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

THE CAYMAN ISLANDS' BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION REPORT 2014

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The Economics and Statistics Office
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The BOP is compiled and produced by the BOP Unit of the Economics and Statistics Office (ESO).

The ESO wishes to express its appreciation to all the suppliers of the data in the public and private sectors especially the BOP survey respondents for their invaluable assistance in facilitating the provision of the required data. The Cayman Islands Monetary Authority provided key information on financial services, particularly on the banking sector. The cooperation and timely submission of the information improves the reliability and validity of the BOP statistics. The ESO therefore continues to encourage all businesses to participate in future surveys.

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

ABBREVIATIONS AND ACRONYMS

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

1. EXECUTIVE SUMMARY

1.1 This report presents the Balance of Payments (Section 2) and the International Investment Position (IIP) estimates for the year 2014 (Section 3), with some references to 2012 and 2013.

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 2015 augmented by administrative data mostly from the Cayman Islands Monetary Authority (CIMA).

Balance of Payments

1.3 In 2014, the country's BOP was comprised of a Current Account deficit amounting to \$616.1 million, a Financial Account net borrowing amounting to \$336.6 million and unobserved flows amounting to \$279.5 million. (No Capital Account transactions were reported).

1.4 The Current Account deficit in 2014 resulted from deficits of the following balances:

- (i) Balance of trade in goods : -\$644.5 million
- (ii) Balance of primary income : -\$535.8 million
- (iii) Balance of secondary income : -\$159.6 million

1.5 Partially offsetting the above was the surplus from trade in services amounting to \$723.8 million. The largest contributors to the latter are travel services (\$311.3 million); financial services (\$279.2 million) and other business services including legal and accounting (\$248.8 million)

1.6 The Current Account in 2014 (equivalent to 22.2% of GDP) represents a widening by \$10.6 million from the revised 2013 deficit which amounted to \$605.4 million (22.9% of GDP). This performance was driven by higher payment for goods, and net investment payment of primary income (mainly investment income).

1.7 The Financial Account net borrowing of \$336.6 million (or the excess of changes in financial liabilities over financial assets) in 2014 resulted from net acquisition of financial assets estimated at \$8,641.4 million which was partially offset by the net incurrence of financial liabilities estimated at \$8,978.0 million.

International Investment Position

1.8 This year's report presents the first ever official compilation of the country's IIP. 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 2014, the total investments in financial assets abroad by residents (mainly financial corporations) amounted to CI\$124.0 billion. These were made up of direct investments (\$21.0 billion); portfolio investment (\$19.8 billion); financial derivatives (2.0 billion); currencies, loans, deposits and other investments (\$81.0 billion); and reserve assets (\$99 million).
- 1.10 By end 2014, the total investments of non-residents in local financial assets (which are also reported as foreign liabilities of residents) was estimated at CI\$119.3 billion. These were in the form of direct investment (\$26.7 billion); portfolio investment (\$27.4 billion); currencies, loans, deposits and other investment (\$65.2 billion).
- 1.11 The difference between foreign assets and liabilities or net IIP in 2014 amounted to \$4.7 billion (or 170.3% of GDP). This is comprised of net assets in other investment (including currency and deposits, loans and accounts receivable/payable) amounting to \$15.9 billion; financial derivatives (\$2.0 billion), and reserve assets (\$99 million). On the other hand, net liabilities were recorded in direct investment (\$5.6 billion) and portfolio investment (\$7.6 billion).
- 1.12 The net IIP in 2014 is higher relative to the \$3.1 billion (116.4% of GDP) estimated for 2013 as residents increased their investments abroad by CI\$10.4 billion. The latter was partially offset by the increase in non-residents' investments in local financial assets by \$8.7 billion

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 2014, 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 2015, albeit the collection of returns was extended to September 2015 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 2014*.

The data in this report are subject to revisions. Estimates for the 2014 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 2014, 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 CISMillion			
	2012	2013	2014
1. Current Account	-532.8	-605.4	-616.1
Goods	-641.1	-597.6	-644.5
Exports	45.3	103.3	89.3
Imports	686.4	700.9	733.8
Services (Net)	521.7	589.2	723.8
Primary Income (Net)	-267.0	-441.5	-535.8
Secondary Income (Net)	-146.3	-155.6	-159.6
2. Capital Account*	-	-	-
3. Financial Account	-330.5	-1,593.5	-336.6
4. Unobserved Flows	202.3	-988.0	279.5

* No Capital Account transactions were reported.

2.2.1 Current Account Summary

The Cayman Islands current account deficit is estimated to have widened to \$616.1 million in 2014 from the revised \$605.4 million estimated in 2013. The current account deficit is equivalent to 22.2 percent of GDP relative to 22.9 percent recorded in 2013. The higher deficit was primarily on account of the rise in payments for goods and investment income which outpaced the growth of receipts.

The Current Account deficit in 2014 is comprised of the following balances:

- (i) Balance of trade in goods : -\$644.5 million
- (ii) Balance of trade in services : \$723.8 million
- (iii) Balance of primary income : -\$535.8 million
- (iv) Balance of secondary income : -\$159.6 million

Balance of trade in goods In 2014, the deficit on the trade in goods sub-account grew by \$46.9 million to \$644.5 million largely driven by higher imports along with the decline in exports of goods.

Balance of trade in services The surplus on trade in services sub-account is estimated to have expanded by \$134.5 million to \$723.8 million in 2014. The surplus on travel and other business services grew. However, this was partially offset by the higher deficit in telecommunication, computer and information services, and transport, while the surplus on the financial services fell.

The nine (9) services comprising the Current Account balance and their corresponding balances in 2014 are as follows:

- (i) Financial services (excluding insurance) : \$279.2 million
- (ii) Travel : \$311.3 million
- (iii) Other business services : \$248.8 million
- (iv) Government services n.i.e : \$93.5 million
- (v) Transportation : -\$101.7 million
- (vi) Insurance and pension services : -\$61.4 million
- (vii) Telecommunication, computer
and information services : -\$24.1 million
- (viii) Other services : -\$21.7 million

Balance of primary income. The primary income sub-account experienced an inflow of funds of \$2,164.3 million and an outflow of funds of \$2,700 million, thus yielding a net outflow (deficit) of \$535.8 million, compared to the net outflow of \$441.5 million obtained in 2013. This is traced to the increased payment of other investment income coupled with the decline in receipts in portfolio investment income.

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

- (i) Portfolio investment : \$540.3 million
- (ii) Direct investment : -\$341.9 million
- (iii) Other investments : -\$716.6 million
- (iv) Compensation of employees : -\$17.7 million

Balance of secondary income The secondary income (formerly current transfers) deficit increased by 2.6 percent to \$159.6 million, largely on account of the 3.6 percent increase in workers' remittances.

The balance was comprised of the following:

- (i) General government transfers : \$14.6 million
- (ii) Workers' remittances : -\$144.5 million
- (iii) Other current transfers : -\$29.7 million

2.2.2 Financial Account Summary

In 2014, the net borrowing amounted to \$336.6 million resulting from:

- (i) Net acquisition of financial assets : \$8,641.4 million
- (ii) Net incurrence of financial liabilities: \$8,978.0 million

Compared to 2013, there was a decline in net borrowing due to the increase in the net acquisition of financial assets which outpaced the growth in the net incurrence of financial liabilities.

Table 2: The Cayman Islands Balance of Payments

In CIS Million				
CURRENT ACCOUNT	2012	2013	2014	Growth Rate (%) 2014 / 2013
Receipts				
Exports of goods and services and income receipts (credits)	3,492.3	3,801.2	3,896.1	2.5
Export of goods and services	1,440.5	1,603.5	1,648.6	2.8
Goods	45.3	103.3	89.3	-13.5
Merchandise goods	20.8	29.7	26.9	-9.4
Net exports of goods under merchandising	24.6	73.6	62.4	-15.2
Non-monetary gold	0.0	0.0	0.0	
Services	1,395.2	1,500.2	1,559.3	3.9
Travel	407.8	416.6	470.6	13.0
Transportation	41.4	44.1	47.3	7.3
Insurance services	105.1	129.3	123.2	-4.7
Financial services	398.1	398.2	362.4	-9.0
Telecommunications, computer and information services	11.6	13.2	14.5	10.4
Other business services	347.3	397.5	432.8	8.9
Government goods and services n.i.e	81.9	98.2	105.1	7.0
Other services	1.9	3.2	3.3	3.7
Primary income receipts	1,966.5	2,124.3	2,164.2	1.9
Investment income	1,966.5	2,124.3	2,164.2	1.9
Direct investment income	210.7	232.2	220.1	-5.2
Portfolio investment income	613.3	633.0	593.9	-6.2
Other investment income	1,142.5	1,259.1	1,350.2	7.2
Compensation of employees	0.0	0.0	0.0	-
Secondary income (current transfer) receipts	85.4	73.4	83.3	13.4
General government	14.2	13.5	15.2	12.8
Worker's remittances	4.9	6.0	5.4	-9.9
Other current transfers	66.3	53.9	62.7	16.2
Payments				
Imports of goods and services and income payments (debits)	4,025.1	4,406.7	4,512.1	2.4
Import of goods and services	1,560.0	1,611.9	1,569.3	-2.6
Goods	686.4	700.9	733.8	4.7
Merchandise goods	680.3	700.7	732.4	4.5
Non-monetary gold	6.1	0.1	1.5	897.2
Services	873.5	911.0	835.5	-8.3
Travel	139.6	148.4	159.4	7.4
Transportation	142.6	145.1	149.0	2.7
Insurance services	209.1	208.6	184.6	-11.5
Financial services	97.3	103.3	83.2	-19.5
Telecommunications, computer and information services	35.1	35.0	38.7	10.4
Other business services	215.3	232.3	184.0	-20.8
Government goods and services n.i.e	13.4	15.3	11.6	-24.1
Other services	21.1	22.9	25.0	9.4
Primary income payments	2,233.5	2,565.8	2,700.0	5.2
Investment income	2,219.5	2,552.4	2,682.3	5.1
Direct investment income	870.2	777.1	562.0	-27.7
Portfolio investment income	73.5	54.6	53.6	-2.0
Other investment income	1,275.9	1,720.6	2,066.7	20.1
Compensation of employees	13.9	13.4	17.7	31.4
Secondary income (current transfer) payments	231.7	229.0	242.8	6.1
General government	0.6	0.7	0.6	-23.3
Worker's remittances	148.9	145.5	149.9	3.0
Other current transfers	82.2	82.7	92.3	11.7

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

In CIS Million				
	2012	2013	2014	Growth Rate (%) 2014 / 2013
Current Account Balances	(532.8)	(605.4)	(616.1)	1.8
Goods and services	(119.5)	(8.4)	79.3	(1,046.0)
Goods	(641.1)	(597.6)	(644.5)	7.9
Services	521.7	589.2	723.8	22.8
Travel	268.2	268.2	311.3	16.1
Transportation	(101.2)	(101.0)	(101.7)	0.7
Insurance services	(104.0)	(79.3)	(61.4)	(22.6)
Financial services	300.8	294.8	279.2	(5.3)
Telecommunications, computer and information services	(23.5)	(21.9)	(24.1)	10.4
Other business services	132.0	165.2	248.8	50.6
Government goods and services n.i.e	68.5	82.9	93.5	12.8
Other services	(19.2)	(19.7)	(21.7)	10.3
Primary income	(267.0)	(441.5)	(535.8)	21.3
Investment income	(253.1)	(428.1)	(518.1)	21.0
Direct investment income	(659.5)	(544.9)	(341.9)	(37.3)
Portfolio investment income	539.8	578.4	540.3	(6.6)
Other investment income	(133.4)	(461.6)	(716.6)	55.2
Compensation of employees	(13.9)	(13.4)	(17.7)	31.4
Secondary income (current transfer) payments	(146.3)	(155.6)	(159.6)	2.6
General government	13.6	12.7	14.6	14.9
Worker's remittances	(144.0)	(139.5)	(144.5)	3.6
Other current transfers	(15.9)	(28.8)	(29.7)	3.1
				-
CAPITAL ACCOUNT*	-	-	-	-
Net lending (+) or net borrowing (-) from current and capital account transactions	(532.8)	(605.4)	(616.1)	1.8
FINANCIAL ACCOUNT				
Net acquisition of financial assets (net increase in assets / financial outflow (+))	7,715.8	2,198.7	8,641.4	293.0
Direct investment assets	5,543.5	3,090.0	903.0	(70.8)
Portfolio investment assets	2,025.5	(4,059.6)	3,761.0	(192.6)
Other investment assets	2,250.6	4,485.9	3,223.0	(28.2)
Financial derivatives	(2,102.8)	(1,322.5)	751.5	156.8
Reserve assets	(1.0)	4.9	2.9	(41.5)
Net incurrence of liabilities excluding financial derivatives (net increase in liabilities / financial inflow (+))	8,046.3	3,792.2	8,978.0	136.8
Direct investment liabilities	855.1	2,055.6	3,883.6	88.9
Portfolio investment liabilities	9,018.7	6,883.5	(2,096.1)	(130.5)
Other investment liabilities	(1,827.5)	(5,147.0)	7,190.6	(239.7)
Financial derivatives	-	-	-	-
Net lending (+) or net borrowing (-) from financial account	(330.5)	(1,593.5)	(336.6)	(78.9)
Unobserved Flows	202.3	(988.0)	279.5	(128.3)
	202.32	988.03	-279.49	

*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 CI\$ Million			
	2012	2013	2014
Current account balance	-532.8	-605.4	-616.1
Credits	3,492.3	3,801.2	3,896.1
Debits	4,025.1	4,406.7	4,512.1
Goods and services	-119.5	-8.4	79.3
Credit	1,440.5	1,603.5	1,648.6
Debit	1,560.0	1,611.9	1,569.3
Goods	-641.1	-597.6	-644.5
Exports (credit)	45.3	103.3	89.3
Imports (Debit)	686.4	700.9	733.8
Services	521.7	589.2	723.8
Credit	1,395.2	1,500.2	1,559.3
Debit	873.5	911.0	835.5
Primary income	-267.0	-441.5	-535.8
Credit	1,966.5	2,124.3	2,164.2
Debit	2,233.5	2,565.8	2,700.0
Secondary income	-146.3	-155.6	-159.6
Credit	85.4	73.4	83.3
Debit	231.7	229.0	242.8
Capital account	0.0	0.0	0.0
Credit	0.0	0.0	0.0
Debit	0.0	0.0	0.0
Net lending (+) / net borrowing (-) (balance from current and capital account)	-532.8	-605.4	-616.1
Financial account			
Net lending (+) / net borrowing (-) (balance from financial account)	-330.5	-1,593.5	-336.6
Direct investment	4,688.5	1,034.4	-2,980.6
Net acquisition of financial assets	5,543.5	3,090.0	903.0
Net incurrence of liabilities	855.1	2,055.6	3,883.6
Portfolio investment	-6,993.3	-10,943.1	5,857.2
Net acquisition of financial assets	2,025.5	-4,059.6	3,761.0
Net incurrence of liabilities	9,018.7	6,883.5	-2,096.1
Financial Derivatives	-2,102.8	-1,322.5	751.5
Net acquisition of financial assets	-2,102.8	-1,322.5	751.5
Net incurrence of liabilities	0.0	0.0	0.0
Other Investments	4,078.2	9,632.8	-3,967.5
Net acquisition of financial assets	2,250.6	4,485.9	3,223.0
Net incurrence of liabilities	-1,827.5	-5,147.0	7,190.6
Reserve assets	-1.0	4.9	2.9
Net errors and omissions/ unobserved flows	202.3	-988.0	279.5

2.3 Current Account Balances

2.3.1. Balance of Trade in Goods

As can be seen in Table 2, the deficit on goods expanded in 2014 by 7.9 percent to \$644.5 million compared to \$597.6 million recorded in 2013. In 2014, the goods deficit (visible trade deficit) represented 23.2 percent of GDP, slightly higher than the 22.6 percent recorded in 2013. This expansion is due primarily to the increased imports along with the fall in exports.

In 2014, the value of goods exported fell to \$89.3 million from \$103.3 million recorded in 2013, a 13.5 percent decline. Exports comprised largely of re-exports, mainly personal effects and goods under merchanting.

For the period under review, the value of goods imported increased to \$733.8 million from \$700.9 million, higher by 4.7 percent. The increased imports was largely reflected in the growth of non-petroleum products, particularly food and live animals, machinery and transport equipment and professional scientific equipment. In contrast, imports of petroleum related products, mainly oil fuel, fell largely reflecting the downward trend of oil prices in the international market.

The classification of imports by Broad Economic Categories (BEC), indicates strong growth in consumer goods by 9.6 percent, followed by capital goods and intermediate goods grew by 5.7 and 2.4 percent, respectively.

2.3.2 Balance of Trade in Services

In 2014, the trade in services surplus increased by \$134.5 million and stood at \$723.8 million. Total receipts from services were higher by \$59.1 million to reach \$1.6 billion, with increases sourced from travel, other business services and government services. Payments, on the other hand, fell by \$75.5 million, largely due to decreases in financial services, other business services and insurance and pension fund services (see Table 2).

In 2014, the surplus of the services sub-account represented 26.1 percent of GDP, up from the 22.3 percent recorded in 2013.

The trade in services comprises the following balances:

Travel. Net foreign earnings from travel was estimated at \$311.3 million in 2014, reflecting an increase of 16.1 percent relative to 2013. This improvement reflects the increase in receipts due to the growth in visitor arrivals.

The total amount of receipts from visitors was estimated to have increased by 13.0 percent to reach \$470.6 million. Travel receipts continues to be an important source of

foreign exchange revenue, contributing 12.1 percent to total Current Account receipts and represented 17.0 percent of GDP compared to 15.7 percent in 2013.

In 2014, payment by Cayman Islands residents for international travel grew by \$10.9 million (7.4%) to \$159.4 million relative to the \$148.4 million recorded in 2013. This outturn was driven by the increased payment for health, educational and other personal travel purposes.

Insurance. Insurance services registered a deficit of \$61.4 million in 2014, down by \$17.9 million (or 22.6%) from \$79.3 million recorded in 2013. This was due to the decline in payments of direct insurance services and auxiliary insurance services which exceeded the decline in receipts.

Financial services (excluding insurance). For the second consecutive period, the net surplus from financial services contracted. Net surplus in financial services was down by \$15.6 million (5.3%) to settle at \$279.2 million. This surplus is equivalent to 0.01 percent of GDP and remained relatively stable.

In 2014, receipts from financial services amounted to \$362.4 million compared to \$398.2 million obtained in 2013. This 9.0 percent decline is attributed mainly lower receipts for banking sector services. Earnings from financial services contributed 9.3 percent to total Current Account receipts.

Payments for financial services to non-residents amounted to \$83.2 million, down from \$103.3 million obtained in 2013. The sharp decline of 19.5 percent was largely on account of payments for financial services by banks and other businesses.

Transportation. The net outflow for transportation transactions crept up by 0.7 percent, and amounted to a deficit of \$101.7 million. This was largely due to increased payments for freight and passenger fares.

Total receipts for sea transportation expanded by 8.0 percent, and stood at \$111.0 million. This outturn reflected primarily the increase in auxiliary transport services such as shipping agents' fees and commissions, and sea port charges. Payments by residents for freight services mirrored the performance of merchandise imports for 2014 and grew by 5.0 percent.

Air transportation services recorded a decrease of 7.2 percent in net payments, to reach \$31.4 million compared to \$33.8 million achieved in 2013. Both inflows and outflows recorded increases with the growth of inflows outpacing that of outflows. Receipts from non-resident passenger fares remained relatively stable with a 0.4 percent growth. However, receipts for auxiliary services of air transportation which are largely travel

agents' commissions, fee, and revenue associated with airport services grew by 12.8 percent to \$21.3 million.

Payments for air transportation services fell marginally by 0.05 percent to \$67.7 million, largely on account the 4.9 percent drop in payments for auxiliary air transportation services. Resident passenger fares paid to foreign airlines increased slightly by 0.4 percent to \$52.6 million.

Telecommunications, computers and information services. The deficit for the telecommunications, computers and information services grew by 10.4 percent and stood at \$24.1 million against the \$21.9 million recorded in 2013. This outturn reflected primarily the decrease in receipts for telecommunications services and computer services coupled with an increase in payments.

Other business services. In 2014, the surplus from other business services increased by 50.6 percent, moving from a surplus of \$165.2 million in 2013 to \$248.8 million. This performance was related to larger receipts from the provision of legal, accounting and business services between related enterprises.

Receipts from other business services stood at \$432.8 million, the second largest contributor to foreign exchange from services. In contrast, payment for other business services fell by 20.8 percent to \$184.0 million.

Government goods and services not included elsewhere (n.i.e). The surplus from government services amounted to \$93.5 million, up from \$82.9 million recorded in 2013. This performance is attributed to the higher receipts of 7.0 percent, along with the drop of 24.1 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. The total primary income inflows increased from \$2.1 billion to \$2.2 billion in 2014, growing by 1.9 percent. Total primary outflows also increased from \$2.6 billion to \$2.7 billion, a 5.3 percent growth. With outflows being slightly larger than inflows in 2014, the primary income sub-account attained a net outflow of \$535.8 million.

Investment income recorded a deficit of \$518.1 million in 2014, a 21.0 percent increase over 2013 arising from the increased deficit of other investment income which outweighed the decline in direct investment income and portfolio investment income deficits.

Compensation of employees continued to be in deficit amounting to \$17.7 million, an increase of 31.4 percent from \$13.4 million in 2013.

Direct investment income. The deficit contracted in 2014 from \$544.9 million to \$341.9 million in 2014, a decline of 37.3 percent from a year ago. Both the receipts and payments on direct investment income fell, with the decline in payments outpacing the decline in receipts. Dividends returns and interest income from direct investment fell. Likewise, dividend payments to non-residents and undistributed profits also contracted.

Portfolio investment income. The surplus narrowed slightly to \$540.3 million from \$578.4 million estimated in 2013. This was due to the reduced income on portfolio investments. Residents' earnings on portfolio investment income abroad fell by \$40.0 million (6.3 percent) largely on account of the decline on returns on debt securities. Non-resident earnings on portfolio investment in Cayman Islands fell slightly by 1.8 percent due to lower earnings on investment income on securities.

Other investment income account. This recorded a larger deficit by \$255.0 million to \$716.8 million compared to \$461.8 million in 2013. Although earnings from other investment abroad increased by \$91.1 million, earnings on other investment in Cayman Islands increased at a much larger amount of \$346.1 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 2014, the net payment in the secondary income account expanded by 2.6 percent to reach \$159.6 million from the \$155.6 million recorded in 2013. This deficit reflected mainly the excess of personal transfers (workers remittances) sent to non-residents by households over receipts by residents.

General government transfers netted a surplus of \$14.6 million compared to \$12.7 million in 2013.

The deficit of transactions from personal transfers (largely workers' remittances) increased by 3.6 percent. In 2014, \$149.9 million was remitted abroad, while receipts from abroad fell by 9.9 percent to \$5.4 million.

Other current transfers comprising insurance claims, net premiums and social benefits recorded a deficit of \$29.7 million compared to \$28.8 million in 2013. Largely driving this performance is the increase of 6.2 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)

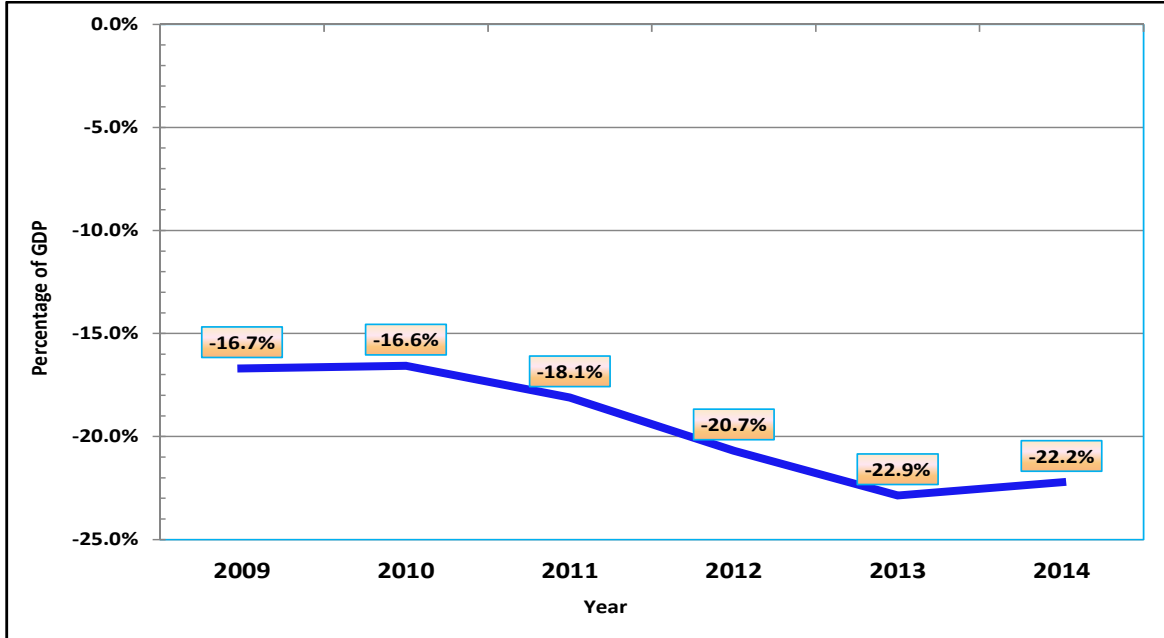


Chart 2: Current Account Receipts (% Share to Total Receipts)

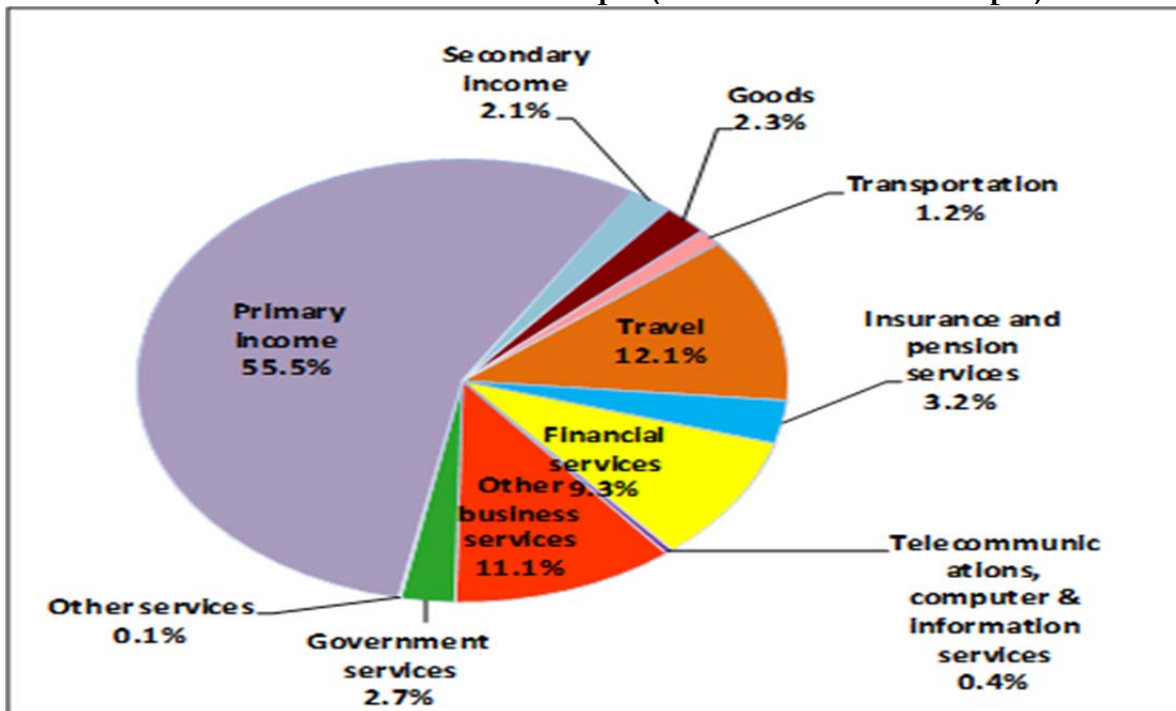


Table 4: Current Account of the Balance of Payments Summary

In C\$Million															
	2010			2011			2012			2013 ^R			2014		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1.CURRENT ACCOUNT	3,094.1	3,503.7	(409.6)	3,425.9	3,882.0	(456.1)	3,492.3	4,025.1	(532.8)	3,801.2	4,406.7	(605.4)	3,896.1	4,512.1	(616.1)
A. GOODS AND SERVICES	1,396.6	1,476.8	(80.1)	1,436.4	1,628.8	(192.3)	1,440.5	1,560.0	(119.5)	1,603.5	1,611.9	(8.4)	1,648.6	1,569.3	79.3
A1. GOODS	32.9	620.4	(587.5)	84.5	687.0	(602.4)	45.3	686.4	(641.1)	103.3	700.9	(597.6)	89.3	733.8	(644.5)
A2. SERVICES	1,363.7	856.4	507.3	1,351.9	941.8	410.1	1,395.2	873.5	521.7	1,500.2	910.962	589.2	1,559.3	835.5	723.8
1. Transportation	40.0	124.9	(84.9)	44.8	140.5	(95.7)	41.4	142.6	(101.2)	44.1	145.1	(101.0)	47.3	149.0	(101.7)
2. Travel	403.9	112.3	291.6	381.5	141.1	240.4	407.8	139.6	268.2	416.6	148.4	268.2	470.6	159.4	311.3
3. Insurance and pension services	94.6	200.6	(106.0)	106.6	210.7	(104.1)	105.1	209.1	(104.0)	129.3	208.6	(79.3)	123.2	184.6	(61.4)
4. Financial services(excluding insurance)	410.9	79.6	331.2	396.1	97.3	298.8	398.1	97.3	300.8	398.2	103.3	294.8	362.4	83.2	279.2
5. Telecommunications, computer and information services	15.4	38.4	(23.0)	13.4	41.4	(27.9)	11.6	35.1	(23.5)	13.2	35.0	(21.9)	14.5	38.7	(24.1)
6. Other business services	315.2	270.1	45.1	326.1	276.5	49.6	347.3	215.3	132.0	397.5	232.3	165.2	432.8	184.0	248.8
7. Government goods and services, nie.	82.1	15.0	67.0	81.7	18.1	63.6	81.9	13.4	68.5	98.2	15.3	82.9	105.1	11.6	93.5
8. Other services	1.6	15.4	(13.8)	1.6	16.2	(14.7)	1.9	21.1	(19.2)	3.2	22.9	(19.7)	3.3	25.0	(21.7)
B. PRIMARY INCOME	1,616.1	1,801.6	(185.6)	1,908.3	2,026.6	(118.2)	1,966.5	2,233.5	(267.0)	2,124.3	2,565.8	(441.5)	2,164.2	2,700.0	(535.8)
1. Compensation of employees	-	10.1	(10.1)	-	10.9	(10.9)	-	13.9	(13.9)	-	13.4	(13.4)	-	17.7	(17.7)
2. Investment Income	1,616.1	1,791.6	(175.5)	1,908.3	2,015.7	(107.3)	1,966.5	2,219.5	(253.1)	2,124.3	2,552.4	(428.1)	2,164.2	2,682.3	(518.1)
2.1 Direct investment	238.9	768.3	(529.5)	244.8	782.6	(537.7)	210.7	870.2	(659.5)	232.2	777.1	(544.9)	220.1	562.0	(341.9)
2.2 Portfolio investment	378.7	70.2	308.5	546.4	68.2	478.2	613.3	73.5	539.8	633.0	54.6	578.4	593.9	53.6	540.3
2.3. Other investments	998.4	953.0	45.4	1,117.1	1,164.9	(47.8)	1,142.5	1,275.9	(133.4)	1,259.1	1,720.6	(461.6)	1,350.2	2,066.7	(716.6)
C. SECONDARY INCOME	81.4	225.3	(143.9)	81.1	226.7	(145.6)	85.4	231.7	(146.3)	73.4	229.0	(155.6)	83.3	242.8	(159.6)
1. General Government	14.6	0.7	13.9	13.1	1.0	12.1	14.2	0.6	13.6	13.5	0.7	12.7	15.2	0.6	14.6
2. Financial corporations, nonfinancial corporations, households, and NPISHs	66.8	224.6	(157.8)	68.0	225.7	(157.7)	71.2	231.1	(159.9)	59.9	228.2	(168.3)	68.1	242.3	(174.2)
2.1 Workers remittances	6.0	154.0	(148.0)	4.8	148.9	(144.1)	4.9	148.9	(144.0)	6.0	145.5	(139.5)	5.4	149.9	(144.5)
2.2 Other current transfers	60.8	70.7	(9.9)	63.2	76.7	(13.5)	66.3	82.2	(15.9)	53.9	85.7	(31.7)	62.7	92.3	(29.7)

R Revised

NPISHs Non-Profit Institutions serving households

Table 5: Current Account – Analytical Presentation

In CI\$ Million						
	2009	2010	2011	2012 ^R	2013	2014
A. Current Account	(422.3)	(409.6)	(456.1)	(532.8)	(605.4)	(616.1)
Goods: exports f.o.b.	38.7	32.9	84.5	45.3	103.3	89.3
Goods imports f.o.b.	666.0	620.4	687.0	686.4	700.9	733.8
<i>Balance on goods</i>	<i>(627.3)</i>	<i>(587.5)</i>	<i>(602.4)</i>	<i>(641.1)</i>	<i>(597.6)</i>	<i>(644.5)</i>
Services: credit	1,281.2	1,363.7	1,351.9	1,395.2	1,500.2	1,559.3
Services: debit	811.1	856.4	941.8	873.5	911.0	835.5
<i>Balance on services</i>	<i>470.1</i>	<i>507.3</i>	<i>410.1</i>	<i>521.7</i>	<i>589.2</i>	<i>723.8</i>
Primary income: credit	2,130.4	1,616.1	1,908.3	1,966.5	2,124.3	2,164.2
Primary income debit	2,217.7	1,801.6	2,026.6	2,233.5	2,565.8	2,700.0
<i>Balance on primary income</i>	<i>(87.2)</i>	<i>(185.6)</i>	<i>(118.2)</i>	<i>(267.0)</i>	<i>(441.5)</i>	<i>(535.8)</i>
Secondary Income: credit	84.3	81.4	81.1	85.4	73.4	83.3
Secondary Income: debit	262.1	225.3	226.7	231.7	229.0	242.8
<i>Balance on secondary income</i>	<i>(177.8)</i>	<i>(143.9)</i>	<i>(145.6)</i>	<i>(146.3)</i>	<i>(155.6)</i>	<i>(159.6)</i>

Table 6: Merchandise Good Transactions

In CI\$ Million						
ITEM	2009	2010	2011	2012 ^R	2013	2014
Credit						
EXPORTS						
Total Merchandise exports f.o.b	15.98	11.05	18.08	16.36	25.31	21.91
Goods procured in ports by carriers	2.7	2.9	4.3	4.4	4.4	5.0
Net exports of goods under merchanting	20.0	19.0	62.2	24.6	73.6	62.4
Total adjusted exports f.o.b	38.7	32.9	84.5	45.3	103.3	89.3
Debit						
IMPORTS						
Total merchandise imports c.i.f	744.5	690.4	759.5	758.5	774.5	813.3
Less freight and insurance	89.3	82.8	91.1	91.0	92.9	97.6
Total adjusted merchandise Imports f.o.b	655.2	607.6	668.3	667.5	681.5	715.7
Goods procured in ports by carriers	10.8	12.9	18.6	18.9	19.4	18.1
Total adjusted Imports f.o.b	666.0	620.4	687.0	686.4	700.9	733.8
Goods Trade Balance	(627.3)	(587.5)	(602.4)	(641.1)	(597.6)	(644.5)

2.4 Financial Account

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

In 2014, the financial account recorded a net inflow (inward investment) of \$336.0 million, compared to \$1.6 billion net inflow recorded in 2013.

The net acquisition of financial assets abroad (outward investment) by residents increased from \$2.2 billion to \$8.6 billion in 2014, while net incurrence of financial liabilities (inward investments) moved from \$3.8 billion to \$9.0 billion in 2015. These financial transactions resulted in the Cayman Islands attaining a net borrowing position of \$336.0 million.

2.4.1 Direct Investments

Net acquisition of direct investment assets was \$903 million in 2014, down from \$3,090 billion achieved in 2013. There were reductions in the acquisition of equity securities as well as disinvestment in debt securities.

Net incurrence of financial liabilities to non-residents (inward investment) increased from \$2,055.6 million to \$3,883.6 million resulting mainly from the increase in liabilities in equity and disinvestment of debt instruments.

Consequently, the direct investment account posted a net borrowing position of \$2,980.6 million.

2.4.2 Portfolio investments

Net lending in the portfolio investment account was \$5.9 billion in 2014 a shift from the net disinvestment of \$10.9 billion in 2013. This outcome resulted largely from the net increase in acquisition of assets and the disinvestment of portfolio debt securities.

In 2014, residents' acquisition of portfolio investments was \$3.8 billion, a reversal of the \$4.1 billion disposal of financial assets, largely debt securities in 2013.

Net investments of non-residents in Cayman portfolio investment instruments showed a disinvestment of \$2.1 billion in 2014, a shift from the investment of \$6.9 billion in 2013. This resulted from the redemption of debt instruments.

2.4.3 Other investments

This account registered a net borrowing position to the rest of the world amounting to \$4.0 billion in 2014, a reversal of the \$9.6 billion net lending recorded in 2013.

Residents' net acquisition of other investments of financial assets reached \$3.2 billion in 2014, down from \$4.5 billion in 2013. This was driven mainly by the decrease in currency and deposits and the repayment of loans by non-residents.

On the other hand, net payment by residents of financial liabilities stood at \$7.2 billion, compared to a disinvestment of \$5.2 billion registered in 2013. The net payments of financial liabilities were largely on account of increases in deposit liabilities and loans by the banking sector.

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 2014 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 updated data.

3.2 Net International Investment Position Summary

The Cayman Islands' net IIP, which is the difference between assets of residents held abroad and its liabilities to non-residents, stood at CI\$4.7 billion at end of 2014. This was comprised of financial assets in the form of other investment (including currency and deposits, loans and accounts receivable/payable) amounting to \$15.9 billion, financial derivatives (\$2.0 billion), and reserve assets (\$99 million). On the other hand, Cayman residents had net liabilities in direct investment (\$5.6 billion) and portfolio investment (\$7.6 billion).

The net IIP in 2014 was 170.3 percent of GDP, reflecting an improvement relative to the 116.4 percent of GDP recorded in 2013.

The 2014 net international asset position improved on the 2013 position by CI\$1.6 billion. The improvement was mainly driven by the reduction in the net portfolio investment position (net liabilities) of \$5.9 billion along with the increase of \$0.7 billion in financial derivatives assets. However, these were partly offset by increases in net

direct investment position (net liabilities of \$2.6 billion and a reduction in net other investment position (net assets) of \$2.4 billion.

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

	2012	2013	2014	Change 2014/2013
Net Direct Investment	(6,766.0)	(3,068.7)	(5,627.4)	(2,558.7)
Net Portfolio Investment	(2,523.3)	(13,466.3)	(7,608.7)	5,857.6
Net Other Investment	10,724.9	18,306.2	15,891.2	(2,415.0)
Financial Derivatives	2,537.7	1,215.2	1,966.7	751.5
Reserve Assets	91.2	96.1	99.0	2.9
IIP (net)	4,064.5	3,082.4	4,720.7	1,638.3
IIP (Net)/GDP(%)	157.8%	116.4%	170.3%	46.3%

3.3 Foreign Investment Assets and Liabilities Overview

The Cayman Islands' total investments in financial assets abroad amounted to CI\$124.0 billion at the end of 2014, reflecting an increase of CI\$10.4 billion, compared to CI\$113.6 billion recorded at the end of 2013.

Non-residents' investments (or residents' liabilities) in the Cayman Islands' economy was CI\$119.3 billion at the end of 2014, up from the CI\$110.5 billion recorded at the end of 2013.

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

	2012	2013	2014
Total Assets	113,146.1	113,599.9	123,996.0
<i>By functional category</i>	113,146.1	113,599.9	123,996.0
Direct Investment	17,066.5	20,149.7	21,045.7
Portfolio Investment	20,130.4	16,070.3	19,831.7
Financial Derivatives	2,537.7	1,215.2	1,966.7
Other Investment	73,320.2	76,068.7	81,052.9
Reserve Assets	91.2	96.1	99.0
<i>By instrument</i>	113,146.1	113,599.9	123,996.0
Equity and investment fund share/units	17,515.5	18,779.1	21,797.3
Currency and deposits	24,616.5	29,629.3	35,264.2
Debt securities	19,770.9	17,534.4	19,176.6
Loans	46,241.9	43,453.7	41,098.5
Other financial assets	5,001.3	4,203.5	6,659.4
Total Liabilities	109,081.5	110,517.5	119,275.3
<i>By functional category</i>	109,081.5	110,517.5	119,275.3
Direct Investment	23,832.5	23,218.4	26,673.1
Portfolio Investment	22,653.7	29,536.6	27,440.4
Financial Derivatives	0.0	0.0	0.0
Other Investment	62,595.3	57,762.5	65,161.7
<i>By instrument</i>	109,081.5	110,517.5	119,275.3
Equity and investment fund share/units	26,958.7	26,842.9	31,954.5
Currency and deposits	41,249.1	39,751.1	43,736.5
Debt securities	19,527.5	25,912.0	22,159.1
Loans	17,854.9	15,016.9	18,510.4
Other accounts payable	3,491.4	2,994.5	2,914.8
Net International Investment Position*	4,064.5	3,082.4	4,720.7

3.4 Investments by Functional Category

Direct Investment. In 2014, the stock of Cayman Islands direct investments abroad (assets) stood at \$21.0 billion, reflecting an increase of \$0.9 billion relative to that of 2013. Direct investment liabilities in the Cayman Islands (inward investment) at the end of 2014 stood at \$26.7 billion, up from the \$23.2 billion recorded in 2013. The direct investment is composed of equity investments abroad and claims and liabilities of

investors in the Cayman Islands with their foreign affiliates, of which equity investments constituted the largest portion.

As a result, at the end of 2014, the net direct investments liability was \$5.6 billion, coming from \$3.1 billion recorded in 2013. In 2014, direct investment constituted 17.0 percent of total foreign assets and 22.4 percent of total foreign liabilities.

Portfolio Investment. At the end of 2014, Cayman residents' portfolio investments abroad which contributed 16.0 percent to total foreign assets, grew by 23.4 percent and stood at \$19.8 billion. This emanated from the increase in both debt securities and equity and investment fund shares.

Analysis of the composition of residents' portfolio investments abroad (assets) revealed that debt securities which constitute 89.4 percent of portfolio investments assets rose by 14.9 percent. Holdings of debt securities by Cayman Islands resident banks issued by non-residents (making up 96.9 % of debt securities) grew by 15.8 percent, and amounted to \$17.2 billion by the end of 2014, compared to \$14.8 billion recorded at the end of 2013.

Non-residents' holdings of portfolio investments in Cayman (liabilities) was reduced by \$2.1 billion to amount to \$27.4 billion at the end of 2014. Debt securities issued by resident deposit-taking corporations dominated the portfolio investment liabilities even as this recorded a decline of \$3.6 billion compared to the end 2013 level.

However, non-residents' holdings of equity and investments funds increased by \$1.5 billion, and stood at \$7.2 billion by the end of 2014. Consequently, the net portfolio investments liabilities increased by \$5.8 billion, and stood at \$7.6 billion at the end of 2014.

Other Investment. Other investments assets which comprised largely of currency and deposits and loans for the year 2014 saw an increase of \$5.0 billion. This outturn reflected the build-up of currency and deposits held abroad by residents which stood at \$35.3 billion in 2014, compared to \$29.6 billion recorded at the end of 2013.

Accounts receivable and other assets increased from \$3.0 billion to \$4.7 billion. This performance was led by the deposit-taking corporations which accounts for approximately 88.7 percent of accounts receivable and other assets.

Non-residents increased their holdings of other investments in Cayman by \$7.4 billion in 2014 to reach \$65.2 billion. This outturn reflected mainly the movement in non-residents loans and deposits held by the deposit-taking corporations.

Overall, net assets of the other investments fell by \$2.4 billion, to amount to \$15.9 billion at the end of 2014. This stemmed from the increase in other investment liabilities which outpaced the growth in other investment assets.

Reserve Assets. At the end of 2014, the Cayman Islands gross reserve assets was \$99.0 million, showing an increase of \$2.9 million relative to the end of 2013. Investments in securities dominated 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 households and non-profit institutions serving households sector are 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	Changes 2014 / 2013	
				CISM	%
IIP (net)	4,064.5	3,082.4	4,720.7	1,638.3	53.1%
General Government (Net IIP)	(313.6)	(304.6)	(295.2)	9.3	-3.1%
Financial Sector (Net IIP)	4,930.0	4,008.5	6,363.1	2,354.6	58.7%
Non-financial Sectors (Net IIP)	(551.9)	(621.5)	(1,347.2)	(725.6)	116.8%

As shown by available data, the financial sector dominates the international investment activity among residents. As of end 2014, the net IIP of this sector amounted to \$6.4 billion. The non-financial sector and government had net liabilities amounting to \$1.3 billion and \$295.2 million, respectively.

Details of the international investment activities of each sector by functional category in 2014 are shown in Table 10. Tables 11 and 12 show the same details for the years 2013 and 2012 respectively.

Table 10:
IIP by Resident Institutional Sector
As at End 2014, CI\$ Million

	Nonfinancial Corporations	Financial Corporations	General Government	Total Economy
Total Assets	799.2	123,194.4	2.5	123,996.0
<i>By functional category</i>	<i>799.2</i>	<i>123,194.4</i>	<i>2.5</i>	<i>123,996.0</i>
Direct Investment	657.1	20,388.6	-	21,045.7
Portfolio Investment	2.6	19,828.5	0.6	19,831.7
Financial Derivatives	-	1,966.7	-	1,966.7
Other Investment	139.4	80,911.6	1.9	81,052.9
Reserve Assets	-	99.0	-	99.0
Total Liabilities	2,146.4	116,831.3	297.7	119,275.3
<i>By functional category</i>	<i>2,146.4</i>	<i>116,831.3</i>	<i>297.7</i>	<i>119,275.3</i>
Direct Investment	1,743.5	24,929.7	-	26,673.1
Portfolio Investment	11.8	27,135.5	293.2	27,440.4
Financial Derivatives	-	-	-	-
Other Investment	391.1	64,766.1	4.5	65,161.7
Net International Investment Position*	(1,347.2)	6,363.1	(295.2)	4,720.7

Financial sector. This comprises largely of the banking, and other financial corporations and pensions. This sector held a net asset (lending) position with the rest of the world amounting to \$6.4 billion at the end of 2014.

Total foreign assets held by the financial sector stood at \$123.2 billion on account of other investments which largely comprised of loans and currency and deposits. At the end of 2014, other investments stood at \$80.9 billion, accounting for 65.7 percent of total foreign investments of the financial sector. Portfolio investments stood at \$19.8 billion largely reflecting investments in debt securities, while direct investment stood at \$20.4 billion.

At the end of 2014, the financial corporations' foreign liabilities were valued at \$116.8 billion. The largest liability of the financial sector was in the other investments category which stood at \$64.8 billion and accounted for 55.4 percent of total liabilities. This includes currency and deposits amounting to \$56.5 billion. For the same period, portfolio investment liabilities reached \$27.1 billion while direct investment was \$24.9 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 held a net investment position of -\$1.3 billion at the end of 2014. Foreign assets held by the non-financial sector stood at \$0.8 billion, with most of the investments being in direct investments (\$0.7 billion).

In 2014, foreign liabilities stood at \$2.1 billion with direct investment contributing \$ 1.7 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 -\$295.2 million, with foreign assets of \$2.5 million largely held in other investments (\$1.9 million) while foreign liabilities stood at \$297.7 million. This liability was largely in the form of debt securities.

Table 11:
IIP by Resident Institutional Sector
As at End 2013, CI\$ Million

	Nonfinancial Corporations	Financial Corporations	General Government	Total Economy
Total Assets	1,403.5	112,193.3	3.0	113,599.9
<i>By functional category</i>	<i>1,403.5</i>	<i>112,193.3</i>	<i>3.0</i>	<i>113,599.9</i>
Direct Investment	1,261.1	18,888.6	-	20,149.7
Portfolio Investment	2.8	16,066.9	0.6	16,070.3
Financial Derivatives	-	1,215.2	-	1,215.2
Other Investment	139.7	75,926.6	2.4	76,068.7
Reserve Assets	-	96.1	-	96.1
Total Liabilities	2,025.1	108,184.8	307.6	110,517.5
<i>By functional category</i>	<i>2,025.1</i>	<i>108,184.8</i>	<i>307.6</i>	<i>110,517.5</i>
Direct Investment	1,626.1	21,592.3	-	23,218.4
Portfolio Investment	14.3	29,220.0	302.3	29,536.6
Financial Derivatives	-	-	-	-
Other Investment	384.7	57,372.5	5.3	57,762.5
Net International Investment Position*	(621.5)	4,008.5	(304.6)	3,082.4

Table 12:
IIP by Resident Institutional Sector
As at End 2012, CI\$ Million

	Nonfinancial Corporations	Financial Corporations	General Government	Total Economy
Total Assets	1,271	111,873	2	113,146.1
By functional category	1,271.2	111,873.0	1.8	113,146.1
Direct Investment	1,157.9	15,908.6	-	17,066.5
Portfolio Investment	2.9	20,127.3	0.2	20,130.4
Financial Derivatives	-	2,537.7	-	2,537.7
Other Investment	110.4	73,208.2	1.6	73,320.2
Reserve Assets	-	91.2	-	91.2
Total Liabilities	1,823.2	106,943.0	315.4	109,081.5
By functional category	1,823.2	106,943.0	315.4	109,081.5
Direct Investment	1,451.4	22,381.0	-	23,832.5
Portfolio Investment	159.0	22,184.9	309.9	22,653.7
Financial Derivatives	-	-	-	-
Other Investment	212.7	62,377.0	5.6	62,595.3
Net International Investment Position*	(551.9)	4,930.0	(313.6)	4,064.5

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 2014. All businesses and establishments deemed to have been conducting transactions with non-residents and were included in the ESO Business Register were surveyed. The survey results were supplemented with secondary data provided by various government departments and statutory bodies in addition to data from the Labour Force Survey. The Cayman Islands Monetary Authority (CIMA) provided aggregate data on the banking industry.

A1.4 Data Quality and Accuracy

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

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 households especially electronic transactions over the internet are difficult to capture and are currently not estimated.

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

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

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 2014 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 2014 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.

However, the BOP survey form does not 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.

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