



# BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

FOR THE QUARTER ENDED MARCH 2014

## FAST FACTS

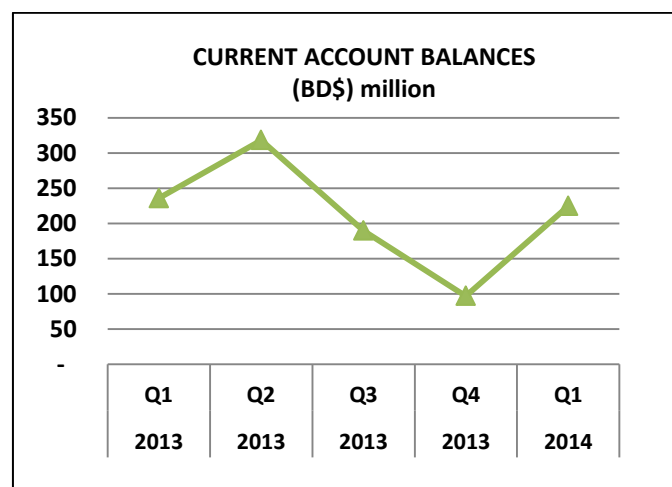
### Current Account

The Bermuda current account recorded a surplus of \$225 million in the first quarter of 2014. This represented an \$11 million decrease year-over-year.

§ The deficit on the goods account narrowed by \$17 million to \$216 million.

§ Services transactions realised a surplus of \$89 million in the first quarter of 2014.

§ The surplus on Bermuda's primary income account fell to \$392 million in the first quarter of 2014.



### Financial, Capital, and Reserve Assets Accounts

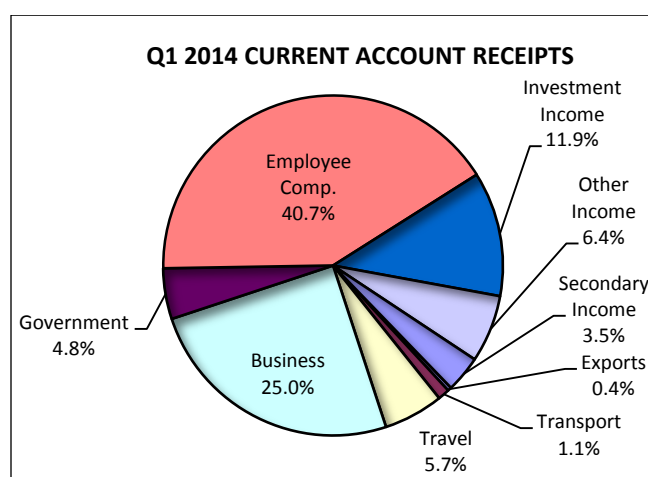
Transactions on Bermuda's asset accounts resulted in a net lending position of \$275 million. Factors influencing this performance include:

§ Bermuda's net acquisition of financial assets resulted in a reduction of \$742 million compared to an accumulation of \$151 million in 2013.

§ Bermuda decreased its net incurrence of financial liabilities by \$1,017 million this quarter compared to a decrease of \$273 million in 2013.

### Current account surplus = \$225 million

The current account surplus stood at \$225 million for the first quarter in 2014. This represented an \$11 million decrease from the \$236 million surplus in the first quarter of 2013. The contraction in the current account surplus mostly reflected changes in the primary income account, where the balance declined by \$33 million due primarily to a decrease in investment income received from non-residents.



### The goods account recorded a deficit of \$216 million

Year-over-year, the value of imported goods fell 6.8 per cent to \$219 million. Imported goods from the Caribbean decreased \$14 million while imports from Bermuda's largest trading partner the United States decreased \$3 million. Among the commodity groups, the decline was reflected primarily in the imports of fuel which fell \$20 million below the corresponding period of 2013. Imports of food, chemicals and machinery also contracted during the period. In contrast, imports of finished goods such as furniture, fittings and photographic equipment rose \$6 million.

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

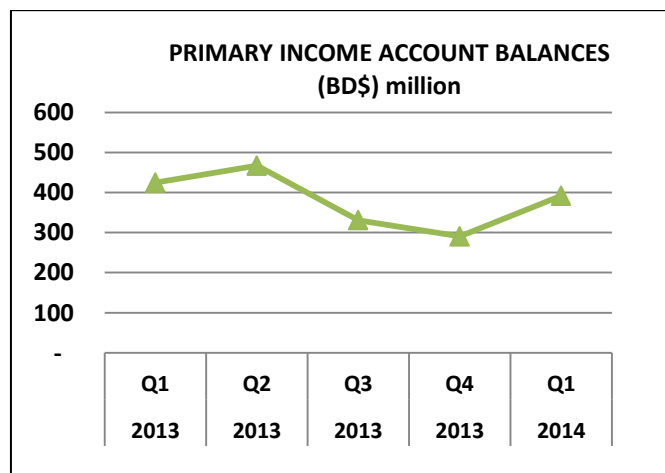
### Services account surplus increased \$6 million

Receipts from services transactions stood at \$296 million during the quarter. Among the services categories, receipts from business services increased \$9 million related to larger inflows of direct insurance premiums and higher receipts from the provision of accounting services. Receipts from travel services edged up \$1 million. In contrast, receipts from government services and transportation services fell 6 million and \$1 million, respectively.

Payments for services received from non-residents totalled \$208 million in the first quarter, \$1 million below the level recorded in 2013. Transportation outflows fell \$5 million reflecting lower freight payments for imported goods. This decline was offset by increases in business services outflows and payments by residents for travel.

### Primary Income Surplus fell \$33 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 decreased to \$392 million from \$425 million in 2013. Both income receipts and payments were lower in 2014, compared to atypical investment income transactions in the first quarter of 2013.



Among other primary income categories, residents earned \$21 million extra in employee compensation compared to 2013 while payments remained constant at \$16 million.

### Secondary income recorded a \$40 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 \$1 million from a year ago. The \$40 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 \$4,066 million

At the end of the 1<sup>st</sup> quarter 2014, the stock of foreign assets held by Bermuda residents registered above its stock of foreign liabilities by an estimated \$4,066 million. This net IIP increased by \$571 million over the fourth quarter of 2013.

### Foreign assets decreased, influenced by portfolio investment

Bermuda residents' net acquisition position of financial assets decreased \$856 million, due mostly to residents drawing down on their holdings of currency and deposits by \$810 million during the quarter. Holdings of debt securities (bonds, money market instruments) also fell by \$113 million.

### Bermuda's net liability position declined

Bermuda residents' stock of foreign liabilities decreased \$1,428 million. This improvement in the liability position was mostly associated with fewer holdings of non-resident deposits which fell \$673 million and a similar drop in debt security liabilities of \$765 million.

### IIP by institutional sector (Table 3)

The non-financial corporations held a net liability position of \$915 million with the rest of the world at the end of the first quarter 2014. The general government sector's liability holdings exceeded its external assets by \$16 million. In contrast, financial corporations held a net asset position of \$4,977 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 \$20 million at the end of the first quarter.

# BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

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

Components	2013	2014 YTD	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
<b>CURRENT ACCOUNT PAYMENTS</b>							
<b>GOODS IMPORTS</b>	<b>1,012</b>	<b>219</b>	<b>235</b>	<b>255</b>	<b>259</b>	<b>263</b>	<b>219</b>
<b>SERVICES</b>	<b>895</b>	<b>208</b>	<b>209</b>	<b>225</b>	<b>240</b>	<b>221</b>	<b>208</b>
Transportation	252	55	60	66	67	60	55
Travel	222	48	47	50	65	60	48
Business Services:	405	101	99	105	104	97	101
Insurance services	138	30	32	36	34	36	30
Financial services	33	8	9	11	8	6	8
ICT services	72	19	17	18	19	19	19
Other services	162	44	41	41	43	37	44
Government services	16	4	4	4	4	4	4
<b>PRIMARY INCOME</b>	<b>825</b>	<b>90</b>	<b>597</b>	<b>-6</b>	<b>95</b>	<b>139</b>	<b>90</b>
Employee Compensation	64	16	16	16	16	16	16
Investment Income	760	73	582	-23	78	123	73
Other Income	0	0	0	0	0	0	0
<b>SECONDARY INCOME</b>	<b>252</b>	<b>67</b>	<b>61</b>	<b>64</b>	<b>65</b>	<b>63</b>	<b>67</b>
<b>TOTAL PAYMENTS</b>	<b>2,984</b>	<b>584</b>	<b>1,103</b>	<b>538</b>	<b>657</b>	<b>685</b>	<b>584</b>
<b>CURRENT ACCOUNT RECEIPTS</b>							
<b>GOODS EXPORTS</b>	<b>13</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>SERVICES</b>	<b>1,378</b>	<b>296</b>	<b>292</b>	<b>368</b>	<b>392</b>	<b>326</b>	<b>296</b>
Transportation	42	9	10	11	11	10	9
Travel	439	46	45	143	167	83	46
Business Services:	834	202	193	212	213	217	202
Insurance services	78	22	17	22	20	19	22
Financial services	180	34	33	42	49	56	34
ICT services	81	18	19	19	21	21	18
Other services	497	129	124	129	123	122	129
Government services	62	39	45	2	1	15	39
<b>PRIMARY INCOME</b>	<b>2,338</b>	<b>482</b>	<b>1,022</b>	<b>461</b>	<b>425</b>	<b>429</b>	<b>482</b>
Employee Compensation	1,223	334	313	311	296	303	334
Investment Income	974	96	662	114	101	97	96
Other Income	140	52	47	36	28	29	52
<b>SECONDARY INCOME</b>	<b>96</b>	<b>28</b>	<b>22</b>	<b>23</b>	<b>26</b>	<b>24</b>	<b>28</b>
<b>TOTAL RECEIPTS</b>	<b>3,825</b>	<b>809</b>	<b>1,339</b>	<b>856</b>	<b>847</b>	<b>783</b>	<b>809</b>
<b>CURRENT ACCOUNT BALANCES</b>							
<b>GOODS</b>	<b>-999</b>	<b>-216</b>	<b>-233</b>	<b>-251</b>	<b>-255</b>	<b>-259</b>	<b>-216</b>
<b>SERVICES</b>	<b>483</b>	<b>89</b>	<b>83</b>	<b>143</b>	<b>153</b>	<b>105</b>	<b>89</b>
Transportation	-210	-45	-50	-55	-56	-49	-45
Travel	217	-2	-1	93	102	23	-2
Business Services:	429	101	94	106	109	119	101
Insurance services	-60	-9	-15	-14	-14	-17	-9
Financial services	146	26	24	32	41	49	26
ICT services	9	-1	2	1	3	2	-1
Other services	335	85	82	88	80	85	85
Government services	46	35	41	-2	-3	11	35
<b>PRIMARY INCOME</b>	<b>1,513</b>	<b>392</b>	<b>425</b>	<b>467</b>	<b>331</b>	<b>291</b>	<b>392</b>
Employee Compensation	1,159	317	297	295	280	287	317
Investment Income	214	23	80	136	23	-26	23
Other Income	140	52	47	36	28	29	52
<b>SECONDARY INCOME</b>	<b>-156</b>	<b>-40</b>	<b>-39</b>	<b>-40</b>	<b>-38</b>	<b>-39</b>	<b>-40</b>
<b>CURRENT ACCOUNT BALANCE</b>	<b>841</b>	<b>225</b>	<b>236</b>	<b>318</b>	<b>190</b>	<b>97</b>	<b>225</b>
<b>FINANCIAL ACCOUNT</b>							
Direct investment	51	30	60	38	-15	-33	30
Portfolio investment	2,168	-153	782	-902	206	2,082	-153
Financial Derivatives	105	29	28	30	30	17	29
Other investment	989	-639	-720	1,037	310	363	-639
Reserve assets	11	-9	1	5	-1	6	-9
<b>NET ACQUISITION OF FINANCIAL ASSETS</b>	<b>3,323</b>	<b>-742</b>	<b>151</b>	<b>208</b>	<b>530</b>	<b>2,434</b>	<b>-742</b>
Direct investment	55	13	510	-501	7	39	13
Portfolio investment	555	-767	4	-63	21	593	-767
Financial Derivatives	-7	-4	0	-13	15	-9	-4
Other investment	1,783	-260	-787	705	93	1,772	-260
<b>NET INCURRENCE OF FINANCIAL LIABILITIES</b>	<b>2,386</b>	<b>-1,017</b>	<b>-273</b>	<b>128</b>	<b>136</b>	<b>2,395</b>	<b>-1,017</b>
<b>TOTAL NET FINANCIAL ACCOUNT</b>	<b>-937</b>	<b>-275</b>	<b>-424</b>	<b>-80</b>	<b>-394</b>	<b>-39</b>	<b>-275</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>937</b>	<b>275</b>	<b>424</b>	<b>80</b>	<b>394</b>	<b>39</b>	<b>275</b>
<b>BALANCING ITEM</b>	<b>97</b>	<b>51</b>	<b>188</b>	<b>-238</b>	<b>204</b>	<b>-58</b>	<b>51</b>

R – Revised, P – Provisional

Numbers may not add due to rounding

# BERMUDA BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION

**TABLE 2 - INTERNATIONAL INVESTMENT POSITION (IIP)<sup>1,2</sup>**

(BD\$) MILLIONS

Components	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1
<b>ASSETS</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	863	893	879	835	852
Portfolio investment	12,664	11,763	11,968	14,050	13,881
Financial Derivatives (other than reserves) and ESOs	35	65	95	112	50
Other investment	2,541	3,578	3,396	3,755	3,121
Reserve Assets	142	147	146	152	142
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	956	935	955	918	870
Debt instruments:	15,255	15,446	15,433	17,873	17,127
Special drawing rights	-	-	-	-	-
Currency and deposits	1,206	2,313	2,151	2,619	1,809
Debt securities	12,714	11,867	12,037	14,118	14,005
Loans	1,245	1,191	1,164	1,017	1,182
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	89	75	82	119	130
Other financial assets and liabilities	35	65	95	112	50
<b>TOTAL ASSETS</b>	<b>16,245</b>	<b>16,446</b>	<b>16,484</b>	<b>18,903</b>	<b>18,047</b>
<b>LIABILITIES</b>					
<b>BY FUNCTIONAL CATEGORY</b>					
Direct investment	3,119	2,618	2,625	2,664	2,675
Portfolio investment	1,920	1,857	1,878	2,471	1,704
Financial Derivatives (other than reserves) and ESOs	31	18	33	24	20
Other investment	7,687	8,389	8,478	10,249	9,581
<b>BY INSTRUMENT</b>					
Equity and investment fund share/units	3,512	2,946	2,994	3,038	3,048
Debt instruments:	9,215	9,919	9,987	12,346	10,913
Special drawing rights	n.a.	n.a.	n.a.	n.a.	n.a.
Currency and deposits	6,095	6,795	6,140	7,857	7,184
Debt securities	1,527	1,529	1,509	2,097	1,332
Loans	1,571	1,572	2,319	2,370	2,376
Insurance, pension, standardized guarantee schemes	-	-	-	-	-
Other accounts receivable/payable	21	22	20	21	21
Other financial assets and liabilities	31	18	33	24	20
<b>TOTAL LIABILITIES</b>	<b>12,757</b>	<b>12,883</b>	<b>13,015</b>	<b>15,408</b>	<b>13,980</b>
<b>NET IIP</b>	<b>3,488</b>	<b>3,563</b>	<b>3,469</b>	<b>3,495</b>	<b>4,066</b>

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

2014 Q1	Households and NPISHs <sup>2,3</sup>	General government	Financial corporations	Non- financial corporations	Total economy
<b>ASSETS</b>	<b>20</b>	<b>2,289</b>	<b>15,637</b>	<b>100</b>	<b>18,047</b>
Direct investment	-	-	799	54	852
Portfolio investment	13	2,285	11,560	22	13,881
Financial Derivatives (other than reserves) and ESOs	-	-	50	-	50
Other investment	7	4	3,086	24	3,121
Reserve Assets			142		142
<b>LIABILITIES</b>	<b>-</b>	<b>2,305</b>	<b>10,661</b>	<b>1,015</b>	<b>13,980</b>
Direct investment			1,731	945	2,675
Portfolio investment	-	-	1,700	4	1,704
Financial Derivatives (other than reserves) and ESOs	-	-	19	0	20
Other investment	-	2,305	7,210	65	9,581
<b>NET IIP</b>	<b>20</b>	<b>(16)</b>	<b>4,977</b>	<b>(915)</b>	<b>4,066</b>

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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