



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED JUNE 2018

FAST FACTS

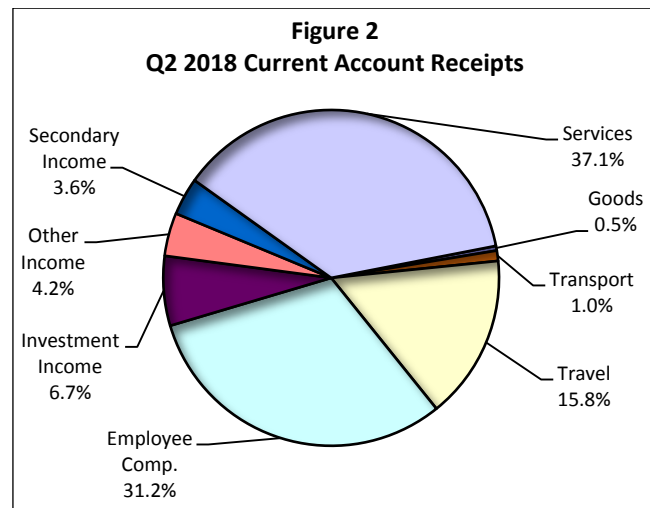
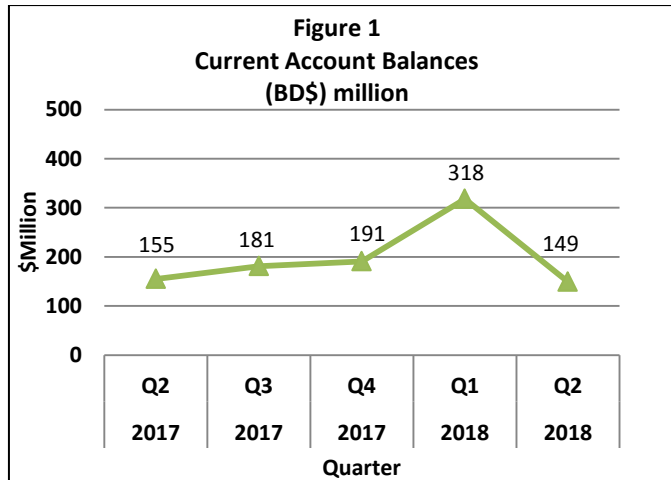
Current Account

The Bermuda current account recorded a surplus of \$149 million in the second quarter of 2018 (Figure 1 and Table 1). This represented a \$6 million decrease year-over-year.

- § The deficit on the goods account decreased by \$39 million to \$314 million.
- § Services transactions realised a surplus of \$154 million in the second quarter of 2018.
- § The surplus on Bermuda's primary income account fell to \$362 million in the second quarter of 2018.

Current Account Surplus = \$149 million

The current account surplus stood at \$149 million for the second quarter of 2018 (Table 1). This represented a \$6 million decrease from the \$155 million surplus in the second quarter of 2017. The fall in the current account surplus reflected mostly a decline in the surplus balance on the primary income account which offset improved balances on the goods and services accounts.



Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's asset accounts resulted in a net lending position of \$95 million (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in a increase of \$998 million compared to a withdrawal of \$216 million in 2017.
- § Bermuda increased its net incurrence of financial liabilities by \$903 million this quarter compared to a decrease of \$366 million in 2017.

Goods Account Deficit = \$314 million

Year-over-year, the value of imported goods decreased to \$319 million (Table 1). This was reflected in an \$18 million decline in imported goods from Bermuda's largest trading partner the United States of America. Imports from the United Kingdom declined \$9 million while goods from Canada fell \$4 million. Among the commodity groups, the fall in imports was reflected primarily in the imports of finished equipment which decreased by \$32 million, transport equipment which fell by \$19 million and the commodity group food, beverages and tobacco which declined by \$4 million.

Revenue earned from the exports of goods grew by \$1 million to \$5 million.

Services Account Surplus Increased \$23 million

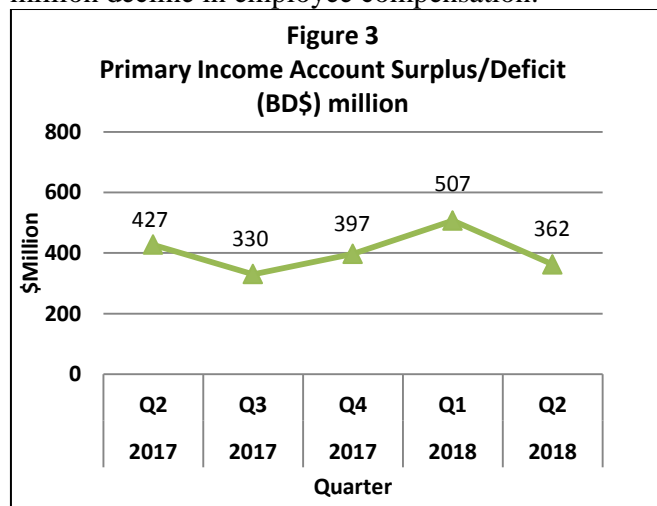
The surplus on the services account rose to \$154 million during the second quarter of 2018. The increase reflected a lower deficit balance on transportation services which fell \$13 million during the period due mostly to lower payments for freight transport. The surplus on trade in financial services increased \$22 million reflecting a combination of greater fees and commissions received and lower payments. The surplus on government services remained unchanged during the quarter.

In contrast, the surplus balance on the other business services category fell \$6 million due to payments related to construction/engineering services. The surplus on travel services dipped \$2 million reflecting an increase in overseas spending by residents that offset a small increase in visitor expenditure in Bermuda.

The deficit balance on information, communication and technology (ICT) services widened by \$1 million. Transactions in insurance services realised a deficit of \$5 million compared to a surplus of \$1 million in 2017 due primarily to lower receipts from auxiliary insurance services.

Primary Income Account Surplus Fell \$65 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 to \$362 million from \$427 million in 2017 (Figure 3 and Table 1). This decline reflected primarily a deficit balance on net investment income as a result of lower net reinvested earnings as well as a \$16 million decline in employee compensation.



Secondary Income Account Deficit = \$52 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 widened \$1 million from a year ago due mostly to payments of nonlife insurance claims.

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

****Note that some shifts in 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 Increased to \$3,957 million

At the end of the second quarter 2018, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,957 million (Table 2). The net IIP increased by \$274 million over the first quarter of 2018.

Foreign Assets Increased to \$15,909 million

During the second quarter 2018, Bermuda residents’ net acquisition position of financial assets increased \$743 million, due mostly to residents increasing their holdings of debt securities.

Bermuda’s Net Liability Position Increased to \$11,952 million

Bermuda residents’ stock of foreign liabilities grew by \$469 million during the second quarter 2018. The increase in the liability position reflected mostly a rise in currency and deposit holdings of financial corporations.

IIP by Resident Institutional Sector

The non-financial corporations held a net liability position of \$1,384 million with the rest of the world at the end of the second quarter 2018. The general government sector’s external liabilities exceeded its external assets by \$22 million. Financial corporations held a net asset position of \$5,335 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\$) MILLIONS¹

Components	2017	2018 YTD	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	1,094	550	358	247	239	231	319
SERVICES	950	493	243	242	241	236	256
Transportation	272	119	76	68	62	54	65
Travel	255	123	59	71	66	61	62
Business Services:	423	251	108	102	114	122	129
Insurance services	75	42	21	17	19	22	20
Financial services	50	12	13	13	12	5	7
ICT services	89	56	24	20	23	29	27
Other services	208	141	50	52	59	66	76
Government services	0	0	0	0	0	0	0
PRIMARY INCOME	292	95	75	169	113	-9	104
Employee Compensation	56	29	14	14	14	15	14
Investment Income	236	66	61	155	100	-24	90
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	387	176	90	91	117	83	92
TOTAL PAYMENTS	2,723	1,313	765	748	711	541	772
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	18	9	4	5	4	4	5
SERVICES	1,354	724	374	382	320	313	411
Transportation	35	22	9	10	9	11	11
Travel	508	236	174	182	96	61	175
Business Services:	756	420	190	189	202	197	223
Insurance services	72	31	21	17	17	16	15
Financial services	172	94	37	48	56	40	54
ICT services	68	40	18	16	18	20	20
Other services	445	254	113	108	111	120	134
Government services	55	45	1	1	13	44	1
PRIMARY INCOME	2,023	963	502	498	510	498	465
Employee Compensation	1,446	684	361	362	361	339	345
Investment Income	393	167	96	97	110	94	74
Other Income	184	111	45	40	39	65	46
SECONDARY INCOME	187	84	39	43	67	44	40
TOTAL RECEIPTS	3,582	1,780	920	929	902	859	921
CURRENT ACCOUNT BALANCES							
GOODS	-1,077	-541	-353	-242	-235	-226	-314
SERVICES	405	231	131	141	79	76	154
Transportation	-237	-96	-67	-58	-53	-42	-54
Travel	253	113	115	111	30	0	113
Business Services:	333	169	82	87	88	75	94
Insurance services	-3	-11	1	0	-2	-6	-5
Financial services	121	82	25	36	43	35	47
ICT services	-21	-16	-6	-4	-6	-9	-7
Other services	236	113	64	55	52	55	58
Government services	55	45	1	1	13	44	1
PRIMARY INCOME	1,731	869	427	330	397	507	362
Employee Compensation	1,390	655	347	348	348	324	331
Investment Income	157	102	34	-58	10	118	-16
Other Income	184	111	45	40	39	65	46
SECONDARY INCOME	-200	-92	-51	-47	-50	-40	-52
CURRENT ACCOUNT BALANCE	859	467	155	181	191	318	149
FINANCIAL ACCOUNT							
Direct investment	-42	521	7	62	16	81	440
Portfolio investment	333	38	-425	-223	881	-768	806
Financial Derivatives	134	125	49	34	33	42	83
Other investment	-236	-516	126	332	-286	-186	-329
Reserve assets	21	8	26	-16	-3	10	-2
NET ACQUISITION OF FINANCIAL ASSETS	211	177	-216	190	641	-821	998
Direct investment	-288	28	32	98	-117	11	17
Portfolio investment	-365	47	28	298	-462	8	40
Financial Derivatives	-11	13	12	-5	-4	-3	16
Other investment	62	-322	-437	-458	1,116	-1,152	830
NET INCURRENCE OF FINANCIAL LIABILITIES	-602	-234	-366	-66	533	-1,136	903
TOTAL NET FINANCIAL ACCOUNT	-813	-410	-150	-256	-108	-315	-95
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	813	410	150	256	108	315	95
BALANCING ITEM	-46	-57	-5	75	-82	-2	-54

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION
TABLE 2 - INTERNATIONAL INVESTMENT POSITION (IIP)^{1,2}

(BD\$) MILLIONS

Components	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	804	869	886	1,747	2,226
Portfolio investment	12,974	12,106	12,613	11,313	11,927
Financial Derivatives (other than reserves) and ESOs	95	87	77	35	78
Other investment	2,405	2,739	2,365	1,897	1,507
Reserve Assets	174	158	155	173	171
BY INSTRUMENT					
Equity and investment fund share/units	799	778	792	2,739	2,846
Debt instruments:	15,558	15,094	15,228	12,392	12,985
Special drawing rights	-	-	-	-	-
Currency and deposits	859	1,019	948	918	821
Debt securities	13,152	12,355	12,862	10,494	11,477
Loans	1,458	1,626	1,321	876	571
Insurance, pension, standardized guarantee schemes	-	-	-	1	1
Other accounts receivable/payable	89	95	96	103	114
Other financial assets and liabilities	95	87	77	35	78
TOTAL ASSETS	16,453	15,959	16,097	15,166	15,909
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,327	2,429	2,316	2,352	2,307
Portfolio investment	1,324	1,623	1,161	3,795	3,835
Financial Derivatives (other than reserves) and ESOs	22	17	12	11	27
Other investment	8,827	8,341	9,121	5,324	5,784
BY INSTRUMENT					
Equity and investment fund share/units	3,181	3,274	3,271	3,006	2,978
Debt instruments:	9,297	9,119	9,327	8,466	8,947
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,185	5,717	6,504	5,176	5,626
Debt securities	470	778	206	3,142	3,163
Loans	2,580	2,595	2,597	41	41
Insurance, pension, standardized guarantee schemes	-	-	-	47	39
Other accounts receivable/payable	62	29	19	60	77
Other financial assets and liabilities	22	17	12	11	27
TOTAL LIABILITIES	12,500	12,410	12,611	11,483	11,952
NET IIP	3,953	3,549	3,486	3,683	3,957

TABLE 3 - IIP by Resident Institutional Sector — (BD\$) MILLIONS¹

2018 Q2	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	27	2,412	13,021	448	15,909
Direct investment	-	-	2,048	178	2,226
Portfolio investment	27	2,412	9,470	17	11,927
Financial Derivatives (other than reserves) and ESOs	-	-	78	-	78
Other investment	-	-	1,255	252	1,507
Reserve Assets	-	-	171	-	171
LIABILITIES	-	2,434	7,687	1,832	11,952
Direct investment	-	-	869	1,438	2,307
Portfolio investment	-	2,434	1,100	301	3,835
Financial Derivatives (other than reserves) and ESOs	-	-	27	-	27
Other investment	-	-	5,691	931	5,784
NET IIP	27	(22)	5,335	(1,384)	3,957

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 (IIP)?*

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 BMA 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