



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER 4/2020

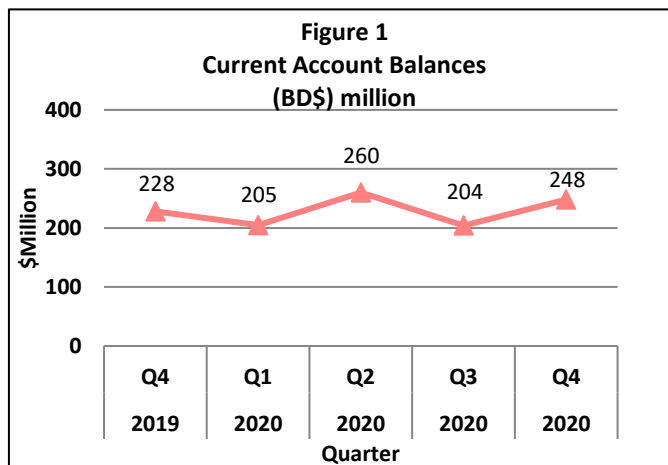
BALANCE OF PAYMENTS

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$248 million in the fourth quarter of 2020 (Figure 1 and Table 1). This represented a \$20 million increase year-over-year.

- The deficit on the goods account decreased by \$12 million to \$250 million.
- Services transactions realised a surplus of \$78 million in the fourth quarter of 2020.
- The surplus on Bermuda's primary income account increased to \$467 million in the fourth quarter of 2020.



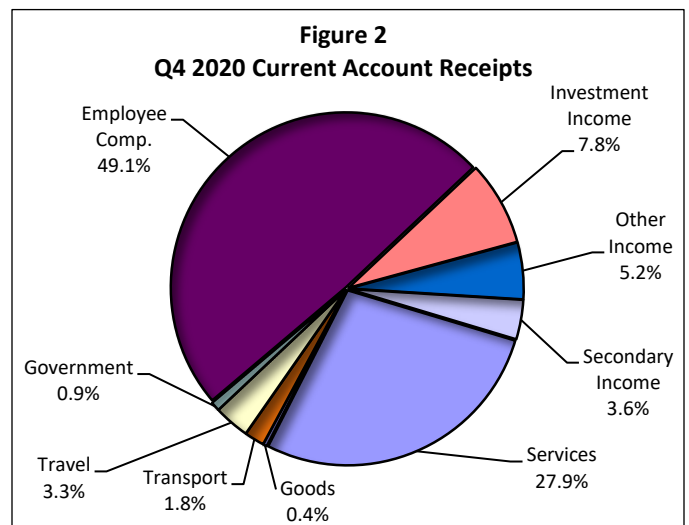
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's assets accounts resulted in a net lending position of \$296 million (Table 1). Factors influencing this year-over-year performance include:

- Bermuda's net acquisition of financial assets resulted in an increase of \$1,202 million compared to a smaller increase of \$754 million in 2019.
- Bermuda increased its net incurrence of financial liabilities by \$906 million this quarter compared to an increase of \$525 million in 2019.

Current Account Surplus = \$248 million

The current account surplus stood at \$248 million for the fourth quarter of 2020 (Table 1). This represented a \$20 million increase from the \$228 million surplus in the fourth quarter of 2019. The increase in the current account surplus reflected mostly a larger surplus in the primary income account compared to a year ago.



Goods Account Deficit = \$250 million

Year-over-year, the goods account deficit narrowed by \$12 million during the fourth quarter of 2020. The value of imported goods decreased to \$253 million (Table 1). This was reflected mostly in a \$28 million decline in imported goods from Canada. The decline was offset by a rise in imports from the United States of America and the United Kingdom of \$11 million and \$4 million, respectively. Among the commodity groups, the contraction in imports was reflected primarily in the imports of Fuels which fell by \$11 million. Imports of Finished Equipment dropped \$5 million while Transport Equipment and Machinery fell by \$2 million each. In contrast, imports of Chemicals and Food, Beverages & Tobacco increased by \$3 million each.

Revenue earned from the exports of goods decreased from \$5 million in 2019 to \$3 million in 2020 as less fuel was re-exported to foreign airlines visiting Bermuda.

Services Account Surplus = \$78 million

The surplus on the services account decreased \$33 million during the fourth quarter of 2020. This narrowing in the surplus balance reflected mostly a \$66 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 \$13 million, mostly due to lower receipts during the fourth quarter 2020.

In contrast, other business services recorded a larger surplus balance of \$85 million compared to \$56 million a year ago. This improvement was due to lower payments for engineering/construction services related to the airport construction. The balance on financial services rose by \$3 million year-over-year.

Primary Income Account Surplus = \$467 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 \$45 million during the fourth quarter of 2020 (Figure 3 and Table 1). This rise reflected primarily increases in employee compensation and net investment income of \$21 million and \$22 million, respectively. The net surplus balance on other income also increased by \$2 million.

Secondary Income Account Deficit = \$46 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 widened \$5 million from a year ago due mostly to a decrease in nonlife insurance premiums received from non-residents and an increase in net nonlife insurance claims paid to non-residents.

INTERNATIONAL INVESTMENT POSITION (Tables 2 & 3)

Bermuda’s Net IIP Increased to \$4,657 million

At the end of the fourth quarter 2020, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,657 million (Table 2). The net IIP increased by \$1,849 million over the third quarter of 2020.

Foreign Assets Rise to \$16,865 million

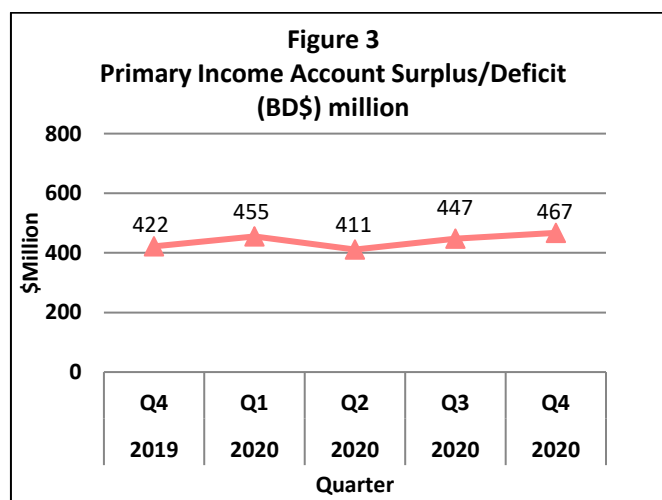
Between the third and fourth quarter 2020, Bermuda residents’ net acquisition position of financial assets grew \$1,258 million due mostly to increased holdings of currency and deposits.

Bermuda’s Net Liability Position Decreased to \$12,208 million

Bermuda residents’ stock of foreign liabilities decreased by \$591 million over the third quarter of 2020. The downswing in the liability position reflected mostly a fall in debt securities and currency and deposit liabilities held by resident institutions and owed to non-residents.

IIP by Resident Institutional Sector

The non-financial corporations held a net liability position of \$1,602 million with the rest of the world at the end of the fourth quarter 2020. The general government sector’s external liabilities exceeded its external assets by \$596 million, narrowing slightly due to a rise in portfolio investment assets. Financial corporations held a net asset position of \$6,827 million due mostly to other investment holdings such as currency and deposits. Non-profit institutions serving households also recorded a net asset position of \$28 million at the end of the fourth quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

Components	2019 YTD Q4	2020 YTD Q4	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	1,152	927	267	267	181	226	253
SERVICES	1,077	786	261	233	169	189	194
Transportation	244	157	57	52	28	38	39
Travel	263	191	70	61	38	46	46
Business Services:	571	437	134	120	103	105	110
Insurance Services	77	68	23	19	18	16	16
Financial Services	76	81	20	16	24	19	21
ICT Services	83	94	20	24	21	23	26
Other Business Services	334	195	71	61	40	48	46
Government Services	0	0	0	0	0	0	0
PRIMARY INCOME	409	268	86	89	73	61	45
Employee Compensation	59	49	15	14	12	12	11
Investment Income	349	219	71	75	61	49	34
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	396	381	99	105	77	123	76
TOTAL PAYMENTS	3,034	2,361	713	694	499	599	568
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	18	12	5	4	2	2	3
SERVICES	1,575	1,048	372	305	227	244	272
Transportation	57	41	14	12	6	8	15
Travel	601	104	117	43	11	24	27
Business Services:	851	847	229	204	209	211	223
Insurance Services	80	68	21	19	16	19	14
Financial Services	189	200	60	35	44	56	64
ICT Services	79	64	20	20	18	13	13
Other Business Services	503	514	127	130	130	123	131
Government Services	66	57	12	47	2	1	7
PRIMARY INCOME	2,052	2,048	508	545	483	508	511
Employee Compensation	1,547	1,582	387	402	373	404	404
Investment Income	304	261	80	71	64	61	64
Other Income	201	205	41	72	46	43	43
SECONDARY INCOME	213	171	57	46	46	49	30
TOTAL RECEIPTS	3,858	3,279	942	900	759	803	817
CURRENT ACCOUNT BALANCES							
GOODS	-1,134	-915	-262	-263	-178	-224	-250
SERVICES	497	263	111	72	58	55	78
Transportation	-187	-116	-43	-40	-22	-30	-23
Travel	338	-88	47	-19	-28	-22	-19
Business Services:	280	410	94	84	106	106	113
Insurance Services	3	0	-2	0	-1	4	-2
Financial Services	113	119	40	19	20	37	43
ICT Services	-4	-29	0	-3	-3	-10	-13
Other Business Services	169	319	56	69	90	76	85
Government Services	65	56	12	47	2	1	7
PRIMARY INCOME	1,644	1,779	422	455	411	447	467
Employee Compensation	1,488	1,533	372	388	361	392	393
Investment Income	-45	41	8	-4	4	12	30
Other Income	201	205	41	72	46	43	43
SECONDARY INCOME	-183	-210	-41	-59	-31	-74	-46
CURRENT ACCOUNT BALANCE	824	917	228	205	260	204	248
FINANCIAL ACCOUNT							
Direct Investment	-38	341	-2	-10	-25	41	335
Portfolio Investment	241	1,046	570	456	-246	454	382
Financial Derivatives	102	103	22	31	26	23	23
Other Investment	910	1,135	169	419	96	157	463
Reserve Assets	10	18	-6	14	20	-15	-1
NET ACQUISITION OF FIN. ASSETS	1,226	2,643	754	910	-130	660	1,202
Direct Investment	4	114	-87	31	39	25	20
Portfolio Investment	-327	193	-140	-93	95	248	-57
Financial Derivatives	15	47	-4	47	-11	-6	17
Other Investment	710	1,367	755	733	-413	120	926
NET INCURRENCE OF FIN. LIABILITIES	403	1,722	525	718	-289	387	906
TOTAL NET FINANCIAL ACCOUNT	-823	-921	-229	-192	-159	-274	-296
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
NET LENDING (+)/NET BORROWING (-)	823	921	229	192	159	274	296
BALANCING ITEM	-1	4	1	-13	-101	70	48

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

(BD\$) MILLIONS

Components	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	159	149	123	160	506
Portfolio investment	12,251	12,402	12,161	12,788	13,268
Financial Derivatives (other than reserves) and ESOs	37	42	45	40	36
Other investment	2,096	2,550	2,400	2,438	2,875
Reserve Assets	163	177	196	181	181
BY INSTRUMENT					
Equity and investment fund share/units	3,036	2,744	2,860	2,970	3,456
Debt instruments:	11,633	12,533	12,021	12,597	13,373
Special drawing rights	-	-	-	-	-
Currency and deposits	829	1,059	684	682	1,139
Debt securities	9,536	9,983	9,621	10,158	10,498
Loans	1,162	1,414	1,657	1,679	1,646
Insurance, pension, standardized guarantee schemes	1	1	1	1	1
Other accounts receivable/payable	104	77	58	77	89
Other financial assets and liabilities	37	42	45	40	36
TOTAL ASSETS	14,707	15,320	14,927	15,607	16,865
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,437	2,474	2,503	2,820	2,452
Portfolio investment	3,826	3,774	3,874	4,388	4,334
Financial Derivatives (other than reserves) and ESOs	32	80	85	79	93
Other investment	5,084	5,769	5,398	5,512	5,329
BY INSTRUMENT					
Equity and investment fund share/units	3,058	3,055	3,087	3,110	2,994
Debt instruments:	8,290	8,961	8,689	9,610	9,121
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	4,440	5,127	4,585	4,654	4,376
Debt securities	3,206	3,193	3,291	4,099	3,792
Loans	512	540	716	738	840
Insurance, pension, standardized guarantee schemes	35	22	22	23	26
Other accounts receivable/payable	96	80	75	96	87
Other financial assets and liabilities	32	80	85	79	93
TOTAL LIABILITIES	11,380	12,096	11,860	12,799	12,208
NET IIP	3,327	3,224	3,066	2,808	4,657

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

2020 Q4	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	28	2,704	13,653	480	16,865
Direct investment	-	-	91	415	506
Portfolio investment	27	2,704	10,523	13	13,268
Financial Derivatives (other than reserves) and ESOs	-	-	36	-	36
Other investment	1	-	2,823	52	2,875
Reserve Assets	-	-	181	-	181
LIABILITIES	-	3,300	6,826	2,082	12,208
Direct investment	-	-	872	1,580	2,452
Portfolio investment	-	3,300	1,022	12	4,334
Financial Derivatives (other than reserves) and ESOs	-	-	80	13	93
Other investment	-	-	4,852	477	5,329
NET IIP	28	(596)	6,827	(1,602)	4,657

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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