



THE CAYMAN ISLANDS' THIRD QUARTER ECONOMIC REPORT 2014

December 2014



The Economics and Statistics Office
Ministry of Finance and Economic Development

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Overview*

- Estimated gross domestic product (GDP) continued to expand in the third quarter, resulting to an average annualised growth rate of 2.3% in the first three quarters.
- The average Consumer Price Index rose by 1.5%, as higher price indices were recorded for household equipment, restaurants and hotels, food and non-alcoholic beverages, transport, education, and recreation and culture.
- Merchandise imports grew by 4.9% to register at \$587.3 million as importation of non-oil goods increased by 6.8%.
- Current work permits rose marginally by 0.8% compared to a year ago.
- Broad liquidity or money supply contracted by 2.4% due to lower foreign currency deposits held by residents while local currency money supply expanded.
- The weighted average lending rate increased by 11 basis points to 6.34% while the prime lending rate remained stable at 3.25%.
- Domestic credit was higher by 2.6% as credit to the private sector increased by 3.9% (due mainly to households) and credit to the public sector fell by 6.8%.
- Bank and trust company licenses fell by 6.8% while insurance licenses rose by 1.4%.
- Mutual funds which include the new category “master funds” recorded an overall decline of 0.4%.
- Stock exchange listings declined by 0.6% to settle at 1,082 amidst a modest increase in market capitalization.
- New company registrations rose by 1.4% to total 7,223 due to a 3.1% increase in exempt company registration.
- Air arrivals grew by 12.3% and cruise passengers by 19.1%.
- Building permits rose by 42.1% in value although total number fell by 24.6%.
- Property transfers declined in value by 20.2% although it grew in volume by 3.4%.
- Electricity and water consumption increased by 3.1% and 1.3% respectively.
- Demand for telecommunication services continued on a downward trajectory except for broadband connections which rose by 6.6%.
- The central government’s overall fiscal surplus ameliorated to \$92.9 million compared to \$69.7 million a year ago.
- The total outstanding debt of the central government declined to \$543.1 million from \$569.4 million a year ago.

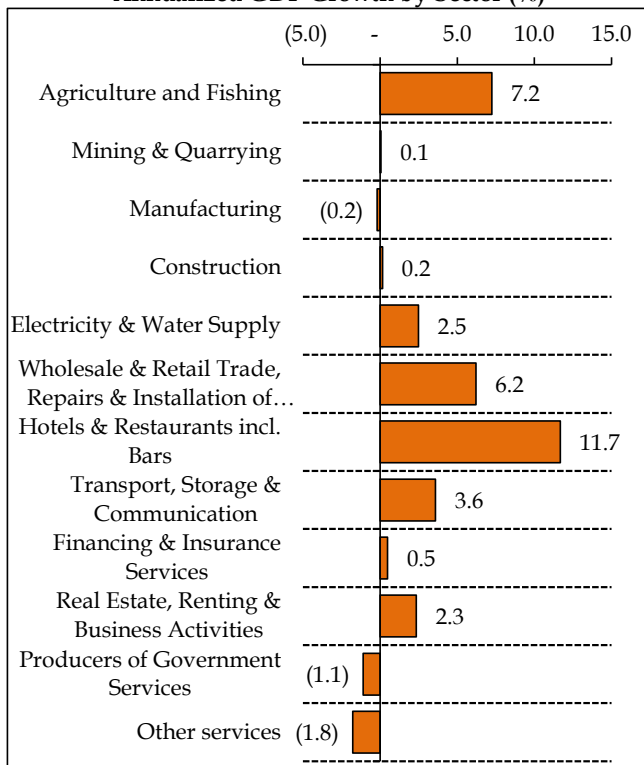
*Comparative data over the first nine months of 2013, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. GDP Growth and Macroeconomic Forecasts

Based on available indicators, the Cayman Islands' real GDP grew by an estimated annualised rate of 2.3% in the first nine months of 2014 compared to a year ago.

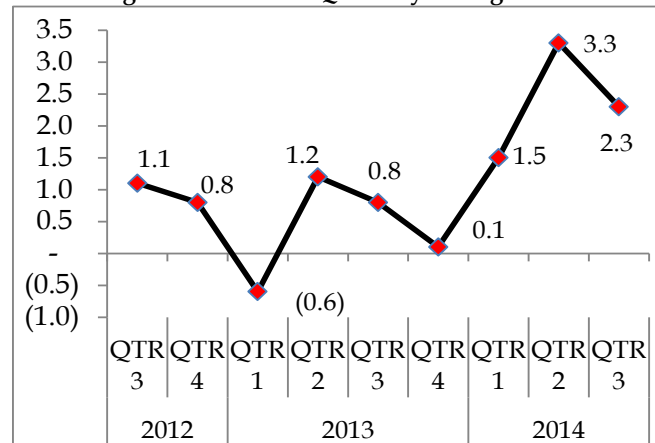
Upbeat growth rates were indicated for a number of sectors, led by hotels and restaurants (11.7%), wholesale and retail trade (6.2%), transport, storage and communication (3.6%), real estate, renting and business activities (2.3%), electricity and water supply (2.5%) and agriculture and fishing (7.2%). However, declines were indicated for government services, other services and manufacturing. Growth of financial services remained soft at 0.5%.

Figure 1: Estimated First Nine Months of 2014 Annualized GDP Growth by Sector (%)



Source: Economics and Statistics Office

Figure 2: Estimated Quarterly GDP growth



Source: Economics and Statistics Office

Given the first nine months of the year's performance, forecast GDP growth for the calendar year 2014 is now placed at 2.1%, higher than the previous forecast of 1.9% (see Table 1). This assumes stable growth during the last quarter of the year.

The inflation forecast for 2014 is revised downwards to 1.6% from 1.8%, given that the average inflation in the first nine months stood at 1.5%, supported by declining world oil prices.

The forecast unemployment rate is also revised downwards to 6.0% from the previous 6.3%, conditional on the continuing revival of economic activities in the last quarter of 2014.

Table 1: Macroeconomic Performance 2012-2013 and Outlook for 2014 Based on First Three Quarters Indicators

	2011	2012	2013	Projection
				2014
Percent (%)				
Real GDP*	0.9	1.4	1.2	2.1
CPI Inflation	1.3	1.2	2.2	1.6
Unemployment Rate	6.3	6.2	6.3	6.0

Source: Economics and Statistics Office

2. Inflation

Average inflation for the first nine months of 2014 was recorded at 1.5% (see Table 2). This resulted mainly from rising price indices for food and non-alcoholic beverages (2.3%), household equipment (7.4%), miscellaneous goods and services (1.5%), education (2.8%), restaurants and hotels (6.9%) and transport (3.3%). Declining price indices were recorded for housing and utilities, clothing and footwear, and health.

Table 2: Average Inflation (%)

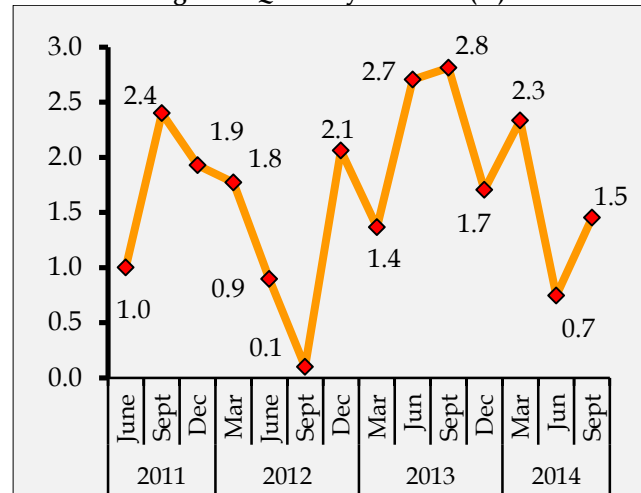
Categories	Avg Inflation Rates (%)	
	2013	2014
Food & Non-alcoholic Beverages	3.3	2.3
Alcohol and Tobacco	13.5	0.0
Clothing and Footwear	5.6	-0.7
Housing and Utilities	-0.8	-0.6
Household Equipment	6.2	7.4
Health	1.3	-0.3
Transport	2.0	3.3
Communication	0.7	1.1
Recreation and Culture	-1.2	1.8
Education	4.0	2.8
Restaurants and Hotels	0.9	6.9
Misc. Goods and Services	9.0	1.5
Overall CPI Inflation	2.3	1.5

Source: Economics and Statistics Office

In the quarter ended September 2014, the Consumer Price Index (CPI) was higher by 1.5% compared to a year ago (see Figure 3)¹. Rising price indices were recorded for household equipment (7.8%), food and beverage (2.1%), transport (2.6%), recreation and culture (1.6%), communication (1.3%), and housing and utilities (1.4%). However,

these increases were offset by declines in clothing and footwear and other categories.

Figure 3: Quarterly Inflation (%)



Source: Economics and Statistics Office

The household equipment price index was higher by 7.8%, resulting from higher prices of household textiles, glassware, tableware and household utensils coupled with higher cost related to goods and services for routine household maintenance.

The transport price index increased by 2.6%, due mainly to higher cost of vehicles and transport services. The latter includes vehicle fuel and airfares for a variety of routes.

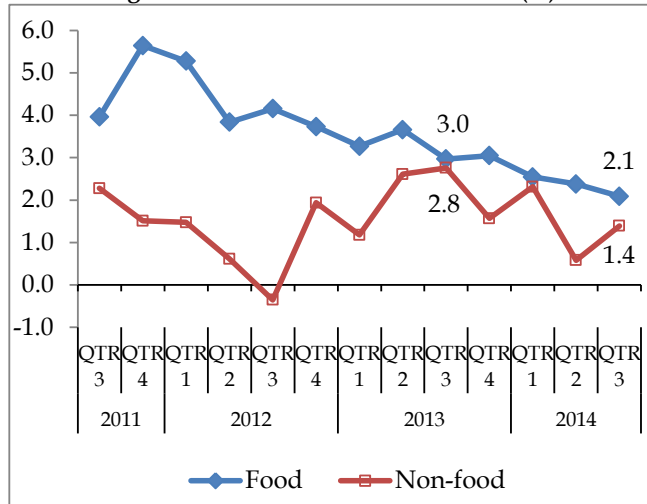
Higher cost of postal services, telephone and telefax equipment and telephone and telefax services pushed the communication index up by 1.3%.

The food and non-alcoholic beverages index increased by 2.1% in the third quarter of 2014 compared to the same period a year ago. A dissection of year-on-year inflation showed that food inflation has trended downwards since the end of 2011, closer to convergence

¹ See also 'The Cayman Islands Consumer Price Index Report: September 2014,' www.eso.ky

with non-food inflation which stood at 1.4% during the third quarter (see Figure 4).

Figure 4: Food vs. Non-food Inflation (%)



Source: Economics and Statistics Office

The price index for housing and utilities stood at 89.6 in the third quarter of 2014, an increase of 1.4% from a year ago. This was mainly on account of higher imputed rentals for owner-occupied housing and the cost of routine maintenance and minor repair of dwellings. The cost of electricity, gas and other fuels and water supply and miscellaneous services also increased by 1.1% and 2.8% respectively.

3. Trade

Preliminary data for the first nine months of 2014 indicate higher imports compared to a year ago. Merchandise imports increased by 4.9% in the first three quarters of 2014 to settle at \$587.3 million (see Figure 5). This resulted as the value of non-oil and petroleum related-products grew by 6.8% while the value of oil and petroleum-related

products imports (or mineral fuels, lubricants and related materials) decreased by 1.5%.

The growth in the importation of non-oil products is traced to all major categories except for machinery and transport equipment.

Figure 5: Merchandise Imports (CIS\$ Millions, Jan - Sep)

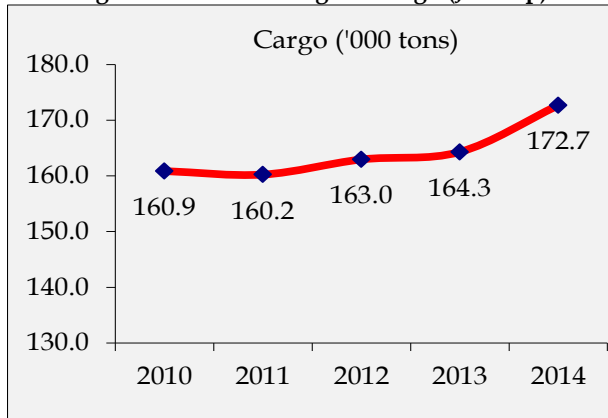


Source: Customs Department and ESO

Importation of food and live animals increased by 18.7%, beverages and tobacco by 14.1%, miscellaneous manufactured articles by 6.9%, commodities and transactions not classified elsewhere by 3.0% and manufactured good classified chiefly by materials by 6.9%. In contrast, machinery and transport equipment retreated by 2.8%.

The increase in the value of merchandise imports for the first three quarters of 2014 coincided with a higher volume of imported cargo. The total tonnage of landed cargo grew by 5.1% compared to a year ago (see Figure 6).

Figure 6: Total Tonnage of Cargo (Jan-Sep)



Source: Cayman Islands Port Authority

Additionally, as exhibited in Table 3, the total quantity of imported fuel rose by 7.1% during the first three quarters of the year. However, the value of oil and petroleum-related products slid by 1.5% due to the continued decline of oil prices in the world market.

Table 3: Quantity of Fuel Imports

	Sep-11	Sep-12	Sep-13	Sep-14	% Change
Millions of imperial gallons					
Total Fuel	37.5	34.1	36.7	39.3	7.1
Diesel	25.2	23.0	24.8	27.2	9.7
Gas	8.1	7.2	7.9	8.3	5.4
Aviation Fuel	3.0	2.9	3.0	2.8	(5.5)
Propane	1.2	1.0	1.0	0.9	(6.0)

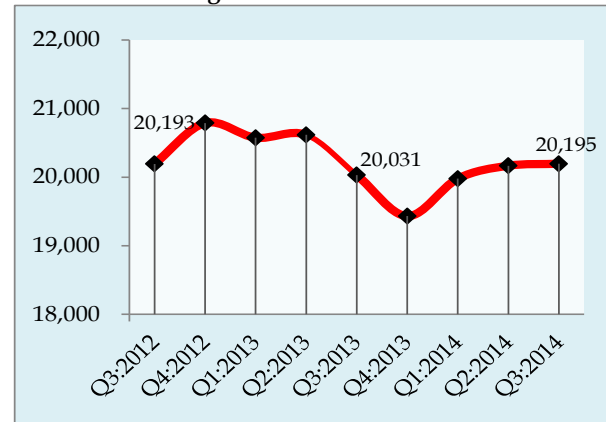
Source: Cayman Islands Port Authority

4. Work Permits

Work permits increased slightly by 0.8% to 20,195 in the first nine months of 2014, following the decrease a year earlier.

Mirroring the trend in previous quarters, work permits in the third quarter rose 0.1% relative to the quarter ending June 2014.

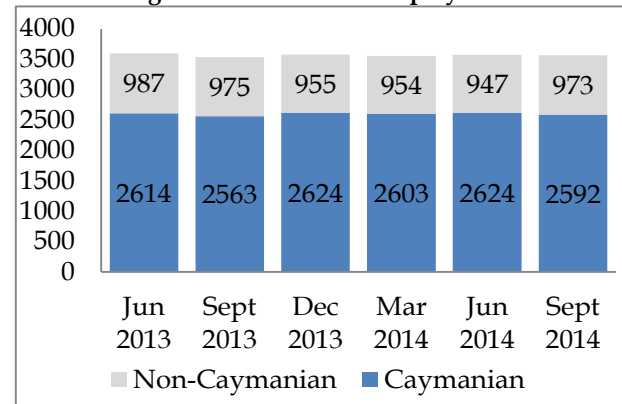
Figure 7: Work Permits



Source: Immigration Department, Economics & Statistics Office

As depicted in Figure 8, civil service employment increased by 27 persons (0.8%) to total 3,565 when compared to a year ago. Caymanian employment posted an increase by 29 persons while non-Caymanian employment went down by 2 persons.

Figure 8: Civil Service Employment



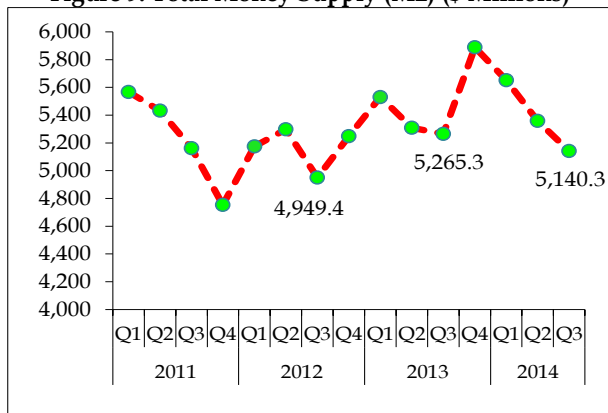
Source: Portfolio of the Civil Service

5. Money & Banking

Broad liquidity (M2) which comprises CI dollar-denominated money and foreign exchange deposits contracted by 2.4% to settle at \$5,140.3 million in the first nine months of 2014. The contraction resulted

from the fall in foreign exchange deposits which outweighed the growth in CI dollar-denominated money supply (see Figure 9 and Table 4).

Figure 9: Total Money Supply (M2) (\$ Millions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

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

	Sept-13	Sept-14	% Change
Total Assets	5,265.3	5,140.3	(2.4)
Net Foreign Assets	2,750.9	2,606.2	(5.3)
Monetary Authority	93.7	95.5	1.9
Commercial Banks	2,657.1	2,510.7	(5.5)
Net Domestic Assets	2,514.4	2,534.1	0.8
Domestic credit	2,933.3	3,010.9	2.6
Claims on central government	278.5	250.4	(10.1)
Claims on other public sector	67.4	72.0	6.8
Claims on private sector	2,587.4	2,688.5	3.9
Other items (net assets)	(418.9)	(476.8)	13.8
Broad Liquidity	5,265.3	5,140.3	(2.4)
Broad money (KYD) M2	1,120.6	1,190.5	6.2
Currency in circulation	88.8	89.5	0.8
KYD Deposits	1,031.8	1,101.0	6.7
Demand deposits	422.3	420.2	(0.5)
Time and savings deposits	609.5	680.8	11.7
FOREX deposits	4,144.7	3,949.8	(4.7)
of which: US dollars	3,610.5	3,539.7	(2.0)
US\$ Contribution (%)	87.1	89.6	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.1. Net Foreign Assets (NFA). During the review period, NFA declined by 5.3% to \$2.6 billion. NFA of the domestic commercial banks declined by 5.5% while that of the Cayman Islands Monetary Authority went up by 1.9% (see Tables 4 and 5).

The lower NFA of commercial banks' resulted from a decline in foreign assets due to a drop in balances with banks and branches which exceeded the growth in foreign investments and non-residents loans. Foreign liabilities also declined as non-residents deposits fell and overshadowed the sharp increase in other liabilities.

Table 5: Net Foreign Assets (\$ millions)

	Sept-13	Sept-14	% Change
Net Foreign Assets	2,750.9	2,606.2	(5.3)
Monetary Authority	93.7	95.5	1.9
Commercial Banks	2,657.1	2,510.7	(5.5)
Foreign Assets	5,657.6	5,394.5	(4.6)
Bal. with Banks & Branches	3,809.4	3,375.3	(11.4)
Total Investment	1,026.7	1,191.8	16.1
Total Non-Resident Loans	821.5	827.4	0.7
Foreign Liabilities	3,000.4	2,883.8	(3.9)
Total Non-Resident Deposits	2,795.6	2,628.6	(6.0)
Other Liabilities	204.9	255.2	24.6

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.2. Domestic Credit. During the review period, domestic credit expanded by 2.6% due to higher private sector borrowings while public sector indebtedness continued on a downward trajectory, this time declining by 6.8% (see Table 6).

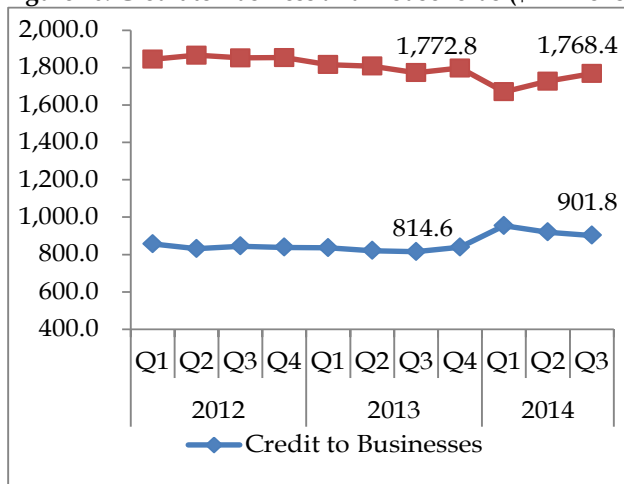
The central government reduced its debt by \$28.1 million while other public sector entities also posted a net decrease of \$4.6 million (see Table 4).

Table 6: Domestic Credit (\$ millions)

	Sept-13	Sept-14	% Change
Domestic Credit	2,933.3	3,010.9	2.6
Domestic Credit to Public Sector	345.9	322.4	(6.8)
Domestic Credit to Private Sector	2,587.4	2,688.5	3.9

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Lending to the domestic private sector (businesses, households and non-profit organizations) expanded anew by 3.9% compared to a year ago (Table 6 and Figure 10).

Figure 10: Credit to Business and Households (\$ millions)


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Loans to households which comprised the largest share of domestic private credit decreased marginally by 0.3% (or by \$4.5 million) as at September 2014 compared to the preceding year. This was precipitated by a decline in borrowings for domestic property which accounts for 86.2% of total outstanding household loans. Strong growth was seen in loans for motor vehicles, education and technology and miscellaneous credit (see Table 7).

Total credit to businesses expanded during the review period as lending to the production and manufacturing, and trade and commerce sectors grew by 22.5% and 13.8% respectively. In particular, the construction industry which accounted for the largest share in business loans had a significant increase of 26.9%.

However, loans to the services sector plummeted by 28.6% as a total of \$26.6 million were amortised across major services.

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

	Sept-13	Sept-14	% Change
Total	2,587.4	2,688.4	3.9
Credit to Businesses	814.6	901.8	10.7
Production & Manufacturing	322.4	395.1	22.5
Agriculture, Fishing and Mining	12.8	13.1	2.3
Manufacturing	24.2	13.4	(44.6)
Utilities	2.9	10.2	251.7
Construction	282.5	358.4	26.9
Services	93.0	66.4	(28.6)
Accommodation, Food, Bar & Entertainment Services	54.6	29.5	(46.0)
Transportation, Storage & Communications	17.7	14.5	(18.1)
Education, Recreational & Other Professional Services	20.7	22.4	8.2
Trade and Commerce	363.1	413.1	13.8
Wholesale & Retail Sales Trade	70.5	70.6	0.1
Real Estate Agents, Rental and Leasing Companies	144.4	126.5	(12.4)
Other Business Activities (General Business Activity)	148.2	216.0	45.7
Other Financial Corporations	36.1	27.2	(24.7)
Credit to Households	1,772.8	1,768.3	(0.3)
Domestic Property	1,517.8	1,460.5	(3.8)
Motor Vehicles	30.3	32.9	8.6
Education and Technology	5.2	5.6	7.7
Miscellaneous*	219.5	269.3	22.7
NonProfit Organizations	0.0	18.3	

*Miscellaneous include consolidated debt, insurance, medical & travel

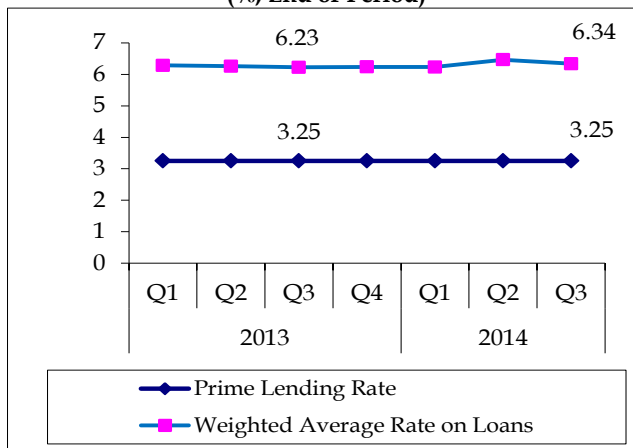
Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.3. Broad Liquidity. As referenced in Table 4, broad liquidity (M2) in the Cayman Islands reached \$5.1 billion in September 2014, a 2.4% contraction from a year ago due mainly to the fall in foreign currency deposits by 4.7%. The reduction was comprised of \$70.8 million US-dollar denominated deposits and \$68.5 million in other foreign currencies.

In contrast, total CI dollar deposits rose by 6.7% or \$69.2 million while currency in circulation grew by 0.8% or \$0.7 million compared to a year ago. These trends are consistent with the sustained revival in local economic activity.

5.4. Interest Rates. As depicted in Figure 11, the weighted average lending rate in KYD rose by 11 basis points from 6.23% in September 2013 to 6.34% in the same period of 2014. The Cayman Islands prime lending rate remained constant at 3.25%.

Figure 11: KYD Lending Rates
(%, End of Period)

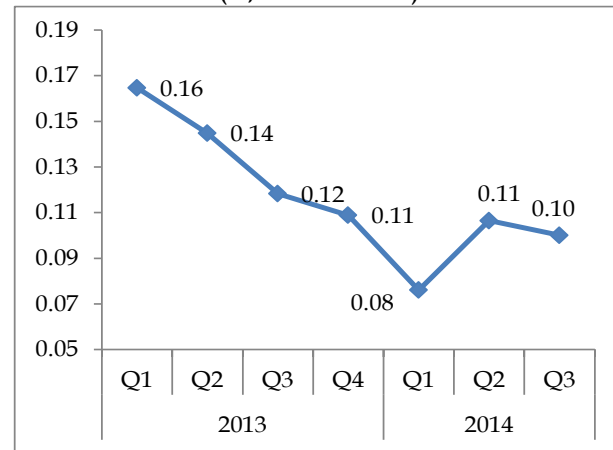


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As depicted in Figure 12, the weighted average savings rate in KYD declined

marginally by 2 basis points from a year ago to 0.10%.

Figure 12: KYD Weighted Average Savings Rates
(%, End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6. Financial Services

The financial services sector posted anew a mixed performance during the first nine months of 2014. With the exception of insurance companies and new company registration, all other sub-sector registration indicators posted declines.

6.1 Banks & Trust

Amid a challenging global financial environment, subdued activity was noted in the Cayman Islands' banks licensing business. As of September 2014, the total number of licensed bank and trust companies abated to 206, 6.8% lower than last year. Similarly, the total number of licences issued to trust companies was reduced by 4.2% to 113.

Table 8: Bank & Trust Companies

	Sept 2012	Sept 2013	Sept 2014	% Change
Bank and Trust	233	221	206	(6.8)
Class 'A'	15	15	15	0.0
Class 'B'	218	206	191	(7.3)
Trust Companies	122	118	113	(4.2)
Restricted	69	67	64	(4.5)
Unrestricted	53	51	49	(3.9)

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences remained steady at 15, while Class 'B' licences declined by 15, to settle at 191.

Europe and USA continued to lead as sources of Cayman's banking licensees comprising 25.7% and 20.9% of the total, respectively. The rest of the regional sources were South America (18.0%), Asia and Australia (11.7%), Caribbean and Central America (10.7%) Canada and Mexico (8.7%) and the Middle East and Africa (4.4%).

6.2 Insurance

The insurance sector continued its upswing as the total number of insurance licences rose by 11 to reach 793. Whereas Class 'A' insurance licences improved by 1, Class 'B' (captive) licences rose by 10 to reach 765 over the review period.

Table 9: Insurance Companies

	Sep 2012	Sep 2013	Sep 2014	% Change
Class 'A'	27	27	28	3.7
Class 'B'	734	755	765	1.3
Total	761	782	793	1.4

Source: Cayman Islands Monetary Authority

The captive licensees' primary class of business comprised of healthcare (33.6%), workers' compensation coverage (21.8%), property (11.6%), general liability (10.2%) and professional liability (8.9%).

Table 10: Captive Insurance Licences by Primary Class of Business, September 2014

	Licences	% share
Healthcare	257	33.6
Workers' Compensation	167	21.8
Property	89	11.6
General Liability	78	10.2
Professional Liability	68	8.9
Other	106	13.9
Total	765	100.0

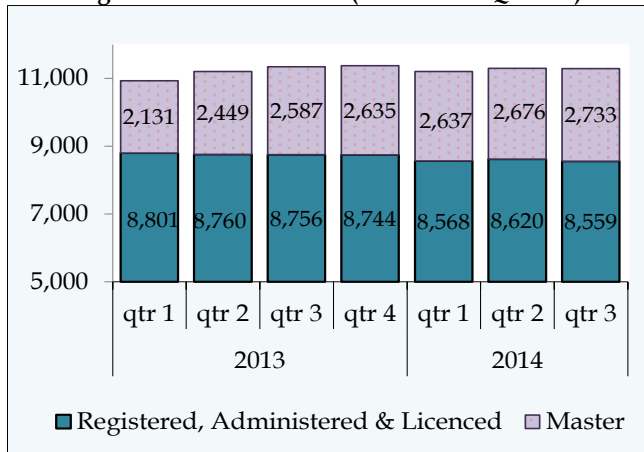
Source: Cayman Islands Monetary Authority

As in past periods, North America remained as the dominant risk location of Cayman's captive insurance business with a 90.1% share. The Caribbean and Latin America region was third (3.1%) after the 'Worldwide' category (3.8%).

The total premium of captives dipped by US\$1.3 billion or 9.7% to register at US\$12.4 billion as at the end of September 2014.

6.3 Mutual Funds

When compared to the third quarter of 2013, the total number of registered, administered and licensed mutual funds fell by 197 or 2.2% to 8,559. However, master funds were higher with 146 additional licences. When combined, all categories of mutual funds as at September 2014 totalled 11,292, posting a marginal decline of 0.4%.

Figure 13: Mutual Funds (as at end of Quarter)


Source: Cayman Islands Monetary Authority

6.4 Stock Exchange

The total Cayman Islands Stock Exchange listings decreased by 0.6% from 1,088 in September 2013 to 1,082 in September 2014. Specialist debt, which comprised the largest share of stock listings, grew by 3.7%; however, mutual funds, the second largest instrument, dropped sharply by 11.4%.

Table 11: Number of Stock Listings by Instruments (as at end September)

Instruments	2013	2014	% Change
Total	1,088	1,082	(0.6)
Mutual Funds	316	280	(11.4)
Specialist Debt	572	593	3.7
Eurobond	114	135	18.4
Primary Equity	5	7	40.0
Secondary Equity	2	1	(50.0)
Insurance Linked Security	79	66	(16.5)

Source: Cayman Islands Stock Exchange

Whereas total stock exchange listings registered a negative performance, market capitalization improved slightly by US\$4.5 billion (or 2.7%) to reach US\$170.7 billion in September 2014. This uptrend was mainly due to increases in specialist debt and

eurobonds, the two largest instruments in terms of market capitalization.

Table 12: Market Capitalization by Instruments (US\$ Billions, as at end September)

Instruments	2013	2014	% Change
Total	166.2	170.7	2.7
Mutual Funds	11.9	10.2	(14.3)
Specialist Debt	77.3	80.5	4.1
Eurobond	66.5	71.7	7.8
Primary Equity	0.3	0.2	(33.3)
Secondary Equity	0.9	0.1	(88.9)
Insurance Linked Security	9.3	8.0	(14.0)

Source: Cayman Islands Stock Exchange

6.5 New Company Registration

During the period January to September 2014, total new company registrations reached 7,223 as compared to 7,120 for the same period of 2013, representing a 1.4% increase. This recovery was largely on account of additional exempt company registrations (3.1%) which offset downturns in all other categories.

Table 13: New Company Registrations (Jan-Sep)

	2012	2013	2014
Total	6,775	7,120	7,223
Exempt	5,966	6,325	6,521
Non-Resident	51	31	21
Resident	409	339	302
Foreign	349	425	379
Percentage change (%)			
Total	-4.1	5.1	1.4
Exempt	-3.9	6.0	3.1
Non-Resident	-59.2	-39.2	-32.3
Resident	3.0	-17.1	-10.9
Foreign	5.4	21.8	-10.8

Source: Registrar of Companies

7. Tourism

The tourism sector further strengthened in the first nine months of 2014, supported by a growing diversification of its source markets. Total visitor arrivals stood at 1,468,767, an increase of 17.7% over the comparative period of 2013. This upturn was a result of double-digit growth rates in air and cruise ship arrivals.

7.1 Air Arrivals

Air arrivals for the first three quarters of 2014 totalled 293,652, reflecting a strong growth of 12.3% over the arrivals a year ago.

Robust growth in arrivals was seen across all regional markets, particularly Europe (35.3%) and the rest of the world (22.0%). The latter suggests improving diversification of the source markets. Arrivals from the US which remains the dominant source, was also robust with double-digit growth rates noted for both the Northeast and Southwest regions.

Table 14: Air arrivals by US regions (Jan-Sep)

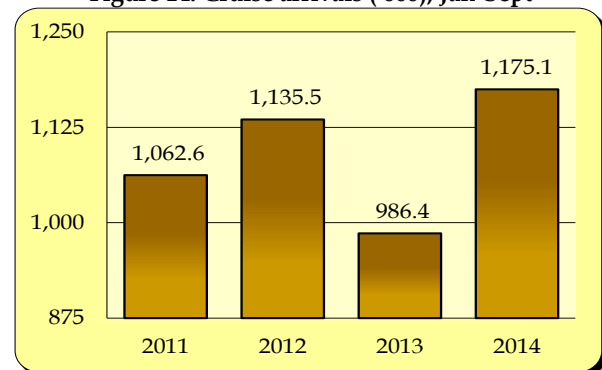
	2012	2013	2014	% Change
	In Thousands			
USA	196.8	205.0	224.4	9.4
Northeast	65.9	72.0	80.9	12.4
Midwest	44.4	44.6	47.5	6.4
Southeast	35.4	35.1	37.3	6.1
Southwest	37.7	39.4	43.7	10.9
West Coast	13.3	13.9	15.0	8.5
Europe	15.4	19.6	26.6	35.3
Canada	17.0	16.7	18.0	8.0
Others	16.5	20.2	24.7	22.0
Total	245.6	261.6	293.7	12.3
of which: USA (%)	80.1	78.4	76.4	

Source: Department of Tourism

7.2 Cruise Arrivals

During the first three quarters of 2014, cruise arrivals totalled 1,175,115 visitors, an increase of 19.1% over the comparative period for 2013. This is also the highest level for the same period since 2011.

Figure 14: Cruise arrivals ('000), Jan-Sept



Source: Department of Tourism

Between January and September 2014, the number of cruise ship calls to George Town port improved by 18.8% to 399. This performance translates to an average of 4,352 cruise passengers per day, 699 additional visitors per day when compared to the first three quarters of 2013.

8. Construction

A few large private sector projects and the revival of government capital spending pushed construction indicators to higher values in the first nine months of 2014.

8.1. Building Permits

During the review period, total building permit increased sharply in value by 120.2% to \$312.3 million, on account mainly of the \$192.0-million Kimpton hotel and condominium project. The government also contributed with a \$5.8-million permit, the

highest level in four years. However, other sub-sectors weakened including housing (-9.8%).

Table 15: Building Permits (Jan-Sep)

	2012	2013	2014	% Change
Millions CI\$				
Houses	76.7	71.0	64.0	(9.8)
Apartments	14.5	19.7	69.2	251.4
Commercial	11.2	24.7	22.7	(8.2)
Government	2.9	0.2	5.8	2,799.0
Industrial	0.4	2.0	0.2	(90.0)
Hotel	-	-	141.5	-
Other	7.8	24.3	8.9	(63.5)
Total	113.5	141.9	312.3	120.0

Source: Cayman Islands Government, Planning Department

In terms of number, the downtrend in building permits continued. As shown in Table 16, contractions were recorded for all but the government and industrial categories.

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

	2012	2013	2014	% Change
Houses	269	230	171	(25.7)
Apartments	45	41	37	(9.8)
Commercial	70	81	55	(32.1)
Government	13	2	5	150.0
Industrial	1	1	3	200.0
Other	166	153	112	(26.8)
Total	564	508	383	(24.6)

Source: Cayman Islands Government, Planning Department

8.2. Project Approvals

The total value of project approvals also peaked to its highest level in four years at \$249.3 million. This represents a 42.1% increase when compared to a year ago, as significant increases were posted across all categories except for commercial projects.

Table 17: Projects Approval (Jan-Sep)

	2012	2013	2014	% Change
Millions CI\$				
Houses	54.7	61.3	107.0	74.6
Apartments	15.4	13.4	87.2	550.7
Commercial	4.9	72.5	9.2	(87.4)
Government	5.0	0.1	2.2	2,124.0
Industrial	5.3	2.2	15.5	604.8
Hotel	-	-	0.1	-
Other	17.8	25.9	28.1	8.4
Total	103.1	175.4	249.3	42.1

Source: Cayman Islands Government, Planning Department

The residential sector accounted for 78.0% of all project approvals or a total of \$194.2 million. Apartment projects increased in total value by over 500% to \$87.2 million, owing mainly to the new \$78.0-million Gran Palazzo development. Approvals for houses also rose by 74.6% to reach \$107.0 million.

On the other hand, non-residential projects contracted by 64.1% to \$26.9 million as a result of a steep decline in the commercial projects. In contrast, industrial and government projects recorded significant increases.

After steadily declining since 2008, the total volume of approvals rose 44.0% to 799. All categories recorded increases, except for the commercial segment.

Table 18: Project Approvals (Jan-Sep)

	2012	2013	2014	Change
Houses	230	167	211	26.3
Apartments	36	19	31	63.2
Hotels	0	0	1	-
Commercial	30	25	25	-
Government	7	1	7	600.0
Industrial	8	4	6	50.0
Other	299	339	518	52.8
Total	610	555	799	44.0

Source: Cayman Islands Government, Planning Department

9. Real Estate

Real estate activity, as measured by traded properties, remains mixed in the first nine months of 2014. Although the volume of transfers rose, total value dipped, thus indicating the preponderance of low-valued transfers.

The total value of traded property went down by 20.2% to \$377.6 million as compared to a year earlier. This is attributed to weak performances in both freehold and leasehold markets which declined by 20.7% and 11.3% respectively.

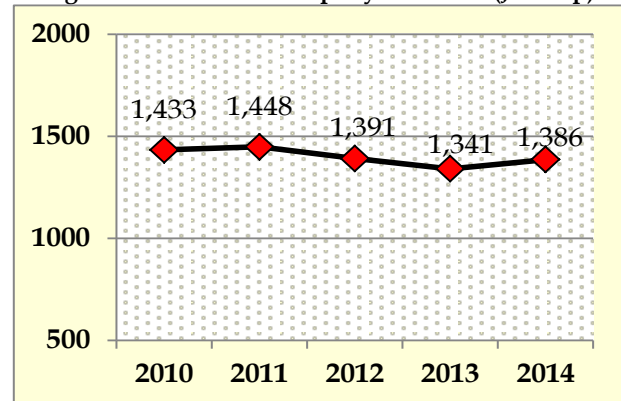
Figure 15: Value Property Transfers: (CIS\$ Million, Jan-Sep)



Source: Lands & Survey Department

The volume of transfers rose by 3.4% to 1,386 in the review period. This upturn is due to a 3.2% increase in freehold property transfers, following five years of steady decline, coupled with a 5.3% rise in leasehold property transfers.

Figure 16: Number of Property Transfers (Jan-Sep)



Source: Lands & Survey Department

10. Utilities

Overall, higher demand was recorded for utilities in the first nine months of the year. Increases were registered for electricity and water consumption as well as broadband connections, albeit demand for phone services declined anew.

10.1. Electricity

Boosted by warmer weather conditions and a higher customer base, local electricity consumption increased by 3.1% as improvements were noted for residential, commercial, and public usage (see Table 19).

Residential consumption grew by 4.7%, coinciding with an increase in the number of customers by 1.5% to 23,537.

Commercial consumption also strengthened by 1.7% while the number of commercial customers increased by 1.2% to total 4,023.

Public lighting consumption increased by 2.9% during the period.

10.2. Water

Total water demand grew during the period by 1.3% while production rose by 3.4%. These represent a significant recovery when compared to the semi-annual performance when water consumption went down by 2.9% while production rose marginally by 0.3%.

Table 19: Utilities Production and Consumption

	As at end		%
	Sep-13	Sep-14	
Millions of US Gallons			
Water Production	1,520.1	1,571.6	3.4
Water Consumption	1,268.1	1,285.1	1.3
000 of megawatt hrs			
Electricity Consumption	415.4	428.4	3.1
Residential	194.2	203.4	4.7
Commercial	216.3	220.0	1.7
Public	4.9	5.1	2.9
Total Customers	27,176	27,560	1.4
Residential	23,199	23,537	1.5
Commercial	3,977	4,023	1.2

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

10.3 Telecommunications

Demand for the traditional telecommunication services softened anew with a 7.6% decrease in the total number of telephones in service. The total number of paid domestic and international communication minutes also decreased by 5.6% and 10.8%, respectively.

Despite a shortfall in telephone usage, there was a higher demand for internet service as indicated by the 6.6% growth in broadband connections at the end of the quarter.

Table 20: Telecommunication Sector Indicators

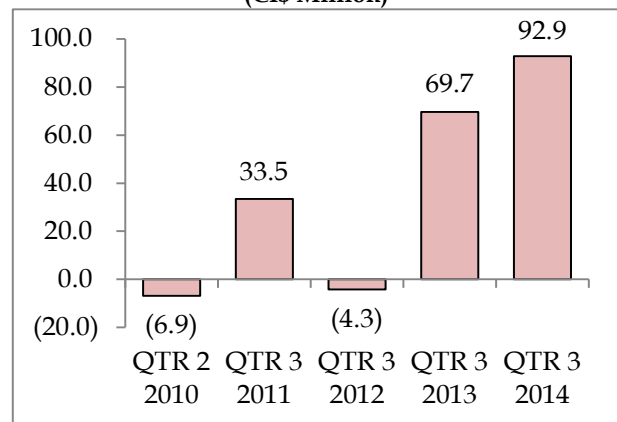
	Sep-13	Sep-14	% Change
Fixed and Mobile handsets in operation	132,543	122,521	(7.6)
Total fixed & mobile domestic & int'l minutes ('000)	202,273	187,931	(7.1)
Fixed and mobile domestic minutes	143,560	135,535	(5.6)
Fixed and mobile int'l retail minutes	58,713	52,396	(10.8)
Broadband connections	59,884	63,836	6.6

Source: Information Communication and technology Authority (ICTA)

11. Fiscal Operations of the Central Government

The overall fiscal balance ameliorated from a surplus of \$69.7 million in the first nine months of 2013 to \$92.9 million for the comparative period in 2014 (see Figure 17).

Figure 17: Central Government Overall Fiscal Balance (CI\$ Million)



Source: Cayman Islands Treasury Department & Economics and Statistics Office

Table 21: Summary of Fiscal Operations

	Sep-13	Sep-14	% Change
	CI\$ Millions		
Total Revenue	511.07	532.81	4.3
Total Expenditure	441.39	439.94	(0.3)
Current Expenditure	429.51	419.27	(2.4)
Net Capital Expenditure & Net Lending ¹	11.88	20.68	74.0
Current Balance	81.56	113.54	39.2
Overall Balance	69.68	92.87	33.3
Financing	(69.68)	(92.87)	
Net Borrowing	(7.06)	(24.02)	
Change in Cash	62.62	68.85	

¹ Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department & Economics and Statistics Office

The improved overall fiscal position was due to a higher current surplus despite an increase in net capital spending. The current surplus stood at \$113.5 million as compared to \$81.6 million a year ago. Net capital expenditure and net lending grew during the period by 74.0% (see Table 21).

11.1. Revenue

For the first three quarters of 2014, total revenue increased by 4.3% to reach \$532.8 million (see Table 22). Total revenue comprises both coercive (95.3%) and non-coercive revenue (4.7%).

Coercive revenue which totalled \$508.0 million rose by 8.3% above the receipts in the preceding year. Under the rubric of coercive revenue, taxes on international trade and transactions increased by 8.5%, domestic taxes on goods and services by 7.6%, taxes on property by 19.4% and fines by 7.0%.

Table 22: Revenue Collection of the Central Government

Revenue Sources	Sep-13	Sep-14	% Change
	CI\$ Millions		
Total Revenue	511.07	532.81	4.3
Coercive Revenue	469.04	507.99	8.3
Taxes on Int'l Trade & Transactions	122.74	133.21	8.5
Domestic Taxes on Goods & Services	319.87	344.33	7.6
Taxes on Property	24.15	28.84	19.4
Fines	1.19	1.28	7.0
Other Taxes	1.10	0.34	(68.8)
Non-coercive Revenue	42.03	24.82	(41.0)
Sale of Goods & Services	40.86	23.92	(41.5)
Investment Revenue	0.80	0.58	(26.7)
Other Revenue	0.37	0.31	(15.3)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Tax receipts from international trade and transactions increased by 8.5%, contributed by all categories during the period. Revenue from alcohol and tobacco imports rose by 3.3% and gasoline & diesel duty by 8.0%. Cruise ship departure tax collection also rebounded by 19.1% as the number of cruise passengers recovered. Other import duty increased by 8.0% during the period as the overall value of imports increased.

Revenue collected from domestic taxes on goods and services was higher by 7.6% (or \$24.5 million) in the first nine months of 2014 as all major sources improved except for work permits (-1.3%) and telecommunication licenses and royalties (-38.6) (see Table 23). The highest increase was from financial services, amounting to \$20.2 million or 10.1% over the comparative period a year ago. The main contributors from the industry were other exempt company fees (up by \$12.3 million), partnership fees (up by \$5.5 million), mutual fund administrators' fees

(up by \$4.6 million) and security investment (up by \$0.7 million). Other stamp duties also increased by 20.2% during the period.

Table 23: Domestic Tax Collection of the Central Government (CI\$ Millions)

	Sep-13	Sep-14	% Change
Various financial service licenses	200.40	220.59	10.1
ICTA licenses & royalties	5.34	3.28	(38.6)
Work permit and residency fees	33.51	33.06	(1.3)
Other stamp duties	4.87	5.85	20.2
Traders' licenses	5.07	5.07	0.0
Other domestic taxes	70.67	76.47	8.2
<i>Of which</i>			
Tourism accommodation charges	13.70	17.38	26.8
Motor vehicle charges	7.74	8.34	7.8
Domestic Taxes on Goods & Services	319.87	344.33	7.6

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Levies on property increased by 19.4% to \$28.8 million, as higher stamp duty collections came from the sale of properties along the Seven Mile road.

Non-coercive revenue amounted to \$24.8 million, 41.0% lower than the comparative period a year ago. The decline was largely from the reclassification of other exempt company fees to coercive revenue.

11.2. Expenditure

Total expenditure for the first three quarters of 2014 declined marginally. Current expenditure fell by 2.4% which outweighed a

74.0% increase net capital expenditure and net lending².

Current expenditure was brought down with lower outlays for subsidies, transfer payments, interest payments and other executive expenses. However, personnel cost, supplies and consumables expenses and depreciation increased (see Table 24).

Table 24: Current Expenditure of the Central Government

	Sep-13	Sep-14	% Change
	CI\$ Millions		
Current Expenditure	429.51	419.27	(2.4)
Personnel Costs	181.05	186.63	3.1
Supplies & Consumables	65.50	71.91	9.8
Subsidies	107.51	96.09	(10.6)
Depreciation	18.33	19.88	8.4
Transfer Payments	22.14	20.07	(9.4)
Interest Payments	23.97	21.97	(8.4)
Extraordinary Expenses	0.00	0.00	
Other Executive Expenses	11.00	2.72	(75.3)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Personnel cost rose by 3.1% to \$186.6 million, mainly due to higher salaries and wages as civil servants received in June 2014 a one-off increase amounting to 2.5% of annual salary as gratuity. In addition, the number of civil service employment increased modestly by 0.8% (or 27 persons) compared to the same period of 2013 (see Table 25).

² Net capital expenditure and net lending is gross capital expenditure and net lending after accounting for depreciation.

Table 25: Personal Cost Breakdown: Jan - Sep

	2013	2014
	CI\$ Millions	
Salaries and Wages (incl. Employee Pension Contribution)	131.6	137.7
Health Care Employer/Government Pension Expenses	24.3	24.9
Movement in Leave Provision Expense	23.8	20.6
Other Personnel Cost	0.9	0.3
	0.6	3.1
Total	181.1	186.6

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Supplies and consumables increased by 9.8% to total \$71.9 million during the period.

Subsidies which are essentially payments to statutory authorities and corporations fell by \$11.4 million or 10.6% to total \$96.1 million. Major reductions were noted in the outlays to National Roads Authority (down by \$4.7 million), Cayman Islands Monetary Authority (down by \$3.5 million), Cayman Airways (down by \$1.3 million) and tertiary hospital care at various institutions (down by \$2.8 million).

Transfer payments, which are payments to social welfare programmes, totalled \$20.1 million, lower by 9.4% from a year ago.

Interest payments decreased by 8.4% to \$22.0 million on account of a lower debt stock and a moratorium on new borrowings.

Depreciation, which is a provision for the decline in the value of the fixed assets owned by central government, increased by 8.4% to \$19.9 million.

11.3. Capital Expenditure and Net Lending

Gross capital expenditure and net lending was higher by 34.2% to reach \$40.6 million. This resulted as capital acquisition/equity injections increased by 55.0% to \$12.1 million. Capital support for public entities' working capital and equity injection also went up by 35.8% to \$21.3 million from a year earlier.

Net capital expenditure and net lending increased by 74.0% to settle at \$20.7 million after netting-out depreciation.

Table 26: Capital Expenditure and Net Lending

	Sep-13	Sep-14	% Change
Gross Capital Expenditure and Net Lending	30.21	40.55	34.2
Capital Acquisition/Equity Injections	7.83	12.14	55.0
Equity Injections and Working Capital support to Public Entities	15.65	21.25	35.8
Capital Development/Executive Assets	6.64	5.64	(15.1)
Net Lending	0.09	1.52	1,592.2
Net Capital Expenditure and Net Lending¹	11.88	20.68	74.0
Depreciation	18.33	19.88	8.4

¹ Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department & Economics and Statistics Office

11.4. Net Financing and Debt

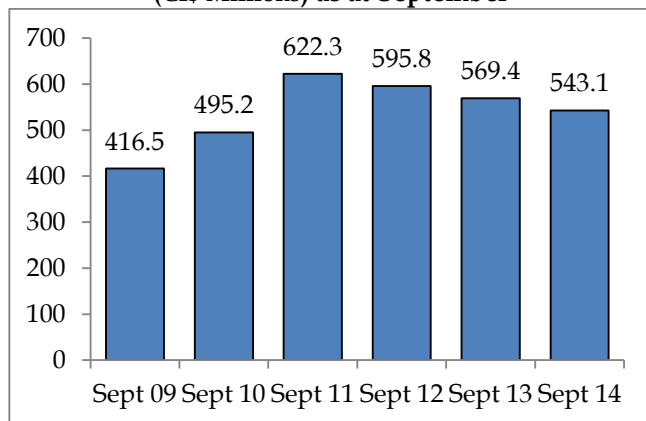
Due to an improved overall balance, the total cash balance of the central government rose by \$68.9 million which was 9.9% higher than a year ago (see Table 27). Total loan repayment amounted to CI\$24.0 million with no new loan disbursement.

Table 27: Net Financing

	Sep-13	Sep-14	% Change
	CI\$ Millions		
Financing	(69.7)	(92.9)	
Net Borrowing	(7.1)	(24.0)	
Disbursements	10.0	0.0	
Loan Repayment	(17.1)	(24.0)	
Change in Cash Balance	62.6	68.9	9.9

Source: Cayman Islands Treasury Department

The central government's outstanding debt continued to decline, amounting to \$543.1 million as at September 2014, lower by 4.6% from the same period a year ago (see Figure 18).

Figure 18: Central Government Outstanding Debt (CI\$ Millions) as at September


Source: Cayman Islands Treasury Department

The central government's debt service-to-current revenue ratio stood at 8.6% as at September 2014. Interest payments for the period accounted for 5.2% of recurrent expenditure.

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Cayman Islands Water Company
Department of Immigration
Lands and Survey Department
Port Authority of the Cayman Islands
Portfolio of the Civil Service