



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

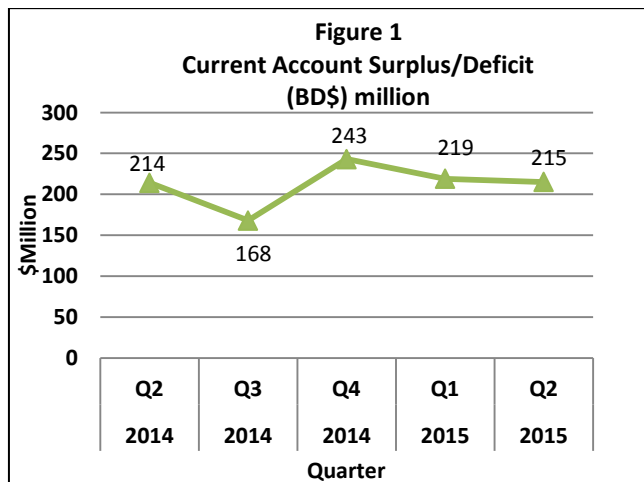
FOR THE QUARTER ENDED JUNE 2015

FAST FACTS

Current account surplus/deficit

The Bermuda current account recorded a surplus of \$215 million in the second quarter of 2015 (Figure 1 and Table 1). This represented a \$1 million increase year-over-year.

- § The deficit on the goods account narrowed \$24 million to \$230 million.
- § Services transactions realised a surplus of \$100 million in the second quarter of 2015.
- § The surplus on Bermuda's primary income account fell to \$378 million in the second quarter of 2015.



Financial, capital, and reserve assets accounts

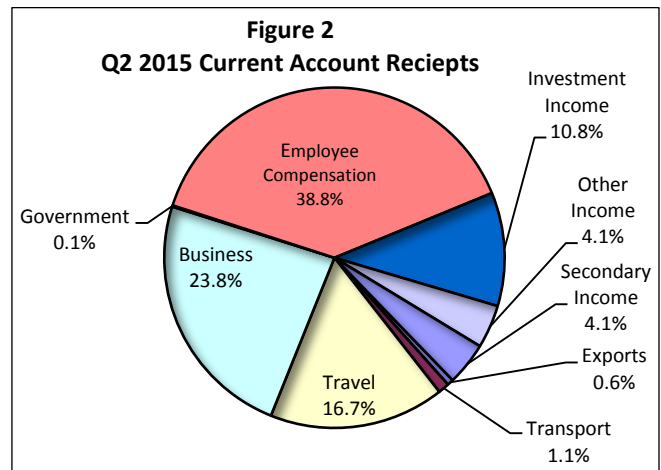
Transactions on Bermuda's asset accounts resulted in a net lending position of \$173 million in the second quarter of 2015 (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in an accumulation of \$692 million compared to a reduction of \$738 million in 2014.
- § Bermuda increased its net incurrence of financial liabilities by \$519 million this quarter compared to a decrease of \$970 million in 2014.

BALANCE OF PAYMENTS

Current account surplus = \$215 million

The current account surplus stood at \$215 million for the second quarter of 2015 (Table 1). This represented a \$1 million increase from the \$214 million surplus in the corresponding quarter of 2014. The increase in the current account surplus reflected mostly a \$24 million improvement in the goods account balance and a \$7 million improvement in the secondary income account balance. In addition, the services account surplus increased \$6 million. In contrast, the primary income account surplus decreased \$38 million.



The goods account recorded a deficit of \$230 million

Year-over-year, the value of imported goods fell 9.6 per cent to \$235 million (Table 1). This decline was a result of a drop in imports from all regions except the United Kingdom (UK). Imported goods from Bermuda's largest trading partner the United States, decreased \$19 million, while imports from Canada fell \$7 million. In contrast, imports from the UK increased \$2 million. Among the commodity groups, the decline was reflected primarily in the imports of finished equipment, fuel, and food, beverages and tobacco, which all fell \$6 million below the second quarter of 2014. Imports of machinery also contracted \$5 million during the second quarter of 2015.

Revenue earned from the exports of goods decreased \$1 million to \$5 million during the quarter.

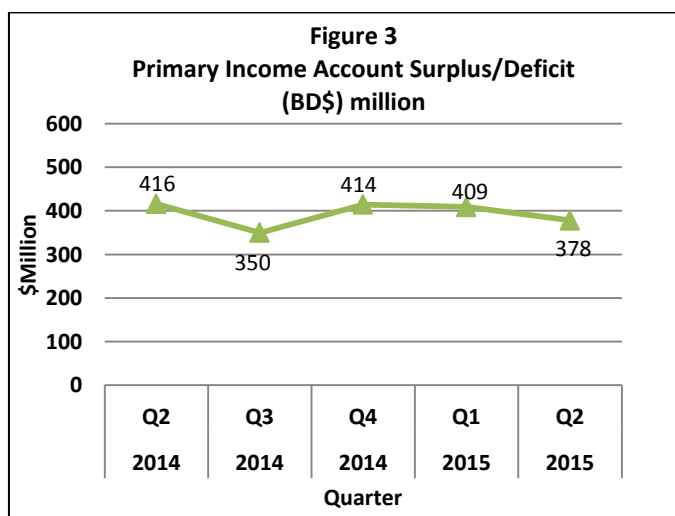
The services account surplus increased \$6 million

Receipts from services transactions stood at \$346 million during the quarter. Receipts from business services fell \$3 million due to a fall in insurance commissions. Receipts from government services fell from \$2 million to \$1 million. In contrast, receipts from travel services and transportation services increased \$1 million each.

Payments for services received from non-residents totalled \$246 million in the second quarter, \$9 million below the level recorded in 2014. Payments for business services fell \$5 million. This decrease was driven by a \$9 million decline in other operating expenses of financial institutions. Transportation outflows fell \$4 million due to a fall in payments for air passenger transport and freight transport via sea.

The primary income account surplus fell \$38 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 \$378 million from \$416 million in 2014 (Figure 3 and Table 1). Net investment income fell \$27 million to \$38 million when compared to the second quarter of 2014 as a result of lower profits from the sale of investments.



Among other primary income categories, the balance on employee compensation declined \$10 million to \$306 million.

The secondary income account 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 \$7 million from a year ago. The contraction reflected fewer payments of social benefits to non-residents.

INTERNATIONAL INVESTMENT POSITION (IIP)

Bermuda’s net IIP increased to \$4,957 million

At the end of the second quarter of 2015, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,957 million (Table 2). This net IIP increased \$318 million over the first quarter of 2015.

Foreign assets increased, influenced by portfolio investment

Bermuda residents’ net acquisition position of financial assets increased \$720 million, due mostly to residents holdings of debt securities (bonds, money market instruments) increasing by \$414 million.

Bermuda’s net liability position increased

Bermuda residents’ stock of foreign liabilities increased \$402 million. This increase in the liability position was mostly associated with higher holdings of non-resident deposits which rose \$459 million.

IIP by institutional sector

Financial corporations held a net asset position of \$5,498 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 \$189 million. Non-profit institutions serving households also recorded a net asset position of \$20 million at the end of the second quarter of 2015. In contrast, the non-financial corporations held a net liability position of \$750 million with the rest of the world.

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

Components	2014	2015 YTD	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	969	453	260	255	234	217	235
SERVICES	991	475	255	272	236	229	246
Transportation	259	128	71	67	61	61	67
Travel	267	123	64	73	70	60	63
Business Services:	460	225	121	132	106	108	116
Insurance services	156	71	39	52	35	33	38
Financial services	32	26	8	10	8	13	13
ICT services	74	38	19	18	18	19	20
Other services	198	89	54	51	45	44	45
Government services	4	0	0	0	0	0	0
PRIMARY INCOME	301	135	68	79	65	66	69
Employee Compensation	67	34	17	17	16	16	17
Investment Income	234	102	51	62	48	50	52
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	272	136	70	67	68	68	68
TOTAL PAYMENTS	2,533	1,200	653	673	603	581	618
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	21	10	6	6	5	5	5
SERVICES	1,336	638	349	374	330	291	346
Transportation	33	17	8	9	8	8	9
Travel	407	187	138	155	72	48	139
Business Services:	834	398	201	209	229	200	198
Insurance services	107	47	23	23	40	27	20
Financial services	175	71	38	47	56	34	38
ICT services	65	34	16	17	16	18	16
Other services	487	246	124	121	118	122	124
Government services	63	36	2	1	21	35	1
PRIMARY INCOME	1,874	922	484	429	479	475	447
Employee Compensation	1,334	667	334	334	333	344	323
Investment Income	394	168	116	67	116	78	90
Other Income	145	88	34	29	30	53	34
SECONDARY INCOME	123	63	29	32	33	29	34
TOTAL RECEIPTS	3,354	1,633	867	841	846	800	833
CURRENT ACCOUNT SURPLUS/DEFICIT							
GOODS	-948	-443	-254	-250	-230	-213	-230
SERVICES	346	162	94	102	93	62	100
Transportation	-226	-111	-63	-59	-53	-53	-58
Travel	140	64	74	82	3	-12	76
Business Services:	374	173	81	77	123	92	81
Insurance services	-49	-24	-16	-29	5	-7	-18
Financial services	143	45	30	37	47	21	24
ICT services	-9	-4	-2	-1	-2	0	-4
Other services	289	157	70	70	72	78	79
Government services	58	36	2	1	21	35	1
PRIMARY INCOME	1,572	787	416	350	414	409	378
Employee Compensation	1,267	633	316	316	317	327	306
Investment Income	161	66	65	5	67	28	38
Other Income	145	88	34	29	30	53	34
SECONDARY INCOME	-150	-73	-41	-35	-35	-39	-34
CURRENT ACCOUNT BALANCE	821	434	214	168	243	219	215
FINANCIAL ACCOUNT							
Direct investment	120	-38	31	-2	50	-41	4
Portfolio investment	-1,853	1,477	-407	-639	-645	1,164	312
Financial Derivatives	176	45	29	97	12	15	29
Other investment	-545	-3	-390	-480	957	-343	340
Reserve assets	-15	12	-2	-13	10	6	7
NET ACQUISITION OF FINANCIAL ASSETS	-2,118	1,493	-738	-1,037	383	801	692
Direct investment	-3	-153	-8	-15	-2	63	-217
Portfolio investment	-1,845	217	-191	-105	-782	38	179
Financial Derivatives	11	6	17	9	-11	9	-2
Other investment	-1,239	1,089	-788	-1,053	861	531	559
NET INCURRENCE OF FINANCIAL LIABILITIES	-3,076	1,159	-970	-1,164	67	641	519
TOTAL NET FINANCIAL ACCOUNT	-958	-334	-232	-126	-317	-160	-173
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	958	334	232	126	317	160	173
BALANCING ITEM	137	-100	17	-41	74	-59	-41

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 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	898	889	934	887	898
Portfolio investment	13,518	12,653	12,264	13,716	14,080
Financial Derivatives (other than reserves) and ESOs	56	120	100	86	79
Other investment	2,729	2,237	3,170	2,815	3,161
Reserve Assets	140	127	137	142	149
BY INSTRUMENT					
Equity and investment fund share/units	904	883	939	921	889
Debt instruments:	16,381	15,023	15,566	16,640	17,399
Special drawing rights	-	-	-	-	-
Currency and deposits	1,502	1,125	1,961	1,588	1,718
Debt securities	13,651	12,785	12,395	13,824	14,238
Loans	1,105	1,011	1,087	1,101	1,316
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	122	101	122	127	127
Other financial assets and liabilities	56	120	100	86	79
TOTAL ASSETS	17,341	16,027	16,605	17,646	18,366
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,706	2,689	2,687	2,733	2,460
Portfolio investment	1,514	1,408	628	666	841
Financial Derivatives (other than reserves) and ESOs	39	42	27	33	33
Other investment	8,980	8,031	8,958	9,575	10,075
BY INSTRUMENT					
Equity and investment fund share/units	3,048	3,075	3,078	3,048	2,830
Debt instruments:	10,151	9,054	9,195	9,926	10,546
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,705	5,762	6,685	7,293	7,752
Debt securities	1,171	1,022	237	351	471
Loans	2,252	2,252	2,259	2,265	2,264
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	23	18	15	18	59
Other financial assets and liabilities	39	42	27	33	33
TOTAL LIABILITIES	13,238	12,171	12,300	13,007	13,409
NET IIP	4,103	3,856	4,305	4,639	4,957

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

2015 Q2	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	20	2,374	15,872	100	18,366
Direct investment	-	-	842	55	898
Portfolio investment	13	2,363	11,681	24	14,080
Financial Derivatives (other than reserves) and ESOs	-	-	79	-	79
Other investment	7	12	3,121	21	3,161
Reserve Assets	n.a.	n.a.	149	n.a.	149
LIABILITIES	-	2,185	10,374	850	13,409
Direct investment	-	-	1,720	740	2,460
Portfolio investment	-	-	838	3	841
Financial Derivatives (other than reserves) and ESOs	-	-	33	-	33
Other investment	-	2,185	7,783	107	10,075
NET IIP	20	189	5,498	(750)	4,957

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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