



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

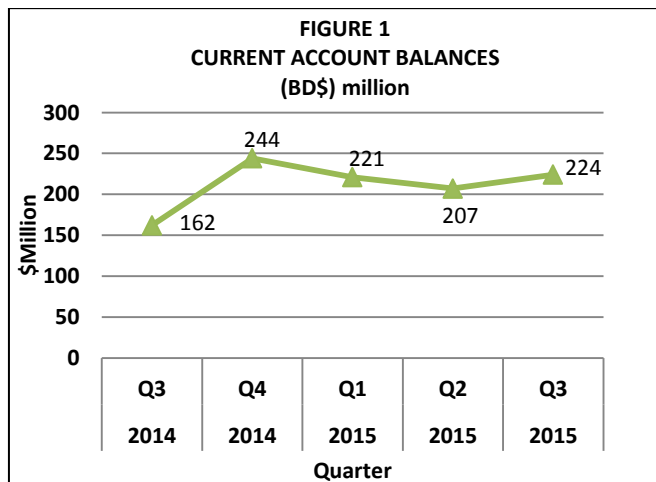
FOR THE QUARTER ENDED SEPTEMBER 2015

FAST FACTS

Current account surplus/deficit

The Bermuda current account recorded a surplus of \$224 million in the third quarter of 2015 (Figure 1 and Table 1). This represented a \$62 million increase year-over-year.

- § The deficit on the goods account narrowed \$32 million to \$218 million.
- § Services transactions realised a surplus of \$106 million in the third quarter of 2015.
- § The surplus on Bermuda's primary income account rose to \$367 million in the third quarter of 2015.



Financial, capital, and reserve assets accounts

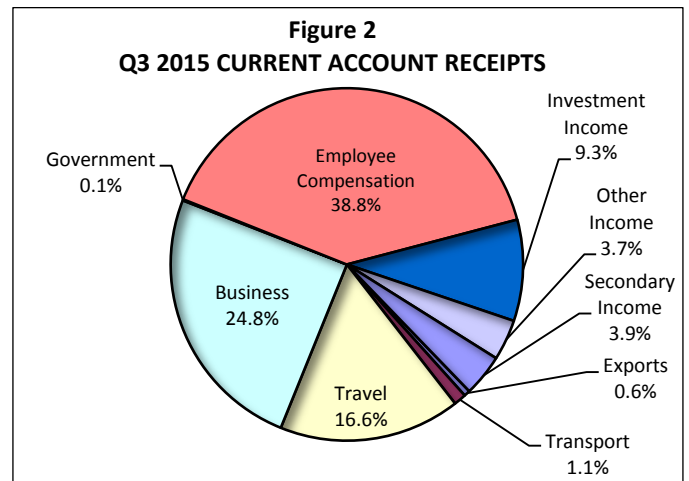
Transactions on Bermuda's asset accounts resulted in a net lending position of \$292 million in the third quarter of 2015 (Table 1). Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in a withdrawal of \$1,573 million compared to a withdrawal of \$1,037 million in 2014.
- § Bermuda decreased its net incurrence of financial liabilities by \$1,865 million this quarter compared to a decrease of \$1,164 million in 2014.

BALANCE OF PAYMENTS

Current account surplus = \$224 million

The current account surplus stood at \$224 million for the third quarter of 2015 (Table 1). This represented a \$62 million increase from the \$162 million surplus in the corresponding quarter of 2014. The increase in the current account surplus reflected a combination of factors including a \$32 million improvement in the goods account deficit, a \$17 million increase in the primary income account surplus as well as a \$10 million increase in the surplus on trade in services. A smaller deficit balance was also recorded on the secondary income account.



The goods account recorded a deficit of \$218 million

Year-over-year, the value of imported goods fell 12.5 per cent to \$223 million (Table 1). This decline was a result of a 22.8 per cent drop in imports from Canada and a 16.8 per cent decline in imports from Bermuda's largest trading partner the United States. In contrast, the value of imports increased from the UK, Caribbean and all other countries. Among the commodity groups, the decline was reflected primarily in the imports of fuel which dropped \$38 million below the third quarter of 2015. Imports of food also contracted \$3 million mostly due to fewer imports of meat and fish.

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

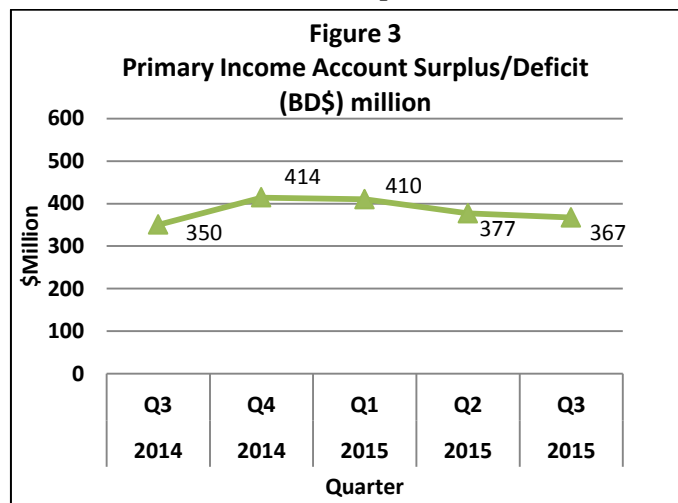
The services account surplus increased \$10 million

Receipts from services transactions stood at \$377 million during the quarter, up \$9 million year-over-year. This increase reflected a \$17 million gain in receipts from insurance services due mostly to a rise in reinsurance premiums collected. Fees and commissions related to financial services also increased \$5 million. In contrast, other business services declined \$12 million due to fewer receipts for accounting and auditing services.

Payments for services received from non-residents totalled \$271 million in the third quarter, \$1 million below the level recorded in 2014. Payments for business services fell \$3 million in 2015 as lower payments were made for other business services such as management consultancy. The decrease in payments for business services was offset by transportation outflows and travel outflows which increased by \$1 million each.

The primary income account surplus increased \$17 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 \$367 million from \$350 million in 2014 (Figure 3 and Table 1). The surplus balance on employee compensation advanced \$20 million reflecting increased bonuses and stock options.



Among other primary income categories, the balance on investment income recorded a deficit balance of \$3 million compared to a surplus balance of \$5

million in 2014. The surplus balance on other income increased \$4 million to \$33 million.

The secondary income account recorded a \$31 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 \$4 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 \$5,180 million

At the end of the third quarter of 2015, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$5,180 million (Table 2). Bermuda’s net IIP increased \$224 million over the second quarter of 2015.

Foreign assets decreased, influenced by falling debt securities

Bermuda residents’ net acquisition position of financial assets decreased \$1,579 million, due mostly to resident’s holdings of debt securities (bonds, money market instruments) falling \$1,631 million. In contrast, overseas currency and deposit holdings increased \$455 million.

Bermuda’s liabilities to non-residents declined

Bermuda residents’ stock of foreign liabilities decreased \$1,803 million. This decline in the liability position was associated mostly with a withdrawal of non-resident deposits which fell \$1,646 million.

IIP by institutional sector

Financial corporations held a net asset position of \$5,649 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 \$120 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 \$609 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 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	969	676	255	234	217	235	223
SERVICES	991	747	272	236	229	246	271
Transportation	259	196	67	61	61	67	68
Travel	267	197	73	70	60	63	74
Business Services:	460	353	132	106	108	116	129
Insurance services	156	126	52	35	33	38	55
Financial services	32	36	10	8	13	13	10
ICT services	74	57	18	18	19	20	19
Other services	198	133	51	45	44	45	44
Government services	4	0	0	0	0	0	0
PRIMARY INCOME	301	236	79	65	66	69	100
Employee Compensation	67	50	17	16	16	17	16
Investment Income	234	186	62	48	50	52	84
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	272	201	67	68	68	68	65
TOTAL PAYMENTS	2,533	1,859	673	603	581	619	660
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	21	15	6	5	5	5	5
SERVICES	1,332	1,010	368	331	292	341	377
Transportation	33	27	9	8	8	9	10
Travel	403	332	149	74	49	136	147
Business Services:	834	615	209	229	200	195	219
Insurance services	107	87	23	40	27	20	40
Financial services	175	124	47	56	34	38	52
ICT services	65	53	17	16	18	16	18
Other services	487	352	121	118	122	121	109
Government services	63	37	1	21	35	1	1
PRIMARY INCOME	1,874	1,389	429	479	477	446	467
Employee Compensation	1,334	1,018	334	333	344	322	352
Investment Income	394	251	67	116	79	90	82
Other Income	145	121	29	30	53	34	33
SECONDARY INCOME	123	97	32	33	29	34	34
TOTAL RECEIPTS	3,349	2,512	835	847	802	826	884
CURRENT ACCOUNT SURPLUS/DEFICIT							
GOODS	-948	-661	-250	-230	-213	-230	-218
SERVICES	342	263	96	95	62	95	106
Transportation	-226	-169	-59	-53	-53	-58	-58
Travel	136	134	76	4	-12	73	73
Business Services:	374	261	77	123	92	79	90
Insurance services	-49	-40	-29	5	-7	-18	-15
Financial services	143	87	37	47	21	24	42
ICT services	-9	-5	-1	-2	0	-4	-1
Other services	289	219	70	72	78	76	65
Government services	58	37	1	21	35	1	1
PRIMARY INCOME	1,572	1,153	350	414	410	377	367
Employee Compensation	1,267	968	316	317	327	304	336
Investment Income	161	65	5	67	29	38	-3
Other Income	145	121	29	30	53	34	33
SECONDARY INCOME	-150	-104	-35	-35	-39	-34	-31
CURRENT ACCOUNT BALANCE	816	652	162	244	221	207	224
FINANCIAL ACCOUNT							
Direct investment	120	142	-2	50	-41	4	179
Portfolio investment	-1,853	-434	-639	-645	1,164	312	-1,911
Financial Derivatives	176	76	97	12	15	29	31
Other investment	-545	130	-480	957	-343	340	134
Reserve assets	-15	6	-13	10	6	7	-6
NET ACQUISITION OF FINANCIAL ASSETS	-2,118	-80	-1,037	383	801	692	-1,573
Direct investment	-3	-192	-15	-2	64	-218	-37
Portfolio investment	-1,845	98	-105	-782	38	179	-119
Financial Derivatives	11	-7	9	-11	9	-2	-14
Other investment	-1,239	-606	-1,053	861	531	559	-1,696
NET INCURRENCE OF FINANCIAL LIABILITIES	-3,076	-707	-1,164	67	641	517	-1,865
TOTAL NET FINANCIAL ACCOUNT	-958	-627	-126	-317	-160	-175	-292
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	958	627	126	317	160	175	292
BALANCING ITEM	142	-25	-35	72	-61	-32	68

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 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	889	934	887	898	1,072
Portfolio investment	12,653	12,264	13,716	14,080	12,203
Financial Derivatives (other than reserves) and ESOs	120	100	86	78	77
Other investment	2,237	3,170	2,815	3,161	3,292
Reserve Assets	127	137	142	149	143
BY INSTRUMENT					
Equity and investment fund share/units	883	939	921	889	811
Debt instruments:	15,023	15,566	16,640	17,399	15,899
Special drawing rights	-	-	-	-	-
Currency and deposits	1,125	1,961	1,588	1,718	2,173
Debt securities	12,785	12,395	13,824	14,238	12,607
Loans	1,011	1,087	1,101	1,316	1,023
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	101	122	127	127	96
Other financial assets and liabilities	120	100	86	78	77
TOTAL ASSETS	16,026	16,605	17,646	18,366	16,787
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,689	2,687	2,734	2,460	2,436
Portfolio investment	1,408	628	666	841	724
Financial Derivatives (other than reserves) and ESOs	42	27	33	33	20
Other investment	8,031	8,958	9,575	10,075	8,427
BY INSTRUMENT					
Equity and investment fund share/units	3,075	3,078	3,049	2,830	2,809
Debt instruments:	9,054	9,195	9,926	10,546	8,778
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	5,762	6,685	7,293	7,752	6,106
Debt securities	1,022	237	351	471	351
Loans	2,252	2,259	2,265	2,264	2,261
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	18	15	18	59	60
Other financial assets and liabilities	42	27	33	33	20
TOTAL LIABILITIES	12,171	12,300	13,007	13,410	11,607
NET IIP	3,855	4,305	4,639	4,956	5,180

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

2015 Q3	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	20	2,305	14,178	284	16,787
Direct investment	-	-	827	245	1,072
Portfolio investment	13	2,301	9,869	20	12,203
Financial Derivatives (other than reserves) and ESOs	-	-	77	-	77
Other investment	7	4	3,262	19	3,292
Reserve Assets	n.a.	n.a.	143	n.a.	143
LIABILITIES	-	2,185	8,529	893	11,607
Direct investment	-	-	1,658	778	2,436
Portfolio investment	-	-	716	8	724
Financial Derivatives (other than reserves) and ESOs	-	-	20	-	20
Other investment	-	2,185	6,135	107	8,427
NET IIP	20	120	5,649	(609)	5,180

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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