



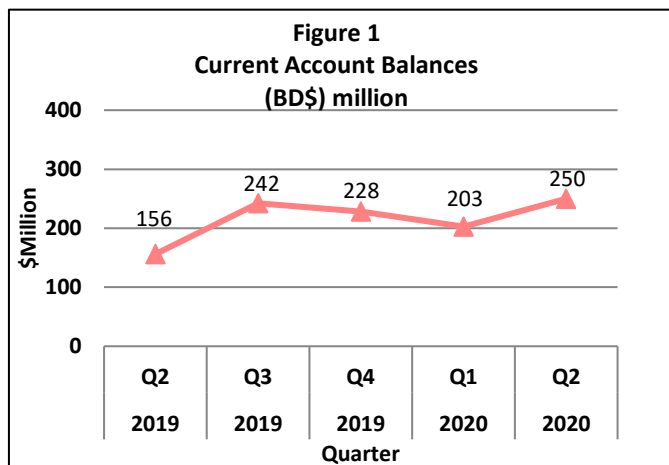
### BALANCE OF PAYMENTS

#### FAST FACTS

##### Current Account

The Bermuda current account recorded a surplus of \$250 million in the second quarter of 2020 (Figure 1 and Table 1). This surplus increased \$94 million compared to the second quarter of 2019.

- The deficit on the goods account decreased by \$180 million to \$178 million.
- Services transactions realised a surplus of \$52 million in the second quarter of 2020, a decrease of \$122 million year over year.
- The surplus on Bermuda’s primary income account increased to \$407 million in the second quarter of 2020.



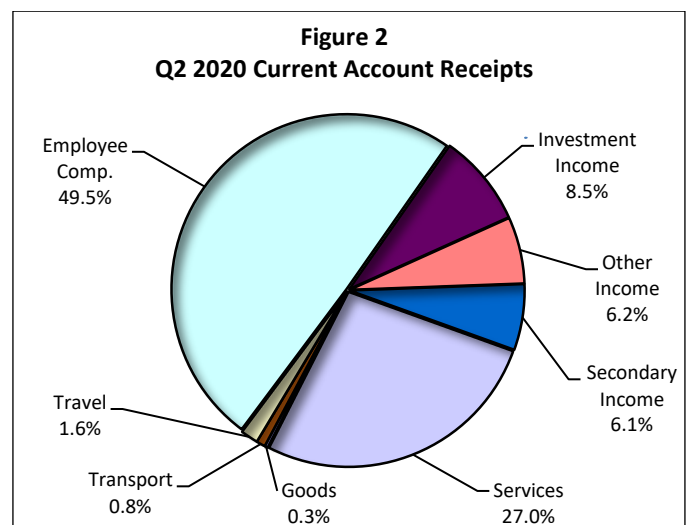
#### Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda’s assets accounts resulted in a net lending position of \$169 million (Table 1). Factors influencing this year-over-year performance include:

- Transactions related to the net acquisition of financial assets resulted in a reduction of \$125 million compared to an increase of \$283 million in 2019.
- Bermuda decreased its net incurrence of financial liabilities by \$294 million this quarter compared to an increase of \$105 million in 2019.

#### Current Account Surplus = \$250 million

The current account surplus stood at \$250 million for the second quarter of 2020 (Table 1), an increase of \$94 million from a year ago. This growth was due mainly to an increase in the surplus balance on the primary income account and a smaller deficit on the goods account. In contrast, a smaller surplus was recorded on the services account due mostly to a decrease in travel services.



#### Goods Account Deficit = \$178 million

Year-over-year, the goods account deficit narrowed by \$180 million during the second quarter of 2020 influenced directly by a sharp decrease in the value of imported goods (Table 1). The value of imported goods decreased for all broad commodity groupings. Imports of Machinery, Finished Equipment, Fuels and Transport Equipment recorded the largest decreases. These commodity groups combined for a \$155 million decrease in imports. Payments for imported goods from the United States of America and Canada fell by \$117 million and \$6 million, respectively.

Revenue earned from the exports of goods fell to \$2 million, a decrease of \$3 million from 2019.

**Services Account Surplus = \$52 million**

The surplus on the services account decreased by \$122 million during the second quarter of 2020. This fall in the surplus balance reflected mostly a \$179 million drop in net receipts for travel services due to Coronavirus Disease 2019 (COVID-19) pandemic travel restrictions. The surplus balance on financial services decreased by \$2 million year-over-year.

In contrast, the surplus balance on the other business services account grew \$30 million reflecting lower payments to non-residents for engineering services. Transportation services recorded a smaller deficit balance of \$22 million in line with a fall in freight transport payments. Government services recorded a \$1 million increase in the net surplus balance.

**Primary Income Account Surplus = \$407 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 \$18 million during the second quarter of 2020 (Figure 3 and Table 1). This increase reflected primarily a \$31 million rise in the balance on investment income as fewer dividends were paid. The surplus on employee compensation and other income transactions decreased by \$11 million and \$1 million respectively.

**Secondary Income Account Deficit = \$30 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 \$19 million from a year ago due mostly to a decrease in net nonlife insurance claims paid to non-residents.

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

**Bermuda’s Net IIP Increased to \$3,881 million**

At the end of the second quarter 2020, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,881 million (Table 2). The net IIP increased by \$612 million over the first quarter of 2020.

**Foreign Assets Decreased to \$14,934 million**

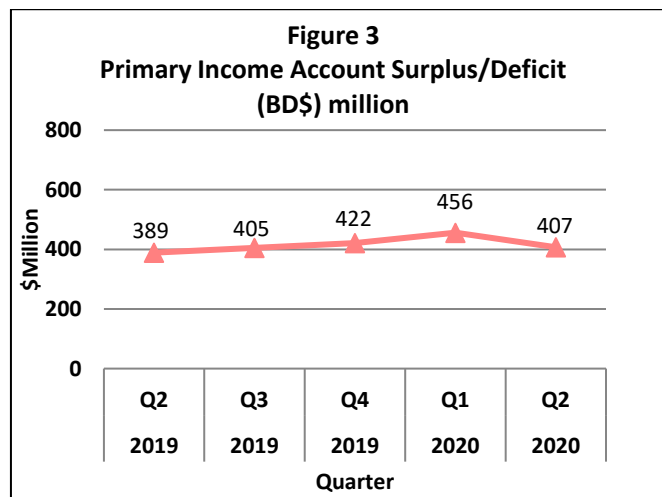
Between the first and second quarters of 2020, Bermuda residents’ net acquisition position of financial assets fell \$408 million due mostly to decreased holdings of currency and deposits with non-resident banks.

**Foreign Liabilities Decreased to \$11,052 million**

Bermuda residents’ stock of foreign liabilities decreased by \$1,021 million from the first quarter of 2020. The decrease in the liability position reflected mostly a drop in currency and deposits of non-residents.

**IIP by Resident Institutional Sector**

The non-financial corporations held a net liability position of \$1,508 million with the rest of the world at the end of the second quarter 2020. The general government sector’s external assets exceeded its external liabilities by \$61 million. Financial corporations held a net asset position of \$5,300 million due mostly to portfolio investment holdings such as bonds, notes and money market instruments. Non-profit institutions serving households also recorded a net asset position of \$27 million at the end of the second quarter.



## BERMUDA BALANCE OF PAYMENTS &amp; INTERNATIONAL INVESTMENT POSITION

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

Components	2019 YTD Q2	2020 YTD Q2	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>617</b>	<b>448</b>	<b>362</b>	<b>268</b>	<b>267</b>	<b>267</b>	<b>181</b>
<b>SERVICES</b>	<b>535</b>	<b>403</b>	<b>279</b>	<b>281</b>	<b>261</b>	<b>234</b>	<b>169</b>
Transportation	125	80	70	61	57	52	28
Travel	122	99	61	70	70	61	38
Business Services:	287	223	148	150	134	120	103
Insurance Services	36	36	19	18	23	19	18
Financial Services	38	40	22	18	20	16	24
ICT Services	42	44	22	21	20	23	21
Other Business Services	171	103	85	92	71	62	41
Government Services	0	0	0	0	0	0	0
<b>PRIMARY INCOME</b>	<b>220</b>	<b>166</b>	<b>121</b>	<b>103</b>	<b>86</b>	<b>89</b>	<b>77</b>
Employee Compensation	30	26	14	15	15	14	12
Investment Income	190	139	106	88	71	75	65
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>188</b>	<b>181</b>	<b>107</b>	<b>109</b>	<b>99</b>	<b>105</b>	<b>76</b>
<b>TOTAL PAYMENTS</b>	<b>1,559</b>	<b>1,197</b>	<b>869</b>	<b>761</b>	<b>713</b>	<b>694</b>	<b>503</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>2</b>
<b>SERVICES</b>	<b>769</b>	<b>524</b>	<b>453</b>	<b>434</b>	<b>372</b>	<b>302</b>	<b>221</b>
Transportation	27	18	16	15	14	12	6
Travel	273	55	213	211	117	43	12
Business Services:	417	402	222	206	229	201	202
Insurance Services	37	35	21	22	21	19	16
Financial Services	76	79	44	52	60	35	44
ICT Services	41	37	19	18	20	20	17
Other Business Services	263	251	138	113	127	127	124
Government Services	52	49	1	1	12	47	2
<b>PRIMARY INCOME</b>	<b>1,037</b>	<b>1,028</b>	<b>510</b>	<b>508</b>	<b>508</b>	<b>545</b>	<b>483</b>
Employee Compensation	774	775	387	387	387	402	373
Investment Income	151	135	76	74	80	71	64
Other Income	112	118	47	47	41	72	46
<b>SECONDARY INCOME</b>	<b>99</b>	<b>91</b>	<b>58</b>	<b>57</b>	<b>57</b>	<b>46</b>	<b>46</b>
<b>TOTAL RECEIPTS</b>	<b>1,913</b>	<b>1,650</b>	<b>1,025</b>	<b>1,003</b>	<b>942</b>	<b>897</b>	<b>753</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-608</b>	<b>-441</b>	<b>-358</b>	<b>-263</b>	<b>-262</b>	<b>-263</b>	<b>-178</b>
<b>SERVICES</b>	<b>234</b>	<b>121</b>	<b>174</b>	<b>153</b>	<b>111</b>	<b>68</b>	<b>52</b>
Transportation	-98	-62	-54	-46	-43	-40	-22
Travel	150	-44	153	141	47	-18	-26
Business Services:	130	179	74	56	94	80	98
Insurance Services	1	-1	2	4	-2	0	-1
Financial Services	38	39	22	34	40	19	20
ICT Services	-1	-7	-3	-3	0	-3	-4
Other Business Services	92	148	54	21	56	64	84
Government Services	52	49	1	1	12	47	2
<b>PRIMARY INCOME</b>	<b>817</b>	<b>863</b>	<b>389</b>	<b>405</b>	<b>422</b>	<b>456</b>	<b>407</b>
Employee Compensation	744	748	372	372	372	388	361
Investment Income	-39	-4	-31	-14	8	-4	0
Other Income	112	118	47	47	41	72	46
<b>SECONDARY INCOME</b>	<b>-89</b>	<b>-90</b>	<b>-49</b>	<b>-53</b>	<b>-41</b>	<b>-59</b>	<b>-30</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>353</b>	<b>453</b>	<b>156</b>	<b>242</b>	<b>228</b>	<b>203</b>	<b>250</b>
<b>FINANCIAL ACCOUNT</b>							
Direct Investment	-35	-35	-5	-1	-2	-10	-25
Portfolio Investment	-65	207	-42	-263	570	451	-243
Financial Derivatives	49	57	16	31	22	31	26
Other Investment	364	516	301	377	169	419	97
Reserve Assets	26	33	12	-10	-6	14	20
<b>NET ACQUISITION OF FIN. ASSETS</b>	<b>338</b>	<b>779</b>	<b>283</b>	<b>134</b>	<b>754</b>	<b>904</b>	<b>-125</b>
Direct Investment	45	69	32	46	-87	31	39
Portfolio Investment	-179	2	-112	-8	-140	-93	95
Financial Derivatives	19	36	16	1	-4	47	-11
Other Investment	128	316	168	-173	755	733	-418
<b>NET INCURRENCE OF FIN. LIABILITIES</b>	<b>13</b>	<b>424</b>	<b>105</b>	<b>-135</b>	<b>525</b>	<b>718</b>	<b>-294</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-325</b>	<b>-356</b>	<b>-178</b>	<b>-269</b>	<b>-229</b>	<b>-187</b>	<b>-169</b>
<b>TOTAL NET CAPITAL ACCOUNT</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>325</b>	<b>356</b>	<b>178</b>	<b>269</b>	<b>229</b>	<b>187</b>	<b>169</b>
<b>BALANCING ITEM</b>	<b>-28</b>	<b>-97</b>	<b>22</b>	<b>26</b>	<b>1</b>	<b>-16</b>	<b>-81</b>

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

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

**(BD\$) MILLIONS**

Components	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	166	161	159	160	122
Portfolio investment	11,941	11,714	12,251	12,413	12,173
Financial Derivatives (other than reserves) and ESOs	35	41	37	42	45
Other investment	1,989	1,894	2,096	2,550	2,396
Reserve Assets	179	169	163	177	196
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	2,803	2,915	3,036	2,766	2,871
Debt instruments:	11,472	11,022	11,633	12,533	12,017
Special drawing rights	-	-	-	-	-
Currency and deposits	730	652	829	1,059	682
Debt securities	9,482	9,128	9,536	9,983	9,621
Loans	1,138	1,131	1,162	1,414	1,657
Insurance, pension, standardized guarantee schemes	1	2	1	1	1
Other accounts receivable/payable	121	110	104	77	56
Other financial assets and liabilities	35	41	37	42	45
<b>TOTAL ASSETS</b>	<b>14,310</b>	<b>13,979</b>	<b>14,707</b>	<b>15,342</b>	<b>14,934</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,485	2,538	2,437	2,463	2,107
Portfolio investment	3,894	3,936	3,826	3,762	3,860
Financial Derivatives (other than reserves) and ESOs	36	37	32	80	70
Other investment	5,213	5,043	5,084	5,769	5,016
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,093	3,188	3,058	3,033	2,962
Debt instruments:	8,499	8,329	8,290	8,961	8,020
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	4,575	4,142	4,440	5,127	4,585
Debt securities	3,286	3,286	3,206	3,193	3,004
Loans	482	766	512	540	343
Insurance, pension, standardized guarantee schemes	36	36	35	22	22
Other accounts receivable/payable	121	99	96	80	65
Other financial assets and liabilities	36	37	32	80	70
<b>TOTAL LIABILITIES</b>	<b>11,628</b>	<b>11,554</b>	<b>11,380</b>	<b>12,073</b>	<b>11,052</b>
<b>NET IIP</b>	<b>2,682</b>	<b>2,425</b>	<b>3,327</b>	<b>3,269</b>	<b>3,881</b>

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

2020 Q2	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>27</b>	<b>2,511</b>	<b>12,264</b>	<b>131</b>	<b>14,934</b>
Direct investment	-	-	97	25	122
Portfolio investment	27	2,511	9,625	10	12,173
Financial Derivatives (other than reserves) and ESOs	-	-	45	-	45
Other investment	0	-	2,300	96	2,396
Reserve Assets	-	-	196	-	196
<b>LIABILITIES</b>	<b>-</b>	<b>2,450</b>	<b>6,964</b>	<b>1,639</b>	<b>11,052</b>
Direct investment	-	-	860	1,246	2,107
Portfolio investment	-	2,450	1,093	317	3,860
Financial Derivatives (other than reserves) and ESOs	-	-	70	-	70
Other investment	-	-	4,941	75	5,016
<b>NET IIP</b>	<b>27</b>	<b>61</b>	<b>5,300</b>	<b>-1,508</b>	<b>3,881</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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