



THE CAYMAN ISLANDS' THIRD QUARTER ECONOMIC REPORT 2013

January 2014



The Economics and Statistics Office
Ministry of Finance and Economic Development

Table of Contents

Overview*	1
1. GDP Growth and Forecasts	2
2. Inflation	3
3. Trade	4
4. Work Permits	5
5. Money & Banking	6
5.1. Net Foreign Assets (NFA).....	6
5.2. Domestic Credit.....	7
5.3. Broad Liquidity.	8
5.4. Interest Rates.....	8
6. Financial Services	9
6.1 Banks & Trust	9
6.2 Insurance	9
6.3 Mutual Funds	10
6.4 Stock Exchange.....	10
6.5 New Company Registration.....	11
7. Tourism	11
7.1 Air Arrivals	11
7.2 Cruise Arrivals	12
8. Construction	12
8.1. Building Permits.....	12
8.2. Project Approvals.....	13
9. Real Estate	13
10. Utilities.....	14
10.1. Electricity.....	14
10.2. Water.....	14
10.3. Telecommunications.....	14
11. Fiscal Operations of Central Government.....	15
11.1. Revenue	15
11.2. Expenditure.....	17
11.3. Capital Expenditure and Net Lending	18
11.4. Net Financing and Debt	18

Overview*

- Estimated gross domestic product (GDP) continued to expand in the third quarter, resulting to an average annualised growth rate of 1.0% in the first three quarters.
- The average Consumer Price Index rose by 2.3%, as higher price indices were recorded for clothing and footwear, tobacco and alcohol food and non-alcoholic beverages, transport and household equipment, education and miscellaneous goods and services.
- Merchandise imports declined by 0.4% to register at \$559.8 million in contrast to a growth of 2.6% in the same period last year.
- Current work permits fell by 0.8% compared to a year ago.
- Broad liquidity or money supply expanded by 6.4% due to higher foreign currency deposits held by residents and local currency money supply.
- The weighted average lending rate fell by 7 basis points to 6.23% while prime lending rate remained stable at 3.25%.
- Domestic credit contracted by 4.2% as credit to the private sector declined by 4.1% (due mainly to households) and credit to the public sector fell by 5.6%.
- Bank and trust company licenses fell by 5.2% while insurance licenses rose by 2.8%.
- Mutual funds (registered, administered and licensed) declined by 4.1%; however, the addition of the new category “master funds” resulted to an overall expansion by 3.3%.
- Stock exchange listings declined by 5.1% to settle at 1,088 amidst a modest increase in market capitalization.
- New company registrations rose by 5.1% to total 7,120.
- Air arrivals grew by 6.5% while cruise passengers fell by 13.1%.
- Building permits surged by 25.0% in value although total number fell by 9.9%.
- The number of property transfers slowed by 3.6% to 1,341 while the total value spiked by 44.6% to \$473.3 million.
- Electricity consumption remained stable during the period while water consumption declined by 0.9%.
- Demand for telecommunication services showed declines across major types of indicators, including total domestic minutes (-10.2%).
- Central government recorded an overall fiscal surplus of \$80.7 million compared to a deficit of \$1.6 million a year ago.
- The total outstanding debt of the central government declined to \$569.4 million from \$595.8 million a year ago.

*Comparative data over the first nine months of 2012, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

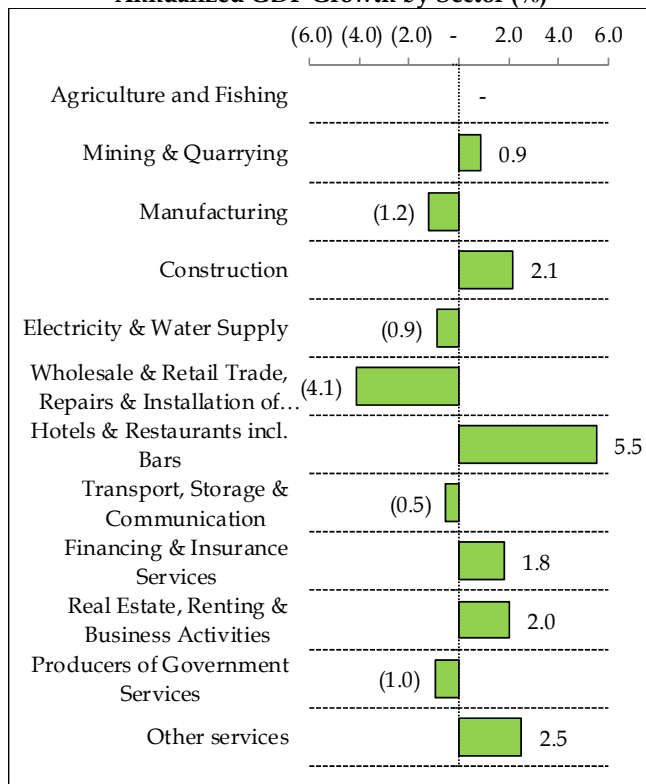
1. GDP Growth and Forecasts

Based on available indicators, the Cayman Islands' real GDP grew by an estimated annualised rate of 1.0% in the first nine months of 2013 compared to a year ago.

Upbeat growth rates were indicated for a few sectors, led by hotels and restaurants (5.5%), construction (2.1%), real estate, renting and business activities (2.0%) and financing and insurance (1.8%) (see Figure 1).

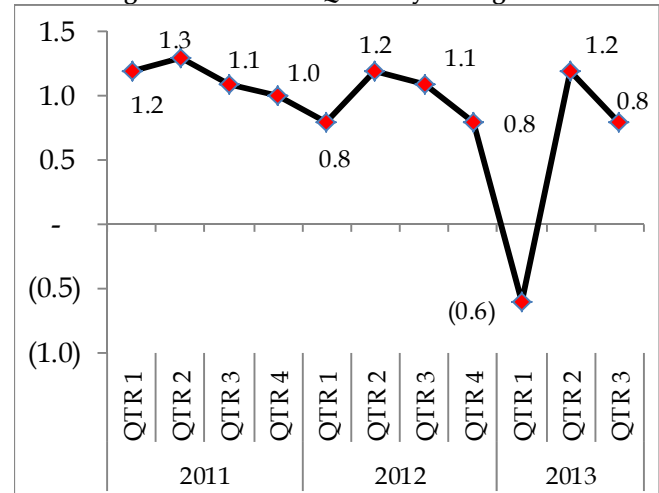
However, declines were indicated for wholesale and retail trade, transport, storage and communication, electricity and water supply, agriculture and fishing, government services and manufacturing.

Figure 1: Estimated First Nine Months of 2013 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 2013 is maintained at 1.5% (see Table 1). This assumes acceleration in growth during the last quarter of the year particularly from wholesale and retail trade, financial and business services.

The inflation forecast for 2013 is maintained at 2.1% given the 2.3% average inflation in the first nine months.

Unemployment rate is forecasted at 6.1%, conditional on the continuing revival of economic activities, particularly in construction.

Table 1: Macroeconomic Outlook Based on First Three Quarters Data

	2010	2011	2012	Forecast 2013
	Percent (%)			
Real GDP	(2.9)	0.9	1.4	1.5
CPI Inflation	0.3	1.3	1.2	2.1
Unemployment Rate	6.2	6.3	6.2	6.1

Source: Economics and Statistics Office

2. Inflation

Average inflation for the first nine months of 2013 was recorded at 2.3% (see Table 2). This resulted mainly from rising price indices for tobacco and alcohol (13.5%), household equipment (6.2%), clothing and footwear (5.6%), miscellaneous goods and services (9.0%), education (4.0%), food and non-alcoholic beverages (3.3%) and transport (2.0%), as housing and utilities, and recreation and culture declined.

Table 2: Average Inflation (%)

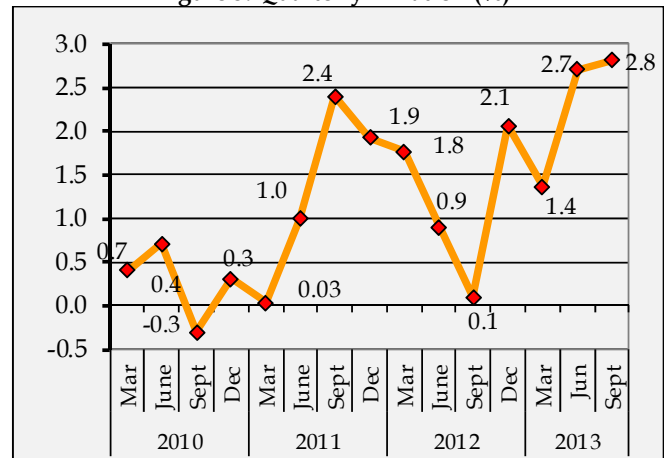
Categories	First Three Quarters Avg Inflation Rates (%)	
	2012	2013
Food & Non Alcoholic Beverages	4.4	3.3
Alcohol and Tobacco	0.5	13.5
Clothing and Footwear	6.0	5.6
Housing and Utilities	-0.3	-0.8
Household Equipment	0.8	6.2
Health	2.3	1.3
Transport	2.9	2.0
Communication	0.1	0.7
Recreation and Culture	-1.5	-1.2
Education	0.3	4.0
Restaurants and Hotels	-1.8	0.2
Misc. Goods and Services	1.0	9.0
Overall CPI Inflation	0.9	2.3

Source: Economics and Statistics Office

In the quarter ended September 2013, the Consumer Price Index (CPI) stood at 103.7, higher by 2.8% compared to a year ago (see Figure 3)¹. Rising price indices were recorded for alcohol and tobacco (13.2%), miscellaneous goods and services (10.1%),

restaurants and hotels (7.6%), education (6.2%), clothing and footwear (4.0%), transport (4.5%), household equipment (5.2%) and food and beverage (3.0%). However, these increases were offset by declines in housing and utilities (-1.4%), and recreation and culture (-0.1%).

Figure 3: Quarterly Inflation (%)



Source: Economics and Statistics Office

The alcohol and tobacco index rose by 13.2%, a direct result of higher import duty on tobacco.

Higher cost of personal effects and insurance services (particularly health insurance) pushed the miscellaneous goods and services index up by 10.1%.

The index for restaurant and hotels rose by 7.6% arising from price movements for catering and accommodation services.

The transport price index was higher by 4.5%, resulting from the operating cost of personal transport equipment, and cost of vehicles and transport services.

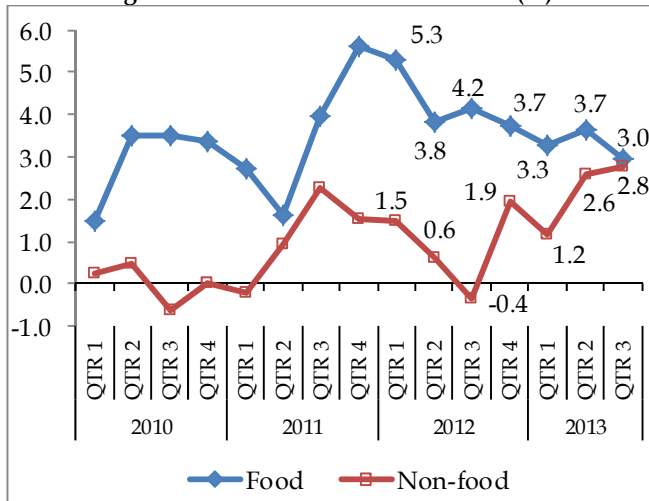
¹ See also 'The Cayman Islands Consumer Price Report September 2013,' www.eso.ky

The education index rose by 6.2% during this period mainly on account of a 12.5% increase in the cost of tertiary education followed by higher cost of primary and secondary education of 3.3% and 3.1% respectively.

The clothing and footwear index increased by 4.0%, while the household equipment index rose by 5.2% on account of higher household maintenance cost.

The index for food and non-alcoholic beverages increased by 3.0%, an impact of higher international food prices due mainly to adverse weather conditions in producing countries. A dissection of year-on-year inflation showed that non-food inflation which has trended upward in recent quarters has (at 2.8%) moved closer to convergence with food inflation (3.0%) 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 88.4 in the third quarter of 2013, a decline of 1.4% from a year ago. This was mainly on account of continuing downtrend in rental cost for housing and imputed

rentals for owner-occupied housing. On the other hand, the cost of electricity, gas and other fuels increased by 4.7% caused largely by volatility in the prices of oil and oil-related products in the global market.

Table 3: Various Inflation Rates

	2012			2013		
	Q2	Q3	Q4	Q1	Q2	Q3
Overall inflation	0.9	0.1	2.1	1.4	2.7	2.8
Overall inflation <i>excluding</i>						
food and electricity	0.6	0.0	1.7	1.2	2.6	2.6
housing and utilities	1.3	1.0	2.4	2.5	4.4	5.1
Non-food inflation	0.6	-0.4	1.9	1.2	2.6	2.8
Housing & Utilities inflation	0.1	-1.7	1.5	-0.6	-0.4	-1.4
Electricity inflation	1.1	-5.5	5.5	0.8	2.8	4.7

Source: Economics and Statistics Office

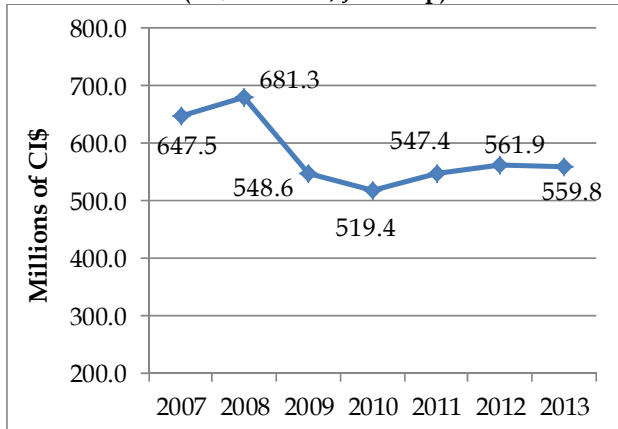
3. Trade

For the first nine months of 2013, preliminary data indicate marginally lower imports compared to a year ago. Merchandise imports decreased by 0.4% in the first three quarters of 2013, settling at \$559.8 million (see Figure 5). The lower imports resulted from the value of non-oil products which decreased by 2.1% while the value of oil and petroleum-related products imports increased by 5.6%.

The decline in non-oil imports is traced to miscellaneous manufactured articles (-15.0%), machinery and transport equipment (-2.6%) and transactions not classified elsewhere (13.7%). Altogether, these offset the increases recorded for chemicals and related-products (10.5%), food and live animals (6.8%), beverages and tobacco (1.8%), manufactured good classified chiefly by materials (4.9%), animal and vegetable oil

etc. (141.5%) and crude materials excluding oil-related products (12.9%).

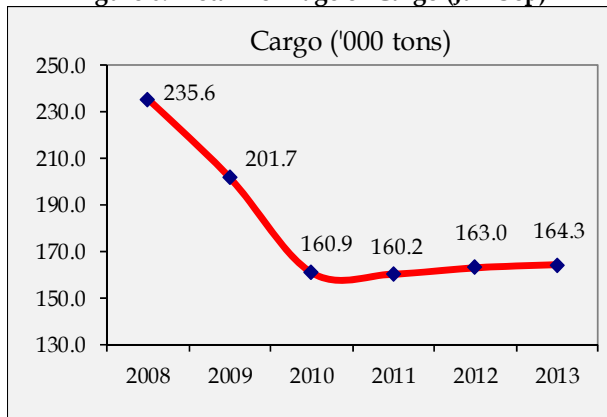
Figure 5: Merchandise Imports (CI\$ Millions, Jan - Sep)



Source: Customs Department and ESO

Despite the decline in the value of merchandise imports for the first three quarters of 2013, the volume of imported cargo recorded a marginal increase. The total tonnage of landed cargo grew slightly by 0.8%, an improvement compared to a year ago (see Figure 6).

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



Source: Cayman Islands Port Authority

As exhibited in Table 4, the total quantity of imported fuel rose by 7.6% during the first three quarters of 2013, which is consistent

with the increase in value of oil and petroleum-related products by 5.6%.

Table 4: Quantity of Fuel Imports (Jan-Sep)

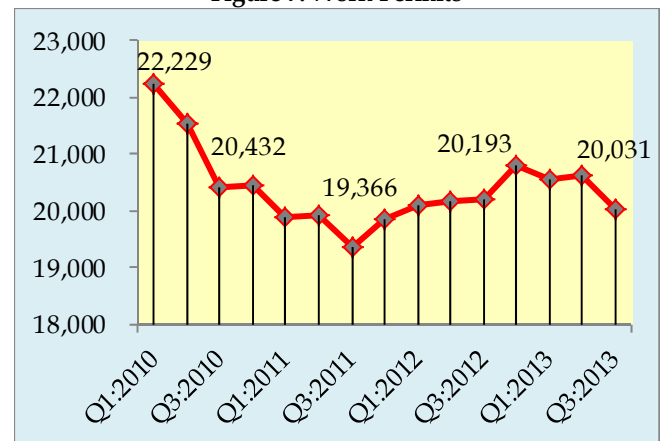
	Sep-11	Sep-12	Sep-13	% Change
Millions of imperial gallons				
Total Fuel	37.5	34.1	36.7	7.6
Diesel	25.2	23.0	24.8	7.8
Gas	8.1	7.2	7.9	9.7
Aviation Fuel	3.0	2.9	3.0	3.4
Propane	1.2	1.0	1.0	0.0

Source: Cayman Islands Port Authority

4. Work Permits

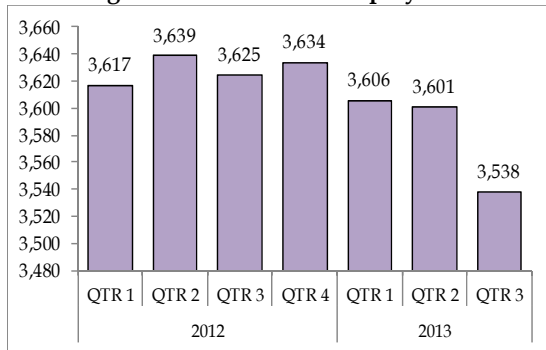
Work permits, a measure of foreign employment levels, decreased 0.8% to 20,031 in the first nine months of 2013 (see Figure 7) which coincided with a change in work permit policy in the third quarter of 2013.

Figure 7: Work Permits



Source: Immigration Department, Economics & Statistics Office

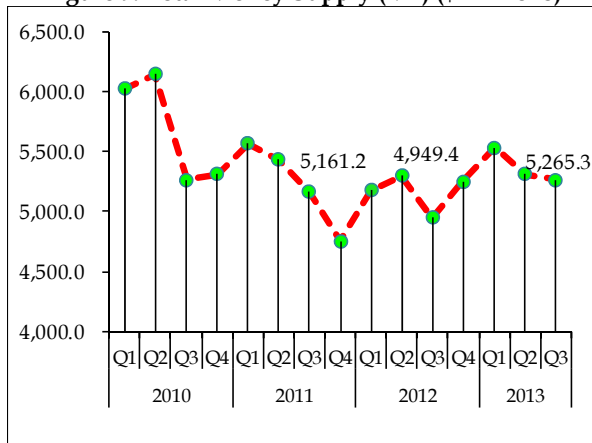
As depicted in Figure 8, civil service employment decreased by 2.4% (or 87 persons) to total 3,538 when compared to a year ago.

Figure 8: Civil Service Employment


Source: Portfolio of the Civil Service

5. Money & Banking

For the first nine months of 2013, broad liquidity (M2) which comprises CI dollar-denominated money and foreign exchange deposits expanded by 6.4% to settle at \$5,265.3 million. This expansion resulted from growth in CI dollar-denominated deposits, money in circulation and foreign currency deposits (see Figure 9 and Table 5).

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


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Table 5: Monetary and Banking Summary Indicators (\$ millions)

	2012	2013	% Change
Total Assets	4,949.4	5,265.3	6.4
Net Foreign Assets	2,694.6	2,750.8	2.1
Monetary Authority	91.8	93.7	2.1
Commercial Banks	2,602.8	2,657.1	2.1
Net Domestic Assets	2,254.8	2,514.5	11.5
Domestic credit	3,063.4	2,933.3	(4.2)
Claims on central government	280.4	278.5	(0.7)
Claims on other public sector	86.1	67.4	(21.7)
Claims on private sector	2,696.9	2,587.4	(4.1)
Other items net (assets +)	(808.6)	(418.8)	(48.2)
Broad Liquidity	4,949.4	5,265.3	6.4
Broad money (KYD) M2	1,058.4	1,120.6	5.9
Currency in circulation	86.9	88.8	2.2
KYD Deposits	971.5	1,031.8	6.2
Demand deposits	307.4	422.3	37.4
Time and savings deposits	664.1	609.5	(8.2)
FOREX deposits	3,891.0	4,144.7	6.5
of which: US dollars	3,279.3	3,610.5	10.1
US\$ Contribution (%)	84.3	87.1	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.1. Net Foreign Assets (NFA). During the review period, NFA increased by 2.1% to \$2.75 billion, with the underlying components - domestic commercial banks and the Cayman Islands Monetary Authority - growing at the same rate (see Table 6).

The commercial banks' higher NFA resulted from a decline in foreign liabilities which outweighed a decline in foreign assets. Of the latter, the banks' investment activity abroad surpassed their lending activity during the period, most likely due to improved performance of the global stock markets. The same factor may also explain

the reduction in non-resident deposits in the liabilities side.

Table 6: Net Foreign Assets (\$ millions)

	Sep-12	Sep-13	% Change
Net Foreign Assets	2,694.5	2,750.8	2.1
Monetary Authority	91.8	93.7	2.1
Commercial Banks	2,602.7	2,657.1	2.1
Foreign Assets	6,077.4	5,657.6	(6.9)
Bal. with Banks & Branches	3,743.5	3,809.4	1.8
Total Investment	987.5	1,026.7	4.0
Total Non-Resident Loans	1,346.4	821.5	(39.0)
Foreign Liabilities	3,474.7	3,000.5	(13.6)
Total Non-Resident Deposits	3,344.1	2,795.6	(16.4)
Other Liabilities	130.6	204.9	56.9

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.2. Domestic Credit. During the review period, domestic credit contracted by 4.2% as credit to both public and private sectors declined.

Public sector indebtedness fell by 5.6% compared to a year ago (see Table 7). Central government debt contracted by \$1.9 million while other public sector entities also posted a net decrease of \$18.7 million (see Table 5).

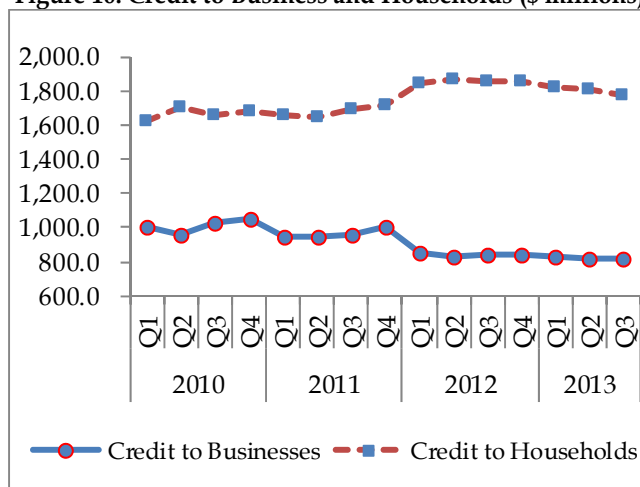
Lending to the domestic private sector (businesses and households) decreased by 4.1% compared to a year ago (Table 7 and Figure 10).

Table 7: Domestic Credit (\$ millions)

	Sep-12	Sep-13	% Change
Domestic Credit	3,063.4	2,933.3	(4.2)
Domestic Credit to Public Sector	366.5	345.9	(5.6)
Domestic Credit to Private Sector	2,696.9	2,587.4	(4.1)

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Loans to households decreased by 4.3% (or by \$79.6 million) as at September 2013 compared to the preceding year. All major types of household loans were affected, except for education and technology. The largest drop (percentage-wise) was recorded for miscellaneous debt (-18.9%) which includes consolidated debt and credit for medical, insurance and travel (see Table 8).

Total credit to businesses contracted during the review period as lending to all major sectors declined except trade and commerce.

Lending to the production and manufacturing sectors contracted by 3.8%, as reflected in all sub-sectors led by manufacturing.

During the review period, loans to the services sector plummeted by 24.5% as a total of \$30.2 million were amortised across major

services. (However, during the last three months, lending to the services sector increased by \$5.6 million).

Table 8: Net Credit to the Private Sector (\$ millions)

	Sep-12	Sep-13	Change %
Total	2,696.9	2,587.4	(4.1)
Credit to Businesses	844.4	814.6	(3.5)
Production & Manufacturing	335.1	322.4	(3.8)
Agriculture, Fishing and Mining	13.4	12.8	(4.5)
Manufacturing	28.3	24.2	(14.5)
Utilities	3.4	2.9	(14.7)
Construction	290.0	282.5	(2.6)
Services	123.2	93.0	(24.5)
Accommodation, Food, Bar & Entertainment Services	92.8	54.6	(41.2)
Transportation, Storage & Communications	15.7	17.7	12.7
Education, Recreational & Other Professional Services	14.7	20.7	40.8
Trade and Commerce	342.2	363.1	6.1
Wholesale & Retail Sales Trade	66.5	70.5	6.0
Real Estate Agents, Rental and Leasing Companies	127.3	144.4	13.4
Other Business Activities (General Business Activity)	148.4	148.2	(0.1)
Other Financial Corporations	43.9	36.1	(17.8)
Credit to Households	1,852.4	1,772.8	(4.3)
Domestic Property	1,543.9	1,517.8	(1.7)
Motor Vehicles	33.7	30.3	(10.1)
Education and Technology	4.3	5.2	20.9
Miscellaneous*	270.5	219.5	(18.9)
NonProfit Organizations	0.1	0.0	(100.0)

*Miscellaneous include consolidated debt, insurance, medical & travel

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit to trade and commerce expanded by \$20.9 million (or 6.1%), primarily due to higher lending activity for real estate and for wholesale and retail trade.

5.3. Broad Liquidity. As referenced in Table 5, broad liquidity (M2) in the Cayman Islands reached \$5,265.3 million in September 2013, compared to \$4,949.4

million for the same period last year. This represents a 6.4% increase which resulted from increases in foreign currency deposits and local currency money.

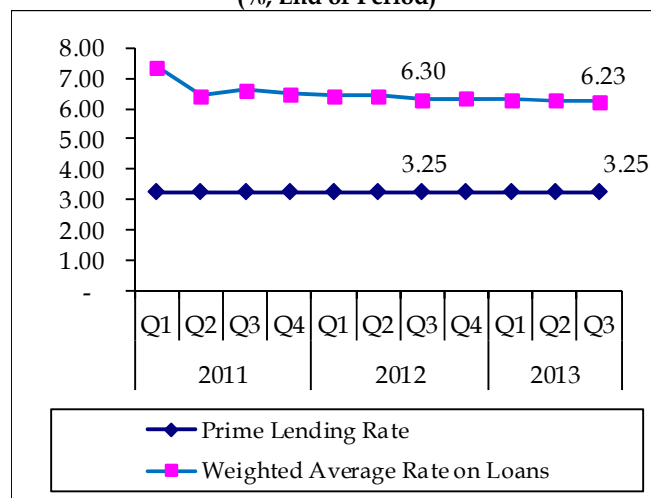
Foreign currency deposits grew by 6.5% or \$253.7 million. This increase comprised \$331.2 million US-dollar denominated deposits, which was partially offset by a \$68.5 million decline in other foreign currencies.

Total CI dollar deposits rose by 6.2% or \$60.3 million while currency in circulation grew by 2.2% or \$1.9 million compared to a year ago.

However, CI dollar time and savings deposits fell slightly amidst a downtrend in savings rate.

5.4. Interest Rates. As depicted in Figure 11, the weighted average lending rate on KYD fell marginally by 7 basis points from 6.30% in September 2012 to 6.23% in the same period of 2013. The Cayman Islands prime lending rate remained constant at 3.25%.

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

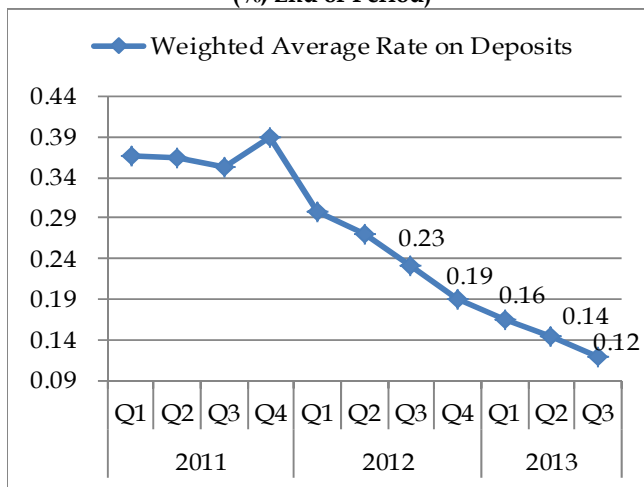


Source: Cayman Islands Monetary Authority &

Economics and Statistics Office

As depicted in Figure 12, the weighted average savings rate on KYD declined marginally by 2 basis points from a year ago to 0.12%.

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 generated mixed results during the first nine months of 2013. There was growth in activity for insurance companies, mutual funds and new company registration; however, indicators for banks and trust and the stock exchange slid anew.

6.1 Banks & Trust

As of September 2013, the total number of licenced bank and trust companies settled at 221 (5.2% percent lower than last year). Similarly, licences issued to trust companies was reduced by 3.3% to reach 118.

Table 9: Bank & Trust Companies

	Sep 2011	Sep 2012	Sep 2013	% Change
Bank and Trust	250	233	221	(5.2)
Class "A"	16	15	15	0.0
Class "B"	234	218	206	(5.5)
Trust Companies	123	122	118	(3.3)
Restricted	71	69	67	(2.9)
Unrestricted	52	53	51	(3.8)

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences remained steady at 15, while Class 'B' licences declined by 8, to settle at 206.

Licensees from Europe and USA comprised 27.6% and 21.7%, respectively, of the total, with the rest from as follows: South America 17.6%, Asia and Australia 10.9%, Caribbean and Central America 10.0%, Canada and Mexico 8.1% and Middle East and Africa 4.1%.

6.2 Insurance

Similar to 2012, the insurance sector continued its upswing as the total number of insurance licences rose by 21 to reach 782.

Whereas Class 'A' insurance licences remained constant at 27, Class 'B' (captive) licences rose by 21 to reach 755 in the review period.

Table 10: Insurance Companies

	Sep 2011	Sep 2012	Sep 2013	% Change
Class 'A'	28	27	27	0.0
Class 'B'	730	734	755	2.9
Total	758	761	782	2.8

Source: Cayman Islands Monetary Authority

Premiums for captives increased by about US\$1,936 million (16.4%) to register at US\$13.77 billion at the end of September 2013.

There was no significant change in the mix of business among the captives during the period under review, with healthcare (33.6%) and workers' compensation coverage (21.1%) remaining as the leading classes.

Table 11: Captive Insurance Licences by Primary Class of Business, September 2013

	Licences	% share
Healthcare	254	33.6
Workers' Compensation	159	21.1
Property	91	12.1
General Liability	74	9.8
Professional Liability	69	9.1
Other	108	14.3
Total	755	100.0

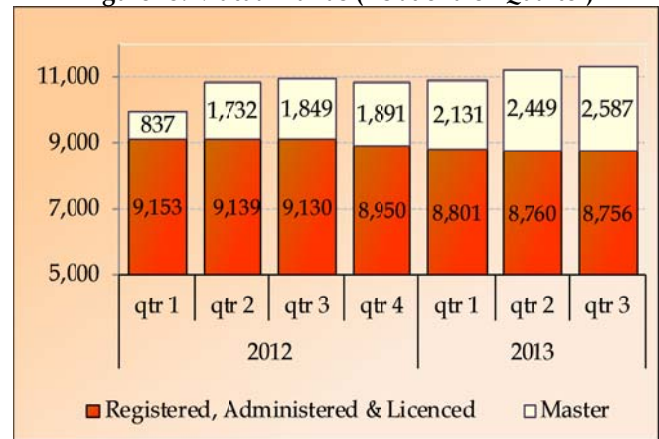
Source: Cayman Islands Monetary Authority

North America (90.2%) remains as the dominant location of captive insurance companies. Those with world-wide markets account for 3.7%, while those for the Caribbean and Latin American region had 3.2%.

6.3 Mutual Funds

When compared to a year ago, the number of registered, administered and licenced mutual funds licences fell by 374 (or 4.1%) to 8,756. Total master funds was higher by 738. When combined, all categories of mutual funds as at September 2013 totalled 11,343, an improvement of 3.3% over the same period a year ago.

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



Source: Cayman Islands Monetary Authority

6.4 Stock Exchange

The Cayman Islands Stock Exchange listings declined by 5.1% from 1,146 in September 2012 to 1,088 in September 2013. All the major categories declined except primary and secondary equity.

Table 12: Number of Stock Listings by Instruments (as at September)

Instruments	2012	2013
Total	1,146	1,088
Mutual Funds	336	316
Specialist Debt	597	572
Eurobond	116	114
Primary Equity	5	5
Secondary Equity	2	2
Insurance Linked Security	90	79

Source: Cayman Islands Stock Exchange

Despite the weakening in total stock exchange listings, total market capitalization grew by US\$1.5 billion (or 0.9%) to reach US\$168.2 billion in September 2013.

This performance was largely supported by positive growth in most categories led by

specialist debt; however, shortfalls were posted for mutual funds and primary equity.

Table 13: Market Capitalization by Instruments
(US\$ Billions, as at September)

Instruments	2012	2013
Total	166.7	168.2
Mutual Funds	16.8	11.9
Specialist Debt	73.1	77.3
Eurobond	64.4	66.5
Primary Equity	2.7	2.3
Secondary Equity	0.8	0.9
Insurance Linked Security	8.9	9.3

Source: Cayman Islands Stock Exchange

6.5 New Company Registration

After declining in the previous year, total new company registrations reached 7,120 as at end of the third quarter, representing a 5.1% increase. This recovery is largely on account of additional foreign and exempt company registrations (21.8 % and 6.0%, respectively) which offset downturns in the non-resident and resident categories.

Table 14: New Company Registrations (as at September)

	2011	2012	2013
Total	7,063	6,775	7,120
Exempt	6,210	5,966	6,325
Non-Resident	125	51	31
Resident	397	409	339
Foreign	331	349	425
Percentage change (%)			
Total	14.1	-4.1	5.1
Exempt	16.4	-3.9	6.0
Non-Resident	-32.8	-59.2	-39.2
Resident	10.3	3.0	-17.1
Foreign	6.1	5.4	21.8

Source: Registry Department

7. Tourism

Stay-over arrivals continued to be on the upswing in the first nine months of 2013. However, total visitor arrivals stood at 1,247,985, a decrease of 9.6% over the comparative period of 2012 due to fewer cruise visitors.

7.1 Air Arrivals

Air arrivals for the first three quarters of 2013 totalled 261,588, a 6.5% percent improvement over the same period a year ago.

The upbeat performance was generated from all regional visitor markets except for the Canadian region which weakened by 1.6 percent when compared to the previous year.

As shown in Table 15, total arrivals from Europe was stagnant a year ago; however, during the current review period, it staged the strongest growth (27.5%). (This performance overcame the generally downbeat economic conditions in that market). The US regional markets continued to show healthy improvements, except for the southeast region.

Table 15: Air Arrivals (in '000) by Region (Jan-Sep)

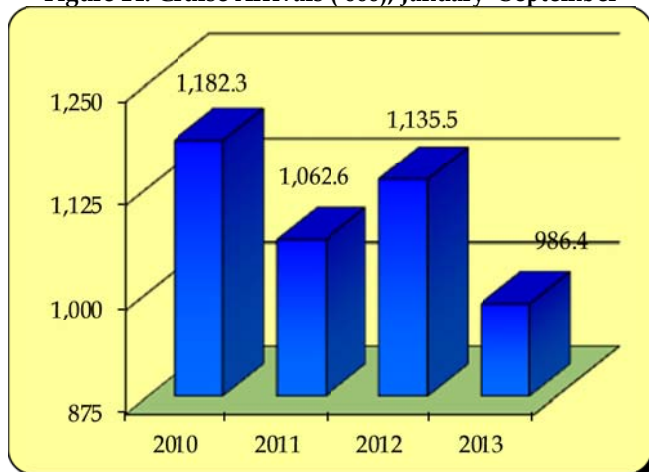
	2011	2012	2013	Change %
USA	188.9	196.8	205.0	4.2
Northeast	67.4	65.9	72.0	9.2
Midwest	40.7	44.4	44.6	0.6
Southeast	35.1	35.4	35.1	(0.9)
Southwest	33.4	37.7	39.4	4.6
West Coast	12.3	13.3	13.9	4.0
Europe	15.4	15.4	19.6	27.5
Canada	17.9	17.0	16.7	(1.6)
Others	14.2	16.5	20.2	22.6
Total	236.4	245.6	261.6	6.5
of which: USA (%)	79.9	80.1	78.4	

Source: Department of Tourism

7.2 Cruise Arrivals

During the first three quarters of 2013, cruise arrivals totalled 986,397 visitors, a downturn of 13.1% over the comparative period of 2012. This may be directly correlated with the drop in the number of cruise ship calls at George Town port by 10.6% to 347. The resulting average number of cruise passengers per day (3,653) was therefore fewer by 553 when compared to the first three quarters of 2012.

Figure 14: Cruise Arrivals ('000), January -September



Source: Department of Tourism

8. Construction

Construction indicators continued to improve in the first nine months of 2013 with the value of building permissions increasing despite softening activity levels.

8.1. Building Permits

Building permit values in the review period rose 25.0% to \$141.8 million, a reversal of the 20.2% contraction a year ago.

This uptick in permit values reflects the impact of multi-million projects earlier in the year, particularly the \$25.0 million Health City Hospital (or Shetty Hospital) and the

\$4.6 million upgrade to the George Town marina.

While positive performances were recorded for most segments, both the 'House' and 'Government' categories declined.

Table 16: Building Permits (January - September)

	2011	2012	2013	% Change
Millions CI\$				
Houses	64.0	76.7	71.0	(7.4)
Apartments	34.0	14.5	19.7	35.9
Commercial	31.5	11.2	24.7	120.5
Government	6.5	2.9	0.2	(93.1)
Industrial	0.5	0.4	2.0	400.0
Other	5.8	7.8	24.3	211.5
Total	142.3	113.5	141.9	25.0

Source: Cayman Islands Government, Planning Department

On the residential side, permit values were relatively unchanged at \$90.7 million. This resulted as a 7.4% decline in Houses overshadowed a 35.9% rebound in Apartments.

Non-residential permits values rose by 85.5%, albeit from a very low base, to \$26.9 million. This was attributable to increases in the both the commercial (120.5%) and industrial segments (400.0%). The sharp drop for the government category continues to reflect the on-going expenditure reduction policy.

The actual number of building permits, when compared to a year ago, fell 9.9% from 564 to 506 suggesting that construction recovery is still not sufficiently broad-based. As shown in Table 17, only the commercial segment demonstrated an increase (Table 17).

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

	2011	2012	2013	% Change
Houses	246	269	230	(14.5)
Apartments	54	45	41	(8.9)
Commercial	77	70	81	15.7
Government	8	13	2	(84.6)
Industrial	1	1	1	-
Other	189	166	153	(7.8)
Total	575	564	508	(9.9)

Source: Cayman Islands Government, Planning Department

8.2. Project Approvals

Total value of approved projects, an indicator of construction intention, recorded strong year-on-year growth (70.2%) to reach \$175.4 million.

The increase in approval values came mainly from large projects in the commercial category, namely the \$50.0 million 'Health City' development. This along with other projects that started in the first six months mitigated a relatively weak third quarter performance, which added only \$26.2 million in approvals.

Table 18: Projects Approval (\$ Millions, (Jan-Sep)

	2011	2012	2013	% Change
Millions CI\$				
Houses	86.5	54.7	61.3	12.1
Apartments	12.1	15.4	13.4	(13.0)
Commercial	20.1	4.9	72.5	1,379.6
Government	14.1	5.0	0.1	(98.0)
Industrial	15.1	5.3	2.2	(58.5)
Other	31.6	17.8	25.9	45.7
Total	179.5	103.1	175.4	70.2

Source: Cayman Islands Government, Planning Department

The Other category also rebounded by 45.7% to \$25.9 million following a 43.7% decline last year.

In the residential sector, approval values in the review period were 6.6% higher at \$74.7 million. Mainly contributing to this increase was the 12.1% rise in House approval values as a result of multi-million projects in the pipeline. In contrast, Apartment values declined for a third consecutive quarter, this time by 13.0%, to \$13.4 million.

Meanwhile, intentions for industrial and government contracted sharply by 58.5% and 98.0% respectively.

In terms of number, approvals slid down by 9.0% to 555 from the 610 recorded last year. Reductions were recorded across all categories except for the 'Other' category.

Table 19: Project Approvals (Jan-Sep)

	2011	2012	2013	Change
Houses	225	230	167	(27.4)
Apartments	28	36	19	(47.2)
Hotels	0	0	0	-
Commercial	21	30	25	(16.7)
Government	12	7	1	(85.7)
Industrial	7	8	4	(50.0)
Other	351	299	339	13.4
Total	644	610	555	(9.0)

Source: Cayman Islands Government, Planning Department

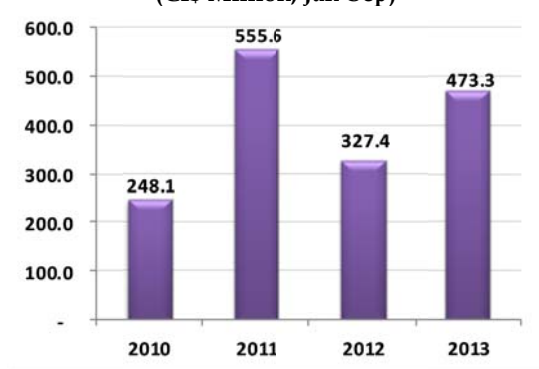
9. Real Estate

The total value of traded property appreciated by 44.6% on a year-to-year basis to total \$473.3 million. Registration of the sale of the Ritz Carlton Grand Cayman accounted for a third of total sales value.

By type of property, the value of freehold transfers increased by 40.3% to \$448.5 million. Value of leasehold transfers rose

even more sharply by 222.1%, from \$7.7 million to \$24.2 million.

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



Source: Lands & Survey Department

However, the volume of transactions continued its downtrend during the period, or 50 less than a year ago, representing a 3.6% decline (Figure 16). This is traced solely to freehold properties with a decline of 5.5% to settle at 1,228. Meanwhile, leasehold volumes increased by 24.2% to 113.

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



Source: Lands & Survey Department

10. Utilities

Demand in the utilities sector weakened slightly during the first three quarters of the year.

10.1. Electricity

Local electricity consumption remained constant at 415.4 kWh mainly due to reductions in commercial usage whilst residential and public consumption expanded slightly (see Table 20).

Residential consumption grew by 0.4% coinciding with an increase in the number of customers by 1.1% to 23,199.

Commercial consumption contracted marginally by 0.4% notwithstanding an increase in the number of commercial customers by 0.9% to total 3,977.

10.2. Water

Total water demand contracted during the period by 0.9% although production had a marginal growth of 0.6%.

Table 20: Utilities Production and Consumption

	As at end		%
	Sep-12	Sep-13	
Millions of US Gallons			
Water Production	1,511.6	1,520.1	0.6
Water Consumption	1,279.6	1,268.1	(0.9)
000 of megawatt hrs			
Electricity Consumption	415.4	415.4	0.0
Residential	193.5	194.2	0.4
Commercial	217.2	216.3	(0.4)
Public	4.7	4.9	3.7
Total Customers	26,894	27,176	1.0
Residential	22,952	23,199	1.1
Commercial	3,942	3,977	0.9

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

10.3. Telecommunications

Demand indicators for the telecommunications market generally fell except for broadband services.

Handsets were down by 1.6% while the total number of paid domestic and international communication minutes decreased by 10.2% and 32.3%, respectively. On the other hand, broadband services had a comparatively robust growth of 6.0%.

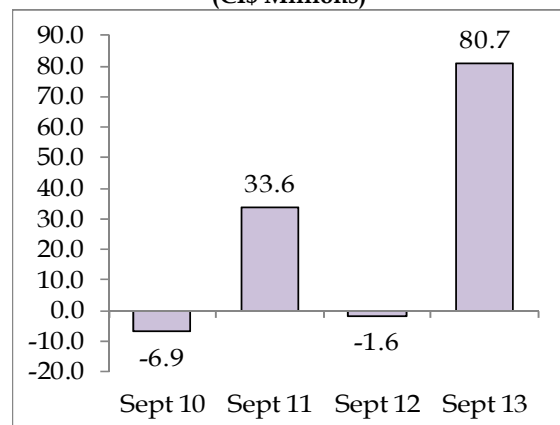
Table 21: Telecommunication Sector Indicators

	Sep-12	Sep-13	% Change
Fixed and Mobile handsets in operation	134,655	132,543	(1.6)
Total fixed & mobile domestic & int'l minutes ('000)	246,628	202,273	(18.0)
Fixed and mobile domestic minutes	159,890	143,560	(10.2)
Fixed and mobile int'l retail minutes	86,739	58,713	(32.3)
Broadband connections	56,476	59,884	6.0

Source: Information Communication and technology Authority (ICTA)

11. Fiscal Operations of Central Government

For the first nine months, the overall fiscal balance changed from a small deficit of \$1.6 million a year ago to a surplus of \$80.7 million in 2013 (see Figure 17).

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


Source: Cayman Islands Treasury Department & Economics and Statistics Office

The improvement in the fiscal position was due to a tripling of the current surplus and a sharp drop in net capital spending. The current surplus stood at \$90.9 million as compared to \$35.3 million a year ago. Meanwhile, net capital expenditure and net lending was cut during the period by 72.4% (see Table 22).

Table 22: Summary of Fiscal Operations

	Sep-12	Sep-13	% Change
	CI\$ Millions		
Total Revenue	443.4	512.1	15.5
Total Expenditure	445.0	431.4	(3.1)
Current Expenditure	408.1	421.2	3.2
Net Capital Expenditure & Net Lending ¹	36.9	10.2	(72.4)
Current Balance	35.3	90.9	157.5
Overall Balance	(1.6)	80.7	(5143.7)
Financing	1.6	(80.7)	5143.7
Net Borrowing	(16.6)	(7.1)	57.2
Change in Cash	(18.2)	73.6	(504.4)

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

11.1. Revenue

For the first nine months of 2013, total revenue increased by 15.5% to reach \$512.1 million (see Table 22). Total revenue comprises both coercive (90.4%) and non-coercive revenue (9.6%). Coercive revenue which totalled \$462.7 million rose by 15.0% above the receipts in the preceding year. Coercive revenue benefited from higher taxes on international trade and transactions (1.3%), along with domestic taxes on goods

and services (22.5%), taxes on property (18.1%) and fines (33.3%).

Table 23: Revenue Collection of the Central Government:

Revenue Sources	Sep-12	Sep-13	% Change
	CI\$ Millions		
Total Revenue	443.4	512.1	15.5
Coercive Revenue	402.2	462.7	15.0
Taxes on Int'l Trade & Transactions	122.8	124.4	1.3
Domestic Taxes on Goods & Services	255.4	312.8	22.5
Levies on Property	20.4	24.1	18.1
Fines	0.9	1.2	33.3
Other Taxes	2.7	0.2	(92.6)
Non-coercive Revenue	41.2	49.4	19.9
Sale of Goods & Services	40.5	48.0	18.5
Investment Revenue	0.6	1.0	66.7
Other Revenue	0.1	0.4	300.0

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Tax receipts from international trade and transactions increased by 1.3% during the period (Table 23). This was supported by higher duties on alcohol and tobacco products which boosted revenue by 3.0% and 51.1%, respectively. However, revenue from gasoline & diesel duty and cruise ship departure tax declined by 4.7% and 13.4%, respectively. The increase in tobacco can be attributed to recent hike in rates as revenue measures, while the decline in cruise ship departure tax was due to lower cruise visitors for the first nine months of the year.

Revenue collected from domestic taxes on goods and services surged by 22.5% (or \$57.4 million) in the first nine months of 2013, primarily due to higher fees that were recently implemented (see Table 24). The

highest increase was from financial services, amounting to \$44.1 million or 76.8% of the total increase in domestic taxes. The main contributors from the industry were banks and trusts (up by \$11.3 million), partnership (up by \$12.7 million), other exempt company (up by \$8.2 million), mutual fund administrators (up by \$8.9 million) and security investment (up by \$3.3 million). Work permit and residency fees also increased by 11.5% during the period despite a reduction in current work permits by 3.6%.

Table 24: Domestic Tax Collection of the Central Government

	Sep-12	Sep-13	% Change
	CI\$ Millions		
Various financial service licenses	147.5	192.6	30.6
ICTA licenses & royalties	6.9	5.3	(22.6)
Work permit and residency fees	47.8	53.3	11.5
Other stamp duties	5.7	4.9	(14.6)
Traders' licenses	5.3	5.1	(4.3)
Other domestic taxes	42.2	51.7	22.5
<i>Of which</i>			
Tourism accommodation	10.8	13.7	26.9
Motor vehicle charges	6.5	7.7	19.0
Domestic Taxes on Goods & Services	255.4	312.8	22.5

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Levies on property increased to \$24.1 million, as higher stamp duty collections came from the sale of properties along the Seven Mile road.

Non-coercive revenue amounted to \$49.4 million, 19.9% higher than the comparative period a year ago. The increase was largely from the sale of good and services from revenue measures implemented within the fiscal year.

11.2. Expenditure

Total expenditure for the first three quarters of 2013 declined despite an increase in current expenditure. During the period, net capital expenditure and net lending² declined by 72.4% which more than offset the 3.2% increase in current expenditure. The latter is traced to increases in personnel costs, subsidies, transfer payments and depreciation. Interest payments, supplies and consumables and other executive expenses declined (see Table 25).

Table 25: Current Expenditure of the Central Government: January - September

	Sep-12	Sep-13	% Change
	CI\$ Millions		
Current Expenditure	408.1	421.2	3.2
Personnel Costs	171.3	181.2	5.8
Supplies & Consumables	71.9	64.5	(10.3)
Subsidies	96.6	106.5	10.2
Depreciation	17.1	19.6	14.6
Transfer Payments	21.3	22.5	5.6
Interest Payments	25.1	24.0	(4.4)
Extraordinary Expenses	0.0	0.0	
Other Executive Expenses	4.8	2.9	(39.6)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Personnel cost rose by 5.8% to \$181.2 million, mainly due to a \$15.0 million payment for past service pensions obligations. Salaries and wages fell, most likely due to a decline in civil service employment by 2.4% (or 87 persons) compared to the same period of 2012 (see Table 26).

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

Table 26: Personal Cost Breakdown: January - September

	2012	2013
	CI\$ Millions	
Salaries and Wages (including Employee Pension Contribution)	137.6	131.6
Health Care Employer/Government Pension Expense	22.2	23.9
Movement in Unfunded Pension Liability	8.4	8.8
Movement in Leave Provision Expense	1.4	15.0
Other Personnel Cost	1.2	1.0
Total	171.3	181.2

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Subsidies which are essentially payments to statutory authorities and corporations were higher by \$9.9 million or 10.2% to total \$106.5 million for the first nine months of 2013.

Transfer payments, which are payments to social welfare programmes totalled \$22.5 million, higher by 5.6% from a year ago.

Supplies and consumables contracted by 10.3% to total \$64.5 million as austerity measures continued.

Interest payments decreased by 4.4% to \$24.0 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 14.6% to \$19.6 million.

11.3. Capital Expenditure and Net Lending

Gross capital expenditure and net lending declined during the period by 44.8% to settle at \$29.8 million. This resulted as capital acquisition/equity injections plummeted to \$7.8 million and capital development/executive assets declined by \$0.8 million to \$6.6 million (see Table 27). The only capital item that increased was the support for public entities' working capital, up by 9.0% from a year earlier.

After netting-out depreciation, capital expenditure and net lending declined by 72.4% to \$10.2 million compared to the same period a year ago.

Table 27: Capital Expenditure and Net Lending: Jan - Sep

	Sep-12	Sep-13	% Change
Gross Capital Expenditure and Net	54.0	29.8	(44.8)
Acquisition/Equity Injections	33.7	7.8	(76.9)
Equity Injections and Working Capital support to Public Entities	14.4	15.7	9.0
Capital Development/Executive Assets	7.4	6.6	(10.8)
Net Lending	(1.5)	(0.3)	(80.0)
Net Capital Expenditure and Net Lending¹	36.9	10.2	(72.4)
Depreciation	17.1	19.6	14.6

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

With the improved overall balance, cash balances of the central government rose by

\$73.6 million (see Table 28). Total loan repayment amounted to CI\$17.1 million while loan disbursements totalled CI\$10.0 million during the review period.

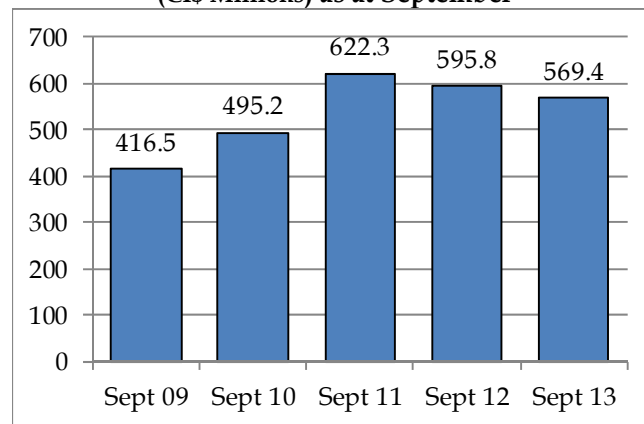
Table 28: Net Financing: Jan-Sep

	Sep-12	Sep-13	% Change
	CI\$ Millions		
Financing	1.6	(80.7)	5143.7
Net Borrowing	(16.6)	(7.1)	57.2
Disbursements	0.0	10.0	
Loan Repayment	(16.6)	(17.1)	(3.0)
Change in Cash Balance	(18.2)	73.6	504.4

Source: Cayman Islands Treasury Department

The central government's outstanding debt continued to decline, amounting to \$569.4 million as at September 2013, lower by 4.4% 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 8.0% as at September 2013. Interest payments for the period accounted for 5.7% of recurrent expenditure.

ACKNOWLEDGMENT

This Report was produced by the Economics Unit of the ESO.

General support from the ESO staff and the assistance of the following local companies, government offices and statutory authorities in generating the data sets used in this edition of the quarterly report is gratefully acknowledged:

**Caribbean Utilities Company
Cayman Islands Customs Department
Cayman Islands Department of Tourism
Cayman Islands General Registry
Cayman Islands Monetary Authority
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**