



COMMONWEALTH OF THE BAHAMAS

2001 /2002

BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

by

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MINISTER OF FINANCE

on

Wednesday, 30th May, 2001

2001/2002 BUDGET COMMUNICATION

I beg leave to present to this Honourable House the 2001/2002 Budget Communication.

Popular opinion regarded 1 January, 2000 as the commencement of the new Millennium. However, according to the Gregorian Calendar, the new Millennium began on 1 January, 2001. Therefore, I trust that you will permit me to regard this Budget as the first to be presented in the new Millennium.

In any event, this Budget represents another successful chapter in the Government's programme which commenced in 1992, and which has had such a remarkably positive impact on the economic and social circumstances of our country.

It has been my great honour to participate in the work of this Government since the overwhelming electoral victory in 1992, a victory which was reaffirmed and enhanced in 1997. As Minister of Finance, I have been honoured to present the annual Budget Communication since 1995/96. This is, therefore, the seventh consecutive annual Budget Communication which I shall have had the privilege of presenting.

Government Strategy and the Budget

Following universal practice, the annual Budget Communication is concerned primarily with the statement of the Government's economic and fiscal performance for the previous year, and the programme for the next. Our practice is to set out in the Budget Communication the main features of the economic and social strategy which the Government is implementing through the Budget, following which the Rt. Hon. Prime Minister and Hon. Ministers supplement the information in the Communication with more detailed statements of the policies being pursued within the framework prescribed by the Budget.

In view of the extreme openness of the Bahamian economy, it is of paramount importance to evaluate the impact which external developments have on the economy, especially in light of the accelerating pace of globalisation. This Communication presents the key aspects of this evaluation so as to place the Government's economic and social strategy in fullest context.

With these considerations in mind, this Budget Communication presents an occasion to reflect on the

outstandingly successful economic and fiscal policies of this Government, the comprehensive economic and social programmes which have been enabled by the success of these policies, and to consider the challenges and opportunities which are already upon us or which will soon affect us.

Globalisation and the Bahamian Economy

The Bahamian economy is fundamentally a provider of international services, and, as a result, is already in the mainstream of globalisation. Moreover, The Bahamas was among the first countries to appreciate the potential benefits of international services, and it is this commitment to the development of international services which has placed The Bahamas in the position of enjoying the highest living standards of the independent countries in the Region, living standards well ahead of many countries in the Hemisphere and even ahead of the less advanced countries of the Organisation for Economic Cooperation and Development, OECD.

On the challenges of globalisation, it is interesting to reflect on the comments of the First Deputy Managing Director of the IMF at the France-

Africa Summit in January, 2001, when he said:-

"... there is no point in asking whether we should be for or against globalisation. Globalisation is here to stay: the reality is that we already live in a global economy - where flows of trade, capital and knowledge across national borders are not only large but are also increasing every year. Countries unwilling to engage with other nations risk falling farther behind the rest of the world in terms of both income and human development. That way lies the very real threat of marginalisation.

Rather, the right set of issues to raise is how best to take advantage of the opportunities presented by the growth and growing openness of the world economy; how best to live with the unavoidable difficulties that globalisation may bring; and how to modify the system to make it operate better."

It cannot be denied that the increasing pace of globalisation is creating anxiety among many, and the notion of embracing globalisation is criticised by those who should ordinarily know better. The telling point, however, is that even the most vociferous critics do not present a sensible alternative to embracing the opportunities which the process can

offer, since ignoring the process is not a viable alternative.

Globalisation is rightly regarded as irresistible but wrongly construed as an entirely negative phenomenon whereas it is, in fact, the force which is resulting in rising living standards everywhere. It is providing opportunities to millions in developing countries to leave abject poverty behind, it is the means, for example, by which we have access to rising health standards and to better educational services, and generally globalisation is the force which is providing us with the means to enjoy a higher quality of life.

We should be in no doubt that The Bahamas is embracing the opportunities presented by globalisation. Our record in Government demonstrates clearly that we are steadfast in our commitment to maintaining The Bahamas as a premier tourism destination, as an international financial services centre of the highest integrity and efficiency capable of meeting the stiffest competition, and as a major centre for other international services. Furthermore, the Government is positioning The Bahamas as a competitive and reputable centre for e-commerce by the establishment of the necessary pre-conditions for the industry. It should be evident to all that the thrust of this economic policy ensures that The Bahamas will continue

to remain in the mainstream of globalisation.

To maintain this thrust, the Government in the past two years, and particularly in the past year, has had to address major issues which only arose because of the position which The Bahamas occupies in the mainstream of globalisation.

<p style="text-align: center;"><i>International Economic and Financial Organisations and The Bahamas</i></p>
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□ *FATF, FSF and OECD*

In the last two years, The Bahamas has shared the experience of many countries in being required to implement profound changes to its administrative and regulatory structures to meet the demands of the Financial Action Task Force, FATF, over issues to deal with money-laundering, and of the Financial Stability Forum, FSF, in relation to issues concerned with the international supervision of banking. In addition, The Bahamas, like other offshore financial jurisdictions, was obliged to engage in a dialogue with the OECD, over what the OECD termed "harmful tax competition" which, the OECD says, the jurisdictions are engaged in. These might all be regarded as aspects of globalisation which remained somewhat in the background until recent years.

□ *Response to FSF and FATF*

The consultative processes involved in these initiatives still leaves much to be desired, and the responses to them have been largely dictated by external pressure. Some of the responses impose new and costly compliance burdens, and there is a valid concern over the evenness, or lack of it, in the application of the initiatives.

The Bahamas has a long and honourable record of contributing to the work of the international financial institutions such as the International Monetary Fund, the World Bank, and the Inter-American Development Bank. Indeed, The Bahamas is now among the countries contributing to the IDA, the International Development Agency, the soft loans subsidiary of the World Bank which lends to the poorest heavily indebted developing countries on concessionary terms. This is a further example of the contribution which The Bahamas is making to the international community of nations. In keeping with that and arising from a deep commitment to the integrity of the international financial system The Bahamas always has and always will support the international community's abhorrence of abuse of the system through criminal money-laundering, and The Bahamas will continue to cooperate fully with global measures to ensure a sound international financial system. And so the Government acted expeditiously to implement the measures necessary to effectively address

the issues raised by both the FSF and the FATF. It is disappointing that the FATF has not acted more promptly to acknowledge the commitment made by The Bahamas. The failure of some FATF members to support such prompt action raises the spectre of doubt about the credibility and objectivity of the criteria which they have adopted.

□ OECD

Be that as it may, the work of the FATF and FSF are fundamentally different from that of the OECD, in that the FATF and FSF are ostensibly - if somewhat less than objectively - pursuing matters of concern to all countries. The issues being pursued by the OECD are at least ambiguous, and some of them appear to be of concern to only a number of countries within the OECD . The OECD's 'harmful tax' approach was commented on in a recent article in the Economist magazine regarding discussions on tax harmonisation by countries within the European Union. The article makes the point that countries have different approaches to social policies such as pensions and social welfare benefits. For example, if some countries within the European Union have lower public expenditure policies than others, and therefore lower tax burdens than others, then apparently unequal competition can result. The article goes on to state:-

" ... what is wrong with the 'competing on an

equal basis' argument? Mainly this: inequality in the costs of production is the very basis of trade... It is the differences that create opportunities to change the structure of production in cost-saving ways, which in turn raises incomes and living standards on both sides.If governments reject the economic consequences of their fiscal and regulatory policies, resisting the adjustment in wages while pretending that it is possible to have safer workplaces or cleaner rivers or bigger pensions at no cost, then in due course they will have to shield their economies against "unfair" imports from countries with different circumstances or preferences."

The notion of unfair competition employed in the OECD initiative is a worrisome concept with a clear potential for mischief. It is hoped that the emergence of divergent views within the OECD will cause reflection on this initiative and bring a more focused approach to other concerns of the OECD which have greater legitimacy than 'harmful tax competition', and which would elicit greater international cooperation on a voluntary basis. In view of the purported role of the OECD to encourage international cooperation, movement away from the sanctioning approach of the harmful tax initiative would be more in keeping with that

organisation's charter.

I do not propose to reiterate the measures which the Government has taken to strengthen the regulatory environment of The Bahamas to meet the weaknesses to which the FSF and the FATF initiatives referred. As I have said, it is time that both of these agencies acknowledged the steps which we have taken to meet their objectives.

□ *Commitment to Combat Money-Laundering*

In relation to anti-money laundering, it is so important not to lose sight of the underlying criminal activity from which the money-laundered proceeds arise. A recent IMF-sponsored seminar pointed out that the largest amount of criminal proceeds arises from narcotics trafficking, prostitution, and terrorism, and concluded that policies to deter and prosecute these underlying crimes cannot be divorced from efforts to prevent and uncover the laundering of the criminal profits. These underlying crimes mainly occur in the more advanced countries.

□ *IMF Financial Sector Assessment Programme*

As already stated by the Rt. Hon. Prime Minister earlier this year, it is the Government's intention to invite the IMF to undertake a review of the offshore financial services sector later this year or early 2002. This will then be followed by a review of the financial sector as a whole, called a Financial Sector

Assessment Programme or FSAP.

The involvement of the IMF is of fundamental importance for several reasons. Firstly, the request to the IMF is voluntary on the part of any country. Thus, it is not an imposition by one group of countries dictating what they regard as appropriate procedures and processes for another group of countries to follow and implement - procedures and processes, I might add, from which some of the imposing countries seem free to excuse themselves. Further, as the IMF is bound by articles of agreement accepted by every member country, in its work it is obliged to follow balanced, even-handed and objective procedures applicable to all participating member countries. And finally, in its reporting the IMF does not follow the obnoxious process of 'naming and shaming' as the G-7 related groups have done.

IMF Article IV Consultation

□ Background

In view of its global, cooperative and consensual approach as enshrined in its Articles of Agreement, the work of the IMF may be clearly distinguished from the perception held of the initiatives of the three

supranational agencies, FSF, FATF and OECD. The IMF through its Article IV Consultation provides a service of great importance to small countries like The Bahamas by its expert, objective and candid assessment of the direction in which economic policies are leading.

□ *Preliminary Findings of the IMF Mission*

An IMF Article IV Consultation Mission has recently visited The Bahamas and held discussions with principals in the major sectors of the Bahamian economy. In its winding up discussion with the Rt. Hon. Prime Minister and myself, the Mission presented its preliminary findings. The Mission expressed strong support for the key policies which we are implementing, particularly those in relation to maintaining fiscal balance, streamlining of the tariff structure which we commenced in 1996 as a prelude to a review of the tax system, containing the budgetary demands of the public enterprises, continuing with the strengthening of the regulatory regime in the financial services sector, and ensuring the continuing competitiveness of the Bahamian economy. These are all matters to which the Government attaches high priority.

□ *Commitment to Fiscal Balance*

Looking at each of these in turn, beginning with the sustainability of the commitment to fiscal balance, the Mission's assessment, similar to our own conviction, is that this commitment is of fundamental

importance to attracting high quality productive investment in The Bahamas, and for maintaining the parity of the Bahamian dollar, and that it is sustainable only on the basis of continuing prudent fiscal policies.

□ Reform of Indirect Taxation

In relation to our preparation for reviewing the system of taxation, the Mission noting our firm stance against income-based taxation, acknowledged that the Government's fiscal policy objectives could be met by reforming the system of indirect taxation now in place, which is heavily dependent on import taxes, and replacing it with a different form of indirect taxation. The replacement of import taxes as the main form of taxation is inevitable in light of the WTO and other likely developments in trade liberalisation. However, any reform would have to be implemented gradually and in a way that does not alter the overall level of taxation.

□ Public Enterprises

Containment of the budgetary demands of the public enterprises requires that the enterprises must find ways of generating greater resources so as to provide a higher proportion of their own requirements, and that they take all necessary actions to contain their own expenditures. This is a challenge to which the public enterprises will be increasingly required to respond.

□ Regulatory Environment

The Mission endorsed the measures for strengthening the regulatory environment and were encouraged that we had agreed to permit the IMF to perform an FSAP.

□ Competitiveness

The issue of competitiveness is vital to an economy as open as that of The Bahamas. The emphasis on "competitiveness" is not a dedication to an economic abstraction. Competitiveness means having in place the policies, processes, attitudes and instruments which ensure that the cost structure of the economy is moderated so that employment opportunities are maximised for present and future generations of Bahamian workers and entrepreneurs, and that economic growth is sustainable.

□ Publication of Report

The Mission's Report will be presented to the I.M.F. Executive Board by the end of August, 2001. It is the Government's intention, consistent with the practice established in relation to the 1999 Report and consistent with the Government's commitment to transparency, to authorise publication of the Mission's Report after its consideration by the Executive Board.

Moody's A3 Rating

Turning to another external evaluation of our

economy, the work of the international rating agencies has added value because it is a voluntary process: the initiative in inviting a rating agency to provide a rating lies with the Government of the country. Moreover, the rating process is transparent. The grounds for the rating are clearly articulated in discussions with the authorities, and usually form part of the publicly documented rating. For a number of years The Bahamas has received an A3 Rating, which is the highest in the Region among independent states, excluding the North American giants. It is expected that a Moodys mission will visit The Bahamas in the coming months for its annual review and it is confidently expected that the A3 Rating will be sustained in light of the findings of the recent IMF

*The World Trade Organisation, Free Trade Area of
The Americas, and CARICOM*

Mission.

□ World Trade Organisation

The Bahamas already has Observer Status in the World Trade Organisation, the WTO. It is now the Government's intention to apply for full membership. Currently, an expert is attached to the Ministry of Economic Development assisting with the preparation of the documentation to be submitted to the WTO in support of an application for full membership and advising on

the requirements which could arise when the application is being processed by the WTO.

□ Free Trade Area of the Americas

Regarding the Free Trade Area of the Americas, the original objective of the 1994 Miami Summit of the Americas to develop a framework by 2005 remains in place. The Bahamas is participating fully in these discussions and Bahamian experts attend the relevant meetings. Furthermore, the FTAA process involves keeping all sectors of civil society informed as fully as possible regarding developments. A measure of the involvement of The Bahamas in the FTAA process is evident from the fact that the Bahamas' Ambassador for Trade is the Chair of the Negotiating Group on Services. A high level committee of senior Government officials and representatives from other sectors of the economy monitors trade developments and will be assisting in advising on any obligations which may arise. It is probable that membership in both the WTO and proposed FTAA would require new or amended legislation on matters such as protection of intellectual property, standards and safeguards, anti-dumping measures and other trade related matters. The preparation of this legislation alone places a heavy burden on small economies, a fact often over-looked by the major countries in pushing ahead with their ambitious plans in this area. Of course, as stated on

previous occasions, it is the Government's intention to consult this Honourable House when the time approaches for the decision to be taken by The Bahamas regarding ratification of the FTAA Agreement and the accession requirements for WTO.

□ CARICOM

Regarding the CARICOM Single Market, the Government agreed to a study by external experts to review the advantages versus the disadvantages of The Bahamas participating in the Single Market. It was the Government's considered position that joining the Single Market at this time was not an appropriate course of action, and the study did not provide any

Review of International Economic Developments

reasons for changing this position.

□ Global Economic Performance in 2000

As a highly open economy, the fortunes of The Bahamas are closely linked to global developments. In particular, both tourism and financial services have a strong dependence on North America. The Bahamian economy does not have the same close dependence on Europe, Asia and Latin America but the linkages are significant and growing, as other international services develop. Moreover, in view of the fact that all major economies and currency zones are interlinked, a proper assessment of the economic situation and

prospects of The Bahamas requires first an examination of developments in the international context.

The IMF estimates that global economic expansion accelerated to 4.8% in 2000, exceeding earlier projections by approximately 0.5% and well above the 3.4% achieved in 1999. In the United States, our major economic partner, the pace of growth was 5.0% in 2000 as compared with 4.2% in 1999, despite emerging evidence during the latter part of 2000 of an economic slowdown characterized by weakening consumer spending, slackening business investment and increasing energy costs.

In the European Union, economic performance was supported largely by the depreciation of the Euro, which considerably boosted the region's export sector. As a result there was an increase in employment in the European Union. By contrast, the modest recovery noted for the Japanese economy during the first half of 2000, appeared to stall by year-end, amid continued weakness of consumer confidence and underlying problems in the financial system.

What is particularly noteworthy about current economic trends is the significant extent to which consumer and business confidence have been dampened by the extreme volatility in equity market prices, characterised by large adjustments in technology stock valuations, which persisted into the early months of

2001.

□ Global Economic Outlook 2001

The most recent IMF projections are that global economic activity is expected to slow markedly to 3.2 % in 2001. The US economy is forecast to grow at a reduced rate of 1.5%, a major reduction from the 5.0% estimated in 2000, but this is based on the apparent slowing of the US economy towards the end of 2000.

Given the interlinkages between the major currency areas, the slowing of growth in the US has an impact on growth in the other major currency areas. Thus, growth in the European Union is expected to slow to 2.4% in 2001, as compared with 3.4% in 2000, and in Japan, growth is expected to slow to 0.6% in 2001 as compared with 1.4% in 2000.

An important consideration to bear in mind, providing grounds for optimism, is that the authorities in the major currency areas are taking action to reverse the global slowdown. The most significant was the reductions made by the US Federal Reserve in the discount rate which was reduced by a full 2.5 percentage points so far this year. This aggressive action is expected to bolster consumer spending and business investment, thereby, it is hoped, making an early recovery of the U.S. economy possible.

The global outlook for the present, therefore, remains uncertain, particularly given the uneven

pattern of performance among the three major currency areas and the associated imbalances in their external current accounts. In this regard, the IMF's 2001 World Economic Outlook again drew attention to the continuing misalignment among the major currencies, particularly the Euro and the US Dollar, and the still high level of equity valuations in the United States and some other countries. There is the continuing risk that global expansion could be adversely affected in the period ahead if these imbalances were to unwind in a disorderly fashion. However, at this juncture the primary concern is to reverse any global slowdown, a concern on which the authorities in the major currency areas have focused and are taking positive actions.

*The Bahamian Economy in 2000/01 and the
Prospects for 2001/02*

□ *Economic Performance in 2000*

The recent IMF Mission provisionally projected that the Bahamian economy grew by 5% in 2000, which was one of the highest rates of growth in the Region. Despite the slowing down of the global and US in the latter part of 2000, the Bahamian economy still continued to experience a further reduction in unemployment, and a low and stable inflation rate. The performance

benefitted from substantial gains in tourism, from sustained positive contributions from the financial services sector, from useful contributions by other international services, and by strong performances from both residential and commercial construction.

□ *Economic Outlook for 2001*

The IMF provisionally projects a growth rate of 3.5% in 2001. This projection suggests that while a temporary slowdown in the US economy in 2001 will have some impact on the Bahamian economy, it is not likely to be grave. In fact, the projected growth rate of 3.5% for 2001 definitely reflects continued positive prospects, based on the competitiveness of the tourism sector, and on the normal solid contributions from construction, and from financial services, and other international services. It is evident that the economy is today far more resilient, as a result of the strong foreign investment inflows in recent years, which together with the sound macroeconomic policies we have implemented have combined to promote sustainable job growth and economic performance into the medium-term.

□ *Tourism in 2000 and Prospects for 2001*

The continued expansion in tourism, which accounts for approximately 40% of annual output, confirms the success of the industry's efforts to restore and maintain competitiveness. In 2000, the increase in visitor arrivals was concentrated mostly in the cruise

market. Nevertheless, the more important stopover segment recorded a steady upward trend in per capita spending. In particular, while the increase in the number of stopover visitors was 3.0% as compared with 10.3% in 1999, total tourist spending actually increased significantly, by 14.6% to \$1.814 billion.

The strength of the tourism sector was also evident in the 12.3% increase in average hotel room rates to almost \$150 per night and the 5.3% increase in room nights sold. Given that there was an increase of 11% in room capacity, the occupancy rate was marginally reduced to 67.2%, but the net effect was still an 18.3% increase in overall room revenues. Based on the Ministry of Tourism's exit surveys, the increase in tourism expenditure also reflected a rising level of outlays on other local services and activities, such as restaurants.

The Bahamas remained a premier port of call for major carriers such as Carnival, Royal Caribbean Line, Holland America Line, Norwegian Cruise Line and Disney, whose growing confidence and interest in this destination was highlighted by added capacity and increased number of calls. As a consequence, growth in sea visitors was strengthened to 23.2% as compared with 8.2% in 1999.

The strong level of investments over the past five years, by improving the competitiveness of the domestic

tourist product and positioning The Bahamas to derive greater value added from the industry, means that reasonable growth will likely continue through 2001. Stopover visitor volumes should be stronger than last year, particularly for Grand Bahama, which has recently undergone significant renovation of hotel facilities, and continues to increase the stock of available rooms.

□ Construction in 2000 and Outlook for 2001

Construction, which accounts for approximately 10% of GDP and provided a substantial boost in employment over the last four years, continued to make a significant contribution to output growth. During 2000, the volume of housing construction increased to compensate for the completion of a number of the large-scale commercial projects which have drawn heavily on the sector's capacity during the past four years.

The number of building projects started in New Providence and Grand Bahama, at 1,065 units, approximated the 1999 level, but growth in value rose by 11.7% for a total outlay of \$193.4 million. Housing starts figured prominently in this outcome, increasing by 22.0% to \$162.7 million, compared with a more modest rise in commercial starts of 5.2% to \$30.6 million. Building completions for New Providence and Grand Bahama also increased significantly, by 24.5% in value, to a level of \$300 million, with significant contributions from both the housing and commercial

sectors.

It is expected that the construction sector will continue to achieve a high level of performance in 2001.

□ *Interest Rates and Lending*

Interest rate conditions continued to support building activity during 2000. 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 9.4% from 10.2% in 1999, with a slight firming in commercial rates to 9.8%. For 2001, the outlook is that lower international interest rates should mean that domestic interest will remain broadly unchanged.

Loan commitment data indicated a reduction in the level of mortgage lending for new residential construction and repairs from \$152.9 million in 1999 to \$127.7million in 2000. Commercial construction loan commitments were also lower at \$22.4 million compared to \$90.5 million in the previous year.

The outlook for 2001 is that the strong performance in 2000 should continue.

□ *The Balance-of-Payments*

In the Balance of Payments, the deficit on the external current account rose modestly to an estimated \$431.1 million from \$406.0 million in 1999, associated

with the Government's continued capital investment programme which is being funded in local currency, elevated demand for construction goods and consumer durables, and the higher cost of oil imports. The increase in imports of goods and the increase in the price of imported oil, resulted in the trade deficit widening to \$1,346.0 million in 2000 as compared with \$1,249.3 million in 1999. Tourism, as always, provided the bulk of the offsetting foreign exchange inflows, with a significant increase of 18.9% in net revenues to a level of \$1,514.1 million in 2000, after allowing for travel expenditures of Bahamians overseas.

With regard to foreign investment, preliminary indications are that net foreign direct investment reached \$420.2 million in 2000, as compared with \$597.5 million in 1999 and the record level of \$871.7 million in 1998. During 2000, net foreign private direct investment, including loans and equity financing, amounted to \$345.1 million as compared with \$487.2 million in 1999 and \$838.8 million in 1998. Support for the second homes market strengthened, with net real estate purchases rising to \$106.5 million from the modest level of \$23.2 million in 1999.

All of the indications are that the Balance-of-Payments position in 2001 should remain broadly unchanged from 2001.

□ Money Supply

Money and credit trends indicated a 9.3% rise in the money supply in 2000 compared to the 11.7% rate of expansion in domestic credit reflecting increased consumer demand and the consequent impact on the current account.

The widening trade deficit led to a reduction in bank liquidity during 2000. On average, banks maintained monthly liquid assets surpluses of \$122.4 million, compared to \$162.7 million for 1999, still well above the 1998 average of \$77.5 million and more than adequate for the banking system requirements.

As with the other aggregates, the situation in 2001 should be broadly unchanged from 2000.

□ External Reserves

In the three years to 1999, the evolution of external reserves has been largely influenced by the high levels of foreign investment inflows for hotel expansion and industrial projects, supporting record annual gains. During 2000 foreign investment flows were moderate in comparison to these peak periods and given the reduced level of foreign investment, the buoyancy in consumer demand, and the level of locally funded public sector capital investment, external reserves closed the year lower at \$342.6 million, down from \$404.0 million at year end-1999. However, the monthly average balance of external reserves at \$420.7 million, was little changed from the year-earlier

monthly average balance of \$424.6 million. So far this year, reserves have risen by some 13.1% to \$387 million.

The External Reserves position is closely monitored by Government, and there is every reason for the view that the position will remain as healthy as required in 2001.

□ *Fiscal Performance*

Economic conditions were positively reinforced by further progress in fiscal performance. Government savings or current account surplus for the first nine months of FY2000/01 are estimated at \$21.2 million as compared to a deficit position of \$33.3 million in the first three quarters of FY 1999/2000. Consistent with the Government's policy of gradual fiscal consolidation, the Direct Charge on Government rose by \$5.0 million to \$1,518.9 million at end-2000, which was a significant reduction over previous years. The National Debt fell by \$6.3 million to \$1.88 billion, as Government Guaranteed debt of the Public Corporations recorded its first contraction in three years.

□ *Foreign Debt*

There was continued reduction in the foreign currency debt of the public sector as the outstanding level decreased to \$381.3 million from \$392.4 million in 1999. In particular, the Public Corporations' foreign currency indebtedness fell for the second

consecutive year to \$242.4 million, as a result of reduced requirements in light of the completion of major electrical and water works for New Providence and the Family Islands. The direct foreign currency debt of the Government which has been consistently in decline in recent years stood \$137.9 million at end-December 2000 against \$138.1 million in 1999.

The declining debt and particularly lower international interest rates have served to reduce the cost of debt servicing from \$75.2million in 1999 to \$68.2 million in 2000. Debt service as a percentage of exports of goods and services decreased to 2.7% from 3.1% in 1999. In a similar pattern, the ratio of government's foreign debt service to total revenues fell to 2.6% from 4.3% in 1999 and 3.8% in 1998.

□ Prices

The increase in the Retail Price Index, the measure of consumer price inflation, was 1.6% as compared with 1.3% in 1999. Rising fuel prices contributed significantly to the marginal acceleration in average prices during the year. The IMF preliminary forecast is for inflation of 1% in 2001, which is a continuation of the low rate of inflation experienced by The Bahamas as a result of the link between the US \$ and the Bahamian \$, and the commitment to keep the level of taxation as low as possible.

□ Economic Contribution of Financial Sector

Regarding the economic contribution of the banking sector in 2000, indications are that employment is stable. The 410 institutions in the sector at the end of 2000 provided more than 4,000 jobs for Bahamians and made a direct contribution to the economy estimated in the region of \$350 million. The reduction in the number of licensees, mainly the so-called 'brass plate' banks, which will result from the enhancements to our regulatory regime, is not expected to result in a significant diminution of the sector's contribution to the economy beyond the loss of the licence fees.

For 2001, the sector is confident that it will continue to attract a high volume of high-quality business especially in view of the positive responses of Government and the sector to the FATF and FSF initiatives.

□ *Bahamas International Securities Exchange*

The year 2000 marked the beginning of operations for the Bahamas International Securities Exchange, BISX, which for the present, involves the domestic market only. By the end of 2000, BISX had attracted the listing of all but 4 of the 20 publicly traded Bahamian companies. Indications are that in terms of daily trading, only modest activity was recorded, but average daily volume has increased steadily since commencement.

BISX is looking forward in 2001 to an expanding role in meeting the requirements of the Bahamian investor

and saver concerned to have an equity holding in Bahamian businesses.

□ *Strong Performance in 2000 and Positive Outlook for 2001*

In summary, in the year 2000 there was strong economic growth of 5%, a further reduction in unemployment, continuing low inflation, and soundness in the monetary situation. In 2001, while the external environment is initially less promising, the preliminary assessment of the IMF Article IV Consultation Mission is that the economy is well-positioned to achieve the projected growth of 3.5%.

The Thrust of Government's Economic Policy

A high level of national economic activity is not an end in itself. Its manifest purpose is to provide a strong, stable, prosperous and enduring economic base to enable The Bahamas to offer to its citizens a standard of living and an environment which provide the opportunity for the fullest participation in the spiritual, social and political life of the nation. In this regard, a World Bank expert in a recent paper on poverty in Latin America and the Caribbean had this to say:-

"Growth should be the core of all country

development strategies around which efforts to reduce poverty, broaden citizens' participation in government and improve governance can flourish."

□ **IDB Country Report**

The Country Report on The Bahamas prepared by the Inter-American Development Bank will shortly be published. This Report points out that The Bahamas is ranked 33rd on the United Nations Development Programme Human Development Index of 1998. That Report also points out that The Bahamas has a high level of social capital, meaning that the general level and quality of education and health of Bahamians are high by international standards. This emphasis on expanding the level of social capital has been reflected in each Budget since 1992, and this Budget will continue that emphasis because there is no surer way to prepare the Bahamian people for the opportunities and challenges of full and meaningful participation in the world community.

Soundly-based and sustainable economic growth accompanied by appropriate political and social policies constitute the foundation of success, and will continue to bring major benefits to the people of The Bahamas.

Economic Growth and the Modernisation of the Bahamian Economy

Since 1992, the Bahamian economy has experienced positive rates of growth in every single year with rates of 3 % or higher being experienced in every year since 1995. This economic expansion has benefitted workers in both the private and public sectors, embracing all sectors of Bahamian society, and most important of all for the future of The Bahamas, it has enabled the further advancement of our economic, political and social infrastructure.

The transformation in the economy since 1992 has been truly dramatic. The productive capital stock of the economy has been modernised and raised to the highest levels by major inflows of international investment and by the Government's ambitious programme of infrastructural improvement. Unemployment has been reduced to the lowest levels ever recorded, living standards are approaching the levels of the advanced OECD countries, and Bahamian society is prepared to meet the future with greater certainty and confidence than ever.

If one looks around objectively, one sees that education services have improved dramatically. There has been the introduction of pre-school and early childhood education into the government-operated schools, the development of community reading centres,

the introduction of a nationwide computer education programme, and the introduction nationally of Spanish as a second language throughout the public school system beginning with the primary schools.

One sees, too, dramatic increases in resources committed to all other areas of education. There has been the development of the law school, the substantial expansion of The Bahamas Technical and Vocational Institute, and major capital works are in progress at the College of The Bahamas; there is the major construction of new schools and modernisation of existing schools, and there is the continuous reduction in the student/teacher ratio. One must also acknowledge the enhancement of career prospects for teachers at all levels, reflecting the importance of the teaching profession in our society, and the respect it rightly deserves.

Since 1992, every group in the Public Service has enjoyed significant increases in annual incomes, and major improvements in working conditions. The physical conditions of public offices, the courts, primary and secondary schools, police stations, and health care facilities have been dramatically improved. The Ministry of Health is about to occupy its newly constructed premises at Ponciana Hill and the Ministry of Education is scheduled to take possession of its new complex in Oakes Field in 2002.

The conduct of public business has been streamlined in vital areas by the devolution of important functions to the local authorities, school boards, the Airports Authority, and the Public Hospitals Authority. Autonomy was granted some years ago to the College of The Bahamas, and the College is using its autonomy wisely in advancing third-level education in The Bahamas. A major programme is in operation to enable all Government Ministries and other agencies to become computerised. Some ministries and other official agencies such as the Bahamas Investment Authority, the Ministry of Tourism, the Department of Archives, and the Compliance Commission have already established web-sites. Within the coming month the Government's official web-site will open. The official web-site will link these sites into an integrated, convenient and secure official site. Thus, the public implementation phase of e-government is commencing. This means that in the coming weeks and months as this phase unfolds, Bahamians and others will be able to contact the e-mail addresses of Government Ministries and Departments for information, obtain and complete application forms for many services, and study the policy speeches of the Rt. Hon. Prime Minister and Ministers. For example, this Budget Communication will become available on the web-site. The implementation of e-government enhances the state of readiness to move towards making The Bahamas a

major e-business centre.

<p><i>Fiscal Performance</i> <i>2000/01</i></p>

□ Overall Performance

In the last 5 years, this Government's management of the economy was so successful that we could begin to think in terms of aspirations for the Bahamian economy which were inconceivable when we entered office in 1992. In particular, in 1997 Manifesto II we committed to achieving a balanced Recurrent Budget in 2001. During the course of 1997/98 and 1998/99, we began to realise that this major goal, which was last achieved in 1986, was within the realm of achievement before 2001 by continuing prudent management of the economy and the fiscal position. Furthermore, it became evident that we could achieve this goal without any further increases in taxation, and without stinting in any way on the resources needed for essential public services.

And, in 1999/2000 we realised our goal not simply of balancing the Recurrent Budget but actually going further and achieving a significant surplus of \$45million for assisting capital investment. We had in fact more than satisfied Manifesto II commitment because we not only achieved our objective ahead of our own schedule, but we did so with a significant surplus

for dedication to the capital investment programme.

In the 2000/01 Budget we went a stage further to the hitherto unthinkable goal of an overall budget balance. This was last achieved in The Bahamas in the 1970s. Thus, in 2000/01, we again achieved a significant surplus on the Recurrent Budget and then went that extra step towards balancing the overall budget.

No-one should underestimate the scale or the importance of these achievements in view of the major imbalances in the Recurrent Budget with which we had to deal on entering office in 1992. As I mentioned earlier in this Communication, the IMF Article IV Consultation Mission was fully supportive of this commitment to fiscal soundness, and it agrees with the Government's view that this commitment was of crucial importance to the success the Bahamian economy has achieved and continues to realise.

In 2000/01 the weakening of the US economy in the latter part of 2000 and the reduction of the yield from fees in the international financial services sector had some effect on Government revenues. At this time the trend suggests that revenues appear to be falling about 1% short of projections. Notwithstanding I am pleased to announce that once again we realised not only a Recurrent Budget balance but for a second consecutive year a surplus - a surplus of \$44million.

On the other side, there is some underspending arising mainly as a result of difficulties encountered in recruiting and maintaining technical staff in a buoyant economy. At this time, the underspending appears to be partly offsetting the decline in revenues. As capital expenditure is likely to be some \$ 2 million ahead of the Budget, and capital grants will be modest, a marginal shortfall in projected revenue of \$11million, however, could emerge. This shortfall could be eliminated if there is a marginal improvement in the revenue trends or if a further small underspending occurs. The relative importance of a shortfall of \$11million, when placed in the context of on an overall volume of revenue and expenditure of \$2.5Billion, cannot be understated. This projected shortfall is equivalent to about 0.2% of GDP. Therefore, given the dimensions of the task which we set for ourselves, a task last achieved in the early 1970's, we can say that for all practical purposes, overall balance is being attained in 2000/01.

This achievement sets a benchmark for the future, a new standard which we expect will be met in future fiscal periods. We expect that this standard now being set is the future one, and that fiscal imbalances will become a thing of the past. We expect that The Bahamas will henceforth move forward with a solid fiscal framework which will encourage high-quality productive

inward investment.

□ Major Components

As regards the major categories, Recurrent Expenditure in 2000/01 was \$ 938 million based on trends to early May. This is about \$ 11 million less than in the 2000/01 Budget. Capital Expenditure is likely to be about \$ 130 million on present trends, and this is about \$ 2 million more than provided for in the Budget.

Again, I emphasise that for the first time for more than thirty years an overall fiscal balance has been achieved for all practical purposes; this sets a new benchmark against which future fiscal policies and achievements must be judged.

Fiscal Policy 2001/02

□ Reaffirmation of Commitment to Fiscal Balance

Going forward into 2001/2002, the Government reaffirms its commitment to the goals of fiscal balance while continuing with the improvement in the quality and range of public services. We will continue to structure all expenditure policies within these parameters.

Main Features of 2001/02 Budget

I would like to repeat what I said last year in

relation to balancing the budget for the first time for many years. I said then:-

"The commitment to a balanced overall budget does not in any way constrain the Government from implementation of sensible policies for essential public services, such as education, health and security, and from the implementation of visionary policies to enhance the growth and employment environment through, for example, the development of The Bahamas as a centre of excellence for e-business. Neither does the commitment to a balanced overall budget constrain the Government in ensuring that all of the Islands of The Bahamas benefit from our economic progress nor does it constrain the Government's compassionate policies of ensuring that every person and household participates in the fruits of economic progress."

This is this Government's pledge to the people of The Bahamas.

□ **Major Components**

The major figures are Recurrent Expenditure of \$ 995 million in 2001/02, which is an increase of 4.8 % over the 2000/01 Budget. This increase of 4.8% is well in excess of the projected rate of inflation of 1%.

Consequently, there will be a real increase of 3.8% in Recurrent Expenditure in 2001/02.

As regards Recurrent Revenue, the 2001/02 provision is \$ 1,030 million, which is an increase of 3.2% over the 2000/01 Budget or about 4.9 % over the projected 2000/01 outturn. The major emphasis in Recurrent Revenue is on improving the collection of Real Property Tax in view of the massive investments in real property in recent years, especially foreign investment.

The figures for the rates of increase in Recurrent Revenue and Recurrent Expenditure are approximately the same which means that the fiscal burden on the economy is stabilised.

Capital Expenditure will be \$ 130 million which is about the same as in 2000/01.

□ Overall Balance

The overall position is that total expenditure, including Debt Redemption will be some \$1035 million, and Recurrent Revenue plus Capital Grants will also be \$1035million. Consequently, we will enter 2001/02 with a balanced overall budget, and with no increase in Government debt. This fiscal position will again make a major contribution to presenting The Bahamas as one of the soundest economies in the Hemisphere and an attractive location for high-quality inward productive investment.

Looking specifically at each of the major categories of revenue and expenditure, the position is as follows.

□ Major Features of Recurrent Expenditure

Full provision is made for every essential service and every Government function is properly funded to meet its responsibilities. Prudent management and the implementation of effective management methods will enable every service to remain within the allocation while meeting fully its obligations.

Leaving aside Debt Interest and Debt Redemption, the amount available for Ministries and Departments is \$ 808 million, an increase of 4.5 % in nominal terms or 3.9% in real terms over the 2000/01 Budget.

I can state that as in previous years, the Government's major priorities remain education, health, security and the criminal justice system, industrial relations, the promotion of tourism, and social services. The amount allocated for these services amounts to \$633.8million out of the \$ 808million, or over 78% of the Budget.

The major provisions in the Budget are as follows:-

★ \$190.2 million, or 23.5% of the available \$808 million is for education; this comprises \$134.6million for the Department of Education, \$30.6million for the Ministry, \$19.2million for

the College of The Bahamas plus over \$5.6million in retained fees, \$4.5million for the Bahamas Technical & Vocational Institute, and \$1.4 million for the Department of Archives.

★ \$148.2million, or 18.3% of the available total of \$808million goes to health services; this comprises \$101.9million for the Public Hospitals Authority plus retained fees and credit balances of which \$54.4million is for Princess Margaret Hospital, \$17.7million is for Sandilands Rehabilitation Centre, \$12.8million for Grand Bahama Health Services, \$20.1million for Environmental Health, \$18.2million for the Department of Public Health, and \$8.2million for the Ministry of Health.

★ \$110.6million, or 13.7% of the total recurrent expenditure available, is being allocated for national security comprising \$70.8million for the Police, \$26.1million for the Defence Force, \$13.0million for Prisons, and \$0.7million for the Ministry.

★ \$62.2million, or 7.7% of the overall total of \$808million, goes to Tourism our most important industry.

★ \$58.3million is allocated to the Ministry of Public Service and Cultural Affairs, a large

component of which is required for pensions and gratuities.

- ★ \$49.4million is being allocated for transport, local government, the meteorological service, civil aviation, road traffic, port and post office.
- ★ \$45.8million is being allocated to the Ministry of Finance, the Treasury and Customs.
- ★ \$26.1million, or 3.2% of the total, is being allocated for housing and social services.
- ★ \$22.0million or 2.7% of the total, is allocated to the judicial system, comprising \$7.6million for the Office of the Attorney General including the new Financial Intelligence Unit, \$6.8million for the Judicial Department, \$4.4million for the Magistrates Courts, \$2.1million for the Registrar General, and \$1.2million for the Court of Appeal.
- ★ \$20.5million is being allocated to the Ministry and Department of Public Works which has the responsibility for the construction and maintenance of public infrastructure and buildings, among other tasks.
- ★ \$15.2million is being provided for labour and immigration.
- ★ \$12.2 million is being allocated to agriculture and fisheries.

- ★ \$4.9million is provided for the Ministry of Economic Development which is responsible, among other things, for coordinating work in relation to trade matters.
- ★ \$3million is allocated to the Airport Authority, which will in addition retain fees and will be in a position to raise capital for investment on its own account for improving the Airport.
- ★ \$2.7million is being allocated to the Department of Statistics.
- ★ \$0.8million, in addition to retained fees, is provided for the Public Utilities Commission, which plays an increasingly important role in regulating telecommunications.
- ★ Other significant allocations are being made for Foreign Affairs, Parliamentary Registration, the Gaming Board, Bahamas Information Services, Government Printing, the Department of Lands and Surveys, and the Department of Physical Planning.

The Budget provides for pay increases for nurses and other medical professionals, and \$ 5 million as required for the first phase of the 3 phases of the general review of salaries provided for in the Agreement of June, 1999, between Government and The Bahamas Public Service Union and The Bahamas Union of

Teachers. Under the terms of this 5 year Agreement of June, 1999, the next general pay increase for the Public Service is not due until July 2003.

□ Main Features of Capital Expenditure

The 2001/02 programme of Capital Expenditure amounts to \$130million with the main outlay going to education, health, security, transport, infrastructure and public enterprises. The provisions are as follows:-

- ★ \$55.1million is being provided to the Ministry of Public Works for a wide range of infrastructural works including \$30.2 million for road construction in New Providence and the Family Islands, including South Andros, Mangrove Cay, the Berry Islands, Harbour Island, and the Exuma Cays; \$6.0million for the Hurricane Floyd Restoration Programme, which includes causeways in BarreTarre, Exuma, and Angel Fish Creek, Abaco, seawalls in Abaco, Cat Island, Eleuthera, Harbour Island, New Providence, and San Salvador and public cemeteries in Cat island and Eleuthera; \$5.5million for the redevelopment of docks in the Family Islands, including Marsh Harbour and Conch Rock Creek in Abaco, Rock Sound Eleuthera, and George Town, Exuma; \$3million for the redevelopment and construction of Family Islands airports, \$1million for

sidewalks in the City of Nassau and a number of smaller projects.

★ \$20million is being provided to the Ministry of Education, Youth & Sport for various projects the principal of which are: \$14.2million for construction, redevelopment and expansion and refurbishment of schools in New Providence, and in the Family Islands; \$2.5million for the continued computerisation of Primary Schools, \$1.1million for school and office furniture and furnishings and \$1.0million for the completion of the National Art Gallery.

★ \$30.7million for various sundry capital expenses including: \$7.0million to Bahamasair, \$7.0million to the Water & Sewerage Corporation, \$4.0million to the Broadcasting Corporation of The Bahamas, \$2.0million to the Bahamas Electricity Corporation for Family Island Electrification, \$2.0million for environmental enhancement, \$1.5million for the acquisition of assets for Government Ministries and Departments, \$1.3million for capital subscriptions to international agencies and other miscellaneous acquisitions.

★ \$11.1million for health for various projects including \$5.0million for completion of workshops and administrative offices for

enhanced waste management facilities at Harrold Road and \$6.0million for the development of sanitary landfill and transfer stations in Bimini, Great Guana Cay, Abaco, North Andros, and North Eleuthera; expenditure on the purchase of additional sanitation vehicles for improved waste handling in New Providence; the continuing upgrade of public health care facilities, Princess Margaret Hospital, Sandilands Rehabilitation Centre in New Providence and the Rand Memorial Centre in Freeport, Grand Bahama; the purchase of additional instruments and apparatus and medical equipment, and the repair and refurbishment of Community Health Clinics.

- ★ \$3million is being provided to Civil Aviation Department to purchase additional fire engines, weather radar equipment, the installation of emergency runway lighting in Cat Island and Long Island and improvements in the Family Islands. This follows upon the purchase in this fiscal period of a new \$6.0million radar for Nassau International Airport and the commencement of the installation in Treasure Cay and Marsh Harbour, Abaco, Governors Harbour, and North Eleuthera and Moss Town, Exuma, of equipment to facilitate commercial

night flights into these destinations; this is in addition to the provision in the Ministry of Public Works budget for the construction of a new terminal building in Marsh Harbour, Abaco, a new airport in Rum Cay and the resurfacing of runways in Inagua and Great Harbour Cay, the Berry Islands.

- ★ \$2.0million is provided for the Royal Bahamas Police for acquisition of fire engines, communications and forensic laboratory equipment. Additionally, \$0.7million has been provided in the Ministry of Public Works budget for the completion of the CID Headquarters and the modern Police Headquarters in Freeport is nearing completion.
- ★ \$2.0million is provided to the Royal Bahamas Defence Force for the refit of a patrol craft.
- ★ \$1.8million is provided for the Customs Department, of which \$0.5million is provided for Customs facilities in Bimini and Cat Island.
- ★ \$1million is provided to the Ministry of Agriculture which includes \$0.4million for feeder farm roads and land clearing.
- ★ \$0.75million is provided to the Ministry of Housing & Social Services and includes \$0.3million for a new small house repair

programme for the elderly and the indigent.

★ \$0.8million is provided for the Department of Lands and Surveys.

★ \$0.655million is provided to Local Government District Councils in 12 Family Island Districts for minor capital works in addition to their regular budgetary provisions.

It will be appreciated from this comprehensive statement, that all major priorities are being dealt with, and that available funds are being equitably distributed on these priorities.

Fiscal Balance and Borrowing Policy

The 2000/01 Budget was presented on the basis of an overall balance in the fiscal position while providing adequately for essential public services. To be sure, fiscal balance is not an end in itself but it is critically essential to achieving other ends of fundamental importance. Fiscal deficits result in additional Government borrowing; a rising level of Government debt requires the allocation of increasing tax resources to meet the interest and repayment of the debt. If Government debt is allowed to increase as a share of GDP then an increasing share of revenues must be allocated to debt financing, which deprives our

society of the revenues needed for the development of essential public services. If fiscal deficits are not ultimately brought to an end, the resources required to service the increasing debt will eventually bankrupt national programmes.

Alternatively, in order to meet the increasing costs of debt servicing and to continue with the programme to improve essential services, the share of GDP taken in taxation would have to rise from the present level of about 20% of GDP. Increasing the share of GDP taken in taxation is undesirable because it would adversely impact the competitiveness of the Bahamian economy, and eventually damage the economy and destroy jobs. Clearly there is sound reasoning for the commitment to overall fiscal balance and the constraints and disciplines which it imposes.

The Importance of the Economic Fundamentals

Fiscal balance and prudent fiscal management are crucial fundamentals. International experience is that successful economies have combined a certain degree of openness with policies that are conducive to investment, macroeconomic stability, and prudent management of capital flows. A recent authoritative study under the auspices of the Overseas Development

Council, an independent, international policy research institution based in Washington, states :-

"Policymakers have to focus on the fundamentals of economic growth - investment, macroeconomic stability, human resources, and good governance."

These are precisely the fundamentals on which this Government has focused, and by doing so has, in a short period of years, achieved a rate of economic and social progress for the Bahamian economy unequalled in our recent history, or indeed in the recent history of any country in the Region.

Capital Account Liberalisation

Liberalisation of the capital account in a systematic and measured manner is entirely consistent with the direction of an economic policy of full integration into the global economy on terms beneficial to economic and social welfare of all Bahamians. The strength of our economy enables us to give consideration to taking additional measures to liberalise the Capital Account of the Balance of Payments. It is my pleasure to be able to announce that the Government is giving active consideration to two liberalisation measures which will enable Bahamians to avail of investment opportunities. One measure would

permit Bahamians to acquire shares in the foreign corporations for which they work through employee stock options. The second would permit all Bahamians to acquire shares in foreign companies operating in The Bahamas and quoted on stock exchanges. In due course, a detailed Communication will be made to Parliament about these matters.

The Development of e-business in The Bahamas

□ *Developing e-business*

The medium-term outlook for the economy is fundamentally sound. This is an opportune time for building on these strong fundamentals and moving forward to expanding into newer areas of international services. The most promising such area is, of course, e-business.

□ *The Importance of Access to Technically Advanced and Cost-Efficient Communications*

The Final Declaration of the Summit of The Americas on "*Connecting the Americas*" in Quebec in April, 2001, stated that:

"...a technological revolution is unfolding and our region is entering a new economy, one defined by a vastly enhanced capacity to access knowledge and to improve flows of information."

The Declaration underlined the important benefits of the integration of the hemisphere into an increasingly knowledge-based society which can strengthen democracy, create prosperity, and realise human potential. The Declaration went on to state:-

"We are committed to promoting the development of the telecommunications infrastructure needed to support and enhance all sectors of society and the economy and will seek to provide affordable universal access. We agree to promote the modernisation of the telecommunications sector, noting the leading role of the private sector in deploying infrastructure and services..."

□ Privatisation of Batelco

Without question, the next critical stage in the development of The Bahamas as an international services provider lies in the development of e-business. The Government is deeply cognisant that in this matter the 'race is to the swift'. In the 2000/01 Budget Communication I dealt at some length with the policies and measures which the Government is urgently implementing to enable The Bahamas to take maximum advantage of its strategic position and its assets so as to develop a vibrant e-business sector. In this context I again emphasised the vital importance of the privatisation of Batelco towards the creation of a comprehensively networked and knowledge-based society.

Without cost-efficient, comprehensive and state-of-the-art telecommunications, the goal of becoming a networked society with a rapidly developing e-business sector would become unattainable.

Consequently, the Government is pressing ahead as rapidly as possible with completing the privatisation of Batelco. The most recent step was the completion of the Telecommunications Sector Policy which is being prepared now for publication and distribution. This Policy commits to the privatisation of Batelco in the next few months, the opening up of the domestic telecommunications market to competition in cost and quality of services, and the provision of universal access to basic telecommunication services, emergency services and internet access, to schools, and populated areas.

The privatisation of Batelco is proceeding more slowly than the Government would wish because of issues related to finalising the audit of the accounts of the Corporation. However, I am pleased to announce that the finalisation of the audit of the accounts to 31 December, 2000, is scheduled to be completed during the month of June. Immediately thereafter the audited accounts will be tabled in this Honourable House, together with the vesting orders and other requirements to transform Batelco from a statutory Corporation into a commercial company. This is the penultimate

legislative step in privatising Batelco, the final step being the obtaining of the prior approval of Parliament under Section 22 of the Telecommunications Act, 1999, for the transfer of shares in the new company, BTC, to a selected strategic partner.

□ *Developing a Net-worked and Knowledge-based Society*

The creation of a net-worked and knowledge-based society is proceeding apace with the emphasis on providing access to computer training to all Bahamians from schoolchildren to older adults. In this context the College of The Bahamas, in consultation with the Ministry of Finance, is at an advanced stage in the planning of an adult computer literacy programme for implementation as soon as possible.

□ *e-business Legislation*

In the period immediately ahead the Government will be finalising the legislation for presentation to Parliament on the safeguards necessary to ensure that e-business can develop in an environment of integrity. During the course of 2000/01 priority in drafting and implementing legislation had to be devoted to addressing the issues raised by the FATF and FSF and the time-tables which they established. Since this legislation is now in place and being efficiently implemented, the Government's efforts can now focus on the priority task of putting in place the

legislation required to enable The Bahamas to develop rapidly the pre-conditions necessary to enable e-business to proceed.

Significant Reductions in Customs Tariff

It is once again, a great source of pride and accomplishment that this Government has been able to present a balanced budget which adequately meets the needs of the public service without resorting to any new taxes or any increase in existing taxes. There are no new or increased taxes in this Budget. On the contrary we have continued with our policy of rationalisation of Customs Duties and providing relief to Bahamians where this is desirable. In this regard I am pleased to announce the following:-

- ★ The reduction in the rate of Customs duty from 50% to 35% on the following items:-
 - cash registers, account books, binders, folders, manifold business forms, filing cabinets, paper trays, paper pads, desk trays, perforating and stapling machines and parts, and photo albums.
- ★ The reduction of the rate of Customs duties from 45% to 35% on the following:-
 - Carpet and other floor covering, wigs, vacuum cleaners, juice extractors, food slicers, coffee and tea machines, toasters, microphones and stands, loudspeakers, headphones, earphones, electric amplifiers, magnetic tape players and other sound recording apparatus, photo-copying machines, and parts for lawn-mowers;
- ★ The reduction of the rate of Customs duty from 40% to 35% on the following:-
 - Washing machines, drying machines, and parts for washers and dryers;
- ★ The reduction of the rate of Customs duty from 35% to 25% on the following instruments and appliances used in medical, surgical, dental or veterinary science:-
 - electro-cardiographs, ultra sonic scanning

apparatus, magnetic resonance imaging apparatus, scintigraphic apparatus, ultra-violet and infra-red ray apparatus, tubular metal needles, needles for sutures, dental drill engines, other ophthalmic instruments and appliances, and other instruments and appliances;

★ The reduction of the rate of Customs duty from 45% to 25% on dentist', barbers' or similar chairs or parts thereof;

★ The reduction of the rate of Customs duties on fruits and vegetables as follows:-

	From	To
Whole canned tomatoes	80%	35%
Lemons	50%	35%
Limes	65%	35%
Pineapples	210%	35%
Watermelons	210%	35%
Cucumbers	50%	35%
Canned pigeon peas	210%	35%

★ The Customs duty on the following fruits has been completely eliminated:-

Grapes which now attract duty of 30% will now be free duty;

Apples which were subject to a 20% duty will now be duty free;

Pears which are now subject to a 30% duty

will be duty free;

Strawberries which were subject to a 30%
duty will be duty free;

★ In keeping with the commitment to the health of the nation, vitamins which carried Customs duty of 35% are now free of Customs duty.

★ In addition, word processing machines, typewriters and calculators which all carried a Customs duty rate of 50% will be imported free of Customs duty.

These reductions in Customs duties across a significant range of items is a further step in the Customs Tariff rationalisation process which we commenced in 1996 which resulted in reducing the rates of Customs on many items as well as considerably reducing the complexity of the Customs Tariff, and further reducing the number of separate rates of duty in the Tariff.

Concluding Remarks

In the middle of the nineteenth century, some 150 years ago, the poet Alfred Lord Tennyson seemed to prophesy the major advances which we have witnessed in the latter part of the twentieth century and which we expect to see in this century. He wrote:-

*Men, my brothers, men the workers, ever reaping
something new:*

That which they have done but earnest of the things that they shall do:

For I dipt into the future, far as the human eye could see,

Saw the Vision of the world, and all the wonder that would be;

Saw the heavens fill with commerce, argosies of magic sails,

Pilots of the purple twilight, dropping down with costly bales;

Heard the heavens fill with shouting, and there rain'd a ghastly dew

From the nations' airy navies grappling in the central blue;

Far along the world-wide whisper of the south-wind rushing warm,

With the standards of the peoples plunging thro' the thunder-storm;

Till the war-drum throbb'd no longer, and the battle flags were furl'd

In the Parliament of man, the Federation of the world.

This vision of international commerce within the context of an agreed set of international standards is of enormous importance to The Bahamas. The Bahamas is a small nation with an exceptional record of adaptability to the vicissitudes of the international economy, and a

readiness to comply with global standards arrived at consensually by the international community. The continuity of the Government's commitment to successful and sustainable social and economic policy is instrumental in this regard. The soundness of our economy, the commitment and ambitions of our people as reflected in the strength of our educational system, and our democratic traditions of accountability and transparency mean that The Bahamas is strategically positioned to enjoy the poet's Vision.

It has been my privilege to have had the opportunity of heading the Ministry of Finance and to have played a part in the transformation of the Bahamian economy so that it has enjoyed substantial growth and development since 1992, and is poised to continue to grow strongly into the medium-term. The economic situation on our first entering office in 1992 was truly alarming as the indicators clearly show. A major contraction of the economy was recorded in 1992; unemployment reached a new peak; the External Reserves were at their lowest point for many years; the crucial sectors of the economy, tourism and financial services were stagnating; National Debt was increasing rapidly and yet did not fully represent the extent to which the Treasury was underfunded; and the rate of inflation had accelerated to 5.6%; there was no hope of balancing the Recurrent Budget despite substantial increases in

taxation; and in these circumstances any thought of liberalisation of the Capital Account would have been foolhardy.

All of these have now been reversed. For the eighth consecutive year positive growth has been recorded; unemployment has been reduced to the lowest level ever recorded; tourism and financial services are strong and buoyant; the growth of National Debt has been contained finally; the rate of inflation has been reduced to less than 2%; the level of the External Reserves is high and more than adequate to permit the planned liberalisation of the Capital Account; and at last, after so many years, an overall fiscal balance has been attained.

If I could bequeath one legacy to The Bahamas, and I believe the Rt. Hon. Prime Minister would also wish this as his legacy, it would be that the standard of fiscal prudence achieved on this Government's watch is maintained and that this Government's commitment to sound macroeconomic fundamentals, which made the success of our policies possible, continues into the foreseeable future. The success of these policies is exemplified by achievements which benefitted the Bahamian people such as:-

- ▶ *dramatically reducing unemployment,*
- ▶ *generating sustainable and well-paid employment on a major scale,*
- ▶ *raising living standards to the highest among*

- independent states in the Region,*
- ▶ *reducing inflation to low levels,*
 - ▶ *containing Government debt and maintaining low interest rates,*
 - ▶ *reducing the cost of living by significant tax reductions,*
 - ▶ *improving without precedent the range and quality of our health services and the working conditions and career opportunities of those in the health care area,*
 - ▶ *expanding educational opportunities, and the career paths of the teaching profession,*
 - ▶ *improving the salaries and conditions of the uniformed forces,*
 - ▶ *improving the salaries and conditions of the Public Service generally,*
 - ▶ *devolving authority to local government, and authorities such as the Public Hospitals Authority, the Airport Authority, and the College of The Bahamas,*
 - ▶ *ensuring that all Islands of The Bahamas have proper infrastructure such as roads, airports, electricity, and ports,*
 - ▶ *making The Bahamas a more secure place for all.*

Our commitment to the macroeconomic fundamentals, of which fiscal stability is one, is the basis of economic success, a success which enables Bahamians to

have the means to contribute to all aspects of our Nation's life.

Table I. Bahamas Economic Performance 1991 - 2001*

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000**	2001**
GDP(Current Prices) (\$Millions)	3000	3150	3325	3425	3500	3750	3940	4190	4575	4920	5170
Growth-Current Prices(%)	4.2	5.0	5.5	3.0	2.2	6.8	5.3	6.3	9.1	7.6	5.1
Growth-Constant Prices(%)	-2.7	-2.0	1.7	0.9	0.3	4.2	3.3	3.0	6.0	5.0	3.5
Prices (%)	7.1	5.7	2.7	1.5	1.7	1.4 ^(a)	0.5 ^(a)	1.3 ^(a)	1.3 ^(a)	1.6	1.0

*Source: 1991 - 1999 IMF World Economic Outlook

** IMF Article IV Consultation Mission (April 2001) Preliminary Estimates

^(a) GDP Deflator is higher in those years

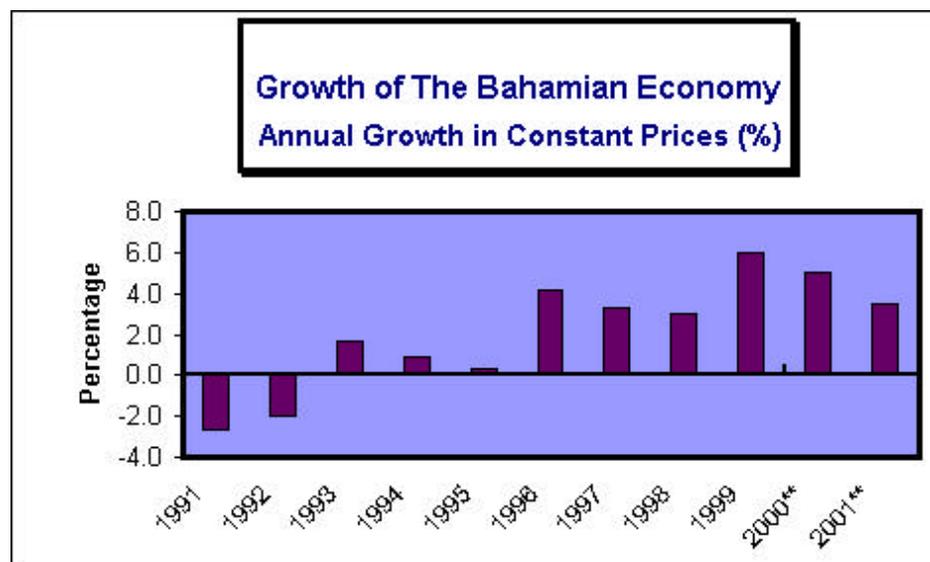


Table II - Budget Performance
\$millions

	1988	1989	1990	1991	1992	1993	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2000/01	2001/02
	6 months						Budget Outturn BUDGET									
1. Recurrent Expenditure	515	573	564	606	603	300	630	656	704	778	808	837	866	949	938	995
2. Recurrent Revenue	472	500	529	524	552	272	617	650	672	698	780	822	943	998	982	1030
3. Recurrent Deficit (1 minus 2) (Surplus +)	43	73	35	82	51	28	13	5	32	80	28	15	+83	+49	+44	+35
4. Capital Expenditure	94	111	91	84	88	51	68	100	92	140	117	124	139	128	130	130
5. Capital Revenue				1	1		1	12	5	3	1	0	0	5	0	5
6. Capital Deficit (4 minus 5)	94	111	91	83	87	51	67	88	87	137	116	124	139	123	130	125
7. TOTAL DEFICIT (3 plus 6)	137	184	126	165	138	79	80	93	119	217	144	139	56	74	86	90
8. Debt Redemption	59	60	48	51	58	48	69	65	80	84	79	74	41	75	75	90
9. GFS Deficit (7 minus 8)	78	124	78	114	80	31	11	28	39	137	65	65	15	+1	11	0
10. GDP (current prices)	2750	2950	3000	3000	3000	3325	3375	3465	3600	3840	4065	4380	4750	5045	5045	5315
11. GFS Deficit as % of GDP	2.8	4.2	2.6	3.8	2.7	0.9	0.3	0.8	1.1	3.6	1.6	1.5	0.3	0.0	0.2	0.0

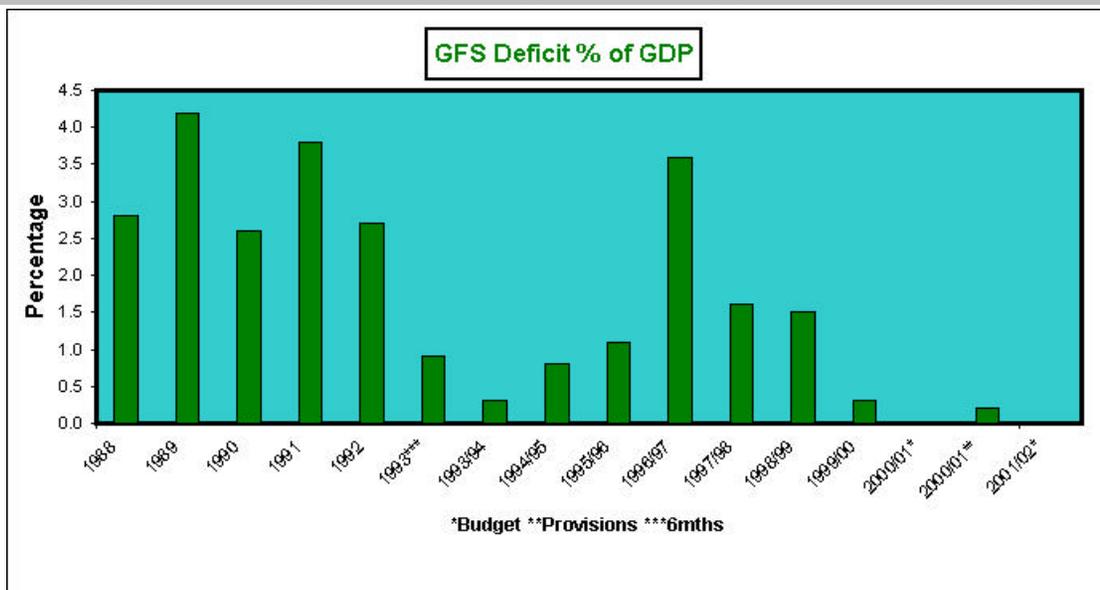
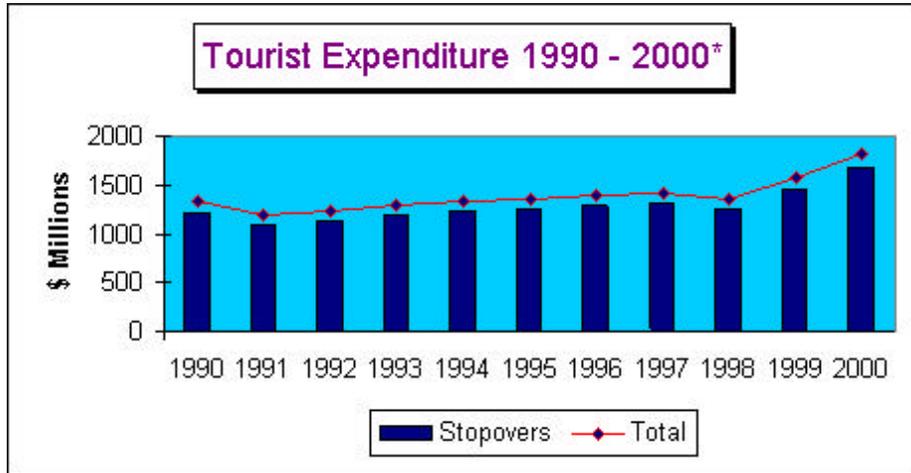
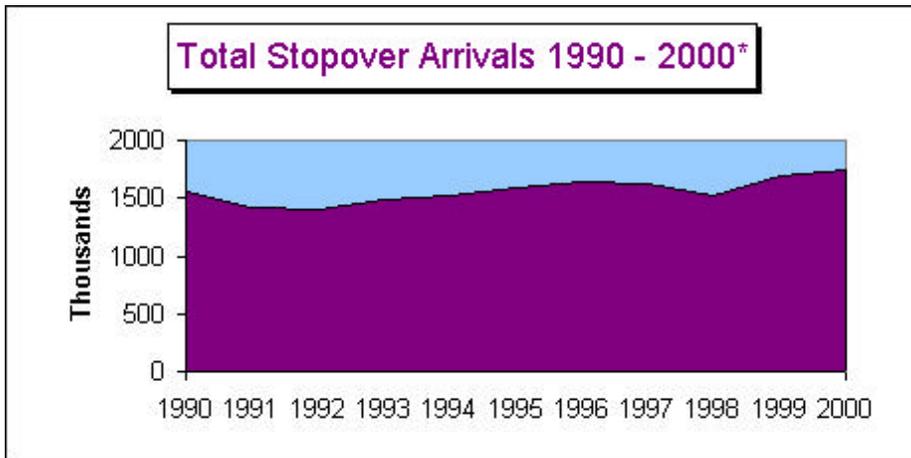


Table III. Tourist Expenditure and Arrivals 1990 - 2000

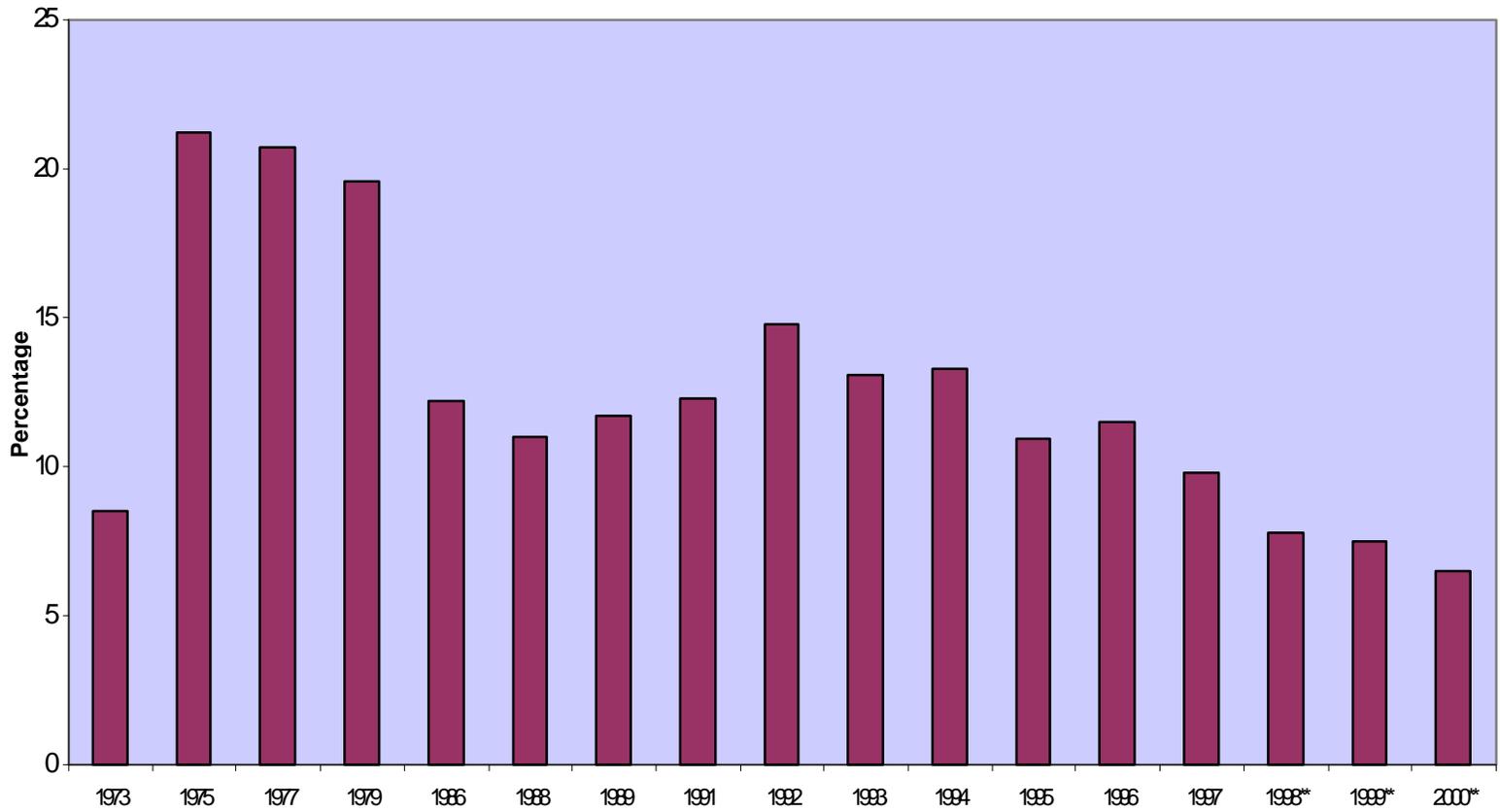


*Source: 1990-98 Central Bank and Ministry of Tourism
1999 & 2000 IMF Estimates



*Source: 1990-98 Central Bank and Ministry of Tourism
1999 & 2000 IMF Estimates

Unemployment Rates*
1973-2000



**Total External Reserves
1984 - 2000**

