



COMMONWEALTH OF THE BAHAMAS

2010/2011 MID-YEAR BUDGET STATEMENT

ON THE SIX MONTHS ENDING 31st DECEMBER 2010

Presented to the Honourable House of Assembly

by

**The Rt. Hon. Hubert A. Ingraham, M.P.
Minister of Finance**

on

Wednesday, 23rd February, 2011

INTRODUCTION

I am pleased to make this Mid-Year Budget Statement for the six-month period July 1 - December 31, 2010.

It is a matter of best practice that we come to Parliament to provide an update on the state of play of public finances at mid-year.

THE ECONOMIC ENVIRONMENT

Global Economic Developments and Outlook

In the 2010/11 Budget Communication, I reiterated that, as with other governments around the world, my Government had executed an economic and fiscal strategy tailored to the vital needs of our economy and citizens. Along with key structural reforms designed to enhance the domestic business environment, we are positioning The Bahamas to gain maximum advantage from the modest, though ongoing, economic recovery that is underway.

Our economic and financial circumstances are tied to those of the world, most especially so to those of the United States of America.

The first half of our budget year occurred in a global economic environment in which there was continuing but modest growth, especially in the U.S. economy. This had obvious implications for the performance of the Bahamian economy and our fiscal performance in the first half.

In its latest World Economic Outlook of January 2011, the IMF projects global economic activity to grow by 4.5 per cent in 2011, some 0.25 percentage point higher than at the time of the October 2010 Outlook. The Fund does, however, signal that downside risks continue to be significant, reflecting the ongoing need to reform financial systems, address large fiscal imbalances, overcome sovereign and fiscal challenges in the Euro area and contain inflation pressures in emerging countries.

The U.S. economy is now forecast to expand by 3 per cent in 2011, which is almost three-quarters of a point higher than was projected last October, largely on the basis of the fiscal package passed in late 2010. Growth in the emerging and developing countries is expected to continue at its recent strong pace, averaging

6.5 per cent in 2011. This grouping is led, in particular, by China and India with growth rates of 9.6 per cent and 8.4 per cent, respectively.

Domestic Economic Developments and Outlook

During 2010 the Bahamian economy stabilized, achieving an estimated expansion in real GDP of 0.5 per cent following the sharp 4.3 per cent contraction in 2009. This outturn reflected an improvement in the main tourism sector, although activity in the construction sector remained subdued as both private sector and foreign direct investment-related activity contracted.

In tourism, total visitor arrivals in 2010 rose by 13 per cent to 5.2 million. The high value-added air component—which accounted for 25 per cent of the total—registered a modest rise of 3.4 per cent to 1.3 million. Sea arrivals—75 per cent of total visitors—rose by a robust 16.5 per cent to a level of 4 million, aided by a combination of increased port calls from major cruise lines and higher capacity ships.

Domestic inflation remained benign in 2010, despite the moderate uptick in international oil and commodity prices. Inflation is forecasted to remain subdued, with the possibility of modest firming as international oil and commodity costs expand.

The risks on the latter two fronts are clearly on the upside, in light of developments in the Middle East and ongoing upward pressures on world food prices. Crude oil prices have risen in recent months to the \$90 per barrel level and some economists are predicting a possible further surge to over \$100 per barrel by mid-year.

These are trends that we will have to monitor very closely as they will have clear implications for domestic gasoline, electricity and food prices, as well as the current account of the balance of payments, the Government's fiscal position and the broader economy. As necessary, the Government, the private sector and consumers will need to implement appropriate conservation measures to minimize the impacts.

Reflective of the upward trajectory of imported fuel, the Department of Statistics survey for the eleven-month period, showed that the average retail price of gasoline and diesel rose by 23.8 per cent to \$3.68 per gallon and by 14.1 per cent to \$4.33 per gallon, vis-à-vis respective decreases of 41 per cent and 25 per cent in the same period last year. Similarly, BEC's average fuel surcharge increased by 36.8 per cent to 13.79¢ per kilowatt hour (kwh), in contrast to a 47.9 per cent reduction in 2009.

The banking system liquidity levels remained relatively healthy in 2010, underpinned by subdued private sector credit and a number of significant one-time foreign currency inflows. The Central Bank's main liquidity measures, excess reserves and excess liquid assets, expanded by \$127.4 million and \$309.5 million to \$389.5 million and \$813.3 million, respectively; significantly higher than the \$54.8 million and \$241.9 million increases a year earlier.

Reflecting soft consumer demand conditions, accretions to private sector credit in Bahamian dollars amounted to \$17.4 million, a turnaround from the \$46.3 million accumulation in 2009.

In terms of the major categories, consumer credit decreased by \$39.9 million and commercial and other loans fell by \$33.4 million, while mortgage growth slowed to \$90.7 million.

Buoyed by the number of one time transactions, external reserves grew by \$35.7 million to \$861.1 million in 2010, although significantly less than the \$262.6 million build up in 2009.

Reflecting sustained weakness in employment and business conditions, credit quality indicators worsened during the year—although at a significantly slower rate than in 2009. Total private sector arrears rose by \$56.6 million to \$1,146.7 million, following a \$324.3 million advance a year earlier. The corresponding ratio of arrears to total loans firmed by 0.7 of a percentage point to 18.3 per cent. The expansion in total arrears was concentrated in the mortgage component while consumer arrears contracted.

In light of global developments, expectations are that the recovery in the domestic economy will gain momentum in 2011. Our current view is that the economy will grow on the order of 2 per cent this year. This will be supported by further improvements in

the key tourist markets. As well, the continuation of the LPIA development, the large public infrastructure projects including the Port at Arawak Cay, the commencement of the Baha Mar project, Albany, Kerzner International, BORCO, Statoil and some other stalled anchor projects along with a number of other smaller scale tourism investments, will provide impetus for the construction sector. As a result, domestic business activity and employment conditions are projected to improve further.

BUDGET PERFORMANCE IN 2010/11

It will be recalled that, in the 2010/11 Budget Communication, I projected total Government recurrent revenue for the year of \$1,492 million. Total Government recurrent expenditure was estimated at \$1,554 million. Given our total revenue and expenditure projections, we forecasted a GFS Deficit of 3 percent of Gross Domestic Product for the 2010/11 Budget, down from 5.7 per cent of GDP in 2009/10. How did the first half of the year perform in light of these projections?

Recurrent Revenue

Revenue collections for the July to December 2010 period amounted to \$584.1 million. Relative to the corresponding period of fiscal year 2009/10, revenues were down by some \$50 million, though the outturn last year was bolstered by one-off revenue receipts of \$84 million. Excluding those one-time receipts, revenues for the first six months of the current fiscal period were \$34 million, or 6 per cent, higher than the previous period last fiscal year.

As for the performance of the major revenue categories in the first half of the 2010/11 fiscal year as compared to the previous year:

- Import and Export Duties, at \$207.5 million, were up by \$1.8 million;**
- Excise Tax, at \$97.5 million, was up by \$9.5 million;**
- Stamp Tax, at \$68.8 million, was lower by \$1.3 million, excluding a one-off receipt the previous year; and**

➤ **Tourism Tax, at \$55.6 million, was higher by \$17.7 million.**

Within the Import Duties category, the tightening of duty-free concessions available to businesses under both the Tariff Act and the Industries Encouragement Act contributed an increase in revenues of \$1.1 million.

On the Excise Tax front, it is estimated that the streamlined rate structure for imported motor vehicles introduced in the last Budget produced an increase in revenue on the order of \$3.6 million.

Revenue from stamp tax on realty transactions was adversely affected by a significant decline in the value of transactions during the first six months of the current fiscal year.

In contrast, revenues from hotel room tax were considerably higher in the first six months of the 2010/11 fiscal year, to the tune of \$6.4 million, as compared to the same period in 2009/10. This largely reflected the increase in the room tax rate.

Collections stemming from the air and sea departure taxes in the first half of the fiscal year were also up significantly year-over-year, by \$5.7 million and \$6.3 million, respectively.

Relative to the forecast, recurrent revenues were down by \$84.3 million. The principal revenue shortfalls in forecasted revenue occurred in respect of Import and Export Duties, at \$30.5 million and Stamp Tax, at \$43.1 million. The latter largely reflected stamp tax weakness in respect of real property transactions over \$250,000.

Our analysis reveals that these shortfalls reflect weaker than expected economic performance in the first half and continuing administrative weaknesses.

It has typically been the case in recent times that one-off, unexpected revenue items have surfaced during the course of each fiscal year. That was the case last year, to the tune of \$84 million in the first half of the fiscal year. This year will be no different. In the last month, one-off revenue items of \$120.6 million were recorded, comprising \$78.9 million in respect of the BORCO sale and \$37.4

million from Baha Mar stamp tax and gaming tax payments. In addition, some \$4.3 million of the \$5.8 million in fees held by the Public Utilities Commission were remitted by the Utilities Regulation and Competition Authority.

Recurrent Expenditure

While revenue is subject to certain vagaries not within the control of the Government, expenditure is much more within the Government's control.

Recurrent expenditures for the first six months of the 2010/11 Fiscal Year totaled \$734.0 million, representing 47.2 per cent of the full fiscal year estimates. This year's total is down \$8 million from the corresponding period last year.

Beyond the fixed obligations and standard payments the Government makes, our expenditure is focused on the following areas:

- Continuing to upgrade the nation's public infrastructure, namely roads, docks, etc.**
- Continuing to upgrade the public health facilities;**

- **Continuing investment in our educational system;**
- **Continuing support for the less fortunate in our society;**
- **Intensifying our fight against crime; and**
- **Continuing modernization in the nation's services to support business and residential services, such as the implementation of e-Government.**

Capital Expenditure

In the first six months of the 2010/11 fiscal year, capital expenditure amounted to \$105.6 million, or 39.8 per cent of the estimate for the entire fiscal year presented in the 2010/11 Budget Communication.

Fiscal Outlook

Notwithstanding the soft first half budget performance, we expect the GFS deficit to be significantly lower than the forecast for 2010/11. This is so because of several one-off revenue items that were not factored into the revenue forecast. As a result, Government debt is expected to come in below the level of 49.2 per

cent of GDP presented in the 2010/11 Budget Communication. At the end of December 2010, Government debt stood at 48.7 per cent of GDP.

FISCAL ADJUSTMENTS **AT THE MID-POINT**

In this Statement, we are making adjustments to Recurrent and Capital Expenditures. The Supplementary Allocations proposed for this fiscal year are as follows:

(i) In respect of recurrent expenditure:

- **\$10.1 million for the Department of Finance to defray the implementation costs of e-Government;**
- **\$18.1 million for the Department of Finance to provide for the payment of amounts owing to the Bahamas Electricity Corporation by Government Ministries and Departments;**
- **\$3.7 million for the Royal Bahamas Police Force to inter alia engage 90 new recruits and 72 cadets (it is to**

be noted that 89 Customs and Immigration officers have also been engaged);

- \$3.8 million for the Department of Social Services to allow it to provide additional food and other support to persons in need of assistance;**
- \$4.0 million to the Public Hospitals Authority for additional medications; and**
- \$2.5 million to the Department of Environmental Health Services for the continued engagement of casual relief workers and roadside and heavy equipment contracts.**

These increases will be partially compensated by reductions as follows:

- \$10.0 million from the Department of Public Service;**
- \$1.0 million from the Department of Finance in respect of automobile insurance; and**
- \$0.5 million from the Office of the Prime Minister in respect of investment promotion.**

(ii) In respect of capital expenditure:

- **\$5.125 million for the Broadcasting Corporation of The Bahamas to offset payments that they made in respect of the separation package;**
- **\$8.8 million for the Water and Sewerage Corporation to defray arrears and future payments to the Consolidated Water Corporation;**
- **\$100,000 for BAIC for road construction in Andros; and**
- **\$28.9 million in respect of the Airport Gateway Project.**

These increases will be partially compensated by reductions as follows:

- **\$13.0 million from the Department of Finance, \$7 million of which reflects the fact that the purchase of the Kelly Building will not occur this fiscal year and \$6 million of which will represent a smaller allocation to the Port at Arawak Cay.**

Notwithstanding these additional provisions, the total expenditure on recurrent and capital expenditure will be contained and remain within the parameters established in the Budget for fiscal 2010/2011.

CONCLUSION

In conclusion, I wish to stress again the most important role that this Mid-Year Statement plays in strengthening accountability and transparency in our public finances.

Through this Statement and the accompanying Mid-Year Progress Report, I have provided a mid-course update on my Government's ongoing careful management of public finances. That stance is solidly anchored in our fundamental fiscal anchors and is designed to return us to more prudent and sustainable levels of Government Debt over time.

As I signaled in my address to the Bahamas Business Outlook Conference last month, there are clear indications that the economy has turned the corner and that, despite the risks that are present, we can look forward to better days ahead.

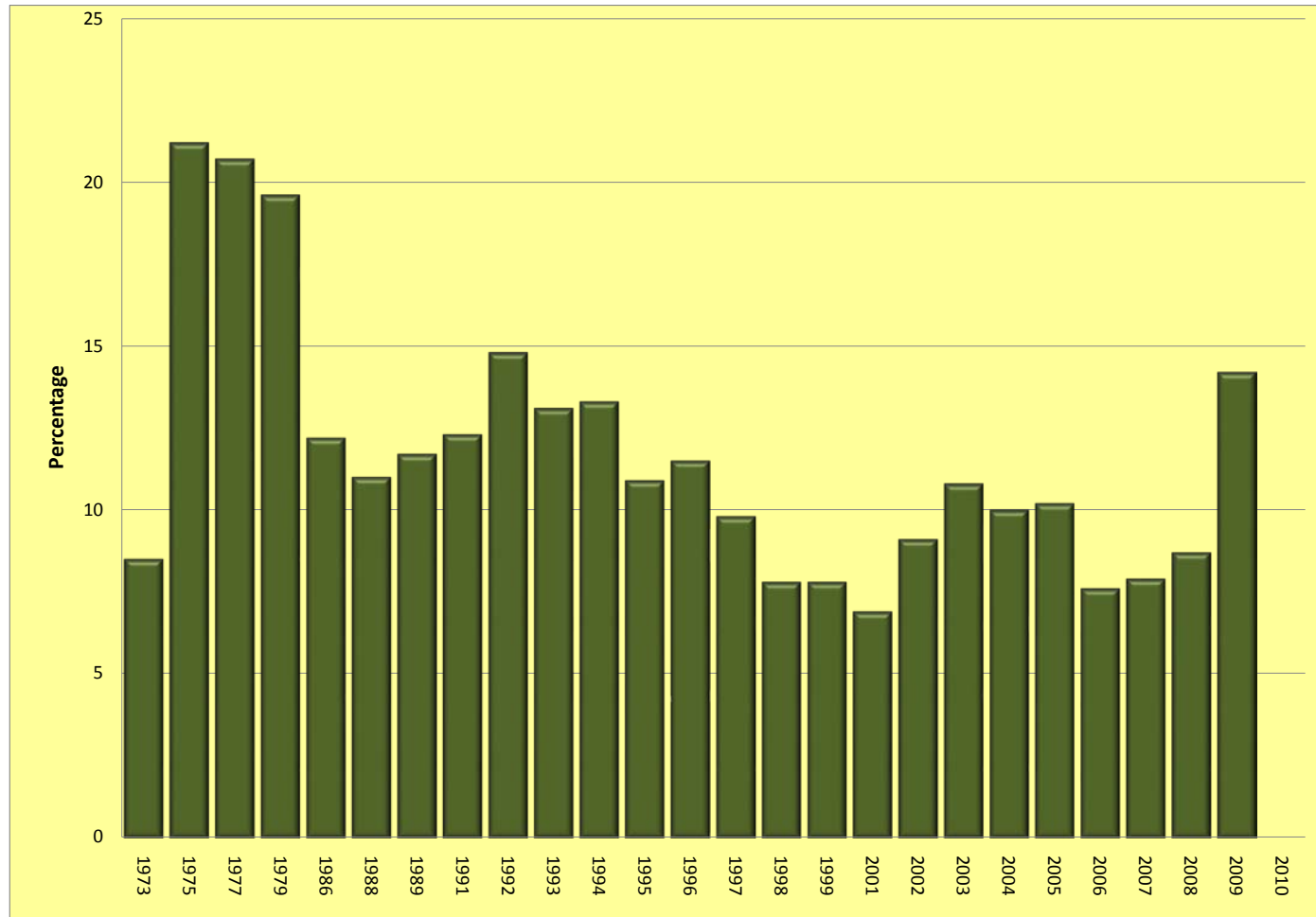
I draw the attention of Honourable Members to the Tables and Graphs on the economy and public finances included in the Statement.

I have the Honour to present the Mid-Year Budget Statement.

23rd February, 2011

TABLES AND GRAPHS

Table I. Unemployment Rates 1973 -2010

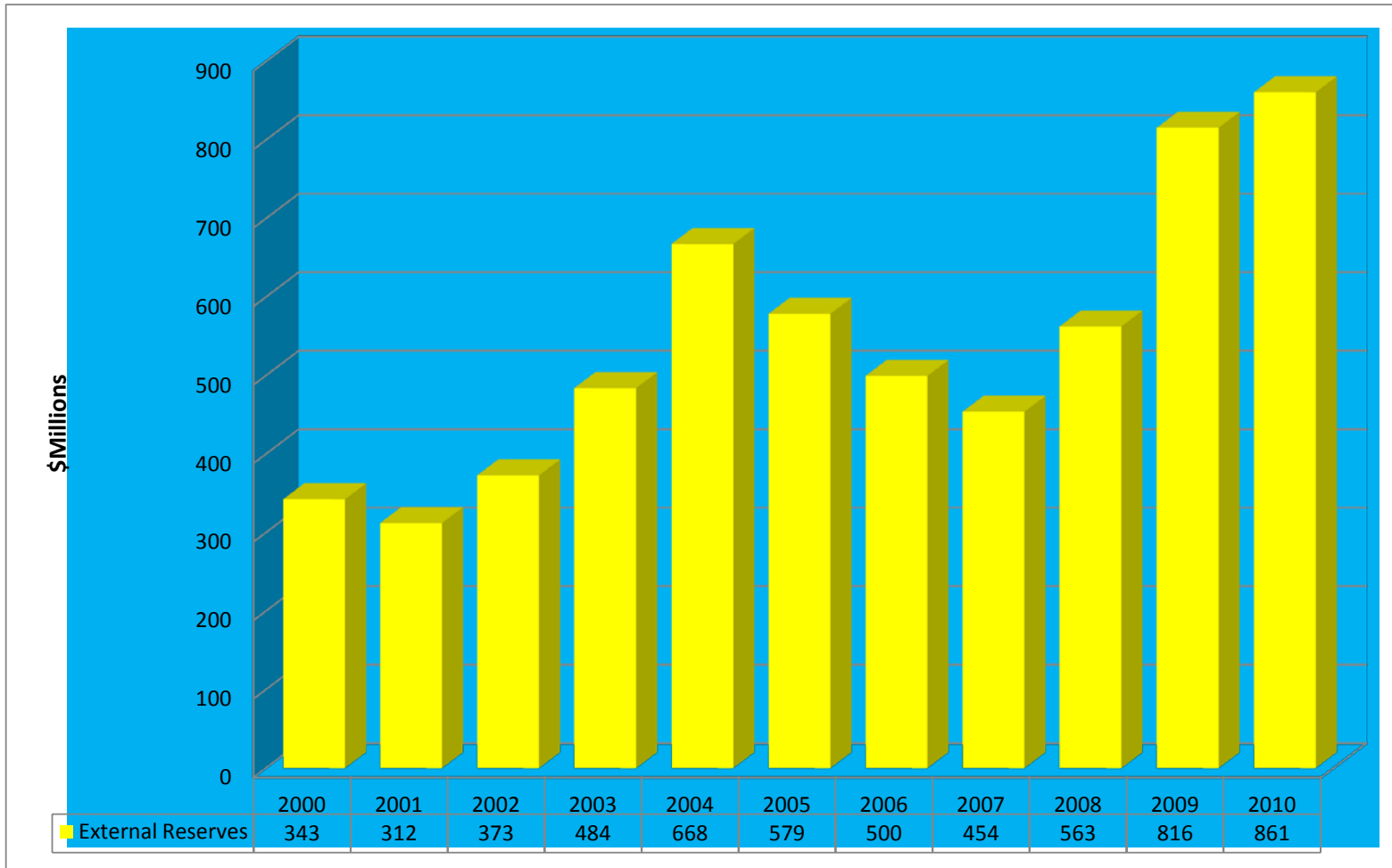


	%
1973	8.5
1975	21.2
1977	20.7
1979	19.6
1986	12.2
1988	11
1989	11.7
1991	12.3
1992	14.8
1993	13.1
1994	13.3
1995	10.9
1996	11.5
1997	9.8
1998	7.8
1999	7.8
2001	6.9
2002	9.1
2003	10.8
2004	10
2005	10.2
2006	7.6
2007	7.9
2008	8.7
2009	14.2
2010	N/A*

Source: Department of Statistics

* unemployment estimates unavailable in Census years

Table II - Total External Reserves 2000 - 2010

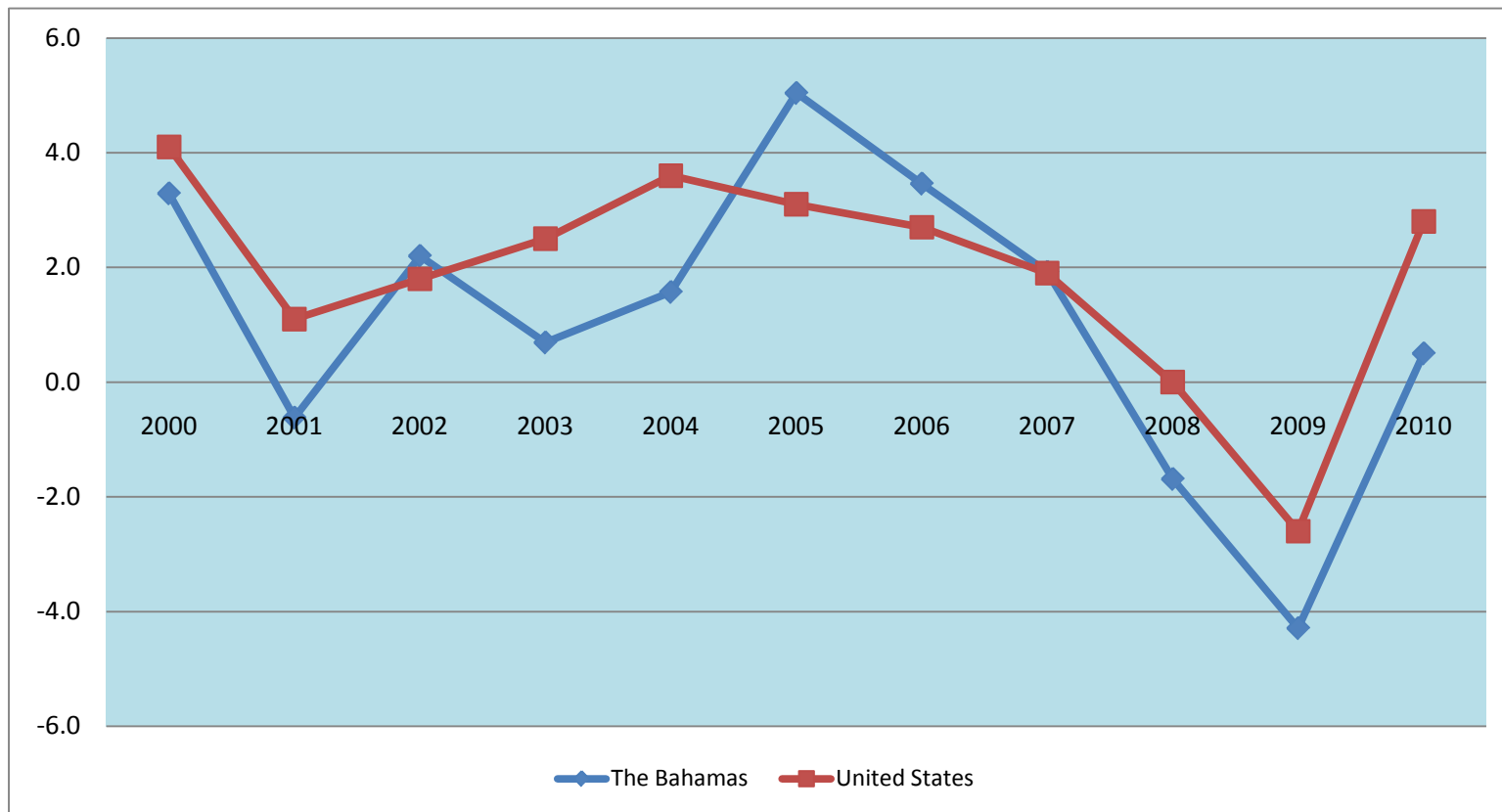


Source: Central Bank of The Bahamas

Table III Growth of the Bahamian and US Economy 2000 - 2010

Annual percent change in GDP in real terms

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
The Bahamas	3.3	-0.6	2.2	0.7	1.6	5.0	3.5	1.9	-1.7	-4.3	0.5
United States	4.1	1.1	1.8	2.5	3.6	3.1	2.7	1.9	0.0	-2.6	2.8

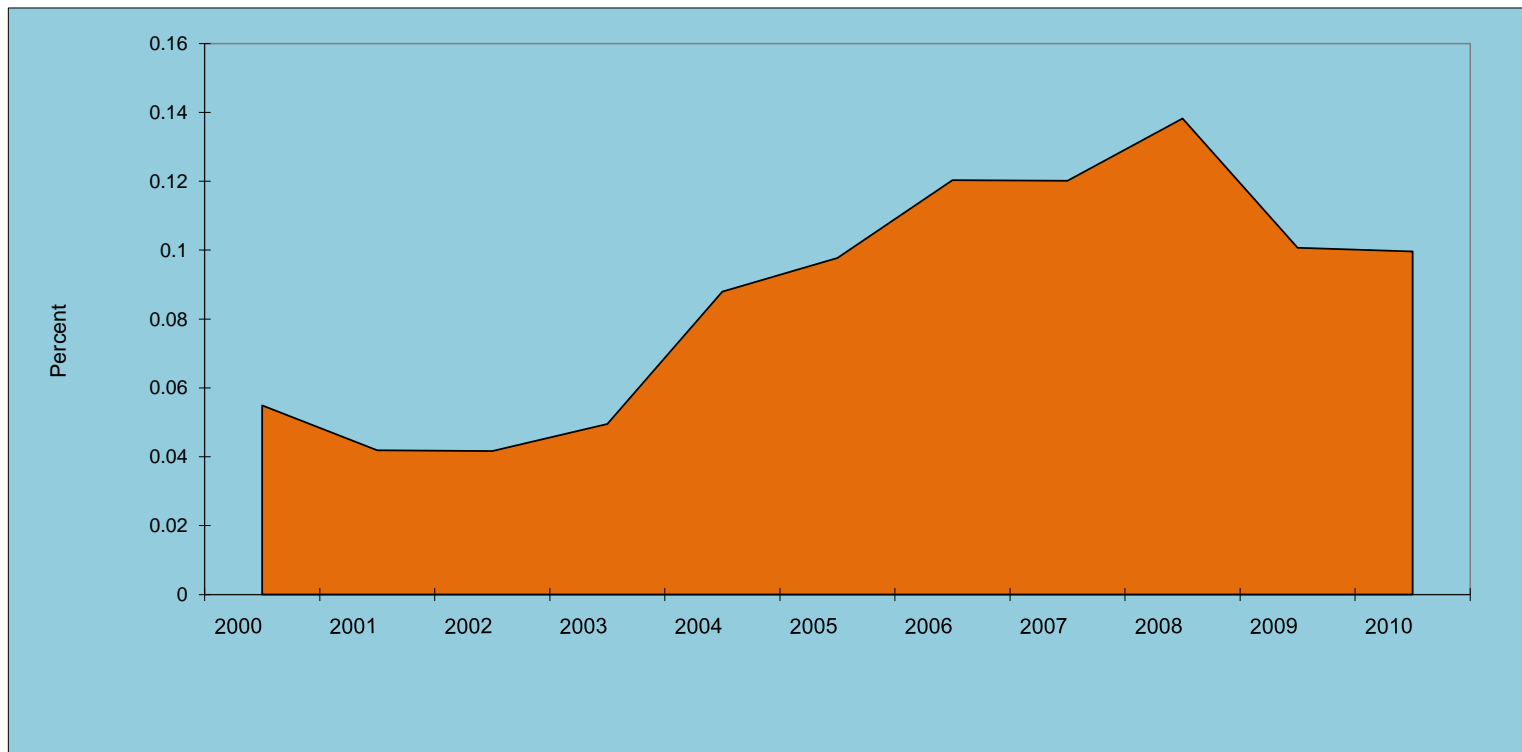


Source: Department of Statistics; IMF World Economic Outlook October 2010 for The Bahamas and January 2011 for the U.S.

Table IV - Ratio of Foreign Direct Investment to GDP 2000 - 2010

B\$ millions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Foreign Direct Investment	469	493	312	642	632	912	1,159	1,164	886	657	751
GDP(Current Prices)	5,483	5,575	5,682	5,905	6,018	6,558	7,004	7,381	7,309	7,377	7,538
FDI as % of GDP	8.6%	8.8%	5.5%	10.9%	10.5%	13.9%	16.6%	15.8%	12.1%	8.9%	10.0%



Source: The Central Bank of The Bahamas, QSD February 2011
The Central Bank Forecast 2010

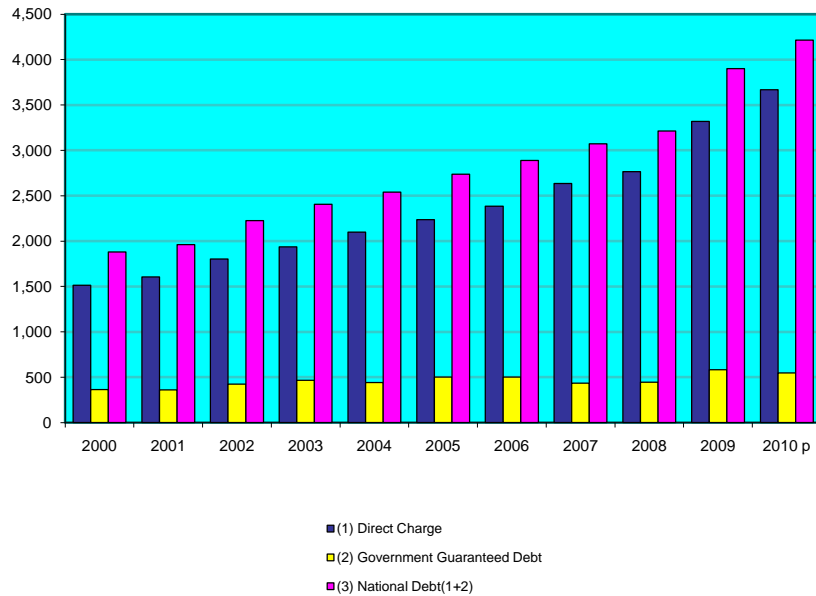
Table V. National Debt 2000 - 2010

\$ millions	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 p
(1) Direct Charge	1,514	1,604	1,802	1,936	2,098	2,235	2,386	2,636	2,767	3320	3668
(2) Government Guaranteed Debt	365	359	423	468	442	502	501	435	446	581	548
(3) National Debt(1+2)	1,879	1,963	2,225	2,404	2,540	2,737	2,887	3,071	3,213	3901	4216
GDP(\$millions) Revised	5483	5575	5682	5905	6018	6558	7004	7381	7309	7377	7538

National Debt as a % of GDP

(1) Direct Charge	28	29	32	33	35	34	34	36	38	45	49
(2) Government Guaranteed Debt	7	6	7	8	7	8	7	6	6	8	7
(3) National Debt(1+2)	34	35	39	41	42	42	41	42	44	53	56

National Debt



National Debt As a % of GDP

