

## 2001 Country Reports on Economic Policy and Trade Practices

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### THE BAHAMAS

#### Key Economic Indicators

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

	1999	2000	2001	1/
<i>Income, Production and Employment</i>				
Nominal GDP (Current Prices)	4575	4920	5170	
Real GDP Growth (pct)	6.0	5.0	3.5	
GDP by Sector (Estimated pct)				
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\$)	15,004	15,850	16,361	
Labor Force (000s)	156,000	157,640	N/A	
Unemployment Rate (pct)	7.8	7.0	7.8	
<i>Money and Prices (Annual Percentage Growth):</i>				
Money Supply (M2) (% Increase)	12.3	8.4	N/A	
Commercial Interest Rate (Percent)	6.75	6.00	N/A	
Personal Savings Rate	3.28	2.71	2.70	
Consumer Price Inflation/2	1.3	1.6	1.5	
Exchange Rate (US\$/B\$ - annual average)	1.00	1.00	1.00	
<i>Balance of Payments and Trade</i>				
Total Exports (FOB)	428.1	766.1	N/A	
Exports to United States/3	335.9	485.6	148.6	
Total Imports (CIF)	1907.1	2275.8	N/A	
Imports from United States /3	1671.6	1991.2	535.8	
Trade Balance	-1249.3	-1346.0	N/A	
Balance with United States	-646.7	-753.8	N/A	
External Public Debt	106.5	115.9	N/A	
Fiscal Deficit/GDP (pct)	4	3	3.4	
Gold Reserves	N/A	N/A	N/A	
Foreign Exchange Reserves	404.0	342.6	N/A	
Debt Repayment	72.5	75	90	
Aid from United States	0	100.0	252,000	
Aid from All Other Countries	N/A	N/A	N/A	

1/ Finance Ministry Projections.

2/ As of March 2001.

3/ Source: 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.

Central Bank economists had already predicted a slowdown in the Bahamian economy due to the recession in the U.S. Since the September 11 terrorist attacks in the U.S., key economic indicators in The Bahamas has declined severely. Tourism, the largest economic sector in The Bahamas, was immediately affected. Major hotels report occupancy rates as low as 15 percent, less than a quarter the normal rate for this time of year. Businesses in the tourist district report a 50 percent decrease in sales. Hotels have already announced that they are moving to a reduced workweek and furloughing some employees. The general consensus is that sizable layoffs of personnel by the hotels and many businesses dependent on the tourist trade are almost inevitable. If this downturn in tourism continues, the economic loss to The Bahamas will be enormous.

The United States remains The Bahamas' major trading partner. U.S. exports to The Bahamas went from \$842 million in 1999 to \$1026.6 million in 2000. Approximately 88 percent of its imports originate in the United States, and most Bahamian purchases of third-country exports are acquired through American distributors. According to data from the Ministry of Economic Development, the average tariff rate has fallen from 40 to 30 percent while the number of customs duty rates were reduced from 123 to 29 over the last decade. 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 Bahamas received observer status in the WTO in 2001 and declared its intent to pursue full accession. A WTO Working Party has been formed to consider Bahamian accession.

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 2001/2002 balanced budget totaled \$1035 million with no new taxes. Government outlays for education, health, social benefits and services, and national security accounted for the majority of the Government's total expenditure. Total debt service declined by \$5.2 million to \$67.8 million in 2000 which, combined with marginally increased exports of goods and non-factor services, resulted in a smaller debt service ratio of 2.8 percent relative to 3.0 percent in 1999. 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 2001-2002 is projected to increase to \$1,030 million. This represents an increase of 3.2 over the 2000/1 budget or about 4.9 percent over the projected 2000/1 outturn.

Again this year, the budget emphasized duties to promote e-commerce and development of the telecommunications infrastructure. Consequently, the Bahamian government plans to move

ahead with completing the privatization of The Bahamas Telecommunications Corporation (Batelco). The Bahamian government's policy requires that internet access is provided to all Bahamian schools free of charge and that the cost of this access will be allocated among all telecommunications providers. In order to promote this, custom duties on computer hardware, computer parts, computer paper, and cameras, including still image versions, were eliminated. In addition, the Public Utilities Commission (PUC) implemented new license fees for Internet Service Providers and a wide range of telecommunication services provided by Batelco. Some of those fees, including Internet service, public paging, specialized mobile radio trunking, and private specialized mobile radio are considered too high. Conversely, the PUC's existing radio communication license fees are substantially lower than those charged in several other countries and will be increased.

The Bahamian government has continued its policy of rationalization of Customs duties and providing relief to Bahamians where possible and reduced customs duty on a number of items including office equipment and supplies, carpet and other floor covering, some small household appliances, appliances used in medical, surgical, dental and veterinary science, some fruits and vegetables, and some vitamins.

The 1999-2000 budget cut tariff rates on imported video and audiotapes 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.

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 temporarily on chicken, and reduced on combination TV and radio appliances, combination TV and VCR appliances, and golf carts.

The government knows 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 123 separate import duty rates to 29 rates as of July 1, 1997. 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 1999, which has not changed.

## *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 2.2 percent as of June 2001.

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 results of these incentives has been slow, particularly in view of the devastating fire that destroyed a part of downtown Nassau including the straw market (a favorite tourist shopping site specializing in handicrafts and souvenirs), on September 4th. The tourism industry has also declined significantly as a result of the September 11th terrorist attacks against the United States.

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 2000 that foreign capital inflows for the decade of the 1990s went from \$84.6 million in 1990 to \$820.8 in 1999.

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; and over \$100,000, tax is 1.5 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) and other public utilities. It has also established a Public Utilities Commission to regulate local public utilities corporations.

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 Bahamian Stock Market is now up and running with 15 stocks.

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

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.

In addition, in June 2000, Sun International lost its government tax concession because it failed to proceed with its commitment to commence the 700-room Phase III of its resort complex in July 1, 2000. The Bahamian government originally granted the \$3 million tax incentive package in return for Sun's commitment to construct 1200 additional hotel rooms on Paradise Island, but part of these incentives were to be suspended if work did not begin on replacement of the old Holiday Inn and Paradise Paradise Hotels by January 2000. Sun International's Chairman and CEO Sol Kerzner said Sun had to commit all its development resources to repairing hurricane damage in 1999 and developing its Ocean Club Resort, golf course and time share

project (part of its Phase II development). Kerzner also said that the labor environment (shortage of skilled workers) and massive overspending on the project's first two phases resulted in his decision to halt Phase III. In February 2001, Sun International officially opened its new Harborside Resort of timeshare condominiums on Paradise Island and completed renovations to the Ocean Club.

#### *4. Debt Management Policies*

The National Debt comprising Government Direct Debt and Contingent Liabilities, which are the Government Guaranteed borrowings of the Public Corporations, amounted to \$1.88 billion at the end of 2000.

#### *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 still 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.

According to data from the Ministry of Economic Development, the average tariff rate in the Bahamas has fallen from 40 to 30 percent while the number of duty rates were reduced from 123 to 29 over the last decade.

The Ministry of Agriculture restricted banana imports in October 1995, as part of an effort to create a market for locally grown bananas. The restrictions have been extended to include other varieties of produce for which the Ministry determines that local farmers (e.g. Christmas poinsettias, romaine lettuce, yellow squash, and zucchini) can meet the demand. 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. 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. The law allows for compulsory licensing of encrypted signals to the local cable company, a violation of the Berne Convention. The Bahamian government has promised to amend the law to prohibit the practice.

The majority of videos available for rent are the result of unauthorized copying 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 videotapes, 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. Although these laws are fully enacted, they are still widely ignored.

## 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:* In 2001, the government passed the Employment and Protection Act, and has promised to pass a Minimum Wage Bill and a Health and Safety Bill. Two other pieces of legislation (the Trade Union and Industrial Relations and Industrial Tribunal bills) were abandoned as politically infeasible. The total package had drawn heavy criticism from both Bahamian employers and trade unions. The Minimum Wage Bill, has been criticized as going against recent IMF advice for the GCOB to increase labor productivity and control wages in order to sustain future economic growth. If enacted, the bills will give the Government the right to establish wage minimums for the private sector, shorten the work week, increase paid vacations, guarantee paid sick leave and severance pay, and grant employees new protections against unfair dismissal.

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 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 -- 2000**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	631
Total Manufacturing	(D)
Food & Kindred Products	0
Chemicals & Allied Products	(D)
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	-2
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	0
Wholesale Trade	(D)
Banking	-3,783
Finance/Insurance/Real Estate	3,507
Services	32
Other Industries	55
<b>TOTAL ALL INDUSTRIES</b>	<b>668</b>

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

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