



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministry of Finance Headquarters

Ministerial Statement

To the House of Assembly

By

The Hon. Curtis L. Dickinson, JP, MP

Minister of Finance

Economic Recovery Plan

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Mr. Speaker, I rise today to advise this Honourable House and the public of the Government's Economic Recovery Plan ("ERP").

Mr. Speaker, the COVID-19 pandemic has had a severe impact on the global economy and prompted governments worldwide to take unprecedented action. To support their economies, governments have enacted massive fiscal responses, with early estimates suggesting these have totaled nearly \$14 trillion (equivalent to 14% of global GDP) in 2020. As a result of public health measures necessary to contain the spread of the virus, the International Monetary Fund ("IMF") expects the world economy to contract by approximately 4.5% in 2020, a decline not seen since the Great Depression of the 1930s.

In Bermuda, with the onset of the COVID-19 pandemic in March 2020, the Government moved quickly to take action to protect the country on the health front. This included providing emergency funding of \$2.8 million to the Ministry of Health to fund personal protective equipment, testing kits and testing equipment, among other things.

Mr. Speaker, shortly thereafter, to assist individuals and businesses that had an immediate need for financial relief, the Government instituted several temporary emergency measures. To assist employees who had been negatively impacted by the pandemic, on 24 March 2020, the Government implemented the Unemployment Benefit programme. This programme provided temporary relief to eligible workers who were left out of work as a direct result of public health measures related to COVID-19. Measures taken to assist businesses have included extending deadlines for tax filings and the deferring and waiving of fees, taxes, and penalties. Furthermore, payroll tax relief was provided to the restaurant and bar, taxi and hotel sectors, all of which were severely impacted by the lockdown measures that were put in place.

Mr. Speaker, overall, the Government's initial emergency economic support is estimated to total \$127.2 million in fiscal year 2020/21. This includes more than \$60 million in the unemployment benefit programmes, \$12 million in financial support for small to medium-sized businesses, and additional funding for COVID-19-related health costs.

Mr. Speaker, I have advised the House on a number of occasions over the last 12 months of the short-term actions that were being taken to mitigate the

impact of the COVID-19 pandemic. It is not my intention to review these various policy measures again in detail. Suffice it to say that the Government has moved promptly, managed implementation challenges and has been largely effective in mitigating the worst of the economic impact of COVID-19 on Bermuda's citizens.

Mr. Speaker, before discussing the next phase of ambitious initiatives and policy measures being implemented by the Government to support the economy, let me emphasise that we are only in a position to do so because of the broad community support and engagement of the proactive public health measures implemented over the last 12 months. The effectiveness of policies such as the early shelter-in-place order, ramping-up of testing capacity, and quick distribution of vaccines have meant that, to a large extent, the demands placed on Bermuda's health care and public health resources due to the pandemic have been effectively managed. This has set Bermuda apart from many other countries around the globe. Further, due to the health policies of the Government, Bermuda is on track to resuming some greater level of normality in the coming months.

However, Mr. Speaker, the impact of COVID-19 on the Bermuda economy may linger for a longer period of time than the disease itself. The economic impact witnessed over the last year has been much more severe than any downturn in recent memory.

Where are we today in terms of economic activity? Despite resilience in International Business, Bermuda's GDP is expected to contract by approximately 9% in 2020, and sectors such as tourism and hospitality

(which are particularly important for the employment of Bermudians) have been severely affected. Unemployment levels are unacceptably high and income disparity has widened. The high cost of living also remains a challenge, and some Bermudians are struggling daily to make ends meet, despite the efforts of so many in our community to help their neighbours in times of need.

Mr. Speaker, while progress was being made until early 2020 to redress the fiscal imbalances built up over a number of years, the COVID-19 pandemic has resulted in government finances deteriorating significantly in Fiscal 2020/21: total government expenditure in 2020/21 is now estimated to be just over \$1.2 billion, an increase of \$87.9 million compared to estimates made in last year's budget, and government revenue, originally estimated to be \$1.1 billion, declined by 14.4% to approximately \$961 million. The Government therefore took decisive action to reduce spending. Notwithstanding the actions taken, the originally estimated deficit of just \$19.8 million is now expected to be \$245.5 million. The Government does not need to borrow to fund the current and future deficits due to its strategic decision to access the international capital markets in August 2020.

Mr. Speaker, the economic weakness currently underway in Bermuda has come on the back of a decade of low growth and with Bermuda facing a number of longer-term structural challenges. Today, we have significant financial commitments, including approximately \$3.0 billion in net public debt, financial guarantees for the new airport and Acute Care Wing and the block grant which covers health services. There are also significant actuarial funding gaps in the Public Service Superannuation Fund, the Government

Employees Health Insurance Fund and Bermuda's Contributory Pension Fund. More broadly, there are important social issues requiring continued Government attention such as improving the quality and affordability of healthcare, strengthening education, and addressing the impact on government services of an ageing population and declining workforce.

As sobering a thought as it is, Mr. Speaker, for the reasons mentioned above Bermuda finds itself on the edge of a fiscal cliff. It has a relatively high level of government debt and obligations. Although Bermuda currently enjoys very good access to international capital markets, it cannot be assumed that there are no limits to how much Bermuda can borrow. Our legacy to our children in terms of our fiscal responsibility cannot darken their economic future. Going over the fiscal cliff, a point where Bermuda may not be able to borrow any more, could then lead to a cut in household incomes, increased unemployment rates, and undermined consumer and investor confidence in Bermuda.

Mr. Speaker, the Economic Recovery Plan ("ERP") detailed herein is the response to these various challenges. As I noted in the 2022/21 Budget Statement that was tabled in the House on 26 February, the plan for economic recovery is ambitious but achievable. It combines fiscal responsibility with a clear path to growth, employment and greater economic equity. Derived from the Government's 2020 Election Platform and November's Throne Speech, and informed by leading practices from similar economies and the latest insights taken from successful COVID-19 recovery strategies internationally, our plan will deliver an economy that will work for all.

Mr. Speaker, the development of the ERP has been a whole-of-government effort and has incorporated detailed input from across the various Ministries. Over the past six months, key stakeholders have been consulted as part of the plan's development, and there has been extensive input from around the Cabinet table. The Economic Advisory Committee ("EAC") that I established in May 2020 has also provided detailed and valuable advice throughout the process, and input from the Financial Policy Council and the Fiscal Responsibility Panel has also been sought. I want to thank all these stakeholders for their constructive engagement and acceptance of the challenge during this period.

Mr. Speaker, in developing the ERP the Government has been guided by six key principles: (1) Combatting the health and economic impacts of COVID-19 as a priority; (2) Reducing the cost of living; (3) Achieving fairness and equity; (4) Financial viability; (5) Fiscal prudence; and (6) Timely, decisive action.

Mr. Speaker, a three-phased approach has been taken in developing the ERP:

- Phase 1 involved preparatory work of setting objectives and principles for the economic framework and was completed in the summer of 2020;
- Phase 2 consisted of developing an economic model, a set of fiscal guard rails and a set of initiatives that we refer to as the "ERP Blueprint" and is the detailed information that makes up the ERP, a summary of which I am providing to the House today. This work ran

- from October 2020 – February 2021; and
- Phase 3 will focus on the effective and timely implementation of these policies. Work is being done to assemble the team required to implement the plan.

Mr. Speaker, the ERP Blueprint was underpinned by developing consensus with external advisors on two baseline multi-year GDP scenarios for Bermuda – a ‘Most Likely’ path based on reasonable and prudent assumptions of what recovery in each of Bermuda’s sectors could look like, and a ‘Severe’ path that is predicated on outcomes for key sectors if reasonable underlying assumptions do not occur. These scenarios greatly benefited from advice and refinements from the EAC. In the ‘Most Likely’ scenario, there is a relatively strong recovery and GDP returns to its 2019 level by the end of 2022 (a broadly similar speed of catch-up as the IMF projects for the world economy). Thereafter, growth is in-line with historical averages of around 1% per year. In the ‘Severe’ scenario, recovery is sluggish in 2021 and GDP remains roughly 10% below its 2019 level in each of the next 4-5 years.

Mr. Speaker, I have mentioned that Phase 2 of the ERP involved developing a prudent fiscal path for government finances and key guard rails which needed to be respected in order to keep Bermuda on the right fiscal path. These guard rails arose from an assessment of the fiscal positions and parameters for jurisdictions with a similar credit rating. The main purpose of these guard rails is to minimise the risk of a credit downgrade, which in turn could result in an increase in interest costs, difficulty accessing bond markets in the future and a potential exodus of International Business.

Equally important, they are an effective communication tool for the Government in committing to fiscal prudence and describing how it will meet its commitment in this area.

Mr. Speaker, the two guard rails that the Government has already set out in the FY 2020/21 budget are (i) the target to return to a balanced budget in three fiscal years (by 2023/24), assuming tourism has largely recovered by that time and (ii) the commitment to maintaining the current \$3.5 billion debt ceiling. In the ERP, guard rails were also included in line with other A-rated countries for (i) the ratios for gross debt to GDP and net debt to GDP to not exceed 55% and 50%, respectively; and (ii) the ratios for debt service to revenue and gross debt to revenue to trend downwards over time (from their currently relatively high levels).

Mr. Speaker, the ERP Blueprint contains a long list of policies to accelerate medium-term economic growth, which I stated earlier are consistent with the Government's 2020 Election Platform and November's Throne Speech. The range of policies compares well with emerging pandemic responses from similar economies, with many of the policy measures being undertaken in peer countries also featuring prominently in Bermuda's platform. These include support for specific sectors and economic diversification measures; labour market interventions; and efforts to accelerate digital transformation. Additionally, Bermuda's ERP has set out a desire to go further in areas such as environmental sustainability and economic equity and empowerment, as well as catalysing and mobilising external investment to accelerate growth in key sectors.

Mr. Speaker, the priority issues outlined in the ERP have been developed alongside several parallel and substantive initiatives that are underway and will have positive impact on the Bermudian economy – namely, education reform, tax reform and additional policies to support Bermuda’s International Business sector. Proposed reforms to Bermuda’s education system have been set out in the Government’s 2020 election commitment to develop and ensure high-quality and equitable education for all of Bermuda’s children. These reforms were outlined by the Honourable Minister of Education to the House in December 2020. On tax reform, the Government is moving forward to establish the Tax Reform Commission with a view to receiving recommendations of possible improvements in Bermuda’s tax system by year end 2021. In addition, recommendations are already being formulated to address funding gaps in the two key pension funds that fall within the purview of the Government. It is intended that continued positive steps will be taken in 2021 to address this long outstanding problem.

Mr. Speaker, regarding International Business, as I outlined last month in my budget statement, the Government is addressing the threat to Bermuda’s International Business sector, and therefore Bermuda’s economy, emanating from the Organisation for Economic Co-operation and Development’s focus on Base Erosion and Profit Shifting (“BEPS”), and the European Union list of non-cooperative tax jurisdictions. We will also support efforts of our International Business sector to be a leader in the highly competitive search for climate-related financial opportunities.

Mr. Speaker, the proposed policies in the ERP have been prioritised to focus

investment and implementation capacity in areas with the highest impact for Bermuda's medium-term economic growth and employment. This exercise consisted of analysing 81 policy initiatives with a total indicative cost of \$60-70 million, of which 31 have been identified as highest priority and includes:

- Diversifying Bermuda's economy through the growth of new industries, with a focus on those with the largest expected impact relative to the Government's commitment – e.g. medical tourism, vertical farming, SME marketplace, residential schemes, casino industry, sub-sea communications, and the Space Strategy;
- Making financial markets work better for businesses and consumers – e.g. lowering interest rates, COVID-19 SME support, National Digital Bank;
- Building critical new infrastructure or enhancing existing infrastructure – e.g. Shoreside facility for fishing, water and waste management facility, electric vehicle recharging;
- Expanding the resident population – e.g. through short-term measures such as introduction of the Economic Investment Certificate, as well as medium-term initiatives such as regularising the position of long-term residents and making it easier for Bermudians born overseas to return home;
- Introducing labour market reforms and social development measures to deliver skills, employment and economic security in the future economy – e.g. execution of a jobs strategy and youth employment strategy, establishing national unemployment insurance, and implementation of minimum and living wages legislation; and

- Developing supportive legal and regulatory frameworks – e.g. energy regulatory sandbox, digital/FinTech, marine development zone.

Mr. Speaker, international benchmarks suggest that, with the successful implementation of these 31 highest priorities, we should look to expect an increase in GDP of 1.3-1.5% per year above baseline economic growth, from 2023.

Mr. Speaker, Phase 3 is now underway. Respective Ministries and Government Agencies have begun refining and implementing initiatives under their areas of responsibility. In addition, in order to establish strong quality assurance, governance and monitoring processes to effectively implement the ERP and evidence of ‘value for money’, an implementation plan consistent with international best practices has been drawn up. The plan outlines the governance model for executing the ERP, roles and responsibilities across the Bermuda Government, indicative timelines for implementation and key performance indicators (KPIs). It describes how key external stakeholders will contribute to new policy formation.

Implementation of the ERP will be coordinated and led by a new and dedicated team within the Cabinet Office, reporting to the Cabinet Committee on Economic Development and the Premier. Strong support and appropriate additional resourcing are critical to ensuring this team is successful and is currently being addressed.

This dedicated Project Management Office will: (1) Work closely with colleagues in the Department for Economic Development who are leading

execution of the banner policies that cut across Ministries; (2) Monitor successful implementation of policies led by individual Ministries; and (3) Report monthly on overall implementation status, risks and resource requirements. It will operate separately from the day-to-day running of the Government.

Mr. Speaker, in closing I would like to thank all those who have played a key role in the development of this Plan, that is so important to the future of Bermuda. In particular, I would like to express my appreciation to the Ministry of Finance team, the members of the Economic Advisory Committee and their support team, the Bermuda Monetary Authority, the Financial Policy Council, the Fiscal Responsibility Panel and the significant number of persons in both the public and private sectors who have provided input into this work. While the future remains deeply uncertain and economic risks are mostly on the downside, the ERP provides a blueprint for a successful recovery. Effective implementation is now necessary to ensure that Bermuda maintains fiscal prudence and forges a new path to growth, employment and greater equity.

Thank you, Mr. Speaker