



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER 3/2019

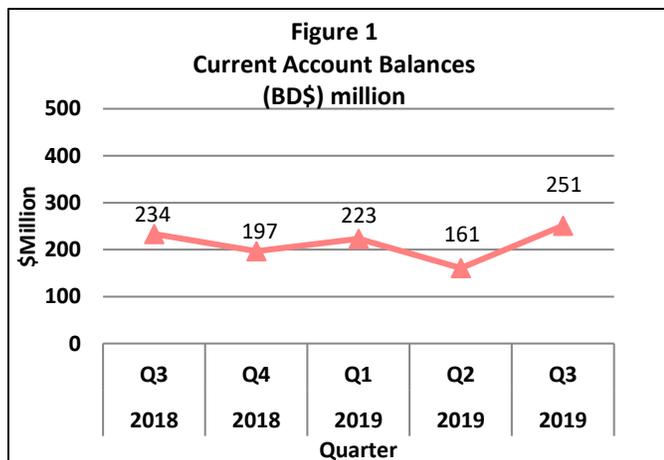
BALANCE OF PAYMENTS

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$251 million in the third quarter of 2019 (Figure 1 and Table 1). This represented a \$17 million increase year-over-year.

- The deficit on the goods account decreased by \$14 million to \$264 million.
- Services transactions realised a surplus of \$177 million in the third quarter of 2019.
- The surplus on Bermuda’s primary income account fell to \$388 million in the third quarter of 2019.



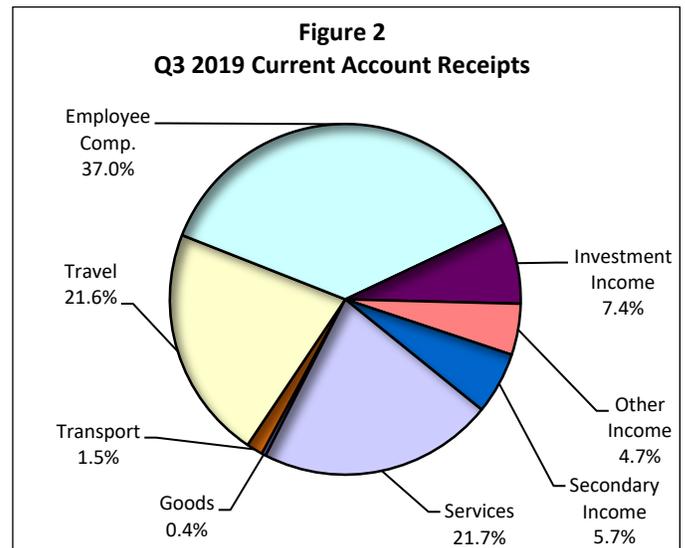
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda’s assets accounts resulted in a net lending position of \$272 million (Table 1). Factors influencing this year-over-year performance include:

- Bermuda’s net acquisition of financial assets resulted in an increase of \$138 million compared to a decrease of \$697 million in 2018.
- Bermuda decreased its net incurrence of financial liabilities by \$135 million this quarter compared to a decrease of \$922 million in 2018.

Current Account Surplus = \$251 million

The current account surplus stood at \$251 million for the third quarter of 2019 (Table 1). This represented a \$17 million increase from the \$234 million surplus in the third quarter of 2018. The increase in the current account surplus reflected mostly a smaller deficit balance on the goods account.



Goods Account Deficit = \$264 million

Year-over-year, the goods account deficit narrowed by \$14 million during the third quarter of 2019. The value of imported goods decreased to \$268 million (Table 1). This was reflected in an \$8 million dip in imported goods from the Caribbean. Imported goods from Canada and the United States of America declined by \$4 million and \$1 million, respectively. In contrast, imports from the United Kingdom rose by \$1 million. Among the commodity groups, the contraction in imports was reflected primarily in the imports of Fuels, Transport Equipment and Machinery which dropped by \$6 million, \$5 million and \$4 million, respectively. In contrast, imports of Finished Equipment increased by \$3 million.

Revenue earned from the exports of goods remained unchanged at \$4 million.

Services Account Surplus = \$177 million

The surplus on the services account increased \$16 million during the third quarter of 2019. This rise in the surplus balance reflected mostly an \$8 million rise in net receipts from travel services due to increased expenditure in Bermuda by visitors. The balance on insurance services also improved \$7 million due to higher revenues collected on auxiliary insurance services. Other business services recorded a larger surplus balance of \$30 million compared to \$25 million a year ago.

In contrast, the surplus balance on financial services fell \$8 million as fewer fees and commissions were received during the third quarter 2019.

Primary Income Account Surplus = \$388 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 decreased by \$5 million during the third quarter of 2019 (Figure 3 and Table 1). This decline reflected primarily a \$20 million fall in net investment income. In contrast, the net surplus balance on employee compensation and other income each increased by \$7 million.

Secondary Income Account Deficit = \$50 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 \$8 million from a year ago due mostly to an increase in net nonlife insurance claims paid to non-residents.

INTERNATIONAL INVESTMENT POSITION (Tables 2 & 3)

Bermuda’s Net IIP Decreased to \$2,424 million

At the end of the third quarter 2019, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$2,424 million (Table 2). The net IIP decreased by \$258 million over the second quarter of 2019.

Foreign Assets Fell to \$13,978 million

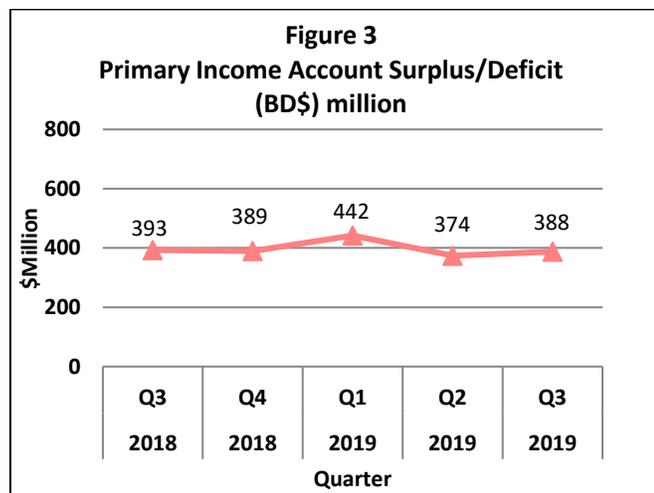
Between the second and third quarter 2019, Bermuda residents’ net acquisition position of financial assets fell \$332 million due mostly to decreased holdings of debt securities.

Bermuda’s Net Liability Position Decreased to \$11,554 million

Bermuda residents’ stock of foreign liabilities decreased by \$74 million over the second quarter of 2019. The drop in the liability position reflected mostly a decrease in 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 \$2,212 million with the rest of the world at the end of the third quarter 2019. The general government sector’s external assets exceeded its external liabilities by \$117 million. Financial corporations held a net asset position of \$4,487 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 \$32 million at the end of the third quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION
TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS¹

Components	2018 YTD Q3	2019 YTD Q3	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	820	885	282	281	255	362	268
SERVICES	760	779	269	255	246	264	270
Transportation	175	187	57	57	55	70	61
Travel	192	193	69	62	62	61	70
Business Services:	393	399	142	136	129	133	138
Insurance Services	60	52	18	19	17	18	17
Financial Services	20	20	8	6	6	8	7
ICT Services	79	63	23	20	19	22	21
Other Business Services	234	264	93	91	86	85	93
Government Services	0	0	0	0	0	0	0
PRIMARY INCOME	187	323	80	93	99	121	103
Employee Compensation	44	45	15	16	15	14	15
Investment Income	144	278	66	77	83	106	88
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	265	292	89	80	81	104	107
TOTAL PAYMENTS	2,032	2,278	721	709	681	850	747
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	13	12	4	4	4	4	4
SERVICES	1,178	1,218	429	377	317	454	447
Transportation	31	43	11	11	11	16	15
Travel	467	488	206	116	59	213	215
Business Services:	634	635	212	240	197	223	215
Insurance Services	47	58	16	15	16	20	21
Financial Services	155	129	61	67	33	44	52
ICT Services	57	59	18	21	22	19	19
Other Business Services	375	389	118	137	126	140	123
Government Services	46	53	1	9	50	1	1
PRIMARY INCOME	1,472	1,527	474	483	541	495	490
Employee Compensation	1,085	1,143	362	362	401	372	369
Investment Income	236	224	72	77	75	76	74
Other Income	152	160	40	44	65	47	47
SECONDARY INCOME	129	156	47	42	41	58	57
TOTAL RECEIPTS	2,793	2,913	954	906	903	1,011	998
CURRENT ACCOUNT BALANCES							
GOODS	-807	-873	-278	-277	-251	-358	-264
SERVICES	418	439	161	122	71	191	177
Transportation	-144	-144	-47	-45	-44	-54	-46
Travel	275	295	137	55	-3	153	145
Business Services:	241	235	70	104	68	90	77
Insurance Services	-13	5	-3	-4	-1	3	4
Financial Services	135	108	53	61	27	36	45
ICT Services	-22	-4	-5	1	2	-3	-3
Other Business Services	141	125	25	46	40	55	30
Government Services	46	53	1	9	50	1	1
PRIMARY INCOME	1,285	1,204	393	389	442	374	388
Employee Compensation	1,041	1,098	347	346	386	358	354
Investment Income	92	-53	6	0	-9	-31	-14
Other Income	152	160	40	44	65	47	47
SECONDARY INCOME	-136	-136	-42	-38	-39	-46	-50
CURRENT ACCOUNT BALANCE	760	635	234	197	223	161	251
FINANCIAL ACCOUNT							
Direct Investment	-39	-36	0	4	-30	-6	-1
Portfolio Investment	-939	-328	-1,477	140	-23	-42	-263
Financial Derivatives	98	95	-5	23	39	20	35
Other Investment	314	740	796	458	63	301	376
Reserve Assets	-2	16	-10	-8	14	12	-10
NET ACQUISITION OF FIN. ASSETS	-568	487	-697	618	61	286	138
Direct Investment	46	91	3	49	13	32	46
Portfolio Investment	-35	-187	-35	154	-67	-112	-8
Financial Derivatives	-2	20	-15	5	3	16	1
Other Investment	-1,260	-45	-875	193	-40	168	-173
NET INCURRENCE OF FIN. LIABILITIES	-1,251	-121	-922	401	-91	105	-135
TOTAL NET FINANCIAL ACCOUNT	-684	-608	-225	-217	-154	-182	-272
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
NET LENDING (+)/NET BORROWING (-)	684	608	225	217	154	182	272
BALANCING ITEM	-76	-27	-8	20	-69	21	21

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

(BD\$) MILLIONS

Components	2018 Q3	2018 Q4	2019 Q1	2019 Q2	2019 Q3
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	194	196	169	166	161
Portfolio investment	11,715	11,661	11,920	11,941	11,714
Financial Derivatives (other than reserves) and ESOs	43	37	44	35	41
Other investment	2,264	2,167	2,273	1,989	1,893
Reserve Assets	160	153	166	179	169
BY INSTRUMENT					
Equity and investment fund share/units	2,659	2,458	2,670	2,803	2,915
Debt instruments:	11,675	11,719	11,858	11,472	11,022
Special drawing rights	-	-	-	-	-
Currency and deposits	601	886	998	730	651
Debt securities	9,410	9,552	9,584	9,482	9,128
Loans	1,566	1,172	1,158	1,138	1,131
Insurance, pension, standardized guarantee schemes	0	0	2	1	2
Other accounts receivable/payable	98	110	116	121	109
Other financial assets and liabilities	43	37	44	35	41
TOTAL ASSETS	14,378	14,214	14,572	14,310	13,978
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,378	2,442	2,460	2,485	2,538
Portfolio investment	3,842	4,000	3,994	3,894	3,936
Financial Derivatives (other than reserves) and ESOs	12	17	20	36	37
Other investment	4,936	5,130	5,052	5,213	5,043
BY INSTRUMENT					
Equity and investment fund share/units	3,067	3,081	3,066	3,093	3,188
Debt instruments:	8,090	8,491	8,440	8,499	8,329
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	4,706	4,853	4,404	4,575	4,142
Debt securities	3,154	3,361	3,388	3,286	3,286
Loans	140	190	525	482	766
Insurance, pension, standardized guarantee schemes	18	9	36	36	36
Other accounts receivable/payable	73	78	86	121	99
Other financial assets and liabilities	12	17	20	36	37
TOTAL LIABILITIES	11,169	11,589	11,526	11,628	11,554
NET IIP	3,209	2,625	3,046	2,682	2,424

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

2019 Q3	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	32	2,647	11,100	199	13,978
Direct investment	-	-	92	70	161
Portfolio investment	31	2,647	9,030	6	11,714
Financial Derivatives (other than reserves) and ESOs	-	-	41	-	41
Other investment	1	-	1,768	124	1,893
Reserve Assets	-	-	169	-	169
LIABILITIES	-	2,530	6,613	2,411	11,554
Direct investment	-	-	840	1,698	2,538
Portfolio investment	-	2,530	1,099	307	3,936
Financial Derivatives (other than reserves) and ESOs	-	-	37	-	37
Other investment	-	-	4,637	406	5,043
NET IIP	32	117	4,487	(2,212)	2,424

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

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.

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.

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.

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.

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.

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.

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

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.

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.

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.

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.

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.

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.

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.

Other Accounts Receivable/Payable

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

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

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