



GOVERNMENT OF BERMUDA

Ministry of Finance

# PRE-BUDGET REPORT

IN ADVANCE OF THE FISCAL YEAR  
2025 - 2026

**REDUCING** OUR COSTS,  
**INVESTING** IN OUR FUTURE.

# Chapter 1 – Introduction

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## **What Is a Pre-Budget Report?**

A Pre-Budget Report (PBR) is a strategic document released by the Government to outline its economic priorities and guiding fiscal principles in anticipation of the upcoming budget cycle. The PBR serves as a preview of the Government’s approach to economic policy, covering both the internal factors and external influences that shape its medium-term financial strategy. It highlights the Government’s primary fiscal goals, along with the anticipated challenges and intentions, to provide transparency about economic direction and priorities.

Bermuda’s economy, similar to those of other small territories, faces particular vulnerabilities due to global events. This sensitivity, coupled with ongoing budget deficits and a national debt of \$3.2 billion, underscores the necessity for responsible fiscal planning. The Government remains committed to addressing these challenges through transparent policymaking, inviting the public and stakeholders to participate in the process by understanding and responding to the underlying factors that drive Bermuda’s fiscal decisions.

## **Purpose of the Pre-Budget Report**

The primary aim of the PBR is to raise public understanding of the Government’s fiscal objectives and budgetary outlook. It establishes a foundational reference for evaluating the Government’s fiscal policies and decisions.

Beyond increasing public awareness, the PBR encourages public debate on how effectively budget strategies address present economic and social needs. Through this document, stakeholders—including business groups and social organisations—gain insight into policy options under consideration, ensuring that the proposed budget is informed by broad public input and supported by long-term fiscal planning.

The PBR enables stakeholders to communicate potential risks, offer alternative policy suggestions, and improve the budget’s alignment with community priorities. It also strengthens accountability, allowing the Government to be assessed on its fiscal intentions at two points: when the PBR is released and again at the end of the fiscal year, based on actual outcomes against the goals outlined in the PBR.

## **The Principles of Good Fiscal Policy**

Effective fiscal policy seeks to foster sustainable economic growth while expanding opportunities for all Bermudians. Fiscal decisions should contribute to social stability over both short- and medium-term periods.

To achieve these objectives, the Government's fiscal strategy is built on several core principles of responsible fiscal management, which include:

- Managing financial risks prudently to minimise fiscal vulnerabilities.
- Formulating policies that strengthen the Government's financial standing.
- Prioritising fiscal stability and predictability to support long-term planning.
- Upholding a fair and efficient tax system.
- Ensuring that policy choices support the economic well-being of future generations.

Amid today's economic uncertainties, the Government remains focused on its commitment to diversifying Bermuda's economy, leveraging prudent fiscal management to create GDP growth and broaden employment opportunities. This approach supports a resilient economy, capable of reducing debt and enhancing economic inclusivity.

## Chapter 2 – Framing The 2025/26 Budget

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The formulation of the 2025/26 Budget will be guided by a clear commitment to economic growth supported by the first payments from the Corporate Income Tax. The Government's approach emphasises creating a budget that balances fiscal prudence with infrastructure investments while providing tax relief to Bermuda's residents. This balanced strategy will fund improved public services while fostering economic diversification and supporting the broader community.

For the past four years, the Government has executed Bermuda's Economic Recovery Strategy to successfully rebuild our economy from the damage inflicted by the COVID-19 pandemic. We now find ourselves at a crossroads, where we are able to invest in infrastructure, reduce the burden of taxation on our citizens and businesses, and repay our national debt as we build Bermuda's infrastructure for the future.

This next budget will represent a shift, where the first revenue from the new Corporate Income Tax revenue will start to be paid. The Government's policy position is that we must ensure that Bermuda's economy remains competitive while reducing taxes that increase the cost of living and cost of doing business.

Over the last three years the Government has provided significant tax relief including:

- Reduced Payroll Taxes for 86% of the workforce
- Increased pensions at the rate of inflation every year
- Expanded the Child Daycare Allowance
- Eliminated Customs Duty on essential goods
- 60% reduction in energy taxes
- 40% reduction in Payroll Tax for taxi operators
- Reduced private car licensing fees by 10%
- Eliminated Land Tax for registered charities and nursing homes
- Elimination of Customs Duty on materials for capital projects for community clubs
- Froze local fuel prices at the pumps

While the Government awaits the full report from the Tax Reform Commission, we are setting out the following policy proposals for consideration and feedback.

## Policy Options Under Consideration

One of the main objectives of a Pre-Budget Report is to provide a document that elicits discussion from stakeholders. In preparation for such discussion, the Government sought policy proposals for consideration from the following bodies:

- Association of Bermuda Insurers and Reinsurers
- Association of Bermuda International Companies
- Bermuda Bankers Association
- Bermuda Chamber of Commerce
- Bermuda Hotel Association
- Bermuda International Long-Term Insurers and Reinsurers
- Bermuda Trade Union Congress

The policy options below contain proposals from the Government, and requests for policies to be considered from the above-mentioned bodies. The Ministry of Finance will engage with the public and other stakeholders regarding these proposals prior to finalising the 2025/26 Budget.

In this Pre-Budget Report, the first that will take into account expected revenues from the Corporate Income Tax (CIT), the Government is sharing its current three-year Medium-Term Expenditure Framework (MTEF). While we await the final report of the Tax Reform Commission, the Government has set out a number of tax and spending proposals for fiscal year (FY) 2025/26 within the limits recommended by the Fiscal Responsibility Panel.

### **Revenue Increasing Considerations:**

Given the steady economic growth, improving fiscal position, and strong future projections, the Government is **not** considering any broad-based tax or fee increases for the upcoming fiscal year. The Government expects to receive sufficient revenue to execute the pledges made in the Throne Speech without any additional tax increases.

### **Tax Reduction Proposals From the Government:**

In the 2024/25 Budget Statement, the Government stated its intention to use proceeds from the Corporate Income Tax to begin reducing taxes to ease cost-of-living pressures in Bermuda. The following proposals represent the Government's intentions for tax and fee relief in the upcoming budget cycle and are being shared for feedback as part of the pre-budget consultation process:

- Further Customs Duty relief
  - The Government is proposing to reduce/eliminate Customs Duty on a number of categories:
    - Further reductions to fuel duty to reduce energy costs. This reduction will be in addition to the 60% reduction enacted this year.
    - Reduction or elimination of duty for building materials/supplies to reduce the cost of construction.
    - Eliminate customs duty on parts and supplies for motor vehicle repairs.
  - The Government is also proposing to increase the Duty Free Allowance for residents from \$200 to \$300

- Reduction in vehicle licensing fees
  - In 2022/23, the Government reduced vehicle licensing fees by 10% and is proposing a further 10% reduction for all private cars.
- Reduction of telecommunications fees
  - Currently cell phone users are charged a \$12 monthly Government fee, and the Government proposes reducing the monthly fee by 50%.
- Reduction of Land Tax for all categories
  - In 2019, the base charge on all residential properties was set to \$300. The Government proposes to reduce the base charge on all categories by 50% to \$150.

**Tax Reduction Requests From Stakeholder Consultation:**

The following proposals were received from stakeholders and are being considered by the Government as part of the upcoming budget. They are being shared for feedback as part of the pre-budget consultation process. It is important to note that the proposals from stakeholders shared below are for consultation, and the Government has not made a decision on whether any of the items below will be part of the upcoming budget:

- Further Customs Duty relief
  - The Government has been asked to consider expanding the list of grocery items exempt from Customs Duty.
  - The Government has also been asked to consider further Customs Duty relief for certain retail sectors, including apparel stores.
- Threshold for local dividend taxes
  - In 2018 the Government introduced a tax on local dividends. It has been proposed to the Government to consider increasing the threshold on this tax to allow a greater portion of local dividends to be tax-free.
- Further reduction of Employer Payroll Tax
  - The 2024 Throne Speech stated the Government will eliminate payroll taxes for employers that retain employees beyond 65 years old. The Government has been asked to consider modifying this initiative, and instead reduce Payroll Tax for all employers by a minimum of 1%.
- Reduce Land Tax for Tourism Properties
  - The Government has been asked to consider a material reduction in Land Tax for Tourism properties, particularly for those with larger ARVs, as a means to attract investment and development in the hospitality industry.



## **Fiscal Year 2025/26 Budget Proposals:**

In this current FY 2024/25, government revenues have increased, and the Government is expected to deliver a budget surplus of \$4 million prior to the receipt of any CIT revenues. This projected surplus is despite the additional \$25 million committed as part of the Mid-Year Budget review and \$10 million in tax reductions from the 60% reduction in energy taxes. This surplus represents a solid foundation as Bermuda transitions to budgeting that will take into account CIT revenues.

### FY 2025/26 Revenue:

Initial payments for CIT will begin in August 2025. Consistent with last year's budget statement, the Government is inserting a provisional figure of \$187.5 million in corporate income tax collections (25% of the expected total) for FY 2025/26.

The Fiscal Responsibility Panel has recommended that expected CIT revenues be separated from existing revenue and expenditure in the budget. The panel is of the view that those receipts should be used to fund capital expenditure, and some members of the Fiscal Responsibility Panel also believe that CIT funds may be used for interest payments. For FY 2025/26, the Government has used the more conservative approach, given that it will be the first year of CIT payments.

It is important to note that where CIT revenues are shown on the budget (as part of regular revenue or segregated), they will not affect the overall budget surplus, as total revenue and expenditure will yield the budget deficit or surplus for any given fiscal year.

For FY 2025/26, the Government is expecting non-CIT revenue to remain stable at \$1.26 billion. Non-CIT revenue will remain stable due to the proposed tax/fee reductions stated earlier in this section, which total an expected \$45 million in tax/fee relief. To recap, the Government plans to reduce taxes on electricity, land tax, customs duty, mobile phone fees, and vehicle license fees. Without these tax proposed tax reductions, Non-CIT revenue would increase to \$1.31 billion.

### FY 2025/26 Current Expenditure:

On the spending side, the Government is making a provision for a 3% increase in current account spending. All department budgets will remain at 2024/25 levels into 2025/26; however, the 3% increase in overall current expenditure is for additional employee expenses attributable to the need to increase public sector salaries and benefits to keep public sector employment competitive with the private sector.

This year's Throne Speech highlighted the fact that the Government has conducted a review of public sector salaries and aims to make revisions to public sector salaries & benefits to ensure that the public service remains competitive with the private sector. This will require improving the Government Health Insurance scheme and ensuring that revised salary structures and expected negotiated pay increases are all funded within the 2025/26 Budget. This is intended to ensure that the public sector can attract and retain the best talent as we strive to improve the delivery of public services in Bermuda.

Additionally, as mentioned in the 2024/25 Budget Statement, the Government intends to fund the launch of universal healthcare in Bermuda from CIT proceeds. The provisional amount allocated is \$50 million, which will improve services at the hospital and enable expanded coverage for preventative and specialist visits to be rolled out to persons on HIP and Future Care.

### FY 2025/26 Capital Expenditure:

The Fiscal Responsibility Panel highlighted in its 2024 report that current account expenditures appear to be reasonably well controlled, but years of underspending on capital expenditures and maintenance required to sustain and improve the Island's infrastructure will have to be made up in future years.

Capital spending for 2025/26 is proposed to increase by \$33 million to \$145 million, which will fund an increase in the pace of road repaving following the installation of the new asphalt plant. This allocation will also allow the commencement of work on the replacement of Swing Bridge (scheduled to begin in the second quarter of 2025), the commencement of preliminary works on the replacement of the Tynes Bay waste energy facility, and the construction of the new Agricultural Service Centre, which has been long awaited by Bermuda's farming community - and will assist in boosting local food supply. Additional capital funds will be invested into more affordable housing projects and public education infrastructure to ensure that education reform is supported by modern facilities and technology.

#### FY 2025/26 Budget Surplus:

The budget surplus is projected to be \$84 million in FY 2025/26. This amount, though much higher than expected, is necessary for the Government to build up reserves in the sinking fund to reduce Bermuda's debt.

### **Debt Reduction & Future Fiscal Year Outlook**

While the Government plans to invest in reducing healthcare costs for residents and businesses while boosting capital spending, we must also be mindful of the recommendations from the Fiscal Responsibility Panel to ensure that the \$605 million of debt that is due to be paid in 2027 can be repaid in full, without the need to refinance that debt at what may be higher interest rates.

Therefore, in this report, the Government is setting out a provisional Medium-Term Expenditure Framework that provides a path with future CIT revenues to repay, in full, the \$605 million that comes due in January 2027. Net debt to GDP is expected to fall from 36% in FY 2024/25 to 23% in FY 2027/28. Interest payments are projected to reduce from \$128 million in FY 2025/26 to \$105 million in FY 2027/28.

The sinking fund balance is expected to stand at \$331 million at the end of FY 2027/28, which will provide a sound base to repay debt that will become due in February 2029 during FY 2028/29.

It is important to note that these projections have been made on conservative estimates of CIT revenues, as the Government has not projected the expected \$750 million in the MTEF projection in fiscal years 2026/27 and 2027/28. If CIT revenues are higher than the \$600 million that has been used in these projections, the sinking fund will have higher balances to enable accelerated debt repayments while also considering any recommendations from the Tax Reform Commission for strategic investments, such as setting up a Sovereign Wealth Fund for future generations of Bermudians.

In future years, the MTEF makes a provision for further tax reductions to reduce the cost of living and the cost of doing business in Bermuda. The Government is not making any specific proposals at this time for tax reductions in fiscal years 2026/27 and 2027/28 as we await the Tax Reform Commission's recommendations.

The MTEF projects that current expenditures will increase by 3% in fiscal years 2026/27 and 2027/28.

Capital spending is projected to rise to \$200 million by FY 2027/28, meeting the OECD's recommended target of 2% of GDP.



<b>MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)</b>				
	<b>REVISED BUDGET 2024/25 \$000</b>	<b>BUDGET ESTIMATE 2025/26 \$000</b>	<b>BUDGET ESTIMATE 2026/27 \$000</b>	<b>BUDGET ESTIMATE 2027/28 \$000</b>
<b>Revenue and Expenditure Estimates</b>				
Non-CIT Revenue	1,261,292	1,260,437	1,256,553	1,212,532
Current Account Expenditure(excl.debt service)	1,010,655	1,040,975	1,072,204	1,104,370
Interest on Debt/Guarantee Mgmt.	127,777	127,777	127,777	105,303
Universal Healthcare		50,000	55,000	75,000
Fiscal Balance (Before CIT & Capital)	250,637	41,686	1,572	(72,141)
Provision for Global Minium Tax Receipts		187,500	600,000	600,000
Capital Expenditure	118,679	145,000	162,000	200,000
<b>Budget Surplus (Deficit)</b>	<b>4,181</b>	<b>84,186</b>	<b>439,572</b>	<b>327,859</b>
<b>DEBT &amp; SINKING FUND</b>				
<b>Gross Debt</b>	<b>3,293,892</b>	<b>3,293,892</b>	<b>2,688,892</b>	<b>2,688,892</b>
Debt Repayments			(605,000)	
Sinking Fund Balance	76,676	164,062	3,233	331,092
Net Debt	3,217,216	\$ 3,129,830	\$ 2,685,659	\$ 2,357,800
<b>BUDGET ASSUMPTIONS &amp; ECONOMIC STATS:</b>				
Non-CIT Revenue Change (%)	9.2%	-0.1%	-0.3%	-3.5%
Current Expenditure Change (%)	3.9%	3.0%	3.0%	3.0%
Projected GDP (Est.)	9,001,786	9,406,866	9,783,141	10,174,466
Nominal GDP Growth (Est.)	5.5%	4.5%	4.0%	4.0%
Net Debt to GDP	35.7%	33.3%	27.5%	23.2%
Capital Spending to GDP	1.3%	1.5%	1.7%	2.0%

## Chapter 2 Key Takeaways

**Corporate Income Tax Proceeds Begin:** The 2025/26 Budget marks the first year of revenue from the new Corporate Income Tax, projected at \$187.5 million, which will support critical investments and fiscal stability.

**No Major Tax Increases:** The Government will not introduce broad-based tax increases, focusing instead on maintaining economic stability and supporting households and businesses.

**Tax Reductions for Relief:** Proposed measures include cuts to customs duties, vehicle licensing fees, land taxes, telecommunications fees, and further reductions in energy costs to ease the cost of living and doing business.

**Significant Infrastructure Investment:** Capital spending will increase to \$145 million next year, funding major projects such as replacing Swing Bridge, Agricultural Services Centre, and additional affordable housing developments; and will increase to 2% of GDP in 2027/28.

**Universal Healthcare Funding:** Proceeds from the Corporate Income Tax will allocate \$50 million to launch universal healthcare, improving hospital services and expanding access to preventative and specialist care.

**Significant Debt Reduction:** The Government projects to repay, in full, the \$605 million that comes due in January 2027 resulting in an 18% reduction in the country's annual interest expense.

## Chapter 3 – Government Fiscal Performance

### Fiscal Year 2023/24

In fiscal year 2023/24, the Government demonstrated strong fiscal management, achieving a more favourable financial outcome than originally anticipated. Key elements of the 2023/24 fiscal performance include:

- **Revenue Performance:** Total revenue is projected to reach \$1.19 billion, surpassing the original estimate of \$1.15 billion by \$31.4 million (2.7%). This increase is primarily attributed to higher-than-expected payroll tax receipts, which reflect the positive impact of economic and employment growth in Bermuda.
- **Current Account Expenditures:** Projected to total \$980 million, Current Account Expenditures slightly exceed the original estimate by \$7.3 million (0.8%). This relatively minor increase is in spite of additional costs such as a \$16.3 million grant to support the Bermuda Hospitals Board and funds allocated to pay adjustments for public officers and teachers.
- **Capital Account Expenditures:** Spending on capital projects is expected to reach \$98.2 million, \$2.2 million above the original budgeted amount of \$96 million. Notable allocations include infrastructure and equipment investments: \$2.9 million for two new ferries, \$6.1 million for electric buses, \$8.3 million for critical stabilisation work at the Tynes Bay Waste Facility, and \$4.3 million in grants to the Bermuda Housing Corporation to address affordable housing needs.
- **Interest and Guarantee Management Costs:** The Government's costs related to interest and guarantee management are projected at \$130.6 million, which aligns closely with the budgeted amount of \$130.4 million. Contributing to this stability was a \$50 million debt repayment made in December 2023, which lowered interest expense by \$2.4 million.

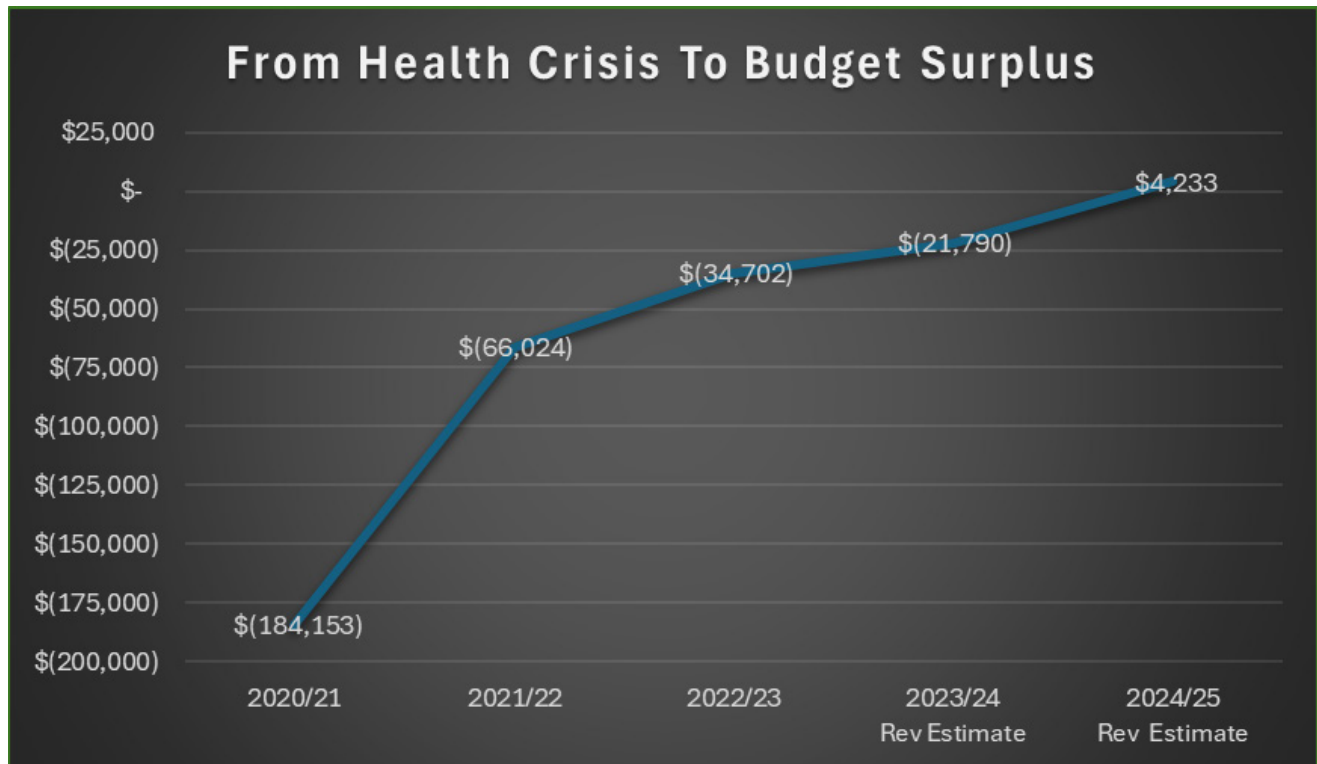
As a result of these efforts, the budget deficit for 2023/24 is now projected at \$21.8 million- the lowest deficit in 20 years. This figure represents a 50% reduction from the original estimate of \$43.5 million. This outcome reflects the Government's successful implementation of the Economic Recovery Plan, which has driven revenue growth and enabled Bermuda's economy to exceed expectations in sectors like international business.

## Fiscal Year 2024/25

The 2024/25 fiscal projections combine robust revenue and targeted social investments, reflecting a balanced approach to sustainable fiscal management and community support. Recent adjustments and updates highlight the following:

- **Revenue Performance:** Total revenue for 2024/25 is now projected to reach \$1.26 billion, an increase of \$30 million (2.3%) from the original estimate of \$1.23 billion. This uptick is driven by continued economic recovery and growth in tourism-related income.
- **Current Account Expenditures:** Current Account Expenditures are expected to total \$1 billion, \$17.6 million (1.8%) above the initial budgeted figure of \$992 million. This increase primarily reflects the Government's recent \$25 million social investment package, which prioritises areas critical to community well-being and safety.
- **Capital Account Expenditures:** Capital expenditures for 2024/25 are projected at \$119.8 million, exceeding the initial estimate of \$112.3 million by \$7.3 million. This includes allocations for essential infrastructure upgrades, public safety improvements, and the development of community spaces to enhance local environments.
- **Interest and Guarantee Management Costs:** Interest and guarantee management costs are projected to remain steady at \$127.8 million, consistent with the original budget.

The 2024/25 Budget aimed to achieve Bermuda's first balanced budget in twenty-one years. Despite implementing a \$10 million reduction in energy taxes to alleviate rising costs for Bermudians, along with a \$25 million social investment package, the Government now anticipates a budget surplus of \$4 million for 2024/25.



2024/25 Budget Performance	2024/25 Original Estimate	2024/25 Revised Estimate	2024/25 FY YTD-Oct (7 months)	2023/24 FY Apr-Oct (7 months)	Difference b/w YTD for FY 23/24 & 24/25
	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>					
Custom Duties	233,864	233,864	132,523	126,929	5,594
Payroll Tax	580,459	609,459	454,276	385,601	68,675
International Companies	71,700	71,700	10,946	4,623	6,323
Foreign Currency Purchase Tax	31,108	31,108	23,219	22,944	275
Land Tax	91,250	91,250	46,453	41,596	4,857
Hotel Occupancy Tax	5,500	5,500	3,671	3,948	(277)
Vehicle Licences & Registration	31,540	31,540	15,455	14,566	889
Passenger Tax	26,400	26,400	22,107	15,874	6,233
Transport Infrastructure Tax	12,000	12,000	10,417	7,407	3,010
Stamp Duty	27,500	27,500	15,242	12,549	2,693
Financial Services Tax	14,611	14,611	11,054	9,963	1,091
Telecommunications Receipts	17,171	17,171	9,959	9,917	42
Immigration Receipts	21,631	21,631	10,719	9,774	945
All Other Receipts	67,610	67,610	39,367	36,804	2,563
<b>Total</b>	<b>1,232,344</b>	<b>1,261,344</b>	<b>805,408</b>	<b>702,495</b>	<b>102,913</b>
<b>Expenditure</b>					
Current Account Expenditure	992,017	1,009,655	588,827	556,345	32,482
Capital Account Expenditure	112,337	119,679	49,525	41,026	8,499
Interest On Debt	127,777	127,777	74,891	77,814	(2,923)
<b>Total</b>	<b>1,232.131</b>	<b>1,257,111</b>	<b>713,243</b>	<b>675,185</b>	<b>38,058</b>
<b>Surplus / -Deficit</b>	<b>213</b>	<b>4,233</b>	<b>92,165</b>	<b>27,310</b>	<b>64,855</b>

The above chart helps to demonstrate that in comparison to the same period last year:

- The Government collected \$103 million more in revenue compared to the same period last year.
- While Current and Capital Expenditures have also increased, all of these items are according to budget with the additional expenditure approved by the Legislature in the Mid-Year Budget Review.
- Prior to receiving any Corporate Income Tax Payments, the government's fiscal position improved by \$65 million year over year.
- Despite the additional spending approved for this fiscal year, the Government is still on track for its first fiscal surplus in over 20 years.

### Chapter 3 Key Takeaways

**2023/24:** The budget deficit was halved to \$21.8 million, driven by higher revenues and prudent expenditure management. This is the smallest deficit in 20 years.

- **Debt Management:** A \$50 million debt repayment reduced annual debt service costs by \$2.5 million

**2024/25 Outlook:** A projected \$4 million surplus which will mark Bermuda's first balanced budget in 21 years.

- **Revenue Growth:** 2024/25 revenues are expected to be \$30 million above original projections, supported by economic recovery and growth in tourism and payroll tax collections.
- **Social Investment:** A \$25 million social investment package addresses public safety, education, and senior care.



# Chapter 4 – Economic Review

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## Global Economy

Global inflation has been steadily declining, projected to reach 3.5% by the end of 2025, down from a peak of 9.4% in 2022. As advanced economies have started shifting toward neutral monetary policy, emerging markets have benefited from strengthened currencies and reduced imported inflation. However, persistent risks remain, including financial market volatility, elevated long-term rates, geopolitical tensions, and sluggish growth in regions like China, Latin America, and the EU.

Monetary policy adjustments are reducing economic pressures, but fiscal stability has become critical. High debt levels and insufficient fiscal plans in major economies necessitate credible, multiyear adjustments to prevent market volatility. Structural reforms to drive productivity, innovation, and investment are equally vital. Global growth, forecasted at 3.1% for 2024 and 2025, remains constrained by weak performances across key regions.

Governments are encouraged to support innovation through targeted incentives while focusing on domestic reforms to enhance competitiveness. Despite progress, proactive measures in fiscal and structural policies remain essential to mitigate risks and foster sustainable growth.

## US Economy

Real GDP growth is expected to reach 2.8% in 2024, easing to 2.2% in 2025, marking a slowdown from the 2.9% growth rate seen in 2023. The IMF (2024) predicts this growth will largely be supported by sustained consumer spending, a resilient labour market, and potential monetary policy easing. According to OECD, private consumption is forecasted to grow from 2.2% in 2023 to 2.5% in 2024, before moderating to 1.8% in 2025. The unemployment rate, which averaged 3.6% in 2023, is projected to increase to 4.1% in 2024 and 4.4% in 2025, though it will remain low by historical levels.

In alignment with the Federal Reserve's 2% inflation target, the Federal Reserve continues to reduce the federal funds rate since September's Federal Open Market Committee Meeting. The federal funds rate was reduced by 25 basis points to a target range of 4.50% to 4.75% in November 2024. This rate is projected to reach its long-term equilibrium of 2.9% by Q3 2026. Headline inflation is projected to fall from 4.1% in 2023 to 3.0% in 2024 and 1.9% in 2025, with core inflation also declining as housing inflation moderates in the latter part of 2024.

The U.S. budget deficit is expected to remain high in 2024, with only limited fiscal tightening following an unexpected rise in 2023. Despite phasing out most extraordinary support measures for households and businesses, the deficit remains elevated due to increased spending on mandatory social programs, primarily driven by an ageing population and a shrinking tax base. These demographic shifts will continue to drive higher future expenditures on pension and healthcare programs.

The U.S. economic performance and monetary policy stance will continue to have spillover effects on the Bermudian economy, primarily through imported inflation and tourism, among other channels.

## Bermuda Economy

Bermuda's economy has demonstrated strong resilience by navigating through global challenges and external shocks in the post-COVID era. Growth across key sectors, such as employment, international business, tourism, construction, and exports, continues to strengthen the recovery trajectory. Inflation has remained on a downward trend since its peak in Q3 2022, while rising employment income has supported consumer confidence. The tourism sector has also regained its momentum since the initial shock of the pandemic.

In 2024, the Government has further advanced its Economic Development Strategy, building on the GDP growth of 2022 and 2023, reinforcing Bermuda's long-term economic stability and enhancing its global competitiveness.

Real GDP is estimated to have grown by 7.1% in the first quarter and 8.7% in the second quarter of 2024. This growth was supported by increases in both the External Balance of Goods and Services and Final Consumption. The External Balance of Goods and Services increased by 16.4% , driven by a 10.8% rise in export receipts, particularly in business services. Final Consumption grew by 2.3%, with household spending making up 79.4% of total consumption. Conversely, Gross Capital Formation decreased by 1.0%.

## Credit Ratings

Credit ratings provide an independent assessment of a country's fiscal health and economic stability, signalling its risk level to investors. For Bermuda, maintaining stable ratings reinforces confidence in the economy and supports fiscal integrity.

In 2024, Bermuda retained strong ratings from Standard & Poor's (S&P), Moody's, and Kroll Bond Rating Agency (KBRA), reflecting the Government's effective fiscal management and economic resilience:

- **S&P** reaffirmed Bermuda's A+ rating with a stable outlook, citing "stable institutions and a wealthy economy" as key strengths, alongside Bermuda's solid position in the insurance sector and fiscal commitment amid high foreign currency debt.
- **Moody's** upheld an A2 rating with a stable outlook, highlighting Bermuda's effective debt strategy, declining debt levels, and strong institutional framework, which buffers against external shocks.
- **KBRA** maintained an A+ rating with a stable outlook, praising Bermuda's fiscal prudence, strategic role in international finance, and sound debt management practices.

## Public Debt

As of October 2024, Bermuda's net public debt stands at \$3.2 billion, positioning it \$275 million below the current statutory debt ceiling of \$3.5 billion.

In December 2023, the Government made a notable repayment of \$50 million toward the national debt, a proactive measure that directly contributed to reducing annual debt service costs by \$2.5 million. As a result, the Government's debt service costs now stand at \$127.5 million per year, which translates to 10.1% of projected annual revenue compared to 11.2% last year. This achievement underscores the Government's commitment to prudent fiscal management and responsible borrowing practices.

With the next debt maturity scheduled for January 2027, the Government recognises the path to reducing the debt burden begins with ending deficits. This focus on fiscal balance is evident in the Government's projected fiscal surplus for 2024/25—the first in over two decades. Achieving a surplus marks a turning point, as it demonstrates Bermuda's commitment to sustainable budgeting practices and gradual debt reduction. With each surplus, the Government strengthens its capacity to lower debt levels further, thereby reducing future interest obligations and creating more opportunities to invest in the country's needs.

## Fairmont Southampton

The Fairmont Southampton redevelopment has reached a pivotal milestone, with financial close achieved as of September 2024. This \$560 million project, supported by a \$75 million sovereign guarantee from the Government, represents the largest single investment in Bermuda's tourism industry to date. The redevelopment is not only a testament to investor confidence in Bermuda, but also a vital step in revitalising the island's tourism sector.

## Chapter 4 Key Takeaways

**Resilient Economic Recovery:** Bermuda's economy continues to demonstrate strong resilience, with key sectors like international business, tourism, and construction driving growth post-COVID-19.

**Tourism Momentum:** The tourism sector has regained significant strength, supported by increased air arrivals and spending, contributing to broader economic recovery.

**GDP Growth:** Real GDP grew by an estimated 7.1% and 8.7% in Q1 and Q2 of 2024, driven by increases in exports and household consumption, underscoring continued solid economic growth.

**Inflation and Income:** Since its peak in 2022, inflation has been on a downward trend, which is being met by rising employment income.

**Credit Ratings Stability:** Bermuda maintained strong ratings from S&P, Moody's, and KBRA, reflecting continued fiscal responsibility and investor confidence in the economy.

**Fairmont Southampton Redevelopment:** The \$560 million redevelopment project has reached financial close, marking a transformative step for Bermuda's tourism industry and economic growth.

## Chapter 5 – A Fairer Tax Structure

In its 2024 report, the Fiscal Responsibility Panel reaffirmed its recommendation for the Government to aim for an annual budget surplus of at least \$50 million by the fiscal year 2026/27. The Panel emphasised that achieving this goal would require comprehensive tax reform, including broadening the tax base, increasing the progressivity of the tax system, and generating additional revenue. The Government is awaiting the report of the Tax Reform Commission which is examining the recommendations of the Fiscal Responsibility Panel to advance further substantive changes to Bermuda’s tax system, making it more fair.

### Payroll Tax Reduction

Since 2017, the Government has implemented several measures to reform Bermuda’s tax system, with a particular focus on reducing the tax burden on workers. These reductions were designed to boost the take-home pay of hardworking Bermudians and help address Bermuda’s high cost of living.

For example, before the PLP took office, a worker earning \$48,000 annually would pay \$2,280 in payroll taxes and now that same worker pays only \$240 per year—a significant decrease of \$2,040. Over the past six years, this amounts to a cumulative tax saving of nearly \$9,000 for that worker.

<b>PLP Has Reduced The Tax Burden On Workers In Bermuda</b>						
	<b>Reduction in Taxes in 2018</b>	<b>Reduction in Taxes in 2020</b>	<b>Reduction in Taxes in 2022</b>	<b>Reduction in Taxes in 2023</b>	<b>Total Annual Reduction From 2017-2024</b>	<b>Cumulative Tax Savings from 2017 - 2024</b>
\$36,000	-\$270	-\$720	-\$180	-\$360	<b>-\$1,530</b>	<b>-\$6,750</b>
\$48,000	-\$360	-\$960	-\$240	-\$480	<b>-\$2,040</b>	<b>-\$9,000</b>
\$60,000	-\$270	-\$720	-\$180	-\$450	<b>-\$1,620</b>	<b>-\$6,930</b>
\$72,000	-\$180	-\$480	-\$120	-\$420	<b>-\$1,200</b>	<b>-\$4,860</b>
\$84,000	-\$90	-\$240	-\$60	-\$390	<b>-\$780</b>	<b>-\$2,790</b>
\$96,000	\$0	\$0	\$0	-\$360	<b>-\$360</b>	<b>-\$720</b>
	First PLP Payroll Tax reduction	Further Payroll Tax reduction	Further Payroll Tax reduction	Last Payroll Tax reduction	The difference in annual Payroll Tax b/w the OBA (2017) & PLP (2024)	The total amount of tax savings for a worker over the last 7 years

## Corporate Income Tax

On 27th December 2023, the Government of Bermuda enacted a Corporate Income Tax (“CIT”) that would be applicable to Bermuda businesses that fall within the scope of the Organization for Economic Cooperation and Development’s (“OECD”) global minimum tax rules (“GloBE Rules”).

The scope includes Bermuda Tax Resident Entities and Bermuda Permanent Establishments that are part of a Multinational Enterprise (“MNE”) with consolidated revenue of \$750 million or more in at least two of the previous four fiscal years to maintain consistency with GloBE Rules.

Bermuda intends for its CIT to be recognised as a Covered Tax under GloBE rules. These rules require companies in scope to pay a minimum tax of 15 % in every jurisdiction in which they operate, to ensure that multinationals globally are paying their fair share of taxes.

The Bermuda Government introduced a CIT statutory tax rate of 15%.

In February 2024 during the annual Budget Statement for 2024/25, the Minister of Finance provided an estimate of approximately \$750 million in CIT revenues that are expected. Full year tax filings for the 2025 tax year are not anticipated until 2026.

The CIT legislation will come into force in its entirety on 1st January 2025, which provides MNEs sufficient time to make transition adjustments. Elements of the legislation came into force upon assent to allow various accounting elections to take place. After coming into force in 2025, provisional income tax payments may begin August 2025, with full filings for the upcoming tax year anticipated by the end of 2026.

The CIT legislation contains technical tax terminology mostly taken directly from the OECD's GloBE (Pillar II) rules, which describe the process for calculating the tax and other administrative matters.

The CIT regime reinforces Bermuda's continuing commitment to global compliance and transparency and maintains Bermuda's international competitive positioning.

In July 2024, the Corporate Income Tax Agency Act 2024 was enacted representing the development and implementation of an appropriate and effective corporate income tax regime to meet the changing global tax environment.

The Corporate Income Tax Agency is established as a corporate body that administers the Bermuda Corporate Income Tax regime. Jurisdictions around the globe have developed many different models to collect their taxes, as there are no global requirements dictating their specific structure.

This Agency was developed on the basis of incorporating, as appropriate, key structural elements of our well-respected financial services regulator with modified characteristics to take into account the difference in responsibilities between the regulator and a tax authority.

In formulating its position and moving forward with legislation, Bermuda held a consultation period from August 8, 2024, to September 5, 2024. This consultation had the intention to provide Bermuda stakeholders with a preliminary, high-level summary of the proposed taxpayer compliance framework and to obtain public feedback on the proposals.

The guiding principle behind the structure of the Administrative Provisions is to seek to achieve an appropriate balance between the need to ensure that the mechanisms for the collection and determination of tax liabilities are effective on the one hand, and to minimise administration and taxpayer compliance costs on the other.

The Government of Bermuda remains committed to working with all stakeholders to ensure that Bermuda remains an effective and cooperative partner while appropriately addressing global tax matters.

## Tax Collection and Accounts Receivable

Within this current fiscal year the Government targeted to recover \$10 million of past due taxes and, as of November 2024, has collected approximately \$19 million in past due taxes. This is as a result of the Office of the Tax Commissioner (OTC) making a concerted effort on debt collection and making progress with their new debt management system.

### **Chapter 5 Key Takeaways**

**Tax Reform Focus:** The Government aims to broaden the tax base and improve fairness while reducing the burden on workers.

**Corporate Income Tax (CIT):** Beginning January 1, 2025, Bermuda's Corporate Income Tax Regime will come into effect and is aligned with global tax standards.

**Payroll Tax Reductions:** Since 2017, workers earning \$48,000 annually have saved nearly \$9,000 in cumulative payroll taxes.

**Improved Tax Collection:** Enhanced efforts by the Tax Commissioner's Office recovered over \$19 million in overdue taxes thus far in this current fiscal year.

**Consultative Approach:** The Government continues to seek feedback on proposals to ensure effective and equitable tax reform.



## Chapter 6 – Conclusion

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The Pre-Budget Report plays a key role in shaping Bermuda’s annual budget by allowing the public to provide input before decisions are finalised. The proposals in the previous chapter are open for discussion, and no final decisions have been made. Public feedback has influenced past budgets, so we encourage everyone to participate in this important part of the budget process.

### Commitment to Budget Transparency

The International Budget Partnership suggests governments release eight key reports throughout the budget cycle to ensure transparency. Bermuda is committed to this standard by publishing the following:

- **Pre-Budget Report:** Released at least a month before the Budget Statement, giving the public time to review and provide input.
- **Budget Statement:** The Government presents the Budget Statement each year, a tradition we will continue.
- **Enacted Budget:** This is the final budget passed by the legislature, fulfilling the requirements of the Bermuda Constitution.
- **Citizens’ Budget:** This is a simplified version of the budget to help residents understand the main points. To increase awareness of budget changes, a Citizens' Budget will be mailed to all households in Bermuda.
- **In-Year Reports:** Regular fiscal reports are provided to keep the public informed on financial performance.
- **Mid-Year Review:** Issued halfway through the fiscal year to show progress and any budget adjustments.
- **Year-End Report:** The Government publishes audited financial statements, with highlights shared in the House of Assembly.
- **Audit Report:** The Auditor General publishes an independent audit report each year.

In line with international standards, the Government is committed to providing these reports throughout the next budget cycle and the 2025/26 fiscal year, reaffirming our commitment to transparency and good governance.

### We Want Your Feedback

The Government values your feedback on this report. In addition to accepting comments online, we will host public sessions in January 2025 to discuss the ideas in this document and gather input from residents and stakeholders.

To submit your comments, visit [forum.gov.bm](https://forum.gov.bm) or email [openbudget@gov.bm](mailto:openbudget@gov.bm) by January 17, 2025.