



THE CAYMAN ISLANDS' BALANCE OF PAYMENTS (CURRENT ACCOUNT) 2007-2008 PRELIMINARY REPORT

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

JUNE 2010



The Economics and Statistics Office
Portfolio of Finance and Economics

Table of Contents

ACKNOWLEDGEMENT	3
ABBREVIATIONS AND ACRONYMS	4
1. EXECUTIVE SUMMARY	5
1.1 Importance of the Balance of Payments	5
1.2 Objectives	6
1.3 Preliminary estimates	6
1.4 Key data sources	7
1.5 Overview of results	7
1.6 Outline of report	8
2. COMPOSITION AND COMPILATION PROCEDURES FOR THE CAYMAN ISLANDS' CURRENT ACCOUNT	9
3. CURRENT ACCOUNT PRELIMINARY ESTIMATES.....	24
3.1 Overall Current Account	24
3.2 Trade balance	27
3.3 Income	29
3.4 Current transfers	30
APPENDIX 1: OVERVIEW OF THE BALANCE OF PAYMENTS PROJECT	31
1.1 General approach	31
1.2 Project phases	32
1.3 Survey instruments and database	32
APPENDIX 2: CONCEPTUAL FRAMEWORK.....	33
2.1 Concepts and Definitions	33
2.2 Valuation	35
2.3 Unit of Account	35
2.4 Time of Recording	35
APPENDIX 3: CLASSIFICATION SYSTEM	36
3.1 The Current Account	36
3.2 Capital and Financial Account	37
3.3 Reserves	37
APPENDIX 4: DATA SOURCES	39
REFERENCES	40

ACKNOWLEDGEMENT

The Economics and Statistics Office (ESO) is grateful to those individuals, private establishments, government departments and public companies that contributed either by providing data, guidance, or assisted in one way or another towards the development of the Balance of Payments Statistics (BOP) of the Cayman Islands.

This report was produced by the Balance of Payments (BOP) Unit, Statistics Section of the ESO, and edited by the Director. Assistance, review and data inputs from the System of National Accounts Unit (Statistics Section, ESO), and overall support from other staff members of the ESO are gratefully acknowledged.

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 Summary¹

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

¹ Parts 1.1 and 1.2 of this section are largely culled from "The Cayman Islands 's Balance of Payments (Current Account) 2006 – 2007" Economics and Statistics Office (May 2009).

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 is the second publication of preliminary estimates of the BOP for the Cayman Islands; the first was published in May 2009. The following are the objectives of the BOP publication:

- 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 presents preliminary estimates for 2008 as well as revised estimates for 2007 (the initial estimates for 2007 were published in May 2009).

Similar to the first publication, 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.

The current account in this report 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 Islands.

Furthermore, procedures that have been employed for the preliminary estimates have been limited by lack of data, and extensive use of economic indicators was used rather than survey data. It also does not capture the transactions which can only be derived from surveys. Consequently, some transactions may be understated.

In April 2010, a Balance of Payments survey was conducted to capture as much as possible the transactions conducted between residents and non-residents in 2008 and 2009. After the processing of the results of this survey, a revised BOP report will be published reflecting revisions made to the 2006 -2008 BOP statistics and the results for 2009.

1.4 Key data sources

In many countries, BOP surveys and trade reports are the main source of data for BOP statistics. However, for this publication, for reasons stated above, alternative data sources were used such as the Labour Force Surveys, budget statements of the Government statutory bodies and departments as well as economic indicators. It must be noted that the data utilized were quite limited, and this will certainly result in revisions for the years 2006 – 2008 in the subsequent BOP publication as stated above.

1.5 Overview of results

Over the past years, the Cayman Islands' balance of payments has recorded current account deficits. In 2008, the current account continued to record a deficit of CI\$367.6 million. This means that residents paid more to non-residents for goods and services, income and current transfers than they received from non-residents of other countries. The deficit recorded in 2008 was lower compared to the revised estimate of CI\$463.4 million for 2007.

Transactions in trade of goods, income and current transfers continued to be the major sources influencing the current account deficits in 2008. In contrast, services continued to record surpluses.

- The deficit on trade in goods stood at \$761.4 million in 2008 compared to \$738.9 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.

- The income account saw a deficit of \$230.3 million for 2008 lower than the \$300.8 million for 2007. The deficits were recorded as there were larger payments of direct investment and other investment in comparison to the income receipts derived from these investment and portfolio investment
- Current transfers were in deficit, amounting to \$218.31 million in 2008, slightly higher than the \$200.1 million for 2007. These transfers are made up of payments for workers' remittances, insurance premium and payments of claims as well as government transfers (i.e., contributions to regional and international organizations).
- Trade in services resulted to a surplus for 2008 amounting to \$848.9 million, higher compared to the \$782.1 million recorded in 2007. This outcome reflected the increase in earnings from financial services and travel/tourism services.

Analysis of the preliminary results reveals that the financial services, tourism receipts and portfolio investments are the major sources of foreign exchange for the Cayman Islands from the current accounts. Meanwhile, trade in goods, direct investment income payment and insurance services contributed significantly to the current account deficit.

1.6 Outline of report

The rest of this report presents a description of the composition and compilation procedures for the Cayman Islands' current account (Section 2) and the current account preliminary estimates for 2007 - 2008 (Section 3). The Appendix comprises an overview of the BOP project (Appendix 1); 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 (Appendix 2); the classification system of economic transactions included in the BOP (Appendix 3); and the major data sources used for the BOP compilation (Appendix 4).

2. Composition and Compilation Procedures for the Cayman Islands' Current Account

This section gives an overview of the transactions comprising the current account of the Cayman Islands. It also describes the compilation procedures and data availability of the different transactions.

The transactions are categorized into goods, services, income and current transfers. 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

Transactions on goods are classified into general merchandise and goods procured in ports by carriers.

On the credit side of these transactions are receipts by Caymanian residents for all exports of merchandise to non-residents. On the debit side are 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

Transactions on services include transportation, travel, communications, insurance services, other business services and government 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.² 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

² 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.

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.

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 expenditure³.

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.

³ This may be understated; there is a plan to improve on the collection of this data

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.

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 telecommunication 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 payments 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.⁴

⁴ 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.

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.

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 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-residents⁵, while payments were derived from the government accounts and pension funds.

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

⁵ These are mainly the establishments with no physical presence in the offshore sector.

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

This comprises the flow of income from compensation of employees and investment income.

C1. Compensation of Employees⁶

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.

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

⁶ 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.

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.

3. Current Account Preliminary Estimates

3.1 Overall Current Account⁷

Preliminary data indicate that the current account deficit reached \$367.64 million in 2008. This represents a \$95.7 million decrease (or 20.7%) over the revised deficit of \$463.3 million in 2007. This development is largely attributed to the increase in income from services, and the decline in investment income payments.

The current account deficit in 2008 represents 13.6 percent of GDP, down from 18.0 percent in 2007 (see Chart 1).

Chart 1

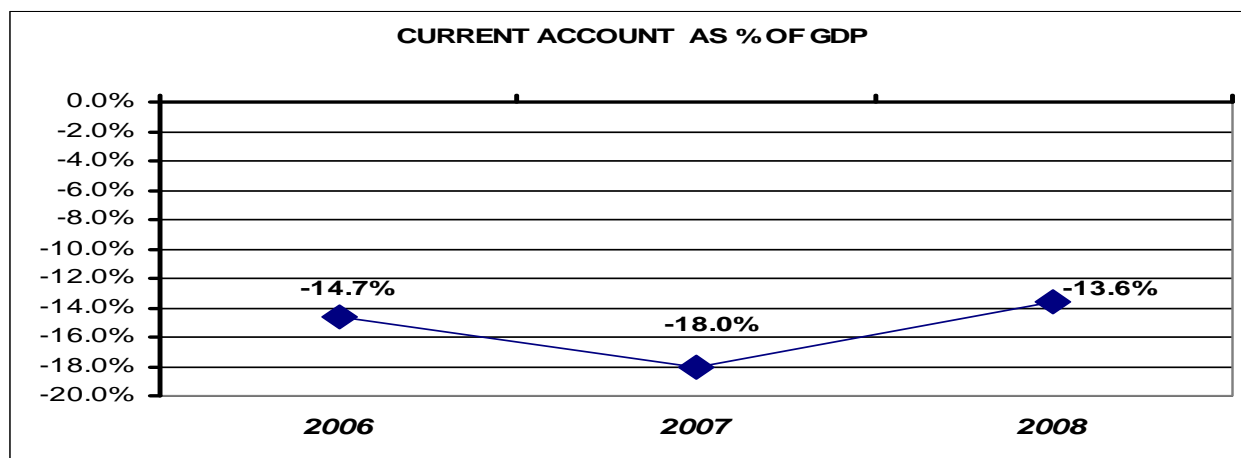


Table 1 summarizes the Current Account of the BOP for 2006 - 2008 and the three (3) main components - goods and services, income and current transfers (the detailed transactions included in each major component are described in Section 2).

- The balance arising from the country's trade in goods and services was in surplus in 2008 in the amount of \$81.0 million. This surplus is more than double the surplus estimated for 2007. It arose primarily from an increase in the services trade balance from \$782.1 million in 2007 to \$848.9 million in 2008. This significant improvement offset the increase in deficit of the goods trade balance from \$744.5 million in 2007 to \$767.9 million in 2008.
- The income balance was in deficit in 2008 amounting to \$230.3 million. This was, however, an improvement compared to the estimated deficit of \$300.8 million in 2007.

⁷ All values in this report are in CI\$ unless specified otherwise

- The current transfers balance remained in deficit in 2008 as it reached \$218.3 million. This was also a modest deterioration compared to 2007.

TABLE 1

THE CAYMAN ISLANDS									
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS: PRELIMINARY SUMMARY									
In CI\$Million, 2006 -2008									
	2006			2007			2008		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1. CURRENT ACCOUNT	3,167.9	3,518.5	(350.6)	4,289.2	4,752.5	(463.3)	4,174.4	4,542.1	(367.6)
I. GOODS AND SERVICES	1,316.6	1,307.7	8.9	1,404.3	1,366.8	37.5	1,521.2	1,440.3	81.0
A. GOODS	23.0	772.2	(749.1)	19.8	764.3	(744.5)	14.4	782.2	(767.9)
B. SERVICES	1,293.6	535.6	758.0	1,384.5	602.4	782.1	1,506.9	658.0	848.9
1. Transportation	40.7	119.1	(78.4)	40.3	115.0	(74.8)	45.5	137.1	(91.5)
2. Travel	446.2	85.4	360.7	417.4	100.2	317.2	445.1	104.1	341.0
3. Communications services	7.1	14.3	(7.2)	7.7	13.9	(6.2)	8.5	15.4	(6.8)
4. Insurance services	19.8	150.2	(130.5)	23.5	173.1	(149.7)	24.9	180.5	(155.6)
5. Financial services	578.1	115.6	462.5	728.6	145.7	582.9	819.2	163.8	655.3
6. Other business services	133.2	35.3	97.9	109.8	38.7	71.1	101.0	42.3	58.8
7. Government services, n.i.e.	68.6	15.5	53.1	57.3	15.8	41.4	62.6	14.9	47.7
									-
C. INCOME	1,794.9	1,945.3	(150.4)	2,823.9	3,124.7	(300.8)	2,590.0	2,820.3	(230.3)
1. Compensation of employees	0.2	-	0.2	0.2	-	0.2	0.2	-	0.2
2. Investment income	1,794.7	1,945.3	(150.6)	2,823.7	3,124.7	(301.0)	2,589.8	2,820.3	(230.5)
2.1 Direct investment	28.5	376.8	(348.3)	129.4	739.4	(610.0)	132.7	614.4	(481.7)
2.2 Portfolio investment	445.3	53.3	392.0	622.2	56.1	566.1	442.7	62.4	380.3
2.3. Other investments	1,320.9	1,515.2	(194.3)	2,072.1	2,329.2	(257.0)	2,014.4	2,143.5	(129.1)
			-			-			-
D. CURRENT TRANSFERS	56.4	265.5	(209.1)	61.0	261.1	(200.1)	63.2	281.5	(218.3)
1. General Government	0.12	0.99	(0.9)	0.13	1.20	(1.08)	0.12	1.11	(1.0)
2. Other sectors	56.32	264.54	(208.22)	56.37	83.79	(27.42)	57.83	89.51	(31.7)

Chart 2 depicts the trade in goods and services, income transactions and current transfers from 2006 to 2008. Trade in services has been earning net surpluses while the three other major categories (trade in goods, income and current transfer) have been in deficit. As expected, services are the single biggest source of net earnings in the current account. This result 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 2

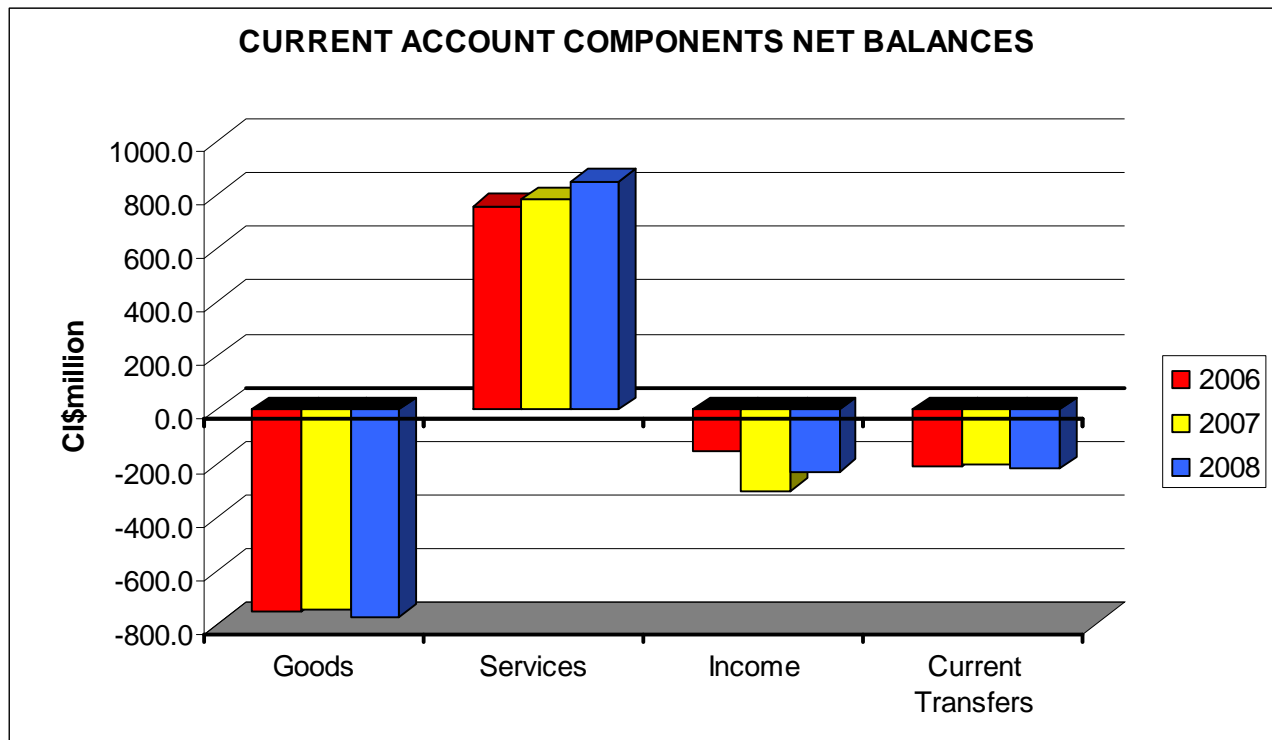


Chart 3

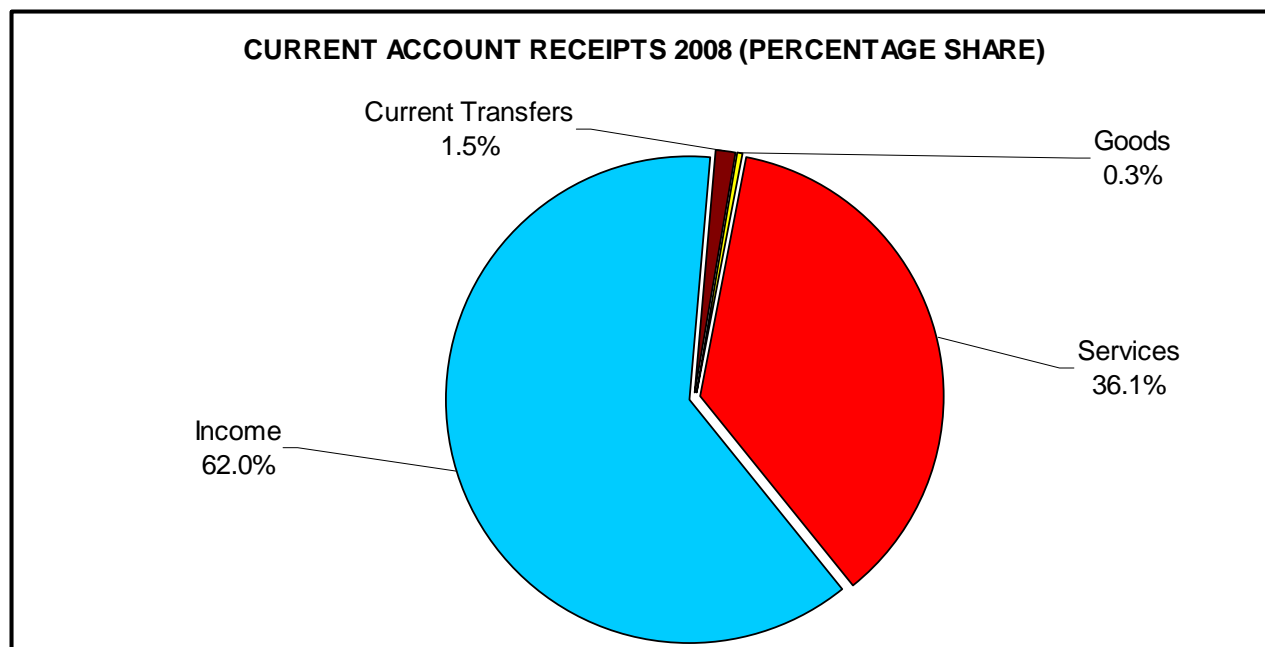


Chart 3 shows the four major types of current account transactions and their contribution to total receipts. Receipts from income transactions (mainly investment income) is estimated to have the largest share of sixty-two (62.0) percent. Receipts from services (mainly financial services and travel services) are estimated to provide 36.1 per cent. Current transfers and receipt from exports of goods have comparatively small shares.

3.2 Trade balance

The estimated trade balance comprising of the balances from trade and services showed a modest surplus in 2008 as in the previous two years. The surplus came mainly from services, as the merchandise trade balance was in deficit.

Goods

The merchandise trade deficit is estimated to have widened by 23.4 percent to \$767.9 million in 2008, which is equivalent to 28.4 percent of GDP. This performance was largely due to the higher import payments for goods, an increase of 2.3 percent, resulting mainly from higher prices, particularly fuel, in the international market. At the same time, receipts from exports in 2008 declined. Analysis of the trade data indicates that petroleum products, food and live animals, beverages and tobacco were some of the major contributors to the import bill. In contrast, earnings from merchandise exports fell by 2.7 percent to

\$14.4 million. This performance was partly associated with lower re-exports, which is the major component of total exports.

Services

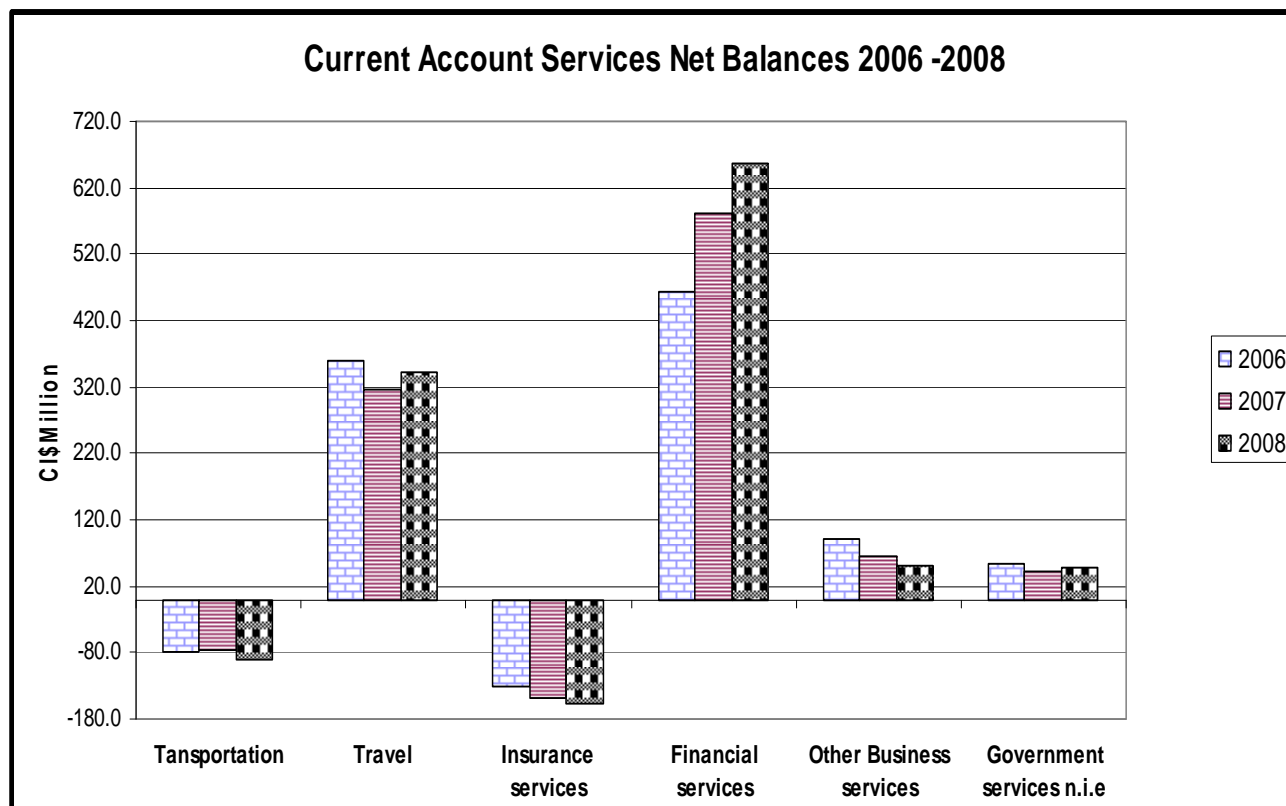
The surplus from transactions in services increased by 8.5 percent to \$848.9 million in 2008 compared to the \$782.1 million estimated in 2007.

Receipts earned from services amounted to \$1,506.9 million compared to \$1,384.5 million in 2007. Financial services continued to generate the largest receipts (\$819.2 million) in 2008, an increase of 12.4 percent over 2007. It is noted that total receipts from the financial services comprised of receipts derived by the banking sector, and receipts for the other financial sectors which was assumed to move in line with growth in the number of non-bank financial service providers.

Government services generated \$62.6 million, while insurance services generated \$24.9 million in 2009. These two transactions also rose by 9.2 percent and 6.0 percent respectively, as compared to 2007.

Other business services receipts fell by 8.0 percent to \$101.0 million in 2008. Travel receipts increased by 6.6 percent to \$445.1million in 2008, up from \$417.4 million in 2007. This performance largely reflects the 3.9 percent increase in stay-over visitors, amidst the 9.5 percent decline in cruise ship visitors. It must be noted that stay-over visitors' daily expenditure is generally larger than that of cruise ship visitors.

CHART 4



Payments for services rose by \$55.6 million to \$658.0 in 2008. This performance was traced to increases of \$22.1 million in transportation; \$7.4 million in insurance, \$18.1 million in financial services and \$3.5 million in other business services payments and \$3.92 million in travel expenditure.

Consequently, in 2008, the surplus from trade in services expanded slightly by 8.5 percent to \$848.9 million compared to the \$782.1 million recorded in 2007. Accounting for this performance was the increase in surpluses from travel receipts, financial services, and government services, which offset the increase in deficits in insurance services and the contraction of the surplus of other business services.

3.3 Income

Current account balance due to the flow of income has been mainly derived from direct investment, portfolio investment and other investments. (Compensation income was estimated almost nil due to lack of data). In 2008 and 2007, income payments on direct investment and other investment far exceeded income receipts while the balance of income on portfolio investment was in surplus.

In 2008, receipts from portfolio investments income fell by \$179.5 million to \$442.7 million. Offsetting this decline were income payments on portfolio investments which increased to \$62.4 million in 2008 over the \$56.1 million estimated for 2007. This performance can be largely attributed to a fall in interest on dividends and securities payments by the banking sector. Income earned on direct investment also increased to \$132.7 million in 2008 compared to the \$129.4 million estimated for 2007.

Meanwhile payments on direct investment income which was largely for dividends and distributed profits of the banking institutions fell by \$125 million to reach \$614.4 million in 2008. Other investments income which is the largest contributor to earnings and payments across all current account categories, recorded a deficit of \$129.1 million with receipts of \$2,014.4 million and payments of \$2,143.5 million.

Investment income for the non-banking sector were estimated based on the assumption that the receipts moved in line with the performance of the United States' economy, that is it growth in GDP, while the payments were assumed to be correlated to GDP growth of the Cayman Islands.

Overall, the income account recorded a deficit of \$230.3 million for 2008 compared to \$300.8 million in 2007. This performance is due mainly to the decrease in the deficit for other investments (which include interest payments on loans and non-resident deposits) and direct investments.

3.4 Current transfers

The current transfers account recorded a deficit of \$218.3 million in 2008 compared to \$200.1 million recorded in 2007. Receipts increased to \$63.2 million, reflecting the increase in net insurance premiums. Payments increased to \$281.5 million largely reflecting the increase in workers remittances of 8.4 percent.

Appendix 1: Overview of the Balance of Payments Project

1.1 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.

1.2 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 capital and financial account will be compiled using the 2008 and 2009 data is scheduled to be completed in the second half of 2010.

1.3 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 only conducted in the April of 2010 due to circumstances beyond ESO's control.

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.

Appendix 2: Conceptual Framework

2.1 Concepts and Definitions

2.1.1 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.

2.1.2 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.

2.1.3 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.

2.1.4 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.

2.1.5 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.

2.1.6 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.

2.1.7 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”.

2.1.8 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.

2.1.9 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.

2.2 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 prices⁸ agreed upon by parties.

2.3 Unit of Account

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

2.4 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.

⁸ 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.

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.

3.1 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.

3.2 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.

3.3 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.

Appendix 4: 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.

Consequently, the main source of data for the compilation of the BOP was administrative records.

Generally, the data inputs for BOP compilation for the years 2007 and 2008 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
- Annual Economic Report

References

Balance of Payments Manual, Fifth edition, International Monetary Fund (IMF) Publication Services, 1993

Balance of Payments and International Investment Position Manual, Sixth edition, IMF Pre Publication Draft December 2008

Balance of Payments Statistics Year (Part 2: World and Regional Tables, and Part 3: Methodologies, Compilation Practices and Data sources), IMF publication Services, Annual Series

Balance of Payments Textbook, IMF Publication Services (1996)

Balance of Payment Compilation Guide, IMF Publication Services (1995)