COMMONWEALTH OF THE BAHAMAS

2010/11
BUDGET COMMUNICATION

Presented to the Honourable House of Assembly
by
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Minister of Finance

on
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2010/11 BUDGET COMMUNICATION

It is my honour to present the 2010/11 Budget Communication.

INTRODUCTION

Mr. Speaker, this is the 33rd Budget Exercise in which I will have participated in this Parliament as an MP; the 14th as the Prime Minister and the 6th as Minister of Finance. Such extensive experience in this country's fiscal affairs has enabled me to observe the many ebbs and flows of economic life in The Bahamas and the attempts by successive Ministers of Finance to grapple with them. I have learned many profound lessons and made a number of keen observations, none more so than these:

- Leaders must fully assess the reality of the circumstances in which they find themselves and act accordingly;
- The economic circumstances in which a country finds itself cannot be ignored when planning for the future;

- Every crisis presents an opportunity for us to be better than we are; and
- The leader who runs from today's difficult decisions only defers and doubles them for future generations.

It has also been my observation that nothing lasts forever, neither good times nor bad times. These harsh economic times which we face are coming to an end but ever so modestly. The Budget being presented to Parliament seeks to put us in the best position to maximize the gains from the emerging modest recovery through sacrifice, service and reform.

These lessons and observations underlie this watershed 2010/11 Budget Communication. Embodied in my Communication today is my full recognition that it is my solemn duty and earnest commitment, as Prime Minister and Minister of Finance, to so provide for the use of the public funds that the essentials are accounted for, priorities are attended to and the future is not put at unnecessary risk.

This is a Budget that contains the most significant structural fiscal action of any Budget in recent years, with the overriding objective of enhancing the nation's economic prospects by putting its fiscal house in order on a sustained basis. I want to stress that the fiscal targets and budget strategy that will so engage us now have relevance and meaning because they are essential to the economic welfare of our people. Failure to act would jeopardize our solid reputation as an attractive destination for foreign investment, would subject us to much higher borrowing costs and would dampen prospects for stronger growth and higher standards of living. We cannot and we will not fail.

Accordingly, this Budget begins to aggressively redress public finances now, by containing the growth of Government debt this coming year and beginning to move the debt-to-GDP ratio back to more prudent and desirable levels over the medium term. We are fully aware that it will now take some time to do this, given the extraordinary measures that we had to take in the crisis. This Budget sets explicit debt targets for the two succeeding years beyond 2010/11, clearly indicating reductions in the debt-to-GDP ratio over that period.

Abraham Lincoln once said: “You cannot escape the responsibility of tomorrow by evading it today”. This Budget acknowledges that truth.

When the economic crisis hit, like other governments around the world, we were required to execute an economic and fiscal strategy that was appropriate for Bahamians and the Bahamian economy. We did! As a result, we are emerging out of that crisis with an economy nurtured by our extraordinary efforts though badly bruised; a financial system that is sound; and a society with a greatly enhanced social safety net.

Our necessary efforts in the crisis did not come without a price. Our fiscal state is not what we would want it to be. However, we knew what it would take to get us through the crisis and we know what it will take to advance our circumstances beyond it. This Budget is the beginning of the latter effort.

A MEDIUM-TERM FISCAL STRATEGY FOR THE TIMES

The time for concerted fiscal action is now. It is projected that the Government debt will stand at 47.3 per cent of GDP at the end of this fiscal year. That represents an increase of almost 11 percentage points from its level in mid-2008, when the crisis hit its apex. The undesirable ramifications of continuing such a debt build-up are evident. With higher debt, we must devote a larger and increasing share of every revenue dollar to interest payments. In 2009/10, almost 15 cents of every dollar of revenue will be siphoned off to pay interest on the debt, up sharply from under 10 cents before the crisis. Those are precious revenues that cannot be put to productive use in providing valuable services to our citizens.

The fundamental problem confronting Government is that the fiscal structure of 2009/10, brought on by the crisis, is unsustainable. The fact is that the extraordinary level of deficit spending that we and other nations have had to undertake in the face of a most extraordinary crisis can only continue to our peril. With the economy on the rebound, we must now reduce the level of deficit spending. It is a fact that even now our debt to GDP ratio remains among the lowest in the region, indeed, in the Americas; yet, it is not our desire or aim to take comfort in this fact.

I cannot place enough emphasis on the vital need to set early and realistic objectives for debt reduction. In this context, I would cite from the recent Fiscal Monitor of the IMF Fiscal Affairs Division:

> *"If governments fail to signal a credible commitment to reduce debt ratios, the resulting increase in interest rates (and decline in growth rates) could increase the required effort markedly. … This underscores the importance of early actions to demonstrate a commitment to lower debt ratios."*

The fundamental objectives of the medium-term fiscal strategy of the 2010/11 Budget are as follows:

- Contain the debt-to-GDP ratio immediately; and

- Reduce over the medium-term the debt ratio to 40 per cent, as promptly as possible and as economic conditions permit.

Having made it clear what our central aim is in this 2010/2011 Budget Communication, I now wish to turn to the environment in which we must pursue that aim.

THE GLOBAL ECONOMY

As The Bahamas is a small open economy, it goes without saying that our future economic prospects and, in turn, fiscal developments will be closely linked to the fortunes of the world economy and especially those of the U.S. Accordingly, before discussing the domestic economy and our fiscal projections, I will review briefly international economic developments and prospects.

The global recovery has advanced more quickly and strongly than had been expected last year, largely on the basis of the extraordinary fiscal, monetary and financial support that governments have provided around the globe. In its latest World Economic Outlook published last month, the IMF is now projecting the world economy to grow by 4¼ percent in both 2010 and 2011. That is up significantly from the contraction of 0.6 per cent in 2009.

However the recovery in the major advanced economies is likely to remain sluggish and modest by historical standards, with downside risks still prominent. As policy stimulus is gradually withdrawn, the strength of the rebound in private sector demand remains open to question as balance sheets must be restored and financial markets remain vulnerable. Also weighing on economic prospects will be the need for governments to improve their fiscal positions and achieve lower levels of public debt.

Sovereign risk is another important factor impinging on global economic prospects. Some of the countries with especially challenging fiscal positions have seen sharp increases in their risk premiums and market concerns about possible defaults could result in a widespread debt crisis. That could depress output growth widely around the globe.

The IMF expects the U.S. economy to rebound sharply in 2010, posting stimulus-fed real growth of over 3 per cent, after a contraction of 2.4 per cent last year. Growth in 2011 is forecast at a more modest 2.6 per cent on the basis of still subdued private demand and continuing sluggishness in employment growth.

The Euro area, the U.K. and Japan are expected to post relatively modest growth in 2010, of under 2 per cent, following relatively sharp declines in activity in 2009. The developing Asian economies are forecast to continue growing strongly, with China and India registering real growth rates of 10 per cent and 8.8 per cent, respectively, with similar growth again in 2011.

THE BAHAMIAN ECONOMY

As for the domestic economy, preliminary estimates indicate that it contracted by 4.3 per cent in 2009, following a decline of 1.7 per cent in 2008, and modest growth of 1.9 per cent in 2007. With the economic downturn, the annual unemployment rate rose by 5.5 percentage points to 14.2 per cent in 2009.

Output in the tourism sector shrank in 2009. Hotel sector indicators showed a 20.6 per cent fall in overall room revenues, reflecting a 4.7 percentage point decline in the average occupancy rate and an 8.3 per cent decrease in the average daily room rate.

Total arrivals rose by 5.7 per cent to 4.6 million but this reflected a 13.1 per cent increase in sea arrivals as air arrivals fell by 10.1 per cent.

Preliminary data for New Providence hotels indicate an upturn in the first quarter of 2010. Room revenues rose by some 6.7 per cent, reflecting a 3.2 percentage point increase in the occupancy rate to 67.2 per cent and a 2.2 per cent gain in average daily room rates.

The construction sector remained lackluster in 2009, as several large-scale foreign investment projects were either scaled-back or stalled. Activity in domestic real estate investments remained weak. Total mortgage disbursements for new construction and building repairs fell by 16.4 per cent. The dominant residential component contracted by 16.3 per cent while commercial disbursements decreased by 17.5 per cent. Mortgage commitments—a forward looking indicator of economic activity—narrowed in number by 14.4 per cent and in value by 18.7 per cent.

Preliminary data for the twelve months to January 2010 suggest sustained moderation in inflation, as average price gains slackened by 2.9 percentage points to 1.8 per cent, as compared to a rate of 4.7 per cent a year ago.

Foreign direct investment inflows fell by 22.1 per cent to $653.6 million, on account of reduced equity investments and land purchases. Nevertheless external reserves grew by $253.0 million to $815.9 million at end-2009, equivalent to an improved estimated 20.7 weeks of non-oil merchandise imports, in comparison to 13.1 weeks in 2008.

During 2009, liquidity remained relatively buoyant, supported by the slowdown in private sector demand and increased public sector foreign currency loan inflows which sustained growth in external reserves.

The contraction of the domestic economy in 2009 was somewhat more pronounced than the 3.9 per cent decline projected at the time of last year's Budget and, as might be expected, that has had direct implications for our fiscal performance.

We have reason to expect a less marked decline this year of 0.5 per cent and a more positive result of 2.0 per cent next year. This is consistent with the views of the IMF.

This cautious optimism is based on the following:

- Improved tourism performance this year over last year and better performance next year, as employment in the advanced economies, particularly the U.S., firms up in line with expectations;

- The spending of nearly half a billion dollars in Grand Bahama due to the continuing renovations and expansion at BORCO and the commencement of renovations and expansion at Stat Oil, the former Burma Oil;

- The $400 million redevelopment of the Lynden Pindling International Airport is continuing at a fast pace and is on schedule; Bahamians make up 76 per cent of the work force on the project and of the $80 million that has been spent to date, $30 million has been awarded to local contractors;
- Two new Government Administration complexes are under construction in Grand Bahama and in Abaco;
- The completion of the magistrates' court complex on Nassau and Meeting Streets;
- Development of the new Port at Arawak Cay has commenced;
- It now appears that a number of the stalled tourism related developments may re-start during the new fiscal

period including a $100 million expenditure by Kerzner International; and

- The continuing aggressive public sector capital spending planned for this fiscal year.

These projects along with a modest general improvement anticipated in the overall economy in the medium term will put us in a more favourable economic position than we have seen in recent times. This notwithstanding, it is necessary to note that the gains will be modest and conditions in the global economy remain fragile, warranting caution as we move forward.

FISCAL PERFORMANCE 2009/10

Recurrent Revenue is being severely and adversely affected by the ongoing weakness in economic activity. It is now estimated that it will come in at $1,295 million in 2009/10, or 17.5 per cent of GDP. This is $94 million short of what was forecast.

Recurrent Expenditure in 2009/10 is estimated at $1,554 million, up slightly from the $1,530 million allocated in the 2009/10

Budget. The bulk of that increase resulted from funds used by the Government for its six-month Employment Programme announced at the end of 2009. Financial constraints will not permit a continuation of this programme.

Allowing for Capital Expenditure and Debt Redemption, the GFS deficit in 2009/10 is now estimated at $425 million, some $139 million more than projected in the 2009/10 Budget. Relative to the size of the economy, the GFS deficit will stand at 5.7 per cent of GDP, up from the estimated level of 3.9 per cent. The Government debt will be about $3,510 million at the end of 2009/10, or 47.3 per cent of GDP.

FISCAL POLICY 2010/11 AND BEYOND

The current environment requires a fiscal policy that calls for expenditure restraint as well as enhanced revenue measures in order to put the public debt on the proper downward trajectory.

In 2010/11, we are holding Recurrent Expenditure to $1,554 million. That is unchanged from the amount expended in

2009/10. In real terms, Recurrent Expenditure will decline by some 1.9 per cent in 2010/11, or by roughly $30 million. Beyond next year, our operational target is to further reduce Recurrent Expenditure relative to GDP.

While Recurrent Revenues can be expected to benefit somewhat from the modest economic growth that is projected, there can be no doubt that significantly higher levels of revenue are required. Our near term objective is to get the ratio of Recurrent Revenue to GDP up to 19.7 per cent in 2010/11, or $1,492 million, and then, at a minimum, to increase it to 20 per cent of GDP in the years beyond 2010/11. To that end, ongoing efforts to enhance revenue administration and collections will be redoubled and further strengthened. And, to further secure the anticipated and critical increase in revenues, the Government is implementing a number of new measures that are expected to contribute additional revenue.

In order to attain our overriding debt targets, it will also be necessary to exercise restraint in respect of Capital Expenditure in the years to come. In line with commitments and the need to provide ongoing support to the economy, these expenditures will rise modestly in 2010/11, to 3.5 per cent of GDP. However, beyond the next fiscal year, it is our intention to hold Capital Expenditure to 3 per cent of GDP.

The expenditure restraint and revenue enhancement measures will result in a significant reduction in the GFS deficit in 2010/11, to a level of $227 million as compared to $425 million in 2009/10. That will also represent a significant reduction in the deficit relative to the size of the economy, from 5.7 per cent last year to 3.0 per cent in 2010/11.

Government debt at the end of June 2011 is projected to stand at 49.2 per cent of GDP, up from 47.3 per cent a year earlier.

The near term and medium-term implications of our fiscal action plan are presented in the multi-year fiscal projections that are included in the Annex to this Communication. Importantly, it will be seen in these projections that, through our fiscal action plan, we fully expect to meet our short-term target of first slowing the growth rate of our debt to GDP ratio and then setting it on a downward trajectory. The debt-to-GDP ratio is projected to fall to 48.7 per cent by 2012/13.

RECURRENT EXPENDITURE

In light of the key fiscal priorities of this Budget, overall allocations to Government Ministries, Departments and Agencies in 2010/11 are being reduced by 2.6 per cent from their level in 2009/10. Despite this, all should have funding sufficient to meet their core mandate to the public. Priority spending will continue to be given to Education, Health and National Security.

In order to secure the attainment of our fiscal objectives, the Government is also implementing a number of targeted expenditure reductions, namely:

- The salary of the Prime Minister is being reduced by 10 per cent and those of Parliamentarians, in both the House of Assembly and the Senate, are being reduced by 5 per cent;

- The duty allowances of the Prime Minister and Ministers are being reduced by 50 per cent;
- For the Prime Minister, the combination of these two measures amounts to a 16 per cent reduction in take-home pay;
- For Ministers and the Speaker, the combination of these measures amounts to a 7.3 per cent reduction in take-home pay;
- For the Leader of the Opposition and Members of the House, these measures represent a 5 per cent cut in pay;
- The responsibility allowance of the Secretary to Cabinet, Financial Secretary, Permanent Secretaries and other senior Public Officials will be reduced by 50 per cent;
- Increments for Public Officers will not be paid in 2010/11;
- Public service promotions are being frozen, except in special cases;

- Public service employment is being frozen, except in extenuating circumstances, such as essential services;
- The positions of those public officers retiring in 2010/11 will not be filled, except in the Department of Education;
- The provision for overtime is being reduced from $10.4 million to $1.5 million;
- Insurance premiums for vehicles, vessels and aircraft are being placed under the purview of the Ministry of Finance to allow for the negotiation of a more favourable price for insurance;
- The level of payment for medical and life insurance premiums paid by Government on behalf of public officials is unsustainable and the schemes will be reviewed;
- Contributions and grants to charitable organizations and institutions are being reduced by 10 to 25 per cent;
- Subsidies to private schools are being reduced by 20 per cent; and

- Mail boat subsidies are being reduced by 10 per cent.

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, all will need to manage public resources judiciously and prudently within the very stringent limits that have been established.

CAPITAL EXPENDITURE

With the very difficult fiscal situation, we are increasing the provision for Capital Expenditure in 2010/11 only modestly to accommodate commitments. We are setting it at $265 million, as compared to $255 million in 2009/10. This highlights my Government's continued commitment to modernizing and expanding the nation's infrastructure as a means of also supporting the economy at this time.

REVENUE MEASURES

Again this year, the Government is introducing a number of revenue measures to further rationalize rates and to continue the simplification of the tariff structure as follows:

- the rate on computer networking equipment is being reduced form 45 per cent to 10 per cent;
- the rate on LED light bulbs is being reduced from 45 per cent to “Free” to align it with the rate on compact fluorescent bulbs;
- the rate on sheet rock board is being reduced from 25 per cent to 10 per cent to align it with the rate on cement board;
- the rate on tankless water heaters is being reduced from 45 per cent to 10 per cent to promote energy efficiency;
- the rate on aircraft parts is being reduced from 10 per cent to “Free”;

- Item 8 of the Tariff Act is being amended to make clear that its provisions apply to small businesses with a turnover of $250,000 or less per year.

A two-year holiday from the payment of business licence fees is being provided to petty, very small and small businesses as defined in the Business Licence Act.

The current system for determining motor vehicle fees is inordinately complex and cumbersome, as it contains 19 separate vehicle and rate categories. In order to simplify this system and facilitate administration, a new fee structure is being introduced that contains only three separate vehicle classes, based on the weight of the vehicle. The annual fees are also being increased to better reflect the impact of vehicles on the Nation's roadways and to cover the cost of street lighting, for which the Government will in future make payments to BEC.

To further simplify the taxation of vehicles and to promote the use of more fuel-efficient vehicles, it is proposed to reduce the number of excise tax rates on cars and trucks to two: a rate of 65 per cent on passenger vehicles with an engine of 2000 c.c. or less and a rate of 85 per cent for all other passenger vehicles and trucks. Vehicles with engines of 2000 c.c. or less include the Hyundai Accent and Tucson, the Kia Sportage and Rio, the Honda Civic and Fit, Nissan Sentra, Pontiac Vibe, the Toyota Corolla and Matrix and the VW Golf.

The current requirement for a permit to import chicken is being eliminated.

It is proposed to reduce the differential in taxation between domestic and imported beers. Accordingly, the Spirits and Beer Manufacture Act will be amended to provide for the rate of tax on domestic production to be increased from $4 to $6 per gallon.

The increase in the tax rate will be phased in on beer produced in the Port Area that is shipped to other parts of The Bahamas. It is being increased to $4 per gallon and eventually will be brought to the same level as other locally produced beer. The phase-in of tax on Port Area beer reflects the fact that other beer manufacturers in The Bahamas have benefited from concessions for extended periods of time following their start-up.

A number of tax rates and administrative arrangements are being modified to produce the additional revenues that are required to achieve the planned and required increase in the revenue yield of the tax system:

- The various rates of stamp tax on realty transactions are being increased by two percentage points. This will not impact the continuation of exempting first time home-owners from the payment of Stamp Tax on a dwelling home or property for the construction of a dwelling home valued up to $500,000;
- Stamp tax on bank transactions is being increased by 15 cents with effect from 1st July 2010;
- The air and sea departure taxes are being increased by $5 effective on July 1, and the increase for cruise ship passengers is effective on October 1;

- The hotel room tax is being increased to 10 per cent of the room rate effective July 1;
- The annual fees payable by retail banks are being increased by 50 per cent to provide for their more equitable taxation.

In order to bring equity between small businesses registered under item 8 of the Tariff Act and larger businesses registered under the Industries Encouragement Act (IEA), duty concessions under the IEA will now be limited to 5 years from the date of approval**.**

It is also proposed to eliminate the duty concessions offered under the Spirits and Beer Manufacture Act.

Fees under the International Business Companies Act are being increased.

In order to eliminate the backlog of documents that have not been stamped, the applicable surcharge will be waived for documents that are presented for stamping on or before October 1, 2010.

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

GROWING THE ECONOMY

As it now stands, much of our economic fortunes depend on the pace of recovery of the world economy, in particular the economy of the U.S. It has been a blessing to us, over many decades, that our tourism and financial services sectors cater to international clients from many parts of the world but most especially the U.S. In many good times, they have enabled us to enjoy the standard of living and level of economic success for which we have been hailed. Of course, on the downside of this, when those economies falter, we experience the negative fall-out, as has been the case over the last year and a half.

While we must necessarily be watchful of the pace of recovery externally, we are mindful that there are steps that we can take to promote our own economic wellbeing as well as optimize the gains from improving external conditions. To this end, you will note in this Budget provisions having been made for the following:

1. An aggressive Foreign Direct Investment promotion thrust, with some $1 million for this purpose. We expect to mount investment promotion missions, in partnership with the private sector, to key world cities, putting our case to investors to participate in profitable ventures in The Bahamas; and

2. A new Small and Medium Size Business Development Framework to encourage the growth of such businesses, recognizing their contributions to job creation and the sustained development of our economy. This new framework provides for some $10 million, representing the consolidation of subsidies to BAIC, the Venture Capital Fund, Bahamas Development Bank and an additional $1 million. The additional $1 million will advance the implementation of the new SME support framework and further efforts to explore the development of Bahamian entrepreneurship in the Boutique Resort Business. It will also assist efforts to create linkages between the tourism sector and local industries. The aim here is to

encourage the expansion of Bahamian production and increase foreign earnings retention.

Our economic fortunes will rebound, of that I am confident. Though the wheels of change are now turning only slowly, I am convinced that in time the pace will pick up. It is for us to do what is necessary now to ensure that when it does, we are in the best position to benefit. Our efforts today are geared toward ensuring that we are able to do just that.

CONCLUDING REMARKS

In conclusion, I would like to quote again from President Lincoln. Confronted with a national issue of grave importance, in 1862 he offered these words:

> *"The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty and we must rise with the occasion. As our case is new, so we must think anew, and act anew."*

All will most certainly agree that the present for Bahamians and for their Government is stormy indeed, a proverbial maelstrom the likes of which few of us have experienced. We do face grave difficulty. But, for the sake of the current and future generations, we must rise to the occasion and I am proud to proclaim that that is precisely what my Government has done.

Though the recovery may be modest by historical standards, I believe that we can maximize the gains from that recovery through sacrifice, service and social reform.

- Sacrifice will allow us to make adjustments today that will put us in a better position tomorrow.
- Service excellence will allow us to increase our competitive edge and gain accelerated economic benefits therefrom.
- Social Reform will enable us to change our behaviour as a society to improve our quality of life and our attractiveness as a place to visit and in which to conduct business and live.

In this pivotal Budget Communication, we have set out a carefully balanced medium-term strategy, not only to bring order to the nation's public finances and set them on a sustainable course for the future but also to bring forward much-needed structural reforms that will vastly enhance the domestic business environment.

Ours is a strategy that will promote economic growth and rising standards of living. The ultimate test of all we have done and are doing is how well it improves the quality of life of our people. I am confident that this strategy will meet that test and garner the support and approval of Bahamians and all those who observe us.

ANNEX A

ECONOMIC BACKGROUND

ECONOMIC BACKGROUND[1]

INTRODUCTION

Preliminary estimates suggest a contraction in the order of 4.3 per cent in domestic economic activity during 2009, following an estimated decline of 1.7 per cent in 2008, and modest growth of 1.9 per cent in 2007. Reflecting the effects of the global economic recession —especially in the United States—tourism output moderated, while a reduction in foreign investment inflows and domestic projects resulted in a decrease in construction activity. In this context, there was a deterioration in the unemployment rate; however, consumer price developments benefitted from the softening in global commodity prices from peaks attained in 2008. On the monetary front, the marked slowing in credit expansion, combined with inflows from public sector foreign currency borrowings, elevated both liquidity and external reserves.

[1] The Economic Background is based on material provided by the Central Bank of The Bahamas. The Bahamas' GDP data for 2009 is based on the preliminary estimates of the Department of Statistics.

INTERNATIONAL ECONOMIC DEVELOPMENTS

The International Monetary Fund (IMF), in its April 2010 World Economic Outlook (WEO) Update, estimated that world output contracted marginally by 0.6 per cent in 2009, in contrast to growth of 3.0 per cent a year earlier. Although expansionary monetary and fiscal policy measures began to positively impact aggregate demand and financial market conditions in the latter half of the year, the negative growth outcome reflected financial market strains that were translated into weakened economic activity within countries and a decline in global trade on a year-on-year basis.

Efforts of major central banks, in conjunction with that of Governments, focused on executing policies that would stimulate economic recovery, stabilize financial markets and encourage prudent lending over the year. Hence, central banks adopted accommodative monetary policy stances, by either maintaining or further reducing key interest rates, while initiating new or expanding existing intervening measures, such as asset purchase facilities and currency swap agreements, which promoted increased liquidity in credit markets.

Initial estimates indicated that real GDP in the United States declined by 2.4 per cent in 2009, in contrast to a marginal 0.4 per cent increase in 2008, mainly reflecting falloffs in exports, non-residential fixed investment and private inventory investment. Under these adverse economic circumstances, conditions within the labour market continued to worsen, with the unemployment rate firming by 2.6 percentage points to 10.0 per cent by end- 2009.

With regard to inflation, consumer prices rose by 2.7 per cent in 2009, extending the marginal 0.1 per cent increase in 2008, owing mainly to elevated energy costs. For the year, the US dollar depreciated against most major countries, amid concerns over the escalation in United States' debt levels and the widening fiscal deficit. Supported by an improvement in net exports of goods, the current account deficit narrowed for the third consecutive year, and was reduced to 2.9 per cent of GDP from 4.9 per cent in 2008.

Other major economies experienced significant downturns in economic activity over the year, brought on by the financial crisis. Within the euro area, real GDP decreased by 4.1 per cent, in contrast to modest growth of 0.6 per cent in 2008, as household final consumption and investment remained depressed. For the United Kingdom, annual declines in manufacturing, production and total services contributed significantly to the 4.8 per cent shrinkage in real output, compared to a year-earlier expansion of 0.5 per cent. With respect to Asian economies, reductions in exports and domestic demand extended the contraction in Japan's real GDP, to 6.0 per cent in 2009 from 2.0 per cent in 2008. A slowdown in net export growth led to a moderation in the rate of expansion for the Chinese economy, to 8.7 per cent from 9.6 per cent.

Commodity prices firmed modestly in 2009—although remaining notably below the historic levels registered in 2008. Rising demand-side pressures, especially in the latter months of 2009, as the global recovery gathered momentum, elevated the price of oil to $77.85 per barrel by end-December, compared to $39.53 per barrel at end-2008; although, on an annual basis, crude oil prices fell by 35.1 per cent to $63.51 per barrel. As investors sought to increase their holdings of relatively “safe” assets, gold prices appreciated by 24.4 per cent to $1,096.95 per troy ounce at the close of the year, and silver costs rose by 48.2 per cent to $16.88 per troy ounce.

The IMF projects that the global economy will rebound in 2010, with output expanding by 4.2 per cent, underpinned by sustained momentum in the emerging markets, such as China and India, alongside more subdued growth in developed countries. The IMF also acknowledged that the pace of the recovery will vary across economies, due to the “fiscal fragilities” which have emerged in several markets, contributing to widening fiscal deficits and elevated debt levels. In addition, the speed of the rebound is likely to be constrained by the ongoing effects of the damage caused to countries’ financial systems. This scenario shows economic activity in the United States expanding by a projected 3.1 per cent, owing to the pass-through impact of fiscal stimulus programmes, combined with a tempered rebound in domestic demand. It is estimated that the euro area's economy will advance at a more subdued rate of 1.0 per cent in 2010, with unevenness due to relative differences in unemployment, credit demand and fiscal vulnerabilities among individual members. The United Kingdom's economy is projected to expand by 1.3 per cent, reflecting further gains in net exports; while Japan's output is forecast to increase by 1.7 per cent, as anaemic domestic demand continues to constrain growth. For emerging and developing economies, heightened consumer spending, along with increased foreign trade, are expected to drive a vigorous 6.3 per cent expansion in real GDP during 2010. Most notably, output growth for China and India is anticipated to accelerate, to 10.0 per cent and 8.8 per cent, respectively.

According to the IMF, oil price developments in 2010 will be driven by the counterbalancing forces of increased demand, as the global economy improves, and the supply response. Hence, given the recent run-up in the values and the existence of spare capacity, price pressures should be mitigated—allowing them to remain within the $70 - $80 range.

DOMESTIC ECONOMIC DEVELOPMENTS

Overview

Preliminary estimates indicate that the domestic economy contracted by an estimated 4.3 per cent in 2009, reflecting the adverse effects of the global recession on key real sector activities. Tourism output declined, due to a falloff in the high value added stopover segment of the market—mainly due to reduced demand from the United States—and lower average visitor expenditure. Activity in the construction sector also moderated, due to a slump in foreign investment inflows and a slowdown in domestic real estate projects. In this environment, the unemployment rate firmed and private sector demand weakened. However, domestic inflation eased from its 2008-peak, benefitting from lower global commodity prices. On the monetary front, liquidity expanded, owing to a slowdown in credit growth and proceeds from Government's $300 million external bond issue, which also impacted favourably on external reserves. Given depressed private sector demand, the fiscal situation deteriorated, and required recourse to both domestic and external financing, which elevated the overall balance and debt-to-GDP indicators. High unemployment and a challenging business environment, which constrained borrowers' ability to service their debts, also led to a further deterioration in the quality of banks' loan portfolios, although not raising any financial stability concerns, given the healthy capital positions of the banks. In the external sector, the estimated current account deficit narrowed, supported by a reduction in the oil import bill and the falloff in domestic demand; and the surplus on the capital and financial account narrowed, given reduced foreign investment inflows.

Tourism

Tourism output contracted in 2009, as the global recession negatively impacted the high valued-added stopover segment of the market, and hotels engaged in deep discounting programmes to support their operations. Total arrivals rose by 5.7 per cent to 4.6 million, a turnaround from a 4.5 per cent contraction in 2008. The outturn was attributed to a 13.1 per cent upturn in the dominant sea passengers to 3.4 million, in contrast to a 3.6 per cent decline a year earlier. Conversely, air traffic retreated by 10.1 per cent to 1.3 million, compounding the 6.4 per cent decline of 2008.

For the eleven months of 2009, stopover arrivals receded by 10.8 per cent to 1.2 million, linked to a significant decrease in traffic from the USA (10.6 per cent)—the main source of visitors—Canada (8.6 per cent) and Europe (18.0 per cent). Visitors from the Caribbean also fell by (18.0 per cent); however, arrivals from Latin America improved by 14.2 per cent.

On a destination basis, visitors to New Providence rose by 7.3 per cent, occasioned by a 16.3 per cent increase in the sea component which outweighed the 6.6 per cent drop in air arrivals. Similarly, in the Grand Bahama market, the 3.7 per cent gain in visitors was explained by a 14.4 per cent expansion in sea arrivals, which offset the 22.6 per cent reduction in air visitors. Tourists to the Family Islands advanced by 3.7 per cent, owing to an 8.3 per cent hike in sea traffic, relative to the 20.0 per cent decline in the air component.

Hotel sector indicators showed a contraction in overall room revenue, by 20.6 per cent to an estimated $407.6 million in 2009. This reflected a 4.7 percentage point decline in average occupancy rate, to 49.4 per cent, and an 8.3 per cent decrease in average daily room rate to $197.71.

Financial Sector

Provisional statistics for the financial sector showed that, despite the challenges in the global environment, the industry's key performance indicators remained relatively stable.

During the year, the number of banks and trust companies licensed by the Central Bank rose by 1 to 272, with 241 of these licensees operating through physical presence, unchanged from 2008. Thirty (30) licensees, being branch operations from predominantly G-10 countries, maintained approved restrictive management arrangements, the same as a year ago and twelve (12) Private Trust Companies (PTCs) were registered, bringing the total to 50. Additionally, three (3) licensees advised the Bank of their intention to operate as Registered Representatives of PTCs, increasing the number to eleven (11), and one (1) Financial and Corporate Service Provider was approved to act as a Registered Representative, extending the number to three (3).

Early estimates from the Central Bank's Annual Banking Survey for 2009 indicated that the total expenditure of banks and trust companies in The Bahamas fell by 4.7 per cent ($26.2 million) to $526.9 million, owing mainly to decreased capital spending and salary outlays, which outstripped an expansion in Government fees. Similarly, employment in the banking sector fell by a provisional 4.1 per cent to 4,751, and the average salary paid in the industry declined by 1.9 per cent to $49,526.

Construction

Developments in the construction sector remained lackluster during 2009, as several large-scale foreign investment projects were either scaled-back or stalled. In light of the challenges facing the banking sector, activity in the domestic real estate investments remained weak.

In the domestic market, total mortgage disbursements for new construction and building repairs, as reported by banks, insurance companies, and the Bahamas Mortgage Corporation, fell by 16.4 per cent to $272.1 million. The residential component (89.4 per cent of total) contracted by 16.3 per cent to $243.3 million, while commercial disbursements (10.6 per cent of total) decreased by 17.5 per cent to $28.8 million in 2009. Mortgage commitments—a forward looking indicator of economic activity—narrowed in number, by 14.4 per cent to 1,212, and in value, by 18.7 per cent to $184.0 million. This was based on a reduction in residential mortgage approvals by 10.5 per cent to $175.1 million, and commercial commitments were more than half to $8.9 million.

With regard to lending, the weighted average interest rate for residential loans softened by 10 basis points to 8.4 per cent, while the corresponding commercial component firmed by 20 basis points to 8.8 per cent. For 2009, total mortgages outstanding rose by 4.5 per cent to $3,184.2 million, owing mainly to the 4.9 per cent expansion in residential mortgages as the commercial component was relatively unchanged.

Inflation

Reflective of an easing in international oil prices from their mid-2008 peaks, preliminary data for the twelve months to January 2010 suggest sustained moderation in inflation, as average price gains slackened by 2.9 percentage points to 1.8 per cent, vis-à-vis an increase of 4.7 per cent a year ago. Contributing largely to this development was the 0.3 per cent decline in housing costs—the largest component—in comparison to a 3.7 per cent advance in 2009. In addition, cost accretions for "other goods and services" and furniture & household operations slowed by 5.4 and 4.0 percentage points, to 2.9 per cent and 2.8 per cent, respectively. An easing in price gains of 3.0 percentage points and less was also observed for food & beverages, recreation & entertainment services, medical care & health and transport & communication. Conversely, average clothing & footwear and education cost increases accelerated to 2.0 per cent and 2.8 per cent, respectively.

For the opening quarter of 2010, the average prices of both diesel and gasoline rose, on an annual basis, by 32.4 per cent and 26.9 per cent, to $3.61 and $4.26 per gallon, respectively. The Bahamas Electricity Corporation's fuel surcharge for the month of February advanced by an average 11.7 per cent to 10.75 cents per kilowatt hour (kWh) over the previous year.

Employment

Reflecting the ongoing economic downturn, the annual unemployment rate rose by 5.5 percentage points to 14.2 per cent in 2009. Specifically, jobless rates for New Providence and Grand Bahama firmed by 5.3 and 8.4 percentage points, to 14.0 per cent and 17.4 per cent, respectively.

Balance of Payments

During 2009, the current account deficit narrowed by 20.4 per cent to $927.0 million, as the reduction in average international oil prices lowered the value of fuel imports, and domestic demand moderated.

The estimated trade deficit fell by 16.5 per cent to $1,874.3 million, a reversal from a 4.1 per cent expansion in 2008. The outturn was explained by a 42.7 per cent decline in fuel imports to an estimated $667.9 million, in combination with a 2.0 per cent fall-off in the non-oil deficit to $1,437.1 million, associated with the easing in private demand pressures.

The services account surplus narrowed by 5.8 per cent to $1,074.4 million, as the downturn in the tourism sector occasioned a contraction in net travel receipts by 8.2 per cent to $1,697.4 million. In addition, offshore companies' net local expenditures declined by 23.2 per cent to $179.6 million, and net foreign payments by Government grew by 54.4 per cent to $87.0 million, on account of increased outlays related to infrastructure projects. Conversely, other "miscellaneous" services net outflows slackened by 24.3 per cent to $317.0 million and construction services, by 39.8 per cent to $20.7 million, owing to the downturn in foreign investment activity.

On the capital and financial account, the surplus narrowed by 3.9 per cent to $1,072.9 million, as the financial account surplus retreated by $88.4 million (7.4 per cent) to $1,104.6 million. Direct investment inflows fell by 22.1 per cent to $653.6 million, on account of reduced equity investments and land purchases. Notwithstanding, other “miscellaneous” investment inflows rose by $88.7 million (23.4 per cent) to $467.8 million, supported by proceeds from the Government’s US$300.0 million external bond issue and the allocation of approximately US$178.8 million in Special Drawing Rights under an IMF global initiative. However, domestic banks recorded a net repayment of $21.9 million, a reversal from the $36.2 million in short-term inflow for in 2008. Similarly, the $10.9 million net repayment for “other” private sector transactions represented a turnaround from a $236.5 million net receipt in 2008.

Capital Markets

Reflective of the protracted downturn in the economy, which impacted investor confidence, the benchmark BISX All Share Price Index depreciated by 8.6 per cent to 1,565.38, contributing to 10.4 per cent fall in market capitalization to $2.4 billion. Trading activity on the local capital market moderated, as the volume of shares traded—net of a significant share purchase in 2008—declined by 2.2 per cent to 4.5 million shares, with a corresponding falloff in value of 27.2 per cent to $23.0 million. Over the year, the total number of publicly traded companies on BISX was unchanged at 24.

Monetary and Credit Developments

During 2009, liquidity remained relatively buoyant, supported by the slowdown in private sector demand and increased public sector foreign currency loan inflows which, along with the special SDR allocations, sustained growth in external reserves. Banks' credit quality indicators, however, worsened over the year, as both businesses and households continued to be challenged in meeting their loan financing obligations.

Total domestic credit growth decelerated to $130.6 million (1.7 per cent) from $474.8 million (6.4 per cent) in 2008, reflecting a moderation in gains to the dominant Bahamian dollar component, to $175.3 million (2.5 per cent) from $449.4 million (6.7 per cent) a year ago. Foreign currency claims contracted by $44.6 million (5.9 per cent), a turnaround from a $25.3 million (3.5 per cent) growth in 2008.

By sector, private sector credit growth was significantly lower at $59.1 million (0.9 per cent) from $318.4 million (5.1 per cent) in 2008; while claims on the public corporations fell by $28.4 million (6.3 per cent), to reverse last year's $99.2 million (28.4 per cent) upturn. Net claims on the Government expanded by $99.9 million (10.8 per cent), extending the $57.2 million (6.6 per cent) advance registered in 2008.

External reserves grew by $253.0 million (44.9 per cent) to $815.9 million at end-2009, surpassing the $108.7 million (23.9 per cent) accretion registered in 2008. This outturn reflected the receipt of approximately $178.8 million in SDRs allocated under an IMF global initiative in August and September, augmented by the proceeds from Government's US$300.0 million bond issue in November. However, the Central Bank's foreign currency purchases from commercial banks—which are predominately generated from productive sector activity—plunged by $156.6 million to $39.1 million. By end-2009, external reserves stood at $815.9 million, equivalent to an improved estimated 20.7 weeks of non-oil merchandise imports, in comparison to 13.1 weeks in 2008.

Credit Quality

Commercial banks' credit quality indicators deteriorated during 2009, as total private sector loans in arrears of over 30 days rose by $324.3 million (42.4 per cent) to $1,090.1 million vis-à-vis end-December 2008, and the corresponding ratio of arrears to total loans deteriorated by 5.1 percentage points to 17.8 per cent. In terms of average age, 31-90 day arrears grew by $115.7 million (29.1 per cent) to $513.7 million, and by 1.8 percentage points to represent 8.4 per cent of total loans. Similarly, non-performing loans—arrears in excess of 90 days and on which banks ceased accruing interest—grew by over 50 per cent to $576.4 million, resulting in a rise in the corresponding loan ratio, to 9.4 per cent from 6.1 per cent a year earlier.

As a result of the worsening in credit quality, banks increased their provisions for loan losses, by $44.4 million (26.3 per cent) to $213.6 million. However, reflecting in part the high quality of collateral held against loans, the ratio of provisions to total arrears and non-accrual loans declined by 2.5 percentage points to 19.6 per cent and by 8.9 percentage points to 37.1 per cent, respectively. Commercial banks' capital to risk weighted assets, a key measure of resilience in the banking system, rose by 2.6 percentage points to 26.1 per cent at end-December. This ratio remains well above the international benchmark of 8 per cent and the Central Bank's revised minimum risk-weighted target and trigger ratios, of 17 per cent and 14 per cent, respectively.

The trends in the monetary sector over the past year have continued into the first quarter of 2010. Liquidity registered further growth, although at a slower rate than in 2009, with accretions lower by almost three-fold to $21.7 million. However, external reserves expanded by $36.9 million to $855.3 million at end-April, 2010. Domestic credit growth has been primarily driven by increased lending to Government, as claims on the private sector fell by an additional $52.8 million, following a $39.0 million downturn a year earlier. Although credit quality indicators registered further declines in the first quarter, the rate slackened by $60.3 million for arrears 31 days and over to only $6.5 million (0.6 per cent) in comparison to the same period of 2009.

Payment Systems Developments

For 2009, the total volume of large-value transactions settled through The Bahamas Interbank Settlement System (BISS) expanded by 17.1 per cent to 53,226, corresponding to a 6.8 per cent gain in value to $10.8 billion. The volume of retail cheques cleared among banks decreased by 6.3 per cent to 3.5 million, with the related value lower by 15.5 per cent at $7.3 billion.

On January 22nd 2010, the Central Bank, together with the Clearing Banks' Association (CBA), formally launched the Automated Clearing House (ACH) system—an electronic facility that allows automated clearing of low-value payments, including cheques and direct debts, among participating depository financial institutions. With the launch of the ACH, the amount of time required to clear checks has been significantly reduced. Efforts are underway to expand the services to include direct posting of debits and credits to customers' accounts.

National Debt

During 2009, the Direct Charge of Government expanded by $553.7 million (20.0 per cent) to $3,320.3 million at end-December, in comparison to an increase of $130.6 million (5.0 per cent) to $2,766.6 million in 2008. Bahamian dollar claims—which accounted for almost 80.0 per cent of the total—advanced by 9.9 per cent ($236.1 million) to $2,615.5 million. Meanwhile, foreign currency debt rose by $317.7 million to $704.9 million.

The contingent liabilities of the Government grew by 30.1 per cent ($134.5 million) to $581.0 million in 2009, following a 2.8 per cent expansion to $446.5 million in 2008. As a result of these developments, the National Debt increased by 21.4 per cent ($688.2 million) to $3,901.3 million at end-December, after firming by 4.6 per cent ($142.6 million) in 2008.

Total public sector foreign currency debt rose by 31.7 per cent ($272.5 million) to $1,132.4 million at end-2009, as new drawings of $848.8 million—related mainly to refinancing activities—

exceeded amortization payments of $576.3 million. Government's liabilities, at 62.2 per cent of the total, increased by $317.7 million (82.0 per cent) to $704.9 million, while public corporations obligations declined modestly by $45.2 million (9.6 per cent) to $427.5 million.

Debt servicing—net of the refinancing operations—as a ratio of goods and non-factor payments and Government's revenue fell by 0.2 and 0.7 of a percentage point to 2.9 per cent and 2.7 per cent respectively.

ECONOMIC OUTLOOK FOR 2010

Acknowledging the downside risks to the recovery underway in the global economy, the domestic economic environment is expected to remain challenging in 2010, although the rate of contraction is projected to slow in comparison to 2009.

Given signs of consolidating improvement in the key United States market, tourism activity is anticipated to remain relatively stable in comparison to the 2009 performance, but stay below its recent peaks over the last five years. Output in the construction sector is set to benefit from ongoing equity financed projects, and several public sector related initiatives; and there is the potential for a greater upside in foreign investment flows. However, with consumer demand expected to be anemic in the short-term, the overall fiscal deficit and corresponding debt indicators are likely to stay elevated during the year.

The former conditions, combined with the continuation of banks' more conservative lending practices in the face of above trend arrears, are set to maintain liquidity at robust levels and support external reserves above international benchmarks, although some contraction is anticipated from their end-2009 levels.

ANNEX B

TABLES and GRAPHS

Table I. The Bahamian Economy 2005 - 2013

	2005	2006	2007	2008	2009	2010	2011	2012	2013
GDP	6558	7004	7381	7309	7377	7466	7719	8067	8430
Growth-Current Prices(%)	9.0	6.8	5.4	-1.0	0.9	1.2	3.4	4.5	4.5
Growth-Constant Prices(%)	5.0	3.5	1.9	-1.7	-4.3	-0.5	2.0	3.0	2.5
Consumer Prices (%)	2.0	1.8	2.5	4.5	2.1	1.7	1.4	1.5	2.0

Source: IMF Projections 2010-2013, World Economic Outlook, April 2010
Department of Statistics 2005-2009

Table II. - Budget Performance
B$ millions

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	Budget 2009/10	Projected Outturn 2009/10	Budget 2010/11
1. Recurrent Expenditure	930	986	1035	1091	1151	1203	1415	1421	1499	1530	1554	1554
2. Recurrent Revenue	973	875	918	960	1054	1211	1354	1445	1331	1389	1295	1492
3. Recurrent Deficit (2 minus 1)	43	-111	-117	-131	-97	8	-61	24	-168	-141	-259	-62
(Deficit - Surplus +)												
4. Capital Expenditure	133	138	127	116	162	190	235	231	262	255	255	265
5. Capital Revenue	1	0	0	0	0	3	7	10	0	22	0	25
6. Capital Deficit (5 minus 4)	-132	-138	-127	-116	-162	-187	-228	-221	-262	-233	-255	-240
7. TOTAL DEFICIT (3 plus 6)	-89	-249	-244	-247	-259	-179	-289	-197	-430	-374	-514	-302
8. Debt Redemption	75	85	60	85	97	38	106	62	67	88	89	75
9. GFS Deficit (7 minus 8)	-14	-164	-184	-162	-162	-141	-183	-135	-363	-286	-425	-227
10. GDP (current prices) revised	5529	5629	5794	5961	6288	6781	7193	7345	7343	7406	7422	7593
11. GFS Deficit as % of GDP	**-0.3**	**-2.9**	**-3.2**	**-2.7**	**-2.6**	**-2.1**	**-2.5**	**-1.8**	**-4.9**	**-3.9**	**-5.7**	**-3.0**

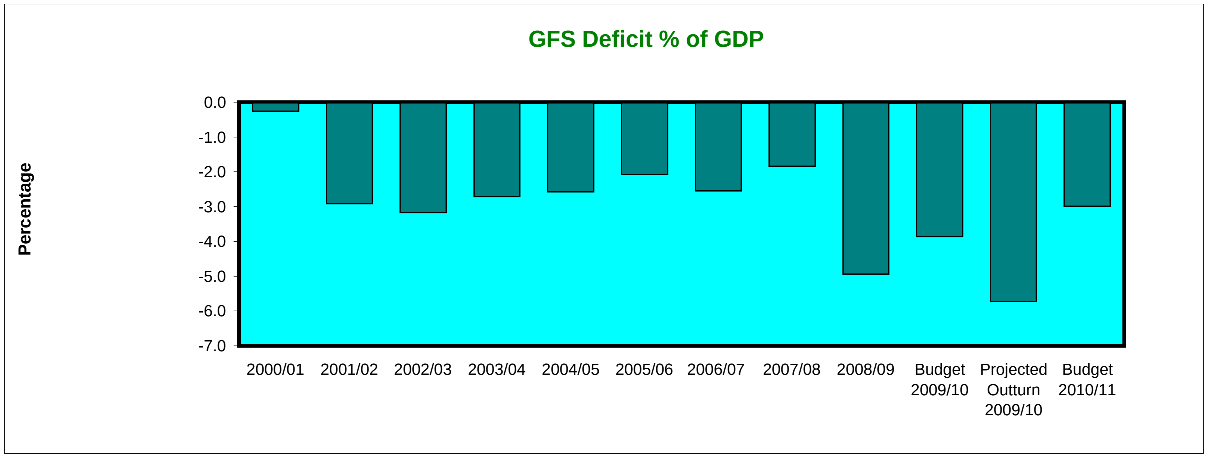
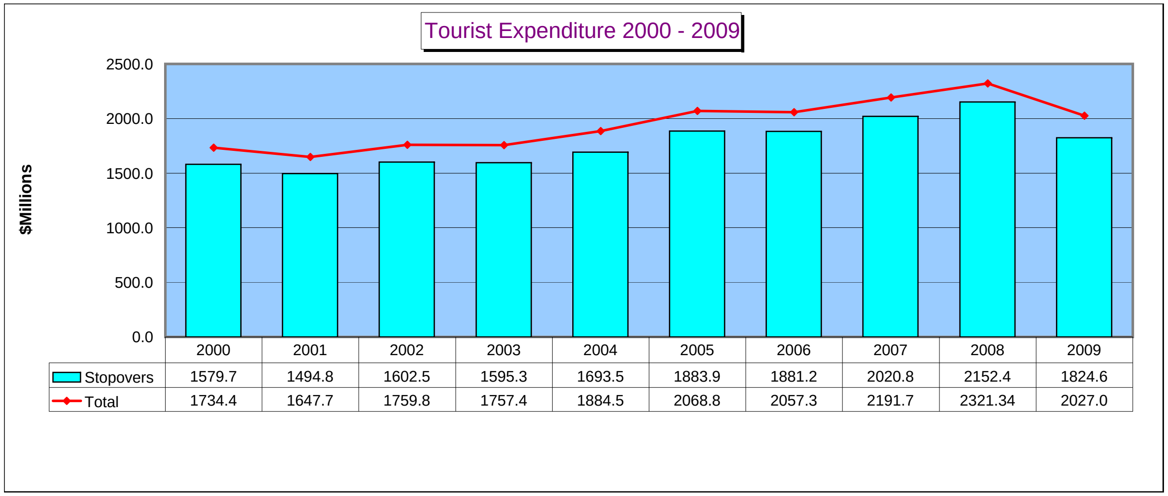
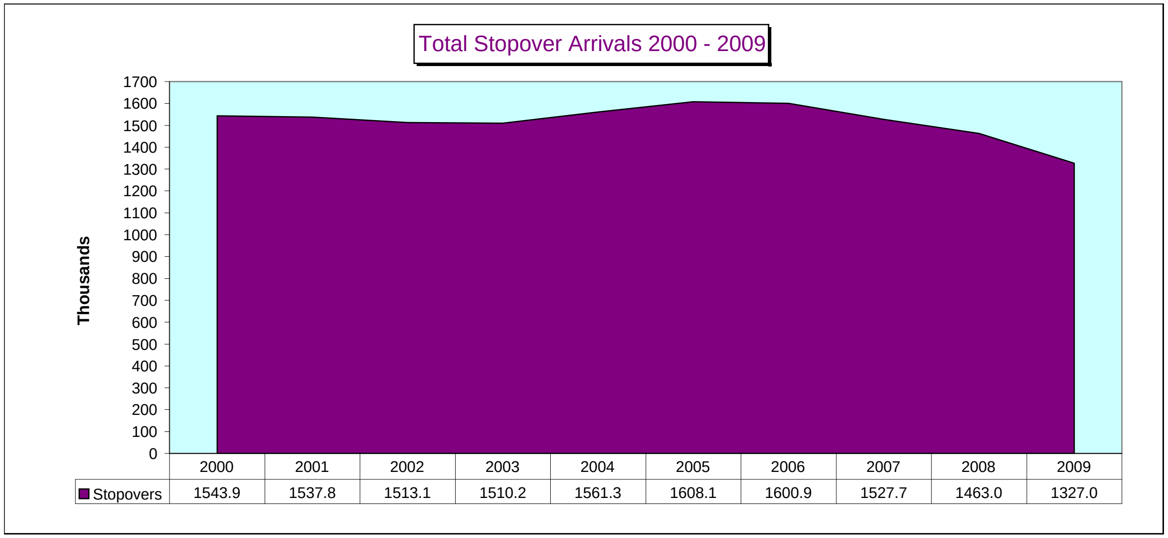


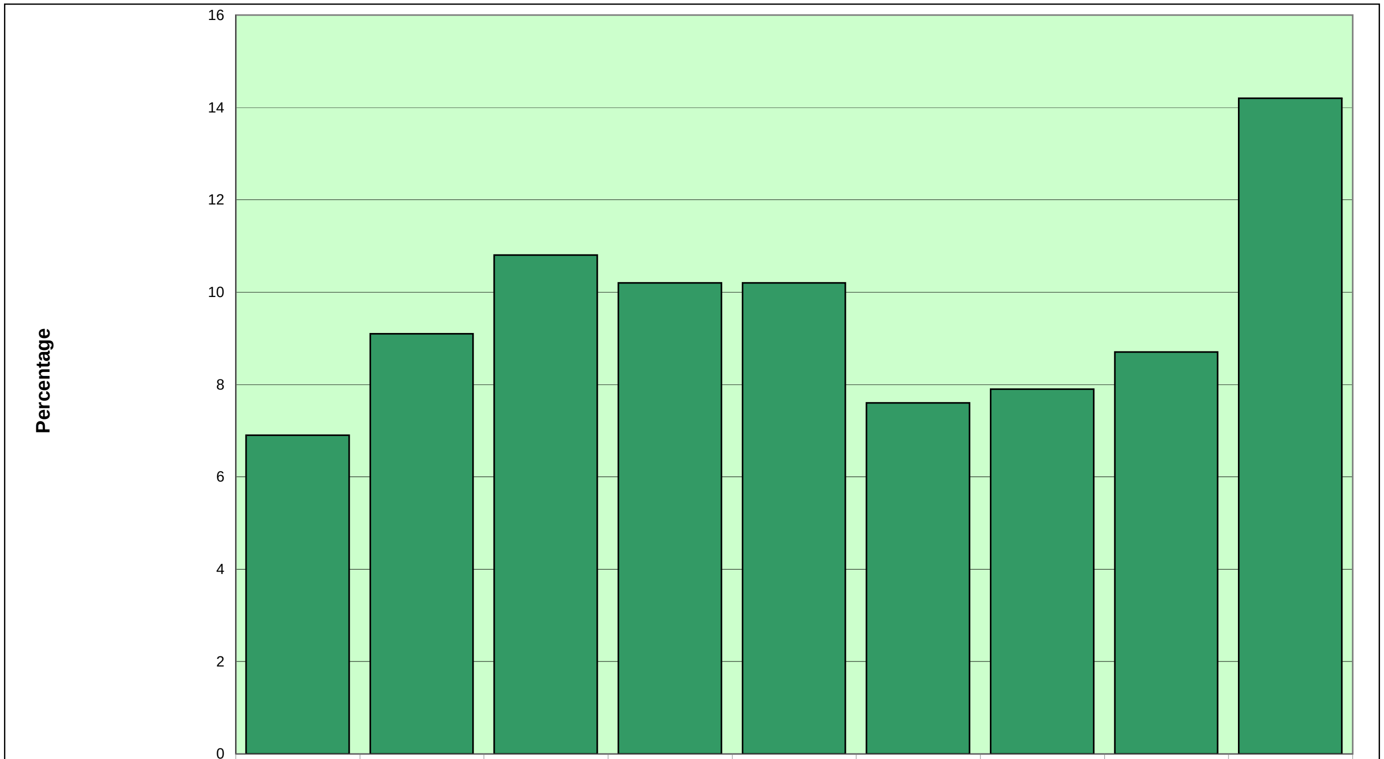
Table III. Tourist Expenditure and Arrivals 2000 - 2009





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

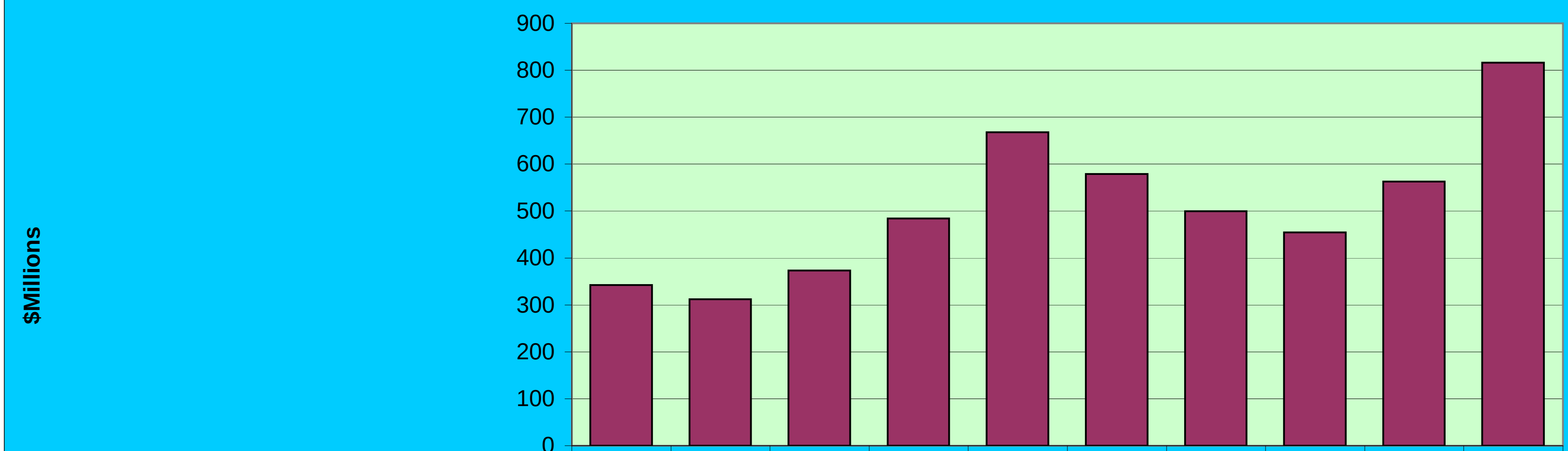
Table IV. Unemployment Rates 2001-2009



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

Source: Department of Statistics

Table V. Total External Reserves 2000 - 2009



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total External Reserves	342.5	312.3	373.2	484.3	667.8	578.8	499.8	454.2	563.1	815.9

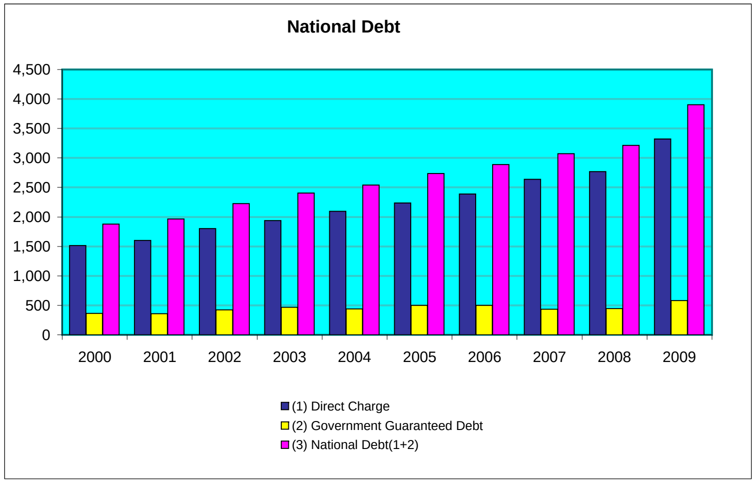
Source: Central Bank of The Bahamas Quarterly Statistical Digest, February 2010

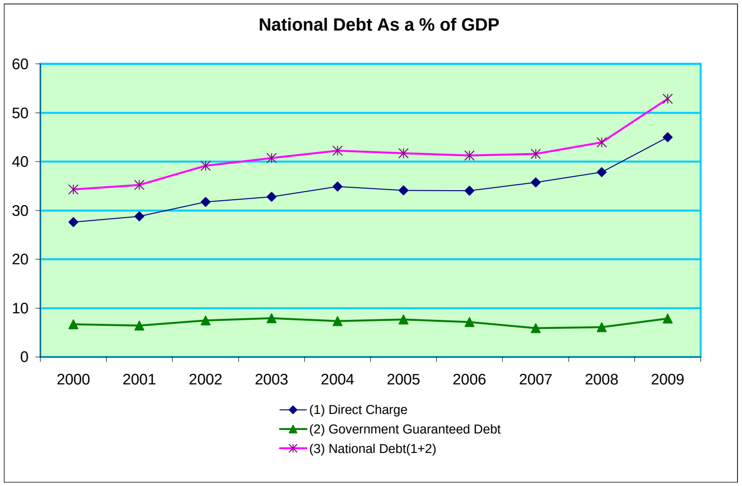
Table VI. National Debt 2000 - 2009

$ millions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Direct Charge	1,514	1,604	1,802	1,936	2,098	2,235	2,386	2,636	2,766	3320
(2) Government Guaranteed Debt	365	359	423	468	442	502	501	434	446	581
(3) National Debt(1+2)	**1,879**	**1,963**	**2,225**	**2,404**	**2,540**	**2,737**	**2,887**	**3,070**	**3,212**	**3901**
GDP($millions) Revised	5483	5575	5682	5905	6018	6558	7004	7381	7309	7377

National Debt as a % of GDP

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Direct Charge	28	29	32	33	35	34	34	36	38	45
(2) Government Guaranteed Debt	7	6	7	8	7	8	7	6	6	8
(3) National Debt(1+2)	**34**	**35**	**39**	**41**	**42**	**42**	**41**	**42**	**44**	**53**





Source: Central Bank of The Bahamas Quarterly Statistical Digest February 2010

Table VII (a). Growth of the Bahamian and US Economy 2000 - 2011

Annual percent change in GDP in real terms

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
The Bahamas	3.3	-0.6	2.19	0.7	1.6	5.0	3.5	1.9	-1.7	-4.3	-0.5	2.0
United States	4.1	1.1	1.8	2.5	3.6	3.1	2.7	2.1	0.4	-2.4	3.1	2.6

Source: Department of Statistics, 2000- 2009; IMF World Economic Outlook April 2010 for 2010 and 2011

TABLE VII (B)

GROWTH OF REAL GDP

	% 2007	% 2008	% 2009	% 2010	% 2011
World	5.2	3.0	-0.6	4.2	4.3
US	2.1	0.4	-2.4	3.1	2.6
Canada	2.5	0.4	-2.6	3.1	3.2
France	2.3	0.3	-2.2	1.5	1.8
Germany	2.5	1.2	-5.0	1.2	1.7
United Kingdom	2.6	0.5	-4.9	1.3	2.5
Barbados	3.4	0.2	-5.3	-0.5	3.0
Guyana	7.0	2.0	3.3	4.4	4.9
Jamaica	1.5	-0.9	-2.8	-0.3	1.5
Trinidad & Tobago	4.6	2.3	-3.5	2.1	2.3
The Bahamas	1.9	-1.7	-4.3	-0.5	2.0

Source: International Monetary Fund
April 2010 World Economic Outlook
For The Bahamas: Department of Statistics for 2007-2009

Notes on Multi-Annual Projections

1. As stated in previous Budget Communications, the purpose of these multi-annual Projections is to provide a ‘snap-shot’ of the evolution of the public finances over the next 3 years. They are based on a set of key assumptions, namely:

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

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

• The “GFS Deficit” (basically the difference between total government expenditure, excluding debt redemption, and total revenue, excluding borrowing), expressed as a percentage of GDP; this ratio is an approximation of the addition which the Budget makes to the level of Government Debt. Over the medium-term, Government policy is to reduce this Deficit by maximizing revenue collections and compliance and restraining the growth of Government expenditure.

• Closely connected to the preceding is the level of Government Debt. In the current economic and fiscal environment, the focus is to contain the debt-to-GDP ratio immediately and, over the medium term, reduce it to 40 per cent.

• The ratio of Government Revenue to GDP; the level of 20% is deemed the minimum level necessary to finance Government services while also reducing the GFS Deficit.

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

4. The projections assume real GDP growth of –0.5% in 2010 and +2.0% in 2011, followed by +3.0% in 2012 and +2.5% in 2013[1]. The projections also assume that, on the basis of the measures in this Budget Communication as well as ongoing efforts to enhance revenue collections and compliance, Recurrent Revenue as a percent of GDP will rise to 19.7% in 2010/11 and to 20% thereafter. Recurrent Expenditure is projected to decline to 20.5% of GDP in 2010/11 and further to 19.6% by 2012/13.

Ministry of Finance
May, 2010

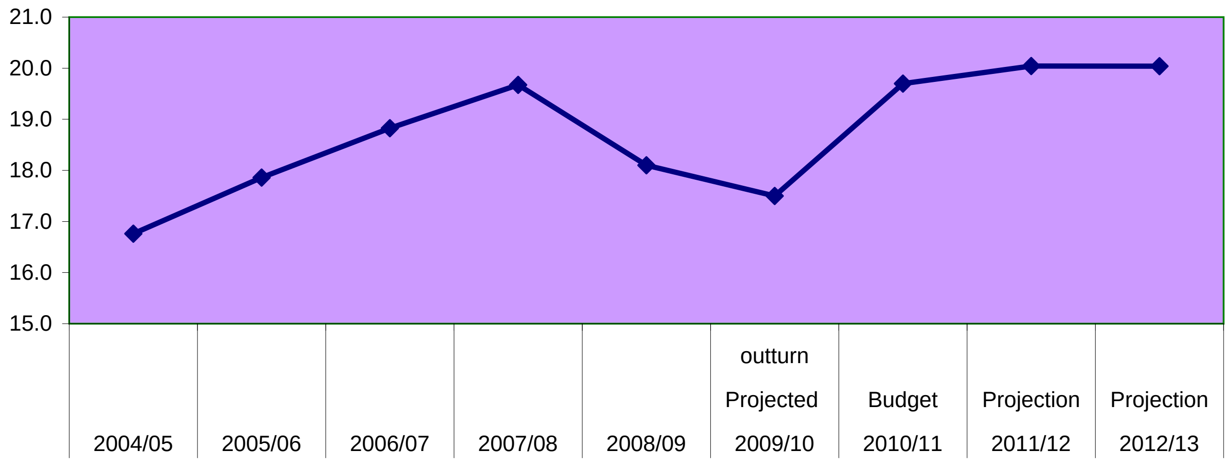
[1] IMF World Economic Outlook April 2010.

TABLE VIII

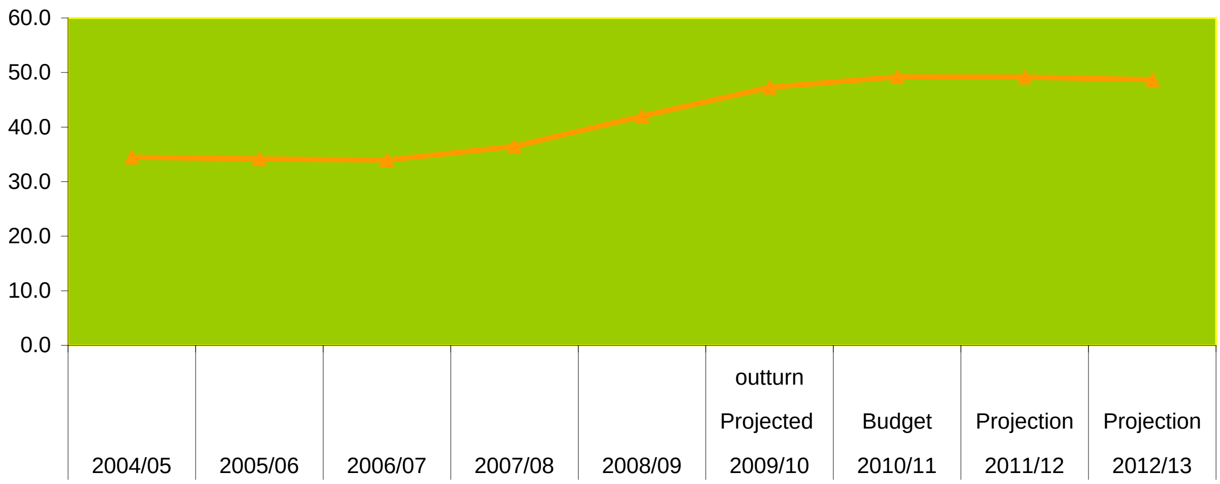
2010/11 BUDGET - MULTI-ANNUAL PROJECTIONS
B$ millions

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10 Projected outturn	2010/11 Budget	2011/12 Projection	2012/13 Projection
1. Recurrent Expenditure	1151	1203	1415	1421	1499	1554	1554	1563	1617
2. Recurrent Revenue	1054	1211	1354	1445	1331	1295	1492	1582	1653
3. Recurrent Deficit (2. minus 1.)	-97	8	-61	24	-168	-259	-62	19	36
4. Capital Expenditure	162	190	235	231	262	255	265	237	247
5. Capital Revenue	0	3	7	10	0	0	25	0	0
6. Capital Deficit (5. minus 4.)	-162	-187	-228	-221	-262	-255	-240	-237	-247
7. TOTAL DEFICIT (3. plus 6.)	-259	-179	-289	-197	-430	-514	-302	-218	-211
8. Debt Redemption	97	38	106	62	67	89	75	75	75
9. GFS Deficit (7. minus 8.)	-162	-141	-183	-135	-363	-425	-227	-143	-136
10. GDP (Current Prices)	6288	6781	7192	7345	7343	7422	7593	7893	8249
11. GFS Deficit as % of GDP	-2.6	-2.1	-2.5	-1.8	-4.9	-5.7	-3.0	-1.8	-1.6
Memo items:-									
Growth Rate (current prices)	*5.5*	*7.8*	*6.1*	*2.1*	*0.0*	*1.1*	*2.3*	*4.0*	*4.5*
Government Debt (end June)	*2168*	*2316*	*2441*	*2679*	*3085*	*3510*	*3737*	*3880*	*4016*
Government Debt as % of GDP	*34.5*	*34.2*	*33.9*	*36.5*	*42.0*	*47.3*	*49.2*	*49.2*	*48.7*
Recurrent Expenditure as % of GDP	18.3	17.7	19.7	19.3	20.4	20.9	20.5	19.8	19.6
Recurrent Revenue as % of GDP	*16.8*	*17.9*	*18.8*	*19.7*	*18.1*	*17.5*	*19.7*	*20.0*	*20.0*
Capital Expenditure as % of GDP	*2.6*	*2.8*	*3.3*	*3.1*	*3.6*	*3.4*	*3.5*	*3.0*	*3.0*

Recurrent Revenue as % of GDP



Government Debt as % of GDP



GFS Deficit as % of GDP

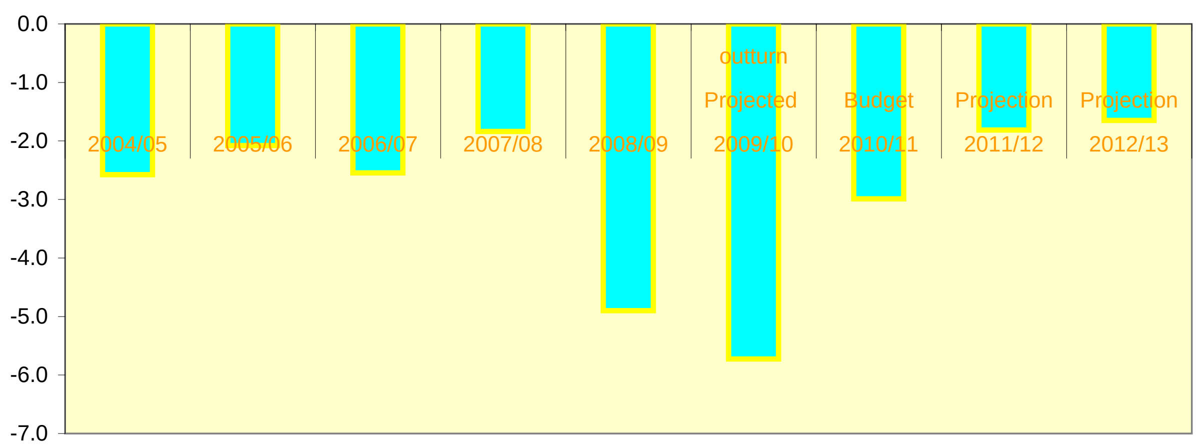


Table IX: EXPENDITURES ON THE GROSS DOMESTIC PRODUCT
at Current Market Prices

B$ millions

Line	Item	2001R	2002R	2003R	2004R	2005R	2006	2007PV	2008PV	2009PL
1	Government final consumption expenditure	730.40	770.39	785.00	826.28	873.20	947.62	976.05	1,071.74	1,134.45
1.1	Collective Consumption Expenditure	444.17	480.62	488.70	529.48	546.22	589.65	607.34	636.72	673.97
1.2	Individual Consumption Expenditure	286.22	289.76	296.30	296.81	326.98	357.97	368.71	435.02	460.48
2	Private final consumption expenditure	3,226.41	3,189.56	3,365.43	3,404.01	3,713.84	4,221.38	4,482.35	4,591.22	4,286.75
3	Gross capital formation	1,624.07	1,523.02	1,541.97	1,492.48	1,956.48	2,436.31	2,469.76	2,127.67	2,046.17
3.1	Change in stocks	67.07	63.82	59.82	58.32	64.26	65.31	65.80	67.46	70.00
3.2	Gross fixed capital formation	1,557.00	1,459.20	1,482.16	1,434.16	1,892.21	2,371.00	2,403.95	2,060.21	1,976.17
3.2.1	Residential construction	169.76	221.48	265.93	238.89	297.61	326.34	314.03	279.75	289.23
	Non-Residential construction	265.67	267.81	207.52	203.67	241.59	458.52	415.33	260.65	252.32
	Capital-Work-In-Progress	156.03	118.09	142.61	109.91	193.87	230.34	225.31	274.37	319.66
3.2.2	Other construction	114.78	126.17	107.75	133.76	130.88	184.18	193.54	166.87	200.15
3.2.3	Machinery & Transport Equipment	850.76	725.64	758.34	747.92	1,028.27	1,171.62	1,255.75	1,078.56	914.81
4	Exports of goods and services	2,512.34	2,847.10	2,814.83	3,066.27	3,378.31	3,440.16	3,763.10	3,654.25	3,322.81
5	Less: Imports of goods and services	2,727.10	2,584.05	2,667.89	2,919.37	3,578.14	4,271.50	4,341.34	4,304.94	3,585.81
7	Statistical Discrepancy	209.29	-63.63	65.78	148.02	214.36	230.24	30.75	169.11	172.49
8	EXPENDITURE ON GROSS DOMESTIC PRODUCT	5,575.40	5,682.39	5,905.13	6,017.69	6,558.06	7,004.21	7,380.67	7,309.04	7,376.86
	GDP NOMINAL GROWTH RATE	1.69%	1.92%	3.92%	1.91%	8.98%	6.80%	5.37%	-0.97%	0.93%

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

Source: National Accounts Report 2010, 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	Projected Outturn 2009/10	2010/11 Budget
Recurrent Revenue	973	875	918	960	1054	1211	1354	1445	1331	1295	1492
GDP (current prices) revised	5529	5629	5794	5961	6288	6781	7193	7345	7343	7422	7593
Recurrent Revenue % of GDP	**17.6**	**15.5**	**15.8**	**16.1**	**16.8**	**17.9**	**18.8**	**19.7**	**18.1**	**17.5**	**19.7**

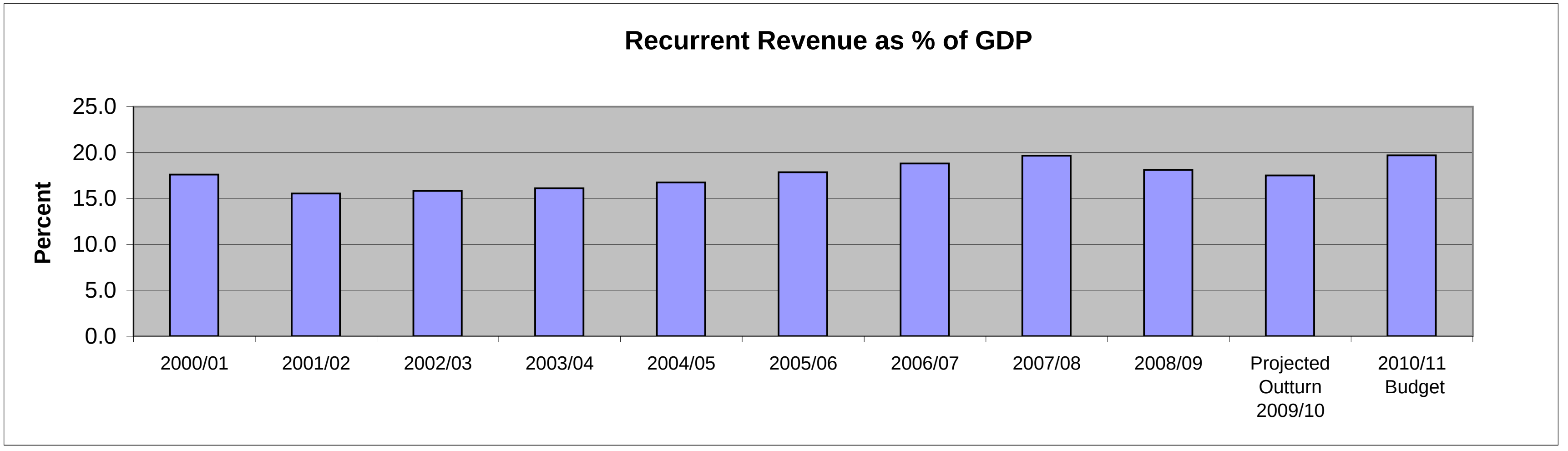
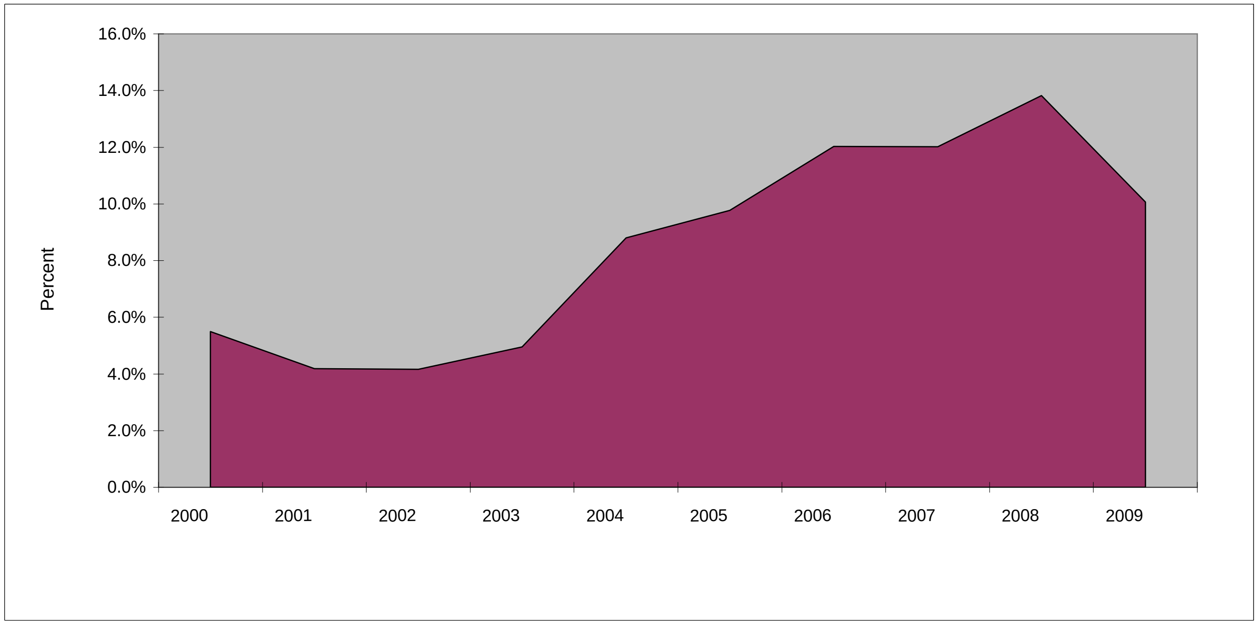


Table XI - Ratio of Foreign Direct Investment to GDP 2000 - 2009

B$ millions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Foreign Direct Investment	301	234	237	292	529	641	843	887	1,010	743
GDP(Current Prices)	5,483	5,575	5,682	5,905	6,018	6,558	7,004	7,381	7,309	7,377
FDI as % of GDP	5.5%	4.2%	4.2%	5.0%	8.8%	9.8%	12.0%	12.0%	13.8%	10.1%



Source: The Central Bank of The Bahamas, QSD February 2010
The Central Bank Forecast 2009

Table XII

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

ITEM	1995	1996	1997	1998	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009 interim survey
Total Labour Force														
All Bahamas	143,030	146,635	149,915	156,470	157,640	164,675	167,980	173,795	176,330	178,705	180,255	186,105	191,595	184,020
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
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
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
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
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
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
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
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
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%
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%
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%
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%
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%
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%

Source: Department of Statistics