



THE CAYMAN ISLANDS' BALANCE OF PAYMENTS (CURRENT ACCOUNT) 2006-2007 PRELIMINARY REPORT

A faint, light-colored illustration of a pair of scales of justice, positioned behind the title text.

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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
HBS	Household Budget Survey
IIP	International Investment Position
IMF	International Monetary Fund
LFS	Labour Force Survey
n.i.e	Not included elsewhere
SLC	Survey of Living Conditions
SNA	System of National Accounts
SDR's	Special Drawing Rights

1. Executive Summary

1.1 Importance of the Balance of Payments

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.

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;
- 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.

1.2 Objectives

In 2007, the Economics and Statistics office (ESO) as part of its strategic plan to expand its economic statistics, undertook a project to develop the BOP. This report is the first BOP publication for the Cayman Islands, and has two objectives:

- a) to present the preliminary estimates of the current account for the Cayman Islands. **The current account is the balance of payments for goods and services, income and transfer transactions of the Cayman Islands' residents against the residents of the rest of the world.**

When in deficit, the current account balance indicates the amount that must be financed by capital and financial flows into the country; otherwise the overall balance of payments would also be in deficit. It must be noted that the overall BOP is the source of changes in foreign currency reserves that supports the fixed exchange rate of the Cayman Islands. Therefore, the smaller the current account deficit, the lower is the pressure for financing from capital and financial inflows, and the stronger the support for the country's currency reserves and fixed exchange rate.

- b) to describe the conceptual framework and process in adopting the International Monetary Fund (IMF) fifth edition of the Balance of Payments Manual (BPM 5) in compiling the current account, the data sources and compilation methods. The concepts and definitions included in this report were adapted from BPM 5.

1.3 Preliminary estimates

This report is preliminary since it excludes the capital and financial accounts of the balance of payments which pertain to direct investment, portfolio investment, financial derivatives and other investment transactions of Cayman with the rest of the world. The latter have been excluded due to limited data as of the date of this publication.

In addition, the current account is also a preliminary estimate as it excludes key transactions such as investment income from foreign direct (non-financial) investments, payments for construction services of non-residents and compensation of seasonal workers in the Cayman Island. Furthermore, procedures that have been employed for the preliminary estimates have been limited by available data. Should more data be

made accessible in the future, this will lead to revisions; this is a common practice for BOP and other macroeconomic statistics compilation in other countries.

1.4 Key data sources

In many countries, BOP surveys and trade reports are the main source of data for BOP statistics. However, BOP surveys have not been implemented in the Cayman Islands; hence alternative data sources were used such as the Labour Force Surveys, reports from the Cayman Islands Monetary Authority, Ports Authority, Civil Aviation Authority, other government departments and offices.

1.5 Overview of results

The current account of the balance of payments of the Cayman Islands was in deficit in 2006 and 2007. That is, payments made by residents of the country for all goods and services, income and current transfers were greater than receipts from residents of other countries. The deficits amounted to \$350.6 million in 2006 and \$391.4 million in 2007.

There are three major sources of the current account deficits in 2006-2007: trade in goods, income transactions and current transfers. On the other hand, trade in services contributed a significant amount of surplus.

- Trade in goods recorded deficits amounting to \$749.1 million in 2006 and \$740.3 million in 2007. These figures are not unexpected in view of the heavy reliance of the country on imports for consumption and capital goods, fuel and intermediate inputs.
- Net income payments were also in deficit in 2006 (\$150.4 million) and 2007 (\$191.3 million). The deficits were recorded as large payments countered the large income receipts amounting to \$1,794.9 million in 2006 and \$2,195.6 million in 2007. (Income transactions as of this report are primarily transactions for direct investment, portfolio investment and other investments which include interest on loans, deposits and distributed branch profits. Income payments for compensation of non-residents working in the country, and receipts for compensation of residents working abroad are not included in the present report due to lack of data).
- Deficits in current transfers contributed \$209.1million in 2006 and \$200.1 million in 2007. These are made up of payments for workers' remittances, insurance premium and claims payments and government transfers (i.e., contributions to regional and international organizations).

- Offsetting the above deficits are the significant surpluses recorded for trade in services which amounted to \$ 758.0 million in 2006 and \$740.6 million in 2007. These surpluses are attributed primarily to earnings from financial services and travel/tourism services.

The preliminary results also put into light the most important sources of foreign exchange for the Cayman Islands from the current accounts, as follows:

- Trade in financial services: this contributed a net surplus amounting to \$462.5 million in 2006, and \$541.4 million in 2007;
- Income from portfolio investment: this was in net surplus position in 2006 (\$392.0 million) and in 2007 (\$528.9 million) in 2007; and
- Trade in travel/tourism services: this was also in surplus in 2006 (\$360.7 million) and in 2007 (\$317.2 million).

On the other hand, the following are the current account transactions that used the largest amount of foreign exchange:

- Trade in goods, as indicated by the deficits incurred in 2006 (\$749.1 million) and in 2007 (\$740.3 million);
- Net payments on direct investment income which recorded deficits in 2006 (\$348.3 million) and in 2007 (\$337.0 million);
- Net payments on other investment income (including interest on loans and non-resident deposits) which was in deficit in 2006 (\$194.3 million) and in 2007 (\$383.4 million); and
- Trade in insurance services which recorded a net deficit amounting to \$130.5 million in 2006 and \$149.7 million in 2007.

1.6 Outline of report

The rest of this report presents an overview of the BOP project (Section 2); an overview of the conceptual framework of the BOP system including the double entry system, concepts of residency and valuation unit of account among others (Section3), the classification system of economic transactions included in the BOP (Section 4); the major data sources used for the BOP compilation (Section 5); current account preliminary estimates (Section 6); and key challenges encountered in the project and some recommendations on the way forward.

Appendix 1 describes the estimation methodology used for the Cayman Islands current account deficit.

2. Overview of the Balance of Payments Project

2.1 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 will 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.

ESO has attempted to follow, wherever possible, the international standards relating to the BOP statistics, as prescribed by the IMF. However in some cases, the recommendations of the BPM5 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 BPM5 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 some significant implications for the island's macroeconomic analysis which would not reflect the true capacity or may misrepresent the economic activities of the Cayman Islands.

As a result, transactions with the local agent, bankers, lawyers, accountants, etc. acting on behalf of the 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. Other reasons why some of the recommendations were not followed are limitations of data sources (e.g. compensation of employees) or difficulties in implementing the recommended treatment.

2.2 Project phases

At the commencement of the project, it was determined that it would have been more effective to implement the BOP project in stages:

- the first phase comprises developing the current account as reported in this document;
- the second phase would be the development of the capital and financial account; and
- the final stage would be the development of the international investment position (IIP).

The development of the capital and financial account is scheduled to be completed on the second half of 2009. It must be noted that compilation for this account has already started during the compilation process for the current account. However, given the limited data, and the level of disaggregation of data for the financial assets and liabilities, it was difficult to establish reliable estimates of the level of foreign portfolio ownership, foreign direct investment, and other investment. However, whenever data applicable to the capital and financial account were available, the entries were made in the relevant category of the financial and capital account.

2.3 Review by CARTAC

In May 2009, technical assistance was provided by the Caribbean Regional Technical Assistance Centre (CARTAC) to review the BOP compilation, methodology and preliminary estimates of this project. Emanating from this review was the recommendation that the current account estimates should not be published without first fully completing the financial account. This was largely because the current account and the financial account are closely linked and for consistency checks and validation, both accounts should be produced and published together. A CARTAC mission has been scheduled for October 2009, to assist in developing the capital and financial account.

2.4 Survey instruments and database

At the inception of the BOP project, survey instruments/questionnaires were designed to obtain financial information on transactions with non-residents. Most of the questionnaires were designed to capture specific types of transactions of establishments such as those engaged in transportation, communication and direct investment. However, the survey was not conducted due to the launching at the same time of the Annual National Accounts Survey.

Excel worksheets were developed based on the classifications of the transactions and the transactors. The data on the transactions were then edited and loaded into the excel sheets. The aggregated data were then entered in the BOP worksheet. All BOP databases are managed by the BOP Unit of the ESO.

3. Conceptual Framework

3.1 Concepts and Definitions

3.1.1 Balance of payments

The Balance of Payments of a country is a systematic record of all the economic transactions between residents of that country and the rest of the world. The standard component of the BOP statistics consists of two main groups of accounts namely: the current account, and the capital and financial account. A further extension of the system of accounts on international transactions is the International Investment Position which is also discussed below.

3.1.2 Current account

The current account records transactions covering inflows and outflows of goods and services, investment income and current transfers. The sum of the balances from these types of transactions determines whether the Cayman Islands current account is in surplus or deficit.

A current account deficit indicates the extent to which Cayman Islands is drawing on the resources of the world for current consumption and investment; while a surplus will show the extent to which Cayman Islands is providing resources to the rest of the world in terms of capital and financial flows.

3.1.3 Capital and financial account

The capital and financial account comprise mainly of transactions in financial instruments which represents Cayman Islands financing and investing activities with the rest of the world. Financial assets and liabilities with non-residents are presented in four functional classes: direct, portfolio investments, financial derivatives and other investments. These investments belong to either Caymanian residents (Cayman assets) or to foreign residents (Caymanian liabilities). Transactions resulting in capital inflow are presented as positive values while capital outflows from Cayman are shown as negative values.

3.1.4 International investment position

The international investment position (IIP) is closely related to the BOP financial account. BOP measures transactions (also referred to as flows), while the IIP measures the level (also referred to as stock) of assets and liabilities held at particular points in

time. The IIP shows the opening and closing balances of the stocks of investment. The changes in these balances are reconciled in the IIP. Financial transactions included in the reconciliation statement are equivalent to the transactions measured in the financial account of BOP.

3.1.5 Double Entry System

Conceptually, an economic transaction has two sides which are reflected in the double entry recording system in the BOP. When an economic value is provided (e.g. export of rum cakes) a credit entry is made, and when an economic value is received (e.g. payment for the rum cakes) a debit entry is made. Every credit entry (+) in the BOP has a counterpart debit entry (-) and vice versa. Credit entries are required for exports of goods and services, income receivable and increases in liabilities or reduction in assets. Similarly debit entries are required for imports of goods and services, income payable and increases in assets or reductions in liabilities.

3.1.6 Transfers

Unrequited transfers are one-sided transactions which involves no financial compensation. To incorporate such transaction in the BOP, a category called “transfers” is included. This allows one-sided transactions to be converted to two-sided transactions.

3.1.7 Error and omissions

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 “errors and omission” or “statistical discrepancies”.

3.1.8 Flows and Stock

The BOP account records flows and not stocks. The flows are measured for a specific time period, whereas the stocks are recorded at a point in time, often at the end of the year.

3.1.9 Residence

The concept of residence is central to the determination of the BOP compilation. It is not based on nationality, nor citizenship criteria, but on centre of economic interest. The economic territory of a country is the geographic territory administered by a government including the airspace, territorial waters, territorial enclaves such as embassies and consulates, etc. Residents of an economy are economic entities having a centre of economic interest within that economic territory. A centre of economic interest can usually be assumed when the entity is engaged in economic activities and transactions on a significant scale in the country for a long period of time. As a guideline, a one-year period is suggested as criterion for that purpose. The residents of an economy comprise four types of economic units: households and private individuals, enterprises, nonprofit organizations, and the government.

A person is said to be a resident of a country if he or she has a centre of economic interest as evidenced by the location of the person's principal residence or business and where he/she produces, invests and earn revenues.

For the sector of enterprises the residence concept means that an enterprise is regarded as resident in an economy when it is engaged in a significant amount of production of goods and/or services in that economy. Hence, even if an enterprise is fully controlled by foreign investors it is considered to be a resident in the economy where the production takes place and the production of this enterprise is attributed to that economy. Any economic entity, which is not regarded as a resident of the Cayman Islands, is described as a non-resident.

The following are residents of their home economies even if they were to stay out or work outside their home economies for periods longer than a year: Travellers or visitors, seasonal workers, locally recruited staff of foreign embassies and consulates. Students and medical patients are treated as residents of their countries of origins, regardless of their length of stay outside their home economies.

3.2 Valuation

For the various types of transactions to be summed, and for the BOP statistic to be a useful tool for analysis, it must carry values that have economic meaning. According to

the recommended international standards and practices, the basis of transaction valuations is generally actual market prices¹ agreed upon by parties.

3.3 Unit of Account

The Cayman Islands dollar (CI\$) is the unit of account used for the BOP purposes.

3.4 Time of Recording

In the BOP, transactions are recorded when economic value is created, transformed, exchanged, transferred or extinguished. Time of recording is governed by accrual accounting.

¹ Market price is the amount that a willing buyer pays to acquire something from a willing seller when both are independent and the transaction is based solely on commercial considerations.

4. 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.

4.1 The Current Account

The Cayman Islands Balance of Payments 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. In Cayman's BOP, goods are subdivided into general merchandise, and goods procured in ports by carriers.

Services

This category comprises services provided between Caymanian residents and non-residents and is broken down into various components such as transportation, communication, travel, insurance, other business services and government services.

Income

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

Current Transfers

Transfers represent the provision of resources between residents and non-residents with no quid pro quo in economic value. Current transfers (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.

4.2 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 related with changes of ownership of the Cayman Islands financial assets and liabilities. The following categories:

- **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:** It 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.

4.3 Reserves

Reserve assets are defined in the BPM 5 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 Fund, foreign exchange assets and other claims. SDRs and reserve position with the fund are not relevant for the Cayman Islands since it is not a member of the IMF.

5. Data Sources

The compilation of the BOP is a complex process requiring the use of several data. Numerous transactions are conducted daily between residents and non-residents, and this requires using a wide variety of data sources to track these transactions. As internationally practiced, BOP statistics are derived largely from a combination of sources, such as surveys (which is usually the main data source) and other sources such as administrative data.

However, in 2007 both the SNA and the BOP project began, and because the business community of the Cayman Islands is not yet used to the practice of submitting business surveys, it was felt that it would have been too burdensome to conduct two surveys (SNA and BOP) in the same year. Consequently, the main source of data for the compilation of the BOP was administrative records and the results of the ANA survey.

Generally, the data inputs for BOP compilation for the years 2006 and 2007 were derived primarily from the following:

- External trade statistics (exports and imports) report which is derived from the Customs documents
- Data from the Annual National Accounts Survey (ANA)
- Returns from departments within the Cayman Islands Monetary Authority (CIMA). These include:
 - Aggregated reports of the banking sector,
 - Aggregated report on premiums, investments and claims of the insurance companies
- Monetary Authority Financial Statements
- Revenue and expenditure from the budget statements of the statutory bodies and Public companies
- Consumer price index(CPI)
- Labour Force Survey (LFS)
- Survey of Living Conditions (SLC)
- Household Budget Survey (HBS)
- Revenue and expenditure accounts of the central government

6. Current Account Preliminary Estimates

6.1 Overall Current Account²

The table below summarizes the Current Account of the BOP for 2006-2007 and its three (3) main components – goods and services, income and current transfer payments. The detailed transactions included in each major component are described in the Appendix.

THE CAYMAN ISLANDS' CURRENT ACCOUNT of the BALANCE of PAYMENTS (in CI\$Million)						
	2006			2007		
	Credit	Debit	Net	Credit	Debit	Net
CURRENT ACCOUNT	3,167.9	3,518.5	(350.6)	3,613.3	4,004.5	(391.2)
I. GOODS AND SERVICES	1,316.6	1,307.7	8.9	1,356.7	1,356.4	0.3
A. Goods	23.0	772.2	(749.1)	24.0	764.3	(740.3)
General merchandise	21.5	764.5	(743.0)	22.1	756.8	(734.7)
Goods procured in ports by carriers	1.5	7.7	(6.1)	1.9	7.5	(5.6)
B. Services	1,293.6	535.5	758.0	1,332.7	592.0	740.6
Transportation	40.7	119.1	(78.4)	40.3	115.0	(74.8)
Sea transport	15.9	86.9	(70.9)	15.4	86.0	(70.6)
Air transport	21.9	32.3	(10.3)	22.3	29.0	(6.7)
Other supporting and auxiliary transport services	2.8	-	2.8	2.5		2.5
Travel	446.2	85.4	360.7	417.4	100.2	317.2
Insurance services	19.8	150.2	(130.5)	23.5	173.1	(149.7)
Financial services	578.1	115.6	462.5	676.7	135.3	541.4
Other business services	140.3	49.7	90.7	117.5	52.6	65.0
Government services, n.i.e.	68.6	15.5	53.1	57.3	15.8	41.4
II. INCOME	1,794.9	1,945.3	(150.4)	2,195.6	2,387.1	(191.4)
Compensation of employees including border, seasonal, and other workers	0.2		0.2	0.2	-	0.2
Investment Income	1,794.7	1,945.3	(150.6)	2,195.5	2,386.9	(191.4)
Direct investment	28.5	376.8	(348.3)	129.4	466.4	(337.0)
Portfolio investment	445.3	53.3	392.0	585.0	56.1	528.9
Other investments	1,320.9	1,515.2	(194.3)	1,481.1	1,864.4	(383.4)
III. CURRENT TRANSFERS	56.4	265.5	(209.1)	61.0	261.1	(200.1)

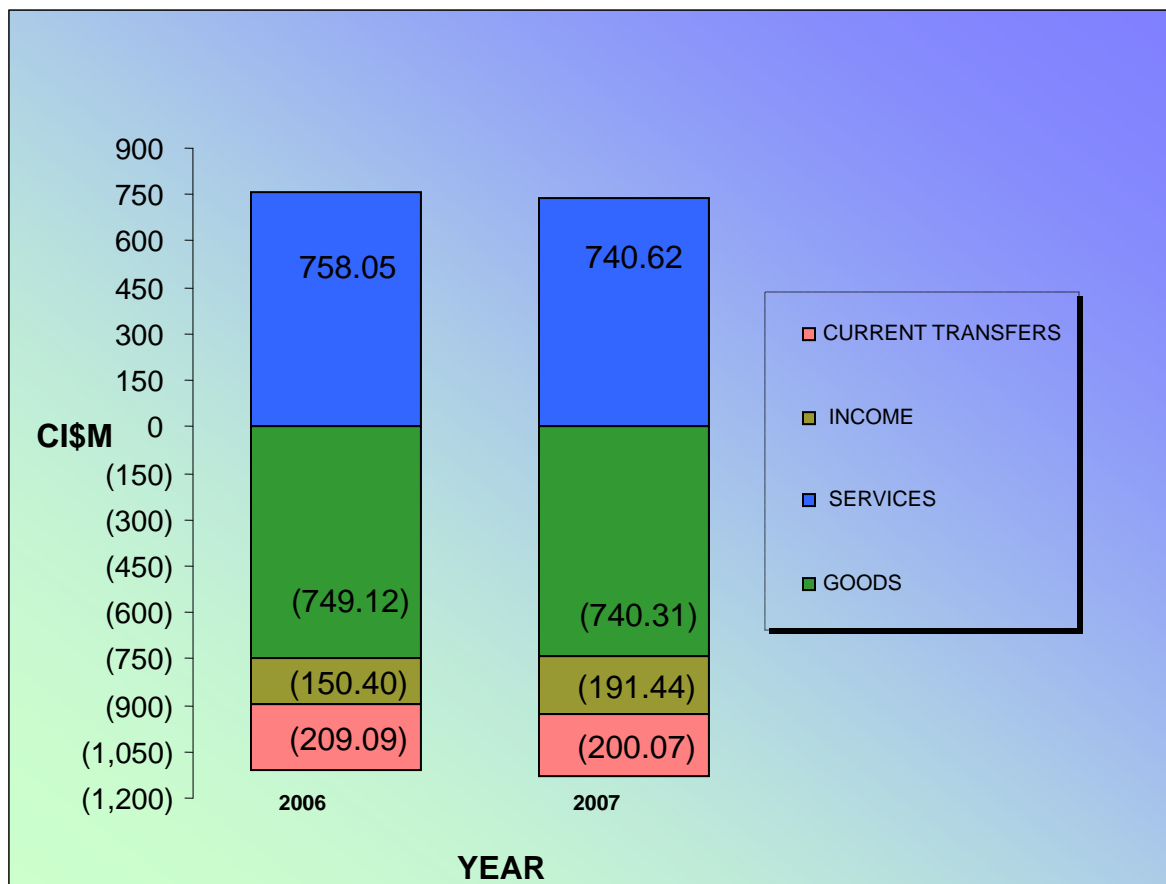
As discussed previously, credits represent inflows while debits represent outflows from the Cayman Islands. In both years, the current account for the Cayman Islands was in deficit due mainly to net payments or deficit balances of the income and current

² All values in this report are in CI\$ unless specified otherwise

transfers which were not sufficiently covered by net receipts from goods and services. The deficit amounted to \$350.6 million in 2006, which further increased in 2007 to \$391.2 million.

The chart below depicts the sources or components of the current account balance: trade in goods and services, income transactions and current transfers. Trade in services has been earning net surpluses while the three other major categories (trade in goods, income and current transfer) were in deficit. As expected, merchandise trade is the single biggest source of the current account deficit. The result also underlines the importance of the services sector in the Cayman Islands in generating foreign exchange for the country, particularly financial services and travel services.

Chart 1: Current Account Components Net Balances



6.2 Trade in goods and services

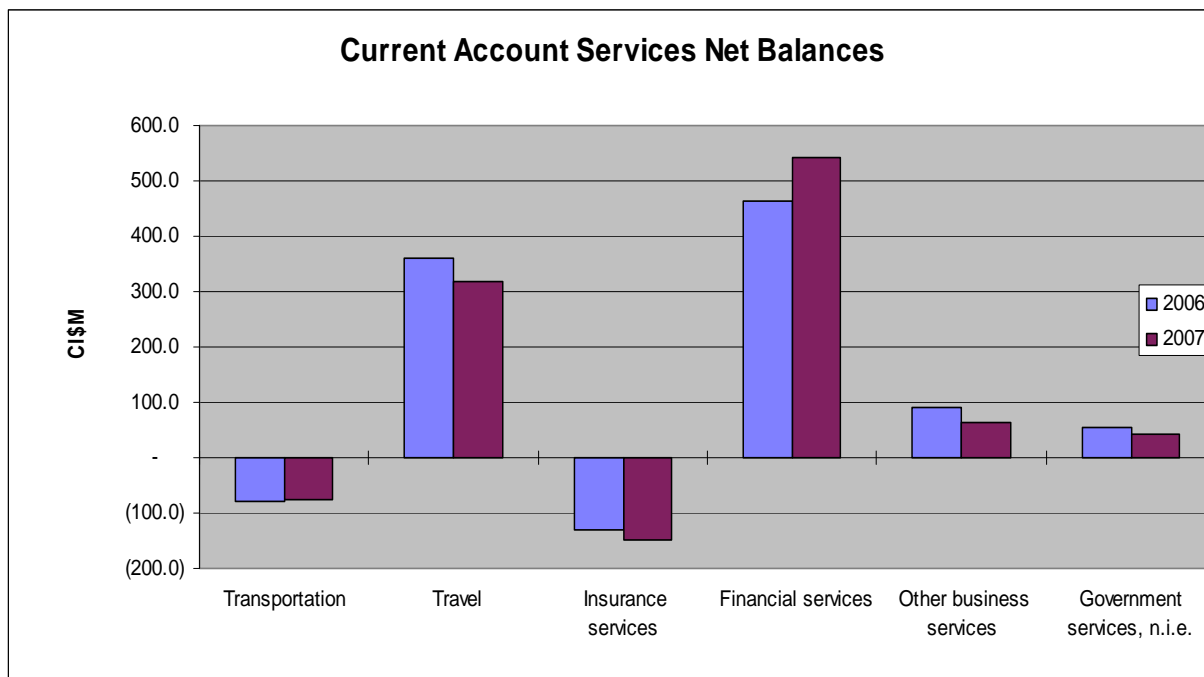
Goods. The goods account is made up of general merchandise and goods procured in ports by carriers. The Cayman Islands is heavily reliant on imports for consumption

and capital investment and is therefore expected to incur a net trade deficit arising from merchandise trade. In 2006, the deficit amounted to \$749.1million as payments for imports (f.o.b.) reached \$764.5 million, and goods procured in ports abroad amounted to \$7.7million. Meanwhile, receipts from exports of goods amounted to only \$21.5 million and goods procured in Cayman Islands ports amounted to \$1.5 million.

In 2007, the general merchandise trade deficit recorded a marginal improvement with lower payments (-1.0%) on imports and a slight increase (2.8%) in export revenues. The merchandise trade deficit narrowed by 1.1 percent to \$740.3 million as the value of goods imported totalled \$756.8 million and goods procured in ports abroad recorded \$7.5million. Exports receipts amounted to \$24.0 million. The fall in imports was largely reflected in the consumer goods and capital goods while the slight increase in export revenue was mainly a result of the increase in the export of metal scrap.

Services. Trade in services is the only major component of the current account which generated surpluses in 2006-2007. Services are made up of transactions for transportation, travel, insurance, financial, government and other business services.

Chart 2: Current Account: Trade in Services



In 2006, the total receipts/inflow for services amounted to \$1,293.6 million while the payments/outflows reached \$535.5 million, thus recording a surplus of \$758.0 million. These are largely due to net surpluses recorded for financial services and

travel/tourism; other business services and government services also generated surpluses at a smaller extent.

- Financial service, which is the largest contributor to the services component, recorded inflows of \$578.1 million and out payments of \$115.3 million resulting in a net surplus of \$462.5 million.
- Travel, the second largest component in services, is made up of receipts generated from visitors and foreign students and these amounted to \$446.2 million in 2006. Travel payments (expenditure abroad by Cayman residents) were \$85.4 million.
- Other business services category which comprises fees for professional services such as legal, accounting and management fees recorded a surplus of \$90.7million for 2006.
- Government services comprise licence fees charged by Government to the non-resident entities (or entities without physical presence in Cayman). This amounted to \$53.1 million for 2006.

However, trade for the following services were in deficit in 2006:

- Other transportation recorded a net payment of \$78.4 million, with sea transportation (which is largely the payments of cargo) amounting to \$70.9 million and air transportation amounting to \$10.3 million.
- Insurance services recorded a net deficit of \$130.5 million, with direct insurance services accounting for 25.7% while reinsurance out payments accounted for the 60.2%.

In 2007, the surplus from trade in services contracted slightly by 2 percent to \$740.6 million compared to the \$758.0 million recorded in 2006. Accounting for this performance was the smaller surpluses from travel receipts, other business services and government services and higher deficits in insurance services.

Travel receipts fell by \$28.8 million to \$417.4 million. This performance was largely attributed to the significant decline (42%) in expenditure by cruise-ship passengers due to the decline in the number of cruise-ship visitors, off-setting the impact of the 10 percent increase in stay-over visitors' expenditure. Meanwhile, Cayman residents' travel expenditure abroad recorded an increase of 17.4 percent.

The surplus from other business services and government services also declined to \$65.0 million and \$41.4 million, respectively.

Meanwhile, financial services recorded a higher surplus in 2007, expanding by 17.1 percent to \$541.4 million, largely on account of the increase in revenue generated by both the banking industry and the other financial supporting services.

Transportation services recorded a smaller deficit of \$74.8 million in 2007, which was largely due to the decline in deficit recorded in sea and air transportation services.

Insurance services recorded an increase (14.7%) in deficit in 2007 to \$149.7 million, largely due to increases in life and pension funds and reinsurance payments.

6.3 Income

This category comprises income on direct investment, portfolio investment and other investments. (Compensation income was recorded almost nil due to lack of data). In 2006-2007, balances of income on direct investment and other investment were in deficit while the balance of income on portfolio investment was in surplus.

In 2006, portfolio investments income recorded a surplus of \$392.0 million, largely due to the \$445.3 million earnings of interest on dividends and securities. In contrast, income earned on direct investment amounted to \$25.5 million while payments which was largely for dividends and distributed profits of the banking institutions reached \$376.8 million. Meanwhile, other investments income which is the largest contributor to earnings and payments across all current account categories, recorded a deficit of \$194.3 million with receipts of \$1,320.9 million and payments of \$1,515.2 million in 2006.

In 2007, the estimated net outflows on the income account increased by 27.2 percent to reach a deficit of \$191.3 million, due mainly to an increase in the deficit for other investments (which include interest payments on loans and non-resident deposits).

Net income payments on direct investment declined in 2007 to \$337.0 million.

The surplus from income of portfolio investments recorded an increase by 34.9 percent to \$528.9 million, which reflected the interest received on dividends and securities by the banking industry.

6.4 Current transfers

The current transfers component comprises workers remittances, government and other transfers. In 2006, total current transfers recorded a deficit of \$209.1million. Accounting

for this performance is the net outflow of transfer payments by workers, with net workers' remittances amounting to \$172.1 million while government and other transfers amounted to \$37.1 million.

In 2007, the deficit in current transfers dropped by 4.3 percent to \$200.1 million. There was an increase in outflow of workers remittances by 0.1 percent to \$176.1 million while inflows increased by 17.2 percent to \$4.5 million.

7. Challenges and Way Forward

7.1 Challenges

Data limitations

The major challenge encountered in the BOP compilation exercise has been the lack of data for some of the items/categories in the Balance of Payments mainly due to a lack of BOP survey. It was observed that some of the economic units do not maintain 'foreign accounts' records and were unable to identifying their counter-parties according to whether they are resident or non-resident. In most cases the identification of BOP transactions required some additional work to disaggregate the data into resident and non-resident transactions.

For the calculation of compensation of employees, more detailed information is required such as work permits by occupation, length of stay and income, however only work permits by occupation was provided.

There is limited information on the visitors' expenditure: A further breakdown of expenditure by purpose of visits from the Visitor exit survey could not be obtained.

Data made available by CIMA was too aggregated. More detailed data is required for detailed presentation by category and analysis particularly for compilation of the Capital and Financial Account.

Coverage deficiencies

Under-coverage of BOP transaction originates largely from the difficulties in identifying all the entities engaged in particular types of international transactions. With the liberalization of international capital flows, maintaining a comprehensive source of all transactors (entities, individuals, organizations etc.) involved in financial activities abroad is extremely challenging.

Methodological deficiencies

In some cases, the compilation methodology relied on assumptions and approximations, or on indirect measures, which resulted in some level of inaccuracy.

7.2 Way forward

ESO intends to conduct a BOP survey starting in the second half of 2009 as practiced in other countries. Such survey will be according to the relevant provisions in the Statistics

Law (1996 Revision) and supported further by a Survey Order. In addition, it is recognized that various data sources need to be explored. In principle, ESO aims to build a BOP database that is useful to its key users, especially in light of the rapid changes being experienced in the international markets predominantly in the financial markets.

ESO also continues to seek the assistance of the Caribbean Technical Assistance Centre. A follow-up technical mission is expected in October 2009.

Finally, revisions to published BOP estimates are common feature of many BOP compilation systems. This is largely because some information can only be obtained with significant delay, due to later reporting. Hence, revisions to the estimates included in this report will be made when additional information is collected.

Appendix: Compilation Procedures for the Cayman Islands' Current Account

This section gives an overview of the compilation procedures and data availability of the different transactions comprising the Cayman Islands' current account. The current account is categorized into goods, services, income and current transfers. All transactions described below make up the detailed entries of the BOP data base at the ESO compiled as of this publication date. As is internationally accepted, definitions and concepts employed are those recommended in the Balance of Payments Manual 5 (BPM5) published by the International Monetary Fund.

A. 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.

A1. 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.

A2. 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 Budget statement of the Port Authority and the BOP survey form for the Port Authority.

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 estimated using data from the budget statements of the domestic company, from the government accounts and the supplier of aviation fuel.

B. SERVICES

B1. 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

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.

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.

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 should have been captured directly from domestic airline companies. However, since the data was not provided, an estimate was derived by utilizing the data from the Department of Tourism (CIDOT) Visitor Exit Survey which indicated the number of visitors who utilized the domestic airline. The passenger transport credit is then calculated as a product of the number of visitors who travelled on the domestic airline and the average of the domestic airline airfare (obtained from the CPI).

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 Airport Authority. ESO then assumed that the total number of visitor arrivals was equal to visitor departures. The total visitor arrival was deducted from the total departures, and the residual was assumed to be resident departures. A ratio of usage for resident departures on

domestic airline and non-resident airline respectively was used. The passenger debit was then calculated as a product of the average airfare of (foreign airlines - from CPI) 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. Estimate was derived by obtaining the domestic airline revenue structure of total freight to total passenger revenues.

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 to the debit entry of air transportation.

Other

The credit entry for "other air transport" 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% 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 budget statement of the domestic airline.

B2. Travel

The main source of information for the travel services are the CIDOT visitor exit survey, which is supplemented with data from the HBS and the LFS. 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 and border workers working in another country
- 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.

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.³ Business travel also includes spending on goods for personal use as well as for accommodation, food, recreation and local transport.

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. There are no direct credit values for this item. It forms part of total travel- credit which comes from the CIDOT visitor exit survey. (Fees paid to consultants would be debited against the appropriate business service.)

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 grossed up using the number of employees from some of the business categories (communications, financial services, business service and manufacturing), as reported in LFS.

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.

³ This item is not included in the current compilation; however, there is a plan to include this in future improvement of data compilation and reporting estimates.

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. We assumed that the government scholarships accounted for 60% of the total student expenditure⁴.

Other expenditure on personal travel

The credit side captures expenditure by visitors on leisure and business in the Cayman Islands. The data is sourced from the CIDOT's Visitor Exit Survey. The departure tax for cruise ship visitors is also included in this item.

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.

B3. Communication services

Communication services 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.

⁴ This may be understated; there is a plan to improve on the collection of this data

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.

B4. Insurance Services

Direct insurance, freight insurance, reinsurance and life insurance and pension funds

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 reports submitted by CIMA which are supplemented by data obtained from the ANA survey and financial statements of the pension funds.

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.⁵.

Reinsurance services

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

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.

B5. Financial Services

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

⁵ This is used until the trade database is fully developed and insurance values based on the rates for each HS code from the trade database can be obtained.

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, and ESO applied based on discussions the proportion of the inflows that are from non-residents, and the proportion of payments that were made to non-residents.

B6. 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 data used were obtained from the Government accounts and the ANA survey.

B7. 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 ANA survey and the government accounts.

The debit side should cover payments by resident companies to non-residents for franchises e.g. KFC, DHL, FedEx, etc. At present, this item is not included in the compilation due to lack of data.

B8. 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 was from the ANA survey results.

B9. 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.

B10. 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 ANA survey for business services and the government accounts. We assumed that 40% of total receipts are from non-residents⁶, while payments were derived from the government accounts and pension funds.

⁶ These are mainly the establishments with no physical presence in the offshore sector.

The debit side covers payments by residents for such education services as internet and correspondence courses provided by non-residents. No estimates were derived for this item.

B11. 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 Government accounts was used for this purpose.

B12. Government Services no 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.

C. INCOME**C1. Compensation of Employees⁷**

This covers the earnings of seasonal non-resident workers paid by resident employers and earnings of seasonal resident workers paid by non-resident employers. Some examples include income paid to non-resident seasonal workers at hotels, and salaries of resident employees of consular offices.

⁷ No estimates were made for the present report, however with the anticipation of improved data reporting, estimates of this transaction will be made in the future.

The credit side covers gross salaries including allowances received by Cayman residents working as seasonal workers overseas; data for this was obtained from the SLC.

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. No entry was made for this transaction due to lack of data.

C2. 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 the investments income account mirrors the breakdown of the financial account.

Direct Investment Income

This includes income on equity and income on debt. Income on equity comprises (i) distributed income and (ii) reinvested earnings. Currently, both the credit and debit entries for direct investment income largely covers the banking industry, consequently, these estimates are grossly understated. Ideally, this should include foreign direct investment income for development and tourism projects and other businesses; however, no data are currently available for these.

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

Distributed Income (Dividends and Distributed Branch Profits)

On the credit side, this covers distributed profits and dividends on shares owned by resident direct investors from associated enterprises abroad.

On the debit side, this covers distributed profits and dividends paid by resident associated companies on shares held by non-resident direct investors.

Reinvested Earnings and Undistributed Branch Profits

This is obtained by deducting dividends from profits (that is profits and losses before realized or unrealized capital gains and losses) as obtained from the income statement.

On the credit side, this covers the direct investors' share of earnings that the non-resident enterprise does not distribute.

On the debit side this includes the non-resident direct investors' share of earnings of the resident associate that are not distributed.

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.

Income on equity (dividends)

Equity securities cover all instruments and records acknowledging claims to the residual value of a company after claims of all creditors have been met.

On the credit side would be any receipts of dividends and securities (only equity investments) received from non-resident companies.

On the debit side would be any payments of dividends and securities to non-residents.

Data for the financial institutions was submitted by CIMA, while for other sectors, results from the ANA survey were used. There were no estimates for the general government.

Income on debt (interest): bonds, debentures and notes

This gives the holder the right to a fixed money income or contractually determined variable income (interest). Investment income is derived from instruments such as non-participating preferred stocks, or shares, convertible bonds and bonds with optional maturity dates, negotiable CDs with maturities of more than one year.

The credit side should cover interest accrued to resident holders (such as the pension funds) of bonds, debentures and notes issued by non-residents.

The debit side should cover all interest accrued to non-resident holders of bond, debentures and notes issued by residents.

Data for these are obtained from the government accounts, CIMA, financial statements of pension funds, and ANA survey.

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 ANA survey results.

D. CURRENT TRANSFERS

This consists 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.

D1. 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. Recorded under government inflows are the receipts for special marriage licences. Data on these were obtained from the government accounts.

D2. Other Sectors

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.

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 SNA survey results, and CIMA.

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