



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

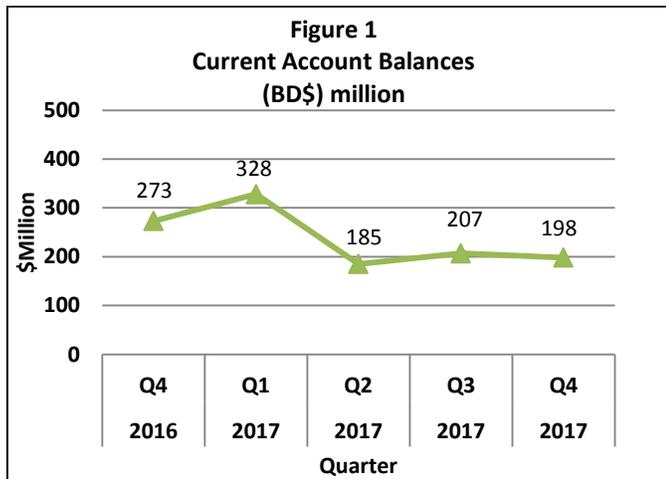
FOR THE QUARTER ENDED DECEMBER 2017

## FAST FACTS

### Current Account

The Bermuda current account recorded a surplus of \$198 million in the fourth quarter of 2017 (Figure 1 and Table 1). This represented a \$75 million decrease year-over-year.

- § The deficit on the goods account narrowed by \$12 million to \$235 million.
- § Services transactions realised a surplus of \$86 million in the fourth quarter of 2017.
- § The surplus on Bermuda's primary income account fell to \$396 million in the fourth quarter of 2017.



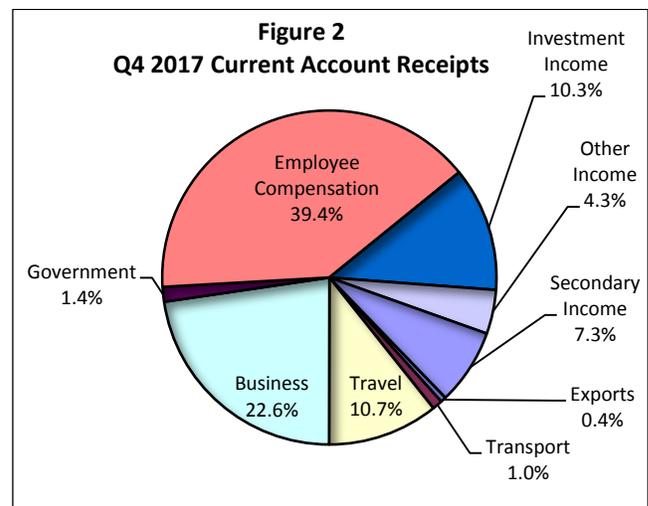
### Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's asset accounts resulted in a net lending position of \$110 million (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in an accumulation of \$643 million compared to \$1,132 million in 2016.
- § Bermuda increased its net incurrence of financial liabilities by \$533 million this quarter compared to \$764 million in 2016.

### Current account surplus = \$198 million

The current account surplus stood at \$198 million for the fourth quarter of 2017 (Table 1). This represented a \$75 million decrease from the \$273 million surplus in the fourth quarter of 2016. The decline in the current account surplus reflected mostly a lower surplus balance on the primary income account as a result of net investment income.



### The goods account recorded a deficit of \$235 million

Year-over-year, the value of imported goods fell to \$239 million (Table 1). This was reflected in a \$14 million decrease in imported goods from the United States and a \$7 million decline in goods imported from Canada. Among the commodity groups, the imports of fuel fell \$9 million, finished equipment by \$6 million and machinery by \$3 million. In contrast, imports of food, beverages and tobacco increased by \$4 million.

Revenue earned from the exports of goods (including re-exported fuel sold to visiting aircrafts) remained unchanged at \$5 million.

**Services account surplus increased \$1 million**

Receipts from services transactions stood at \$328 million during the quarter, a \$9 million increase year-over-year. Exports of travel services rose \$12 million due to an increase in both air and cruise visitor arrivals, and higher per-person visitor expenditure. Revenue from transportation services edged up \$1 million. In contrast, government services fell \$3 million and receipts from business services dipped \$1 million.

Payments for services received from non-residents totalled \$241 million in the fourth quarter, \$8 million higher than the level recorded in 2016. This outcome reflected mostly an \$11 million increase in payments for business services. Specifically, residents spent more on legal and management consultancy services as reflected in the other business services category.

**Primary Income Surplus decreased \$86 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 for the fourth quarter fell to \$396 million from \$482 million in 2016 (Figure 3 and Table 1). This decrease reflected a lower net surplus on investment income as more dividends were paid out compared to 2016.

The surplus on employee compensation and other income grew by \$5 million and \$4 million, respectively.

**Secondary income recorded a \$50 million deficit**

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 \$3 million from a year ago, due mostly to an increase in social benefits paid to non-residents..

**INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)**

**Bermuda’s net IIP decreased to \$3,488 million**

At the end of the fourth quarter 2017, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,488 million (Table 2). The net IIP decreased by \$65 million over the third quarter of 2017.

**Foreign assets increased, influenced by holdings of debt securities**

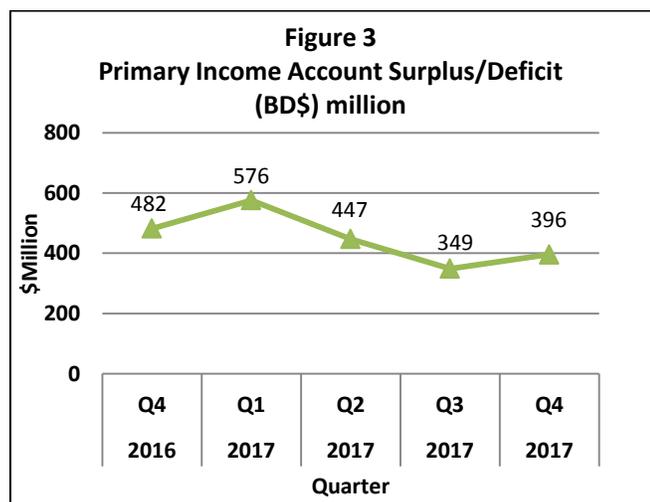
During the fourth quarter 2017, Bermuda residents’ net acquisition position of financial assets increased \$135 million. Residents grew their holdings of debt securities (mostly in the form of money market instruments) by \$507 million during the quarter.

**Bermuda’s net liability position increased**

Bermuda residents’ stock of foreign liabilities increased by \$201 million during the fourth quarter 2017. The growth in the liability position was associated mostly with a \$787 million rise in currency and deposits which was partly offset by a \$572 million fall in debt securities.

**IIP by institutional sector (Table 3)**

Financial corporations held a net asset position of \$4,745 million on the strength of portfolio investment holdings such as bonds, notes and money market instruments. Non-profit institutions serving households also recorded a net asset position of \$30 million at the end of the fourth quarter. The general government sector’s external assets exceeded its external liabilities by \$22 million. In contrast, the non-financial corporations held a net liability position of \$1,309 million with the rest of the world at the end of the fourth quarter 2017.



**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**
**TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS<sup>1</sup>**

Components	2016	2017	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>980</b>	<b>1,094</b>	<b>252</b>	<b>251</b>	<b>358</b>	<b>247</b>	<b>239</b>
<b>SERVICES</b>	<b>944</b>	<b>950</b>	<b>233</b>	<b>224</b>	<b>243</b>	<b>242</b>	<b>241</b>
Transportation	267	272	66	66	76	68	62
Travel	249	255	64	59	59	71	66
Business Services:	428	423	103	99	108	102	114
Insurance services	74	75	20	18	21	17	19
Financial services	58	50	14	12	13	13	12
ICT services	91	89	23	21	24	20	23
Other services	204	208	46	48	50	52	59
Government services	0	0	0	0	0	0	0
<b>PRIMARY INCOME</b>	<b>323</b>	<b>313</b>	<b>6</b>	<b>-60</b>	<b>80</b>	<b>174</b>	<b>119</b>
Employee Compensation	70	77	19	19	19	19	19
Investment Income	253	236	-13	-80	61	155	100
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>338</b>	<b>387</b>	<b>90</b>	<b>89</b>	<b>90</b>	<b>91</b>	<b>118</b>
<b>TOTAL PAYMENTS</b>	<b>2,585</b>	<b>2,744</b>	<b>582</b>	<b>504</b>	<b>770</b>	<b>753</b>	<b>717</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>19</b>	<b>19</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>5</b>
<b>SERVICES</b>	<b>1,299</b>	<b>1,376</b>	<b>319</b>	<b>275</b>	<b>385</b>	<b>389</b>	<b>328</b>
Transportation	35	35	8	7	9	10	9
Travel	445	513	86	49	182	184	98
Business Services:	767	773	208	179	193	194	207
Insurance services	74	73	17	16	22	17	18
Financial services	171	171	54	30	37	48	56
ICT services	69	67	18	16	17	16	17
Other services	453	462	119	117	117	112	116
Government services	52	55	16	39	1	1	13
<b>PRIMARY INCOME</b>	<b>1,941</b>	<b>2,081</b>	<b>488</b>	<b>515</b>	<b>527</b>	<b>523</b>	<b>515</b>
Employee Compensation	1,444	1,504	361	365	386	387	366
Investment Income	341	392	92	91	95	97	110
Other Income	155	184	35	60	45	40	39
<b>SECONDARY INCOME</b>	<b>160</b>	<b>186</b>	<b>43</b>	<b>37</b>	<b>39</b>	<b>43</b>	<b>67</b>
<b>TOTAL RECEIPTS</b>	<b>3,419</b>	<b>3,662</b>	<b>855</b>	<b>832</b>	<b>955</b>	<b>960</b>	<b>914</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-961</b>	<b>-1,076</b>	<b>-247</b>	<b>-246</b>	<b>-353</b>	<b>-242</b>	<b>-235</b>
<b>SERVICES</b>	<b>355</b>	<b>426</b>	<b>85</b>	<b>51</b>	<b>142</b>	<b>148</b>	<b>86</b>
Transportation	-232	-236	-58	-59	-67	-58	-53
Travel	196	258	21	-10	122	114	32
Business Services:	339	350	106	80	86	91	93
Insurance services	-1	-2	-3	-1	1	0	-2
Financial services	114	121	41	18	25	36	43
ICT services	-22	-22	-4	-5	-7	-4	-6
Other services	249	254	73	69	67	60	58
Government services	52	55	16	39	1	1	13
<b>PRIMARY INCOME</b>	<b>1,618</b>	<b>1,768</b>	<b>482</b>	<b>576</b>	<b>447</b>	<b>349</b>	<b>396</b>
Employee Compensation	1,374	1,428	342	346	367	367	347
Investment Income	88	156	105	170	34	-58	10
Other Income	155	184	35	60	45	40	39
<b>SECONDARY INCOME</b>	<b>-177</b>	<b>-200</b>	<b>-47</b>	<b>-52</b>	<b>-51</b>	<b>-48</b>	<b>-50</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>834</b>	<b>918</b>	<b>273</b>	<b>328</b>	<b>185</b>	<b>207</b>	<b>198</b>
<b>FINANCIAL ACCOUNT</b>							
Direct investment	95	-42	27	-127	7	62	16
Portfolio investment	406	333	601	100	-425	-223	881
Financial Derivatives	208	145	58	20	53	38	34
Other investment	561	-236	445	-409	126	332	-286
Reserve assets	10	21	1	14	26	-16	-3
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>1,281</b>	<b>221</b>	<b>1,132</b>	<b>-403</b>	<b>-212</b>	<b>194</b>	<b>643</b>
Direct investment	-73	-288	-38	-301	32	98	-117
Portfolio investment	807	-365	447	-230	28	298	-462
Financial Derivatives	-4	-11	3	-13	12	-5	-4
Other investment	-280	62	352	-159	-437	-458	1,116
<b>NET INCURRENCE OF FINANCIAL LIABILITIES</b>	<b>450</b>	<b>-602</b>	<b>764</b>	<b>-703</b>	<b>-366</b>	<b>-66</b>	<b>533</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-831</b>	<b>-824</b>	<b>-368</b>	<b>-301</b>	<b>-154</b>	<b>-260</b>	<b>-110</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>TOTAL NET LENDING (+)/NET BORROWING (-)</b>	<b>831</b>	<b>824</b>	<b>368</b>	<b>301</b>	<b>154</b>	<b>260</b>	<b>110</b>
<b>BALANCING ITEM</b>	<b>-4</b>	<b>-94</b>	<b>95</b>	<b>-28</b>	<b>-31</b>	<b>53</b>	<b>-88</b>

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

**TABLE 2 - INTERNATIONAL INVESTMENT POSITION (IIP)<sup>1,2</sup>**

(BD\$) MILLIONS

Components	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	916	794	804	869	886
Portfolio investment	13,341	13,567	12,974	12,106	12,613
Financial Derivatives (other than reserves) and ESOs	122	93	99	91	79
Other investment	2,693	2,274	2,405	2,739	2,365
Reserve Assets	153	167	174	158	155
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	785	779	799	778	792
Debt instruments:	16,318	16,023	15,558	15,094	15,228
Special drawing rights	-	-	-	-	-
Currency and deposits	1,449	1,073	859	1,019	948
Debt securities	13,624	13,749	13,152	12,355	12,862
Loans	1,149	1,124	1,458	1,626	1,321
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	95	77	89	95	96
Other financial assets and liabilities	122	93	99	91	79
<b>TOTAL ASSETS</b>	<b>17,224</b>	<b>16,894</b>	<b>16,456</b>	<b>15,963</b>	<b>16,098</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,600	2,300	2,327	2,429	2,316
Portfolio investment	1,524	1,296	1,324	1,623	1,161
Financial Derivatives (other than reserves) and ESOs	23	10	22	17	12
Other investment	9,358	9,287	8,827	8,342	9,121
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,101	3,065	3,181	3,274	3,271
Debt instruments:	10,381	9,817	9,298	9,120	9,327
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,687	6,636	6,185	5,717	6,504
Debt securities	1,023	530	470	778	206
Loans	2,601	2,584	2,580	2,595	2,597
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	71	67	62	29	19
Other financial assets and liabilities	23	10	22	17	12
<b>TOTAL LIABILITIES</b>	<b>13,506</b>	<b>12,893</b>	<b>12,500</b>	<b>12,410</b>	<b>12,611</b>
<b>NET IIP</b>	<b>3,718</b>	<b>4,001</b>	<b>3,957</b>	<b>3,553</b>	<b>3,488</b>

**TABLE 3 - IIP By Resident Institutional Sector — (BD\$) MILLIONS**

2017 Q4	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>30</b>	<b>2,505</b>	<b>13,420</b>	<b>143</b>	<b>16,098</b>
Direct investment	-	-	789	98	886
Portfolio investment	2	2,502	10,092	17	12,613
Financial Derivatives (other than reserves) and ESOs	-	-	79	-	79
Other investment	27	4	2,306	28	2,365
Reserve Assets			155		155
<b>LIABILITIES</b>	<b>-</b>	<b>2,484</b>	<b>8,675</b>	<b>1,452</b>	<b>12,611</b>
Direct investment			989	1,327	2,316
Portfolio investment	-	-	1,152	9	1,161
Financial Derivatives (other than reserves) and ESOs	-	-	12	-	12
Other investment	-	2,484	6,521	116	9,121
<b>NET IIP</b>	<b>30</b>	<b>22</b>	<b>4,745</b>	<b>(1,309)</b>	<b>3,488</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 (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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