



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

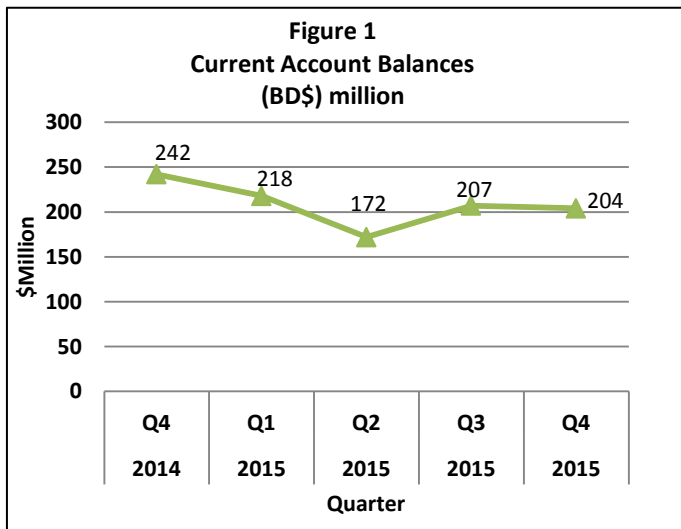
FOR THE QUARTER ENDED DECEMBER 2015

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$204 million in the fourth quarter of 2015 (Figure 1 and Table 1). This represented a \$38 million decrease year-over-year.

- § The deficit on the goods account decreased by \$7 million to \$223 million.
- § Services transactions realised a surplus of \$49 million in the fourth quarter of 2015.
- § The surplus on Bermuda's primary income account fell to \$410 million in the last quarter of 2015.



Financial, Capital, and Reserve Assets Accounts

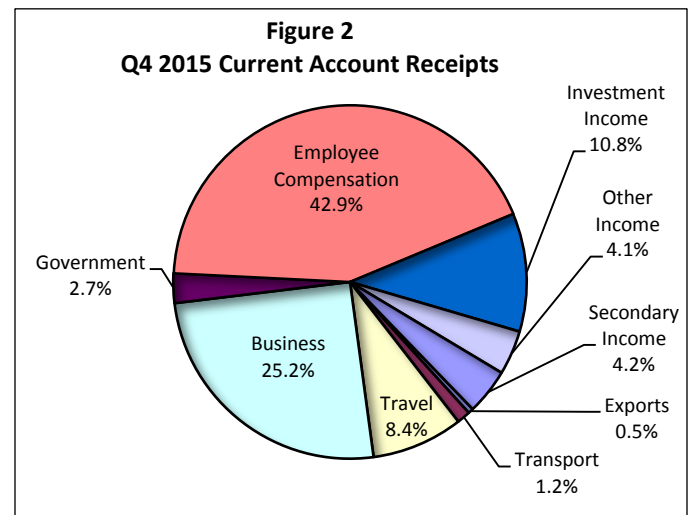
Transactions on Bermuda's asset accounts resulted in a net lending position of \$243 million (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in an accumulation of \$814 million compared to an increase of \$383 million in 2014.
- § Bermuda increased its net incurrence of financial liabilities by \$571 million this quarter compared to an increase of \$67 million in 2014.

BALANCE OF PAYMENTS

Current Account surplus = \$204 million

The current account surplus stood at \$204 million for the fourth quarter of 2015 (Table 1). This represented a \$38 million decrease from the \$242 million surplus in the fourth quarter of 2014. The decrease in the current account surplus reflected mostly a reduction in net receipts for insurance services and a small decline in the surplus on the primary income account. In contrast, the deficit on merchandise trade narrowed due to lower payments for imported goods.



The Goods Account recorded a deficit of \$223 million

The value of goods imported fell 3.0 per cent to \$227 million during the quarter (Table 1). Imported goods from the Island's largest trading partner the United States of America fell by \$31 million. In contrast, imports from Canada grew by \$17 million. Among the commodity groups, the decline was reflected primarily in the imports of fuel which dropped \$18 million year-over-year. Imports of food, beverages and tobacco also contracted by \$4 million. In contrast, imports of finished equipment and transport equipment rose by \$7 million and \$5 million, respectively.

Revenue from exports fell by \$1 million to \$4 million during the quarter.

The Services account surplus fell \$43 million

Receipts from services transactions stood at \$305 million during the quarter. Among the services categories, receipts from business services fell \$24 million due primarily to a fall in insurance services, specifically reinsurance claims recovered. Receipts from travel services declined \$5 million due to lower expenditure by air visitors. In contrast, revenue from transportation services increased by \$2 million during the quarter.

Payments for services received from non-residents totalled \$256 million in the fourth quarter, \$17 million above the level recorded in 2014. This outcome reflected mostly increased payments for business services, specifically increases of \$6 million and \$7 million in payments for ICT services and other services, respectively. Payments for government services rose by \$3 million as a result of increased payments relating to tourism, while transportation outflows were unchanged at \$61 million. In contrast, payments by residents for travel (including overseas training and conferences) dipped \$1 million.

Primary Income surplus decreased \$4 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 \$410 million from \$414 million in 2014 (Figure 3 and Table 1). This decrease reflected a \$23 million fall in net investment income due mostly to lower dividend receipts. In contrast, employee compensation rose by \$16 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 narrowed to \$32 million. The smaller deficit reflected primarily a decrease in net non-life insurance claims paid to non-residents.

INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)

Bermuda’s net IIP decreased to \$4,762 million

At the end of the 4th quarter 2015, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,762 million. The net IIP decreased by \$417 million over the third quarter of 2015.

Foreign assets increased with growth in portfolio investment

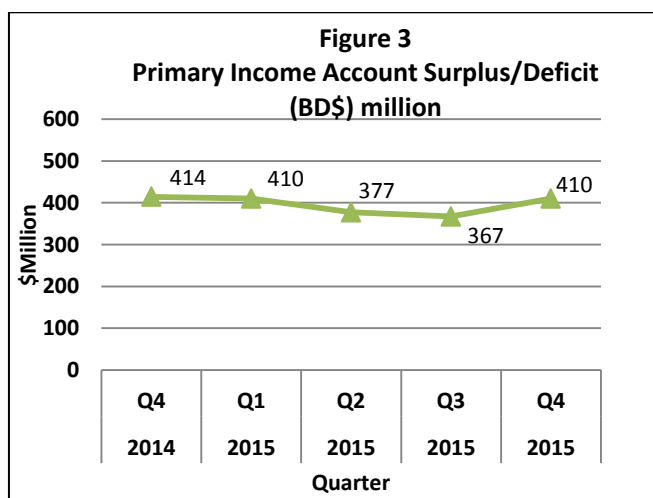
Bermuda residents’ net acquisition position of financial assets increased by \$623 million, due mostly to residents increasing their holdings of debt securities including short-term money market instruments by \$1,679 million during the quarter. Loans also increased by \$40 million.

Bermuda’s net liability position increased

Bermuda residents increased their stock of foreign liabilities by \$1,040 million. This increase was associated mostly with a rise in currency and deposits of \$1,043 million.

IIP by institutional sector (Table 3)

Non-financial corporations held a net liability position of \$825 million with the rest of the world at the end of the fourth quarter 2015 (Table 3). The general government sector’s asset holdings exceeded its liabilities by \$80 million while financial corporations held a net asset position of \$5,484 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 \$23 million at the end of the fourth quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

TABLE 1 – BALANCE OF PAYMENTS (BD\$) MILLIONS

COMPONENTS	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
CURRENT ACCOUNT PAYMENTS								
GOODS IMPORTS	220	260	255	234	217	260	230	227
SERVICES	227	258	275	239	231	251	273	256
Transportation	60	71	67	61	61	70	69	61
Travel	61	63	71	68	60	62	73	67
Business Services:	102	121	132	106	108	117	129	120
Insurance services	30	39	52	35	33	38	55	35
Financial services	5	8	10	8	13	13	10	9
ICT services	19	19	18	18	19	20	19	24
Other services	47	54	51	45	44	45	44	52
Government services	4	4	4	4	2	3	2	7
PRIMARY INCOME	89	68	79	65	66	69	100	60
Employee Compensation	16	17	17	16	16	17	16	16
Investment Income	73	51	62	48	50	52	84	44
Other Income	0	0	0	0	0	0	0	0
SECONDARY INCOME	67	70	67	68	68	68	65	65
TOTAL PAYMENTS	604	656	676	606	583	648	669	608
CURRENT ACCOUNT RECEIPTS								
GOODS EXPORTS	5	6	6	5	5	5	5	4
SERVICES	284	349	366	331	291	335	369	305
Transportation	9	8	9	8	8	9	10	10
Travel	42	138	148	73	48	131	139	68
Business Services:	195	201	209	229	199	194	219	205
Insurance services	21	23	23	40	27	20	40	21
Financial services	34	38	47	56	34	38	52	50
ICT services	15	16	17	16	18	16	18	15
Other services	124	124	121	118	121	121	109	118
Government services	39	2	1	21	35	1	1	22
PRIMARY INCOME	482	484	429	479	477	446	467	470
Employee Compensation	334	334	334	333	344	322	352	349
Investment Income	96	116	67	116	79	90	82	88
Other Income	52	34	29	30	53	34	33	33
SECONDARY INCOME	28	29	32	33	29	34	34	34
TOTAL RECEIPTS	799	867	834	847	801	820	876	813
CURRENT ACCOUNT BALANCES								
GOODS	-215	-254	-250	-230	-213	-255	-225	-223
SERVICES	57	90	92	92	60	84	96	49
Transportation	-52	-63	-59	-53	-53	-61	-58	-52
Travel	-19	75	76	5	-12	69	66	1
Business Services:	93	81	77	123	91	78	90	84
Insurance services	-9	-16	-29	5	-7	-18	-16	-14
Financial services	29	30	37	47	21	24	42	41
ICT services	-4	-2	-1	-2	0	-4	-1	-9
Other services	77	70	70	72	77	75	65	67
Government services	35	-2	-3	17	33	-2	-2	15
PRIMARY INCOME	393	416	350	414	410	377	367	410
Employee Compensation	317	316	316	317	327	304	336	333
Investment Income	24	65	5	67	29	38	-3	44
Other Income	52	34	29	30	53	34	33	33
SECONDARY INCOME	-39	-41	-35	-35	-39	-34	-31	-32
CURRENT ACCOUNT BALANCE	196	211	158	242	218	172	207	204
FINANCIAL ACCOUNT								
Direct investment	41	31	-2	50	-41	4	179	-226
Portfolio investment	-163	-407	-639	-645	1,164	312	-1,911	2,030
Financial Derivatives	38	29	97	12	15	29	31	35
Other investment	-633	-390	-480	957	-343	340	134	-1,025
Reserve assets	-9	-2	-13	10	6	7	-6	1
NET ACQUISITION OF FINANCIAL ASSETS	-726	-738	-1,037	383	801	692	-1,573	814
Direct investment	21	-8	-15	-2	64	-218	-37	-12
Portfolio investment	-767	-191	-105	-782	38	179	-119	-8
Financial Derivatives	-4	17	9	-11	9	-2	-14	7
Other investment	-260	-788	-1,053	861	531	559	-1,696	584
NET INCURRENCE OF FINANCIAL LIABILITIES	-1,010	-970	-1,164	67	641	517	-1,865	571
TOTAL NET FINANCIAL ACCOUNT	-284	-232	-126	-317	-160	-175	-292	-243
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	284	232	126	317	160	175	292	243
BALANCING ITEM	88	21	-31	75	-59	3	85	39

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	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	934	887	898	1,072	843
Portfolio investment	12,264	13,716	14,080	12,203	14,094
Financial Derivatives (other than reserves) and ESOs	100	86	78	77	71
Other investment	3,170	2,815	3,161	3,292	2,258
Reserve Assets	137	142	149	143	143
BY INSTRUMENT					
Equity and investment fund share/units	939	921	889	811	793
Debt instruments:	15,566	16,640	17,399	15,899	16,545
Special drawing rights	-	-	-	-	-
Currency and deposits	1,961	1,588	1,718	2,173	1,092
Debt securities	12,395	13,824	14,238	12,607	14,286
Loans	1,087	1,101	1,316	1,023	1,063
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	122	127	127	96	104
Other financial assets and liabilities	100	86	78	77	71
TOTAL ASSETS	16,605	17,646	18,366	16,786	17,409
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,687	2,734	2,460	2,436	2,432
Portfolio investment	628	666	841	725	717
Financial Derivatives (other than reserves) and ESOs	27	33	33	20	27
Other investment	8,958	9,575	10,075	8,427	9,471
BY INSTRUMENT					
Equity and investment fund share/units	3,078	3,049	2,830	2,809	2,824
Debt instruments:	9,195	9,926	10,546	8,778	9,796
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,685	7,293	7,752	6,106	7,149
Debt securities	237	351	471	351	325
Loans	2,259	2,265	2,264	2,261	2,265
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	15	18	59	60	57
Other financial assets and liabilities	27	33	33	20	27
TOTAL LIABILITIES	12,300	13,007	13,410	11,607	12,647
NET IIP	4,305	4,639	4,956	5,179	4,762

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

2015 Q4	Households and NPISHs^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS					
	23	2,265	15,049	72	17,409
Direct investment	n.a.	-	805	38	843
Portfolio investment	15	2,265	11,800	14	14,094
Financial Derivatives (other than reserves) and ESOs	-	-	71	-	71
Other investment	8	0	2,230	20	2,258
Reserve Assets	-	-	143	-	143
LIABILITIES					
	-	2,185	9,565	897	12,647
Direct investment	-	-	1,655	777	2,432
Portfolio investment	-	-	708	9	717
Financial Derivatives (other than reserves) and ESOs	-	-	27	-	27
Other investment	-	2,185	7,175	111	9,471
NET IIP	23	80	5,484	(825)	4,762

1 Data are estimates only and subject to revision

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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