

# The 2020/2021 Budget

**A Resilient Bahamas: A Plan for  
Restoration**

June 2020





# PwC Budget Review

Highlights 2020/2021



# The 2020/2021 Budget

## A Resilient Bahamas

### A message from our territory leader

In the midst of an unprecedented global health and economic crisis caused by the novel coronavirus - COVID-19, and in the aftermath of Hurricane Dorian, the Deputy Prime Minister and Minister of Finance of the Commonwealth of The Bahamas, The Honorable K. Peter Turnquest on 27 May 2020 presented what he termed an “unprecedented budget” for the 2020/2021 fiscal year.

The Budget focuses on five key areas:

- Protecting the health and safety of Bahamians
- Providing adequate social support to vulnerable members of the community
- Stabilizing the domestic economy
- Sustaining employment
- Accelerating Government reforms

Given the realities of a faltering economy following Hurricane Dorian and COVID-19, in the 2020/2021 budget, the Government made a bold commitment not to increase taxes. As such, total revenue for the budget year 2020/2021 is anticipated to be \$1.7 billion which is down 15.7% compared to the previous fiscal year. The result is an expected deficit of \$1.3 billion which has been cited as being “the largest deficit to be incurred by any Government in the history of The Bahamas”.

The 2020/2021 budget goes into effect 1 July 2020. In this report, we outline the main highlights and key initiatives for a “Resilient Bahamas: A Plan for Restoration” and how the Government plans to meet its budget objectives.

**Prince A. Rahming, Territory Leader, PwC**



**Prince A. Rahming,  
Territory Leader, PwC**



# The 2020/2021 Budget Snapshot

“

A plan for a  
Resilient Bahamas  
and future  
prosperity

”



Enhancing public health and safety



Expand social protection



Sustain employment



Strengthen the domestic economy



Accelerate Government reforms and National resilience





# Budget 2020/2021 snapshot

## 16 Budget strategies



### Protecting Public Health:

1. Increased funding to the Ministry of Health & Department of Public Health
2. Expanded free primary care coverage under NHI
3. Duty free Personal Protective Equipment



### Expanding Social Support:

4. Back to school VAT holiday
5. Increased unemployment assistance due to COVID-19
6. Increased funding to the Ministry of Social Services



### Sustaining Employment:

7. Tax Credit and Tax Deferral programs
8. Expansion of the Business Continuity program



### Sustaining the Domestic Economy:

9. Increased capital works projects
10. Reduction in duty on building supplies
11. Increased small business funding
12. Tax reductions for the agricultural industry
13. Extension of tax relief for Hurricane Dorian



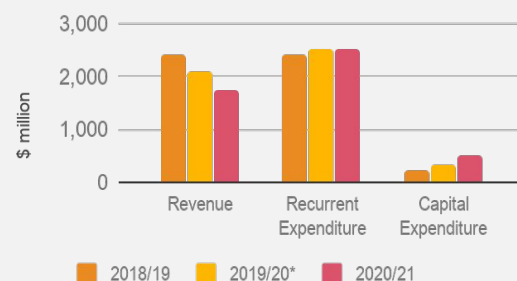
### Accelerating Government Reforms:

14. Digitalisation of Government services
15. Moving to cashless commerce
16. Reform of State Owned Enterprises

## Budget in numbers

### Declining revenue due to Hurricane Dorian and COVID-19

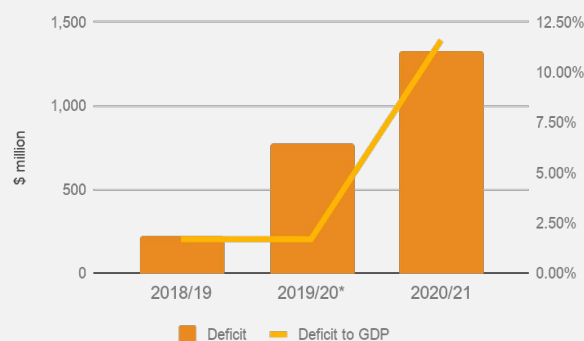
#### Budget Highlights



Source: Ministry of Finance

### Increasing deficit-to-GDP ratio

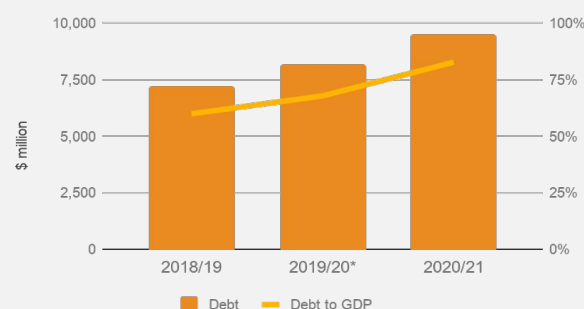
#### Fiscal deficit



Source: Ministry of Finance

### Debt level stay elevated

#### Government debt



Source: Ministry of Finance

\*Projected



# Revenues decline – but no tax increase

With an expected \$1.3 billion deficit, the largest in Bahamian history, the Government had a momentous task in devising a budget that would stabilize the economy and promote economic growth.

Faced with an estimated decline in revenue of \$232 million due to Hurricane Dorian and an expected \$900 million decline in revenue from this same time last year, the Minister, made a commitment during his budget communication that the Government would not raise taxes.

With limited revenue generating measures identified in its Budget, the Government's only recourse was to significantly increase debt, with debt levels projected to be 82.8% of GDP at the end of fiscal 2020/2021, up from a projected 67.9% at 2019/2020.

The Government also announced a target reduction in subventions to State-Owned Enterprises (SOEs) of \$100 million per annum.

In an effort to avoid curtailing spending in important areas including education and capital expenditure projects, capital spending was boosted to \$515.5 million, resulting in a 58.4% increase over the projected expenditure in the 2019/2020 budget year.

This spending was noted to expand the Government's investments in hospitals, clinics, road works and other civil projects to boost employment and improve critical infrastructure.

As a result of maintaining the social welfare of Bahamians and increasing capital spending, this results in total budgeted expenditure of \$3.1 billion.

The table below highlights the Government's budget past fiscal performance and future forecasted performance to 2022/2023.

**Table 1:** Budget highlights

\$ billion	2018/2019	2019/2020*	2020/2021	2021/2022f	2022/2023f
Revenue	2.43	2.09	1.76	2.24	2.56
Recurrent Expenditure	2.42	2.54	2.57	2.67	2.67
Capital Expenditure	0.22	0.33	0.52	0.38	0.25
Deficit	0.21	0.78	1.33	0.81	0.36
Deficit as % of GDP	1.7%	6.4%	11.6%	6.7%	2.9%
Government Debt	7.53	8.18	9.51	10.32	10.61
Debt as % of GDP	60%	67.9%	82.8%	85.6%	83.1%

\*Projected  
f Forecasted

Source: Ministry of Finance





# Mounting debt - a cause for concern

In its 2020/2021 Budget forecast, with no substantial revenue enhancement measures, projected declining revenue and increased capital spending, the Government is taking measures to increase borrowings in order to cover its recurrent and capital expenditure budgets.

This is resulting in the Government's estimated \$1.3 billion deficit and debt levels reaching \$9.5 billion (or 82.8% of GDP). This is a significant increase in debt to GDP of 22% over where the Government projects it will end the fiscal 2019/2020 year.

This level of debt, whilst not placing The Bahamas highest amongst its Caribbean peers (with Jamaica and Barbados based on the latest International Monetary Fund (IMF) data above the 90% range), will most likely attract attention of rating agencies such as Moody's who had prior to the Budget announcement placed the country on review as a result of the COVID-19 pandemic. Moody's in their Rating Action review on 8 April 2020 stated *"combined with higher fiscal deficits could lead to a permanently higher debt and interest burden that is already elevated relative to Baa3 peers"*.

As shown in the previously presented table, debt levels are not expected to level off in the near forecasted future.





# State-Owned Enterprises - a need for reform

With pressure on the Government's expenditure due to additional funding for COVID-19 and Hurricane Dorian relief, the Ministry of Finance highlighted the need to reform State-Owned Enterprises (SOE) and its reliance on public funds.

During 2019/2020 budget year, subventions to SOEs represented almost 16% of recurrent expenditure. These levels were classified by the Minister of Finance as "simply unsustainable".

SOEs have been requested to look for cost savings and revenue enhancing measures to enable the Government's reduction of subventions. The Government's main objective in this regard is to alleviate the Government's need to subsidize their operations by making these entities self-sufficient. With this in mind, the Government is targeting a \$100 million annual reduction in subventions over the next four years.

Other cost savings the Government is planning to implement included a deferral of salary increases until at least January 2021.



# Impact on businesses

## Overview of measures to restore economic stability and accelerate recovery

The 2020/2021 Budget has been put together to implement plan for a Resilient Bahamas:

- within the context of global uncertainty due to COVID-19 and
- the aftermath of Hurricane Dorian

The policies within the budget are aimed at:

- restoring the wellbeing and confidence of citizens and residents;
- restore economic stability; and
- pave the way for an accelerated recovery

**Here's a quick overview of the policies in the 2020/2021 Budget that would have an impact on businesses:**

### Sustaining the economy and Accelerating Government Reform



\$515m invested in infrastructure & capital spending



Accelerating the digital economy



Expanding small business funding



Strengthening economic diversity

### Sustaining employment



Tax Credits & Deferral Programs to maintain employment



Expanding Business Continuity Programs

### Restoring the wellbeing and confidence in society



Protecting public health



Expanding social support



Access to education for all



# Impact on Business (continued)

## Sustaining the economy and accelerating Government reform



### Sustaining the Domestic Economy

#### Stimulating Economic Growth

- **\$515.1m in public construction projects** - As a way to stimulate the economy, we should expect to see an increase in construction contracts and employment.
- **20% Customs duty on all building supplies** - This initiative is to spur construction activity and mobilize domestic capital.
- **\$50m increase in small business funding** - Available through the Small Business Development Center and its partners.
- **Extension of the Special Economic Recovery Zone** - Available for Abaco and Grand Bahama for the period to 30 June 2021; concession will be extended for building materials. Until December 2020 they will continue to have VAT and duty exemptions.
- **Expanding the tax-free transfer of land** - Where there has been no change in beneficial ownership and the approval of the VAT Controller.
- **Back to school VAT holiday** - VAT free school supplies, clothing and select food items for two weeks leading to the opening of schools.

#### Strengthening economic diversity

- **Promoting the agriculture and fisheries industry** - Reduction in customs duty from 45% to 20% for fishing materials and from 25% to 10% for backyard farming equipment.
- **Promoting green technology and elimination of plastic** - Reduction in duties on environmental sea trash cans and reusable metal water bottles from 45% to 10%. Reduction of duties on motorcycles with an engine size of 125cc or less and electrical motorcycles from 75% to 10%.

#### National Digital Transformation

- **Moving to a cashless society** - The Government is looking to reduce the use of cash by 50% in the next five years. This will be implemented in conjunction with the Clearing Banks Association and the Central Bank of The Bahamas to bring more transparent, business and consumer friendly regulations for the use of debit and credit cards, and the full integration of Sand Dollar (the Bahamas' digital currency). A 50% reduction in the use of cheques in three years and 80% reduction in five years to allow for greater utilization of the electronic clearing house and direct payments.
- **A digital Government** - Off the introduction of digital platforms in the Customs Department with the new Electronic Single Window, the digitalization at the Passport Office and the ongoing improvements at the Real Property Tax department, the Government is projecting to bring digital solutions to the Road Traffic Department, Department of Immigration and Office of Registrar General.



# Impact on Business (continued)

## Sustaining Employment



### Maintaining Employment in a Crisis

#### Maintaining employment

- **\$120m allocated to the Tax Credit and Tax Deferral Employee Retention Program** - Introduced in response to the COVID-19 pandemic, the Government offered tax deferrals for business licence and value added taxes (VAT) for employers in the private sector in order to protect jobs and provide employers with the cash necessary to meet payroll costs if 80% of employees were retained.



### Investing in Small Businesses

- **Extension of business support and continuity loan programs** - \$30m allocated for Bahamian entrepreneurs and small businesses to assist them as a result of COVID-19.





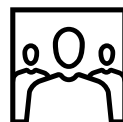
# Impact on Business (continued)

## Restoring the wellbeing and confidence in society



### Protecting Public Health

- **\$300m total funding for Ministry of Health and Department of Health** - An increase in the allocations in order to ensure readiness, detection, treatment and mitigation of COVID-19.
- **\$18m to expand free primary care coverage** - An increase in allocation to the National Health Insurance (NHI) scheme, with the Government looking to reform NIH over the next 5 years with no additional taxation or employer mandates.
- **Duty free Personal Protective Equipment (PPE)** - For a period of one year, the Government announced the removal of customs duties on PPE to ensure healthcare workers are protected in the fight against COVID-19.



### Expanding Social Support

- **\$60m in funding to Department of Social Services**
  - An increase of \$11m to support social welfare initiatives.
- **\$48m for unemployment assistance** - Continued unemployment assistance for persons who remain dislocated.
- **\$17m increase in food assistance** - Increased allocation to support the Government's food voucher initiative and other social programs from the Ministry of Social Services.

### Access to education for all

- **\$2m increase in allocations for scholarships** - Maintaining the Government's investment in education, slight increases were made to ensure that all eligible Bahamians are able to access free tuition, from preschool to University.





# Energy Reform

## Renewable Energy and Solarization

In an effort to modernize the energy sector, the Government in their budget has sought approval for an \$80 million loan facility from the Inter-American Development Bank (IDB) to continue its solarization of the Family Islands.

The Contingent Credit Line for Investment Projects is a \$170m facility that was introduced in the 2019/2020 budget, with Phase 1 being the introduction of rooftop solar on public buildings and commercial solar installations across the Family Islands.

Bahamas Power & Light (BPL) in collaboration with the Government are pursuing hedge agreements that will bring fuel price certainty to BPL to enable it to further reduce fuel surcharges.

In total the Government has invested \$200 million toward energy reform, paving the way for a more sustainable and efficient sector.





# Let's talk

Meet our team and talk to us about your business service needs.



## **Prince A. Rahming**

### **Territory Leader**

[prince.a.rahming@pwc.com](mailto:prince.a.rahming@pwc.com)

(242) 302-5300



## **Myra Lundy-Mortimer**

### **Assurance & Risk Assurance Leader**

[myra.lundy-mortimer@pwc.com](mailto:myra.lundy-mortimer@pwc.com)

(242) 302-5300



## **Kevin Cambridge**

### **Advisory Partner**

[kevin.cambridge@pwc.com](mailto:kevin.cambridge@pwc.com)

(242) 302-5300



## **Carlton Cartwright**

### **Assurance Partner**

[carlton.cartwright@pwc.com](mailto:carlton.cartwright@pwc.com)

(242) 302-5300

# Let's talk

## Senior Managers



**Rochelle Sealy**  
Senior Manager  
Corporate Services  
[rochelle.sealy@pwc.com](mailto:rochelle.sealy@pwc.com)  
(242) 302-5300



**Kara Culmer-Wilson**  
Senior Manager  
Assurance  
[kara.culmer-wilson@pwc.com](mailto:kara.culmer-wilson@pwc.com)  
(242) 302-5300



**Nestle Maullon**  
Senior Manager  
Risk Assurance  
[nestle.maullon@pwc.com](mailto:nestle.maullon@pwc.com)  
(242) 302-5300



**Daphne McKinney**  
Senior Manager  
Assurance  
[daphne.s.mckinney@pwc.com](mailto:daphne.s.mckinney@pwc.com)  
(242) 302-5300



**Peter Hickman**  
Senior Manager  
Advisory Services  
[peter.hickman@pwc.com](mailto:peter.hickman@pwc.com)  
(242) 302-5300

2 Bayside Executive Park, West Bay Street & Blake Road, P.O. Box N-3910, Nassau, Bahamas  
Telephone: (242) 302-5300, Fax: +1 (242) 302 5350

Visit us online at [www.pwc.com/bs](http://www.pwc.com/bs).



@2020 PricewaterhouseCoopers. All rights reserved. PwC refers to The Bahamas member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details. This publication does not constitute legal, accounting or other professional advice. It is intended only to inform readers of developments as of the date of publication and is neither a definitive analysis of the law nor a substitute for professional advice. Readers should discuss with professional advisers how the information may apply to their specific situations. Unless prior written permission is granted by PwC, this publication may be displayed or printed only if for personal non-commercial use and unchanged (with all copyright and other proprietary notices retained). An unauthorised reproduction is expressly prohibited.