



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED MARCH 2012

## FAST FACTS

### Current Account

The Bermuda current account recorded a surplus of \$145 million in the first quarter of 2012.

§ The goods trade deficit contracted to \$207 million in the first quarter of 2012 from \$215 million in 2011.

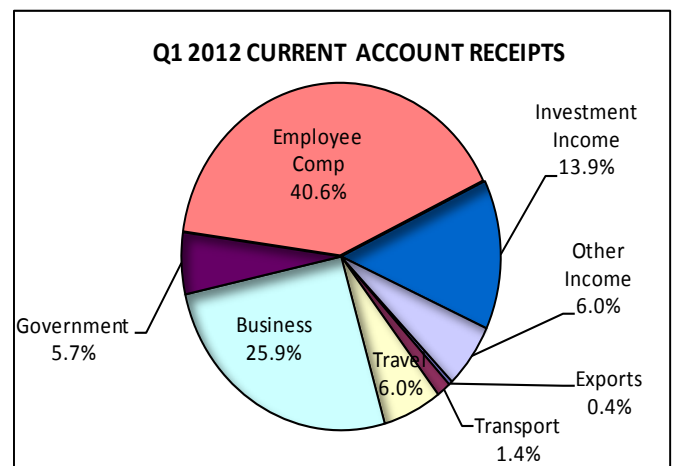
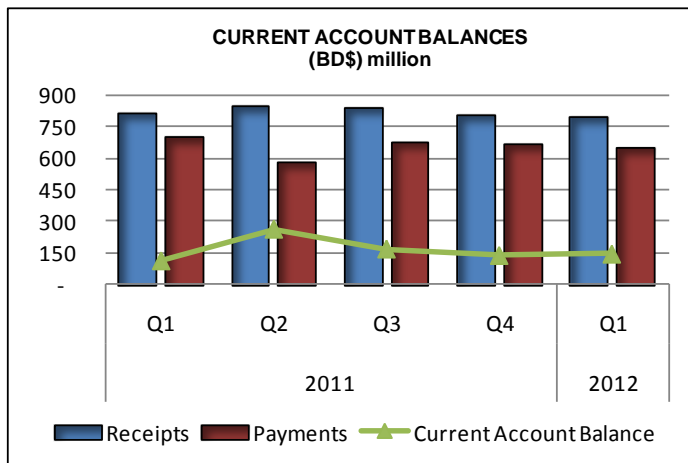
§ Services transactions realised a surplus of \$84 million for the quarter. This represented a \$3 million decrease year-over-year.

§ The surplus on Bermuda's primary income account grew to \$302 million in the first quarter of 2012.

### Current Account Surplus = \$145 million

The current account recorded a surplus of \$145 million. This represented a \$31 million increase year-over-year. The growth mostly reflected a decline in payments which outpaced the decrease in receipts. First quarter payments fell by \$53 million to \$644 million when compared to the first quarter in 2011. In addition, receipts from goods and services for the same quarter abated \$23 million totalling \$789 million.

The largest contributor to the increase in the current account surplus was the primary income account which recorded surplus gains of \$25 million.



### Capital and Financial Account

Transactions on Bermuda's asset accounts resulted in a net lending position of \$30 million. Factors influencing this performance include:

§ Bermuda's net acquisition of financial assets resulted in a draw down of \$1,147 million compared to an accumulation of \$209 million in 2011.

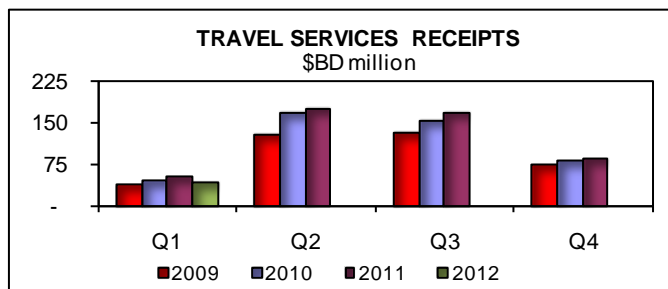
§ Bermuda reduced its incurrence of financial liabilities by \$1,177 million this quarter compared to an increase of \$95 million in 2011.

### Net payments for goods contracted

The value of goods imported fell by 4 per cent to \$211 million during the quarter. Revenue earned from exports was unchanged at \$3 million compared to last year. These transactions resulted in a net deficit on trade in goods totalling \$207 million during the first quarter of 2012.

### The surplus on trade in services totalled \$84 million

Receipts generated from services transactions totalled \$300 million for the quarter. This was \$23 million below the level recorded in the corresponding quarter of the previous year. The decline in the services account receipts was driven by lower earnings on business services and travel services. Receipts from business services decreased \$16 million reflecting lower revenue from financial services and other services such as legal, accounting and management consultancy services. Travel earnings stood at \$46 million, or \$4 million below the level of receipts recorded in the first quarter of 2011. The decline in travel receipts was partly attributed to a decrease in tourist expenditure during the quarter. Receipts from government services also fell \$6 million compared to the previous year's level.



Payments for services decreased \$18 million to \$217 million. This decline was largely due to a \$19 million fall in outflows related to business services. Resident outlays on all major business service categories which include insurance, financial and ICT services were reduced during the quarter. Expenditure on all other service categories declined with the exception of transportation services which increased \$2 million. This increase was primarily due to a rise in air transport payments by residents on airline tickets.

### The surplus on the primary income account grew by \$25 million.

Transactions on the primary income account realised a surplus of \$302 million. This represented a 9 per cent increase year-over-year. Inflows of investment income grew by \$7 million mostly due to a rise in interest earnings on

investments other than portfolio and direct investments. Income payments to non-residents on assets held in Bermuda fell \$26 million due to a drop in dividend payments to direct investors. The surplus on income earned in the form of compensation from labour services grew \$1 million over 2011. The increases in receipts from investment income and employee compensation were offset by a \$9 million decline in payroll tax receipts received from the international business sector.

### Payments of secondary income exceeded receipts by \$33 million

The secondary income account reflects the balances on donations, insurance claims and other transfers between residents and non-residents. Payments totalled \$54 million compared to transfer inflows of only \$21 million. The \$33 million deficit reflected primarily an excess of claims paid by insurance companies to non-residents over premiums received during the quarter.

## CAPITAL AND FINANCIAL ACCOUNT

### Capital Account

No transactions were recorded on the capital account

### Financial account transactions resulted in a net lending position of \$30 million

Bermuda residents withdrew more than they accumulated on asset holdings overseas, leading to a negative net acquisition of \$1,147 million for the first quarter. Holdings of portfolio investment assets overseas experienced the largest decline of \$1,374 million.

During the same period, Bermuda residents paid back more on their debt than they incurred in new liabilities in the amount of \$1,127 million. This decrease was mostly associated with investments of currency and deposits.

**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**

**BALANCE OF PAYMENTS (BD\$) MILLIONS**

Components	2011	2012 YTD	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>910</b>	<b>211</b>	<b>219</b>	<b>231</b>	<b>242</b>	<b>219</b>	<b>211</b>
<b>SERVICES</b>	<b>974</b>	<b>217</b>	<b>235</b>	<b>250</b>	<b>251</b>	<b>237</b>	<b>217</b>
Transportation	249	60	58	66	66	60	60
Travel	303	61	62	72	88	81	61
Business Services:	403	92	111	108	92	93	92
Insurance services	117	27	29	33	27	28	27
Financial services	36	9	14	8	7	6	9
ICT services	82	19	22	21	19	20	19
Other services	168	36	45	46	39	38	36
Government services	19	4	5	5	5	5	4
<b>PRIMARY INCOME</b>	<b>501</b>	<b>163</b>	<b>189</b>	<b>44</b>	<b>122</b>	<b>147</b>	<b>163</b>
Employee Compensation	65	16	16	16	16	16	16
Investment Income	436	146	172	28	105	130	146
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>219</b>	<b>54</b>	<b>55</b>	<b>54</b>	<b>54</b>	<b>55</b>	<b>54</b>
<b>TOTAL PAYMENTS</b>	<b>2,604</b>	<b>644</b>	<b>697</b>	<b>580</b>	<b>668</b>	<b>658</b>	<b>644</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>13</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>4</b>	<b>3</b>	<b>3</b>
<b>SERVICES</b>	<b>1,427</b>	<b>300</b>	<b>323</b>	<b>392</b>	<b>391</b>	<b>322</b>	<b>300</b>
Transportation	39	11	8	9	14	8	11
Travel	465	46	50	166	165	83	46
Business Services:	859	199	215	215	210	218	199
Insurance services	48	11	12	13	11	12	11
Financial services	212	38	44	49	55	64	38
ICT services	80	22	22	19	19	20	22
Other services	519	128	137	135	125	122	128
Government services	65	44	50	2	1	13	44
<b>PRIMARY INCOME</b>	<b>1,758</b>	<b>465</b>	<b>465</b>	<b>424</b>	<b>419</b>	<b>450</b>	<b>465</b>
Employee Compensation	1,252	312	310	311	310	321	312
Investment Income	358	107	100	78	81	100	107
Other Income	148	46	55	35	28	30	46
<b>SECONDARY INCOME</b>	<b>89</b>	<b>21</b>	<b>20</b>	<b>22</b>	<b>25</b>	<b>22</b>	<b>21</b>
<b>TOTAL RECEIPTS</b>	<b>3,287</b>	<b>789</b>	<b>812</b>	<b>841</b>	<b>837</b>	<b>797</b>	<b>789</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-897</b>	<b>-207</b>	<b>-215</b>	<b>-228</b>	<b>-238</b>	<b>-215</b>	<b>-207</b>
<b>SERVICES</b>	<b>453</b>	<b>84</b>	<b>87</b>	<b>142</b>	<b>140</b>	<b>84</b>	<b>84</b>
Transportation	-210	-48	-50	-57	-52	-51	-48
Travel	162	-15	-12	94	77	2	-15
Business Services:	456	107	104	107	119	126	107
Insurance services	-69	-16	-17	-21	-16	-16	-16
Financial services	176	28	29	40	48	58	28
ICT services	-2	4	0	-1	0	0	4
Other services	351	92	92	89	87	84	92
Government services	46	39	45	-3	-4	8	39
<b>PRIMARY INCOME</b>	<b>1,257</b>	<b>302</b>	<b>277</b>	<b>380</b>	<b>297</b>	<b>304</b>	<b>302</b>
Employee Compensation	1,187	295	294	295	293	305	295
Investment Income	-78	-39	-73	49	-24	-30	-39
Other Income	148	46	55	35	28	30	46
<b>SECONDARY INCOME</b>	<b>-131</b>	<b>-33</b>	<b>-35</b>	<b>-32</b>	<b>-30</b>	<b>-34</b>	<b>-33</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>683</b>	<b>145</b>	<b>114</b>	<b>261</b>	<b>169</b>	<b>139</b>	<b>145</b>
<b>FINANCIAL ACCOUNT</b>							
Direct investment	-333	189	-57	16	-294	1	189
Portfolio investment	2,311	-1374	141	447	-145	1867	-1374
Financial Derivatives	128	35	33	41	33	21	35
Other investment	1,461	2	86	867	505	3	2
Reserve assets	11	0	6	5	-7	8	0
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>3,577</b>	<b>-1147</b>	<b>209</b>	<b>1376</b>	<b>99</b>	<b>1893</b>	<b>-1147</b>
Direct investment	112	-142	-78	51	86	53	-142
Portfolio investment	-117	226	97	-139	-81	7	226
Financial Derivatives	8	-3	3	10	1	-6	-3
Other investment	3,493	-1259	73	1040	142	2239	-1259
<b>NET INCURRENCE OF FINANCIAL LIABILITIES</b>	<b>3,496</b>	<b>-1177</b>	<b>95</b>	<b>962</b>	<b>148</b>	<b>2292</b>	<b>-1177</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-81</b>	<b>-30</b>	<b>-114</b>	<b>-414</b>	<b>49</b>	<b>399</b>	<b>-30</b>
<b>TOTAL NET CAPITAL ACCOUNT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL NET LENDING (+)/NET BORROWING (-)</b>	<b>81</b>	<b>30</b>	<b>114</b>	<b>414</b>	<b>-49</b>	<b>-399</b>	<b>30</b>
<b>BALANCING ITEM</b>	<b>-602</b>	<b>-115</b>	<b>0</b>	<b>153</b>	<b>-218</b>	<b>-538</b>	<b>-115</b>

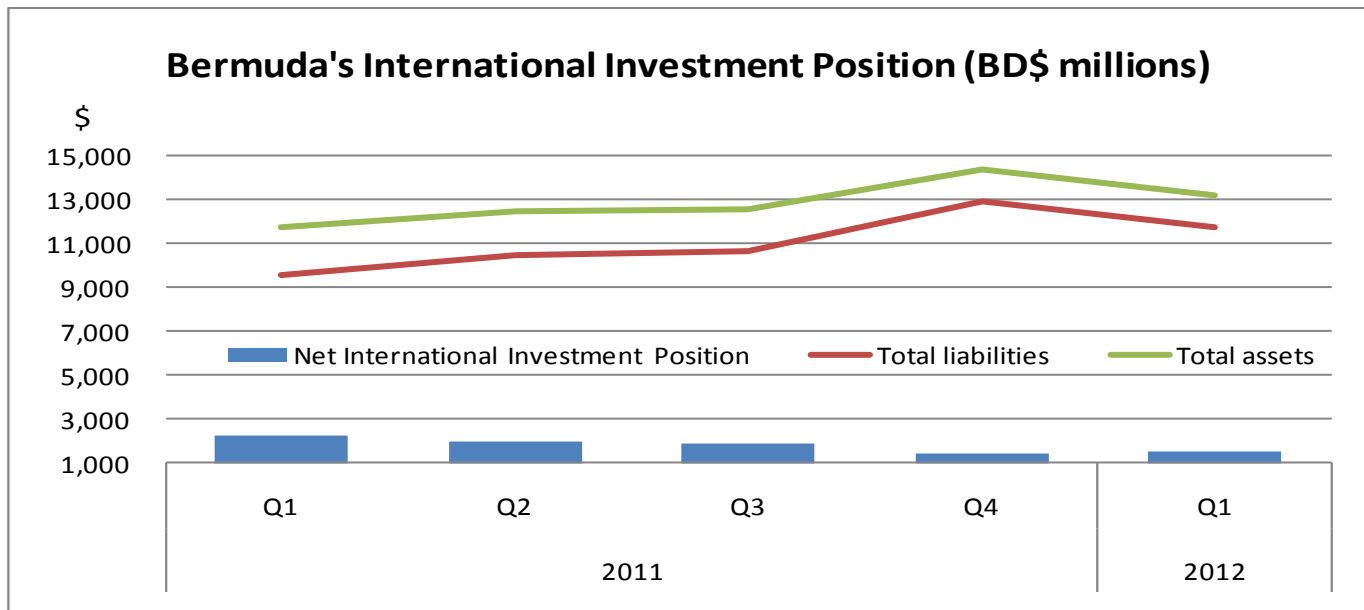
R – Revised, P – Provisional

Numbers may not add due to rounding

## INTERNATIONAL INVESTMENT POSITION

**Bermuda's net asset position increases to \$1,525 million**

At the end of the 1<sup>st</sup> quarter 2012, Bermuda's stock of foreign assets exceeded its stock of foreign liabilities by an estimated \$1,525 million. This net foreign asset position increased by \$57 million over the fourth quarter of 2011.

**International assets fall with decline in portfolio investment holdings**

Bermuda's stock of foreign assets stood at \$13,242 million at the end of the 1<sup>st</sup> qtr 2012. This represented a decline from the 4<sup>th</sup> quarter 2011 asset position of \$14,426 million. The decrease primarily reflected a reduction in portfolio investment assets held overseas, particularly short-term debt securities of the financial sector.

**Bermuda's net liability position on direct investment narrows**

The stock of direct investment in the Bermuda economy by non-residents fell by \$205 million to \$1,417 million. In contrast, Bermuda's stock of direct investment overseas grew by \$180 million in the first quarter to \$759 million as a result of increased equity and investment fund shares. As a result, Bermuda's net direct investment liability position narrowed to \$658 million.

**Non-financial corporations and general government hold a net liability position**

Two resident institutional sectors held a net liability position with the rest of the world at the end of the 1<sup>st</sup> quarter. The general government sector's net external debt stood at \$974 million while non-financial corporations owed \$774 million. Financial corporations held a net asset position of \$3,252 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 \$21 million at the end of the first quarter.

**BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION**
**INTERNATIONAL INVESTMENT POSITION (IIP)<sup>1,2</sup>**

(BD\$) MILLIONS

Components	2011 Q1	2011 Q2	2011 Q3	2011 Q4	2012 Q1
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	868	879	578	579	759
Portfolio investment	8,417	8,864	8,719	10,586	9,212
Financial Derivatives (other than reserves) and ESOs	11	22	24	14	18
Other investment	2,322	2,584	3,106	3,101	3,106
Reserve Assets	141	146	138	147	146
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	847	854	559	548	730
Debt instruments:	10,900	11,620	11,983	13,865	12,493
Special drawing rights	-	-	-	-	-
Currency and deposits	683	1,574	1,523	1,293	1,759
Debt securities	8,578	9,035	8,876	10,763	9,386
Loans	968	944	1,322	1,242	1,281
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	672	67	262	567	67
Other financial assets and liabilities	11	22	24	14	18
<b>TOTAL ASSETS</b>	<b>11,759</b>	<b>12,495</b>	<b>12,566</b>	<b>14,426</b>	<b>13,242</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	1,427	1,484	1,570	1,622	1,417
Portfolio investment	1,868	1,729	1,647	1,654	1,880
Financial Derivatives (other than reserves) and ESOs	11	21	23	16	14
Other investment	6,244	7,285	7,427	9,666	8,407
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	1,810	1,831	1,933	1,979	1,772
Debt instruments:	7,729	8,667	8,712	10,963	9,932
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	5,151	6,195	6,289	8,572	7,361
Debt securities	1,485	1,382	1,284	1,298	1,524
Loans	1,075	1,076	1,125	1,078	1,030
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	17	14	14	16	16
Other financial assets and liabilities	11	21	23	16	14
<b>TOTAL LIABILITIES</b>	<b>9,550</b>	<b>10,519</b>	<b>10,667</b>	<b>12,958</b>	<b>11,717</b>
<b>NET IIP</b>	<b>2,209</b>	<b>1,977</b>	<b>1,899</b>	<b>1,468</b>	<b>1,525</b>

**IIP By Resident Institutional Sector — (BD\$) MILLIONS**

2012 Q1	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non financial corporations	Total economy
<b>ASSETS</b>	<b>21</b>	<b>6</b>	<b>13,148</b>	<b>67</b>	<b>13,242</b>
Direct investment	-	-	730	29	759
Portfolio investment	13	-	9,178	21	9,212
Financial Derivatives (other than reserves) and ESOs	-	-	18	-	18
Other investment	8	6	3,075	17	3,106
Reserve Assets	-	-	146	-	146
<b>LIABILITIES</b>	<b>-</b>	<b>980</b>	<b>9,896</b>	<b>841</b>	<b>11,717</b>
Direct investment	-	-	626	790	1,417
Portfolio investment	-	-	1,872	7	1,880
Financial Derivatives (other than reserves) and ESOs	-	-	14	0	14
Other investment	-	980	7,384	44	8,407
<b>NET IIP</b>	<b>21</b>	<b>(974)</b>	<b>3,252</b>	<b>(774)</b>	<b>1,525</b>

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.

**R – Revised, P – Provisional**
**Numbers may not add due to rounding**

## 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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