

## THE BAHAMAS

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

### Key Economic Indicators

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

	1996	1997	1998	
<i>Income, Production and Employment:</i>				
GDP (Current Prices)	3,750	4,000	4,250	1/
Real GDP Growth	4.2	3.0	4.0	1/
GDP by Sector (Percent of Total):				
Tourism	50	60	60	
Finance	12	12	15	
Manufacturing	4	3	3	
Agriculture/Fisheries	4	3	3	
Government	12	12	12	
Other	18	10	7	
Per Capita GDP (US\$)	11,115	N/A	N/A	
Labor Force (000s)	148,000	N/A	N/A	
Unemployment Rate (pct)	10.0	9.7	N/A	
<i>Money and Prices (annual percent change):</i>				
Money Supply (M1) (pct increase)	0.6	0.14	0.7	2/
Commercial Interest Rate (pct)	6.75	6.75	6.75	
Personal Savings Rate	3.28	3.35	3.28	
Retail Price Index	1.4	0.9	0.8	
Exchange (US\$:B\$)	1.00	1.00	1.00	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB	N/A	102	N/A	
Exports to U.S. 3/	165.4	165.8	84.4	
Total Imports CIF	1261.6	1622	N/A	
Imports from U.S. 3/	725.0	809.9	545.5	
Trade Balance	-1059.9	N/A	N/A	
Balance with U.S. 3/	-559.6	-644.1	-461.1	
External Public Debt	77.0	90.7	N/A	
Debt Repayment	82.6	68.4	85.0	
Gold Reserves	N/A	N/A	N/A	
Foreign Exchange Reserves	163.0	219.5	323.0	/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 June 1998.
- 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 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.

The United States remains The Bahamas' major trading partner. U.S. exports increased from \$725 million in 1996 to \$789.6 in 1997 and account for approximately 55 percent of all imports. Although certain areas of economic activity are reserved for Bahamian citizens, the government actively encourages foreign investment in unreserved areas and operates a free trade zone on Grand Bahama. Capital and profits are freely repatriated, and personal and corporate income is not taxed. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The government enacted a policy in the 1995-1996 budget in which the annual amount of new borrowings would be no greater than the amount of debt redemption. The 1998-1999 budget totaling \$892.6 million provides for recurring expenditures of \$868 million. Overall, the budget emphasized the government's resolve to expand the delivery of priority services such as health care, education, public safety, and tourism and international services promotion, 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 collection rather than tax increases.

Recurrent revenue for 1998-1999 is projected at \$852 million. The government expects an 8.6 percent growth in tax collections, an 18.3 percent hike in non-tax receipts, a 22 percent hike in proceeds from business and professional licensing, mainly a result of fee increases for International Business Company (IBC) licenses.

The 1998-1999 budget contains no new taxes, other than provisions for an increase from \$100 to \$250 in annual fees on IBCs with an authorized share capital of up to \$50,000, and a hike in license fees for local commercial banks. The government expects these measures to yield an additional \$112.5 million in revenue.

The 1998-1999 budget 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 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, sheetrock, 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.

The commercial bank's prime lending rate remained at 6.75 percent.

## *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 recently repeated its long-standing commitment to maintain parity.

## *3. Structural Policy*

Price controls exist on 13 bread basket items, as well as gasoline, utility rates, public transportation, automobiles, and auto parts. The rate of inflation is estimated at 0.8 percent as of June 1998.

The Bahamas is recognized internationally as a tax haven. The government does not impose personal or corporate income, inheritance or sales taxes. In the 1995-1996 budget, 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, and non-leather designer handbags. The government hopes this measure will increase the country's competitive edge in the tourism sector and expects merchants to pass these savings on to tourists. These concessions should safeguard employment in retail trade catering to tourists and promote price competitiveness of goods in the Bahamian market. The rate of stamp duty on cigarettes was also lowered.

Certain goods may be imported conditionally on a temporary basis against a security bond or deposit which 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 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 new law also provides for a two-year real property tax exemption for foreign persons acquiring undeveloped land in The Bahamas for development purposes, provided that substantial development occurs during those two years. 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 new legislation 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 the 1995-1996. The reduction ranges from two percent on transactions under \$20,000 to eight percent on transactions over \$100,000.

To increase revenues, the airport departure tax was raised from \$13 to \$15 per person in 1993. The harbor departure tax was lowered from \$20 to \$15 per person effective April 1, 1992 because of protests from ship operators.

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.

On April 30, 1998 Prime Minister Hubert Ingraham officially launched the new Bahamas Financial Services Board, a joint private and public sector board dedicated to promoting The Bahamas as a financial services center.

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;

-- and, 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 the end of 1997, total national debt had grown from \$1.3 billion to \$1.67 billion, an increase of \$389 million or 30 percent. Debt amortization amounted to \$85 million, with \$47.4 million applied towards internal domestic and foreign currency obligations and \$83.6 million to external debt.

#### *5. Significant Barriers to U.S. Exports*

The Bahamas is a \$700 million 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 imposed a ban on banana imports in October 1995, creating a monopoly for locally grown bananas. The ban has 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, imposed 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 such as Bahamas Air and the Broadcasting Corporation of The Bahamas receive regular infusions of public money. 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 belongs to the World Intellectual Property Organization (WIPO) and is a signatory to the Paris Convention, Berne Convention, and the Universal Copyright Convention.

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. 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. Worker 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 who 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. 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 -- 1997**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	57
Total Manufacturing	80
Food & Kindred Products	0
Chemicals & Allied Products	71
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	-3
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	12
Wholesale Trade	164
Banking	-297
Finance/Insurance/Real Estate	1,434
Services	28
Other Industries	51
<b>TOTAL ALL INDUSTRIES</b>	<b>1515</b>

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

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