



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER 4/2019

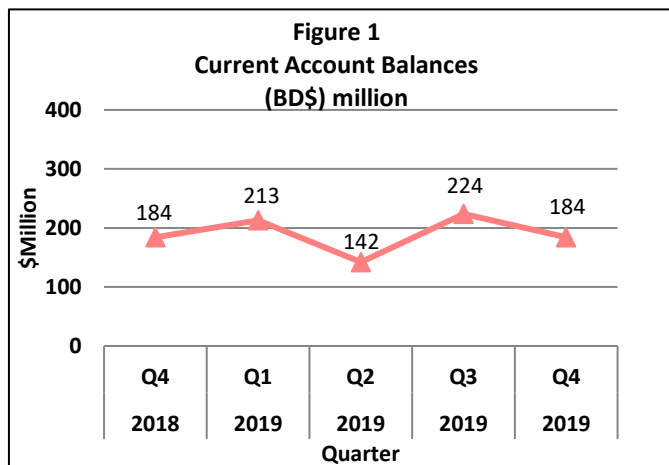
BALANCE OF PAYMENTS

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$184 million in the fourth quarter of 2019 (Figure 1 and Table 1). This surplus was unchanged compared to the fourth quarter of 2018.

- The deficit on the goods account decreased by \$14 million to \$263 million.
- Services transactions realised a surplus of \$103 million in the fourth quarter of 2019.
- The surplus on Bermuda's primary income account fell to \$386 million in the fourth quarter of 2019.



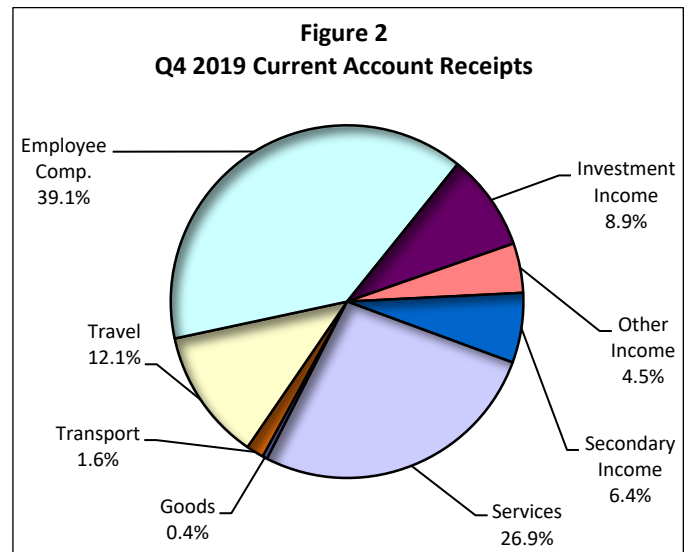
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's assets accounts resulted in a net lending position of \$232 million (Table 1). Factors influencing this year-over-year performance include:

- Transactions related to the net acquisition of financial assets resulted in an accumulation of \$756 million compared to an increase of \$618 million in 2018.
- Bermuda increased its net incurrence of financial liabilities by \$524 million this quarter compared to an increase of \$401 million in 2018.

Current Account Surplus = \$184 million

The current account surplus stood at \$184 million for the fourth quarter of 2019 (Table 1), unchanged from a year ago. A decrease in the deficit on the goods account was offset by declines in the surplus balance on the services account and primary income account as well as a wider deficit on the secondary income account.



Goods Account Deficit = \$263 million

Year-over-year, the goods account deficit narrowed by \$14 million during the fourth quarter of 2019. The value of imported goods decreased to \$263 million (Table 1). This decrease was reflected in imported goods from the United States of America and Canada which fell by \$27 million and \$5 million, respectively. In contrast, imported goods from Canada and the United Kingdom increased by 17 million and \$2 million, respectively. Among the commodity groups, the contraction in imports was reflected primarily in the imports of Fuels, Food Beverages and Tobacco and Machinery which decreased by \$16 million, \$4 million and \$3 million, respectively. In contrast, imports of Finished Equipment increased by \$12 million.

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

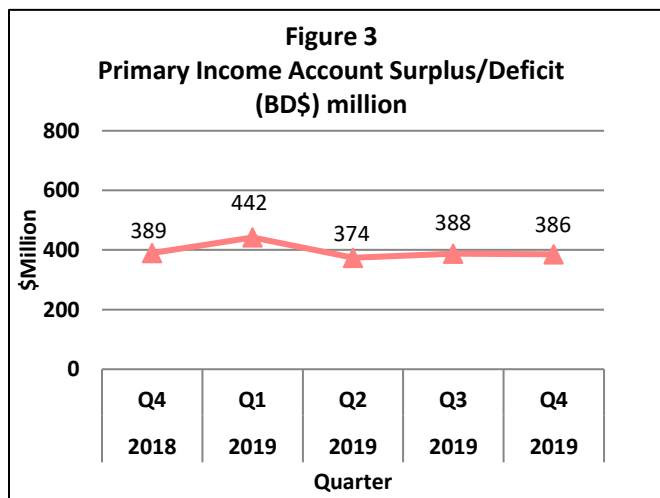
Services Account Surplus = \$103 million

The surplus on the services account decreased by \$6 million during the fourth quarter of 2019. This dip in the surplus balance reflected mostly a \$17 million decrease in net receipts from travel services due to lower expenditure on island by visitors. Financial services recorded a decline of \$8 million primarily due to a decrease in fees and commissions received from non-residents.

In contrast, other business services recorded a larger surplus balance of \$57 million compared to \$46 million a year ago. This increase was influenced by a decrease in payments to non-residents for construction/engineering services that was larger than the decline in receipts related to legal, accounting and management services. Transactions related to insurance services recorded a \$1 million improvement in the deficit balance. Government services recorded a \$3 million increase in the surplus balance

Primary Income Account Surplus = \$386 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 \$3 million during the fourth quarter of 2019 (Figure 3 and Table 1). This decline reflected primarily a \$9 million fall in net employee compensation along with a decrease in other income of \$3 million.



In contrast, the net surplus balance on investment income increased by \$8 million due to larger reinvested earnings.

Secondary Income Account Deficit = \$41 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 \$3 million from a year ago due mostly to an increase in net nonlife insurance claims paid to non-residents and few receipts from miscellaneous current transfers.

INTERNATIONAL INVESTMENT POSITION
(Tables 2 & 3)

Bermuda’s Net IIP Increased to \$3,327 million

At the end of the fourth quarter 2019, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,327 million (Table 2). The net IIP increased by \$903 million over the third quarter of 2019.

Foreign Assets Increased to \$14,707 million

Between the third and fourth quarter 2019, Bermuda residents’ net acquisition position of financial assets rose \$729 million due mostly to increased holdings of debt securities.

Foreign Liabilities Decreased to \$11,380 million

Bermuda residents’ stock of foreign liabilities decreased by \$174 million from the third quarter of 2019. The decline in the liability position reflected mostly a decrease in loans owed to non-residents.

IIP by Resident Institutional Sector

The non-financial corporations held a net liability position of \$2,068 million with the rest of the world at the end of the fourth quarter 2019. The general government sector’s external assets exceeded its external liabilities by \$208 million. Financial corporations held a net asset position of \$5,159 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	2018 YTD Q4	2019 YTD Q4	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	1,100	1,152	281	255	362	268	267
SERVICES	1,078	1,078	267	256	279	281	261
Transportation	232	244	57	55	70	61	57
Travel	254	263	62	62	61	70	70
Business Services:	592	571	149	139	148	150	134
Insurance Services	79	77	19	17	19	18	23
Financial Services	89	76	19	16	22	18	20
ICT Services	99	83	20	19	22	21	20
Other Business Services	325	335	91	86	85	92	71
Government Services	0	0	0	0	0	0	0
PRIMARY INCOME	281	409	93	99	121	103	86
Employee Compensation	60	59	16	15	14	15	15
Investment Income	221	349	77	83	106	88	71
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	345	396	80	81	107	109	99
TOTAL PAYMENTS	2,804	3,034	721	691	869	761	713
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	17	16	4	4	4	4	4
SERVICES	1,555	1,568	377	317	454	433	364
Transportation	42	57	11	11	16	15	14
Travel	583	591	116	59	213	210	108
Business Services:	875	855	240	197	223	206	229
Insurance Services	62	78	15	16	20	21	21
Financial Services	223	189	67	33	44	52	60
ICT Services	78	79	21	22	19	18	20
Other Business Services	512	508	137	126	140	114	128
Government Services	55	66	9	50	1	1	12
PRIMARY INCOME	1,955	1,999	483	541	495	490	472
Employee Compensation	1,447	1,494	362	401	372	369	351
Investment Income	313	304	77	75	76	74	80
Other Income	196	201	44	65	47	47	41
SECONDARY INCOME	172	214	42	41	58	57	57
TOTAL RECEIPTS	3,698	3,796	906	903	1,011	985	897
CURRENT ACCOUNT BALANCES							
GOODS	-1,084	-1,136	-277	-251	-358	-264	-263
SERVICES	477	491	109	61	175	152	103
Transportation	-189	-186	-45	-44	-54	-46	-42
Travel	330	328	55	-3	152	140	38
Business Services:	282	284	92	58	75	56	94
Insurance Services	-17	1	-4	-1	2	3	-3
Financial Services	133	113	48	17	22	34	40
ICT Services	-21	-4	1	2	-3	-3	0
Other Business Services	187	174	46	40	55	22	57
Government Services	54	65	9	50	1	1	12
PRIMARY INCOME	1,674	1,590	389	442	374	388	386
Employee Compensation	1,387	1,434	346	386	358	354	337
Investment Income	92	-45	0	-9	-31	-14	8
Other Income	196	201	44	65	47	47	41
SECONDARY INCOME	-173	-182	-38	-39	-49	-52	-41
CURRENT ACCOUNT BALANCE	894	763	184	213	142	224	184
FINANCIAL ACCOUNT							
Direct Investment	-35	-38	4	-30	-5	-1	-2
Portfolio Investment	-798	241	140	-23	-42	-263	570
Financial Derivatives	121	120	23	39	20	35	25
Other Investment	773	910	458	63	301	377	169
Reserve Assets	-10	10	-8	14	12	-10	-6
NET ACQUISITION OF FIN. ASSETS	51	1,243	618	62	287	138	756
Direct Investment	95	4	49	13	32	46	-87
Portfolio Investment	119	-327	154	-67	-112	-8	-140
Financial Derivatives	3	15	5	3	16	1	-4
Other Investment	-1,067	710	193	-40	168	-173	755
NET INCURRENCE OF FIN. LIABILITIES	-850	403	401	-91	105	-135	524
TOTAL NET FINANCIAL ACCOUNT	-901	-840	-217	-154	-182	-273	-232
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
NET LENDING (+)/NET BORROWING (-)	901	840	217	154	182	273	232
BALANCING ITEM	6	78	33	-59	40	49	48

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

(BD\$) MILLIONS

Components	2018 Q4	2019 Q1	2019 Q2	2019 Q3	2019 Q4
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	196	168	166	161	159
Portfolio investment	11,661	11,920	11,941	11,714	12,251
Financial Derivatives (other than reserves) and ESOs	37	44	35	41	37
Other investment	2,167	2,274	1,989	1,893	2,096
Reserve Assets	153	166	179	169	163
BY INSTRUMENT					
Equity and investment fund share/units	2,458	2,670	2,803	2,915	3,036
Debt instruments:	11,719	11,858	11,472	11,022	11,633
Special drawing rights	-	-	-	-	-
Currency and deposits	886	999	730	652	829
Debt securities	9,552	9,584	9,482	9,128	9,536
Loans	1,172	1,158	1,138	1,131	1,162
Insurance, pension, standardized guarantee schemes	0	2	1	2	1
Other accounts receivable/payable	110	116	121	109	104
Other financial assets and liabilities	37	44	35	41	37
TOTAL ASSETS	14,214	14,572	14,310	13,978	14,707
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,442	2,460	2,485	2,538	2,437
Portfolio investment	4,000	3,994	3,894	3,936	3,826
Financial Derivatives (other than reserves) and ESOs	17	20	36	37	32
Other investment	5,130	5,052	5,213	5,043	5,084
BY INSTRUMENT					
Equity and investment fund share/units	3,081	3,066	3,093	3,188	3,058
Debt instruments:	8,491	8,440	8,499	8,329	8,290
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	4,853	4,404	4,575	4,142	4,440
Debt securities	3,361	3,388	3,286	3,286	3,206
Loans	190	525	482	766	512
Insurance, pension, standardized guarantee schemes	9	36	36	36	35
Other accounts receivable/payable	78	86	121	99	96
Other financial assets and liabilities	17	20	36	37	32
TOTAL LIABILITIES	11,589	11,526	11,628	11,554	11,380
NET IIP	2,625	3,046	2,682	2,424	3,327

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

2019 Q4	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	28	2,658	11,822	199	14,707
Direct investment	-	-	91	68	159
Portfolio investment	27	2,658	9,558	7	12,251
Financial Derivatives (other than reserves) and ESOs	-	-	37	-	37
Other investment	1	-	1,972	123	2,096
Reserve Assets	-	-	163	-	163
LIABILITIES	-	2,450	6,663	2,266	11,380
Direct investment	-	-	872	1,565	2,437
Portfolio investment	-	2,450	1,078	299	3,826
Financial Derivatives (other than reserves) and ESOs	-	-	32	-	32
Other investment	-	-	4,681	403	5,084
NET IIP	28	208	5,159	-2,068	3,327

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)

May 2020

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