

REGENERATION OF BERMUDA'S ECONOMY

Response to Budget

By

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Government is planning to spend \$1,081,700,000 while projecting revenue of \$909,634,000. That leaves a shortfall of \$172,100,000.

The Minister plans to make up the shortfall in 2012/13 and the carried over \$60,000,000 shortfall from 2011/12 by:

- Raising money via a local bond issue
- Not pay \$31,000,000 into the Superannuation Fund
- Withdrawing \$50,000,000 from the Sinking Fund

The combination of these actions will provide the funds needed to fund the big gap.

The 2012/13 Budget shows that fee income from International Companies is expected to be down again this year. The International Companies fee income acts as a barometer of Bermuda's economy. In 2010/11 \$61,456,000 was earned and \$57,731,000 is expected in 2012/13. Since these companies underpin 90% of all economic activity in Bermuda and are the primary generators of jobs and taxes, the decline indicates that Bermuda's economy is still shrinking. This agrees with the Finance Minister's projection.

The Budget shows that Payroll Tax and Customs receipts are also not expected to grow. Payroll tax in 2011/12 was \$315,000,000 and only \$312,000,000 expected in 2012/13. Shipping figures show that cargo volumes into Bermuda in 2011 had declined to the level last seen in 1998, after five consecutive years of decline. With this in mind, Customs Duty receipts in 2012/13 are likely to be below the \$200,000,000 projected in this Budget.

The only real increases in revenue will come from local pockets via the changed land tax rules and the TCD licencing rules which together make for an extra \$6,100,000 from Bermuda's Seniors.

Hidden in this Budget Statement is that Debt Service expense in 2012/13 will actually rise to \$115,000,000. A portion of the Interest Cost will be paid out of the funds set aside in the Sinking Fund. This means that at the end of 2012/13 the Sinking Fund will have been reduced from \$125,000,000 to \$95,000,000. We must also take into account that in 2014 \$120,000,000 will be due for payment.

Borrowing of this kind is a short-term stop-gap. Bermuda's economy is in substantial contraction. It cannot be sustained. Raising money to service debt is possible but it will have to be repaid at some stage in the future. Therefore, going forward the options available to Government are:

- a) Reduce costs
- b) Raising taxes – This has very clear limitations
- c) Growing the economy – This appears to be the most viable option


The private sector has already been undergoing income reductions. Government employees must still anticipate a pay cut. Something in the region of a 20% pay cut is still on the cards.

Even with all of these changes the budget will still not be balanced and debt will continue to grow.

The mid-term and long-term answer is to grow the economy. The little steps taken now, work permit easing, red/green lines at Customs at L.F. Wade International and ID cards for International Business people, are limited steps in the right direction.

We believe that Government must push energetically to grow the economy by removing historical barriers that do not work. This must be given priority. We also believe that Government must bite the bullet and cut its costs. The kind of accounting legerdemain currently employed (Sinking Fund withdrawal and Superannuation skip) are not solutions.

On a personal note, as I recommended that Seniors pay land tax and vehicle registration above a particular ARV and class, I am glad to see its implementation by Government and will be happy to write my cheque in both instances and make my contribution to the economy. – Sir John Swan

Get involved and send us your thoughts. This continues to be a collective effort by all Bermudians and we need your continued support, comments and ideas. For further information or to express your comments email us at economy@challengerbanks.bm or visit us on  Regeneration of Bermuda's Economy.