



GOVERNMENT OF BERMUDA

Ministry of Finance Headquarters
Press Remarks
The Hon. Curtis L. Dickinson, JP, MP
Minister of Finance
Ministry Update

14 October, 2021

Good day Everyone,

Thank you for your attendance today so that I can provide an update to the people of Bermuda on key developments that are relevant to the fiscal and economic situation in Bermuda. I want to begin by extending my sympathies to all of those who have suffered loss because of COVID-19. I also wish to express my appreciation to those who have served, and continue to serve, on the front line and provide invaluable support and care during these difficult times.

As I have previously highlighted, the Government is committed to ensuring that we address such matters in a prudent and disciplined manner, ensuring that there is strong focus on the financial challenges the people of Bermuda face as a result of the COVID-19 pandemic and other relevant factors.

The Government is sensitive to the impact that this pandemic has had here in Bermuda. Therefore, we have taken decisive and deliberate action, since the beginning of this pandemic, to assist and support both individuals and businesses. Under normal circumstances, taxes and government fees are reviewed every two years, and inflationary increases are applied as deemed appropriate. However, given ongoing challenges, other than in very limited circumstances, there have not been changes to tax rates or fees since 2018. In addition to giving numerous concessions, relief and benefits during the height of the pandemic, the Bermuda Government has continued, in this fiscal year, to offer tax relief, concessions and financial assistance, where possible, to sectors and persons severely impacted by this crisis. Funding for capital projects has been made available to address essential infrastructure needs; help stimulate economic activity; and offer increased employment opportunities. Other initiatives are being worked on to address lending costs and assist Bermudians in their goal of becoming homeowners.

Our ongoing commitment to considered fiscal management was a key feature of our undertaking to our bond investors during our successful 2020 debt refinancing, and was again a central point in our Economic Recovery Plan, published earlier this year. That commitment and our continued work in that regard have once again been independently evaluated and affirmed in a recent assessment of Bermuda that was published by The Kroll Bond Rating Agency (KBRA) on October 7th.

I am pleased to report that in their assessment, the KBRA affirmed Bermuda's long-term and short-term issuer ratings. The long-term rating was affirmed at A+ with an outlook that was revised upwards from negative to **stable**. The short-term rating was affirmed at K1+. The A+ long-term rating is in the third tier of KBRA's rating index and indicates that the bond issuer is determined to be of high quality, with a small risk of loss due to credit-related events. The K1+ short-term rating is in the top tier of KBRA's rating index and indicates that the issuer has an exceptional ability to meet short-term obligations.

KBRA has indicated that the decision to revise Bermuda's outlook from negative to stable reflects the Government's commitment to fiscal restraint and expectations for a modest economic recovery over the medium term. It is noteworthy that the report also states that the A+ rating was affirmed due to Bermuda's strong institutions, including a high-quality regulatory environment which underpins the country's status as a financial hub. KBRA also indicated that prospects for expanding new niche industries, especially in Fintech and digital assets, underscores Bermuda's capacity to position itself for investment opportunities.

The report also has a section dedicated to the Government's response to the COVID-19 pandemic. It highlighted that the Government's COVID-19 related fiscal measures included substantial healthcare spending, temporary unemployment benefits, tax postponement, payroll tax relief for the most afflicted sectors of the economy and assistance to small businesses. These measures formed part of the Government's response to the pandemic, and KBRA's assessment demonstrated that the actions taken were considered prudent and effective. This is reinforced when the report goes on to state that "Bermuda, like many economies exposed to tourism, experienced an external shock from the collapse in tourism receipts when the pandemic hit, and this was on top of the domestic shock from lockdown. However, Bermuda's resilience has been much more robust than initially expected."

Overall, Bermuda received a positive report from KBRA, which is reflected in the outlook for the country being revised from negative to stable. The agency has demonstrated its belief that the country is on a stable path forward under this Government. This rating affirmation demonstrates confidence in Bermuda maintaining a comparatively favorable position to continue to have access to capital. This will assist the Government in our goal of successfully navigating Bermuda through this current pandemic and beyond, combining economic success with social responsibility.

To counter the effects of the pandemic, as noted in the KBRA report previously mentioned, the Government continues to seek opportunities and innovative solutions during these challenging times. Therefore, in addition to providing assistance in the domestic arena within the construct of a prudent fiscal management framework, we have also committed to a program of continued effective communication and ongoing collaboration with industry in relation to initiatives designed to protect and promote Bermuda's interests. In that regard, during the last week of September, along with a team of key local industry stakeholders, I met with a number of top law firms, asset managers, and investors in New York, to discuss Bermuda's aspiration to become the world's climate risk capital and a hub for climate tech innovation.

The meetings were aimed at promoting Bermuda as the ideal location to domicile, both for them and their clients considering opportunities in the climate risk or ESG industry. The team collectively presented Bermuda's strong commitment to quality and compliance with international standards, other core competitive advantages, ESG commitments, and recent Government policies designed to provide a sound and appropriate environment to accelerate their initiatives and help their businesses succeed.

Bermuda has a rich history and wealth of expertise in catastrophe risk finance, making the climate vertical complementary to Bermuda's globally recognised strengths in regulation, (re)insurance, insurance linked securities, and professional services. As a result, countries and international corporations have relied on the island's reinsurance services to cover their liabilities for over 50 years. Climate change is a real challenge facing the world today, and Bermuda certainly has a strong track record in providing coverage and appropriate claims payment capabilities in relation to natural catastrophes. Therefore, climate risk financing is another opportunity for Bermuda to provide further assistance in an area of critical global importance.

It should be noted that actions being taken on this matter are consistent with the Economic Recovery Plan, and with other work being done to diversify our economy. The Government will therefore continue

with our program to foster Bermuda's leadership position in climate risk finance. In this regard, a further trip is planned for later this month to highlight what Bermuda can offer.

Our work to protect Bermuda's interests requires our involvement with several regional and international bodies on a variety of initiatives that could significantly impact Bermuda's future. In this regard, global tax matters have, over the years, required increasingly greater focus. More recently, as appropriate, we have provided updates on the OECD/G20 initiative to combat the Base Erosion of countries tax revenue cause by corporate Profit Shifting, commonly referred to as BEPS. We have actively participated in the discussions on these matters to achieve the best outcome for Bermuda.

On Friday, October 8, 2021, the OECD published its revision to the Inclusive Framework Statement of July 1, on BEPS. Further to my public statements and my ministerial statement to Parliament, which I made in July, 2021, I would note that from Bermuda's perspective, we did achieve some of our objectives under both BEPS Pillars. We certainly did not obtain all that we were seeking; however, it is important to highlight that not even the G20 countries successfully got everything they wanted in this initiative.

Our key objective under Pillar 1 (relating to redistribution of tax income) was to achieve an exclusion for our international business financial services sector. We are pleased to advise that an exclusion for regulated financial services has been given in this Pillar in the October 8, 2021 Statement overwhelmingly approved by 136 of the 140 member countries of the OECD/G20 Inclusive Framework on BEPS. However, the technical details are still to be concluded.

We are very pleased with this outcome under Pillar 1. The UK's Association of British Insurers, the Global Federation of Insurance Associations, and jurisdictions that are major international re-insurance centers also welcome this conclusion.

Concerning Pillar 2, a key area of focus was the global minimum tax rate. We had anticipated a rate of 12.5%, as that was the rate featured in OECD working committee papers for the past two years. However, after proposals of much higher rates by some countries, the G7 agreed to 15% rate at its June 2021 meetings, and that rate has now been established as the global minimum tax rate under this framework. The agreement requires that it be applied at a jurisdictional level to multinational entities with revenues exceeding 750 million euros. Discussions to finalise technical details are still ongoing and are expected to be accepted in November 2021.

Concerning other key provisions, we would note that the October 8, 2021 Statement has retained the Pillar 2 provision which provides that countries are not required to adopt the Pillar 2 rules. However, MNEs caught under the rules will still have to pay relevant taxes, on a jurisdictional basis, to an appropriate authority as allowed for under the rules. This gives the Bermuda Government the flexibility to confer with our industry stakeholders and with the Tax Reform Commission, when that Commission is embodied, to develop what works best for Bermuda, and its various constituents, within the new international standard on tax cooperation.

As noted earlier, Bermuda has been an active participant in the international discussions on this initiative, and we have had extensive dialogue with industry throughout the process. They have provided invaluable input, and we look forward to continuing our work together, as we progress the work on this important matter.

A key part of our fiscal program is our close monitoring and management of the Government's revenue and expenditures. As we have done in previous years, we intend to publish a midyear performance update during November. We have already commenced work to prepare for the 2022/23 budget. We are carefully reviewing the current state of our economy, the needs of our community, the opportunities and threats, the work being done to progress to reform and recovery and the actions required to maintain fiscal discipline. Again, we would highlight that we continue to work to ensure that we can achieve the right balance between fiscal prudence; providing appropriate support to assist persons and entities during these challenging times, and provide the necessary focus on future growth and development.

In closing, I would like to thank the Ministry of Finance team and other Government colleagues for their support and dedication, our industry partners for their commitment and collaboration and the people of Bermuda who continue to demonstrate their strength and resilience in times of crisis. As we keep on moving forward together, we will ensure that Bermuda emerges stronger and better from the pandemic and continues to make a significant and positive impact on the world around us.