



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

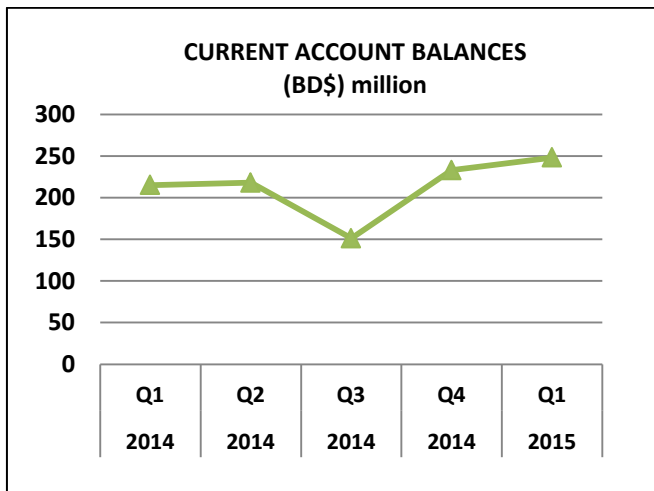
FOR THE QUARTER ENDED MARCH 2015

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$248 million in the first quarter of 2015. This represented a \$33 million increase year-over-year.

- § The deficit on the goods account narrowed by \$3 million to \$214 million.
- § Services transactions realised a surplus of \$76 million in the first quarter of 2015.
- § The surplus on Bermuda's primary income account rose to \$425 million in the first quarter of 2015.



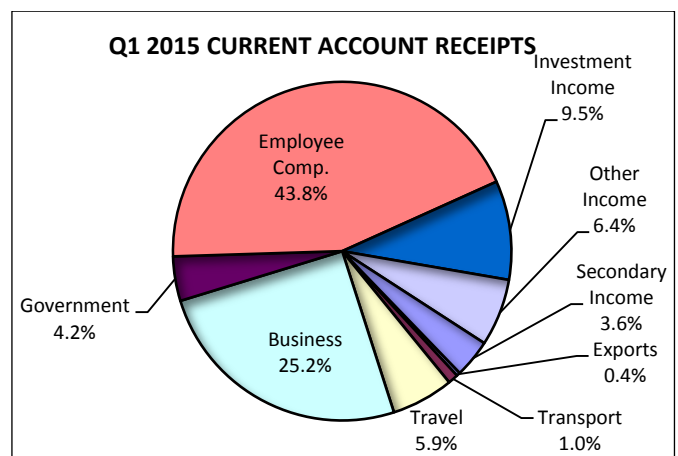
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's asset accounts resulted in a net lending position of \$167 million. Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in an accumulation of \$788 million compared to a reduction of \$729 million in 2014.
- § Bermuda increased its net incurrence of financial liabilities by \$621 million this quarter compared to a decrease of \$1,012 million in 2014.

Current account surplus = \$248 million

The current account surplus stood at \$248 million for the first quarter in 2015. This represented a \$33 million increase from the \$215 million surplus in the first quarter of 2014. The increase in the current account surplus reflected mostly and improvement in the primary income surplus due to increases in employee compensation and lower payments of investment income.



The goods account recorded a deficit of \$214 million

Year-over-year, the value of imported goods fell 1.4 per cent to \$217 million. This decline was a result of a \$17 million decrease in imported goods from Bermuda's largest trading partner the United States. Imports of goods from all other regions increased, including \$6 million and \$4 million increases in imports from Canada and the Caribbean region. Among the commodity groups, the decline was reflected primarily in the imports of fuel which fell \$10 million below the corresponding period of 2014. Imports of clothing, food, and basic materials also contracted during the period.

Revenue earned from the exports of goods remained unchanged at \$3 million during the quarter.

Services account surplus increased \$2 million

Receipts from services transactions stood at \$300 million during the quarter. Among the services categories, receipts from travel services increased by \$7 million. Receipts from business services increased \$4 million related to larger receipts from the provision of insurance and Telecommunications, Computer and Information (ICT) services. In contrast, receipts from government services and transportation services fell \$4 million and \$1 million, respectively.

Payments for services received from non-residents totalled \$224 million in the first quarter, \$4 million above the level recorded in 2014. Transportation outflows rose \$5 million reflecting higher payments for air transport. This was offset by a decline in spending by residents abroad for travel services.

Primary Income Surplus rose \$28 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 increased to \$425 million from \$397 million in 2014. This increase reflected primarily a \$23 million rise in net employee compensation compared to the first quarter of 2014.

The surplus on investment income and other income grew by \$4 million and \$1 million respectively, compared to the same period in 2014.

Secondary income recorded a \$38 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 \$1 million from a year ago. The \$38 million deficit reflected primarily an excess of personal transfer payments versus receipts related to workers remittances.

INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)

Bermuda’s net IIP increased to \$4,619 million

At the end of the first quarter 2015, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,619 million. This net IIP increased by \$353 million over the fourth quarter of 2014.

Foreign assets increased, influenced by portfolio investment

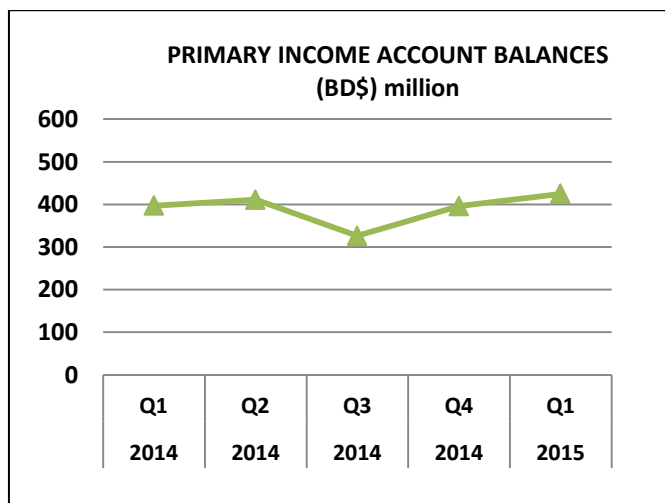
During the first quarter 2015, Bermuda residents’ net acquisition position of financial assets increased \$1,034 million, due mostly to residents’ holdings of debt securities (bonds, money market instruments) increasing by \$1,431 million.

Bermuda’s net liability position increased

Bermuda residents’ stock of foreign liabilities increased by \$682 million during the first quarter 2015. This increase in the liability position was associated mostly with higher holdings of non-resident deposits which rose \$1,227 million.

IIP by institutional sector (Table 3)

The non-financial corporations held a net liability position of \$967 million with the rest of the world at the end of the first quarter 2015. The general government sector’s external assets exceeded its liability holdings by \$114 million. Financial corporations held a net asset position of \$5,450 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 first quarter.



BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

TABLE 1 - BALANCE OF PAYMENTS (BD\$) MILLIONS¹

Components	2014	2015 YTD	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	968	217	220	259	255	234	217
SERVICES	982	224	220	254	271	237	224
Transportation	252	60	55	70	67	60	60
Travel	267	60	61	64	73	69	60
Business Services:	447	100	100	116	127	103	100
Insurance services	156	33	30	39	52	35	33
Financial services	32	8	5	8	10	8	8
ICT services	75	19	19	19	19	18	19
Other services	184	40	45	50	47	42	40
Government services	16	4	4	4	4	4	4
PRIMARY INCOME	303	67	90	69	79	65	67
Employee Compensation	66	16	16	17	17	16	16
Investment Income	237	51	73	52	63	49	51
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	273	68	67	70	67	68	68
TOTAL PAYMENTS	2,525	577	597	652	672	603	577
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	11	3	3	3	3	3	3
SERVICES	1,377	300	295	359	384	340	300
Transportation	35	8	9	8	9	8	8
Travel	409	49	42	138	155	73	49
Business Services:	871	208	204	211	218	238	208
Insurance services	109	27	22	23	24	40	27
Financial services	175	34	34	38	47	55	34
ICT services	72	20	17	18	19	18	20
Other services	515	127	131	131	128	124	127
Government services	63	35	39	2	1	21	35
PRIMARY INCOME	1,832	492	487	479	405	461	492
Employee Compensation	1,293	361	339	329	309	316	361
Investment Income	394	78	96	116	67	115	78
Other Income	145	53	52	34	29	30	53
SECONDARY INCOME	122	30	28	29	32	33	30
TOTAL RECEIPTS	3,343	825	812	870	824	836	825
CURRENT ACCOUNT BALANCES							
GOODS	-957	-214	-217	-257	-253	-231	-214
SERVICES	396	76	74	105	113	103	76
Transportation	-217	-52	-46	-62	-58	-52	-52
Travel	142	-11	-19	75	83	3	-11
Business Services:	424	108	104	95	91	135	108
Insurance services	-47	-6	-9	-16	-28	5	-6
Financial services	143	25	29	30	37	47	25
ICT services	-2	1	-2	-1	0	0	1
Other services	331	88	86	82	82	82	88
Government services	46	31	35	-2	-3	17	31
PRIMARY INCOME	1,529	425	397	411	326	396	425
Employee Compensation	1,227	345	322	312	293	300	345
Investment Income	157	27	23	64	4	66	27
Other Income	145	53	52	34	29	30	53
SECONDARY INCOME	-150	-38	-39	-41	-35	-35	-38
CURRENT ACCOUNT BALANCE	818	248	215	218	151	233	248
FINANCIAL ACCOUNT							
Direct investment	120	-41	41	31	-2	50	-41
Portfolio investment	-1,895	1,155	-163	-420	-639	-673	1,155
Financial Derivatives	160	14	35	26	92	7	14
Other investment	-546	-345	-633	-390	-480	957	-345
Reserve assets	-15	6	-9	-2	-13	10	6
NET ACQUISITION OF FINANCIAL ASSETS	-2,176	788	-729	-755	-1,043	351	788
Direct investment	-12	63	19	-4	-17	-9	63
Portfolio investment	-1,845	42	-767	-191	-105	-782	42
Financial Derivatives	11	9	-4	17	9	-11	9
Other investment	-1,208	507	-260	-788	-1,053	892	507
NET INCURRENCE OF FINANCIAL LIABILITIES	-3,054	621	-1,012	-966	-1,166	90	621
TOTAL NET FINANCIAL ACCOUNT	-878	-167	-283	-211	-123	-261	-167
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	878	167	283	211	123	261	167
BALANCING ITEM	60	-81	68	-7	-28	28	-81

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION
TABLE 2 - INTERNATIONAL INVESTMENT POSITION (IIP)^{1,2}

(BD\$) MILLIONS

Components	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	864	899	889	934	888
Portfolio investment	13,875	13,521	12,656	12,267	13,710
Financial Derivatives (other than reserves) and ESOs	55	53	115	95	84
Other investment	3,118	2,732	2,240	3,173	2,816
Reserve Assets	142	140	127	137	142
BY INSTRUMENT					
Equity and investment fund share/units	870	907	886	942	913
Debt instruments:	17,129	16,384	15,026	15,568	16,643
Special drawing rights	-	-	-	-	-
Currency and deposits	1,809	1,505	1,128	1,965	1,593
Debt securities	14,011	13,652	12,786	12,395	13,826
Loans	1,180	1,105	1,011	1,087	1,099
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	130	122	101	121	125
Other financial assets and liabilities	55	53	115	95	84
TOTAL ASSETS	18,054	17,344	16,027	16,606	17,640
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	2,722	2,719	2,701	2,691	2,737
Portfolio investment	1,704	1,511	1,411	631	666
Financial Derivatives (other than reserves) and ESOs	19	39	42	27	33
Other investment	9,581	8,981	8,033	8,991	9,585
BY INSTRUMENT					
Equity and investment fund share/units	3,094	3,051	3,084	3,081	3,049
Debt instruments:	10,913	10,160	9,061	9,232	9,940
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	7,184	6,705	5,762	6,075	7,302
Debt securities	1,332	1,179	1,028	240	355
Loans	2,376	2,252	2,252	2,900	2,265
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	21	25	19	17	18
Other financial assets and liabilities	19	39	42	27	33
TOTAL LIABILITIES	14,026	13,251	12,187	12,339	13,021
NET IIP	4,028	4,093	3,840	4,266	4,619

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

2015 Q1	Households and NPISHs ^{2,3}	General government	Financial corporations	Non- financial corporations	Total economy
ASSETS	23	2,299	15,165	153	17,640
Direct investment	-	-	782	106	888
Portfolio investment	15	2,296	11,377	22	13,710
Financial Derivatives (other than reserves) and ESOs	-	-	84	-	84
Other investment	8	3	2,781	24	2,816
Reserve Assets			142		
LIABILITIES	-	2,185	9,716	1,120	13,021
Direct investment			1,694	1,043	2,737
Portfolio investment	-	-	662	5	666
Financial Derivatives (other than reserves) and ESOs	-	-	33	-	33
Other investment	-	2,185	7,328	73	9,585
NET IIP	23	114	5,450	(967)	4,619

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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The Cabinet Office
Department of Statistics
Cedar Park Centre,
48 Cedar Avenue, Hamilton HM 11
P.O. Box HM 3015
Hamilton HM MX, Bermuda
Tel: (441) 297-7761, Fax: (441) 295-8390
E-mail: statistics@gov.bm
Website: www.statistics.gov.bm