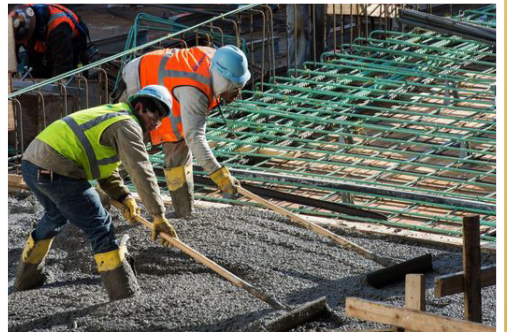




CAYMAN ISLANDS
GOVERNMENT



THE CAYMAN ISLANDS'
THIRD
QUARTER
ECONOMIC
REPORT
2017



February 2018

The Economics and Statistics Office

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Overview*

- The international economy recorded higher growth and inflation in the first nine months of 2017 relative to 2016.
- Cayman's gross domestic product (GDP) continued to expand in the third quarter, resulting in an estimated annualized growth rate of 2.3% for the first three quarters.
- The average Consumer Price Index increased by 1.9%, as higher prices were recorded in all divisions except one.
- Merchandise imports declined by 4.4% to \$605.3 million, largely due to reductions in non-oil imports.
- Work permits rose by 2.7% to 23,723.
- Broad liquidity or money supply expanded by 11.1% as foreign currency deposits held by residents and local currency money supply expanded.
- The weighted average lending rate for KYD increased by 29 basis points to 7.17% while the prime lending rate increased by 75 basis points to 4.25%.
- Domestic credit contracted by 2.2% as credit to the private sector and the Central Government declined by 0.4% and 12.2%, respectively.
- Bank and trust company licences decreased by 11.4% to 155 and insurance licences fell by 0.9% to 733.
- Mutual funds including the category "master funds", recorded a decline of 1.9% to 10,630.
- The number of listings on the Stock Exchange rose by 10.8% to 1,129 while market capitalization increased by 21.2% to US\$233.5 billion.
- New company registrations rose by 14.2% to 9,625 while new partnership registrations increased by 13.8% to 2,821.
- Air arrivals grew by 5.3% while cruise passengers a decline by 7.6%.
- The value of building permits declined by 17.6% as the total number of permits fell by 1.5%.
- Property transfers declined in value by 23.7% and grew in volume by 5.5%.
- Electricity and water consumption increased by 3.1% and 4.6%, respectively.
- Demand for telecommunication services continued on a downward trajectory except for broadband connections and handsets.
- The central government's overall fiscal surplus improved to \$115.0 million compared to \$114.1 million a year ago.
- The total outstanding debt of the central government declined to \$464.0 million from \$498.7 million a year ago.

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

1. International Economy

1.1 Economic Growth¹

The major economies around the world largely displayed economic expansions during the third quarter of 2017. The economy of the United States of America (USA) grew by an annualised rate of 3.2%, bringing the average growth for the first three quarters to 2.5%. Increased economic activity during the quarter was driven by higher personal consumption expenditure, private inventory and non-residential fixed investment, exports, federal government spending and lower imports.

The United Kingdom (UK) and Canada both recorded annualised growth of 1.7% in the third quarter of 2017. The growth in Canada mainly reflected an improvement in household consumption expenditure. Growth in the UK was due to increased activity in the services and manufacturing sectors.

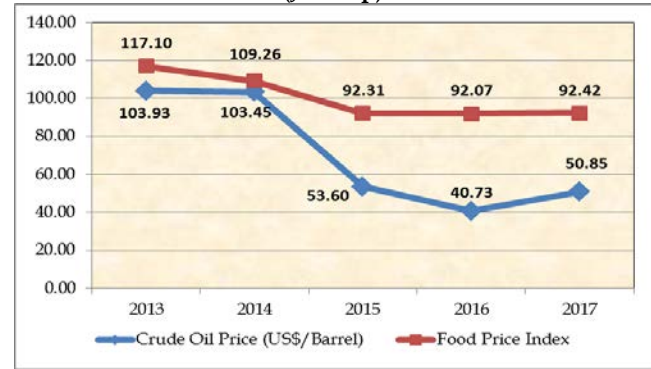
1.2 Inflation

The first three quarters of 2017 was characterized by a general increase in prices for most of the world's major economies. The USA and Canada recorded inflation of 1.3% and 1.5%, respectively, when compared to the corresponding period of 2016. The UK and the Euro Area recorded respective inflation of 2.6% and 1.6%, while China had deflation of 0.5% for the period. Inflation in these economies was impacted mainly by an increase in international crude oil prices,

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

which rose to an average of US\$50.85/barrel compared to US\$40.73/barrel in January–September 2016². Inflationary pressures also stemmed from a rise in the prices of base metals and food during the review period.

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



Source: World Bank commodity prices (The Pink Sheet)

1.3 Interest Rates and Exchange Rates³

Strengthening in the labour market coupled with moderate improvements in economic activity within the USA incited confidence within the money market during the review quarter. Consequently, the US Federal Reserve maintained its target federal funds rate within the target range of 1.00% to 1.25%.

The Bank of Canada raised its policy interest rate in July and September 2017 by 25 basis points on each occasion to end the quarter at 1.00%. This action was premised on the broad-based and self-sustaining economic growth and robust consumer spending leading up to the quarter. The Bank of England retained its policy interest rate at

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

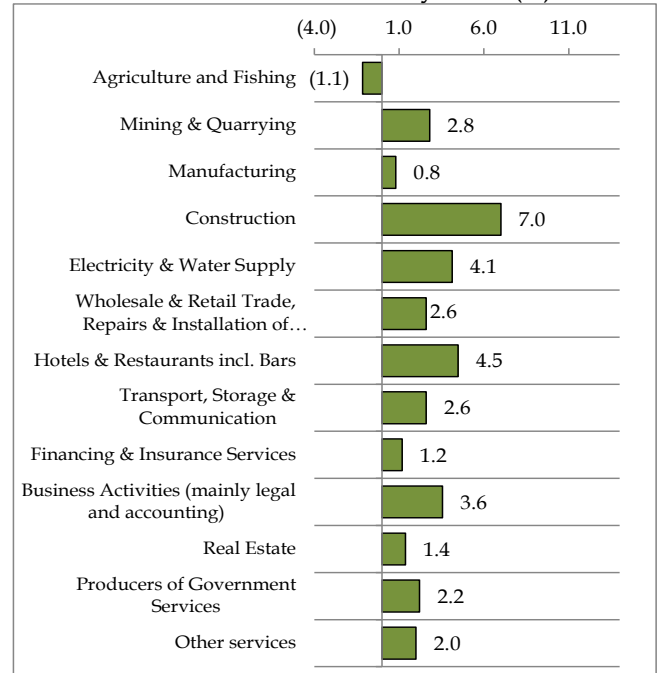
³ Data sourced from the US Federal Reserve, Bank of England, Bank of Canada and European Central Bank.

0.25% during the review period against the background of a stable outlook for inflation and economic activity. The European Central Bank (ECB) also preserved its policy interest rates on the main refinancing operations, marginal lending facility and deposit facility.

The US Dollar, on average, strengthened against three of the world’s major traded currencies during January–September 2017 compared with the similar period in 2016. Notably, the US Dollar gained 8.4% against the Great Britain Sterling Pound, 0.2% against the Euro and 3.4% against the Chinese Yuan. The appreciation of the US Dollar was due to heightened economic activity in the USA, evidenced by the strengthening of the labour market as well as increased household spending and business investments. Prolonged uncertainty associated with Brexit and its implications for the UK contributed to the strengthening of the US Dollar against the Pound. Despite the general strengthening, the US Dollar weakened against the Canadian Dollar by 1.2%.

(4.1%) and business activities (3.6%). The financing and insurance sector, which continues to be the the largest contributor to GDP, grew by 1.2% for the first three quarters of the year.

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



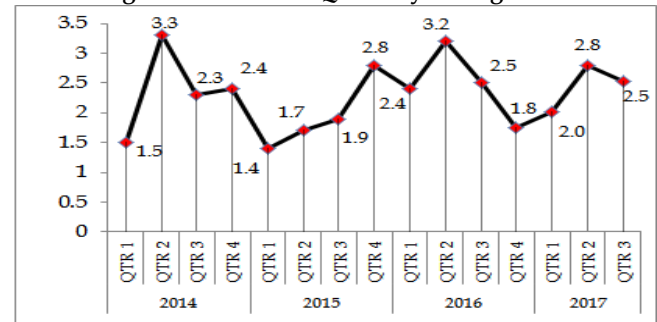
Source: Economics and Statistics Office

2. GDP Growth and Macroeconomic Forecasts

Available indicators suggest that the Cayman Islands’ real gross domestic product (GDP) grew by an estimated annualised rate of 2.4% for the first nine months of 2017 compared to a year ago.

With the exception of agriculture and fishing growth was recorded across all the major sectors of the economy. The expansion was led by construction (7.0%), hotels and restaurants (4.5%), electricity & water supply

Figure 3: Estimated Quarterly GDP growth



Source: Economics and Statistics Office

The forecasted GDP for 2017 has been revised up to 2.4% (see Table 1). This revision is against the background of the higher than anticipated growth in the first nine months of

the year coupled with early indications of further acceleration in the fourth quarter of 2017.

Increases in international crude oil prices coupled with a rise in rental costs spurred inflation to 1.9% for the first nine months of 2017. This movement in prices is relatively in line with the forecast for inflation of 1.8% for calendar year 2017.

The forecast for the unemployment rate is revised upwards to 4.9% from 4.3%, in the context of an estimated slowdown in employment within construction which showed lower growth in the third quarter of 2017 relative to the same quarter of 2016.

Table 1: Macroeconomic Performance

	2014	2015	2016	Projection
	Percent (%)			2017
Real GDP*	2.3	3.0	3.1	2.4
CPI Inflation	1.3	(2.3)	(0.6)	1.8
Unemployment Rate	4.6	4.2	4.2	4.9

Source: Economics and Statistics Office

3. Inflation

The Cayman Islands recorded average inflation of 1.9% for the first nine months of 2017 (see Table 2). Higher prices were recorded in all divisions except miscellaneous goods and services which went down by 0.6%. The highest absolute increase in prices were seen in restaurants and hotels (5.5%), clothing and footwear (4.8%), alcoholic beverages and tobacco (2.5%) and housing and utilities (2.3%).

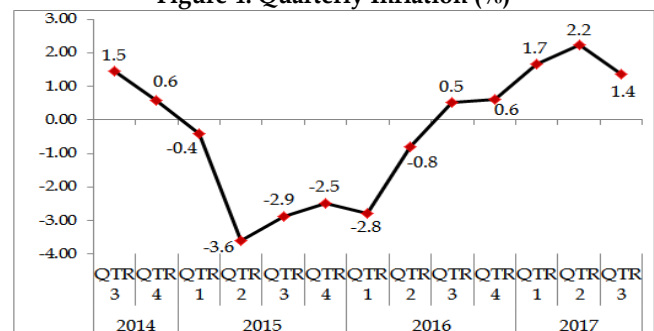
Table 2: Average Inflation (%)

Categories	Avg. Inflation Rates (%)	
	2016	2017
Food & Non-alcoholic		
Beverages	0.2	1.2
Alcohol and Tobacco	0.5	2.5
Clothing and Footwear	0.8	4.8
Housing and Utilities	-3.8	2.3
Household Equipment	-0.3	1.4
Health	-0.1	1.3
Transport	-2.5	1.2
Communication	0.9	2.0
Recreation and Culture	1.3	1.4
Education	1.5	0.8
Restaurants and Hotels	1.9	5.5
Misc. Goods and Services	1.3	-0.6
Overall CPI Inflation	-1.0	1.9

Source: Economics and Statistics Office

For the September 2017 quarter, the Consumer Price Index (CPI) was higher by 1.4% compared to a year ago (see Figure 4)⁴. Inflation during the quarter was broad based with only the restaurants and hotels sector declining. Inflationary pressures were largely exhibited from transport (5.0%), health (4.7%), clothing and footwear (3.6%) and furnishings, household equipment and routine maintenance (3.5%).

Figure 4: Quarterly Inflation (%)



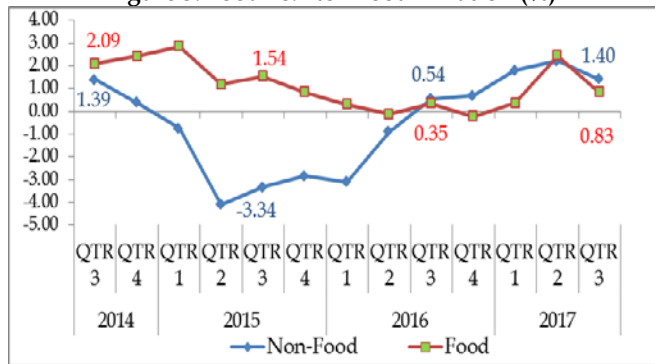
Source: Economics and Statistics Office

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

The rise in transportation was due mainly to higher costs for air transport and maintenance of vehicles. The cost of health care was driven by a rise in the cost of pharmaceutical and medical products.

Non-food prices increased by 1.4% in the September 2017 quarter relative to the corresponding quarter of 2016 when non-food prices rose by 0.5% (see Figure 5). Similarly, the food and beverage index increased by 0.8% in the third quarter of 2017 compared to an increase 0.3% in the third quarter of 2016.

Figure 5: Food vs. Non-food Inflation (%)



Source: Economics and Statistics Office

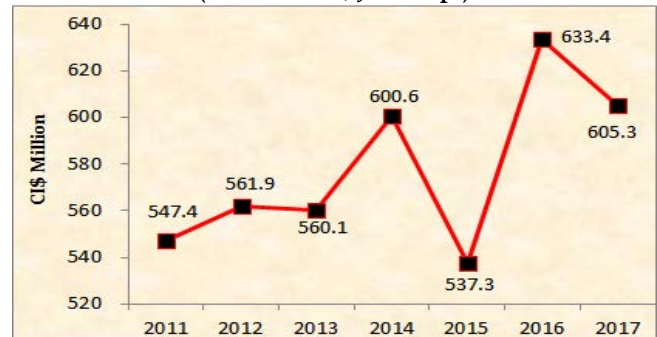
During the third quarter, there were lower prices offered by restaurants and cafes which outweighed increases in the cost of accommodation services.

4. Trade⁵

Merchandise imports declined by 4.4% to \$605.3 million in the first nine months of 2017 compared with January–September 2016 (see Figure 5). The contraction was due to a fall in the importation of non-petroleum imports as petroleum imports increased.

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

Figure 6: Merchandise Imports (CI\$ Millions, Jan - Sept)



Source: Customs Department and ESO

The value of imported non-petroleum products declined to \$529.3 million or 6.8% in the first nine months of 2017. This was led by declines in industrial supplies and capital goods.

The value of petroleum and related products rose by 16.1% to \$76.0 million for January–September 2017 (see Figure 6). This reflected increases in both the price and quantity of imports for the period. Higher fuel prices resulted from a trend increases in crude oil prices in the world market during the year. The quantity of fuel imports increased by 5.5% to 42.1 million imperial gallons as higher imports of diesel and gas outweighed declines in both aviation fuel and propane (see Table 3).

Table 3: Quantity of Fuel Imports (Jan-Sep)

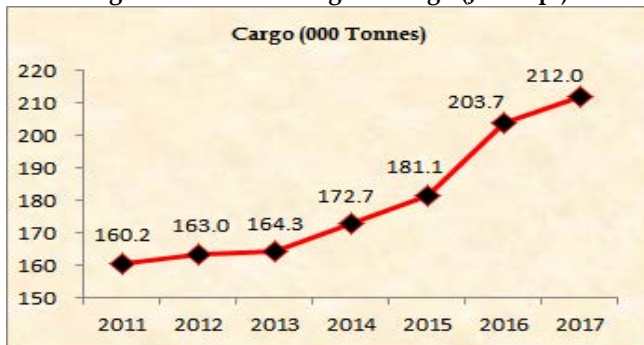
	Millions of Imperial Gallons			2017 Change %
	2015	2016	2017	
Total Fuel	37.2	39.9	42.1	5.5
Diesel	24.4	26.1	28.0	7.4
Gas	7.7	8.5	9.1	6.7
Aviation Fuel	3.7	3.9	3.6	(7.6)
Propane	1.5	1.4	1.4	(0.4)

Source: Cayman Islands Port Authority

The total tonnage of landed cargo increased by 4.1% to 211,996 tonnes in the first nine months of 2017 (see Figure 7). Of this amount, containerized cargo accounted for 83.1%, break bulk cargo contributed 2.4% and cement bulk accounted for 14.6%.

Increased activities at the ports in the first nine months of the year was also indicated by a rise in the amount of cargo handled per hour to 147.42 in January–September 2017 from 129.60 in the corresponding period of 2016.

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



Source: Cayman Islands Port Authority

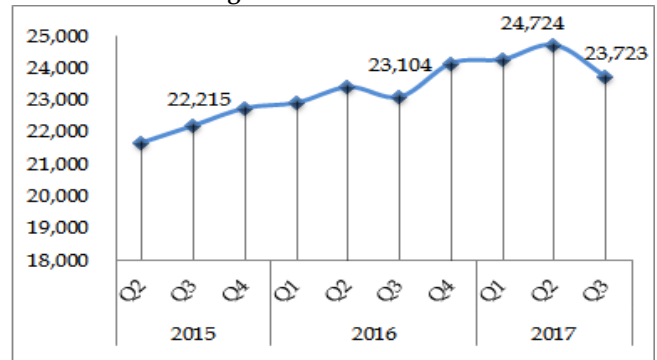
5. Employment

5.1. Work Permits

During the review period 619 additional permits were issued reflecting a 2.7% increase over the corresponding period of last year. This reflected a slowdown relative to the 889 (4.0%) additional permits that were issued for the same period of 2016.

Relative to June 2017, work permits decreased by 1.3% for the September quarter.

Figure 8: Work Permits

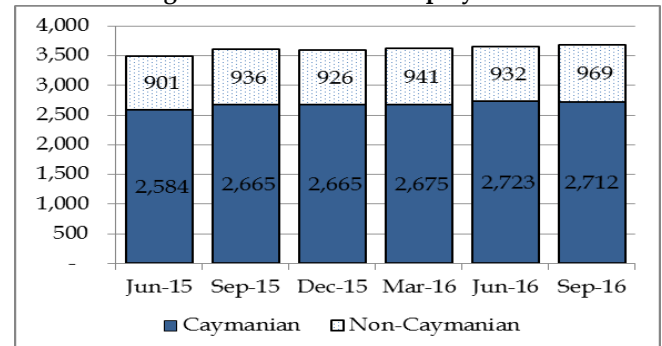


Sources: Immigration Department, Economics & Statistics Office

5.2. Public Sector Employment

Civil servants employed by the government increased by 82 persons to 3,763 in the three quarters of 2017. Employed Non-Caymanians increased by 63 to 1,032, while Caymanian employment rose by 19 to 2,731.

Figure 9: Civil Service Employment



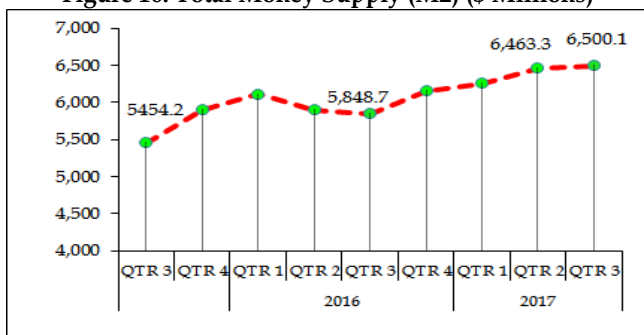
Source: Portfolio of the Civil Service

6. Money & Banking

Broad liquidity (M2) which comprises CI dollar-denominated money and foreign currency deposits expanded by 11.1% to settle at \$6,500.1 million in the first nine months of 2017. The expansion occurred amidst growth in both local and foreign currency denominated money for the review period.

Foreign currency deposits increased by 13.3%, as US dollar denominated deposits rose by 16.6% (or \$582.2 million). Similarly, total CI dollar denominated deposits grew by 4.7% or \$69.1 million while currency in circulation increased by 2.1% or \$2.3 million compared to a year ago (see Figure 10 and Table 4).

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

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

	Sep-16	Sep-17	% Change
Total Assets	5,848.7	6,500.1	11.1
Net Foreign Assets	3,804.3	4,491.4	18.1
Monetary Authority	115.4	118.9	3.0
Commercial Banks	3,688.9	4,372.6	18.5
Net Domestic Assets	2,044.4	2,008.7	(1.7)
Domestic credit	3,066.4	2,998.7	(2.2)
Claims on central government	211.5	185.8	(12.2)
Claims on other public sector	83.1	53.4	(35.8)
Claims on private sector	2,771.8	2,759.6	(0.4)
Other items net	(1,022.0)	(990.0)	(3.1)
Broad Liquidity	5,848.7	6,500.1	11.1
Broad money (KYD) M2	1,457.4	1,526.5	4.7
Currency in circulation	109.1	111.4	2.1
KYD Deposits	1,348.3	1,415.1	5.0
Demand deposits	567.1	610.3	7.6
Time and savings deposits	781.2	804.8	3.0
FOREX deposits	4,391.4	4,973.6	13.3
of which: US dollars	3,957.8	4,616.3	16.6
US dollars share (%)	90.1	92.8	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The growth in broad money liquidity represents an increase in the liabilities of the monetary and banking sector. The corresponding asset side recorded an increase in net foreign assets as holdings of domestic assets declined.

6.1. Net Foreign Assets (NFA). During the first nine months of 2017 there was an 18.1% build up in NFA, bringing the total in the financial system to \$4.5 billion at end-September 2017. The build-up reflected increases of 18.5% and 3.0% in the NFA of domestic commercial banks and the Cayman Islands Monetary Authority, respectively (see Tables 4 and 5).

The higher NFA of commercial banks' resulted from a growth in foreign assets of 8.5%, which outweighed a 0.5% increase in foreign liabilities. The build-up in foreign asset largely reflected an increase in non-resident balances with banks and branches abroad and investments of 36.7% and 5.1%, respectively. Increased foreign liabilities were due to an increase in "other" liabilities which outweighed a fall in non-resident deposits.

Table 5: Net Foreign Assets (\$ millions)

	Sep-16	Sep-17	% Change
Net Foreign Assets	3,804.3	4,491.4	18.1
Monetary Authority	115.4	118.9	3.0
Commercial Banks	3,688.9	4,372.6	18.5
Foreign Assets	8,262.7	8,967.9	8.5
Bal. with Banks & Branches	2,974.7	4,065.4	36.7
Total Investment	2,385.1	2,507.8	5.1
Total Non-Resident Loans	2,902.9	2,394.7	(17.5)
Foreign Liabilities	4,573.8	4,595.3	0.5
Total Non-Resident Deposits	4,424.9	4,347.2	(1.8)
Other Liabilities	148.8	248.1	66.7

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.2. Net Domestic Assets/Domestic Credit.

During the review period, credit to the public and private sectors declined by 18.8% and 0.4%, respectively (see Table 6). Consequently, total domestic asset in the system declined by 2.2% to close the quarter at \$3.0 billion.

Table 6: Domestic Credit (\$ millions)

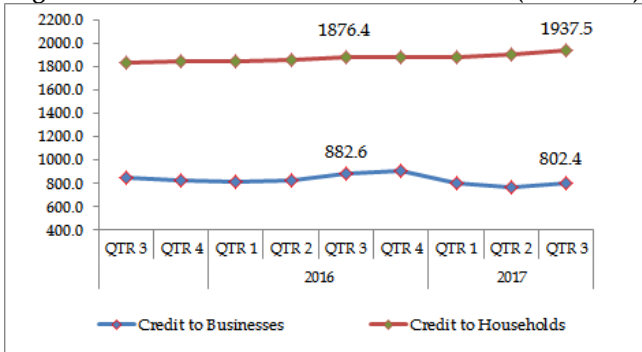
	Sep-16	Sep-17	% Change
Domestic Credit	3,066.4	2,998.7	(2.2)
Credit to Central Government	211.5	185.8	(12.2)
Credit to Other Public Sector	83.1	53.4	(35.8)
Credit to Private Sector	2,771.8	2,759.6	(0.4)

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

In line with its policy of debt reduction and prudent fiscal management central government borrowings declined by 12.2%, while borrowings by parastatal and public authorities fell by 35.8%.

Lending to the domestic private sector (businesses, households and non-profit organizations) declined by 0.4% compared to a year ago (Figure 11 and Table 7).

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The reduction in private sector borrowings was precipitated by a 9.1% decline in credit to businesses as net lending to the production and manufacturing sector fell by 18.1%. Similarly, credit to the trade and commerce sector and other financial corporations declined by 8.0% and 22.3%, respectively. In contrast, credit to the services sector improved by 25.7%.

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

	Sep-16	Sep-17	% Change
Total Private Sector Credit	2771.8	2759.6	(0.4)
Credit to Businesses	882.6	802.4	(9.1)
Production & Manufacturing	187.5	153.6	(18.1)
Mining	4.6	4.8	4.2
Manufacturing	18.2	14.2	(21.6)
Utilities	51.7	19.3	(62.8)
Construction	113.0	115.3	2.1
Services	69.9	87.9	25.7
Accommodation, Food, Bar & Entertainment Services	13.9	27.7	99.0
Transportation, Storage & Communications	16.5	23.0	39.6
Education, Recreational & Other Professional Services	39.5	37.2	(5.8)
Trade and Commerce	524.6	482.8	(8.0)
Wholesale & Retail Sales Trade	81.6	68.8	(15.7)
Real Estate Agents, Rental and Leasing Companies	207.9	159.5	(23.3)
Other Business Activities (General Business Activity)	235.1	254.4	8.2
Other Financial Corporations	100.6	78.2	(22.3)
Credit to Households	1876.4	1937.5	3.3
Domestic Property	1582.0	1665.6	5.3
Motor Vehicles	45.5	51.6	13.4
Education and Technology	6.0	6.5	7.1
Miscellaneous*	242.8	213.8	(11.9)
NonProfit Organizations	12.8	19.7	53.3

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Despite being the largest component of domestic credit, a rise in household loans by 3.3% was not sufficient to outweigh the fall in business loans. The movement in household credit largely reflected a rise of 5.3% in borrowings for domestic property. Notably,

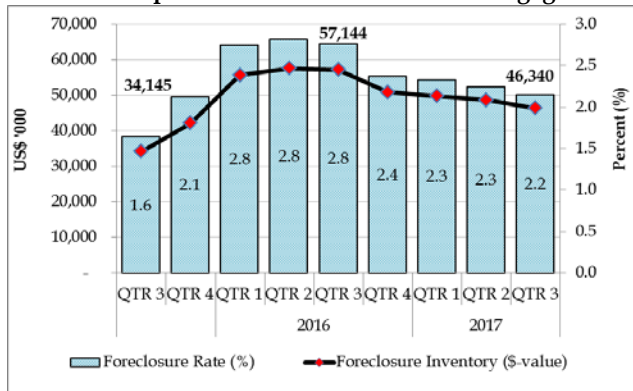
loans for motor vehicles, education and technology also increased while loans for miscellaneous purposes fell over the period.

6.3. Residential Mortgage Foreclosures.

Residential mortgage foreclosure data from CIMA shows that foreclosures of residential mortgages continued on a downward trajectory in terms of both value and quantity as of the third quarter of 2017. The decline in foreclosure was relative to both the corresponding period of the previous year as well the preceding quarter (see figure 12).

As at end-September 2017, there were 168 foreclosures in inventory, valued at US\$46.3 million. This reflected an 18.9% decline from the US\$57.1 million recorded a year ago. The value of foreclosure inventory accounted for 2.2% of the total value of residential mortgages, which amounted to \$2.2 billion as at September 2017.

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



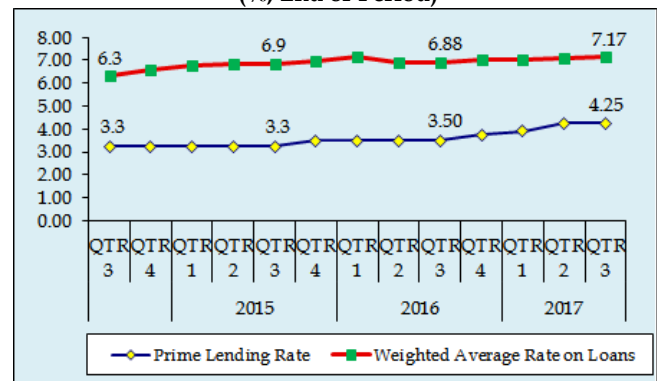
Source: Cayman Islands Monetary Authority & Economics and Statistics Office

There were 13 completed mortgage foreclosures during the review period, notably lower than the 20 recorded in the same quarter of 2016. Consistently, the total

value of completed foreclosures also declined.

6.4. Interest Rates. The Cayman Islands’ prime lending rate increased by 75 basis points to 4.25% as at September 2017 relative to the corresponding period of 2016. This increase added upward pressure on the KYD weighted average lending rate which rose by 29 basis points to 7.17% in September 2017 from 6.88% in the same period of 2016 (see Figure 13).

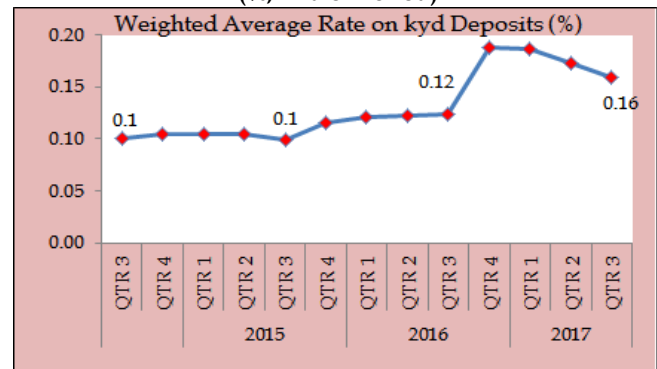
Figure 13: KYD Lending Rates (% , End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As depicted in Figure 14, the weighted average savings rate in KYD deposits increased to 0.16% from 0.12% a year ago.

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



Source: Cayman Islands Monetary Authority & ESO

7. Financial Services

The Financial Services sector was characterized by declines in the number of bank and trust licences, insurance licences and mutual funds for the first nine months of 2017. In contrast, registration of new companies and new partnerships increased while stock market activities expanded.

7.1 Banks & Trust

Continued consolidation and restructuring in the global banking industry weighed on the number of banking and trust companies licensed in the Cayman Islands. Accordingly, the number of licenced Bank and Trust companies at end September 2017 declined by 11.4% to 155 relative to September 2016.

The number of Class 'A' Bank & Trust licences remained unchanged at 11 while the number of foreign banks or Class 'B' licences decreased by 20 to 144.

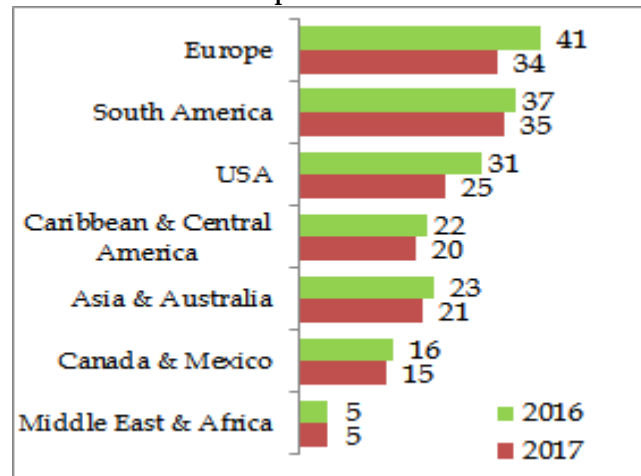
Table 8: Bank & Trust Companies

	Sep 2015	Sep 2016	Sep 2017	% Change
Bank and Trust	193	175	155	(11.4)
Class A	12	11	11	-
Class B	181	164	144	(12.2)
Trust Companies	120	122	120	(1.6)
Restricted	62	62	61	(1.6)
Unrestricted	58	60	59	(1.7)

Source: Cayman Islands Monetary Authority

The number of trust company licences decreased to 120 in the nine-month period of 2017 from 122 in January–September 2016. The decline reflected reductions of 1.6% and 1.7% in 'Restricted' and 'Unrestricted' licences, respectively.

Figure 15: Percentage proportion of Banks by Region as at September 2017



Source: Cayman Islands Monetary Authority

Europe, South America and the USA continued to be the leading sources of Cayman's banking licences, accounting for 22.8%, 22.2% and 15.8% of the total at the end of September 2017, respectively. The Caribbean & Central America (down by 8 to 20), USA (down by 6 to 25) and the Europe (down by 5 to 36) were the main contributors to the reduction in the number of Bank and Trust licences

7.2 Insurance

The insurance industry contracted in the first three quarters of 2017, evidenced by a decline in the number of licences to 733 relative to 740 at the end of September 2016.

Domestic insurers, reflected as Class 'A' licences, declined from 29 to 28. Similarly, captive licences fell from 711 to 705. Within captives, a reduction in Class 'B' licences from 685 to 677 accounted for the contraction. In contrast Class 'C' licences rose by 1 to 25 and Class 'D' licences increased by the same amount to 3.

Table 9: Insurance Companies

	Sep 2015	Sep 2016	Sep 2017	% Change
Domestic - Class 'A'	29	29	28	-
Captives	<u>711</u>	<u>711</u>	<u>705</u>	(0.8)
Class 'B'	679	685	677	(1.2)
Class 'C'	31	24	25	4.2
Class 'D'	1	2	3	50.0
Total	740	740	733	(0.9)

Source: Cayman Islands Monetary Authority

Healthcare and Workers' Compensation continued to dominate the captive insurance market accounting for 32.1% and 21.6% of the market, respectively. The reduction in captive insurers relative to the end of September 2016 was driven by Healthcare which fell by 4.2% to 226.

North America remained the main source market of the captive insurance business accounting for 89.8% (633 licences).

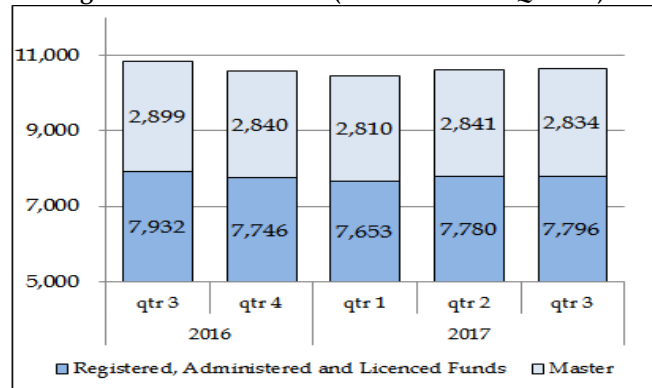
Table 10: Captive Insurance Licences by Primary Class of Business, September 2017

	Sep-16	Sep-17	Change	Proportion
Healthcare	236	226	-4.2	32.1
Workers' Compensation	151	152	0.7	21.6
Property	68	67	-1.5	9.5
General Liability	79	81	2.5	11.5
Professional Liability	62	64	3.2	9.1
Other	115	115	0.0	16.3
Total	711	705	-0.8	100.0

Source: Cayman Islands Monetary Authority

7.3 Mutual Funds

The number of mutual funds registered in the Cayman Islands recorded a year-on-year decline for the sixth consecutive quarter. The number of mutual funds fell by 1.9% to 10,630, reflecting declines of 1.7% in Registered, Administered & Licenced Funds and 2.2% in Master Funds.

Figure 16: Mutual Funds (as at the end of Quarter)


Source: Cayman Islands Monetary Authority

7.4 Stock Exchange

The number of stocks listed on the Cayman Islands Stock Exchange increased by 10.8% to 1,129 as at September 2017. Three of the seven instrument classes recorded increases, one remained unchanged and three declined. Specialist debt security registered the largest absolute increase with 96 listings.

Table 13: Number of Stock Listings by Instruments (as at end September)

Instrument	2015	2016	2017
Investment Fund Security	241	253	233
Specialist Debt Security	576	497	593
Corporate & Sovereign			
Debt Security	182	226	259
Primary Equity Security	7	4	3
Secondary Equity Security	1	1	1
Insurance Linked Security	47	36	39
Retail Debt Security	2	2	1
Total	1,056	1,019	1,129

Source: Cayman Islands Stock Exchange

Market capitalization increased by US\$40.8 billion (or 21.2%) to US\$233.5 billion at the end of September 2017. The growth in market capitalization reflects increases in all instruments except insurance linked securities.

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

Instruments	2015	2016	2017
Investment Fund Security	9.2	9.4	11.8
Specialist Debt Security	85.5	81.7	117.8
Corporate & Sovereign Debt Security	95.0	96.2	98.1
Primary Equity Security	0.2	0.3	0.3
Secondary Equity Security	0.1	0.1	0.1
Insurance Linked Security	6.2	5.1	5.1
Retail Debt Security	0.0	0.0	0.4
Total	196.2	192.7	233.5

Source: Cayman Islands Stock Exchange

7.5 New Company Registration

For the period January–September 2017 there were 9,625 new companies registered in these Islands, an increase of 14.2% relative to the total registration in the same period of 2016. Registration of ‘Exempt’ companies, which accounted for 85.5% of total company registration, increased by 10.7% for the period while registration of ‘Resident’ companies increased by 14.5%. On the contrary, there were declines of 8.3% and 9.7% in ‘Non-Resident’ and ‘Foreign’ new company registrations, respectively.

Table 14: New Company Registrations (Jan-Sept)

	2015	2016	2017
Total	9,273	8,429	9,625
Exempt	8,370	7,434	8,229
Non-Resident	33	24	22
Resident	404	407	466
Foreign	466	485	438
LLC	-	79	470
Percentage Change (%)			
Total	69.5	(9.1)	14.2
Exempt	69.4	(11.2)	10.7
Non-Resident	120.0	(27.3)	(8.3)
Resident	74.1	0.7	14.5
Foreign	64.7	4.1	(9.7)
LLC	-	-	494.9

Source: Registrar of Companies

7.6. Partnerships

During the review period, there were 2,821 new partnership registrations, an increase of 13.8% relative to the nine-month period in 2016. There were increases in all categories with ‘Exempt’ recording the largest increase.

Table 15: New Partnership Registrations (Jan-Sep)

	2015	2016	2017
Total	2,537	2,479	2,821
Exempt	2,478	2,421	2,756
Foreign*	59	58	64
L.P.**	-	-	1.0
Percentage Change (%)			
Total	85.6	(2.3)	13.8
Exempt	84.0	(2.3)	13.8
Foreign*	195.0	(1.7)	10.3
L.P.**	-	-	-

Source: Registrar of Companies

8. Tourism

Total visitor arrivals to the Cayman Islands stood at 1,495,148 for the first three quarters of 2017, a 5.2% reduction when compared to a year ago. This downturn was associated with fewer cruise arrivals, as air arrivals increased for the period.

8.1 Air Arrivals

Air arrivals posted a year-on-year growth of 5.3% to settle at 312,110. Visitors from the USA increased by 9.7% to close the period at 256,760. This increase meant the USA contributed 82.3% of visitors to these islands during the first nine months of the year.

Consistent with the growth in arrivals, there was an 11.2% improvement in expenditure by stay-over visitors which expanded to

\$366.6 million. Increased spending by visitors was also boosted by a rise in the average spending per night to \$183.52 from \$175.60 in the same period last year.

Table 16: Air Arrivals by US Regions (Jan-Sept)

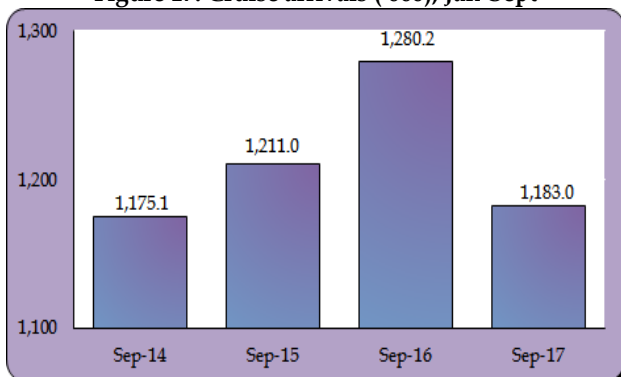
	2014	2015	2016	2017	% Change
In Thousands					
USA	224.4	226.5	234.1	256.8	9.7
Europe	26.6	25.0	21.6	17.5	(19.1)
Canada	18.0	17.8	16.9	17.3	2.4
Others	24.6	26.2	23.8	20.5	(13.8)
Total	293.7	295.5	296.4	312.1	5.3
of which:	76.4	76.6	79.0	82.3	

Source: Department of Tourism

8.2 Cruise Arrivals

Cruise passenger arrivals declined by 7.6% to 1,183,038, in the review period. The reduction in cruise arrivals occurred as the number of port calls declined to 386 compared to 426 last year. During the period, the average spending per cruise visitor improved to \$93.5 from \$90.05 in 2016. The improvement, however, was outweighed by the fall in arrivals and as such total expenditure fell to \$99.6 million from \$103.7 million in the previous year.

Figure 17: Cruise arrivals ('000), Jan-Sept



Source: Department of Tourism

9. Construction

The indicators construction showed mixed results for the first three quarters of 2017. Building permits declined in value while project approvals increased sharply.

9.1. Building Permits

For the first three quarters of 2017, the total value of building permits fell by 17.6% to \$184.3 million when compared to a year ago. The decline was relatively broad based with the value of permits declining in all but 2 segments (see Table 17).

Table 17: Building Permits (Jan-Sept)

	2015	2016	2017	% Change
Millions				
Houses	76.3	71.0	85.2	20.1
Apartments	28.9	68.5	42.6	(37.7)
Commercial	17.1	38.0	35.3	(7.1)
Government	1.0	10.9	0.2	(98.4)
Industrial	0.5	3.4	3.5	2.5
Hotel	4.6	3.1	2.8	(10.2)
Other	6.7	28.8	14.7	(48.8)
Total	135.0	223.6	184.3	(17.6)

Source: Cayman Islands Government, Planning Department

The value of permits in the residential sector fell by 8.3% to \$127.8 million. This was mainly accounted for by a contraction of 37.7% in the apartment category, which outweighed a 20.1% increase in the houses category.

The value of permits for commercial and "other" building intentions also fell by 7.1% and 48.8%, respectively. With no major projects during the period, the value of permits within the government category declined to \$0.2 million from \$10.9 million in the same period of 2016.

The volume of building permits fell to 645 from 655 in 2016 as most categories reflected lower quantities.

Table 18: Number of Building Permits (Jan-Sept)

	2015	2016	2017	% Change
Houses	182	190	175	(7.9)
Apartments	51	48	63	31.3
Commercial	51	67	68	1.5
Government	5	8	7	(12.5)
Industrial	2	4	4	-
Hotel	3	11	2	(81.8)
Other	268	327	326	(0.3)
Total	562	655	645	(1.5)

Source: Cayman Islands Government, Planning Department

9.2. Project Approvals

Project approvals increased in value to \$680.2 million - its highest level on record - at end September 2017. Growth was recorded in all but two categories.

The residential sector increased by 147.4 percent to \$297 million in the review period. This was largely attributed several large scale projects in the apartment category. Additionally, permits were issued for the construction of several high-valued residential properties.

Table 19: Projects Approval (Jan-Sept)

	2015	2016	2017	% Change
Millions C\$				
Houses	85.9	71.2	99.5	39.7
Apartments	32.3	48.8	197.5	304.7
Commercial	11.8	150.4	21.1	(86.0)
Government	50.1	13.0	4.4	(66.0)
Industrial	5.6	18.5	73.8	298.1
Hotel	-	1.7	230.0	-
Other	16.7	28.3	53.9	90.4
Total	202.5	331.9	680.2	104.9

Source: Cayman Islands Government, Planning Department

Following relatively low building activity within the hotel sector, approval was granted for two major projects during the September quarter which pushed the value of approvals in the category up to \$230.0 million.

In contrast the total value of approvals in the commercial and government sector fell by \$129.3 million and \$8.6 million, respectively.

During the period, 278 more projects were approved relative to same period of 2016, bringing the total number of approvals to 985.

Table 20: Project Approvals (Jan-Sept)

	2015	2016	2017	% Change
Houses	159	177	241	36.2
Apartments	32	37	70	89.2
Hotels	-	4	2	(50.0)
Commercial	10	29	31	6.9
Government	4	7	10	42.9
Industrial	7	10	16	60.0
Other	412	443	615	38.8
Total	624	707	985	39.3

Source: Cayman Islands Government, Planning Department.

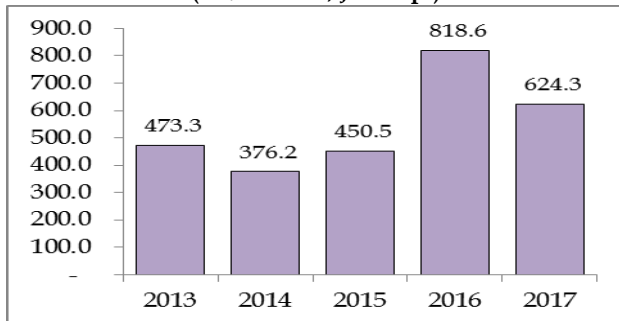
10. Real Estate

The total value of traded properties declined to \$624.3 million as at end September 2017, a 23.7% decline relative to the record level recorded in the same period of 2016. This was mainly attributed to a fall in the value of leasehold activities to \$22.8 million from \$157.7 million. The value of freehold property transfers also moderated by 8.9% to \$601.6 million.

Despite the decline in traded property relative to 2016, activities in the sector remain

noticeably higher than the average for the last five years.

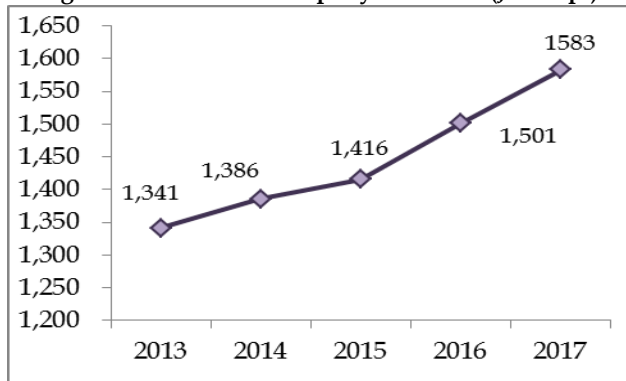
Figure 18: Value Property Transfers: (CI\$ Million, Jan-Sept)



Source: Lands & Survey Department

The volume of property transfers improved year-on-year by 82 or 5.5% to 1,583. The increase was in the context of increases in both the number of freehold property transfers and leasehold transfers.

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



Source: Lands & Survey Department

11. Utilities

11.1 Electricity

Driven by a rise in the estimated domestic population, demand for electricity increased by 3.1% for the first nine months of 2017. The higher demand is attributed to residential customers as well as the public sector which

increased their consumption by 6.4% and 0.3%, respectively. The customer base increased by 1.8% during the period, led by a 2.0% increase in residential customers.

11.2. Water

Similar to the consumption of electricity, water consumption was boosted by a rise in the population base. Accordingly, domestic water consumption and production increased by 4.6% and 3.1%, respectively.

Table 21: Utilities Production and Consumption

	Sep-15	Sep-16	Sep-17	% Change
Millions of US Gallons				
Water Production	1,549.1	1,643.0	1,693.9	3.1
Water Consumption	1,333.5	1,424.3	1,489.4	4.6
000 of megawatt hrs				
Electricity Consumption	435.4	457.1	471.3	3.1
Residential	205.9	224.9	239.3	6.4
Commercial	224.4	227.1	226.8	(0.1)
Public	5.1	5.1	5.1	0.3
Total Customers	28,035	28,498	29,017	1.8
Residential	23,874	24,241	24,721	2.0
Commercial	4,161	4,257	4,296	0.9

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

11.3 Telecommunications

Consistent with the growing use of the internet, the number of broadband connections at end-September 2017 increased by 28.5% relative to 2016.

In contrast, usage of fixed and mobile call minutes declined by 17.4% during the review period. Despite the fall in total minutes, the number of fixed and mobile handsets in operation increased by 3.7%, possibly due to the demand for mobile data as well as the continuous introduction of new phone models.

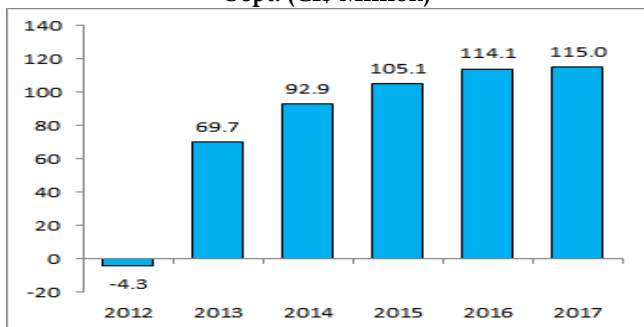
Table 22: Telecommunication Sector Indicators

	Sep-15	Sep-16	Sep-17	Change %
Fixed and Mobile handsets in operation	125,799	125,758	130,438	3.7
Total fixed & mobile domestic & int'l minutes ('000)	167,585	159,741	151,157	(5.4)
Fixed and mobile domestic minutes	121,077	117,735	114,726	(2.6)
Fixed and mobile int'l retail minutes	46,508	42,006	36,431	(13.3)
Broadband connections	24,699	23,730	30,482	28.5

Source: Utility Regulation and Competition Office

12. Fiscal Operations of the Central Government

For the January–September 2017 period, the fiscal surplus rose to \$115.0 million from \$114.1 million during the corresponding period in 2016 (see Figure 20 and Table 23). The overall surplus has depicted a trend increase since a decline in the first three quarters of 2012.

Figure 20: Central Government Overall Fiscal Balance Jan–Sept. (CI\$ Million)


Source: Cayman Islands Treasury Department & Economics and Statistics Office

The fiscal surplus improved by 0.8% due to an increase in revenue, which outweighed a rise in expenditure. The higher revenue was facilitated by higher collections in both the coercive and non-coercive revenue

categories. The increase in expenditure emanated from higher spending on capital goods the impact of which was partly offset by a reduction in current expenditure.

Table 23: Summary of Fiscal Operations

	Sep-16	Sep-17	Change %
	CI\$ Million		
Total Revenue	567.7	578.1	1.8
Total Expenditure	453.7	463.1	2.1
Current Expenditure	437.4	435.0	(0.5)
Net Capital Expenditure & Net Lending ¹	16.2	28.0	72.5
Current Balance	130.3	143.0	9.8
Overall Balance	114.1	115.0	0.8
Financing	89.6	93.8	4.7
Net Borrowing	(12.3)	(20.0)	62.5
Change in Cash	77.3	73.9	(4.5)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

12.1 Revenue

During the review period, the central government increased its revenue collection by 1.8% to \$578.1 million (see Table 24). Coercive revenue contributed 93.8% of total revenue while non-coercive revenue accounted for 6.2%.

Boosted largely by an increase in the collection of domestic taxes on goods and services, **coercive revenue** totalled \$542.5 million, an increase of 0.9% above receipts in the first nine months of 2016. There was also an increase in taxes on international trade and transactions. The improvement in these categories was sufficient to offset declines in taxes on property, fines and other taxes during the period.

Table 24: Revenue Collection of the Central Government

	Sep-16	Sep-17	% Change
CIS\$ Million			
Total Revenue	567.7	578.1	1.8
Coercive Revenue	537.8	542.5	0.9
Taxes on Int'l Trade & Transactions	126.0	129.2	2.6
Domestic Taxes on Goods & Services	358.1	369.8	3.3
Taxes on Property	47.1	41.6	(11.7)
Fines	2.1	1.7	(17.0)
Other Executive Revenue	4.5	0.1	(97.2)
Non-Coercive Revenue	30.0	35.6	18.7
Sale of Goods & Services	27.0	29.2	8.2
Investment Revenue	2.6	5.3	104.3
Other Revenue	0.3	1.0	205.2

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Revenue collected from domestic taxes on goods and services increased by 3.3% to \$369.8 million (Table 25). Propelled by higher collections from accommodation services, the category "other domestic taxes" was the main contributor to the higher revenue, increasing by 9.3% to \$62.6 million. Tourist accommodation charges rose by 16.4% to \$20.5 million. Collections from financial service licences (up by 2.0% to \$228.6 million) and work permit and residency fees (up by 5.6% to \$61.5 million) also contributed to the higher revenue intake.

Tax receipts from international trade and transactions rose by 2.6% to \$129.2 due mainly to increases in 'other import duty', 'motor vehicle duty' and duty on alcoholic beverages, which increased by \$3.0 million, \$0.9 million and \$0.8 million, respectively. The impact of these increases was partly offset by lower revenue from all other categories with cruise ship departure charges (down 7.7% to \$7.1 million) and gasoline and

diesel duty (down 3.9% to \$10.6 million) recording the largest declines. The reduction in cruise passenger visitors for the period contributed to the lower receipts from cruise ship departure charges.

Table 25: Domestic Taxes on Goods & Services of the Central Government (CIS\$ Millions)

	Sep-16	Sep-17	% Change
Various Financial Service			
Licences	224.1	228.6	2.0
ICTA Licences & Royalties	5.6	4.2	(23.9)
Work Permit and Residency Fees	58.2	61.5	5.6
Other Stamp Duties	7.5	7.5	0.1
Traders' Licences	5.4	5.3	(1.8)
Other Domestic Taxes	57.3	62.6	9.3
Of which			
Tourist Accommodation Charges	17.6	20.5	16.4
Motor Vehicle Charges	7.1	8.0	13.4
Domestic Taxes on Goods & Services	358.1	369.8	3.3

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Taxes on property fell by 11.7% to \$41.6 million due to lower stamp duty collections and transfer charges by land holding companies.

Non-coercive revenue amounted to \$35.6 million, 18.7% higher than the comparative period a year ago arising from sharp increases in investment revenue and sale of goods and services.

12.2. Current Expenditure

Total expenditure for the first nine months of 2017 increased by 2.1% to \$463.1 million, reflecting higher net capital expenditure & net lending⁶.

⁶ Net capital expenditure and net lending is gross capital expenditure and net lending less depreciation.

As the government pushed forward with its commitment to fiscal discipline, **current expenditure** was reduced by 0.5% to \$435.0 million during the January–September 2017 period (see Table 26).

Table 26: Current Expenditure of the Central Government

	Sep-16	Sep-17	% Change
	CIS\$ Million		
Current Expenditure	437.4	435.0	(0.5)
Personnel Costs	189.8	198.8	4.7
Supplies & Consumables	71.2	65.4	(8.1)
Depreciation	26.3	23.3	(11.3)
Subsidies	102.8	101.6	(1.2)
Transfer Payments	22.7	23.3	2.8
Interest Payments	20.4	19.3	(5.5)
Other Operating Expenses	4.2	3.3	(22.7)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Spending on supplies and consumables fell by 8.1% to \$65.4 million, due mainly to a reduction in purchases of other supplies and consumables and general insurance.

Depreciation, which is a non-cash provision to account for deterioration in the value of fixed assets by the central government, fell by 11.3% to \$23.3 million. The primary contributors to this decline were lower provisions for roads and sidewalks, buildings and vehicles.

Subsidy, which comprise of payments to public entities and non-government organizations, was reduced to \$101.6 million, a fall of 1.2%. The largest declines in subsidies were recorded for non-government organizations. These included medical care at various overseas providers (down by 22.3% to \$12.5 million) and services for refugees

(down by 45.9% to \$1.8 million). Within public entities, Cayman Airways Limited (CAL) registered the largest decline, decreasing by 2.3% to \$12.3 million.

With the decline in its stock of outstanding debt (see Section 11.4), the government was able to reduce interest payments by 5.5% to \$19.3 million.

In contrast to the reduction in expenditure for most categories, personnel costs rose by 4.7% to \$198.8 million over the review period. This increase primarily reflected higher salaries and wages (including employee pension contributions) which rose by 3.9% to \$154.4 million and health care which rose by 8.2% to \$26.2 million. Similarly, transfer payments, which are payments to social welfare programmes, totalled \$23.3 million, an increase of 2.8%.

12.3 Capital Expenditure

For the review period, gross **capital expenditure and net lending** rose by 20.7% to \$51.3 million (see Table 27).

Capital investment in statutory authorities and government owned companies rose by 81.5% to \$30.4 million. The primary recipients of these increases were the Cayman Islands Development Bank (up by 9.0% to \$8.3 million) and CAL (up by 0.8% to \$11.1 million).

Expenditure on executive assets increased by \$1.5 million to \$12.9 million as the government used additional funds for land purchase (up by \$4.7 million to \$5.1 million) and the George Town Revitalization Project (up by \$2.3 million to \$3.9 million).

Table 27: Capital Expenditure and Net Lending

	Sep-16	Sep-17	% Change
	CIS Million		
Gross Capital Expenditure and Net Lending	42.5	51.3	20.7
Capital Investment in Ministries and Portfolios	13.0	7.8	(39.9)
Capital Investment in Statutory Authorities and Government Owned Companies	16.8	30.4	81.5
Executive Assets	11.4	12.9	13.0
Net Lending	1.3	0.2	(85.4)
Net Capital Expenditure and Net Lending¹	16.2	28.0	72.5

Source: Cayman Islands Treasury Department & Economics and Statistics Office

The increase in capital expenditure was partly offset by reduced investments in ministries and portfolios which fell by 39.9% to \$7.8 million. This decline resulted mainly from lower capital investments in the health division of the Ministry of Home Affairs, Health and Culture (down to zero from \$1.7 million in January–September 2016) and the Ministry of Planning, Lands, Agriculture, Housing and Infrastructure (down to zero from \$1.5 million in the nine-month period of 2016).

12.4. Net Financing and Debt

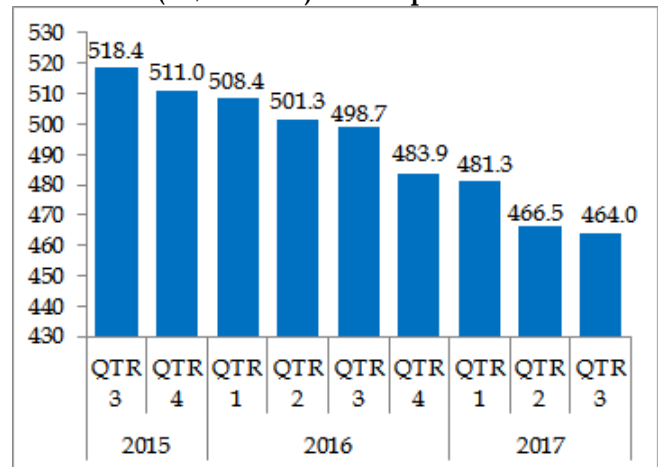
The cash balance of the central government increased by \$73.9 million (see Table 28) for the first nine months of 2017, which was facilitated by an improvement in the fiscal surplus. Loan repayments amounted to \$20.0 million compared with \$12.3 million in the corresponding period of 2016.

Table 28: Net Financing

	Sep-16	Sep-17	% Change
	CIS Million		
Financing	89.6	93.8	4.7
Net Borrowing	(12.3)	(20.0)	62.5
Disbursements	0.0	0.0	-
Loan Repayment	(12.3)	(20.0)	62.5
Change in Cash	77.3	73.9	(4.5)

Source: Cayman Islands Treasury Department

The debt total debt stock of the government stood at \$464.0 million as at September 2017, \$34.8 million lower than the stock at the end of September 2016 (see Figure 21). When compared to its peak at the end of June 2011, the stock of debt decreased by 34.3% or \$165.2 million.

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


Source: Cayman Islands Treasury Department

The central government's debt service-to-revenue ratio was 6.8% for the first nine months of 2017 relative to 5.8% for January–September 2016. Interest payments for January–September 2017 accounted for 4.4% of current expenditure and 3.3% of revenue.

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