



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

QUARTER 2/2019

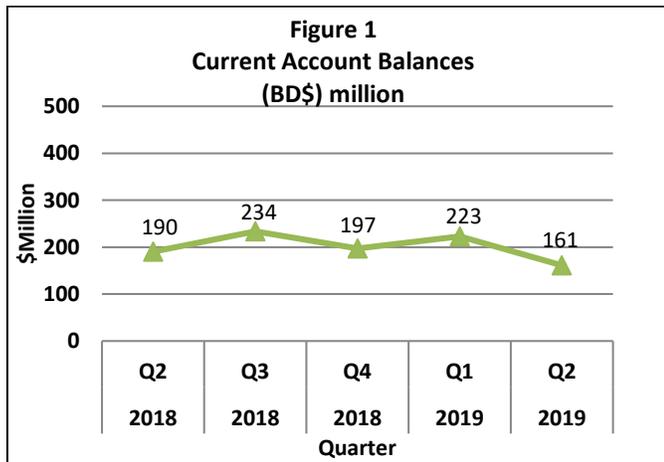
## BALANCE OF PAYMENTS

### FAST FACTS

#### Current Account

The Bermuda current account recorded a surplus of \$161 million in the second quarter of 2019 (Figure 1 and Table 1). This represented a \$29 million decrease year-over-year.

- The deficit on the goods account increased by \$56 million to \$358 million.
- Services transactions realised a surplus of \$191 million in the second quarter of 2019.
- The surplus on Bermuda’s primary income account grew to \$374 million for the second quarter of 2019.



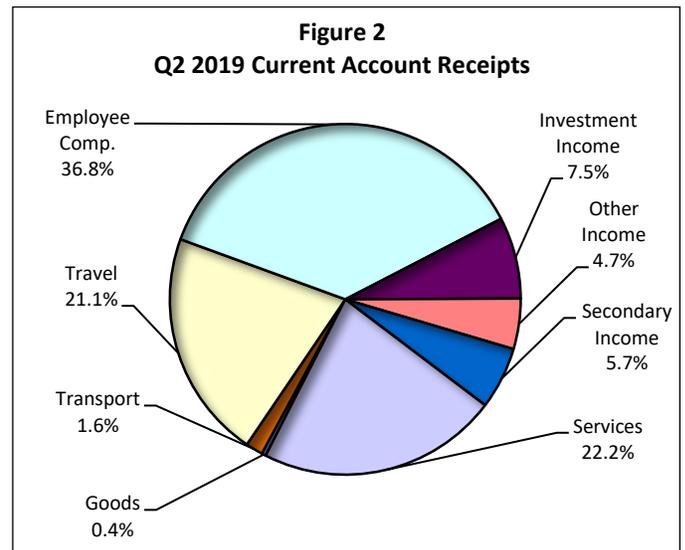
#### Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda’s assets accounts resulted in a net lending position of \$180 million (Table 1). Factors influencing this year-over-year performance include:

- Bermuda’s net acquisition of financial assets resulted in an increase of \$288 million compared to an increase of \$967 million in 2018.
- Bermuda increased its net incurrence of financial liabilities by \$107 million this quarter compared to an increase of \$841 million in 2018.

#### Current Account Surplus = \$161 million

The current account surplus stood at \$161 million for the second quarter of 2019 (Table 1). This represented a \$29 million decrease from the \$190 million surplus in the second quarter of 2018. The decline in the current account surplus reflected mostly a larger deficit balance on the goods account.



#### Goods Account Deficit = \$358 million

Year-over-year, the goods account deficit widened by \$56 million during the second quarter of 2019. The value of imported goods increased to \$362 million (Table 1). This was reflected in a \$48 million rise in imported goods from Bermuda’s largest trading partner the United States of America. Imported goods from the Caribbean and Canada declined by \$19 million and \$11 million, respectively. Imports from the United Kingdom fell less than \$1 million. Among the commodity groups, the growth in imports was reflected primarily in the imports of Machinery which grew by \$54 million. Imports of Finished Equipment increased by \$17 million. In contrast, the value of imported fuel was \$13 million lower compared to the second quarter of 2018.

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

**Services Account Surplus = \$191 million**

The surplus on the services account increased \$9 million during the second quarter of 2019. This rise in the surplus balance reflected mostly a \$14 million rise in net receipts from travel services due to increased expenditure in Bermuda by visitors. The balance on insurance services also improved \$8 million due to higher premiums collected on non-life insurance. Information and communications technology (ICT) services recorded a smaller deficit balance \$3 million compared to a deficit balance of \$7 million a year ago.

In contrast, the surplus balance on financial services fell \$11 million as fewer fees and commissions were received during the second quarter 2019.

**Primary Income Account Surplus = \$374 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 increased by \$10 million during the second quarter of 2019 (Figure 3 and Table 1). This growth reflected primarily a rise in employee compensation. In contrast the net deficit balance on investment income widened by \$1 million and this offset the \$1 million increase recorded in the surplus balance on other primary income transactions.

**Secondary Income Account Deficit = \$46 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 \$7 million from a year ago due mostly to an increase in net nonlife insurance premiums received from non-residents.

**INTERNATIONAL INVESTMENT POSITION (Tables 2 & 3)**

**Bermuda’s Net IIP Decreased to \$2,682 million**

At the end of the second quarter 2019, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$2,682 million (Table 2). The net IIP decreased by \$364 million over the first quarter of 2019.

**Foreign Assets Fell to \$14,311 million**

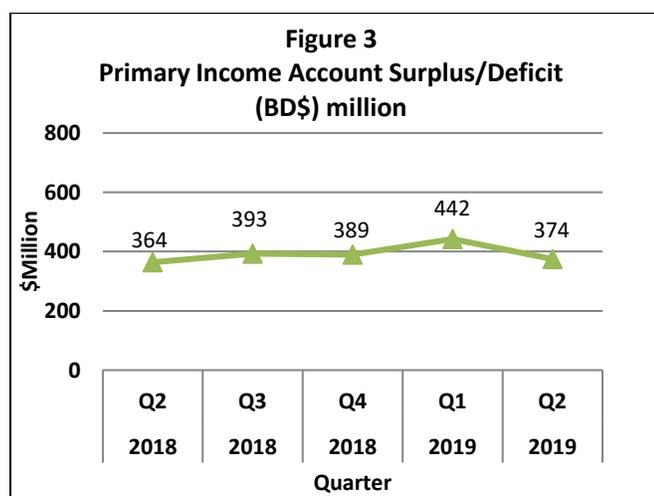
Between the first and second quarter 2019, Bermuda residents’ net acquisition position of financial assets fell \$261 million due mostly to decreased holdings of currency and deposits with non-resident entities.

**Bermuda’s Net Liability Position Increased to \$11,628 million**

Bermuda residents’ stock of foreign liabilities increased by \$102 million over the first quarter of 2019. The rise in the liability position reflected mostly an increase 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 \$2,114 million with the rest of the world at the end of the second quarter 2019. The general government sector’s external assets exceeded its external liabilities by \$136 million. Financial corporations held a net asset position of \$4,633 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 \$27 million at the end of the second quarter.



**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**

**TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS<sup>1</sup>**

Components	2018 YTD Q2	2019 YTD Q2	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>537</b>	<b>617</b>	<b>307</b>	<b>282</b>	<b>281</b>	<b>255</b>	<b>362</b>
<b>SERVICES</b>	<b>492</b>	<b>509</b>	<b>254</b>	<b>269</b>	<b>255</b>	<b>246</b>	<b>264</b>
Transportation	117	125	64	57	57	55	70
Travel	123	122	61	69	62	62	61
Business Services:	251	262	129	142	136	129	133
Insurance Services	42	35	20	18	19	17	18
Financial Services	12	14	7	8	6	6	8
ICT Services	56	42	27	23	20	19	22
Other Business Services	141	171	76	93	91	86	85
Government Services	0	0	0	0	0	0	0
<b>PRIMARY INCOME</b>	<b>107</b>	<b>220</b>	<b>114</b>	<b>80</b>	<b>93</b>	<b>99</b>	<b>121</b>
Employee Compensation	29	30	14	15	16	15	14
Investment Income	78	190	100	66	77	83	106
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>176</b>	<b>185</b>	<b>93</b>	<b>89</b>	<b>80</b>	<b>81</b>	<b>104</b>
<b>TOTAL PAYMENTS</b>	<b>1,312</b>	<b>1,531</b>	<b>768</b>	<b>721</b>	<b>709</b>	<b>681</b>	<b>850</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>8</b>	<b>8</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>SERVICES</b>	<b>749</b>	<b>772</b>	<b>437</b>	<b>429</b>	<b>377</b>	<b>317</b>	<b>454</b>
Transportation	21	28	10	11	11	11	16
Travel	261	272	201	206	116	59	213
Business Services:	422	420	224	212	240	197	223
Insurance Services	32	36	16	16	15	16	20
Financial Services	94	76	54	61	67	33	44
ICT Services	39	41	20	18	21	22	19
Other Business Services	257	266	135	118	137	126	140
Government Services	45	52	1	1	9	50	1
<b>PRIMARY INCOME</b>	<b>999</b>	<b>1,036</b>	<b>478</b>	<b>474</b>	<b>483</b>	<b>541</b>	<b>495</b>
Employee Compensation	723	773	362	362	362	401	372
Investment Income	164	151	70	72	77	75	76
Other Income	111	112	46	40	44	65	47
<b>SECONDARY INCOME</b>	<b>82</b>	<b>99</b>	<b>39</b>	<b>47</b>	<b>42</b>	<b>41</b>	<b>58</b>
<b>TOTAL RECEIPTS</b>	<b>1,839</b>	<b>1,915</b>	<b>958</b>	<b>954</b>	<b>906</b>	<b>903</b>	<b>1,011</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-529</b>	<b>-609</b>	<b>-302</b>	<b>-278</b>	<b>-277</b>	<b>-251</b>	<b>-358</b>
<b>SERVICES</b>	<b>257</b>	<b>262</b>	<b>182</b>	<b>161</b>	<b>122</b>	<b>71</b>	<b>191</b>
Transportation	-97	-98	-54	-47	-45	-44	-54
Travel	138	150	139	137	55	-3	153
Business Services:	171	158	95	70	104	68	91
Insurance Services	-10	1	-5	-3	-4	-1	3
Financial Services	82	63	47	53	61	27	36
ICT Services	-17	-1	-7	-5	1	2	-3
Other Business Services	116	95	60	25	46	40	55
Government Services	45	52	1	1	9	50	1
<b>PRIMARY INCOME</b>	<b>892</b>	<b>817</b>	<b>364</b>	<b>393</b>	<b>389</b>	<b>442</b>	<b>374</b>
Employee Compensation	694	743	348	347	346	386	358
Investment Income	86	-39	-30	6	0	-9	-31
Other Income	111	112	46	40	44	65	47
<b>SECONDARY INCOME</b>	<b>-94</b>	<b>-85</b>	<b>-53</b>	<b>-42</b>	<b>-38</b>	<b>-39</b>	<b>-46</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>527</b>	<b>384</b>	<b>190</b>	<b>234</b>	<b>197</b>	<b>223</b>	<b>161</b>
<b>FINANCIAL ACCOUNT</b>							
Direct Investment	-39	-36	-30	0	4	-30	-6
Portfolio Investment	538	-65	1,258	-1,477	140	-23	-42
Financial Derivatives	103	60	72	-5	23	39	20
Other Investment	-481	365	-331	796	458	63	302
Reserve Assets	8	26	-2	-10	-8	14	12
<b>NET ACQUISITION OF FIN. ASSETS</b>	<b>129</b>	<b>350</b>	<b>967</b>	<b>-697</b>	<b>618</b>	<b>62</b>	<b>288</b>
Direct Investment	43	48	30	3	49	13	35
Portfolio Investment	-1	-179	28	-35	154	-67	-112
Financial Derivatives	13	19	16	-15	5	3	16
Other Investment	-385	128	766	-875	193	-40	168
<b>NET INCURRENCE OF FIN. LIABILITIES</b>	<b>-329</b>	<b>16</b>	<b>841</b>	<b>-922</b>	<b>401</b>	<b>-91</b>	<b>107</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-458</b>	<b>-334</b>	<b>-127</b>	<b>-225</b>	<b>-217</b>	<b>-154</b>	<b>-180</b>
<b>TOTAL NET CAPITAL ACCOUNT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET LENDING (+)/NET BORROWING (-)</b>	<b>458</b>	<b>334</b>	<b>127</b>	<b>225</b>	<b>217</b>	<b>154</b>	<b>180</b>
<b>BALANCING ITEM</b>	<b>-68</b>	<b>-50</b>	<b>-64</b>	<b>-8</b>	<b>20</b>	<b>-69</b>	<b>19</b>

TABLE 2 - INTERNATIONAL INVESTMENT POSITION<sup>1,2</sup>

(BD\$) MILLIONS

Components	2018 Q2	2018 Q3	2018 Q4	2019 Q1	2019 Q2
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	199	194	196	169	166
Portfolio investment	13,204	11,715	11,661	11,920	11,941
Financial Derivatives (other than reserves) and ESOs	78	43	37	44	35
Other investment	2,377	2,264	2,167	2,273	1,990
Reserve Assets	171	160	153	166	179
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	2,769	2,659	2,458	2,670	2,803
Debt instruments:	13,182	11,675	11,719	11,858	11,472
Special drawing rights	-	-	-	-	-
Currency and deposits	822	601	886	998	730
Debt securities	10,804	9,410	9,552	9,584	9,482
Loans	1,437	1,566	1,172	1,158	1,138
Insurance, pension, standardized guarantee schemes	1	0	0	2	1
Other accounts receivable/payable	118	98	110	116	122
Other financial assets and liabilities	78	43	37	44	35
<b>TOTAL ASSETS</b>	<b>16,029</b>	<b>14,378</b>	<b>14,214</b>	<b>14,572</b>	<b>14,311</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,388	2,378	2,442	2,460	2,485
Portfolio investment	3,835	3,842	4,000	3,994	3,894
Financial Derivatives (other than reserves) and ESOs	27	12	17	20	36
Other investment	5,803	4,936	5,130	5,052	5,213
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,065	3,067	3,081	3,066	3,093
Debt instruments:	8,960	8,090	8,491	8,440	8,499
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	5,627	4,706	4,853	4,404	4,575
Debt securities	3,157	3,154	3,361	3,388	3,286
Loans	50	140	190	525	482
Insurance, pension, standardized guarantee schemes	39	18	9	36	36
Other accounts receivable/payable	86	73	78	86	121
Other financial assets and liabilities	27	12	17	20	36
<b>TOTAL LIABILITIES</b>	<b>12,052</b>	<b>11,169</b>	<b>11,589</b>	<b>11,526</b>	<b>11,628</b>
<b>NET IIP</b>	<b>3,977</b>	<b>3,209</b>	<b>2,625</b>	<b>3,046</b>	<b>2,682</b>

TABLE 3 - IIP BY RESIDENT INSTITUTIONAL SECTOR — (BD\$) MILLIONS<sup>1</sup>

2019 Q2	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>27</b>	<b>2,666</b>	<b>11,384</b>	<b>234</b>	<b>14,311</b>
Direct investment	-	-	97	69	166
Portfolio investment	27	2,666	9,238	10	11,941
Financial Derivatives (other than reserves) and ESOs	-	-	35	-	35
Other investment	0	-	1,835	155	1,990
Reserve Assets	-	-	179	-	179
<b>LIABILITIES</b>	<b>-</b>	<b>2,530</b>	<b>6,751</b>	<b>2,347</b>	<b>11,628</b>
Direct investment	-	-	860	1,625	2,485
Portfolio investment	-	2,530	1,060	304	3,894
Financial Derivatives (other than reserves) and ESOs	-	-	36	-	36
Other investment	-	-	4,795	419	5,213
<b>NET IIP</b>	<b>27</b>	<b>136</b>	<b>4,633</b>	<b>-2,114</b>	<b>2,682</b>

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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