

# Bermuda Budget Bulletin 2003



## “... to hold the line on tax rates... no tax increases are proposed for 2003/04.”

In his fifth and final first-term budget, The Hon C. Eugene Cox, J.P. M.P., Minister of Finance, stated that “the 2003/04 Budget has been designed with two primary considerations in mind:

- To strengthen social cohesion in our community; and
- To stabilize and rejuvenate business activity in all business sectors.”

Inflation is running at 2.3% while expenditure is increasing at 6.7%, with revenues increasing by just 1.4%. Part of the Government current expenditure increase is an overall increase in Government salaries and benefits of 7.4% with an increase of 104 in the number of Government employees, including 48 in education, 10 in health and family services, and 22 in youth, sport and recreation, emphasising the areas of government focus in this budget. Since 2001/02, there have been 391 more government employees.

Capital expenditure is \$103.4 million which includes \$4.3 million of unspent appropriations from 2002/03. In order to finance these expenditures, the government intends to increase net borrowing by \$81 million to a net of \$208.5 million, some 42% increase since March 1999 and 63.5% based on the revised 2002/03 estimate.

With considerable uncertainty in the world economic outlook, it may have been better to use the increased current account revenues to reduce debt and hold government expenditure to an inflationary index. Government had committed to a zero based budget.

### Key Budget Areas

- Business
- The Effects on Individuals
- Tourism
- Economic Performance
- Social

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## Business

The disconcerting effects of September 11, 2001 have had a lingering influence with all major economies recording higher levels of unemployment, a flat volume of consumer spending and marked reductions in spending on leisure and travel.

The Government believes that the introduction of the Payroll Tax Rates (Special Provisions Act) 2001 and lack of increases in taxation in any other areas during 2002 were the core of the Government's ability to maintain economic stability in difficult conditions.

Other key economic circumstances during 2002/2003 included the following:

- The international business sector has performed remarkably well in 2002.
- Within the insurance and reinsurance sector, property lines of business have reached record highs and may have peaked but growth in other lines is still very robust.
- Hospitality sector is still under pressure, although there were some positive signs of recovery in 2002.
- Employment levels have varied across industry sectors, with increases in international business

activity, construction, real estate services and wholesale trade, ahead of declines in the hospitality sector, restaurant, transport and utilities.

- Economic prospects for 2003 are moderate with Real GDP forecast to increase in the range of 1% to 1.5% in 2003, depending on the developments in the United States.

One of the two primary considerations in the designation of the Budget is to stabilize and rejuvenate business activity in all economic sectors. In order to meet this objective, the Government is proposing:

- No tax increases for the 2003/2004 fiscal period.
- The payroll tax standard rate will remain unchanged at 12.75%.
- The payroll cap of \$225,000 for individual remuneration will also remain the same.
- The relief granted to retail shops, restaurants, small businesses and taxi operators under the Payroll Tax Rates (Special Provisions Act) 2001, which expired on September 30, 2002 has not been reinstated.
- The Government will review the policy on holiday trading to give retail shops more flexibility.

In addition the Budget includes:

- A provision of \$107,000 to address the threats of overseas governments' foreign policy actions that have targeted companies incorporated in Bermuda.
- \$225,000 to further the accounting expertise throughout Government by placing consultant accountants in key ministries.
- Increased funding to provide for more officers in the Financial Investigation Unit to improve Bermuda's capacity to combat financial crime.

Other Budget Provisions include:

- Minor Amendments are proposed to the Customs Tariff Act, including temporary imports of sports equipment by Bermuda's best athletes.
- All contributory and non-contributory pension benefits will be increased by 3% while the contribution rate increases of 4.25% will come into effect from August 2003.
- Amendments will be made to remove the preferential treatment previously afforded to a few select charitable organisations, but not to others that are equally worthy.

## Tourism

The tourism industry in 2002 made a slow recovery from the effects felt from the events of September 11, 2001. Although the outlook for tourism in 2003 is clouded by concerns about what may happen in Iraq, Government will focus on improving the 2002 performance.

The overall number of visitors to the Island in 2002 increased by 5.9% and consisted of primarily cruise ship visitors with the main percentage increase being in the last quarter, which obviously suffered in 2001.

Hotel occupancy levels in the first half of 2002 were not as low as had been projected in February 2002. The 2003/2004 Budget does not specify any new initiative on expenditures and the total funding attributed to the Ministry of Tourism is an increase over the previous year of 1%.

### The Effects on Individuals

#### Payroll Taxes

Payroll tax remains unchanged at 12.75%  
Payroll tax cap remains at \$225,000

#### Property / Household

No new taxes.  
No new tax increases.

#### Pensions

Benefits will be raised by 3% with effect from August 2003. Contribution rates set to rise by 4.25% (i.e. weekly contributions of \$46.40 will now increase to approximately \$48.38).

#### Unemployment Benefit

Unemployment Insurance Fund seeded with \$1 million in 2002/03. Government in dialogue with stakeholders to establish what the main operational principles will be.

## Economic Performance

It was inevitable that the 2003/2004 budget would reflect the continued uncertainty in the world economy and the significant influence that the U.S. economy has on Bermuda. The potential for conflict with Iraq and the threat of further terrorist attacks has compounded this uncertainty. Against this background, there is a moderate increase in projected growth of the 2003/2004 GDP of 1.5% compared to the prior fiscal period. Revenues for 2002/2003 were buoyant, with the original estimates of revenue of \$609.2m revised upward by 5.2% to \$641.1m. Major items contributing to this buoyancy were increases in payroll tax (\$12.0m), customs duty (\$5.2m), stamp duty (\$5.0m), land tax (\$2.4m) passenger tax (\$2.6m) and hotel occupancy (\$1m). Current account original expenditure estimates increased marginally to \$574.2m from \$571.8m. Coupled with a decrease in capital expenditures of \$9.4m, this resulted in an overall decrease in the projected deficit of \$41.0m from the original estimate of \$85.5m to \$44.5m.

The 2003/2004 budget estimates an increase in revenues of 1.4% to \$650.1m (2002/2003 revised - \$641.1m). The increase in current account expenditures of \$38.2m exceeded this growth, with a 6.7% increase to \$612.4m (2002/2003 revised - \$574.2m). Capital expenditure increases of 3.7% to \$103.4m (2002/2003 revised - \$99.7m)

resulting in a budgeted deficit of \$78.1m (2002/2003 revised deficit - \$44.5m). Government will increase borrowing significantly for 2003/2004 fiscal period with an increase in debts and guarantees of \$81m to bring total borrowings from the revised estimate of \$127.5m to \$208.5m.

Once again, international business was the largest single contributor to the economy, contributing \$471m, equivalent to 15.3% of total GDP in 2002, an increase of \$4.3m (0.9%). The construction and real estate sections showed the most significant monetary growth year on year, increasing by \$17.4m (9.9%) and \$21m (4.9%) respectively. All figures are at constant market prices.

The number of registered companies remained showed virtually no change, increasing slightly to a total of 13,318

at the end of 2002 compared to 13,286 at the end of 2001.

The tourism sector started to rebound from 2001, when it had been severely impacted by the effects of the September 11 attacks. Visitor arrivals showed an increase of 5.7% from the comparative period in 2001, following declines for the last number of years. As a result, visitor expenditures for the first three quarters of 2002 increased by 5.9% against the same period in the prior year, with the number of bednights sold also increasing by 2.6%, the first such increase since 1994. Despite these initial signs of recovery, employment in the hotel and restaurant sectors continued to fall by 2.9%, and there was a slight decrease in employment in the retail sales sector of 0.9%.

Overall, there has been a modest increase of 0.5% in the number of jobs in Bermuda. There have continued to be strong gains in employment in international business and construction, offset by the decreases in the hotel sector noted above. This compares to 2001, which showed a slight decline in total number of jobs of 1.1%

Inflation is forecast to be consistent the prior year and with that of the G7 countries, with consensus forecasts of between 2.2% and 2.5% (2002 – 2.3%).

The following highlights significant components of the 2003/2004 budget:

	03/04 estimate	02/03 revised	Change
Revenues	650.1	641.1	1.4%
Current account expenditures	612.4%	574.2%	6.7%
Capital expenditures	103.4	99.7	3.7%
Deficit (excl. debt & sinking fund)	78.1	44.5	75.5%
Debts and guarantees	208.5	127.5	63.5%

## Social

Government has focused in this Budget on programs to provide increased opportunities for Bermuda's youth.

Youth:

- 10.4 million of new current expenditure in education including increased staffing cost for the Senior Four year in the senior schools, the Special School for students with physical and/or medical challenges, additional staff to nurture gifted students, funding for Information Technology Support staff to complete the rollout of the Bermuda Technology Education Collaborative initiative.
- Increased costs for the Foster Care Program, the Brangman Home and

\$2.6 million in subsidized health services.

- 22 new staff in Youth, Sports and Recreation, \$6.2 million capital expenditure to the National Sport Centre.
- \$1.8 million increase in the Ministry of Community Affairs and Sport including operation of Community Centres (+\$213,000), the accommodation of special needs children in summer day camps (+\$60,000) and the Afterschool Care programme (=\$261,000).
- Additional \$100,000 Student Summer Employment Programme.

Other Social Programmes:

- Government in dialogue with stakeholders to establish the main

principles of the Unemployment Insurance Fund.

- Establishment of the new Department of Court Services with staff of 37.
- Department of Corrections receives additional funding to devote special attention to training and development with special emphasis on case planning, non-violent control and restraint techniques, modern correctional administration and team building.
- \$9.3 million to the Ministry of Health and Family Services for rest home renovations and new development, capital works at St. Brendan's Hospital and renovations to Teucer House.

## Economic Figures

*“Our economy is on a recovery curve and we have no intention of slowing its acceleration away from the economic abyss of 2001.”*

The economic figures in the table below have been adjusted to reflect actual figures for the prior years. Percent changes relate to original estimate. Please note the Government now uses current market prices for GDP calculations.

	01/02	02/03	03/04*
Population	62,000*	62,000*	62,000*
GDP (at constant market prices (1996), \$b)	3.059	3.090	3.136
GDP per capita (\$)	49,339	49,839	50,581
% change	1.2%	1.0%	1.5%
	<b>01/02</b>	<b>02/03</b>	<b>03/04*</b>
Current account (\$m):			
Revenue	631.2	641.1	650.1
Expenditure	533.6	574.2	612.4
Balance	97.6	66.9	37.7
Current account expenditure per capita (\$)	8,606	9,261	9,877
% change	5.1%	7.6%	6.7%
Capital expenditure (\$m)	64.7	99.7	103.4
Capital expenditure per capita (\$)	1,043	1,608	1,668
* = estimate			
% changes relate to revised estimate / actual as appropriate.			

This briefing is intended as a general guide to the Budget 2003. It is not intended to be comprehensive and should not be used as a basis for decisions. For that purpose advice should be obtained which takes into account all the client's circumstances.

Every effort has been made to ensure the accuracy of the information contained herein. In view of its purpose the reader will appreciate that we, the Bermuda firm, are unable to accept liability for any errors or omissions which may arise.

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