COMMONWEALTH OF THE BAHAMAS

2014/15
BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

By

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

On

Wednesday, 28th May, 2014

2014/15 BUDGET COMMUNICATION

It is my honour to present the 2014/15 Budget Communication.

INTRODUCTION

Mr. Speaker, the 2014 Inaugural World Relays was sold out over the two day period with over 30,000 seats being sold for approximately $420,000 plus. Some 43 countries participated in the event and there were approximately 600 athletes in the meet. Prize money ranged from $50,000 for a first place finish in a race down to $4,000 for eighth place for a total of $1.4 million.

The event was streamed live around the world to over 120 countries via YouTube as well as by many other IAAF affiliated news media. Simply put, the event was seen live on every continent in the World.

The meet saw three new world records being set; two by the Kenyan team in the 4 x 1500 (Men and Women) and one by the Jamaican Men 4 x 200 meter squad. The Bahamian team also set two National Records in the Men's and Women's 4 x 200.

The Men's 4 x 400m team ran a blistering 2:57:59 for second place. This was also the second fastest time run in the world this year and the third fastest time ever by a Bahamian relay squad.

According to Lord Sebastian Coe: "I thought it was fantastic – the noise, the atmosphere," Coe, an IAAF vice-president, said. "It reminded me of Mo hitting the front and David Weir winning in London. It was really very noisy because they get relays here.

"The IAAF's faith in the innovative **IAAF World Relays**, a new event with a new presentation concept and The Bahamas' ability to deliver a top global sports entertainment product have been richly rewarded this weekend" said **IAAF President Lamine Diack**. "In the ‘sun, sea and sand paradise’ that The Bahamas markets itself, we have experienced a true sporting paradise which has excelled beyond our expectations. The people have embraced the IAAF World Relays and the noise of their support will be left ringing in our memories for many years to come.”

Lastly Mr. Speaker, the small and medium business opportunities created by my Government as a result of our commitment to hosting the relays were tremendous and heralded by many. Opportunities range from transportation, the creative industries, lodging, food and beverage, various paraphernalia, ICT and security. In short Mr. Speaker, there was an economic uptick prior to the actual event and an economic explosion during the week we hosted several thousand people on our shores.

Honourable Members will recall that, when I presented last year’s Budget Communication, I stated that it represented a pivotal Budget in the history of our nation. With the ongoing though still very gradual recovery of the economy from the Great Financial Crisis of 2008 and 2009, in last year’s Budget my Government set out in detailed and concrete terms an unprecedented Multi-Year Fiscal Consolidation Plan whose ultimate objective is to secure the future for all Bahamians.

As I have recently stated in a number of fora, I have an abiding optimism for the growth of entrepreneurial and employment prospects for the citizens of our country. Within that context, I view addressing the dire state of our public finances and placing the burden of Government debt on a downward path as critical components in support of our strategy for national economic development.

Mr. Speaker, in this Budget Communication, I am reiterating my Government’s steadfast commitment to our Multi-Year Fiscal Consolidation Plan. We will stay the course with the implementation of the various policy initiatives in respect of Recurrent Expenditure, Recurrent Revenue and Capital Expenditure that comprise the core elements of this plan.

Concurrently, we are diligently striving to strengthen the foundations of the economy to secure steady growth and private sector employment creation. In particular we are continuing our push to develop new and expanding private sector investment projects across the breadth of the nation. Honourable Members will recall that I outlined the numerous such projects that are either currently underway or imminent during the Mid-Year Budget Statement in February.

I now wish to provide an update on the further positive developments that have surfaced on the investment front in the last few months. The new and expanding projects are numerous and I will expand on these fully at a later date. At this point, I will merely highlight some of the major developments. I also wish to stress that the strong emphasis that we are placing on new foreign direct investments is directly in tune with the initiatives that we are taking on the fiscal and tax reform front and, more specifically the introduction of a Value Added Tax (VAT). Foreign investments will provide a much-needed boost to our economy at the same time that tax reform is being implemented.

Mr. Speaker,

Key Economic Growth Components in New Providence

The $2.6 billion Baha Mar one-of-a-kind resort, the largest single project ever to be undertaken in the Caribbean and indeed one of the largest in this hemisphere, comes on stream at year end and during this coming fiscal year will have an enormous impact on the Bahamian economy. Apart from the scale and size of this mega resort with its mix of appealing 3,500 plus hotel rooms and 300 plus residences, it will add a number of distinctive and world renowned brands to the Bahamian tourism product including Grand Hyatt, Rosewood, Melia, Mondrian hotel brands, the Baha Mar branded hotel and casino, the largest casino in the Caribbean operated by GGAM casino group comprising top executives drawn from some of the world's most successful casinos, the largest convention centre in The Bahamas and the spectacular new 18 hole Jack Nicklaus Signature golf course, among many other outstanding amenities including a 33,000 square feet destination spa and 30 unique restaurant and night club offerings.

The economic impact includes the creation of 5,000 new permanent jobs at the resort, hundreds of additional indirect jobs and entrepreneurial opportunities outside the resort. A study by Tourism Economics projects that when the Baha Mar resort is in full operation, the new property will inject some $878 annually million in spending and direct taxes into the Bahamian economy. In addition the study projects some $60 million a year will be paid by visitors to the resort in departure, occupancy and stamp taxes.

Mr. Speaker,

Brookfield Real Estate Financial Partners, the principal owners of Atlantis, our flagship world class resort and entertainment complex, with its 8,000 employees, are aggressively pursuing plans for refinancing, refurbishment, and adding other features, which will further enhance its premier position in the marketplace, all of which will be implemented during this current budget cycle. These initiatives will not only strengthen the position of the property, but also positively impact job creation both at the resort and within the local economy.

My Government has been engaged in fruitful discussions with Brookfield Real Estate Financial Partners and Access Industries, on the purchase, upgrading and expansion of the One and Only Ocean Club and vacant land on Paradise Island.

Government has given its approval for Access Industries to acquire this valuable asset. Access Industries is a New York based group with a global focus on natural resources, chemicals, media, telecommunications, entertainment including Warner Music Group, real estate and several world-renowned high-end, iconic hotels in Florida, France and Argentina. Access has corporate offices in New York, London and Moscow.

The injection of additional capital into the upgrading and expansion of the Ocean Club by Access Industries, not only assures further direct investment inflows into the Bahamas economy, but additional jobs, the positioning of the Ocean Club as the nation's premier ultra-luxury resort, and a partnership to leverage other economic expansion opportunities with a worldwide conglomerate.

Mr. Speaker,

I am pleased to report that under the terms of superseding Heads of Agreement recently signed with the owners of Albany, planning and work on their $140 million expansion project is proceeding expeditiously, and will create an additional 1,000 construction jobs and some 300 new permanent jobs, many of which will be realized in this current budget cycle.

The process for the sale and major redevelopment of the South Ocean Beach Resort is proceeding with several substantial proposals under consideration by the owners, The Canadian Commercial Workers Industry Pension Plan and their consultants. Each of the proposals envisions a mixed resort/residential/casino/complex which would significantly expand the local product offerings and brands I remain optimistic about an early successful outcome for South Ocean Beach Resort, which together with Baha Mar, Albany, Holowesko Lyford Cay hotel and the thriving commercial and private residential developments in western New Providence, will have an enormous impact on our economy starting in the next few months and continuing for the next decade.

Mr. Speaker,

Renewal of Downtown Nassau

Much progress will be made in the coming months with the rejuvenation of the downtown area of Nassau into a vibrant, attractive and exciting waterfront city, through several initiatives, as part of an overall Master Plan to be further developed with the input of professional planners, stakeholders, local entrepreneurs and other interested parties including cruise lines and major suppliers.

The main area of focus will stretch from Arawak Cay to Potters Cay, and will embrace public infrastructure enhancements, private investments, public/private sector partnerships, and participation by local and international bodies interested in preserving the city’s rich history, culture and environment.

A scenic boardwalk on reclaimed land, together with a myriad of entrepreneurial opportunities, are envisioned stretching all the way from the Hilton Hotel to Potter's Cay. The transformation has already started with the sale, renovation and rebranding of the Nassau Palms Hotel, which when completed in December will employ in excess of 100 Bahamians. Nearby the owners of the Hilton property are actively pursuing a buyer with the capacity to refurbish the existing hotel and develop its prime vacant waterfront acreage strategically located in the heart of downtown into thriving enterprises and attractions. At their East Bay Street waterfront property, the Symonettes have already completed a marina and boardwalk. Other waterfront stakeholders are being encouraged to embrace the incentives which are available to develop their properties within the guidelines of the downtown Master Plan.

My Government has started a dialogue with the owners of cruise lines for the renewal and expansion of attractions, tours, shopping, cultural experience and things to do in a pleasant, visitor friendly safe and well landscaped and clean environment, that would improve visitor satisfaction and increase visitor spending to become the highest in the Region.

In the months ahead and in the ensuing period, the downtown area will benefit from new construction and community activities, creating many new jobs, entrepreneurial opportunities and enhanced government revenue.

Mr. Speaker,

<u>Investments in Grand Bahama</u>

I am pleased to indicate that my Government's focused attention to turning around the faltering economy of Grand Bahama is bearing tangible results, and attracting significant major investments. Tourism which has been in the doldrums for far too long, is now growing at a faster rate than in New Providence, and leading the way in the growth of air arrivals for the entire Bahamas.

As a result of a joint venture between the Government, Sunwing of Canada and Hutchison/Whampoa, a new day in tourism has dawned on Grand Bahama. Since its opening in February the Memories Grand Bahama Beach Resort has delivered much needed stimulus to the Grand Bahama economy, by attracting additional airlift and overnight arrivals from Canada and the United States, resulting in increased hotel occupancy and the creation of hundreds of jobs.

Having successfully completed their six city Canadian winter flight program, Sunwing's USA subsidiary, Vacation Express in partnership with Bahamasair has introduced weekly 737-400 non-stop Jet service from 8 U.S. Cities into Grand Bahama Island, which started May 1st and will run through October 31st each year.

As a consequence, the number of international arriving passengers at the Grand Bahama International Airport for period January through April 2014 is up by 10,679 passengers, or 25.16%.

The total number of incremental seats to the destination from the U.S. via the Vacation Express/Bahamasair program is 66,000, combined with 34,00 from Canada for a total of 100,000 seats, or a projected increase in visitor arrivals of 71,000 passengers representing 460,450 visitor nights overall and incremental tourism earnings of $57 million.

The Summer program signals Grand Bahama's return to major gateways in the New York tri-state and Washington DC areas with flights from Newark, New Jersey, Baltimore, Maryland and Richmond, Virginia, as well as other important leisure gateways such as Birmingham, Alabama, Cincinnati, Ohio, Columbus, Ohio, Memphis, Tennessee and Raleigh/Durham, North Carolina.

The addition of the Memories resort brand to Grand Bahama has helped to drive higher hotel occupancy levels overall. The weeklong vacation package has increased the average length of stay for the destination, and visitors on the all-inclusive package illustrate a desire to purchase tour excursions, increasing the demand for additional destination activities.

In addition to the 300 construction jobs created during the remodelling phase, the opening of four-star 491 room resort has generated approximately 700 new permanent jobs, boosting economic activity throughout the local community.

Additionally, Vacation Express will offer 4/7 Nights air-inclusive vacation packages from St. Louis, Missouri, Dallas, Texas, Los Angeles, California and Chicago, Illinois via Delta and American Airlines to Freeport I can also now indicate that a new replacement casino operator has been identified for the casino at Our Lucaya. The Hotel Corporation has issued a certificate of Consent for the new operator to apply to the Gaming board for a casino license. The licensing process should be completed in the next several weeks following the completion of due diligence and the probity investigations.

Mr. Speaker,

The good news for Grand Bahama goes further in that revival and expansion of the Grand Bahama economy is on course to extend to the shipping, industrial and other commercial sectors. This has been achieved as a result of my Government reaching out to the Grand Bahama Port Authority and its major licensees, beginning with the principals of the Grand Bahama Port Authority, Hutchison Ports and Mediterranean Shipping Company, to ascertain whether they would be willing to give an undertaking to proceed with major new developments, if the Government were to reconsider certain 2013 fiscal increases as they relate to the application of customs processing fees, an environmental levy and stamp taxes on remittances or transfers outside The Bahamas.

After extensive negotiations the three parties have signed a Memorandum of Understanding with the Government for the development of Phase 5 of the Freeport Container Port at a cost of $200-250 million, and the technological and other upgrades to accommodate the further growth of one (1) million containers annually to be generated by MSC Shipping from the opening date of the late 2015 expansion of the Panama canal. This expansion will create an additional 150 direct jobs, some 450 indirect jobs and substantially increase the opportunity for attracting a large range of ancillary and spinoff businesses.

Mr. Speaker,

Simultaneously similar discussions were held with several other major licensees of the Grand Bahama Port Authority. As a result the following other companies have committed to significant economic expansion and additional job creation:

1. Grand Bahama Shipyard
2. Pharmachem Technologies
3. Polymer International
4. Bradford Marine

Mr. Speaker,

Bimini

Bimini's spectacular growth and development continues unabated, fueled predominately by Resorts World with spinoff effects impacting other smaller resorts, businesses and entrepreneurs. Resorts World has already invested some $90 million in its Superfast Ferry, and is spending some $150 million on resort upgrades, a deep water pier, and the construction of a 300 room luxury five star resort. Just under 500 persons are permanently employed between the Resort and the casino, and nearly 350 Bahamians have been engaged in construction jobs. There was a 93% increase in total tourist arrivals in Bimini from 54,036 in 2012 to 104,347 in 2013, making Bimini the fastest growing destination in The Bahamas.

Once the deep water cruise pier is completed to accommodate day and night trips by Bimini Superfast, and the new 300 room hotel is opened by year end, we can expect some 500,000 annual tourism arrivals to Bimini. Improvements and expansion to the airport are ongoing and night flights have started. Other infrastructural works and a Master Plan to guide the overall development of Bimini are being undertaken in a public/private sector partnership between the developer and the Government.

Full employment for the residents of Bimini supplemented by a large labour force from other parts of The Bahamas and elsewhere, has created a shortage of housing on Bimini, which is being aggressively addressed by the Ministry of Environment & Housing and the private sector. This will create additional economic activity for Bahamian builders and construction workers.

Mr. Speaker,

Abaco

In Abaco, the Baker's Bay high end residential resort, golf club and marina serves as a model of success in the Family Islands for ultra-luxury property owners and visitors. The number of Bahamians employed in construction and operations continues to grow, with just under 650 employed in construction and operations. Some 30 Bahamian contractors and sub–contractors find steady employment.

There has also been a positive development which augurs well for the purchase, expansion and operation of The Abaco Club at Winding Bay. The members of the Club have joined with the experienced and successful Southworth Development Company to acquire the asset. There is now a signed Letter of Intent with a sixty day exclusive period to complete the definitive purchase agreement, with closing scheduled for this summer, upon completion of a new Heads of Agreement with the Government. This project will also create additional construction and permanent jobs.

With the opening of the new airport terminal at Marsh Harbour and the construction of the new port in northern Abaco, the Abacos with expanding resort plant, large second home and boating sectors, and enterprising local businesses and entrepreneurs are well poised to become one of the leading resort destinations in The Bahamas, with the real potential to create some 1,000 new job opportunities over the next several years.

Mr. Speaker,

New Cruise Ship Projects

As for new cruise ship projects, on a recent visit with the President of Disney Cruise Lines to their exotic Castaway Cay Island port of call, I was able to witness firsthand the meaningful employment and entrepreneurial opportunities being provided for some 100 Abaconians from nearby settlements. It is a wonderful example of how dredging of a deep-water pier to accommodate cruise ships, and environmental protection and development could co-exist for the greater economic good of a small community. The Office of The Prime Minister and the Ministry of Tourism are in encouraging discussions with Disney Cruise Lines on the creation of an additional compelling port of call and themed major attraction elsewhere in the Family Islands.

At the request of Carnival Cruise Lines, my Government will shortly enter into discussions with Carnival Cruise Lines, Hutchison Ports and the Grand Bahama Port Authority, on the development of a custom designed cruise pier in Grand Bahama, to transform the cruise visitor experience to that Island, increase cruise ship arrivals and create a greater economic impact on the community.

Shortly, I also expect to conclude arrangements with Norweigan Cruise Lines, to enhance and expand their port of call experience for their growing fleet at Great Sturrup Cay in the Berry Islands, and in collaboration with Monuments & Antiquities Corporation to identify, restore and preserve the old lighthouse and other historic sites, as part of the attractions on the Island. Again the additional capital investment, entrepreneurial and job opportunities would be beneficial to the Berry Islands, and North Andros communities well as to other Bahamians.

Mr. Speaker,

The Berry Islands

In the Berry Islands, approval has been given for Chub Cay realty LLC to acquire from Scotiabank and its nominee Fife Ltd the Chub Cay resort and to redevelop it as a mixed use village consisting of hotel facilities, town houses, restaurants, shops, marina and recreational fishing amenities. Conditions have been imposed for recreational fishing to be allowed within the South Berry Islands Marine Reserve with catch limits as set out in the Fisheries Regulations. The developer will contribute to the cost of managing the reserve, inclusive of providing vessels and manpower to ensure proper management and oversight of the Marine Reserve.

This project will provide scores of jobs and entrepreneurial opportunities for Berry Islands and Androsians, and become the anchor property which will attract other developers to the Berry Islands.

Mr. Speaker,

<u>Andros</u>

On Andros, my Government has embarked upon a multi-dimensional approach to the development of Andros. The first component is the establishment of the Bahamas Agricultural & Marine Sciences Institute (BAMSI) on Andros, which signals the embracing by The Bahamas of Agricultural and Mariculture as significant drivers of the expansion of the nation's economy.

It will be a school to educate current farmers and attract new talent to a career in agriculture and fisheries. It will also be a commercial farm, generating income to keep the school running. It will be a centre for research, allowing us to develop and determine what works best for Bahamian agriculture. It will be part of revitalizing North Andros, providing jobs and bringing positive activity to the area. It will change the way Bahamians think of farming. Farming has often been associated with intense physical work; we have begun the move to one based on and driven by science, technology and skill.

The institute will provide the professional and technical qualifications necessary for various branches of agriculture and marine resources. It will provide strong academic training and extensive hands on orientation in crop and livestock production, farm management, environment conservation, agri-business and Management of Marine resources.

Already we have been working with the University of Miami and have begun to negotiate possible collaboration with the Institute of Food and Agricultural Sciences (IFAS) of the University of Florida to strengthen production and to support the innovative ideas that will lead to economic growth. Our relationship with the University of Florida's IFAS can accrue tangible benefits to BAMSI and The Bahamas through:

- Technical and student exchanges
- Creation of a pathway for admission to IFAS
- Collaborative research
- Extension and outreach programmes

Already more than $20 million in contracts have been awarded for the construction of an administration building, classrooms, laboratories, dormitories and world class sporting facilities. BAMSI will be a part of the University of The Bahamas and as such, must have the residential, recreational and cultural facilities fitting for campus life at a university. The construction is well under way, with several buildings almost complete. The campus is beginning to take shape.

BAMSI also represents the Government's decision to make a concerted effort towards reducing the one billion dollars' worth of food we import to feed ourselves and our visitors. Already the planting has begun and we look forward to a first harvest. We will also invest in packing houses and canneries to develop full circle economies beginning right in here Andros.

Our agricultural future is in the north, and North Andros will eventually emerge as the Bread Basket of The Bahamas. The Government is fully committed to and investing in the complete revitalisation of our country's agriculture sector. We truly believe that with the successful launch of this institute, we will have a growing and thriving agriculture and marine sector that will serve generations of Bahamians to come.

As the largest island in our archipelago, Andros has much to offer. It is an island of diverse beauty and with numerous opportunities for tourism developments. In particular, it is well positioned to become a hub for eco-tourism. Andros is the island with the greatest botanical and zoological diversity in The Bahamas. It is home to the Tongue of the Ocean and the world's third largest barrier reef. There are eco-systems here that are unique on earth; humpback and pilot whales can be seen here; The Bahamas' only freshwater river is here; there are more than 50 species of wild orchids in Andros; Andros has treasures and wealth that is untold.

We must find a way to harness these gifts and use them to grow the Andros economy, educate Bahamians about the riches we have and find a responsible way to share them with the world. As Andros grows and owns its unique place, we must chart the right course for responsible engagement with these treasures. Such beauty should not and must not be spoiled in the name of advancement. We cannot afford to harm or lose these eco-systems, which significantly impact wild-life, all around us.

No effort will be spared to protect our environment and the bio-diversity found here. The west coast of Andros in particular, is teeming with life new and interesting. Already, vast reserves are under the jurisdiction of the Bahamas National Trust and the purview of the Nature Conservancy.

While the Government will necessarily play a pivotal role going forward, there is no question that dedicated efforts must also be deployed by the private sector to further the development of Andros' economy and community and the preservation and protection of its unique environment.

Mr. Speaker,

Andros is the bone fishing and fly fishing capital of The Bahamas and we want to promote this much more and grow the business, with lodges welcoming people year-round. Tourism in Andros can also improve with greater emphasis put on marketing bird and seasonal hunting and game lodges.

If we can achieve all of these things and increase the offerings in Andros, we should create a more vibrant tourism economy centered around our natural environment and offerings and a vibrant festival celebrating our culture and cuisine. My Government is committed to improving infrastructure in Andros to ensure that as the economy grows, we are not fighting to catch up.

In Morgan's Bluff we plan to create a deep water port for both commercial and cruise ships. This will be created through the mining of aggregate and will provide Andros with the opportunity to have tourists access them in yet another way and increase commercial shipping to the island.

But there is another element of this that is worth noting. The enlargement and upgrading of the port at Morgan's Bluff now creates a direct access between North and Central Andros and the city of Nassau, especially Southwest Nassau. It is estimated that with a fast ferry service persons could make the trip to Nassau or from Nassau to Andros in a little less than an hour. A visitor to Nassau can take a one day trip to Andros to experience the nature preserves of Andros. A business person can travel over to either place for a day.

This will open up both Nassau and Andros and create opportunities that we have turned away from. In brief, Andros must now take full advantage of its geographical position to Nassau. It was long envisioned that there would be a city and a centre of Government in Andros and that dream must be dusted off and brought back to life. The spark for this might very well be the efforts we are now undertaking with BAMSI and the infrastructural work we are committed to in Andros.

To properly plan and guide such diverse and large scale development plans for Andros, my Government is engaging the service of professional planners. In this regard the Inter-American Development Bank has agreed to fund a team from **Stanford** University to supplement research already done under the IWCAM Andros land use plan in the preparation of an overall Master Plan. Relevant Government agencies, the College of The Bahamas, stakeholders, local residents, the Nature Conservancy and Bahamas National Trust will all be involved in this planning exercise.

The Hotel Corporation of The Bahamas will shortly be concluding arrangements with a purchaser of the Lighthouse Club and Marina at Fresh Creek, which will include refurbishment, expansion and additional job opportunities in Central Andros.

Mr. Speaker,

Eleuthera

The tourism industry in North Eleuthera continues to be buoyant, and the construction of second homes in both North and Central Eleuthera by Bahamians and non-Bahamians continues to grow, thus providing employment and other economic benefits within their communities.

The Symonette family and their partner Mr. Donald Urgo continue with their planning for the expansion of their Cocodamama Hotel near Governor's Harbour.

Following detailed discussions with Cotton Bay Holdings Ltd and Mine Holdings Ltd, companies owned by Colombian tycoon Luis Carlos Samiento, and representatives of Four Seasons Resorts, my Office is currently reviewing the final draft of Heads of Agreement for consideration by the Government of a $100 million investment for the construction of an upscale Four Seasons Resort in South Eleuthera near the settlement of Greencastle and Wemyss Bight. Phase 1 of the resort will include the following:

- A luxury resort hotel of approximately 115 rooms
- A residential sub-division comprising 40 cottages which will be used as part of the hotel rental pool
- The renovation and re-opening of the Cotton Bay Golf Course and Golf Club
- A spa, restaurants, bars, communal shopping area, retail spaces
- Recreation and activity facilities and employee housing

- Phase II will provide for further expansion. It is projected that approximately 150 construction jobs and some 250 permanent jobs will be created in the Phase I. It is expected that construction would commence during 2015.

Progress continues by Cotton Bay Developers Ltd, headed by Mr. Franklyn Wilson, in the development of their mixed use club community at Cotton Bay, Jack's Bay and Davis Harbour in South Eleuthera. Onsite construction efforts are currently focused on:

- Renovation of an existing Ocean front Clubhouse, with restaurant, pool area, spa and sports amenities
- Renovation of 24 oceanfront villas
- Construction of a Fazio designed oceanfront 18 hole championship Golf course
- Roads and infrastructure

The Developer is entering into a management arrangement with Noble House Hotels and Resorts, which owns and operates upper segment boutique hotels.

This project is generating increasing employment for the surrounding communities.

Mr. Speaker,

<u>Cat Island</u>

Over the next year work will progress on the Cat Island Partners resort, residential and PGA Golf Course project, and the airport terminal and runway at the Bight, Cat Island. These works will provide an increasing number of new construction and permanent jobs and stimulate meaningful economic growth in Cat Island.

Mr. Speaker,

<u>The Exumas</u>

The Exuma Cays and the Exuma mainland are poised for the greatest period of sustained economic growth in their history. Investor confidence and interest in Exuma is at an all-time high from both wealthy home owners and resort developers from various parts of the world. I will cite a few examples of projects which are in progress or at an advanced stage of planning.

At Norman's Cay, Exuma Resort Developers are awaiting permit approval for the 25 key Whale Tail Resort. Work will begin upon receipt of the building permit. The Whale Tail Resort will comprise a series of luxury villas, Beach Club, water sports, spa, cabins and restaurant, scheduled for completion within 18 months.

The existing MacDuff's resort has been renovated in order to use the property for staff accommodations. A state of the art solar plant has been constructed, and other infrastructure and utility works are being carried out to support the resort and residential sub-divisions. Two ferry docks have been constructed and work has commenced on the reconstruction of the runway to increase its length to 4,700 feet, and a terminal facility which will meet the requirements of the Civil Aviation, Customs, Immigration and Police authorities. Back of the house facilities and staff housing are also to be constructed. Upon completion of the runway, a reconfigured marina will be constructed to provide the best designed product.

In addition to those persons now employed at Norman's Cay, scores of additional new construction and operational jobs are to be steadily created as the project ramps up for targeted completion dates.

Closer to the mainland of Exuma, CH Twister PTC Limited, has acquired both Children's Bay Cay and William's Cay. The Company's plans are to develop an ultra high end resort for ultra high net worth individuals, and in doing so to create the "jewel of The Bahamas", offering a one-of-a-kind island experience at the finest resort in The Bahamas. They will invest above $100 million in the project, which would be developed to the highest international environmental standards, including an ecological oriented golf course. Staff housing is to be built at Barateree, which is only a short ferry ride from the cays.

The company's planners and architects, who have had considerable experience in planning high end environmentally friendly resorts, are engaging the services of Bahamian counterparts to work closely with them. This project which could become a defining one for the Exuma Cays, will provide a significant number of jobs, entrepreneurial and business opportunities for the people of Barateree and adjacent communities.

Sandals has consolidated its position as the anchor resort in Exuma, together with its boutique facility at Fowl Cay. The property's improved performance and high profile in the market place, have benefitted the whole of Exuma as a desirable resort destination, and second home location. With the owner's acquisition of additional land, I verily expect that he will soon move forward with further expansion.

Encouraging new investments are taking place in relation to the further development of two nearby strategic properties of February Point and Crab Cay and the surrounding picturesque community of George Town. Both properties are changing ownership to persons who possess the vision, the means to undertake major developments. They have also indicated the willingness to become involved in public/private sector partnerships for the overall benefit of Exuma and to enhance community development.

The Developers have agreed to work closely with the Government to engage professionals for the preparation of a Master Plan to guide both the development of their properties and the surrounding communities. Because of the extensive acreage being acquired by the owners of February Point adjacent to the settlement of Georgetown, the Government proposes to enter into a joint venture through the vehicle of The Hotel Corporation, to facilitate the uses to which the undeveloped land would be put.

The new owners of February point have already started to spruce up the landscaping and proceeding with some preliminary construction work which will involve local contractors and employees. The components of the resort are to include the construction of a community pool, beach club, recreational park and sales reception, 25 condo type units in a hotel rental pool, a boutique five star resort hotel, restaurant and expansion of marina facilities with a marina village.

Five Oceans, a global partnership, is acquiring Crab Cay, certain mainland properties, Little Crab Cay and Augusta Bay Hotel in Georgetown from the Murphy family. Five Ocean's vision for the development of Crab Cay is to continue the major undertakings for a mixed use upscale residential resort and manor community of the previous owner in their existing Heads of Agreement, with adaption along the lines of the model followed at Albany.

Apart from the primary benefit of the project developments like February Point and Crab Cay, they are attracting home owners and their friends who are persons of wealth and influence, who are willing and capable of making considerable investments themselves in The Bahamas.

My Government will therefore encourage Exumians and fellow Bahamians to take advantage of the many job and business opportunities now at hand.

Mr. Speaker,

San Salvador

Club Med and their partners Sand and Ocean Investments Ltd are proceeding with the planning and execution of the refurbishment works of Club Med, to be followed by new construction of 360 luxury condo-hotel units, staff housing and a 125 room boutique hotel. Club Med and Sand & Ocean are in "Fast Track" mode to develop the renovation and extension project in Columbus Isle.

Mr. Speaker,

My Government's relationship with the University of Miami factors significantly in education, health, science, tourism and research.

Plans are underway to establish a University of Miami and University of The Bahamas accredited medical school in The Bahamas; to enhance existing relationships and establish new relationships to provide and improve accessibility and affordability of medical services, especially those that are not readily available locally; to establish a stem cell lab; to expand the Marine Biology capacity of BAMSI; to participate with the University of Miami in its research on hurricanes, especially Meteorology — Hurricane Intensity, Air-Sea Interactions, Waves and Clouds and impact on land and coastlines. The Medical School will be significant in health care in The Bahamas and will fuel the growth potential of medical tourism.

Mr. Speaker,

By this time next year, when liberalization is well underway and in reliance on the IT platforms that will be created, I see radiology being performed in the a Mini Hospital in The Bahamas, read and diagnosed by physicians in The Bahamas and at the University of Miami, decisions being made in Miami and The Bahamas about what treatment and where. So it will be possible for a patient in Cat Island to be diagnosed in Nassau or Miami and then decisions be made about treatment.

As well as construction jobs, we look forward to the numerous and diverse jobs that will be created in medical research and treatment and from Medical Tourism and the growth of research labs.

I encourage Bahamians to prepare for these jobs by deepening their focus on science and technology.

Ministers will speak more of this during their contributions.

Mr. Speaker,

The Government will be establishing a business office in Greece to facilitate the growth and development of the Ship Registry and maritime industry. The establishment of this office will also provide opportunities for the further development of the financial services industry.

This business office will operate to attract family offices and shipping management offices to be physically present in the Bahamas, establishing linkages between our shipping and maritime industries and the financial services industry.

Addressing the Crime Challenge

We remain resolute with respect to our commitment to address the serious crime problem in our nation. Over the past year, we have invested in additional manpower for the Police Force and in material resources needed to carry out our strategy of saturation patrols in hot spot areas. We are also investing $232 million for the acquisition of new vessels for the Royal Bahamas Defence Force. The RBDF is actively engaged in assisting the Police cooperatively and collaboratively.

Our intention is to meet the challenge resolutely, whatever it takes. I call on members of the community to cooperate with the Police in providing information that will assist in reducing crime throughout New Providence and the Family Islands.

In our fight against transnational crimes the government has invested 232 million dollars in a new fleet of vessels the first of which was delivered one week ahead of schedule last week, the HMBS Arthur D. Hanna.

In order to accelerate court proceedings we have constructed four new Supreme Courts which are expected to be brought into use shortly and to further effect speedier trials.

We expect this to go a long way to get criminals off the road and behind bars where they belong.

Mr. Speaker,

Following the Budget debate, my Government intends for Parliament to proceed to debate the comprehensive Gaming Bill 2013, designed to update our casino gaming legislation to bring it into line with leading competing jurisdictions. As foreshadowed in my closing remarks during the mid-2013/2014 Budget debate, my Government will propose further amendments to the Gaming Bill with respect to casino gaming and the regularization and licensing of gaming in web shops. I said at the time "Given the economic realities and other reasons outlined, I hope and believe that Parliament will support the comprehensive and necessary reforms to Gaming Legislation which will be put before you shortly for consideration".

It is expected that these comprehensive and necessary reforms will result in considerable benefits to the public purse and the Bahamian economy, the creation of many new jobs, a controlled number of web shop gaming operations as is the case with casino operations, and upholding of laws and international obligations in accordance with best practices.

During the Mid-Year Budget Statement, I also expanded on the various targeted policy initiatives that my Government is pursuing to enhance the business environment and promote stronger economic growth. More specifically, we are working to:

- strengthen our key tourism industry;
- promote additional foreign direct investment across the country, and particularly in Grand Bahama and the Family Islands;
- explore avenues for further diversifying our economy, especially in the agricultural area through science and technology to improve our competitiveness in food production;
- further diversify our financial services sector;
- further develop and expand our yachting, shipping and aircraft registries;
- expand our investments in education; and
- strengthen national training through the National Training Agency.

Mr. Speaker, in our efforts toward the promotion and further diversification of economic activity, my Government has made amendments to the Forestry Act. The establishment of the national forest estate this year will not only allow us to manage and sustainably use our forests but also provide new potential revenue sources from resin extraction, timber harvesting, the creation of a hunting industry and expansion of our eco-touristic product.

In addition, my Government will review potential revenue associated with the sustainable use of our natural resources, including sand, aragonite, aggregate and salt. The Government must ensure that the people of The Bahamas get fair compensation for the use and exploitation of our natural resources.

In a nutshell, our plan consists of four key parts: growing the economy; restraining expenditure; enhancing revenue administration; and securing new sources of revenue. Through this plan, and in combination with our actions to strengthen economic growth, we are fundamentally and, in a balanced way, reforming the structure of our public finances in such a way that these are returned to a position of sustainable viability. And we are doing so responsibly and gradually, fully mindful of the need to sustain the forward momentum of our economy.

To that end, both Recurrent and Capital Expenditure will be reduced relative to the size of the economy over the medium term, to levels more in line with historical norms. I will expand further, in this Communication, on the measures that will be implemented to achieve these goals.

I would, however, wish to stress at this time the important role that I see for public-private sector partnerships in facilitating new public infrastructure projects in an effective way that minimizes the costs and risks to Government. This is an area to which we will be directing focused attention in the future.

On that score, I would highlight that we are advancing the national housing programme through an aggressive private public partnership arrangement. Through this PPP, we will begin the construction of hundreds of homes, whereby the government will provide the land and private developers will partner with the Government to fund and develop infrastructure and fund and construct affordable homes. The Bahamas Mortgage Corporation and other approved private lenders will participate in the programme, by providing mortgages to deserving and qualified homebuyers.

This, Mr. Speaker, will create additional employment and entrepreneurial opportunities for Bahamians and boost the domestic construction industry. PPP housing initiatives will be advanced in New Providence, Grand Bahama, Bimini and San Salvador this year.

I will stress again that our actions in respect of Recurrent Revenue are multi-faceted and comprehensive, not focused solely on new taxation sources. Indeed, these actions are targeted, in the first instance, at strengthening the administration and collection of existing taxes, such as Real Property Tax and Customs Duties and Excise Taxes. To complement these measures, we also remained focused on enhancing the revenue yield of our tax system through revised fees and charges that are more in line with the costs of providing public services. Finally, we are proposing the introduction of a new source of revenue, in the form of a Value Added Tax (VAT), that will secure the desired and necessary enhancement in the revenue yield of our revenue system.

The mix of measures will allow us to move progressively to:

- eliminate the untenable structural imbalance between Recurrent Expenditure and Revenue by the 2015/16 fiscal year;
- sharply reduce the GFS Deficit by 2016/17; and
- arrest the growth in the Government Debt burden and move it onto a steady downward path to more sustainable levels.

I want to emphasize, at this point, that we are in no way engaged in unrealistic, pie-in-the-sky, wishful thinking on the score of fiscal redress. With a keen eye on the state of our economy and mindful of the need to maintain and support its upward, forward momentum, we are embarked on a mutually-reinforcing plan of national development and fiscal consolidation that is balanced and measured. As such, our aim is set on gradual, though assured, progress on the fiscal front.

I would also emphasize at this juncture that our determined and focused fiscal actions are not merely motivated by pressure from the international organizations and ratings agencies. It is simply the case that maintaining our nation's investment grade credit rating matters in very real terms for the health of our economy and the prospects of more jobs for Bahamians. That is because a rating below investment grade would have serious implications for the balance sheets of participants in our financial system and the capital adequacy of our financial institutions. Such a downgrade would also negatively affect the ability of investors to raise capital for investment projects in our country. These are outcomes with real economic consequences for The Bahamas. In addition, the Government can ill afford to add more fuel to rising interest costs which could rise further if the attractiveness of holding public debt is diminished.

While we will have succeeded in getting the burden of Government debt to lower levels by the end of our current mandate, it will be necessary to get that burden to yet lower levels in the period beyond. However, I am confident that, by taking action now and through the medium-term to eliminate the fundamental and structural imbalance in our public finances, we are establishing the framework for sustained and ongoing reductions in Government debt as a share of the economy.

That, in turn, will both provide support for more buoyant economic growth and secure an expansion in our fiscal room to maneuver with which to finance the Government's proper and rightful role in modern society. With public debt interest draining some $260 million of our annual Budget and potentially trending yet higher if we fail to act, we will reap the true fiscal dividend of our fiscal plan by reducing the burden of debt and thereby the annual exorbitant burden of interest payments. It is that fiscal dividend that will be critical in underpinning the sustainable financing of the Government's bold agenda for stronger economic growth and enhanced employment opportunities.

As is usual practice in the presentation of Budget Communications to this Honourable House, I will now turn to a brief review of international and domestic economic developments and prospects. In this context, I wish to acknowledge the Central Bank of The Bahamas for its analysis which I now summarize. I invite Honourable Members to peruse the Bank's analysis in more detail in the Annex.

THE GLOBAL ECONOMY

The global economy has continued to strengthen this year and is expected to firm yet further through 2015, largely reflecting enhanced buoyancy in the United States and other major advanced countries. Growth in a number of the emerging market economies has slackened somewhat on the basis of renewed concern over economic fundamentals which has affected confidence and led to a tightening of financial conditions. However, these countries should benefit from expanded export opportunities from strength in the advanced economies. On the whole, then, it is estimated that downside risks to the global outlook have diminished and that the balance of risks has improved.

In its latest World Economic Outlook of April 2014, the International Monetary Fund (IMF) projects the world economy to expand by 3.6 per cent in 2014, up appreciably from the 3 per cent growth rate last year. Growth is estimated to expand further to a rate of 3.9 per cent in 2015.

Within the advanced economies, our major trading partner, the U.S., is expected to register the strongest growth in 2014, at roughly 2.8 per cent, well improved from 2013. Further strengthening is projected for 2015. The expansion in the U.S. has led to a significant reduction in the rate of unemployment in that country, which fell to 6.3 per cent last month. That represents a decline of almost 4 percentage points from the recessionary peak, with some 8.5 million payroll jobs having been created during the recovery to date. These positive developments augur well for prospects of future growth in this country, and especially for our important tourism sector.

Guarded optimism about U.S. economic prospects was also expressed at the most recent meeting of the monetary policy committee of the U.S. central bank, that is the Federal Open Market Committee of the Federal Reserve System, on April 30 of this year. The following week, at a meeting of the Joint Economic Committee of the U.S. Congress, the Chair of the Federal Reserve stated that she expects economic activity to grow at a faster pace in 2014 and that the rate of unemployment will continue to decline steadily. While that will justify the decision of the Fed to not have to inject further direct credit stimulus into the U.S. economy, the Fed is expected to maintain the official Federal Funds interest rate at its current low level, to support ongoing progress toward stronger employment growth.

The IMF projects positive growth in the euro area this year and next, following two years of contraction. That growth, however, is expected to be varied across the region with strength in the core countries and weakness in nations with high private and public debt. Germany is expected to lead the way with growth of 1.7 per cent and 1.6 per cent this year and next. Expansion in France should come in slightly below those rates. Elsewhere in Europe, the IMF sees the U.K. economy posting relatively strong growth in 2014 and 2015, at 2.9 per cent and 2.5 per cent, respectively.

China and India are expected to continue registering above-average real growth through 2015, though at rates somewhat lower than in the recent past.

The external environment confronting the Bahamian economy going forward thus appears, on balance, to be propitious for further expansion and employment creation. The challenge for policymakers is therefore to set the appropriate economic, fiscal and regulatory policy framework within which the private sector can flourish and readily capitalize on emerging opportunities.

THE BAHAMIAN ECONOMY

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

Real growth of the Bahamian economy in 2013 has been estimated by the Department of Statistics at 0.7 per cent, down significantly from the 2.7 per cent rate that had been projected by the IMF and which we factored into last year's Budget Communication. One important factor in this weaker-than-expected performance relates to some softness in tourism activity last year. It is estimated that tourist expenditure declined by some 3 per cent in 2013, as the number of stopover visitors fell by 4 per cent, from 1.42 million to 1.36 million. These developments reflect persistent weakness in several key source markets, modest reductions in airlift and room capacity, as well as ongoing regional competitive pressures.

Similarly, there was softness in the investment climate with the falloff in residential construction and the winding down of major public works projects such as the Airport Development Project and the New Providence Road Project. Non-residential construction continued to be buoyant with an increase of 21 per cent in real terms in 2013, on the basis of several foreign financed projects in the tourism sector including the Baha Mar project in New Providence.

The tourism and investment climate also carried over to less robust private consumption.

With reduced international oil and commodity prices, the rate of inflation domestically rose by only 0.4 per cent in the twelve months to December 2013. One factor which contributed was the fall in domestic fuel and energy prices. In particular, the average price of gasoline fell by 2 per cent while the price of diesel declined by 1.2 per cent. Moreover, the average fuel surcharge of the Bahamas Electricity Corporation decreased by almost 3 per cent last year and by nearly 9 percent more in the first three months of this year.

Domestic labour market developments during 2013 were positive, with the national rate of unemployment falling to 15.4 per cent in November, from 16.2 per cent in May. Not only did the number of employed persons increase by 2,600 over the six month period, but the number of discouraged workers also fell by 1,205.

In the estimates of balance of payments trends, both the effects of softer net tourism receipts and larger payments for foreign construction services contributed to an expansion in the current account deficit by $132 million to $1.6 billion in 2013.

Meanwhile net inflows into the Bahamas on capital and financial account declined by approximately one quarter to $990 million, due to some reduction in direct investment inflows as well as lower net funding of public sector works.

As for monetary and credit developments in 2013, the ongoing softness in domestic economic activity and high levels of loan arrears led to relatively subdued private sector credit growth and further buildup of bank liquidity.

Mr. Speaker, characteristic of the external pressures, during 2013 the Central Bank's foreign reserves fell by $68.6 million to $741.6 million, This reflected, in part, ongoing demand to meet current payments as well as higher-than-average bank profit remittances. During the first four and a half months of 2014, reserves recovered to stand at $990.5 million at the start of this week, capturing largely the proceeds from the Government's foreign currency bond issue.

Mr. Speaker, as the foregoing illustrates, the performance of the Bahamian economy in 2013 continued a trend of muted growth over the last four years, following the two recession years of 2008 and 2009 when the GDP posted contractions in real terms. The rate of economic expansion has yet to return to pre-recession and more desirable performance levels.

As I have stressed earlier and elsewhere, my Government has been working diligently on a number of fronts to bolster the growth of our economy, not only in New Providence but also across the Family Islands. I am pleased to note that, as a result of our efforts, we now see new and expanded investment projects across the nation that promise concrete hopes of better days ahead for the economy and employment opportunities for our citizens.

To buttress my optimism for the future, I would note that the IMF staff mission that visited our country last November for the annual Article IV Consultations concluded that growth is expected to pick up over the medium term, reaching 2.8 per cent in both 2015 and 2016, following real growth on the order of 2.3 per cent in 2014.

Tourism is expected to be boosted by the ongoing recovery of the U.S. economy and investment activity is projected to remain strong. The coming on stream of the Baha Mar operations as well as other projects underway will further elevate growth prospects for our economy. While downside risks are present, the IMF team did assert that upside potential clearly exists over the medium term.

In its review of the Article IV staff report in January of this year, the Executive Board of the IMF endorsed the key findings and stressed that the risks to the economic outlook highlight the critical need for the Government to implement, in a timely fashion, its plans for economic diversification and fiscal consolidation.

REACQUISITION OF MAJORITY BAHAMIAN OWNERSHIP IN BTC

In January this year, the Government and Cable and Wireless Communications (CWC) signed an MOU for the transfer of 2% of CWC's 51% shareholding to a foundation to be called "The BTC Foundation" for the benefit of the Bahamian people through various designated Bahamian social investment programmes that "*increase and improve access to and enjoyment of telecommunications technology, as well as other civic projects of national importance, in The Bahamas*".

I should add that agreement was also reached for a CWC team to collaborate with relevant Government agencies to implement agreed CWC "Social Telecoms" programmes including but not limited to the areas of health, security, education and e-government solutions.

This MOU will be formalised by appropriate revisions to relevant transaction documents negotiated during the sale of 51% to CWC. The 2% shares that are the subject of the transfer will be non-voting shares. Under the MOU agreement was also reached for CWC to maintain management control of BTC.

Additionally agreement was reached for the majority of directors on BTC's board to be Bahamian nationals. This will be accomplished by CWC appointing a Bahamian as one of the CWC directors.

Let there be no doubt that once the documents containing the definitive agreement are executed, majority economic interest in BTC will be returned to the Bahamian people.

CELLULAR LIBERALIZATION

As for cellular liberalization, I will stress that our emphasis is on further positioning the telecoms sector as a facilitator of growth, with competition that drives down costs and improves service quality.

One of the main outcomes of the negotiations for the sale of 51% majority stake in BTC to CWC back in 2011, was that the Government guaranteed that BTC would have a monopoly on cellular mobile services for a period of 3 years commencing 6th April 2011. Emphasis is placed on the word **guaranteed** because there was no reasonable possibility for the Government to introduce, or even ***start*** the process to introduce, a second cellular mobile operator before the end of the monopoly period. Such a possibility of competition in cellular mobile services was decisively and unequivocally blocked, and eliminated altogether, by a combination of calculated actions in 2011 on the part of the previous administration.

The specific actions that blocked competition as well as any preparation for competition were:

1) the amendment to the 2009 Electronic Communications Sector Policy which expressly prohibited the Government from starting ANY process whatsoever (including any engagement with URCA on the matter) for the award of a second cellular licence before 6th April 2014;

2) the amendment to the law itself, i.e. the Communications Act 2009, which again expressly prohibited the Government from engaging in any process for the award of a second cellular licence before 6 April 2014; and

3) the grant of contractual undertakings to CWC in the Share Purchase Agreement signed and tabled in this Honourable House on February 8 2011 that no cellular licences would be issued prior to 6 April 2014; which undertakings were further reinforced with the threat of significant penalties on the Government in the event any violations.

The evidence is clear, supported by the record, that the intention at the time the 51% was negotiated and agreed, was to ensure that the issue of competition in cellular mobile services was so legislated that competition would be unequivocally denied to Bahamians *de jure* until April 2014 and *de facto* until, essentially, 2015; having regard to the logistics for introducing competition.

In a nutshell, this denial was accomplished by reserving to the Minister with responsibility for the Electronic Communications Sector the right, in the Communications Act, to allocate and award premium spectrum for cellular services, and then by subsequent amendment to the Communications Act, making it illegal under the same law for the Minister to make such an award or even start the process for such, before the end of the monopoly period.

Concurrently, the Electronic Communications Sector Policy was amended to provide for the same prohibitions as those placed in the law and contained in the Share Purchase Agreement.

Against this backdrop of facts that show how the Government's hands were tied with respect to introducing competition in cellular services before 6 April 2014; I am now pleased to report that following the expiration of the monopoly, the Government moved swiftly to mobilise a team in the form of a Task Force to prepare for the award of a second cellular licence in the shortest possible time.

That team consists of a cross-section of professionals having a range of experience in public policy, telecommunications operations, telecommunications policy and regulation, finance, law accounting, investments and planning. In this regard it should be noted that URCA will be supporting the Task Force with relevant technical expertise.

In addition the Task Force has created a framework for on-going collaboration of relevant Government agencies having a regulatory mandate that would impact roll-out of telecommunications services across the country. This collaboration is focussed on updating and streamlining processes conducive to a competitive environment.

The Task Force's most immediate mandate is to formulate the competitive selection process that would be used by Government to select the second cellular provider.

Already, significant headway has been made in this regard. In the last few weeks the Task Force has been consulting with the sector regulator, URCA, toward finalising a Request for Proposals (RFP) document. The RFP will contain the methodology and the criteria to be adopted by Government for selecting the second mobile provider. When the RFP is finalised, the Government will publish a notice, inviting interested parties to register in order to participate in the process.

The Process

What I can tell you at this stage, is that the process will comprise of two phases. Phase 1 will involve an evaluation of the proposals submitted in response to the RFP. The evaluation will be based on pre-determined criteria, which will be used to determine which Applicants would have the necessary capacity to offer mass-market cellular services to a high level of quality across The Bahamas. In addition to technical and financial capability, the Government will also consider the extent to which applicants offer opportunities to the widest base of Bahamians to participate in the ownership of the new license.

Only those applicants deemed suitable in Phase 1 will be allowed to participate in Phase 2, which will take the form of a spectrum auction. In its conduct of this two-phased process, the Government is hoping to introduce a balance between maximizing the revenue from allocating rights to valuable spectrum with its broader objectives of encouraging Bahamian participation, investment and innovation, and ensuring the realization of the benefits that competition would bring to consumers.

Projected Timeframes

We anticipate that once an invitation notice is published by Government, the entire selection process expected to take up to six (6) months. The new provider should be able to launch services within an additional six (6) months, with a view to achieving maximum coverage throughout The Bahamas in the shortest possible timeframe. Further details on specific roll-out timeframes will be provided once the new provider is selected.

Electronic communications form an essential part of the backbone infrastructure supporting the social and economic progress of The Bahamas. The Government sees cellular competition as a crucial means of achieving:

- Improvements in service quality and reductions in prices
- More variety in service offerings
- Additional employment opportunities
- Additional revenue streams for Government
- A more robust communications infrastructure, and extension of that infrastructure into underserved communities
- Further economic growth

FISCAL PERFORMANCE 2013/14

I now turn to fiscal performance in the 2013/14 fiscal year.

The economic developments in 2013 that I reviewed earlier have had very clear implications for the evolution of the public finances this fiscal year. In particular, the tepid rate of growth of our economy, along with weak consumer demand and imports, has impacted Recurrent Revenues directly. We now expect an outturn for Recurrent Revenues in the area of $1,465 million, some 2.5 per cent less than was budgeted, but an improvement of 6.2 percent over what we collected in FY 2012/13.

Both Recurrent Expenditure and Capital Expenditure are estimated to be broadly on track with the Budget forecast. As I explained at the time of the Mid-Year Budget Statement, Recurrent Expenditure should in fact come in just below the budget figure, at $1,720 million vs. $1,737 million.

As a result, we are now looking at a GFS Deficit on the order of $462 million, or 5.4 per cent of GDP, in the 2013/14 fiscal year. That compares to the Budget estimate of $443 million, or 5.1 per cent of GDP[1]. This represents an improvement over the GFS Deficit of 6.3 per cent of GDP recorded in 2012/13.

Government Debt at the end of the fiscal year is now projected at $5,152 million, or 60 per cent of GDP. That is up from the projected 59.4 per cent of GDP in last year's Budget.

FICAL POLICY 2014/15 AND BEYOND:
THE MEDIUM-TERM FISCAL CONSOLIDATION PLAN

[1] In this context the level of GDP in current dollars during the fiscal year has been revised downward to a level of $8,588 million, from the budget projection of $8,644 million. Both this and the widening of the deficit resulted in the increase in the deficit to GDP ratio.

As I stated in the Introduction to this Budget Communication, the Government remains firmly committed to staying the course with its Medium-Term Fiscal Consolidation Plan. The plan comprises a multi-year strategy whose overarching objective is to secure durable structural reform of the principal components of the public finances. As such, we are moving decisively to transform Recurrent Expenditure, Capital Expenditure and Recurrent Revenue in a manner that is phased, measured and balanced.

We fully acknowledge that fiscal redress cannot be successfully achieved solely by means of increased taxation. Restraint of expenditure trends over the medium term is also vital to the plan. I will now set out the details of actions in respect of each of the major components of the fiscal accounts that will secure the attainment of the medium-term fiscal objectives of our fiscal plan.

RECURRENT REVENUE

Measures to Enhance the Revenue Yield

I begin with the most important matter of revenue. As I set out above, our current system of taxation will yield total revenues on the order of 17.1 per cent of GDP in 2013/14. Such a level is unequivocally inadequate if the Government is to effectively meet the varying and extensive demands placed on its public services and basic public infrastructure, across the breadth of this small archipelagic nation.

Our revenue yield is clearly insufficient. I have been consistently explicit over the past two years that it is imperative that we achieve a significant enhancement of the yield of our revenue system, gradually and steadily through the medium-term. I have also consistently stressed that such a structural improvement in the aggregate revenue yield must be achieved through a balanced improvement in the administration of existing taxes and the introduction of new sources of revenue.

It is widely acknowledged that the administration of our current system of taxation is grossly deficient, in terms of the efficiency and effectiveness of processes and procedures as well as the successful collection of moneys that are rightfully due. My Government is fully cognizant of these deficiencies and we have, since we came to office, acted to redress them across the spectrum of the major revenue sources.

I have, on previous occasions, elaborated on the significant reform and modernization exercises that we have launched in the areas of Real Property Taxation, Customs operations and procedures, Business Licence upgrading, tobacco taxation and smuggling, and more efficient revenue administration through a new Central Revenue Agency.

These reforms are now well underway and are beginning to yield visible benefits. We will persevere with the much-needed reforms in these areas and will see them through to their complete and successful implementation. Officials have also been directed to redouble their dedicated efforts to increase revenue collections in all areas and throughout the nation.

As a result, we expect that the more effective collection of existing taxes will make an important contribution to the attainment of the fiscal goals of our medium term plan. However, for the sake of prudent fiscal planning, we have assumed only modest yields from these reforms until solid evidence emerges as to their actual results. In total, we expect the reforms to yield on the order of 1 per cent of GDP in 2014/15.

As well, after extensive and due consideration and discussion, we are also moving forward with the regularization and taxation of webshop operations in this country. Conservatively, we expect this to provide a revenue intake of some 0.14 per cent of GDP in the next fiscal year and beyond.

I want to be clear on this matter to the effect that the regulatory and taxation regime that will be introduced for the webshops will feature very stringent and demanding standards in terms of levels of controls and accountability. To that end, the Government has engaged international experts who will advise on an appropriate policy and legal framework for the sector. I also wish to advise that the taxation of the webshops will be retroactive to July 1, 2014.

Implementing a New Source of Revenue

It has long been argued in this nation that the major sources of Government revenue are antiquated and not suitable nor adequate to the needs of modern governance. Indeed, debate on the issue has ebbed and flowed for well over a decade, going back to the turn of the millennium.

Unfortunately that debate, at times heated and passionate, has failed to produce the much-needed transformation of our system of taxation. That is not for lack of understanding of the issues at play or the desirability of change. Indeed, we have benefited from a number of studies on the matter, as I outlined in both this year's Mid-Year Budget Statement and in my closing statement on the Mid-Year debate. We have also received expert advice on the matter, internally from officials and advisors in the Ministry of Finance, from experts from international organizations such as the IMF and the IDB and from private sector fiscal advisors.

The overwhelming conclusion of these many studies and this advice has been that the Government should implement a new sales tax, in the form of a Value Added Tax (VAT), that is in tune with the realities of today's modern, service-based economy. As I explained in February, the previous Administration had accepted this conclusion and we ourselves, in our Charter for Governance, had highlighted the need for a new tax with a broad base covering both goods and services.

Following our coming to office, we worked toward the development of a comprehensive programme of tax reform with implementation of a new VAT as the cornerstone component. This tax reform programme was set out in detail in the White Paper that the Government issued in February of 2013.

Public discussions began in earnest around the White Paper, in both New Providence and the Family Islands. These intensified since then to include the business community, churches, schools, community and civic groups, and key audiences within the public sector. From the private sector the Ministry of Finance also enlisted key business groups and the Christian Council to form part of an advisory committee for VAT implementation, to ensure that alongside one-on-one consultations, the views of industry were being constantly channeled to the Government. Following the White Paper we also engaged in the process of drafting the VAT legislation and regulations, which upon release last November formed the basis for yet more intensive consultations.

With the release of the draft VAT legislation the Ministry of Finance received significant feedback from private stakeholder groups including, among many, the legal and accounting profession, the Clearing Banks Association, the insurance industry, the Bahamas Hotel and Tourism Association, the Bahamas Wholesale Associations, various stakeholders in the Freeport area, the Bahamas Contractors Association, the Bahamas Financial Services Board. the local light industries manufacturers association, the Bahamas Motor Dealers Association, owners and operators of tour companies, the Marina Operators of the Bahamas and the Downtown Partnership on behalf of duty free merchants.

In addition, there has been increasing outreach to the Family Islands: so far in North and South Andros, Exuma, Eleuthera, Abaco, the Berry Islands, San Salvador and Long Island. All of the Family Islands are being visited in coordination with the Chambers of Commerce and the Family Island Administrators.

The full range of these meetings and discussions has led to significant clarifications and in many cases positive responses to the proposals put forward by stakeholders.

Through the post White Paper process, both the IMF and the IDB have continued to provide invaluable technical assistance. The IMF brought regional and international experience to bear in helping us to cover all of the necessary bases in the draft VAT legislation. The IMF through its Caribbean Regional Technical Assistance Centre (CARTAC) also provided training to help build capacity for VAT administration, a process that will culminate in a more consolidated system of revenue administration under the Central Revenue Agency or Administration (the CRA).

The IDB has made a contribution with the economic study on the impact of the VAT. This study considered both the immediate and longer-term impacts of VAT on growth, employment and inflation. The study also provided a framework for the government to quantity how much additional social spending would be necessary to ensure maximum benefit to the poor and vulnerable from the program of tax reform. The study projected how the government's budgetary performance and the economy would fare under alternative rates for the VAT other than 15 per cent.

Following the IDB's work, the IMF concluded a mission and issued a draft report to the Ministry of Finance on the revenue potential from VAT. The revenue modeling that was performed is in a state that has allowed the Ministry of Finance to undertake sensitivity analysis on assumptions in respect of the VAT rate, exemptions and the efficiency of tax collections.

Since the IDB study was done, the government also commissioned an additional study on the desirability and suitable structure of a VAT that was undertaken by Compass Lexecon, a group of U.S. fiscal experts with extensive experience in advising on fiscal policy matters in that country. Its Senior Managing Director, for instance, was a key member of Present Clinton's National Economic Council and he was instrumental in the completion of the study on a Bahamian VAT.

As well, early this year, the Government willingly acknowledged the concerns over VAT that were expressed by the Chamber of Commerce's Coalition for Responsible Taxation. The Coalition expressed its desire to commission an additional in-depth analysis of the VAT option, along with other possible options for meeting the fiscal targets in our medium-term fiscal consolidation plan. I informed the Coalition that my Government was amenable to hearing the results of their studies as we move forward with the process of tax reform. Whilst this happens, the Ministry of Finance continued with the technical work required for eventual tax reform. I also agreed that the Ministry would provide Coalition researchers with whatever data and research material that they might require in order to complete their work in a reasonable and timely fashion.

The Government is now in receipt of the Compass Lexecon study which concludes that a VAT is by far the superior new tax policy instrument for The Bahamas. A VAT provides the best combination of revenue generation, enforceability, efficiency, fairness and compatibility with economic growth. On the latter point this study is consistent with the vast international literature that ranks various instruments in respect to their so-called “friendliness” to growth, with VAT being a much better choice than personal and corporate income taxes and payroll taxes.

The study also suggests that a VAT is efficient at taxing wealth as it is consumed while a payroll tax does not even tax wealth. As well, it argues that a payroll tax is more susceptible to avoidance and evasion than a VAT, especially by those with higher levels of income. Business owners, for example, can characterize their own wages as business profits and therefore avoid the payroll tax altogether.

However, in light of the current state of the economy, the study recommends a VAT rate below 15 per cent, in the range of 5 to 10 per cent in combination with other fiscal reforms to meet the Government’s fiscal targets. Should fiscal developments in the future point to a need for additional revenue, having a VAT in place would provide flexibility to address that need and enhance the Government’s credibility as well.

The Compass Lexecon study also suggested the introduction of a new, permanent so-called fiscal rule to enhance the sustainability of our fiscal plan and to strengthen the Government’s credibility. Under such a fiscal rule, we would set two targets: one, a maximum target for the debt-to-GDP ratio and two, a target for the minimum annual reduction in that ratio, which would be waivable under emergency circumstances such as economic downturns and natural disasters.

The key point in this recommendation is that, should we fail to meet our fiscal debt target, the VAT rate would automatically be increased by law.

While such a legislated approach to fiscal consolidation does have some measure of theoretical appeal, my view is that it is lacking from a practical policymaking point of view. I firmly believe that both success on the fiscal front and solid credibility rest on the transparency of our plans and the concrete results of our actions. Over the last two years, we have committed ourselves to a detailed medium-term fiscal plan and we have stayed the course on this plan. The virtue that we see in this plan is that it is balanced and adaptable to circumstances, allowing for adjustments not only on the revenue side of the ledger, but also in respect of Government spending, whether Recurrent or Capital. As such, legislating automatic increases in the VAT rate as the sole avenue for staying on track would not be appropriate nor desirable.

The analytical study sponsored by the Coalition for Responsible Taxation was undertaken by Oxford Economics and their report assesses the fiscal and economic effects of various fiscal policy strategies, including VAT at various rates and a new employee/employer payroll tax. From the Government's perspective, the key findings of this study are that, regardless of the fiscal policy scenario, if we are to meet our deficit objective by the end of our current mandate, it is critical that we succeed on all revenue enhancement initiatives, including reform of property tax and Customs operations.

According to the Coalition study, meeting our deficit target by 2017 will also be more likely to be achieved with a VAT rather than a payroll tax. Indeed, the two scenarios in the study with a payroll tax on both employees and employers, whether at 3 per cent or 6 per cent, both show a higher Government deficit in 2017 than with a VAT at 15 per cent as initially proposed, or with a VAT rate of 10 per cent or even 7.5 per cent with a tightened set of exemptions. As well, implementing VAT at a significantly lower rate, while desirable and feasible, will nonetheless require a much tighter approach to exemptions.

Concurrently, the Bahamas Hotel and Tourism Association retained Ernst and Young to conduct economic modeling research to determine the impact of various tax and fiscal reform measures on the tourism industry. The BHTA shared the results of this study with the Government in recent days, along with its recommendations.

Among the recommendations, the Association suggests that, in light of the potential negative impact of a high VAT rate on tourism, the VAT should be implemented at a much lower rate, more specifically 6 per cent across-the-board, with suggested other modifications to the applicability of VAT to the tourism sector. However, the study does suggest that, in order to meet the Government's revenue target, it would need to impose employer and employee payroll taxes, increase the sea departure tax and increase other taxes and fees to compensate for the lower VAT rate.

My Government is fully sensitive to the very important role that Tourism, as our premier sector, plays in our economy in generating activity and jobs. We are sympathetic to the difficult challenges that the sector faces in a highly competitive environment and we will continue to monitor developments to maintain the fundamental viability of this key industry. However, the fiscal challenges that we face are such that, on the basis of the balance of evidence and advice that we have garnered from all of the studies and from the experts, we are unable to accommodate the BHTA recommendation for a VAT rate as low as 6 per cent.

In furtherance of this point, I want to emphasize that the Government has willingly and cooperatively engaged in a collaborative process with the private sector in the investigation of VAT and the best way forward. This process has permitted an open and transparent sharing of the various points of view to the point that there is now a greater degree of understanding of the challenges that confront the Government and the approach that we are pursuing in addressing those challenges.

The various studies that have been undertaken have provided the Government with invaluable input into its thinking on the most appropriate approach to fiscal consolidation in general and, more specifically, on the parameters of a VAT policy framework suitable in the Bahamian context. At the end of the day, it is comforting that the private sector advice confirms the balanced approach to medium term fiscal consolidation that the Government has been pursuing since coming to office, on the basis of the studies and advice received from its own economic advisors. That approach has been, and continues to be, targeted to both expenditure restraint and revenue enhancement which in turn, is focused on both the better administration and collection of existing taxes and the introduction of new sources of taxation.

In this vein, I would highlight that the focus that has also been placed by the private sector on more transparent and comprehensive budgeting by Government is something whose desirability we have readily acknowledged for some time now. In fact, with the assistance of CARTAC we are actively making forward strides toward the introduction of programme-based budgeting in Government. This will allow us to have a much better idea of the resources dedicated to specific areas and the results that are being achieved. This, in turn, will permit Government to better determine how and where resources should be allocated.

To that end, we also recognize the benefits of adopting internationally recognized and accepted accounting principles for the public finances and we are making efforts to implement the IMF Government Finance Statistics (or GFS) framework, including accrual rather than cash accounting and the proper accounting for Government assets.

I would also like to highlight that our deliberations on VAT have been instructed by the advice received from the team of New Zealand VAT experts that recently visited our country. The Prime Minister of that nation positively and graciously responded to my personal request for this assistance and I wish to publicly express my sincere gratitude to him and his Government for their warm and invaluable support.

For the benefit of Honourable Members, I would indicate that the two experts who participated in this mission, Dr. Don Brash and Mr. John Shewan, hold the highest and most impeccable credentials when it comes to VAT matters. Dr. Brash chaired the Government's Advisory Panel which received submissions from the public on their White Paper and he was also involved in most aspects of the New Zealand tax reform programme. Mr. Shewan was the Chairman of PwC for 10 years and he also served as Chairman of the New Zealand Government Tax Education Office from 1988 to 1998.

I must say that the mission of the New Zealand experts came at a most opportune time as it served to shed fresh light on our internal debate on the most suitable approach to VAT. The experts had discussions with a wide range of stakeholders as well as with officials and Ministers. Through this process, they outlined what had made the introduction of VAT in their country so successful and offered observations and recommendations on our proposal to introduce VAT in The Bahamas.

The success of the New Zealand VAT, and there are important lessons for us here, was very largely due to:

- an extensive education programme aimed at both the business sector and the wider public, with the programme largely driven by respected members of the private sector;
- a Government commitment to minimize the compliance costs involved with the new tax, particularly by having virtually no exemptions; and
- a Government commitment to offset the effect of VAT on the cost of living by reducing income taxes and, for families not paying income tax, introducing a form of negative income tax or cash transfer system.

As for a VAT in The Bahamas, the New Zealand experts recommended that:

- While the Ministry of Finance VAT Implementation Team could likely cope with implementation as early as October 1, 2014, they are likely to require more time if there are design and implementation changes made in response to the draft legislation upon tabling.
- Moving to a single rate of VAT, other than zero for exports, with very limited exemptions would enormously reduce the compliance costs of the private sector and the enforcement costs for the public sector. This would also permit a potentially large reduction in the single rate of VAT, almost certainly to 10 per cent and quite possibly to below that figure.

- While the above approach would minimize compliance costs and allow a lower rate, it could also have negative effects on the well-being of low-income households. It would thus be vital to introduce mechanisms to protect such households. The team estimated that our proposed reforms to social assistance programmes appear to provide a suitable delivery mechanism for such assistance.

The New Zealand mission has also brought the spotlight back to exemptions, an area on which we had a significant private sector lobby. Exemptions when they are socially motivated are intended to reduce the burden of consumption taxes on persons with lower incomes. The points that the mission reinforced, however, are the following:

➢ The first is that it is a costlier method of trying to help the poor, because more revenue is sacrificed, in the process, to those who are not poor. Take food for example. While a low-income family spends a higher proportion of its income on food, a high income family spends much more on food in absolute terms. So exempting food from VAT would provide a much larger dollar benefit to a high income family than to a low-income family. Having the means to provide direct assistance to low-income families is thus a far more efficient mechanism than exempting necessities from VAT.

➢ The Ministry of Finance emphasized, in its education campaign, that items that are exempt from VAT still can experience some price increase with a VAT. This, in the view of the New Zealand mission, increases the justification for limiting the list of items that are exempted from VAT, because it gives the businesses that are affected by such changes the opportunity to participate fully in claiming credits for VAT paid on their operating inputs. It also allows such businesses to be more transparent in undertaking the adjustments to explicitly include VAT in their prices.

The Government has accepted the New Zealand recommendation to enlist the private sector in the public education campaign. A three-person Task Force is being established to oversee this process, which will dovetail with the Government's internal activities and provide timely feedback to the Ministry of Finance on the appropriate emphasis of public education. The Task Force will have a budget of $150,000 at its disposal. They will be tasked with the job of helping to explain the VAT to the business community and the wider public.

With the private sector Task Force engaged, the focus on consumer education will be intensifying with a process that is as transparent as possible. The VAT Unit of the Ministry of Finance has prepared a number of brochures to educate the consumer. This process will continue to evolve around presentations to various civic and community groups including churches, schools and Rotary and Kiwanis Clubs. As part of the communications strategy for VAT, arrangements have also been made for nightly public service announcements on the local TV stations, as well for production of lengthier infomercials that would target the business community.

With the Task Force engaged, educational workshops will form the basis of stepped up engagement with the business community. This is a prelude to the process of registering businesses for VAT and to conducting one-on-one advisory visits with firms. The strategy is two pronged. First, accountants, attorneys and professional advisors will be invited to attend an intensive VAT training program, put on by the VAT unit in the Ministry of Finance. They would then be equipped to impart this knowledge to their clients. Businesses that prefer to deal directly with the VAT unit will then be allowed to participate in a second round of workshops, which would also begin shortly.

The Proposed VAT Framework for The Bahamas

Mr. Speaker, we have deliberated on VAT for well over a year now. We have had extensive consultations with the private sector. We have had extensive advice and support from key international organizations and from U.S., New Zealand and U.K. experts. For the sake of transparency, we will be releasing publicly on the Government website the study prepared by Compass Lexecon, the VAT revenue modeling study done by the IMF fiscal team and the final report of the New Zealand VAT experts.

I therefore believe that we are now in a position to set out the policy framework for VAT that we believe will be successful from both a fiscal and economic growth and stability point of view. That framework, which I believe addresses many of the concerns voiced by the public and the private sector, is set out in the VAT Bill that I will very soon be laying before the House of Assembly. We will work closely with the private sector going forward in elaborating and finalizing the various rules and guidelines that will be critical for successful VAT implementation.

In a summary fashion, the key features of the proposed Bahamian VAT are as follows:

1. There will be one single VAT rate across the board (other than the zero rate for exports) that is being substantially reduced to 7.5 per cent from the originally proposed 15 per cent.

2. Along with the significantly reduced VAT rate, the Ministry of Finance is proposing much fewer exemptions. The full list of these will be released shortly.
3. As for the implementation date of VAT, I should point out that we are resourcing the Ministry of Finance to be at full administrative capacity and readiness within Government by October 1, 2014. However, to allow sufficient time for the needed more in-depth public education campaign and private sector preparation, the VAT will come into effect on January 1, 2015.

4. The Ministry of Finance is now proposing a regime of VAT-inclusive rather than VAT-exclusive pricing. This is to simplify price comparisons by consumers, especially when navigating between VAT registrants and non-registrants. The price consumers see will always be the price they pay.

5. From a cash flow perspective, there is also a proposal for businesses that qualify for fiscal incentives on imports to have more control over the timing of recognizing certain VAT liabilities through deferred payment mechanisms.

6. The Ministry of Finance is proposing less cumbersome cash basis accounting procedures for small businesses, and overall less complex procedures for tax credits against bad debts and streamline the VAT refund process, having regard to the need to be vigilant against fraudulent claims.

I would remind Honourable Members that, as was proposed in the White Paper last year, we will be eliminating the Hotel Occupancy Tax on implementation of the VAT. Indeed the VAT will impose a lower effective levy on accommodations than the current 10 percent room tax.

Being able to streamline exemptions and position the VAT rate much lower than in the White Paper, the Government is not announcing any wide-scale reduction in import duties and excise taxes at this time. Based on the revenue performance of VAT early next year, the Government may be in a position to consider tariff and excise reductions at the time of the 2015/16 Budget. More general tariff rebalancing, however, is still a requirement that will need to be implemented once the Bahamas concludes the ongoing WTO negotiations.

As such, on the basis of the detailed revenue modeling work that was performed by the team of IMF fiscal experts for our benefit, we estimate, again prudently and conservatively, that the VAT as proposed above will yield on the order of 3 per cent of GDP on a full-year basis. Given the date of implementation, that will amount to some 1.5 per cent of GDP in 2014/15.

All told, the measures that I have outlined above are expected to boost the revenue yield of our revenue system by 2.7 per cent of GDP in 2014/15. That will take the yield to 19.8 per cent of GDP, up from 17.1 per cent this fiscal year. By 2016/17, our revenue yield will be enhanced by roughly 3.4 per cent of GDP, to a level of 20.5 per cent of GDP. That will bring us significantly closer to the regional norm, though we will still be somewhat below it.

RECURRENT EXPENDITURE

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

- The overall framework for strengthened public financial management is taking place within the scope of the new Financial Administration and Audit Act.

- The Ministry of Finance is enforcing strict expenditure discipline and accountability across all Government Ministries, Department and public corporations.

- The Government is pursuing its ongoing review of its operations as well as its expenditure and revenue control mechanisms, seeking to instill best practices wherever feasible. As an example, we are cleaning up the methodology for accounting for employees in the public sector to give a clear indication of the actual number of persons employed and being paid. This will provide enhanced discipline in budgeting and new hiring.

- We are moving ahead with the restructuring of the Ministry of Finance to strengthen its capacity to more effectively monitor the operations and expenditures of Government Ministries, Departments and public corporations. Beyond expenditure monitoring activities, increased resources and staffing will also be directed in the Ministry towards focusing on taxation policy, active management of the public debt and the contingent exposures of the Government.

- Our planning function is being strengthened to allow Government to review new investments and projects in an economically and financially sound and effective manner.

- We have introduced new Public Sector Procurement procedures which impose greater controls and greater efficiency on public spending for goods and services for all public entities including public corporations.

- We have also bolstered our approach to the management of government debt. A new Debt Management Committee comprising representatives of Finance, the Treasury and the Central Bank is implementing a new debt management policy framework designed to minimize the financing costs of Government debt while also minimizing risk.

- I also wish to signal that the Government has embarked on an important review of public sector pension plans that is designed to address the financial viability of these plans over the longer term. In light of our fiscal position, the projected growth in pension liabilities and cash outflows is simply not sustainable.

As part of our on-going budget reform process, as announced last year, the budget document contains modifications to improve transparency, starting with the introduction of multi-year budgeting at the item level. These modifications are designed to bring our budget document in line with international standards. These standards call for a shorter document and, as a result, much more of the customary detail will now be posted to the Government's website and funding for statutory corporations is now incorporated in the respective Ministries' budgets or the budget of the Ministry of Finance. It is also proposed to publish the budget electronically in GFS format, the format for analyzing the budget used by international agencies and the ratings agencies. Next year, it is expected that the budget would be presented to Parliament in this format. In this area we are grateful for the support of the Caribbean Regional Technical Assistance Centre and the IMF.

We have also continued to adjust and review how we do things to improve efficiency. As a result in this budget we have placed all electricity expenses under the Treasury, water expenses under the Ministry of Finance and for agencies based in Grand Bahama funding for these expenses are allocated under the Ministry of Grand Bahama.

As I have stated on numerous previous occasions, one of the fundamental objectives of our Medium-Term Fiscal Consolidation Plan is, gradually and as circumstances permit, to reduce the size of Recurrent Expenditure relative to the size of the economy, to a level more in tune with experience during our previous mandate. Through our concerted efforts to reform and restrain expenditure, I estimate that Recurrent Expenditure will stand at 19.6 per cent of GDP in 2016/17, relative to 20 per cent this fiscal year, and down from 20.7 per cent in 2010/11.

Recurrent Expenditure in 2014/15 is estimated at $1,823 million, up some $103 million from the level in 2013/14. This increase reflects a number of factors. For one thing, not unexpected, debt servicing requirements next year will be up by $40 million from this year, with public debt interest payments up by almost $30 million and debt redemption higher by $10 million.

However, the recurrent provisions have also been supplemented by reclassified amounts from the capital budget, including the commitments for outsourcing of garbage collection in New Providence, the maintenance of Road and Verges, the Urban Renewal initiative and recognition of lease payments on Government vehicles. These explain another $30 million of the Recurrent Expenditure increase in 2014/15.

CAPITAL EXPENDITURE

On the Capital Expenditure front, we are adhering to our commitment to reduce its weight relative to the size of the economy over the medium term, to a more usual level of 3 per cent of GDP. This will require strict prioritization and timely profiling on the part of the Government. In light of the state of our economy and with near-term priorities, I am projecting Capital Expenditure at $330 million in 2014/15, or 3.7 per cent of GDP. Beyond 2014/15, with the more robust private sector growth that is projected, Capital Expenditure will be gradually reduced relative to the size of the economy to reach our target level of 3 per cent of GDP in 2016/17.

REVENUE MEASURES

In this Budget Communication, I am also announcing a number of revenue measures.

Some of these measures reflect the provisions of an agreement between the Ministry of Tourism and the commercial airlines designed to sustain airlift to The Bahamas. Specifically, the current $75 processing fee paid by the commercial airlines for entry and exit will be eliminated and the Customs attendance fees will be reduced from $50 to $200 per hour to a flat $2.50 fee per inward and outward declaration.[2] To qualify for these adjustments, the commercial airlines will be required to meet certain minimum requirements in the form of a minimum of 300 international rotations, i.e. landings and take offs, per year, They must also increase the number of seats coming into the market and bring all outstanding processing fees up to date. With these fee adjustments, the Government will also be increasing the air departure tax from $25 to $29 effective October 1, 2014.

I would also signal that, as we announced last year, the Government is engaged in a comprehensive review of fees and charges more generally, including immigration fees, to ensure that these are brought up-to-date, to levels more in line with the costs of providing Government services.

The other revenue measures that I am announcing today are largely of a housekeeping nature and are as follows:

- The Treasurer will be granted the power to request records to determine stamp tax liability;
- Financial institutions will be given 30 days after month-end to report on stamp taxes collected and submit payment; late filings will be subject to a fee of $1,000 and interest at 1.5 per cent per month;

[2] This should be corrected as follows: ***The current $75 processing fee paid by the commercial airlines for entry and exit will be reduced to flat $2.50 fee per inward and outward declaration and the Customs attendance fees , now at $50 to $200 per hour will be eliminated.***

- The deadline for filing and paying Business License taxes will be January 31 and March 31, respectively;
- Businesses outside the Port Area in Grand Bahama will be granted duty exemption on building materials for their businesses;
- The fee increases for public trust companies and private trusts announced last year are being reduced, with an increase of 25 per cent as of January 2014 and another increase of 25 per cent in January 2015;
- A fee will be levied on tobacco excise stamps, at 25 cents for self-adhesives and 20 cents for dry stamps;
- The excise tax on hybrid trucks is being reduced from 60 per cent to 25 per cent;
- The tariff on shandy is being converted from 40 per cent to $4.00 per imperial gallon;
- Shandy will be subject an excise tax of $2.00 per imperial gallon under the Spirits and Beer Manufacture Act;
- The duty exemptions enjoyed by the Bridge Authority will be limited to imports directly related to the maintenance and rehabilitation of the Paradise Island bridges;
- The City of Nassau Revitalization Act is being extended for one year; and
- The Family Island Development Encouragement Act is being extended for one year.

PROJECTED FISCAL RESULTS

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

- The GFS Deficit will post a significant decline in 2014/15 to a level of $286 million, or 3.2 per cent of GDP, down from $462 million, or 5.4 per cent of GDP in 2013/14;
- The Balance on Recurrent Account will move from a long-standing deficit position to a surplus of $68 million in 2015/16;
- The GFS Deficit will be significantly reduced to a level of $84 million in 2016/17, or 0.9 per cent of GDP ;

- The Primary Deficit will be virtually eliminated as of 2014/15 and will move to sizeable surpluses beyond, which is critical to reversing the upward trend in the debt to GDP ratio; and
- The ongoing rise of the Government Debt burden will be arrested and the ratio of Debt to GDP will decline to 58.5 per cent by 2016/17, down from the peak of 60.9 per cent in 2014/15.

CONCLUDING REMARKS

In conclusion, Mr. Speaker, I want to stress again the importance that my Government places on its Medium Term Fiscal Consolidation Plan as an indispensable and critical component of its overall national development strategy. We simply cannot continue, as Governments in this nation have done over the last several years. to tolerate a situation where Government inexorably spends far more than it takes in, thereby increasing the burden of debt to potentially crippling levels, as a legacy that we will simply pass on to future generations.

That must stop and my Government is seeing to it that it does, visibly and concretely during this term in office. We will rid the nation of the fiscal albatross that hangs around its neck, sapping confidence and energy and initiative. With the many initiatives that we are taking to bolster the growth potential of our economy, I am confident that our plan of fiscal redress will indeed lead to a better, more secure future for all Bahamians. It will also, as an added benefit, lead to a lower burden of Government debt, thus reducing the need to allocate valuable financial resources to debt servicing. By breaking the vicious cycle of deficits and debt buildup on a permanent and sustainable basis, we will reap a sizeable fiscal dividend that will be available to adequately finance our aggressive and ambitious economic and social policy agenda going forward.

Mr. Speaker, through my Government’s dedicated and responsible approach to governance, the future looks very bright indeed.

ANNEX A

ECONOMIC BACKGROUND

ECONOMIC BACKGROUND[3]

INTERNATIONAL ECONOMIC DEVELOPMENTS

According to the International Monetary Fund (IMF), world output grew by an estimated 3.0% in 2013, marginally lower than the 3.2% expansion a year earlier. Underlying this outturn, the pace of economic activity slowed for advanced economies, due in part to fiscal consolidation efforts, while robust growth in emerging market economies was constrained by softness in both external and domestic demand.

During 2013, as advanced and emerging market economies experienced softness in their recovery, major central banks either maintained or intensified their expansionary monetary policy measures in an effort to support growth. Indeed in the United States, the Federal Reserve held its main policy rate at a historic low, but announced its intention to begin a gradual tapering of its Government bond buying programme, amid signs of improving economic growth fundamentals. Further, the Bank of England maintained the size of its asset purchase programme and retained its low benchmark rates. In contrast, The European Central Bank (ECB) reduced its three key interest rates by 25 basis points each, while the Bank of Japan (BOJ) increased the size of its asset purchase programme and the People's Bank of China (PBOC) established a standing lending facility and executed short-term liquidity operations to support its banking sector.

With regard to other economic developments, real GDP in the United States grew by 1.9% in 2013, a moderation from a 2.8% gain in the preceding year, due to lower consumer spending and a significant reduction in Government expenditure. However, labour market conditions improved, as gains in professional services, retail sales and construction, contributed to a 75 basis point decline in the unemployment rate to 7.4%. In this environment, annual inflation slowed to 1.5% in 2013 from 1.7% in the prior period, reflecting a decline in fuel costs and a tapering in food price gains. As investor demand for riskier assets increased, the dollar depreciated against the Euro (4.0%), the Chinese Yuan (2.8%), the Swiss Franc (2.6%), and the

3 The Economic Background is based on material provided by the Central Bank of The Bahamas.

British Pound (1.9%). In contrast, the dollar surged relative to the Japanese Yen by 21.4% and increased modestly versus the Canadian dollar by 7.1%. In the external sector, the trade deficit narrowed by $59.8 billion to $474.9 billion, owing primarily to a 2.8% expansion in exports, including industrial supplies and materials and automotive vehicles.

The performances of other major economies were uneven, with the United Kingdom's real GDP growth accelerating to 1.8%, as expansions in the production and manufacturing sectors fuelled its strongest outturn since 2003, following a gain of 0.3% last year. Similarly, the downturn in the euro area eased to 0.5% from 0.7% in the prior year, as several southern states came out of recession. In Asia, China's growth rate stabilized at 7.7% in 2013, as smaller gains in investment spending and factory output offset higher exports. In addition, elevated levels of fixed investments, contributed to Japan's real output expanding by 1.5%, in line with the prior year's growth.

Commodity prices moved lower in 2013, as the average price of crude oil decreased by 2.0% over the year to $109.11 per barrel, explained by heightened global supplies and the slow pace of the global recovery. However, on a year-on-year basis, the price of oil increased marginally by 0.9% to $111.59 by end-December, 2013. Reflecting mainly an increase in investors' risk appetite due to the improving economic outlook, the cost of precious metals declined over the year. Specifically, the prices of both gold and silver fell by 16.6% and 25.4% to $1,397.29 and $23.42 per troy ounce at end-December 2013. According to the United Nation's Food and Agriculture Organization, international food costs also moderated, with the overall food price index declining by 1.6%, following a 7.3% reduction in the previous year. In particular, cereal prices—which include wheat and maize—fell sharply by 7.2% in 2013, after a decrease of 2.0% in 2012.

The IMF in its April 2014 World Economic Outlook Report (WEO) forecasted that global growth will accelerate by 0.6 of a percentage point to 3.6% in 2014, with further strengthening to 3.9% in the following year. In terms of a breakdown, growth in advanced economies is projected to accelerate to 2.2% from 1.3% in 2013, supported by accommodative monetary conditions and a reduction in fiscal austerity measures. The expansion in the United

States' economy is forecasted to quicken to 2.8% in 2014, underpinned by gains in personal consumption, as well as residential and non-residential fixed investment. Additionally, a reduction in fiscal tightening and supportive monetary conditions should make a positive economic contribution, even as internal and external downside risks persist. Further, the euro area is expected to come out of recession in 2014, with real GDP forecasted to grow by 1.2%, as governments reduce the level of fiscal consolidation and credit conditions improve. In the United Kingdom, a favorable lending environment and higher consumer confidence are anticipated to boost real GDP growth to 2.9%, while in Japan, real output growth is estimated to slow slightly by 0.1 of a percentage point to 1.4% in 2014.

Economic output in emerging market and developing economies is forecasted to expand by 4.9% in 2014, slightly higher than the 4.7% gain recorded in the prior period, although the pace of growth in China's economy is projected to weaken to 7.5%.

In terms of commodities, the IMF projected that average crude oil prices will remain relatively flat in 2014, at approximately $108.00 per barrel, as the strengthening global demand is likely to be counterbalanced by increased North American supply. Meanwhile, non-fuel commodity prices are forecasted to contract by 3.5%, extending a 1.2% falloff in 2013. Specifically, food costs are projected to decrease, as favorable weather conditions result in increased crop yields, while metal prices are anticipated to decline further.

DOMESTIC ECONOMIC DEVELOPMENTS

Preliminary estimates indicated that real output grew by a mere 0.7% in 2013, a moderation from growth of 1.0% in 2012. Underlying this outturn was ongoing weakness in the key tourism sector, buoyed by a reduction in the high value-added stopover segment of the market. However, the construction sector continued to benefit from several foreign financed projects in the tourism sector—inclusive of a major resort development—which contributed to a marginal improvement in employment conditions between May and November 2013. Reflecting the pass-through effects of lower international oil prices, domestic inflation remained relatively benign. In the monetary sector, liquidity stayed at robust levels, amid persistent softness in economic activity and heightened levels of private sector arrears. In addition, sustained demand for foreign currency to facilitate current payments—including above-trend bank profit remittances—and weak receipts from real sector activities, resulted in a drawdown in external reserves during the year. Banks' credit quality indicators worsened in 2013, as borrowers continued to face challenges in meeting their debt obligations; nevertheless banks' capital and provisioning ratios remained at healthy levels. On the fiscal front, the National Debt continued to expand, although at a slower rate than in the previous year. With respect to the external account, the estimated current account deficit deteriorated during the year, due mainly to a rise in outlays for construction services and reduced tourism intake, which led to a decline in the services account surplus. Similarly, the surplus on the capital and financial account narrowed, mainly attributed to contractions in net direct investments and public sector borrowing.

TOURISM

Tourism sector developments were influenced by persistent weakness in several key source markets, modest reductions in airlift and room capacity, along with ongoing regional competition. Consequently, in 2013 the growth in total visitor arrivals slowed to 3.5%, to approximately 6.2 million, from 6.3% in the previous year. Specifically, air traffic was reduced by 5.7%, a reversal from 2012's 7.1% gain, while the dominate sea component firmed by 6.3%, in line with the prior period's expansion.

Based on first port of entry, visitors to New Providence advanced by 6.3% to 3.5 million, following the year earlier increase of 9.3%, underpinned by a 12.2% rise in the sea component, which eclipsed the 6.1% decrease in air traffic. Further, arrivals to the Family Islands rose by 3.5% to 1.9 million, supported by gains in both sea and air visitors of 3.6% and 2.6%, respectively. Conversely, Grand Bahama witnessed broad-based declines, as total arrivals fell by 7.4%, with both air and sea traffic contracting by 16.1% and 6.1%, respectively.

Initial data on stopover visitors for 2013 from the major regions of the world was mixed. Tourist arrivals strengthened from the Caribbean (8.2%), Europe (2.4%) and other "miscellaneous" markets (6.5%), while arrivals declined from Canada, the United States and Latin America by 5.6%, 5.0% and 1.9%, respectively.

Given the contraction in the key stopover segment of the market, provisional data for hotel performance, based on a sample of large hotels in New Providence and Paradise Island, showed that total room revenue fell by 5.0% over the year. This outturn reflected a 3.5 percentage point reduction in the average occupancy rate to 52.5%, which eclipsed the rise in the average daily room rate (ADR) by 4.7% to $205.17.

CONSTRUCTION

During the review year, construction output was driven mainly by foreign investment-led activity, dominated by the multi-billion dollar Baha Mar development, in addition to smaller projects in the capital and on the Family Islands. In contrast, activity in the domestic private sector remained subdued, amid sustained softness in business conditions and high levels of non-performing mortgages.

Reflecting the weakness in the domestic housing market, total loan disbursements for new construction and building repairs—as reported by banks, insurance companies and the Bahamas Mortgage Corporation—fell by 16.1% to $89.6 million, extending the 23.9% decline in the prior year. This outturn was due mainly to a fall in the residential component by 13.0% to $89.6 million, after the 22.4% reduction in 2012. Further, no disbursements were recorded for the commercial component, compared to an almost 50% decline in the previous year. This environment is likely to persist over the near-term, as the total number of mortgage commitments—a forward looking indicator—contracted in number by 3.3% to 491; however, the value grew by 2.4% to $92.9 million.

Interest rates moved lower over the review period, as the average cost for residential mortgages softened by 30 basis points to 8.3%, while the commercial component narrowed by 10 basis points to 8.1%.

INFLATION

Occasioned by reduced international oil and commodity prices, domestic inflation—as measured by changes in the Retail Price Index for The Bahamas—slowed to a mere 0.36% for the twelve months to December 2013, from 1.97% in the previous period. Underlying this outturn was a 0.40% decrease in housing, water, gas, electricity & other fuels—the most heavily weighted component—a turnaround from the 3.21% gain in 2012. Further, accretions to average costs slowed significantly for food & non-alcoholic beverages to 0.56% from 2.95%; transportation to 0.24% from 1.50%; and furnishing, household equipment & maintenance to 0.53% from 2.41%. In addition, more muted decreases were posted for clothing & footwear, by 60 basis points to 0.39%; health, by 50 basis points to 1.21%; and education, by 20 basis points to 1.95%. In a modest offset, prices firmed for restaurant & hotels by 2.49 percentage points to 3.70%; alcohol, tobacco & narcotics by 1.80 percentage points to 3.46%; and miscellaneous goods & services, by 0.3 of a percentage point to 1.05%. Recreation & culture costs increased by 0.30%, after declining to 0.61% in the comparative period, while the decrease in communication prices stabilized at 2.34%.

Reflecting the downward trajectory in international oil prices during 2013, domestic fuel costs contracted. Specifically, the average price for gasoline fell by 2.0% to $5.34 per gallon, while the average price for diesel decreased by 1.2% to $5.14 per gallon. Similarly, the Bahamas Electricity Corporation's average fuel charge decreased by 2.8% to 25.92¢ per kilowatt hour (kWh) over the previous year.

Domestic fuel costs moved generally upwards during the first three months of 2014, as the average prices of gasoline and diesel increased by 2.6% to $5.22 per gallon and by 2.8% to $5.11 per gallon, respectively. In contrast, the Bahamas Electricity Corporation's average fuel charge fell to 23.61¢ per kilowatt hour (kWh), a 7.5% decline over the corresponding period of 2013.

EMPLOYMENT

Labour market conditions improved slightly over the six months to November 2013, reflecting the mild pace of the recovery in the domestic economy. According to the Department of Statistics' Labour Force Survey, the jobless rate narrowed to 15.4% from 16.2% in May, as the number of employed persons rose by 2,600 to 166,595. In terms of the main labour markets, the unemployment rate in both New Providence and Grand Bahama fell by 0.3 and 2.7

percentage points to 15.6% and 16.8%, respectively. In addition, the number of discouraged workers contracted by 1,205 (15.1%) persons, as both Grand Bahama and New Providence experienced declines of 18.5% and 13.5%, respectively.

FOREIGN INVESTMENT AND THE BALANCE OF PAYMENTS

Preliminary balance of payments data for 2013 showed that the current account deficit expanded by $131.9 million (8.8%) to $1,636.7 million, as the surplus on the services account decreased by $251.3 million (21.8%) to $902.4 million, due largely to a $216.4 million (81.3%) rise in the net payment for construction services to $482.6 million—linked to major foreign investment projects. Further, net travel receipts decreased by $126.5 million (6.2%) to $1,899.1 million, on account of reduced stopover visitors. In addition, modest gains were posted for royalty and license fee outflows, of $2.4 million (14.6%) to $19.2 million and net inflows from offshore companies' local expenditures decreased by $6.3 million (3.6%) to $170.1 million. In a partial offset, the net payment for other "miscellaneous" and insurance services declined by $52.3 million (15.6%) and $36.1 million (18.6%) to $282.6 million and $157.6 million, respectively. Further, net transportation outflows decreased by an estimated $12.0 million (4.6%) to $252.5 million, while the net inflow for Government services steadied at $27.6 million.

Buoyed by a $259.0 million (7.7%) decrease in imports, which outpaced the $74.7 million (7.6%) falloff in exports, the estimated merchandise trade deficit declined by $184.3 million (7.7%) to $2,217.1 million. Net non-oil imports fell by $171.6 million (9.1%) to $1,710.3 million, explained in part by lower construction-related imports, while reductions in both the volume and average value resulted in oil imports decreasing by $106.0 million (10.9%) to $866.0 million.

In terms of the capital and financial account, the surplus fell moderately by $316.3 million (24.2%) to $990.0 million, attributed mainly to a $143.9 million (27.4%) reduction in direct investment inflows to $382.3 million, as the equity component fell by $208.6 million (40.7%) to $304.1 million, following the prior year when the sale of a major resort to an external investor led to a surge in this category. In contrast, net real estate receipts rose nearly five-fold to $78.1 million, reflecting increased high-end property sales. In addition, other "miscellaneous" investment inflows contracted by $173.0 million to $651.4 million, as the public corporations' net capital inflow fell sharply to $4.0 million from $172.4 million in 2012, related to external funding by a major port operator. Further, Government's net inflow declined by $104.9 million (43.9%) to $133.8 million, owing in part to lower levels of external borrowings. Providing a modest offset, net "other" private sector inflows—linked primarily to loan financing for foreign investment projects—advanced by $35.8 million to $451.4 million. In addition, domestic banks' short-term transactions reversed to a net receipt of $62.2 million, from the year earlier net outflow of $2.3 million.

FINANCIAL SECTOR

During 2013, the financial sector remained relatively stable, as the number of banks and trust companies licensed to operate within The Bahamas declined marginally by one (1) to 267. Licensees operating through physical presence—which comprised the bulk of total banks and trusts—firmed by two (2) to 247, while the balance of twenty (20) were branch operations of firms, mainly from G-10 countries and operating under approved restrictive management arrangements.

During the year, the Bank approved the registration of twenty seven (27) Private Trust Companies (PTCs), while two (2) companies were removed from the register. This brought the total to ninety-eight (98) at end-December. The number of Financial and Corporate Service Providers that act as Registered Representatives was unchanged at five (5), and only one (1) additional licensee expressed its intent to act as a Registered Representative of PTCs, which brought the total number to fifteen (15). Similarly, the number of licensed non-bank Money Transmission Businesses (MTBs) was unchanged at two (2), while one (1) more registered non-bank money transmission agent was added to the register bringing the total to eight (8).

CAPTIAL MARKETS

Capital market developments were subdued during 2013, amidst ongoing softness in the domestic economy. The volume of shares traded on the Bahamas International Securities

Exchange (BISX) edged up slightly by 0.1% to 4.1 million shares, vis-à-vis a 39.8% expansion last year when there were two (2) major share issues. The corresponding value of shares traded fell by 7.8% to $17.4 million, relative to an 11.3% gain in the prior year. Despite the weakness in trading activity, the benchmark BISX All Share Price Index rose by 9.1% to 1,468.22, a reversal from a 1.4% decline a year earlier, while market capitalization grew by 4.5% to $3.0 billion, vis-à-vis the prior year's 1.2% falloff.

At end-December, the total number of securities listed remained at twenty-seven (27) vis-à-vis the prior year, and comprised twenty (20) common share listings, three (3) preference shares and four (4) debt tranches.

PAYMENTS SYSTEMS MODERNIZATION

During 2013, the advancement and modernization of domestic payment and settlement systems remained a key concern of the Bank, as it sustained its efforts to strengthen the oversight and regulation of Systemically Important Payment Systems (SIPS) operating within the jurisdiction.

In this regard, the Bahamas Automated Clearing House (BACH), which commenced operations in 2010, is responsible for the processing of cheques and other small value payments. Preliminary data indicated that approximately 2.89 million cheques were processed by BACH over the year, a decline of 2.6% from the prior period. In contrast, the value of cheques cleared increased marginally by 1.2% to $6.3 billion.

In addition, the Bahamas Interbank Settlement System (BISS), commenced operations in 2004, and provides Real Time Gross Settlement (RTGS) and large value payments (over $150,000) between clearing banks and their customers. Initial data revealed that at the end of 2013, the total number of transactions processed through the RTGS rose by 1.4% to 56,000, year-on-year, with the corresponding value slightly lower at $13.0 billion.

MONETARY & CREDIT DEVELOPMENTS

Monetary developments continued to feature robust levels of liquidity, reflecting anemic private sector credit growth, due to persistent softness in domestic economic activity and high levels of loan arrears. However, external reserves contracted during the year, due in part to ongoing demand to meet current payments—including above-trend bank profit remittances.

Growth in total domestic credit broadened to $266.5 million (3.1%) from $148.1 million (1.7%) in the preceding year, with the majority (58.9%) of the gain accruing to the Bahamian dollar segment. Underpinning the expansion in credit, accretions to net claims on the Government more than doubled to $351.1 million from $153.0 million (10.6%), while growth in credit to the rest of the public sector strengthened to $30.5 million (6.6%) from $13.3 million (3.0%). In contrast, private sector credit fell by an additional $115.1 million (1.7%), following an $18.2 million (0.3%) contraction in the prior year.

External reserves decreased by $68.6 million (8.5%) to $741.6 million, after a $74.7 million (8.4%) reduction in 2012. Supported by the traditional—although muted—gain in foreign currency inflows from tourism activity during the first half of the year, external reserves reached a high of $825.9 million in April. During the subsequent seven (7) months, foreign reserves trended downward, declining by more than $150.0 million, before rebounding in December following the Government's foreign currency borrowing activity. As a result, the average monthly external reserve balance lessened to $753.3 million, from $840.0 million a year ago. At end-December, external reserves amounted to approximately 15.7 weeks of non-oil merchandise imports, compared to 16.0 weeks at end-2012.

In interest rate developments, the weighted average loan rate firmed by 22 basis points to 11.10%, mainly reflecting a similar gain in the consumer loan segment to 13.65%. In contrast, the rate on overdrafts fell by 49 basis points to 9.32%, while those for residential and commercial mortgages moved lower by 24 and 8 basis points to 7.27% and 8.21%, respectively.

Reflecting the robust liquidity conditions, the weighted average deposit rate fell by 34 basis points to 1.68%. In terms of the components, the average rate on savings and demand deposits softened by 56 and 14 basis points to 0.97% and 0.31%, respectively, and the average rate on fixed balances moderated from a range of 1.60%-2.65% in 2012, to 1.35%-2.20% in 2013.

Monetary developments during the first quarter of 2014 were dominated by Government's external borrowing activity, which resulted in gains in both liquidity and external reserves. Total domestic credit declined by $322.7 million, a turnaround from the $72.6 million build-up during the same period in 2013. Underpinning the reduction, Bahamian dollar credit decreased by $181.3 million vis-à-vis a $102.1 million gain a year earlier. Similarly, foreign currency credit fell by $141.4 million, extending last year's $29.5 million contraction. Disaggregated by sector, the falloff was led by a $249.0 million reduction in net claims on the Government, after a $158.0 million accumulation in the preceding year, as proceeds from its external bond issue were utilized to reduce domestic liabilities. Similarly, public sector credit declined by $28.2 million, extending the $3.9 million reduction in 2013. In addition, private sector credit fell by an additional $45.2 million, following an $80.9 million contraction a year earlier.

At end March 2014, external reserves stood at $946.8 million, a gain of $207.0 million over the three-month period, in contrast to a $19.1 million decline last year.

CREDIT QUALITY

Over the first quarter of 2014, banks' credit quality indicators improved modestly, as total private sector loan arrears fell by $35.6 million (2.6%) to $1,316.6 million, and the attendant ratio decreased by 42 basis points to 21.5%. The decline in loan arrears was mainly attributed to a $46.4 million (12.0%) reduction in the short-term, 31-90 day, category to $339.7 million, while the relevant ratio moved lower by 71 basis points to 5.5%. In a partial offset, non-performing loans—arrears in excess of 90 days and on which banks no longer accrue interest—

rose by $10.8 million (1.1%) to $976.8 million, with the corresponding ratio firming by 30 basis points to 16.0%.

Despite the improvement in credit quality during the first quarter, banks remained cautious and increased their loan loss provisioning by $12.8 million (2.9%) to $455.5 million. Accordingly, the ratio of provisions to both total arrears and non-performing loans advanced by 1.9 and 0.8 percentage points to 34.6% and 46.6%, respectively.

NATIONAL DEBT

Government's Direct Charge increased by 13.1% ($576.0 million) to approximately $4,971.7 million at end-2013, following the previous year's 15.5% ($590.0 million) growth. Bahamian dollar debt, at an estimated 73.8% of the total, grew by $313.3 million (9.3%) to $3,670.7 million, while total foreign currency claims advanced by $262.7 million (25.3%) to $1,301.0 million. Reflecting reductions in the outstanding obligations of a few entities, Government's contingent liabilities fell marginally by $2.3 million (0.4%) at $601.1 million, in contrast to 2012's 8.1% ($45.1 million) gain to $603.3 million.

As a consequence of these developments, the National Debt grew by 11.5% ($573.8 million) to $5,572.7 million at end-December 2013, moderating from a 14.6% ($635.1 million) expansion a year earlier.

ECONOMIC OUTLOOK FOR 2014

Expectations are that the ongoing recovery in the domestic economy will remain fragile over the near-term, due to the persistent softness in global growth, particularly in the main stopover visitor markets. These developments should; however, be offset by steady foreign investment activity in the construction sector, as several major developments gain impetus and one project is completed, boosting room inventory. As a consequence, employment conditions are projected to improve further, although recent announcements of layoffs in the banking sector could temper this outlook. Inflation is forecasted to remain relatively benign, reflecting the stability in global oil prices, with only modest upward price pressure expected to be exerted during the implementation of Government's Value Added Tax (VAT).

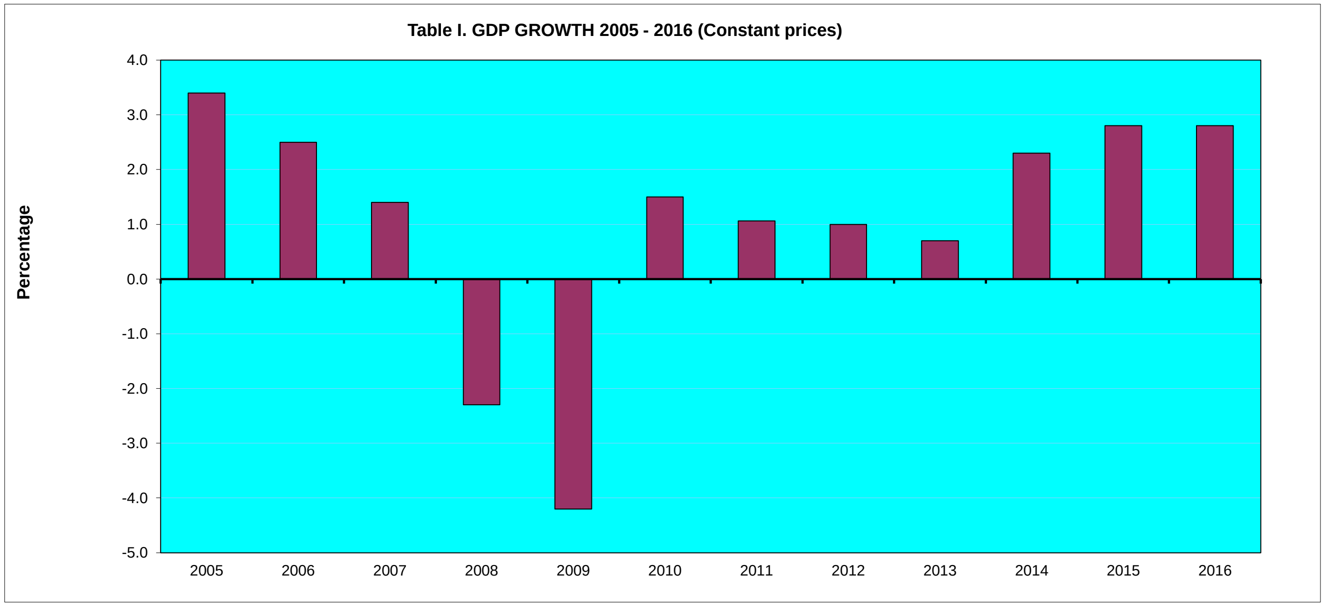
Monetary conditions are likely to be dominated by continued robust levels of banking sector liquidity, reflecting sustained weakness in private sector demand and high unemployment levels, while external reserves are projected to remain at relatively healthy levels, despite the seasonal drawdown in the latter half of the year. In this environment, banks credit quality indicators should remain elevated over the near-term, until the recovery broadens; however, given the high levels of capital and provisions, there should be no concerns with regard to financial stability.

ANNEX B

TABLES and GRAPHS

Table I. The Bahamian Economy 2005 - 2016

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP	7706	7966	8319	8247	7820	7910	7931	8219	8420	8819	9338	9802
Growth-Current Prices(%)	8.6	3.4	4.4	-0.9	-5.2	1.1	0.3	3.6	2.5	4.7	5.9	5.0
Growth-Constant Prices(%)	3.4	2.5	1.4	-2.3	-4.2	1.5	1.1	1.0	0.7	2.3	2.8	2.8
Consumer Prices (%)	2.1	2.1	2.5	4.7	1.9	1.3	3.2	2.0	0.3	2.0	2.6	1.8



Source: IMF Projections, World Economic Outlook, April 2014
Department of Statistics 2005-2013

Table II. - Budget Performance
B$ millions

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	Budget 2013/14	Projected Outturn 2013/14	Budget 2014/15
1. Recurrent Expenditure	986	1035	1091	1151	1203	1415	1421	1499	1529	1642	1632	1659	1737	1720	1823
2. Recurrent Revenue	875	918	960	1054	1211	1354	1445	1331	1292	1452	1432	1380	1503	1465	1770
3. Recurrent Deficit (2 minus 1)	-111	-117	-131	-97	8	-61	24	-168	-237	-190	-200	-279	-234	-255	-53
(Deficit - Surplus +)															
4. Capital Expenditure	138	127	116	162	190	235	231	262	251	263	395	368	295	295	331
5. Capital Revenue	0	0	0	0	3	7	10	0	0	210	87	0	0	0	0
6. Capital Deficit (5 minus 4)	-138	-127	-116	-162	-187	-228	-221	-262	-251	-53	-308	-368	-295	-295	-331
7. TOTAL DEFICIT (3 plus 6)	-249	-244	-247	-259	-179	-289	-197	-430	-488	-243	-508	-647	-529	-550	-384
8. Debt Redemption	85	60	85	97	38	106	62	67	89	77	63	121	86	88	98
9. GFS Deficit (7 minus 8)	-164	-184	-162	-162	-141	-183	-135	-363	-399	-166	-445	-526	-443	-462	-286
10. GDP (current prices) revised	6738	6954	7022	7400	7836	8143	8283	8034	7865	7921	8075	8320	8644	8588	8932
11. GFS Deficit as % of GDP	**-2.4**	**-2.6**	**-2.3**	**-2.2**	**-1.8**	**-2.2**	**-1.6**	**-4.5**	**-5.1**	**-2.1**	**-5.5**	**-6.3**	**-5.1**	**-5.4**	**-3.2**

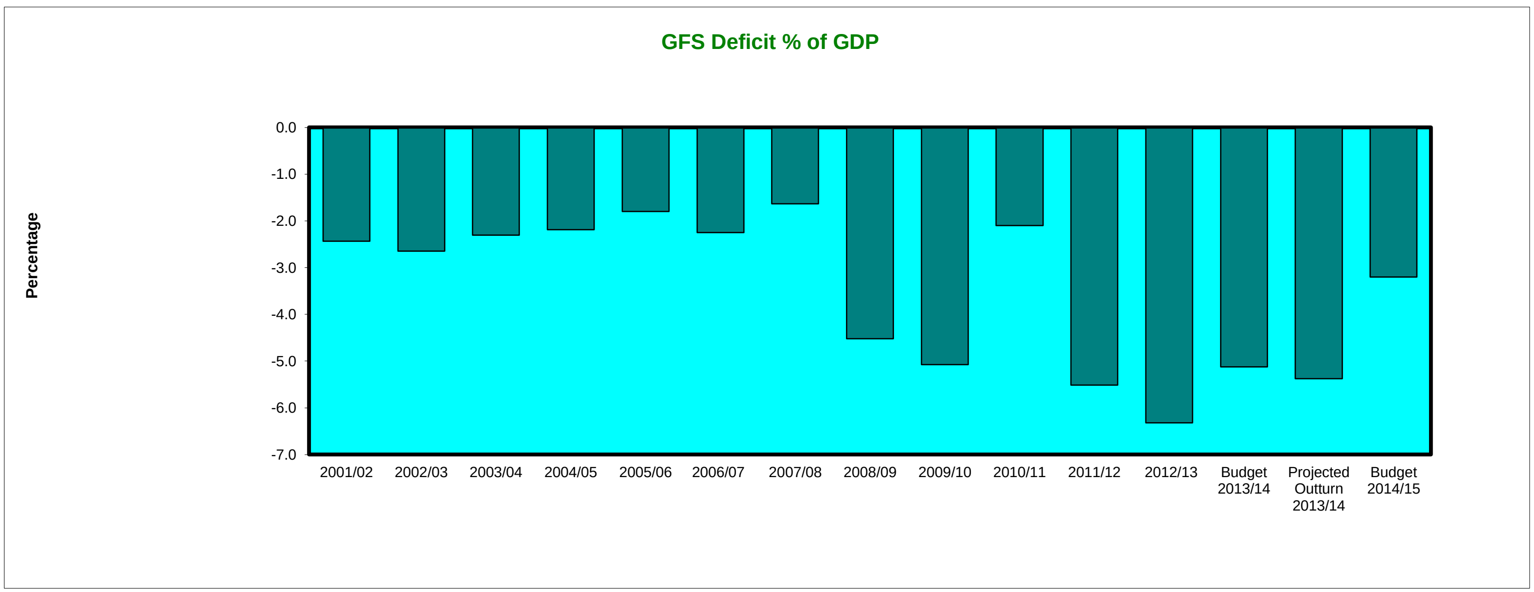
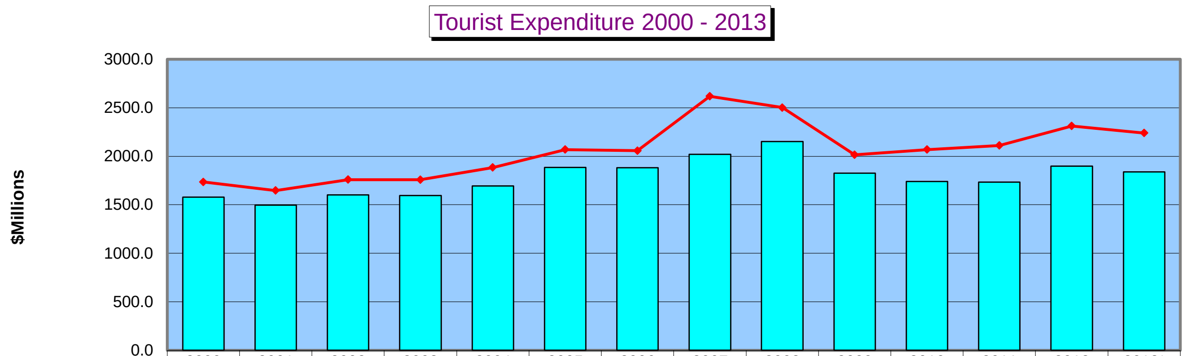


Table III. Tourist Expenditure and Arrivals 2000 - 2013

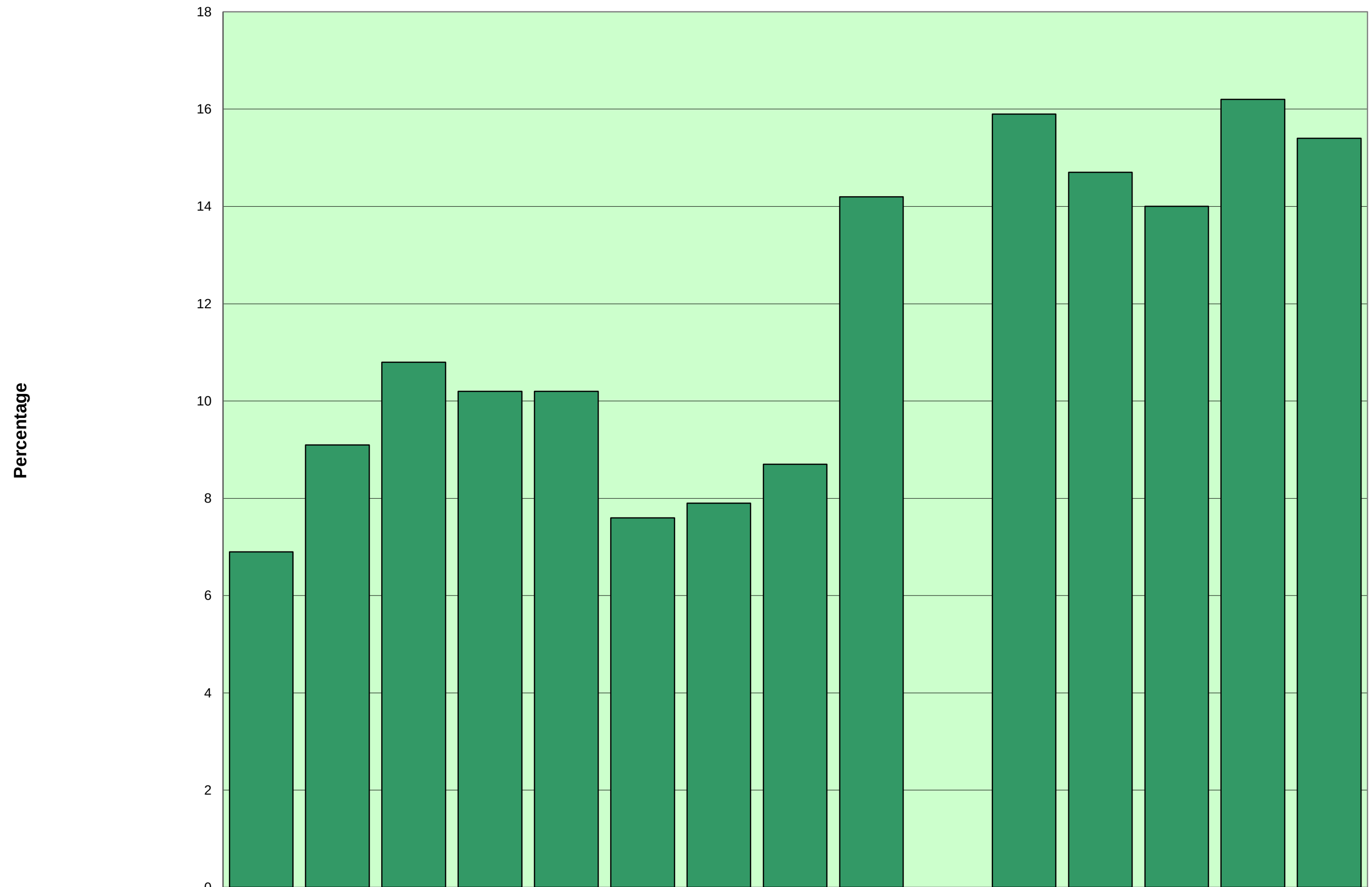


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
Stopovers	1579.7	1494.8	1602.5	1595.3	1693.5	1883.9	1881.2	2020.8	2152.4	1824.6	1741.1	1732.3	1896.6	1839.7
Total	1734.4	1647.7	1759.8	1757.4	1884.5	2068.8	2057.3	2617.48	2501	2014.2	2069.0	2110.38	2311.55	2240

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Stopovers	1543.9	1537.8	1513.1	1510.2	1561.3	1608.1	1600.9	1527.7	1463.0	1327.0	1370.1	1346.4	1421.8	1363.5

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

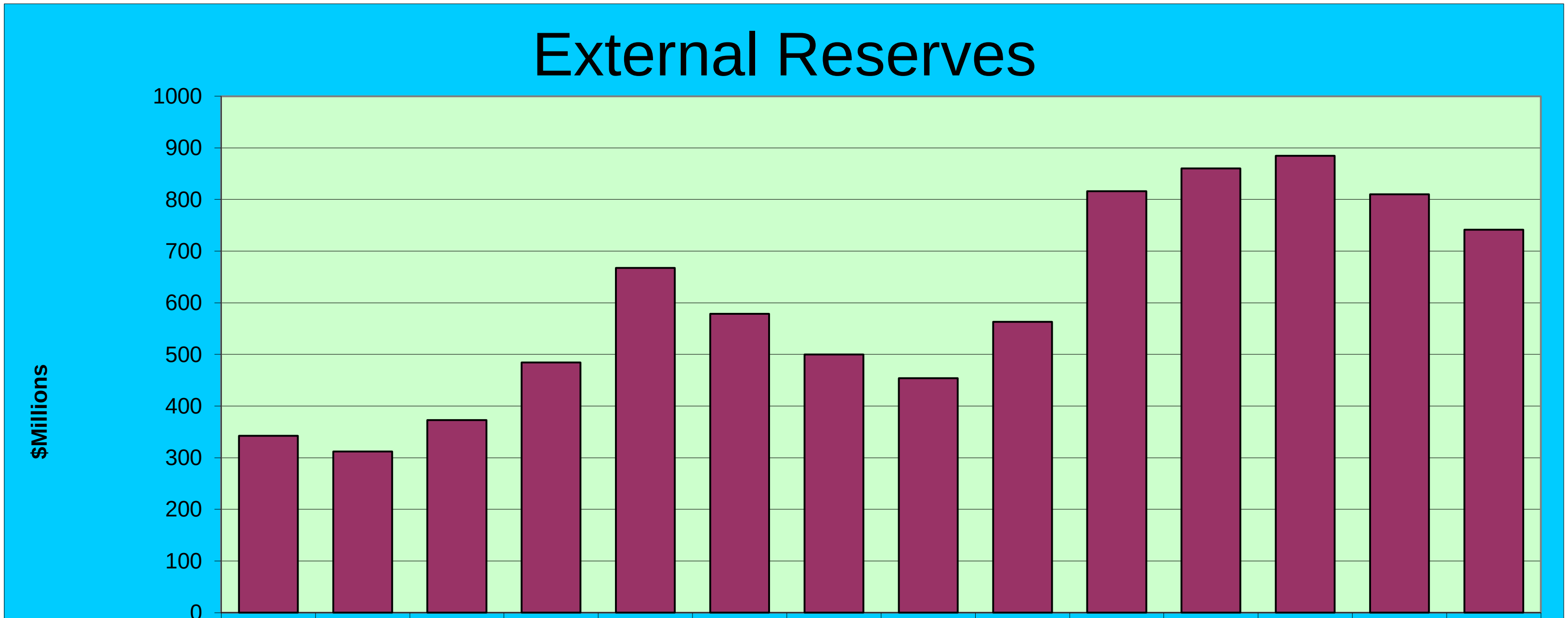
Table IV. Unemployment Rates 2001-2013



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011	May-12	Nov-12	May-13	Nov-13
Unemployment rate	6.9	9.1	10.8	10.2	10.2	7.6	7.9	8.7	14.2		15.9	14.7	14	16.2	15.4

Source: Department of Statistics, Labour Force Survey
* Unemployment estimates are not available in Census years.

Table V. Total External Reserves 2000 - 2013



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
External Reserves	342.5	312.3	373.2	484.3	667.8	578.8	499.8	454.2	563.1	815.9	860.4	884.8	810.2	741.6

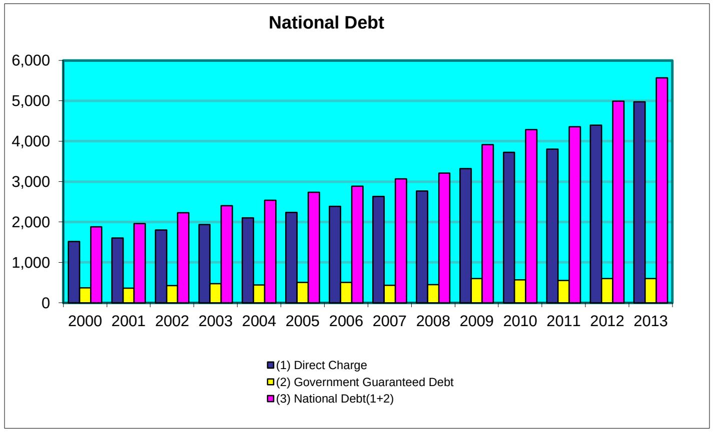
Source: Central Bank of The Bahamas

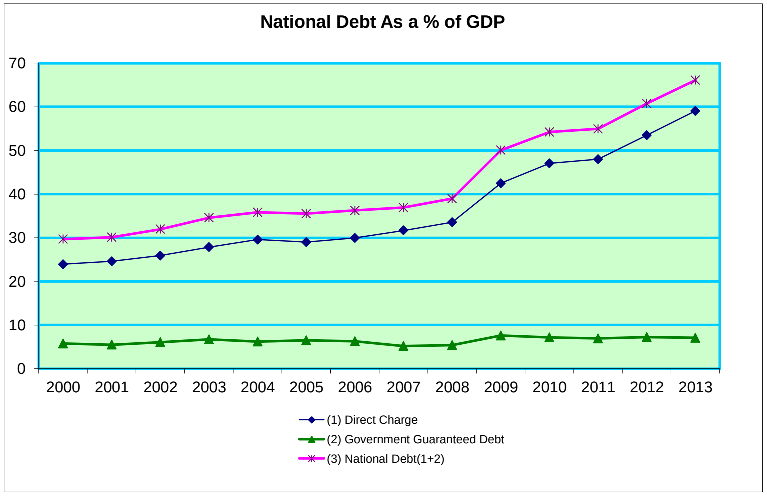
Table VI. National Debt 2000 - 2013

$ millions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
(1) Direct Charge	1,514	1,604	1,802	1,936	2,098	2,235	2,386	2,636	2,767	3321	3721	3806	4396	4972
(2) Government Guaranteed Debt	365	359	423	468	442	502	501	434	446	595	568	551	597	595
(3) National Debt(1+2)	**1,879**	**1,963**	**2,225**	**2,404**	**2,540**	**2,737**	**2,887**	**3,070**	**3,213**	**3,916**	**4,289**	**4,357**	**4,993**	**5,567**
GDP($millions) Revised	6328	6517	6958	6949	7094	7706	7966	8319	8247	7820	7910	7931	8219	8420

National Debt as a % of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
(1) Direct Charge	24	25	26	28	30	29	30	32	34	42	47	48	53	59
(2) Government Guaranteed Debt	6	6	6	7	6	7	6	5	5	8	7	7	7	7
(3) National Debt(1+2)	**30**	**30**	**32**	**35**	**36**	**36**	**36**	**37**	**39**	**50**	**54**	**55**	**61**	**66**





Source: Central Bank of The Bahamas Quarterly Statistical Digest February 2014; Department of Statistics (GDP Estimate)

Table VII (a). Growth of the Bahamian and US Economies 2000 - 2015

Annual percent change in GDP in real terms

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
The Bahamas	4.2	2.6	2.7	-1.3	0.9	3.4	2.5	1.4	-2.3	-4.2	1.5	1.1	1.0	0.7	2.3	2.8
United States	4.1	1.1	1.8	2.5	3.5	3.1	2.7	1.9	-0.3	-3.1	2.4	1.8	2.8	1.9	2.8	3.0

Source: Department of Statistics, 2000- 2013; IMF World Economic Outlook April 2014 thereafter

TABLE VII (B)

GROWTH OF REAL GDP

	% 2007	% 2008	% 2009	% 2010	% 2011	% 2012	% 2013	% 2014	% 2015
World	5.4	2.8	-0.6	5.2	4.0	3.2	3.0	3.6	3.9
US	1.9	-0.3	-3.1	2.4	1.8	2.8	1.9	2.8	3.0
Canada	2.1	1.1	-2.8	3.2	2.6	1.7	2.0	2.3	2.4
France	2.3	-0.1	-3.1	1.7	1.7	0.0	0.3	1.0	1.5
Germany	3.4	0.8	-5.1	4.0	3.1	0.9	0.5	1.7	1.6
United Kingdom	3.6	-1.0	-4.0	1.8	0.9	0.3	1.8	2.9	2.5
Barbados	1.7	0.3	-4.1	0.2	0.9	0.0	-0.7	-1.2	0.9
Guyana	7.0	2.0	3.3	4.4	5.4	4.8	4.8	4.3	4.0
Jamaica	1.4	-0.8	-3.1	-1.4	1.5	-0.5	0.5	1.3	1.7
Trinidad & Tobago	4.8	3.4	-4.4	0.2	-2.6	1.2	1.6	2.2	2.2
The Bahamas	1.4	-2.3	-4.2	1.5	1.1	1.0	0.7	2.3	2.8

Source: International Monetary Fund
April 2014 World Economic Outlook

TABLE VIII

MEDIUM-TERM FISCAL CONSOLIDATION PLAN

B$ millions

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2013/14	2014/15	2015/16	2016/17
							Budget	Projected Outturn	Budget	Projection	Projection
1. Recurrent Expenditure	1421	1499	1529	1642	1632	1659	1737	1720	1823	1874	1894
2. Recurrent Revenue	1445	1331	1292	1452	1432	1380	1503	1465	1770	1942	1980
3. Recurrent Balance (2. minus 1.)	24	-168	-237	-190	-200	-279	-234	-255	-53	68	86
4. Capital Expenditure	231	262	251	263	395	368	295	295	331	306	292
5. Capital Revenue	10	0	0	210	87	0	0	0	0	0	0
6. Capital Balance (5. minus 4.)	-221	-262	-251	-53	-308	-368	-295	-295	-331	-306	-292
7. Total Deficit (3. plus 6.)	-197	-430	-488	-243	-508	-647	-529	-550	-384	-238	-206
8. Debt Redemption	62	67	89	77	63	121	86	88	98	109	122
9. GFS Deficit (7. minus 8.)	-135	-363	-399	-166	-445	-526	-443	-462	-286	-129	-84
10.GDP (Current Prices)	8283	8034	7865	7921	8075	8320	8644	8588	8932	9289	9660
11.GFS Deficit as % of GDP	-1.6	-4.5	-5.1	-2.1	-5.5	-6.3	-5.1	-5.4	-3.2	-1.4	-0.9
Memo Items:-											
Growth Rate (current prices)	1.7	-3.0	-2.1	0.7	1.9	3	3.4	3.2	4.0	4.0	4.0
Growth Rate (constant prices)	-0.5	-3.2	-1.4	1.3	1.1	0.9	2.1	1.3	2.3	2.5	2.5
Government Debt (end June)	2679	3085	3401	3553	3906	4690	5133	5152	5438	5567	5651
Government Debt (% of GDP)	32.3	38.4	43.2	44.9	48.4	56.4	59.4	60.0	60.9	59.9	58.5
Recurrent Expend. (% of GDP)	17.2	18.7	19.4	20.7	20.2	19.9	20.1	20.0	20.4	20.2	19.6
Recurrent Revenue (% of GDP)	17.4	16.6	16.4	18.3	17.7	16.6	17.4	17.1	19.8	20.9	20.5
Capital Expenditure (% GDP)	2.8	3.3	3.2	3.3	4.9	4.4	3.4	3.4	3.7	3.3	3.0
Primary Balance ($)	11	-203	-212	36	-253	-319	-214	-258	-27	126	164
Primary Balance (% of GDP)	0.1	-2.5	-2.7	0.5	-3.1	-3.8	-2.5	-3.0	-0.3	1.4	1.7

* GDP estimates through 2013 are from the Department of Statistics; thereafter from the IMF World Economic Outlook

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

B$ millions

Line	Item	2002R	2003R	2004R	2005R	2006R	2007F	2008F	2009F	2010R	2011 R	2012PV	2013 PL
1	Government final consumption	770.39	785.00	826.28	873.20	947.62	976.05	1,071.74	1,151.51	1,150.37	1,261.32	1,276.89	1,352.04
1.1	Collective Consumption Expenditure	480.62	488.70	529.48	546.22	589.65	607.34	636.72	680.42	688.30	804.14	800.72	857.54
1.2	Individual Consumption Expenditure	289.76	296.30	296.81	326.98	357.97	368.71	435.02	471.09	462.07	457.18	476.17	494.50
2	Private final consumption expenditure	4,399.91	4,483.85	4,623.14	5,102.95	5,461.37	5,600.22	5,628.51	5,279.87	5,436.29	5,572.32	5,861.65	5,917.34
3	Gross capital formation	1,525.41	1,538.10	1,503.22	1,948.10	2,416.19	2,343.88	2,201.33	1,999.83	1,994.36	2,176.90	2,333.79	2,315.47
3.1	Change in stocks	83.61	78.36	76.40	84.18	85.55	86.20	88.37	91.70	93.69	131.43	79.48	103.28
3.2	Gross fixed capital formation	1,441.81	1,459.74	1,426.82	1,863.91	2,330.64	2,257.68	2,112.95	1,908.13	1,900.67	2,045.47	2,254.30	2,212.19
3.2.1	Residential construction	204.94	245.94	221.81	276.52	302.66	291.80	312.64	274.84	245.84	247.99	233.27	216.12
	Non-Residential construction	237.65	184.50	181.22	214.38	403.94	366.31	274.34	225.32	198.80	321.75	477.54	585.04
	Capital-Work-In-Progress	118.09	143.11	109.91	193.87	230.34	127.83	168.73	144.28	186.04	88.22	104.55	108.21
3.2.2	Other construction	184.13	157.79	195.49	191.48	268.34	282.19	332.28	314.72	373.65	370.84	327.00	297.30
3.2.3	Machinery & Transport Equipment	696.99	728.40	718.39	987.67	1,125.35	1,189.54	1,024.96	948.97	896.32	1,016.67	1,111.94	1,005.51
4	Exports of goods and services	2,934.46	2,901.23	3,160.70	3,482.13	3,557.56	3,888.24	3,796.88	3,117.24	3,223.08	3,443.30	3,734.76	3,532.19
5	Less: Imports of goods and services	2,672.17	2,758.87	3,018.93	3,700.16	4,417.16	4,489.39	4,451.75	3,728.03	3,894.52	4,522.35	4,988.26	4,696.69
6	Equals: EXPENDITURE ON GROSS DOMESTIC PRODUCT	6,958.00	6,949.32	7,094.41	7,706.22	7,965.59	8,319.00	8,246.70	7,820.42	7,909.58	7,931.49	8,218.82	8,420.36
7	GDP CURRENT GROWTH RATE	6.77%	-0.12%	2.09%	8.62%	3.37%	4.40%	-0.90%	-5.17%	1.14%	0.28%	3.62%	2.45%

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

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

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/2013	2013/14 Budget	Projected Outturn 2013/14	2014/15 Budget
Recurrent Revenue	973	875	918	960	1054	1211	1354	1445	1331	1292	1452	1432	1380	1503	1465	1770
GDP (current prices) revised	6423	6738	6954	7022	7400	7836	8143	8283	8034	7865	7921	8075	8320	8644	8588	8932
Recurrent Revenue % of GDP	**15.1**	**13.0**	**13.2**	**13.7**	**14.2**	**15.5**	**16.6**	**17.4**	**16.6**	**16.4**	**18.3**	**17.7**	**16.6**	**17.4**	**17.1**	**19.8**

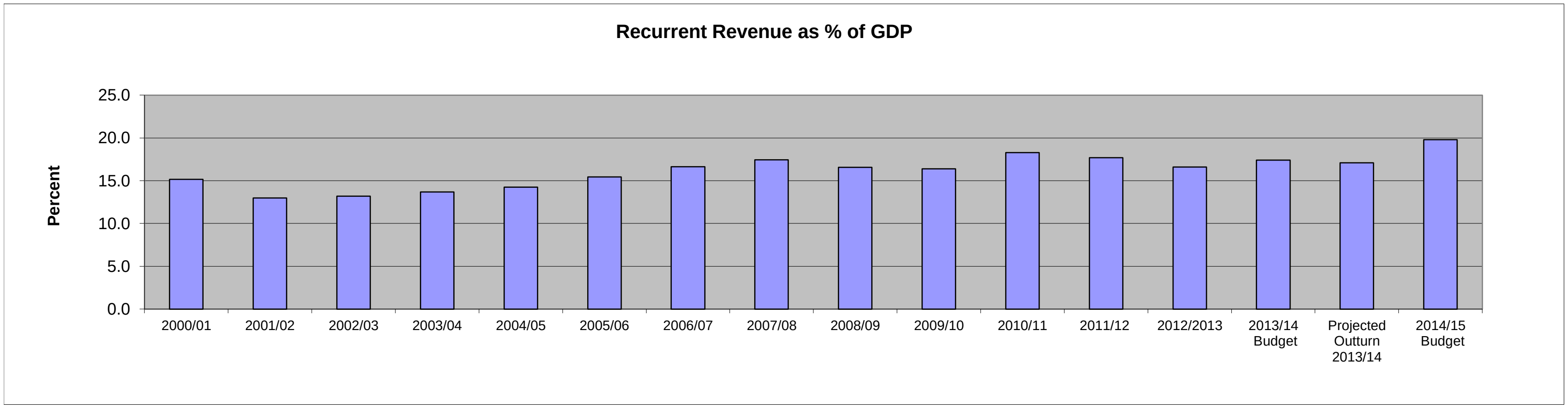
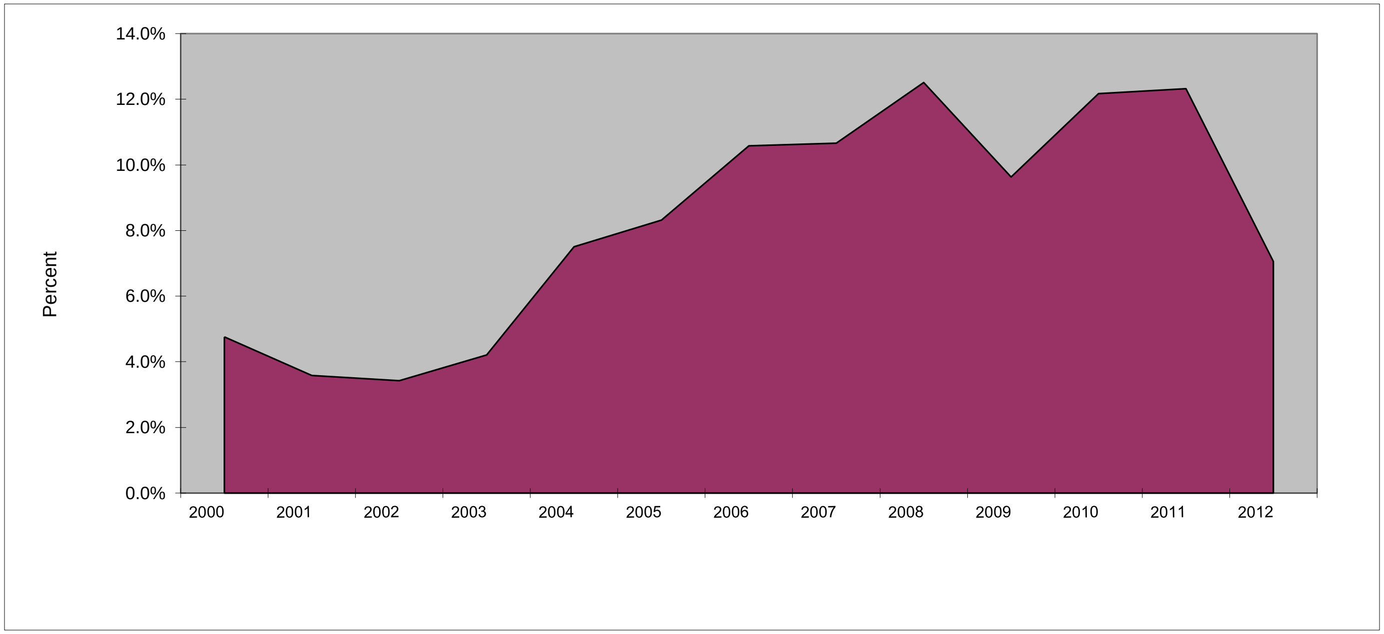


Table XI - Ratio of Foreign Direct Investment to GDP 2000 - 2012

B$ millions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Foreign Direct Investment	301	234	238	292	532	641	843	887	1,032	753	960	970	575
GDP(Current Prices)	6,328	6,517	6,958	6,949	7,094	7,706	7,966	8,319	8,247	7,820	7,888	7,873	8,149
FDI as % of GDP	4.8%	3.6%	3.4%	4.2%	7.5%	8.3%	10.6%	10.7%	12.5%	9.6%	12.2%	12.3%	7.1%



Source: The Central Bank of The Bahamas, QSD February 2014

Table XII

KEY LABOUR FORCE STATISTICS

ITEM	2001	2002	2003	2004	2005	2006	2007	2008	2009	2011	2012	2013
Total Labour Force												
All Bahamas	164,675	167,980	173,795	176,330	178,705	180,255	186,105	191,595	184,020	190,445	192,205	196,880
New Providence	117,900	119,700	123,380	125,385	128,630	127,090	131,105	135,735	131,245	134,090	137,925	146,095
Grand Bahama	25,055	25,190	26,350	26,465	27,305	27,445	28,850	29,820	28,235	28,850	29,180	25,275
Employed Labour Force												
All Bahamas	153,310	152,690	154,965	158,340	160,530	166,505	171,490	174,920	157,805	160,185	165,255	166,595
New Providence	109,770	108,255	108,685	111,725	114,660	118,575	120,675	123,960	112,880	113,845	119,925	123,235
Grand Bahama	23,345	23,580	24,050	24,000	24,305	25,155	26,310	27,125	23,310	22,735	23,930	21,035
Unemployed Labour Force												
All Bahamas	11,365	15,290	18,830	17,990	18,175	13,750	14,615	16,675	26,215	30,260	26,950	30,285
New Providence	8,130	11,445	14,695	13,660	13,970	8,515	10,430	11,775	18,365	20,245	18,000	22,860
Grand Bahama	1,710	1,610	2,300	2,465	3,000	2,290	2,540	2,695	4,925	6,115	5,250	4,240
Labour Force Participation Rate												
All Bahamas	76.2%	76.4%	76.5%	75.7%	76.3%	76.1%	76.2%	76.3%	73.4%	72.1%	74.6%	73.7%
New Providence	78.1%	77.6%	78.0%	77.5%	77.5%	79.7%	77.1%	77.3%	74.0%	72.5%	75.6%	74.1%
Grand Bahama	75.2%	74.4%	76.0%	74.7%	74.7%	74.6%	76.8%	76.9%	74.2%	71.5%	71.4%	71.0%
Unemployment Rate												
All Bahamas	6.9%	9.1%	10.8%	10.2%	10.2%	7.6%	7.9%	8.7%	14.2%	15.9%	14.0%	15.4%
New Providence	6.9%	9.6%	11.9%	10.9%	10.9%	6.7%	8.0%	8.7%	14.0%	15.1%	13.1%	15.6%
Grand Bahama	6.8%	6.4%	8.7%	9.3%	11.0%	8.3%	8.8%	9.0%	17.4%	21.2%	18.0%	16.8%

Source: Department of Statistics

Annex C

REVENUE MEASURES
Fiscal Year 2014/2015

Item No.	Description	Existing Condition	Proposed	Effective Date
1.	Introduction of Value Added Tax.	None.	Introduction of VAT at rate of 7.5 percent.	Jan 1, 2015
2.	Adjust fees implemented on Private Banks and for Private Trust Companies during the 2013/2014 Budget Exercise.	Private Bank fees and Private Trust Company fees increased by 50% effective 1st Jan 2014 and another 50% increase on 1st Jan 2015.	Both sets of fees to increase by 25% effective 1 January 2014 and a further 25% in January 2015.	Jan 1, 2015
3.	Amend the Stamp Act to grant powers to the Treasurer to request records for review to determine stamp tax liability Additionally, financial Institutions would be given 30 days after the end of the month to provide report on duty collected and to submit payment to the treasury. This report would be in a prescribed format. A $1,000 fee would apply for late filing.	Treasurer has no power to demand records.	Treasurer has power to request records to determine stamp tax liability.	Jul 1, 2014
4.	Amend the Business Licence Act so that there is a clear deadline for filing of business licence renewals.	The Business Licence Act unclear if deadline filing date is January 31st or March 31st.	The deadline for filing is January 31st, and for payment is March 31st.	Jul 1, 2014
5.	Levy a fee for Excise Tobacco Stamps of $0.25 per stamp for self-adhesives and $0.20 for dry stamps. Additionally expand the Act to include products other than Tobacco.	Stamps provided at no cost.	Issued at $0.25 per self-adhesive stamp and $0.20 per dry stamp.	Jul 1, 2014
6.	Increase air departure taxes by $4.00 per person.	Departure tax of $25.00 per person.	Departure tax of $29.00 per person.	Oct 1, 2014

Annex C

REVENUE MEASURES
Fiscal Year 2014/2015

Item No.	Description	Existing Condition	Proposed	Effective Date
7.	Reduce the Customs processing fee for commercial airlines provided the minimum requirements are met.	Commercial airlines pay a processing fee of $75.00 on both entry and exit of The Bahamas.	Commercial airlines pay a pat $2.50 per inward and outward declaration provided they meet the minimum requirements.*	Jul 1, 2014
8.	Eliminate the Customs attendance fees levied on commercial airlines, provided they meet the minimum requirements.	Customs attendance fees range from $50.00 per hour to $200 per hour depending on the seating capacity of aircraft	Customs attendance fee is eliminated provided they meet the minimum requirements.*	Jul 1, 2014
9.	Amend Chapter 98 of the Tariff Act to allow duty exemption on capital goods for businesses located outside the Port Area in Grand Bahama.	Businesses outside Port Area of Grand Bahama to pay duty on capital goods for their businesses.	Businesses outside Port Area of Grand Bahama allowed duty exemption on building materials for their businesses.	Jul 1, 2014
10.	Adjust the Tariff rate on Shandy.	40%	$4.00 per imperial gallon.	Jul 1, 2014
11.	Amend the Spirits and Beer Manufacturers Act to levy an Excise Tax on Shandy.	No provisions for Shandy in the Spirits and Beer Manufacturers Act	$2.00 per imperial gallon.	Jul 1, 2014
12.	Reduction of duty of hybrid trucks.	60%	25%	Jul 1, 2014
13.	Extend the Family Island Development Encouragement Act for one year.	Family Island Development Encouragement Act expires June 30th 2014.	Family Island Development Encouragement Act extended for one year.	Jul 1, 2014
14.	Extend the City of Nassau Revitalization Act for one year.	City of Nassau Revitalization Act expires June 30th 2014.	City of Nassau Revitalization Act extended for one year.	Jul 1, 2014
15.	Amend the Bridge Authority Act to limit duty exemptions only to imports that are directly related to the maintenance and rehabilitation of the East Bridge and West Bridge of Paradise Island.	No limit specified on duty exemptions.	Limit duty exemptions to imports that are directly related to the maintenance and rehabilitation of the bridges.	Jul 1, 2014

Note: * To qualify for these new rates the beneficiary airlines must make a minimum of 300 international rotations (take-offs and landings) per year and increase the number seats coming into the market. These fees become applicable only on the designation of the Airline by the Minister of Finance and only for a period of one year, with the option of renewal for additional one year periods.