

**THE CAYMAN ISLANDS'  
BALANCE OF PAYMENTS  
(CURRENT ACCOUNT)  
REPORT 2011**

NOVEMBER 2012



The Economics and Statistics Office  
Government of the Cayman Islands



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Comments to this report are welcome and may be sent to [infostats@gov.ky](mailto:infostats@gov.ky).

**ABBREVIATIONS AND ACRONYMS**

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

1.2 A negative balance or a deficit in any of the categories in the current account indicates that the total receipts of residents from non-residents are less than their total payments to non-residents.

1.3 This report presents the current account estimates for the years 2007 to 2011, with focus on 2011, and captures economic transactions between residents of the Cayman Islands and the rest of the world in goods, services and income.

1.4 The preliminary estimate of the Cayman Islands' current account deficit for the year 2011 amounted to \$455.5 million, an increase of 8.3 percent from the revised estimate of \$420.6 million for 2010.

1.5 The current account deficit in 2011 is comprised of the following balances:

- (i) Balance of trade in goods : -\$603.4 million
- (ii) Balance of trade in services : \$438.1 million
- (iii) Balance of primary income : -\$151.3 million
- (iv) Balance of secondary income : -\$138.9 million

### 1.6 Balance of trade in goods

Net payments for goods in 2011 grew by 2.7 percent compared to the 6.3 percent drop experienced in 2010. This was largely on account of the increase in imports of goods which outweighed the growth in export revenue.

### 1.7 Balance of trade in services

Receipts from services transactions continue to outpace payments, resulting in a surplus on the trade in services account. The surplus fell by 11.8 percent in 2011 over 2010. The nine (9) services comprising this current account balance and their corresponding balances in 2011 are as follows:

- (i) Transportation : -\$100.9 million

(ii)	Travel	: \$283.5 million
(iii)	Insurance and pension services	: -\$113.3 million
(iv)	Financial services (excluding insurance)	: \$278.6 million
(v)	Telecommunication, computer and information services and charges for the use of intellectual properties	: -\$38.4 million
(vi)	Other business services	: \$66.5 million
(vii)	Government goods and services	: \$67.0 million
(viii)	Other services	: -\$4.8 million

From the above it can be seen that the financial services and the travel services are the leading sources of foreign exchange receipts for the Cayman Islands. Other business services and government goods and services were also major contributors to foreign exchange receipts.

#### 1.8 Balance of primary income

The primary income deficit recorded a decline of 18.5 percent in the deficit compared to 2010. This deficit is traced to the balances from the following income transactions:

(i)	Compensation of employees	: -\$10.9 million
(ii)	Direct investment	: -\$568.4 million
(iii)	Portfolio investment	: \$449.5 million
(iv)	Other investments	: -\$21.5 million

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

#### 1.9 Balance of secondary income

The deficit in the secondary income (current transfers) fell by 3.4 percent compared to the amount in 2010. The deficit was influenced by the following:

(i)	General government transfers	: \$12.4 million
(ii)	Workers' remittances	: -\$142.9 million
(iii)	Other sectors	: -\$8.5 million

## **2. Current Account 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) "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 current account of the BOP for 2011 and, includes revised estimates for 2007 to 2010.

Estimates for 2009 to 2011 are based on both survey and non-survey data collated as closely as is feasible in a format consistent with the sixth edition of the (BPM6) published by the International Monetary Fund (IMF). Estimates for 2006 to 2008 are based largely on available administrative data from statutory authorities and government departments.

An overview of the key uses of the BOP along with the compilation approach is found in Appendices 1 and 2.

### **2.2 Overall Current Account**

Table 1 shows a summary of the current account of the BOP for the years 2007 to 2011, along with its main components. (The detailed transactions included in each major component are shown in Table 2 and are described in Appendix 3).

The current account deficit increased to \$455.5 million in 2011 from \$420.6 million recorded in 2010. This performance was largely due to the increase in imports of goods along with the decline in the surplus from services.

As in previous years, the deficit was driven by transactions in goods, primary income and secondary income, as services continued to turn in a surplus (see also Chart 1):

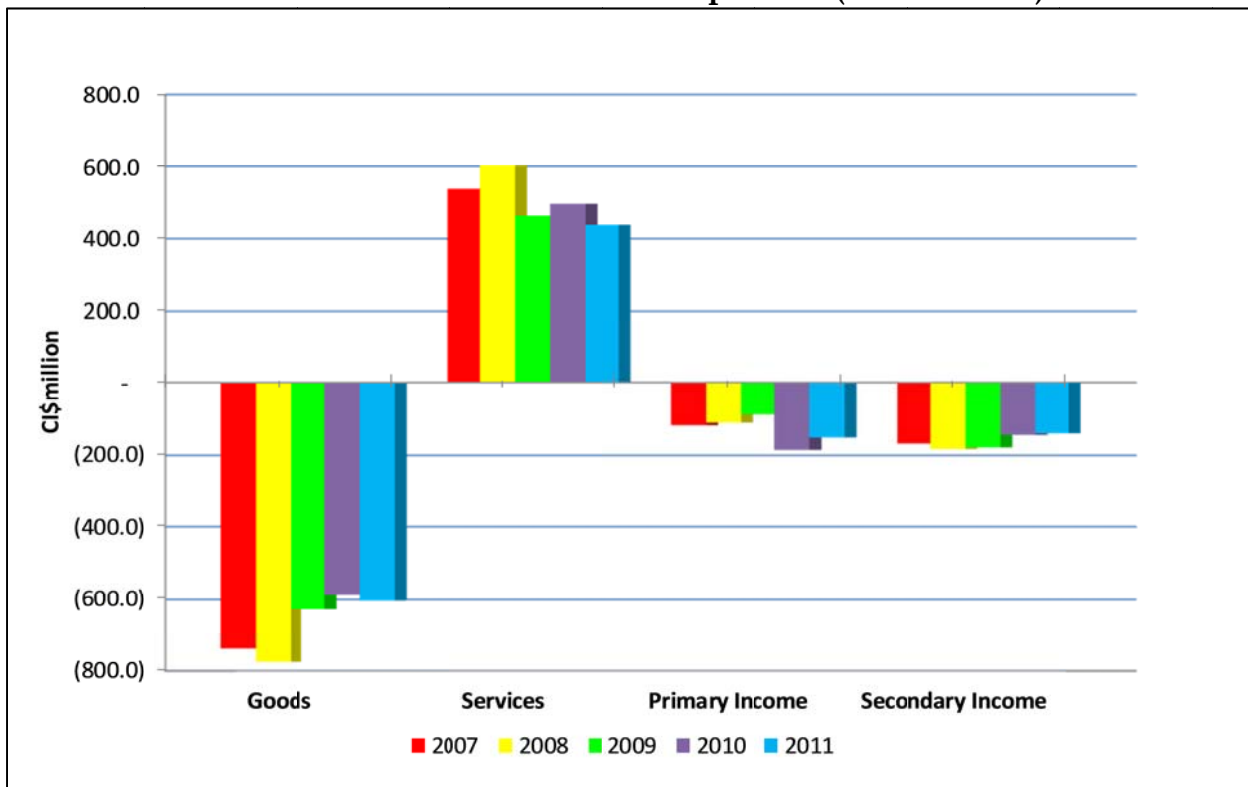


**Table 1: Current Account of the Balance of Payments (Net Balances)**

In CI\$Million					
	2007 <sup>R</sup>	2008 <sup>R</sup>	2009 <sup>R</sup>	2010 <sup>R</sup>	2011
<b>CURRENT ACCOUNT</b>	(483.9)	(463.4)	(428.8)	(420.6)	(455.5)
A. Goods	(737.7)	(775.0)	(627.3)	(587.5)	(603.4)
B. Services	538.2	603.2	463.5	496.4	438.1
C. Primary Income	(117.0)	(109.2)	(87.2)	(185.6)	(151.3)
D. Secondary Income	(167.4)	(182.4)	(177.8)	(143.9)	(138.9)

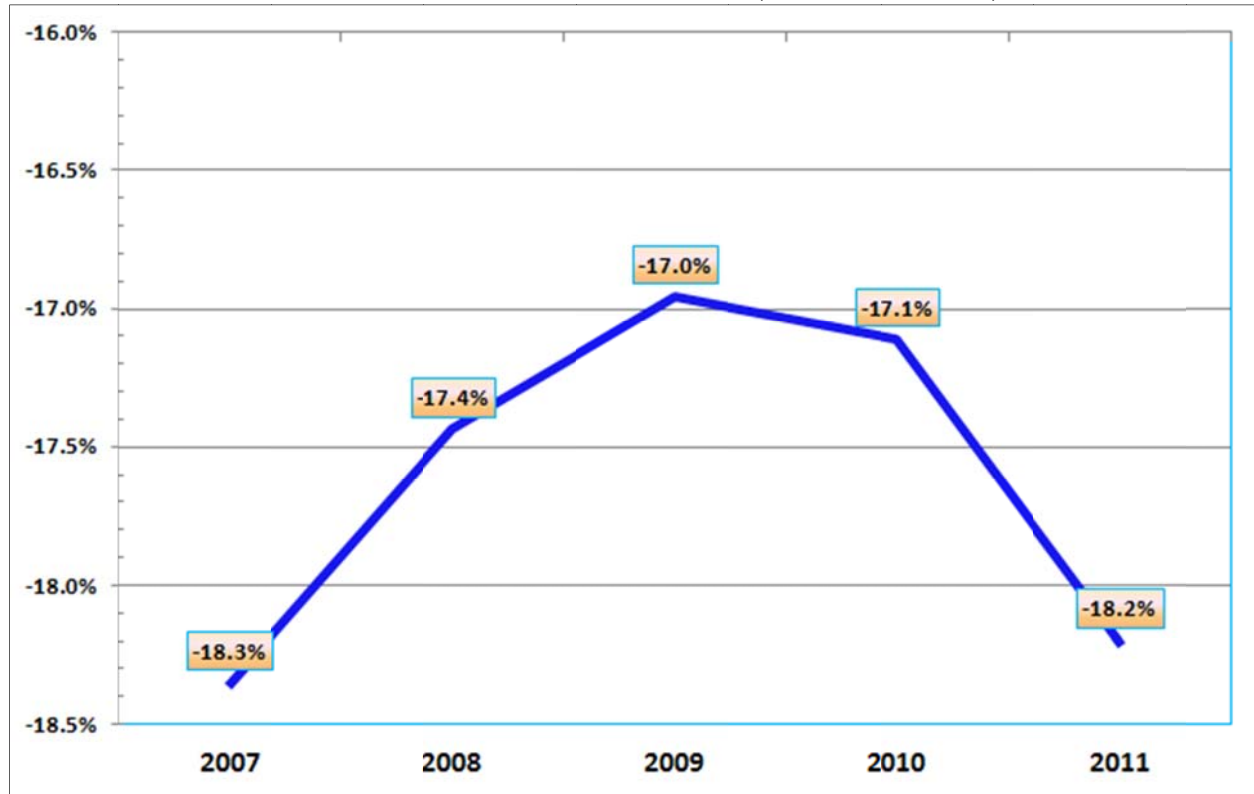
R Revised

**Chart 1: Current Account Components (Net Balances)**



The current account deficit increased to 18.2 percent of current GDP reaching the level achieved in 2007, while for the years 2008 – 2010 an average of 17.0 percent of GDP was recorded (see Chart 2 below).

**Chart 2: Current Account Balance (Percent of GDP)**



### **2.3 Balance of Trade in Goods**

In 2011, the balance of trade in goods deficit expanded by 2.7 percent (\$15.9 million) to \$603.4 million. The deficit represents 24.1 percent of GDP as compared to 23.9 percent recorded in 2010. As shown in Table 2, this resulted primarily from the higher levels of goods imported.

After two consecutive years of decline, merchandise imports in 2011 experienced an increase of \$71.6 million. This was largely traced to increased imports of mineral fuels, lubricants and related materials, machinery and transport equipment, food and live animals and chemical and related products. An increase of 43.2 percent in the importation of mineral fuels, which accounts for the highest share of imports, was largely on account of increases in the cost and quantity of fuel imported.

Revenue earned from total exports which are largely re-exports, and “goods under merchanting” (the buying and selling of goods without the goods entering the country) totalled \$84.6 million, up by 156.9 percent compared to \$32.9 million in 2010 (see also Appendix 4).

## **2.4 Balance of Trade in Services**

The surplus of the services account contracted by 11.7 percent due to the slight decline in receipts (1.0%) coupled with the 6.6 percent increase in payments for services. In 2011, total receipts stood at \$1,191.7 million while payments were \$753.6 million, compared to \$1,203.2 million in receipts and \$706.8 million in payments recorded in 2010. The services balance surplus is equivalent to 14.2 percent of GDP compared to the 16.2 percent in 2010 (see Table 2).

The trade in services comprises of the following balances:

### **a) Transportation**

The transportation transactions realized a deficit of \$100.9 million in 2011 compared to \$84.9 million recorded in 2010. This was due partly to the increase in both the payment for sea freight services and passenger fares to foreign airlines, along with the slight drop in receipts for transportation services.

### **b) Travel**

The surplus on international travel fell by 2.3 percent to \$283.5 million in 2011 largely due to the increased payments for outbound travel which outpaced the travel receipts. Total receipts from visitors are estimated to have increased by 1.4 percent, largely reflecting the increase of 7.2 percent in stay-over arrivals despite the 12.3 percent drop in cruise-ship arrivals. Travel receipts for education and business purposes increased slightly. Gross travel receipts summed up to approximately 16.4 percent of GDP in 2011 and 2010.

Total payments for international travel by residents are estimated to have increased by 12.2 percent to \$126.1 million in 2011 compared to the \$112.3 million spent in 2010. Largely accounting for this increase is the rise in payments for health (28.7%) and education (4.0 %) related expenditures abroad, while payments for other personal travel grew by 10.0 percent.

**Table 2:**

THE CAYMAN ISLANDS'															
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS															
SUMMARY															
In CI\$Million, 2007 - 2011															
	2007 <sup>K</sup>			2008 <sup>K</sup>			2009 <sup>K</sup>			2010 <sup>K</sup>			2011		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1.CURRENT ACCOUNT	4,106.1	4,589.9	(483.9)	4,187.5	4,651.0	(463.4)	3,394.7	3,823.5	(428.8)	2,933.6	3,354.2	(420.6)	3,460.2	3,915.7	(455.5)
A. GOODS AND SERVICES	1,205.4	1,404.9	(199.5)	1,309.1	1,480.9	(171.8)	1,180.0	1,343.8	(163.8)	1,236.1	1,327.2	(91.1)	1,276.2	1,441.5	(165.3)
A1. GOODS	33.4	771.1	(737.7)	28.4	803.4	(775.0)	38.7	666.0	(627.3)	32.9	620.4	(587.5)	84.6	688.0	(603.4)
A2. SERVICES	1,172.0	633.8	538.2	1,280.7	677.5	603.2	1,141.3	677.7	463.5	1,203.2	706.8	496.4	1,191.7	753.6	438.1
1. Transportation	39.8	148.8	(109.0)	43.0	151.3	(108.3)	37.2	126.2	(89.0)	40.0	124.9	(84.9)	39.3	140.2	(100.9)
2. Travel	417.1	114.6	302.5	449.3	113.0	336.3	392.2	102.4	289.8	403.9	112.3	291.6	409.5	126.1	283.5
3. Insurance and pension services	75.5	145.8	(70.2)	80.0	155.9	(75.9)	93.7	194.1	(100.4)	94.6	200.6	(106.0)	99.8	213.1	(113.3)
4. Financial services(excluding insurance)	432.4	51.9	380.5	501.0	62.0	439.0	379.0	76.4	302.7	410.9	79.6	331.2	356.5	78.0	278.6
5. Telecommunications, computer and information services, and charges for the use of intellectual property	9.1	51.3	(42.2)	9.0	59.0	(50.1)	13.7	51.4	(37.7)	16.6	48.6	(31.9)	12.7	51.2	(38.4)
6. Other business services	139.8	105.5	34.3	134.5	118.1	16.4	158.7	109.0	49.7	154.7	120.6	34.1	192.3	125.9	66.5
7. Government goods and services, nie.	58.4	15.9	42.5	64.0	15.6	48.4	66.2	14.0	52.2	82.1	15.0	67.0	81.4	14.4	67.0
8. Other services	-	0.0	(0.0)	-	2.7	(2.7)	0.5	4.3	(3.8)	0.4	5.2	(4.8)	0.0	4.8	(4.8)

**Table 2 (cont.):**

THE CAYMAN ISLANDS'															
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS															
SUMMARY															
In CI\$ Million, 2007 - 2011															
	2007 <sup>R</sup>			2008 <sup>R</sup>			2009 <sup>R</sup>			2010 <sup>R</sup>			2011		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
<b>B. PRIMARY INCOME</b>	<b>2,815.3</b>	<b>2,932.3</b>	<b>(117.0)</b>	<b>2,799.7</b>	<b>2,908.9</b>	<b>(109.2)</b>	<b>2,130.4</b>	<b>2,217.7</b>	<b>(87.2)</b>	<b>1,616.1</b>	<b>1,801.6</b>	<b>(185.6)</b>	<b>2,100.0</b>	<b>2,251.4</b>	<b>(151.3)</b>
1. Compensation of employees	0.2	10.8	(10.6)	0.3	10.7	(10.3)	-	10.8	(10.8)	-	10.1	(10.1)	-	10.9	(10.9)
2. Investment Income	2,815.1	2,921.5	(106.4)	2,799.3	2,898.2	(98.9)	2,130.4	2,206.8	(76.4)	1,616.1	1,791.6	(175.5)	2,100.0	2,240.5	(140.4)
2.1 Direct investment	346.3	820.6	(474.3)	360.1	897.6	(537.5)	290.1	986.6	(696.5)	238.9	768.3	(529.5)	239.4	807.7	(568.4)
2.2 Portfolio investment	575.3	14.9	560.3	441.7	19.0	422.7	711.1	20.5	690.7	378.7	70.2	308.5	531.8	82.3	449.5
2.3 Other investments	1,893.6	2,086.0	(192.4)	1,997.5	1,981.6	15.8	1,129.1	1,199.7	(70.6)	998.4	953.0	45.4	1,328.9	1,350.4	(21.5)
<b>C. SECONDARY INCOME</b>	<b>85.4</b>	<b>252.7</b>	<b>(167.4)</b>	<b>78.8</b>	<b>261.1</b>	<b>(182.4)</b>	<b>84.3</b>	<b>262.1</b>	<b>(177.8)</b>	<b>81.4</b>	<b>225.3</b>	<b>(143.9)</b>	<b>83.9</b>	<b>222.8</b>	<b>(138.9)</b>
1. General Government	15.3	1.2	14.1	14.0	0.9	13.1	13.4	0.5	12.9	14.6	0.7	13.9	13.1	0.7	12.4
2. Financial corporations, nonfinancial corporations, households, and NPISHs	70.1	251.5	(181.4)	64.8	260.2	(195.4)	70.8	261.5	(190.7)	66.8	224.6	(157.8)	70.8	222.1	(151.4)
2.1 Workers remittances	4.5	176.1	(171.6)	5.2	190.9	(185.6)	5.6	186.7	(181.1)	6.0	154.0	(148.0)	4.8	147.7	(142.9)
2.2 Other current transfers	65.6	75.5	(9.9)	59.5	69.3	(9.8)	65.2	74.8	(9.6)	60.8	70.7	(9.9)	66.0	74.4	(8.5)

R Revised  
NPISHs Non-Profit Institutions serving households

**c) Insurance**

The insurance and pension services deficit was \$113.3 million in 2011, \$7.4 million higher than that recorded in 2010. This performance was mainly on account of higher payments for re-insurance, auxiliary services and freight insurance services. Additionally, there were increases in receipts from other direct insurance and auxiliary insurance services.

**d) Financial services (excluding insurance)**

In 2011, the net surplus from financial services fell by \$52.7 million to reach \$278.6 million. This surplus is equivalent to 11.1 percent of GDP compared to 13.5 percent of GDP in 2010.

The decrease was largely due to a decline in receipts earned from banking financial services. Revenue for all financial services accounted for 10.3 percent of the country's total foreign exchange receipts in 2011, a deterioration compared to 14.0 percent achieved in 2010.

The payments abroad for financial services fell slightly by 2.1 percent amounting to \$78.0 million. Payments for financial services comprised 3.1 percent of the country's total foreign exchange payments in 2011, remaining relatively stable as compared to the previous year.

**e) Telecommunications, computers and information services and charges for intellectual property**

For 2011, the deficit from this category further expanded to \$38.4 million, compared to \$31.9 million recorded in 2010. This is traced to the fall in revenue by 23.3 percent and the increase in payments by 5.4 percent.

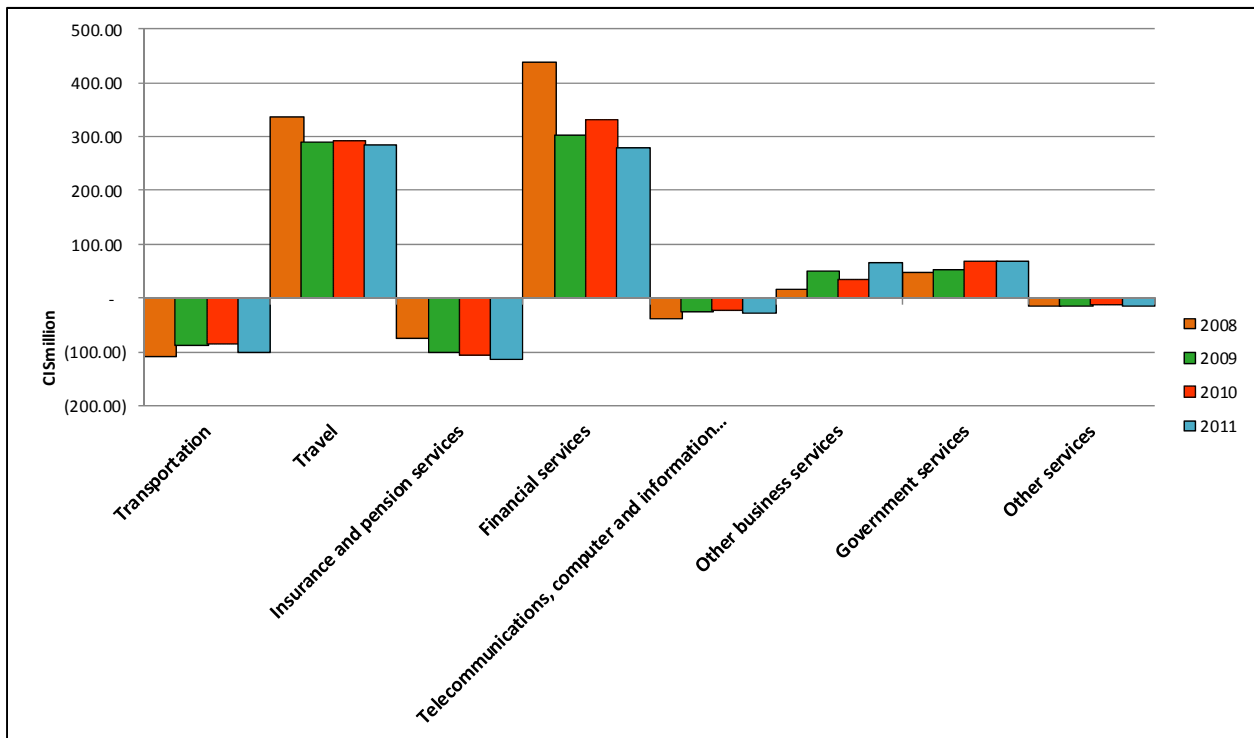
**f) Other business services**

Both the receipts and payments for other business services increased with the receipts outperforming payments. Receipts grew by \$37.6 million in 2011 over 2010, while payments increased by \$5.3 million. This resulted in a rise of \$32.4 million thereby expanding the surplus on the business services category to \$66.5 million.

**g) Government goods and services**

This balance on government goods and services account remained relatively stable at \$67.0 million. Receipts for government services fell by 0.8 percent to \$81.4 million while payments fell by 4.3 percent to \$14.4 million. Payments for goods and services fell largely due to reductions in outlays for marketing and promotion services abroad.

Chart 3: Trade in Services (Net Balances)



### 2.5 Balance of Primary Income Transactions

This balance is comprised of compensation of employees and investment income. The deficit of the primary income fell by \$34.3 million to \$151.3 million in 2011. This was primarily due to a decline in the deficit of investment income.

The deficit from this balance in 2011 is approximately 6.1 percent of GDP compared to 7.6 percent of GDP in 2010.

Compensation of employees continues to be in deficit amounting to \$10.9 million, a slight increase from \$10.1 million in 2010.

Overall, investment income recorded a deficit in 2011, amounting to \$140.4 million which is lower by \$35.1 million compared to 2010. The lower deficit is explained by the increase in total receipts from investment income by 29.9 percent as all categories of investment income showed increases in total earnings:

- The deficit on **direct investment income** was \$568.4 million in 2011, an increase of 7.4 percent from the previous year. This was due to an increase in reinvested

earnings and dividend payments. Receipts from direct investment income increased marginally by 0.2 percent.

- **Portfolio investment income** recorded an increase in surplus of \$141.0 million and stood at \$449.5 million in 2011, following the surplus of \$308.5 million in 2010. This performance was driven by the significant increases in earnings on investments by financial institutions. Payments of returns from portfolio investments in the Cayman Islands increased by \$12.1 million in 2011 to \$82.3 million, resulting largely from higher interest payments and dividends.
- **Other investment income** recorded a deficit of \$21.5 million in 2011. This was largely a result of the significant increase of 41.7 percent in interest payments which outpaced the increase in interest receipts on loans and deposits which grew by 33.1 percent.

## **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 2011, the overall secondary income deficit fell by \$5.0 million to reach \$138.9 million. This was primary due to lower payments and increase in receipts.

General government transfers netted a surplus of \$12.4 million compared to \$13.9 million in 2010. This is attributed to the decline in revenue obtained from cruise-ship departure charges.

The deficit of transactions from personal transfers largely workers' remittances fell by \$5.1 million to \$142.9 million. This is due to the drop in both the amount remitted abroad which was greater than the decline in receipts from abroad.

Other current transfers comprising insurance claims, premiums and pension benefits recorded a deficit of \$8.5 million compared to \$9.9 million in 2010.

## **2.7 Comparative Current Account Receipts**

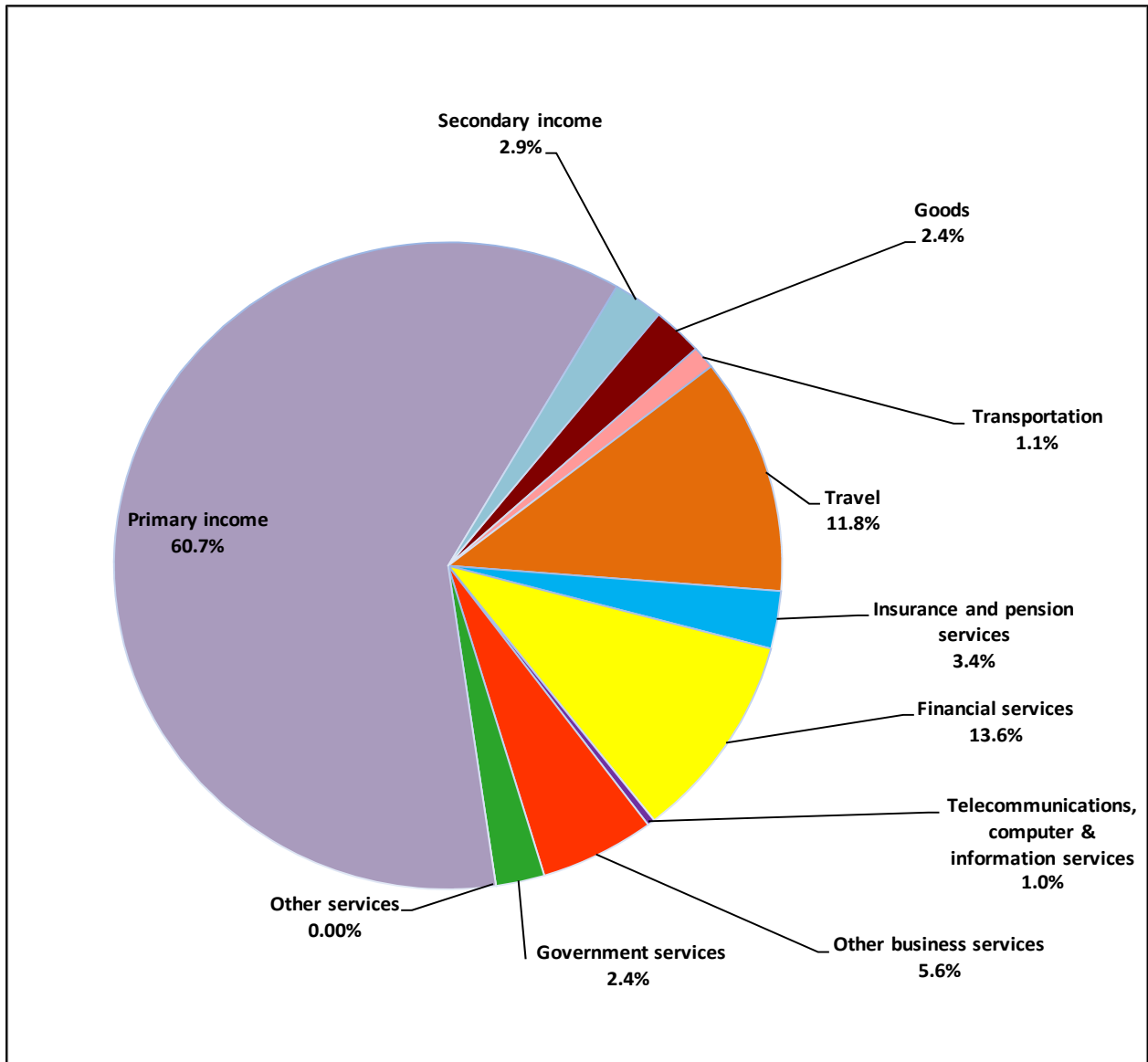
A comparison of the different sources of current account receipts is shown in Chart 4.

Primary income, largely investment income continues to be the main source of current account receipts accounting for 60.7 percent of total receipts. As discussed earlier, this is significantly made up of income from portfolio investments.



Receipts from travel services (11.8%) and financial services (13.6%) are also important sources of foreign exchange revenue.

Chart 4: 2011 Current Account Receipts



## 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 measure 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 (2009 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. 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 a new estimation methodology or to incorporate new information, which created statistical error in the previous estimates. Consequently, previous years are revised to accommodate new estimation methodology, and the current survey results data and revised or new administrative data.

In the absence of survey data, the previously published current account estimates for 2006 to 2008 were based largely on secondary data. Procedures that were employed for these years' estimates were limited by the absence of or insufficiency of data. The extensive use of economic indicators was utilized in the absence of survey data. Consequently, some items were either under-stated or overstated. Revisions were made to most of the 2010 data to reflect new or revised source data, while the values of imports for 2007 to 2010 were revised upwards to reflect changes in trade data.

Like previous publications, this report excludes financial accounts of the balance of payments which pertain to direct investment, portfolio investment, derivatives and other investment transactions of the Cayman Islands with the rest of the world. These financial accounts are expected to be presented in the future as more information is compiled.

### **A1.3 Key Data Sources**

The 2010-2011 BOP estimates are based on the Annual Balance of Payments Survey which was conducted during the period March to May 2012. 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 including the Cayman Islands Monetary Authority.

**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 misinterpretation of the questionnaire. Non-response errors contribute significantly to the quality of the BOP statistics. Respondents may refuse to answer a question, or the entire questionnaire, or are generally unable to respond or they may submit the questionnaire late.

It is hoped that this publication highlights the usefulness of the BOP statistics and that respondents will complete and return the survey forms on time.

## Appendix 2: Overview of the 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 various 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 1,500 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 2009 and 2010.

### **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: Classification System

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 two main groups of accounts namely: the Current Account and the Capital and 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 merchanging (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 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 and Financial Account

The capital and financial account is divided into two sections: (i) the capital account and (ii) the financial account.

#### **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 transfers' entries are required when 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).

#### **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.

### A3.3 Reserves

Reserve 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).

Appendix 4: Merchandise Goods Transactions

In CI\$Million, 2007 - 2011					
ITEM	2007 <sup>R</sup>	2008 <sup>R</sup>	2009 <sup>R</sup>	2010 <sup>R</sup>	2011
<b>Credit</b>					
<b>EXPORTS</b>					
Total exports f.o.b	17.9	12.4	16.0	11.1	18.1
Goods procured in ports by carriers	2.5	2.9	2.7	2.9	4.3
Other adjustments	13.0	13.0	20.0	19.0	62.2
<b>Total adjusted exports f.o.b</b>	<b>33.4</b>	<b>28.4</b>	<b>38.7</b>	<b>32.9</b>	<b>84.6</b>
<b>Debit</b>					
<b>IMPORTS</b>					
Total imports c.i.f	867.8	898.7	744.5	690.4	762.0
Goods procured in ports by carriers	7.5	12.6	10.8	12.9	17.4
Total adjusted imports c.i.f	875.2	911.3	755.4	703.3	779.4
Less freight and insurance	104.132	107.8	89.3	82.8	91.4
<b>Total adjusted imports f.o.b</b>	<b>771.1</b>	<b>803.4</b>	<b>666.0</b>	<b>620.4</b>	<b>688.0</b>
<b>Merchandise(Goods) Trade Balance</b>	<b>(737.7)</b>	<b>(775.0)</b>	<b>(627.3)</b>	<b>(587.5)</b>	<b>(603.4)</b>

## Appendix 5: Current Account - Analytical Presentation

	Million of CI\$				
	2007 <sup>R</sup>	2008 <sup>R</sup>	2009 <sup>R</sup>	2010 <sup>R</sup>	2011
<b>A. Current Account</b>	<b>(483.9)</b>	<b>(463.4)</b>	<b>(428.8)</b>	<b>(420.6)</b>	<b>(455.5)</b>
Goods: exports f.o.b.	33.4	28.4	38.7	32.9	84.6
Goods: imports f.o.b.	771.1	803.4	666.0	620.4	688.0
<i>Balance on goods</i>	<b>(737.7)</b>	<b>(775.0)</b>	<b>(627.3)</b>	<b>(587.5)</b>	<b>(603.4)</b>
Services: credit	1,172.0	1,280.7	1,141.3	1,203.2	1,191.7
Services: debit	633.8	677.5	677.7	706.8	753.6
<i>Balance on services</i>	<b>538.2</b>	<b>603.2</b>	<b>463.5</b>	<b>496.4</b>	<b>438.1</b>
Primary income: credit	2,815.3	2,799.7	2,130.4	1,616.1	2,100.0
Primary income: debit	2,932.3	2,908.9	2,217.7	1,801.6	2,251.4
<i>Balance on primary income</i>	<b>(117.0)</b>	<b>(109.2)</b>	<b>(87.2)</b>	<b>(185.6)</b>	<b>(151.3)</b>
Secondary income: credit	85.4	78.8	84.3	81.4	83.9
Secondary income: debit	252.7	261.1	262.1	225.3	222.8
<i>Balance on secondary income</i>	<b>(167.4)</b>	<b>(182.4)</b>	<b>(177.8)</b>	<b>(143.9)</b>	<b>(138.9)</b>

**Appendix 6: Current Account: Standard Presentation**

	Million of CI\$				
	2007 <sup>R</sup>	2008 <sup>R</sup>	2009 <sup>R</sup>	2010 <sup>R</sup>	2011
<b>I Current Account Receipts</b>	<b>4,106,073</b>	<b>4,187,527</b>	<b>3,394,718</b>	<b>2,933,611</b>	<b>3,460,168</b>
<b>Goods and Services</b>	<b>1,205,376</b>	<b>1,309,084</b>	<b>1,180,003</b>	<b>1,236,142</b>	<b>1,276,245</b>
Goods	33,405	28,383	38,711	32,922	84,572
Services	1,171,971	1,280,700	1,141,292	1,203,220	1,191,673
<b>Primary income</b>	<b>2,815,332</b>	<b>2,799,664</b>	<b>2,130,438</b>	<b>1,616,055</b>	<b>2,100,040</b>
Compensation of Employees	187	349	-	-	-
Investment income	<b>2,815,145</b>	<b>2,799,315</b>	<b>2,130,438</b>	<b>1,616,055</b>	<b>2,100,040</b>
Direct investment	346,311	360,134	290,147	238,873	239,360
Portfolio investment	575,273	441,710	711,143	378,740	531,777
Other investments	1,893,561	1,997,471	1,129,148	998,442	1,328,903
<b>Secondary income (current transfers)</b>	<b>85,364</b>	<b>78,779</b>	<b>84,278</b>	<b>81,414</b>	<b>83,883</b>
General Government	15,275	13,990	13,448	14,609	<b>13,098</b>
Financial corporations, nonfinancial corporations, households, and NPISHs of which Worker's remittances	70,090	64,789	70,829	66,805	70,785
	4,494	5,249	5,618	5,990	4,793
<b>II Current Account Payments</b>	<b>4,589,929</b>	<b>4,650,964</b>	<b>3,823,489</b>	<b>3,354,201</b>	<b>3,915,692</b>
<b>Goods and Services</b>	<b>1,404,885</b>	<b>1,480,926</b>	<b>1,343,773</b>	<b>1,327,238</b>	<b>1,441,519</b>
Goods	771,114	803,423	666,028	620,407	687,966
Services	633,771	677,503	677,745	706,831	753,553
<b>Primary income</b>	<b>2,932,312</b>	<b>2,908,900</b>	<b>2,217,662</b>	<b>1,801,649</b>	<b>2,251,350</b>
Compensation of Employees	10,781	10,653	10,830	10,051	10,876
Investment income	<b>2,921,531</b>	<b>2,898,247</b>	<b>2,206,832</b>	<b>1,791,598</b>	<b>2,240,475</b>
Direct investment	820,618	897,594	986,634	768,325	807,746
Portfolio investment	14,924	19,005	20,465	70,241	82,314
Other investments	2,085,989	1,981,648	1,199,733	953,033	1,350,415
<b>Secondary income (current transfers)</b>	<b>252,733</b>	<b>261,138</b>	<b>262,054</b>	<b>225,313</b>	<b>222,823</b>
General Government	1,203	930	538	669	677
Financial corporations, nonfinancial corporations, households, and NPISHs of which Worker's remittances	251,530	260,208	261,517	224,645	222,146
	176,062	190,883	186,693	153,965	147,700
<b>III Current Account Balances</b>	<b>(483,857)</b>	<b>(463,437)</b>	<b>(428,771)</b>	<b>(420,590)</b>	<b>(455,525)</b>
<b>Goods and Services</b>	<b>(199,509)</b>	<b>(171,842)</b>	<b>(163,770)</b>	<b>(91,096)</b>	<b>(165,274)</b>
Goods	(737,709)	(775,040)	(627,316)	(587,485)	(603,395)
Services	538,200	603,197	463,547	496,389	438,120
<b>Primary income</b>	<b>(116,980)</b>	<b>(109,236)</b>	<b>(87,225)</b>	<b>(185,594)</b>	<b>(151,311)</b>
Compensation of Employees	(10,594)	(10,304)	(10,830)	(10,051)	(10,876)
Investment income	(106,386)	(98,932)	(76,395)	(175,543)	(140,435)
Direct investment	(474,307)	(537,460)	(696,487)	(529,451)	(568,387)
Portfolio investment	560,349	422,705	690,678	308,499	449,463
Other investments	(192,428)	15,823	(70,585)	45,409	(21,512)
<b>Secondary income (current transfers)</b>	<b>(167,368)</b>	<b>(182,359)</b>	<b>(177,777)</b>	<b>(143,900)</b>	<b>(138,940)</b>
General Government	14,072	13,060	12,911	13,940	12,421
Financial corporations, nonfinancial corporations, households, and NPISHs of which Worker's remittances	(181,440)	(195,419)	(190,687)	(157,840)	(151,361)
	(171,568)	(185,634)	(181,075)	(147,975)	(142,907)

**Appendix 7: Selected Balance of Payments Indicators**

	2007 <sup>R</sup>	2008 <sup>R</sup>	2009 <sup>R</sup>	2010 <sup>R</sup>	2011
Current Account/GDP (%)	(18.3)	(17.4)	(17.0)	(17.1)	(18.2)
Goods imports/GDP (%)	29.2	30.2	26.3	25.2	27.5
Goods exports/GDP (%)	1.3	1.1	1.5	1.3	3.4
Visible trade balance/GDP (%)	(28.0)	(29.2)	(24.8)	(23.9)	(24.1)
Services imports/GDP (%)	24.0	25.5	26.8	28.8	30.1
Services exports/GDP (%)	44.4	48.2	45.1	48.9	47.6
Net services /GDP (%)	20.4	22.7	18.3	20.2	17.5
Goods & services imports/GDP (%)	53.3	55.7	53.1	54.0	57.6
Goods & services exports/GDP (%)	45.7	49.3	46.7	50.3	51.0
Goods & services balance/GDP (%)	(7.6)	(6.5)	(6.5)	(3.7)	(6.6)
Financial services imports/GDP (%)	2.0	2.3	3.0	3.2	3.1
Financial services exports/GDP (%)	16.4	18.9	15.0	16.7	14.2
Net financial services /GDP (%)	14.4	16.5	12.0	13.5	11.1
Primary income receipts/GDP (%)	106.8	105.3	84.2	65.7	83.9
Primary income payments/GDP (%)	111.2	109.4	87.7	73.3	89.9
Primary income balance/GDP (%)	(4.4)	(4.1)	(3.4)	(7.6)	(6.0)
Secondary income receipts/GDP (%)	3.2	3.0	3.3	3.3	3.4
Secondary income payments/GDP (%)	9.6	9.8	10.4	9.2	8.9
Secondary income balance/GDP (%)	(6.3)	(6.9)	(7.0)	(5.9)	(5.6)
Workers remittances (Net)/GDP (%)	(6.5)	(7.0)	(7.2)	(6.0)	(5.7)

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