



MINISTERIAL STATEMENT

To the House of Assembly

By The Hon. David Burt, JP, MP

Premier and Minister of Finance

Economic & Fiscal Update

9th December 2022

Mr Speaker, I am grateful for your indulgence to present this lengthy statement this morning. It is an honour to rise today on behalf of the Government, in our last sitting of 2022, to provide an Economic & Fiscal Update to this Honourable House and the people of Bermuda. This statement will cover the latest report from the Fiscal Responsibility Panel, the Government's mid-year financial performance, and the Government's Pre-Budget Report tabled moments ago.

Mr Speaker, earlier today, I laid for the information of this Honourable House the 2022 Bermuda Fiscal Responsibility Panel Report (the Report), which has been published on the Ministry of Finance section of the Bermuda Government portal. (www.gov.bm)

The Report represents the eighth annual report of the Fiscal Responsibility Panel (the Panel), which was established in 2015 as an international independent committee to review, monitor, assess and publicly report on the fiscal progress of the Bermuda Government. The Panel is composed of a team of international experts, chaired by Jonathan Portes, a former government chief economist and UK Treasury official and now a professor in economics and tax policy at Kings College in London.

The other members of the Panel are Marian Bell, a former external member of the Market Policy Committee at the Bank of England who also previously advised on fiscal matters to the Government of Jersey; and Victoria Perry, a US tax lawyer who recently retired from the International Monetary Fund, having spent many years providing technical advice to countries on tax policy and revenue administration.

Mr Speaker, The Report contains a comprehensive analysis of Bermuda's fiscal and economic position, its strategy, and related actions. The Panel provided their assessments, highlighted critical risks facing Bermuda, and provided recommendations for several key areas impacting Bermuda's fiscal and economic outlook. These include fiscal and tax strategy, expenditure policy, economic and fiscal developments, the international tax landscape, energy and climate change, the Economic Recovery Plan, Immigration, Pensions and Health.

Mr Speaker, the Panel endorsed key aspects of the Government's fiscal and economic strategy, including the Government's commitment to remain within its fiscal guardrails for the ratios of gross and net debt to GDP. The Report commended the adoption of a target for a budget surplus of \$50 million in 2026-27, in line with their previous recommendation - however, as I will cover later in my statement, identified challenges in reaching that goal. The Panel also positively endorsed work being done with regard to the Economic Recovery Plan, substantive tax reform, immigration reform and climate change. The Report also includes recommendations for consideration by the Government. These include the following concerning fiscal and tax strategy:

Mr Speaker, with regard to fiscal strategy, the Report reiterates its recommendation that the government should plan for an annual budget surplus of at least \$50 million for 2026-27 and subsequent years. This is recommended as the absolute minimum needed to make appreciable inroads into Bermuda's large external debt burden. The panel reiterates that further structural increases in revenues from taxation are required to ensure the Government achieves this target.

Mr Speaker, with regard to tax reform, the Report stated, *"Since its inception the Panel has recommended fundamental reforms aimed at broadening the tax base, increasing the progressivity of the tax system, and increasing revenues, including taxing individual capital income. The Government intends to consult on a number of these issues in the Pre-Budget Report, including revisiting some of the earlier recommendations from the Tax Reform Commission. The Panel recommends that the Government commits, in the next Budget, to legislating and implementing a set of reforms along the lines set out above."*

Mr Speaker, the Panel concluded its report by saying, *"The Government is addressing many of the most serious problems facing the country, including issues raised in our previous report. The overall fiscal strategy set out in the 2022 Budget is more coherent and credible than that in prior budgets, but further action is required to deliver it. The fallout from the pandemic is largely behind now, though new global problems—inflation, fuel prices, and worsening climate*

change—now face the country. The Government has responded with an ambitious and challenging agenda: the Economic Recovery Plan, the Bermuda Health Plan, the Climate Task Force, an agenda to reform the pension system, and the recent Ministry of Economy and Labour report on demographic pressures. What is now required is implementation and delivery.”

Mr Speaker, The Fiscal Responsibility Panel plays an important role in fiscal policy-making in Bermuda. It represents the only independent assessment of the Government's fiscal strategy and plans and makes recommendations to ensure the Government of Bermuda is progressing toward meeting its fiscal targets. The independent panel, which met with members of the Government, Opposition, trade unions, international business, and local business, delivered a broad endorsement of this Government's fiscal and economic strategy. I take note of their call for delivery and implementation of the promised reforms, and this Government will continue to tackle the difficult issues in a thoughtful fashion to ensure success for Bermuda's future.

Mr Speaker, I reiterate my appreciation to the members of the Bermuda Fiscal Responsibility Panel for their detailed and comprehensive review of the Government of Bermuda's financial position, and I urge all Honourable Members to take note of their report and their recommendations as we debate issues later today and during next year's budget session.

Mr Speaker, I will now share with this Honourable House the Government's mid-year fiscal performance.

Following the Government's Mid-Year assessment, total revenue is revised to be \$1.1 billion, approximately \$30 million above initial estimates. This increase is primarily due to the continued economic recovery, with better-than-expected increases in tourism-related revenues, Payroll Tax, and Stamp Duty. The increase in revenue has more than offset the estimated \$17.8 million loss in revenue from the aircraft register as a result of the Russian/Ukraine war.

Mr Speaker, Total Current Account Expenditures are now projected to be \$956.8 million, \$11.7 million above the 2022/23 original estimate of \$945.1 million. The projected increase is primarily driven by the Government's relief package and other additional spending items, which were announced earlier this year, as a result of the previous year's budget performance being better than expected.

Interest/guarantee management costs are projected to be \$138.3 million, \$10.5 million more than initially budgeted largely as a result of one-time costs associated with the recent government debt refinancing. It is worth noting, with the latest transactions, the Government

has fully refinanced its near-term external debt with more than 4 years until the next bond maturity in January 2027. This means that the Government is largely protected from rising interest rates in the medium term, as there is not expected to be a need to borrow additional funds to finance Government's ongoing operations.

Mr Speaker, Capital Account Expenditures are projected to be \$85.0 million, \$12.0 million more than the \$73.0 million originally budgeted. The projected increase is a result of the approved \$7 million to fund critical refurbishments to Tynes Bay to ensure our local waste disposal facility is able to function and a further \$4.1 million to assist the Bermuda Housing Corporation in providing additional affordable housing for the people of Bermuda.

Mr Speaker, the revised budget deficit for 2022/23 is now projected to be \$72 million, \$2 million or 2.9% more than the original estimate of \$70 million. This revised projection is expected to be achieved despite the significant economic relief package to assist persons dealing with the impact of rising global inflation, the elimination of duty for essential goods, the freezing of fuel prices at the pump to counter the high energy costs resulting from the Russia/Ukraine conflict, the additional investments in affordable housing and infrastructure, and the aforementioned one-time expenses due to the successful debt refinancing.

When combining the revised deficit for this fiscal year and the expected deficit from the last fiscal year, the government's net debt is in a much better position than forecasted during February's budget presentation.

Mr Speaker, the March 31, 2022 net debt level was \$66 million lower than previously forecast in February's budget statement. In addition, as at March 31, 2023, net debt is now forecasted to be \$115 million lower than originally estimated in the Budget Statement projections. Yes, Mr Speaker, that was not a misstatement, and I will repeat it for Honourable Members opposite, the Bermuda Government's net debt is now forecast to be 115 million dollars lower than it was projected just 10 months ago.

Mr Speaker, time and time again, this Government has demonstrated that it is a good steward of the public purse. Though the Opposition may focus on a few missteps - I remind the public that no government gets it 100% right 100% of the time - Mr Speaker, even Lionel Messi can miss a penalty every now and then - but back to the weighty matters of Finance. Time and time again, this Government has demonstrated that we can be trusted to be good stewards of the public purse. We have delivered relief to Bermudians who are challenged with the highest global inflation seen in 40 years, we have made investments in affordable housing and critical infrastructure, we have successfully refinanced our debt despite challenging market conditions,

and we are meeting our budget targets. Our Mid-year performance sets a strong foundation as we approach next year's budget.

Mr Speaker, when we return to this Honourable House next year, it will be for our budget session. One of the key steps in the budget process is the publishing of a Pre-Budget Report. Earlier today, I tabled the 2022 Pre-Budget report on behalf of the Ministry of Finance.

As Honourable Members will be aware, a Pre-budget Report (PBR) outlines the priorities for the next budget in a medium-term framework, covering external developments and internal strategies. The Government should be accountable for developing strategies to cope with both domestic and international turbulence, and the strategies contemplated should be transparent and open to feedback.

Mr Speaker, in the PBR, we have laid out the Government's economic and fiscal policy challenges and provided fiscal policy options for public consultation while soliciting feedback from those affected by any policy changes under consideration. Like most small states and territories, Bermuda's economy is vulnerable to external events, underlining the need for financial and fiscal prudence. This vulnerability is compounded by Bermuda's continuing budget deficits and high level of government net debt, standing at \$3.1 billion.

Mr Speaker, Accordingly, this Government must take appropriate action to address the problems the island faces. It is also important that stakeholders and citizens understand these challenges, are aware of the factors influencing the government's fiscal policy decisions, and utilise the opportunity to give their views. This will facilitate the achievement of the best outcome for Bermuda.

Mr Speaker, this Government has already committed to the development and implementation of a robust and prudent fiscal and economic strategy based on fundamental principles of sound fiscal management - these include:

- Prudent management of financial risks
- Fiscal policies that enhance the Government's fiscal position and are consistent with a reasonable degree of stability and predictability.
- Policy decisions which are constructive maintain the integrity of the tax system and have a positive impact on future generations.

Mr Speaker, actions taken in this regard have already had a positive impact on Bermuda's economic and fiscal position, as previously highlighted. Our program has been positively

assessed by key credit rating agencies, with Bermuda's debt being given solid credit ratings and its economic outlook being determined to be stable. The Fiscal Responsibility Panel has also commented favourably on many of the critical initiatives that the Government is undertaking to address identified challenges and prepare for the future. This Government remains committed to the continued strategic implementation of a well-considered and sound fiscal and economic plan.

Mr Speaker, the key factors which therefore, must be considered in the framing and composition of the 2023/24 Budget are as follows:

- Government's 2020 General Election Campaign Platform and the 2022 Speech - to ensure that the commitments made are appropriately met
- Relevant economic considerations - whether globally, in relation to our major trading partner, or the economic realities that exist in the Bermuda context
- Taxation sensitivities - recognising that international business is a key contributor to tax revenue, consideration has to be given to the potential competitive impact of decisions being made on this sector
- The need for continued fiscal discipline to further reduce deficits on the path towards a balanced budget in Fiscal Year 2024/25 and ultimate reduction in debt levels
- The requirements for continued investment and support for the initiatives within Bermuda's Economic Recovery Plan
- Continued effective use of zero-based budgeting and the use of public value assessment outputs to enhance efficiency and cost-effective utilisation of resources.
- The appropriate evaluation of the highlighted risks and implementation of the recommendations from the 2022 report of the Fiscal Responsibility Panel, whose role, and work have already been addressed in this statement. In this regard, consideration will also be given to the recommendations made by the 2018 Tax Reform Commission.
- Feedback from the Pre-Budget Report consultation.

Mr Speaker, before providing a brief outline of key proposals for tax reform contained in the Pre-Budget report, I think it would be appropriate to highlight certain key economic considerations which are relevant in the Bermuda context. In particular, I would note that global growth is projected to remain unchanged at 3.2% in 2022 and to decline to 2.7% in 2023, This is the weakest growth profile since 2001 with the exception of the global financial crisis and the recent COVID-19 pandemic.

The main factors affecting the global economy include Russia's invasion of Ukraine, the highest global inflation in 40 years, the lingering effects of the COVID-19 pandemic, and the economic slowdown in China.

The US economy has been less affected than most countries by the Russia/Ukraine conflict but is being particularly impacted by surging levels of inflation and tighter financial conditions, which are expected to continue to slow spending across the economy. Real GDP in the US is anticipated to grow by 1.8% in 2022, 0.5% in 2023 and 1.0% in 2024. Notwithstanding the positive steps being taken to stimulate growth in the Bermuda economy, as the US is Bermuda's largest trading partner and the source of most of the visitors to the island, the US's economic performance will impact the pace of Bermuda's economic recovery.

Mr Speaker, having given consideration to all of the factors noted above, specific key proposals are presented for consideration and feedback in the pre-budget report.

Mr Speaker, these include changes to the payroll tax framework in relation to both employer and employee tax rates. The proposals for changes to employee payroll taxes include changes to rates to reduce payroll taxes for lower and middle-income workers. It is proposed to exempt the first \$48,000 of labour income for all workers from payroll tax. This proposed change will remove 30% of the workforce from being liable for payroll tax while providing relief to these workers who are most affected by reduced purchasing power due to the high global inflation. To compensate for lost revenue, the next 3 tax bands are proposed to be adjusted upwards. The result of these proposed rates will see all persons earning under \$105,000 annually paying less in payroll tax compared to the prior year.

Mr Speaker, the Pre-Budget report also proposed a reduction of employer payroll tax for small & medium-sized businesses with payrolls under \$1 Million; hotels, restaurants and retailer stores. Further, the Pre-Budget report proposes the elimination of employer payroll tax for farmers, fishermen, educational, sport & science institutions, and small businesses with an annual payroll of less than \$200,000.

Mr Speaker, additionally, in a sensitive and considered way, proposals have been made for limited increases in taxation, which can have a meaningful positive impact on revenues without compromising Bermuda's competitive position or materially reducing spending and investment. It has been highlighted in the report that Government does not intend to continue with the extension of pandemic-related payroll tax concessions, which were put in place to assist businesses.

Mr Speaker, we have also appropriately taken into account the recommendations of the 2018 Tax Reform Commission, with new withholding taxes being proposed on managed services and dividends for local companies. In addition, amendments to the framework for company fees are included for consideration. The report also includes a number of other proposals that have been suggested by key business and union stakeholders in the Bermuda community.

Mr Speaker, the pre-budget report is an important document that promotes transparency in the budget process, reinforces accountability and allows for effective collaboration on matters that will have a significant impact on individuals and businesses in the community. It is hoped that feedback will be provided to strengthen and undergird the robust approach this Government takes to economic, fiscal and financial management.

Mr Speaker, as we have stated on many occasions, this Government is committed to taking care of its people while ensuring its fiscal and economic policies contribute to sustained growth and stability. Our track record has been positively assessed, and we remain committed to a path that will ensure a bright future for the generations to come.

Thank you, Mr Speaker.