



The Bahamas

Budget 2022/23

The Way Forward

# A message from our territory leader

In the midst of The Bahamas economy rebounding from the impact of the pandemic, rising inflation rates, the 2022/2023 budget was one that needed to consider the harsh realities of the increasing costs of living for Bahamians whilst also stabilising the economy and reducing the deficit.

The Rt. Hon. Prime Minister Philip Davis presented on 25 May 2022, Budget 2022: The Way Forward which he termed a “landmark budget”. This is the Davis administration's first fiscal budget since coming into office in September 2021. This budget lays the groundwork for the administration's “Blueprint for Change”.

## The budget is structured around three priorities:

**1** Managing the cost of living for Bahamians;

**2** The creation and expansion of jobs and ownership opportunities for Bahamians; and

**3** The safety and security of our communities and borders.

Whilst not introducing any new taxes, the Government has sought ways to increase revenue through the implementation of revenue enhancing measures and the introduction of new and targeted fees. These measures along with the continued improvement of the economy are anticipated to result in recurrent revenue of \$2.8 billion, up 14% from the expected final outturn for the 2020/2021 fiscal year. A deficit of \$564 million is projected which is a 26% improvement from the expected final outturn showing signs of an improving economy. The debt levels which have been a cause for concern, are expected to increase to \$11.6 billion.

The 2022/2023 budget will come into effect 1 July 2022. In this report, we outline the main highlights and key initiatives for “The Way Forward” and how the Government plans to meet its budget objectives.



**Prince Rahming**



# Budget snapshot

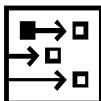
## Priority 1



### Managing Cost of Living

- Improving livelihoods:
  - Broad-based import duty reductions
  - Increased enforcement of price controls
  - Increase minimum wage for public servants
  - Increased social service assistance
  - Support for catastrophic health care
- Access to homeownership
  - Reduction of duty on certain building materials
  - Concessions for first time homeowners
  - Increase in real property tax exemptions

## Priority 2



### Investment & Ownership Opportunities

- ESG Agenda
  - Climate Change and Carbon Market Initiatives Act
  - Energy reform
  - Reduction of duty on electric vehicles
  - Installation of renewable energy systems in Family Islands
- Opportunities for Bahamians
  - Funding for small business development
  - Investment in agriculture
  - Promotion of athletes & sporting events
- Job Creation & Investment
  - Construction of Grand Bahama Hospital
  - Creation of a Family Island Development Trust Fund
  - Elimination of duty on telecommunications equipment & reduction in communication fees
  - Partnership in the Maritime sector to increase jobs opportunities

## Priority 3



### A Secure Bahamas

- Investment in national security agencies including:
  - Department of Corrections (DoC)
  - Royal Bahamas Police Force (RBPF)
  - Royal Bahamas Defence Force (RBDF)
- An allocation of \$6 million for the purchase of new vessels for the RBDF
- Construction of a new prison through a public private partnership
- Increased allocation of capital expenditure to the RBPF for the purchase of crime fighting tools
- Increased funding to farmers to support food security for Bahamians

# Key budget measures



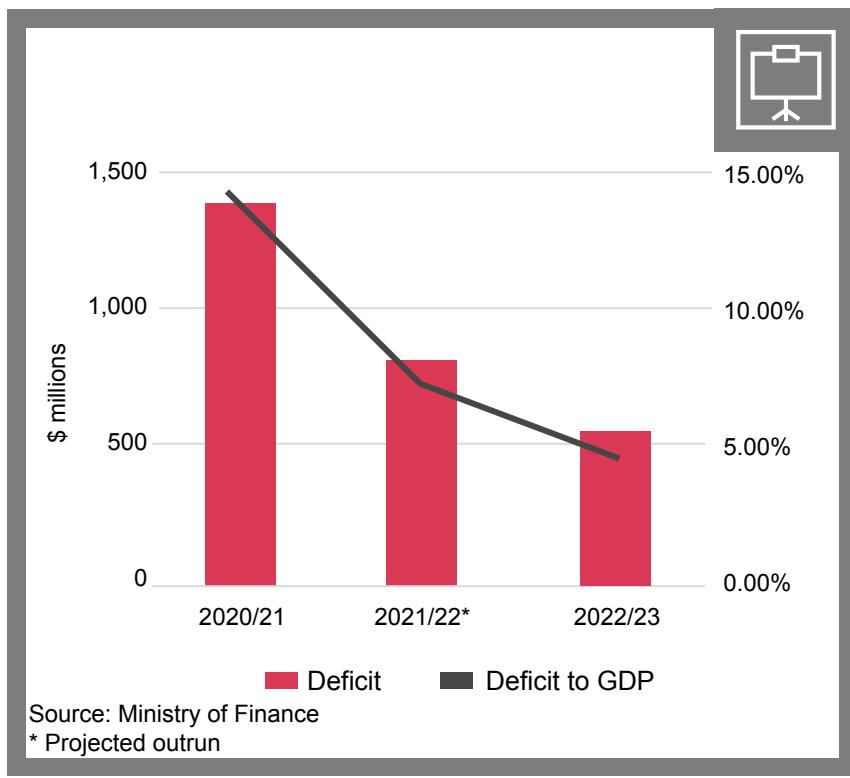
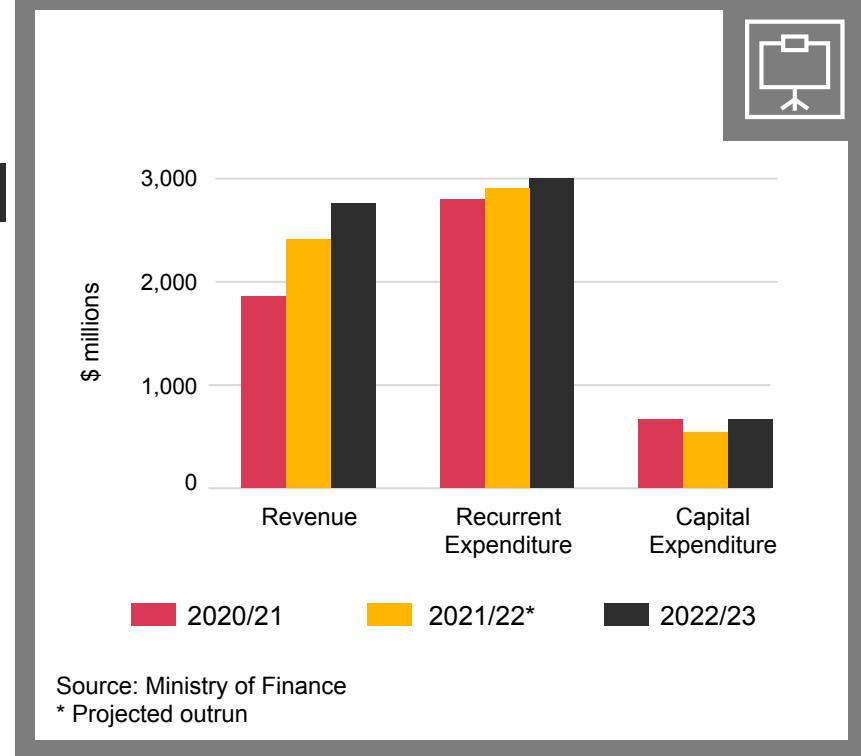
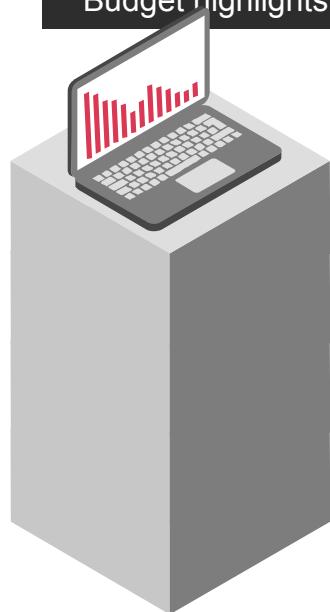
The 2022/2023 budget outlined key initiatives the Government is seeking to take to manage the cost of living, encourage investments and ensure the safety of Bahamians. Highlighted in this document are the key measures that will impact the economy and businesses in the next fiscal year.



# Budget in numbers

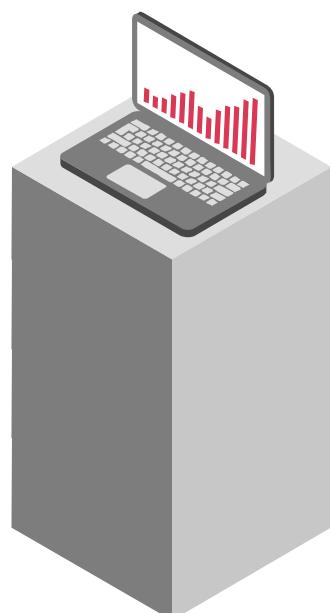
**Increase in revenue to \$2.8 billion largely as a result of projected economic growth. Recurrent expenditure of \$2.9 billion with no measures to curb spending.**

## Budget highlights



**A declining deficit to \$564 million driven by the expected increase in economic growth.**

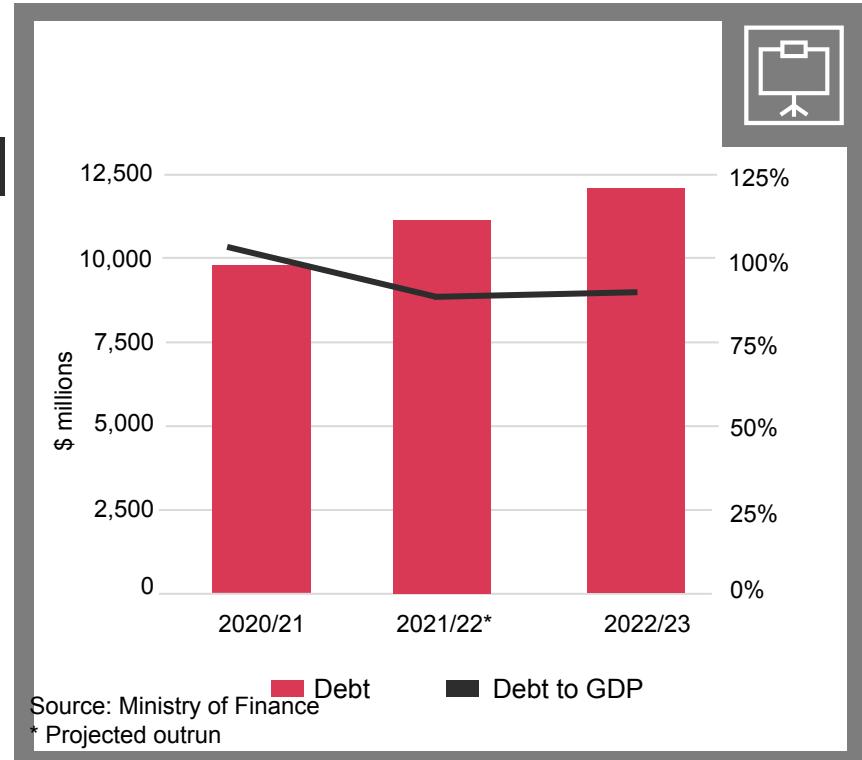
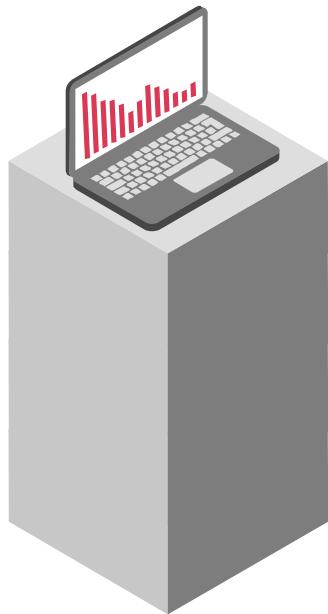
## Fiscal deficit



# Budget in numbers

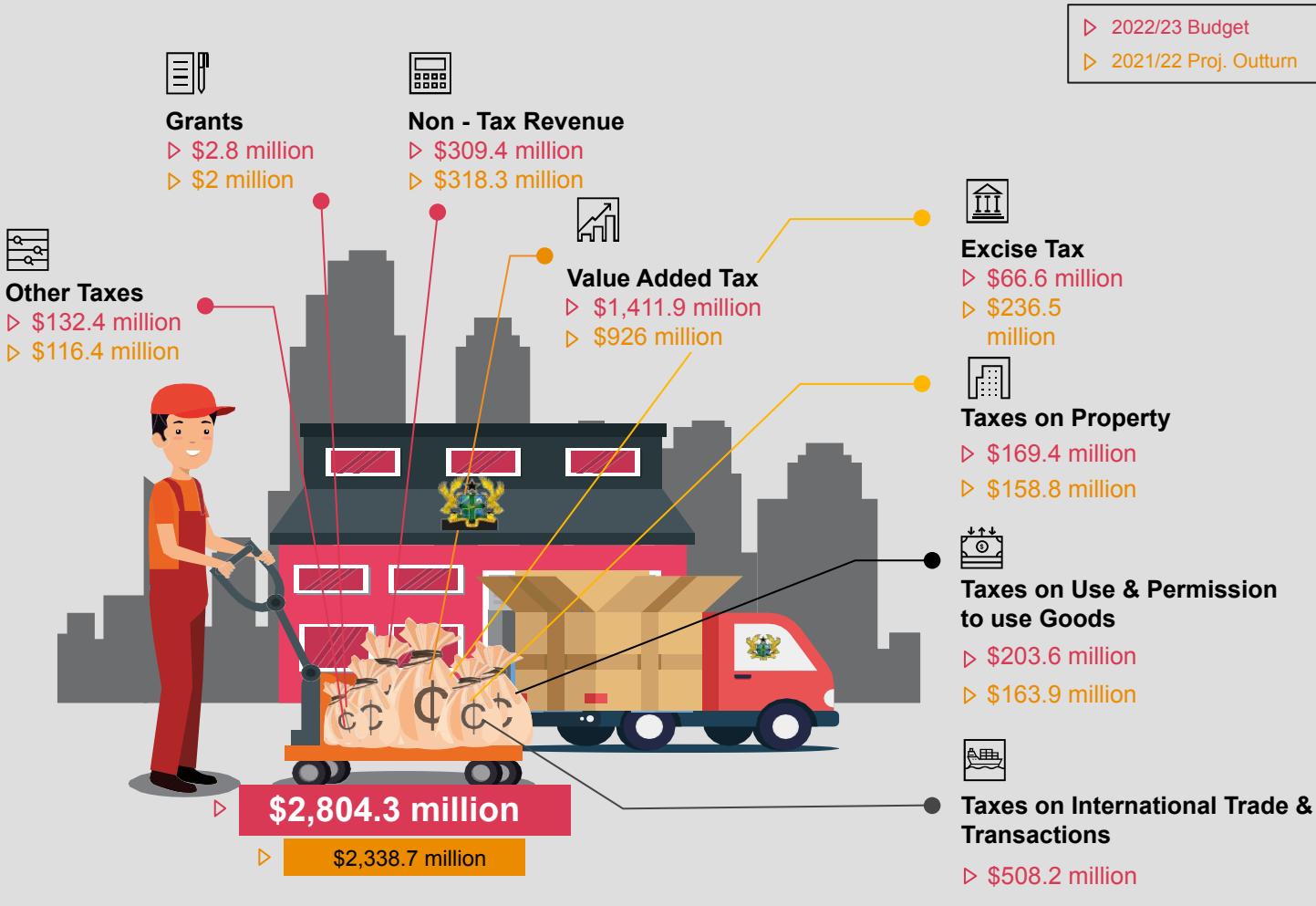
Higher debt levels, but a slight decrease in debt to GDP ratio as a result of expected improvements in the overall economy.

## Government Debt



# 2022/23 Budget at a glance

## Where is the money coming from?



There were no new taxes introduced within the 2022/23 budget. There was however the introduction of new and amended targeted fees. The new tax measures are outlined on page 11.



## Other revenue enhancement initiatives

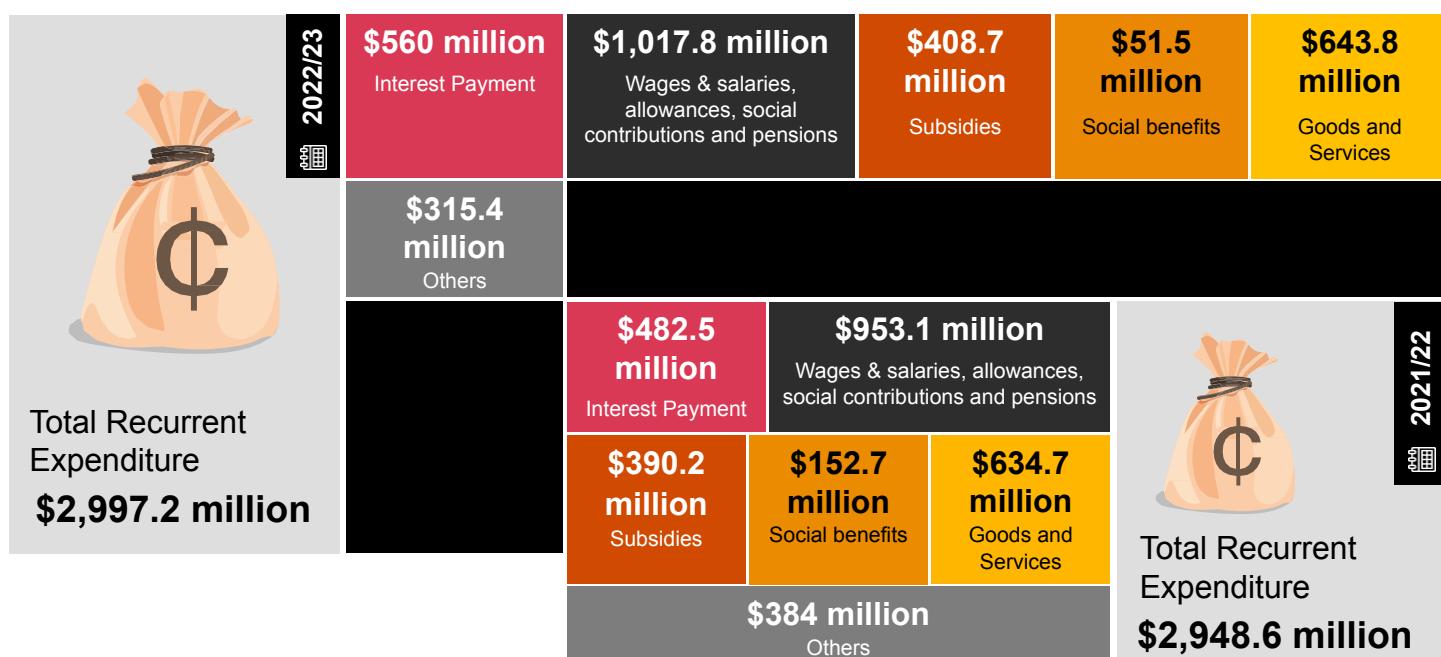
In an effort to increase collectability of government revenue the following measures are expected to increase overall revenue projections:

- The reconstitution of the Revenue Enhancement Unit.
- Increase in Real Property Tax collections and compliance.
- Improvement in VAT collections.
- Growth in other fees as a result of improved revenue administration & a rebounding economy.

# 2022/23 Budget at a glance

## Where is the money going to?

### Key expenditure areas



## Key initiatives outlined in the 2022/23 Budget:

**01**

Salary increases &  
reinstatement and payment of  
outstanding increments



**03**

\$10 million allocated to  
catastrophic health care



**05**

Construction of a new prison  
complex and increased  
funding for national security



**02**

Increased social assistance &  
funding to NGOs



**04**

Restoration of funding for Elite Athletes  
Programme & increased grants to  
Ministry of Youth Sports & Culture



**06**

Increased funding for  
food security



# Key budget measures



## A snapshot of the ESG agenda

Since coming to office in September 2021, the Davis administration has placed a keen focus on climate change. The Government has commenced the process of creating a national strategy focusing on incorporating best practices in Environmental, Social and Governance (ESG) initiatives. These initiatives are highlighted below:

 <b>Environmental</b>	 <b>Social</b>	 <b>Governance</b>
<p><b>A climate resilient framework</b></p> <ul style="list-style-type: none"><li>Introduction of the Climate Change and Carbon Market Initiatives Act, 2022, allowing for the creation of a carbon exchange that will allow The Bahamas to monetise its natural resources in the form of carbon credits.</li><li>Reduction of the Government's carbon footprint through installation of renewable energy systems throughout the Family Islands and increased electric vehicles in the Government fleet.</li><li>Increase in renewable energy to achieve a target of 30% reliance on renewables by 2030.</li><li>Reduction of duty on electric cars valued \$70,000 to 10% (over \$70,000 will be at 25%).</li></ul>	<p><b>Improving the livelihoods of Bahamians</b></p> <ul style="list-style-type: none"><li>Increase in social assistance by 50%.</li><li>Increase in funding for NGOs by 10%.</li><li>Real property tax exemptions for religious organisations, trade unions, civic organisations and burial societies.</li><li>The allocation of \$10 million for catastrophic health care.</li><li>The construction of the Grand Bahama Hospital through a loan of \$150 million.</li><li>Increase in salaries for teachers, retention bonuses to teachers and nurses and the increase of minimum wage to public servants.</li><li>Implementation of a contribution pension plan for public service workers with no pension.</li><li>An additional \$500 thousand to be allocated to Urban Renewal.</li></ul>	<p><b>Transforming policy</b></p> <ul style="list-style-type: none"><li>Amendments to the Public Financial Management Act. These amendments will allow for tax arrears collected to be deposited in the Sinking Fund and earmarked for the settlement of debt.</li><li>Improvements to the Public Procurement Act, The Fiscal Responsibility Act and The Public Financial Management Act.</li><li>Appointment of a private sector Debt Management Committee to provide objectives and strategies to manage the debt levels.</li><li>Amendments to the Business Licence Act which will provide for business licences for financial providers, the reintroduction of business licence fees for commercial banks and the elimination of premium tax for insurance companies to be replaced with business licence fees.</li></ul>

# Climbing debt – and still no new taxes

With two years of all time high deficits as a result of the pandemic, the Government was forced to borrow to make up the shortfall in revenue. With a projected deficit of \$564 million for the upcoming fiscal year, debt is expected to climb to \$11.6 billion representing 87.5% of GDP. The Government whilst trying to manage the economic burden on citizens and residents, did not seek to implement new taxes, however made adjustments to certain tax measures and reintroduced the revenue enhancement unit as a means to increase collectability of recurrent revenue. As a result of this, revenue is expected to grow to \$2.8 billion in 2022/23 and \$3.1 billion in 2023/24.



However, Moody's Investor Services in a comment letter issued on 26 May 2022, stated "key risks to the budget are overly optimistic revenue collection projections in the absence of concrete measures to broaden the tax base, and the inability to manage spending in line with targets."

Moody's further cautioned that despite the Government expecting a decline in the average cost of debt, they noted that "the rise in interest rates globally and the increase in risk premium for the government of The Bahamas' debt, even assuming an unchanged average cost of debt would imply higher interest expenditure than the government projects."

The Davis administration, upon coming into office, named a private sector Debt Management Committee tasked with providing "...clear objectives and a strategy to manage the high levels of debt accumulation."

The table below highlights the forecasted debt levels, and interest cost:

\$millions	2020/21	2021/22	2022/23	2023/24	2024/25
	Actuals	Forecasted	Budget	Budget	Budget
GFS Deficit	1,348.1	758.6	564.0	125.3	Surplus 278.8
GFS Deficit as % of GDP	-13.7%	-6%	-4.3%	-0.9%	1.9%
Government Debt	9,935	11,045.0	11,609.0	11,734.2	11,455.4
Government Debt as % of GDP	100.9%	87.1%	87.5%	80.8%	77.0%
Interest and other charges	422.5	512.5	589.0	542.2	487.2
Interest payment % of recurrent revenue	22.6%	20.9%	21.0%	17.0%	13.8%

Source: Ministry of Finance

# New tax measures

As previously stated, the Government did not introduce any new tax measures, however amendments to the current tax measures and the introduction of new and targeted fees are summarised as follows:



Fee	Proposed Tax Amendment
Business Licence Fees	Introduction of business licence fees for financial service providers of \$2,500 and for those indicated below an additional tax as follows:
Type of Financial Service Entity	Annual Tax
Authorised Dealer	2.25% of total revenues net of interest expenses
Authorised Agents under the Bank and Trust Companies Regulations Act, 2020	\$10,000
Other Public Banks and Trust Companies	\$5,000
Non-bank Money Transmission Businesses (MTBs)	2.25% of turnover
Insurer under the Insurance Act	2.25% of turnover (and the elimination of premium tax of 3%)
Fund administrators and investment managers and advisors operating with Bahamian dollar assets	2.25% of turnover
Moneylenders	2.25% of turnover
Real Property Tax	<ul style="list-style-type: none"><li>Increase in the maximum cap on property tax for owner-occupied property from \$60,000 to \$120,000.</li></ul>
Condo-Hotel Tax	<ul style="list-style-type: none"><li>Introduction of a condo-hotel tax chargeable at 75% of the rate of tax applicable to commercial property under the Real Property Tax Act on the value of the hotel property assessed by the Chief Valuation Officer.</li></ul>
Motor Vehicle Fees	<ul style="list-style-type: none"><li>Annual fee for vanity plates for motor vehicles.</li><li>Introduction of a new class of commercial driver's licence for operators of heavy equipment or haulers of hazard materials.</li></ul>
Boating Fees	<ul style="list-style-type: none"><li>Foreign yacht charters will be required to be registered and pay VAT.</li></ul>
Passport Fees	<ul style="list-style-type: none"><li>Introduction of a service fee to obtain a passport within three hours of \$350.</li></ul>
Fishing Exports	<ul style="list-style-type: none"><li>Increase in the royalty fees for the export of seafood.</li></ul>

# Let's talk...



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