Notes on Multi-annual Projections 2006/07 to 2008/09

1. The purpose of these Multi-annual Projections is to provide a 'snap-shot' of the evolution of the public finances over the next 2 to 3 years based on the continuation of existing policies and on assumptions about the macroeconomic environment[1]. The Projections are not intended as the 'vision' of the evolution of the public finances nor as immutable commitments, and are subject to margins of error. The following paragraphs explain some of the issues involved.

2. The Government of The Bahamas targets the following three key closely related fiscal indicators:-

- ***The "GFS Deficit" (basically the difference between total government expenditure, excluding debt redemption, and total revenue, excluding borrowing), as an approximation of the addition which the Budget makes to Government Debt.***

- ***The ratio of Government Revenue to GDP because for a considerable number of years it was below the level of 20% deemed the minimum level necessary to finance the current level of Government services.***

- ***The level of Government Debt prior to, and after the Budget. Government policy is to place an absolute ceiling of 40% on the ratio of Government Debt to GDP, and to reduce the level to about 30% of GDP[2] in the medium-term so as to leave 'fiscal space' to meet unforeseen and unforeseeable shocks.***

3. Targeting these indicators has enabled the Bahamian economy to remain stable and meet economic and social challenges arising from such events as the 1990 Gulf Crisis, the slowdown in the global economy in 2000, the terrorism attacks

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[1] Forecasting is inherently fraught with difficulty because the future is unpredictable; as Macbeth states (I,iii)

If you can look into the seeds of time
And say which grain will grow and which will not,
Speak then to me

(quoted in Hendry and Ericsson: Understanding Economic Forecasts)

[2] The Contingent Liabilities (Government Guaranteed Debt of the Public Corporations, Bahamasair, and other public authorities) component of the National Debt is also carefully monitored particularly the components (such as borrowings by the loss-making Public Corporations) which require or may require funding for servicing the debt from the Consolidated Fund. For the purposes of these projections it is assumed that there is no change in policy as regards borrowing by the loss-making entities.

of 11 September, 2001, severe hurricane damage in recent years, and the current generally unsettled external environment.

4. In view of the openness of the Bahamian economy with corresponding sensitivity of the government revenue base to external macroeconomic developments and to the volume of direct foreign investment, government policy is to maintain as much flexibility in expenditure commitments as is consistent with careful planning of major expenditures. Thus, all major projects and expenditures are carefully monitored and new commitments are only brought forward <u>either</u> in response to requirements to complement and induce major private sector investment inflows[3], <u>or</u> 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 expenditure with new or additional projects introduced as need and scope arise.

5. The projections for GDP growth are the projections in the IMF Aide-Memoire prepared by the recent Staff Visit. The projections assume GDP growth in current prices of 6.5% in 2006/07, 6.7% in 2007/08 and 5.6% in 2008/09. (It is not clear why the growth rate in 2007/08 could be projected to slacken in that year, given that the likely volume of direct investment expenditure in that year is likely to be at least as great as in 2007/08. Therefore, a growth rate of 6.7% would appear to be more likely in 2008/09 than the lower projection of 5.6%.) The projections also assume that Recurrent Revenue will grow in 2007/08 and 2008/09 by 8% in each year (which is a little above the growth rate of the economy) because of the expected increased revenue buoyancy arising from the massive direct capital investment inflow and the coming on stream of the revenue administration enhancement measures. Recurrent Expenditure is assumed to grow incrementally as in the recent past. Finally, Capital Expenditure is assumed to basically plateau[4]. No provision is made in the calculations for the privatization of BTC and Bahamasair; in the case of BTC, privatization would provide a capital inflow which would enable reduction of Government Debt; in the case of Bahamasair, privatization could result in a significant reduction in the

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[3] The projections for Capital Expenditure assume, *inter alia*, that Government policy is to limit the capital expenditure of Government; this policy is based on requiring joint public/private sector provision, or equivalent financing, in relation to the major tourism projects coming onstream; in many instances these projects require the provision of new or enhanced facilities and services which would normally be solely provided or funded by Government.

[4] See previous footnote.

considerable capital transfers made in the budget to Bahamasair.

6. The projections would result in the GFS Deficit being reduced to 1.1% in 2008/09, and the ratio of Government Debt to GDP being reduced to 36.3%.

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

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