COMMONWEALTH OF THE BAHAMAS

2012/13 BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

by

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Minister of Finance

on

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2012/13 BUDGET COMMUNICATION

It is my honour to present the 2012/13 Budget Communication.

INTRODUCTION

With this, the first Budget of the new mandate with which the Bahamian people have entrusted my Government, we launch our programme to transform the Bahamian economy and society for the benefit of all Bahamians. The key policy thrusts of the 2012/13 Budget are faithful to the major themes that we enunciated in both our Charter for Governance and last week's Speech from the Throne.

I would like to state at the very outset of this Communication that we do not propose to increase any taxes on Bahamians in this Budget.

This Budget unequivocally sets us on the course of change that we pledged to initiate and pursue with diligence and dedication. However, in light of the very short time since our return to Government, this Budget is but the very first step in that process of transformation. I would highlight that we have already implemented two of the actions that are in our Charter for Governance and that we committed to implement in the first 100 days of our coming to office. Specifically we have already created the Ministry for Grand Bahama and re-established the Ministry of Financial Services.

As we move forward, we will be guided by the vision for the future set out in the Charter. That beacon will illuminate the way and ensure that we make steady and concrete progress in securing the overriding economic and social objectives that are vital to a prosperous and harmonious society.

I will note at the outset that our room for manoeuvre is, at least in the short-term, severely constrained by the dire fiscal situation that has been handed to us by the previous Administration. As I will set out in detail below, the Government's deficit and debt levels at this time are much worse than we had anticipated. We have been left with sizeable, ongoing capital expenditure commitments and a legacy of contracts entered into in the final days of the former Administration.

We are committed to putting an end to such practices. As we stated in the Speech from the Throne, we will table legislation to prevent the entering into of Government contracts, including contracts of employment, or the payment of public monies therewith, between the date of dissolution of Parliament and the date of a General Election unless such contracts or payments are pre-determined by an independent statutory body to be absolutely essential for the maintenance of essential services.

In addition, as a matter of priority, we will do whatever is necessary such that, going forward, the Government is properly positioned to more efficiently and effectively function and ensure that public monies are properly spent and accounted for and that we avoid the types of cost overruns that have recently been witnessed.

We will pay particular attention to the large capital expenditure projects that are already in the pipeline. We will monitor these closely to ensure that contract terms are respected and that the Government is receiving full value for money in respect of these significant expenditure commitments.

We also face the carry-over into 2012/13 of certain recurrent expenditure commitments of the previous Administration in respect of the promotions exercise, back pay, salary increases and the payment of insurance benefits.

Accordingly, as my Government is firmly committed to fiscal prudence and the return of the fiscal accounts to more desirable and sustainable positions, we will need to adopt flexible, innovative and fiscally responsible approaches as we initiate our comprehensive programme of legislative proposals and policy initiatives to address the key economic and social challenges of our country. In particular, with our fiscal flexibility as constrained as it is, we will focus our efforts on promoting the expansion of the private sector, which holds the key to the creation of sustainable job opportunities. We will eschew job programmes of the type introduced by the previous Administration, which ballooned from an initial estimate of $25 million to some $48 million, all the while lacking any focus on viable, long-term employment creation.

We fully appreciate that it will be imperative to rebuild the fiscal buffers over time. The significant structural fiscal reforms that I will propose in this Budget, especially in respect of the Government's revenue base and revenue administration, will be critical in this regard. The stronger, sustainable fiscal position that will result from these measures will facilitate the full implementation of our agenda for change and will underpin enhanced confidence and more buoyant growth and job creation.

IMMEDIATE INITIATIVES IN OUR PROGRAMME OF CHANGE

Building A Safer Bahamas

We have unambiguously expressed our firm commitment to the implementation of a national crime agenda as one of the two central priorities of our programme of change. As a first step, we are immediately following up on our commitment to reinstate and re-invigorate the Urban Renewal Programme to foster a beneficial and effective relationship between the Police and the community.

Within the fiscally responsible Budget allocations presented in this Budget, we will begin to develop and implement the many legislative, policy and programme initiatives in our agenda to combat crime, namely:

- Amendments to the Police Act;
- The creation of a National Intelligence Agency;
- The development of a National Firearms Control Strategy, including the establishment of a Firearms Department and Database;
- The reintroduction of the Swift Juice Initiative;
- The reintroduction of the Witness Protection Programme;
- Amendments to the Rehabilitation of Offenders Act;
- The reintroduction of school-based policing;
- The revitalization of the Tourism-Based Police Initiative; and
- The re-equipment and repositioning of the RBDF to more effectively control our borders.

Both our Charter for Governance and the Speech from the Throne speak to the need to determine the extent of interest, among the Bahamian population, in establishing a national lottery and/or decriminalizing and properly regulating the webshop-type gaming business. It is estimated that this area holds the potential to make a significant financial contribution in support of Government expenditures on the nation's economic and social priorities in the years ahead. Accordingly, we will soon present the details for a national referendum on the issue. Should it be deemed that it is in the national interest, development work on the necessary legal and administrative framework will be finalized.

Promoting Industry and Creating Jobs

The second core imperative of our programme of change is the strengthening of the domestic economy and the attendant creation of jobs, the broadening of Bahamian ownership in the economy and the attainment of a higher standard of living.

To that end, the Government will re-focus the mandate of the Bahamas Development Bank and the Bahamas Agricultural and Industrial Corporation to broaden their range of activities, beyond merely lending money, to include the provision of equity, credit guarantees and marketing and accounting support.

We remain faithful to our commitment to explore all lawful means by which majority ownership of BTC can be restored to the Government and the Bahamian people. We shall very shortly arrange a timetable for discussions that we propose to undertake in this regard with the present owners of the majority stake in BTC and other interested stakeholders.

As a means of stimulating the real estate market and the construction sector, the Government is following up on its commitment to reduce the stamp duty rate on conveyances over $250,000 from 12 per cent to 10 per cent. As for the other rates of stamp duty, I would note that first-time homeowners already benefit from the existing exemption from stamp duty. The Government will, however, review the entire structure of stamp duties on conveyances in the context of its overall programme of fiscal reform.

In addition, we are introducing a cap of $50,000 as the maximum real property tax payable on an owner-occupied residence as a means of further stimulating the construction sector.

In order to stimulate near-term job creation for small contractors, we are also announcing that an allocation is being made in this Budget for home repairs and community improvements under the auspices of both the Urban Renewal Programme and the Ministry of Housing.

I am also announcing that Exuma is being reinstated for eligibility under the Family Island Development Encouragement Act.

Assistance to Homeowners in Distress

The loss of a home or threat of a loss is emotionally devastating for any family. We therefore reaffirm our commitment to a mortgage relief programme that will help save the homes of those persons who, by reason of involuntary job losses, underemployment or chronic illness, are no longer able to service their mortgage loan obligations as they were previously doing.

Preliminary discussions with representatives of the clearing banks and other institutional lenders have already been initiated and these discussions will continue with a view to arriving at a mortgage relief programme in the shortest possible time.

In the meantime, we wish to reiterate that the programme was never intended to assist homeowners who have the means to pay their mortgage obligations but simply decided not to do so. We therefore strongly urge all homeowners who have the means to do so, to continue to meet their mortgage loan obligations as and when they fall due.

The first draft of a Bill to administer and regulate Pension Funds is now complete and will be presented to Parliament shortly. As was stated in the Speech from the Throne, we will ensure that employees have access to their pension savings for emergency purposes, including mortgage relief. We will do so within the broader context of the revised Bill to which I have just referred.

Rescuing Grand Bahama

The economic plight of Grand Bahama is painfully evident and the unemployment situation there clearly attests to this reality. The Government has firmly expressed its commitment to addressing the needs of, and rescuing, Grand Bahama in a meaningful manner. A new Ministry for Grand Bahama has already been created, with a mandate of ensuring that Grand Bahama receives maximum benefits from all Government initiatives. The Ministry will also develop proposals for the extension of duty-free concessions to East and West Grand Bahama.

The Minister for Grand Bahama will engage in wide-ranging discussions with the various stakeholders in Grand Bahama, as well as with other Government Ministries, to advance our priority of restoring the economy of Grand Bahama. This will entail an evolving process as we go forward and the Ministry’s organization and budget allocation will evolve and grow accordingly.

As well, in this Budget, we are immediately implementing certain tax measures to promote the revitalization of Grand Bahama. For existing properties in Grand Bahama, the hotel occupancy tax is being reduced by 50% for 5 years for all properties filing returns under the newly-introduced electronic reporting system. And, to assist in ensuring the success of new hotels, the hotel occupancy tax will likewise be reduced by 50% for 10 years after opening. To access these concessions, it will be necessary for a hotel to register online with the new electronic reporting system, as is required of all hotels in the country.

A Renewed Commitment to National Health Insurance

Our commitment to National Health Insurance remains solid and we will pursue preparations for the financially sustainable implementation of such a plan. In addition, we are allocating funds to the Public Hospitals Authority to facilitate the acquisition of new cancer screening technology to ensure that Bahamian women have access to state-of-the-art mammogram machines at both the Princess Margaret and Rand Memorial Hospitals.

Securing an Adequate Revenue Base and Strengthening Revenue Administration

Tax Reform

It is clear that, if we are to restore the nation's public fiscal affairs to a more desirable and sustainable state, we will need to place particular focus on securing an adequate base for sustaining and enhancing the annual level of revenue.

It has been noted by many observers that our tax system is inadequate to finance a 21st century public administration. At a level of 18.6 per cent of Gross Domestic Product (GDP), Recurrent Revenue in The Bahamas pales in comparison to that in many other countries, where the Government revenue-to-GDP ratio is in the mid-20% to 30% range.

Our tax base is much too narrow, focusing as it does on goods to the exclusion of services. This is simply unacceptable in a modern economy where the consumption of services is predominant. The present tax system is also difficult and expensive to administer and subject to abuse and evasion.

As was presaged in the Charter and highlighted in the Speech from the Throne, it is important that we now address the issue of tax reform. To that end, a White Paper will be prepared and will serve as the basis for extensive public consultations. The paper will also serve to underpin the work on tax reform to be undertaken by the Council of Economic Advisors that the Government will appoint following the enactment of the enabling legislation foreshadowed in the Speech from the Throne.

A Centralized Tax Administration

A modern tax system can only be successful if it is widely accepted by taxpayers. In turn, to be so accepted, the system must be administered effectively, efficiently, transparently and equitably. The current tax administrative structure is disjointed, inefficient and inequitable in many respects. There are currently more than 30 departments and agencies collecting a variety of taxes and fees that constitute both tax and non-tax revenue.

In order to remedy this situation, my Government will proceed with the plans for the creation of a new centralized Tax

Administration to consolidate revenue collections and maximize the effectiveness and efficiency of tax administration on the basis of international best practice. The mission of the new structure will be to ensure compliance with tax legislation by providing efficient and effective services and by conducting appropriate enforcement activities.

When fully implemented, the new agency will feature an efficient function-based structure, responsible for administering a broad range of taxes. It will also benefit from modernized arrears management and compliance strategies. A Planning and Monitoring Unit within the structure will be responsible for strategic and operational planning, as well as performance monitoring and improvement.

Reform and Modernization of the Property Tax System

The real property tax system suffers from a number of critical structural defects and, as a result, annual revenues generated by the system fall significantly short of the amounts that should rightfully be collected. The systemic deficiencies have been well documented.

It is estimated that, with administrative improvements alone, annual property tax revenues could be increased by almost 100 per cent over the next five years. The Government will pursue a comprehensive multi-year strategy and implementation plan to reform and modernize the real property tax system. An international expert has been engaged to help guide this process.

Securing Excise Tax Revenues on Tobacco Products

The proper control of tobacco imports and the collection of excise taxes due on such products is another area that is fraught with leakage. It is estimated that the widespread smuggling of tobacco products into the country costs the Public Treasury some $20 million annually in lost revenues.

As a means of instituting proper controls and securing excise revenues on tobacco products, the Ministry of Finance is in the process of finalizing preparations, with the assistance of the Canadian Bank Note Company, for the introduction of Excise

Stamps on all tobacco products. Such stamps will attest to the payment of excise taxes, facilitate audit and compliance activities to combat smuggling and secure an important source of Government revenue.

Bahamas Civil Aviation Flight Information Region (FIR)

The Government also intends to initiate negotiations with the U.S. Government in respect of the Bahamas Civil Aviation Flight Information Region (FIR). Currently, the U.S. Federal Aviation Administration exercises air traffic control over Bahamian airspace, from the Miami Air Route Traffic Control Center. Despite the air navigation charges imposed by the FAA, The Bahamas receives no funds from the thousands of aircraft which transit our airspace. The Government will engage in negotiations on the FIR as a means of enhancing revenues in this area.

THE GLOBAL ECONOMY

The global economy has performed somewhat more modestly than had previously been anticipated. The IMF estimates that world output grew by 3.9 per cent in 2011, as compared to its earlier forecast of 4.4 per cent. Likewise, real GDP in the U.S. expanded by 1.7 per cent last year as compared to the previous forecast of 2.8 per cent. The weaker performance reflected the deleterious effects on financial conditions and market confidence stemming from the ongoing strains in the Euro area as well as the impact of the supply-chain disruptions caused by the triple disasters in Japan. According to the IMF, the ongoing relatively weak recovery in the U.S. also reflected the ongoing debate on fiscal consolidation, with the attendant effects on confidence within financial markets.

In its latest World Economic Outlook of April 2012, the IMF expects global prospects going forward to strengthen gradually and modestly, as is typical in the wake of a financial crisis, though the recovery does remain fragile in the face of persistent and significant downside risks which “continue to loom large”. Global growth is forecast to decline from 3.9 per cent in 2011 to 3.5 per cent in 2012, with activity in the first half of the year constrained by the ongoing sovereign debt crisis in the euro area. Growth is forecast to accelerate in the second half of 2012, followed by more robust growth of just over 4 per cent in 2013.

Partly reflecting fiscal tightening, U.S. growth this year and next is estimated by the IMF at 2.1 per cent and 2.4 per cent, respectively, implying little if any reduction in the output gap and only modest gains in employment. This view of only moderate expansion in the U.S. is also supported by the Federal Open Market Committee of the Federal Reserve. At its last meeting in late April, the Committee concluded that the U.S. recovery is expected to remain moderate over coming quarters and to pick up gradually; the rate of unemployment is projected to fall gradually. However, it also concluded that significant downside risks persisted in the face of strains in global financial markets; these strains stemmed from the sovereign debt and banking situation in Europe. I would note that recent developments in Greece have served to further deepen the strains on financial confidence and stability.

The Open Market Committee also noted that "the possibilities that U.S. fiscal policy would be more contractionary than anticipated and that uncertainty about fiscal policy could lead to a deferral of hiring and investment" were also downside risks.

A compounding factor in the outlook is the heightened geopolitical uncertainty surrounding oil prices which have again risen and which are expected to remain elevated for some time. In the current environment, low stocks and limited spare capacity pose significant upside risks; the IMF estimates that an increase in prices by 50 per cent would reduce global output by 1.25 per cent.

THE BAHAMIAN ECONOMY

The domestic economy continued its recovery from the recession last year, though at a persistently modest pace. The Department of Statistics estimates that real GDP expanded by 1.6 per cent in 2011 as compared to almost negligible growth of 0.2 per cent in 2010. The growth of the economy was also somewhat weaker than the 2 per cent rate that had been projected by the former Administration in the last Budget Communication.

Both the Tourism and Construction sectors continued to post positive growth in 2011. The total number of visitor arrivals expanded by 6.3 per cent, on the basis of a 9.1 per cent increase in the number of sea arrivals. The performance in respect of stopover visitors remained subdued, with the number of such visitors declining by some 2 per cent in 2011. At 1.343 million, the number of air arrivals remained well below the recent peak of 1.6 million recorded in both 2005 and 2006. As we indicated in both the Charter for Governance and the Speech from the Throne, the Government is firmly committed to implementing the necessary measures to ensure that our country consistently attracts increasing numbers of stopover visitors.

The Construction sector benefited from the sizeable public sector investment projects as well as the Baha Mar development in 2011. However, domestic private sector construction activity remained weak, reflecting the general state of the economy. Total mortgage disbursements for new construction and repairs fell by 17.6 per cent on the heels of a 37.4 per cent reduction in 2010. A decline in new mortgage commitments suggests that these subdued trends in the domestic private construction sector will persist through the short term.

In light of the absence of a broad-based recovery in economic activity, employment conditions in the country remained challenging. There was, as well, the seasonal entry into the labour force of recent high school and university graduates. As a result, on the basis of the latest estimates from the Department of Statistics, the national rate of unemployment spiked to a level of 15.9 per cent last Fall, up by over 2 percentage points from 13.7 per cent in May 2011. The unemployment rate in New Providence stood at 15.1 per cent, while in Grand Bahama it was estimated to be 21.2 per cent. As I mentioned earlier, creating job opportunities and reversing the unacceptable unemployment situation in this country are core near-term priorities for the Government, especially in relation to young Bahamians, the demographic sector that has been most severely affected by the unemployment problem.

Lending conditions did improve last year with both residential and commercial mortgage rates softening by 20 and 50 basis points, respectively. The 75 point reduction in the prime lending rate last June was a key factor in these developments. However, with only modest improvements in the economy, domestic bank lending activity expanded only marginally and loan arrears remained at elevated levels. Non-performing loans, with arrears of over 90 days and on which banks stopped accruing interest, rose by 0.7 per cent to $821.5 million and the ratio of arrears to loans increased to 13.1 per cent.

Elevated oil prices last year, through their spill-over effects, led to a more than doubling in the rate of consumer price inflation over the twelve months to February 2012, from 1.5 per cent to 3.3 per cent. Domestic fuel costs, in particular, were adversely affected. Gasoline prices rose by 19.1 per cent during the year, while the cost of diesel rose by over 32 per cent. In addition, the BEC fuel surcharge increased from 17.07 cents per kWh in 2010 to 23.14 cents in 2011, with a peak of 26.29 cents in December.

As for the Balance of Payments, preliminary data suggest that the current account deficit increased by some 34 per cent in 2011, to a level of $1.1 billion. With a marked rise in construction-related imports and a higher fuel import bill, the trade deficit worsened by 13 per cent to just over $2.1 billion. External reserves continued to expand in 2011, though at a more moderate pace than in 2010. At the end of 2011, they stood at $884.8 million, up $24.4 million from the previous year. As such, reserves at end-2011 were equivalent to an estimated 19.7 weeks of non-oil merchandise imports, as compared to 21.6 weeks at the end of 2010.

Prospects for the Bahamian economy will continue to hinge on the future growth of the U.S. economy. With the ongoing though gradual recovery of activity in our major trading partner, and with the significant investment activity that is underway, we expect a pickup in the rate of growth of the domestic economy to the area of 2.5 per cent in 2012, up from the 1.6 per cent growth rate in 2011. Our forecast for the expansion of real economic activity in

2013, at 2.7 per cent, is in line with the latest projection in the IMF Outlook.

FISCAL PERFORMANCE 2011/12

I now turn to fiscal performance in the 2011/12 fiscal year. In line with international standards and past practice in this country, our focus will continue be on the IMF Government Finance Statistics (GFS) concept of the Government Deficit. Importantly, that is the measure of the Deficit that represents the additions or subtractions to Government Debt every year.

As I mentioned at the outset, the fiscal accounts are in much worse shape than we had expected as we came into office. Indeed, this year's projected GFS Deficit outturn is significantly higher than had been forecast by the previous Administration in last year's Budget Communication. The GFS Deficit in 2011/12 is now projected at $504 million, up by a full $256 million from the previous Government's estimate of $248 million. Such a deficit outturn represents 6.3 per cent of GDP, more than double the 3.0 per cent estimate presented in last year's Budget Communication.

It goes without saying that such a dismal deficit result translates directly into a marked deterioration in the Government's debt position, both in absolute terms and relative to the size of the economy. Government Debt at the end of 2011/12 is now projected at just over $4.0 billion, or 50.6 per cent of GDP. That compares to the projected level of 46.2 per cent of GDP presented by the previous Administration at this time last year.

The bulk of the fiscal deterioration experienced this year is accounted for by a marked over-shooting of expenditure on Capital Account, due in substantial part to a considerable increase in spending on the New Providence Road Project. The outturn for Capital Expenditure in 2011/12 is now estimated at $399 million as compared to the forecast of $280 million. That represents an increase of $119 million, or almost 43 per cent over target.

Recurrent Expenditure this fiscal year is projected at $1,707 million, up $27 million from forecast.

As has been the case in recent years, Recurrent Revenue for 2011/12 is expected to underperform relative to the forecast. With a projected outturn of $1,450 million, Recurrent Revenues this year are down by $64 million from forecast.

Capital Revenue in 2011/12 is projected at $86 million, representing proceeds from the sale of participating debt notes of the Nassau Airport Development Company and the sale of the Sir Cecil Wallace-Whitfield Centre at Cable Beach.

FISCAL POLICY 2012/13

As for fiscal policy in 2012/13, I have presaged our key message in my introductory remarks. In light of the very serious deterioration in the Government's fiscal position in 2011/12, we must set the fiscal parameters prudently in 2012/13 in such a way as to begin the process of getting our fiscal house in order, while at the same time accommodating our short-term priority initiatives to the fullest extent possible.

The fundamental challenge for fiscal policy is the very large negative imbalance that has been allowed to develop in respect of the Government's Recurrent Account. The gap between Recurrent Expenditure and Recurrent Revenue, both expressed as a per cent of GDP, has quadrupled in the last five years. In 2006/07, the negative spread between the two stood at 0.8 per cent of GDP. This year, that imbalance has grown to 3.2 per cent of GDP. In the last five years, the ratio of Recurrent Expenditure to GDP has grown from 17.4 per cent to 21.3 per cent. However, the ratio of Recurrent Revenue to GDP has only risen from 16.6 per cent to 18.1 per cent. In essence, then, rather than only borrowing to finance productive investments in our nation's future prosperity, the previous Administration was also increasingly borrowing to pay for an increase in everyday expenditures in the form of salaries, rent and utilities that was not matched by an increase in revenues.

As we move forward, one of the Government's key priorities will be redressing the unsustainable imbalance in our Recurrent Account. We will do so, on the one hand, by constraining the growth of Recurrent Expenditure relative to the growth of the economy and, on the other hand, by engineering a transformation of Recurrent Revenue to bring it to a more appropriate level relative to the size of the economy.

Having stated this reality as clearly and as forcefully as I can, let me be clear. My Government fully acknowledges and accepts that the fiscal deficit must be constrained in the short term and significantly reduced thereafter. As such, in the very short period that has been available to us since coming into office and, given the expenditure commitments already on the books for the coming fiscal year, we have done what has been feasible to achieve the objective. As we move forward, we will implement the fiscal measures necessary to improve the Government's fiscal position and rein in the growth of Government Debt.

As a means of reducing the Government's expenditure in respect of interest charges on the Public Debt, we are working toward the implementation of a modern Debt Management Strategy. A Debt Management Committee has been established, comprising representatives of the Ministry of Finance, the Public Treasury and the Central Bank, to develop and put in action a debt strategy that will lead to lower borrowing costs while minimizing risks incurred. This is being done with the technical assistance of the IMF.

We will report on progress made in respect of the structural fiscal reforms that we are initiating, at the time of the Mid-Year Budget Statement in early 2013.

In light of the fiscal reality that we face, we are holding the line on Recurrent Expenditure in 2012/13 to the maximum extent possible. Recurrent Expenditure in the coming fiscal year is projected at $1,821 million, as compared to the projected outturn of $1,707 million this year. That is an increase of $114 million, fully $55 million of which is allocated to the increased requirements for debt redemption in the coming period.

We have also projected Recurrent Revenues in a prudent fashion, forecasting that they will come in at 18.3 per cent of GDP. This represents a slight improvement in performance from 2011/12 and reflects the early results of some of the revenue reforms outlined earlier, specifically in respect of excise tax and real property tax reform. As such, we expect Recurrent Revenues of $1,550 million in 2012/13, up from $1,450 million last year.

The projected GFS deficit in the 2012/13 fiscal year is on the order of $550 million or 6.5 per cent of GDP.

Government Debt is forecast to stand at $4.607 billion, or 54.5 per cent of GDP, at the end of the upcoming fiscal year. With this level of debt, our debt service requirements in 2012/13, including both debt redemption and interest payments, will amount to some $328 million, or just over 18 per cent of our total Recurrent Expenditure.

RECURRENT EXPENDITURE

The detailed allocations by Ministry, Department and Agency are set out in the accompanying documentation. Clearly, if we are to achieve our overriding fiscal objectives, there will be a heightened need to manage public resources judiciously and prudently within the very stringent limits that have been established.

CAPITAL EXPENDITURE

As we move into the new fiscal year, the Government is confronted with a large inventory of ongoing capital projects. I would note in particular that, in respect of the New Providence Road Project, fully $77 million is being carried over into 2012/13. Accordingly, we estimate that Capital Expenditure will amount to some $400 million in 2012/13, essentially unchanged from the level in 2011/12. That will represent 4.7 per cent of GDP, a reduction from the 5.0 per cent of GDP this year.

REVENUE MEASURES

The Government is introducing a number of measures to further rationalize tariff and excise rates, encourage energy efficiency and provide relief to consumers, namely:

- the tariff rate on solar generators is being reduced from 45 per cent to 10 per cent to align it with the rate on other types of generators and other solar equipment;

- the tariff rate on wind-powered and “other” generating sets is being reduced from 45 per cent to 10 per cent to align it with the rate on other generators;
- the tariff rates on plastic and steel doors are being reduced from 35 per cent and 25 per cent, respectively, to 10 per cent to align them with the rate on wood and aluminum doors;
- the tariff rate on body lotion is being reduced from 45 per cent to 25 per cent to align it with the rate on other hygiene products;
- the tariff rate on toothbrushes is being reduced from 45 per cent to “Free” to align it with the rate on toothpaste;
- the tariff rate on ECG and EKG machines is being reduced from 35 per cent to “Free” to align it with the rate on kidney machines;
- the tariff rate on filters for kidney machines is being reduced from 45 per cent to “Free” to align it with the rate on kidney machines and other parts;

- the tariff rate on air conditioner parts is being reduced from 45 per cent to 40 per cent to align it with the rate on air conditioner units; and
- the tariff rate on animal food is being reduced from 35 per cent to “Free” to align it with the rate on pet food.

As well, the Tariff and Excise Acts are being amended to create new headings for certain products as follows:

- biodiesel at 45 per cent;
- baby pacifiers from 45 per cent to “Free” and
- breast pumps from 45 per cent to “Free”.

Finally, the Tariff Act is also being amended to incorporate a number of tariff headings that were inadvertently omitted from the 2008 Tariff.

CONCLUDING REMARKS

In conclusion, I would reiterate that, as the Government came to office mere weeks ago, it did so with an ambitious and extensive agenda tailored to tackle the critical economic and social needs of the Bahamian people. The Government was given a decisive mandate to do so.

In our very short time in office, however, it has become clear to us that the previous Administration has, through its actions and fiscal policies, severely constrained our room to manoeuvre. Faced with their legacy of cost overruns and carryover spending commitments into the next fiscal year, we have moved to begin implementing certain key components of our Charter for Governance to the extent feasible in a fiscally responsible manner. To that end, the Budget includes an allocation of $15 million for the implementation of early initiatives in the Charter, such as the introduction of Urban Renewal 2.0, including the immediate implementation of house repairs and community improvements, both of which will create employment.

Indeed the restoration of fiscal discipline is absolutely necessary if Government is to fully implement its agenda for change and play its rightful role in promoting private sector development, new sustainable job opportunities and higher standards of living. We will as a priority restore our public finances to a healthier and more sustainable position.

To that end, I want to reiterate the Government's firm resolve to redress, as we move forward, the fundamental structural imbalance that has been allowed to develop in the nation's public finances over the past five years. We will implement the important structural reforms that I have set out above and thereby recreate the fiscal policy room needed to adequately implement our policy and programme agenda for the benefit of all Bahamians.

ANNEX A

ECONOMIC BACKGROUND

ECONOMIC BACKGROUND[1]

Introduction

Preliminary estimates from the Department of Statistics signal that the Bahamian economy grew by 1.6% in 2011, outpacing the marginal 0.2% expansion registered in 2010. This outturn was achieved against the backdrop of the ongoing recovery in the global economy, which supported gains in the key tourism sector, while the start-up of a large-scale foreign investment project in January, along with public sector infrastructure programmes, buoyed growth in construction activity.

The following section highlights key global economic trends and is followed by an account of the recent economic performance of the Bahamian economy and prospects for 2012.

[1] The Economic Background is based on material provided by the Central Bank of The Bahamas. The Bahamas GDP data for 2011 is based on the preliminary estimates of the Department of Statistics.

International Economic Developments

The International Monetary Fund (IMF), in its April 2012 World Economic Outlook (WEO), estimated that the pace of world output moderated to 3.9% in 2011 from 5.3% in 2010. The slowdown was largely attributed to weaker real GDP expansion in developed and emerging economies, as the spillover effects of the euro area sovereign debt crisis, and supply disruptions caused by the triple disasters in Japan, adversely impacted major economies worldwide.

Given the uneven pace of the recovery, major central banks implemented a variety of measures, aimed at stabilizing their economies and supporting growth. Both the United States Federal Reserve and the Bank of England maintained an accommodative stance throughout 2011, keeping interest rates at historical lows and continuing their “quantitative easing” asset purchase programmes to stimulate economic activity, and the Bank of Japan increased the size of its programme by ¥15 trillion to ¥50 trillion. In contrast, after a period of monetary tightening over most of the year, the European Central Bank reversed its policy stance in the final two months—cutting interest rates by a combined 50 basis points and implementing an almost £500 billion lending programme with regional commercial banks. Similarly, the People's Bank of China shifted its policy bias towards tightening in the final months of the year.

Real GDP growth in the United States slowed by 1.3 percentage points to 1.7% in 2011, reflecting a reduction in private inventory investment and government spending, as well as a deceleration in export growth. However, the overall improvement in the economy led to the number of unemployed persons declining by 1.3 million, which lowered the unemployment rate to 8.5% at end-2011 from 9.4% a year earlier. Owing to increased fuel and commodity price pressures, inflation doubled to 3.0% in 2011. In the external sector, growth in the goods deficit outpaced the expansion in the services surplus, for a $58.0 billion widening in the trade deficit to $558.0 billion. Investor uncertainty, arising from the

European debt crisis, led to increased investments in US dollar assets. As a result, the dollar appreciated against the euro (3.3%), the British Pound (0.4%), the Canadian dollar (2.3%) and the Swiss Franc (0.3%). However, the dollar fell relative to several Asia currencies, declining vis-à-vis the Japanese Yen and the Chinese Yuan, by 5.3% and 4.4%, respectively.

Other major economies recorded a similar moderation in output growth in 2011. Following a 1.7% gain in 2010, euro area real GDP firmed by 1.5%, as improving conditions in Germany contrasted with austerity-led downturns in several southern states. Weakness in the construction, production and service industries led to real output growth in the United Kingdom receding by 1.1 percentage points to 0.9% in 2011. The Japanese economy contracted by 0.9%, a reversal from a 3.9% improvement in 2010, on account of the effects of the March earthquake and tsunami. In China, real GDP growth eased by 1.2% to 9.2%, amid a reduction in exports—particularly to Europe—and the government's efforts to curb domestic lending and investment activity.

Political unrest in the Middle East, and increased demand from emerging economies, helped to spur growth in commodity prices during 2011. The average price of crude oil rose by 39.1% over the year and stood at $107.62 per barrel at end-December, compared to $93.49 at end-2010. Additionally, food costs grew on an annual basis, with the average price of corn and wheat rising by 56.9% and 41.5%, respectively, in 2011. As investors increased their holdings of relatively “safe assets”, the price of gold moved higher by 10.1% year-on-year to $1,563.70 per troy ounce, while silver costs fell by 9.9% to $27.84 per troy ounce.

The IMF, in its April 2012 WEO forecasted that global output in 2012 will expand at a slightly slower pace of 3.5%, with economic activity in the first half constrained by the persistent sovereign debt crisis in the euro area. However, output is expected to strengthen over the remainder of the year, supported by improving financial conditions and accommodative monetary policy measures.

Real GDP for the advanced economies is projected to increase by a slightly reduced 1.4% in 2012. Higher consumer spending, combined with an expansion in exports in business investments, is expected to sustain a modest firming in US economic growth to 2.1%, although downside risks are projected to arise from a number of factors, such as restricted access to credit by consumers, a depressed housing market and fiscal consolidation initiatives. With the ongoing euro area debt crisis leading to a loss of confidence, financial market stress and fiscal austerity measures, output in the region is forecasted to contract by 0.3% in 2012, while real GDP growth in the United Kingdom is set to increase marginally to 0.8%. Fuelled by export growth, a rise in private domestic demand and reconstruction-led public investment, the Japanese economy is forecasted to recover from last years' decline, to post a 2.0% gain in 2012.

Economic activity in emerging and developing economies is projected to moderate by 0.5 of a percentage point to 5.7% in 2012, due to the negative spillover effects of the euro area debt crisis on these countries' exports and investment inflows. Notably, real GDP growth is expected to slow to 8.2% for China, and also move lower to 6.9% for India.

In terms of commodities, the IMF projects that average oil prices will increase at a slower pace, of 10.3% year-on-year, to $114.7 per barrel in 2012. On average, non-fuel commodity prices are expected to decrease by 10.3%, a reversal from a gain of 17.8% in 2011, which is predicated on a forecasted improvement in fuel supply.

Domestic Economic Developments

Based on preliminary estimates, real output growth for the Bahamian economy strengthened to 1.6% in 2011 from 0.2% in 2010. Accounting for some 40% of the economy, tourism output benefitted from steady, although moderated, growth in sea traffic, to offset the downturn in air arrivals which was due partly to weather-related disruptions. Construction activity also continued to improve, underpinned by the Baha Mar hotel development project and sizeable public sector infrastructure programmes. Nonetheless, employment conditions remained challenging, due to the lack of a significant broadening of the recovery to other sectors, while inflation firmed from a relatively low base, fueled by gains in international oil prices.

Monetary developments were marked by moderated gains in both liquidity and external reserves, as increased demand for foreign currency to facilitate import payments—mainly fuel-related—offset inflows from several one-off transactions. Banks' credit quality indicators also deteriorated over the year, although capital and provisioning ratios remained at healthy levels.

In the fiscal sector, when compared to the previous year, growth in the National Debt slowed considerably in 2011, as proceeds from the divestment of majority interest in the Bahamas Telecommunications Ltd. (BTC) were used to meet a significant portion of Government's financing needs.

On the external side, the estimated current account deficit widened, due to heightened goods and services related imports which normally accompany large foreign investment projects, together with increased payments for fuel imports. The surplus on the capital and financial account contracted, however, owing mainly to lower levels of public sector external borrowings, while some offset was provided by the expansion in net foreign investment inflows.

Tourism

Tourism continued to post positive gains in 2011, although growth in arrivals slackened to 6.3% from 13.1% in 2010, which reflected, to some extent, the adverse impact of weather related events on flight and cruise ship itineraries. In particular, the increase in sea visitors abated to 9.1% from 16.7%, while air passengers fell by 2.1%, to reverse the 3.4% rise of 2010.

Disaggregated by ports of entry, total arrivals to New Providence expanded by 2.8%, as the 5.0% rise in sea passengers outweighed the 1.6% decline in air visitors. Benefitting from a 7.7% boost in the dominant sea traffic, which mitigated a 12.2%

fall-off in the air segment, visitors to Grand Bahama firmed by 4.8%. Family Island arrivals grew by 13.7%, supported by a 15.5% surge in sea passengers and a more muted 1.2% rise in air arrivals.

Despite the improvement in airlift capacity, continued weakness in several key source markets led to visitors from the United States falling by 3.8% and arrivals from the Caribbean contracting by 3.0%. In contrast, the commencement of direct service by a regional carrier, from Panama to Nassau, contributed to the 43.3% boost in travelers from Latin America, while lesser gains were posted for the Canadian (4.0%) and other (3.2%) markets.

Provisional 2011 hotel sector performance data showed room revenue growing by 2.8% to $435.1 million. This outturn was supported by a 2.5 percentage point rise in average room occupancy to 54.0%, and a 2.7% increase in the average daily room rate to $204.48.

In 2012, tourism activity is expected to maintain a recovery bias, benefitting from the stable revival in the main group business segment, additional airlift and marketing initiatives. Initial data for the first quarter of 2012 showed visitor arrivals advancing by 10.8% year-on-year, with double digit gains in both the air (11.2%) and sea (10.7%) segments.

Construction

Real output in the construction sector improved during 2011, primarily on account of heightened foreign investment activity and ongoing public sector projects.

Domestic private sector construction activity, however, remained weak, as individuals and businesses continued to be constrained by high debt burdens and the mild level of economic activity. In line with these trends, total mortgage loan disbursements for new construction and repairs—as reported by domestic banks, insurance companies and the Bahamas Mortgage Corporation—declined by 17.6% to $140.5 million, after a 37.4% reduction in 2010. The residential component, at 94.5% of the total, fell by 11.5% to $132.7 million, and the commercial segment contracted by 62.1% to $7.7 million. These trends are expected to persist over the near-term, as mortgage commitments for new buildings and repairs—a more forward looking indicator—decreased in number by 17.1% to 899, with a corresponding falloff in value of 14.6% to $111.4 million.

Lending conditions improved somewhat in 2011, partly influenced by the pass-through effects of the 75 basis points reduction in the Prime lending rate to 4.75% in June. As a result, the average interest rate on residential mortgages softened by 20 basis points to 8.2% and the average commercial mortgage rate narrowed by 50 basis points to 8.4%.

Inflation

Reflective of the spill-over effects of elevated international oil prices, domestic inflation more than doubled, to 3.3% from 1.5% a year earlier, over the twelve months to February 2012. Significant accelerated average price gains were recorded for transport, by 5.7 percentage points to 8.9%, and furnishings, household equipment & maintenance, by 3.6 percentage points to

4.1%. More muted average rate increases were registered for restaurant & hotel (by 1.8 percentage points to 3.1%), education (by 1.2 percentage points to 3.0%), housing, water, gas, electricity & other fuels (by 0.5 of a percentage point to 3.3%) and recreation & culture (by 0.2 of a percentage point to 1.0%) costs. In addition, following respective cost decreases of 0.9% and 0.1% in 2010, average prices for food & non-alcoholic beverages and communication increased by 2.2% and 1.4%, respectively. By contrast, accretions to average prices slowed for medical care & health (1.8%), “miscellaneous” goods & services (0.7%), alcohol, tobacco & narcotics (1.4%) and for clothing & footwear (0.1%).

The upturn in international oil prices was reflected mainly in domestic fuel costs. Gasoline prices, which peaked at $5.60 per gallon in May, firmed by 19.1% to an average of $5.17 per gallon during the year. Similarly, the average cost of diesel advanced to $4.90 per gallon from $3.70 per gallon in 2010, with prices peaking at $5.20 per gallon in May. In terms of electricity prices, the Bahamas Electricity Corporation’s (BEC) fuel charge increased to 23.14¢ per kilowatt hour (kWh) in 2011, from 17.07¢ per kWh in 2010, with the highest rate, of 26.29¢ per kWh, registered in December.

The trends noted in 2011 persisted over the first quarter of 2012. The average price of gasoline and diesel firmed by 11.4% and 18.8%, to $5.33 per gallon and $5.22 per gallon, respectively, while BEC's fuel charge surged by 30.1% to 26.00 cents per kilowatt hour (kWh) over the corresponding quarter of 2011.

Employment

In the absence of a broad-based economic recovery, unemployment remained elevated in 2011. The most recent labour force survey conducted by the Department of Statistics for the period ending November 2011, reported a rise in the jobless rate to 15.9% from 13.7% in May 2011 and 14.2% a year earlier. Underlying this outturn was a significant shift in the number of persons who were either described as self-employed or engaged in the informal sector, to the unemployed category, in addition to seasonal factors, such as the entrance of recent high school and university graduates into the labour force. On a percentage basis, the largest increase was reported for the Grand Bahama market, where the rate firmed by 5.8 percentage points to 21.2%, while the rate for New Providence increased to 15.1% from 13.2% in May

Monetary and Credit Developments

Although attaining new peaks in early 2011, due to several one-off transactions, the build-up in both liquidity and external reserves slowed significantly during the year. Underpinning this outcome was a tapering in foreign currency inflows from real sector activities and higher net outflows—mainly for fuel payments. Given the economic environment, bank lending activity continued at a mild pace, and loan arrears remained elevated.

Total domestic credit grew marginally by 1.0% ($88.7 million) in 2011, following a Government-led expansion of 5.1% ($408.5 million) in 2010. By currency composition, Bahamian dollar credit advanced by $88.7 million (1.0%), albeit below the

$364.5 million (5.0%) build-up in 2010. In contrast, foreign currency credit decreased by $100.7 million (12.4%), a reversal from a $44.0 million (5.7%) advance in 2010, as Government repaid an outstanding loan.

Supported by the modest improvement in economic conditions, private sector credit firmed by $74.8 million (1.1%) in 2011—a turnaround from a $23.2 million (0.4%) contraction in 2010. Personal loans—which accounted for the bulk (73.1%) of the total—grew by $73.9 million (1.5%), reflecting broad-based gains in residential mortgages (by $40.3 million or 1.4%) and consumer credit (by $23.2 million or 1.1%), as the 16% surge in debt consolidation loans outpaced declines in the other categories. In addition, overdrafts rose by $20.1 million (27.0%).

Growth in net credit to the Government slackened significantly to $25.5 million (1.8%) from $389.8 million (38.1%), as proceeds from BTC's divestment were utilized to supplement other financing sources. Similarly, claims on the public corporations fell by $11.6 million (2.5%), following a $41.9 million (10.0%) gain last year.

Accretions to external reserves slowed by 2.8% ($24.4 million) to $884.8 million at end-2011, from a 5.5% ($44.5 million) build-up in 2010. Supported by foreign currency inflows associated with the sale of controlling interest in BTC, combined with several one off-receipts, external reserves peaked at $1.0 billion in April, and remained buoyant into the third quarter before waning during the traditional period of increased foreign currency demand. For 2011, external reserves averaged $998.2 million, up $178.3 million in 2010. At end-2011, reserves were equivalent to an estimated 19.7 weeks of non-oil merchandise imports, relative to 21.6 weeks at end-2010.

In the context of improving economic conditions, robust external reserve levels and subdued private sector credit growth, the Bank reduced its key Discount rate by 75 basis points to 4.5% on June 6th and, in turn, the commercial banks lowered their Prime rate by the same magnitude to 4.75%. This measure mainly affected variable rate loans and contributed to the marginal decline in the weighted average loan rate, by 7 basis points to 10.98%. In terms of the components, residential and commercial mortgages, as well as overdraft interest rates, fell by 38, 42 and 84 basis points, to 7.77%, 8.37% and 10.03%, respectively. In addition, the weighted average deposit rate decreased by 80 basis points to 2.64%, as the accumulation of deposits resulted in a 19 basis point narrowing in the average rate on savings balances to 1.75%. Similarly, fixed deposit rates positioned to a lower average range of 2.33%-3.24%, from 3.19%-4.04% in 2010.

In the absence of significant extraordinary transactions, growth in the monetary indicators for the opening quarter of 2012 trended downwards. The rate of increase in both liquidity and external reserves slowed significantly, while Government borrowing underpinned the expansion in domestic credit.

Excess reserves rose by $16.6 million, in comparison to 2011 when Government's receipt of stamp tax proceeds from the sale of an oil company and payments by a foreign investment entity to the public sector supported a $103.9 million accretion. The country's, external reserves position remained at a healthy level, although growth of $5.2 million to $890.0 million was significantly below the $114.7 million gain of 2011.

During the first quarter, Bahamian dollar credit expanded by $65.9 million, a turnaround from a $59.5 million repayment last year—and was entirely attributed to the public sector. Net credit to the Government firmed by $58.4 million vis-à-vis the previous year's $54.9 million decline, with increased claims in the form of higher Treasury bills holdings and short-term advances. Similarly, claims on the rest of the public sector rose by $20.4 million, after contracting by $0.3 million a year ago. Credit to the private fell by $12.9 million, as consumer and commercial claims were lower by $15.2 million and $3.7 million, respectively, in contrast to a $6.0 million rise in mortgages.

Credit Quality

Following the $69.1 million (6.1%) deterioration in banks' loan arrears, to $1,208.1 million in 2011 credit quality indicators improved marginally over the first quarter of 2012. Reflecting increased loan write-offs and debt restructuring initiatives, total private sector arrears moderated by $15.7 million (1.3%) to $1,192.4 million, bringing the corresponding ratio of arrears to total loans down by 30 basis points to 19.0%. In particular, the short-term 31-90 day category contracted by $21.1 million (5.4%) to $370.9 million, with the attendant ratio softening by 35 basis points to 5.9%. In contrast, non-performing loans—arrears in excess of 90 days and on which banks ceased accruing interest—were higher by $5.4 million (0.7%) at $821.5 million, with the corresponding ratio firming by 5 basis points to 13.1%.

Despite the slightly improved credit quality outcome for the first quarter, banks maintained a cautious posture, increasing their loan loss provisions by $30.6 million to $331.1 million. As a result, the ratio of provisions to both total arrears and non-performing loans grew by 2.9 percentage points to 27.8% and by 3.5 percentage points to 40.3%, respectively.

National Debt

The Direct Charge on the Government increased by 2.3% ($85.8 million) to $3,806.2 million in 2011, down from growth of 12.0% ($400.0 million) to $3,720.4 million in 2010. In particular, Bahamian dollar claims—which represented 79.0% of the total—firmed by 2.9% ($83.6 million) to $3,006.1 million, while foreign currency debt rose by a marginal 0.3% ($2.2 million) to $800.1 million. The Government's contingent liabilities, however, declined by 2.5% ($13.9 million) to $550.7 million, following a 4.1% ($24.4 million) contraction to $564.6 million in 2011.

Total public sector foreign currency debt expanded by 3.5% ($47.1 million) to $1,404.8 million, although significantly below the 19.1% gain for 2011. The increase in the debt was explained by new drawings of $137.1 million, combined with a

$16.2 million net upward adjustment in the debt stock, (the conversion of BTC's $33.8 million debt to private sector foreign currency debt offset the reclassification of the Nassau Airport Development Company's (NAD) debt of $50.0 million), while amortization payments amounted to $106.2 million. Government's liabilities, at 57.0% of the total, rose by a marginal 0.3% ($2.2 million) to $800.1 million, and public corporations' obligations advanced by 8.0% ($45.0 million) to $604.7 million.

As a consequence of these developments, the National Debt increased by 1.7% ($72.0 million) to $4,356.9 million at end-December 2011, relative to a gain of 9.6% ($375.6 million) in 2010. Debt servicing contracted by 23.7% ($56.3 million) to $181.4 million, underpinned by a 37.8% ($64.6 million) decrease in amortization payments to $106.2 million, combined with a 12.3% ($8.2 million) hike in interest payments to $75.3 million.

Balance of Payments

Preliminary balance of payments data for 2011 showed that the current account deficit widened by 34.1% ($276.9 million) to $1,090.0 million. The trade deficit rose by $243.7 million (12.9%) to $2,131.3 million, following a 3.5% rise in 2010, as increased construction-related items led to non-oil merchandise imports advancing by 14.8% to $1,630.8 million. Similarly, higher international oil prices caused a hike in the fuel import bill, by 15.7% to $804.7 million. The net surplus on the services account steadied at $1,313.7 million. Net travel receipts were higher by $88.6 million (4.6%) at $2,007.9 million, while net outflows for transportation and other "miscellaneous" services declined by $28.0 million and $19.7 million, to $195.8 million and $286.5 million, respectively. Government's transactions were reversed to a net receipt of $13.4 million from a net outflow of $43.1 million 2010. In contrast, the rebound in construction output led to an acceleration in the net payment for construction services, to $163.0 million from

$15.7 million in 2010. Gains were also registered for net insurance payments, of $20.6 million to $185.9 millionn and royalty and license fees outflows, of $4.7 million to $15.3 million, while net inflows from offshore companies' local expenses moved lower by $19.7 million to $138.9 million.

The surplus on the capital and financial account narrowed by 16.6% ($189.9 million) to $951.5 million, occasioned in part by a reduction in public sector external borrowings, of $54.9 million to $93.5 million. Another key factor was the repayment of an outstanding loan by the Government, which resulted in a net outflow of $101.4 million for domestic banks' short-term financing, a turnaround from a net inflow of $23.6 million in 2010. Net portfolio investment outflows grew by $18.8 million to $44.2 million, shared almost equally between debt and equity investments. Despite a fall-off in net foreign direct investment inflows, by $205.9 million to $666.1 million, a surge in foreign investment-related loan financing resulted in overall net foreign investment outflows rising by $10.8 million to $1,009.2 million.

Financial Sector

Financial sector activity remained relatively stable in 2011, as the number of banks and trust companies authorized to operate in The Bahamas grew by 2 to 278. Of these entities, the number of licensees operating through physical presence rose by six (6) to 255, with the balance of twenty three (23) being branch operations of firms from predominantly G-10 countries and operating within approved restricted management arrangements.

During the year, the Bank granted approval for the registration of eleven (11) Private Trust Companies (PTCs), extending the total to sixty-nine (69), while the number of Financial and Corporate Service Providers that act as Registered Representatives increased by one (1) to four (4). One additional licensee advised the Bank of its intent to act as a Registered Representatives of PTCs, bringing the number acting in this capacity to eleven (11). Licensed non-bank Money Transmission

Businesses (MTBs) were unchanged at three (3), and registered non-bank money transmission agents grew to five (5).

Capital Markets

During 2011, capital market activity was relatively subdued, as investors continued to adopt a conservative stance. Reflecting these developments, the volume of shares traded on the Bahamas International Securities Exchange (BISX) declined by 75.8% to 2.6 million, compared to the previous year when two significant block transactions boosted trades to 10.9 million. Similarly, the value of shares traded fell by 85.6% to $12.5 million. The benchmark BISX All Share Price Index lost 8.9% to settle at 1,364.99 points, extending the 4.2% contraction of 2010, and market capitalization decreased by 1.0% to $2.875 billion at end-2011.

During the year, the total number of securities traded on the Exchange grew by two (2) to twenty five (25), with the listing of Commonwealth Brewery Limited’s common shares and Fidelity

Bank’s preference shares. At end-2011, the number of issuers comprised nineteen (19) common shares, two (2) preference shares and four (4) debt tranches.

Economic Outlook for 2012

Expectations are that the modest recovery in the domestic economy will be sustained in 2012, supported by gains in construction output, linked to foreign investment projects and, to a lesser extent, the public sector’s infrastructure development programmes. Further strengthening is anticipated for tourism output, to extend the observed gains in the high value-added group segment of the market. However, labour market conditions are likely to remain challenging, until the economic recovery deepens and broadens. Economic conditions are likely to feature continued volatility in international oil prices and their corresponding upward pressure on domestic consumer price pressure, although inflation is projected to remain relatively subdued.

Monetary developments are expected to remain favourable over the balance of the year, featuring buoyant levels of both liquidity and external reserves, fuelled by foreign investment inflows and improving real sector receipts. Based on the relatively mild rate of growth and the high unemployment situation, growth in bank credit is likely to be relatively mild. This also suggests a continuation of the elevated loan arrears for an extended period, although average capital levels are expected to be sustained well above the Bank's requirement. As a consequence, this should mute any concerns for the stability of the financial sector.

ANNEX B

TABLES and GRAPHS

Table I. The Bahamian Economy 2005 - 2015

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP	7706	7966	8319	8247	7717	7771	7788	8249	8658	9049	9481
Growth-Current Prices(%)	8.6	3.4	4.4	-0.9	-6.4	0.7	0.2	5.9	5.0	4.5	4.8
Growth-Constant Prices(%)	3.4	2.5	1.4	-2.3	-4.9	0.2	1.6	2.5	2.7	2.3	2.5
Consumer Prices (%)	2.2	2.0	2.5	4.6	2.0	1.4	3.2	2.0	2.0	2.0	2.0

Source: IMF Projections 2012-2015, World Economic Outlook, April 2012
Department of Statistics 2005-2011

Table II. - Budget Performance
B$ millions

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Budget 2011/12	Projected Outturn 2011/12	Budget 2012/13
1. Recurrent Expenditure	930	986	1035	1091	1151	1203	1415	1421	1499	1529	1642	1680	1707	1821
2. Recurrent Revenue	973	875	918	960	1054	1211	1354	1445	1331	1292	1452	1514	1450	1550
3. Recurrent Deficit (2 minus 1)	43	-111	-117	-131	-97	8	-61	24	-168	-237	-190	-166	-257	-271
(Deficit - Surplus +)														
4. Capital Expenditure	133	138	127	116	162	190	235	231	262	251	263	280	399	400
5. Capital Revenue	1	0	0	0	0	3	7	10	0	0	210	132	86	0
6. Capital Deficit (5 minus 4)	-132	-138	-127	-116	-162	-187	-228	-221	-262	-251	-53	-148	-313	-400
7. TOTAL DEFICIT (3 plus 6)	-89	-249	-244	-247	-259	-179	-289	-197	-430	-488	-243	-314	-570	-671
8. Debt Redemption	75	85	60	85	97	38	106	62	67	89	77	66	66	121
9. GFS Deficit (7 minus 8)	-14	-164	-184	-162	-162	-141	-183	-135	-363	-399	-166	-248	-504	-550
10. GDP (current prices) revised	6423	6738	6954	7022	7400	7836	8143	8283	7982	7744	7779	8182	8019	8454
11. GFS Deficit as % of GDP	**-0.2**	**-2.4**	**-2.6**	**-2.3**	**-2.2**	**-1.8**	**-2.2**	**-1.6**	**-4.5**	**-5.2**	**-2.1**	**-3.0**	**-6.3**	**-6.5**

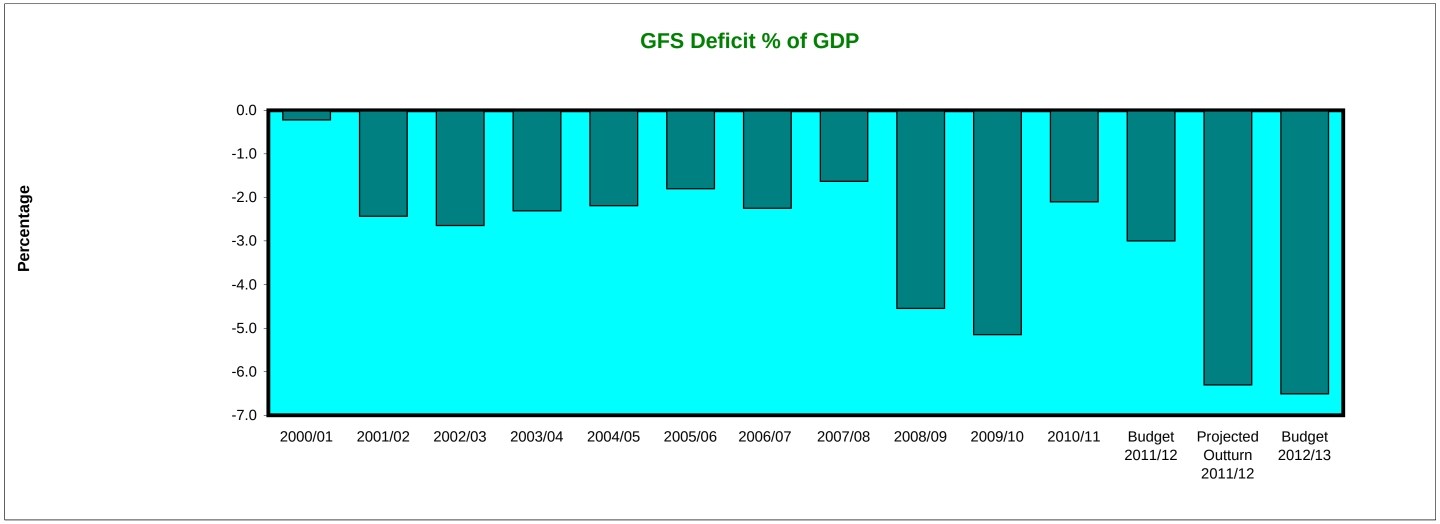
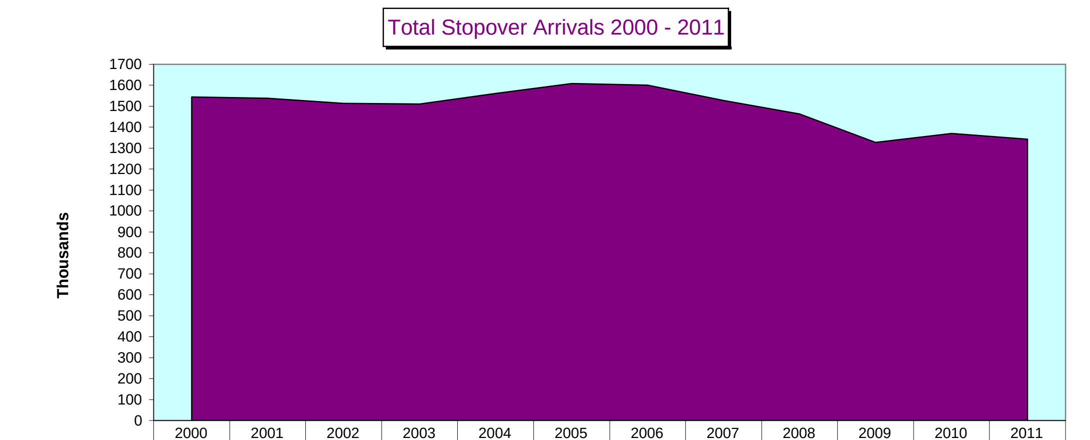


Table III. Tourist Expenditure and Arrivals 2000 - 2011

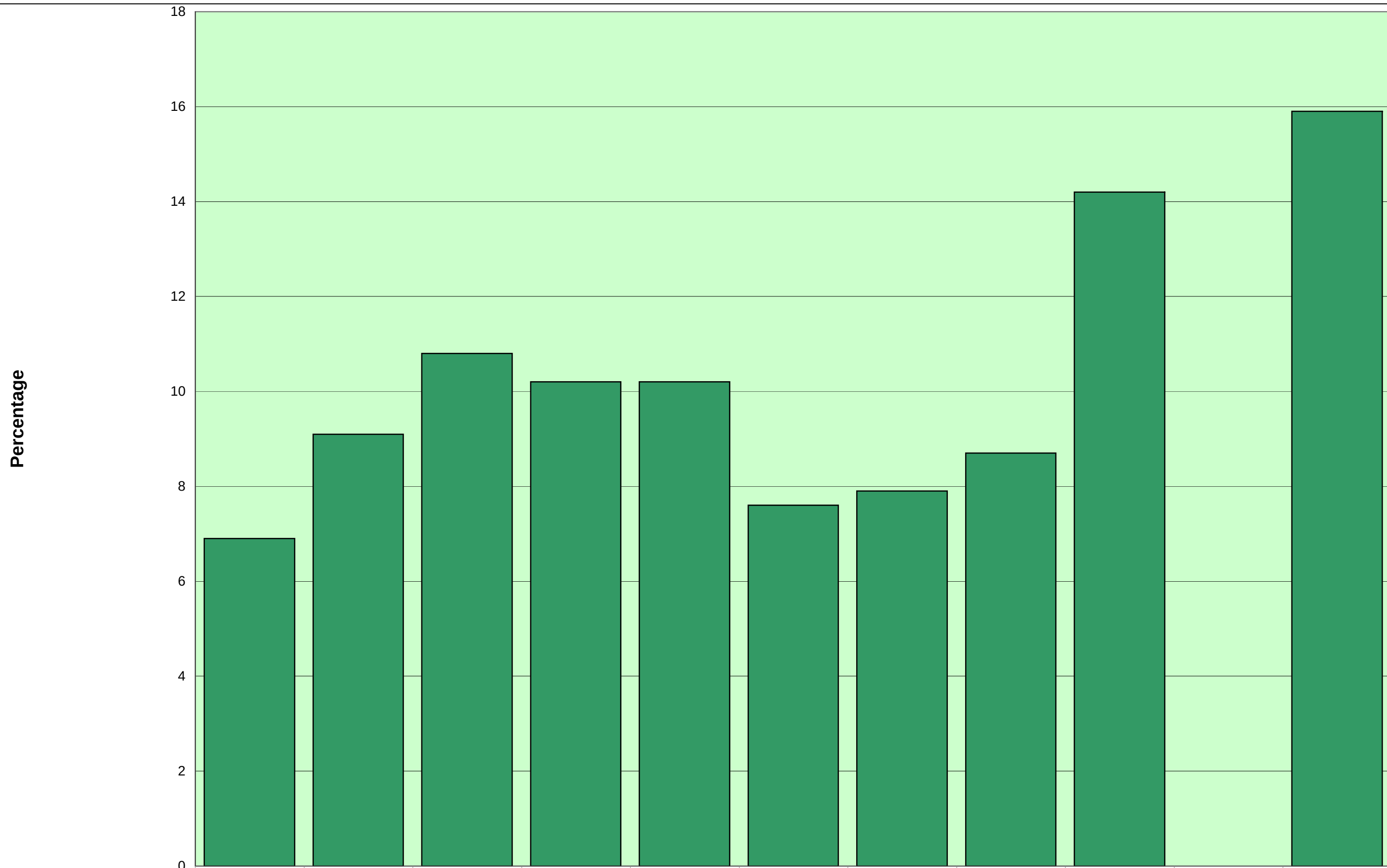
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Stopovers	1579.7	1494.8	1602.5	1595.3	1693.5	1883.9	1881.2	2020.8	2152.4	1824.6	1741.1	1732.3
Total	1734.4	1647.7	1759.8	1757.4	1884.5	2068.8	2057.3	2617.48	2501	2014.2	2069.0	2110.38



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Stopovers	1543.9	1537.8	1513.1	1510.2	1561.3	1608.1	1600.9	1527.7	1463.0	1327.0	1370.1	1343.3

*Source: Ministry of Tourism, National Accounts Report 2011
All numbers are subject to revision.

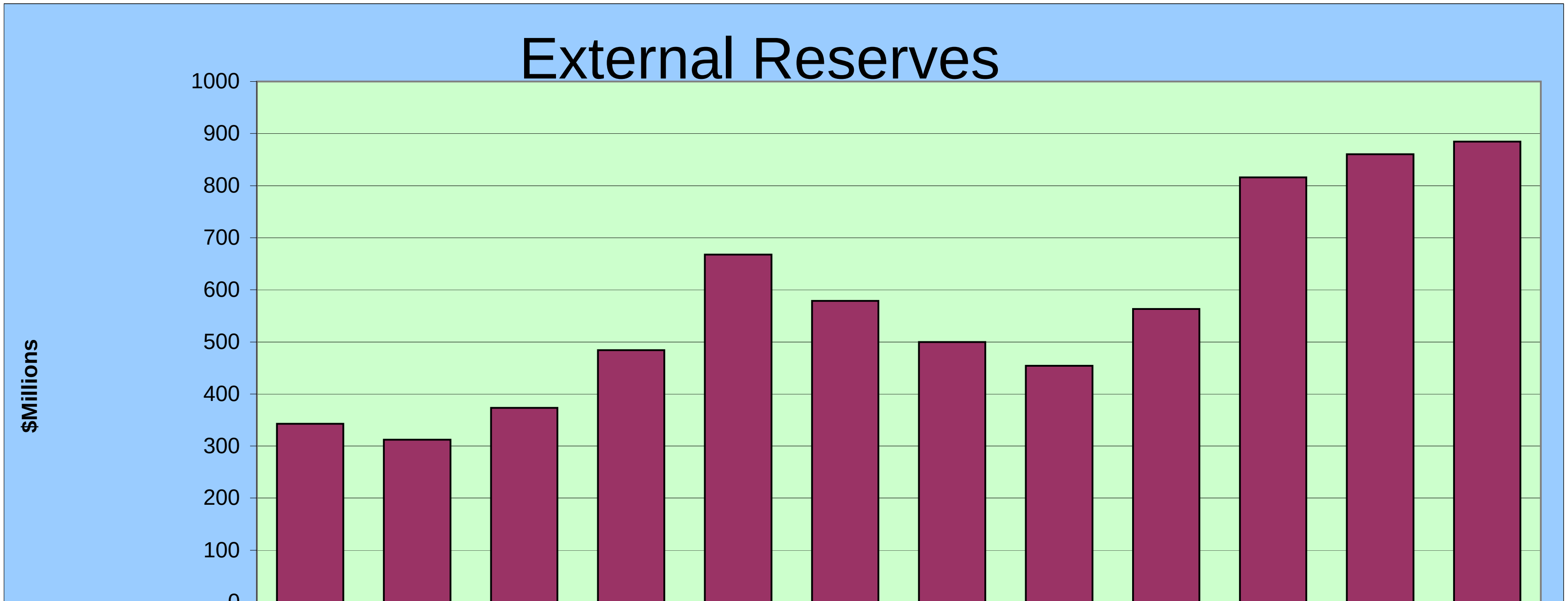
Table IV. Unemployment Rates 2001-2011



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011
Unemployment rate	6.9	9.1	10.8	10.2	10.2	7.6	7.9	8.7	14.2		15.9

Source: Department of Statistics
* Unemployment estimates are not available in Census years.

Table V. Total External Reserves 2000 - 2011



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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

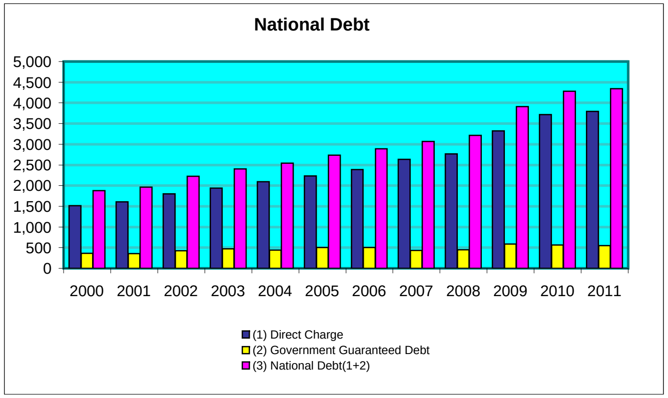
Source: Central Bank of The Bahamas

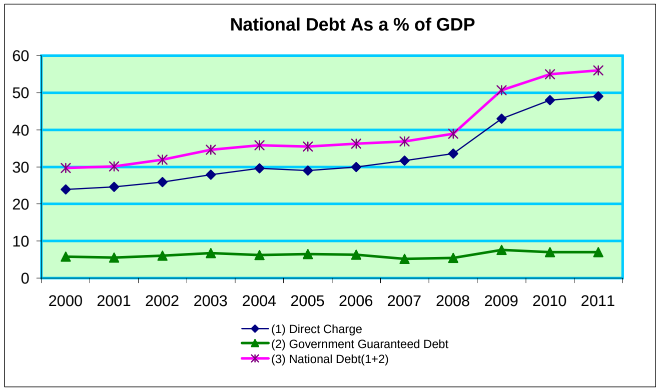
Table VI. National Debt 2000 - 2011

$ millions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
(1) Direct Charge	1,514	1,604	1,802	1,936	2,098	2,235	2,386	2,636	2,767	3320	3720	3793
(2) Government Guaranteed Debt	365	359	423	468	442	502	501	434	446	589	565	551
(3) National Debt(1+2)	**1,879**	**1,963**	**2,225**	**2,404**	**2,540**	**2,737**	**2,887**	**3,070**	**3,213**	**3909**	**4285**	**4343**
GDP($millions) Revised	6328	6517	6958	6949	7094	7706	7966	8319	8247	7717	7771	7788

National Debt as a % of GDP

(1) Direct Charge	24	25	26	28	30	29	30	32	34	43	48	49
(2) Government Guaranteed Debt	6	6	6	7	6	7	6	5	5	8	7	7
(3) National Debt(1+2)	**30**	**30**	**32**	**35**	**36**	**36**	**36**	**37**	**39**	**51**	**55**	**56**





Source: Central Bank of The Bahamas Quarterly Statistical Digest February 2012

Table VII (a). Growth of the Bahamian and US Economy 2000 - 2013

Annual percent change in GDP in real terms

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
The Bahamas	4.2	2.6	2.7	-1.3	0.9	3.4	2.5	1.4	-2.3	-4.9	0.2	1.6	2.5	2.7
United States	4.1	1.1	1.8	2.5	3.5	3.1	2.7	1.9	-0.3	-3.5	3.0	1.7	2.1	2.4

Source: Department of Statistics, 2000- 2011; IMF World Economic Outlook April 2012 for 2012 and 2013.

TABLE VII (B)

GROWTH OF REAL GDP

	% 2007	% 2008	% 2009	% 2010	% 2011	% 2012	% 2013
World	5.4	2.8	-0.6	5.3	3.9	3.5	4.1
US	1.9	-0.3	-3.5	3.0	1.7	2.1	2.4
Canada	2.2	0.7	-2.8	3.2	2.5	2.1	2.2
France	2.2	-0.2	-2.6	1.4	1.7	0.5	1.0
Germany	3.4	0.8	-5.1	3.6	3.1	0.6	1.5
United Kingdom	3.5	-1.1	-4.4	2.1	0.7	0.8	2.0
Barbados	3.8	-0.2	-4.2	0.2	0.5	0.9	1.5
Guyana	7.0	2.0	3.3	4.4	4.2	3.9	6.3
Jamaica	1.4	-0.8	-3.1	-1.4	1.5	1.0	1.0
Trinidad & Tobago	4.8	2.7	-3.3	0.0	-1.3	1.7	2.4
The Bahamas	1.4	-2.3	-4.9	0.2	1.6	2.5	2.7

Source: International Monetary Fund
April 2012 World Economic Outlook
Bahamas Data for 2007-2011 from Department of Statistics

TABLE VIII

SUMMARY OF FISCAL POSITION AND PROSPECTS
B$ millions

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 Budget Estimate	2011/12 Projected Outturn	2012/13 Budget	2013/14 Projection	2014/15 Projection
1. Recurrent Expenditure	1415	1421	1499	1529	1642	1680	1707	1821	1840	1900
2. Recurrent Revenue	1354	1445	1331	1292	1452	1514	1450	1550	1675	1810
3. Recurrent Deficit (2. minus 1.)	-61	24	-168	-237	-190	-166	-257	-271	-165	-90
4. Capital Expenditure	235	231	262	251	263	280	399	400	270	280
5. Capital Revenue	7	10	0	0	210	132	86	0	0	0
6. Capital Balance (5. minus 4.)	-228	-221	-262	-251	-53	-148	-313	-400	-270	-280
7. TOTAL DEFICIT (3. plus 6.)	-289	-197	-430	-488	-243	-314	-570	-671	-435	-370
8. Debt Redemption	106	62	67	89	77	66	66	121	78	98
9. GFS Deficit (7. minus 8.)	-183	-135	-363	-399	-166	-248	-504	-550	-357	-272
10. GDP (Current Prices)	8143	8283	7982	7744	7779	8182	8019	8454	8853	9265
11. GFS Deficit as % of GDP	-2.2	-1.6	-4.5	-5.2	-2.1	-3.0	-6.3	-6.5	-4.0	-2.9
Memo items:-										
Growth Rate (current prices)	3.9	1.7	-3.6	-3.0	0.5	4.1	3.1	5.4	4.7	4.7
Government Debt (end June)	2441	2679	3085	3401	3553	3779	4057	4607	4943	5215
Government Debt as % of GDP	30.0	32.3	38.6	43.9	45.7	46.2	50.6	54.5	55.8	56.3
Recurrent Expenditure as % of GDP	17.4	17.2	18.8	19.7	21.1	20.5	21.3	21.5	20.8	20.5
Recurrent Revenue as % of GDP	16.6	17.4	16.7	16.7	18.7	18.5	18.1	18.3	18.9	19.5
Capital Expenditure as % of GDP	2.9	2.8	3.3	3.2	3.4	3.4	5.0	4.7	3.0	3.0

**GDP extimates through 2011 are from the Department of Statistics; thereafter from the IMF World Economic Outlook (April 2012)*

Recurrent Revenue as % of GDP

Government Debt as % of GDP

GFS Deficit as % of GDP

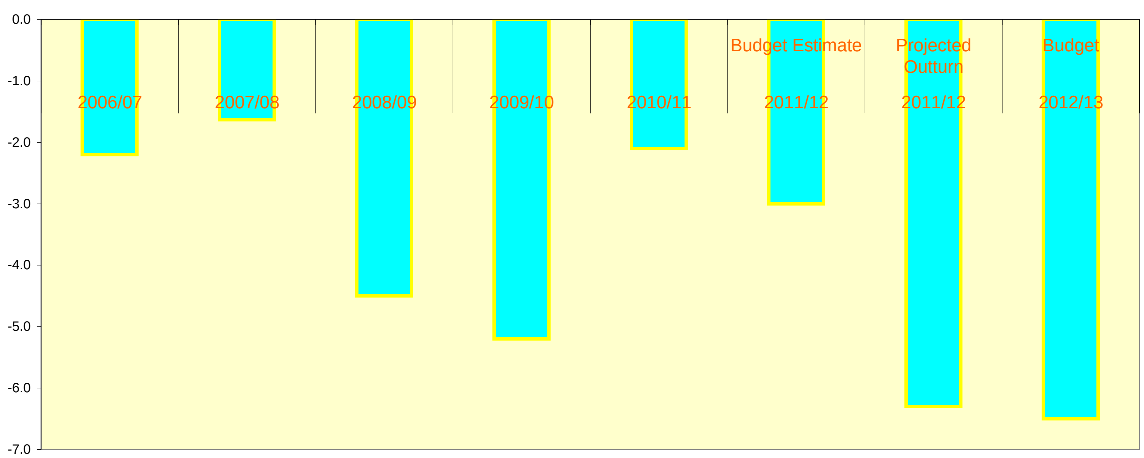


Table IX: EXPENDITURES ON THE GROSS DOMESTIC PRODUCT
at Current Market Prices

B$ millions

Line	Item	2002R	2003R	2004R	2005R	2006R	2007F	2008R	2009R	2010PV	2011 PL
1	Government final consumption	770.39	785.00	826.28	873.20	947.62	976.05	1,071.74	1,151.51	1,158.46	1,166.63
1.1	Collective Consumption Expenditure	480.62	488.70	529.48	546.22	589.65	607.34	636.72	680.42	696.39	696.55
1.2	Individual Consumption Expenditure	289.76	296.30	296.81	326.98	357.97	368.71	435.02	471.09	462.07	470.08
2	Private final consumption expenditure	4,399.91	4,483.85	4,623.14	5,102.95	5,461.37	5,600.22	5,628.64	5,183.09	5,369.43	5,503.36
3	Gross capital formation	1,525.41	1,538.10	1,503.22	1,948.10	2,416.19	2,343.88	2,201.13	1,993.23	1,914.84	2,135.58
3.1	Change in stocks	83.61	78.36	76.40	84.18	85.55	86.20	88.37	91.70	93.69	111.25
3.2	Gross fixed capital formation	1,441.81	1,459.74	1,426.82	1,863.91	2,330.64	2,257.68	2,112.76	1,901.53	1,821.15	2,024.33
3.2.1	Residential construction	204.94	245.94	221.81	276.52	302.66	291.80	312.47	268.16	242.66	206.84
	Non-Residential construction	237.65	184.50	181.22	214.38	403.94	366.31	274.33	220.04	196.41	405.37
	Capital-Work-In-Progress	118.09	143.11	109.91	193.87	230.34	127.83	168.73	162.06	160.60	148.68
3.2.2	Other construction	184.13	157.79	195.49	191.48	268.34	282.19	332.28	318.55	344.33	345.19
3.2.3	Machinery & Transport Equipment	696.99	728.40	718.39	987.67	1,125.35	1,189.54	1,024.96	932.72	877.15	918.25
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	3,117.28	3,223.05	3,383.41
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	4,401.47
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	8,246.65	7,717.08	7,771.26	7,787.51
7	GDP CURRENT GROWTH RATE	6.77%	-0.12%	2.09%	8.62%	3.37%	4.40%	-0.90%	-6.40%	0.70%	0.20%

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

Source: National Accounts Report 2011, Department of Statistics

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 Budget	Projected Outturn 2011/12	2012/13 Budget
Recurrent Revenue	973	875	918	960	1054	1211	1354	1445	1331	1292	1452	1514	1450	1550
GDP (current prices) revised	6423	6738	6954	7022	7400	7836	8143	8283	7982	7744	7779	8182	8019	8454
Recurrent Revenue % of GDP	**15.1**	**13.0**	**13.2**	**13.7**	**14.2**	**15.5**	**16.6**	**17.4**	**16.7**	**16.7**	**18.7**	**18.5**	**18.1**	**18.3**

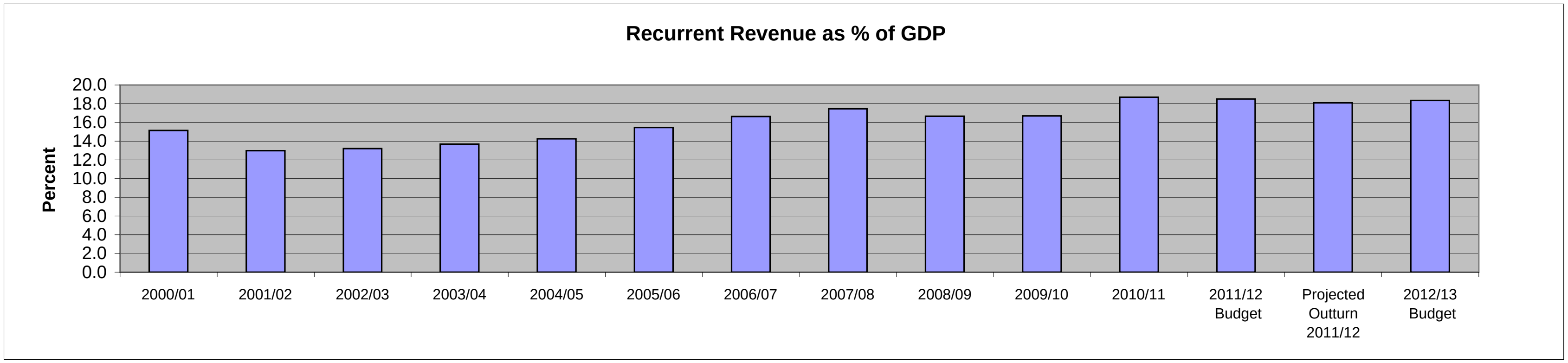
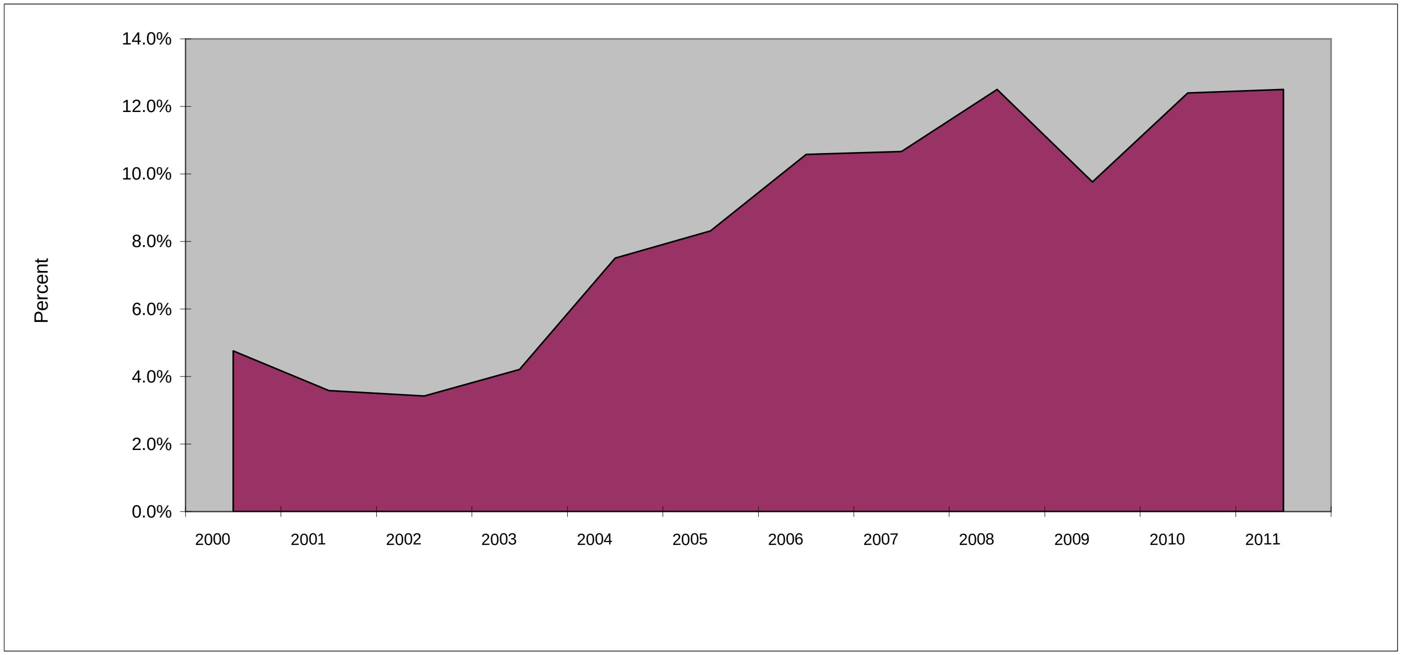


Table XI - Ratio of Foreign Direct Investment to GDP 2000 - 2011

B$ millions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Foreign Direct Investment	301	234	238	292	532	641	843	887	1,032	753	960	970
GDP(Current Prices)	6,328	6,517	6,958	6,949	7,094	7,706	7,966	8,319	8,246	7,717	7,771	7,788
FDI as % of GDP	4.8%	3.6%	3.4%	4.2%	7.5%	8.3%	10.6%	10.7%	12.5%	9.8%	12.4%	12.5%



Source: The Central Bank of The Bahamas

Table XII

KEY LABOUR FORCE STATISTICS
1995-1999, 2001-2009, 2011 (2000 & 2010 were Census Years)

ITEM	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009	2011
Total Labour Force															
All Bahamas	143,030	146,635	149,915	156,470	157,640	164,675	167,980	173,795	176,330	178,705	180,255	186,105	191,595	184,020	190,445
New Providence	98,900	102,965	104,315	111,370	113,240	117,900	119,700	123,380	125,385	128,630	127,090	131,105	135,735	131,245	134,090
Grand Bahama	21,500	20,945	22,495	22,200	23,900	25,055	25,190	26,350	26,465	27,305	27,445	28,850	29,820	28,235	28,850
Employed Labour Force															
All Bahamas	127,440	129,765	135,255	144,355	145,350	153,310	152,690	154,965	158,340	160,530	166,505	171,490	174,920	157,805	160,185
New Providence	88,200	90,665	93,465	103,270	104,440	109,770	108,255	108,685	111,725	114,660	118,575	120,675	123,960	112,880	113,845
Grand Bahama	19,300	18,730	20,535	20,090	21,625	23,345	23,580	24,050	24,000	24,305	25,155	26,310	27,125	23,310	22,735
Unemployed Labour Force															
All Bahamas	15,590	16,870	14,660	12,115	12,290	11,365	15,290	18,830	17,990	18,175	13,750	14,615	16,675	26,215	30,260
New Providence	10,700	12,300	10,850	8,100	8,800	8,130	11,445	14,695	13,660	13,970	8,515	10,430	11,775	18,365	20,245
Grand Bahama	2,200	2,215	1,960	2,110	2,275	1,710	1,610	2,300	2,465	3,000	2,290	2,540	2,695	4,925	6,115
Labour Force Participation Rate															
All Bahamas	73.9%	73.7%	74.9%	77.3%	76.8%	76.2%	76.4%	76.5%	75.7%	76.3%	76.1%	76.2%	76.3%	73.4%	72.1%
New Providence	74.6%	76.1%	75.5%	78.3%	77.7%	78.1%	77.6%	78.0%	77.5%	77.5%	79.7%	77.1%	77.3%	74.0%	72.5%
Grand Bahama	76.3%	72.8%	74.9%	73.0%	75.3%	75.2%	74.4%	76.0%	74.7%	74.7%	74.6%	76.8%	76.9%	74.2%	71.5%
Unemployment Rate															
All Bahamas	10.9%	11.5%	9.8%	7.8%	7.8%	6.9%	9.1%	10.8%	10.2%	10.2%	7.6%	7.9%	8.7%	14.2%	15.9%
New Providence	10.8%	11.9%	10.4%	7.3%	7.8%	6.9%	9.6%	11.9%	10.9%	10.9%	6.7%	8.0%	8.7%	14.0%	15.1%
Grand Bahama	10.2%	10.6%	8.7%	9.6%	9.5%	6.8%	6.4%	8.7%	9.3%	11.0%	8.3%	8.8%	9.0%	17.4%	21.2%

Source: Department of Statistics