



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

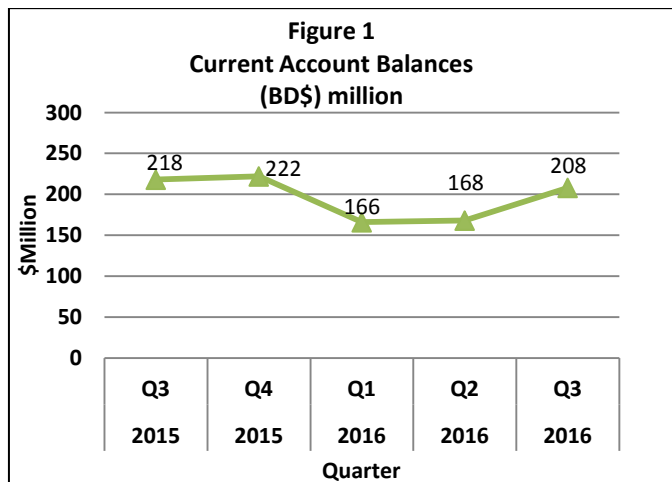
FOR THE QUARTER ENDED SEPTEMBER 2016

## FAST FACTS

### Current account surplus/deficit

The Bermuda current account recorded a surplus of \$208 million in the third quarter of 2016 (Figure 1 and Table 1). This represented a \$10 million decrease year-over-year.

- § The deficit on the goods account widened \$12 million to \$237 million.
- § Services transactions realised a surplus of \$87 million in the third quarter of 2016.
- § The surplus on Bermuda's primary income account rose to \$389 million in the third quarter of 2016.



### Financial, capital, and reserve assets accounts

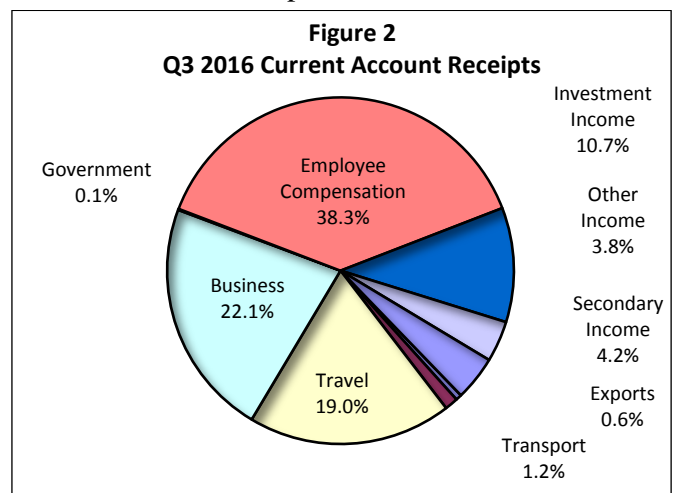
Transactions on Bermuda's asset accounts resulted in a net lending position of \$182 million in the third quarter of 2016 (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in a withdrawal of \$1,003 million compared to a withdrawal of \$1,574 million in 2015.
- § Bermuda decreased its net incurrence of financial liabilities by \$1,185 million this quarter compared to a decrease of \$1,853 million in 2015.

## BALANCE OF PAYMENTS

### Current account surplus = \$208 million

The current account surplus stood at \$208 million for the third quarter of 2016 (Table 1). This represented a \$10 million decrease from the \$218 million surplus in the corresponding quarter of 2015. The decline in the current account surplus mostly reflected a widening of the deficit on merchandise trade due to an increase in the value of imported goods. In addition, increased payments and lower receipts relating to business services contributed to the fall in the current account surplus.



### The goods account recorded a deficit of \$237 million

Year-over-year, the value of imported goods rose 5.2 per cent to \$242 million (Table 1). This increase was due mostly to a \$25 million increase in imported goods from Bermuda's largest trading partner the United States. In contrast, imports from the Caribbean region fell by \$7 million while imports of goods from Canada fell by \$4 million. Among the commodity groups, the increase was reflected primarily in the imports of finished equipment, and machinery, which rose by \$5 million and \$4 million, respectively. Imports of food, beverages and tobacco also rose by \$3 million. In contrast, imports of fuel contracted by \$1 million during the period.

Revenue earned from the exports of goods decreased \$1 million to \$5 million during the quarter.

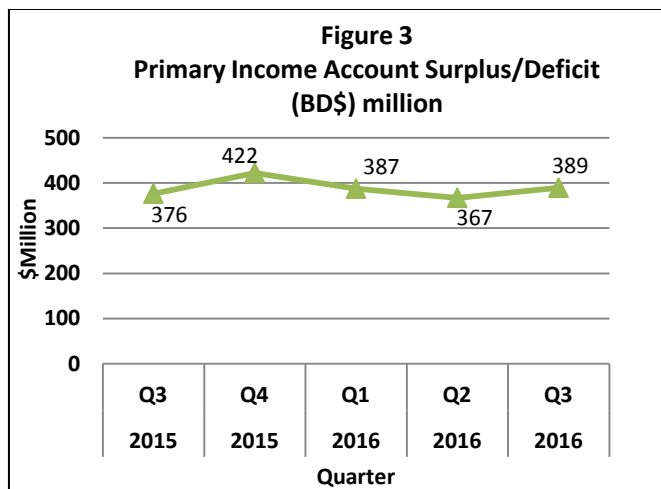
**The services account surplus decreased \$11 million**

Receipts from services transactions stood at \$378 million during the quarter, up \$8 million year-over-year. Receipts from travel services rose \$29 million due to an increase in visitor arrivals and higher per-person visitor expenditure, while receipts from transportation services improved \$1 million. In contrast, receipts from business services declined \$22 million due mostly to a \$16 million fall in receipts from reinsurance services. In addition, receipts from financial services and ICT services declined by \$3 million each.

Payments for services received from non-residents totalled \$290 million in the third quarter, \$18 million above the level recorded in 2015. Payments for business services rose \$15 million in 2016 due mostly to a \$16 million rise in payments for other business services such as business and management consultancy. Payments for financial services also rose by \$7 million reflecting higher payments for fees and commissions. In contrast, payments for insurance services fell by \$9 million.

**The primary income account surplus increased \$13 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 \$389 million from \$376 million in 2015 (Figure 3 and Table 1). Transactions related to investment income resulted in a surplus balance of \$31 million compared to a deficit balance of \$3 million in 2015. The surplus balance on employee compensation fell \$21 million.



Among other primary income categories, the surplus balance on other income increased \$1 million to \$34 million.

**The secondary income account recorded a \$32 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 \$1 million from a year ago. The expansion reflected increased payments of non-life insurance claims to non-residents.

**INTERNATIONAL INVESTMENT POSITION (IIP)**

**Bermuda’s net IIP increased to \$4,382 million**

At the end of the third quarter of 2016, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,382 million (Table 2). Bermuda’s net IIP increased \$4 million over the second quarter of 2016.

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

Bermuda residents’ net acquisition position of financial assets decreased \$1,166 million, due mostly to resident’s holdings of overseas currency and deposit falling \$1,275 million. In contrast, holdings of debt securities increased \$272 million.

**Bermuda’s liabilities to non-residents declined**

Bermuda residents’ stock of foreign liabilities decreased \$1,170 million. This decline in the liability position was associated mostly with a withdrawal of non-resident deposits which fell \$1,195 million.

**IIP by institutional sector**

Financial corporations held a net asset position of \$5,327 million on the strength of portfolio investment holdings such as bonds, notes and money market instruments (Table 3). The general government sector’s external assets exceeded its liability holdings by \$126 million. Non-profit institutions serving households also recorded a net asset position of \$20 million at the end of the third quarter of 2016. In contrast, the non-financial corporations held a net liability position of \$1,091 million with the rest of the world.

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

Components	2015	2016 YTD	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>935</b>	<b>724</b>	<b>230</b>	<b>227</b>	<b>223</b>	<b>259</b>	<b>242</b>
<b>SERVICES</b>	<b>998</b>	<b>800</b>	<b>272</b>	<b>249</b>	<b>243</b>	<b>267</b>	<b>290</b>
Transportation	260	201	69	61	63	68	71
Travel	262	198	73	67	61	63	74
Business Services:	475	400	130	121	119	136	145
Insurance services	162	130	55	35	37	46	46
Financial services	46	44	10	9	14	13	17
ICT services	82	69	19	24	23	25	20
Other services	186	158	45	52	45	52	61
Government services	0	0	0	0	0	0	0
<b>PRIMARY INCOME</b>	<b>296</b>	<b>316</b>	<b>100</b>	<b>60</b>	<b>109</b>	<b>126</b>	<b>81</b>
Employee Compensation	66	51	16	16	17	17	17
Investment Income	230	266	84	44	93	109	64
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>266</b>	<b>204</b>	<b>65</b>	<b>65</b>	<b>66</b>	<b>69</b>	<b>69</b>
<b>TOTAL PAYMENTS</b>	<b>2,495</b>	<b>2,044</b>	<b>667</b>	<b>601</b>	<b>640</b>	<b>722</b>	<b>682</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>21</b>	<b>13</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>5</b>
<b>SERVICES</b>	<b>1,295</b>	<b>1,009</b>	<b>370</b>	<b>304</b>	<b>274</b>	<b>357</b>	<b>378</b>
Transportation	35	28	10	9	8	10	11
Travel	386	360	140	69	46	146	169
Business Services:	815	585	219	203	187	200	197
Insurance services	108	77	40	21	23	29	24
Financial services	174	117	52	50	29	39	49
ICT services	71	51	19	16	19	16	16
Other services	462	340	107	116	117	115	108
Government services	59	36	1	22	33	2	1
<b>PRIMARY INCOME</b>	<b>1,937</b>	<b>1,458</b>	<b>476</b>	<b>482</b>	<b>496</b>	<b>493</b>	<b>470</b>
Employee Compensation	1,444	1,078	361	361	365	372	341
Investment Income	339	260	82	88	84	82	95
Other Income	154	121	33	33	48	39	34
<b>SECONDARY INCOME</b>	<b>128</b>	<b>105</b>	<b>34</b>	<b>33</b>	<b>32</b>	<b>35</b>	<b>37</b>
<b>TOTAL RECEIPTS</b>	<b>3,381</b>	<b>2,586</b>	<b>885</b>	<b>823</b>	<b>806</b>	<b>890</b>	<b>890</b>
<b>CURRENT ACCOUNT SURPLUS/DEFICIT</b>							
<b>GOODS</b>	<b>-914</b>	<b>-710</b>	<b>-225</b>	<b>-222</b>	<b>-219</b>	<b>-255</b>	<b>-237</b>
<b>SERVICES</b>	<b>296</b>	<b>209</b>	<b>98</b>	<b>54</b>	<b>31</b>	<b>90</b>	<b>87</b>
Transportation	-226	-173	-59	-52	-55	-58	-60
Travel	124	162	67	2	-15	82	95
Business Services:	339	184	89	83	68	64	52
Insurance services	-54	-53	-15	-14	-14	-17	-22
Financial services	128	73	42	41	15	26	31
ICT services	-11	-18	0	-8	-5	-9	-4
Other services	276	182	63	64	72	63	47
Government services	58	36	1	22	33	2	1
<b>PRIMARY INCOME</b>	<b>1,641</b>	<b>1,142</b>	<b>376</b>	<b>422</b>	<b>387</b>	<b>367</b>	<b>389</b>
Employee Compensation	1,378	1,027	345	345	348	355	324
Investment Income	109	-6	-3	44	-9	-27	31
Other Income	154	121	33	33	48	39	34
<b>SECONDARY INCOME</b>	<b>-138</b>	<b>-99</b>	<b>-31</b>	<b>-32</b>	<b>-34</b>	<b>-34</b>	<b>-32</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>886</b>	<b>542</b>	<b>218</b>	<b>222</b>	<b>166</b>	<b>168</b>	<b>208</b>
<b>FINANCIAL ACCOUNT</b>							
Direct investment	-84	68	179	-226	3	90	-24
Portfolio investment	1,596	-169	-1,911	2,030	114	-714	431
Financial Derivatives	137	146	31	43	54	63	29
Other investment	-897	117	134	-1,028	646	903	-1,431
Reserve assets	7	9	-6	1	5	12	-7
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>758</b>	<b>173</b>	<b>-1,574</b>	<b>820</b>	<b>821</b>	<b>354</b>	<b>-1,003</b>
Direct investment	-143	131	-24	20	55	121	-46
Portfolio investment	90	243	-119	-8	224	-73	92
Financial Derivatives	0	-6	-14	7	54	-45	-16
Other investment	28	-633	-1,696	635	317	267	-1,216
<b>NET INCURRENCE OF FINANCIAL LIABILITIES</b>	<b>-24</b>	<b>-265</b>	<b>-1,853</b>	<b>654</b>	<b>649</b>	<b>270</b>	<b>-1,185</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-782</b>	<b>-438</b>	<b>-279</b>	<b>-166</b>	<b>-172</b>	<b>-84</b>	<b>-182</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>782</b>	<b>438</b>	<b>279</b>	<b>166</b>	<b>172</b>	<b>84</b>	<b>182</b>
<b>BALANCING ITEM</b>	<b>-103</b>	<b>-104</b>	<b>61</b>	<b>-56</b>	<b>7</b>	<b>-85</b>	<b>-26</b>

R – Revised, P – Provisional

Numbers may not add due to rounding

**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**
**TABLE 2 - INTERNATIONAL INVESTMENT POSITION (IIP)<sup>1,2</sup>**

(BD\$) MILLIONS

Components	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	1,072	843	844	925	898
Portfolio investment	12,203	14,094	13,662	13,066	13,379
Financial Derivatives (other than reserves) and ESOs	76	79	92	113	100
Other investment	3,292	2,256	2,826	3,688	2,256
Reserve Assets	143	143	148	160	152
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	811	788	761	771	778
Debt instruments:	15,899	16,548	16,718	17,069	15,908
Special drawing rights	-	-	-	-	-
Currency and deposits	2,173	1,092	1,115	2,255	980
Debt securities	12,607	14,291	13,891	13,380	13,652
Loans	1,023	1,063	1,577	1,344	1,203
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	96	102	135	90	73
Other financial assets and liabilities	76	79	92	113	100
<b>TOTAL ASSETS</b>	<b>16,786</b>	<b>17,415</b>	<b>17,572</b>	<b>17,952</b>	<b>16,786</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,436	2,439	2,586	2,530	2,486
Portfolio investment	725	717	941	866	959
Financial Derivatives (other than reserves) and ESOs	20	27	81	36	21
Other investment	8,427	9,522	9,789	10,142	8,938
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	2,809	2,824	2,979	2,905	2,773
Debt instruments:	8,778	9,853	10,336	10,633	9,611
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,106	7,149	7,422	7,776	6,581
Debt securities	351	332	547	491	672
Loans	2,261	2,316	2,311	2,264	2,298
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	60	57	56	102	59
Other financial assets and liabilities	20	27	81	36	21
<b>TOTAL LIABILITIES</b>	<b>11,607</b>	<b>12,704</b>	<b>13,396</b>	<b>13,574</b>	<b>12,404</b>
<b>NET IIP</b>	<b>5,179</b>	<b>4,711</b>	<b>4,175</b>	<b>4,378</b>	<b>4,382</b>

**TABLE 3 - IIP By Resident Institutional Sector — (BD\$) MILLIONS<sup>1</sup>**

2016 Q3	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>20</b>	<b>2,311</b>	<b>14,304</b>	<b>151</b>	<b>16,786</b>
Direct investment	-	-	785	113	898
Portfolio investment	14	2,301	11,048	16	13,379
Financial Derivatives (other than reserves) and ESOs	-	-	100	-	100
Other investment	6	10	2,219	22	2,256
Reserve Assets	n.a.	n.a.	152	n.a.	152
<b>LIABILITIES</b>	<b>-</b>	<b>2,185</b>	<b>8,977</b>	<b>1,242</b>	<b>12,404</b>
Direct investment	-	-	1,406	1,080	2,486
Portfolio investment	-	-	951	9	959
Financial Derivatives (other than reserves) and ESOs	-	-	21	-	21
Other investment	-	2,185	6,600	153	8,938
<b>NET IIP</b>	<b>20</b>	<b>126</b>	<b>5,327</b>	<b>(1,091)</b>	<b>4,382</b>

1 Data are estimates only and subject to revision; numbers may not add due to rounding

n.a. : not applicable

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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