



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER 4/2018

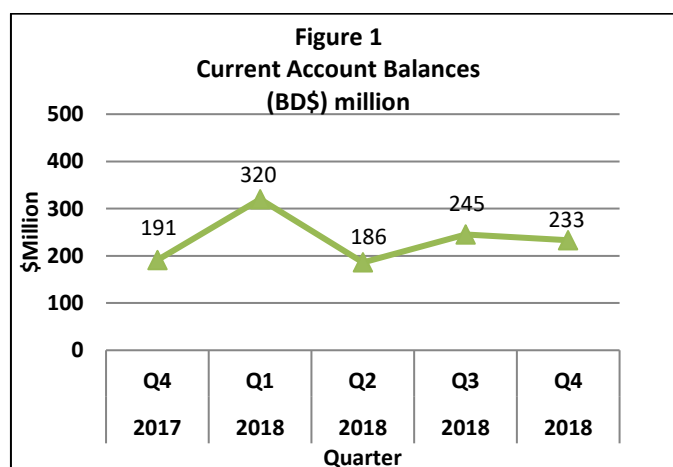
BALANCE OF PAYMENTS

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$233 million in the fourth quarter of 2018 (Figure 1 and Table 1). This represented a \$42 million increase year-over-year.

- The deficit on the goods account increased by \$41 million to \$276 million.
- Services transactions realised a surplus of \$116 million in the fourth quarter of 2018.
- The surplus on Bermuda's primary income account grew to \$430 million in the fourth quarter of 2018.



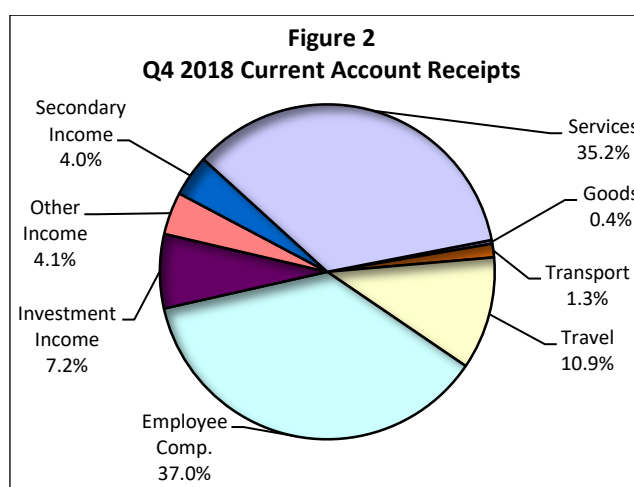
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's assets accounts resulted in a net lending position of \$227 million (Table 1). Factors influencing this performance include:

- Bermuda's net acquisition of financial assets resulted in an increase of \$628 million compared to an increase of \$641 million in 2017.
- Bermuda increased its net incurrence of financial liabilities by \$401 million this quarter compared to an increase of \$533 million in 2017.

Current Account Surplus = \$233 million

The current account surplus stood at \$233 million for the fourth quarter of 2018 (Table 1). This represented a \$42 million increase from the \$191 million surplus in the fourth quarter of 2017. The rise in the current account surplus reflected mostly a higher surplus balance on the services account and the primary income account which offset a widening deficit balance on the goods account.



Goods Account Deficit = \$276 million

The goods account deficit widened by \$41 million during the fourth quarter of 2018. Year-over-year, the value of imported goods increased to \$280 million (Table 1). This was reflected in a \$39 million rise in imported goods from Bermuda's largest trading partner the United States of America. Imports from the United Kingdom grew \$2 million. Imported goods from Canada and the Caribbean declined by \$3 million and \$2 million, respectively. Among the commodity groups, the growth in imports was reflected primarily in the imports of Fuel which grew by \$26 million. Imports of Machinery and Finished Equipment increased \$5 million and \$4 million, respectively. Imports of Food, Beverages and Tobacco rose \$1 million.

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

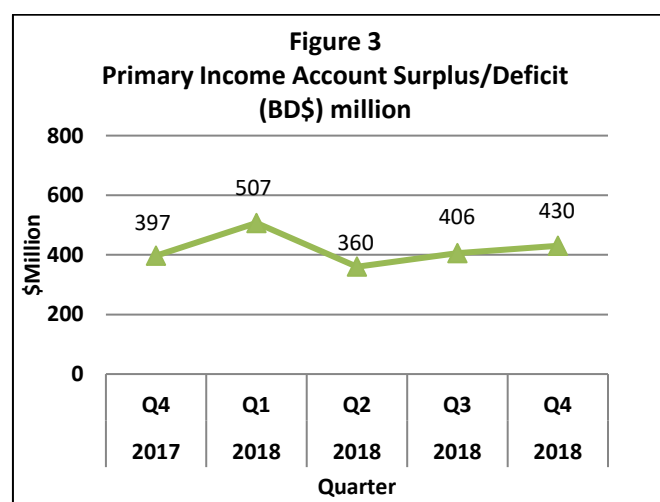
Services Account Surplus = \$116 million

The surplus on the services account rose \$37 million during the fourth quarter of 2018. This increase reflected a \$19 million rise in the surplus balance on travel services due to increased expenditure by visitors. The surplus on financial services grew by \$18 million due to higher fees and commissions. A lower deficit balance on transportation services contributed positively to the surplus balance and reflected higher receipts from auxiliary air transport services.

In contrast, the surplus balance on government services dipped to \$9 million from \$13 million a year ago. The other services category recorded an \$8 million decrease in the surplus balance due to payments related to construction/engineering services. The deficit balance on insurance services widened by \$2 million compared to the corresponding quarter of 2017.

Primary Income Account Surplus = \$430 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. The surplus on the primary income account increased by \$33 million during the fourth quarter of 2018 (Figure 3 and Table 1). This growth reflected primarily an increase in employee compensation which offset a small decrease in investment income.

**Secondary Income Account Deficit = \$37 million**

The secondary income account reflects the balances on donations, insurance claims and other transfers between residents and non-residents. The deficit on the secondary income account contracted \$13 million from a year ago due mostly to a decrease in non-life insurance claims paid to non-residents.

INTERNATIONAL INVESTMENT POSITION
(Tables 2 & 3)

****Note that some shifts in the International Investment Position (IIP) positions in 2018 may be due to reclassification of assets and liabilities by reporting entities due to the use of a more detailed survey instrument starting in Q1 2018****

Bermuda's Net IIP Decreased to \$2,571 million

At the end of the fourth quarter 2018, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$2,571 million (Table 2). The net IIP decreased by \$510 million over the third quarter of 2018.

Foreign Assets Fell to \$14,064 million

During the fourth quarter 2018, Bermuda residents' net acquisition position of financial assets fell \$91 million, due mostly to a lower loan balance owed by non-residents to resident entities.

Bermuda's Net Liability Position Increased to \$11,493 million

Bermuda residents' stock of foreign liabilities increased by \$419 million over the third quarter of 2018. The rise in the liability position reflected mostly an increase in debt securities issued by resident institutions and held by non-residents.

IIP by Resident Institutional Sector

The non-financial corporations held a net liability position of \$1,482 million with the rest of the world at the end of the fourth quarter 2018. The general government sector's external liabilities exceeded its external assets by \$378 million. Financial corporations held a net asset position of \$4,402 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 \$28 million at the end of the fourth quarter.

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

Components	2017	2018	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	1,094	820	239	231	307	282	280
SERVICES	950	764	241	236	255	273	262
Transportation	272	175	62	54	64	57	57
Travel	255	194	66	61	62	71	68
Business Services:	423	396	114	122	129	145	138
Insurance Services	75	60	19	22	20	18	19
Financial Services	50	20	12	5	7	8	6
ICT Services	89	80	23	29	27	24	21
Other Services	208	235	59	65	76	94	92
Government Services	0	0	0	0	0	0	0
PRIMARY INCOME	292	165	113	-9	105	69	88
Employee Compensation	56	44	14	15	14	15	16
Investment Income	236	122	100	-24	91	54	72
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	387	265	117	83	93	89	80
TOTAL PAYMENTS	2,723	2,015	711	541	760	714	710
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	18	14	4	4	5	5	4
SERVICES	1,354	1,182	320	315	435	431	378
Transportation	35	40	9	13	13	14	14
Travel	508	466	96	62	197	207	117
Business Services:	756	630	202	197	223	210	238
Insurance Services	72	47	17	16	15	15	15
Financial Services	172	155	56	40	54	61	67
ICT Services	68	58	18	20	20	18	21
Other Services	445	370	111	120	134	116	135
Government Services	55	46	13	44	1	1	9
PRIMARY INCOME	2,023	1,439	510	498	465	475	518
Employee Compensation	1,446	1,048	361	339	345	363	397
Investment Income	393	239	110	94	74	72	77
Other Income	184	152	39	65	46	40	44
SECONDARY INCOME	187	132	67	44	40	48	43
TOTAL RECEIPTS	3,582	2,766	902	861	946	959	943
CURRENT ACCOUNT BALANCES							
GOODS	-1,077	-806	-235	-226	-302	-278	-276
SERVICES	405	417	79	79	180	158	116
Transportation	-237	-135	-53	-41	-50	-44	-43
Travel	253	272	30	1	135	136	49
Business Services:	333	234	88	75	94	65	100
Insurance Services	-3	-13	-2	-6	-5	-3	-4
Financial Services	121	135	43	35	47	53	61
ICT Services	-21	-22	-6	-9	-7	-6	0
Other Services	236	135	52	55	58	22	44
Government Services	55	46	13	44	1	1	9
PRIMARY INCOME	1,731	1,273	397	507	360	406	430
Employee Compensation	1,390	1,004	348	324	331	349	381
Investment Income	157	118	10	118	-17	17	5
Other Income	184	152	39	65	46	40	44
SECONDARY INCOME	-200	-133	-50	-40	-52	-41	-37
CURRENT ACCOUNT BALANCE	859	751	191	320	186	245	233
FINANCIAL ACCOUNT							
Direct Investment	-42	-35	16	-9	-26	0	4
Portfolio Investment	333	-939	881	-720	1,258	-1,477	140
Financial Derivatives	134	133	33	42	83	8	41
Other Investment	-236	323	-286	-144	-330	797	451
Reserve Assets	21	-2	-3	10	-2	-10	-8
NET ACQUISITION OF FIN. ASSETS	211	-520	641	-821	983	-682	628
Direct Investment	-288	24	-117	12	21	-8	49
Portfolio Investment	-365	-35	-462	-29	28	-35	154
Financial Derivatives	-11	-2	-4	-3	16	-15	5
Other Investment	62	-1,261	1,116	-1,151	766	-876	192
NET INCURRENCE OF FIN. LIABILITIES	-602	-1,274	533	-1,172	832	-934	401
TOTAL NET FINANCIAL ACCOUNT	-813	-754	-108	-351	-152	-252	-227
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
NET LENDING (+)/NET BORROWING (-)	813	754	108	351	152	252	227
BALANCING ITEM	-46	3	-82	30	-34	7	-6

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

(BD\$) MILLIONS

Components	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	886	228	265	261	268
Portfolio investment	12,613	11,959	13,012	11,434	11,458
Financial Derivatives (other than reserves) and ESOs	77	35	78	43	37
Other investment	2,365	2,772	2,369	2,257	2,149
Reserve Assets	155	173	171	160	153
BY INSTRUMENT					
Equity and investment fund share/units	792	2,738	2,836	2,726	2,529
Debt instruments:	15,228	12,392	12,981	11,386	11,498
Special drawing rights	-	-	-	-	-
Currency and deposits	948	919	822	601	886
Debt securities	12,862	9,620	10,612	9,128	9,349
Loans	1,321	1,749	1,437	1,566	1,172
Insurance, pension, standardized guarantee schemes	-	1	1	0	0
Other accounts receivable/payable	96	103	110	91	92
Other financial assets and liabilities	77	35	78	43	37
TOTAL ASSETS	16,097	15,166	15,895	14,155	14,064
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,316	2,346	2,304	2,283	2,346
Portfolio investment	1,161	3,795	3,835	3,843	4,001
Financial Derivatives (other than reserves) and ESOs	12	11	27	12	17
Other investment	9,121	5,339	5,803	4,936	5,130
BY INSTRUMENT					
Equity and investment fund share/units	3,271	3,009	2,982	2,972	2,985
Debt instruments:	9,327	8,473	8,960	8,090	8,491
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,504	5,177	5,627	4,706	4,853
Debt securities	206	3,133	3,157	3,154	3,362
Loans	2,597	50	50	140	191
Insurance, pension, standardized guarantee schemes	-	47	39	18	9
Other accounts receivable/payable	19	66	86	72	77
Other financial assets and liabilities	12	11	27	12	17
TOTAL LIABILITIES	12,611	11,492	11,968	11,074	11,493
NET IIP	3,486	3,674	3,927	3,081	2,571

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

2018 Q4	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	28	2,252	11,397	387	14,064
Direct investment	-	-	91	177	268
Portfolio investment	27	2,252	9,159	19	11,458
Financial Derivatives (other than reserves) and ESOs	-	-	37	-	37
Other investment	1	-	1,957	191	2,149
Reserve Assets	-	-	53	-	153
LIABILITIES	-	2,630	6,995	1,869	11,493
Direct investment	-	-	872	1,474	2,346
Portfolio investment	-	2,630	1,070	300	4,001
Financial Derivatives (other than reserves) and ESOs	-	-	17	-	17
Other investment	-	-	5,035	94	5,130
NET IIP	28	-378	4,402	-1,482	2,571

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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