



COMMONWEALTH OF THE BAHAMAS

2002/2003
BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

by

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Minister of Finance

on

Thursday, 30th May 2002

2002/03 BUDGET COMMUNICATION

It is my honour to present the 2002/03 Budget Communication.

THE TASK OF PREPARATION OF THE 2002/03 BUDGET

I wish to preface my remarks by stating that my Government inherited the huge 2001/02 fiscal deficit left by the previous administration and we have inherited the major portion of the 2002/03 Budget which largely reflects the policies and expenditure commitment left in place by the previous Government. It is our task in this Budget and in the Budgets of the coming years of my

Government to eliminate progressively the 2001/02 fiscal deficit and restructure the budget so as to progressively implement my Government's policies and commitments.

I wish to advise this Honourable House that the timing of the recent General Election was unfortunate in that it took place at a time of year, early May, when there is an urgent necessity to concentrate on the preparation of the Budget.

Had there been more time between the decision of the people of The Bahamas to elect my Government on 2 May, 2002, and the necessary date of presentation of this Budget Communication to Parliament, we would have ensured that the Communication and supporting documentation would have reflected more fully, and in greater detail, the commencement of the phased implementation of our proposals in "*Our Plan for a Stronger Bahamas and a Brighter Future*", to which I will refer as *Our Plan* in the rest of this Communication. Had

we had more time my Government would have had the opportunity to evaluate ongoing policies and tailor them more closely to our own objectives. However, the compressed time period within which this Budget had to be prepared means that the priority commitments of my Government, which are affordable even in present constrained circumstances and which could result in additional expenditures or in revenue concessions, cannot be fully reflected in the details of the 2002/03 Budget which I am presenting today.

At the same time, I wish to strongly emphasise that the 2002/03 Budget does not solely reflect the policies of the previous Government. My Government has been able to create some margin for manouevre despite the previous Government's expenditure commitments and the inheritance of a huge fiscal deficit. The 2002/03 Budget does provide for a significant sum in the Ministry of Finance Estimates for priority and affordable

commitments announced in the *Speech From The Throne* and in *Our Plan*. In addition, we also intend to proceed with important revenue concessions which were set out in the *Speech From The Throne*.

My Government's other priorities will be factored into the fiscal accounts during the course of the coming year according as the full administrative details are worked out, and as resources permit including the release of resources from programmes and commitments left by the previous Government. In accord with this course, such proposals for either additional expenditure or taxation concessions will be presented to Parliament as the 2002/03 fiscal year progresses in the form of Supplementary Estimates and amendments to legislation as appropriate. I might add that, in making any adjustments as the year progresses, it is our intention to hold fast to the containment of the fiscal deficit. Our target is a fiscal deficit of not more than 2.8% of GDP in

2002/03 and any adjustments which we make during the course of 2002/03 will be formulated with this limit on the fiscal deficit in mind.

Even though a good deal of the preparatory work on the 2002/03 Budget was underway before 2 May, 2002, the final preparation of the Budget was still an immense effort in the very short time period available. In that regard, while the task of presenting this Budget falls to me in my capacity as Minister of Finance, I wish to acknowledge the most valuable contribution which the Minister of State in the Ministry of Finance, Senator the Hon. James H. Smith, has made to the preparation of this Budget. In my first weeks in Government I have drawn heavily on his economic and financial expertise and experience, and I intend to continue to do so in the time ahead.

One of the great advantages of the Westminster system of Government, which we in The Bahamas are fortunate to have as our system of Government, is that it

provides continuity in public administration through a permanent Public Service. The Public Service in The Bahamas, following the best Westminster tradition, is professional in its advice and assistance to Ministers regardless of political persuasion and is totally impartial in providing this advice and assistance. The professionalism and integrity of our Public Service provides continuity in the nation's affairs, and facilitates the speedy and efficient transfer of political power and authority from one Government to its successor. While the duty of the Public Service is to provide advice, once the policy decisions are made by Government, the Public Service commits to the efficient implementation of the approved policies.

Indeed, it is as a direct result of this professionalism and impartiality of the Public Service that the Budget for the year 2002/03 can be presented to this Honourable House so soon after the General Election.

The preparation of the Budget is a major task of the

Ministry of Finance and I wish to acknowledge the exemplary manner in which the staff of the Ministry of Finance advised and assisted me and the Minister of State in preparing this Budget.

I would also like to record my appreciation of the hard work of my Cabinet colleagues in coming to grips with their various ministerial portfolios in a short time so that they could contribute to the decision-making involved in the finalisation of this Budget. I know that they too would wish to acknowledge the advice and assistance which they have received from the Public Service in providing excellent briefing on the various key issues in their portfolios.

During the course of the debate on the 2002/03 Budget, each Minister will present a detailed statement of the programmes and policies which he or she will pursue in his or her area of responsibility. These policies and programmes will, of course, reflect the commitments in

Our Plan. I trust that in each House there will be constructive and well-informed discussion on these matters.

THE SPEECH FROM THE THRONE AND THE 2002/03 BUDGET

The Minister of State, in his National Address on Sunday 19 May, 2002, delivered at my request, outlined to the Bahamian nation the present constrained economic and fiscal circumstances of The Bahamas. In light of these constraints, which we ignore at our peril, the Minister of State counselled the patient, careful and prudent implementation of the Government's programme in *Our Plan*. My colleagues in Government and I fully accept the advice of the Minister of State. In fact, *the Speech From The Throne* takes full account of this wise counsel, and it makes clear that the present fiscal circumstances are such that in the short term, in the national interest, prudence and patience must be exercised. Patience is not easy

when there is so much work to be done. However, to those who would be impatient I would simply point to the experience of other countries who, believing in the righteousness of their policies, may have proceeded with implementation before a solid economic base was assured. The experience of these countries shows that good policies prematurely pursued at a time when the economy is weak, can actually precipitate social and economic disasters for the very people who are expected to benefit from those policies. Therefore, to borrow the title of a book by a distinguished American economist of liberal persuasion, our philosophy will be 'hard heads, soft hearts'. Our concern is with getting the economy moving so as to generate quality employment opportunities and ease social problems while ensuring that we do not in any way place the stability of the economy at risk.

The commitments in *The Speech From The Throne* and in *Our Plan* constitute the solemn covenant between

my Government and the people of The Bahamas, setting out the detailed programmes for the political, economic and social betterment of The Bahamas.

Certainly, expert advice confirms that our policies as set out in *Our Plan* and in *The Speech From The Throne* are fundamentally sound, constructed with the best interests of the Bahamian at heart, and fully affordable and capable of implementation. We fully intend proceeding with their planned implementation according as global and hemispheric economic conditions strengthen and become more sustained, and according as our own economic policies come into full effect. The growth of the Bahamian economy in these circumstances will result in the strengthened Government revenue base needed.

As I have said, because of the limited time available, this Budget has perforce to largely reflect ongoing commitments of an inescapable nature. At the same time let me emphasise that an overcautious approach has not

been adopted in the 2002/03 Budget. On the contrary, I am glad to say that this is not the case and to advise this Honourable House that the 2002/03 is far from being overcautious. I repeat that in this Budget my Government is making provision for certain well-merited and well-constructed revenue measures foreshadowed in the *Speech From The Throne* and in “*Our Plan*”. We are making a provision of a significant sum to implement with the minimum delay possible, high priority expenditure measures provided for in documents. I will come to the details of these matters later in this Communication.

INTERNATIONAL ORGANISATIONS AND THE BAHAMIAN ECONOMY

The major concern of my Government is to ensure the rapid and continuing development of our paramount industry, tourism, on which so many Bahamians depend for employment and incomes. We will be monitoring closely the situation in relation to our tourism sector

throughout the next fiscal year, and we will not hesitate to take whatever initiatives are deemed necessary to make it strong and vibrant. In that regard, we intend to move expeditiously to develop well-focussed initiatives to strengthen the tourism sector.

It is evident that the year ahead will be a challenging one for our second most important industry, the financial services sector, as we come to grips with reviewing the impact on The Bahamas arising from the various international initiatives and developments involving the sector. The clearest indication of our determination to place the financial services in the strongest possible position is evidenced by the creation of the new Ministry of Financial Services and Investment. My Government expects this Ministry to consult closely with the industry and related professions, and to come forward with policies and measures which will place the financial services sector at the forefront of international competition. We will be

establishing the Financial Services Consultative Forum as foreshadowed in the *Speech From The Throne* to bring to bear the best minds in the financial services to formulate strategies to move the industry to new levels of competitiveness, opportunities and achievement. In that regard, we will be consulting with the Bahamas Financial Services Board to ensure the fullest development of the industry. We consider that despite the various international initiatives and the changes in the international environment affecting the financial services sector, there is substantial scope to expand the industry in The Bahamas and enable it to reach higher levels of employment, incomes and career opportunities. The higher levels of employment and incomes will assist in growing Government revenues and enable Government to move towards eliminating the very large 2001/02 fiscal deficit inherited from the previous Government.

As regards the various international initiatives, it is

our intention not simply to accept passively these various initiatives but to actively evaluate them as they arise so that our actions are determined by the requirements and interests of the Bahamian people and not simply dictated by the pressures of the initiatives and organisations which give rise to them. I can assure the Bahamian public that no major decision affecting the interests of the Bahamian people will be taken by my Government without the widest and fullest consultation with the Bahamian people and particularly with those whose livelihoods and careers could be affected significantly.

Let me emphasise that my Government will ensure that The Bahamas meets all of its international obligations in the most constructive manner possible, especially those which involve the participation of The Bahamas in the concerted international war on serious and violent crime and terrorism and their financing. We wish to demonstrate the reputation of The Bahamas as a

jurisdiction of the utmost integrity in all matters and as a willing and cooperative partner with other countries in the concerted international effort to combat crime and terrorism. Our concern will be to ensure that every action which we take is balanced and fully justified in this context, is fully directed to the agreed international purpose, and is geared as far as possible to facilitate ease and minimum cost of administration by the institutions affected. In that regard, we will ensure that every action which we take in response to international developments is not an avenue through which competing jurisdictions can impose burdens on The Bahamas which they themselves are not willing to accept or is not an avenue through which other countries can impose burdens on us with the aim of diminishing our competitiveness and enhancing their own. The new Ministry of Financial Services and Investment will make a major contribution in analysing the competitiveness of the financial services sector of The

Bahamas compared with other jurisdictions, and in identifying measures to improve our competitiveness.

My remarks about adopting active and measured responses to potentially threatening international initiatives apply particularly to the OECD, FSF and FATF initiatives. My Government will be reviewing these initiatives in consultation with the financial services industry and related professions of The Bahamas. These consultations will enable us to identify those matters which the industry considers are excessively burdensome and which do not contribute to the appropriate role which The Bahamas should play in the war on what the world generally regards as serious financial crime.

However, these comments on the appropriate response of The Bahamas to international initiatives also apply to the trade initiatives such as the WTO and FTAA. We will certainly pursue our application for full membership in WTO on the basis that The Bahamas

expects to obtain, at a minimum, reciprocal advantages from membership Furthermore, we will expect the WTO to respect our desire to ensure that the Bahamian economy suffers minimal disruption from the process of moving to full membership. We intend to take advantage of the WTO's declared sympathy for the special position of small developing economies, so as to permit us to negotiate appropriate transitional arrangements in any instance where in the absence of such appropriate transitional arrangements, membership of WTO could give rise to significant costs and burdensome disruption of our economy. Similar considerations apply in the case of the ongoing discussions on the FTAA where in recent years there has been some loss of momentum.

Once again I wish to emphasise that no binding commitment or agreement of any kind will be made in relation to either the WTO or the FTAA without prior consultation with this Honourable House and with the

Bahamian people.

To assist The Bahamas in competing in the changed and harsher environment of this century, in the coming months The Bahamas will be receiving a number of missions from the International Monetary Fund, the IMF, and the Inter-American Development Bank, the IDB.

In the case of the IMF, our predecessors in Government invited the IMF to provide technical assistance in preparing an overview of options for the structure of the regulatory environment for the financial services sector. We agree with this initiative by our predecessors in Government because we know from our discussions with the financial services industry that it is important to rationalise and simplify the structure of the regulatory environment, and eliminate overlap and duplication which could cause cost and inconvenience to the various financial institutions and their clients, and can diminish the authority of the regulatory regime.

This IMF mission will be followed later in 2002 by a further mission from the IMF to undertake an assessment of all aspects of the regulatory environment for the offshore financial services sector. Such assessments are now becoming a routine component of the ongoing surveillance work of the IMF with the support of the 183 countries, including The Bahamas, which are Members of the IMF. The placing of this role in the responsibility of the IMF is that the assessments have the full confidence of all Members of the IMF because of the universality of Fund Membership and the expert and objective manner in which the Fund carries out its work. As always, the goal of the IMF is to treat all Members equally and to assist all Members. In this regard, it is unlike the work of other international organisations with selective membership, with their special agenda. The work of the IMF could not be construed as a weapon for unfair targeting of particular countries.

The assessment of the IMF mission in late 2002 is intended to be completed prior to the work of the next Article IV Consultation Mission to The Bahamas which will be here about April, 2003.

The institutions and professions concerned with the financial services sector will be consulted on all of these matters in due course. In the event that any of these various reports contain confidential information which would not be in the public interest to disclose, we shall take the necessary steps to ensure confidentiality in the public interest.

The Government also intends inviting the IMF to provide technical assistance in evaluating the present structure of Government revenues. The evaluation will take into account the need to simplify the structure to assist compliance and revenue administration. It will also take into account the possible changes which the obligations of WTO and FTAA membership might entail.

This evaluation is only a first step, but it is a necessary first step in order to prepare for the medium-term and long-term. Government will not be obligated to make any immediate changes in our revenue structure arising from this evaluation. Of course, it must be emphasised that under no circumstances will The Bahamas contemplate the introduction of income tax, capital tax or inheritance tax.

On the issue of national economic data, the Government is seeking technical assistance from the IMF to assist with the timely production of accurate and comprehensive national economic data. The Central Bank provides excellent monetary and financial statistics, and the Department of Statistics produces reliable demographic and social data. However, it is a considerable shortcoming in our otherwise excellent production of national data, a shortcoming to which we repeatedly drew attention while in Opposition, that The Bahamas cannot seem to obtain comprehensive and up-to-date data on

major national real aggregates such as national income and its components, and on wage trends. The Department of Statistics under my Government will be restored shortly to the portfolio of the Minister of Finance. The development of the appropriate system for obtaining such data will be priority tasks of the Ministry of Finance and the Department of Statistics. The Ministry and the Central Bank are important ‘consumers’ of this data which they need to monitor the economy, develop economic projections, and advise Government on macroeconomic and sectoral policies. The Ministry and the Central Bank interact with the international economic and financial organisations, such as the IMF, the IDB and the Caribbean Development Bank, in relation to this data. As I have stated, it is my desire that the Ministry and the Central Bank work with the Department of Statistics to put in place systems to remedy this significant deficiency in our national statistics.

The IDB will be sending a number of missions to The Bahamas to consider and recommend projects and programmes for economic and social development where the IDB can provide valuable advice as well as financial resources. The Government looks forward to constructive dialogue with the IDB in the coming months.

It is our intention to ascertain from the IDB how it could assist The Bahamas in the drive towards greater diversification of our economy. Our belief is that this focus on diversification could bring about the development of a range of domestic industries, including agriculture and fisheries, which could prosper. The Ministry of Trade and Industry, and the Ministry of Agriculture, Fisheries and Local Government, will play important roles in developing policies for the diversification of the economy. We will be looking most closely at these industries to see if they could bring about a substantial increase in sustainable high-quality Bahamian employment opportunities

geographically distributed throughout our Family Islands. Of course, Government funds are very constrained but it is important to attempt to make the maximum possible use of available resources to diversify the economy sensibly and to bring employment opportunities to the Family Islands.

In the present moves towards free trade, we will be mindful of not adding to concessions, exemptions and protective tariffs which could impose a burden on our economy and which will in any event have to be dismantled in a free trade environment. The diversification which we will be seeking is intended to result in strong Bahamian commercially viable industries which are suitably dispersed geographically, and which can face international competition and provide meaningful employment for qualified Bahamians.

As a major component of the diversification drive we will be moving ahead rapidly with the implementation of

the enabling framework for e-commerce, and moving rapidly to promote The Bahamas as a centre for e-commerce. This is an industry which is built primarily on the availability of persons with good computer skills with access to the most efficient telecommunications services possible. Because of these features, e-commerce could be developed throughout the Family Islands as well as in New Providence.

As regards the enabling legal framework, this requires that the necessary legislation must be in place without further delay for ensuring the authorisation, security and integrity of personal and financial data stored on computer systems, and of the computer systems themselves. The legislation will ensure that financial transactions through computer systems are fully secure and meet proper standards.

The enabling framework for e-commerce also requires state-of-art telecommunications and in that regard, my

Government will be moving most expeditiously to privatise Batelco. We believe that this process has been unnecessarily protracted and it is now essential to bring it to a conclusion. We envisage concluding the preparatory stages within the next few months so that the privatisation process is launched about October, 2002. This should mean that the privatisation of Batelco should be completed finally in the first months of 2003. I might add that this 2002/03 Budget does not make provision for expected proceeds from privatisation.

As regards the promotion of e-commerce, this is, of course, the task of the new Ministry of Financial Services and Investments. We expect this Ministry, through consultation with appropriate interests in the economy, to be a powerhouse of ideas and proposals for encouraging investment in e-commerce. We expect that the new Ministry will move forward at the fastest possible speed to promote and the development of e-commerce because

otherwise we will see other competing jurisdictions attract businesses which could be located in The Bahamas.

THE INTERNATIONAL ECONOMY

Mr. Speaker, as expected last year, the events of September 11 deepened the global economic slowdown that was already underway, bringing consumer confidence to an all time low and adding to the fragility of financial markets.

According to the IMF's estimates, world economic expansion was nearly halved to 2.4% in 2001 from an estimated 4.8% in 2000 -- and was marked by an almost synchronized decline in activity across the globe as a result of increased economic integration. Developing countries were especially hard hit, with real GDP growth falling to 2.8% -- less than half its 2000 level. The United States, which was the dominant performer throughout the last decade, was among the most sluggish of the major industrial economies, with growth reduced to 1.2% from

4.1% in 2000. The reduction was mainly on account of weakened consumer spending and business investments, higher energy costs, and the unraveling of corporate sector profits.

There has been an upward revision in global output growth projections by the IMF in its April 2002 *World Economic Outlook*. The projected growth rate was increased to 2.8% for 2002 from 2.4% last December and to 4.0% in 2003. The IMF projects the United States to lead the current revival on the basis of recent positive indicators. Last December, the IMF projected that US growth in 2001 would be marginal at 0.7%; the projection is now 2.3% and could be revised higher in light of the first quarter surge of 5.8%.

At the same time it has to be acknowledged that expert opinion on the outlook for the global economy is mixed at this time. On the one hand, organisations such as the IMF are quite bullish about the early and strong

resumption of growth in the global economy on the basis that the major engine of growth, the US economy, is recovering steadily. However, the US Federal Reserve Board would appear to be less bullish about the immediate outlook. Thus, the Board's Federal Open Market Committee stated following its meeting on 7 May, 2002:-

“The information that has become available... confirms that economic activity has been receiving considerable upward impetus from a marked swing in inventory. Nonetheless, the degree of the strengthening in final demand over coming quarters, an essential element in sustained economic expansion, is still uncertain.”

While the immediate outlook, that is the outlook for the remainder of 2002, may still be uncertain, there is general consensus that unless there is a major shock such as a further outbreak of terrorism outrages on an unprecedented scale, the situation in later 2002 should

strengthen and the outlook for 2003 is sound.

The speed of this global recovery has been credited in large measure to the implementation of coordinated macroeconomic policies, both fiscal and monetary, in the major industrial economies, particularly in the United States and the European Union. Indeed, monetary policy in the United States was strongly accommodating as the Federal Reserve reduced its official discount rate on four occasions after September 11, for a total of eleven times during the year. Although not on the same scale, this easing trend was replicated at the Bank of England, the European Central Bank and the Bank of Japan. Given the absence of inflationary pressures, it is expected that this policy stance on interest rates could persist, on some level, well into 2003.

MEDIUM TERM GLOBAL OUTLOOK

As regards the medium-term outlook, expert opinion continues to draw attention to the dangers of a hard

landing for the US \$ if the level of capital inflows into the US economy were to weaken. These inflows arise primarily because of the profitability of investment arising from the rapid growth in the US economy; in turn this growth was based in large part on the strength of US final demand, that is, US consumer demand. The outlook for consumer demand in the US is darkened by the fact that US consumer debt is at unprecedented levels, and any further US stock market corrections could have significant adverse effects on US household wealth and therefore on consumer demand. In such circumstance, that is, a severe setback to US consumer demand, there would be contraction in the volume of capital investment inflows attracted into the US economy. This would weaken the US \$, making foreign purchases of goods and service such as tourism, much less attractive.

A major correction of the US \$ would not necessarily have disturbing global consequences provided that the

other major economic zones, the Euro zone and the Japanese economy were to commence strong recovery and take up any slack arising from a weakening of US demand and growth.

The purpose of my remarks on these matters is to point to the need for caution and moderation in expectations in going forward until the outlook for the global and US economies become clearer. The experience of the post 11 September, 2001, shock to our tourism sector is an indication of how external events affect our economy. This experience reinforces the point that we must exercise discipline in ensuring that we safeguard the international competitiveness of the Bahamian economy.

THE BAHAMIAN ECONOMY_____

Mr. Speaker, the primary responsibility of my government is to ensure an improvement in social welfare, which can only be achieved through the pursuit of sound and prudent macroeconomic management. For many

years, the emphasis has been on tourism and financial services as the lead sectors, and considerable success has been achieved. We will continue to develop these lead sectors . At the same time, as I have said, my Government will be moving with vigour to achieving greater diversification especially through developing agriculture, manufacturing, and e-commerce. We will be working very hard to encourage Bahamian investment in our economy, and we will be working hard to encourage high-quality international investment in all sectors of the economy and in all of the islands of The Bahamas. The commitment of all political parties in The Bahamas and of interest groups in our society to the fixed exchange rate between the Bahamian \$ and the US\$ is of immense importance in fostering a stable climate for investment, and in maintaining low inflation.

Nevertheless, the tragic events of September 11 and their aftermath serve to remind us how vulnerable our

economy is to external shocks which can adversely impact our fiscal and external positions and derail the domestic agenda.

Mr. Speaker, the indications are that the Bahamian economy did not grow in real terms in 2001, and indeed modestly declined in real terms. This contrasts with the expectation in the 2001/02 Budget of a growth rate of 3.5% in real terms.

1 *Tourism*

Mr. Speaker, my review of the Bahamian economy must start with reviewing the performance of the tourism sector, which constitutes some 40% of our gross domestic product. As is the case with many developing countries, tourism is the major source of foreign exchange earnings--strongly impacting tax revenues, the level of domestic investment and job creation for The Bahamas, and is the only major sector in international trade in services in which we have consistently recorded surpluses.

The general slowdown in the US economy had already been exerting a drag on this industry prior to the attacks of 11 September which only further exacerbated the situation. Initially, modest growth was being projected for 2001, with total visitor expenditures in the first nine months about some 4.5% ahead of 2000. This was a significant deterioration as compared with the nearly 20% gains in the corresponding 2000 period. The 2000 gains followed on a considerable increase in stopover capacity in New Providence.

Confirming earlier predictions, the short-term impact of the 11 September terrorism events on Bahamian tourism was very severe, in response to heightened concerns by potential travellers about security and convenience.

For the final quarter of 2001, available statistics show that total visitor arrivals contracted by 11%, reversing a 15.3% increase over the same period in 2000. Air arrivals

were hardest hit, declining by 22.8% with a lesser drop of 5.1% for cruise visitors. It is estimated that total visitor expenditures declined during this period by some 28.5%. With post - 11 September average occupancy rates in hotels reported to be as low as 44% relative to a normal 57% level, properties responded with sharp price discounting and cost cutting measures, which included partial closures, temporary staff reductions and reduced working hours.

Similarly, labour saving measures were implemented in many retail shops which depended heavily on tourism business, and financial institutions braced themselves for possible financial difficulties affecting workers, by providing opportunities for more manageable servicing arrangements for personal and household debt.

As a result of the fourth quarter losses, total visitor arrivals for 2001 contracted by 0.4% to 4.19 million persons. Air arrivals fell by 2.9% to 1.44 million and

growth in sea arrivals slowed by 1.0% to 2.75 million. Consequent on the general weakness in stopovers, who tend to stay longest and spend more, together with price discounting, estimated industry earnings fell by 3.5% to \$1.75 billion in 2001. Corresponding hotel sector trends indicate that, although average room rates appreciated by 2.9% to \$153.03 per night, the 4.4% reduction in the number of occupied hotel room nights caused estimated room revenues to decline by 1.7%.

The previous Administration put in place some emergency measures aimed at ameliorating the harshness of the impact on tourism. My Government intends to review the considerable sum spent by Government on tourism promotion and marketing so as to determine how it could be more effectively used to promote our tourism sector. The shock of the aftermath of the events of 11 September, 2001, strongly suggest that such a comprehensive promotion strategy is timely.

Mr. Speaker, in recent months there appears to be a modest recovery in seasonal hotel occupancy rates, which gauge stopover activity, and this recovery is reassuring in that it means that the earlier, more pessimistic forecasts are being superceded by more positive indicators. Nevertheless, it appears that pricing discounts are being eliminated at a slow pace, as a result of which the expenditure recovery is below the corresponding revival in visitor volume.

Bahamian tourism continues to be confronted with important challenges which present both opportunities and threats. These require a better coordinated response from the industry and the Government if we are to ensure the competitiveness of the tourism product and deepen the sector's contribution to sustainable growth and employment. The Minister of Tourism will initiate steps to bring about this higher level of coordination in its review of our tourism promotion policies.

We will need to find ways to capitalize further on our strengths, which include our landscape, the established image of our destination and the greater emphasis being placed on improving the quality of the tourism product and experience, rather than simply on increasing the numbers of tourists. Issues related to the quality of service, increasing emphasis on price competition and the growing number of effective competitors, are among some of the issues we will need to address. If by improving the quality of the tourism experience and attracting the visitor numbers appreciative of higher quality, the earnings of our tourism sector will increase.

1 *Construction*

Mr. Speaker, the construction sector is also very important for the Bahamian economy, accounting for some 10% of Gross Domestic Product. Construction sector indicators were mixed during 2001, as the economy moved from a period when investments were dominated by

large scale tourism infrastructure investments to more sustained financing of domestic housing. Activity was characterized by a slowdown in new investments, although somewhat balanced against higher valuations on works carried over from the previous year. It also featured particularly strong and broadly based contributions from residential and commercial investments in Grand Bahama, which generally cushioned the more sluggish conditions in New Providence.

In terms of new activity, the value of building projects started in New Providence and Grand Bahama fell by 8.0% to \$177.8 million in 2001, comprising respective declines of 11.0% and 0.6% for the residential and commercial sectors. Significant support however, was still derived from projects commenced in 2000--as evidenced by the 8.0% increase in the value of projects completed to \$324.0 million.

Domestic interest rate conditions continued to

support construction investment throughout 2001. Based on the Central Bank's survey of mortgage lenders--comprising banks, insurance companies and The Bahamas Mortgage Corporation--the average lending rate for residential mortgages fell further to 9.0% from 9.4% in 2000, while the commercial mortgage rates averaged a stable 9.8%.

Although the value of total loan commitments by these lenders for new residential construction and repairs declined to approximately \$107.0 million from \$127.7 million in 2000, residential mortgage disbursements, which are more connected with actual activity, were significantly higher at \$172 million from \$148 million in 2000. There was a less marked shift in the level of commercial commitments which were \$1.6 million lower at \$22 million, with total disbursements also trailing lower at \$20.1 million from \$31.8 million in 2000.

Short-term prospects for the construction sector are

favourable. Based on building permits granted throughout The Bahamas, the estimated value of outlays on new projects rose by 40.2% to \$752.0 million--primarily for upscale residential developments in New Providence together with a broader recovery in Grand Bahama's residential and commercial sectors.

i Agriculture

The Minister of Agriculture, Fisheries and Local Government has already announced new initiatives to develop these areas as part of an enhanced diversification programme.

1 Fisheries

Mr. Speaker, my Government is concerned that the performance and value added of key real sector activities needs to be encouraged as a major component of the diversification effort. The fisheries sector is a sector targeted for development in that regard. Available data on commercial fisheries activity show that output in 2001

was adversely affected by the hurricane season. The Department of Fisheries estimates that commercial landings decreased by 7.2% to 10.3 million pounds, with the associated value also lower by 19.9% at \$64.8 million. Crawfish tails, which accounted for nearly 60% of the volume and 90% of the value, declined by 25.7% and 24.9%, respectively.

Fisheries exports also weakened, declining by 16.9% in volume and by 18.8% in value to \$71.9 million. In particular, earnings from crawfish exports were 20.2% below the 2000 intake at \$67.7 million.

1 The Balance of Payments

Summary balance of payments data tracks the net transactions of The Bahamas relative to the rest of the world. These flows, exclusively in foreign currency, are a useful gauge of the sustainability of domestic credit and consumption, relative to the evolution of external reserves which support the value of the Bahamian dollar.

Mr. Speaker, provisional data indicated a narrowing in the current account deficit by more than 50 percent to \$193.6 million during 2001--despite lower foreign exchange earnings from tourism. Sharply reduced imports, stemming from more restrictive domestic credit policies and fewer foreign investment projects, outdistanced a modest decrease in export receipts, for an almost one-fourth narrowing of the merchandise trade deficit to \$998.3 million. The impact of the weakened performance of tourism on the surplus on the services account was cushioned by the incidence of lower payments for construction services, for a 7.9% contraction to \$952.8 million.

The counterpart to the current account deficit is the financing provided from net foreign capital flows. This surplus position was reduced by approximately 40 percent to \$251.7 million in 2001. Most of this corresponded to the decline in net foreign direct investments and other

private capital inflows--particularly in respect of hotel sector developments--to \$119.1 million from \$362.3 million. Also, net foreign real estate purchases, which impact to some degree housing construction, contracted to \$36.3 million from \$106.2 million in 2000. In a partial offset to these trends, the banking system recorded short-term capital inflows of approximately \$120 million, reflecting--in combination-- increased foreign exposure positions by banks and ongoing funding of financial and real sector projects, concentrated mostly in the tourism and manufacturing sectors. This contrasted with a net decrease in such banks' short-term exposure of almost \$30 million in 2000.

1 *Inflation*

Mr. Speaker, domestic economic activity continues to be conducted in a low inflationary environment, thereby sustaining consumers' confidence in the value of the Bahamian currency. Consumer price inflation, as

measured by the average increase in the Retail Price Index, increased slightly to 2.0% from 1.6% in 2000.

It is expected that the inflation rate will continue to be at a low level, which would be consistent with global expectations and developments in the United States, our major trading partner.

1 Unemployment

My Government's concern is that the present measures of unemployment and employment do not seem to reflect the true position. My Government considers that there is considerable under-employment and unemployment which our present system of statistics does not show. Very many persons would willingly work if the work were available, but many become discouraged because employment opportunities are not available. An important task of the Department of Statistics, and other Government agencies, will be to provide better measures of the true rates of underemployment and unemployment.

Regardless of the exact rates of underemployment and unemployment at this time, my Government is determined to do everything possible to deal with these fundamental problems. It will achieve this by growing and diversifying the economy to create more employment opportunities.

1 *Government Finance and Public Debt*

Mr. Speaker, the combination of revenue losses, additional expenditures needed as a result of the impact of the 11 September terrorism attacks, the Straw Market fire and Hurricane Michelle, and the funding requirements of the loss-making public corporations, resulted in a strain on the fiscal situation that was already weakening on the revenue side. Regrettably, the previous Administration did not finalise measures to borrow the necessary financing to make good the revenue shortfall and to meet the greater expenditure requirements. As a result, the Treasury has had to slow down the payments

process wherever it could do so, a most undesirable course of action. Yesterday my Government placed the necessary Resolution before this Honourable House to borrow the US \$125 million required to complete the financing of the fiscal position in 2001/02.

The Government will be examining options to deal with the demands of the loss-making corporations, Bahamasair, the Water and Sewerage Corporation and the Broadcasting Corporation of The Bahamas. These corporations have been making major demands on the Consolidated Fund over the years while the corporations which make profits, BEC and Batelco, make very little contribution to the Consolidated Fund to offset the demands of the loss making Corporations.

Mr. Speaker, in charting a fiscally responsible path for The Bahamas, the government will be challenged to achieve a position of reasonable public savings to help finance the public sector investment and at the same time

contain the growth in National Debt.

One component of the National Debt which is of major concern is the Education Loan Programme.

This Programme was introduced 2 years ago by the previous Government and none of the administrative arrangements and safeguards provided for in the enabling legislation were put in place.

Presumably the justification for this programme was to enable excellent students of limited means to have access to higher education to the advantage of The Bahamas. The Programme provides loans of up to \$20,000 a year for a maximum of 5 years to meet tuition and living expenses for tertiary education. In the years of study, the Consolidated Fund pays half the interest on the loan and the student is responsible for the interest on the other half. Repayment commences in the year following completion of study. The enabling legislation provided for a means test for each applicant. The enabling act also

provided for an Education Committee to be established to oversee the Programme but this Committee was never established.

The most objectional feature of the way in which the Programme was implemented was that the means test envisaged in the act was never put in place. As a result, many of the students enrolled under the programme are from affluent households. This fact is evident from the published list of enrollees. Moreover, some of these affluent households have more than one beneficiary and some are already defaulting on their obligations to make interest payments.

The Programme is so poorly designed and managed that it was severely criticised in the report of the 2001 IMF Article IV Consultation Mission which urged the previous Government to establish clear eligibility criteria on the basis of financial need and merit. Nothing was done to implement these sensible recommendations.

The enabling act provides for a ceiling of \$100million for the Programme. The funds for the Programme, or commitments from the banks to finance the Programme throughout its life, were not put in place by the previous Government. Even the financing requirement for the next academic year commencing in September, 2002, was not finalised. In fact, the task of negotiating with the banks to put in place the necessary long-term funding of \$100million was left to my Government.

What is even more preposterous is that the entire allocation of \$100million for the Programme will be largely used up in meeting commitments to the students who were enrolled in the first two years, 2000 and 2001. About 2,500 students were enrolled in those two years, many from affluent households, and the commitments for the full period of study of up to 5 years will mean that the total of \$100million will be virtually reached. This means that for the start of the academic year 2002/03, less than 200

new students can be enrolled. If the interest rate subsidy to the students already enrolled were abolished, the funds which would become available next year alone would enable a further 100 or so students to be enrolled.

The Programme needs to be reformulated because as presently constituted it lacks a clear purpose and clear criteria. For example, the Programme should be more targeted to assisting lower income households as recommended by the IMF, it should be geared to encouraging attendance at the College of The Bahamas, and it should be directed towards encouraging Bahamians to acquire education and technical skills in areas of importance to the Bahamian economy. The Education Committee provided for in the act must be put in place so that the necessary administrative arrangements are there to enable the Programme to be properly managed. It will be crucial to deal with crucial issues such as appropriate collection mechanisms and procedures for dealing with

defaulters, so that the funds are recycled to assist those who come after.

My Government will be reviewing the Programme to make it more equitable and purposeful and to relate it more precisely to the requirements and capabilities of The Bahamas.

1 *Monetary & Credit Trends*

Mr. Speaker, monetary policy, as conducted by the Central Bank, was focused on supporting the nation's external reserves position and bank liquidity both of which came under increasing pressure during 2001. The observed strong pace in domestic credit growth relative to growth in banking sector deposits first prompted the Central Bank on July 20, 2001 to caution local banks to reduce the rate of growth in private sector credit expansion, and to use more rigorous standards in assessing

the credit worthiness of borrowers. Subsequent to the September 11 events and their aftermath, banks were directed to maintain their respective outstanding loans and advances at the September 5 levels reported to the Central Bank, and to accommodate new credit only to the extent of resources provided from loan repayments.

The Central Bank initiated further measures on November 30 to cushion the external reserves and liquidity situation by sanctioning a temporary extension in commercial banks' Bahamian Dollar Open Position limit, from \$0.5 million to \$5.5 million for each bank--thereby effectively increasing bank's ability to fund their domestic books from foreign resources. However, as it turned out, only minimal recourse was made to this facility given the effectiveness of the credit restraint measures and the voluntary conservatism on the part of banks and the private sector. As a result, the Central Bank suspended this accommodation in March 2002.

Tighter liquidity conditions and heightened competition for borrowers, produced mixed interest rate movements during the year; average deposit rates firmed, but lending rates softened, on balance. In particular, commercial banks' weighted average deposit rate rose by 27 basis points to 4.24%, while the average lending rate fell by an equivalent amount to 11.47%. As a result, the spread between average lending and deposit rates narrowed to 7.23% from 7.77% in 2000. The broad-based softening in lending rates included, on the lower end, a 13 basis point decline to 10.43% for overdrafts and on the upper-end, a 59 basis-point reduction in commercial mortgage rates to 8.87%. Additionally, the average consumer loan rate softened by 17 basis points to 13.41%, with commercial banks' average residential mortgage rate virtually stable at 8.95%.

Mr. Speaker, recent trends in external reserves have reflected, in large measure, developments in foreign

investment alongside the traditional tourism inflows. As these inflows moderated in 2000 and 2001, less support was available for deposit base growth in banking sector and, by extension, the system's ability to fund credit expansion. In both of the last two years, domestic credit expansion, although on a moderating trend, exceeded deposit base growth and consequently the stock of external reserves was reduced--from \$404.0 million at end-1999 to \$342.6 million in 2000 and further to \$312.4 million at end-December 2001. Correspondingly, the weeks of import cover represented by these balances fell from a high of 13 weeks to approximately 8 weeks of import cover.

So far this year, external reserves have rebounded by some \$64.6 million or 20.2% to \$377 million at May 21--closely paralleling the 2000 growth pattern. Apart from a recovery in tourism performance, developments have benefited from a relatively flat domestic credit outcome as financial institutions continue to observe the official freeze

on private sector credit.

1 *Financial Sector Developments*

Mr. Speaker, permit me to now turn to other financial sector developments. In 2000, the then government, in response to various supra-national initiatives, embarked on an ambitious overhaul of the financial sector regulatory infrastructure, seeking to rectify perceived inadequacies in the regime. The recently published 2001 Annual Report of the Central Bank state the measures taken.

I will firstly outline the position as it is as a result of the measures taken by our predecessors in Government before I repeat my Government's general strategy in relation to these matters. The nine new pieces of legislation enacted, inter alia, addressed enhanced powers for the Governor of the Central Bank; operational independence of the Central Bank on supervision and regulation of banks; enhanced cooperation with external regulatory bodies; upgrading supervisory and regulatory

regime for banks; strengthening of KYC - that is Know Your Customers - requirements and suspicious transactions and the establishment of the Financial Intelligence Unit, the FIU.

As you can well imagine, Mr. Speaker, during 2001, considerable resources were devoted to making the new financial sector regime operational. It was the intention to put in place a comprehensive supervisory infrastructure over the provision of corporate and financial services, in both the domestic and international sectors.

As a group, financial supervisory agencies collaborated in the development of suspicious transactions reporting guidelines, which the FIU circulated to all financial services providers during the fourth quarter of 2001. The guidelines detail minimum internal controls to detect and to prevent suspicious money laundering transactions, together with the reporting requirements of the FIU.

In connection with the anti-money laundering

initiatives, progress was also made in securing industry wide compliance in implementing minimum customer identification procedures - that is, KYC procedures - as outlined in the Financial Transactions Reporting Act, 2000. Although the associated mandated exercise on verification of the identities of existing clients of financial services providers, which began early in 2001, is continuing reasonable satisfactorily, ongoing feedback suggests that the compliance deadline for domestic institutions might have to be extended by another 6 months to the end of 2002. While we intend to ensure full compliance with essential safeguards against money laundering and to cooperate fully with the international community in that regard, my Government intends to review the Financial Transactions Reporting Act to see if the procedures could be simplified so as to eliminate aspects which cause only inconvenience and unnecessary bureaucracy, without in any way damaging or limiting the

fundamental purposes of the Act.

By end-2001, the regulatory infrastructure, covering the registration and oversight of corporate service providers, principally engaged in the formation and management International Business Companies - IBCs - was established and vested in the Inspector of Corporate Services Providers, who also serve as the Registrar General and Registrar of Companies. With the advent of this new regulatory arrangement, the licenses of 10 restricted trust companies, previously licensed by the Central Bank under the Banks and Trust Companies Regulation and engaged in business related to the incorporation of IBCs, were cancelled and given the option of continuing their operations under the new inspectorate.

Mr. Speaker, in the area of banking supervision, the Central Bank of The Bahamas made notable progress in enhancing its licensing and supervisory practices, commencing onsite examinations of banks and trust

companies at the start of 2001. In this context, guidelines outlining requirements for the transition of publicly managed bank licensees to full physical presence were issued in the second trimester of 2001. Managed or “brass plate” operations which elected not to satisfy this requirement accounted for the majority of the 63 licences that were revoked during 2001. However, during this period nine (9) new licences were granted. As a result, the number of banks and trust companies licenced to operate from or within this jurisdiction decreased by only 54 to 356 in 2001. As of mid-May 2002, the total number of licensees decreased further to 321, reflecting an additional 36 revocations and one new licensee.

I am advised that so far, there has not been any aggregate employment reduction stemming from the introduction of the new regime. Preliminary results of the 2001 annual banking survey conducted by the Central Bank, show that in excess of 200 jobs were added to the

sector--of which almost 60% were filled by Bahamians. The banking sector's contribution to the economy rose by approximately 7.0% to an estimated \$432 million as a result of these employment adjustments, average compensation gains and higher administrative expenditure. These aggregate gains overshadowed a reduction in license fees collected by the government stemming from those operations that ceased, and given the timing of payments and a greater number of discontinued licences last year, an even larger revenue reduction is expected for 2002.

Indications are that the sectors' employment growth can be largely attributed to compliance staffing needs, although some gains were linked to the physical presence requirement. In particular, the number of institutions with a physical presence in The Bahamas increased to 221 from 213 in 2000, and a further increase is anticipated by end-2002 as more institutions meet the physical presence

requirement. Even in cases where agency arrangements still exist--through other financial institutions with physical presence--the Central Bank has required the agents to increase the dedicated staffing responsible for the affairs of managed operations, and to make such staffing exclusive.

Mr. Speaker, a look at other key areas of financial sector activity would reveal that IBC business has been most impacted by the recent changes in the regulatory landscape. Reflecting a reduced rate of new incorporations and significant unwinding of existing companies, the number of registered IBCs was below 80,000 by year-end 2001 from approximately 110,000 in 2000. As regard mutual funds, the number of licensed funds operating from or within The Bahamas stood near 700 in December 2001, with managed assets in the region of \$90 billion as compared to a total of 716 active funds in 2000, with a slightly higher value of managed assets.

As I stated earlier in this Communication, the Government is concerned to ensure that while the financial services sector meets agreed international norms, the regulation of the sector is not unnecessarily burdensome as a result of over regulation and resulting costs which are higher than other jurisdictions. My Government recognises that this issue is of great importance to the financial services sector and that is why we are asking the IMF to provide the technical advice which we require to determine the overall structure of the regulatory environment and to test the implementation of the required standards and practices. The Government is seeking a consensus among all the players in the financial services sector that all aspects of the regulatory environment are absolutely essential, are fully cost-efficient and are capable of being implemented as required.

1 *Capital Market*

Mr. Speaker, the development of the domestic capital

market is vital to fostering greater efficiency in the allocation of local savings. More recently, progress has been gauged in terms of activity on the Bahamas International Securities Exchange, BISX, and the over the counter securities trading market.

BISX, however, has been faced with mounting financial difficulties, which place the future of the exchange in jeopardy. The Bahamas International Securities Exchange, which was established in 1999 to offer a platform for trading in domestic and internal equity, and in Government debt and in international capital market instruments, has in the intervening period been beset by low transactions volume, few members and few listed securities. Additionally, the Exchange had and has a high cost structure. The result has been a lack of profitability, and the rapid depletion of its share capital. BISX is preparing a long-term viable business plan, based on a value added business development strategy for both

the domestic and the international components of the market. It is expected that the Board of BISX will finalize the business plan by the end of May, 2002.

Mr. Speaker, 2001 capital market trends were underscored by a decline in average equity prices of some 2.1% according to the FINDEX share price index developed by Fidelity Bank & Trust International Ltd. This follows estimated price appreciations of 23.3% and 21.1% respectively, in the previous two years. BISX, meanwhile, gained two more listings (Freeport Concrete and RND Cinemas Ltd.) bringing the number of companies traded on the exchange to 17. As regards local capital raised, there were two initial public offerings (IPOs) during the year: a January 2001 equity placement of \$7.5 million by Freeport Concrete Ltd. and a \$25.0 million preference share issue in July by Caribbean Crossing Ltd., the Cable Bahamas Ltd.'s telecommunications subsidiary. Inclusive of over-the counter instruments, these brought the total

number of publicly traded entities to 23, of which two were mutual funds.

FISCAL PERFORMANCE 2001/02

As I have already indicated, the terrible events of 11 September, 2001, had a major impact on the tourism sector of the Bahamian economy, and consequently on Government Recurrent Revenues. The shortfall in Government revenues is likely to be of the order of \$100million as compared with the original 2001/02 Budget target. It might be argued that the original Recurrent Revenue Estimates in the 2001/02 Budget were optimistic bearing in mind that the US economy was slowing significantly, and that there were considerable uncertainties about the possibility of US and global recession. However, the real point is that the shortfall is without precedent.

In addition, the previous Administration implemented a special package to promote the tourism sector in an

attempt to at least partially offset the impact of the terrorism outrages on the tourism sector of The Bahamas. Other expenditures were also incurred and these are provided in the Supplementary Estimates being presented to Parliament today along with this Communication.

Instead of the overall fiscal balance targeted by the previous Administration, a medium-term objective which my Government fully supports, the outcome is likely to be a GFS Deficit of the order of 3% of GDP.

Thus, my Government inherited from the previous administration a severe fiscal situation.

I emphasise that my Government is committed to restoring overall fiscal balance as soon as it can possibly be managed. The objective of overall fiscal balance is not an economist's abstraction. It is essential because continuing GFS Deficits add to the level of Government Debt, the servicing of which by way of interest and redemption payments uses up revenues which would

otherwise be available to finance other much needed Government services. Clearly, fiscal deficits over a long period of years would pose major fiscal problems because the servicing of the debt would pre-empt an increasing proportion of Government revenues. The principle of eliminating the fiscal deficit is not at issue but my Government would wish to reserve its position on the period of years over which the phasing and programming of the elimination of the GFS Deficit can be managed.

FISCAL POLICY 2002/03

The Minister of State in the Ministry of Finance, Senator the Honourable James H. Smith, in his National Address set out the economic and fiscal background to this Budget.

The Minister of State outlined the deterioration in the public finances which had followed primarily as a result of the impact of the terrorism events of 11 September, 2001. Furthermore, he drew attention to the uncertain prospects

for the early, full and sustained resurgence of the US economy. Because of the weakness in the US recovery, the it was indicated that strong growth in Government revenue in 2002/03 is unlikely. The weakness of the revenue position had already made a severe impact on the fiscal position in 2001/02, requiring borrowing of \$125million to make good the revenue shortfall.

The Minister of State considered that moderate economic growth is feasible in 2002/03, with some resulting increase in Government revenues. This increase in revenue will be sufficient to finance ongoing commitments, enable a start to be made on eliminating the fiscal deficit, and provide a small margin for implementation of the Government's programme set out in *Our Plan*. He cautioned, however, that until there is clear and complete recovery in the economic environment with resulting increase in revenue buoyancy, it would be desirable to proceed cautiously and carefully in planning

new Government programmes.

My Ministers and I are in full accord with the statement of the Minister of State on the economic and fiscal position, and we have planned the 2002/03 Budget accordingly.

Therefore, the 2002/03 Budget is aimed at reducing the GFS Deficit from the high level of 2001/02, at meeting ongoing commitments, and at making a solid and careful start on the implementation of *Our Plan*.

MAIN FEATURES OF THE 2002/03 BUDGET

I propose at this point in this Communication to outline for the information of this Honourable House, the key features of the 2002/03 Budget. During the course of the Debate on the Budget in the coming weeks, each Minister in my Government in the House or in the Senate will describe in detail the present position of his or her

portfolio and the proposals which they envisage for implementation during the period ahead subject to resource and administrative constraints being met.

The Ministry of Finance Head, Head 21, includes a provision of \$10million for the commencement of implementation of the commitments in the *Speech From The Throne* and *Our Plan*. The provision will enable a substantial start to be made on the implementation of this Government's programme. Moreover, according as we can reduce or eliminate costly and irrelevant programmes of the previous Government we will use the resources released to implement our own programme.

In addition to the provision of \$10million in the Ministry of Finance Head, a sum of \$1million is provided in the Capital Head for the Ministry of Agriculture, Fisheries and Local Government, to enable the Minister to proceed with his plans for assisting diversification.

Major Features of Recurrent Expenditure

The total amount of Recurrent Expenditure is \$1,035million, an increase of \$40million over the original 2001/02 Budget. The major recurrent expenditure provisions are:-

1 \$174.3million for Interest and Redemption of Public Debt. This number shows the importance of containing Government debt and using available resources for the most productive purposes.

1 \$128.6million for Security, including \$82.7million for the Police, \$28.3million for the Defence Force, and \$13.7million for Prisons. This group of services is of crucial importance in ensuring the security of persons and property in The Bahamas.

1 \$21.3million for Works, which is a key area in ensuring that the nation's infrastructure is in good condition.

1 **\$15.9million is being allocated for labour and immigration, crucial policy areas to ensure harmonious industrial relations and the bringing of the illegal immigration problem under firm control.**

1 **\$73.3million for Tourism, bearing in mind that the Minister will be reviewing the most effective measures for further promoting and developing the industry.**

1 **\$77.0million is for the Department of the Public Service and Foreign Affairs. The Department of the Public Service provision of \$64.2million is mainly for rents and pensions.**

1 **\$20.4million for the judicial area, a reflection of the importance of this area. It is important to bear in mind that it is the intention of my Government to improve the working of the judicial system. As a separate issue, my**

Government will review the procedures under the Financial Transactions Reporting Act so as to reduce costs and inconvenience without in any way compromising the effectiveness of the legislation to combat money laundering.

1 **\$ 192.9 million for education, including \$135.6million for the Department of Education, and substantial allocations for the College of The Bahamas and the Bahamas Technical & Vocational Institute. The College of The Bahamas will retain \$6.1million in fees. The amount for Education includes well over \$1 million in interest subsidy for the Education Loan Programme which my Government will be reviewing to make it more focussed and more equitable.**

1 **\$3.6million is being provided for the new Ministry of Trade & Industry, which will be**

responsible for all matters in relation to trade negotiations within the context of the WTO and FTAA.

1 **\$31.8million for agriculture, fisheries and local government. The sum of \$1million is being provided in the Capital Estimates for the commencement of the planned development of agro enterprises.**

1 **\$7.5million is being allocated for youth sports and culture; this is an important area bearing in mind that it is intended to encourage participation by Bahamians in sports and recreational interests, and the development of The Bahamas for sports training and preparation of all kinds.**

1 **\$25.6million for Social Services, an area to which my Government will be giving attention to ensure the relief of hardship especially among**

those families hard hit by underemployment and other social problems.

1 \$43.2million for Transport, including \$3million for the Airport Authority which will retain fees of \$9.8million. As a Commonwealth of islands, dependent on tourism and other international services, the importance of efficient transportation facilities cannot be overstated.

1 \$3.9million is being allocated to the new Ministry of Financial Services and Investments; in this case the absolute amount of the allocation is no reflection at all of the dynamic role which this new Ministry will play in assisting the development of the financial services sector, promoting e-commerce, and encouraging investment in The Bahamas.

1 \$1.4million is being allocated for administrative services in relation to housing and

National Insurance, which expenditure does not take into account the major financial operations of the two important Public Corporations, the National Insurance Board and the Bahamas Mortgage Corporation which report to the Minister of Housing and National Insurance.

1 **\$161.5million for Health services, of which \$105.9million is for the Public Hospitals Authority, which will also retain \$6.3million in fees. This is a major policy area which my Government is addressing across the spectrum to ensure that primary and acute health care is available to all Bahamians at reasonable cost.**

1 **\$59.1million is included in the Finance group of Heads, including \$10million in the Ministry of Finance Head for the implementation of priority programmes from *Our Plan*, and \$5million to meet the anomalies in 2002/03. The Customs**

Department, which is the major revenue department of Government, will have an allocation of \$19.7million.

1 other significant areas of expenditure include the various services falling under the authority of the Prime Minister and Cabinet portfolios

Main Features of Capital Estimates

The total provision for Capital Expenditure in 2002/03 is \$155million, which is \$25million over the original 2001/02 Budget.

The biggest single provision is \$60million for the Ministry of Works and Utilities. This allocation will be spent on infrastructure in New Providence and the Family Islands, including \$20million on New Providence roads, and on a variety of facilities through The Bahamas.

\$20million will be spent on educational facilities, and \$6million on the solid waste project. The provisions in the Sundry Capital Expenditure Head under the Ministry of

Finance include \$12million for Bahamasair, \$8million for the Water & Sewerage Corporation, and \$4million for the Broadcasting Corporation. This total of \$24million is the amount of Government subvention to these Corporations which, of course, provide important and essential services . Nevertheless, to restore fiscal balance over the medium-term, it will be necessary to consider courses of action which would lessen the burden of these Corporations on the Consolidate Fund, and ensure that the more profitable Corporations make appropriate contributions.

Major Revenue Measures

This Budget contains no new taxes nor increases in existing taxes. On the contrary, this Budget provides for important revenue concessions aimed at moving the economy forward by encouraging investment, and providing relief from onerous tax burdens on households of modest means.

One of the major revenue measures which we intend

to implement is the creation of Economic Enterprise Zones in the more depressed Family Islands as announced in the *Speech From The Throne*. The legislation for this purpose will be placed before this Honourable House in due course. Under the proposed legislation, the materials for capital investments intended for sustainable economic activities will be exempt from Customs Duties and Stamp Duty on Imports for a period of 5 years.

In the case of other Family Island which are presently benefiting from existing concessions, my Government is considering the extension of the period of these concessions but with the placing of safeguards to prevent evasion and misuse. The legislation for this purpose will be placed before this Honourable House in due course.

Legislation will also be placed before this Honourable House to give effect to tax-relief in respect of first time house buyers, and to relief on owner-occupied homes valued at \$250,000 or less, with a sliding scale of relief in

respect of higher valued homes. The legislation will also provide for a ceiling on real property tax for residential accommodation. In order to benefit from the concessions on Real Property Tax, the owner must be up-to-date with his tax obligations or make a payments plan with the agreement of the Real Property Tax Office to pay off the arrears over a reasonable period. We expect this incentive to encourage people to pay off their arrears quickly in order to benefit from the incentive, and this will enable the Real Property Tax Office to focus on non-compliant tax payers.

The 2001/02 fiscal deficit is of such dimensions that there is concern that the granting of tax reliefs can only exacerbate the problem. However, the main purpose of the tax reliefs is to stimulate economic activity and a more equitable distribution of the burden of taxation. Looking ahead, if these purposes are not quickly achieved, it may be necessary for Government to consider other measures

to strengthen the revenue position and accelerate economic growth and activity.

STRATEGIC ISSUES

It is clear that The Bahamas faces a number of strategic challenges in the year ahead.

One of the most important challenges is to demonstrate our commitment to fiscal prudence, while restoring, strengthening and diversifying the Bahamian economy, and progressively implementing the priority commitments in *Our Plan* according as financial resources become available. I believe that in the 2002/03 Budget which I am presenting to this Honourable House we are demonstrating this commitment.

A second challenge is to ensure that the regulatory environment for the financial services sector is properly balanced in meeting established and universally agreed international norms while retaining and enhancing the competitive edge of the financial services sector.

A third challenge is to accelerate the privatisation of Batelco and the establishment of the legislative and other components of the environment for the development of e-commerce in The Bahamas. The privatisation of Batelco is intended to ensure that our economy has a state-of-the-art telecommunications system at lowest cost. Since the development of e-commerce requires both the essential legal environment and state-of-the-art telecommunications, the linkage between privatisation and e-commerce is evident. A fourth challenge is to make sure that the Bahamian public is consulted on developments in relation to the proposed Free Trade Area of The Americas and the application of The Bahamas for full membership of the World Trade Organisation.

An overriding challenge will be to ensure that the morale and capability of the Public Service, including those in the uniformed services, will remain at the highest levels so as to enable the Ministers in my Government to have

the best advice possible and to have their decisions and directions implemented in the most efficient way possible in the interests of the Bahamian people. I would extend this further by saying that a harmonious and responsible industrial relations climate, in the Public Service, in the Public Corporations and Authorities, and in the private sector, is of paramount importance to the economy of The Bahamas, and my Government will do everything possible to recognise this importance.

CONCLUSION

I have brought together in my Cabinet a wide range of highly qualified and experienced persons capable of dealing with authority and sensitivity to the problems which The Bahamas is now facing.

My Government intends to be open and forthright in the management of the affairs of The Bahamas; we will seek to raise the level of public debate to new heights of integrity and understanding, eschewing polemics and

vituperation; whenever we criticise our predecessors in Government we will also endeavour to acknowledge the positive contributions which they have made to the development of The Bahamas; our criticisms will be constructive and in turn we will expect and welcome constructive criticisms of our decisions and actions whenever constructive criticism is useful and warranted; and above all, we will never lose sight of our commitment to placing the interests of ordinary Bahamians uppermost in all of our decisions. It is in placing the interests of the Bahamian people uppermost that this Budget heeds the careful advice which my Cabinet has received and makes no more than a careful and cautious start to commencement of the implementation of the proposals in *Our Plan for a Stronger Bahamas and a Brighter Future*.

Table I. Growth of the Bahamian Economy
1994 - 2002

	1994	1995	1996	1997	1998	1999	2000	2001**	2002**
GDP(Current Prices) (\$Millions)	3425	3500	3750	3940	4190	4575	4920	4995	5120
Growth-Current Prices(%)	3.0	2.2	6.8	5.3	6.3	9.1	7.6	1.5	2.5
Growth-Constant Prices(%)	0.9	0.3	4.2	3.3	3.0	5.9	5.0	-0.5	1.0
Prices (%)	1.3	2.1	1.4 (a)	0.5 (a)	1.3 (a)	1.3 (a)	1.6	2.0	1.5

*Source: 1992 - 2000 IMF World Economic Outlook (April 2002)

**Ministry of Finance Estimates

^(a) GDP Deflator is higher in those years

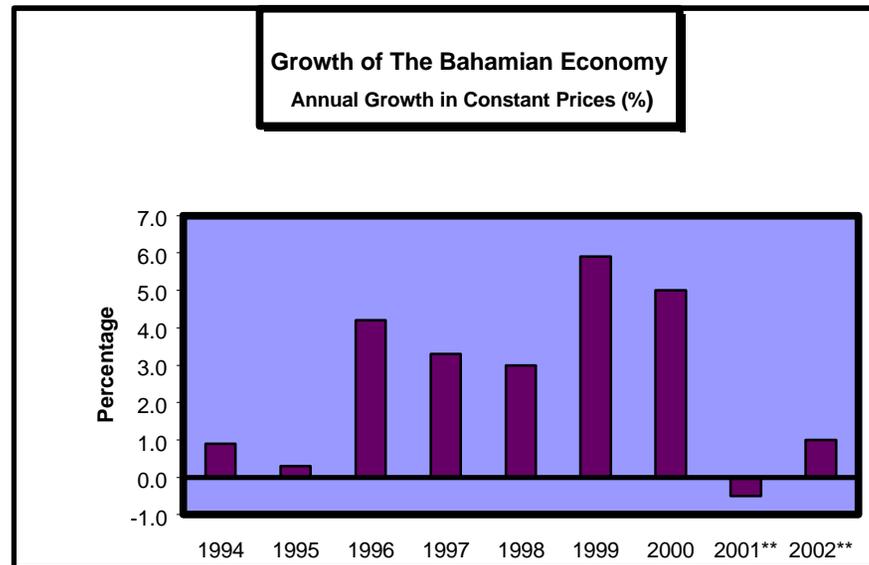


Table II. Budget Performance
\$millions

	1989	1990	1991	1992	1993 6 months	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02 Budget	2001/02 Outturn	2002/03 Budget
1. Recurrent Expenditure	573	565	606	603	314	630	656	704	772	820	837	880	930	995	1020	1035
2. Recurrent Revenue	500	529	524	552	280	617	650	672	700	780	822	925	973	1030	930	970
3. Recurrent Deficit (1 minus 2) (Surplus +)	73	36	82	51	35	13	5	32	72	40	15	+45	+43	+35	90	65
4. Capital Expenditure	111	91	101	88	52	68	100	92	136	117	124	130	133	130	155	155
5. Capital Revenue	0	0	1	1	0	1	12	5	3	1	1	1	1	5	1	3
6. Capital Deficit (4 minus 5)	111	91	100	87	52	67	88	87	133	116	123	129	132	125	154	152
7. TOTAL DEFICIT (3 plus 6)	184	126	183	138	87	80	93	119	205	156	138	84	89	90	244	217
8. Debt Redemption	60	48	60	58	48	69	65	80	83	89	74	41	75	90	90	70
9. GFS Deficit (7 minus 8)	124	79	123	80	39	11	28	39	122	66	64	43	14	0	154	147
10. GDP (current prices)	2950	3000	3000	3150	3250	3375	3450	3625	3850	4125	4300	4515	5045	5315	5050	5150
11. GFS Deficit as % of GDP	4.2	2.6	4.1	2.5	1.2	0.3	0.8	1.1	3.2	1.6	1.5	1.0	0.3	0.0	3.1	2.8

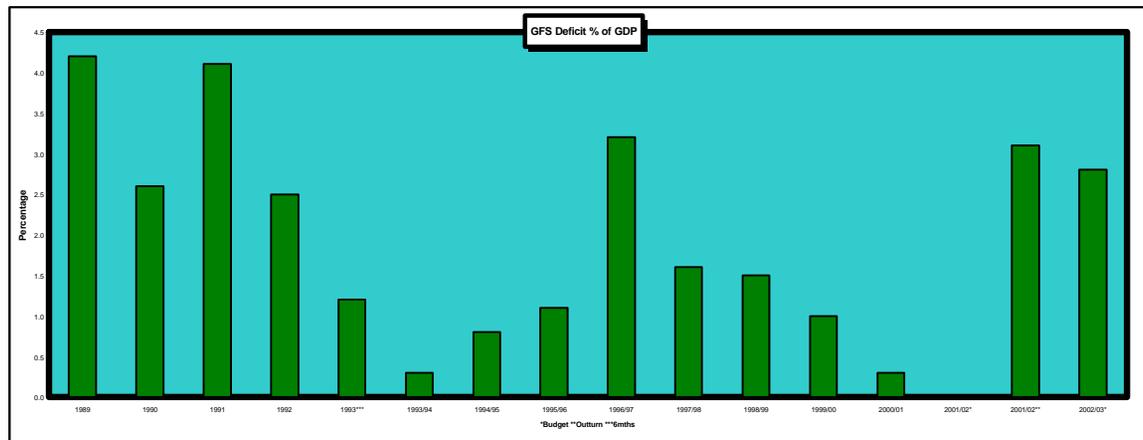
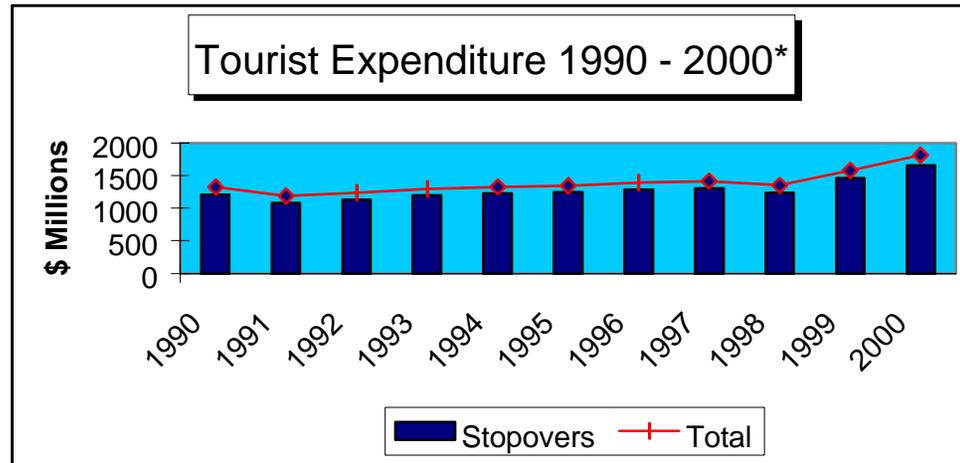
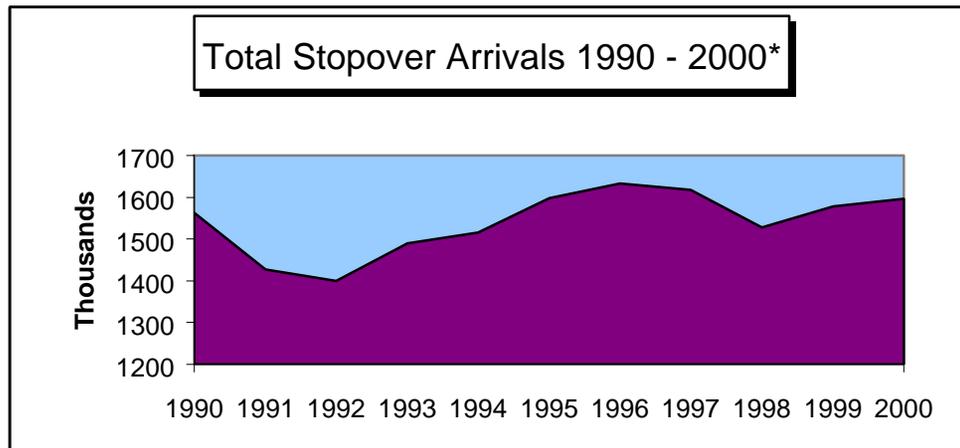


Table III. Tourist Expenditure and Arrivals 1990 - 2000



*Source: Central Bank and Ministry of Tourism



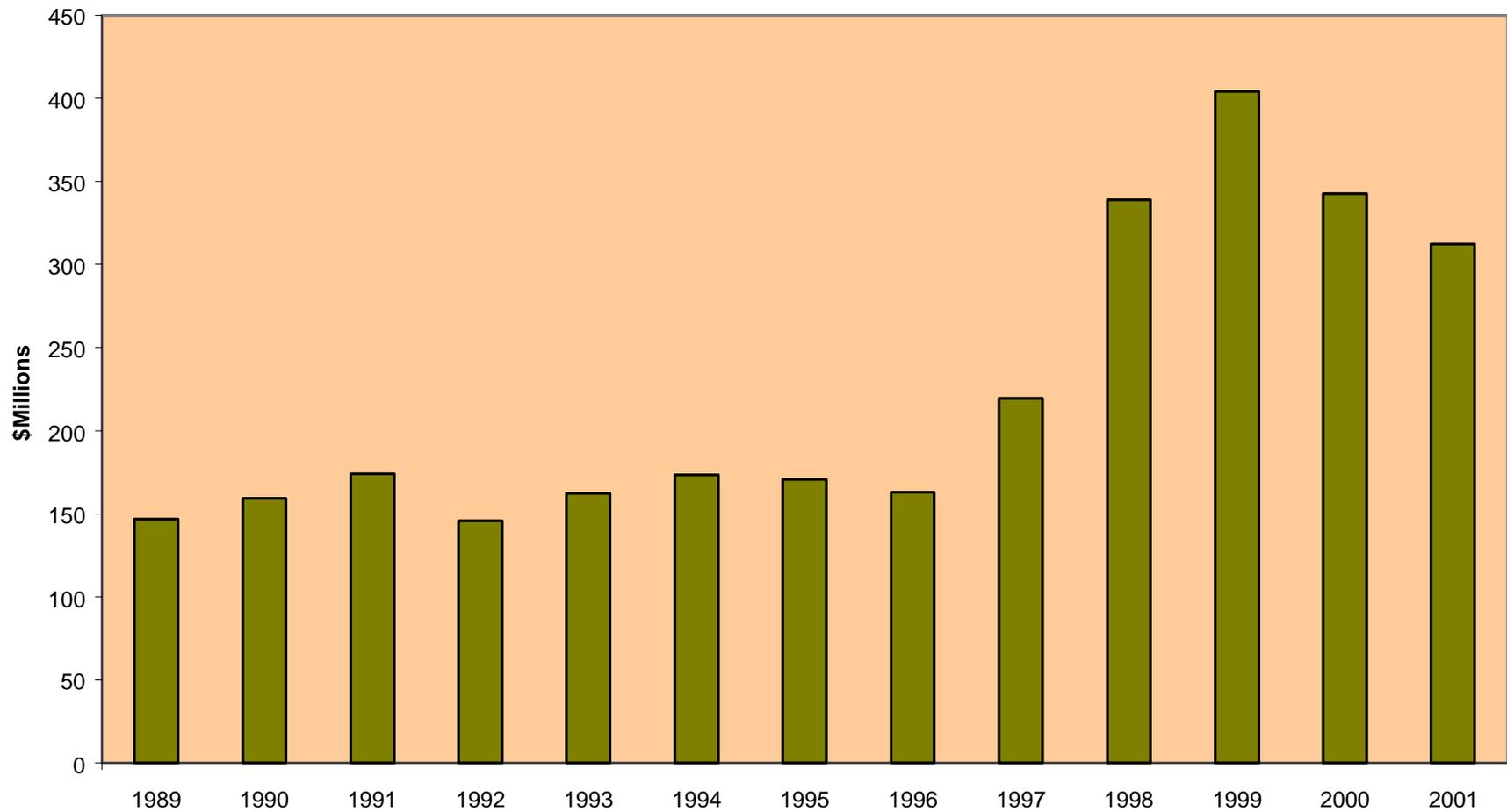
*Source: Central Bank and Ministry of Tourism

Table IV. Labour Forces Survey Estimates 1989, 1991-1999, 2001



Source: * Department of Statistics Labour Force Estimates

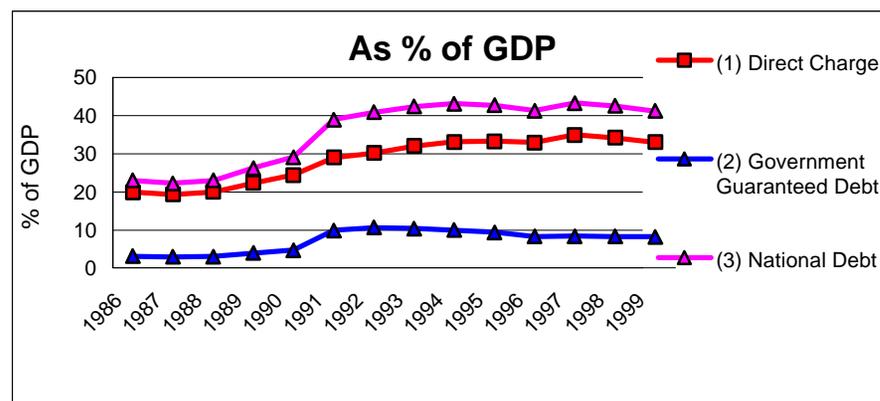
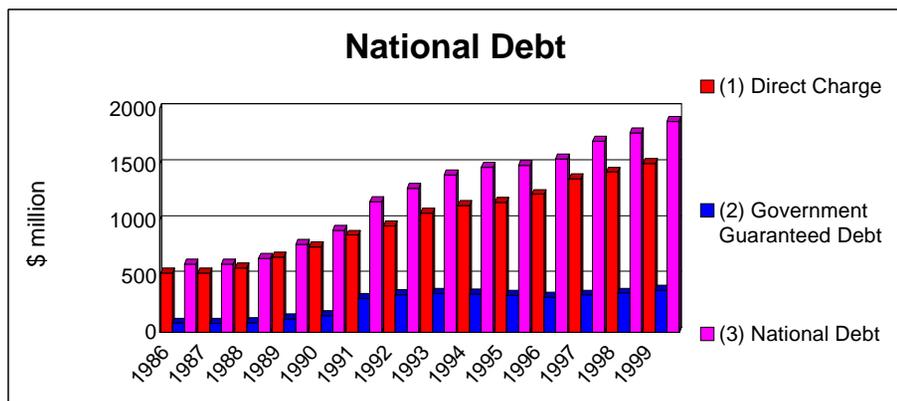
**Total External Reserves
1989 - 2001**



Source: Central Bank Quarterly Statistical Digest, February 2002

Table VI. National Debt

\$ million	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
(1) Direct Charge	670.2	766.2	870.6	952.4	1064.7	1136.2	1165.8	1235.1	1376.5	1434.3	1511.4	1516.2	1607.1
(2) Government Guaranteed Debt	117.4	146.1	298.8	336.9	345.7	342.7	329.1	313.8	331.9	349.0	376.3	365.2	341.1
(3) National Debt (1) + (2)	787.6	912.3	1169.4	1289.3	1410.4	1478.9	1494.9	1548.9	1708.4	1783.3	1887.7	1881.4	1948.2
GDP (\$ million)	3000.0	3130.0	3000.0	3150.0	3325.0	3425.0	3500.0	3750.0	3940.0	4190.0	4575.0	4920.0	4995.0
As % of GDP													
(1) Direct Charge	22.3	24.5	29.0	30.2	32.0	33.2	33.3	32.9	34.9	34.2	33.0	30.8	32.2
(2) Government Guaranteed Debt	3.9	4.7	10.0	10.7	10.4	10.0	9.4	8.4	8.4	8.3	8.2	7.4	6.8
(3) National Debt	26.3	29.1	39.0	40.9	42.4	43.2	42.7	41.3	43.4	42.6	41.3	38.2	39.0



Source: Central Bank Quarterly Statistical Digest, February 2002