



StrongerBahamas

For a safe, prosperous and modern future

COMMONWEALTH OF THE BAHAMAS

2015/16 BUDGET COMMUNICATION

“BUILDING A STRONGER BAHAMAS”

PRESENTED TO THE HONOURABLE HOUSE OF ASSEMBLY
BY

THE RT. HON. PERRY G. CHRISTIE, M.P.
PRIME MINISTER AND MINISTER OF FINANCE
ON WEDNESDAY, 27TH MAY 2015





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It is my honour to present the 2015/16 Budget Communication.

INTRODUCTION

Mr. Speaker, this Budget is faithful to the reform plan for a stronger Bahamas that my Government has been pursuing since our present mandate began. Our plan is working. This Budget builds further on that plan.

We have, for instance, succeeded in achieving a dramatic turnaround in the state of our public finances. The GFS Deficit this fiscal year is now estimated at \$198 million, as compared to the \$539 million Deficit that resulted from the fiscal structure that we inherited in 2012/13. That is a reduction in the Deficit of \$342 million.

Mr. Speaker, we have cut the Deficit by virtually two-thirds.

Further fiscal gains are in store in the coming fiscal year, for which we now project a Deficit of \$141 million, down nearly a full 75 per cent from its peak. Relative to the size of the economy, the GFS Deficit is now at its lowest level in 7 years. And our plan remains on track for the complete elimination of the Deficit.

Mr. Speaker, I wanted to touch on these remarkable fiscal achievements at the very outset of this Communication, not only because they are important in and of themselves, but because they are also fundamental to the success of our overarching plan for a better future for all Bahamians. By redressing the nation's public finances, we are placing Government in a financially sustainable position to make the critical and targeted investments and economic and social improvements that we all desire and that are needed to strengthen our country.

Governments, regardless of partisan leanings, must govern, plan and build on behalf of all Bahamians. To achieve this – to assure that we build a Stronger Bahamas for every Bahamian – several forces must converge:

- We must, as I have mentioned, be responsible stewards of our nation's finances, if we are to invest in areas that benefit all Bahamians, particularly our most vulnerable;
- We must trust the people, believe in them, and listen to their sense of the country's direction. Only then, Mr. Speaker, can we assure with confidence that our actions properly align with their needs; and
- As a warrant of that trust, it is also right that we seek to engage all Bahamians, regardless of gender, age, socio-economic status or political party allegiance, in building a Stronger Bahamas.

This year, we are doing just that, focusing on the following fundamental questions:

- How can Citizens, Civil Society, Opposition and Government work together for a Stronger Bahamas?
- On what national priorities must we focus our collective efforts; and
- How best can we continue to engage the people in strengthening the Bahamas?

In line with the expectations of Bahamian citizens, the Government must therefore focus its attention on three core priorities, namely to secure a Safer Bahamas, a more Prosperous Bahamas and, through a world-class education system and targeted social investments, a Modern Bahamas.

Today marks another important step in our continuing progress towards building a stronger Bahamas. These initiatives will further strengthen our approach in matters of governance, policy development and communication.

We have consolidated the roughly \$4 Million dollars per year that we already spend on public engagement, research and communication to facilitate an ongoing national conversation about our country's future – particularly as pertains to the safety of our communities, the prosperity of our economy, and the modernization of our education and health infrastructure.

In that spirit, I invite all of you to learn more about our plan by visiting www.strongerbahamas.com, and join the national conversation on Twitter at #StrongerBahamas (hashtag StrongerBahamas).

With that said, Mr. Speaker, the overriding theme of this year's budget, "Building a Stronger Bahamas", reflects the unflinching focus that my Government has placed, since coming to office three years ago, on achieving better economic and social outcomes for all Bahamians.

More specifically, the comprehensive reform plan that we are pursuing to those ends is founded on the three fundamental pillars or priorities that are most important to Bahamians:

Firstly, we are Building a Safer Bahamas by targeting the effective prevention of crime through early intervention and education; accelerating progress on reform of the justice system through, for instance, Swift Justice; and enhancing the enforcement of laws and the protection of our communities;

Secondly, we are Building a Prosperous Bahamas through stronger, more diversified growth of the economy, broader and deeper foreign investment activity, enhanced employment opportunities through improved access to and simpler recruitment, higher standards of living, not only in New Providence but across the breadth of the archipelago and a leveling of the playing field domestic investment and entrepreneurial opportunities for Bahamians while continuing to attract foreign direct investors;

Thirdly, we are Building a Modern Bahamas grounded in an all enhancing national development strategy, with stronger and more effective educational standards for high school graduation, enhanced post-secondary education through the creation of the University of The Bahamas, as well as an improved and sustainable array of other social programmes, especially in the area of affordable access to health care for all Bahamians regardless of economic, social or political status with the introduction of National Health Insurance.

It is evident that these three pillars are closely inter-connected and that progress in respect of one will underpin success in respect of the other two. Our plan of action is thus designed to capitalize on the natural synergies and complementarities among these pillars.

When we assumed the mantle of power in 2012, we were under no illusion as to the magnitude of the challenges that our small, proudly independent nation confronted. We faced a dramatic increase in violent crime, an unacceptably high level of unemployment, a dire need for vital public infrastructure across the archipelago, an urgent requirement to transform Government into a modern and efficient administration and an equally pressing need to redress the public finances of the nation and return them to a position of sustainability.

We simply could no longer go on as we had in the past and expect things to improve. In light of the paramount importance of achieving the economic and social goals that we have set and the magnitude and pervasiveness of the changes that are required, it is clear that success will only be secured if the citizens of our nation are fully engaged in the process at every step along the way.

We thus set out a comprehensive plan of action that is clearly focused on building a Stronger Bahamas for all Bahamians. We have been equally clear that our programme of change, as fundamental, deep-seated and far-reaching as it is, cannot be a so-called quick-fix, but rather requires a determined and consistent vision and commitment over the longer haul if it is to be successful.

Over the past three years, my Government has diligently pursued its programme of change. That is not to say that progress in some areas has come easily and without challenges. However, we have not strayed from our overriding vision for the future and, through hard work and perseverance, we are determined to attain the goals and objectives that we set for ourselves and for our nation. This Budget builds on our efforts to date and further solidifies the foundation that we are building for a better and stronger Bahamas for all.

BUILDING A SAFER BAHAMAS

I begin with the measures that we are pursuing to build a Safer Bahamas.

Mr. Speaker, it goes virtually without saying that we must build a Safer Bahamas as the safety and security of our citizens and visitors is of fundamental importance to the achievement of the economic and social goals to which we aspire. As such, my Government remains resolute in its commitment to address the serious crime problem in our nation and we continue to make important investments to that end.

There is a clear consensus across the nation that our approach to addressing the crime problem and creating a safer Bahamas cannot be piecemeal but rather requires a holistic approach.

For one, we must attack the root causes of crime with a targeted and effective prevention strategy through expanding initiatives such as the Urban Renewal Programme and poverty reduction measures such as the Pilot National School Breakfast Programme. My Government also places high priority on measures of intervention in respect of our youth at risk, where proactive, pre-emptive action can make a difference between a productive life and one of crime. This Budget includes a \$20 million allocation under the Ministry of Finance to address youth unemployment, in conjunction with the Urban Renewal Programme to which I will return in more detail later.

We must also focus on improvements in the administration of justice through, for example, the Swift Justice Programme. Swift Justice has enabled almost a doubling of the number of matters disposed of by the courts between 2012 and 2014. We expect these dispositions to increase even further with the implementation of the 10 new criminal courts that now sit.

While we remain concerned about the number of re-offenders released on bail, we do note, Mr. Speaker, that increased collaboration between the Office of the Attorney General, the Ministry of National Security and law enforcement on the Swift Justice plan in 2015 has resulted in a reduction in bails being granted to persons accused of murder, and murder-related offences.

We have also taken action to accelerate court proceedings with the construction of 10 new Courts, and that should go a long way to getting criminals off the streets of our nation. To date, the results are

clear. Whereas in 2012 it took 344 days to progress from an arrest to the presentation of a Voluntary Bill of Indictment, as of March 2015, that timeline has now been reduced to 50 days, an improvement of 86%.

Of course, it is also vital that we continue to strengthen our law enforcement mechanisms. To that end, we have invested significant sums in additional manpower for the Police Force and in the material resources needed to carry out our strategy of enhanced police presence and visibility in our communities. For instance, investments in police equipment, in the form of cars, surveillance and protection equipment, are highlighted in this year's capital budget. As well, under the direction of the Ministry of National Security and the Attorney General's Office we will, with IDB funding, focus on both new and expanded initiatives to enhance citizen security and the effectiveness of our court system. We also have continued funding for Urban Renewal and have invested in increases in manpower and resources for the Department of Corrections.

We are also continuing to advance the \$232 million investment in upgrading the capacity of the Royal Bahamas Defence Force to shore up the protection of our very open borders and to safeguard our precious fisheries. To date, four 42-metre vessels have been received, two 30-metre vessels are expected this year and the remaining three vessels are expected next year. The dredging at the Coral Harbour base is largely complete and work on the bases in Inagua and Ragged Island are at the advanced stages of planning.

The security component of the Customs Department modernization initiative is also gaining momentum. We are investing in additional equipment to scan for weapons and other banned substances in shipments that pass through our ports; the Canine Unit is being implemented with a similar objective, while a Marine Unit is already established to increase the patrol over private vessels in our various ports.

BUILDING A PROSPEROUS BAHAMAS

I now turn to the second major pillar of our plan for a stronger Bahamas, namely building a prosperous Bahamas. This pillar relates to strengthening the growth and diversification of our economy, as well as enhancing employment prospects such that we can both achieve a significant reduction in the rate of unemployment and also absorb the natural growth of our labour force. Of particular concern is the extent of persistent, elevated unemployment among Bahamian youth.

Government can clearly play a constructive role in promoting economic growth and job creation but, to be effective, that role must be well-targeted and focused on those areas where Government can make a difference. Prime among these areas to which we are fully committed are:

- establishing and maintaining a stable and sustainable macroeconomic and regulatory policy environment that promotes market confidence in The Bahamas as a secure and appealing place for investment, both domestic and foreign;
- developing a consensus long-term plan for national development that reflects Bahamian priorities and needs and articulates the role to be played by both the public and private sectors in the actualization of that plan;
- ensuring that the educational and vocational system functions effectively to meet the human capital needs of an expanding and diversifying economy;

- providing the critical infrastructural capital requirements across the breadth of the nation that are necessary to the expansion of more buoyant economic activity; and
- modernizing the key public utilities corporations to enhance their efficiency and lower the costs of their services; for instance, through a new arrangement for the management of BEC, we expect to witness a reduction in the cost of electricity.

I now turn to a brief review of the Government's strategy in these major areas, beginning with fiscal and budgetary reform to secure the long-term sustainability of the public finances and thereby enhance confidence and economic growth.

FISCAL AND BUDGETARY REFORM

We are on course to secure a sustained improvement in our public finances, and reduce the debt overhang which is unacceptably high and which represents an unfair burden to pass on to our children. We are recreating the fiscal room necessary to finance the full complement of our national development plan, including economic renewal and stronger job creation.

We have gone on record to establish, and are diligently pursuing, a Medium-Term Fiscal Consolidation Plan. This, Mr. Speaker, is unprecedented in the history of this nation! The plan is a multi-year strategy to stimulate economic growth; restrain public expenditure; enhance revenue administration; and secure new sources of revenue.

I will shortly review the progress that we have made to date in the implementation of our Medium-Term Fiscal Plan, and set out our fiscal plan for the coming fiscal year and beyond.

Prior to doing that, I would remind Honourable Members that there has been, as I stated at the time of the Mid-Year Budget Statement, much public discourse on the appropriateness of Fiscal Responsibility Legislation in this country. At that time, I cautioned that, if not well designed, such legislated restraints on the fiscal powers of Government could potentially and inappropriately inhibit the proper functioning of Government in periods of economic stress, thereby compounding the hardship of those with the greatest need for Government assistance.

Given the importance of this matter from a public policy perspective and in order to enlighten the debate in a Bahamian context, the Ministry of Finance commissioned the IMF, through its Regional Technical Assistance Centre (CARTAC), to prepare a policy paper on the issue of fiscal responsibility legislation for release and discussion.

This paper has now been completed and is appended to this Communication as Annex C. I invite the public to review this document such that we can advance to a more balanced national dialogue on this issue. While we must have a further discussion on the pros and cons of such a legislative change, it is clear that any fiscal responsibility framework will only thrive under a modernized public financial management and accounting system, which I am pleased to report is a path on which we are already embarked.

TAX REFORM

As a core component of our medium-term fiscal plan, we have initiated an historic transformation and modernization of our revenue and taxation system. The Government's actions on the revenue front have begun with measures to improve the collection of existing taxes in line with what is rightfully due

to the Government. We are fully cognizant that our revenue system is seriously deficient and we are moving to remedy this situation through a number of targeted reform and modernization measures, initially focused on Customs, Business Licence and Real Property Tax. We are also working towards the creation of a unified and efficient Central Revenue Administration for our major domestic taxes.

CUSTOMS MODERNIZATION

The Customs modernization initiative is geared towards improving the facilitation of trade and strengthening the ability of the Customs Department to collect revenue and protect our borders. This is being achieved by enhancing and modernizing Customs operations, strengthening Customs management and improving the institutional trade platform. Gains are already noteworthy. In particular, with the introduction of the electronic filing of customs import declarations and online payment of customs duties, we are making considerable inroads into lowering the cost and increasing the ease of doing business. These systems are also providing stronger controls over the collection of government revenue.

REFORM OF THE REAL PROPERTY TAX AND BUSINESS LICENSE SYSTEMS

As for our system of real property taxation, it is evident that it suffers from a number of structural weaknesses in respect of coverage, assessments, billing and collections. We are moving decisively to address these deficiencies within the modernized property tax management system that is being deployed, and continuing to increase the number of properties that are on the tax roll. This system is expected to be in place for the October 2015 billing cycle, and will allow us to use all of the modern tools to record, monitor and assess those properties which should be subject to taxes.

As for Business License modernization, we will have introduced a new automated system for licensing and renewals that will go live to the public within a matter of weeks. This is being developed on the same administrative platform as the VAT, and will allow businesses to have a single online window experience for both VAT and business license.

ESTABLISHMENT OF A CENTRAL REVENUE ADMINISTRATION

It has long been acknowledged that administration of the major domestic taxes in this country is disjointed and thus less than optimally efficient and effective. With the assistance of fiscal experts provided by the IMF's CARTAC, we are now executing a plan to establish the Central Revenue Administration (CRA) for VAT, real property tax, business license and stamp taxes. A new CRA will feature a modern organizational structure based on best international practice and utilizing modern technological platforms.

To date, we have harmonized the staffing framework and identified a common premise for the staff of VAT, business license, real property tax and stamp duty. This is merely a first step, however, as over the course of the next fiscal year, we will also move to develop a unified and an overarching legal framework for all of these revenue streams.

INTRODUCTION OF A VALUE ADDED TAX (VAT)

A key plank of our revenue modernization plan has been the introduction of the new Value Added Tax this past January. This is a fundamental reform of our system of taxation to bring it up to the modern standards of the 21st century. This reform has demonstrated that a broad-based consumption tax that

is both easier to enforce and to be complied with can allow the government to set a low rate and, more fundamentally, accelerate our efforts at reforms to reduce the tax burden in other areas that are more cumbersome to enforce. Indeed, as I will set out in more detail later, we are now in a position to announce tax relief for Bahamians in a number of areas, including real property taxes, commercial property taxes and business license tax, among others.

Mr. Speaker,

I take great pride in the fact that it is my Government that has had the vision and the fortitude to implement such a bold and much-needed reform, solidifying the financial sustainability of the many programmes and services offered by the Government to Bahamian citizens, and undergirding our efforts to build a safer, prosperous and modern Bahamas.

As I have recently stated, the implementation of VAT has met our expectations, given the sea change that such a new form of taxation represents in this country. Our experience to date no doubt reflects the fact that this new tax was the subject of in-depth research and analysis within Government and that we learned a great deal from VAT experience in a number of other countries. As well, we worked closely with the private sector in the finalization of the VAT framework and implementation plan and this has also proven of great benefit.

To date, on the registration, filing and collections fronts, VAT implementation has proceeded well. For instance, we have exceeded our target for VAT registrants by some 1,700. As of April 29, which includes the early results of the first quarterly filing period, we experienced close to on-time filing performance of over 90 per cent among the larger, monthly filers. For quarterly filers, for whom this was the first filing period, just over 80 per cent of the mandatory registrants filed on-time. Taken together the government has collected an estimated \$110 million in VAT over the first three months of this year.

On the basis of experience to date, the Ministry of Finance projects that we will achieve the projected net revenue improvement from VAT collections in the current fiscal year, which had been set at \$150 million at the time of last year's Budget Communication, after provisions for the more than \$60 million in reductions we provided in customs duties and hotel occupancy tax reductions.

However, while these results are so far encouraging, we are still in the early days of VAT and I caution that we must strive to achieve further improvements in respect of both filing performance and on-time payments. The ultimate sustained success of VAT is highly dependent on dedicated and proactive compliance efforts. I thus reiterate my message urging businesses that are subject to VAT to be fully mindful and respectful of their obligations under the law. Full compliance is not only their civic duty but also their legal obligation.

LONG-TERM PLANNING FOR NATIONAL DEVELOPMENT

Without question, redressing the public finances is a critical necessary condition for establishing a stable macroeconomic environment that is conducive to stronger growth and job creation. But it is equally undeniable that we must also develop and implement a new and innovative approach to investment and national development planning that builds on and closely integrates with our Stronger Bahamas initiative.

While Stronger Bahamas is designed to strengthen our approach to public engagement, transparency and governance, it is also designed to provide the infrastructure for long-term nation building and policy development. With that in mind, the National Development Plan will launch a series of public meetings on the state of the nation and its future in July of 2015.

I am therefore pleased to report that The Bahamas has entered a new age as it relates to planning. As I have stated in other fora recently, my Government's view of planning is all about strategic thinking as we prepare for today and the future. Over the years, I have examined how Government has carried out its duties in this area and I have concluded that better outcomes could be achieved if we adopt wiser strategic planning for both investments and development.

To that end, with grant funding support from the Inter-American Development Bank, and supplemented by our own resources, a National Development Plan is being developed in conjunction with the College of The Bahamas, with broad stakeholder input and technical assistance by local and foreign experts. This is a major, ambitious and innovative departure for Government planning in this country and I am confident that it will yield the very concrete and beneficial economic, and ultimately social, benefits to which we all aspire.

As work on the National Development Plan unfolds, a transformative approach to governance will emerge which places planning and results-based management at the forefront of the activities of government so that we can achieve the very best opportunities for the people that we serve. Indeed, strategic planning will allow us to successfully take ideas from conception to execution, taking into account all of the known available options and alternatives and recommending the best approach.

The planning process has begun, first with an in-depth diagnostic of The Bahamian economy and society leading to a State of the Nation Report that lays out where we truly stand in terms of strengths and weakness.

The Government also recognizes that the development planning process is not starting from "ground zero". Many public servants, the private sector and civil society, would have contributed plans in their respective sectors over the years. Some private citizens have drafted development plans that must be considered. Indeed, through this process, the Government intends to align the medium and long-term plans of Ministries and Departments with the National Development Plan in order to ensure consistency and coherence.

At the end of this process, the result will be a National Plan that shapes budget allocations, identifies actions for the public service and opportunities for the private sector that are critical to achieving our transformation and enhancing the quality of life for Bahamians over the next 25 years.

While developing a plan is of vital importance, it will amount to little unless it is actualized through concrete and proactive measures. The Office of the Prime Minister will be at the centre of this process, with strengthened capacity to monitor progress with respect to the key goals elucidated through the development plan.

SKILLS DEVELOPMENT FOR BAHAMIAN YOUTH

Beyond developing a strategic plan for long-term national development and establishing a stable and sustainable macro, regulatory and fiscal environment that is conducive to its realization, our success

in achieving significant increases in economic growth and job creation will rest with the quantity and, more importantly the quality, of our human and physical capital.

On the matter of human capital, my Government is committed to achieving concrete and significant improvements in our education system at all levels, such that high standards of performance are established and appropriate academic and technical achievements are realized, in line with the needs of a modern, technology-based economy. The Ministry of Education, for example, is pursuing its efforts to strengthen standards for high school education as well as improve the quality of teaching. We are, of course, also moving ahead with plans to transform the College of The Bahamas into a full-fledged university which will play a vital role in research, planning and development, including providing more adequately the relevant human resource skills needed for contributing the building a stronger and modern Bahamas.

As will be seen shortly when I turn to a review of recent economic developments, our nation presently faces a grave problem in terms of the proportion of our youth who remain unemployed. Unfortunately many of these young individuals lack the training and basic skills that are required to take advantage of the future employment opportunities that are expected to emerge as the economic recovery gathers steam and further strengthens.

My Government attaches a high priority to addressing this most critical public policy challenge, as a means to both increase the long-term employability of young persons and reduce incentives for criminal activity.

Accordingly, in this Budget we are proposing two new interventions in this area, for which the Budget includes the allocation of \$20 million to which I referred earlier. We will, for one, establish a special school for young persons with behavioural issues that militate against their employability. It reinforces the Government's policy commitment that every child must count and none be left behind.

We will also initiate an apprenticeship programme in partnership with the private sector under which employers will be incentivized, through a wage subsidy, to employ young persons in positions that will afford them the opportunity to acquire vital, basic job skills. The programme will strive to enhance the employability of participating youth through practical on-the-job training and learning by doing.

In a similar vein, Mr. Speaker, the Government will continue to partner with the private sector in ventures that provide skills training and thereby augment the work of our own National Training Agency. This programme will be extended to those parts of The Bahamas where significant developments are taking place or planned.

DEVELOPMENT OF PUBLIC INFRASTRUCTURE

Physical capital, both private and public, is also essential for stronger growth of the economy. In the public sphere, such capital of course includes roads, airports, harbours and ports, and basic public utilities such as water and electricity. Given the great needs for investments in these areas across our nation and the fiscal constraints that we face, it is clear that this is an area in which innovative thinking and new ways of doing things are not only appropriate but necessary.

We simply do not have the means for the upfront financing of all of these by taking on debt through the Public Treasury. In this light, my Government envisages an important role to be played by Public-

Private Partnerships, or PPPs, in the future development of public infrastructure in this country. And, where and when necessary and appropriate, we must also be prepared to envisage the need for users to contribute to the costs of certain infrastructural investments.

In the case of The Bahamas, the particular geography of our nation represents another important motivation for PPPs. As we strive to enhance development prospects across the breadth of our nation, there will be a clear need for enhanced public infrastructure. An avenue will therefore exist for exploring the feasibility and desirability of PPP arrangements with developers and other private sector interests to ensure that the appropriate supporting infrastructure is constructed and managed for the benefit of all stakeholders, including local residents.

We have placed seed capital in this year's Budget that will allow the Government to promote up to a targeted \$200 million in PPP investments. These include

- Improvements to a number of Family Island roads and bridges;
- Upgrades of a number of Family Island Airports;
- Construction of new Government buildings and repairs of existing Government buildings, and
- Expenditures on the health care infrastructure and schools.

CELLULAR LIBERALIZATION

Mr. Speaker, the benefits of cellular liberalization have the potential to stimulate significant growth and development of our country, and this is one of the primary reasons that the initiative has been a high priority for this administration.

Experience has demonstrated that in a competitive environment, service providers would have greater incentive to, amongst other things:

- improve on the quality of services that are provided,
- become more efficient in order to offer more competitive prices,
- extend service coverage throughout The Bahamas.

In the final analysis, however, the main immediate outcome of competition is that more persons in The Bahamas will have access to technologies that will deliver broadband services as well as voice services. We anticipate an even greater uptake of mobile broadband services with the entry of a second mobile operator, since all of the applicants to the cellular liberalization process have committed to using the latest in cellular mobile and broadband technology.

Mr. Speaker, there are clearly established linkages between increased broadband penetration and economic growth. By way of example, in 2009, a World Bank study found that a 10% increase in broadband penetration could boost economic growth by between 0.43 and 1.38%.

In April of last year my administration took the first step towards introducing competition in the cellular mobile market by appointing a Cellular Liberalization Task Force to establish and manage a process for the selection of this country's second cellular mobile provider. The aim was to identify such competitor during this month.

Mr. Speaker, while acknowledging that the process has experienced some inconsequential delays since it started, I am satisfied that a number of key milestones have been achieved. The approach of having a Phase I assessment to determine eligibility followed by a Phase II spectrum auction, was adopted to ensure that the outcome would be objectively determined.

Last month, the Cellular Liberalization Task Force announced the completion of the first phase of the selection process and the qualification of Cable Bahamas Limited and Virgin Mobile Bahamas Limited to participate in the spectrum auction. The third applicant, Digicel Bahamas Limited, elected to withdraw from the process prior to the announcement of the completion of the first Phase.

Mr. Speaker, at that stage, the Government was advised by URCA that final preparations for the auction were being made such that the Government would have been in a position to make an announcement on the successful applicant this month. However, I have now been advised that recent developments have led URCA, in consultation with the Task Force and their advisors, to extend its deliberations to ensure that the integrity of the selection process is preserved. Mr. Speaker, I have been assured that any resulting delay would be minimized to the extent possible.

ENERGY REFORM

Mr. Speaker, I believe that it is vitally important that we also embrace energy reform as one key component of our strategy to enhance growth prospects and job creation. As recently communicated to Parliament by the Deputy Prime Minister and Minister of Works and Urban Development, the Government has taken the final step toward making energy reform a reality within The Bahamas in the selection of Power Secure International INC, as the proposed bidder to manage the new Bahamas Electricity Corporation, in generation, transmission and distribution, after an extensive RFP process.

The negotiation and finalization of the five (5) year Management Contract and Transition Agreement are proceeding well, the major terms of which have been agreed.

The legacy debt liabilities of the Bahamas Electricity Corporation (BEC) are to be refinanced with rate reduction bonds with preferred banks without Government guarantee as well as the procurement of working capital.

As has been the experience with the Lynden Pindling International Airport, bidders will draw comfort from the fact that the new BEC will be managed by a world-class operator, under a robust Business Plan, at the direction of a competent Board comprising a majority of members representing the Government and two representatives of the management company.

The Government will soon table in Parliament draft legislation making the necessary amendments to the Electricity Act as well as mandating URCA to take on the regulatory aspects of the electricity sector and safeguarding the interests of the consumer.

Finally, my Government expects the new BEC, as promised in our Charter for Governance, to create efficiencies that will allow for significant reduction in the cost of energy, reliability of service, increased energy security and environmental responsibility. This accomplishment will not only bring welcome relief to householders, but also to the business community and stimulate both domestic and foreign investment.

THE BAHAMAS AGRICULTURE AND MARINE SCIENCE INSTITUTE (BAMSI)

Mr. Speaker, the further diversification of our economy remains a prime goal of my Government. The Bahamas Agriculture and Marine Science Institute in Andros has become a notable success story on that score. BAMSI commenced on September 29th, 2014 with 45 students representing 9 Family islands who enrolled in one of 3 Associate Degrees: Agriculture, Marine Science and Aquaponics.

The Institute has grown into a developing technology institution with national recognition, CARICOM regional consciousness, international support and tremendous potential to alter the economic status quo in The Bahamas. The tutorial commercial farm and the outreach program have taken on national significance with high expectations. These two components of the BAMSI project have been brought about the production of quality food commercially for Bahamians, using the most appropriate improved technologies which are consistent with international food safety norms. This attainment has enabled our small farmers to produce food to meet global standards.

We must do all that is possible, through joint venturing, to ensure that the commercial side of BAMSI is self-sustaining.

CREATION OF CREATIVE AND CULTURAL INDUSTRIES

Mr. Speaker, it is also important to support and nurture the emergence and expansion of new economic activities and sectors. The support and interest shown in events like Junkanoo Carnival and the IAAF Relay Games, the success of our athletes in international competition and the attractiveness of The Bahamas as a growing sports, cultural and religious tourism destination, clearly indicate the opportunity to put in place a necessary enabling environment for The Bahamas' creative and cultural industries to grow. Herein, we can create hundreds of new jobs and entrepreneurs.

The contracting of the international firm of AEG provides the vehicle to work with the National Sports Authority, Junkanoo Carnival as well as cultural groups and artists, in promoting events that would enhance the creation of new economic activities in the creation and cultural sectors.

The Creative Economy Report 2013 Special Edition, UNESCO informs and points the way in this regard with the quote "There is an urgent need to find new development pathways that encourage creativity and innovation in the pursuit of inclusive, equitable and sustainable growth and development." By way of example, Bank of Jamaica statistics indicate that in 2010 the cultural and recreational services industry was the third highest net foreign exchange earner in the services sector, bettered only by travel services and communication services.

SPORTS AND TRAINING FACILITIES

As previously indicated the Government and the National Sports Authority have appointed AEG to manage and further develop the Queen Elizabeth Sports Centre facilities inclusive of a state of the art baseball stadium. Towards ensuring that young people have access to adequate facilities in the Family Islands, the Government will embark on a major programme to provide sporting facilities and great lawns for training and sporting purposes. In accordance with our commitment to using public private partnerships as a vehicle for infrastructural development, we will collaborate with the private sector to develop facilities to provide sporting and training opportunities for young people to realize their potential.

ESTABLISHMENT OF A MODERN GAMING INDUSTRY

The successful implementation of the Gaming Act in 2014 has catapulted The Bahamas into the top tier of gaming jurisdictions. The execution of expanded responsibilities and functions of the Gaming Board, including the upgrade of its infrastructure, information and financial systems, accommodations and staff complement brings the country in line with competing jurisdictions, The Bahamas has committed to demonstrating that it can effectively balance the competing interests of interactive gaming with robust anti-money laundering/terrorist financing controls.

The Gaming Board has effectively improved and strengthened the governance of its operations and the integrity of the applications, probity investigations and review processes, implemented risk management controls and protocols to receive and amicably resolve patron disputes. Efforts to strengthen probity and review with respect to internal accounting controls and compliance with anti-money laundering/terrorist financing procedures are currently underway.

The Board, along with its consultants, AG Consulting, Gaming Integrity Services and Whitesand Gaming, has been fully engaged in processing RFP responses and has commenced its probity investigations. The Board has reported that throughout the process, the level of transparency and cooperation from Applicants has been excellent.

Based on figures submitted to date, it is projected that, when licensed, gaming house operators will contribute over \$20 million in gaming tax annually, (not including licence fees). This figure is expected to increase with the advent of real-time monitoring and detailed revenue and financial audits to be conducted by the Board. Provisions were also made in legislation for contributions to charitable and social causes once licenses are issued, and it is notable from media reports that voluntary contributions have already commenced by certain operators.

Mr. Speaker,

FINANCIAL SERVICES

The Government is committed to maintaining The Bahamas' position as the premier financial centre in the Caribbean and a leading centre in the world. To achieve this goal The Bahamas must be well regulated. Included in the measures for this budget is a mechanism through the sharing of bank licence fees to allow Securities Commission, the Compliance Commission, the Central Bank and the Insurance Commission to be funded independently of the Consolidated Fund. In this way regulatory independence is protected without unduly taxing the sector.

In addition, the Ministry of Financial Services has also been adequately funded to allow it to work with its private sector partners to actualize the Renminbi trading platform, which is the first for the Caribbean, and also to continue its work in developing innovative products for this jurisdiction such as international arbitration and the ICON financial product.

Mr. Speaker,

AIR AND SEA TRANSPORTATION

Adequate Air and sea transportation is critical for the continued growth of the economy. In the upcoming fiscal period the Government would continue to make strategic investment in this sector. This investment would range from the acquisition of new planes for Bahamasair to replace its Dash

8's aircraft to the modernization of airport and seaport facilities in the Family Island using the P3 methodology. In addition, the strengthening of the regulatory institutions for air transportation in The Bahamas would occur. The latter represents the culmination of dedicated work by the Ministry of Transport and Aviation.

FLIGHT INFORMATION REGION

The Government is also mindful of the potential of its Flight Information Region to fund much needed upgrades in the aviation sector and is actively holding discussions with the Federal Aviation Authority to ensure that this is done in manner which is mutually beneficial.

TRANSPORT AND AVIATION

UPGRADE OF FAMILY ISLAND AIRPORTS

Following upon a study and recommendation by the Canadian firm Stantec, the Government will embark upon the upgrading of several airports in the Family Islands. It is expected that some of this work could be carried out through Public/Private/Partnerships

RESTRUCTURING OF CIVIL AVIATION

A restructuring of Civil Aviation in keeping with international norms will take place during the coming year, with the creation of a separate Civil Aviation Authority and an Airport operating entity with distinct and separate functions.

AUTOMATION OF ROAD TRAFFIC DEPARTMENT

The manual operation of the Road Traffic Department will be replaced by a fully automated nationwide system providing far greater efficiencies in service and in collection of revenues. The system will also interface with other Government Agencies such as Police and Customs as well as Insurance Companies. A contract has been awarded for this purpose.

MARITIME

Port offices are being opened in Bimini (already done), Exuma, Andros (Fresh Creek) and Eleuthera. They will not only facilitate port controls but also enhance the supervision, and coordination of marine activities and collection of revenues.

New maritime legislation is also envisaged to improve The Bahamas as a leading International Ship Registry. Focused efforts are also being made to train and employ more Bahamians as crews in International shipping.

TRAFFIC STUDIES

Traffic studies are being carried out in communities like Bimini, Harbour Island, Spanish Wells, Hopetown, and Green Turtle Cay to determine how ground transportation might be best regulated in their growing communities which have spare constraints.

MORTGAGE RELIEF

As we all know, the global economic and financial crisis had grave deleterious repercussions on our economy and the employment situation. Many of our fellow Bahamians found themselves unable to continue to service their financial obligations, especially as these relate to mortgages. Many are still at risk of losing their homes.

My Government has been unequivocal that an effective means must be found to provide relief for homeowners in distress. The Government's commitment to this area is unquestioned but subject to any solution benefitting the broadest base of Bahamians in a manner which does not unduly burden the exchequer and does not reward unduly poor lending practices. The clearing banks understand these principles and have committed to working with us to develop a new framework for relief that will impact significantly more homeowners without creating a moral hazard or undermining the principles of sound banking. My information is that different proposals are being advanced by respective financial institutions. The Government fully expects these proposals would crystallize into one proposal for the Government's agreement in the short term.

My Government has been unequivocal that an effective means must be found to provide relief for homeowners in distress. The clearing banks have committed to working with us to develop a new framework for relief that will impact significantly more homeowners. In tandem, the Government will also pursue reforms to improve the credit resolution framework in the Bahamas and will explore other measures to promote more prudent borrowing behaviour among Bahamian households.

BUILDING A MODERN BAHAMAS

The third pillar of our strategy encompasses our plan for building a modern Bahamas.

Social cohesion and wellbeing reside, to an important degree, in the quality of the social programmes and services that Government can offer to its citizens, both on the basis of needs and in a financially sustainable manner. Public education, national insurance and social assistance are prime examples of such programmes. These define a modern nation.

My Government therefore places a strong emphasis on:

- Establishing a stronger secondary school system by completing the roll-out, implementation and monitoring of the Ministry of Education, Science and Technology's standardized set of criteria for the obtaining of a high school diploma;
- Establishing the University of The Bahamas which will have a transformative impact on national development through, for instance, enhanced research and development;
- Establishing the National Health Insurance Programme; and
- Establishing the Multi-Service Centre for Young Adults with Developmental Disabilities on Gladstone Road, so that other families would be assured of their continued care and development;
- addressing needs of challenged and at risk youth, so as to ensure that they are able to receive the remedial attention needed to enable them to contribute to society. A facility for such use has been identified at the former Bahamas Academy on Wulff Road.

Mr. Speaker,

We have been particularly clear that a key priority is the availability of national health insurance for all Bahamians, regardless of economic, social or political status. After extensive consultations with a cross-section of stakeholders in both the public and private sectors, I want to clarify the commitments of this Government. I will lay these out under four specific commitments.

Firstly, I want to assert that I am personally committed to having Universal Health Care in the Bahamas as this is one of the most important commitments a government can make on behalf of its citizens. However this cannot be rushed. Indeed Canada, whose system now provides care to all of its 35 million residents, has achieved the current state of its system over a period of 60 years.

Secondly, the implementation of National Health Insurance must be phased in a way that is both practical and affordable. The Government will not impose additional taxation or contributions to fund national health insurance at this time, but rather the introduction of services will be done in parallel with our ability to pay for those services. Simply stated, this means that the continued growth of our economy is not only critical to the overall success of the Bahamas but also to our ability to fund universal healthcare in the future. Indeed, better access to healthcare will further support our ability to grow the economy by ensuring higher productivity and efficiency.

Thirdly, while we in the Bahamas are fortunate in so many ways, the challenge of providing universal healthcare will require us to come together and work collaboratively in a way we have never had to before. This is a generational challenge to work together for a common goal that is fundamental and will define our society in future. It is something we will tell our children about; if we get it right. To this end, the Government will work with the existing providers of healthcare including physicians, healthcare professionals and the private health insurance industry to meet this challenge. Because we all share the belief in the importance of providing quality cost effective health care to all Bahamians, I know that we can count on their commitment and support, no matter how difficult the challenges are.

Fourthly, we will intensify our focus on strengthening our existing health system. This is essential as we introduce National Health Insurance. The preparations for this Budget sparked an unprecedented level of collaboration between the Public Hospitals Authority, the Ministry of Health and the Department of Public Health on a road map to consolidate the public health care delivery systems throughout the Bahamas. This Budget therefore funds expenditures that target improved quality and efficiency in the administration and delivery of existing health care services.

We will phase in the initial National Health Insurance services for all Bahamians over the next 5 years commencing on the 1st January 2016, but the full journey to full National Health insurance will take longer, as it has in every country that has embarked on this journey.

The Government, through its various ministries, departments, task forces and working groups that are dealing with implementing NHI and their advisors, has been giving careful consideration to the strategy and budgetary implications for NHI. To this end, we can learn from the experiences of countries that have embarked on this journey before us. I have learned that every country's path is unique, but we can learn from these experiences. I will draw on experts with many years of practical experience in the implementation and delivery of universal health care plans and their financing arrangements.

I have recently established a Task Force to direct and lead the implementation of NHI. It provides for an Advisory Body that will include representation of private sector interests and civil society stakeholders amongst others. Regular meetings of the Advisory Group will occur in a structured way as we move towards our implementation schedule. It will ensure appropriate meaningful consultation and engagement with all internal and external stakeholder groups to ensure our success. I will also soon confirm the appointment of a CEO to lead the implementation and to oversee the strengthening of our existing health system.

The introduction of UHC will be the single biggest development in the history of this country post-independence and the Government proposes that it will happen in a manner that strikes the fairest balance between the various competing interests.

Ensuring universal access to health care underscores a moral obligation of a Government in a modern society such as ours to provide citizens with equal access to services and amenities that improve their quality of life. As we do more to reduce poverty and provide economic empowerment, we will make more progress in this area.

Mr. Speaker, we will be establishing a special unit within the Ministry of Finance to oversee and ensure the effective implementation of our various financial programmes targeting poverty reduction and alleviation, particularly as regards social assistance, urban renewal, youth intervention and job readiness schemes and other community focused initiatives. Urban Renewal will be integrally involved in the implementation of this initiative.

MR. SPEAKER

HOUSING

The Bahamas Mortgage Corporation has approved the issuance of \$100m in bonds, which will jump start the Government's aggressive housing program and add over 1000 new housing units to our inventory. Through private public partnerships, it is hoped that the Government will complete the programme over the next two years. The programme will also create thousands of jobs in the sector for skilled and unskilled labour; and allow for many more Bahamians to fulfill the dream of home ownership.

MR. SPEAKER

PUBLIC PARKS & BEACHES

This Budget also makes provision for the capitalization of the Bahamas Public Parks & Public Beaches Authority. That Authority will be charged with the responsibility of managing and maintaining public parks, public beaches and verges throughout the Bahamas. It will also be charged with a mandate to develop new public green spaces, like the redevelopment of Lake Killarney and a Botanical Garden in Marsh Harbour. Protecting and preserving beach access for Bahamians will also be a priority of the Authority, as well as addressing the restoration of beaches which have been eroded as a result of the adverse effects of Climate Change.

THE ECONOMIC ENVIRONMENT

Mr. Speaker,

As is usual practice in the presentation of Budget Communications to this Honourable House, I now turn to a brief review of international and domestic economic developments and prospects. In this context, I wish to acknowledge the Central Bank of The Bahamas for its analysis that I now summarize. I invite Honourable Members to peruse the Bank's analysis in more detail in Annex A of the estimates. The key economic and fiscal data of the Communication, both historical and projected, are presented in Annex B of the document we table today.

I am optimistic, that with an external environment conducive to tourism growth, industrial expansion and other commercial opportunities combined with Public Private Partnership and investor confidence, the pace of growth can indeed accelerate over the medium-term.

Mr. Speaker,

My Government continues to be proactive in the facilitation of various projects to improve economic growth and create jobs and entrepreneurial opportunities, while taking measures in accordance best practices to protect the environment.

There are a number of new and expanding developments both in the ground and on the drawing board, which should deliver additional revenue during the next fiscal year and in the ensuing future. Generally, the investment climate is buoyant.

NEW PROVIDENCE

In New Providence investments continue to flow into the tourism sector, with product upgrades and expansions slated for major resort areas. To top it off, and having laid the foundation for the successive future years of economic boost from The Bahamas Carnival, and the IAAF World Relays, we are bringing global brand in none other than AEG, a world class manager, to promote The Bahamas as a sports and entertainment destination. We are also determined to create many new jobs and entrepreneurial opportunities in culture related industries with a renewed focus on arts and culture.

ATLANTIS RESORT

We are pleased to see hotel owners commit to reinvestment in their properties as this helps us to sustain our position as a premier luxury destination for visitors. Brookfield Real Estate Financial Partners, owners of the Atlantis Resort will begin a \$45 million dollar renovation at the Cove and Royal Towers including several restaurants and will expand their entertainment offering to include private gaming facilities. This, along with select restaurant expansions will create an additional 98 full-time jobs, attract more and high-end casino patrons, increase casino revenue and benefit local contractors and suppliers.

ONE & ONLY OCEAN CLUB

Access Industries and Kerzner International have announced a major renovation of the Hartford Wing that will provide 100 jobs for Bahamians, the appointment of a local contractor and architect and generation of over \$1 million of additional revenues to Government.

BRITISH COLONIAL HILTON

The recent acquisition by China Construction Company of the British Colonial Hilton and announcement by the developer of plans to construct a \$200 million dollar mixed use facility adjacent to the Hilton bodes well for the future of Nassau's Waterfront District.

DOWNTOWN REDEVELOPMENT

Dialogue with both local and international interests has continued and there has been general agreement by stakeholders on the Master Plan. This project will gain momentum in the coming months. It is expected to transform and restore the City of Nassau and its waterfront into a sought after world class destination.

BAHA MAR

The \$3.5 billion Baha Mar project is nearing the end of talks with its general contractor on the

completion and the development and imminent announcement of a final opening date. This single phase development which is the largest of its kind in this hemisphere has already hired 2,000 new employees and will ramp up further, increasing to 5,000 when fully operational. I remain fully engaged with the developer, general contractor, the Chinese Government and the hotel operators in bringing this project to a successful conclusion at the earliest possible time.

ALBANY

The owners are progressing on their \$140 million expansion at Albany, of 80 condominium units, residential resort amenities, medical, commercial and sporting complexes to its development, resulting during this budget cycle in 1000 construction jobs and 300 permanent jobs.

The Island House

The Island House, with an investment of \$40 million by the Holowesko family, has come on stream adding intimate charm and Bahamian flavour to growing Western New Providence hospitality. The facility has created one hundred and twenty-five (125) new direct jobs.

LYFORD CAY

Additionally in the Western District of New Providence, the residents of Lyford Cay are investing \$17 million in the acquisition and construction of high- end office buildings, retail shops, townhouse and villa residences, a memorial park and police station. This will immediately, positively impact Bahamian contractors, suppliers and construction workers, creating new employment.

Mr. Speaker,

BIMINI

Resorts World Bimini has launched its soft opening of the 305-room Hilton Hotel and when completed will be staffed by some 700 Bahamians. The owners are also constructing additional housing for employees. Bimini continues to outpace growth in all other Family Islands and is considered the fastest growing destination in The Bahamas.

On South Bimini, the National Economic Council is giving final consideration to the acquisition and redevelopment of the existing Buccaneer Hotel, acquiring adjoining property to be redeveloped as a first class resort at a cost of \$100 million.

BIMINI MASTER PLAN

In order to ensure the orderly development of Bimini, extensive work has been done on a detailed Master Plan taking into full account community needs and expansion for the foreseeable future. All present and pending development will be required to comply with the Master Plan.

The National Insurance Board is planning the construction of a new Government Complex to meet the needs of this growing community.

SOUTH CAT CAY

Adjacent to Bimini at South Cat Cay, the national Economic Council has given approval in principle for the development of a \$94 million boutique hotel, high end residential development and marina by South Cat Cay Properties (Bahamas) Limited.

Mr. Speaker,

GRAND BAHAMA

GRAND LUCAYA/SUNWING

Hutchison Whampoa has announced a \$5 million investment in renovation of its Lighthouse Pointe Hotel and refurbishment of its 198 rooms, suites and associated facilities, planned for completion in November 2015 in time for the winter season. The Sunwing Group continues to boost arrivals and acceptance at Memories Resort in Freeport. In addition to Sunwing Airlines winter flights from seven (7) Canadian countries in Freeport, it will also operate flights from six (6) U.S. countries this summer, with the first flight arriving from Houston this weekend. Bookings are already well ahead of last year.

NEW CRUISE PORT

My Government is progressing in its negotiation with Carnival Cruise Line and Freeport Harbour Company for the development of a cruise port and attraction in East Grand Bahama. Heads of Agreement should be concluded in the coming months on the project which will greatly expand arrivals to Grand Bahama, create hundreds of construction and operational jobs and positively impact the local economy.

DEEP WATER CAY PROJECT

Also, in East Grand Bahama, Deep Water Cay owners are continuing in their planning and negotiation with the Government to develop a Six Star Six Senses operated boutique resort which will be a major expansion of their current fishing and residential community

Mr. Speaker,

FREEPORT CONTAINER TERMINAL EXPANSION

In the industrial sector in Grand Bahama, Mediterranean Shipping has recently confirmed that it has agreed with Hutchinson Whampoa the early startup of the \$250 million expansion to the Freeport Container Terminal, which amount might be increased. According to the Economic Input Study which Mediterranean Shipping has now presented to Government, the annual economic impact will produce a net benefit of 600 direct and indirect jobs.

Also we are in negotiation with MSC Shipping on leasing an island for the creation of an exclusive port in the Northern Bahamas for their new cruise ship fleet, in addition to calls at Nassau; the creation of a maritime training facility for Bahamians in Freeport and the hiring of Bahamians on board their ships, thus providing training and employment opportunities for hundreds of our unemployed youth.

REVIEW OF EXPIRING PROVISIONS OF HAWKSBILL CREEK AGREEMENT

The Committee appointed to review and make recommendation on how to address the expiring tax incentives in Freeport, Grand Bahama, is expected to complete its report with recommendations to Government within the next two weeks. My Government will coalesce around strategies to propel the Island to a new stage of diverse domestic and FDI developments.

WEST GRAND BAHAMA HIGH SCHOOL

During the new fiscal year Government will begin construction of a new high school to serve West Grand Bahama. This facility will provide both an economic and educational boost for this community.

Mr. Speaker,

ABACO

BAKER'S BAY

The ultra-exclusive Baker's Bay is proceeding with a \$105 million capital expansion that will ultimately be a \$2 billion investment project with 900 employees at full build out. To ensure additional employment for Abaconians, the developers are also embarking upon a skills training programme in conjunction with the Government.

ABACO CLUB AT WINDING BAY

Members of the Abaco Club at Winding Bay recently joined with Southworth Development Company as the new owners of the resort and have committed to a \$348 million expansion.

MATT LOWE'S CAY/AMAN RESORTS

MLCSD Limited has acquired the 50-acre Matt Lowe's Cay for construction of a high end Aman Resort property in the Abaco Cays with 800 jobs generated in the hard construction phase and 200 permanent jobs when operational.

GRAND AND BAKER'S CAYS

Seneca Industries (Bahamas) Ltd has acquired Baker's Cay and Grand Cay in the Abacos for development of an eco-friendly resort and marina. This would provide a much needed economic stimulus for the nearby North Abaco community of Grand Cay and other settlements.

ANDROS

In Andros BAMS I is having a transformational effect, beyond also being an important plank in our national development strategy. In the meantime we are moving to solidify the Island's advantages in eco-tourism, sports fishing and diving.

ELEUTHERA

THE COVE

The luxury boutique resort, The Cove, has been acquired by a New England company which operates exclusive spa resorts. The owner will commence further upgrades and expansion of the resort.

FOUR SEASONS AT COTTON BAY

The Government just this month signed a Heads of Agreement with Cotton Bay Holdings Ltd and Mine Holdings for an upscale resort, golf course and residential community in South Eleuthera. It will employ 200 persons in construction and some 250 permanent jobs on site when Phase One becomes operational.

COTTON BAY/NOBLE HOUSE

South Eleuthera Properties have signed an Agreement with Noble House Hotels to operate their mixed-use project on completion of infrastructural works, renovations to the existing Clubhouse, restaurant, amenities, villas and construction of the Fazio designed, 18-hole golf course. Completion and opening is planned for November 2016.

ELEUTHERA TRAINING CENTRE

Because of the importance of training to qualify young people for jobs in the hospitality sector and to ensure the high standard of service which upscale resorts in Eleuthera will demand, the Government will support private sector interests to acquire and turn the former Rock Sound Hotel into a Training Centre.

Mr. Speaker,

EXUMA

Sandals continues to lead the resurgence of Exuma and with acquisition of additional land is moving to further expand its footprint at Sandals at Emerald Bay. Its aggressive airlift and marketing initiative with support from Bahamas Ministry of Tourism is greatly benefiting its property, other resorts in Exuma and the local community.

FEBRUARY POINT

February Point is ramping up its pre-construction activity for expansion of its property to include a 25 condo units, a boutique hotel, marina, community pool, beach club, restaurant and other facilities. Heads of Agreement are being negotiated for a joint venture with the Government on land adjacent to the Georgetown community for the expansion of sports facilities, housing, commercial and other community facilities, and a marina village.

CHILDREN'S BAY CAY & WILLIAMS CAY

H Twister PTC Limited, the new owner of the two private islands in the Exumas near Bahama Sound is developing a fully amenitized luxury mixed-use villa resort employing 350 Bahamians during both construction phases and operations.

LEAF CAY

Leaf Cay Holdings Ltd received approval for its \$30 million acquisition and development of a three phase project. Once all of the approvals are issued, fifty Bahamians will be employed during the pre-construction phase and 100-150 during full construction. When operational, the development is expected to hire 50 Bahamians.

Mr. Speaker,

SAN SALVADOR

CLUB MED

Club Med and their partners, Sand and Ocean, are progressing infrastructural works, renovations and the construction of a new hotel and condo units at a cost of some \$90 million.

Mr. Speaker, those tangible examples of development will in addition to our fiscal reforms and new sources of revenue, grow the economy to provide the much needed jobs and economic opportunities necessary for a stronger Bahamas.

What is most notable since my last Budget Presentation is the number of new top international hotel brands which have concluded to new products in this destination including Four Seasons, Aman, Six Senses and Noble House, as well as two new luxury cruise lines, Crystal Cruises and Mediterranean Shipping which will begin calling over the next two years.

THE GLOBAL ECONOMY

On balance, the external economic environment remains favourable for the ongoing expansion of economic activity in The Bahamas. In its latest World Economic Outlook of April 2015, the IMF projects that the global economy will expand at relatively healthy rates in the near term, specifically 3.5 per cent this year and 3.8 per cent in 2016. Having said that, the Fund continues to expect growth to remain uneven around the globe, with the advanced economies recording somewhat more strength in 2015 than last year, while the emerging economies are forecast to weaken somewhat this year as compared to 2014.

Of particular significance for domestic economic prospects, the IMF estimates that conditions are especially favourable for a further strengthening of U.S. economic performance in 2015 and 2016. The key contributing factors to more buoyant growth are lower energy prices, low inflation, an accommodating monetary policy, improved financial conditions, somewhat less negative influence from fiscal policies, strengthened household, corporate and bank balance sheets, and an improving housing market. It is expected that the US will continue to experience healthy employment growth and buoyant consumer confidence, which both augur well for tourism prospects in The Bahamas.

In the Euro area, the uptick in economic activity is expected to strengthen further in the near term, bolstered by lower oil prices and low interest rates, as well as the lower value of the euro. In the meantime, the gains in the emerging markets will continue to be led by the performances of China and India.

THE BAHAMIAN ECONOMY

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

While the expansion of our domestic economy has been mild to this point, in light of the extensive developments previously indicated and upon which we shall expand further during the Debate, I remain optimistic about our prospects. In real terms, the economy grew by 1 per cent in 2014, on the heels of flat performance the previous year, according to Department of Statistics estimates. As I have stated on a number of recent occasions, however, we are now witnessing a relatively strong surge in foreign investment projects in both New Providence and across the archipelago and these will clearly lead to a much-needed boost in economic activity and employment creation once these come fully on stream.

It is particularly encouraging that our key tourism sector is continuing to expand at stronger rates. This reflects sustained growth in our key source markets, the U.S. in particular; ongoing incentive programmes offered jointly by the public and private sectors; as well as increased airlift from several markets. Total tourist arrivals in 2014 grew by 2.8 per cent to a level of 6.3 million. The recovery in the high value-added stopover segment of the market has underpinned this growth, with air traffic expanding by 4.9 per cent to 1.3 million. The larger sea segment of the market expanded by 2.2 per cent to a level of 5 million visitors.

Construction activity in 2014 continued to be bolstered by both the Baha Mar mega resort project and a number of other foreign investment projects across the nation. Housing construction, however, remained relatively mild as residential mortgage financing is still subdued.

Our domestic inflation has continued to be relatively muted, even though there has been some

upward pressures from the VAT. In the twelve-month period to January 2015, average consumer prices rose by 1.26 per cent, compared to a 0.4 per cent increase in the previous year. Even with VAT, the Bahamian consumer has benefited from considerable easing in domestic fuel prices in line with the sharp reduction in world crude oil prices.

Reflecting the modest recovery of economic activity, the labour market has been relatively subdued, with the latest estimate of national rate of unemployment at 15.7 per cent in November 2014. Even though total employment rose modestly in the six-months to November that growth was dwarfed by the expansion of the labour force. As I have consistently stated, the great concern for my Government is that unemployment among the youth of our nation hovers around the unacceptably high level of 31 per cent.

It is abundantly clear from these developments that we must, as a high priority, target an appreciable and sustained increase in the rate of economic growth, as well as seek to better position the youth of the country for the emerging job opportunities that will flow from enhanced growth. As I have outlined earlier, our national growth strategy including training and placement of our young people in new jobs being created through various developments and the public private partnership efforts are directly focused on these priorities.

Mr. Speaker, external reserves are one measure of the financial health of our country. These balances held by the Central Bank expanded by 8.5 per cent in 2014 to stand at \$787.7 million at end-December. In line with their seasonal pattern, reserves have grown further in early 2015 to a level of approximating \$950 million in the third week of the current month.

The future prospects for the Bahamian economy and for job creation are expected to strengthen in both the near term and beyond, underpinned by strengthening expansion of the U.S. economy and an ongoing rebound in tourist arrivals.

In its latest World Economic Outlook of April 2015, the IMF projects that the rate of growth of our economy will increase to 2.3 per cent in 2015 and further to 2.8 per cent in 2016. While this is concrete progress indeed, I will reiterate that we must do considerably better still on the growth front if we are to successfully create the jobs required to get to a significantly lower rate of unemployment as well as accommodate our growing labour force. My Government is firmly committed to that goal.

Of course, as we have stated consistently since we came to office, redressing the public finances of the nation and reducing public debt to lower and sustainable levels is a fundamental pre-requisite to set the appropriate and solid foundation for more buoyant economic activity. On this score, I would note that the most recent IMF mission to visit The Bahamas in the context of the Article IV consultations, in March of this year, gave its full endorsement to the Government's multi-year fiscal consolidation programme and commended our achievements with the introduction of the VAT.

I am confident that my optimism for future growth and job creation is well-founded. My Government has, as a core priority, sought out and promoted a number of small, medium and large-scale foreign investment projects across the breadth of the nation. We have modernized our strategic development planning process. We are implementing programmes and services to bolster the training and skills of our workforce, as well as provide for the critical public infrastructure that is required nation-wide to support stronger growth. We are striving to modernize Government corporations. We are streamlining

regulations and Government-business interactions to make the business environment more user-friendly. And, last but not most certainly not least, we are redressing the structure of the public finances to eliminate Government deficits and return Government Debt to lower, sustainable levels. These are undeniably the key ingredients for the significant strengthening of our rate of economic growth and a return to sharply lower levels of unemployment across the nation. I have full confidence that our plan will bear fruit.

FISCAL PERFORMANCE 2014/15

I now turn to fiscal performance in the 2014/15 fiscal year which, I am pleased to report, is now projected to be better than we had expected at the time of the last Budget Communication. As a result, the GFS Deficit this fiscal year is now estimated at a level of \$197 million, down \$89 million from the \$286 million forecast. As such, the Deficit is now expected to amount to 2.3 per cent of GDP, as opposed to the forecasted level of 3.2 per cent. Abstracting from the proceeds from the sale of BTC shares that were attributed to capital revenue in 2010/11, this year's Deficit will come in at its lowest level since 2007/08, fully seven years ago. This is also a sharp improvement from the fiscal structure that we inherited in 2012/13 when the Deficit exceeded 6 per cent of GDP.

On the expenditure front, we have been disciplined in holding total spending to just under the level projected in last year's Budget. Recurrent and Capital Expenditure are projected to amount to \$2,136 million as compared to the forecast of \$2,154 million. We also expect to reach our estimated level of Recurrent Revenues, at \$1,771 million, in part as a result of the successful implementation of VAT, which on net is now expected to generate at least the \$150 million in projected revenue collections this fiscal year.

We now estimate, Mr. Speaker, that total Government debt at the end of 2014/15 will amount to \$5,356 million, down \$88 million from last year's Budget forecast of \$5,444 million.

FISCAL POLICY 2015/16 AND BEYOND:

THE MEDIUM-TERM FISCAL CONSOLIDATION PLAN

Building on the further fiscal improvement that we have achieved this year, we will stay the course with the Medium-Term Fiscal Consolidation Plan that we established early on in this mandate. We will continue to move decisively to transform Recurrent Expenditure, Capital Expenditure and Recurrent Revenue in a manner that is phased, measured and balanced such that our public finances are returned to a structurally sound and sustainable position.

RECURRENT REVENUE

On the Recurrent Revenue front, the reforms that we are implementing, including the introduction of the VAT, are expected to continue to bear fruit in terms of an appreciable and necessary increase in revenue.

Mr. Speaker, taking into account the impact of our reform programme, we project total Recurrent Revenue on the order of \$2,047 million in 2015/16. That is some \$100 million higher than we were projecting at this time last year. The revenue yield in the coming fiscal year will thus amount to 22.2 per cent of GDP, in line with the objectives of our reform plan and up significantly from the unacceptable and inadequately low level of 16.4 per cent achieved in 2009/10. As I have argued previously, this

new level of revenue relative to the size of the economy is fully in keeping with the needs of modern democratic governance, though I would note that it still remains on the low side of the range of revenue yields elsewhere in the region.

Going forward beyond 2015/16, a revenue yield of 22.2 per cent of GDP will make a valuable contribution to the achievement of the key fiscal objectives in our medium-term fiscal plan.

RECURRENT EXPENDITURE

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

Total Recurrent Expenditure in 2015/16 is estimated at a level of \$2,098 million, including some \$154 million in reclassified transfer payments that previously were included in the Capital Expenditure account. Such a reclassification is in line with accepted international practice.

For the sake of comparability with the current fiscal year, Recurrent Expenditure excluding these adjustments would amount to \$1,944 million. That would represent 21 per cent of GDP, the same level as in 2014/15.

As I mentioned earlier, we have also shifted resources to the high priority implementation of the National Health Insurance programme as of January of 2016. As such, Recurrent Expenditure on programmes and services other than NHI will be lower relative to GDP than it is expected to be in 2014/15.

In keeping with our medium-term fiscal consolidation plan, we are still targeting a reduction in Recurrent Expenditure of 0.5 per cent of GDP in each of the two outer years of this year's projection. The ratio will thus be reduced to 22.0 per cent, of GDP in 2017/18, from 22.8 per cent of GDP in 2015/16.

CAPITAL EXPENDITURE

On the Capital Expenditure front, we are adhering to our commitment to reduce its weight relative to the size of the economy over the medium term, as we begin to cultivate more public private partnerships to drive infrastructure growth. Capital Expenditure in 2015/16 will amount to \$235 million, or 2.5 per cent of GDP. This represents real investments and is in fact more than we budgeted last year, when we still classified some \$154 million in subsidies as public investments.

PROJECTED FISCAL RESULTS

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

- it is expected that the GFS Deficit will post a further significant decline in 2015/16 to a level of \$141 million, or 1.5 per cent of GDP, down from \$198 million, or 2.3 per cent of GDP in 2014/15;
- the Balance on Recurrent Account will move from a long-standing deficit position to a balanced position in 2016/17, one year later than previously projected due to the reclassification of transfers;

- the GFS Deficit will be completely eliminated and a small surplus will be recorded in 2017/18;
- the ongoing rise of the Government Debt burden will be arrested and the ratio will decline in the 2015/16 fiscal year; it will then fall steadily to reach 56.8 per cent of GDP in 2017/18, down from the peak of 61.1 per cent in 2014/15.

This fiscal framework, Mr. Speaker, is consistent with a stronger Bahamas, because it bodes well for business confidence and investments that spur medium-term growth, and jobs. It empowers us to have more resources to fund the safety and wellbeing of our citizens, and by virtue of being employed keeps more of our youth away from the negative distractions brought on from being unemployed and idle. The framework is also bringing us more in line with the standards of governance and accountability that apply in advanced and modern economies around the globe.

REVENUE MEASURES

Mr. Speaker, in this Budget Communication, I am pleased to be in a position to announce a number of revenue measures, many of which are designed to provide tax relief to all Bahamians. As well, a common theme throughout is the empowerment of the taxation authorities to have more authority to enforce the collection of government revenue, through investigatory powers and powers of seizure and disposal of assets, as we have provided for with the VAT Comptroller. The financial penalty regime for late payment of taxes will also become more uniform.

Mr. Speaker, we can begin to pay back to the Bahamian people some portion of, though definitely not all of, the dividends from the successful VAT regime. It is clear that we must responsibly allocate a significant portion to other priorities, including fiscal consolidation and the reduction of the Government debt burden.

In this context, it will be recalled that, at the time of the last Budget Communication, I had indicated that it would be prudent to await evidence on the revenue performance of VAT in early 2015 before considering any tariff and excise reductions. In light of our experience and the projections ahead of us, I am now announcing a number of such reductions:

- There is the outright elimination of duty on several items, including medical equipment and supplies, bicycles, burglar alarms and audio visual equipment used by churches;
- Duty rates will be reduced on certain imports such as canned and frozen vegetables;
- the maximum rate of duty on motor vehicles is being reduced from 85 percent to 65 percent.
- Taxicab owners will be relieved to know that they can now import, duty free, used vehicles up to three-years old as opposed to the current restriction to new cars only.
- That said, for environmental and safety reasons, we will ban the importation of wrecked vehicles, and the importation of vehicles of more than 10 years of age. We are also proposing a two-year exemption on customs duty for building materials used to repair small homes and buildings in certain depressed parts of New Providence.
- We will also extend the exemptions under the Family Island Development Encouragement

Act by an additional year and include Abaco, the east and west sections of Grand Bahama, Eleuthera and Bimini under the exemptions.

- The City of Nassau Revitalization Act is also being extended for another year.

All of the foregoing tax incentives mentioned are aimed at spurring economic growth, creation of jobs building repairs and improvement of living conditions.

As we modernize the real property tax administration we fully expect that, through better compliance and more equitable treatment of property owners, we will be able to offer Bahamians tax relief through lower tax rates, while still improving revenue yields. To do so, the strengthened compliance tools and the modernized administration platform are critical. The proposed amendments to the Real Property Tax Act will begin to give some relief to homeowners and businesses as well as strengthen compliance and enforcement. The following are some of the relief measures that we propose in this Budget:

- a reduction in the top tax rates on owner-occupied residential properties with attached rental units
- more pronounced property tax relief for pensioners in mid-value properties
- introduction of a 10 percent discount for residential property owners who pay their taxes early each year; and
- a harmonization in commercial property tax rates at a lower level of 0.75 per cent.

Honourable members will also see a reduction in the maximum rate for business licence fees from 1.75 per cent of turnover to 1.5 per cent, as well as reductions in rates for agriculture and fisheries operated businesses and for independent fuel distributors in the Family Islands.

As we push for more Family Island enforcement, local government districts will be empowered to assist with property tax collection and will be able to share in some of the proceeds to fund capital improvements in their communities.

In addition, as we promote further harmonization with VAT, the Stamp duty on all real estate transactions is being reduced to a lower, single tax rate of 2.5 per cent. VAT will apply in place of the higher rate but only on transfers valued above \$100,000. Effectively, a 10 percent tax will remain on residential transfers above this value, but those below \$100,000 will see notable savings when compared to the current tiered stamp rate structure.

First-time homeowners who qualify will be exempt from the payment of VAT.

The substantial elimination of Stamp duty will also provide a tremendous stimulus to commercial real estate transactions, as VAT registrants will be able to claim credit for such transfer costs, whereas they cannot do so for the current Stamp tax, which can amount to 10 percent on high value transactions.

We also hope to stimulate more investments by Bahamians, particularly in the Family Islands, on what in many cases will be VAT exempt transactions with much lower stamp duty when the purchases are less than \$100,000. This measure also supports those personal acquisitions in New Providence intended for affordable homes development or as modest investments.

The 2015/2016 Budget reinforces the Government's commitment to assist charitable, faith based educational and environmental institutions. This budget includes an increase in the allocation for grants

for educational and civic organizations. This includes a 10% increase in the salary grant for independent schools and \$175,000 increase in the allocation to the Bahamas National Trust.

The Ministry of Social Services was also given a \$500,000 increase in its allocation for grants to assist the less fortunate. This was partially funded by the efficiencies derived through the conditional cash transfer programme. This programme which the Government has partnered with the Bank of The Bahamas provides a much needed assistance to many in a dignified manner. It also provides access to banking services to those in this community which are less fortunate.

Because we have reduced the deficit, improved fiscal responsibility, and attracted significant investments, we are able to further incentivize and intensify economic growth through these new tax concessions.

CONCLUDING REMARKS

In conclusion, Mr. Speaker, I will stress again that the future of The Bahamas is a bright one. But, it is equally clear that there is more work to be done. My Government has begun the process of implementing its bold vision for the future and introducing the novel and innovative ideas needed for fundamental and successful transformation and modernization.

However, Government cannot achieve what is required on its own. I therefore call upon all Bahamians to contribute to the national challenge of making The Bahamas a safer, more prosperous, and modern society. This is indeed our patriotic duty and I invite all Bahamians to consult our new website www.strongerbahamas.com that has been created in support of our broader, more open and inclusive framework for public engagement, policy planning and national development.

Together and with Almighty God's guidance, we will succeed in creating a stronger Bahamas and a better future for all Bahamians.



ANNEX A



StrongerBahamas

For a safe, prosperous and modern future

THE CENTRAL BANK'S
CONTRIBUTION
TO THE
2015/16 BUDGET COMMUNICATION

DOMESTIC ECONOMIC DEVELOPMENTS

INTRODUCTION

Preliminary data from the Department of Statistics indicated that the domestic economy grew modestly by 1.0% in 2014, following a flat performance in the previous year, as the recovery in the high value-added stopover segment of the market supported growth in tourism output. In addition, construction sector activity benefitted from several varied-scale foreign investment-led projects, the largest of which was the multi-billion dollar Baha Mar development. However, given the narrowness of the recovery, labour market conditions remained constrained, resulting in the unemployment rate firming during the six months to November, 2014. The downward trajectory in global oil prices led to a general decline in domestic energy prices; although overall inflation firmed over the review period. Monetary developments were dominated by the sustained build-up in banking sector liquidity, due mainly to ongoing weakness in private sector credit demand and the receipt of net proceeds from the Government's external bond issue. Banks' credit quality indicators improved over the review period, due solely to the transfer of a significant portion of the non-performing commercial loan portfolio from The Bank of The Bahamas (BOB) to the newly created Special Purpose Vehicle (SPV) "Resolve Corporation of The Bahamas". In terms of the external account, the estimated current account deficit widened during the year, due to a significant rise in foreign investment-led construction service outlays and higher transportation outflows. In a modest offset, the capital and financial account surplus expanded, boosted by higher foreign investment-based loan financing and the Government's external borrowing activities.

TOURISM

The performance of the tourism sector improved in 2014, reflecting a rebound in the high value-added stopover segment of the market, amid sustained growth in several key source countries, along with on-going joint public/private sector incentive campaigns, and increased airlift from several markets. Consequently, total tourist arrivals expanded by 2.8% to approximately 6.3 million, albeit lower than the 3.5% gain in the previous year. Underpinning this outcome was a 4.9% recovery in air traffic to 1.3 million, a reversal from a 5.7% contraction in the prior year, while the larger sea component grew by 2.2% to 5.0 million, although below the previous year's 6.3% expansion.

By major ports of call, the growth in arrivals to New Providence slowed sharply to a mere 0.6% from 6.3% in the prior period—for a 3.5 million visitor count—as the moderated 0.2% rise in the sea segment overshadowed the 1.8% gain in air traffic. In contrast, visitors to the Family Islands firmed by 7.5% to 2.0 million, exceeding the 3.5% increase in 2013, owing to gains in both sea and air passengers by 8.0% and 3.0%, respectively. Further, the falloff in Grand Bahama's visitor arrivals tapered to 0.9% from 7.3% in the prior period, as the air segment rebounded strongly by 43.0%, following the launch of new non-stop flight services from eight (8) US cities and the opening of a mid-sized resort in April. In addition, the reduction in the larger sea segment receded to 4.6%, from 6.1% in the prior year.

Data on hotel performance indicators for the ten months to October—the latest available information—for the country, showed an increase in total room revenue of 3.3%, vis-à-vis a 5.3% decrease in the comparative 2013 period. The outturn was due primarily to a 4.5 percentage point rise in the occupancy rate to 56.9%, which outstripped the 3.9% contraction in the average daily room rate (ADR) to \$197.04.

CONSTRUCTION

During 2014, construction output was driven by foreign investment-led projects, mainly the multi-billion dollar Baha Mar development, and to a lesser extent, other varied-scale developments in New Providence and the Family Islands. In contrast, private housing developments remained subdued, reflecting the constrained economic conditions and high levels of non-performing mortgages.

Total domestic mortgage loan disbursements for new construction and building repairs—as reported by banks, insurance companies and the Bahamas Mortgage Corporation—rose by 8.9% to \$97.6 million, a reversal from the 16.1% reduction in the prior year. The outturn was due solely to a \$15.3 million recovery in the commercial mortgage component, after no disbursements were reported in 2013. In contrast, residential commitments declined by 8.1% to \$82.4 million, although lower than the 13.0% contraction in the prior year.

In terms of lending conditions, the average interest rate for commercial mortgages increased by 30 basis points to 8.6%, while the residential rate narrowed by 10 basis points to 8.0%.

INFLATION

Although the implementation of the new Value-Added Tax (VAT) regime led to a modest uptick in average consumer prices, overall domestic inflation for the twelve months to January remained relatively subdued at 1.26%, after recording a rate of 0.37% a year earlier. The gain in the inflation rate reflected a significant rise in the average rates for recreation & culture, by 3.4 percentage points to 4.0% and alcohol beverages, tobacco & narcotics and transport, by 2.2 percentage points each to 6.48% and 2.80%, respectively. In addition, communication costs edged up by 0.1%, a reversal from the 1.78% contraction in the previous year, while inflation rates rose by less than 2.0 percentage points for education (2.73%), health (2.45%), furnishing, household equipment & routine household maintenance (2.17%), food & non-alcoholic beverages (2.14%) and clothing & footwear (1.02%). Further, the decline in average costs for housing, water, gas, electricity & other fuels, narrowed to 0.05% from 0.67% in the previous year. Providing a modest offset, average cost increases for restaurant & hotels and miscellaneous goods & services slowed to 2.21% and 0.91%, from 3.63% and 1.33%, respectively.

In line with the falloff in international crude oil prices in the latter half of 2014, domestic fuel costs decreased in 2014, as the average per gallon cost of both gasoline and diesel fell by 2.0% to \$5.24 and by 2.8% to \$4.99 per gallon, relative to 2013. In addition, the Bahamas Electricity Corporation's average fuel charge moved lower by 4.8% to 24.68¢ per kilowatt hour (kWh) over the previous year.

For the first three months of 2015, average fuel prices maintained their downward trajectory, benefitting from lower global oil prices. Specifically, declines were recorded for gasoline (by 22.2% to \$4.06 per gallon) and diesel (by 24.7% to \$3.85 per gallon), while the Bahamas Electricity Corporation's average fuel charge fell by 7.9% to 21.74¢ per kilowatt hour (kWh) over the comparative three-month period of 2014.

EMPLOYMENT

Labour market conditions deteriorated in the six months to November 2014, attributed in part to the lack of broad-based economic growth and the seasonal rise in the labour force due to the traditional influx of new graduates. According to information from the Department of Statistics' Labour Force Survey, the jobless rate rose to 15.7% over the six months ending November, from 14.3% in the prior period, as the 3,705 person (1.9%) expansion in the labour force to 201,040, outpaced the marginal 460 person (0.3%) increase in the number of employed workers. A further breakdown showed that the jobless rate for both males and females stood at 14.1% and 17.3%, respectively, while unemployment among young persons, those between the ages of 15 and 24 years, remained the highest at 31.0%.

In terms of major job centers, the unemployment rate in the dominant New Providence market—at 74.9% of the labour force—increased to 16.0% in November, from 15.0% in May. Similarly, Grand Bahama's jobless rate advanced by 3.9 percentage points to 18.6%. In addition, the inaugural survey of Abaco showed an unemployment rate of 20.0% for the six months to November 2014.

FOREIGN INVESTMENT AND THE BALANCE OF PAYMENTS

Provisional balance of payments data for 2014 indicated that the current account deficit deteriorated by \$366.3 million (24.5%) to \$1,860.2 million. This outturn reflected a widening in the merchandise trade deficit by \$209.5 million (19.5%) to \$2,420.5 million, as net non-oil imports rose by \$242.5 million (14.2%) to \$1,946.7 million, outpacing the price-led reduction in fuel payments by \$113.6 million (13.1%) to \$752.4 million. Similarly, the surplus on the services account contracted by \$46.3 million (4.4%) to \$996.7 million, underpinned by a \$160.5 million (33.3%) surge in net payments for foreign investment-related construction services, to \$643.1 million and a \$40.5 million (16.6%) increase in net outflows for transportation services to \$285.3 million. In contrast, buoyed by a rise in stopover arrivals, net travel receipts grew by \$74.6 million (3.7%) to \$2,096.8 million, while net inflows from offshore companies' local expenses and Government services expanded by \$20.3 million (11.3%) to \$200.6 million and by \$8.6 million (31.3%) to \$36.2 million, respectively. In addition, net outflows from other "miscellaneous" services declined by \$37.1 million (13.1%) to \$245.5 million, while the net payment for royalty and license fees steadied at \$19.5 million.

The capital and financial account surplus advanced by \$425.4 million (43.0%) to \$1,415.4 million, attributed mainly to a nearly two-fold (\$548.5 million) gain in other "miscellaneous" investment inflows, to \$1,199.9 million. In particular, higher loan financing related to a large-scale foreign investment project, led to a doubling in "other" private investment inflows, from \$451.4 million to \$947.2 million. Further, net public sector capital inflows advanced more than three-fold to \$414.7 million from \$137.8 million, owing to the Government's US\$300 million external bond issue. In contrast, domestic banks' net short-term transactions reversed to a net outflow of \$161.9 million from a \$62.2 million net receipt last year, reflecting largely the repayment of short-term bridging financing. Further, net direct investment inflows tapered by over one-third (\$131.0 million) to \$251.3 million, due to sharp contractions in net real estate purchases and net equity investment inflows, by \$75.1 million and \$55.9 million to \$3.0 million and \$248.3 million, respectively.

FINANCIAL SECTOR

The financial sector remained stable in 2014, amid robust levels of capital and liquidity. The number of banks and trust companies licensed to operate within The Bahamas declined by thirteen (13) to 254, following the marginal loss of one (1) entity in 2013; with 55% coming from G-10 countries. Further, licensed entities operating through physical presence decreased by eleven (11) to 236, while the branch operations of firms operating under approved management arrangements comprised the remaining eighteen (18).

In 2014, the Central Bank approved the registration of nine (9) Private Trust Companies (PTCs), while two (2) companies were removed from the register, which brought the total to one hundred and five (105) at end-December. The number of Financial and Corporate Service Providers that act as Registered Representatives stabilized at five (5), and only one (1) additional licensee was approved to act as Registered Representative of PTCs, which brought the total number of these entities to sixteen (16). Similarly, the number of licensed non-bank Money Transmission Businesses (MTBs) steadied at two (2), and three (3) more registered non-bank money transmission agents were added to the register, bringing the total to eleven (11).

CAPITAL MARKETS

Developments in the domestic capital market remained relatively subdued during the year, reflecting the modest pace of economic growth. In this regard, both the volume and value of shares traded on the Bahamas International Securities Exchange (BISX) declined by 2.0% and 10.0%, to 4.0 million and \$15.0 million, respectively. During the year, market capitalization firmed by 12.9% to approximately \$3.5 billion, to surpass the 4.5% increase in 2013, while the BISX All Share Index—a market capitalization weighted index—advanced by 13.1% to 1,659.30, exceeding the prior year's 9.1% gain.

By end-December, the number of securities publicly traded on the exchange stood at twenty-nine (29), an increase of two (2) over the prior period and consisted of twenty (20) common share listings, five (5) preference share offerings and four (4) debt tranches.

NATIONAL DEBT

The Direct Charge on the Government grew by \$616.2 million (12.4%) to \$5,599.7 million in 2014, extending the \$583.6 million (13.3%) growth in the prior year. Bahamian dollar debt, at an estimated 71.6% of the total, advanced by \$339.0 million (9.2%) to \$4,009.7 million, while total foreign currency credit expanded by \$277.2 million (21.1%) to \$1,590.0 million.

Government's contingent liabilities increased by \$46.9 million (7.8%) to \$648.1 million at end-December, a reversal from a slight \$2.1 million (0.4%) decline to \$601.2 million in 2013, reflecting mainly gains in the outstanding obligations of two entities.

As a result of these developments, the National Debt expanded by 11.9% (\$663.1 million) to \$6,247.8 million at end-December 2014, following an 11.6% (\$581.5 million) increase in the previous year.

PAYMENTS SYSTEMS MODERNIZATION

During 2014, the Central Bank continued in its efforts to promote the development and modernization of the domestic payments system. One of the focal points of the Bank's initiative has been to promote the greater use and acceptance of electronic payment methods, including debit and credit cards, for routine and small-value purchases, and to further reduce cash usage.

In terms of the oversight and supervision of the Systemically Important Payment Systems (SIPS), the Bank continued to work in tandem with the Bahamas Automated Clearing House (BACH), which is responsible for processing cheques and other small value retail payments valued at under \$150,000. During the period, the volume of cheques cleared via the ACH grew by 7.6%, year-on-year, to 3,110,252, while the corresponding value increased by 21.3% to \$7.7 billion.

Large value payments (over \$150,000) between banks and other large institutions are conducted through the Central Bank's Real Time Gross Settlement (RTGS) system. At the end of 2014, the volume of RTGS transactions grew by 16.5% to 65,254, while the associated value of these transactions expanded significantly by 38.2% to \$18.0 billion.

Other key developments which occurred during the period included the implementation of a revised Interchange Fee Agreement between banks and international credit card companies. Discussions also commenced between representatives from the clearing banks association, aimed at eventually implementing Pre-arranged Payment and Deposit Entries (PPDs), which should improve the processing of payroll and utility payments made by commercial bank customers.

MONETARY & CREDIT DEVELOPMENTS

Monetary developments during 2014 featured sustained growth in both bank liquidity and external reserves, reflecting the weakness in private sector credit demand and foreign currency inflows from external borrowings and real sector activities. In interest rate developments, the spread on domestic banks' loans and deposits widened, as the average deposit rate edged lower, while the corresponding lending rate expanded.

With regard to liquidity, banks' average net free cash reserves firmed by 31.6% to \$500.6 million, outpacing the 5.3% advance recorded in the prior year. Similarly, the broader excess liquid assets—which includes holdings of Government securities—firmed by 12.5% to average \$1,231.4 million, compared to a 17.5% gain in the prior year.

Total domestic credit contracted by \$85.8 million (1.0%), a reversal from a \$264.8 million (3.0%) strengthening in 2013, owing primarily to the Government's net repayment of short-term foreign currency bridging financing. Specifically, the growth in banks' net claims on the Government slowed sharply to \$78.0 million (4.0%), from \$351.1 million (22.1%) in the previous year; however, credit to the rest of the public sector expanded by \$20.3 million (4.5%), a turnaround from an \$8.9 million (1.9%) decline in the prior period. In addition, the shift in a significant portion of the non-performing commercial loan portfolio from Bank of The Bahamas to a new Government special purpose vehicle (SPV) contributed to the fall in private sector credit by \$184.1 million (2.8%), following a \$77.4 million (1.2%) reduction in the preceding year.

External reserves expanded by \$46.1 million (6.2%), after a \$68.6 million (8.5%) reduction in 2013, for an end-December 2014 balance of \$787.7 million. A monthly analysis showed that balances strengthened during the first six (6) months of the year, reaching a high of at \$1,016.8 million by end-June; however, in line with the traditional holiday-related increase in foreign currency demand in the latter half of the year, reserves declined over the remaining months, although a modest increase occurred in December. The average monthly balance advanced to \$897.6 million from \$753.3 million in 2013 and at end-December, the reserve stock stood at approximately 11.6 weeks of total imports, a slight gain from the 11.4 weeks at end-December 2013.

In terms of interest rates, the weighted average loan rate firmed by 71 basis points to 11.81%, as both the average consumer loan and overdraft rates increased by 25 and 43 basis points, to 13.90% and 9.76%, respectively. In contrast, respective declines were recorded for both commercial and residential mortgage rates, by 19 and 11 basis points to 8.02% and 7.16%, respectively.

Reflecting the buoyant levels of liquidity, the weighted average deposit rate narrowed by 26 basis points to 1.42%, as the average savings and demand deposit rates fell by 8 and 2 basis points to 0.89% and 0.29%, respectively. Similarly, the average interest rate range on fixed balances softened to 1.16% - 1.76% from 1.35% - 2.20% in the prior period.

The trends noted during 2014 were sustained over the first quarter of 2015, as bank liquidity sustained its robust levels, with excess liquid assets expanding by \$69.1 million (6.1%) to \$1,211.0 million. However, as institutions increased their holdings of short-term Government debt, excess reserves declined by a marginal \$4.8 million (1.0%) to \$488.4 million.

For year-to-date March 2015, total domestic credit contracted by \$57.9 million, a slowdown from the previous year's \$322.7 million reduction. Reflecting this development, the decline in Bahamian dollar credit tapered sharply to \$59.4 million from \$181.3 million in the comparable 2014 period. In contrast, domestic foreign currency credit rose marginally by \$1.5 million, vis-à-vis a \$141.4 million net repayment a year earlier. In terms of the components, net claims on the Government decreased by \$12.3 million, following a sharp contraction of \$248.9 million in the prior year, while credit to public corporations grew by \$14.2 million, a turnaround from the \$28.4 million decrease in 2013. By contrast, private sector fell by \$60.4 million, outpacing the \$45.2 million falloff a year earlier.

At end-March 2015, external reserves stood at \$838.6 million, a gain of \$51.8 million over the three-month period, although significantly lower than the \$206.9 million build-up experienced in 2014, when Government received net proceeds from its US\$300 million external bond issue.

CREDIT QUALITY

For the first three months of 2015, banks' credit quality indicators improved modestly, as total private sector loan arrears contracted by \$77.2 million (6.0%) to \$1,216.2 million, while the ratio of arrears to total loans declined by 1.2 percentage points to 20.3%. The decrease in delinquencies was led by the short-term (31-90 day) segment, which fell by \$41.4 million (13.1%) to \$273.9 million, resulting in the corresponding loan ratio narrowing by 66 basis points to 4.6% of total loans. Similarly, non-performing loans—arrears in excess of 90 days and on which banks have stopped accruing interest—lessened by \$35.8 million (3.7%) to \$942.4 million, with the relevant loan ratio softening by 52 basis points to 15.7%.

Given the slight improvement in credit quality indicators during the review period, banks reduced their total provisions for loan losses marginally by \$0.3 million (0.1%) to \$500.9 million, while the key performance indicators, the ratios of provisions to both total arrears and non-performing loans, rose by 2.4 percentage points to 41.2% and 1.9 percentage points to 53.2%, respectively.

DOMESTIC ECONOMIC OUTLOOK FOR 2015

The pace of growth in the domestic economy is forecasted to rise modestly in 2015, supported by ongoing gains in the high value-added stopover segment of the tourism market, with the phased opening of the Baha Mar mega-resort providing additional impetus to the sector in the latter half of the year. In addition, construction sector activity should be supported by several varied-scale foreign investment projects. In this environment, employment conditions are expected to gradually improve, with the majority of the job gains accruing to the tourism and construction sectors. Inflation is expected to rise modestly—albeit from a low base—reflecting the effects of the new Value Added Tax (VAT) regime on consumer prices, although some offset should be provided by the reduction in global oil prices.

Given the expected softness in consumer spending, bank liquidity is projected to remain at elevated levels, while the outlook for external reserves will depend heavily on the performance of the tourism sector and the level of foreign currency demand to facilitate import purchases.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Information from the International Monetary Fund, showed that world output expanded by an estimated 3.4% in 2014, in line with the prior year's growth, as the United States economy sustained its upward trajectory, while growth rates in Asia continued to slow and activity in Europe remained weak.

In an effort to stimulate higher rates of growth in their respective economies, most major central banks either sustained or expanded their highly accommodative monetary policy measures. Specifically, the European Central Bank (ECB) reduced its three benchmark rates—two of them by 20 basis points each and the other by 45 basis points, and pledged to implement a €1.0 trillion liquidity injection programme in early 2015. Further, the Bank of England maintained its benchmark interest rate at a historically low level and kept the size of its asset purchase programme at £375 billion. Similarly, in an effort to further encourage economic growth, the Bank of Japan (BOJ) expanded its “quantitative easing” measures by ¥30.0 trillion to ¥80.0 trillion, while the People's Bank of China (PBoC) lowered its one-year lending and deposit rates and also injected US\$269.5 billion into a new lending facility. In contrast, the United States Federal Reserve took the initial steps to reduce the level of monetary accommodation, by concluding its six-year long asset purchase programme in October; however, the Bank still kept its main policy rate at a historic low of 0.00%-0.25%.

In the United States, real GDP expanded by 2.4% during the year, following a gain of 2.2% in the prior period, supported mainly by a rise in personal consumption expenditures and non-residential fixed investment. In the external sector, the trade deficit rose by \$28.7 billion to \$505.0 billion, as the 3.4% growth in imports overshadowed the 2.9% rise in exports. Conditions in the labour market continued to improve, as the jobless rate narrowed by 1.1 percentage points to 5.6% at end-2014, while the

inflation rate softened by 70 basis points to 0.8%, reflecting mainly a reduction in fuel costs. Further, supported by improvements in the United States economy, and expectations that the Federal Reserve would raise interest rates over the near-term, the dollar gained in value against all of the major currencies. In particular, the dollar appreciated versus the Japanese Yen, the euro and the Swiss Franc, by 13.7%, 13.6% and 11.5%, respectively. Gains were also reported vis-à-vis the Canadian dollar (9.4%), the British Pound (6.3%) and the Chinese Yuan (2.5%).

The economic performances of the other major economies were mixed during 2014, as the United Kingdom's real GDP expanded by 2.6%, outpacing the prior year's 1.7% upturn, reflecting gains in the services and construction sectors. The euro area recovered from its approximately 2 year-long recession during the review period, as real output expanded by 0.9%, a reversal the previous year's 0.5% contraction, supported by sustained growth in Germany—the region's largest economy—and the recovery in several southern states. In Asia, China's growth rate decelerated by 40 basis points to 7.4%, due largely to a decline in real estate investments. Further, output in Japan fell marginally by 0.1% during the year, a reversal from a 1.6% expansion a year ago, as a hike in the sales tax rate in April contributed to a reduction in consumer spending.

In the commodity markets, the average price of crude oil fell by 9.7% to US\$98.50 per barrel, reflecting a combination of relatively weak demand and increased supply, attributed to higher levels of US shale oil output and stable OPEC production. On a year-on-year basis, the price of oil contracted by 48.6% to \$57.33 per barrel at end-December. Further, the appreciation in the Dollar reduced the demand for gold as an inflation hedge, resulting in the price of the precious metal falling by 10.4% to \$1,252.23 per troy ounce, while silver costs also contracted moderately by 9.7% to \$18.66 per troy ounce. According to the United Nations' Food and Agriculture Organization, food prices continued to fall in 2014, with the overall food price index declining by 3.8%, following 2013's 1.6% reduction.

INTERNATIONAL ECONOMIC OUTLOOK FOR 2015

The International Monetary Fund (IMF) in its April 2015 World Economic Outlook Report, projected that global growth will increase incrementally by 10 basis points to 3.5% in 2015. Underpinning this outturn, output gains in advanced economies are forecasted to accelerate from 1.8% in 2014 to 2.4%, supported by central banks accommodative monetary policy measures and low oil prices. Specifically, the United States economy is anticipated to be one of the major engines of growth, with the economic expansion expected to accelerate by 0.6 of a percentage point to 3.1% over the prior year, benefitting mainly from higher consumer spending. Further, output growth in the euro area is forecasted to quicken to 1.5% from 0.9% in 2014, while economic activity in the United Kingdom is should stabilize at approximately 2.7%. In Japan, a projected rise in export volumes, along with the recovery in consumer spending, is expected to support a modest 1.0% growth in the economy.

In a modest offset, the expansion in emerging market and developing economies is forecasted to taper marginally by 30 basis points to 4.3% in 2015. This outturn reflects mainly an expected slowdown in China's output growth by 60 basis points to 6.8%, owing to lower gains in exports and investment spending. However, benefitting from policy reforms, an uptick in investments and lower oil prices, India's real output expansion is expected to accelerate to 7.5% in 2015 from 7.2% a year earlier.

In commodity market developments, the IMF forecasted that average crude oil prices would decline by 39.6% in 2015, to approximately \$58.10 per barrel. However, this outlook may be affected by upside price risks arising from a slowdown in oil production, higher global demand and ongoing geo-political tensions. In addition, non-fuel commodity prices are projected to fall sharply by 14.1%, exceeding the 4.0% decline in the prior year, as food and metal prices are projected to decline by 16.0% and 17.0%, respectively.



ANNEX B



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Annex B1
MEDIUM-TERM FISCAL CONSOLIDATION PLAN
B\$ millions

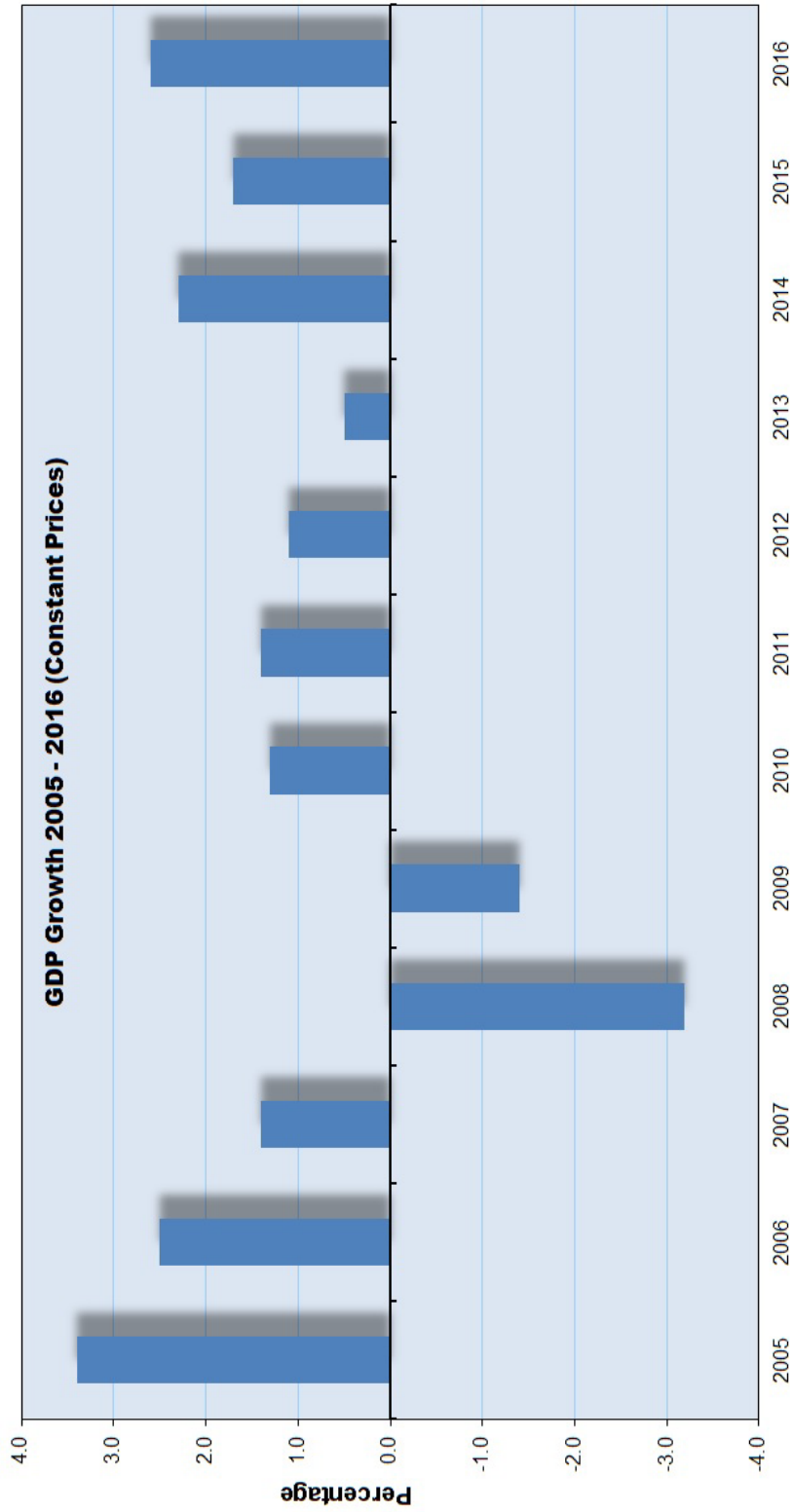
	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>	<u>2011/12</u>	<u>2012/13</u>	<u>2013/14</u>	<u>2014/15</u>	<u>2014/15</u>	<u>2015/16</u>	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>
								Projected	Prior To	With	Projection	Projection
							Budget	Outturn	Reallocation	Reallocation	Projection	Projection
1. Recurrent Expenditure	1499	1529	1642	1632	1691	1707	1823	1844	1944	2098	2127	2171
2. Recurrent Revenue	1331	1292	1452	1432	1383	1470	1770	1770	2047	2047	2153	2195
3. Recurrent Balance (2. minus 1.)	-168	-237	-190	-200	-308	-237	-53	-74	103	-51	26	24
4. Capital Expenditure	262	251	263	395	352	333	331	292	396	242	242	242
5. Capital Revenue	0	0	210	87	0	0	0	3	0	0	0	0
6. Capital Balance (5. minus 4.)	-262	-251	-53	-308	-352	-333	-331	-289	-396	-242	-242	-242
7. Total Deficit (3. plus 6.)	-430	-488	-243	-508	-660	-570	-384	-363	-293	-293	-216	-218
8. Debt Redemption	67	89	77	63	121	82	98	165	152	152	146	187
9. GFS Deficit (7. minus 8.)	-363	-399	-166	-445	-539	-488	-286	-198	-141	-141	-70	-31
10. GDP (Current Prices)	8034	7865	7900	8062	8333	8472	8932	8771	9220	9220	9560	9862
11. GFS Deficit as % of GDP	-4.5	-5.1	-2.1	-5.5	-6.5	-5.8	-3.2	-2.3	-1.5	-1.5	-0.7	-0.3
Memo Items:-												
Growth Rate (current prices)	-3.0	-2.1	0.4	2.1	3.0	1.7	5.4	3.5		5.1	3.7	3.2
Growth Rate (constant prices)	-3.2	-1.4	1.3	1.4	1.1	0.5	2.3	1.7		2.6	2.3	1.7
Government Debt (end June)	3085	3401	3553	3906	4690	5158	5444	5356		5497	5567	5598
Government Debt (% of GDP)	38.4	43.2	45.0	48.4	56.3	60.9	60.9	61.1		59.6	58.2	56.8
Recurrent Expend. (% of GDP)	18.7	19.4	20.8	20.2	20.3	20.1	20.4	21.0		22.8	22.2	22.0
Recurrent Revenue (% of GDP)	16.6	16.4	18.4	17.8	16.6	17.4	19.8	20.2		22.2	22.5	22.3
Capital Expenditure (% of GDP)	3.3	3.2	3.3	4.9	4.2	3.9	3.7	3.3		2.6	2.5	2.5
Primary Balance (\$)	-203	-212	36	-253	-319	-238	-27	56		134	197	228
Primary Balance (% of GDP)	-2.5	-2.7	0.5	-3.1	-3.8	-2.8	-0.3	0.6		1.5	2.1	2.3

* GDP estimates through 2014 are from the Department of Statistics; thereafter from the IMF World Economic Outlook

EXPENDITURES ON THE GROSS DOMESTIC PRODUCT
at Current Market Prices

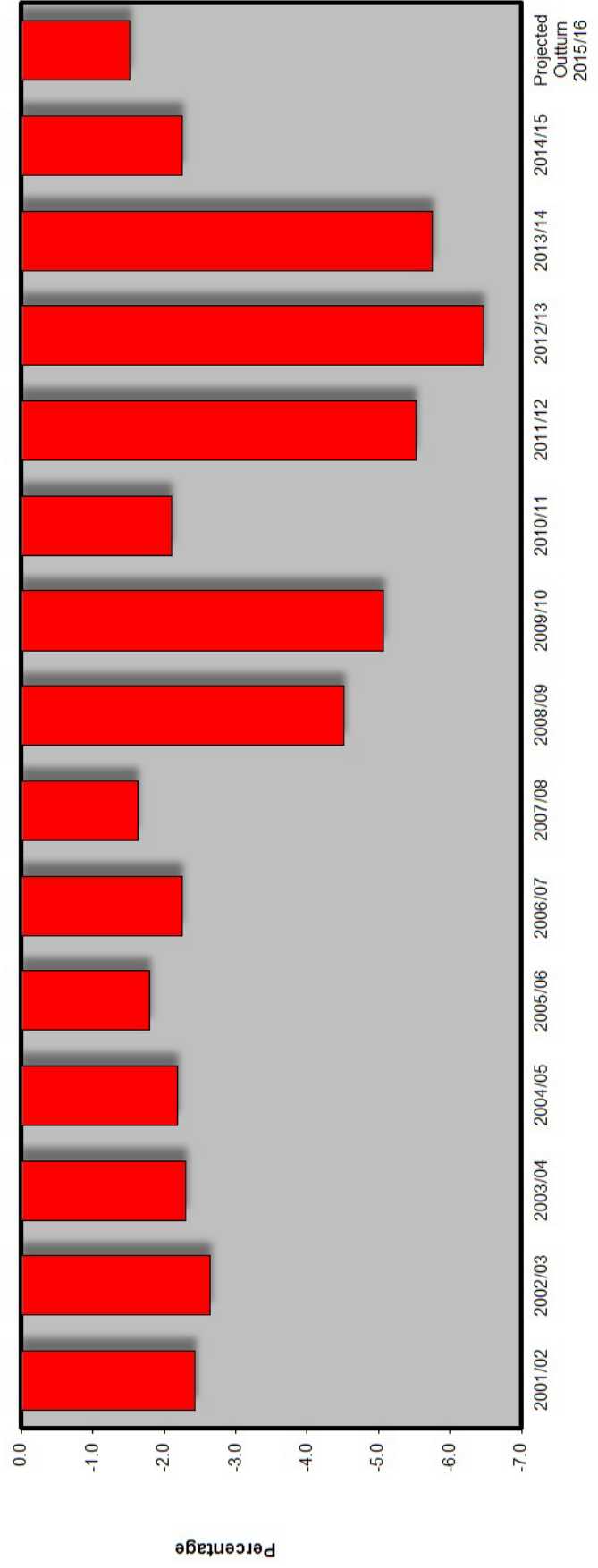
Line	Item	(B\$ millions)				
		2010F	2011R	2012R	2013PV	2014PL
1	Government Final Consumption Expenditure	1,150.37	1,261.32	1,277.24	1,353.26	1,340.88
1.1	Collective consumption expenditure	688.30	804.14	800.72	857.54	870.87
1.2	Individual consumption expenditure	462.07	457.18	476.52	495.72	470.01
2	Private Final Consumption Expenditure	5,436.29	5,535.72	5,881.78	5,784.72	6,166.98
3	Gross Capital Formation	1,994.36	2,171.76	2,330.44	2,280.19	2,446.89
3.1	Change In Stocks	93.69	131.41	79.48	67.14	91.36
3.2	Gross Fixed Capital Formation	1,900.67	2,040.35	2,250.96	2,213.05	2,355.53
3.2.1	Residential Construction	245.84	244.00	228.81	224.71	248.00
3.2.2	Non-Residential Construction	198.80	322.06	477.71	581.00	706.64
3.2.3	Capital-Work-In-Progress	186.04	88.22	104.55	90.11	91.93
3.2.4	Other Construction	373.65	369.40	327.95	300.26	262.91
3.2.5	Machinery & Transport Equipment	896.32	1,016.67	1,111.94	1,016.97	1,046.06
4	Exports of Goods and Services	3,223.08	3,443.30	3,733.28	3,715.11	3,738.82
5	Less: Imports of Goods and Services	3,894.52	4,522.35	4,988.26	4,701.53	5,183.07
6	EXPENDITURE ON GROSS DOMESTIC PRODUCT	7,909.58	7,889.75	8,234.47	8,431.75	8,510.50
	GDP NOMINAL GROWTH RATE		-0.25%	4.37%	2.40%	0.93%

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

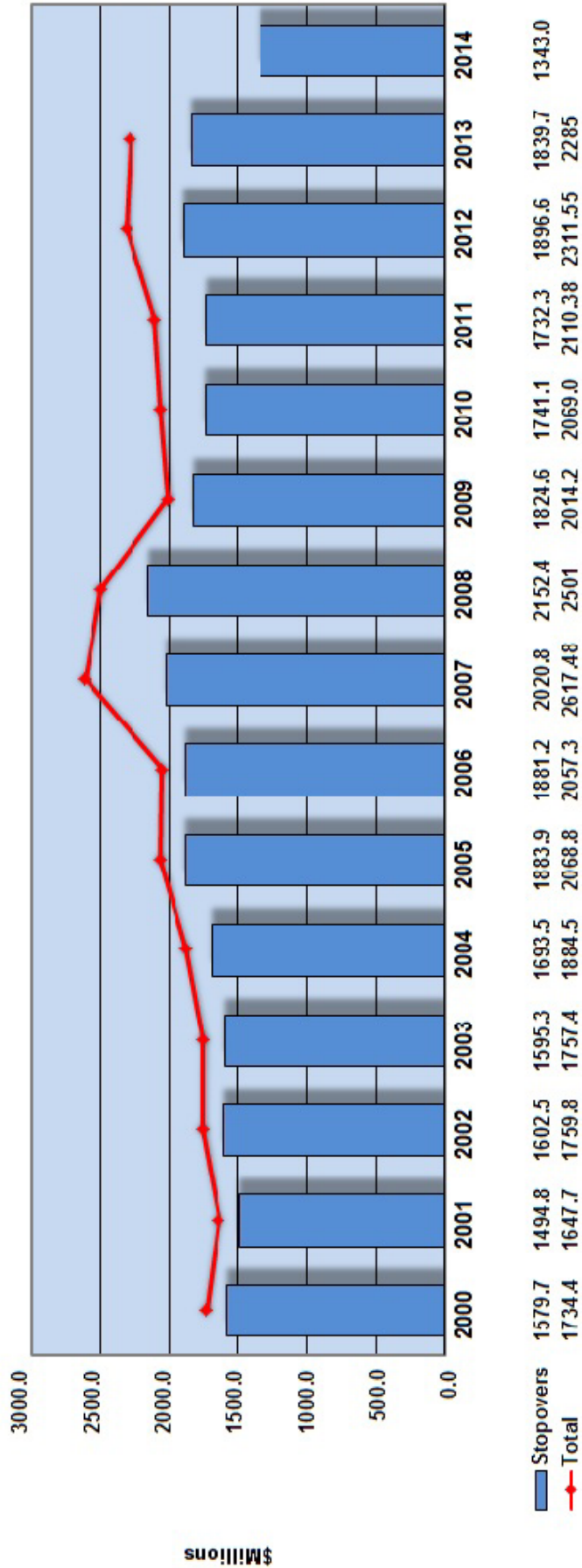


e: IMF Projections, World Economic Outlook, April 2014
 Department of Statistics 2005-2013

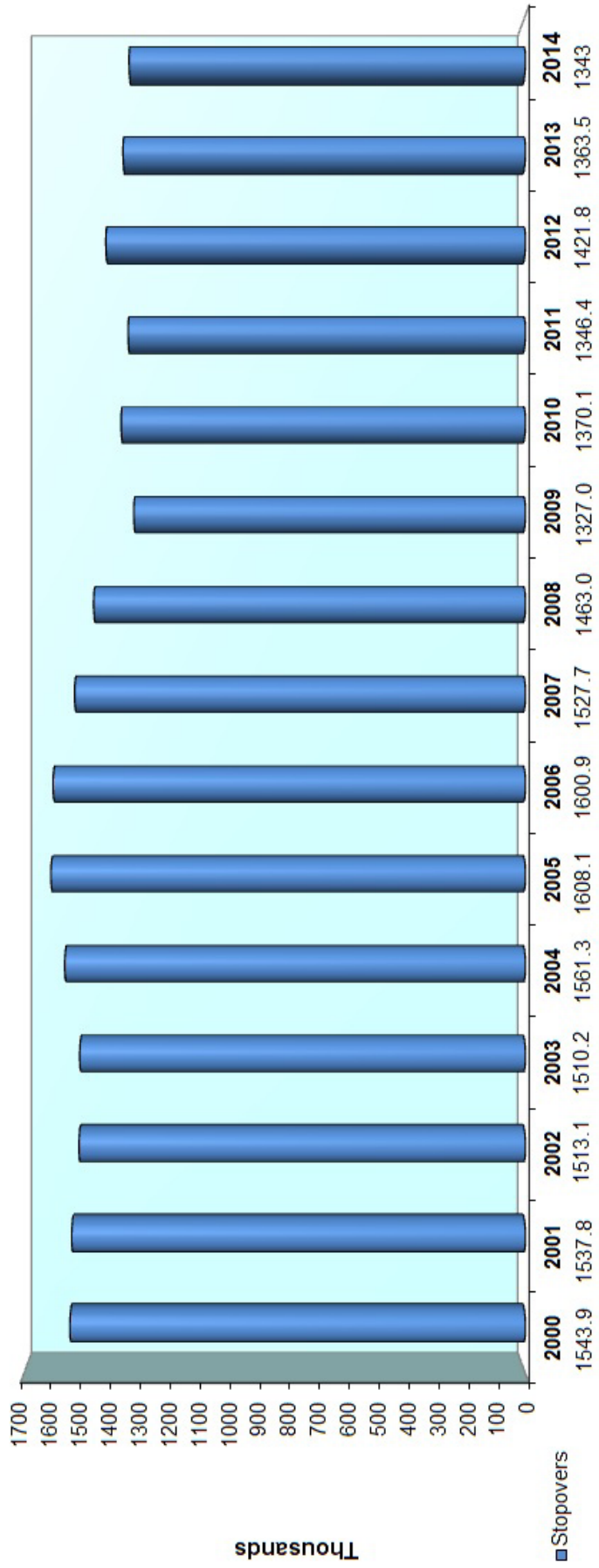
GFS Deficit % of GDP



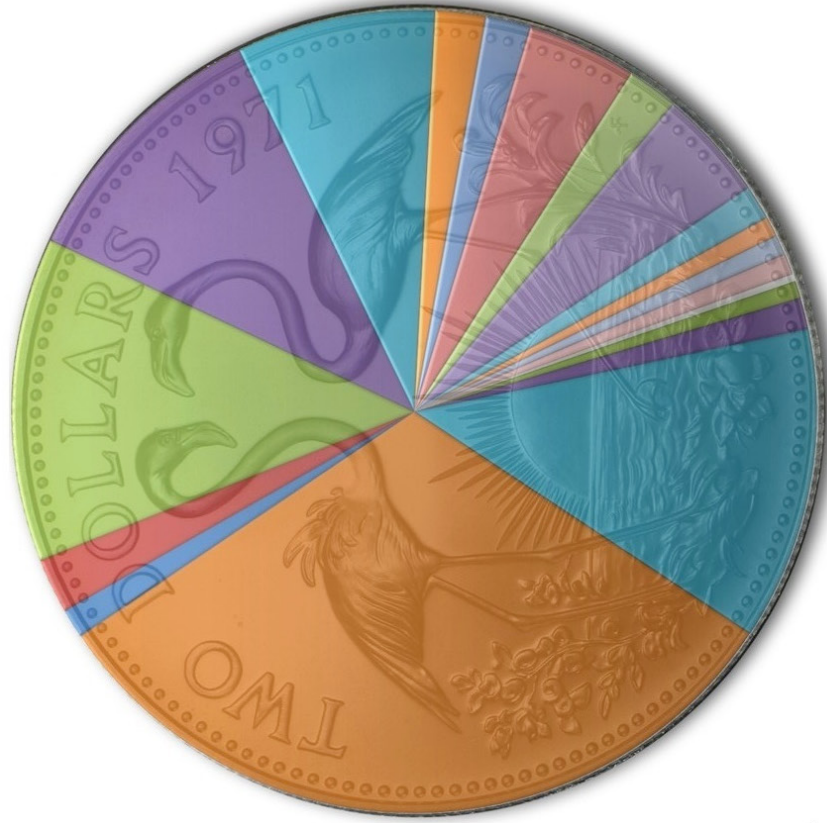
Tourist Expenditure 2000 - 2013



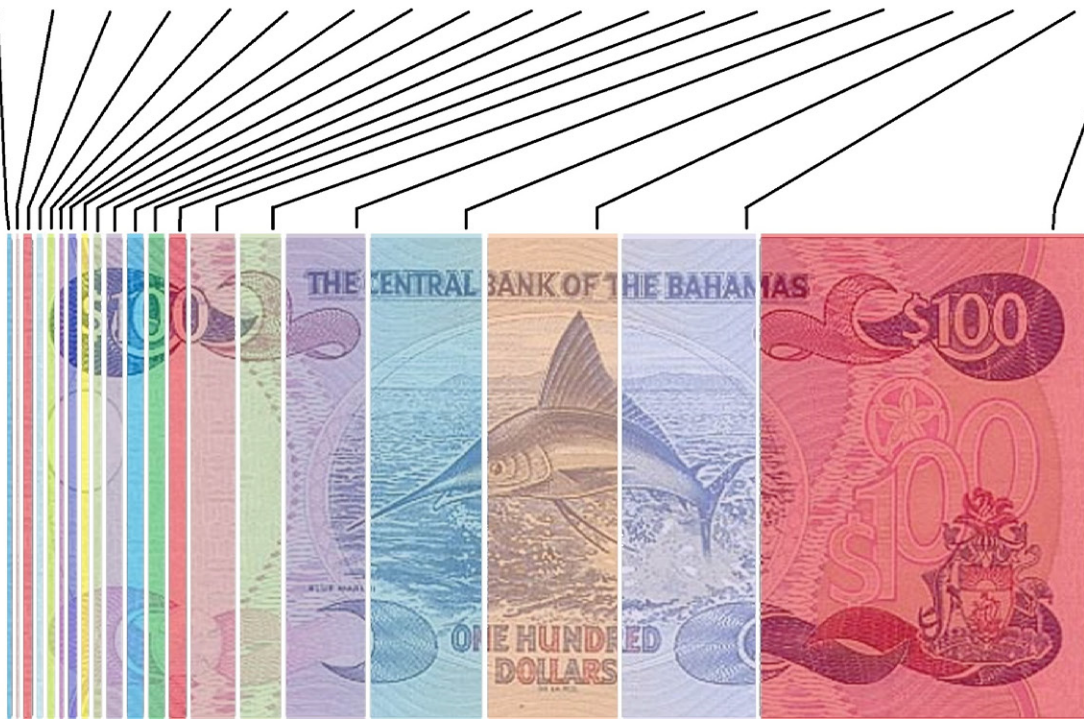
Total Stopover Arrivals 2000 - 2013



Governor-General And Staff	0.1%
Legislative	0.2%
Ministry For Grand Bahama	0.7%
Ministry Of Agriculture & Marine Resources	1.3%
Ministry Of Education, Science And Technology	12.6%
Ministry Of Finance	31.2%
Ministry Of Financial Services	1.2%
Ministry Of Foreign Affairs & Immigration	2.2%
Ministry Of Health	13.1%
Ministry Of National Security	10.8%
Ministry Of Public Service	8.0%
Ministry Of Social Services	2.0%
Ministry Of The Environment & Housing	1.8%
Ministry Of Tourism	4.4%
Ministry Of Transportation & Aviation	2.1%
Ministry Of Works & Urban Development	4.5%
Ministry Of Youth, Sports & Culture	1.4%
Office Of The Attorney-General And Ministry Of Legal Affairs	0.8%
The Cabinet And Office Of The Prime Minister	0.8%
The Judiciary	0.9%



Governor-General And Staff	\$ 1,382,036.00
Legislative	\$ 4,501,676.00
Ministry For Grand Bahama	\$ 14,958,863.00
The Cabinet And Office Of The Prime Minister	\$ 16,804,100.00
Office Of The Attorney-General And Ministry Of Legal Affairs ...	\$ 17,199,619.00
The Judiciary	\$ 17,910,724.00
Ministry Of Financial Services	\$ 24,916,805.00
Ministry Of Agriculture & Marine Resources	\$ 26,481,878.00
Ministry Of Youth, Sports & Culture	\$ 29,104,826.00
Ministry Of The Environment & Housing	\$ 37,855,248.00
Ministry Of Social Services	\$ 42,557,734.00
Ministry Of Transportation & Aviation	\$ 43,291,935.00
Ministry Of Foreign Affairs & Immigration	\$ 46,868,276.00
Ministry Of Tourism	\$ 92,418,980.00
Ministry Of Works & Urban Development	\$ 93,594,456.00
Ministry Of Public Service	\$ 167,499,908.00
Ministry Of National Security	\$ 226,780,598.00
Ministry Of Education, Science And Technology	\$ 264,580,316.00
Ministry Of Health	\$ 274,093,702.00
Ministry Of Finance	\$ 655,601,390.00





ANNEX C



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DISCUSSION PAPER ON
THE INTRODUCTION OF
FISCAL RULES IN THE BAHAMAS

I. INTRODUCTION

Some 87 countries¹, including at least six² countries in the Caribbean region, have adopted fiscal rules to support fiscal responsibility and debt sustainability. Recent studies by the IMF suggest that, on average, the use of fiscal rules is associated with improved fiscal performance³. Against this background, and building on reforms aimed at strengthening public financial management currently being implemented, the government has requested CARTAC to prepare a short briefing paper on the feasibility of, and options for, the introduction of fiscal rules for the Bahamas.

This paper briefly describes the type of rules being used in other countries, the potential benefits and challenges in adopting fiscal rules, and the key preconditions, in terms of supporting frameworks and data, for successful implementation. It concludes by setting out the immediate priorities and next steps required to establish the necessary institutional, reporting and policy framework for establishing fiscal rules. The paper draws extensively from the 2009 IMF Fiscal Affairs Department paper *Fiscal Rules—Anchoring Expectations for Sustainable Public Finances* and the later 2012 IMF Working Paper *Fiscal Rules in Response to the Crisis—Toward the “Next-Generation” Rules*⁵.

II. WHAT ARE FISCAL RULES?

The IMF Working Paper (2012) defines a fiscal rule as ‘a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates’. It further notes that such rules are aimed at correcting distorted incentives and containing pressures to overspend, so as to ensure fiscal responsibility and debt sustainability as well as supporting economic stability, containing the size of government and promoting intergenerational equity⁶. In recent years, this definition has evolved to include greater flexibility both in the band of fiscal adjustment and the time frame, and to include procedural rules.

In determining which rule or rules to establish and supporting administrative and legal framework, there is a range of options that the Government could consider. The most commonly applied rules are debt rules that set an explicit limit or target for public debt in percent of GDP and budget balance rules that limit the size of the budget deficit (often specified as overall balance, primary balance, structural or cyclically adjusted balance, and/or balance “over the cycle.”). Some countries have also adopted specific expenditure rules that set limits or ceilings on spending (either total, primary or current expenditure or on specific expenditures) and/or revenue rules that set revenue ceilings or floors aimed at boosting revenue collection or preventing excessive tax burden. The following table lists the key properties of the four main types of fiscal rules.

¹*Fiscal Rules at a Glance*, Tidiane Kinda, Christina Kolerus, Priscilla Muthoora, and Anke Weber, IMF Background Paper, October 2013

²*Fiscal Rules at a Glance* identifies the following Caribbean countries with fiscal rules: In addition, the British Overseas Territories of Anguilla and Turks and Caicos have also introduced a range of fiscal rules to strengthen fiscal sustainability.

³*Fiscal Rules—Anchoring Expectations for Sustainable Public Finances I* Prepared by the Fiscal Affairs Department, IMF December 16, 2009

⁴*ibid.*

⁵*Fiscal Rules in Response to the Crisis—Toward the “Next-Generation” Rules. A New Dataset* Andrea Schaechter, Tidiane Kinda, Nina Budina, and Anke Weber, IMF Working Paper WP/12/187, July 2012

⁶*ibid.* p5

TABLE 1: PROPERTIES OF DIFFERENT TYPES OF FISCAL RULES

TYPE OF FISCAL RULE	PROS	CONS
	Direct link to debt sustainability. Easy to communicate and monitor.	<p>DEBT</p> No clear operational guidance in the short run as policy impact on debt ratio is not immediate and limited. No economic stabilization feature (can be pro-cyclical). Rule could be met via temporary measures (e.g., below-the-line transactions). Debt could be affected by developments outside the control of the government.
	Clear operational guidance. Close link to debt sustainability. Easy to communicate and monitor.	<p>BUDGET BALANCE</p> No economic stabilization feature (can be pro-cyclical). Headline balance could be affected by developments outside the control of the government (e.g., a major economic downturn).
	Relatively clear operational guidance Close link to debt sustainability Economic stabilization function (i.e., accounts for economic shocks). Allows to account for other one-off and temporary factors.	<p>STRUCTURAL BUDGET BALANCE</p> Correction for cycle is complicated, especially for countries undergoing structural changes. Need to pre-define one-off and temporary factors to avoid their discretionary use. Complexity makes it more difficult to communicate and monitor.
	Allows for economic stabilization. Steers the size of government. Relatively easy to communicate and monitor.	<p>EXPENDITURE</p> Not directly linked to debt sustainability since no constraint on revenue side. Could lead to unwanted changes in the distribution of spending if, to meet the ceiling, shift to spending categories occurs that are not covered by the rule.
	Steers the size of government Can improve revenue policy and administration Can prevent pro-cyclical spending (rules constraining use of windfall revenue)	<p>REVENUE</p> Not directly linked to debt sustainability since no constraint on expenditure side (except rules constraining use of windfall revenue) No economic stabilization feature (can be pro-cyclical)

Source: IMF staff assessment included in IMF Working Paper WPI/21/87

Many countries have adopted a combination of two or more of these fiscal rules to achieve their objectives. Within the region, the fiscal rules of the Eastern Caribbean Currency Union (ECCU) members initially aimed to reduce the public debt-to-GDP ratios to 60 percent by 2020. The time frame has subsequently been amended to 2030. ECCU members also had in place for some time an overall deficit target of 3 percent of GDP. However, compliance was weak due to various external shocks that impacted the region, and the overall deficit target was dropped in 2006. Achieving a primary balance consistent with the debt target has been used to guide fiscal policy since then.

It is also important to ensure that the rules do not result in unintended and undesirable impacts. For example, the application of overly rigid deficit and debt rules may exacerbate the fiscal and economic impact of external fiscal shocks, which, in turn, may lead to further deterioration of fiscal balances and debt. Such rules may also reduce the quality of fiscal policy because they are generally silent on the composition of the eventual fiscal adjustment needed to comply. This may result in a bias towards making less politically difficult reductions in capital spending that impact on development and growth, rather than current expenditure. The application of numerical rules can also result in the use of more “creative” accounting and off-budget operations to be seen abiding by the rule, reducing transparency. It is important that such issues are taken into account when designing rules.

In addition to numerical rules many countries have adopted procedural rules. Procedural rules are non-numerical in nature but can provide essential support to developing a responsible fiscal framework. A number of such procedural rules have been recommended for the Bahamas as part of the strategic budget reform initiative supported by CARTAC including the introduction of formal rolling forward estimates that aim to establish ‘hard’ multi-year budget ceilings and procedures to limit the number and scope of post-budget supplementary estimates.

III. DESIGNING THE ‘RIGHT’ FISCAL RULES FOR THE BAHAMAS

The Bahamas needs to consider which fiscal rules are most appropriate for the country’s circumstances, how much flexibility should be built into the rules, if any, and what government activities the rules should encompass. In regards to the supporting legal and administrative framework, consideration needs to be given on whether to enact such rules within a fiscal responsibility law, or simply through executive government commitment. It is also important to emphasize that in establishing any kind of rule, it must cover the ‘whole of government’ including SOEs and total government liabilities.

CHOICE OF RULE

A rule has to be credible with regard to its ability to help deliver the required adjustment and put debt on a sustainable path. But it should also have adequate flexibility to respond to shocks. A recent, and still emerging, strategy has therefore been implemented to set fiscal targets within a band and meet compliance over the medium term or the business cycle. These provide room for both discretionary and cyclical adjustments.

The overall budget balance as a ratio to GDP is, in principle, the variable that is most closely linked to the debt ratio, although operations that are off-budget (e.g., extra budgetary funds) or recorded as financing items could weaken this link. Fiscal rules based solely on debt to GDP ratio also have their weaknesses. Debt is primarily influenced via the budget balance, but given the lags entailed in the impact of any budgetary slippages on the debt ratio, remedial action may come too late to avoid adverse debt dynamics and market reaction. Debt can also be highly volatile in some cases as a result of changes in interest rates and the exchange rate, as well as “below-the-line” financing operations, which could imply the need for unrealistically large fiscal adjustments.

Targeting the level of expenditures under the control of the policymakers can provide operational guidance and are easy to monitor, but they are not linked directly to the debt ratio without considering the revenue side. Some countries exclude capital expenditure from fiscal targets (the “golden rule”) on the grounds that such spending contributes to growth over the long run. However, not all capital expenditure is necessarily productive, or that other items, such as expenditures on health and education, may raise productivity and potential growth more. The exclusion of capital expenditure therefore needs to be weighed against risks of “creative” accounting that reclassifies spending items, lower transparency, and a weaker link to sustainability.

NUMERICAL VS PROCEDURAL RULES

The main argument in favor of numerical targets is, as mentioned above, providing a fixed target, reducing transaction cost, and holding government accountable to meet a measureable target. The main arguments against numerical targets are that they may be pro-cyclical, and reduce the scope of counter cyclical policy. The use of escape clauses becomes more common in times of fiscal stress. Empirical evidence points to limited success of numerical rules, and, as noted above, the use of non transparent devices such as ‘creative accounting’ for compliance. The arguments in favor of procedural rules are these also commit the governments, and these are credibility based, particularly when supported by a strong PFM system.

SUPPORTING FRAMEWORK – LAW VS EXECUTIVE COMMITMENT

Fiscal rules embedded within stronger legal frameworks, including fiscal responsibility laws tend to be more difficult to reverse. The main arguments in favor of a law are that it provides a fixed target and guide to fiscal policy. Law based fiscal rules eliminates the role of discretion, and thus reduces transaction cost. It provides a fixed anchor and, along with an escape clause, can provide sufficient flexibility to deal with external shocks and to follow counter cyclical policies. Fiscal rules embedded within laws tend to be more difficult to reverse. The main argument against it is that empirical evidence success of such laws is mixed. Procedural rule based commitment can be equally strong, and put government’s credibility on line. While laws are enacted at a fixed point of time, rules can evolve over time, in stages of gradual and greater sophistication. Rule based laws also generally take longer to establish, particularly in times of economic and political uncertainty. The decision on the precise fiscal rule framework will, of course, require a more in-depth analysis of the Bahamas’ fiscal situation, institutional capacity and as well as an assessment of the extent of political commitment to implementing and applying such a framework.

IV. WHAT ARE THE ESSENTIAL PRECONDITIONS FOR FISCAL RULES?

Successful adoption and application of fiscal rules requires a number of essential preconditions to be in place, without which, the rules are unlikely to be sustained and may end up undermining policy credibility. These preconditions include a high level of institutional capacity, information systems that support sound macro-economic and fiscal forecasts and financial reporting, and a high level of transparency in fiscal policy making and operations. The MOF, with the support of CARTAC, has begun to address these issues in recent years, including:

- the preparation of medium term fiscal framework, as part of a more comprehensive Medium Term Economic and Fiscal Outlook Statement (MTEFOS);
- the development of new CoA consistent with IMF GFS classification; and, as noted above,
- the introduction of rolling multi-year budget ceilings and tools that support greater transparency and accountability.

However, in general, the pace of reform has been slow, and further significant work is required to complete these necessary preconditions for fiscal rules. In particular, access to accurate and reliable financial information will be critical for monitoring adherence to fiscal rules as well as providing an early warning if policy changes are needed. Indeed, the lack of quality data will quickly destroy the credibility of fiscal rules. Internal and external audit systems also need to ensure that public resource utilization is fully accounted for. It is also important that fiscal data consistent with the budget reporting system is publicly released in line with a pre-announced calendar to allow external monitoring of the rules. The ability to comply with any targets set by the fiscal rules will, at the same time, require the continued application of rolling multi-year budget ceilings in order to effectively control expenditure.

V. DEVELOPING A FISCAL RULE ‘ROAD MAP’

The development of a fiscal rule ‘road map’ will be required to guide implementation. The road map should set out the timelines and assign responsibilities for addressing the following immediate priorities and implementing the next steps.

IMMEDIATE PRIORITIES

- Complete the development of the new GFS compliant Chart of Accounts (for implementation from the 2016/17 fiscal year) and ensure coverage and capacity for fiscal reporting of total government liabilities and the operations of the SOEs;
- Embed procedural rules to support and reinforce expenditure discipline including:
 - Formally adopting ‘rolling’ forward estimates’ commencing with the 2015/16 budget (forward estimates to ‘roll forward’ to establish baseline ceilings for 2016/17);
 - Restricting supplementary estimates to urgent, unavoidable and unforeseen expenditures only and consider making any supplementary appropriations budget neutral to maintain the integrity of the original budget parameters;
 - Deferring all other new spending requests until the annual budget preparation cycle (when competing demands for resources can be more effectively prioritized);

- o Preparation of an annual ‘budget ceiling reconciliation table’ that tracks and explains all adjustments from the previous year’s forward estimate to the final budget ceiling.
- Prepare a comprehensive and formal Medium Term Economic and Fiscal Outlook Report (incorporating a Medium Term Fiscal Framework) commencing with the 2016/17 budget cycle
 - o A final version of the MTEFOS, incorporating latest budget parameters, should be submitted to the National Assembly as a supporting budget paper;

NEXT STEPS

- Determine medium term targets (within a band) such as operational balance/surplus and a downward trajectory of deficit and stock of debt, levels of development expenditure, etc.;
- Establish annual budgetary targets, consistent with the medium term framework;
- Develop options, and/or identify the most appropriate fiscal rules, for the Bahamas, taking into account economic and fiscal circumstances and potential risks;
- Ensure that there is sufficient political commitment to pursue fiscal discipline and respect the consequences of that discipline
- Undertake discussions/raise awareness among key stakeholders and the wider community regarding the establishment of fiscal rules, the key benefits of the rules, and restrictions that this implies for fiscal and expenditure policies;
- Identify safety mechanisms for protecting the most vulnerable sections of society from any unintended and consequences of fiscal rules
- Develop options for administrative or legal framework.

Making recommendations on the type, coverage, and appropriate targets for establishing fiscal rules is outside the scope of this paper. The Government may wish to seek the support of the Fiscal Affairs Department of the IMF to undertake and prepare a more detailed fiscal analysis and recommendations tailored to the Bahamas particular economic and fiscal circumstances.

CARTAC
March 2015



ANNEX D



StrongerBahamas

For a safe, prosperous and modern future

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
1	Reduce the duty on costume jewellery	45%	20%	Tariff Act	
2	Reduce the duty on construction lime	35%	10%	Tariff Act	
3	Reduce the duty on surgical gloves (rubber)	45%	10%	Tariff Act	
4	Reduction of duty on catheters, Syringes, needles and cannulas	25%	Free	Tariff Act	
5	Reduce the duty on burglar and fire alarms	45%	Free	Tariff Act	This amendment seeks to align the duty rate of burglar and fire alarms with the duty of security systems which are duty free.
6	Increase the duty on natural/spring water, mineral water and distilled water	45%, 60% and 75%	100%	Tariff Act	Currently there are three different rates on water 45%, 60%, and 75%. This amendment seeks to combine all the rates into one rate.
7	Reduce the duty of pesticides (Rodenticides)	35%	10%	Tariff Act	This amendment seeks to align all pesticides to one rate.
8	Reduce the duty on gloves and mittens	45%	20%	Tariff Act	
9	Reduce the duty on malt extract (Milo)	40%	Free	Tariff Act	
10	Reduce the duty on canned and frozen vegetables	40%	25%	Tariff Act	
11	Reduce the duty on sowing seeds	35%	Free	Tariff Act	
12	Reduce the duty on potting soil	45%	25%	Tariff Act	
13	Reduce the duty on particle boards	45%	5%	Tariff Act	
14	Reduction of duty on table syrup	30%	Free	Tariff Act	
15	Reduction of duty on stuffed pasta	40%	10%	Tariff Act	
16	Amend Chapter 98 of the Tariff Act to allow churches to import visual equipment duty free			Tariff Act	Visual equipment not on the Church duty exemption list

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
17	Reduce the duty on bicycles and tricycles	45%	Free	Tariff Act	
18	Amend Chapter 98 of the Tariff Act to allow the Minister to designate certain parts of new Providence to receive duty free exemptions, subject to certain conditions, to build, renovate or repair residential and commercial buildings			Tariff Act	
19	Adjust the excise duty on motor vehicles so that all values attract a duty rate of 65%	Vehicles attract the duty rates of 85%, 75% and 65% depending on the value of the vehicle	All vehicles attract a duty rate of 65%	Tariff Act/ Excise Act	
20	Amend Chapter 98 of the Tariff Act and the Excise Act to allow duty exemption on processing machinery for use in the recycling of waste		Free	Tariff Act/ Excise Act	
21	Amend Chapter 98 of the Tariff Act and the Excise Act so that medical equipment for medical institutions (inclusive of veterinarian, denial practices) that serve the public can be imported duty free.	Various Rates	Free	Tariff Act/ Excise Act	
22	Amend Chapter 98 of the Tariff and the Excise Act to allow for duty exemption on original artwork once verified by the Director of National Art Gallery	10%	Free	Tariff Act / Excise Act	Application to be made to the curator of the National Art Gallery for onward transmission to the Ministry of Finance for final approval
23	Adjust Chapter 98 of the Tariff Act and the Excise Act so that taxis and liveries (franchise) three years or less qualify for duty exemption	Only new vehicles can qualify for exemption	Vehicles three years or less qualify for exemption	Tariff Act/ Excise Act	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
24	Amend Chapter 98 of the Tariff Act and the Excise Act to adjust the concessions being granted to returning residents. To qualify for the exemption the resident must have lived out of the country for two consecutive years or more. They will receive duty exemption on household items not exceeding a value of \$10,000 and duty exemption on one vehicle not exceeding a value of \$30,000 payable. A returning resident can only qualify for the exemption once every five years.	Returning residents receive up to \$300.00 duty exemption.	Returning residents receive duty exemption not exceeding \$10,000.00 on household items and duty exemption on one vehicle not exceeding \$30,000.	Tariff Act / Excise Act	
25	Amend the Spirits and Beer Manufacture Act to specify a duty rate on non alcoholic beer	No category for non alcoholic beer specified in the Spirits and Beer Manufacture Act	A category for Non Alcoholic beer specified in the Spirits and Beer Manufacture Act	Spirits and Beer Manufacture Act	These are new products to be added to the Spirits and Beer Manufacture Act.
26	Amend the Customs Management Act to levy a surcharge of 1 cent per gallon on imported fuel excluding aviation fuel.	No surcharge on fuel imports	A surcharge of 1 cent per gallon on imported fuel excluding aviation fuel is levied	Customs Management Act Regulations	
27	Apply a customs security fee of \$10.00 per twenty-foot equivalent unit on all containers imported and exported from the Bahamas.	No security fee charged on importation and exportation of containers	A security fee charged for the importation and exportation of containers	Customs Management Act Regulations	
28	Apply a security fee of \$10.00 on all motor vehicles imported to or exported from The Bahamas	No security fee charged on importation and exportation vehicles	A security fee of \$10.00 levied on the importation and exportation of vehicles	Customs Management Act Regulations	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
29	Amend the Customs Management Act so that drones are restricted and are allowed to be imported only on approval by the Minister.	The importation of drones not restricted	The importation of drones restricted	Customs Management Act	
30	Amend the Customs Management Act so that vehicles with non-rebuildable titles are prohibited.	The importation of vehicles with non-rebuildable titles is not prohibited. To become effective September, 1, 2015	The importation of vehicles with non-rebuildable titles is prohibited.	Customs Management Act	
31	Amend the Customs Management Act so that vehicles 10 years and older are restricted and are allowed to be imported only on approval by the Minister.	Vehicles 10 years and older not restricted. To become effective September, 1, 2015	Vehicles 10 years and older restricted.	Customs Management Act	
32	Amend the Customs Management Act so that motorcycles 10 years and older are restricted and are allowed to be imported only on approval by the Minister.			Customs Management Act	
33	Amend the Customs Management Act so that bedes are prohibited.			Customs Management Act	
34	Reduce the rates levied on Real Property Tax for owner occupied properties.	.75%	.625%	Real Property Tax Act	The rate reduction is contingent on an increase in the number of properties in RPT Register

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
35	Amend the Real Property Tax Act to include a new category of Real Property called Residential Property and apply the following Rates: Property valued under \$75, 000 a fee of \$300.00 . Property over \$75,000 a rate of 5/8 (.625%) of the property value.	No category for residential property in The Real Property Tax Act	A category for residential property in The Real Property Tax Act	Real Property Tax Act	
36	Reduce the Real Property Tax rate for Commercial properties valued up to \$500,000.	Rate - 1%	Rate - 0.75%	Real Property Tax Act	
37	Allow pensioners a 50% reduction on Real Property Tax bill for properties valued under \$1 million. Property must be owner occupied and registered in the name of the pensioner. Verification of whether a person qualifies or not for the concession will be done by the Financial Secretary and shall be done annually. The property must be Bahamian or permanent residents owned.			Real Property Tax Act	
38	Amend Real Property Tax Act to allow Real Property tax exemption on properties used for religious worship	Properties used for religious worship exempted from Real Property Tax.	Properties owned by non profit companies incorporated for religious purposes are exempted for real Property Tax	Real Property Tax Act	
39	Allow for a 10% discount on RPT applicable to accounts that are current and paid in full before March 31st			Real Property Tax Act	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
1	Reduce the duty on costume jewellery	45%	20%	Tariff Act	
2	Reduce the duty on construction lime	35%	10%	Tariff Act	
3	Reduce the duty on surgical gloves (rubber)	45%	10%	Tariff Act	
4	Reduction of duty on catheters, Syringes, needles and cannulas	25%	Free	Tariff Act	
5	Reduce the duty on burglar and fire alarms	45%	Free	Tariff Act	This amendment seeks to align the duty rate of burglar and fire alarms with the duty of security systems which are duty free.
6	Increase the duty on natural/spring water, mineral water and distilled water	45%, 60% and 75%	100%	Tariff Act	Currently there are three different rates on water 45%, 60%, and 75%. This amendment seeks to combine all the rates into one rate.
7	Reduce the duty of pesticides (Rodenticides)	35%	10%	Tariff Act	This amendment seeks to align all pesticides to one rate.
8	Reduce the duty on gloves and mittens	45%	20%	Tariff Act	
9	Reduce the duty on malt extract (Milo)	40%	Free	Tariff Act	
10	Reduce the duty on canned and frozen vegetables	40%	25%	Tariff Act	
11	Reduce the duty on sowing seeds	35%	Free	Tariff Act	
12	Reduce the duty on potting soil	45%	25%	Tariff Act	
13	Reduce the duty on particle boards	45%	5%	Tariff Act	
14	Reduction of duty on table syrup	30%	Free	Tariff Act	
15	Reduction of duty on stuffed pasta	40%	10%	Tariff Act	
16	Amend Chapter 98 of the Tariff Act to allow churches to import visual equipment duty free			Tariff Act	Visual equipment not on the Church duty exemption list

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
17	Reduce the duty on bicycles and tricycles	45%	Free	Tariff Act	
18	Amend Chapter 98 of the Tariff Act to allow the Minister to designate certain parts of new Providence to receive duty free exemptions, subject to certain conditions, to build, renovate or repair residential and commercial buildings			Tariff Act	
19	Adjust the excise duty on motor vehicles so that all values attract a duty rate of 65%	Vehicles attract the duty rates of 85%, 75% and 65% depending on the value of the vehicle	All vehicles attract a duty rate of 65%	Tariff Act/ Excise Act	
20	Amend Chapter 98 of the Tariff Act and the Excise Act to allow duty exemption on processing machinery for use in the recycling of waste		Free	Tariff Act/ Excise Act	
21	Amend Chapter 98 of the Tariff Act and the Excise Act so that medical equipment for medical institutions (inclusive of veterinarian, denial practices) that serve the public can be imported duty free.	Various Rates	Free	Tariff Act/ Excise Act	
22	Amend Chapter 98 of the Tariff and the Excise Act to allow for duty exemption on original artwork once verified by the Director of National Art Gallery	10%	Free	Tariff Act / Excise Act	Application to be made to the curator of the National Art Gallery for onward transmission to the Ministry of Finance for final approval
23	Adjust Chapter 98 of the Tariff Act and the Excise Act so that taxis and liveries (franchise) three years or less qualify for duty exemption	Only new vehicles can qualify for exemption	Vehicles three years or less qualify for exemption	Tariff Act/ Excise Act	

ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
24	Amend Chapter 98 of the Tariff Act and the Excise Act to adjust the concessions being granted to returning residents. To qualify for the exemption the resident must have lived out of the country for two consecutive years or more. They will receive duty exemption on household items not exceeding a value of \$10,000 and duty exemption on one vehicle not exceeding a value of \$30,000 payable. A returning resident can only qualify for the exemption once every five years.	Returning residents receive up to \$300,00 duty exemption.	Returning residents receive duty exemption not exceeding \$10,000.00 on household items and duty exemption on one vehicle not exceeding \$30,000.	Tariff Act / Excise Act	
25	Amend the Spirits and Beer Manufacture Act to specify a duty rate on non alcoholic beer	No category for non alcoholic beer specified in the Spirits and Beer Manufacture Act	A category for Non Alcoholic beer specified in the Spirits and Beer Manufacture Act	Spirits and Beer Manufacture Act	These are new products to be added to the Spirits and Beer Manufacture Act.
26	Amend the Customs Management Act to levy a surcharge of 1 cent per gallon on imported fuel excluding aviation fuel.	No surcharge on fuel imports	A surcharge of 1 cent per gallon on imported fuel excluding aviation fuel is levied	Customs Management Act Regulations	
27	Apply a customs security fee of \$10.00 per twenty-foot equivalent unit on all containers imported and exported from the Bahamas.	No security fee charged on importation and exportation of containers	A security fee charged for the importation and exportation of containers	Customs Management Act Regulations	
28	Apply a security fee of \$10.00 on all motor vehicles imported to or exported from The Bahamas	No security fee charged on importation and exportation vehicles	A security fee of \$10.00 levied on the importation and exportation of vehicles	Customs Management Act Regulations	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
40	<p>Allow a moratorium of 6 months (July to December) for the waiver of RPT surcharge on residential properties for persons who pay current tax in full or enter into a standing order or salary deduction arrangement to pay property tax arrears as well as the current tax. The payment plan is not to exceed 7 years and if the property is sold during the waiver period, full tax becomes applicable. The property must be registered in the name of the individual.</p>			Real Property Tax Act	
41	<p>Amend Real Property Tax Act to remove the references to Chief Valuation Officer and Deputy Chief Valuation Officer and give the Financial Secretary the powers to delegate the functions of the Act to an officer.</p>	<p>The Act is administered by the Secretary for Revenue</p>	<p>The Act is administered by the Financial Secretary</p>	Real Property Tax Act	
42	<p>Amend the Real Property tax Act so that there is a simplified power of sale provision for foreign owned properties or properties owned by banks which is not the primary residence of the owner</p>			Real Property Tax Act	
43	<p>Allow the Local Government District Councils to assist in the collection of Real Property Taxes and share the collections.</p>			Local Government Act	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
44	Amend the Stamp Act so that stamp duty on realty transactions for all properties attract a rate of 2.5% and properties over \$100,000 becomes VAT able. First home purchasers would be VAT exempt.	Stamp tax duty rates range for 4% to 12% depending on value of property	All properties transactions pay a rate 2.5% and properties over \$50,000 become VA Table	Stamp Act	VAT is only applicable on property sales valued over \$50,000
45	Extend the Family Island Development Encouragement Act for one year	Family Island Development Encouragement Act expires June 30th 2015	Family Island Development Encouragement Act extended for one year to June 30th, 2016	Family Island Development Encouragement Act	Amendment can be made by Order by the Minister
46	Amend the Family Island Development Encouragement to include the Island of Eleuthera, Abaco, Bimini and Grand Bahama (excluding the Port Area)	The Island of Eleuthera not entitled to duty exemption under the Family Island Development Encouragement Act	The Island of Eleuthera entitled to duty exemption under the Family Island Development Encouragement Act	Family Island Development Encouragement Act	
47	Amend the Family Island Development Encouragement Act to allow duty exemption on air-conditions and parts	Air-conditions and parts not exempted under the Act	Air-conditions and parts exempted under the Act	Family Island Development Encouragement Act	
48	Extend the City of Nassau Revitalization Act for one year	City of Nassau Revitalization Act expires June 30th 2015	City of Nassau Revitalization Act extended for one year to June 30th 2016	City of Nassau Revitalization Act	Amendment can be made by Order by the Minister
49	Adjust Business licence rate	1.75% of turnover	1.5% of turnover	Business Licence Act	
50	Adjust the Business Licence rate for businesses involved in agriculture and fisheries production as well as food and meat and fruit processing	Fee ranges from .75% to 1.75% of turnover	0.75% of turnover	Business Licence Act	
51	Adjust the Business Licence rate for gas stations and fuel distributors that are independently owned and situated on the Family Islands	Varoius rates	0.75% of turnover	Business Licence Act	

ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
52	Amend the Business Licence Act so that penalties are levied for late filing and late payment as follows: <ul style="list-style-type: none"> • Late filing - \$100.00, • Late notification of inactivation or cessation of Business - \$100.00 • Late payment - 10% of tax liability 	No penalty is levied for late filing	Penalties are levied for late filing and late payment	Business Licence Act	
53	Amend the Business Licence Act so that it is clear which tax period is being covered during filing		Filing based on the previous year of January to December.	Business Licence Act	
54	Amend the Business Licence Regulations so that it is mandatory that filings exceeding \$100,000 turnover is certified by an independent accountant			Business Licence Regulations Act	
55	Amend the Bank and Trust Companies Regulation Act so that the Central Bank is given the authority to withhold a portion of fee collected to be used to fund regulatory activity once approved by the Minister.	The Central Bank has no authority to withhold a portion of collections	The Central Bank has authority to withhold a portion of collections	Bank and Trust Companies Regulation Act	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
40	Allow a moratorium of 6 months (July to December) for the waiver of RPT surcharge on residential properties for persons who pay current tax in full or enter into a standing order or salary deduction arrangement to pay property tax arrears as well as the current tax. The payment plan is not to exceed 7 years and if the property is sold during the waiver period, full tax becomes applicable. The property must be registered in the name of the individual.			Real Property Tax Act	
41	Amend Real Property Tax Act to remove the references to Chief Valuation Officer and Deputy Chief Valuation Officer and give the Financial Secretary the powers to delegate the functions of the Act to an officer.	The Act is administered by the Secretary for Revenue	The Act is administered by the Financial Secretary	Real Property Tax Act	
42	Amend the Real Property tax Act so that there is a simplified power of sale provision for foreign owned properties or properties owned by banks which is not the primary residence of the owner			Real Property Tax Act	
43	Allow the Local Government District Councils to assist in the collection of Real Property Taxes and share the collections.			Local Government Act	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
44	Amend the Stamp Act so that stamp duty on realty transactions for all properties attract a rate of 2.5% and properties over \$100,000 becomes VAT able. First home purchasers would be VAT exempt.	Stamp tax duty rates range for 4% to 12% depending on value of property	All properties transactions pay a rate 2.5% and properties over \$50,000 become VA Table	Stamp Act	VAT is only applicable on property sales valued over \$50,000
45	Extend the Family Island Development Encouragement Act for one year	Family Island Development Encouragement Act expires June 30th 2015	Family Island Development Encouragement Act extended for one year to June 30th, 2016	Family Island Development Encouragement Act	Amendment can be made by Order by the Minister
46	Amend the Family Island Development Encouragement to include the Island of Eleuthera, Abaco, Bimini and Grand Bahama (excluding the Port Area)	The Island of Eleuthera not entitled to duty exemption under the Family Island Development Encouragement Act	The Island of Eleuthera entitled to duty exemption under the Family Island Development Encouragement Act	Family Island Development Encouragement Act	
47	Amend the Family Island Development Encouragement Act to allow duty exemption on air-conditions and parts	Air-conditions and parts not exempted under the Act	Air-conditions and parts exempted under the Act	Family Island Development Encouragement Act	
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49	Adjust Business licence rate	1.75% of turnover	1.5% of turnover	Business Licence Act	
50	Adjust the Business Licence rate for businesses involved in agriculture and fisheries production as well as food and meat and fruit processing	Fee ranges from .75% to 1.75% of turnover	0.75% of turnover	Business Licence Act	
51	Adjust the Business Licence rate for gas stations and fuel distributors that are independently owned and situated on the Family Islands	Varoius rates	0.75% of turnover	Business Licence Act	

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FISCAL MEASURES
FISCAL YEARS 2015/2016

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
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53	Amend the Business Licence Act so that it is clear which tax period is being covered during filing		Filing based on the previous year of January to December.	Business Licence Act	
54	Amend the Business Licence Regulations so that it is mandatory that filings exceeding \$100,000 turnover is certified by an independent accountant			Business Licence Regulations Act	
55	Amend the Bank and Trust Companies Regulation Act so that the Central Bank is given the authority to withhold a portion of fee collected to be used to fund regulatory activity once approved by the Minister.	The Central Bank has no authority to withhold a portion of collections	The Central Bank has authority to withhold a portion of collections	Bank and Trust Companies Regulation Act	

ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
56	Amend the Financial Administration and Audit Act so that a Tax Compliance Certificate signed by the Financial Secretary is required to do business with Government and Government entities. This requirement can only be waived by the Minister of Finance. Accounting officers can be sanctioned for entering a contract with a company that does not have a Compliance Certificate. The certificate will be required to ensure that all tax obligations under the following acts have been met: the VAT, Business Licence Act, Real Property Tax Act, Stamp Act, Customs Management Act, Immigration Act, Road Traffic Act, Spirits and Beer Manufacture Act, Passenger Tax Act, Port Authority Act and the National Insurance Act.			Financial Administration and Audit	
57	Amend the FAA Act to outline the priority of which taxes owed to the government are to be paid. First to be paid are penalties, the second are fines, the third interest or surcharge and fourth any outstanding taxes. The taxes should be paid in the following order: (1) Business Licence Act, (2) VAT, (3) Stamp Act (4) Customs Management Act, (5) Real Property Tax Act	Under The FAA no priority outlined as to which taxes should be paid first.	Priorities of payment is outlined	Financial Administration and Audit	

**ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016**

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
58	Amend the Financial Administration and Audit Act so that government is able to collect the cost of debt collection from delinquent taxpayers.			Financial Administration and Audit	
59	Amend the Financial Administration and Audit Act to increase the investigatory and enforcement powers of the Financial Secretary including the seizure of property to meet tax liabilities			Financial Administration and Audit	
60	Amend the Financial Administration and Audit Act to make the Financial Secretary a Corporate Sole.			Financial Administration and Audit	
61	Amend the Water and Sewerage Act so that it is clear that duty exemptions granted to the Corporation is limited only to goods associated with capital projects and that the exemption is utilized directly by the corporation and not a third party.			Water and Sewerage Act	
62	Amend the Customs Management Act, Passenger Tax Act and the Port Authority Act to levy a late fee of 10% of tax liable for outstanding amounts over 30 days	No late fee charged.	A late fee of 10% of tax liable for outstanding amounts over 30 days	Customs Management Act, Passenger Tax Act and Port Authority Act.	
63	Amend the Vat Act to clarify the definition of international transport services and public entertainment			The Value Added Tax Act	
64	Amend the VAT Act to specify that amounts collected by a Value Added Tax Registrant are kept in a separate account			The Value Added Tax Act	

ANNEX D
FISCAL MEASURES
FISCAL YEARS 2015/2016

May 27, 2015

Item No.	Description	Existing Rate	Proposed Rate	Enabling Legislation	Comments
65	Amend the VAT Act to specify that all registrants including those that file quarterly and half yearly pay VAT collected on a monthly basis			The Value Added Tax Act	
66	Amend the Vat Act to require all VAT taxpayers to provide electronic files with particulars on VAT invoices, tax credits and debit notes issued or received by the registrant			The Value Added Tax Act	
67	Amend the Vat Act to clarify the rules with respect to input tax credits for insurance companies and casinos.			The Value Added Tax Act	
68	Amend the VAT Act to clarify the Comptroller power for investigatory purposes			The Value Added Tax Act	
69	Amend the Vat ACT to set the priority list with respect to overdue payments			The Value Added Tax Act	
70	Amend the Vat Act to put in place anti avoidance legislation with respect to insurance contracts			The Value Added Tax Act	

