



GOVERNMENT OF BERMUDA
Ministry of Finance



BERMUDA'S ECONOMIC RECOVERY PLAN

Summary Report

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22 March 2021

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1. EXECUTIVE SUMMARY

Bermuda's economy has been severely impacted by the COVID-19 pandemic that reached our shores in March 2020. While decisive action by the Government of Bermuda has largely protected the country on the health front, the economic damage has been significant, as it has been for many countries around the world.

The Government of Bermuda moved promptly at the onset of the pandemic to mitigate the devastating economic impact. It implemented policies that assisted businesses and persons to survive in the short term, particularly during the period where business activity was significantly curtailed, due to the lockdown that the Government had to impose to ensure the health and safety of Bermuda's residents.

Notwithstanding the proactive and timely action taken by the Bermuda Government, the overall economic impact on Bermuda of the COVID-19 pandemic was still significant. GDP is expected to have contracted by about 9% in 2020, and sectors such as tourism and hospitality have been adversely affected.

As a result of the pandemic, Government finances deteriorated significantly in FY2020/21. The budget deficit is projected to have risen to \$245.5 million (compared to a \$32.5 million deficit in FY2019/20) given a surge in spending due to the pandemic and a related drop in tax revenues. In order to finance the increased deficit and to take advantage of a low interest rate environment, the international capital market was successfully tapped for significant funding in 2020 (\$1.35 billion in total, including refinanced debt).

The current economic crisis comes on the back of a decade of low growth and significant structural economic challenges for Bermuda. Notably, Bermuda has a net outstanding Government debt of \$3.0 billion and a debt ceiling of \$3.5 billion. As noted by the external experts on Bermuda's Fiscal Responsibility Panel and highlighted in the Minister of Finance's Pre-Budget FY 2021/22 Report, Bermuda is facing a 'fiscal cliff-edge'. The structural fiscal imbalances, compounded by the economic and demographic trends for the country, require timely action.

This Economic Recovery Plan ("ERP") is a response to the urgency of the situation. It aims to combine fiscal responsibility with a clear path to growth, employment and greater economic equity.

A three-phased approach to the development of the ERP has been taken. Preparatory work in Phase 1 involved identifying the objectives, the guiding principles and a preliminary list of initiatives; and was undertaken in July through September 2020. Phase 2 involved the development of economic models, prioritisation of initiatives and an implementation plan; and took place from October 2020 to February 2021. Phase 3 involves the implementation of the plan; in an effective and efficient manner with appropriate Cabinet oversight; and is now beginning.

The development of the ERP in Phase 2 has been a whole-of-government effort and has incorporated detailed input from across the various Ministries. Over the past six months, key stakeholders have been consulted as part of the plan's development, and there has been extensive input from around the Cabinet table. The Economic Advisory Committee ("EAC"), established in May 2020, has also provided detailed and valuable advice throughout the process; and input from the Financial Policy Council, the Fiscal Responsibility Panel and other key stakeholders has also been sought.

The ERP has been developed against the background of two multi-year baseline GDP scenarios for Bermuda (i.e. pre-ERP) – a ‘Most Likely’ scenario and a ‘Severe’ scenario. These projections were developed by international experts based on projections in other countries and were refined with input from the EAC as follows:

- ‘Most Likely’ scenario: relatively strong ‘bounce back’ and GDP returns to its 2019 level by the end of 2022 (a broadly similar speed of catch-up as the International Monetary Fund (“IMF”) projects for the world economy); and
- ‘Severe’ scenario assumes further lockdowns in 2021, recovery is sluggish and GDP remains 10% below its 2019 level in each of the next 4-5 years.

The design of the ERP involved developing a prudent fiscal strategy for government finances, and key guard rails to be respected in order to keep Bermuda on the right fiscal path. These fiscal guidelines are drawn from comparisons with jurisdictions with similar credit ratings. The projected fiscal outcomes for the various initiatives in the ERP respect these key guard rails. The fiscal guard rails address Bermuda’s capacity to pay back debt and to minimise the risk of a credit downgrade:

- Bermuda targets a return to a balanced budget in three fiscal years (by FY2023/24) and respects the \$3.5 billion ceiling on total debt outstanding; and
- In line with similarly A-rated countries, ratios for gross debt to GDP and net debt to GDP do not exceed 55% and 50%, respectively.

The detailed policy initiatives in the ERP were drawn from proposed initiatives in each of the Government Ministries. A total of 81 were identified to accelerate medium-term economic growth, consistent with the Government’s 2020 Platform and Throne Speech vision.

The range of policies compares well with emerging pandemic responses from similar economies. Many of the policy measures being undertaken in peer countries feature prominently in Bermuda’s policy mix, such as support for specific sectors and economic diversification measures; labour market interventions; and efforts to accelerate digital transformation.

Additionally, Bermuda has set out a desire to go further in areas such as environmental sustainability, economic equity and empowerment.

The full set of proposed policies have been prioritised to focus on areas with the highest impact for Bermuda’s medium-term economic growth and employment; and reduced to a priority list of 31 initiatives. These 31 initiatives have been broadly grouped into seven core themes¹:

- Diversifying Bermuda’s economy through growth of new industries with co-investment from the private sector (including allowing Bermudians themselves to invest) – e.g. medical tourism, vertical farming, SME marketplace, residential schemes, casino industry, sub-sea communications, and the Space Strategy;
- Making financial markets work better for businesses and consumers – e.g. lowering interest rates, COVID-19 SME support, National Digital Bank;

¹ Priority policies accept a significant number of policy recommendations made by the EAC, and additionally have a heavy relative weighting to sustainability and green recovery initiatives

- Building critical new infrastructure or enhancing existing infrastructure – e.g. Shoreside facility for fishing, water and waste management facility, electric vehicle recharging;
- Expanding the resident population – e.g. through short-term measures such as the introduction of the Economic Investment Certificate, as well as medium-term initiatives such as regularising the position of long-term residents and making it easier for Bermudians born overseas to return home;
- Introducing labour market reforms and social development measures to deliver skills, employment and economic security in the future economy – e.g. execution of a jobs strategy and youth employment strategy, establishing national unemployment insurance, and implementation of minimum and living wage legislation;
- Reforming the delivery of healthcare – e.g. through the introduction of an affordable universal healthcare system and by reducing the cost of medicines; and
- Developing supportive legal and regulatory frameworks – e.g. energy regulatory sandbox, digital/FinTech, marine development zone.

International benchmarks suggest that successful implementation of these policies should deliver 1.3 - 1.5% per annum above baseline economic growth from 2023, leading to an improvement in Bermuda's fiscal position (assuming a reasonable growth trajectory for the world economy as currently predicted by the IMF).

In parallel to the ERP, it is important to highlight that Bermuda will also continue to move forward with **planned educational reforms and other social policy measures**; assessing possible areas of **tax and pension reform**; as well as additional government initiatives to support the vibrancy of Bermuda's international business sector.

Strong quality assurance, governance, and monitoring processes will be necessary to effectively implement the ERP and evidence 'value for money' with respect to the policy priorities. An implementation plan, consistent with international best practices, has been drawn up. Implementation will be led by a new and dedicated ERP Project Management Office ("PMO") within the Cabinet Office, reporting to the Cabinet Committee on Economic Development and the Premier. The Ministry of Finance will continue to play a critical role by ensuring that fiscal and economic matters are responsibly addressed, and that economic projections and fiscal path data are updated as the ERP delivers results; and there will be quarterly reporting to the Cabinet Committee.

The commitment of this Government to the health and support of the Bermuda public, as well as the ongoing stability and prosperity of Bermuda, has already been demonstrated. The work to ensure that those goals are achieved will continue unabated. The need for fiscal prudence as we progress the various initiatives is well recognised, and will continue to be exercised during these challenging times. There are many people who have already played a significant role in the progress made thus far, and for this we are deeply grateful. We look forward to continuing our work together for the health and success of Bermuda.

2. POLICY RESPONSE TO COVID-19

Bermuda was directly impacted by the COVID-19 pandemic, from 18 March 2020, when the first case was identified in the country. Prompt and decisive action by the Government of Bermuda has largely protected the country on the health front. Pro-active public health measures such as an early shelter-in-place order, ramping-up testing, and quick deployment of the vaccine have meant that despite the devastating impact of the COVID-19-related deaths and illnesses in Bermuda on their families and friends, Bermuda has so far suffered less than most other countries.

As the Government of Bermuda moved quickly on the health front, it also acted promptly to mitigate the overwhelming impact of the pandemic on its economy. It put into effect policies that assisted businesses and persons to survive in the short term, particularly during the period where business activity was significantly curtailed due to the lockdown that the Government had to impose, to ensure the health and safety of Bermuda's residents.

A number of measures were introduced at an early stage of the pandemic in order to address the immediate economic impact, providing support to both businesses and persons:

- A 12-week unemployment benefit programme was built from scratch, to assist individuals who lost their jobs and those whose income earnings were impacted significantly due to restrictions imposed as a result of the pandemic. This programme was extended for an additional six weeks and paid over 10,000 people for total payments of approximately \$56.8 million;
- Payroll tax relief was extended to the restaurant and bar sector, taxi drivers and the hotel sector, in addition to extending the deadline for all relevant entities for filing payroll and corporate services tax while waiving penalties and late fees;
- \$12.0 million of additional funding was provided to the Bermuda Economic Development Corporation ("BEDC") to provide support for small and medium-sized enterprises;
- Amendments were made to pension legislation to allow for persons to make withdrawals of up to \$12,000 from their pensions. An alternative option, which was made available to retired persons over 65, subject to relevant constraints imposed by their pension plans, allowed persons to withdraw up to 25% of their pension balance. As of 31 December 2020, approximately \$115.8 million was withdrawn through the first scheme by approximately 16,000 applicants and \$15.5 million was taken under the 25% option;
- Customs duty relief was given in a number of areas, to provide further support to various sectors and to advance health care efforts being undertaken. The ability to defer the payment of duty to a later period was also made available to assist businesses with their cash flow management;
- Persons were allowed to suspend contributions to social insurance and pension plans for a twelve-month period;

- The “Work from Bermuda” Certificate program was put in place to allow individuals to come to Bermuda to work or study remotely from the island; and
- Recognising that the economic impact of COVID-19 was going to be severe, Government implemented austerity measures within the public service and took additional action to reduce the projected government deficit.

Even prior to the onset of the pandemic, it had been the intention of the Government to take advantage of a relatively low interest rate environment, to refinance loan agreements arranged to satisfy existing obligations and other existing more expensive government debt. In August 2020, the Government accessed international capital markets to execute on this strategy, and to fund the unbudgeted and ongoing COVID-19 expenses and re-forecasted budget deficits.

Due to Bermuda’s strong credit profile in international capital markets and to the economic actions being taken in response to the pandemic, the bond offering was in high demand by global institutional investors. Not only did Bermuda achieve record low spreads to U.S. Treasuries, but demand was such that Bermuda was able to upsize the issuance to refinance more debt than initially planned at much lower interest rates. Additionally, Bermuda issued its first ever 30-year public bond. Overall, the Government achieved a 0.58% reduction in average interest rates and an 8.4-year extension of Bermuda’s debt maturity profile.

Over the last 12 months, the Ministry of Finance had extensive discussions within Government and with Government agencies, as well as with various external advisers, all of whom played an important role in developing policies that address the various and complex areas that make up the Bermuda economy.

The EAC was formed in May 2020, comprising a group of government, union and industry experts who gave their time to provide insight and advice, aimed at protecting and growing jobs and stimulating economic activity during and after the pandemic. The EAC played a key role in recommending initiatives that the Government needed to consider in building the ERP. In their work, they have been ably supported by the Association of Bermuda Insurers and Reinsurers who provided secretariat services and EY who assisted in project management.

In addition, in addressing the challenges caused by the pandemic, including the development of the ERP, the Ministry of Finance was also able to draw on inputs from the Financial Policy Council and the Fiscal Responsibility Panel, as well as members of Bermuda First. The Bermuda Monetary Authority, the Bermuda Business Development Agency and Bermuda Tourism Authority also have provided very helpful advice and assistance during this period, including support with the bond issuance. This was further supplemented with work done by the agencies themselves to assist entities and residents in addressing the COVID-19 challenges. In addition, the Minister of Finance, with his team, also undertook a program of one-on-one engagements with entities in both the domestic and international business sector, and feedback from those sessions have also been considered in this work.

Advice on modelling the impact of COVID-19 to the Bermuda economy and possible components of the ERP was provided by the IMF’s Caribbean Regional Technical Assistance Centre and two internationally based consulting firms.

Despite efforts to mitigate the financial consequences of the COVID-19 pandemic with substantial levels of support, the economy has been significantly impacted as noted below:

- Despite resilience in International Business, GDP is expected to have contracted by 9% in 2020 and sectors such as tourism and hospitality (particularly important for employment of Bermudians) have been adversely affected; and
- Government finances deteriorated significantly in FY2020/21: total government expenditure in FY2020/21 surged to over \$1.2 billion (from \$1.13 billion in FY2019/20), government revenue dropped to \$960 million (from \$1.1 billion in FY2019/20), the budget deficit amounted to \$245 million (\$23 million in FY2019/20), and consequently, the markets were tapped for significant funding in 2020.

Further, as pointed out by the Bermuda Fiscal Responsibility Panel, the pandemic has led to a severe increase in the debt/revenue ratio. This was precipitated by the slowdown in business and the negative impact on tax revenues. At the same time, there was a need for the Government to borrow (as previously outlined) in order to shore-up the economy and provide the necessary support on the health and economic fronts. Significant structural imbalances also pose the risk of the continued weakness in economic growth that has been experienced over the last decade. Therefore, we are heading towards a fiscal cliff. If the Government were to proceed without taking additional policy initiatives to address the situation, there is a great risk that international financial markets will not be willing to lend freely at low-interest rates.

The ERP is a response to the urgency of the situation: it aims to combine fiscal responsibility with a clear path to growth, employment and greater economic equity, as highlighted in the proposed suite of policies introduced in the Government's 2020 Election Platform and November 2020 Throne Speech.

3. HOW THE PLAN WAS BUILT

Phase 1 of the ERP was completed in the Summer of 2020. The Cabinet and government ministries were mobilised, and external stakeholders were prepared for consultation. Between August and September, there were three principal outcomes:

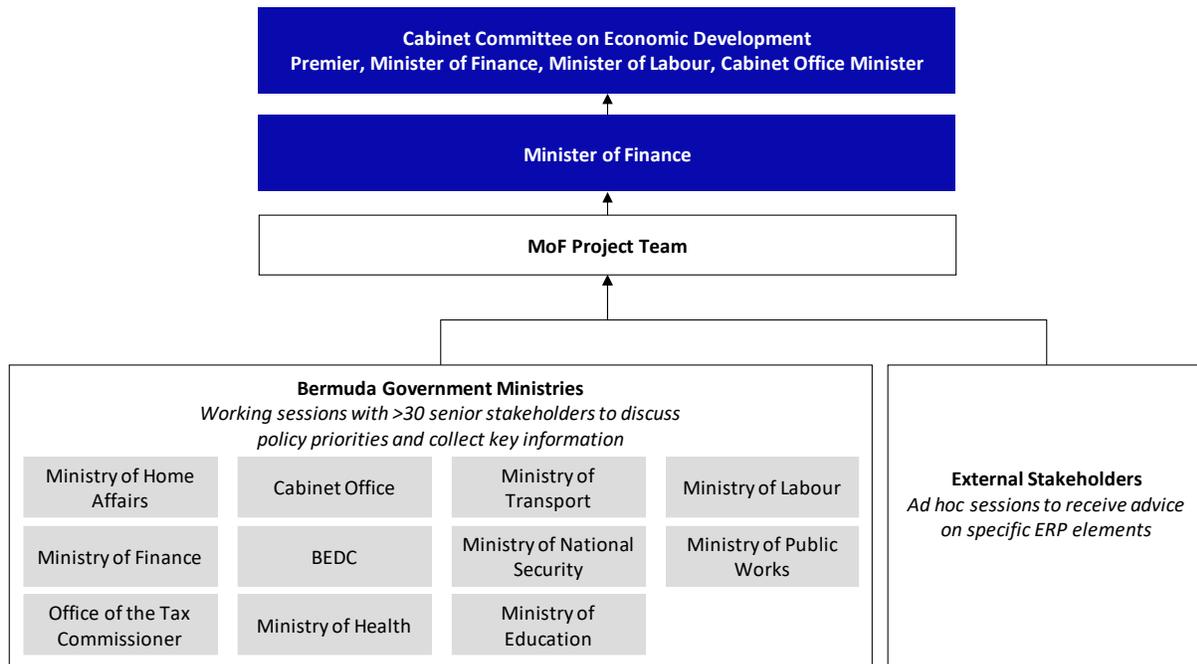
- **Aligned stakeholders on vision, the guiding principles and objectives of ERP:** this set the stage for the guiding principles that are described in this report and developed the fiscal responsibility concepts that needed to be fleshed out.
- **A long list of 81 measures** were developed by Ministries (as per Throne Speech and 2020 Election Platform).
- **Mobilised key stakeholders:** external stakeholders were lined up for subsequent consultation (e.g. the EAC, the Financial Policy Council, and the Fiscal Responsibility Panel).

Phase 2 of the ERP – the detailed consultation, analysis and recommendations – was kicked off in October 2020. The work lasted until February 2021 and had three over-arching deliverables building on the guidance created in Phase 1:

1. **Develop baseline economic, fiscal and debt projections:** projections for economic growth and fiscal path for the next few years under reasonable economic scenarios, absent any impact from the ERP, in the first instance, to inform Bermuda’s budget 2021/22.
2. **Detailed ERP with prioritised policy measures and costings:**
 - Given fiscal constraints, policies were ranked and prioritised using criteria rooted in international standards and input from Ministries and other stakeholders; and
 - Future economic trajectories and fiscal paths were developed, assuming successful implementation of ERP policy priorities and respect for international debt “guard rails” set by peers with a similar rating.
3. **Implementation plan:** a clear governance model was developed with key accountabilities and broad timelines; the implementation approach is anchored in international best practices of effective governance, execution and external stakeholder engagement. Phase 3 (implementation) is now underway.

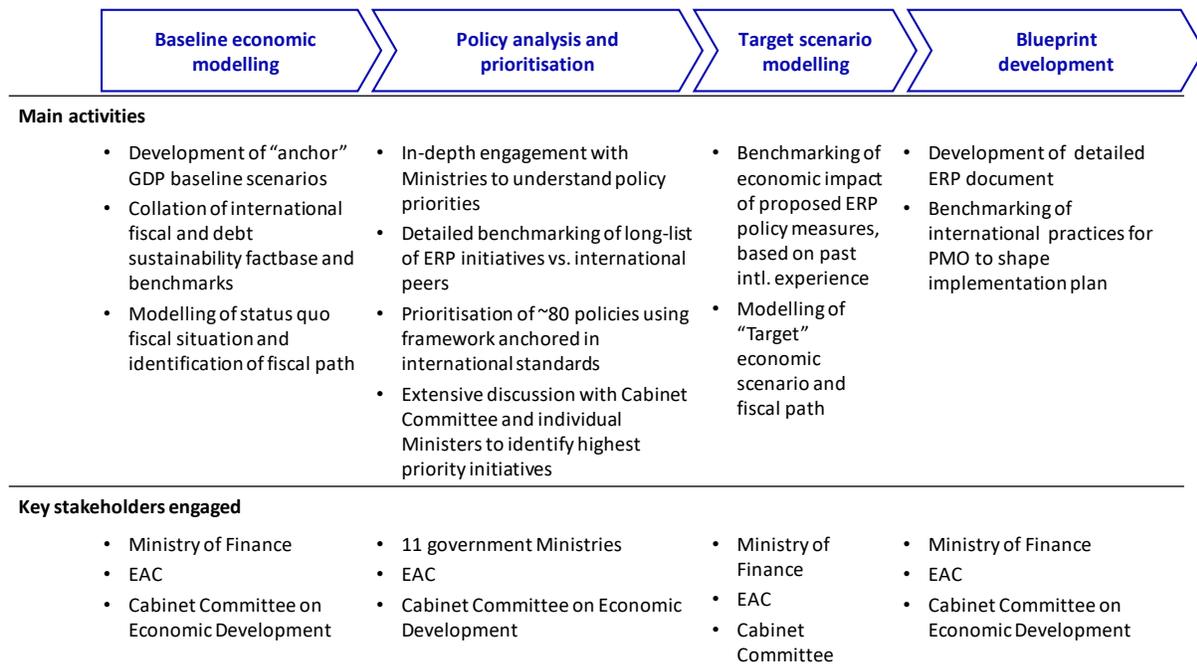
The design of the ERP was undertaken within a robust governance model for project execution that is summarised in Figure 1 below. The work was ultimately presented to the Cabinet Committee on Economic Development. The final outcomes were signed off by this body prior to submission to the full Cabinet for final sign-off. The Ministry of Finance assembled the working team that developed the analysis and report, with external assistance. Government Ministries were involved and consulted throughout the process, particularly in the work completed on prioritising policy initiatives that form the core of the ERP.

Figure 1: Key stakeholders engaged in Phase 2



The sequence of worksteps, deliverables and involved parties are summarised in Figure 2 below:

Figure 2



4. KEY ELEMENTS OF THE ERP

Step 1: Baseline Economic Modelling

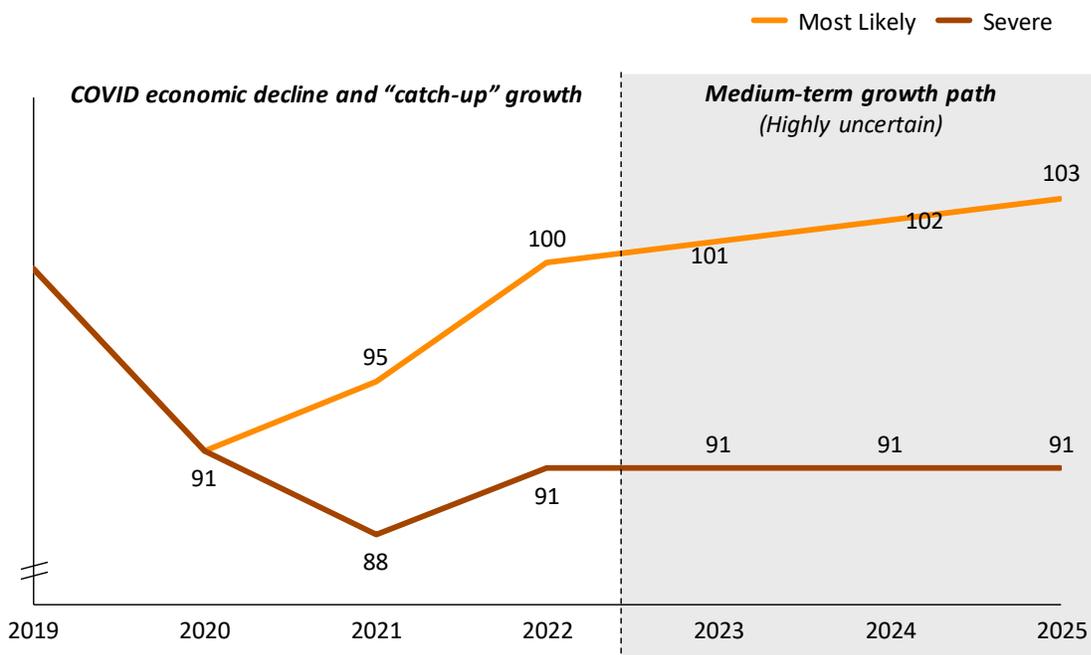
For the ERP, Bermuda’s economic and fiscal framework was developed using two baseline scenarios (pre-ERP) that were refined in partnership with the EAC to determine a sector-by-sector view of recovery to drive an overall quantification of the scenarios summarised in Figure 2 below:

- Most Likely:
 - 2020–22: Economic growth sees a relatively strong “bounce back” with GDP returning to its 2019 level by the end of 2022 (broadly similar to the IMF’s global economic recovery projection)²
 - 2023–25: growth is broadly in line with historical averages (+0.8% from 2015–19)
- Severe (reasonable worst case):
 - Recovery is sluggish and GDP remains 10% below its FY2019/20 level for the next 4–5 years (e.g. as a result of pandemic persistence and slower economic recovery in Bermuda, US and elsewhere)

The scenarios are indexed to 2019 growth at 100 and show how GDP then tracks annually until 2025. For the Most Likely scenario – which is our central projection at the moment – GDP returns to 2019 levels by the end of 2022, and growth resumes at our historical averages thereafter. In the Severe scenario, prospects are clearly a lot more challenging, and growth does not recover to 2019 levels over the 5-year horizon.

² IMF, World Economic Outlook, October 2020

Figure 3: Bermuda baseline GDP scenarios (pre-ERP)³⁴
 Index vs. 2019, Whole economy



Annual inflation³

	1.0%	0.0%	1.2%	1.6%	2.1%	2.0%	2.0%
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Implied annual Real GDP growth

Most Likely	-8.5%	+3.5%	+5.9%	+1%	+1%	+1%
Severe	-8.5%	-4.3%	+3.5%	+0%	+0%	+0%

The two scenarios allowed us to develop a projection of the fiscal path for Bermuda based on in-depth assumptions on revenue take, expenditure and debt levels projected forward for the next five years. The fiscal path model was built bottom-up from each of the components of government revenue and expenditure.

These projections were used to develop debt sustainability metrics that rating agencies widely use to determine the credit rating of countries. The intent is to respect the parameters established by countries with a similar rating to Bermuda, listed in Figure 4 below. In this way, Bermuda can defend its current strong rating that allows it to have attractive cost of debt and creates the right conditions for the presence of the International Business sector in Bermuda. Another clear intent is to set parameters that are more conservative for other countries that Bermuda is sometimes compared to, namely “Island financial centres”

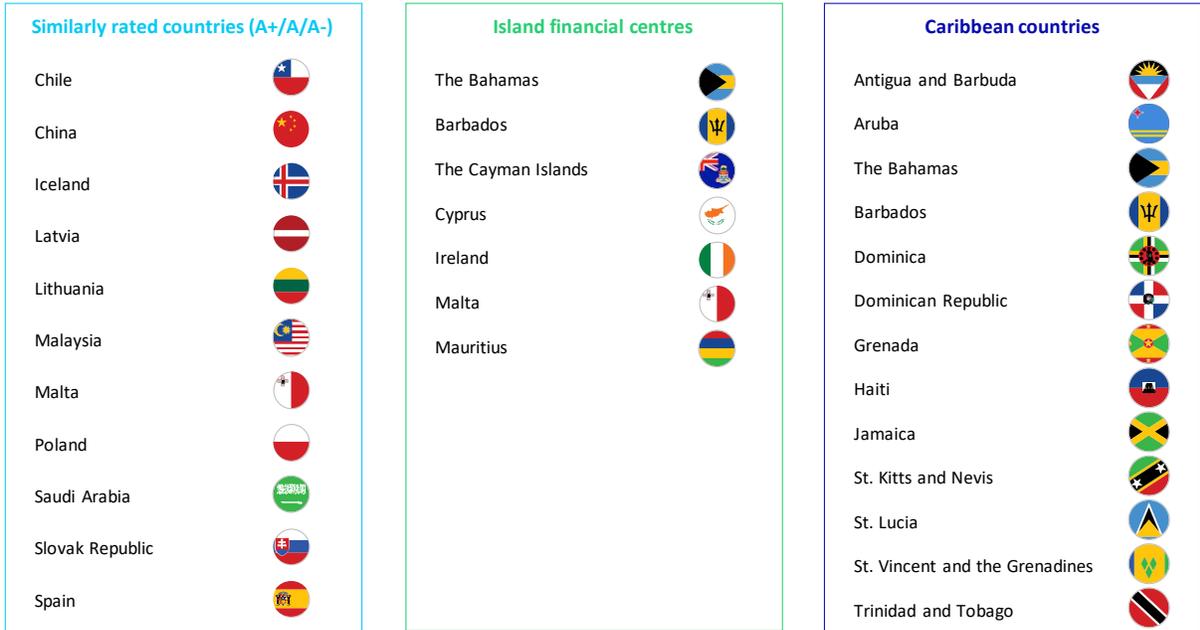
³ . Source: Ministry of Finance analysis and discussion with EAC

⁴ 2020 growth figures are as discussed with EAC and detailed in: Government of Bermuda, Pre-Budget Report 2021-22 (January 2021)

⁵ Source: Oxford Economics, CPI forecast

(i.e. countries that – like Bermuda – have an island-based economy with a relatively large international financial services hub), and Caribbean countries (also listed in Figure 4 below).

Figure 4: Primary comparators used in fiscal analysis



The fiscal parameters developed from this comparator analysis are called “guard rails” in the ERP. They set out Bermuda’s room for manoeuvre in terms of expenditure (assuming a given revenue take correlated with economic growth) over the next few years. In addition, the guard rails respect the additional fiscal prudence measures that Bermuda had already put in place with respect to the debt ceiling and a path towards budget balance over the coming 2–3 years. The guard rails are primarily anchored to countries with a similar rating (A+/A/A-) and set more conservatively than other potential comparators to Bermuda, as summarised in the table below. The guard rails were informed by a detailed analysis of peer metrics that includes over 2,500 data points collated from sources such as IMF, World Bank, and national statistics agencies for 32 countries.

Bermuda guard rails	Guard rail	Bermuda 2020/21
Total debt/debt ceiling	Max. \$3.5 billion	\$3.35 billion
Comprehensive budget balance	Balance in three fiscal years once tourism fully recovered (2023/24)	-\$245 million

International guard rails ⁶	Similarly rated countries (A+/A/A-) ⁷	Island financial centres	Caribbean countries	Guard rail (to be respected from 2022 onwards)	Bermuda 2020/21
Gross Debt to GDP				max. 55%	49%
• 2015–19	47%	70%	76%		
• Forecasted	58% (2020-25)	80%–95% (est.) ⁸	102% (2020–23)		
Net Debt to GDP				max. 50%	45%
• 2015–19	37%	55%–60% (est.) ⁹	58%		
• 2020–25	50%	65%–85% (est.) ⁸	69%		
Debt service to GDP (2011–18)	2%	3%	4%	max. 3%	2%

The immediate application of these guard rails was to determine the budget for FY2021/22, as explained in the Budget statement of 26 February 2021, and to therefore determine our overall envelope to fund policy priorities set by the ERP (including economic growth and capex investments).

Assuming the most likely baseline economic growth scenario, the budget for FY2021/22 (as per Budget statement) contains the following estimates:

⁶ All external data is based on calendar years, except for Haiti (within Caribbean) which is based on fiscal years

⁷ As per S&P country credit rating (correct as of 11/11/20). Excludes Japan due to large variations in unique debt situation (e.g. gross debt/GDP in excess of 230%)

⁸ Estimate based on IMF forecasts for global increase in debt to GDP of 15% points due to pandemic response (see: IMF, Fiscal Monitor, October 2020)

⁹ Estimate based on average difference between gross debt to GDP and net debt to GDP due to lack of public data for The Cayman Islands and Mauritius (within Island Financial Centres). Otherwise, net debt to GDP for limited sample is 72% (2011–19) and 70% (2020–25)

- \$888 million of current spending;
- \$15 million COVID-19-related contingencies;
- \$128 million debt interest;
- \$93 million of growth and CapEx budget to fund our policy priorities and economic recovery; and
- a budget deficit of \$125 million.

Step 2: Policy analysis, benchmarking and prioritisation

The next step developed policy priorities and modelled their expected economic impact, assuming successful implementation. Six key **principles** were developed as part of the Phase 1 work and were the critical anchors to the policy proposals that Ministries had developed:

- 1) **Combatting COVID-19 as a priority:** no economic plan should jeopardise the safety of Bermudians or undermine their sacrifices.
- 2) **Reducing the cost of living:** reform initiatives must be targeted at reducing the cost of living for all Bermudians.
- 3) **Fairness and equity:** policies need to ensure that growth is enjoyed by all segments of society, privileging those most in need.
- 4) **Financial viability:** any funding being used to support these policies needs to be directed only to firms and industries which have long-term viability in Bermuda.
- 5) **Fiscal prudence:** fiscal discipline needs to be exercised in managing the Government’s finances and borrowing should not mortgage the future of younger generations of Bermudians.
- 6) **Timeliness:** bold and decisive action needs to be taken now. Where possible, there should be accelerated implementation of highest priority initiatives to quickly improve Bermuda’s economic situation.

The 81 policy proposals developed by the Ministries were consistent with the Government’s 2020 Election Platform and Throne Speech vision. These proposals were organised into coherent groups for benchmarking purposes, as summarised in Figure 5 below. The framework consists of two parts:

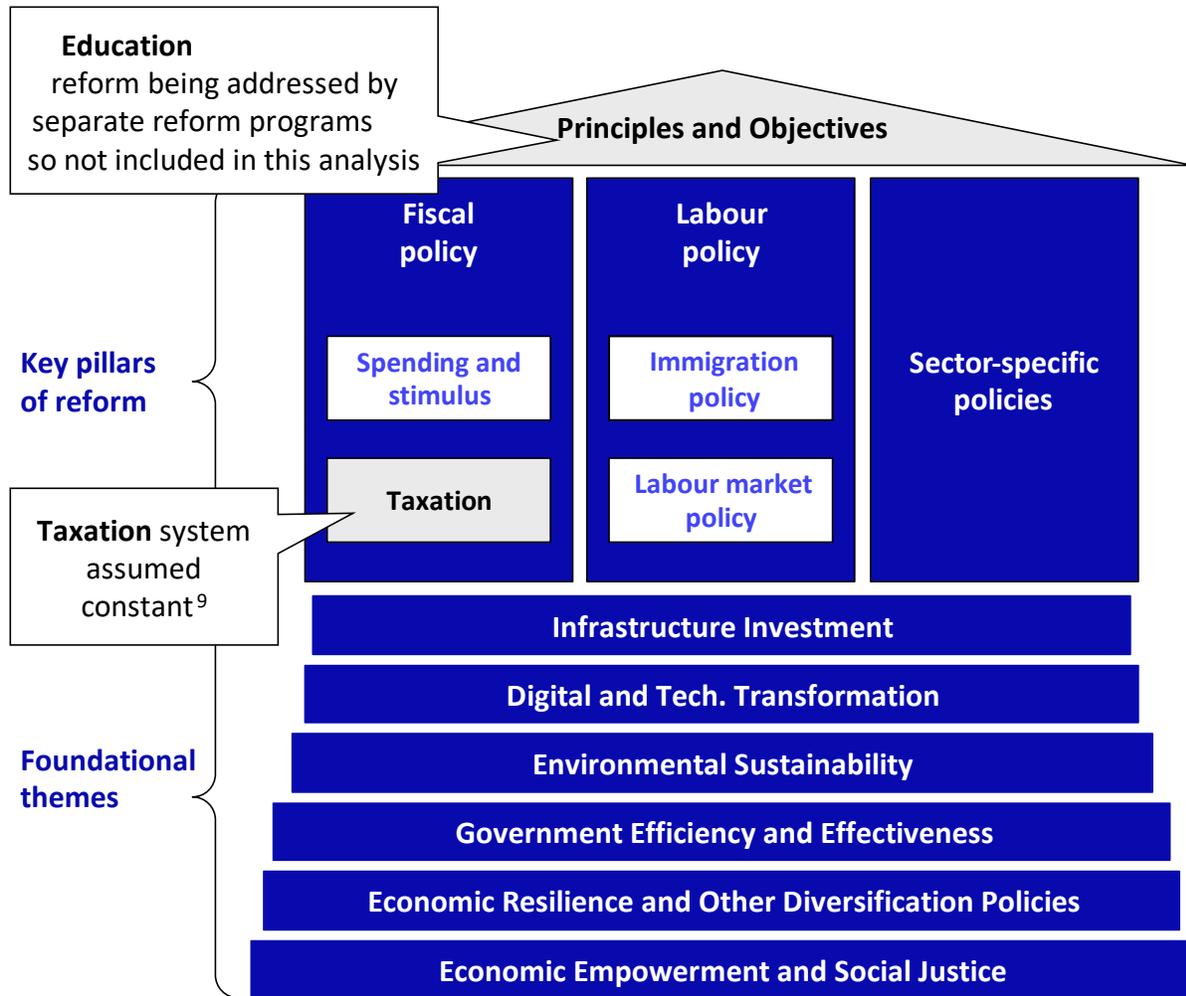
1. The **key pillars of Bermuda’s own reform** programme which include:

- Fiscal policy
- Labour market support
- Sector-specific reforms

2. Several more **foundational themes driving structural economic reform** - these include:

- Infrastructure investment
- Digital and technology transformation
- Environmental sustainability
- Government efficiency and effectiveness
- Economic resilience and other economic diversification policies
- Economic empowerment and social justice

Figure 5: EPR policy analysis framework



Bermuda’s preliminary list of 81 economic policy proposals were compared to emerging pandemic responses in peer economies. Peer countries were included based on similarity to Bermuda along several economic dimensions – specifically:

- **Relatively large financial services sector:** >5% of employment in FS and insurance¹ (6% in Bermuda)²
- **Relatively large tourism sector:** >10% of GDP in tourism³ (5% of GDP directly and 18% of GDP indirectly in Bermuda)⁴
- **USD peg:** conventional peg in place (1:1 exchange rate in Bermuda)
- **Comparable tax regime:** corporate tax <25%⁵ (0% in Bermuda currently)

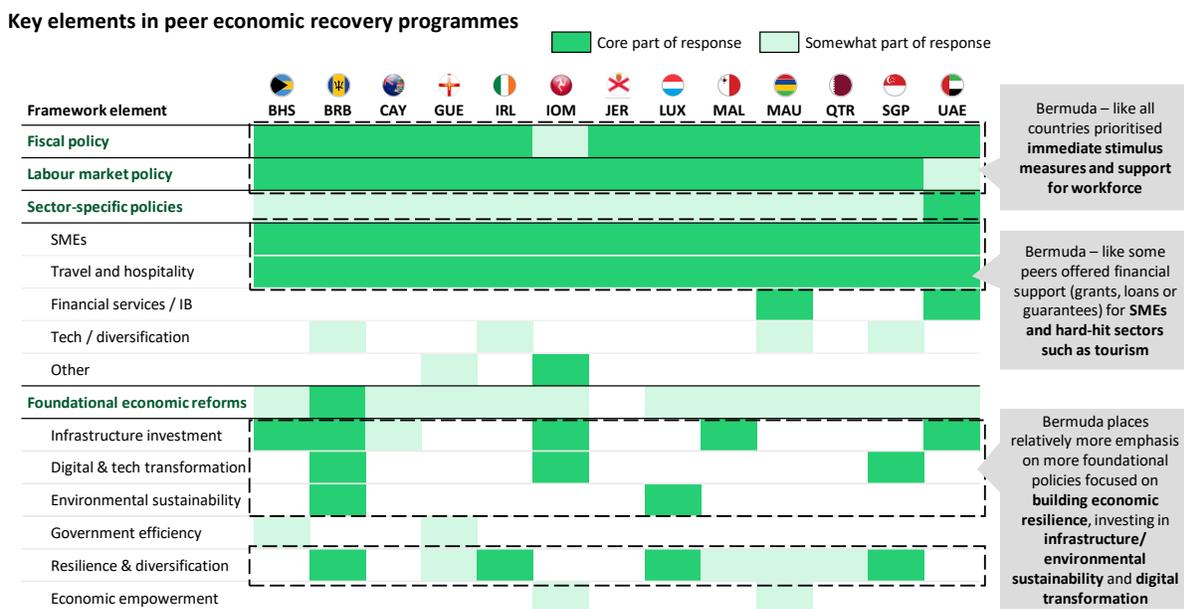
The countries included in the benchmarking of the policy initiatives that have similar economies to Bermuda were:

- Bahamas
- Barbados
- Cayman Islands
- Guernsey
- Ireland
- Isle of Man
- Jersey
- Luxembourg
- Malta
- Mauritius
- Qatar
- Singapore
- United Arab Emirates

It should be noted that this list of countries differs from those countries with similar credit ratings that were used to determine the debt sustainability fiscal guard rails.

The policy response of these countries is highly dynamic and therefore, should be treated as indicative only. Based on what had been announced early in 2021, the analysis suggests that, whereas Bermuda had followed similar COVID-19 response policies to these jurisdictions, the scope of policies being considered by the Government appeared more ambitious with respect to the foundational themes, as summarised in Figure 6 below. Specifically, the mix of policies considered in economic resilience, environmental sustainability, infrastructure and digital transformation compared favourably.

Figure 6: Peer country policy analysis



The next step in the analysis was to determine what could be a realistic impact of economic reform programs on economic growth, assuming successful implementation. We developed learnings from historical reform programs in each of the areas of the framework. Benchmarking was conducted internationally on the impact of historical reforms with broadly similar characteristics. This provided plausible ranges of medium-term growth impact, based on available historical economic evidence. Given the limitation of the data and the applicability, the ranges are clearly only indicative.

The policy benchmarking was a starting point for the prioritisation exercise, as it was clear that Bermuda does not have unlimited fiscal room. Tough choices needed to be made. Consistent with international practices, we applied a scoring methodology to each of the policy proposals in three core dimensions of economic impact, fiscal cost and implementation complexity. The framework is summarised below:

Table 1: Prioritisation framework		Framework anchored in international practices such as IMF, World Bank and OECD ¹⁵				
		Scoring criteria				
Dimension	Key questions	4/4 (best)	3/4	2/4	1/4 (worst)	
Economic impact	<ul style="list-style-type: none"> Likely impact on economic growth and employment? 	Very significant economic impact	Significant	Moderate	Limited/none	
Fiscal impact (cost)	<ul style="list-style-type: none"> Likely incremental cost? Likely revenue implications? 	Estimated by Ministry to have negligible incremental cost to govt.	Est. incremental cost <\$100k	Est. incremental cost >\$100k and <\$300k	Est. incremental cost >\$300k	
Implementation complexity	<ul style="list-style-type: none"> Complexity and timelines of successful implementation? Additional resource requirement? 	Low complexity and/or delivery already underway	Moderate complexity and/or delivery to start before end of FY2020/21	High complexity and/or delivery to start in FY2021/22	Very high complexity and/or delivery plans not yet developed	

The 81 preliminary initiatives were condensed to 31 priority initiatives that cut across seven main themes:

- 1) **Diversifying Bermuda's economy through the growth of new industries.** By bringing in private sector investment alongside the Government's own financial commitment, Bermuda will launch new industries in fields such as medical tourism, vertical farming, casinos and sub-sea communications. The Government will also stimulate existing economic activity in key sectors, for example, by creating an online marketplace for small businesses, and making it easier to invest in residential property on the island. Many of these initiatives will be constructed in such a way, as to allow part-ownership by Bermudians themselves; enabling a new generation of investors to create lasting wealth for themselves and their families.
- 2) **Making financial markets work better for businesses and consumers.** This will include measures to lower interest rates charged on mortgages; and continued support, through the Bermuda Economic Development Corporation, for small businesses struggling with the challenges caused by the pandemic. It also includes moving forward with the creation of the National Digital Bank. The Bank will allow for long-stalled industries to commence, creating jobs and economic growth, while connecting Bermuda's residents and entrepreneurs to the global world of digital payments.
- 3) **Building critical new infrastructure and enhancing the island's existing infrastructure.** This will include completing construction of the Shoreside fishing facility, investing in the development of a new waste and water management facility, and building the necessary recharging infrastructure for electric vehicles.
- 4) **Expanding Bermuda's resident population to counteract the negative economic impact of changing demographics.** As set out by the Minister of Labour last month, this will be achieved both through more immediate measures such as the introduction of an Economic Investment Certificate, as well as medium-term initiatives such as regularising the position of long-term residents and making it easier for Bermudians born overseas to return home.
- 5) **Introducing labour market reforms and social development measures that deliver the skills, employment and economic security needed in Bermuda's future economy.** This will be achieved through the execution of Bermuda's national jobs strategy and youth employment strategy, establishing national unemployment insurance, and implementing minimum and living wage legislation.
- 6) **Reforming the delivery of healthcare to ensure equitable access to necessary healthcare services; contain healthcare costs; and engage prevention and health promotion strategies to produce better health outcomes.** This will be achieved through the introduction of an affordable universal healthcare system and by taking other measures to reduce the costs paid by Bermudians for their medicines.
- 7) **Developing supportive legal and regulatory frameworks that enable innovation on the island to thrive.** This includes moving forward with our proposal to develop an energy regulatory sandbox that will allow Bermuda to benefit from innovative technology in the energy sector; creating a marine development zone; and exploring options to encourage FinTech and digital players to innovate on the island.

The complete list of 31 priority initiatives is summarised below:

Theme	Policy	Ministry owner
1. Economic Diversification	Work with players across the financial services and gaming industries to launch a casino industry in Bermuda, with a first casino to be opened in 2021.	Cabinet Office
	Work with the private sector to construct a medical tourism facility to create jobs and year-round visitors to Bermuda.	Cabinet Office
	Create a Food Cooperative that will support the use of technology, such as vertical farming and aquaponics, to boost domestic food production. One of the first projects will be a large-scale vertical farming facility , partially powered by renewable energy, that will produce 35% of Bermuda’s demand for annual leafy vegetables.	Cabinet Office
	Use BEDC resources to create an online SME marketplace that will allow entrepreneurs easy access to sell their goods and services online without having to deal with costly individual setups, large monthly fees and merchant account complexities.	BEDC
	Construct residential developments in Bermuda’s Economic Empowerment Zones to increase the supply of quality, affordable residential accommodation, driving down rental costs.	BEDC
	Implement the National Space Strategy , developed over the last two years, to establish Bermuda as a global hub for the rapidly growing global space industry.	Home Affairs
	Introduce and establish sub-sea communications sector in Bermuda, supporting plans to develop a sub-sea telecommunications protection zone.	Home Affairs
2. Financial Markets	Reduce the cost of mortgages by lowering interest rates through measures to increase competition in the banking sector and by working with local banks to provide security for mortgage loans.	Finance
	Through BEDC, continue to provide support to SMES that demonstrate strong business plans and long-term viability in the post-pandemic economy.	BEDC

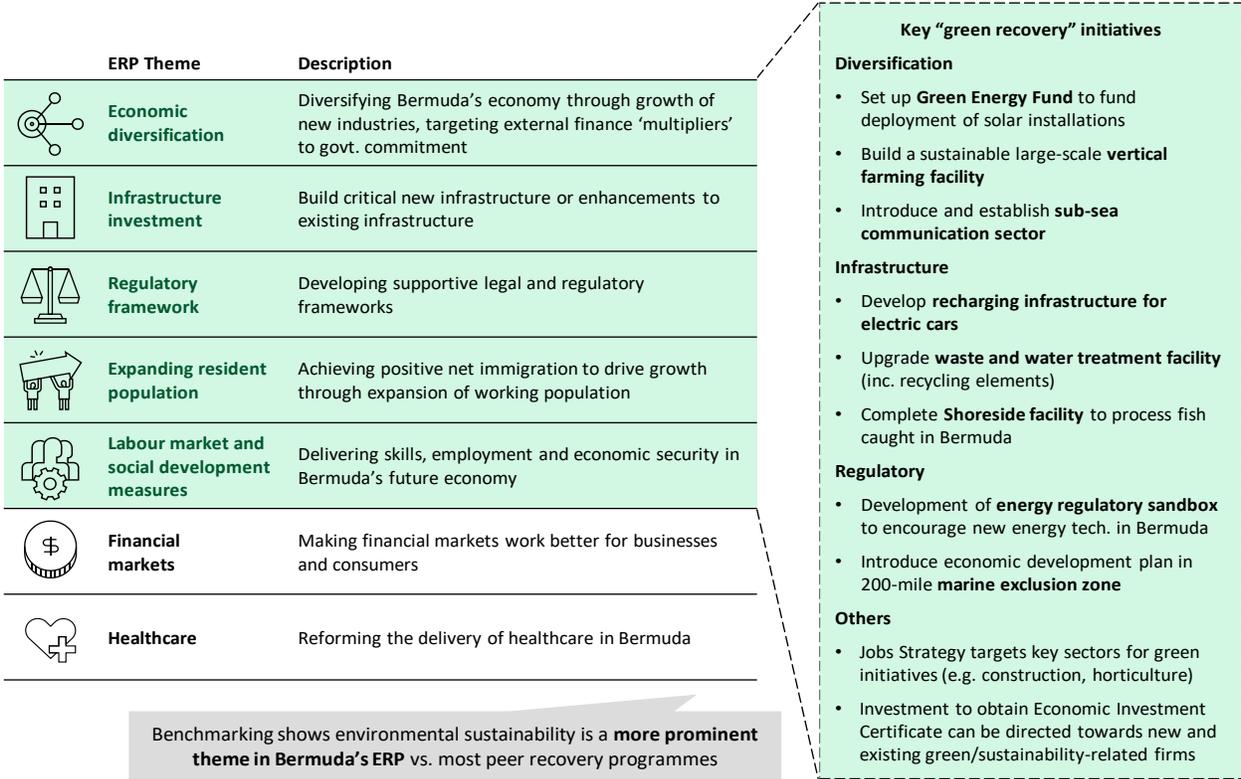
	Continue exploratory design and legislative work around the creation of a Bermuda National Digital Bank .	Cabinet Office
3. Infrastructure Investment	Upgrade the water and waste treatment facility , a much needed and long overdue modernisation of the antiquated system of waste management on the island	Public Works
	Complete the Shoreside Facility to process fish caught in Bermuda, while supporting a cooperative purchase of larger shipping vessels to increase the domestic capture of fish, reducing imports and providing the option for exporting fish.	Cabinet Office
	Support the development of electric recharging infrastructure for electric vehicles across the island.	Transport
	Continue to increase the stock of affordable housing throughout the country.	Public Works
	Complete work to establish the Uptown Development Authority in North East Hamilton , whose mission will be to implement the North-East Hamilton Development Plan and drive residential development projects in the area.	BEDC
	In partnership with international companies, set up a Green Energy Fund to provide capital to deploy solar installations throughout the Island.	Home Affairs
4. Expanding the resident population	Implement an Economic Investment Certificate to enable people to obtain the right to reside in Bermuda in return for making an economic investment in the island. Successful applicants, their spouse and any dependent children will have the right to reside in Bermuda for 5 years if the applicant makes an investment of at least \$2.5 million in eligible investments.	Labour
	Allow re-applications for Temporary Residency Certificate , enabling people to have residency in Bermuda for 1-year.	Labour
	Take further measures to expand the resident population, including making it easier for Bermudians to return home by amending current policy requiring Bermudian parents to prove domicile for children born overseas; seeking provisions to regularise the position of long-term residents ; and increasing visitor stays from 90 to 180 days.	Labour

5. Labour market and social development measures	Work closely with employers to implement the National Jobs Strategy which aims to reduce unemployment, prevent future unemployment, create ease of access to employment opportunities, and increase opportunities for the training and development required to equip Bermudians for the current and future world of work.	Labour
	Implement our Youth Employment Strategy to meet the identified needs of unemployed persons between the ages of 18 and 26, guide unemployed Bermudian youth back to work and train them in jobs currently occupied by guest workers.	Labour
	Establish a National Unemployment Insurance scheme that will provide income protection for Bermudian workers who find themselves displaced from the workforce.	Labour
	Finish implementing minimum and living wages to ensure workers receive a dignified wage which allows them to cover their basic needs.	Labour
	Support start-ups, cooperatives, and market participants who are looking to supply foods at lower prices by partnering with the financial assistance programme to reduce food costs not only to taxpayers but also to the general public.	Cabinet Office
6. Healthcare	Introduce a Bermuda Health Plan ensuring access to affordable universal healthcare for all. Designed with technology at its core to maximise efficiencies and data-driven care, the integrated healthcare model will allow the public and private sectors to work together to reduce Bermuda’s healthcare spend, while improving healthcare outcomes. This will reduce the dependency on the hospital and focus more on prevention as well as primary and community care.	Health
	Work with pharmacists, hospitals and physicians to reduce the costs of medications. As part of this, mandate pharmacies to provide pricing information on the most commonly prescribed medications, so that the Government can establish a national drug formulary that will set maximum pricing for these medications, which will reduce costs to consumers.	Health
7.	Develop an energy regulatory sandbox that will encourage developers of new renewable energy technology to test their products in Bermuda, giving Bermudians access to new technology.	Home Affairs

Regulatory framework	Introduce a full-scale marine economic development plan in our 200-mile marine Exclusive Economic Zone, with sound conservation goals that will provide sustainable fisheries policies and programs that will create positive incentives to encourage our existing and future commercial fishermen	Home Affairs
	Create an economic empowerment zone in South East Hamilton by extending the existing zone in North East Hamilton.	BEDC
	Create economic activity by establishing a regulatory regime licensing all activities involved, directly or ancillary, to the cultivation, import, export, production, sale, supply, use or transport of cannabis or medicinal cannabis, incorporating the necessary safeguards to protect Bermuda’s children.	Attorney General

It is worth noting that environmental sustainability, and the economic opportunities afforded by green growth, are a key component of the priorities selected. As highlighted above, Bermuda’s ambition in this area compared favourably to the comparable economies. Figure 7 below highlights the core policies that underpin economic recovery linked to sustainability and green economy.

Figure 7: Sustainability and green recovery policies



Other Initiatives

In parallel, the Government will also continue to move forward with planned educational reforms. These educational reforms are focused around four key initiatives: (1) The development of an Education Authority, (2) The implementation of the Learning First Program, (3) The phasing out of middle schools and introduction of signature schools, and (4) A consultation process on the introduction of parish primary schools. In addition, other social policy measures have been developed and details of some of these initiatives have already been published by the relevant ministries. To ensure that there is also appropriate priority focus on strengthening the not-for-profit sector and taking care of our seniors, a new Ministry has been established to encompass these two areas. As noted in the plan, health care and immigration matters are also being given a high priority and some information on reforms in these areas have already been publicised.

On the economic front, a Tax Reform Commission is being established to undertake a review of Bermuda's tax structure to ensure that it continues to appropriately meet Bermuda's needs. In addition, a review is being undertaken of the Public Service Superannuation Fund and the Contributory Pension Fund, to develop recommendations on addressing existing funding gaps, a challenge which many public and sector pension funds are grappling with.

It is expected that all of the initiatives being undertaken in these various areas will be part of the work to ensure a sound and stable economy, with a well-trained workforce available to effectively participate in a growing economy.

ERP Principles

The policies prioritised have a strong alignment with the principles that were established in Phase 1, as summarised below:

Combatting COVID-19 as a priority: No economic plan should jeopardise the safety of Bermudians or undermine their sacrifices. Policy priorities address healthcare reform, access to medicines, cheaper food support. They create a "buffer" for unforeseen COVID-19 liabilities and focus on economic renewal to provide employment opportunities harmed by the pandemic;

Reducing the cost of living: Reform initiatives must be targeted at reducing the cost of living for all Bermudians. Policy priorities address housing, cost of finance, local food production, affordable healthcare, increasing supply of social housing and catalyse employment and wages in higher value sectors;

Fairness and equity: Policies need to ensure that growth is enjoyed by all segments of society, privileging those most in need. Somewhat linked to reducing cost of living. On top of that, fairness and equity addressed by creating mechanism for Bermudians to invest in future economic growth opportunities, youth employment strategy, unemployment insurance and minimum / living wages;

Financial viability: Any funds being used to support policies, need to be directed only to firms which have long-term viability. Policy priorities include a significant amount of private sector multipliers. Policy implementation and quality assurance will focus on suitability of identified partners;

Fiscal prudence: Fiscal discipline needs to be exercised in managing govt. finances; govt. borrowing must mitigate mortgaging of future generation. Entire foundation of ERP is based on affordability metrics and international guard rails consistent with Bermuda’s rating; and

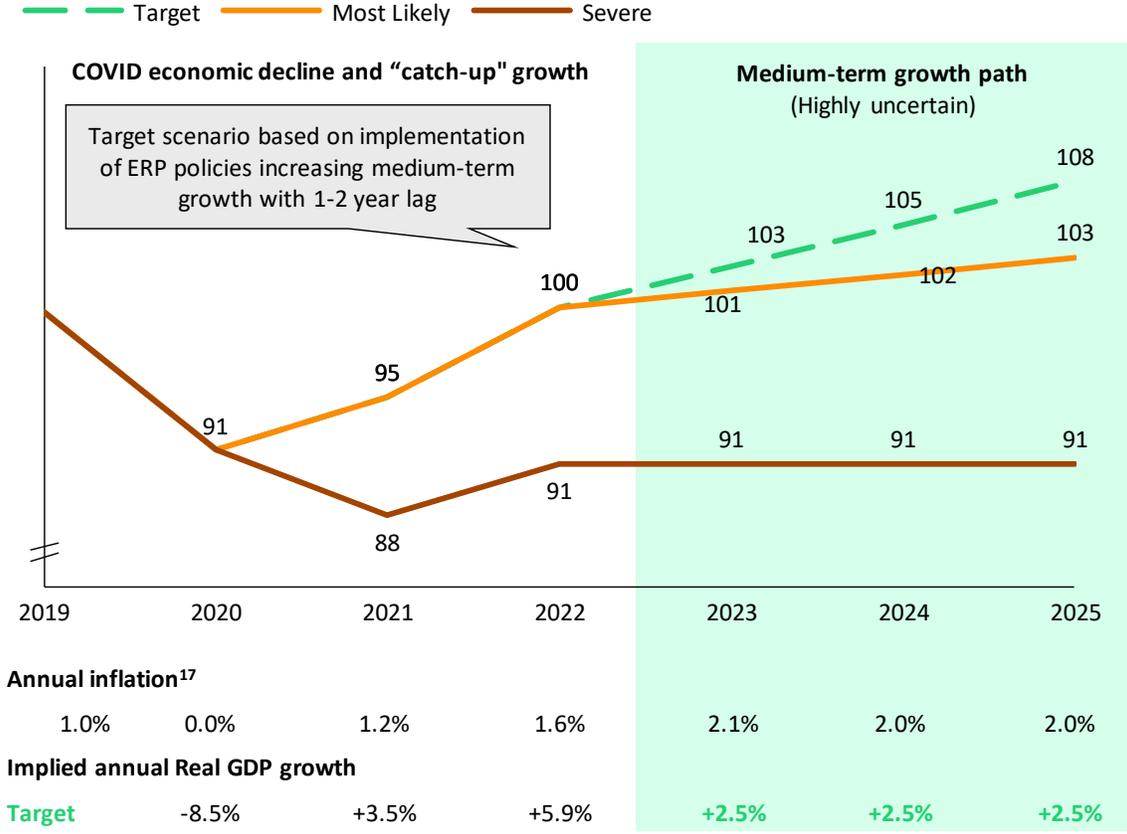
Timeliness: Decisive action needs to be taken, with expedited execution yet prudent risk management. Implementation approach embeds on-going quality assurance coupled with ambitious but achievable timelines on individual policy implementation with clear accountabilities.

Step 3: Target economic modelling

From the benchmarking analysis, it is estimated that successful implementation of the broad-ranging ERP programme implied by the 31 priorities, should deliver a “target” economic scenario – with growth of 1.3–1.5% p.a. above baseline historical level (1% p.a.).

The additional growth should begin to materialise from FY2023/24 onwards as the benefits flow through the economy with a 1 to 2-year lag. The target scenario and the baselines are summarised in Figure 8 below, showing the medium-term impact beginning to materialise in 2023 and beyond. This further highlights the importance of making the tough choices to ensure that we use our investment capacity wisely and we execute well over the next year.

Figure 8: Bermuda GDP scenarios: anchor baseline scenarios (pre-ERP) and target¹⁰ Index vs. 2019, whole economy



Feeding this growth scenario through our fiscal path model allows us to cross-check that we will respect our guardrails over the coming years. We are confident that if Bermuda and the world are on a growth trajectory, as currently expected by the IMF, we are in a position to deliver on our fiscal responsibility pledge and hence satisfy our conservative debt affordability criteria.

The table below indicates that successful implementation of our ERP – assuming reasonable outcomes from the pandemic – will ensure that we fully respect our guardrails and continue to improve the fiscal sustainability of Bermuda in the years to come. No additional debt will be required, but there will be the need to refinance some maturing debt sometime in fiscal 2023/24.

¹⁰ Source: Ministry of Finance analysis and discussion with EAC
¹¹ Source: Oxford Economics, CPI forecast

Table 2: Evolution of guard rails in “Target” Scenario

	Guard rail	20/21	21/22	22/23	23/24	24/25	25/26
Bermuda guard rails							
Comprehensive balance (\$M)	Balance by 2023/24	-245	-125	-50-0	Positive and increasing		
Total debt/debt ceiling (\$B)	\$3.5B	3.35	3.35	3.25–3.35	Within debt ceiling		
International guard rails							
Gross debt to GDP	55%	49%	45–50%	40–45%	Decreasing		
Net debt to GDP	50%	45%	40–45%	40–45%	Decreasing		
Debt service to GDP	3%	2%	2%	2%	Decreasing		

All the key elements in the ERP are now included in a detailed document owned by the Ministry of Finance, together with all the supporting information and analytical modules to inform the fiscal path and guard rails. The conclusions and prioritisation were signed off at a Cabinet meeting on Tuesday 2 March 2021. The milestone is the formal closure of Phase 2 and shift to implementation (Phase 3).

5. NEXT STEPS

With Cabinet sign-off, the ERP now shifts to implementation mode (Phase 3). A high-level implementation plan and governance has been developed, consistent with international best practices. In particular, the implementation approach has been designed with six key elements of best practice in mind, as summarised below:

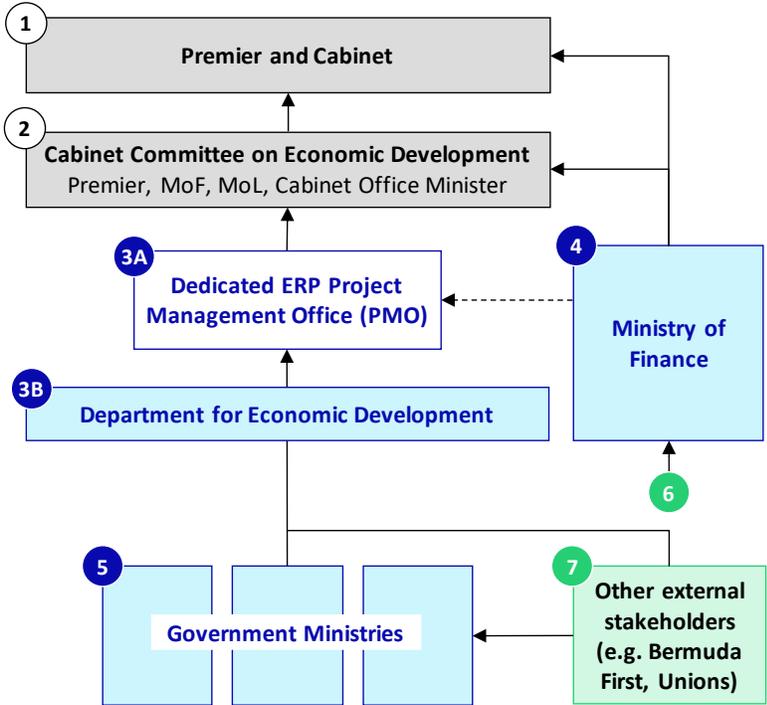
 <p>Leadership and accountability</p> <ul style="list-style-type: none"> • Strong, highly visible political backing for ERP initiatives • Clear accountability for delivery of key policies 	 <p>Discipline</p> <ul style="list-style-type: none"> • Dedicated ERP Project Mgmt. Office (PMO) with: <ul style="list-style-type: none"> – Structured approach – Tightly defined remit – Clear political backing 	 <p>Resource commitment</p> <ul style="list-style-type: none"> • Permanent and sufficient additional resource commitment within PMO and Ministries to appropriate focus on ERP initiatives • Appropriate skillsets for those in key functions (e.g. knowledge and experience in public/private economic development, policy methods and pr 	 <p>Ongoing monitoring</p> <ul style="list-style-type: none"> • Ongoing monitoring of ERP initiatives to assess progress and impact • Effective assessment of global economic environment to (re)inform decision-making and new policy development 	 <p>Risk resolution</p> <ul style="list-style-type: none"> • Reliable identification of risks and roadblocks, incl. potential policy conflicts • Effective processes for quick resolution and future avoidance 	 <p>Stakeholder communication & engagement</p> <ul style="list-style-type: none"> • Regular interactions with Ministries to ensure effective delivery and iterate proposals as needed • Continued input from external experts to inform any necessary new policy development • Effective external communication when necessary (e.g. ratings agencies)
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A clear governance structure is being put in place. The key execution responsibility will sit with the PMO reporting directly to the Cabinet Committee on Economic Development. The design of the PMO has been informed by established international best practices that can be summarised as follows:

1. ‘Delivery’ or ‘PMO’ units have been successfully embedded within many governments to support leaders in delivering specific policy priorities
2. Primary role is as an agile, evidence-based PMO function. Responsibilities typically include:
 - a. Collecting, analysing and reporting on key performance data to track progress of top priorities;
 - b. Investigating and solving issues as they arise, e.g. through in-depth inquiries or convening stakeholders;
 - c. Examining policy proposals to assess feasibility; and
 - d. Addressing delivery capability gaps in public sector workforce.
3. Knowledge and experience in public/private economic development, policy methods and procurement are key.

Supported by a strong PMO, the Premier and the Cabinet take ultimate responsibility for successful execution of the plan, with continued support from the Ministry of Finance. Figure 9 below describes the governance structure for the implementation phase, and describes key accountabilities for each involved stakeholder.

Figure 9: Governance structure and overview of roles



-
- 1 Premier and Cabinet**
 - Champion and provide oversight of ERP development/implementation
 - Accountable for execution of Ministry’s policies (inc. resources required)
-
- 2 Cabinet Committee on Economic Development**
 - Ultimate owner of implementation; incl. Premier, Cabinet Office Minister, Minister of Finance, Minister of Labour
 - Maintain overarching view on progress of delivery, making top-down decisions where required to address obstacles to implementation
-
- 3A PMO**
 - Support execution of cross-Ministry banner policies
 - Monitor successful delivery of policies led by individual Ministries, incorporating new information as it arises – and provide overall programme quality assurance
 - Report monthly (or more frequently to escalate issues) to Cabinet Committee on implementation status, risks and resource requirements
-

- Coordinate interaction with key external stakeholders, delegating to specific Ministries under approved ToRs² as appropriate
-

3B Department for Economic Development

- Lead execution of the banner policies that cut across Ministries (leveraging knowledge and experience in public/private economic development, policy methods and procurement)
-

4 Ministry of Finance

- Regularly update economic model underpinning ERP and determine impact on related processes (e.g. budget, investor mgmt.)
 - Monitor how implementation is feeding through into underlying economic indicators (e.g. tax revenue) and approve and monitor investment allocated to priority initiatives (alongside BAU budget)
-

5 Various Government Ministries

- Deliver relevant policies and provide regular updates to PMO
-

External Stakeholders

- Provide macro-financial and/or sector-specific insight to inform policy decision and develop ideas in selected areas (as directed by Ministries)
-

6. CONCLUSION

As the world emerges from the COVID-19 pandemic, significant risks to economic recovery still remain, not the least of which are uncertain impacts of new coronavirus variants. However, Bermuda's response to the pandemic has resulted in ample testing capacity and being a global leader in the administration of vaccinations. These factors, among others, position Bermuda comparatively well to not only meaningfully participate in a global recovery, but also remain resilient against some of the remaining challenges facing all countries. The Government will continue to take timely and decisive action to restore consumer and business confidence, to stimulate our economy, which in turn will create a clear path to growth, employment, and greater equity. Bermuda's ERP set out in this document will form a key part of the work which will be done.

We are deeply grateful to all those who have played a key role in providing guidance and assistance, not only in the development of this Plan, but also in the strategies to support our people and businesses in critical phases of this pandemic. Special thanks must be given to the team of the Ministry of Finance and other persons from within the Public Service who have provided input, members of the EAC, our industry partners, Bermuda Monetary Authority, the Bermuda Development Agency, the Bermuda Tourism Authority, the Financial Policy Council, the Fiscal Responsibility Panel, members of the Bermuda First group and the people of Bermuda.

Bermuda and Bermudians have already demonstrated their resilience in dealing with challenging times and, as we continue to work together, we will together ensure that we achieve the critical objectives set out in this Plan for a fairer, stronger Bermuda.



GOVERNMENT OF BERMUDA
Ministry of Finance