



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED SEPTEMBER 2014

FAST FACTS

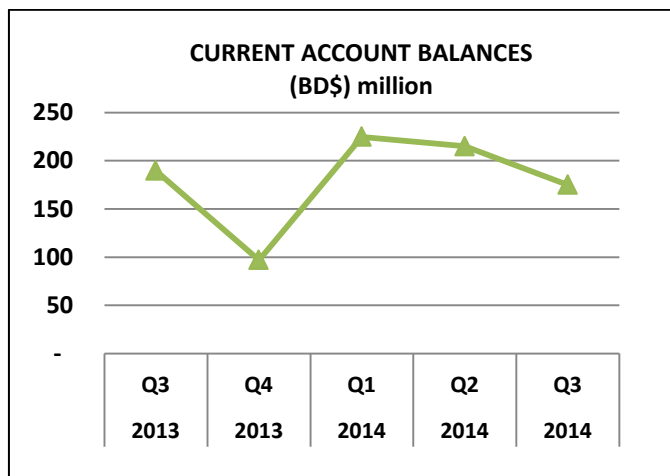
Current Account

The Bermuda current account recorded a surplus of \$175 million in the third quarter of 2014. This represented a \$15 million decrease year-over-year.

§ The deficit on the goods account remained constant at \$255 million.

§ Services transactions realised a surplus of \$122 million in the third quarter of 2014.

§ The surplus on Bermuda's primary income account rose to \$342 million in the third quarter of 2014.



Financial, Capital, and Reserve Assets Accounts

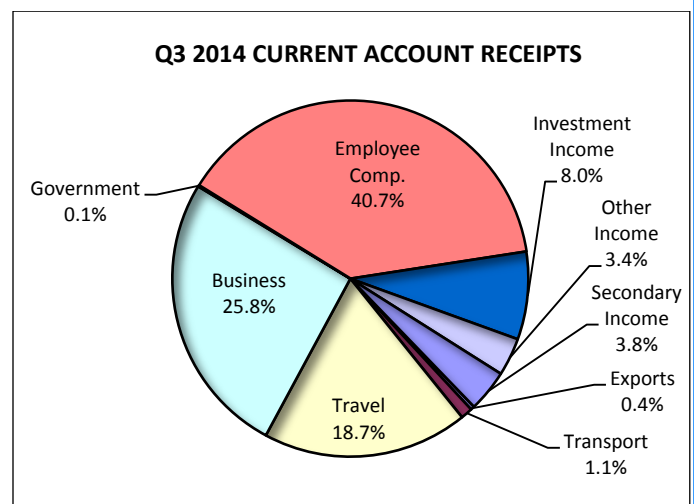
Transactions on Bermuda's asset accounts resulted in a net lending position of \$139 million. Factors influencing this performance include:

§ Bermuda's net acquisition of financial assets resulted in a reduction of \$1,036 million compared to an accumulation of \$530 million in 2013.

§ Bermuda decreased its net incurrence of financial liabilities by \$1,175 million this quarter compared to an increase of \$136 million in 2013.

Current account surplus = \$175 million

The current account surplus stood at \$175 million for the third quarter in 2014. This represented a \$15 million decrease from the \$190 million surplus in the third quarter of 2013. The contraction in the current account surplus mostly reflected changes in the services account, where the balance declined by \$31 million due primarily to a decrease in net business services and travel receipts.



The goods account recorded a deficit of \$255 million

Year-over-year, the value of imported goods fell 0.8 per cent to \$257 million. Imported goods from the Caribbean region decreased by \$13 million while imports from Bermuda's largest trading partner, the United States, fell by \$3 million. These decreases were offset by increases in imports of \$10 million and \$3 million from Canada and all other countries, respectively. Among the commodity groups, the largest decreases were recorded in the imports of machinery, basic materials and semi-manufactured goods and finished equipment. In contrast, imports of fuel rose by \$18 million.

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

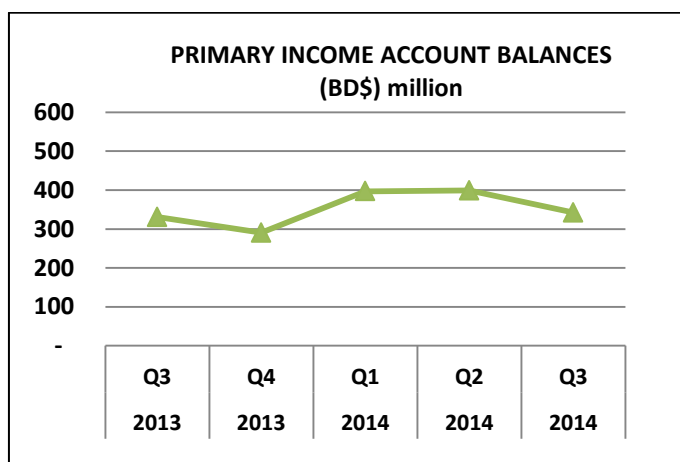
Services account surplus decreased \$31 million

Receipts from services transactions stood at \$384 million during the quarter. Among the services categories, receipts from travel services declined \$10 million due to lower expenditure by air visitors. The \$2 million decline in transportation receipts reflected less wharfage revenue collected from non-residents. In contrast, receipts from business services rose \$4 million due to an increase in insurance services. Receipts from government services were unchanged at \$1 million.

Payments for services received from non-residents totalled \$262 million in the third quarter, \$22 million above the level recorded in 2013. Payments for business services advanced \$23 million. This increase was driven by an \$18 million rise in insurance services due to reinsurance payments. In addition, an increase in payments for management services and head office expenses resulted in a \$4 million rise in other services. Transportation outflows were unchanged at \$67 million.

Primary Income Surplus rose \$11 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 \$342 million from \$331 million in 2013. Employee compensation rose \$29 million to \$309 million when compared to the third quarter of 2013.



Among other primary income categories, the balance on net investment income fell \$19 million to \$4 million due to a fall in reinvested earnings.

Secondary income recorded a \$35 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 \$3 million from a year ago. The \$35 million deficit reflected an excess of non-life insurance premiums received versus non-life insurance claims paid.

INTERNATIONAL INVESTMENT POSITION (IIP) (Table 2)

Bermuda’s net IIP decreased to \$3,904 million

At the end of the third quarter 2014, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$3,904 million. The net IIP fell \$237 million below the level reached in the second quarter of 2014.

Foreign assets decreased, influenced by portfolio investment

Bermuda residents’ net acquisition position of financial assets decreased \$1,311 million. This decline was due mostly to financial institutions drawing down on their holdings of debt instruments such as debt securities and currency and deposits.

Bermuda’s net liability position declined

Bermuda residents’ stock of foreign liabilities decreased \$1,074 million. This improvement in the liability position was mostly associated with fewer holdings of non-resident deposits which fell \$972 million. The balance on outstanding debt securities also fell by \$151 million.

IIP by institutional sector (Table 3)

Financial corporations held a net asset position of \$4,716 million on the strength of portfolio investment holdings such as bonds, notes and money market instruments. The general government sector’s asset holdings exceeded its external liabilities by \$118 million. Non-profit institutions serving households also recorded a net asset position of \$20 million at the end of the third quarter. In contrast, the non-financial corporations held a net liability position of \$951 million with the rest of the world.

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

| Components | 2013 | 2014 YTD | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 |
|--|--------------|---------------|-------------|--------------|---------------|-------------|---------------|
| CURRENT ACCOUNT PAYMENTS | | | | | | | |
| GOODS IMPORTS | 1,012 | 740 | 259 | 263 | 221 | 262 | 257 |
| SERVICES | 895 | 708 | 240 | 221 | 205 | 241 | 262 |
| Transportation | 252 | 192 | 67 | 60 | 55 | 70 | 67 |
| Travel | 222 | 161 | 65 | 60 | 46 | 51 | 64 |
| Business Services: | 405 | 343 | 104 | 97 | 100 | 116 | 127 |
| Insurance services | 138 | 121 | 34 | 36 | 30 | 39 | 52 |
| Financial services | 33 | 23 | 8 | 6 | 5 | 8 | 10 |
| ICT services | 72 | 57 | 19 | 19 | 19 | 19 | 19 |
| Other services | 162 | 142 | 43 | 37 | 45 | 50 | 47 |
| Government services | 16 | 12 | 4 | 4 | 4 | 4 | 4 |
| PRIMARY INCOME | 825 | 238 | 95 | 139 | 90 | 69 | 79 |
| Employee Compensation | 64 | 50 | 16 | 16 | 16 | 17 | 17 |
| Investment Income | 760 | 188 | 78 | 123 | 73 | 52 | 63 |
| Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| SECONDARY INCOME | 252 | 204 | 65 | 63 | 67 | 70 | 67 |
| TOTAL PAYMENTS | 2,984 | 1,891 | 657 | 685 | 584 | 642 | 665 |
| CURRENT ACCOUNT RECEIPTS | | | | | | | |
| GOODS EXPORTS | 13 | 9 | 3 | 3 | 3 | 3 | 3 |
| SERVICES | 1,378 | 1036 | 392 | 326 | 294 | 358 | 384 |
| Transportation | 42 | 26 | 11 | 10 | 9 | 8 | 9 |
| Travel | 439 | 339 | 167 | 83 | 42 | 140 | 157 |
| Business Services: | 834 | 629 | 213 | 217 | 204 | 208 | 217 |
| Insurance services | 78 | 69 | 20 | 19 | 22 | 23 | 24 |
| Financial services | 180 | 119 | 49 | 56 | 34 | 38 | 47 |
| ICT services | 81 | 54 | 21 | 21 | 17 | 18 | 19 |
| Other services | 497 | 388 | 123 | 122 | 131 | 129 | 128 |
| Government services | 62 | 42 | 1 | 15 | 39 | 2 | 1 |
| PRIMARY INCOME | 2,338 | 1376 | 425 | 429 | 487 | 468 | 421 |
| Employee Compensation | 1,223 | 983 | 296 | 303 | 339 | 318 | 326 |
| Investment Income | 974 | 279 | 101 | 97 | 96 | 116 | 67 |
| Other Income | 140 | 115 | 28 | 29 | 52 | 34 | 29 |
| SECONDARY INCOME | 96 | 89 | 26 | 24 | 28 | 29 | 32 |
| TOTAL RECEIPTS | 3,825 | 2,509 | 847 | 783 | 812 | 857 | 840 |
| CURRENT ACCOUNT BALANCES | | | | | | | |
| GOODS | -999 | -732 | -255 | -259 | -218 | -259 | -255 |
| SERVICES | 483 | 328 | 153 | 105 | 89 | 117 | 122 |
| Transportation | -210 | -166 | -56 | -49 | -46 | -62 | -58 |
| Travel | 217 | 178 | 102 | 23 | -4 | 89 | 93 |
| Business Services: | 429 | 285 | 109 | 119 | 103 | 92 | 90 |
| Insurance services | -60 | -53 | -14 | -17 | -9 | -16 | -28 |
| Financial services | 146 | 96 | 41 | 49 | 29 | 30 | 37 |
| ICT services | 9 | -3 | 3 | 2 | -2 | -1 | 0 |
| Other services | 335 | 245 | 80 | 85 | 85 | 79 | 81 |
| Government services | 46 | 30 | -3 | 11 | 35 | -2 | -3 |
| PRIMARY INCOME | 1,513 | 1138 | 331 | 291 | 397 | 399 | 342 |
| Employee Compensation | 1,159 | 932 | 280 | 287 | 322 | 301 | 309 |
| Investment Income | 214 | 91 | 23 | -26 | 23 | 64 | 4 |
| Other Income | 140 | 115 | 28 | 29 | 52 | 34 | 29 |
| SECONDARY INCOME | -156 | -115 | -38 | -39 | -39 | -41 | -35 |
| CURRENT ACCOUNT BALANCE | 841 | 618 | 190 | 97 | 228 | 215 | 175 |
| FINANCIAL ACCOUNT | | | | | | | |
| Direct investment | 51 | 70 | -15 | -33 | 41 | 31 | -2 |
| Portfolio investment | 2,168 | -1217 | 206 | 2,082 | -163 | -420 | -634 |
| Financial Derivatives | 105 | 153 | 30 | 17 | 35 | 25 | 93 |
| Other investment | 989 | -1,503 | 310 | 363 | -633 | -390 | -480 |
| Reserve assets | 11 | -24 | -1 | 6 | -9 | -2 | -13 |
| NET ACQUISITION OF FINANCIAL ASSETS | 3,323 | -2,521 | 530 | 2,434 | -729 | -756 | -1,036 |
| Direct investment | 55 | -24 | 7 | 39 | 13 | -10 | -27 |
| Portfolio investment | 555 | -1063 | 21 | 593 | -767 | -191 | -105 |
| Financial Derivatives | -7 | 22 | 15 | -9 | -4 | 17 | 9 |
| Other investment | 1,783 | -2,099 | 93 | 1,772 | -260 | -787 | -1,052 |
| NET INCURRENCE OF FINANCIAL LIABILITIES | 2,386 | -3,163 | 136 | 2,395 | -1,017 | -971 | -1,175 |
| TOTAL NET FINANCIAL ACCOUNT | -937 | -642 | -394 | -39 | -288 | -215 | -139 |
| TOTAL NET CAPITAL ACCOUNT | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL NET LENDING (+)/NET BORROWING (-) | 937 | 642 | 394 | 39 | 288 | 215 | 139 |
| BALANCING ITEM | 97 | 23 | 204 | -58 | 60 | -1 | -36 |

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 | 2013 Q3 | 2013 Q4 | 2014 Q1 | 2014 Q2 | 2014 Q3 |
|--|---------------|---------------|---------------|---------------|---------------|
| ASSETS | | | | | |
| BY FUNCTIONAL CATEGORY | | | | | |
| Direct investment | 879 | 835 | 864 | 899 | 889 |
| Portfolio investment | 11,968 | 14,050 | 13,875 | 13,521 | 12,661 |
| Financial Derivatives (other than reserves) and ESOs | 95 | 112 | 55 | 52 | 117 |
| Other investment | 3,396 | 3,755 | 3,118 | 2,732 | 2,238 |
| Reserve Assets | 146 | 152 | 142 | 140 | 127 |
| BY INSTRUMENT | | | | | |
| Equity and investment fund share/units | 955 | 918 | 870 | 907 | 897 |
| Debt instruments: | 15,433 | 17,873 | 17,129 | 16,384 | 15,018 |
| Special drawing rights | - | - | - | - | - |
| Currency and deposits | 2,151 | 2,619 | 1,809 | 1,505 | 1,128 |
| Debt securities | 12,037 | 14,118 | 14,011 | 13,652 | 12,780 |
| Loans | 1,164 | 1,017 | 1,180 | 1,105 | 1,011 |
| Insurance, pension, standardized guarantee schemes | - | - | - | - | - |
| Other accounts receivable/payable | 82 | 119 | 130 | 122 | 99 |
| Other financial assets and liabilities | 95 | 112 | 55 | 52 | 117 |
| TOTAL ASSETS | 16,484 | 18,903 | 18,054 | 17,343 | 16,032 |
| LIABILITIES | | | | | |
| BY FUNCTIONAL CATEGORY | | | | | |
| Direct investment | 2,625 | 2,664 | 2,678 | 2,670 | 2,641 |
| Portfolio investment | 1,878 | 2,471 | 1,704 | 1,511 | 1,411 |
| Financial Derivatives (other than reserves) and ESOs | 33 | 24 | 19 | 39 | 42 |
| Other investment | 8,478 | 10,249 | 9,581 | 8,981 | 8,033 |
| BY INSTRUMENT | | | | | |
| Equity and investment fund share/units | 2,994 | 3,038 | 3,050 | 3,002 | 3,025 |
| Debt instruments: | 9,987 | 12,346 | 10,913 | 10,160 | 9,061 |
| Special drawing rights | n.a. | n.a. | n.a. | n.a. | n.a. |
| Currency and deposits | 6,140 | 7,857 | 7,184 | 6,705 | 5,733 |
| Debt securities | 1,509 | 2,097 | 1,332 | 1,179 | 1,028 |
| Loans | 2,319 | 2,370 | 2,376 | 2,252 | 2,281 |
| Insurance, pension, standardized guarantee schemes | - | - | - | - | - |
| Other accounts receivable/payable | 20 | 21 | 21 | 25 | 20 |
| Other financial assets and liabilities | 33 | 24 | 19 | 39 | 42 |
| TOTAL LIABILITIES | 13,015 | 15,408 | 13,983 | 13,202 | 12,128 |
| NET IIP | 3,469 | 3,495 | 4,071 | 4,141 | 3,904 |

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

| 2014 Q3 | Households and NPISHs ^{2,3} | General government | Financial corporations | Non- financial corporations | Total economy |
|--|--|-----------------------|---------------------------|-----------------------------------|------------------|
| ASSETS | 20 | 2,303 | 13,603 | 106 | 16,032 |
| Direct investment | - | - | 842 | 56 | 899 |
| Portfolio investment | 13 | 2,301 | 10,325 | 22 | 12,661 |
| Financial Derivatives (other than reserves) and ESOs | - | - | 117 | - | 117 |
| Other investment | 7 | 2 | 2,207 | 22 | 2,238 |
| Reserve Assets | | | 127 | | 127 |
| LIABILITIES | - | 2,185 | 8,887 | 1,057 | 12,128 |
| Direct investment | | | 1,658 | 983 | 2,641 |
| Portfolio investment | - | - | 1,401 | 11 | 1,411 |
| Financial Derivatives (other than reserves) and ESOs | - | - | 42 | 0 | 42 |
| Other investment | - | 2,185 | 5,786 | 63 | 8,033 |
| NET IIP | 20 | 118 | 4,716 | (951) | 3,904 |

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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