

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

# THE CAYMAN ISLANDS' BALANCE OF PAYMENTS & INTERNATIONAL INVESTMENT POSITION REPORT 2018

FEBRUARY 2020



The Economics and Statistics Office  
Cayman Islands Government

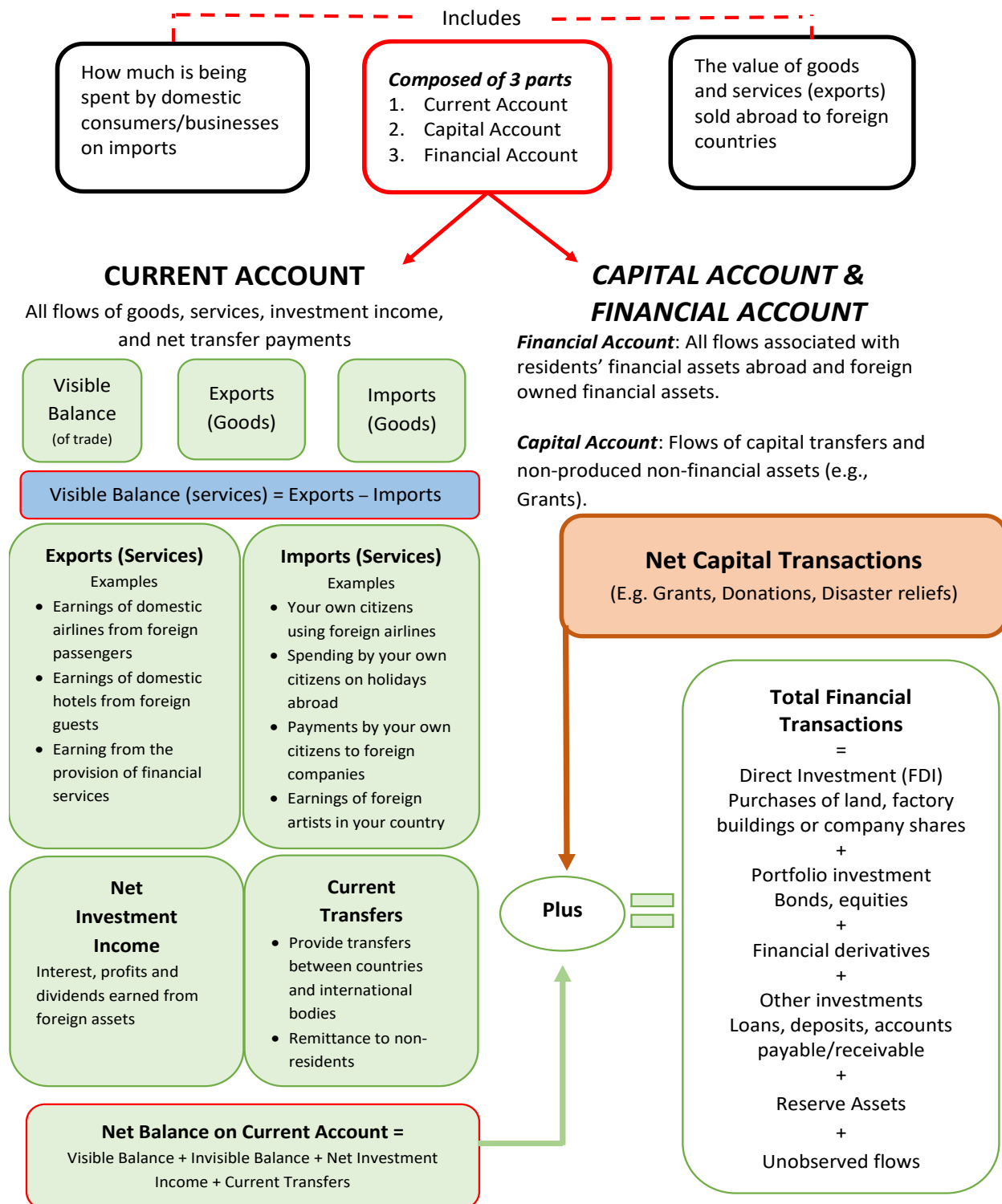


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## Balance of Payments - Facts

The Balance of Payments (BOP) is a record of all the financial transactions that are made between all those active in the domestic economy (consumers, business and the government and the rest of the world).



## Balance of Payments – Summary 2018

### Balance of Payment 2018 Explained

(in CI\$ Millions)

#### Current Account

##### Visible Trade

Exports of Goods	254.0
<u>Import of Goods</u>	<u>959.9</u>
Balance of Visible Trade	(705.9)

##### Invisible Trade

Export of Services	3,030.0
<u>Import of Services</u>	<u>1,077.8</u>
Balance of Invisible Trade	1,952.2

Primary and Secondary Income (2,104.3)

**Net Balance in Current Account (858.0)**

#### Capital Account

Grants 0.6

#### Financial Account

Direct Investment	120.1
Portfolio Investment	(518.2)
Financial Derivatives	3,008.1
<u>Other Investments</u>	<u>(4,120.5)</u>
Balance in Financial Account	(1,500.8)

Unobserved Flows (643.4)

**Visible Trade**  
(Imports > Exports)

+

**Invisible Trade**  
(Tourism, Financial  
Services, etc.,)

+

**Primary (investment  
income) and Secondary  
Income (remittances)**

=

**Net Balance on Current  
Account**

### Facts

#### Primary Income:

- Loans and deposits dominate other investments.
- Cayman Islands direct investments payments exceeds returns.
- Portfolio investment receipts are dominated by debt securities.

#### Secondary Income:

- Due to the large expatriate workforce, workers remittances outflows exceeds inflows significantly.

### Why is there a BOP Deficit?

#### Facts

#### Current Account:

- The Cayman Islands is a net exporter of services, that is through tourism and financial services.
- The vast majority of the goods used and consumed in the Cayman Islands are imported.

## ACKNOWLEDGEMENT

The BOP is compiled and produced by the External Sector Statistics 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 in the banking sector. The cooperation and timely submission of the information improve the reliability and validity of the BOP statistics. The ESO, therefore, continues to encourage all businesses to participate in future surveys.

Any comments on this report are welcome and should 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 Payments Manual 5 <sup>th</sup> Edition
<b>BPM6</b>	Balance of Payments Manual 6 <sup>th</sup> Edition
<b>c.i.f</b>	Cost, insurance and freight
<b>CARTAC</b>	Caribbean Regional Technical Assistance Centre
<b>CIMA</b>	Cayman Islands Monetary Authority
<b>CPI</b>	Consumer Price Index
<b>DOT</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>n.e.c</b>	Not elsewhere classified
<b>SNA</b>	System of National Accounts
<b>R</b>	Revised
<b>P</b>	Preliminary

## 1. BALANCE OF PAYMENTS

### 1.1 Introduction

The international accounts comprising of the Balance of Payments (BOP) and the International Investment Position (IIP) provide useful information for assessing the country'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.

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.

The Balance of Payments Manual (BPM6) issued by the International Monetary Fund (IMF) states that “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 intend to reside in the Cayman Islands for one year or more; (2) business enterprises and non-profit organizations engaged in significant production of goods or services; and (3) general government including operations of the home territory such as consulates and other enclaves of foreign governments.

An overview of the key uses of the BOP, along with the compilation approach, is found in Appendix 2.

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 ESO conducted the BOP survey



between March and May 2019. A significant amount of data, particularly on the banking and insurance corporations, was sourced from CIMA.

The series for 2015 to 2017 was revised primarily for the following reasons:

- revisions were made based on new data, correction of errors based on respondents' revisions, compilation errors either in the processing of the data or incorrect interpretation of data on the survey forms; reclassification of transactions and stock positions and
- The replacement of previous years' preliminary estimates with actual data.

**Table 1. Balance of Payments summary**

In C\$Million						
	2014	2015 <sup>R</sup>	2016 <sup>R</sup>	2017 <sup>R</sup>	2018 <sup>P</sup>	Chg%
<b>1. Current Account</b>	<b>-697.9</b>	<b>-540.1</b>	<b>-693.4</b>	<b>-726.2</b>	<b>-858.0</b>	<b>18.1%</b>
1.1 Goods	-376.1	-322.3	-434.0	-518.6	-705.9	36.1%
Exports	393.9	413.7	334.0	308.7	254.0	-17.7%
Imports	770.0	736.0	768.0	827.3	959.9	16.0%
1.2 Services (Net)	1,590.8	1,580.8	1,644.3	1,836.3	1,952.2	6.3%
1.3 Primary Income (Net)	-1,608.7	-1,596.0	-1,505.3	-1,421.5	-1,257.4	-11.5%
1.4 Secondary Income (Net)	-303.9	-202.6	-398.5	-622.5	-846.9	36.1%
<b>2. Capital Account</b>	<b>-0.5</b>	<b>-1.7</b>	<b>-1.3</b>	<b>-1.3</b>	<b>0.6</b>	<b>-149.5%</b>
<b>3. Financial Account</b>	<b>-204.1</b>	<b>224.6</b>	<b>-238.2</b>	<b>331.8</b>	<b>-1,500.8</b>	<b>-552.4%</b>
3.1 Direct Investment	-5,137.0	-3,615.4	-2,367.4	-2,107.1	120.1	-105.7%
3.2 Portfolio Investment	4,527.1	12,178.2	1,587.2	4,034.1	-518.2	-112.8%
3.3 Other Investment	-2,451.7	-9,958.5	1,846.3	-5,749.8	-4,120.5	-28.3%
3.4 Financial Derivatives	2,866.1	1,608.9	-1,301.2	4,139.0	3,008.1	-27.3%
3.5 Reserves assets	<b>-8.5</b>	<b>11.4</b>	<b>-3.1</b>	<b>15.7</b>	<b>9.6</b>	<b>-38.5%</b>
<b>Unobserved Flows</b>	<b>494.3</b>	<b>766.4</b>	<b>456.5</b>	<b>1,059.3</b>	<b>-643.4</b>	<b>-160.7%</b>

## 1.2 Current Account Balances

The Current Account deficit for 2018 was estimated to have widened by 18.1 percent to reach \$858.0 million from \$726.2 million recorded in 2017. This emanated mainly from a higher deficit in trade in goods account and higher net payments in secondary income. In contrast, trade-in-services recorded higher net receipts, while the primary income deficit was lowered.

### 1.2.1. Trade in Goods

Table 1 shows that the goods deficit widened to \$705.9 million in 2018, from \$518.6 million in 2017. The 36.1 percent increase in the trade in goods deficit was attributed to the 16.0 percent increase in imports of goods coupled with the 17.7 percent decline in exports of goods.

The total value of merchandise goods exported represents mainly re-exports, along with the net export of goods sold under merchanting<sup>1</sup> in 2018, fell by 17.7 percent to \$254.0 million. This decline was primarily driven by the fall in the net exports of goods sold under merchanting.

The total value of goods imported (f.o.b) (including goods under merchanting) into the Cayman Islands increased by \$132.6 million to reach \$959.9 million in 2018. The expansion was driven by the increase in the value of imported non-petroleum products (mainly miscellaneous manufactured goods and machinery and transport equipment), together with the growth in the value of petroleum and petroleum-related imports.

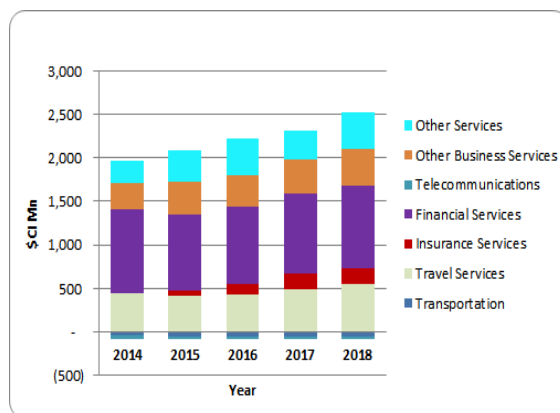
### 1.2.2 Trade in Services

The services sector continues to be a net revenue earner in 2018, with net receipts increasing by 6.3 percent to reach a surplus of \$1,952.2 million. Receipts of services were \$3,030.0 million in 2018, which is 5.3 percent (\$151.9 million) higher than the corresponding amount in 2017 (See Table 2a).

Payments for services increased by 3.5 percent, from \$1,041.8 million in 2017 to \$1,077.8 million in 2018. This was largely on account of increased payments for insurance, other business services (mainly professional and management consulting), transport, travel, and telecommunications services. Partially offsetting this was the reduced outflows for financial services.

The overall improvement in the net flows for trade in services was primarily attributed to improvements in all major services sub-accounts except transportation, telecommunications, computer and information services, and other services (See Graph 1 and Table 2a).

Graph 1: Balance of trade in services (CI\$ M)



<sup>1</sup> Merchanting is defined as the purchase of goods by a resident (of the compiling economy) from a nonresident and subsequently resold to another nonresident, without the goods entering the merchant's economy.

The trade in services comprises the following:

### Travel

The year 2018 recorded the highest net earnings of travel, of \$547.6 million, over the last four years. Earnings from international visitors to the Cayman Islands totalled \$726.1 million, \$65.5 million more than in 2017. This increased revenue mirrored the rise in visitor arrivals.

Travel receipts comprise earnings from visitors for both business and personal purposes<sup>2</sup>. Net earnings from personal travel amounted to \$514.9 million, reflecting an increase of 11.1 percent.

Meanwhile, expenditure on international travel by residents grew at a slower pace of 4.3 percent to record \$178.6 million in 2018. This stemmed from the increases in payments for education and other personal travel services.

### Insurance

There was a net surplus of \$178.9 million for 2018, which represented a 3.5 percent decline over the surplus of \$185.3 million recorded in 2017. This was due primarily to the larger payments by residents to non-residents for reinsurance services and freight insurance.

### Financial services (excluding insurance)

The net surplus for financial services continued on an upward trend, growing by \$48.8 million (or 5.4%) to \$958.2 million in 2018.

Receipts from financial services for 2017 grew by 3.0 percent to settle at \$1,135.5 million compared to \$1,102.2 million recorded in 2017. This increase was due to larger receipts for financial intermediary services indirectly measured (FISIM) by resident banks as there was a reduction in explicitly charged financial services by 3.7 percent.

Payments for financial services to non-residents, however, reflected a decline of \$15.4 million (or 8.0%) to record total payments of \$177.4 million in 2018.

**Other business services.** The net receipts for other business services (mainly professional and management consulting services) improved by 5.6 percent to \$418.5 million in 2018. This performance was related to the 6.7 percent increase in net receipts for the provision of professional and management consulting services, as inflows outpaced the growth in outflows. This improvement more than offset the reduction in the net flows of technical, trade-related, and other business services.

<sup>2</sup> Travel receipts for personal purpose includes health and education purposes.

## Transportation

In 2018, net payments for the provision of transportation services grew by \$2.1 million, to record a deficit of \$59.0 million. This was mainly on account of increases in payments for air passenger fares, air, and sea freight services. Also, receipts for air transport fell slightly, while that of sea transport grew.

## Telecommunications, computer and information services

The net payments for telecommunications, computer and information services increased by 29.3 percent to \$25.9 million. This outturn resulted from the increased payments for computer and information services. Additionally, there was a 10.4 percent and 9.9 percent reduction in receipts from computer and telecommunications services, respectively.

### 1.2.3 Primary Income Transactions

The primary income sub-account is comprised of compensation of employees, investment income, and other primary income. In 2018, total primary income inflows stood at \$3,107.8 million, representing an increase of 44.4 percent while outflows grew by 22.2 percent to settle at \$4,365.2 million. With payments continuing to be larger than receipts on the primary income account, there was a net outflow of \$1,257.4 million in 2018.

Compensation of employees again recorded a relatively small deficit, amounting to \$26.1 million for 2018. This represented a 30.3 percent increase from the deficit of \$20.0 million in 2017. Compensation of employees represents the net payments to non-resident workers.

**Investment income.** This sub-account recorded a deficit of \$1,231.4 million in 2018, an improvement of 12.1 percent compared to the balance for 2017. This outturn reflected a 44.4 percent increase in investment income receipts, which was larger than the 22.1 percent increase in the investment income payments.

The **Direct investment income** deficit widened by 52.4 percent to \$1,670.3 million in 2018 up from a deficit of \$1,096.0 million in 2017. This reflected a significant increase in payments to direct investors, which grew by 45.6 percent to \$1,701.7 million. The significant outflows were due to the increase in dividend payments and reinvested earning. In contrast, investment income receipts fell by \$41.6 million in 2018, reflecting lower receipts in both dividends and reinvested earnings.

**Portfolio investment income** recorded a net inflow of \$752.1 million in 2018, a reversal of the \$57.5 million net outflows posted in 2017. This developed mostly from the higher interest receipts of residents on financial instruments held with non-residents.

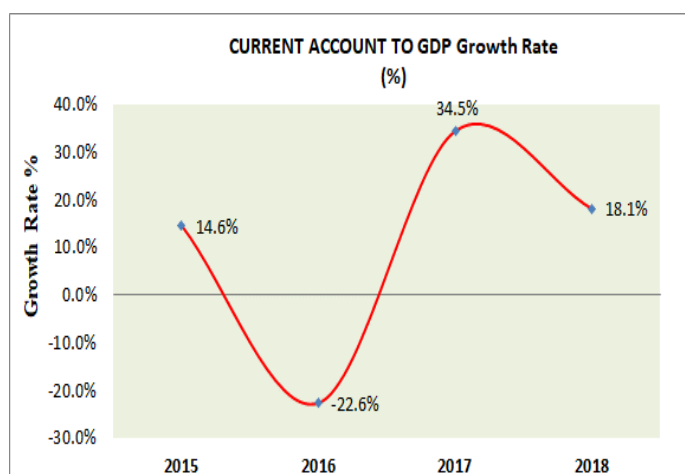
**Other investment income** deteriorated by \$67.1 million to a larger deficit of \$315.5 million in 2018. This performance represented increased interest payments by the deposit-taking corporations to non-residents, which outpaced interest receipts in 2017.

### 1.2.4 Secondary Income Transactions (Current Transfers)

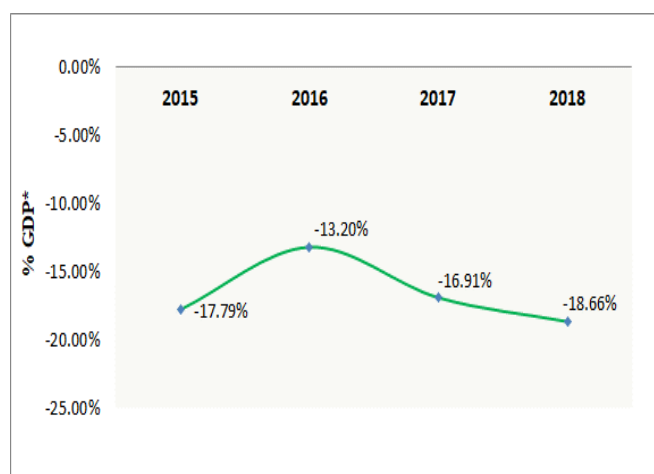
The secondary income account records personal transfers, and other current transfers by the government, financial corporations, households and non-profit institutions serving households. The net outflows in the secondary income account expanded by \$224.4 million (36.0%) to reach a net payment of \$846.9 million in 2018.

This was largely on account of the 7.9 percent increase in personal transfers payments (primarily workers remittances), which totalled \$329.5 million compared to \$305.4 million recorded in 2017.

Graph 2: Current Account historical growth (% chg)



Graph 3: Current Account balance (% of GDP)



Graph 4: Current Account receipts (% share to Total Receipt)

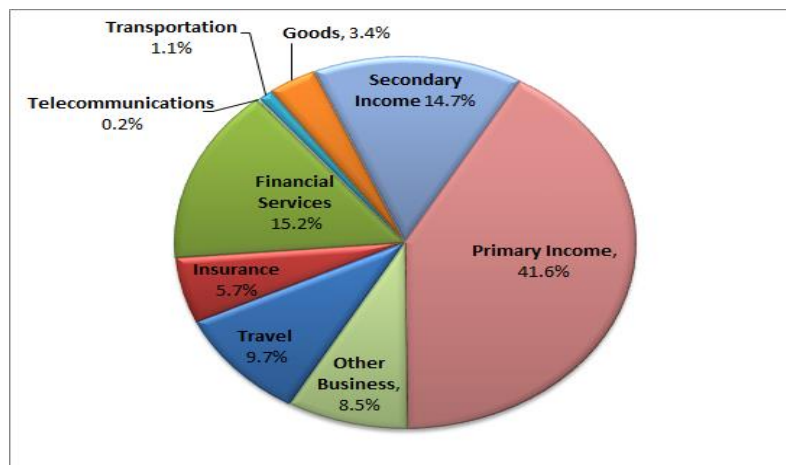


Table 2a: Balance of Payments

	C\$Million									Percent		
	Credit	2016 <sup>R</sup> Debit	Net	Credit	2017 <sup>R</sup> Debit	Net	Credit	2018 <sup>P</sup> Debit	Net	% Credit	% Debit	% Net
<b>1.CURRENT ACCOUNT</b>	<b>5,037.9</b>	<b>5,731.3</b>	<b>(693.4)</b>	<b>7,150.1</b>	<b>7,876.3</b>	<b>(726.2)</b>	<b>7,494.0</b>	<b>8,352.0</b>	<b>(858.0)</b>	<b>4.8</b>	<b>6.0</b>	<b>18.1</b>
<b>A. GOODS AND SERVICES</b>	<b>2,898.1</b>	<b>1,687.8</b>	<b>1,210.3</b>	<b>3,186.8</b>	<b>1,869.1</b>	<b>1,317.7</b>	<b>3,284.1</b>	<b>2,037.7</b>	<b>1,246.4</b>	<b>3.1</b>	<b>9.0</b>	<b>(5.4)</b>
<b>A1. GOODS</b>	<b>334.0</b>	<b>768.0</b>	<b>(434.0)</b>	<b>308.7</b>	<b>827.3</b>	<b>(518.6)</b>	<b>254.0</b>	<b>959.9</b>	<b>(705.9)</b>	<b>(17.7)</b>	<b>16.0</b>	<b>36.1</b>
<b>A2. SERVICES</b>	<b>2,564.1</b>	<b>919.8</b>	<b>1,644.3</b>	<b>2,878.1</b>	<b>1,041.8</b>	<b>1,836.3</b>	<b>3,030.0</b>	<b>1,077.8</b>	<b>1,952.2</b>	<b>5.3</b>	<b>3.5</b>	<b>6.3</b>
1. Transportation	69.8	120.4	(50.6)	74.1	131.0	(56.9)	80.4	139.4	(59.0)	8.5	6.4	3.7
2. Travel	589.9	161.3	428.7	660.6	171.3	489.3	726.1	178.6	547.6	9.9	4.3	11.9
3. Insurance and pension services	269.1	143.8	125.3	414.2	228.9	185.3	423.9	245.0	178.9	2.3	7.0	(3.4)
4. Financial services (excluding insurance)	1,070.3	177.8	892.6	1,102.2	192.8	909.4	1,135.5	177.4	958.2	3.0	(8.0)	5.4
5. Telecommunications, computer and information services	7.8	33.7	(25.9)	15.1	35.1	(20.0)	13.6	39.4	(25.9)	(10.2)	12.3	29.3
6. Other business services	549.1	196.2	352.9	602.8	206.4	396.4	635.7	217.1	418.5	5.4	5.2	5.6
7. Government goods and services, nie.	0.9	0.5	0.4	1.0	0.8	0.2	1.6	1.0	0.5	61.0	28.0	233.0
8. Other services	7.2	86.1	(79.0)	8.1	75.5	(67.4)	13.3	79.9	(66.7)	64.7	5.9	(1.1)
<b>B. PRIMARY INCOME</b>	<b>1,778.2</b>	<b>3,283.5</b>	<b>(1,505.3)</b>	<b>2,152.1</b>	<b>3,573.6</b>	<b>(1,421.5)</b>	<b>3,107.8</b>	<b>4,365.2</b>	<b>(1,257.4)</b>	<b>44.4</b>	<b>22.2</b>	<b>(11.5)</b>
1. Compensation of employees	3.5	29.7	(26.2)	3.7	23.7	(20.0)	5.2	31.2	(26.1)	38.1	31.5	30.3
2. Investment Income	1,774.8	3,253.8	(1,479.1)	2,148.4	3,549.9	(1,401.5)	3,102.6	4,334.0	(1,231.4)	44.4	22.1	(12.1)
2.1 Direct investment	29.9	1,477.3	(1,447.4)	73.0	1,169.0	(1,096.0)	31.4	1,701.7	(1,670.3)	(57.0)	45.6	52.4
2.2 Portfolio investment	1,074.7	1,044.8	29.8	1,507.2	1,564.7	(57.5)	2,350.3	1,598.2	752.1	55.9	2.1	(1,407.4)
2.3. Other investments	669.7	731.7	(62.0)	567.8	816.2	(248.4)	718.6	1,034.1	(315.5)	26.6	26.7	27.0
Reserves	0.5	-	0.5	0.4	-	0.4	2.3	-	2.3	464.1		464.1
<b>C. SECONDARY INCOME</b>	<b>361.5</b>	<b>760.0</b>	<b>(398.5)</b>	<b>1,811.2</b>	<b>2,433.6</b>	<b>(622.5)</b>	<b>1,102.2</b>	<b>1,949.1</b>	<b>(846.9)</b>	<b>(39.1)</b>	<b>(19.9)</b>	<b>36.1</b>
1. General Government	0.7	1.0	(0.3)	0.0	0.9	(0.9)	0.8	3.6	(2.8)	2,554.1	293.4	220.5
2. Workers remittances	7.8	279.7	(271.9)	9.2	305.4	(296.2)	6.7	329.5	(322.7)	(27.5)	7.9	9.0
3. Other current transfers	353.0	479.3	(126.3)	1,801.9	2,127.3	(325.4)	1,094.7	1,616.1	(521.4)	(39.2)	(24.0)	60.2
<b>2.CAPITAL ACCOUNT</b>	<b>-</b>	<b>1.3</b>	<b>(1.3)</b>	<b>0.0</b>	<b>1.3</b>	<b>(1.3)</b>	<b>2.0</b>	<b>1.4</b>	<b>0.6</b>	<b>9,655.0</b>	<b>5.5</b>	<b>(149.5)</b>
1. Gross acquisitions/disposals of nonproduced nonfinancial assets	-	-	-	-	-	-	-	-	-			
2. Capital transfers	-	1.3	(1.3)	0.0	1.3	(1.3)	2.0	1.4	0.6	9,655.0	5.5	(149.5)

Table 2b: Balance of Payments\*

In C\$Million										Percent		
	2016 <sup>R</sup>			2017 <sup>R</sup>			2018 <sup>P</sup>			%	%	%
2. FINANCIAL ACCOUNT	Net acquisition of Fin. Asset	Net incurrence of Liability	change	Net acquisition of Fin. Asset	Net incurrence of Liability	change	Net acquisition of Fin. Asset	Net incurrence of Liability	change	Net acquisition of Fin. Asset	Net incurrence of Liability	change
Direct investment	5.9	2,373.3	(2,367.4)	(18.4)	2,088.7	(2,107.1)	14.3	(105.8)	120.1	-177.7	-105.1	-105.7
Portfolio investment	(1,964.2)	(3,551.4)	1,587.2	2,258.8	(1,775.2)	4,034.1	(1,255.1)	(737.0)	(518.2)	-155.6	-58.5	-112.8
Other investment	(8,687.8)	(10,534.0)	1,846.3	(4,439.8)	1,310.0	(5,749.8)	(10,184.9)	(6,064.4)	(4,120.5)	129.4	-562.9	-28.3
Financial derivatives	(1,301.0)	0.2	(1,301.2)	3,884.0	(255.0)	4,139.0	3,008.7	0.6	3,008.1	-22.5	-100.2	-27.3
Reserve assets	(3.1)		(3.1)	15.7		15.7	9.6		9.6	-38.5		-38.5
Net lending (+) or net borrowing (-) from financial account	(11,950.1)	(11,711.8)	(238.2)	1,700.3	1,368.5	331.8	(8,407.3)	(6,906.5)	(1,500.8)	-594.5	-604.7	-552.4
Unobserved Flows			456.5			1,059.3			(643.4)			-160.74

\* **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) are equal to the difference between the sum of the Current and Capital Accounts and the Financial Account.



### **1.3 Capital Account**

In 2018, the capital account recorded a \$0.6 million surplus, a reversal of the \$1.3 million deficit in 2017. This was primarily due to a capital donation received by the public sector.

### **1.4 Financial Account**

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

Preliminary estimates indicate that the transactions in the financial account resulted in a net borrowing position of \$1.5 billion in 2018. This outturn was due to the reduced acquisition of financial assets to \$8.4 billion, which outpaced the fall in the incurrence of external liabilities.

#### ***1.4.1 Direct Investments***

The direct investment account posted a net outflow of \$120.1 million in 2018, a reversal from the \$2,107.1 million net inflow recorded in 2017. This was on account of the drop in foreign direct investments (net incurrence of liabilities) of the financial sector.

Residents' net investments abroad grew to \$14.3 million, largely due to the increased reinvested earnings (undistributed profits).

Non-residents' net inflows in the Cayman Islands amounted to \$105.8 million in 2018, a reversal from the outflow of \$2.1 billion recorded in 2017. The decline was due mostly to the significant decrease in equity investments of the financial institutions.

#### ***1.4.2 Portfolio investments***

The portfolio investment account posted a net inflow of \$518.2 million in 2018, a reversal from the net outflow of \$4.0 billion recorded in 2017. This performance was due to the lower net inflows of residents' investments abroad, along with the decline in investments by non-residents. The decline in net inflows from residents' investments abroad resulted from the decrease in resident banks' net placements in debt securities. Also, non-residents' portfolio investment in the Cayman Islands fell due to lower investments in debt securities.

#### ***1.4.3 Other investments***

Net other investment transactions, which mainly consist of currency and deposits, and loans recorded a net financial inflow of \$4.1 billion in 2018 compared to \$5.7 billion



recorded in 2017. For the review year, there was a reduction in both the acquisition of other assets and the incurrence of financial liabilities in other investments.

## **2. THE INTERNATIONAL INVESTMENT POSITION (IIP)**

### **2.1 Introduction**

The International Investment Position (IIP) is the financial statement that shows the value and composition of the stock of Cayman Islands residents' financial assets abroad, and the financial liabilities of Cayman Islands' residents to the rest of the world at a point in time. 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 residents own abroad (external assets) and what its residents owe (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 2014 to 2018 and captures the position of the financial assets and liabilities of Cayman Islands' residents. The series includes data on establishments with a 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 due to lack of detailed data. The series is subject to revision, depending on the availability of additional and updated data.

### **2.2 Net International Investment Position Summary**

The International Investment Position (IIP), which is the country's net asset or liabilities with the rest of the world, shows that Cayman Islands' net external financial assets position stood at \$19.7 billion in comparison to the \$16.9 billion recorded in 2017. This developed largely on account of the decline in external liabilities, which fell at a faster pace than assets.

At 2018 year-end, the Cayman Islands' external financial assets contracted to \$124.7 billion compared to \$128.7 billion recorded in 2017. This was mainly due to the reduction in other investment assets. Additionally, external financial liabilities fell to \$104.9 billion at year-end 2018, down from the \$111.8 billion at year-end 2017, driven mainly by the decline in portfolio and other investment liabilities.

**Table 3a: International Investment Position**  
**Foreign Assets and Liabilities (by financial instrument)**  
**(CIS\$ Million)**  
**As at End of Year**

	2014	2015 <sup>R</sup>	2016 <sup>R</sup>	2017 <sup>R</sup>	2018 <sup>P</sup>	Chg 2018/2017
<b>Financial Assets</b>						
<i>By financial instrument</i>						
Equity and investment fund share/units	22,184.9	22,573.1	3,739.7	2,812.2	3,104.0	291.8
Currency and deposits	36,248.8	37,526.7	33,963.5	37,519.1	36,421.0	(1,098.1)
Debt securities	18,144.7	26,891.3	28,812.0	30,776.7	29,930.3	(846.4)
Loans	41,515.6	37,976.8	30,183.7	27,941.0	23,149.2	(4,791.8)
Financial Derivatives	4,190.3	6,483.6	19,685.5	23,879.1	27,034.3	3,155.2
Other financial assets	5,003.9	3,722.1	8,841.0	5,736.8	5,047.7	(689.1)
<b>Total Assets</b>	<b>127,288.1</b>	<b>135,173.6</b>	<b>125,225.3</b>	<b>128,665.0</b>	<b>124,686.6</b>	<b>(3,978.4)</b>
<b>Financial Liabilities</b>						
<i>By financial instrument</i>						
Equity and investment fund share/units	28,988.6	31,705.2	32,347.8	34,888.1	34,210.1	(678.0)
Currency and deposits	43,635.4	44,528.0	38,620.5	41,698.7	36,561.6	(5,137.1)
Debt securities	27,508.3	23,773.8	20,198.1	18,079.0	17,387.1	(692.0)
Loans	19,670.4	24,488.8	18,039.5	13,631.8	13,590.3	(41.4)
Financial Derivatives	36.7	25.8	3.5	n.a	n.a	-
Other financial assets	3,575.4	4,630.9	2,572.2	3,473.4	3,139.4	(334.0)
<b>Total Liabilities</b>	<b>123,414.8</b>	<b>129,152.6</b>	<b>111,781.5</b>	<b>111,771.0</b>	<b>104,888.5</b>	<b>(6,882.5)</b>
<b>Net (Assets less Liabilities)</b>						
<i>By financial instrument</i>						
Equity and investment fund share/units	(6,803.7)	(9,132.1)	(28,608.1)	(32,075.9)	(31,106.1)	969.8
Currency and deposits	(7,386.5)	(7,001.3)	(4,657.0)	(4,179.6)	(140.6)	4,039.0
Debt securities	(9,363.7)	3,117.5	8,613.9	12,697.7	12,543.3	(154.4)
Loans	21,845.2	13,488.0	12,144.2	14,309.2	9,558.9	(4,750.4)
Financial Derivatives	4,153.5	6,457.9	19,682.0	23,879.1	27,034.3	3,155.2
Other financial assets	1,428.5	(908.9)	6,268.8	2,263.4	1,908.3	(355.1)
<b>IIP (net)</b>	<b>3,873.3</b>	<b>6,021.1</b>	<b>13,443.8</b>	<b>16,894.0</b>	<b>19,798.1</b>	<b>2,904.1</b>
<b>IIP/GDP(%)</b>	<b>101.9%</b>	<b>153.5%</b>	<b>328.6%</b>	<b>393.4%</b>	<b>430.6%</b>	

1. The series capture data on establishments with physical presence in the Cayman Islands only.
2. The series does not include the stock of household foreign assets and liabilities, funds and exempt companies.
3. NPISH- Non-Profit institutions serving households

**Table 3b: Cayman Islands' Net International Investment Position Summary,  
(by functional categories) (CI\$ Million)  
As at End of Year**

	2014	2015 <sup>R</sup>	2016 <sup>R</sup>	2017 <sup>R</sup>	2018 <sup>P</sup>	Chg 2018/2017
<b>By functional categories</b>	<b>Financial Assets</b>					
Direct Investment	20,479.2	20,823.4	960.2	595.9	600.8	4.9
Portfolio Investment	19,751.0	28,530.3	31,461.0	32,869.5	32,300.6	(568.8)
Financial Derivatives	4,190.3	6,483.6	19,685.5	23,879.1	27,034.3	3,155.2
Other Investment	82,768.3	79,225.6	73,011.0	71,194.7	64,615.8	(6,578.9)
Reserve Assets	99.4	110.8	107.7	125.8	135.1	9.2
<b>Total Assets</b>	<b>127,288.1</b>	<b>135,173.6</b>	<b>125,225.3</b>	<b>128,665.0</b>	<b>124,686.6</b>	<b>(3,978.4)</b>
<b>By functional categories</b>	<b>Financial Liabilities</b>					
Direct Investment	28,953.1	31,853.5	33,260.5	35,330.0	34,649.0	(681.0)
Portfolio Investment	27,543.8	23,617.7	19,285.4	17,637.2	16,948.2	(689.0)
Financial Derivatives	36.7	25.8	3.5	-	-	-
Other Investment	66,881.1	73,655.6	59,232.2	58,803.9	53,291.4	(5,512.5)
Reserve Assets	-	-	-	-	-	-
<b>Total Liabilities</b>	<b>123,414.8</b>	<b>129,152.6</b>	<b>111,781.5</b>	<b>111,771.0</b>	<b>104,888.5</b>	<b>(6,882.5)</b>
<b>By functional categories</b>	<b>Net (Assets less liabilities)</b>					
Net Direct Investment	(8,473.9)	(11,030.2)	(32,300.3)	(34,734.1)	(34,048.2)	685.9
Net Portfolio Investment	(7,792.9)	4,912.6	12,175.6	15,232.3	15,352.4	120.2
Financial Derivatives	4,153.5	6,457.9	19,682.0	23,879.1	27,034.3	3,155.2
Other Investment	15,887.2	5,570.0	13,778.8	12,390.8	11,324.4	(1,066.4)
Reserve Assets	99.4	110.8	107.7	125.8	135.1	9.2
<b>IIP (net)</b>	<b>3,873.3</b>	<b>6,021.1</b>	<b>13,443.8</b>	<b>16,894.0</b>	<b>19,798.1</b>	<b>2,904.1</b>
<b>IIP/GDP(%)</b>	<b>101.9%</b>	<b>153.5%</b>	<b>328.6%</b>	<b>393.4%</b>	<b>430.6%</b>	

## 2.3 Investments by Functional Category

**Direct Investment.** At year-end 2018, residents' holdings of direct investments abroad (assets) remained relatively stable and stood at \$0.6 billion. In contrast, the direct investment liabilities (inward investments) stock stood at \$34.7 billion, registering a slight decline of \$0.7 billion over the 2017 period. The direct investment is composed of equity investments and claims and liabilities of investors in the Cayman Islands with their foreign affiliates, of which equity investments constituted the most substantial portion.

At the end of 2018, the net direct investment liability stock stood at \$34.0 billion, compared to \$34.7 billion recorded in 2017. Direct investment constituted 0.5 percent of total foreign assets and 33.5 percent of total foreign liabilities in 2018.

**Portfolio Investment.** Cayman Islands' net foreign assets position in portfolio investments grew marginally by \$0.57 billion. This increase was primarily associated with the movement in portfolio investment liabilities for the year.

**Other Investment.** At the end of 2018, the residents' net foreign assets in the form of other investments (largely currency & deposits, loans, and accounts receivable) stood at \$11.3 billion, down from the \$12.4 billion registered in 2017, mainly on account of the faster pace in the decrease in foreign assets, compared to the decline in foreign liabilities.

Foreign assets in other investments declined by \$6.5 billion and stood at \$64.6 billion, driven primarily by the fall in currency and deposits and accounts receivable.

Currency and deposits held abroad by residents dropped by \$1.1 billion to \$36.4 billion, while loans fell by \$4.8 billion. Additionally, residents' investments in financial derivatives assets contracted by \$0.4 billion for 2018.

The Cayman Islands' stock of foreign liabilities in other investments fell by \$5.5 billion and stood at \$53.3 billion. This was driven by the drop in currency and deposits, loan stock, and accounts payable.

**Reserve Assets.** In 2018, the Cayman Islands' gross foreign reserve assets holdings stood at \$135.1 million, showing an increase of \$9.2 million. Investments in securities continued to dominate the reserve asset stock.

## 2.4 Investments by Institutional Sector

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

**Table 4:**  
**IIP by Resident Institutional Sector**  
**As at End 2018, CI\$ Million**

	Nonfinancial Corporations	Financial Corporations	General Government	Total Economy
<b>Total Assets</b>	<b>4,316.9</b>	<b>120,369.7</b>	<b>0.0</b>	<b>124,686.6</b>
<i>By functional category</i>	<i>4,316.9</i>	<i>120,369.7</i>	<i>0.0</i>	<i>124,686.6</i>
Direct Investment	402.5	198.3	-	600.8
Portfolio Investment	37.4	32,263.2	-	32,300.6
Financial Derivatives	-	27,034.3	-	27,034.3
Other Investment	3,877.0	60,738.8	-	64,615.8
Reserve Assets	-	135.1	-	135.1
<b>Total Liabilities</b>	<b>8,544.2</b>	<b>96,083.0</b>	<b>261.3</b>	<b>104,888.5</b>
<i>By functional category</i>	<i>8,544.2</i>	<i>96,083.0</i>	<i>261.3</i>	<i>104,888.5</i>
Direct Investment	6,370.7	28,278.2	-	34,649.0
Portfolio Investment	566.8	16,120.1	261.30	16,948.2
Financial Derivatives	-	-	-	-
Other Investment	1,606.6	51,684.7	-	53,291.4
<b>Net International Investment Position</b>	<b>(4,227.3)</b>	<b>24,286.7</b>	<b>(261.30)</b>	<b>19,798.1</b>

**Financial sector.** This comprises mainly of the deposit-taking corporations, other financial corporations, and pensions and insurance. This sector held a net asset position with the rest of the world, amounting to \$24.3 billion at the end of 2018, mainly on account of the investments in portfolio investments, financial derivatives, and other investment assets.

At the end of 2018, the financial sector investments in foreign assets accounted for 96.5 percent of total foreign assets investments. The foreign assets investments of this sector fell by \$3.6 billion and stood at \$120.4 billion, and this developed mainly on account of the decrease in other investment assets.

Portfolio investment assets remained relatively stable and stood at \$32.3 billion in 2018, arising mainly from the marginal reduction in debt securities.

The financial corporations' foreign liabilities in 2018 fell by \$7.9 billion to \$96.1 billion. Other investments continue to account for the largest share (53.8%) of total foreign liabilities.

For the same period, portfolio investment liabilities fell to \$16.1 billion, mainly due to the decline of \$0.9 billion in debt securities liabilities. For the same period, direct investment liabilities reached \$28.3 billion, down from \$28.9 billion in 2017.

**The non-financial sector.** This includes corporations whose principal activity is the production of market goods or non-financial services such as legal, accounting, wholesale and retail trade, construction, transport, etc. This sector is estimated to have a net investment liability position of \$4.2 billion at the end of 2018, compared to \$2.9 billion recorded in 2017. The sector's foreign assets stood at \$4.3 billion, slightly down from the \$4.7 billion recorded in 2017. Most of the investments were in other investments (\$3.9 billion).

In 2018, the sector's foreign liabilities stood at \$8.5 billion, with \$6.4 billion in direct investment, while other investments contributed \$1.6 billion. The direct investment liabilities were largely in the form of equity and investment funds.

**General government.** This sector recorded a net investment liability position of \$261.3 million, primarily due to the foreign liabilities in the form of government long-term debt securities.

**Table 5: IIP by Resident Institutional Sector as at End 2017, C1\$ Million**

	Nonfinancial Corporations	Financial Corporations	General Government	Total Economy
<b>Total Assets</b>	<b>4,672.3</b>	<b>123,993</b>	<b>0.0</b>	<b>128,665.0</b>
<i>By functional category</i>	<i>4,672.3</i>	<i>123,992.6</i>	<i>0.0</i>	<i>128,665.0</i>
Direct Investment	468.5	127.4	-	595.9
Portfolio Investment	37.5	32,832.0	-	32,869.5
Financial Derivatives	-	23,879.1	-	23,879.1
Other Investment	4,166.4	67,028.3	-	71,194.7
Reserve Assets	-	125.8	-	125.8
<b>Total Liabilities</b>	<b>7,527.0</b>	<b>103,977.3</b>	<b>266.7</b>	<b>111,771.0</b>
<i>By functional category</i>	<i>7,527.0</i>	<i>103,977.3</i>	<i>266.7</i>	<i>111,771.0</i>
Direct Investment	6,391.9	28,938.0	-	35,330.0
Portfolio Investment	322.6	17,048.7	265.9	17,637.2
Financial Derivatives	-	-	-	-
Other Investment	812.4	57,990.6	0.9	58,803.9
<b>Net International Investment Position</b>	<b>(2,854.6)</b>	<b>20,015.3</b>	<b>(266.7)</b>	<b>16,894.0</b>



# APPENDIX 1 - BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION TABLES

## A1.1 Balance of Payments

Balance of Payments Transactions	2017			2018			%	%	%
(CIS000)	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
<b>Current account</b>	<b>7,150,095</b>	<b>7,876,345</b>	<b>(726,250)</b>	<b>7,494,044</b>	<b>8,352,032</b>	<b>(857,988)</b>	<b>4.8</b>	<b>6.0</b>	<b>18.1</b>
Goods and services	3,186,775	1,869,050	1,317,725	3,284,070	2,037,708	1,246,361	3.1	9.0	-5.4
<b>Goods</b>	<b>308,687</b>	<b>827,259</b>	<b>(518,572)</b>	<b>254,037</b>	<b>959,919</b>	<b>(705,882)</b>	<b>-17.7</b>	<b>16.0</b>	<b>36.1</b>
General merchandise on a balance of payments basis <sup>1</sup>	32,221	822,182	(789,961)	32,146	951,339	(919,193)	-0.2	15.7	16.4
Nonmonetary gold	-	5,077	(5,077)	136	8,580	(8,444)	-	69.0	66.3
<b>Services</b>	<b>2,878,088</b>	<b>1,041,791</b>	<b>1,836,297</b>	<b>3,030,033</b>	<b>1,077,790</b>	<b>1,952,243</b>	<b>5.3</b>	<b>3.5</b>	<b>6.3</b>
Maintenance and repair services n.i.e.	41	4,947	(4,906)	53	4,978	(4,925)	28.9	0.6	0.4
<b>Transport</b>	<b>74,102</b>	<b>130,980</b>	<b>(56,878)</b>	<b>80,381</b>	<b>139,386</b>	<b>(59,004)</b>	<b>8.5</b>	<b>6.4</b>	<b>3.7</b>
<b>Sea transport</b>	<b>21,802</b>	<b>48,087</b>	<b>(26,286)</b>	<b>28,240</b>	<b>54,858</b>	<b>(26,618)</b>	<b>29.5</b>	<b>14.1</b>	<b>1.3</b>
Freight	174	48,078	(47,904)	-	54,858	(54,858)	-100.0	14.1	14.5
Other <sup>2</sup>	21,627	9	21,618	28,240	-	28,240	30.6	-100.0	30.6
<b>Air transport</b>	<b>50,527</b>	<b>82,537</b>	<b>(32,011)</b>	<b>50,133</b>	<b>83,653</b>	<b>(33,520)</b>	<b>-0.8</b>	<b>1.4</b>	<b>4.7</b>
Passenger	26,008	53,841	(27,833)	25,771	58,298	(32,527)	-0.9	8.3	16.9
Freight	469	7,272	(6,803)	307	8,602	(8,295)	-34.6	18.3	21.9
Other	24,050	21,425	2,625	24,055	16,753	7,302	0.0	-21.8	178.2
Postal and courier services	1,774	356	1,418	2,008	874	1,134	13.2	145.8	-20.1
<b>Travel</b>	<b>660,569</b>	<b>171,258</b>	<b>489,311</b>	<b>726,149</b>	<b>178,554</b>	<b>547,594</b>	<b>9.9</b>	<b>4.3</b>	<b>11.9</b>
<b>Business</b>	<b>36,193</b>	<b>10,509</b>	<b>25,684</b>	<b>42,027</b>	<b>9,325</b>	<b>32,703</b>	<b>16.1</b>	<b>-11.3</b>	<b>27.3</b>
Other	36,193	10,509	25,684	42,027	9,325	32,703	16.1	-11.3	27.3
<b>Personal</b>	<b>624,376</b>	<b>160,749</b>	<b>463,627</b>	<b>684,121</b>	<b>169,230</b>	<b>514,892</b>	<b>9.6</b>	<b>5.3</b>	<b>11.1</b>
Health-related	7,844	29,250	(21,406)	5,380	27,986	(22,606)	-31.4	-4.3	5.6
Education-related	9,611	28,993	(19,381)	9,793	32,726	(22,932)	1.9	12.9	18.3
Other	606,921	102,506	504,415	668,948	108,518	560,430	10.2	5.9	11.1
<b>Construction</b>	<b>-</b>	<b>5,601</b>	<b>(5,601)</b>	<b>-</b>	<b>8,066</b>	<b>(8,066)</b>	<b>-</b>	<b>44.0</b>	<b>44.0</b>
Construction in the reporting economy	-	5,601	(5,601)	-	8,066	(8,066)	-	44.0	44.0
<b>Insurance and pension services</b>	<b>414,236</b>	<b>228,929</b>	<b>185,306</b>	<b>423,909</b>	<b>244,961</b>	<b>178,949</b>	<b>2.3</b>	<b>7.0</b>	<b>-3.4</b>
Direct insurance	1,413	82,801	(81,387)	-	49,039	(49,039)	-100.0	-40.8	-39.7
Auxiliary insurance services	7,088	11,614	(4,526)	35,687	18,696	16,991	403.5	61.0	-473.4
<b>Financial services</b>	<b>1,102,229</b>	<b>192,837</b>	<b>909,392</b>	<b>1,135,539</b>	<b>177,371</b>	<b>958,168</b>	<b>3.0</b>	<b>-8.0</b>	<b>5.4</b>
Explicitly charged and other financial services	555,781	119,303	436,479	535,408	97,336	438,073	-3.7	-18.4	0.4
Financial intermediation services indirectly measured (FISIM)	546,448	73,534	472,914	600,131	80,035	520,095	9.8	8.8	10.0
<b>Charges for the use of intellectual property n.i.e.</b>	<b>7,745</b>	<b>56,673</b>	<b>(48,928)</b>	<b>13,064</b>	<b>55,917</b>	<b>(42,853)</b>	<b>68.7</b>	<b>-1.3</b>	<b>-12.4</b>
<b>Telecommunications, computer, and information services</b>	<b>15,088</b>	<b>35,092</b>	<b>(20,004)</b>	<b>13,556</b>	<b>39,420</b>	<b>(25,864)</b>	<b>-10.2</b>	<b>12.3</b>	<b>29.3</b>
Telecommunications services	8,068	12,640	(4,571)	7,267	11,785	(4,518)	-9.9	-6.8	-1.2
Computer services	7,019	22,231	(15,212)	6,290	27,410	(21,120)	-10.4	23.3	38.8
Information services	-	221	(221)	-	225	(225)	-	2.1	2.1
<b>Other business services</b>	<b>602,846</b>	<b>206,405</b>	<b>396,441</b>	<b>635,679</b>	<b>217,138</b>	<b>418,541</b>	<b>5.4</b>	<b>5.2</b>	<b>5.6</b>
Professional and management consulting services	593,635	199,787	393,848	630,146	210,040	420,106	6.2	5.1	6.7
Technical, trade-related, and other business services	9,212	6,618	2,593	5,533	7,098	(1,565)	-39.9	7.2	-160.4
<b>Personal, cultural, and recreational services</b>	<b>265</b>	<b>8,257</b>	<b>(7,992)</b>	<b>146</b>	<b>10,960</b>	<b>(10,814)</b>	<b>-44.9</b>	<b>32.7</b>	<b>35.3</b>
Audiovisual and related services	-	-	-	-	-	-	-	-	-
Other personal, cultural, and recreational services	265	8,257	(7,992)	146	10,960	(10,814)	-44.9	32.7	35.3
<b>Government goods and services n.i.e.</b>	<b>967</b>	<b>812</b>	<b>155</b>	<b>1,557</b>	<b>1,039</b>	<b>518</b>	<b>61.0</b>	<b>28.0</b>	<b>233.0</b>

	2017			2018			%	%	%
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
<b>Balance of Payments Transactions (Cont'd)</b>									
<b>Primary income</b>	<b>2,152,133</b>	<b>3,573,646</b>	<b>(1,421,513)</b>	<b>3,107,804</b>	<b>4,365,239</b>	<b>(1,257,435)</b>	<b>44.4</b>	<b>22.2</b>	<b>-11.5</b>
Compensation of employees	3,739	23,747	(20,007)	5,165	31,238	(26,073)	38.1	31.5	30.3
Investment income	2,148,394	3,549,900	(1,401,506)	3,102,638	4,334,001	(1,231,362)	44.4	22.1	-12.1
<b>Direct investment</b>	<b>72,997</b>	<b>1,168,989</b>	<b>(1,095,992)</b>	<b>31,390</b>	<b>1,701,680</b>	<b>(1,670,289)</b>	<b>-57.0</b>	<b>45.6</b>	<b>52.4</b>
Income on equity and investment fund shares	72,923	1,164,980	(1,092,057)	31,118	1,698,416	(1,667,297)	-57.3	45.8	52.7
Dividends and withdrawals from income of quasi-corporations	79,914	169,757	(89,844)	29,427	211,013	(181,585)	-63.2	24.3	102.1
Reinvested earnings	(6,991)	995,223	(1,002,214)	1,691	1,487,403	(1,485,712)	-124.2	49.5	48.2
Interest	74	4,009	(3,935)	272	3,264	(2,992)	267.7	-18.6	-23.9
<b>Portfolio investment</b>	<b>1,507,176</b>	<b>1,564,701</b>	<b>(57,525)</b>	<b>2,350,313</b>	<b>1,598,224</b>	<b>752,088</b>	<b>55.9</b>	<b>2.1</b>	<b>-1407.4</b>
Investment income on equity and investment fund shares	32,957	42,749	(9,791)	59,778	10,938	48,840	81.4	-74.4	-598.8
Interest	1,474,219	1,521,952	(47,733)	2,290,535	1,587,287	703,248	55.4	4.3	-1573.3
<b>Other investment</b>	<b>567,805</b>	<b>816,210</b>	<b>(248,404)</b>	<b>718,594</b>	<b>1,034,096</b>	<b>(315,502)</b>	<b>26.6</b>	<b>26.7</b>	<b>27.0</b>
Reserve assets (Credit)	415	-	415	2,341	-	2,341	464.1	-	464.1
<b>Secondary income</b>	<b>1,811,187</b>	<b>2,433,648</b>	<b>(622,461)</b>	<b>1,102,170</b>	<b>1,949,084</b>	<b>(846,914)</b>	<b>-39.1</b>	<b>-19.9</b>	<b>36.1</b>
<b>General government</b>	<b>28.3</b>	<b>904.5</b>	<b>(876)</b>	<b>750.0</b>	<b>3,558.0</b>	<b>(2,808)</b>	<b>2554.1</b>	<b>293.4</b>	<b>220.5</b>
<b>Financial corporations, nonfinancial corporations, households, and NPISHs</b>	<b>1,811,158</b>	<b>2,432,744</b>	<b>(621,585)</b>	<b>1,101,420</b>	<b>1,945,526</b>	<b>(844,106)</b>	<b>-39.2</b>	<b>-20.0</b>	<b>35.8</b>
Personal transfers (Current transfers between resident and nonresident households)	9,248	305,448	(296,200)	6,704	329,451	(322,747)	-27.5	7.9	9.0
Other current transfers	1,801,911	2,127,295	(325,385)	1,094,716	1,616,076	(521,359)	-39.2	-24.0	60.2
<b>Capital account</b>	<b>20</b>	<b>1,281</b>	<b>(1,261)</b>	<b>1,976</b>	<b>1,352</b>	<b>624</b>	<b>9,655.0</b>	<b>5.5</b>	<b>-149.5</b>
Capital transfers	20	1,281	(1,261)	1,976	1,352	624	9,655.0	5.5	-149.5
General government	-	-	-	1,958	-	1,958	-	-	-
Other capital transfers	-	-	-	1,958	-	1,958	-	-	-
<b>Financial corporations, nonfinancial corporations, households, and NPISHs</b>	<b>20</b>	<b>1,281</b>	<b>(1,261)</b>	<b>18</b>	<b>1,352</b>	<b>(1,334)</b>	<b>-13.5</b>	<b>5.5</b>	<b>5.8</b>
Debt forgiveness	-	-	-	-	-	-	-	-	-
Other capital transfers	20	1,281	(1,261)	18	1,352	(1,334)	-13.5	5.5	5.8
Net lending (+) / net borrowing (-) (balance from current and capital account)			(727,511)			(857,364)			17.8
<b>Financial account</b>	<b>Net Acquisition of Fin. Asset</b>	<b>Net Incurrence of Liability</b>	<b>Net (asset less liabilities)</b>	<b>Net Acquisition of Fin. Asset</b>	<b>Net Incurrence of Liability</b>	<b>Net (asset less liabilities)</b>			
Net lending (+) / net borrowing (-) (balance from financial account)			331,755			(1,500,769)			-552.4
<b>Direct investment</b>	<b>(18,403)</b>	<b>2,088,714</b>	<b>(2,107,117)</b>	<b>14,305</b>	<b>(105,836)</b>	<b>120,141</b>	<b>-177.7</b>	<b>-105.1</b>	<b>-105.7</b>
<b>Equity and investment fund shares</b>	<b>(13,485)</b>	<b>2,519,700</b>	<b>(2,533,185)</b>	<b>(1,150)</b>	<b>(119,774)</b>	<b>118,623</b>	<b>-91.5</b>	<b>-104.8</b>	<b>-104.7</b>
Equity other than reinvestment of earnings	(6,494)	1,524,477	(1,530,971)	(2,841)	(1,607,176)	1,604,335	-56.2	-205.4	-204.8
Reinvestment of earnings	(6,991)	995,223	(1,002,214)	1,691	1,487,403	(1,485,712)	-124.2	49.5	48.2
<b>Debt instruments</b>	<b>(4,918)</b>	<b>(430,986)</b>	<b>426,068</b>	<b>15,455</b>	<b>13,937</b>	<b>1,518</b>	<b>-414.2</b>	<b>-103.2</b>	<b>-99.6</b>
<b>Portfolio investment</b>	<b>2,258,841</b>	<b>(1,775,232)</b>	<b>4,034,073</b>	<b>(1,255,104)</b>	<b>(736,952)</b>	<b>(518,153)</b>	<b>-155.6</b>	<b>-58.5</b>	<b>-112.8</b>
<b>Equity and investment fund shares</b>	<b>404,080</b>	<b>-</b>	<b>404,080</b>	<b>(485,125)</b>	<b>(2,000)</b>	<b>(483,124)</b>	<b>-220.1</b>	<b>-</b>	<b>-219.6</b>
Deposit-taking corporations, except central bank	37,948	-	37,948	104,046	-	104,046	174.2	-	174.2
<b>Other sectors</b>	<b>366,132</b>	<b>-</b>	<b>366,132</b>	<b>(589,171)</b>	<b>(2,000)</b>	<b>(587,171)</b>	<b>-260.9</b>	<b>-</b>	<b>-260.4</b>
Other financial corporations	366,069	-	366,069	(589,516)	(2,000)	(587,516)	-261.0	-	-260.5
Nonfinancial corporations, households, and NPISHs	64	-	64	345	-	345	441.4	-	441.4



	2017			2018			%	%	%
	Net Acquisition of Fin. Asset	Net Incurrence of Liability	Net (asset less liabilities)	Net Acquisition of Fin. Asset	Net Incurrence of Liability	Net (asset less liabilities)	Net Acquisition of Fin. Asset	Net Incurrence of Liability	Net (asset less liabilities)
<b>Financial account (cont'd)</b>									
<b>Debt securities</b>	<b>1,854,761</b>	<b>(1,775,232)</b>	<b>3,629,994</b>	<b>(769,980)</b>	<b>(734,951)</b>	<b>(35,028)</b>	<b>-141.5</b>	<b>-58.6</b>	<b>-101.0</b>
Deposit-taking corporations, except central bank	1,643,502	(1,755,904)	3,399,405	(1,762,890)	(928,636)	(834,254)	-207.3	-47.1	-124.5
General government	-	(9,112)	9,112	-	(4,556)	4,556	-	-50.0	-50.0
Other sectors	211,259	(10,217)	221,476	992,911	198,241	794,670	370.0	-2040.3	258.8
Other financial corporations	213,632	3,726	209,905	993,451	-	993,451	365.0	-100.0	373.3
Nonfinancial corporations, households, and NPISHs	(2,372)	(13,943)	11,571	(540)	198,241	(198,781)	-77.2	-1521.8	-1817.9
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>3,883,994</b>	<b>(254,983)</b>	<b>4,138,977</b>	<b>3,008,723</b>	<b>617</b>	<b>3,008,105</b>	<b>-22.5</b>	<b>-100.2</b>	<b>-27.3</b>
Deposit-taking corporations, except central bank	4,168,295	-	4,168,295	3,008,723	-	3,008,723	-27.8	-	-27.8
General government	-	-	-	-	-	-	-	-	-
Other sectors	(284,301)	(254,983)	(29,318)	-	617	(617)	-100.0	-100.2	-97.9
<b>Other investment</b>	<b>(4,439,815)</b>	<b>1,310,032</b>	<b>(5,749,847)</b>	<b>(10,184,857)</b>	<b>(6,064,363)</b>	<b>(4,120,494)</b>	<b>129.4</b>	<b>-562.9</b>	<b>-28.3</b>
Other equity	-	-	-	-	-	-	-	-	-
<b>Currency and deposits</b>	<b>3,538,405</b>	<b>1,656,788</b>	<b>1,881,618</b>	<b>(1,471,516)</b>	<b>(5,252,503)</b>	<b>3,780,987</b>	<b>-141.6</b>	<b>-417.0</b>	<b>100.9</b>
Deposit-taking corporations, except central bank	3,451,192	1,653,700	1,797,492	(1,079,676)	(5,270,687)	4,191,011	-131.3	-418.7	133.2
Other sectors	87,214	3,088	84,126	(391,840)	18,184	(410,023)	-549.3	488.9	-587.4
<b>Loans</b>	<b>(2,179,341)</b>	<b>(3,260,199)</b>	<b>1,080,858</b>	<b>(4,704,825)</b>	<b>(598,897)</b>	<b>(4,105,929)</b>	<b>115.9</b>	<b>-81.6</b>	<b>-479.9</b>
Deposit-taking corporations, except the central bank	(2,062,531)	(3,506,414)	1,443,882	(4,707,036)	(611,264)	(4,095,772)	128.2	-82.6	-383.7
Short-term	-	(3,506,414)	3,506,414	-	(611,264)	611,264	-	-82.6	-82.6
Long-term	(2,062,531)	-	(2,062,531)	(4,707,036)	-	(4,707,036)	128.2	-	128.2
General government	-	(83)	83	-	(903)	903	-	988.0	988.0
Other sectors	(116,810)	246,297	(363,107)	2,211	13,271	(11,060)	-101.9	-94.6	-97.0
Other financial corporations	(116,550)	278,674	(395,224)	3,196	1,009	2,188	-102.7	-99.6	-100.6
Nonfinancial corporations, households, and NPISHs	(260)	(32,376)	32,116	(985)	12,262	(13,247)	279.0	-137.9	-141.2
<b>Insurance, pension, and standardized guarantee schemes</b>	<b>-</b>	<b>(80,465)</b>	<b>80,465</b>	<b>-</b>	<b>755,005</b>	<b>(755,005)</b>	<b>-</b>	<b>-1038.3</b>	<b>-1038.3</b>
<b>Trade credit and advances</b>	<b>(2,442)</b>	<b>(10,720)</b>	<b>8,278</b>	<b>(2,023)</b>	<b>(9,791)</b>	<b>7,768</b>	<b>-17.1</b>	<b>-8.7</b>	<b>-6.2</b>
<b>Other accounts receivable/payable</b>	<b>(5,796,437)</b>	<b>3,004,629</b>	<b>(8,801,066)</b>	<b>(4,006,493)</b>	<b>(958,177)</b>	<b>(3,048,315)</b>	<b>-30.9</b>	<b>-131.9</b>	<b>-65.4</b>
Deposit-taking corporations, except central bank	(5,606,412)	1,473,052	(7,079,464)	(3,777,574)	280,406	(4,057,980)	-32.6	-81.0	-42.7
General government	-	450	(450)	480	1,885	(1,405)	-	318.9	212.2
Other sectors	(190,025)	1,531,127	(1,721,152)	(229,399)	(1,240,468)	1,011,070	20.7	-181.0	-158.7
Other financial corporations	59,655	650,731	(591,076)	38,705	(1,238,701)	1,277,406	-35.1	-290.4	-316.1
Nonfinancial corporations, households, NPISHs	(249,680)	880,396	(1,130,076)	(268,103)	(1,767)	(266,336)	7.4	-100.2	-76.4
<b>Reserve assets</b>	<b>15,668</b>	<b>-</b>	<b>15,668</b>	<b>9,631</b>	<b>-</b>	<b>9,631</b>	<b>-38.5</b>	<b>-</b>	<b>-38.5</b>
Other reserve assets	15,668	-	15,668	9,631	-	9,631	-38.5	-	-38.5
Currency and deposits	-	-	-	(93)	-	(93)	-	-	-
Securities	15,668	-	15,668	9,724	-	9,724	-37.9	-	-37.9
Debt securities	15,668	-	15,668	9,724	-	9,724	-37.9	-	-37.9
<b>Net errors and omissions</b>			<b>1,059,265</b>			<b>(643,405)</b>			<b>-160.7</b>

## A2.1 International Investment Position

International Investment Position				
(CIS\$000)	2016 <sup>R</sup>	2017 <sup>R</sup>	2018 <sup>P</sup>	%
<b>Net International Investment Position</b>	<b>13,443,799</b>	<b>16,893,958</b>	<b>19,798,053</b>	<b>17.2</b>
<b>Assets</b>	<b>125,225,335</b>	<b>128,664,999</b>	<b>124,686,591</b>	<b>-3.1</b>
<b>Direct investment</b>	960,201	595,861	600,771	0.8
Equity and investment fund shares	509,312	465,029	476,645	2.5
Debt instruments	450,889	130,832	124,127	-5.1
<b>Portfolio investment</b>	31,461,009	32,869,459	32,300,614	-1.7
Equity and investment fund shares	3,207,578	2,347,176	2,627,321	11.9
Monetary authorities (where relevant)	0	0	0	-
Deposit-taking corporations, except central bank	494,589	536,788	644,326	20.0
General government	591	0	0	-
Other sectors	2,712,398	1,810,388	1,982,996	9.5
Other financial corporations	2,712,173	1,810,203	1,982,447	9.5
Nonfinancial corporations, households, NPISHs	226	185	548	196.4
Debt securities	28,253,431	30,522,283	29,673,292	-2.8
Monetary authorities (where relevant)	0	0	0	-
Deposit-taking corporations, except central bank	27,153,571	29,025,700	27,411,346	-5.6
General government	0	0	0	-
Other sectors	1,099,859	1,496,583	2,261,946	51.1
Other financial corporations	1,074,546	1,459,318	2,225,099	52.5
Nonfinancial corporations, households, NPISHs	25,314	37,265	36,847	-1.1
<b>Financial derivatives (other than reserves) and employee stock options</b>	19,685,475	23,879,131	27,034,347	13.2
<b>Other investment</b>	73,010,985	71,194,699	64,615,783	-9.2
Other equity	22,818	0	0	-
Currency and deposits	33,963,471	37,516,872	36,418,882	-2.9
Monetary authorities	0	0	0	-
Deposit-taking corporations, except central bank	32,319,783	35,770,975	34,691,299	-3.0
General government	115	40	40	0.0
Other sectors	1,643,573	1,745,858	1,727,543	-1.0
Other financial corporations	1,441,413	1,520,733	1,191,307	-21.7
Nonfinancial corporations, households, NPISHs	202,160	225,125	536,236	138.2
Loans	30,183,726	27,941,012	23,149,215	-17.1
Monetary authorities	0	0	0	-
Deposit-taking corporations, except the central bank	29,585,208	27,487,221	22,780,185	-17.1
General government	0	0	0	-
Other sectors	598,519	453,792	369,031	-18.7
Other financial corporations	590,963	451,009	363,937	-19.3
Nonfinancial corporations, households, and NPISHs	7,556	2,783	5,094	83.1
Insurance, pension, and standardized guarantee schemes	0	0	0	-
Trade credit and advances	98,867	507,543	52,536	-89.6
Other sectors	98,867	507,543	52,536	-89.6
Other financial corporations	8,097	450,867	0	-100.0
Nonfinancial corporations, households, and NPISHs	90,770	56,676	52,536	-7.3
Other accounts receivable	8,742,103	5,229,271	4,995,150	-4.5
<b>Reserve assets</b>	107,665	125,849	135,076	7.3
Other reserve assets	107,665	125,849	135,076	7.3

<b>International Investment Position (Cont'd)</b>	<b>2016<sup>R</sup></b>	<b>2017<sup>R</sup></b>	<b>2018<sup>P</sup></b>	<b>-</b>
<b>Liabilities</b>	<b>111,781,535</b>	<b>111,771,041</b>	<b>104,888,538</b>	<b>-6.2</b>
<b>Direct investment</b>	<b>33,260,460</b>	<b>35,329,957</b>	<b>34,648,983</b>	<b>-1.9</b>
Equity and investment fund shares	32,347,814	34,888,104	34,210,107	-1.9
Debt instruments	912,646	441,853	438,876	-0.7
<b>Portfolio investment</b>	<b>19,285,446</b>	<b>17,637,196</b>	<b>16,948,195</b>	<b>-3.9</b>
Equity and investment fund shares	0	0	0	-
Debt securities	19,285,446	17,637,196	16,948,195	-3.9
Monetary authorities	0	0	0	-
Deposit-taking corporations, except central bank	18,804,611	17,048,708	16,120,072	-5.4
General government	293,192	265,856	261,300	-1.7
Other sectors	187,643	322,632	566,823	75.7
<b>Financial derivatives (other than reserves) and employee stock options</b>	<b>3,451</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>
<b>Other investment</b>	<b>59,232,178</b>	<b>58,803,888</b>	<b>53,291,360</b>	<b>-9.4</b>
Other equity	0	0	0	-
Currency and deposits	38,620,472	41,698,722	36,561,645	-12.3
Monetary authorities	0	0	0	-
Deposit-taking corporations, except the central bank	38,620,380	41,698,722	36,561,645	-12.3
General government	0	0	0	-
Other sectors	92	0	0	-
Other financial corporations	92	0	0	-
Nonfinancial corporations, households, NPISHs	0	0	0	-
Loans	18,039,533	13,631,767	13,590,334	-0.3
Monetary authorities	0	0	0	-
Deposit-taking corporations, except the central bank	15,219,728	11,711,314	11,100,050	-5.2
General government	870	886	0	-100.0
Other sectors	2,818,936	1,919,567	2,490,284	29.7
Other financial corporations	2,462,590	1,882,006	2,443,299	29.8
Nonfinancial corporations, households, and NPISHs	356,346	37,561	46,985	25.1
Insurance, pension, and standardized guarantee schemes	402,344	711,497	1,466,502	106.1
Trade credit and advances	72,958	55,913	45,787	-18.1
Other accounts payable - other	2,096,870	2,705,989	1,627,092	-39.9
Monetary authorities	0	0	0	-
Deposit-taking corporations, except central bank	145,793	219,158	345,932	57.8
General government	12	0	0	-
Other sectors	1,951,066	2,486,831	1,281,159	-48.5
Other financial corporations	1,874,821	2,479,386	1,233,760	-50.2
Nonfinancial corporations, households, NPISHs	76,245	7,445	47,400	536.7
Special drawing rights (Net incurrence of liabilities)	0	0	0	-

## APPENDIX 2: BALANCE OF PAYMENTS USES, CONCEPTS AND COMPILATION

### A2.1 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 primary 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 assessing 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 a significant impact on the Balance of Payments of the Cayman Islands.

## **A2.2 Revisions**

Revisions are unavoidable and have become the 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.

Data for the current and the preceding two calendar years may be revised to facilitate any new data, new sources, or improved estimation techniques.

## **A2.3 Key Data Sources**

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

## **A2.4 Data Quality and Accuracy**

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

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

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

Errors also occur as a result of the inability or unwillingness of respondents to provide correct information, and also because of the misinterpretation of the questionnaire.

Non-response errors contribute significantly to the quality of the BOP statistics. Respondents may refuse to complete the questionnaire, or may refuse to answer a question, or may generally be unable to respond, or they may submit the questionnaire late.

### **A2.5 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.

#### **A2.5A 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) consists of all transfers that directly affect the level of disposable income and consumption.

### A2.5B 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).

### A2.5C 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 that 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 the 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).

### **A2.5D 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”.

## **A2.6 BOP Compilation**

### **A2.6A General Approach**

The Balance of Payments statistics is 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 that 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 standardize 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 regard 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 Islands would have significant implications for the country’s macroeconomic analysis as they would misrepresent the economic activities within the territory.

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.

#### **A2.6B 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 to capture 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.

#### **A2.6C Survey Methodology**

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

#### **A2.6D 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 database 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. Based on the available Customs trade data, a ratio for freight and insurance was developed.

### 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 the 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 the 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 the 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 the 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 the 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 tickets by non-residents. This is 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 the 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, which 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 the 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 debit are derived from the Labour force survey, World tourism Organisation database, and the Cayman Islands Household Budget survey 2015. The credit entries are obtained from business survey data, and the Department of Tourism.

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 homeland, 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, 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 telecommunications 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.

Estimates of insurance services are based on data obtained from CIMA, which are supplemented by data obtained from the BOP and 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 the agreement and of manuscripts, etc. The outflows are debited under the Capital Account against the 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 the 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 merchant and trade-related services and covers commissions on goods and services (excluding commission on insurance and financial services), transactions between resident merchants, commodity brokers, dealers and commission agents and non-residents. The data used was obtained from the 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 the 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 education, such as 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 on 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 were 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 DOT 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 were 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 the investment 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 policyholders.

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.

(i) **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.

(ii) **Other Sectors**

**a) 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.

**b) 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.

## **A2.6E 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 the 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

### **A.2.6F Data Compilation – Financial Account**

The Financial Account includes five large groups of financial resources, namely: direct investment, portfolio investment, financial derivatives, and 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 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 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 besides 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 3: INTERNATIONAL INVESTMENT POSITION USES, CONCEPTS AND COMPILATION**

### **A3.1 Key Uses**

The IIIP is a statistical statement that 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 analyzing 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 crucial in making an assessment of the sustainability of foreign borrowings and investments in economies.

### **A3.2 Revisions**

The 2012 to 2015 BOP and IIP were revised to incorporate new and revised source data, any changes in classifications and estimation methods and the revisions are reflected in this publication.

### **A3.3 Key Data Sources**

The 2012 to 2016 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.

### **A3.4 Data Quality and Accuracy**

ESO continues to exert its effort in addressing gaps in the statistical coverage of the external account's 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.



### **A3.5 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 primary 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.

### **A3.6 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 sources.

The data for the IIP is extracted from the BOP survey forms mainly from the assets and liabilities section. This was supplemented with information from available financial statements and data submitted by CIMA on the banking corporations and monetary authority reserves. In 2015, the BOP forms were designed to capture the other changes in the financial assets and liabilities, which are required in showing the integrated international investment position statement and the transactions in the financial account.

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