A new map of global capital allocation

Of all the foreign stocks and bonds held by Americans, around 15% are issued by firms in the Cayman Islands. These funds, denominated in US dollar investment in Germany or Spain—countries whose economies are both 10 times larger than the small Caribbean island. How can this be?

Economists have long understood that standard international financial statistics associate a significant share of the worldwide stocks and bonds issued in the Cayman Islands with operations conducted by multinational corporations that own or operate outside the Cayman Islands subsidiaries. Much of these securities are issued in the Cayman Islands, outside the UK.

For most purposes, it is not useful to treat these discrepancies in a straightforward manner. Corporate transactions are not recorded in international financial statistics, which do not accurately reflect the true value of all transactions in the Cayman Islands. Furthermore, multinationals often use the Cayman Islands as a holding company to raise capital in the US and then lend that capital to their subsidiaries worldwide.

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