COMMONWEALTH OF THE BAHAMAS

2013/14

BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

by :The Rt. Hon. Perry G. Christie, M.P.

Minister of Finance

Wednesday, 29th May, 2013 2013/14 BUDGET COMMUNICATION

It is my honour to present the 2013/14 Budget Communication.

INTRODUCTION

Honourable Members will be aware that Mr. Ehurd Cunningham, former Acting Financial Secretary, passed away last weekend. I want to take this opportunity to express my personal gratitude and that of the Nation for the many years of dedicated and tireless service that he so warmly provided to his dearly beloved country. Mr. Cunningham was instrumental in initiating, and indeed championed, many of the fundamental and much-needed reforms to Government on which we are presently embarked. His memory will live on in the enhanced economy and society that will emerge from our efforts.

Mr. Speaker, this is a pivotal Budget in the history of our small nation. It is a Budget that secures the future for all Bahamians. The economy has clearly turned the corner and we can 1anticipate steady, ongoing growth and employment creation in the period ahead. I would reiterate, at this time, my abiding optimism for the future, in the areas of employment and entrepreneurship, with the completion of the tourism plant of Atlantis and Baha Mar in New Providence, as well as developments underway or in the pipeline in Bimini, Grand Bahama, Exuma, San Salvador, Abaco, Eleuthera and Cat Island, among others.

In this Budget, my Government is acting decisively to improve the health of the public finances and to pull us out of the debilitating public debt spiral that we inherited upon coming to office. We are also strengthening the foundations of the economy to secure steady growth and private sector employment creation. In this way, we are positioning my Government to have the resources with which to implement, over the full course of our mandate, initiatives that will strengthen law and order, promote stronger growth and job creation and solidify our firm commitment to maintaining and reforming our social safety net for the effective delivery of relief to the disadvantaged and needy in our midst.

2Honourable Members will recall that, in the Mid-Year Budget Statement that I presented in February of this year, I laid out the critical fiscal policy challenges that confront my Government and I presented an action plan, over both the near-term and the medium-term, to restore our public finances to a more desirable and sustainable position.

This Communication follows up on the commitment that I made at that time to provide a more detailed elaboration of the comprehensive reforms and policy actions in respect of both expenditure and revenue that will secure our overriding fiscal consolidation objectives.

Let there be no misconception about our commitment to healthier public finances. We have pledged to the Bahamian people an ambitious and targeted programme of fundamental change to bring about better economic and social outcomes for all. We will fulfill that pledge.

Notwithstanding our improved growth prospects, as I explained at length in the Mid-Year Statement, we find ourselves at 3present severely constrained in our ability to fully implement our change agenda. The fiscal mismanagement of which I spoke in the Mid-Year Statement has left the resources of Government stretched too thin. We must of necessity be more cost efficient in our operations and aggressively seek to enhance revenue performance. The legacy of high public deficits and spiraling debt burden that we inherited is brutally onerous: almost one out of every four dollars in revenue collected by the Government must be allocated to pay the interest charges on the public debt and cover the debt repayment. Had we chosen to ignore the grave structural imbalance in the public finances, the debt would have continued to spin out of control.

My earlier assertion in February that we find ourselves at a critical juncture in public administration is founded on this sobering reality. The near-term implementation of the vital portions of our agenda, such as job creation, attacking crime and strengthening the social safety net, will come about through a re-4prioritisation of how public sector resources are spent while we maintain a strong focus on medium-term fiscal consolidation.

I would remind Honourable Members that, through our fiscal consolidation strategy, we expect to eliminate the GFS Deficit and return the Government's finances to surpluses. We will also reverse the Government's primary balance position from deficits to surpluses, and in so doing cause the burden of public debt to decline over time.

Fiscal consolidation and a lower debt burden are not objectives in and of themselves, but rather the means to the attainment of the far greater economic and social goals that we all cherish. For the ordinary Bahamian, it means that valuable public sector resources, instead of being used for principal and interest payments, will be used for the hiring of police and defence force officers, doctors, nurses and for programs that fight poverty and the like. It means that we would have transformed the administrative bureaucracy of the public sector into a leaner and more efficient 5system that would, of necessity, have to be more responsive to the needs of the Bahamian people.

It is customary that the Minister of Finance would present his Budget in the context of domestic and international economic developments. I will do so briefly and then turn to both our strategy for enhancing domestic growth and employment prospects and the details of our fiscal action plan to restore the sustainability of our public finances.

Permit me to acknowledge the Central Bank of The Bahamas for its analysis which I now summarize. I invite Honourable Members to peruse the analysis in more detail in the Annex.

THE GLOBAL ECONOMY

As for the global economy, prospects have decidedly improved this year but uncertainty and risks remain elevated, especially over the medium-term. The growth of the world economy is now projected by the International Monetary Fund 6(IMF) at 3.3 per cent in 2013 and 4 per cent in 2014. In the near term, policymakers in the major industrial countries have succeeded in mitigating significant threats to the economic recovery: in the U.S., the risks posed by the so-called fiscal cliff have subsided somewhat and in the E.U. the risk of a break-up of the Euro area is less apparent.

The IMF expects the U.S. economy will expand by just under 2 per cent this year, followed by a stronger increase on the order of 3 per cent in 2014. While the Euro zone economies, in contrast, could face some persistent headwinds this year because of the ongoing needs for fiscal adjustments and a strengthening of the financial sector, this region could also see some gains in 2014.

While short-term challenges to global economic growth and stability have moderated, as the IMF cautions, downside risks could remain elevated in the medium-term, if there is insufficient adjustments in the Euro zone and/or the lack of comprehensive, longer term fiscal reform and consolidation in the U.S. and Japan.

7Also we must monitor China’s transition to a slower albeit still healthy rate of growth over the medium-term.

The implications of global developments and prospects for The Bahamas are clear. In the near term, a more buoyant consumer and business sector in the U.S. will underpin the ongoing recovery of our economy, and especially the tourism sector.

In this context, it is vitally important that we stay the course with the medium-term fiscal consolidation plan that we set out in the Mid-Year Budget Statement and capitalize on the nearterm recovery to further strengthen our public finances.

THE BAHAMIAN ECONOMY

As for the performance of the Bahamian economy, the Department of Statistics recently reported that the expansion of real GDP continued on a stable, though still modest, course in 2012. The economy grew by 1.8 per cent in real terms last year, in line with the 1.7 per cent growth registered in 2011, but below the 2.5 per cent rate projected in the 2012/13 Budget Communication. That 8clearly has had significant negative implications for the Government's Recurrent Revenue collections, as was highlighted in the Mid-Year Budget Statement.

The bright spots in economic performance have continued to be Tourism and Construction. Tourism continues to record steady gains on the basis of growth in key source markets and recovery in the group business segment, along with buoyant sea arrivals. The incentive programmes offered by the hotel sector have also made a valuable contribution.

Output in the Construction sector was buoyed last year by both foreign investment activity and public sector investment projects. The former was again dominated by the large Baha Mar resort project. In contrast, private sector construction activity remained relatively subdued, reflecting both the modest pace of economic recovery and ongoing challenging conditions in the mortgage market.

As a result of the continuing growth of the economy, employment conditions did improve somewhat in 2012. The 9Department of Statistics survey estimates that between May and November of 2012 the national unemployment rate fell to 14% from 14.7%. That is also down almost 2 full points from the peak of 15.9% in November 2011.

However, labour force developments in Grand Bahama and among our youth were still less encouraging, and remain therefore areas of clear, ongoing public policy concern. It will be important that our economy achieve appreciably higher rates of growth over time in order to generate sufficient new job opportunities, particularly in these two critical areas.

News on the inflation front has been somewhat more encouraging. The national Retail Price Index rose by 2.4 per cent in the year to October, down from 2.9 per cent the previous year. The most significant declines in price inflation were recorded in respect of transportation, restaurants and hotels, education and communications, recreation and culture. In contrast, price gains for food and non-alcoholic beverages were more significant.

10International oil prices stayed at elevated levels last year and this led to higher domestic fuel costs. Gasoline and diesel prices increased by 5.4 per cent and 6.2 per cent, respectively during the course of the year. The fuel charge assessed by the Bahamas Electricity Corporation rose by over 15 per cent in 2012, to a level of 26.7 cents per kilowatt hour.

As for monetary and credit market developments, the domestic policy continues to be that of managing the weak asset quality in an environment where both the demand and supply for credit remains soft. Honourable Members will observe from the Central Bank's report that the stock of private sector loans that are in arrears rose further in 2012, albeit at a much tempered pace. Hence, new instances of credit distress are abating. However on a more worrisome note, borrowers who are already in arrears are slipping further and further behind with their commitments. This is the impetus behind our thrust to better define the legal protection for borrowers, in a heightened environment of foreclosure. This thrust 11together with a strong economic base will cause an improvement in household incomes and the ability to service credit obligations.

On the Balance of Payments front, the key highlight is that construction-related inflows on investment projects such as Baha Mar, and the fuel import bill have continued to underpin the current account deficit that widened by approximately one-third to $1.46 billion in 2012. Aside from the extraordinary impact of the BTC privatization proceeds that distorted the 2011 outcome, other net foreign capital inflows were moderately stable in 2012 relative 2011. However with the increased import pressures, external reserves contracted by $74.6 million during the course of the year. At December 2012, external reserves stood at $810.2 million, equivalent to an estimated 17.5 weeks of non-oil merchandise imports and down from 19.7 weeks at the end of 2011. The seasonal rebuilding in reserves began slowly in 2013, with the latest estimate through May 24 placing balances at $814.3 million.

Prospects for the Bahamian economy in both 2013 and 2014 remain unchanged from the projections presented in both last 12year's Budget Communication and the Mid-Year Budget Statement. The IMF continues to forecast that our economy will expand by 2.7 per cent in real terms this year, followed by 2.5 per cent next year. These projections have been factored into the fiscal forecast to which I will shortly turn.

ENHANCING ECONOMIC GROWTH PROSPECTS AND INVESTING IN BAHAMIANS

One of the key pillars of our agenda for change relates to our commitment to stimulate sustained economic growth in the years ahead.

It goes without saying that, as a prerequisite, we must have a safe and secure environment for both our citizens and visitors. I want to reiterate at this time my Government's unflinching commitment to do whatever is necessary to reduce crime, the fear of crime and guarantee law and order in our society. Through Project Safe Bahamas, we will continue to address this urgent matter by a fully integrated approach involving prevention, 13detection, prosecution and rehabilitation. The agencies involved include the Police, Urban Renewal, Social Services, Education, Housing, Health and the Office of the Attorney General to ensure that we attack the fundamental, underlying causes of crime and violence and to promote law and order.

Crime generally is trending downward but we have more work to do. Many measures are being implemented by the Police, the Defence Force and the Office of the Attorney General. I wish to highlight that the Government is allocating $2 million in this Budget for the acquisition of new police vehicles in the coming fiscal year. This permits the round-the-clock presence of the Police on our streets to be seen and felt. Another portion of our citizen security programme that citizens will have noted is the installation of CCTV in the downtown and over-the-hill areas. This programme will continue to expand in the next fiscal year.

Between 2012/13 and 2013/14, we will have allocated in excess of $8 million to the Police Force to allow it to increase its manpower complement by over 450 officers. More specifically, in 14the next fiscal year, the Force will more than triple the size of its recruitment and training class to 100 officers from the usual complement of 30. As well, we will begin a five year process to invest approximately $175 million in the modernization of the marine fleet and harbor facilities of the Defense Force, in order to better patrol our seas and borders, protect our marine resources, and strengthen our capacity to respond to natural disasters throughout the Family Islands. In addition, we have also invested considerable sums to increase the manpower of the Defence Force.

Swift Justice has been re-implemented successfully and it is having an impact. Before the end of the year, we will announce initiatives that will further expedite matters being heard by the Courts.

The broad thrust of the Government's growth strategy includes diversifying the key tourism and financial services industries, as well as the overall economy, partly through the promotion of innovation in high value-added products. We also seek to foster linkages between sectors and to identify and remove 15impediments to growth, particularly in the business environment. Ministers responsible will speak more about this key strategy during the Budget Debate.

More specifically in the Tourism area, the Government is allocating $10 million in 2013/14 to marketing the new Baha Mar resort development at Cable Beach. As well, we are pursuing an expansion of airlift into The Bahamas. We are also targeting opportunities in the areas of medical research, sports, heritage and religious tourism. The Government is developing stem cell legislation as a means of further promoting medical research tourism.

While the Government does attach a high priority to identifying, promoting and supporting new foreign direct investment projects, we are also cognizant of the needs of small and medium size enterprises that are important engines of growth and job creation. We are therefore developing a new policy framework that will enhance the creation and expansion of small and medium size enterprises and the long-term employment opportunities that 16they create. The consultation report on the draft legislation is scheduled to be presented to the Government in June and the amended legislation will be released for consultations in early Summer. Tabling in Parliament is expected in the Fall.

We are also striving to enhance the business environment through a variety of initiatives that will improve the business–Government interface. These will include further expansion of the e-Government platform for a number of Government programmes and services, including the e-submission of declarations to Customs as of June 1st, the e-submission of correspondence to the Ministry of Finance as of July and the esubmission of requests for exemptions as of August. Reforms are

also underway to make key Government agencies more customerfriendly and their services more easily accessible. Efforts have been

focused in the areas of modernization of the Customs Department, enhancements to the suite of Business Licence services and services at the Registrar General's Department, as well as reforms to Real Property Tax administration.

17Specific initiatives for growth are also being developed in respect of aircraft and yacht registries and an arbitration centre in Grand Bahama. All of these are in advanced stages of discussion and development.

In this year's Budget, the Government will begin investments in a number of priority areas. As an immediate measure, we have allocated $10 million to the Capital Budget of the Ministry of Works and Urban Development for Urban renewal/small home repairs. This programme will benefit small contractors and provide jobs targeting our young males. It will support much needed improvement in the sub-standard housing conditions which many of the poor among us endure.

My Government continues to emphasize its commitment to higher educational standards and better outcomes, as well as more effective skills training, all of which are also vitally important to the future. My Government has allocated, in the context of the country strategy agreed with Caribbean Development Bank, over $30 million for education and this will be primarily directed toward 18special education and the transition of the College of The Bahamas to University status. In this Budget, my Government is also allocating $5.5 million of our own resources to the Ministry of Education, Science and Technology in 2013/14 for the construction of new primary and secondary schools in Inagua, San Salvador, Gregory Town and Lowe Sound. That is more than double the amount allocated last year and a virtual tripling of the sums allocated in 2011/12. We will maintain and expand these investments in future years.

As part of our broader education thrust, the Government will rent and renovate Our Lady's Catholic primary school to accommodate some 100 special needs children.

Further recognizing the need for heightened attention to those with special needs, my Government also plans to begin construction, in New Providence, of a new educational and multipurpose facility for persons with special needs. We are also committed to providing facilities in our schools for persons with special needs. In addition, we want to ensure that when they are no 19longer able to attend schools, like Garvin Tynes, facilities such as the one to be developed are provided where they may attend during the day. This facility will provide for them to continue their development and maximize their potential and ability to contribute to society. As well as the transformative effect on this section of our community, we believe that scores of families will welcome the opportunity to pursue business and gainful employment while their loved ones are in a safe environment, developing fully their God given potential.

Again, this is only the beginning, as our public education system must become more inclusive in meeting the needs of students of all abilities, throughout the Bahamas.

In the area of Health, I wish to signal that the Government is currently reviewing all aspects, including costing, of a National Health Insurance programme. We are committed to the establishment of such a scheme during this term and, through the review process, we will determine how best to phase in the programme in the period ahead.

20We are also committed to the construction of minihospitals across the nation. Currently, two such hospitals are on the drawing board in South Eleuthera and Cat Island and construction is slated to begin in 2013/14.

My Government remains committed to the housing programme. The grave economic situation that we inherited has delayed our ability to proceed as expeditiously as we would have liked, but we are now in a position to move forward with the construction of new homes. The Minister of Housing will provide additional details during the Budget debate.

As well, the Government will invest just over $4 million next year to establish the new School of Agriculture and Marine Sciences in North Andros. To be built on the site of the old agricultural research facility, the institute will include a tutorial commercial farm and is projected to be fully self-sustaining within five years. As an adjunct of the College of The Bahamas, it will offer diploma and certification programmes as well as skills training and its curriculum will combine both academic and practical 21components. It is estimated that initiatives sparked by the school could potentially place a 15 per cent dent in our total food imports.

In addition, the Government will begin the process to invest some $10 million in the construction of multi-purpose sporting facilities in the Family Islands that will give young athletes in these communities the opportunities to develop in competitive sports, on a similar basis as those in New Providence and Grand Bahama.

In New Providence, the new National Training Agency will come into operation. The mandate of the Agency is to equip Bahamians with the necessary practical competencies and skills to meet the current and future demands of the workplace. That is, equipping our unemployed citizens to become more employable in the growth sectors of our economy. The Agency will provide both training for the jobs coming on stream and placement assistance to workers in finding employment.

We will also begin, through public and private sector partnerships, work on the development of a major, week-long 22national cultural festival oriented to the start of the Lenten season. This will mark the start of the Bahamian Carnival or Mardi Gras. The Budget allocates $1 million to this initiative next year. The festival is targeted for start-up in 2015 and could incorporate a cultural village, public processions and song and costume competitions. We believe that this stimulus to Bahamian music, art, entertainment and other cultural forms will reap inestimable rewards for generations to come. Various groups, such as the Saxons or the Valley Boys, could become corporate entities. These entities, officially in the business of cultural tourism, could sell costumes, including sales online, both here and abroad. There will be specific stipulations that a certain percentage of the contents of costumes will be made of straw and sisal. Such stipulations would stimulate and provide a much needed boost to those domestic industries.

We foreshadow a burst of entrepreneurship from cultural tourism including costume design and creation, writing and performance of music, dance and choreography, visual arts, 23lighting, stage design and the protection of the intellectual property emanating from this arena.

We also note that, as well as crime statistics decreasing during the Junkanoo months, Junkanoo promotes teamwork and teaches compromise and other important social skills. We believe that these same benefits can be transposed to the Pre-Lenten Mardi Gras or Carnival.

Once fully operational, the festival is expected to provide a significant boost to our tourism sector. It will also create hundreds of full-time employment opportunities for persons engaged in the design and fabrication of carnival costumes.

As an example of successful public and private sector partnering, I would signal the new development in Bimini which is now in full swing. A private sector cruise ship will be dedicated exclusively to that island to provide a steady flow of visitors. There are also airport and port expansions. In all, we are looking at the transformation of both North and South Bimini with the people of Bimini being fully involved in that process. This is a very concrete 24example of the progress that we are making and not only a wishful hope; we expect hundreds of jobs to be created there by July. I would also emphasize that, throughout the process, we have taken all necessary steps to protect the environment. A proposal for Cat Island, with again hundreds of potential new jobs, is under consideration.

In addition, we are allocating $1 million toward the installation of greenhouses, for gardening purposes, at the prison, in schools and special educational facilities, the Williamae Pratt and Simpson Penn Centres, seniors' and chidren's homes throughout the country, as well as in Urban Renewal communities as a means of providing employment and a source of marketable produce.

The Government remains acutely mindful of the plight of the more needy members of our society. Even as we tighten up on expenditure allocations, we have sustained our commitment to social assistance transfers to individuals in need through the Ministry of Social Services.

25MEDIUM-TERM FISCAL CONSOLIDATION PLAN

As for our medium-term fiscal consolidation plan, it is comprehensive and multi-faceted, covering both Recurrent Expenditure and Recurrent Revenue. As I have stated, we must arrest the deteriorating state of the public finances. There must therefore be an unwavering commitment to this process. I will provide additional details in this Communication on progress to date and plans for the future.

In terms of measures to significantly and structurally enhance Recurrent Revenues:

• we are implementing a fundamental reform of our tax system, including the introduction of a Value Added Tax in July 2014;

• we are steadily proceeding with the establishment of the new Central Revenue Agency;

• we are continuing to pursue a thorough and comprehensive reform and modernization of the Real Property Tax system;

26• we are advancing our programme to modernize the Customs Department; and

• we are moving ahead with the plan to introduce the new excise stamps for tobacco products as a means of significantly curtailing revenue leakage in that area.

As for Recurrent Expenditure:

• we are bringing the new Financial Administration and Audit Act fully into force on July 1, 2013;

• we are in the process of restructuring the Ministry of Finance such that it is better positioned to effectively monitor the operations and expenditures of all Ministries, Departments and public corporations;

• we are taking specific actions to deal with electricity consumption, communications costs and the management of Government assets, and motor vehicles specifically across all areas of Government; and

27• we are closer to implementing the new framework to govern new public sector procurement.

I will now turn to supplementary details on a number of

these major new initiatives that are central components of our nearterm and medium-term fiscal consolidation strategy.

Tax Reform and Value Added Tax

Earlier this year, the Government released a White Paper on Tax Reform whose overriding objectives are to secure an adequate revenue base in support of our medium-term fiscal consolidation targets, while promoting enhanced efficiency and growth of the domestic economy. The cornerstone of that reform plan is the introduction of a Value Added Tax (VAT) on July 1, 2014 along with concurrent reductions in both import duties and excise taxes.

Internally, the Government is now reviewing the draft VAT legislation. This document will be released for public review and consultations by early summer, with a view to tabling and passing in Parliament by the end of 2013. We have begun the 28process of public consultations which will intensify over the Summer months, leading to an updated paper on the Government's policy stance on the VAT framework.

The Government is very mindful that the various stakeholder groups have different concerns and interests. We will listen and become fully apprised of all of these concerns. It would be imprudent though for me, as Minister of Finance, to give commitments to any group which could collectively undermine the importance of this reform process to strengthen our revenue base.

At the same time, the Government is mindful and will move cautiously to maintain The Bahamas' external competitiveness. We are also committed to mitigating the impact of the VAT on the poor, and have commissioned a study to quantify these effects, with the view of having adequate protection provided through our social safety net system. Rest assured of this fact!

29Modernization of Real Property Tax

As has been amply documented, the real property tax (RPT) system suffers from many critical structural defects and, as a result, revenues generated by the system fall significantly short of the amounts that should rightfully be collected. Specific reforms have been developed which could significantly increase property tax revenues.

Our reform process is continuing and, in this Budget, we have included a legislative amendment to increase the coverage of the property tax roll. We will also modernize the Information Technology system supporting the administration of the tax, and equip the staff of the RPT unit to undertake Computer Assisted Mass Appraisals.

These various reform initiatives are comprehensive and, through their implementation, the RPT system will be considerably improved in respect of both taxpayer services and revenue collections. During his contribution, the Minister of State will give 30more information on these initiatives, including an update on the results of the RPT Amnesty Programme.

Reform of Customs Operations

The Government has also initiated a major transformation of the Customs Department, with the assistance of the Inter-American Development Bank, which is focused on strengthening both Customs management and Customs operations. The overriding objective of this exercise is to improve the facilitation of trade and to strengthen Customs' ability to collect revenue and protect the borders. As part of Client Services enhancement, as of June 1st, all large importers in New Providence will be required to file Customs declarations electronically. This will streamline the Customs clearance process and begin to free up resources for deployment elsewhere in Customs operations.

The new Customs Management Act will take effect on July 1, 2013. This will provide a modern legal framework for Customs operations in line with international standards.

31Excise Tax on Tobacco Products

The new Excise Stamp Control Act, which was recently passed by Parliament, provides for the stamping of all tobacco products, whether imported or produced domestically, upon the payment of the appropriate excise tax. This measure will significantly reduce the smuggling of tobacco products and provide considerable benefit in terms of reducing revenue leakage. By January 1st 2014, the system will be fully operational, with a transition to the use of excise stamps beginning later this year.

New Financial Administration and Audit Act

Mr. Speaker sound public financial management is a vital component of good governance which, in turn, is critical to securing a vibrant democracy and supporting buoyant economic growth and employment creation.

When the revised Financial Administration and Audit Act comes into full force on July 1, 2013 it will enhance public sector administration, bolster transparency accountability and reporting as well as strengthen control, in matters of public financial 32management. This will be buttressed by a new public procurement framework, to be brought into place before the end of 2013 that will reduce and contain the cost of purchases of goods and services within the public sector, including public corporations. In February, I stressed the importance of the Ministry of Finance becoming more intrusive in the management of the Government finances. In addition to the overarching frameworks for controls, for the first time external monitors will be deployed to scrutinize the expenditure behaviour of large cost centers in government

Ministries, Departments and public corporations.

REVIEW OF ALL REVENUE AREAS

Mr. Speaker, the timing is never just right to ask taxpayers to contribute more to the coffers of the Government. Yet we cannot allow the Government to retreat from its obligations to provide and maintain public services. There is a cost to providing services that must be adequately financed and there is a standard at which services must be delivered which correlates with what we are 33asking taxpayers to pay. Indeed in many instances the demands on Government and the standards to which we are being held have risen, without concurrent changes in the fees attached to services.

In the Mid-Year Statement, we announced that we would undertake a comprehensive review and assessment of all Government revenue areas with a view to identifying means of enhancing Government revenue collections going forward, but also to align these better to the cost of these services. We also pledged to thoroughly review the entire structure of Excise Tax rates on motor vehicles, while bearing in mind the traffic and environmental implications.

That review exercise is almost complete. The administrative measures and changes that we are advancing at this time are summarized in Annex C of this Communication. The Government will conclude this review over the next two months, and it will include a scrutiny of immigration fees, Port charges, motor vehicle charges, and a revisiting of the range of fee structures and rates in the tourism and transportation sectors to bring them up 34to market levels. As well, given their heavy fiscal costs, it will be incumbent on us to reassess the entire range of fiscal incentives provided by Government to private sector enterprises. These reviews will include discussions with concerned private sector stakeholders. In addition, we will seek to establish a framework for the development of public-private sector partnerships for investments in public infrastructure.

It is important to note that the revenue enhancements flowing from these tax and fee adjustments must, in the near-term, contribute to keeping us on track with the fiscal objectives of our medium-term fiscal consolidation plan. I would also stress that these adjustments follow a lengthy period during which fees remained unchanged and fell out of line with the costs of providing the services that they cover. In future, it will be important to subject all fees to a process of regular review and needed adjustments.

At this time, I would signal some of the more significant adjustments that are now being proposed, as follows:

35• The structure of Excise Tax rates on motor vehicles remains fundamentally unchanged but the basis for the assessment of tax is being reversed from engine size to a three-tier scale of the value of the vehicle;

• Excise Tax on cigarettes and cigarillos will move from an ad valorem rate based on value to a specific rate per stick, to counter fraudulent Customs declarations and disincentivize sub-standard imports that could have more damaging health consequences;

• A number of Tariff rates are being reduced to provide additional relief to certain products used for medical reasons, such as defibrillators;

• For environmental reasons, we are aligning the tariff rate on inverters for solar panels to zero, in line with a new duty-free treatment for panels and the duty on LED appliances is being eliminated to bring it in line with the treatment of LED light bulbs;

36• Government Corporations such as Nassau Airport Development, BEC and the Bridge Authority will also now be subject to Business Licence tax, as a means of enforcing greater discipline on resource usage within these entities;

• As a most important change, BEC will again be exempt from Excise Tax on fuels imports as a means of providing relief on electricity costs, which are projected to decline by 6.6 per cent as a result. In this regard, I would stress that we are undertaking a critical examination of all energy proposals that we have received, such as that in respect of waste energy, such that we can move forward expeditiously with measures to reduce energy costs in his country;

• We also propose to eliminate stamp tax on electronic banking payments, including the use of debit cards for point of sale and online transactions;

• The stamp tax exemption granted to first-time homeowners will be extended for an additional five years, to June 2018 and, 37within the $500,000 cap, flexibility will be permitted as to the proportions allocated to the conveyance and the mortgage;

• Both the City of Nassau Revitalization Act and the Family Island Development Encouragement Act will be extended for another year, to June 2014;

• The Business Licence fee regime, which is based on sales or turnover, is also being simplified, with the elimination of most special rate categories, an adjustment in the maximum rates paid by larger firms, and a consolidated treatment of parent companies and subsidiaries.

• In the financial services sector, a new a Business Licence fee is being introduced for domestic banks at the rate of 3 per cent of gross revenue and a two-year phased adjustment is proposed for the fees on offshore banks and trust companies. With these adjustments we are also retaining the existing assets based fee paid by domestic banks. These inflows will collectively increase the means for the government to directly 38fund costs incurred by the Group of Financial Services Regulators.

• After having been at current levels for many years, stamp duties on imported spirits are being increased.

• We are also eliminating the $10 stamp tax levied on Customs entries and introducing a 1 per cent Customs processing fee on all entries, subject to a minimum fee of $10 and a maximum fee of $500;

• We are introducing a Customs processing fee schedule for manifests and other declarations for inbound and outbound aircraft and vessels.

The reality is that, in all of these instances, we are recovering the administrative costs involved for Customs in providing these services. In the case of Grand Bahama, the Government will, in 2015, also have to assume the cost for security and border control services now handled by the United States.

39• We also propose to amend the Stamp Act such that stamp tax shall be applied when Bahamian dollar dividends or profits are converted for repatriation out of The Bahamas.

FISCAL PERFORMANCE 2012/13

I now turn to fiscal performance in the 2012/13 fiscal year.

At the time of the Mid-Year Budget Statement, I explained that the performance of Recurrent Revenues in 2012/13 was not as robust as had been expected at the time of the last Budget because of weaker than projected growth of nominal GDP. That weakness has persisted and we now expect Recurrent Revenues this year to come in at $1,380 million, down by 11 per cent or $170 million from the $1,550 million Budget projection.

On the basis of that weakness, I announced in the Statement that the Government would implement a number of nearterm internal adjustments to ensure that we meet the Budget GFS

40Deficit target of 6.5 per cent of GDP in 2012/13. Through those measures, we would have succeeded in containing Recurrent Expenditure in 2012/13 to an estimated level of $1,659 million, down by $162 million from last year's Budget projection. Capital Expenditure should end up in the region of $350 million, down by $50 million from the Budget estimate.

With these adjustments, the GFS Deficit this fiscal year should approximate 6.1 per cent of GDP, slightly below the Budget forecast of 6.5 per cent.

FISCAL POLICY 2013/14 AND BEYOND

In the February Mid-Year Budget Statement, I clearly enunciated the medium-term fiscal strategy of the Government going forward and this Budget is faithful to the attainment of the fiscal targets of that plan.

In the 2013/14 fiscal year, Recurrent Expenditure is being held to a level of $1,737 million, just below the level set out 41in the Mid-Year Statement. Likewise, Capital Expenditure next year will be contained to a level of $295 million, not significantly changed from the $300 million projected in February. I would mention, in this context, that we expect investment in public infrastructure to be bolstered in the period ahead by the publicprivate partnerships to which I referred earlier. I would also signal that the Government will engage in roadwork projects across the Family Islands in the coming year including, in particular, Abaco, Andros, Acklins as well as others.

Recurrent Revenues in 2013/14 will be enhanced by the ongoing, projected modest growth of nominal GDP. They will also be bolstered by the various revenue adjustment and enhancement measures that I have announced in this Communication. On the basis of the measures that I have outlined, Recurrent Revenues in 2013/14 are now projected at $1,503 million, still leaving a gap from the forecast of $1,580 million that I set out in February. Honourable Members should see this as an indication of the additional measures, which I have not outlined in this 42Communication, but which must of necessity be identified and approved by Parliament in the coming months as a means of bridging that gap.

As it stands, the GFS Deficit next year will reach $443 million or 5.1 per cent of GDP, as compared to the estimated outcome of 6.1 per cent of GDP this year.

The central components of the medium-term plan, in respect of Recurrent and Capital Expenditure and Recurrent Revenue, will continue to engage beyond 2013/14. As I stated in the Mid-Year Budget Statement, we will continue to exert discipline on Recurrent and Capital Expenditure such that the levels of both continue to decline as a proportion of GDP. As for Recurrent Revenue, the tax reform package that we announced in the February White Paper, as well as the ongoing structural enhancements to revenue administration that I reviewed earlier, will contribute to a significant improvement in the revenue yield of our tax system to a level more in line with norms in the region.

43 As a consequence and barring unforeseen developments, we expect to be able to adhere to the fiscal objectives of our medium-term plan, namely:

- Both the Deficit on Recurrent Account and the GFS Deficit will be eradicated by 2015/16;
- The Primary Deficit will be eliminated by 2014/15 and that is critical to reversing the upward trend in the debt to GDP ratio;

• Government Debt will return to a level in the area of 50 per cent of GDP by 2016/17, as opposed to a level approaching 70 per cent in the absence of our decisive action plan to redress the public finances.

CONCLUDING REMARKS

In conclusion, I would stress again for Honourable Members the critical importance, to the betterment of Bahamian society and our standard of living, of the Government's aggressive action plan to redress the public finances. We quite simply have no alternative course of action if Government is to have access to the 44resources needed to implement the vital programme of change that it pledged to deliver.

We have been aggressive in pursuing additional revenues and reining in expenditures and that is reflected in the better-than-forecast performance in respect of the GFS Deficit this fiscal year. As evidenced by the measures announced in this Budget, we remain assiduous on the path of fiscal transformation. The beneficial results of our plan are beginning to emerge in terms of economic recovery and employment and these will continue to strengthen through the various initiatives in my Government's proactive growth strategy.

This Budget begins a process of generational change to transform and modernize Government operations as a means of enhancing the efficiency, effectiveness and sustainability of our public services. We are also embarked on an unprecedented reform of the Government's revenue system to bring its administration up to 21st century standards and its yield up to levels more in line with the needs of modern governance.

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To some, these challenges may seem daunting indeed. Addressing them clearly requires commitment, persistence and fortitude. I want to reassure Honourable Members and the Bahamian public that my Government will not shirk the fundamental responsibilities that it bears and that we are fully up to the task of bringing about better economic and social outcomes for all. ANNEX A

ECONOMIC BACKGROUND

iECONOMIC BACKGROUND1

INTRODUCTION

Preliminary estimates from the Department of Statistics suggest that The Bahamas' rate of economic expansion stabilized at around 1.8% in 2012, following the prior year's 1.7% growth. This outturn reflected steady gains in the key tourism sector, as the global economy continued to recover and local hoteliers sustained their incentive programmes, while a combination of foreign investment and public sector projects buoyed growth in construction output. In line with the output gains, the unemployment rate posted a slight improvement over the year, and inflation eased marginally, reflecting in part a general decline in international oil prices. In the monetary sector, liquidity remained buoyant in 2012, due mainly to weak domestic demand; however, external reserves contracted, as the sustained demand for foreign currency to facilitate import payments, outpaced the relatively modest receipts from real sector activities and one-off inflows.

The following sections highlight the international economic environment, which has a direct impact on domestic trends, followed by an analysis of domestic conditions and prospects for the Bahamian economy in 2013.

INTERNATIONAL ECONOMIC DEVELOPMENTS

In the April edition of its 2013 "World Economic Outlook Report" (WEO), the International Monetary Fund (IMF) estimated that global output expanded by 3.2% in 2012, a slowdown from the 4.0% growth recorded in 2011, as both advanced and emerging

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

Bahamas GDP data for 2012 is based on the preliminary estimates of the Department of Statistics.

iimarket economies continued to face significant challenges. Specifically, the

implementation of fiscal austerity measures in several major economies—particularly in

the euro area—reduced economic growth, while emerging markets continued to struggle

with weak external and domestic demand.

During 2012, major central banks either maintained or expanded their already

highly accommodative monetary policy measures, to support their respective economies.

The United States' Federal Reserve, the Bank of England and the Bank of Japan all kept

their key interest rates at historical lows and further expanded their asset purchase

programmes to spur economic activity. Both the European Central Bank (ECB) and the

People's Bank of China (PBOC) were more aggressive in their approaches, as they cut

their key benchmark rates and supplied additional liquidity to their banking systems. In

targeted efforts to tackle country-specific concerns, the ECB also implemented an

"Outright Monetary Transactions" programme, to assist member countries which were

experiencing severe fiscal imbalances, while the PBOC lowered banks' reserve

requirements to promote consumer lending.

In the United States, real GDP increased by 2.2% in 2012, following the previous year’s, 1.8% growth, owing to improvements in consumer spending and housing activity, as well as smaller declines in Government spending and a slowdown in import growth. In the external sector, the trade deficit narrowed modestly by $19.5 billion to $540.4 billion, buoyed by growth in the surplus on the services account and a narrowing in the goods deficit. As the economy continued to expand, an estimated 2.2 million jobs were created, leading to a reduction in the unemployment rate by 70 basis points to 7.8%. Over the year, inflation tapered to 1.7% from the preceding year’s 3.0% rate, due mainly to declines in iiienergy costs and a smaller rise in food prices. In the currency markets, decreased investor demand for relatively safe assets caused the dollar to depreciate against most major currencies. The dollar moved lower versus the British Pound and Canadian dollar, by 4.3% and 2.8%, respectively, while it fell more modestly vis-à-vis the Swiss Franc (2.3%), the euro (1.8%) and the Chinese Yuan (1.1%). In contrast, the election of a pro-stimulus Japanese Government in the final quarter, led to a rapid downward movement in the value of the Yen, and overall, the dollar firmed by 12.8% against the Japanese currency.

Most other major economies either posted modest economic growth or contractions

during the year. In the euro area, output fell by 0.6% in 2012, in contrast to the prior

year's 1.4% advance, as economic activity eroded in Germany and France—the region's

largest economies—and several southern states remained in recession. Supported by the

one-time boost from the hosting of the 2012 Olympic Games, which offset declines in the

production and services industries, real GDP in the United Kingdom increased marginally

by 0.2%, following a gain of 0.9% a year ago. China's economy grew by 7.8% in 2012,

although decelerating from 2011's more robust gain of 9.3%, as the expansion in the

industrial production and export sectors slowed. Higher consumer spending and increased

investments supported a rebound in Japanese real GDP by 2.0%, following 2011's 0.6%

downturn.

In the commodity markets, weak consumer demand resulted in the average price of

crude oil falling slightly, by 0.3% over the year to $111.38 per barrel although, on a pointon-point basis, the cost of oil firmed by 2.8% to $110.62 at end-December. Broad-based

gains were registered in the precious metal markets, as the price of gold rose by 7.1% to iv$1,675.35 per troy ounce at year-end and silver costs increased by 9.0% to $30.35 per troy ounce.

Going forward, the IMF, in its April 2013 WEO, projected that global output will expand by 3.3% in 2013, in line with the prior year’s growth. The report notes that expected gains in worldwide economic activity will be constrained by the uneven pace of recovery among advanced economies, even as emerging and developing economies begin to register stronger performances. However, it is anticipated that improvements in financial conditions, along with easy monetary policies and recovering confidence, will lead to a gradual acceleration in output during the second half of 2013.

Real GDP in the advanced economies is forecasted to stabilize at 1.2% in 2013 vis-à-vis 2012, as output growth in the United States is projected to slow to 1.9%, due to policy makers sustained fiscal consolidation efforts. However, the expansion in activity is projected to emanate from a rise in private sector demand, supportive financial conditions and accommodative monetary policies. In the euro area, ongoing fiscal adjustments, alongside weakness in the periphery economies, are forecasted to lead to a further 0.3% contraction in real GDP. Despite anticipated adverse developments in Europe, soft external demand and fiscal consolidation, real output in the United Kingdom is projected

to grow marginally by 0.7%, while the Japanese economy is poised to expand by 1.6%,

underpinned by fiscal and monetary stimulus, a weaker Yen and stronger external demand.

Output growth in emerging and developing economies is anticipated to firm slightly to 5.3% in 2013, supported by favorable macroeconomic conditions and recovering demand in advanced economies. In particular, the Chinese economy is

forecasted to expand by 8.0%, reflecting the effects of the authorities' stimulus measures, a vstronger export sector and an uptick in domestic demand. Meanwhile, an increase in consumption, combined with a rise in external demand and policy improvements, are anticipated to boost India's output growth to 5.7% in 2013.

In terms of commodities, the IMF has forecasted that higher supply will lead to average oil prices falling by 2.3% year-on-year to $102.60 in 2013. Further, non-fuel commodity prices are projected to decline marginally by 0.9%, as expected improvements in crop yields reduce food price pressures.

DOMESTIC ECONOMIC DEVELOPMENTS (2012)

The modest 1.8% growth in the economy in 2012 was supported by gains in tourism output, which benefitted from expansions in some of the key source markets, combined with sustained growth in sea traffic. Construction sector output continued to benefit from foreign investment led projects, as well as public sector infrastructure developments. In this environment, employment conditions improved modestly over the year, although the unemployment rate remained well above its pre-recession levels. On the monetary front, robust liquidity levels persisted, due mainly to the weakness in private sector credit. With consumers continuing to face challenges in meeting their debt obligations, banks' credit quality indicators deteriorated over the year; however, their capital and provisioning ratios remained at relatively robust levels. The deterioration of the fiscal situation translated into a significant rise in the National Debt for 2012, which represented a slightly higher ratio of nominal output at 61.2%. External sector developments were highlighted by a contraction in foreign reserve balances, despite the receipt of proceeds from Government's external borrowings in the latter half of the year, amid softness in real sector inflows and sustained demand for foreign currency. Reflecting vithis outturn, the estimated current account deficit widened, due in part to a rise in imports for construction-related projects and higher outlays for oil purchases. In addition, the surplus on the capital and financial account narrowed, reflecting a reduction in net foreign direct investment inflows, following a significant one-off receipt in 2011.

TOURISM

The tourism sector's recovery was sustained over 2012, as total visitor arrivals firmed by 6.3%, in line with the previous year's growth. Air traffic expanded by 7.1%, a reversal from 2011's 2.1% falloff, buoyed by a rise in tourists from several key markets and the steady recovery in the group business segment. Sea visitors, which comprised the bulk (77.1%) of the total, grew by 6.1% to 4.6 million, although below the 9.1% expansion of 2011.

In terms of the major ports of entry, total visitors to New Providence expanded by 9.3% to 3.3 million, underpinned by growth in both the sea (9.7%) and air components (8.4%). For the Family Islands, arrivals firmed by 3.0% to 1.8 million, as sea passengers rose by 3.3% and air traffic by a more modest 0.6%. Visitors to Grand Bahama firmed by 2.6% to 0.8 million, reflecting gains in air traffic (6.9%) and sea visitors (2.0%).

Provisional hotel sector performance data showed that total room revenue expanded by 4.2% to $455.2 million. This was due entirely to a firming in occupancy levels by 4.3 percentage points to 58.0%, as the average daily room rate (ADR) declined by 2.4% to $195.92, on account of incentive programmes pursued by various properties in the face of increased competition.

CONSTRUCTION

viiDuring 2012, output in the construction sector was driven mainly by foreigninvestment activity—dominated by the multi-billion dollar Baha Mar hotel project—with support from major public sector infrastructure developments.

However, domestic private sector construction activity remained anaemic, due to the challenging business conditions and the high level of mortgage delinquencies.

In this context, total mortgage loan disbursements for new construction and building repairs—as reported by banks, insurance companies and the Bahamas Mortgage Corporation—fell by 28.1% to $106.8 million, extending the 12.8% fall in 2011. The residential component—at a commanding 96.4% of the total—declined by 22.4% to $102.9 million, and the commercial segment weakened by almost 75% to $3.9 million.

Given the outlook for a continuation of weak economic conditions, expectations are that this sluggishness is likely to persist over the short-term, as mortgage commitments—a forward looking indicator—contracted in number by 43.5% to 508 and in value, by 18.5% to $90.7 million.

Lending conditions were relatively stable. The average rate for residential mortgages remained at 8.2%; however, the corresponding commercial mortgage rate firmed marginally by 20 basis points to 8.6%.

EMPLOYMENT

Reflecting the slight improvement in the economy, the Department of Statistics' Labour Force Survey for the six-month period ending November 2012, showed that the jobless rate fell to 14.0% from 14.7% at end-May, as payrolls firmed by 1,925 persons, following a 1.2 percentage point contraction in the prior six-month period. Two-thirds of viiithe nine (9) industries surveyed recorded job gains; the largest being in the relatively small-scale manufacturing sector, at 22.0%.

In terms of the main labour markets, the unemployment rate in New Providence narrowed to 13.1% from 14.0% at end-May. By contrast, Grand Bahama's jobless rate increased by 70 basis points to 18.0%.

INFLATION

Domestic consumer price inflation—as measured by changes in the Retail Price Index for The Bahamas—abated to 2.35% for the twelve months to October, from 2.90% in the comparative 2011 period. This outturn was due mainly to a significant slowdown in average price gains for transportation, by 6.06 percentage points to 2.64%. Decreases in inflation were posted for restaurant & hotels, by 1.0 percentage point to 1.81%; education, by 90 basis points to 2.36%. In addition, average costs for communication and recreation & culture, fell by 1.43% and 0.68%, in contrast to gains of 1.31% and 2.56%, respectively, in the prior year. Conversely, accelerated average cost gains were reported for food &non-alcoholic beverages, by 1.8 percentage points to 3.07%, miscellaneous goods &services, by 70 basis points to 0.92%, while more moderate rates of increase were registered for medical care & health and housing, of 24 and 20 basis points to 1.93% and 3.38%, respectively. Further, average clothing & footwear costs grew by 1.17%, a reversal from the 0.58% contraction in the prior period.

With international oil prices remaining elevated, domestic fuel costs increased during the year. The average prices at the pump for gasoline and diesel advanced, by 5.4% ixand 6.2%, to $5.45 and $5.20 per gallon, respectively. An analysis of price trends showed that the costs of both fuels reached their peak in May and then moved generally lower over the remaining months. Similarly, The Bahamas Electricity Corporation's average fuel charge advanced by 15.3% to 26.7¢ per kilowatt hour (kWh) over the previous year, achieving the highest rate of 28.51¢ per kilowatt hour (kWh) in July.

FOREIGN INVESTMENT AND THE BALANCE OF PAYMENTS2

Initial balance of payments data for 2012 showed a widening in the current account deficit, by $372.0 million (34.1%) to $1,462.5 million, as the merchandise trade deficit expanded by an estimated $269.2 million (12.6%) to $2,401.3 million, following a $244.0 million increase a year earlier. Buoyed by a rise in construction-related purchases, net non-oil imports advanced by 15.4% to $1,881.9 million, while higher import volumes and average costs resulted in a 13.9% hike in oil payments to $917.2 million. The surplus on the services account was reduced by $99.5 million (7.6%) to $1,214.3 million, largely influenced by an almost two-thirds growth in net payments for construction services to $266.2 million. Additionally, net outflows for transportation and other "miscellaneous" services firmed by 35.1% and 12.7%, to $264.6 million and $322.8 million, respectively, while more muted gains were posted for and royalty and license fees by 9.7% to $16.8 million, and insurance services by 4.2% to $193.7 million. In a partial offset, offshore companies boosted their local expenses by 22.0% to $169.5 million, and net travel receipts moved upwards by 3.6% to $2,081.1 million, underpinned by steady gains in tourism sector output.

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Based on data compiled from the Central Bank's Quarterly Economic Review, December 2012.

xOn the capital and financial account, the surplus narrowed by $53.9 million (5.5%) to $932.5 million, reflecting primarily a $241.3 million reduction in direct investments to $425.3 million, as net equity inflows—which benefitted from Government's divestment of its controlling interest in BTC in the previous year—declined by $231.5 million, while net receipts from land purchases fell more modestly by $9.8 million. In contrast, other "miscellaneous" investments strengthened by $188.1 million to $557.6 million, bolstered by Government's $180.0 million external loan in December, while net outflows from domestic banks' short-term transactions slumped to a mere $2.3 million from $101.4 million in 2011, when Government repaid a short-term foreign currency loan; however, other private loan inflows fell by $41.0 million to $301.7 million. Further, net portfolio investment outflows narrowed slightly by $1.0 million to $43.2 million, as the $10.4

million decline in net equity investments overshadowed the $9.4 million increase in the debt component.

FINANCIAL SECTOR

The financial sector remained relatively stable during 2012, as the number of banks

and trust companies licensed to operate within The Bahamas narrowed by ten (10) to 268,

due solely to reductions in the number of licensees operating through physical presence to

245. The remaining twenty-three (23) institutions were branch operations of firms from

predominantly G-10 countries, and operated within approved restrictive management

arrangements.

During the year, the Bank approved the registration of five (5) Private Trust

Companies (PTCs), for a total of seventy-four (74) at end-December. Similarly, the

number of Financial and Corporate Service Providers that act as Registered

xiRepresentatives rose by one (1) to five (5); while two (2) additional licensees informed the

Bank of their intent to act as Registered Representatives of PTCs, bringing the total to

fourteen (14). In addition, the number of licensed non-bank Money Transmission

Businesses (MTBs) fell by one (1) to two (2).

CAPITAL MARKETS

Capital market developments were bolstered by the listing of two (2) major share

issues during 2012, which contributed to a 39.8% surge in the volume of shares traded on

The Bahamas International Securities Exchange (BISX) to 3.7 million, while the

corresponding value grew by 11.3% to $15.9 million. However, reductions in the prices of

several securities led to the benchmark BISX All Share Price Index falling by 1.4% to

1,346.3 points at end-December, following an 8.9% contraction last year. Market

capitalization moved lower by 0.5% to $2,869.6 million, after a 0.7% falloff a year ago.

Further, at year-end, the number of securities listed on the Exchange had risen by 2 to 27,

compared to the prior year's level.

PAYMENTS SYSTEMS MODERNIZATION

During the year, the Bank, working in tandem with the Clearing Banks Association

(CBA), continued to make headway in the advancement and modernization of domestic

payments systems. The timely processing of electronic payments by the Bahamas

Automated Clearing House (BACH), which commenced operations in 2010, was

maintained during the year, and the volume of cheques cleared by the BACH declined by

1.9% to 2.9 million, after a 0.2% decrease in the prior period, while the corresponding

value rose 1.0% by $6.2 billion, following a 5.1% gain in 2011. In other developments,

xiiattempts to implement a system of Customer Initiated Transactions (CITs)—which are

methods of making inter-bank payments and transfers electronically—gained some

momentum during 2012, with the relevant stakeholders targeting implementation of the

system by end-2013.

Launched by the Bank in May 2004, the Bahamas Interbank Settlement System

(BISS) provides real time gross settlement (RTGS) and payment of high value and time

sensitive transactions between clearing banks, the Central Bank and their customers.

Activity for 2012 showed that the total number of transactions rose by 6.4% to 55,223, and

the corresponding value firmed by 7.1% to $13.0 billion.

MONETARY & CREDIT DEVELOPMENTS

Given the ongoing challenging economic environment and consequent weakness in

consumer demand, banking system liquidity remained buoyant during 2012; however,

sustained foreign currency demand, mainly to facilitate import payments, resulted in

external reserves contracting relative to 2011.

Buoyed by increased borrowings by the Government, total domestic credit firmed

by 1.7% ($148.1 million) in 2012, after a 1.0% ($88.7 million) expansion in the prior year.

Bahamian dollar credit, which accounted for the majority of the growth, firmed by $124.7

million (1.6%), extending the year-earlier gain of $189.4 million (2.5%). The foreign

currency component expanded by $23.4 million (3.3%), to reverse a $100.7 million

(12.4%) reduction in 2011. By broad sector categories, credit to the Government expanded

by $153.0 million (10.6%), outpacing the $25.5 million (1.8%) gain in the prior period,

and claims on the rest of the public sector firmed by $13.3 million (3.0%), vis-à-vis an

$11.6 million (2.5%) decline a year earlier. With consumers and businesses continuing to xiiiface challenging economic conditions, credit to the private sector contracted by $18.2 million (0.3%), reversing the $74.8 million (1.1%) gain in 2011.

External reserve trends were dominated by a build-up in balances during the first five months of the year, due to net inflows from real sector activities and Government's receipt of foreign currency proceeds from the sale of a major tourism resort. Reserve levels peaked at $942.0 million during May, but then trended downward over the following months, until the receipt of significant proceeds from Government's external loan in December provided a lift to year-end levels. At end-December, external reserves stood at $810.2 million, a decline of $74.6 million over the previous year, and balances were equivalent to an estimated reduced 17.5 weeks of non-oil merchandise imports, relative to 19.7 weeks at end-2011.

In interest rate developments, the weighted average loan rate fell by 10 basis points to 10.88%, inclusive of a narrowing in lending rates for residential and commercial mortgages by 27 and 8 basis points to 7.50% and 8.29% respectively. Overdraft rates moderated, on average, by 22 basis points to 9.81%; whereas consumer loan rates rose slightly by 8 basis points to average 13.43%. In terms of deposits, the weighted average rate declined by 61 basis points to 2.02%, as the average rate on demand and savings

balances fell by 85 basis points to 0.45% and by 10 basis points to 1.65%, respectively.

Similarly, the average rate on fixed deposits contracted to within a lower band of 1.60%-

2.65% from 2.33%-3.20% in 2011.

CREDIT QUALITY

Banks credit quality indicators weakened in 2012, as borrowers continued to face

challenges in meeting their debt obligations, due to the high levels of unemployment and

xivweak business conditions. As a result, total private sector loan arrears rose by $42.4

million (3.5%) to $1,250.5 million, slower than the gain of $69.1 million (6.1%) in 2011.

As a percentage of total private sector loans, arrears firmed by 75 basis points to 20.0%,

exceeding the 70 basis point increase posted a year ago. The rise in delinquencies was due

solely to a $51.5 million (6.3%) expansion to $867.6 million in the non-performing

component—arrears in excess of 90 days and on which banks have stopped accruing

interest—after a year-earlier gain of $70.2 million (9.4%), while the corresponding loan

ratio moved higher by 88 basis points to 13.9%. In contrast, short-term arrears, those 31-

90 days overdue, fell by $9.1 million (2.3%) to $382.9 million, following a $1.1 million

(0.3%) decrease in 2011, with the corresponding loan ratio declining by 12 basis points to

6.1%.

NATIONAL DEBT

In 2012, the Direct Charge on the Government expanded by an estimated 15.5%

($590.0 million) to $4,394.6 million, exceeding the 2.3% ($84.3 million) increase posted in

2011. Bahamian dollar claims, which accounted for the bulk (76.4%) of the total, advanced

by $351.2 million (11.7%) to $3,357.3 million, while foreign currency debt firmed by

$238.7 million (29.9%) to $1,037.3 million.

For the year, Government's contingent liabilities rose by $41.4 million (7.5%) to

$592.1 million, relative to 2011's 2.5% ($13.9 million) contraction to $550.7 million. As a

consequence of these developments, the National Debt expanded by 14.5% ($631.4

million) to $4,986.7 million at end-December 2012, equivalent to 61.2% of GDP, and

outpacing the more muted 1.6% ($70.4 million) growth in 2011 to $4,355.3 million (55.3%

of GDP).

xvDOMESTIC ECONOMIC DEVELOPMENTS (FIRST QUARTER 2013)

Preliminary tourism sector data for the first quarter of 2013, suggested a continuation of the mild performance recorded in the prior year, amid a decline in the highvalue added air segment of the market. Total arrivals grew modestly by 3.3% to 1.7 million, a slowdown from the 10.6% expansion in the comparative 2012 period, as air arrivals contracted by 3.4%, a reversal from a 11.2% increase a year earlier, and the larger sea component firmed modestly by 5.0%, vis-a-vis a 10.5% expansion in 2012.

In terms of the monetary sector, liquidity conditions remained buoyant during the first quarter, amid retrenched private sector credit and increased financing to the Government. However, steady demand for foreign currency and modest receipts from real sector activities contributed to a contraction in external reserves, by $19.1 million to $793.0 million, vis-a-vis a slight $4.8 million gain a year earlier.

Accretions to total domestic credit slowed to $72.6 million from $89.2 million over the same period last year. Underlying this development, the foreign currency component declined by $29.5 million, a reversal from a $23.2 million increase a year ago. In contrast, Bahamian dollar claims advanced by $102.1 million, outpacing the $65.9 million increase of 2012. In terms of local currency claims, growth in net credit to the Government accelerated by $99.2 million to $157.6 million, buoyed by two new Treasury bill issues and an increase in short-term advances. Conversely, the gain in credit to the rest of the public sector slowed to $0.5 million, from $20.4 million a year earlier, and credit to the private sector fell by a further $55.4 million, after a contraction of $12.9 million in the prior period.

xviReflecting seasonal trends, banks’ credit quality indicators improved marginally during the first quarter, as total private sector loan arrears contracted by $33.5 million (2.7%) to $1,217.0 million, which represented 19.7% of total loans—for a drop of 36 basis points. Underpinning the improvement in delinquencies, the short-term category contracted by $43.3 million (11.3%) to $339.7 million, and the corresponding loan ratio measure fell by 64 basis points to 5.5%. In a partial offset, non-performing loans grew by $9.7 million (1.1%) to $877.3 million, or a 29 basis points drop as a proportion of total private sector loans to 14.2%.

Despite the improvement in credit quality during the first quarter, banks remained cautions, and raised their loan loss provisions by $27.5 million (7.4%) to $400.3 million. As a result, the ratio of provisions to both total arrears and non-performing loans grew, by 3.1 and 2.7 percentage points, to 32.9% and 45.6%, respectively.

ECONOMIC OUTLOOK FOR 2013

Although global headwinds could potentially affect the domestic outlook, current projections are that the mild pace of activity will continue into 2013. Specifically, expectations are that foreign investment projects, and to a lesser extent the public sector's infrastructural developments, will continue to support construction activity. Despite signs of weakness shown over the first quarter, tourism's performance is forecasted to improve modestly, benefitting from the ongoing rebound in the group travel business. As a consequence, the jobless rate is expected to gradually decline, as the recovery becomes more broad-based. Further, domestic inflation is anticipated to be relatively mild, although volatility in international oil prices will continue to feed through to domestic fuel costs.

[xvii]In the monetary sector, liquidity is forecasted to remain buoyant, as private sector credit should continue to be relatively subdued, while external reserves are expected to stay at healthy levels, although the net position will reflect the overall effects of the demand for foreign currency to facilitate import payments, against the ability of the economy to generate inflows from real sector activities. Commercial banks' credit quality indicators are poised to stay elevated over the near-term; however, these institutions should continue

to maintain capital levels well in excess of their regulatory requirements,
mitigating any

financial stability concerns.

xviiiANNEX B

TABLES and GRAPHS

xix2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2018

GDP 7706 7966 8319 8247 7820 7888 7873 8149 8658 9049 9481

Growth-Current Prices(%) 8.6 3.4 4.4 -0.9 -5.2 0.9 -0.2 3.5 6.2 4.5 4.8

Growth-Constant Prices(%) 3.4 2.5 1.4 -2.3 -4.2 1.0 1.7 1.8 2.7 2.5 2.5

Consumer Prices (%) 2.1 2.1 2.5 4.7 1.9 1.3 3.2 2.3 2.0 2.0 2.0

Source: IMF Projections 2013-2018, World Economic Outlook, April 2013

Department of Statistics 2005-2012

Table I. The Bahamian Economy 2005 - 2018

-5.0

-4.0

-3.0

-2.0

-1.0

0.0

1.0

2.0

3.0

4.0

2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2018

Percentage

Table I. GDP GROWTH 2005 - 2018 (Constant prices)10. GDP (current prices) revised

11. GFS Deficit as % of GDP -2.4 -2.6 -2.3 -2.2 -1.8 -2.2 -1.6 -4.5 -5.1 -2.1 -5.6 -6.5 -6.1 -5.1

Table II. - Budget Performance

B$ millions

2001/02

2002/03

2003/04

2004/05

2005/06

2006/07

2007/08

2008/09

2009/10

2010/11

2011/12

Budget

2012/13

Projected

Outturn

2012/13

Budget

2013/14

1. Recurrent Expenditure 986 1035 1091 1151 1203 1415 1421 1499 1529 1642 1632 1821 1659 1737

2. Recurrent Revenue 875 918 960 1054 1211 1354 1445 1331 1292 1452 1432 1550 1380 1503

3. Recurrent Deficit (2 minus 1) -111 -117 -131 -97 8 -61 24 -168 -237 -190 -200 -271 -279 -234

(Deficit - Surplus +)

4. Capital Expenditure 138 127 116 162 190 235 231 262 251 263 395 400 350 295

5. Capital Revenue 0 0 0 0 3 7 10 0 0 210 87 0 0 0

6. Capital Deficit (5 minus 4) -138 -127 -116 -162 -187 -228 -221 -262 -251 -53 -308 -400 -350 -295

7. TOTAL DEFICIT (3 plus 6) -249 -244 -247 -259 -179 -289 -197 -430 -488 -243 -508 -671 -629 -529

8. Debt Redemption 85 60 85 97 38 106 62 67 89 77 63 121 121 86

9. GFS Deficit (7 minus 8) -164 -184 -162 -162 -141 -183 -135 -363 -399 -166 -445 -550 -508 -443

6738 6954 7022 7400 7836 8143 8283 8034 7854 7881 8011 8454 8312 8644

GFS Deficit % of GDP

-7.0

-6.0

-5.0

-4.0

-3.0

-2.0

-1.0

0.0

2001/02 2002/03 2003/04 2004/05 2005/06 2006/07 2007/08 2008/09 2009/10 2010/11 2011/12 Budget

2012/13

Projected

Outturn

2012/13

Budget

2013/14

Percentage*Source: Ministry of Tourism

All numbers are subject to revision.

Total Stopover Arrivals 2000 - 2012

0

100

200

300

400

500

600

700

800

900

1000

1100

1200

1300

1400

1500

1600

1700

Thousands

Stopovers

1543.9 1537.8 1513.1 1510.2 1561.3 1608.1 1600.9 1527.7 1463.0 1327.0 1370.1 1346.4 1417.3

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

Tourist Expenditure 2000 - 2011

0.0

500.0

1000.0

1500.0

2000.0

2500.0

3000.0

$Millions

Stopovers

1579.7 1494.8 1602.5 1595.3 1693.5 1883.9 1881.2 2020.8 2152.4 1824.6 1741.1 1732.3

Total

1734.4 1647.7 1759.8 1757.4 1884.5 2068.8 2057.3 2617.48 2501 2014.2 2069.0 2110.38

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

Table III. Tourist Expenditure andArrivalsSource: Department of Statistics, Labour Force Survey

* Unemployment estimates are not available in Census years.

Table IV. Unemployment Rates 2001-2012

2001 2002 2003 2004 2005 2006 2007 2008 2009 2010* 2011 2012

Unemployment rate 6.9 9.1 10.8 10.2 10.2 7.6 7.9 8.7 14.2 15.9 14

0

2

4

6

8

10

12

14

16

18

PercentageSource: Central Bank of The Bahamas

Table V. Total External Reserves 2000 - 2012

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

External Reserves 342.5 312.3 373.2 484.3 667.8 578.8 499.8 454.2 563.1 815.9 860.4 884.8 810.2

0

100

200

300

400

500

600

700

800

900

1000

$Millions

External Reserves$ millions 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

(1) Direct Charge 1,514 1,604 1,802 1,936 2,098 2,235 2,386 2,636 2,767 3320 3720 3804 4395

(2) Government Guaranteed Debt 365 359 423 468 442 502 501 434 446 589 565 551 592

(3) National Debt(1+2) 1,879 1,963 2,225 2,404 2,540 2,737 2,887 3,070 3,213 3909 4285 4355 4987

GDP($millions) Revised 6328 6517 6958 6949 7094 7706 7966 8319 8247 7820 7888 7873 8149

(1) Direct Charge 24 25 26 28 30 29 30 32 34 42 47 48 54

(2) Government Guaranteed Debt 6 6 6 7 6 7 6 5 5 8 7 7 7

(3) National Debt(1+2) 30 30 32 35 36 36 36 37 39 50 55 56 61

Source: Central Bank of The Bahamas Quarterly Statistical Digest February 2013

Table VI. National Debt 2000 - 2012

National Debt as a % of GDP

0

1,000

2,000

3,000

4,000

5,000

6,000

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

National Debt

(1) Direct Charge

(2) Government Guaranteed Debt

(3) National Debt(1+2)

0

10

20

30

40

50

60

70

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

National Debt As a % of GDP

(1) Direct Charge

(2) Government Guaranteed Debt

(3) National Debt(1+2)2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

The Bahamas 4.2 2.6 2.7 -1.3 0.9 3.4 2.5 1.4 -2.3 -4.2 1.0 1.7 1.8 2.7 2.5

United States 4.1 1.1 1.8 2.5 3.5 3.1 2.7 1.9 -0.3 -3.1 2.4 1.8 2.2 1.9 3.1

Source: Department of Statistics, 2000- 2012; IMF World Economic Outlook April 2013 for 2013 and 2014.

Table VII (a). Growth of the Bahamian and US Economies 2000 - 2014

Annual percent change in GDP in real terms

-5.0

-4.0

-3.0

-2.0

-1.0

0.0

1.0

2.0

3.0

4.0

5.0

2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013

Growth -Constant Prices (%)

The Bahamas United States% % % % % % % %

2007 2008 2009 2010 2011 2012 2013 2014

World 5.4 2.8 -0.6 5.2 4.0 3.2 3.3 4.0

US 1.9 -0.3 -3.1 2.4 1.8 2.2 1.9 3.0

Canada 2.1 1.1 -2.8 3.2 2.6 1.8 1.5 2.4

France 2.3 -0.1 -3.1 1.7 1.7 0.0 -0.1 0.9

Germany 3.4 0.8 -5.1 4.0 3.1 0.9 0.6 1.5

United Kingdom 3.6 -1.0 -4.0 1.8 0.9 0.2 0.7 1.5

Barbados 1.7 0.3 -4.1 0.2 0.9 0.0 0.5 1.0

Guyana 7.0 2.0 3.3 4.4 5.4 3.3 5.5 6.0

Jamaica 1.4 -0.8 -3.1 -1.4 1.5 0.1 0.5 1.2

Trinidad & Tobago 4.8 3.4 -4.4 0.2 -2.6 0.4 2.0 2.5

The Bahamas 1.4 -2.3 -4.2 1.0 1.7 1.8 2.7 2.5

Source: International Monetary Fund

April 2013 World Economic Outlook

TABLE VII (B)

GROWTH OF REAL GDP 2007/08 2008/09 2009/10 2010/11 2011/12 2012/13 2012/13 2013/14 2014/15 2015/16 2016/17

Budget Projected Budget Projection ProjectionProjection

Outturn

1. Recurrent Expenditure 1421 1499 1529 1642 1632 1821 1659 1737 1789 1825 1860

2. Recurrent Revenue 1445 1331 1292 1452 1432 1550 1380 1503 1740 1952 2090

3. Recurrent Balance (2. minus 1.) 24 -168 -237 -190 -200 -271 -279 -234 -49 127 230

4. Capital Expenditure 231 262 251 263 395 400 350 295 270 280 295

5. Capital Revenue 10 0 0 210 87 000000

6. Capital Balance(5. minus 4.) -221 -262 -251 -53 -308 -400 -350 -295 -270 -280 -295

7. Total Deficit (3. plus 6.) -197 -430 -488 -243 -508 -671 -629 -529 -319 -153 -65

8. Debt Redemption 62 67 89 77 63 121 121 86 102 153 145

9. GFS Deficit (7. minus 8.) -135 -363 -399 -166 -445 -550 -508 -443 -217 0 80

10.GDP (Current Prices) 8283 8034 7854 7881 8011 8454 8312 8644 8990 9350 9724

11.GFS Deficit as % of GDP -1.6 -4.5 -5.1 -2.1 -5.6 -6.5 -6.1 -5.1 -2.4 0 0.8

Memo Items:-

Growth Rate (current prices) 1.7 -3.0 -2.2 0.3 1.6 3.8 4.0 4.0 4.0 4.0

Government Debt (end June) 2679 3085 3401 3553 3906 4456 4414 4875 5092 5092 5012

Government Debt (% of GDP) 32.3 38.4 43.3 45.1 48.8 52.7 53.1 56.4 56.6 54.5 51.5

Recurrent Expend. (% of GDP) 17.2 18.7 19.5 20.8 20.4 21.5 20.0 20.1 19.9 19.5 19.1

Recurrent Revenue (% of GDP) 17.4 16.6 16.5 18.4 17.9 18.3 16.6 17.4 19.4 20.9 21.5

Capital Expenditure (% GDP) 2.8 3.3 3.2 3.3 4.9 4.7 4.2 3.4 3.0 3.0 3.0

Primary Balance ($) 8.0 -209.0 -220.0 45.0 -261.0 -343.0 -319.0 -204.0 33.0 249.0 326.0

Primary Balance (% of GDP) 0.1 -2.6 -2.8 0.6 -3.3 -4.1 -3.8 -2.4 0.4 2.7 3.4

* GDP estimates through 2012 are from the Department of Statistics; thereafter from the IMF World Economic Outlook

TABLE VIII

SUMMARY OF FISCAL POSITION AND PROSPECTS

B$ millionsRecurrent Revenue (% of GDP)

0

5

10

15

20

25

2007/08 2008/09 2009/10 2010/11 2011/12 2012/13 2012/13 2013/14 2014/15 2015/16 2016/17

Government Debt (% of GDP)

0

10

20

30

40

50

60

2007/08 2008/09 2009/10 2010/11 2011/12 2012/13 2012/13 2013/14 2014/15 2015/16 2016/17

GFS Deficit as % of GDP

-7

-6

-5

-4

-3

-2

-1

0

1

2

2007/08 2008/09 2009/10 2010/11 2011/12 2012/13 2012/13 2013/14 2014/15 2015/16 2016/17 B$ millions

Line Item 2002R 2003R 2004R 2005R 2006R 2007F 2008F 2009R 2010R 2011 PV 2012PL

1 Government final consumption

expenditure

770.39 785.00 826.28 873.20 947.62 976.05 1,071.74 1,151.51 1,150.37 1,168.24 1,214.80

1.1 Collective Consumption Expenditure 480.62 488.70 529.48 546.22 589.65 607.34 636.72 680.42 688.30 711.06 737.90

1.2 Individual Consumption Expenditure 289.76 296.30 296.81 326.98 357.97 368.71 435.02 471.09 462.07 457.18 476.90

2 Private final consumption 4,399.91 4,483.85 4,623.14 5,102.95 5,461.37 5,600.22 5,628.51 5,279.87 5,402.61 5,585.77 5,709.64

3 Gross capital formation 1,525.41 1,538.10 1,503.22 1,948.10 2,416.19 2,343.88 2,201.33 1,993.23 2,006.55 2,209.45 2,699.80

3.1 Change in stocks 83.61 78.36 76.40 84.18 85.55 86.20 88.37 91.70 93.69 131.85 102.18

3.2 Gross fixed capital formation 1,441.81 1,459.74 1,426.82 1,863.91 2,330.64 2,257.68 2,112.95 1,908.13 1,912.85 2,077.59 2,597.62

3.2.1 Residential construction 204.94 245.94 221.81 276.52 302.66 291.80 312.64 274.84 246.16 248.57 202.87

Non-Residential construction 237.65 184.50 181.22 214.38 403.94 366.31 274.34 225.32 198.92 321.91 645.62

Capital-Work-In-Progress 118.09 143.11 109.91 193.87 230.34 127.83 168.73 144.28 186.04 88.22 98.31

3.2.2 Other construction 184.13 157.79 195.49 191.48 268.34 282.19 332.28 314.72 385.39 402.08 388.40

3.2.3 Machinery & Transport Equipment 696.99 728.40 718.39 987.67 1,125.35 1,189.54 1,024.96 948.97 896.35 1,016.81 1,262.44

4 Exports of goods and services 2,934.46 2,901.23 3,160.70 3,482.13 3,557.56 3,888.24 3,796.88 3,117.24 3,223.05 3,431.48 3,649.80

5 Less: Imports of goods and services 2,672.17 2,758.87 3,018.93 3,700.16 4,417.16 4,489.39 4,451.75 3,728.03 3,894.52 4,522.35 5,125.04

6 Equals: EXPENDITURE ON GROSS

DOMESTIC PRODUCT

6,958.00 6,949.32 7,094.41 7,706.22 7,965.59 8,319.00 8,246.70 7,820.42 7,888.09 7,872.58 8,149.00

7 GDP CURRENT GROWTH RATE 6.77% -0.12% 2.09% 8.62% 3.37% 4.40% -0.90% -5.20% 0.90% -0.20% 3.50%

F: Final

R: Revised

Pv: Provisional

PI: Preliminary

Department of Statistics Gross Domestic Product 2012 Figures

Table IX: EXPENDITURES ON THE GROSS DOMESTIC PRODUCT

at Current Market PricesTable X - Ratio of Recurrent Revenue to GDP

B$ millions

2000/01

2001/02

2002/03

2003/04

2004/05

2005/06

2006/07

2007/08

2008/09

2009/10

2010/11

2011/12

2012/2013

Budget

Projected

Outturn

2012/13

2013/14

Budget

Recurrent Revenue 973 875 918 960 1054 1211 1354 1445 1331 1292 1452 1432 1550 1380 1503

GDP (current prices) revised 6423 6738 6954 7022 7400 7836 8143 8283 8034 7854 7881 8011 8454 8312 8644

Recurrent Revenue % of GDP 15.1 13.0 13.2 13.7 14.2 15.5 16.6 17.4 16.6 16.5 18.4 17.9 18.3 16.6 17.4

0.0

2.0

4.0

6.0

8.0

10.0

12.0

14.0

16.0

18.0

20.0

2000/01 2001/02 2002/03 2003/04 2004/05 2005/06 2006/07 2007/08 2008/09 2009/10 2010/11 2011/12 2012/2013

Budget

Projected

Outturn

2012/13

2013/14

Budget

Percent

Recurrent Revenue as % of GDP2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012

Foreign Direct Investment 301 234 238 292 532 641 843 887 1,032 753 960 970 595

GDP(Current Prices) 6,328 6,517 6,958 6,949 7,094 7,706 7,966 8,319 8,247 7,820 7,888 7,873 8,149

FDI as % of GDP 4.8% 3.6% 3.4% 4.2% 7.5% 8.3% 10.6% 10.7% 12.5% 9.6% 12.2% 12.3% 7.3%

Source: The Central Bank of The Bahamas

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

B$ millions

0.0%

2.0%

4.0%

6.0%

8.0%

10.0%

12.0%

14.0%

PercentITEM 1995 1996 1997 1998 1999 2001 2002 2003 2004 2005 2006 2007 2008 2009 2011 2012

Total Labour Force

All Bahamas 143,030 146,635 149,915 156,470 157,640 164,675 167,980 173,795 176,330 178,705 180,255 186,105 191,595 184,020 190,445 192,205

New Providence 98,900 102,965 104,315 111,370 113,240 117,900 119,700 123,380 125,385 128,630 127,090 131,105 135,735 131,245 134,090 137,925

Grand Bahama 21,500 20,945 22,495 22,200 23,900 25,055 25,190 26,350 26,465 27,305 27,445 28,850 29,820 28,235 28,850 29180

Employed Labour Force

All Bahamas 127,440 129,765 135,255 144,355 145,350 153,310 152,690 154,965 158,340 160,530 166,505 171,490 174,920 157,805 160,185 165,255

New Providence 88,200 90,665 93,465 103,270 104,440 109,770 108,255 108,685 111,725 114,660 118,575 120,675 123,960 112,880 113,845 119,925

Grand Bahama 19,300 18,730 20,535 20,090 21,625 23,345 23,580 24,050 24,000 24,305 25,155 26,310 27,125 23,310 22,735 23930

Unemployed Labour Force

All Bahamas 15,590 16,870 14,660 12,115 12,290 11,365 15,290 18,830 17,990 18,175 13,750 14,615 16,675 26,215 30,260 26,950

New Providence 10,700 12,300 10,850 8,100 8,800 8,130 11,445 14,695 13,660 13,970 8,515 10,430 11,775 18,365 20,245 18,000

Grand Bahama 2,200 2,215 1,960 2,110 2,275 1,710 1,610 2,300 2,465 3,000 2,290 2,540 2,695 4,925 6,115 5250

Labour Force Participation Rate

All Bahamas 73.9% 73.7% 74.9% 77.3% 76.8% 76.2% 76.4% 76.5% 75.7% 76.3% 76.1% 76.2% 76.3% 73.4% 72.1% 74.6%

New Providence 74.6% 76.1% 75.5% 78.3% 77.7% 78.1% 77.6% 78.0% 77.5% 77.5% 79.7% 77.1% 77.3% 74.0% 72.5% 75.6%

Grand Bahama 76.3% 72.8% 74.9% 73.0% 75.3% 75.2% 74.4% 76.0% 74.7% 74.7% 74.6% 76.8% 76.9% 74.2% 71.5% 71.4%

Unemployment Rate

All Bahamas 10.9% 11.5% 9.8% 7.8% 7.8% 6.9% 9.1% 10.8% 10.2% 10.2% 7.6% 7.9% 8.7% 14.2% 15.9% 14.0%

New Providence 10.8% 11.9% 10.4% 7.3% 7.8% 6.9% 9.6% 11.9% 10.9% 10.9% 6.7% 8.0% 8.7% 14.0% 15.1% 13.1%

Grand Bahama 10.2% 10.6% 8.7% 9.6% 9.5% 6.8% 6.4% 8.7% 9.3% 11.0% 8.3% 8.8% 9.0% 17.4% 21.2% 0.18

Source: Department of Statistics

Table XII

KEY LABOUR FORCE STATISTICS

1995-1999, 2001-2009, 2011-2012 (2000 & 2010 were Census Years)xx

ANNEX C

REVENUE MEASURESAnnex C

REVENUE MEASURES

Fiscal Year 2013/2014

Item

No. Description Existing Rate Proposed Rate Effective

Date

1 Bring into force the new

Customs Management Act and

Regulations.

Jul 1, 2013

2 Bring into force the New Tariff

Act.

Jul 1, 2013

3 Eliminate the $10.00 stamp tax

levied on Customs entries and

introduce a 1% Customs

processing fee. Introduce a

processing fee for manifest and

other declarations for inbound

and outbound aircrafts and

vessels.

No processing fee. 1% of the value of entries

submitted to Customs subject to

a minimum of $10.00 and

capped to a maximum of

$500.00.

Jul 1, 2013

4 Customs Duty on vehicles to be

based on value rather than

engine size.

Vehicles with engine size

2000 cc and under, a rate of

65%;

Vehicles with engine size

greater than 2000cc but

smaller than 2500cc, a rate

of 75%; and

Vehicles with engine size

greater than 2500 cc, a rate

of 85%.

Duty based on value of vehicle:

Under $10,000:65%;

Over $10,000 but less than

$40,000:75%; and

Over $40,000:85%

Jul 1, 2013

5 Reduction of duty on electric

motor cycles.

75% 65% Jul 1, 2013

6 Reduce the duty on inverters for

solar panels.

45% Free Jul 1, 2013

7 Reduce the duty on solar

panels.

10% Free Jul 1, 2013

8 Reduce the duty on solar

powered air conditions.

10% Free Jul 1, 2013

9 Reduce the duty on shakes

(shingles).

45% 7% Jul 1, 2013

10 Reduce the duty on bed pads. 40% Free Jul 1, 2013

11 Reduce the duty on urinary

bags.

45% Free Jul 1, 2013Annex C

REVENUE MEASURES

Fiscal Year 2013/2014

Item

No. Description Existing Rate Proposed Rate Effective

Date

12 Reduction of duty on incubators

and isolators (Tariff Heading

9403.5010).

35% Free Jul 1, 2013

13 Reduction of duty on

Defibrillators.

35% Free Jul 1, 2013

14 Creation of a new Tariff

Heading for the LED Light

Fixture in Chapter 94.

35% Free Jul 1, 2013

15 Introduce an Environmental

Levy on specific Items.

No levy charged . Various fees depending on the

Item.

Jul 1, 2013

16 Increase in Customs Storage

Fees for cars.

$30 per week $50 per week Jul 1, 2013

17 Introduce a Customs Licence
Fee to be collected from private
storage facilities.
Customs to collect 25% of the
storage fees collected by the
shipping agents.
Jul 1, 2013
18 Eliminate bonding tax. 10% Bonding Tax collected
every 90 days.
No Bonding Tax collected. Jul 1, 2013
19 Adjustment in Customs and
Immigration Service Charges.
Charges are currently for
afterhours (5pm) services
provided to airlines and
ships, per officer deployed
and based on the rank of
each officer.
A unified rate structure, to be
based only on the number of
officers deployed. Cargo ships
and cargo aircrafts to be
assessed the charges at all hours

of deployment. Passenger
aircrafts and ships continue to be
assessed charges after 5pm only.
Jul 1, 2013
20 Switch duty rate from ad
valorem to specific for
cigarettes and cigarillos.
220% of value $0.15 per stick Jul 1, 2013
21 Adjust the excise rate applied to
cigars.
220% $0.50 plus 220% Jul 1, 2013
22 Increase the duty on electronic
cigarettes.
Free 45% Jul 1, 2013
23 Introduction of an Excise
Stamp Control Act.
No stamp required upon
importation of Tobacco
products.
Stamp required upon
importation of Tobacco
products.
Sep 1, 2013

24 Increase the Excise Duty on

Manufactured Spirits.

$6.00 per gallon $8.00 per gallon Jul 1, 2013Annex C

REVENUE MEASURES

Fiscal Year 2013/2014

Item

No. Description Existing Rate Proposed Rate Effective

Date

25 Increase the stamp duty on

Imported spirits.

$11.00 per gallon $15.00 per gallon Jul 1, 2013

26 Removal of Excise Duty levied

on fuel imported for power

generation.

10% Free Jul 1, 2013

27 Amend the Real Property Tax

Act so that the mortgagee of

commercial properties is

responsible for the payment of

outstanding real property taxes

outstanding over 90 days.

Jul 1, 2013

28 Increase Building Permit Fees

and introduce new fees.

Various rates Various rates Jul 1, 2013

29 Increase in Police Department

fees including gun licences.

Various rate Various rates Jul 1, 2013

30 Increase international banks and

trust companies fees.

Various rates Various rates, in two increments

over two years.

Jul 1, 2013

31 Introduce a new schedule for

Business Licence Fees and

eliminate all special categories

of rates, except for financial

institutions and stand-alone

retail gas stations.

Various rates Turnover over $500,000 -

$5M:0.75%

Turnover of $5m - $50M:1.25%

Turnover of $50M -

$100M:1.5%

Turnover greater than

$100M:1.75%

Jul 1, 2013

32 Domestic Financial Institutions (institutions that deal with B$ accounts) excluding credit unions and insurance companies Business Licence Fees to be based on Gross Revenue.

No business licence fee assessed for commercial banks.

Business Licence Fee is 3% on gross revenue.

Jul 1, 2013

33 Remove the exemption of the payment of Business Licence Fees for Government Corporations.

Government entities exempted from the payment of Business Licence Fees.

Government entities required to pay Business Licence Fees.

Jul 1, 2013Annex C

REVENUE MEASURES

Fiscal Year 2013/2014

Item

No. Description Existing Rate Proposed Rate Effective

Date

34 Amend the Business Licence

Act so that the subsidiaries of a

company are charged the same

rate as the parent company.

Business Licence Act

contains no anti-avoidance

provisions.

Subsidiaries of a company are

charged the same rate as the

parent company.

Jul 1, 2013

35 Amend the Financial

Administration & Audit Act to

grant the Minister of Finance by

Order the ability to determine

the frequency of payments for

any tax or fees and the

imposition of any surcharges
for late payment.
No standard provision for
timing of the receipt of
taxes and no standard
provision for the imposition
of penalties for late receipt.
Standard provision to assist
revenue administration is now
included.
Jul 1, 2013
36 Amend the Passenger Tax Act
to be consistent with the
practice for airlines which
charge taxes on all passengers.
All departure tax collected
by airlines are not
automatically remitted to
the Government. The tax is
only assessed and collected
for passengers of 6 years of
age and over.
All departure tax collected by

ticketed passengers would be
assessed and remitted to the
Government.
Jul 1, 2013
37 Amend the Passenger Tax Act
so that children under the age of
12 are given the $300.00
exemption on return to The
Bahamas.
Children under the age of
12 are not given the
exemption on return to The
Bahamas.
Children under the age of 12
given the exemption on return to
The Bahamas.
Jul 1, 2013
38 Amend legislation to allow
surplus funds in statutory
agencies to be deposited in the
Consolidated Fund.
No provision for surplus
funds to be deposited in the

Consolidated Fund.

Provision included in legislation establishing statutory bodies.

Jul 1, 2013

39 Amend the Stamp Tax Act so that stamp tax is collected from marina slips operating under a crown land lease arrangement.

Sale or lease of marina slips now exempted from stamp tax.

Sale or lease of marina slips is now subject to stamp tax.

Jul 1, 2013

40 Amend the Stamp Tax Act so that stamp tax is applied when dividends or profits are repatriated out of the country by international companies.

Stamp tax is applied 1.5% when B$ funds are converted for are repatriation out of The

Bahamas.

Stamp tax to be applied at 5.0%

percent when B$ dividends or

profits are repatriated out of The

Bahamas.

Jul 1, 2013

41 Remove the Stamp Tax fee on

electronic banking payments.

That is, e-commerce transfers

and point of sales payment by

Debit Cards.

40 cents Free Jul 1, 2013Annex C

REVENUE MEASURES

Fiscal Year 2013/2014

Item

No. Description Existing Rate Proposed Rate Effective

Date

42 Extend the Stamp Tax

exemption granted to first-time

home owners for a further five

years (Jul 2013 - June 2018).

First time home owner

exemption ends on 30th

June 2013.

First time home owner

exemption extended to the 30th

June 2018.

Jul 1, 2013

43 Extend the Family Island

Development Encouragement

Act for one year.

Family Island Development

Encouragement Act expires

June 30th 2013.

Family Island Development

Encouragement Act extended for

one year.

Jul 1, 2013

44 Extend the City of Nassau

Revitalization Act for one year.

City of Nassau

Revitalization Act expires

June 30th 2013.

City of Nassau Revitalization

Act extended for one year.

Jul 1, 2013