



COMMONWEALTH OF THE BAHAMAS

2009/2010

BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

by

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Minister of Finance

on

Wednesday, 27th May, 2009

2009/10 BUDGET COMMUNICATION

I have the honour to present the 2009/10 Budget Communication.

THE GLOBAL CRISIS AND THE BAHAMAS

It is said that a traditional Chinese curse is to wish one's enemy "*May you live in interesting times*".

Sadly, these are extremely interesting times. For the last 18 months or so, and particularly since October 2008, there has been a synchronized global meltdown of the world's financial system with disastrous effects on the wider economy. The extraordinary forces behind the crisis are a deep contraction and disruption in global financial services that are affecting capital flows into the real economy. This has resulted in savage and abrupt contraction in employment, incomes and living standards across the globe, affecting countries representing three-quarters of the world economy. The Bahamas is deeply integrated into the global economy, primarily through the U.S. tourism market, and it is clear that we cannot stand apart.

Few countries were prepared for the dramatic and sustained downturn in the world's economic performance. Indeed, some countries were so totally unprepared that their living standards have been reduced by huge margins, and the outlook for them is grim.

Here at home we are currently experiencing a severe downturn in our economy in a most extreme form - reduced tourism, reduced foreign direct investments, reduced government revenues, reduced employment and contracting living standards.

Our prudent economic policy of containing the fiscal debt within the range of 30% to 35% of Gross Domestic Product (GDP) provides the fiscal 'headroom' that enables the Government to borrow funds on reasonable terms when external economic events turn against us, as they have done. However, the magnitude of the current global crisis is such that we must now seriously contemplate a significant – but temporary – increase in the ratio of Government Debt to GDP. If we had no headroom on Government debt, the most severe and painful adjustment measures would have to be envisaged.

We have used our fiscal flexibility cautiously and prudently to soften the adverse impact of the global crisis on the lives of our fellow Bahamians. In earlier years, it was used to deal with the bursting of the dot.com bubble in 2000/01 and the aftermath of 9/11. In the present crisis, the flexibility has enabled us to sustain employment, maintain public services at acceptably required levels and bring forward major employment-generating capital works which will accelerate the recovery of our economy when the global deterioration reverses.

Looking to the uncertain future in this time of global crisis, we are pacing fiscal policy to ensure that not all of the headroom is exhausted. This will permit us to stand ready if global conditions deteriorate further rather than improve, or if the improvement – when it comes – is weak and temporary and is followed by a further deep crisis. In this context the IMF World Economic Outlook of April 2009 states:-

“The current outlook is exceptionally uncertain, with risks weighed to the downside...Even once the crisis is over, there will

be a difficult transition period, with (global) output growth appreciably below rates seen in the recent past.”

In the circumstances, the medium-term course of action which The Bahamas must pursue is as follows:-

1. Continue to deal prudently and cautiously with the present global crisis, maintaining as much fiscal flexibility as possible so that we are able to deal with any worsening in conditions or any false dawns. In this regard, the priority is to maintain employment and living standards to the extent possible;
2. Implement projects which not only ameliorate the adverse effects of the present crisis but also position the Bahamian economy strategically to take advantage of the upturn. These projects not only provide much needed employment now but on their completion they will provide the infrastructure which our Nation needs to prosper; and
3. Recreate the fiscal headroom this crisis consumed by reducing the ratio of Government debt to GDP over the medium-term as the upturn commences. That will be crucial in positioning ourselves to

respond to the next inevitable global or U.S. economic crisis. The upturn will reverse the steep decline in our revenues.

Recreating the headroom necessary for the Bahamian economy will mean setting aside some of that future revenue buoyancy to reduce fiscal deficits and, over the medium term, aspire to bring the Government debt to GDP ratio back into the desired range.

In the meantime, it is of vital importance to maximize existing revenues to finance expenditure on current services and limit the amount which we need to provide from borrowings to maintain living standards and these essential services. This, in turn requires a two-pronged approach, viz. modernizing all aspects of revenue collection on the one hand, and enhancing the efficiency of all aspects of current expenditure. I have more to say on these matters in this Communication.

**IMPROVING THE EFFICIENCY OF GOVERNMENT
SERVICES AND MAXIMIZING REVENUES AS
PILLARS OF PUBLIC SERVICE REFORM**

REFORM AND MODERNIZATION OF CUSTOMS

The Department of Customs is of fundamental importance within Government. It is responsible for collecting more than 50 per cent of revenues and is critical in facilitating trade and protecting our borders. It is now imperative for Customs to adapt its *modus operandi* to the economic and societal requirements of the 21st Century. That involves, among other things, simplifying procedures, efficiently processing shipments and providing transparent, predictable and timely service, while never losing sight of its key protective and revenue duties.

It is vitally important therefore that a fundamental reform and modernization of operations be undertaken, including enhanced utilization of information technology in all Customs systems. To enable the Customs Department to move forward rapidly, two

international Customs experts are being engaged to guide and support the process of modernization.

There is also an urgent need to clarify and bring certainty to the administration of the Hawksbill Creek Agreement in the Port Area. Accordingly, the Customs Management Act will be amended to put beyond doubt the powers of Customs to protect the revenue of The Bahamas throughout our archipelago.

And, the introduction of a shift system at the Customs Department beginning on 1st January, 2010 will reduce overtime costs and improve service at peak hours of business.

MODERNIZING FINANCIAL ADMINISTRATION

In the 2008/09 Budget Communication, I stated that a review of the Financial Administration and Audit Act was appropriate to determine the full extent of the legal provisions which should govern the accountability and transparency of Government revenues and expenditures. The aim was also to maximize the efficiency and the integrity with which public funds are disbursed, to fix

responsibility more firmly on senior officials charged with that responsibility, and to separate policy and management.

The Ministry of Finance has prepared a Discussion Paper as the basis for an extensive process of consultations with Members of Parliament, senior officials and the public. The Paper sets out proposals for changes in the structure of public financial management, specifically in the areas of accountability and transparency. The proposals 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.

When the consultation process is concluded, new financial administration and audit legislation will be prepared.

In keeping with the modernization of the legislation, it is also intended to proceed with the urgent implementation of modern information technology in the public financial system, capable of readily and efficiently meeting user needs.

Therefore, I am tabling today the Discussion Paper on Enhancing Accountability and Transparency in Public Financial Administration. The Paper is available in hardcopy form from the Ministry of Finance and will also be available on the Ministry's website www.Bahamas.Gov.bs/Finance. Comments are invited from all sources, and any relevant proposals put forward in this context will be considered.

MODERNIZING THE PUBLIC CORPORATIONS

Since 1997, the Government has been wrestling with the complexities of privatizing the Bahamas Telecommunications Corporation (Batelco).

The privatization is urgent and my Government is on course to privatize the Bahamas Telecommunications Company (BTC) as it is now known, at a profit to The Bahamas, early in the new fiscal year. The substantial proceeds from privatization will be used to reduce the borrowing requirements of the Government.

Other Public Corporations are being subjected to the same evaluation to determine the benefits of privatization. In some cases, privatization would mean shedding the burden which they place on the Consolidated Fund and the Bahamian taxpayer. The financial resources released from propping up these Corporations plus the proceeds of privatization would provide very welcome relief to the Bahamian taxpayer.

BUSINESS LICENCE RATIONALIZATION

Business Licence is another area ripe for Public Sector Reform because it is an area where inefficiencies and unnecessary bureaucratic practices prevail.

The Government has remained steadfast in its resolve to simplify the process of starting a business in The Bahamas such that entrepreneurs can convert ideas into concrete businesses as rapidly and efficiently as possible. To that end, my Government will, early in the new fiscal year, place before this Honourable House an amended Business Licence Act that amalgamates the existing Act

with the Liquor Licences Act, the Shop Licences Act and the Music and Dancing Licences Act to create a so-called “one-stop” service to the public to replace the current outdated, cumbersome and time-consuming processes.

As well, the new Business Licence Act will make specific provision for Liquor Licence as a special category of Licence; the Licencing Authority will no longer be required. The new Act also importantly includes a provision for the establishment of a Review Board that will hear objections from the public on certain licence applications, objections by applicants of licence revocations or suspensions and complaints regarding matters related to Business Licence. The issuance of Business Licence will become the responsibility of the Ministry of Finance. This will result in an amendment to the Local Government Act.

AMENDMENTS TO THE REAL PROPERTY TAX ACT

A further reform is in relation to the Real Property Tax Act, firstly, to improve collections, both of arrears and on an ongoing

basis, secondly, to reduce the property tax burden on certain properties and finally, to encourage the development of foreign-owned vacant land.

Specifically:

- provision is being made to write off the outstanding surcharge accrued on owner-occupied dwellings following the increase in the exemption level to \$100,000 in 1994 and, in 2004, in respect of such properties valued at or below \$250,000. The outstanding tax is to remain on accounts and be paid. As well, all outstanding taxes are to be paid within six months from the date of the Amendments to the Act, following which date a surcharge will be levied at a rate of 5 per cent per annum on outstanding balances;
- In addition, the existing three-rate structure on owner-occupied properties is being replaced by a two-rate structure: a rate of 1 per cent on properties valued up to \$7.5 million over the exemption of \$250,000 and, for

properties in excess of \$7.5 million, a rate of 0.25 per cent on the value in excess of \$7.5 million;

- The tax on vacant foreign-owned real property with a value up to \$7,000 will be \$100; properties over \$7,000 will pay a rate of 1.5 per cent;
- Provision is being made for the exemption on owner occupied property to be applicable automatically except for foreign home owners where the 9 month occupancy period will continue to apply;
- The tax rate on buildings on leased Crown Cays will be 0.5 per cent.

The areas which I have mentioned, Customs, Financial Administration, Public Expenditure Management, Privatization of BTC and other public corporations, and modernization of the Business Licence and Real Property processes are concrete examples of the areas where Public Sector Reform will take place. These by no means exhaust the possibilities.

Each and every Minister, and each and every Permanent Secretary and Director of Department, and each and every Principal Receiver of Revenue will be required to focus on identifying those areas of their responsibility where reform and modernization is needed. They will be expected, in addition, to put forward proposals – akin to a business plan – which will address the issues for which they are responsible.

I intend to ensure that reform takes place at an accelerated pace. The world will not wait for the Public Sector of The Bahamas to modernize, and if we do not modernize speedily, the return of the Bahamian economy to a sustainable strong growth path will be delayed, with loss of job opportunities for our people. Delay is simply not an option.

FURTHER RATIONALIZATION OF TARIFF AND EXCISE RATE STRUCTURES

It will be recalled that, consistent with our commitment in Manifesto '07, Customs Duties and Stamp Tax on Imports were amalgamated last year. We commenced that process in 1995 when

we reduced the number of tariff rates from 129 to 29. Last year, the number of rates, in both the Tariff Act and the new Excise Act combined, was reduced further by 6 to 23.

The Tariff and the Excise Acts are being simplified again this year. Specifically, we are eliminating 6 more duty and excise tax rates by moving them, in all cases, to a lower rate of duty or tax. Going forward, only 17 distinct rates of duty and excise will remain. That will further simplify Customs administration and make rate determinations more transparent.

THE FINANCIAL SERVICES SECTOR

It is the success and competence of the financial services sector that sets the Bahamian economy apart from other Caribbean economies. Without that sector, The Bahamas would be just another high-quality Caribbean tourism destination, excellent in itself, but not providing the high salaries and benefits which arise directly and indirectly from financial services.

In recognition of this fact, my Government has moved with urgency, to the extent possible, to safeguard the financial services

industry. Accordingly, my Government is embarking on negotiation of appropriate information exchange agreements with other countries, commencing with the Government of Canada.

Our aim is to ensure that the financial services sector of The Bahamas fully complies, as it has hitherto, with the enhanced norms now being demanded. In meeting these enhanced norms, hopefully, opportunities for further growth and diversification will be opened up.

Financial services, as well as the other sectors of our economy, will require skilled employees in order to strengthen their competitive positions. To that end, my Government remains committed to increasing access to excellent university education in The Bahamas. Only by having an ever-increasing pool of well-educated Bahamians can we create the competitiveness and innovation required to secure a prosperous future for the Commonwealth of The Bahamas. To this end, efforts will continue to be deployed to transform the College of The Bahamas into the University of The Bahamas as promptly and effectively as possible.

WORLD TRADE ORGANIZATION AND
EUROPEAN UNION

I now want to outline the position in relation to ongoing negotiations with the World Trade Organization and the European Union.

Following our application to become a member of the World Trade Organization (WTO) and the submission of the required Memorandum of Foreign Trade Regime, the WTO formally accepted the Memorandum in April of this year. The negotiations for our formal accession to this organization will commence in due course and should be concluded in three years.

To further advance our export trade, we have along with other CARICOM countries entered into discussions with Canada for a new trade agreement to replace the CARIBCAN agreement which will terminate next year. The new agreement is expected to establish more comprehensive and reciprocal trade rules between CARICOM and Canada to mutual advantage.

I advise with regard to relations with the European Union that The Bahamas and the European Union will sign the Schengen Visa Waiver Agreement on the 28th May. This will remove the visa requirement for short term visits (up to 3 months) by Bahamian citizens to each of the European Union countries that are party to the Schengen Visa Agreement. I note that the arrangement providing for the waiver of a visa for short stays (up to 3 months) for Bahamians visiting Switzerland remains in place. The three European countries for which short term visitors visas continue to be required for Bahamians are Iceland, Liechtenstein and Norway.

INTRODUCTION OF UNEMPLOYMENT BENEFITS

The Government moved decisively to cushion the impact of the recession on persons who have lost their jobs. Last month, unemployment payments as a benefit under the National Insurance Scheme were introduced.

The Unemployment Benefit provides temporary financial assistance to eligible workers who become unemployed, are unable to find suitable employment and are capable, available and willing

to work. The Scheme became effective on April 20 and the first benefit cheques were issued the week of May 4.

Through May 25th of this year 7,760 Unemployment Benefit applications had been received. Of these, 5,711 have been approved. An additional 400 claims are likely to be approved following upon the recently enacted amendment to the NIB Unemployment Benefits Regulations. In total some \$2.355 million was disbursed in benefit payments during the first four weeks of the programme up to 22 May, 2009.

NATIONAL TRAINING INITIATIVE

After extensive consultation with trade union leaders, employers' representatives and The Bahamas Christian Council, my Government has decided to begin a National Training and Retraining Programme for recently laid off workers.

The programme will be geared towards training workers in areas where there is a strong demand from the business sector. These areas will include but will not be limited to the following: masonry;

carpentry; welding; tile laying; electrical; landscaping; data processing; computer skills; customer service; day care assistant; housekeeping and language skills.

Courses will be for a period of 10 to 15 weeks and will be offered by The Bahamas Technical and Vocational Institute (BTVI) and the College of The Bahamas (COB).

The programme will be made available to 1,000 unemployed Bahamians who will be selected from those persons who have already registered for the NIB Unemployment Benefit.

THE GLOBAL ECONOMY

In order to place the discussion of expenditures and revenues in the 2009/10 Budget in proper context, I now turn to a review of developments and prospects in, first, the global economy and then the Bahamian economy.

The world economy is currently mired in the deepest recession in well over 60 years. The recovery, when it does occur, is expected to be weaker and much slower than in previous rebounds, due largely to the fact that financial crises have historically been

associated with particularly weak recoveries in economic activity. The April World Economic Outlook of the IMF now projects global activity to fall by 1.3 per cent in 2009, down sharply from its forecast of January. The degree of uncertainty surrounding the outlook is also exceptionally large and, in the estimation of the IMF, the downside risks clearly predominate.

The United States is our single largest and most important trading partner. Developments and prospects in that country are particularly troublesome. It is, in the words of the IMF, at the so-called epicenter of the crisis and financial conditions have not improved as had earlier been expected. Households have been especially hard hit by the deep recession in that country, experiencing large financial losses and job losses. As a result, consumer confidence has fallen to record low levels.

Real GDP in the U.S. declined at an annual rate of 6.1% in the first quarter of 2009, after a fall of 6.3% in the previous quarter. That has had a striking impact on some of the major trading partners of the U.S. and underscores the severity of the global recession. In

the first quarter, the economies of Japan and Germany shrank at annual rates of 15.2% and 14.4%, respectively, their worst performances in 54 years and 39 years, respectively. The Mexican economy, with strong ties to the U.S., contracted by 21.5% in the first quarter and its auto production was down by 41%.

The U.S. economy is now projected to contract by 2.8 percent in 2009, with the rate of decline expected to ease after the first quarter as the effects of fiscal easing kick in. While the economy is projected to start recovering by the middle of 2010, GDP growth for that year is forecast at only zero percent.

THE BAHAMIAN ECONOMY

The Bahamian economy was adversely affected in 2008 by the global economic downturn, resulting in the first decline in real activity since 2004. Preliminary estimates indicate that real GDP fell by 1.7%, in contrast to expansions of 0.7% in 2007 and 4.3% in 2006.

This significant weakness in economic activity reflected declines in tourism, foreign direct investments and related construction,

business failures and or contraction, job losses and a consequent falloff in consumer spending.

The performance of the tourism sector was decidedly weak in 2008, especially in the latter part of the year. Tourism output fell during the year, due to declines in both stopover and cruise activity. Total visitor arrivals decreased by 4.5%, extending the 2.9% falloff in 2007. The hotel sector did register growth of 5.8% in room revenues over the first nine months of the year but conditions worsened during the closing months of the year and into this year. Major properties were faced with further declines in occupancy levels and forward bookings for the 2009 winter season. This resulted in the termination of some 2,200 jobs, and shortened work hours for many of the remaining employees. The closing of the Four Seasons Hotel in Exuma yesterday, 26th May, is resulting in the termination of 270 employees from that Resort beginning tomorrow, 28th May. I am advised that additional staff will be terminated over the coming weeks but that a number of employees

are to remain on staff during the transition period to new ownership of the resort development.

The latest preliminary data available for the first four months of 2009 reveal quite starkly the gravity of the situation in the tourism sector. Through April, total arrivals to The Bahamas, at 1.68 million, were down by 1.2% from the same period last year. However, the most important air arrivals segment was lower by 15.5%. Arrival by sea were actually up by 5.5% over the first four months, in part reflecting the repositioning of cruise ships back to The Bahamas, due to the growing popularity of short cruises, especially Bahamas-only cruises staying in port overnight.

Air arrivals in New Providence, at some 348,000 in the January to April 2009 period, were down by 10.5% from the same period in 2008. Declines in this segment were even more pronounced in Grand Bahama and the other Family Islands, at 28.9 per cent and 27.6 per cent, respectively.

The weakness in our tourism sector is not unique as tourism markets worldwide are currently depressed. The city of London, for

example, which is highly dependent upon the U.S. as its largest single source market, has seen its business decline by 18%. Las Vegas has experienced a decline of \$65 million in its hotel tax revenue compared to last year. Orlando has had its business decline by 21%. Overall, it is estimated that travel globally is down by an average of 18%.

The short-term prospects for the tourism sector are expected to remain challenging, especially in respect of the high value-added stopover segment. We are moving to address those challenges and improve the attractiveness of our tourism product. In the same way that a highly effective plan was implemented to increase the number of cruise ships calling on The Bahamas to record numbers, the Ministry of Tourism is embarking on a plan to increase the number of airlines serving our country with reduced airfares for customers.

The several major infrastructural projects that we are undertaking will also provide benefits to the tourism sector, by enabling better delivery of the kind of quality experience which consumers are seeking. Further, the Ministry of Tourism will

undertake a broad spectrum of strategic marketing initiatives in the U.S., Europe, Canada and Latin America.

Output in the construction sector fell by some 10% in 2008. This was primarily due to the tightening in foreign investment inflows. At the same time, domestic residential and commercial developments provided positive contributions.

First quarter 2009 approvals for new building starts fell to 463 from the 471 approved in the same period in 2008. It is to be noted that the inclusion of the approval for the \$150 million LPIA Expansion in February, 2009 helped push the value of building permits for this year to \$325.7 million, up from the \$124 million value of approvals granted in 2008.

Real estate purchases by international persons decreased by a third and a number of resort development projects stalled. For the period January to March 2009 the Investments Board issued 254 registration certificates in respect of foreign acquisition of residential properties valued at \$139.6 million as compared to 315 certificates issued during the same period in 2008 for property

valued at \$107.4 million; a decline of 19.4% in the number of certificates issued.

For the same three month period in 2009 the Investments Board issued 115 permits in respect of international real property acquisitions for commercial developments valued at \$70 million as compared to 182 permits issued in 2008 for property valued at \$194.3 million, a decline of 36% in the number of permits issued.

The continuation of a number of upscale resort and residential developments, the inauguration of The Bahamas' first off-shore medical school and the ground breaking for an important niche market resort on a Family Island provide a positive background to an otherwise challenging foreign direct investment forecast.

Expectations are that the key tourism and foreign investment sectors will remain weak in 2009, resulting in further weakness in the construction sector and a further increase in the unemployment rate. However, some tempering to this outcome is expected to occur from the Government's "accelerated" capital works programme.

Inflation, in terms of the average Retail Price Index, rose to 4.5% in 2008, fully 2 percentage points above the previous year. The increase in housing costs was 3.5% up from 0.5%; while the rate of increase in food & beverages prices nearly doubled to 6.7%. Higher price levels persisted over the twelve-month period to April, 2009, with inflation rising to 4.8%. All categories registered increases: 3.3% for housing, 9% for other goods and services and 8% for food and beverages. Fuel prices rose sharply through mid-2008 but, by year-end, gasoline and diesel were down by 26.5% and 21.1%, respectively, from end-2007. During the first quarter of 2009, the average price of both fuels decreased further.

In light of the layoffs in the hotel, construction and other sectors, the unemployment rate continued to rise, exceeding 12.0% at end-2008, compared to mid-year estimates of 8.7% in May 2008 and 7.9% in May 2007.

The growth of domestic credit moderated to 6.4% in 2008, down significantly from 10.3% a year earlier. This contributed to an

improvement in liquidity conditions and a buildup in external reserves during the year.

Reductions in non-oil imports, combined with declines in dividend and interest outflows from the private sector and reduced payments for external construction services, contributed to a 23.2% contraction in the deficit in the Current Account of the Balance of Payments. The merchandise trade deficit narrowed by 1%, to \$2.1 billion, as non-oil imports fell by 17.5% and offset the 44.7% increase in the fuel bill. As a result of a reduction in net private investment flows, the capital and financial account surplus fell by \$59.4 million to \$927.2 million.

External reserves grew by \$108.7 million in 2008, to \$562.9 million versus a contraction of \$45.5 million in the previous year. This upward trend has continued into this month; on May 20th external reserves stood at \$647.7 million, as compared to \$562.9 million at the end-2008.

The volume of trading on the Bahamas International Securities Exchange decreased by 3.1% to 4.6 million shares in 2008; however

the value of the securities exchanged rose by 11.7% to \$31.6 million. Market capitalization contracted by 23.8% to \$3.03 billion.

The Bahamian contraction of the Bahamian economy by 1.7 per cent in 2008 is in sharp contrast to the forecast of a positive 2 per cent growth rate for that year that was included in the 2008/09 Budget Communication, and is indicative of the suddenness and severity of the worldwide recession through which we are living.

In line with its forecast for U.S. activity, the IMF has revised downward its projection for growth in The Bahamas in 2009, and now forecasts a decline of the order of 3.9 per cent. A further decline is anticipated in 2010, though by a more modest 0.5 per cent. Positive real growth is projected thereafter.

As we believe that it is critically important to proceed in as prudent a fashion as possible in the current uncertain environment, we have adopted these projections for the purposes of fiscal planning in this 2009/10 Budget.

FISCAL PERFORMANCE 2008/09

In light of the gravity of the economic and fiscal situation that we confront, and the challenges that we must deal with going forward, I will take some time to review in detail our fiscal performance in 2008/09, and fiscal strategy going forward.

The GFS deficit in 2008/09 is being severely and negatively affected by the global downturn which is having a major effect on the performance of the Bahamian economy. It is to be noted, in particular, that GDP in current dollars, which is a critical factor in the evolution of revenues, is expected to be lower than forecast in 2008/09 by some 3.5 per cent or \$ 265 million.

Recurrent revenue is bearing the brunt of the recessionary pressures. We now estimate that they will come in at some \$1.31 billion in 2008/09, down by over \$260 million from the estimate in last year's Budget. That amounts to a decline of almost 17 per cent and bears witness to the extent of the fiscal challenge that confronts the Government in the current environment. The new estimated

level of revenues in 2008/09 is forecast to amount to 17.5 per cent of GDP, fully 2.8 points lower than expected and the lowest level in three years.

Recurrent expenditure in 2008/09 is expected to show under spending of the order of \$40 million from the Estimates. As a result of this and significant underperformance in revenue, the very small surplus that we had anticipated in the recurrent balance in 2008/09 is now expected to be replaced by a deficit of \$186 million.

After factoring in capital expenditure and debt redemption, the GFS deficit in 2008/09 is now estimated at \$352 million, more than double the level projected in the 2008/09 Budget Communication. At 4.7% of GDP, the GFS Deficit will be \$187 million over the estimated level presented last year.

A deficit of such a magnitude is not sustainable over the medium term and will clearly have implications for the stock of Government Debt which, at the end of June 2009, is expected to stand at just over \$2.9 billion or 38.9 per cent of GDP.

FISCAL POLICY 2009/10 AND BEYOND

In line with the growth projections, we expect GDP in current dollars to be yet lower in 2009/10 than it was last year, by some \$78 million. In order to mitigate the impact of such a scenario on revenues, we will redouble our efforts in 2009/10 to collect the maximum amount of revenues that are rightfully due to Government. As well, we will continue to streamline revenue collections to facilitate the payment of taxes and fees. As such, it is estimated that recurrent revenue can reasonably be expected to come in at \$1.389 billion, or 18.8 per cent of GDP. That would still be somewhat lower than the ratio attained in 2007/08 but at least it puts us back on the upward trajectory that had been envisaged in last year's Budget Communication. Ongoing enhancements in revenue administration and collections should lead to yet further improvements in the ratio of revenues to GDP as we move beyond next year.

To further strengthen fiscal discipline in the current difficult environment, we will hold the line on recurrent expenditure in 2009/10. In this regard, we will endeavour to maintain employment levels and other priorities. And we will move firmly to eliminate expenditures which, in present circumstances, are of low priority. For example, travel to international conferences will be reduced to the bare minimum and only urgent staffing appointments will be approved. Each Ministry and Department is aware of Government policy on this issue and is gearing to give effect to it. Needless to say, such expenditure restraint has required the Government to make some very difficult decisions. I note in this regard the need to require teachers, doctors and nurses to forgo this year, the salary increases, and in the case of nurses, a new health insurance benefit, provided for in their contract, totaling some \$10.5 million,.

We estimate recurrent expenditure at \$1.53 billion next year, only \$34 million more than the projected outturn for 2008/09 but \$39 less than projected for that year in the 2008/09 Budget.

This combination of revenue enhancements and expenditure restraint will result in a lower recurrent deficit in 2009/10 as compared to 2008/09: \$141 million vs. \$186 million. When combined with capital expenditure of \$255 million and debt redemption of \$88 million, this is expected to produce a GFS deficit of \$286 million, or 3.9 per cent of GDP in 2009/10, down by 0.8 per cent from the 4.7 per cent (\$352 million) projected outturn for 2008/09.

Government Debt at the end of June, 2010 will rise to 43.2% of GDP, up from 38.9% a year earlier. As the economy starts to grow strongly again in 2012 onwards the ratio of Government Debt to GDP will decline.

The Government remains steadfast in its commitment to fiscal discipline in order to return public finances to more acceptable levels of public debt relative to the size of the economy. The multi-year fiscal projections presented in this Communication illustrate the projected evolution of public finances over the next 3 years based on the continuation of the fiscal strategy that I have set out

and on assumptions about the macroeconomic environment as set out by the IMF. I would stress that these are not “cast-in-stone” forecasts or projections, but rather are indications of the future evolution of the public finances based on a number of key assumptions which, in present circumstances, could change quickly and radically.

On the basis of these projections or indications, we should be in position, desirably, to reduce the GFS Deficits in the next three years. In light of the magnitude of the fiscal challenges that we face, that in and of itself will be a notable achievement. Then, as GDP grows the effect will be to reduce the ratio of Government Debt to GDP. The debt ratio will then be moving onto a downward path to the more desirable levels which we achieved before the current global crisis. Of course, to ensure this continuing, care and vigilance on both expenditure and revenues will remain crucial tasks of fiscal policy.

I have gone to greater length than usual in the discussion of fiscal developments and projections in this year’s Budget

Communication in order to stress, to the maximum extent possible, our desire to frame the short-term measures that we are adopting to support the economy squarely within the context of a sound medium-term fiscal strategy. It is just such a strategy that will return The Bahamas to the sustainable fiscal position that is so vitally important to our future prosperity.

RECURRENT EXPENDITURE

All Government Ministries, Departments and Agencies are being allocated funding sufficient to meet their core mandate to the public, albeit in the context of the overriding need to maintain a disciplined approach to public expenditure. As such, there are decreases in allocations to nearly all Ministries and Departments in 2009/10 over approved estimates in the current fiscal period.

Total Recurrent Expenditure allocations in 2009/10 are set at a level of \$1.53 billion, some \$39.3 million lower than the approved estimates for 2008/09. Of the few selected increases, the largest are in respect of:

- the Department of Public Service, \$10.4 million (pensions, insurance for uniformed services and others);
- the Public Hospitals Authority, \$7.3 million;
- the Department of Environmental Health Services, \$2.9 million; and
- the Department of Public Health, \$1.9 million.

This enhanced budgetary discipline is essential to ensure that our society obtains the best results from the expenditures made available to the various ministries, departments and other agencies. Thus, the enhanced fiscal discipline places responsibility on the managements of the various government agencies to carefully scrutinize expenditure proposals.

Evidence in The Bahamas and from other countries suggests that throwing money at problems is an inefficient and wasteful means of obtaining results. In the present difficult climate we have no option but to be financially responsible at all levels of Government. Thus, the law enforcement and security services are well launched in the

process of maximizing results from their expenditure allocations, in the knowledge that resources are severely limited at this time and likely to remain so for some time. Similarly, the major social ministries – education and health – can, with careful management, continue to develop and expand the quality of the services they provide.

A total of 138 public servants will reach the mandatory age of retirement in 2009/10. As these positions will not be filled, an annual salary saving of the order of \$4.1 million is expected.

The detailed allocations by Ministry, Department and Agency are set out in the accompanying documentation. Clearly, all will be challenged to manage public resources within very stringent budgetary conditions. The stark reality is that the severe fiscal situation in which we find ourselves warrants that to be the case.

CAPITAL EXPENDITURE

We are providing \$255 million for capital expenditure – up slightly from the previous year. This highlights my Government's

continued commitment to modernizing and expanding the nation's infrastructure, and to providing crucial employment on these projects essential to the continuing development of The Bahamas.

Among projects which fit these criteria are:

- The New Providence Roads Project;
- The Nassau Harbour Project which includes the dredging of the harbour so as to accommodate calls by the new Genesis class cruise ships entering into service this Fall, and the extension of Woodes Rodgers Wharf eastward from Rawson Square to Armstrong Street;
- The revitalization of the City of Nassau including the transfer of the commercial dock to Arawak Cay, the extension westward of Arawak Cay, and the construction of a new straw market;

- The expansion and upgrade of the Supreme Court;
 - The completion of the Magistrate's Court Complex on Meeting Street;
 - The redevelopment of the old City Market site on Market Street to accommodate the Registrar General's Office;
 - The construction of government offices in Nassau, Freeport and Abaco, involving financing partnership between the National Insurance Board and private investors;
 - The upgrade of the Marsh Harbour International Airport;
 - The Government housing programme;
- and

- The continuation of Family Island road works, a number of which are presently underway.

The continuation of the redevelopment of the Lynden Pindling International Airport is another important infrastructure development project which is enhancing the gateway to our capital city and creating important employment opportunities. Construction of the new US Departure Terminal is scheduled to commence before the end of June, 2009 and to be completed by end-March, 2011.

And, construction has commenced on the National Stadium in Oakes Field, a gift from the People's Republic of China.

REVENUE MEASURES

This Budget contains no new taxes and only a minor increase in one rate of tax. Instead, the Government is introducing a number of revenue measures to respond to concerns that have been expressed and to further rationalize rates for similar products.

The rates of excise tax on several tourist items are also being decreased in order to improve the price competitiveness of retailers.

More specifically, the rate of excise tax will be reduced:

- From 25% to 10% on:
 - perfumes and toilet water; and
 - trunk, suit, vanity, executive brief and similar cases;
- From 10% to 7% on:
 - jerseys, pullovers, cardigans, waistcoats and similar articles knitted or crocheted;
 - tableware, kitchenware, other household articles and toilet articles, of porcelain or china;
 - glassware used for table, kitchen, toilet, office, indoor decorations or similar purposes made of crystal;
 - statuettes and other ornaments made of crystal;
 - photographic cameras and photographic flashlight apparatus.

A number of tariff rate reductions are also being proposed to ensure that similar products face the same rate. Accordingly:

- the rate on computer monitors imported separately is being reduced from 10% to “free” to align it with the rate on monitors imported with a computer;
- the rate on fiberglass and epoxy rebar used in construction is being reduced from 45% to 35% to align it with the rate on conventional steel rebar used in construction;
- the rate on salad dressing is being reduced from 40% to 30% to align it with the rate on other sauces and mixed seasonings;
- the rate on printer parts and accessories is being reduced from 45% to 10% to align it with the rate on printers;
- the rate on watch parts is being reduced from 45% to 10% to align it with the rate on watches;
- the rate on blood pressure meters is being reduced from 35% to “Free” to align it with the rate on glucose meters and to make this item more accessible;
- the rate on Acrylic Bathtubs is being reduced from 45% to 35% to align it with the rate on Iron and Steel Bathtubs.

Several products will see their tariff rate reduced to “zero”.

These include:

- toothpaste;
- disposable undergarments for infants and baby napkins
- disposable undergarments for adults and feminine napkins;
- books and booklets;
- exercise books, dictionaries, encyclopedias and serial installments
- children’s picture, drawing or colouring books;
- music books;
- globes and maps;
- photographs;
- condoms and contraceptives.

It is also proposed to modify the Fourth Schedule of the Tariff Act to once again provide exemptions for: materials used for the restoration and maintenance of historical buildings; motor vessels

and their engine and mechanical parts used for Inter-Island service; and parts for temporary cruising vessels.

Finally, it is proposed to increase the duty on items imported temporarily from 7% to 10% for every three months the items are in the country.

CONCLUDING REMARKS

Earlier in this Communication I referred to the commitment which was made in *Manifesto '92* to adopt prudent and far-sighted economic and fiscal policies so that The Bahamas would weather major external crises. The fact that we are now doing so in the depths of the gravest recession to affect the global economy since the Second World War, which ended in 1945, is testament to the importance and success of that policy. In this regard, in the “*Letters*” pages of the *Financial Times* there was correspondence on appropriate warnings from history about dangers. One letter-writer suggested a poem from the great British poet A.E. Housman which reads as follows:-

The thoughts of others

Were light and fleeting,

Of lovers' meeting,

Or luck or fame.

Mine were of trouble,

And mine were steady,

So I was ready

When trouble came.

It is not my norm to quote poetry. However, that poem, to my mind, beautifully sums up the importance of maintaining a strategic vision. By maintaining such a strategic vision since first entry into office in 1992, as exemplified by the far-reaching improvements which we made in the economic and social fabric of The Bahamas and by budgeting wisely, we created the fiscal headroom which is enabling The Bahamas to maintain its course through these deeply troubling times. I believe that the Bahamian people and outside

observers will commend my Government for doing so, and will continue to place their fullest confidence in my Government's ability to return The Bahamas to the path of social and economic progress temporarily interrupted by this crisis.

ANNEX A

ECONOMIC BACKGROUND

ECONOMIC BACKGROUND¹

INTRODUCTION

During 2008, indications are that the global economic downturn adversely affected the domestic economy, resulting in the first decline in real activity since 2004. Real GDP fell by an estimated 1.7% during the review year, in contrast to a revised growth of 0.7% in 2007 and 4.3% in 2006, reflecting mainly declines in tourism, foreign investment and consumer spending. In this uncertain environment, several large firms reduced their employment levels leading to a rise in the unemployment rate to double digit levels. Moreover, inflationary pressures were sustained during the year, owing to ongoing transmission of international fuel and other commodity price increases to the local economy, particularly in the first six months of the year.

In this analysis, economic developments in 2008 and prospects for the Bahamian economy in 2009 will be examined. As a backdrop, the report considers key trends in the international economic

¹ The Economic Background is based on material provided by the Central Bank of The Bahamas. The Bahamas' GDP data for 2008 is based on the Department of Statistics' preliminary estimates.

environment, which have a direct impact on the domestic economy, followed by an evaluation of the domestic condition, including policies and movements affecting the financial sector.

INTERNATIONAL ECONOMIC DEVELOPMENTS

The International Monetary Fund (IMF), in its April 2009 World Economic Outlook, projected that global economic growth slowed to 3.2% in 2008 from 5.2% a year earlier, owing to the intensification of the global financial crisis. Although global economic activity remained positive in 2008, the escalation of the crisis, characterized by tightened credit markets and the collapse of several significant financial institutions, eroded consumer confidence and dragged all of the major economies into recession by the latter half of the year.

Confronted with increasingly significant downside risks to growth, governments implemented aggressive, often coordinated, fiscal “stimulus” packages worth trillions of US dollars in attempts to ignite the recoveries of their economies and to restore confidence to the financial markets. Similarly, leading central banks pursued

expansionary monetary policies, lowering key policy rates and injecting trillions of dollars into the credit markets. The US Federal Reserve led these initiatives, also providing direct liquidity assistance to a number of other central banks.

Preliminary data suggests that the United States' economy grew by 1.1% in 2008, 0.9 percentage points lower than the previous year, owing primarily to declines in personal consumption expenditures, exports and residential investments. Growing economic uncertainty and the increased incidence of bankruptcies led to approximately 1.9 million workers losing their jobs during the year, which pushed the unemployment rate up to 7.2% from 5.0% in 2007. Inflation softened to 0.1% at end-2008 from 4.1% a year earlier, as the sharp decrease in fuel prices in the second half of the year offset elevated energy costs recorded earlier. As global economic conditions deteriorated, investors' demand for relatively "safe" US dollar denominated assets increased, supporting a strong rally in the value of the US dollar against the British pound, Canadian dollar and the Euro. However, the dollar fell against the Japanese yen and the Chinese Yuan. In terms of trade, the United

States' current account deficit moved lower for the second consecutive year, to 4.7% of GDP in 2008 from 5.3% of GDP a year ago, as the falloff in import demand caused a reduction in the trade deficit, and the surpluses on the income and services accounts increased.

Amid downturns in consumption and investment expenditures, economic growth in the euro area narrowed to 0.8% from 2.6% in 2007. In the United Kingdom, real output gains eased to less than 1.0% on an annualized basis, from 3.0% in the previous period, reflecting tightened liquidity and credit conditions associated with the deterioration in the banking sector. With respect to the export driven Asian economies, as global demand fell sharply, Japan's output contracted by 0.7% in 2008, after expanding by 2.4% a year earlier; while China's growth slackened to 9.0% from a more robust 13.0% in 2007.

The persistent firming in world commodity prices over the past five years eased during 2008, after the falloff in demand exerted downward pressure on the price of some commodities. After attaining a peak of \$147.50 per barrel at end-June, oil prices retreated sharply over the remainder of the year, for an end-December close of \$39.53 per

barrel, down by 58.4% from 2007. With regards to other major commodities, silver prices depreciated by 23% to \$11.39 per troy ounce; however, the price of gold rose by 5.8% to \$882.05 per troy ounce, and the 12-month average price of wheat and corn firmed by more than 25% and 35%, respectively.

According to the IMF's April 2009 World Economic Outlook, global economic activity is projected to decline by 1.3% in 2009, the worst performance since World War II, with the strains in financial markets continuing to be transmitted to the real economies. Output is expected to gradually recover by 3.0% in 2010, with developments heavily dependent on the success of expansionary monetary and fiscal policies. For the advanced economies, it is expected that financial sector difficulties and their adverse effects on output will persist throughout 2009, resulting in a 2.0% contraction in output vis-à-vis an estimated 1.0% expansion in 2008. In particular, the United States' economy is projected to shrink by 2.8% in 2009, and output in the Euro Area and Japan, by 4.2% and 6.2%, respectively. For emerging and developing economies, it is anticipated that real GDP growth will slow by 4.5

percentage points to 1.6%, due to declining export demand, lower commodity prices and more constrained external financing options. The largest contributions to the economic expansion are projected to come from China and India, whose economies are forecast to grow at moderated rates of 6.5% and 4.5%, respectively. Commodity prices are also either expected to stabilize or decrease during the year, reflecting relatively depressed demand conditions.

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary estimates indicate that real GDP contracted by 1.7% in 2008, in contrast to growth of 0.7% in 2007 and 4.3% in 2006.² The escalating global crisis—in particular, the recession in the United States—contributed to a falloff in tourism output and a downturn in foreign investment inflows. Consequently, construction activity weakened and several enterprises, mainly hotel sector operations, reduced their employment levels. This outcome and a stalled pace of new jobs creation caused a significant rise in the unemployment rate to above 12.0% at end-2008, from mid-year estimates of 7.9% in May of

²Source: The Department of Statistics.

2007 and 8.7% in 2008. Reflecting the pass-through effects of earlier commodities price increases in finished goods, domestic inflation accelerated to 4.5% in 2008 from 2.0% in 2007. On the monetary front, slowed, more sustainable expansion in domestic credit supported more buoyant liquidity conditions and a build-up in external reserves.

In the public sector, increased budgetary strains led to continued growth in the National Debt during 2008, encapsulating gains in both domestic and foreign currency obligations. However, in the external sector, the estimated current account deficit narrowed, owing to a reduction in payments for foreign construction services and lower demand for non-oil imports. Meanwhile, with the fall-off in net private investment inflows, the surplus on the capital and financial account contracted.

TOURISM

Tourism output fell during 2008, due to declines in both stopover and cruise activity. Total visitor arrivals decreased by 4.5%, extending a 2.9% falloff in 2007. This outturn was occasioned by a 3.6% reduction in sea traffic vis-à-vis a 4.0% tapering the previous year, and an

extended 6.0% decline in the air component, up from 0.4% a year earlier.

Port of entry statistics revealed that visitors to both New Providence and Grand Bahama fell, by 7.9% and 5.2%, respectively, due to falloffs in both air and sea traffic. In contrast, arrivals to the Family Islands expanded by 2.7%, with the 9.0% decline in air tourists negating a modest improvement in the larger sea component.

In the stopover category, visitor arrivals decreased by 4.3% to 1.5 million, led by a 6.9% contraction in vacationers from the United States—the main source of tourists to The Bahamas. In contrast, tourists from Canada and Europe registered appreciable growth of 14.6% and 7.6%, respectively; and vacationers from other countries rose by 0.6%.

As to onshore expenditure indicators, despite sales of hotel room nights narrowing by 3.3% over the first nine months of the year, hotel room revenues firmed by 5.8%, owing to a 9.4% advance in average daily rates . The latter was primarily attributed to New Providence, where hotel receipts rose by 10.6%, buoyed by an 11.7% increase in average room rates, which outweighed a 0.9% reduction in total room

night sales. In contrast, declines in room revenues of 18.7% and 6.8% were posted in Grand Bahama and Family Island markets, respectively, reflecting contractions in both occupied room nights and average room rates. Conditions, however, worsened during the closing months of the year, as major properties, including those in New Providence, were faced with further declines in occupancy levels and forward bookings for the 2009 winter season. This resulted in the termination of some 2,200 jobs, and shortened work hours for many of the remaining employees,

The near-term prospects for tourism are expected to remain challenging, as the global economic slump continues to weigh down on the high value-added stopover segment of the market. Data available for the month of January 2009, showed that air arrivals—which comprise the bulk of long-stay visitors—fell by 18.7% to approximately 110,759; however, overall arrivals still firmed by 10.2%, benefitting from a 22.5% increase in the sea segment. Among the main markets, increased visitor arrivals were recorded for New Providence (7.4%) and the

Family Islands (21.8%), to contrast with the 7.6% contraction in the Grand Bahama market.

In line with the falloff in the air segment, key leading indicators of tourism output signal persistent weakness in the sector. Hotel revenues slumped by an estimated 21.3% during January 2009, reflecting a 20.3% plunge in room night sales, along with a more subdued 1.2% decrease in average daily rates. The contraction in earnings was broad-based, with the New Providence, Grand Bahama and Family Island markets reporting revenue declines of 18.2%, 29.7% and 39.9%, respectively. These trends are expected to continue in the near-term; however, the severity of the decline may be cushioned by the success of both public and private sector initiatives, such as the subsidizing of airline ticket prices, discounted room rates and more aggressive advertising campaigns.

FINANCIAL SECTOR

Preliminary information on the financial sector for 2008, revealed relatively stable balance sheet trends and positive employment

conditions. While the Exchange Control Regulations continued to shield local banking operations from the direct effects of the crisis, the transmitted negative effects on real economic activity resulted in an increase in non-performing loans in the local banking sector. A Central Bank survey conducted in the latter part of 2008 suggested that, although several international banking operations reported some exposure to the financial crisis, either directly or through their parent entities, the operations were not placed in serious risk, given the predominantly non-discretionary nature of most of private banking activities, and balance sheet capitalization well in excess of the minimum levels required by the Central Bank.

During 2008, the number of banks and trust companies licensed to operate from or within The Bahamas, rose by 26 to 271, with the bulk of these institutions offering nominee services. Similarly, the number of firms which operated through physical presence stood at 241, with 30 licensees—which consisted of branch operations originating in predominantly G-10 jurisdictions—maintaining approved restrictive management status compared to 31 a year ago.

In terms of private trust companies (PTCs), approval was granted for the registration of 31 such entities in 2008, significantly higher than the seven registered a year earlier. Additionally, four existing licensees of the Central Bank advised of their intent to operate as registered representatives of PTCs, thereby extending the number of such representatives to nine. The Central Bank also approved two additional financial and corporate service providers to serve as registered representatives of PTCs.

Provisional data from the Central Bank's annual survey for 2008, indicated that despite the weakness in the local economy, domestic banking activity appeared to have expanded during the year. Total outlays of banks and trust companies—which contribute to overall output—expanded by 8.2% to \$553.1 million, supported mainly by increases in operational expenses, such as salaries and administrative costs, as well as higher capital outlays. Similarly, employment in the banking sector rose by 31 (0.6%) to 4,954 individuals, attributed mainly to an increase in the number of Bahamians engaged.

CONSTRUCTION

Despite the positive contributions from domestic residential and commercial developments, real output in the construction sector fell by an estimated 10% in 2008, mainly due to the tightening in foreign investment inflows.

In the domestic sector, total mortgage loan disbursements by banks, insurance companies and the Bahamas Mortgage Corporation, for new construction and repairs to existing structures, rose by 18.8% to \$646.5 million. In terms of the components, residential outlays advanced by 18.2% to \$586.9 million, while the commercial support improved by 25.8% to \$59.6 million. Mortgage commitments—a forward looking indicator of construction activity—expanded by 69.8% to \$226.3 million, supported by gains in both the residential and commercial components.

During 2008, total mortgages outstanding rose by 8.1% to \$3,039.3 million, a slowdown from growth of 12.3% in the previous year. The expansion in residential claims—which comprised roughly

92.8% of the total—narrowed to 9.3% from 12.9%, while outstanding commercial mortgages decreased by 5.4%, after an increase of 6.7% in 2007.

Favouring the developments in the mortgage market, was an easing in the average interest rates for residential loans by 10 basis points to 8.50% and in commercial rates, by 40 basis points to 8.60%.

INFLATION

The uptrend in international oil prices to historic highs during the first six months of 2008 sustained the acceleration in domestic inflation over the year. The average Retail Price Index firmed by 4.5% in 2008, 2.0 percentage points faster than in the previous year. The rise in housing costs—the most heavily weighted component of the Index, quickened to 3.5% from 0.5%; while the rate of increase in food & beverages prices nearly doubled to 6.7%. Also, average price hikes in excess of 1.5% were recorded for the other items in the Index.

Higher price levels persisted over the twelve-month period to April 2009, with inflation firming to 4.8% from 2.5% a year earlier.

Gains were registered across all categories, including the housing (3.3%), other goods and services (9.0%), and food & beverages (8.0%) indices.

For fuel prices in New Providence, which affected transportation costs, the average price per gallon of gasoline advanced to a high of \$5.74 in July, with diesel prices peaking in the following month at \$6.12 per gallon. However, by year-end, the cost of both products fell to \$3.35 and \$3.36 per gallon, respectively, down by 26.5% and 21.1% from end-2007. Over the four months to April 2009, the average price of gasoline and diesel decreased further to \$3.39 and \$2.68 per gallon, respectively.

EMPLOYMENT

Amid the layoffs in the hotel, construction and other sectors and stalled creation of new jobs, indications are that the unemployment rate continued to rise, exceeding 12.0% at end-2008, compared to mid-year estimates of 8.7% in May 2008 and 7.9% in May 2007. The interim labour force survey conducted in February 2009 by the Department of Statistics for New Providence and Grand Bahama, revealed that the

respective unemployment rate on these islands rose to 12.1% and 14.6% at end-December 2008, compared to 8.7% and 9.0%, respectively in May 2008.

FOREIGN INVESTMENT AND THE BALANCE OF PAYMENTS

During 2008, reductions in non-oil import receipts, combined with declines in dividend and interest outflows from the private sector and reduced payments for external construction services, contributed to a 23.2% contraction in the current account deficit, to an estimated \$1,009.4 million.

The trade deficit narrowed by 1.0% to \$2,133.4 million, vis-à-vis a 6.0% growth in 2007, as the estimated 17.5% reduction in the non-oil deficit to \$1,355.6 million offset a 44.7% increase in the fuel bill to \$1,160.2 million. In contrast, the services account surplus improved by 15.7% to \$1,180.2 million, owing to a contraction in “other” net external payments, by 16.2% to \$433.9 million, that was led by a sharp falloff in net payments for foreign construction services. Moreover, net travel receipts rose by 2.1% to \$1,848.6 million, as the reduction in residents’

overseas spending outweighed the estimated decrease in tourism inflows. Meanwhile, net inflows from offshore companies' local expenses firmed by 9.0% to \$229.2 million, and net external payments for insurance and transportation services were respectively reduced, by 1.1% to \$105.9 million, and 4.4% to \$301.7 million. Similarly, net investment income outflows contracted by \$116.8 million to \$114.8 million, due to scaled-back remittances of interest and dividends.

Amid a one-third curtailment in net private investment inflows, the capital and financial account surplus fell by \$59.4 million (8.8%) to \$927.2 million. In the private sector, net real estate purchases decreased by a third to \$229.9 million, and net loan financing was more than halved to \$186.0 million. These more than offset a 20.4% increase in equity supported private developments, to \$469.6 million. Public sector external debt operations reverted to a net capital inflow of \$104.4 million; and commercial banks' activities were reversed to a net short-term inflow of \$22.7 million.

CAPITAL MARKETS

As local investor confidence sagged, the Bahamas International Securities Exchange (BISX) All Share Price Index depreciated by 17.2% to 1,712.36 points during 2008, and market capitalization contracted by 23.8% to \$3.03 billion. Similarly, the broader Fidelity Capital Market Limited's Index (Findex) weighted share price index—which also includes equities traded over-the-counter—fell by 11.0% to 834.83 points. Adjusted for a single transaction which transferred a sizeable ownership bloc in a utilities company, the volume of trading BISX decreased by 3.1% to 4.6 million shares; albeit, the value of the securities exchanged appreciated by 11.7% to \$31.6 million.

PAYMENTS SYSTEM DEVELOPMENTS

The Central Bank, along with the Clearing Banks' Association (CBA) continued to focus on the modernization of the domestic payments system during the year. Additional progress was made towards the implementation of the Automated Clearing House (ACH) system—an electronic facility that will accommodate automated clearing

of low-value payments, including cheques and direct debits, among participating depository financial institutions. Participating banks were engaged in several working groups over the course of the year and a pilot test of the ACH system was also conducted, with the full programme expected to be launched in 2009.

The volume of transactions settled through the Bahamas Interbank Settlement System (BISS), introduced in 2004 to process high value and time critical payments between clearing banks and their customers, rose by 26.1% to 45,459 and corresponded to a 17.8% rise in value to \$10.1 billion. In contrast, the volume of retail cheques cleared among banks declined by 3.7% to 3.78 million, with the value lower by 1.1% at \$8.6 billion, a reflection of both increased use of the BISS and the growing popularity of debit cards.

MONETARY & CREDIT DEVELOPMENTS

During 2008, monetary conditions were highlighted by an improvement in liquidity conditions and a buildup in external reserves, owing to the more marked slowing in domestic credit expansion relative

to the narrowing in deposit base growth. As average interest rates firmed, the spread also widened, since the increase in the weighted average loan rate outpaced the rise in the corresponding deposit rate. The general slowdown in the economy led to increased private sector loan servicing difficulties, and a rise in the fraction of non-performing loans in commercial banks' portfolios.

Total **domestic credit** growth moderated to \$474.8 million (6.4%) in 2008 from \$691.4 million (10.3%) a year earlier. The pace of Bahamian dollar credit expansion was nearly halved to 6.7%, while the growth in foreign currency claims rebounded by 3.5%. For the total private sector component, credit growth narrowed to \$318.4 million (5.1%) from \$549.7 million (9.7%) in 2008, featuring a moderately firmed expansion in residential mortgages, as opposed to slowed consumer lending and a net reduction in business facilities. While the advance in net credit to Government abated to \$57.2 million (6.6%), increased foreign currency financing led to a strong upturn in the banking sector's claims on the public corporations, of \$99.2 million (28.4%). Data for the opening quarter of 2009 point to continued

softening in bank claims on the private sector credit, which weakened by \$46.2 million compared with last year's gain of \$15.8 million and was evidenced in a contraction in the consumer credit and a slowing in mortgage growth. Credit to public corporations also fell by \$43.2 million, compared to a \$64.0 million advance a year earlier. However, overall credit still posted an expansion of \$19.8 million in contrast to a decline of \$28.9 million a year earlier, as the Government's increased budgetary requirements resulted in a net increase in credit \$109.1 million, following the previous year's \$108.6 million decrease.

During 2008, **external reserves** grew by \$108.7 million (23.9%) to \$562.9 million, vis-à-vis a \$45.5 million (9.1%) contraction in the previous year. This reflected a turnaround in the Central Bank's net foreign currency transactions, from a net sale of \$69.0 million in 2007 to a net purchase of \$88.8 million in 2008—with the net outflow via the public sector severely curtailed by the offsetting proceeds from the Government's \$100 million external bond issue that occurred in April. At end-2008, reserves were equivalent to an estimated 13.4 weeks of non-oil merchandise imports, in comparison to 10.0 weeks at end-2007.

Given the slowdown in private sector credit demand, these trends remained favourable through the first three weeks of May 2009, but with the seasonal rebuilding of external reserves pegged at a lesser \$85.0 million, compared to \$243.2 million in the same period of the previous year, when the external bond proceeds boosted the outcome. **At 20th May 2009, external reserves stood at \$647.7 million, relative to \$562.9 million at end-2008.**

Amid mounting loan servicing difficulties faced by private sector borrowers, the banking system's **asset quality indicators** worsened significantly during 2008. The total value of private sector loans encountering payment arrears of at least 30 days rose by \$235.8 million (44.0%) to \$771.8 million, boosting the portfolio arrears rate to 12.5% from 9.4% in 2007 and 7.8% in 2006. Non-performing loans, with payments past due of more than 90 days and on which banks have stopped accruing interest, rose to 6.1% of the total loan portfolio from 4.5% in 2007 and 4.2% in 2006. For residential mortgages the total portfolio arrears rate increased by 2.8 percentage points to 13.2% of residential loans; while the consumer loans arrears rate deteriorated to

10.8% from 8.3% in 2007 and the commercial loans rate, to 15.5% from 9.3% in 2007. In response to these trends, domestic banks increased loan loss provisions by 40.2% during 2008, which equated to an estimated 2.7% of total claims relative to 2.1% in December 2007. However, the ratio of provisions to non-performing loans fell by 2.0 percentage points to 46.0%.

Developments for the first quarter of 2009 showed further deterioration in the asset quality, in line with the increase in unemployment and the weakness in the business sector. Reflective of broad-based increases, total arrears firmed by \$66.9 million (8.7%) to \$838.7 million, while the corresponding ratio rose by 1.2 percentage points to 9.2%. The deterioration was concentrated in the non-performing loan segment, which advanced by \$59.3 million (16.1%) to \$427.0 million, for a 1.0 percentage point increase in the ratio to 7.11% of total loans.

In **interest rate developments**, the weighted average loan rate at commercial banks rose by 32 basis points to 10.95%. This outturn was bolstered by a 33 basis point increase in the interest rate on consumer

loans to 13.03%, a 20 basis point gain in the average rate on residential mortgages to 8.36%, and a 1 basis point rise in overdrafts rates to 11.45%; while the rate on commercial mortgages eased by 3 basis points to 8.72%. For deposits, the weighted average rate firmed by 23 basis points to 3.92%. In particular, the average savings rate rose by 15 basis points to 2.20%, while average fixed deposit rates fluctuated within a higher band of 3.70% – 4.56% relative to 3.51% – 4.52% in 2007.

PUBLIC DEBT

The **Direct Charge** on Government rose by 4.9% (\$128.3 million) to \$2,763.8 million during 2008, compared to an increase of 10.4% (\$249.2 million) to \$2,635.5 million in 2007. Bahamian dollar claims, which comprised 86.1% of the Charge, gained 1.7% (\$39.5 million) to \$2,379.4 million, and foreign currency obligations advanced by 30.0% (\$88.8 million) to \$384.4 million.

For 2008, Government's **contingent liabilities** grew marginally by 0.5% (\$2.0 million) to \$436.5 million, in contrast to a 13.3% (\$66.4 million) contraction to \$434.5 million the year-earlier, due mainly to a

rise in the outstanding obligations of the Bahamas Mortgage Corporation, Education Loan Authority, and Bahamas Development Bank. As a result of these developments, the **National Debt** increased by 4.2% (\$130.3 million) to \$3,200.3 million at end-December 2008, compared to a 6.3% (\$182.8 million) uptrend a year ago.

Public sector's foreign currency debt rose by \$192.0 million (29.8%) to \$835.9 million. The public corporations' obligations, which accounted for 54.0% of the total, grew by \$103.2 million (29.6%) to \$451.5 million; and Government's liabilities, by \$88.8 million (30.0%) to \$384.4 million. The largest share of foreign currency debt was held by commercial banks (47.8%), followed by private capital markets (35.9%), and multilateral institutions and other miscellaneous creditors (16.3%). The average maturity of the debt rose incrementally to in excess of 12 years, with over 98% of the liabilities denominated in US dollars.

Total **debt service** was reduced by 52.7% to \$104.0 million, as amortization payments resettled nearly one-third lower, following the \$65 million refinancing operations of public corporations during the

fourth quarter of 2007. Also, interest charges fell by \$0.7 million (1.7%) to \$39.7 million. As a result, the foreign currency debt service ratio softened to 3.0% of exports of goods and non-factor services from an adjusted 3.4% in 2007. Also, the ratio of Government's foreign currency debt service to total revenue was lower at 3.4% from 3.7% during 2007.

Budgetary requirements necessitated further increases in Government's debt obligations for the first quarter of 2009. The Direct Charge on Government firmed by an estimated \$180.1 million (6.5%) to \$2,943.9 million, buoyed by gains in both the Bahamian dollar and foreign currency components by \$121.1 million (5.1%) and \$59.0 million (15.4%), respectively. Government's contingent liabilities rose marginally by \$2.7 million (0.6%) to \$439.2 million, resulting in the National Debt expanding by \$182.8 million (5.7%) to \$3,383.1 million. However, Government's debt service ratio stood at a stable 0.5% of revenue at the end of the quarter.

ECONOMIC OUTLOOK

The prospects for the Bahamian economy over the remainder of 2009 appear weak, with real GDP not expected to return to a positive trajectory before 2011. Developments in the domestic sector are heavily dependent on the responsiveness of the global economy to the stimulus measures implemented by monetary and fiscal authorities in the advanced countries; however the IMF projects that the advanced economies—particularly, the US—will contract in 2009 and experience no growth in 2010. In light of these forecasts, expectations are that the main tourism and foreign investment sectors will remain moribund in 2009, resulting in further weaknesses in the construction sector and an increase in the unemployment rate. However, some tempering to this outcome is expected to occur from the Government’s “accelerated” capital works programme.

On the external side, the deficit on the current account is not likely to encounter significant deterioration, given the expected tempering in import demand linked to subdued private sector credit growth and scaled-back capital goods imports linked to foreign

investment projects. Any projected impact on external reserves should be cushioned significantly by inflows from the public sector's foreign currency borrowing activities.

On the monetary front, private sector credit expansion is expected to be mild in 2009, as banks adopt more conservative lending practices to ward off increase default risks, and the demand for credit declines.

ANNEX B

TABLES and GRAPHS

Table I. The Bahamian Economy 1998 - 2012

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP	4812	5298	5650	5761	6077	6187	6189	6797	7280	7498	7564	7403	7409	7532	7786
Growth-Current Prices(%)	11.9	10.1	6.6	2.0	5.5	1.8	0.04	9.8	7.1	3.0	0.9	-2.1	0.1	1.7	3.4
Growth-Constant Prices(%)	6.9	3.7	3.7	-0.3	2.6	-0.9	-0.8	5.7	4.3	0.7	-1.7	-3.9	-0.5	1.5	3.0
Consumer Prices (%)	1.3	1.3	1.7	2.1	2.1	3.0	1.2	2.0	1.8	2.5	4.5	1.8	0.6	0.2	0.4

Source: IMF Projections 2009-2012
Department of Statistics 1998-2008

Table I. The Bahamian Economy 1998 - 2012 (Constant prices)

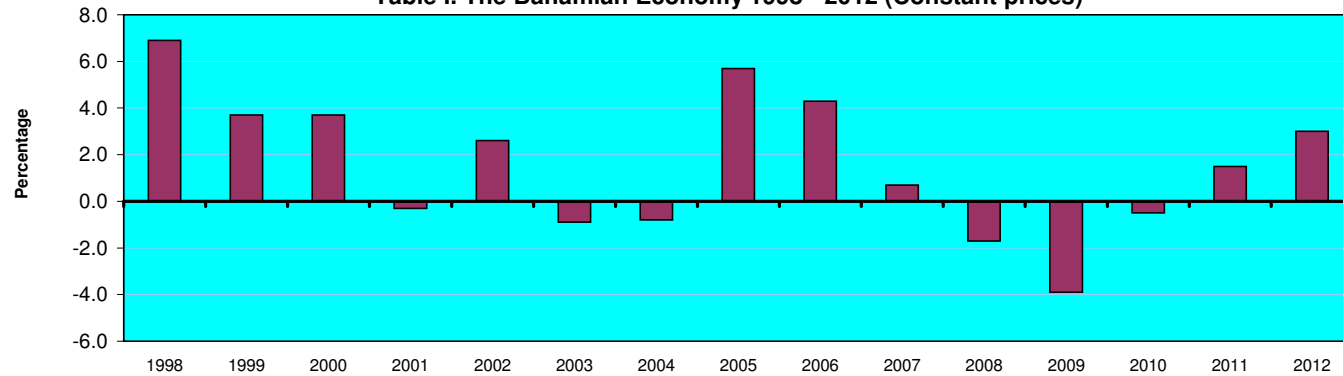


Table II. - Budget Performance
B\$ millions

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	BUDGET 2008/09	Projected Outturn 2008/09	BUDGET 2009/10
1. Recurrent Expenditure	808	837	866	930	986	1035	1091	1151	1203	1415	1421	1569	1496	1530
2. Recurrent Revenue	780	822	943	973	875	918	960	1054	1211	1354	1445	1574	1310	1389
3. Recurrent Deficit (2 minus 1) (Deficit - Surplus +)	-28	-15	77	43	-111	-117	-131	-97	8	-61	24	5	-186	-141
4. Capital Expenditure	117	124	139	133	138	127	116	162	190	235	231	250	246	255
5. Capital Revenue	1	0	0	1	0	0	0	0	3	7	10	10	10	22
6. Capital Deficit (5 minus 4)	-116	-124	-139	-132	-138	-127	-116	-162	-187	-228	-221	-240	-236	-233
7. TOTAL DEFICIT (3 plus 6)	-144	-139	-62	-89	-249	-244	-247	-259	-179	-289	-197	-235	-422	-374
8. Debt Redemption	79	74	41	75	85	60	85	97	38	106	62	70	70	88
9. GFS Deficit (7 minus 8)	-65	-65	-21	-14	-164	-184	-162	-162	-141	-183	-135	-165	-352	-286
10. GDP (current prices) revised	4556	5055	5474	5705	5919	6132	6188	6493	7039	7389	7531	7749	7484	7406
11. GFS Deficit as % of GDP	-1.4	-1.3	-0.4	-0.2	-2.8	-3.0	-2.6	-2.5	-2.0	-2.5	-1.8	-2.1	-4.7	-3.9

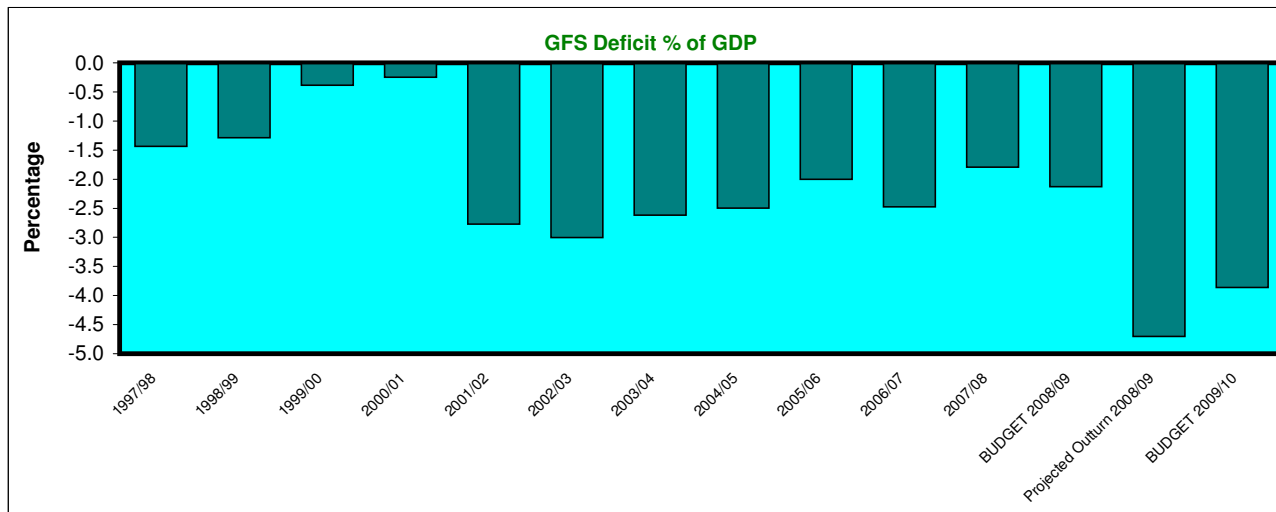
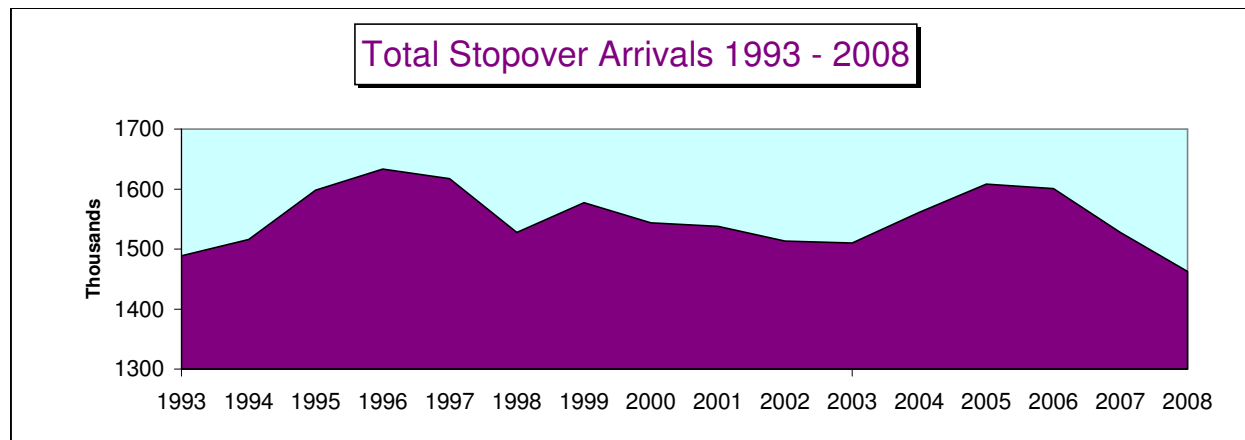
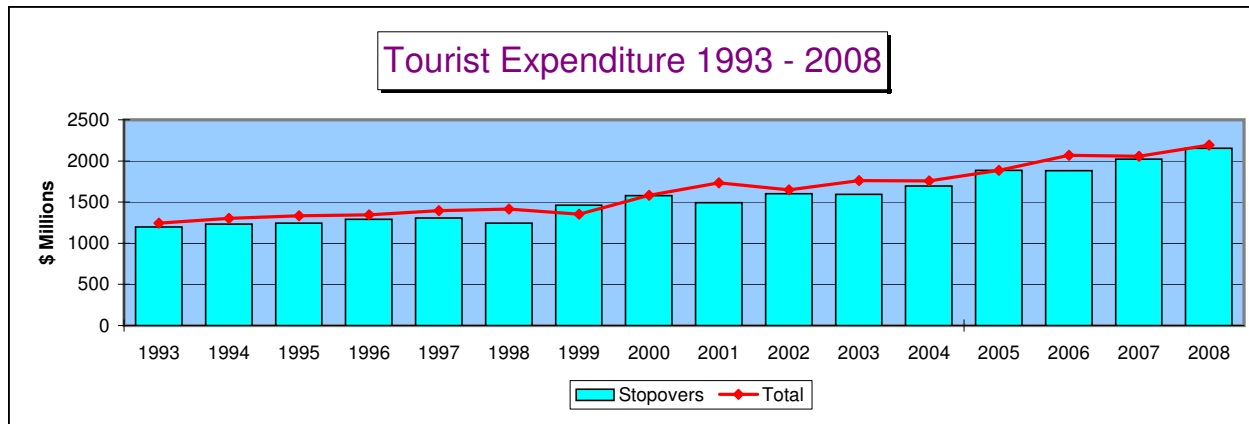
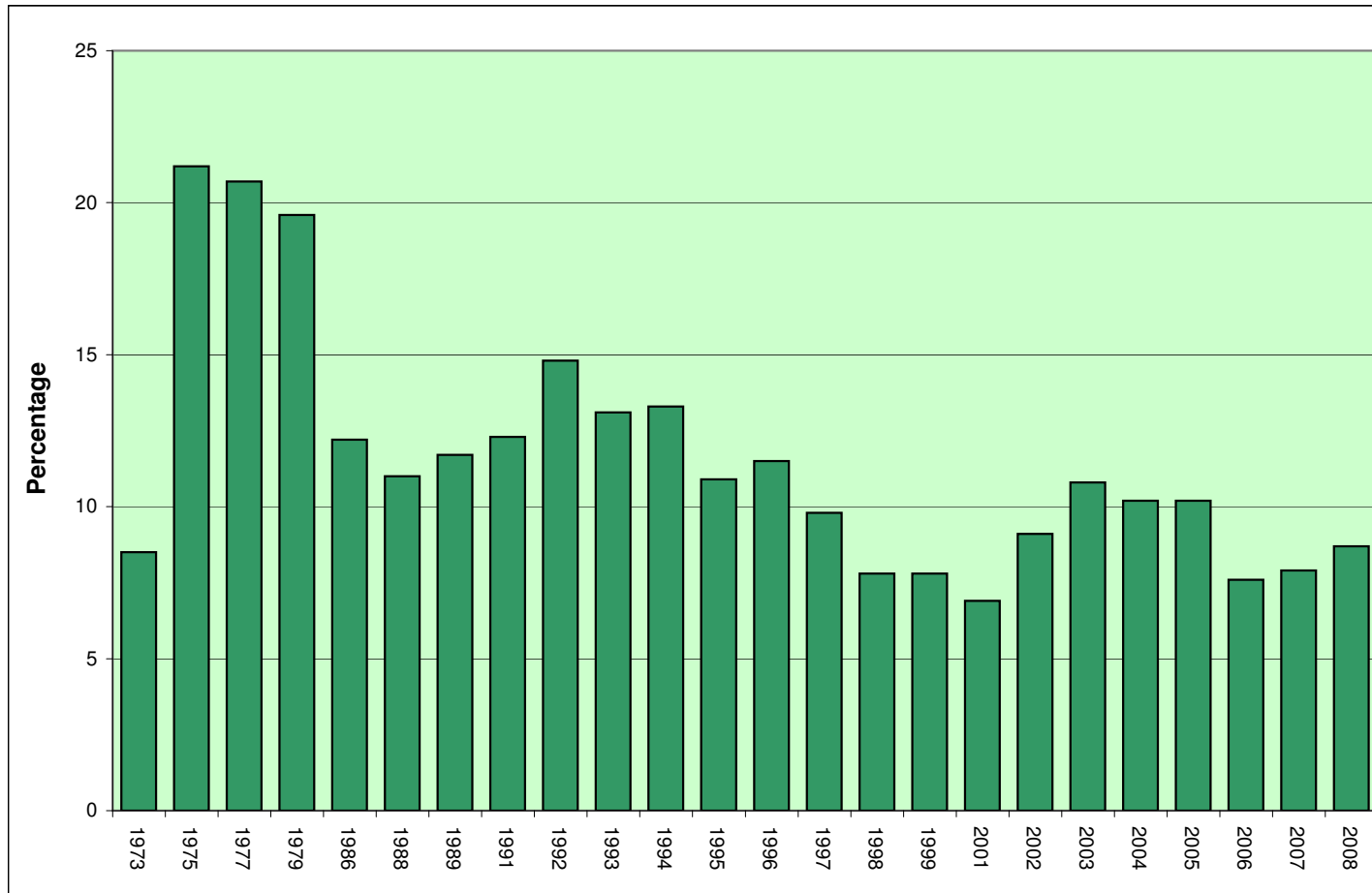


Table III. Tourist Expenditure and Arrivals 1992 - 2008



*Source: Ministry of Tourism
All numbers are subject to revision.

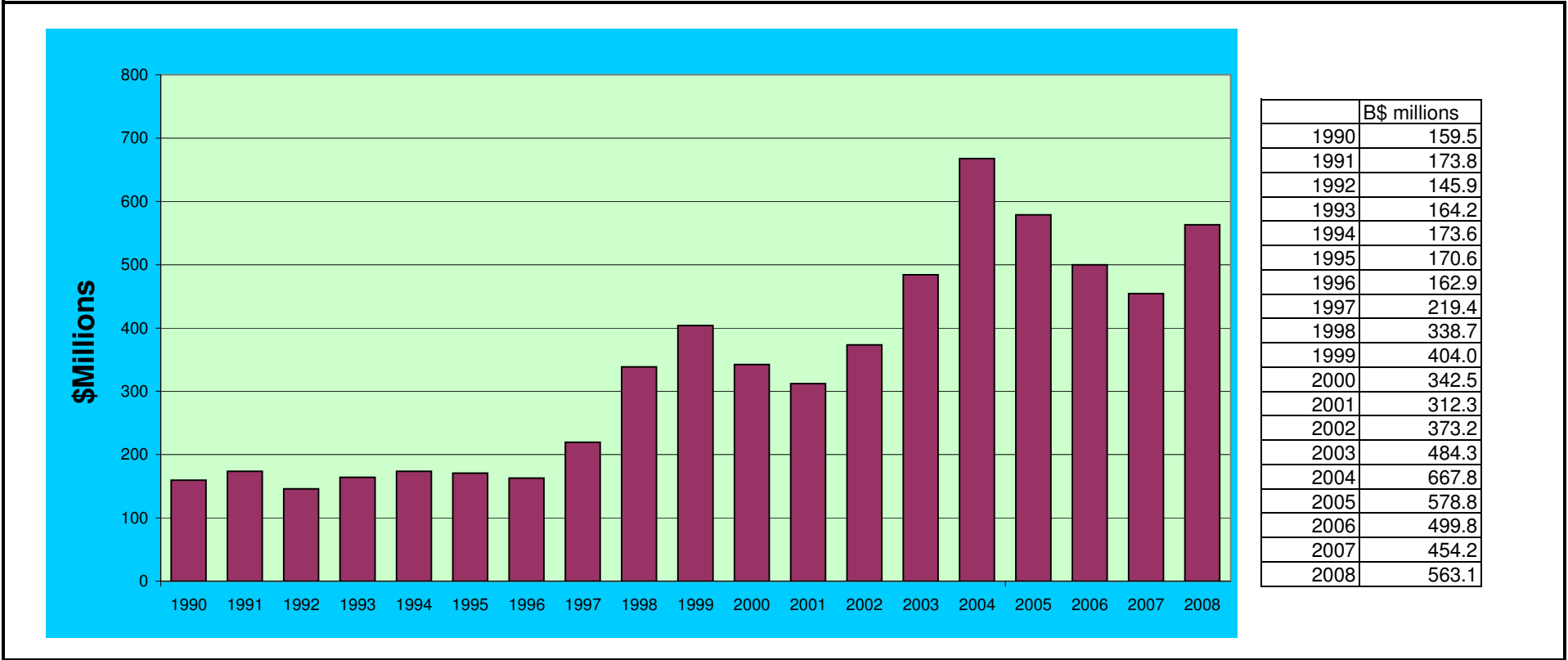
Table IV. Unemployment Rates 1973-2008



	%
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	10.2
2005	10.2
2006	7.6
2007	7.9
2008	8.7

Source: Department of Statistics

Table V. Total External Reserves 1990 - 2008



Source: Central Bank of The Bahamas Quarterly Statistical Digest, February 2009

Table VI. National Debt 1996 -2008

\$ millions	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
(1) Direct Charge	1,431	1,513	1,514	1,604	1,802	1,936	2,098	2,235	2,386	2,636	2,764
(2) Government Guaranteed Debt	349	374	365	359	423	468	442	502	501	434	436
(3) National Debt(1+2)	1,780	1,887	1,879	1,963	2,225	2,404	2,540	2,737	2,887	3,070	3,200
GDP(\$millions) Revised	4812	5298	5650	5761	6077	6187	6189	6797	7280	7498	7564
National Debt as a % of GDP											
(1) Direct Charge	30	29	27	28	30	31	34	33	33	35	37
(2) Government Guaranteed Debt	7	7	6	6	7	8	7	7	7	6	6
(3) National Debt(1+2)	37	36	33	34	37	39	41	40	40	41	42

National Debt

Legend:
■ (1) Direct Charge
■ (2) Government Guaranteed Debt
■ (3) National Debt(1+2)

National Debt As a % of GDP

Legend:
◆ (1) Direct Charge
▲ (2) Government Guaranteed Debt
✱ (3) National Debt(1+2)

Source: Central Bank of The Bahamas Quarterly Statistical Digest February 2009

Table VII (a). Growth of the Bahamian and US Economy 1998 - 2010

Annual percent change in GDP in real terms

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
The Bahamas	6.9	3.7	3.7	-0.3	2.6	-0.9	-0.8	5.7	4.3	0.7	-1.7	-3.9	-0.5
United States	4.2	4.4	3.7	0.8	1.6	2.5	3.6	3.1	2.9	2.0	1.1	-2.8	0.0

Source: Department of Statistics, National Accounts Report 2008; IMF World Economic Outlook April 2009 for 2009 and 2010

Table VII (a). Growth of the Bahamian and US Economy 1998 - 2010

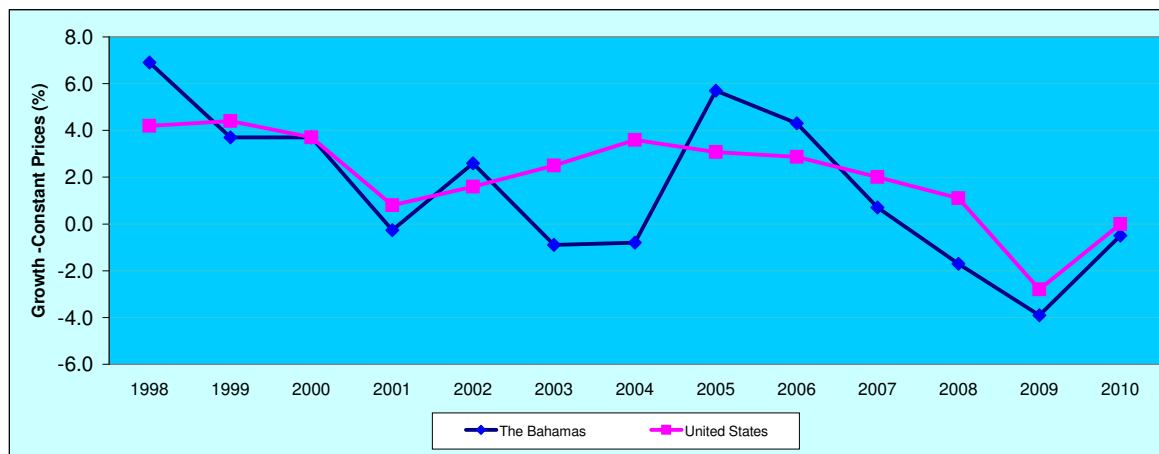


TABLE VII (B)**GROWTH OF REAL GDP:- IMF PROJECTIONS 2007 - 2010**

	% 2007	% 2008	% 2009	% 2010
World	5.2	3.2	-1.3	1.9
US	2.0	1.1	-2.8	0.0
Canada	2.7	0.5	-2.5	1.2
France	2.1	0.7	-3.0	0.4
Germany	2.5	1.3	-5.6	-1.0
United Kingdom	3.0	0.7	-4.1	-0.4
Barbados	3.4	0.6	-3.5	0.5
Guyana	5.4	3.2	2.6	3.4
Jamaica	1.4	-1.2	-2.6	-0.3
Trinidad & Tobago	5.5	3.4	0.5	2.0
The Bahamas	0.7	-1.7	-3.9	-0.5

Source: **International Monetary Fund**
April 2009 World Economic Outlook

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 possible evolution of the public finances over the next 3 years. They are based on a set of key assumptions, namely:

- The real economy grows in line with the most recent projections of the IMF;
- Firm control is maintained over expenditure growth as a core component of the Government’s fiscal strategy; and
- Vigilance is maintained in continuously enhancing revenue collections and improving compliance.

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. Over the medium-term, Government policy is to reduce, and ultimately eliminate, this Deficit by maximizing revenue collections and compliance and restraining the growth of Government expenditure.
- Closely connected to the preceding is policy in relation to the level of Government Debt. In the current economic and fiscal environment, the focus over the medium term will be on arresting the rise in the debt ratio in order to set the stage for its reduction toward more desirable levels over time.
- 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. 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.

4. 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.

5. The projections assume GDP growth of -1.7% in real terms in 2008 and -3.9% in 2009, followed by -0.5% in 2010, $+1.5\%$ in 2011 and $+3.0\%$ in 2012¹. The projections also assume that, on the basis of ongoing efforts to enhance revenue collections and compliance, Recurrent Revenue as a percent of GDP will rise gradually from 17.5% in 2008/09 to 20.4% in 2011/12. Recurrent Expenditure is assumed to remain flat at 20.7% of GDP through 2011/12.

6. 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

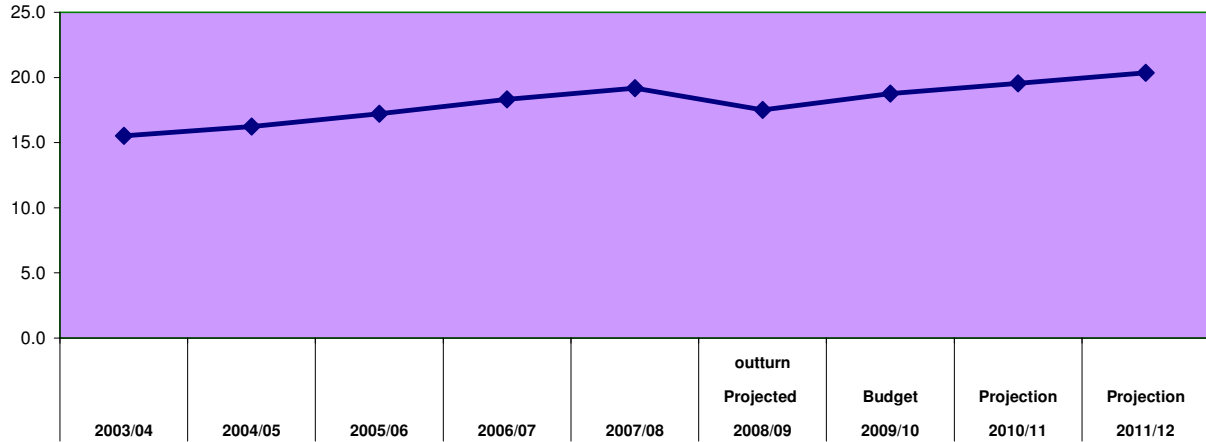
May, 2009

¹ IMF World Economic Outlook April 2009.

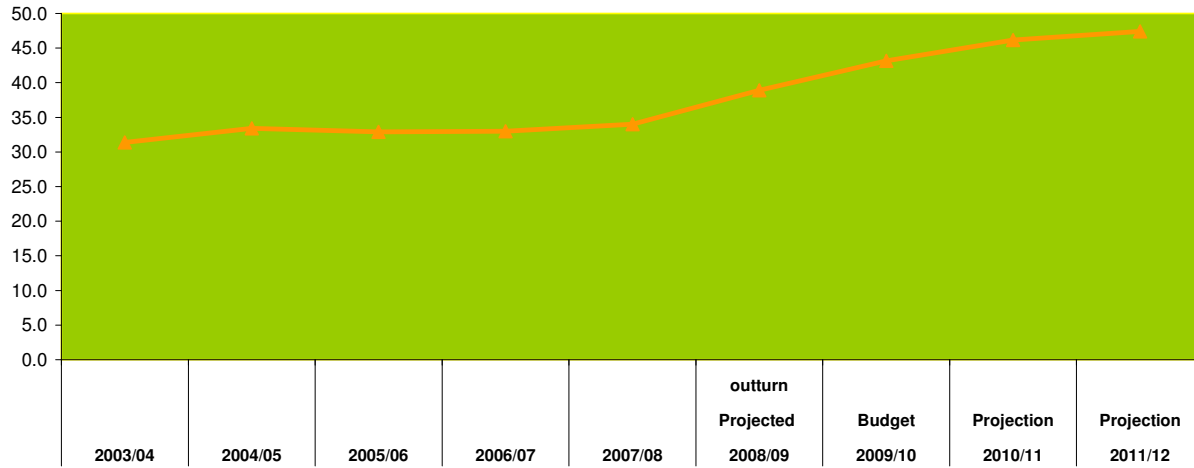
TABLE VIII**2009/10 BUDGET - MULTI-ANNUAL PROJECTIONS**
B\$ millions

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09 <u>Projected outturn</u>	2009/10 <u>Budget</u>	2010/11 <u>Projection</u>	2011/12 <u>Projection</u>
	(2)	(3)	(4)	(5)	(6)	(7)	(9)	(10)	(11)
1. Recurrent Expenditure	1091	1151	1203	1415	1421	1496	1530	1550	1585
2. Recurrent Revenue	960	1054	1211	1354	1445	1310	1389	1460	1560
3. Recurrent Deficit (2. minus 1.)	-131	-97	8	-61	24	-186	-141	-90	-25
4. Capital Expenditure	116	162	190	235	231	246	255	250	250
5. Capital Revenue	0	0	3	7	10	10	22	0	0
6. Capital Deficit (5. minus 4.)	-116	-162	-187	-228	-221	-236	-233	-250	-250
7. TOTAL DEFICIT (3. plus 6.)	-247	-259	-179	-289	-197	-422	-374	-340	-275
8. Debt Redemption	85	97	38	106	62	70	88	90	90
9. GFS Deficit (7. minus 8.)	-162	-162	-141	-183	-135	-352	-286	-250	-185
10. GDP (Current Prices)	6188	6493	7039	7389	7531	7484	7406	7471	7659
11. GFS Deficit as % of GDP	-2.6	-2.5	-2.0	-2.5	-1.8	-4.7	-3.9	-3.3	-2.4
<u>Memo items:-</u>									
<i>Growth Rate (current prices)</i>	1.0	4.9	8.4	5.0	1.9	-0.6	-1.0	0.9	2.5
<i>Government Debt (end June)</i>	1941	2168	2316	2438	2560	2912	3198	3448	3633
<i>Government Debt as % of GDP</i>	31.4	33.4	32.9	33.0	34.0	38.9	43.2	46.2	47.4
<i>Recurrent Expenditure as % of GDP</i>	17.6	17.7	17.1	19.2	18.9	20.0	20.7	20.7	20.7
<i>Recurrent Revenue as % of GDP</i>	15.5	16.2	17.2	18.3	19.2	17.5	18.8	19.5	20.4
<i>Capital Expenditure as % of GDP</i>	1.9	2.5	2.7	3.2	3.1	3.3	3.4	3.3	3.3

Recurrent Revenue as % of GDP



Government Debt as % of GDP



GFS Deficit as % of GDP

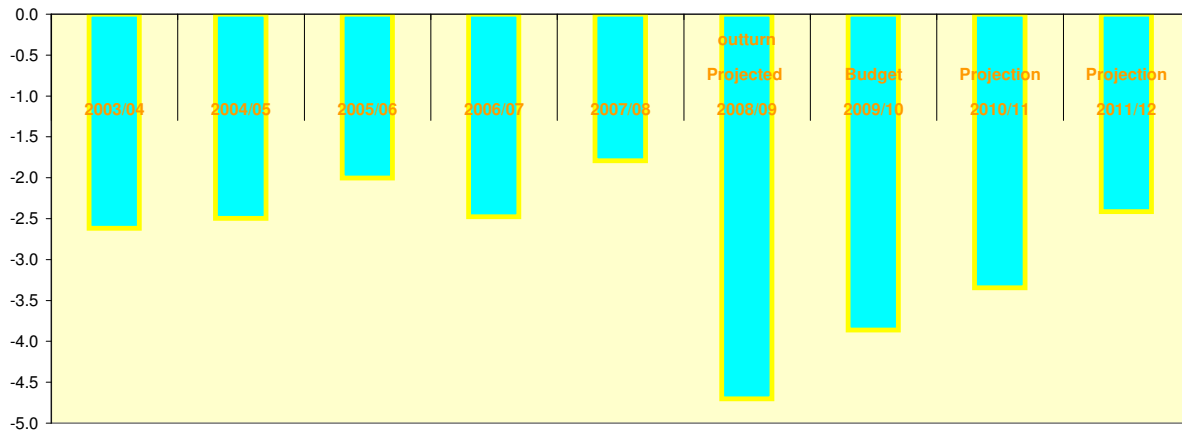


Table IX: EXPENDITURES ON THE GROSS DOMESTIC PRODUCT
at Current Market Prices

B\$ millions

Line	Item	2001R	2002R	2003R	2004R	2005R	2006	2007PV	2008PL
1	Government final consumption expenditure	730.40	770.39	785.00	826.28	873.20	947.62	976.05	1,035.65
1.1	Collective Consumption Expenditure	444.17	480.62	488.70	529.48	546.22	589.65	607.34	654.43
1.2	Individual Consumption Expenditure	286.22	289.76	296.30	296.81	326.98	357.97	368.71	381.22
2	Private final consumption expenditure	3,557.20	3,367.17	3,531.01	3,582.83	3,971.39	4,523.68	4,490.69	4,650.31
3	Gross capital formation	1,755.57	1,752.94	1,798.70	1,710.18	2,211.92	2,730.90	2,704.09	2,408.37
3	Change in stocks	67.07	63.82	59.82	58.32	64.26	65.31	65.80	67.46
3.2	Gross fixed capital formation	1,688.50	1,689.12	1,738.88	1,651.86	2,147.65	2,665.59	2,638.28	2,340.91
3.2.1	Residential construction	169.05	330.78	394.11	349.89	437.09	494.26	461.66	404.95
3.2.2	Non-Residential construction	350.48	346.17	278.11	268.12	308.55	527.41	485.50	310.85
3.2.3	Capital-Work-In-Progress	194.33	147.08	177.62	136.89	241.45	286.88	279.02	329.56
3.2.4	Other construction	123.88	139.44	130.70	149.04	132.28	185.44	197.59	216.21
3.2.5	Machinery/equipment	850.76	725.64	758.34	747.92	1,028.27	1,171.62	1,214.51	1,079.34
4	Exports of goods and services	244.52	2,770.93	2,739.82	2,989.53	3,288.67	3,349.39	3,668.42	3,654.02
5	Less: Imports of goods and services	2,727.10	2,584.05	2,667.89	2,919.50	3,548.05	4,271.48	4,341.38	4,184.21
6	EXPENDITURE ON GROSS DOMESTIC PRODUCT	5,760.58	6,077.38	6,186.64	6,189.33	6,797.13	7,280.11	7,497.87	7,564.14
	GDP NOMINAL GROWTH RATE	1.95%	5.50%	1.80%	0.04%	9.82%	7.11%	2.99%	0.88%

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

Source: National Accounts Report 2009, Department of Statistics

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

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	Projected Outturn 2008/09	2009/10 Baseline
Recurrent Revenue	780	822	943	973	875	918	960	1054	1211	1354	1445	1310	1389
GDP (current prices) revised	4556	5055	5474	5705	5919	6132	6188	6493	7039	7389	7531	7484	7406
Recurrent Revenue % of GDP	17.1	16.3	17.2	17.1	14.8	15.0	15.5	16.2	17.2	18.3	19.2	17.5	18.8

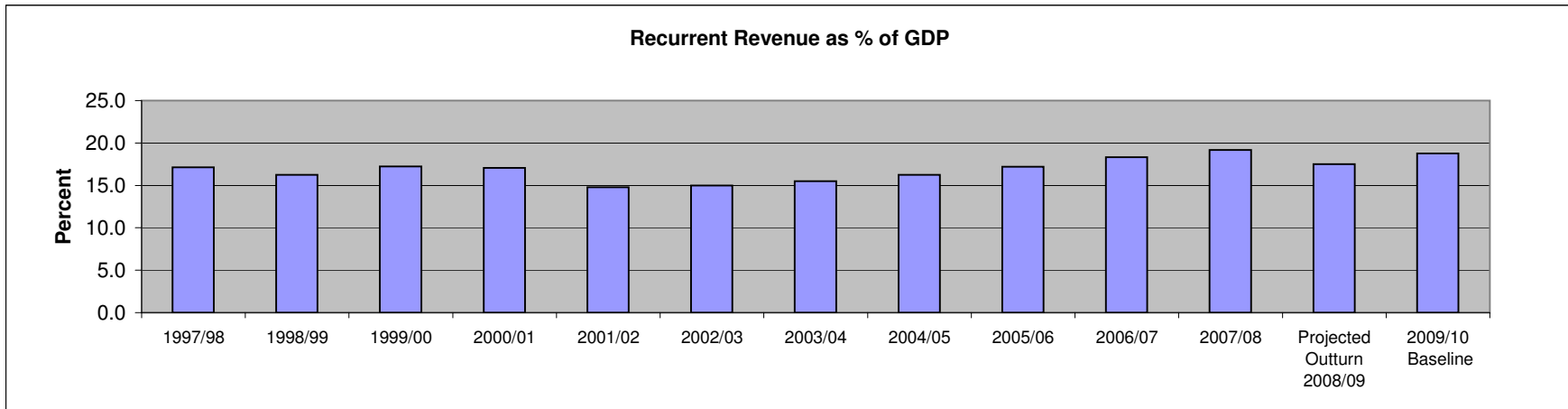
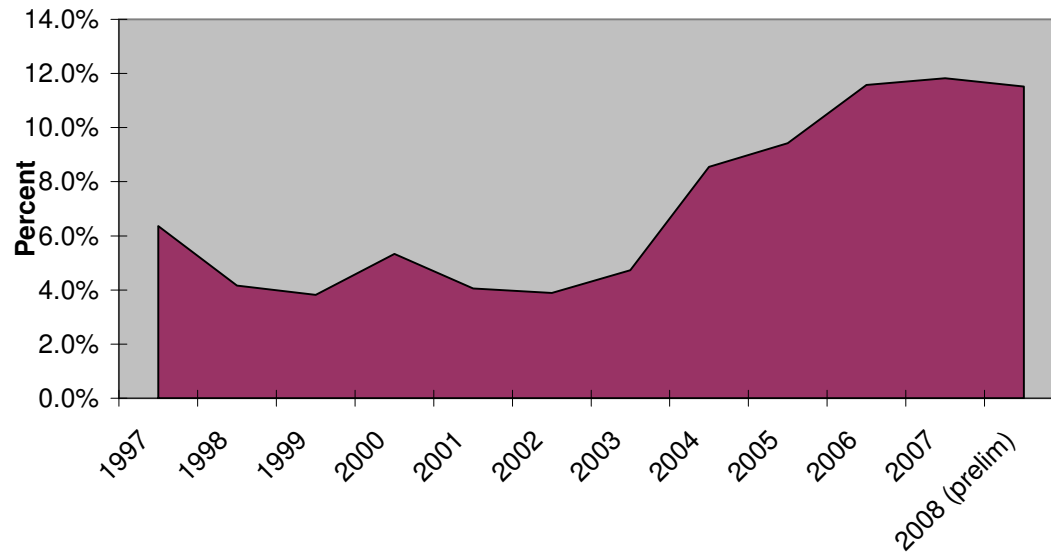


Table XI - Ratio of Foreign Direct Investment to GDP 1997 - 2008
B\$ millions

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 (prelim)
Foreign Direct Investment	273.7	200.4	202.1	301.1	233.5	236.7	292.4	529.3	640.9	842.8	886.8	871.0
GDP(Current Prices)	4,300	4,812	5,298	5,650	5,761	6,077	6,187	6,189	6,797	7,280	7,498	7,564
FDI as % of GDP	6.4%	4.2%	3.8%	5.3%	4.1%	3.9%	4.7%	8.6%	9.4%	11.6%	11.8%	11.5%



Source: The Central Bank of The Bahamas, QSD February 2009
 The Central Bank Forecast 2008

Table XII

KEY LABOUR FORCE STATISTICS
1995-1999, 2001-2009 (2000 was Census Year)

ITEM	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009 interim survey
Total Labour Force														
All Bahamas	143,030	146,635	149,915	156,470	157,640	164,675	167,980	173,795	176,330	178,705	180,255	186,105	191,595	
New Providence	98,900	102,965	104,315	111,370	113,240	117,900	119,700	123,380	125,385	128,630	127,090	131,105	135,735	134,400
Grand Bahama	21,500	20,945	22,495	22,200	23,900	25,055	25,190	26,350	26,465	27,305	27,445	28,850	29,820	28,820
Employed Labour Force														
All Bahamas	127,440	129,765	135,255	144,355	145,350	153,310	152,690	154,965	158,340	160,530	166,505	171,490	174,920	
New Providence	88,200	90,665	93,465	103,270	104,440	109,770	108,255	108,685	111,725	114,660	118,575	120,675	123,960	118,085
Grand Bahama	19,300	18,730	20,535	20,090	21,625	23,345	23,580	24,050	24,000	24,305	25,155	26,310	27,125	24,625
Unemployed Labour Force														
All Bahamas	15,590	16,870	14,660	12,115	12,290	11,365	15,290	18,830	17,990	18,175	13,750	14,615	16,675	
New Providence	10,700	12,300	10,850	8,100	8,800	8,130	11,445	14,695	13,660	13,970	8,515	10,430	11,775	16,315
Grand Bahama	2,200	2,215	1,960	2,110	2,275	1,710	1,610	2,300	2,465	3,000	2,290	2,540	2,695	4,195
Labour Force Participation Rate														
All Bahamas	73.9%	73.7%	74.9%	77.3%	76.8%	76.2%	76.4%	76.5%	75.7%	76.3%	76.1%	76.2%	76.3%	
New Providence	74.6%	76.1%	75.5%	78.3%	77.7%	78.1%	77.6%	78.0%	77.5%	77.5%	79.7%	77.1%	77.3%	74.5%
Grand Bahama	76.3%	72.8%	74.9%	73.0%	75.3%	75.2%	74.4%	76.0%	74.7%	74.7%	74.6%	76.8%	76.9%	74.6%
Unemployment Rate														
All Bahamas	10.9%	11.5%	9.8%	7.8%	7.8%	6.9%	9.1%	10.8%	10.2%	10.2%	7.6%	7.9%	8.7%	
New Providence	10.8%	11.9%	10.4%	7.3%	7.8%	6.9%	9.6%	11.9%	10.9%	10.9%	6.7%	8.0%	8.7%	12.1%
Grand Bahama	10.2%	10.6%	8.7%	9.6%	9.5%	6.8%	6.4%	8.7%	9.3%	11.0%	8.3%	8.8%	9.0%	14.6%

Source: Department of Statistics