



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED MARCH 2018

## FAST FACTS

### Current Account

The Bermuda current account recorded a surplus of \$343 million in the first quarter of 2018 (Figure 1 and Table 1). This represented a \$2 million increase year-over-year.

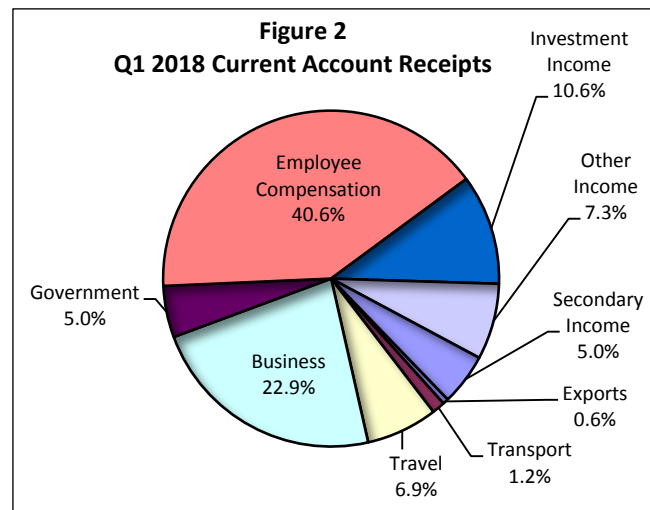
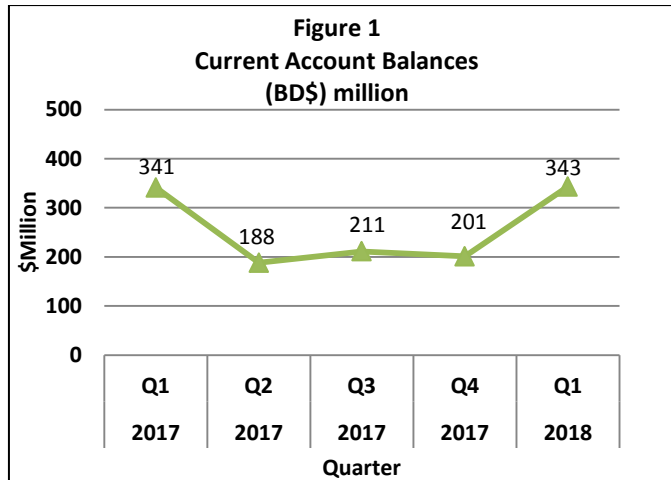
§ The deficit on the goods account decreased by \$20 million to \$226 million.

§ Services transactions realised a surplus of \$83 million in the first quarter of 2018.

§ The surplus on Bermuda's primary income account fell to \$523 million in the first quarter of 2018.

### Current Account Surplus = \$343 million

The current account surplus stood at \$343 million for the first quarter of 2018 (Table 1). This represented a \$2 million increase from the \$341 million surplus in the first quarter of 2017. The rise in the current account surplus reflected mostly a higher surplus on the services account and a lower deficit on the goods account.



### Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's asset accounts resulted in a net lending position of \$319 million (Table 1). Factors influencing this performance include:

§ Bermuda's net acquisition of financial assets resulted in a withdrawal of \$816 million compared to a withdrawal of \$403 million in 2017.

§ Bermuda decreased its net incurrence of financial liabilities by \$1,135 million this quarter compared to a decrease of \$703 million in 2017.

### Goods Account Deficit = \$226 million

Year-over-year, the value of imported goods decreased to \$231 million (Table 1). This was reflected in a \$26 million decline in imported goods from Bermuda's largest trading partner the United States of America. In contrast, imports of goods from the Caribbean and Canada fell by \$8 million and \$5 million, respectively. Among the commodity groups, the fall in imports was reflected primarily in the imports of finished equipment which decreased by \$9 million, machinery which fell by \$8 million and transport equipment which contracted by \$6 million. Import values for the commodity group chemicals and the commodity group food, beverages and tobacco also declined by \$1 million each.

Revenue earned from the exports of goods was unchanged at \$5 million during the quarter.

**Services Account Surplus Increased \$25 million**

The surplus on the services account rose to \$83 million during the first quarter of 2018. The increase reflected a lower deficit balance on transportation services which fell \$17 million during the period. Payments for freight transport declined in line with the fall in imports while receipts from courier services accounted for the rise in overall transportation services receipts. The surplus on trade in financial services increased \$17 million reflecting a combination of greater fees and commissions received and lower payments. The surplus on government services increased \$5 million as more taxes were collected from non-resident entities while the surplus on travel services increased \$3 million due mostly to an increase in air visitor expenditure.

In contrast, the surplus balance on the other business services category fell \$13 million due to payments related to business consultancy services and construction/engineering services.

**Primary Income Account Surplus Fell \$58 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 \$523 million from \$581 million in 2017 (Figure 3 and Table 1). This decline reflected primarily a \$57 million fall in net investment income, as a result of lower reinvested earnings. The surplus on employee compensation also fell \$6 million. In contrast, other income grew by \$5 million when compared to the same period in 2017.

**Secondary Income Account Deficit = \$37 million**

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 \$15 million from a year ago, due mostly to a fall in outflows of worker’s remittances.

**INTERNATIONAL INVESTMENT POSITION (IIP) (Tables 2 & 3)**

**\*\*Note that some shifts in IIP positions in 2018 may be due to reclassification of assets and liabilities by reporting entities due to the use of a more detailed survey instrument starting in Q1 2018\*\***

**Bermuda’s Net IIP Increased to \$3,695 million**

At the end of the first quarter 2018, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,695 million (Table 2). The net IIP increased by \$207 million over the fourth quarter of 2017.

**Foreign Assets Decreased to \$15,164 million**

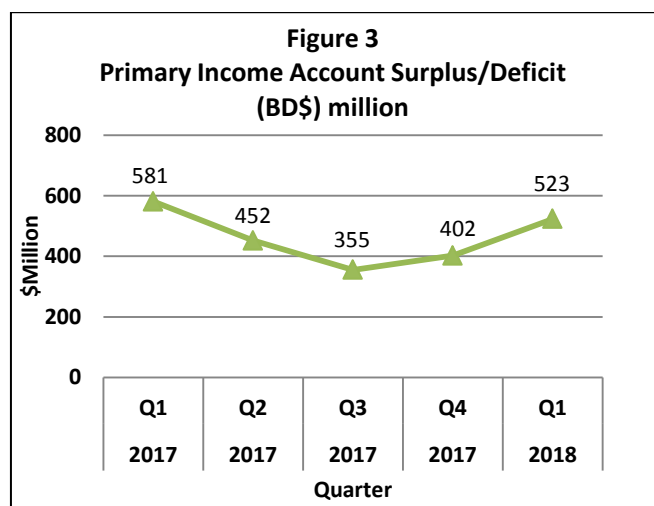
During the first quarter 2018, Bermuda residents’ net acquisition position of financial assets decreased \$934 million, due mostly to residents decreasing their holdings of debt securities and a reduction in loans extended by financial corporations to non-residents.

**Bermuda’s Net Liability Position Decreased to \$11,469 million**

Bermuda residents’ stock of foreign liabilities decreased by \$1,142 million during the first quarter 2018. The reduction in the liability position reflected declines in equity as well as debt instruments from last quarter.

**IIP by Resident Institutional Sector**

The non-financial corporations held a net liability position of \$1,506 million with the rest of the world at the end of the first quarter 2018. The general government sector’s external assets exceeded its external liabilities by \$215 million. Financial corporations held a net asset position of \$4,958 million due mostly to 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 first quarter.



**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**

**TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS<sup>1</sup>**

Components	2017	2018 YTD	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>1,094</b>	<b>231</b>	<b>251</b>	<b>358</b>	<b>247</b>	<b>239</b>	<b>231</b>
<b>SERVICES</b>	<b>950</b>	<b>236</b>	<b>224</b>	<b>243</b>	<b>242</b>	<b>241</b>	<b>236</b>
Transportation	272	54	66	76	68	62	54
Travel	255	61	59	59	71	66	61
Business Services:	423	122	99	108	102	114	122
Insurance services	75	22	18	21	17	19	22
Financial services	50	5	12	13	13	12	5
ICT services	89	29	21	24	20	23	29
Other services	208	65	48	50	52	59	65
Government services	0	0	0	0	0	0	0
<b>PRIMARY INCOME</b>	<b>292</b>	<b>-4</b>	<b>-65</b>	<b>75</b>	<b>169</b>	<b>113</b>	<b>-4</b>
Employee Compensation	56	15	14	14	14	14	15
Investment Income	236	-19	-80	61	155	100	-19
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>387</b>	<b>81</b>	<b>89</b>	<b>90</b>	<b>91</b>	<b>118</b>	<b>81</b>
<b>TOTAL PAYMENTS</b>	<b>2,723</b>	<b>543</b>	<b>498</b>	<b>765</b>	<b>748</b>	<b>712</b>	<b>543</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>19</b>	<b>5</b>	<b>5</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>5</b>
<b>SERVICES</b>	<b>1,376</b>	<b>319</b>	<b>282</b>	<b>383</b>	<b>387</b>	<b>325</b>	<b>319</b>
Transportation	35	11	7	9	10	9	11
Travel	513	61	56	179	182	96	61
Business Services:	773	203	179	193	194	207	203
Insurance services	73	16	16	22	17	18	16
Financial services	172	40	30	37	48	56	40
ICT services	67	25	16	17	16	17	25
Other services	462	121	117	117	112	116	121
Government services	55	44	39	1	1	13	44
<b>PRIMARY INCOME</b>	<b>2,082</b>	<b>519</b>	<b>516</b>	<b>527</b>	<b>523</b>	<b>515</b>	<b>519</b>
Employee Compensation	1,504	360	365	386	387	366	360
Investment Income	393	94	91	96	97	110	94
Other Income	184	65	60	45	40	39	65
<b>SECONDARY INCOME</b>	<b>186</b>	<b>44</b>	<b>37</b>	<b>39</b>	<b>43</b>	<b>67</b>	<b>44</b>
<b>TOTAL RECEIPTS</b>	<b>3,663</b>	<b>886</b>	<b>839</b>	<b>953</b>	<b>958</b>	<b>912</b>	<b>886</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-1,076</b>	<b>-226</b>	<b>-246</b>	<b>-353</b>	<b>-242</b>	<b>-235</b>	<b>-226</b>
<b>SERVICES</b>	<b>427</b>	<b>83</b>	<b>58</b>	<b>140</b>	<b>146</b>	<b>84</b>	<b>83</b>
Transportation	-236	-42	-59	-67	-58	-53	-42
Travel	258	0	-3	120	111	30	0
Business Services:	350	82	80	86	91	93	82
Insurance services	-2	-6	-1	1	0	-2	-6
Financial services	121	35	18	25	36	43	35
ICT services	-22	-4	-5	-7	-4	-6	-4
Other services	254	56	69	67	60	58	56
Government services	55	44	39	1	1	13	44
<b>PRIMARY INCOME</b>	<b>1,790</b>	<b>523</b>	<b>581</b>	<b>452</b>	<b>355</b>	<b>402</b>	<b>523</b>
Employee Compensation	1,449	345	351	373	373	353	345
Investment Income	157	113	170	34	-58	10	113
Other Income	184	65	60	45	40	39	65
<b>SECONDARY INCOME</b>	<b>-200</b>	<b>-37</b>	<b>-52</b>	<b>-51</b>	<b>-48</b>	<b>-50</b>	<b>-37</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>940</b>	<b>343</b>	<b>341</b>	<b>188</b>	<b>211</b>	<b>201</b>	<b>343</b>
<b>FINANCIAL ACCOUNT</b>							
Direct investment	-42	81	-127	7	62	16	81
Portfolio investment	333	-765	100	-425	-223	881	-765
Financial Derivatives	145	45	20	53	38	34	45
Other investment	-236	-188	-409	126	332	-286	-188
Reserve assets	21	10	14	26	-16	-3	10
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>221</b>	<b>-816</b>	<b>-403</b>	<b>-212</b>	<b>194</b>	<b>643</b>	<b>-816</b>
Direct investment	-288	12	-301	32	98	-117	12
Portfolio investment	-365	8	-230	28	298	-462	8
Financial Derivatives	-11	-3	-13	12	-5	-4	-3
Other investment	62	-1,152	-159	-437	-458	1,116	-1,152
<b>NET INCURRENCE OF FINANCIAL LIABILITIES</b>	<b>-602</b>	<b>-1,135</b>	<b>-703</b>	<b>-366</b>	<b>-66</b>	<b>533</b>	<b>-1,135</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-824</b>	<b>-319</b>	<b>-301</b>	<b>-154</b>	<b>-260</b>	<b>-110</b>	<b>-319</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>824</b>	<b>319</b>	<b>301</b>	<b>154</b>	<b>260</b>	<b>110</b>	<b>319</b>
<b>BALANCING ITEM</b>	<b>-116</b>	<b>-24</b>	<b>-40</b>	<b>-34</b>	<b>49</b>	<b>-91</b>	<b>-24</b>

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

(BD\$) MILLIONS

Components	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	794	804	869	886	1,748
Portfolio investment	13,569	12,974	12,106	12,613	11,319
Financial Derivatives (other than reserves) and ESOs	93	99	91	79	35
Other investment	2,272	2,405	2,739	2,365	1,889
Reserve Assets	167	174	158	155	173
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	780	799	778	792	2,745
Debt instruments:	16,021	15,558	15,094	15,228	12,384
Special drawing rights	-	-	-	-	-
Currency and deposits	1,073	859	1,019	948	918
Debt securities	13,749	13,152	12,355	12,862	10,494
Loans	1,124	1,458	1,626	1,321	875
Insurance, pension, standardized guarantee schemes	-	-	-	-	1
Other accounts receivable/payable	76	89	95	96	95
Other financial assets and liabilities	93	99	91	79	35
<b>TOTAL ASSETS</b>	<b>16,894</b>	<b>16,456</b>	<b>15,963</b>	<b>16,098</b>	<b>15,164</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	2,291	2,327	2,429	2,316	2,347
Portfolio investment	1,293	1,324	1,623	1,161	3,790
Financial Derivatives (other than reserves) and ESOs	10	22	17	12	11
Other investment	9,286	8,827	8,342	9,121	5,320
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,062	3,181	3,274	3,271	2,996
Debt instruments:	9,808	9,298	9,120	9,327	8,462
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,636	6,185	5,717	6,504	5,176
Debt securities	521	470	778	206	3,142
Loans	2,584	2,580	2,595	2,597	41
Insurance, pension, standardized guarantee schemes	-	-	-	-	47
Other accounts receivable/payable	66	62	29	19	56
Other financial assets and liabilities	10	22	17	12	11
<b>TOTAL LIABILITIES</b>	<b>12,880</b>	<b>12,500</b>	<b>12,410</b>	<b>12,611</b>	<b>11,469</b>
<b>NET IIP</b>	<b>4,014</b>	<b>3,957</b>	<b>3,553</b>	<b>3,488</b>	<b>3,695</b>

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

2018 Q1	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>28</b>	<b>2,649</b>	<b>12,123</b>	<b>364</b>	<b>15,164</b>
Direct investment	-	-	1,647	101	1,748
Portfolio investment	28	2,649	8,625	17	11,319
Financial Derivatives (other than reserves) and ESOs	-	-	35	-	35
Other investment	-	-	1,644	245	1,889
Reserve Assets	-	-	173	-	173
<b>LIABILITIES</b>	<b>-</b>	<b>2,434</b>	<b>7,165</b>	<b>1,869</b>	<b>11,469</b>
Direct investment	-	-	860	1,487	2,347
Portfolio investment	-	2,434	1,055	301	3,790
Financial Derivatives (other than reserves) and ESOs	-	-	11	-	11
Other investment	-	-	5,239	81	5,320
<b>NET IIP</b>	<b>28</b>	<b>215</b>	<b>4,958</b>	<b>(1,506)</b>	<b>3,695</b>

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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