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1. OVERVIEW

Cayman's economy grew by 2.0 percent in 2003, up from 1.7 percent experienced in the previous year. This was in line with the general trend of accelerated growth seen in the global economy. Continued strength was seen in construction activity, while accelerated growth reflected positively on government revenue, particularly tax revenue from international trade.

Consumer *inflation* rose by 0.6 percent in 2003. While notable price increases were seen in medical services (8.5%) and household equipment (5.9%), these increases were moderated by a decline in housing (-3.1%). Housing accounts for 31.1 percent of the consumer basket of goods & services.

The *unemployment* rate fell to 3.6 percent in October 2003 from 5.4 percent in October 2002. This improvement was as a result of a continued strengthening of the economy and Government's efforts to widen opportunities for Caymanians. In October 2003 the labour force consisted of 29,905 individuals, including 27,354 employed and 1,079 unemployed.

The trade deficit expanded by \$57.8M to \$549.2M in 2003. Imports grew by \$59.1M to \$553.5M, while exports expanded by \$1.3M to \$4.3M. The growth in imports provided strong evidence in support of the underlying economic growth.

Total money supply in the Cayman Islands rose from \$3.6 billion in 2002 to \$4.0 billion in 2003. This expansion was largely influenced by demand deposits, which rose by \$221.3 million and foreign currency deposits held by residents, which increased by \$209.0 million. The net foreign position of retail banks increased by \$5.8 million during 2003 to \$2.3 billion, while net domestic credit from the retail banks rose by \$49.8 million in 2003 to \$1.4 billion.

With respect to the major sectors of the economy, financial services showed positive results in 2003 with the exception of banking, while real estate and construction continued to show positive results, and the tourism sector experienced mixed performance.

In the financial services sector, growth was seen in mutual fund registrations (12.2%), insurance company registrations (6.8%), captive

insurance premiums (16.7%), stock exchange listings (3.5%), stock market capitalisation (20.9%), and new company registrations (3.4%). One notable exception was the decline in the number of bank & trust licences (-8.9%).

In tourism, cruise ship visitors totalled 1,818,979 during 2003, compared with 1,574,750 in 2002 - an increase of 15.5 percent. But air arrivals declined by 3.1 percent from 302,797 in 2002 to 293,517 in 2003. Hotel occupancy rose from an average of 50.6 percent in 2002 to 51.2 percent in 2003, while the occupancy rate for apartments/condos decreased from 40.2 percent to 37.7 percent. The average length of stay at hotels fell from 4.8 days in 2002 to 4.7 days in 2003, while the length of stay for apartments/condos grew marginally from 7.3 days to 7.4 days.

In real estate, the value of properties transferred expanded by 19.0 percent from \$274.0M in 2002 to \$326.0M in 2003. A stronger global economy, historically low interest rates and an indefinite extension of the government's stamp duty concession all contributed to the growth of this sector.

The construction sector saw the value of planning approvals increasing by 12.3 percent from \$243.9M in 2002 to \$273.9M in 2003. A significant increase was noted in approvals for individual homes.

Utilities consumption was mixed in 2003. Water consumption was up by 15.6 percent to 1,220.8M US gallons, and electricity consumption expanded by 4.4 percent to 444.3 thousand MWh. But in telecommunications, the volume of paid telephone/fax minutes declined by 8.6 percent to 36.3 million.

The fiscal operations of central government for 2003 resulted in an overall surplus of \$21.0M. Total revenue increased by 3.9 percent to \$326.2M, while total expenditure rose by 3.2 percent to \$305.2M. With current revenue and expenditure at \$326.2M and \$305.2M, respectively, Government attained a current balance of \$42.5M in 2003.

The public debt stock stood at \$143.9M on 31 December 2003. This represented an increase of \$11.8M compared to December 2002. Disbursements amounted to \$137.9M, while amortisation totalled \$126.1 million. Interest payments totalled \$5.6M in 2003. The high volume of disbursements and amortisation were as a result of Government's very first international bond issue for US\$163.2M, which was used primarily to repay existing debt.

The Cayman Islands is likely to benefit from continued strengthening of the US economy in the form of inward investments and visitor spending. Real growth for the Cayman Islands is projected at 2.8 percent in 2004, up from 2.0 percent in 2003. Unemployment is expected to hold steady at 3.6 percent in 2004. Inflation in 2004 is projected at 2.0 percent, up from a trough of 0.6 percent in 2003.

2. INTERNATIONAL DEVELOPMENTS

Global economic growth accelerated modestly from 3.0 percent in 2002 to 3.9 percent in 2003 (See Table 2.1). This improvement from a low of 2.4 percent in 2001 was mainly due to a continued expansion in consumer spending and a recovery in business spending, particularly in the second half of 2003. Fiscal and monetary policies were largely supportive of the need to spur economic growth. The fragile nature of the recovery was reflected in continued weakness in labour markets. Unemployment in advanced economies rose from 6.4 percent in 2002 to 6.6 percent in 2003. Inflation remained modest, with consumer prices in advanced economies accelerating slightly from 1.5 percent in 2002 to 1.8 percent in 2003.

Table 2.1: World Economic Growth, 2001 - 2003 (%)

	2001	2002	2003
World Output	2.4	3.0	3.9
United States	0.5	2.2	3.1
Japan	0.4	-0.3	2.7
Germany	1.0	0.2	-0.1
France	2.1	1.2	0.2
Italy	1.7	0.4	0.3
United Kingdom	2.1	1.7	2.3
Canada	1.9	3.3	1.7
China	7.5	8.0	9.1
India	4.2	4.7	7.4
Russia	5.0	4.3	7.3
<i>Euro Area</i>	<i>1.5</i>	<i>0.9</i>	<i>0.4</i>
<i>Latin America & Caribbean</i>	<i>0.4</i>	<i>-0.4</i>	<i>1.5</i>
<i>Developing Asia</i>	<i>5.8</i>	<i>6.4</i>	<i>7.8</i>
<i>Middle East</i>	<i>4.8</i>	<i>4.2</i>	<i>5.4</i>
<i>Africa</i>	<i>3.7</i>	<i>3.5</i>	<i>4.1</i>

Sources: *World Economic Outlook*, IMF, April 2004; UN ECLAC

The recovery was broad-based, with most regions experiencing accelerated growth in 2003. One notable exception was the Euro Area, which experienced a deceleration in economic growth.

The US economy grew by 3.1 percent in 2003, up from 2.2 percent in 2002. Consumers spending remained strong during 2003, fuelled by federal tax cuts, mortgage refinancing, and home equity lines of credit. Private investment reversed course from -1.2 percent in 2002 to 4.1 percent in 2003 on account of accelerated growth in the housing market and in business spending on equipment and software.

Corporate profits posted healthy gains in 2003. Financial markets responded positively to this growth, with the S&P 500 index rising by 26.4 percent. The labour market showed some weakness however, prompting concerns regarding job security and the availability of new job openings. The US unemployment rate increased from 5.8 percent in 2002 to 6.0 percent in 2003. But the monthly trend showed a decline in unemployment during the second half of 2003. Still, manufacturing jobs declined for the forty-first consecutive month in December.

The US dollar fell against major currencies for the second year in a row. Against the Euro, it moved from US\$1.0483 at the start of 2003 to close at US\$1.2557 at the end of the year. This depreciation was due to low US interest rates and a growing current account deficit. Another concern in some quarters was the growing federal deficit, particularly in light of tax cuts that the US administration want to make permanent.

The UK economy showed greater resilience than other western European countries, with GDP rising from 1.7 percent in 2002 to 2.3 percent in 2003. Investment spending by government provided the momentum in 2003, while business spending reversed from a 3.5 percent decline in 2002 to 1.5 percent increase in 2003. Unemployment fell from 5.2 percent in 2002 to 5.0 percent in 2003.

Economic growth in the Euro Area slowed from 0.9 percent in 2002 to 0.4 percent in 2003, influenced by a 0.1 percent contraction in Germany. Real capital investments and net exports fell during the year, while consumer

spending increased from 0.6 percent in 2002 to 1.4 percent in 2003. Unemployment climbed from 8.4 percent in 2002 to 8.8 percent in 2003.

The Japanese economy showed signs of a recovery, expanding by 2.7 percent in 2003 compared to a contraction of 0.3 percent the previous year. The acceleration was led by a turnaround in business investment and exports to the United States and China. Unemployment declined slightly from 5.4 percent in 2002 to 5.3 percent in 2003, but the continued decline in consumer prices underscored fundamental structural problems plaguing the world's second largest economy. Falling asset prices have impacted negatively on corporate profits and have increased the value of debt.

Developing Asian economies continued to show strength in 2003. China's growth, driven mainly by inward investments, accelerated from 8.0 percent in 2002 to 9.1 percent in 2003. Strong demand from China for raw materials has impacted positively on resource-rich countries. China, already the second largest importer of oil, overtook Japan to become the largest importer of iron ore in 2003. The Indian economy also accelerated from 4.7 percent in 2002 to 7.4 percent in 2003, benefiting from the outsourcing of services from the United States and other countries.

Latin America and the Caribbean grew by 1.5 percent in 2003, reversing the decline of 0.4 percent experienced in 2002. Argentina grew by 8.7 percent after plunging 10.9 percent the previous year. Real GDP growth of over 3 percent was seen in Chile, Costa Rica, and Columbia. Brazil's economy declined by 0.2 percent, while Venezuela's plunged by 9.2 percent due to the continuing political crisis.

Caribbean economies, particularly the English-speaking countries, experienced better economic performance in 2003 compared to the previous year. One major factor was the estimated 6.0 percent rebound in tourism recorded in the region. Also, strong prices and higher volumes impacted commodity exporters, particularly Belize and Trinidad. Guyana posted a small contraction of 0.2 percent, affected in part by ongoing difficulties with security.

Table 2.2: Economic Growth, Selected Caribbean Economies,
2001 - 2003 (%)

	2001	2002	2003^P
Guyana	2.3	1.1	-0.2
Bahamas	-2.0	0.7	0.9
Barbados	-2.7	-1.8	1.6
Cayman Islands	0.6	1.7	2.0
Jamaica	1.1	1.5	2.2
Bermuda	1.6	2.0	2.5
Trinidad & Tobago	3.3	2.7	3.8
Belize	5.3	3.5	4.5

Sources: World Economic Outlook Database, April 2004, IMF; Economics & Statistics Office, Cayman Islands; Budget Address, Bermuda.

^P - Preliminary

3. THE MACROECONOMY

3.1 Economic Growth

Real GDP growth in the Cayman Islands accelerated for the second consecutive year from 1.7 percent in 2002 to 2.0 percent in 2003. This upward trend mirrored the performance of the global economy, which had experienced an economic slowdown in 2001. The gradual improvement in the Cayman Islands from a low of 0.6 percent in 2001 was reflected in continued buoyant activity in the construction industry, higher imports, and an increase in government revenue.

Table 3.1: GDP Estimates 1999 - 2003

	1999	2000	2001	2002	2003
GDP at Market Prices \$M	1,382.5	1,444.9	1,482.3	1,546.0	1,603.2
GDP at Constant 1986 Prices \$M	803.8	811.7	816.2	830.3	846.9
Change in Real GDP	3.4%	1.0%	0.6%	1.7%	2.0%

In dollar terms, real GDP (1986 prices) rose from \$830.3M in 2002 to \$846.9M in 2003, while nominal GDP (current prices) increased from \$1.5B to \$1.6B.

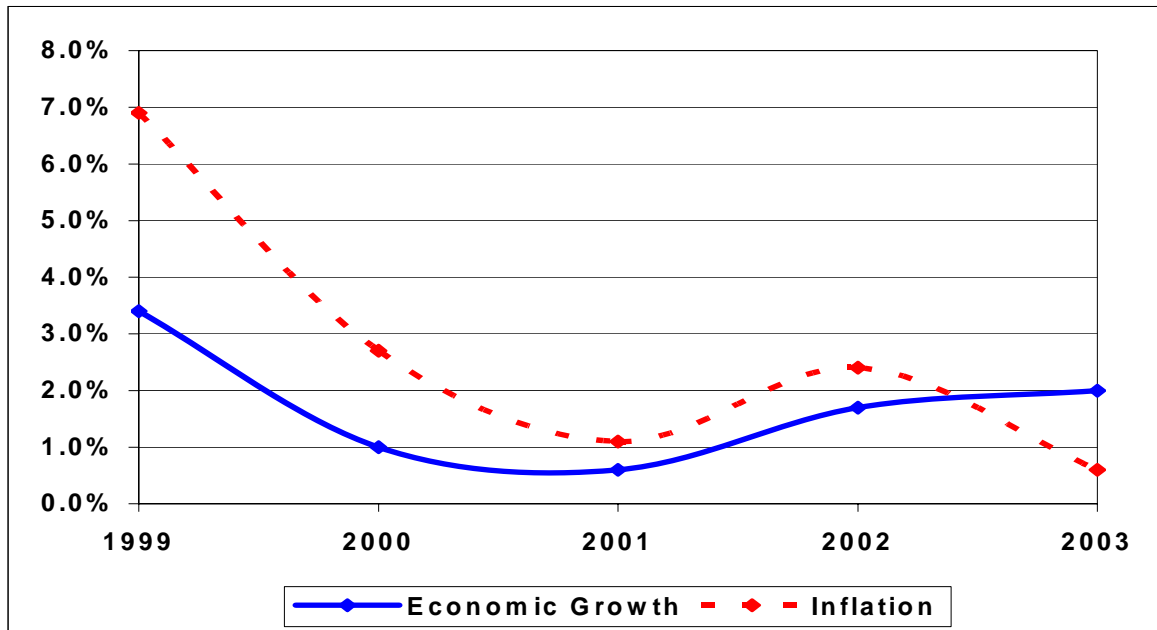
Given a mid-year population estimate for the Cayman Islands of 43,574, Nominal GDP per capita for 2003 was calculated at \$36,793.

3.2 Inflation

Consumer inflation increased by 0.6 percent in 2003 compared to 2.4 percent in the previous year. This modest inflation rate was influenced by price increases for medical services (8.5%), household equipment, (5.9%), food (3.2%), education (2.3%), transport & communication (1.4%), and alcohol & tobacco (0.5%). These increases were tempered by declines in

other areas, namely housing (-3.1%), clothing (-1.1%), and personal goods & services (-0.4%).

Fig. 3.1: Economic Growth and Inflation, 1999-2003



Medical expenses were impacted by higher dental and laboratory fees, while the household equipment group was affected by price increases for furniture and small electrical household durables. The decline in housing was mainly due to a decline in rent. The Housing group accounts for 31.1 percent of the consumer basket of goods & services.

3.3 Employment

The labour force¹ grew by 1,000 persons from 28,905 to 29,905 between October 2002 and October 2003. During this same period, the percentage of the population who are economically active, that is employed, self-employed or unemployed rose with the overall participation rate increasing from 77.6 percent to 85.1 percent. Those aged 25-34 years recorded the highest participation rate of 95.7 percent.

¹ The labor force is defined as persons residing in the country who are of suitable working age—namely, aged 15 years and older—and were employed or actively seeking work during the reference period.

In the labour force, females accounted for approximately 52.0 percent while males accounted for the remaining 48.0 percent. Between 2001 and 2003 the number of Caymanians employed in the labour force rose from 11,844 to 13,973. Since 2001, the number of employed Caymanians has risen. Although, Non-Caymanians represented 51.5 percent of the employed labour force in 2003 their share has dropped since 2001.

Table 3.2: Labour Force by Nationality & Gender, 2001-2003

	2001	2002	2003
Labour Force	27,971	28,905	29,905
Unemployment Rate	7.5%	5.4%	3.6%
Caymanian			
Employed	11,844	12,992	13,973
Un-Employed	1,311	1,058	857
% Share of Labour Force	47.0%	48.6%	48.5%
Non-Caymanian			
Employed	13,383	14,362	14,854
Un-Employed	798	492	222
Share of Labour Force	53.0%	51.4%	51.5%
Labour Force by Gender			
Male	51.2%	49.4%	52.0%
Female	48.5%	50.6%	48.0%

Unemployment

In 2003 the Cayman Islands unemployment rate fell to 3.6 percent, its lowest since 2001 when it stood at 7.5 percent. This unemployment rate has steadily declined with the strengthening economy. The size of the unemployed labour force was 1,097 persons with 31 percent of these persons between the ages of 15-24. This age group also had the highest unemployment, approximately 12.9 percent.

For Caymanians the recorded unemployment rate was 5.8 percent and Non-Caymanians 1.5 percent. Traditionally, unemployment rates are lower

for Non-Caymanians as this group of workers is normally required to be employed while residing on the Island.

Labour Imports

Table 3.4: Work Permits in Effect, December 2001-2003

	2001	2002^R	2003	Change 2001-2002	Change 2002-2003
Total by Class	13,883	14,537	14,694	-591	+157
Trades/Technical/Skilled	7,285	6,696	6,669	-589	-27
Unskilled	4,852	5,925	6,244	+1,073	+319
Professional	1,077	1,315	1,239	+238	-76
Admin/Managerial	664	601	542	-63	-59
Other	5	0	0	-5	0

Following the trends in the labour force there was a marginal increase in work permits from 14,537 in 2002 to 14,694 in 2003. With the exception of the unskilled class, decreases occurred in the other three classes of work permits, administrative/managerial (-59), professional (-76) and trades/technical/skilled (-27).

In the unskilled class there was an increase of 319 from 5,925 in 2002 to 6,244 in 2003. The occupations that demonstrated notable increases were clerks (233), unskilled worker construction (43) and boat deck hands (20).

Major Developments in Employment

The Immigration Law 2003 took effect on January 1 2004. This law alters the period for which work permits will be granted to foreign workers and sets a 'term limit' of seven years as the maximum time that a work permit holder can remain in the islands continuously on work permits. There

are however, some exceptions to this 'term limit' such as 'exempted employee' or where the Work Permit Board considers that there are exceptional circumstances.

Under this new system, six month work permits are abolished and temporary work permits may now be issued for periods less than six months.

3.4 Trade

The *value* of merchandise imports grew from \$494.4M in 2002 to \$553.5M in 2003 or by \$59.1M (See Table 3.5). Fuel imports fell over the same period from \$49.4M to \$43.2M.

With the \$59.1M growth in imports and a \$1.3M increase in exports, Cayman's trade deficit expanded by \$58.2M in 2003 to reach \$549.2M.

Table 3.5: Merchandise Trade, 2001-2002 (\$M)

	2001	2002	2003	Change 2002-2003
Imports	514.9	494.4	553.5	+59.1
<i>Fuel</i>	48.1	49.4	43.2	-6.2
Exports	2.4	3.0	4.3	+1.3
Balance	-512.5	-491.4	-549.2	-57.8

3.5 Money & Banking

Money Supply

Total money supply in the Cayman Islands rose from \$3.6B in 2002 to \$4.0B in 2003. This expansion was largely influenced by demand deposits, which rose by \$221.3M and foreign currency deposits held by residents, which increased by \$209.0M. Cayman Islands currency with the public increased by \$2.7M during 2003 to \$54.3M, while savings and time deposits fell by \$35.8M to \$346.2M.

Table 3.6: Money & Banking Summary.

2002 - 2003 (\$M)

	2002	2003	Change 2002-2003
Money Supply	3,631.7	4,028.9	+397.2
Currency with the Public (CI\$)	51.6	54.3	+2.7
Demand Deposits (CI\$)	122.9	344.2	+221.3
Savings/Time Deposits (CI\$)	382.0	346.2	-35.8
Foreign Currency Deposits by Residents	3,075.2	3,284.2	+209.0
Net Foreign Position	2,270.9	2,276.7	+5.8
Foreign Assets	4,366.7	4,657.5	+290.8
Foreign Liabilities	2,095.8	2,380.8	+285.0
Net Domestic Credit	1,331.0	1,380.8	+49.8
Net Credit to Government	83.6	-11.6	-95.2
Credit to Other Public Sector	11.7	7.6	-4.1
Credit to the Private Sector	1,235.7	1,384.8	+149.1

Net Foreign Position of Retail Banks

The net foreign position of retail banks increased by \$5.8M during 2003 to \$2.3B. Foreign assets rose by \$290.8M to \$4.7B, while foreign liabilities increased by \$285.0M to \$2.4B.

Net Domestic Credit

Net domestic credit from the retail banks rose by \$49.8M in 2003 to \$1.4B. An increase in credit to the private sector was partially offset by a reduction in commercial banks' loans to Government. Government's 2003 bond issue of US\$163.2M was used mainly to repay loans owed to local banks.

Loans & Advances to the Private Sector

At the end of December 2003, loans and advances to the private sector from retail banks in the Cayman Islands amounted to \$1.4B (See

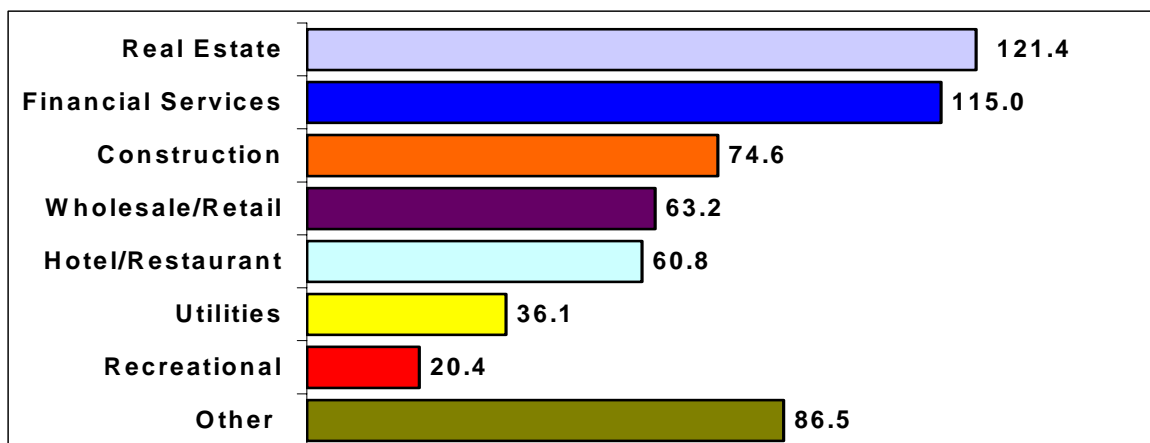
Table 3.7), representing a 12.1 percent increase over the previous year. Credit to businesses rose by 17.8 percent to \$578.0M largely on account of financial intermediation, construction, and utilities. Credit to households increased by 8.3 percent to \$806.8M due mainly to real estate, home construction, and debt consolidation.

Table 3.7: Loans & Advances to the Private Sector 2002-2003 (CI \$M)

	2002	2003
Total Loans and Advances to the Private Sector	1,235.7	1,384.8
Businesses	490.5	578.0
Households	745.2	806.8

Of the \$578.0M in loans to businesses, real estate loans accounted for \$121.4M or 21.0 percent (see Figure 3.2). The second largest category of loans to businesses was for financial services (\$115.0M). Other major categories included construction (\$74.6M), wholesale/retail (\$63.2M), hotel/restaurant (\$60.8M), utilities (\$36.1M), and recreational (\$20.4M). The \$86.5M classified as “other” (see figure 3.3 below) included \$56.8M in other professional services.

Fig. 3.2: Credit to Businesses, December 2003 (\$M)



4. SECTORAL DEVELOPMENTS

4.1 Financial Services

The financial services industry recorded positive results in most areas in 2003. Growth was seen in mutual fund registrations, insurance company registrations, insurance premiums, stock exchange listings, stock market capitalisation, and new company registrations. One notable exception was the decline in the number of bank & trust licences.

Banks & Trusts

The number of bank & trust licences fell from 383 in 2002 to 349 in 2003, or by 34. Pure trust companies numbered 122 at the end of 2003, representing a decline of 3 from the end of 2002.

Table 4.1: Bank & Trust Companies, 2001 - 2003

	2001	2002	2003	Change 2002- 2003
Bank & Trust Licences	427	383	349	-34
Class 'A' Bank & Trust Licences	31	30	27	-3
Class 'B' Bank & Trust Licences	386	348	316	-32
Class 'B' Bank & Trust Licences	10	5	6	+1
Trust Companies	118	125	122	-3
Trust Companies, Unrestricted	55	58	49	-9
Trust Companies, Restricted	63	67	73	+6
External Position of Banks (US\$B)				
Assets (US\$B)	823.2	1,015.2	1,058.9 ¹	+43.7
Liabilities (US\$B)	784.7	980.0	1,043.7 ¹	+63.7

¹ Preliminary

The Class 'A' bank and trust licences² fell from 30 in 2002 to 27 in 2003 on account of three banks downgrading to 'B' licences: Bank of Bermuda, AALL Trust & Bank Corporation Limited, and Barclays Bank PLC. This downgrade reflected a continuing trend towards restructuring and consolidation within the banking industry worldwide. Barclays Bank PLC's downgrade in January of 2003 followed the merger of Barclays Bank and CIBC in October of 2002 to form FirstCaribbean International Bank. Bank of Bermuda (Cayman) Ltd shifted its cash management operations, fund administration and fiduciary services to its headquarters in Bermuda.

Class 'B' bank & trust licences fell by 32 to 316, while class 'B' (restricted) rose by one to six. Apart from consolidations within the banking industry, declines were impacted by cost implications of establishing physical presence as required by the Banks and Trust Companies Law (2001 Revision). This requirement came into effect on 26 January 2002 to meet the standards prescribed by the Financial Action Task Force (FATF) and the USA Patriot Act. Other cancellations resulted from the economic and financial crises in Argentina.

Based on the size of banks' external assets, Cayman retained its position as the world's fifth largest financial centre after the United Kingdom, Germany, the United States, and Japan. External assets of banks in the Cayman Islands stood at US\$1,058.9B as at December 2003, up by US\$43.7B from the December 2002 position. External liabilities increased by US\$63.7B during the same period to US\$1,043.7B.

The Bank for International Settlement (BIS) reported large increases in claims on offshore centres, primarily the Cayman Islands and Jersey, by US banks in 2003. The share of total inter-bank claims originating from US banks and passing through offshore centres reached 42 percent in June 2003, compared to 34 percent a year earlier. The share of US dollar-denominated claims passing through offshore centres hit 19 percent during the second half of 2003, compared to 17 percent in June of 2002. More than

² A Class "A" license allows the licence holder to conduct business both inside and outside the Cayman Islands. A Class "B" licence holder is permitted to conduct business other than from within the Cayman Islands.

half of this was attributed to banks in the Cayman Islands, whose share of business in US currency has recently rivalled that of the United Kingdom.

Insurance

The total number of insurance licences increased by 43 from 629 in 2002 to 672 in 2003. This was largely on account of a rise in the number of Class 'B' (captive) licences.

Table 4.2: Captive Insurance Companies, 2001 – 2003

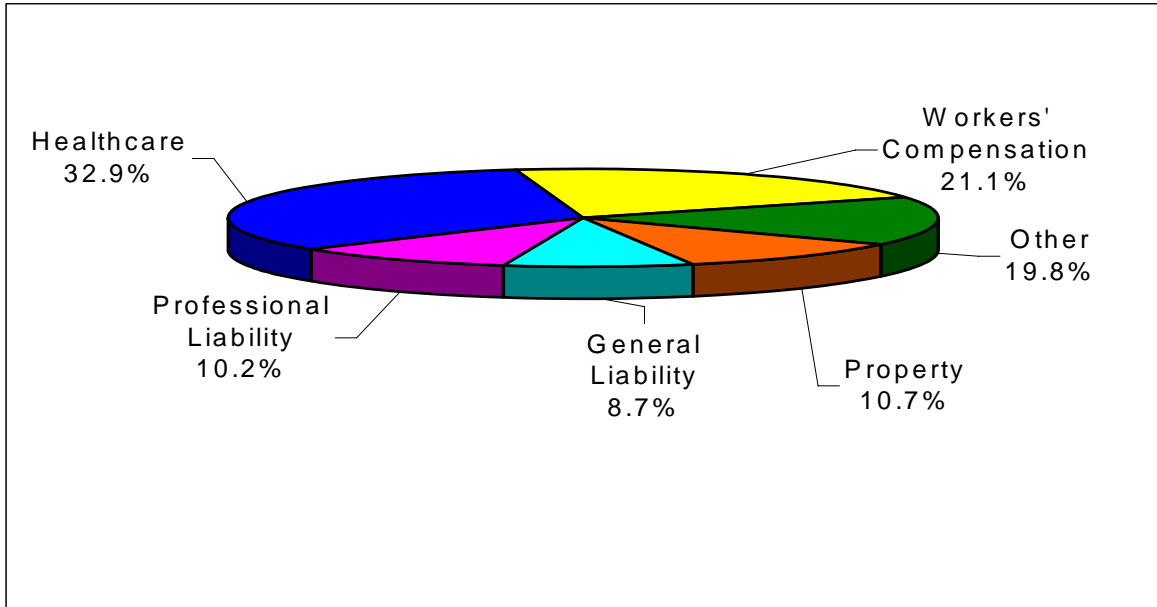
	2001	2002	2003	Change 2002-2003
Class 'B' Insurance Licences (Captives)	542	600	644	+44
Unrestricted	466	532	581	+49
Restricted	76	68	63	-5
Financial Position of Captives (US\$B)				
Premiums	3.0	4.2	4.9	+0.7
Net Income	0.6	0.7	0.3	-0.4
Net Worth	3.1	3.5	3.6	+0.1
Total Assets	15.0	17.7	19.2	+1.5

Class 'B' (captive) licences increased by 44 to 644 in 2003. Net increases were mainly due to professional liability (+30), healthcare (+13) and workers' compensation (+12), as other types of class 'B' licences declined by 11. Medical malpractice lawsuits in the United States continued to be the driving force behind the growth in captives. The healthcare-related segment of the market accounted for 32.9 percent of licences, followed by workers' compensation at 21.1 percent (see fig. 4.1 below).

Premiums for captives grew by US\$0.7B in 2003 to US\$4.9B. Net income declined by US\$0.4B during the same period to US\$0.3B, mainly as a result of payouts by healthcare and property-related captives. Nevertheless,

positive net income in 2003 allowed net worth to grow by US\$0.1B to US\$3.6B.

Fig. 4.1: Captive Insurance Licences, 2003



While Bermuda remained the clear leader in the international insurance market, the US state of Vermont narrowly edged out the Cayman Islands in 2003 to become the second largest jurisdiction, with licences totalling 674.

The number of class 'A' (domestic) licences fell by one in 2003 to 28 as Capital Life Insurance Co. Ltd. discontinued its operations in the Cayman Islands and its assets were acquired by Global Life Assurance Co. Ltd. On 3 February 2004, Sagicor Life of the Cayman Islands was formed out of the integrated operations of Capital Life and Global Life. It is anticipated that consolidation will result in a further reduction in Class 'A' insurance licences in 2004.

Table 4.3: Domestic Insurance Companies, 2001 – 2003 (\$M)

	2001	2002	2003^P
Class 'A' Insurance Licences	30	29	28
Financial Performance (\$M)			
Gross Written Premiums	112.8	140.1	144.0
<i>Less Reinsurance Ceded</i>	<i>42.9</i>	<i>59.6</i>	<i>64.8</i>
<i>Plus Unearned Premium Adjustment</i>	<i>-0.9</i>	<i>-4.5</i>	<i>-0.6</i>
Net Earned Premiums	69.0	75.9	79.8
<i>Plus Commissions Received</i>	<i>6.5</i>	<i>8.7</i>	<i>11.2</i>
Total Underwriting Income	75.5	84.6	91.0
<i>Less Net Claims Paid</i>	<i>33.8</i>	<i>46.1</i>	<i>27.0</i>
<i>Less Other Underwriting Expenses</i>	<i>15.5</i>	<i>17.2</i>	<i>13.6</i>
Underwriting Profits	26.2	21.1	50.4
<i>Plus Investment Income</i>	<i>4.2</i>	<i>4.1</i>	<i>4.5</i>
<i>Plus Other Income</i>	<i>1.7</i>	<i>0.6</i>	<i>2.2</i>
<i>Less Administrative Expenses</i>	<i>15.8</i>	<i>16.7</i>	<i>17.3</i>
Net Income	16.3	9.1	39.8

^P Projected

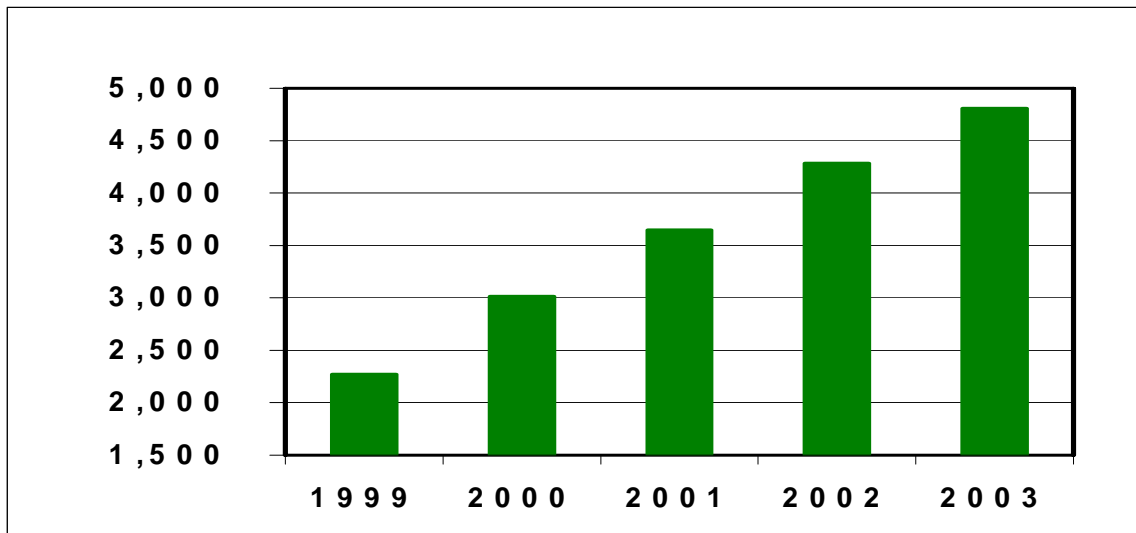
The net income of domestic insurance companies rose from \$9.1 million in 2002 to \$39.8 million in 2003. This increase was attributed to reductions in net claims paid in the property, health, and life segments of the market. There were no property damages due to hurricanes in 2003, while net income for 2002 was impacted by insurance claims from Hurricane Michelle which flooded the coastal areas of Grand Cayman in November of 2001.

Mutual Funds

With over half of the world's hedge funds registered in the Cayman Islands, the jurisdiction remained the leader in this segment of the global financial market in 2003. In recent years, hedge funds have grown in popularity among wealthy individuals and institutional investors mainly due to the attractiveness of potential returns and the fact that they are more nimble than traditional mutual funds. For example, hedge fund managers can change investment strategy without prior investor consent as required by the traditional mutual fund. This allows for a quicker response to changes in the economic environment.

The Cayman Islands continued to capitalise on the global growth of hedge funds, with mutual fund registrations increasing by 523 (12.2%) from 4,285 in 2002 to 4,808 in 2003.

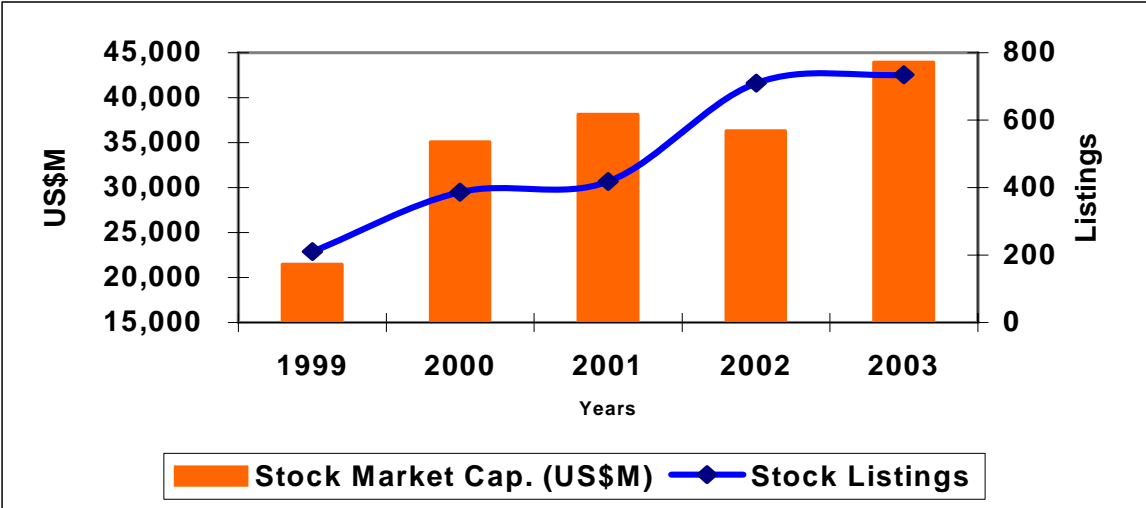
Fig. 4.2: Mutual Funds Registered, 1999 – 2003



Stock Exchange

The Cayman Islands Stock Exchange (CSX) posted gains in 2003. Stock listings grew from 710 in 2002 to 735 in 2003 – an increase of 25. Market capitalisation rose by a healthy 20.9 percent from US\$36.3B in 2002 to US\$43.9B. Most of this increase was on account of a recovery in stock prices in major capital markets worldwide. The benchmark S&P 500 index, for example, rose by 26.4 percent in 2003 to close at 1,111.92.

Fig. 4.3: Stock Listings and Market Capitalisation, 1999 – 2003



Company Registrations

Total company registrations increased from 65,259 in 2002 to 68,078, or by 2,819 (See Table 4.4). New company registrations rose for the first time in three years from 7,016 in 2002 to 7,254 in 2003, or 238. The continued strengthening of the global economy had a positive impact on registrations. Furthermore, some local companies that were not previously registered opted do so since proof of incorporation is recommended as part of for the “Know Your Customer” (KYC) requirements under CIMA’s “Guidance Notes on the Prevention and Detection of Money Laundering in the Cayman Islands.”

Table 4.4: Company Registrations, 2001 – 2003

	2001	2002	2003	Change 2002- 2003
Total Company Registrations	64,495	65,259	68,078	+2,819
New Company Registrations	8,456	7,016	7,254	+238

Ship Registrations

Ship registrations totalled 1,473 in 2003 with gross tonnage amounting to 3.2 million. In comparison, registrations totalled 1,431 in 2002, with gross tonnage amounting to 2.7 million. The number of new registrations in 2003 amounted to 186, including 152 pleasure yachts.

The Cayman Islands Shipping Registry, as a Category I British registry, continued to provide high quality services at competitive rates. It received ISO 9000 certification in February 2002, the first for a government entity in the Cayman Islands. The quality of service is also reflected in the registry's responsiveness to ship owners' needs.

Major Developments in the Financial Industry

After more than a year of negotiations, the Cayman Islands Government agreed to the implementation of the European Union Savings Directive (EUSD) through negotiated agreement with EU member countries and to the enactment of legislation by 30 June 2004. The directive is expected to take effect on 1 January 2005, and is contingent on other jurisdictions making similar commitments before that date. Local legislation will require banks in the Cayman Islands to disclose to EU tax authorities, details of interest paid to EU residents.

In return for compliance with the directive, the UK government granted the Cayman Islands Stock Exchange (CSX) status as a 'recognised stock exchange.' This means that interest on securities listed by CSX can be paid to UK citizens without deduction of UK taxes. The UK government also

promised to start discussion on a bilateral double taxation agreement with the Cayman Islands.

Legislation granting full operational independence to the Cayman Islands Monetary Authority (CIMA) was gazetted on 10 March 2004. This allows CIMA to directly execute key functions such as licensing of financial institutions, supervision, enforcement and regulatory cooperation. The major change seen in The Monetary Authority Law (2002 Revision) is the power to grant licences.

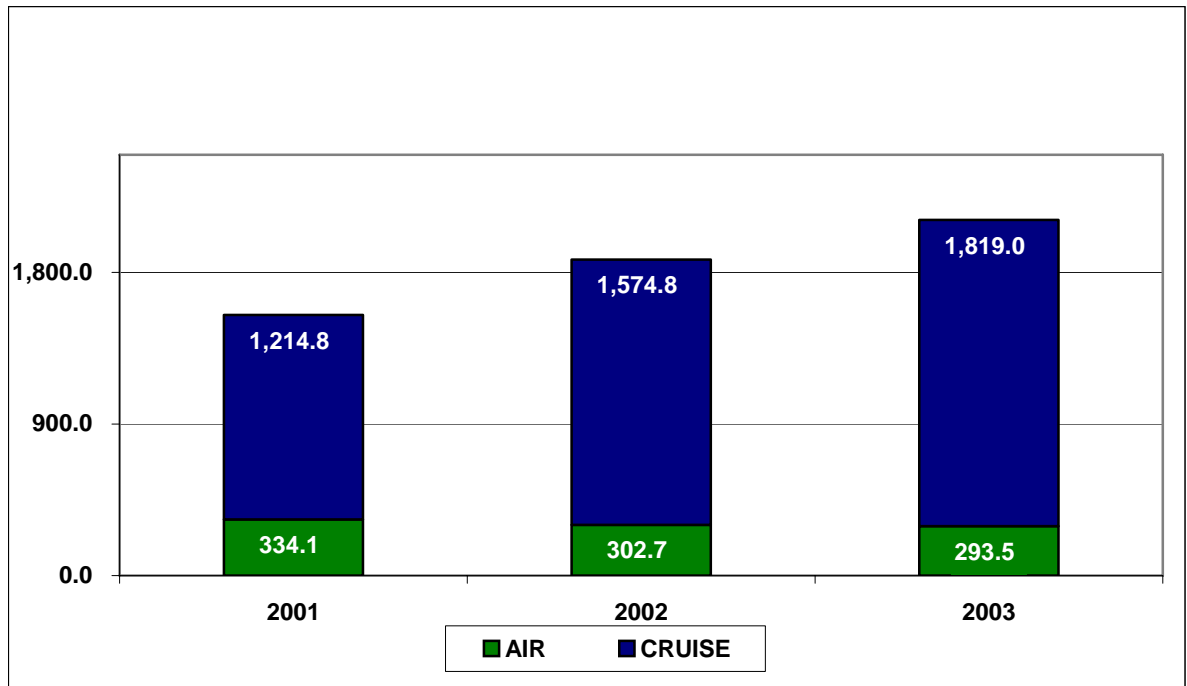
Following a visit to assess the supervision and regulations of financial services in the Cayman Islands, the International Monetary Fund's (IMF) initial report found "good evidence of a developed compliance culture." The report also indicated that the Cayman Islands' legal framework underwent major revisions and improvement in recent years that in some respects exceed international standards. CIMA had conducted a self-assessment prior to the review by the IMF.

Cabinet approved The Retail Mutual Funds (Japan) Regulations (2003) in November in order to set standards by which Cayman funds are retailed to the Japanese public and to make such funds more attractive to Japanese fund distributors. Disclosure requirements stipulated by the regulations include availability of the fund's constitution, publication of prices, and reports to investors. The regulations also stipulate specific functions to be carried out by the administrator, investment advisor, and custodian.

4.2 Tourism

A total of 2,112,496 tourists visited the Cayman Islands during 2003. This figure represented an increase of 12.5 percent over 2002.

Fig. 4.4: Visitor Arrivals ('000), 2001 - 2003



Cruise Arrivals

Cruise ship visitors totalled 1,818,979 during 2003, compared with 1,574,750 in 2002 - an increase of 15.5 percent. The Cayman Islands, strategically located in the western Caribbean, was able to capitalise on continued strong growth in the North American cruise market.

Air Arrivals

Air arrivals declined by 3.0 percent from 302,797 in 2002 to 293,517 in 2003. Whereas stayover arrivals decreased over the first three quarters of the year, a positive growth of 4.9 percent was registered during the last quarter alone (i.e. from 69,114 in 2002 to 72,472 in 2003).

During the first half of 2003, tourism performance was impacted by global events such as the war in Iraq, and the outbreak of Sudden Acute Respiratory Syndrome (SARS). As reported by the World Tourism

Organisation, a 1.2 percent decrease in international tourism arrivals was recorded over the 2003 period.

Regionally, strong competition remained for the Cayman Islands within the stayover sector, especially, from destinations such as the Dominican Republic, Cuba, and Cancun.

Moreover, whereas the cruise travel market registered robust activity, growth in the stayover sector lagged. Two key factors relating to this have been the safety appeal of cruise travel and the availability of affordable and attractive package options.

Overall, throughout 2003, last minute, all-inclusive, package deals boosted Caribbean tourism. As indicated by the Department of Tourism (DoT), a continued growth in last minute bookings to the Cayman Islands is also being projected for the year ahead.

In a regional breakdown, whereas stayover arrivals from the *US* fell by 12.5 percent in 2003, the number of stayover visitors from the *European*, *Canadian*, and *Other* markets, grew by 0.3 percent, 0.5 percent and 2.3 percent, respectively.

As of February 26th, 2004, the DoT renamed the US visitor origins of New York, Chicago, Miami, and Houston as follows: Northeast, Midwest, Southeast and Southwest respectively. Likewise, Los Angeles was also included with this group and classified as West Coast. It should be noted that these visitor origins have simply been renamed for clarity, therefore, the former cities belonging to these respective regions have not changed.

Air services were enhanced throughout the year as Cayman Airways introduced new routes to Ft. Lauderdale, Cuba, and Chicago. Similarly, United Airlines also launched additional service to Chicago in December.

Whereas hotel occupancy rose from an average of 50.6 percent in 2002 to 51.2 percent in 2003, the occupancy rate for apartments/condos decreased from 40.2 percent to 37.7 percent.

The average length of stay at hotels fell from 4.8 days in 2002 to 4.7 days in 2003, while the length of stay for apartments/condos grew marginally from 7.3 days to 7.4 days.

The fall in hotel stay was representative of activity within the European market, specifically, the United Kingdom. As reported by the DOT, the performance of this market showed an increase in the number of visitors, but a decline in the average length of stay.

Major Developments in Tourism

Plans to convert the DoT to a statutory authority in July, 2004 have been deferred. Nevertheless, the continued aim of the department will be to ensure that the Cayman Islands remain within the psyche of visitors by building partnerships with distinct brands such as Disney.

Other initiatives that will be undertaken by the DoT include the launching of the web-based cruise conversion test programme (to monitor the level of online responses obtained from the distribution of the '*welcome back*' pamphlets into visiting cruise ships), and the establishment of new exit surveys and database.

Group bookings are expected to boost the level of stayover visitors in 2004. According to an article by the Caymanian Compass, several properties have reported having a number of bookings already for groups of up to 26 people. These bookings extend through August 2004 and include weddings, families, divers, and meetings.

4.3 Real Estate

Real estate performed well in 2003 with the value of properties transferred growing by 19.0 percent from \$274.0M in 2002 to \$326.0M in 2003. There was also greater activity in the marketplace with the number of properties transferred rising by 596 to 2,143 in 2003. A stronger global economy, historically low interest rates and an indefinite extension of the government's stamp duty concession stimulated investment in real estate.

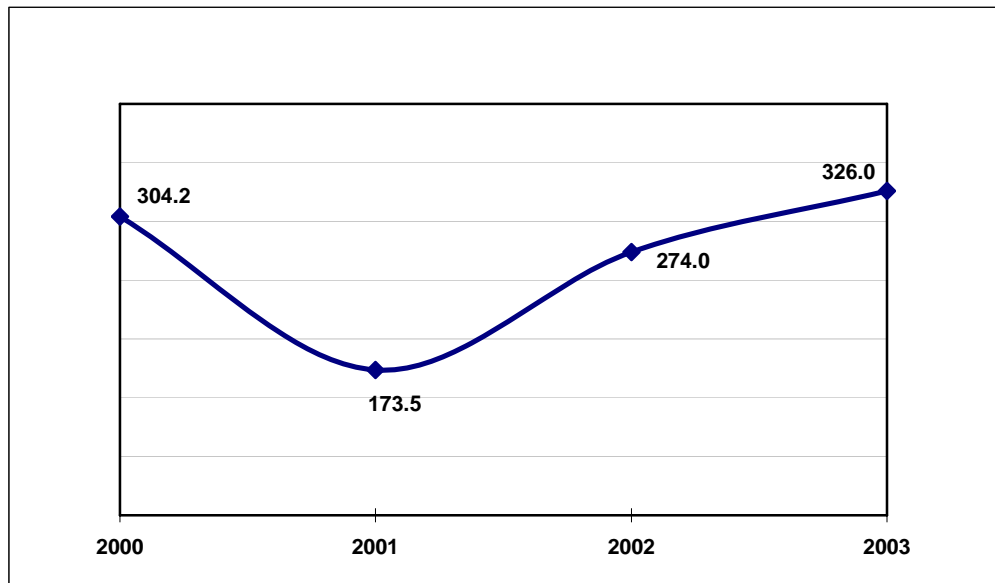
There was brisk selling of properties located along the Seven Mile Beach. One exceptionally large transaction was the \$30.0M sale of Vista Norte, a 270-acre prime area property. In several of the older condominium developments a handful of units were sold for record prices.

Heavy pre-selling of units within the high-end condominium developments such as the Meridian, Water's Edge and the Ritz Carlton also contributed to a rise in the value of properties transferred. While there are some variations in price each of these developments boasts an asking price of over well over US\$1.1M per unit.

The strata apartment units of Frank Hall Homes, Secret Gardens and The Retreat developments also sold well during this period with the Secret Gardens and Frank Hall Homes in George Town being sold out.

Commercial space continued to be absorbed slowly by the business community. However, in comparison to the previous year, the pace of absorption was slightly more rapid.

Fig. 4.5: Value of Property Transfers (\$M), 2000-2003



Major Developments in Real Estate

Real estate prospects for next year remain for the most part positive. While investor interest is expected to continue, the onset of higher prices is likely to dampen activity in the market place.

Two significant projects slated for completion in the next year are the Ritz Carlton Hotel (October), and the Royal Watler Cruise Terminal. Completion of the Ritz Carlton Hotel will bolster further sale of units within the development.

4.4 Construction

Construction continued to perform well throughout 2003. Favourable conditions such as historically low interest rates, and continuation of the 50 percent concession on building permit and infrastructure fees bolstered activity in the industry.

Building Permits

While there was a 26.9 percent decline in building permits values, which fell from \$242.9M in 2002 to \$177.6M in 2003, such a decline was anticipated given the substantial progress on many large projects. The outlook for future activity, owing to plans by the Government and buoyant housing demand, is also strong. Between 2002 and 2003 the value of planning approvals, which is an indicator of the intention to build, rose by 12.3 percent from \$243.9M in 2002 to \$273.9M in 2003.

In the Apartment/Condo category, substantial progress on the Ritz Carlton, Water's Edge and Meridian condominium development resulted in a decline in building permit values. Building permit values in this category fell by 10.2 percent from \$50.9M to \$45.7M between 2002 and 2003. This decline, would have been more acute were it not for expansions in existing developments such as Secret Garden, the Retreat and Frank Hall Homes. Construction on several new developments also bolstered values in this

category. These new apartment developments, which are traditionally smaller, are mainly located on the fringes of George Town.

Table 4.5: Building Permits, January -December (\$M)

Category	2001	2002	2003	Change 2002-2003
Apartment/Condo	30.4	50.9	45.7	-5.2
House	40.9	46.3	67.0	+20.7
Commercial	26.5	22.8	15.6	-7.2
Government	5.1	0.3	4.1	+3.8
Hotel	1.1	111.4	9.8	-101.6
Industrial	0.8	4.9	20.3	+15.4
Other	3.4	6.2	15.0	+8.8
Total	108.2	242.9	177.6	-65.3

The demand for single-family homes grew with the number of building permits in this category rising from 283 to 375. Building permit values also increased by \$20.7M (or +44.7%) to \$67.0M in 2003.

In the hotel category building permits fell to \$9.8M from \$114.M in 2002, again reflecting progress on the Ritz Carlton Hotel.

The value of building permits in the commercial category has been falling since 2000. Between 2002 and 2003, building permit values fell from \$22.8M to \$15.6M.

Continued expansion and upgrading of the island's infrastructure saw building permit values in the industrial category rising from \$4.9M in 2002 to \$20.3M in 2003. During this period, there was the completion of Phase I of the Cayman Islands Water Authority's Waste Water Treatment Plant. Additionally, CUC, the local electricity provider, began work on its substation along the West Bay Road.

Table 4.6: Project Approvals, January -December (\$M)

Category	2001	2002	2003	Change 2002-2003
Apartment/Condo	47.3	82.2	66.7	-15.5
House	59.5	63.9	84.2	+20.3
Commercial	19.2	49.3	30.3	-19.0
Government	3.0	1.1	55.1	+54.0
Hotel	1.7	9.7	0.0	-9.7
Industrial	6.6	11.1	7.5	-3.6
Other	25.2	26.7	30.2	+3.5
Total	162.4	243.9	273.9	+30.0

Planning Approvals

The number of project approvals in the three islands rose by 17.0 percent. The demand for single-family homes was the main driver for the increase. Overall, the value of planning approvals in this category grew by \$20.3 million (or +38.1%) to \$84.2M. While the Sister Islands contributed to a smaller portion of this value in 2003, the value of planning approvals in this category for the Sister Islands did increase from \$3.2M in 2002 to \$4.1M in 2003.

Declines in project approval values were recorded in the apartment/condo, commercial and industrial categories. Weak stay-over tourism and low occupancy rates continue to dampen the prospects of new hotel developments.

Major Developments in Construction

The government has decided to indefinitely extend the concession on stamp duties and planning application fees. Previously, the last expiry date given for the concessions was January 14 2004.

Continuing work on many of the larger projects such as the Meridian and the Royal Watler Cruise Ship Terminal, which are slated for completion in early 2004, is expected. This cruise ship terminal valued at US\$26.0M is the first phase of the cruise ship development project funded by the Florida Caribbean Cruise Association.

The Ritz Carlton Hotel scheduled to open in late 2004, while Government's new primary school at Spotts is scheduled for completion in time for the new school year in September 2004.

4.5 Utilities

**Table 4.7: Utilities Consumption, Jan thru Dec,
2001 - 2003**

	Jan-Dec 2001	Jan-Dec 2002	Jan-Dec 2003	Change 2002-2003
Water Water Consumption (US millions of gallons)	1,069.2	1,056.1	1,220.8	+164.7
Electricity Electricity Usage (MWh)	407.0	425.6	444.3	+18.7
Telecommunications Telephone/Fax Paid Minutes (millions)	40.3	39.7	36.3	-3.4
Internet Lines	8,660	9,181	9,909	+728
Telephone Lines	31,580	33,200	32,967	-233

Water consumption increased by 15.6 percent between January and December from 1,164.7 million gallons in 2002 to 1,198.02 million gallons in 2003.

Construction of the Water Authority's new wastewater treatment facility is scheduled for completion in September 2004. The total value of this new plant is estimated at US\$17.2M and has a projected service capacity of approximately 20 years.

Additionally, the installation of about 22 miles of water pipes within the North Side area is currently underway. This North Side water supply extension project is estimated at a cost of CI\$4M. The first phase of the project extends to Old Man Bay and is expected to be completed by December 2004.

Total electricity usage in the Cayman Islands rose during 2003. A growth of 4.4 percent was noted as consumption was registered at 444.3 Million MWh at year-end compared to 425.6 Million MWh in 2002. Between January and December 2003, Commercial usage amounted to 228.5 Million MWh, a growth of 3.4 percent. An increase was also noted for Residential usage, which rose by 5.4 percent to 211.2 Million MWh, while Public lighting consumption increased by 7.3 percent to 4.5 Million MWh.

In August, Caribbean Utilities Company (CUC) increased electricity rates by three percent. This increase was pursuant with the terms of the company's Licence Agreement that entitles it to an annual return of 15 percent. However, following negotiations with the CI Government on the application of a new rate-setting mechanism, this rate hike was later retracted in November.

In Cayman Brac, a 15-year non-exclusive contract was signed between Cayman Brac Power and Light Company and the CI Government. This agreement will, therefore, extend the company's service to the users on the island.

Telecommunications usage contracted in 2003 for the period of January to December. At year-end, the paid minutes recorded for Telephone and Fax usage (36.3 million), and Telex usage (5.9 million) declined by -8.5 percent and -39.6 percent, respectively. While the level of Internet demand increased from 9,181 in 2002 to 9,909 in 2003, the number of telephone lines installed declined from 33,200 to 32,967.

A new 38,000 square foot Cable & Wireless facility costing \$10M is currently being constructed in George Town. This new building will serve to house and ensure enhanced safety for the company's new telecommunications equipment. The new systems will include the Next

Generation Network, which combines voice, video and data into a single, unified, broadband network, as well as their new mobile network.

The telecommunications phased liberalisation process continued throughout the year--following the introduction of the Information and Communications Technology Authority (ICTA) on May 6, 2002. In July, applications were tendered by competitors for domestic fixed line competition with telecom licenses being granted to nine companies. This milestone was later followed by the introduction of internet service competition on November 1.

Major Developments in Utilities

Other phases within the telecommunications de-regulation process will include the introduction of mobile competition, and the introduction of additional international service, in February and April 2004. The full liberalisation of the telecommunications industry will end the Cable & Wireless monopoly agreement that was established over 37 years ago.

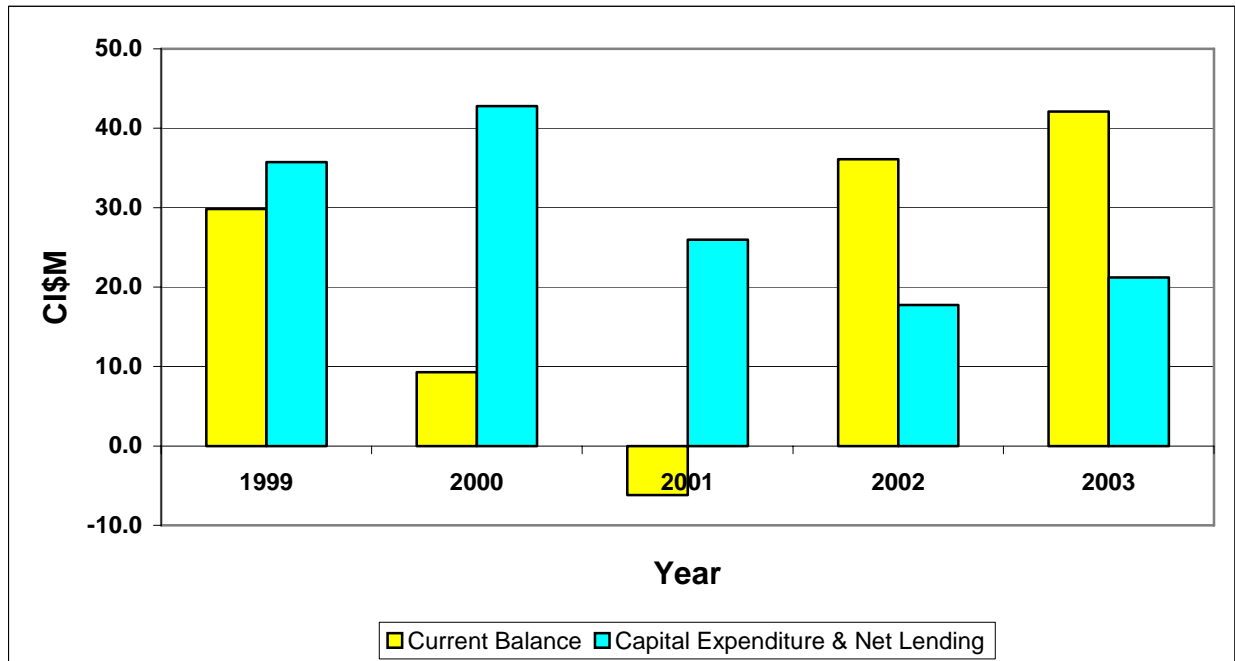
In its pledge to provide leading-edge communications services to customers in the Cayman Islands, Cable & Wireless undertook a two-year contract in January 2004 (of approximately US\$17M) with Nortel Networks to supply a next-generation network. With the new network, customers will eventually be able to consolidate services including e-mail, mobile, home and work phones onto a single number or address.

5. CENTRAL GOVERNMENT OPERATIONS

5.1 Summary

The fiscal operations of central government for 2003 resulted in an overall surplus of \$21.0M. Total revenue increased by 3.9 percent to \$326.2M, while total expenditure rose by 3.2 percent to \$305.2M. With current revenue and expenditure at \$326.2M and \$305.2M, respectively, Government attained a current balance of \$42.5M in 2003. This current balance was slightly larger than that attained in 2002, and was in excess of the \$21.0M in capital expenditure and net lending for 2003.

Fig. 5.1: Current Balance and Capital Expenditure, 1999-2003



5.2 Revenue

Current revenue rose \$12.2M in 2003 to \$326.2M, with coercive revenue increasing by \$17.3M to \$294.1M, and non-coercive revenue falling by \$5.1M to \$32.1M (See Table 5.1 below).

Table 5.1: Summary of Central Government Operations, 2001-2003

	2001	2002	2003
Total Revenue	285.4	314.1	326.2
Current Revenue	284.4	314.0	326.2
Coercive Revenue	237.9	276.8	294.1
Taxes on International Trade & Transactions	106.2	106.7	117.6
Taxes on Other Domestic Goods & Services	113.1	150.8	153.4
Taxes on Property	15.9	14.3	17.7
Fines	1.2	1.3	1.3
Other Taxes	1.4	3.7	4.1
Non-coercive Revenue	46.6	37.2	32.1
Sale of Goods & Services	35.8	30.5	27.3
<i>Health Service Fees</i>	11.9	4.5	0.7
Investment Revenue	10.8	6.7	4.8
Capital Revenue	0.9	0.0	0.0
Total Expenditure	316.6	295.7	305.2
Current Expenditure	290.6	277.9	283.7
Personnel Costs	173.7	150.1	138.9
Supplies & Consumables	70.2	68.2	61.3
Subsidies	21.5	38.1	58.8
Transfer Payments	18.9	17.7	18.8
Interest Payments	6.3	3.9	5.9
Capital Expenditure & Net Lending	25.9	17.7	21.5
Capital Acquisition	3.9	3.1	7.7
Capital Development	22.2	14.5	13.5
Net Lending	(0.1)	0.1	0.3
Current Balance	(6.2)	36.1	42.5
Overall Balance	(31.2)	18.4	21.0
Financing	31.2	(18.4)	(21.0)
Net Borrowing	37.1	(10.5)	12.4
Disbursements	49.7	10.9	136.9
Loan Repayment	(12.6)	(21.4)	(124.5)
Change in Cash (minus = increase)	(5.9)	(7.9)	(33.4)

The \$12.2M increase in coercive revenue was influenced mainly by Taxes on International Trade and Transactions, which increased by \$10.9M to \$117.6M (See Table 5.2 below). Strong revenue growth was seen from import duties (+\$8.9M). With the expansion in cruise tourism, revenue collections from travel & cruise ship tax increased by \$1.5M. Revenue from the Environmental Protection Fee rose by \$0.5M. This fee is levied on both air passengers (\$3.20 per person) and cruise ship passengers (\$1.20 per person) departing the Cayman Islands.

Table 5.2: Taxes on International Trade & Transactions.
2001 – 2003 (\$M)

	2001	2002	2003	Change 2002-2003
Import Duties	95.8	92.6	101.5	+8.9
<i>Gasoline & Diesel</i>	18.2	18.6	18.7	+0.1
<i>Alcoholic Beverages</i>	12.4	12.8	11.5	-1.3
<i>Motor Vehicles</i>	6.4	7.3	8.8	+1.5
<i>Tobacco Products</i>	2.7	2.5	2.5	0.0
<i>Other Imports</i>	56.1	51.4	60.0	+8.6
Travel & Cruise Ship Tax	7.1	9.6	11.1	+1.5
Environmental Protection Fee	3.3	4.5	5.0	+0.5
Total	106.2	106.7	117.6	+10.9

Taxes on property increased by \$3.4M to \$17.7M on account of an upturn in real estate activity during 2003.

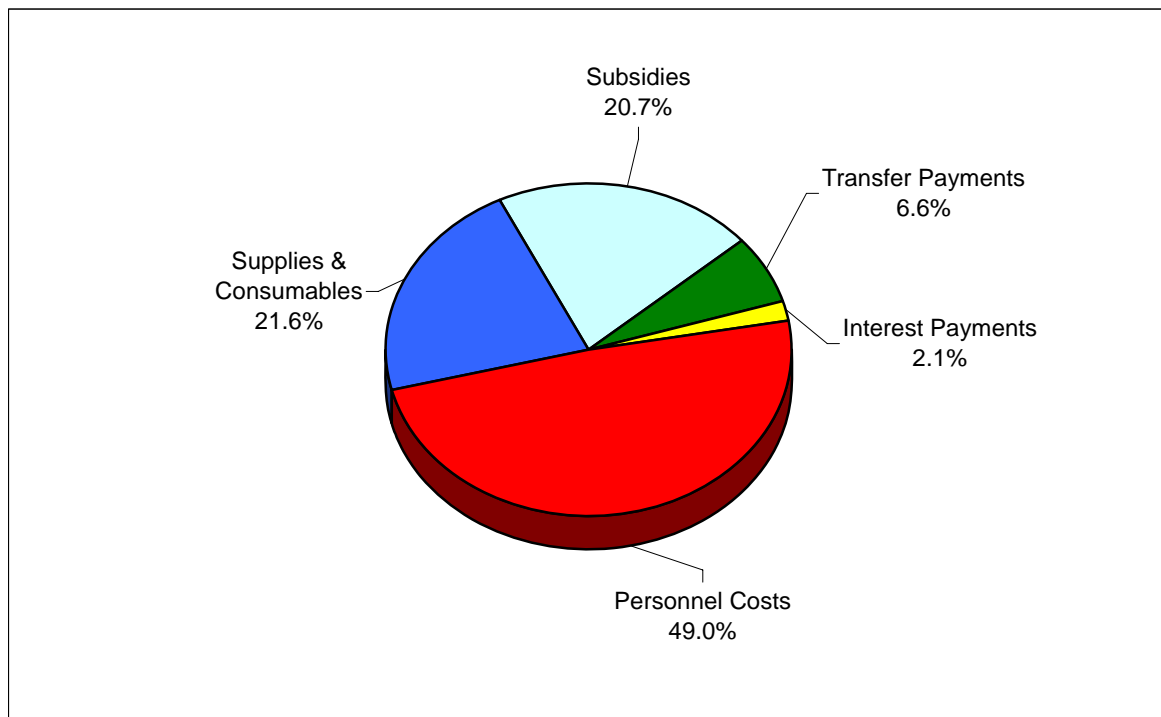
Other domestic taxes on goods and services rose by \$2.6M to \$153.4M. While declines were seen in bank & trust company fees (-\$4.4M) and hotel accommodation tax (-\$0.5M), these were offset by increases in other areas including telecommunications licences (+\$1.8M), traders' licences (+\$1.7M), company fees (+\$1.3M), work permit fees (+\$1.1M), mutual fund administrators fees (+\$0.7M), and timeshare charges (+\$0.4M).

Non-coercive revenue fell by \$5.1M to \$32.1M. This decline was influenced mainly by health service fees, which are now being collected by the Health Services Authority. Investment revenue also declined on account of reduced contributions from statutory bodies and lower interest receipts.

5.3 Expenditure

Current expenditure increased \$5.8M to \$283.7M in 2003. While Personnel costs fell by \$11.2M, subsidies increased by \$20.7M. Higher subsidies in 2003 reflected a complete calendar year of support to the Health Services Authority, whereas the figure for 2002 only reflected six months of subsidies to the Authority (July-December 2002). The decline in personnel costs was also due to the fact that the 2002 figures included six months of expenditures under the former Health Services Department.

Fig. 5.2: Share of Expenditure, 2003



Personnel costs accounted for 49.0 percent of current expenditure, followed by supplies & consumables (21.6%), subsidies (20.7%), transfer payments, and interest payments (2.1%).

Capital expenditure and net lending rose by \$3.8M in 2003 to \$21.5M. Capital acquisitions increased by \$4.6M to \$7.7M, while capital development fell by \$0.1M to \$13.5M. Major capital development projects for 2003 included a primary school in Spotts and affordable housing. Net lending increased by \$0.2M on account of Government paying more in interest on behalf of statutory bodies than it received from those bodies.

5.4 Financing

The overall surplus of \$21.0M was reflected in an increase in Government's cash position, which was further enhanced by positive net flows from borrowing to the tune of \$12.4M. The overall cash position of Government increased by \$33.4M during 2003.

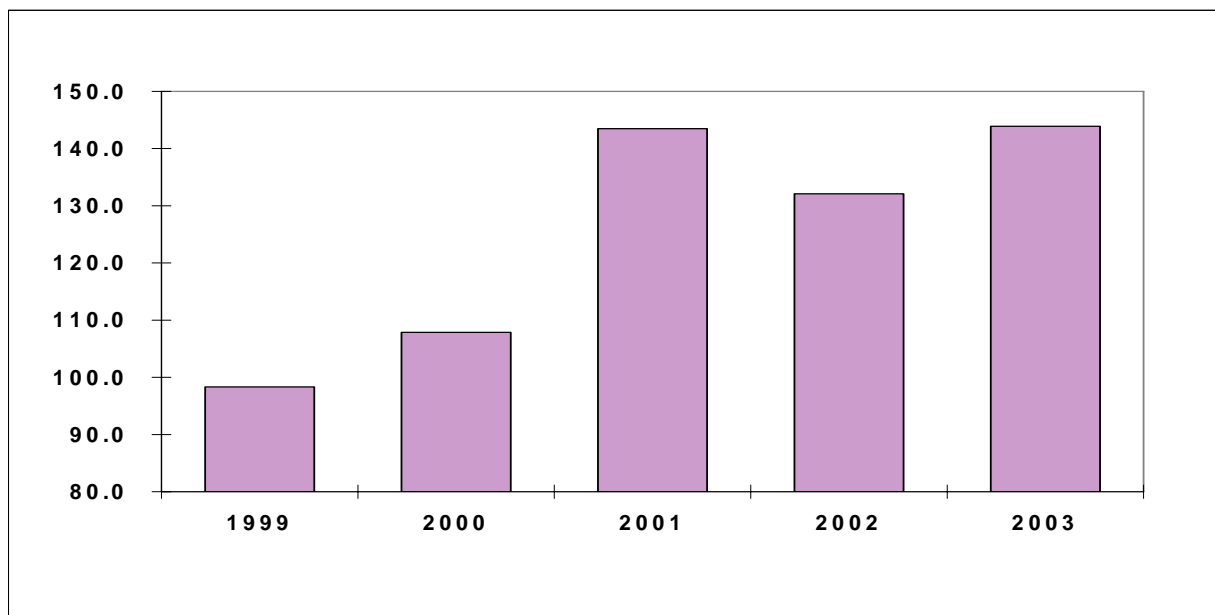
6. DEBT

As at 31 December 2003, the public debt stock stood at \$143.9M. This represented an increase of \$11.8M compared to December 2002. Disbursements amounted to \$137.9M, while amortisation totalled \$126.1M. Interest payments totalled \$5.6M in 2003.

Table 6.1: Public Debt Summary, 2001-2003 (\$M)

	2001	2002	2003
Disbursed Outstanding Debt	143.5	132.1	143.9
Net Financing Flows	35.7	-11.7	11.8
Disbursements	49.7	10.9	137.9
<i>less</i> Amortisation	14.0	22.6	126.1
Interest Payments	6.8	4.5	5.6
Exchange Rate Gains/(Losses)	...	(0.3)	...

Fig. 6.1: Public Debt, 1998-2002 (\$M)



Central Government Debt

The disbursed outstanding debt of Central Government stood at \$131.5M at the end of 2003 (See Table 6.2), representing an increase of \$12.4M over the previous year. Net financing flows were influenced by disbursements of \$136.9M and \$124.5M in amortisation. The high volume of disbursements and amortisation were as a result of Government's very first international bond issue for US\$163.2M, which was used primarily to repay existing debt. The only other disbursement apart from the bond issue was for \$0.9M, drawn on a \$5.9M temporary loan from one of the local banks for capital projects. A total of \$5.1M in interest payments were made by Central Government.

Table 6.2: Central Government Debt, 2000-2002 (\$M)

	2001	2002	2003
Disbursed Outstanding Debt	129.5	119.1	131.5
Net Financing Flows	36.7	-10.4	12.4
Disbursements	49.6	10.9	136.9
<i>less</i> Amortisation	12.7	21.3	124.5
Interest Payments	6.1	3.8	5.1
Exchange Rate Gains/(Losses)

The bond issue has a 15-year maturity and interest fixed at 5.3 percent, payable semi-annually. Of the \$136.0M disbursed from the bond issue, \$114.4M was used to retire other loans including the \$5.9M temporary loan from one of the local banks. Another \$19.5M was transferred to General Reserves. The balance of \$2.1M was used for the ITALIC (Improving Teaching and Learning in the Cayman Islands) project to broaden students' access to computers at school.

*Self Financing Debt*³

At the end of 2003, self-financing debt stood at \$12.4M (See Table 6.3), down by \$0.6M from the previous year. There was one disbursement of \$1.0M from the Caribbean Development Bank (CDB) to the Cayman Islands Development Bank (CIDB) for mortgage financing. Amortisation totalled \$1.5M during year, while interest payments amounted to \$0.6M.

Table 6.3: Self-Financing Debt, 2000-2002 (\$M)

	2001	2002	2003
Disbursed Outstanding Debt	14.0	13.0	12.4
Net Financing Flows	-1.2	-1.3	-0.6
Disbursements	0.1	0.0	1.0
<i>less</i> Amortisation	1.3	1.3	1.6
Interest Payments	0.7	0.7	0.6
Exchange Rate Gains/(Losses)	...	-0.3	...

³ Self-financing loans are raised by Government on behalf of Government agencies. These agencies are required to reimburse Government for servicing these loans.

7. MACROECONOMIC OUTLOOK

Since 2001 there has been a steady improvement in economic conditions, as developed countries have adjusted to the fallout from the bursting of the dot.com bubble and corporate governance issues. SARS and the bird flu in Asia have largely been contained. Iraq is transitioning to democracy, but security remains an issue of major concern. Global growth is projected to accelerate from 3.2 percent in 2003 to 4.1 percent in 2004. This is well above the 1993-2003 average of 3.5 percent.

Leadership for the projected acceleration in global growth is likely to come from the US, where monetary and fiscal stimuli are providing a boost to near-term economic activity. Real growth in the US is projected at 3.9 percent in 2004, up from 3.1 percent in 2003. The medium and long-term impact of these stimuli are currently being debated in light of the large fiscal and current account deficits.

Of more immediate concern however, is the jobless nature of the recovery so far. Households tend to spend more when there is job security and confidence about future job prospects. With the deceleration in productivity gains from 5.0 percent in 2002 to 4.4 percent in 2003, there is hope that the unemployment rate will fall if this trend continues.

The Cayman Islands is likely to benefit from continued strengthening of the US economy in the form of inward investments and visitor spending. Real growth for the Cayman Islands is projected at 2.8 percent in 2004, up from 2.0 percent in 2003. Unemployment is expected to hold steady at 3.6 percent in 2004. Inflation is projected at 2.0 percent, up from a trough of 0.6 percent in 2003.

Table 7.1: Macroeconomic Outlook for the Cayman Islands, 2004 (%)

	2002	2003	2004
Economic Growth	1.7	2.0	2.8
Unemployment	5.6	3.6	3.6
Inflation	2.4	0.6	2.0

The forecasts take into consideration the significant investments in telecommunications, which started in the second half of 2003 and continued in the first quarter of 2004. The construction industry continues to see activity at various sites including the Ritz Carlton Hotel and Condominium Development, The Meridian Condominiums, Water's Edge, and the Kirkconnell Shopping Centre in George Town. Furthermore, redevelopment of the port facilities in George Town should commence in the second half of 2004.

Early indications suggest that there will be an increase in the number of tourist air arrivals in 2004 – potentially the first annual increase for the Cayman Islands in years. With the perceived threat from terrorism substantially diminished, North American travellers are more confident about foreign travel. The Caribbean is relatively close and considered to be safe. These factors are likely to benefit the Cayman Islands.

Possible risks to the Cayman Islands forecasts are tied to those faced by the US as the engine for growth in the global economy. These risks include the following:

- possible disruptions to capital flows and exchange rates that will accentuate the already large current account deficit,
- continued weakness in the labour market that could erode consumer confidence,
- possible increases in interest rates that would restrain consumer spending and lower housing demand, and

- a weaker than expected recovery that would diminish profit expectations.