



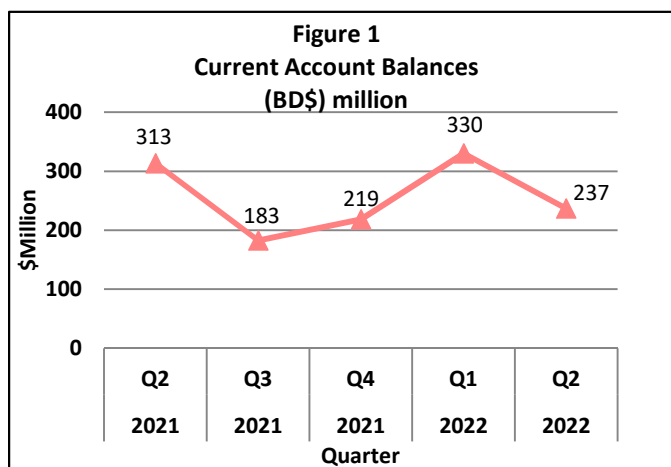
## BALANCE OF PAYMENTS

### FAST FACTS

#### Current Account

The Bermuda current account recorded a surplus of \$237 million in the second quarter of 2022 (Figure 1 and Table 1). This represented a \$76 million decrease year-over-year. Contributing factors include:

- The deficit on the goods account expanded by \$72 million to \$309 million.
- Services transactions realised a surplus of \$47 million, down \$20 million year-over-year.
- Bermuda's primary income account surplus increased by \$35 million year-over-year to \$552 million in the second quarter of 2022.



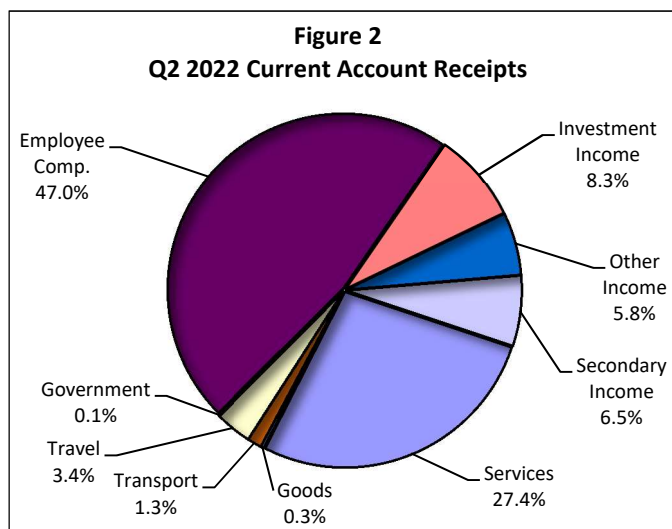
#### Financial, Capital, and Reserve Assets Accounts

Transactions within Bermuda's assets accounts resulted in a net lending position of \$315 million (Table 1). Factors influencing this year-over-year performance include:

- Bermuda's net acquisition of financial assets resulted in an increase of \$171 million compared to an increase of \$1.1 billion in 2021.
- Bermuda decreased its net incurrence of financial liabilities by \$144 million this quarter compared to an increase of \$826 million in 2021.

#### Current Account Surplus = \$237 million

The current account surplus stood at \$237 million for the second quarter of 2022 (Table 1). This represented a \$76 million decrease from the \$313 million surplus in the second quarter of 2021. The decline in the surplus reflected an increase in payments to non-residents which was larger than the rise in receipts.



#### Goods Account Deficit = \$309 million

Year-over-year, the goods account deficit expanded by \$72 million during the second quarter of 2022. The value of imported goods increased to \$311 million (Table 1). This growth was reflected mostly in a \$41 million rise in imported goods from the United States. Goods imported from Canada and All Other Countries each increased by \$11 million. The value of goods imported from the Caribbean also increased by \$4 million. Among the commodity groups, the expansion in imports was reflected primarily in the imports of finished equipment which surged by \$28 million. Imports of fuels, machinery and food, beverage and tobacco also increased by \$9 million, \$8 million and \$9 million, respectively. There were no decreases in any commodity group.

Revenue earned from the exports of goods decreased by \$1 million to \$3 million in 2022 as less fuel was re-exported to foreign airlines visiting Bermuda.

**Services Account Surplus = \$47 million**

The surplus on the services account decreased \$20 million during the second quarter of 2022. The smaller surplus balance reflected mostly greater losses in the transportation and travel services account balance. The surplus balance on transport and travel services widened by \$13 million due primarily to the increase in payments made by residents for freight transport services, air passenger services and greater expenditure by residents on personal travel services.

In contrast, the net surplus on transactions on business services increased by \$7 million to \$123 million as residents received more for business and management consultancy and public relations services. The balance on insurance services recorded a surplus of \$10 million, mostly due to higher receipts during the second quarter 2022.

**Primary Income Account Surplus = \$552 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 \$35 million during the second quarter of 2022 (Figure 3 and Table 1). This rise reflected primarily an increase in net employee compensation by \$20 million. Net investment income increased by \$9 million due to reinvested earnings. Net surplus balance on other income increased by \$6 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 widened by \$20 million from a year ago due primarily to more claims on nonlife insurance paid to non-residents.

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

**Bermuda’s Net IIP Decreased to \$4.9 billion**

At the end of the second quarter 2022, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4.9 billion (Table 2). The net IIP decreased by \$1.2 billion from the first quarter of 2022.

**Foreign Assets dipped to \$18.1 billion**

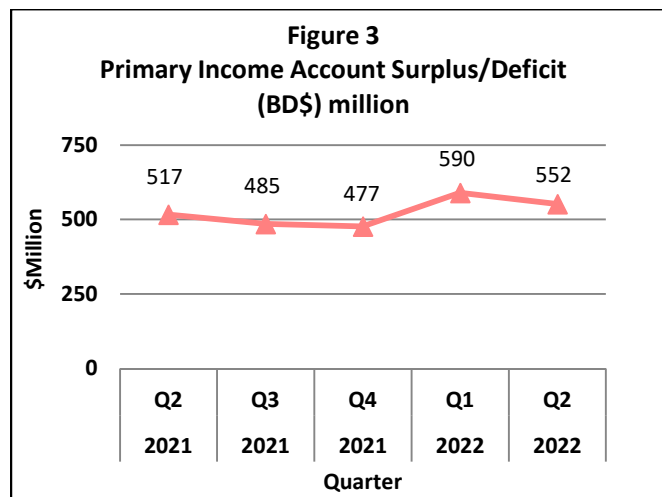
Between the first quarter 2022 and second quarter 2022, Bermuda residents’ stock of foreign financial assets decreased by \$1.3 billion due mostly to decreased holdings of other investments and loans.

**Bermuda’s Net Liability Position held at \$13.2 billion**

Bermuda residents’ stock of foreign liabilities remained largely unchanged from the first quarter of 2022. The most noticeable change is a decrease in the liability of direct investment liabilities.

**IIP by Resident Institutional Sector**

The non-financial corporations held a net liability position of \$1.5 billion with the rest of the world at the end of the second quarter 2022. The general government sector’s external liabilities exceeded its external assets by \$343 million, representing a larger negative net investment position due to a decline in portfolio investment assets. Financial corporations held a net asset position of \$6.7 billion due mostly to holdings of portfolio investments in the form of debt securities. Non-profit institutions serving households also recorded a net asset position of \$45 million at the end of the second quarter.



**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**
**TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS<sup>1</sup>**

Components	2021 YTD Q2	2022 YTD Q2	2021 Q2	2021 Q3	2021 Q4	2022R Q1	2022P Q2
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS (1)</b>	<b>487</b>	<b>596</b>	<b>241</b>	<b>297</b>	<b>301</b>	<b>285</b>	<b>311</b>
<b>SERVICES (2)</b>	<b>389</b>	<b>470</b>	<b>188</b>	<b>228</b>	<b>224</b>	<b>242</b>	<b>228</b>
Transportation	81	115	42	53	53	51	64
Travel	92	116	47	56	53	56	61
Business Services:	215	239	98	119	118	136	103
Insurance Services	34	39	17	21	19	20	19
Financial Services	45	46	23	20	21	23	23
ICT Services	46	55	22	26	23	33	22
Other Business Services	91	99	37	52	56	60	40
Government Services	0	0	0	0	0	0	0
<b>PRIMARY INCOME (3)</b>	<b>80</b>	<b>72</b>	<b>53</b>	<b>61</b>	<b>41</b>	<b>11</b>	<b>60</b>
Employee Compensation	12	12	6	5	6	7	5
Investment Income	68	60	47	56	35	4	56
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME (4)</b>	<b>204</b>	<b>224</b>	<b>101</b>	<b>125</b>	<b>117</b>	<b>105</b>	<b>118</b>
<b>TOTAL PAYMENTS (5)=SUM(1:4)</b>	<b>1,160</b>	<b>1,362</b>	<b>582</b>	<b>711</b>	<b>682</b>	<b>644</b>	<b>718</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS (6)</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>
<b>SERVICES (7)</b>	<b>511</b>	<b>587</b>	<b>255</b>	<b>292</b>	<b>309</b>	<b>313</b>	<b>275</b>
Transportation	12	24	5	8	8	11	13
Travel	42	50	34	66	37	15	34
Business Services:	416	464	215	218	257	237	226
Insurance Services	44	55	24	21	26	26	28
Financial Services	82	85	46	61	70	39	46
ICT Services	25	13	12	12	14	8	6
Other Business Services	265	311	133	124	147	164	146
Government Services	41	50	1	0	7	49	1
<b>PRIMARY INCOME (8)</b>	<b>1,139</b>	<b>1,214</b>	<b>570</b>	<b>547</b>	<b>518</b>	<b>602</b>	<b>612</b>
Employee Compensation	877	922	452	434	408	450	472
Investment Income	130	150	65	66	66	67	83
Other Income	132	142	52	46	43	84	58
<b>SECONDARY INCOME (9)</b>	<b>117</b>	<b>122</b>	<b>67</b>	<b>52</b>	<b>71</b>	<b>57</b>	<b>65</b>
<b>TOTAL RECEIPTS (10)=SUM(6:9)</b>	<b>1,773</b>	<b>1,928</b>	<b>895</b>	<b>894</b>	<b>900</b>	<b>974</b>	<b>955</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-481</b>	<b>-592</b>	<b>-237</b>	<b>-294</b>	<b>-298</b>	<b>-283</b>	<b>-309</b>
<b>SERVICES</b>	<b>122</b>	<b>117</b>	<b>67</b>	<b>64</b>	<b>85</b>	<b>71</b>	<b>47</b>
Transportation	-68	-91	-37	-45	-45	-40	-51
Travel	-51	-67	-13	10	-15	-40	-26
Business Services:	200	225	116	100	138	102	123
Insurance Services	10	16	7	0	7	6	10
Financial Services	37	39	23	42	49	16	23
ICT Services	-20	-41	-10	-13	-9	-25	-16
Other Business Services	173	211	96	72	92	105	106
Government Services	41	50	1	0	7	49	1
<b>PRIMARY INCOME</b>	<b>1,059</b>	<b>1,142</b>	<b>517</b>	<b>485</b>	<b>477</b>	<b>590</b>	<b>552</b>
Employee Compensation	865	910	447	429	402	443	467
Investment Income	62	90	18	10	32	63	27
Other Income	132	142	52	46	43	84	58
<b>SECONDARY INCOME</b>	<b>-87</b>	<b>-101</b>	<b>-33</b>	<b>-72</b>	<b>-46</b>	<b>-48</b>	<b>-53</b>
<b>CURRENT ACCOUNT BALANCE (11)=(10)-(5)</b>	<b>613</b>	<b>567</b>	<b>313</b>	<b>183</b>	<b>219</b>	<b>330</b>	<b>237</b>
<b>FINANCIAL ACCOUNT</b>							
Direct Investment	-18	13	1	-6	-3	2	11
Portfolio Investment	197	1,341	755	-700	-565	937	404
Financial Derivatives	54	116	16	20	27	52	64
Other Investment	870	282	363	1,026	360	592	-310
Reserve Assets	40	18	12	7	-6	15	2
<b>NET ACQUISITION OF FIN. ASSETS (12)</b>	<b>1,143</b>	<b>1,769</b>	<b>1,147</b>	<b>347</b>	<b>-187</b>	<b>1,598</b>	<b>171</b>
Direct Investment	8	-30	-2	-20	14	21	-50
Portfolio Investment	-54	-67	-3	-37	-4	-62	-5
Financial Derivatives	-41	-32	-2	-5	-5	-7	-25
Other Investment	654	1,308	833	303	-413	1,372	-63
<b>NET INCURRENCE OF FIN. LIABILITIES (13)</b>	<b>566</b>	<b>1,180</b>	<b>826</b>	<b>241</b>	<b>-409</b>	<b>1,323</b>	<b>-144</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(-) (15)=(12)+(14)-(13)</b>	<b>577</b>	<b>590</b>	<b>321</b>	<b>105</b>	<b>222</b>	<b>275</b>	<b>315</b>
<b>BALANCING ITEM (15)-(11)</b>	<b>-36</b>	<b>23</b>	<b>8</b>	<b>-77</b>	<b>4</b>	<b>-55</b>	<b>78</b>

**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**
**TABLE 2 - INTERNATIONAL INVESTMENT POSITION<sup>1,2</sup>**
**(BD\$) MILLIONS**

Components	2021 Q2	2021 Q2	2021 Q3	2021R Q1	2022P Q2
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	123	117	114	367	375
Portfolio investment	13,537	12,825	12,819	13,219	13,610
Financial Derivatives (other than reserves) and ESOs	35	32	33	59	94
Other investment	4,343	4,779	4,446	5,471	3,739
Reserve Assets	221	227	221	237	239
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,456	3,495	3,567	3,590	3,258
Debt instruments:	14,768	14,452	14,033	15,704	14,705
Special drawing rights	-	-	-	-	-
Currency and deposits	1,131	1,344	770	1,336	1,070
Debt securities	10,424	9,673	9,587	10,232	10,966
Loans	3,095	3,311	3,542	3,984	2,527
Insurance, pension, standardized guarantee schemes	1	1	1	1	1
Other accounts receivable/payable	117	124	133	150	141
Other financial assets and liabilities	35	32	33	59	94
<b>TOTAL ASSETS</b>	<b>18,259</b>	<b>17,980</b>	<b>17,633</b>	<b>19,352</b>	<b>18,057</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,727	2,686	2,674	2,572	2,509
Portfolio investment	4,622	4,633	4,625	4,644	4,645
Financial Derivatives (other than reserves) and ESOs	51	46	41	34	24
Other investment	5,937	6,022	5,632	6,053	5,993
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,322	3,287	3,262	3,182	3,121
Debt instruments:	9,963	10,054	9,670	10,088	10,026
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	4,876	5,321	4,843	5,112	5,309
Debt securities	4,027	4,032	4,038	4,035	4,033
Loans	937	593	632	738	479
Insurance, pension, standardized guarantee schemes	28	29	31	30	28
Other accounts receivable/payable	96	80	126	173	177
Other financial assets and liabilities	51	46	41	34	24
<b>TOTAL LIABILITIES</b>	<b>13,337</b>	<b>13,387</b>	<b>12,973</b>	<b>13,303</b>	<b>13,170</b>
<b>NET IIP</b>	<b>4,922</b>	<b>4,593</b>	<b>4,660</b>	<b>6,049</b>	<b>4,887</b>

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

2022 Q2	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>45</b>	<b>2,957</b>	<b>14,600</b>	<b>456</b>	<b>18,058</b>
Direct investment	10	-	72	293	375
Portfolio investment	33	2,703	10,873	1	13,609
Financial Derivatives (other than reserves) and ESOs	-	-	94	-	94
Other investment	1	254	3,322	162	3,740
Reserve Assets	-	-	239	-	239
<b>LIABILITIES</b>	<b>-</b>	<b>3,300</b>	<b>7,915</b>	<b>1,953</b>	<b>13,168</b>
Direct investment	-	-	1,104	1,405	2,509
Portfolio investment	-	3,300	1,033	310	4,643
Financial Derivatives (other than reserves) and ESOs	-	-	23	0	24
Other investment	-	-	5,756	237	5,993
<b>NET IIP</b>	<b>45</b>	<b>(343)</b>	<b>6,684</b>	<b>(1,497)</b>	<b>4,889</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)

October 2022

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