



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED MARCH 2016

FAST FACTS

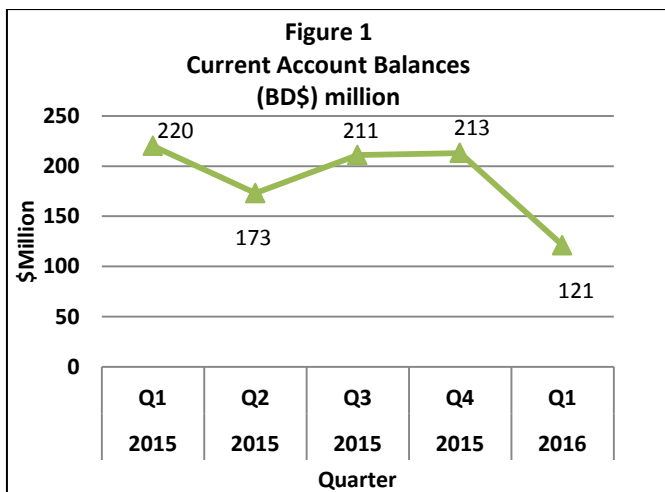
Current Account

The Bermuda current account recorded a surplus of \$121 million in the first quarter of 2016 (Figure 1 and Table 1). This represented a \$99 million decrease year-over-year.

§ The deficit on the goods account widened by \$6 million to \$219 million.

§ Services transactions realised a surplus of \$33 million in the first quarter of 2016.

§ The surplus on Bermuda's primary income account fell to \$341 million in the first quarter of 2016.



Financial, Capital, and Reserve Assets Accounts

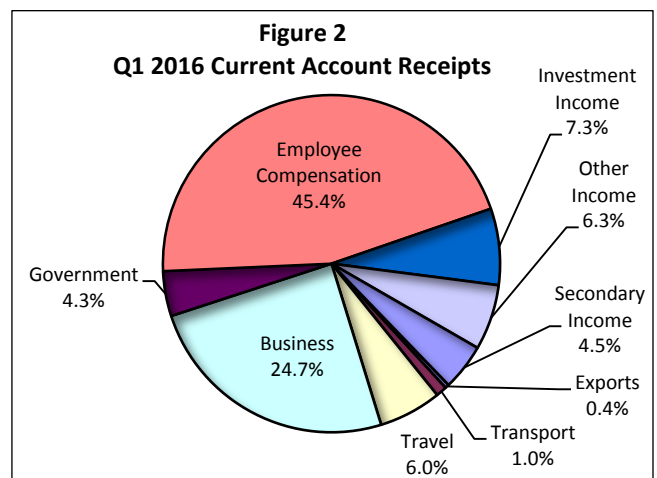
Transactions on Bermuda's asset accounts resulted in a net lending position of \$106 million (Table 1). Factors influencing this performance include:

§ Bermuda's net acquisition of financial assets resulted in an accumulation of \$720 million compared to an increase of \$801 million in 2015.

§ Bermuda increased its net incurrence of financial liabilities by \$614 million this quarter compared to an increase of \$641 million in 2015.

Current account surplus = \$121 million

The current account surplus stood at \$121 million for the first quarter of 2016 (Table 1). This represented a \$99 million decrease from the \$220 million surplus in the first quarter of 2015. The decrease in the current account surplus reflected mostly a fall in the primary income surplus due to a deficit on the investment income account. 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 \$219 million

Year-over-year, the value of imported goods rose 2.8 per cent to \$223 million (Table 1). This increase was due mostly to a \$12 million increase in imported goods from Bermuda's largest trading partner the United States. In contrast, imports from Canada fell by \$6 million while imports of goods from the Caribbean region fell by \$3 million. Among the commodity groups, the increase was reflected primarily in the imports of basic materials, and food, beverages and tobacco, which rose \$5 million and \$4 million, respectively. In contrast, imports of finished equipment contracted by \$5 million during the period.

Revenue earned from the exports of goods fell by \$2 million during the quarter.

Services account surplus decreased \$28 million

Receipts from services transactions stood at \$277 million during the quarter. Among the services categories, receipts from business services decreased by \$10 million, mostly related to a decline of \$5 million for financial services. In addition, receipts from travel services and the provision of government services both declined by \$2 million during the period.

Payments for services received from non-residents totalled \$244 million in the first quarter, \$15 million above the level recorded in 2015. This outcome reflected a \$6 million increase in payments for insurance services related to reinsurance. Payments for Information, Communication and Technology (ICT) services, also rose by \$5 million. Transportation outflows rose \$2 million reflecting mostly higher payments for freight-related sea transport.

Primary Income Surplus fell \$69 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 \$341 million from \$410 million in 2015 (Figure 3 and Table 1). This decrease reflected primarily a \$66 million decline in net investment income, as a result of lower gains on the sale of investments and higher reinvested earnings. The surplus on other income also fell by \$5 million.

In contrast, the surplus on employee compensation grew by \$4 million compared to the same period in 2015.

Secondary income 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 contracted \$5 million from a year ago, due to a \$4 million increase in net non-life insurance premiums.

INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)

Bermuda’s net IIP decreased to \$4,319 million

At the end of the first quarter 2016, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,319 million. The net IIP decreased by \$391 million over the fourth quarter of 2015.

Foreign assets increased, influenced by other investment

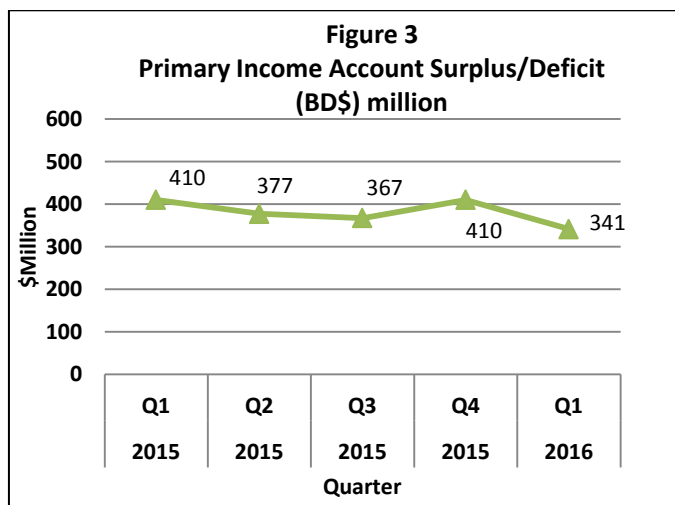
During the first quarter 2016, Bermuda residents’ net acquisition position of financial assets increased \$222 million, due mostly to a \$517 million increase in loans to non-residents.

Bermuda’s net liability position increased

Bermuda residents’ stock of foreign liabilities increased by \$614 million during the first quarter 2016. The growth in the liability position was associated mostly with a \$273 million rise in non-resident deposits and a \$190 million increase in debt securities.

IIP by institutional sector (Table 3)

The non-financial corporations held a net liability position of \$1,100 million with the rest of the world at the end of the first quarter 2016. The general government sector’s external liability holdings exceeded its external assets by \$31 million. Financial corporations held a net asset position of \$5,430 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 \$20 million at the end of the first quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION
TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS¹

Components	2015	2016 YTD	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	935	223	217	260	230	227	223
SERVICES	997	244	229	248	271	249	244
Transportation	260	63	61	70	69	61	63
Travel	262	61	60	62	73	67	61
Business Services:	474	121	108	117	129	120	121
Insurance services	162	39	33	38	55	35	39
Financial services	46	14	13	13	10	9	14
ICT services	82	24	19	20	19	24	24
Other services	185	45	44	45	44	52	45
Government services	0	0	0	0	0	0	0
PRIMARY INCOME	296	110	66	69	100	60	110
Employee Compensation	66	17	16	17	16	16	17
Investment Income	230	93	50	52	84	44	93
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	266	67	68	68	65	65	67
TOTAL PAYMENTS	2,494	644	581	646	666	601	644
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	19	3	5	5	5	4	3
SERVICES	1,302	277	291	334	371	306	277
Transportation	37	8	8	9	10	10	8
Travel	388	46	48	130	141	70	46
Business Services:	818	189	199	194	219	205	189
Insurance services	108	24	27	20	40	21	24
Financial services	174	29	34	38	52	50	29
ICT services	67	18	18	16	18	15	18
Other services	469	118	121	121	109	119	118
Government services	59	33	35	1	1	22	33
PRIMARY INCOME	1,859	451	477	446	467	470	451
Employee Compensation	1,366	347	344	322	352	349	347
Investment Income	339	56	79	90	82	88	56
Other Income	154	48	53	34	33	33	48
SECONDARY INCOME	131	34	29	34	34	34	34
TOTAL RECEIPTS	3,311	765	801	819	877	814	765
CURRENT ACCOUNT BALANCES							
GOODS	-915	-219	-213	-255	-225	-223	-219
SERVICES	304	33	61	86	100	58	33
Transportation	-224	-54	-53	-61	-58	-52	-54
Travel	126	-14	-12	68	67	3	-14
Business Services:	344	69	91	78	90	85	69
Insurance services	-54	-15	-7	-18	-16	-14	-15
Financial services	128	15	21	24	42	41	15
ICT services	-14	-6	0	-4	-1	-9	-6
Other services	284	74	77	75	65	67	74
Government services	58	33	35	1	1	22	33
PRIMARY INCOME	1,563	341	410	377	367	410	341
Employee Compensation	1,301	331	327	304	336	333	331
Investment Income	109	-37	29	38	-3	44	-37
Other Income	154	48	53	34	33	33	48
SECONDARY INCOME	-135	-34	-39	-34	-31	-32	-34
CURRENT ACCOUNT BALANCE	817	121	220	173	211	213	121
FINANCIAL ACCOUNT							
Direct investment	-84	13	-41	4	179	-226	13
Portfolio investment	1,596	6	1,164	312	-1,911	2,030	6
Financial Derivatives	111	47	15	29	31	35	47
Other investment	-897	649	-343	340	134	-1,028	649
Reserve assets	7	5	6	7	-6	1	5
NET ACQUISITION OF FINANCIAL ASSETS	732	720	801	692	-1,573	812	720
Direct investment	-204	45	64	-218	-37	-12	45
Portfolio investment	90	198	38	179	-119	-8	198
Financial Derivatives	0	54	9	-2	-14	7	54
Other investment	28	317	531	559	-1,696	635	317
NET INCURRENCE OF FINANCIAL LIABILITIES	-85	614	641	517	-1,865	622	614
TOTAL NET FINANCIAL ACCOUNT	-817	-106	-160	-175	-292	-190	-106
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	817	106	160	175	292	190	106
BALANCING ITEM	1	-15	-60	2	82	-23	-15

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

(BD\$) MILLIONS

Components	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	887	898	1,072	843	855
Portfolio investment	13,716	14,080	12,203	14,094	13,713
Financial Derivatives (other than reserves) and ESOs	86	78	77	71	85
Other investment	2,815	3,161	3,292	2,256	2,829
Reserve Assets	142	149	143	143	148
BY INSTRUMENT					
Equity and investment fund share/units	921	889	811	788	767
Debt instruments:	16,640	17,399	15,899	16,548	16,777
Special drawing rights	-	-	-	-	-
Currency and deposits	1,588	1,718	2,173	1,092	1,114
Debt securities	13,824	14,238	12,607	14,291	13,948
Loans	1,101	1,316	1,023	1,063	1,580
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	127	127	96	102	136
Other financial assets and liabilities	86	78	77	71	85
TOTAL ASSETS	17,646	18,366	16,786	17,407	17,629
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,750	2,460	2,436	2,432	2,525
Portfolio investment	666	841	725	717	915
Financial Derivatives (other than reserves) and ESOs	33	33	20	27	81
Other investment	9,575	10,075	8,427	9,522	9,789
BY INSTRUMENT					
Equity and investment fund share/units	3,065	2,830	2,809	2,824	2,925
Debt instruments:	9,926	10,546	8,778	9,847	10,304
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	7,293	7,752	6,106	7,149	7,422
Debt securities	351	471	351	325	515
Loans	2,265	2,264	2,261	2,316	2,311
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	18	59	60	57	56
Other financial assets and liabilities	33	33	20	27	81
TOTAL LIABILITIES	13,024	13,410	11,607	12,697	13,311
NET IIP	4,623	4,956	5,179	4,710	4,319

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

2016 Q1	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	20	2,154	15,309	146	17,629
Direct investment	-	-	745	110	855
Portfolio investment	13	2,149	11,534	16	13,713
Financial Derivatives (other than reserves) and ESOs	-	-	85	-	85
Other investment	7	4	2,797	20	2,829
Reserve Assets			148		148
LIABILITIES	-	2,185	9,880	1,246	13,311
Direct investment			1,446	1,080	2,525
Portfolio investment	-	-	907	8	915
Financial Derivatives (other than reserves) and ESOs	-	-	81	-	81
Other investment	-	2,185	7,446	158	9,789
NET IIP	20	(31)	5,430	(1,100)	4,319

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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