



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

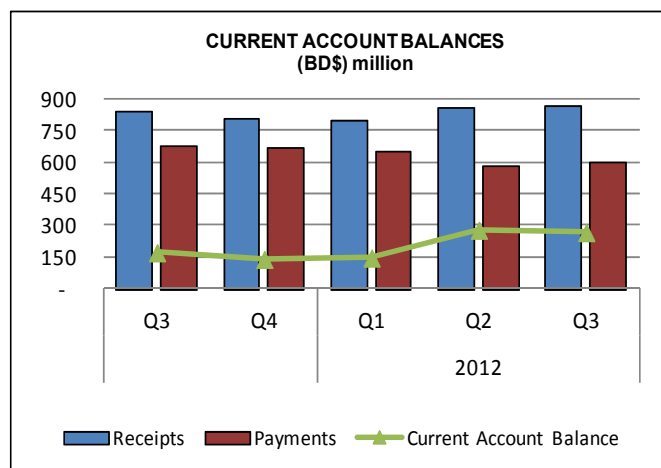
FOR THE QUARTER ENDED SEPTEMBER 2012

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$228 million in the third quarter of 2012. This represented an \$85 million increase year-over-year.

- § The goods trade deficit narrowed to \$218 million in the third quarter of 2012 from \$238 million in 2011.
- § Services transactions realised a surplus of \$136 million for the quarter. This represented a \$2 million increase year-over-year.
- § Bermuda's primary income account surplus increased by \$65 million to \$342 million in the third quarter of 2012.



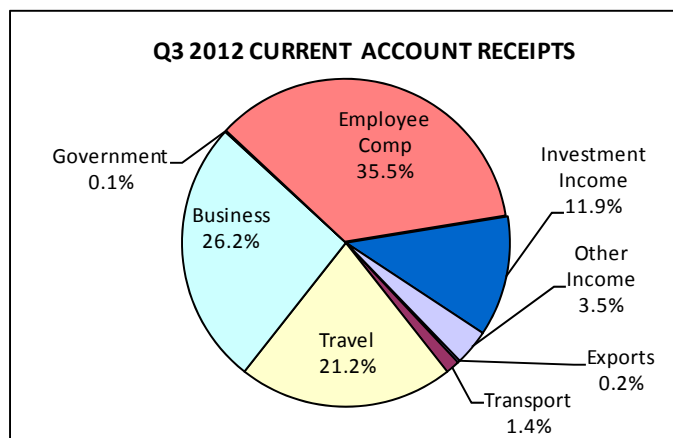
Capital and Financial Accounts

Transactions on Bermuda's asset accounts resulted in a net lending position of \$576 million. Factors influencing this performance include:

- § Bermuda's net acquisition of financial assets resulted in an accumulation of \$924 million compared to an accumulation of \$53 million in 2011.
- § Bermuda increased its incurrence of financial liabilities by \$348 million this quarter compared to an increase of \$156 million in 2011.

Current Account Surplus reaches \$228 million

The surplus on the current account increased to \$228 million from \$143 million in the third quarter of 2011. The increased surplus was due to the combined effect of an increase in current account receipts and a decline in payments. Total receipts amounted to \$820 million, representing an increase of \$8 million when compared to the same quarter of the previous year. The growth in the level of receipts was mostly attributed to a \$14 million increase in investment income received by residents. Current account payments stood at \$593 million, or \$75 million below 2011 levels. The decline in outlays during the quarter was fueled by a \$56 million decline in primary income payments to non-residents.



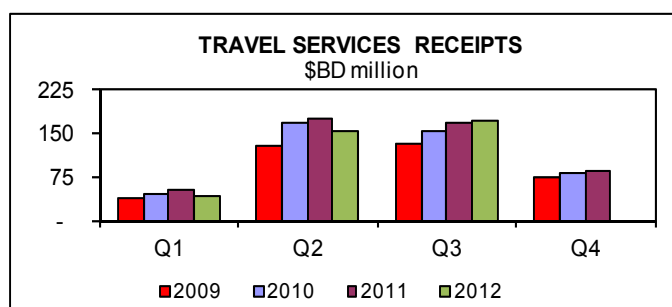
Net payment for goods abated \$20 million

A total of \$220 million was spent on imported goods in the third quarter of 2012. This represented a \$22 million decline. The decrease in imports marked the tenth consecutive quarter of reduced payments for imported goods.

In addition, revenue from exports abated \$1 million when compared to the same quarter of the previous year. As a result the goods account deficit stood at \$218 million, a reduction of \$20 million during the quarter.

Services Account Surplus stood at \$136 million

Payments for services totalled \$247 million in the third quarter, \$4 million below the level recorded in 2011. Outlays on transport services decreased \$6 million reflecting lower payments for import-related freight services. In contrast, payments for non-resident business services grew by \$3 million during the same period. Within this category, insurance services increased by \$8 million due to increased expenditure on reinsurance services, while the financial and other services categories decreased by a combined \$5 million. The growth in outlays on business services partially offset decreased payments on transportation. The travel account payments remained static when compared to the same quarter of the previous year.



Receipts from services remained unchanged at \$384 million. Travel inflows amounted to \$169 million, rising \$3 million above the level recorded in 2011. Personal travel receipts increased \$5 million as a result of a 1 per cent increase in air and arrivals. In contrast, revenue from transport services declined by \$3 million year-over-year.

Primary Income Surplus grew \$65 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 \$277 million in 2011. Income receipts advanced \$9 million mostly due to an increase in dividends received on portfolio investment instruments. In contrast, compensation earned by residents decreased \$6 million.

Income payments to non-residents fell by \$56 million to \$66 million. This decrease was due to a sharp decline of direct investment income on equity and investment fund shares during the quarter.

Secondary income recorded a \$32 million deficit

The secondary income account reflects the balances on donations, insurance claims and other transfers

between residents and non-residents. Payments totaled \$59 million compared to transfer inflows of only \$27 million. The \$32 million deficit reflected primarily an excess of personal transfers in the form of workers remittances paid by residents to non-residents over transfers received during the quarter.

INTERNATIONAL INVESTMENT POSITION (IIP)

Bermuda's net IIP increased to \$1,911 million

At the end of the 3rd quarter 2012, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$1,911 million. This net IIP increased by \$573 million over the second quarter of 2012.

Foreign assets increased with growth in currency and deposits

Bermuda residents' net acquisition position of financial assets increased \$915 million, due to residents increasing their holdings of overseas bond, notes and money market instruments by \$749 million during the quarter. As a result, Bermuda's stock of assets held overseas stood at \$13,484 million at the end of the third quarter 2012. This represented an increase from the second quarter 2012 asset position of \$12,569 million.

Bermuda's net liability position increased

Bermuda residents increased their stock of foreign liabilities by \$341 million. This increase was mostly associated with an expansion of investments in bonds and notes held locally by non-residents. The positive net incurrence of financial liabilities pushed the stock of liabilities up to \$11,572 million.

Non-financial corporations and general government held a net liability position

Two resident institutional sectors held a net liability position with the rest of the world at the end of the third quarter. The general government sector's net external debt stood at \$1,494 million while non-financial corporations owed \$921 million. Financial corporations held a net asset position of \$4,305 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 third quarter.

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

BALANCE OF PAYMENTS (BD\$) MILLIONS

Components	2011	2012 YTD	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	916	701	242	224	228	252	220
SERVICES	969	715	251	233	219	249	247
Transportation	250	189	66	60	61	67	60
Travel	303	220	88	81	61	71	88
Business Services:	398	293	92	88	92	106	95
Insurance services	117	106	27	28	27	44	35
Financial services	36	23	7	6	9	8	6
ICT services	81	59	19	20	19	21	19
Other services	163	105	39	34	37	34	35
Government services	19	13	5	5	4	4	4
PRIMARY INCOME	500	278	122	146	163	50	66
Employee Compensation	64	51	16	16	16	17	17
Investment Income	436	227	105	130	146	32	49
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	219	175	54	55	54	61	59
TOTAL PAYMENTS	2,605	1,868	668	659	664	611	593
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	13	7	3	3	3	2	2
SERVICES	1,399	1,040	384	311	293	364	384
Transportation	40	34	14	8	12	11	11
Travel	470	365	166	84	46	150	169
Business Services:	824	596	203	207	192	202	202
Insurance services	49	51	11	12	11	20	20
Financial services	212	135	55	64	38	45	52
ICT services	76	62	18	18	22	20	20
Other services	487	348	118	112	121	117	110
Government services	65	46	1	13	44	1	1
PRIMARY INCOME	1,665	1,241	399	419	425	408	408
Employee Compensation	1,159	832	290	290	272	275	284
Investment Income	358	301	81	100	107	99	95
Other Income	148	109	28	30	46	34	28
SECONDARY INCOME	89	75	25	22	21	26	27
TOTAL RECEIPTS	3,166	2,364	812	755	742	801	820
CURRENT ACCOUNT BALANCES							
GOODS	-903	-693	-238	-221	-225	-250	-218
SERVICES	430	326	134	78	74	116	136
Transportation	-209	-155	-51	-52	-49	-56	-49
Travel	167	145	78	3	-15	79	81
Business Services:	426	303	111	119	99	96	108
Insurance services	-68	-55	-16	-16	-16	-24	-15
Financial services	176	112	48	58	28	38	46
ICT services	-5	3	-1	-1	3	-1	1
Other services	324	243	79	78	85	83	75
Government services	46	32	-4	8	39	-3	-3
PRIMARY INCOME	1,165	963	277	273	263	359	342
Employee Compensation	1,095	781	273	274	256	258	267
Investment Income	-78	73	-24	-31	-39	66	46
Other Income	148	109	28	30	46	34	28
SECONDARY INCOME	-130	-99	-30	-34	-33	-35	-32
CURRENT ACCOUNT BALANCE	561	496	143	96	79	190	228
FINANCIAL ACCOUNT							
Direct investment	-337	249	-294	-2	193	27	29
Portfolio investment	2,252	-588	-178	1,854	-1,359	-7	777
Financial Derivatives	107	66	28	15	28	16	22
Other investment	1,459	-627	505	2	4	-739	109
Reserve assets	11	-11	-7	8	0	3	-13
NET ACQUISITION OF FINANCIAL ASSETS	3,493	-910	53	1,876	-1,134	-700	924
Direct investment	-109	179	94	-191	113	40	26
Portfolio investment	-121	211	-82	3	230	-157	138
Financial Derivatives	8	19	1	-6	-3	15	7
Other investment	3,670	-1,681	142	2,216	-1,157	-703	178
NET INCURRENCE OF FINANCIAL LIABILITIES	3,447	-1,273	156	2,022	-816	-805	348
TOTAL NET FINANCIAL ACCOUNT	-45	-363	102	146	318	-105	-576
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	45	363	-102	-146	-318	105	576
BALANCING ITEM	-516	-134	-245	-242	-396	-85	348

R – Revised, P – Provisional

Numbers may not add due to rounding

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

INTERNATIONAL INVESTMENT POSITION (IIP)^{1,2}

(BD\$) MILLIONS

Components	2011 Q3	2011 Q4	2012 Q1	2012 Q2	2012 Q3
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	578	575	759	776	799
Portfolio investment	8,719	10,583	9,212	9,220	9,992
Financial Derivatives (other than reserves) and ESOs	101	115	42	58	80
Other investment	3,100	3,101	3,105	2,367	2,477
Reserve Assets	138	147	146	149	136
BY INSTRUMENT					
Equity and investment fund share/units	560	544	730	768	802
Debt instruments:	11,976	13,862	12,492	11,743	12,601
Special drawing rights	-	-	-	-	-
Currency and deposits	1,515	1,293	1,755	965	1,196
Debt securities	8,876	10,760	9,386	9,376	10,125
Loans	1,322	1,242	1,281	1,286	1,220
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	263	567	69	116	61
Other financial assets and liabilities	101	115	42	58	80
TOTAL ASSETS	12,636	14,522	13,265	12,569	13,484
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	1,578	1,379	1,483	1,525	1,543
Portfolio investment	1,647	1,650	1,880	1,722	1,860
Financial Derivatives (other than reserves) and ESOs	23	16	14	28	35
Other investment	6,622	8,838	8,658	7,956	8,133
BY INSTRUMENT					
Equity and investment fund share/units	1,940	1,736	1,834	1,878	1,881
Debt instruments:	7,907	10,131	10,187	9,324	9,656
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,289	8,572	7,361	6,660	6,563
Debt securities	1,284	1,293	1,529	1,369	1,522
Loans	320	251	1,280	1,280	1,553
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	14	15	16	16	18
Other financial assets and liabilities	23	16	14	28	35
TOTAL LIABILITIES	9,870	11,883	12,034	11,231	11,572
NET IIP	2,766	2,639	1,231	1,338	1,911

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

2012 Q3	Households and NPISHs ^{2,3}	General government	Financial corporations	Non financial corporations	Total economy
ASSETS	21	11	13,430	41	13,484
Direct investment	-	-	794	4	799
Portfolio investment	13	6	9,952	22	9,992
Financial Derivatives (other than reserves) and ESOs	-	-	100	-	100
Other investment	8	5	2,448	15	2,477
Reserve Assets			136		136
LIABILITIES	-	1,505	9,105	962	11,572
Direct investment			626	917	1,543
Portfolio investment	-	-	1,853	7	1,860
Financial Derivatives (other than reserves) and ESOs	-	-	35	0	35
Other investment	-	1,505	6,590	38	8,133
NET IIP	21	(1,494)	4,305	(921)	1,911

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.

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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