

2017 BUDGET STATEMENT

2018

IN SUPPORT OF THE ESTIMATES OF REVENUE AND EXPENDITURE

PRESENTED BY

THE HON. E.T. RICHARDS JP. MP — MINISTER OF FINANCE
FRIDAY, 24 FEBRUARY 2017



GOVERNMENT OF BERMUDA
Ministry of Finance



BUDGET STATEMENT
IN SUPPORT OF THE
ESTIMATES OF REVENUE AND EXPENDITURE
2017–2018

PRESENTED BY THE HON. E.T. RICHARDS, JP, MP
MINISTER OF FINANCE
24 FEBRUARY 2017

Published by:
Government of Bermuda
Ministry of Finance

Government Administration Building
30 Parliament Street
Hamilton HM 12, Bermuda
February 2017

Design: Department of Communication and Information
Printed in Bermuda by Bermuda Press Ltd.

Mr. Speaker, Honourable Members of the House of Assembly,

Bermuda's national motto, "Whither The Fates lead us", has often been disparaged as a passive and visionless statement of national character, unworthy of the Bermudian people.

On the surface, it can come across that way. But before dismissing it altogether, I would urge critics to consider deeper meanings within those five words; meanings that actually reflect our lot in life – a dot on the map of a big, often turbulent world; and our character – ever vigilant and optimistic, confident that our skills and ingenuity will manage The Fates to keep us moving forward, no matter the wind.

Mr. Speaker, I begin this Budget Statement for the fiscal year 2017-2018 with reference to the motto because it speaks to the challenges we face today and the qualities we need to keep Bermuda sailing on the right tack, moving forward, no matter the wind.

We have entered an Age of Uncertainty, in which the landscape of our life – the post-war international order – is shifting uncomfortably toward destinations not known.

The uncertainty has come upon people over the past year like a slow motion shock. You can see it in the headlines, hear it in conversations, even feel it in the pit of your stomach if you cast your mind to what's happening in the world around us.

The Fates this time have been driven by the consequences of economic stagnation, failing states, polarization and protectionism, manifesting themselves in Brexit, "America First," potential black lists and a Doomsday Clock at its closest point to midnight in more than 60 years.

Mr. Speaker, the Government of Bermuda has an important safe-hands role to play in this changing, turbulent world, protecting the lives and interests of the Bermudian people.

When it was elected in December 2012, the first order of business was to stop the slide toward economic collapse. There was widespread unemployment, business closures and an exodus of people. Bermuda's debt had risen more than 700% in the preceding 14 years, with annual interest payments draining nearly \$100 million from the public purse, an unprecedented amount. The cost of Government had grown enormously, far outstripping the revenues to pay for it. This was made searingly clear in the 2013/14

Budget, a few weeks after the election when, with “a profound sense of frustration”, I projected a budget deficit for the coming year of \$331 million, a staggering number.

All of these developments, mixed with a lack of national direction, had been sapping Bermudian self-confidence.

Mr. Speaker, the new Government acted quickly to turn things around, putting in place a two-track plan to stimulate economic growth and to control and reduce Government spending.

The aim was to press every button, pull every lever and work every angle to restore Bermuda’s economic health and extend recovery into every home and give people hope for better days.

By every measure, we have made substantial progress:

- Bermuda’s Gross Domestic Product has recorded growth across two years, ending Bermuda’s prolonged recession.
- Tourism, an industry once given up for dead, is being restored through the formation and success of the Bermuda Tourism Authority, new hotel developments and the America’s Cup.
- Job growth in 2016 – the first year the Island’s Jobs Survey has added to its job total since 2008 – is set to accelerate with the Airport redevelopment and the St. Regis hotel in St. George’s.
- Improved consumer confidence has buoyed the performance of the once-stagnant retail sector and fueled local construction.
- In public finances, at the end of the 2018/19 fiscal year the Current Account is projected to record its fourth straight annual surplus before debt service. In fact, the surplus will cover interest charges and capital expenditure. This means for the first time in 15 years the Government will not be adding to its net debt. We will have enough to contribute a portion of our mandated Sinking Fund Contribution, meaning that our net debt will start to fall at that point.

Mr. Speaker, Government’s multi-dimensional, multi-year campaign to turn around the economy and restore confidence has been succeeding, yet we know that ending The Great Bermuda Recession did not end the recession for everyone. The recovery has been uneven and hardship continues for many, most keenly through the debilitating pressures to pay bills and put food on the table.

Government wants to help these families and individuals, but there is very little room to manoeuvre, given the intense pressures created by deficits and debt. Since 2014, we have reduced the deficit by \$164 million, but that still leaves a projected \$135 million gap between revenues and expenses. In addition, the projected debt service of our debt this year alone is \$186 million, an astounding number that works out to more than \$500,000 debt service having to be paid each and every day per year to our creditors.

Mr. Speaker, I mention these facts to highlight the lack of room we have to help Bermudians who need help.

Last November's Throne Speech signaled our intention to introduce progressive payroll tax reform. We have since worked out a plan to provide tax relief to those who need it most and to involve the rest of the community in helping to resolve our still-difficult financial challenges.

The need for community support is critical. In 2013, when we were considering the scale of the problem, I said: "Government cannot do it alone. It is going to take new levels of cooperation and teamwork from Bermudians in every sphere." Now is the time for the community to kick in to help us eliminate the deficit once and for all.

Payroll tax reform is also about introducing the principle of fairness into our system of taxation – a system that had become increasingly unfair to lower income earners. In effect, these reforms will require more from those who earn more and less from those who earn less. This is what we mean by progressive reform.

Mr. Speaker, it is my sincere hope the tax cuts proposed in this Budget Statement will ease cost-of-living pressures for the thousands of people who could use a break. The cuts, which are based on the income bands a person's wages fall within, will see people who earn \$96,000 or less a year getting tax cuts up to \$720.

Mr. Speaker, this Budget continues our work to restore hope and opportunity to households across the Island. We are making progress, but the work to make Bermuda work again for its people is never-ending.

We will continue to keep the pedal to the metal, speaking to investors and drumming up business to create more opportunity, security and prosperity for Bermudians in all walks of life. This may prove to be a stiff challenge given that the uncertainties at large today may well undermine confidence and slow investment activity.

I can assure Bermudians that your Government will remain vigilant to the threats and opportunities – The Fates if you will – and be ready, with safe hands, to seize the advantage and keep us moving in the right direction.

ECONOMIC CONDITIONS & OUTLOOK

Global Picture

Figure 1



illustrating some of the issues of the recent US election, where the loss of manufacturing jobs to other countries was a critical factor in Mr. Trump’s electoral success in the so-called “Rust Belt” manufacturing states.

Figure 2

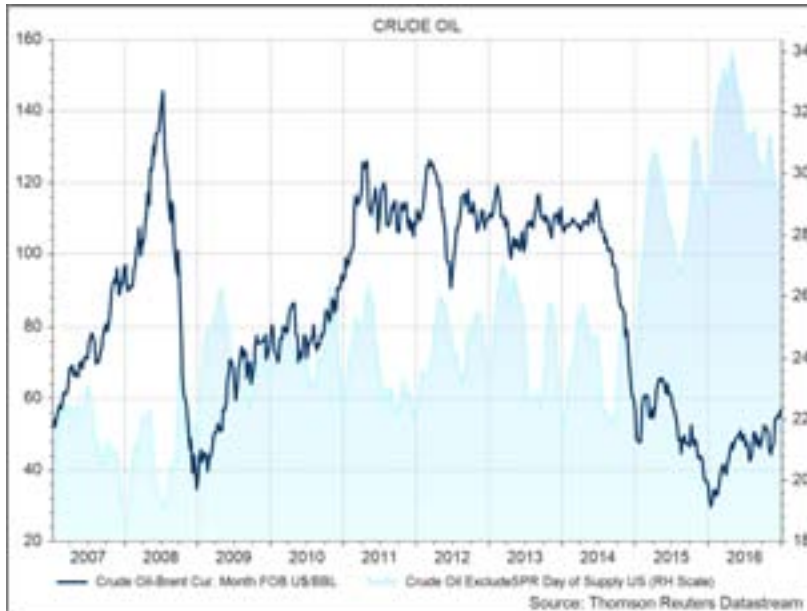


Mr. Speaker, global economic growth is positive albeit uneven. US economic growth continues to remain moderate, but with signs of renewed acceleration. Figure 1 indicates GDP growth on an upward trend (the green bars) after cooling off for 2015. Industrial Production, which includes manufacturing (the blue line), continues to be somewhat weak, illustrating some of the issues of the recent US election, where the loss of manufacturing jobs to other countries was a critical factor in Mr. Trump’s electoral success in the so-called “Rust Belt” manufacturing states.

However, in aggregate, the service economy more than compensates for losses in manufacturing, and this is evidenced by the continuing strong trend in employment shown by the red line.

Mr. Speaker, strong employment trends are confirmed by Figure 2, which clearly

Figure 3



shows consumer confidence having fully recovered to levels immediately preceding the start of The Great Recession.

The other factor worth noting is the cost of energy. Figure 3 traces the price of crude oil and clearly shows world crude prices have bounced significantly in 2016, from a low of about \$30 per barrel to around \$55 per barrel. The shaded blue area represents US

supplies of crude. It is evident that supplies are still quite high, so it should not be anticipated that crude prices would bounce back up to the \$100 per barrel in the immediate future. What it does mean is that the era of super cheap energy may be over, something that has definite implications for US dollar interest rates and Bermuda's energy bill.

The US Federal Reserve recently raised short-term interest rates by one quarter of one percent and also indicated that there may be another two rate hikes in the offing for 2017. Rising interest rates always provide a challenging background environment for investors, particularly fixed income investors, as rising short-term interest rates erode the capital value of existing bonds.

Mr. Speaker, this will have challenging implications for our (re)insurance sectors, which are heavily invested in bonds. Also, because the Government continues to run deficits, it means that financing those deficits will become more expensive. The opportunity the Government recently took to refinance bonds at ultra-low rates may not likely present itself again in the near future. That is yet another vitally important reason for Government to balance the budget because the cost of debt is likely to increase.

EXTERNAL THREATS

The Trump Effect

Mr. Speaker, what does the election of Donald Trump mean for us here in Bermuda? The answer depends, perhaps, on whether we believe he will (or can) do all that he has said he will do. He has already reversed himself on a number of campaign promises, even before he became President. However, with the Republicans controlling both houses of Congress, for the first time in a very long time, the US Government has the opportunity to make major shifts in policy, especially fiscal policy. The idea of a cross-border tax is particularly worrying to our international business sector. If taxes were placed on cash flows from reinsurance claims it could be catastrophic for Bermuda-based reinsurance companies.

Mr. Trump's campaign emphasized a strong pro-growth policy, which will likely manifest itself in large deficit-financed infrastructure projects with little regard for the deficit or inflation. There will also be strong attempts to reform and lower the US tax structure, something that is also likely to swell the deficit, particularly as there is no talk about paring Government spending.

Mr. Speaker, for Bermuda, this is likely to be a two-edged sword. The classic Republican cutting of taxes to stimulate growth should have a positive effect on our tourism business. More disposable income in the hands of more Americans will provide Bermuda with a very good opportunity to increase the numbers of people vacationing on our shores. If the President's tax policies have the effect of "bringing home" jobs that were outsourced to other countries, that will also present increased opportunities for Bermuda tourism.

Of course, "if" is a powerful word. I suspect that the wage disparities between the US and many developing countries are so large that no amount of tax engineering will be able to bring many of those jobs back to the US. Added to that, as in the Ford Motor Company's plant in Mexico, many foreign manufacturing jobs owned by US corporations market their products globally as opposed to selling them back to the States. Moreover, the march of technology, particularly in the area of manufacturing, means that the re-domiciling of manufacturing to the US would not result in the re-domiciling of the same number of jobs, as many of them would be replaced by machines.

Realistically, however, there is a limiting factor to the number of jobs out there to be created. The current unemployment rate in the US is 4.7%. The Federal Reserve's

definition of full employment is 4.8%. Therefore, even now, unemployment has fallen below the threshold whereby the Fed will be compelled to act, via monetary policy and interest rates, against the inflationary pressures any further declines in unemployment may cause.

Mr. Speaker, you have to go back to the 1960s to find a period when the unemployment rate stayed below 5 percent for four years or more. The median unemployment rate over the past 25 years has been 5.6 percent. A mild recession, possibly caused by monetary tightening, sending the unemployment rate back to that level, is now well within the realm of possibility.

The other edge of the Trump sword carries with it a very serious risk to Bermuda's economy. Tax reform in the US context will definitely mean corporate tax cuts. The scenario whereby US corporate taxes are cut to such an extent that there will no longer be a comparative advantage to use the facilities that Bermuda offers is now possible. There is also the possibility that the details of tax reform could either intentionally or unintentionally target our (re)insurance business and damage Bermuda's comparative advantage, resulting in the re-domiciling of companies to the States with the corresponding loss of Bermuda jobs and income. We do not know the details of US tax reform yet; perhaps nobody does at this time. However, the risks to our international business model are very significant and we must be extra alert and vigilant.

Brexit

Figure 4



Mr. Speaker, to twist Churchill's famous Battle of Britain quotation, "Never was so much owed by so many to so few", we can observe that never has so much verbiage been written by so many "experts" with so few facts, than on the subject of Brexit.

Prior to the vote last year, the conventional wisdom was that Brexit would be either bad, or very bad, for the UK economy, resulting

Figure 5



in a recession, which would hurt the fortunes of millions of Britons. The vote showed that Britons themselves felt differently. Since then, the UK Government has been frantically trying to figure out how to deal with the situation.

The financial/economic indicators appear to reflect the schizophrenia in the UK relating to Brexit. Figure 4 shows that the FTSE100, the

UK's primary stock exchange index, (the red line) has actually risen since the Brexit vote, hardly a harbinger of disaster. On the other hand, the blue line, representing the trade-weighted index of the British Pound exchange rate, has plummeted during the same period.

Figure 5 shows UK Consumer Confidence. While personal consumer confidence (the blue line) fell sharply after the vote, it has subsequently recovered somewhat to a neutral reading. Confidence in the General Economic Condition (the red line) has not fared as well showing a weaker trend.

Mr. Speaker, while these are just four indicators out of the myriad of clues analysts look at, it is an indication of the confusion surrounding the whole Brexit issue. Here in Bermuda, it is clear that we should not jump to premature conclusions about this issue and how it may affect us. However, the Government has initiated consultation with the British Government on the Brexit issue to ensure, as much as possible, that Bermuda's interests are protected and maintained.

Perhaps the most universal concern to Bermudians relative to the UK leaving the EU is that of passports and travel access to EU countries. Currently, Bermudians enjoy the best of both worlds: unlimited access to the EU and visa free access to the US. Brexit threatens this position and we don't know what the final position will be.

Bermudians should be aware, however, that the Government will be doing everything possible to minimize the negative fallout of Brexit on Bermuda's travel privileges.

Tax Haven Threat

Mr. Speaker, in a recent article in the Financial Times entitled, “*US tax reform is vital but Donald Trump’s plan is flawed*,” Dr. Larry Summers, a former Federal Reserve Governor and celebrated economist, concluded: “*There is no need to reinvent the corporate tax wheel. Let’s fix the tax we have by cutting rates, closing shelters, broadening the base and cracking down on tax havens. That would be an important step to making our economy grow faster. It would also be fairer.*” It is noteworthy that Dr. Summers is American, not British, and although writing about the US economy, one wonders whether he was referring to cracking down on his own domestic tax havens like Delaware, Nevada or Wyoming, or whether he was referring solely to the bane of the global economy – those pesky “dots on the map.”

On the other side of the Atlantic, a number of MPs in the British Parliament are proposing an amendment to the “Criminal Finances Bill” that would enable the British Parliament to use an Order in Council to compel Overseas Territories to adopt the UK model of public beneficial ownership registers for companies incorporated in the territories.

Mr. Speaker, the Bermuda Government is strongly opposed to this initiative as company business, and anything that has to do with the governing of Bermuda incorporated companies, falls squarely within the purview of the duly elected Bermuda Government, and the Minister of Finance in particular. This initiative is an affront to Bermuda’s constitutional rights enshrined in the Bermuda Constitutional Order and if it gathers favour in London, we will fight it with all the means at our disposal.

Constitution aside, an Order in Council by a large country like the UK, in whose parliament Bermuda has no representation, against the interests of a small one like Bermuda, whose laws are the creation of a locally, democratically elected legislature, in this day and age, would be an anachronistic act, typical of a time long past, and diametrically opposed to contemporary internationally accepted principles. Such an action would place Bermuda at a distinct competitive disadvantage to other financial centres.

Mr. Speaker, public beneficial ownership registers are not the world standard but are the hobbyhorse of factions within the UK. Bermuda prides itself on being early adopters in all the global standards for transparency and cooperation and we have the track record to prove it. Bermuda’s position is clear: we adopt global standards. The UK would be better served to use its influence to persuade global standard-setting

bodies like the FATF, the OECD and the G7 to adopt the public register standard, instead of intimidatory tactics on Overseas Territories.

Then there are our “friends” in the EU, some of whom appear determined to find some way to conjure up yet another black list to vilify “low or no tax jurisdictions.” Just in recent weeks, a Member of the European Parliament castigated the island of Malta as being a tax haven even though it has a headline corporate tax rate of 35% and is a member of the EU. What does Malta have in common with Bermuda? Nothing, except it too is a dot on the map.

It all fits into the general pattern of large powerful countries with high tax rates and low economic growth targeting small countries to use as political scapegoats to please their constituents who are discontented with their economic situations. This is part of the current international reality impacting and threatening the standard of living of all Bermudians.

Global Initiatives in Financial Regulation

Mr. Speaker, this external risk is directly linked to the Tax Haven Risk. The fact that international financial regulations are not applied equally across the spectrum from large powerful countries to small islands is good reason to be very watchful. The upcoming assessment of Bermuda’s compliance with regulatory developments for the latest international anti-money laundering standards is a case in point. Next year the Caribbean Financial Action Task Force (CFATF), which is a regional unit of the global anti-money laundering standard-setting body, the Financial Action Task Force (FATF) in Paris, will assess Bermuda’s Anti-Money Laundering (AML) and Counter-Terrorism Financing (CTF) laws, standards and procedures. Like most of these international assessments, the goal posts keep changing and each assessment becomes more stringent.

Bermuda’s National Anti-Money Laundering Committee is working very hard to get us ready for this assessment, which covers many more areas than it did on the last occasion. With the increased global hostility surrounding the tax haven issue, it is critical that Bermuda passes this test with flying colours. To do otherwise would risk significant damage to our international reputation and put at risk our attractiveness as a first-class international business centre, something that our international business community depends on.

The International Threat Index

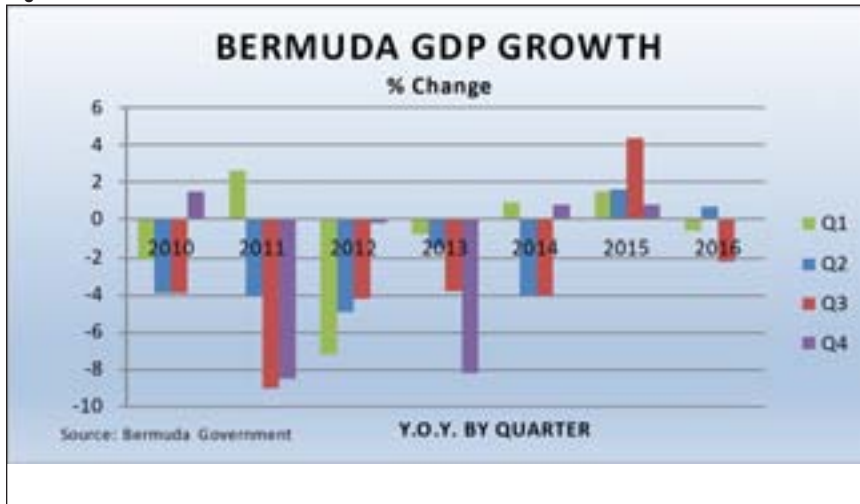
Mr. Speaker, The threat level to our international business model has never been as high or as imminent as it is now. These threats literally pose “a clear and present danger” to Bermuda’s international business sector, the thousands of Bermudians who depend on that sector for their livelihoods and the economy in general. The situation calls for careful, calculated and targeted action by Bermuda, particularly from the Cabinet Office and the Ministry of Finance, in close collaboration with our IB stakeholders. The Government will remain vigilant and prepared to defend against these threats.

BERMUDA

Mr. Speaker, the Bermuda economy continues its overall recovery from the long and painful six-year recession. Figure 6 shows quarterly gains in GDP in 2015 and 2016, except for a brief pause in Q1 in 2016.

If anyone ever had any doubts about the effect an America's Cup-type event could have on the economy of Bermuda, one only has to look at the jump in Q3 2015 GDP, when Bermuda hosted one of the World Series events. That World Series jump is

Figure 6



why Q3 2016 shows a year-over-year decline against Q3 2015. The hosting of the AC35 finals plus the other concurrent maritime activities during May and June 2017 will have a much greater positive impact on our economy over the short term and longer term.

Figure 7



Mr. Speaker, Figure 7 shows monthly year-over-year percentage changes in Retail Sales. The blip downward in October 2016 is due to an unfavourable comparison to October 2015, the month we hosted the AC35 World Series event. Other readings are, in the

main, positive, reflecting continuing gains in strength in Retail Sales in Bermuda. Beneath the headline numbers, the Motor Vehicles sector led the way with average monthly growth of 11.2%. Building materials, which had been particularly weak, started to pick up in the third quarter with monthly growth rates averaging 13.5%. Apparel stores continued weak.

Figure 8



Mr. Speaker, Figure 8 is a rough indicator of the volume of goods crossing the Bermuda frontier. While we don't know what is in these containers, we can see that the downward trend of numbers of containers reversed itself in 2014 and that

trend continued in 2016. While these numbers ignore items imported by air, Bermuda's imports are directly connected to the combination of consumption and infrastructure spending in the Island, as most things have to be imported. Consumption and infrastructure spending are two of the three main engines of GDP, the third being exports of services.

Tourism

Mr. Speaker, the hard work of the men and women at the Bermuda Tourism Authority is finally starting to bear fruit for Bermuda Tourism. It was never going to be easy turning around a declining trend that had been in place for 30 years, but the evidence clearly shows that Bermuda tourism is on the comeback trail, generating jobs and career opportunities as things progress.

Figure 9



Figure 9 shows trends for the all-important air leisure visitors and cruise visitors through December 2016. Measured against 2015 results for the same period, leisure visitors by air grew 17% to 164,321, the highest volume since 2007, while cruise visitors rose 5.4% to 397,880.

Figure 10

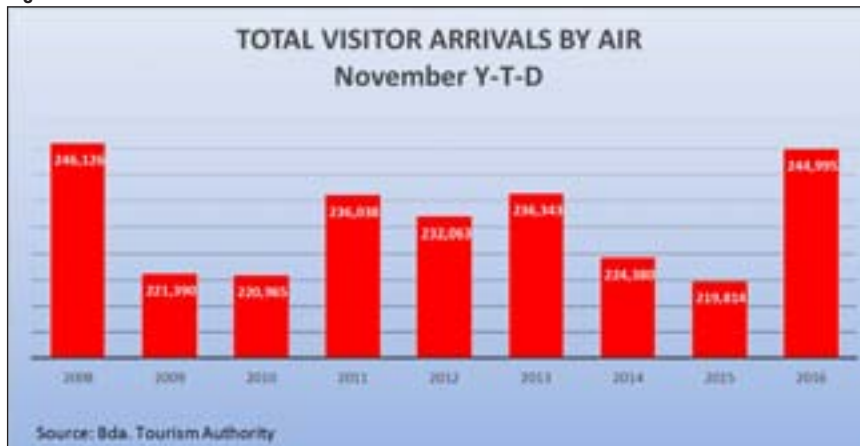


Figure 10 shows the upward trend for total air visitors, including business visitors and those staying with friends and family. Total arrivals were up 11.2%. The quality of 2016's success is further underscored by the fact that leisure air arrivals grew every month

compared to 2015. These are impressive results that auger well for the future.

Mr. Speaker, it is the combination of marketing/sales professionals with investment/business professionals that makes the BTA a unique and effective force in Bermuda's campaign to revive the tourism sector. Interest in Bermuda as a tourist destination is clearly on the rise. A vital component of this development is the work by the BTA, with the support of the Government, to increase airlift to the Island, a critical bridge to growing visitor arrivals. The results to date are impressive, with 11% growth in air capacity in 2016. That growth combined with the BTA's sharp, nimble and well-targeted marketing efforts saw big jumps in arrivals from key US markets in 2016 – New York up 46%, Connecticut up 27%, Washington DC up 24%, Boston 13% and Philadelphia 8%.

One of the most encouraging developments in the 2016 result is the younger type of visitor we are beginning to attract. BTA figures indicate that 76% of the growth in leisure air arrivals was from people under the age of 45 – a remarkable turn for a destination that just a few short years ago was saddled with a reputation for being old and stale.

Mr. Speaker, the practical impact of tourism's growth in 2016 was a 10% jump in hotel occupancy and an 18% jump in spending by air and cruise visitors, to \$266.6 million from \$225.7 million in 2015. This is money going into local businesses and paycheques, supporting day-to-day lives of Bermudians.

Another aspect of Bermuda Tourism's turnaround is the increased interest in Bermuda from an investment standpoint. This can only happen if Bermuda offers potential investors a business environment and incentive packages that are attractive and

competitive. Efforts on the investment front in hotel properties by the BTA and the Government are manifested by major projects at Morgan's Point (Caroline Bay resort, condos and marina), The Loren (just opened), Surf Side (Azure) and the soon-to-break ground St. Regis in St. George's.

These infrastructure projects are an integral part of the growth plan the Government envisioned when it took office in December 2012, and are the result of our strategy to create jobs for Bermudians while working to eliminate the Government deficit so that we can start reducing its debt - the two track strategy. We are making progress on both fronts.

America's Cup

Mr. Speaker, 2017 is the year of the 35th America's Cup – Bermuda's America's Cup.

Bermuda, as the host venue, will be on the world stage, as thousands of visitors, sponsors, participants, visiting vessels and members of the international media descend on the Island. In addition, millions are expected to follow the events through international media coverage and on line. Bermuda and our tourism product will receive unprecedented worldwide exposure.

As we sit here in this chamber today, AC35 is already a triumph - an economic triumph. One just needs to take in the view from Commissioner's House at Dockyard to see what I mean: A worksite buzzing with activity – buildings being built and renovated, new land taking shape, trucks and machines moving about, with Bermudian manpower and skill making it all happen. The scene is an example of Government's economic strategy coming to life.

For those who say AC35 is an event for "elites" that will have minimal impact on the average Bermudian, consider this: These elites from abroad are Bermuda's customers, many of them new customers. Bermudians benefit by providing them with goods and services for which they are well able to pay top dollar. AC35 skeptics should visit Dockyard to see for themselves – fellow Bermudians, men and women, working hard, making a difference.

Mr. Speaker, collectively, the teams have reported spending over \$22 million on their team base operations in 2016 alone. This expenditure does not include team salaries and spending by team members and their families on local goods and services. Local spending by team operations, as well as team members and their families includes

goods and services provided by restaurants, transport services, construction and trades, wholesale and retail operators, security services, marine services, shipping and forwarding companies, telecommunications providers, service industries, small businesses and real estate professionals.

America's Cup will be a boon for Bermudian entrepreneurs, as it was for dozens of them during the World Series event in October 2015; only this year on a much bigger scale.

There is also major legacy value to AC35 that will last long after the event is over. The event itself will generate global exposure for the Island, positioning Bermuda Tourism for long-term success. Moreover, it represents a major opportunity to deepen the BTA's campaign to re-brand Bermuda as an exciting, dynamic and top-drawer destination. It is a once-in-a-lifetime opportunity for the Island, and we must take full advantage of it. Jobs and opportunity for the short term and the long term depend on it.

Mr. Speaker, travel a few miles from Dockyard to Morgan's Point and you will find a vast development site where Bermuda's largest marina is being built. Building foundations are finally visible after months of constant work involving backhoes, bull dozers and dump trucks. Again, you will see men, women and machines at work building the first phase of this mega-project to transform Morgan's Point into a top-tier visitor resort featuring the exclusive Ritz-Carlton Reserve brand.

The Government committed taxpayer dollars to support these two developments: \$39 million for land reclamation at Dockyard, and \$18 million to rehabilitate Morgan's Point, which was left in an unusable state by the US Navy.

In building infrastructure to support the America's Cup and making a huge swath of polluted land useable again, the Government used public dollars to support developments that will become catalysts for long-term economic development and employment.

Mr. Speaker, the East End will see similar spikes in development activity. The Airport Redevelopment Project will soon break ground and Government's promise to get a brand new hotel built is on the verge of being fulfilled. With a dedicated cruise ship returning to the Old Town and a new marina in the works, 2017 is set to be the start of a renaissance for the East End, a community that for so long has been overpromised but underserved.

International Business

Mr. Speaker, International Business remains the bedrock of Bermuda's economy. The dominant sector remains insurance and reinsurance. Figure 11 shows trends in major indicators in the Bermuda Insurance market. Premiums were flat year

Figure 11



over year at \$152 billion while total assets retreated marginally to \$583 billion. Capital and Surplus however, rose to \$214 billion.

Globally, the insurance market continues to experience a glut in capital, resulting in soft renewal rates, which has driven the merger

mania in the market place. The mergers have reduced the number of players, and thus the number of employees, but the financial strength of Bermuda insurers remains very strong.

Although captive insurance, the genesis of our insurance business, was excluded from the Solvency II exercise, Bermuda remains the premier captive centre in the world. There were 13 new captive companies incorporated in 2016 compared to 22 in 2015.

Other Segments of International Business

Bermuda Business Development Agency (BDA)

Mr. Speaker, with the goals of job growth, increased GDP and reputation enhancement, the BDA is focused on educating the marketplace; differentiating the Island from our rivals, market penetration and product development.

2016's activity yielded positive results as shown by the establishment of our first Chilean captive, the physical presence of a life-science company, the return of the world's leading asset allocators to use Bermuda as their platform and continued development of the trust and private client sector.

As the welcoming arm for new business, the BDA helped 17 companies establish themselves on the Island in 2016, with research indicating the creation of at least 146 jobs through companies that had received BDA assistance.

Mr. Speaker, also during 2016, the BDA team participated in no fewer than 62 different conferences and events. Highlights included asset management events at Madison Square Gardens and the Flat Iron Room in New York, attendance at Posidonia in Greece, the Artemis conference in Singapore and Hong Kong, RIMS in San Diego, private client events in Europe and Asia, and America's Cup World Series events in New York and Chicago.

The BDA brought five events to Bermuda during the year, including the Legal Week Private Client Forum Americas at Tucker's Point in February, RC44 Bermuda Cup, ALARYS Latin America Congress, World Alternative Investment Summit, and the Aeropodium aircraft registration conference. The BDA also facilitated the return of events we originally brought to Bermuda, such as the Transcontinental Trusts Conference, the Regulatory Compliance Association symposium, the Global Fund Forum, and the ILS Bermuda Convergence. Such events have synergy with Bermuda's hospitality industry, particularly during the less busy shoulder season.

For the year ahead, the Agency will further develop Family Offices and target advisors to Chinese wealth; continue its penetration of the Latin American market for captive and trust products; develop cross-sector messaging for healthcare risk solutions; educate the US market on the value and advantages of Bermuda's new LLC legislation; and promote the Island as a hub for high-level, life-sciences, bio-med companies.

Construction

Mr. Speaker, construction is an important area of employment in Bermuda. Although some of the blockbuster projects have not yet commenced, the sector is already expanding.

During the first three quarters of 2016, the estimated value of work put in place grew from \$58.9 million in 2015 to \$76.9 in 2016, an increase of 30.6 per cent.

Work performed on residential construction projects accounted for 37.7 per cent of construction activity. Offices, shops and warehouses contributed 29.1 per cent of the total, and the Industrial Plant & Other category represented 12.6 per cent of total activity in the construction industry. Together, these three categories accounted for

79.5 per cent of all work put in place between January and September 2016. 71.7 per cent of the construction work performed during that time period was performed by the private sector and 28.3 per cent by the public sector.

During the first nine months of 2016, 41 new dwelling units were completed in the residential sector of the industry, which represented an increase of 3 units or 7.9 per cent year-over-year, which halted the downward trend that occurred in this segment of the construction industry over the past several years.

Mr. Speaker, it is clear that while the sector has started to expand as a whole, there still appears to be enough slack in the sector for the major projects that are waiting in the wings:- the airport redevelopment, the St. Regis hotel in St. George's; - to make a major impact on local employment in construction.

Property

After three years of sharp recovery from the recession doldrums, Bermuda property markets corrected in 2016. Prices softened across all sectors except for luxury condominiums.

There was also a fall in the volume of transactions as unit sales and total dollar value, including home, land and commercial sales, fell in 2016.

Mr. Speaker, in 2016, in the residential sector, the number of luxury homes sales fell by 50% year-over-year, with only seven recorded sales with an Annual Rental Value (ARV) of \$126,000 or more. Median sales prices fell 25% to \$3.5million in this category. Half of the purchases came from Bermudians with most foreign buyers coming from Britain.

Luxury condominiums saw some firming of sale prices with average prices increasing 7% to about \$910,000 compared to 2015. Bermudians represented 80% of those buyers. Foreign buyers were mainly from the United States, South Africa and Switzerland.

The residential rental market in 2016 remained stable. Rental activity was supported, in part, by long-term properties accommodating teams from America's Cup, thereby reducing the overall market inventory typically available for long-term tenants.

The latest average asking rental rates are one bedroom – \$1,800 per month; two bedroom – \$2,800 per month; three bedroom – \$4,500 per month.

External threats, including US tax reform and Brexit, are likely to cause caution for buyers and keep prices steady. There may be some stimulus due to America's Cup activity.

EMPLOYMENT

Mr. Speaker, the latest jobs figures from the Department of Statistics show that, as of last August, year over year, there were 56 more jobs reported than the previous year. This is an important positive change in direction from the previous many years.

As outlined in last year's Budget Statement employment is a 'lagging indicator'. The burst of activity we have seen with our own eyes in Dockyard, Morgan's Point and Pink Beach are clearly not reflected in these numbers, as the data shows an increase of only 10 jobs in the construction sector.

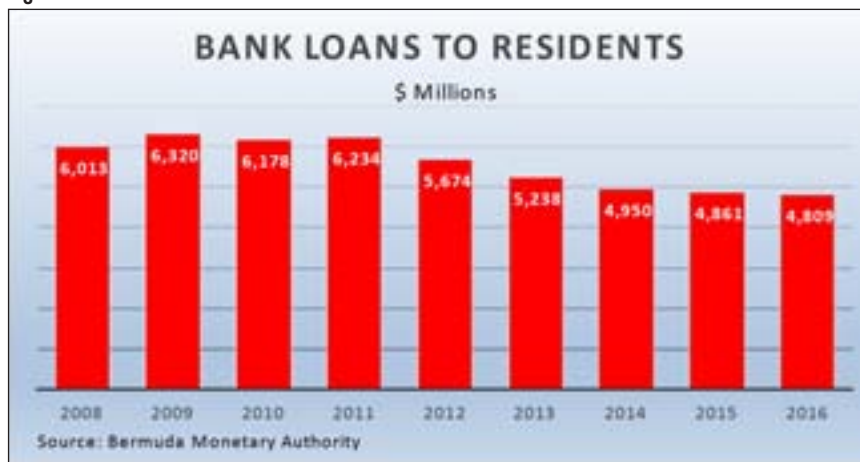
It should also be noted that the Jobs Survey includes people who have retired and/or left the workforce for other reasons and whose positions have remained vacant or discontinued. This is of particular note with respect to Government where 169 fewer jobs were reported evidencing the hiring freeze policy and early retirement drive - to reduce the size of Government through attrition. Positions vacated by early retirement are not allowed to be filled for at least two years. The public should be reminded that this has occurred despite there having been no layoffs in Government, in accordance with stated policy.

Mr. Speaker, the aging and retirement of baby boomers is a statistical fact that has worked to shrink the workforce. As retiring baby boomers fall off the rolls of the workforce, they are not being replaced by equal numbers of young people because there are fewer of them.

Unfortunately, we do not have a system of estimating jobs in the economy that is more timely. Notwithstanding this, it is clear that the dampening effect of demographics and consolidation in the IB sector needs to be counterbalanced by growth elsewhere. This is well recognized by the Government, hence the focus on growing tourism and capital projects already mentioned, plus the airport redevelopment project and the St. Regis that are about to commence.

BANKING

Figure 12

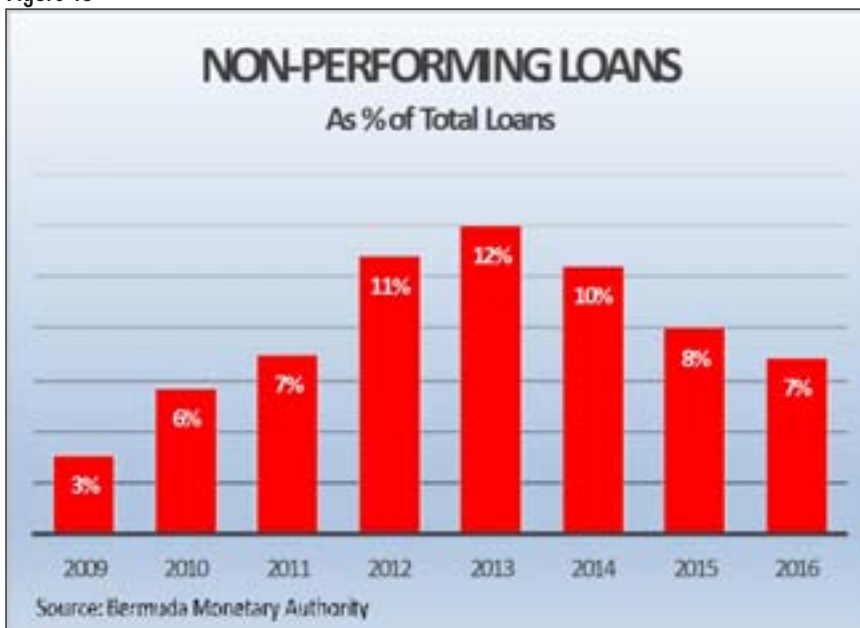


those with surplus funds to those who are in need of funds through their loan and credit facilities. Banks are also our primary conduit to foreign exchange - something vital in Bermuda. Therefore, the behavior of banks has a larger than life impact on the fortunes of the economy at large.

Figure 12 shows the credit trends over recent years. Year-over-year, banks lending marginally decreased and is now in excess of \$1 billion less than it was in 2008.

Mr. Speaker, during the recession banks' non-performing loans increased substantially,

Figure 13



Mr. Speaker, Banking is always a strategically important sector in any economy, as banks enable virtually all transactions in the economy and provide a store of wealth, as custodians of the savings of members of the community. Moreover, as intermediaries, banks recirculate savings of

as Bermuda real estate, the collateral that banks most often used to secure their loans, experienced the first major correction ever.

Figure 13 illustrates that banks have been working these non-performing loans (NPL) down. These NPL's have had the effect of a brake on lending by local banks.

Meanwhile, on the deposit side, the picture has been very gloomy. Ultra-low interest rates, coupled with various fees, have had the effect of customers experiencing negative rates of return on their savings.

Ever increasing international pressure on banks to tighten up “know-your-client” documentation has strained relationships with established customers, especially long term customers who reckon that the bank already knows who they are. It is a difficult time to be in the banking business and to be a bank customer.

One bright shaft of light through the gloom was the successful Initial Public Offering (IPO) by Butterfield Bank in 2016. This transaction recapitalized the bank and retired the preferred shares that carried a Bermuda Government guarantee. The bank is now on a more solid financial footing and the Government has about \$180 million less in contingent liabilities outstanding. The decision to back Butterfield Bank by the Government during that time of crisis was of critical importance, and a good one that has worked out well for the bank and the community at large.

PENSION AND SENIORS

Mr. Speaker, Bermuda, like most other countries, currently provides retired individuals with a combination of Social Insurance from the Contributory Pension Fund (CPF) and an occupational pension from their employer. Last year Government promised that it would consider adjusting pension payments from Social Insurance pending the report from our actuarial consultants. After receiving the report the payout from Social Insurance was increased by 5% in September 2016.

Unfortunately, there are still many seniors that are struggling to make ends meet, and with the high cost of healthcare, find themselves in financial straits. It is an unfortunate fact that a large percentage of Bermudians on Government Financial Assistance are seniors. Government is looking into the various aspects of this problem, particularly the cost of healthcare, to ameliorate the situation.

A number of issues have arisen as it relates to the Occupational Pensions system and its ability to meet the needs of both pensioners and members at large. We are in consultation with the Pensions Commission to make the system more responsive to the needs of users but at the same time ensuring that the assets are sufficiently protected so that they are there when members actually retire.

NATIONAL DEBT

Mr. Speaker, the Serenity Prayer crystalizes the context of the National Debt: - “*God grant me the serenity to accept the things I cannot change; courage to change the things I can; and wisdom to know the difference.*”

Earlier in this Budget Statement I said the external risks for Bermuda are probably the highest they have ever been. We will continue to monitor the situation and do what we can to mitigate the risks, fully aware that executive decisions related to those risks are in the hands of foreign governments and corporations, not us. Meanwhile, the Government and legislature of Bermuda can do much to mitigate our own internal risks.

For two consecutive national budget statements I have been emphatic in characterizing the National Debt as the single biggest threat to the future prosperity, standard of living and social stability of the people of Bermuda.

Figure 14

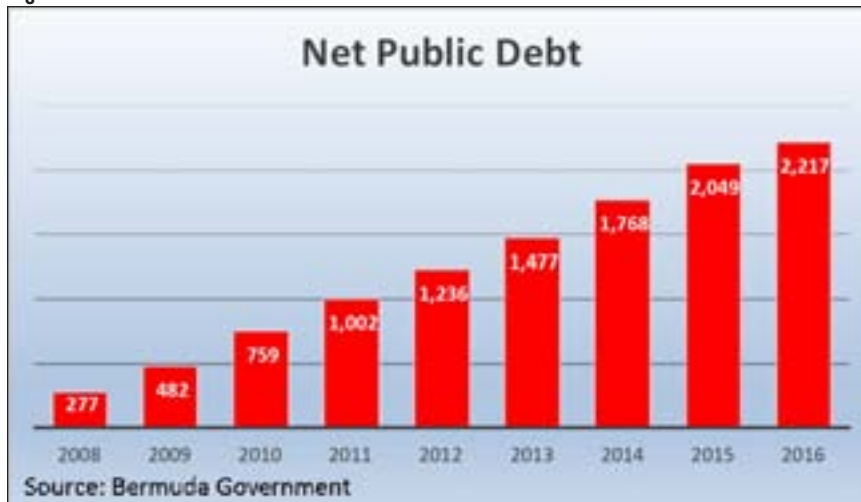


Figure 14 shows the trend in Net Public Debt over the past 10 years.

In spite of my repeated exhortations on this subject, there are some who remain skeptical about the seriousness of this threat, even though the independent Fiscal Responsibility Panel has made a similar

declaration on two consecutive occasions. In their 2016 report they said:

Bermuda’s economy faces a number of risks and uncertainties in both the short and longer term. Our judgement is that with Brexit, the US elections, and the impending evaluation of the island’s anti-money laundering/counter-terrorism financing regime, these risks have increased. The current level of government debt – combined with very large potential liabilities from government guarantees and underfunded public pension and health insurance schemes – means that any negative shock resulting from these or other factors, internal or external, could have very serious economic consequences.

Reducing government debt and debt service costs mitigates these risks and will make the island's economy more resilient to any such shock; it must therefore remain an overriding priority.

Mr. Speaker, how does the size of the National Debt affect the average Bermudian?

Here are the facts: Government performs certain critical functions that directly or indirectly impact the quality of life of everyone on our Island. Four functions that immediately come to mind are: Health Care, Public Education, the Social Safety Net and National Security. While many of these services are free, they all come at a cost, which is paid for by taxpayers. In this upcoming fiscal year, the Budget estimates the cost for Health Care to be \$163 million; Public Education \$126 million, Social Safety Net \$87 million and National Security \$147 million.

Even if you are healthy, can afford private education, are gainfully employed, don't need the social safety net, and are law-abiding, these four services will still impact you because many other people around you rely on some or all of them. The small size of our community is such that no amount of individual wealth can completely insulate anyone from the negative effects of an erosion of these services. They are crucial to maintaining the social fabric of our society and in the coming fiscal year they will cost \$523 million.

Despite their priority importance, the Government has a higher priority and it comes to us not by choice but by necessity. That top priority is debt service – estimated to cost \$186 million in the next fiscal year – now the largest line item in the Government's budget. For every dollar of revenue that Government takes in during this upcoming year, 17.7 cents will come off the top to service the debt. In 1998 it was 2.8 cents. The greater the debt, the larger the debt service costs; the larger the debt service costs the less money Government has available for crucial social and safety services. The danger point here is simple: increasing the national debt will increase debt service and crowd out Government's ability to perform its core services to the community.

So, **Mr. Speaker**, when you hear people saying we should have borrowed money to do this or that, or borrowed the money to build something, like a new airport terminal, the real consequences of such an action is debt service costs crowding out of Government's ability to fulfill its obligations to the people of Bermuda for education, health care, social services and security. Such casual attitudes to the National Debt are both irresponsible and dangerous. The Blue Ribbon Panel was particularly sensitive to the "high risk" of adding to the National Debt, which it described as a "national threat."

If debt and debt service are allowed to soar, credit rating agencies will downgrade Government debt, which would increase the cost of servicing the debt. In this scenario, if Government cannot pare back spending on social programmes, the debt will increase even further and initiate a vicious downward spiral of downgrades until credit markets ultimately deny the Government access to credit, crippling its ability to provide services. We would then have to go cap in hand to some outside entity for aid, thereby losing control of our own finances to outside entities and our good reputation as a well-managed jurisdiction (as some other islands already have done).

Mr. Speaker, Moody's, one of the two main credit rating agencies, publishes reports on all the countries it rates. Bermuda with its A2 rating has a debt service score using the metric of interest/total revenue of 11.8%. Countries with the same A2 rating like Botswana with interest/revenue score of 1.1% and Poland with a score of 4.3% are in much better shape than us using this metric, even though Botswana is a poor country. Of the Moody's grouping of countries with ratings ranging from Aaa to A3, Bermuda has the second highest interest/revenue score. What this means is that if we don't stop the debt from growing we will fall out of this peer group and be downgraded. If we added, say \$300 million to our national debt for a capital project, we would risk this very thing happening.

Also, all but one of the local banks depend on the Government's credit rating for their own ratings, so there will be credit contagion from Government to the banks as a result of poor Government financial management, putting our entire banking system and Bermudians' bank savings in jeopardy.

Mr. Speaker, Bermudians' other favourite store of value, real estate, would also plummet; triggering mortgages being called and people losing their homes.

No one, absolutely no one, wants any of this to ever happen (although we know we got a taste of some of this already during the last recession). But as leaders, Government must protect against such risks by taking action now, so that it never happens.

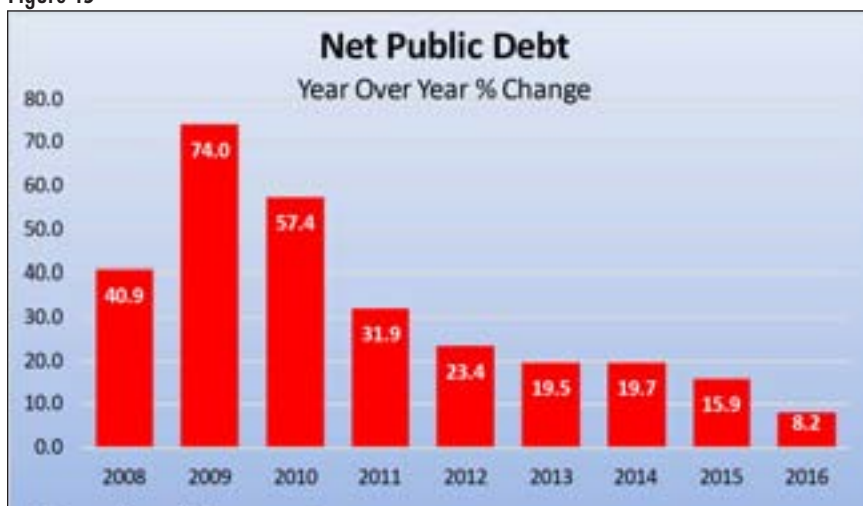
Therefore, the threat posed by the size of the national debt is not merely an academic threat, or a problem that can be viewed as someone else's problem, or "Government's problem." It is a threat to us all – every man, woman and child who calls this Island home.

These are the reasons that the OBA Government has set eliminating the annual deficit, balancing the budget and paying down the national debt as its top priority. Pursuing this objective has framed all the budgets this Government has presented

during its tenure, and it shapes this 2017/18 Budget as well. The elimination of these risks involve cutting spending, stimulating job-creating economic growth and increasing revenues where and when necessary.

Mr. Speaker, Figure 15 shows we are making good progress. Eliminating the deficit will stop debt from growing. Our Sinking Fund will guarantee money is put aside for debt reduction. As the deficits get smaller and smaller, the growth in debt will eventually cease. To eliminate the deficit, we must have a Government that is committed to stay the course and not be tempted to engage in costly adventures that may be politically popular but will ultimately impair Government's ability to fulfill its obligations to the

Figure 15



people. This Government is committed to prudent fiscal management that will enable us to have the fiscal space to deliver the social programmes that Bermudians expect and need.

Capital Market Activity

Mr. Speaker, in October 2016, the Government successfully accessed the international capital markets when it issued a US\$665 million, 10-year bond offering due January 2027. This resulted in a record low coupon/yield of 3.717%, the lowest ever for Bermuda. The results also recorded a spread over US Treasuries of +195 basis points (bps), a record low spread and 30 bps cheaper than the Government's previous capital market borrowing.

This was a resounding endorsement of the Government's financial and economic management of the Bermuda economy by the credit markets. It is important to note that although the Government issued a total of \$665 million in new bonds, the increase in Government debt was \$188.9 million. The rest of the new issue was used to retire more expensive existing bonds.

The new issue and tender offer were expected to reduce annual debt interest expenses by about US\$4.0 million, or 2% of the current deficit. Local Bermudian investors also

contributed additional demand in excess of US\$100 million.

TAX REFORM

Mr. Speaker, as announced in our 2016-17 Budget Statement the objectives of tax reform would be to increase the fairness of the Payroll Tax structure, simplify the Customs Tariff, broaden the tax base by introducing new taxes on services and raise the overall tax revenue collected by Government to help reduce the overall budget deficit and balance the budget in three years. We also stated that these measures would be implemented over a three year period, one of which has almost passed.

Mr. Speaker, the Fiscal Responsibility Panel and the Government agree that the budget cannot be balanced without raising revenues. 60% of Government's tax revenue comprises of payroll taxes and customs duties: - 39% payroll taxes and 21% customs duties. This means that any significant increase in revenues for Government will, virtually by necessity, include upward adjustments to these two classes of taxes. Therefore, the first major steps towards that goal are reforms to payroll taxes and customs duties.

PAYROLL TAX

Mr. Speaker, most of the efforts this past calendar year have been concentrated on reforming the payroll tax structure including extensive consultation with private sector stakeholders. In addition to raising taxes to help to ultimately balance the budget, the other primary objective was to inject fairness into the structure.

The current structure has always been unfair to lower income employees, as the flat rate structure imposed an unfair heavy burden on lower income employees compared to their higher earning counterparts. In the early days when payroll taxes were very low and formed a relatively minor proportion of Government's overall revenue intake, this situation may have been viewed as either tolerable or a minor quirk in the system. As payroll taxes rose, it became the Government's largest revenue earning tax, making the regressive nature of the structure intolerable. This inequity has long been acknowledged by former Governments, but this OBA Government, as a Government of action, has seized the nettle and made the decision to do the right thing:- to make the system fair.

To numerically model the effect of changes in tax rates on employees we have used bands of income levels from Department of Statistics data :

1. wages equal to or less than \$48,000;
2. wages greater than \$48,000 and equal to or less than \$96,000
3. wages greater than \$96,000 and equal to or less than \$235,000
4. wages greater than \$235,000 and equal to or less than \$900,000
5. wages equal to or greater than \$900,000

Mr. Speaker, Department of Statistics have data of how many people have wages/salaries within each of these wage bands and during this fiscal year the Tax Commissioner received more detailed data from employers, in order for us to model the outcomes of various Payroll Tax options. This enabled us to estimate what effect various tax rates would have on employees, employers and Government revenues.

The legacy of past indiscretions, regarding the handling of the public purse, has been a burden on the people of Bermuda over the past five years. Because of past indiscretions and poor money management, and the subsequent fiscal adjustments that have been necessary, the majority of public officers have had no increases in pay in at least 5 years. Meanwhile inflation has continuously nibbled away at the buying power of those salaries, resulting in a decline in real incomes: i.e. - incomes adjusted for inflation.

In the private sector (ex IB) wages have also been stagnant or reduced, resulting in an erosion in real incomes. This is real life evidence why careful, prudent financial and economic management on the part of the Government is so critically important to so many Bermudians, regardless of them being employed in the public sector or private sector, whether they are retired or still in school. Poor fiscal judgement and expensive lapses in governance by the Government can have long lasting effects on the people, long after that Government is gone.

Mr. Speaker, new tax rates for employees for each band will be as follows:

WAGE/SALARY	CURRENT	2017-18	Provisional 2018-19
Less than or equal to \$48,000	6.0%;	4.75%	4.25%
Greater than \$48,000 and less than or equal to \$96,000	6.0%;	5.75%;	5.50%
Greater than \$96,000 and less than or equal to \$235,000	6.0%;	7.75%;	9.00%
Greater than \$235,000 and less than or equal to \$900,000	6.0%;	8.75%;	11.00%

The above is the marginal tax rate schedule for our reform. It illustrates the rate at which various levels of income are taxed. As income rises, each dollar of income above the previous level is taxed at a higher rate.

Mr. Speaker, in recognition of the difficulty many people have experienced during this period of adjustment, Government is seeking to give tax relief mainly to the two lowest bands of wage ranges stipulated by the Department of Statistics. This is the most important part of payroll tax reform and is the part that results in an increase in take home pay for people who earn less than \$137,143 p.a. Over three quarters of the population earn below \$137,143 and should benefit from a reduction of the employee's portion of the Payroll Tax.

Therefore in the situation where an employer is currently passing on the maximum amount of 6% to an employee, an employee earning in the lowest band (1) will receive a tax cut of up to \$600 p.a. in 2017/18. The next band (2) provides for a tax cut of \$600 - \$720. Band three provides for a tax decrease of \$720 to an increase of \$1,713. The top band provides for an increase of \$1,713 to \$29,000.

Employment tax on employers will also be affected using the same approach, i.e. having the tax burden falling more on larger companies than on small business.

Employer payroll tax rates by class	
Class of tax payer	Tax rate (per cent) 2017/18
Annual payroll > \$1,000,000	10.25%
\$200,000 ≤ Annual payroll ≤ \$500,000	7.00%
Annual payroll < \$200,000	1.75%
\$500,000 < Annual payroll ≤ \$1,000,000	9.00%
Exempt undertakings	10.25%
Government, Gov. Boards, Parish Council, & Bda College	0.00%
Taxi, farm, fish & educational, sporting, scientific inst.	1.75%
Charities, School, religious. And cultural. Organizations	0.00%
Economic Empowerment Zone	0.00%
BHB, Corp of Hamilton and St. George	3.50%
Hotels & restaurants. w/annual payroll ≥ \$200,000	6.00%

The maximum taxable salary level, the so called salary cap, has been in place since 2010. After extensive consultation the cap will be raised from \$750,000 p.a. to \$900,000 p.a.

Mr. Speaker, traditionally, payroll taxes have been a tax on employers who were allowed to pass a certain percentage of that tax on to their employees through deductions. Government seriously considered splitting the payroll tax into two separate taxes one on employees and another on employers. CARTAC, the IMF advisory agency, recommended this. This action would have allowed us to achieve our reform objectives as it would have forced employers to make tax deductions from their employees. As many people know many international companies pay both employee and employer portions of the payroll tax, at their own discretion, not at the direction of the Government.

After considerable consultation, Government decided not to split the payroll tax into two separate taxes as our objectives could be achieved under the current structure.

To assist with the implementation of the reformed payroll tax system, the Office of the Tax Commissioner will have posted on their website today a payroll tax calculator which will illustrate how the employee portion of the tax will be calculated under the new marginal tax rate structure.

Mr. Speaker, in fiscal year 2014/15 non-legislated concessions to hotels, retailers and restaurants totaled approximately \$31 million. The roll back of these concessions was started in fiscal year 2015/16 and in this fiscal year Government will fully withdraw all such concessions.

CUSTOMS DUTIES

Mr. Speaker, the Customs Tariff acts as a general revenue raiser, a tax on certain final consumptions goods, an excise on tobacco, alcohol and motor vehicles, and provides protection to local domestic producers. Currently the customs tariff applies to goods at ten rates varying from 0 percent to 33.5 percent. A standard rate of 22.5 percent applies to the highest number of tariff lines. Higher rates apply to a few goods such as tobacco, alcohol, motor vehicles and petroleum products.

In the 2016/17 Budget, Government announced that we would commence preparations for the introduction of a single unified tariff. This work has been completed and Government has modeled the impact of progressively harmonizing the multiple rates into fewer rates while increasing the customs duty revenues. The changes in rates are as follows:

	2016/17	2017/18
1	0.00%	0.00%
2	5.00%	5.00%
3	6.50%	6.50%
4	8.50%	10.00%
5	10.00%	15.00%
6	12.50%	15.00%
7	15.00%	15.00%
8	22.25%	28.00%
9	25.00%	35.00%
10	33.50%	35.00%

Mr. Speaker, actually unifying rates was ultimately impossible as raising the zero and lower rated goods would have been inequitable. Hence the 3 lowest rates remain the same as they contain several goods which are considered essential. This will avoid placing extra burdens on the least well off. These increases in duty rates will increase Customs Duty by approximately \$19.5 million.

Imposed excise duties will also be increased to continue the process of increasing the revenue yield from indirect taxes. These increases in specific excise duties on alcohol, tobacco, and petrol will increase revenue by approximately \$10.3 million.

General Services Tax

Mr. Speaker, last year we said, “In order to broaden the tax base, a new services sales tax, to be called the General Services Tax (GST), will be levied on turnover from the provision of most services by service providers to the public. It is proposed that this GST will be levied at a rate of 5%. As this is a change that will require significant adjustments in operations, billing, and reporting on the part of service providers and collecting, tracking and enforcement on behalf of Government, this tax will not be implemented until April 1st 2017 at the earliest.”

Unfortunately the consultation period has been delayed due to extensive consultation relative to payroll taxes. It is not envisioned that the GST will be implemented before April 1st, 2018. Government’s commitment to spreading the tax burden over a broader cross section of the community remains intact despite these delays. As plans for this tax become more well defined we will be reaching out to stakeholders for their input and comments.

Financial Services Tax (FST)

Mr. Speaker, last year we stated that, “Notable exemptions to the General Services Tax will be in the sectors of banking, insurance and health care. Small service providers will also be exempted from the tax.” The formula of a percentage of sales or turnover is clearly not appropriate for calculating taxes on banks and insurance companies. However, pursuant to Government’s objective of diversifying its tax base, we are introducing a new tax to be called the Financial Services Tax which will be for banks, local insurance companies and Money Service Businesses. When applied to banks the tax will be calculated as 0.02% of assets. The tax as applied to local insurance companies will be a tax on gross premiums earned, excluding premiums from health insurance. The rate of tax will be 2.5% of non-health related gross premiums. Finally the rate of tax for the Money Service Businesses will be 5% on their aggregated incoming and outgoing transmission volume.

Fees currently paid by banks and local insurance companies accrue directly to the Bermuda Monetary Authority to pay for supervision and regulation carried out by the BMA. The new FST is expected to generate about \$11.4 million per year. The financial services tax will be introduced in April 2017.

Company Fees

Mr. Speaker, Government has reviewed company fees, both incorporation fees and annual fees. One of the principal considerations in this area is the international competitive landscape with other jurisdictions. Owners of such companies can be

very sensitive to the costs of setting up an exempted company, and even though the capital in such companies might be in the hundreds of millions of dollars or more, a decision to not incorporate in Bermuda might turn on just a few dollars' difference in incorporation costs. Therefore, incorporation fees have not been increased.

Permit Companies, sometimes referred to as Overseas Companies, are companies incorporated in another jurisdiction but who desire to conduct business from Bermuda, essentially setting up a "branch" in Bermuda. Bermuda's company framework has allowed such companies for many decades and they have had to pass the same rigorous vetting process at the BMA, as though they were actually incorporated in Bermuda. Mr. Speaker, in recent years Permit Companies have been at the eye of the international storm as it relates to the "tax haven and tax avoidance" debate, as such companies are mostly part of elaborate structures that allow multinational corporations to reduce their global tax liability.

Mr. Speaker, let me emphasize that, as far as we know, there is nothing whatsoever unlawful about these structures. If there were evidence of unlawful activities, we would not allow them to use Bermuda as a platform. However, in view of the current transatlantic crossfire over multinationals' tax burden, their presence in Bermuda has meant that our excellent international reputation has become a casualty; a reputation which the Government has a duty to staunchly defend. The defense against reputational risk comes at a significant cost. Therefore, we are raising the annual Government fees on Permit Companies that fall into the class of "investment/holding/trading" from \$1,995 to \$25,000.

Land Taxes

Mr. Speaker, after last year's difficult adjustment for the deterioration in ARV's for Bermuda properties, land taxes for this upcoming year will remain unchanged.

2016/2017 FISCAL PERFORMANCE

Mr. Speaker, I will now focus on the forecast financial results for the current 2016/17 fiscal year.

The Government is forecast to earn \$985.3 million in revenue in 2016/17. This is \$11.6 million (1.2%) less than the \$996.9 million in the original estimates and is due mainly to lower than expected Customs Duty receipts, sale of land to non-Bermudians and all other revenue receipts.

The projected 2016/17 operating expenses of Government are \$932.1 million or \$10.4 million (1.1%) higher than the \$921.6 million originally budgeted in 2016/17. These increases were mainly as a result of the following:

- \$6.7 million to fund the cost of Civil Aviation and Maritime Administration as the legislation to set these Departments up as Quangos was not passed until October 1st, 2016.
- \$2.5 million to fund operating grants to the Gaming Commission.
- \$3.4 million to fund critical repairs required to bus and ferry fleets leading up to and including the America's Cup Events.
- \$2.8 million to fund a legal settlement.
- \$3.4 million to fund Paraprofessionals and substitute teachers in the Ministry of Education.

These amounts were offset by underspends in staff cost as the Government has continued its efforts to gradually downsize the Public Service with headcount reducing by just over 100 during this fiscal year.

Mr. Speaker, revised capital expenditures for the year should come in at \$85.4 million or \$1.7 million (2.0%) below the budget allocation of \$87.3 million.

Debt service cost for 2016/17 are \$7.6 million (5.9%) below budget.

Therefore, the Overall Deficit is now estimated to have been revised slight up by \$12.8 million or a 6.4% variance. The forecast deficit for the financial year ending March 31, 2017 of \$212.2 million is \$7.9 million less than the original 2015/16 deficit estimate.

PUBLIC DEBT

Mr. Speaker, as at March 31st 2017, gross public debt will stand at \$2.484 billion and debt, net of the Sinking Fund, will stand at \$2.398 billion.

The Sinking Fund balance is projected to be approximately \$86 million at the end of 2016/17.

Mr. Speaker, as of March 31, 2017, the net debt/revenue ratio will be 244%, and the debt service cost/revenue ratio will be 18%. There is still much work to do to bring our

situation into line with our targets of 80% and 10% respectively.

Government will have to incur new borrowing of \$135 million to finance the 2017/18 deficit and as at March 31st 2018, it is estimated that gross public debt will stand at \$2.629 billion, and debt, net of the Sinking Fund, will be \$2.481 billion.

THE BUDGET

2017/18 BUDGET ESTIMATES

	ESTIMATE 2016/17 \$000	ESTIMATE 2017/18 \$000
Revenue and Expenditure Estimates		
Revenue	996,935	1,042,349
Current Account Expenditure (excl.debt & s/fund)	921,693	923,491
Current Account Balance (excl.debt & s/fund)	75,242	118,858
Interest on Debt	129,000	124,000
	(53,758)	(5,142)
Sinking Fund Contribution	58,375	62,085
Surplus Available for Capital Expenditure	(112,133)	(67,227)
Capital Expenditure	87,257	67,451
Budget Surplus (Deficit)	(199,390)	(134,678)

Mr. Speaker, the highlights of the 2017/18 Budget feature a 1.6% decrease in total expenditure of \$19.0 million from last year's budgeted figure. Revenues are forecast to rise by 4.6% or \$45.4 million. The Current Account Balance, before debt service charges, is budgeted to be a surplus of \$118.9 million.

However, the Current Account Balance, after debt service including the Sinking Fund Contribution, is a deficit of \$67.2 million. This represents a drop in the deficit of \$44.9 million, or 40.0%. The overall deficit is budgeted to be \$134.7 million, a drop of \$64.4 million or 32.3% when compared to the 2016/17 original estimates.

The projected Current Account Balance (excluding debt service) indicates whether revenues can support the day-to-day running of Government, excluding finance costs and capital expenditure. This year's budget, with a surplus of \$118.9 million in Current Account before debt service, represents an improvement over the 2016/17 surplus with revenues sufficient to cover the day-to-day running of Government and 95.9% of the interest cost. This represents another fiscal milestone along the road to fiscal sustainability.

Revenues

Mr. Speaker, the estimates for 2017/18 indicate Government revenues of \$1.042 billion, which is \$45.4 million, or 4.6%, higher than the original estimate for the previous year.

The 2016/17 budget put in place a three-year plan to balance the budget. Some underestimate the importance of balancing a budget; but a balanced budget is the only way to ensure long-term prosperity for Bermudians. Government believes eliminating the deficit is the single most important step we can take to grow the economy and create jobs.

It reinforces our credit rating, supports lower interest payments, and stimulates greater consumer and investor confidence.

It strengthens our ability to respond to the unavoidable and unforeseen in an unstable world.

Mr. Speaker, while reducing Government expenditure has been, and still remains a focus of the Government, achieving sufficient savings in expenditure to balance the budget in the short term is becoming increasingly difficult considering Government's current structure. Therefore, Government must aggressively focus on increasing revenues through actions such as tax reform and limiting concessions.

The strategy, reforms and actions that the Ministry of Finance are contemplating in order to meet the Government's revenue target in 2018/19 are as follows:

Payroll Taxes – The Ministry's proposed reforms to the Payroll Tax structure make it progressive, as well as meeting additional revenue targets. To accomplish these objectives the following will be implemented:

- Introduction of progressive taxation for employees;
- Increasing the tax cap to \$900,000;
- Completing the roll-back of non-legislated tax concessions for hotels restaurants and retailers;
- Appropriate setting and enforcement of notional tax amounts for owner-managed businesses; and
- Review of compliance and enforcement processes within the OTC.

The yield from Payroll Tax following the reform and full rollback for payroll tax concessions is estimated at \$439 million in 2017/18, 41.9% of total Government revenues.

Customs duty and excise taxes – Mr. Speaker, the Ministry of Finance propose to progressively harmonize the multiple tariff rates into fewer rates while increasing the customs duty revenues. Additionally, the duty on fuel will be raised by 5 cents per litre in April 2017 to achieve additional Customs revenue of about \$5 million.

Finally, the duty on cigarettes and tobacco and beer, wines and spirits will be raised in April 2017 to achieve additional customs revenue of about \$5.3 million.

Customs Duty for 2017/18 are forecast to be \$223.7 million, 21.5% of total Government revenues.

General Services Tax and Financial Services Tax – Mr. Speaker, the GST will be introduced in 2018/19. As banking, insurance and Money Service Businesses will be exempted from the GST for technical reasons, it is proposed to introduce a financial services tax on local insurance premiums, excluding health, bank assets and incoming and outgoing wire transmissions. The financial services tax will be introduced in April 2017. The yield from the financial services taxes will be \$11.4 million.

Company license fees for certain Permit Companies will be raised from \$1,995 to \$25,000.

Finally, Mr. Speaker, Government anticipates \$3 million in receipts from sale of Government property that is surplus to requirements.

Expenditures

Mr. Speaker, after carefully considering the current level of spending required to efficiently operate the Government in its current form, and the various unavoidable obligations of the Government, the Ministry of Finance has set the overall budget expenditure including current account and capital account outlays, debt service and the Sinking Fund Contributions at \$1.177 billion. The level of current and capital account spending forecast in the 2017/18 Budget is \$19 million lower than the amount approved in 2016/17.

Despite additional cost due to hosting the America's Cup, the level of current account spending projected in the 2017/18 Budget, excluding debt service, is only \$1.9 million higher than the budgeted expenditure approved in 2016/17.

In May and June Bermuda will host the 35th America's Cup. In order to deliver on our contractual commitments and promises, the total Government budget for America's Cup-related direct and indirect current expenses during the 2017/18 fiscal year is estimated at \$31.8 million.

Mr. Speaker, during the finalization of budgeting packages for the 2017/18 budget cycle, Ministries had requested extra funding for programmes already in place and some new programmes. The Government recognizes the need to control the growth in public spending and is mindful of the potential impact that increased operating expenditures can have on the overall fiscal performance. Accordingly, we have limited increases to priority areas which include increased funding to the Ministry of Education for enhancements to the Public Education System to meet the diverse needs of our public school system; additional funding for the Ministry of National Security in order to meet the public's expectations of safety and security; and supplementary funding for the Bermuda Tourism Authority to ensure the continued strengthening of our tourism industry.

Mr. Speaker, the above increases and others were partially offset by reductions in other expenditures, with the most notable being a one-off \$25 million reduction in the Government's annual funding to the Bermuda Hospital Board (BHB). Three years of concerted efforts to become more efficient has placed the BHB in a more stable financial position. Considering the relatively strong liquidity position of the BHB, it is anticipated that the BHB can withstand the one year reduction in funding. Furthermore, a reduction in funding in relation to the former Department of Airport Operations has allowed the Government to provide additional funding for the BTA.

Debt Service

Debt service costs for the 2017/18 Budget are projected at \$186.1 million, 0.7% lower than the 2016/17 allocation of \$187.4 million. This represents \$124.0 million in interest payments and a \$62.1 million contribution to the Sinking Fund. The reduction in debt service cost is attributable to the refinancing of our \$200 million 5.0% loan facility and higher-coupon bonds through a new US\$665 million 10 year bond issue with a record low yield of 3.717%. This issue resulted in annual interest savings of approximately \$5 million.

Capital Expenditures

Mr. Speaker, the Government is committed to making sound capital investments which will enhance the country's infrastructure and improve economic growth. The capital expenditure component of the 2017/18 Budget is set at \$67.5 million, \$19.5 million lower than the 2016/17 original estimate. The most significant items of capital development expenditure in the 2017/18 Budget relate to schools maintenance (\$3.2 million) and road works (\$3.5 million). While most of the planned investment is related to construction projects, there is provision also for major IT development and new buses.

CONCLUSION

As the Government's Finance Minister, my objectives are to manage the public purse in ways that safeguard the economic well being of the people of Bermuda, and to use my policy-making authority to expand opportunity, fair play and the promise of a stable and prosperous future.

This Budget progresses each of these objectives.

To do this work, I rely on the support of my colleagues, listen to the views of people from across a wide spectrum of the community and on the expertise of a skilled and motivated team of public servants at the Ministry of Finance.

These are the safe hands Bermuda needs in an age of uncertainty. We will remain vigilant to the dangers and the opportunities – carried forward, as they always are, by The Fates – and keep Bermuda moving forward, no matter the wind.

Table I
GOVERNMENT OF BERMUDA SUMMARY OF CONSOLIDATED FUND ESTIMATES FOR 2016/17 TO 2019/20

ACTUAL 2015/16 \$000		ORIGINAL ESTIMATE 2016/17 \$000	REVISED ESTIMATE 2016/17 \$000	ESTIMATE 2017/18 \$000	ESTIMATE 2018/19 \$000	ESTIMATE 2019/20 \$000
Revenue and Expenditure Estimates						
953,614	1 Revenue	996,935	985,298	1,042,349	1,110,102	1,146,397
<u>902,060</u>	2 Current Account Expenditure(excl.debt & s/fund)	<u>921,643</u>	<u>932,052</u>	<u>923,491</u>	<u>905,021</u>	<u>909,546</u>
51,554	3 Current Account Balance(excl.debt & s/fund)	75,292	53,246	118,858	205,081	236,851
<u>116,217</u>	4 Interest on Debt	<u>129,050</u>	<u>121,500</u>	<u>124,000</u>	<u>126,000</u>	<u>115,000</u>
(64,663)		(53,758)	(68,254)	(5,142)	79,081	121,851
<u>52,250</u>	5 Sinking Fund Contribution	<u>58,375</u>	<u>58,375</u>	<u>62,085</u>	<u>65,460</u>	<u>66,119</u>
(116,913)	6 Surplus Available for Capital Expenditure	(112,133)	(126,629)	(67,227)	13,621	55,732
<u>43,725</u>	7 Capital Expenditure (See line 20 below)	<u>87,260</u>	<u>85,540</u>	<u>67,451</u>	<u>40,000</u>	<u>50,000</u>
<u>(160,638)</u>	8 Budget Surplus (Deficit)	<u>(199,393)</u>	<u>(212,169)</u>	<u>(134,678)</u>	<u>(26,379)</u>	<u>5,732</u>
Sources of Financing						
10,638	9 Consolidated Fund	0	63,234	0	0	0
<u>150,000</u>	10 Borrowing	<u>199,393</u>	<u>148,935</u>	<u>134,678</u>	<u>26,379</u>	<u>(5,732)</u>
<u>160,638</u>	11 Total Financing	<u>199,393</u>	<u>212,169</u>	<u>134,678</u>	<u>26,379</u>	<u>(5,732)</u>
Capital Appropriations						
68,734	12 Appropriations in Original Estimates	87,260	85,540	67,451	40,000	50,000
<u>522</u>	13 Supplementary Appropriations	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
69,256	14 Appropriated During the Year	87,260	85,540	67,451	40,000	50,000
0	15 Appropriations Frozen	0	0	0	0	0
<u>(20,275)</u>	16 Appropriations Lapsed	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
48,981	17 Net Appropriations	87,260	85,540	67,451	40,000	50,000
<u>497</u>	18 Unspent Appropriations from Prior Year	<u>0</u>	<u>5,753</u>	<u>0</u>	<u>0</u>	<u>0</u>
49,478	19 Appropriations to Meet Spending	87,260	91,293	67,451	40,000	50,000
<u>43,725</u>	20 Capital Spending	<u>87,260</u>	<u>85,540</u>	<u>67,451</u>	<u>40,000</u>	<u>50,000</u>
5,753	21 Unspent Appropriations Carried Forward	0	5,753	0	0	0
Consolidated Fund Balance (March 31)						
1,000	22 Contingency Fund	1,000	1,000	1,000	1,000	1,000
5,753	23 Unspent Capital Appropriations	0	5,753	0	0	0
<u>(2,645,630)</u>	24 Undesignated Surplus (Deficit)	<u>(2,839,270)</u>	<u>(2,857,799)</u>	<u>(2,986,724)</u>	<u>(3,013,103)</u>	<u>(3,007,371)</u>
<u>(2,638,877)</u>	25 Consolidated Fund Surplus (Deficit)	<u>(2,838,270)</u>	<u>(2,851,046)</u>	<u>(2,985,724)</u>	<u>(3,012,103)</u>	<u>(3,006,371)</u>

TYPE	DESCRIPTIONS	2016/17	2017/18	2018/19	2019/20
Revenue	Growth, Tax Reform and Rate Increases	3.3%	4.6%	6.5%	3.3%
Expenditure	Spending Reductions	3.3%	+0.2%	2.0%	+0.5%
Debt					
Repayment	Senior Notes Due	\$90M			\$180M

Table II
ANALYSIS OF CURRENT ACCOUNT REVENUE

HEAD (1)	REVENUE DESCRIPTION (2)	2015/16	2016/17	2016/17	2017/18 ESTIMATE (\$000) (6)	DIFFERENCE	
		ACTUAL (\$000) (3)	ORIGINAL (\$000) (4)	REVISED (\$000) (5)		2016/17 vs 2017/18 (\$000) (7)	% (8)
TAXES & DUTIES							
12	CUSTOMS DUTY	192,593	209,484	204,000	223,716	14,232	7
27	SALE OF LAND TO NON-BERMUDIANS	6,915	9,000	4,457	6,000	(3,000)	(33)
29	TIMESHARING TAX	173	20	20	20	0	0
38	PASSENGER TAXES	40,794	43,166	42,100	22,345	(20,821)	(48)
38	STAMP DUTIES	25,216	24,159	22,032	20,986	(3,173)	(13)
38	BETTING TAX	1,638	1,375	1,411	1,700	325	24
38	LAND TAX	67,068	63,186	63,186	63,186	0	0
38	FOREIGN CURRENCY PURCHASE TAX	19,628	21,000	20,064	22,000	1,000	5
38	PAYROLL TAX	361,136	390,000	394,000	439,000	49,000	13
38	HOTEL OCCUPANCY	10,337	11,000	10,000	11,500	500	5
38	CORPORATE SERVICE TAX	5,919	5,750	5,395	5,900	150	3
38	FINANCIAL SERVICES TAX	0	0	0	11,390	11,390	0
FEES, PERMITS & LICENCES							
03	LIQUOR LICENCES	385	320	290	320	0	0
12	OTHER CUSTOMS FEES & CHARGES	1,804	2,077	1,905	2,321	244	12
12	WHARFAGE	730	750	745	800	50	7
13	POST OFFICE	4,466	4,541	4,623	4,343	(198)	(4)
27	IMMIGRATION RECEIPTS	15,056	11,429	14,707	15,000	3,571	31
29	TRADE & SERVICE MARK	1,818	1,624	1,492	1,401	(223)	(14)
30	FERRY SERVICES	1,315	1,538	1,297	2,038	500	33
30	SERVICES TO SEABORNE SHIPPING	2,885	2,693	2,951	3,000	307	11
31	AIR TERMINAL AND AVIATION	12,508	17,895	17,752	0	(17,895)	(100)
32	PLANNING FEES AND SEARCHES	993	970	1,052	1,052	82	8
34	VEHICLE LICENCES AND REGISTRATION	29,031	28,047	28,773	29,029	982	4
35	BUS REVENUES	8,742	8,750	7,500	9,044	294	3
36	SOLID WASTE	4,551	3,849	5,054	5,050	1,201	31
36	WATER	3,901	2,888	3,733	3,901	1,013	35
36	RENTALS	1,655	2,096	3,188	2,709	613	29
39	COMPANIES - INTERNATIONAL	60,074	66,063	66,063	69,965	3,902	6
39	COMPANIES LOCAL	2,787	2,800	2,647	2,800	0	0
39	COMPANIES LICENCES	660	635	817	700	65	10
46	TELECOMMUNICATIONS RECEIPTS	11,542	13,366	13,366	14,750	1,384	10
48	CIVIL AVIATION RECEIPTS	0	0	17,750	18,000	18,000	0
57	AIRCRAFT REGISTRATION	25,872	17,000	0	0	(17,000)	(100)
72	PLANT PRODUCTION & MARKETING CTRE	196	200	200	200	0	0
73	REGISTRATION OF SHIPPING	4,612	501	3,242	1	(500)	(100)
OTHER RECEIPTS							
03	FINES AND FORFEITURES	3,394	2,982	2,637	2,982	0	0
11	INTEREST ON DEPOSITS	912	406	529	406	0	0
81	ASSET SALES	0	3,000	0	3,000	0	0
	OTHER REVENUE	22,308	22,375	16,320	21,794	(581)	(3)
		953,614	996,935	985,298	1,042,349	45,414	5

Table III
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD (1)	DESCRIPTION (2)	2015/16 ACTUAL (\$000) (3)	2016/17 ORIGINAL (\$000) (4)	2016/17 REVISED (\$000) (5)	2017/18 ESTIMATE (\$000) (6)	DIFFERENCE 2016/17 vs 2017/18	
						(\$000) (7)	% (8)
NON-MINISTRY DEPARTMENTS							
01	GOVERNOR & STAFF	1,437	1,395	1,395	1,395	0	0
02	LEGISLATURE	4,771	5,051	5,051	5,166	115	2
05	OFFICE OF THE AUDITOR	3,066	3,572	3,572	4,083	511	14
56	HUMAN RIGHTS COMMISSION	1,274	1,268	1,268	1,269	1	0
63	PARLIAMENTARY REGISTRAR	1,006	1,502	1,830	2,502	1,000	67
85	OMBUDSMAN'S OFFICE	845	910	910	910	0	0
92	INTERNAL AUDIT	1,260	1,504	1,504	1,574	70	5
98	INFORMATION COMMISSIONER'S OFFICE	509	864	864	957	93	11
101	PRIVACY COMMISSIONER'S OFFICE	0	0	0	867	867	0
		14,168	16,066	16,394	18,723	2,657	17
CABINET OFFICE DEPARTMENTS							
09	CABINET OFFICE	5,892	7,070	7,759	6,912	(158)	(2)
14	DEPT. OF STATISTICS	2,167	4,137	3,101	2,493	(1,644)	(40)
26	DEPT. OF HUMAN RESOURCES	2,944	3,657	3,657	3,846	189	5
43	DEPT. OF INFORMATION & DIGITAL TECH.	5,818	6,142	6,142	6,976	834	14
51	DEPT. OF COMMUNICATIONS	2,216	2,318	2,256	2,945	627	27
80	PROJECT MANAGEMENT & PROCUREMENT	669	852	852	773	(79)	(9)
84	E-GOVERNMENT	822	872	872	0	(872)	(100)
96	SUSTAINABLE DEVELOPMENT	389	0	0	0	0	0
		20,917	25,048	24,639	23,945	(1,103)	(4)
MINISTRY OF LEGAL AFFAIRS							
87	MIN. OF LEGAL AFFAIRS HQ	5,823	6,113	6,112	6,203	90	1
03	JUDICIAL DEPARTMENT	7,485	8,161	8,161	8,361	200	2
04	ATTORNEY GENERAL'S CHAMBERS	4,210	4,554	4,554	4,808	254	6
74	DEPT. OF COURT SERVICES	3,888	4,266	4,267	4,318	52	1
75	DEPT. OF PUBLIC PROSECUTIONS	2,785	3,156	3,156	3,389	233	7
		24,191	26,250	26,250	27,079	829	3
MINISTRY OF FINANCE							
10	MIN. OF FINANCE HQ	4,404	4,297	4,297	4,297	0	0
11	ACCOUNTANT GENERAL	74,434	86,817	85,817	86,637	(180)	(0)
28	SOCIAL INSURANCE	6,774	6,100	6,600	6,009	(91)	(1)
38	OFFICE OF THE TAX COMMISSIONER	2,872	3,181	3,527	3,451	270	8
58	INTEREST ON DEBT	116,217	129,000	121,500	124,000	(5,000)	(4)
59	SINKING FUND CONTRIBUTION	52,250	58,375	58,375	62,085	3,710	6
		256,951	287,770	280,116	286,479	(1,291)	(0)
MINISTRY OF EDUCATION							
16	MIN. OF EDUCATION HQ	1,954	2,287	2,392	2,414	127	6
17	DEPT. OF EDUCATION	107,923	107,085	110,338	109,096	2,011	2
41	BERMUDA COLLEGE	16,008	15,528	15,528	15,481	(47)	(0)
		125,885	124,900	128,258	126,991	2,091	2

Table III continued
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD	DESCRIPTION	2015/16 ACTUAL (\$000)	2016/17 ORIGINAL (\$000)	2016/17 REVISED (\$000)	2017/18 ESTIMATE (\$000)	DIFFERENCE 2016/17 vs 2017/18	
(1)	(2)	(3)	(4)	(5)	(6)	(\$000)	%
						(7)	(8)
MINISTRY OF HEALTH & SENIORS							
21	MIN. OF HEALTH & SENIORS HQ	12,872	9,732	9,428	11,186	1,454	15
22	DEPT. OF HEALTH	23,230	26,966	25,653	27,339	373	1
24	HOSPITALS	147,995	145,674	143,674	120,200	(25,474)	(17)
69	CONSERVATION SERVICES	4,422	0	0	0	0	0
72	ENVIRONMENTAL PROTECTION	3,341	0	0	0	0	0
91	HEALTH INSURANCE	1,042	3,995	6,990	3,995	0	0
		192,902	186,367	185,745	162,720	(23,647)	(13)
MINISTRY OF THE ENVIRONMENT							
50	MIN. OF THE ENVIRONMENT HQ	0	0	112	1,314	1,314	0
32	DEPT. OF PLANNING	2,673	3,202	3,202	3,304	102	3
68	PARKS	9,036	9,845	8,016	10,002	157	2
79	ENVIRONMENT AND NATURAL RESOURCES	0	8,038	8,038	8,221	183	2
		11,709	21,085	19,368	22,841	1,756	8
MINISTRY OF TOURISM, TRANSPORT & MUNICIPALITIES							
48	MIN. OF TOURISM, TRANSPORT & MUNIC. HQ	25,652	24,798	27,362	39,467	14,669	59
30	MARINE & PORTS	19,734	19,900	20,906	20,097	197	1
31	AIRPORT OPERATIONS	21,032	19,959	20,267	0	(19,959)	(100)
34	TRANSPORT CONTROL DEPARTMENT	5,467	5,350	5,350	5,350	0	0
35	PUBLIC TRANSPORTATION	19,893	19,200	20,908	21,615	2,415	13
57	CIVIL AVIATION	7,292	0	4,233	0	0	0
73	MARITIME ADMINISTRATION	2,938	0	2,432	0	0	0
		102,008	89,207	101,458	86,529	(2,678)	(3)
MINISTRY OF PUBLIC WORKS							
36	MIN. OF PUBLIC WORKS HQ	10,107	5,425	8,129	5,186	(239)	(4)
49	LAND VALUATION	706	795	674	791	(4)	(1)
53	BERMUDA HOUSING CORP	6,050	6,050	6,050	6,050	0	0
81	PUBLIC LANDS & BUILDINGS	19,209	20,799	17,025	19,641	(1,158)	(6)
82	WORKS & ENGINEERING	29,143	31,426	30,638	32,279	853	3
97	LAND TITLE & REGISTRATION	1,154	1,050	906	1,069	19	2
		66,369	65,545	63,422	65,016	(529)	(1)
MINISTRY OF SOCIAL DEVELOPMENT & SPORTS							
71	MIN. OF SOCIAL DEVELOPMENT & SPORTS HQ	2,241	2,970	2,719	2,457	(513)	(17)
18	LIBRARIES	1,748	1,861	1,861	1,926	65	3
19	ARCHIVES	1,196	1,294	1,294	1,296	2	0
20	YOUTH, SPORT & RECREATION	9,105	9,055	9,055	9,388	333	4
23	CHILD & FAMILY SERVICES	13,291	15,907	15,907	15,634	(273)	(2)
52	COMMUNITY & CULTURAL AFFAIRS	2,503	2,939	2,939	3,011	72	2
55	FINANCIAL ASSISTANCE	54,559	54,561	54,136	53,555	(1,006)	(2)
		84,643	88,587	87,911	87,267	(1,320)	(1)

Table III continued
SUMMARY BY DEPARTMENT OF CURRENT ACCOUNT EXPENDITURE

HEAD (1)	DESCRIPTION (2)	2015/16	2016/17	2016/17	2017/18	DIFFERENCE	
		ACTUAL (\$000) (3)	ORIGINAL (\$000) (4)	REVISED (\$000) (5)	ESTIMATE (\$000) (6)	2016/17 vs 2017/18 (\$000) (7)	% (8)
MINISTRY OF NATIONAL SECURITY							
83	MIN. OF NATIONAL SECURITY HQ	1,340	1,297	1,297	1,497	200	15
06	DEFENCE	7,111	7,086	7,299	7,272	186	3
07	POLICE	65,067	64,595	64,595	67,241	2,646	4
12	CUSTOMS	16,463	17,112	17,112	17,112	0	0
13	POST OFFICE	9,921	10,677	10,588	10,677	0	0
25	DEPT. OF CORRECTIONS	24,591	25,337	25,337	25,337	0	0
45	FIRE SERVICES	13,191	12,506	12,506	13,261	755	6
88	NATIONAL DRUG CONTROL	3,556	4,179	4,179	4,179	0	0
		141,240	142,789	142,913	146,576	3,787	3
MINISTRY OF HOME AFFAIRS							
93	MIN. OF HOME AFFAIRS HQ	4,075	4,562	4,562	4,132	(430)	(9)
27	IMMIGRATION	4,139	4,633	4,633	4,754	121	3
29	REGISTRY GENERAL	1,375	1,750	1,750	1,870	120	7
60	WORKFORCE DEVELOPMENT	3,949	4,557	4,557	4,478	(79)	(2)
		13,538	15,502	15,502	15,234	(268)	(2)
MINISTRY OF ECONOMIC DEVELOPMENT							
95	MIN. OF ECONOMIC DEV. HQ	11,467	13,727	13,727	35,059	21,332	155
39	REGISTRAR OF COMPANIES	1,856	2,712	2,712	2,587	(125)	(5)
46	TELECOMMUNICATIONS	940	1,033	1,033	0	(1,033)	(100)
67	DEPT. OF INFORMATION & COMM. TECH.	885	1,537	1,537	1,631	94	6
89	ENERGY	859	943	943	899	(44)	(5)
		16,007	19,952	19,952	40,176	20,224	101
		1,070,528	1,109,068	1,111,928	1,109,576	508	0

Table IV
ANALYSIS OF CURRENT ACCOUNT EXPENDITURE BY OBJECT ACCOUNT

EXPENDITURE						DIFFERENCE	
OBJECT CODE DESCRIPTION	2015/16 ACTUAL (\$000)	2016/17 ORIGINAL (\$000)	2016/17 REVISED (\$000)	2017/18 ESTIMATE (\$000)	2016/17 vs 2017/18 (\$000)	% (8)	
(1)	(3)	(4)	(5)	(6)	(7)	(8)	
SALARIES	295,881	317,916	316,972	321,230	3,314	1	
WAGES	75,910	68,605	65,521	69,141	536	1	
EMPLOYER OVERHEAD	69,157	78,511	77,514	78,588	77	0	
OTHER PERSONNEL COSTS	5,238	6,240	6,887	6,368	128	2	
TRAINING	1,867	3,005	2,737	3,304	299	10	
TRANSPORT	3,625	1,862	5,303	5,153	3,291	177	
TRAVEL	2,620	3,026	3,135	3,010	(16)	(1)	
COMMUNICATIONS	6,458	7,362	7,490	7,097	(265)	(4)	
ADVERTISING & PROMOTION	2,813	3,535	2,164	2,389	(1,146)	(32)	
PROFESSIONAL SERVICES	58,949	56,168	58,697	49,985	(6,183)	(11)	
RENTALS	13,665	13,767	14,511	12,755	(1,012)	(7)	
REPAIR & MAINTENANCE	17,046	19,611	18,591	19,411	(200)	(1)	
INSURANCE	11,731	9,559	10,534	9,121	(438)	(5)	
ENERGY	16,140	19,888	18,343	16,608	(3,280)	(16)	
CLOTHING & UNIFORMS	786	1,075	1,122	1,146	71	7	
MATERIALS & SUPPLIES	17,008	23,437	23,387	23,928	491	2	
EQUIPMENT	2,568	567	564	563	(4)	(1)	
OTHER EXPENSES	2,391	3,055	6,604	3,488	433	14	
RECEIPTS CREDITED TO PROG	0	(16,501)	(16,952)	(21,272)	(4,771)	29	
TRANSFER TO OTHER FUNDS	52,250	58,375	58,375	62,085	3,710	6	
GRANTS & CONTRIBUTIONS	298,204	300,955	308,879	311,428	10,473	3	
PUBLIC DEBT CHARGES	116,221	129,050	121,550	124,050	(5,000)	(4)	
	1,070,528	1,109,068	1,111,928	1,109,576	508	0	

Table V**GOVERNMENT DEBT TRANSACTIONS AND AMOUNTS OUTSTANDING 2005/06 TO 2018/19**

YEAR	GROSS BORROWING	REPAYMENTS	NET BORROWING (REPAYMENTS)	GROSS DEBT OUTSTANDING	MEMORANDA INTEREST ON DEBT
(1)	(\$000) (2)	(\$000) (3)	(\$000) (4)	(\$000) (5)	(\$000) (6)
2006/07	50,000	20,000	30,000	255,000	13,929
2007/08	180,000	90,000	90,000	345,000	16,800
2008/09	217,250	0	217,250	562,250	18,186
2009/10	415,000	93,410	315,000	823,410	38,980
2010/11	264,080	0	0	1,087,490	56,300
2011/12	263,230	0	0	1,350,720	70,000
2012/13	223,280	0	0	1,574,000	(ii) 81,576
2013/14	800,000	69,000	731,000	2,305,000	109,245
2014/15	0	120,000	(120,000)	2,185,000	113,223
2015/16	150,000	0	150,000	2,335,000	116,217
2016/17 (Rev)	212,169	63,234	148,935	2,483,935	121,500
2017/18 (Est)	134,678	0	134,678	2,618,613	124,000
2018/19 (Est)	26,379	0	26,379	2,644,992	126,000
2019/20 (Est)	(5,732)	180,000	(185,732)	2,459,260	115,000

(i) Includes \$49.5 million of outstanding debt on-lent to the Bermuda Housing Corporation (BHC). as of 01/04/06 BHC received full debt relief from the Government.

(ii) In 2013/14 - \$51M of Interest on Debt was funded from the Sinking Fund

Table VI
BERMUDA GOVERNMENT DEBT AND LOAN GUARANTEES
UTILISATION OF STATUTORY BORROWING POWERS

ACTUAL 2015/16 (\$000)	DETAILS	REVISED ESTIMATE 2016/17 (\$000)	ESTIMATE 2017/18 (\$000)
	DEBT & LOAN GUARANTEES OUTSTANDING AS OF MARCH 31		
2,335,000	BORROWINGS UNDER LOAN FACILITIES (GOVT)	2,483,935	2,618,613
2,335,000	TOTAL DEBT OUTSTANDING (GOVT)	2,483,935	2,618,613
117,274	Less: SINKING FUND CONTRIBUTIONS (i)	86,001	148,836
	NET CUMULATIVE GOVERNMENT		
2,217,726	DEBT & GUARANTEES OUTSTANDING (ii)	2,397,934	2,469,777

(i) Government introduced a Sinking Fund with effect 31st March, 1993. The intent being to set aside a sum equivalent to 2.5% of the public debt outstanding at the end of the preceding year, in order to repay the principal sum borrowed after approximately 20 years. In 2013 the Government Loans Act 1978 was amended to allow excess funds borrowed to be deposited and extracted from the Sinking Fund to fund future year deficits. With effect from March, 2013, the statutory debt limit was increased to \$2.5 billion.

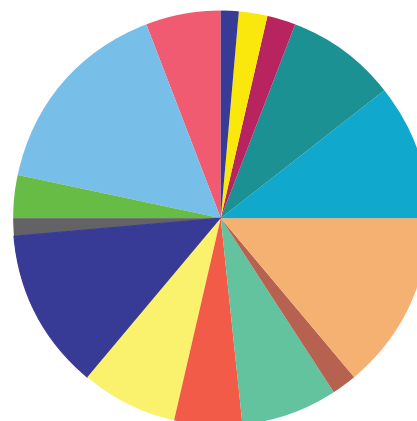
(ii) The Government has the following guarantees: National Education Scheme (\$15K); Bank of N.T. Butterfield (\$182.9M); Bermuda Housing Corporation (\$36.7M); West End Development Corporation (\$65.2M); Bermuda Hospitals Board (\$247M) and Morgan's Point (\$6M). With effect 1st April, 2011 these guarantees are no longer charged against the statutory debt ceiling unless the guarantee obligation becomes due and payable by the Government, pursuant to the amended Gov't Loans Act 1978. The total amount of utilized Loan Facilities are restricted by the Government Loans Act 1978, as amended.

Table VII
PROFESSIONAL SERVICES

(1)	(2)	ACTUAL 2015/16 (\$000) (3)	ORIGINAL ESTIMATE 2016/17 (\$000) (4)	REVISED ESTIMATE 2016/17 (\$000) (5)	ESTIMATE 2017/18 (\$000) (6)
	5260 Local Consultants	7,092	9,445	9,014	10,472
	5265 Overseas Consultants	10,476	7,317	6,716	7,345
	5270 Contractors	16,643	18,453	20,326	14,665
	5275 Medical	10,094	4,951	5,689	5,147
	5280 Optical Services	10	13	33	14
	5285 Educational Services	43	120	71	120
	5290 Chiropodist Services	2	4	3	5
	5295 Psychological Services	7	40	40	40
	5300 Dental Services	30	26	56	46
	5305 War Pension Award	1,968	1,965	1,965	1,795
	5310 Counselling Services	164	284	239	274
	5315 Child Care Services	138	165	110	150
	5320 Recreational Services	222	205	203	198
	5325 Legal Services	4,660	4,768	5,496	5,235
	5330 Liquidation Fees	122	223	223	187
	5340 Membership Fees - Govt.	388	363	371	367
	5345 Forensic/Lab Services	321	664	666	688
	5350 Forensic/lab accounting	80	157	157	157
	5355 Security Services	5,272	5,416	5,521	1,370
	5360 Conservation Services	0	6	51	28
	5365 Animal Control Services	35	29	29	29
	5370 Board & Comm. Fees	736	931	1,105	903
	5375 ID Parade - Police	10	30	30	30
	5380 Jury & Witness Fees	141	115	105	115
	5385 Court Costs	15	16	16	18
	5390 Audit Fees	0	55	55	137
	5395 Examination Fees	280	407	407	450
		58,949	56,168	58,697	49,985

Estimated Expenditure 2017/18 in BD\$ Millions

■ Non-Ministry.....	18.7
■ Cabinet Office Departments.....	23.9
■ Legal Affairs.....	27.1
■ Finance.....	100.4
■ Education	127.0
■ Health & Seniors	162.7
■ Environment.....	22.8
■ Tourism, Transport and Municipalities	86.5
■ Public Works	65.0
■ Social Development and Sports.....	87.3
■ National Security.....	146.6
■ Home Affairs	15.2
■ Economic Development	40.2
■ Interest and Sinking Fund.....	186.1
■ Capital Estimate.....	67.5



Categories of expenditure expressed as a percentage of total estimated expenditure for 2017/18 of \$1,177.0 million

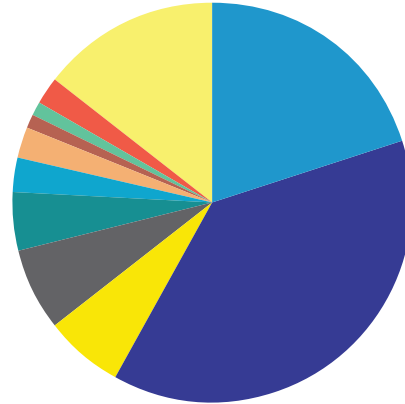


— Non-Ministry.....	1.6
— Cabinet Office Departments.....	2.0
— Legal Affairs.....	2.3
— Finance.....	8.5
— Education	10.8
— Health and Seniors.....	13.8
— Environment.....	1.9
— Tourism, Transport and Municipalities	7.4
— Public Works	5.5
— Social Development and Sports.....	7.4
— National Security.....	12.5
— Home Affairs	1.3
— Economic Development	3.4
— Interest and Sinking Fund.....	15.8
— Capital Estimate.....	5.7

Estimated Revenue 2017/18 in BD\$ Millions

Total Revenue \$1,042.3 million

■ Customs.....	223.7
■ Payroll Tax.....	439.0
■ Companies Fees.....	70.0
■ Land Tax.....	63.2
■ Passenger Tax.....	22.3
■ Vehicle Licences.....	29.0
■ Stamp Duties.....	21.0
■ Hotel Occupancy.....	11.5
■ Immigration.....	15.0
■ Foreign Currency.....	22.0
■ All Other.....	125.6



Categories of revenue expressed as a percentage of total estimated revenue for 2017/18 of \$1,042.3 million



—	Customs.....	21.5
—	Payroll Tax.....	42.1
—	Companies Fees.....	6.7
—	Land Tax.....	6.1
—	Passenger Tax.....	2.1
—	Vehicle Licences.....	2.8
—	Stamp Duties.....	2.0
—	Hotel Occupancy.....	1.1
—	Immigration.....	1.4
—	Foreign Currency.....	2.1
—	All Other.....	12.1



Design and pre-press production:
Department of Communication and Information
Printed in Bermuda by The Bermuda Press Ltd. ~ February 2017