

Assessment:

# 2020 FISCAL STRATEGY REPORT



# FISCAL

RESPONSIBILITY COUNCIL  
OF THE BAHAMAS

JUNE 2021





## CONTENTS

1. Basis of the Report
  - 1.1. Background
  - 1.2. Purpose
  - 1.3. Reporting Period
  - 1.4. Compliance Framework
  - 1.5. Methodology of Reporting
2. Scope of Assessment of Compliance
  - 2.1. General Principles
  - 2.2. Fiscal Responsibility Principles
  - 2.3. Fiscal Objectives
3. Structure of Assessment of Compliance of Content of FSR 2020 with the FRA
4. Content Requirements & FSR 2020 Compliance
5. Fiscal Adjustment Plan
6. Fiscal and Budgetary Matters
  - 6.1. Data and Reporting
  - 6.2. Supporting Framework: Economic and Fiscal Outlook
7. Fiscal Risk and Mitigation Strategies
8. Concluding Note

### Tables

- Table 1: Development of Fiscal Objectives, FY 2017-2018 to FY 2019-2020
- Table 2: Compliance Assessment Keys
- Table 3: Fiscal Strategy Report Content Requirements & FSR 2020 Compliance

### Appendices

- Appendix 1: General Principles, Fiscal Responsibility Principles, Fiscal Objectives



## DEFINED TERMS

BBA	Bahamas Bar Association
BCCEC	Bahamas Chamber of Commerce and Employers' Confederation
BICA	Bahamas Institute of Chartered Accountants
CFASB	Chartered Financial Analyst Society The Bahamas
CPI	Consumer Price Index
DOS	Department of Statistics
FAP	Fiscal Adjustment Plan
FRA	Fiscal Responsibility Act, 2018
FRC	Fiscal Responsibility Council
FSR	Fiscal Strategy Report
FY	Fiscal Year
GDP	Gross Domestic Product
Minister	Minister of Finance
IMF	International Monetary Fund
RPI	Retail Price index
SOE	State Owned Enterprises
UB	University of The Bahamas
WEO	World Economic Outlook

# 1. BASIS OF THE REPORT

## 1.1. Background

Established by the Fiscal Responsibility Act, 2018 (FRA), the Fiscal Responsibility Council (FRC) is an independent body, responsible for assessing the Government of the Commonwealth of The Bahamas' (the Government) compliance with general principles, fiscal responsibility principles and fiscal objectives and to advise on fiscal and budgetary matters of the Government, including reviewing each of the following Government publications:

- Fiscal Strategy Report
- Annual Budget
- Mid-year Review
- Pre-Election Economic and Fiscal Update
- Government annual accounts
- Reports on deviations from the fiscal responsibility requirements
- Fiscal adjustment plan of the Government in response to deviations<sup>1</sup>

The inaugural members of the FRC, nominated by each of the following five (5) entities: Bahamas Bar Association (BBA), Bahamas Chamber of Commerce and Employers Confederation (BCCEC), Bahamas Institute of Chartered Accountants (BICA), Chartered Financial Analyst Society The Bahamas (CFASB) and the University of The Bahamas (UB), received their letters of appointment on October 31, 2019.

- Kevin Burrows, Chairperson (CFASB)
- Gowon Bowe, Member (BICA)
- Dale McHardy, Member (UB)
- Kahlil Parker, Member (BBA)
- Christel Sands-Feaste, Member (BCCEC)

## 1.2. Purpose of Report

The Government is required to prepare, seek the approval of Cabinet for and to submit to Parliament a fiscal strategy report by not later than the 3rd Wednesday of November of each financial year containing the information specified in the Second Schedule to the FRA.

The FRC is required to submit a report to Parliament by 31st January in every year containing an assessment of the fiscal strategy report of the Government against the general principles (General Principles), fiscal responsibility principles (Fiscal Responsibility Principles) and fiscal objectives (Fiscal Objectives) prescribed by the FRA and set out in Appendix 1 to this report.

The Government's 2020 Fiscal Strategy Report (FSR 2020) was submitted to Parliament and provided to the FRC on December 16, 2020.

This report serves as an assessment by the FRC of the FSR 2020 in accordance with Sections 17(1) and 23(1) (a) of the FRA.

The FRC engaged a qualified expert in accordance with Section 17(2) of the FRA to support its activities, with said expert being The Vivian Group.

## 1.3. Reporting Period

The FRA establishes the most recently concluded financial year as the relevant reporting period for the Government's fiscal strategy reports. FSR 2020 therefore represents reporting for fiscal year 2019-2020. A detailed listing of content that must be included in these fiscal strategy reports, is set out in the Second Schedule (Section 10) of the FRA.

## 1.4. Compliance Framework

The FRA requires that the Government manage public finances and determine fiscal policies in accordance with three (3) principal components of compliance: General Principles, Fiscal Responsibility Principles, and Fiscal Objectives. The FRA also requires a fiscal adjustment plan, should the Government invoke the exceptional circumstances clause prescribed in Section 13.

### 1.4.1. General Principles

The General Principles of responsible fiscal management, prescribed by Section 6 of the FRA, are listed below, and detailed in Appendix 1:

- Accountability
- Intergenerational Equity
- Responsibility
- Stability
- Transparency
- Inclusive Growth

### 1.4.2. Fiscal Responsibility Principles

The principles of Fiscal Responsibility prescribed by Section 7 of the FRA comprise the following:

- Achieving and maintaining a sustainable fiscal balance;
- Achieving and maintaining prudent levels of public debt; and
- Prudently managing fiscal risks.

<sup>1</sup>Section 17(1), FRA

### 1.4.3. Fiscal Objectives

The Fiscal Objectives as set out in the First Schedule of the FRA are defined by three (3) fiscal targets:

- Fiscal Balance: 0.5% of GDP from FY 2020-2021 onwards;
- Debt: 50% of GDP by FY to be determined by Government; and
- Expenditure: To be determined after the fiscal balance target (-0.5% of GDP) is achieved.

### 1.4.4. Fiscal Adjustment Plan

The FRA authorises the Government to temporarily depart from the requirements for the Fiscal Objectives prescribed by the FRA by invoking the exceptional circumstances clause in Section 13 of the FRA, only (i) when sudden and unexpected events arising from external shocks resulting in a significant economic downturn, national security considerations, or natural disasters so require and (ii) the Minister provides a FAP to Parliament which addresses:

- The reasons for departing from the requirements of the Fiscal Objectives;
- The measures the Government intends to take to return to compliance with the Fiscal Objectives; and
- The period of time the Government expects to take to achieve compliance with the Fiscal Objectives.

## 1.5. Methodology of Reporting

### 1.5.1. General Principles and Fiscal Responsibility Principles

The prescribed General Principles and Fiscal Responsibility Principles establish the values against which the Government must demonstrate compliance. To assess how these principles applied to the Government's fiscal activities, and underlying strategies and policies, the FRC evaluated the frameworks of measurement that FSR 2020 used to demonstrate the Government's adherence to these prescribed principles.

Specifically, 1) whether FSR 2020 identifies indicators – fiscal, macroeconomic, or other relevant indicators – by which respective principles have been measured, and against which the rate of compliance can be assessed; and 2) whether principles have been interpreted with measures that can effectively demonstrate compliance. The rationale and methodology used by FSR 2020 to define, measure, and monitor the established principles were also evaluated.

### 1.5.2. Fiscal Objectives

The Fiscal Objectives comprise specific targets, including prescribed values and time milestones, for three (3) indicators; the fiscal balance, debt and expenditure. The Government therefore must achieve these values and must do so within the expressed time frames. The FRA however permits deviations from these established parameters, if the need for such deviations is proven to be due to exceptional circumstances.

The following extraordinary events in FY 2019 – 2020, resulted in the Government invoking the exceptional circumstances clause: 1) the fiscal and macroeconomic challenges associated with Hurricane Dorian (September 2019); and 2) the onset of the global pandemic, COVID-19 (March 2020). To date, the timelines for achievement of the fiscal balance and debt targets were extended from the 2020-2021 and 2024-2025 fiscal periods to 2024-2025 and 2030-2031, respectively. A summary highlighting these fiscal target adjustments is included in **Table 1: Development of Fiscal Objectives, FY 2017-2018 to FY 2019-2020.**

The FRC assessed whether these adjustments were sufficiently supported by data sets, projections and strategies that would achieve compliance with the defined fiscal targets (fiscal balance -0.5% of GDP, and debt 50% of GDP) within the revised time frames.

Resources used in support of the assessment of FSR 2020 included: the FRA; each of the Government's previous FSRs; the FY 2020-2021 budget; IMF publications, including the World Economic Outlook (WEO) January 2020, April 2020, October 2020 and January 2021 reports; the IMF 2019 and 2020 Bahamas Article IV Consultations and Concluding Statements; and the Central Bank of The Bahamas publications, including Quarterly Statistical Digests and Quarterly Economic Review publications in 2019 and 2020. Resource materials including tables and presentations were also provided by the Ministry of Finance to the FRC. The Ministry of Finance also facilitated information meetings in response to FRC requests.



**TABLE 1: DEVELOPMENT OF FISCAL OBJECTIONS, FY 2017-2018 TO FY 2019-2020**

Fiscal Objective	FRA	Fiscal Strategy Report, FY 2017-2018	Fiscal Strategy Report, FY 2018-2019 & Fiscal Adjustment Plan	Fiscal Strategy Report FY 2019-2020
Fiscal Balance	Fiscal balance: - 0.5% of GDP from FY 2020-2021 onwards.	Unchanged: Fiscal balance of - 0.5% GDP by FY 2020-2021.	Adjusted: Fiscal balance of -0.5% of GDP by FY 2024-2025.	Unchanged from FAP: Fiscal balance of -0.5% of GDP by FY 2024-2025.
Debt	50% of GDP by FY to be determined by Government.	Government states: Debt of 50% of GDP by FY 2024-2025.	Revised: Debt of 50% of GDP by FY 2028-2029.	Revised: Debt of 50% of GDP by FY 2030-2031.
Expenditure	To be determined after the fiscal balance target (-0.5% of GDP) is achieved.			

## 2. SCOPE OF ASSESSMENT OF COMPLIANCE OF FSR 2020 WITH GENERAL PRINCIPLES, FISCAL RESPONSIBILITY PRINCIPLES AND FISCAL OBJECTIVES

The scope of the assessment of the Government's compliance with the General Principles, Fiscal Responsibility Principles and Fiscal Objectives in this report is limited. In the case of the General and Fiscal Responsibility Principles, FSR 2020 does not provide a framework that establishes measures by which these principles can be assessed for compliance. FSR 2020 does not link the principles to specific indicators, therefore not providing an objective framework to facilitate measurement and monitoring of the Government's attainment of established principles. In the case of the Fiscal Objectives, FSR 2020 uses projections for growth for the economy of the Commonwealth of The Bahamas (The Bahamas) as the basis for its fiscal and wider macroeconomic forecasts. However, these projections have been sourced from the International Monetary Fund (IMF), and FSR 2020 does not provide underpinning domestic data sets that support the internationally sourced growth projections for the economy of The Bahamas. This limited the analysis that could be carried out by the FRC. The absence of national data to support the Government's accountability of fiscal responsibility, and exclusive reliance on internationally sourced data, is a material deficiency that requires immediate attention.

### 2.1. General Principles

The FRA requires that FSRs include the information set out in the Second Schedule to the FRA, including, among other things, a summary of performance compared to the General Principles in Section 6. This performance comparison, by principle, has not been presented. Further, the FSR 2020 does not identify the indicators/measures defined to meet the requirements of accountability, intergenerational equity, responsibility, stability, transparency, and inclusive growth, as prescribed by the FRA.

FSR 2020 does not: (i) include technical and organisational measures to meet the requirements of these principles; (ii) present tools that help to demonstrate and assess the Government's compliance with the General Principles; (iii) present compliance strategies for the General Principles; (iv) identify issues that are expressly associated with each principle; or (v) discuss how the Government addresses or intends to address performance evaluation and monitoring of its compliance with the established principles. For these reasons, the scope of assessment of the Government's adherence to the required General Principles is limited.

There is content from which some inferences can be made about how a strategy or action connects or can connect certain principles, however FSR 2020 should have presented a section dedicated to compliance reporting. Equally important as the actual attainment of the Fiscal Objectives, which are all quantitative values, is the pursuit of these objectives in a policy and procedural environment underpinned by the principles that the FRA requires. The FRC recommends that additional detail be included in subsequent FSRs demonstrating the Government's compliance with the General Principles.

## 2.2. Fiscal Responsibility Principles

The FSR is required to summarise performance compared to the Fiscal Responsibility Principles. FSR 2020 provides some statements regarding the Government's intent that are consistent with aspects of the Fiscal Responsibility Principles. Language synonymous with the general premise of the Fiscal Responsibility Principles can be found in the following sections: Key Budget Priorities and Considerations; Fiscal Risk and Mitigation Strategies; Public Debt Trends, Management Strategy & Sustainability Analysis. However FSR 2020 does not explicitly integrate this intent within a framework specifically for the demonstration of compliance.

Given the sweeping significance of these principles and the requirement of adherence, FSRs should include a framework serving the specific objective of showing the Government's compliance with Fiscal Responsibility Principles. There are similar deficiencies to those noted in paragraph 2.1. No discussion of compliance with the Budget and Fiscal Performance, the Medium-Term Fiscal Outlook, nor the Overall Balance and Debt Financing is presented. The section titled Fiscal Responsibility comprises a table [Table 15] listing various actions by the Government and correlation to the General Principles, however this section does not include the same for Fiscal Responsibility Principles. Further, no context is provided for the actions such as dates, objectives, responsible agencies, impacts and outcomes, and no supporting data or other information was provided either in FSR 2020 or to the FRC. Moreover, no explanation has been provided as to why some boxes have been checked and others have not, and no indication of tools of measurement, targets, nor performance is included. For actions where no boxes have been checked, there is no explanation provided for the respective actions, nor any explanation of mitigating measures if the actions meet the required General Principles but have not yet been effected.

<sup>2</sup>Government expenditure, recurrent expenditure, primary expenditure, wages and benefits, government revenue, fiscal balance, debt, government arrears, government guarantees, government net worth.

<sup>3</sup>Fiscal Strategy Report 2020, 1.3 National Account Estimates, p7.

The scope of the assessment of the Government's compliance with Fiscal Responsibility Principles is limited due principally to the deficiencies in reporting in FSR 2020, and the absence of relevant supporting documentation being provided to the FRC.

## 2.3. Fiscal Objectives

The FRA requires Fiscal Objectives that must be expressed as measurements of GDP [fiscal balance of -0.5% of GDP, debt target of 50% of GDP, expenditure target dependent on achievement of the fiscal balance requirement]. The FRA also requires that historical, current and forecasted representations of fiscal indicators<sup>2</sup> are presented as a measurement of GDP, which is a standard of practice that provides an indicator of the capacity of an economy, while also providing an objective measure that facilitates effective comparative analysis. GDP estimates – actual and forecasted – and its components therefore are central to the Government's fiscal projections and efficacy of the overall analysis.

The statistical basis for the Government's projections of output for the economy of The Bahamas –i.e. forecasted GDP data, and thus the underpinnings of the Government's projected fiscal outlook, is limited to a single external source, the IMF; specifically, projections for growth in the Bahamian economy as provided in the following publications:

- World Economic Outlook, International Monetary Fund, October 2019
- World Economic Outlook, International Monetary Fund, October 2020
- Staff Report for the 2020 Article IV Consultation, International Monetary Fund, November 2020
- Concluding Statement in the Article IV Consultation to The Bahamas, International Monetary Fund, December 2020

Nationally sourced data for the economy of The Bahamas is cited only for the 2016 – 2019 historical period (real GDP growth), as estimated by the Department of Statistics (DOS). There are no other nationally produced forecast data for GDP in FSR 2020, or data sets bearing out the IMF's projections.

The FSR 2020 affirms *"in considering prospects for the economy through the medium term, to date, the practice at the Ministry of Finance has been to utilise the GDP forecasts developed by the IMF in the context of its World Economic Outlook (WEO) and the Article IV Staff Reports on The Bahamas"*<sup>3</sup>. The FRC requested the data sets and general equilibrium model(s) that support the projections



of national accounts estimates in FSR 2020 from the Minister, however as of the date of this report, no such data sets nor general equilibrium model(s) have been provided.

FSR 2020 and FSR 2019 assert as justification for use of IMF forecasts for the national accounts data, “aside from the unavailability of GDP projections by the Ministry, the rationale underpinning this choice has related to the desire to develop fiscal projections that are based on an independent assessment of economic prospects in The Bahamas, and one that aligns with the consensus view of the various international agencies”<sup>4</sup>.

The IMF provides internationally accepted standards for the collection and reporting of national statistics, and therefore adherence to such standards would inherently provide fiscal projections that would be credible for parties, domestic and international, analysing such fiscal projections. Countries are individually responsible for the production and maintenance of national statistics including forecasted data that meet international standards. FSR 2020 does not explain the reasons for the Government not yet producing forecasts of national accounts at such standard of quality, nor does FSR 2020 provide an expressed timeline or explicit strategy, for when such data will be produced by national agencies. Accordingly, this position expressed by the Government, is not considered acceptable.

The projected fiscal outlook for The Bahamas is predicated on percentage change estimates for the domestic economy, as forecast by an external international source, absent of any other quantitative information against which the FRC might test the veracity of projections. The scope of the assessment of the Government’s compliance with Fiscal Objectives is limited, as the extent and sufficiency of the materials received from the Minister in support of the Government’s projections was limited.





### 3. Structure of Assessment of Compliance of Content of FSR 2020 with the FRA

For each requirement, compliance has been assessed according to one of four measurements set out in the table below: **Table 2, Compliance Assessment Keys**. The FAP is reviewed separately from the Government’s compliance with FSR content requirements.

## 4. Content Requirements & FSR 2020 Compliance

The FSR 2020 is broadly compliant with the content framework prescribed by the FRA. However, there is a need for tightening and strengthening of the structure of the analysis, including strengthening linkages of performance data and macroeconomic conditions to projected outcomes, and connectivity of strategies and projected outcomes to supporting justifications. As FSRs are subject to independent assessments of compliance, the structure should closely align with the content requirements and should build a framework of analysis explicitly around those requirements with focused integration of other supporting content, for effective analysis. Future FSRs should seek to achieve this. The extent and quality of the sourcing of data are considered material deficiencies, notably the lack of national statistics for domestic income projections, including domestic income forecasts by its components. A summary of the assessment of compliance of the FSR 2020 with the content requirements prescribed by the FRA utilising the assessment keys outlined in Table 2 above, is set out below:

**TABLE 2: COMPLIANCE ASSESSMENT KEYS**

Symbol	Assessment
	<b>Compliant</b>
	<b>Generally Compliant</b>
	<b>Somewhat Compliant</b>
	<b>Non-compliant</b>

<sup>4</sup>Fiscal Strategy Report 2020, 1.3 National Account Estimates, p7.

**TABLE 3: FISCAL STRATEGY REPORT CONTENT REQUIREMENTS & FSR 2020 COMPLIANCE**

Content Requirement	FSR 2020 Compliance <sup>5</sup>
---------------------	----------------------------------

**1. A report for the recently concluded financial year which shall include:**

(a) Analysis of any difference in results from the macroeconomic forecasts and fiscal forecasts in the previous FSR.



**Generally Compliant.** Generally Compliant. Analyses of differences from the previous FSR are limited to comparisons of three (3) statistics: annual % change in real GDP (constant prices) and nominal GDP (current prices); and inflation as measured by annual % change in the GDP deflator. However, real GDP is derived from the nominal GDP and the GDP deflator. Other key macroeconomic indicators such as the rate of unemployment, the external reserves and the current account balance should be included. Foreign exchange management and developments are critical to the economy of The Bahamas and comprehensive analyses of differences therefore requires use of such macroeconomic indicators. Use of the GDP deflator as a measure for inflation is not consistent with the practice of key national agencies, e.g. the Central Bank of The Bahamas and DOS, which predominantly use the consumer price index (CPI) or retail price index (RPI) as the basis for this measure.

(b) Summary of budget execution compared to the appropriations and statutory expenditure.



**Compliant.**

(c) Summary of performance compared to the General Principles in Section 6, the Fiscal Responsibility Principles in Section 7, and the Fiscal Objectives in the previous FSR.



**Somewhat Compliant.** A summary of performance compared to FSR 2019 for Fiscal Objectives is presented, however summaries of performance for General Principles and Fiscal Responsibility Principles are not presented.

<sup>5</sup>Compliance is rated as either of the following: Compliant, Generally Compliant, Somewhat Compliant, Non-Compliant

## Content Requirement

## FSR 2020 Compliance<sup>5</sup>

(d) Reasons for any deviations from the General Principles, Fiscal Responsibility Principles and Fiscal Objectives in the previous FSR with a fiscal adjustment plan (FAP) to address any such deviations, and the expected time to achieve this.



**Somewhat Compliant.** In the case of Fiscal Objectives, reasons are presented. Frameworks for comparisons for General Principles and Fiscal Responsibility Principles are not established.

(e) Report on the extent to which the risks identified in the previous FSR were realised and the affect on fiscal performance.



**Somewhat Compliant.** Reasons for the invoking of the exceptional conditions clause are presented, however no framework is presented that identifies specific risks and provides analyses of impacts in relation to fiscal performance.

## 2. Medium term macroeconomic forecasts setting out actual, estimated and projected values of the following economic variables, for no less than previous two years, current year and the next three years:

(a) GDP and its components



**Somewhat Compliant.** Projected annual % change for overall GDP is presented, but no disaggregation of GDP by its components is presented.

(b) Inflation



**Generally compliant.** Three (3) different measures for inflation are used in FSR 2020: GDP deflator (Table 1); CPI; RPI (Price Developments, page 10). Thus there is no consistent measurement for comparison of required actual, estimated and projected values of inflation. This inconsistency should be resolved and a definitive measure for inflation should be determined and presented.



(c) Employment and unemployment



**Somewhat Compliant.** No rates of unemployment are presented for the relevant periods. The rates of unemployment presented in FSR 2020 are as of May 2019, and no unemployment rates statistic – actual, provisional or otherwise – is presented to assess the impacts of the extraordinary events in FY 2019-2020. FSR 2020 references IMF unemployment estimates for October 2019 and October 2020 from respective World Economic Outlook publications. Expenditure totals for unemployment assistance by the National Insurance Fund, a separate legal entity that is not consolidated in the national accounts, is noted for relevant periods, however the absence of corresponding labour force and industry data prohibits any meaningful analysis. Employment and unemployment rates are key macroeconomic indicators that should feature integrally in performance and outlook analyses. National estimates and projections should be produced, as opposed to reliance on external sources. FSR 2020 does not provide explanation for

(d) Exchange rates with major partners



**Non-Compliant**

(e) Interest rates



**Generally compliant.** Actual estimates from the domestic banking sector data is presented, but no projections are presented. Actual and forecasted rates as it relates to Government debt are sourced from the IMF.

(f) Money supply and monetary conditions including private sector credit



**Generally Compliant.** Historical and current estimates are presented, but no forecasts are presented.

**Content Requirement**

**FSR 2020 Compliance<sup>5</sup>**

(g) Identification of the source of data. For historical information, provide statement whether official or estimated where official not available



**Somewhat Compliant.** Sources provided for some data – tables and figures. Referencing of data sources requires significant improvement.

**3. Information on the longer-term macro-economic forecasts.**



**Generally Compliant.** Multi-year projected data – as sourced externally from the IMF – is presented. No domestically sourced forecasts for the economy of The Bahamas is presented.

**4. Statement of assumptions and methodologies underpinning economic forecasts.**



**Somewhat Compliant.** Statements of assumptions and narratives on general reasoning is presented. There is no presentation of methodologies or general equilibrium model(s) underpinning economic forecasts.

**5. Medium term fiscal forecasts setting out actual, estimated and projected values of the following fiscal variables, for no less than previous two (2) years, current year and the next three (3) years:**

(a) Revenues by type



Compliant.

(b) Aggregate expenditure by administrative and functional classifications



Compliant.

(c) Fiscal balance for overall budget



Compliant.

(d) Summary of sources of budget financing



Compliant.

(e) Level of debt by external source, domestic source and total



Compliant.

## Content Requirement

## FSR 2020 Compliance<sup>5</sup>

(f) Level of financial and performance guarantees



**Non-Compliant.**

(g) Accounting principles and methods used in FSR and key assumptions on which the above numbers are based



**Generally Compliant.** Key assumptions are not presented.

(h) Sensitivity analysis taking into account possible changes in macroeconomic conditions



**Somewhat Compliant.** Sensitivity analysis is only presented in relation to Government debt.

**6. Fiscal forecasts for the longer term that have been used in formulating the fiscal policies in the FSR and such forecasts shall take account of the impacts of changes in demographics and other factors.**



**Generally Compliant.** Fiscal policy narratives are based on longer term fiscal targets that FSR 2020 sets out [capital expenditure – 2.0%, of GDP; recurrent expenditure – 19% of GDP]. Forecast tables show data that eventually achieves these targets, however underlying factors and general equilibrium model(s) in support of these results are not presented and were not provided to the FRC. Impacts of changes in demographics not established.

**7. Statement of intention with regard to the General Principles in Section 6 of the FRA.**



**Somewhat Compliant** – Table 15 presents a list of intended policy and/or procedural actions. For each action, various boxes representing each of the six (6) General Principles are checked. There is no statement of intent or explanation of targets, outcomes, or impact of what actions achieve, in the cases of boxes representing General Principles that are unchecked. Overall, FSR 2020 does not demonstrably show clear and purposeful intent as it relates to the required General Principles.

**8. Statement of intention with regard to the Fiscal Responsibility Principles in Section 7 of the FRA consistent with the First Schedule.**



**Compliant.**



**9. Description of fiscal policy including:**

(1) A fiscal table containing, timeline to include previous two (2) years, current year, forthcoming three (3) years and longer where relevant:

(a) Aggregate government expenditure as % of GDP (nominal)



**Compliant.**

(b) Recurrent Expenditure as % of GDP (nominal)



**Compliant.**

(c) Primary expenditure as a % of GDP (nominal)



**Generally Compliant.** Information regarding primary expenditure is presented along with information of GDP (nominal) which permits calculations. However, specific percentages not presented.

(d) Wages & Benefits as % of GDP (nominal) all positions funded by annual budget, direct charge on the consolidated fund, by appropriation.



**Compliant..**

(e) Government revenue as % of GDP (nominal)



**Generally Compliant.** Information regarding revenue is presented along with information of GDP (nominal) which permits calculations. However, specific percentages not presented.

(f) Overall fiscal balance as % of GDP (nominal)



**Compliant..**

(g) Government debt as % of GDP (nominal)



**Compliant..**

(h) Government arrears as % of GDP (nominal)



**Generally Compliant.** Information regarding arrears is presented along with information of GDP (nominal) which permits calculations. However, specific percentages not presented.

(i) Government guarantees as % of GDP (nominal)



**Compliant..**

## Content Requirement

## FSR 2020 Compliance<sup>5</sup>

(j) Government net worth as % of GDP (nominal)



**Non-Compliant.** The Government has not yet adopted International Public Sector Accounting Standards (IPSAS) and currently utilises the modified cash basis of accounting. Accordingly, net worth information is not available.

**(2) Table of Fiscal Objectives to measure fiscal position of the Government against Fiscal Responsibility Principles consistent with the First Schedule for the forthcoming year and each of next three (3) years which shall at a minimum include data measurable Fiscal Objectives for the fiscal balance, debt, guarantees, expenditure growth rate, wage expenditure limit and any measures for an adjustment plan in force.**



**Somewhat Compliant.** Certain information is discussed, however, the information is not consistently presented in quantitative tables for all periods required. Further, FSR 2020 does not establish a framework specifically for the demonstration of compliance with Fiscal Responsibility Principles.

**(3) Information on fiscal policies for the medium term including:**

(i) Revenue policy with planned changes to taxes and policies affecting other revenues and intentions regarding revenue collection activities.



**Generally Compliant.** FSR 2020 provides narratives on the intent of various measures presented. Projected outcomes and corresponding metrics for analyses of impact are not presented.

(ii) Policy on fiscal balance



**Compliant.**

(iii) Debt policy with a summary of debt management strategy, summary of debt sustainability analysis debt ceilings and guarantee ceilings



**Somewhat Compliant.**

(iv) Expenditure policy including expenditure priorities linked to ceilings



**Somewhat Compliant.** FSR 2020 provides a statement of policy and priority spending areas, however no discussion of capital expenditure including explicit objectives, projected outcomes, metrics for analyses of impacts and timelines is presented.

**(4) Assessment of the consistency of the planned fiscal policy aggregates and measurable Fiscal Objectives in paragraph 9(2) of this Schedule with Fiscal Responsibility Principles and the requirements in the First Schedule.**



**Non-compliant.**

(5) Medium term expenditure framework stating the Government’s annual and medium-term expenditure intentions and an explanation of any changes in the proposed ceilings from the previous fiscal strategy report including:

(a) Aggregate expenditure ceiling to be used in the preparation of the annual budget which shall include indicative ceilings for two (2) further years.



**Compliant.**

(b) Ceilings for central government expenditure by Ministry and other budget entities for the budget year and next two (2) years to be used as the basis for the preparation of the annual budget.



**Generally Compliant.** FSR 2020 presents expenditure data by Ministry and other budget entities in actual expenditure numbers. However, the ceiling for overall expenditure is expressed as a % of GDP. For comparative analyses, relevant expenditure components should be expressed in this established format, i.e. as % of GDP.

(c) Forecast non-financial performance information at a suitable level of aggregation linked to the budget to show what is planned to be provided and achieved for the proposed expenditure, for strategic changes only.



**Generally Compliant.** Public sector reforms are presented. Linkages to the budget however and how these reforms underpin achievement of proposed expenditure targets is not established.

(d) Information on major public investments including priorities and rationale for these forecast costs for the forthcoming budget year and two outer years related to expenditure ceilings.



**Somewhat Compliant.** Projected investments noted with some reference to forecasted costs, although not consistently. No metrics for analyses of projected impacts are presented.

**10. Fiscal risk statement with quantified risks where practicable including:**

(a) Contingent liabilities



**Compliant.**

(b) Any commitments not included in the fiscal forecasts



**Generally Compliant.**



## Content Requirement

## FSR 2020 Compliance<sup>5</sup>

(c) All other circumstances which may have a material effect on the fiscal and economic forecasts and which have not already been incorporated into fiscal forecasts.



**Somewhat Compliant.** No framework is presented that identifies specific risks and provides analyses of impacts in relation to fiscal performance.

(d) Risk management intentions



**Somewhat Compliant.** No framework is presented that identifies specific risks and provides analyses of impacts in relation to fiscal performance.

11. Statement of responsibility signed by the Minister and the Financial Secretary attesting to the reliability and completeness of the information in the FSR and its compliance with the law.



**Compliant.**

12. If the Government is unable to provide any of the information required by this Schedule the Ministry shall state in the fiscal strategy report the reasons for any missing information and shall ensure that such information is available as soon as practicable for future fiscal strategy reports.



**Non-compliant.**

## 5. Fiscal Adjustment Plan

FSR 2020 refers to an “*amended fiscal adjustment plan presented within the 2020 FSR*”<sup>6</sup>, however there is no distinguishable FAP, as a comprehensive stand-alone policy plan, as required by the FRA. Moreover, an FAP is required to be reviewed by the FRC.

The requirement for FAPs is separate from the content requirement of FSRs and accordingly should be treated as such: (i) to ensure clarity and understanding of the Government’s departure from the obligations imposed by the FRA; (ii) to ensure explicit reasoning of implications for the overall fiscal position, and projected impacts; and (iii) doing so specifically in the context of the adjustments that the Government proposes. Elements of an FAP, including reasons for the departure from the requirement for the Fiscal Objectives, specific measures the Government intends to take to restore its path to compliance, and a timeline for when such restoration and compliance will be achieved, are discussed in “Overview of Economic and

Fiscal Performance in FY 2019/2020” of FSR 2020. No separate FAP has been presented.

The Exceptional Circumstances clause in Section 13 of the FRA has been exercised by the Government in two (2) instances, however these have not been sufficiently supported with the required FAP. The reporting period is especially critical and circumstances especially unique, because the exceptional circumstances clause has been invoked twice in a single fiscal year. FSR 2020 should have provided analysis for fiscal year 2019-2020 in separate but complete sections comprising a comprehensive fiscal and macroeconomic analysis for the first six (6) months of the fiscal year (period of Hurricane Dorian), and a comprehensive fiscal and macroeconomic analysis for the latter six (6) months of the fiscal year (period of the start of the global pandemic), including comparative year-on-year analysis against respective periods for the preceding fiscal year.

FSR 2020 does separately present specific COVID-19 related expenses [Box A: Government’s Response to the COVID-19 Pandemic, p14] and Hurricane Dorian related

<sup>6</sup>FSR 2020 Letter of Transmittal, p5

<sup>7</sup>Domestic Economic Developments, p9

expenses [Table 5, p18], and in the case of COVID-19, the Government's policy response. However, there is no analysis of the broader fiscal and macroeconomic context, specific to these periods, specific to the shocks, in support of the exceptional circumstances invoked and as a base of an FAP, inclusive of comparisons to relative periods in previous years. Such underlying analyses is essential to an FAP.

## 6. Fiscal and Budgetary Matters

### 6.1. Data and Reporting

Future FSRs should provide annual values for GDP for the required historical, current, and projected periods, including a breakdown of those values by the components of GDP – private consumption, business investment (capital formation), government spending and net exports – as the typical presentation of national accounts and as the FRA requires. Doing so would provide a more complete framework for performance and outlook, and also serve as a base for analysis, when such analysis calls for examination of sectors, specific economic activities, and the associated policies – implications, impacts, outcomes – and demonstrating linkages of strategies, performance, and projected outcomes. FSR 2020 is positioned mainly around projected overall growth rates, the underlying components of which were not made available.

Provision of data and reporting by quarter would also be helpful to analysis by the FRC, considering that GDP statistics are presented by calendar year, versus a fiscal year that runs from July 1 to June 30, and an FSR reporting period denoted by calendar year. The experience of two (2) separate and very distinct shocks in separate halves of a single fiscal year, yet distinct calendar years, has presented challenges to FSR 2020, as far as clarity and specificity of analysis, in the respective macroeconomic contexts. Tables of data – fiscal and real sector – by quarter for the relevant and comparative twelve (12)-month periods would offer a more complete and accurate picture of performance and outlook.

For instance, FSR 2020's discussion of COVID-19 considers it mainly through the lens of the final six months of FY 2019-2020. Restrictions on movement and business activity began eleven (11) days prior to the end of third fiscal quarter, and border closure within the final week. Given this timing, it can reasonably be concluded, that the first three quarters of FY 2019-2020, through March

2020, mainly represented pre-COVID-19 conditions. FSR 2020's broad review of the first six months of 2020 (January to June) to the same period of the previous year, as opposed to assessing the first two quarters of 2020 separately, given the shock of COVID-19 fallout in the April to June quarter, diminishes the severity and suddenness of the global pandemic's impact, occurring in that June quarter. Separating the analysis provided for the first six (6) months of 2020 by quarter would have allowed for an accurate assessment of immediate impact, and led supporting rationale for ensuing predictions.

The unavailability of unemployment data is also a critical area. The last available statistic from DOS is for May 2019. FSR 2020 provides data in relation to pay-outs by the National Insurance Board for various unemployment benefits and assistances, but in the absence of corresponding labour force statistics, there is no context to support analysis.

FSR 2020 refers to revisions in official data "*across the GDP series for the previous six (6) years commencing in 2013*"<sup>7</sup>, including revisions to the rate of growth in real GDP for 2019 to 1.2% (it does not state what the previously recorded value was), an outcome FSR 2020 acknowledges exceeds the post-Dorian growth projection used by the Government for the period of 0.4%. The explanation given for the revision to the statistic is "the more favourable outturn was attributed to the incorporation of new and more detailed and comprehensive sources of data", with no further clarification or information in support of the revisions that impact six (6) years of GDP data. There is no reference to supporting material that clarifies these new and more detailed sources, which is critical to supporting confidence in the quality of the data that is used. For a value that more than doubles the Government's previous prediction, presentation of a more comprehensive justification is required.

FSR 2020 and its general presentation raises issues regarding the quality and availability of data, and the capacity to produce national account data, with the reliability, quality, and consistency of generally accepted international standards. Public financial management, institutional strengthening, digitisation reforms and other related structural reforms are ongoing themes in FSR 2020 and both of the two (2) previous FSRs. Government's reliance on use of GDP forecasts developed by the IMF however continues and is reinforced in FSR 2020.

The Government has now produced three (3) FSRs, and with such experience it is expected that the Government

would be positioned to present a clear timetable of goals and activities towards attainment of this essential end. As a matter of urgency, an action plan detailing the Government's progress to date in achieving this necessary capacity, remaining timeline with a definitive end-date and targets toward achievement of the final measurable outcomes should be provided by the Government.

## **6.2. Supporting Framework: Economic and Fiscal Outlook**

The Government's revenue outlook projects improvements in Government's revenue in 2021-2022 to 17.5% of GDP. This is up from a projected 14.5% of GDP for 2020-2021, with further assumption of "little to no effect of the COVID-19 pandemic during 2022-2023". FSR 2020 predicts revenue reaching 19.5% of GDP and trending higher to 20.0% and 20.5% in ensuing fiscal years. This scenario FSR 2020 explains "is predicated upon government continuing to address gaps in revenue administration and to secure progress on critical reform efforts to ensure fiscal sustainability". The narrative however does not identify the specific gaps and reforms, or what their projected impact on the fiscal account is expected to be. There are no timelines and no measures provided to assess the extent that such initiatives are expected to drive the revenue outlook that the Government projects. Returns "from the ongoing real property tax rollout" is mentioned, as are accumulating benefits "of the Click2Clear customs clearing arrangement" and other areas. But none are associated with data projections or other means of interpreting and assessing the expected impact.

FSR 2020 explains that revenue forecasts for FY 2021-2022 to FY 2024-2025 assume "the disruptive effects of COVID-19 on economic activity are mitigated by the roll out of the COVID-19 vaccine to support a rebound in nominal GDP growth to a forecasted 7.1 percent in 2021-2022." The projected 7.1% growth rate in nominal GDP though critical, is not supported with an explanation of how the forecasted data was derived, and the summation of "disruptive effects" being "mitigated by the roll out" of the vaccine requires more detail on specific disruptions, strategies and projected impacts, timing and outcomes. On the expenditure side of the fiscal outlook, Government's current expenditure reductions for forecasted fiscal years 2021-2022 through to 2024-2025, assume reductions in subventions to state-owned-enterprises, "through activities aimed at making these entities more self-sufficient and efficient". Supporting context however is not presented. E.g. detail on the type of activities and corresponding SOEs targeted for these activities is not

provided. Projected expenditure savings expected to be gained as a result of these activities and the timeline over which these activities will take place is also not presented. Supporting data of these planned reductions and expected impacts would be helpful to the analysis, especially with increased support to SOEs planned for FY 2020-2021. Expenditure forecasts also assume "cost savings emanating from the cessation of the special expenditures associated with Hurricane Dorian by end June 2021 and COVID-19 by end-March 2021", however the projected savings are not quantified.

FSR 2020 presents strategies and narratives that are not supported by metrics; and policies and actions to address specific issues, with no indication of the actual projected impact of these measures on the fiscal outlook. The assertion that "improved tax administration to increase revenue yield and continued tax policy reforms" and the winding down of incentive schemes associated with external shocks, will fill gaps that cannot "be achieved by economic growth alone", and still support achievement of stated objectives, is not supported by detail of how this will be achieved, and the expectant impact. FSR 2020 does not frame reforms and projected activity into projected fiscal outcomes, lacking dimensions of time and dollar values. Timelines and impacts are non-specific and not supported by robust data. How stated public sector reforms, structural reforms and economic policy, translate into measurable impacts should be presented along with the mechanisms and timelines to achieve these ends.

## **6.3. Continuity**

The requirements of the FRA expect the continuity of FSRs, with subsequent FSRs building on prior FSRs and communicating material changes in priorities and strategies. FSR 2019 set out expenditure priorities for FY 2019-2020, which were shifted following the extraordinary events of Hurricane Dorian and the global pandemic, COVID-19. FSR 2020 should specifically address the amendments to priorities, including discussions on whether priorities previously set out are expected to be abandoned, deferred, restructured or superseded by alternative priorities with similar objectives.

## 7. Fiscal Risk and Mitigation Strategies

FSR 2020 discusses macroeconomic risks including potential upside and downside risk scenarios, comprising possible additional Government revenue losses of 22% (moderate downside) and in excess of 30% (extreme downside). However, no information is presented on estimates, assumptions and source information utilised in deriving such scenarios, and no financial projections of the impacts of such scenarios, and related possible amendments to fiscal strategies and priorities, are presented.

Further, FSR 2020 discusses significant expenditure initiatives associated with COVID-19, including the need for “major investments” in the healthcare system. However, there is no presentation of specific budgetary allocations included in fiscal projections to support the narrative discussions, nor the presentation of expanded sensitivity analyses of strategic fiscal responses being made by the Government.

FSR 2020 presents certain risks and mitigation strategies (Table 17), however it does not provide information regarding the methodology and metrics used to determine the ultimate risk factors – moderate, major and severe – assigned to the listed risks, and there is no discussion regarding the process used to identify the

possible population of risks from which the selected risks were identified. With six(6) out of seven (7) risks rated as major or severe, greater detail on the mitigation strategies and impacts to fiscal priorities and projections, including sensitivity analyses should be presented.

## 8. Concluding Notes

FSR 2020 does make presentations on the majority of key aspects required pursuant to the FRA, however the levels of details of underpinning estimates, assumptions and general equilibrium model(s) require significant improvement. In addition, the priorities of the Government should be more directly correlated with the various fiscal projections, particularly in relation to the amendments in priorities from prior FSRs and any FAPs, along with expanded use of sensitivity analyses, which would enable more detailed understanding of the expected impacts of various fiscal priorities.

Future FSRs should continue to build on those prepared and issued to date, and factor in the recommendations set out in this report regarding structure, content, and use of appropriate frameworks to enable objective analysis, and clear demonstration of compliance with the requirements of the FRA.

## APPENDIX 1: GENERAL PRINCIPLES, FISCAL RESPONSIBILITY PRINCIPLES, FISCAL OBJECTIVES

### General Principles of Responsible Fiscal Management<sup>8</sup>

- (a) Accountability – the Prime Minister, the Minister and all other Ministers and heads of local government are accountable to Parliament for the way the Government and local government authorities, respectively carry out their responsibilities, with respect to managing fiscal policies;
- (b) Intergenerational equity – the management of fiscal policies of the Government shall be conducted in a manner that takes into account the welfare of the current population and future generations;
- (c) Responsibility – the management of public assets and liabilities, inclusive of natural resources and fiscal risks shall be conducted to maintain fiscal and environmental sustainability;
- (d) Stability – fiscal policy shall be conducted in a manner that does not cause destabilising changes in the macroeconomic fiscal indicators;
- (e) Transparency –
- (i) the roles and responsibilities of all Government

entities, public officials and public office holders with respect to management of fiscal policy are clearly established and defined;

- (ii) timely financial and non-financial information related to the management of fiscal policy is made available so as to permit effective public scrutiny of the conduct of fiscal policy and the state of public finances; and
- (iii) public officials and public office holders should, when lawfully required, provide financial and other performance information; and
- (f) Inclusive growth – economic growth that benefits the whole population.

### Fiscal Responsibility Principles<sup>9</sup>

- (a) Achieving and maintaining a sustainable fiscal balance.
- (b) Achieving and maintaining prudent levels of public debt.
- (c) Prudently managing fiscal risks.

### Fiscal Objectives<sup>10</sup>

Component	Target
Fiscal Balance	Balance that does not exceed -0.5% of GDP from FY 2020-2021 onwards.
Debt	No more than 50% of GDP by a fiscal year to be determined by the Government.
Expenditure	Following attainment of the fiscal balance objective (-0.5% of GDP), the target for recurrent expenditure <sup>11</sup> shall be set, such that the rate of growth does not exceed estimated long term nominal growth in GDP.

<sup>8</sup>Section 6, FRA

<sup>9</sup>Section 7, FRA

<sup>10</sup>Paragraphs 3, 5 and 7, First Schedule, FRA

<sup>11</sup>The fiscal objective for recurrent expenditure shall be expressed as a nominal expenditure limit.





