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# THE CAYMAN ISLANDS' ANNUAL ECONOMIC REPORT 2005

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## 1. Executive Summary

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1.1 In 2005, the country's economic performance was fuelled by the recovery efforts from the devastating impact of hurricane Ivan. Gross domestic product (GDP), adjusted for inflation, rebounded during the year by an estimated rate of 6.5 percent from 0.9 percent in 2004.

1.2 The domestic economy recovered during the year against the backdrop of continuing growth in world GDP (4.8%) notwithstanding the occurrence of natural disasters and a 41-percent average increase in oil prices.

1.3 Per capita income in the Cayman Islands as measured by GDP per capita in current market prices was estimated at CI\$39,801 in 2005 as compared to CI\$38,173 in 2004.

1.4 On the demand side, economic growth was "pumped-primed" by investment spending particularly in buildings including dwelling units as evidenced by the doubling of building permits. Consumption spending by the private sector also pushed domestic demand, amidst a reduction in current spending by the central government. Both domestic investment and consumption more than made up for the slack in external demand for tourism services.

1.3 On the production side, GDP growth was supported by the construction industry and other sectors with significant linkages to construction, including real estate and wholesale and retail. Tourism, however, suffered from declines in stay-over tourism.

1.4 As shortages in the supply of goods and services were progressively restored throughout the year, particularly housing, the inflation rate of consumer prices went down from 11.1 percent in the first quarter of 2005 to -0.3% in the last quarter. Average inflation in 2005 was estimated at 7 percent, as compared to 4.4 percent in 2004. Excluding the impact of the housing price index, the inflation rate in 2005 would have been lower at 2.2 percent.

1.5 The recovery efforts required a sharp increase in the labour force which impacted the population level. The year-end population was estimated at 52,466, 18.7 percent higher than the pre-Ivan population estimated in April 2004. The population was comprised of 31,787 (or 61%) Caymanians and 20,679 (or 39%) non-Caymanians.

1.6 Employment grew by 22.5 percent in 2005, bringing down the unemployment rate to 3.5 percent from 4.4 percent in 2004. The year's unemployment rate was the lowest since 1994.

1.7 Total imports grew by 36.4 percent to \$990.4 million in 2005. Reflective of the demand of goods for reconstruction, capital goods rose by 73.8 percent, while intermediate goods including construction materials grew by 32.4 percent. Consumption good imports expanded by 19.3 percent.

1.8 The country's macroeconomic fundamentals were supported by an improvement in the central government's fiscal balance. A current surplus of \$89.2 million or 4.6 percent of GDP was recorded in 2005, in comparison to a deficit of \$13.2 million in 2004. Consequently, the overall deficit declined from \$41.7 million in 2004 to 1.7 million in 2005. The central government's outstanding debt stood at \$172.9 million as of 2005 or 9.0 percent of GDP and was 19.0 percent greater than the balance as of 2004.

1.9 Despite the expansion in economic activity, total money supply (M2) contracted in 2005 by 10.5 percent to reach CI\$5.1 billion (US\$6.2 billion) compared to 2004, but was slightly higher by 2.1 percent compared to 2003. The cut in money supply is a probable factor in explaining the lower-than-expected inflation rate during the year.

1.10 The monetary contraction in 2005 is traced to a slight dent in net domestic assets of the commercial banking sector and a notable drop in their net foreign assets.

1.11 Total net domestic asset comprising of domestic credit extended by local commercial banks fell marginally by 0.06 percent from the 2004 level to reach \$1.9 billion. However, credit allocations to the resident private and public sectors showed contrasting movements: net credit to the

former expanded by 16.5 percent while credit to the latter was cut by 67.7 percent. The expansion of credit to the private sector was pushed by sectors involved in the reconstruction activity.

1.12 The local commercial banking sector's net foreign position dipped by 8.9 percent to register at \$3.7 billion, as a result of falling gross assets (-6.8%) while liabilities was marginally up by 1.4 percent.

1.13 Cayman's financial services sector continued to perform well during 2005. Increases were seen in insurance company licences (5%), mutual funds (19.8%), stock exchange listings (18%) and stock exchange capitalisation (41%), and new company registrations (14.8%). The only exception was bank & trust licences which declined by 5.3 percent in 2005 due to continued consolidation within the banking industry.

1.14 In tourism, visitor arrivals totalled 1,966,800 at the end of the year or an increase of 0.7 percent over 2004. Whereas cruise arrivals grew by 6.2 percent to reach approximately 1.8 million, air arrivals contracted by 35.4 percent to register at 167,801.

1.15 In real estate, the total value of property transfers grew by 32.9 percent from \$339.2 million in 2004 to \$450.8 million in 2005. This was a result of a 32.20 percent-increase in the volume of transfers and a 5.3 percent-growth in the average value. As of 2005, the latter reached \$186,744.

1.16 2005 was a boom year for the construction sector. Building permits doubled from \$142.0 million in 2004 to \$336.8 million in 2005 while total value of planning approvals for the first time exceeded the \$550-million mark.

1.17 Utilities consumption increased during the year. Water usage expanded by 3.9 percent to 1,301.7 million US gallons while electricity consumption rose by 12.9 percent to 427.7 megawatts per hour (MWh).

1.18 The telecommunications sector had another banner year in 2005. The total number of lines as of year-end was up by 14.9 percent to register at 110,656. The latter represented 2.11 lines per resident.

**The Cayman Islands' Economic Performance: Summary Indicators**

Indicators	2004	2005
GDP growth in real terms (%)	0.9	6.5
GDP per capita (in \$)	38,173	39,801
Nominal GDP (\$ million)	1,688.8	1,924.5
Population (year-end)	36,340	52,465
Of which Caymanians	22,131	31,787
Population (mid-year)	44,200	48,400
Employment	28,946	35,464
Unemployment rate (% of labour force)	4.4	3.5
Inflation rate (%)	4.4	7.0
Inflation rate excluding housing (%)	3.3	2.2
Total imports (in \$Million)	725.9	990.4
Total imports (% of GDP)	43.0	51.5
Overall fiscal balance of the central government (\$mil)	-41.7	-1.7
Overall fiscal balance of the central government (% of GDP)	-2.47	-.09
Outstanding debt of the central government (\$mil)	145.3	172.9
Outstanding debt of the central government (% of GDP)	8.6	9.0
Total money supply (M2, in \$billion)	5.75	5.14
Cruise ship passengers (in thousands)	1683.3	1799.0
Stay-over tourists (in thousands)	259.9	167.8
Mutual fund licences	5932	7106
Insurance licenses	722	759
Banking and trust licenses	322	305
Trust companies	124	127
Stock exchange listings	857	1015
Company registration	70,133	74,905
Building permits (\$million)	142	336.8
Planning approvals (\$million)	470	570.7
Property transfers (\$million)	339.2	450.8
Electricity consumption (% growth)	-14.76	13.0
Water consumption (% growth)	6.73	3.91
Total fixed and mobile telephone lines	96,293	11,656

## 2. Global and Regional Macroeconomic Environment

*The Cayman Islands is a small, open economy. Although its recovery in 2005 was mainly driven by domestic demand, it was also enhanced by the generally upbeat growth of the global economy and the moderate response of global inflation to oil price increases, a factor crucial to the cost of reconstruction. This chapter presents an overview of key indicators of the global and regional economic environment in 2005 based on information from the International Monetary Fund and other international organizations.*

### 2.1 Economic growth

Cayman's recovery occurred amidst an upbeat global economic performance. Despite oil prices increasing sharply and the occurrence of natural disasters, world gross domestic product (GDP) was estimated to have grown by 4.8% in 2005. This was higher than expected but slower than the 5.3% growth in 2004.

Overall, global growth continued to ride on productivity increases in most advanced economies, supported by healthy domestic demand. Consumption demand continued to enjoy robust growth in the US and Canada and picked up in Japan but moderated slightly in the Euro area and more so in the UK. Gross fixed capital formation in the advanced economies decelerated overall in 2005; however, US investment remained strong in 2005 boosted by the post-Katrina reconstruction work.

**Table 2.1A: Global Economic Growth (%)**

	2004	2005
World GDP	5.3	4.8
Advanced economies	3.3	2.7
US	4.2	3.5
Euro area	2.1	1.3
Japan	2.3	2.7
UK	3.1	1.8
Canada	2.9	2.9
Emerging market and developing economies	7.6	7.2
China	10.1	9.9
India	8.1	8.3

Source: International Monetary Fund (April 2006)

Global growth remained dependent on the US economy, the main source of Cayman’s capital, consumption and intermediate goods. However, the sustained growth of Japan and the Euro area also contributed to a broader-based pace of growth. Among developing countries and emerging markets, China and India continued their strong performance.

In the Caribbean, the economies recorded stronger growth in 2005 compared to 2004. Most of the growth emanated externally as manifested in the growth of the services sector. Growth in demand for petroleum products continued to fuel Trinidad and Tobago’s economy. The Bahamas and Barbados has benefited from the growth in tourism and construction over the last two years. Meanwhile, the Organization of Eastern Caribbean States (OECS) had stable growth in the past two years, which was attributed to a sharp expansion in public and private sector construction activity, partly due to the preparation for the Cricket World Cup 2007. Increased activity in wholesale and retail, transportation and communications, and the banking sector, also contributed to the growth in the OECS.

**Table 2.1B: Regional Economic Growth (%)**

	2004	2005
<b>Caribbean</b>	2.3	5.9
Bahamas	3.0	3.4
Barbados	4.8	4.2
Trinidad & Tobago	6.6	7.0
Jamaica	2.5	0.7
Organization of Eastern Caribbean States	3.4	3.6
Antigua & Barbuda	5.2	3.0
Dominica	3.6	2.4
Grenada	-3.0	1.5
St. Kitts	6.4	4.9
St. Lucia	4.0	5.1
St. Vincent & the Grenadines	4.3	4.9

Source: International Monetary Fund (April 2006)

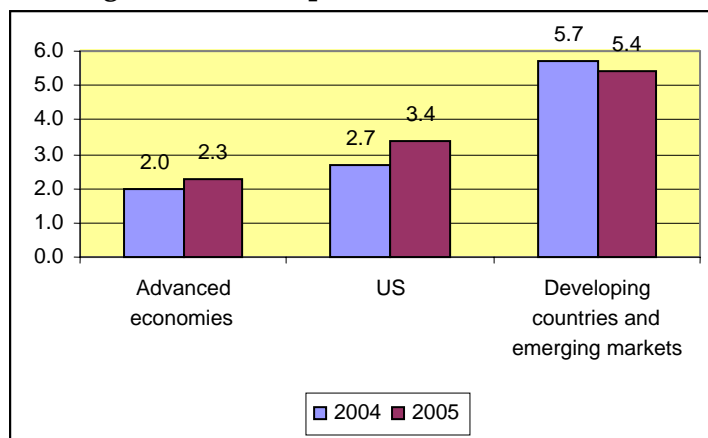
## 2.2 Inflation

The Cayman Islands benefited from the restrained global inflation in 2005 as a large proportion of the goods used in the domestic sectors were



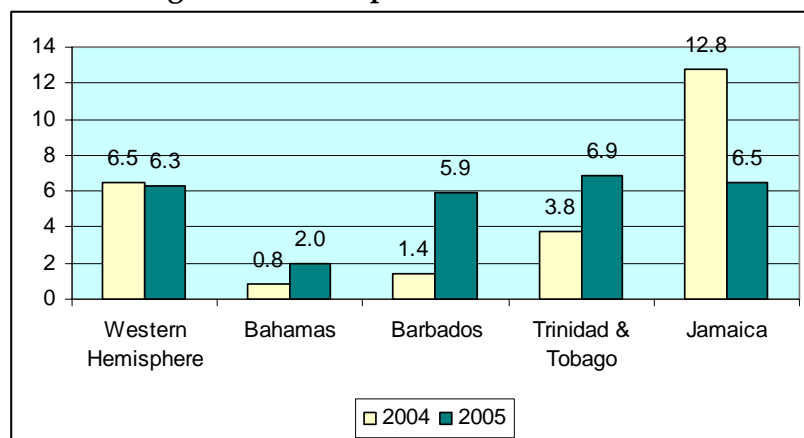
obtained externally. Inflation rates generally picked up in 2005 but were restrained to 2.3% among advanced economies, and to 5.4% in developing countries and emerging markets. Pressures to US inflation during the second half of 2005 were brought about after hurricane Katrina impacted the south coast. Across the globe, the main threat to prices was the steep increase in oil prices by approximately 41 percent.

**Figure 2.2A: Comparative Inflation Rates**



Source of data: International Monetary Fund (April 2006)

Regionally, the average inflation rate in Latin American and the Caribbean (also known as the Western Hemisphere) was higher than those seen among the advanced economies and developing countries during 2005. This was on account of a number of countries such as Costa Rica, Haiti and Venezuela which had double-digit inflation rates. Nonetheless, the inflation rate for the region as a whole decelerated in 2005 to 6.3 percent.

**Figure 2.2B: Comparative Inflation Rates**


Source of data: International Monetary Fund (April 2006)

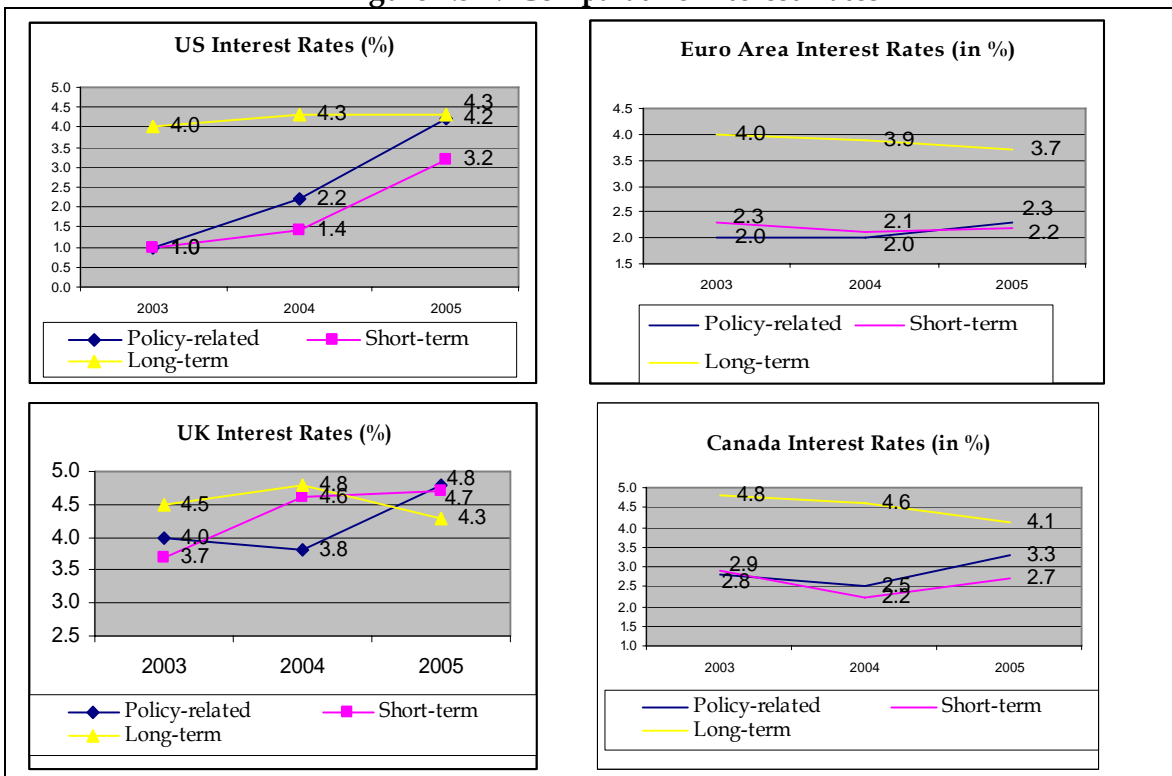
### 2.3 Financial indicators

Global growth was supported by a general improvement in fiscal balances and buoyant growth in money supply. The central governments of advanced economies trimmed their overall fiscal deficit from 2.8 percent of GDP in 2004 to 2.4 percent in 2005.

The global financial market continued to enjoy growth in liquidity in 2005, as broad money in advanced economies expanded further by 5.5 percent<sup>1</sup>. However, the year was also marked by rising interest rates. Led by the US, monetary policy pushed up interest rates which consequently pulled up short-term interest rates. The London inter-bank offer rate (LIBOR) rose from 1.8 percent in 2004 to 3.8 percent in 2005. Nonetheless, long-run interest rates were steady in the US and declined moderately in the UK, Euro area and Canada.

<sup>1</sup> Based on the measurement of money used in the IMF World Economic Outlook Statistical Appendix, broad money consists of M1 (currency in circulation, demand deposits) and quasi-money. The latter is comprised essentially of private term deposits and other notice deposits. In the US, quasi-money also includes mutual fund balances, money market deposit accounts, overnight repurchase agreements and overnight Eurodollars are issued to US residents by foreign branches of US banks.

Figure 2.3A: Comparative Interest Rates

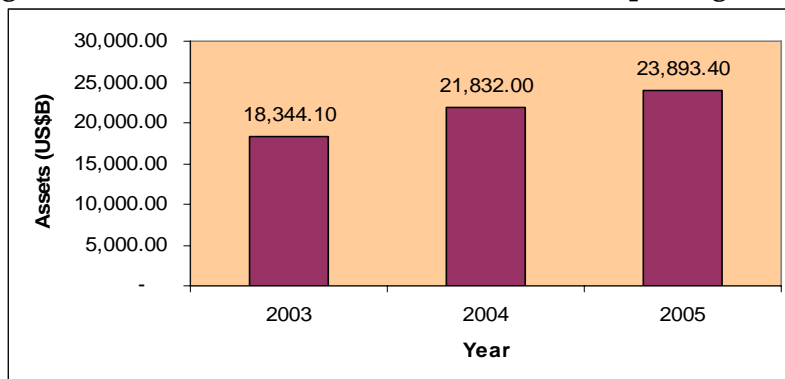


Source of data: International Monetary Fund (April 2006)

Meanwhile, the global banking sector’s international position gained further in terms of total assets comprising of external assets and local assets in foreign currency. <sup>2</sup> Total assets reached US\$23.9 trillion as of 2005, a 9.4-percent expansion over the 2004 level.

<sup>2</sup> This section refers to banks reporting to Bank of International Settlement (BIS).

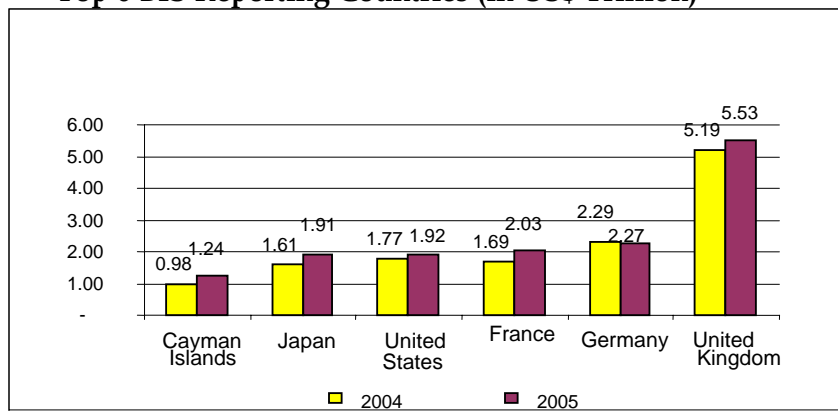
**Figure 2.3B: Total International Assets of BIS Reporting Banks<sup>3</sup>**



Source: Bank of International Settlements

By reporting countries, the UK banking sector further grew by 6.6 percent in 2005 and remained the largest with a combined international asset of US\$5.53-trillion. Meanwhile, total assets of Cayman’s banking sector grew strongest among the top six countries at 25.9 percent; however it remained at sixth place with a combined international asset reaching \$1.24 trillion.

**Figure 2.3C: Total International Assets of Top 6 BIS Reporting Countries (in US\$ Trillion)**



Source: Bank of International Settlements

Assessments by the International Monetary Fund indicate that the banking sector in the US and Europe also gained higher net income and had lower non-performing loans (as a percentage of total loans).

<sup>3</sup> Total assets refer to external assets and local assets in foreign currency.

Equity market indices in mature financial markets moved upward in 2005, buoyed by the generally favourable economic environment.

## 2.4 Tourism

Tourist arrivals across the globe remained upbeat in 2005, growing at an estimated rate of 5.5 percent despite the impact of geo-political tensions and natural disasters such as the Asian tsunami and the Atlantic hurricanes. Nonetheless, the 2005 performance was modest compared to the 10-percent growth recorded in 2004, mainly due to the moderate increases of arrivals in Asia and the Pacific, the Americas including the Caribbean, and the Middle East. In contrast, growth in Europe and Africa were better in 2005 than in 2004.

Tourism in the Caribbean was slower than the global growth in 2005 as the region was impacted by a record number of hurricanes. Tourist arrivals increased by 3.6 percent in 2005 while cruise passengers actually declined by 2.0. A few countries managed to register increases in tourist arrivals such as Cuba, Jamaica, the US and British Virgin Islands and Bahamas. Bermuda and Jamaica also posted growth in cruise passenger arrivals.

**Table 2.4: Air and Cruise Arrivals**

	Tourist Arrivals		Cruise Passengers	
	2005 (in 000)	% Growth over 2004	2005 (in 000)	% Growth over 2004
World 1/	808,000	5.5	-	-
Caribbean 2/	22,500	3.6	19,800	-2.0
Antigua and Barbuda	238	-2.8	467	-10.7
Bahamas	1,515	4.4	3,350	-0.3
Barbados	548	-0.7	560	-22.4
Bermuda	270	-0.7	247	20.0
British Virgin Islands	335	9.9	449	-3.7
Cuba	2,319	13.4	-	-
Jamaica	1,479	4.5	1,136	3.3
US Virgin Islands	697	5.8	1,913	-2.7

1/ Source: World Tourism Organization, UN WTONEWS (Issue 1/2006), [www.owrld-toursim.org](http://www.owrld-toursim.org)

2/ Source for Caribbean regional and country data: Caribbean Tourism Organization, Caribbean Tourism Performance in 2005 and 2005Arrivals.doc, [www.onecaribbean.org](http://www.onecaribbean.org)

### 3. Macroeconomic Performance

*The year 2005 was a period of recovery for the Cayman Islands. It was also a year of record-breaking economic performance as the country posted its highest growth since 1994, albeit the inflation rate was also the highest since that same year. The economic turn-around was primarily driven by domestic demand as external demand continued to suffer from falling tourism activity. The private sector, particularly the construction industry, was the engine of recovery, as the government minimized its pump-priming activity to bring down the fiscal deficit. Recovery in the private sector was supported by higher domestic credit from the local commercial banking sector, although total money supply in fact declined.*

#### 3.1 Economic Growth<sup>4</sup>

In 2005, the country's gross domestic product (GDP), adjusted for inflation, was estimated to have grown in real terms by 6.5 percent. This followed a timid growth of 0.9 percent in 2004 resulting from the adverse effects of hurricane Ivan. In nominal terms, GDP grew by approximately 14.0 percent in 2005 on account of steep adjustments in the price index for the housing sector.

The increase in nominal GDP translated into a 4.7-percent increase in per capita GDP based on a mid-year population level of approximately 48,400 during the year. Per capita GDP stood at \$39,801 from \$38,173 a year ago.

**Table 3.1: Cayman Islands, GDP Estimates 2003 - 2005**

	2003	2004	2005
<b>GDP at Current Prices (\$M)</b>	1,603.2	1,688.8	1,924.5
<b>Per Capita GDP at current prices (\$)</b>	36,771	38,173	39,801
<b>GDP at Constant 1986 Prices (\$M)</b>	846.9	854.5	910.0
<b>Change in Real GDP</b>	2.0%	0.9%	6.5%

Source: Cayman Islands Government, Economics & Statistics Office

<sup>4</sup> The analysis in this section is based on an indicator system in view of the absence of a formal system of national accounts.

**Demand side.** Indicators show that both investment demand and consumption demand fuelled the recovery in 2005.

Growth in investment demand was led by spending in buildings including dwelling units arising from the need to replace the severe losses from hurricane Ivan in September 2004. This was evidenced by a 28.9-percent increase in the number of building permits as well as an 84.0-percent rise in the unit value therein.

In addition, spending in consumer durables such as vehicles, furniture and fixtures and appliances, were also on the upswing. Demand for imported vehicles rose in real terms by 62 percent while demand for furniture and fixtures jumped by 242 percent. Demand for investment was also abetted by an increase in the government's capital expenditure by 38 percent in nominal terms or 19.3 percent in real terms.

Demand for non-durable consumption goods and services were also upbeat in 2005. For instance, spending for imported food and beverages alone rose in real terms by 29.1 percent. This can be associated with the increase in the population level the year which could have offset the impact on consumption spending of the slow activity in the stay-over tourism sector. Electricity and water consumption rose by 49.3 percent and 49.0 percent, respectively in real terms.

Consumption spending of the central government, however, fell despite the extraordinary expenses and other executive expenses during the year. (see Chapter 5).

**Production side.** Given the upsurge in demand for buildings including dwelling units, growth on the supply side of the economy was led by the construction industry. Growth indicators for this sector includes rises in the importation of intermediate materials such as a 145.1-percent increase for non-metal mineral manufactures and a 408-percent surge in iron and steel. These two items alone accounted for approximately 21 percent of the total increase in imports in 2005. Moreover, there was a 47.1-percent estimated increase in the number of work permits for construction

industry during the post-Ivan period as compared to pre-Ivan<sup>5</sup>. Commercial banking credit to the sector also rose by 66.7 percent.

In the financial services sector, continued growth is noted in the mutual funds and the insurance industries as further discussed in Chapter 5.

Based on demand indicators, the utilities sector (electricity and water), real estate, wholesale and retail trade services also performed strongly in 2005. Economic growth of the latter sectors is directly linked to the pronounced increase in total imports. (Further discussion of the utilities and real estate sectors are presented in Chapter 5).

However, it is surmised that the hotels and restaurant sector suffered significantly compared to its pre-hurricane Ivan years. This was mainly due to a 35.4 percent fall-off in stay-over visitors, although the volume of cruise ship visitors improved by 6 percent.

### 3.2 Inflation

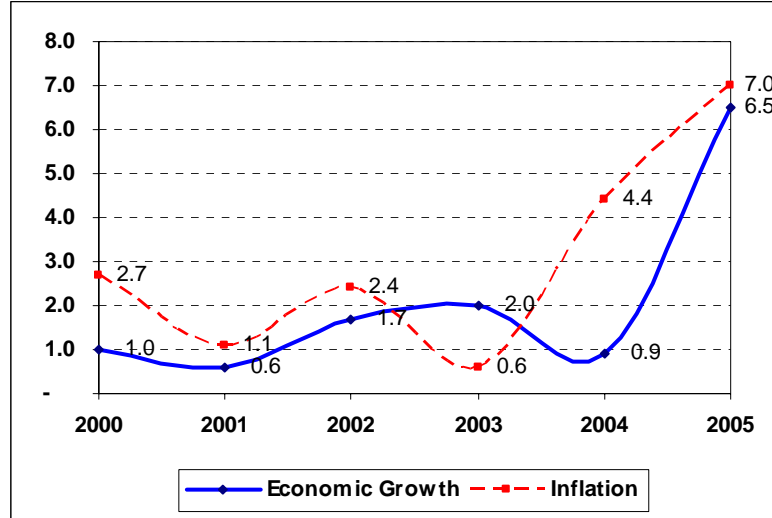
Consumer prices rose by 7.0 percent in 2005, lower than the initial forecast of 7.6 percent but higher compared to the 4.4 percent posted in 2004. Overall, this was a result of higher domestic demand during the year amidst the recovery of supply of most goods and services, particularly housing.

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<sup>5</sup> Estimated indirectly by getting the two-year moving averages of work permits in 2003-2004 (pre-Ivan) and 2004-2005 (post-Ivan) for construction-related work permit classifications.



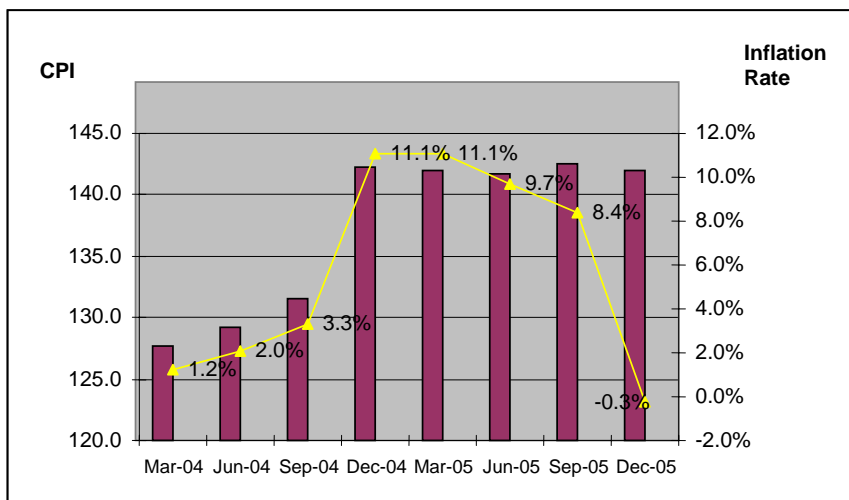
Fig. 3.2A: Economic Growth and Inflation, 2000-2005



Source: Cayman Islands Government, Economics & Statistics Office

On a quarterly basis, the 2005 record was mainly due to large increases in the inflation rates through the first three quarters as shown below. However, the general trend was reversed with a moderate decline in consumer prices in the fourth quarter, mainly as a result of the downward price adjustment for housing.

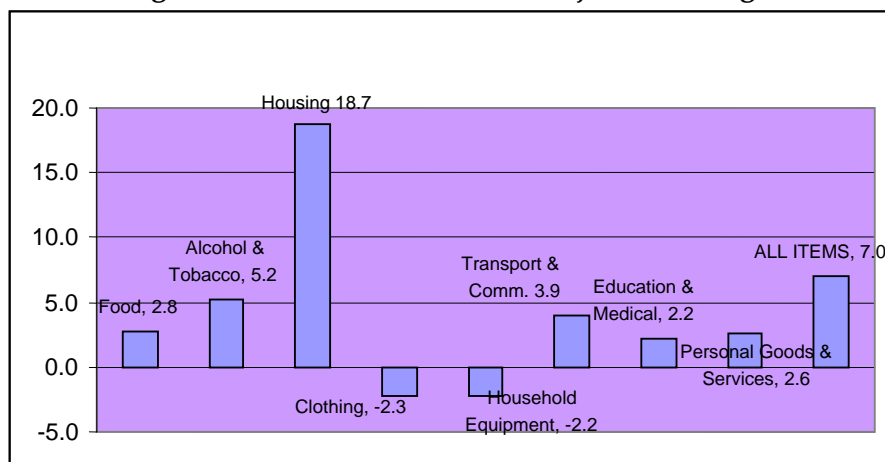
Figure 3.2B: Consumer Price Index and Inflation Rates



Source: Cayman Islands Government, Economics & Statistics Office

Housing was responsible for 83 percent of the inflation in 2005. Excluding housing, the inflation rate would have been trimmed to 2.2 percent as a result of deflation in some major CPI items and moderate inflation in others.

**Figure 3.2C: Inflation Rates of Major CPI Categories**



Source: Cayman Islands Government, Economics & Statistics Office

Among the major CPI categories, clothing and household equipment posted price declines during 2005. Meanwhile, lower inflation rates were recorded in 2005 compared to 2004 for food, education and medical services and personal goods and services. The inflation rate for transportation and communication did not increase sharply despite increases in fuel prices.

**Table 3.2D: Comparative Inflation Rates**

CPI Major Categories	Inflation Rates	
	2004	2005
Food	4.3 %	2.8 %
Alcohol & beverage	1.4 %	5.2 %
Housing	7.4 %	18.7 %
Clothing	-4.3 %	-2.3 %
Household equipment	4.4 %	-2.2 %
Transport & communication	2.1 %	3.9 %
Education & medical	4.3 %	2.2 %
Personal goods & services	4.3 %	2.6 %
<b>All items</b>	<b>4.4 %</b>	<b>7.0 %</b>

Source: Cayman Islands Government, Economics & Statistics Office

The significant price uptrend in housing was a result of greater demand arising from the population increase on one hand, and of higher costs on the other hand. Pressures on the latter came from higher direct construction cost and mortgage rates which impacted on rental rates.

The overall housing price inflation, however, went down in the last quarter as the housing supply shortage eased. A steep increase in electricity prices was noted in the same quarter but this did not threaten the overall housing price index, as it was offset by deflations in rent and mortgage, and water and sewerage.

**Table 3.2E: Inflation Rates of Housing Goods and Services in 2005**  
(% changes from the same period in 2004)

<b>Minor Groups under Housing</b>	<b>March</b>	<b>June</b>	<b>September</b>	<b>December</b>
Rent & Mortgage	37.0	41.7	39.3	(14.7)
Home Improvements	33.3	26.3	26.3	0.0
Repairs, Maintenance & Insurance	9.5	15.6	15.0	10.5
Electricity	2.9	19.1	(5.8)	38.7
Water & Sewerage	10.1	5.8	3.3	(6.0)
<b>Overall Housing Index</b>	<b>28.9</b>	<b>32.6</b>	<b>27.3</b>	<b>(0.1)</b>

Source: Cayman Islands Government, Economics & Statistics Office

### 3.3 Employment

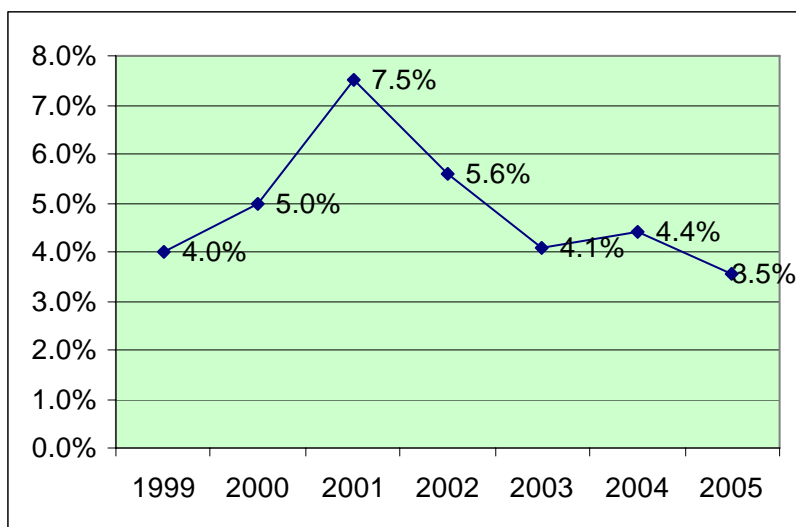
The increase in economic activity in 2005 also raised the demand for labour during the year, thus inducing an increase in the supply of labour.

Based on the fall 2005 Labour Force Survey (LFS), the labour force of the Cayman Islands reached 36,767 persons in 2005 as compared to the pre-Ivan labour force estimated in April 2004 of 30,257. This 21.5 percent increase coincided with an 18.6-percent population growth, pushing this up to 52,465.

The population growth is traced to both Caymanians who were 18.3-percent greater in number 2005, and non-Caymanians who were collectively higher by 19 percent.

The expansion in domestic production activities boosted the employment level in 2005 to a record-breaking 35,464 persons, bringing down the unemployment rate to 3.5 percent from the 4.4 percent recorded in 2004. This was also the lowest recorded unemployment rate since 1994.

**Figure 3.3A: Unemployment Rates**



Source: Cayman Islands Government, Economics & Statistics Office

The labour force participation rate diminished slightly in 2005 to 84.0 percent from 84.75 percent in 2004<sup>6</sup>. Most likely, the need to devote time for household work related to reconstruction of houses, for instance, may have caused some working-age individuals to withdraw temporarily from the labour market.

<sup>6</sup> The labour force participation rate (LFPR) refers to the ratio of the labour force to the working-age population.

**Table 3.3B: Summary of Labour Force Survey Results<sup>7</sup>**

	Spring 2004	Fall 2004	Fall 2005
<b>Population Estimate</b>	44,240	36,340	52,465
<b>Labour Force</b>	30,257	23,453	36,767
<b>Labour Force Participation Rate</b>	84.5%	85%	84%
<b>Unemployment Rate</b>	4.3%	4.4%	3.5%
<b>Caymanian Labour Force</b>	15,662	11,892	19,064
% Share of Labour Force	51.8%	50.7%	51.9%
Employed	14,775	11,444	18,025
Unemployed	887	448	1,039
<b>Non-Caymanian Labour Force</b>	14,595	11,562	17,703
Share of Labour Force	48.2%	49.3%	49.2%
Employed	14,171	10,976	17,439
Unemployed	424	586	264
<b>Labour Force by Gender</b>			
Male	48%	53.0%	50.2%
Female	52%	47.0%	49.8%

Source: Cayman Islands Government, Economics & Statistics Office

The increase in the non-Caymanian labour force was mirrored in the number of work permits granted by the Immigration Department. Overall, work permit numbers rose by 6.1 percent from 20,508 in 2004 to 21,763 in 2005<sup>8</sup>.

<sup>7</sup> The fall 2005 Labour Force Survey, conducted in October 2005, used a sample size of 1,500 households and captured data from Grand Cayman and Cayman Brac. Based on the differing structure of the fall 2004 survey, the decision was taken to compare the fall 2005 survey to the spring 2004 survey.

<sup>8</sup> The analysis in this section must be qualified. The work permits dataset is not standardized with respect to duration of the permit.

**Table 3.3C: Work Permits in Effect, December 2003-2005**

	2003	2004	2005	Change 2003-2004	Change 2004-2005
<b>Total</b>	<b>17,123</b>	<b>20,508</b>	<b>21,763</b>	<b>+3,385</b>	<b>+1,255</b>
<b>Trades/Technical/ Skilled</b>	7,383	9,385	10,576	+2,002	+1,191
<b>Unskilled</b>	7,310	8,618	8,411	+1,308	-207
<b>Professional</b>	1,748	1,834	1,957	+86	+123
<b>Admin/Managerial</b>	682	671	819	-11	+148

Source: Cayman Islands Government, Department of Immigration

In terms of skills classifications, majority of the work permit increases during 2005 were granted for the “trades, technical and skilled” category. This can be traced to the higher demand for construction-related occupations such as engineers and heavy equipment operators. The “unskilled” category comprised the second largest group but this actually declined in number in 2005.

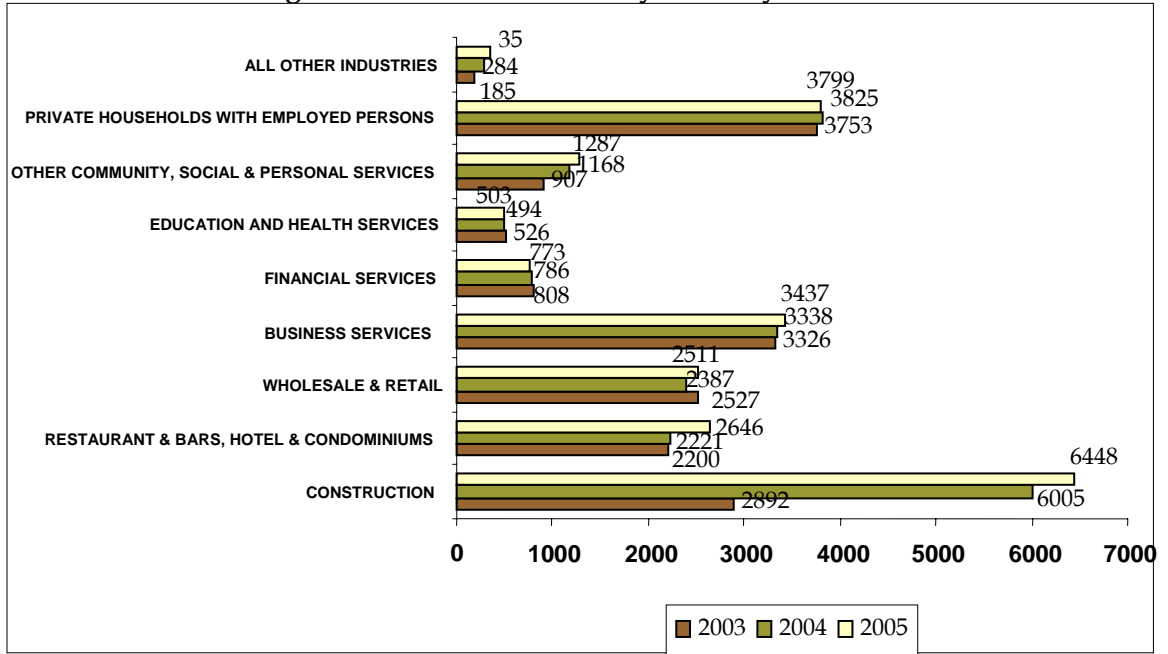
By industry, construction logged in the largest number of work permits since 2004. From 2,892 in 2003, this more than doubled in 2004 to 6,005, sustaining this increase further in 2005 to reach 6,448.

Work permits issued to private households by 0.7 percent in 2005 to reach 3,799.

Meanwhile, business services comprising of accounting/audit, legal, consulting and other business services increased their work permits by 2.9 percent for a total of 3,437. The wholesale and retail sector also raised its work permits by 5.2 percent to tally a total of 2,511. However, work permits to the financial services sector fell anew in 2005 to 773 percent.

Despite the slow activity in stay-over tourism, the tourism industry comprising of restaurants and bars, hotels and condominiums had a greater number of work permits in 2005, reaching 2646. Most likely, most of these were for workers in restaurants and bars which cater to the domestic market and the cruise passengers, both of which grew in 2005.

Figure 3.3D: Work Permits by Industry

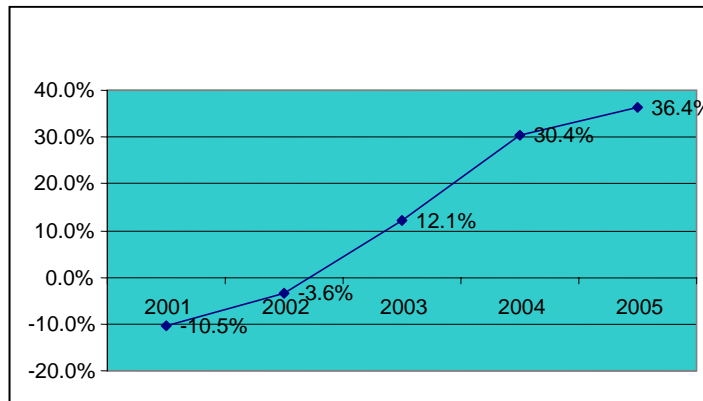


Source: Cayman Islands Government, Department of Immigration

### 3.4 Imports

The recovery efforts boosted the country’s demand for imports in 2005 by 36.4 percent – the highest growth since 1994 - to reach \$990.4 million. Total spending on imports was approximately 51.5 percent of GDP as compared to 43.0 percent in 2004.

Figure 3.4A: Growth Rate of Total Imports

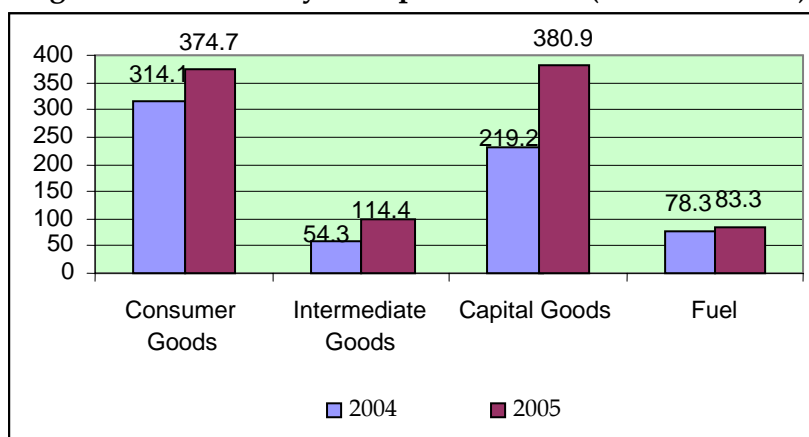


Source: Cayman Islands Customs Department, Economics and Statistics Office

In addition, the recovery efforts generated a shift in the composition of the imports basket. This became capital and intermediate goods-intensive in contrast to prior years where the dominant group was consumption goods.

Capital goods imports registered a notable increase (73.8%) in 2005, as a result of a 74.5-percent hike in road transportation vehicles, boats and yachts and other types of vehicles. In sum, the latter recorded a combined value of \$151.0 million, making it the largest sub-group of imports. Meanwhile, the total value of capital imports reached \$380.8 million or 38.5 percent of total imports.

**Figure 3.4B: Summary of Imported Goods (in CI \$ Million)**



Source: Cayman Islands Customs Department, Economics and Statistics Office

The 2005 imports growth was also marked by a steep rise in intermediate goods (32.4%). Imports of construction and construction-related materials shot up by 17.9 percent while other intermediate items which include agricultural materials rose sharply by 125.1 percent. Both trends can be correlated to the post-Ivan reconstruction work.

Consumer goods imports also rose significantly by 19.3 percent in 2005 and amounted to \$374.7 million or 37.8 percent of total imports. Food and beverage imports expanded by 32.1 percent while clothing and footwear rose by 68.1 percent. Increases of both items can be associated with the population growth in 2005. The sharp rise for clothing and footwear may



also be traced to the replacement of losses of such items during the hurricane.

Finally, fuel imports rose by 6.4 percent in 2005 to reach \$83.3 million. This was lower compared to the 50 percent increase in 2004, mainly because of a significant drop in the importation of aviation fuel. Fuel imports thus comprised a smaller share of the imports bill in 2005 at 8.4 percent from 10.8 percent in 2004.

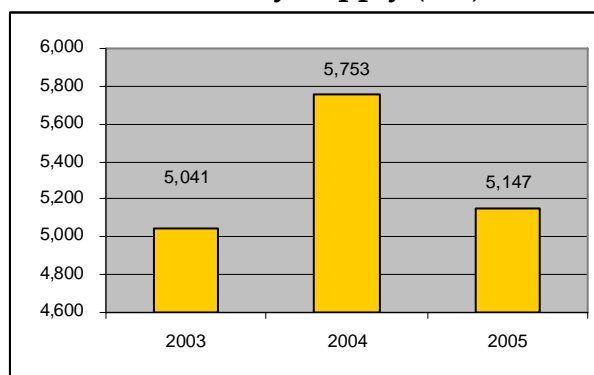
**Table 3.4C Imports by Broad Economic Categories  
(CI\$ Millions)**

	2003	2004	2005
<b>CONSUMER GOODS</b>			
Total	306.0	314.1	374.7
Food and Beverages	86.5	84.9	112.2
Clothing and footwear	8.1	6.9	11.6
Others	211.3	222.3	250.9
<b>INTERMEDIATE GOODS</b>			
Total	54.3	114.4	151.6
Construction	41.0	98.9	116.6
Others	13.3	15.5	29.4
<b>FUEL</b>	52.2	78.3	83.3
<b>CAPITAL GOODS</b>			
Total	144.3	219.2	380.9
Transportation	50.6	86.6	151.3
Others	93.7	132.6	229.6
<b>ALL IMPORTS</b>	556.8	725.9	990.4

Source: Cayman Islands Customs Department, Economics and Statistics Office

### 3.5 Money & Banking

Notwithstanding the growth in nominal GDP, total money supply (M2) or monetary assets in the Cayman Islands fell by 10.5 percent to CI\$5.1 billion (US\$6.2 billion) in 2005 compared to 2004, but was slightly higher by 2.1 percent compared to 2003.

**Figure 3.5A: Total Money Supply (M2) in \$CI million**


Source: Cayman Islands Monetary Authority

From the asset side, the main source of the decline was the reduction in the net foreign assets of the local commercial banks. On the liabilities side, both narrow money (M1) which includes currency in circulation and demand deposits, and quasi-money (M2) contributed to the monetary contraction.

**Table 3.5B: Monetary and Banking Summary, 2003 - 2005 (CI\$000)**

	2003	2004	2005	% Change 2004-2005
Net Foreign Assets	3,857,586	4,186,607	3,816,046	-8.85
Monetary Authority	66,508	86,972	89,561	2.98
Commercial Banks	3,791,078	4,099,635	3,726,485	-9.10
Net Domestic Assets	1,442,040	1,950,525	1,949,280	-0.06
Other Items	(258,929)	(384,191)	(618,696)	61.04
Monetary Liabilities (M2)	5,040,697	5,752,941	5,146,630	-10.54
Narrow Money (M1)	403,699	702,033	379,757	-45.91
Quasi Money	4,636,998	5,050,908	4,766,873	-5.62
M2/GDP (%)	314	341	267	

Source: Cayman Islands Monetary Authority

**Net foreign assets.** The combined foreign assets of the monetary authority and the local commercial banking sector dipped by 8.9 percent in 2005. This resulted from a fall in the gross foreign assets of commercial banks by 6.8 percent while their liabilities inched up by 1.4 percent. The

former resulted from lower balances with foreign banks and branches, as well as loans to non-residents. On the other hand, the sector's foreign investment rose sharply by 74.2 percent while loans and advances to foreign banks and branches jumped by 66.5 percent.

**Table 3.5C: Net Foreign Assets, 2003- 2005 (CI\$000)**

	2003	2004	2005	% Change 2004- 2005
<b>Net Foreign Assets</b>	<b>3,857,586</b>	<b>4,186,607</b>	<b>3,816,046</b>	<b>-8.85</b>
<b>Monetary Authority</b>	<b>66,508</b>	<b>86,972</b>	<b>89,561</b>	<b>2.98</b>
<b>Commercial Banks</b>	<b>3,791,078</b>	<b>4,099,635</b>	<b>3,726,485</b>	<b>-9.10</b>
<b>Foreign Assets</b>	5,151,018	5,263,584	4,906,213	-6.79
<b>Balances with Banks &amp; Branches</b>	3,709,867	2,934,008	1,596,894	-45.57
<b>Total Investment</b>	549,769	376,912	656,593	74.20
<b>Loans &amp; Advances to Banks &amp; Branches</b>	162,079	1,316,396	2,192,286	66.54
<b>Total Non-Resident Loans</b>	729,303	636,269	460,439	-27.63
<b>Foreign Liabilities</b>	<b>1,359,940</b>	<b>1,163,949</b>	<b>1,179,728</b>	<b>1.36</b>
<b>Total Non-resident Deposit</b>	1,045,352	823,673	1,006,468	22.19
<b>Other Liabilities</b>	314,588	340,277	173,260	-49.08

Source: Cayman Islands Monetary Authority

On the liabilities side, foreign deposits of non-residents expanded anew by 22.2 percent. However, this was almost offset by a 49.1-percent drop in other foreign liabilities.

**Net domestic assets.** Total net domestic assets or domestic credit extended by the commercial banking sector was almost unchanged in 2005, as it fell marginally by 0.06 percent from the 2004 level. However, credit allocation to the resident private and public sectors showed contrasting changes: net credit to the former expanded by 16.5 percent while credit to the latter was cut by 67.7 percent.

**Table 3.5D: Net Domestic Assets, 2003- 2005 (CI\$000)**

<b>Net Domestic Assets</b>	<b>1,442,040</b>	<b>1,950,525</b>	<b>1,949,280</b>	<b>-0.06</b>
Net Domestic Credit to Public Sector	34,850	384,108	123,980	-67.72
Net Domestic Credit to Private Sector	1,407,190	1,566,418	1,825,300	16.53

Source: Cayman Islands Monetary Authority

The expansion of credit to private businesses and households was expected in view of the demand for financing for the country's post-Ivan rehabilitation. Of the two, households remained the top borrowers in 2005, accounting for 48.6 percent of total credit to the private sector compared to businesses which had a slightly lower share of 44.8 percent.

It seemed that borrowings by households for post Ivan-related reconstruction began in 2004 as it marked a 30.3-percent jump over the 2003 level. This further grew in 2005 by 3.1 percent to sum up to \$887 million.

Mortgage and other property loans remained the dominant type of household loans reaching \$797 million in 2005, although its growth moderated at 1.9 percent. Loans for vehicles saw a brisker growth (70.7%) during the year.

Lending to the business sector rose sharply in 2005, 36.73 percent more compared to 2004. Among the sharpest increases were recorded for construction (66.7%) and the real estate business (24.6%) sector, two of the leading growth sectors in 2005. Meanwhile, credit to the hospitality industry dropped by 13.2 percent.

**Table 3.5E: Net Credit to the Private Sector, 2003 - 2005 (CI\$000)**

	2003	2004	2005	% Change 2004- 2005
<b>Total</b>	<b>1,407,190</b>	<b>1,566,418</b>	<b>1,825,300</b>	16.53
<b>Credit to Businesses</b>	<b>598,444</b>	<b>598,478</b>	<b>818,308</b>	36.73
<b>Of which</b>				
Construction	74,609	51,364	85,603	66.66
Hotels, Restaurants and Bars	60,828	82,388	71,509	-13.20
Real Estate, Renting & Other	121,424	142,052	177,013	24.61
Trade & Commerce	77,253	90,334	87,529	-3.11
<b>Credit to Households</b>	<b>661,579</b>	<b>861,235</b>	<b>887,484</b>	3.05
Domestic Property	594,855	782,741	797,400	1.87
Motor Vehicles	18,082	25,582	43,670	70.71
Education and Technology	1,152	951	2,823	196.93
Other	47,491	51,962	43,591	-16.11
<b>Other</b>	<b>147,167</b>	<b>106,704</b>	<b>119,508</b>	12.00

Source: Cayman Islands Monetary Authority

**Money supply.** As mentioned earlier, total money supply (M2) fell as both narrow money (M1) and quasi-money contracted in 2005.

M1 or narrow money supply which is used mainly for transaction purposes was expected to rise in 2005 given the healthy growth in economic activity. However, this contracted by 45.9 percent against the 2004 level and reached \$379.8 million or 20 percent of GDP.

**Table 3.5F: Money Supply, 2003- 2005 (CI\$000)**

	2003	2004	2005	% Change 2004- 2005
<b>Monetary Liabilities (M2)</b>	5,040,697	5,752,941	5,146,630	-10.54
<b>Narrow Money (M1)</b>	403,699	702,033	379,757	-45.91
Currency with the public	54,335	73,911	74,168	0.35
Total demand deposits	349,364	628,122	305,588	-51.35
<b>Quasi Money</b>	4,636,998	5,050,908	4,766,873	-5.62

Source: Cayman Islands Monetary Authority

The M1 contraction in 2005 was caused primarily by the sharp fall (45.9%) in local currency demand deposits. This adjustment was a partial reversal of the significant (73.9%) boost in 2004 over the 2003 level. A plausible explanation for these seemingly sharp movements during 2003-2005 is that demand deposits could have been temporarily ameliorated by insurance payments in 2004, and subsequently used up during 2005 to settle transactions outside the country including the purchase of imports which grew significantly during the year<sup>9</sup>.

Currency in circulation and was slightly higher (0.35%) than the amount recorded in 2004.

Quasi money includes deposits of Cayman Island residents in other currencies including US dollars. While this dropped slightly by 5.62 percent in 2005 from the 2004 level, it was nonetheless 2.8 percent higher than the pre-Ivan (2003) level.

<sup>9</sup> Based on the Cayman Islands Monetary Authorities' Report to the Cabinet dated May 21, 2005, approximately 85 percent of \$1.2 billion in insured damages would have been settled at the time of the report.

## 4. Key Sector Developments

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*Except for the tourism industry, the major economic sectors proved their resilience in 2005 as they demonstrated growth of varying rates. The post-disaster reconstruction work was a boon to the construction industry and to all other industries with high linkages to it such as real estate. The financial services industry had a mixed performance as the banking sector was into consolidation while the mutual funds and other sectors were upbeat during 2005.*

### 4.1 Financial Services

In March 2005, the International Monetary Fund issued its assessment of the supervision and regulation of the financial sector and concluded that these broadly comply with standards in all the areas assessed. The areas included the Basel Core Principles for banking supervision; the anti-money laundering/ combating the financing of terrorism regime; insurance and securities regulation and supervision<sup>10</sup>.

Against this backdrop, the financial services industry recorded positive growth throughout 2005. With the exception of the banking and trust sector, increases were seen in insurance company licences, mutual funds, stock exchange listings & capitalization, and company registrations.

**Banks & trusts.** The number of bank & trust licences declined by 17 (or 5.3%) in 2005 to 305. Pure trust companies numbered 127 at the end of 2005, from 124 a year ago.

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<sup>10</sup> International Monetary Fund (2005), "Cayman Islands: Assessment of the Supervision and Regulation of the Financial Sector - Volume I - Review of Financial Sector Regulation and Supervision," and "... - Volume II- Detailed Assessment of Observance of Standards and Codes."

**Table 4.1A: Bank & Trust Companies, 2003 – 2005**

	2003	2004	2005
<b>Bank &amp; Trust Licences</b>	<b>349</b>	<b>322</b>	<b>305</b>
Class 'A' Bank & Trust	27	23	21
Class 'B' Bank & Trust	316	295	281
Class 'B' Bank & Trust (Resident)	6	4	3
<b>Trust Companies</b>	<b>122</b>	<b>124</b>	<b>127</b>
Trust Companies, Unrestricted	49	49	50
Trust Companies, Restricted	73	75	77
<b>External Position of Banks (US\$B)<sup>1</sup></b>			
Assets (US\$B)	1,038.9	1,144.4	1,265
Liabilities (US\$B)	996.8	1,109.1	1,250

<sup>1</sup> Data available as of June

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences<sup>11</sup> totalled 21 as at December of 2005, down by two from a year ago. This was due to Bank of America Trust and Banking Corporation (Cayman) Limited which downgraded its status to a Category 'B' Bank and Trust Licence. In addition, Ansbacher (Cayman) Limited was changed to an Unrestricted Trust Company, primarily as a result of the company shifting the majority of its operations to Bermuda.

In 2005, Class "B" bank & trust licences fell by 15 to settle at 284. This was a result of the worldwide trend of mergers, acquisitions and consolidation within the industry. The trend has been driven by greater competition for market shares, diversification of risks as well as financial innovations.

The aggregate assets and liabilities of Class A banks with local commercial banking services were discussed in Chapter 3. As regards the whole banking industry, as mentioned in Chapter 2, Cayman banks fell from

<sup>11</sup> A Class "A" license allows the license holder to conduct business both inside and outside the Cayman Islands. A Class "B" license holder is permitted to conduct business other than from within the Cayman Islands.

their combined position as the fifth largest banking centre in the world in terms of total assets. Hence, the Cayman Islands now ranks sixth after the UK, Germany, US, Japan and France. However, Cayman remains the fifth largest banking centre in terms of liabilities, placing behind the UK, US, France and Germany.

**Insurance.** The total number of insurance licences increased by 37 (or 5%) – from 722 in 2004, to 759 in 2005. This was principally due to the sustained increase in the number of Class ‘B’ (captive) licences.

**Table 4.1B: Captive Insurance Companies, 2002 – 2005**

	2003	2004	2005
<b>Total Insurance Licences</b>	<b>672</b>	<b>722</b>	<b>759</b>
<b>Class ‘A’ Licences (Domestic)</b>	<b>28</b>	<b>29</b>	<b>26</b>
<b>Class ‘B’ Licences (Captives)</b>	<b>644</b>	<b>693</b>	<b>733</b>
<i>Unrestricted</i>	581	634	670
<i>Restricted</i>	63	59	63
<b>Financial Position of Captives (US\$B)</b>			
Premiums	4.9	5.6	6.7
Net Income	0.3	0.5	0.9
Net Worth	3.6	4.8	5.9
Total Assets	19.2	22.3	26.7

Source: Cayman Islands Monetary Authority

Class ‘A’ insurance licences decreased by 3 for a final tally of 26 in 2005. The decline includes the liquidation of Dyoll Insurance Company which resulted from hurricane Ivan-related claims.

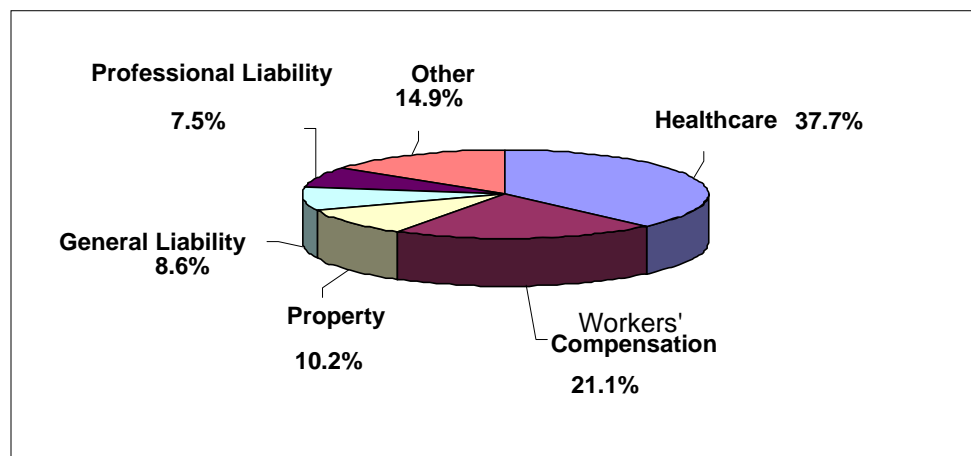
Class ‘B’ (captive) licences increased by 40 to register at 733 in 2005. Net increases were mainly due to healthcare (+46) and workers’ compensation (+7), while the greatest decline was seen in professional liability (-24).



The Cayman Islands maintained its status as a leading offshore captive domicile, being ranked as the second largest (after Bermuda) in the international insurance market. Captive insurance licences continued to be dominated by the following primary classes of business: healthcare (37.7%), workers' compensation (21.1%), property (10.2%), general liability (8.6%) and professional liability (7.5%).

Premiums for captives increased by US\$1.1 billion to register at US\$6.7 billion, with net income increasing by US\$0.4 billion to reach US\$0.9 billion in 2005.

**Fig. 4.1C: Captive Insurance Licences by Primary Class of Business, 2005**



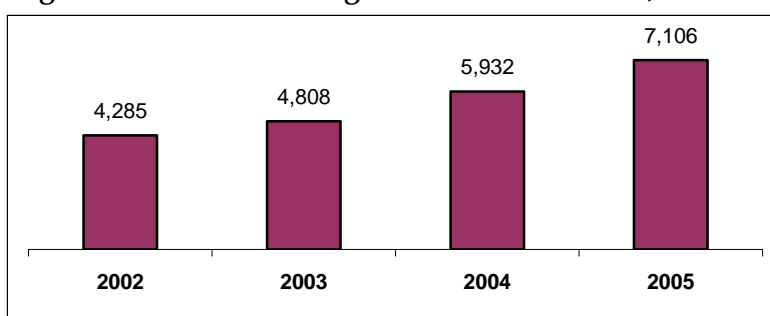
Source: Cayman Islands Monetary Authority

**Mutual funds.** Cayman's role in international finance continued to strengthen through the hedge fund industry. Mutual fund registration increased by 1,174 (or 19.8%) to tally at 7,106 during 2005. At present, the Cayman Islands is estimated to account for 80 percent of the world's registered hedge funds. Thirteen of the top fifteen administrators, responsible for more than 80 percent of total hedge fund assets, hold a mutual fund administrators licence issued by the Cayman Islands Monetary Authority (CIMA).

It is believed that the European Union Directive on Tax Savings (EUSD) which was introduced July 1<sup>st</sup> 2005, promoted the transfer of fund

registrations to Cayman from non-participating jurisdictions. Under the EUSD, citizens of the European Union holding accounts in a country of which they are not residents could have their information submitted from paying agents to European Union tax authorities. The Cayman Islands, a participant in the EUSD, was able to negotiate exemptions from the reporting responsibilities of the directive for roughly 98 percent of its funds. These specific exemptions have effectively increased Cayman's attractiveness as a fund domicile.

**Fig. 4.1D: Number of Registered Mutual Funds, 2002 - 2005**

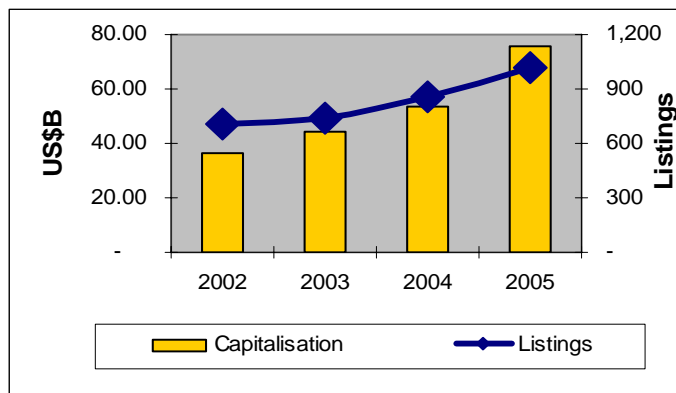


Source: Cayman Islands Monetary Authority

**Stock exchange.** The Cayman Islands Stock Exchange (CSX) further gained strength during 2005. Stock listings rose by 18 percent (or 158 listings) to register at 1,015 during the review period. Stock market capitalisation increased by 41 percent (or approximately US\$ 3 billion) to sum up to US\$75.6 billion.

The growth of CSX is mainly a result of the increasing growth in mutual funds that are listed on the exchange. Mutual funds represent 85 percent of the total capitalization, with the remainder accounted for by specialist debt, Eurobonds, and domestic and international equity.

**Fig. 4.1E: Stock Listings and Market Capitalisation, 2002 - 2005**



Source: Cayman Islands Stock Exchange

**Companies registry.** Total company registrations rose by 4,772 (or 6.8%) during 2005 to reach 74,905. New company registrations increased by 1,318 (or 14.8%) to 10,210.

The additions to company registrations were seen in foreign companies (30%), resident companies (23%) and exempt companies (16%), as compared to 2004. However, non-resident companies experienced a 12-percent decline over the same period.

**Table 4.1F: Company Registrations, 2002 - 2005**

	2003	2004	2005	% Change 2004-05
Total Company Registrations	68,078	70,133	74,905	6.8
New Company Registrations	7,254	8,892	10,210	14.8

Source: Cayman Islands General Registry

**Shipping registry.** New ship registrations totalled 195 in 2005, an increase of 4.8 percent over the past year, with total gross tonnage of 352,572. Pleasure vessels accounted for 85.6 percent of the new registrations, followed by general cargo with 5 percent. As at December 2005, total ship registrations reached 1,635.

In May 2005, the Cayman Islands Shipping Registry (CISR) announced that under the Paris Memorandum of Understanding (MOU), the Cayman Islands was upgraded from the “Grey” list to the “White” list. This MOU consists of twenty participating maritime administrating nations, agreeing to inspect all foreign- registered vessels visiting their ports, and restrain vessels that are sub-standard. The upgrade indicates that Cayman had consistently low detention records of visiting vessels. In addition, the Cayman Islands is also a member of the Caribbean MOU.

## 4.2 Tourism

A slight rebound in tourist arrivals was registered in 2005 with the total number of visitors reaching 1,966,800, representing a growth of 0.7 percent over 2004. The moderate increase was largely due to cruise visitors, which rose by 6.2 percent. However, stay-over arrivals contracted by 35.4 percent to 167,801 from the previous year’s total of 259,929.

**Table 4.2: Tourist Arrivals in 2003-2005 (in ‘000)**

	2003	2004	2005
<b>Total Arrivals</b>	<b>2,112.5</b>	<b>1,953.2</b>	<b>1,966.8</b>
Difference	234.9	(159.3)	13.6
% Change	12.5	(7.5)	0.7
<b>Air</b>	<b>293.5</b>	<b>259.9</b>	<b>167.8</b>
Difference	(9.3)	(33.6)	(92.1)
% Change	(3.1)	(11.4)	(35.4)
<b>Cruise</b>	<b>1,819.0</b>	<b>1,693.3</b>	<b>1,799.0</b>
Difference	244.2	(125.7)	105.7
% Chg.	15.5	(6.9)	6.2

Source: Cayman Islands Department of Tourism

Tourism in Cayman during 2005 was not only adversely affected by the post-Ivan state capacity but also by various challenges within the region including an active hurricane season and the residual effects of an equally turbulent hurricane season earlier in 2004. Rising fuel cost with its impact on airline tickets also weighed down on stay-over arrivals.

**Cruise arrivals.** Despite an estimated decline in the regional market, cruise ship arrivals to the Cayman Islands in 2005 posted a modest growth as noted above. Most of the increase in arrivals occurred in the second half of the year. It is noted that cruise ships were redirected to Cayman from other major destinations such as Cancun as a result of their ports being severely damaged by Hurricane Wilma.

**Air arrivals.** The contraction of air arrivals was mainly on account of lower than normal post-Ivan room supply. Other related contributors include the increase in air fares resulting from higher fuel costs, and an extraordinarily active Atlantic hurricane season which saw 26 named storms that affected travel to most regional destinations. Another related factor is the growing shift towards more lower-priced packaged cruise vacations.

In 2005, the United States remained the core market for stay-over visitors to the Cayman Islands (69.7%); with the majority of these persons originating from the Northeast. Europe and Canada also comprised 7.2 percent, and 5.6 percent, respectively. Other travellers originated from various regions such as Jamaica, Central America, etc.

**Accommodation.** As at December 2005, there were a total of 4,586 bedrooms available for visitor occupancy, an improvement in the room inventory level in the aftermath of hurricane Ivan. After several years of planning and construction, the Ritz-Carlton Grand Cayman Resort was officially opened on December 15<sup>th</sup>. The luxury hotel is expected to further improve room capacity locally with a total of over 350 guestrooms and residences. Similarly, in July, the 307-room Marriott Resort resumed operation with newly refurbished suites.

Hotel occupancy levels fell from 61.7 percent in 2004 to 55.8 percent in 2005. In contrast, apartments and condominiums had a slightly improved occupancy rates from 43.1 percent in 2004 to 46.0 percent in 2005. The average length of stay in hotels was steady at 4.9 days while the length of stay at apartments and condominiums fell from 6.8 days in 2004 to 6.7 days in 2005.

### 4.3 Construction

The construction industry enjoyed a boom cycle in 2005 arising from the post-Ivan rebuilding of the country and the expansion of the tourism and commercial sectors.

Between 2004 and 2005, with residential construction leading the way, the value of building permits more than doubled rising from \$142.0 million in 2004 to \$336.8 million in 2005. The value of planning approvals also exceeded the \$550-million mark, the first time in Cayman's history that planning approvals exceeded \$550 million.

Traditionally, private construction has dominated the industry as the public sector focused on maintaining the national infrastructure. In 2005, the growth of private construction was propelled by the demand for residential construction comprising of houses, apartments and condominiums mainly to replace or repair hurricane-related damages and losses. In addition, demand was also boosted by population growth.

**Table 4.3A Building Permits (in \$ million)**

Category	2003	2004	2005	Change 2004- 2005
Apartment/Condo	45.7	46.1	167.8	121.7
House	67	66.8	82.7	15.9
Commercial	15.6	7.5	76.4	68.9
Government	4.1	1.2	0	-1.2
Hotel	9.8	-	-	-
Industrial	20.3	7.9	4.2	-3.7
Others	15	12.5	5.8	-6.7
<b>Total</b>	<b>177.6</b>	<b>142.0</b>	<b>336.8</b>	<b>194.8</b>

Source: Cayman Islands Planning Department

**Building permits.** Overall, the number of residential building permit numbers grew from 486 in 2004 to 711 in 2005. Total value of these permits also increased by 54.9 percent - from \$112.9 million in 2004 to \$250.5 million, with apartments and condominium development accounting for 67 percent of total value. Since 2004, increasing scarcity of raw land has led to the popularity of higher density developments which are mainly located outside of the traditional areas of George Town and

West Bay. Along the Seven-Mile Beach corridor, a number of condominium developments that were rebuilt in the post-Ivan stage have actually expanded beyond the traditional three-storey height required under the old building heights law, to the maximum of seven storeys that was allowed since 2003.

In the commercial category, the total number of building permits increased from 26 in 2004 to 139 in 2005. Extensive work on the two multi-purpose buildings of 'Camana Bay' which is the first phase of the West Indian Club project - the largest project of its type in the Cayman Islands - saw building permits values climb from \$7.5 million in 2004 to \$76.4 million.

In the industrial category, which includes utilities and telecommunications, rebuilding efforts in 2005 concentrated on restoring plant and equipment to their pre-hurricane capacity with little actual new property construction. Thus building permit values nearly halved from \$7.9 in 2004 to \$4.2 million in 2005.

**Project approvals.** Overall, project approvals for the three islands in 2005 reached \$570.7 million, representing an expansion of 21.4 percent over 2004. The residential category, particularly apartments/condominiums accounted for majority of the project expansions in 2005.

**Table 4.3B: Project Approvals (\$M), 2003-2005**

Category	2003	2004	2005	Change 2004-2005
Apartment/Condo	66.7	153.8	281.8	+128.0
House	84.2	74.1	100.8	+26.7
Commercial	30.3	135.1	102.2	-32.9
Government	55.1	4.2	2.2	-2.0
Hotel	0.0	45.0	16.2	-28.8
Industrial	7.5	11.4	17.9	+6.5
Other	30.2	46.4	49.6	+3.2
Total	273.9	470.0	570.7	+100.7

Source: Cayman Islands Planning Department.

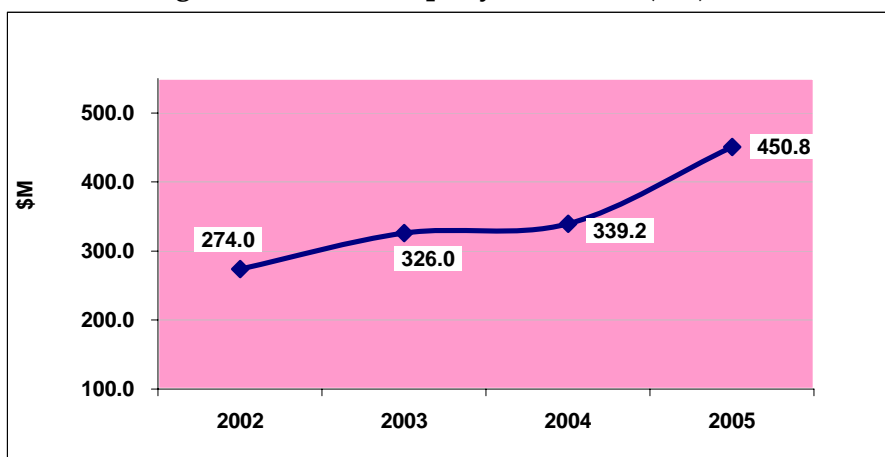
#### 4.4 Real Estate

Real estate activity in 2005 was brisk with the redevelopment of the Seven Mile Beach, supported by strong local demand. Prior to the 2004 hurricane, record investment and activity led to a booming market. In 2005, this trend continued with the post-Ivan reconstruction work presenting new development opportunities. Several condominium developments such as the 'Water's Edge', 'Montclair' and 'Caribbean Club' embarked on the expansion of their properties up to seven storeys which were recently allowed. The Island's first five star hotel, the Ritz Carlton Hotel presented another addition to the local real estate market.

Local demand for real estate also strengthened appreciably. This demand, influenced by population growth, has led to record sales of raw land. According to Coldwell Bankers in its *Market Report – Year End 2005 and Property Listings*, active listings rose by 20 percent. Rising construction costs as well as increasing difficulty of finding affordable land has also made the purchase of pre-built townhouse/apartment popular among residents. These developments typically offer locations being on the outskirts of George Town.

In 2005, the number of properties transferred rose by 39 percent to give a total 2,414 properties. Total value of properties grew by 32.9 percent from \$339.2 million in 2004 to \$450.8 million in 2005.

**Fig. 4.4: Value of Property Transfers, (\$M)**



Source: Cayman Islands Lands and Survey



#### 4.5 Utilities

The population growth and expansion of construction activity helped buoy up the water and electricity sectors. Water consumption continued to grow in 2005, albeit at a lower rate of 3.91 percent compared to 6.73 percent in 2004.

Meanwhile, total electricity usage in the Cayman Islands bounced back by 12.9 percent in 2005 to partly offset the 14.76-percent loss in 2004. Demand by industrial and commercial users grew by 16.1 percent, while households' consumption rose by 9.4 percent.

**Table 4.5A: Utilities Consumption, 2003-2005**

	2003	2004	2005	% Change 2004-2005
<b>Water</b> <i>Water Consumption (US millions of gallons)</i>	1,173.7	1,252.7	1,301.7	+3.91
<b>Electricity</b> <i>Electricity Usage (MWh)</i>	444.2	378.7	427.7	+12.94

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

The telecommunications sector had another banner year in 2005. The total number of lines as of year-end was up by 14.9 percent to register at 110,656. The latter represented 2.11 lines per resident.

Total paid minutes comprising of domestic and international calls also rose anew during the year by 10 percent to reach 323.6 million.

Growth in 2005 was supported by a number of enhancements. Cable and Wireless launched its Voice over IP (VoIP) Technology, which allows telephone calls to be connected via the Internet; this could potentially translate into reduced rates for subscribers. In October, it also announced plans to extend worldwide telephone access, which will further supplement voice services formerly added for regions such as India, Finland and Belgium.

**Table 4.5B: Telecommunication Sector Indicators, 2003-2005**

Indicators	2003	2004	2005	% Change 2004-05
Fixed and mobile lines in service as of year-end	66,567	96,293	110,656	14.9
Total lines to population ratio	1.51	2.65	2.11	-20.4
Total domestic and international minutes for fixed and mobile lines ('000)	264,552	294,064	323,572	10.0
Minutes per line ('000)	3.97	3.05	2.92	-4.4

Source of basic data: Information and Communications Technology Authority (ICTA)

Digicel significantly strengthened its market share after acquiring several Cingular Caribbean operations. It also launched a new service—*World inter-operability Microwave Access (WiMax)* broadband wireless service—which allows customers to access voice, data and Internet, and establishes the firm as the first GSM mobile supplier to launch that service to the Caribbean.

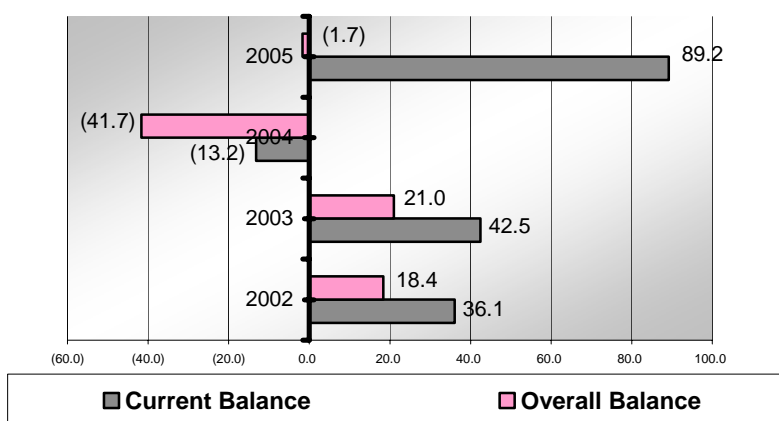
## 5. Fiscal Operations of the Central Government

Given the economic upswing in 2005 led by the private sector, the stance of fiscal policy during the year was pro-cyclical. The significant growth in nominal GDP was a boon to the central government's revenue, enabling it to incur higher spending without deteriorating the fiscal balance. In fact, the fiscal deficit was reduced as growth in spending was kept lower than growth in revenue. However, its net borrowing rose as the central government built up its cash reserves. The central government's debt service indicators were generally stable.

### 5.1 Overview

Notwithstanding a larger amount of expenditures, the central government improved its fiscal position for the year ended December 2005 relative to 2004. The overall fiscal deficit was recorded at \$1.7 million or 0.09 percent of GDP compared to a deficit of \$41.7 million or 2.5 percent of GDP a year ago. The improvement is associated with the robust growth of the government's current balance from a deficit of \$13.2 million or 0.8 percent of GDP in 2004 to a surplus amounting to \$89.2 million in 2005 (or 4.6% of GDP).

**Fig.5.1A: Cayman Islands  
Central Government's Fiscal Balance 2002-2005**



Source of basic data: Cayman Islands Treasury Department

On the whole, the improvement in both the overall and current balances in 2005 resulted from a significant growth in revenue and a slower rate of expenditure expansion.

**Table 5.1B: Summary of Fiscal Operations: 2003-2005**

	2003	2004	2005	% Change 2004-05
<b>Total Revenue</b>	326.2	336.4	428.6	27.4
<b>Total Expenditure</b>	305.2	378.1	430.3	13.8
<b>Of which</b>				
<b>Current Expenditure</b>	283.7	349.2	339.4	-2.8
<b>Capital Expenditure &amp; Net Lending</b>	21.5	28.9	48.5	67.8
<b>Current Balance</b>	42.5	(13.2)	89.2	775.9
<b>Overall Balance</b>	21.0	(41.7)	(1.7)	95.8
<b>Financing</b>	(21.0)	41.7	1.7	-95.8
Net Borrowing	12.4	13.8	27.6	100.0
Change in Cash (minus = increase)	(33.4)	27.9	(25.9)	-192.7

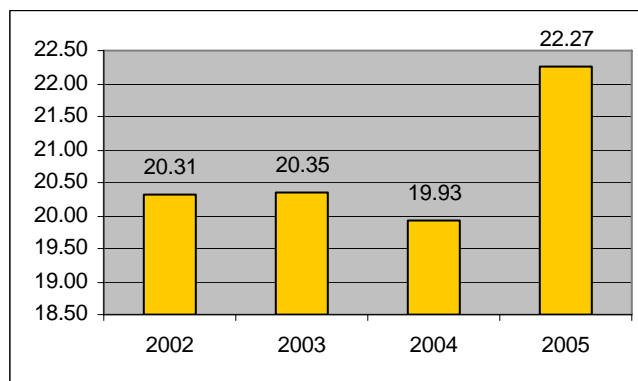
Source: Cayman Islands Treasury Department

## 5.2 Revenue

A key factor in improving the fiscal balance in 2005 was the sharp growth (27.4%) in total revenue to reach \$428.6 million.

The improvement occurred against the backdrop of the government's duty concessions which had the potential of shrinking actual revenues. Concessions were granted to promote a speedy rehabilitation of housing and other physical infrastructure. Tariff rates for building materials were waived up to 50 percent of the customary duties covering the period immediately after the hurricane until October 2005. Concessions amounting to 10 percentage points were also given until end of June 2005 for the purchase of vehicles replacing the lost units during the hurricane (subject to some administrative requirements).

**Figure 5.2A: Revenue Effort  
(Total Revenue as % of GDP)**



Source: Economics and Statistics Office

The 2005 growth in revenue collection exceeded the growth in the revenue base (nominal GDP), resulting to an improvement in the revenue effort from 19.9 percent of GDP in 2004 to 22.3 percent.

Total revenue collections in 2005 was comprised of coercive revenue (\$376.3 million or 87.8% of the total) and non-coercive revenue amounting (52.3 million or 12.2% of the total).

**Table 5.2B: Revenue Collection (in \$Million) of the Central Govt**

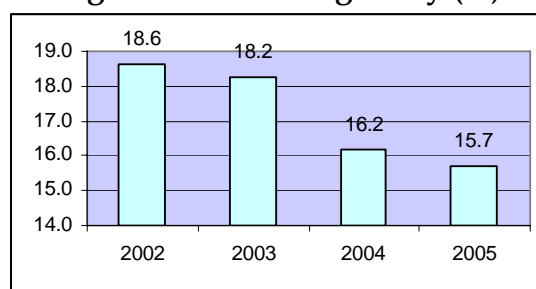
Revenue Sources	2003	2004	2005	% Change 2004- 2005
Coercive Revenue	286.7	303.2	376.3	24.1
Taxes on International Trade & Transactions	117.6	132.2	171.9	30.0
Domestic Taxes on Goods & Services	146.1	144.8	171.5	18.4
Taxes on Property	17.3	22.3	21.4	-3.9
Fines	1.3	0.8	0.9	11.3
Other Taxes	4.4	3.1	10.6	241.6
Non-coercive Revenue	39.5	32.8	52.3	59.5
Sale of Goods & Services	33.8	30.7	40.8	33.0
Investment Revenue	5.7	2.1	4.3	106.7
Operating and other revenue	0.0	0.0	7.1	

Source: Cayman Islands Treasury Department

**Coercive revenue from international trade.** In 2005, coercive revenue increased by 24.1 percent to \$376.3 million from \$303.2 million in 2004. The revenue boost came largely from taxes on international trade and transactions which rose by 30 percent, a result mainly of the sharp rise in imports as reported in Chapter 3.

International trade alone accounted for 90.6 percent of total international revenue and rose 38.1 percent in 2005. This increase coincided with the decline in average duty defined as the ratio of total import duties to total value of imports to 15.7 percent in 2005 from 16.2 percent in 2004 and 18.2 percent in 2003. There may be a number of reasons for the recent decline. First, it can be attributed directly to the duty concessions granted in 2005 as mentioned earlier.

**Figure 5.2C: Average duty (%)**



Source: Economics and Statistics Office

Second, the reduction in average duty may also be explained by the shift towards lower-priced types within certain import categories like motor vehicles. Over the last four (4) years, there has been a shift towards the importation of second hand/used vehicles, as opposed to new vehicles. In 2002, second hand/used vehicles accounted for 56 percent of imported vehicles, while in 2005, they accounted for over 63 percent. Given the tariff rate structure where cheaper vehicles have lower rates, the shift can lead to lower average duty per vehicle. It is noted that average duty from vehicles fell from 27 percent in 2002 to 14 percent in 2005.

Third, there are important revenue sources that are charged with specific or unit taxes rather than *ad valorem*. For instance, duties collected from the importation of gasoline and diesel amounted to \$19.2 million in 2005, which was 19.5 percent greater than the collection of 2004 and was

marginally higher than the pre-hurricane Ivan level. This tax, however, is not an *ad valorem* tax, hence revenue collection does not vary with higher international prices.

**Table 5.2D: Import Duties 2003-2005**

	2003	2004	2005	Absolute Change	Percentage Change (%)
Million of Cayman Islands Dollars					
<b>Import Duties</b>	<b>101.5</b>	<b>117.6</b>	<b>155.7</b>	38.1	32.4
Gasoline/Diesel	18.7	16.1	19.2	3.1	19.5
Alcoholic Beverages	11.5	13.3	13.5	0.2	1.2
Motor Vehicles	8.8	15.3	25.7	10.4	67.8
Tobacco Products	2.5	2.8	3.2	0.4	13.0
Other Import Duties	60.0	70.1	94.1	24.0	34.3
Cruise Ship Departure Charges	11.1	9.9	11.3	1.4	14.1
Environmental Protection Fund Fees	5.0	4.7	4.9	0.2	5.1
<b>Taxes on International Trade</b>	<b>117.6</b>	<b>132.2</b>	<b>171.9</b>	39.7	30.0
Percentage Contribution (%)					
<b>Import Duties</b>	<b>86.3</b>	<b>89.0</b>	<b>90.6</b>		

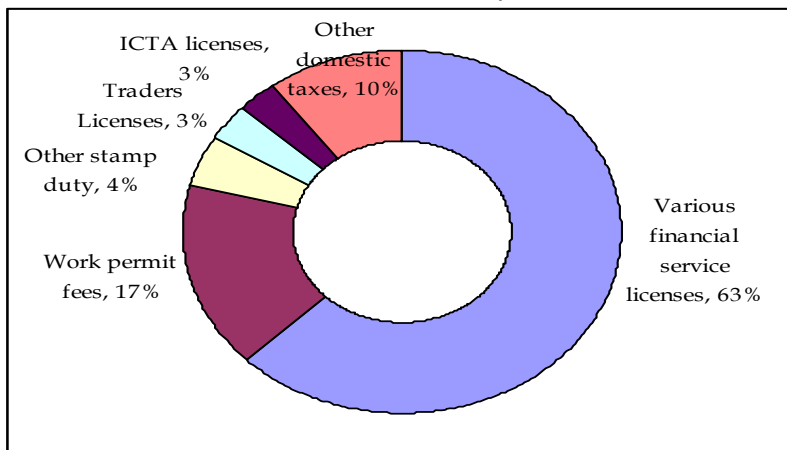
Source: Cayman Islands Treasury Department

With regards to other sources of international revenue, cruise ships departure charges contributed \$11.3 million to international tax collection in 2005, which was 14.1 percent greater than last year's but on par with the pre-hurricane Ivan year. Environmental protection fund fees remained virtually flat over the last four (4) years, amounting to around \$5.0 million.

**Coercive revenue from domestic sources.** Domestic taxes on goods and services amassed receipts totalling \$171.5 million for the calendar year 2005, as compared to \$144.8 collected in 2004. This 18.4 percent growth in revenue reversed the downward trend of the last two (2) years, when collections fell by 0.9 percent in 2004, and 3.1 percent in 2003.

Fees from the various financial services sector contributed majority (63%) of the domestic taxes on goods and services during 2005. Other sources include work permit fees (17%), other stamp duty (4%), trade licenses (3%) and licenses issued by the Information, Communications and Technology Authority (ICTA) (3%).

**Figure 5.2E: Domestic taxes on goods and services:  
% contribution of major sources in 2005**



Source: Economics and Statistics Office based on data of the Treasury Department

Meanwhile, taxes on property and fines continued to perform at their 2004 levels at approximately \$21.4 million for the former, and \$0.9 million for the latter.

**Non-coercive revenue.** Revenue from this source totalled \$52.3 million, up by 59.5 percent over the 2004 collections. Sales of goods and services generated \$40.8 million during the year, 33.0 percent higher compared to the 2004 collection.

Some of the main contributors were receipts from other company fees (\$12.7 million or 24.2%) and sale of postage stamps (\$2.7 million or 5.16%). Meanwhile, extraordinary revenue, a temporary source of funds, generated \$5.5 million in 2005 while other operating revenue amounted to \$1.6 million in 2005. Both sources were mainly hurricane Ivan-related donations to the central government

### 5.3 Expenditures

Consistent with the stance of fiscal policy in 2005, further growth of the central government's total expenditure was moderated to 13.8 percent as compared to the 23.9-percent hike in 2004. Total spending amounted to \$430.3 million or 22.36 percent of GDP from \$378.1 million or 22.4 percent



in 2004. The increase in total spending is due to a significant rise in capital expenditure and net lending, as current spending was reduced.

**Current expenditures.** Notwithstanding a higher inflation in 2005, the central government's current expending was subjected to a slight cut (-2.8 %), albeit it was back to its pre-Ivan level relative to nominal GDP at 17.64 percent. As a matter of policy, this result was not unexpected inasmuch as the government pre-announced its intention to keep a tight rein on operating expenditures for the fiscal year 2005/06<sup>12</sup>.

The increase in personnel costs was limited to 3 percent in 2005 despite the overall number of civil servants rising by 4.5 percent to reach 2,404.

**Table 5.3A: Current Expenditures of the Central Government**

	2002	2003	2004	2005	% Change 2004-05
<b>Current Expenditure</b>	<b>277.9</b>	<b>283.7</b>	<b>349.2</b>	<b>339.4</b>	<b>-2.81</b>
Personnel Costs	150.1	138.9	159.0	163.8	3.01
Supplies & Consumables	68.2	61.3	88.0	89.5	1.65
Subsidies	38.1	58.8	70.4	59.7	-15.24
Transfer Payments	17.7	18.8	24.5	17.0	-30.69
Interest Payments	3.9	5.9	7.3	9.5	30.00

Source: Cayman Islands Treasury Department

Expenditure on supplies and consumables inched marginally higher than in 2004 to \$89.5 million, but this figure was at least 38.0 percent greater than the average spending in 2002 and 2003.

Meanwhile, spending for transfer payments and subsidies were reverted to around the pre-Ivan (2003) levels as these were cut by 19.7 and 30.3 percent, respectively.

**Extra-ordinary expenses.** In 2005, extraordinary items and other executive expenses accounted for 9.9 percent of total expenditure or \$42.5 million. These expenses were directly related to the restoration and rehabilitation of different sectors of the economy in the aftermath of hurricane Ivan.

<sup>12</sup> Strategic Policy Statement for the Financial Year Ending 30 June 2006.

**Capital expenditure and net lending.** Spending on capital expenditure comprising of capital acquisition and capital development, and net lending reached \$48.5 million (or 2.5 % of GDP) in 2005. This was 67.8 percent higher than the amount incurred in 2004, mainly due to the growth in capital acquisition (now called equity investment) by over 300 percent.

**Table 5.3B: Capital Expenditure and Net Lending of the Central Govt**

	2003	2004	2005	% Change 2004-05
<b>Capital Expenditure &amp; Net Lending</b>	<b>21.5</b>	<b>28.9</b>	<b>48.5</b>	<b>67.8</b>
Capital Acquisition (now Equity Investments)	7.7	10.0	40.8	308.0
Capital Development (now Executive Assets)	13.5	19.2	6.7	-65.1
Net Lending	0.3	(0.3)	1.0	30.0

Source: Cayman Islands Treasury Department

Equity investments into the statutory authorities summed up to \$40.8 million or 308.0 percent compared to 2004. Among the top two recipients of these investments were the Health Services Authority and the Cayman Airways.

Net lending to statutory authorities has been historically a small amount; in 2005, this amounted to \$1 million.

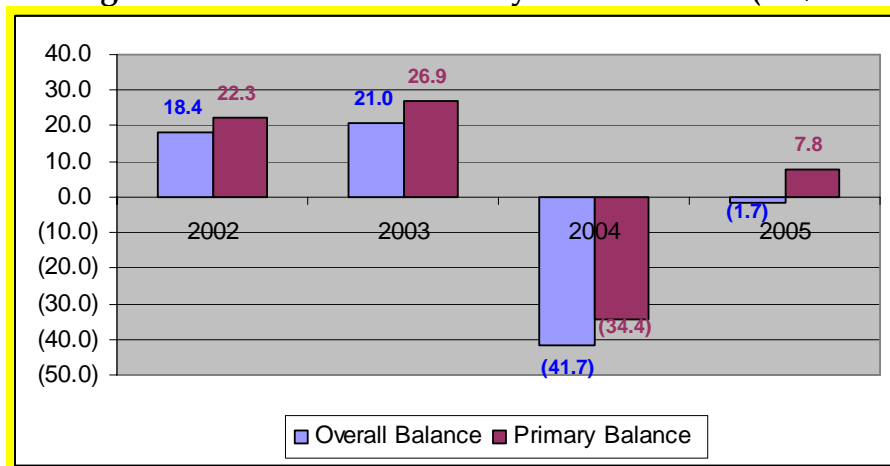
#### **5.4 Primary Balance**

Given the brisk expansion of revenue and lower growth of expenditures which reduced the overall fiscal deficit from \$41.7 million in 2004 to \$1.7 million, the primary balance (or the overall balance excluding interest payments) turned positive in 2005. This was recorded in surplus (\$7.8 million) from a deficit of \$34.4 million of the previous year.

Meanwhile, interest payments rose by 30 percent to reach \$9.5 million as the government increased its outstanding debt during the year (see discussion below). Interest payments, however, remained at 2.2 percent of

total current revenue in 2005. Moreover, these did not significantly impact on the debt service ratios during the year as further shown below.

**Figure 5.4: Overall and Primary Fiscal Balance (in \$Million)**



Source: Cayman Islands Treasury Department

### 5.5 Net Financing and Debt Service Indicators

The central government's financing strategy in 2005 was to increase its net borrowing by 100-percent to reach \$27.6 million, from \$13.8 million in 2004. The increase came from two tranches of a long-term loan from the First Caribbean International Bank.

Since the overall fiscal deficit in 2005 amounted to \$1.7 million only, the increase in net borrowing was primarily used to build up cash reserves during the year. The latter amounted to \$25.9 million, thus reversing the cash drawdown undertaken in 2004.

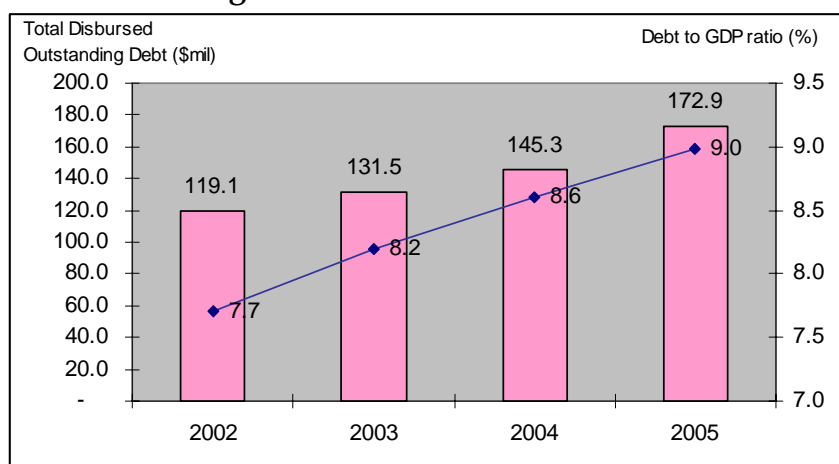
**Table 5.5A: Financing of Central Government Deficit**

	2003	2004	2005	% Change 2004-05
<b>Financing</b>	<b>(21.0)</b>	<b>41.7</b>	<b>1.7</b>	<b>-95.8</b>
Net Borrowing	12.4	13.8	27.6	100.0
Disbursements	136.9	23.3	39.0	67.4
Loan Repayment	(124.5)	(9.5)	(11.4)	20.0
Change in Cash (minus = increase)	(33.4)	27.9	(25.9)	-192.7

Source: Cayman Islands Treasury Department

Given the new loan, total disbursed outstanding debt of the central government reached \$172.9 million as of end December 2005, placing the debt-to-GDP ratio to 9 percent, slightly up from 8.6 percent in 2004.

**Figure 5.5B: Debt-to-GDP Ratio**



Source: Cayman Islands Treasury Department

Total debt amortization payments during the year reached \$11.4 million, 20 percent higher than in 2004. The repayments comprise those for the 2002 bond issue and three loans from the First Caribbean International Bank contracted in 2003-2005.

Notwithstanding the increase in both amortization and interest payments, the central government's debt service ratios remained generally stable compared to 2004. Total debt service was 4.9 percent of total current revenue and 1.1 percent of nominal GDP in 2005.

**Table 5.5C: Debt Service Indicators**

Debt Service Indicators	2002	2003	2004	2005
Interest Payments/Current Revenue Ratio (%)	1.2	1.8	2.2	2.2
Debt Service/GDP (%) a/	1.6	8.1	1.0	1.1
Debt Service/Current Revenue (%) a/	8.1	40.0	5.0	4.9

a/ Debt service consist of amortization and interest payments

Source: Cayman Islands Treasury Department, Economics and Statistics Office

## 6. Macroeconomic Outlook for 2006

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*The economy is expected to continue its upward trajectory in 2006, albeit at a slower pace, as key sectors continue to recover while external demand for tourism gradually recoups. The upbeat prognosis is however, vulnerable to the rising international prices of construction materials and softening of consumption in key foreign markets. The inflation rate is expected to approach its pre-Ivan range.*

### 6.1 Global outlook

The sanguine performance of the global economy in the past two years has raised expectations for another robust performance in 2006. The IMF, for instance, revised upward its projection for world GDP growth to 4.9 percent last April 2006. The revision was broad-based to include all advanced economies, except for Italy and Canada which had downward revisions. The strong growth in developing Asia mainly China and India in 2005 was also a key consideration.

Among Cayman's major markets, the US economy is expected to pace moderately with GDP growth in 2006 forecasted at 3.4 percent from 3.5 percent of the previous year. The forecast takes into account the possible softening in market demand, primarily private consumption and gross investment including housing, in response to the uptrend in market interest rates that have been induced by the recent hikes in Federal Bank rates.

Against the backdrop of the recent interest rate hikes and the timid response of recent inflation to oil price increases, US inflation is expected to stabilize at 3.2 percent in 2006. Inflation in other advanced economies is also seen to hold at last year's rate of 2.3 percent.

## 6.2 Domestic Growth

The momentum of recovery in the Cayman Islands in 2005 is expected to continue in 2006, albeit GDP growth is forecasted at a lower pace of 4.2 percent. Growth is foreseen to be bolstered anew by domestic demand although external demand for tourism services is expected to show signs of recovery during the year. On the supply side, the construction sector remains as the key driver of growth.

**Table 6.2A: Macroeconomic Indicators 2004-2006**

	2004			2005			2006 Forecast		
	Cayman Islands	U.S.	World	Cayman Islands	U.S.	World	Cayman Islands	U.S.	World
Real GDP growth	0.9	4.2	5.3	6.5	3.5	4.8	<b>4.2</b>	3.4	4.9
Inflation (CPI) (%)	4.4	2.7	2.0 a/	7.0	3.2	2.3 a/	<b>3.0</b>	3.2	2.3 a/
Unemployment Rate	4.4	5.5	6.3 a/	3.5	5.1	6.0 a/	<b>3.9</b>	4.9	5.8/a

a/ Applies to advanced economies only.

Source: International Monetary Fund for world and US data; Cayman Islands Economics and Statistics Office for Cayman data

Overall, growth on the demand side is likely to depend anew on gross domestic capital formation based on the remaining post-Ivan reconstruction work and on-going or new projects in both the private and public sectors, which are further discussed below.

Growth of private consumption could be sustained by the recent surge in population, a benign inflation forecast as well as the current spending for the additional number of residential/housing stocks. Public sector consumption can be an additional boost. The central government's operating expense in the fiscal year 2006/2007 is targeted to expand by 4.45 percent (or 1.45 percent in real terms) to reach \$393.62 million<sup>13</sup>.

<sup>13</sup> Government of the Cayman Islands, Strategic Policy Statement for Financial Year Ending June 30, 2007.

As regards external demand, export services are expected to resume growth in 2006, mainly resulting from the recovery of the stay-over tourism market. As of the first quarter this year, tourist arrivals by air already grew by 84.2 percent over the comparable period in 2005 to reach 76,600.

As mentioned, the construction industry is likely to lead the growth on the supply side anew, followed by the real estate industry, wholesale and retail sectors. Additional strength can come from the recovery of tourism as well as the steady expansion of business services.

As far as the reconstruction is concerned, a comparison of the value of the building work permits approved in 2005 (\$336.8 million) and the estimated value of lost and damaged housing units due to hurricane Ivan (\$1.45 billion) indicates that opportunities for robust growth based on the replacement of lost/damaged units remain. In addition to construction, sectors with significant linkages to the industry such as real estate and wholesale and retail should benefit from this opportunity.

Moreover, on-going construction work on new development projects such as Camana Bay and the government's capital expenditure program for the new fiscal year should further firm up the prospects in construction.

Construction of the town centre of Camana Bay is set for completion in 2007. The project is based on the concept of 'new urbanism' and includes a school, residential and office complex as well as a package of amenities such as restaurants, shops and recreational areas. The school, 'Cayman International School' is expected to open in September 2006 while two office buildings are set for completion in 2007. The office buildings, of about 70,000 square feet, include a six-screen cinema facility, retail shops and offices.

The central government's executive capital investment expenditure in the fiscal year 2006/07 is targeted at \$102.6 million, 67.6 percent higher compared to the fiscal year 2005/06<sup>14</sup>.

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<sup>14</sup> Government of the Cayman Islands, Strategic Policy Statement for Financial Year Ending June 30, 2007.

With regards to business services, a key impetus for further growth in 2006 could come from the demand for accounting/audit and other related professional services arising from the recent and expected upsurge of some financial services particularly the mutual funds industry as well as company registration. The number of registered mutual funds is forecasted to reach 7,200 as of June 2006 as compared to 5,842 as of June 2005, representing an annual growth of 23.2 percent<sup>15</sup>. Actual new company registration in the first 4 months of 2006 was up by 19.1 percent over the same period in 2005 to reach 3,878.

In tourism, the full operation of Ritz Carlton and the recent improvements made in existing facilities, including tourist attractions such as Pedro St. James, is expected to boost the overall capacity of the Cayman Islands to attract a greater number of stay-over tourists in 2006.

The hurricane season remains as the major risk to the macroeconomic prospects in 2006. In the aftermath of hurricane Ivan have, however, a number of mechanisms have emerged to improve domestic resiliency such as disaster recovery centres in the private sector, and a national emergency management agency for the public sector.

Externally, the domestic construction sector can be vulnerable to a sharp upturn in construction prices in the US. In the first months of the year, the producers' price index for construction materials and components has been notably outpacing the overall inflation for intermediate goods.

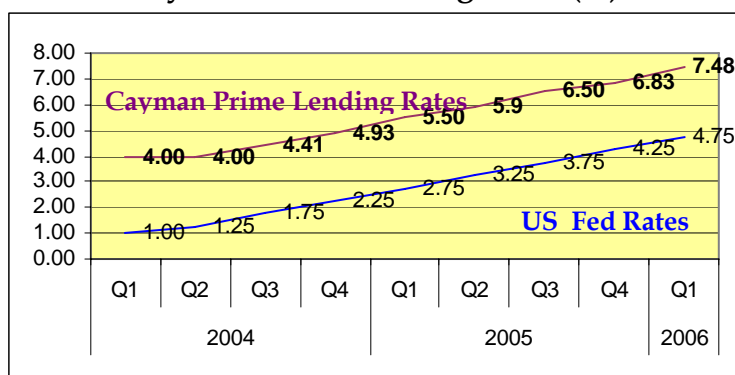
The upsurge in US interest rates which feeds back to the domestic interest rates in the context of the local currency board is another risk that had to be factored into this year's forecast. As of May, the Federal Reserve Rate stood at 5 percent.

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<sup>15</sup> Estimate based on "Hedge Funds: A Regulatory Update," by Gary Linford, Cayman Islands Monetary Authority (May 3, 2006), [www.cimoney.com.ky](http://www.cimoney.com.ky).



**Figure 6.2B: US Federal Rates and Cayman Prime Lending Rates (%)**



Source: United States Federal Reserve Bank,  
Cayman Islands Economics and Statistics Office

The softening of consumption spending in the US and Canada in 2006 could temper the pace of revival of tourist arrivals from those markets. However, in the case of the Canadian market, this can be mitigated by the forecasted strengthening of the Canadian dollar against the US dollar (and therefore against the Cayman dollar) which should enhance the price competitiveness of Cayman vacation packages in that market.

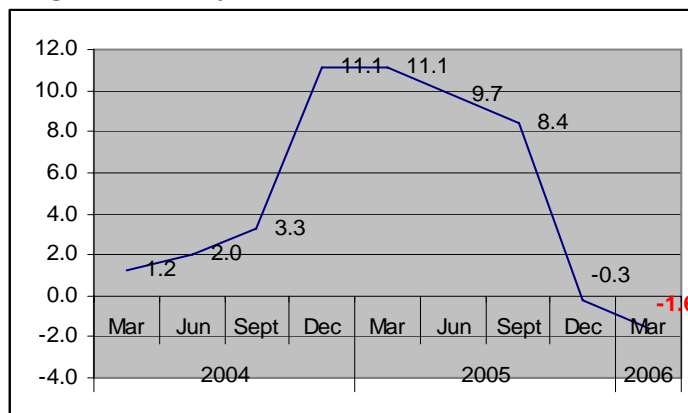
Another external risk is the uptrend in international oil prices due to continuing geo-political uncertainties which can adversely impact on airline prices.

### 6.3 Domestic Inflation

The consumer price index (CPI) is expected to trend upwards but at lower rate of 3.0 percent as compared to 7.0 percent in 2005. This is in line with the expected moderation of domestic spending, the increase in housing stock as well as the inflation of Cayman’s main trading partners particularly the US.

As of March 2006, the CPI fell by 1.6 percent compared to March 2005, on account mainly of drops in the price indices for housing, education and medical services and household equipment. Overall, the improvement of the supply situation in the Islands compared to the period immediately following the hurricane is the underlying explanation for the downtrend.

**Figure 6.3: Cayman Islands Inflation Rates (%)**



Source: Cayman Islands Economics and Statistics Office

The deflation in the first quarter which may continue on in the second quarter provides a buffer for accommodating the inflationary impact of the government’s fiscal year 2006/07 revenue measures which is simulated at 0.2-0.3 percentage points. The revenue measures include increases in some work permit fees.

Barring a natural disaster, the main risks to the 2006 inflation forecast remains the US inflation which may be pressured upward by higher wages and oil prices. The aggressive monetary policy stance of the Federal Reserve is nonetheless expected to rein their impact. While this can hold for the general level of prices, however, it is uncertain whether it can equally temper price increases for specific commodities that have relatively large weights on Cayman’s CPI such as the cost of construction materials and components as mentioned earlier.

## 7. Acknowledgment

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**Bank of Butterfield**  
**Caribbean Utilities Company**  
**Cayman Islands Customs Department**  
**Cayman Islands Department of Tourism**  
**Cayman Islands General Registry**  
**Cayman Islands Lands and Survey Department**  
**Cayman Islands Monetary Authority**  
**Cayman Islands Planning Department**  
**Cayman Islands Stock Exchange**  
**Cayman Islands Treasury Department**  
**Cayman Islands Water Authority**  
**Cayman Water Company**  
**Department of Immigration**  
**Information & Communication Technology Authority**  
**Maritime Authority of Cayman Islands**  
**Scotia Bank**  
**Royal Bank of Canada**

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**Table A1: Gross Domestic Product**

Year	Nominal GDP (CI\$M)	Real GDP 1986 Prices (CI\$M)	Mid-Year Population (000s)	GDP Per Capita (\$)	Real GDP Growth
1998	1,275.2	777.5	38.1	33,470	5.8%
1999	1,382.5	803.8	39.0	35,449	3.4%
2000	1,444.9	811.7	40.2	35,943	1.0%
2001	1,482.3	816.2	41.4	35,848	0.6%
2002	1,546.0	830.3	42.5	36,419	1.7%
2003	1,603.2	846.9	43.6	36,771	2.0%
2004	1,688.8	854.5	44.2	38,173	0.9%
2005	1,924.5	910.0	48.4	39,801	6.5%

Source: Cayman Islands Government, Economics & Statistics Office

**Table A2: Consumer Price Index & Inflation**

(September 1994=100)

Year	Index Year-end	Index Average	Inflation Rate
1994	100.8	99.9	...
1995	103.1	102.4	2.5%
1996	106.4	105.0	2.6%
1997	109.5	107.9	2.7%
1998	112.1	111.1	3.0%
1999	120.8	118.7	6.8%
2000	122.8	121.9	2.7%
2001	123.5	123.3	1.1%
2002	127.2	126.3	2.4%
2003	128.1	127.1	0.6%
2004	142.3	132.7	4.4%
2005	141.9	142.0	7.0%

Source: Cayman Islands Government, Economics &amp; Statistics Office

**Table A3: Labour Force and Employment**

Year	Labour Force	Total Employed	Total Unemployed
1995	19,820	18,845	980
1996	20,410	19,370	1,040
1997	21,620	20,725	895
1998	22,725	21,820	905
2001	27,971	25,862	2,109
2002	28,905	27,355	1,550
2003	29,905	28,827	1,079
2004	30,257	28,946	1,311
2005	36,767	35,464	1,303

Source: Cayman Islands Government, Economics & Statistics Office

Note:

No Labour Force surveys were conducted in 1999 and 2000

\*2004 results are derived from Spring LFS and not Fall 2004 LFS on account of September 2004 hurricane.

**Table A4: Composition of the Employed Labour Force**

Year	Total	Caymanian	Non-Caymanian
1995	18,845	10,490	8,355
1996	19,370	10,705	8,665
1997	20,725	10,390	10,335
1998	21,820	11,525	10,295
2001	25,862	12,479	13,383
2002	27,355	12,993	14,362
2003	28,827	13,973	14,854
2004	28,946	14,775	14,171
2005	35,464	18,025	17,439

Source: Cayman Islands Government, Economics & Statistics Office

**Table A5: The Unemployed**

Year	Total Unemployed	Caymanian	Non-Caymanian
1995	978	703	275
1996	1,049	692	357
1997	895	579	316
1998	907	609	298
1999	...	...	...
2000	...	...	...
2001	2,109	1,311	798
2002	1,550	1,058	492
2003	1,079	857	222
2004	1,311	887	424
2005	1,303	1,039	264

Source: October Labour Force Surveys, Cayman Islands Government, Economics & Statistics Office

**Note:**

No Labour Force surveys were conducted by the Statistics Office in 1999 or 2000



Table A6: The Employed by Industry

Year	Agric., Fish, Manufacturing, Construction, Utilities	Wholesale, Retail, Hotel & Restaurant	Transport, Postal & Communications	Insurance, Financial & Business	Public Administration	Education, Health & Social Services	Recreation, Community & Personal	Other	Total
1992	2,895	4,160	1,385	2,375	700	1,405	2,300	.	15,220
1993	2,790	4,310	1,345	3,610	770	1,210	1,960	.	15,995
1994	2,995	4,715	1,205	2,920	1,015	1,410	2,570	.	16,830
1995	2,640	5,555	1,785	3,570	950	1,320	3,025	.	18,845
1996	3,545	5,375	1,125	3,840	890	1,330	3,265	.	19,370
1997	3,505	5,580	1,475	4,025	995	1,665	3,480	.	20,725
1998	3,660	6,175	1,450	4,230	870	1,605	3,830	.	21,820
2001	4,608	6,644	1,347	5,373	1,765	2,143	3,982	.	25,862
2002	4,923	6,932	1,640	5,399	1,948	2,416	4,087	10	27,355
2004	5,456	7,286	1,446	6,099	1,760	2,428	4,427	-	28,947

Source: October Labour Force Surveys, Cayman Islands Government, Economics & Statistics Office

**Note:**

No Labour Force surveys were conducted by the Statistics Office in 1999 and 2000

2004 Labour Force Survey is the Spring Labour Force

**Table A7: Work Permits by Occupational Class**

Year	Administrative/ Managerial	Professional	Trades/ Technical/ Skilled	Un-Skilled	Other	Total
1995	786	668	4,606	4,138	-	10,198
1996	676	554	4,741	3,980	-	9,951
1997	755	788	5,455	4,316	-	11,314
1998	698	968	6,331	4,888	-	12,885
1999	...	...	...	...	...	...
2000	752	1,039	7,633	4,837	23	14,284
2001	664	1,077	7,285	4,852	5	13,883
2002	699	1,530	7,167	6,383	1	15,779
2003	682	1,748	7,383	7,310	-	17,123
2004	671	1,834	9,385	8,618	-	20,508
2005	819	1,957	10,576	8,411	-	21,763

Source: 1995-1999 data from Statistics Office and data from 2000-2005 Immigration Department.

**Table A8: Merchandise Trade, CI\$M**

Year	Total Imports	Exports	Trade Balance
1995	331.6	3.4	328.2
1996	314.9	2.2	312.7
1997	423.7	1.8	421.9
1998	447.8	1.0	446.8
1999	452.2	1.2	451.0
2000	575.7	2.0	573.7
2001	515.1	2.4	512.7
2002	496.6	3.0	493.6
2003	556.8	4.3	552.5
2004	725.9	2.1	723.8
2005	990.4	1.3	989.1

Source of basic data: Cayman Islands Customs Department

**Table A9: Imports by Standard International Trade Classification**

	2003	2004	2005	% Change		Absolute Change 2004-2005
				2003-2004	2004-2005	
<b>Total Imports</b>	<b>556.8</b>	<b>725.9</b>	<b>990.4</b>	<b>30.4%</b>	<b>36.4%</b>	<b>264.6</b>
Food and Live Animals	44.7	59.5	54.6	33.1%	-8.3%	-4.9
Beverages and Tobacco	27.0	17.1	35.1	-36.6%	104.6%	17.9
Inedible Crude Materials	5.2	7.5	13.7	44.5%	83.0%	6.2
Mineral Fuels, Lubricants and Related Materials	43.2	70.6	66.5	63.5%	-5.9%	-4.1
Animal and Vegetable Oils, Fats and Waxes	0.0	0.1	0.0	0.0%	-72.5%	-0.1
All Chemicals & Rel. Prods N.E.S.	13.1	15.6	18.9	19.1%	20.8%	3.3
Manufactured Goods (classified chiefly by material)	19.5	44.9	104.0	129.6%	131.9%	59.2
Machinery & Transport Equipment	54.8	117.3	161.9	113.9%	38.0%	44.6
Misc. Manufactured Articles	249.8	318.7	322.6	27.6%	1.2%	3.9
Commodities and Transactions (not classified elsewhere)	96.2	71.0	200.0	-26.2%	181.6%	128.9
Others	3.2	3.4	13.1	6.2%	284.2%	9.7

Source of basic data: Cayman Islands Customs Department

**Table A10: Domestic Credit from Retail Banks, CI\$'000**

	2003	2004	2005
<b>Domestic Credit</b>	<b>1,442,040</b>	<b>1,950,525</b>	<b>1,949,280</b>
<b>Total Loans and Advances to Private Sector</b>	<b>1,407,190</b>	<b>1,566,418</b>	<b>1,825,300</b>
<b>Credit to Businesses</b>	<b>598,444</b>	<b>598,478</b>	<b>818,308</b>
Agriculture and Fishing	270	309	397
Mining and Quarrying	1,392	3,322	2,271
Manufacturing	1,032	1,523	3,452
Construction	74,609	51,364	85,603
Hotel, Restaurant and Bar	60,828	82,388	71,509
Transportation, Storage & Com	11,915	24,015	21,123
Utilities (Electricity, Water	36,127	28,775	29,013
Real Estate, Renting & Other	121,424	142,052	177,013
Recreational, Personal & Communication	20,432	19,271	19,802
Other Professional Services	56,808	43,116	46,982
Trade & Commerce	77,253	90,334	87,529
Other	136,355	112,011	273,614
<b>Credit to Households</b>	<b>661,579</b>	<b>861,235</b>	<b>887,484</b>
Domestic Property	594,855	782,741	797,400
Motor Vehicles	18,082	25,582	43,670
Education and Technology	1,152	951	2,823
Other	47,491	51,962	43,591
<b>Other</b>	<b>147,167</b>	<b>106,704</b>	<b>119,508</b>
<b>Credit to Government</b>	<b>27,306</b>	<b>327,461</b>	<b>61,997</b>
<b>Credit to Other Public Sector</b>	<b>7,544</b>	<b>56,647</b>	<b>61,983</b>

Source: Cayman Islands Monetary Authority

**Table A11: Financial Services Indicators**

Year	Bank & Trust Licences	Insurance Licences	Captive Insurance Premiums (US\$B)	Mutual Funds	New Companies Registered	Stock Market Cap. (US\$B)	Stock Listings
2002	383	629	4.2	4,285	7,016	36.30	710
2003	349	672	4.9	4,808	7,254	43.94	735
2004	322	722	5.6	5,932	8,892	53.57	857
2005	305	759	6.7	7,107	10,210	75.56	1,015

Source: Cayman Islands Monetary Authority

**Table A12: Banks & Trust Licences**

Year	Bank & Trust Licences			Trust Only		Total
	Class 'A'	Class 'B'	Class "B" Restricted	Unrestricted	Restricted	
2002	30	348	5	58	67	508
2003	27	316	6	49	73	471
2004	23	295	4	49	75	446
2005	21	281	3	50	77	432

Source: Cayman Islands Monetary Authority

**Table A13: Insurance Licences**

Year	Class 'A' Insurance	Class "B" Insurance		Total
		Unrestricted	Restricted	
2002	29	532	68	629
2003	28	581	63	672
2004	29	634	59	722
2005	26	670	63	759

Source: Cayman Islands Monetary Authority

**Table A14: Mutual Funds Domiciled in the Cayman Islands**

Year	Administered Funds	Licensed Funds	Registered Funds	Total
2002	641	51	3,593	4,285
2003	592	48	4,168	4,808
2004	616	67	5,249	5,932
2005	598	79	6,429	7,106

Source: Cayman Islands Monetary Authority

**Table A15: New Companies Registered in the Cayman Islands**

<b>Year</b>	<b>Exempt</b>	<b>Non-Resident</b>	<b>Resident</b>	<b>Foreign</b>	<b>Total</b>
2002	5,795	768	310	143	7,016
2003	5,941	692	439	182	7,254
2004	7,480	674	530	208	8,892
2005	8,694	595	650	271	10,210

Source: Company Registrar



**Table A16: Money and Banking Survey: Monetary Assets (CI\$000s)**

	2003	2004	2005
<b>Total Assets</b>	<b>5,040,697</b>	<b>5,752,941</b>	<b>5,146,630</b>
<b>Net Foreign Assets</b>	<b>3,857,586</b>	<b>4,186,607</b>	<b>3,816,046</b>
<b>Monetary Authority</b>	<b>66,508</b>	<b>86,972</b>	<b>89,561</b>
Foreign Assets	66,508	86,972	89,561
Foreign Liabilities	-	-	-
<b>Commercial Banks</b>	<b>3,791,078</b>	<b>4,099,635</b>	<b>3,726,485</b>
<b>Foreign Assets</b>	<b>5,151,018</b>	<b>5,263,584</b>	<b>4,906,213</b>
Balances with Banks & Branches	3,709,867	2,934,008	1,596,894
USD	3,321,663	2,621,924	1,399,133
OTH	388,204	312,083	197,761
Total Investment	549,769	376,912	656,593
USD	544,718	371,483	651,721
OTH	5,052	5,429	4,873
Loans & Advances to Bnks&Brnchs	162,079	1,316,396	2,192,286
KYD	69	-	-
USD	101,816	1,229,423	2,002,128
OTH	60,194	86,973	190,158
Total Non-Resident Loans	729,303	636,269	460,439
KYD	14,298	22,146	26,630
USD	713,935	609,206	432,988
OTH	1,069	4,918	821
<b>Foreign Liabilities</b>	<b>1,359,940</b>	<b>1,163,949</b>	<b>1,179,728</b>
Total Non-resident Deposits	1,045,352	823,673	1,006,468
KYD	13,793	34,023	36,034
USD	1,014,041	660,768	810,856
OTH	17,518	128,882	159,578
Other Liabilities	314,588	340,277	173,260
USD	312,789	339,005	171,648
OTH	1,799	1,272	1,613
<b>Net Domestic Assets</b>	<b>1,442,040</b>	<b>1,950,525</b>	<b>1,949,280</b>
<b>Total Domestic Credit</b>	<b>1,442,040</b>	<b>1,950,525</b>	<b>1,949,280</b>
Public Sector	34,850	384,108	123,980
Central Government	27,306	327,461	61,997
Other Public Sector	7,544	56,647	61,983
Private Sector	1,407,190	1,566,418	1,825,300
<b>Other Items</b>	<b>- 258,929</b>	<b>- 384,191</b>	<b>- 618,696</b>

Source: Cayman Islands Monetary Authority

**Table A17: Money and Banking Survey: Monetary Liabilities (CI\$000s)**

	2003	2004	2005
<b>Monetary Liabilities</b>	<b>5,040,697</b>	<b>5,752,941</b>	<b>5,146,630</b>
<b>Money Supply (M1)</b>	<b>403,699</b>	<b>702,033</b>	<b>379,757</b>
Currency with the public	54,335	73,911	74,168
Total demand deposits (KYD)	349,364	628,122	305,588
<b>Quasi Money</b>	<b>4,636,998</b>	<b>5,050,908</b>	<b>4,766,873</b>
Savings Deposits Residents (KYD)	119,618	224,643	206,715
Fixed Deposits Residents (KYD)	253,114	267,285	333,400
Foreign currency deposits held by residents	4,264,265	4,558,980	4,226,758

Source: Cayman Islands Monetary Authority

**Table A18: Visitor Arrivals ('000)**

Year	Stay-over Arrivals	Cruise Arrivals	Total	Cruise Ship Calls
1995	361.4	682.8	1,044.2	504
1996	373.2	800.3	1,173.5	525
1997	381.2	866.6	1,247.8	572
1998	404.2	871.4	1,275.6	518
1999	394.7	1,035.5	1,430.2	638
2000	354.1	1,030.9	1,385.0	612
2001	334.1	1,214.8	1,548.9	711
2002	302.8	1,574.8	1,877.6	732
2003	293.5	1,819.0	2,112.5	825
2004	259.9	1,693.3	1,953.2	732
2005	167.8	1,799.0	1,966.8	784

Source: Cayman Islands Department of Tourism

**Table A19: Occupancy Rates and Length of Stay,**

Year	Hotel Occupancy Rates (%)	Apt/Condo Occupancy Rates (%)	Hotel Length of Stay (Days)	Apt/Condo Length of Stay (Days)
1995	75.3	53.9	4.7	6.8
1996	66.1	51.0	4.6	7.3
1997	66.9	48.2	4.8	7.0
1998	73.1	52.3	5.0	7.0
1999	71.8	46.9	4.7	5.8
2000	62.4	46.8	4.6	7.0
2001	55.3	43.1	4.5	7.3
2002	50.6	40.2	4.8	7.3
2003	51.2	37.7	4.7	7.4
2004	61.7	43.1	4.9	6.8
2005	55.8	46.0	4.9	6.7

Source: Cayman Islands Department of Tourism

**Table A20: Total Stay-over Arrivals by Country of Origin ('000)**

Year	USA	Europe	Canada	Others	Total Arrivals
1995	266.2	37.3	14.1	43.8	361.4
1996	274.7	33.5	16.2	48.8	373.2
1997	278.7	32.7	18.2	51.6	381.2
1998	295.2	34.7	18.4	55.9	404.2
1999	280.3	34.5	18.9	61.0	394.7
2000	281.6	22.6	15.0	34.3	354.1
2001	270.1	20.4	13.6	34.9	334.1
2002	244.9	17.9	13.6	26.2	302.8
2003	232.4	18.2	14.1	28.8	293.5
2004	205.2	10.3	12.1	14.5	259.9
2005	118.8	12.7	10.5	25.8	167.8

Source: Cayman Islands Department of Tourism

**Table A21: Property Transfers (CI\$M)**

Year	Freehold		Leasehold		Total Transfers	
	Number	Value	Number	Value	Number	Value
1995	1,419	191.2	127	3.6	1,546	194.8
1996	1,705	267.2	273	3.3	1,978	270.6
1997	1,798	281.8	123	5.6	1,921	287.4
1998	1,926	317.2	122	2.3	2,048	319.6
1999	1,842	219.1	203	7.5	2,045	226.5
2000	1,472	257.3	130	0.6	1,602	257.9
2001	1,359	172.7	181	0.8	1,540	173.5
2002	1,412	269.9	135	4.1	1,547	274.0
2003	1,925	324.3	205	1.7	2,130	326.0
2004	1,697	317.3	129	3.3	1,826	339.2
2005	2,169	449.4	245	1.4	2,414	450.8

Source: Cayman Islands Lands & Survey Department

**Notes:**

Freehold transfers exclude property transfers for “love and affection.”

Leasehold transfers include lease transfers and subleases.

**Table A22: Numbers of Project Approvals in Grand Cayman**

Year	Apts./ Condos	Houses	Commercial	Government	Hotel	Industrial	Other	Total
2000	96	369	34	21	1	16	511	1048
2001	79	309	45	7	3	11	442	896
2002	88	327	83	4	5	17	424	948
2003	129	385	67	12	0	34	504	1131
2004	111	359	52	6	1	17	427	973
2005	150	482	87	12	4	18	421	1174

Source: Cayman Islands Planning Department

**Table A23: Value of Project Approvals in Grand Cayman (\$M)**

Year	Apts./ Condos	Houses	Commercial	Government	Hotel	Industrial	Other	Total
2000	90.6	63.3	21.2	21.0	75.0	14.4	24.7	310.1
2001	44.5	54.2	18.0	0.8	1.7	5.5	24.4	149.1
2002	82.0	60.6	48.9	0.8	9.7	9.9	24.4	236.3
2003	65.9	80.0	29.0	55.1	-	7.1	29.4	266.5
2004	153.7	67.5	133.2	3.9	45.0	7.3	45.7	456.3
2005	280.6	94.9	101.6	2.0	16.2	17.4	48.8	561.4

Source: Cayman Islands Planning Department

**Table A24: Numbers of Project Approvals in the Sister Islands**

Year	Houses	Apt/Condo	Hotel	Government	Commercial	Industrial	Other	Total
2000	49	3	0	7	6	7	53	125
2001	41	7	0	5	9	3	46	111
2002	21	2	0	5	2	9	74	113
2003	29	3	-	4	14	2	60	112
2004	36	1	-	11	13	4	75	140
2005	43	4	0	5	9	1	73	135

Source: Cayman Islands Planning Department

**Table A25: Values of Project Approvals in the Sister Islands**

Year	Houses	Apt/Condo	Hotel	Government	Commercial	Industrial	Other	Total
2000	5.2	3.2	-	1.0	0.5	1.6	1.0	12.4
2001	-	2.8	-	2.1	1.1	1.1	0.8	8.0
2002	3.2	0.2	-	0.3	0.3	1.2	2.3	7.6
2003	4.1	0.8	-	0.1	1.4	0.4	0.7	7.4
2004	6.6	0.1	-	0.3	1.9	4.0	0.7	13.7
2005	5.9	1.3	-	0.2	0.6	0.5	0.8	9.3

Source: Cayman Islands Planning Department

**Table A26: Building Permits in Grand Cayman**

Building Permit	Numbers				Value (CI\$M)			
	2002	2003	2004	2005	2002	2003	2004	2005
Apartment/Condo	114	211	145	268	50.9	45.7	46.1	167.8
Houses	283	375	341	443	46.3	67.0	66.8	82.7
Commercial	61	35	26	139	22.8	15.6	7.5	76.4
Government	3	21	8	2	0.3	4.1	1.2	-
Hotel	14	5	0	0	111.5	9.8	-	-
Industrial	14	19	42	16	4.9	20.3	7.9	4.2
Other	116	205	192	104	6.2	15.0	12.5	5.8
<b>Total</b>	<b>605</b>	<b>871</b>	<b>754</b>	<b>972</b>	<b>242.9</b>	<b>177.6</b>	<b>142.0</b>	<b>336.8</b>

Source: Cayman Islands Planning Department



**Table A27: Water Production and Consumption, US Millions of Gallons**

Year	Production <sup>1</sup>	Consumption
1995	603.2	637.6
1996	641.7	678.1
1997	742.9	779.8
1998	823.5	849.4
1999	891.2	908.8
2000	1,003.4	1,028.5
2001	1,114.9	1,069.2
2002	1,164.7	1,056.1
2003	1,215.9	1,173.7
2004	1,314.9	1,252.7
2005	1,395.5	1,301.7

Source: Cayman Islands Water Authority, Cayman Water Company

<sup>1</sup> Excludes Non-Potable Water

**Table A28: Electricity Production and Consumption, (MWH)**

Year	Production	Consumption			Total
		Domestic	Industrial/ Commercial	Public Lighting	
1995	297.4	118.1	147.5	3.3	268.9
1996	309.7	124.6	153.8	3.1	281.4
1997	347.8	140.3	168.7	3.3	312.3
1998	381.1	158.9	181.3	3.3	343.5
1999	390.4	168.2	191.5	3.3	363.0
2000	426.5	179.5	203.1	3.4	386.0
2001	449.3	189.7	213.9	3.5	407.0
2002	466.1	200.4	221.0	4.2	425.6
2003	489.7	211.2	228.5	4.5	444.2
2004	433.4	183.1	191.5	4.1	378.7
2005	453.8	200.3	222.4	5.0	427.7

Source: Caribbean Utilities Company

**Table A29: Summary of Government Operations (CI\$ Million)**

Year	Current Revenue	Capital Revenue	Total Revenue	Current Expenditure	Capital Expenditure	Net Lending	Total Expenditure	Current Balance	Overall Balance
1995	163.4	0.1	163.5	143.7	23.7	(1.3)	166.1	19.7	(2.6)
1996	189.7	1.1	190.7	161.8	34.1	(0.4)	195.5	27.8	(4.7)
1997	213.8	0.6	214.4	187.2	46.5	(0.2)	233.5	26.6	(19.1)
1998	248.6	0.0	248.6	214.7	31.3	(1.2)	244.8	33.9	3.8
1999	275.7	-	275.7	245.2	37.6	(1.9)	280.9	30.5	(5.3)
2000	277.7	0.5	278.2	268.4	43.2	(0.5)	311.2	9.3	(33.0)
2001	284.4	0.9	285.4	290.6	26.1	(0.1)	316.6	(6.2)	(31.2)
2002	314.0	0.0	314.1	277.9	17.6	0.1	295.7	36.1	18.4
2003	326.2	0.0	326.2	283.7	21.2	0.3	305.2	42.5	21.0
2004	336.0	0.4	336.4	349.2	29.2	(0.3)	378.1	(13.2)	(41.7)
2005	428.6	0.0	428.6	339.4	47.5	1.0	430.3	89.2	(1.7)

Source: Cayman Islands Treasury Department

**Note:**

Interdepartmental Purchases and Services and Vehicle and Equipment Maintenance Fees were netted in Current Expenditure from 1992 to 1999.

**Table A30: Central Government Debt and Self-Financing Debt, (CIS\$M) a/**

Year	Disbursed Outstanding Debt	Drawings	Exchange Gain/(Loss)	Amortisation	Interest Payments
1995	51.6	1.8		11.2	4.1
1996	67.6	22.4		6.6	3.4
1997	82.9	25.5		8.7	4.5
1998	93.8	21.5		10.9	5.9
1999	98.3	18.2		13.1	5.6
2000	107.8	23.8		14.3	7.0
2001	143.5	49.7		14.0	6.8
2002	132.1	10.9	(0.3)	21.3	3.8
2003	143.9	136.9		124.5	5.1
2004	157.6	23.3		9.5	7.9
2005	185.2	39.0		11.4	7.7

Source: Cayman Islands Treasury Department

a/ Self-financing debt refers to the loans raised by the central government on behalf of agencies which are required to reimburse the servicing of these loans.

**Table A31: Fiscal Operations (CI\$ Million)**

	2002	2003	2004	2005
<b>Total Revenue</b>	<b>314.0</b>	<b>326.2</b>	<b>336.4</b>	<b>428.6</b>
Current Revenue	314.0	326.2	336.0	428.6
Coercive Revenue	276.8	286.7	303.2	376.3
Taxes on International Trade & Transactions	106.7	117.6	132.2	171.9
Domestic Taxes on Goods & Services	150.8	146.1	144.8	171.5
Taxes on Property	14.3	17.3	22.3	21.4
Fines	1.3	1.3	0.8	0.9
Other Taxes	3.7	4.4	3.1	10.6
Non-coercive Revenue	37.2	39.5	32.8	52.3
Sale of Goods & Services	30.5	33.8	30.7	40.8
Investment Revenue	6.7	5.7	2.1	4.3
Other Operating Revenue				1.6
Extraordinary Revenue				5.5
<b>Capital Revenue</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>0.0</b>
<b>Total Expenditure</b>	<b>295.6</b>	<b>305.2</b>	<b>378.1</b>	<b>430.3</b>
<b>Current Expenditure</b>	<b>277.9</b>	<b>283.7</b>	<b>349.2</b>	<b>339.4</b>
Personnel Costs	150.1	138.9	159.0	163.8
Supplies & Consumables	68.2	61.3	88.0	89.5
Subsidies	38.1	58.8	70.4	59.7
Transfer Payments	17.7	18.8	24.5	17.0
Interest Payments	3.9	5.9	7.3	9.5
Extraordinary Expenses				39.4
Other Executive Expenses				3.0
<b>Capital Expenditure &amp; Net Lending</b>	<b>17.7</b>	<b>21.5</b>	<b>28.9</b>	<b>48.5</b>
Capital Acquisition ( now Equity Investments)	3.1	7.7	10.0	6.7
Capital Development( now Executive Assets)	14.5	13.5	19.2	40.8
Net Lending	0.1	0.3	(0.3)	1.0
<b>Current Balance</b>	<b>36.1</b>	<b>42.5</b>	<b>(13.2)</b>	<b>89.2</b>
<b>Overall Balance</b>	<b>18.4</b>	<b>21.0</b>	<b>(41.7)</b>	<b>(1.7)</b>
<b>Financing</b>	<b>(18.4)</b>	<b>(21.0)</b>	<b>41.7</b>	<b>1.7</b>
Net Borrowing	(10.5)	12.4	13.8	27.6
Disbursements	10.9	136.9	23.3	39.0
Loan Repayment	(21.4)	(124.5)	(9.5)	(11.4)
Change in Cash (minus = increase)	(7.9)	(33.4)	27.9	(25.9)

Source: Cayman Islands Treasury Department