



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED MARCH 2017

FAST FACTS

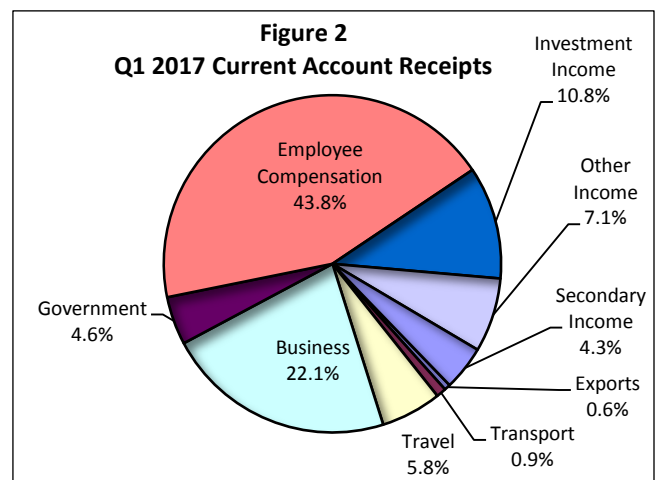
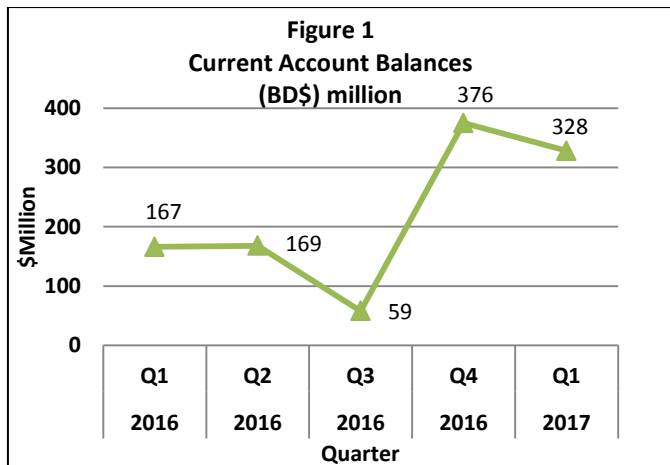
Current Account

The Bermuda current account recorded a surplus of \$328 million in the first quarter of 2017 (Figure 1 and Table 1). This represented a \$161 million increase year-over-year.

- § The deficit on the goods account increased by \$26 million to \$245 million.
- § Services transactions realised a surplus of \$36 million in the first quarter of 2017.
- § The surplus on Bermuda's primary income account increased to \$580 million in the first quarter of 2017.

Current account surplus = \$328 million

The current account surplus stood at \$328 million for the first quarter of 2017 (Table 1). This represented a \$161 million increase from the \$167 million surplus in the first 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.



Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's asset accounts resulted in a net lending position of \$288 million (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in a withdrawal of \$413 million compared to an accumulation of \$821 million in 2016.
- § Bermuda decreased its net incurrence of financial liabilities by \$701 million this quarter compared to an increase of \$649 million in 2016.

The goods account recorded a deficit of \$245 million

Year-over-year, the value of imported goods increased to \$250 million (Table 1). This was reflected in an \$11 million increase in imported goods from Bermuda's largest trading partner the United States. Imports from the Caribbean region also grew by \$6 million. Imports from countries competing in the America's Cup sailing event also recorded large increases. In contrast, imports of goods from Canada fell by \$2 million. Among the commodity groups, the increase was reflected primarily in the imports of finished equipment and machinery, which rose by \$13 million and \$11 million, respectively. In contrast, imports of basic materials and semi-manufactured goods contracted by \$4 million during the period.

Revenue earned from the exports of goods rose \$1 million during the quarter.

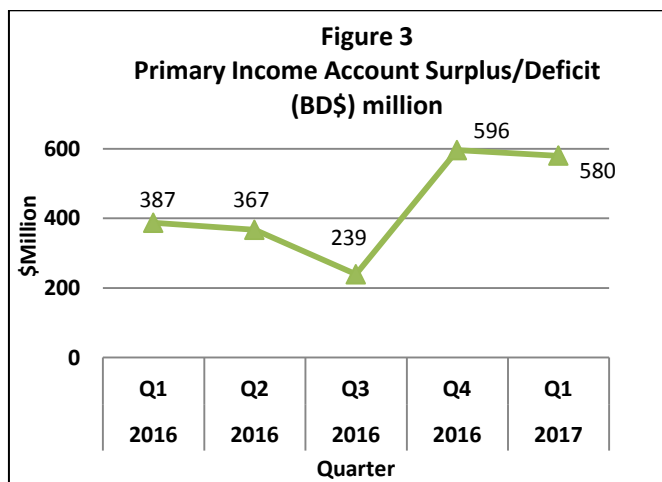
Services account surplus increased \$3 million

Receipts from services transactions stood at \$282 million during the quarter. Among the services categories, receipts from the provision of government services increased by \$6 million during the period as a result of a \$6 million increase in revenue from exempted companies tax. In addition, receipts from travel services rose \$3 million due to an increase in both air and cruise visitor arrivals, and higher per-person visitor expenditure. In contrast, receipts from business services decreased by \$3 million.

Payments for services received from non-residents totalled \$246 million in the first quarter, \$3 million above the level recorded in 2016. This outcome reflected a \$3 million increase in payments for transportation services as a result of higher payments for passenger fares and freight-related transport.

Primary Income Surplus increased \$193 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 \$580 million from \$387 million in 2016 (Figure 3 and Table 1). This increase reflected primarily a \$180 million rise in net investment income, as a result of lower reinvested earnings. The surplus on other income also grew by \$12 million when compared to the same period in 2016.



Secondary income recorded a \$43 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 \$9 million from a year ago, due to a \$8 million increase in net non-life insurance claims and a \$3 million increase in payments of pensions to non-residents.

INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)

Bermuda’s net IIP increased to \$4,212 million

At the end of the first quarter 2017, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,212 million (Table 2). The net IIP increased by \$481 million over the fourth quarter of 2016.

Foreign assets decreased, influenced by lower holdings of currency and deposits

During the first quarter 2017, Bermuda residents’ net acquisition position of financial assets decreased \$492 million, due mostly to residents decreasing their holdings of currency and deposits held overseas by \$376 million during the quarter. In addition, debt securities decreased by \$60 million.

Bermuda’s net liability position decreased

Bermuda residents’ stock of foreign liabilities decreased by \$974 million during the first quarter 2017. The reduction in the liability position was associated mostly with a \$493 million fall in debt securities and a \$355 million decline in loans.

IIP by institutional sector (Table 3)

The non-financial corporations held a net liability position of \$1,213 million with the rest of the world at the end of the first quarter 2017. The general government sector’s external liability holdings exceeded its external assets by \$34 million. Financial corporations held a net asset position of \$5,439 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 \$20 million at the end of the first quarter.

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

Components	2016	2017 YTD	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	975	250	223	259	242	251	250
SERVICES	1,070	246	243	267	290	270	246
Transportation	267	66	63	68	71	66	66
Travel	268	62	61	63	74	69	62
Business Services:	535	118	119	136	145	134	118
Insurance services	181	34	37	46	46	51	34
Financial services	58	12	14	13	17	14	12
ICT services	91	22	23	25	20	23	22
Other services	204	50	45	52	61	47	50
Government services	0	0	0	0	0	0	0
PRIMARY INCOME	472	-60	109	126	231	6	-60
Employee Compensation	70	19	17	17	17	19	19
Investment Income	402	-80	93	109	214	-14	-80
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	275	79	66	69	69	72	79
TOTAL PAYMENTS	2,792	514	640	722	832	599	514
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	18	5	4	5	5	5	5
SERVICES	1,340	282	275	358	378	328	282
Transportation	39	8	8	10	11	10	8
Travel	445	49	46	146	168	86	49
Business Services:	804	186	189	201	198	216	186
Insurance services	100	20	23	29	24	23	20
Financial services	171	30	29	39	49	54	30
ICT services	70	17	19	16	16	19	17
Other services	463	120	118	115	109	120	120
Government services	52	39	33	2	1	16	39
PRIMARY INCOME	2,060	520	496	493	470	602	520
Employee Compensation	1,428	369	365	372	341	351	369
Investment Income	477	91	84	82	95	217	91
Other Income	155	60	48	39	34	35	60
SECONDARY INCOME	145	36	32	35	38	39	36
TOTAL RECEIPTS	3,563	842	807	891	890	974	842
CURRENT ACCOUNT BALANCES							
GOODS	-957	-245	-219	-255	-237	-246	-245
SERVICES	269	36	33	91	88	58	36
Transportation	-228	-58	-55	-58	-60	-56	-58
Travel	177	-14	-15	82	93	16	-14
Business Services:	269	68	69	64	54	82	68
Insurance services	-81	-13	-14	-17	-22	-28	-13
Financial services	114	18	15	26	31	41	18
ICT services	-22	-5	-5	-9	-4	-4	-5
Other services	259	70	73	64	48	74	70
Government services	52	39	33	2	1	16	39
PRIMARY INCOME	1,588	580	387	367	239	596	580
Employee Compensation	1,358	349	348	355	324	331	349
Investment Income	75	171	-9	-27	-119	230	171
Other Income	155	60	48	39	34	35	60
SECONDARY INCOME	-131	-43	-34	-34	-31	-32	-43
CURRENT ACCOUNT BALANCE	770	328	167	169	59	376	328
FINANCIAL ACCOUNT							
Direct investment	95	-103	3	90	-24	27	-103
Portfolio investment	435	67	114	-714	431	604	67
Financial Derivatives	202	19	54	63	29	55	19
Other investment	562	-409	646	903	-1,431	445	-409
Reserve assets	10	14	5	12	-7	1	14
NET ACQUISITION OF FINANCIAL ASSETS	1,304	-413	821	354	-1,003	1,132	-413
Direct investment	82	-299	55	110	104	-188	-299
Portfolio investment	807	-230	224	-73	92	564	-230
Financial Derivatives	-4	-13	54	-45	-16	3	-13
Other investment	-280	-159	317	267	-1,215	352	-159
NET INCURRENCE OF FINANCIAL LIABILITIES	606	-701	649	260	-1,034	731	-701
TOTAL NET FINANCIAL ACCOUNT	-699	-288	-172	-94	-31	-401	-288
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	699	288	172	94	31	401	288
BALANCING ITEM	-72	-40	6	-75	-28	25	-40

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

(BD\$) MILLIONS

Components	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	844	925	898	916	813
Portfolio investment	13,662	13,066	13,379	13,362	13,405
Financial Derivatives (other than reserves) and ESOs	92	113	100	119	92
Other investment	2,826	3,688	2,256	2,693	2,274
Reserve Assets	148	160	152	153	167
BY INSTRUMENT					
Equity and investment fund share/units	761	771	778	785	799
Debt instruments:	16,718	17,069	15,908	16,338	15,860
Special drawing rights	-	-	-	-	-
Currency and deposits	1,115	2,255	980	1,449	1,073
Debt securities	13,891	13,380	13,652	13,645	13,585
Loans	1,577	1,344	1,203	1,149	1,124
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	135	90	73	95	77
Other financial assets and liabilities	92	113	100	119	92
TOTAL ASSETS	17,572	17,953	16,786	17,243	16,751
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,586	2,691	2,794	2,605	2,243
Portfolio investment	941	866	960	1,524	1,296
Financial Derivatives (other than reserves) and ESOs	81	36	21	23	10
Other investment	9,789	10,112	8,909	9,359	8,989
BY INSTRUMENT					
Equity and investment fund share/units	2,979	3,061	3,079	3,106	3,009
Debt instruments:	10,336	10,607	9,584	10,382	9,520
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	7,422	7,776	6,582	6,647	6,636
Debt securities	547	495	675	1,023	530
Loans	2,311	2,234	2,268	2,641	2,286
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	56	103	59	71	67
Other financial assets and liabilities	81	36	21	23	10
TOTAL LIABILITIES	13,396	13,705	12,683	13,512	12,538
NET IIP	4,175	4,248	4,103	3,731	4,212

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

2017 Q1	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	20	2,151	14,427	153	16,751
Direct investment	-	-	697	116	813
Portfolio investment	14	2,149	11,230	13	13,405
Financial Derivatives (other than reserves) and ESOs	-	-	92	-	92
Other investment	7	1	2,241	25	2,274
Reserve Assets			167		167
LIABILITIES	-	2,185	8,987	1,366	12,538
Direct investment			1,036	1,207	2,243
Portfolio investment	-	-	1,288	8	1,296
Financial Derivatives (other than reserves) and ESOs	-	-	10	-	10
Other investment	-	2,185	6,653	151	8,989
NET IIP	20	(34)	5,439	(1,213)	4,212

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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