

Rating Action: Moody's affirms Bermuda's A2 ratings; maintains stable outlook

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New York, June 21, 2022 -- Moody's Investors Service ("Moody's") has today affirmed the Government of Bermuda's long-term A2 issuer ratings and senior unsecured bond ratings and maintained the stable outlook.

The key drivers of the ratings affirmation were:

1. Track-record of fiscal consolidation will support debt stabilization, with debt burden remaining in line with similarly rated peers;
2. Vibrant international business sector and rebound in tourism support medium-term growth, despite subdued performance in recent years

The stable outlook reflects Moody's expectations that fiscal consolidation efforts will stabilize debt around current levels, supported by moderate growth due to rebound in tourism activity and growth in the international business sector.

Bermuda's country ceilings remain unchanged. The local-currency country ceiling is positioned five notches above the sovereign rating at Aaa, reflecting the economy's fundamentals, strong institutions and limited government intervention in economic activity. Also at Aaa, foreign-currency country ceiling reflects strong external position and large stock of foreign assets, indicating that the risk of restrictions on transfer and convertibility at times of stress remains very limited.

RATINGS RATIONALE

FIRST DRIVER ? TRACK-RECORD OF FISCAL CONSOLIDATION WILL SUPPORT DEBT STABILIZATION, WITH DEBT BURDEN REMAINING IN LINE WITH PEERS

Beginning in 2021, the government made progress towards fiscal consolidation as the pandemic shock receded, reducing spending and the fiscal deficit. The budget for fiscal 2023 incorporates a fiscal deficit around 0.9% of GDP, a significant improvement relative to a deficit of over 1.6% in 2020. Moody's expects the government debt burden to drop slightly and stabilize around 46% of GDP in the next 2-3 years. The government aims to achieve a balanced budget by fiscal 2025 and a fiscal surplus of \$50 million by fiscal 2027.

At that level of debt, Bermuda's debt burden remains in line with the current median for A-rated peers of 49%. Given the context of the crisis, Bermuda's recent track record of fiscal consolidation and our assessment of very strong institutions are key to our expectations of debt stabilizing around current level and declining gradually. However, Bermuda's interest burden will remain relatively high. The ratio of interest payments to government revenues will remain over 12% compared with less than 6% for similarly rated peers.

In the coming 2-3 years, Moody's expects fiscal performance will be supported by the recovery in economic activities. Moody's expects growth performance to regain momentum, compared to previous years, supporting a gradual downward trajectory in government debt. The tourism sector and investment in new hotels on the Island are important drivers for improved growth prospects.

Although Bermuda's direct exposure to the tourism industry as a source of fiscal revenues is very limited, the sector still plays an important role in direct and indirect economic activity. Tourism's direct and indirect contribution to GDP represent around 17.3% of GDP, while the sector also employs about 21% of the workforce including tourism-related sectors. The international business sector, which includes the insurance and reinsurance industry represents about 25% of GDP, which cushioned some of the impact of the pandemic shock on Bermuda's economy relative to other tourism-dependent economies.

SECOND DRIVER ? VIBRANT INTERNATIONAL BUSINESS SECTOR AND REBOUND IN TOURISM SUPPORT MEDIUM-TERM GROWTH, DESPITE SUBDUED PERFORMANCE IN RECENT YEARS

Bermuda is a global center for insurance and re-insurance industry and the sector remains attractive to new

businesses. Over the medium term, Bermuda will be in a position to take advantage of new opportunities in insurance and reinsurance sectors, such as cyber and climate risk underwriting, which Moody's expects will expand in the coming years, signaling the potential for strong growth in this emerging sector in Bermuda.

The recovery in the tourism sector and investments in new hotel developments will boost growth performance in the coming years. In 2021, the tourism sector started to recover from the pandemic shock, and activity in the sector will likely approach its pre-pandemic level in 2022. Moody's expects tourism arrivals to be stronger in 2022 as first quarter of the year showed improvements. In Q1 2022, total leisure arrivals increased to over 7,000 from only 1,734 in the first quarter of 2021.

On the external side, Bermuda's highly competitive international insurance and reinsurance industries provide the island with steady and large flows of current account surpluses, which leaves Bermuda with a very strong external position. Over the last decade, the current account surplus averaged nearly 10.8% of GDP supported primarily by compensation paid by international businesses (primary income credits). Other important sources of balance of payments receipts include investment income earned by residents and local financial institutions on their overseas investments, and tourism-related revenue.

As of the fourth quarter of 2021, Bermuda's current account recorded a surplus of \$217 million. This represented a \$6 million increase year-over-year. At the end of the year in 2021, Bermuda's net international investment position stood at \$4.6 billion, almost 64% of GDP. The sustainability of the economy's external position will continue to depend primarily on the performance of the IB sector and Bermuda's attractiveness as a hub for international insurance and other financial services.

RATIONALE FOR STABLE OUTLOOK

The stable outlook incorporates Moody's expectations that fiscal consolidation efforts will be maintained to stabilize debt burden around current levels and begin to gradually reduce it, keeping debt metrics in line with similarly rated peers. Rebound in tourism and new investments in the sector as well as growth in the international business sector will support moderate growth performance.

ESG considerations

Exposure to environmental risk moderately negative (E-3 issuer profile score) due to Bermuda's exposure to the tourism sector and the impact of rising sea levels on its natural capital.

Bermuda's exposure to social risks as neutral-to-low (S-2 issuer profile score). Bermuda is exposed to risks from ageing populations, which is balanced against strong education outcomes, and very high wealth.

Bermuda's very strong institutions and governance profile support its rating, as captured by a (G-1 issuer profile score) with a strong institutional structure and policy effectiveness.

GDP per capita (PPP basis, US\$): 74,408 (2021) (also known as Per Capita Income)

Real GDP growth (% change): 4% (2021) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 2.7% (2021)

Gen. Gov. Financial Balance/GDP: -1.6% (2021) (also known as Fiscal Balance)

Current Account Balance/GDP: 3% (2021) (also known as External Balance)

External debt/GDP: 135.2% (2021)

Economic resiliency: baa1

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 16 June 2022, a rating committee was called to discuss the rating of the Bermuda, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have materially increased. The issuer's institutions and governance strength, have not materially changed. The issuer's fiscal or financial strength, including its debt profile, has materially decreased. The issuer's susceptibility to event risks has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive pressure on the rating could materialize if the government demonstrates its ability to reverse the effects of the pandemic-induced economic shock on its fiscal metrics, and implement revenue measures to achieve fiscal surpluses on a sustained basis to meet its fiscal targets. Moreover, our assessment will take into account the trajectory of Bermuda's debt metrics, particularly in relation to debt affordability, and evidence that its interest/revenue ratio is converging to the level observed for its similarly rated peers.

The outlook could change to negative if fiscal trends deteriorate in the coming years, leading Bermudas' debt burden to deviate materially from similarly-rated peers. Persistently weak growth performance would also limit fiscal performance and credit prospects.

The principal methodology used in these ratings was Sovereign Ratings Methodology published in November 2019 and available at <https://ratings.moody.com/api/rmc-documents/63168> . Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

REGULATORY DISCLOSURES

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