



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

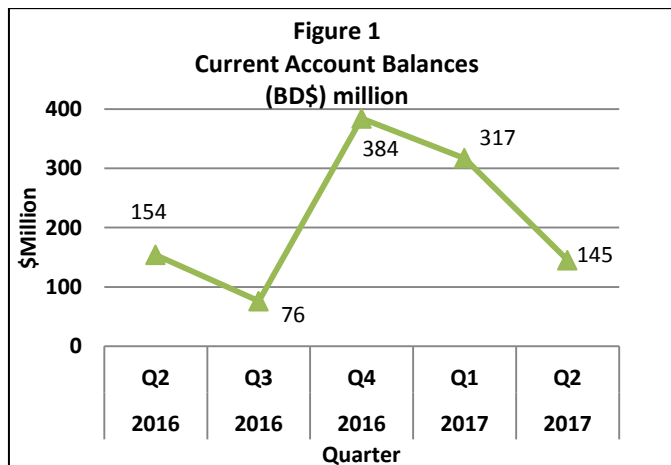
FOR THE QUARTER ENDED JUNE 2017

## FAST FACTS

### Current account surplus/deficit

The Bermuda current account recorded a surplus of \$145 million in the second quarter of 2017 (Figure 1 and Table 1). This represented a \$9 million decrease year-over-year.

- § The deficit on the goods account increased by \$97 million to \$352 million.
- § Services transactions realised a surplus of \$105 million in the second quarter of 2017.
- § The surplus on Bermuda's primary income account increased to \$432 million in the second quarter of 2017.



### Financial, capital, and reserve assets accounts

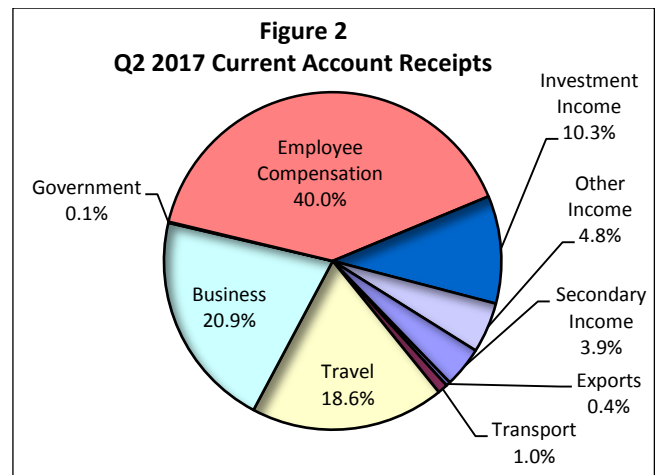
Transactions on Bermuda's asset accounts resulted in a net lending position of \$67 million in the second quarter of 2017 (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in a withdrawal of \$303 million compared to an accumulation of \$333 million in 2016.
- § Bermuda decreased its net incurrence of financial liabilities by \$370 million this quarter compared to an increase of \$260 million in 2016.

## BALANCE OF PAYMENTS

### Current account surplus = \$145 million

The current account surplus stood at \$145 million for the second quarter of 2017 (Table 1). This represented a \$9 million decrease from the \$154 million surplus in the corresponding quarter of 2016. 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. This decline was offset partly by a rise in the primary income surplus due to an increase in net investment income.



### The goods account recorded a deficit of \$352 million

Year-over-year, the value of imported goods increased by \$97 million to \$356 million (Table 1). Imports from the United States increased \$50 million. Goods imported from the Caribbean region and the United Kingdom also increased by \$14 million and \$12 million, respectively. All import commodity groups registered increases, with the most significant gains recorded for imports of finished equipment (+\$48 million) and transport equipment (+\$17 million).

Revenue earned from the exports of goods decreased \$1 million to \$4 million during the quarter.

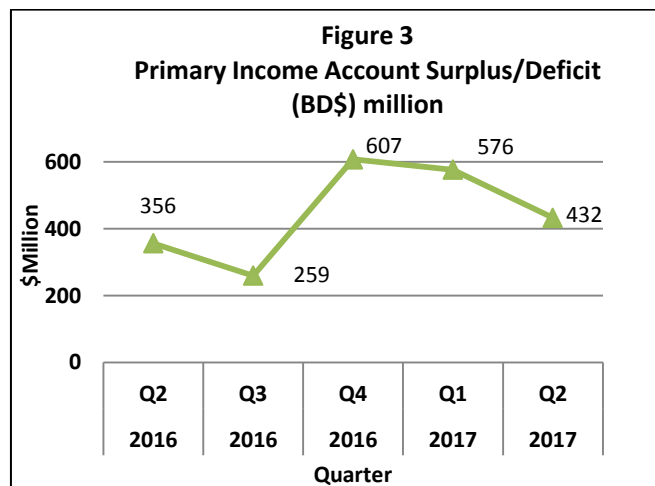
**The services account surplus increased \$19 million**

Receipts from services transactions stood at \$377 million during the quarter. Receipts from travel services rose \$27 million due to an increase in visitor arrivals and higher per-person visitor expenditure. In contrast, receipts from business services decreased \$3 million due to a fall in reinsurance claims recovered. Receipts from government services decreased from \$2 million to \$1 million. Receipts from the provision of transportation services remained unchanged at \$9 million.

Payments for services received from non-residents totalled \$272 million in the second quarter, \$5 million above the level recorded in 2016. This outcome reflected an \$8 million increase in payments for transportation services related to freight imports. Payments for travel services also rose by \$1 million. In contrast, insurance services fell by \$4 million owing to a decrease in reinsurance premiums paid.

**The primary income account surplus grew \$76 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 increased to \$432 million from \$356 million in 2016 (Figure 3 and Table 1). This increase reflected primarily a \$61 million increase in net investment income, as a result of a decrease in dividends paid and a higher net balance on reinvested earnings.



The surplus on employee compensation grew by \$9 million compared to the same period in 2016.

**The secondary income account recorded a \$41 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 by \$7 million from a year ago. The \$41 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 \$4,483 million**

At the end of the second quarter of 2017, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,483 million (Table 2). The net IIP increased \$128 million over the first quarter of 2017.

**Foreign assets decreased, influenced by lower holdings of debt securities**

Bermuda residents’ stock of financial assets decreased \$461 million, due mostly to residents’ holdings of debt securities (bonds and money market instruments) falling by \$595 million.

**Bermuda’s foreign liability position decreased**

Bermuda residents’ stock of foreign liabilities decreased \$588 million. This decrease in the liability position was mostly associated with lower holdings of non-resident deposits which fell \$451 million.

**IIP by institutional sector**

Financial corporations held a net asset position of \$5,196 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 \$277 million. Non-profit institutions serving households also recorded a net asset position of \$8 million at the end of the second quarter of 2017. In contrast, the non-financial corporations held a net liability position of \$999 million with the rest of the world.

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

Components	2016	2017	2016	2016	2016	2017	2017
		YTD	Q2	Q3	Q4	Q1	Q2
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>975</b>	<b>606</b>	<b>259</b>	<b>242</b>	<b>251</b>	<b>250</b>	<b>356</b>
<b>SERVICES</b>	<b>1,070</b>	<b>519</b>	<b>267</b>	<b>290</b>	<b>270</b>	<b>248</b>	<b>272</b>
Transportation	267	142	68	71	66	66	76
Travel	268	129	63	74	69	64	64
Business Services:	535	249	136	145	134	118	131
Insurance services	181	76	46	46	51	34	42
Financial services	58	26	13	17	14	12	13
ICT services	91	46	25	20	23	22	24
Other services	204	102	52	61	47	50	52
Government services	0	0	0	0	0	0	0
<b>PRIMARY INCOME</b>	<b>472</b>	<b>20</b>	<b>126</b>	<b>231</b>	<b>6</b>	<b>-60</b>	<b>81</b>
Employee Compensation	70	38	17	17	19	19	19
Investment Income	402	-18	109	214	-14	-80	62
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>275</b>	<b>157</b>	<b>69</b>	<b>69</b>	<b>72</b>	<b>79</b>	<b>77</b>
<b>TOTAL PAYMENTS</b>	<b>2,792</b>	<b>1,302</b>	<b>722</b>	<b>832</b>	<b>599</b>	<b>516</b>	<b>786</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>19</b>	<b>9</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>4</b>
<b>SERVICES</b>	<b>1,325</b>	<b>655</b>	<b>354</b>	<b>375</b>	<b>326</b>	<b>278</b>	<b>377</b>
Transportation	36	16	9	10	10	7	9
Travel	445	222	146	168	86	49	173
Business Services:	792	376	197	196	215	182	194
Insurance services	98	46	29	24	23	20	26
Financial services	171	67	39	49	54	30	37
ICT services	69	34	16	16	18	16	18
Other services	454	229	112	107	119	116	113
Government services	52	40	2	1	16	39	1
<b>PRIMARY INCOME</b>	<b>2,076</b>	<b>1,029</b>	<b>482</b>	<b>490</b>	<b>612</b>	<b>516</b>	<b>513</b>
Employee Compensation	1,444	737	361	361	361	365	372
Investment Income	476	187	82	95	216	91	96
Other Income	155	105	39	34	35	60	45
<b>SECONDARY INCOME</b>	<b>145</b>	<b>72</b>	<b>35</b>	<b>38</b>	<b>40</b>	<b>36</b>	<b>36</b>
<b>TOTAL RECEIPTS</b>	<b>3,565</b>	<b>1,764</b>	<b>876</b>	<b>908</b>	<b>983</b>	<b>834</b>	<b>931</b>
<b>CURRENT ACCOUNT SURPLUS/DEFICIT</b>							
<b>GOODS</b>	<b>-956</b>	<b>-597</b>	<b>-255</b>	<b>-237</b>	<b>-246</b>	<b>-245</b>	<b>-352</b>
<b>SERVICES</b>	<b>255</b>	<b>135</b>	<b>86</b>	<b>85</b>	<b>56</b>	<b>30</b>	<b>105</b>
Transportation	-231	-125	-58	-60	-57	-59	-67
Travel	177	93	82	93	17	-15	108
Business Services:	257	127	60	51	80	64	63
Insurance services	-83	-29	-17	-22	-29	-14	-15
Financial services	114	41	26	31	41	18	24
ICT services	-22	-12	-9	-4	-4	-5	-7
Other services	249	127	60	47	73	66	61
Government services	52	40	2	1	16	39	1
<b>PRIMARY INCOME</b>	<b>1,604</b>	<b>1,008</b>	<b>356</b>	<b>259</b>	<b>607</b>	<b>576</b>	<b>432</b>
Employee Compensation	1,374	699	344	344	342	346	353
Investment Income	74	205	-27	-119	230	171	34
Other Income	155	105	39	34	35	60	45
<b>SECONDARY INCOME</b>	<b>-131</b>	<b>-85</b>	<b>-34</b>	<b>-31</b>	<b>-32</b>	<b>-44</b>	<b>-41</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>773</b>	<b>462</b>	<b>154</b>	<b>76</b>	<b>384</b>	<b>317</b>	<b>145</b>
<b>FINANCIAL ACCOUNT</b>							
Direct investment	72	-93	69	-24	24	-100	7
Portfolio investment	435	-436	-714	431	604	67	-502
Financial Derivatives	208	71	63	33	58	20	51
Other investment	562	-295	903	-1,431	445	-409	114
Reserve assets	10	40	12	-7	1	14	26
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>1,288</b>	<b>-713</b>	<b>333</b>	<b>-999</b>	<b>1,131</b>	<b>-409</b>	<b>-303</b>
Direct investment	82	-271	110	104	-188	-299	28
Portfolio investment	807	-203	-73	92	564	-230	27
Financial Derivatives	-4	-2	-45	-16	3	-13	12
Other investment	-280	-596	267	-1,215	352	-159	-437
<b>NET INCURRENCE OF FINANCIAL LIABILITIES</b>	<b>606</b>	<b>-1,072</b>	<b>260</b>	<b>-1,034</b>	<b>731</b>	<b>-701</b>	<b>-370</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-682</b>	<b>-359</b>	<b>-73</b>	<b>-35</b>	<b>-401</b>	<b>-292</b>	<b>-67</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>682</b>	<b>359</b>	<b>73</b>	<b>35</b>	<b>401</b>	<b>292</b>	<b>67</b>
<b>BALANCING ITEM</b>	<b>-91</b>	<b>-103</b>	<b>-81</b>	<b>-41</b>	<b>16</b>	<b>-25</b>	<b>-78</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	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	905	878	892	792	804
Portfolio investment	12,890	13,338	13,341	13,567	12,965
Financial Derivatives (other than reserves) and ESOs	113	104	122	93	97
Other investment	3,688	2,256	2,693	2,274	2,392
Reserve Assets	160	152	153	167	174
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	750	758	762	779	790
Debt instruments:	16,893	15,867	16,318	16,022	15,545
Special drawing rights	-	-	-	-	-
Currency and deposits	2,255	980	1,449	1,073	859
Debt securities	13,204	13,610	13,624	13,747	13,152
Loans	1,344	1,203	1,149	1,124	1,458
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	90	73	95	77	76
Other financial assets and liabilities	113	104	122	93	97
<b>TOTAL ASSETS</b>	<b>17,756</b>	<b>16,728</b>	<b>17,201</b>	<b>16,893</b>	<b>16,432</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,691	2,794	2,605	2,243	2,076
Portfolio investment	866	960	1,524	1,296	1,323
Financial Derivatives (other than reserves) and ESOs	36	21	23	10	22
Other investment	10,112	8,909	9,359	8,989	8,530
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,062	3,079	3,106	3,009	2,928
Debt instruments:	10,607	9,584	10,382	9,520	9,000
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	7,776	6,582	6,647	6,636	6,185
Debt securities	495	675	1,023	530	470
Loans	2,234	2,268	2,641	2,286	2,282
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	103	59	71	67	63
Other financial assets and liabilities	36	21	23	10	22
<b>TOTAL LIABILITIES</b>	<b>13,705</b>	<b>12,683</b>	<b>13,512</b>	<b>12,538</b>	<b>11,950</b>
<b>NET IIP</b>	<b>4,051</b>	<b>4,045</b>	<b>3,689</b>	<b>4,355</b>	<b>4,483</b>

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

2017 Q2	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>8</b>	<b>2,462</b>	<b>13,826</b>	<b>136</b>	<b>16,432</b>
Direct investment	-	-	707	97	804
Portfolio investment	2	2,460	10,488	14	12,965
Financial Derivatives (other than reserves) and ESOs	-	-	97	-	97
Other investment	6	2	2,359	25	2,392
Reserve Assets	-	-	174	-	174
<b>LIABILITIES</b>	<b>-</b>	<b>2,185</b>	<b>8,629</b>	<b>1,135</b>	<b>11,950</b>
Direct investment	-	-	1,052	1,024	2,076
Portfolio investment	-	-	1,314	8	1,323
Financial Derivatives (other than reserves) and ESOs	-	-	22	-	22
Other investment	-	2,185	6,242	103	8,530
<b>NET IIP</b>	<b>8</b>	<b>277</b>	<b>5,196</b>	<b>(999)</b>	<b>4,483</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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