

1999 Country Reports on Economic Policy and Trade Practices

Released by the Bureau of Economic and Business Affairs

U.S. Department of State, March 2000

THE BAHAMAS

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999	
<i>Income, Production and Employment:</i>				
GDP (Current Prices)	4,000	4,250	4,515	1/
Real GDP Growth	3.0	4.0	4.8	1/
<i>GDP by Sector (Percent of Total):</i>				
Tourism	60	60	60	
Finance	12	15	15	
Manufacturing	3	3	3	
Agriculture/Fisheries	3	3	3	
Government	12	12	12	
Other	10	7	7	
Per Capita GDP (US\$)	N/A	14,267	N/A	
Labor Force (000s)	N/A	156,000	N/A	
Unemployment Rate (pct)	9.7	7.9	7.8	1/
<i>Money and Prices (annual percent change):</i>				
Money Supply (M2) (pct increase)	10.7	15.3	8.5	2/
Commercial Interest Rate (pct)	6.75	6.75	6.00	
Personal Savings Rate	3.35	3.28	2.97	
Retail Price Index	0.9	0.8	1.2	
Exchange (US\$:B\$)	1.00	1.00	1.00	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	N/A	N/A	N/A	
Exports to U.S. 3/	153.4	143.9	128.8	
Total Imports CIF	1331.6	1371.4	N/A	
Imports from U.S. 3/	789.6	774.5	499.5	3/
Trade Balance	-1227.8	-1373.1	-572.8	2/
Balance with U.S. 3/	-644.1	-461.1	-370.7	
External Public Debt	90.7	89.5	100.0	2/
Debt Repayment	68.4	84.0	72.5	
Gold Reserves	N/A	N/A	N/A	
Foreign Exchange Reserves	219.5	323.0	476.0	2/

Aid from U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A

1/ Finance Ministry projection.

2/ As of August 1999.

3/ U.S. Department of Commerce.

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based primarily on tourism and financial services, which account for approximately 60 percent and 15 percent of GDP respectively. The agricultural and industrial sectors, while small, continue to be the focus of government efforts to produce new jobs and diversify the economy.

Hurricane Floyd, the worst storm to hit The Bahamas this century in terms of financial costs, swept through a number of Bahamian islands on September 14 leaving a path of destruction. The government estimated that damages from Hurricane Floyd would cost more than \$700 million. The damages to government utilities alone is over \$80 million, restoration of roads, sea walls, bridges and docks will cost \$30 million, and repairs to government buildings will total another \$3.5 million. Losses in the tourism industry are calculated at \$70 million, not including the loss of salaries for hundreds of workers in the Family Islands laid off as a result of damages to tourist facilities. The farming industry suffered losses totaling \$33.3 million, and the fishing sector \$10.5 million. In addition, insurance claims including those for second homes and tourist-related businesses is expected to reach \$400 million.

The United States remains The Bahamas' major trading partner. U.S. exports to The Bahamas went from \$789.6 million in 1997 to \$774.5 in 1998 and account for approximately 65 percent of all imports. Although certain areas of economic activity are reserved for Bahamian citizens, the Bahamian government actively encourages foreign investment in unreserved areas and operates a free trade zone on Grand Bahama. Capital and profits are freely repatriated, and the Bahamian government does not tax personal and corporate income. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The Bahamian government continues to follow the policy implemented in the 1995-1996 budget in which the annual amount of new borrowings would be no greater than the amount of debt redemption. The 1999-2000 budget totaled \$1.02 billion. Government outlays for education, health, social benefits and services, housing and other social services accounted for the majority of the Government's total expenditure. Debt service accounted for a substantial portion, \$113.5 million or 12.6 percent of the recurrent expenditure. Again, the budget emphasized the government's resolve to expand the delivery of priority services, while moving closer to eliminating the deficit on recurrent expenditure by 2001. As a result, the government's focus remains on expenditure restraint, with anticipated revenue increases from economic growth and more efficient revenue collection rather than tax increases.

Recurrent revenue for 1999-2000 is projected to increase to \$914 million, comprising \$814.5 million in tax receipts and \$81.1 million in non-tax income. A further \$4.0 million is expected in capital revenue and \$1.0 million in grants. The Budget also implements revenue enhancement measures, which take timely advantage of the buoyancy of the economy to raise additional revenue of over \$30 million.

Before Hurricane Floyd, the Bahamian government predicted a growth rate of 5 percent for fiscal year 1999/2000. Prime Minister Ingraham announced that although he expects revenues to decline as a result of the hurricane, he did not expect the overall growth rate to change.

The 1999-2000 budget contained some new taxes including:

A two- percent increase in the hotel occupancy tax; a large increase in all immigration fees (for example work permit fees for top corporate managers would rise from \$7,500 to \$10,000 per year;

A two- percent increase in the stamp duty on real estate valued at more than \$250,000;

A 10 percent increase in duty on imported cars valued at more than \$25,000 (raising the charge – including stamp tax - to 82 percent);

An increase in excise tax on domestic beer production from \$3 to \$4 per gallon.

These tax hikes will go a long way to offset increases in spending and bring down the country's nearly \$2 billion debt (almost 60 percent of the GDP). But higher taxes in the new budget do not close the budget deficit. The projected \$914 million in Government revenues falls short of the planned expenditures of nearly one billion dollars. The government levies no income tax relying instead on import duties and other transaction and consumption fees to finance the vast majority of government spending.

In 1998, the Bahamian government eliminated customs duties for computer software, discs and computer tapes, farming pesticides, jewelry manufacturing items and various medical items, which also benefited from a reduction in stamp levies from 7 percent to 2 percent. In addition, the customs tariff was lowered on chicken, combination TV and radio appliances, combination TV and VCR appliances, and golf carts. The 1999-2000 budget cut tariff rates on imported video and audio tapes and discs from 65 to 15 percent. This move, which comes on the heels of a government decision to begin enforcement of its new Copyright Law, will help lower the cost of legitimate videos and encourage local video retailers to evolve away from pirated products. Since Hurricane Floyd in September, the government waived import duties on building materials and household supplies for persons who suffered damages from the storm.

The government believes that the move toward hemispheric free trade by the year 2005 will involve restructuring its revenue sources. As part of its overall strategy to simplify and harmonize customs import duties, the government consolidated the current 123 separate import duty rates to 29 rates as of July 1, 1997. Rates will also be reduced or eliminated on a variety of imported goods, ranging from construction materials (nails, cement, sheet rock, plywood, etc.) to computers and computer parts, musical instruments and consumer electronic appliances. The government hopes to recover these lost revenues through increased collection enforcement, reduced administrative costs, increased business generation and enhanced local purchasing.

Commercial banks lowered the prime lending rate from 6.75 to 6.00 percent in September.

2. Exchange Rate Policy

The Bahamian dollar is pegged to the U.S. dollar at an exchange rate of 1:1, and the Bahamian government is committed to maintaining parity.

3. Structural Policy

Price controls exist on 13 breadbasket items, as well as on gasoline, utility rates, public transportation, automobiles, and automobile parts. The rate of inflation is estimated at 1.2 percent as of June 1999.

The Bahamas is recognized internationally as a tax haven. The government does not impose personal or corporate income, inheritance or sales taxes. In addition, the government lowered taxes and reduced the stamp duty on various tourism related items including: liqueurs and spirits, jewelry and watches, perfumes, toilet water, table linens, non-leather designer handbags, and cigarettes. The government hoped these measures would have increased the country's competitive edge in the tourism sector. The intended results of these incentives have not yet been realized because the downtown area was not able to consistently attract enough

tourists, especially cruise ship passengers. The Ministry of Tourism has recently implemented a “Bahamian Nights” program in which stores and restaurants in the downtown area stay open late three nights a week and offer incentives to lure tourists downtown. These concessions should safeguard employment in retail trade catering to tourists and promote price competitiveness of goods in the Bahamian market.

Certain goods may be imported conditionally on a temporary basis against a security bond or deposit that is refundable upon re-exportation. These include: fine jewelry, goods for business meetings or conventions, traveling salesman samples, automobiles or motorcycles, photographic and cinematographic equipment, and equipment or tools for repair work.

In 1993 the Bahamian government repealed the Immovable Property (Acquisition by Foreign Persons) Act, which required foreigners to obtain approval from the Foreign Investment Board before purchasing real property in the country, and replaced it with the Foreign Persons (Landholding) Act. Under the new law, approval is automatically granted for non-Bahamians to purchase residential property of less than five acres on any single island in The Bahamas, except where the property constitutes over fifty percent of the land area of a cay (small island) or involves ownership of an airport or marina. The government has now decided to discontinue sales of islands to foreigners to allay concerns by locals that too much Bahamian land is sold to foreigners. Prime Minister Ingraham announced in Parliament on June 16 that during his government’s seven-year term, land sales to foreigners amounted to two billion dollars. Ingraham said that the treasury’s accrued revenue on residential sales alone was US\$ 43 million.

Foreign persons are still eligible for a two-year real property tax exemption if they acquire undeveloped land in The Bahamas provided that substantial development occurs during the first two years of the purchase. The property tax structure for foreign property owners is as follows:

\$1 - \$3,000 - the standard tax is \$30.00.

\$3,001 - \$100,000 - tax is 1 percent of the assessed value.

Over \$100,000 - tax is 1 1/2 percent of the assessed value.

This has stimulated the second home/vacation home market and revived the real estate sector. In addition, the government lowered the rate of stamp duty on real estate transactions in 1995. The stamp duty reduction ranges from two percent on transactions under \$20,000 to eight percent on transactions over \$100,000.

The government also receives revenues from a \$15 per person airport and harbor departure tax.

Although The Bahamas encourages foreign investment, the government reserves certain businesses exclusively for Bahamians, including restaurants, most construction projects, most retail outlets, and small hotels. Other categories of businesses are eligible solely as joint ventures.

The government has announced plans to privatize and deregulate The Bahamas Telecommunication Corporation (Batelco) in early 2000 and other public utilities sometime thereafter. It has published new legislation outlining the creation of a telecommunications regulatory authority for public comment and plans to formally introduce the legislation in Parliament on December 1.

On April 30, 1998 Prime Minister Hubert Ingraham officially launched the new Bahamas Financial Services (BFS) Board, a joint private and public sector board dedicated to promoting

The Bahamas as a financial services center. Since its inception, BFS has conducted promotional trips to the U.S. and Europe.

A Security Industries Bill has passed the legislature and authorizes a new, privately operated stock market. The legislation envisions a two-tier exchange with one market for foreign investors and companies. The Securities Commission, the regulating body for the stock exchange, is currently in the process of locating experts to provide the technical expertise and support needed to open the stock exchange. Two consultant firms will be hired, one to create and assist the stock exchange and the other to assist the Securities Commission. Although the government planned to have the stock market running by the end of the year, Minister of Finance William Allen says that the stock market will not be operational until the necessary framework is in place.

The Bahamas Investment Authority, a “one-stop shop” for foreign investment, was established in 1992, comprising the Bahamas Agricultural and Industrial Corporation and the Financial Services Secretariat. The Authority facilitates and coordinates local and international investment and provides overall guidance to the government on all aspects of investment policy.

Other measures providing trade and investment incentives include:

The International Business Companies Act - simplifying procedures and reducing costs for incorporating companies.

The Industries Encouragement Act - providing duty exemption on machinery, equipment, and raw materials used for manufacturing.

The Hotel Encouragement Act - granting refunds of duty on materials, equipment, and furniture required in construction or furnishing of hotels.

The Agricultural Manufacturers Act - providing exemption for farmers from duties on agricultural imports and machinery necessary for food production.

The Spirit and Beer Manufacturers Act - granting duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in production.

The Tariff Act - granting one-time relief from duties on imports of selected products deemed to be of national interest.

The Hawksbill Creek Agreement of 1954 granted certain tax and duty exemptions on business license fees, real property taxes, and duties on building materials and supplies in the town of Freeport on Grand Bahama Island. In July 1993, the government enacted legislation extending most Hawksbill Creek tax and duty exemptions through 2054, while withdrawing exemptions on real property tax for foreign individuals and corporations. The Prime Minister declared, however, that property tax exemptions might still be granted to particular investors on a case-by-case basis.

The Casino Taxation Act was amended in October 1995 to allow for the establishment of small-scale casinos through the reduction of the basic tax and winnings tax rates for casinos of less than 10,000 square feet. The basic tax was reduced from \$200,000 to \$50,000 for casinos with floor space of less than 5,000 square feet. The tax rises to \$100,000 for casinos of 5,000-10,000 square feet. Unlike the winnings tax rate for traditional casinos (25 percent of the first \$20 million), small casinos pay a progressive winnings tax rate of 10 percent on the first \$10 million of gross winnings, and 15 percent thereafter.

4. Debt Management Policies

From the end of 1992 to mid-1999, the total national debt has grown from \$1.3 billion to \$1.7 billion. The government's deficit financing plan included a net borrowing of \$69.1 million, with debt amortization significantly lower by 72.8 percent at \$34.4 million. Within this context, the direct charge on government is likely to rise correspondingly to an estimated \$1.5 billion by end-June 2000, and the National Debt to settle moderately above \$1.8 billion.

5. Significant Barriers to U.S. Exports

The Bahamas is a \$700 million plus market for U.S. companies. There are no significant non-duty barriers to the import of U.S. goods, although a substantial duty applies to most imports. Deviations from the average duty rate often reflect policies aimed at import substitution. Tariffs on items produced locally are at a rate designed to provide protection to local industries. The Ministry of Agriculture occasionally issues temporary bans on the import of certain agricultural products when it determines that a sufficient supply of locally grown items exists. The government's quality standards for imported goods are similar to those of the United States.

The Ministry of Agriculture restricted banana imports in October 1995, in trying to create a monopoly for locally grown bananas. The restrictions have been extended to include other varieties of produce for which the Ministry determines that demand can be met by local farmers (e.g. Christmas poinsettias, romaine lettuce, yellow squash, and zucchini). In June 1996, the Ministry announced a ban on the importation of fruits, vegetables, flowers, plants or other propagate materials from Caribbean countries unless the Department of Agriculture is assured that the country is free of the pink (or hibiscus) mealy bug. Shipments must be accompanied by a phytosanitary certificate issued by the Ministry of Agriculture in the country of origin. The Ministry continues to enforce its ban on imports of citrus plants and fruit from Florida, instated in 1995 because of reported outbreaks of canker disease. Imports of citrus plants are permitted from states other than Florida.

6. Export Subsidies Policies

The Bahamian government does not provide direct subsidies to export-oriented industries although state-owned companies. The Export Manufacturing Industries Encouragement Act provides exemptions from duty for raw materials, machinery, and equipment to approved export manufacturers. The approved goods are not subject to any export tax.

7. Protection of U.S. Intellectual Property

The Bahamas is a member of the World Intellectual Property Organization (WIPO) and a party to the Paris Convention on industrial property and the Berne Convention on copyright (older versions for some articles of the latter are used). It is also a member of the Universal Copyright Convention. Parliament has passed a new copyright law, which is intended to provide better protection to international holders of copyrights. However, the government has not yet brought this law into force.

Copyrights: The majority of videos available for rent are the result of unauthorized copying of videotapes from promotional tapes provided by movie distributors, U.S. hotel "pay-for-view" movies and shows, or satellite transmissions. It is doubtful that pirated videotapes are exported. Since video retailers complained that it is too expensive to import original video tapes, the government reduced the import duty for imported video and audio tapes and discs to encourage them to evolve away from pirated products. In May, 1997 the government passed a

bill to amend the Copyright Act to provide for payment of equitable royalties to copyright owners (particularly Bahamian musicians) for works broadcast on radio and television. In September 1997, a local radio station was ordered to pay copyright damages to The Performing Rights Society of London for failing to enter a defense in an action accusing the station of breach of copyright laws.

8. *Workers Rights*

a. Right of Association: The constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. Right to Organize and Bargain Collectively: Workers are free to organize, and collective bargaining is extensive for the estimated 25 percent of the work force that are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. In addition, the government established the Industrial Tribunal in 1997 to handle labor disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor is prohibited by the Constitution and does not exist in practice.

d. Minimum Age for Employment of Children: While there are no laws prohibiting the employment of children below a certain age, compulsory education for children up to the age of 16 years and high unemployment rates among adult workers effectively discourage child employment. Nevertheless, some children sell newspapers along major thoroughfares and work at grocery stores and gasoline stations, generally after school hours. Children are not employed to do industrial work in The Bahamas.

e. Acceptable Conditions of Work: The Fair Labor Standards Act limits the regular workweek to 48 hours and provides for at least one 24-hour rest period. The Act requires overtime payment (time and a half) for hours in excess of the standard. The Act permits the formation of a wages council to determine a minimum wage. To date no such council has been established. However, in 1996 the government instituted a minimum wage of \$4.12 an hour for non-salaried public service employees. The Parliament is considering a new minimum labor standards act, which will cover employees in both the public and private sectors. This act contains new guarantees of employees rights to paid vacations, sick leave, redundancy payments and protection against unfair dismissal.

The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make on-site visits to enforce occupational health and safety standards and investigate employee concerns and complaints. The Ministry normally announces these inspections ahead of time. Employers generally cooperate with the inspections in implementing safety standards. A 1988 law provides for maternity leave and the right to re-employment after childbirth. Workers rights legislation applies equally to all sectors of the economy.

f. Rights in Sectors with U.S. Investment: Authorities enforce labor laws and regulations uniformly for all sectors and throughout the economy, including within the export processing zones.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad
on an Historical Cost Basis -- 1998**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	58
Total Manufacturing	81
Food & Kindred Products	0
Chemicals & Allied Products	(1)
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	-3
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	(1)
Wholesale Trade	150
Banking	-1,585
Finance/Insurance/Real Estate	1,401
Services	131
Other Industries	50
TOTAL ALL INDUSTRIES	287

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.