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THE CAYMAN ISLANDS' BALANCE OF PAYMENTS (CURRENT ACCOUNT) REPORT 2012

NOVEMBER 2013



The Economics and Statistics Office
Government of the Cayman Islands

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The ESO wishes to express its appreciation to all the suppliers of the data in the public and private sectors especially the BOP survey respondents for their invaluable assistance in facilitating the provision of the required data. The cooperation and timely submission of the information improves the reliability and validity of the BOP statistics. The ESO therefore continues to encourage all businesses to participate in future surveys.

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

ABBREVIATIONS AND ACRONYMS

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

1. Executive Summary

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

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

1.2 A negative balance or a deficit in any of the categories in the current account indicates that the total receipts of residents from non-residents are less than their total payments to non-residents.

1.3 This report presents the current account estimates for the years 2008 to 2012, with focus on 2012, and captures economic transactions between residents of the Cayman Islands and the rest of the world in goods, services and income.

1.4 The preliminary estimate of the Cayman Islands' current account deficit for the year 2012 amounted to \$485.6 million, an increase of 6.5 percent from the revised estimate of \$456.1 million for 2011.

1.5 The current account deficit in 2012 is comprised of the following balances:

- (i) Balance of trade in goods : -\$603.4 million
- (ii) Balance of trade in services : \$529.1 million
- (iii) Balance of primary income : -\$264.5 million
- (iv) Balance of secondary income : -\$146.9 million

1.6 Balance of trade in goods

Net payments for goods in 2012 grew slightly by 0.2 percent compared to the 2.5 percent increase experienced in 2011. This was largely on account of the fall in export revenue of \$1.5 million compared to the \$0.53 million decline in payments for imports.

1.7 Balance of trade in services

Receipts from services transactions continue to outpace payments, resulting in a surplus on the trade in services account. The surplus increased by 29.0 percent in 2012 over 2011. The nine (9) services comprising this current account balance and their corresponding balances in 2012 are as follows:

(i)	Financial services (excluding insurance)	: \$315.6 million
(ii)	Travel	: \$250.8 million
(iii)	Other business services	: \$124.7 million
(iv)	Government goods and services	: \$69.5 million
(v)	Transportation	: -\$95.7 million
(vi)	Insurance and pension services	: -\$94.1 million
(vii)	Telecommunication, computer and information services and charges for the use of intellectual properties	: -\$36.1 million
(viii)	Other services	: -\$5.6 million

From the above it can be seen that financial services and travel services are the leading sources of foreign exchange receipts for the Cayman Islands. Other business services and government goods and services were also major contributors to foreign exchange receipts.

1.8 Balance of primary income

The primary income deficit recorded a sharp increase of 123.7 percent compared to 2011. This deficit is traced to the balances from the following income transactions:

(i)	Portfolio investment	: \$518.9 million
(ii)	Direct investment	: -\$638.6 million
(iii)	Other investments	: -\$133.6 million
(iv)	Compensation of employees	: -\$11.1 million

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

1.9 Balance of secondary income

The deficit in the secondary income (current transfers) increased slightly by 0.9 percent compared to the amount in 2011. The deficit was influenced by the following:

(i)	General government transfers	: \$13.3 million
(ii)	Workers' remittances	: -\$144.0 million
(iii)	Other current transfers	: -\$16.1 million

2. Current Account Preliminary Estimates

2.1 Introduction

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

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

The BOP is compiled and produced by the BOP Unit of the Economics and Statistics Office (ESO). This report focuses on the current account of the BOP for 2012 and, includes revised estimates for 2007 to 2011.

Estimates for 2009 to 2012 are based on both survey and non-survey data collated as closely as is feasible in a format consistent with the sixth edition of the (BPM6) published by the International Monetary Fund (IMF). Estimates for 2006 to 2008 are based largely on available administrative data from statutory authorities and government departments.

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

2.2 Overall Current Account

Table 1 shows a summary of the current account of the BOP for the years 2007 to 2012, along with its main components. (The detailed transactions included in each major component are shown in Table 2 and are described in Appendix 3).

The current account deficit was recorded at \$485.6 million in 2012, which represents a widening from the 2011 deficit. This deterioration was due to higher deficits in all sub-accounts except services. The latter showed a significant increase in surplus from \$410.1 million in 2011 to \$529.1 million in 2012.

As shown in both Table 1 and Chart 1, the deficit on goods and secondary income has increased minimally, unlike primary income that had a sharp increase in deficit between 2011 and 2012.

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

In CI\$Million					
	2008 ^R	2009 ^R	2010 ^R	2011 ^R	2012
CURRENT ACCOUNT	(439.2)	(422.3)	(409.6)	(456.1)	(485.6)
A. Goods	(775.0)	(627.3)	(587.5)	(602.4)	(603.4)
B. Services	627.4	470.1	507.3	410.1	529.1
C. Primary Income	(109.2)	(87.2)	(185.6)	(118.2)	(264.5)
D. Secondary Income	(182.4)	(177.8)	(143.9)	(145.6)	(146.9)

R Revised

Chart 1: Current Account Components (Net Balances)

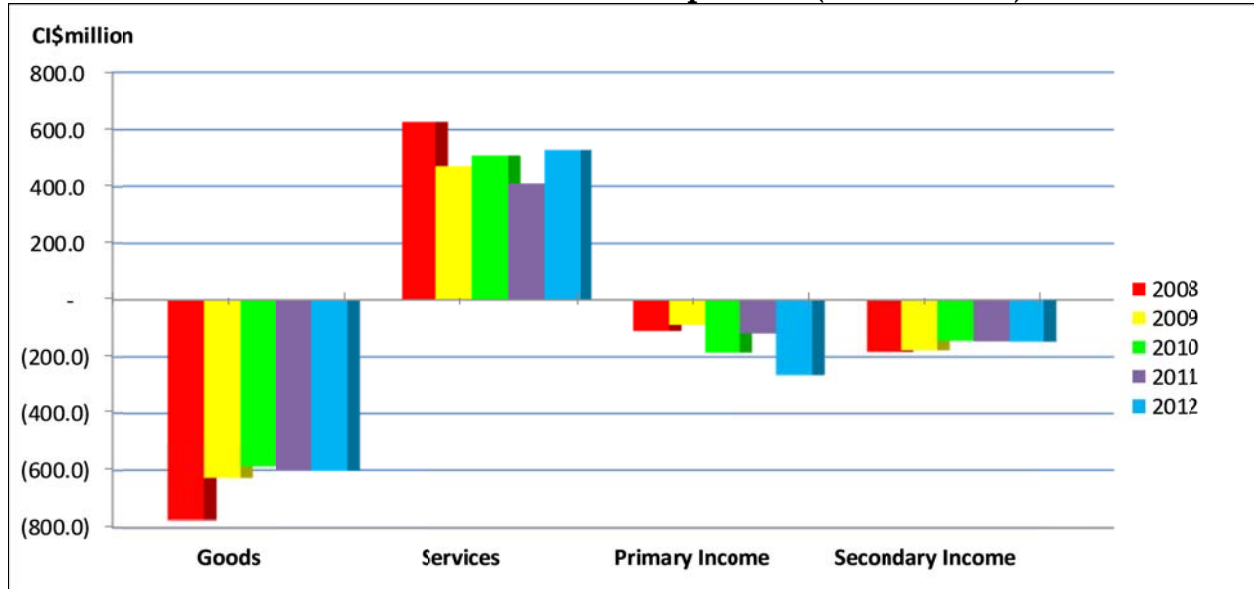


Chart 2 shows the ratio of current account deficit to nominal gross domestic Product (GDP). In 2012, this ratio deteriorated to 18.9 percent as the current account deficit grew at a higher rate than nominal GDP.

Chart 2: Current Account Balance (Percent of GDP)

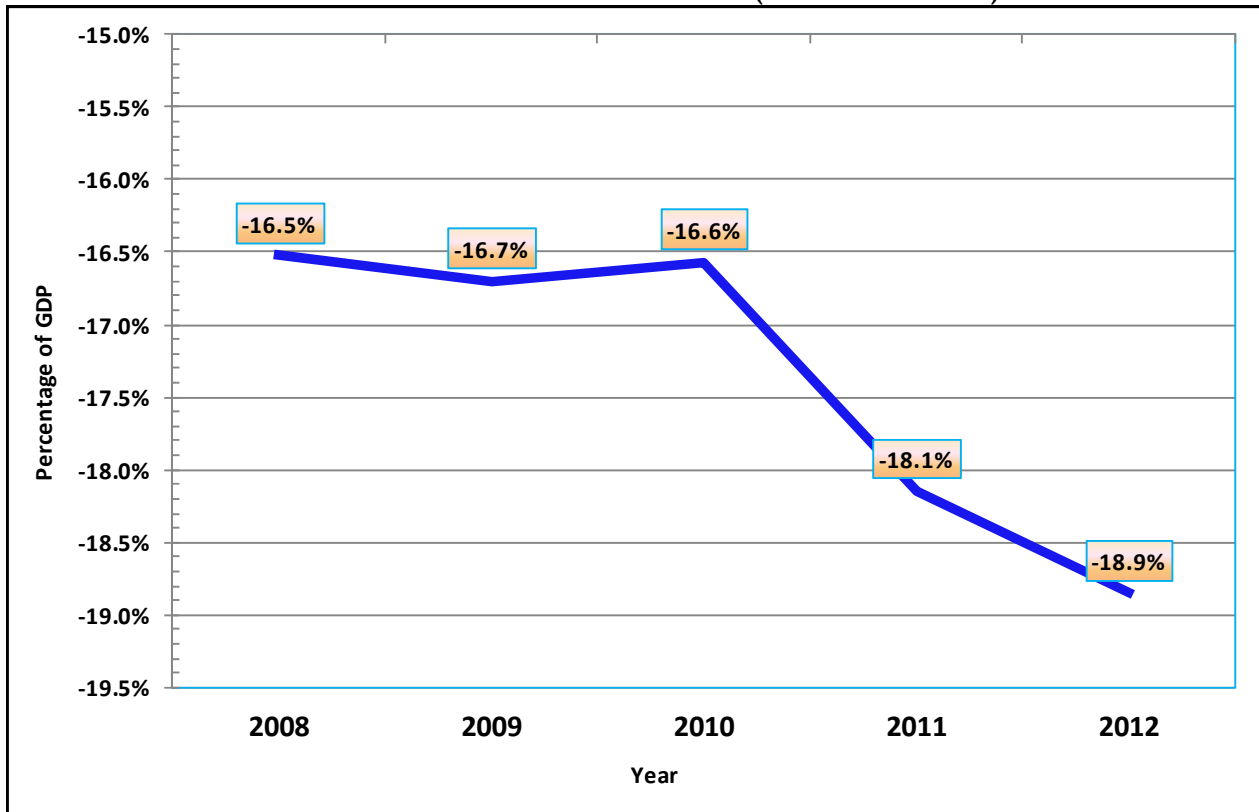


Table 2:

**THE CAYMAN ISLANDS'
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
SUMMARY**

In CI\$ Million, 2008 - 2012

	2008 ^R			2009 ^R			2010 ^R			2011 ^R			2012		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1.CURRENT ACCOUNT	4,278.9	4,718.1	(439.2)	3,534.6	3,956.9	(422.3)	3,094.1	3,503.7	(409.6)	3,425.9	3,882.0	(456.1)	3,533.4	4,019.0	(485.6)
A. GOODS AND SERVICES	1,400.4	1,548.0	(147.6)	1,319.9	1,477.1	(157.3)	1,396.6	1,476.8	(80.1)	1,436.4	1,628.8	(192.3)	1,481.9	1,556.2	(74.3)
A1. GOODS	28.4	803.4	(775.0)	38.7	666.0	(627.3)	32.9	620.4	(587.5)	84.5	687.0	(602.4)	83.0	686.4	(603.4)
A2. SERVICES	1,372.1	744.6	627.4	1,281.2	811.1	470.1	1,363.7	856.4	507.3	1,351.9	941.8	410.1	1,398.9	869.7	529.1
1. Transportation	43.0	151.3	(108.3)	37.2	126.2	(89.0)	40.0	124.9	(84.9)	44.8	140.5	(95.7)	43.6	139.3	(95.7)
2. Travel	449.3	113.0	336.3	392.2	102.4	289.8	403.9	112.3	291.6	381.5	141.1	240.4	399.8	149.0	250.8
3. Insurance and pension services	80.0	155.9	(75.9)	93.7	194.1	(100.4)	94.6	200.6	(106.0)	106.6	210.7	(104.1)	105.1	199.2	(94.1)
4. Financial services(excluding insurance)	501.0	62.0	439.0	379.0	76.4	302.7	410.9	79.6	331.2	396.1	97.3	298.8	398.5	83.0	315.6
5. Telecommunications, computer and information services, and charges for the use of intellectual property	9.0	59.0	(50.1)	13.7	51.4	(37.7)	16.6	48.6	(31.9)	14.9	53.9	(39.0)	17.1	53.1	(36.1)
6. Other business services	225.8	185.2	40.6	298.6	242.3	56.3	315.2	270.1	45.1	326.1	276.5	49.6	352.9	228.2	124.7
7. Government goods and services	64.0	15.6	48.4	66.2	14.0	52.2	82.1	15.0	67.0	81.7	18.1	63.6	81.9	12.4	69.5
8. Other services	-	2.7	(2.7)	0.5	4.3	(3.8)	0.4	5.2	(4.8)	0.0	3.7	(3.6)	0.0	5.6	(5.6)

BALANCE OF PAYMENTS (CURRENT ACCOUNT) 2012 REPORT

Table 2 (cont.):

**THE CAYMAN ISLANDS'
CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS
SUMMARY**

In CI\$ Million, 2008 - 2012

	2008 ^R			2009 ^R			2010 ^R			2011 ^R			2012		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
B. PRIMARY INCOME	2,799.7	2,908.9	(109.2)	2,130.4	2,217.7	(87.2)	1,616.1	1,801.6	(185.6)	1,908.3	2,026.6	(118.2)	1,966.2	2,230.7	(264.5)
1. Compensation of employees	0.3	10.7	(10.3)	-	10.8	(10.8)	-	10.1	(10.1)	-	10.9	(10.9)	-	11.1	(11.1)
2. Investment Income	2,799.3	2,898.2	(98.9)	2,130.4	2,206.8	(76.4)	1,616.1	1,791.6	(175.5)	1,908.3	2,015.7	(107.3)	1,966.2	2,219.5	(253.3)
2.1 Direct investment	360.1	897.6	(537.5)	290.1	986.6	(696.5)	238.9	768.3	(529.5)	244.8	782.6	(537.7)	231.6	870.2	(638.6)
2.2 Portfolio investment	441.7	19.0	422.7	711.1	20.5	690.7	378.7	70.2	308.5	546.4	68.2	478.2	592.4	73.5	518.9
2.3 Other investments	1,997.5	1,981.6	15.8	1,129.1	1,199.7	(70.6)	998.4	953.0	45.4	1,117.1	1,164.9	(47.8)	1,142.2	1,275.9	(133.6)
C. SECONDARY INCOME	78.8	261.1	(182.4)	84.3	262.1	(177.8)	81.4	225.3	(143.9)	81.1	226.7	(145.6)	85.3	232.2	(146.9)
1. General Government	14.0	0.9	13.1	13.4	0.5	12.9	14.6	0.7	13.9	13.1	1.0	12.1	14.2	0.9	13.3
2. Financial corporations, nonfinancial corporations, households, and NPISHs	64.8	260.2	(195.4)	70.8	261.5	(190.7)	66.8	224.6	(157.8)	68.0	225.7	(157.7)	71.1	231.3	(160.2)
2.1 Workers remittances	5.2	190.9	(185.6)	5.6	186.7	(181.1)	6.0	154.0	(148.0)	4.8	148.9	(144.1)	4.9	148.9	(144.0)
2.2 Other current transfers	59.5	69.3	(9.8)	65.2	74.8	(9.6)	60.8	70.7	(9.9)	63.2	76.7	(13.5)	66.2	82.3	(16.1)

R Revised

NPISHs Non-Profit Institutions serving households

2.3 Balance of Trade in Goods

As shown in Table 2, the deficit on the goods sub-account increased slightly by 0.2 percent to \$603.4 million, compared to \$602.4 million recorded in 2011. This deficit represents 23.4 percent of GDP, slightly lower than the 24.0 percent recorded in 2011. This resulted primarily from the lower levels of goods exported and the slight reduction in imports.

After experiencing an increase in 2011, the value of imports fell by 0.09 percent to \$686.4 million. Imports of fuel decreased by 15.9 percent, in contrast to the 44.0 percent increase recorded in 2011. The fall in fuel imports largely resulted from the decline in both cost and quantity of fuel imports. On the other hand, non-petroleum imports increased by 4.8 percent, largely on account of increases in food and live animals, beverages and chemical and related products.

In 2012, total earnings from exports stood at \$83.0 million, 1.8 percent lower than a year ago. Merchandise exports, largely re-exports, recorded a decline of 9.5 percent, to \$16.4 million while goods procured in ports by carriers increased by 4.3 percent to \$4.5 million (see also Appendix 4). A large portion of exports is due to goods under merchanting (the buying and selling of goods without the goods entering the country); in 2012, net export from merchanting amounting to \$62.2 million in 2012.

2.4 Balance of Trade in Services

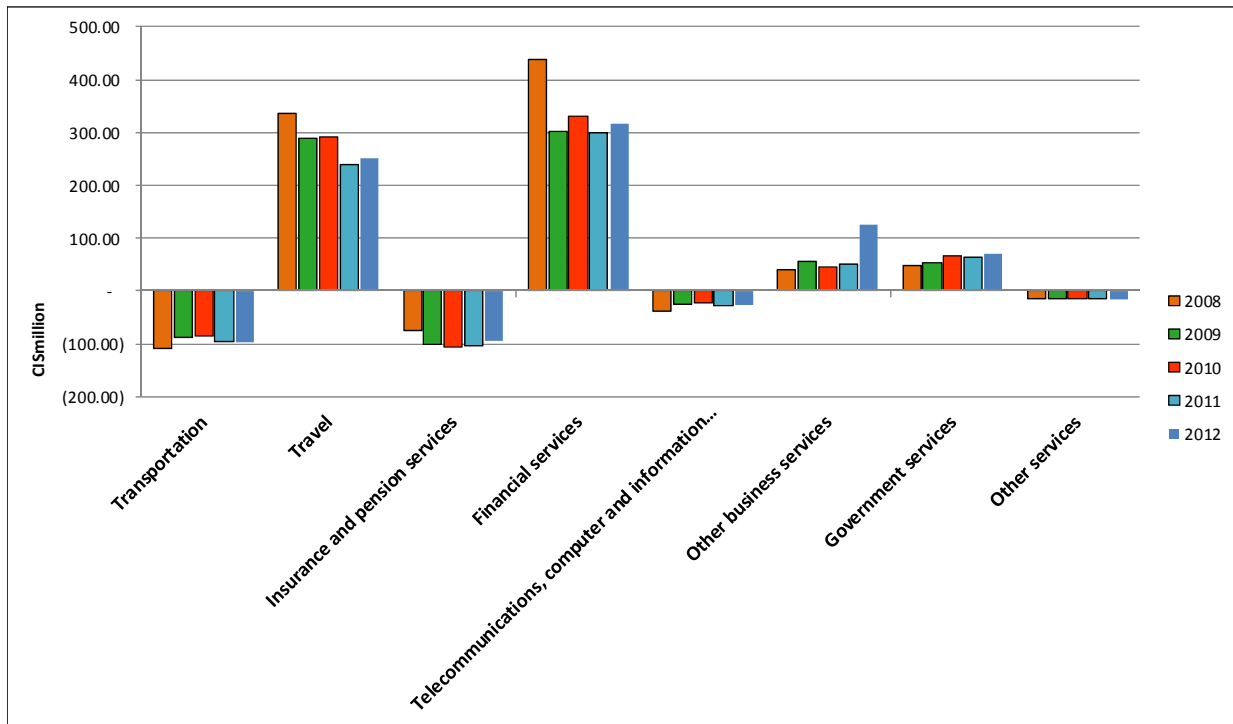
The services sub-account increased by 29.0 percent, recording a surplus of \$529.1 million in 2012, up from the \$410.1 million recorded in 2011. This is largely attributed to the increase of 3.5 percent in receipts along with a 7.7 per cent decline in payments.

Largely accounting for the higher services surplus in 2012 is the increase in receipts in travel, financial services, telecommunications and computer services and other business services, while payments for transportation, insurance, financial services and government services fell (see Table 2).

In 2012, the surplus of the services sub-account represented 20.5 percent of GDP, up from 16.3 percent recorded in 2011.

As in previous years, the Cayman Island' trade in services is dominated by financial services (59.6%) and travel (47.4%) (see Chart 3).

Chart 3: Trade in Services (Net Balances)



The trade in services comprises the following balances:

a) Transportation

In 2012, the transportation transactions net outflows remained relatively stable realizing a deficit of \$95.7 million. Total receipts for sea transportation services fell by 17.8 percent, with payments for freight service falling slightly by 0.1 percent, reflecting the fall in general merchandise imports.

Revenue from air transportation recorded an increase of 3.8 percent, while payments fell by 1.7 percent. Accounting for this outcome is the increase of 0.4 percent in passenger revenues, agents' commissions and other revenue associated with airport services. Payments for passenger fares to foreign airlines, freight and other air transport services contracted in 2012.

b) Travel

International travel transactions recorded a net surplus of 4.3 percent, and stood at \$250.8 million in 2012. This was largely due to the increase in both travel receipts and payments. Total receipts from visitors are estimated to have increased by 4.8 percent,

largely reflecting the growth in both visitor arrivals (4.1%) and cruise ship visitors (7.6%). Travel receipts for educational purpose (foreign students) fell by 19.9 percent, largely reflecting the decline in the number of foreign students enrolled at universities in the Cayman Islands.

Travel receipts continue to play an integral role in foreign exchange revenue, contributing 28.5 percent of receipts from services and 11.3 percent of the current account receipts. In 2012, travel receipts were equivalent to 15.5 percent of GDP.

Total payment for international travel by Cayman Islands' residents is estimated to have increased by \$7.94 million (5.6%) to \$149.0 million compared to \$141.1 million in 2011. Largely accounting for this increase is the rise in payments for education and other personal travel, while travel for health -related purpose fell by 2.1 percent.

c) Insurance

In 2012, the insurance and pension services recorded a deficit of \$94.1 million, \$10.0 million lower than that recorded in 2011. This was due to the increase in inflows of life insurance services along with the decline in payments for freight insurance, general insurance, and auxiliary insurance services.

d) Financial services (excluding insurance)

For the period under review, the net surplus from the financial services increased by \$16.7 million (5.6%) to reach \$315.6 million. This surplus is equivalent to 12.3 percent of GDP compared to 11.9 percent of GDP in 2011.

Receipts from financial services increased by 0.6 percent, largely due to higher revenue earned by the banking sector. Financial services continues to dominate the foreign earnings from services, accounting for 11.3 percent of total foreign receipts in 2012, a slight improvement compared to 11.1 percent achieved in 2011.

Payments for financial services abroad totalled \$83.0 million in 2012, a decrease of 14.7 percent, compared to the 22.2 percent increase recorded in 2011. Payments for financial services comprised 2.1 percent of the country's total foreign payments in 2012, a slight decline from the 2.5 percent achieved in the previous year.

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

For 2012, the deficit from this category narrowed by \$3.0 million (7.4%) and stood at \$36.1 million compared to \$39.0 million recorded in 2011. This outcome reflected the increase in receipts for telecommunications along with the drop in payments for computer services and charges for intellectual property.

f) Other business services

In 2012, net inflows for other business services increased by \$75.1 million (151.4%) to \$124.7 million. This outcome was due primarily to the significant drop of 17.5 percent in payments coupled with the increase of 8.2 percent in receipts. Total receipts amounted to \$352.9 million, indicating that other business services ranks third in terms of overall receipts from services.

Export receipts for legal and accounting services increased by 11.5 percent and 9.7 percent respectively. Legal and accounting services totalled \$308.0 million in 2012, representing 78.9 percent of receipts earned from business services. Other professional and technical services receipts amounted to \$74.6 million in 2012.

Payments for other business services recorded a significant decline of 17.5 percent to \$228.2 million. Largely accounting for this performance was the decline in payments for these services by the financial institutions.

g) Government goods and services

The balance on the government goods and services sub-account recorded an increase of 9.3 percent to \$69.5 million in 2012. Receipts for government services increased slightly by 0.2 percent to \$81.9 million while payments fell by 31.7 percent to \$12.4 million. Payments for goods and services fell largely due to reductions in outlays for marketing and promotion services and other payments abroad.

2.5 Balance of Primary Income Transactions

The primary income sub-account is comprised of balances on compensation of employees and investment income. The deficit of the primary income increased by 123.7 percent to \$264.5 million from \$118.2 million recorded in 2011. This was primarily due to an increase in the deficit of investment income, primarily direct investment and other investment income.

The deficit of the primary income balance in 2012 is approximately 10.3 percent of GDP compared to 4.7 percent of GDP in 2011.

Compensation of employees continues to be in deficit amounting to \$11.1 million, a slight increase from \$10.9 million in 2011.

Overall, investment income recorded a deficit in 2012, amounting to \$253.3 million which is higher by \$146.0 million compared to 2011. Most of the categories of investment income showed increases in total earnings except for direct investment:

- The deficit on **direct investment income** was \$638.6 million in 2012, an increase of 18.8 percent from a year ago. This outturn was largely due to the decline in receipts along with the increase in payments. Receipts earned from dividends interest income fell. On the other hand, dividend payments and imputed profits distributed abroad by direct investment companies recorded increases while interest payments fell.

- **Portfolio investment income** recorded an increase in surplus of \$40.7 million (8.5%) and stood at \$518.9 million in 2012, following the surplus of \$478.2 million in 2011. This performance was driven by the significant increases in earnings on investments by financial institutions. Payments to non-residents for returns from portfolio investments in the Cayman Islands increased by \$5.2 million in 2012 to \$73.5 million, resulting largely from higher interest payments.

- **Other investment income** recorded a deficit of \$133.6 million in 2012, compared to \$47.8 million in 2011. This was largely a result of the 9.5 percent increase in interest payments which outpaced the 2.2 percent increase in interest receipts on loans and deposits.

2.6 Balance of Secondary Income Transactions (Current Transfers)

The secondary income account records current transfers by government, financial corporations, households and non-profit institutions serving households. In 2012, the overall secondary income deficit increased by \$1.3 million (0.9%) from 2011 to \$146.9 million. This deficit reflected mainly the excess of personal transfers (workers remittances) sent to non-residents by households over receipts of residents.

General government transfers netted a surplus of \$13.3 million compared to \$12.1 million in 2011. This is attributed to the increase in revenue from cruiseship departures tax and environmental fund fees.

The deficit of transactions from personal transfers largely workers' remittances remained relatively stable. In 2012, \$148.9 million was remitted abroad, while receipts from abroad increased by 2.3 percent to \$4.9 million.

Other current transfers comprising insurance claims, net premiums and social benefits recorded a deficit of \$160.2 million compared to \$157.7 million in 2011. Largely accounting for this performance is the increase of 19.9 percent in payments for social benefits mainly pension payments to non-residents.

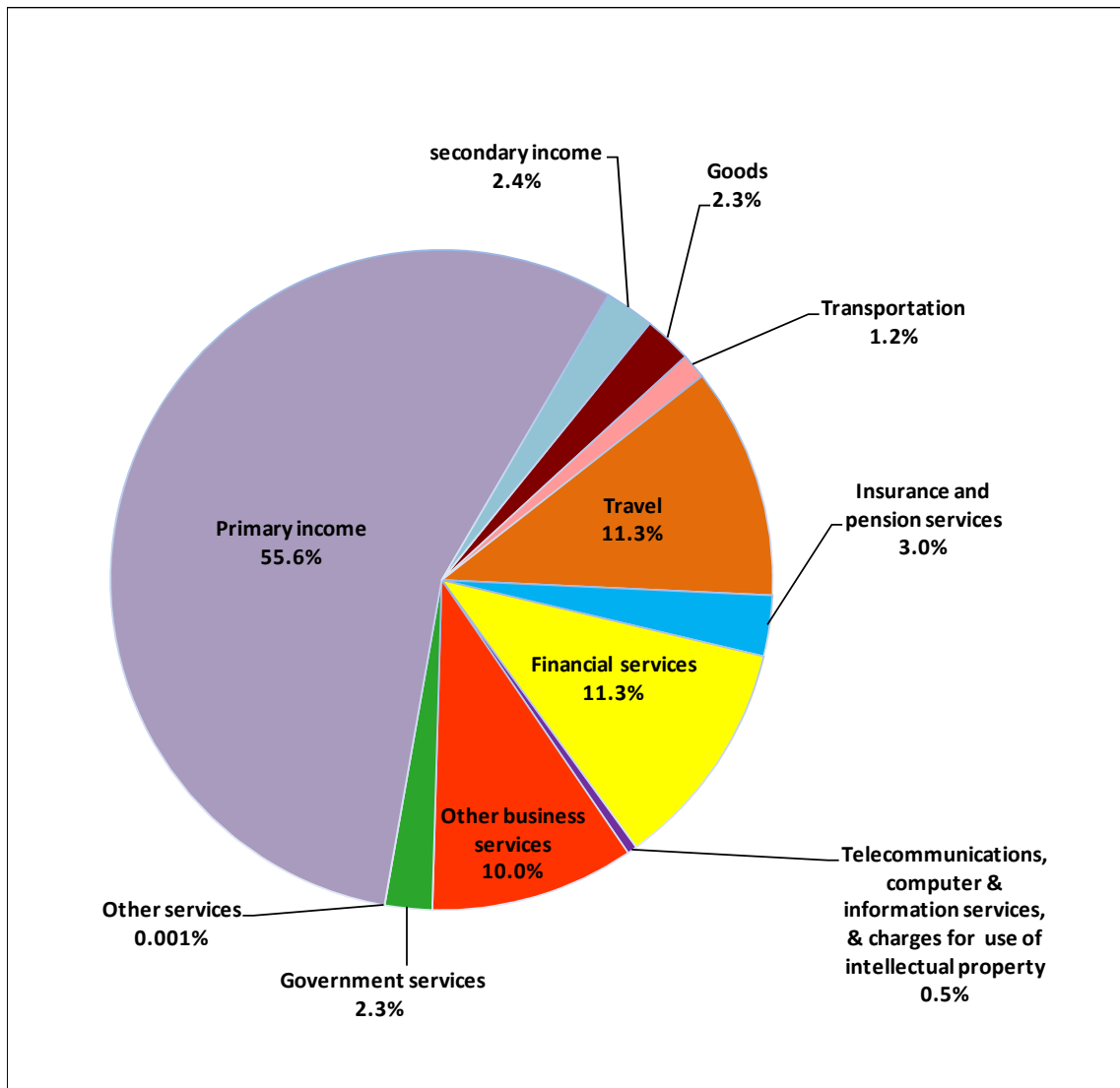
2.7 Comparative Current Account Receipts

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

Primary income, largely investment income continues to be the main source of current account receipts accounting for 55.6 percent of total receipts. As discussed earlier, this is significantly made up of income from portfolio investments and other investments.

Receipts from financial services (11.3%) and travel services (11.3%) are also important sources of foreign exchange revenue.

Chart 4: 2012 Current Account Receipts



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

A1.1 Key Uses

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

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

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

The other uses of the BOP statistics are to:

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

- c. Provide necessary data for the conduct of economic impact assessments of hurricanes and other disasters, which are required by funding and other donor agencies. Post-disaster reconstruction work and insurance inflows could have significant impact on the balance of payments of Cayman Islands.

A1.2 Revisions

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

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

In the absence of survey data, the previously published current account estimates for 2006 to 2008 were based largely on secondary data. Procedures that were employed for these years' estimates were limited by the absence of or insufficiency of data. The extensive use of economic indicators was utilized in the absence of survey data. Consequently, some items were either under-stated or overstated. Revisions were made to the business services estimates for the series to reflect new data.

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

A1.3 Key Data Sources

The 2010-2012 BOP estimates are based on the Annual Balance of Payments Survey which was conducted during the period March to May 2013. All businesses and establishments deemed to have been conducting transactions with non-residents and were included in the ESO Business Register were surveyed. The survey results were supplemented with secondary data provided by various government departments and statutory bodies including the Cayman Islands Monetary Authority.

A1.4 Data Quality and Accuracy

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.

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

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

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

Appendix 2: Overview of the BOP Compilation

A2.1 General Approach

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

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

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

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

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

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

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

A2.2 Coverage and Survey Instrument

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

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

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

A2.3 Survey Methodology

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

A2.4 Data Compilation

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

Appendix 3: Classification System

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

A3.1 The Current Account

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

Goods

Recorded in this section are the imports and exports of merchandise goods. Goods include most moveable goods that change ownership between Caymanian residents and non-residents. Goods are subdivided into general merchandise, and goods procured in ports by carriers and goods under 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 Transfers represents the provision of resources between residents and non-residents with no quid pro quo in economic value.

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

A3.2 Capital and Financial Account

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

Capital Account

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

Financial Account

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

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

A3.3 Reserves

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

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

Appendix 4: Merchandise Goods Transactions

In CI\$Million, 2008 - 2012					
ITEM	2008^R	2009^R	2010^R	2011^R	2012
Credit					
EXPORTS					
Total exports f.o.b	12.4	16.0	11.1	18.1	16.4
Goods procured in ports by carriers	2.9	2.7	2.9	4.3	4.5
Net exports of goods under merchandising	13.0	20.0	19.0	62.2	62.2
Total adjusted exports f.o.b	28.4	38.7	32.9	84.5	83.0
Debit					
IMPORTS					
Total imports c.i.f	898.7	744.5	690.4	759.5	758.5
Goods procured in ports by carriers	12.6	10.8	12.9	18.6	18.9
Total adjusted Imports c.i.f	911.3	755.4	703.3	778.1	777.5
Less freight and insurance	107.8	89.3	82.8	91.1	91.0
Total adjusted Imports f.o.b	803.4	666.0	620.4	687.0	686.4
Merchandise(Goods) Trade Balance	(775.0)	(627.3)	(587.5)	(602.4)	(603.4)

Appendix 5: Current Account - Analytical Presentation

	Million of CI\$				
	2008 ^R	2009 ^R	2010 ^R	2011 ^R	2012
A. Current Account	(439.2)	(422.3)	(409.6)	(456.1)	(485.6)
Goods:exports f.o.b.	28.4	38.7	32.9	84.5	83.0
Goods imports f.o.b.	803.4	666.0	620.4	687.0	686.4
<i>Balance on goods</i>	(775.0)	(627.3)	(587.5)	(602.4)	(603.4)
Services: credit	1,372.1	1,281.2	1,363.7	1,351.9	1,398.9
Services: debit	744.6	811.1	856.4	941.8	869.7
<i>Balance on services</i>	627.4	470.1	507.3	410.1	529.1
Primary income: credit	2,799.7	2,130.4	1,616.1	1,908.3	1,966.2
Primary income debit	2,908.9	2,217.7	1,801.6	2,026.6	2,230.7
<i>Balance on primary income</i>	(109.2)	(87.2)	(185.6)	(118.2)	(264.5)
Secondary Income: credit	78.8	84.3	81.4	81.1	85.3
Secondary Income: debit	261.1	262.1	225.3	226.7	232.2
<i>Balance on secondary income</i>	(182.4)	(177.8)	(143.9)	(145.6)	(146.9)

Appendix 6: Current Account: Standard Presentation

	Thousands of CI\$				
	2008 ^R	2009 ^R	2010 ^R	2011 ^R	2012
Current Account					
Current Account Receipts	4,278,878	3,534,606	3,094,081	3,425,874	3,533,407
Goods and Services	1,400,434	1,319,890	1,396,611	1,436,430	1,481,892
Goods	28,383	38,711	32,922	84,548	83,008
Services	1,372,051	1,281,179	1,363,689	1,351,882	1,398,884
Primary income	2,799,664	2,130,438	1,616,055	1,908,339	1,966,197
Compensation of Employees	349	-	-	-	-
Investment income	2,799,315	2,130,438	1,616,055	1,908,339	1,966,197
Direct investment	360,134	290,147	238,873	244,813	231,585
Portfolio investment	441,710	711,143	378,740	546,397	592,382
Other investments	1,997,471	1,129,148	998,442	1,117,129	1,142,230
Secondary income (current transfers)	78,779	84,278	81,414	81,105	85,317
General Government	13,990	13,448	14,609	13,098	14,227
Financial corporations, nonfinancial corporations, households, and NPISHs	64,789	70,829	66,805	68,007	71,090
of which Worker's remittances	5,249	5,618	5,990	4,793	4,902
Current Account Payments	4,718,080	3,956,866	3,503,721	3,882,006	4,019,002
Goods and Services	1,548,042	1,477,149	1,476,758	1,628,769	1,556,177
Goods	803,423	666,028	620,407	686,956	686,430
Services	744,618	811,122	856,351	941,814	869,747
Primary income	2,908,900	2,217,662	1,801,649	2,026,554	2,230,656
Compensation of Employees	10,653	10,830	10,051	10,876	11,119
Investment income	2,898,247	2,206,832	1,791,598	2,015,678	2,219,537
Direct investment	897,594	986,634	768,325	782,551	870,193
Portfolio investment	19,005	20,465	70,241	68,227	73,470
Other investments	1,981,648	1,199,733	953,033	1,164,900	1,275,874
Secondary income (current transfers)	261,138	262,054	225,313	226,682	232,170
General Government	930	538	669	1,024	914
Financial corporations, nonfinancial corporations, households, and NPISHs	260,208	261,517	224,645	225,659	231,256
of which Worker's remittances	190,883	186,693	153,965	148,942	148,941
Current Account Balances	(439,202)	(422,260)	(409,640)	(456,132)	(485,596)
Goods and Services	(147,607)	(157,259)	(80,147)	(192,339)	(74,285)
Goods	(775,040)	(627,316)	(587,485)	(602,407)	(603,422)
Services	627,432	470,057	507,338	410,068	529,138
Primary income	(109,236)	(87,225)	(185,594)	(118,215)	(264,458)
Compensation of Employees	(10,304)	(10,830)	(10,051)	(10,876)	(11,119)
Investment income	(98,932)	(76,395)	(175,543)	(107,339)	(253,340)
Direct investment	(537,460)	(696,487)	(529,451)	(537,738)	(638,608)
Portfolio investment	422,705	690,678	308,499	478,170	518,912
Other investments	15,823	(70,585)	45,409	(47,771)	(133,644)
Secondary income (current transfers)	(182,359)	(177,777)	(143,900)	(145,578)	(146,853)
General Government	13,060	12,911	13,940	12,074	13,313
Financial corporations, nonfinancial corporations, households, and NPISHs	(195,419)	(190,687)	(157,840)	(157,652)	(160,165)
of which Worker's remittances	(185,634)	(181,075)	(147,975)	(144,149)	(144,039)

Appendix 7: Selected Balance of Payments Indicators

	2008 ^R	2009 ^R	2010 ^R	2011 ^R	2012
Current Account/GDP (%)	(16.52)	(16.70)	(16.57)	(18.15)	(18.85)
Goods Imports/GDP (%)	30.23	26.34	25.09	27.33	26.65
Goods Exports/GDP (%)	1.07	1.53	1.33	3.36	3.22
Visible trade balance/GDP (%)	(29.16)	(24.81)	(23.76)	(23.96)	(23.43)
Services Imports/GDP (%)	28.02	32.07	34.63	37.47	33.76
Services Exports/GDP (%)	51.62	50.66	55.15	53.78	54.31
Goods & Services Imports/GDP (%)	58.24	58.41	59.72	64.79	60.41
Goods & Services Exports/GDP (%)	52.69	52.19	56.48	57.14	57.53
Primary Income Receipts/GDP (%)	105.33	84.24	65.36	75.92	76.33
Primary Income Payments/GDP (%)	109.44	87.69	72.86	80.62	86.60
Workers Remittances (Net)/GDP (%)	(6.98)	(7.16)	(5.98)	(5.73)	(5.59)
Financial Services Exports/GDP (%)	18.85	14.99	16.62	15.76	15.47

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