



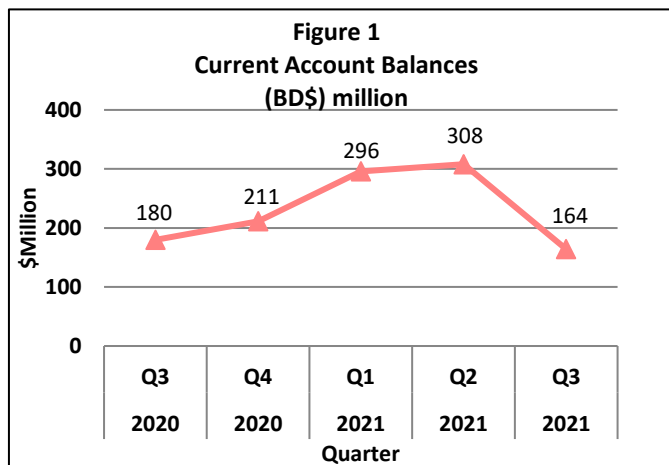
### BALANCE OF PAYMENTS

#### FAST FACTS

##### Current Account

The Bermuda current account recorded a surplus of \$164 million in the third quarter of 2021 (Figure 1 and Table 1). This represented a \$16 million decrease year-over-year.

- The deficit on the goods account widened by \$70 million to \$294 million.
- Services transactions realised a surplus of \$51 million, up \$4 million year-over-year.
- The surplus on Bermuda's primary income account increased by \$44 million to \$480 million in the third quarter of 2021.



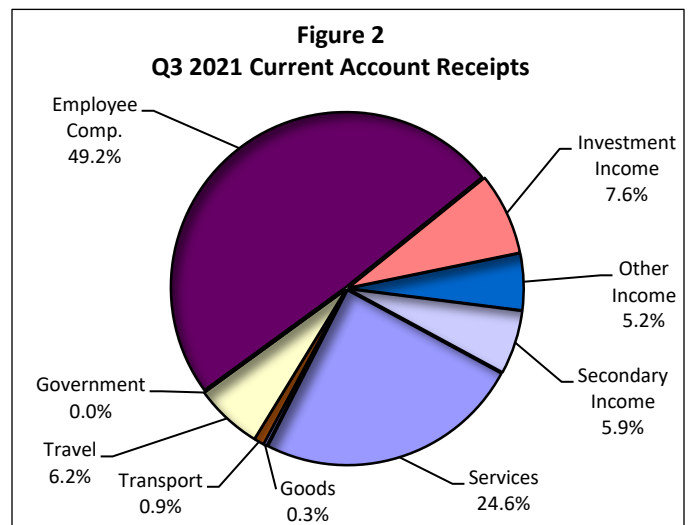
#### Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's assets accounts resulted in a net lending position of \$87 million (Table 1). Factors influencing this year-over-year performance include:

- Bermuda's net acquisition of financial assets grew by \$314 million compared to an increase of \$658 million in 2020.
- Bermuda increased its net incurrence of financial liabilities by \$227 million this quarter compared to a rise of \$380 million in 2020.

#### Current Account Surplus = \$164 million

The current account surplus stood at \$164 million for the third quarter of 2021 (Table 1). This represented a \$16 million decrease from the \$180 million surplus in the third quarter of 2020. The decline in the surplus reflected an increase in payments to non-residents which was larger than the rise in receipts. With the exception of the goods account, all major sub-accounts recorded improvements in their net balance led by a \$44 million increase in the surplus on the primary income account.



#### Goods Account Deficit = \$294 million

Year-over-year, the goods account deficit widened by \$70 million during the third quarter of 2021. The value of imported goods increased to \$297 million (Table 1). This growth was reflected mostly in a \$70 million rise in imported goods from the United States. Goods imported from Canada, the Caribbean and the United Kingdom also increased by \$3 million, \$3 million and \$2 million, respectively. The value of goods imported from All Other Countries declined by \$9 million. Among the commodity groups, growth was reflected primarily in the imports of Finished Equipment and Fuels which rose by \$32 million and \$23 million, respectively. In contrast, imports of transport equipment decreased by \$5 million.

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

**Services Account Surplus = \$51 million**

The surplus on the services account increased \$4 million during the third quarter of 2021. The higher surplus balance reflected mostly improvements in the travel account balance. The deficit on the travel account narrowed by \$22 million due to increased expenditure in Bermuda by visitors.

In contrast, the net deficit balance on transportation transactions increased by \$15 million to \$45 million as residents paid more for freight transport services and air passenger transport services. The surplus balance on businesses services fell by \$2 million due to a decrease in the surplus balance on insurance services transactions and a widening of the deficit balance on ICT services.

**Primary Income Account Surplus = \$480 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 \$44 million during the third quarter of 2021 (Figure 3 and Table 1). This rise reflected primarily an increase in net employee compensation by \$41 million. Net investment income decreased by \$1 million while the net surplus balance on other income increased by \$3 million.

**Secondary Income Account Deficit = \$72 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 contracted by \$8 million from a year ago due mostly to an increase in nonlife insurance premiums received from non-residents.

**INTERNATIONAL INVESTMENT POSITION (Tables 2 & 3)**

**Bermuda’s Net IIP Decreased to \$4.6 billion**

At the end of the third quarter 2021, the stock of foreign assets held by Bermuda resident entities registered above its stock of foreign liabilities by an estimated \$4.6 billion (Table 2). The net IIP decreased by \$329 million below the second quarter of 2021.

**Foreign Assets Fell to \$18.0 billion**

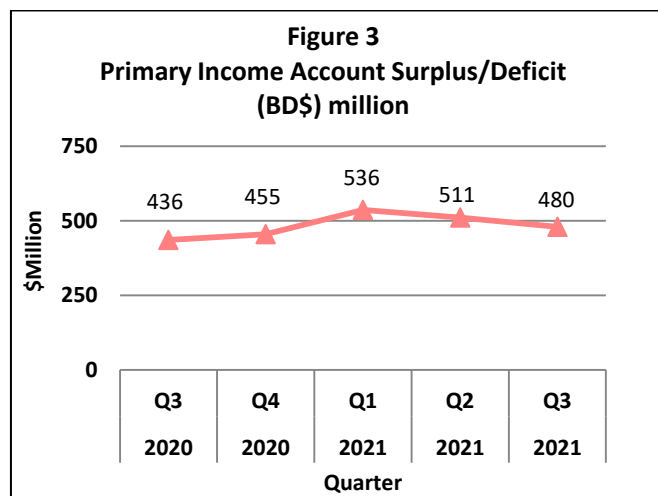
Between the second and third quarters of 2021, Bermuda resident entities’ stock of foreign financial assets shrank by \$279 million due mostly to a decrease holdings of debt securities.

**Bermuda’s Liability Position Held at \$13.4 billion**

Bermuda resident entities’ stock of foreign liabilities increased marginally by \$51 million from the second quarter of 2021. The increase in the liability position reflected mostly a rise in currency and deposit liabilities.

**IIP by Resident Institutional Sector**

Non-financial corporations held a net liability position of \$1.9 billion with the rest of the world at the end of the third quarter 2021. The general government sector’s external liabilities exceeded its external assets by \$116 million, representing a larger negative net investment position due to a fall in other investment assets. Financial corporations held a net asset position of \$6.6 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 \$40 million at the end of the third quarter.



**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**

**TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS<sup>1</sup>**

Components	2020 YTD Q3	2021 YTD Q3	2020R Q3	2020R Q4	2021R Q1	2021R Q2	2021 Q3
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS (1)</b>	<b>674</b>	<b>784</b>	<b>226</b>	<b>253</b>	<b>246</b>	<b>241</b>	<b>297</b>
<b>SERVICES (2)</b>	<b>592</b>	<b>619</b>	<b>189</b>	<b>206</b>	<b>201</b>	<b>188</b>	<b>229</b>
Transportation	118	134	38	39	38	42	53
Travel	146	151	46	46	45	47	58
Business Services:	328	334	105	121	117	98	119
Insurance Services	52	55	16	22	17	17	21
Financial Services	59	64	19	21	22	23	20
ICT Services	68	71	23	28	24	22	26
Other Business Services	149	143	48	50	54	37	52
Government Services	0	0	0	0	0	0	0
<b>PRIMARY INCOME (3)</b>	<b>224</b>	<b>159</b>	<b>61</b>	<b>46</b>	<b>33</b>	<b>59</b>	<b>67</b>
Employee Compensation	38	35	12	11	13	12	11
Investment Income	185	124	49	35	20	47	56
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME (4)</b>	<b>308</b>	<b>328</b>	<b>126</b>	<b>97</b>	<b>103</b>	<b>101</b>	<b>125</b>
<b>TOTAL PAYMENTS (5)=SUM(1:4)</b>	<b>1,797</b>	<b>1,890</b>	<b>603</b>	<b>603</b>	<b>583</b>	<b>589</b>	<b>718</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS (6)</b>	<b>8</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>3</b>
<b>SERVICES (7)</b>	<b>750</b>	<b>794</b>	<b>236</b>	<b>266</b>	<b>258</b>	<b>256</b>	<b>280</b>
Transportation	24	20	7	15	7	5	8
Travel	69	101	22	24	11	35	55
Business Services:	607	632	206	220	200	215	217
Insurance Services	53	65	19	18	20	24	21
Financial Services	135	142	56	65	36	46	60
ICT Services	52	37	13	13	13	12	12
Other Business Services	366	388	118	125	131	133	124
Government Services	50	41	1	7	39	1	0
<b>PRIMARY INCOME (8)</b>	<b>1,539</b>	<b>1,687</b>	<b>498</b>	<b>501</b>	<b>569</b>	<b>570</b>	<b>548</b>
Employee Compensation	1,181	1,311	393	394	425	452	434
Investment Income	197	197	61	64	64	65	67
Other Income	161	178	43	43	80	52	46
<b>SECONDARY INCOME (9)</b>	<b>141</b>	<b>169</b>	<b>47</b>	<b>44</b>	<b>50</b>	<b>67</b>	<b>52</b>
<b>TOTAL RECEIPTS (10)=SUM(6:9)</b>	<b>2,438</b>	<b>2,659</b>	<b>783</b>	<b>814</b>	<b>879</b>	<b>897</b>	<b>883</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-666</b>	<b>-775</b>	<b>-224</b>	<b>-251</b>	<b>-244</b>	<b>-237</b>	<b>-294</b>
<b>SERVICES</b>	<b>159</b>	<b>175</b>	<b>47</b>	<b>60</b>	<b>57</b>	<b>68</b>	<b>51</b>
Transportation	-94	-114	-30	-24	-31	-37	-45
Travel	-76	-49	-25	-22	-35	-12	-3
Business Services:	279	298	101	99	83	116	99
Insurance Services	1	9	3	-4	3	7	0
Financial Services	76	78	37	43	14	23	40
ICT Services	-16	-34	-10	-14	-11	-10	-13
Other Business Services	218	245	71	74	77	96	72
Government Services	50	41	1	7	39	1	0
<b>PRIMARY INCOME</b>	<b>1,315</b>	<b>1,527</b>	<b>436</b>	<b>455</b>	<b>536</b>	<b>511</b>	<b>480</b>
Employee Compensation	1,142	1,276	382	382	412	441	423
Investment Income	11	73	12	30	44	18	11
Other Income	161	178	43	43	80	52	46
<b>SECONDARY INCOME</b>	<b>-167</b>	<b>-159</b>	<b>-80</b>	<b>-54</b>	<b>-53</b>	<b>-33</b>	<b>-72</b>
<b>CURRENT ACCOUNT BALANCE (11)=(10)-(5)</b>	<b>641</b>	<b>768</b>	<b>180</b>	<b>211</b>	<b>296</b>	<b>308</b>	<b>164</b>
<b>FINANCIAL ACCOUNT</b>							
Direct Investment	6	-24	41	-18	-18	1	-6
Portfolio Investment	664	-503	454	382	-558	755	-700
Financial Derivatives	75	74	21	20	37	16	20
Other Investment	672	1,905	157	401	507	405	993
Reserve Assets	18	47	-15	-1	28	12	7
<b>NET ACQUISITION OF FIN. ASSETS (12)</b>	<b>1,435</b>	<b>1,499</b>	<b>658</b>	<b>785</b>	<b>-4</b>	<b>1,189</b>	<b>314</b>
Direct Investment	94	-26	25	382	10	-2	-34
Portfolio Investment	250	-91	248	-57	-51	-3	-37
Financial Derivatives	31	-46	-6	16	-40	-2	-5
Other Investment	427	915	113	253	-180	791	303
<b>NET INCURRENCE OF FIN. LIABILITIES (13)</b>	<b>802</b>	<b>752</b>	<b>380</b>	<b>594</b>	<b>-260</b>	<b>785</b>	<b>227</b>
<b>TOTAL NET CAPITAL ACCOUNT (14)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET LENDING(+)/NET BORROWING(-)</b>	<b>633</b>	<b>747</b>	<b>278</b>	<b>191</b>	<b>256</b>	<b>404</b>	<b>87</b>
<b>(15)=(12)+(14)-(13)</b>							
<b>BALANCING ITEM (15)-(11)</b>	<b>-8</b>	<b>-21</b>	<b>99</b>	<b>-20</b>	<b>-39</b>	<b>96</b>	<b>-77</b>

**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**

**TABLE 2 - INTERNATIONAL INVESTMENT POSITION<sup>1,2</sup>**

**(BD\$) MILLIONS**

Components	2020R Q3	2020R Q4	2021R Q1	2021R Q2	2021 Q3
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	160	141	122	123	117
Portfolio investment	12,788	13,268	12,828	13,537	12,825
Financial Derivatives (other than reserves) and ESOs	40	36	46	35	32
Other investment	2,822	3,247	3,331	4,343	4,779
Reserve Assets	181	181	208	221	227
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	2,970	3,091	3,196	3,456	3,495
Debt instruments:	12,981	13,746	13,294	14,768	14,452
Special drawing rights	-	-	-	-	-
Currency and deposits	1,049	1,493	1,199	1,131	1,344
Debt securities	10,158	10,498	9,962	10,424	9,673
Loans	1,679	1,646	2,038	3,095	3,311
Insurance, pension, standardized guarantee schemes	1	1	1	1	1
Other accounts receivable/payable	93	108	95	117	124
Other financial assets and liabilities	40	36	46	35	32
<b>TOTAL ASSETS</b>	<b>15,991</b>	<b>16,873</b>	<b>16,536</b>	<b>18,259</b>	<b>17,980</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,820	3,084	2,725	2,727	2,686
Portfolio investment	4,389	4,334	4,620	4,622	4,633
Financial Derivatives (other than reserves) and ESOs	79	92	53	51	46
Other investment	5,519	5,365	5,146	5,937	6,022
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,110	3,341	3,260	3,322	3,287
Debt instruments:	9,618	9,442	9,231	9,963	10,054
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	4,654	4,376	4,112	4,876	5,321
Debt securities	4,099	4,077	4,084	4,027	4,032
Loans	738	844	893	937	593
Insurance, pension, standardized guarantee schemes	23	26	27	28	29
Other accounts receivable/payable	104	119	114	96	80
Other financial assets and liabilities	79	92	53	51	46
<b>TOTAL LIABILITIES</b>	<b>12,807</b>	<b>12,875</b>	<b>12,544</b>	<b>13,337</b>	<b>13,388</b>
<b>NET IIP</b>	<b>3,184</b>	<b>3,998</b>	<b>3,992</b>	<b>4,922</b>	<b>4,593</b>

**TABLE 3 - IIP BY RESIDENT INSTITUTIONAL SECTOR — (BD\$) MILLIONS<sup>1</sup>**

2021 Q3	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>40</b>	<b>3,184</b>	<b>14,582</b>	<b>175</b>	<b>17,980</b>
Direct investment	5	-	71	40	117
Portfolio investment	33	2,927	9,854	11	12,825
Financial Derivatives (other than reserves) and ESOs	-	-	2	-	32
Other investment	1	257	4,398	123	4,779
Reserve Assets	-	-	227	-	227
<b>LIABILITIES</b>	<b>-</b>	<b>3,300</b>	<b>7,983</b>	<b>2,104</b>	<b>13,388</b>
Direct investment	-	-	1,068	1,618	2,686
Portfolio investment	-	3,300	1,031	302	4,633
Financial Derivatives (other than reserves) and ESOs	-	-	38	8	46
Other investment	-	-	5,846	176	6,022
<b>NET IIP</b>	<b>40</b>	<b>(116)</b>	<b>6,598</b>	<b>(1,930)</b>	<b>4,593</b>

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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