



BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

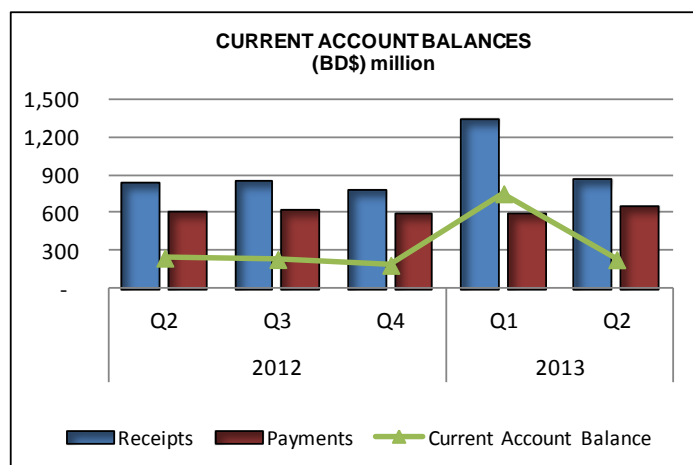
FOR THE QUARTER ENDED JUNE 2013

FAST FACTS

Current Account

The Bermuda current account recorded a surplus of \$228 million in the second quarter of 2013. This represented a \$13 million decrease year-over-year

- The deficit on the goods account increased by \$22 million to \$250 million.
- Services transactions realised a surplus of \$124 million in the second quarter of 2013.
- The surplus on Bermuda's primary income account grew to \$392 million in the second quarter of 2013.



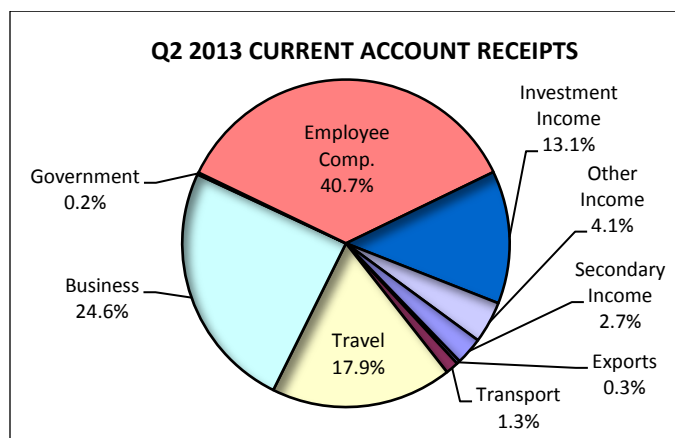
Financial, Capital, and Reserve Assets Accounts

Transactions on Bermuda's asset accounts resulted in a net borrowing position of \$35 million. Factors influencing this performance include:

- Bermuda's net acquisition of financial assets resulted in an increase of \$553 million compared to a reduction of \$1,173 million in 2012.
- Bermuda increased its net incurrence of financial liabilities by \$588 million this quarter compared to a decrease of \$805 million in 2012.

Current account surplus = \$228 million

The current account surplus stood at \$228 million for the second quarter of 2013. This represented a \$13 million decrease from the \$241 million surplus in the second quarter of 2012. The decline in the current account surplus mostly reflected changes in the goods account, where the deficit worsened by \$22 million. The widening of the goods trade deficit was enough to offset increases in the surplus on the primary income account.



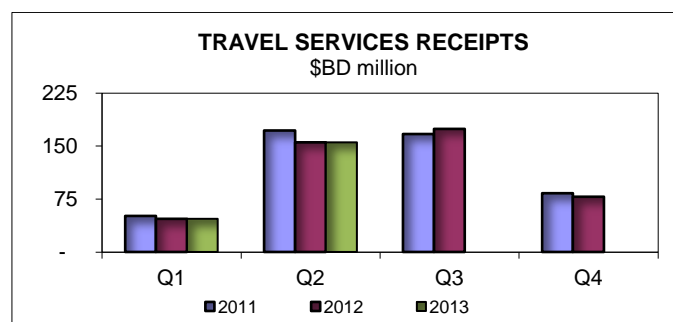
The goods account recorded a deficit of \$250 million

The value of goods imported grew 9.6 per cent to \$250 million during the quarter. Imported goods from the Island's largest trading partner the United States increased \$21 million, while the value of imports from Canada increased \$6 million over the same period. Imports of fuel recorded the largest increase of \$10 million. Moderate increases were recorded in the food and finished equipment categories which advanced \$7 million and \$4 million, respectively. In contrast, imports of transport equipment fell 2 million.

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

The Services account surplus fell \$1 million

Receipts from services transactions stood at \$381 million during the quarter. Among the services categories, revenue from business services transactions rose \$4 million. This was due partly to an increase in legal and accounting services that pushed the receipts of other services \$7 million above the 2012 level. This increase offset small declines in financial and ICT services. Revenue received from government services registered a modest \$1 million increase while inflows from travel services remained unchanged at \$155 million.



Payments for services received from non-residents totalled \$257 million in the second quarter, \$7 million above the level recorded in 2012. This outcome directly reflected a \$7 million increase in payments for business services. Within that service category, payments made to head offices overseas to cover operational expenses pushed the total outflows related to other services \$14 million higher than the level reached in 2012. In contrast, payments for financial, ICT and insurance services declined. Outflows related to travel (including overseas training and conferences) edged down \$1 million while transportation outflows were \$1 million more than the previous year.

Primary Income Surplus grew \$13 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 \$392 million from \$379 million in 2012. Income receipts advanced \$29 million, reflecting mostly dividend earnings on direct investment. Employee compensation increased \$12 million.

Income payments to non-residents rose \$15 million to \$66 million. This increase reflected greater

divided payouts on both direct and portfolio investments.

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 widened \$3 million from a year ago. The \$38 million deficit was a result of fewer receipts of non-life insurance claims as well as increased payments of social benefits in the form of pensions.

INTERNATIONAL INVESTMENT POSITION (IIP)

Bermuda's net IIP decreased to \$2,296 million

At the end of the second quarter 2013, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$2,296 million. The net IIP fell \$570 million below the level reached in the first quarter of 2013.

Residents accumulate foreign assets

Total investment assets by Bermuda residents in financial assets jumped \$547 million, due mostly to residents increasing their holdings of currency and deposits by \$607 million during the quarter. This increase was partly offset by the decline in the value of money market instruments and other debt securities held by residents.

Bermuda's liability position increase

Bermuda residents held over \$12,239 million in foreign liabilities at the end of the second quarter. A surge in non-resident deposits and increased equity investment in resident businesses resulted in a \$1,118 increase in the overall liability position.

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 fourth quarter. The net external debt for the general government sector stood at \$1,493 million while non-financial corporations owed \$941 million. Financial corporations held a net asset position of \$4,709 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 second quarter.

BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

BALANCE OF PAYMENTS (BD\$) MILLIONS

Components	2012	2013 YTD	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	900	486	231	235	216	233	253
SERVICES	983	482	250	254	248	225	257
Transportation	243	125	65	61	57	60	66
Travel	305	132	71	88	85	61	70
Business Services:	416	217	110	99	102	100	117
Insurance services	150	68	43	35	36	32	36
Financial services	30	19	8	6	7	9	11
ICT services	81	36	21	19	21	17	19
Other services	156	93	38	39	38	42	52
Government services	18	8	4	4	4	4	4
PRIMARY INCOME	342	138	51	67	59	72	66
Employee Compensation	67	32	17	17	16	16	17
Investment Income	275	106	34	50	43	56	50
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	240	122	61	59	60	60	61
TOTAL PAYMENTS	2,465	1,228	593	616	583	590	638
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	11	6	3	3	3	3	3
SERVICES	1,402	676	376	395	323	295	381
Transportation	44	21	11	11	11	10	11
Travel	454	202	155	174	78	47	155
Business Services:	844	407	209	209	221	194	213
Insurance services	78	39	20	20	19	17	22
Financial services	194	75	45	52	59	33	42
ICT services	85	38	21	20	21	19	19
Other services	488	255	123	116	122	126	130
Government services	59	46	1	1	13	45	2
PRIMARY INCOME	1,721	1,480	430	421	415	1,021	459
Employee Compensation	1,189	621	297	297	298	312	309
Investment Income	392	776	98	95	86	662	114
Other Income	140	83	34	28	31	47	36
SECONDARY INCOME	102	45	26	27	26	22	23
TOTAL RECEIPTS	3,236	2,208	834	845	767	1,341	866
CURRENT ACCOUNT BALANCES							
GOODS	-889	-480	-228	-233	-213	-230	-250
SERVICES	419	194	125	141	75	70	124
Transportation	-199	-105	-54	-50	-46	-50	-54
Travel	149	70	84	86	-6	-15	85
Business Services:	428	191	99	109	119	95	96
Insurance services	-72	-29	-24	-15	-16	-15	-14
Financial services	164	56	38	46	52	24	32
ICT services	4	2	0	1	-1	1	0
Other services	332	162	85	77	84	84	78
Government services	41	38	-3	-3	9	41	-2
PRIMARY INCOME	1,379	1,342	379	354	356	949	392
Employee Compensation	1,123	589	280	281	282	297	293
Investment Income	117	670	65	45	43	606	64
Other Income	140	83	34	28	31	47	36
SECONDARY INCOME	-138	-76	-35	-33	-34	-38	-38
CURRENT ACCOUNT BALANCE	771	980	241	230	184	752	228
FINANCIAL ACCOUNT							
Direct investment	240	98	88	29	-69	60	38
Portfolio investment	-1,028	-196	-528	777	-440	592	-788
Financial Derivatives	83	58	14	20	23	28	30
Other investment	151	549	-749	109	779	-720	1,269
Reserve assets	-5	6	3	-13	5	1	5
NET ACQUISITION OF FINANCIAL ASSETS	-559	514	-1,173	922	297	-39	553
Direct investment	133	-57	40	26	-51	-16	-41
Portfolio investment	267	-59	-157	138	56	4	-63
Financial Derivatives	15	-13	15	7	-4	0	-13
Other investment	-1,351	-83	-703	178	338	-787	705
NET INCURRENCE OF FINANCIAL LIABILITIES	-937	-211	-805	348	338	-799	588
TOTAL NET FINANCIAL ACCOUNT	-378	-725	367	-574	41	-760	35
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET LENDING (+)/NET BORROWING (-)	378	725	-367	574	-41	760	-35
BALANCING ITEM	-393	-254	-608	344	-225	9	-263

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	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2
ASSETS					
BY FUNCTIONAL CATEGORY					
Direct investment	836	859	802	822	854
Portfolio investment	9,218	9,991	9,606	10,447	9,658
Financial Derivatives (other than reserves) and ESOs	55	74	97	35	65
Other investment	2,372	2,483	3,257	2,541	3,810
Reserve Assets	149	136	141	142	147
BY INSTRUMENT					
Equity and investment fund share/units	827	861	809	915	896
Debt instruments:	11,749	12,607	12,998	13,037	13,574
Special drawing rights	-	-	-	-	-
Currency and deposits	970	1,202	1,812	1,207	1,814
Debt securities	9,376	10,125	9,741	10,496	9,763
Loans	1,286	1,220	1,370	1,245	1,190
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	117	62	75	89	806
Other financial assets and liabilities	55	74	97	35	65
TOTAL ASSETS	12,630	13,543	13,904	13,987	14,534
LIABILITIES					
BY FUNCTIONAL CATEGORY					
Direct investment	1,541	1,560	1,498	1,483	1,974
Portfolio investment	1,722	1,860	1,916	1,920	1,857
Financial Derivatives (other than reserves) and ESOs	29	35	31	31	18
Other investment	7,959	8,136	8,474	7,687	8,389
BY INSTRUMENT					
Equity and investment fund share/units	1,883	1,886	1,875	1,875	2,302
Debt instruments:	9,339	9,670	10,014	9,215	9,919
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,660	6,563	6,908	6,095	6,795
Debt securities	1,380	1,534	1,540	1,527	1,529
Loans	1,280	1,553	1,553	1,571	1,572
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	19	21	13	21	22
Other financial assets and liabilities	29	35	31	31	18
TOTAL LIABILITIES	11,250	11,591	11,920	11,121	12,239
NET IIP	1,380	1,952	1,984	2,866	2,296

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

2013 Q2	Households and NPISHs ^{2,3}	General government	Financial corporations	Non financial corporations	Total economy
ASSETS	21	12	14,411	90	14,534
Direct investment	-	-	809	45	854
Portfolio investment	13	-	9,625	20	9,658
Financial Derivatives (other than reserves) and ESOs	-	-	65	-	65
Other investment	8	12	3,766	25	3,810
Reserve Assets			147		147
LIABILITIES	-	1,505	9,703	1,031	12,239
Direct investment			1,011	963	1,974
Portfolio investment	-	-	1,852	5	1,857
Financial Derivatives (other than reserves) and ESOs	-	-	18	0	18
Other investment	-	1,505	6,822	63	8,389
NET IIP	21	(1,493)	4,709	(941)	2,296

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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