



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER 3/2018

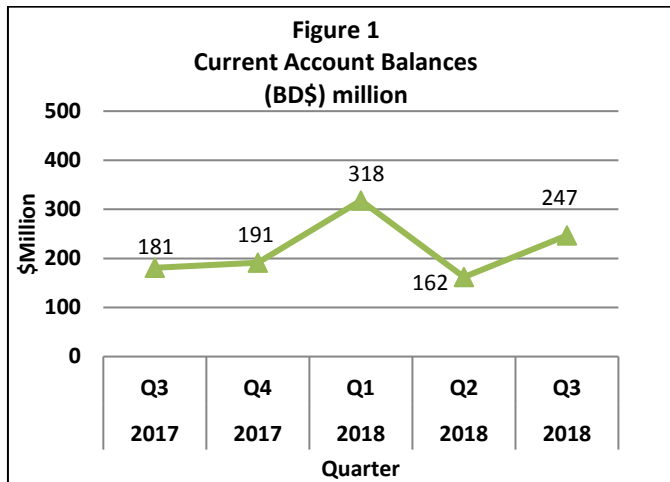
BALANCE OF PAYMENTS

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$247 million in the third quarter of 2018 (Figure 1 and Table 1). This represented a \$66 million increase year-over-year.

- The deficit on the goods account increased by \$36 million to \$278 million.
- Services transactions realised a surplus of \$160 million in the third quarter of 2018.
- The surplus on Bermuda's primary income account grew to \$406 million in the third quarter of 2018.



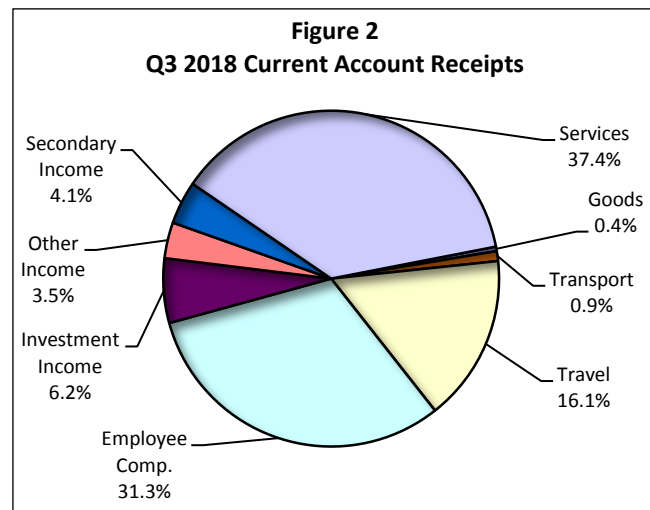
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's assets accounts resulted in a net lending position of \$205 million (Table 1). Factors influencing this performance include:

- Bermuda's net acquisition of financial assets resulted in a withdrawal of \$685 million compared to an increase of \$190 million in 2017.
- Bermuda decreased its net incurrence of financial liabilities by \$891 million this quarter compared to a decrease of \$66 million in 2017.

Current Account Surplus = \$247 million

The current account surplus stood at \$247 million for the third quarter of 2018 (Table 1). This represented a \$66 million increase from the \$181 million surplus in the third quarter of 2017. The rise in the current account surplus reflected mostly a higher surplus balance on the primary income account which offset a widening deficit balance on the goods account.



Goods Account Deficit = \$278 million

The goods account deficit widened by \$36 million during the third quarter of 2018. Year-over-year, the value of imported goods increased to \$282 million (Table 1). This was reflected in a \$36 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 the Caribbean and Canada declined by \$4 million and \$3 million, respectively. Among the commodity groups, the growth in imports was reflected primarily in the imports of fuel and machinery which grew by \$13 million and \$12 million, respectively. Imports of food, beverages and tobacco rose \$4 million while imports of transport equipment and basic materials & semi-manufactured goods grew \$3 million each.

Revenue earned from the exports of goods remained unchanged at \$5 million.

Services Account Surplus = \$160 million

The surplus on the services account rose \$19 million during the third quarter of 2018. The increase reflected a lower deficit balance on transportation services which fell \$12 million during the period due mostly to lower payments for freight transport. The surplus on trade in financial services increased \$43 million reflecting a combination of greater fees and commissions received and lower payments. The surplus on travel services grew \$3 million reflecting increased spending by non-residents in Bermuda. The surplus on government services remained unchanged during the quarter.

In contrast, the surplus balance on the other business services category fell \$33 million due to payments related to construction/engineering services. The deficit balance on information, communication and technology (ICT) services widened by \$2 million. Transactions in insurance services realised a deficit of \$3 million compared to a zero balance in 2017 due primarily to a combination of lower receipts and higher payments related to auxiliary insurance services.

Primary Income Account Surplus = \$406 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 \$76 million during the third quarter of 2018 (Figure 3 and Table 1). This growth reflected primarily a shift from a deficit balance to a surplus balance on net investment income as a result of higher net 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 on the secondary income account contracted \$7 million from a year ago due mostly to a rise in receipts of miscellaneous current transfers by non-profit organisations.

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 \$3,085 million

At the end of the third quarter 2018, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,085 million (Table 2). The net IIP decreased by \$846 million over the second quarter of 2018.

Foreign Assets Fell to \$14,152 million

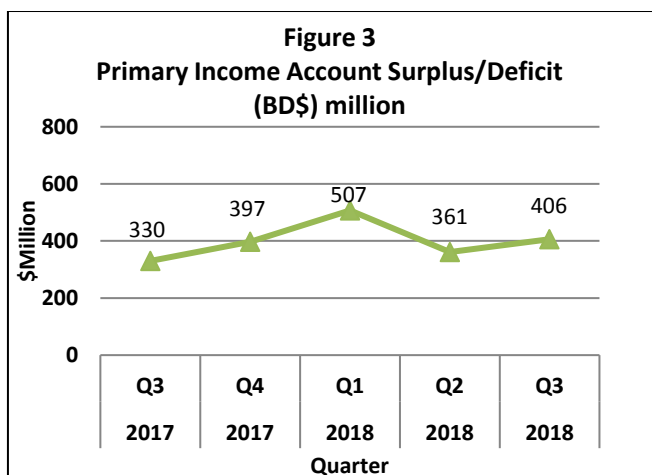
During the third quarter 2018, Bermuda residents’ net acquisition position of financial assets fell \$1,743 million, due mostly to residents decreasing their holdings of debt securities.

Bermuda’s Net Liability Position Decreased to \$11,068 million

Bermuda residents’ stock of foreign liabilities decreased by \$897 million during the third quarter 2018. The fall in the liability position reflected mostly a drop in currency and deposit holdings of financial corporations.

IIP by Resident Institutional Sector

The non-financial corporations held a net liability position of \$1,420 million with the rest of the world at the end of the third quarter 2018. The general government sector’s external liabilities exceeded its external assets by \$78 million. Financial corporations held a net asset position of \$4,555 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 \$29 million at the end of the third quarter.



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

Components	2017	2018 YTD	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	1,094	820	247	239	231	307	282
SERVICES	950	764	242	241	236	255	273
Transportation	272	175	68	62	54	64	57
Travel	255	194	71	66	61	62	71
Business Services:	423	395	102	114	122	129	144
Insurance Services	75	60	17	19	22	20	18
Financial Services	50	20	13	12	5	7	8
ICT Services	89	80	20	23	29	27	24
Other Services	208	235	52	59	65	75	94
Government Services	0	0	0	0	0	0	0
PRIMARY INCOME	292	164	169	113	-9	105	69
Employee Compensation	56	44	14	14	15	14	15
Investment Income	236	121	155	100	-24	91	54
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	387	265	91	117	83	93	89
TOTAL PAYMENTS	2,723	2,014	748	711	541	759	713
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	18	14	5	4	4	5	5
SERVICES	1,354	1,157	382	320	313	411	433
Transportation	35	34	10	9	11	11	11
Travel	508	422	182	96	61	175	186
Business Services:	756	656	189	202	197	223	236
Insurance Services	72	47	17	17	16	15	15
Financial Services	172	181	48	56	40	54	86
ICT Services	68	58	16	18	20	20	18
Other Services	445	370	108	111	120	134	116
Government Services	55	46	1	13	44	1	1
PRIMARY INCOME	2,023	1,439	498	510	498	465	475
Employee Compensation	1,446	1,048	362	361	339	345	363
Investment Income	393	239	97	110	94	74	72
Other Income	184	152	40	39	65	46	40
SECONDARY INCOME	187	132	43	67	44	40	48
TOTAL RECEIPTS	3,582	2,741	929	902	859	921	961
CURRENT ACCOUNT BALANCES							
GOODS	-1,077	-806	-242	-235	-226	-302	-278
SERVICES	405	393	141	79	77	156	160
Transportation	-237	-141	-58	-53	-42	-53	-46
Travel	253	228	111	30	0	113	114
Business Services:	333	260	87	88	75	94	91
Insurance Services	-3	-13	0	-2	-6	-5	-3
Financial Services	121	161	36	43	35	47	79
ICT Services	-21	-22	-4	-6	-9	-7	-6
Other Services	236	135	55	52	55	59	22
Government Services	55	46	1	13	44	1	1
PRIMARY INCOME	1,731	1,274	330	397	507	361	406
Employee Compensation	1,390	1,004	348	348	324	331	349
Investment Income	157	119	-58	10	118	-17	18
Other Income	184	152	40	39	65	46	40
SECONDARY INCOME	-200	-133	-48	-50	-40	-52	-41
CURRENT ACCOUNT BALANCE	859	727	181	191	318	162	247
FINANCIAL ACCOUNT							
Direct Investment	-42	-35	62	16	-9	-26	0
Portfolio Investment	333	-942	-223	881	-720	1,258	-1,480
Financial Derivatives	134	133	34	33	42	83	8
Other Investment	-236	323	332	-286	-144	-330	797
Reserve Assets	21	-2	-16	-3	10	-2	-10
NET ACQUISITION OF FIN. ASSETS	211	-523	190	641	-821	983	-685
Direct Investment	-288	19	98	-117	12	21	-13
Portfolio Investment	-365	59	298	-462	8	40	12
Financial Derivatives	-11	-2	-5	-4	-3	16	-15
Other Investment	62	-1,192	-458	1,116	-1,151	833	-875
NET INCURRENCE OF FIN. LIABILITIES	-602	-1,115	-66	533	-1,134	910	-891
TOTAL NET FINANCIAL ACCOUNT	-813	-592	-256	-108	-313	-73	-205
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
NET LENDING (+)/NET BORROWING (-)	813	592	256	108	313	73	205
BALANCING ITEM	-46	-135	75	-82	-5	-89	-42

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

(BD\$) MILLIONS

Components	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	869	886	228	265	261
Portfolio investment	12,106	12,613	11,959	13,013	11,430
Financial Derivatives (other than reserves) and ESOs	87	77	35	78	43
Other investment	2,739	2,365	2,772	2,369	2,257
Reserve Assets	158	155	173	171	160
BY INSTRUMENT					
Equity and investment fund share/units	778	792	2,739	2,836	2,723
Debt instruments:	15,094	15,228	12,392	12,981	11,386
Special drawing rights	-	-	-	-	-
Currency and deposits	1,019	948	919	822	601
Debt securities	12,355	12,862	9,620	10,612	9,128
Loans	1,626	1,321	1,749	1,437	1,566
Insurance, pension, standardized guarantee schemes	-	-	1	1	0
Other accounts receivable/payable	95	96	103	110	91
Other financial assets and liabilities	87	77	35	78	43
TOTAL ASSETS	15,959	16,097	15,166	15,895	14,152
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,429	2,316	2,343	2,301	2,275
Portfolio investment	1,623	1,161	3,795	3,835	3,843
Financial Derivatives (other than reserves) and ESOs	17	12	11	27	12
Other investment	8,341	9,121	5,339	5,803	4,937
BY INSTRUMENT					
Equity and investment fund share/units	3,274	3,271	3,006	2,978	2,965
Debt instruments:	9,119	9,327	8,472	8,960	8,091
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	5,717	6,504	5,177	5,627	4,706
Debt securities	778	206	3,133	3,157	3,154
Loans	2,595	2,597	50	50	140
Insurance, pension, standardized guarantee schemes	-	-	47	39	18
Other accounts receivable/payable	29	19	66	86	74
Other financial assets and liabilities	17	12	11	27	12
TOTAL LIABILITIES	12,410	12,611	11,489	11,965	11,068
NET IIP	3,549	3,486	3,677	3,931	3,085

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

2018 Q3	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	29	2,356	11,359	409	14,152
Direct investment	-	-	92	169	261
Portfolio investment	28	2,356	9,028	19	11,430
Financial Derivatives (other than reserves) and ESOs	-	-	43	-	43
Other investment	1	-	2,035	221	2,257
Reserve Assets	-	-	160	-	160
LIABILITIES	-	2,434	6,804	1,829	11,068
Direct investment	-	-	840	1,435	2,275
Portfolio investment	-	2,434	1,106	303	3,843
Financial Derivatives (other than reserves) and ESOs	-	-	12	-	12
Other investment	-	-	4,846	92	4,937
NET IIP	29	-78	4,555	-1,420	3,085

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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