



BALANCE OF PAYMENTS

FOR THE QUARTER ENDED SEPTEMBER 2011

FAST FACTS

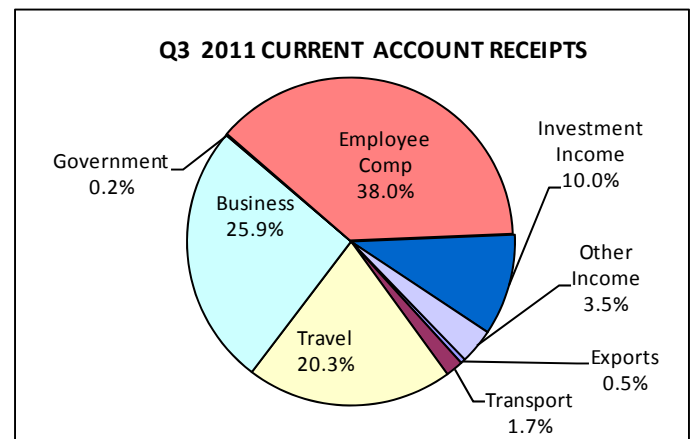
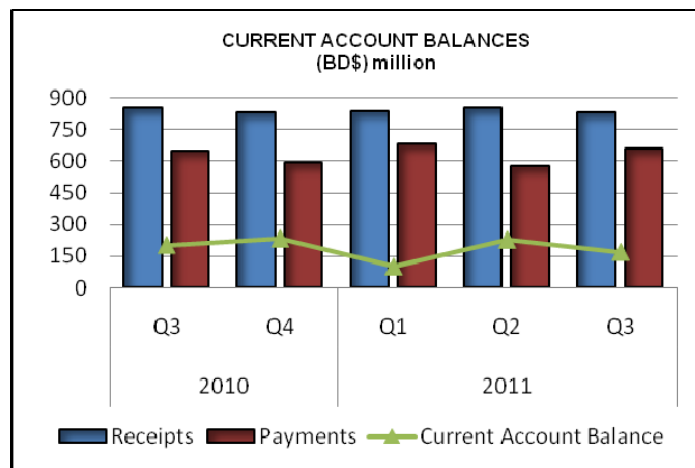
Current Account

The Bermuda current account recorded a surplus of \$171 million in the third quarter of 2011. This represented a \$6 million decrease year-over-year.

- § The goods trade deficit narrowed to \$238 million in the third quarter of 2011 from \$248 million reached in 2010.
- § Services transactions realised a surplus of \$145 million for the quarter. This represented an \$18 million increase year-over-year.
- § Bermuda's primary income account surplus fell by \$38 million to \$294 million in the third quarter of 2011.

CURRENT ACCOUNT

The surplus on the current account fell to \$171 million from \$177 million in the third quarter of 2010. The declining surplus was due to an increase in current account payments which outpaced the growth in receipts. Total payments amounted to \$665 million, representing an increase of \$14 million when compared to the same quarter of the previous year. The growth in the level of payments was mostly attributed to a \$34 million increase in investment income paid to non-residents. Current account receipts stood at \$836 million, or \$8 million above 2010 levels.



Financial, Capital, and Reserve Assets Accounts

Bermuda's asset accounts recorded a net inflow of \$231 million in the third quarter of 2011, compared to an outflow of \$486 million last year. Factors influencing this performance include:

- § Financial account transactions resulted in a net inflow of \$238 million this quarter, compared to a \$469 million outflow for the third quarter last year.
- § Reserve assets recorded a net outflow of \$7 million this quarter, compared to an outflow of \$17 million last year.

Goods Account

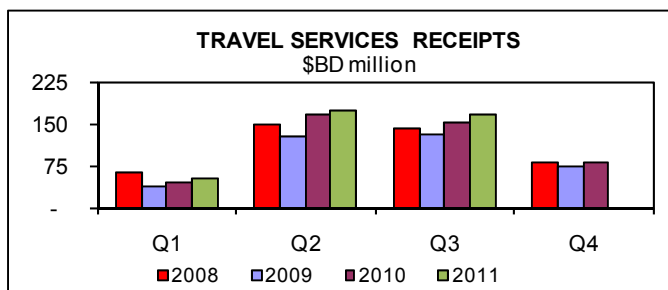
A total of \$242 million was spent on imported goods in the third quarter of 2011. This represented a \$10 million decline and included goods imported to the Island as well as goods purchased at non-resident ports by resident shipping companies. The 4.0 per cent decline in imports marked the sixth consecutive quarter of reduced payments for imported goods. All import commodity groups registered decreases with the exception of miscellaneous items (+2.9 million), transport equipment (+1.5 million) and machinery (+\$298,000). The largest declines were recorded for imports of chemicals and fuels which contracted by \$4.7 million and \$4.6 million, respectively.

Revenue from exports remained unchanged at \$4 million.

Services Account

Payments for services totalled \$246 million in the third quarter, \$9 million below the level recorded in 2010. Outlays on business services decreased by \$13 million during the quarter. Within this category, ICT services fell by \$3 million due to reduced payments for computer services while payments for other services declined by \$7 million as residents paid less for overseas management and consultancy services. The travel account recorded a \$1 million decrease in payments, reflecting lower expenditure by residents during the business and personal trips abroad. The decline in business and travel payments offset increased payments on transportation which grew by \$5 million in line with airline ticket costs.

Receipts from services increased by \$10 million to \$391 million during the quarter. Travel inflows amounted to \$165 million, rising \$12 million above the level recorded in 2010. Both business and personal travel receipts increased as a result of a 17 per cent increase in air and cruise arrivals. In contrast, revenue from business services declined by \$3 million due mostly to a similar decline in financial services.



Primary and Secondary Income Account

The primary income account reflects balances on compensation earned/paid to non-residents, income from investments and payroll tax paid by non-resident companies to the government. The surplus on the primary income account fell to \$294 million from \$332 million in 2010. Income receipts fell by \$9 million due to decreases in employee compensation and payroll tax collected from non-resident companies. Both employee compensation and payroll tax fell by \$7 million during the third quarter of 2011. In contrast, higher earnings on bonds and money market instruments held overseas pushed the investment income receipts up by \$5 million compared to a year prior.

Income payments to non-residents grew by \$29 million to \$123 million. This increase was due to the distribution of earnings on the stock of direct investments during the quarter.

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 \$25 million. The \$29 million deficit reflected primarily an excess of claims paid by insurance companies to non-residents over premiums received during the quarter.

FINANCIAL, CAPITAL, & RESERVE ASSETS ACCOUNTS

Financial Account

Transactions on the financial account reflect the changes in balances on overseas holdings of direct investments, portfolio investments (such as equity, debt securities and financial derivatives), and other investments such as trade credits, currency and deposits. Financial account inflows and outflows were both considerably lower than a year ago. Total inflows amounted to \$1,044 million while outflows totalled \$806 million during the quarter. These flows mostly reflected the investment decisions of the resident financial sector, insurance companies and information services firms with respect to holdings of overseas debt securities and transfer of balances between branches.

Capital Account

No transactions were recorded on the capital account

Reserve Assets Account

Reserve assets are highly liquid assets that are readily available to the monetary authority specifically for meeting balance of payments financing needs. These assets are also used for intervention in exchange markets to affect the exchange rate and serve as a basis for foreign currency borrowing. The reserve assets account recorded a net outflow of \$7 million this quarter, compared to a \$17 million net outflow recorded in the third quarter of 2010.

BERMUDA BALANCE OF PAYMENTS

(BD\$) MILLIONS

Components	2010	2011 YTD	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3
CURRENT ACCOUNT PAYMENTS							
GOODS IMPORTS	988	692	252	241	219	232	242
SERVICES	1,013	720	255	251	228	246	246
Transportation	271	190	61	64	58	66	66
Travel	301	216	87	80	60	70	86
Business Services:	423	300	102	103	105	105	89
Insurance services	93	89	26	17	29	33	27
Financial services	45	29	11	12	14	8	7
ICT services	97	62	22	23	22	21	19
Other services	188	119	43	52	39	43	36
Government services	19	14	5	5	5	5	5
PRIMARY INCOME	310	354	94	53	183	48	123
Employee Compensation	86	51	22	22	17	17	17
Investment Income	224	303	72	31	166	31	106
Other Income	0	0	0	0	0	0	0
SECONDARY INCOME	216	162	51	53	54	54	54
TOTAL PAYMENTS	2,528	1,929	651	598	684	580	665
CURRENT ACCOUNT RECEIPTS							
GOODS EXPORTS	15	11	4	4	4	4	4
SERVICES	1,407	1,113	381	322	323	399	391
Transportation	42	31	14	10	8	9	14
Travel	442	389	153	80	51	173	165
Business Services:	863	641	213	224	215	216	210
Insurance services	43	36	9	10	12	13	11
Financial services	216	147	58	67	44	49	55
ICT services	83	60	20	22	22	19	19
Other services	521	397	126	124	137	135	125
Government services	60	52	1	7	50	2	1
PRIMARY INCOME	1,734	1,306	426	476	465	424	417
Employee Compensation	1,260	930	315	315	310	311	308
Investment Income	332	258	76	125	99	78	81
Other Income	142	119	35	35	55	35	28
SECONDARY INCOME	79	67	18	17	20	22	25
TOTAL RECEIPTS	3,234	2,497	828	819	813	849	836
CURRENT ACCOUNT BALANCES							
GOODS	-973	-681	-248	-237	-215	-228	-238
SERVICES	394	393	127	70	95	153	145
Transportation	-229	-159	-47	-53	-50	-57	-52
Travel	141	173	66	1	-10	103	80
Business Services:	440	341	111	120	110	110	121
Insurance services	-50	-53	-17	-7	-17	-21	-16
Financial services	171	118	47	55	29	40	48
ICT services	-14	-2	-2	-1	0	-1	0
Other services	333	279	83	73	98	92	89
Government services	41	38	-4	3	45	-3	-4
PRIMARY INCOME	1,424	951	332	423	282	376	294
Employee Compensation	1,175	878	293	293	293	294	291
Investment Income	108	-46	3	94	-67	47	-25
Other Income	142	119	35	35	55	35	28
SECONDARY INCOME	-138	-95	-33	-35	-33	-32	-29
CURRENT ACCOUNT BALANCE	706	568	177	221	128	269	171
CAPITAL & FINANCIAL ACCOUNT							
FINANCIAL ACCOUNT							
Direct investment	-482	-1,237	-156	-107	-1,103	-16	-118
Portfolio investment	-2,241	-1,530	-854	-279	-239	-998	-293
Other investments	-3,219	-1,460	-744	-1,395	-138	-928	-395
FINANCIAL ACCOUNT OUTFLOWS	-5,942	-4,227	-1,754	-1,782	-1,480	-1,942	-806
Direct investment	693	743	10	62	192	54	496
Portfolio investment	1,244	868	256	111	164	380	324
Other investments	3,263	2,042	1,020	1,068	723	1,096	223
FINANCIAL ACCOUNT INFLOWS	5,201	3,653	1,285	1,241	1,079	1,531	1,044
NET BALANCES							
Direct investment	210	-494	-147	-45	-911	38	378
Portfolio investment	-997	-662	-598	-168	-75	-618	31
Other investments	44	582	276	-328	585	168	-172
TOTAL NET FINANCIAL ACCOUNT	-742	-574	-469	-541	-401	-412	238
TOTAL NET CAPITAL ACCOUNT	0	0	0	0	0	0	0
TOTAL NET RESERVE ASSETS	3	3	-17	-4	6	5	-7
TOTAL FINANCIAL, CAPITAL & RESERVE ASSET ACCOUNTS	-739	-571	-486	-545	-395	-407	231
BALANCING ITEM	32	3	309	324	267	138	-402

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

Resident

The concept of resident 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.

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 external assets that are readily available to and controlled by monetary authorities or commercial banks for direct financing or payments imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate and or for other purposes.

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 (Error & 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.

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