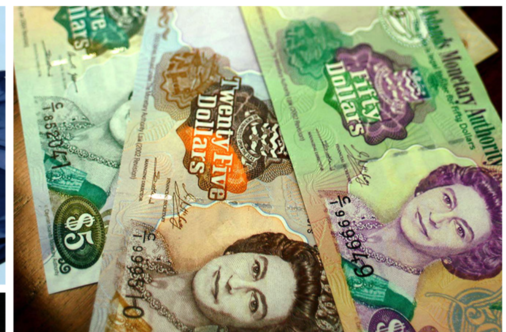
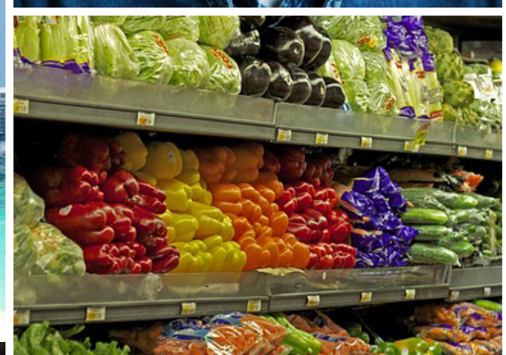
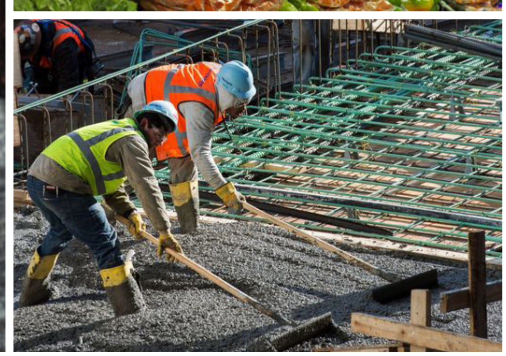
CAYMAN ISLANDS
GOVERNMENT







THE CAYMAN ISLANDS' SECOND QUARTER ECONOMIC REPORT 2020

The Economics and Statistics Office

November 2020

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Overview*

- Advanced economies contracted in the second half of 2020, led by the US and Canada which declined by 31.4% and 38.7%, respectively.
- Cayman's gross domestic product was estimated to have contracted in real terms at an annualised rate of 11.4% in the first half of 2020.
- The Consumer Price Index inflation averaged 2.0%, driven by price trends in all divisions except one.
- The value of merchandise imports declined by 12.1% to $481.9 million.
- Civil service employment rose by 2.7%, while work permits declined by 14.3%.
- Broad liquidity or money supply expanded by 7.9% to reach $8.0 billion.
- Domestic credit expanded by 7.2% as credit to the private and public sector rose by 5.3% and 35.6%, respectively.
- The weighted average lending rate fell to 6.25% from 7.68%, while the prime lending rate declined to 3.25% from 5.50%.
- Bank and trust company licences decreased by 7.5% to 123 and insurance licences fell by 0.3% to 679.
- Total mutual funds registered, including the category "master funds", declined by 2.3%.
- Stock exchange listings rose by 18.6% to a record 2,210, while market capitalization increased by 18.4% to a record US$441.9 billion.
- New company registrations fell by 19.1% to 5,567, while new partnership registrations declined by 2.5% to 2,285.
- The value of building permits increased by 78.5% to $371.5 million, while project approvals declined by 31.7% to $357.4 million.
- The total value of property transfers declined to $355.3 million from $448.7 million.
- Electricity consumption fell by 0.5% while water consumption grew by 0.7%.
- The central government's overall fiscal surplus moderated to $70.5 million compared with $178.2 million a year ago.
- The total outstanding debt of the central government declined to $266.5 million from $407.1 million a year ago.
- The economy is projected to contract by 7.8% for 2020 before recovering by 5.2% in 2021.

*Comparative data over the first six months of 2019, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. International Economy

1.1 Economic Growth[1]

The main advance economies trading with the Cayman Islands recorded significant reductions in GDP during the second quarter of 2020. This was due to the extensive lockdown of businesses and numerous restrictions associated with the Covid-19 pandemic. The USA and Canada contracted at annualised rates of 31.4% and 38.7%, respectively. Declines in both countries largely resulted from reductions in personal consumption expenditure, business investments and exports.

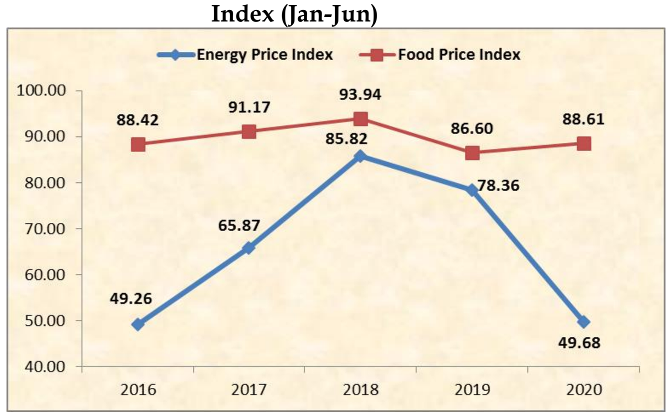
The UK and the Euro Area recorded contractions of 19.8% and 14.7%, respectively. The contraction in the UK was reflected in both the output and service sectors, while The Euro Area recorded the sharpest quarterly contraction in GDP since the time series began in 1995.

1.2 Inflation[2]

Despite slowing economic activity, consumer prices within selected advanced economies increased during the review period. The USA and UK both recorded inflation of 1.2% while Canada and the Euro Area registered respective inflation of 0.9% and 0.7%. The increase in consumer prices was mainly due to higher food prices, especially for agricultural products.

The rise in food prices was partly offset by a decline in energy for the review period (see Figure 1). The decline in energy prices was attributed to the lower costs of crude oil, coal and natural gas on the world market. Crude oil averaged US$39.68 per barrel in January–June 2020 compared with US$62.78 per barrel in January–June 2019.[3]

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 Rates[4]

The policy interest rates of the major central banks remained at low levels introduced in the first quarter of the year. This policy stance was posited as necessary to continue providing credit to households and businesses during the global pandemic. Notably, the Federal Reserve Bank maintained the target range for its federal funds rate at 0.00% to 0.25%. The Bank of Canada and the Bank of England retained their policy interest rates at 0.25% and 0.1%, respectively. In contrast, European Central Bank (ECB) retained its policy interest

[1] Data sourced from the US Bureau of Economic Analysis, Statistics Canada, UK Office for National Statistics and Eurostat.

[2] Data obtained from the US' Bureau of Labour Statistics, Bank of Canada, Office for National Statistics and Eurostat..

[3] Data sourced from The World Bank's Commodity Price Data and represent the average of Brent, Dubai and West Texas Intermediate prices.

[4] Data obtained from the Federal Reserve Bank, Bank of England, Bank of Canada, European Central Bank

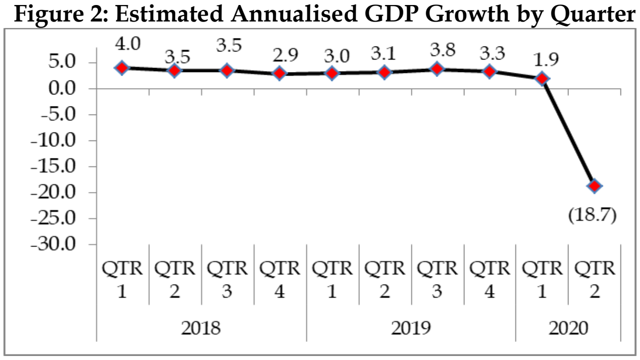
rates on the main refinancing operations, marginal lending facility and deposit facility at 0.00%, 0.25% and -0.40%, respectively.

The US Dollar, on average, strengthened nominally against three of the world's major traded currencies in the first half of 2020 relative to the corresponding period in 2019. Notably, the US Dollar strengthened by 2.6% against the Great Britain Sterling Pound, 2.5% against the Euro and 2.4% against the Canadian Dollar.

2. Cayman Islands' Estimated GDP

Available indicators suggest that the Cayman Islands' gross domestic product (GDP) contracted in real terms by an estimated annualised rate of 18.7% in the second quarter of 2020 a sharp deterioration relative to the 1.9% growth estimated in the first quarter.

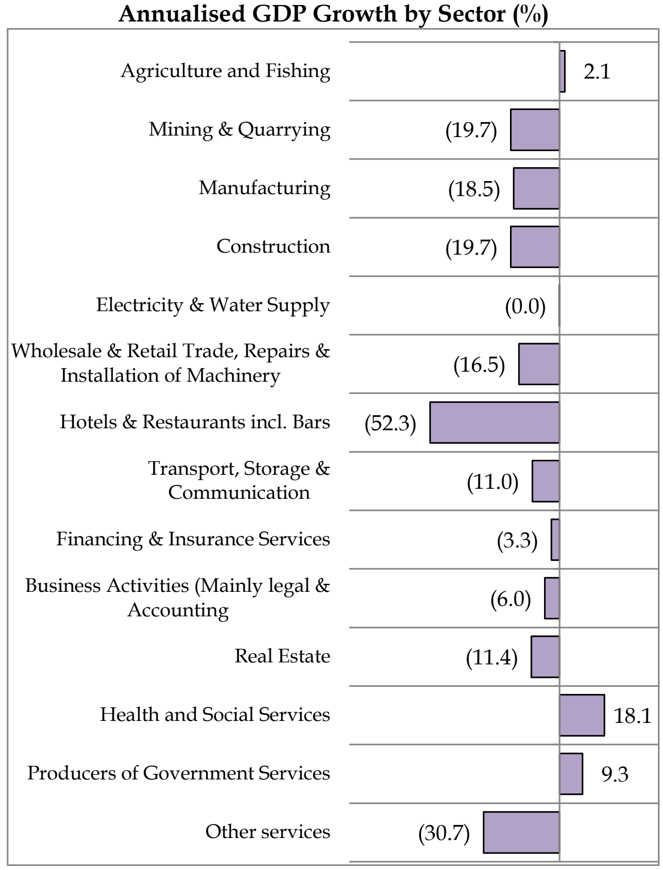
Figure 2: Estimated Annualised GDP Growth by Quarter



Source: Economics and Statistics Office

The economy is estimated to have declined by 11.4% in the first six months of 2020 compared to growth of 3.1% a year ago. The economic contraction in the first half of the year was relatively broad-based largely reflected the impact of the partial shut-down in economic activity during the second quarter of the year. The sectors with the sharpest estimated declines were hotels and restaurants (down by 52.3%), construction (down by 19.7%), wholesale and retail trade, repair and installation of machinery (down by 16.5%), other services (down by 30.7%), and real estate (down by 11.4%). The financing and insurance services sector, which continues to be the largest contributor to GDP, contracted by 3.3% during the review period (see Figure 3).

Figure 3: Estimated First Half of 2020 Annualised GDP Growth by Sector (%)



Source: Economics and Statistics Office

Despite the decline in most sectors, health and social services is estimated to have expanded by 18.1% as spending and activities in the sector increased in preparation for the government's pandemic mitigation response. Producers of government services, which include the education sector, is estimated to have expanded by 9.3% for the period.

3. Inflation[5]

For the first half of 2020, the inflation rate averaged 2.0%, a moderation from the 4.1% recorded in the corresponding period 2019.

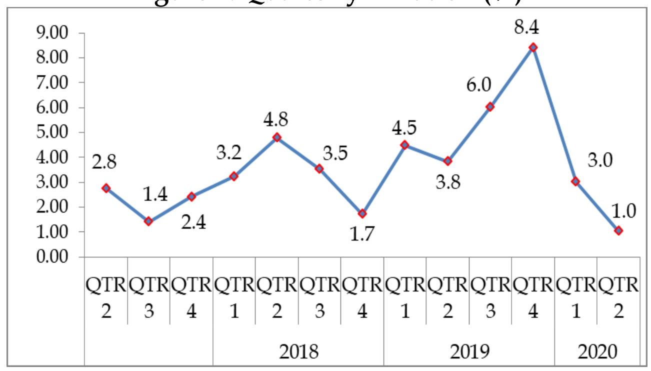
Higher prices were reflected in both the first and second quarter of the year, which posted inflation rates of 3.0% and 1.0%, respectively (see Table 2 and Figure 4). The second-quarter inflation rate of 1.0% is mainly traced to price increases for food and clothing..

Table 2: Inflation Rates (%, Jan-June)

	Avg. Inflation Rates (%)	
Categories	Half year 2019	Half year 2020
Food & Non-alcoholic Beverages	1.4	4.9
Alcohol and Tobacco	2.1	0.6
Clothing and Footwear	2.6	5.1
Housing and Utilities	10.8	1.9
Household Equipment	2.6	0.8
Health	0.7	2.4
Transport	-4.2	2.4
Communication	6.9	5.0
Recreation and Culture	7.9	-2.3
Education	3.4	5.4
Restaurants and Hotels	1.8	0.2
Misc. Goods and Services	-0.3	0.9
Overall CPI Inflation	4.1	2.0

Source: Economics and Statistics Office

Figure 4: Quarterly Inflation (%)*



*Inflation of current quarter CPI over the same quarter a year ago.
Source: Economics and Statistics Office

Higher prices for the first half of the year was recorded in most the CPI divisions. Food and non-food prices increased, primarily due to domestic demand and international food prices.

Food and alcoholic beverages showed an average inflation rate of 4.9% with price increases reflected in most sub-categories.

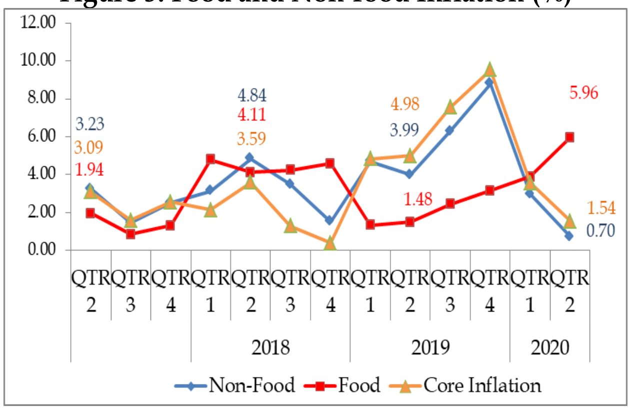
Core inflation (CPI excluding food, electricity and fuels) averaged 2.6% for the first half of the year. The average core inflation for the first half of 2020 mainly reflects the cost of clothing and footwear, communication, and education, which rose by 5.1%, 5.0% and 5.4%, respectively.

The rise in the index for clothing and footwear was due to a rise in the price of locally purchased clothing. The communication index rose due to higher telephone and telefax equipment, while the increase in the education division was mainly due to the rise in tertiary education cost.

[5] A detailed inflation report is posted at www.eso.ky

Despite the increasing price trends in most divisions, there was a 2.3% decline in the price index for recreation and culture.

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

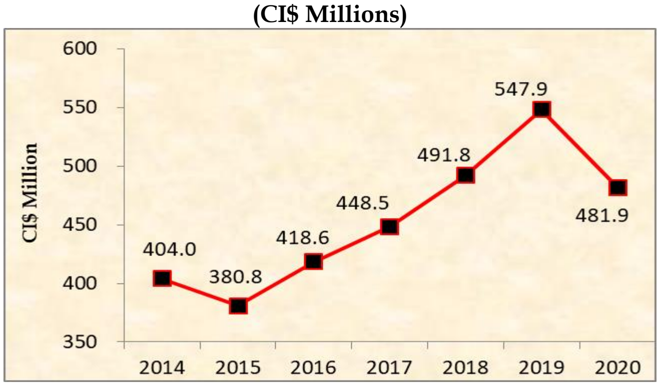


Source: Economics and Statistics Office

4. Trade[6]

Despite an expansion in the first quarter of the year, merchandise imports declined by 12.1% to $481.9 million in the first six months of 2020 (see Figure 5). This reduction in imports was reflected in all categories except inedible crude materials excluding fuels and commodities & transactions not classified elsewhere. Non-petroleum products declined by 9.6% to $434.4 million while fuels and petroleum-related products fell by 29.4% to $47.5 million.

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



Source: Cayman Islands Customs & Border Control and ESO

Within non-petroleum products, the categories recording the most substantial increases were *miscellaneous manufactured articles* (down $29.1 million to $83.6 million), *food and live animals* (down by $18.2 million to $78.7 million), and *machinery and transport equipment* (down $16.4 million to $105.7 million).

The fall in imported petroleum-related products occurred amidst declines in both the quantity of fuel imported and a drop in international crude oil prices for the review period. The quantity of fuel imports fell by 34.2% to reach 19.1 million imperial gallons (see Table 3).

Table 3: Oil Imports (Jan-June)

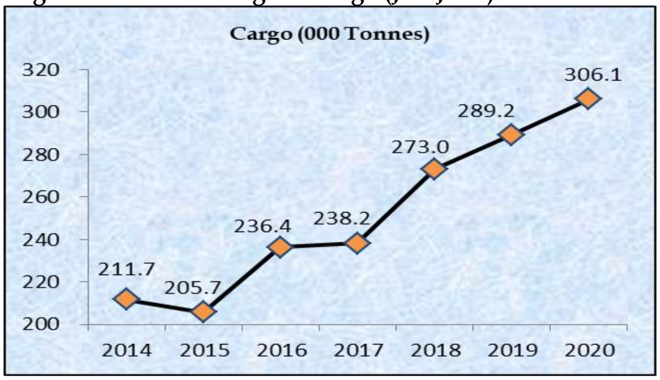
	2018	2019	2020	% Change
	Millions of Imperial Gallons			
Total Fuel	**31.1**	**29.1**	**19.1**	**(34.2)**
Diesel	19.2	15.8	12.6	(20.1)
Gas	7.2	9.0	3.7	(58.7)
Aviation Fuel	3.5	3.1	1.7	(45.6)
Propane	1.1	1.3	1.2	(8.6)

Source: Cayman Islands Port Authority

An uptick in imported aggregates was sufficient to outweigh declines in all other categories of cargo imports. Specifically, the total tonnage of landed cargo increased by 5.8% to 306,100 tonnes (see Figure 7). Of the total imported cargo, containerised cargo accounted for 42.2% (129,162 tonnes). Aggregates represented 49.5% (151,374 tonnes)while cement bulk and breakbulk cargo accounted for 7.2% (22,091 tonnes) and 1.1% (3,472 tonnes), respectively.

[6] A detailed trade report is posted at www.eso.ky

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



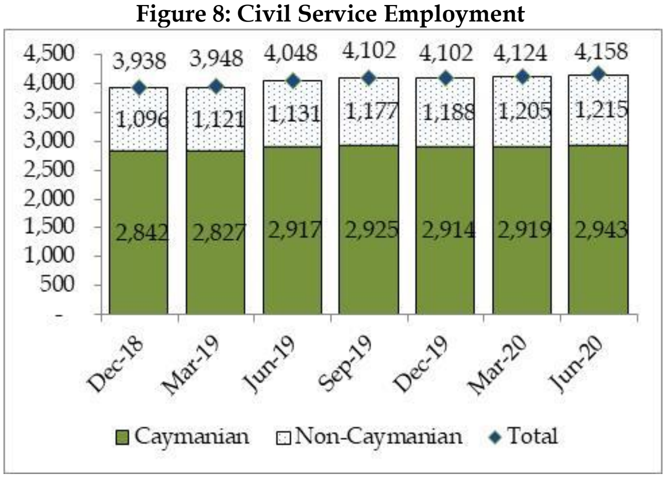
Source: Cayman Islands Port Authority

5. Employment

5.1 Central Government Employment

The number of civil servants employed by the Cayman Islands' central government rose to 4,158 at the end of the review period from 4,048 at the end of June 2019. Caymanian and Non-Caymanian employment increased by 26 to 2,943 and 84 to 1,215, respectively. Caymanians accounted for 70.8% of the civil service, while Non-Caymanians represented 29.2%.

Figure 8: Civil Service Employment

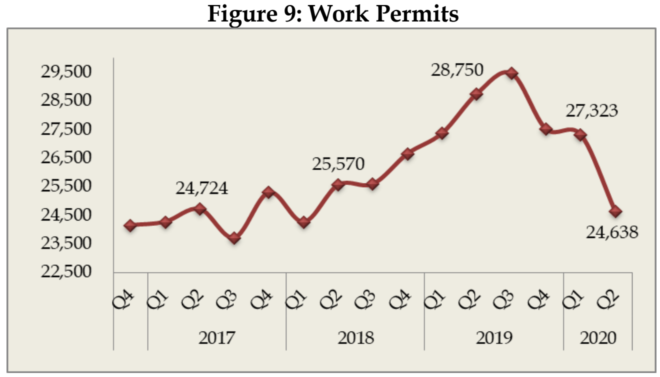


Source: Portfolio of the Civil Service

5.2. Work Permits

The number of work permits issued in the Cayman Islands declined to 24,638 at the end of June 2020 from 28,750 at the end of June 2019. The number of work permits fell amidst a "sudden stop" in the tourism industry during the last two weeks of March 2020. When compared with the end of March 2020, the number of work permits fell by 9.8% from 27,323.

Figure 9: Work Permits



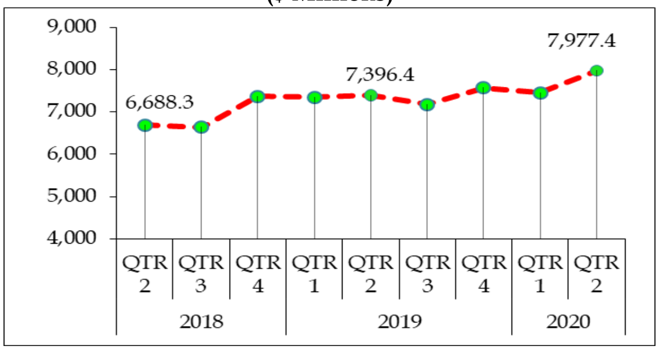
Source: Workforce Opportunities & Residency Cayman

6. Money & Banking

Total deposits in the domestic banking system rose in the first half of the year with both local and foreign currency-denominated money increasing. Foreign currency (FOREX) deposits for the period increased by 4.1%, while KYD denominated deposits grew by 18.6%. The expansion in deposits coupled with increased currency in circulation boosted broad liquidity (M2) by 7.9% to $7,977.4 million (see Figure 10 and Table 4).

Higher deposits during the period may have been influenced by increased pension withdrawals during the second quarter, as employees responded to the government's pension withdrawal initiative aimed at boosting income amidst the fall-out from the decline in tourism. Relative to the March 2020 quarter, FOREX deposits increased by 6.5%, while KYD deposits grew by 8.8%.

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 an increase in both foreign and domestic asets.

Table 4: Monetary and Banking Indicators ($ Millions)

	Jun-19	Jun-20	% Change
Total Assets	**7,396.4**	**7,977.4**	7.9
Net Foreign Assets	**5,557.4**	**5,656.3**	1.8
Monetary Authority	136.4	171.4	25.7
Commercial Banks	5,421.0	5,484.9	1.2
Net Domestic Assets	**1,839.1**	**2,321.0**	26.2
Domestic credit	3,125.9	3,350.9	7.2
Claims on central government	144.3	214.8	48.8
Claims on other public sector	50.5	49.4	(2.3)
Claims on private sector	2,931.1	3,086.7	5.3
Other items net	(1,286.9)	(1,029.8)	(20.0)
Broad Liquidity	**7,396.4**	**7,977.4**	7.9
Broad money (KYD) M2	**1,853.0**	**2,206.0**	19.0
Currency in circulation	124.1	155.4	25.2
KYD Deposits	**1,728.9**	**2,050.6**	18.6
Demand deposits	645.2	847.6	31.4
Time and savings deposits	1,083.7	1,203.0	11.0
FOREX deposits	5,543.4	5,771.5	4.1
of which: US dollars	5,105.6	5,398.7	5.7
US dollars share (%)	*92.1*	*93.5*	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.1. Net Foreign Assets (NFA). The growth in deposits provided additional liquidity in the financial system, which allowed the Cayman Islands Monetary Authority (CIMA) and commercial banks to expand their net foreign assets by 25.7% and 1.2%, respectively. The higher NFA among commercial banks was driven by a reduction in foreign liabilities as foreign assets declined during the period (see Table 5).

Table 5: Net Foreign Assets ($ Millions)

	Jun-19	Jun-20	% Change
Net Foreign Assets	**5,557.4**	**5,656.3**	1.8
Monetary Authority	136.4	171.4	25.7
Commercial Banks	5,421.0	5,484.9	1.2
Foreign Assets	**8,967.4**	**8,303.2**	(7.4)
Bal. with Banks & Branches	4,210.0	3,340.9	(20.6)
Total Investment	3,134.5	3,490.5	11.4
Total Non-Resident Loans	1,622.9	1,471.7	(9.3)
Foreign Liabilities	**3,546.4**	**2,818.2**	(20.5)
Total Non-Resident Deposits	3,330.8	2,502.9	(24.9)
Other Liabilities	215.7	315.4	46.2

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The decline in commercial bank's liabilities was driven by a 24.9% reduction in non-resident deposits, which fell to $2,502.9 million. Foreign assets declined by 7.4% during the period, driven by declines of 20.6% and 9.3% in balances with banks and branches and non-resident loans, respectively. The impact of these declines was partially offset by an 11.4% build-up in foreign investments.

6.2. Net Domestic Assets/Domestic Credit. Domestic borrowings increased by 7.2% in the review period as credit extended to both the private and public sector expanded (see Table 6).

Public sector credit increased by 35.6%, driven by an expansion in the value of domestic loans extended to the central government. In contrast, credit to other parastatals contracted by 2.3% for the period. The increase in domestic credit to the central government continues to reflect the refinancing of a portion of external debt in the last quarter of 2019.

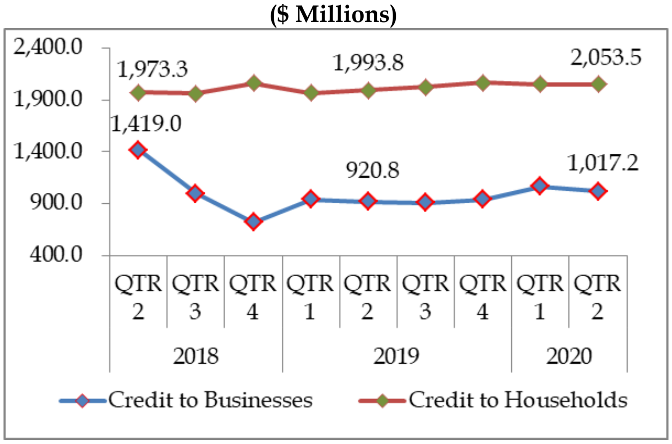
Table 6: Net Domestic Assets ($ Millions)

	Jun-19	Jun-20	% Change
Domestic Credit	**3,125.9**	**3,350.9**	**7.2**
Credit to Public Sector	194.8	264.1	35.6
Credit to Central Government	144.3	214.8	48.8
Credit to Other Public Sector	50.5	49.4	(2.3)
Credit to Private Sector	2,931.1	3,086.7	5.3

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Private sector credit expanded by 5.3% in the first half of 2020, driven by increases in both household and business lending by 3.0% and 10.5%, respectively (Figure 11 and Table 7).

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit advanced to business enterprises rose by $96.4 million to $1,017.2 million during the review period, driven mainly by an expansion in loans advanced to trade and commerce companies, particularly, real estate companies, leasing companies, and other business sectors. Credit to real estate agents, rental and leasing companies rose by $90.7 million, while credit to other business activities increased by $30.2 million. Additionally, loans to the services sector rose by 0.6% (or $0.7 million) while credit to the production and manufacturing sector declined by 16.6% (or $5.8 million).

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

	Jun-19	Jun-20	% Change
Total Private Sector Credit	**2,931.1**	**3,086.7**	**5.3**
Credit to Businesses	**920.8**	**1,017.2**	**10.5**
Production & Manufacturing	**311.4**	**259.6**	**(16.6)**
Mining	5.1	4.7	(7.7)
Manufacturing	12.2	7.5	(38.7)
Utilities	37.0	37.3	0.8
Construction	257.1	210.1	(18.3)
Services	**113.9**	**114.6**	**0.6**
Accommodation, Food, Bar & Entertainment Services	58.9	61.0	3.6
Transportation, Storage & Communications	29.2	28.6	(2.3)
Education, Recreational & Other Professional Services	25.8	25.1	(2.9)
Trade and Commerce	**487.1**	**607.7**	**24.8**
Wholesale & Retail Sales Trade	64.5	64.2	(0.5)
Real Estate Agents, Rental and Leasing Companies	184.6	275.3	49.1
Other Business Activities (General Business Activity)	238.0	268.2	12.7
Other Financial Corporations	**8.5**	**35.2**	**316.4**
Credit to Households	**1,993.8**	**2,053.5**	**3.0**
Domestic Property	1,795.2	1,808.3	0.7
Motor Vehicles	69.0	57.6	(16.6)
Education and Technology	7.3	4.4	(40.1)
Miscellaneous*	122.2	183.2	49.9
NonProfit Organizations	**16.5**	**16.1**	**(2.5)**

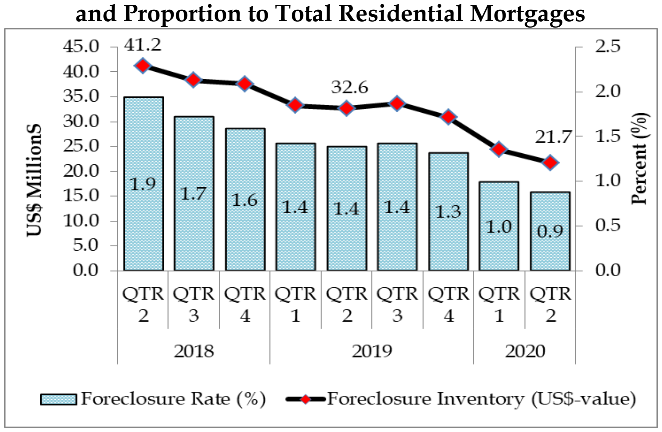
Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit to households increased by $59.7 million to $2,053.5 million for the period. The expansion was traced to increased credit for domestic properties and miscellaneous activities of $13.1 million and $61.0 million, respectively. In contrast, motor vehicle loans and loans for education and technology fell by $11.1 million and $2.9 million, respectively.

6.3. Residential Mortgage Foreclosures

At end-June 2020, data from CIMA shows that there were 74 properties in the local commercial banks' foreclosure inventory, valued at US$21.7 million. This represented a decrease compared to the 108 properties valued at US$32.6 million in the comparative period of 2019.

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



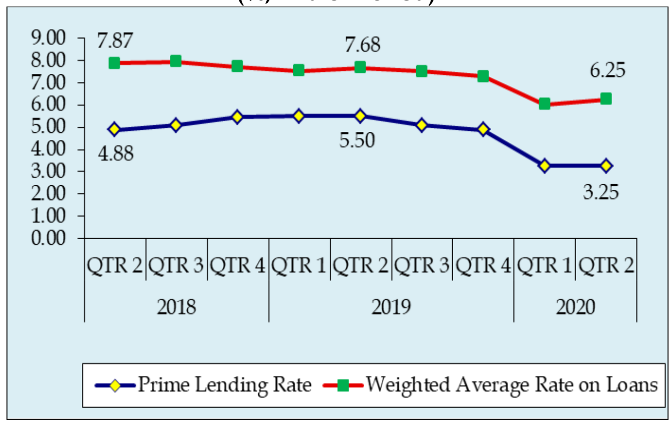
Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The foreclosure rate (foreclosure inventory over total residential mortgages) as at June 2020 declined to 0.9% in 2020 from 1.4% in 2019.

The total number of completed foreclosures declined to 1 (or 1.4% of all foreclosures) in 2020 from 8 (or 7.4% of all foreclosures) in 2019.

6.4. Interest Rates. The Cayman Islands' prime lending rate declined by 225 basis points to 3.25% as at June 2020. This supported a fall in the **KYD** weighted average lending rate to 6.25% relative to 7.68% in the same period of 2019 (see Figure 13).

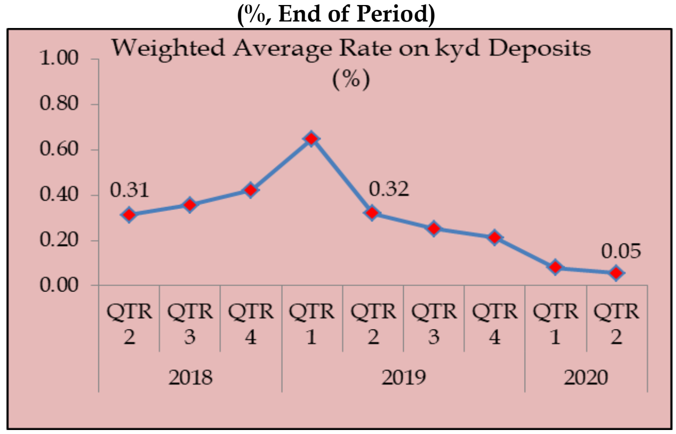
Figure 13: KYD Lending Rates (%, End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As indicated in Figure 14, the weighted average savings rate on KYD deposits declined by 26 basis points during the first six months of 2020 to 0.05% relative to a year ago.

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

7. Financial Services

Indicators of financial services mostly fell in the first six months of the year. There were declines in all indicators except the number of stock exchange listings and market capitalisation.

7.1 Banks & Trust

The number of licenced Bank and Trust companies declined by 7.5% to 123 at the end of June 2020. This decline was reflected in both the number of Class 'A' and Class 'B' licences. Class 'A' licences fell from 10 to 9 while foreign banks or Class 'B' licences decreased from 123 to 114.

The number of trust company licences increased from 116 to 117 at the end of June 2020. This was due to an increase in the number of 'Restricted' licences from 58 to 59 while the number of 'Unrestricted' licences remained unchanged at 58.

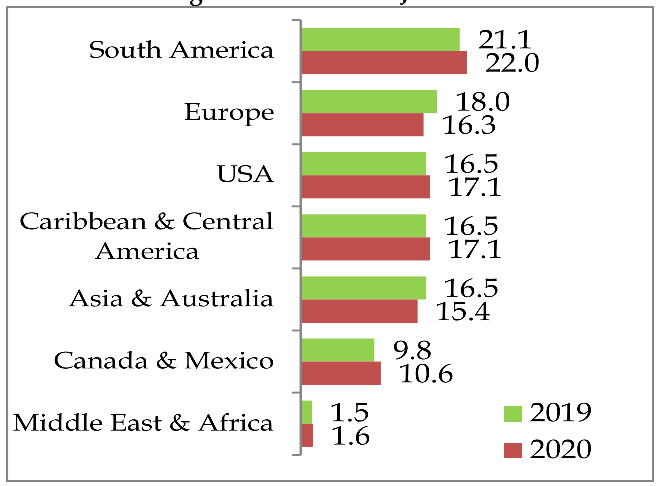
Table 8: Bank & Trust Companies

	Jun 2018	Jun 2019	Jun 2020	% Change
Banks and Trusts	**147**	**133**	**123**	**(7.5)**
Class A	11	10	9	(10.0)
Class B	136	123	114	(7.3)
Trust Companies	**118**	**116**	**117**	**0.9**
Restricted	61	58	59	1.7
Unrestricted	57	58	58	-

Source: Cayman Islands Monetary Authority

South America, Europe and the USA continued to be the leading sources of Cayman's banking licences, accounting for 21.1%, 18.0% and 16.5% of the total, respectively.

Figure 15: Percentage Proportion of Registered Banks by Regional Source as at June 2020



Source: Cayman Islands Monetary Authority

7.2 Insurance

Insurance licences on record fell to 679 at the end of June 2020 relative to 681 at the end of June 2019.

Class 'A' licences, which represents the domestic insurers, remained unchanged at 27 while captive licences declined from 654 to 652. Within captives, Class 'B' licences declined from 625 to 622, Class 'C' licences remained unaffected at 24, while Class 'D' licences rose from 5 to 6.

Table 9: Insurance Companies

	Jun 2018	Jun 2019	Jun 2020	% Change
Domestic - Class 'A'	28	27	27	0.0
Captives	698	654	652	(0.3)
Class 'B'	669	625	622	(0.5)
Class 'C'	25	24	24	0.0
Class 'D'	4	5	6	20.0
Total	**726**	**681**	**679**	**(0.3)**

Class B: Captives and Segregated Portfolio Companies;
Class C: Special Purpose Vehicles
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 33.3% and 21.4% of the market, respectively. The 'other' category was the next largest, representing 15.4% of the market's total.

North America continued to be the primary source market for captive insurance business with 90.3% (588) of the total captives.

Table 10: Captive Insurance Licences by Primary Class of Business, June 2020

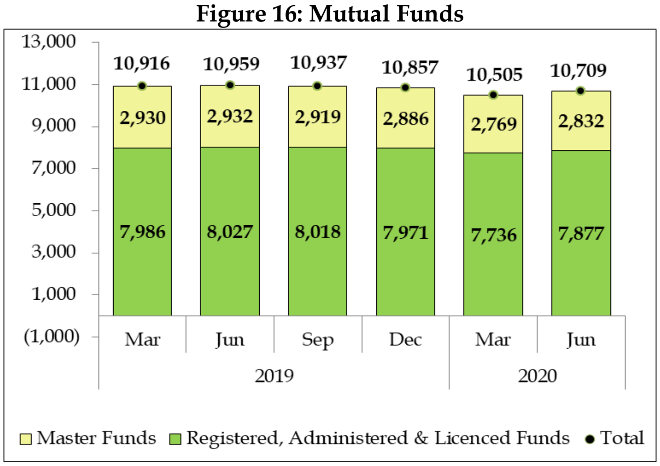
	Jun-19	Jun-20	% Change	% Proportion
Healthcare	218	204	(6.4)	33.3
Workers' Compensation	140	144	2.9	21.4
Property	66	65	(1.5)	10.1
General Liability	74	74	0.0	11.3
Professional Liability	55	54	(1.8)	8.4
Other	101	111	9.9	15.4
Total	**654**	**652**	**(0.3)**	**100.0**

Source: Cayman Islands Monetary Authority

7.3 Mutual Funds

The number of mutual funds declined by 2.3% to 10,709 at the end of June 2020 as all categories declined. Notably, master funds decreased by 3.4% to 2,832 while registered, administered & licenced funds fell by 1.9% to 7,877.

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 347 to 2,210 at the end of June 2020. The total listings for the period was the highest number on record. The rise in stock listings was due to an increase in the number of specialist debt instruments, which rose by 365 listings to 1,682. Three of the remaining six categories recorded no change while the other three categories declined.

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

Instrument	2018	2019	2020	% Change
Investment Fund Security	215	187	183	(2.1)
Specialist Debt Security	915	1,317	1,682	27.7
Corporate & Sovereign Debt Security	281	309	296	(4.2)
Primary Equity Security	4	4	4	0.0
Secondary Equity Security	1	1	1	0.0
Insurance Linked Security	47	43	42	(2.3)
Retail Debt Security	1	2	2	0.0
Total	**1,464**	**1,863**	**2,210**	**18.6**

Source: Cayman Islands Stock Exchange

Market capitalisation rose by US$68.7 billion to US$441.9 billion, the highest level ever achieved. The growth in market capitalisation was attributed primarily to increases of 14.8% in specialist debt and 29.5% in corporate and sovereign debt securities. All instruments recorded higher levels of market capitalisation except primary equity and insurance-linked equity.

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

Instrument	2018	2019	2020	% Change
Investment Fund	11.3	10.8	11.0	1.7
Specialist Debt	165.8	242.6	278.4	14.8
Corporate & Sovereign Debt Security	101.4	112.9	146.2	29.5
Primary Equity	0.2	0.4	0.4	(0.4)
Secondary Equity	0.1	0.0	0.1	27.1
Insurance Linked Security	6.1	5.7	5.1	(9.7)
Retail Debt	0.4	0.8	0.8	0.6
Total	**285.4**	**373.3**	**441.9**	**18.4**

Source: Cayman Islands Stock Exchange

7.5 New Company Registrations

New company registrations declined by 19.1% to 5,567 (see Table 13). This reduction was due to declines in all categories except the 'Foreign' category. The 'Exempt' and 'Resident' categories recorded the largest declines of 20.8% and 31.5%, respectively.

Table 13: New Company Registrations, end June

	2018	2019	2020
Total	**8,870**	**6,883**	**5,567**
Exempt	7,543	5,605	4,437
Non-Resident	8	18	3
Resident	384	409	280
Foreign	439	364	425
FDN*	39	26	13
LLC	457	461	409
Percentage Change (%)			
Total	**39.2**	**(22.4)**	**(19.1)**
Exempt	39.1	(25.7)	(20.8)
Non-Resident	0.0	125.0	(83.3)
Resident	21.9	6.5	(31.5)
Foreign	39.4	(17.1)	16.8
FDN*	-	(33.3)	(50.0)
LLC	46.0	0.9	(11.3)

Source: Registrar of Companies
* Started in February 2018

7.6 New Partnership Registrations

During the first six months of 2020, there were 2,285 new partnership registrations, a decline of 2.5% relative to the comparable period in 2019 (see Table 14). This decline was attributed to a reduction of 3.1% to 2,213 in the number of 'Exempt' companies. In contrast, the number of 'Foreign' companies rose by 22.0% to 72.

Table 14: New Partnership Registrations, end June

	2018	2019	2020
Total	**2,639**	**2,343**	**2,285**
Exempt	2,595	2,284	2,213
Foreign	44	59	72
Percentage Change (%)			
Total	**40.1**	**(11.2)**	**(2.5)**
Exempt	41.1	(12.0)	(3.1)
Foreign	(2.2)	34.1	22.0

Source: Registrar of Companies

8. Construction

Indicators of construction intention showed mixed results for the first six months of the year. This was in the context of a temporary lockdown of the sector during the second quarter of the year.

8.1 Building Permits

The total value of building permits increased by 78.5% to $371.5 million, driven by growth in the residential and commercial sectors (see Table 15).

The commercial category recorded the largest absolute increase, rising by $98.1 million relative to the same period of the previous year. Growth in the category was influenced by 3 high-value buildings, most of which were approved in the first quarter of the year. The value of residential permits (houses and apartments) increased by $56.9 million for the period. This was driven by growth in both the houses and the apartment category. The houses segment rose by $21.4 million while the apartment segment increased by $35.5 million. Growth in the residential category was driven by approvals for a number of apartment complexes and some high-value homes.

Table 15: Value of Building Permits (Jan- Jun)

	Building Permits (CI$ Mil)			%
	2018	2019	2020	Change
Residential	80.4	151.9	208.8	37.5
Houses	*42.8*	*69.8*	*91.3*	*30.7*
Apartments	*37.6*	*82.1*	*117.5*	*43.3*
Commercial	28.5	13.9	112.0	705.5
Industrial	-	1.5	3.9	160.0
Hotel	-	0.2	-	(100.0)
Government	0.0	7.6	1.2	(84.93)
Other	1.9	33.1	45.7	38.0
Total	**110.7**	**208.1**	**371.5**	**78.5**

Source: Planning Department

Despite the growth in value, the number of building permits declined to 514 compared to 659 for the same period last year. All categories except apartments and industrial permits declined for the period.

Table 16: Number of Building Permits (Jan-Jun)

	Number of Permits			%
	2018	2019	2020	Change
Residential	184	269	264	(1.9)
Houses	*119*	*189*	*172*	*(9.0)*
Apartments	*65*	*80*	*92*	*15.0*
Commercial	38	50	37	(26.0)
Industrial	-	3	5	66.7
Hotel	1	1	-	(100.0)
Government	1	18	3	(83.3)
Other	192	318	205	(35.5)
Total	**416**	**659**	**514**	**(22.0)**

Source: Planning Department

8.2 Project Approvals

Project approvals value declined by $165.8 million to $357.4 million in the review period as all categories fell except for the residential and industrial category.

Table 17: Value of Project Approvals (Jan-Jun)

	Project Approvals (CI$ Mil)			%
	2018	2019	2020	Change
Residential	38.2	204.8	308.6	50.7
Houses	*19.4*	*54.8*	*58.7*	*7.2*
Apartments	*18.8*	*150.0*	*249.9*	*66.6*
Commercial	31.2	39.2	14.8	(62.3)
Industrial	0.1	1.3	3.7	174.9
Hotel	-	20.1	-	(100.0)
Government	-	0.6	0.3	(45.9)
Other	17.8	257.2	30.1	(88.3)
Total	**87.3**	**523.2**	**357.4**	**(31.7)**

Source: Planning Department

The 'other' category recorded the largest absolute decline, falling by $227.1 million to $30.1 million. This primarily reflected the non-recurrence of a large scale modification in the previous year.

The impact of the declines was partially offset by a rise in the apartment segment by $99.9 million due to approvals for some large scale projects.

Table 18: Number of Project Approvals (Jan-Jun)

	Number of Approvals			%
	2018	2019	2020	Change
Residential	110	176	147	(16.5)
Houses	*96*	*138*	*99*	*(28.3)*
Apartments	*14*	*38*	*48*	*26.3*
Commercial	5	18	10	(44.4)
Industrial	3	3	4	33.3
Hotel	-	1	-	(100.0)
Government	-	2	2	-
Other	179	180	191	6.1
Total	**297**	**380**	**354**	**(6.8)**

Source: Planning Department

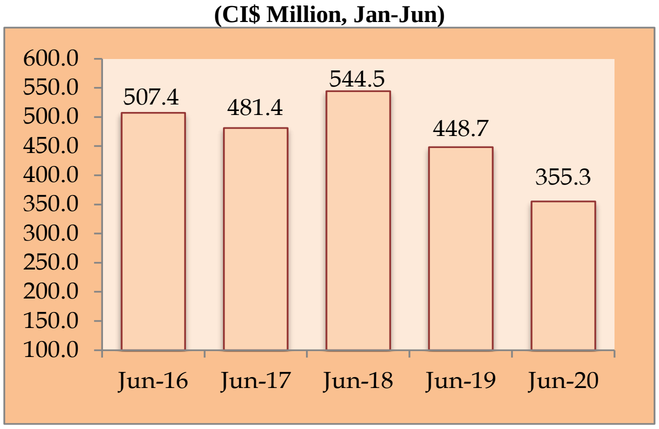
Overall, the total number of project approvals fell by 6.8% to settle at 354, as most categories declined.

9. Real Estate

Real estate activity, as measured by the value and volume of traded properties, declined in the first half of 2020 relative to the same period of 2019.

The value of property transfers during the period fell by 20.8% to $355.3 million. The reduction reflected declines in the value of freehold and leasehold transfers by 16.7% and 67.0%, respectively.

Figure 17: Value of Property Transfers (CI$ Million, Jan-Jun)

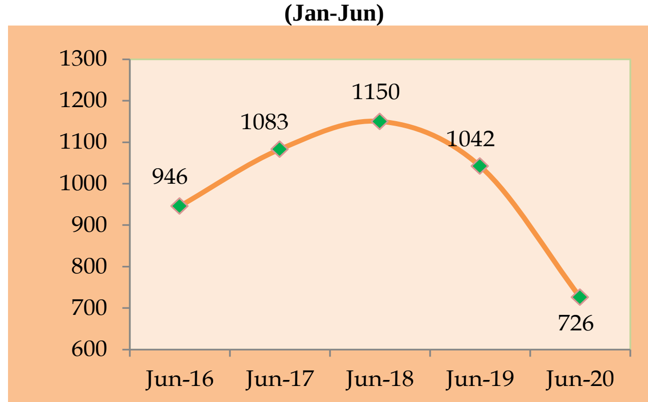


Source: Lands & Survey Department

The number of property transfers also declined in the first half of the year, falling by 30.3% to reach 726. The volume of freehold property transfers declined by 28.0% to 672, while leasehold transfers fell by 50.5% to 54.

The decline in both the volume and value of property transfers occurred in the context lockdown restrictions introduced by the Cayman Islands government during the quarter. Additionally, the general impact of a global decline in international demand also weighed on activities in the sector.

Figure 18: Number of Property Transfers (Jan-Jun)



Source: Lands & Survey Department

10. Utilities

10.1 Electricity

Demand for electricity declined by 0.5% to 317.8 thousand megawatts hours (MWh) in the first half of 2020. The decline was traced to a falloff in commercial and public consumption as businesses closed in response to government restrictions and a shut down in the tourism industry. Specifically, commercial consumption fell by 10.4% for the period while public consumption declined by 7.1%. The impact of these declines was partially offset by a 9.2% increase in residential consumption as the government issued a shelter in place order, and most employees worked from home.

The decline in consumption of electricity was matched by a reduction in net production which fell by 1.5% to 320.2 thousand MWh over the period.

Table 19: Utilities Production/Consumption

	Jun-19	Jun-20	% Change
Millions of US Gallons			
Water Production	1,267.9	1,277.8	0.8
Water Consumption	1,080.5	1,088.2	0.7
'000 of megawatt hrs			
Electricity Production (Net)	325.2	320.2	(1.5)
Electricity Consumption	319.4	317.8	(0.5)
Residential	161.0	175.8	9.2
Commercial	155.6	139.4	(10.4)
Public	2.8	2.6	(7.1)
Total Customers	30,100	30,704	2.0
Residential	25,620	26,210	2.3
Commercial	4,480	4,494	0.3

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

Despite the reduction in electricity consumption, the number of customers increased relative to same period of the previous year. The total number of residential and commercial customers increased by 2.3% and 0.3%, respectively. The average consumption of residential customers increased by 6.7%, while average commercial consumption fell by 10.7%.

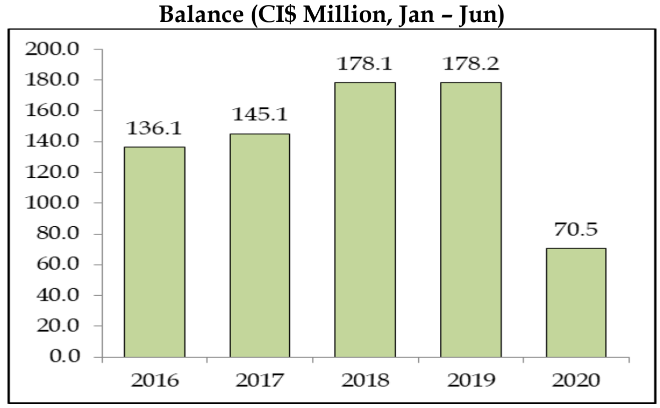
10.2 Water

Despite the lockdown restrictions, domestic water production and consumption increased by 0.8% and 0.7%, respectively, for the first six months of 2020. The rise in water demand could partly be due to increased handwashing and sanitisation, coupled with higher household occupancy from the shelter in place order.

11. Fiscal Operations of the Central Government

Net lending (overall surplus), which is revenue less expenditure, fell to $70.5 million in the first half of 2020 from $178.2 million during the corresponding period in 2019 (see Figure 19 and Table 20). The lower surplus for the period was in the context of the negative economic impact arising from Covid-19 restrictions.

Figure 19: Central Government Overall Fiscal Balance (CI$ Million, Jan – Jun)



Source: Treasury Department

The reduced overall surplus was due to a decline in revenue, coupled with an increase in expenditure. Revenue fell amidst a falloff in both the taxes and other revenue categories. The central government simultaneously increased expenses (current expenditure) during the period, which was the sole contributor to the rise in expenditure. Net investment in non-financial assets (net capital expenditure and net lending) declined, as the government prioritised expenses to fight the impact of Covid-19.

The **net operating balance (formerly current balance)**, which is revenue minus expense, decreased to $75.7 million from $193.1 million.

Table 20: Summary of Fiscal Operations (Jan-Jun)

	Jun-19	Jun-20	% Change
	CI$ Million		
Revenue	**535.7**	**454.4**	**(15.2)**
Expense	**342.6**	**378.7**	**10.5**
Net Operating Balance	**193.1**	**75.7**	**(60.8)**
Net Investment in Nonfinancial Assets[1]	14.9	5.2	(65.0)
Expenditure	**357.5**	**383.9**	**7.4**
Net Lending (Overall Surplus)	**178.2**	**70.5**	**(60.4)**
Financing:			
Net Acquisition of Financial Assets	165.4	52.6	(68.2)
Net Incurrence of Liabilities	(12.8)	(17.9)	39.5

Source: Treasury Department & Economics and Statistics Office

11.1 Revenue

Revenue fell by 15.2% to $454.4 million (see Table 21) and was comprised of taxes (94.8%) and other revenue (5.2%).

Table 21: Revenue of the Central Government (Jan-Jun)

	Jun-19	Jun-20	% Change
	CI$ Million		
Revenue	**535.7**	**454.4**	**(15.2)**
Taxes	**497.3**	**430.6**	**(13.4)**
Taxes on International Trade & Transactions	105.8	84.0	(20.6)
Taxes on Goods & Services	357.3	306.1	(14.3)
Taxes on Property	34.1	30.2	(11.4)
Other Taxes	0.1	10.4	7,804.6
Other Revenue	**38.4**	**23.8**	**(38.0)**
Sale of Goods & Services	21.0	14.6	(30.8)
Investment Revenue	14.6	5.9	(59.5)
Fines, Penalties and Forfeits	1.4	1.2	(20.1)
Transfers n.e.c.	1.2	2.1	73.0

Source: Treasury Department & Economics and Statistics Office

Taxes amounted to $430.6 million, a decline of 13.4% relative to the comparable period in 2019. All categories deteriorated, with the exception of other taxes.

Taxes on goods and services decreased by 14.3% to $306.1 million in the first half of 2020 relative to the same period in 2019 (see Table 22). Lower revenue from work permit and residency fees, which declined by 50.5% to $22.0 million accounted for the majority of the downturn in this category. Tourist accommodation charges, which fell by 68.8% to $7.0 million, and financial services licences, which slumped by 3.0% to $231.9 million, were the other significant contributors.

Table 22: Domestic Tax Collection of the Central Government (Jan-Jun)

	Jun-19	Jun-20	% Change
	CI$ Million		
Financial Services Licences	238.9	231.9	(3.0)
ICTA Licences & Royalties	3.9	3.8	(3.2)
Work Permit and Residency Fees	44.5	22.0	(50.5)
Other Stamp Duties	6.4	4.4	(31.1)
Traders' Licences	3.8	3.2	(13.9)
Other Domestic Taxes	59.9	40.8	(31.9)
Of which:			
Tourist Accommodation Charges	22.4	7.0	(68.8)
Motor Vehicle Charges	5.6	3.5	(36.1)
Taxes on Goods & Services	**357.3**	**306.1**	**(14.3)**

Source: Treasury Department & Economics and Statistics Office

Taxes on international trade and transactions fell by 20.6% to $84.0 million. This was due to a contraction in import duties by 18.0% to $78.7 million. The fall in import duties resulted from lower revenue collection in all categories. Additionally, cruise ship departure charges fell by 46.2% to $3.3 million while environmental protection fund fees decreased by 44.9% to $2.0 million.

Taxes on property fell by 11.4% to $30.2 million (Table 21). This was due to lower stamp duties on land transfers, which fell by

$4.6 million to $33.0 million. Despite the general contractions, **other taxes** rose from $0.1 million to $10.4 million, owing mainly to $9.4 million in proceeds from liquidated entities.

Other revenue declined to $23.8 million, 38.0% lower than the corresponding period a year ago. Sale of goods and services fell by 30.8% to $14.6 million, and investment revenue declined by 59.5% to $5.9 million. There was also a contraction of 20.1% in revenue collected from fines, penalties and forfeits. Transfers not elsewhere classified (n.e.c), which includes donations and other revenue, increased by 73.0% to $2.1 million.

11.2. Expenditure

Expenditure increased in the review period due to an increase in expenses. Net investments in non-financial assets[7] declined during the period.

Expense (current expenditure) increased by 10.5% to $378.7 million due to higher spending in five of the seven categories (see Table 23).

An increase in the number of civil servants by 2.7% coupled with a salary adjustment in the first quarter of the year led to an expansion in compensation of employees (personnel costs) by 12.6% to $177.9 million. Salaries and wages (including employee pension contributions) increased by 11.1% to $131.3 million, and healthcare costs rose by 11.7% to $25.9 million.

Use of goods and services (supplies and consumables) decreased by 12.2% to $44.6 million. This was due primarily to reduced spending on services and utilities of $13.5 million and $14.4 million, respectively.

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

	Jun-19	Jun-20	% Change
	CI$ Million		
Expense	**342.6**	**378.7**	**10.5**
Compensation of Employees	158.0	177.9	12.6
Use of Goods and Services	50.8	44.6	(12.2)
Consumption of Fixed Capital	16.2	18.5	14.8
Subsidies	81.7	93.0	13.7
Social Benefits	19.3	25.4	31.6
Interest	11.7	5.8	(50.5)
Other Expense	4.9	13.4	173.8

Source: Treasury Department & Economics and Statistics Office

Consumption of fixed capital (depreciation); which is a decline in the value of fixed assets owned and used by the central government as a result of physical deterioration, normal obsolescence or normal accidental damage; increased by 14.8% to $18.5 million. The main contributors to this increase were the depreciation of buildings, computer hardware and other infrastructure assets.

Subsidies, which are payments to statutory authorities, government-owned companies and non-government suppliers, increased by 13.7% to total $93.0 million. The entities receiving the largest increase in subsidies were Cayman Airways Limited (up $5.5 million to $15.2 million) and Cayman Islands National Insurance Company (up $4.1 million to $20.9 million).

[7] Net investment in nonfinancial assets is gross investment in nonfinancial assets less consumption of fixed capital.

Social benefits (transfer payments) increased by 31.6%, traced to increased provision of temporary financial assistance to displaced individuals.

Interest expense declined by 50.5% to $5.8 million, consistent with the reduction in the debt stock (see Section 11.4).

Other expense rose by 173.8% to $13.4 million. This increase was due mainly to higher spending on equipment and supplies to combat Covid-19.

11.3. Investment in Non-financial Assets

Gross investment in non-financial assets (gross capital expenditure and net lending) decreased by 23.5% to $23.8 million (see Table 24). This decline was reflected in fixed assets[8] as there were no non-produced assets[9] during the first six months of 2020. Net investment in non-financial assets fell by 65.0% to $5.2 million in the review period.

Within fixed assets, capital investment in ministries and portfolios declined by 37.2% to $6.4 million. This resulted chiefly from reduced capital spending in the Ministry of Financial Services and Home Affairs.

Capital investment in statutory authorities and government-owned companies fell by 13.4% to $13.9 million. Lower capital spending was mainly seen for Cayman Turtle Farm (1983) Limited and Cayman Islands National Insurance Company. Expenditure on executive assets declined by 23.6% to $3.4 million, due mainly to lower spending on road surface upgrades.

Table 24: Investment in Non-Financial assets (Jan-Jun)

	Jun-19	Jun-20	% Change
	CI$ Million		
Gross Investment in Non-Financial Assets	**31.0**	**23.8**	**(23.5)**
Fixed Assets	31.0	23.8	(23.5)
Capital Investment in Ministries and Portfolios	10.2	6.4	(37.2)
Capital Investment in Statutory Authorities and Government Owned Companies	16.0	13.9	(13.4)
Executive Assets	4.5	3.4	(23.6)
Net Investment in Non-Financial Assets	**14.9**	**5.2**	**(65.0)**

Source: Treasury Department & Economics and Statistics Office

11.4. Financing and Debt

The moderation in the assumed cash balance from the overall surplus led to a corresponding slowdown in the net acquisition of financial assets (change in cash balance) to $52.6 million relative to $165.4 million in the previous year (see Table 25).

Table 25: Net Financing (Jan-Jun)

	Jun-19	Jun-20	% Change
	CI$ Million		
Financing:			
Net Acquisition of Financial Assets	165.4	52.6	(68.2)
Net Incurrence of Liabilities	(12.8)	(17.9)	39.5
Incurrence (Disbursement)	0.0	0.0	0.0
Reduction (Loan Repayment)	12.8	17.9	39.5

Source: Treasury Department & Economics and Statistics Office

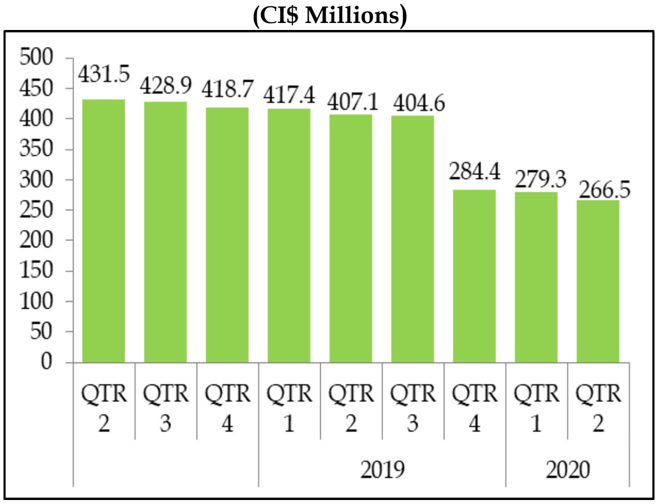
[8] Includes expenditure on buildings and structures as well as machinery and equipment.

[9] Comprises of investment in tangible, natural resources over which ownership rights are enforced and intangible non-produced assets.

There was a net reduction in liabilities during the period, specifically loan payments increased by 39.5% to $17.9 million. There were no loan disbursements during the period.

The central government's outstanding debt continued to decline during the review period, closing at $266.5 million at the end of June 2020, lower than the $407.1 million at the end of June 2019 (see Figure 20).

Figure 20: Central Government Outstanding Debt (CI$ Millions)



Source: Treasury Department

The central government's debt service-to-revenue ratio was 5.2% for the first six months of 2020 relative to 4.6% for the first half of 2019. Interest expense for the review period accounted for 1.5% of total expense compared with 3.4% in the corresponding period of 2019. Interest expense as a proportion of revenue declined to 1.3% from 2.2% in the comparable period of 2019.

12. Economic Outlook

Economic activity in 2020 is expected to contract by 7.8% as business production decline following imposed COVID-19 restrictions by the government. Further, projections for a reduction in global output is expected to weigh on demand for the Islands' services. Notwithstanding, stimulus measures implemented by the government aimed at boosting construction, increasing disposable income and making low-cost private sector funding available should add some demand impetus for the remainder of the year.

The measures implemented by the government, coupled with an expected inflection of global declines are expected to support a partial recovery in 2021. Economic output is projected to recover by 5.2% in 2021.

Table 26: Macroeconomic Outlook of main indicators

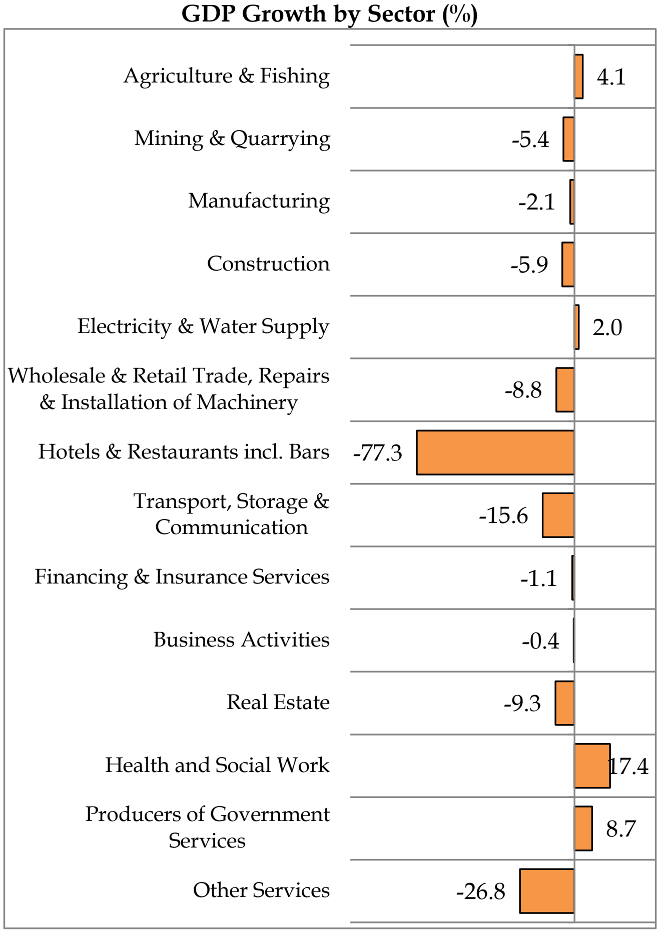
			Projections	
	2018	**2019**	**2020**	**2021**
Real GDP growth (%)				
Cayman Islands*	4.1	3.2	-7.8	5.2
United States	3.0	2.2	-4.3	3.1
Advanced Economies	2.2	1.7	-5.8	3.9
Consumer Prices Index (avg. %)				
Cayman Islands	3.3	5.7	0.5	1.6
United States	2.4	1.8	1.5	2.8
Advanced Economies	2.0	1.4	0.8	1.6
Unemployment (%)				
Cayman Islands	2.8	3.5	7.6	5.5
United States	3.9	3.7	8.9	7.3
Advanced Economies	5.1	4.8	7.3	6.9

Source: IMF October 2020 WEO and Economics and Statistics Office

For 2020, most sectors are expected to contribute to the contraction led by hotels and restaurants, transport and real estate activities. The hotels and restaurant sector is projected to contract by 77.3%, as the impact of the border closure persists throughout the remainder of the year.

The transport and communication sector is projected to contract by 15.6% in 2020. This is expected to reflect the closure of the Islands air and seaports to passengers, coupled with the associated impact on tour and public transport operators.

Figure 21: Projected 2020 GDP Growth by Sector (%)



Source: Economics and Statistics Office

Real estate activity is projected to contract by 9.3% for the year as the impact of closures on the labour force affects housing activities. The financing and insurance services sector is projected to decline by 1.1% for the year, while business services decline by 0.4%. The sectors are expected to show some resilience in the short term as the industry has been able to get employees to work effectively remotely. The need to restructure and develop new business models should also provide some impetus in the sector. This should be further accentuated by the removal of Cayman from the European Union "blacklist".

The consumer price index (CPI) inflation rate is forecasted at 0.5% in 2020, lower than the 5.7% observed in 2019. A reduction in both domestic and international demand is expected to relieve pressures on domestic prices. Additionally, falling international crude oil prices are expected to further support stability in the consumer basket. Inflation is expected to increase moderately to 1.6% in 2021.

The unemployment rate in 2020 is forecasted at 7.6% of the labour force, as the falloff in labour demand associated with the closure and consolidation of some industries is expected to contribute to higher unemployment levels. The demand for labour is expected to track the GDP growth forecasts with a decline in employment opportunities expected in the industries primarily affected. The unemployment rate is projected to ameliorate to 5.5% in 2021.

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Cayman Water Company
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Lands and Survey Department
Port Authority of the Cayman Islands
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