercise that I outlined earlier.

As I have stated, "business as usual" is off the table and we must find practical ways of doing Government right, doing it better and doing it affordably.

### ***Fiscal Responsibility Legislation***

Mr. Speaker,

We have come to the view that the setting and implementation of fiscal policy in this country could be greatly enhanced if it were done within the framework of

effective Fiscal Responsibility legislation. I thus indicated in the Budget Communication that the Government intends to present such legislation for Parliamentary approval.

While the specific details of this law have yet to be nailed down, it is possible at this time to lay out its overriding objectives and general parameters.

The overall focus of a Fiscal Responsibility law will be to elaborate on the rules and procedures relating to three core Budget principles, namely accountability, transparency and stability. At its most fundamental level, the law will affirm the foundational objectives of annual GFS Budget balance and the maintenance of a Government Debt to GDP ratio at a level that is deemed to be desirable and sustainable.

Given these stability objectives, the law would then mandate that the Minister of Finance must annually in

the Budget Communication present, for the coming Budget year, the two previous years as well as the two subsequent years:

- details on the macroeconomic situation and forecast and the assumptions underpinning the Budget forecast;
- critically, the longer term fiscal targets that have been set in the formulation of the Budget strategy;
- information as to the fiscal outcomes for the two previous years and an explanation of how and why these diverged from the previous targets that had been set;
- fiscal targets for the coming and two subsequent years and how these relate to the attainment of the long run objectives;



- details on the main fiscal components underlying the setting of the fiscal targets, i.e. Recurrent and Capital Expenditure, Recurrent and Capital Revenue, and Debt Redemption;
- in order to facilitate the attainment of the fiscal objectives, the law could also require the setting of targets for some of the main components of Recurrent Expenditure, such as the Government's wage bill;
- if a GFS Deficit is projected, an explanation of the fiscal measures included in the Budget to move toward the elimination of that Deficit and the timeframe for that to occur.

As a means of strengthening the Budget process and building consensus around fiscal targets and actions, consideration could be given to opening up the process of Budget preparation with a series of consultations with the

public and the private sector several months prior to the Budget presentation.

As well, it might be desirable to establish an Economic Advisory body that would operate independently of Government and whose role would be to review and assess, annually, the Government's fiscal performance during the previous year as well as advise on appropriate fiscal targets for the coming year and beyond, including proposed actions in respect of expenditure and revenue.

In order to tighten up Budget implementation, the Fiscal Responsibility legislation could also include provisions requiring Ministries and Departments seeking to introduce new spending initiatives in-year to identify the requisite financing from within their existing Budget allocations.

## *Public Procurement Regulations*

Mr. Speaker,

The Budget Communication indicated that we will be introducing amended Public Procurement Regulations under the Financial Administration and Audit Act in order to increase the transparency and efficiency of the procurement process.

A key feature of these new regulations is the establishment of a Public Procurement Board comprising a Chairperson appointed by the Minister of Finance from outside the public service who is competent and knowledgeable in public procurement; the Financial Secretary ex officio; a Permanent Secretary; and a minimum of two persons appointed by the Minister from nominations submitted by associations such as the Bahamas Chamber of

Commerce, the Bahamas Institute of Chartered Accountants and the Bahamas Bar Association. Other private sector persons could be involved as well.

Among its functions, the Board will advise the Minister on the regulation and monitoring of public procurement in The Bahamas; formulate and propose policy, legislative and regulatory actions for the better implementation of public procurement including measures to facilitate the participation of small and medium sized enterprises; and provide advice and recommendations to the Minister to ensure implementation by all parties of existing laws, policies, regulations, rules and procedures governing the procurement of works, goods and services financed in whole or in part from public funds.

The Regulations set out the methods and

procedures to be followed by procuring entities to ensure openness and equity. They also provide for the establishment of a Procurement Review Tribunal that will adjudicate complaints and appeals in respect of the procurement process.

### ***Strengthening the Office of the Auditor General***

Article 136 of the Constitution establishes the Office and functions of the Auditor General. However, experience reveals that the effectiveness of these functions has over the years been constrained by a variety of factors including resource availability.

It was therefore announced in the Budget Communication that the Government will look at introducing legislation to strengthen that Office as well as provide it with the resources needed to effectively and properly discharge its

responsibilities as mandated by the Constitution. We also wish to preclude the possibility of undue Government interference in the work of the Auditor General.

One model under consideration would see the establishment of the Office of the Auditor General Agency as an approved authority whose overall work and finances would be under the supervision of a Board comprising Members of Parliament and private citizens with requisite qualifications in accounting, law or Government. The Board would play no role whatsoever in the preparation of the Auditor General's annual audit plan nor in the conduct of individual audits.

The Auditor General would publish his annual audit plan within 30 days of the start of the fiscal year and would subsequently report on the results of his audit plan to

Parliament within 60 days of the close of the fiscal year. It would be mandatory for reports to be sent to the Speaker without any reference to the Minister of Finance.

The Auditor General would also have the power to appoint external auditors to audit any agency or entity that is in receipt of public funds.

### ***Revenue Administration Legislation***

Mr. Speaker,

Many of the taxing statutes in The Bahamas have outdated and weak collection and enforcement provisions. Non-Customs tax revenues flow from a handful of legislative vehicles such as The Value Added Tax Act, the Business Licence Act, the Real Property Tax Act, the Excise Act, the Excise Stamp Act and the Stamp Act. These instruments have their genesis as early as 1925 in the case of the Stamp

Act, and as recently as January 1, 2015 in the case of the Value Added Tax Act.

Commerce has become increasingly complex in recent decades, as have efforts to avoid or minimize the payment of taxes. Understandably, changes to legislation to respond to this changing environment have not always kept pace. The consequence of this misalignment is an erosion in the ability and consistency of tax authorities to protect Government revenues and ensure greater tax compliance.

Outdated and inconsistent enforcement and collections provisions threaten government revenues and prejudice businesses that comply with their tax obligations. Modern jurisdictions worldwide have responded with legislative agendas that continuously strive to align enforcement and collections provisions with emerging and evolving avoidance practices.



There is broad inconsistency in legislative tools available to enforce payment of a tax dollar owed to The Government of The Bahamas. Because the taxing statutes were conceived individually, they reflect different enforcement and collection provisions, and perhaps provisions felt to be appropriate to the fiscal environment at the time they were enacted. For example, a dollar assessed under the recently implemented Value Added Tax legislation has a wide range of modern tools available to enforce payment, whereas that same dollar assessed under the Business Licence Act has very limited and cumbersome provisions to enforce payment.

In order to remedy this situation, it was announced in the Budget Communication that the Government will introduce Revenue Administration

legislation to formally establish the Department of Inland Revenue. As well, this legislation will seek:

- to improve and modernize the Government's ability to protect and enforce the payment of amounts assessed under its tax statutes, thus providing a level playing field for tax-compliant businesses;
- to provide greater consistency and certainty to business in the way collections and enforcement is undertaken across all tax lines;
- to harmonize and streamline, to the extent possible, the procedural tools available to collect and enforce tax amounts under the various taxing statutes;
- to provide modern collection and enforcement measures as alternatives to outdated provisions in some of the taxing statutes; and

- to provide a consistent non-discretionary rate of interest to all amounts owing to the Government of The Bahamas under the various tax statutes.

The Government will review and assess alternative legislative options for the most effective way to achieve these important objectives in the period ahead and will table the preferred legislative package at the earliest convenience.

## **V. East Grand Bahama**

Mr. Speaker,

Before I conclude, I would again like to thank the wonderful people of East Grand Bahama who have elected me with a clear mandate to lead our constituency's growth agenda. In this regard, I acknowledge the significant infrastructure works that are

underway, which will be completed, and those to be initiated, as resources become available. I also acknowledge the interest of many in working with this administration to restore our island and again signal that limited resources may hinder the pace of that engagement but our effort is primarily to facilitate private sector growth to alleviate that pressure off the public system. In the meantime, we will continue our social outreach, cultural educational and sponsorship programmes, to ensure that we catch as many of our citizens as possible and provide assistance while our program takes root. I would like to specifically thank my campaign team, who worked hard and smart to ensure our victory. I will not name names but you are all very

dear to me and I will not forget where I come from, as the saying goes.

## **V. Concluding Remarks**

Mr. Speaker,

Through my Communication today to open debate on the 2017/18 Budget, I have made it abundantly clear that our Government will not accept the status quo. The previous Administration frittered away five years with false optimism and broken promises, in the process wasting valuable public resources and leaving us with an unsustainable fiscal position.

It is therefore imperative that we act now decisively to redress the public finances, eliminate the deficit and return the Government's debt load to lower, more appropriate levels. The days of "talking a good game" about

fiscal consolidation are over. It is only through a sound fiscal strategy that we will be able to implement, realistically and sustainably, our bold and visionary agenda for growth, jobs and prosperity.

That agenda calls for transformation and change that will create an open, productive and competitive economy and society. To that end, Government itself must embrace change and modernization if it is effectively to support growth and prosperity through efficient and sustainable programmes and services.

Mr. Speaker, I look forward to the changes to come and I am very optimistic about the future of our wonderful country.

**God Bless the Commonwealth of the Bahamas!**