



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED JUNE 2016

## FAST FACTS

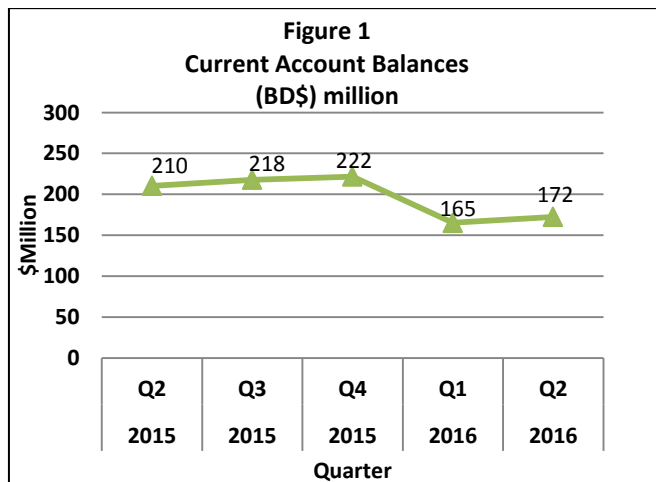
### Current account surplus/deficit

The Bermuda current account recorded a surplus of \$172 million in the second quarter of 2016 (Figure 1 and Table 1). This represented a \$38 million decrease year-over-year.

§ The deficit on the goods account remained unchanged at \$255 million.

§ Services transactions realised a surplus of \$90 million in the second quarter of 2016.

§ The surplus on Bermuda's primary income account decreased to \$371 million in the second quarter of 2016.



### Financial, capital, and reserve assets accounts

Transactions on Bermuda's asset accounts resulted in a net lending position of \$93 million in the second quarter of 2016 (Table 1). Factors influencing this performance include:

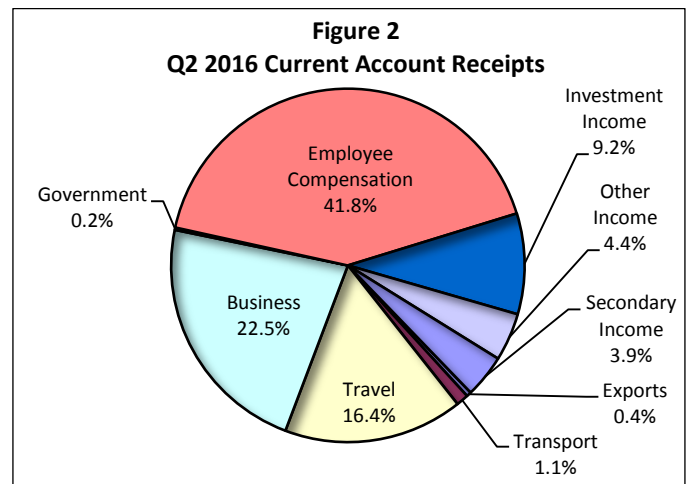
§ Bermuda's net acquisition of financial assets resulted in an accumulation of \$307 million compared to an increase of \$703 million in 2015.

§ Bermuda increased its net incurrence of financial liabilities by \$214 million this quarter compared to an increase of \$517 million in 2015.

## BALANCE OF PAYMENTS

### Current account surplus = \$172 million

The current account surplus stood at \$172 million for the second quarter of 2016 (Table 1). This represented a \$38 million decrease from the \$210 million surplus in the corresponding quarter of 2015. The contraction in the current account surplus reflected mostly a \$45 million fall in the primary income surplus due to a decrease in net investment income.



### The goods account recorded a deficit of \$255 million

Year-over-year, the value of imported goods remained relatively unchanged, decreasing by one million to \$259 million (Table 1). Imports from Canada decreased \$6 million while imports from the United Kingdom fell \$3 million. In contrast, imports increased from the United States of America, the Caribbean region and all other countries. Among the commodity groups, there were declines of \$9 million and \$2 million, respectively, in the imports of fuels and chemicals. These declines were offset by increases of \$5 million, \$4 million and \$2 million in the imports of basic materials & semi-manufactured goods, finished equipment, and transport equipment.

Revenue earned from the exports of goods decreased \$2 million to \$4 million during the quarter.

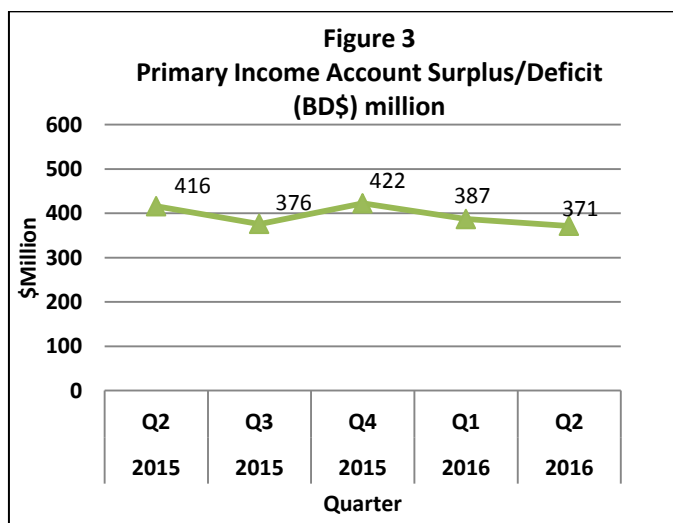
**The services account surplus increased \$6 million**

Receipts from services transactions stood at \$358 million during the quarter. Receipts from travel services rose \$17 million due to an increase in visitor arrivals and higher per-person visitor expenditure. Receipts from business services improved \$6 million due to a rise in reinsurance claims recovered. Receipts from transportation services and government services increased by \$1 million each, to \$10 million and \$2 million, respectively.

Payments for services received from non-residents totalled \$267 million in the second quarter, \$19 million above the level recorded in 2015. This outcome reflected an \$8 million increase in payments for insurance services related to reinsurance. Payments for other services such as legal, accounting and management consulting services also rose by \$7 million. Information, Communication and Technology (ICT) outflows rose by \$5 million.

**The primary income account surplus fell \$45 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 \$371 million from \$416 million in 2015 (Figure 3 and Table 1). This decrease reflected primarily a \$61 million decline in net investment income, as a result of an increase in dividends paid and higher reinvested earnings.



In contrast, the surplus on employee compensation grew by \$11 million compared to the same period in 2015.

**The secondary income account 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 narrowed \$1 million from a year ago. The \$34 million deficit reflected primarily an excess of personal transfer payments versus receipts related to workers remittances.

**INTERNATIONAL INVESTMENT POSITION (IIP)**

**Bermuda’s net IIP increased to \$4,457 million**

At the end of the second quarter of 2016, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,457 million (Table 2). The net IIP increased \$202 million over the first quarter of 2016.

**Foreign assets increased, influenced by other investment**

Bermuda residents’ net acquisition position of financial assets increased \$380 million, due mostly to residents’ holdings of currency and deposits increasing by \$1,140 million.

**Bermuda’s net liability position increased**

Bermuda residents’ stock of foreign liabilities increased \$179 million. This increase in the liability position was mostly associated with higher holdings of non-resident deposits which rose \$354 million.

**IIP by institutional sector**

Financial corporations held a net asset position of \$5,240 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 \$180 million. Non-profit institutions serving households also recorded a net asset position of \$20 million at the end of the second quarter of 2016. In contrast, the non-financial corporations held a net liability position of \$983 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 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>935</b>	<b>482</b>	<b>260</b>	<b>230</b>	<b>227</b>	<b>223</b>	<b>259</b>
<b>SERVICES</b>	<b>998</b>	<b>510</b>	<b>248</b>	<b>272</b>	<b>249</b>	<b>243</b>	<b>267</b>
Transportation	260	130	70	69	61	63	68
Travel	262	124	62	73	67	61	63
Business Services:	475	256	117	130	121	119	136
Insurance services	162	84	38	55	35	37	46
Financial services	46	27	13	10	9	14	13
ICT services	82	48	20	19	24	23	25
Other services	186	97	45	45	52	45	52
Government services	0	0	0	0	0	0	0
<b>PRIMARY INCOME</b>	<b>296</b>	<b>231</b>	<b>69</b>	<b>100</b>	<b>60</b>	<b>109</b>	<b>121</b>
Employee Compensation	66	33	17	16	16	17	17
Investment Income	230	197	52	84	44	93	104
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>266</b>	<b>135</b>	<b>68</b>	<b>65</b>	<b>65</b>	<b>66</b>	<b>69</b>
<b>TOTAL PAYMENTS</b>	<b>2,495</b>	<b>1,357</b>	<b>646</b>	<b>667</b>	<b>601</b>	<b>640</b>	<b>717</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>20</b>	<b>8</b>	<b>6</b>	<b>5</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>SERVICES</b>	<b>1,295</b>	<b>632</b>	<b>332</b>	<b>370</b>	<b>304</b>	<b>274</b>	<b>358</b>
Transportation	35	18	9	10	9	8	10
Travel	386	191	129	140	69	46	146
Business Services:	815	388	194	219	203	187	200
Insurance services	108	53	20	40	21	23	29
Financial services	174	68	38	52	50	29	39
ICT services	71	35	17	19	16	19	16
Other services	462	232	119	107	116	117	115
Government services	59	35	1	1	22	33	2
<b>PRIMARY INCOME</b>	<b>1,937</b>	<b>989</b>	<b>485</b>	<b>476</b>	<b>482</b>	<b>496</b>	<b>493</b>
Employee Compensation	1,444	736	361	361	361	365	372
Investment Income	339	165	90	82	88	84	82
Other Income	154	87	34	33	33	48	39
<b>SECONDARY INCOME</b>	<b>128</b>	<b>67</b>	<b>33</b>	<b>34</b>	<b>33</b>	<b>32</b>	<b>35</b>
<b>TOTAL RECEIPTS</b>	<b>3,380</b>	<b>1,695</b>	<b>856</b>	<b>885</b>	<b>823</b>	<b>805</b>	<b>890</b>
<b>CURRENT ACCOUNT SURPLUS/DEFICIT</b>							
<b>GOODS</b>	<b>-915</b>	<b>-474</b>	<b>-255</b>	<b>-225</b>	<b>-223</b>	<b>-219</b>	<b>-255</b>
<b>SERVICES</b>	<b>297</b>	<b>121</b>	<b>84</b>	<b>98</b>	<b>54</b>	<b>31</b>	<b>90</b>
Transportation	-225	-112	-61	-59	-52	-55	-58
Travel	124	67	67	67	2	-15	82
Business Services:	339	132	77	89	83	68	64
Insurance services	-54	-31	-18	-15	-14	-14	-17
Financial services	128	42	24	42	41	15	26
ICT services	-11	-13	-3	0	-8	-5	-9
Other services	276	135	74	63	64	72	63
Government services	58	35	1	1	22	33	2
<b>PRIMARY INCOME</b>	<b>1,641</b>	<b>758</b>	<b>416</b>	<b>376</b>	<b>422</b>	<b>387</b>	<b>371</b>
Employee Compensation	1,378	703	344	345	345	348	355
Investment Income	109	-32	38	-3	44	-9	-23
Other Income	154	87	34	33	33	48	39
<b>SECONDARY INCOME</b>	<b>-138</b>	<b>-68</b>	<b>-35</b>	<b>-31</b>	<b>-32</b>	<b>-34</b>	<b>-34</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>885</b>	<b>338</b>	<b>210</b>	<b>218</b>	<b>222</b>	<b>165</b>	<b>172</b>
<b>FINANCIAL ACCOUNT</b>							
Direct investment	-84	92	4	179	-226	3	90
Portfolio investment	1,596	-605	312	-1,911	2,030	114	-719
Financial Derivatives	137	112	40	31	43	54	58
Other investment	-897	1,513	340	134	-1,028	646	867
Reserve assets	7	16	7	-6	1	5	12
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>758</b>	<b>1,128</b>	<b>703</b>	<b>-1,574</b>	<b>820</b>	<b>821</b>	<b>307</b>
Direct investment	-197	84	-218	-37	-6	45	39
Portfolio investment	90	151	179	-119	-8	198	-48
Financial Derivatives	0	9	-2	-14	7	54	-45
Other investment	28	583	559	-1,696	635	317	267
<b>NET INCURANCE OF FINANCIAL LIABILITIES</b>	<b>-79</b>	<b>827</b>	<b>517</b>	<b>-1,865</b>	<b>629</b>	<b>613</b>	<b>214</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-837</b>	<b>-301</b>	<b>-186</b>	<b>-292</b>	<b>-191</b>	<b>-208</b>	<b>-93</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>837</b>	<b>301</b>	<b>186</b>	<b>292</b>	<b>191</b>	<b>208</b>	<b>93</b>
<b>BALANCING ITEM</b>	<b>-48</b>	<b>-36</b>	<b>-25</b>	<b>74</b>	<b>-30</b>	<b>43</b>	<b>-79</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 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	898	1,072	843	844	925
Portfolio investment	14,080	12,203	14,094	13,662	13,066
Financial Derivatives (other than reserves) and ESOs	89	76	79	92	113
Other investment	3,161	3,292	2,256	2,826	3,688
Reserve Assets	149	143	143	148	160
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	889	811	788	761	771
Debt instruments:	17,399	15,899	16,548	16,718	17,069
Special drawing rights	-	-	-	-	-
Currency and deposits	1,718	2,173	1,092	1,115	2,255
Debt securities	14,238	12,607	14,291	13,891	13,380
Loans	1,316	1,023	1,063	1,577	1,344
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	127	96	102	135	90
Other financial assets and liabilities	89	76	79	92	113
<b>TOTAL ASSETS</b>	<b>18,377</b>	<b>16,786</b>	<b>17,415</b>	<b>17,572</b>	<b>17,952</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,460	2,436	2,439	2,531	2,451
Portfolio investment	841	725	717	915	866
Financial Derivatives (other than reserves) and ESOs	33	20	27	81	36
Other investment	10,075	8,427	9,522	9,789	10,142
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	2,830	2,809	2,824	2,925	2,826
Debt instruments:	10,546	8,778	9,853	10,311	10,633
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	7,752	6,106	7,149	7,422	7,776
Debt securities	471	351	332	522	491
Loans	2,264	2,261	2,316	2,311	2,264
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	59	60	57	56	102
Other financial assets and liabilities	33	20	27	81	36
<b>TOTAL LIABILITIES</b>	<b>13,410</b>	<b>11,607</b>	<b>12,704</b>	<b>13,316</b>	<b>13,495</b>
<b>NET IIP</b>	<b>4,967</b>	<b>5,179</b>	<b>4,711</b>	<b>4,255</b>	<b>4,457</b>

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

2016 Q2	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>20</b>	<b>2,365</b>	<b>15,407</b>	<b>160</b>	<b>17,952</b>
Direct investment	-	-	815	110	925
Portfolio investment	13	2,363	10,661	29	13,066
Financial Derivatives (other than reserves) and ESOs	-	-	113	-	113
Other investment	7	2	3,658	21	3,688
Reserve Assets	n.a.	n.a.	160	n.a.	160
<b>LIABILITIES</b>	<b>-</b>	<b>2,185</b>	<b>10,167</b>	<b>1,143</b>	<b>13,495</b>
Direct investment	-	-	1,477	974	2,451
Portfolio investment	-	-	858	8	866
Financial Derivatives (other than reserves) and ESOs	-	-	36	-	36
Other investment	-	2,185	7,796	161	10,142
<b>NET IIP</b>	<b>20</b>	<b>180</b>	<b>5,240</b>	<b>(983)</b>	<b>4,457</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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