



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER I/2021

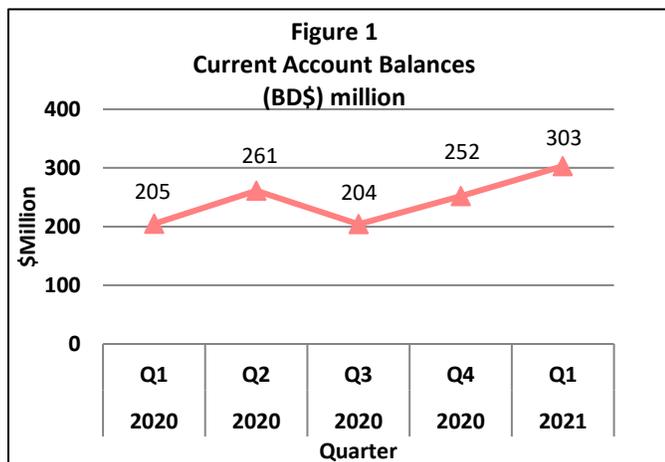
BALANCE OF PAYMENTS

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$303 million in the first quarter of 2021 (Figure 1 and Table 1). This represented a \$98 million increase year-over-year.

- The deficit on the goods account contracted by \$19 million to \$244 million.
- Services transactions realised a surplus of \$63 million, down \$9 million year-over-year.
- The surplus on Bermuda's primary income account increased by \$82 million to \$537 million in the first quarter of 2021.



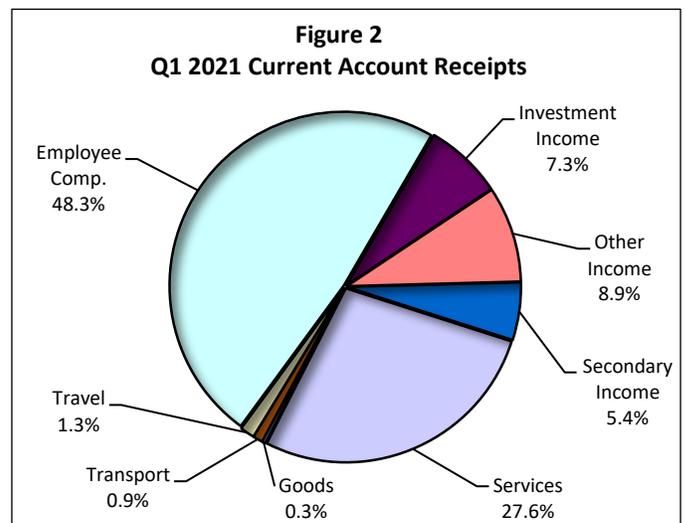
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's assets accounts resulted in a net lending position of \$286 million (Table 1). Factors influencing this year-over-year performance include:

- Bermuda's net acquisition of financial assets resulted in an increase of \$14 million compared to a much larger increase of \$910 million in 2020.
- Bermuda decreased its net incurrence of financial liabilities by \$272 million this quarter compared to an increase of \$718 million in 2020.

Current Account Surplus = \$303 million

The current account surplus stood at \$303 million for the first quarter of 2021 (Table 1). This represented a \$98 million increase from the \$205 million surplus in the first quarter of 2020. The growth in the surplus was due mostly to a decrease in payments to non-residents which was larger than the fall in receipts from non-residents. With the exception of the services account, all major sub-accounts recorded improvements in their net balance led by a \$82 million increase in the surplus on the primary income account.



Goods Account Deficit = \$244 million

Year-over-year, the goods account deficit narrowed by \$19 million during the first quarter of 2021. The value of imported goods decreased to \$246 million (Table 1). This decline was reflected mostly in a \$24 million decline in imported goods from Canada. Goods imported from the Caribbean also decreased by \$7 million. The decline was offset by a rise in imports from the United Kingdom and All Other Countries of \$6 million and \$5 million, respectively. The value of goods imported from the United States remained unchanged. Among the commodity groups, the contraction in imports was reflected primarily in the imports of Fuels which fell by \$13 million. Imports of Finished Equipment also dropped \$9 million. In contrast, imports of Machinery and Chemicals increased by \$5 million and \$4 million, respectively.

Revenue earned from the exports of goods decreased by \$1 million to \$3 million in 2021 as less fuel was re-exported to foreign airlines visiting Bermuda.

Services Account Surplus = \$63 million

The surplus on the services account decreased \$9 million during the first quarter of 2021. The lower surplus balance reflected mostly a \$14 million fall in net receipts from travel services due to decreased expenditure in Bermuda by fewer visitors. The balance on ICT services recorded a deficit of \$11 million, mostly due to lower receipts during the first quarter 2021. The balance on financial services decreased by \$5 million year-over-year.

In contrast, the net surplus on transactions in business services grew by \$3 million to \$87 million. This improvement was due to an increase in other business services of \$12 million from higher receipts for accounting services and lower payments for construction/engineering services. The net deficit balance on transportation transactions decreased by \$9 million to \$31 million as residents paid less for air passenger transport services.

Primary Income Account Surplus = \$537 million

The primary income account reflects balances on compensation earned/paid to non-residents, and income from investments and payroll tax paid by non-resident companies to the government. Year-over-year, the surplus on the primary income account increased by \$82 million during the first quarter of 2021 (Figure 3 and Table 1). This rise reflected primarily an increase in net investment income by \$40 million due to reinvested earnings. Net employee compensation grew by \$32 million while the net surplus balance on other income increased by \$8 million.

Secondary Income Account Deficit = \$53 million

The secondary income account reflects the balances on donations, insurance claims and other transfers between residents and non-residents. The deficit balance on the secondary income account narrowed by \$6 million from a year ago due mostly to an increase in nonlife insurance premiums received from non-residents and a decrease in net nonlife insurance claims paid to non-residents.

INTERNATIONAL INVESTMENT POSITION (Tables 2 & 3)

Bermuda’s Net IIP Decreased to \$4.0 billion

At the end of the first quarter 2021, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4.0 billion (Table 2). The net IIP decreased by \$30 million over the fourth quarter of 2020.

Foreign Assets Fall to \$16.5 billion

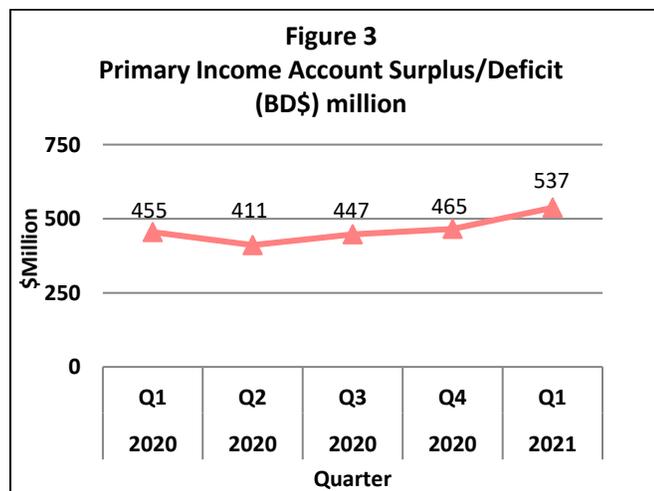
Between the fourth quarter 2020 and first quarter 2021, Bermuda residents’ stock of foreign financial assets shrank by \$359 million due mostly to decreased holdings of currency and deposits.

Bermuda’s Net Liability Position Decreased to \$12.5 billion

Bermuda residents’ stock of foreign liabilities decreased by \$329 million from the fourth quarter of 2020. The reduction in the liability position reflected mostly a fall in currency and deposit liabilities along with equity and investment funds held by resident institutions and owed to non-residents.

IIP by Resident Institutional Sector

The non-financial corporations held a net liability position of \$2.2 billion with the rest of the world at the end of the first quarter 2021. The general government sector’s external liabilities exceeded its external assets by \$176 million, representing a smaller negative net investment position due to a rise in portfolio investment assets. Financial corporations held a net asset position of \$6.3 billion due mostly to holdings of portfolio investments in the form of debt securities and other investments in the form of currency and deposits. Non-profit institutions serving households also recorded a net asset position of \$43 million at the end of the first quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS¹

Components	2020 YTD Q1	2021 YTD Q1	2020 Q1	2020 Q2	2020 Q3	2020R Q4	2021 Q1
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS (1)	267	246	267	181	226	253	246
SERVICES (2)	233	205	233	169	189	205	205
Transportation	52	38	52	28	38	39	38
Travel	61	45	61	38	46	46	45
Business Services:	120	121	120	103	105	120	121
Insurance Services	19	17	19	18	16	22	17
Financial Services	16	22	16	24	19	21	22
ICT Services	24	24	24	21	23	26	24
Other Business Services	61	58	61	40	48	50	58
Government Services	0	0	0	0	0	0	0
PRIMARY INCOME (3)	89	41	89	73	61	47	41
Employee Compensation	14	13	14	12	12	11	13
Investment Income	75	28	75	61	49	36	28
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME (4)	105	101	105	77	123	79	101
TOTAL PAYMENTS (5)=SUM(1:4)	695	593	695	499	600	584	593
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS (6)	4	3	4	2	2	3	3
SERVICES (7)	305	267	305	229	244	276	267
Transportation	12	8	12	6	8	16	8
Travel	43	12	43	12	24	27	12
Business Services:	204	208	204	209	211	227	208
Insurance Services	19	20	19	16	19	18	20
Financial Services	35	36	35	44	56	65	36
ICT Services	20	13	20	18	13	13	13
Other Business Services	130	138	130	130	123	131	138
Government Services	47	39	47	2	1	7	39
PRIMARY INCOME (8)	545	578	545	483	508	512	578
Employee Compensation	402	433	402	373	404	404	433
Investment Income	71	65	71	64	61	64	65
Other Income	72	80	72	46	43	43	80
SECONDARY INCOME (9)	46	48	46	46	49	45	48
TOTAL RECEIPTS (10)=SUM(6:9)	900	896	900	760	803	836	896
CURRENT ACCOUNT BALANCES							
GOODS	-263	-244	-263	-178	-224	-250	-244
SERVICES	72	63	72	60	55	72	63
Transportation	-40	-31	-40	-22	-30	-23	-31
Travel	-19	-33	-19	-26	-22	-19	-33
Business Services:	84	87	84	106	106	107	87
Insurance Services	0	3	0	-1	4	-4	3
Financial Services	19	14	19	20	37	43	14
ICT Services	-3	-11	-3	-3	-10	-13	-11
Other Business Services	68	80	68	90	76	81	80
Government Services	47	39	47	2	1	7	39
PRIMARY INCOME	455	537	455	411	447	465	537
Employee Compensation	388	420	388	361	392	393	420
Investment Income	-4	36	-4	4	12	29	36
Other Income	72	80	72	46	43	43	80
SECONDARY INCOME	-59	-53	-59	-31	-74	-34	-53
CURRENT ACCOUNT BALANCE (11)=(10)-(5)	205	303	205	261	204	252	303
FINANCIAL ACCOUNT							
Direct Investment	-10	-17	-10	-25	41	-18	-17
Portfolio Investment	456	-558	456	-246	454	382	-558
Financial Derivatives	31	40	31	26	23	23	40
Other Investment	419	524	419	96	157	401	524
Reserve Assets	14	28	14	20	-15	-1	28
NET ACQUISITION OF FIN. ASSETS (12)	910	17	910	-130	660	788	17
Direct Investment	31	-6	31	39	25	384	-6
Portfolio Investment	-93	-51	-93	95	248	-57	-51
Financial Derivatives	47	-40	47	-11	-6	16	-40
Other Investment	734	-172	734	-413	120	226	-172
NET INCURRENCE OF FIN. LIABILITIES (13)	718	-268	718	-289	387	569	-268
TOTAL NET CAPITAL ACCOUNT (14)	0	0	0	0	0	0	0
NET LENDING(+)/NET BORROWING(-) (15)=(12)+(14)-(13)	192	285	192	159	274	219	285
BALANCING ITEM (15)-(11)	-13	-18	-13	-102	70	-34	-18

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

TABLE 2 - INTERNATIONAL INVESTMENT POSITION^{1,2}

(BD\$) MILLIONS

Components	2020 Q1	2020 Q2	2020R Q3	2020R Q4	2021 Q1
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	149	123	160	141	123
Portfolio investment	12,402	12,161	12,788	13,268	12,828
Financial Derivatives (other than reserves) and ESOs	42	45	40	36	46
Other investment	2,550	2,400	2,806	3,230	3,290
Reserve Assets	177	196	181	181	208
BY INSTRUMENT					
Equity and investment fund share/units	2,744	2,860	2,970	3,091	3,197
Debt instruments:	12,533	12,021	12,964	13,728	13,252
Special drawing rights	-	-	-	-	-
Currency and deposits	1,059	684	1,049	1,493	1,174
Debt securities	9,983	9,621	10,158	10,498	9,962
Loans	1,414	1,657	1,679	1,646	2,038
Insurance, pension, standardized guarantee schemes	1	1	1	1	1
Other accounts receivable/payable	77	58	77	91	78
Other financial assets and liabilities	42	45	40	36	46
TOTAL ASSETS	15,320	14,927	15,975	16,855	16,496
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,474	2,503	2,820	3,086	3,017
Portfolio investment	3,774	3,874	4,388	4,334	4,334
Financial Derivatives (other than reserves) and ESOs	80	85	79	92	53
Other investment	5,769	5,398	5,512	5,331	5,110
BY INSTRUMENT					
Equity and investment fund share/units	3,055	3,087	3,110	3,343	3,268
Debt instruments:	8,961	8,689	9,611	9,408	9,194
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	5,127	4,585	4,654	4,376	4,112
Debt securities	3,193	3,291	4,099	4,077	4,084
Loans	540	716	738	840	883
Insurance, pension, standardized guarantee schemes	22	22	23	26	27
Other accounts receivable/payable	80	75	97	89	88
Other financial assets and liabilities	80	85	79	92	53
TOTAL LIABILITIES	12,096	11,861	12,799	12,843	12,514
NET IIP	3,224	3,066	3,176	4,012	3,982

TABLE 3 - IIP BY RESIDENT INSTITUTIONAL SECTOR — (BD\$) MILLIONS¹

2021 Q1	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	43	3,124	13,171	157	16,496
Direct investment	10	-	70	43	123
Portfolio investment	32	2,818	9,967	11	12,828
Financial Derivatives (other than reserves) and ESOs	-	-	46	-	46
Other investment	1	306	2,879	103	3,290
Reserve Assets	-	-	208	-	208
LIABILITIES	-	3,300	6,866	2,349	12,514
Direct investment	-	-	1,110	1,907	3,017
Portfolio investment	-	3,300	1,026	8	4,334
Financial Derivatives (other than reserves) and ESOs	-	-	44	9	53
Other investment	-	-	4,685	425	5,110
NET IIP	43	(176)	6,306	(2,192)	3,982

1 Data are estimates only and subject to revision; numbers may not add due to rounding

2. Series does not include stock of household foreign assets and liabilities

3. NPISH: Non-profit institutions serving households.

WHAT IS THE BALANCE OF PAYMENTS?

The balance of payments (BOP) is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy (resident) with the rest of the world (non-resident). Quite simply, the balance of payments covers all economic transactions between Bermuda and the rest of the world. It includes the **current account** and the **capital and financial account**.

In principle, the current account and capital and financial account should balance each other out. If Bermuda sells more goods and services than it buys (i.e., if it has a current account surplus), it has to lend money abroad to finance its exports (i.e., run a capital and financial account deficit). In theory, therefore, the balance of payments is always zero.

Example: Every dollar spent by a tourist in Bermuda earns the economy \$1 in foreign currency which can be used to purchase goods and services from overseas.

DEFINITIONS AND NOTES

Balancing Item (Net Errors & Omissions)

A current account surplus or deficit should correspond to an equivalent outflow or inflow in the capital and financial account. In other words, the two accounts should add to zero. In fact, as data are compiled from multiple sources, the two balance of payments accounts rarely equate. As a result, the balancing item is the net unobserved inflow or outflow needed to balance the accounts.

Capital Account

The capital account details transactions that involve the receipt or payment of capital transfers and acquisitions and disposal of non-produced, non-financial assets.

Current Account

Transactions on goods, services, income, and current transfers are allocated to the current account. Transactions in exports and interest income are examples of receipts, while imports and interest expenses are payments. The difference between payments and receipts determines if Bermuda's current account is in surplus or deficit.

Financial Account

All transactions associated with changes of ownership in foreign financial assets and liabilities of the economy are included in the financial account. Such changes include the creation and liquidation of claims on, or by, the rest of the world.

Payments

All monies that are paid by residents to non-residents are considered payments.

Receipts

All monies that are received by residents from non-residents are considered receipts.

Reserve Assets

Reserve Assets are those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing).

Resident

The concept of residency is very important in the BOP because the BOP is in fact a statement of transactions between residents and non-residents. A unit must have a centre of predominant economic interest within an economic territory for at least one year or more to be considered resident of that territory.

Seasonal Workers

Workers from overseas who come to Bermuda to work for a few months in the year or every year are considered seasonal workers. Their expenditure on living expenses in Bermuda is included as travel receipts. Similarly, their income received from employers in Bermuda is a BOP outflow under compensation of employees.

WHAT IS THE INTERNATIONAL INVESTMENT POSITION?*

The international investment position (IIP) is a record of Bermuda residents' investment abroad and non-residents' investment in Bermuda. The IIP shows the balance sheet position of financial claims on non-residents as assets and non-residents' claims on Bermuda as liabilities. The balance between these two positions represents the IIP; that is, an excess of assets over liabilities indicates a positive contribution to the nation's net wealth and the reverse signifies a negative contribution.

WHY IS THE IIP IMPORTANT TO MEASURE?*

The composition of the IIP allows financial analysts to assess the vulnerability of the economy to changes in external market conditions. Details from the IIP can highlight mismatches in maturity of instruments and currency that can affect an economy's ability to service debt in the face of shock; financial structure problems; solvency problems and dependency problems where overreliance on another economy can present contagion concerns. Therefore, the IIP allows for a more in depth analysis behind balance sheet weaknesses that can lead to a modern-day financial crisis.

DEFINITIONS AND NOTES

Currency and Deposits

Currency consists of notes and coins that are of fixed nominal values and are issued or authorized by central banks, monetary authorities such as the Bermuda Monetary Authority or governments.

Deposits include all claims that are (a) on the central bank and other deposit-taking corporations; and (b) represented by evidence of deposit.

Debt Securities

Debt securities are negotiable instruments serving as evidence of a debt.

Direct Investment

Direct investment represents the value of long-term capital owned in subsidiaries, affiliates and branches by investors in a position to exercise control or a significant degree of influence on the management of the enterprise. A measure of total investment controlled in Bermuda by foreign direct investors, or abroad by Bermudian direct investors, indicates the leverage type impact of ownership.

Financial Derivatives

A financial derivative contract is a financial instrument whose value is based on the value of an underlying security such as a stock or bond, commodity or other financial instrument.

Insurance, Pension, Standardized Guarantee Schemes

Insurance, pension, and standardized guarantee schemes all function as a form of redistribution of income and wealth mediated by financial institutions.

Loans

Loans represent the extension of money from Bermuda residents to non-residents and vice versa, with an agreement that the money will be repaid.

Other Accounts Receivable/Payable

Other accounts receivable/payable consists of trade credit and advances between Bermuda and non-residents and, other miscellaneous receivables/payables.

Other Investment

Other investment is a residual category that includes positions and transactions other than those included in direct investment, portfolio investment, financial derivatives and employee stock options (ESO), and reserve assets.

Portfolio Investment

Portfolio investment abroad by Bermuda residents and in Bermuda by non-residents is defined as the holding of debt or equity securities other than those included in direct investment or reserve assets.

* Source: IMF Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6)

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