

A large, faint background image of a pair of scales of justice, symbolizing balance and equity.

# THE CAYMAN ISLANDS' BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION REPORT 2015

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The Economics and Statistics Office  
Government of the Cayman Islands



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

## ABBREVIATIONS AND ACRONYMS

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

## 1. EXECUTIVE SUMMARY

1.1 This report presents the Balance of Payments (Section 2) and the International Investment Position (IIP) preliminary estimates for the year 2015 (Section 3), with some references to 2012 to 2014.

1.2 The estimates in this report are based on the results of the Annual BOP Survey conducted by the ESO between March and May 2016 augmented by administrative data mostly from the Cayman Islands Monetary Authority (CIMA).

### **Balance of Payments**

1.3 In 2015, the country's BOP was comprised of a Current Account deficit amounting to \$629.6 million, a Financial Account net borrowing amounting to \$478.9 million and unobserved flows amounting to \$148.0 million. (No Capital Account transactions were reported).

1.4 The Current Account deficit in 2015 resulted from deficits of the following balances:

- (i) Balance of trade in goods : -\$602.4 million
- (ii) Balance of primary income : -\$629.0 million
- (iii) Balance of secondary income : -\$153.1 million

1.5 Partially offsetting the above was the surplus from trade in services amounting to \$757.6 million. The largest contributors to the latter are travel services (\$426.9 million); financial services (\$295.1 million) and other business services including legal and accounting (\$170.8 million).

1.6 The Current Account in 2015 (equivalent to 22.0% of GDP) represents a narrowing of \$73.2 million from the revised 2014 deficit which amounted to \$700.2 million (25.4% of GDP). This performance was driven by lower payment for goods, reduced remittances outflows, and increased net services inflows.

1.7 The Financial Account net borrowing of \$478.9 million (or the excess of changes in financial assets over financial liabilities) in 2015 resulted from net acquisition of financial assets estimated at \$4,609.3 million which was partially offset by the net incurrence of financial liabilities estimated at \$5,088.2 million.

### **International Investment Position**

1.8 The IIP shows the value and composition of outstanding foreign assets and liabilities of residents at the end of the year. (The latter also represents the total investments of non-residents in the Cayman Islands).

- 1.9 By end of 2015, the total investments in financial assets abroad by residents (mainly financial corporations) amounted to CI\$127.2 billion. These were made up of direct investments (\$21.5 billion); portfolio investment (\$25.1 billion); financial derivatives (\$3.0 billion); currencies, loans, deposits and other investments (\$77.4 billion); and reserve assets (\$112.0 million).
- 1.10 By end 2015, the total investments of non-residents in local financial assets (which are also reported as foreign liabilities of residents or inward investments) was estimated at CI\$123.5 billion. These were in the form of direct investment (\$28.1 billion); portfolio investment (\$24.6 billion); currencies, loans, deposits and other investment (\$70.8 billion).
- 1.11 The difference between foreign financial assets and liabilities or the net IIP in 2015 amounted to \$3.7 billion (or 128.3% of GDP). This is comprised of net assets in other investment (including currency and deposits, loans and accounts receivable/payable) amounting to \$6.5 billion; financial derivatives (\$3.0 billion), reserve assets (\$112.0 million) and portfolio investment (536.9 million). On the other hand, net liabilities were recorded in direct investment (\$6.5 billion).
- 1.12 The net IIP in 2015 is lower relative to the \$4.7 billion estimated as residents' net incurrence of financial liabilities increased at a faster pace than the net acquisition of financial assets.



## 2. BALANCE OF PAYMENTS

### 2.1 Introduction

The international accounts comprising of the Balance of Payments (BOP) and the International Investment Position (IIP) provide useful information for assessing the county's economic relations with the rest of the world.

The Balance of Payments (BOP) is the system of accounts that record all economic and financial transactions between residents of the Cayman Islands and the rest of the world. It is comprised of three (3) accounts:

- (i) the Current Account which captures transactions in trade on goods and services, primary income and secondary income (transfers);
- (ii) the Financial Account which comprises all types of investment; and
- (iii) the Capital Account which records all capital transfers such as grants used for physical capital expenditures. However, as of 2015, there are no reported transactions in the Capital Account.

A negative balance or a deficit in any of the above accounts indicates that the total inflows to residents from non-residents are less than their outflows (payments and lending) to non-residents.

The sum of the balances on the Current and Capital Account represents the Net Lending (surplus) or Net Borrowing (deficit) by the economy with the rest of the world. Conceptually this should be equal to the net balance of the Financial Account. This means that the Financial Account measures how the net lending or net borrowing from non-residents is financed.

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

Estimates in this Report are based on both survey and non-survey data collated as closely as is feasible in a format consistent with the BPM6. The BOP survey was conducted by the ESO between March and May 2016, albeit the collection of returns was extended to September 2016 to accommodate the request of a few respondents. A significant amount of data, particularly on the banking sector, was sourced from CIMA.

Data on receipts from travel services are not currently available from the Department of Tourism who conducts the exit surveys for tourists; the estimates presented in this Report were instead adopted from the forecasts prepared by the ESO Economics Section as presented in *The Cayman Islands' Annual Economic Report 2015*.

The data in this report are subject to revisions. Estimates for the 2015 are provisional and are subject to future revisions in light of any updated data.

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

## 2.2 BOP Summary

Table 1 shows the summary of the Balance of Payments for the years 2012 to 2015, comprising of current and financial accounts as there were no reports on the capital account transactions. Details of the BOP accounts are presented in Table 2 and further explained in the rest of this Section.

**Table 1: Cayman Islands Balance of Payments**

In CI\$Million				
	2012	2013	2014R	2015
<b>1. Current Account</b>	-532.8	-605.4	-700.2	-626.9
<b>Goods</b>	-641.1	-597.6	-651.2	-602.4
Exports	45.3	103.3	80.5	78.3
Imports	686.4	700.9	731.8	680.7
<b>Services (Net)</b>	521.7	589.2	698.1	757.6
<b>Primary Income (Net)</b>	-267.0	-441.5	-563.7	-629.0
<b>Secondary Income (Net)</b>	-146.3	-155.6	-183.4	-153.1
<b>2. Capital Account*</b>	-	-	-	-
<b>3. Financial Account</b>	-330.5	-1,593.5	-517.4	-478.9
<b>4. Unobserved Flows</b>	202.3	-988.0	182.8	148.0

\* No Capital Account transactions were reported.

## 2.2.1 Current Account Summary

In 2015, the Current Account of the Cayman Islands is estimated to have contracted by 10.5 percent to reach \$626.9 million, down from the revised \$700.2 million recorded in 2014. This deficit is equated to 22.0 percent of GDP, which is 3.3 percentage lower than the 25.4 percent recorded in 2014. The lower deficit was driven primarily by the decline in the value of merchandise imports along with the increase in receipts for services and the fall in remittances payments to non-residents.

The Current Account deficit in 2015 is comprised of the following balances:

- (i) Balance of trade in goods : -\$602.4 million
- (ii) Balance of trade in services : \$757.6 million
- (iii) Balance of primary income : -\$629.0 million
- (iv) Balance of secondary income : -\$153.1 million

Balance of trade in goods In 2015, the trade in goods sub-account narrowed by \$48.9 million to reach \$602.4 million. This was driven largely by the decline in the value of imported goods, which outpaced the fall in revenue from exported goods.

Balance of trade in services The services sub-account continued to experience a surplus, with 2015 recording a surplus of \$757.6 million, an increase of \$59.5 from 2014, as receipts outpaced payments. The surplus on travel grew largely on account of increased spending of visitors. In contrast, the deficit on transportation and insurance services contracted, along with the net receipts from other business services and financial services.

The nine (9) services comprising the Current Account balance and their corresponding balances in 2015 are as follows:

- (i) Financial services (excluding insurance) : \$295.1 million
- (ii) Travel : \$426.9 million
- (iii) Other business services (mainly legal and accounting) : \$170.8 million
- (iv) Government services n.i.e : \$87.1 million
- (v) Transportation : -\$87.6 million
- (vi) Insurance and pension services : -\$75.1 million
- (vii) Telecommunication, computer and information services : -\$30.8 million
- (viii) Other services : -\$28.7 million

Balance of primary income. The primary income sub-account experienced an inflow of funds of \$2,154.9 million while payments of \$2,783.9 million were made to non-residents. This resulted in a deficit (net outflow) of \$629.0 million, compared to the net outflow of \$563.7 million obtained in 2014. This stemmed from the increased payments

to direct investors and the drop in income receipts from other investments. Meanwhile, income from portfolio investments increased while both payments and receipts for other investments fell.

The primary income deficit is comprised of balances from the following income transactions:

- (i) Portfolio investment : \$620.9 million
- (ii) Direct investment : -\$490.5 million
- (iii) Other investments : -\$746.6 million
- (iv) Compensation of employees : -\$12.8 million

Balance of secondary income The secondary income (formerly current transfers) deficit fell by 16.5 percent to \$153.1 million, on account of the 5.7 percent decline in workers' remittances and other current transfers.

The balance was comprised of the following:

- (i) General government transfers : \$15.0 million
- (ii) Workers' remittances : -\$136.2 million
- (iii) Other current transfers : -\$31.9 million

### 2.2.2 Financial Account Summary

In 2015, the net borrowing amounted to \$478.9 million resulting from:

- (i) Net acquisition of financial assets : \$4,609.3 million
- (ii) Net incurrence of financial liabilities: \$5,088.2 million

Compared to 2014 which recorded a net borrowing of \$517.4 million, 2015 experienced a net borrowing of \$478.9 million largely due to the decline in net acquisition of financial assets which fell at a faster pace than the fall in incurrence of financial liabilities.

Table 2: The Cayman Islands Balance of Payments

In CI\$ Million					
CURRENT ACCOUNT	2012	2013	2014R	2015	Rate (%) 2015 / 2014
<b>Receipts</b>					
Exports of goods and services and income receipts (credits)	3,492.3	3,801.2	3,948.6	4,025.3	1.9
Export of goods and services	1,440.5	1,603.5	1,662.8	1,772.4	6.6
<b>Goods</b>	45.3	103.3	80.5	78.3	-2.7
Merchandise goods	20.8	29.7	26.9	31.4	16.7
Net exports of goods under merchanting	24.6	73.6	53.6	46.9	-12.5
Non-monetary gold	0.0	0.0	0.0	0.0	
<b>Services</b>	1,395.2	1,500.2	1,582.3	1,694.1	7.1
Travel	407.8	416.6	470.6	566.6	20.4
Transportation	41.4	44.1	47.3	49.5	4.7
Insurance services	105.1	129.3	129.2	129.0	-0.2
Financial services	398.1	398.2	412.3	371.1	-10.0
Telecommunications, computer and information services	11.6	13.2	16.2	17.2	5.7
Other business services	347.3	397.5	402.8	458.4	13.8
Government goods and services n.i.e	81.9	98.2	100.2	98.7	-1.5
Other services	1.9	3.2	3.7	3.5	-3.8
<b>Primary income receipts</b>	1,966.5	2,124.3	2,196.8	2,154.9	-1.9
<b>Investment income</b>	1,966.5	2,124.3	2,196.8	2,154.9	-1.9
Direct investment income	210.7	232.2	230.2	232.2	0.9
Portfolio investment income	613.3	633.0	618.6	650.7	5.2
Other investment income	1,142.5	1,259.1	1,348.0	1,272.0	-5.6
Compensation of employees	0.0	0.0	0.0	0.0	-
<b>Secondary income (current transfer) receipts</b>	85.4	73.4	88.9	98.0	10.2
General government	14.2	13.5	15.5	16.0	3.5
Worker's remittances	4.9	6.0	5.4	5.1	-6.4
Other current transfers	66.3	53.9	68.1	76.9	13.0
<b>Payments</b>					
Imports of goods and services and income payments (debits)	4,025.1	4,406.7	4,648.8	4,652.2	0.1
Import of goods and services	1,560.0	1,611.9	1,616.0	1,617.2	0.1
<b>Goods</b>	686.4	700.9	731.8	680.7	-7.0
Merchandise goods	680.3	700.7	730.3	678.1	-7.1
Non-monetary gold	6.1	0.1	1.5	2.6	76.7
<b>Services</b>	873.5	911.0	884.2	936.5	5.9
Travel	139.6	148.4	133.1	139.7	5.0
Transportation	142.6	145.1	140.7	137.1	-2.5
Insurance services	209.1	208.6	206.2	204.1	-1.0
Financial services	97.3	103.3	104.4	76.0	-27.2
Telecommunications, computer and information services	35.1	35.0	46.7	47.9	2.8
Other business services	215.3	232.3	212.6	287.6	35.3
Government goods and services n.i.e	13.4	15.3	10.4	11.7	12.2
Other services	21.1	22.9	30.1	32.3	7.1
<b>Primary income payments</b>	2,233.5	2,565.8	2,760.5	2,783.9	0.8
<b>Investment income</b>	2,219.5	2,552.4	2,745.6	2,771.0	0.9
Direct investment income	870.2	777.1	480.0	722.7	50.5
Portfolio investment income	73.5	54.6	29.6	29.8	0.7
Other investment income	1,275.9	1,720.6	2,236.0	2,018.6	-9.7
Compensation of employees	13.9	13.4	14.9	12.8	-13.9
<b>Secondary income (current transfer) payments</b>	231.7	229.0	272.3	251.1	-7.8
General government	0.6	0.7	0.6	0.97	76.1
Worker's remittances	148.9	145.5	149.9	141.3	-5.8
Other current transfers	82.2	82.7	121.9	108.8	-10.7

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

In CI\$ Million					
	2012	2013	2014R	2015	Rate (%) 2015 / 2014
<b>Current Account Balances</b>	<b>(532.8)</b>	<b>(605.4)</b>	<b>(700.2)</b>	<b>(626.9)</b>	<b>(10.5)</b>
<b>Goods and services</b>	<b>(119.5)</b>	<b>(8.4)</b>	<b>46.9</b>	<b>155.2</b>	<b>231.2</b>
<b>Goods</b>	<b>(641.1)</b>	<b>(597.6)</b>	<b>(651.2)</b>	<b>(602.4)</b>	<b>(7.5)</b>
<b>Services</b>	<b>521.7</b>	<b>589.2</b>	<b>698.1</b>	<b>757.6</b>	<b>8.5</b>
Travel	268.2	268.2	337.5	426.9	26.5
Transportation	(101.2)	(101.0)	(93.4)	(87.6)	(6.2)
Insurance services	(104.0)	(79.3)	(77.0)	(75.1)	(2.5)
Financial services	300.8	294.8	307.9	295.1	(4.2)
Telecommunications, computer and information services	(23.5)	(21.9)	(30.4)	(30.8)	1.2
Other business services	132.0	165.2	190.2	170.8	(10.2)
Government goods and services n.i.e	68.5	82.9	89.8	87.1	(3.1)
Other services	(19.2)	(19.7)	(26.5)	(28.7)	8.5
<b>Primary income</b>	<b>(267.0)</b>	<b>(441.5)</b>	<b>(563.7)</b>	<b>(629.0)</b>	<b>11.6</b>
<b>Investment income</b>	<b>(253.1)</b>	<b>(428.1)</b>	<b>(548.8)</b>	<b>(616.2)</b>	<b>12.3</b>
Direct investment income	(659.5)	(544.9)	(249.8)	(490.5)	96.3
Portfolio investment income	539.8	578.4	589.0	620.9	5.4
Other investment income	(133.4)	(461.6)	(888.0)	(746.6)	(15.9)
Compensation of employees	(13.9)	(13.4)	(14.9)	(12.8)	(13.9)
<b>Secondary income (current transfer)</b>	<b>(146.3)</b>	<b>(155.6)</b>	<b>(183.4)</b>	<b>(153.1)</b>	<b>(16.5)</b>
General government	13.6	12.7	14.9	15.0	0.8
Worker's remittances	(144.0)	(139.5)	(144.5)	(136.2)	(5.7)
Other current transfers	(15.9)	(28.8)	(53.8)	(31.9)	(40.7)
					-
<b>CAPITAL ACCOUNT*</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net lending (+) or net borrowing (-) from current and capital account transactions</b>	<b>(532.8)</b>	<b>(605.4)</b>	<b>(700.2)</b>	<b>(626.9)</b>	<b>(10.5)</b>
<b>FINANCIAL ACCOUNT</b>	<b>(330.5)</b>	<b>(1,593.5)</b>	<b>(517.4)</b>	<b>(478.9)</b>	<b>(7.4)</b>
<b>Net acquisition of financial assets (net increase in assets / financial outflow (+))</b>	<b>7,715.8</b>	<b>2,198.7</b>	<b>8,426.4</b>	<b>4,609.3</b>	<b>(45.3)</b>
Direct investment assets	5,543.5	3,090.0	947.1	496.1	(47.6)
Portfolio investment assets	2,025.5	(4,059.6)	3,731.1	5,428.7	45.5
Other investment assets	2,250.6	4,485.9	2,993.9	(2,381.0)	(179.5)
Financial derivatives	(2,102.8)	(1,322.5)	751.5	1,052.4	40.0
Reserve assets	(1.0)	4.9	2.9	13.1	357.0
<b>Net incurrence of liabilities excluding financial derivatives (net increase in liabilities / financial inflow (+))</b>	<b>8,046.3</b>	<b>3,792.2</b>	<b>8,943.9</b>	<b>5,088.2</b>	<b>(43.1)</b>
Direct investment liabilities	855.1	2,055.6	3,384.4	3,125.5	(7.6)
Portfolio investment liabilities	9,018.7	6,883.5	(1,539.0)	(3,764.7)	144.6
Other investment liabilities	(1,827.5)	(5,147.0)	7,098.4	5,727.4	(19.3)
Financial derivatives	-	-	0.1	0.03	-
<b>Net lending (+) or net borrowing (-) from financial account</b>	<b>(330.5)</b>	<b>(1,593.5)</b>	<b>(517.4)</b>	<b>(478.9)</b>	<b>(7.4)</b>
<b>Unobserved Flows</b>	<b>202.3</b>	<b>(988.0)</b>	<b>182.8</b>	<b>148.0</b>	<b>(19.0)</b>

\*No reported transactions for Capital Account

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

Table 3: Balance of Payments Summary

In C1\$ Million		
	2014R	2015
<b>Current account balance</b>	<b>-700.2</b>	<b>-626.9</b>
<b>Credits</b>	<b>3,948.6</b>	<b>4,025.3</b>
<b>Debits</b>	<b>4,648.8</b>	<b>4,652.2</b>
<b>Goods and services</b>	<b>46.9</b>	<b>155.2</b>
<b>Credit</b>	<b>1,662.8</b>	<b>1,772.4</b>
<b>Debit</b>	<b>1,616.0</b>	<b>1,617.2</b>
<b>Goods</b>	<b>-651.2</b>	<b>-602.4</b>
Exports (credit)	80.5	78.3
Imports (Debit)	731.8	680.7
<b>Services</b>	<b>698.1</b>	<b>757.6</b>
<b>Credit</b>	<b>1,582.3</b>	<b>1,694.1</b>
<b>Debit</b>	<b>884.2</b>	<b>936.5</b>
<b>Primary income</b>	<b>-563.7</b>	<b>-629.0</b>
<b>Credit</b>	<b>2,196.8</b>	<b>2,154.9</b>
<b>Debit</b>	<b>2,760.5</b>	<b>2,783.9</b>
<b>Secondary income</b>	<b>-183.4</b>	<b>-153.1</b>
<b>Credit</b>	<b>88.9</b>	<b>98.0</b>
<b>Debit</b>	<b>272.3</b>	<b>251.1</b>
<b>Capital account</b>	<b>0.0</b>	<b>0.0</b>
<b>Credit</b>	<b>0.0</b>	<b>0.0</b>
<b>Debit</b>	<b>0.0</b>	<b>0.0</b>
<b>Net lending (+) / net borrowing (-) (balance)</b>	<b>-700.2</b>	<b>-626.9</b>
<b>Financial account</b>		
<b>Net lending (+) / net borrowing (-) (balance)</b>	<b>-517.4</b>	<b>-478.9</b>
<b>Direct investment</b>	<b>-2,437.3</b>	<b>-2,629.4</b>
Net acquisition of financial assets	947.1	496.1
Net incurrence of liabilities	3,384.4	3,125.5
<b>Portfolio investment</b>	<b>5,270.1</b>	<b>9,193.4</b>
Net acquisition of financial assets	3,731.1	5,428.7
Net incurrence of liabilities	-1,539.0	-3,764.7
<b>Financial Derivatives</b>	<b>751.4</b>	<b>1,052.4</b>
Net acquisition of financial assets	751.5	1,052.4
Net incurrence of liabilities	0.1	0.0
<b>Other Investments</b>	<b>-4,104.5</b>	<b>-8,108.3</b>
Net acquisition of financial assets	2,993.9	-2,381.0
Net incurrence of liabilities	7,098.4	5,727.4
<b>Reserve assets</b>	<b>2.9</b>	<b>13.1</b>
<b>Net errors and omissions/ unobserved flows</b>	<b>182.8</b>	<b>148.0</b>



## 2.3 Current Account Balances

### 2.3.1. Balance of Trade in Goods

Table 2 reveals that the goods deficit narrowed by 7.5 percent to \$602.4 million in 2015. This is equivalent to 21.2 percent of GDP, compared to the 23.6 percent represented in 2014. This performance resulted from the fall in the value imports, which outpaced the drop in revenue from exports.

The value of goods exported in 2015 fell by \$2.2 million to \$78.3 million, a 2.7 percent decline. This was largely a result of the contraction of the net exports of goods under merchandising. In contrast, re-exports which are largely personal effects increased.

In 2015, the total value of goods imported (f.o.b) into the Cayman Islands contracted by 7.5 percent to reach CI\$680.7 million, compared to CI\$731.8 million recorded in 2014. The fall is largely attributed to the continued decline in the international price of fuel, which resulted in the overall decline in the value of petroleum imports.

On the other hand, non-petroleum products increased by 2.0 percent largely on account of the increase in the imports of machinery and transport equipment (16.0%), crude materials except fuel (11.0%), and other commodities not classified elsewhere (11.9%).

Analysis of imports by broad economic category (BEC) reveals sharp growth in capital goods (17.1%) and unclassified goods (9.1%). Intermediate goods and passenger vehicles grew at a slower pace of 0.34 percent and 0.42 percent respectively. In contrast, a sharp decline of 40.1 percent was recorded in motor fuels, while consumption goods fell moderately by 2.2 percent respectively.

### 2.3.2 Balance of Trade in Services

The trade in services surplus was \$59.6 million higher than that of 2014 and amounted to \$757.6 million. Export of services were \$111.8 million higher than 2014, with increases recorded in travel, other business services, transportation and telecommunications, computer and information services. On the other hand insurance and financial services fell. Payments for services recorded increases and moved from \$884.2 million in 2014 to \$936.5 million in 2015. This was largely on account of the increases in travel, telecommunication, computer and information services, government goods and services n.i.e, and other services. Partially offsetting this were the decline in financial and transportation services (see Table 2).

In 2015, the surplus of the services sub-account represented 26.6 percent of GDP, up from the 25.3 percent recorded in 2014.

The trade in services comprises the following balances:



**Travel.** Net foreign earnings from travel is estimated to have grown by 26.5 percent to \$426.9 million. This was driven primarily by the increase in export receipts from visitors due to the growth in visitor arrivals.

Foreign earnings from visitors was \$566.0 million in 2015, reflecting an increase of 20.4 percent, largely driven by the increase in both stay over visitor and cruise ship arrivals. Travel receipts includes revenue earned from visitors for medical, educational, business and personal purposes. Travel receipts is a major source of foreign earnings contributing 14.1 percent to total Current Account receipts.

Payments for international travel by residents grew by \$6.6 million to \$139.7 million in 2015. This stemmed from the increases in payments for personal, business and health purposes. Partially offsetting this performance was the decline in travel for educational purposes.

**Insurance.** Insurance services recorded a deficit of \$75.1 million down from \$77.0 million recorded in 2014. This was due to the fall in payments for freight insurance which largely reflected the decline in the value of goods imported.

**Financial services (excluding insurance).** The net surplus for financial services continued on the downward trend, contracting by \$12.9 million (or 4.2%) to \$295.1 million in 2015 compared to \$307.9 million recorded in 2014.

In 2015, receipts from financial services fell by 10.0 percent to settle at \$371.1 million, compared to \$412.3 million recorded in 2014. This decline emanated from the lower receipts of deposit taking corporations (banks). In spite of the decline, earnings from financial services continued to be a significant source of foreign exchange earnings, representing 9.2 percent of total Current Account receipts.

Payments for financial services to non-residents fell by \$28.4 million (or 27.2%) and stood at \$76.0 million compared to the \$104.4 million obtained in 2014. The sharp decline was largely on account of the decreased payments for financial services by banks and other businesses.

**Transportation.** In 2015, the net outflow for transportation services fell by \$5.8 million (or 6.2%) to \$87.6 million, compared to the \$93.4 million deficit experienced in 2014. This reflects the increase in receipts for passenger services, along with the decline in payments for freight services.

The net outflow for sea transportation fell by 8.5 percent to \$64.3 million in 2015, compared to \$70.3 million recorded in 2014. Exports were 7.7 percent higher than that

of 2014, at \$11.95 million with increases in revenue for services provided to non-resident shipping companies (including port fees and agents' fees). Conversely, payments for sea transportation services contracted by 6.3 percent (or \$5.1 million) to \$76.3 million, largely reflecting the fall in the value of merchandise goods.

Air transportation services recorded a decrease in the deficit of \$23.4 million, a slight 1.08 increase from 2014. Both inflows and outflows recorded increases with inflows increasing by \$1.4 million and outflows by \$1.6 million. Receipts from non-resident passenger fares grew by 15.2 percent to \$15.2 million while receipts for auxiliary services, such as airport fees and agents' commissions and fees, expanded by 4.8 percent to \$22.0 million.

Payments for air transportation services increased by 2.7 percent to \$60.9 million in 2015 compared to the \$59.2 million payments made in 2014. This was largely on account of the increase in payments by residents for passenger fares on foreign airlines, freight and auxiliary air transportation services.

**Telecommunications, computers and information services.** The deficit for the telecommunications, computers and information services grew by 1.2 percent and stood at \$30.8 million against the \$30.4 million recorded in 2014. This outturn stemmed from the increased payments for computer services. In contrast, the payments for telecommunications recorded a decline.

**Other business services.** The net receipts for other business services contracted by 10.2 percent, moving from \$190.2 million in 2014 to \$170.8 million in 2015.

Receipts from other business services stood at \$458.4 million, the second largest contributor to foreign exchange from services. This performance was related to the larger receipts for the provision of legal and accounting services which grew by 15.4 percent and 9.7 percent respectively. Payments for other business services surged to \$287.6 million, largely on account of the increased payments between related enterprises and operating leases.

**Government goods and services not included elsewhere (n.i.e).** The surplus from government services amounted to \$87.1 million, a decline from \$89.8 million recorded in 2014. This performance is attributed to the lower receipts of 1.5 percent, along with the increase of 12.2 percent in payments. Receipts comprised largely of the fees earned from non-residents companies.

### ***2.3.3 Balance of Primary Income Transactions***

The primary income sub-account, formerly called the income account, is comprised of compensation of employees, investment income and other primary income. Both the

total primary income inflows and outflows remained relatively stable. In 2015, total primary inflows stood at \$2,154.9 million, recording a slight decline of 1.9 percent while outflows increased by 0.8 percent to reach \$2,783.1 million. With outflows being slightly larger than inflows in 2015, the primary income sub-account attained a net outflow of \$629.0 million.

Investment income recorded a deficit of \$616.2 million in 2015, a 12.3-percent increase over 2014 arising from the increased deficit of direct investment earning. On the other hand, the surplus on portfolio investment increased while the deficit on other investment fell.

Compensation of employees continued to be in deficit amounting to \$12.8 million, a decrease of 13.9 percent from \$14.9 million in 2014.

**Direct investment income.** The deficit expanded from \$249.8 million in 2014 to \$490.5 million in 2015, an increase of 96.4 percent from a year ago. Receipts increased slightly by 0.9 percent while payments on direct investment income increased significantly by 50.5 percent. The surge in payments was due primarily to the increase in undistributed profits (reinvested earnings) of the deposit taking corporations, largely banks. Additionally, dividends payments to non-residents increased.

**Portfolio investment income.** The surplus increased slightly to \$620.9 million from \$589.0 million estimated in 2014. This was due to the increase in income on portfolio investments. Residents' earnings on portfolio investment income abroad grew by \$32.1 million (or 5.2 percent) largely on account of the increase on returns on debt securities. Earnings by non-residents on portfolio investment in Cayman Islands recorded a slight increase of 0.7 percent.

**Other investment income account.** This recorded a smaller deficit by \$141.1 million to \$746.6 million compared to \$888.3 million in 2014. Earnings from other investments abroad fell by 5.6 percent and stood at \$1,272.0 million compared to \$1,348.0 million achieved in 2014. This performance resulted primarily from the drop in earnings in the deposit taking corporations (banks). Payments on earnings on other investment in Cayman Islands fell by 9.7 percent to \$2,018.6 million from \$2,236.0 million. Other investment includes income from deposits, loans, and accounts receivable and payable.

#### ***2.3.4 Balance of Secondary Income Transactions (Current Transfers)***

The secondary income account records current transfers by government, financial corporations, households and non-profit institutions serving households. In 2015, the net payment in the secondary income account fell by 16.5 percent to reach \$153.1 million from the \$183.4 million recorded in 2014. This performance reflected mainly the decline of personal transfers (workers remittances) sent to non-residents by households.

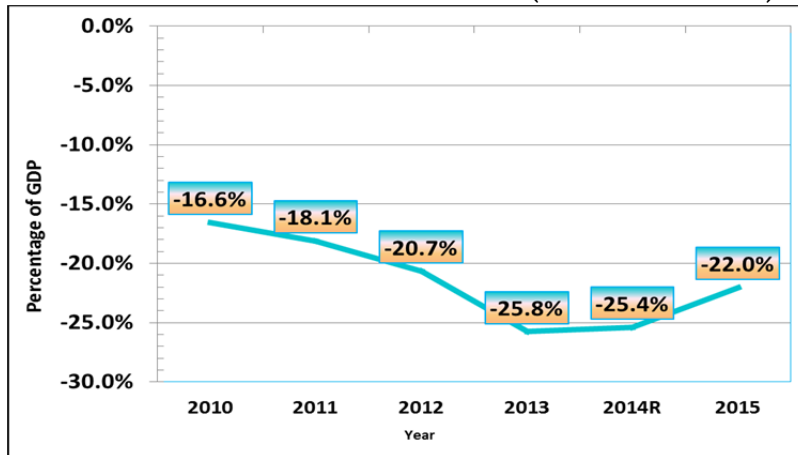
General government transfers netted a surplus of \$15.0 million compared to \$14.9 million in 2014.

The deficit of transactions from personal transfers (largely workers’ remittances) fell by 5.7 percent. In 2015, \$141.3 million was remitted abroad, while receipts from abroad fell by 6.4 percent to \$5.1 million.

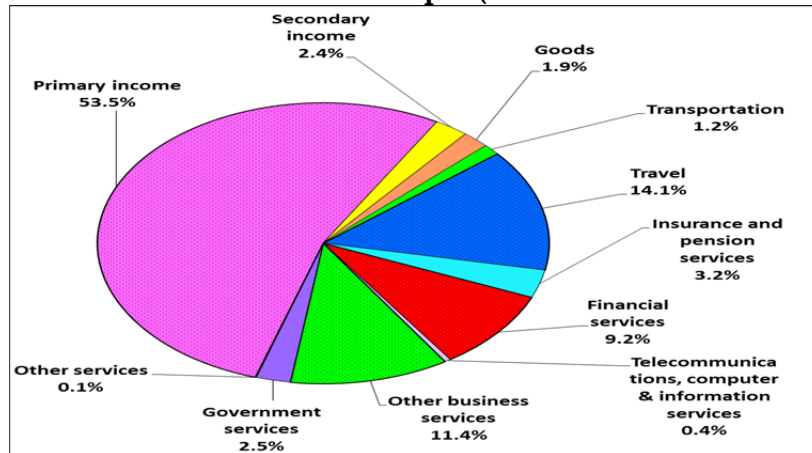
Other current transfers comprising insurance claims, net premiums and social benefits recorded a deficit of \$31.9 million compared to \$53.8 million in 2014. Largely driving this performance is the decline of 49.4 percent in payments for social benefits mainly pension payments to non-residents.

**2.3.5 Current Account Tables and Charts**

**Chart 1: Current Account Balance (Percent of GDP)**



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



**Table 4: Current Account of the Balance of Payments Summary**

In C\$Million															
	2011			2012			2013 <sup>R</sup>			2014 <sup>R</sup>			2015		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
<b>1. CURRENT ACCOUNT</b>	<b>3,425.9</b>	<b>3,882.0</b>	<b>(456.1)</b>	<b>3,492.3</b>	<b>4,025.1</b>	<b>(532.8)</b>	<b>3,801.2</b>	<b>4,406.7</b>	<b>(605.4)</b>	<b>3,948.6</b>	<b>4,648.8</b>	<b>(700.2)</b>	<b>4,025.3</b>	<b>4,652.2</b>	<b>(626.9)</b>
<b>A. GOODS AND SERVICES</b>	<b>1,436.4</b>	<b>1,628.8</b>	<b>(192.3)</b>	<b>1,440.5</b>	<b>1,560.0</b>	<b>(119.5)</b>	<b>1,603.5</b>	<b>1,611.9</b>	<b>(8.4)</b>	<b>1,662.8</b>	<b>1,616.0</b>	<b>46.9</b>	<b>1,772.4</b>	<b>1,617.2</b>	<b>155.2</b>
<b>A1. GOODS</b>	<b>84.5</b>	<b>687.0</b>	<b>(602.4)</b>	<b>45.3</b>	<b>686.4</b>	<b>(641.1)</b>	<b>103.3</b>	<b>700.9</b>	<b>(597.6)</b>	<b>80.5</b>	<b>731.8</b>	<b>(651.2)</b>	<b>78.3</b>	<b>680.7</b>	<b>(602.4)</b>
<b>A2. SERVICES</b>	<b>1,351.9</b>	<b>941.8</b>	<b>410.1</b>	<b>1,395.2</b>	<b>873.5</b>	<b>521.7</b>	<b>1,500.2</b>	<b>911.0</b>	<b>589.2</b>	<b>1,582.3</b>	<b>884.190</b>	<b>698.1</b>	<b>1,694.1</b>	<b>936.5</b>	<b>757.6</b>
1. Transportation	44.8	140.5	(95.7)	41.4	142.6	(101.2)	44.1	145.1	(101.0)	47.3	140.7	(93.4)	49.5	137.1	(87.6)
2. Travel	381.5	141.1	240.4	407.8	139.6	268.2	416.6	148.4	268.2	470.6	133.1	337.5	566.6	139.7	426.9
3. Insurance and pension services	106.6	210.7	(104.1)	105.1	209.1	(104.0)	129.3	208.6	(79.3)	129.2	206.2	(77.0)	129.0	204.1	(75.1)
4. Financial services(excluding insurance)	396.1	97.3	298.8	398.1	97.3	300.8	398.2	103.3	294.8	412.3	104.4	307.9	371.1	76.0	295.1
5. Telecommunications, computer and information services	13.4	41.4	(27.9)	11.6	35.1	(23.5)	13.2	35.0	(21.9)	16.2	46.7	(30.4)	17.2	47.9	(30.8)
6. Other business services	326.1	276.5	49.6	347.3	215.3	132.0	397.5	232.3	165.2	402.8	212.6	190.2	458.4	287.6	170.8
7. Government goods and services, nie.	81.7	18.1	63.6	81.9	13.4	68.5	98.2	15.3	82.9	100.2	10.4	89.8	98.7	11.7	87.1
8. Other services	1.6	16.2	(14.7)	1.9	21.1	(19.2)	3.2	22.9	(19.7)	3.7	30.1	(26.5)	3.5	32.3	(28.7)
<b>B. PRIMARY INCOME</b>	<b>1,908.3</b>	<b>2,026.6</b>	<b>(118.2)</b>	<b>1,966.5</b>	<b>2,233.5</b>	<b>(267.0)</b>	<b>2,124.3</b>	<b>2,565.8</b>	<b>(441.5)</b>	<b>2,196.8</b>	<b>2,760.5</b>	<b>(563.7)</b>	<b>2,154.9</b>	<b>2,783.9</b>	<b>(629.0)</b>
1. Compensation of employees	-	10.9	(10.9)	-	13.9	(13.9)	-	13.4	(13.4)	-	14.9	(14.9)	-	12.8	(12.8)
2. Investment Income	1,908.3	2,015.7	(107.3)	1,966.5	2,219.5	(253.1)	2,124.3	2,552.4	(428.1)	2,196.8	2,745.6	(548.8)	2,154.9	2,771.0	(616.2)
2.1 Direct investment	244.8	782.6	(537.7)	210.7	870.2	(659.5)	232.2	777.1	(544.9)	230.2	480.0	(249.8)	232.2	722.7	(490.5)
2.2 Portfolio investment	546.4	68.2	478.2	613.3	73.5	539.8	633.0	54.6	578.4	618.6	29.6	589.0	650.7	29.8	620.9
2.3. Other investments	1,117.1	1,164.9	(47.8)	1,142.5	1,275.9	(133.4)	1,259.1	1,720.6	(461.6)	1,348.0	2,236.0	(888.0)	1,272.0	2,018.6	(746.6)
<b>C. SECONDARY INCOME</b>	<b>81.1</b>	<b>226.7</b>	<b>(145.6)</b>	<b>85.4</b>	<b>231.7</b>	<b>(146.3)</b>	<b>73.4</b>	<b>229.0</b>	<b>(155.6)</b>	<b>88.9</b>	<b>272.3</b>	<b>(183.4)</b>	<b>98.0</b>	<b>251.1</b>	<b>(153.1)</b>
1. General Government	13.1	1.0	12.1	14.2	0.6	13.6	13.5	0.7	12.7	15.5	0.6	14.9	16.0	1.0	15.0
2. Financial corporations, nonfinancial corporations, households, and NPISHs	68.0	225.7	(157.7)	71.2	231.1	(159.9)	59.9	228.2	(168.3)	73.5	271.8	(198.3)	82.0	250.1	(168.1)
2.1 Workers remittances	4.8	148.9	(144.1)	4.9	148.9	(144.0)	6.0	145.5	(139.5)	5.4	149.9	(144.5)	5.1	141.3	(136.2)
2.2 Other current transfers	60.8	70.7	(9.9)	63.2	76.7	(13.5)	53.9	85.7	(31.7)	68.1	85.7	(17.6)	76.9	108.8	(31.9)

R Revised  
NPISHs Non-Profit Institutions serving households

**Table 5: Current Account – Analytical Presentation**

In CI\$ Million						
	2010	2011	2012	2013	2014 <sup>R</sup>	2015
<b>A. Current Account</b>	<b>(409.6)</b>	<b>(456.1)</b>	<b>(532.8)</b>	<b>(605.4)</b>	<b>(700.2)</b>	<b>(626.9)</b>
Goods: exports f.o.b.	32.9	84.5	45.3	103.3	80.5	78.3
Goods imports f.o.b.	620.4	687.0	686.4	700.9	731.8	680.7
<b>Balance on goods</b>	<b>(587.5)</b>	<b>(602.4)</b>	<b>(641.1)</b>	<b>(597.6)</b>	<b>(651.2)</b>	<b>(602.4)</b>
Services: credit	1,363.7	1,351.9	1,395.2	1,500.2	1,582.3	1,694.1
Services: debit	856.4	941.8	873.5	911.0	884.2	936.5
<b>Balance on services</b>	<b>507.3</b>	<b>410.1</b>	<b>521.7</b>	<b>589.2</b>	<b>698.1</b>	<b>757.6</b>
Primary income: credit	1,616.1	1,908.3	1,966.5	2,124.3	2,196.8	2,154.9
Primary income debit	1,801.6	2,026.6	2,233.5	2,565.8	2,760.5	2,783.9
<b>Balance on primary income</b>	<b>(185.6)</b>	<b>(118.2)</b>	<b>(267.0)</b>	<b>(441.5)</b>	<b>(563.7)</b>	<b>(629.0)</b>
Secondary Income: credit	81.4	81.1	85.4	73.4	88.9	98.0
Secondary Income: debit	225.3	226.7	231.7	229.0	272.3	251.1
<b>Balance on secondary income</b>	<b>(143.9)</b>	<b>(145.6)</b>	<b>(146.3)</b>	<b>(155.6)</b>	<b>(183.4)</b>	<b>(153.1)</b>

**Table 6: Merchandise Good Transactions**

In CI\$ Million						
ITEM	2010	2011	2012	2013	2014 <sup>R</sup>	2015
<b>Credit</b>						
<b>EXPORTS</b>						
Total Merchandise exports f.o.b	11.05	18.08	16.36	25.31	21.91	26.77
Goods procured in ports by carriers	2.9	4.3	4.4	4.4	5.0	4.7
Net exports of goods under merchanting	19.0	62.2	24.6	73.6	53.6	46.9
<b>Total adjusted exports f.o.b</b>	<b>32.9</b>	<b>84.5</b>	<b>45.3</b>	<b>103.3</b>	<b>80.5</b>	<b>78.3</b>
<b>Debit</b>						
<b>IMPORTS</b>						
Total merchandise imports c.i.f	690.4	759.5	758.5	774.5	814.4	763.0
Less freight and insurance	82.8	91.1	91.0	92.9	97.7	91.6
Total adjusted merchandise Imports f.o.b	607.6	668.3	667.5	681.5	716.6	671.4
Goods procured in ports by carriers	12.9	18.6	18.9	19.4	15.1	9.3
<b>Total adjusted Imports f.o.b</b>	<b>620.4</b>	<b>687.0</b>	<b>686.4</b>	<b>700.9</b>	<b>731.8</b>	<b>680.7</b>
<b>Goods Trade Balance</b>	<b>(587.5)</b>	<b>(602.4)</b>	<b>(641.1)</b>	<b>(597.6)</b>	<b>(651.2)</b>	<b>(602.4)</b>

## **2.4 Financial Account**

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

Preliminary estimates from survey data and administrative data indicate that the financial account transactions recorded a net borrowing balance of \$478.9 million compared to a net borrowing of \$517.4 million in 2014.

Cayman residents' net acquisition of financial assets abroad (outward investment) fell by 45.3 percent assets to \$4,609.3 million in 2015 from the \$8,426.4 million recorded in 2014. This was mainly influenced by the decline in other investments assets and direct investments assets.

During the same period, Cayman Islands residents' net incurrence of financial liabilities (inward investments) moved from \$8,943.9 million to \$5,008.2 million, mainly due to the fall in direct investments and other investments (primarily currency and deposits).

### ***2.4.1 Direct Investments***

In 2015, the net direct investment in the Cayman Islands of non-residents exceeded the residents' net direct investment abroad by \$2,629.4 million, up from \$2,437.3 million recorded in 2014.

Direct investment abroad (net acquisition of financial assets) was lower 2015, from \$947.1 million to \$496.1 million in 2015. This was due mainly to the equity capital switching from net investment in 2014 to disinvestment in 2015. Partially offsetting this outturn was the switch in the net disinvestment in debt instruments assets of \$628.8 million in 2014, to investment in debt instruments assets of \$514.9 million in 2015.

Net incurrence of financial liabilities to non-residents (investment in Cayman Islands) fell from \$3,384 million in 2014 to \$3,125.5 million in 2015. This was mainly due to the decrease in equity capital and disinvestment in debt instruments.

### ***2.4.2 Portfolio investments***

There was a net acquisition of portfolio investment assets abroad by residents amounting to \$9,193.4 million in 2015, an increase from the net acquisition of \$5,270.1 million in 2014. This increase was due primarily to the rise in investment by residents in debt securities abroad.



In 2015, residents' acquisition of portfolio investments was \$5,428.7 million, compared to \$3,731.1 million recorded in 2014. The increased acquisition was largely in debt securities.

Overall, non-residents' portfolio investment in Cayman Islands showed a decline to \$3,764.7 million from \$1,539.0 million recorded in 2014. This was largely on account of disinvestment in equity and debt securities.

#### ***2.4.3 Other investments***

Overall, the other investments in the Cayman Islands by non-residents exceeded the other investments abroad by residents; the excess amounted to \$8,108.3 million in 2015, almost double the excess in 2014.

Net acquisition of other investments abroad by residents showed a net disinvestment of \$2,381.0 million in 2015 following a net investment of \$2,933.9 million in 2014. The switch resulted from the decline in the holdings of currency and deposits abroad by residents.

Net other investments in the Cayman Islands by non-residents amounted to \$5,727.4 million in 2015, lower than \$7,098.4 million recorded in 2014. This was mainly due to the fall in currency and deposits of non-residents. Partially offsetting this was the increase in non-residents' loans to Cayman Islands residents.



### 3. THE INTERNATIONAL INVESTMENT POSITION (IIP)

#### 3.1 Introduction

The IIP is a statistical statement that shows at a point in time the value and composition of the stock of Cayman Islands residents' investments abroad, and the liabilities of Cayman Islands' residents to non-residents. The IIP shows the financial assets of residents as claims on non-residents and foreign claims on Cayman Islands residents as liabilities.

The difference between foreign assets and liabilities is the net external position in the IIP which may be either positive or negative. In other words, Caymans' net investment position is the difference between what Cayman owns abroad (external assets) and what Cayman owes (external liabilities) to non-residents.

A positive net position means a net claim on the rest of the world while a negative net position represents a net liability to the rest of the world.

This report presents the IIP at the end of 2012 to 2015 and captures the position of the financial assets and liabilities of Cayman Islands' residents. The series includes data on establishments with physical presence in the Cayman Islands only. The series does not include the stock of household foreign assets and liabilities due to lack of source data. The series does not fully cover data on funds and health and general insurance due to lack of detailed data. The series is subject to revision, depending on availability of additional and updated data.

#### 3.2 Net International Investment Position Summary

The International Investment position (IIP) reveals that the Cayman Islands' financial assets abroad and liabilities to non-residents amounted to \$127.10 billion and \$123.5 billion respectively at the end of 2015. The Net IIP, which is the difference between assets of residents held abroad and its liabilities to non-residents, stood at CI\$3.7 billion at end of 2015. This was comprised of financial assets in the form of other investment (including currency and deposits, loans and accounts receivable/payable) amounting to \$6.5 billion, financial derivatives (\$3.0 billion), and reserve assets (\$112 million). On the other hand, Cayman had net liabilities in direct investment (\$6.6 billion) and portfolio investment (\$3.4 billion).

The 2015 net international asset position weakened from the 2014 position by CI\$1.0 billion. The change was largely driven by the sharp drop in the net asset position in other investments (mainly loans). In addition, the net liability of residents in the form of direct investment also increased.

**Table 7 Cayman Islands' Net International Investment Position Summary,  
In CI\$ Million, As at End of Year**

	2012	2013	2014 <sup>R</sup>	2015	Change 2015/2014
Net Direct Investment	(6,766.0)	(3,068.7)	(4,842.5)	(6,560.9)	(1,718.4)
Net Portfolio Investment	(2,523.3)	(13,466.3)	(8,307.6)	536.9	8,844.5
Net Other Investment	10,724.9	18,306.2	15,779.4	6,543.5	(9,235.9)
Financial Derivatives	2,537.7	1,215.2	1,966.5	3,018.9	1,052.4
Reserve Assets	91.2	96.1	99.0	112.0	13.1
<b>IIP (net)</b>	<b>4,064.5</b>	<b>3,082.4</b>	<b>4,694.8</b>	<b>3,650.5</b>	<b>(1,044.3)</b>
<b>IIP (Net)/GDP(%)</b>	<b>157.8%</b>	<b>116.4%</b>	<b>170.4%</b>	<b>128.3%</b>	<b>-36.7%</b>

### 3.3 Foreign Investment Assets and Liabilities Overview

The Cayman Islands' total investments in financial assets abroad amounted to CI\$127.2 billion at the end of 2015, reflecting an increase of CI\$3.4 billion, compared to CI\$123.7 billion recorded at the end of 2014.

Non-residents' investments (or residents' liabilities) in the Cayman Islands' economy was CI\$123.5 billion at the end of 2015, up from the CI\$119.0 billion recorded at the end of 2014.

**Table 8: Foreign Assets and Liabilities (CI\$ Million)**  
As at End of Year

	2012	2013	2014R	2015
<b>Total Assets</b>	<b>113,146.1</b>	<b>113,599.9</b>	<b>123,721.2</b>	<b>127,153.7</b>
<i>By functional category</i>	<i>113,146.1</i>	<i>113,599.9</i>	<i>123,721.2</i>	<i>127,153.7</i>
Direct Investment	17,066.5	20,149.7	21,084.2	21,540.4
Portfolio Investment	20,130.4	16,070.3	19,690.0	25,118.7
Financial Derivatives	2,537.7	1,215.2	1,966.7	3,019.1
Other Investment	73,320.2	76,068.7	80,881.3	77,363.5
Reserve Assets	91.2	96.1	99.0	112.0
<b>By instrument</b>	<b>113,146.1</b>	<b>113,599.9</b>	<b>123,721.2</b>	<b>127,153.7</b>
Equity and investment fund share/units	17,515.5	18,779.1	21,690.7	21,675.5
Currency and deposits	24,616.5	29,629.3	35,276.0	36,466.4
Debt securities	19,770.9	17,534.4	19,179.8	25,092.7
Loans	46,241.9	43,453.7	40,056.6	36,650.3
Other financial assets	5,001.3	4,203.5	7,518.0	7,268.9
<b>Total Liabilities</b>	<b>109,081.5</b>	<b>110,517.5</b>	<b>119,026.4</b>	<b>123,503.2</b>
<i>By functional category</i>	<i>109,081.5</i>	<i>110,517.5</i>	<i>119,026.4</i>	<i>123,503.2</i>
Direct Investment	23,832.5	23,218.4	25,926.7	28,101.2
Portfolio Investment	22,653.7	29,536.6	27,997.5	24,581.8
Financial Derivatives	0.0	0.0	0.1	0.2
Other Investment	62,595.3	57,762.5	65,102.0	70,820.0
<b>By instrument</b>	<b>109,081.5</b>	<b>110,517.5</b>	<b>119,026.4</b>	<b>123,503.2</b>
Equity and investment fund share/units	26,958.7	26,842.9	31,758.8	34,226.3
Currency and deposits	41,249.1	39,751.1	43,639.4	44,543.3
Debt securities	19,527.5	25,912.0	22,165.4	18,456.7
Loans	17,854.9	15,016.9	18,476.3	22,796.9
Other accounts payable	3,491.4	2,994.5	2,986.3	3,480.1
<b>Net International Investment Position*</b>	<b>4,064.5</b>	<b>3,082.4</b>	<b>4,694.8</b>	<b>3,650.5</b>

### 3.4 Investments by Functional Category

**Direct Investment.** In 2015, the stock of Cayman Islands direct investments abroad (assets) stood at \$21.5 billion, reflecting an increase of \$456.2 million relative to that of 2014. The direct investment liabilities in the Cayman Islands (inward investment) at the end of 2015 stood at \$28.1 billion, up from the \$25.9 billion recorded in 2014. The direct investment is composed of equity investments and claims and liabilities of investors in the Cayman Islands with their foreign affiliates, of which equity investments constituted the largest portion.

Consequently, at the end of 2015, the net direct investments liability was \$6.6 billion, coming from \$4.8 billion recorded in 2014. Direct investment constituted 16.9 percent of total foreign assets and 22.8 percent of total foreign liabilities in 2015.

**Portfolio Investment.** At the end of 2015, Cayman residents' portfolio investments abroad which contributed 19.8 percent to total foreign assets, surged by 27.8 percent and stood at \$25.1 billion. This emanated from the increase in both debt securities.

Analysis of the composition of residents' portfolio investments abroad (assets), reveal that debt securities which constitutes 92.0 percent of portfolio investments assets rose by 30.6 percent. Holdings of debt securities by Cayman Islands resident banks abroad made up 97.7 percent of all debt securities and grew by 31.5 percent, and amounted to \$22.6 billion by the end of 2015, compared to \$17.2 billion recorded at the end of 2014.

Non-residents' holdings of portfolio investments in Cayman was reduced by \$3.4 billion to amount to \$24.6 billion at the end of 2015. Debt securities issued by resident deposit-taking corporations dominated the portfolio investment liabilities even as this recorded a decline of \$3.4 billion compared to the end 2014 level.

However, non-residents' holdings of equity and investments funds remained relatively stable and stood at \$7.8 billion by the end of 2015.

**Other Investment.** Other investments assets which comprised largely of currency and deposits and loans for the year 2015 saw a decline of \$3.5 billion. This outturn reflected primarily the repayments of loans by non-residents. The value of other investments assets stood at \$77.4 billion at the end 2015, compared to \$80.9 billion recorded end of the of 2014.

Currency and deposits held abroad by residents fell by \$1.2 billion to \$36.5 billion in 2015.

Other financial assets fell by \$249.1 million to \$7.3 billion. This performance was led by the deposit-taking corporations which accounts for approximately 87.1 percent of other financial assets.

Non-residents increased their holdings of other investments in Cayman by \$5.7 billion in 2015 to reach \$70.8 billion. This outturn reflected mainly the movement in non-residents loans and deposits held by the deposit-taking corporations.

**Reserve Assets.** At the end of 2015, the Cayman Islands' gross reserve assets amounted to \$112.0 million, showing an increase of \$13.1 million relative to the end of 2014. Investments in securities continued to dominate the reserve asset stock.

### 3.5 Investments by Institutional Sector

The economy is broken down into four major institutional sectors, namely, the financial sector, non-financial sector, general government, and households and non-profit institutions serving households. As of this IIP, estimates for the latter sector is not included in the compilation because of a lack of source data.

**Table 9: Net IIP by Resident Institutional Sector**  
 CI\$ Million, As at End of Year

	2012	2013	2014 <sup>R</sup>	2015	Changes 2015 / 2014	
					CI\$M	%
<b>IIP (net)</b>	<b>4,064.5</b>	<b>3,082.4</b>	<b>4,694.8</b>	<b>3,650.5</b>	<b>(1,044.3)</b>	<b>-22.2%</b>
General Government (Net IIP)	(313.6)	(304.6)	(291.7)	(282.3)	9.4	-3.2%
Financial Sector (Net IIP)	4,930.0	4,008.5	6,477.2	5,420.4	(1,056.8)	-16.3%
Non-financial Sectors (Net IIP)	(551.9)	(621.5)	(1,490.7)	(1,487.6)	3.1	-0.2%

As shown by available data, the financial sector continued to play a dominant role in the international investment position of the Cayman Islands. As of end 2015, the net IIP of this sector amounted to \$5.4 billion. The non-financial sector and government had net liabilities amounting to \$1.5 billion and \$282.3 million, respectively.

Details of the international investment activities of each sector by functional category in 2015 are shown in Table 10, while Table 11 shows the same details for the year 2014.

**Table 10:**  
**IIP by Resident Institutional Sector**  
**As at End 2015, CI\$ Million**

	Nonfinancial Corporations	Financial Corporations	General Government	Total Economy
<b>Total Assets</b>	<b>1,085.4</b>	<b>126,065.5</b>	<b>2.8</b>	<b>127,153.7</b>
<i>By functional category</i>	<i>1,085.4</i>	<i>126,065.5</i>	<i>2.8</i>	<i>127,153.7</i>
Direct Investment	739.0	20,801.4	-	21,540.4
Portfolio Investment	0.8	25,117.3	0.6	25,118.7
Financial Derivatives	-	3,019.1	-	3,019.1
Other Investment	345.6	77,015.7	2.2	77,363.5
Reserve Assets	-	112.0	-	112.0
<b>Total Liabilities</b>	<b>2,573.0</b>	<b>120,645.1</b>	<b>285.1</b>	<b>123,503.2</b>
<i>By functional category</i>	<i>2,573.0</i>	<i>120,645.1</i>	<i>285.1</i>	<i>123,503.2</i>
Direct Investment	1,894.9	26,206.4	-	28,101.2
Portfolio Investment	281.3	24,016.3	284.1	24,581.8
Financial Derivatives	0.2	-	-	0.2
Other Investment	396.6	70,422.4	1.0	70,820.0
<b>Net International Investment Position*</b>	<b>(1,487.6)</b>	<b>5,420.4</b>	<b>(282.3)</b>	<b>3,650.5</b>

**Financial sector.** This comprises largely of the banking, and other financial corporations and pensions. This sector held a net asset position with the rest of the world amounting to \$5.4 billion at the end of 2015.

Total foreign assets held by the financial sector stood at \$126.1 billion on account of other investments which largely comprised of loans and currency and deposits. At the end of 2015, other investments stood at \$77.0 billion, accounting for 61.0 percent of total foreign investments of the financial sector. Portfolio investments stood at \$25.1 billion largely reflecting investments in debt securities, while direct investment stood at \$20.8 billion.

At the end of 2015, the financial corporations' foreign liabilities were valued at \$120.6 billion. The largest liability of the financial sector was in the other investments category which stood at \$70.4 billion and accounted for 58.3 percent of total liabilities. For the same period, portfolio investment liabilities reached \$24.0 billion while direct investment was \$26.2 billion.

**The non-financial sector.** This includes corporations whose principal activity is the production of market goods or non-financial services such as legal, accounting, wholesale and retail trade, construction, transport etc. This sector is estimated to have a net investment position of -\$1.5 billion at the end of 2015. Foreign assets held by the non-financial sector stood at \$1.1 billion, with most of the investments being in direct investments (\$0.74 billion).

In 2015, foreign liabilities stood at \$2.6 billion with direct investment contributing \$ 1.9 billion. The direct investment liabilities were largely in the form of equity and investment funds.

**General government.** This sector recorded a net investment position of -\$282.3 million, with foreign assets of \$2.8 million largely held in other investments (\$2.2 million) while foreign liabilities stood at \$285.1 million. This liability was largely in the form of debt securities.

**Table 11:**  
**IIP by Resident Institutional Sector**  
**As at End 2014, CI\$ Million**

	Nonfinancial Corporations	Financial Corporations	General Government	Total Economy
<b>Total Assets</b>	<b>884</b>	<b>122,834</b>	<b>3</b>	<b>123,721.2</b>
<i>By functional category</i>	<i>884.0</i>	<i>122,834.3</i>	<i>2.8</i>	<i>123,721.2</i>
Direct Investment	690.2	20,394.0	-	21,084.2
Portfolio Investment	0.7	19,688.7	0.6	19,690.0
Financial Derivatives	-	1,966.7	-	1,966.7
Other Investment	193.1	80,686.0	2.2	80,881.3
Reserve Assets	-	99.0	-	99.0
<b>Total Liabilities</b>	<b>2,374.7</b>	<b>116,357.1</b>	<b>294.5</b>	<b>119,026.4</b>
<i>By functional category</i>	<i>2,374.7</i>	<i>116,357.1</i>	<i>294.5</i>	<i>119,026.4</i>
Direct Investment	1,761.6	24,165.1	-	25,926.7
Portfolio Investment	298.5	27,405.7	293.3	27,997.5
Financial Derivatives	0.1	-	-	0.1
Other Investment	314.5	64,786.3	1.2	65,102.0
<b>Net International Investment Position*</b>	<b>(1,490.7)</b>	<b>6,477.2</b>	<b>(291.7)</b>	<b>4,694.8</b>



## APPENDIX 1 - BALANCE OF PAYMENTS USES, CONCEPTS & COMPILATION

### A1.1 Key Uses

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

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

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

The other uses of the BOP statistics are to:

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

donor agencies. Post-disaster reconstruction work and insurance inflows could have significant impact on the Balance of Payments of Cayman Islands.

### **A1.2 Revisions**

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

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

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

The BOP estimates are based on the Annual Balance of Payments Survey which was conducted during the period March to May 2016. All businesses and establishments deemed to have been conducting transactions with non-residents and were included in the ESO Business Register were surveyed. The survey results were supplemented with secondary data provided by various government departments and statutory bodies in addition to data from the Labour Force Survey. The Cayman Islands Monetary Authority (CIMA) provided aggregate data on the banking industry.

### **A1.4 Data Quality and Accuracy**

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

Data for the financial account are derived from the differences between the opening and closing balances of the financial assets and liabilities. Hence, it includes other changes such as foreign exchange, volume and other changes which may be a contributing factor to the huge errors and omissions.

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

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

question, or may be generally unable to respond or they may submit the questionnaire late.

### **A1.5 Accounts**

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

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

#### **A1.5A the Current Account**

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

##### **Goods**

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

##### **Services**

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

##### **Primary Income**

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

##### **Secondary Income**

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

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

### A1.5B Capital Account

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

### A1.5C Financial Account

Recorded in this section are transactions that involve changes in ownership of financial assets and liabilities. Data for the financial account are derived from the differences between the opening and closing balances of the financial assets and liabilities. Thus it does not account for the other changes. This may be a contributing factor to the errors and omissions. The following categories are adopted for the Cayman Islands:

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

position in the International Monetary Fund, foreign exchange assets and other claims. (SDRs and reserve position with the IMF are not relevant for the Cayman Islands since it is not a member of the IMF).

#### **A1.5D Unobserved Flows (Statistical Discrepancy)**

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

#### **A1.6 BOP Compilation**

##### **A1.6A General Approach**

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

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

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

ESO has attempted to implement the recommendations of the BPM6 wherever possible. However in some cases, the recommendations of the BPM6 were not adopted for several reasons. One such case is the treatment of the offshore sectors, largely the entities “without physical presence” in the Cayman Islands. According to BPM6 and SNA, these institutions should be treated as residents. However, given the statutory framework of these entities and the unavailability of comprehensive data, these companies were treated as non-residents in the BOP of the Cayman Islands. Additionally, these companies are seen as “pass-through” companies and the income

which they earned are deemed to be unrelated or have no significant impact on the Caymanian economy. Hence, including them as residents of the Cayman Island would have significant implications for the country's macroeconomic analysis as they would misrepresent the economic activities within the territory. As a result, transactions with local agents, bankers, lawyers, accountants, etc. acting on behalf of non-resident entities are captured in the BOP. Payments to agents, fees paid to government etc. are also captured, and treated as BOP flows; however their financial and other transactions with non-residents are not included in Cayman Islands' BOP.

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

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

#### **A1.6B Coverage and Survey Instrument**

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

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

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

#### **A1.6C Survey Methodology**

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

#### **A1.6D Data Compilation - Current Account**

After the completed forms were returned, the data was entered into Excel spreadsheets. Worksheets were created to capture all the data supplied which were then linked to the

BOP worksheets. In general, adjustments and imputations to the data were done based on employment, assets and other techniques.

The BOP Accounts are categorized into transactions of goods, services, income and current transfers, and financial assets and liabilities. All transactions described below make up the detailed entries of the BOP data base at the ESO compiled as of this publication date. As internationally accepted, the definitions and concepts employed are those recommended in the Balance of Payments Manual 6 (BPM6) published by the International Monetary Fund.

## GOODS

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

### General merchandise

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

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

### Goods procured in ports by carriers

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



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

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

## SERVICES

### Transportation

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

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

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

**Sea transport - 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 are captured directly from domestic airline companies. The passenger transport credit is estimated based on the data derived from the BOP survey of the domestic airline.

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

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

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

**Other air transport receipts.** This represents receipts by the Airport Authority from non-resident airlines for use of miscellaneous airport services. This data was captured from the BOP Survey Form submitted by Airport Authority. This also includes services of foreign airlines, commissions paid to residents by non-resident airlines either directly or through their agents. The commission was estimated as 12.5 percent of passenger fares (largely based on international practice).

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

### Travel

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

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

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

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

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

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

**Business travel.** This covers the expenditures of travellers visiting another economy for business purposes such as sales, marketing etc.; It also covers travel on official business by employees of government and international organizations, and seasonal workers. Business travel also includes spending on goods for personal use as well as for accommodation, food, recreation and local transport.

**Other business travel.** The credit entry represents expenditure by visitors to the Cayman Islands on sales promotions, short-term consultancies or conducting business on behalf of a non- resident principal. A ratio of business travel visitors to total travel visitors was derived based on the past exit surveys of the DOT.

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

**Personal travel - 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.

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

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

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

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

### **Other Services**

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

**Communication services.** These include:

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

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

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

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

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

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

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

Insurance is treated as two components: the first, called the service component, is the part of the premium that pays the insurance company for the service it provides, and the second, called the transfer component, is the part that the insurance company keeps and then transfers back to the policyholder when a claim is made. The service component is recorded in the Current Account under goods and services - insurance services, while the transfer component is recorded either in the current transfers (general insurance) or the capital and Financial Account (life insurance). In the Cayman Islands BOP, insurance is calculated by multiplying the total amount of insurance premiums exported or imported by the four-year average domestic service charge ratio. The average domestic service charge ratio is the ratio of the domestic insurance service charges to total domestic premiums, where the service charge is calculated as premiums minus claims.

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

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

**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.

**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.

### **Financial Services**

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

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

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

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

### **Computer and Information Services**

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

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

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

### **Royalties and Licence Fees**

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

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

### **Other Business Services**

This comprises of merchant and trade related services and covers commissions on goods and services (excluding commission on insurance and financial services), transactions between resident merchants, commodity brokers, dealers and commission agents and non-residents. The data used was obtained was from the BOP survey results.

**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.

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

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

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

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

#### **Health Services**

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

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

#### **Government Goods and Services Not Included Elsewhere**

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

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

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



## INCOME

### Compensation of Employees

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

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

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

### Investment Income

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

#### **(i) Direct investment income**

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

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

#### **(ii) Portfolio investment income**

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

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

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



### (iii) Other investments

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

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

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

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

## CURRENT TRANSFERS

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

### General Government

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

### Other Sectors

#### (i) Personal Transfers

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

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

Data on remittances are obtained from CIMA.

(ii) **Other transfers.**

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

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

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

### **A1.6E Data Compilation – Capital Account**

#### **CAPITAL TRANSFERS**

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

No data on capital transfers was reported as of the publication of this Report.

### **A.1.6F Data Compilation – Financial Account**

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

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

#### **DIRECT INVESTMENT**

Direct investment is comprised of equity capital, reinvested earnings and other capital investments. Equity capital comprises shares (units) of direct investment enterprises

and other capital investments. Information on direct investment is derived from the BOP survey data and from aggregated banking sector data compiled by CIMA.

### **PORTFOLIO INVESTMENT**

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

### **OTHER INVESTMENT**

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

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

### **RESERVE ASSETS**

As defined in the BOP manual "Reserve assets are those external assets that are readily available to and controlled by the monetary authority for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy and serving as a basis for foreign borrowing)". ESO derived these from data on the positions (changes of stocks between the beginning and end period) from CIMA.

## APPENDIX 2: INTERNATIONAL INVESTMENT POSITION USES, CONCEPTS AND COMPILATION

### A2.1 Key Uses

The IIP is a statistical statement which shows the value and composition of the stock of residents' foreign assets holdings and foreign liabilities at a particular point in time. Along with the Balance of Payments, and System of National Accounts, this is used universally in evaluating economies using accepted international standards issued by the International Monetary Fund.

Governments in general, rely on the IIP statistics to assess its country's financial condition, and its economic integration with other countries. The IIP statistics can be a vital source of information for economic policy formulation, decision making and analysis. The IIP provides detailed information on the dynamics of the external sector of an economy and is useful in analysing the vulnerability of the economy and the institutional sectors to changes in the global world.

For the above-mentioned reasons, IIP statistics are among the 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, IIP statistics are key in making an assessment of the sustainability of foreign borrowings and investments in economies.

### A2.2 Revisions

The 2012 to 2015 IIP will be revised in the subsequent publication to incorporate new and revised source data, any changes in classifications and estimation methods.

### A2.3 Key Data Sources

The 2012 to 2015 IIP estimates are based on the Annual Balance of Payments Survey. All businesses and establishments deemed to have been conducting transactions with non-residents and were included in the ESO Business Register were surveyed. The survey results were supplemented with secondary data provided by various government departments and statutory bodies including the Cayman Islands Monetary Authority.

### A2.4 Data Quality and Accuracy

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

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

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

### **A2.5 Coverage and Survey Instrument**

The ESO Business Register was utilized in identifying the businesses operating in the Cayman Islands and were conducting transactions with non-residents. Approximately 1,200 establishments were surveyed.

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

The questionnaire consisted of four sections. The first section focused on the characteristics of the establishment, while the other sections dealt with accounting information relating to income, expenditure and financial assets and liabilities.

### **A2.6 Data Compilation**

The BPM6 recommends that data in the IIP should be at market value. However, there are instances where the investments and liabilities reported are based on the official book value of the establishments. No adjustments have been made to convert from book value to market value.

Estimates have not been made for the foreign assets and liabilities of households, largely due to lack of available data source.

The data for the IIP is extracted from the BOP survey forms largely from the assets and liabilities section. This was supplemented with information from available financial statements and data submitted by CIMA on the banking corporations and monetary authority reserves.

In 2015, the BOP form were designed to capture the other changes in the financial assets and liabilities, which are required in showing the integrated international investment position statement and the transactions in the financial account. The results of this survey will be used in the 2015 revision.

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