



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER 1/2019

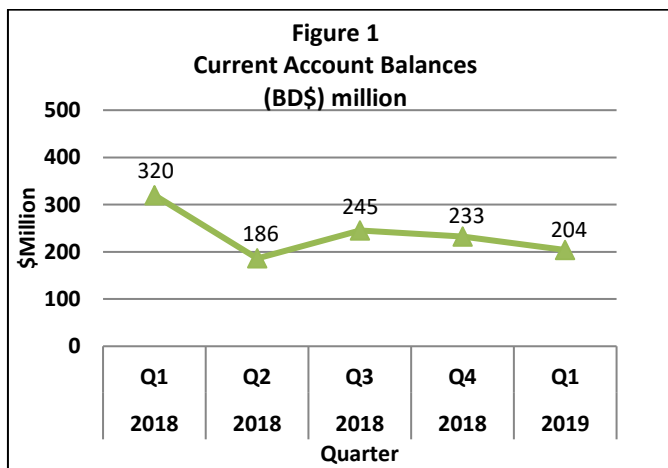
BALANCE OF PAYMENTS

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$204 million in the first quarter of 2019 (Figure 1 and Table 1). This represented a \$116 million decrease year-over-year.

- The deficit on the goods account increased by \$25 million to \$251 million.
- Services transactions realised a surplus of \$75 million in the first quarter of 2019.
- The surplus on Bermuda’s primary income account fell to \$419 million in the first quarter of 2019.



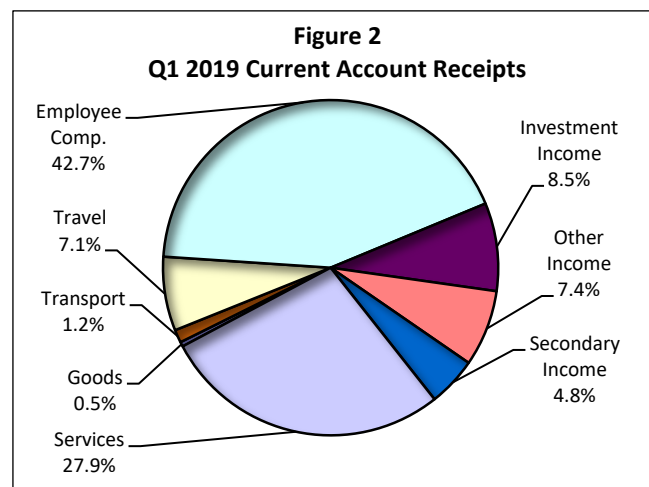
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda’s assets accounts resulted in a net lending position of \$150 million (Table 1). Factors influencing this performance include:

- Bermuda’s net acquisition of financial assets resulted in an increase of \$76 million compared to a decrease of \$821 million in 2018.
- Bermuda decreased its net incurrence of financial liabilities by \$74 million this quarter compared to a decrease of \$1,172 million in 2018.

Current Account Surplus = \$204 million

The current account surplus stood at \$204 million for the first quarter of 2019 (Table 1). This represented a \$116 million decrease from the \$320 million surplus in the first quarter of 2018. The decline in the current account surplus reflected mostly a lower surplus balance on the primary income account and a widening deficit balance on the goods account.



Goods Account Deficit = \$251 million

The goods account deficit widened by \$25 million during the first quarter of 2019. Year-over-year, the value of imported goods increased to \$255 million (Table 1). This was reflected in a \$37 million rise in imported goods from Bermuda’s largest trading partner the United States of America. Imports from the United Kingdom grew \$4 million. Imported goods from the Caribbean and Canada declined by \$15 million and \$2 million, respectively. Among the commodity groups, the growth in imports was reflected primarily in the imports of Machinery which grew by \$11 million. Imports of Fuel and Finished Equipment increased by \$6 million and \$5 million respectively. Basic Materials and Semi-manufactured goods also recorded a \$4 million rise in imports.

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

Services Account Surplus = \$75 million

The surplus on the services account fell \$4 million during the first quarter of 2019. This decrease reflected a \$16 million fall in the surplus balance for other business services due mostly to payments related to construction/engineering services. The surplus on financial services decreased \$8 million due to lower fees and commissions received. A higher deficit balance on transportation services also contributed to the overall decline in the services surplus balance.

In contrast, the surplus balance on government services grew to \$50 million from \$44 million a year ago. ICT services recorded a small surplus balance of \$3 million compared to a deficit balance of \$9 million. The deficit balance on insurance services narrowed by \$4 million reflecting an increase in premiums collected combined with lower premiums paid to non-residents.

Primary Income Account Surplus = \$419 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 decreased by \$88 million during the first quarter of 2019 (Figure 3 and Table 1). This decline reflected primarily a negative balance on net investment income compared to a surplus in the first quarter of 2018.

Secondary Income Account Deficit = \$39 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 contracted \$1 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)

Bermuda’s Net IIP Increased to \$3,054 million

At the end of the first quarter 2019, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,054 million (Table 2). The net IIP increased by \$483 million over the fourth quarter of 2018.

Foreign Assets Rose to \$14,575 million

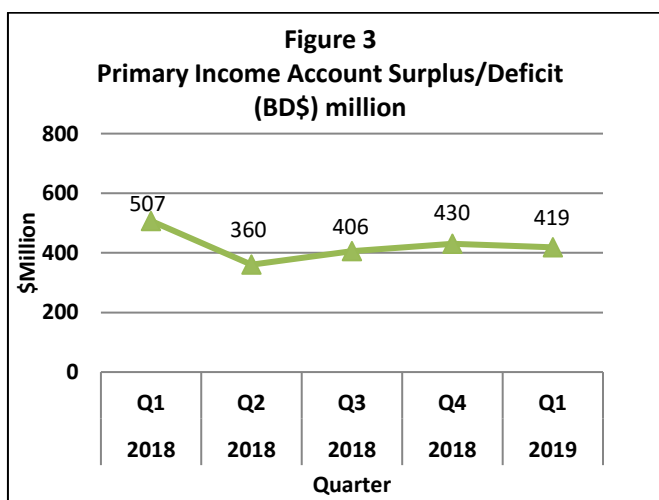
During the first quarter 2019, Bermuda residents’ net acquisition position of financial assets rose \$511 million, due mostly to increased investment by resident entities in debt instruments and equity issued by non-resident entities.

Bermuda’s Net Liability Position Increased to \$11,520 million

Bermuda residents’ stock of foreign liabilities increased by \$27 million over the fourth quarter of 2018. The rise in the liability position reflected mostly an increase in equity liabilities issued by resident institutions and held by non-residents.

IIP by Resident Institutional Sector

The non-financial corporations held a net liability position of \$2,058 million with the rest of the world at the end of the first quarter 2019. The general government sector’s external assets exceeded its external liabilities by \$59 million. Financial corporations held a net asset position of \$5,025 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 first quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

Components	2018 YEAR	2019 YTD	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	1,100	255	231	307	282	280	255
SERVICES	1,027	245	236	255	273	262	245
Transportation	232	55	54	64	57	57	55
Travel	262	61	61	62	71	68	61
Business Services:	533	129	122	129	145	138	129
Insurance Services	79	17	22	20	18	19	17
Financial Services	27	6	5	7	8	6	6
ICT Services	101	19	29	27	24	21	19
Other Business Services	327	86	65	76	94	92	86
Government Services	0	0	0	0	0	0	0
PRIMARY INCOME	253	99	-9	105	69	88	99
Employee Compensation	60	15	15	14	15	16	15
Investment Income	194	83	-24	91	54	72	83
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	345	81	83	93	89	80	81
TOTAL PAYMENTS	2,725	679	541	760	714	710	679
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	18	4	4	5	5	4	4
SERVICES	1,560	320	315	435	431	378	320
Transportation	54	11	13	13	14	14	11
Travel	583	63	62	197	207	117	63
Business Services:	868	195	197	223	210	238	195
Insurance Services	61	16	16	15	15	15	16
Financial Services	223	33	40	54	61	67	33
ICT Services	78	22	20	20	18	21	22
Other Business Services	506	125	120	134	116	135	125
Government Services	55	50	44	1	1	9	50
PRIMARY INCOME	1,957	517	498	465	475	518	517
Employee Compensation	1,444	377	339	345	363	397	377
Investment Income	317	75	94	74	72	77	75
Other Income	196	65	65	46	40	44	65
SECONDARY INCOME	175	42	44	40	48	43	42
TOTAL RECEIPTS	3,709	883	861	946	959	943	883
CURRENT ACCOUNT BALANCES							
GOODS	-1,082	-251	-226	-302	-278	-276	-251
SERVICES	533	75	79	180	158	116	75
Transportation	-177	-44	-41	-50	-44	-43	-44
Travel	321	2	1	135	136	49	2
Business Services:	335	67	75	94	65	100	67
Insurance Services	-18	-2	-6	-5	-3	-4	-2
Financial Services	196	27	35	47	53	61	27
ICT Services	-22	3	-9	-7	-6	0	3
Other Business Services	179	39	55	58	22	44	39
Government Services	54	50	44	1	1	9	50
PRIMARY INCOME	1,703	419	507	360	406	430	419
Employee Compensation	1,385	362	324	331	349	381	362
Investment Income	123	-8	118	-17	17	5	-8
Other Income	196	65	65	46	40	44	65
SECONDARY INCOME	-170	-39	-40	-52	-41	-37	-39
CURRENT ACCOUNT BALANCE	984	204	320	186	245	233	204
FINANCIAL ACCOUNT							
Direct Investment	-31	-30	-9	-26	0	4	-30
Portfolio Investment	-798	-23	-720	1,258	-1,477	140	-23
Financial Derivatives	174	52	42	83	8	41	52
Other Investment	773	64	-144	-330	797	451	64
Reserve Assets	-10	14	10	-2	-10	-8	14
NET ACQUISITION OF FIN. ASSETS	108	76	-821	983	-682	628	76
Direct Investment	73	27	12	21	-8	49	27
Portfolio Investment	119	-65	-29	28	-35	154	-65
Financial Derivatives	3	3	-3	16	-15	5	3
Other Investment	-1,068	-39	-1,151	766	-876	192	-39
NET INCURRENCE OF FIN. LIABILITIES	-873	-74	-1,172	832	-934	401	-74
TOTAL NET FINANCIAL ACCOUNT	-981	-150	-351	-152	-252	-227	-150
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
NET LENDING (+)/NET BORROWING (-)	981	150	351	152	252	227	150
BALANCING ITEM	-3	-54	30	-34	7	-6	-54

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

(BD\$) MILLIONS

Components	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2019 Q1
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	228	265	261	268	173
Portfolio investment	11,959	13,012	11,434	11,458	11,920
Financial Derivatives (other than reserves) and ESOs	35	78	43	37	44
Other investment	2,772	2,369	2,257	2,149	2,271
Reserve Assets	173	171	160	153	166
BY INSTRUMENT					
Equity and investment fund share/units	2,738	2,836	2,726	2,529	2,674
Debt instruments:	12,392	12,981	11,386	11,498	11,857
Special drawing rights	-	-	-	-	-
Currency and deposits	919	822	601	886	998
Debt securities	9,620	10,612	9,128	9,349	9,584
Loans	1,749	1,437	1,566	1,172	1,158
Insurance, pension, standardized guarantee schemes	1	1	0	0	2
Other accounts receivable/payable	103	110	91	92	115
Other financial assets and liabilities	35	78	43	37	44
TOTAL ASSETS	15,166	15,895	14,155	14,064	14,575
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,346	2,304	2,283	2,346	2,451
Portfolio investment	3,795	3,835	3,843	4,001	3,994
Financial Derivatives (other than reserves) and ESOs	11	27	12	17	20
Other investment	5,339	5,803	4,936	5,130	5,055
BY INSTRUMENT					
Equity and investment fund share/units	3,009	2,982	2,972	2,985	3,057
Debt instruments:	8,473	8,960	8,090	8,491	8,443
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	5,177	5,627	4,706	4,853	4,408
Debt securities	3,133	3,157	3,154	3,362	3,388
Loans	50	50	140	191	525
Insurance, pension, standardized guarantee schemes	47	39	18	9	36
Other accounts receivable/payable	66	86	72	77	86
Other financial assets and liabilities	11	27	12	17	20
TOTAL LIABILITIES	11,492	11,968	11,074	11,493	11,520
NET IIP	3,674	3,927	3,081	2,571	3,054

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

2019 Q1	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	28	2,689	11,632	226	14,575
Direct investment	-	-	126	47	173
Portfolio investment	28	2,689	9,194	9	11,920
Financial Derivatives (other than reserves) and ESOs	-	-	44	-	44
Other investment	1	-	2,101	170	2,271
Reserve Assets	-	-	166	-	166
LIABILITIES	-	2,630	6,606	2,284	11,520
Direct investment	-	-	855	1,596	2,451
Portfolio investment	-	2,630	1,063	301	3,994
Financial Derivatives (other than reserves) and ESOs	-	-	20	-	20
Other investment	-	-	4,669	387	5,055
NET IIP	28	59	5,025	-2,058	3,054

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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Department of Statistics
Cedar Park Centre,
48 Cedar Avenue, Hamilton HM 11
P.O. Box HM 3015
Hamilton HM MX, Bermuda

Tel: (441) 297-7761, Fax: (441) 295-8390
E-mail: statistics@gov.bm
Website: www.gov.bm