



COMMONWEALTH OF THE BAHAMAS

**2015/16
BUDGET COMMUNICATION**

BUILDING A STRONGER BAHAMAS

Presented to the Honourable House of Assembly

by

**The Rt. Hon. Perry G. Christie, M.P.
Prime Minister and Minister of Finance**

on

Wednesday, 27th May 2015

2015/16 BUDGET COMMUNICATION

It is my honour to present the 2015/16 Budget Communication.

INTRODUCTION

Mr. Speaker, this Budget is faithful to the reform plan for a stronger Bahamas that my Government has been pursuing since our present mandate began. Our plan is working. This Budget builds further on that plan.

We have, for instance, succeeded in achieving a dramatic turnaround in the state of our public finances. The GFS Deficit this fiscal year is now estimated at \$198 million, as compared to the \$539 million Deficit that resulted from the fiscal structure that we inherited in 2012/13. That is a reduction in the Deficit of \$342 million.

Mr. Speaker, we have cut the Deficit by virtually two-thirds.

Further fiscal gains are in store in the coming fiscal year, for which we now project a Deficit of \$141 million, down nearly a full 75 per cent from its peak. Relative to the size of the economy, the GFS Deficit is now at its lowest level in 7 years. And our plan remains on track for the complete elimination of the Deficit.

Mr. Speaker, I wanted to touch on these remarkable fiscal achievements at the very outset of this Communication, not only because they are important in and of themselves, but because they are also fundamental to the success of our overarching plan for a better future for all Bahamians. By redressing the nation's public finances, we are placing Government in a financially sustainable position to make the critical and targeted investments and economic and social improvements that we all desire and that are needed to strengthen our country.

Governments, regardless of partisan leanings, must govern, plan and build on behalf of all Bahamians. To achieve this – to assure that

we build a Stronger Bahamas for every Bahamian – several forces must converge:

- We must, as I have mentioned, be responsible stewards of our nation’s finances, if we are to invest in areas that benefit all Bahamians, particularly our most vulnerable;
- We must trust the people, believe in them, and listen to their sense of the country’s direction. Only then, Mr. Speaker, can we assure with confidence that our actions properly align with their needs; and
- As a warrant of that trust, it is also right that we seek to engage all Bahamians, regardless of gender, age, socio-economic status or political party allegiance, in building a Stronger Bahamas.

This year, we are doing just that, focusing on the following fundamental questions:

- How can Citizens, Civil Society, Opposition and Government work together for a Stronger Bahamas?
- On what national priorities must we focus our collective efforts; and
- How best can we continue to engage the people in strengthening the Bahamas?

In line with the expectations of Bahamian citizens, the Government must therefore focus its attention on three core priorities, namely to secure a *Safer Bahamas*, a more *Prosperous Bahamas* and, through a world-class education system and targeted social investments, a *Modern Bahamas*.

Today marks another important step in our continuing progress towards building a stronger Bahamas. These initiatives will further strengthen our approach in matters of governance, policy development and communication.

We have consolidated the roughly \$4 Million dollars per year that we already spend on public engagement, research and communication

to facilitate an ongoing national conversation about our country's future – particularly as pertains to the safety of our communities, the prosperity of our economy, and the modernization of our education and health infrastructure.

In that spirit, I invite all of you to learn more about our plan by visiting www.strongerbahamas.com, and join the national conversation on Twitter at #StrongerBahamas (hashtag StrongerBahamas).

With that said, Mr. Speaker, the overriding theme of this year's budget, "Building a Stronger Bahamas", reflects the unflinching focus that my Government has placed, since coming to office three years ago, on achieving better economic and social outcomes for all Bahamians.

More specifically, the comprehensive reform plan that we are pursuing to those ends is founded on the three fundamental pillars or priorities that are most important to Bahamians:

Firstly, we are ***Building a Safer Bahamas*** by targeting the effective prevention of crime through early intervention and education; accelerating progress on reform of the justice system through, for instance, Swift Justice; and enhancing the enforcement of laws and the protection of our communities;

Secondly, we are ***Building a Prosperous Bahamas*** through stronger, more diversified growth of the economy, broader and deeper foreign investment activity, enhanced employment opportunities through improved access to and simpler recruitment, higher standards of living, not only in New Providence but across the breadth of the archipelago and a leveling of the playing field for domestic investments and entrepreneurial opportunities for Bahamians while continuing to attract foreign direct investors;

Thirdly, we are ***Building a Modern Bahamas*** grounded in an all enhancing national development strategy, with

stronger and more effective educational standards for high school graduation, enhanced post-secondary education through the creation of the University of The Bahamas, as well as an improved and sustainable array of other social programmes, especially in the area of affordable access to health care for all Bahamians regardless of economic, social or political status with the introduction of National Health Insurance.

It is evident that these three pillars are closely inter-connected and that progress in respect of one will underpin success in respect of the other two. Our plan of action is thus designed to capitalize on the natural synergies and complementarities among these pillars.

When we assumed the mantle of power in 2012, we were under no illusion as to the magnitude of the challenges that our small, proudly independent nation confronted. We faced a dramatic increase in violent crime, an unacceptably high level of unemployment, a dire need for vital public infrastructure across the archipelago, an urgent requirement to transform Government into a modern and efficient administration and an equally pressing need to redress the public finances of the nation and return them to a position of sustainability.

We simply could no longer go on as we had in the past and expect things to improve. In light of the paramount importance of achieving the economic and social goals that we have set and the magnitude and pervasiveness of the changes that are required, it is clear that success will only be secured if the citizens of our nation are fully engaged in the process at every step along the way.

We thus set out a comprehensive plan of action that is clearly focused on building a Stronger Bahamas for all Bahamians. We have been equally clear that our programme of change, as fundamental, deep-seated and far-reaching as it is, cannot be a so-called quick-fix, but rather requires a determined and consistent vision and commitment over the longer haul if it is to be successful.

Over the past three years, my Government has diligently pursued its programme of change. That is not to say that progress in some

areas has come easily and without challenges. However, we have not strayed from our overriding vision for the future and, through hard work and perseverance, we are determined to attain the goals and objectives that we set for ourselves and for our nation. This Budget builds on our efforts to date and further solidifies the foundation that we are building for a better and stronger Bahamas for all.

BUILDING A SAFER BAHAMAS

I begin with the measures that we are pursuing to build a Safer Bahamas.

Mr. Speaker, it goes virtually without saying that we must build a Safer Bahamas as the safety and security of our citizens and visitors is of fundamental importance to the achievement of the economic and social goals to which we aspire. As such, my Government remains resolute in its commitment to address the serious crime problem in our nation and we continue to make important investments to that end.

There is a clear consensus across the nation that our approach to addressing the crime problem and creating a safer Bahamas cannot be piecemeal but rather requires a holistic approach.

For one, we must attack the root causes of crime with a targeted and effective prevention strategy through expanding initiatives such as the Urban Renewal Programme and poverty reduction measures such as the Pilot National School Breakfast Programme. My Government also places high priority on measures of intervention in respect of our youth at risk, where proactive, pre-emptive action can make a difference between a productive life and one of crime. This Budget includes a \$20 million allocation under the Ministry of Finance to address youth unemployment, in conjunction with the Urban Renewal Programme to which I will return in more detail later.

We must also focus on improvements in the administration of justice through, for example, the Swift Justice Programme. Swift Justice has enabled almost a doubling of the number of matters disposed of by the courts between 2012 and 2014. We expect these

dispositions to increase even further with the implementation of the 10 new criminal courts that now sit.

While we remain concerned about the number of re-offenders released on bail, we do note, Mr. Speaker, that increased collaboration between the Office of the Attorney General, the Ministry of National Security and law enforcement on the Swift Justice plan in 2015 has resulted in a reduction in bails being granted to persons accused of murder, and murder-related offences.

We have also taken action to accelerate court proceedings with the construction of 10 new Courts, and that should go a long way to getting criminals off the streets of our nation. To date, the results are clear. Whereas in 2012 it took 344 days to progress from an arrest to the presentation of a Voluntary Bill of Indictment, as of March 2015, that timeline has now been reduced to 50 days, an improvement of 86%.

Of course, it is also vital that we continue to strengthen our law enforcement mechanisms. To that end, we have invested significant sums in additional manpower for the Police Force and in the material resources needed to carry out our strategy of enhanced police presence and visibility in our communities. For instance, investments in police equipment, in the form of cars, surveillance and protection equipment, are highlighted in this year's capital budget. As well, under the direction of the Ministry of National Security and the Attorney General's Office we will, with IDB funding, focus on both new and expanded initiatives to enhance citizen security and the effectiveness of our court system. We also have continued funding for Urban Renewal and have invested in increases in manpower and resources for the Department of Corrections.

We are also continuing to advance the \$232 million investment in upgrading the capacity of the Royal Bahamas Defence Force to shore up the protection of our very open borders and to safeguard our precious fisheries. To date, four 42-metre vessels have been received, two 30-metre vessels are expected this year and the remaining three vessels are expected next year. The dredging at the Coral Harbour

base is largely complete and work on the bases in Inagua and Ragged Island are at the advanced stages of planning.

The security component of the Customs Department modernization initiative is also gaining momentum. We are investing in additional equipment to scan for weapons and other banned substances in shipments that pass through our ports; the Canine Unit is being implemented with a similar objective, while a Marine Unit is already established to increase the patrol over private vessels in our various ports.

BUILDING A PROSPEROUS BAHAMAS

I now turn to the second major pillar of our plan for a stronger Bahamas, namely building a prosperous Bahamas. This pillar relates to strengthening the growth and diversification of our economy, as well as enhancing employment prospects such that we can both achieve a significant reduction in the rate of unemployment and also absorb the natural growth of our labour force. Of particular concern is the extent of persistent, elevated unemployment among Bahamian youth.

Government can clearly play a constructive role in promoting economic growth and job creation but, to be effective, that role must be well-targeted and focused on those areas where Government can make a difference. Prime among these areas to which we are fully committed are:

- establishing and maintaining a stable and sustainable macroeconomic and regulatory policy environment that promotes market confidence in The Bahamas as a secure and appealing place for investment, both domestic and foreign;
- developing a consensus long-term plan for national development that reflects Bahamian priorities and needs and articulates the role to be played by both the public and private sectors in the actualization of that plan;

- ensuring that the educational and vocational system functions effectively to meet the human capital needs of an expanding and diversifying economy;
- providing the critical infrastructural capital requirements across the breadth of the nation that are necessary to the expansion of more buoyant economic activity; and
- modernizing the key public utilities corporations to enhance their efficiency and lower the costs of their services; for instance, through a new arrangement for the management of BEC, we expect to witness a reduction in the cost of electricity.

I now turn to a brief review of the Government's strategy in these major areas, beginning with fiscal and budgetary reform to secure the long-term sustainability of the public finances and thereby enhance confidence and economic growth.

Fiscal and Budgetary Reform

We are on course to secure a sustained improvement in our public finances, and reduce the debt overhang which is unacceptably high and which represents an unfair burden to pass on to our children. We are recreating the fiscal room necessary to finance the full complement of our national development plan, including economic renewal and stronger job creation.

We have gone on record to establish, and are diligently pursuing, a Medium-Term Fiscal Consolidation Plan. This, Mr. Speaker, is unprecedented in the history of this nation! The plan is a multi-year strategy to stimulate economic growth; restrain public expenditure; enhance revenue administration; and secure new sources of revenue.

I will shortly review the progress that we have made to date in the implementation of our Medium-Term Fiscal Plan, and set out our fiscal plan for the coming fiscal year and beyond.

Prior to doing that, I would remind Honourable Members that there has been, as I stated at the time of the Mid-Year Budget Statement, much public discourse on the appropriateness of Fiscal Responsibility Legislation in this country. At that time, I cautioned that, if not well designed, such legislated restraints on the fiscal powers of Government could potentially and inappropriately inhibit the proper functioning of Government in periods of economic stress, thereby compounding the hardship of those with the greatest need for Government assistance.

Given the importance of this matter from a public policy perspective and in order to enlighten the debate in a Bahamian context, the Ministry of Finance commissioned the IMF, through its Regional Technical Assistance Centre (CARTAC), to prepare a policy paper on the issue of fiscal responsibility legislation for release and discussion.

This paper has now been completed and is appended to this Communication as Annex C. I invite the public to review this document such that we can advance to a more balanced national dialogue on this issue. While we must have a further discussion on the pros and cons of such a legislative change, it is clear that any fiscal responsibility framework will only thrive under a modernized public financial management and accounting system, which I am pleased to report is a path on which we are already embarked.

Tax Reform

As a core component of our medium-term fiscal plan, we have initiated an historic transformation and modernization of our revenue and taxation system. The Government's actions on the revenue front have begun with measures to improve the collection of existing taxes in line with what is rightfully due to the Government. We are fully cognizant that our revenue system is seriously deficient and we are moving to remedy this situation through a number of targeted reform and modernization measures, initially focused on Customs, Business Licence and Real Property Tax. We are also working towards the creation of a unified and efficient Central Revenue Administration for

our major domestic taxes.

Customs Modernization

The Customs modernization initiative is geared towards improving the facilitation of trade and strengthening the ability of the Customs Department to collect revenue and protect our borders. This is being achieved by enhancing and modernizing Customs operations, strengthening Customs management and improving the institutional trade platform. Gains are already noteworthy. In particular, with the introduction of the electronic filing of customs import declarations and online payment of customs duties, we are making considerable inroads into lowering the cost and increasing the ease of doing business. These systems are also providing stronger controls over the collection of government revenue.

Reform of the Real Property Tax and Business License Systems

As for our system of real property taxation, it is evident that it suffers from a number of structural weaknesses in respect of coverage, assessments, billing and collections. We are moving decisively to address these deficiencies within the modernized property tax management system that is being deployed, and continuing to increase the number of properties that are on the tax roll. This system is expected to be in place for the October 2015 billing cycle, and will allow us to use all of the modern tools to record, monitor and assess those properties which should be subject to taxes.

As for Business License modernization, we will have introduced a new automated system for licensing and renewals that will go live to the public within a matter of weeks. This is being developed on the same administrative platform as the VAT, and will allow businesses to have a single online window experience for both VAT and business license.

Establishment of a Central Revenue Administration

It has long been acknowledged that administration of the major domestic taxes in this country is disjointed and thus less than optimally efficient and effective. With the assistance of fiscal experts provided by the IMF's CARTAC, we are now executing a plan to establish the Central Revenue Administration (CRA) for VAT, real property tax, business license and stamp taxes. A new CRA will feature a modern organizational structure based on best international practice and utilizing modern technological platforms.

To date, we have harmonized the staffing framework and identified a common premise for the staff of VAT, business license, real property tax and stamp duty. This is merely a first step, however, as over the course of the next fiscal year, we will also move to develop a unified and an overarching legal framework for all of these revenue streams.

Introduction of a Value Added Tax (VAT)

A key plank of our revenue modernization plan has been the introduction of the new Value Added Tax this past January. This is a fundamental reform of our system of taxation to bring it up to the modern standards of the 21st century. This reform has demonstrated that a broad-based consumption tax that is both easier to enforce and to be complied with can allow the government to set a low rate and, more fundamentally, accelerate our efforts at reforms to reduce the tax burden in other areas that are more cumbersome to enforce. Indeed, as I will set out in more detail later, we are now in a position to announce tax relief for Bahamians in a number of areas, including real property taxes, commercial property taxes and business license tax, among others.

Mr. Speaker,

I take great pride in the fact that it is my Government that has had the vision and the fortitude to implement such a bold and much-needed reform, solidifying the financial sustainability of the many programmes and services offered by the Government to Bahamian

citizens, and undergirding our efforts to build a safer, prosperous and modern Bahamas.

As I have recently stated, the implementation of VAT has met our expectations, given the sea change that such a new form of taxation represents in this country. Our experience to date no doubt reflects the fact that this new tax was the subject of in-depth research and analysis within Government and that we learned a great deal from VAT experience in a number of other countries. As well, we worked closely with the private sector in the finalization of the VAT framework and implementation plan and this has also proven of great benefit.

To date, on the registration, filing and collections fronts, VAT implementation has proceeded well. For instance, we have exceeded our target for VAT registrants by some 1,700. As of April 29, which includes the early results of the first quarterly filing period, we experienced close to on-time filing performance of over 90 per cent among the larger, monthly filers. For quarterly filers, for whom this was the first filing period, just over 80 per cent of the mandatory registrants filed on-time. Taken together the government has collected an estimated \$110 million in VAT over the first three months of this year.

On the basis of experience to date, the Ministry of Finance projects that we will achieve the projected net revenue improvement from VAT collections in the current fiscal year, which had been set at \$150 million at the time of last year's Budget Communication, after provisions for the more than \$60 million in reductions we provided in customs duties and hotel occupancy tax reductions.

However, while these results are so far encouraging, we are still in the early days of VAT and I caution that we must strive to achieve further improvements in respect of both filing performance and on-time payments. The ultimate sustained success of VAT is highly dependent on dedicated and proactive compliance efforts. I thus reiterate my message urging businesses that are subject to VAT to be fully mindful and respectful of their obligations under the law. Full compliance is not only their civic duty but also their legal obligation.

Long-Term Planning for National Development

Without question, redressing the public finances is a critical necessary condition for establishing a stable macroeconomic environment that is conducive to stronger growth and job creation. But it is equally undeniable that we must also develop and implement a new and innovative approach to investment and national development planning that builds on and closely integrates with our Stronger Bahamas initiative.

While Stronger Bahamas is designed to strengthen our approach to public engagement, transparency and governance, it is also designed to provide the infrastructure for long-term nation building and policy development. With that in mind, the National Development Plan will launch a series of public meetings on the state of the nation and its future in July of 2015.

I am therefore pleased to report that The Bahamas has entered a new age as it relates to planning. As I have stated in other fora recently, my Government's view of planning is all about strategic thinking as we prepare for today and the future. Over the years, I have examined how Government has carried out its duties in this area and I have concluded that better outcomes could be achieved if we adopt wiser strategic planning for both investments and development.

To that end, with grant funding support from the Inter-American Development Bank, and supplemented by our own resources, a National Development Plan is being developed in conjunction with the College of The Bahamas, with broad stakeholder input and technical assistance by local and foreign experts. This is a major, ambitious and innovative departure for Government planning in this country and I am confident that it will yield the very concrete and beneficial economic, and ultimately social, benefits to which we all aspire.

As work on the National Development Plan unfolds, a transformative approach to governance will emerge which places planning and results-based management at the forefront of the

activities of government so that we can achieve the very best opportunities for the people that we serve. Indeed, strategic planning will allow us to successfully take ideas from conception to execution, taking into account all of the known available options and alternatives and recommending the best approach.

The planning process has begun, first with an in-depth diagnostic of The Bahamian economy and society leading to a State of the Nation Report that lays out where we truly stand in terms of strengths and weakness.

The Government also recognizes that the development planning process is not starting from “ground zero”. Many public servants, the private sector and civil society, would have contributed plans in their respective sectors over the years. Some private citizens have drafted development plans that must be considered. Indeed, through this process, the Government intends to align the medium and long-term plans of Ministries and Departments with the National Development Plan in order to ensure consistency and coherence.

At the end of this process, the result will be a National Plan that shapes budget allocations, identifies 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 25 years.

While developing a plan is of vital importance, it will amount to little unless it is actualized through concrete and proactive measures. The Office of the Prime Minister will be at the centre of this process, with strengthened capacity to monitor progress with respect to the key goals elucidated through the development plan.

Skills Development for Bahamian Youth

Beyond developing a strategic plan for long-term national development and establishing a stable and sustainable macro, regulatory and fiscal environment that is conducive to its realization, our success in achieving significant increases in economic growth and

job creation will rest with the quantity and, more importantly the quality, of our human and physical capital.

On the matter of human capital, my Government is committed to achieving concrete and significant improvements in our education system at all levels, such that high standards of performance are established and appropriate academic and technical achievements are realized, in line with the needs of a modern, technology-based economy. The Ministry of Education, for example, is pursuing its efforts to strengthen standards for high school education as well as improve the quality of teaching. We are, of course, also moving ahead with plans to transform the College of The Bahamas into a full-fledged university which will play a vital role in research, planning and development, including providing more adequately the relevant human resource skills needed for contributing the building a stronger and modern Bahamas.

As will be seen shortly when I turn to a review of recent economic developments, our nation presently faces a grave problem in terms of the proportion of our youth who remain unemployed. Unfortunately many of these young individuals lack the training and basic skills that are required to take advantage of the future employment opportunities that are expected to emerge as the economic recovery gathers steam and further strengthens.

My Government attaches a high priority to addressing this most critical public policy challenge, as a means to both increase the long-term employability of young persons and reduce incentives for criminal activity.

Accordingly, in this Budget we are proposing two new interventions in this area, for which the Budget includes the allocation of \$20 million to which I referred earlier. We will, for one, establish a special school for young persons with behavioural issues that militate against their employability. It reinforces the Government's policy commitment that every child must count and none be left behind.

We will also initiate an apprenticeship programme in partnership with the private sector under which employers will be incentivized, through a wage subsidy, to employ young persons in positions that will afford them the opportunity to acquire vital, basic job skills. The programme will strive to enhance the employability of participating youth through practical on-the-job training and learning by doing.

In a similar vein, Mr. Speaker, the Government will continue to partner with the private sector in ventures that provide skills training and thereby augment the work of our own National Training Agency. This programme will be extended to those parts of The Bahamas where significant developments are taking place or planned.

Development of Public Infrastructure

Physical capital, both private and public, is also essential for stronger growth of the economy. In the public sphere, such capital of course includes roads, airports, harbours and ports, and basic public utilities such as water and electricity. Given the great needs for investments in these areas across our nation and the fiscal constraints that we face, it is clear that this is an area in which innovative thinking and new ways of doing things are not only appropriate but necessary.

We simply do not have the means for the upfront financing of all of these by taking on debt through the Public Treasury. In this light, my Government envisages an important role to be played by Public-Private Partnerships, or PPPs, in the future development of public infrastructure in this country. And, where and when necessary and appropriate, we must also be prepared to envisage the need for users to contribute to the costs of certain infrastructural investments.

In the case of The Bahamas, the particular geography of our nation represents another important motivation for PPPs. As we strive to enhance development prospects across the breadth of our nation, there will be a clear need for enhanced public infrastructure. An avenue will therefore exist for exploring the feasibility and desirability of PPP arrangements with developers and other private sector interests to ensure that the appropriate supporting infrastructure is

constructed and managed for the benefit of all stakeholders, including local residents.

We have placed seed capital in this year's Budget that will allow the Government to promote up to a targeted \$200 million in PPP investments. These include

- Improvements to a number of Family Island roads and bridges;
- Upgrades of a number of Family Island Airports;
- Construction of new Government buildings and repairs of existing Government buildings, and
- Expenditures on the health care infrastructure and schools.

Cellular Liberalization

Mr. Speaker, the benefits of cellular liberalization have the potential to stimulate significant growth and development of our country, and this is one of the primary reasons that the initiative has been a high priority for this administration.

Experience has demonstrated that in a competitive environment, service providers would have greater incentive to, amongst other things:

- improve on the quality of services that are provided,
- become more efficient in order to offer more competitive prices,
- extend service coverage throughout The Bahamas.

In the final analysis, however, the main immediate outcome of competition is that more persons in The Bahamas will have access to technologies that will deliver broadband services as well as voice services. We anticipate an even greater uptake of mobile broadband services with the entry of a second mobile operator, since all of the

applicants to the cellular liberalization process have committed to using the latest in cellular mobile and broadband technology.

Mr. Speaker, there are clearly established linkages between increased broadband penetration and economic growth. By way of example, in 2009, a World Bank study found that a 10% increase in broadband penetration could boost economic growth by between 0.43 and 1.38%.

In April of last year my administration took the first step towards introducing competition in the cellular mobile market by appointing a Cellular Liberalization Task Force to establish and manage a process for the selection of this country's second cellular mobile provider. The aim was to identify such competitor during this month.

Mr. Speaker, while acknowledging that the process has experienced some inconsequential delays since it started, I am satisfied that a number of key milestones have been achieved. The approach of having a Phase I assessment to determine eligibility followed by a Phase II spectrum auction, was adopted to ensure that the outcome would be objectively determined.

Last month, the Cellular Liberalization Task Force announced the completion of the first phase of the selection process and the qualification of Cable Bahamas Limited and Virgin Mobile Bahamas Limited to participate in the spectrum auction. The third applicant, Digicel Bahamas Limited, elected to withdraw from the process prior to the announcement of the completion of the first Phase.

Mr. Speaker, at that stage, the Government was advised by URCA that final preparations for the auction were being made such that the Government would have been in a position to make an announcement on the successful applicant this month. However, I have now been advised that recent developments have led URCA, in consultation with the Task Force and their advisors, to extend its deliberations to ensure that the integrity of the selection process is preserved. Mr. Speaker, I have been assured that any resulting delay would be minimized to the extent possible.

Energy Reform

Mr. Speaker, I believe that it is vitally important that we also embrace energy reform as one key component of our strategy to enhance growth prospects and job creation. As recently communicated to Parliament by the Deputy Prime Minister and Minister of Works and Urban Development, the Government has taken the final step toward making energy reform a reality within The Bahamas in the selection of Power Secure International INC, as the proposed bidder to manage the new Bahamas Electricity Corporation, in generation, transmission and distribution, after an extensive RFP process.

The negotiation and finalization of the five (5) year Management Contract and Transition Agreement are proceeding well, the major terms of which have been agreed.

The legacy debt liabilities of the Bahamas Electricity Corporation (BEC) are to be refinanced with rate reduction bonds with preferred banks without Government guarantee as well as the procurement of working capital.

As has been the experience with the Lynden Pindling International Airport, bidders will draw comfort from the fact that the new BEC will be managed by a world-class operator, under a robust Business Plan, at the direction of a competent Board comprising a majority of members representing the Government and two representatives of the management company.

The Government will soon table in Parliament draft legislation making the necessary amendments to the Electricity Act as well as mandating URCA to take on the regulatory aspects of the electricity sector and safeguarding the interests of the consumer.

Finally, my Government expects the new BEC, as promised in our Charter for Governance, to create efficiencies that will allow for significant reduction in the cost of energy, reliability of service, increased energy security and environmental responsibility. This

accomplishment will not only bring welcome relief to householders, but also to the business community and stimulate both domestic and foreign investment.

The Bahamas Agriculture and Marine Science Institute (BAMSI)

Mr. Speaker, the further diversification of our economy remains a prime goal of my Government. The Bahamas Agriculture and Marine Science Institute in Andros has become a notable success story on that score. BAMSI commenced on September 29th, 2014 with 45 students representing 9 Family islands who enrolled in one of 3 Associate Degrees: Agriculture, Marine Science and Aquaponics.

The Institute has grown into a developing technology institution with national recognition, CARICOM regional consciousness, international support and tremendous potential to alter the economic status quo in The Bahamas. The tutorial commercial farm and the outreach program have taken on national significance with high expectations. These two components of the BAMSI project have been brought about the production of quality food commercially for Bahamians, using the most appropriate improved technologies which are consistent with international food safety norms. This attainment has enabled our small farmers to produce food to meet global standards.

We must do all that is possible, through joint venturing, to ensure that the commercial side of BAMSI is self-sustaining.

Creation of Creative and Cultural Industries

Mr. Speaker, it is also important to support and nurture the emergence and expansion of new economic activities and sectors. The support and interest shown in events like Junkanoo Carnival and the IAAF Relay Games, the success of our athletes in international competition and the attractiveness of The Bahamas as a growing sports, cultural and religious tourism destination, clearly indicate the

opportunity to put in place a necessary enabling environment for The Bahamas' creative and cultural industries to grow. Herein, we can create hundreds of new jobs and entrepreneurs.

The contracting of the international firm of AEG provides the vehicle to work with the National Sports Authority, Junkanoo Carnival as well as cultural groups and artists, in promoting events that would enhance the creation of new economic activities in the creative and cultural sectors.

The Creative Economy Report 2013 Special Edition, UNESCO informs and points the way in this regard with the *quote "There is an urgent need to find new development pathways that encourage creativity and innovation in the pursuit of inclusive, equitable and sustainable growth and development."* By way of example, Bank of Jamaica statistics indicate that in 2010 the cultural and recreational services industry was the third highest net foreign exchange earner in the services sector, bettered only by travel services and communication services.

Sports and Training Facilities

As previously indicated the Government and the National Sports Authority have appointed AEG to manage and further develop the Queen Elizabeth Sports Centre facilities inclusive of a state of the art baseball stadium. Towards ensuring that young people have access to adequate facilities in the Family Islands, the Government will embark on a major programme to provide sporting facilities and great lawns for training and sporting purposes. In accordance with our commitment to using public private partnerships as a vehicle for infrastructural development, we will collaborate with the private sector to develop facilities to provide sporting and training opportunities for young people to realize their potential.

Establishment of a Modern Gaming Industry

The successful implementation of the Gaming Act in 2014 has catapulted The Bahamas into the top tier of gaming jurisdictions. The

execution of expanded responsibilities and functions of the Gaming Board, including the upgrade of its infrastructure, information and financial systems, accommodations and staff complement brings the country in line with competing jurisdictions, The Bahamas has committed to demonstrating that it can effectively balance the competing interests of interactive gaming with robust anti-money laundering/terrorist financing controls.

The Gaming Board has effectively improved and strengthened the governance of its operations and the integrity of the applications, probity investigations and review processes, implemented risk management controls and protocols to receive and amicably resolve patron disputes. Efforts to strengthen probity and review with respect to internal accounting controls and compliance with anti-money laundering/terrorist financing procedures are currently underway.

The Board, along with its consultants, AG Consulting, Gaming Integrity Services and Whitesand Gaming, has been fully engaged in processing RFP responses and has commenced its probity investigations. The Board has reported that throughout the process, the level of transparency and cooperation from Applicants has been excellent.

Based on figures submitted to date, it is projected that, when licensed, gaming house operators will contribute over \$20 million in gaming tax annually, (not including licence fees). This figure is expected to increase with the advent of real-time monitoring and detailed revenue and financial audits to be conducted by the Board. Provisions were also made in legislation for contributions to charitable and social causes once licenses are issued, and it is notable from media reports that voluntary contributions have already commenced by certain operators.

Mr. Speaker,

Financial Services

The Government is committed to maintaining The Bahamas' position as the premier financial centre in the Caribbean and a leading centre in the world. To achieve this goal The Bahamas must be well regulated. Included in the measures for this budget is a mechanism through the sharing of bank licence fees to allow Securities Commission, the Compliance Commission, the Central Bank and the Insurance Commission to be funded independently of the Consolidated Fund. In this way regulatory independence is protected without unduly taxing the sector.

In addition, the Ministry of Financial Services has also been adequately funded to allow it to work with its private sector partners to actualize the Renminbi trading platform, which is the first for the Caribbean, and also to continue its work in developing innovative products for this jurisdiction such as international arbitration and the ICON financial product.

Mr. Speaker,

Air and Sea Transportation

Adequate Air and sea transportation is critical for the continued growth of the economy. In the upcoming fiscal period the Government would continue to make strategic investment in this sector. This investment would range from the acquisition of new planes for Bahamasair to replace its Dash 8's aircraft to the modernization of airport and seaport facilities in the Family Island using the P3 methodology. In addition, the strengthening of the regulatory institutions for air transportation in The Bahamas would occur. The latter represents the culmination of dedicated work by the Ministry of Transport and Aviation.

Flight Information Region

The Government is also mindful of the potential of its Flight Information Region to fund much needed upgrades in the aviation sector and is actively holding discussions with the Federal Aviation Authority to ensure that this is done in manner which is mutually beneficial.

TRANSPORT AND AVIATION

Upgrade of Family Island Airports

Following upon a study and recommendation by the Canadian firm Stantec, the Government will embark upon the upgrading of several airports in the Family Islands. It is expected that some of this work could be carried out through Public/Private/Partnerships

Restructuring of Civil Aviation

A restructuring of Civil Aviation in keeping with international norms will take place during the coming year, with the creation of a separate Civil Aviation Authority and an Airport operating entity with distinct and separate functions.

Automation of Road Traffic Department

The manual operation of the Road Traffic Department will be replaced by a fully automated nationwide system providing far greater efficiencies in service and in collection of revenues. The system will also interface with other Government Agencies such as Police and Customs as well as Insurance Companies. A contract has been awarded for this purpose.

Maritime

Port offices are being opened in Bimini (already done), Exuma, Andros (Fresh Creek) and Eleuthera. They will not only facilitate port

controls but also enhance the supervision, and coordination of marine activities and collection of revenues.

New maritime legislation is also envisaged to improve The Bahamas as a leading International Ship Registry. Focused efforts are also being made to train and employ more Bahamians as crews in International shipping.

Traffic Studies

Traffic studies are being carried out in communities like Bimini, Harbour Island, Spanish Wells, Hopetown, and Green Turtle Cay to determine how ground transportation might be best regulated in their growing communities which have spare constraints.

MORTGAGE RELIEF

As we all know, the global economic and financial crisis had grave deleterious repercussions on our economy and the employment situation. Many of our fellow Bahamians found themselves unable to continue to service their financial obligations, especially as these relate to mortgages. Many are still at risk of losing their homes.

My Government has been unequivocal that an effective means must be found to provide relief for homeowners in distress. The Government's commitment to this area is unquestioned but subject to any solution benefitting the broadest base of Bahamians in a manner which does not unduly burden the exchequer and does not reward unduly poor lending practices. The clearing banks understand these principles and have committed to working with us to develop a new framework for relief that will impact significantly more homeowners without creating a moral hazard or undermining the principles of sound banking. My information is that different proposals are being advanced by respective financial institutions. The Government fully expects these proposals would crystallize into one proposal for the Government's agreement in the short term.

My Government has been unequivocal that an effective means must be found to provide relief for homeowners in distress. The clearing banks have committed to working with us to develop a new framework for relief that will impact significantly more homeowners. In tandem, the Government will also pursue reforms to improve the credit resolution framework in the Bahamas and will explore other measures to promote more prudent borrowing behaviour among Bahamian households.

BUILDING A MODERN BAHAMAS

The third pillar of our strategy encompasses our plan for building a modern Bahamas.

Social cohesion and wellbeing reside, to an important degree, in the quality of the social programmes and services that Government can offer to its citizens, both on the basis of needs and in a financially sustainable manner. Public education, national insurance and social assistance are prime examples of such programmes. These define a modern nation.

My Government therefore places a strong emphasis on:

- Establishing a stronger secondary school system by completing the roll-out, implementation and monitoring of the Ministry of Education, Science and Technology's standardized set of criteria for the obtaining of a high school diploma;
- Establishing the University of The Bahamas which will have a transformative impact on national development through, for instance, enhanced research and development;
- Establishing the National Health Insurance Programme; and
- Establishing the Multi-Service Centre for Young Adults with Developmental Disabilities on Gladstone Road, so that other families would be assured of their continued care and development;

- addressing needs of challenged and at risk youth, so as to ensure that they are able to receive the remedial attention needed to enable them to contribute to society. A facility for such use has been identified at the former Bahamas Academy on Wulff Road.

Mr. Speaker,

We have been particularly clear that a key priority is the availability of national health insurance for all Bahamians, regardless of economic, social or political status. After extensive consultations with a cross-section of stakeholders in both the public and private sectors, I want to clarify the commitments of this Government. I will lay these out under four specific commitments.

Firstly, I want to assert that I am personally committed to having Universal Health Care in the Bahamas as this is one of the most important commitments a government can make on behalf of its citizens. However this cannot be rushed. Indeed Canada, whose system now provides care to all of its 35 million residents, has achieved the current state of its system over a period of 60 years.

Secondly, the implementation of National Health Insurance must be phased in a way that is both practical and affordable. The Government will not impose additional taxation or contributions to fund national health insurance at this time, but rather the introduction of services will be done in parallel with our ability to pay for those services. Simply stated, this means that the continued growth of our economy is not only critical to the overall success of the Bahamas but also to our ability to fund universal healthcare in the future. Indeed, better access to healthcare will further support our ability to grow the economy by ensuring higher productivity and efficiency.

Thirdly, while we in the Bahamas are fortunate in so many ways, the challenge of providing universal healthcare will require us to come together and work collaboratively in a way we have never had to before. This is a generational challenge to work together for a common goal that is fundamental and will define our society in future.

It is something we will tell our children about; if we get it right. To this end, the Government will work with the existing providers of healthcare including physicians, healthcare professionals and the private health insurance industry to meet this challenge. Because we all share the belief in the importance of providing quality cost effective health care to all Bahamians, I know that we can count on their commitment and support, no matter how difficult the challenges are.

Fourthly, we will intensify our focus on strengthening our existing health system. This is essential as we introduce National Health Insurance. The preparations for this Budget sparked an unprecedented level of collaboration between the Public Hospitals Authority, the Ministry of Health and the Department of Public Health on a road map to consolidate the public health care delivery systems throughout the Bahamas. This Budget therefore funds expenditures that target improved quality and efficiency in the administration and delivery of existing health care services.

We will phase in the initial National Health Insurance services for all Bahamians over the next 5 years commencing on the 1st January 2016, but the full journey to full National Health insurance will take longer, as it has in every country that has embarked on this journey.

The Government, through its various ministries, departments, task forces and working groups that are dealing with implementing NHI and their advisors, has been giving careful consideration to the strategy and budgetary implications for NHI. To this end, we can learn from the experiences of countries that have embarked on this journey before us. I have learned that every country's path is unique, but we can learn from these experiences. I will draw on experts with many years of practical experience in the implementation and delivery of universal health care plans and their financing arrangements.

I have recently established a Task Force to direct and lead the implementation of NHI. It provides for an Advisory Body that will include representation of private sector interests and civil society stakeholders amongst others. Regular meetings of the Advisory Group will occur in a structured way as we move towards our implementation

schedule. It will ensure appropriate meaningful consultation and engagement with all internal and external stakeholder groups to ensure our success. I will also soon confirm the appointment of a CEO to lead the implementation and to oversee the strengthening of our existing health system.

The introduction of UHC will be the single biggest development in the history of this country post-independence and the Government proposes that it will happen in a manner that strikes the fairest balance between the various competing interests.

Ensuring universal access to health care underscores a moral obligation of a Government in a modern society such as ours to provide citizens with equal access to services and amenities that improve their quality of life. As we do more to reduce poverty and provide economic empowerment, we will make more progress in this area.

Mr. Speaker, we will be establishing a special unit within the Ministry of Finance to oversee and ensure the effective implementation of our various financial programmes targeting poverty reduction and alleviation, particularly as regards social assistance, urban renewal, youth intervention and job readiness schemes and other community focused initiatives. Urban Renewal will be integrally involved in the implementation of this initiative.

MR. SPEAKER

HOUSING

The Bahamas Mortgage Corporation has approved the issuance of \$100m in bonds, which will jump start the Government's aggressive housing program and add over 1000 new housing units to our inventory. Through private public partnerships, it is hoped that the Government will complete the programme over the next two years. The programme will also create thousands of jobs in the sector for skilled and unskilled labour; and allow for many more Bahamians to

fulfill the dream of home ownership.

MR. SPEAKER

PUBLIC PARKS & BEACHES

This Budget also makes provision for the capitalization of the Bahamas Public Parks & Public Beaches Authority. That Authority will be charged with the responsibility of managing and maintaining public parks, public beaches and verges throughout the Bahamas. It will also be charged with a mandate to develop new public green spaces, like the redevelopment of Lake Killarney and a Botanical Garden in Marsh Harbour. Protecting and preserving beach access for Bahamians will also be a priority of the Authority, as well as addressing the restoration of beaches which have been eroded as a result of the adverse effects of Climate Change.

THE ECONOMIC ENVIRONMENT

Mr. Speaker,

As is usual practice in the presentation of Budget Communications to this Honourable House, I now turn to a brief review of international and domestic economic developments and prospects. In this context, I wish to acknowledge the Central Bank of The Bahamas for its analysis that I now summarize. I invite Honourable Members to peruse the Bank's analysis in more detail in Annex A of the estimates. The key economic and fiscal data of the Communication, both historical and projected, are presented in Annex B of the document we table today.

I am optimistic, that with an external environment conducive to tourism growth, industrial expansion and other commercial opportunities combined with Public Private Partnership and investor confidence, the pace of growth can indeed accelerate over the medium-term.

Mr. Speaker,

My Government continues to be proactive in the facilitation of various projects to improve economic growth and create jobs and entrepreneurial opportunities, while taking measures in accordance best practices to protect the environment.

There are a number of new and expanding developments both in the ground and on the drawing board, which should deliver additional revenue during the next fiscal year and in the ensuing future. Generally, the investment climate is buoyant.

New Providence

In New Providence investments continue to flow into the tourism sector, with product upgrades and expansions slated for major resort areas. To top it off, and having laid the foundation for the successive future years of economic boost from The Bahamas Carnival, and the IAAF World Relays, we are bringing global brand in none other than AEG, a world class manager, to promote The Bahamas as a sports and entertainment destination. We are also determined to create many new jobs and entrepreneurial opportunities in culture related industries with a renewed focus on arts and culture.

Atlantis Resort

We are pleased to see hotel owners commit to reinvestment in their properties as this helps us to sustain our position as a premier luxury destination for visitors. Brookfield Real Estate Financial Partners, owners of the Atlantis Resort will begin a \$45 million dollar renovation at the Cove and Royal Towers including several restaurants and will expand their entertainment offering to include private gaming facilities. This, along with select restaurant expansions will create an additional 98 full-time jobs, attract more and high-end casino patrons, increase casino revenue and benefit local contractors and suppliers.

One & Only Ocean Club

Access Industries and Kerzner International have announced a major renovation of the Hartford Wing that will provide 100 jobs for Bahamians, the appointment of a local contractor and architect and generation of over \$1 million of additional revenues to Government.

British Colonial Hilton

The recent acquisition by China Construction Company of the British Colonial Hilton and announcement by the developer of plans to construct a \$200 million dollar mixed use facility adjacent to the Hilton bodes well for the future of Nassau's Waterfront District.

Downtown Redevelopment

Dialogue with both local and international interests has continued and there has been general agreement by stakeholders on the Master Plan. This project will gain momentum in the coming months. It is expected to transform and restore the City of Nassau and its waterfront into a sought after world class destination.

Baha Mar

The \$3.5 billion Baha Mar project is nearing the end of talks with its general contractor on the completion and the development and imminent announcement of a final opening date. This single phase development which is the largest of its kind in this hemisphere has already hired 2,000 new employees and will ramp up further, increasing to 5,000 when fully operational. I remain fully engaged with the developer, general contractor, the Chinese Government and the hotel operators in bringing this project to a successful conclusion at the earliest possible time.

Albany

The owners are progressing on their \$140 million expansion at Albany, of 80 condominium units, residential resort amenities, medical,

commercial and sporting complexes to its development, resulting during this budget cycle in 1000 construction jobs and 300 permanent jobs.

The Island House

The Island House, with an investment of \$40 million by the Holowesko family, has come on stream adding intimate charm and Bahamian flavour to growing Western New Providence hospitality. The facility has created one hundred and twenty-five (125) new direct jobs.

Lyford Cay

Additionally in the Western District of New Providence, the residents of Lyford Cay are investing \$17 million in the acquisition and construction of high- end office buildings, retail shops, townhouse and villa residences, a memorial park and police station. This will immediately, positively impact Bahamian contractors, suppliers and construction workers, creating new employment.

Mr. Speaker,

Bimini

Resorts World Bimini has launched its soft opening of the 305-room Hilton Hotel and when completed will be staffed by some 700 Bahamians. The owners are also constructing additional housing for employees. Bimini continues to outpace growth in all other Family Islands and is considered the fastest growing destination in The Bahamas.

On South Bimini, the National Economic Council is giving final consideration to the acquisition and redevelopment of the existing Buccaneer Hotel, acquiring adjoining property to be redeveloped as a first class resort at a cost of \$100 million.

Bimini Master Plan

In order to ensure the orderly development of Bimini, extensive work has been done on a detailed Master Plan taking into full account community needs and expansion for the foreseeable future. All present and pending development will be required to comply with the Master Plan.

The National Insurance Board is planning the construction of a new Government Complex to meet the needs of this growing community.

South Cat Cay

Adjacent to Bimini at South Cat Cay, the national Economic Council has given approval in principle for the development of a \$94 million boutique hotel, high end residential development and marina by South Cat Cay Properties (Bahamas) Limited.

Mr. Speaker,

Grand Bahama

Grand Lucaya/Sunwing

Hutchison Whampoa has announced a \$5 million investment in renovation of its Lighthouse Pointe Hotel and refurbishment of its 198 rooms, suites and associated facilities, planned for completion in November 2015 in time for the winter season. The Sunwing Group continues to boost arrivals and acceptance at Memories Resort in Freeport. In addition to Sunwing Airlines winter flights from seven (7) Canadian cities in Freeport, it will also operate flights from six (6) U.S. countries this summer, with the first flight arriving from Houston this weekend. Bookings are already well ahead of last year.

New Cruise Port

My Government is progressing in its negotiation with Carnival Cruise Line and Freeport Harbour Company for the development of a

cruise port and attraction in East Grand Bahama. Heads of Agreement should be concluded in the coming months on the project which will greatly expand arrivals to Grand Bahama, create hundreds of construction and operational jobs and positively impact the local economy.

Deep Water Cay Project

Also, in East Grand Bahama, Deep Water Cay owners are continuing in their planning and negotiation with the Government to develop a Six Star Six Senses operated boutique resort which will be a major expansion of their current fishing and residential community

Mr. Speaker,

Freeport Container Terminal Expansion

In the industrial sector in Grand Bahama, Mediterranean Shipping has recently confirmed that it has agreed with Hutchinson Whampoa the early startup of the \$250 million expansion to the Freeport Container Terminal, which amount might be increased. According to the Economic Input Study which Mediterranean Shipping has now presented to Government, the annual economic impact will produce a net benefit of 600 direct and indirect jobs.

Also we are in negotiation with MSC Shipping on leasing an island for the creation of an exclusive port in the Northern Bahamas for their new cruise ship fleet, in addition to calls at Nassau; the creation of a maritime training facility for Bahamians in Freeport and the hiring of Bahamians on board their ships, thus providing training and employment opportunities for hundreds of our unemployed youth.

Review of Expiring Provisions of Hawksbill Creek Agreement

The Committee appointed to review and make recommendations on how to address the expiring tax incentives in Freeport, Grand Bahama, is expected to complete its report with recommendations to Government within the next two weeks. My Government will coalesce

around strategies to propel the Island to a new stage of diverse domestic and FDI developments.

West Grand Bahama High School

During the new fiscal year Government will begin construction of a new high school to serve West Grand Bahama. This facility will provide both an economic and educational boost for this community.

Mr. Speaker,

Abaco

Baker's Bay

The ultra-exclusive Baker's Bay is proceeding with a \$105 million capital expansion that will ultimately be a \$2 billion investment project with 900 employees at full build out. To ensure additional employment for Abaconians, the developers are also embarking upon a skills training programme in conjunction with the Government.

Abaco Club at Winding Bay

Members of the Abaco Club at Winding Bay recently joined with Southworth Development Company as the new owners of the resort and have committed to a \$348 million expansion.

Matt Lowe's Cay/Aman Resorts

MLCSD Limited has acquired the 50-acre Matt Lowe's Cay for construction of a high end Aman Resort property in the Abaco Cays with 800 jobs generated in the hard construction phase and 200 permanent jobs when operational.

Grand and Baker's Cays

Seneca Industries (Bahamas) Ltd has acquired Baker's Cay and Grand Cay in the Abacos for development of an eco-friendly resort and

marina. This would provide a much needed economic stimulus for the nearby North Abaco community of Grand Cay and other settlements.

Andros

In Andros BAMSI is having a transformational effect, beyond also being an important plank in our national development strategy. In the meantime we are moving to solidify the Island's advantages in eco-tourism, sports fishing and diving.

Eleuthera

The Cove

The luxury boutique resort, The Cove, has been acquired by a New England company which operates exclusive spa resorts. The owner will commence further upgrades and expansion of the resort.

Four Seasons at Cotton Bay

The Government just this month signed a Heads of Agreement with Cotton Bay Holdings Ltd and Mine Holdings for an upscale resort, golf course and residential community in South Eleuthera. It will employ 200 persons in construction and some 250 permanent jobs on site when Phase One becomes operational.

Cotton Bay/Noble House

South Eleuthera Properties have signed an Agreement with Noble House Hotels to operate their mixed-use project on completion of infrastructural works, renovations to the existing Clubhouse, restaurant, amenities, villas and construction of the Fazio designed, 18-hole golf course. Completion and opening is planned for November 2016.

Eleuthera Training Centre

Because of the importance of training to qualify young people for jobs in the hospitality sector and to ensure the high standard of

service which upscale resorts in Eleuthera will demand, the Government will support private sector interests to acquire and turn the former Rock Sound Hotel into a Training Centre.

Mr. Speaker,

Exuma

Sandals continues to lead the resurgence of Exuma and with acquisition of additional land is moving to further expand its footprint at Sandals at Emerald Bay. Its aggressive airlift and marketing initiative with support from Bahamas Ministry of Tourism is greatly benefiting its property, other resorts in Exuma and the local community.

February Point

February Point is ramping up its pre-construction activity for expansion of its property to include a 25 condo units, a boutique hotel, marina, community pool, beach club, restaurant and other facilities. Heads of Agreement are being negotiated for a joint venture with the Government on land adjacent to the Georgetown community for the expansion of sports facilities, housing, commercial and other community facilities, and a marina village.

Children's Bay Cay & Williams Cay

CH Twister PTC Limited, the new owner of the two private islands in the Exumas near Bahama Sound is developing a fully amenitized luxury mixed-use villa resort employing 350 Bahamians during both construction phases and operations.

Leaf Cay

Leaf Cay Holdings Ltd received approval for its \$30 million acquisition and development of a three phase project. Once all of the approvals are issued, fifty Bahamians will be employed during the pre-

construction phase and 100-150 during full construction. When operational, the development is expected to hire 50 Bahamians.
Mr. Speaker,

San Salvador

Club Med

Club Med and their partners, Sand and Ocean, are progressing infrastructural works, renovations and the construction of a new hotel and condo units at a cost of some \$90 million.

Mr. Speaker, those tangible examples of development will in addition to our fiscal reforms and new sources of revenue, grow the economy to provide the much needed jobs and economic opportunities necessary for a stronger Bahamas.

What is most notable since my last Budget Presentation is the number of new top international hotel brands which have been attracted to new products in this destination including Four Seasons, Aman, Six Senses and Noble House, as well as two new luxury cruise lines, Crystal Cruises and Mediterranean Shipping which will begin calling over the next two years.

THE GLOBAL ECONOMY

On balance, the external economic environment remains favourable for the ongoing expansion of economic activity in The Bahamas. In its latest World Economic Outlook of April 2015, the IMF projects that the global economy will expand at relatively healthy rates in the near term, specifically 3.5 per cent this year and 3.8 per cent in 2016. Having said that, the Fund continues to expect growth to remain uneven around the globe, with the advanced economies recording somewhat more strength in 2015 than last year, while the emerging economies are forecast to weaken somewhat this year as compared to 2014.

Of particular significance for domestic economic prospects, the IMF estimates that conditions are especially favourable for a further strengthening of U.S. economic performance in 2015 and 2016. The key contributing factors to more buoyant growth are lower energy prices, low inflation, an accommodating monetary policy, improved financial conditions, somewhat less negative influence from fiscal policies, strengthened household, corporate and bank balance sheets, and an improving housing market. It is expected that the US will continue to experience healthy employment growth and buoyant consumer confidence, which both augur well for tourism prospects in The Bahamas.

In the Euro area, the uptick in economic activity is expected to strengthen further in the near term, bolstered by lower oil prices and low interest rates, as well as the lower value of the euro. In the meantime, the gains in the emerging markets will continue to be led by the performances of China and India.

THE BAHAMIAN ECONOMY

I now turn to recent domestic economic developments and prospects for the future.

While the expansion of our domestic economy has been mild to this point, in light of the extensive developments previously indicated and upon which we shall expand further during the Debate, I remain optimistic about our prospects. In real terms, the economy grew by 1 per cent in 2014, on the heels of flat performance the previous year, according to Department of Statistics estimates. As I have stated on a number of recent occasions, however, we are now witnessing a relatively strong surge in foreign investment projects in both New Providence and across the archipelago and these will clearly lead to a much-needed boost in economic activity and employment creation once these come fully on stream.

It is particularly encouraging that our key tourism sector is continuing to expand at stronger rates. This reflects sustained growth in our key source markets, the U.S. in particular; ongoing incentive

programmes offered jointly by the public and private sectors; as well as increased airlift from several markets. Total tourist arrivals in 2014 grew by 2.8 per cent to a level of 6.3 million. The recovery in the high value-added stopover segment of the market has underpinned this growth, with air traffic expanding by 4.9 per cent to 1.3 million. The larger sea segment of the market expanded by 2.2 per cent to a level of 5 million visitors.

Construction activity in 2014 continued to be bolstered by both the Baha Mar mega resort project and a number of other foreign investment projects across the nation. Housing construction, however, remained relatively mild as residential mortgage financing is still subdued.

Our domestic inflation has continued to be relatively muted, even though there has been some upward pressures from the VAT. In the twelve-month period to January 2015, average consumer prices rose by 1.26 per cent, compared to a 0.4 per cent increase in the previous year. Even with VAT, the Bahamian consumer has benefited from considerable easing in domestic fuel prices in line with the sharp reduction in world crude oil prices.

Reflecting the modest recovery of economic activity, the labour market has been relatively subdued, with the latest estimate of national rate of unemployment at 15.7 per cent in November 2014. Even though total employment rose modestly in the six-months to November that growth was dwarfed by the expansion of the labour force. As I have consistently stated, the great concern for my Government is that unemployment among the youth of our nation hovers around the unacceptably high level of 31 per cent.

It is abundantly clear from these developments that we must, as a high priority, target an appreciable and sustained increase in the rate of economic growth, as well as seek to better position the youth of the country for the emerging job opportunities that will flow from enhanced growth. As I have outlined earlier, our national growth strategy including training and placement of our young people in new

jobs being created through various developments and the public private partnership efforts are directly focused on these priorities.

Mr. Speaker, external reserves are one measure of the financial health of our country. These balances held by the Central Bank expanded by 8.5 per cent in 2014 to stand at \$787.7 million at end-December. In line with their seasonal pattern, reserves have grown further in early 2015 to a level of approximating \$950 million in the third week of the current month.

The future prospects for the Bahamian economy and for job creation are expected to strengthen in both the near term and beyond, underpinned by strengthening expansion of the U.S. economy and an ongoing rebound in tourist arrivals.

In its latest World Economic Outlook of April 2015, the IMF projects that the rate of growth of our economy will increase to 2.3 per cent in 2015 and further to 2.8 per cent in 2016. While this is concrete progress indeed, I will reiterate that we must do considerably better still on the growth front if we are to successfully create the jobs required to get to a significantly lower rate of unemployment as well as accommodate our growing labour force. My Government is firmly committed to that goal.

Of course, as we have stated consistently since we came to office, redressing the public finances of the nation and reducing public debt to lower and sustainable levels is a fundamental pre-requisite to set the appropriate and solid foundation for more buoyant economic activity. On this score, I would note that the most recent IMF mission to visit The Bahamas in the context of the Article IV consultations, in March of this year, gave its full endorsement to the Government's multi-year fiscal consolidation programme and commended our achievements with the introduction of the VAT.

I am confident that my optimism for future growth and job creation is well-founded. My Government has, as a core priority, sought out and promoted a number of small, medium and large-scale foreign investment projects across the breadth of the nation. We have

modernized our strategic development planning process. We are implementing programmes and services to bolster the training and skills of our workforce, as well as provide for the critical public infrastructure that is required nation-wide to support stronger growth. We are striving to modernize Government corporations. We are streamlining regulations and Government-business interactions to make the business environment more user-friendly. And, last but not most certainly not least, we are redressing the structure of the public finances to eliminate Government deficits and return Government Debt to lower, sustainable levels. These are undeniably the key ingredients for the significant strengthening of our rate of economic growth and a return to sharply lower levels of unemployment across the nation. I have full confidence that our plan will bear fruit.

FISCAL PERFORMANCE 2014/15

I now turn to fiscal performance in the 2014/15 fiscal year which, I am pleased to report, is now projected to be better than we had expected at the time of the last Budget Communication. As a result, the GFS Deficit this fiscal year is now estimated at a level of \$198 million, down \$88 million from the \$286 million forecast. As such, the Deficit is now expected to amount to 2.3 per cent of GDP, as opposed to the forecasted level of 3.2 per cent. Abstracting from the proceeds from the sale of BTC shares that were attributed to capital revenue in 2010/11, this year's Deficit will come in at its lowest level since 2007/08, fully seven years ago. This is also a sharp improvement from the fiscal structure that we inherited in 2012/13 when the Deficit exceeded 6 per cent of GDP.

On the expenditure front, we have been disciplined in holding total spending to just under the level projected in last year's Budget. Recurrent and Capital Expenditure are projected to amount to \$2,136 million as compared to the forecast of \$2,154 million. We also expect to reach our estimated level of Recurrent Revenues, at \$1,771 million, in part as a result of the successful implementation of VAT, which on net is now expected to generate at least the \$150 million in projected revenue collections this fiscal year.

We now estimate, Mr. Speaker, that total Government debt at the end of 2014/15 will amount to \$5,356 million, down \$88 million from last year's Budget forecast of \$5,444 million.

FISCAL POLICY 2015/16 AND BEYOND: **THE MEDIUM-TERM FISCAL CONSOLIDATION PLAN**

Building on the further fiscal improvement that we have achieved this year, we will stay the course with the Medium-Term Fiscal Consolidation Plan that we established early on in this mandate. 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.

RECURRENT REVENUE

On the Recurrent Revenue front, the reforms that we are implementing, including the introduction of the VAT, are expected to continue to bear fruit in terms of an appreciable and necessary increase in revenue.

Mr. Speaker, taking into account the impact of our reform programme, we project total Recurrent Revenue on the order of \$2,047 million in 2015/16. That is some \$100 million higher than we were projecting at this time last year. The revenue yield in the coming fiscal year will thus amount to 22.2 per cent of GDP, in line with the objectives of our reform plan and up significantly from the unacceptable and inadequately low level of 16.4 per cent achieved in 2009/10. As I have argued previously, this new level of revenue relative to the size of the economy is fully in keeping with the needs of modern democratic governance, though I would note that it still remains on the low side of the range of revenue yields elsewhere in the region.

Going forward beyond 2015/16, a revenue yield of 22.2 per cent of GDP will make a valuable contribution to the achievement of the key fiscal objectives in our medium-term fiscal plan.

RECURRENT EXPENDITURE

As for Recurrent Expenditure, I would reiterate that we are moving forward with the reforms and measures that I outlined during last year's Budget Communication and at the time of this year's Mid-Year Budget Statement. These are targeted at restraining the growth of spending and to make that spending more efficient and effective such that Recurrent Expenditure shows a decline relative to the size of the economy in an orderly, balanced and responsible manner through the medium term.

Total Recurrent Expenditure in 2015/16 is estimated at a level of \$2,098 million, including some \$154 million in reclassified transfer payments that previously were included in the Capital Expenditure account. Such a reclassification is in line with accepted international practice.

For the sake of comparability with the current fiscal year, Recurrent Expenditure excluding these adjustments would amount to \$1,944 million. That would represent 21 per cent of GDP, the same level as in 2014/15.

As I mentioned earlier, we have also shifted resources to the high priority implementation of the National Health Insurance programme as of January of 2016. As such, Recurrent Expenditure on programmes and services other than NHI will be lower relative to GDP than it is expected to be in 2014/15.

In keeping with our medium-term fiscal consolidation plan, we are still targeting a reduction in Recurrent Expenditure of 0.5 per cent of GDP in each of the two outer years of this year's projection. The ratio will thus be reduced to 22.0 per cent, of GDP in 2017/18, from 22.8 per cent of GDP in 2015/16.

CAPITAL EXPENDITURE

On the Capital Expenditure front, we are adhering to our commitment to reduce its weight relative to the size of the economy over the medium term, as we begin to cultivate more public private partnerships to drive infrastructure growth. Capital Expenditure in 2015/16 will amount to \$235 million, or 2.5 per cent of GDP. This represents real investments and is in fact more than we budgeted last year, when we still classified some \$154 million in subsidies as public investments.

PROJECTED FISCAL RESULTS

As a consequence of the fiscal measures that we are implementing and, barring unforeseen developments, we will continue to adhere to the fiscal objectives of our medium-term plan, namely:

- it is expected that the GFS Deficit will post a further significant decline in 2015/16 to a level of \$141 million, or 1.5 per cent of GDP, down from \$198 million, or 2.3 per cent of GDP in 2014/15;
- the Balance on Recurrent Account will move from a long-standing deficit position to a balanced position in 2016/17, one year later than previously projected due to the reclassification of transfers;
- the GFS Deficit will be completely eliminated and a small surplus will be recorded in 2017/18;
- the ongoing rise of the Government Debt burden will be arrested and the ratio will decline in the 2015/16 fiscal year; it will then fall steadily to reach 56.8 per cent of GDP in 2017/18, down from the peak of 61.1 per cent in 2014/15.

This fiscal framework, Mr. Speaker, is consistent with a stronger Bahamas, because it bodes well for business confidence and investments that spur medium-term growth, and jobs. It empowers us to have more resources to fund the safety and wellbeing of our

citizens, and by virtue of being employed keeps more of our youth away from the negative distractions brought on from being unemployed and idle. The framework is also bringing us more in line with the standards of governance and accountability that apply in advanced and modern economies around the globe.

REVENUE MEASURES

Mr. Speaker, in this Budget Communication, I am pleased to be in a position to announce a number of revenue measures, many of which are designed to provide tax relief to all Bahamians. As well, a common theme throughout is the empowerment of the taxation authorities to have more authority to enforce the collection of government revenue, through investigatory powers and powers of seizure and disposal of assets, as we have provided for with the VAT Comptroller. The financial penalty regime for late payment of taxes will also become more uniform.

Mr. Speaker, we can begin to pay back to the Bahamian people some portion of, though definitely not all of, the dividends from the successful VAT regime. It is clear that we must responsibly allocate a significant portion to other priorities, including fiscal consolidation and the reduction of the Government debt burden.

In this context, it will be recalled that, at the time of the last Budget Communication, I had indicated that it would be prudent to await evidence on the revenue performance of VAT in early 2015 before considering any tariff and excise reductions. In light of our experience and the projections ahead of us, I am now announcing a number of such reductions:

- There is the outright elimination of duty on several items, including medical equipment and supplies, bicycles, burglar alarms and audio visual equipment used by churches;
- Duty rates will be reduced on certain imports such as canned and frozen vegetables;
- the maximum rate of duty on motor vehicles is being reduced

from 85 percent to 65 percent.

- Taxicab owners will be relieved to know that they can now import, duty free, used vehicles up to three-years old as opposed to the current restriction to new cars only.
- That said, for environmental and safety reasons, we will ban the importation of wrecked vehicles, and the importation of vehicles of more than 10 years of age. We are also proposing a two-year exemption on customs duty for building materials used to repair small homes and buildings in certain depressed parts of New Providence.
- We will also extend the exemptions under the Family Island Development Encouragement Act by an additional year and include Abaco, the east and west sections of Grand Bahama, Eleuthera and Bimini under the exemptions.
- The City of Nassau Revitalization Act is also being extended for another year.

All of the foregoing tax incentives mentioned are aimed at spurring economic growth, creation of jobs building repairs and improvement of living conditions.

As we modernize the real property tax administration we fully expect that, through better compliance and more equitable treatment of property owners, we will be able to offer Bahamians tax relief through lower tax rates, while still improving revenue yields. To do so, the strengthened compliance tools and the modernized administration platform are critical. The proposed amendments to the Real Property Tax Act will begin to give some relief to homeowners and businesses as well as strengthen compliance and enforcement. The following are some of the relief measures that we propose in this Budget:

- a reduction in the top tax rates on owner-occupied residential properties with attached rental units
- more pronounced property tax relief for pensioners in

mid-value properties

- introduction of a 10 percent discount for residential property owners who pay their taxes early each year; and
- a harmonization in commercial property tax rates at a lower level of 0.75 per cent.

Honourable members will also see a reduction in the maximum rate for business licence fees from 1.75 per cent of turnover to 1.5 per cent, as well as reductions in rates for agriculture and fisheries operated businesses and for independent fuel distributors in the Family Islands.

As we push for more Family Island enforcement, local government districts will be empowered to assist with property tax collection and will be able to share in some of the proceeds to fund capital improvements in their communities.

In addition, as we promote further harmonization with VAT, the Stamp duty on all real estate transactions is being reduced to a lower, single tax rate of 2.5 per cent. VAT will apply in place of the higher rate but only on transfers valued above \$100,000. Effectively, a 10 percent tax will remain on residential transfers above this value, but those below \$100,000 will see notable savings when compared to the current tiered stamp rate structure.

First-time homeowners who qualify will be exempt from the payment of VAT.

The substantial elimination of Stamp duty will also provide a tremendous stimulus to commercial real estate transactions, as VAT registrants will be able to claim credit for such transfer costs, whereas they cannot do so for the current Stamp tax, which can amount to 10 percent on high value transactions.

We also hope to stimulate more investments by Bahamians, particularly in the Family Islands, on what in many cases will be VAT

exempt transactions with much lower stamp duty when the purchases are less than \$100,000. This measure also supports those personal acquisitions in New Providence intended for affordable homes development or as modest investments.

The 2015/2016 Budget reinforces the Government's commitment to assist charitable, faith based, educational and environmental institutions. This budget includes an increase in the allocation for grants for educational and civic organizations. This includes a 10% increase in the salary grant for independent schools and \$175,000 increase in the allocation to the Bahamas National Trust.

The Ministry of Social Services was also given a \$500,000 increase in its allocation for grants to assist the less fortunate. This was partially funded by the efficiencies derived through the conditional cash transfer programme. This programme which the Government has partnered with the Bank of The Bahama, provides a much needed assistance to many in a dignified manner. It also provides access to banking services to those in this community which are less fortunate.

Because we have reduced the deficit, improved fiscal responsibility, and attracted significant investments, we are able to further incentivize and intensify economic growth through these new tax concessions.

CONCLUDING REMARKS

In conclusion, Mr. Speaker, I will stress again that the future of The Bahamas is a bright one. But, it is equally clear that there is more work to be done. My Government has begun the process of implementing its bold vision for the future and introducing the novel and innovative ideas needed for fundamental and successful transformation and modernization.

However, Government cannot achieve what is required on its own. I therefore call upon all Bahamians to contribute to the national challenge of making The Bahamas a safer, more prosperous, and modern society. This is indeed our patriotic duty and I invite all

Bahamians to consult our new website www.strongerbahamas.com that has been created in support of our broader, more open and inclusive framework for public engagement, policy planning and national development.

Together and with Almighty God's guidance, we will succeed in creating a stronger **Bahamas** and a better future for all Bahamians.