BERMUDA FISCAL RESPONSIBILITY PANEL

2025

ANNUAL ASSESSMENT

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GOVERNMENT OF BERMUDA
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Bermuda Fiscal Responsibility Panel

Annual Assessment 2025

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List of Acronyms

AMOC: Atlantic Meridional Overturning Circulation

BHB: Bermuda Hospitals Board

BMA: Bermuda Monetary Authority

CARICOM: Caribbean Community

CIT: Corporate Income Tax

CITA: Corporate Income Tax Agency

COP: Conference of the Parties to the UN Framework Convention on Climate Change

CPF: Contributory Pension Fund

GDP: Gross Domestic Product

GEHI: Government Employees' Health Insurance

IMF: International Monetary Fund

MTEF: Medium Term Expenditure Framework

MRF: Mutual Reinsurance Fund

OECD: Organisation for Economic Cooperation and Development

PSSF: Public Service Superannuation Fund

TRC: Tax Reform Commission

UN: United Nations

Executive Summary

This is the Panel's eleventh annual report. We visited the Island from 30 November to 5 December, and we have had productive discussions with Ministers, officials and many others. We are grateful for their contributions, but all the judgements and recommendations are our own.

Bermuda's economy is buoyant, driven by robust international business. Unemployment has fallen to historic lows, and there are signs of emerging supply constraints.

Fiscal performance has improved markedly. The 2024/25 fiscal year recorded Bermuda's first surplus in 21 years, supported by buoyant payroll tax receipts and expenditure restraint. This progress marks the culmination of a sustained fiscal consolidation over more than a decade.

The 2025/26 fiscal year will see the first receipts from the Corporate Income Tax (CIT). CIT revenues were budgeted at $187.5 million in 2025/26 (subsequently revised up to $200 million in the Medium Term Expenditure Framework), rising to $600 million annually by 2026/27. These receipts are transformative in scale but highly uncertain, reflecting global profit volatility and the operation of tax credits.

The Medium-Term Expenditure Framework (MTEF) published in December 2025 (superseding the 2025 Budget) projects continued surpluses through 2027/28, alongside higher capital investment and gradual debt reduction; it also provides for significant increases in both current spending and, as yet unspecified, reductions in non-CIT tax revenues.[1] This means that over the period from 2024/25 to 2027/28 underlying revenues, excluding the CIT, will have been roughly flat in cash terms, while current spending (including additional healthcare spending) will have risen by 16%. The underlying current surplus—excluding CIT revenues and debt service—declines to about $38 million by 2027/28 and is in significant deficit after debt service. Net debt is expected to fall from $3.25 billion to below $2.5 billion by 2027/28, largely as a result of debt repayment financed by CIT inflows.

Structural issues persist. The 2025 reforms to the Public Service Superannuation Fund are a major achievement that removes a longstanding fiscal risk. However, the Contributory Pension Fund remains unsustainable, projected to be exhausted by 2042 without further reform. Healthcare costs continue to rise, exceeding 10% of GDP, and require urgent structural change as Bermuda transitions toward universal coverage. Demographic pressures, labour shortages, and the lack of available housing also constrain growth.

The economy remains highly dependent on the international business sector, which now accounts for around 30% of measured GDP. While this sector remains strong, concentration risk is high, and any relocation or downturn could have severe fiscal consequences. Global financial fragilities and climate-related shocks pose additional threats.

Despite these risks and uncertainties, the introduction of the CIT in January 2025 represents a profound structural change in Bermuda's tax framework and fiscal circumstances. Implementation has proceeded smoothly: the Corporate Income Tax Agency (CITA) has been established, systems and

1 Our report was prepared using the Medium Term Expenditure Framework projections up until 27/28. We did not have advance sight of the Pre-Budget Report.

staffing are in place, and initial payments were received without incident. The Panel commends the Government and the CITA for this impressive achievement.

Bermuda's fiscal position is stronger than at any time in two decades. The successful introduction of the CIT provides a unique opportunity to secure lasting stability, rebuild reserves, and reduce debt. The Panel recommends that:

- CIT revenues should be used solely for debt repayment (and interest payments), the Sinking Fund, a Stabilisation Fund, Sovereign Wealth Fund and carefully prioritised and timed capital projects.
- The current budget i.e. excluding capital expenditure, should remain in balance, or surplus, excluding CIT revenues and interest payments, meaning further spending increases and tax reductions beyond those included in the MTEF should be relatively modest and carefully targeted.
- The Government should establish statutory fiscal rules to ensure transparency, debt reduction, and macroeconomic stability.
- Fiscal policy should avoid pro-cyclical spending that could increase inflationary pressures and endanger macroeconomic stability.
- Reforms to the CPF and healthcare financing should address and contain long-term liabilities.

Most important is that some version of a medium-term fiscal framework, and a clear target for debt reduction, is set out transparently as a firm commitment by Government, ideally underpinned by statute and monitored by independent bodies. In particular, our view is that a new fiscal framework should incorporate two clear rules:

a) a deficit rule: the current budget should remain in balance or surplus, excluding net CIT revenues, capital spending and interest payments[2].

b) A debt and assets rule: over a rolling period (perhaps 3 to 5 years), the substantial majority[3] of net CIT revenues should be devoted to paying debt interest, reducing net debt and/or accumulating net financial assets.

The CIT provides a rare opportunity to lock in gains, reduce vulnerabilities, and build institutions capable of withstanding future shocks. With such a framework, the island could eliminate net debt within a decade and create a durable foundation for intergenerational equity; a worthy legacy for the next generation of Bermudians. Conversely, if discipline weakens and CIT receipts are treated as a permanent entitlement, the opportunity could quickly be lost, business confidence could evaporate, and the Island would be left with the legacy of a worse underlying fiscal position with continued reliance on international debt markets to finance unsustainable spending.

2 Consistent with Marian Bell's recommendation in the 2024 Report.

3 Further analysis would be required to determine the appropriate percentage.

A. Introduction

1. This is the Panel's eleventh annual report. The Panel was established in 2015 "to provide Bermuda's Parliament, Minister of Finance and Financial Policy Council with an annual published assessment of the territory's fiscal strategy, focusing on progress in meeting the territory's medium-term objectives for public spending, taxation, borrowing and debt reduction." The initial focus of the Panel's remit was the objective of achieving budget balance by 2018-19.

2. While significant progress in reducing deficits was made in the first few years of the Panel's operation, the target of achieving balance by 2018-19 was not achieved, and the pandemic and associated economic dislocation led to a substantial rise in both deficits and debt. Since then, however, there has been significant progress, and budget balance was finally achieved in 2024-25. This progress, and the inception of the Corporate Income Tax (CIT), meant the remit of the Panel required updating. The Government has therefore amended the remit; the current remit is shown in the box below.

Role of the Panel

The Panel is established to provide Bermuda's Parliament, Minister of Finance and the Financial Policy Council with an annual published assessment of the territory's fiscal strategy, focusing on progress in meeting the territory's medium term objectives for public spending, taxation, borrowing and debt reduction.

In its reports the Panel will therefore review

1. Maintenance of a balanced underlying current budget and the application of CIT revenues towards debt reduction and other long-term priorities, consistent with macroeconomic stability.
2. Prospects for further progress towards meeting the longer-term aims of reducing debt and debt service to less than 80% and 10% of revenues.
3. Advise on ways to refine these goals, and on adjustments to fiscal strategy and tax and spending policies needed to achieve them. If there are dissident views within the Panel, these will be included in its report.

3. The Panel is comprised of Jonathan Portes (Chair), Marian Bell, and Victoria Perry. We greatly value the face-to-face interaction with Bermuda's key stakeholders, inside and outside government, that we gain from our annual visits, and we were therefore pleased that we were again able to visit Bermuda this year, between 30 November and 5 December. We had a full schedule of meetings and helpful discussions with Ministers and their officials, and we thank staff of the Ministry of Finance for their excellent support. We would also like to thank the many others on the Island who have offered us information and advice (a complete list of our meetings is in Annex A). However, the report's judgements and recommendations reflect our own independent views.

B. Key findings and recommendations of the 2024 Report

4. Our 2024 report highlighted that Bermuda's economy had strengthened further, with growth remaining broad-based, although household consumption was sluggish and youth unemployment relatively high. International business continued to drive performance, while accommodation and food services also grew rapidly. There was some progress in diversifying the economy.

5. We noted that the Government had remained within its fiscal guardrails, with balanced budgets achieved in 2024/25 and a path to a $50 million surplus in 2026/27. However, these results were achieved with the help of significant off-budget health-related expenditures financed through the Sinking Fund, which the Panel judged regrettable and unsustainable if repeated.

6. The most important fiscal development in 2024 was the introduction of the CIT for those multinational enterprises falling under the Global Minimum Tax. The Government had legislated the CIT (effective January 2025) and created the Corporate Income Tax Agency (CITA), but the Panel stressed the urgent need to accelerate staffing, systems, and implementation.

7. The Panel recommended that CIT revenues be treated as volatile and potentially temporary windfalls. They should be clearly reported in Budget documents, kept distinct from other revenues, and not used to fund current spending. Instead, they should be allocated to:

    - Repayment of outstanding debt, particularly the $605 million repayment due in January 2027.
    - Building a stabilisation fund, ultimately of perhaps around $1 billion to buffer shocks.
    - Capital spending to improve the island's infrastructure and hence future economic growth and welfare.
    - Reducing large unfunded pension and healthcare liabilities.
    - Establishing a sovereign wealth fund for the benefit of future generations.

    The Panel proposed a new fiscal rule: to balance the underlying current budget excluding CIT revenues[4].

8. The report emphasised that the fiscal space provided by CIT revenues must not distract from urgent long-term challenges, including:

    - Persistent deficits in the Contributory Pension Fund (CPF) and Public Service Superannuation Fund (PSSF), where reforms should be implemented without delay.
    - Slow progress on healthcare reform, with reliance on off-budget transfers to cover financing gaps deemed unsustainable.
    - The need to accelerate workforce expansion, immigration reform, and housing development to address demographic pressures.

4 Marian Bell dissented on whether interest payments should be included. The other two panel members recommended that non-CIT revenues should cover all current spending, including debt service.

- High and increasing risks from climate change, requiring stronger resilience measures.
- The importance of continuing diversification efforts while reducing reliance on the US economy, given global geopolitical and tax risks.

9. Overall, the 2024 report concluded that, while Bermuda's finances were generally well-managed and the economy robust, it was essential to take the window of opportunity offered by the CIT to address the key structural issues and risks to Bermuda's long-term fiscal and economic stability.

C. Recent economic developments

10. Bermuda's economy appears buoyant, growing a further 1.9% in real inflation adjusted terms last year following strong 4.3% GDP growth in 2023 when the economy continued to rebound from the pandemic. However, in the first quarter of 2025 real year on year growth (on the expenditure measure) slowed to an estimated 1.1%. Trade was a drag on growth, while consumer spending increased by 1.5% year-over-year, government consumption by 1.5% and gross capital formation by 5.2%. Within the latter, investment in machinery and equipment was strong, up 7.3%, driven by higher imports of industrial machinery, transportation equipment and agricultural machinery. Construction investment increased by 2.9% over the year.

11. Supported by income from abroad, primarily employee compensation and investment income, the surplus on the current account of the balance of payments continued to increase in 2024, up nearly a quarter to $1.7 billion, and this strong performance continued into the first quarter of 2025.

12. The strength of the economy has been reflected in increased employment and reduced unemployment, although the total number of jobs filled remains below pre-pandemic levels. The November 2024 Labour Force Survey recorded an employment rate of over 80% of the estimated working age population with just 1.4% unemployment, within which unemployment among Bermudians was 1.3% and youth (16 to 24 years) unemployment was 3.4%. This is a very marked improvement on the previous survey in November 2023 when the total unemployment rate was 2.8%, that among Bermudians 3.3%, and youth unemployment 13.5%. Underemployment has also fallen from 8.9% to 7.8% of the working age population. It is likely that the position will have improved further since November 2024, and Bermuda may effectively be operating at close to full employment. The strength of the labour market, and the lack of available labour supply from domestic sources, are likely to constrain growth. There is also a risk that the resulting excess of demand over supply leads to overheating and to upward pressure on inflation.

13. Indeed in nominal (cash) terms economic growth has been significantly stronger, as reflected in the continued strength of payroll tax revenues through to the first half of 2025/26 (see below). Whole economy inflation as measured by the GDP deflator was 4.9% in 2024, albeit down from 6.1% in 2023. Median annual gross income from main jobs rose 11%, within which earnings for Bermudians were up 13%. Despite this, consumer price inflation has remained remarkably stable, ticking up to 2.0% in July having averaged 1.9% in 2024.

14. Bermuda's strong economic performance comes against a backdrop of mediocre growth in the global economy and an increasingly tumultuous and uncertain world economic outlook. The imposition by the US of large and volatile tariffs on many trading partners threatens a major shift in global trade volumes and patterns with negative, at least in the medium term, implications for global economic growth and stability. In the near term, the IMF expects overall global growth to remain around 3 per cent per annum through 2026, but only half that in the advanced economies, where growth could be hampered by restrictive immigration policies and reduced US demand, with growth of world trade in goods and services slowing to a historically low 2.6% in 2026. The risks to the outlook lie firmly to the downside. The US dollar has weakened, and the consequent rise in US inflation over the next few years could impact the price of Bermuda's imports. US 10 year bond yields have been volatile, but broadly unchanged over the year. However, spreads for most countries have widened, which would be likely to impact refinancing costs for Bermuda's debt in future.

D. Recent fiscal developments

15. Fiscal performance strengthened significantly in 2024/25. The Government recorded its first surplus in 21 years, estimated (as of December) at about $29 million. This outcome reflected higher-than-expected revenues, which totalled $1.266 billion, 2% above the original estimate of $1.232 billion, driven by an increase of $30 million in payroll tax receipts over the original estimate for the year, underpinned by job growth and higher salaries. Customs duties fell short of forecasts by nearly $8 million, reflecting energy tax reductions, while other revenues broadly met expectations.

16. Current expenditure for 2024/25 was $1,006 million, somewhat higher than the budget estimate of $992 million, as a result of additional mid-year allocations for social spending and public sector pay adjustments. The current balance recorded a $131 million surplus, approximately double that of the previous year. Capital expenditure reached $102 million, the highest level of capital investment since 2010/11. Debt service costs amounted to $129 million, marginally above the forecast but lower than in 2023/24 due to early debt repayment.

17. As in 2023/24, the headline budget figures did not reflect the ongoing financing directly from the Sinking Fund of deficits in the health budget, in particular the Mutual Reinsurance Fund (MRF) and the Government Employees Health Insurance (GEHI) fund. This totalled $50 million in 2024/25 (compared to the $33 million planned as at the time of our last report). Had these expenditures been provided for in the current budget, the overall position would have been a deficit of about $26 million.

18. Looking forward, the MTEF, published in December 2025 (which supersedes the 2025 Budget), projects total revenue of $1.47 billion, reflecting the first year of receipts from the new Corporate Income Tax (CIT) revenue in 2025/26, now estimated to be $200 million. Payroll tax receipts are expected to rise modestly again, by about $15 million over 2024/25, while customs duties, telecommunications taxes, and land taxes are each projected to decline owing to recently announced policies for tax relief measures, in total by about $14.5m. On net, aside from the expected CIT revenues, revenues rise slightly relative to 2024/25 by about $3m.

19. Total current expenditure is forecast to increase by about 12% to $1.127 billion, the largest year on year increase since the pandemic, driven by negotiated public sector pay settlements, expanded social spending, and an additional $67 million for healthcare to address the structural shortfalls in the MRF and GEHI, as well as a small amount to support the transition to universal healthcare. While these additional current expenditures are shown as a separate budget line, they are, correctly, financed from current revenue rather from the Sinking Fund, in contrast to 2023/24 and 2024/25. As a result, the underlying current budget surplus before CIT revenues and debt service is budgeted to fall by almost half to $142 million. After debt service of $127.5 million, broadly stable from the prior year, the underlying current balance is expected to be in surplus by $14 million.

20. Capital expenditure in 2025/26 is set at $154 million, the highest in over 15 years, including investments in roads, housing, waste management, hospital facilities, and digital infrastructure. The MTEF projects a surplus of $59.8 million, including CIT receipts, only $30 million more than that achieved in 2024/25, despite the forecast first-year receipts of $200 million from the CIT; the CIT revenue primarily finances the increase in capital spending and the ongoing structural shortfalls in the healthcare financing system.

21. As of March 2025, gross public debt stood at $3.29 billion, with net debt of about $3.27 billion after accounting for the Sinking Fund. With no further calls for off-budget financing, the Sinking Fund balance is projected to reach about $83.7 million by end-March 2026.

Table 1: Bermuda Government Debt Outstanding

	Amount ($M)	Coupon Rate	Maturity Date
	604.6	3.72%	01/25/2027
	449.3	4.75%	15/02/2029
	675	2.38%	08/20/2030
	890	5%	7/15/2032
	675	3.38%	8/20/2050
Total	3293.3		

E. Medium term fiscal projections

22. Looking forward, the MTEF shows revenues other than from the CIT rising slightly (by a little more than 1%) in 2026/27 and then falling back in 2027/28, reflecting further (unspecified) tax cuts. Meanwhile, current expenditure, excluding debt service, rises steadily to $1.13 billion, with additional healthcare spending also rising from $67 million to $95 million. This means that over the period from 2024/25 to 2027/28 underlying revenues, excluding the CIT, will have been roughly flat in cash terms, while current spending (including the additional healthcare spending) will have risen by about 16%. The underlying current balance reduces from $260 million to about $38 million before debt service.

23. Debt service falls from $127.5 million in 2025/26 to $105.1 million by 2027/28, reflecting scheduled debt reduction. Capital expenditure steps up from $154.2 million in 2025/26 to $170.0 million in 2026/27 and $203.5 million in 2027/28. CIT revenues are assumed to rise to $600 million in both 2026/27 and 2027/28.

24. On these, highly uncertain, assumptions the overall surplus is projected to rise sharply to $414 million in 2026/27, but then to fall to $329 million in 2027/28. Gross debt is steady at $3.294 billion through March 2026, then falls by $500 million in 2026/27 as the Government uses accumulated reserves to retire a significant portion of the $605 million senior notes maturing in January 2027; should revenues exceed projections, this debt could be fully repaid. Net debt is projected to decline steadily from $3.27 billion (end-2024/25) to $2.46 billion (end-2027/28), assuming that the projected surpluses are applied to debt reduction in some form. Of course, should CIT revenues be substantially different from these assumptions, these projections would change dramatically.

Table 2. Key Fiscal Aggregates, 2023/24 – 2027/28

($ thousands, fiscal years ending March)

($000)	2023/24 Actual	2024/25 Original	2024/25 Revised	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Revenue (excl. CIT)	1,176,703.00	1,232,341.00	1,265,611.00	1,268,973.00	1,283,782.00	1,263,081.00
Current expenditure	977,599.00	992,017.00	1,005,711.00	1,060,156.00	1,097,261.00	1,130,179.00
Health reform spending	0.00	0.00	0.00	67,250.00	75,000.00	95,000.00
Total current spending	977,599.00	992,017.00	1,005,711.00	1,127,406.00	1,172,261.00	1,225,179.00
Underlying current balance (excl. interest)	199,104.00	240,324.00	259,900.00	141,567.00	111,521.00	37,902.00
Interest/debt management	131,470.00	127,777.00	129,134.00	127,527.00	127,527.00	105,053.00
Underlying current balance	67,634.00	112,547.00	130,766.00	14,040.00	-16,006.00	-67,151.00
Capital expenditure	97,100.00	112,337.00	101,719.00	154,211.00	170,000.00	203,489.00
CIT revenues	0.00	0.00	0.00	200,000.00	600,000.00	600,000.00
Budget balance	-29,466.00	210.00	29,047.00	59,829.00	413,994.00	329,360.00
Gross debt	3,293,892.00	3,293,892.00	3,293,892.00	3,293,892.00	2,793,892.00	2,793,892.00
Sinking fund	93,900.00	39,950.00	22,746.00	83,712.00	1,841.00	331,201.00
Net debt	3,199,992.00	3,253,942.00	3,271,146.00	3,210,180.00	2,792,051.00	2,462,691.00

1. **Figures for 2023/24 are outturns from audited accounts; 2024/25 (original) reflects original budget estimates; 2024/25 (revised) reflects audited outturns as of December 2025; 2025/26 and subsequent years reflect the mid-year expenditure framework to be published in December 2025.**

2. **Corporate Income Tax (CIT) revenues commence in late 2025; projections are indicative.**

3. **Movements in the Sinking Fund, and therefore net debt, in 2023/24 and 2024/25 reflect the financing of some health-related expenditures (see paragraph 18), as well as some temporary movements reflecting the timing of tax receipts, not shown in the figures since they are assumed to reverse. These figures are approximate and reflect the Panel's own calculations.**

4. **The Sinking Fund is projected to accumulate resources from budget surpluses and investment income, supporting repayment of $500 million in maturing debt in 2026/27. It is assumed that the remaining $100m is refinanced, so the Sinking Fund reduces to zero in that year; if CIT receipts exceed forecasts, it is possible the entire amount would be repaid. In the following year, it is assumed that the overall surplus is allocated to the Sinking Fund.**

5. **Net debt is calculated as gross debt minus the Sinking Fund. Should the government choose to allocate some revenues to other funds (e.g. a Stabilisation Fund), such allocations would create another asset which would, like the sinking fund balance, reduce net debt.**

The Corporate Income Tax

25. The introduction of the CIT on 1 January 2025 marks a profound shift in Bermuda's fiscal architecture. As described above, the 2025 Budget incorporated estimated CIT revenues of $187.5 million for 2025/26, rising to $600 million annually in 2026/27 and 2027/28; the first-year revenue forecast was revised up to $200m in the MTEF. At roughly 6% of GDP, and half of existing revenues, these projected inflows are transformative in scale but also highly uncertain, reflecting the inherent volatility of multinational corporate profits – especially in the insurance and reinsurance sector – and uncertainty regarding the volume and uptake of tax credits that will be available under the CIT, reducing its gross revenues.

26. As of November, 2025, implementation of the CIT has gone very well. The new agency (the Corporate Income Tax Agency: CITA) was formed in late 2024 and the Board which governs the agency put in place. The CEO for the agency was hired then. He has since overseen the rapid creation of the structures needed to implement the CIT, including the crucial IT system, and personnel have been hired. All this has been tested by the initial filing of estimated CIT payments from the affected companies, at the end of August, 2025. Reportedly, this process went to plan, and very smoothly. To date, the performance of the Government and the Agency has been very impressive.

27. It now appears that the CIT as legislated by Bermuda is administratively feasible, and being implemented well—not a minor point, given that this was a risk which was seen by the Panel as significant, in light of the need to create a tax agency from scratch to handle this complex tax. But, beyond successful implementation, CIT revenues will depend on the extent to which the international business sector remains profitable, and resident in Bermuda for tax purposes.

28. Developments in the US approach to global corporate income taxation continue, but at present no major impact on projected CIT receipts is anticipated in the near to medium term. The Bermuda CIT originally included provisions that, through quite technical means, in effect excluded receipts from "US [headquartered] foreign corporations," and that still holds true. Currently projected amounts are therefore unlikely to be affected by the current OECD/Inclusive Framework discussions on the international tax architecture between the US and other members. Bermuda is working very effectively to ensure that the CIT remains aligned with international requirements for the Pillar 2 global minimum tax.

29. The government (in line with the detailed recommendations of the Tax Reform Commission, see below) has also proposed, and the House of Assembly and Senate have approved, a number of tax credits. These include:

    (i) a "substance based tax credit" based on a combination of (a) headcount of employees in Bermuda, (b) the extent to which such persons were Bermudian (that is, not work permit holders), (c) uplifted for expenditures on training, (d) increasing with growth in employed persons, and taking account of (e) amounts spent on local procurement of goods and services.

    (ii) a "community development tax credit" amounting to 25% of applicable donations to qualified Bermuda charities in the aggregate an annual average of $100,000 over a rolling three year period.

    (iii) a "utility infrastructure credit" would be available to regulated utility companies based upon a formula using payroll and tangible assets.

Two further tax credits - for housing and innovation spending – are to be developed subsequently, to commence only in 2026 or 2027.

30. As of the date of this report, budgeted revenue projections in the MTEF, based upon data from the filing and payment of the first estimate for the 2025 CIT, had been updated from $187.5 million to $200 million for the first year of the CIT.   Our understanding is that, based on current levels of profitability of entities subject to the CIT, receipts are likely to be at least at this level, with possible upside. However, final numbers remain highly uncertain. More will be known by January, after filing of the second estimated payment in December. This payment is intended to cover 90% of the first year's tax, and will in some, though not all cases, also reflect the first estimates of claimed tax credits.

31. Additional uncertainty results from the payment and accounting structure, where CIT payments are paid not into the Consolidated Fund but into a suspense account operated by the CITA, then adjusted subsequently for tax credits and other factors, and then paid into the Consolidated Fund over an extended period. This structure is essential to provide assurance to taxpayers that receipts are not spent before there is clear assurance that they represent actual tax liabilities, and it is also extremely helpful in reducing potential volatility in receipts to the Consolidated Fund, by smoothing the timetable of inflows. However, it does mean that even after payments are made by companies, the final revenues to the Consolidated Fund remain uncertain in terms of both amount and timing.

F. Risks and challenges

International business and the CIT

32. The most obvious risk to the Bermudian economy and public finances has always been its dependence for output and tax revenue on the international business sector: a highly concentrated sector, with a small number of companies that face few or no barriers to international mobility. It accounts for 30% of output as measured, up from 25% in 2019, but this almost certainly substantially understates its importance to both output and revenues, since most other sectors are highly dependent on its indirect impacts. Put bluntly, the departure of a relatively small number of companies would have a very large and very negative impact on the standard of living of the vast majority of Bermudians. Welcome as the CIT is from a fiscal point of view, reliance on those revenues – if used for current spending increases and tax reductions - could further concentrate that risk.

33. Recent developments in the insurance and reinsurance sector may have intensified these risks. The potential scale of global climate-related disasters, from wild fires to storms and floods, offers opportunities, but may at some point have a negative impact on the global insurance industry generally. More immediately, though, the Bermuda Monetary Authority (BMA) has identified potential risks around the governance and stability of asset-intensive reinsurance transactions, including concentrations of less liquid assets and potential liquidity or recapture issues during severe stress. The BMA is addressing these risks through enhanced supervision, stricter solvency requirements, more granular disclosures, and comprehensive stress testing to ensure policyholder protection. Getting the balance right is becoming an increasingly difficult challenge.

34. More broadly, there are growing concerns about the stability of US and global financial markets, with the IMF and others warning of "fiscal vulnerabilities and financial market fragilities", valuations that are heading into "bubble" territory, and some stresses in credit markets.

Bermuda cannot of course mitigate these risks, but would inevitably be very exposed economically and fiscally if they were to materialise, as the experience of the global financial crisis and its aftermath demonstrates.

Diversification

35. One way to address these issues is diversification of the economy away from its current reliance on the insurance and reinsurance sector. Some progress has been made, particularly in the finance field, leveraging and deepening Bermuda's skill sets, including expertise in climate risk. Bermuda now has the highest number of licensed digital asset companies in the world according to the Premier, although this of course brings further, albeit somewhat different, risks.

36. Elsewhere, Google has announced a second subsea transatlantic cable through Bermuda, running from Florida to Spain, with a substantial landing station which will employ and train local people being constructed. In August a Memorandum of Understanding for the development of an international health care centre and establishment of a medical tourism industry was signed with a Bermuda based international provider. It will initially provide residential mental health care, day surgery and a medical hotel for patients and their families. A National Entrepreneurship Strategy, based on the UN Entrepreneurship Ecosystem Framework, in tandem with a Digital Economy Strategy has been launched to ensure policies, resources, and tools are aligned to support small and medium-sized enterprises.

37. Meanwhile, efforts to shore up the tourism sector, a major employer, post pandemic continue, including promotion of the incentives available to attractions, restaurants and local operators in the tourism economy. The reopening of the Fairmount Southampton in 2026 will add substantially to Bermuda's hotel capacity, and result in significant job creation. Tax and customs duty relief has been granted to several tourism projects including the Loren Group to redevelop Elbow Beach hotel, closed since the pandemic, boat charters and light shows.

38. Bermuda is heavily dependent upon the US and is likely to remain so for the foreseeable future unless efforts at diversification are stepped up and bear fruit. Measures taken to date include developing the Canadian and UK tourist markets and increased links with other jurisdictions in Europe, the Caribbean, Middle East and Africa. Canadian tourism was up 31 per cent in the first three quarters of 2025, but airline slots and hotel capacity remain limiting factors.

39. An agreement was signed with the United Arab Emirates noted last year focusing on improving government services including leadership programmes and digital transformation initiatives. Subsequently, Bermuda has signed a Memorandum of Understanding with Ghana covering collaboration in key areas such as financial services, fisheries and the blue economy, tourism, renewable energy, investment, and trade. CARICOM links continue to be deepened as Bermuda investigates the terms of full membership, subject to public consultation, and Bermuda has participated in fora aimed at increasing trade ties between Africa and the Caribbean which each currently account for less than 3% of exports of the other.

Longer-term structural issues

40. In addition, Bermuda's longer-term structural challenges remain. These were discussed at length in our 2023 report and include: an ageing population with, absent significant immigration, a shrinking workforce, leading, inter alia, to fiscal pressures on pension and health provision; and climate change.

41. As Bermuda approaches full employment, measures to increase the workforce become even more pressing. Measures to improve working conditions, including the minimum wage and employment rights, aim to retain and attract returning Bermudians while legislation may be considered next year to eliminate the employer's portion of payroll tax for Bermudian employees over the age of 65 to keep older workers in the labour force for longer. Following consultation, Bermuda's work permit policy was updated and clarified in September, effective 1 November, to meet the needs of business and the economy. The immigration department is undergoing a digital transformation to increase efficiency. However, difficulties in securing work permits in a timely fashion remain a persistent concern of business, and remain a drag on growth.

42. The Panel has long pressed for major reforms to the Public Service Superannuation Fund (PSSF) which, as of the most recent valuation, had an unfunded liability of more than $1 billion, and was projected to be exhausted in approximately 2045. A package of reforms was passed in September. This raises the earliest retirement age for uniformed services personnel from 50 to 55 and for most civil servants from 60 to 65, the retirement age increasing by one year every two years between 2027 and 2035. The pension contributions of uniformed service personnel will increase from 9.5 per cent to 11.5 per cent and that of most other civil servants from 8 per cent to 10 per cent over three years, offset by negotiated salary uplifts to maintain take-home pay. Further reforms are pension entitlement based on the average final 10 year salary, not just the final year, a rise in the maximum retirement age to 60 for the uniformed services and 70 for other public servants, and regular actuarial review of the amount retirees can withdraw as a lump sum. As a result of these changes the Fund is expected to become fully funded on an ongoing basis by 2060 and the risk to the public finances of an insolvent PSSF, long of concern to this Panel, has been removed. We congratulate the government, the unions and Bermudian civil society on this major step forward.

43. The sustainability of the Contributory Pension Fund (CPF), which provides basic pension, disability pension and non-contributory social security benefits to Bermudians, by contrast, remains unresolved and continues to present a future risk to the public finances. The support ratio (contributors/beneficiaries) has been on a declining trend and fell to 2.4 in 2023 from 2.6 three years earlier. The actuarial review of the CPF as at end July 2023, published this March, projected that the CPF would be exhausted in 2042, two years earlier than previously estimated. The Premier has pledged to tackle the deficit in the CPF following consultation.

44. The sustainability of Bermuda's healthcare system remains a critical fiscal and social challenge. Health expenditure already exceeds 10 per cent of GDP— higher than most of the OECD—and has continued to rise with an ageing population, costly overseas treatment, and high administrative expenses, alongside a large uninsured population and significant pressures around long-term care.. As noted above and in previous reports, recent years have seen substantial structural deficits emerge in both the MRF and the GEHI, and ultimately the Bermuda Hospitals Board (BHB). Major structural reform, with the objectives of both ensuring universal access and containing cost pressures, both in the BHB and the private sector, is long overdue. This will require political will and sustained commitment to implementation and delivery; two factors which have been lacking in previous reform efforts. While some transitional funding may be warranted, the objective should be to contain the cost to Government within the levels allocated in the 2025 Budget.

45. Meanwhile, the risks and impacts of climate change, which are almost entirely outside Bermuda's control, have increased dramatically, as the backlash against net zero measures has gained momentum internationally. It looks increasingly unlikely that global warming will be limited to the 1.5 per cent above pre-industrial levels agreed in Paris in 2016, indeed it may already have surpassed it in 2024. Although the recent COP30 climate conference agreed a continuing commitment to the Paris limits, no road map, in particular for the phasing out of fossil fuels, was agreed to achieve it. Furthermore, Nationally Determined Contributions to the process remain absent or inadequate from many nations. Recent studies[5] suggest that unless emissions are cut drastically we might already be within 10-20 years of a tipping point that would lead to the collapse of the Atlantic Meridional Overturning Circulation (AMOC), which includes the Gulf Stream, within a century. The AMOC is already at its weakest for 1,600 years. Further weakening or the collapse of the AMOC would have severe consequences for Bermuda, raising sea levels by a further 50cm and making the climate much cooler, with knock on effects on tourism and Bermuda's attractiveness as a place to live and do business. Although Bermuda's contribution to climate change is small, the upcoming Integrated Resource Plan will be important in ensuring the island continues to make its contribution to reducing emissions.

G. Future Fiscal Strategy in the light of the CIT

46. Bermuda's fiscal position looks better than at any point in the past decade, in large part as a result of the introduction of the CIT. Going forward, however, the extent of this improvement will depend on how much of the CIT revenues are applied to the reduction of net debt and ensuring future fiscal stability. As emphasised last year, Bermuda's fiscal strategy must institutionalise a durable framework for CIT revenues that recognises and addresses the risks and challenges described above.

47. The Government's current plans imply balanced current budgets *excluding* both interest payments on debt and CIT revenues[6] through to 2027/28, with CIT proceeds allocated to interest payments, debt reduction, and targeted long-term investments, So while up to now significant current surpluses were necessary to finance interest payments and capital spending, and repay debt, these are now financed from CIT revenues. This in turn has allowed the government, as outlined above, to plan for significant spending increases and tax reductions over the next few years.

48. Gross debt is projected to remain at $3.29 billion through 2025/26, before falling in 2026/27 with the repayment of a substantial portion of a maturing note, with budget surpluses including CIT reducing net debt from $3.2 billion to around $2.8 billion, and then further to about $2.5 billion in 2027-28. While the plans reflected in the 2025/26 Budget would represent a significant reduction in debt over the near term, this leaves open the question of a longer-term framework and strategy, as well as the Government's position should CIT revenues differ substantially from these projections.

49. There was very little detail in the Budget on these two very important issues: first, how the revenues from the CIT will be allocated after 2026/27. The Budget statement committed to maintaining surpluses for the foreseeable future, but this falls very far short of the recommen-

5 Sybren Drijfhout *et al* 2025 *Environmental Research Letters* 20 109502; Physics-Based Indicators for the Onset of an AMOC Collapse Under Climate Change, René M. van Westen et al 2025 Journal of Geophysical Research: Oceans: Volume 130, Issue 8.

6 This is consistent with Marian Bell's minority recommendation in the Panel's 2024 report.

dations of this Panel last year (as well as the more recent recommendations of the Tax Reform Commission (TRC), laid out below) and second, how the government would respond if CIT revenues are materially different from the current, very uncertain forecast (in either direction).

50. The TRC, reporting in August 2025, considered how CIT revenues could support a broader restructuring of Bermuda's tax system. Its recommendations, based on extensive consultation, align with four themes:

- Fiscal Responsibility and Stability – Establishing a Stability Fund (at least $100 million annually) and strengthening the Debt Sinking Fund (at least $200 million annually).
- Cost of Living and Doing Business – Phased reductions in payroll taxes, elimination of the foreign currency purchase tax, and subsidies to reduce healthcare costs (up to $150m annually).
- Community Development and Equity – Targeted tax credits for seniors, underinsured households, and community organisations (up to $60 million per annum).
- Economic Growth and Job Creation – Refundable credits for housing, utilities, and innovation investment (see above).

The TRC also raised, for debate in the medium term, the possibility of introducing a low-rate, broad-based personal income tax, not to increase the overall burden, but to diversify revenues and enhance fairness.

51. A feature of the TRC report is its proposed *"waterfall" allocation model*, under which CIT revenues are applied first to stability and debt repayment, before defined sums (up to $210m in total) are made available for social programmes or tax relief, any residual going to net debt reduction and strategic investments. This is illustrated in the table below. The thinking behind this approach is broadly consistent with the Panel's recommendations of last year.

Priority	Programme	Annual Allocation	Strategic Focus
1	Stability Fund	$100M	Revenue volatility management
2	Debt Sinking Fund	$200M	Fiscal sustainability
3	Senior Healthcare Support	$30M	Support seniors on low income
4	Underinsured Healthcare	$12M	Universal healthcare access
5	Employer Payroll Tax Reduction	$68M	Employment cost reduction
6	Low Income Healthcare Subsidy	$18M	Household cost relief
7	Utility Tax Relief	$8M	Infrastructure cost reduction
8	Employee Payroll Tax Reduction	$24M	Disposable income enhancement
9	Employer Health Insurance Subsidy	$19M	Employment cost reduction
10	Foreign Currency Purchase Tax Elimination	$31M	Economic equity
11	Surplus to Stability Fund, Debt Fund, Strategic Investments		Stability

52. However, it is unclear from the report exactly what the prioritisation would be of any surplus remaining after the above defined commitments (amounting to $510m) were met. It recommends that the government should aim to reduce net debt by at least half over ten years, but this seems very unambitious, since the allocations above would imply a significantly faster reduction, which we would endorse.

53. Moreover, it does not take into account the macroeconomic consequences of the implied fiscal stimulus resulting from a significant increase in government spending and reduction in personal taxes; $200 million is equivalent to about 4% of annual domestic demand. This could potentially fuel inflation and risk macroeconomic instability, and phased implementation would be prudent.

H. Panel's Assessment

54. Overall fiscal performance in 2024/25 showed continued progress, although the headline surplus was again the result of the financing of ongoing pressures on elements of the healthcare budget directly from the Sinking Fund; as we said last year, this is regrettable and does not reflect standard government accounting practice. We welcome the more appropriate treatment of health-related spending in this year's Budget.

55. Looking forward, Bermuda's fiscal position looks far better than at any point in the past decade, in large part as a result of the introduction of the CIT, which represents a defining opportunity for Bermuda to consolidate two decades of fiscal progress and to lay the foundation for long-term sustainability. But entrenching this success will depend upon the Government determining to apply much of the return from the CIT toward the reduction of debt and ensuring future fiscal stability.

56. The Panel welcomes the Government's commitment to budget surpluses and, in principle, net debt reduction. However, this commitment falls short of the Panel's 2024 recommendation for a balanced underlying current budget excluding CIT receipts. By 2027/28 as a result of planned, albeit unspecified, tax cuts and spending increases, the underlying budget surplus before CIT and interest has declined by more than $200 million. This is consistent with the Panel's recommendation below, but the absence of a clear plan to repay debt, and the institutionalisation of a durable fiscal framework, is of significant concern.

57. Both gross and net debt continue to far exceed the long-term target 80% of revenues, whether including or excluding CIT, in the fiscal projections, although debt service costs would fall below 10% of non-CIT revenues. Moreover, the Government has so far been silent on what principles would govern its approach should CIT revenues either exceed or fall short of current projections by a large margin. Given the level of uncertainty around future CIT revenues, it is essential that this is addressed at the next Budget. The Government has had clear advice from both the TRC and this Panel; it should respond to these recommendations and set out its medium to long-term fiscal framework and associated strategy.

58. The Panel stresses that **sustained discipline and transparency** will determine whether the opportunity presented by the CIT is realised. Bermuda's small, open economy remains highly exposed to global developments in international taxation, financial regulation, and insurance market cycles. CIT receipts will fluctuate with global profits and corporate allocation practices, and the Government must therefore resist the temptation to use this windfall that might prove temporary to fund permanent expenditure increases or tax cuts beyond those that can be afforded within a balanced underlying (excluding CIT and interest payments) current budget. Statutory fiscal rules—requiring balanced current budgets excluding CIT, capping expenditure growth, and defining clear triggers for Sinking Fund and Stabilisation Fund contributions—would strengthen public confidence and credibility.

59. The Panel also reiterates that **fiscal sustainability is not solely a matter of debt management**. Structural pressures from demographics, healthcare costs, and pensions remain large long-term risks to the public finances. The 2025 reforms to the Public Service Superannuation Fund are a major step forward, but the Contributory Pension Fund remains on a trajectory toward depletion without further action. Similarly, healthcare costs continue to rise faster than GDP, and the transition to universal coverage must be carefully managed to avoid cost escalation. CIT revenues should therefore not delay these reforms but provide fiscal space to support them responsibly.

60. Institutional capacity will be critical to effective implementation. The establishment of the Corporate Income Tax Agency and the progress made in tax administration, procurement, and expenditure control are commendable. However, Bermuda's small scale means that the same skilled personnel are often stretched across multiple responsibilities. Continued investment in digital infrastructure, professional training, and analytical capacity is essential to ensure that the CIT, the Sinking Fund, and the broader fiscal framework operate as intended.

61. We also note that Bermudian economic statistics are frequently published with a long delay and are subject to significant revisions. This complicates the task of this Panel in assessing the state of the economy and, more seriously, fiscal and macroeconomic management more generally. It would be prudent to invest further in this area, seeking additional specialist and technical assistance as necessary.

62. The Panel also acknowledges the potential merit of diversifying the tax base over the longer term, including consideration of a modest personal income tax or broader consumption taxes, provided that such measures are revenue-neutral and accompanied by reductions in other distortive taxes such as payroll levies. However, in light of the very large task of implementing the CIT, any further major reform should not be undertaken in the short run—until the operation of the CIT is well embedded.

63. The Panel emphasises that fiscal policy must also support macroeconomic stability. Bermuda's fixed exchange rate regime, open capital account, and reliance on imported goods and services leave little room for independent monetary policy. Fiscal discipline is therefore the primary tool available to sustain price stability, investor confidence, and the integrity of the Bermuda dollar's peg to the US dollar. Over the past year, inflation has eased from post-pandemic peaks but remains slightly above its pre-COVID average, largely reflecting imported cost pressures, shipping costs, and higher housing and health-care prices. Labour-market conditions are extremely tight, and the combination of robust demand and limited labour supply risks embedding inflationary pressures. In this context, prudent fiscal management—avoiding stimulus spending during an expansionary phase—is essential to safeguard competitiveness and protect lower-income households from rising prices.

64. Stability depends not only on managing demand but also on maintaining investor confidence and policy credibility. Bermuda's status as a premier international business jurisdiction rests on consistent policy, efficient regulation, and sound public finances. By demonstrating that CIT revenues are used to strengthen the fiscal position rather than to fund higher recurrent spending, the Government can reinforce international confidence in Bermuda's economic model and in the integrity of its new tax framework.

I. Recommendations

65. Last year, the Panel made a number of recommendations that would address these issues:

- The current budget, excluding debt interest payments, should balance without recourse to CIT.[7] CIT revenues should be reserved for:

  (i) Interest payments on existing debt and net debt repayment, initially the $605 million maturity due in 2027;

  (ii) carefully prioritised capital investments that strengthen Bermuda's long-term resilience and productivity through improving public infrastructure, including climate resilience, and are timed to enhance macroeconomic stability.

  (iii) building a Stabilisation Fund, with a medium-term target of at least $1 billion, to support government revenues in the event of a shock outside Bermuda's control, including a reduction in CIT revenues (noting that such a fund would, like the Sinking Fund, reduce net debt);

  (iv) reducing long-term unfunded pension and healthcare liabilities; this could involve some upfront investment, but with a view towards ensuring long-term sustainability and cost control; and

  (v) building a Sovereign Wealth Fund, the income from which could eventually support the current budget subject to maintaining the real value of the fund.

- In order to ensure that decisions on the allocation of CIT revenues are consistent with macroeconomic stability, this Panel should advise on the macroeconomic impact of fiscal decisions.

- An independent expert advisory body be established that would be charged with determining Bermuda's long-term investment needs and priorities.

66. We are of the view that these recommendations remain appropriate. They are, as noted above, broadly consistent with the TRC's recommendations, but would be more robust to shocks – either positive or negative – than those of the TRC, would be more fiscally responsible over the longer term, and would ensure specific attention to macroeconomic stability.

67. While we recognise the need to address cost-of-living issues, particularly for lower income Bermudians, and to reduce the cost of doing business in Bermuda, we recommend that the cost of any such measures (including those recommended by the TRC, to the extent that the Government adopts them) beyond those included in the MTEF should be relatively modest and carefully targeted, and consistent with the recommendations above.

68. Moreover, given the potential for overheating and the associated pressure on inflation, measures that are likely to directly boost domestic demand, including capital and current spending increases and tax reductions that increase household incomes should be limited to perhaps to no more than 1-2% of domestic demand, unless macroeconomic conditions warrant a significant fiscal stimulus.

7 This is consistent with Marian Bell's minority recommendation in the Panel's 2024 report.

69. Most important, however, is that some version of the medium-term fiscal framework, including a clear rule that constrains the underlying current budget balance excluding CIT revenues, and a clear target for debt reduction, is set out transparently as a firm commitment by Government, ideally underpinned by statute and monitored by independent bodies. In particular, our view is that a new fiscal framework should incorporate two clear rules:

   a) ***a deficit rule***: the current budget i.e. excluding capital expenditure, should remain in balance or surplus, excluding net CIT revenues, capital spending and interest payments.[8]

   b) ***a debt and assets rule***: over a rolling period (perhaps 3 to 5 years), the substantial majority[9] of net CIT revenues should be devoted to paying debt interest payments, reducing net debt and/or accumulating net financial assets.

70. The CIT provides a rare opportunity to lock in gains, reduce vulnerabilities, and build institutions capable of withstanding future shocks. With such a framework, the island could eliminate net debt within a decade and create a durable foundation for intergenerational equity; a worthy legacy for the next generation of Bermudians. Conversely, if discipline weakens and CIT receipts are treated as a permanent entitlement, the opportunity could quickly be lost, business confidence could evaporate, and the Island would be left with the legacy of a worse underlying fiscal position with continued reliance on international debt markets to finance unsustainable spending.

8 Consistent with Marian Bell's recommendation in the FRP's 2024 Report.

9 Further analysis would be required to determine the appropriate percentage.

List of Persons and Organizations Met
December 1 – 4, 2025

Premier & Minister of Finance, The Hon. David Burt, JP. MP

Ministry of Finance Officials

Mr. Chidozie S. Ofoego, Financial Secretary
Mr. Wayne Furbert, Junior Minister of Finance
Ms. Tina Tucker, Acting Deputy Financial Secretary
Mr. Hadleigh Farrer, Chief Operating Officer
Other members of staff

Ministry of Economy and Labor

Minister, The Hon. Jason Hayward, JP, MP
Permanent Secretary Ms. Aideen Ratteray-Pryse

The Ministry of Home Affairs

Minister, The Hon. Alexa Lightbourne, JP, MP
Permanent Secretary Ms. Pandora Glasford

The Ministry of Health

Permanent Secretary Ms. Keechia Tuckett

The Bermuda Monetary Authority

Mr. Marcelo Ramella
Mr. Tanwar Akram
Mr. Tony Chernis

The Leader of the Opposition

Mr. Robert King, Leader
Mr. Douglas DeCouto

The Corporate Income Tax Agency

Mr. Mervyn Skeet, CEO

The Financial Policy Council

Ms. Jill May, Chair, and others

The Association of Bermuda Insurers & Reinsurers

Mr. John Huff
Mr. Collin Anderson

Bermuda Trade Union Congress

Mr. Audley Quallo, BPSU General Secretary
Mr. Timothy Seon, BUT President
Mr. Kevin Grant
Other representatives

Bermuda Chamber of Commerce

Mr. Marico Thomas, President

Other representatives

Tax Reform Commission

Mr. Darren Johnston, Head

The Panel would like, as always, to very much thank Ms. Deborah Harris and Ms. Carole Martin of the Ministry of Finance for their support in organizing our visit and for their help while we were in Bermuda.

GOVERNMENT OF BERMUDA

Ministry of Finance