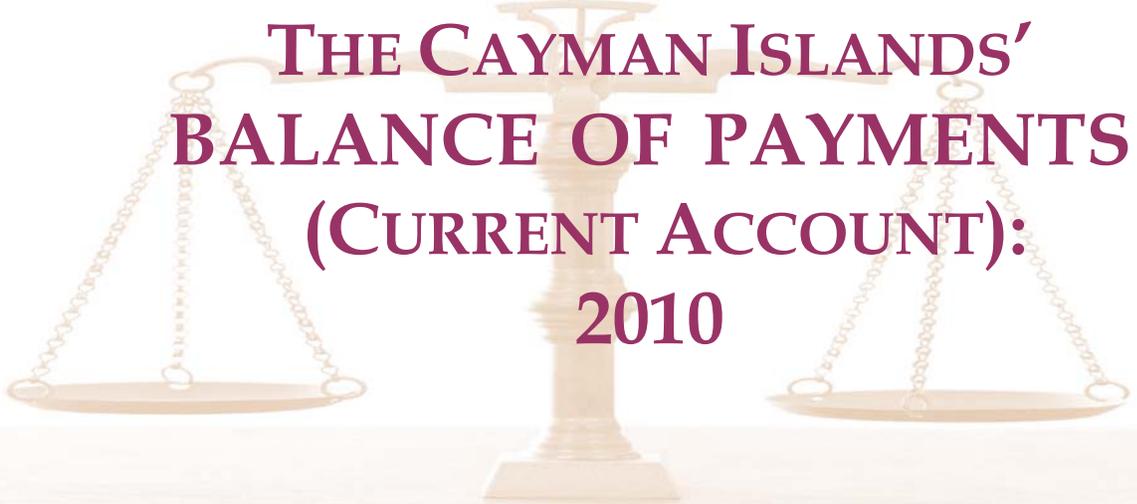




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A faint, golden-colored image of a pair of scales of justice is centered in the background of the title section.

# THE CAYMAN ISLANDS' BALANCE OF PAYMENTS (CURRENT ACCOUNT): 2010

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NOVEMBER 2011



The Economics and Statistics Office  
Government of the Cayman Islands



## Table of Contents

<b>ACKNOWLEDGEMENT.....</b>	<b>4</b>
<b>ABBREVIATIONS AND ACRONYMS .....</b>	<b>5</b>
<b>1. EXECUTIVE SUMMARY .....</b>	<b>6</b>
<b>2. CURRENT ACCOUNT PRELIMINARY ESTIMATES .....</b>	<b>8</b>
2.1 Introduction.....	8
2.2 Overall Current Account.....	8
2.3 Balance of Trade in Goods .....	10
2.4 Balance of Trade in Services .....	11
2.5 Balance of Primary Income Transactions .....	15
2.6 Balance of Secondary Income Transactions (Current Transfers).....	16
2.7 Comparative Current Account Receipts .....	16
<b>APPENDIX 1: OVERVIEW OF KEY USES, REVISIONS AND DATA SOURCES ...</b>	<b>18</b>
A1.1 Key Uses.....	18
A1.2 Revisions .....	19
A1.3 Key Data Sources .....	19
A1.4 Data Quality and Accuracy .....	20
<b>APPENDIX 2: OVERVIEW OF THE BOP COMPILATION.....</b>	<b>21</b>
A2.1 General Approach.....	21
A2.2 Coverage and Survey Instrument .....	22
A2.3 Survey Methodology .....	22
A2.4 Data Compilation.....	22
<b>APPENDIX 3: CLASSIFICATION SYSTEM.....</b>	<b>23</b>
A3.1 The Current Account .....	23
A3.2 Capital and Financial Account .....	24
<b>APPENDIX 4: MERCHANDISE GOODS TRANSACTIONS.....</b>	<b>26</b>
<b>APPENDIX 5: CURRENT ACCOUNT - ANALYTICAL PRESENTATION .....</b>	<b>27</b>
<b>APPENDIX 6: CURRENT ACCOUNT: STANDARD PRESENTATION .....</b>	<b>28</b>
<b>APPENDIX 7: SELECTED BALANCE OF PAYMENTS INDICATORS.....</b>	<b>29</b>
<b>REFERENCES.....</b>	<b>30</b>

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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 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](mailto:infostats@gov.ky).

**ABBREVIATIONS AND ACRONYMS**

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

## 1. Executive Summary

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

- (i) the current account which captures transactions in trade on goods and services, primary income and secondary income (transfers);
- (ii) the financial account which comprises all types of investment; and
- (iii) the capital account which records all capital transfers.

A negative balance (or deficit) in any account means that total receipts of residents from non-residents is less than their total payments to non-residents.

1.2 This report presents mainly the current account estimates for 2010. It also includes the years 2006 to 2009 for two reasons: (a) to facilitate comparative analysis; and (b) to present updated figures for previous years based on more recent information.

1.3 The overall **current account balance** of the country continued to be in deficit in 2010. The deficit stood at CI\$408.2 million, reflecting a decrease of \$11.9 million over the 2009 figure of \$420.1 million. This deficit represents the amount that has to be funded by financial and capital accounts in order for the BOP to balance.

1.4 The current account deficit in 2010 is comprised of the following balances:

- (i) Balance of trade in goods : -\$584.8 million
- (ii) Balance of trade in services : \$474.5 million
- (iii) Balance of primary income : -\$155.6 million
- (iv) Balance of secondary income : -\$142.3 million

Trade in services (which includes financial and travel services) continued to be the sole account in surplus for the country, reflecting the importance of services to the economy.

1.5 The deficit in the balance of **trade in goods** was lower in 2010 by 5.6 percent compared to 2009 largely as a result of the drop in the imports of goods.

1.6 The balance of **trade in services** which was in surplus increased by 2.1 percent in 2010 compared to 2009. The nine (9) services comprising this current account balance and their corresponding balances in 2010 are as follows:

(i)	Transportation	: -\$89.4 million
(ii)	Travel	: \$294.0 million
(iii)	Insurance and pension services	: -\$102.8 million
(iv)	Financial services (excluding insurance)	: \$313.4 million
(v)	Telecommunication, computer and information services and charges for the use of intellectual properties	: -\$41.9 million
(vi)	Other business services	: \$34.1 million
(vii)	Government goods and services	: \$70.3 million
(viii)	Other services	: -\$3.3 million

The above balances continue to signify the importance of the financial services industry and the travel industry as sources of foreign exchange receipts for the Cayman Islands. Other business services and government goods and services were also contributors to foreign exchange receipts.

1.7 The balance from **primary income transactions** in 2010 represents a 78.4 percent increase in the deficit over 2009. The 2010 deficit is traced to the balances from the following income transactions:

(i)	Compensation of employees	: -\$10.1 million
(ii)	Direct investment	: -\$483.6 million
(iii)	Portfolio investment	: \$341.6 million
(iv)	Other investments	: -\$3.5 million

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

1.8 The deficit in the **secondary income (current transfers)** was also lower by 20.0 percent compared to the amount in 2009. The deficit is comprised of:

(i)	General government transfers	: \$14.4 million
(ii)	Workers' remittances	: -\$146.7 million
(iii)	Other sectors	: -\$10.1 million

## 2. Current Account Preliminary Estimates

### 2.1 Introduction

The balance of payments (BOP) is the system of accounts that record all economic and financial transactions between the country's residents and the rest of the world.

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

The BOP is compiled and produced by the BOP Unit of the Economics and Statistics Office (ESO). This report focuses on the current account of the BOP for 2010, although it includes estimates for 2006 to 2009.

Estimates for 2009 and 2010 are based on both survey and non-survey data collated as closely as is feasible in a format consistent with the sixth edition of the Balance of Payments Manual (BPM6) published by the International Monetary Fund (IMF). Estimates for 2006 to 2008 are based largely on available administrative data from statutory authorities and government departments.

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

### 2.2 Overall Current Account

Table 1 shows a summary of the current account of the BOP for the years 2006 to 2010, along with its main components. (The detailed transactions included in each major component are shown in succeeding tables and are described in Appendix 3).

The overall current account balance in 2010 was recorded at \$408.2 million. This represents an improvement over the deficit in 2009 of \$420.1 million. This was largely due to the increase in the surplus from the services account coupled with the decline in the goods balance and secondary income.

The decline in the deficit 2010 at 2.8 percent was lower compared to the rate of decline in 2009 (5.4%).

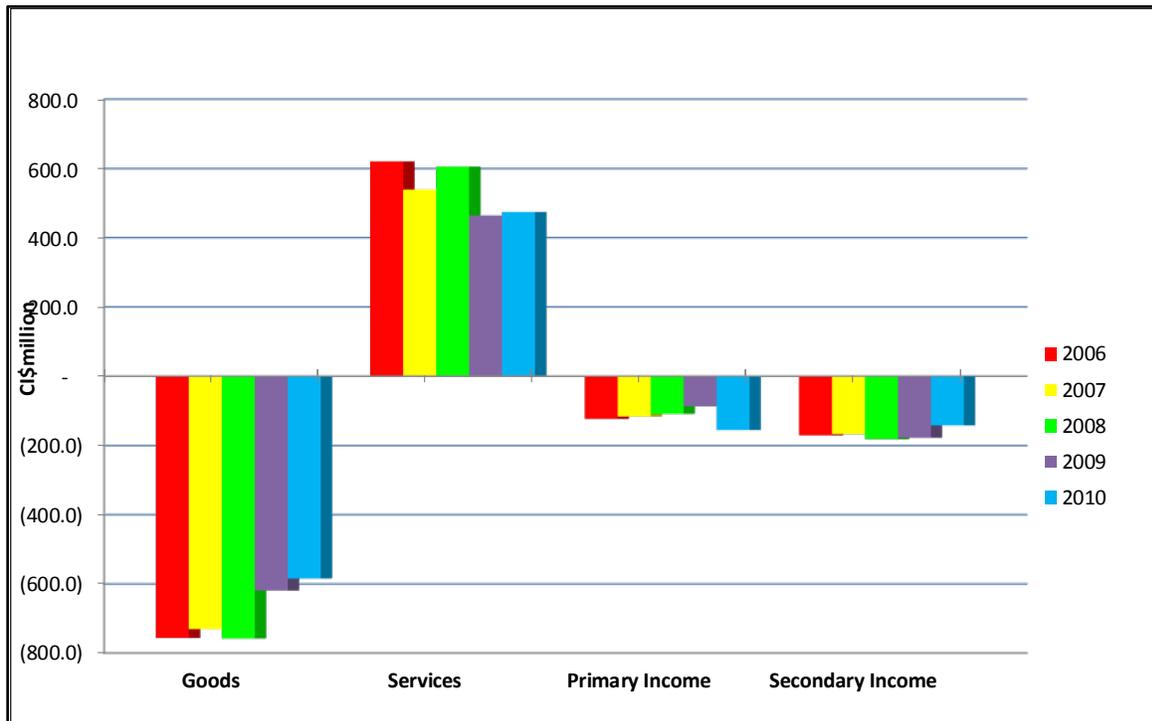
As in previous years, the deficit was driven by transactions in the three main categories (goods, primary income and secondary income) as services continued to turn in a surplus (see also Chart 1):

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

In CI\$Million					
	2006 <sup>R</sup>	2007 <sup>R</sup>	2008 <sup>R</sup>	2009 <sup>R</sup>	2010
<b>CURRENT ACCOUNT</b>	<b>(430.4)</b>	<b>(476.1)</b>	<b>(444.2)</b>	<b>(420.1)</b>	<b>(408.2)</b>
A. Goods	(756.0)	(730.9)	(758.1)	(619.7)	(584.8)
B. Services	620.2	539.1	605.5	464.6	474.5
C. Primary Income	(123.8)	(117.0)	(109.2)	(87.2)	(155.6)
D. Secondary Income	(170.7)	(167.4)	(182.4)	(177.8)	(142.3)

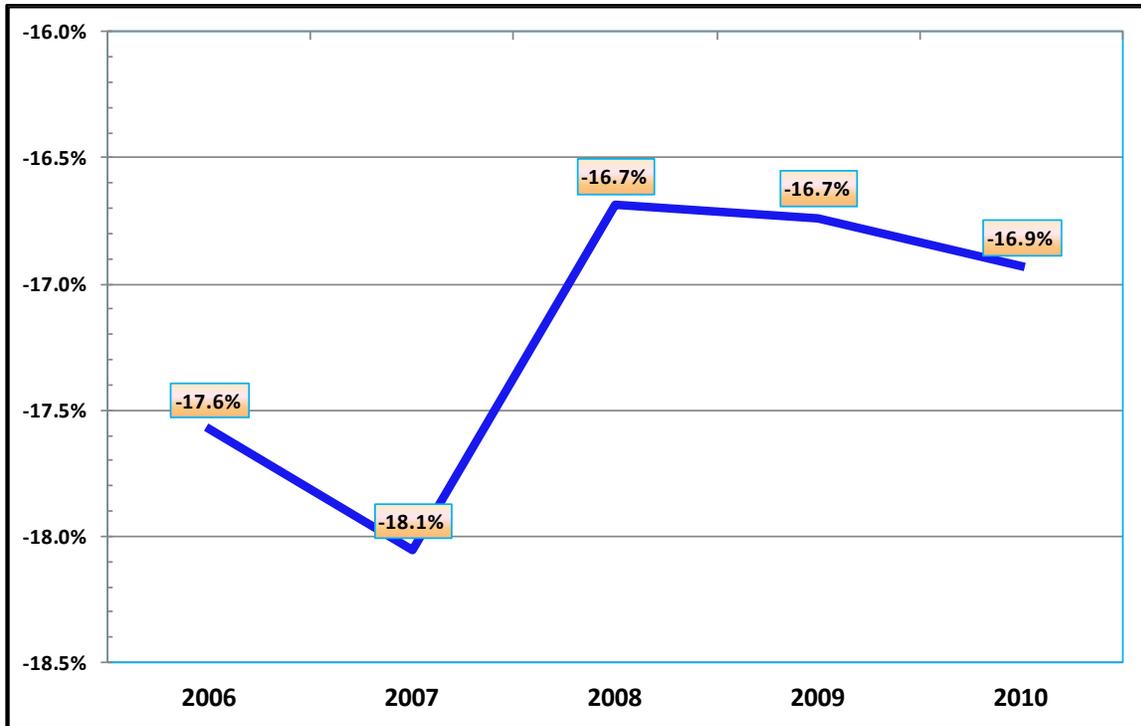
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**Chart 1: Current Account Components (Net Balances)**



The current account deficit in 2010 was 16.9 percent of GDP. This is higher compared to the deficit posted in 2009 of 16.7 percent of GDP as shown in Chart 2 below. It must be noted that GDP in 2010 fell by 3.9 percent over the 2009 level.

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



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

In 2010, the visible trade deficit on goods contracted by 5.6 percent (\$34.9 million) to \$584.8 million. The deficit represents 24.3 percent of GDP compared to 24.7 percent recorded in 2009. As shown in Table 2, this outturn resulted from lower level of goods imported coupled with the decline in exports of goods.

Imports of general merchandise continued on the decline, falling by \$39.8 million in 2010. This was largely traced to reduced imports of live animals (except fish and cereals and preparations), manufactured goods classified chiefly by materials and miscellaneous manufactured articles amidst increases in imports of mineral fuels, lubricants and related materials and imports of chemical and related products<sup>1</sup>.

<sup>1</sup> See also "The Cayman Islands' Foreign Trade Statistics Report 2010," [www.eso.ky](http://www.eso.ky)

Revenue earned from exports which are largely re-exports and “goods under merchanting” (the buying and selling of goods without the goods entering the country) totalled \$33.8 million, down by 12.6 percent compared to \$38.7 million in 2009. (See also Appendix 4).

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

In 2010, the trade in services account surplus expanded by \$9.9 million to \$474.5 million, as the dollar increase in receipts was higher than the increase in payments. The services balance surplus is equivalent to 19.7 percent of GDP compared to the 18.5 percent in 2009. The overall improvement in the services account can be attributed to increases in travel receipts, insurance, financial services and government goods and services receipts.

The trade in services comprises of the following balances:

### **a) Transportation**

The transportation services deficit increased slightly by 1.5 percent, to \$89.4 million. This performance is traced to higher payments for passenger fares and air freight to foreign airlines and the marginal decline in receipts for sea transportation.

### **b) Travel**

The surplus on international travel increased by 1.4 percent to \$294.0 million in 2010 compared to \$289.8 million in 2009. Gross travel receipts which comprises revenue earned from travel for business and private purposes is estimated to have increased by \$10.9 million to \$403.1 million.

Gross travel receipts sum up to approximately 16.7 percent of GDP in 2010, compared to 15.6 percent of GDP in 2009. This performance was largely on account of the stay-over visitors which grew by 6.0 percent; these visitors are the highest spending group of visitors. Meanwhile, travel receipts for education purposes fell, largely reflecting the drop in the number of students on island. Cruise ship passengers increased by 5.1 percent in 2010 and stood at 1,597.8 thousand passengers compared to 1,520.4 thousand passengers recorded in 2009.

On the payments side, outflows for international travel by residents for both personal and business travel increased.

**Table 2:  
THE CAYMAN ISLANDS'  
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS  
SUMMARY**

In CI\$ Million, 2006 - 2010															
	2006 <sup>R</sup>			2007 <sup>R</sup>			2008 <sup>R</sup>			2009 <sup>R</sup>			2010		
	Credit	Debit	Net	Credit	Debit	Net									
<b>1.CURRENT ACCOUNT</b>	<b>3,392.3</b>	<b>3,822.7</b>	<b>(430.4)</b>	<b>4,106.1</b>	<b>4,582.2</b>	<b>(476.1)</b>	<b>4,187.5</b>	<b>4,631.7</b>	<b>(444.2)</b>	<b>3,394.7</b>	<b>3,814.8</b>	<b>(420.1)</b>	<b>2,920.8</b>	<b>3,329.0</b>	<b>(408.2)</b>
<b>A. GOODS AND SERVICES</b>	<b>1,216.1</b>	<b>1,351.9</b>	<b>(135.9)</b>	<b>1,205.4</b>	<b>1,397.2</b>	<b>(191.8)</b>	<b>1,309.1</b>	<b>1,461.6</b>	<b>(152.6)</b>	<b>1,180.0</b>	<b>1,335.1</b>	<b>(155.1)</b>	<b>1,219.6</b>	<b>1,329.9</b>	<b>(110.3)</b>
<b>A1. GOODS</b>	<b>16.1</b>	<b>772.2</b>	<b>(756.0)</b>	<b>33.4</b>	<b>764.3</b>	<b>(730.9)</b>	<b>28.4</b>	<b>786.5</b>	<b>(758.1)</b>	<b>38.7</b>	<b>658.4</b>	<b>(619.7)</b>	<b>33.8</b>	<b>618.6</b>	<b>(584.8)</b>
<b>A2. SERVICES</b>	<b>1,199.9</b>	<b>579.8</b>	<b>620.2</b>	<b>1,172.0</b>	<b>632.8</b>	<b>539.1</b>	<b>1,280.7</b>	<b>675.2</b>	<b>605.5</b>	<b>1,141.3</b>	<b>676.7</b>	<b>464.6</b>	<b>1,185.7</b>	<b>711.3</b>	<b>474.5</b>
1. Transportation	40.1	135.6	(95.5)	39.8	148.0	(108.2)	43.0	149.3	(106.3)	37.2	125.3	(88.1)	37.2	126.7	(89.4)
2. Travel	445.2	97.0	348.1	417.1	114.6	302.5	449.3	113.0	336.3	392.2	102.4	289.8	403.1	109.1	294.0
3. Insurance and pension services	68.1	132.8	(64.7)	75.5	145.6	(70.1)	80.0	155.5	(75.5)	93.7	194.0	(100.3)	98.9	201.7	(102.8)
4. Financial services(excluding insurance)	448.7	53.8	394.9	432.4	51.9	380.5	501.0	62.0	439.0	379.0	76.4	302.7	395.7	82.2	313.4
5. Telecommunications, computer and information services, and charges for the use of intellectual property	7.4	46.9	(39.5)	9.1	51.3	(42.2)	9.0	59.0	(50.1)	13.7	51.4	(37.7)	12.2	54.0	(41.9)
6. Other business services	129.8	98.0	31.8	139.8	105.5	34.3	134.5	118.1	16.4	158.7	109.0	49.7	154.7	120.6	34.1
7. Government goods and services	60.7	15.5	45.2	58.4	15.9	42.5	64.0	15.6	48.4	66.2	14.0	52.2	83.5	13.3	70.3
8. Other services	-	0.2	(0.2)	-	0.0	(0.0)	-	2.7	(2.7)	0.5	4.3	(3.8)	0.4	3.7	(3.3)

**Table 2 (cont.):  
THE CAYMAN ISLANDS'  
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS  
SUMMARY**

In CI\$ Million, 2006 - 2010															
	2006 <sup>R</sup>			2007 <sup>R</sup>			2008 <sup>R</sup>			2009 <sup>R</sup>			2010		
	Credit	Debit	Net	Credit	Debit	Net									
<b>B. PRIMARY INCOME</b>	2,087.6	2,211.4	(123.8)	2,815.3	2,932.3	(117.0)	2,799.7	2,908.9	(109.2)	2,130.4	2,217.7	(87.2)	1,617.6	1,773.3	(155.6)
1. Compensation of employees	0.2	11.6	(11.4)	0.2	10.8	(10.6)	0.3	10.7	(10.3)	-	10.8	(10.8)	-	10.1	(10.1)
2. Investment Income	2,087.4	2,199.8	(112.4)	2,815.1	2,921.5	(106.4)	2,799.3	2,898.2	(98.9)	2,130.4	2,206.8	(76.4)	1,617.6	1,763.2	(145.6)
2.1 Direct investment	326.7	698.2	(371.5)	346.3	820.6	(474.3)	360.1	897.6	(537.5)	290.1	986.6	(696.5)	270.9	754.5	(483.6)
2.2 Portfolio investment	462.1	15.1	447.0	575.3	14.9	560.3	441.7	19.0	422.7	711.1	20.5	690.7	367.5	25.9	341.6
2.3 Other investments	1,298.6	1,486.4	(187.9)	1,893.6	2,086.0	(192.4)	1,997.5	1,981.6	15.8	1,129.1	1,199.7	(70.6)	979.2	982.8	(3.5)
<b>C. SECONDARY INCOME</b>	88.6	259.3	(170.7)	85.4	252.7	(167.4)	78.8	261.1	(182.4)	84.3	262.1	(177.8)	83.6	225.9	(142.3)
1. General Government	12.5	1.0	11.5	15.3	1.2	14.1	14.0	0.9	13.1	13.4	0.5	12.9	15.3	0.9	14.4
nonfinancial corporations, households, and NPISHs	76.1	258.3	(182.2)	70.1	251.5	(181.4)	64.8	260.2	(195.4)	70.8	261.5	(190.7)	68.3	225.1	(156.8)
2.1 Workers remittances	3.8	175.9	(172.1)	4.5	176.1	(171.6)	5.2	190.9	(185.6)	5.6	186.7	(181.1)	7.3	154.0	(146.7)
2.2 Other current transfers	72.3	82.4	(10.1)	65.6	75.5	(9.9)	59.5	69.3	(9.8)	65.2	74.8	(9.6)	61.0	71.1	(10.1)

**c) Insurance**

The insurance and pension services deficit was \$102.8 million in 2010, \$2.5 million higher than that recorded in 2009. This performance was mainly on account of higher payments for re-insurance and auxiliary services and non-life insurance services. In addition, there were declines in receipts from life insurance and auxiliary insurance services.

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

In 2010, the net surplus from financial services expanded by \$10.7 million to reach \$313.4 million. This surplus is equivalent to 13.0 percent of GDP compared to 12.1 percent of GDP in 2009.

The increase was largely due to a rise in receipts earned from financial services provided by domestic banks. Revenue for financial services accounted for 13.5 percent of the county's total foreign exchange receipts in 2010, an improvement compared to 11.2 percent in 2009.

The payments for financial services continued to increase, expanding by 7.6 percent, amounting to \$82.2 million. Payments for financial services comprised 2.5 percent of the country's total foreign exchange payments in 2010 compared to 2.0 percent in the previous year.

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

The deficit from this category of transactions increased in 2010 to \$41.9 million from \$37.7 million in 2009. This traced to the fall in revenue by 11.0 percent and the increase in payments by 5.1 percent.

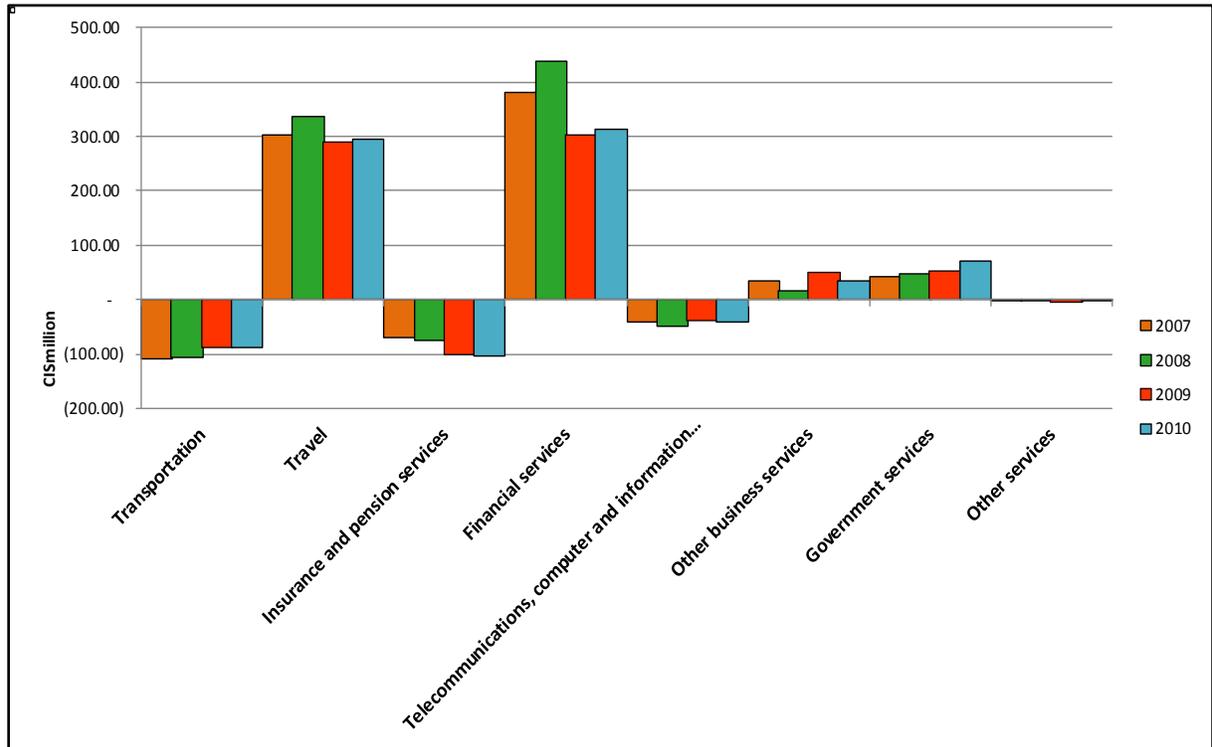
**f) Other business services**

The surplus of other business services decreased by \$15.6 million in 2010 to \$34.1 million from \$49.7 million in 2009. This deterioration can be attributed to the fall in receipts by \$4.0 million while payments rose by \$11.6 million.

**g) Government goods and services**

This balance continued to be on surplus in 2010. It also increased by \$18.1 million to reach \$70.3 million, compared to \$52.2 million in 2009. Accounting for this outturn was the growth in revenue of 26.1 percent and the marginal decline in payments of 5.0 percent. Government fees earned from offshore companies increased substantially while payments for goods and services fell slightly due to reductions in outlays for marketing and promotion services abroad.

Chart 3: Trade in Services Net Balances



### 2.5 Balance of Primary Income Transactions

This balance is comprised of compensation of employees and investment income. In 2010, the primary income deficit grew by \$68.4 million to \$155.6 million in 2010 compared to \$87.2 million in 2009. This was primarily due to an increase in deficit from investment income.

The deficit from this balance is approximately 6.5 percent of GDP.

Compensation of employees was in deficit amounting to \$10.1 million, a slight decline from \$10.8 million in 2009.

Overall investment income was also in deficit in 2010, amounting to \$145.6 million which is higher by \$69.2 million compared to 2009. The higher deficit is explained by the fall in total receipts from investment income by 24.1 percent as all categories of investment income showed reductions in total earnings:

- The deficit on **direct investment income** was \$483.6 million in 2010, a significant fall from the previous year. This was primarily due to lower payments, particularly re-invested earnings, which offset a decline in receipts from profit and interest revenue from foreign subsidiaries.

- **Portfolio investment income** recorded a surplus of \$341.6 million in 2010, following the surplus of \$690.7 million in 2009. This performance was driven by the significant fall in earnings on investments by offshore banks which recorded unprecedented returns in 2009. Payments of returns from portfolio investment in Cayman Islands increased by \$5.4 million in 2010 to \$25.9 million, resulting largely from increased interest payments.
- **Other investment income** was in deficit, but this declined substantially from \$70.6 million in 2009 to \$3.5 million in 2010. This was largely a result of a significant dip in income payments although receipts also fell. Interest receipts on loans and deposits fell by 13.3 percent, while interest payments fell by 18.1 percent.

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

The secondary income account records current transfers by government, financial corporations, households and non-profits institutions serving households. In 2010, the overall secondary income deficit fell by \$35.5 million to reach \$142.3 million. This was primary due to lower payments which offset a decline in receipts.

General government transfers netted a surplus of \$14.4 million compared to \$12.9 million in 2009. This is attributed to the increase in revenue obtained from cruise ship departure charges.

The deficit of transactions from personal transfers largely comprised of workers' remittances declined by \$34.4 million to \$146.7 million due to a sharp in payments.

Other current transfers comprising insurance claims, premiums and pension benefits recorded a deficit of \$10.0 million compared to \$9.6 million in 2009.

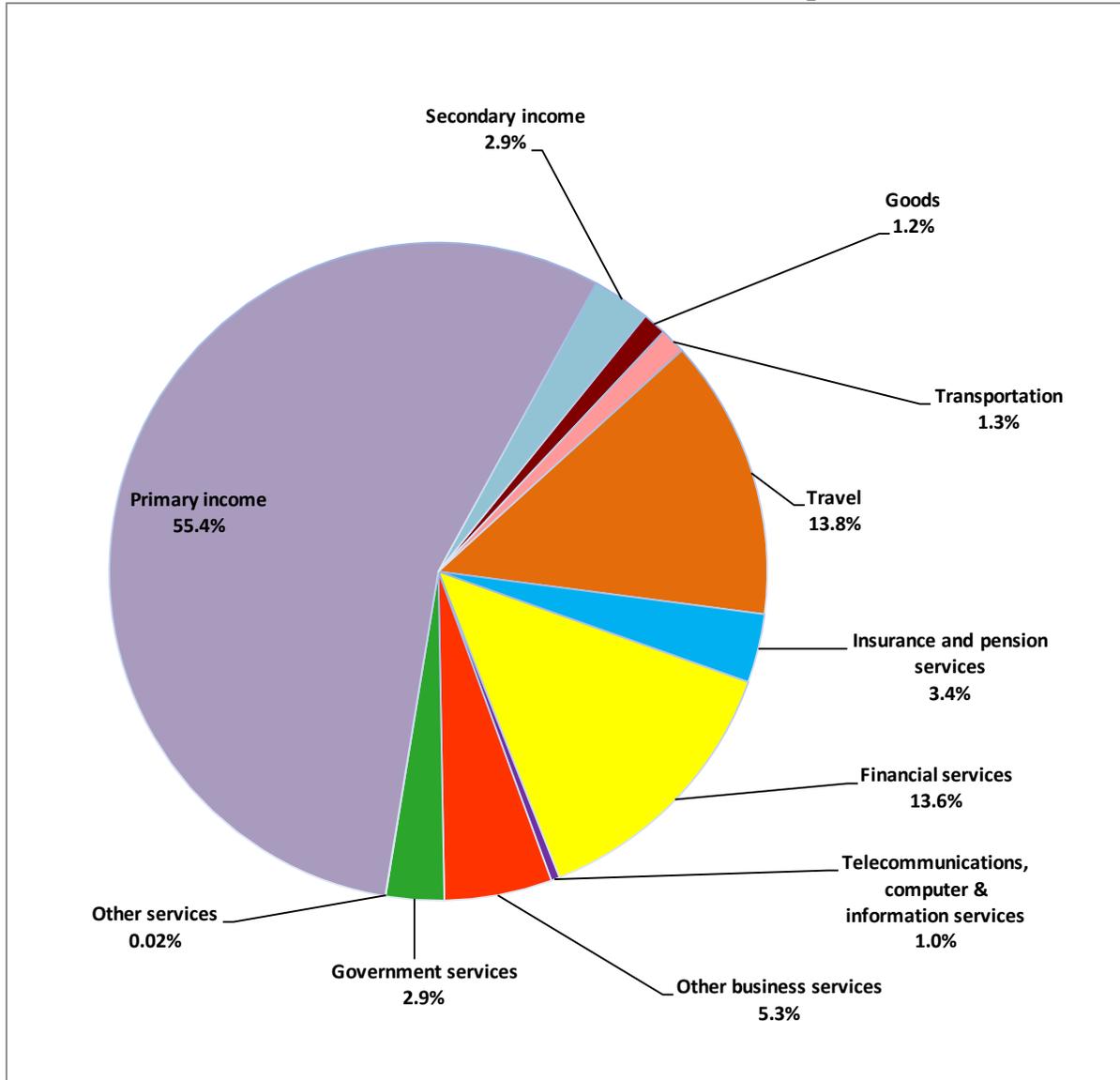
### **2.7 Comparative Current Account Receipts**

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

Primary income, largely investment income continues to be the dominant source of current account receipts accounting for 55.4 percent of total receipts. As discussed earlier this is significantly made up of income from portfolio investments.

Receipts from travel services (13.8%) and financial services (13.6%) are also noteworthy, albeit less significant than the receipts from primary income.

Chart 4: 2010 Current Account Receipts



## Appendix 1: Overview of Key Uses, Revisions and Data Sources

### A1.1 Key Uses

The balance of payments (BOP) is a system of accounts that measure the economic transactions of a country's residents against the residents of the rest of the world. Along with the System of National Accounts, this is used universally in evaluating the economic performance of countries and jurisdictions using accepted international standards issued by the International Monetary Fund. (Please see Appendix 2 for a discussion of an overview of the BOP compilation in the Cayman Islands).

In the context of the Cayman Islands, the main use of the BOP is to comply with the Public Management & Finance Law (2009 Revision) which requires the reporting of the current account of the balance of payments in the Strategic Policy Statement.

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

The other uses of the BOP statistics are to:

- a. Comply with data requirements of foreign investors and creditors. For instance, these are required for inclusion in official borrowing documents (i.e., Offering Memorandum or Private Placement Memorandum). In particular, BOP statistics are key in making an assessment of the sustainability of foreign borrowings and investments in jurisdictions;

- b. Comply with data requirements of international credit rating agencies which provide credit ratings for the Cayman Islands Government and private entities who borrow from the global financial market; and
- c. Provide necessary data for the conduct of economic impact assessments of hurricanes and other disasters, which are required by funding and other donor agencies. Post-disaster reconstruction work and insurance inflows could have significant impact on the balance of payments of Cayman Islands.

### **A1.2 Revisions**

Revisions are inevitable. They are the result of the compromise between timeliness and accuracy since estimates are sometimes based on incomplete data.

Revisions are made to either adopt a new estimation methodology or to incorporate new information, which created statistical error in the previous estimates. Consequently, previous years are revised to accommodate new estimation methodology, and the current survey results data and revised or new administrative data.

In the absence of survey data, the previously published current account estimates for 2006 to 2008 were based largely on secondary data. Procedures that were employed for these years' estimates were limited by the absence of or insufficiency of data. The extensive use of economic indicators was utilized in the absence of survey data. Consequently, some items were either under-stated or overstated. With a view towards improving the BOP, significant revisions were made to the 2006 - 2009 estimates using data obtained from the 2010 survey results, revised administrative data and additional administrative data.

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

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

The 2009 and 2010 BOP estimates are based on the Annual Balance of Payments Survey which was conducted for the second time during the period March to May 2011. All

businesses and establishments deemed to have been conducting transactions with non-residents and were included in the ESO Business Register were surveyed. The survey

results were supplemented with secondary data provided by various government departments and statutory bodies including the Cayman Islands Monetary Authority.

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

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

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

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

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

## Appendix 2: Overview of the BOP Compilation

### A2.1 General Approach

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

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

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

ESO has attempted to implement the recommendations of the BPM6 wherever possible. However in some cases, the recommendations of the BPM6 were not adopted for several reasons. One such case is the treatment of the offshore sectors, largely the entities 'without physical presence' in the Cayman Islands. According to BPM6 and SNA, these institutions should be treated as residents. However, given the statutory framework of these entities and the unavailability of comprehensive data, these companies were treated as non-residents in the BOP of the Cayman Islands. Additionally, these companies are seen as "pass-through" companies and the income which they earned are deemed to be unrelated or have no significant impact on the Caymanian economy. Hence, including them as residents of the Cayman Island would have significant implications for the country's macroeconomic analysis as they would misrepresent the economic activities within the territory. As a result, transactions with local agents, bankers, lawyers, accountants, etc. acting on behalf of non-resident entities are captured in the BOP. Payments to agents, fees paid to government etc. are also captured, and treated as BOP flows; however their financial and other transactions with non-residents are not included in Cayman Islands' BOP.

Additionally, the treatment of Financial Services Indirectly Measured (FISIM) was not followed largely due to the difficulty in obtaining data.

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

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

### **A2.2 Coverage and Survey Instrument**

The ESO's business register was utilized in identifying the businesses operating in the Cayman Islands and were conducting transactions with non-residents. Approximately 1,500 establishments were surveyed.

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

The questionnaire consisted of four sections. The first section focused on the characteristics of the establishment, while the other sections dealt with accounting information relating to income, expenditure and financial assets and liabilities. The questionnaires requested data for the calendar years 2009 and 2010.

### **A2.3 Survey Methodology**

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

### **A2.4 Data Compilation**

After the completed forms were returned, the data was entered into Excel spreadsheets. Worksheets were created to capture all the data supplied which were then linked to the Balance of Payments worksheet. Adjustments and imputations to the data were done based on employment, assets and other techniques.

## Appendix 3: Classification System

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

### A3.1 The Current Account

The Cayman Islands' BOP current account comprises of the following categories:

#### **Goods**

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

#### **Services**

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

#### **Primary Income**

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

#### **Secondary Income**

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

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

### A3.2 Capital and Financial Account

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

#### **Capital Account**

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

#### **Financial Account**

Recorded in this section are transactions that involve changes in ownership of financial assets and liabilities. The following categories are adopted for the Cayman Islands:

- **Direct investment:** this category reflects the lasting interest of a resident entity in one economy - the direct investor and the direct investment enterprise. By convention, a criterion for identifying lasting interest is that a resident investor should have a minimum of 10% of the ordinary shares or voting power or the equivalent in the direct investment enterprise.
- **Portfolio investment:** this covers transactions in equity securities which are not included in direct investments, and debt securities. Debt securities are subdivided into bonds and notes and money market instruments.
- **Financial derivatives:** these are financial instruments that are linked to another financial instrument, indicator, or commodity through which specific risks can be traded in financial markets in their own right.
- **Other investment:** this category is a residual which comprises all financial transactions that are not covered in the other accounts of the financial account. These are broken down by instruments such as trade credits, currency and deposits and other assets and liabilities.

### A3.3 Reserves

Reserve assets are defined in the BPM6 as "external assets that are readily available to and controlled by the monetary authorities for direct financing of payments imbalances,

in the event that they occur and for market interventions to influence exchange rate of the domestic economy, if deemed necessary". Reserve assets encompass monetary gold, special drawing rights (SDRs), reserve position in the International Monetary Fund, foreign exchange assets and other claims. (SDRs and reserve position with the IMF are not relevant for the Cayman Islands since it is not a member of the IMF).

Appendix 4: Merchandise Goods Transactions

In CI\$Million, 2006 - 2010					
ITEM	2006	2007	2008	2009	2010
<b>Credit</b>					
<b>EXPORTS</b>					
Total exports f.o.b	13.9	17.9	12.4	16.0	11.1
Goods procured in ports by carriers	2.3	2.5	2.9	2.7	2.8
Net exports of goods under merchandising	-	13.0	13.0	20.0	20.0
<b>Total adjusted exports f.o.b</b>	<b>16.1</b>	<b>33.4</b>	<b>28.4</b>	<b>38.7</b>	<b>33.8</b>
<b>Debit</b>					
<b>IMPORTS</b>					
Total imports c.i.f	869	860	879	736	688
Goods procured in ports by carriers	7.7	7.5	12.6	10.8	12.9
Total adjusted Imports c.i.f	876.4	867.5	892.0	746.7	701.2
Less freight and insurance	104.3	103.2	105.5	88.3	82.6
<b>Total adjusted Imports f.o.b</b>	<b>772.2</b>	<b>764.3</b>	<b>786.5</b>	<b>658.4</b>	<b>618.6</b>
<b>Merchandise(Goods) Trade Balance</b>	<b>(756.0)</b>	<b>(730.9)</b>	<b>(758.1)</b>	<b>(619.7)</b>	<b>(584.8)</b>

## Appendix 5: Current Account - Analytical Presentation

Million of CI\$					
	2006	2007	2008	2009	2010
<b>A. Current Account</b>	<b>(430.4)</b>	<b>(476.1)</b>	<b>(444.2)</b>	<b>(420.1)</b>	<b>(408.2)</b>
Goods: exports f.o.b.	16.1	33.4	28.4	38.7	33.8
Goods imports f.o.b.	772.2	764.3	786.5	658.4	618.6
<i>Balance on goods</i>	<b>(756.0)</b>	<b>(730.9)</b>	<b>(758.1)</b>	<b>(619.7)</b>	<b>(584.8)</b>
Services: Credit	1,199.9	1,172.0	1,280.7	1,141.3	1,185.7
Services: debit	579.8	632.8	675.2	676.7	711.3
<i>Balance on services</i>	<b>620.2</b>	<b>539.1</b>	<b>605.5</b>	<b>464.6</b>	<b>474.5</b>
Primary income: credit	2,087.6	2,815.3	2,799.7	2,130.4	1,617.6
Primary income debit	2,211.4	2,932.3	2,908.9	2,217.7	1,773.3
<i>Balance on primary income</i>	<b>(123.8)</b>	<b>(117.0)</b>	<b>(109.2)</b>	<b>(87.2)</b>	<b>(155.6)</b>
Secondary Income: credit	88.6	85.4	78.8	84.3	83.6
Secondary Income: debit	259.3	252.7	261.1	262.1	225.9
<i>Balance on secondary income</i>	<b>(170.7)</b>	<b>(167.4)</b>	<b>(182.4)</b>	<b>(177.8)</b>	<b>(142.3)</b>

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

	Million of C\$				
	2006	2007	2008	2009	2010
<b>Current Account</b>					
<b>Current Account Receipts</b>	<b>3,392</b>	<b>4,106</b>	<b>4,188</b>	<b>3,395</b>	<b>2,921</b>
<b>Goods and Services</b>	<b>1,216</b>	<b>1,205</b>	<b>1,309</b>	<b>1,180</b>	<b>1,220</b>
Goods	16	33	28	39	34
Services	1,200	1,172	1,281	1,141	1,186
<b>Primary income</b>	<b>2,088</b>	<b>2,815</b>	<b>2,800</b>	<b>2,130</b>	<b>1,618</b>
Compensation of Employees	0	0	0	-	-
<b>Investment income</b>	<b>2,087</b>	<b>2,815</b>	<b>2,799</b>	<b>2,130</b>	<b>1,618</b>
Direct investment	327	346	360	290	271
Portfolio investment	462	575	442	711	367
Other investments	1,299	1,894	1,997	1,129	979
<b>Secondary income (current transfers)</b>	<b>89</b>	<b>85</b>	<b>79</b>	<b>84</b>	<b>84</b>
General Government	13	15	14	13	15
Financial corporations, nonfinancial corporations, households, and NPISHs	76	70	65	71	68
of which Worker's remittances	3,835	4	5	6	7
<b>Current Account Payments</b>	<b>3,823</b>	<b>4,582</b>	<b>4,632</b>	<b>3,815</b>	<b>3,329</b>
<b>Goods and Services</b>	<b>1,352</b>	<b>1,397</b>	<b>1,462</b>	<b>1,335</b>	<b>1,330</b>
Goods	772	764	786	658	619
Services	580	633	675	677	711
<b>Primary income</b>	<b>2,211</b>	<b>2,932</b>	<b>2,909</b>	<b>2,218</b>	<b>1,773</b>
Compensation of Employees	12	11	11	11	10
<b>Investment income</b>	<b>2,200</b>	<b>2,922</b>	<b>2,898</b>	<b>2,207</b>	<b>1,763</b>
Direct investment	698	821	898	987	755
Portfolio investment	15	15	19	20	26
Other investments	1,486	2,086	1,982	1,200	983
<b>Secondary income (current transfers)</b>	<b>259</b>	<b>253</b>	<b>261</b>	<b>262</b>	<b>226</b>
General Government	1	1	1	1	1
Financial corporations, nonfinancial corporations, households, and NPISHs	258	252	260	262	225
of which Worker's remittances	176	176	191	187	154
<b>Current Account Balances</b>	<b>(430)</b>	<b>(476)</b>	<b>(444)</b>	<b>(420)</b>	<b>(408)</b>
<b>Goods and Services</b>	<b>(136)</b>	<b>(192)</b>	<b>(153)</b>	<b>(155)</b>	<b>(110)</b>
Goods	(756)	(731)	(758)	(620)	(585)
Services	620	539	606	465	474
<b>Primary income</b>	<b>(124)</b>	<b>(117)</b>	<b>(109)</b>	<b>(87)</b>	<b>(156)</b>
Compensation of Employees	(11)	(11)	(10)	(11)	(10)
<b>Investment income</b>	<b>(112)</b>	<b>(106)</b>	<b>(99)</b>	<b>(76)</b>	<b>(146)</b>
Direct investment	(371)	(474)	(537)	(696)	(484)
Portfolio investment	447	560	423	691	342
Other investments	(188)	(192)	16	(71)	(4)
<b>Secondary income (current transfers)</b>	<b>(171)</b>	<b>(167)</b>	<b>(182)</b>	<b>(178)</b>	<b>(142)</b>
General Government	12	14	13	13	14
Financial corporations, nonfinancial corporations, households, and NPISHs	(182)	(181)	(195)	(191)	(157)
of which Worker's remittances	(172)	(172)	(186)	(181)	(147)

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

	2006	2007	2008	2009	2010
Current Account/GDP (%)	(17.58)	(18.06)	(16.69)	(16.74)	(16.93)
Goods Imports/GDP (%)	31.53	28.98	29.55	26.23	25.66
Goods Exports/GDP (%)	0.66	1.27	1.07	1.54	1.40
Visible trade balance/GDP (%)	(30.88)	(27.72)	(28.48)	(24.69)	(24.25)
Services Imports/GDP (%)	49.00	44.44	48.12	45.47	49.18
Services Exports/GDP (%)	23.68	24.00	25.37	26.96	29.50
Goods & Services Imports/GDP (%)	80.53	73.42	77.67	71.70	74.83
Goods & Services Exports/GDP (%)	24.33	25.26	26.44	28.50	30.90
Primary Income Receipts/GDP (%)	85.25	106.76	105.19	84.87	67.09
Primary Income Payments/GDP (%)	90.30	111.19	109.30	88.35	73.54
Workers Remittances (Net)/GDP (%)	(7.03)	(6.51)	(6.97)	(7.21)	(6.08)
Financial Services Exports/GDP (%)	18.32	16.39	18.83	15.10	16.41

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