



A faint, golden illustration of a pair of scales of justice, centered behind the title text.

THE CAYMAN ISLANDS' BALANCE OF PAYMENTS REPORT 2013

NOVEMBER 2014



The Economics and Statistics Office
Government of the Cayman Islands

TABLE OF CONTENTS

ACKNOWLEDGEMENT	4
ABBREVIATIONS AND ACRONYMS	5
1. EXECUTIVE SUMMARY	6
2. BALANCE OF PAYMENTS PRELIMINARY ESTIMATES	7
2.1 Introduction	7
2.2 Overview of Results.....	7
2.3 Balance of Trade in Goods	13
2.4 Balance of Trade in Services.....	13
2.5 Balance of Primary Income Transactions	16
2.6 Balance of Secondary Income Transactions (Current Transfers).....	16
2.7 Capital Account.....	17
2.9 Financial Account.....	17
SECTION 3: CURRENT ACCOUNT CHARTS AND TABLES	19
APPENDIX 1: OVERVIEW OF KEY USES, REVISIONS AND DATA SOURCES ..	24
A1.1 Key Uses.....	24
A1.2 Revisions	25
A1.3 Key Data Sources.....	25
A1.4 Data Quality and Accuracy.....	25
APPENDIX 2: OVERVIEW OF THE BOP COMPILATION	26
A2.1 General Approach.....	26
A2.2 Coverage and Survey Instrument	27
A2.3 Survey Methodology	27
A2.4 Data Compilation	27
APPENDIX 3: OVERVIEW OF THE BOP ACCOUNTS	28
APPENDIX 4: COMPILATION PROCEDURES	31
REFERENCES	45

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Comments to this report are welcome and may be sent to infostats@gov.ky.

ABBREVIATIONS AND ACRONYMS

ANA	Annual National Accounts
BOP	Balance of Payments
BPM5	Balance of Payment Manual 5 th Edition
BPM6	Balance of Payments Manual 6 th Edition (Draft)
c.i.f	Cost, insurance and freight
CARTAC	Caribbean Regional Technical Assistance Centre
CIMA	Cayman Islands Monetary Authority
CPI	Consumer Price Index
CIDOT	Department of Tourism
ESO	Economics and Statistics Office
f.o.b.	Free on board
FDI	Foreign Direct Investment
IIP	International Investment Position
IMF	International Monetary Fund
LFS	Labour Force Survey
n.i.e	Not included elsewhere
SNA	System of National Accounts
R	Revised

1. EXECUTIVE SUMMARY

- 1.1 The Balance of Payments (BOP) is the system of accounts that record all economic and financial transactions between residents of the Cayman Islands and the rest of the world. It is comprised of three (3) accounts:
- (i) the Current Account which captures transactions in trade on goods and services, primary income and secondary income (transfers);
 - (ii) the Financial Account which comprises all types of investment; and
 - (iii) the Capital Account which records all capital transfers such as grants used for physical capital expenditures. However, as of 2014, there are no reported transactions in the Capital Account.
- 1.2 A negative balance or a deficit in any of the above accounts indicates that the total inflows to residents from non-residents are less than their outflows (payments and lending) to non-residents.
- 1.3 The sum of the balances on the Current and Capital Account represents the Net Lending (surplus) or Net Borrowing (deficit) by the economy with the rest of the world. Conceptually this should be equal to the net balance of the Financial Account. This means that the Financial Account measures how the net lending or net borrowing from non-residents is financed.
- 1.4 This report presents the Balance of Payments estimates for the years 2012 to 2013 and the Current Account estimates for 2009 to 2013. The analysis in this report is focused on the results of BOP survey conducted by the ESO in March to May 2014 augmented by administrative data mostly from the Cayman Islands Monetary Authority (CIMA).
- 1.5 The Cayman Islands' Current Account recorded a net deficit of \$588.4 million or 22.2 percent of GDP in 2013. This represents a widening of \$55.6 million from the 2012 deficit which amounted to \$532.8 million (20.6% of GDP). This result was due mainly to higher net payments of primary income which includes investment income and compensation of employees.
- 1.6 In 2013, the Financial Account posted a net borrowing position amounting to \$1,184.6 million in comparison to the \$330.5 million net borrowing achieved in 2012. This was mainly on account of the changes in the stocks of portfolio investments.

2. BALANCE OF PAYMENTS PRELIMINARY ESTIMATES

2.1 Introduction

The Balance of Payments (BOP) is the system of accounts that record all economic and financial transactions between the country's residents and the rest of the world.

As defined in Balance of Payments Manual (BPM6) issued by the International Monetary Fund (IMF) "the residence of each institution is the economic territory with which it has the strongest connection, expressed as its centre of predominant economic interest." Accordingly, residents include (1) individuals who reside or intent to reside in the Cayman Islands for one year or more; (2) business enterprises and non-profit organisation engaged in significant amount of production of goods or services; and (3) general government including operations of the home territory such as consulates and other enclaves of foreign governments.

The BOP is compiled and produced by the BOP Unit of the Economics and Statistics Office (ESO). This report focuses on the Financial Account of the BOP for 2012 and 2013 and Current Account for 2009 to 2013. It consists of two parts: this section which presents details of the BOP, and Section 3 which provides detailed Current Account tables.

Estimates in this Report are based on both survey and non-survey data collated as closely as is feasible in a format consistent with the BPM6. The BOP survey was conducted by the ESO in March to May 2014, albeit the collection of returns was extended to September 2014 to accommodate the request of few respondents. A significant amount of data, particularly on the banking sector, was sourced from CIMA.

The data in this report are subject to revisions. Estimates for the 2013 are provisional and are subject to future revisions in light of any updated data.

An overview of the key uses of the BOP along with the compilation approach is found in Appendices 1 to 4.

2.2 Overview of Results

Table 1 shows the summary of the Balance of Payments for the years 2012 to 2013.

Table 1: Cayman Islands Balance of Payments

In CI\$Million		
	2012	2013
1. Current Account	-532.8	-588.4
Merchandise Trade	-641.1	-597.8
Exports	45.3	103.1
Imports	686.4	700.9
2. Services (Net)*	521.7	518.2
3. Primary Income (Net)*	-267.0	-373.1
4. Secondary Income (Net)	-146.3	-135.8
6. Capital Account**	-	-
7. Financial Account*	-330.5	-1,184.6
8. Unobserved Flows	202.3	-596.2

*Some data for 2013 obtained from CIMA on financial services which are part of Services (Net), Primary Income (Net) and Financial Account have different reporting periods which could have impacted the difference between 2012 and 2013.

** No Capital Account transactions reported.

Current Account

The preliminary estimate of the Cayman Islands' Current Account deficit for the year 2013 amounted to \$588.4 million, an increase of 10.4 percent from the revised estimate of \$532.8 million for 2012. This is attributed to the increase in payments of goods, services and primary income which outpaced the growth in these transactions.

The Current Account deficit in 2013 is comprised of the following balances:

- (i) Balance of trade in goods : -\$597.8 million
- (ii) Balance of trade in services : \$518.2 million
- (iii) Balance of primary income : -\$373.1 million
- (iv) Balance of secondary income : -\$135.8 million

Balance of trade in goods

The net payments for goods in 2013 contracted by 6.8 percent compared to 2012 and stood at \$597.8 million. This outturn largely reflected the increase in exports, mainly in the re-exports of merchandise goods and net exports of goods under merchanting.

Balance of trade in services

Receipts from services transactions continued to outpace payments, resulting in a surplus on the trade in services account. Both the receipts and payments for transportation, telecommunications, computer and information services, government services and other business services increased. While the payments and receipts for financial and insurance services fell. This resulted in decline of 0.7 percent of the surplus.

The nine (9) services comprising this Current Account balance and their corresponding balances in 2013 are as follows:

(i)	Financial services (excluding insurance)	: \$295.8 million
(ii)	Travel	: \$269.1 million
(iii)	Other business services	: \$126.1 million
(iv)	Government services n.i.e	: \$77.4 million
(v)	Transportation	: -\$104.2 million
(vi)	Insurance and pension services	: -\$99.5 million
(vii)	Telecommunication, computer and information services	: -\$28.2 million
(viii)	Other services	: -\$18.1 million

Financial services and travel services continued to be the major sources of foreign exchange receipts for the Cayman Islands. Other business services and government goods and services also contributed to foreign exchange receipts.

Balance of primary income

Transactions of primary income resulted in a 39.7 percent increase in the deficit compared to 2012. This was driven by the large increase (51.5%) in other investment income payments (including loans and deposits).

This deficit is traced to the balances from the following income transactions:

(i)	Portfolio investment	: \$486.4 million
(ii)	Direct investment	: -\$594.3 million
(iii)	Other investments	: -\$253.8 million
(iv)	Compensation of employees	: -\$11.4 million

From the above, it can be observed that income earnings from abroad from portfolio investments of residents were the single biggest source of current account surplus. On the other hand, direct investment continues to account for the largest services account net payments largely as a result of dividend payments and reinvested earnings.

Balance of secondary income

The deficit in the secondary income (current transfers) fell by 7.2 percent in 2013, largely due the decline in deficit of workers remittance which showed an increase of 22.4 per cent in receipts and a fall of 2.3 percent in payments. The balance was comprised of the following:

- (i) General government transfers : \$12.7 million
- (ii) Workers' remittances : -\$139.5 million
- (iii) Other current transfers : -\$9.0 million

Capital Account

No transactions were reported on the Capital Account.

Financial Account

The Financial Account recorded a net borrowing position of \$1184.6 million for 2013, reflecting an increase of \$854.1 million over 2012. This was influenced primarily from the drop in the net acquisition of direct investments and portfolio investments.

The major contributing factors to this increase were as follows:

- (i) Net acquisition of financial assets : \$2,928.7 million
- (ii) Net incurrence of financial liabilities: \$ 4,113.3 million

Details of the above BOP accounts are presented in Table 2 and further explained in the rest of Section 2.

Table 2: The Cayman Islands Balance of Payments

In CI\$ Million			
CURRENT ACCOUNT	2012	2013	Growth Rate (%)
Receipts			
Exports of goods and services and income receipts (credits)	3,492.3	4,042.6	15.8
Export of goods and services	1,440.5	1,528.7	6.1
Goods	45.3	103.1	127.5
Merchandise goods	20.8	29.6	42.4
Net exports of goods under merchandising	24.6	73.6	199.5
Non-monetary gold	0.0	0.0	
Services	1,395.2	1,425.6	2.2
Travel	407.8	416.9	2.2
Transportation	41.4	44.4	7.2
Insurance services	105.1	104.9	-0.2
Financial services	398.1	390.1	-2.0
Telecommunications, computer and information services	11.6	13.2	13.1
Other business services	347.3	359.8	3.6
Government goods and services n.i.e	81.9	93.6	14.3
Other services	1.9	2.7	43.7
Primary income receipts	1,966.5	2,417.7	22.9
Investment income	1,966.5	2,417.7	22.9
Direct investment income	210.7	223.5	6.1
Portfolio investment income	613.3	515.3	-16.0
Other investment income	1,142.5	1,679.0	47.0
Compensation of employees	0.0	0.0	-
Secondary income (current transfer) receipts	85.4	96.1	12.6
General government	14.2	13.5	-5.4
Worker's remittances	4.9	6.0	22.4
Other current transfers	66.3	76.7	15.7
Payments			
Imports of goods and services and income payments (debits)	4,025.1	4,631.0	15.1
Import of goods and services	1,560.0	1,608.2	3.1
Goods	686.4	700.9	2.1
Merchandise goods	680.3	700.7	3.0
Non-monetary gold	6.1	0.1	-97.6
Services	873.5	907.3	3.9
Travel	139.6	147.8	5.9
Transportation	142.6	148.6	4.2
Insurance services	209.1	204.4	-2.2
Financial services	97.3	94.4	-3.0
Telecommunications, computer and information services	35.1	41.4	17.9
Other business services	215.3	233.7	8.5
Government goods and services n.i.e	13.4	16.2	20.7
Other services	21.1	20.8	-1.2
Primary income payments	2,233.5	2,790.8	25.0
Investment income	2,219.5	2,779.4	25.2
Direct investment income	870.2	817.8	-6.0
Portfolio investment income	73.5	28.9	-60.7
Other investment income	1,275.9	1,932.7	51.5
Compensation of employees	13.9	11.4	-18.3
Secondary income (current transfer) payments	231.7	231.9	0.1
General government	0.6	0.7	20.4
Worker's remittances	148.9	145.5	-2.3
Other current transfers	82.2	85.7	4.3

Table 2 Cont'd: The Cayman Islands Balance of Payments

In CI\$ Million			
CURRENT ACCOUNT	2012	2013	Growth Rate (%)
Current Account Balances	(532.8)	(588.4)	10.4
Goods and services	(119.5)	(79.5)	(33.4)
Goods	(641.1)	(597.8)	(6.8)
Services	521.7	518.2	(0.7)
Travel	268.2	269.1	0.3
Transportation	(101.2)	(104.2)	3.0
Insurance services	(104.0)	(99.5)	(4.3)
Financial services	300.8	295.8	(1.7)
Telecommunications, computer and information services	(23.5)	(28.2)	20.4
Other business services	132.0	126.1	(4.5)
Government goods and services n.i.e	68.5	77.4	13.0
Other services	(19.2)	(18.1)	(5.7)
Primary income	(267.0)	(373.1)	39.7
Investment income	(253.1)	(361.7)	42.9
Direct investment income	(659.5)	(594.3)	(9.9)
Portfolio investment income	539.8	486.4	(9.9)
Other investment income	(133.4)	(253.8)	90.3
Compensation of employees	(13.9)	(11.4)	(18.3)
Secondary income (current transfer) payments	(146.3)	(135.8)	(7.2)
General government	13.6	12.7	(6.6)
Worker's remittances	(144.0)	(139.5)	(3.1)
Other current transfers	(15.9)	(9.0)	(43.4)
			-
CAPITAL ACCOUNT*	-	-	-
Net lending (+) or net borrowing (-) from current and capital account transactions	(532.8)	(588.4)	10.4
FINANCIAL ACCOUNT			
Net acquisition of financial assets (net increase in assets / financial outflow (+))	7,715.8	2,928.7	(62.0)
Direct investment assets	5,543.5	2,420.5	(56.3)
Portfolio investment assets	2,025.5	(1,959.4)	(196.7)
Other investment assets	2,250.6	1,901.2	(15.5)
Financial derivatives	(2,102.8)	561.5	126.7
Reserve assets	(1.0)	4.9	573.6
Net incurrence of liabilities excluding financial derivatives (net increase in liabilities / financial inflow (+))	8,046.3	4,113.3	(48.9)
Direct investment liabilities	855.1	704.2	(17.6)
Portfolio investment liabilities	9,018.7	7,097.6	(21.3)
Other investment liabilities	(1,827.5)	(3,688.5)	101.8
Financial derivatives	-	-	-
Net lending (+) or net borrowing (-) from financial account	(330.5)	(1,184.6)	258.5
			-
Unobserved Flows	202.3	(596.2)	(394.7)

*No reported transactions for Capital Account

Notes: Net borrowing means foreign residents are net suppliers of funds to Cayman residents. Net lending or net borrowing can be computed from Current and Capital Account transactions or from Financial Account transactions. Unobserved flows (statistical discrepancy) is equal to the difference between the sum of the Current and Capital Accounts and the Financial Account.

2.3 Balance of Trade in Goods

As shown in Table 2, the trade in goods deficit contracted in 2013 by 10.4 percent to \$597.8 million, compared to \$641.1 million deficit recorded in 2012. The 2013 deficit represents 20.9 percent of GDP, slightly lower than the 24.8 percent recorded in 2012. This performance is largely attributed to the increases in the level of goods exported (re-exports) and net export of goods under merchanting.

The year 2013 recorded the highest level of merchandise goods imports since 2009. Imports of merchandise goods grew by 3.0 percent to \$700.7 million in 2013, from the \$680.3 million recorded in 2012. This expansion was largely due to the higher importation of petroleum products which rose by 10.5 percent to \$167.8 million (c.i.f). A higher quantity of motor gas imports along with higher average prices of diesel, motor gas and aviation fuel were reported. The classification of imports by broad economic categories indicates strong growth in capital imports (9.0%) and industrial supplies (6.6%), while consumer goods other than food and beverages declined sharply (-15.8%).

In 2013, total earnings from exports stood at \$103.1 million, over 100 percent higher than a year ago. Merchandise exports, largely re-exports, recorded an increase of 42.4 percent to \$29.6 million. A large proportion of exports is due to goods under merchanting (the buying and selling of goods without the goods entering the country); in 2013 net export from merchanting amounted to \$73.6 million compared to \$24.6 million recorded in 2012.

2.4 Balance of Trade in Services

The services sub-account surplus fell by \$3.4 million to total \$518.2 million in 2013. The 0.7 percent drop was mainly due to the decline in net receipts in financial services, other business services along with the drop of net payments in insurance services. Increased net payments in the telecommunications and transportation were recorded. Net receipts in government and travel services recorded increases. (see Table 2).

In 2013, the surplus of the services sub-account represented 18.2 percent of GDP, down from the 20.2 percent recorded in 2012.

As in previous years, the Cayman Islands' trade in services is dominated by financial services and travel.

The trade in services comprises the following balances:

a) Transportation

In 2013, the transportation transactions net outflows increased by 3.0 percent and resulted in a deficit of \$104.2 million.

Total receipts for sea transportation grew by 5.8 percent, largely on account of the increase in auxiliary transport services, such as commission received from shipping agents. Payments for freight service also recorded an increase, moving by 2.1 percent, reflecting the rise in general merchandise imports.

The net payments on air transportation services grew by 5.7 percent to reach \$37.4 million compared to \$35.4 million achieved in 2012. Increases were recorded for both the receipts and payments for air transportation services, with receipts increasing by 7.7 percent and payments by 1.7 percent. Accounting for this outcome is the increase of 9.5 percent in passenger revenues, agents' commissions and other revenue associated with airport services. Payments for passenger fares to foreign airlines is estimated to have increased by 6.8 percent to reach \$71.2 million while payments for other air transport services grew by 5.9 percent and stood at \$12.8 million.

b) Travel

Net receipts for international travel remained relatively stable increasing marginally by 0.3 percent to \$269.1 million in 2013 despite travel payments growing at a faster pace than receipts. Total receipts from visitors is estimated to have increased by 2.2 percent, largely reflecting the growth in stay-over visitor arrivals (7.4%) as cruise ship visitors declined (-1.8%). Travel receipts for educational purpose (foreign students) continued on its downward trend, falling by 5.4 percent in 2013. This is due primarily to the decline in the number of foreign students enrolled at universities in the Cayman Islands.

In 2013, travel receipts which stood at \$416.9 million continued to play an integral role in foreign exchange revenue. It contributed 29.2 percent to receipts from services and 10.3 percent of the total Current Account receipts. In 2013, travel receipts represented 14.6 percent of GDP compared to 15.8 percent in 2012.

Total payment for international travel by Cayman Islands' residents is estimated to have increased by \$8.2 million (5.9%) to \$147.8 million compared to \$139.6 million in 2012. Largely accounting for this increase is the rise in payments for health-related purpose and other personal travel.

c) Insurance

For the period under review, the insurance and pension services recorded a deficit of \$99.5 million, \$4.5 million lower than that recorded in 2012. This was due to the decline in receipts for general insurance services along with the decline in payments for auxiliary insurance services.

d) Financial services (excluding insurance)

In 2013, the net surplus from the financial services fell by \$5.0 million (1.7%) to reach \$295.8 million. This surplus is equivalent to 10.4 percent of GDP compared to 11.7 percent of GDP achieved in 2012.

Receipts from financial services fell slightly by 2.0 percent to \$390.1 million, largely due to lower revenue earned by the banking sub-sector. Financial services continued to dominate the foreign earnings from services, accounting for 9.7 percent of total Current Account receipts in 2013, a decline compared to the 11.3 percent achieved in 2012.

Payments for financial services abroad were posted at \$94.4 million in 2013, a decrease of 3.0 percent, compared to \$97.3 million in the previous year. Payments for financial services contributed 2.0 percent of the country's total foreign payments of the Current Account in 2013, a slight decline from the 2.4 percent achieved in the previous year.

e) Telecommunications, computers and information services

For the year 2013, the deficit from this category expanded by \$4.8 million and stood at \$28.2 million compared to \$23.5 million recorded in 2012. This outcome resulted from the 17.9 percent increase in payments for telecommunications and computer services which outpaced the 13.2 percent rise in receipts for these services.

f) Other business services

In 2013, the surplus on other business services (including legal and accounting) was registered at \$126.1 million contracting by \$5.9 million from the \$132.0 million recorded in the previous year. This outcome was due primarily to the rise of 8.5 percent (\$18.4 million) in payments. Receipts increased marginally by 3.6 percent to total \$359.8 million, indicating that other business services ranks third in terms of overall receipts from services.

Export receipts for legal and accounting services increased by 5.6 percent and 8.8 percent respectively. Legal and accounting services account were the major sources of receipts earned from other business services.

Payments for other business services recorded an increase of 8.5 percent to \$233.7 million in comparison to \$215.3 million recorded in 2012.

g) Government goods and services n.i.e

The balance of the government goods and services sub-account recorded an increase of 13.0 percent to \$77.4 million in 2013. Receipts for government goods and services increased slightly by 14.3 percent to \$93.6 million while payments grew by 20.7 percent to \$16.2 million.

2.5 Balance of Primary Income Transactions

The primary income sub-account is comprised of balances on compensation of employees and investment income. In 2013, the deficit in the primary income account widened to \$373.1 million. This was due mainly to an overall increase of investment outflows which grew at a faster pace than inflows, combined with the drop in the surplus of the returns on portfolio investment income.

The deficit of the primary income balance in 2013 is approximately 13.1 percent of GDP compared to 10.3 percent of GDP in 2012.

Compensation of employees continues to be in deficit amounting to \$11.4 million, a decrease of 18.3 percent from \$13.9 million in 2012.

Overall, investment income recorded a deficit in 2013, amounting to \$361.7 million which is higher by \$108.6 million (or 42.9%) compared to 2012. Most of the categories of investment income showed increases in total earnings except for portfolio investment:

- The deficit on **direct investment income** was \$594.3 million in 2013, a decline of 9.9 percent from a year ago. Both receipts and payments on investment income fell, however the fall in payments was greater than the drop in receipts. Receipts earned from dividends interest income is estimated to have increased by 10.7 percent. On the other hand, dividend payments have declined while imputed profits distributed abroad by direct investment companies (reinvested earnings) grew.
- **Portfolio investment income** recorded a drop in the surplus of \$53.4 million (9.9%) and stood at \$486.4 million in 2013, following the surplus of \$539.8 million in 2012. This lower surplus was due to the significant decline in interest earnings on investments. Payments to non-residents for returns from portfolio investments in the Cayman Islands fell by 44.6 million in 2013 to \$28.9 million, resulting largely from lower interest payments.
- **Other investment income** recorded a deficit of \$254.0 million in 2013, as compared to \$133.6 million in 2012. This was largely a result of the 51.5 percent increase in interest payments which outpaced the 47.0 percent increase in interest receipts on loans and deposits.

2.6 Balance of Secondary Income Transactions (Current Transfers)

The secondary income account records current transfers by government, financial corporations, households and non-profit institutions serving households. In 2013, the net payment in the secondary income account contracted by 7.2 percent to reach \$135.8

million (7.2%) from the \$146.3 million recorded in 2012. This deficit reflected mainly the excess of personal transfers (workers remittances) sent to non-residents by households over receipts by residents.

General government transfers netted a surplus of \$12.7 million compared to \$13.6 million in 2012.

The deficit of transactions from personal transfers (largely workers' remittances) remained relatively stable. In 2013, \$145.5 million was remitted abroad, while receipts from abroad increased by 22.4 percent to \$6.0 million.

Other current transfers comprising insurance claims, net premiums and social benefits recorded a deficit of \$9.0 million compared to \$15.9 million in 2012. Largely accounting for this performance is the increase of 7.4 percent in payments for social benefits mainly pension payments to non-residents.

2.7 Capital Account

No transactions were reported for the Capital Account.

2.8 Financial Account

The Financial Account records the transactions that gave rise to changes in ownership of financial assets and liabilities between residents of the Cayman Islands and residents of the rest of the world. A positive balance of this account corresponds to a lending position, while a negative balance corresponds to a borrowing position.

In 2013, the Financial Account recorded a net borrowing by residents of the Cayman Islands of \$1,184.6 million reflecting an increase of \$854.1 million over 2012. This position reflects the excess of residents' net incurrence of financial liabilities over their net acquisition of financial assets. The main contributing factor to this increase was the net incurrence of liabilities of \$7,097.6 million in portfolio investments.

Direct Investments

The direct investment account posted a \$704.2 million net lending position. Residents' net acquisition of financial assets reached \$2,420.5 million during the year 2013, in comparison to the \$5,544.4 million recorded in 2012. This was driven mainly by the drop in net equity investments and the increase in debt instruments.

Residents' net incurrence of liabilities of foreign direct investments reached \$704.2 million, down from \$855.1 incurred in 2012. This was due to the decline in equity investment of foreign direct investments.

Portfolio investments

Net borrowing in the portfolio investment account was \$9,057.0 million in 2013, about 29.5 percent higher than \$6,993.3 million registered in the previous year. This outcome resulted largely from the net withdrawal of financial assets and the increase in net incurrence of liabilities. In 2013, residents' net disposal of financial assets was \$1,959.4 million, a reversal of the \$2,025.5 million net acquisition of financial assets recorded in 2012. The main sources of the disposal of financial assets are net disposal of equity securities.

Other investments

This account registered a net lending position to the rest of the world amounting to \$5,589.7 million in 2013, compared to \$4,078.2 million recorded in 2012. Residents' net acquisition of financial assets reached \$1,901.2 million down from the \$2,250.6 million registered in 2012. On the other hand, net payment of financial liabilities stood at \$3,688.5 million, compared to a net repayment of \$1,827.5 million registered in 2012.

The net acquisition of financial assets was driven mainly by the increase in currency and deposits and loans. Meanwhile, the net payments of financial liabilities were largely on account of loans by the banking sector.

Section 3: Current Account Charts and Tables

Chart 1: Current Account Balance (Percent of GDP)

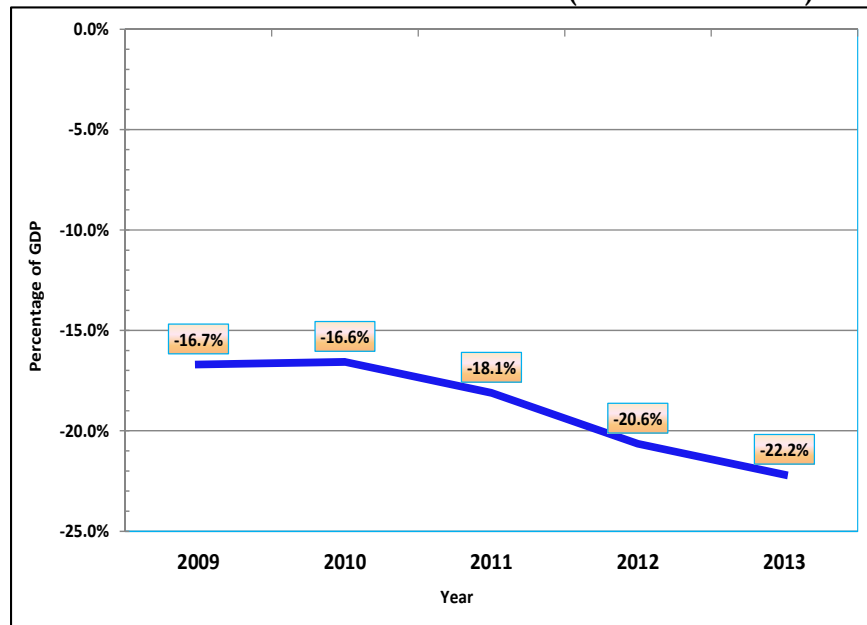


Chart 2: Current Account Receipts (% Share to Total Receipts)

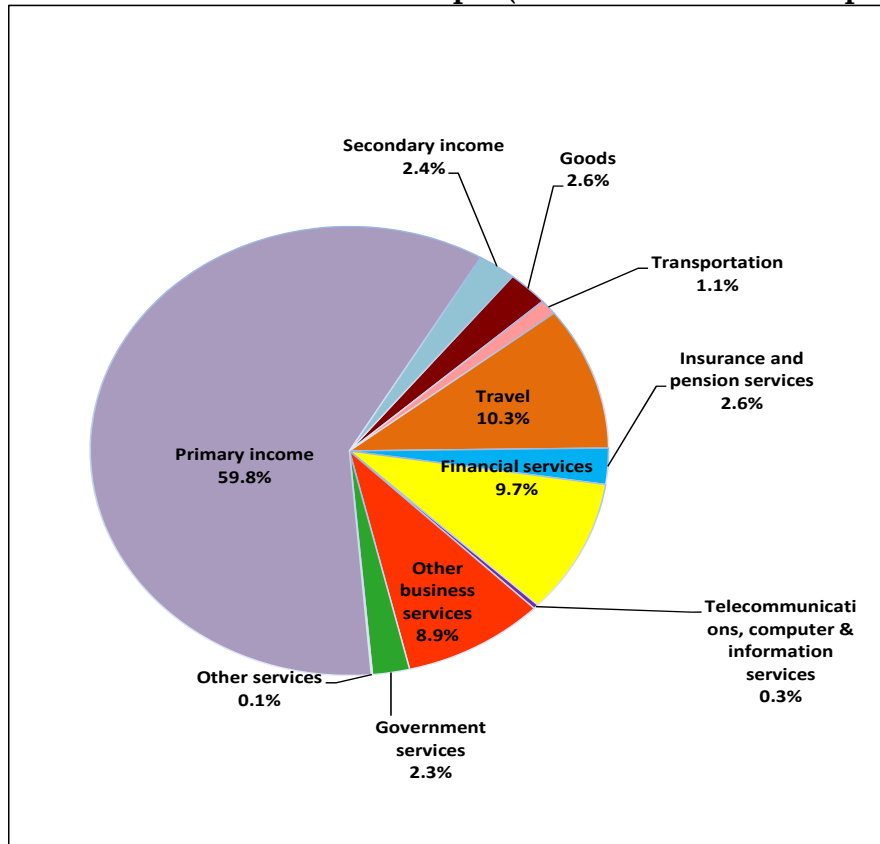


Table 3: The Cayman Islands' Current Account of the Balance of Payments Summary

In CI\$Million															
	2009			2010			2011			2012 ^R			2013		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1. CURRENT ACCOUNT	3,534.6	3,956.9	(422.3)	3,094.1	3,503.7	(409.6)	3,425.9	3,882.0	(456.1)	3,492.3	4,025.1	(532.8)	4,042.6	4,631.0	(588.4)
A. GOODS AND SERVICES	1,319.9	1,477.1	(157.3)	1,396.6	1,476.8	(80.1)	1,436.4	1,628.8	(192.3)	1,440.5	1,560.0	(119.5)	1,528.7	1,608.2	(79.5)
A1. GOODS	38.7	666.0	(627.3)	32.9	620.4	(587.5)	84.5	687.0	(602.4)	45.3	686.4	(641.1)	103.1	700.9	(597.8)
A2. SERVICES	1,281.2	811.1	470.1	1,363.7	856.4	507.3	1,351.9	941.8	410.1	1,395.2	873.5	521.7	1,425.6	907.3	518.2
1. Transportation	37.2	126.2	(89.0)	40.0	124.9	(84.9)	44.8	140.5	(95.7)	41.4	142.6	(101.2)	44.4	148.6	(104.2)
2. Travel	392.2	102.4	289.8	403.9	112.3	291.6	381.5	141.1	240.4	407.8	139.6	268.2	416.9	147.8	269.1
3. Insurance and pension services	93.7	194.1	(100.4)	94.6	200.6	(106.0)	106.6	210.7	(104.1)	105.1	209.1	(104.0)	104.9	204.4	(99.5)
4. Financial services(excluding insurance)	379.0	76.4	302.7	410.9	79.6	331.2	396.1	97.3	298.8	398.1	97.3	300.8	390.1	94.4	295.8
5. Telecommunications, computer and information services	13.0	38.8	(25.8)	15.4	38.4	(23.0)	13.4	41.4	(27.9)	11.6	35.1	(23.5)	13.2	41.4	(28.2)
6. Other business services	298.6	242.3	56.3	315.2	270.1	45.1	326.1	276.5	49.6	347.3	215.3	132.0	359.8	233.7	126.1
7. Government goods and services, nie.	66.2	14.0	52.2	82.1	15.0	67.0	81.7	18.1	63.6	81.9	13.4	68.5	93.6	16.2	77.4
8. Other services	1.3	16.9	(15.7)	1.6	15.4	(13.8)	1.6	16.2	(14.7)	1.9	21.1	(19.2)	2.7	20.8	(18.1)
B. PRIMARY INCOME	2,130.4	2,217.7	(87.2)	1,616.1	1,801.6	(185.6)	1,908.3	2,026.6	(118.2)	1,966.5	2,233.5	(267.0)	2,417.7	2,790.8	(373.1)
1. Compensation of employees	-	10.8	(10.8)	-	10.1	(10.1)	-	10.9	(10.9)	-	13.9	(13.9)	-	11.4	(11.4)
2. Investment Income	2,130.4	2,206.8	(76.4)	1,616.1	1,791.6	(175.5)	1,908.3	2,015.7	(107.3)	1,966.5	2,219.5	(253.1)	2,417.7	2,779.4	(361.7)
2.1 Direct investment	290.1	986.6	(696.5)	238.9	768.3	(529.5)	244.8	782.6	(537.7)	210.7	870.2	(659.5)	223.5	817.8	(594.3)
2.2 Portfolio investment	711.1	20.5	690.7	378.7	70.2	308.5	546.4	68.2	478.2	613.3	73.5	539.8	515.3	28.9	486.4
2.3. Other investments	1,129.1	1,199.7	(70.6)	998.4	953.0	45.4	1,117.1	1,164.9	(47.8)	1,142.5	1,275.9	(133.4)	1,679.0	1,932.7	(253.8)
C. SECONDARY INCOME	84.3	262.1	(177.8)	81.4	225.3	(143.9)	81.1	226.7	(145.6)	85.4	231.7	(146.3)	96.1	231.9	(135.8)
1. General Government	13.4	0.5	12.9	14.6	0.7	13.9	13.1	1.0	12.1	14.2	0.6	13.6	13.5	0.7	12.7
2. Financial corporations, nonfinancial corporations, households, and NPISHs	70.8	261.5	(190.7)	66.8	224.6	(157.8)	68.0	225.7	(157.7)	71.2	231.1	(159.9)	82.7	231.2	(148.5)
2.1 Workers remittances	5.6	186.7	(181.1)	6.0	154.0	(148.0)	4.8	148.9	(144.1)	4.9	148.9	(144.0)	6.0	145.5	(139.5)
2.2 Other current transfers	65.2	74.8	(9.6)	60.8	70.7	(9.9)	63.2	76.7	(13.5)	66.3	82.2	(15.9)	76.7	85.7	(9.0)

R Revised
NPISHs Non-Profit Institutions serving households

Table 4: Current Account - Analytical Presentation

	Million of CI\$				
	2009	2010	2011	2012 ^R	2013
A. Current Account	(422.3)	(409.6)	(456.1)	(532.8)	(588.4)
Goods:exports f.o.b.	38.7	32.9	84.5	45.3	103.1
Goods imports f.o.b.	666.0	620.4	687.0	686.4	700.9
<i>Balance on goods</i>	(627.3)	(587.5)	(602.4)	(641.1)	(597.8)
Services: credit	1,281.2	1,363.7	1,351.9	1,395.2	1,425.6
Services: debit	811.1	856.4	941.8	873.5	907.3
<i>Balance on services</i>	470.1	507.3	410.1	521.7	518.2
Primary income: credit	2,130.4	1,616.1	1,908.3	1,966.5	2,417.7
Primary income debit	2,217.7	1,801.6	2,026.6	2,233.5	2,790.8
<i>Balance on primary income</i>	(87.2)	(185.6)	(118.2)	(267.0)	(373.1)
Secondary Income: credit	84.3	81.4	81.1	85.4	96.1
Secondary Income: debit	262.1	225.3	226.7	231.7	231.9
<i>Balance on secondary income</i>	(177.8)	(143.9)	(145.6)	(146.3)	(135.8)

Table 5: Merchandise Good Transactions

In C\$Million					
ITEM	2009	2010	2011	2012 ^R	2013
Credit					
EXPORTS					
Total Merchandise exports f.o.b	15.98	11.05	18.08	16.36	25.31
Goods procured in ports by carriers	2.7	2.9	4.3	4.4	4.3
Net exports of goods under merchanding	20.0	19.0	62.2	24.6	73.6
Total adjusted exports f.o.b	38.7	32.9	84.5	45.3	103.1
Debit					
IMPORTS					
Total merchandise imports c.i.f	744.5	690.4	759.5	758.5	774.5
Less freight and insurance	89.3	82.8	91.1	91.0	92.9
Total adjusted merchandise Imports f.o.b	655.2	607.6	668.3	667.5	681.5
Goods procured in ports by carriers	10.8	12.9	18.6	18.9	19.4
Total adjusted Imports f.o.b	666.0	620.4	687.0	686.4	700.9
Goods Trade Balance	(627.3)	(587.5)	(602.4)	(641.1)	(597.8)

Table 6: Selected Balance of Payments Indicators

	2009	2010	2011	2012 ^R	2013
Current Account/GDP (%)	(16.7)	(16.6)	(18.1)	(20.6)	(20.6)
Goods Imports/GDP (%)	26.3	25.1	27.3	26.6	24.5
Goods Exports/GDP (%)	1.5	1.3	3.4	1.8	3.6
Visible trade balance/GDP (%)	(24.8)	(23.8)	(23.9)	(24.8)	(20.9)
Services Imports/GDP (%)	32.1	34.6	37.4	33.8	31.8
Services Exports/GDP (%)	50.7	55.1	53.7	54.1	49.9
Goods & Services Imports/GDP (%)	58.4	59.7	64.7	60.4	56.3
Goods & Services Exports/GDP (%)	52.2	56.5	57.0	55.8	53.5
Primary Income Receipts/GDP (%)	84.2	65.4	75.8	76.2	84.7
Primary Income Payments/GDP (%)	87.7	72.9	80.4	86.5	97.7
Workers Remittances (Net)/GDP (%)	(7.2)	(6.0)	(5.7)	(5.6)	(4.9)
Financial Services Exports/GDP (%)	15.0	16.6	15.7	15.4	13.7

APPENDIX 1: OVERVIEW OF KEY USES, REVISIONS AND DATA SOURCES

A1.1 Key Uses

The Balance of Payments (BOP) is a system of accounts that measures the economic transactions of a country's residents against the residents of the rest of the world. Along with the System of National Accounts, this is used universally in evaluating the economic performance of countries and jurisdictions using accepted international standards issued by the International Monetary Fund. (Please see Appendix 2 for a discussion of an overview of the BOP compilation in the Cayman Islands).

In the context of the Cayman Islands, the main use of the BOP is to comply with the Public Management & Finance Law (2013 Revision) which requires the reporting of the Current Account of the Balance of Payments in the Strategic Policy Statement.

Governments in general, including central banks, use the BOP statistics as key indicators for evaluating the potential and actual macro-economic impact and sustainability of monetary and fiscal policies. In particular, the overall BOP has a direct bearing on the changes in foreign currency reserve balances of the Cayman Islands currency board system, which is mandated by law to support the fixed exchange rate system currently in effect. For instance, a negative Balance of Payments implies a decline in currency reserves which could undermine the fixed exchange rate. Hence, it is incumbent for all central banks and governments to produce and monitor BOP statistics as a pro-active instrument for monitoring the sustainability of their exchange rate system. It is equally important for private sector entities, other analysts and "plain folks" to monitor these statistics since unsustainable balances would impact on their economic environment and well-being.

The other uses of the BOP statistics are to:

- a. Comply with data requirements of foreign investors and creditors. For instance, these are required for inclusion in official borrowing documents (i.e., Offering Memorandum or Private Placement Memorandum). In particular, BOP statistics are key in making an assessment of the sustainability of foreign borrowings and investments in jurisdictions;
- b. Comply with data requirements of international credit rating agencies which provide credit ratings for the Cayman Islands Government and private entities who borrow from the global financial market; and

- c. Provide necessary data for the conduct of economic impact assessments of hurricanes and other disasters, which are required by funding and other donor agencies. Post-disaster reconstruction work and insurance inflows could have significant impact on the Balance of Payments of Cayman Islands.

A1.2 Revisions

Revisions are inevitable and have become standard practice of statistical offices all over the world. They are the result of the compromise between timeliness and accuracy since estimates are sometimes based on incomplete data.

Revisions are made to either adopt new estimation or statistical techniques, methodology or to incorporate new survey results.

A1.3 Key Data Sources

The BOP estimates are based on the Annual Balance of Payments Survey which was conducted during the period March to May 2014. All businesses and establishments deemed to have been conducting transactions with non-residents and were included in the ESO Business Register were surveyed. The survey results were supplemented with secondary data provided by various government departments and statutory bodies in addition to data from the Labour Force Survey. The Cayman Islands Monetary Authority (CIMA) provided aggregate data on the banking industry.

A1.4 Data Quality and Accuracy

ESO continues to exert its effort in addressing gaps in the statistical coverage of the BOP statistics. However, given the nature of the BOP which covers numerous transactions between residents and non-residents, a wide variety of sources are utilized. Consequently, various types of errors are encountered which affect the quality of the BOP statistics.

Errors due to coverage are encountered. These errors occur due to incomplete listing or inadequate coverage of the population of residents engaging in international transactions. For example, the purchases and investments by households especially electronic transactions over the internet are difficult to capture and are currently not estimated.

Errors also occur as a result of the inability or unwillingness of respondents to provide correct information, and also because of the misinterpretation of the questionnaire. Non-response errors contribute significantly to the quality of the BOP statistics. Respondents may refuse to complete the questionnaire, or may refuse to answer a question, or may be generally unable to respond or they may submit the questionnaire late.

APPENDIX 2: OVERVIEW OF BOP COMPILATION

A2.1 General Approach

The Balance of Payments statistics are a vital source of information for economic policy formulation, decision making and analysis. The BOP provides detailed information on the dynamics of the external sector of an economy. It provides information which can be used to assess the effect of the country's international economic transactions on the domestic economy.

The International Monetary Fund (IMF) developed a Balance of Payments Manual (BPM5), of which the fifth edition was issued in 1993; it later developed the 6th edition which started to be implemented in 2010. The purpose of the manual is to standardise the concepts and definitions and classificatory schemes used in the compilation of the BOP statistics by countries. Consequently, this largely facilitates the needs of both the domestic and external analysts and allows for comparative analysis across the regional and international communities.

In previous years, the Current Account was compiled largely based on the BPM5 manual, with some variations. In 2010, ESO has attempted to implement the BPM6 manual. There are a few variations with regards to the treatment and presentation of some items.

ESO has attempted to implement the recommendations of the BPM6 wherever possible. However in some cases, the recommendations of the BPM6 were not adopted for several reasons. One such case is the treatment of the offshore sectors, largely the entities "without physical presence" in the Cayman Islands. According to BPM6 and SNA, these institutions should be treated as residents. However, given the statutory framework of these entities and the unavailability of comprehensive data, these companies were treated as non-residents in the BOP of the Cayman Islands. Additionally, these companies are seen as "pass-through" companies and the income which they earned are deemed to be unrelated or have no significant impact on the Caymanian economy. Hence, including them as residents of the Cayman Island would have significant implications for the country's macroeconomic analysis as they would misrepresent the economic activities within the territory. As a result, transactions with local agents, bankers, lawyers, accountants, etc. acting on behalf of non-resident entities are captured in the BOP. Payments to agents, fees paid to government etc. are also captured, and treated as BOP flows; however their financial and other transactions with non-residents are not included in Cayman Islands' BOP.

Additionally, the treatment of Financial Services Indirectly Measured (FISIM) was not followed largely due to the difficulty in obtaining data.

Gradually the recommendations of the BPM6 will be implemented with the expansion of the BOP survey and it is hoped that in subsequent years, the business surveys will become the norm in the Cayman Islands, thus resulting in more detailed and accurate data.

Other reasons why some of the BPM6 recommendations were not followed are limitations of data sources or difficulties in implementing the recommended treatment.

A2.2 Coverage and Survey Instrument

The ESO's business register was utilized in identifying the businesses operating in the Cayman Islands and were conducting transactions with non-residents. Approximately 1,027 establishments were surveyed.

Annual survey forms were designed primarily for the purpose of capturing the information required for the BOP compilation. A total of 16 different survey forms were designed for the Annual Balance of Payments Survey of Establishments. Each establishment was provided with the type of form according to its major economic activity.

The questionnaire consisted of four sections. The first section focused on the characteristics of the establishment, while the other sections dealt with accounting information relating to income, expenditure and financial assets and liabilities. The questionnaires requested data for the calendar years 2012 and 2013.

A2.3 Survey Methodology

As much as was feasible, the total population, or close to the total population of establishments engaged in external transactions were surveyed. This was done to facilitate benchmark estimates in the subsequent years.

A2.4 Data Compilation

After the completed forms were returned, the data was entered into Excel spreadsheets. Worksheets were created to capture all the data supplied which were then linked to the Balance of Payments worksheet. Adjustments and imputations to the data were done based on employment, assets and other techniques.

APPENDIX 3: OVERVIEW OF THE BOP ACCOUNTS

In order for BOP statistics to be properly utilized and be easily adapted for various purposes such as for policy formulation, analytical studies, country comparisons and international aggregation, it must be arranged in a logical structure. The standard components of the BOP statement consist of three main groups of accounts namely: the Current Account, Capital Account and Financial Account.

The sum of the balances of the Current and Capital Accounts is the net lending (surplus) or net borrowing (deficit) by the country with the rest of the world. Conceptually, this should be equal to the net balance of the Financial Account.

A3.1 The Current Account

The Cayman Islands' BOP Current Account comprises of the following categories:

Goods

Recorded in this section are the imports and exports of merchandise goods. Goods include most moveable goods that change ownership between Caymanian residents and non-residents. Goods are subdivided into general merchandise, and goods procured in ports by carriers, and goods under merchanting (goods purchased and sold without physically entering the country (merchanting)).

Services

This category comprises services provided between Caymanian residents and non-residents and is broken down into various components such as transportation, telecommunication, computer and information services, charges for the use of intellectual property, financial services, travel, insurance and pension services, other business services and government goods and services n.i.e.

Primary Income

This account covers income earned by Cayman residents from non-residents and vice-versa. It includes investment income which is income receipts from the provision of financial capital and income payments for financial capital received from abroad. It also includes compensation of employees.

Secondary Income

Secondary Income formerly known as Current Transfers represents the provision of resources between residents and non-residents with no quid pro quo in economic value.

Secondary income (e.g. grants in the form of cash and kind and worker remittances) consist of all transfers that directly affect the level of disposable income and consumption.

A3.2 Capital Account

This comprises capital transfers and acquisition and disposal of non-produced non-financial assets such as trademarks, patents, copyright, among other items. Capital transfer entries are required for gifts or grants for which there is no quid pro quo to offset transfer of ownership of fixed assets or transfer of funds linked to fixed assets (to finance capital works).

A3.3 Financial Account

Recorded in this section are transactions that involve changes in ownership of financial assets and liabilities. The following categories are adopted for the Cayman Islands:

- **Direct investment:** this category reflects the lasting interest of a resident entity in one economy – the direct investor and the direct investment enterprise. By convention, a criterion for identifying lasting interest is that a resident investor should have a minimum of 10% of the ordinary shares or voting power or the equivalent in the direct investment enterprise.
- **Portfolio investment:** this covers transactions in equity securities which are not included in direct investments, and debt securities. Debt securities are subdivided into bonds and notes and money market instruments.
- **Financial derivatives:** these are financial instruments that are linked to another financial instrument, indicator, or commodity through which specific risks can be traded in financial markets in their own right.
- **Other investment:** this category is a residual which comprises all financial transactions that are not covered in the other accounts of the Financial Account . These are broken down by instruments such as trade credits, currency and deposits and other assets and liabilities.
- **Reserves assets:** are defined in the BPM6 as “external assets that are readily available to and controlled by the monetary authorities for direct financing of payments imbalances, in the event that they occur and for market interventions to influence exchange rate of the domestic economy, if deemed necessary”. Reserve assets encompass monetary gold, special drawing rights (SDRs), reserve position in the International Monetary Fund, foreign exchange assets and other claims. (SDRs and reserve position with the IMF are not relevant for the Cayman Islands since it is not a member of the IMF).

A3.4 Unobserved Flows (Statistical Discrepancy)

In principle, under the double entry system the net sum of the credit and debit entries must be zero. However, data for the BOP estimates are derived from many different sources which may result in inconsistencies and under coverage. Some transactions are not measured accurately (errors), while others are not measured at all (omissions). Additionally, there may also be timing differences in recording the transaction in the BOP. It therefore is necessary to include a balancing item termed “unobserved flows” which is also known as “errors and omission” or “statistical discrepancy”.

APPENDIX 4: COMPILATION PROCEDURES FOR THE CAYMAN ISLANDS' BALANCE OF PAYMENTS

This section gives an overview of the compilation procedures and data availability of the different transactions comprising the Cayman Islands' Balance of Payments Account. The Balance of Payment Account is categorized into transactions of goods, services, income and current transfers, and financial assets and liabilities. All transactions described below make up the detailed entries of the BOP data base at the ESO compiled as of this publication date. As internationally accepted, the definitions and concepts employed are those recommended in the Balance of Payments Manual 6 (BPM6) published by the International Monetary Fund.

A4.1 GOODS

This category includes on the credit side receipts by Caymanian residents for all exports of merchandise to non-residents, and on the debit side payments by Caymanian residents to non-residents for all imports of merchandise.

General merchandise

General merchandise are goods for which ownership changes have occurred. Exports are credited while imports are debited. The merchandise trade data are derived from Cayman Islands Custom documents which are compiled and published in the ESO Foreign Trade Statistics Report.

For BOP purposes, both imports and exports are to be valued at free on board (f.o.b.). However, imports as reported in the Foreign Trade Statistics Report are valued at cost, insurance and freight (c.i.f). Accordingly, the import data has to be disaggregated into cost, insurance and freight and recorded in the appropriate section of the BOP. Due to the lack of detailed disaggregated data on cost, insurance and freight from the customs documents, the following ratios which are used by other Caribbean countries were adopted as rough estimates to present imports on f.o.b. basis; 10% of the c.i.f import value is freight, 2% insurance and 88% cost.

Goods procured in ports by carriers

Seaports

On the credit side, this covers payments by non-resident shipping lines either directly or through their agents to residents for fuel, stores and supplies. This estimate was obtained from the financial statement of the Port Authority and the BOP survey form.

The debit side should cover payments by domestic shipping lines in foreign ports for fuel, stores and other supplies. Presently there are no domestic ships in the Cayman Islands since most of the shipping lines operate through shipping agents.

Airports

On the credit side, this covers payments by foreign airlines directly or through their agents to residents for fuel, stores and supplies. On the debit side, this covers payments by domestic airlines in foreign ports for fuel, stores and other supplies. Both the credit and debit entries were based on the BOP survey of the domestic airlines, shipping companies, and fuel companies.

A4.2 SERVICES

Transportation

Transportation services cover receipts and payments arising from the transportation of goods and travellers, as well as the supporting services related to travel.

Transportation receipts cover passenger revenues of resident domestic carriers (largely airlines) from fares purchased by foreign travellers, and freight revenues earned from non-residents. It also includes port expenditures in Cayman Islands by non-residents air and shipping companies.

Conversely, Caymanian transportation payments cover passenger fares paid to non-resident carriers (chiefly air) by Caymanian residents. Payments also cover the transportation by non-residents carriers of imports into Cayman Islands; the charter of foreign vessels; and port expenditures incurred abroad by Cayman Airways.

Sea transport

(i) Freight

The credit entry for freight represents receipts by Caymanian shipping lines for transportation of cargo on behalf of non-residents. However, such entry is not applicable for Cayman since there are no domestic shipping lines, although there are domestic agents doing business for non-resident shipping lines.

The debit entry for freight represents payments by Caymanian residents to non-resident shipping and freight companies either directly or through their agents for transportation of goods, which is freight on imports. This estimate was derived by assuming that 10% of import value is due to freight charges.

(ii) Other sea transport

The credit entry for this item represents receipts by the Port Authority from non-resident shipping lines for use of miscellaneous port services. This includes port dues, pilotage and tug, and other receipts. These estimates are based on the BOP Survey Form submitted by the Port Authority, and their administrative records. Also included on the credit side are commissions paid to residents by non-resident shipping and freight lines either directly or through their agents. Data are derived from the ANA survey results. The credit entry should also include receipts for routine repair and maintenance services provided to foreign shipping lines. No entry was made for this transaction since this data is usually obtained from the surveying of the various shipping lines or shipping agents. This activity is also assumed to be relatively small.

The debit entry should record payments by domestic shipping and freight companies for use of port services abroad and commission paid to non-residents by domestic shipping and freight lines. This does not exist in the Cayman Islands, since there are no domestic shipping lines or freight lines.

(iii) Air transport

Passenger fares. The credit entry for passenger fares represents receipts by the domestic airline for purchases of travel ticket by non-residents. This are captured directly from domestic airline companies. The passenger transport credit is estimated based on the data derived from the BOP survey of the domestic airline.

The debit entry for passenger fares represents payments by Caymanian residents to non-resident airlines or through their agents for purchase of travel tickets. An estimate was derived, largely using a combination of data sources. The total number of passenger arrivals and departures was obtained from the Immigration Department. The passenger debit was then calculated as a product of the average airfare of foreign airlines from the ESO CPI database and the number of residents who travelled on foreign airlines.

Freight. The credit entry for freight represents receipts by Caymanian airlines for transportation of cargo on behalf of foreigners. Data obtained from the BOP survey of the domestic airline.

The debit entry for freight covers payments by Caymanian residents to non-resident airlines either directly or through their agents for transportation of goods, that is air freight. An estimate was derived by applying the domestic airline revenue structure of total freight to total passenger revenues (12%) to the debit entry of air transportation.

Other. "Other air transport receipts" represents receipts by the Airport Authority from non-resident airlines for use of miscellaneous airport services. This data was captured from the BOP Survey Form submitted by Airport Authority. This also includes services

of foreign airlines, commissions paid to residents by non-resident airlines either directly or through their agents. The commission was estimated as 12.5 percent of passenger fares (largely based on international practice).

The debit entry covers payments by domestic airlines to foreign airports for services provided, and also commission paid by domestic airlines to foreign agents. This data was sourced from the BOP survey form of the domestic airline.

Travel

The estimates for the travel services are obtained from the Economics Section of the ESO, supplemented with data from the Labour Force Survey.

Travel should cover purchases of goods and services by the following:

- Persons travelling in another country for less than one year;
- Persons travelling in another country for one year or more for educational or medical purposes;
- Seasonal workers working in another country; and
- Crews of airplanes, ships, trucks or trains stopping off or laying over in another country.

Purchases of goods and services are largely expenditures on food, lodging, recreation, gifts and incidentals and transportation purchased in the country of travel.

Travel excludes passenger fares for international travel (this is included in transportation). Excluded also are spending by diplomats on posting in host countries. Such personnel remain residents of their home land and their expenditure is included in government services.

Travel is subdivided into travel for business purposes and travel for personal reason.

(i) Business travel

This covers the expenditures of travellers visiting another economy for business purposes such as sales, marketing etc; It also covers travel on official business by

employees of government and international organizations, and seasonal workers. Business travel also includes spending on goods for personal use as well as for accommodation, food, recreation and local transport..

(ii) Other business travel

The credit entry represents expenditure by visitors to the Cayman Islands on sales promotions, short-term consultancies or conducting business on behalf of a non-

resident principal. A ratio of business travel visitors to total travel visitors was derived based on the past exit surveys of the DOT.

The debit side includes expenditure overseas by Caymanian residents visiting other countries to attend meetings and conferences, to do sales promotions, and short-term consultancies. Data obtained from the Government accounts and some statutory bodies and establishments were used. This was supplemented with data derived from the BOP survey.

(iii) Personal travel

Personal travel covers travel for health, education and other personal reasons.

Health-related expenditure. On the credit side this covers expenditure by visitors to the Cayman Islands seeking medical attention. Currently, this is not a substantial activity in the country and this normally occurs only in cases of emergencies.

The debit side captures all expenditures abroad by Cayman residents seeking medical attention overseas. This data is captured from the domestic insurance companies, government accounts and from the HBS.

Education-related expenditure. The credit side covers expenditure by visitors to the Cayman Islands for educational purposes, largely students from the offshore medical school. This was calculated as a product of the number of student permits issued during the reporting period (data sourced from the Immigration Department) and the estimated living expenditure. Also included are the student permit fees. Tuition fees paid by the students are excluded since they are paid abroad.

The debit side reports overseas expenditure including tuition fees paid by Caymanian residents travelling overseas to study. The key data sources are government accounts.

Other expenditure on personal travel. The credit side captures expenditure by visitors on leisure and business in the Cayman Islands. This entry is derived from estimates of the Economics Section of the ESO.

The debit side captures the expenditure overseas by Caymanian residents travelling abroad for leisure or to visit family and friends. This data is derived from the LFS.

Other Services

Other services cover a broad and complex variety of transactions on intangible products.

(i) Communication services

These include:

- Postal and courier services: the pick-up, transport and delivery of letters, newspapers, periodicals, brochures, parcels and packages by the post office and express courier services and
- Telecommunication services: services such as telephone, telex, telegram, cable, broadcasting, satellite, electronic mail, facsimile services, business network services and teleconferencing.

The credit entry captures receipts of resident companies for postal and communication services provided to non-resident companies.

The debit entry covers payments by resident companies to non-resident companies for any of the above services.

The data used are derived from the ANA survey, the government accounts and from discussion with tele-communication providers.

It must be noted that courier services such as FedEx, DHL etc. are treated as residents offering services through franchises (it has been assumed that these courier companies are operating as franchise operations in the Cayman Islands), so the courier services provided to residents are non-BOP transactions.

Insurance Services

Insurance services cover the provision of various types of insurance by non-residents to residents and vice versa. All types of insurance and reinsurance are included, such as freight insurance on goods, reinsurance and other forms of direct insurance (marine, general, fire and accident) and life insurance. The insurance component measures the value of insurance services provided by resident insurance companies to foreign residents (the credit item) and the value of insurance services purchased by residents from foreign resident insurers (the debit item). Also included are commissions and fees earned or paid for the provision of insurance services.

Insurance is classified into general insurance and life insurance based on the degree of certainty that a claim will be made. With life insurance there is a certainty that a claim will be paid out and there is often a substantial lag between the payment of life insurance premiums and the payment of claims, whereas with general insurance there is no certainty that a claim will be paid and the lag between the payment of premiums and receipt of claims is often shorter.

Insurance is treated as two components: the first, called the service component, is the part of the premium that pays the insurance company for the service it provides, and the second, called the transfer component, is the part that the insurance company keeps

and then transfers back to the policyholder when a claim is made. The service component is recorded in the Current Account under goods and services - insurance services, while the transfer component is recorded either in the current transfers (general insurance) or the capital and Financial Account (life insurance). In the Cayman Islands BOP, insurance is calculated by multiplying the total amount of insurance premiums exported or imported by the four-year average domestic service charge ratio. The average domestic service charge ratio is the ratio of the domestic insurance service charges to total domestic premiums, where the service charge is calculated as premiums minus claims.

Captive insurance was not included in the estimation, since the available data was aggregated, and limited to just the premiums and assets.

Estimates of insurance services are based on data derived from the BOP survey which are supplemented by data obtained from the ANA survey and financial statements of the pension funds.

(i) Freight insurance

This covers insurance coverage on cargo being transported.

On the credit side, this represents freight insurance on exports paid to domestic insurance companies for transportation of cargo on behalf of non-residents less the claims paid. Data for the period was not available.

Freight insurance debit entries are obtained by adjusting imports from c.i.f values to f.o.b.

(ii) Reinsurance services

The credit entry covers reinsurance recoveries received from abroad by domestic companies, while the debit entry covers reinsurance premiums paid abroad.

(iii) Auxiliary services: insurance

This comprises services that are closely related to insurance and pension fund operations. Included are insurance brokering services, insurance and pension consultancy services, evaluation and adjustment services, actuarial services, regulatory and monitoring services on indemnities and recovery services, and commissions. Data obtained from CIMA annual aggregated insurance returns and ANA survey results.

Financial Services

This covers financial intermediary and auxiliary services (except those of insurance companies and pension funds) between residents and non-residents.

The credit side covers receipts by resident companies (authorized dealers, deposit houses, asset managers, securities dealers) from non-residents for issuing letters of credit, bankers' acceptances, lines of credit, foreign exchange transactions, commissions and other fees related to transactions in the financial industry.

The debit side covers payments by residents to non-resident companies (authorized dealers, deposit houses, asset managers, securities dealers, securities dealers) for letters of credit, bankers' acceptances, lines of credit, foreign exchange transactions, commissions and other fees related to transactions in the financial industry.

Data for the inflows in this section is obtained from CIMA and the ANA survey forms.

Computer and Information Services

The credit side covers receipts from non-residents for provision of services including database development, data processing, hardware consultancy, software implementation, maintenance and repair of computers by residents.

The debit side covers payments by residents for database development, data processing, hardware consultancy, software implementation, maintenance and repair of computers, provided by non-residents.

The debit and credit entries were compiled base on the data obtained from the BOP survey.

Royalties and Licence Fees

This should cover the use of intellectual property rights. It consists of international payments and receipts of franchising fees and the royalties paid for the use of registered trademarks. Also included are payments and receipts for the authorized use of intangible, non-produced, non-financial assets and propriety rights such as patents, copyrights and industrial processes and designs used under agreement and of manuscripts, etc. The outflows are debited under the Capital Account against acquisition and disposition of non-produced, non-financial assets.

The credit side would include any receipt by residents from non-residents for franchising fees and royalties paid for use of registered trade-marks. It also includes receipts by the Government for registering any agreements or licences on behalf of non-residents. Estimates for royalties and licence fees are obtained from the BOP survey and the government accounts.

Other Business Services

This comprises of merchant and trade related services and covers commissions on goods and services (excluding commission on insurance and financial services), transactions between resident merchants, commodity brokers, dealers and commission

agents and non-residents. The data used was obtained from the BOP survey results.

(i) Operational leasing services

This category relates to rental or charters of ships, aircrafts and other transportation equipment without crew, between residents and non-residents.

The credit side would include any receipts by residents for rental of ships, aircrafts, cranes and other equipment without crew or operators to non-residents. Data for this is not currently available.

The debit side would be made up of payments made by residents for rental of ships, aircrafts and other equipment without crew or operator from non-residents. This data was sourced from the domestic airline budget statement and the financial statement of the direct investment enterprise.

(ii) Miscellaneous business

This category should cover all receipts and payments made between residents and non-residents for business services such as legal, accounting, consulting, advertising, and technical services.

The credit side comprises receipts from non-residents to resident lawyers, accounting firms, business management and consultancy firms for provision of professional accounting, auditing, legal services and other professional and technical services.

Data for both the credit and debit entry are based on the BOP survey for business services and the government accounts.

The debit side covers payments by residents for such education services as internet and correspondence courses provided by non-residents.

Health Services

This comprises services provided by doctors, nurses, paramedical and related personnel either remotely or on-site between residents and non-residents. On the credit side, there is no data available of such flows in the Cayman Islands.

On the debit side, payments to non-resident medical professionals at Cayman Islands' hospitals are entered. Data obtained from the BOP survey was used for this purpose.

Government Goods and Services Not Included Elsewhere

This comprises transactions for consulates, embassies and other government services.

On the credit side, this includes the licence fees charged by Government to the offshore sector (without physical presence). The data was obtained from government accounts. It should also include personal expenditure, rent, food, clothing and other living expenses of consular staff and their family in the Cayman Islands. Also included is an estimate for the visa fees paid by non-residents to the Caymanian consular offices.

On the debit side, this captures payments to non-residents by Caymanian consular offices overseas. Expenditure by the Cayman Islands tourism promotion offices and their overseas staff and the Consulate office in Jamaica and Honduras are included here but salaries to Caymanian officials and staff are excluded. Expenditure by staff was estimated to be 40% of staff salaries. Data for this estimate were obtained from CIDOT and Immigration departments.

A4.3 INCOME

Compensation of Employees

This covers the earnings (payments) of seasonal non-resident workers paid by resident employers (earned by residents from non-resident employment). Some examples include income paid to non-resident seasonal workers at hotels, and salaries of resident employees of consular offices.

The credit side covers gross salaries including allowances received by Cayman residents working as seasonal workers overseas; no data for this was obtained.

The debit side should include the gross wages/salaries and allowances paid to non-residents working at hotels or on construction projects for short periods in the Cayman Islands. Data was obtained from the BOP survey.

Investment Income

This covers receipts derived from a resident's ownership of foreign financial assets and payments derived from residents' liabilities to non-residents. The detailed breakdown of investments income account mirrors the breakdown of the Financial Account .

(i) Direct investment income

This includes income on equity and income on debt. Income on equity comprises (i) distributed income and (ii) reinvested earnings. For both the receipts and payments entries, the data was obtained from the BOP survey and the aggregated data on the financial sector (banking) compiled by the Monetary Authority (CIMA).

Debit and credit estimates are obtained from the consolidated profits and income statements of the financial industry (banks and insurance) submitted by CIMA, the BOP survey results and available financial statements of the establishments.

(ii) Portfolio investment income

Portfolio investment covers external claims in equity and debt securities, not included in direct investment and reserve assets.

Portfolio investment income comprises investment income on shares, bonds, notes, money market instruments and is broken down into income on equity-dividends, and income on debt- interest.

The ESO calculated the estimates on portfolio investment receipts and payments based on the data derived from the BOP survey and from the aggregated data compiled by the Monetary Authority (CIMA).

(iii) Other investments

This should cover imputed income from equity in life insurance reserves and in pension funds, interest on loans including mortgages and on deposits.

On the credit side, this includes interest received by the respective sectors on loans extended to non-residents and deposits held with non-residents. It also includes other income received by the financial auxiliary companies and income attributed to the insurance policy holders.

On the debit side, this includes interest paid on loans received from non-residents and non-resident deposits held, and payment on deposits and borrowing by financial auxiliary companies

Data for these are obtained from the government accounts, CIMA, and BOP survey results.

A4.4 CURRENT TRANSFERS

These consist of all transfers that directly affect the level of disposable income and consumption of residents. They are classified into two main categories: general government and other sectors.

General Government

General government inflows (credits) are generally received in three forms: budget aid, project aid and grants provided by multilateral institutions. General government outflows include annual or other regular contributions paid to international organizations, and donations to other governments. Currently for the debit entry, only estimates for the international contributions are made. Data on these were obtained from the government accounts.

Other Sectors

(i) Personal Transfers

Workers' remittances. On the credit side, this captures the remittances in cash and kind sent to relatives and other residents in the Cayman Islands by relatives or non-resident overseas.

On the debit side, this includes the remittances in cash and kind sent out by residents to support family overseas or other non-residents.

Data on remittances are obtained from CIMA.

(ii) Other transfers.

The credit side should include gifts in cash and kind received by charities in the Cayman Islands; however, this data was not available. Also included in this category are the net premiums for direct insurance services reported by resident insurance companies received from non-residents, and the claims received by residents on direct insurance policies held with non-resident insurance companies.

The debit side should include donations in cash and kind as charity to non-residents. Also included would be inheritances of non-residents from residents; and net premiums and claims paid to non-resident insurance companies by residents for direct insurance services.

Data sources for the estimates are the BOP survey results, and CIMA.

CAPITAL ACCOUNT

A4.5 CAPITAL TRANSFERS

Refers to transfer of ownership of a fixed asset as a gift, debt forgiveness, a cash transfer as a gift for investment e.g. for acquisition of a non-produced fixed asset, and is classified in the BOP in two main categories i) Capital Transfers and ii) Acquisition and Disposition of Non-produced Non-Financial Assets

No data on capital transfers was reported.

FINANCIAL ACCOUNT

The Financial Account includes five large groups of financial resources namely: direct investment, portfolio investment, financial derivatives, other investment and reserve assets. In the BOP manual, the IMF revised the accounting convention for the Financial Account. In BPM6, the concept of “Net acquisition of financial assets (NAFA)” and “Net incurrence of liabilities (NIL)” in the case of transactions in financial assets and liabilities are used. Thus, the convention of debit and credit is not used in this Financial Report.

The Financial Account shows the residents’ net assets in and liabilities to the rest of the world. This account reflects how the deficit in the Current Account is financed or how the surplus is used.

A4.6 DIRECT INVESTMENT

Direct investment is comprised of equity capital, reinvested earnings and other capital investments. Equity capital comprises shares (units) of direct investment enterprises and other capital investments. Information on direct investment is derived from the BOP survey data and from aggregated banking sector data compiled by CIMA.

A4.7 PORTFOLIO INVESTMENT

Portfolio investment consists of cross-border transactions involving debt or equity securities, excluding those included in direct investment or reserve assets. Information on Cayman Islands’ residents’ net purchases of foreign-issued equity and long-term debt securities and foreign residents’ net purchases of Cayman Islands’ equity and long-term debt securities are based on data collected from the BOP survey and aggregated data compiled by the CIMA.

A4.8 OTHER INVESTMENT

Other investment is a residual category that includes Financial Account transactions other than those included in direct investment, portfolio investment, financial derivatives, and reserve assets. Included in other investments are currency and deposits, loans, insurance technical reserves, and trade credit and advances.

Information on other investments on (claims and liabilities for deposits, loans, and insurance technical reserves) are obtained from the BOP survey data and the aggregated data compiled CIMA.

A4.9 RESERVE ASSETS

As defined in the BOP manual “Reserve assets are those external assets that are readily available to and controlled by the monetary authority 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)". ESO derived these from data on the positions (changes of stocks between the beginning and end period) from CIMA.

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