

COMMONWEALTH OF THE BAHAMAS

2004/05

BUDGET COMMUNICATION

Presented to the Honourable House of Assembly

by

The Rt. Hon. Perry G. Christie, P.C., M.P.

Prime Minister

and

Minister of Finance

On

Wednesday, 26th May, 2004

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MR. SPEAKER,

I have the honour to present the 2004/05 Budget Communication.

Structure of this Budget Communication

The Budget Communication is a document of great national importance. Therefore, it is crucial for the Communication to reach, and to be understood by, the widest possible audience. In light of this consideration, in this Communication I intend to set out clearly and concisely the major developments which have a bearing on the Bahamian economy, and highlight the key policies of this Government. My objective, in seeking greater brevity and conciseness, is to facilitate the widest possible

understanding and reception for the main issues in the Budget. In this regard, it represents a departure from past Budget Communications which tended to range over a wide area, much of which was of a technical nature, and perhaps of limited interest to the general audience which the Communication should reach.

Confident outlook for the Bahamian economy

The Budget sets out the Government's survey of the prospects for the economy, and the Government's programme for the public finances based on that survey. While the primary focus is on performance in the past year and on the outlook for the immediate year ahead, the perspective also has a medium-term dimension. This medium-term dimension assumes mounting importance as economic recovery gets underway.

The focus of the 2004/05 Budget is to position our nation to take full advantage of the imminent surge in the performance of the Bahamian economy. This surge is assured, firstly by the recent commitment of Kerzner International to the Phase III, \$1 Billion project, and the

many other capital projects in progress or in the pipeline for the tourism sector in New Providence, Grand Bahama and the Family Islands. It is assured secondly, by the rebound of the global economy and its expected increasingly vigorous expansion. The expanding Bahamian economy will provide stability and growth to the key sectors, tourism and financial services, and generate additional government revenues for essential services without any necessity to raise the level of taxation.

During the past two years, since entering Office in May, 2002, we observed with great concern the difficult revenue position which constrained the full implementation of our policies. In the two previous Budgets of my administration I had, despite the weakness of the revenue position, deliberately avoided increasing taxation. I believed that the proper course was to concentrate on strengthening revenue administration rather than on increasing the burden of taxation on Bahamians. I am continuing with this patient strategy in this Budget, which contains no new revenue measures

impacting directly on the Bahamian people. This strategy is possible because we are on the threshold of achieving significant improvement in the yields from the existing system of revenue administration. This also includes closing loopholes in the existing system which are perfectly legal but which result in a substantial loss of revenues. We propose at a later date, however, to review a wide range of fees and charges which in some cases, have not been changed in decades.

Furthermore, the international economic recovery and the upsurge in investment in the The Bahamas, particularly the implementation of the \$1 Billion Atlantis project, the major anchor resort developments emerging in the Family Islands such as the Four Seasons/Emerald Bay and Crab Cay resorts in the Exumas, the Carnegie Club Winding Bay Links Golf resorts and residential resorts in Abaco, the revised environmentally sensitive Bimini Bay Resort and the many other investment projects throughout The Bahamas combined with the vigorous resurgence of our financial services sector, are

transforming the outlook for the Bahamian economy. In the period ahead, stretching over several years, we will witness clear growth in employment opportunities throughout The Bahamas from the ambitious projects now in the pipeline, and the steady and sustained improvement of the public finances. As our economy strengthens, the Government's revenues will progressively improve, providing increasing scope for my Government to continue with its major priorities.

National priorities

MR. SPEAKER,

One of the national priorities of my Government is to contain the fiscal deficit and progressively eliminate it so as to reduce the ratio of Government Debt to Gross Domestic Product or GDP. In this regard, we recognize the importance of reducing this ratio to about 30% within the next 5 years or so, thereby providing increasing flexibility for fiscal policy to respond to any external shocks such as those which occurred in 2000 and 2001. To borrow the words of a G-7 finance minister, we are seeking to lock in

enduring economic stability. It is this economic stability allied with political maturity and stability which are distinctive features of The Bahamas in this region, and which make our economy a magnet for investment.

Within the ambit of this priority of containing and eliminating the fiscal deficit, my Government will press ahead, as urgently as resources will permit, with the necessary financial provision for the systematic upgrading of infrastructure throughout The Bahamas. Our clearest priority is to have in place the essential infrastructure to encourage and support anchor projects in each Family Island, and to develop and maintain the infrastructure for the continuing growth of New Providence and Grand Bahama.

Another priority, which the strengthening economy and public finances will permit, is to provide additional resources for investment in education and skills training. Our goal is to enable all Bahamians, regardless of previous success or failure, to access academic education and technical skills training in a way that is relevant to their

individual abilities and aspirations and the broader needs of national development. By this means we intend that every Bahamian will have the opportunity to move from lower-skilled work to higher-skilled work, if he or she so chooses. In this regard, the Bahamian nation will have noted that part of the arrangements with the Phase III Atlantis project and other development projects is to provide job opportunities for Bahamians and training for Bahamians to enable them to avail of these job opportunities.

I am particularly concerned with special needs education so that children with special needs are assisted and encouraged to reach their full potential. The budget for Education reflects this special requirement.

Yet another priority is to continue our innovative approach to social policy formation so that better housing, health and youth development services are provided as budgetary resources become increasingly available for allocation to these services. In this regard, I would point to the continuing success of the Urban Renewal

Programme which is an innovative, closely-coordinated multi-faceted and comprehensive strategy aimed at transforming our inner-city communities into vibrant dynamic and healthy centers of human habitation. At the same time individual lives will be transformed positively. In this regard, 128 additional lots have been earmarked for low-cost housing and community parks as part of the Urban Renewal Programme. Incidentally, it should be emphasized that in the last two years 558 new houses have been constructed by my Government.

A crucial feature of this Programme is that it involves the private sector in making a contribution. For example, the private sector has donated computers, and musical instruments for youth development initiatives. Furthermore, the Programme contains a component supported by the Inter-American Development Bank, for skills training and other activities to assist in the formation and execution of strategies for youth development.

Since the Urban Renewal Programme is intended to

draw on increasing resources and participation from our partners in the private sector, the budgetary component derived from the Public Treasury and from the Inter-American Development Bank constitute a part of the overall financial mass which is being dedicated to the Programme.

This Programme is of such importance that in the year ahead a new Authority, the Urban Renewal Authority, will be created which will be provided with its own budgetary resources to pursue the process of urban renewal on an expanded basis with the greatest possible vigour.

In relation to the Inter-American Development Bank, I should also mention that the Bank has accepted the previously extended invitation of The Bahamas to host the 2006 Annual Meeting of the Bank. The Meeting will therefore take place in Nassau. This reflects the excellent relations between the Bank and the Government of The Bahamas. The Meeting will be a major international event at which The Bahamas will be positioned center-stage.

A further policy issue is the creation of a single unified ports authority to oversee public dock facilities throughout The Bahamas. This will provide a coordinated and planned approach to the use of these facilities and will concurrently address national security concerns in relation to docks.

The importance of security is central to the priorities of all governments in this age, and my Government is no exception. We shall continue, therefore, to demonstrate our commitment to this crucial priority. In this regard, I am commissioning a study of the feasibility of establishing a separate dedicated organisation to have responsibility for all security duties at our airports and ports of entry. There would appear to be many advantages of specialization and coordination to be derived from such an organization. Further detailed study is necessary to determine how the proposed new organization would interface with the Royal Bahamas Police Force, the Royal Bahamas Defence Force, and the Departments of Customs and Immigration, and external law enforcement agencies,

all of which are necessary partners in the quest to strengthen the security of our borders against external threats.

The over-riding priorities for our economy, fiscal and non-fiscal, are to generate enough quality employment opportunities for all Bahamians. In this regard, my Government pays particular attention to the environment in which all of the major sectors of our economy grow and thrive. These sectors include tourism, financial services, construction, agriculture and fisheries, transport, communications and industry. Where appropriate, fiscal provision is made to encourage these sectors. It is particularly important to be alert to implementing initiatives to encourage the development of Bahamian entrepreneurs. Consequently, in this Budget I am providing for a Venture Capital Fund to encourage Bahamian entrepreneurs with start-up capital. The intention is to enable young Bahamian entrepreneurs to have access to equity capital, rather than debt, in the initial exploitation of their business ideas. This means

that in the early stages of the development of their businesses they will not have to be concerned with heavy, perhaps crippling, debt repayments. Instead, the Venture Capital Fund will take up small equity positions, and as the businesses expand, the equity can be purchased by the entrepreneurs or sold to others with their agreement. The proceeds from the sales can then be used to build up the Fund so that it can assist the next wave of entrepreneurs.

Full details of the Fund will be announced at an early date.

In addition to the Venture Capital Fund, I will bring together under the Ministry of Finance the various loan guarantee programmes. The Ministry will also closely coordinate the strategies of the Bahamas Development Bank and of the Bahamas Agricultural and Industrial Corporation in encouraging entrepreneurial development of Bahamians. In this connection it is also worthy of note that as each new Heads of Agreement is negotiated for major resort or industrial undertakings, my Government is placing special emphasis on initiatives and strategies to

provide increased entrepreneurial opportunities for Bahamians. As an example, we confidently expect that the increase in meetings and conventions business resulting from the implementation in 2006 of the US tax exemption for American corporate groups in The Bahamas, will create a whole new range of lucrative opportunities for Bahamian entrepreneurs in support services, transportation, tours, special events, entertainment, and souvenirs and handicrafts.

I have briefly outlined our fiscal priorities. I am sure that the Bahamian public appreciates that while each priority is of equal weight, an appropriate balance must be maintained in allocating the increasing flows of resources between them in the coming years. This will involve some degree of patience because not everything can be achieved or accomplished in one single fiscal year. The overarching consideration, however, is that all of these priorities will be steadily and concurrently addressed as the flow of budgetary resources intensifies, not from increases in taxation, but rather from the strengthening of the

economy arising from this Government's policies and from firmer and more efficient revenue administration.

Economic outlook

Looking more closely at recent economic developments, after the global slowdown in 2001 and 2002, world GDP is projected by the International Monetary Fund to grow by 4.6% and 4.4% in 2004 and 2005. In view of the importance of the US economy to The Bahamas, the projected acceleration of growth to 3.5% in 2004 and 3.9% in 2005 is a welcome forecast. The American economic recovery holds the greatest promise for continued growth and recovery of The Bahamas' tourism sector. As in other major industrial countries, the US growth momentum is being driven by the sizeable tax cuts, tax refunds and lower interest rates evident since 2002, which have stimulated increased business and household expenditure. Increased spending by the Federal Government on the military and Homeland Security are also fueling the US expansion.

In the case of The Bahamas, real GDP is estimated to

grow by 3% or higher in 2004, depending on when the major works at Atlantis come on stream. Moreover, there is every reason to expect that this growth rate of 3% or higher could be maintained for a number of years. As the economy expands, with inflows from tourism and investment, the present constraints on credit creation will be eased. This will enable the private sector to expand further intensifying the recovery of the economy.

This may be an appropriate juncture, Mr. Speaker, to mention that at this time our external reserves stand at just under \$600million, representing the highest level that has ever been attained. This is partly due to the US\$200million Bond issued last year but it is also due to the large capital inflows which are now being experienced and forecast in the short term. The strength of the reserves obviously present choices to the Central Bank which under existing legislation is uniquely independent. The Central Bank could either relax the existing tight credit controls, and thereby make credit more readily available, or the Central Bank could reduce its Prime Rate

thereby signaling a reduction in borrowing costs. In either case, the Central Bank would be facilitating the expansion of the economy by making more bank credit available, or by making bank credit available at lower interest rates, to business customers, households and personal borrowers. The Central Bank, I am confident, has both of these options under active consideration.

MR. SPEAKER,

Notwithstanding the decidedly improved prospects of economic recovery which provide the backdrop to the Budget Communication this year, there continues to be some need for caution in view of the geo-political uncertainties affecting the oil-producing areas of the Middle East, and the possibility of inflationary pressures which could result in early increases in interest rates. The most recent indications, however, are that these uncertainties will have diminishing implications as growth becomes firmly entrenched. Indeed, there is one factor working strongly to our advantage, and that is, the sizeable depreciation in the value of the United States

dollar that has occurred since 2002, as a result of the expanding, record-level federal budget deficit and shortfalls on the US trade account. As these imbalances persist, the dollar is expected to remain weak in the year ahead, making dollar priced vacation destinations such as The Bahamas more affordable for people from North America, Europe and Asia.

Major Sectors

TOURISM

MR. SPEAKER,

Looking at the primary sector of our economy, tourism, we are doing very well indeed. All areas of The Bahamas experienced good tourism business in 2003. Overall tourist arrivals grew by 4.5% from 4,378,697 to 4,577,756 visitors. Despite the clouds of uncertainty and instability that loomed over international developments in 2003, Nassau and Paradise Island experienced increases in both stopovers and cruise visitors – almost 70,000 more cruise visitors and 15,000 more stopovers.

Similarly, cruise visitors to Grand Bahama Island grew by 3.9% in 2003 and growth in cruise arrivals continued unabated in the Family Islands – growing another 7.9% to bring total cruise arrivals to 1,738,001 in 2003. This performance was easily matched by stopover arrivals in our Family Islands, which grew by 5.7%. Even better, I invite you to note the growth in visitor nights at a rate of almost three times the growth in stopovers. This was stimulated mostly by increases in visitors from France, Germany and Italy. This significant growth in Family Island visitor nights was also fueled from the United States by long stay visitors primarily out of West Palm Beach, Miami and Orlando into the Abacos. Hotel room revenue increased in The Bahamas by 3.7% in 2003, largely driven by improved performance of Nassau and Paradise Island properties. Average daily room rates in all three destination areas showed an increase last year over 2002.

Thus far in 2004, MR. SPEAKER, The Bahamas has experienced an excellent first quarter. Arrivals grew by

13.2% from 1.230million in 2003 to 1.392million in 2004. Grand Bahama Island has led the way with a 46.6% increase in arrivals from 152,541 to 223,639. The majority of this increase came from a 91.3% jump in cruise visitors to Grand Bahama from 51,519 cruise visitors to 98,541. There were almost 10,000 more air arrivals over the same period in 2003, as Grand Bahama hotels started to enjoy the benefit of their marketing efforts.

Elsewhere, there was a 22.3% increase in air arrivals to the Family Islands driven by Abaco, Bimini, Eleuthera and Exuma. Cruise visitors continued to grow to Nassau and Paradise Island with an 18.1% increase in cruise port activity.

In Nassau and Paradise Island the increase of about 10,000 more air arrivals translated into a substantial increase in total business for the 14 larger hotels. This activity supported a 76.6% occupancy level compared to 71.2% for the first quarter 2003 that along with an average daily room rate of \$202 produced a 7.6% increase

in hotel room revenue. This first quarter is being driven by substantial increase in the US markets, which were up 12.2% or some 41,000 more stopovers, Canada, which were up 18.7% or some 4,300 more stopovers, and the UK, which were up 16% or some 1,400 more stopovers.

It is estimated that income earned from tourism rose in 2003, placing it above that realized in 2000. Indeed, it is fair to conclude that the adverse events of 2001 are no longer constraining factors in the tourism sectors performance. We expect to see more of the growth in increased stopover visitors and higher hotel occupancy rates.

FINANCIAL SERVICES

MR. SPEAKER,

The Financial Services Sector is now firmly established on a foundation that can only carry us from strength to strength. Today I can say that the growth of the Financial Services Sector is firmly on course and is giving every sign of vigorous resurgence. The formation

of the Ministry of Financial Services and Investments is paying significant dividends. The Bahamas is indisputably seen once again as a blue chip, well regulated international financial center.

Unprecedented levels of cooperation and consultation with the private sector, which have been acknowledged by the international community, has not only led to a jointly agreed Strategic Plan but also to all of the new legislation passed by Parliament of special relevance to the sector – some 10 separate pieces of legislation which, in their totality, make The Bahamas a considerably more appealing financial center.

The following developments within or affecting the financial services industry of The Bahamas call for special mention:

- 1. The international agencies by whom we are regulated all have confirmed that there are no “burning issues” with The Bahamas.**

2. The major banks and trust companies doing business in The Bahamas have indicated that The Bahamas is their leading jurisdiction in this hemisphere for private wealth management business.

3. Most institutions doing business in The Bahamas have indicated their intention to not only stay but to expand their operations in The Bahamas.

4. Institutions are moving their business to The Bahamas from other jurisdictions. International intermediaries and service providers are also increasingly using The Bahamas as a jurisdiction that has complete solutions for their clients' needs.

The financial sector continues to be the second most important pillar of our economy. Current estimates place the sector's contribution at between 15 to 20 percent of GDP. Banking sector figures, which are representative of current income potential, suggest that average salaries in the sector rose further last year, to the mid to upper \$40,000 range. Nevertheless, total expenditures by banks

in the economy stabilized at just under \$400 million, as higher administrative outlays offset the reduction in salary outlays and capital investments. These short-term adjustments in the banking sector correspond generally to global trends in mergers and acquisitions among banks.

MR. SPEAKER,

Work is also progressing on schedule with The Bahamas' Payments System Modernization Initiative. By the end of this summer a new real time gross payments settlement system will be in operation among commercial banks and the Central Bank. It will permit automated, real time, settlement of large value and time critical payments among banks, and will also be available to process such transactions for the public and private sectors. Test operations of this modern infrastructure began on May 17, 2004.

The clearing banks and the Central Bank are also advancing plans to establish an automated clearing house to process checks and other small value payments within The Bahamas, which could be operational by the first

quarter of 2005. This will allow private enterprises to accelerate the introduction of electronic point-of-sales technologies and to pursue e-commerce, both of which involve the capacity to process Bahamian dollar payments. As the two largest originators of small-value payments, it is expected that the Government and the National Insurance Board will be the largest users of this retail payments network to, among other things, effect direct payment transfers to and from private individuals and enterprises. A modernized payments infrastructure will reduce, and in some cases eliminate, certain financial risks in the Bahamian economy, and result in more efficient management of the financial affairs of those segments of the public and private sectors which use the system.

OTHER SECTORS OF THE ECONOMY

In this Communication I have concentrated on the two major sectors in the interests of conciseness. Individual Ministers responsible for economic sectors will

address matters relevant to them in more detail in their budget presentations.

I would like to make a final comment in this section of the Communication. It is of vital importance for government to have access to accurate, comprehensive and up-to-date economic and social statistics for the purposes of policy formulation and monitoring. Furthermore, the international organisations such as the IMF, and the major Rating Agencies such as Moodys and Standards and Poor expect a country as advanced as The Bahamas to be able to provide such economic data as a matter of routine. High quality economic statistics will also be expected in the context of negotiations to join the WTO. The Department of Statistics does a fine job, but in light of the increasing importance attached to the publication of quality economic statistics, it is desirable to have the system of producing the data, and the recent national accounts data prepared by the Department, reviewed by agencies with the necessary expertise in this area such as the IMF and the UN. We have already had

some technical assistance from the IMF which brought to light improvements which could be made in the process of preparing national accounts data and in the data itself. We are now moving ahead urgently with obtaining further technical assistance both short-term and long-term, to ensure that our system of producing national accounts data meets the highest international standards as expected of a country as advanced as The Bahamas.

Free Trade Area of the Americas, World Trade Organisation and Caribbean Single Market Economy

At this time, it would appear that the discussions on the Free Trade Area of the Americas have ground to a halt, and it is not clear when there will be forward momentum. In the case of the World Trade Organisation, The Bahamas is moving forward with its application for membership. As regards the Caribbean Single Market Economy, discussions are taking place to determine if a modus can be found whereby The Bahamas could participate without surrendering vital national concerns such as could arise from the free movement of labour. In this regard, we

remain acutely conscious of the need for extreme caution because of the severe socio-economic dislocation that would inevitably result from any unconditional adherence to the free-movement-of-labour principle. The Minister concerned will brief Parliament during the course of the budget debate on these issues. At this time I would simply like to say that this Government will make no binding commitments of any kind without first consulting with this Honourable House, with the Bahamian public and with stakeholders who could be affected in any way by such commitments.

2003/04 Fiscal performance

Successive governments have targeted the GFS Deficit as the key indicator of fiscal prudence. The GFS Deficit is calculated as total government expenditure less debt repayments, minus recurrent revenue and capital revenue excluding borrowings. It indicates the impact of the Budget on Government Debt. The targeting of this indicator is reassuring to the international financial institutions.

In recent years, as a result of the downturn in the global economy in the year 2000 followed by the terrorism and geopolitical events in the following years, the GFS Deficit had deteriorated to 4.1% in 2001/02, 3.5% in 2002/03, and is projected to be 2.9% in 2003/04. This is clearly a significant improvement over the previous years, demonstrating this Government's commitment to economic and fiscal prudence. No-one needs reminding that economic and fiscal prudence are the reasons why we have a stable exchange rate and a relatively low level of taxation.

In 2003/04 the Government aimed to reduce this Deficit to 2.2%, but the continuing weakness of the global economy resulted in revenue targets not being attainable. In that regard, I would like to mention two specific revenue issues.

Firstly, the 2003/04 Budget envisaged the introduction of a Flight Information Region, FIR, to cover Bahamian airspace. The Bahamian air traffic control system could then be enabled to collect significant fees of

between \$40million and \$50million, and these fees would be primarily utilized to develop and upgrade airports in The Bahamas. The US authorities, who presently manage our airspace, had no objection in principle to the proposal, but were concerned with the implications for Homeland Security. Following constructive discussions with the US authorities it was agreed that instead of implementing our FIR, the US would continue to manage our airspace on security grounds. The appropriate fees collected by the US authorities will be provided to the Bahamian authorities, and in this way the Government's intentions will be realized. The fact that the project did not proceed in 2003/04 because of the external complications to which I have referred inevitably reduced revenue.

Secondly, it had been envisaged that the Bahamas Telecommunications Company, BTC - formerly Batelco - would be privatized in time for the proceeds to be brought to account in the 2003/04 fiscal accounts. Offers were reviewed by the BTC Tenders Commission comprising officials of the Ministry of Finance, Office of the Attorney

General, Central Bank, representatives of the Board, management and unions of BTC, and of the private sector. After careful and painstaking analysis by the BTC Tenders Commission, with the involvement of foreign experts, the unanimous recommendation of the BTC Tenders Commission was that none of the offers met the specified requirements. Among other things, the offers involved complex financial transactions – under which the investors would recover their investment by using BTC to borrow funds to repay them, and by extracting maximum dividends from BTC. In no instance was there clear and convincing prospects for modernizing and upgrading BTC to a state-of-the-art level to provide world class telecommunications services throughout our archipelago. The Government accepted the Commission’s recommendation to terminate the privatization process. The Commission also unanimously recommended that international experts be commissioned to assist BTC in reaching the state-of-the-art target within a two to three year period, and this recommendation is now being

reviewed by Government. Again, the termination of the privatization process had repercussions for the public finances.

I hasten to add, Mr. Speaker, that the recent termination of the privatization process does not mean that my Government has abandoned the privatization of BTC. On the contrary, the privatisation of BTC remains an important item of my Government's economic agenda. Accordingly, the privatization will be re-launched as soon as circumstances reasonably allow and on a basis, moreover, that will take adequate account of the lessons that were learned in the earlier process.

2004/05 Fiscal programme

MR. SPEAKER,

Turning to the 2004/05 fiscal programme, my Government is targeting a GFS Deficit of about the same level as in 2003/04, namely 2.9%, but with increased revenues this will facilitate a higher level of expenditure on infrastructure and social services.

Recurrent Revenue

In relation to revenue, we expect strong growth in the economy which will generate a 5% increase in Recurrent Revenue over the 2003/04 Budget level. This is an increase of \$132million or 14% over the 2003/04 projected outturn which was less than the Budget Estimates for the reasons outlined. We are making a small number of adjustments to existing sources of revenue to provide \$27.3million, and we intend to dispose of the Radisson Hotel and obtain a net \$10million for the Treasury. Thus, we are increasing the dividends from BTC and BEC, by \$11million, and Bank Licence Fees will provide an additional \$3.5million. In addition, the Stamp Act will be extensively amended to reduce the losses resulting from the numerous avoidance schemes that are currently in vogue in commercial transactions and in relation to the sale of land. The plugging of these loopholes will be accompanied by a broadened range of coercive measures and a more stringent penal regime to discourage and punish evasion and other forms of tax fraud in relation to stamp duty collection. The draft

amendments to give effect to these measures will be laid before Honourable Members very shortly. These amendments are projected to realize an additional \$10million.

Until Recurrent Revenues recover, as we expect will occur during the course of 2004/05, the scope for fiscal concessions is limited. However, I am removing Customs Duties and Stamp Duty on Imports from building materials for use by the private schools so as to enable them to maintain standards. I am also eliminating Customs Duties on all musical instruments so as to assist professional musicians, and the many bands formed by young people or in which young people participate. I am also eliminating Customs Duties on ink and certain other materials required for computers as part of the ongoing programme to encourage computerization. Finally, I am adding bath soap to the bread basket items.

Recurrent Expenditure

In relation to Recurrent Expenditure side, we are providing for \$1176million, which is an increase of

\$114million or about 11% over the 2003/04 Budget. Some \$31million of this increase is required for debt service, and \$83million will be for Recurrent Services.

Ministers in their contributions to the Budget Debate will deal in depth with the progress envisaged in 2004/05 in relation to the matters falling within their respective portfolios. I do not propose to address these areas of expenditure in any detail but I would stress that priority is being given to education and training. I will summarise the main features in the following terms.

Excluding debt service, Recurrent Expenditure in 2004/05 will be \$954million. Some \$428million of this, or almost 45% will be spent on the social sector including education and training, health, housing, social services, and youth development. Further amounts will be provided by the private sector, especially new hotel investments, in the form of training grants, on-the-job training and related benefits.

This expenditure also includes provision for the start of the Youth Service Programme which is being supported

by the Inter-American Development Bank. This is a programme which could be of fundamental importance in reaching out to vulnerable young people and assist them in gaining focus for their talents and ambitions.

This expenditure also includes provision for special education needs. It is said that the quality of life of a society can be gauged by the degree of compassion which it demonstrates to the weak and the vulnerable in its midst. Certainly in The Bahamas we cherish those with disabilities and will do everything possible to enable them to enjoy a full and meaningful life.

Almost 20% will be spent on national security, including police, defence, judicial and legal affairs. Bearing in mind the need to upgrade security at ports and airports, for which a facility fee will be chargeable, the amount which will be spent on national security will increase significantly as soon as the facility fee is put in place. Furthermore, in relation to real estate development in more remote areas, it is the intention to insist, in the context of negotiated Heads of Agreement, that such

investments also provide security services. If such services have to be provided by the police, the developers will be expected to make a reasonable contribution to the cost.

Some \$65million will be spent on infrastructure, including works and transport. These are the maintenance costs as the major infrastructure projects are in the Capital Budget.

Some \$100million will be spent on the economic services, including tourism, trade and agriculture and fisheries.

Finally, \$173million will be spent on administrative services such as foreign affairs, public service, finance and local government.

I wish to draw particular attention to the provision of \$500,000 on consultancy services for, amongst other things, planning the development of Clifton Cay National Park. There is also provision of \$1million for interest payments on the Bonds which will be issued for the purchase of the Park pursuant to the legislation that

recently received the approval of this Honourable House. These provisions are in the Estimates for the Office of the Prime Minister. The consultancy will provide an outline of how the Park should be developed and laid out so as to maximize public benefit from the Park. In this regard, it is envisaged that the Park would provide a facility which would be of enjoyment to Bahamians as well as an attractive enhancement to the cultural experience of our visitors. Proper development of the Park would provide for revenue-generating facilities which would assist in retiring the Bonds. I take the opportunity to assure Honourable Members and the public at large that my Government intends to consult closely with interested organizations and persons before the Park is created so that the design and functionality of the Park and its ancillary support structures and services will meet the widest possible acceptance.

MR. SPEAKER,

A particular feature of Recurrent Expenditure is that a significant proportion of it is dedicated to salaries and

related expenditures. This is inevitable since most essential public services in our nation contain a high human resource element. As a society we value the human resources which underpin these services whether it be in the form of nurses, doctors, teachers, Police officers, Defence Force personnel, Customs and Immigration officers or the other professional, administrative and technical staff who constitute the other limbs of the Public Service. In addition, there are the many thousands of volunteers who contribute to our society in myriad ways and who do not feature in any budget.

On this occasion I wish to pay tribute not only to the very many dedicated public servants who assist in the governance of our country, but also to those who provide voluntary services without reward and frequently without public recognition of any kind. The Bahamas needs many more such dedicated and committed and unselfish people. The spirit of volunteerism is a necessary ingredient of national upliftment. It is patriotism in its finest form. Nowhere is this spirit more evident than in the many

commissions that my Government has appointed since we assumed office in May, 2002. These Commissions are methodically assisting in the transformation of the way we govern and in the way that we go about the crystallization of vital policies for the political, economic, educational, social, and cultural development of our nation. I promised the Bahamian people a new “Age of Transformation”. The results of this paradigm shift may not always be obvious to all, but rest assured that that shift is now irreversibly in progress and that the Age of Transformation is already beginning to bear fruit.

Capital Expenditure

MR. SPEAKER:

I turn now to an overview of Capital Expenditure for the 2004/05 fiscal period. We are providing for \$148million but it is important to bear in mind that we are endeavouring to encourage private sector “buy-in” to many of our programmes. This means that a significant proportion of total expenditure on social transformation will be provided by the private sector. As in the case of

Recurrent Expenditure, I will outline the main features and the principles which the Government took into account in formulating the Capital Estimates. My Ministers, however, will put the flesh on the bones, so to speak, when they make their respective contributions to the Budget Debate.

The principles on which the Government based its strategy in formulating the Capital Estimates are that full and adequate provision must be made for:-

- urban renewal and social regeneration throughout The Bahamas,**
- the maintenance, modernization, and expansion of infrastructure essential to social and economic development throughout The Bahamas, and**
- the provision of sufficient capital to enable the uniformed services to carry out their responsibilities.**

These principles are obvious in the specific allocations being made.

The Urban Renewal Programme, of which I spoke

earlier, encapsulates my Government's commitment to social regeneration. Similarly, my Government's policy decision to press ahead with critical improvements to Nassau Airport and the major airports in the Family Islands is emblematic of my Government's commitment to physical regeneration.

In the case of Nassau International Airport, the major works commissioned do not appear in the Budget because this work is the responsibility of the Airport Authority and will be financed by user fees. In due course, a similar approach will be applied to the major airports in the Family Islands.

Fiscal Deficit

On the basis of Recurrent Expenditure of \$1176million, and Capital Expenditure of \$148million, Total Expenditure will be \$1324million. Recurrent Revenue will be \$1052million and Capital Revenue, excluding borrowings, will be \$11million, giving Total Revenue of \$1063million. Subtracting Total Revenue from Total Expenditure leaves a balance of \$261million. Debt

Redemption of \$97million must be subtracted from this figure to calculate the GFS Deficit because Debt Redemption does not go into the calculation of the GFS Deficit. The GFS Deficit is, therefore, \$164million which is 2.9% of projected GDP of \$5630million. This Deficit of 2.9% is about the same as the projected outturn for 2003/04. This level of Deficit is reasonable in view of the fact that the economy is on the threshold of expanding, and, therefore, it would not make sense to deflate the economy at this time. Moreover, if the process of reviewing the national accounts data leads to substantial increases in the GDP data, the actual level of GFS Deficit could be considerably lower.

Thus, our commitment to fiscal prudence is undiminished. We are still targeting a lower GFS Deficit than that realized in the years 2001/02 and 2002/03. In 2001/02, under the previous administration, the GFS Deficit reached 4.1% and in 2002/03, which because of the May, 2002, General Election, was also in large part the fiscal policy of the previous administration, the GFS

Deficit reached 3.5%. As our strategy to reflate the economy gathers momentum, we should be able to eliminate the GFS Deficit in a definite manner.

In this context of fiscal stabilization, I want to also stress that the major international organizations now endorse the emphasis being placed, not only on fiscal adjustment, but also on social development which is the ultimate purpose of democratic government.

Revenue modernization

MR. SPEAKER,

We must continue to upgrade and modernize the existing revenue system. That is why, at present, the major emphasis is on formulating and implementing measures to strengthen revenue administration. In addition to the strengthening of our Stamp Duty collection system that I mentioned earlier, a new Trade Information Management System is being installed in the Customs Department which, using the latest information technology, will enable the Customs authorities to facilitate legitimate trade while providing tools for

identification and control over areas where there is actual or serious risk of revenue leakage.

It is of crucial importance that all taxpayers meet their just obligations in a timely manner. The taxes levied in The Bahamas are in accordance with laws passed by this legislature, and the monies raised are required to meet essential expenditures which are also approved by this legislature. We have an open and transparent budgetary system and the purposes of taxation are known. Therefore, it is incumbent on every responsible taxpayer to honour his or her tax obligations in a timely manner.

CONCLUSION

MR. SPEAKER,

The Special Olympics were held last year in Ireland, and the Bahamian team captivated the hearts of everyone they met. It was a wonderful occasion for our Special athletes.

This year the Olympic Games will be held in Athens, Greece, and every Bahamian looks forward to Bahamian athletes performing to the highest standards. Some 2,500

years ago, Athens, the capital of modern Greece, was home to the very first democracy the world had seen. Pericles was one of the greatest statesmen of this ancient democratic Athens. In one of the most famous speeches in history, Pericles said:-

“Athenians were the first to establish a democracy believing the liberty of all to be the strongest source of harmony; by sharing with each other the hopes that arose from their shared dangers they had freedom of soul in their civic life. They used the law for honouring the good and punishing the evil. For they thought that it was the way of the wild beasts to be ruled by one another by force, but that men should decide justice by law, to convince by reason, and to serve these two in act by submitting to the sovereignty of law and the instruction of reason.”

These words are timeless and the only words which we would add to them, would be to express our belief in our own democratic society, and in the Divine Inspiration that is so central to our values, our beliefs and our destiny.

In his last recorded speech, Pericles is believed to have said that the characteristics required of a political leader are:-

“To know what must be done and to be able to explain it; to love one’s country and to be incorruptible.”

My Government is committed to exemplifying those values and honouring that pledge. Since entering office in May, 2002, my Government has worked tirelessly to explain our goals and the steps which we are taking to achieve these goals. Our goals are clear-cut and unambiguous, and they are being pursued, only after the most extensive consultative process ever instituted in the history of our country. Simply stated our goals are to:-

- maximise the job creation potential of the Bahamian economy by strengthening the key sectors of the economy and encouraging the highest possible levels of employment-generating investment,**
- accelerate the social advancement and inclusion of all members of Bahamian society,**

- **ensure that every major settlement in The Bahamas participates in national prosperity and advancement,**
- **raise standards of delivery of public services so as to get the best possible value for the taxpayers dollar while providing a motivating framework for dedicated public servants, and**
- **commit to govern with integrity, compassion, and dedication in the interests of The Bahamas.**

I have repeatedly emphasised in this Budget, the importance which my Government attaches to job creation, and job security. I have stressed our commitment in every instance to the requirement for investors to provide training of Bahamians. And I have made plain in word and deed our concern to transform urban areas of The Bahamas into safe, secure and flourishing neighbourhoods. The 2004/05 Budget, and the economic prospects on which it is based, represents yet another landmark in my Government's commitment to the interests of the Bahamian people.

With that, Mr. Speaker, I have the honour to

**commend the 2004/05 Budget to the deliberations of this
Honourable House.**

Table I. Growth of the Bahamian Economy 1995 - 2005

	1995	1996	1997	1998	1999	2000	2001	2002	2003*	2004*	2005*
GDP(Current Prices) (\$Millions)	3500	3700	3840	4200	4570	4920	4920	5060	5240	5510	5780
Growth-Current Prices(%)	2.4	5.6	3.8	4.3	7.2	6.5	0.0	2.7	3.6	5.1	5.0
Growth-Constant Prices(%)	0.3	4.2	3.3	3.0	5.9	4.9	-2.0	0.7	1.9	3.0	3.0
Prices (%)	2.1	1.4	0.5	1.3 (a)	1.3 (a)	1.6	2.0	2.0	1.7	2.1	2.0

Source: IMF Article IV Mission 2003.

* Ministry of Finance estimates and discussions with IMF

(a) GDP deflator is higher in those years.

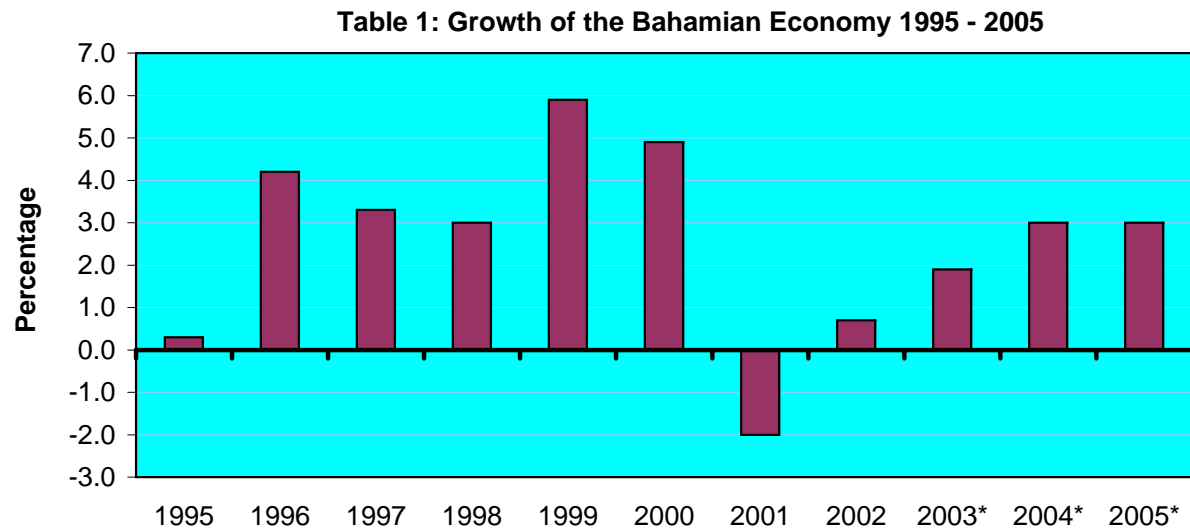


Table II - Budget Performance
\$millions

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04 Budget	2003/04 Projected Outturn	2004/05 Budget
1. Recurrent Expenditure	630	656	704	778	808	837	866	930	986	1023	1062	1040	1176
2. Recurrent Revenue	617	650	672	698	780	822	943	973	875	902	1005	920	1052
3. Recurrent Deficit (1 minus 2)	13	6	32	80	28	15	83	43	111	121	57	120	124
4. Capital Expenditure	68	100	92	140	117	124	139	133	138	127	145	115	148
5. Capital Revenue	1	12	5	3	1	0	0	1	0	0	3	0	11
6. Capital Deficit (4 minus 5)	67	88	87	137	116	124	139	132	138	127	142	115	137
7. TOTAL DEFICIT (3 plus 6)	80	94	119	217	144	139	56	89	249	248	199	235	261
8. Debt Redemption	69	65	80	84	79	74	41	75	85	60	77	80	97
9. GFS Deficit (7 minus 8)	11	29	39	133	65	65	15	14	164	188	122	155	164
10. GDP (current prices)	3375	3465	3600	3840	4085	4380	4750	4915	5000	5130	5365	5360	5630
11. GFS Deficit as % of GDP	0.3	0.8	1.1	3.5	1.6	1.5	0.3	0.3	3.3	3.7	2.3	2.9	2.9

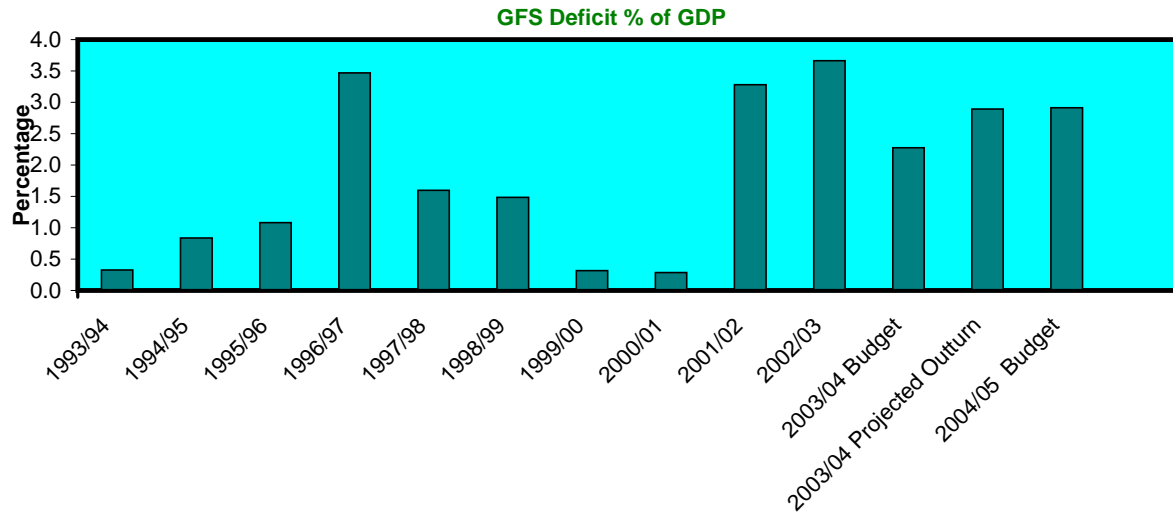
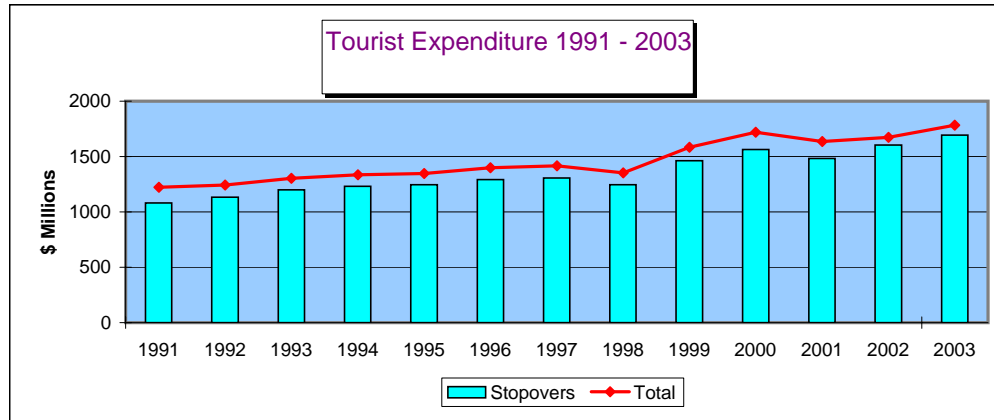
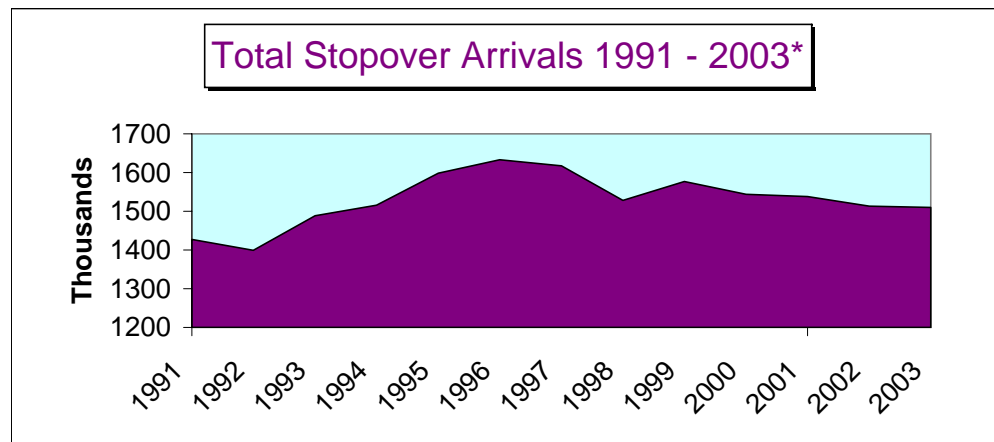


Table III. Tourist Expenditure and Arrivals 1991 - 2003

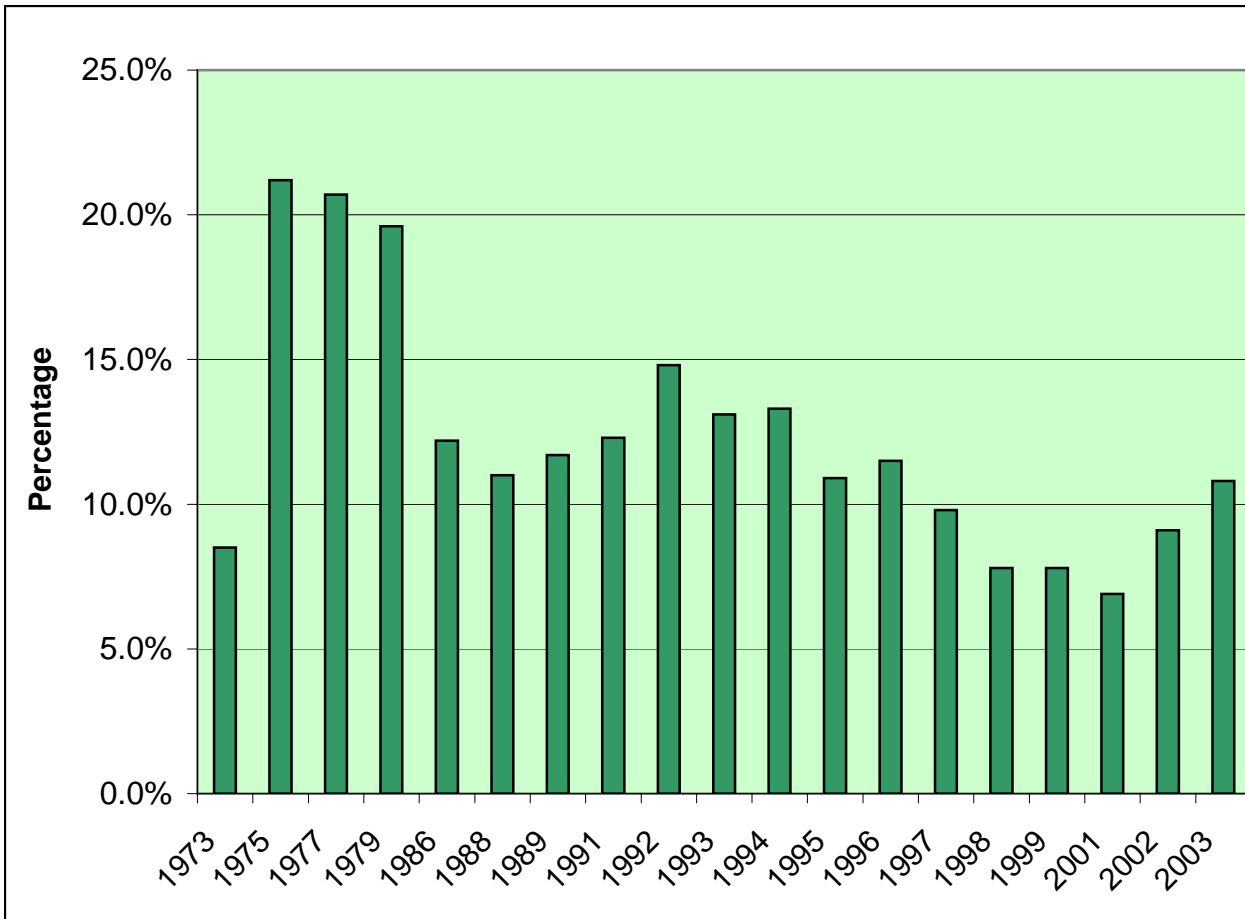


*Source: Central Bank and Ministry of Tourism



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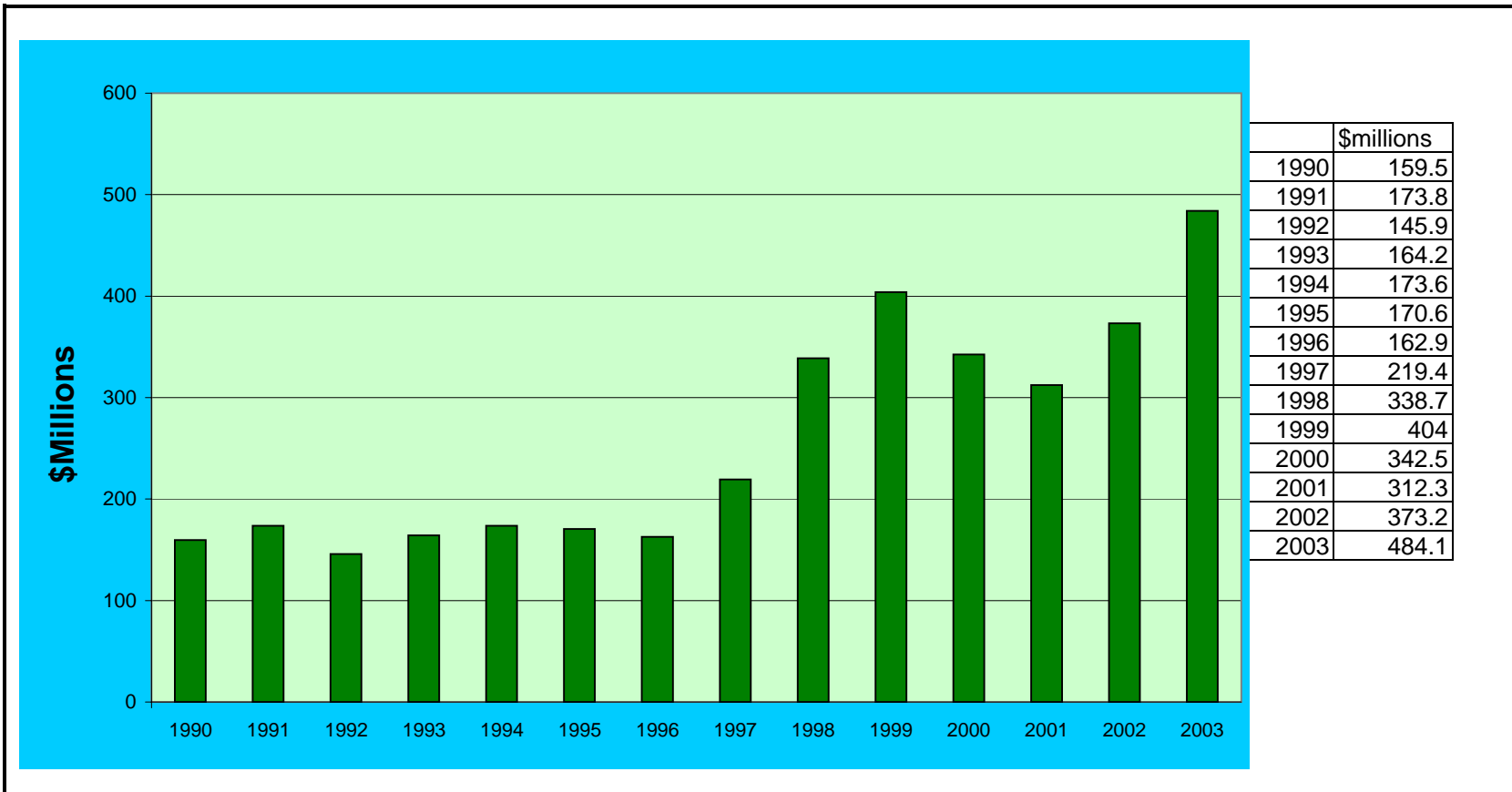
Table IV. Unemployment Rates 1973-2003



	%
1973	8.5%
1975	21.2%
1977	20.7%
1979	19.6%
1986	12.2%
1988	11.0%
1989	11.7%
1991	12.3%
1992	14.8%
1993	13.1%
1994	13.3%
1995	10.9%
1996	11.5%
1997	9.8%
1998	7.8%
1999	7.8%
2001	6.9%
2002	9.1%
2003	10.8%

Source: Department of Statistics

Table V Total External Reserves 1990 - 2003



Source: Central Bank Quarterly Statistical Digest, 2004

Table VII Growth of the Bahamian and US Economy 1996 - 2005

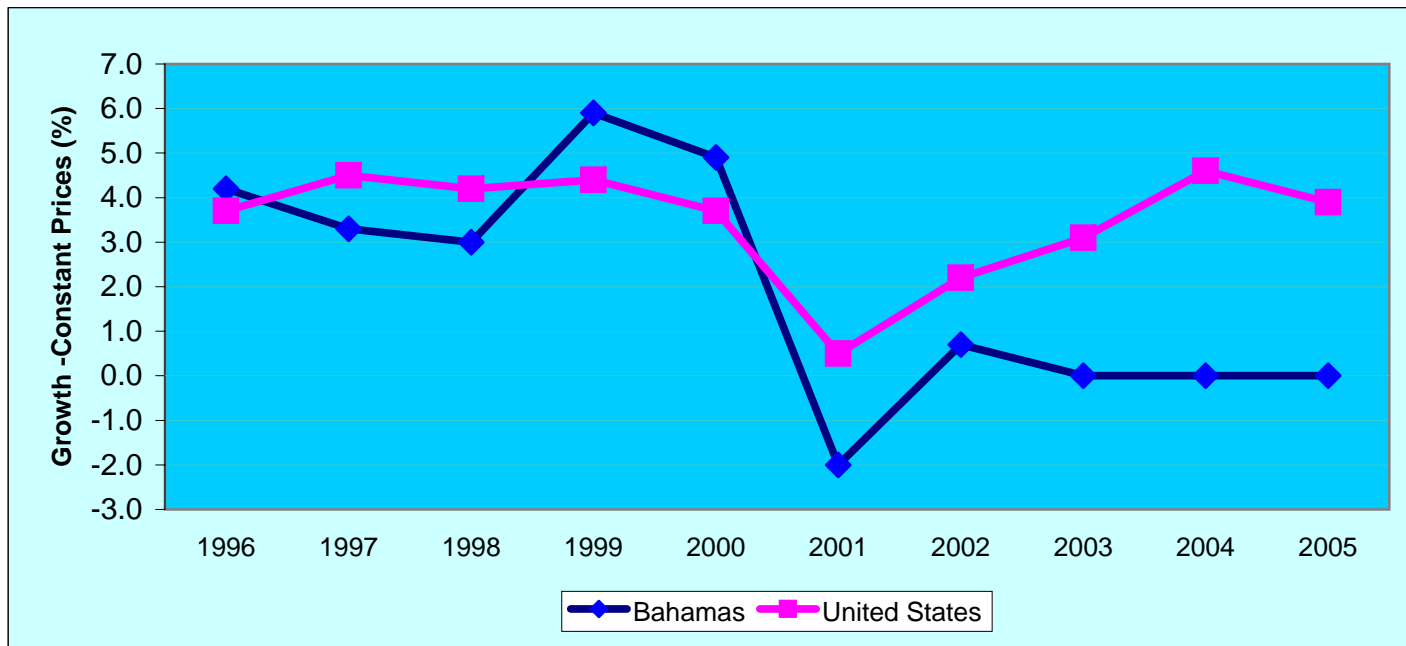


Table VI. National Debt

\$ millions	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
(1) Direct Charge	1,065	1,136	1,166	1,235	1,377	1,431	1,513	1,514	1,604	1,806	1,940
(2) Government Guaranteed Debt	346	343	329	314	332	349	374	365	359	402	426
(3) National Debt(1+2)	1,410	1,479	1,495	1,549	1,708	1,780	1,887	1,879	1,963	2,208	2,366
GDP(\$millions)	3325	3425	3500	3700	3840	4200	4570	4920	4920	5060	5240
As % of GDP											
(1) Direct Charge	32%	33%	33%	33%	36%	34%	33%	31%	33%	36%	37%
(2) Government Guaranteed Debt	10%	10%	9%	8%	9%	8%	8%	7%	7%	8%	8%
(3) National Debt(1+2)	42%	43%	43%	42%	44%	42%	41%	38%	40%	44%	45%

National Debt

Year	(1) Direct Charge	(2) Government Guaranteed Debt	(3) National Debt(1+2)
1993	1,065	346	1,410
1994	1,136	343	1,479
1995	1,166	329	1,495
1996	1,235	314	1,549
1997	1,377	332	1,708
1998	1,431	349	1,780
1999	1,513	374	1,887
2000	1,514	365	1,879
2001	1,604	359	1,963
2002	1,806	402	2,208
2003	1,940	426	2,366

As % of GDP

Year	(1) Direct Charge	(2) Government Guaranteed Debt	(3) National Debt(1+2)
1993	32%	10%	42%
1994	33%	10%	43%
1995	33%	9%	43%
1996	33%	8%	42%
1997	36%	9%	44%
1998	34%	8%	42%
1999	33%	8%	41%
2000	31%	7%	38%
2001	33%	7%	40%
2002	36%	8%	44%
2003	37%	8%	45%

Source: Central Bank Quarterly Statistical Digest February 2004