



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED SEPTEMBER 2017

FAST FACTS

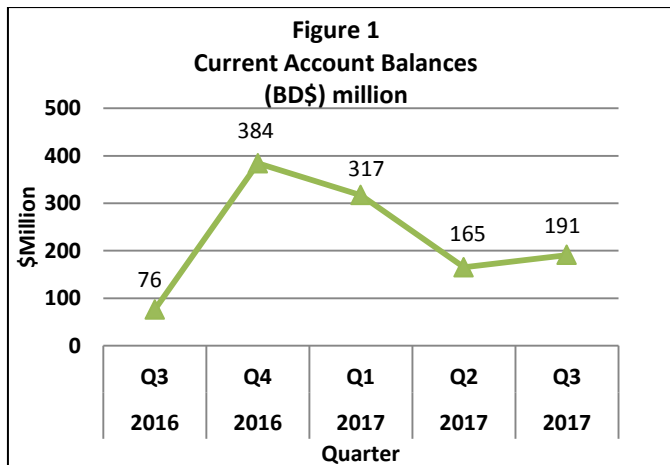
Current Account

The Bermuda current account recorded a surplus of \$191 million in the third quarter of 2017 (Figure 1 and Table 1). This represented a \$117 million increase year-over-year.

§ The deficit on the goods account widened by \$4 million to \$242 million.

§ Services transactions realised a surplus of \$118 million in the third quarter of 2017.

§ The surplus on Bermuda's primary income account increased to \$349 million in the third quarter of 2017.



Financial, Capital, and Reserve Assets Accounts

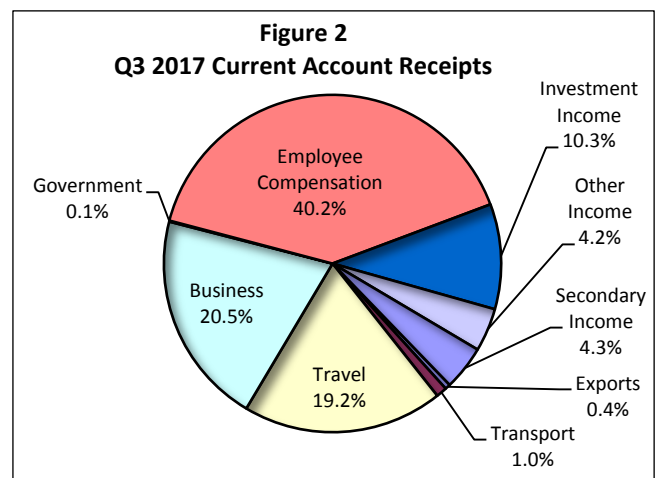
Transactions on Bermuda's asset accounts resulted in a net lending position of \$268 million (Table 1). Factors influencing this performance include:

§ Bermuda's net acquisition of financial assets resulted in an accumulation of \$202 million compared to a withdrawal of \$999 million in 2016.

§ Bermuda decreased its net incurrence of financial liabilities by \$66 million this quarter compared to a decrease of \$918 million in 2016.

Current account surplus = \$191 million

The current account surplus stood at \$191 million for the third quarter of 2017 (Table 1). This represented a \$117 million increase from the \$74 million surplus in the third quarter of 2016. The increase in the current account surplus reflected mostly an improvement in the surplus balance on the primary income account as a result of net investment income.



The goods account recorded a deficit of \$242 million

Year-over-year, the value of imported goods increased to \$247 million (Table 1). This was reflected in an \$18 million increase in imported goods from the Caribbean region. Imports from the United Kingdom, Canada and all other countries also increased with the exception of the United States which registered a decline in imported goods. Among the commodity groups, the increase was reflected primarily in the imports of finished equipment which rose by \$4.1 million and food, beverages and tobacco which grew \$4.0 million. In contrast, imports of machinery and fuel contracted by \$4 million and \$3 million, respectively.

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

Services account surplus increased \$34 million

Receipts from services transactions stood at \$393 million during the quarter. Among the services categories, receipts from travel services rose \$18 million due to an increase in both air and cruise visitor arrivals, and higher per-person visitor expenditure. Receipts from business services were \$1 million higher than the previous year. Revenue from government services and transportation services were unchanged year-over-year.

Payments for services received from non-residents totalled \$275 million in the third quarter, \$15 million below the level recorded in 2016. This outcome reflected a \$14 million decline in payments for business services, specifically business and management consultancy services. Payments for transportation services also decreased by \$2 million during the period.

Primary Income Surplus increased \$91 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 rose to \$349 million from \$258 million in 2016 (Figure 3 and Table 1). This increase reflected a lower net deficit on investment income as fewer dividends were paid out compared to 2016.

Employee compensation increased by \$23 million while the surplus on other income grew by \$6 million when compared to the previous year.

Secondary income recorded a \$34 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 a \$4 million increase in net non-life insurance claims and a \$2 million increase in payments of pensions to non-residents.

INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)

Bermuda’s net IIP decreased to \$3,553 million

At the end of the third quarter 2017, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,553 million (Table 2). The net IIP decreased by \$396 million over the second quarter of 2017.

Foreign assets decreased, influenced by lower holdings of debt securities

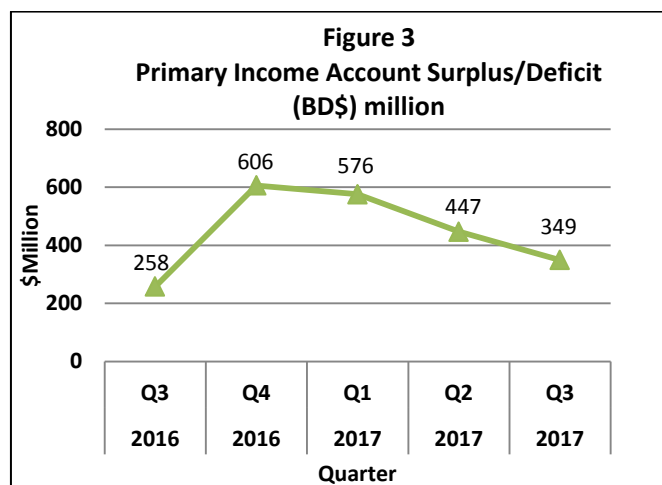
During the third quarter 2017, Bermuda residents’ net acquisition position of financial assets decreased \$485 million. Residents decreased their holdings of debt securities (mostly in the form of money market instruments) by \$797 million during the quarter.

Bermuda’s net liability position decreased

Bermuda residents’ stock of foreign liabilities decreased by \$88 million during the third quarter 2017. The reduction in the liability position was associated mostly with a \$468 million fall in currency and deposits which was partly offset by a \$308 million rise in debt securities.

IIP by institutional sector (Table 3)

The non-financial corporations held a net liability position of \$1,304 million with the rest of the world at the end of the third quarter 2017. The general government sector’s external assets exceeded its external liabilities by \$42 million. Financial corporations held a net asset position of \$4,787 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 \$28 million at the end of the third quarter.



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

Components	2016	2017 YTD	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	980	855	243	252	251	358	247
SERVICES	1,069	794	290	269	248	271	275
Transportation	267	210	71	66	66	76	69
Travel	266	203	74	69	63	64	76
Business Services:	535	381	145	134	118	131	131
Insurance services	181	118	46	51	34	42	43
Financial services	58	39	17	14	12	13	13
ICT services	91	66	20	23	22	24	20
Other services	205	157	61	46	51	52	55
Government services	0	0	0	0	0	0	0
PRIMARY INCOME	473	194	232	6	-60	80	174
Employee Compensation	70	58	17	19	19	19	19
Investment Income	403	137	214	-13	-80	61	155
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	275	232	69	72	79	77	75
TOTAL PAYMENTS	2,796	2,076	833	599	518	786	772
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	19	14	5	5	5	4	5
SERVICES	1,324	1,054	374	325	278	383	393
Transportation	35	27	10	8	7	9	10
Travel	445	412	167	86	49	179	185
Business Services:	792	574	196	214	183	194	197
Insurance services	98	67	24	23	20	26	21
Financial services	171	116	49	54	30	37	48
ICT services	69	50	16	18	16	18	16
Other services	453	341	107	119	116	113	112
Government services	52	41	1	16	39	1	1
PRIMARY INCOME	2,076	1,566	490	612	516	527	523
Employee Compensation	1,444	1,138	361	361	365	386	387
Investment Income	476	283	95	216	91	96	97
Other Income	155	145	34	35	60	45	40
SECONDARY INCOME	145	113	38	40	36	36	41
TOTAL RECEIPTS	3,563	2,747	907	981	834	951	962
CURRENT ACCOUNT BALANCES							
GOODS	-961	-841	-238	-247	-246	-353	-242
SERVICES	255	259	84	55	30	112	118
Transportation	-232	-184	-60	-58	-59	-67	-58
Travel	178	209	93	17	-15	114	109
Business Services:	257	193	51	80	64	63	66
Insurance services	-83	-51	-22	-29	-14	-15	-22
Financial services	114	77	31	41	18	24	36
ICT services	-22	-16	-4	-4	-5	-7	-4
Other services	249	184	46	73	66	61	57
Government services	52	41	1	16	39	1	1
PRIMARY INCOME	1,603	1,372	258	606	576	447	349
Employee Compensation	1,374	1,080	344	342	346	367	367
Investment Income	73	146	-120	230	170	34	-58
Other Income	155	145	34	35	60	45	40
SECONDARY INCOME	-131	-119	-31	-32	-44	-41	-34
CURRENT ACCOUNT BALANCE	766	671	74	382	316	165	191
FINANCIAL ACCOUNT							
Direct investment	95	-58	-24	27	-127	7	62
Portfolio investment	406	-665	431	601	67	-518	-213
Financial Derivatives	208	111	33	58	20	53	38
Other investment	561	50	-1,432	445	-409	128	331
Reserve assets	10	24	-7	1	14	26	-16
NET ACQUISITION OF FINANCIAL ASSETS	1,281	-538	-999	1,132	-436	-304	202
Direct investment	77	-171	104	-188	-301	31	99
Portfolio investment	807	96	209	447	-230	27	299
Financial Derivatives	-4	-7	-16	3	-13	12	-5
Other investment	-280	-1,054	-1,215	352	-159	-436	-459
NET INCURRENCE OF FINANCIAL LIABILITIES	600	-1,135	-918	614	-703	-366	-66
TOTAL NET FINANCIAL ACCOUNT	-681	-597	81	-518	-267	-62	-268
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	681	597	-81	518	267	62	268
BALANCING ITEM	-86	-74	-155	136	-49	-102	77

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

TABLE 2 - INTERNATIONAL INVESTMENT POSITION (IIP)^{1,2}

(BD\$) MILLIONS

Components	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	898	916	792	804	869
Portfolio investment	13,338	13,341	13,567	12,965	12,106
Financial Derivatives (other than reserves) and ESOs	104	122	93	99	91
Other investment	2,256	2,693	2,274	2,406	2,739
Reserve Assets	152	153	167	174	158
BY INSTRUMENT					
Equity and investment fund share/units	778	785	779	790	778
Debt instruments:	15,867	16,318	16,022	15,559	15,094
Special drawing rights	-	-	-	-	-
Currency and deposits	980	1,449	1,073	859	1,019
Debt securities	13,610	13,624	13,747	13,152	12,355
Loans	1,203	1,149	1,124	1,458	1,626
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	73	95	77	90	95
Other financial assets and liabilities	104	122	93	99	91
TOTAL ASSETS	16,748	17,224	16,893	16,448	15,963
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,789	2,600	2,300	2,327	2,429
Portfolio investment	1,076	1,524	1,296	1,322	1,623
Financial Derivatives (other than reserves) and ESOs	21	23	10	22	17
Other investment	8,908	9,358	9,287	8,828	8,342
BY INSTRUMENT					
Equity and investment fund share/units	3,074	3,101	3,065	3,179	3,274
Debt instruments:	9,700	10,381	9,817	9,298	9,120
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,582	6,687	6,636	6,185	5,717
Debt securities	791	1,023	530	470	778
Loans	2,267	2,601	2,584	2,580	2,595
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	59	71	67	63	29
Other financial assets and liabilities	21	23	10	22	17
TOTAL LIABILITIES	12,794	13,506	12,893	12,499	12,411
NET IIP	3,954	3,718	4,000	3,949	3,553

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

2017 Q3	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	28	2,526	13,272	136	15,963
Direct investment	-	-	772	97	869
Portfolio investment	2	2,521	9,567	16	12,106
Financial Derivatives (other than reserves) and ESOs	-	-	91	-	91
Other investment	26	5	2,685	23	2,739
Reserve Assets			158		158
LIABILITIES	-	2,484	8,486	1,441	12,112
Direct investment			1,112	1,317	2,429
Portfolio investment	-	-	1,614	9	1,623
Financial Derivatives (other than reserves) and ESOs	-	-	17	-	17
Other investment	-	2,484	5,743	115	8,342
NET IIP	28	42	4,787	(1,304)	3,553

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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