



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

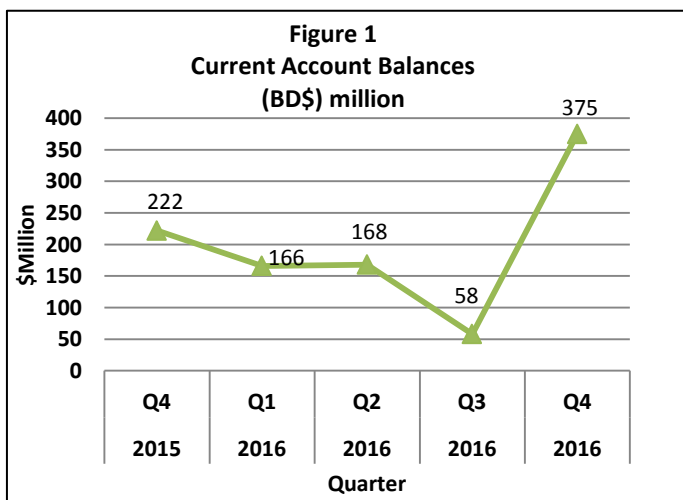
FOR THE QUARTER ENDED DECEMBER 2016

QUARTERLY FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$375 million in the fourth quarter of 2016 (Figure 1 and Table 1). This represented a \$153 million increase year-over-year.

- § The deficit on the goods account widened \$24 million to \$246 million.
- § Services transactions realised a surplus of \$57 million in the fourth quarter of 2016.
- § The surplus on Bermuda's primary income account rose to \$596 million in the last quarter of 2016.



Financial, Capital, and Reserve Assets Accounts

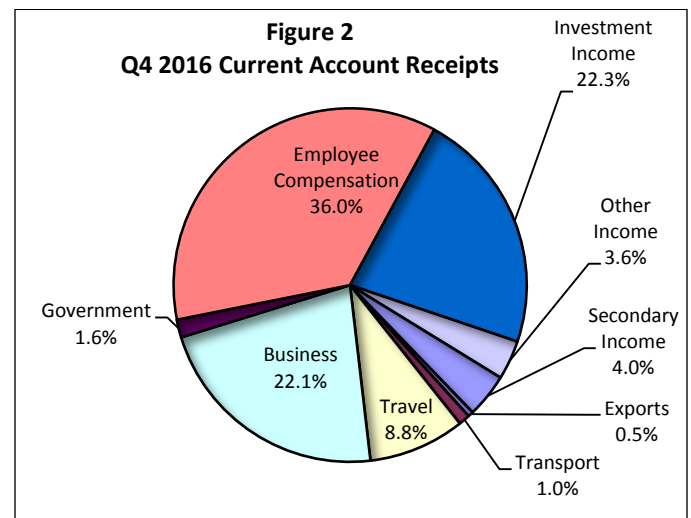
Transactions on Bermuda's asset accounts resulted in a net lending position of \$397 million (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in an accumulation of \$1,128 million compared to an increase of \$820 million in 2015.
- § Bermuda increased its net incurrence of financial liabilities by \$732 million this quarter compared to an increase of \$654 million in 2015.

QUARTERLY CURRENT ACCOUNT

Current Account surplus = \$375 million

The current account surplus stood at \$375 million for the fourth quarter of 2016 (Table 1). This represented a \$153 million increase from the \$222 million surplus in the fourth quarter of 2015. 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. In contrast, the growth in the current account surplus was offset partly by a widening of the deficit on the goods account due to an increase in the value of imported goods.



The Goods Account recorded a deficit of \$246 million

The value of goods imported rose 10.6 per cent to \$251 million during the quarter (Table 1). This increase was due mostly to a \$32 million increase in imported goods from Bermuda's largest trading partner the United States. In contrast, imports of goods from Canada fell by \$11 million. Among the commodity groups, the increase was reflected primarily in the imports of machinery, which rose by \$12 million. Imports of finished equipment, and food, beverages and tobacco also rose by \$6 million each. In contrast, imports of basic materials and semi-manufactured goods contracted by \$2 million during the period.

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

The Services account surplus increased \$3 million

Receipts from services transactions stood at \$327 million during the quarter. Among the services categories, receipts from travel services rose \$17 million due to an increase in visitor arrivals and higher per-person visitor expenditure. In contrast, revenue from government services decreased \$6 million during the quarter.

Payments for services received from non-residents totalled \$270 million in the fourth quarter, \$21 million above the level recorded in 2015. This outcome reflected mostly higher payments for business services, specifically increases of \$16 million and \$5 million in payments for insurance services and financial services. Payments for transport services increased \$5 million.

Primary Income surplus increased \$174 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 \$596 million from \$422 million in 2015. Transactions related to investment income recorded a surplus balance of \$230 million reflecting losses on retained earnings which resulted in negative income payable. The surplus balance on employee compensation fell \$14 million.

Secondary Income 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 remained unchanged at \$32 million. An increase in payments for non-life insurance claims was offset by an increase in non-life insurance premiums received from non-residents.

INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)

Bermuda’s net IIP decreased to \$3,727 million

At the end of the 4th quarter of 2016, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,727 million (Table 2). The net IIP decreased by \$376 million over the third quarter of 2016.

Foreign assets increased, influenced by higher holdings of currency and deposits

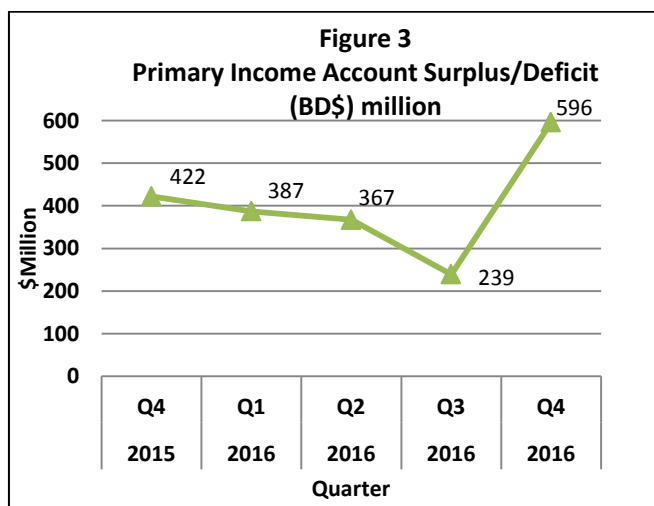
Bermuda residents’ net acquisition position of financial assets rose \$453 million, due mostly to residents increasing their holdings of currency and deposits held overseas by \$469 million during the quarter. In contrast, loans decreased by \$54 million.

Bermuda’s liability position increased

Bermuda residents increased their stock of foreign liabilities by \$829 million. This increase was associated mostly with outstanding liabilities related to loans which increased \$373 million and a rise in debt securities of \$348 million.

IIP by institutional sector

The non-financial corporations held a net liability position of \$1,285 million with the rest of the world at the end of the fourth quarter 2016 (Table 3). The general government sector’s external liability holdings exceeded its external assets by \$217 million. Financial corporations held a net asset position of \$5,208 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 \$21 million at the end of the fourth quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION
TABLE 1 – QUARTERLY ESTIMATES BY MAJOR ACCOUNTS, 2015 - 2016 – (BD\$) MILLIONS

COMPONENTS	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
CURRENT ACCOUNT PAYMENTS								
GOODS IMPORTS	217	260	230	227	223	259	242	251
SERVICES	229	248	272	249	243	267	290	270
Transportation	61	70	69	61	63	68	71	66
Travel	60	62	73	67	61	63	74	69
Business Services:	108	117	130	121	119	136	145	134
Insurance services	33	38	55	35	37	46	46	51
Financial services	13	13	10	9	14	13	17	14
ICT services	19	20	19	24	23	25	20	23
Other services	44	45	45	52	45	52	61	47
Government services	0	0	0	0	0	0	0	0
PRIMARY INCOME	66	69	100	60	109	126	231	6
Employee Compensation	16	17	16	16	17	17	17	19
Investment Income	50	52	84	44	93	109	214	-14
Other Income	0	0	0	0	0	0	0	0
SECONDARY INCOME	68	68	65	65	66	69	69	72
TOTAL PAYMENTS	581	646	667	601	640	722	832	599
CURRENT ACCOUNT RECEIPTS								
GOODS EXPORTS	5	6	6	5	4	5	5	5
SERVICES	289	332	370	304	274	358	376	327
Transportation	7	9	10	9	8	10	11	10
Travel	48	129	140	69	46	146	168	86
Business Services:	199	194	219	203	187	200	197	215
Insurance services	27	20	40	21	23	29	24	23
Financial services	34	38	52	50	29	39	49	54
ICT services	19	17	19	16	19	16	16	19
Other services	120	119	108	116	117	115	108	119
Government services	35	1	1	22	33	2	1	16
PRIMARY INCOME	494	485	476	482	496	493	470	602
Employee Compensation	361	361	361	361	365	372	341	351
Investment Income	79	90	82	88	84	82	95	217
Other Income	53	34	33	33	48	39	34	35
SECONDARY INCOME	29	33	34	33	32	35	38	39
TOTAL RECEIPTS	816	857	885	823	806	890	889	973
CURRENT ACCOUNT BALANCES								
GOODS	-212	-254	-225	-222	-219	-255	-237	-246
SERVICES	59	84	98	54	31	90	86	57
Transportation	-54	-61	-59	-52	-55	-58	-60	-56
Travel	-12	67	67	2	-15	82	93	16
Business Services:	91	77	89	83	68	64	52	81
Insurance services	-6	-18	-15	-14	-14	-17	-22	-28
Financial services	21	24	42	41	15	26	31	41
ICT services	0	-3	0	-8	-5	-9	-4	-4
Other services	76	74	63	64	72	63	47	72
Government services	35	1	1	22	33	2	1	16
PRIMARY INCOME	427	416	376	422	387	367	239	596
Employee Compensation	345	344	345	345	348	355	324	331
Investment Income	29	38	-3	44	-9	-27	-119	230
Other Income	53	34	33	33	48	39	34	35
SECONDARY INCOME	-40	-35	-31	-32	-34	-34	-31	-32
CURRENT ACCOUNT BALANCE	235	211	218	222	166	168	58	375
FINANCIAL ACCOUNT								
Direct investment	-41	4	179	-226	3	90	-24	23
Portfolio investment	1,164	312	-1,911	2,030	114	-714	431	604
Financial Derivatives	24	40	31	43	54	63	29	55
Other investment	-343	340	134	-1,028	646	903	-1,431	445
Reserve assets	6	7	-6	1	5	12	-7	1
NET ACQUISITION OF FIN. ASSETS	809	703	-1,574	820	821	354	-1,003	1,128
Direct investment	74	-213	-25	20	55	110	104	-188
Portfolio investment	38	179	-119	-8	224	-73	92	564
Financial Derivatives	9	-2	-14	7	54	-45	-16	3
Other investment	531	559	-1,696	635	317	267	-1,215	353
NET INCURRENCE OF FIN. LIABILITIES	652	522	-1,853	654	649	260	-1,034	732
TOTAL NET FINANCIAL ACCOUNT	-157	-180	-279	-166	-172	-94	-31	-397
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	157	180	279	166	172	94	31	397
BALANCING ITEM	-78	-31	61	-56	7	-74	-27	22

R – revised, P – provisional

Numbers may not add due to rounding

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

(BD\$) MILLIONS

COMPONENTS	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	843	844	925	898	912
Portfolio investment	14,094	13,662	13,066	13,379	13,362
Financial Derivatives (other than reserves) and ESOs	79	92	113	100	119
Other investment	2,256	2,826	3,688	2,256	2,693
Reserve Assets	143	148	160	152	153
BY INSTRUMENT					
Equity and investment fund share/units	788	761	771	778	782
Debt instruments:	16,548	16,718	17,069	15,908	16,338
Special drawing rights	-	-	-	-	-
Currency and deposits	1,092	1,115	2,255	980	1,449
Debt securities	14,291	13,891	13,380	13,652	13,645
Loans	1,063	1,577	1,344	1,203	1,149
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	102	135	90	73	95
Other financial assets and liabilities	79	92	113	100	119
TOTAL ASSETS	17,415	17,572	17,953	16,786	17,239
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,543	2,586	2,691	2,794	2,605
Portfolio investment	717	941	866	960	1,524
Financial Derivatives (other than reserves) and ESOs	27	81	36	21	23
Other investment	9,522	9,789	10,112	8,909	9,359
BY INSTRUMENT					
Equity and investment fund share/units	2,928	2,979	3,061	3,079	3,106
Debt instruments:	9,854	10,336	10,607	9,584	10,382
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	7,149	7,422	7,776	6,582	6,647
Debt securities	332	547	495	675	1,023
Loans	2,316	2,311	2,234	2,268	2,641
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	57	56	103	59	71
Other financial assets and liabilities	27	81	36	21	23
TOTAL LIABILITIES	12,808	13,396	13,705	12,683	13,512
NET IIP	4,607	4,175	4,248	4,103	3,727

TABLE 3 - IIP By Resident Institutional Sector — (BD\$) MILLIONS¹

2016 Q4	Households and NPISHs^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	21	2,267	14,783	168	17,239
Direct investment	n.a.	-	786	127	912
Portfolio investment	15	2,265	11,065	18	13,362
Financial Derivatives (other than reserves) and ESOs	-	-	119	-	119
Other investment	6	3	2,661	23	2,693
Reserve Assets			153		153
LIABILITIES	-	2,484	9,576	1,453	13,512
Direct investment			1,332	1,273	2,605
Portfolio investment	-	-	1,515	9	1,524
Financial Derivatives (other than reserves) and ESOs	-	-	23	-	23
Other investment	-	2,484	6,705	170	9,359
NET IIP	21	(217)	5,208	(1,285)	3,727

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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