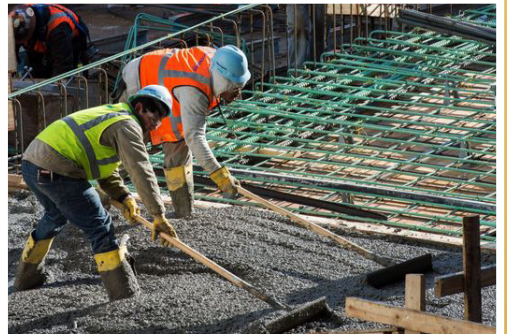




CAYMAN ISLANDS
GOVERNMENT



THE CAYMAN ISLANDS' SEMI- ANNUAL ECONOMIC REPORT 2017



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Overview*

- The international economy showed increased growth coupled with higher inflation in the first half of 2017 relative to 2016.
- Cayman's gross domestic product was estimated to have expanded at an annualised rate of 2.3% in the first half of 2016.
- The Consumer Price Index inflation averaged 1.9%, driven by price trends in several divisions led by restaurants and hotels, housing and utilities and food.
- The value of merchandise imports declined by 1.7% to register at \$411.5 million, largely due to lower value of non-oil imports.
- The unemployment rate in the first half of the year was 4.1%.
- Broad liquidity or money supply expanded by 9.5% to reach \$6.5 billion.
- Domestic credit contracted by 1.1% as credit to the private and public sectors fell.
- The KYD weighted average lending rate rose by 20 basis points to 7.08% while prime lending rate increased by 75 basis points to 4.25%.
- Bank and trust company licences decreased by 10.2% to 158 and insurance licences fell by 1.1% to 730.
- Total mutual funds registered, including the category "master funds", declined by 3.6%.
- The number of listings on the stock exchange rose by 3.9% to 1,063 and market capitalization increased by 11.6% to US\$217.7 billion.
- New company registrations rose by 9.9% to 6,371 while new partnership registrations increased by 10.2% to 1,884.
- Air arrivals grew by 3.7% while cruise visitors declined by 9.4%.
- The value of building permits fell from \$129.5 million to \$114.7 million while project approvals increased from \$267.2 million to \$349.4 million.
- The total value of property transfers fell to \$481.4 million from \$507.4 million.
- Electricity consumption increased by 2.0% while water consumption grew by 5.5%.
- The central government's overall fiscal surplus improved to \$147.1 million compared with \$136.1 million a year ago.
- The total outstanding debt of the central government declined to \$466.5 million from \$501.3 million a year ago.

*Comparative data over the first six months of 2016, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. International Economy

1.1 Economic Growth¹

Economic growth was evidenced in some of the world's major economies during the first six months of 2017. The United States of America's (USA's) economy grew at an annualised rate of 3.1% in the second quarter of 2017, bringing the average growth for the first 2 quarters to 2.2%. The growth in the quarter was largely driven by personal consumption expenditure and non-residential fixed investment. The growth in GDP was partly offset by a decline in government spending.

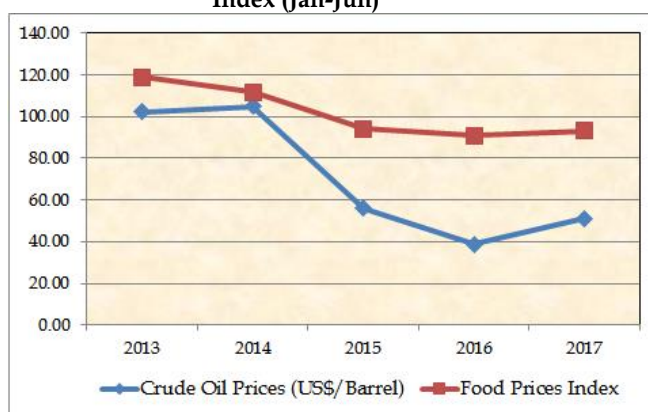
Canada recorded an annualised increase in GDP of 4.5% during April-June 2017. This increase mainly reflected improvements in household spending and exports of goods. The United Kingdom's (UK's) and China's economies expanded by 0.3% and 1.7%, respectively for the period. Economic growth in the UK was facilitated primarily by increased activity in the services sector.

1.2 Inflation

There was a general increase in prices for the world's two largest economies for January-June 2017 relative to the corresponding period of 2016. The USA recorded inflation of 2.2% while China registered an outturn of 1.4%. Inflation rates in the UK and Canada were 2.5% and 1.6%, respectively. Higher consumer prices in these economies were

heavily influenced by increases in global commodity prices, which resulted in part from higher crude oil and food prices. Crude oil prices averaged US\$51.18/barrel during the first six months of 2017 compared with US\$38.75/barrel in January-June 2016². The index for food prices rose to 93.1 relative to 90.8 in the comparable period of 2016.

Figure 1: Global Crude Oil Prices and Food Prices Index (Jan-Jun)



Source: World Bank commodity prices (The Pink Sheet)

1.3 Interest Rates and Exchange Rates³

The US Federal Reserve raised the target range for its federal funds rate from 1.00% to 1.25% in June 2017 as inflation and labour market conditions moved in line with expectations. The Bank of England's policy interest rate remained at 0.25% at the end of June 2017 while Bank of Canada and the European Central Bank maintained their policy interest rates at 0.50% and 0.00%, respectively. A relatively unchanged inflation outlook and gradual strengthening of the

¹ Data sourced from the US Bureau of Economic Analysis, Statistics Canada, Office for National Statistics in the UK and the National Bureau of Statistics of China.

² Data obtained from The World Bank's Commodity Price Data and represent the average of Brent, Dubai and West Texas Intermediate prices.

³ Data sourced from the US Federal Reserve, Bank of England, Bank of Canada and European Central Bank.

global economies were cited as reasons for the general decision not to alter policy interest rates.

The US Dollar, on average, strengthened against three of the world’s major traded currencies for the first half of 2017 compared with the similar period in 2016. Notably, the US Dollar gained 12.1% against the Great Britain Sterling Pound; 3.0% against the Euro; and 0.2% against the Canadian Dollar. The appreciation of the US Dollar was in the context of improved economic activity in the USA, and increased interest rates in the USA relative to the other major economies.

2. Domestic GDP Performance

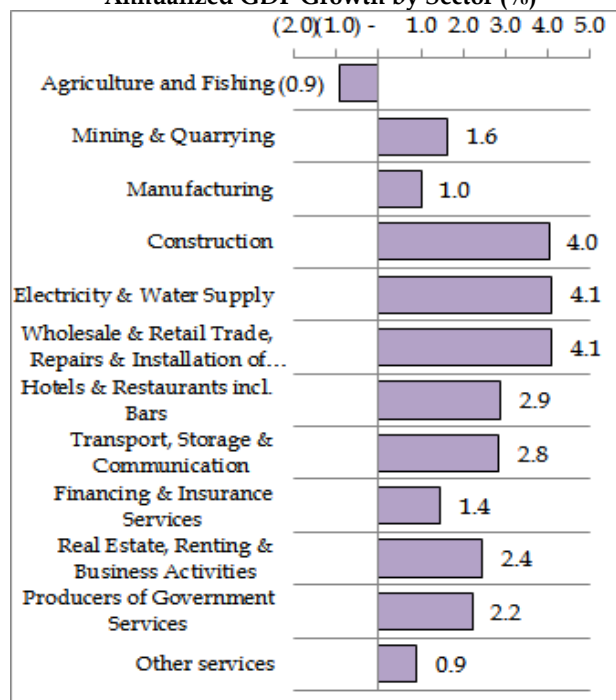
Available indicators suggest that the Cayman Islands’ gross domestic product (GDP) in real terms grew by an estimated annualised rate of 2.3% for the first six months of 2017 compared to a year ago.

The economic expansion in the first half of the year was broad-based with all sectors except agriculture and fishing reflecting expansions. Growth was led by wholesale and retail trade (4.1%), electricity and water supply (4.1%), construction (4.0%) and hotels and restaurants (2.9%). The financing and insurance services sector, which continues to be the largest contributor to GDP, grew by 1.4% for the review period (see Figure 1).

Economic performance for the first half of the year was boosted by faster expansion in economic activity for the second quarter of the year. For the June 2017 quarter the economy expanded by an estimated 2.8%,

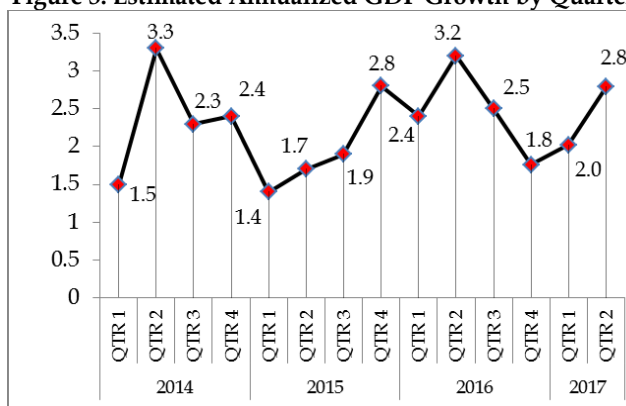
driven by a rebound in stay-over visitor arrivals coupled with increased real estate and business activities (see Figure 3).

Figure 2: Estimated First Half of 2017 Annualized GDP Growth by Sector (%)



Source: Economics and Statistics office

Figure 3: Estimated Annualized GDP Growth by Quarter



Source: Economics and Statistics Office

The performance for the first half of the year is slightly above the GDP growth forecast for

2017 of 2.1% (see Table 1). On the side of caution, the full year forecast is maintained; however, an upward revision is likely should the third quarter indicators show a stable uptrend. There have been signs of upward risks to the forecast evidenced by the rebound in tourist arrivals. Additionally, the stronger-than-projected growth in the US economy during the second quarter has the potential to boost the demand for local services in the second half of the year. Activities in real estate and wholesale and retail trade bolstered economic growth for the first half of 2017 and are expected to continue for the second half of the year. Financing and insurance have shown signs of stability which will help maintain the forecasted path.

Moderate increase in international commodity prices for the first half of 2017 compared to the same period a year ago caused the consumer price level to increase by 1.9% for the first half of 2017. The expectation of these inflationary pressures formed the basis for the initial inflation forecast for the year of 1.8%.

The year-end unemployment rate is forecasted at 4.3%, conditional on the projection for economic activities as well as stable local labour market conditions.

Table 1: Macroeconomic Outlook
Based on Semi-Annual Data

	2014	2015	2016	Projection
	2014	2015	2016	2017
	Percent (%)			
Real GDP*	2.2	2.8	2.7	2.1
CPI Inflation	1.3	(2.3)	(0.6)	1.8
Unemployment Rate	4.6	4.2	4.2	4.3

Source: Economics and Statistics Office

3. Inflation

For the first half of 2017, the Cayman Islands economy recorded an average inflation of 1.9% as both the first and second quarter of the year posted positive inflation rates (see Table 2 and Figure 4). Higher prices were recorded for most divisions, continuing a positive trend in price movements over the last four quarters. The increase was also consistent with the sustained rise in global food and fuel prices.

Despite the increasing price trends in most divisions, there were slight declines in the cost of health, transport and miscellaneous goods and services.

Table 2: Average Inflation (Jan-June)

Categories	Avg. Inflation Rates (%)	
	2016	2017
Food & Non-alcoholic Beverages	0.1	1.4
Alcohol and Tobacco	0.5	2.1
Clothing and Footwear	1.3	5.3
Housing and Utilities	-5.9	3.4
Household Equipment	-0.2	0.4
Health	0.1	-0.4
Transport	-3.4	-0.7
Communication	1.2	2.8
Recreation and Culture	0.6	1.9
Education	1.7	1.2
Restaurants and Hotels	-0.5	8.4
Misc. Goods and Services	2.1	-0.9
Overall CPI Inflation	-1.8	1.9

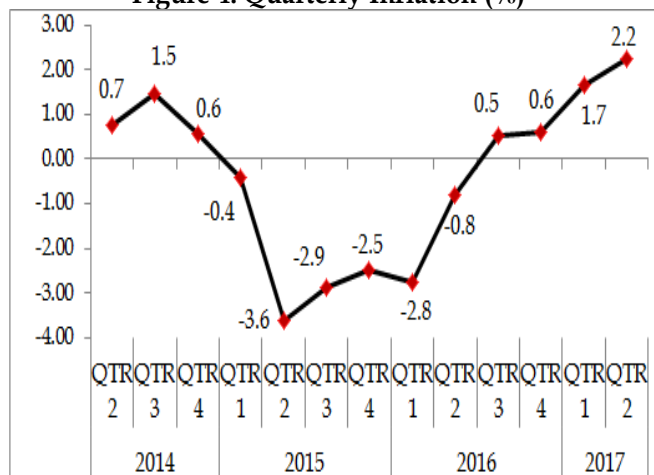
Source: Economics and Statistics Office

During the second quarter of 2017, the Consumer Price Index (CPI) increased by 2.2% compared to a decline of 0.8% in June

2016 (see Figure 4)⁴. The generally higher price level was heavily influenced by a 7.9% increase in restaurants and hotels which reflected rising costs for accommodation and catering services. Similarly, the price index for clothing and footwear rose by 5.9% during the quarter.

Housing and utilities prices rose by 4.0% during the review period, with the cost of actual rental and imputed rental for owner occupied housing increasing by 4.1% and 3.9%, respectively. Similarly, the cost of electricity, gas and other fuels increased by 8.6% as crude oil prices increased during the first half of the year.

Figure 4: Quarterly Inflation (%)*



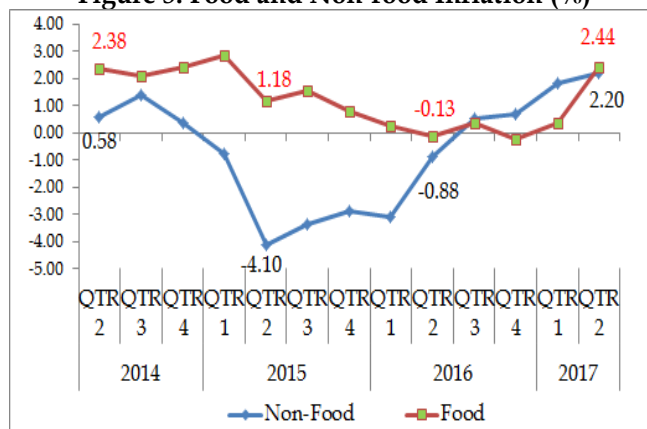
*Inflation of current quarter CPI over the same quarter a year ago.

Source: Economics and Statistics Office

Adding to the inflation in the second quarter of 2017 was an upward price movement for food and non-alcoholic beverages by 2.4%.

The increase was the first time since the March 2015 quarter that the food index inflation increased by more than 2 percent.

Figure 5: Food and Non-food Inflation (%)



Source: Economics and Statistics Office

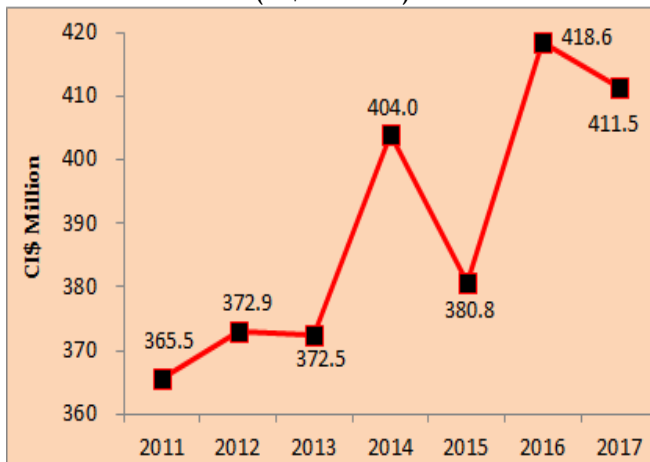
Despite growth in most divisions of the CPI basket for the quarter, there were declines in transport and health. The decline in transport was driven by a 15.0% fall in the cost of airfares which outweighed a 7.4% increase in the cost of fuel and lubricants. The health index slid by 0.5% as the cost of supplements declined during the review period.

4. Trade⁵

The first six months of 2017 saw a decrease in the value of merchandise imports by 1.7% to \$411.5 million compared with the corresponding period of 2016 (see Figure 6). This performance was evident in four of the ten categories.

⁴ See also 'The Cayman Islands Consumer Price Index Report June 2017,' www.eso.ky

⁵ A detailed trade report is posted at www.eso.ky

**Figure 6: Merchandise Imports (Jan-June)
(CI\$ Millions)**


Source: Customs Department and ESO

The reduction in imports was largely due to a decline in the importation of non-petroleum products which largely reflected a decline in the importation of gold bullion by \$25.6 million.

The value of petroleum and related products rose by 22.8% to \$49.8 million for January-June 2017. This increase reflected increases in both the price and quantity of imports. The increase in fuel price resulted from higher crude oil prices on the world market and the rise in quantity resulted from higher demand of oil related products. In particular, the quantity of fuel imports increased by 1.1% to 28.1 million imperial gallons. Higher imports of diesel, gas and propane contributed to the increase in the quantity (see Table 3).

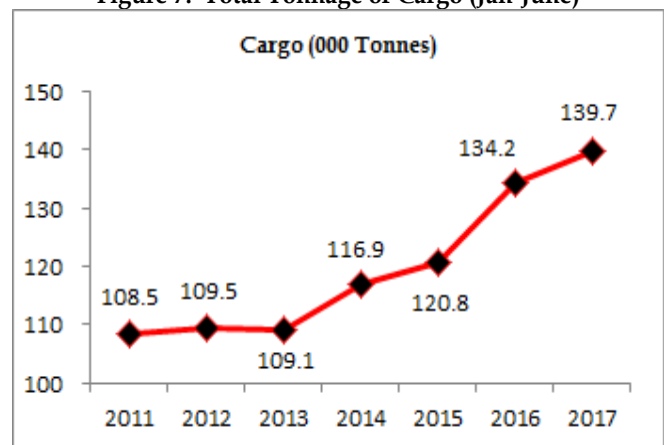
The total tonnage of landed cargo increased by 4.1% to 139,698 tonnes in the first six months of 2017 as depicted in Figure 6. Containerized cargo contributed the largest portion of cargo imports (83.6%) followed by cement imports (13.9%).

Table 3: First Quarter Oil Imports

	2015	2016	2017	% Change
Millions of Imperial Gallons				
Total Fuel	25.9	27.8	28.1	1.1
Diesel	16.0	17.5	17.8	1.7
Gas	5.8	6.2	6.3	1.6
Aviation Fuel	3.4	3.1	2.9	(6.5)
Propane	0.7	1.0	1.1	10.0

Source: Cayman Islands Port Authority

Productivity improvements were observed at the ports in the first half of the year indicated by a rise in the amount of cargo handled per hour to 148.62 from 123.35 in the corresponding period of 2016. There was no in-transit cargo recorded in the first half of 2017.

Figure 7: Total Tonnage of Cargo (Jan-June)


Source: Cayman Islands Port Authority

5. Employment

5.1. Labour Force⁶

According to the 2017 Spring Labour Force Survey, the size of the labour force increased to 43,545, translating to 1,290 or (3.1%) additional persons. Caymanians accounted for the largest share of the labour force (47.0%), while Non-Caymanians and Permanent Residents with the rights to work (PR-WRW) accounted for 45.3% and 7.1%, respectively.

Boosted by increases in the employment of both Caymanians and Non-Caymanians, total employment reached 41,764 persons in the first half of 2017, an increase of 2.8% relative to the previous year.

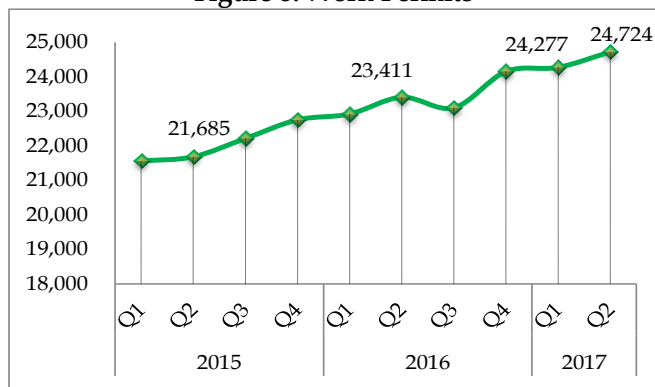
The unemployment rate rose by 0.3 percentage points to 4.1% relative to the spring 2016 survey reflecting a total of 1,781 unemployed persons.

5.2. Work Permits

Work permits peaked at 24,724 at the end of June 2017. The demand for expatriate workers has reflected a general trend of quarterly increases since the first quarter of 2014.

There was a 5.6% increase in the number of work permits issued relative to the corresponding period of 2016. Similarly, when compared to the previous quarter, work permits edged upwards by 1.8% (see Figure 7).

Figure 8: Work Permits



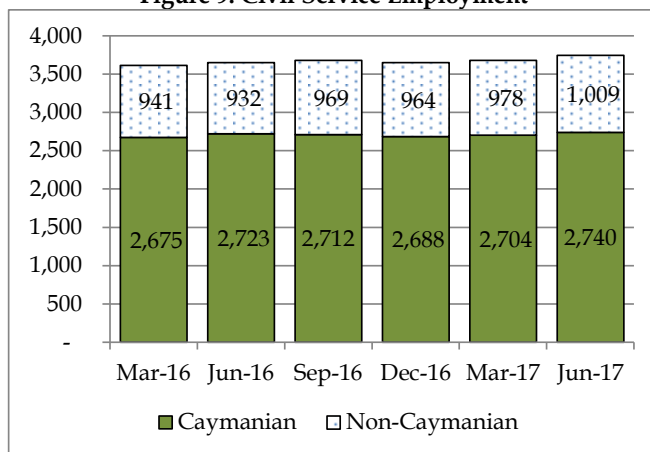
Sources: Immigration Department, Economics & Statistics Office

5.3. Public Sector Employment

At end-June 2017, the central government employed a total 3,749 persons, consisting of 2,740 Caymanians (up by 17) and 1,009 Non-Caymanian (up by 77).

The Ministry of Education, Employment and Gender Affairs recorded the largest increase in employment, increasing by 38 to 894 persons.

Figure 9: Civil Service Employment



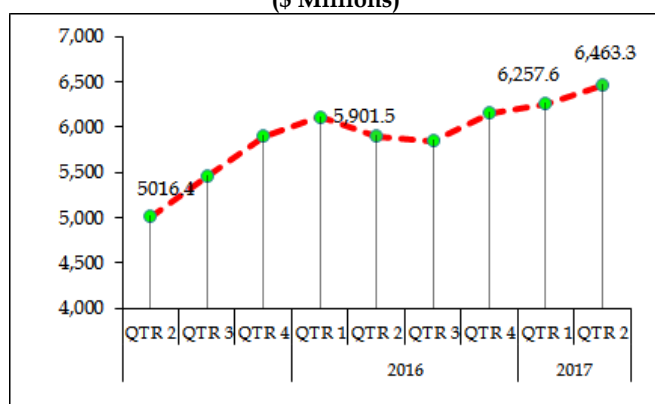
Source: Portfolio of the Civil Service

⁶ See also “The Cayman Islands’ Labour Force Survey Report Spring 2017,” www.eso.ky

6. Money & Banking

Growth in both local and foreign currency denominated money boosted broad liquidity (M2) by 9.5% to \$6,463.3 million in the first half of 2017. During this period, foreign currency deposits increased 10.1%, while CI dollar-denominated money grew by 7.9%.

Figure 10: Total Money Supply (M2)
(\$ Millions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The growth in broad liquidity (M2), which represents the liabilities of the monetary and banking sector, was supported by similar increases in both net foreign assets and net domestic assets.

Table 4: Monetary and Banking Summary Indicators
(\$ Millions)

	Jun-16	Jun-17	% Change
Total Assets	5,901.5	6,463.3	9.5
Net Foreign Assets	3,850.1	4,378.5	13.7
Monetary Authority	112.9	119.6	5.9
Commercial Banks	3,737.2	4,258.9	14.0
Net Domestic Assets	2,051.3	2,084.8	1.6
Domestic credit	2,983.2	2,951.2	(1.1)
Claims on central government	222.2	198.0	(10.9)
Claims on other public sector	66.4	63.3	(4.7)
Claims on private sector	2,694.5	2,690.0	(0.2)
Other items net	(931.8)	(866.5)	(7.0)
Broad Liquidity	5,901.5	6,463.3	9.5
Broad money (KYD) M2	1,453.3	1,567.6	7.9
Currency in circulation	106.9	112.2	5.0
KYD Deposits	1,346.4	1,455.3	8.1
Demand deposits	570.8	591.4	3.6
Time and savings deposits	775.6	864.0	11.4
FOREX deposits	4,448.2	4,895.7	10.1
of which: US dollars	4,067.0	4,481.5	10.2
US dollars share (%)	91.4	91.5	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.1. Net Foreign Assets (NFA). Net foreign assets of the financial system expanded for the eighth consecutive quarter, growing by 13.7% relative to the corresponding period of 2016. The expansion reflected growth in both the NFA of domestic commercial banks which rose by 14% and the Cayman Islands Monetary Authority which rose by 5.9% (see Table 5).

The rise in commercial banks' NFA resulted from an increase in foreign assets by 1.8%, largely reflecting a 23.9% build-up in non-resident balances with banks and branches abroad. On the liabilities side, there was a reduction in non-resident deposits by 9.3%,

which led to a fall in foreign liabilities by 8.0%. This provided support for the improvement in the NFA for the period.

Table 5: Net Foreign Assets (\$ Millions)

	Jun-16	Jun-17	% Change
Net Foreign Assets	3,850.1	4,378.5	13.7
Monetary Authority	112.9	119.6	5.9
Commercial Banks	3,737.2	4,258.9	14.0
Foreign Assets	8,401.2	8,549.0	1.8
Bal. with Banks & Branches	2,871.2	3,558.6	23.9
Total Investment	2,527.3	2,486.6	(1.6)
Total Non-Resident Loans	3,002.7	2,503.9	(16.6)
Foreign Liabilities	4,664.0	4,290.1	(8.0)
Total Non-Resident Deposits	4,498.5	4,078.2	(9.3)
Other Liabilities	165.5	212.0	28.1

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.2. Net Domestic Assets/Domestic Credit.

Borrowings of both the public and private sector fell by 9.5% and 0.2%, respectively for the first half of 2017 (see Table 6). As a consequence, the total domestic credit extended by the banking sector moderated by 1.1% during the review period.

Table 6: Net Domestic Assets (\$ millions)

	Jun-16	Jun-17	% Change
Domestic Credit	2,983.2	2,951.2	(1.1)
Credit to Central Government	222.2	198.0	(10.9)
Credit to Other Public Sector	66.4	63.3	(4.7)
Credit to Private Sector	2,694.5	2,690.0	(0.2)

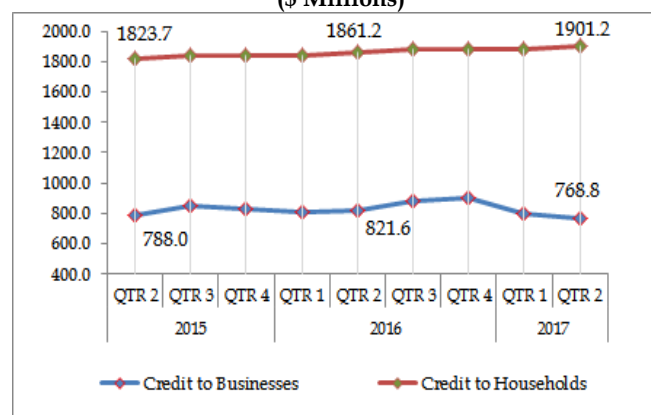
Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Continued fiscal prudence by the central government resulted in its debt declining by

10.9%, while lending to parastatal and public authorities fell by 4.7% over the period.

Private sector credit declined marginally by 0.2% in the first half of 2017 as a decline in business lending outweighed an expansion in household credit. Lending to the business sector contracted by 6.4% while lending to households expanded by 2.1% (Figure 11).

Figure 11: Credit to Business and Households (\$ Millions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit advanced to commercial enterprises fell by 6.4% (or \$52.8 million) during the review period, driven by declines in loans to other financial corporations (down by 37.8%), primary production sector (down by 5.0%) and trade and commerce (down by 3.5%). In contrast, credit to all segments of the services sector increased except for professional services.

Credit to households increased by 2.1% (or \$40.0 million) as at June 2017 compared to the preceding year. Household borrowings increased across all segments except for miscellaneous credit which declined by 9.3% (see Table 7).

Table 7: Net Credit to the Private Sector (\$ millions)

	Jun-16	Jun-17	Change
Total Private Sector Credit	2694.5	2690.0	(0.2)
Credit to Businesses	821.6	768.8	(6.4)
Production & Manufacturing	155.3	147.5	(5.0)
Mining	4.5	4.6	2.9
Manufacturing	17.3	17.7	2.4
Utilities	32.9	18.3	(44.6)
Construction	100.5	106.9	6.3
Services	67.9	79.4	16.9
Accommodation, Food, Bar & Entertainment Services	14.1	20.0	42.3
Transportation, Storage & Communications	16.1	21.7	34.8
Education, Recreational & Other Professional Services	37.8	37.6	(0.3)
Trade and Commerce	494.6	477.4	(3.5)
Wholesale & Retail Sales Trade	54.9	48.2	(12.2)
Real Estate Agents, Rental and Leasing Companies	223.9	180.8	(19.2)
Other Business Activities (General Business Activity)	215.8	248.4	15.1
Other Financial Corporations	103.9	64.6	(37.8)
Credit to Households	1861.2	1901.2	2.1
Domestic Property	1575.8	1634.1	3.7
Motor Vehicles	45.5	48.4	6.5
Education and Technology	5.8	6.2	6.7
Miscellaneous*	234.2	212.5	(9.3)
NonProfit Organizations	11.7	20.0	71.1

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.3. Residential Mortgage Foreclosures

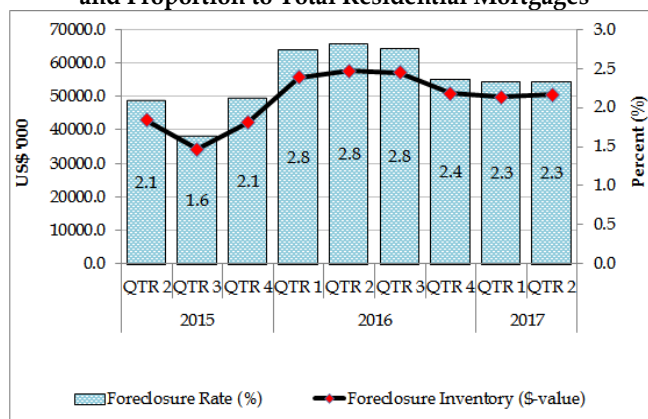
At end-June 2017, data from CIMA shows that there were 174 properties in the local commercial banks' foreclosures inventory valued at US\$50.4 million. This represented a decrease compared to the 195 properties valued at US\$57.6 million in the comparative period in 2016.

Foreclosure rate (foreclosure inventory over total residential mortgages) as at June 2017 declined to 2.3% in 2017 from 2.8% in 2016.

The total number of completed foreclosures declined to 17 (or 9.8% of all foreclosures) in

2017 from 22 (or 12.4% of all foreclosures) in 2016.

Figure 12: Residential Mortgages Foreclosures Inventory and Proportion to Total Residential Mortgages



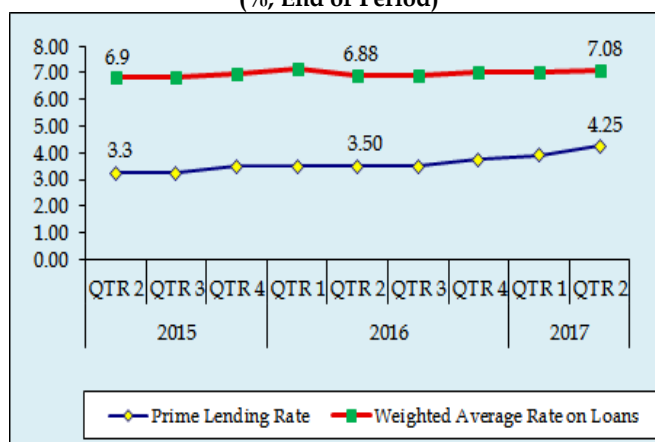
Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.4. Broad Liquidity. Broad liquidity (M2) in the Cayman Islands expanded in the first half of 2017 to settle at \$6,463.3 million, relative to \$5,901.5 million for the same period last year. The additional liquidity in the system was fostered by higher levels of both foreign deposits and local currency denominated currency.

Local currency denominated money supply, which is comprised of currency in circulation and deposits, increased by 5.0% and 8.1%, respectively. Similarly, foreign currency deposits rose by 10.1%, with holdings of US dollar-denominated deposits rising by 10.2%.

6.5. Interest Rates. The Cayman Islands prime lending rate increased by 75 basis points to 4.25% as at June 2017, adding upward pressure on the KYD weighted average lending rate which edged upwards to 7.08% for the same period (see Figure 13).

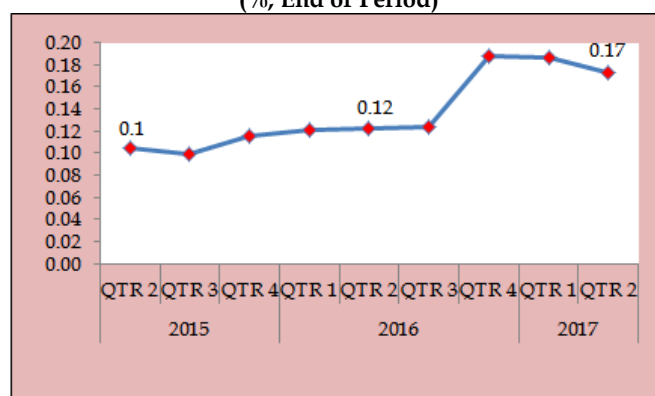
Figure 13: KYD Lending Rates
(%, End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As indicated in Figure 14, the weighted average savings rate on KYD deposits increased by 5 basis points during the first six months of 2017 from a year ago to 0.17%.

Figure 14: Weighted Average KYD Deposit Rates
(%, End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

7. Financial Services

Financial service indicators continued to exhibit mixed performance in the first six months of the year. The number of bank and trust licences, insurance licences and mutual funds declined, while expansions were observed among the registration of new companies and new partnerships as well as stock market activities.

7.1 Banks & Trust

As at June 2017, the number of licenced bank and trust companies declined by 10.2%, moving from 176 to 158. The contraction occurred in the context of continued consolidation and restructuring in the global market, geared at enhancing operational risk management and improving cost efficiency.

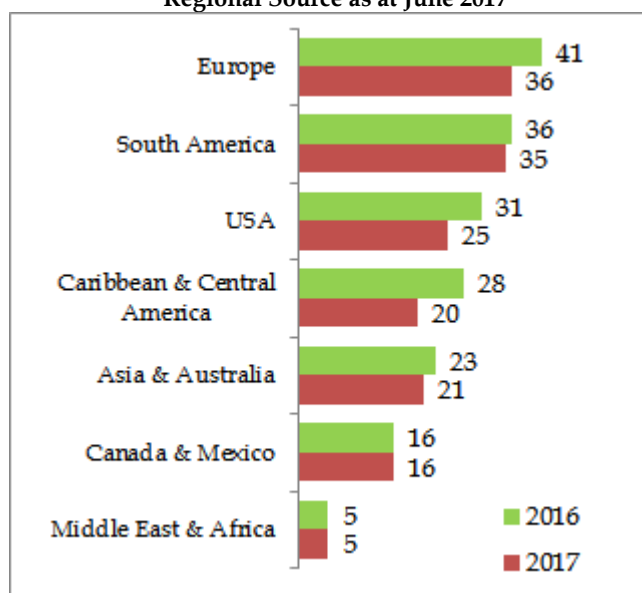
Class 'A' Bank & Trust licences remained unchanged at 11 while the number of foreign banks or Class 'B' licences decreased by 18 to 147.

Table 8: Bank & Trust Companies

	Jun 2015	Jun 2016	Jun 2017	% Change
Bank and Trust	196	176	158	(10.2)
Class A	12	11	11	-
Class B	184	165	147	(10.9)
Trust Companies	118	121	118	(2.5)
Restricted	62	62	61	(1.6)
Unrestricted	56	59	57	(3.4)

Source: Cayman Islands Monetary Authority

Trust company licences decreased by 2.5% from to 118 from 121 for the first half of 2017 as 'Restricted' licences fell by one and 'Unrestricted' licences fell by two.

Figure 15: Percentage Proportion of Registered Banks by Regional Source as at June 2017


Source: Cayman Islands Monetary Authority

Europe, South America and the USA continued to be the leading sources for Cayman's banking licences, accounting for 22.8%, 22.2% and 15.8% of the total, respectively. The Caribbean & Central America (down by 8 to 20), USA (down by 6 to 25) and the Europe (down by 5 to 36) were the main markets to reflect a fall in the number of bank and trust licences.

7.2 Insurance

The number of insurance licences totalled 730 at the end of June 2017 relative to 738 at the end of June 2016.

Domestic insurers reflected as class 'A' licences, remained unchanged at 29 while captive licences fell by 1.1% from 709 to 701. Within captives, a reduction of 10 to 673 in Class 'B' licences accounted for the contraction. Class 'C' licences rose by 1 to 25 and Class 'D' licences increased by 1 to 3.

Table 9: Insurance Companies

	Jun 2015	Jun 2016	Jun 2017	% Change
Domestic - Class 'A'	29	29	29	-
Captives	723	709	701	(1.1)
Class 'B'	691	683	673	(1.5)
Class 'C'	31	24	25	4.2
Class 'D'	1	2	3	50.0
Total	752	738	730	(1.1)

Source: Cayman Islands Monetary Authority

The primary classes of business within the captive insurance market continued to be Healthcare and Workers' Compensation, which accounted for 32.2% and 21.4% of the market, respectively. There was a decline of 9.2% (23) in healthcare insurers, the largest contributor to captive insurance.

North America continued to be the major source market for captive insurance business with 89.6% (628) of the total captives.

Table 10: Captive Insurance Licences by Primary Class of Business, June 2017

	Jun-16	Jun-17	% Change	% Proportion
Healthcare	249	226	-9.2	32.2
Workers' Compensation	151	150	-0.7	21.4
Property	70	69	-1.4	9.8
General Liability	78	80	2.6	11.4
Professional Liability	61	61	0.0	8.7
Other	100	115	15.0	16.4
Total	709	701	-1.1	100.0

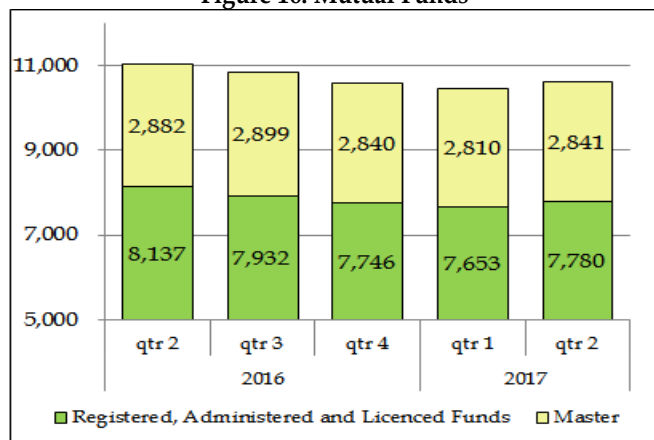
Source: Cayman Islands Monetary Authority

7.3 Mutual Funds

There was a general decline in the mutual fund market during the review period. Specifically, the number of registered mutual funds decreased by 3.6% to 10,621 at the end of June 2017 relative to the corresponding period of 2016. This reflected a decline of

4.4% in registered, administered & licenced funds and a fall of 1.4% in master funds.

Figure 16: Mutual Funds



Source: Cayman Islands Monetary Authority

7.4 Stock Exchange

The number of stocks listed on the Cayman Islands Stock Exchange increased by 3.9% to 1,063 as at June 2017. Two of the seven instruments recorded increases, one remained unchanged and the other four declined. Corporate and sovereign debt security registered the largest absolute increase, rising by 39 listings to 254.

Table 11: Number of Stock Listings by Instruments, end June

Instrument	2015	2016	2017
Investment Fund Security	234	253	236
Specialist Debt Security	558	531	529
Corporate & Sovereign			
Debt Security	182	215	254
Primary Equity Security	5	4	3
Secondary Equity Security	1	1	1
Insurance Linked Security	49	17	39
Retail Debt Security	2	2	1
Total	1,031	1,023	1,063

Source: Cayman Islands Stock Exchange

The total capitalization of the market increased by US\$22.7 billion (or 11.6%) to

US\$217.7 billion as at June 2017. The growth in market capitalization reflected increases in all instruments except corporate and sovereign debt and insurance linked securities.

Table 12: Market Capitalization by Instruments, (US\$ Billions), end June

Instruments	2015	2016	2017
Investment Fund	9.2	9.3	10.0
Specialist Debt	81.0	83.0	108.1
Corporate & Sovereign			
Debt Security	95.0	97.1	93.8
Primary Equity	0.2	0.3	0.3
Secondary Equity	0.1	0.1	0.1
Insurance Linked Security	7.2	5.3	5.1
Retail Debt	6.5	0.0	0.4
Total	199.2	195.0	217.7

Source: Cayman Islands Stock Exchange

7.5 New Company Registrations

Registration of new companies in the Cayman Islands increased in the first half of 2017, reversing the decline observed over the similar period of 2016. In this regard new registrations increased by 9.9% compared to June 2016. The increase for the period was in direct contrast to a decline of 9.9% in 2016.

The higher number of registrations was due to respective increases of 4.9% and 15.9% in 'Exempt' (the largest category) and 'Resident' companies. These outweighed declines of 55.6% and 7.1% in 'Non-Resident' and 'Foreign' new company registrations, respectively.

Table 13: New Company Registrations, end June

	2015	2016	2017
Total	6,433	5,798	6,371
Exempt	5,839	5,170	5,421
Non-Resident	19	18	8
Resident	265	271	314
Foreign	310	339	315
LLC	-	-	313
Percentage Change (%)			
Total	17.6	(9.9)	9.9
Exempt	18.2	(11.5)	4.9
Non-Resident	26.7	(5.3)	(55.6)
Resident	14.2	2.3	15.9
Foreign	9.5	9.4	(7.1)
LLC	-	-	-

Source: Registrar of Companies

7.6 Partnerships

During the review period, there were 1,884 new partnership registrations in these Islands, an increase of 10.2% relative to the first half of 2016. Increased registrations were observed for both 'Exempt' and 'Foreign' partnerships.

Table 14: New Partnership Registrations, end June

	2015	2016	2017
Total	1,753	1,710	1,884
Exempt	1,712	1,671	1,839
Foreign*	41	39	45
Percentage Change (%)			
Total	30.1	(2.5)	10.2
Exempt	27.1	(2.4)	10.1
Foreign*	-	(4.9)	15.4

Source: Registrar of Companies

8. Tourism

When compared to 2016, total visitor arrivals for the first six months of 2017 stood at 1,100,164, a contraction of 7.1%. This downturn reflected fewer cruise arrivals, as more visitors arrived by air for the period.

Table 15: Air Arrivals by Regional Market (Jan - June)

	2015	2016	2017	% Change
	In thousands			
USA	166.5	168.6	180.0	6.8
Europe	17.2	14.6	12.0	(18.0)
Canada	15.0	14.1	14.3	1.6
Others	14.8	13.3	11.9	(9.9)
Total	213.5	210.5	218.2	3.7
<i>of which: USA (%)</i>	78.0	80.1	82.5	

Source: Tourism Department

8.1 Air Arrivals

Air arrivals registered a 3.7% growth over last year's figure to total 218,235. This growth was largely attributed to a 6.8% boost in arrivals from the USA, partly due to marketing efforts by the local authorities. Air arrivals were further boosted by the introduction of an additional route by Southwest Airlines from Grand Cayman to Fort Lauderdale.

Additionally, arrivals from Canada increased by 1.6% while there were declines in arrivals from Europe and other countries by 18.0% and 9.9%, respectively.

Consistent with the rise in visitor numbers and higher prices within the sector, there was a 7.7% increase in stay-over visitor expenditure to \$18.6 million compared to the first half of 2016.

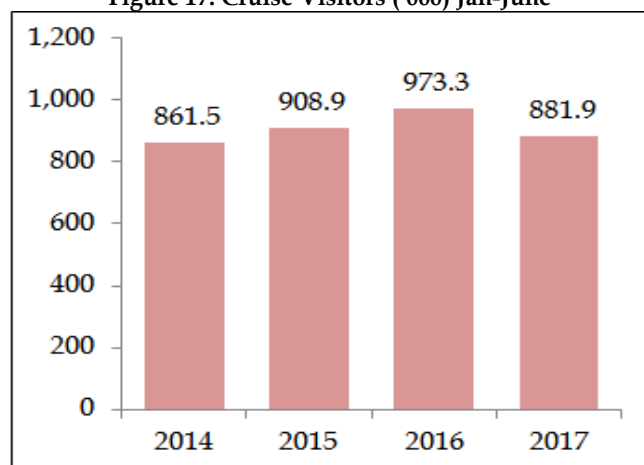
8.2 Cruise Arrivals

As of June 2017, 302 cruise vessels visited ports in the Cayman Islands, reflecting a 10.4% decline relative to the similar period of 2016. This translated into a 9.4% fall in cruise visitors to 881,929 relative to last year.

Similarly, the average cruise passenger per day dropped to 4,889, relatively lower than its comparative period in 2015 and 2016.

Spending by the Island's cruise visitors fell by 5.9% for the review period, as the fall-off in visitors affected total spending.

Figure 17: Cruise Visitors ('000) Jan-June



Source: Tourism Department

9. Construction

Construction intention indicators in the first six months of 2017 showed mixed performance.

9.1 Building Permits

The total value of building permits declined by 11.4% to \$114.7 million, in contrast to an improvement in the previous year. The

'other' category largely accounted for this contraction, falling by \$19.4 million (77.8%).

In contrast, the residential sector inched up by 4.8% to \$ 78.9 million driven by a 102.7% increase in the apartment category. The value of permits granted for houses declined by 25.9% to \$42.4 million. Notable projects in the apartment category included the 24-unit "Tides Apartments" in South Sound valued at \$15.7 million, and continued expansion of the Vela project.

Table 16: Building Permits (Jan- Jun)

	2015	2016	2017	% Change
Millions C\$				
Houses	47.0	57.3	42.4	(25.9)
Apartments	17.6	18.0	36.5	102.7
Hotel	3.8	0.1	2.8	-
Commercial	7.9	24.8	23.8	(4.1)
Government	0.4	1.0	0.1	(90.0)
Industrial	0.5	3.4	3.5	2.9
Other	3.9	24.9	5.5	(77.8)
Total	81.1	129.5	114.7	(11.4)

Source: Planning Department

Renovations to a multi-million-dollar hotel boosted the hotel category by \$2.7 million to \$2.8 million, following relatively low levels of activity in the corresponding period of 2016.

The number of building permits fell to 410 compared to 447 for the same period last year. This was mainly due to contractions in the housing and 'other' categories, while there was an increase in the number of permits issued for apartments.

Table 17: Number of Building Permits (Jan-Jun)

	2015	2016	2017	% Change
Houses	120	137	112	(18.2)
Apartments	34	30	44	46.7
Hotels	2	1	2	100.0
Commercial	27	38	35	(7.9)
Government	4	2	2	-
Industrial	2	4	5	25.0
Other	182	235	210	(10.6)
Total	371	447	410	(8.3)

Source: Planning Department

9.2 Project Approvals

The value of project approvals continued the upward momentum observed in the previous year, advancing anew by 30.8% to \$349.4 million. All categories, except for commercial approvals posted growth for the period.

The residential sector soared by 136.5% to reach \$216.4 million in the review period. This was mainly due to the apartment category which reflected approvals for a number of luxury complexes.

Notable projects included an 81-unit apartment complex in the 1st quarter of 2017, valued at \$60.0 million as well as a 37-unit apartment complex. Approvals for housing also increased on account of several approvals for 2-3 story homes.

In contrast to the general increase in project approval values, the value of permits in the non-residential sector fell to \$47.5 million compared to \$156.2 million last year. This was attributed to a sharp decline in the commercial category which fell by \$121.1 million (82.9%).

Table 18: Project Approvals (Jan-Jun)

	2015	2016	2017	% Change
Millions CI\$				
Houses	52.6	51.6	68.9	33.5
Apartments	16.0	39.9	147.5	269.9
Hotel	-	1.5	-	-
Commercial	7.5	146.0	24.9	(82.9)
Government	0.1	0.1	1.4	-
Industrial	5.3	10.1	21.2	109.8
Other	10.7	17.8	85.3	379.2
Total	92.2	267.2	349.4	30.8

Source: Planning Department

Higher project approval values were seen in the industrial category which rose by \$11.1 million to peak at \$21.2 million, its highest value in 3 years.

The government category, although contributing to a small proportion of total approvals, more than tripled in value to \$1.4 million. This increase is traced to the proposed construction of a boxing gym and two new institutions.

The 'other' category also grew by \$67.5 million to \$85.3 million, mainly due to approval for the construction of an underpass valued at \$50 million.

Overall, the total number of project approvals increased by 37.8% to reach 638. The most significant increases emanated in the government, industrial and apartment categories.

Table 19: Project Approvals (Jan-Jun)

	2015	2016	2017	% Change
Houses	102	123	158	28.5
Apartments	22	25	44	76.0
Hotels	2	3	0	(100.0)
Commercial	7	21	24	14.3
Government	1	1	7	600.0
Industrial	5	7	13	85.7
Other	260	283	392	38.5
Total	399	463	638	37.8

Source: Planning Department

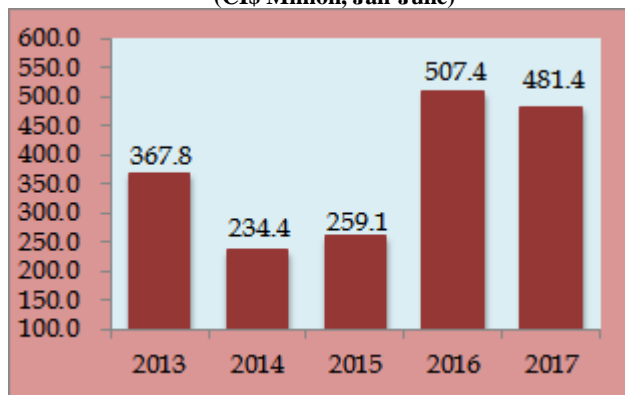
remained noticeably higher than the average for the last 5 years.

The relatively strong performance in transfer activities was due to a 32.3% increase in the value of freehold transfers to \$468.5 million.

The number of property transfers increased anew in the first half of 2017 by 137 to reach 1083. The rise in the volume of property transferred was observed in both freehold and leasehold properties.

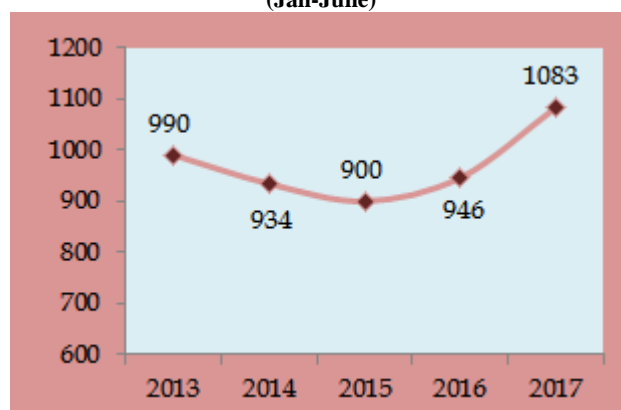
10. Real Estate

Real estate activity, as measured by traded properties, weakened in the first half of 2017 relative to the record high observed in 2016, notwithstanding an increase in the number of transfers.

Figure 18: Value Property Transfers: (CIS\$ Million, Jan-June)


Source: Lands & Survey Department

After peaking a year earlier, the value of property transfers eased down to \$481.4 million. This emanated from a contraction in the value of leasehold activities to \$12.9 million, relative to \$153.6 million last year. Despite the contraction, transfer values have

Figure 19: Number of Property Transfers: (Jan-June)


Source: Lands & Survey Department

11. Utilities

11.1 Electricity

Electricity production rose by 0.6% to 314.6 megawatts hours (mwh) in the first half of 2017. This coincided with a 6.4% increase in residential electricity usage, while commercial and public usage declined by 2.7% and 0.3%, respectively.

The growth in consumption was directly related to a larger customer base with the

total number of customers increasing by 1.5% to reach 28,803.

11.2 Water

Domestic water production and consumption increased 6.2% and 5.5%, respectively for the first six months of 2017. The rise in water activity could partly be due to increases in construction activity as well as growing population levels.

Table 20: Utilities Production/Consumption

	Jun-16	Jun-17	% Change
Millions of US Gallons			
Water Production	1,116.3	1,185.5	6.2
Water Consumption	971.5	1,025.0	5.5
Megawatt Hrs ('000)			
Electricity Production	312.7	314.6	0.6
Electricity Consumption	291.7	297.6	2.0
Residential	140.3	149.2	6.4
Commercial	148.1	144.9	(2.1)
Public	3.4	3.4	(0.1)
Total Customers	28,372	28,803	1.5
Residential	24,154	24,531	1.6
Commercial	4,218	4,272	1.3

Source: Cayman Islands Water Authority, Cayman Water Company, Caribbean Utilities Company

11.3 Telecommunications

Broad band connections continued to increase over the review period by 0.3% to 50,645, while total domestic and international minutes declined by 6.0% to 101,737.

Table 21: Telecommunication Sector Indicators

	Jun-16	Jun-17	% Change
Fixed and mobile handsets in operation	124,113	130,042	4.8
Total fixed & mobile domestic & int'l minutes ('000)	108,179	101,737	(6.0)
Fixed and mobile domestic minutes ('000)	79,311	76,812	(3.2)
Fixed and mobile int'l retail minutes ('000)	28,868	24,925	(13.7)
Broadband Connections	50,470	50,645	0.3

Source: Utility Regulation and Competition Office

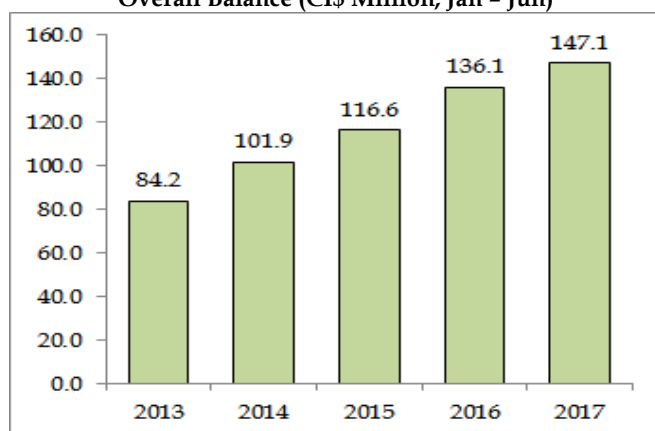
Notwithstanding the fall in total minutes for telephone calls, the number of fixed and mobile handsets in operation increased by 4.8% to reach 130,042, due likely to higher demand for mobile data as well as new phone models.

12. Fiscal Operations of the Central Government

The central government of the Cayman Islands recorded a fiscal surplus in the first half of 2017, reflecting the sixth consecutive surplus for a half-year period. The fiscal surplus rose to \$147.1 million from \$136.1 million during the corresponding period in 2016 (see Figure 20 and Table 22).

The 8.1% increase in the fiscal surplus was due to the combined effect of an increase in revenue and a decrease in expenditure. The increase in revenue was facilitated by higher collections for both coercive and non-coercive revenue, while the decrease in expenditure emanated from lower current expenditure which outweighed higher spending on capital goods.

Figure 20: Central Government Fiscal Overall Balance (CI\$ Million, Jan - Jun)



Source: Cayman Islands Treasury Department

Table 22: Summary of Fiscal Operations (Jan-Jun)

	Jun-16	Jun-17	% Change
	CI\$ Million		
Total Revenue	449.6	456.5	1.6
Total Expenditure	313.4	309.4	(1.3)
Current Expenditure	293.9	286.3	(2.6)
Net Capital Expenditure & Net Lending	19.5	23.2	18.4
Current Balance	155.7	170.3	9.4
Overall Balance	136.1	147.1	8.1
Financing	(136.1)	(147.1)	8.1
Net Borrowing	(9.7)	(17.4)	79.0
Change in Cash	109.3	113.7	4.0

Source: Cayman Islands Treasury Department

12.1 Revenue

Total revenue rose by 1.6% to \$456.5 million for January-June 2017 (see Table 23). Coercive revenue was the largest contributor to total revenue accounting for 94.5% while the remaining 5.5% was due to non-coercive revenue.

Table 23: Revenue of the Central Government (Jan-Jun)

	Jun-16	Jun-17	% Change
	CI\$ Million		
Total Revenue	449.6	456.5	1.6
Coercive Revenue	425.5	431.3	1.4
Taxes on Int'l Trade & Transactions	86.2	88.4	2.6
Domestic Taxes on Goods & Services	301.2	314.6	4.4
Taxes on Property	32.3	27.2	(15.9)
Fines	1.4	1.0	(27.6)
Other Taxes	4.5	0.1	(98.1)
Non-Coercive Revenue	24.1	25.3	5.1
Sale of Goods & Services	17.7	19.0	7.0
Investment Revenue	6.1	5.5	(9.9)
Other Revenue	0.2	0.8	258.9

Source: Cayman Islands Treasury Department

Coercive revenue totalled \$431.3 million, an increase of 1.4% above receipts in the corresponding six-month period of 2016. Collections for the two largest components of coercive revenue improved while the other components declined during the review period.

Revenue collected from domestic taxes on goods & services increased by 4.4% to \$314.6 million (Table 24), as all major sources improved except for other stamp duties. 'Other domestic taxes' was the main contributor to the higher revenue, increasing by 13.8% (\$5.7 million). Within the sub-category, tourist accommodation charges rose by 20.9% to \$17.0 million. Collections from financial service licences also increased by 1.6% to \$214.8 million, while work permit and residency fees rose by 9.0% to \$39.5 million.

Table 24: Domestic Tax Collection of the Central Government (Jan-Jun)

	Jun-16	Jun-17	% Change
Financial Service Licences	211.3	214.8	1.6
ICTA Licences	3.7	4.2	15.8
Work Permit and Residency Fees	36.3	39.5	9.0
Other Stamp Duties	5.1	5.0	(2.4)
Traders' Licences	3.5	4.0	16.1
Other Domestic Taxes	41.3	47.1	13.8
Of which:			
Tourist Accommodation Charges	14.0	17.0	20.9
Motor Vehicle Charges	4.5	5.4	20.2
Domestic Taxes on Goods & Services	301.2	314.6	4.4

Source: Cayman Islands Treasury Department

Tax receipts from international trade and transactions rose by 2.6% to \$88.4 million due to increases in duties on alcoholic beverages, duties on motor vehicles and duties on 'other imports' of 6.8%, 7.7% and 5.3%, respectively.

The improvement in revenue collection from international trade was partially dwarfed by declines in cruise ship departure charges (down 9.1% to \$5.3 million) and duties on gasoline and diesel fuel (down 6.2% to \$6.9 million).

Taxes on property decreased by 15.9% to \$27.2 million due to lower collections for stamp duty and transfer charges by land holding companies (see Table 23).

Non-coercive revenue amounted to \$25.3 million, 5.1% higher than the comparative period a year ago. This improvement was driven a by an increase of \$1.3 million in the value of goods and services sold.

12.2 Current Expenditure

There was a decrease in total expenditure for the first six months of 2017 as a decline in current expenditure outweighed an increase in net capital expenditure & net lending⁷.

During the first half of 2017, the government was able to reduce its **Current expenditure** by 2.6% to \$286.3 million. This was the result of lower spending on all categories except personnel costs and transfer payments (see Table 25).

Table 25: Current Expenditure of the Central Government (Jan-Jun)

	Jun-16	Jun-17	% Change
	CI\$ Million		
Current Expenditure	293.9	286.3	(2.6)
Personnel Costs	127.3	131.4	3.2
Supplies & Consumables	46.8	43.7	(6.6)
Depreciation	18.1	16.0	(11.8)
Subsidies	71.2	65.2	(8.5)
Transfer Payments	14.4	14.9	3.4
Interest Payments	13.6	13.2	(3.1)
Other Operating Expenses	2.4	1.9	(21.7)

Source: Cayman Islands Treasury Department

Subsidies, which are payments to statutory authorities and corporations, decreased by 8.5% to \$65.2 million for the first half of the year relative to 2016. The entity which suffered the largest decline in subsidies was Cayman Airways Limited (CAL) which saw a decline of \$1.0 million (12.3%) to \$7.5 million.

⁷ Net capital expenditure and net lending is gross capital expenditure and net lending after accounting for depreciation.

Additionally, expenditure on medical care at overseas providers fell by \$5.5 million to \$6.9 million while expenditure on refugee services fell by \$1.4 million to \$1.0 million. The government was also able to reduce expenditure on supplies and consumables, which fell by 6.6% to \$43.7 million.

Depreciation, which is a non-cash provision to account for declines in the value of fixed assets, fell by 11.8% to \$16.0 million. Buildings, roads, sidewalks and vehicles were the major assets contributing to depreciation for the review period.

Interest payments declined by 3.1% to \$13.2 million for the period, consistent with a lower stock of outstanding debt (see Section 11.4). Similarly, other operating expenses fell by 21.7% to \$1.9 million, due mainly to reduced spending on other executive expenses and judiciary expenses.

In contrast to the general trend, personnel costs rose by 3.2% to \$131.4 million, primarily reflecting increases in health care benefits of 18.6% to \$18.4 million and salaries and wages (including employee pension contributions) which increased by 1.5% to \$101.8 million as the size of the civil service expanded (see Section 5.3).

Transfer payments, which are payments to social welfare programmes, also increased over the review period, rising by 3.4% to a total of \$14.9 million. Student enrichment and support services (up by \$0.5 million) and scholarships and bursaries (up by \$0.3 million) were the main recipients of the increase in transfer payments.

12.3. Capital Expenditure and Net Lending

For the period January–June 2017, gross capital expenditure and net lending increased by 3.9% to \$39.2 million (see Table 26), relative to the corresponding period of 2016.

Table 26: Capital Expenditure and Net Lending (Jan-Jun)

	Jun-16	Jun-17	% Change
	CIS Million		
Gross Capital Expenditure and Net Lending	37.7	39.2	3.9
Capital Investment in Ministries and Portfolios	12.4	3.7	(70.4)
Capital Investment in Statutory Authorities and Government Owned Companies	13.6	24.4	78.9
Executive Assets	10.3	11.3	9.6
Net Lending	1.3	(0.2)	(117.8)
Net Capital Expenditure and Net Lending¹	19.5	23.2	18.4

Source: Cayman Islands Treasury Department & ESO

Capital investment in statutory authorities and government owned companies rose by \$10.8 million to \$24.4 million. The primary recipients of this increase were CINICO (up by \$7.1 million) and CAL (up by \$2.6 million).

Expenditure on executive assets increased by 9.6% to \$11.3 million, due mainly to land purchases (up by \$4.7 million) and spending on the George Town Revitalization Project (up by \$1.8 million).

However, there was a reduction in the amount of capital expenditure allocated to ministries and portfolios, which fell by \$8.7 million to \$3.7 million.

Net capital expenditure and net lending totalled \$23.2 million for the review period, an increase of 18.4% relative to the comparative period in 2016.

12.4. Net Financing and Debt Service

The cash balance of the central government increased to \$113.7 million in the first six months of 2017, which was largely facilitated by the improvement in the fiscal surplus (see Table 27). Loan repayment amounted to \$17.4 million compared with \$9.7 million in the corresponding period of 2016.

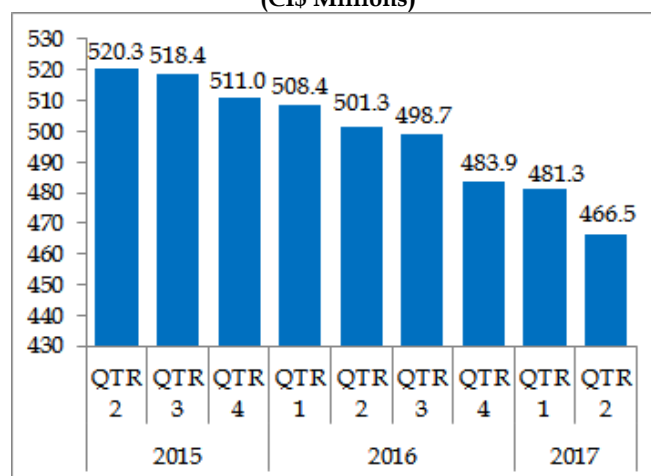
Table 27: Net Financing (Jan-Jun)

	Jun-16	Jun-17	% Change
	CIS\$ Million		
Financing	(136.1)	(147.1)	8.1
Net Borrowing	(9.7)	(17.4)	79.0
Disbursements	0.0	0.0	-
Loan Repayment	(9.7)	(17.4)	79.0
Change in Cash	109.3	113.7	4.0

Source: Cayman Islands Treasury Department

The central government's outstanding debt continued to decline after peaking at the end of the second quarter of 2011. The debt stood at \$466.5 million as at June 2017, \$34.8 million lower than the stock at the end of June 2016 (see Figure 21). When compared to the end of June 2011, the debt decreased by 25.9% or \$162.7 million.

Figure 21: Central Government Outstanding Debt (CIS\$ Millions)



Source: Cayman Islands Treasury Department

The central government's debt service-to-revenue ratio was 6.7% for the first six months of 2017 relative to 5.2% in 2016. Interest payments accounted for 4.6% of current expenditure and 2.9% of revenue, compared with 4.6% of current expenditure and 3.0% of revenue in the corresponding period of 2016.

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Cayman Islands Planning Department
Cayman Islands Stock Exchange
Cayman Islands Treasury Department
Cayman Islands Water Authority
Cayman Water Company
Department of Immigration
Utility Regulation and Competition Office
Lands and Survey Department
Port Authority of the Cayman Islands
Portfolio of the Civil Service

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