

The Progressive Labour Party Government's 2023-24 Pre-Budget Report tells Bermuda a graphic story of their intended direction and priorities. Unfortunately, the picture they paint is unrealistic, and Bermuda deserves better.

Looking through the lens of reality, not the distorted lens of the PLP, will show a vastly different picture.

As the festive season is upon us, to some of us, economic cheer is thin on the island due to the imminent perfect storm which is aggressively developing. Household incomes are being challenged with the continued rise in the cost of living, energy costs continue to soar along with increased interest payments on mortgages and credit cards.

According to the last weeks Washington Post, the U.S. Government's Federal Reserve raised interest rates by half a percentage point. The Federal Reserve also signaled their plans to keep raising interest rates in 2023, capping off one of the most aggressive years in the central bank's history, and marking a new phase in its fight against inflation.

But even though the economy is much different now than what it was a year ago, the Fed enters 2023 with as much uncertainty as it did last December. How much pain is ahead for families and businesses remains to be seen.

Federal Reserve Chairman, Jerome Powell stated, "I don't think anyone knows whether we're going to have a recession or not," "and if we do, whether it's going to be a deep one or not — it's just not knowable."

Despite the risk, **and** according to projections released at the end of the central bank's two-day policy meeting, **the Fed is currently on track to hike rates past 5 percent in 2023**. Officials expect to add three-quarters of a percentage point onto their base policy rate. However, neither their projections nor Powell have said whether the rate hikes would take place over

three more meetings (with hikes of 0.25 percentage points each) or two (with hikes of 0.50 and 0.25 percentage points). More rate cuts ***could also come*** in 2024.

Higher interest rates, the increased cost of living, the War in Ukraine, continued supply chain shortages, higher global energy costs, and the reemergence of the Covid 19 pandemic variants, are all key ingredients for a perfect storm of unprecedented challenges, which await us in 2023.

Undoubtedly, the only things that will likely thrive in the coming year, are inflation, which is at a 40 year high of between 9 to 10%, and the cost of living.

The One Bermuda Alliance recognizes that a balance must be struck between tightening our proverbial belts, supplying resources to sell Bermuda as a preferred jurisdiction to invest and do business in, and to support the vulnerable who are most impacted, from a health and economic perspective.

What does this mean for Bermuda?

What this means for Bermuda and Bermudians in 2023, is that we must live through a very difficult economy, with a flat to a possible 1.5% GDP growth. Specifically, it indicates:

- **More job losses** for Bermudians, especially small businesses which play a vital role in Bermuda's economic engine;
- **An increase in the cost of personal mortgages and the cost of credit card interest;**
- **A challenged Retail Sector:** Businesses such as beauty salons, fitness-related facilities and businesses within the hospitality sector will continue to bear the brunt of job losses. Apparel stores will also continue to decline as people are shopping online.

Retail businesses also face the added threat of closing because of their commercial financing, supply chain challenges and inflationary wholesale prices. They will not be able to pay their overhead costs, rents, and other expenses due to the dramatic decline in revenues;

- **A stagnant Construction Industry:** If the first half of 2022 is an indicator, the estimated value of construction projects for the coming year will be down by 30-35%, as we have no new major hotels coming online in 2023;
- **Increased unemployment and redundancies for low wage earners** who clean, prepare, and serve food within the private, and public sectors. They will experience the most job redundancies and will be faced with increasing unemployment. For those who can retain their jobs, they may not have had a wage increase for years or are trying to make ends meet with reduced working hours;
- **Debt:** Bermuda's debt continues to rise with no end in sight. As I mentioned earlier this year, Bermuda can expect that our national debt will hover between \$3.5 and \$4 Billion dollars during the next fiscal year. According to the latest report from the Governments Fiscal Responsibility Panel, the Government's most important indicator of Bermuda's fiscal sustainability is its debt to revenue ratio, which remains at 300%, far above the best practice target of 80%. This ratio has been at this level for a number of years with no improvement and should be a matter of serious concern for all of us. In addition, the PLP's Governments' total liability portfolio is staggering. To the \$3.35-billion-dollar national debt, we should acknowledge the unfunded liability in the Government Pension Plans, Social Insurance Programs, and the sovereign guarantees. When combined with Bermuda's sovereign debt, **the total Government liability is around \$6 billion dollars. That is billion with a B!**;
- **Revenues:** From our perspective, nothing new and or substantive, was introduced to deliver an economic trajectory towards the growth of revenue for this country. The government's Economic Recovery Plan is not robust enough. The Premier's promise of a flourishing and promising financial digital industry has not created the expected job numbers. Recent statistics indicate that only approximately forty jobs have materialized for locals. In fact, we note that over the past few months, the fintech sector has taken its share of global negative press which could be a reputational risk for Bermuda;
- **Job Creation:** On the matter of job creation, nothing significant was presented to stimulate job creation. i.e.: There are no new opportunities for the agricultural and fishing industries to support food security;
- **Capital Spending:** The Government has not shown any budget indicators to support capital spending for school repairs, reconstruction, and reorganization in the coming year;
- **Climate Change and Global Warming:** While the government acknowledges the risk of climate change and global warming, they have not provided resources to address climate change risk and adaptation strategies;
- **Airlift:** There was no mention whatsoever on how the government is going to address Bermuda's airlift challenges which is vital to the success of our Tourism and International Business Sectors;
- **Accounts Receivables:** The current Pre-Budget Report reaffirms that the Progressive Labour Party Government's tax collection and accounts receivable is a real challenge. The Government's \$300-million-dollar accounts receivable portfolio across all Government ministries is still growing. In fact, the Report indicates that it grew by 5% at

the end of the current fiscal year. They presented no management or any recovery strategies; and

- **Government Guarantees Portfolio:** The Government has not addressed how they are managing the Bermuda Government's Guarantee Portfolio, which, is not charged against Bermuda's debt ceiling. **This portfolio is valued at approximately \$638 million dollars**, which includes \$29.3 Million dollars for BHC; \$71.8 Million dollars for Wedco; \$1.5 Million for BEDC, \$287 Million dollars for the Bermuda Hospital Board; \$165 Million dollars for Morgan's Point; \$10 Million dollars for Bermuda Tourism Authority; \$2.7 Million for the Bermuda Gaming Commission, \$25 Million for Hotel Bermuda Holdings, \$30 Million dollars for BLDC, \$10 Million for the Bermudiana Development Company Limited, \$3.2 Million for the National Sports Center, and \$2.5 Million dollars for the InnoFund. (Source: Bermuda Government Estimates of Revenues and Expenditures. 2022/23).

Bermuda's Current Tax Structure:

A previous report from the the Fiscal Responsibility Panel ("FRP") implied that because of the lack of progress in getting our economic house in order, and adopting their recommendations, "An adverse but far from inconceivable" scenario could see **Government debt on an unsustainable trajectory**, leading to a credit rating downgrade and higher interest rates on new debt, the risk of "large emergency tax increase and spending cuts", and the possibility of capital flight and a foreign exchange crisis.

They also indicated that given the fiscal position, and the limited progress of the Government acting on their earlier recommendations, they are concerned that Bermuda will have little fiscal or macroeconomic policy space to address any crystallization of these risks. Over the longer term, their key concern is still domestic, i.e.: the island's shrinking workforce and ageing population. This challenge will put ever-increasing pressure on both taxes and spending. The issue is not about whether action is needed, or even what actions are needed – there is a high degree of consensus, as expressed in both their reports and those of other independent bodies and indeed within Government – but **when and how**. Immigration reform, tax reforms and tax increases, and changes to the structure of healthcare and pensions are all necessary.

Revised Tax Structure:

The FRP indicate that due to the PLP's delay in meeting a balanced budget, the absence of significant tax reforms proposed by the Tax Reform Commission, and the de facto easing of the government's fiscal targets, Bermuda is now in an economically vulnerable position.

The FRP recommends that the country should brace itself for a revised tax structure. They assert that the current structure is unsustainable in addressing Bermuda's economy. In real terms, this means more taxes for the people of Bermuda given that they believe that reasonable tax revenue, as a percentage of GDP, should be between 19 to 20%. This is an increase of approximately \$190 Million dollars over 3 years.

It should also be noted that with the imminent embodiment of the Tax Reform Committee, a more fair and equitable tax structure is being examined, which will result in an increase in all our personal tax liabilities.

BUT BEFORE ANY OF THIS CAN BE DONE THE GOVERNMENT MUST CLEARLY DEFINE ITS TAXATION PHILOSOPHY TO THE PEOPLE OF BERMUDA.

Response from the International Business ("IB") Sector

The One Bermuda Alliance recognizes the valued contributions made by our international business sector, and our gradual recovery in tourism. In fact, I have been advised that discussions were held with the heads of the IB sector, all of who indicate that they would be receptive to tax reform with the following caveats: a) if the tax increases are used to reduce the national deficit; b) if the Government is disciplined, and drive down costs; c) if Government expenditures are well managed and well-controlled; and d) if they are not the only sector who will be required to pay increased taxes.

OBA Recommendations:

We believe that this chapter of Bermuda's economic development is going to be a very challenging and difficult one for all of us and that we must brace ourselves for a rough ride. **Here is a list of initiatives that the OBA would immediately implement to change the trajectory of the PLP's 2023-24 Budget:**

1. A clearly articulated glide path to **balance the budget must be developed within three years** to reduce the reoccurring current account deficit;
 - **Reduce the size of the government** through offering early retirement and through attrition, as the human resource cost is approximately forty plus percent of the current account expenditures;
 - Apply more diligence and provide better management **to recover the millions of dollars owed to the Government in accounts receivables;**

- **Expand Bermuda's workforce** by relaxing immigration policies so that it is easier for job creators, executives, entrepreneurs, and high net worth individuals to migrate to Bermuda and thereby create jobs;
- Provide **added resources to the Bermuda College and the Workforce Development** team, to train and retool our students and employees for any newly created jobs in the private and public sector;
- **Provide resources to the agricultural and the fisheries industries** to entice job creation and help food security;
- In accordance with the reports and recommendations produced by the Fiscal Responsibility Panel and the Tax Reform Commission, and **with feedback from the public and the International business sector, the One Bermuda Alliance would examine, define, and implement the most equitable, fair, efficient and transparent tax system, to serve the needs and people of Bermuda today and into the future, and not a structure which was crafted to serve the needs of Bermuda's past and its legacy.** We would also consider the G20/OECD Global Tax Initiative which addresses domestic tax base erosion, and profit shifting to multinational enterprises to end tax avoidance; and

Provide more economic and human capital to Bermuda's Tourism Authority and Bermuda Business Development Agency so that Bermuda can be as competitive as other jurisdictions when selling Bermuda's story and competing for inward global capital and resources.