The Ministry of Finance

Ministry of Finance Headquarters
Ministerial Statement
To the House of Assembly
By
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Minister of Finance
Government Multi-Year Borrowing Strategy
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Mr. Speaker, I rise today to advise Honourable Members of the Ministry of Finance's new multi-year borrowing strategy.

Honourable Members are advised that the Ministry of Finance is in the process of strengthening budget formulation by introducing multi-year budgeting that will build on the Zero Based Budgeting approach. As part of this multi-year budgeting the Ministry of Finance, in conjunction with the Public Debt Management Advisory Group, has been reviewing its borrowing arrangements and practices used to finance ongoing budget deficits.

Mr. Speaker, it is important to emphasize that this Minister and this OBA Government recognize the importance of proper medium term financial planning and is unequivocally committed to the elimination of government deficits. Steps toward that objective are still a work in process and will be revealed at the appropriate time. However, in the meantime it is forecast that the government will likely run operational deficits in the next three to four years.

Mr. Speaker, although the previous administration referred quite often to the implementation of a medium term expenditure framework, their actual method of debt financing remained unchanged: i.e. the method was to borrow money either through bank lines or bond issues for the current fiscal year. There has never been multi-year financing, until now.

I can now advise Honourable Members that the Government's next bond issue, expected this summer, is anticipated to cover up to three years' of government operating deficits. The amount to be raised will be in the range of $400 to $800 million. If conditions are favourable we plan to issue at least two separate tranches: a US$ institutional tranche and a BD$ local tranche, also there will likely be three distinct investor groups targeted for subscription namely:

- Local retail BD$ investors;
- Bermuda based US$ institutional investors;
- Global institutional investors.

Mr. Speaker, Honourable Members and the public may ask, why have we decided to make this strategic change? I can advise that the reasons are as follows:

- We consider that we are in the last phase of the ultra - low US$ interest rate cycle. As the US economy gains strength, US$ interest rates, and therefore bond yields and borrowing costs, are highly likely to rise.

- Borrowing three years' worth of deficits now will save the government tens of millions of dollars in interest cost.

- This will give us certainty of financing as well. Instead of borrowing on a year to year basis in a rising interest rate market, we will be locking in three years at low rates.

- It will demonstrate that we are asserting control of our deficit situation, instead of being constantly reactive.

- It will also demonstrate to rating agencies that we are tapping the local money markets, as they have repeatedly recommended.

Mr. Speaker, the Ministry is currently reviewing offers from a variety of investment banks to manage this upcoming bond issue and we will announce the successful manager/managers in due course. We are confident that there is significant appetite in the local retail market for government bonds.

Mr. Speaker, I can confirm that we have already apprised the rating agencies of our change in strategy.

Honourable Members may be shocked by this announcement and the size of the issue, but the logic of this strategy, as stated, is easy for anyone to understand.

Honourable Members and the Bermuda public may well ask, “What about the debt ceiling and the new debt rules only recently put in place. Are you not breaking your own rules?”

Mr. Speaker, the answer is no, we are not. Public debt is defined by a simple formula: gross debt outstanding minus money in the Sinking Fund. We intend to borrow up to three years' worth of deficits; excess funds borrowed that are not required in the current year will be deposited in the Sinking Fund thereby reducing Government's net debt position. This mean that the Public Debt, as defined, will only raise by the one year's worth of deficits. We will take money out of the Sinking Fund as needed to finance the deficit in future years. The money placed in the Sinking Fund from this bond issue will be prudently invested until it is needed.

Mr. Speaker, Honourable Members and the general public may well also claim that we are reneging on our promise to reduce the public debt. The answer to this question is in two parts:

- This strategy will save the treasury between $20-40 million depending on what interest rates do in the next 3 years. One thing we know they're not going down. Saving that kind of money reduces the debt.

- We must all accept that the debt will not be reduced overnight. This is money we would have had to borrow any way; it is only a question of timing. We choose now because we have the advantage.

Mr. Speaker, Honourable Members are advised that The Government Loans Act 1978, as currently drafted, did not anticipate multi-year budgeting and financing. In order to address this restriction the Government Loans Act 1978 will be amended to allow money to be deposited and extracted from the Sinking Fund. These amendments will be laid before the House shortly.

Mr. Speaker, Government remains committed to prudent and sensible borrowing, this borrowing strategy will allow the Government to lock-in historically low rates and to take advantage of strong current global demand for investment grade assets.

Thank you, Mr. Speaker!