



COMMONWEALTH OF THE BAHAMAS

2008 / 09

# BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

by

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Minister of Finance

on

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## **2008/09 BUDGET COMMUNICATION**

It is my honour to present the 2008/09 Budget Communication.

### **INTRODUCTION**

Present global economic uncertainty is giving rise to what appears to be unstoppable increases in the cost of living driven by the continued rise in energy and food prices internationally.

The growing cost of energy is already impacting the travel plans of many with direct consequences for our primary industry, tourism.

This budget therefore has been crafted to take into account the international economic turbulence and uncertainty impacting so harshly on our own people and on the travel intentions of people wishing to vacation in The Bahamas. This further disadvantages our people, especially those working in the tourism and hospitality sectors.

In particular, this Budget embraces my Government's social philosophy, its commitment and its determination to cushion the harshness of the impact of the international turbulence upon our citizens, most particularly low income families who invariably are impacted first and most acutely.

As importantly, this budget was designed to properly position our economy for the rebound in the international economy which we believe will begin during this budget period.

And so we have carefully determined the size and components of the fiscal programme which will touch every family with significant financial relief, but which at the same time will not under any circumstances compromise the sound fiscal status of our economy which we have worked so hard to maintain through several terms in Government.

Indeed, in this context our strategy would certainly have the approval of the International Monetary Fund, the

IMF, because it is consistent with the views expressed recently by the IMF Managing Director. In a speech in February, the IMF Managing Director said:-

*‘Unless the situation improves, the fiscal authorities in countries with low fiscal risks should prepare to exploit the headroom for timely and targeted fiscal stimulus that can add to aggregate demand in a way that supports private consumption. Of course, it has to be temporary – maintaining a sustainable medium-term fiscal position is still very important. But in a sense, medium-term fiscal policy is all about saving for a rainy day. It is now raining.’*

It will be seen that we have sought to strike, and we have succeeded in striking, the correct balance between appropriate fiscal easing along the lines mentioned by the IMF Managing Director. This will provide financial relief on the one hand, and the perennial requirement to maintain the fiscal discipline which has been of such

importance in attracting investment and employment to The Bahamas.

We must all be reminded that it is because we maintained a prudent economic policy in the years 1992 to 2002 that we now have the fiscal headroom to meet the present unsettled situation without compromising the medium-term fiscal policy stance.

We now know that the ratio of Government Debt to GDP that has obtained within the desired range of 30% to 35% in recent years. We can afford therefore to move to the upper limit of this range to implement measures which provide relief and assistance to Bahamians.

### **STRATEGIC DIRECTIONS**

The 2008/09 Budget Communication will, in accordance with precedent, deal with economic and fiscal developments in the financial year coming to a close, 2007/08, and will set out the prospects, goals and objectives of economic and fiscal policy for 2008/09. In addition, the 2008/09 Budget Communication deals with

certain major issues of a strategic nature in the direction of confronting crucial issues affecting our society and economy.

### **LAW AND ORDER**

In this context I first wish to comment on the problems of law and order. Some 35 years, the life span of an entire generation, has passed since The Bahamas attained Independence in 1973. For those of us who lived through the process of obtaining Independence, it has inspired our lives, and our commitment to our beloved Bahamaland.

In the years since Independence new generations have come along. While the majority of young persons share the vision and dedication of their parents and grandparents' generations in support of Bahamian national development, not all share the dream. Regrettably some have developed complacency about what has been accomplished. They take for granted the freedoms we enjoy and the way of life we can lead.

An even tinier minority appears to have no time perspective and no conception of the dark and dismal future to which their present behaviour and attitudes are leading them. They engage in activities which, tragically, will waste their lives and the lives of their victims.

And so, while ensuring that we provide opportunities for our focussed youth to realize their full potential we must also redouble our efforts to reach out to those who are disengaged. We must assist them in understanding how very fortunate we are to have progressed so far in The Bahamas and encourage them to see how they might lead meaningful and productive lives.

We all know that youth has a tendency towards a limited time horizon. As one matures, this horizon lengthens until, as one reaches middle years, one seriously contemplates the future. An astronomer was once asked why he spends so much time looking into the future. His answer was “because that is where he will be spending the rest of his life!”

It is primarily through the medium of its annual budgets that Government creates and renews initiatives to positively impact the lives of its citizens and provide good governance. And so this Budget is designed to provide an opportunity to invite our young people to look into the future and to become part of a future which we and they want for themselves and our country.

We are continuing to address this urgent problem through this Budget. The financial provisions made can be supplemented by the contribution which every Bahamian can make in vigilantly safeguarding the progress which we have made, in standing ready to contribute positively to our collective future, and in finding assistance and encouragement through the operations of our Government.

We seek in this Budget to enable us to bolster and support the positive; to remove any sense of alienation that exists in segments of our population, and to redirect the energies and imagination of all our young to positive

goals that contribute to the betterment of Bahamian society.

We envisage this process resulting in reduced social tensions which have provided the seed-bed for crime and in moving our society towards our National Anthem's 'rising sun'.

### **ENVIRONMENTAL SUSTAINABILITY**

We believe that our need for economic development must be kept in proper balance with the need to secure the protection of our environment including the biological diversity of our islands. Therefore, we are requiring all developers, national and international, to observe environmental best practices in the construction and operation of their projects.

This makes good economic sense particularly given the fact that our tourism sector, the chief engine of the economy, is dependent upon our maintenance of a healthy environment.

Hence, the Government places the highest priority on the effective management and protection of our natural resources and will continue to support environmentally sustainable activities including the implementation of environmentally sensitive policies, conservation education, habitat rehabilitation and the modernization of related legislation and regulation needed to support effective management of functioning protected areas.

In this regard, this Budget provides, in addition to the annual subvention of \$1 million to the Bahamas National Trust (BNT), instituted by us in the last Budget period, a further sum of \$250,000 for the expressed purpose of covering salary and other costs associated with the engagement of park wardens deployed in BNT managed parks around our country.

Additionally, this Budget makes provision for The Bahamas' contribution of the first \$500,000 toward the establishment of a permanent Bahamas National Protected Area Trust Fund under the auspices of the Caribbean

Challenge Initiative. The Fund will be financed by a combination of private and public resources committed by regional governments, international environmental organizations such as The Nature Conservancy and other international funding agencies.

The Caribbean Challenge supports the initiative of parties to the UN Convention on Biological Diversity to conserve, at a minimum, 10 per cent of their terrestrial and marine habitat by 2010 and 2012 respectively.

We have committed to contribute \$2 million dollars over the next four years for the establishment of The Bahamas National Protected Area Trust Fund. Similar action is being taken by other regional governments. The creation of Funds region-wide will permit the region to benefit from economies of scale for sustainable finance, assure transparency and strengthen local capacities.

I also advise of the appointment from amongst my Ministers, a Minister to be charged with responsibility for the Environment with effect from 1 July, 2008.

## **RENEWING GOOD GOVERNANCE**

The next strategic issue on which I wish to comment is good governance. Good governance is not an empty concept devoid of meaningful and practical content. On the contrary, Governance places the people as the beneficiaries of Government services, and Government, a representative of the people, is the provider of those services. Governance places great responsibility on the political leadership of the Nation and on the administrators and managers of the State apparatus responsible for implementing policy in ensuring that essential public services are provided to everyone conveniently, promptly, courteously, and at minimum cost to the Bahamian taxpayer.

We came to office on a pledge of renewing trust. In government we seek to inspire trust through adherence to the principles of good governance.

Furthermore, we seek to ensure that good governance embraces everyone in society who has to, or wants to,

approach governmental institutions for services to which they are entitled. We seek to ensure that no-one feels alienated or intimidated in seeking governmental services to which they are entitled. Again, a careful balance has to be struck between the goals of providing a range of governmental services which would require heavy taxation, and on providing an appropriate level of services which our society needs and which our economy can support.

In this regard I would refer Honourable Members to my remarks in the 1993/94 Budget Communication where I said:-

*Good governance is only achievable if the society and the government are united in their understanding of the economic environment affecting that society; if they share the same goals and ambitions for the well-being of the society and its members, and if they adjust their expectations to the pace which economic and budgetary realities permit. Indeed, achievement*

*of desired goals requires a full commitment by all to pursue the difficult path which must be taken in pursuit of such goals.*

As part of our strategy on renewing good governance, I wish to refer to the launch of a Service Improvement Programme in the public sector just last week Friday to remind public officers that an effective Public Service is essential to good governance and to the effective delivery of public services to the general public.

Another strategic issue on which my Government intends to focus is the modernization of our revenue system. Later in this Communication I will deal with this matter in the context of the 2008/09 Budget.

### **MODERNISING FINANCIAL ADMINISTRATION**

A further strategic issue on which I wish to comment is the importance of modernizing our public financial administration. It will be recalled that in the 2007/08 Mid-Year Budget Statement presented to this Honourable House on 25 February, 2008, I set out the position in

relation to enhancing the accountability and transparency surrounding the functions and responsibilities of Ministers and the highest officials in the Public Sector.

The institution of the Mid-Year Budget Statement is the first major advance in our system of public financial administration since Independence. It will be borne in mind that the legislation for our present public financial system was enacted in 1973 on Independence. Since that time, the dimensions of Government expenditure have expanded enormously.

The fundamental review involves assessment and evaluation of many aspects of our economic and budgetary arrangements. The purpose of this fundamental review is to place fresh and heightened emphasis and awareness on the cardinal requirements of transparency and accountability in relation to Government expenditures and revenues at all levels of Government, and to modernize these arrangements as necessitated by the

growing importance of the Public Sector in the national economy.

Furthermore, the review is intended to maximize the efficiency and the integrity with which public funds are disbursed. The review aims at fixing responsibility more firmly on those senior officials charged with that responsibility, and to separate policy from management.

The Ministry of Finance is preparing a White Paper which will set out proposals for changes in the structure of the public financial management so as to clarify the role and responsibilities of Ministers and senior officials in relation to the care and management of the revenue collection process, and the management and disbursement of public expenditures.

That White Paper will be circulated to Members of Parliament and senior officials for their comments, and it will be posted on the Ministry of Finance web-site for public comment.

**WORLD TRADE ORGANISATION AND RELATIONS**  
**WITH THE EUROPEAN UNION**

A crucial strategic issue on which to comment is the present state of progress in relation to negotiating membership of the World Trade Organisation.

My comments contain no surprises as it remains my Government's firmest commitment that final approval on membership as far as the interests of The Bahamas are concerned can only come by means of a consensus of the Bahamian people.

The Minister of State for Finance, the Trade Commission, and the Ministry of Finance are providing extensive briefing on the issues involved. We want the Bahamian public to be fully informed on the context of the crucial decision which will have to be made shortly. It is my Government's considered opinion that entering into the WTO is a major step which we should be willing to consider.

The other matter of crucial importance in this context is the proposal for an Economic Partnership Agreement with the European Union. Again, the Minister of State for Finance, the Trade Commission and staff from the Ministry of Finance have tried diligently to provide the Bahamian public with comprehensive briefing. It is an issue on which we, as a democracy, should take an informed decision and not one based on poor and misleading information.

My Government and its agencies will continue to work very hard to fully inform the Bahamian public and their parliamentary representatives before any final decisions are taken.

## **REVISED GDP DATA**

The final strategic issue on which I wish to comment at this stage is the remarkable progress which has been made in producing timely, accurate and comprehensive National Accounts data.

On Wednesday 21 May, 2008, the Department of Statistics held a Press Conference on the latest revisions in the National Accounts Data.

When we entered office in 1992, we were appalled at the lack of current, accurate and comprehensive economic data available. We initiated a major programme to assist the Department to fill this vacuum. The progress made has been immense and will continue.

We are now at the juncture that each year for the annual budget, the Department of Statistics provides data for the years up to the preceding year. This is a quantum advance from the situation where we had to wait for the IMF Article IV Mission to produce tentative estimates.

I wish to compliment the Department of Statistics for responding so positively to the pressures exerted by the Ministry of Finance and the Central Bank of The Bahamas for providing reliable economic data on which Government can base sound economic and fiscal judgments. The Department of Statistics will continue to have our support to develop our national statistics.

## **OTHER STRATEGIC ISSUES**

The issues which I have singled out thus far are by no means exhaustive of the strategic issues facing the Government and The Bahamas. I have simply singled out the ones stated because they do have a bearing across the spectrum. For example, the law and order issue cuts right across a whole spectrum of government services dealing with security, immigration, education, housing and health. The issue about statistical data is of concern because without proper data government decisions can be no more than guesses.

## **THE GLOBAL ECONOMY**

Moving on to place the revenues and expenditures in the 2008/09 Budget in context, I wish to comment on the global economy and then on the Bahamian economy.

Honourable Members are aware that the global economy experienced severe setbacks in 2007 and 2008, arising from the impact of the sub-prime mortgage crisis in the United States, with spreading implications for

global financial markets, and from the surge in energy and food costs.

In this context it is important to appreciate that the emergence of the crisis and the spread of its implications for the global economy was not anticipated. For example, on 13 April, 2007 the G-7 Ministers of Finance, representing the US, Japan, Germany, the UK, France, Italy and Canada, issued a statement to the effect that:

*‘.. the global economy is having its strongest sustained expansion in more than 30 years..’*

Yet, the most recent G-7 Statement issued on 11 April, 2008, following their meeting in Washington states:-

*The global economy continues to face a difficult period. We remain positive about the long-term resilience of our economies, but near-term global economic prospects have weakened. ... The turmoil in global financial markets remains challenging and more protracted than anticipated.”*

As the US economy is the major source of our tourists and our foreign direct investment inflows, our primary concern is with that economy. At its 29-30 April, 2008 meeting, the Board of the US Federal Reserve System concluded as follows:-

*... (The Members of the Board) viewed activity as likely to be particularly weak in the first half of 2008; some rebound was anticipated in the second half of the year. ... Beyond 2008, factors projected to buoy economic growth included the continued effects of an accommodative stance of monetary policy in conjunction with a gradual easing of financial market strains, stabilization in housing markets, and a leveling-off of oil and commodity prices... Most participants expected real GDP growth to grow roughly at their present estimates of its trend rate in 2009 and somewhat above trend in 2010.*

## **THE BAHAMIAN ECONOMY**

The Bahamian economy continued to grow in 2007, although moderated by restraint in the expansion of domestic credit and by some softening in the construction sector. Preliminary estimates by the Department of Statistics indicate a growth rate in real terms of 2.8% as compared with 4.6% in 2006. This growth rate of 2.8% was commendably strong in the context of the developing international economic downturn.

The softness in the construction sector was related to the completion of a major tourism investment project. The outlook for construction remains positive as a number of development projects are scheduled to commence and others are expected to gain momentum in the coming months.

Tourism performance improved overall as an increase in the rate of visitor expenditure more than made up for a contraction in visitor arrivals. Total visitors fell by 2.9% to 4.6 million while the hotel sector recorded

robust growth of 8.4% in room revenues. The outlook for the tourism sector is moderately positive in the short to medium term resulting from increased emphasis on marketing in Europe and Canada and in some non-traditional markets, helped by the depreciation of the U. S. dollar.

Inflation in 2007 as measured by changes in the Retail Price Index rose to 2.5% from 1.83% in the previous year. Increases were across the board, reflecting the pervasive impact of petroleum price increases and the upward pressure on food prices globally.

Unemployment rose moderately to 7.9% from 7.6%, primarily driven by the additions to the labour force of 5850 persons for an increase in the labour force of 3.2% above the level in 2006.

Credit growth, although restrained, amounted to 10.3%; this represented a significant reduction from the 14.3% growth in 2006. Strong foreign direct investment inflows combined with this restraint in credit growth to

increase bank liquidity and to provide support for stable monetary conditions during the year. Foreign Direct Investment inflows continued to be robust in 2007 with net inflows of \$692.6 million, just \$13.2 million off the pace in 2006 and \$129.8 million above the 2005 level.

Despite an increase of \$121 million in the import bill in 2007, there was an improvement of \$138 million in the current account of the Balance of Payments, driven by a strong performance of the services account which posted a surplus of just over \$1 billion. This surplus is accounted for primarily by a 7.7% increase in net travel receipts as a result of a significant increase in the average visitor expenditure. This Balance of Payments performance has led to a reduction in the decline in international reserves for 2007 to \$454.2 million which was \$33.4 million better than 2006 and \$43.4 million better than 2005.

Trading activity on the domestic capital market reflected contractions in both volume and value of shares traded on the Bahamas International Securities Exchange

(BISX). The volume fell by 8.5% to 4.6 million shares and the value declined by 2.4% to \$26.4 million. Market capitalization on BISX, however, rose by 24.3% to \$3.9 billion.

The challenges from the consequences of the sub-prime market collapse and the sustained price pressures from oil and other commodities pose a continuing risk, nevertheless growth prospects for the Bahamian economy remain cautiously positive going forward as inflows from foreign direct investments are expected to add momentum to economic activity, and the basic economic fundamentals have remained strong.

The Bahamian economy is highly integrated into the global economy. Though it may be able to decouple to some extent from adverse forces in the global economy it cannot totally isolate itself from these forces. Nor would we wish to isolate our economy, even if we could do so, from global forces because it is precisely our integration

into the global economy which has been of such benefit to our people.

The prudence with which our economy and public finances were managed over the years especially beginning in 1992 is continuing to enable our economy to ride out the most severe implications of the current uncertainties and difficulties of the global economy.

Earlier this year, in the Mid-Year Budget Statement I stated that we were not yet persuaded to downgrade the growth rate projected for 2008 by the International Monetary Fund Article IV Mission which visited The Bahamas in September, 2007.

Indeed, the IMF web-site entry for The Bahamas continues to give the same growth rates, namely 4% in real terms for 2008 and 3.8% in real terms for 2009.

Our adherence to these projected growth rates was a responsible assessment at the time of the Mid-Year Budget Statement. This is because at that time even the G-7 Ministers of Finance were unclear about the

prospects for the global economy. Furthermore, investment inflows into The Bahamas suggested some degree of decoupling between the global economy and the Bahamian economy. Thus, in light of the intensity of the assessment of the IMF Article IV Mission, reducing the projected growth rate for 2008 would have been premature.

However, as the global economic situation has continued to be worrying, it is clear that some reduction in the 2008 growth rate for The Bahamas is warranted.

Accordingly, in the 2008/09 Budget we have assumed a growth rate of 2% in 2008 and of 2.5% in 2009.

The higher growth rate for 2009 is justified in light of the April 2008 Statement by the G-7 Ministers of Finance which stated:

*“ ...We remain positive about the long-term resilience of our economies...”* and the stance of the US Federal Reserve which I mentioned earlier.

It is possible that an IMF Staff Visit will be made to The Bahamas in September or October 2008. While that Visit will not examine the Bahamian economy with the intensity of an Article IV Mission, it will still be a most useful exercise in giving policymakers an expert and independent assessment. Moreover, by the time of the visit the outlook for the full financial year 1 July, 2008 to 30 June 2009 will be greatly clarified.

The Statement arising from that Visit will be presented to Parliament. Therefore, until that assessment is made, my Government's considered position is to make the adjustments which I have mentioned in the projected growth rate for 2008/09.

### **FISCAL PERFORMANCE 2007/08**

The GFS Deficit is Total Expenditure, Recurrent and Capital, less Debt Redemption, minus Recurrent Revenue and Capital Grants, expressed as a percentage of Gross Domestic Product, GDP. The GDP figures for both

2006/07 and 2007/08 are the revised data recently released by the Department of Statistics.

The projected outturn for 2007/08 is for a GFS Deficit of 1.7% of GDP, a reduction of 0.8% over the GFS Deficit for 2006/07 – the last year in office of the previous administration.

The reduction in the GFS Deficit from 2006/07 to 2007/08 shows that this Government is firmly committed to fiscal prudence in the interests of the welfare of the people of The Bahamas. As Honourable Members are aware, maintaining a prudent fiscal policy is the bedrock on which the soundness of our economy is constructed. Without a prudent fiscal stance, The Bahamas would not be as able to attract productive inward investment and employment and living standards would be endangered.

## **FISCAL POLICY 2008/09**

### **PUBLIC EXPENDITURE**

All Government Ministries, Departments and Agencies are being allocated funding sufficient for them to meet their mandate to the public.

Some 20,000 civil servants provide the multiplicity of services offered by the government to the Bahamian society. The vast majority of these persons are dedicated, hardworking employees labouring under often demanding circumstances and with little fanfare. We have launched a major Service Improvement Programme to enhance the delivery of services offered to the public.

I am pleased to announce that included in the 2008/2009 Budget allocation is the sum of \$19.65 million representing \$750.00 in negotiated increase in pay for

each public officer. This sum also includes an increase of \$1,250 for each teacher in the public school system

Once again education receives the greatest call on the government's resources. This ought to be no surprise, as we believe that the education of our children is the most critical investment that we can make in the future of our nation.

- The education, youth, sports and culture services receive a total of \$ 312 million, or 20% of total Recurrent Expenditure. Of this, the Department of Education will receive \$207 million. The College of The Bahamas will receive \$27 million. The Bahamas Technical and Vocational Institute will receive \$6 million. The Ministry of Youth, Sports and Culture will receive \$15 million. The Ministry of Education will receive \$48million.
- The Public Hospitals Authority will receive \$174 million and the Ministry of Health almost \$20

million. Additionally, the Department of Environmental Health Services will receive \$36 million and the Public Health Department will receive \$29 million and the Social Services Department will receive \$35 million.

I have commented on the impact that the continued rise in energy and food prices are having on our people, most particularly on low income families.

We know that the poverty study which was launched when we were last in office placed the poverty line in The Bahamas at about \$2,863 or about \$238 per month. This has to be compared to the United Nation's poverty line of some \$300 per year or \$1 per day.

When we came to office just over a year ago, the allocation for the Department of Social Services was \$26.4 million. In the 2007/08 budget, we increased that Department's budget allocation to \$31.8 million, an increase of \$5.4 million or 20.5%. Some \$3 million of the

Department's Budget was specifically earmarked for poverty alleviation.

I note for purposes of comparison that when we left office in 2002, the Department's budget was \$21.8 million. In essence, the Department enjoyed an increase in its budget allocation between 2002 and 2007, similar to that granted by us in our first year in office.

Now, one year later, we provide a further increase in the Department of Social Services' budget allocation amounting to some \$7 million or 22%. We have acted so as to increase assistance to the poor by almost 45% or \$13 million over a two year period.

The increase in budgetary allocation for the Department of Social Services will permit meaningful increases in all areas of relief to the poor, including food, uniform, rental and burial assistance, payments in respect of foster care, the student lunch scheme and the work programme.

I note that the last increase in these benefits to the poor was granted in 2000 during our last term in office.

### **ROYAL BAHAMAS POLICE FORCE**

Maintaining public order is a primary objective of my government. We regard it as a singular determination to reduce crime and the fear of crime in our society. Indeed, all our efforts to bolster economic growth and development in our nation will be undermined if crime is or appears to be out-of-control.

For this reason, my government has sought to ensure that the Royal Bahamas Police Force, which stands on the frontline of our efforts to maintain public order, is adequately funded at all times. We believe that the total combined recurrent and capital allocation in this 2008/2009 budget of some \$126.4 million is adequate to meet the spending needs of the police force in its efforts to fight crime.

I note that when we came to office in May of last year, the Police's recurrent budget was \$108.4 million.

We immediately increased that amount by \$9 million and we are now providing an additional amount of \$4.5 million to bring the total recurrent budget for the police up to \$121.9 million. I do point out that the amount provided for the police in this fiscal year do includes the \$2 million in contingency funding they received during the mid-year budget exercise.

### **THE ROYAL BAHAMAS DEFENCE**

In the 2007/2008 budget, the Royal Bahamas Defence Force received some \$45.8 million in recurrent allocation and \$3.07 million in capital allocation for a total of \$48.87 million. When we came to office, we practically doubled the capital allocation of the Royal Bahamas Defence Force from \$6.8 million to \$12.9 million. We expect the capital needs of the Defence Force to increase significantly in future years as they seek to further enhance their fleet.

Having ordered two aircraft and a number of sea craft this year for the Defence Force, we directed that proposals be sought from international suppliers to supply the Defence Force with its fleet needs up to and including the year 2014.

The current global economic environment and significant competitiveness in the tourism sector require that we both increase resources available to tourism as well as spend our funds strategically. We are providing an additional \$9.3 million for the Ministry of Tourism and Aviation in recurrent expenditure.

We believe that this increase combine with strategic spending by the Ministry will go a long way in helping to increase the promotion of tourism over the next twelve months.

- The Ministry of Tourism and Aviation is being allocated \$ 91 million.

## **CAPITAL EXPENDITURE**

The overall provision for Capital Expenditure is \$250 million. This is an increase of 11% over 2007/08 and signals my Government's continued commitment to modernizing and expanding the nation's infrastructure.

We are providing \$80 million in Sundry Capital Expenditure. It is from this budget item that we make the payments to Bahamasair, the Broadcasting Corporation, the Water and Sewerage Corporation and a number of other government entities.

I do want to point out that in the 2008/2009 Budget we are providing a higher level of transparency with respect to subvention to government agencies than we have ever done. In this budget, we allocate \$28 million to Bahamasair. We fully expect any shortfall in Bahamasair's financial needs to be met by its business operations.

We are providing \$19 million to the Water and Sewerage Corporation. And we are also providing \$3

million for the installation of potable water for Green Turtle Cay, Abaco.

And, we are allocating some \$11.7 million for the Bahamas Broadcasting Corporation.

Additional sums have been allocated to Ministries and Departments under the Capital Budget including principally:

- The Department of Public Works, \$ 87 million;
- Ministry of Education, \$31 million.
- The Royal Bahamas Police Force, nearly \$5 million; and the Royal Bahamas Defence Force some \$3 million.
- Department of Environmental Health Services over \$ 6 million

I am pleased to advise that progress on the redevelopment of the Lynden Pindling International

Airport is on course. The \$400 million dollar project will provide for the construction of a new US Departure Terminal, a new International Departures Terminal and a new Domestic Terminal. The first phase of the construction costing some \$86 million will commence during this budget period with the start up of construction of the US Departure Terminal.

Some 25% of the design work for the new terminal will be undertaken by Bahamian architects and engineers.

### **CITY OF NASSAU REVITALIZATION ACT**

My Government attaches a high priority to the revitalization of the City of Nassau.

The city of Nassau is, without doubt, the economic, political, cultural and historic centre of our nation. Its vitality has been the source of great pride and prosperity for our people over the years.

Regrettably today, the City is in serious decline having fallen into an unacceptable state of urban blight. Too many buildings in the centre of the city are in need of

upgrade and refurbishment. The city is devoid of cultural dynamism, is short of upscale restaurants and lacks places of entertainment or spaces for leisure. Increasingly the city appears disconnected from the soul of our nation, the people who live here.

It is urgent that we act to rescue and revitalize our capital city. We took a first step in this direction with the recent amendment to the Hotels Encouragement Act which extended concessions in the City of Nassau *inter alia* for the construction, refurbishment, upgrade, and/or expansion of restaurant and shops.

Today we introduce a landmark piece of legislation – a Bill for the enactment of the “The City of Nassau Revitalization Act”. This is meant to focus capital investment in the city of Nassau over the next five years. When enacted into law, the provisions of the Act will grant exemptions and fiscal incentives to persons making capital investments in the city. Such investments will include the construction of buildings for residential or

commercial use; and include also the renovation, repair or upgrade of residential and commercial buildings.

Concessions available will include:

- Exemption from customs duty on all materials necessary for the investment imported into the country; purchased or taken out of bond;
- Exemption from real property taxes on all buildings comprising the investment, all additions thereto and land upon which the investment is situated; and
- Exemption from any Excise Taxes that might be levied.

We fully expect that this Bill when enacted will serve as a catalyst for investment in our capital city, restoring the city centre to its former status as a charming and picturesque capital catering to the needs and tastes of individuals of wide ranging interests.

## **THE FAMILY ISLANDS DEVELOPMENT ACT**

The balanced growth and development of The Bahamas requires that all parts of the country receive the focussed attention of the Government. Hence, as we provide incentives to stimulate investment in the City of Nassau we are also providing incentives to stimulate and encourage investment in our least developed islands.

Development on these islands hold the potential to transform the quality of life of Bahamians by helping to redistribute the population away from the concentration on New Providence and providing improved opportunities for the diversification of our economic base.

Toward this end, we are enacting anew, a piece of legislation first enacted during our previous stint in office to promote investment in selected Family Islands. It is our intention to adopt the Family Island Development Encouragement Act and have it enter into effect on July 1, 2008. The Act will provide the following concessions for individuals investing in the named islands:

- Duty free and Excise Tax free import of all construction material to be used for the construction of a new building; or for the rehabilitation, remodeling or extension of a new or existing building; and
- Duty free and Excise Tax free import of any machinery used for the clearing of land for farming or construction carried out in any of the Family Islands specified.

Islands to benefit from this law are:

- Sweetings Cay and Water Cay (Grand Bahama);
- Grand Cay and Moores Island (Abaco);
- Current Island (Eleuthera);
- Andros;
- Cat Island;
- San Salvador;
- Rum Cay;
- Long Island;

- Crooked Island;
- Long Cay;
- Acklins;
- Ragged Island and Cays;
- Mayaguana; and
- Inagua

I am pleased to advise that the Inter-American Development Bank recently approved an increase in funding of \$100 million to an existing loan for the completion of an expanded New Providence Road Improvement Programme. We shall introduce the Resolution seeking the authorization of this Honourable House to take up this increased loan facility.

I am pleased to advise that the work on the new Marsh Harbour International Airport is continuing. A new terminal and control tower facility will be constructed during this fiscal period.

As part of my Government's support for home ownership among middle-income families, we will

introduce a Resolution for authority to issue a \$75 million Mortgage Corporation Housing Bond, the largest Parliamentary request for a Housing Bond since the establishment of the Bahamas Mortgage Corporation 23 years ago.

It is our intention to develop a number of fully-serviced residential housing subdivisions in New Providence and in selected Family Islands where the demand for housing remains high.

I also advise of plans underway to cause to be constructed a 60,000 square foot plus government office complex in New Providence. The complex will properly and appropriately accommodate a number of Government agencies.

A similarly sized office complex will be constructed in Freeport, Grand Bahama where land has already been identified to accommodate Customs, Immigration, Labour and the Passport Offices.

A third government office complex is to be constructed in Central Abaco to provide suitable office accommodation for government administrative agencies on the island of Abaco.

Work will resume on the magistrates' court complex on Nassau Street. We will also undertake and complete another interrupted refurbishment project at the former City Market Complex on Market Street. That complex is to accommodate the offices of the Registrar General and Business Licence Unit and Valuation Unit.

And, we will initiate work for the construction of a new Judicial Complex to accommodate the Supreme Court and the Court of Appeal.

This Budget also anticipates the commencement of major works in Nassau Harbour including dredging to permit the harbour to accommodate the largest cruise ships coming on stream this and next year. Works are scheduled to commence before the end of this calendar year.

The dredge material will be used to create a boardwalk extending from Prince George Wharf eastward to Armstrong Street creating opportunities for the development of a promenade bounded by restaurants, specialty stores and entertainment establishments.

It is also expected that the dredging of the harbour will provide sufficient material to facilitate the expansion of Arawak Cay westward, or alternatively the creation of a second artificial island connected to the mainland by a bridge or causeway, to accommodate the relocated commercial port.

In a related development, an inland depot will be developed to receive for storage cargo off-loaded at Arawak Cay and moved inland overnight, thereby avoiding congestion now associated with cargo movement during peak traffic hours.

### **REVENUE MODERNISATION**

For 2008/09, my Government will consolidate the fiscal position taking account of the need to re-inflate the

economy, to generate greater economic activity and employment, and to ease the cost of living borne by Bahamians.

One year ago, in presenting my Government's first budget in this term of office, I signaled my Government's stand on fiscal matters, particularly on taxation. I advised of my Government's intention, consistent with our **Manifesto '07** commitment, to simplify the Customs Tariff, and amalgamate Customs Duties and Stamp Tax on imports.

I said then that we were committed to continually rationalizing and simplifying the Customs Tariff. We had commenced the process in 1995 when, it will be recalled, we reduced the number of tariff rates from 129 to 29, concurrently reducing many rates of duty with the result that the average tariff rate in the country fell from 45% to about 35%.

The Ministry of Finance and the Customs Department have completed the study of administrative

and other arrangements needed to accomplish the amalgamation of Customs Duties and Stamp Tax on imports in the 2008/09 Budget.

Hence, with effect from 1 July, 2008, we are reforming our Customs tariff.

Firstly, we are amalgamating the Customs Tariff Rates with the corresponding Stamp Duty Rates.

Secondly, we are extracting from the Customs Tariff those items which are treated as 'excises' in international practice and placing them in a new Excise Act. These include the luxury items such as perfumes and tobacco and cigarettes, and also high value items such as vehicles and petroleum.

Basically the sum of the present rates of Customs Duty and Stamp Duty will become the new excise rates under the new Excise Act. The purpose of this exercise is to follow international practice and also to remove these taxes from any reduction exercise which might be

necessary as a result of admission into the World Trade Organisation.

## **REVENUE MEASURES**

I will shortly outline the key revenue measures that we are implementing in 2008/09 to assist Bahamians in dealing with the rising cost of living. Before I turn to those, I would like to review the projection for recurrent revenue in the coming fiscal year.

Total recurrent revenue in 2008/09 is projected at \$1,574 million, fully 7.8% higher than the provisional outturn for 2007/08. This fairly robust revenue performance, in the face of an economy whose rate of growth moderated in 2007 and early 2008, attests, I believe to the success of the efforts that have been deployed to strengthen revenue collections. The reform measures that I outlined earlier should further bolster the buoyancy of our revenue system.

The measures to reform and modernize revenues will result in important changes in our major sources of revenues. The new Excise Tax, for instance, will now account for \$234 million of total revenues in 2008/09. Customs duties, from which a number of products were removed and placed in the new Excise Act, will now account for \$516 million in revenues, as compared to \$591 million in 2007/08.

Stamp taxes on imports having been amalgamated with customs duties and built into the new excise duties will no longer represent a source of revenue.

A further step in reforming the way the Government does business and collects revenue will be exploring to the maximum extent possible, means of consolidating and streamlining its revenue collection operations. This will be one important element in our overall strategy to make it easier for taxpayers to deal with Government and to comply with their tax and fee obligations.

Revenue measures being taken are designed to:

- reduce the cost of living;
- promote the use of energy-saving products;
- reduce the cost of re-financing mortgages or consolidating debt;
- provide added relief in respect of real property taxes; and
- lower the cost of building materials for home construction or renovations.

For example, we will:

- Eliminate import duties on a number of citrus fruits, as well as frozen vegetables.
- Eliminate import duties on cereals, oatmeal, and breads.
- Exempt personal computers, printers and software from the current stamp tax, thereby making them completely duty-free.

- Make duty free the import of energy-saving light bulbs, solar lamps, batteries, converters and wind engines.
- Reduce import duties on a number of building materials, thereby lowering the cost of building a home or renovating an existing one, including plywood, oriented strand board, insulation, wooden hurricane shutters, aluminum and wood doors, wooden windows, and cement board.
- Reduce the import duties on energy-saving home appliances from 35% to 15%.
- Reduce the import duty rates on energy-efficient windows, low-flow shower heads and low-flow toilets to 15%.
- Significantly reduce the import duty on hybrid vehicles, from between 45% and 65% to 25%.

Home-owners will become eligible to benefit from the following additional revenue measures:

- exemption from the payment of Stamp Tax (a) applicants purchasing a lot zoned for residential development upon which he/she proposes to construct a primary dwelling place; (b) applicants purchasing a newly constructed dwelling place; (c) applicants purchasing a dwelling unfit for occupation with the intention of occupying the dwelling upon completion of its renovation or (d) applicants purchasing an existing dwelling to serve as their primary residence.
- exemption from Stamp Tax on the transfer of a mortgage of a dwelling place from one financial institution to another, and exemption from stamp tax where the applicant seeks to consolidate debts by mortgaging a dwelling home up to a value of \$500,000.

- First-time homeowners will benefit from an increase in the ceiling for exemption from real property taxes, from \$250,000 to \$500,000, for the first five years.

We are eliminating the \$35,000 ceiling on real property tax for owner-occupied properties and will reduce the rate of tax to  $\frac{3}{4}$  of 1% down from 1% on properties valued in excess of \$5 million.

Some of these revenue measures will admittedly result in revenue losses for the Government but that will be money that will stay in the pockets of consumers and homeowners and thereby provide much-needed relief in the period ahead.

Having reduced the stamp tax on food items from 4% to 2% during our last stint in office we are now moving to eliminate the 2% Stamp Tax on some 160 food items.

We are granting a two-year suspension of Customs Duty of 10% and Stamp Duty of 7% on Bahamas Electricity Corporation's (BEC) fuel imports as a positive measure to address the rising cost of the utility surcharge,

which currently includes the 7% stamp tax. This is expected to enable BEC to function without further increasing the costs of electricity.

I note that immigration work permit fees and bank licensing fees are being increased.

The Government has negotiated new marketing incentive programmes with some major cruise lines serving New Providence and Grand Bahama.

Special emphasis will be placed on enhancing and strengthening the skills of public officers and particularly Customs Officers to meet the challenges of the 21<sup>st</sup> century. Requisite training will ensure that service to the public is enhanced, trade is facilitated and revenue collections are adequately secured.

We will also streamline the application process for Business Licence, simplifying both the process for application and the means of calculating the business licence fees.

## **MODERNISING FINANCIAL ADMINISTRATION**

Since 1973, management practices have made major advances, and the volume of Government revenues and expenditures have increased enormously. A review of the Financial Audit and Administration Act is now appropriate to determine the full extent of the legal provisions which should govern the accountability and transparency of Government expenditure and revenues.

It is envisaged that a revised Financial Administration and Audit Act will be part of the 2009/10 Budget.

### **CONCLUDING REMARKS**

A prominent US journalist commented after the death of President Kennedy on the contribution which President Kennedy had made as follows:-

*John F. Kennedy exemplified the morality of practical citizenship.*

Our society would be transformed if each and every Bahamian of every age could follow this example. My Ministers and I are irrevocably committed to this ideal –

hence our commitment to renewing and enhancing good governance in all its forms. The 2008/09 Budget and the strategic directions which I have outlined are a major step along this chosen path towards the ‘rising sun’.

**ANNEX A**

**ECONOMIC BACKGROUND**

# **ECONOMIC BACKGROUND**<sup>1</sup>

## **INTRODUCTION**

**Provisional estimates from the Department of Statistics indicate that the growth momentum of the Bahamian economy, recovering from negative growth<sup>2</sup> in 2003 of 3.5% and in 2004 of 0.2% , grew by 3.3% in 2005, and 4.6% in 2006. However, during 2007 the rate of growth moderated in line with global trends, as the slowed rate of expansion in consumer spending and construction activity offset the improvement in tourism output. The IMF Article IV Mission of September, 2007, indicated a growth rate of 3.1% but preliminary estimates by the Department of Statistics (which are, of course, subject to review) indicate that the growth rate was 2.8%.**

**Conditions continued to support stable money and credit developments, although the persistent upward spiral in global oil prices caused an acceleration in the rate of domestic consumer price inflation.**

**In this analysis, economic developments in 2007 and prospects for the Bahamian economy in 2008 will be examined. Initially, the *Economic Background* reviews the international economic environment which has a direct impact on domestic trends, followed by an analysis of the**

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<sup>1</sup> The *Economic Background* is based on material provided by the Central Bank of The Bahamas. The GDP data for 2007 are the revised data presented by the Department of Statistics at a Press Conference on 21 May, 2008.

<sup>2</sup> All references to 'growth rates' in this section are of growth in real terms.

domestic environment, including policies and trends affecting the financial sector.

### **INTERNATIONAL ECONOMIC DEVELOPMENTS**

The global financial and credit crisis which erupted in mid-2007 dominated economic and financial developments, and continues to do so as it plays itself out in response to corrective actions being taken by the major economies. In this context it might be useful to quote from the Foreword of the *Financial Stability Forum*, an institution representative of the world's most important economies in the financial sphere. It states:-

*The turmoil that broke out in the summer of 2007 followed an exceptional boom in credit growth and leverage in the (global) financial system. A long period of benign economic and financial conditions increased the amount of risk that borrowers and investors were willing to take on. Institutions responded, expanding the market for securitisation of credit risk and aggressively developing the originate-to-distribute model of financial intermediation. The system became increasingly dependent on originators' underwriting standards and the performance of rating agencies.*

*Starting in the summer of 2007, accumulating losses on US subprime mortgages widespread disruption to the global financial system. Large*

*losses were sustained on complex structured securities. Institutions reduced leverage and increased demand for liquid assets. Many credit markets became illiquid, hindering credit extension. Eight after the start of the market turmoil, the balance sheets of financial institutions are burdened by assets that have suffered major declines in value and vanishing market liquidity. Participants are reluctant to transact in these instruments, adding to increased financial and macroeconomic uncertainty.*

*To re-establish confidence in the soundness of markets and financial institutions, national authorities have taken exceptional steps with a view to facilitating adjustment and dampening the impact on the real economy. These have included monetary and fiscal stimulus, central bank liquidity operations, policies to promote asset market liquidity and actions to resolve problems at specific institutions. Financial institutions have taken steps to rebuild capital and liquidity cushions.*

**Taking account of the impact of financial and credit developments on the real economy, the International Monetary Fund (IMF), in its April 2008 World Economic Outlook, forecast that global economic growth slowed marginally in 2007, to 4.9% from the 5.0% recorded in**

**2006, as the United States housing crisis continued to spill over into other sectors of the economy. Nevertheless, global economic activity remained moderately positive, with sound economic fundamentals in the major economies supporting improvements in labour and equity markets worldwide.**

**As rising food and energy costs elevated inflationary pressures during the first half of 2007, major central banks reduced the level of monetary accommodation. This was followed in the latter half of the year, by central banks' coordinated efforts to provide liquidity to the banking sector, in the face of the global credit crisis.**

**Indications are that economic activity in the United States' expanded at a rate of 2.2% in 2007, 0.7 percentage points lower than the 2.9% forecast a year earlier. This was because of a decline in residential and inventory investment, which overshadowed positive contributions from personal consumption, exports, non-residential building and government spending. Labour market conditions deteriorated, as the impact of the housing downturn spread into the broader economy, resulting in a rise in the average unemployment rate to 5.0% from 4.4% in 2006. Similarly, average consumer prices firmed to 4.1% in 2007 from 2.5% in 2006. Amid investors' concerns over the United States sub-prime mortgage crisis and the slowdown in economic activity, the dollar**

depreciated against other major currencies during 2007. However, this trend boosted net exports as US goods become more price competitive, resulting in a lowering of the current account deficit, to 5.3% of GDP from 6.2% in 2006.

Among the other major world economies, economic growth in the Euro area slipped to 2.6% in 2007 from 2.8% in 2006, but expanded for the United Kingdom, to 3.1% vis-à-vis 2.9% a year earlier. The rapid pace of expansion was maintained for the Asian economies, led by China's robust 11.4% gain in real GDP on account of firming in foreign and domestic investments, increased net exports, as well as higher industrial production and consumption expenditure. Meanwhile, output growth in Japan slackened to 2.1% from 2.4% in 2006.

In commodity markets, heightened demand in rapidly growing economies, such as China and India, combined with supply constraints, resulted in broad-based appreciations in commodity prices during 2007. Oil prices surged by an average of 56.0% to a record high of \$94.92 per barrel; while the price of gold accelerated by 31.0% to \$833.92 per troy ounce and for silver, by 14.7% to \$14.80 per troy ounce. Similarly, average costs for food, agricultural raw materials and metals firmed by 10.8%, 4.9% and 17.4%, respectively.

**According to the IMF, the global economic growth momentum is expected to slow in 2008, due to the adverse impact of the worldwide financial crisis, before making a modest recovery in 2009. (The US Federal Reserve Board expects the US recovery to begin in the second half of 2008.) Consequently, real GDP growth is projected by the IMF to be 1.2 percentage points lower at 3.7% in 2008, and broadly unchanged in 2009. More specifically, the United States economy is expected to expand marginally by 0.5% in 2008 compared to 2.2% in 2007, as the persistent downturn in the housing market, prompted by the collapse of the sub-prime mortgage market, continues to negatively affect the entire economy. In the Euro area, real GDP growth is also estimated to fall, to 1.4% from 2.6% in 2007, owing to deteriorating terms of trade, financial strains and negative housing cycles. For Japan, accretions to economic activity are forecasted to taper output growth to 1.4% from 2.1%; while the pace of Chinese growth is expected to recede to 9.3% from 11.4% in 2007. The outlook for emerging and developing economies in 2008 is for robust expansion in real output of 6.7%, albeit slowing from 7.9% recorded in 2007.**

**Expectations are that commodity prices will remain at elevated levels in 2008. The IMF has forecast a 36.5% increase in average crude oil prices, to \$95.50 per barrel,**

due to sustained and strong demand from emerging markets. In addition, non-fuel primary commodity prices are anticipated to rise at a reduced 8.7% in 2008 as compared with 9.7% in 2007, buoyed by continued firming in food and beverage costs.

### **DOMESTIC ECONOMIC DEVELOPMENTS**

Economic growth in the Bahamian economy continued at a reduced pace in 2007, supported by strong, yet tempered credit expansion and construction activity, which overshadowed improvements in the tourism sector. Growth occurred within the context of upward pressure on domestic consumer price levels, due to increases in global oil and food prices. On the monetary side, the moderated pace of credit growth, alongside significant foreign currency inflows during the first half of the year, led to an expansion in bank liquidity. The external current account deficit narrowed, occasioned by an increase in the services account surplus which mitigated deteriorations in the merchandise trade and income accounts. A reversal in banking sector transactions to a net outflow, combined with reduced direct investment receipts, caused a sharp contraction in the surplus on the capital and financial account.

### **TOURISM**

In tourism in 2007 there was an improvement in overall output, despite the negative impact of the Western

**Hemisphere Travel Initiative (WHTI) and weakness in key segments of the major United States' market on visitor arrivals. Indications are that visitor expenditure improved, as higher hotel rates and strengthening in other hotel performance indicators offset the contraction in overall tourist arrivals. Total visitors fell by 2.9% to 4.6 million, as sea traffic was reduced by 4.0%, while air tourists declined marginally by 0.4%.**

**By port of entry, total visitors to New Providence weakened by 0.8%, arising from a 1.3% decrease in sea traffic, which outweighed the 0.1% increase in air tourists. In the Grand Bahama market, the visitor count was reduced by 9.0%, due to a 10.4% falloff in sea arrivals and a 5.7% decrease in air visitors. Similarly, arrivals to the Family Islands contracted by 4.1%, with the 5.4% drop in sea visitors eclipsing the 2.2% gain in air visitors.**

**According to the Ministry of Tourism's survey of the largest properties, hotel sector performance indicators for 2007 showed robust growth of 8.4% in room revenue to an estimated \$403.0 million, supported partly by the addition of high-end hotel rooms to the outstanding stock. As a consequence, the average daily rate was boosted by an estimated 13.4%. In the New Providence market, total room revenues rose by 11.4% and for the Family Islands, by 4.5%. However, aggregate room revenue contracted by 8.4% in Grand Bahama.**

**The performance of the tourism sector over the short to medium term is expected to be moderately positive. Despite the economic slowdown in the United States, the major tourist market, some benefits may accrue due to the sustained depreciation of the US Dollar against a basket of world currencies, which has made travel by US visitors to destinations in Europe and Asia relatively more expensive, and correspondingly, could make travel to The Bahamas more attractive. The increasing emphasis on marketing efforts towards visitors from Europe and Canada, as well as from some non-traditional US markets, is also intended to assist the industry.**

### **FINANCIAL SECTOR**

**The domestic financial sector of The Bahamas was not affected by the turmoil in international financial markets. Thus, indicators of banking, insurance and investment fund activity, suggest that the financial sector experienced favourable balance sheet trends and employment conditions during 2007. Partly reflecting ongoing consolidation developments, the number of banks and trust companies in the financial market declined by 3 to 245 during 2007; public licensees were down by 5 to 138; while restricted and non-active operations increased by 2 to 107.**

**In keeping with the physical presence requirement of 2004, 214 licensees operated through physical presence at**

end-2007, compared to 215 at end-2006. A further 31 institutions continued under restrictive management arrangements approved by the Central Bank, while no institutions were in transition.

Preliminary information from the Central Bank's 2007 Annual Banking Survey, showed that total expenditures of banks and trust companies in The Bahamas firmed marginally by an estimated 1.4% to \$477.2 million, buoyed mainly by higher salary payments. Total employment in the banking sector expanded by 5.6% to 4,921 persons, based on increases in both the Bahamian and non-Bahamian workforce.

### **CONSTRUCTION**

Construction output moderated during 2007, as a result of the completion of a large-scale tourism investment project and softened domestic residential and commercial activity. The outlook for the sector for 2008 remains relatively positive, as several large-scale foreign investment projects, such as the Albany Development, are expected to either gain impetus or come on-stream later in the year, and mortgages continued to grow at a relatively healthy pace in the first quarter.

Total mortgage disbursements by banks, insurance companies and the Bahamas Mortgage Corporation fell by 10.5% to \$544.0 million during 2007. The residential component, which accounted for the largest segment of

the market, with 91.3% of disbursements, fell by 8.6% to \$496.6 million. Similarly commercial commitments (8.7% of the total) contracted by 26.9% to \$47.4 million. Mortgage commitments for new construction and repairs to existing structures—which serve as a forward looking indicator of construction activity—contracted in both number and value by 27.6% and 26.1% to 1,051 projects valued at \$133.2 million.

Borrowing conditions continued to be favourable, despite modest increases in loan costs. Residential and commercial average loan rates rose by 3 and 1 basis points, to 8.6% and 9.0%, respectively.

### **INFLATION**

Buoyed by higher fuel and food costs, consumer price inflation, as measured by changes in the average Retail Price Index, firmed by 2.50%, up from 1.83% in 2006. The advance reflected higher average costs for furniture & household operations (5.26%), recreation & entertainment services (3.78%), transport & communication (3.72%) and education (2.30%). However, price increases slowed for food & beverages (3.59%), other goods and services (2.80%), clothing & footwear (0.87%) and housing (0.47%).

Preliminary data for the first quarter of 2008 indicate a modest advance in consumer price inflation to 2.37% for the twelve-months to March 2008, from 2.29% in the comparable 2007 period. The outturn mainly reflected

higher prices for furniture & household operation (6.57%), medical care & health (3.52%), transport & communication (3.10%) and education (2.52%). However, average price increases for items such as food and beverage, and recreation entertainment and services, fell to 3.80% and 1.45%, respectively.

The general firming in global crude oil prices also translated into high fuel costs during 2007. In New Providence, the cost of gasoline advanced to a record high of \$4.57 per gallon in June, before declining to end the year at an average of \$4.28 per gallon, compared with \$4.11 per gallon in 2006. Similarly, diesel prices rose to a historic high of \$4.26 per gallon in December, for a year-end average of \$3.48 per gallon versus \$3.32 per gallon in 2006. The fuel surcharge also trended progressively higher to approximately 13.7 cents per KWH by year-end.

For the first three months of 2008, the cost of gasoline and diesel continued its upward trajectory. Gasoline prices advanced by 23.1% to \$4.63 per gallon in New Providence, up from \$3.76 per gallon recorded in the comparative period of 2007. Diesel costs appreciated by 42.3% to \$4.34 per gallon, significantly above the \$3.05 per gallon recorded in the first quarter of 2007.

### **EMPLOYMENT**

The unemployment rate in The Bahamas advanced moderately to 7.9% in 2007, from 7.6% in 2006, and was

primarily explained by the addition of 5,850 persons to the labour force, a rise of 3.2% over 2006. Males contributed 60.6% to this growth, while females accounted for the remaining 39.4%.

#### **FOREIGN INVESTMENT AND THE BALANCE OF PAYMENTS**

Provisional data for the balance of payments showed a narrowing in the current account deficit by an estimated \$137.7 million to \$1,419.1 million in 2007, as the fuel-based deterioration in the merchandise trade deficit was offset by the tourism-led gain in the services account surplus.

The merchandise trade deficit widened by an estimated 3.6% (\$87.6 million) to \$2,539.2 million, as fuel imports grew by 10.0% (\$70.9 million) to \$779.1 million, explained by an increase in both the volume and value. Non-oil merchandise payments rose marginally by 1.0% (\$16.7 million) to \$1,760.1 million. In contrast, the surplus on the services account strengthened by 24.2% (\$197.1 million) to \$1,011.9 million, buoyed by gains in net travel receipts of 7.7% to \$1,799.3 million. Other contribution factors included the 12.9% (\$24.3 million) increase in offshore companies local expenses to \$212.4 million and contracted net outflows for services such as construction, insurance, and Government, of 17.8%, 11.6% and 34.2% to \$176.2 million, \$107.6 million and \$45.0 million, respectively.

The capital and financial account surplus receded by \$287.1 million to \$928.9 million, mainly attributed to lower receipts from both direct and other investment transactions. The surplus on the financial account fell by \$274.9 million to \$1,004.7 million, as declines in net equity inflows resulted in net direct investment receipts decreasing by \$13.2 million to \$692.6 million. “Other” net investment inflows declined sharply by \$273.3 million to \$319.3 million, due to a reversal in domestic banks’ transactions, to a net repayment of \$86.6 million from a net borrowing of \$143.1 million. The net outflow attributed to the public sector, however, increased by \$6.4 million to \$9.9 million. “Other” private sector inflows contracted by \$32.3 million to \$420.7 million.

#### **CAPITAL MARKETS**

Trading activity on the local capital market moderated during 2007, reflecting contractions in both the volume and values of shares traded. The volume of securities traded on the Bahamas International Securities Exchange (BISX) fell by 8.5% to 4.6 million, while the value declined by 2.4% to \$26.4 million. The benchmark BISX All Share Price Index appreciated by 23.2% to 2,066.8 points, slightly below the year-earlier growth of 24.1%. Fidelity Capital Market Limited’s Index (Findex) weighted share price index( which also includes equities traded over-the-counter) rose by 26.4% to 938.3 points in

2007, compared to gains of 34.5% in 2006. However, market capitalization on BISX was 24.3% higher at \$3.9 billion, exceeding 2006's 20.8% advance.

During the year, the total number of publicly trading companies on BISX remained at 19, while the addition of the mutual fund, Fidelity Bahamas International Investment Fund Limited, increased the total number of securities trading locally, by 1 to 29. Two BISX licensed broker dealer firms launched their Bahamian Depository Receipts (BDRS) programmes in the final quarter of 2007.

### **PAYMENTS SYSTEMS MODERNIZATION**

The Central Bank and the Clearing Banks' Association's efforts to modernize the domestic payment's system, continued to focus on the implementation of the Automated Clearing House (ACH) facility. The electronic facility, to automate clearing of low-value payments, including cheques and direct debits, is expected to improve efficiency in the local banking system through a less costly and more timely settlement process. The pilot testing and implementation of the ACH system are scheduled for 2008.

The Bahamas Real Time Gross Settlement (RTGS) system, which was implemented in May 2004, facilitates the real time processing of high value and time critical payments between financial institutions and their customers, by mitigating the risk connected with manual

or delayed payment settlement. The system processes, among other transactions, customer payments, inter-bank payments and cheque clearing. For 2007, the total volume of transactions from clearing banks and the Central Bank rose by 27.0% to 39,914, with value lower by 1.0% at \$9.2 billion.

### **MONETARY DEVELOPMENTS**

Monetary developments during 2007 were an improvement in overall liquidity conditions, reflecting in part foreign currency inflows linked to tourism and foreign investment activities. Credit growth continued at a strong, although slackened pace, relative to 2006, and the loan to deposit rate spread widened, as the rise in lending costs outweighed the increase in deposit rates.

Accretions to total domestic credit fell to \$691.4 million (10.3%) in 2007, from \$843.4 million (14.3%) a year earlier, reflecting a slowdown in private sector credit expansion and a contraction in claims on the Public Corporations. The expansion in the Bahamian dollar component was lower at 13.0%, while foreign currency claims declined by 9.8%, in contrast to an advance in 2006. Growth in private sector credit was reduced to \$549.7 million (9.7%) from \$715.0 million (14.4%) a year earlier, and the banking sector's net claims on the public sector narrowed by 0.4 percentage points to 13.2%

**(\$141.7 million). However, net claims on the Government rose significantly by 28.0% vis-à-vis 5.4% in 2006.**

**External reserves fell by \$45.6 million (9.1%) to \$454.2 million at end-2007, compared to the previous year's reduction of \$79.1 million (13.7%) to \$499.7 million. Balances averaged \$556.5 million over the year, and reached a peak of \$692.4 million at end-May, Reserves were equivalent to an estimated 11.5 weeks of non-oil merchandise imports at end-2007, compared to 14.0 weeks at end-2006. During the first three months of 2008, external reserves advanced by \$85.0 million to \$539.2 million, although below the \$123.9 million accumulation in the comparative 2007 period.**

**With regard to interest rates, the weighted average loan rate increased during 2007, to 10.63%, reflecting firming in the average rate on overdrafts by 88 basis points to 11.44%; consumer loans, by 74 basis points to 12.70%; commercial mortgages, by 38 basis points to 8.75% and residential mortgages, by 31 basis points to 8.16%. Similarly, the counterpart deposit rate advanced by 33 basis points to 3.69%, as the average rate for savings fell by 11 basis points to 2.05%, but the range for fixed deposits, moved within an elevated band of 3.51% – 4.52%, vis-à-vis 3.17% – 4.18% in 2006.**

## **NATIONAL DEBT**

For the calendar year 2007, the Direct Charge on Government rose by \$247.2 million (10.4%) to \$2,630.9 million, compared to an increase of \$148.5 million (6.6%) to \$2,383.7 million in 2006. Bahamian dollar claims, which accounted for 89.0% of the total, grew by \$247.8 million to \$2,340.4 million; however, the foreign currency component contracted by 0.2% to \$290.5 million.

Government's contingent liabilities decreased by 13.9% (\$69.4 million) to \$431.5 million at end-2007, reflecting in part the refinancing and reclassification of debt by the Airport Authority (\$39.8 million) under the Nassau Airport Development Company; and the reduction in outstanding debt obligations by the Bahamas Electricity Corporation.

Given these developments, the total National Debt rose by \$177.8 million (6.2%) to \$3,062.4 million, which was an increase over the figure of \$147.7 million in 2006. Total debt service increased by \$135.0 million to \$219.7 million, reflecting the \$129.8 million increase in amortization payments and a \$5.2 million rise in interest charges. The ratio of Government's foreign currency debt service to total revenue was 3.8%, as compared with 1.9% in the previous two years.

## **ECONOMIC OUTLOOK FOR 2008**

In light of expectations that the US economy will recover in the second half of 2008 as financial markets

**normalise, and strengthen in 2009 and 2010, growth prospects are cautiously positive from the second half of 2008 onwards. Inflows from foreign direct investment activities are expected to add momentum to economic activity. However, a serious slowdown in the US economy due, for example, to continuing problems with financial market developments, could create more challenging conditions for The Bahamas in 2008. Additional downside risks to the global economy could also arise from further pressures on the imported price of oil and other commodities.**

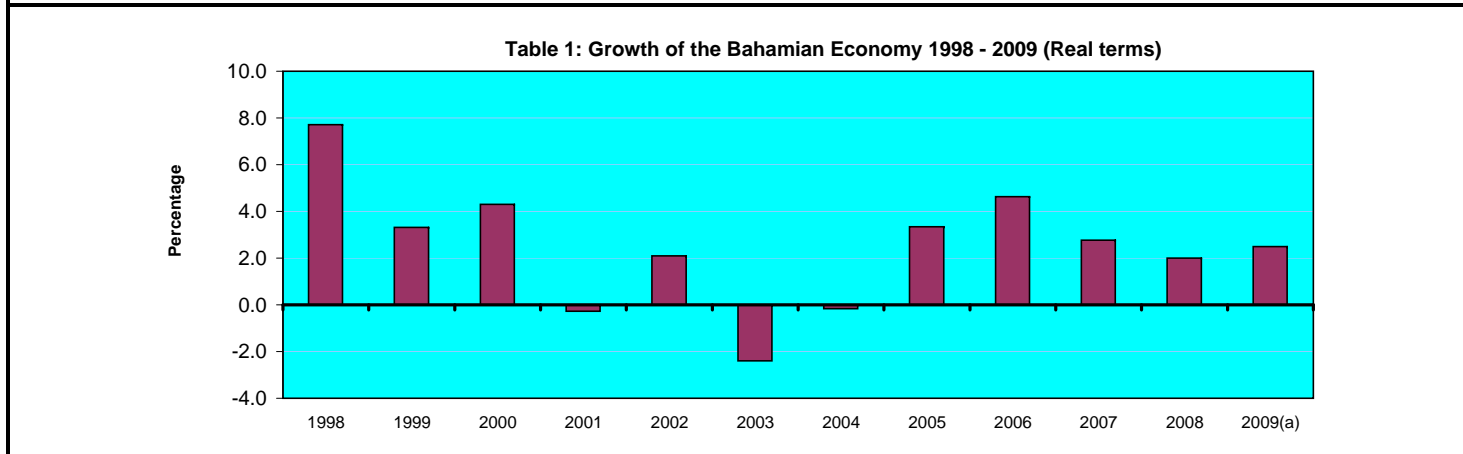
## **ANNEX B**

### **TABLES and GRAPHS**

**Table I. Growth of the Bahamian Economy 1998 - 2009**

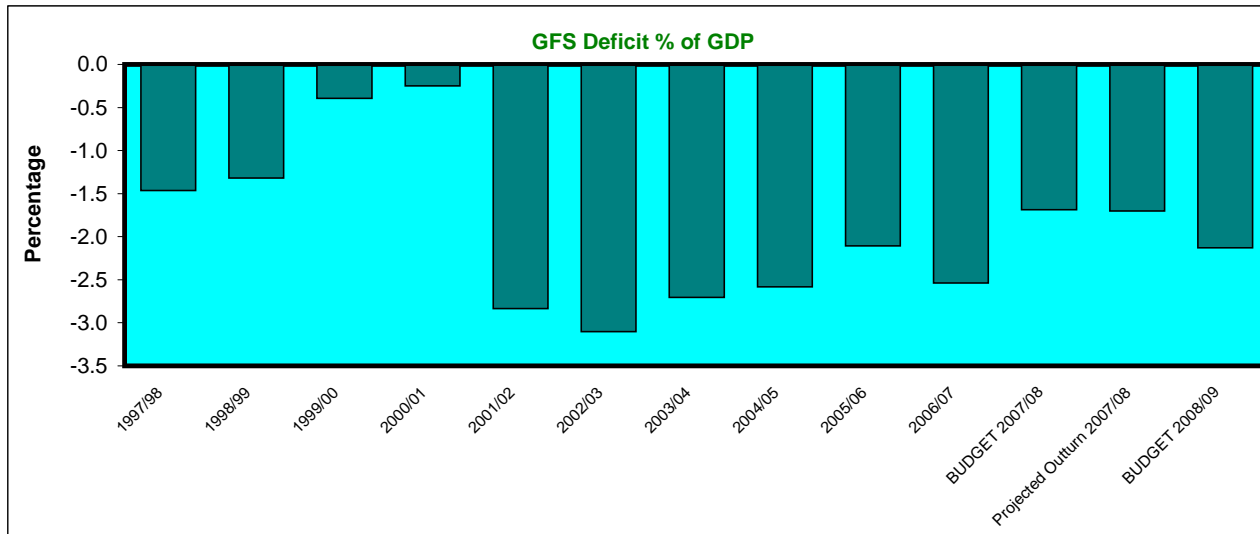
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009(a)
<b>GDP(Current Prices) (\$Millions)</b>	4714	5150	5528	5659	5912	5942	6032	6509	6876	7234	7011	7869
<b>Growth-Current Prices(%)</b>	12.1	9.3	7.3	2.4	4.5	0.5	1.5	7.9	5.6	5.2	4.5	4.6
<b>Growth-Constant Prices(%)</b>	<b>7.7</b>	<b>3.3</b>	<b>4.3</b>	<b>-0.3</b>	<b>2.1</b>	<b>-2.4</b>	<b>-0.2</b>	<b>3.3</b>	<b>4.6</b>	<b>2.8</b>	<b>2.0</b>	<b>2.5</b>
<b>Consumer Prices (%)</b>	1.3	1.3	1.7	2.1	2.1	3.0	1.2	2.0	1.8	2.5	2.4	2.0

Note: (a) Ministry of Finance Estimates  
 Source: Department of Statistics, National Accounts Report 2007

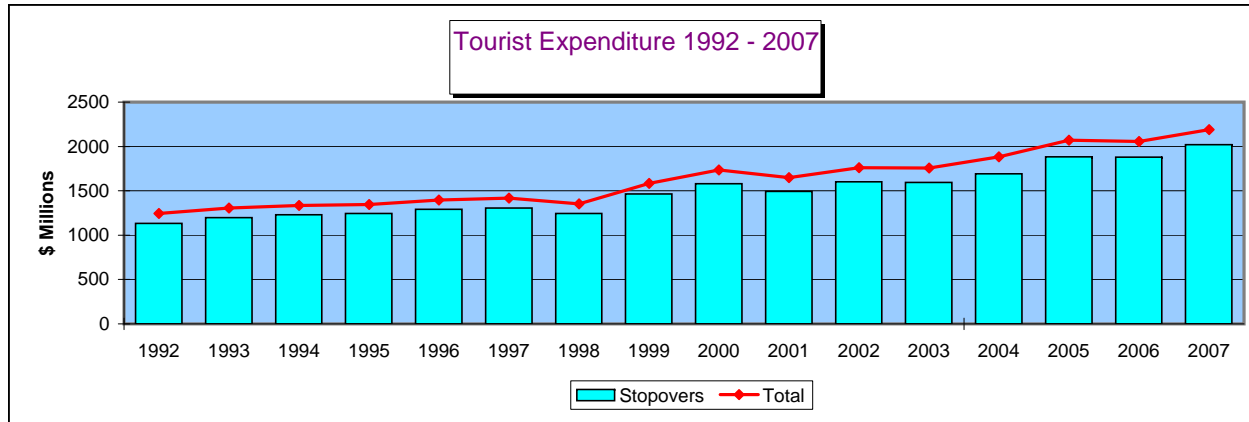


**Table II. - Budget Performance  
\$millions**

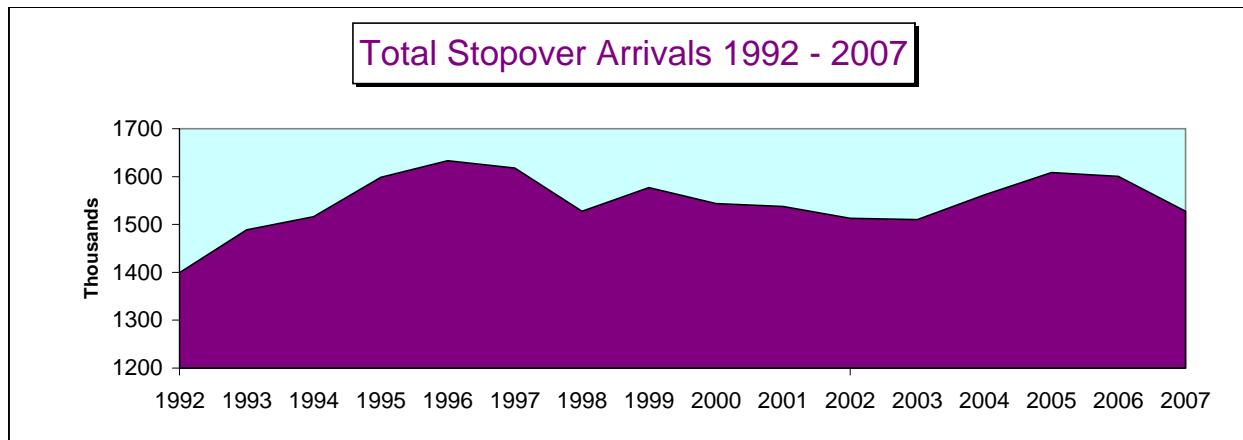
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	BUDGET 2007/08	Projected Outturn 2007/08	BUDGET 2008/09
1. Recurrent Expenditure	808	837	866	930	986	1035	1091	1151	1203	1411	1465	1440	1569
2. Recurrent Revenue	780	822	943	973	875	918	960	1054	1211	1354	1490	1460	1574
3. Recurrent Deficit (2 minus 1) (Deficit - Surplus +)	-28	-15	77	43	-111	-117	-131	-97	8	-57	25	20	5
4. Capital Expenditure	117	124	139	133	138	127	116	162	190	235	225	220	250
5. Capital Revenue	1	0	0	1	0	0	0	0	3	7	10	10	10
6. Capital Deficit (5 minus 4)	-116	-124	-139	-132	-138	-127	-116	-162	-187	-228	-215	-210	-240
7. TOTAL DEFICIT (3 plus 6)	-144	-139	-62	-89	-249	-244	-247	-259	-179	-285	-190	-190	-235
8. Debt Redemption	79	74	41	75	85	60	85	97	38	106	64	64	70
9. GFS Deficit (7 minus 8)	-65	-65	-21	-14	-164	-184	-162	-162	-141	-179	-126	-126	-165
10. GDP (current prices) revised	4459	4932	5339	5594	5786	5927	5987	6270	6692	7055	7470	7397	7749
11. GFS Deficit as % of GDP	-1.5	-1.3	-0.4	-0.3	-2.8	-3.1	-2.7	-2.6	-2.1	-2.5	-1.7	-1.7	-2.1



**Table III. Tourist Expenditure and Arrivals 1992 - 2007**



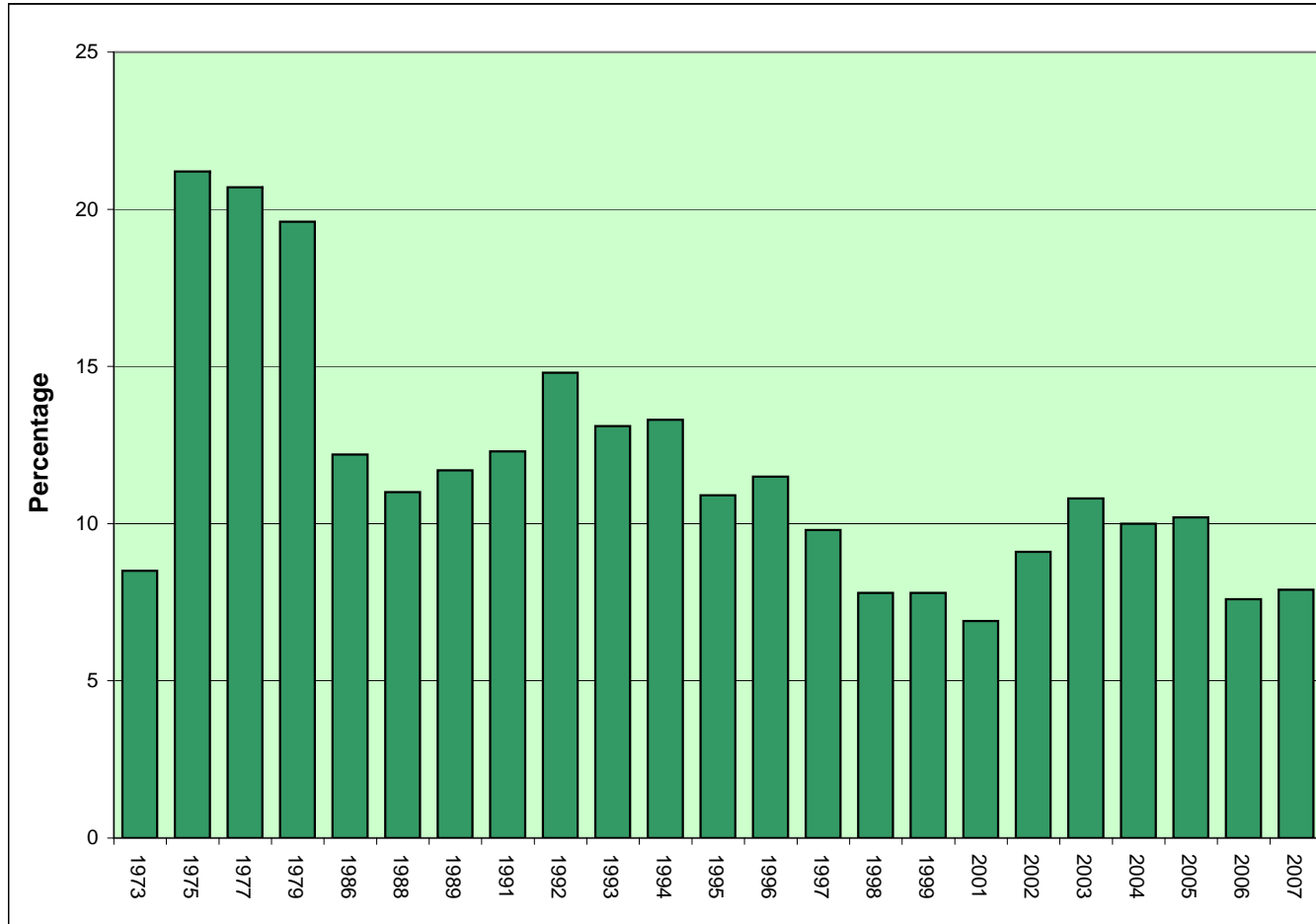
\*Source: Ministry of Tourism



\*Source: Ministry of Tourism

All numbers are subject to revision.

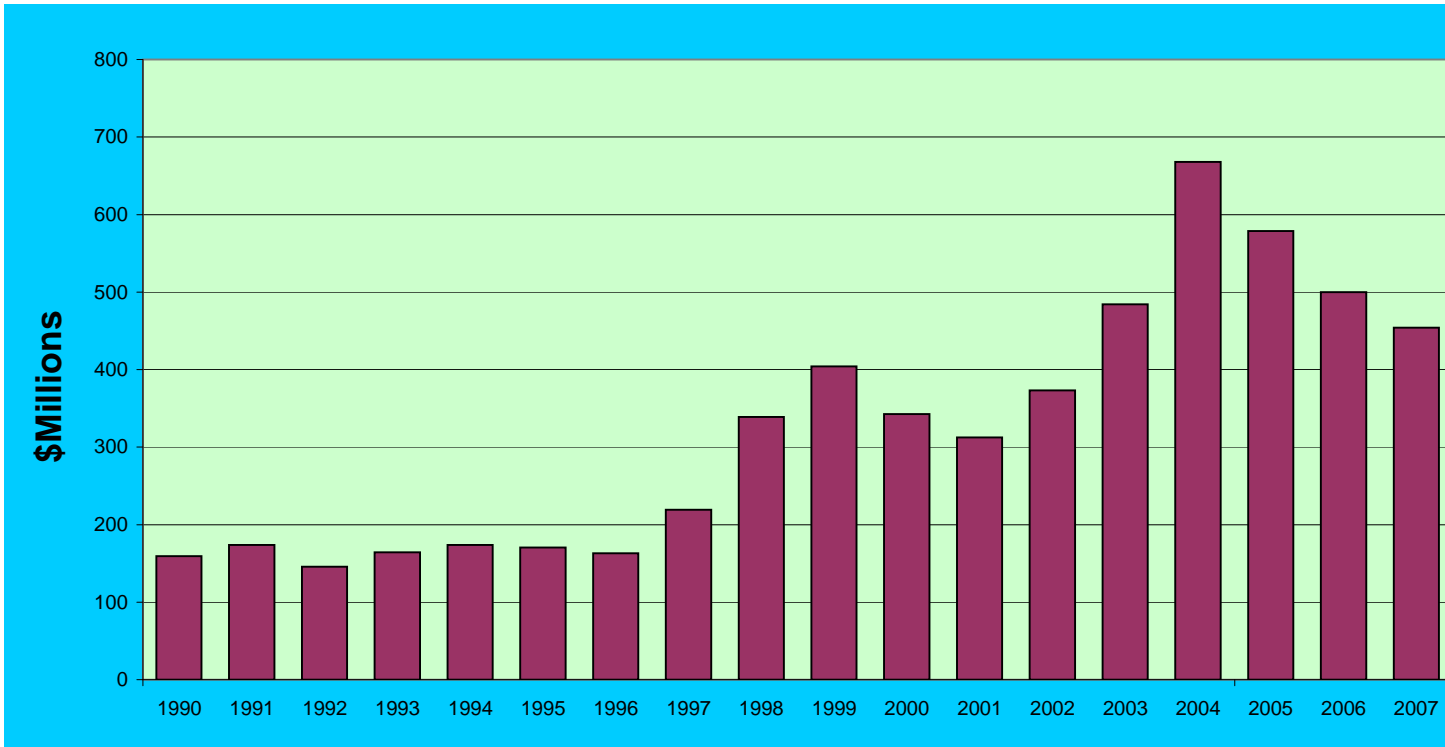
**Table IV. Unemployment Rates 1973-2007**



	%
1973	8.5
1975	21.2
1977	20.7
1979	19.6
1986	12.2
1988	11
1989	11.7
1991	12.3
1992	14.8
1993	13.1
1994	13.3
1995	10.9
1996	11.5
1997	9.8
1998	7.8
1999	7.8
2001	6.9
2002	9.1
2003	10.8
2004	10
2005	10.2
2006	7.6
2007	7.9

Source: Department of Statistics

**Table V. Total External Reserves 1990 - 2007**



	\$Millions
1990	159.5
1991	173.8
1992	145.9
1993	164.2
1994	173.6
1995	170.6
1996	162.9
1997	219.4
1998	338.7
1999	404.0
2000	342.5
2001	312.3
2002	373.2
2003	484.1
2004	667.8
2005	578.7
2006	499.7
2007	454.2

Source: Central Bank of The Bahamas Quarterly Statistical Digest, February 2008  
 Central Bank Annual Report 2007

Table VI. National Debt

\$ millions	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003P	2004	2005	2006	2007P
(1) Direct Charge	1,136	1,166	1,235	1,377	1,431	1,513	1,514	1,604	1,802	1,936	2,098	2,235	2,384	2,631
(2) Government Guaranteed Debt	343	329	314	332	349	374	365	359	423	468	442	502	501	432
<b>(3) National Debt(1+2)</b>	<b>1,479</b>	<b>1,495</b>	<b>1,549</b>	<b>1,708</b>	<b>1,780</b>	<b>1,887</b>	<b>1,879</b>	<b>1,963</b>	<b>2,225</b>	<b>2,404</b>	<b>2,540</b>	<b>2,737</b>	<b>2,885</b>	<b>3,063</b>
<b>GDP(\$millions) Revised</b>	<b>3259</b>	<b>3429</b>	<b>3609</b>	<b>4205</b>	<b>4714</b>	<b>5150</b>	<b>5528</b>	<b>5659</b>	<b>5912</b>	<b>5942</b>	<b>6032</b>	<b>6509</b>	<b>6876</b>	<b>7234</b>

National Debt as a % of GDP														
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003P	2004	2005	2006	2007P
(1) Direct Charge	35	34	34	33	30	29	27	28	30	33	35	34	35	36
(2) Government Guaranteed Debt	11	10	9	8	7	7	7	6	7	8	7	8	7	6
<b>(3) National Debt(1+2)</b>	<b>45</b>	<b>44</b>	<b>43</b>	<b>41</b>	<b>38</b>	<b>37</b>	<b>34</b>	<b>35</b>	<b>38</b>	<b>40</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>

**National Debt**

This bar chart displays the components of national debt in millions of dollars from 1994 to 2007P. The y-axis ranges from 0 to 3,500. The x-axis lists years from 1994 to 2007P. The legend indicates: (1) Direct Charge (dark blue), (2) Government Guaranteed Debt (yellow), and (3) National Debt(1+2) (magenta). The total national debt shows a steady upward trend over the period.

**National Debt As a % of GDP**

This line chart shows the national debt as a percentage of GDP from 1994 to 2007P. The y-axis ranges from 0 to 50. The x-axis lists years from 1994 to 2007P. The legend indicates: (1) Direct Charge (dark blue line with diamonds), (2) Government Guaranteed Debt (green line with triangles), and (3) National Debt(1+2) (magenta line with asterisks). The total national debt as a percentage of GDP shows a general downward trend until 2000, followed by a slight increase and stabilization.

Source: Central Bank of The Bahamas Quarterly Statistical Digest February 2008

**Table VII. Growth of the Bahamian and US Economy 1997 - 2008**

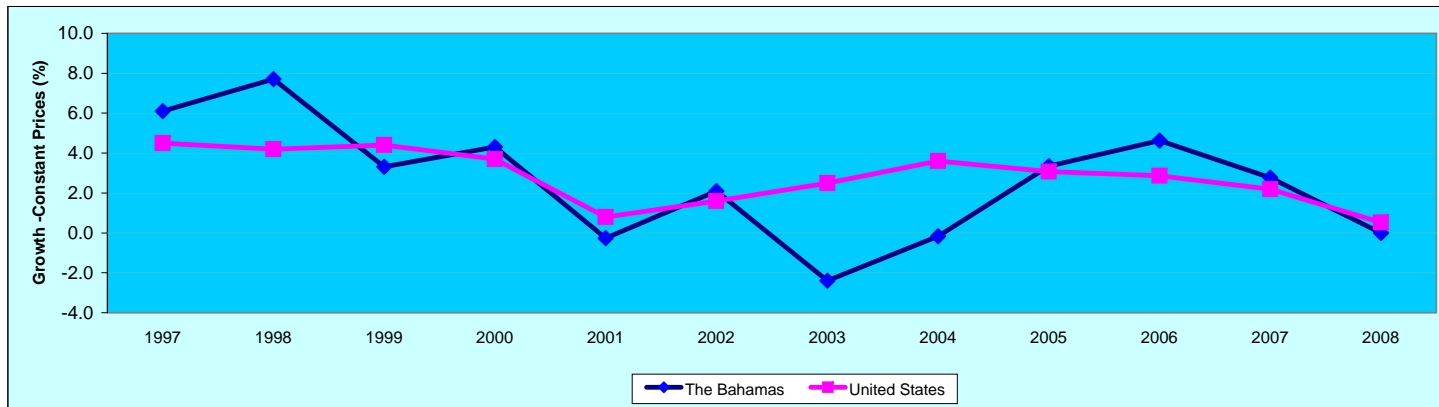
Annual percent change in GDP in real terms

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>The Bahamas</b>	6.1	7.7	3.3	4.3	-0.3	2.1	-2.4	-0.2	3.3	4.6	2.8	2.0(a)
<b>United States</b>	4.5	4.2	4.4	3.7	0.8	1.6	2.5	3.6	3.1	2.9	2.2	0.5

Note: (a) Ministry of Finance estimates

Source: Department of Statistics, National Accounts Report 2007; IMF World Economic Outlook April 2008 for the US

**Table VII. Growth of the Bahamian and US Economy 1997 - 2008**



**TABLE VIII**

**2008/09 BUDGET - MULTI-ANNUAL FORECASTS**

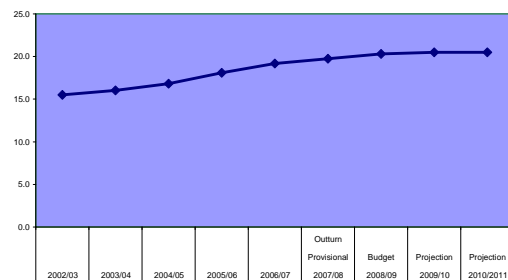
\$ million

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08 Provisional Outturn	2008/09 Budget	2009/10 Projection	2010/2011 Projection
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Recurrent Expenditure	1035	1091	1151	1203	1411	1440	1569	1640	1720
2. Recurrent Revenue	918	960	1054	1211	1354	1460	1574	1668	1750
3. Recurrent Deficit (2. minus 1.)	-117	-131	-97	8	-57	20	5	28	30
4. Capital Expenditure	127	116	162	190	235	220	250	220	220
5. Capital Revenue	0	0	0	3	7	10	10	5	5
6. Capital Deficit (5. minus 4.)	-127	-116	-162	-187	-228	-210	-240	-215	-215
7. TOTAL DEFICIT (3. plus 6.)	-244	-247	-259	-179	-285	-190	-235	-187	-185
8. Debt Redemption	60	85	97	38	106	64	70	90	90
9. GFS Deficit (7. minus 8.)	-184	-162	-162	-141	-179	-126	-165	-96.56	-95
10. GDP (Current Prices)	5927	5987	6270	6693	7055	7394	7749	8136	8543
11. GFS Deficit as % of GDP	-3.1	-2.7	-2.6	-2.1	-2.5	-1.7	-2.1	-1.2	-1.1

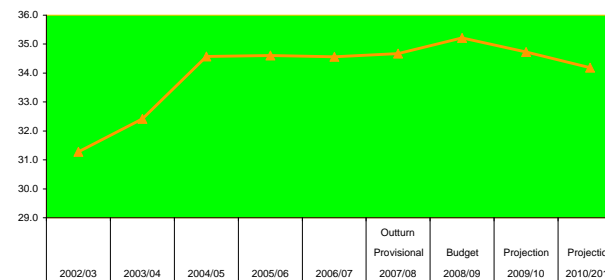
**Memo items:-**

Growth Rate (current prices)	2.5	1.0	4.7	6.7	5.4	4.8	4.8	5.0	5.0
Government Debt (end June)	1854	1941	2168	2316	2438	2564	2729	2826	2921
Government Debt as % of GDP	31.3	32.4	34.6	34.6	34.6	34.7	35.2	34.7	34.2
Recurrent Revenue as % of GDP	15.5	16.0	16.8	18.1	19.2	19.7	20.3	20.5	20.5
Capital Expenditure as % of GDP	2.1	1.9	2.6	2.8	3.3	3.0	3.2	2.7	2.6

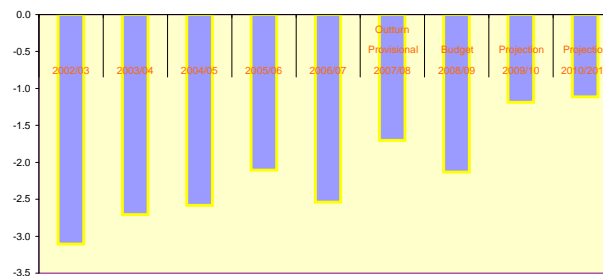
**Recurrent Revenue as % of GDP**



**Government Debt as % of GDP**



**GFS Deficit as % of GDP**



## Notes on Multi-annual Projections

**1. As stated in previous Budget Communications, the purpose of these Multi-annual Projections is to provide a ‘snap-shot’ of the evolution of the public finances over the next 2 to 3 years based on the continuation of existing policies and on assumptions about the macroeconomic environment. The Projections are not intended as the ‘vision’ of the evolution of the public finances nor as immutable commitments, for the reasons set out in the following paragraphs.**

**2. Within the context of the equitable and efficient distribution of Government expenditure and an acceptable revenue system, the Government of The Bahamas targets the following three key closely related ratios or indicators:-**

- The “GFS Deficit” (basically the difference between total government expenditure, excluding debt redemption, and total revenue, excluding borrowing), expressed as a percentage of GDP; this ratio is an approximation of the addition which the Budget makes to the level of Government Debt. Government policy is to eliminate this Deficit over the medium-term by maximizing the growth of the economy and restraining the growth of Government expenditure.**
- Closely connected to the preceding is policy in relation to the level of Government Debt. Government policy is to contain the ratio of Government Debt to GDP within the range 30% to 35%, and as far as possible, to reduce it to about 30% of GDP which was the level in 2000/01 (prior to the September 11 terrorism outrages). In this context, the recent upward revision of the National Accounts data by the Department of Statistics is relevant. The reduction and eventual elimination of the GFS Deficit would limit the level of Government Debt (as a % of GDP) thereby freeing available resources to focus on priority expenditures on essential Government services rather than on servicing Government debt.**
- The ratio of Government Revenue to GDP; the level of 20% is deemed the minimum level necessary to finance the current level of Government services while also reducing and eventually eliminating the GFS Deficit. A low level of taxation, derived from a relatively simple and equitable revenue system, is desirable to protect the competitiveness of the Bahamian economy, and enhances social cohesion by financing efficient and well-designed essential Government services.**

**3. Targeting these 3 ratios or indicators has enabled the Bahamian economy to remain stable and meet economic and social challenges arising from such events as the severe slowdown in the global economy in 2001, the terrorism attacks of 11 September, 2001, and the current generally unsettled external environment. Containing these ratios as discussed provides 'fiscal space' to meet unforeseen and unforeseeable external shocks; in other words, the impact of adverse external developments on the Bahamian economy and the public finances can be tolerated without major disruption to essential Government services at times of external crisis.**

**4. The targeting of these ratios or indicators has the support of the major international institutions such as the International Monetary Fund and is recognized domestically and internationally as the commitment of The Bahamas to prudent macroeconomic policy.**

**5. For most small open economies, the government revenue base (regardless of the range of revenue measures in place) inevitably is sensitive to external macroeconomic developments. This is so in the case of The Bahamas. Therefore, to ensure fiscal discipline, government policy in The Bahamas is to maintain as much flexibility in expenditure commitments as is consistent with careful planning of major expenditures. To achieve this purpose all major projects and expenditures are carefully selected on the basis of priorities and new commitments are only brought forward either in response to requirements to complement and induce major private sector investment inflows, or as major existing projects are completed. (High levels of productive private sector investment are the major dynamo of growth in the Bahamian economy.) The Public Sector Investment Programme is, therefore, the corpus of ongoing government investment expenditures with new or additional projects introduced as scope arises.**

**6. The projections assume GDP growth of 2% in real terms (4.5% in current prices) in 2008/09, and 2.5% in real terms (5% in current terms) thereafter. The projections also assume that Recurrent Revenue will grow by 6% in each year because of the increased buoyancy arising from the investment inflow and the coming on stream of further revenue administration enhancement measures. Recurrent Expenditure is assumed to grow incrementally as in the recent past. Finally, Capital Expenditure is assumed to basically plateau. No provision is made in the calculations for the privatization of BTC and Bahamasair; in the case of BTC, privatization would provide a**

*capital inflow which would enable reduction in the ratio of Government Debt to GDP; in the case of Bahamasair, privatization could result in a significant reduction in the considerable capital transfers made in the budget to Bahamasair thereby reducing the GFS Deficits (and the resulting Government debt to GDP ratio).*

*7. However, as stated, the main purpose of the projections is illustrative and a different 'mix' of assumptions would, of course, produce different results.*

*Ministry of Finance*  
*May, 2008*

**Table IX: EXPENDITURES ON THE GROSS DOMESTIC PRODUCT**  
at Current Market Prices

B\$ millions

Line	Item	2001R	2002R	2003R	2004R	2005R	2006PV	2007PL
1	Government final consumption expenditure	730.40	770.39	785.00	826.28	873.20	947.62	976.05
1.1	Collective Consumption Expenditure	444.17	480.62	488.70	529.48	546.22	589.65	607.34
1.2	Individual Consumption Expenditure	286.22	289.76	296.30	296.81	326.98	357.97	368.71
2	Private final consumption expenditure	3,661.50	3,494.75	3,649.10	3,786.44	4,084.54	4,810.18	5,108.63
3	Gross capital formation	1,794.68	1,721.75	1,738.91	1,676.33	2,226.79	2,703.54	2,799.03
3	Change in stocks	67.07	63.82	59.82	58.32	64.26	65.31	65.80
3	Gross fixed capital formation	1,727.61	1,657.93	1,679.09	1,618.01	2,162.52	2,638.23	2,733.23
3.2.1	Residential construction	229.33	330.78	377.12	342.98	454.82	474.10	469.74
3.2.2	Other construction	103.45	115.65	101.11	122.66	118.78	170.06	169.62
3.2.3	Machinery/equipment	850.76	725.64	758.34	751.58	1,036.05	1,177.92	1,317.41
4	Exports of goods and services	2,199.42	2,509.47	2,478.72	2,709.55	2,981.29	3,005.14	3,278.37
5	Less: Imports of goods and services	2,727.10	2,584.05	2,709.29	2,966.90	3,657.05	4,590.86	4,928.13
6	EXPENDITURE ON GROSS DOMESTIC PRODUCT	5,658.89	5,912.31	5,942.44	6,031.70	6,508.77	6,875.63	7,233.95
	GDP CURRENT GROWTH RATE	2.36%	4.48%	0.51%	1.50%	7.91%	5.64%	5.21%

F: Final  
R: Revised  
Pv: Provisional  
Pl: Preliminary

Source: National Accounts Report 2007, Department of Statistics

Statement on National Accounts - The methodology employed by the Department of Statistics for the production of National Accounts is consistent with the United Nations 1993 System of National Accounts (UN SNA), and the dissemination of this information is consistent with the International Monetary Fund's (IMF) General Data Dissemination Standards (GDDS). A comprehensive technical note on this methodology as well as the Department plan's to strengthen its ability to produce National Accounts is available on the Central Bank of Bahamas' website at [http://www.centralbankbahamas.com/public/BHS\\_NA\\_Sustain.pdf](http://www.centralbankbahamas.com/public/BHS_NA_Sustain.pdf).

**Table IX (a) Original and Revised Indicators**

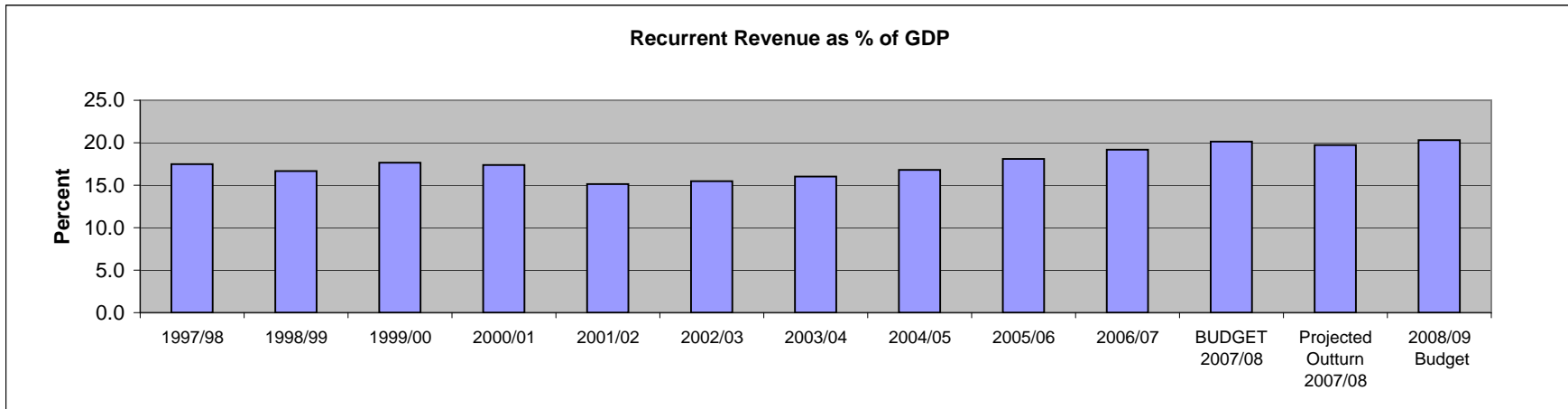
	<b>Original GDP Current Prices \$m</b>	<b>Revised GDP Current Prices \$m</b>	<b>Original Growth Rate Current Prices %</b>	<b>Revised Growth Rate Current Prices %</b>	<b>Original Growth Rate Constant Prices %</b>	<b>Revised Growth Rate Constant Prices %</b>
1997	3841	4205	6.4	8.0	5.0	6.1
1998	4282	4714	11.5	12.1	6.8	7.7
1999	4704	5150	9.8	9.3	4.0	3.3
2000	5003	5528	6.0	7.3	1.9	4.3
2001	5131	5659	2.3	2.4	0.8	-0.3
2002	5389	5912	4.5	4.5	2.3	3.2
2003	5512	5942	3.6	0.5	1.0	-3.5
2004	5649	6032	2.8	1.5	1.3	-0.2
2005	5986	6509	5.2	7.9	2.5	3.3
2006	6237	6876	4.4	5.6	3.4	4.6
2007	6642	7234	6.5	5.2	4.5	2.8

**Table IX (b): Original and Revised Indicators**

	<b>GFS Deficit Original Data</b>	<b>GFS Deficit Revised Data</b>	<b>Government Debt Original Data</b>	<b>Government Debt Revised Data</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
<b>1997/98</b>	<b>1.8</b>	<b>1.4</b>	<b>33.5</b>	<b>30.5</b>
<b>1998/99</b>	<b>1.5</b>	<b>1.3</b>	<b>31.2</b>	<b>29.1</b>
<b>1999/00</b>	<b>0.3</b>	<b>0.3</b>	<b>31.2</b>	<b>28.4</b>
<b>2000/01</b>	<b>0.3</b>	<b>0.3</b>	<b>30.0</b>	<b>27.2</b>
<b>2001/02</b>	<b>3.3</b>	<b>2.8</b>	<b>31.8</b>	<b>28.9</b>
<b>2002/03</b>	<b>3.4</b>	<b>3.1</b>	<b>34.0</b>	<b>31.3</b>
<b>2003/04</b>	<b>2.9</b>	<b>2.7</b>	<b>34.8</b>	<b>32.4</b>
<b>2004/05</b>	<b>2.8</b>	<b>2.6</b>	<b>37.2</b>	<b>34.6</b>
<b>2005/06</b>	<b>2.3</b>	<b>2.1</b>	<b>37.9</b>	<b>34.6</b>
<b>2006/07</b>	<b>2.8</b>	<b>2.5</b>	<b>38.0</b>	<b>34.6</b>
<b>2007/08</b>	<b>1.8</b>	<b>1.7</b>	<b>37.7</b>	<b>34.7</b>

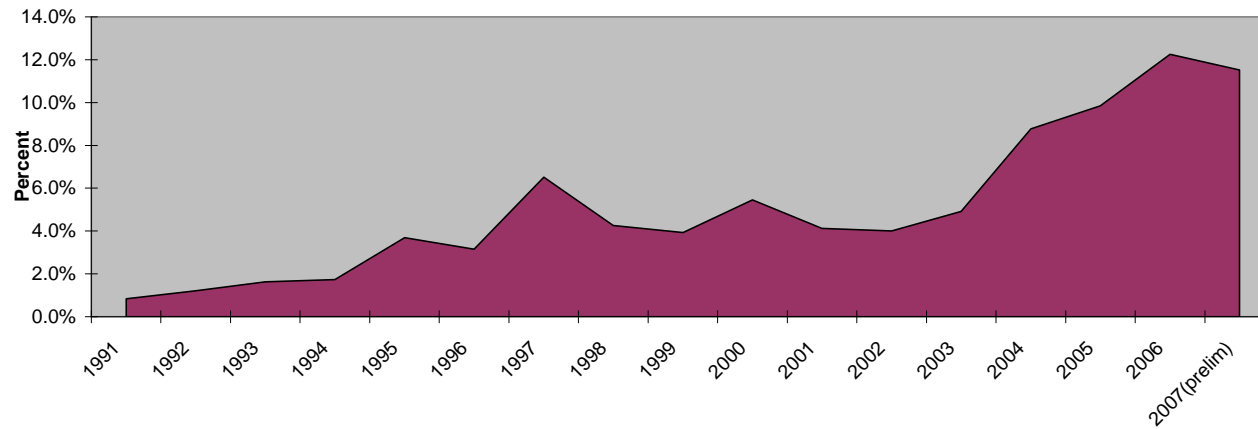
**Table X - Ratio of Recurrent Revenue to GDP  
\$millions**

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	BUDGET 2007/08	Projected Outturn 2007/08	2008/09 Budget
<b>Recurrent Revenue</b>	780	822	943	973	875	918	960	1054	1211	1354	1490	1460	1574
<b>GDP (current prices) revised</b>	4459	4932	5339	5594	5786	5927	5987	6270	6693	7055	7394	7397	7749
<b>Recurrent Revenue % of GDP</b>	<b>17.5</b>	<b>16.7</b>	<b>17.7</b>	<b>17.4</b>	<b>15.1</b>	<b>15.5</b>	<b>16.0</b>	<b>16.8</b>	<b>18.1</b>	<b>19.2</b>	<b>20.2</b>	<b>19.7</b>	<b>20.3</b>



**Table XI: Ratio of Foreign Direct Investment (FDI) to GDP**  
B\$ millions

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007(prelim)
Foreign Direct Investment	25.3	38.2	54.1	59.2	129	113.6	273.7	200.4	202.1	301.1	233.5	236.7	292.4	529.3	640.9	842.2	833.2
GDP(Current Prices)	3,000	3,150	3,325	3,425	3,500	3,609	4,204	4,714	5,150	5,528	5,658	5,912	5,942	6,031	6,508	6,875	7,233
FDI as % of GDP	0.8%	1.2%	1.6%	1.7%	3.7%	3.1%	6.5%	4.3%	3.9%	5.4%	4.1%	4.0%	4.9%	8.8%	9.8%	12.3%	11.5%



Source: The Central Bank of The Bahamas, QSD February 2008