



GOVERNMENT OF BERMUDA

The Ministry of Finance

Ministerial Statement

To the House of Assembly

By

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Premier and Minister of Finance

Update on Government's Financial Performance

Date: 30th September, 2022

Mr. Speaker, I rise today to provide this Honourable House and the people of Bermuda with an update the work being carried out by the Ministry of Finance. In the first instance, I would like to advise of the latest estimates relating to the 2021/22 Budget arising from the extensive work done to prepare for the audit of the Consolidated Fund.

Mr. Speaker, based on the numbers submitted for the audit of the Consolidated Fund, the 2021/22 budget deficit is now projected to be \$81 million, \$44 million (35%) below 2021/22 original estimate of \$125 million, as presented in the 2021/2022 Budget Statement. The revenue is projected to be \$1.07 billion, \$74 million (7%) above 2021/22 original estimate of \$999 million, primarily due to increases in customs duties, stamp duty, civil aviation, payroll tax and increased revenue from the travel authorisation.

In relation to Current Account Expenditures, they are now projected to be \$945 million, \$42 million above the 2021/22 original estimate of \$903 million. It should be noted that the Covid-19 Expenditures are projected to total \$37 million, \$22 million more than original estimates, which includes \$20 million for the minimum revenue guarantee to Skyport and \$10 million for unemployment benefits.

Mr. Speaker, interest/guarantee management costs are projected to be \$133 million, \$5 million more than originally budgeted, with most of this increase related to costs for the failed Morgan's Point project which was guaranteed by the OBA Government. Capital account expenditures are projected to be \$76 million, \$17 million less than originally budgeted.

Mr. Speaker, the continued strengthening of the economy is already evident in the first quarter numbers that the Ministry of Finance has received to date. As indicated earlier, the actual revenues in 2021/22 in certain key areas were higher than originally projected for that year, resulting in the lower than forecasted 2021/2022 deficit. Therefore, it is expected that the loss in income from the aircraft register as a result of the Russian/Ukraine war will be offset by stronger payroll tax, land tax, stamp duty, customs duty and tourism related revenue from our stronger than expected tourism season.

Mr. Speaker, total revenue for the current year is now expected to increase by approximately \$30 million above initial estimates. This increase along with the improvement in the 2021/22 deficit position will enable the Government to fulfill its promise given in the 2022/23 Budget statement, to provide even more relief to the people of Bermuda, who have been negatively impacted by rising global inflation.

Mr. Speaker, this House has already passed relief measures such as increased support for financial assistance, a payroll tax rebate for 75% of Bermuda's workers, and support for parents of public school students. Further we have frozen the price of fuel at February levels, and later today we will table a bill to eliminate customs duty on essential goods which will further benefit working families by reducing food prices as this Government takes action to deal with rising global inflation.

Mr. Speaker, this Government will also invest in critical infrastructure to stabilise the Tynes Bay Waste to Energy Facility to reduce the risk of landfilling returning to Bermuda. Finally, the Cabinet has approved additional funding to the Bermuda Housing Corporation to address the shortage of affordable housing which will be detailed by the Honourable Minister of Public Works in this Honourable House next week.

Mr. Speaker, despite the relief that this Government is giving to working families, and the additional investment in housing that is needed after years of underinvestment, it is expected that the Government will meet the deficit target of \$70 million. When this deficit is combined with the deficit figures from last year, this will see the government's net debt in a much stronger position than forecasted during February's budget presentation.

The March 31, 2022 net debt level was \$48 million lower than previously forecast in the budget statement. In addition, as at March 31, 2023, net debt is now forecasted to be \$60 million lower than originally estimated in the Budget Statement projections.

Mr. Speaker, the figures that I just mentioned highlights the result of the successful execution of Bermuda's Economy Recovery Plan which has seen Government revenues increase, economic growth that has exceeded expectations (5.4% in 2021), and the strongest growth in international business since 2007.

The successful management of Bermuda's economy has been recognized by external rating agencies and by investors, as noted from the results of the recent debt refinancing. There will continue to be close scrutiny of the Government's revenue and expenditures, to ensure that debt and fiscal metrics continue to move in a positive direction.

Mr. Speaker, I will now turn to matters related to the refinancing of the Government's debt. In accordance with Section 2 (3) of the Government Loans Act 1978, I am pleased to inform this Honourable House of a successful capital markets transaction that occurred on 15 August 2022 to issue \$390 million of additional Senior Notes due in 2032.

Mr. Speaker, Honourable Members will recall that on 11 July 2022, the Government issued \$500 million of new Senior Notes due 2032 which was used to pre-fund an upcoming private placement maturity in December 2022 and refinance the outstanding Senior Notes due in January 2023.

Mr. Speaker, at that time, global bond markets had seen unprecedented levels of volatility, with interest rates having dramatically increased from record lows. In response to an uncertain market, the Government made a key decision to "de-risk" the transaction by prioritizing its most immediate refinancing needs. As a result, the Government took the strategic decision to issue \$500 million to address the short-term refinancing needs and defer the refinancing of the 2024 debt. To finance that longer term debt would have required raising almost \$1 billion in new capital and would have had to be offered at a higher interest rate increasing Bermuda's interest payments.

Mr. Speaker, following the July offering, the Ministry of Finance continued to prudently monitor market conditions for opportunities to target the 2024 notes. Issuance markets continued to improve, US Treasuries and credit spreads narrowed significantly, and in early August Bermuda's new 2032 senior notes, issued the month prior, were trading at a significant premium to par value. Consequently, on 15 August, Bermuda re-opened the initial offering and issued an additional \$390 million of the same 5% senior notes due in 2032, but at a placement yield of 4.54%, or 54 basis points lower than in July. It also achieved a spread of 175 basis points over US Treasuries, equal to the second lowest spread ever achieved by Bermuda.

Demand for the reopening was largely anchored by the same lead investors from the original offering in July, who were supportive of Bermuda's financing strategy and were also looking to continue to increase their existing exposure to Bermuda due to our strong economic performance. In addition, we also saw demand from investors who did not participate in the July offering.

Mr. Speaker, I will also note that the 10-year US Treasury was 2.79% at the time of the reopening execution, which was about 1% lower than where rates are today. Additionally, with the notes issued at a premium, the proceeds were sufficient to redeem the approximately \$400 million of outstanding notes due in 2024. When combined with the initial issuance, gross debt (taking into account the retirement of the upcoming \$140 million in notes) will actually decline by about \$6 million.

Mr. Speaker, these latest transactions have allowed the Government to fully refinance all its near-term external debt, with more than 4 years until the next maturity in January 2027. As a result of our management of the country's finances and the successful execution of Bermuda's Economic Recovery Plan, we have not had to utilize the country's sinking fund balance for management of ongoing cash needs, to the extent originally projected. Therefore, this gives the option for the Government to repay the \$50 million in Bermuda dollar debt outstanding next year, without having to refinance this debt. This will allow for a further reduction in outstanding debt as is positive financial news.

Mr. Speaker, our focus in these matters has been to ensure that Bermuda continues to implement a strong and robust fiscal and debt management strategy. Consistent with that approach, has been this Government's management and oversight of matters relating to Government issued guarantees. Such guarantees have been issued to support sustainable economic growth and protect the safety, health and economic well-being of our residents.

We have worked closely with the Bermuda Hospitals Board, particularly to provide support during the significant challenges that resulted from the COVID-19 pandemic. As a result, relief was provided to BHB in relation to payroll tax, as well as waivers relating to immigration fees and customs duty. The previous relief on payroll tax and immigration fees expired on August 31, 2022 and has now been extended to March 31, 2023. In addition, the Government is working closely with the Clarien Bank in relation to the \$2.5 million guarantee issued to the bank for Innfund, to support the continued growth and development of a tech incubator in Bermuda.

Mr. Speaker, the successful execution of this refinancing initiative, coupled with the recent positive assessments by independent rating agencies and the strong economic growth which is now taking place due to the successful execution of Bermuda's Economic Recovery Plan, reinforces the fact that Bermuda's economy is on the right track.

Mr Speaker, too often in Bermuda's history the story has been purely the health of the balance sheet or the apparent skill at achieving some measure of fiscal discipline and accounting mastery. Yes, this is important and it is something to which we must continue to aspire. But, Mr. Speaker, a healthy or improved balance sheet must be used to support the people we represent. It makes no difference to the struggling mother who is working two jobs to keep lights on - that the Government reduces its deficit unless those savings and better-than-expected fiscal performance means relief for her and her family.

Hardworking Bermudians have had to endure plenty of "shared sacrifice" and it is high-time that the people benefitted from "shared success".

Mr Speaker, this Government's fiscal performance provides us with the scope to do just that, as I promised in this year's Budget Statement "Relief now and more relief to come". This Government will outline further measures to return more funds to working families in the coming weeks and will keep it's promise to ensure that the shared success is not kept by the government but shared with the hard-working taxpayers of Bermuda to help working families cope with increasing global inflation.

Thank you, Mr Speaker.