

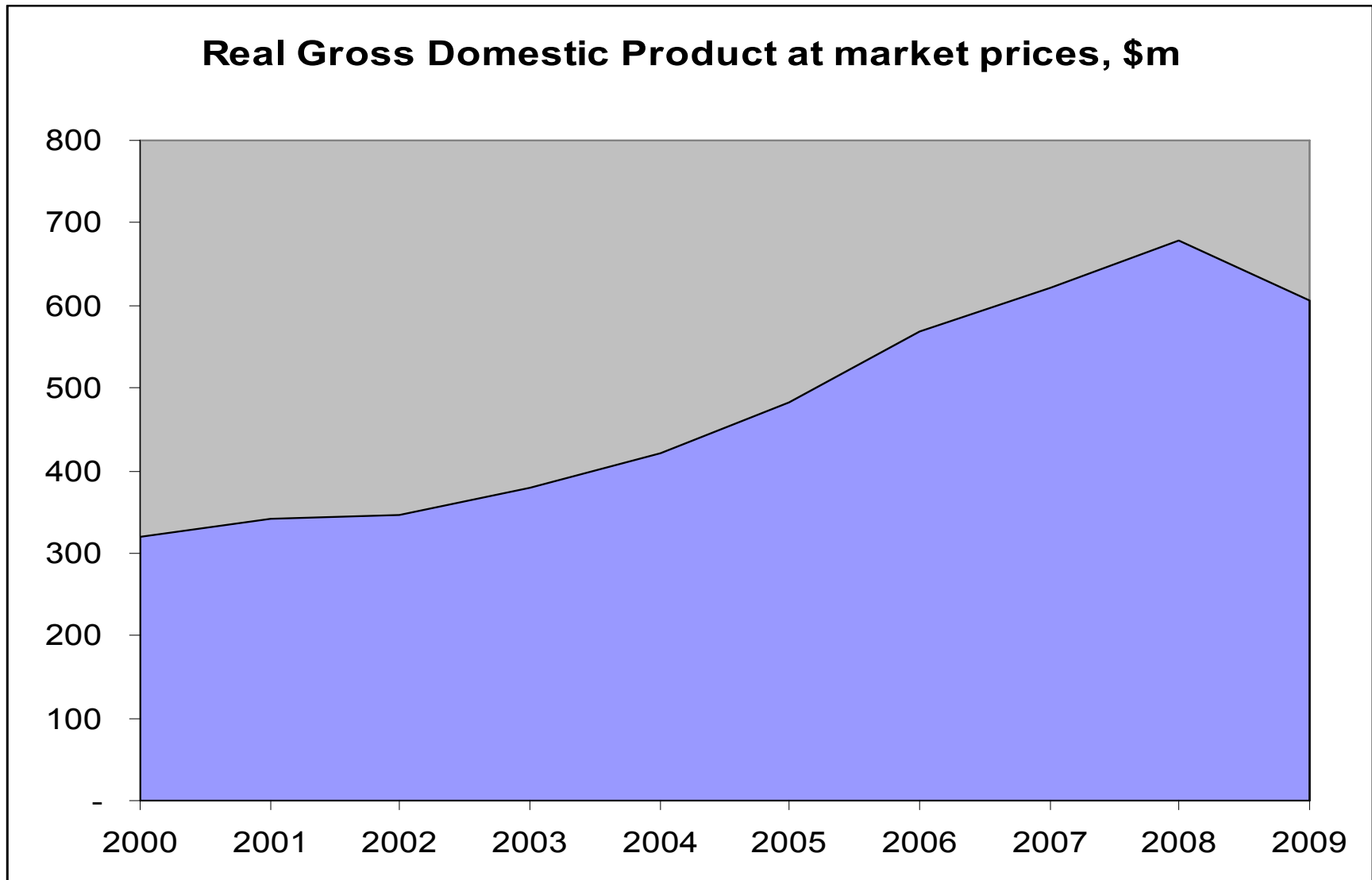
The Turks and Caicos Islands

Macro-economy and Public Finances

Based on preliminary and unvalidated data from the Ministry of Finance
and Department for Economics, Planning and Statistics

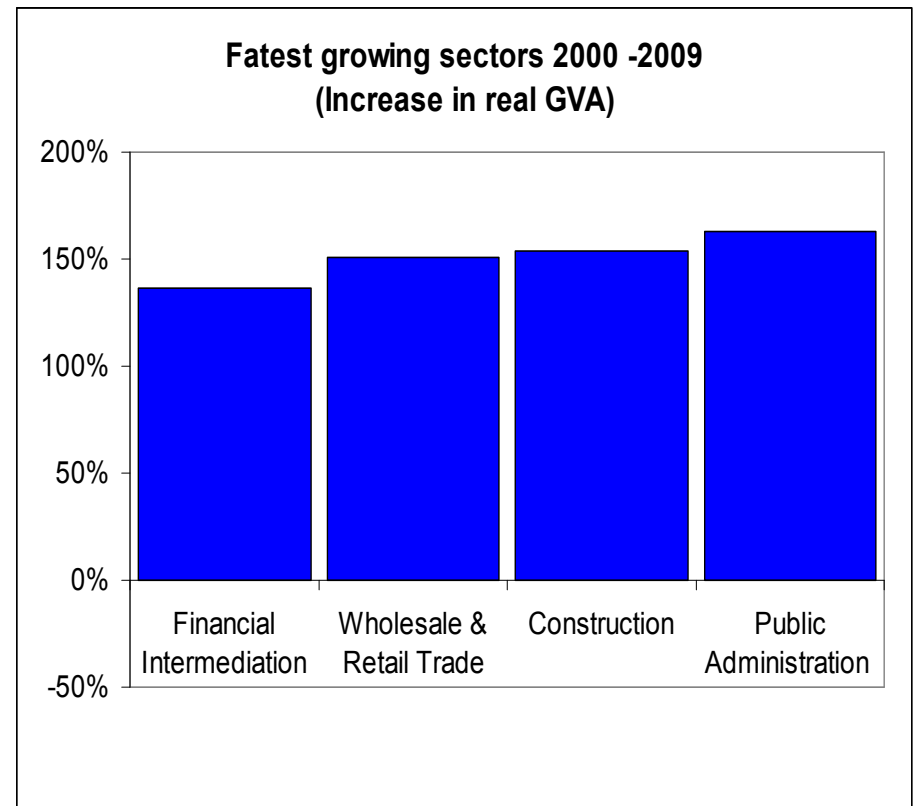
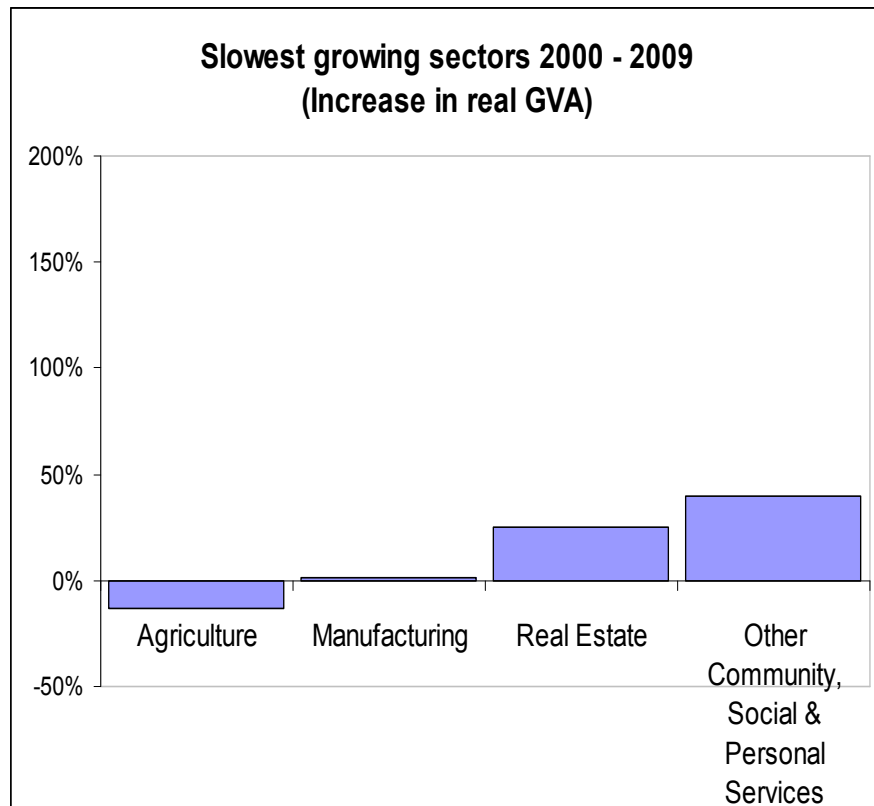
Rapid economic growth in national output

- National accounts statistics suggest the economy doubled in real terms between 2002 and 2008



But growth was neither balanced nor sustainable

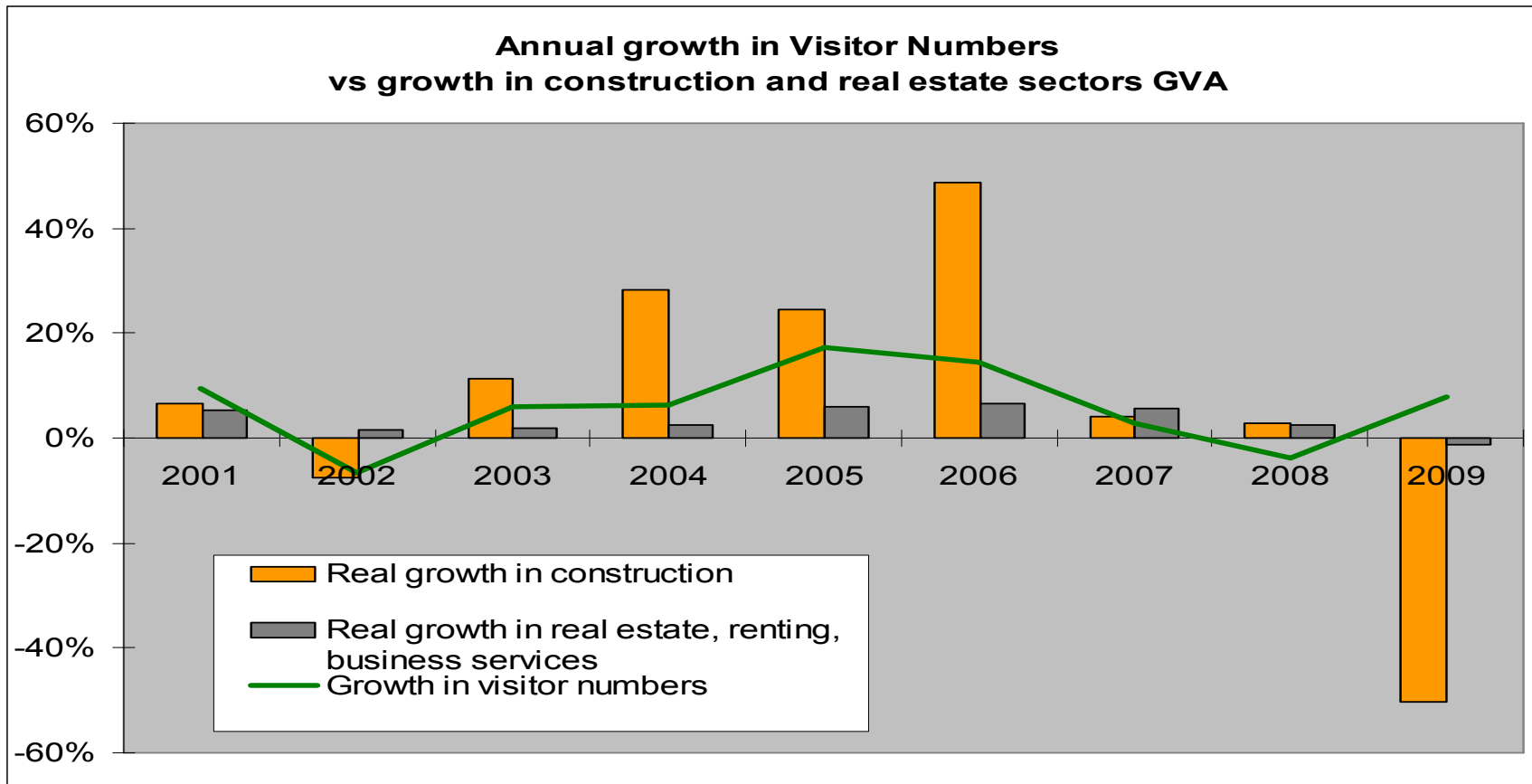
- Public administration, construction and wholesaling/retailing were the fastest growing sectors
- The construction and sale of new homes, net of imports and the profits and wages of overseas residents, make a direct contribution to GDP
- But only transactions related to the sale or use of existing homes, such as rent, commissions, inspections, conveyancing, loan fees, etc. will generate additional national income



* GVA = gross value added

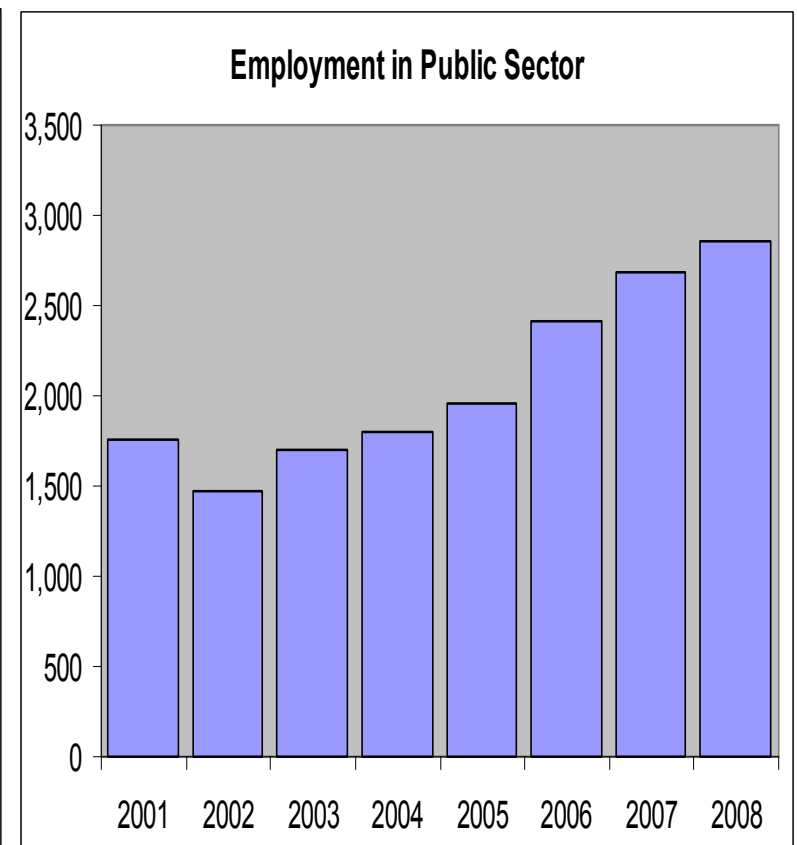
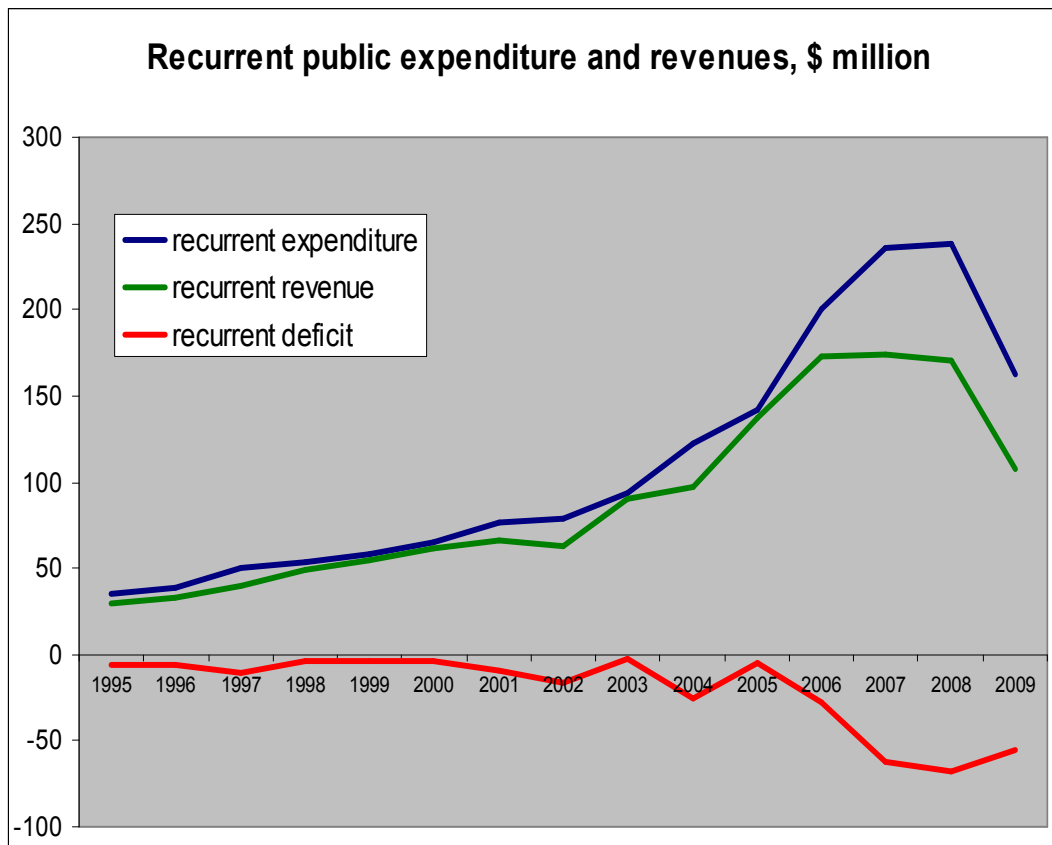
Growth in construction far outstripped growth in demand

- The property bubble, fuelled in part by tax concessions and land sales, resulted in the supply of real estate / rental accommodation principally aimed at a non-resident population, far outstripping demand during the boom
- The global asset bubble burst in 2007/8 and there is now a glut of unproductive and under-utilized assets in TCI
- Growth in (non-cruise) visitor numbers slowed from 2005, fell by only 4% in 2008, but has since recovered



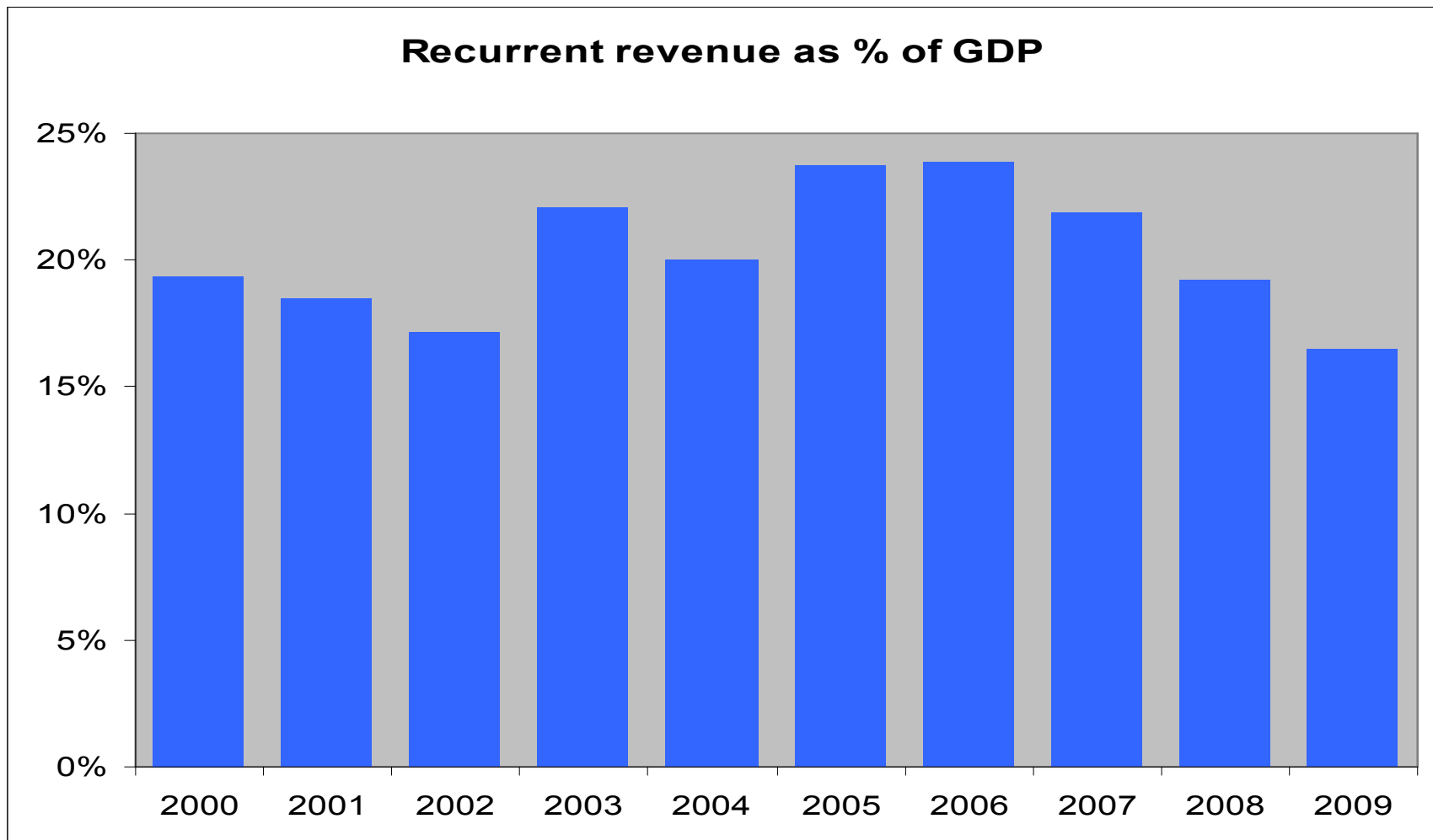
An economy and public sector that lived well beyond their means

- A narrow industrial base (65% of GDP in construction, finance, hotels and restaurants at peak)
- An unchecked expansion of public spending : a 3 fold increase between 2000 and 2007 compared to a doubling of real GDP; public sector employment almost doubled over same period
- The tax system has been unable to generate sufficient recurring revenues to cover spending
- There has been a growing structural deficit : it will continue to grow unless there are significant reforms



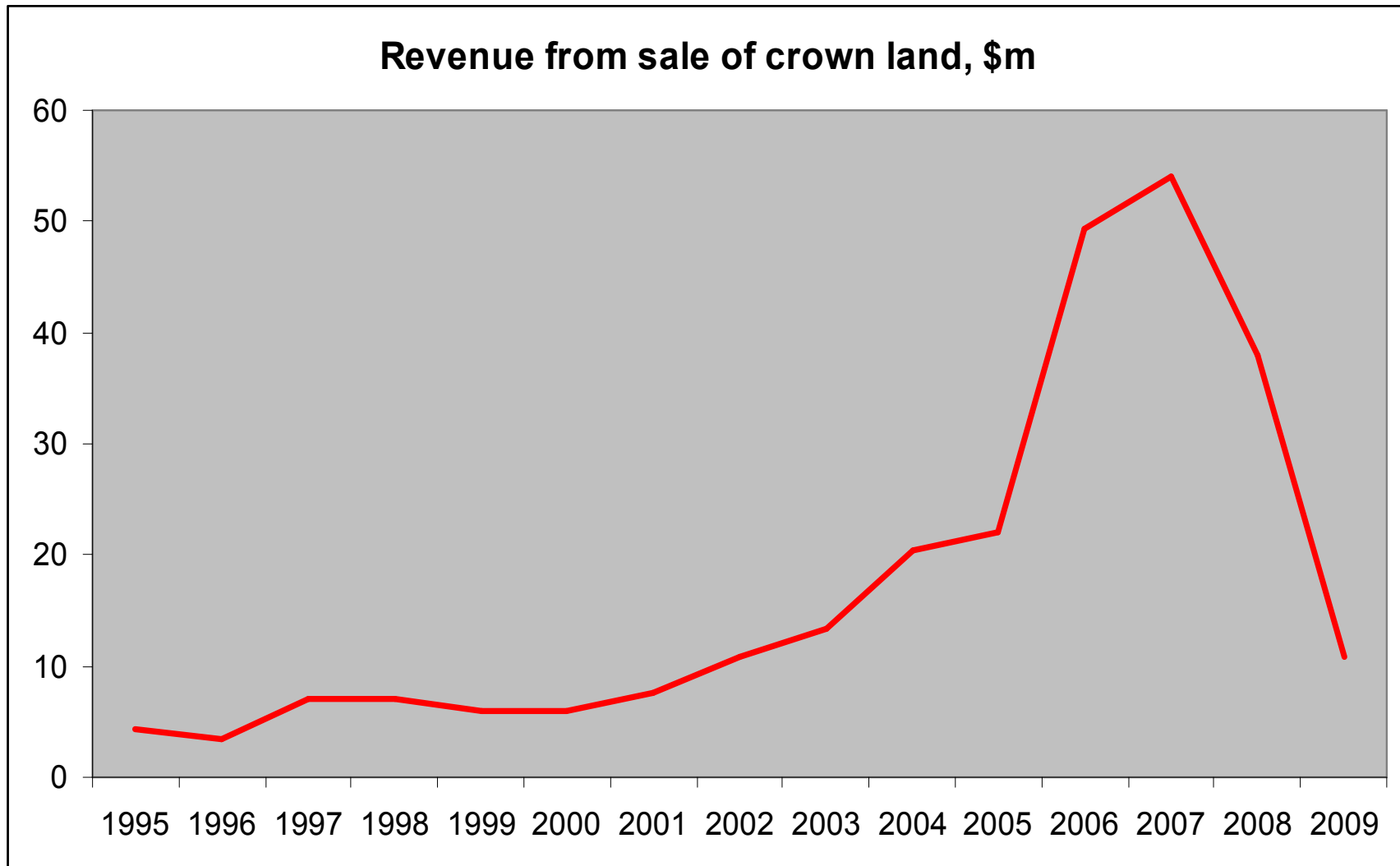
An inefficient, inequitable and poorly managed tax system

- Narrow tax base falls disproportionately on hospitality industry and on low income groups who tend to pay the most as a proportion of their incomes
- Tax base has been eroded by increasing exemptions and concessions, and poor administration



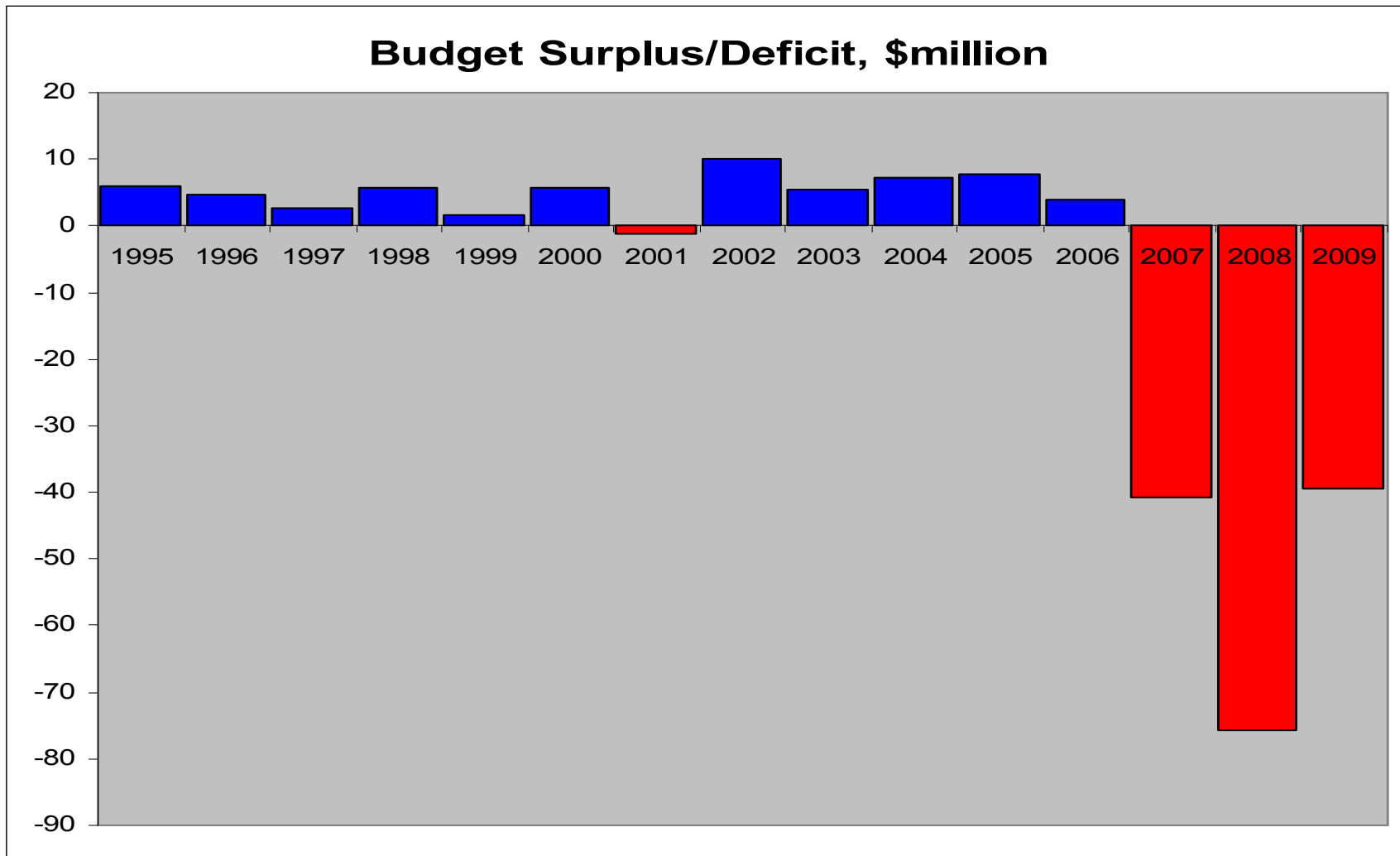
Sale of crown land masked underlying problem but cannot close gap

- Evidence of significant sales below market values



Yawning budget deficit from 2007 despite economic boom

- Significant evidence of no budgetary planning, control or monitoring of government ministries and departments during this period

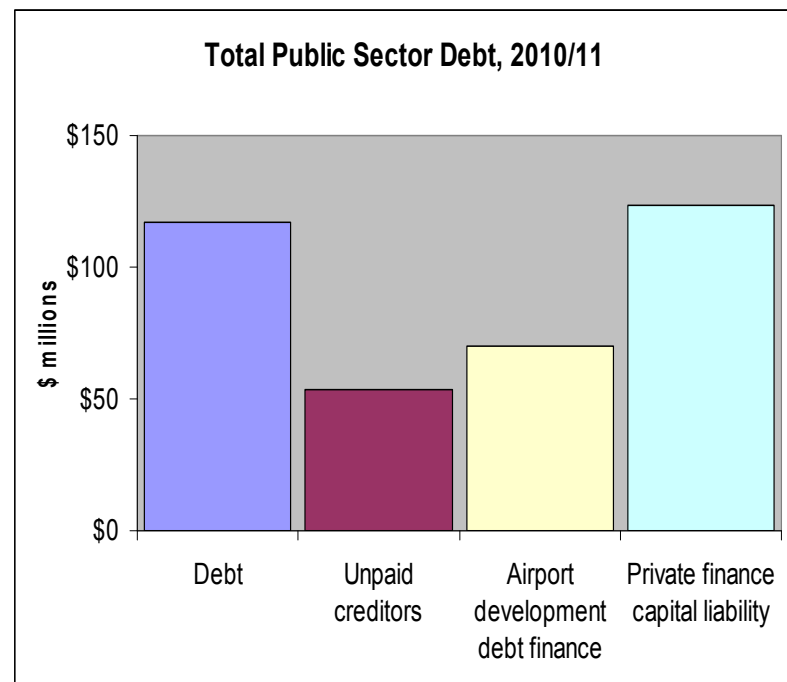
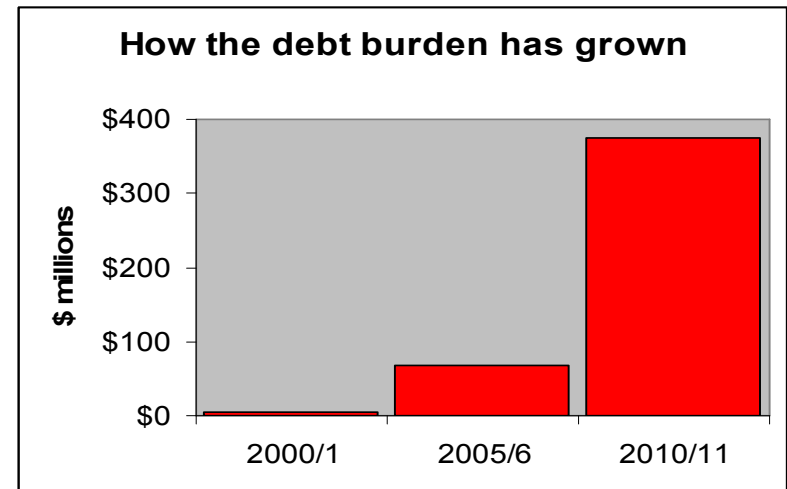


As a result, growth in national debt accelerated

- Significant unpaid bills have accumulated since 2006
 - many TCI businesses were not paid, and
 - many overseas businesses threatened multi-million dollar legal actions for repeated non-payment

- Total public sector liabilities now around \$365 million
 - including unpaid creditors and capital liability for new hospitals

- As a result debt interest payments have increased significantly as a % of public spending and are now c\$14m pa



Growing the TCI economy is vital but will not close the deficit

- How long will it take to close budget deficit assuming tax and total public spending unchanged?
 - assumes tax take is around 25% of GDP as per peak 2006/7, and
 - public expenditure unchanged at c\$200m from current financial year

What if GDP grows by % pa from now on?	Estimated year budget balance reached	Estimated public sector debt* as % of estimated GDP at end of period assuming debt interest 6% pa
3%	2027	260%
5%	2019	140%
8%	2016	90%
10%	2014	75%

* excluding airport development and capital liability for hospitals

- Near term growth unlikely while US economy remains weak
- More modest medium term growth possible if TCI is able to grow and diversify
 - its tourist base to increase the productivity of its existing assets (major new investment in Providenciales airport is first vital step, plus new flights/origins to grow visitor numbers and increase competition in air travel);
 - its accommodation portfolio (for example, to include branded hotels, smaller units, more fractional ownership)
 - other business sectors to provide alternative jobs and incomes
- But to do so will require public sector reform to improve the openness and competitiveness of the business and economic environment

Any TCI government faces same tough choices

- Review and modify tax system / administration to expand tax base and increase revenues
- Cut wasteful public expenditures and implement public sector reforms to improve efficiency

