

ECONOMIC REPORT

January - September 2003



Economic & Statistics Office

1st December 2003

ECONOMIC REPORT

JANUARY-SEPTEMBER 2003

1. THE MACROECONOMY

1.1 Economic Growth

The Cayman Islands economy is projected to expand by 2.0 percent in the 2003 calendar year compared to estimates of 1.7 percent in 2002. This marks the second year of higher growth following the low of 0.6 percent recorded in 2001.

Table 1: Macroeconomic Indicators, September 2003

	Notes	2001 Jan - Sept	2002 Jan - Sept	2003 Jan - Sept
GDP	Jan-Dec Est.	0.6%	1.7%	2.0%
Inflation Consumer Price Index (CPI)	Annualised	0.3%	2.9%	0.8%
Employment Unemployment Rate	Oct 01, 02, Apr 03	7.5%	5.4%	4.6% ^P

^P – preliminary

1.2 Inflation

Consumer prices increased by 0.8 percent in September 2003, compared to 2.9 in September of 2002.

A notable increase of 7.8 percent was seen in the Education and Medical category. Education costs rose by 6.0 percent on account of higher school fees introduced at the beginning of the school year by some private schools. Higher medical fees were responsible for the 10.4 percent increase in the medical care sub-group. Commodity groups with moderate increases included Personal Goods and Services (2.8%) and the Household Equipment

category (2.5%). Slight increases included Food (1.6%), Transport and Communications (1.4%) and Clothing (1.0%).

Increased costs were offset by falling prices in the following categories: Housing (-4.3%), and Alcohol and Tobacco (-0.1%). The decline in the housing category was mainly due to lower rental costs from a year ago.

1.3 Employment

Labour Force & Unemployment

The October Labour Force Survey results are not yet tabulated. While the results from this survey are expected in January, no significant change in the unemployment rate is anticipated from the 4.6 percent recorded in April 2003.

Labour Imports

The number of work permits in effect rose by 1,608 to 13,662 during the period December 2002 to September 2003. Improved performance in the tourism and financial sectors, coupled with strong activity in construction, resulted in greater demand for imported labour.

Increases occurred in all four classes of work permits. But those in the unskilled class rose most significantly by 1,089 to 5,800. Notable increases were seen in the one-year permits for the following categories: domestic workers (340), clerks (258), manual & unskilled workers (97), sales clerks (88), and unskilled construction workers (51).

Work permits for the trades/technical/skilled class rose by 266 from 5,832 to 6,098 between January and September 2003. Significant increases were noted in one-year permits for occupations within the following industries: food and beverage servers (111), sous chef/skilled cook (41), heavy equipment operators (21) and teachers (17). Further declines were experienced in the clerk (-249) and sales clerk (-29) categories.

In the professional category, work permits rose by 217 from 1,001 to 1,218 between January and September 2003. The occupations that experienced the largest increases in the professional category were managers (110), lawyers/attorneys (22), and accountants (19).

Table 2: Work Permits by Occupational Class and Duration, September 2003

	Dec 2001	Sept 2002	Dec 2002	Sept 2003	Change Jan-Sep 2002	Change Jan-Sep 2003
Total by Class	13,883	12,436	12,054	13,662	-1,447	+1,608
Trades/Technical/Skilled	7,285	6,094	5,832	6,098	-1,191	+266
Unskilled	4,852	4,812	4,711	5,800	-40	+1,089
Professional	1,077	979	1,001	1,218	-98	+217
Admin/Managerial	664	551	509	546	-113	+37
Other	5	0	1	0	-5	-1
Total by Duration	13,883	12,436	12,054	13,662	-1,447	+1,608
1 year	12,198	10,627	9,963	11,415	-1,571	+1,452
6 months	1,024	1,073	1,311	1,544	+49	+233
Less than 6 months	656	736	779	703	+80	-76
Other	5	0.	1	0	-5	-1

Source: Immigration Department

1.4 Imports

Gross imports during the first nine months of 2003 amounted to \$372.5 million compared to \$361.3 million during the comparative period of 2002.

1.5 Money and Banking

At the time of this report, data was available from the Monetary Authority for this section up to June only.

Loans and advances to residents from the six retail banks decreased by 2.5 percent to US\$1.63 billion between December 2002 and June 2003. Of this amount, approximately US\$1.58 billion, or 97 percent, was held by the private sector, while central government and other public sector entities held US\$37.7 million and US\$13.7 million, respectively.

Of the US\$1.58 billion in loans and advances to the private sector, US\$739.8 million (46.8%) was held by businesses, while US\$841.2 million (53.2%) was held by households.

From the end of December 2002 to June 2003, credit to businesses increased by 25.7 percent to US\$739.8 million, or by US\$151.2 million. Credit to the financial services sector rose by US\$69.3 million to US\$141.3 million. Loans extended to other professional services increased by US\$65.2 million to US\$89.3 million. Loans and advances to the construction sector rose by US\$31.4 million to US\$66.3 million.

Credit to households declined by 5.9 percent during the first half of the year to US\$841.2 million. The largest decrease of US\$71.3 million was seen in miscellaneous household loans, which declined to US\$175 million. The largest increase of US\$16.9 million was seen in domestic property loans, which increased to US\$643.4 million.

Table 3: Retail Banking

	December 2002	June 2003	Change Jan-Jun 2003
Loans & Advances to Residents (US\$M)	1,674.75	1,632.49	- 42.26
Central Government	177.94	37.68	- 140.26
Other Public Sector	13.98	13.75	- 0.23
Private Sector	1,482.83	1,581.06	+ 98.23
<i>Businesses</i>	<i>588.59</i>	<i>739.81</i>	<i>+ 151.22</i>
<i>Households</i>	<i>894.24</i>	<i>841.25</i>	<i>- 52.99</i>
CI Dollar Prime Lending Rate (%)	4.25	4.00	- 0.25

Source: Cayman Islands Monetary Authority

2. SECTORAL DEVELOPMENTS

2.1 Financial Services

The financial services industry recorded mostly positive results in the in the first nine months of 2003. There were increases in mutual fund licences, insurance company licences, stock exchange listings and market capitalisation, and new companies registered. However, the number of bank & trust licences declined.

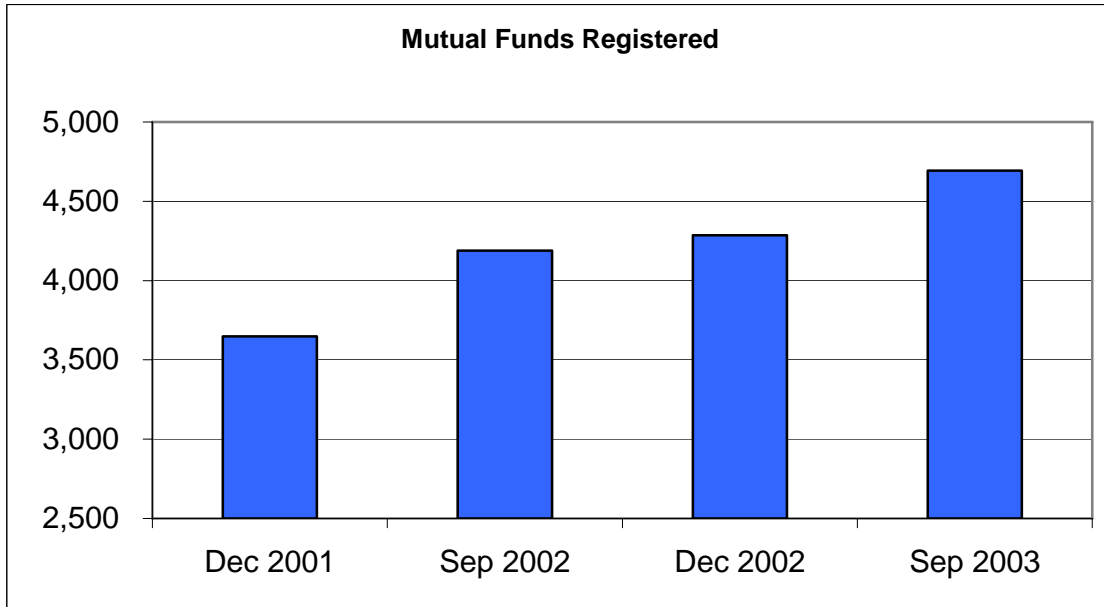
Table 4: Financial Services Industry Indicators

	December 2001	September 2002	December 2002	September 2003	Change Jan-Sep 2003
Bank & Trust Licences	545	518	508	474	- 34
Insurance Licences	572	606	629	647	+ 18
Captive Insurance Premiums (US\$B)	3.0	4.1	4.2	4.7	+ 0.5
Mutual Funds	3,648	4,188	4,285	4,693	+ 408
Stock Market Capitalisation (US\$B)	38.1	36.4	36.3	41.3	+ 5.0
Stock Listings	418	690	710	729	+ 19

Source: Cayman Islands Monetary Authority

Mutual Funds

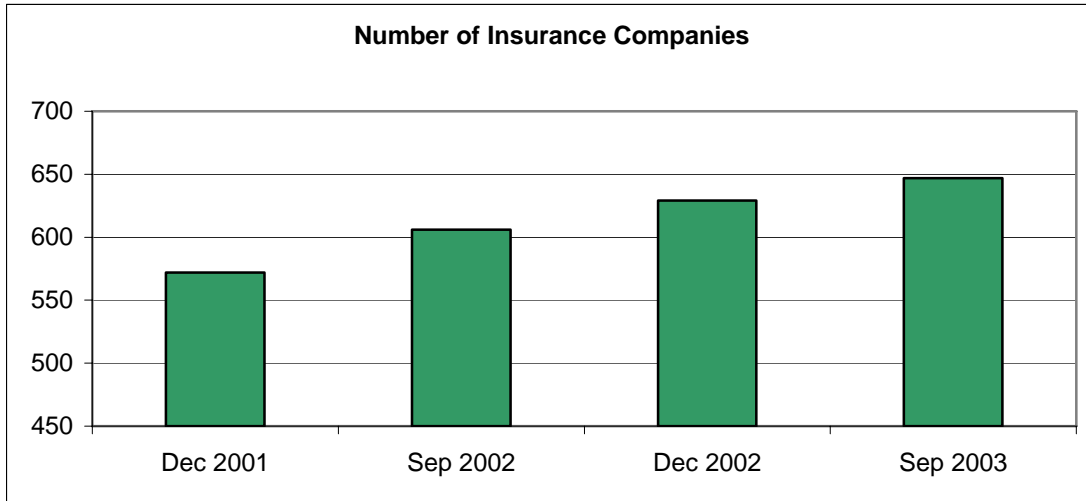
Mutual funds registrations grew 408 (+9.5%) from 4,285 in December 2002 to 4,693 in September 2003. This growth is less than the 540 increase seen in the first nine months of 2002. Continued expansion in mutual fund registration in 2003 can be attributed to the innovation of the legal and regulatory framework of the Cayman Islands.



Insurance

The number of insurance licences increased from 629 at the end of 2002 to 647 at the end of September 2003, or by 18 (+2.9%). This was less than the increase of 34 seen in the first three quarters of 2002. To complement this increase in licences, gross premiums of captive insurance companies increased from \$4.2 billion in December 2002 to \$4.7 billion in September 2003.

Insurance premiums relating to healthcare accounted for 25.0 percent of total premium of captives as at September 2003, while other major categories included workers' compensation (24.5 percent), and product liability (16.9 percent). At the same time, 87.2 percent of captive insurance premiums were exposed mainly to the geographic region of North America.

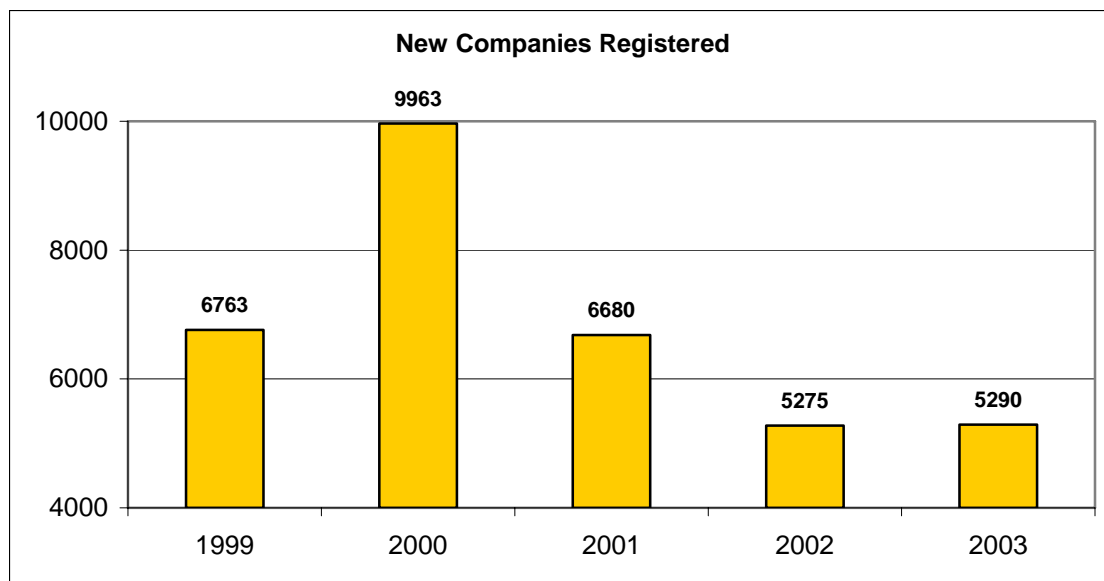


Stock Exchange

Listings on the Stock Exchange grew by 19 (+2.7%) from 710 at the end of 2002 to 729 in September 2003. The market capitalisation also increased, by US\$5.0 billion (+13.8%) from US\$36.3 billion in December 2002 to US\$41.3 billion in September 2003. This increase in market capitalisation is attributable to the recent recovery in the value of stocks globally. As an example, the S&P 500 index increased by 13.2 percent in the first nine months of 2003.

New Company Registrations

New company registrations during the first nine months of 2003 amounted to 5,290. This represents a slight increase of 0.3 percent from the 5,275 new registrations during the same period last year. This growth marked the first since the year 2000.



Banks & Trusts

The total number of bank & trust licences in effect at September 2003 was 474, compared to 508 at December 2002, reflecting an overall decline of 34.

The number of Class A Bank/Trust licences¹ decreased by 3 from 30 in December 2002 to 27 in September 2003. This decline was as a result of Barclays Bank PLC, Bank of Bermuda (Cayman) Ltd and Aall Trust & Banking Corporation Ltd changing their 'A' licences to a 'B' licences. Class B Bank/Trust licences also declined by 29 from 353 in December 2002 to 324 in September 2003. This decline in the number of licences was mainly as a result of the statutory requirement of a physical presence instituted in 2001. Other secondary factors influencing this decline were the global economic climate, as well as consolidation (mergers and acquisitions). Total Trust companies declined by 2 from 125 in December 2002 to 123 in September 2003.

¹ **Class A** licence holders can conduct business with residents, while **Class B** licence holders conduct business only with nonresidents.

Major Developments in Financial Services

During the third quarter, the Cayman Islands Stock Exchange, as a result of requests from international companies, introduced rules that will allow for companies incorporated outside the Cayman Islands to apply for listing on the exchange. These rules will permit an international company, which is a foreign company registered under Part IX of the Companies Law (2003 Revision) and an exempted or non-resident company, to apply for listing on the exchange. Until now, equity listing on the exchange was restricted to Cayman-domiciled equity companies.

On 29 July 2003, the Securities Investment Business Law (2003 Revision) and the Securities and Investment Business Regulations came into force. The purpose of the law is to define licensable activity and to ensure that this activity is undertaken by qualified persons in accordance with accepted supervisory standards of conduct for securities and investment businesses. The regulations address licence applications and fees, the conduct of business, and financial requirements and standards. The Cayman Islands Monetary Authority, under the law, has the responsibility for the licensing of persons conducting securities business and also for the supervision and enforcement of the law with regard to licensees.

On 29 September 2003, the International Monetary Fund (IMF) began an assessment in the Cayman Islands that examined legislation aimed at combating the financing of terrorism. The visit by the IMF is part of an anti-money laundering and combating the financing of terrorism (AML/CFT) pilot programme. Following a ten day assessment of regulation and supervision of the financial services industry in Cayman, preliminary findings by the IMF show "good evidence of a developed compliance culture." The IMF conducts assessments of financial centres around the world that voluntarily submit to the programme.

2.2 Tourism Arrivals

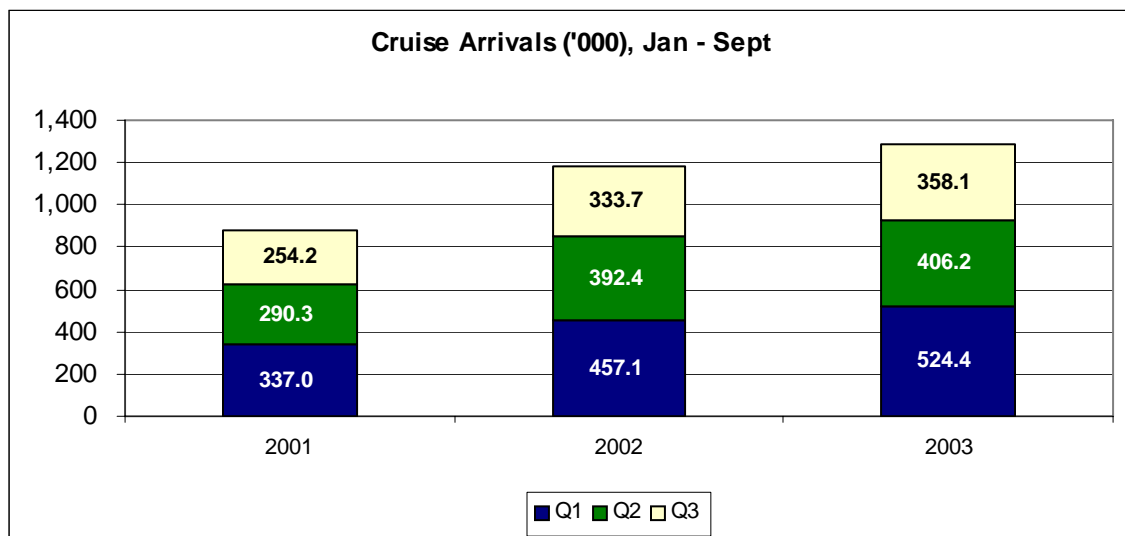
Visitor arrivals to the Cayman Islands increased by 6.6 percent to 1,509,689 between January and September 2003. Cruise arrivals grew, but air arrivals declined during the period.

Table 5: Visitor Arrivals ('000), January – September

	2001	2002	2003
Total Arrivals	1,148.5	1,416.9	1,509.7
Difference		+268.4	+ 92.8
% Change		+23.4%	+ 6.6 %
Air	267.1	233.7	221.0
Difference		-33.4	-12.6
% Change		-12.5%	-5.4%
Cruise	881.4	1,183.2	1,288.6
Difference		+301.7	+105.5
% Change		+34.2%	+8.9%

Cruise Arrivals

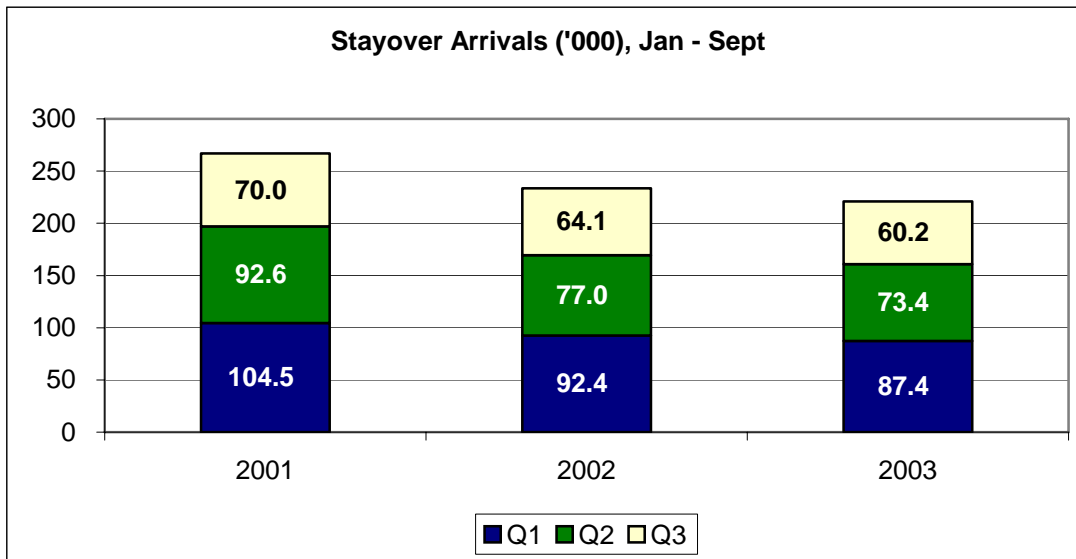
The cruise sector maintained its position as the single largest contributor of visitors to the Cayman Islands. Arrivals during the first three quarters of 2003 were up by 8.9 percent to almost 1.3 million.



Air Arrivals

As at September 2003, total stay-over arrivals amounted to 221,045, a decrease of 5.4 percent from the 233,683 recorded in 2002. This contraction was an improvement over the 12.5 percent decline recorded for the same period last year.

Competition from other regional tourist destinations, and the growing popularity in cruise tourism, have both contributed to the weakening of the stay-over sector. Thus far, efforts have been undertaken to improve the level of stay-over visitors through a 'Welcome Back' cruise conversion programme. This campaign has been undertaken by the Department of Tourism in association with Carnival Cruise Line and serves to entice cruise visitors to return to the Cayman Islands as stay-over visitors. The scheme has included the distribution of promotional material directly into visiting Carnival cruise ships.



Accommodation

Hotel/condo occupancy levels recovered slightly between January and September from 50.6 percent in 2002 to 51.4 percent in 2003. However, in

contrast, apartment occupancy rates declined from 40.2 percent to 38.9 percent.

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

Major Developments in the Tourism Industry

On September 5th, 2003, the (278-room) Treasure Island Resort went into receivership following its announced closure. The resort's failure was linked to low occupancy rates averaging 20 percent during the summer.

In August, a \$26 million contract was signed between the Cayman Islands Government and the Florida Caribbean Cruise Association (FCCA) to fund the expansion of Cayman's cruise ship facilities. This FCCA funding will allow development of the *Royal Watler Terminal Cruise Tendering Facility* in George Town, as well as, another cruise ship facility in West Bay. Financing for the project will entail the acquisition of a (15 year) loan by the Port Authority. The loan will be serviced by the FCCA on the basis of US\$1.00 per passenger for all calls to Cayman ports by member cruise lines. The US-based FCCA aims to foster partnerships with Caribbean destinations and consists of 11 major cruise lines with over 80 ships.

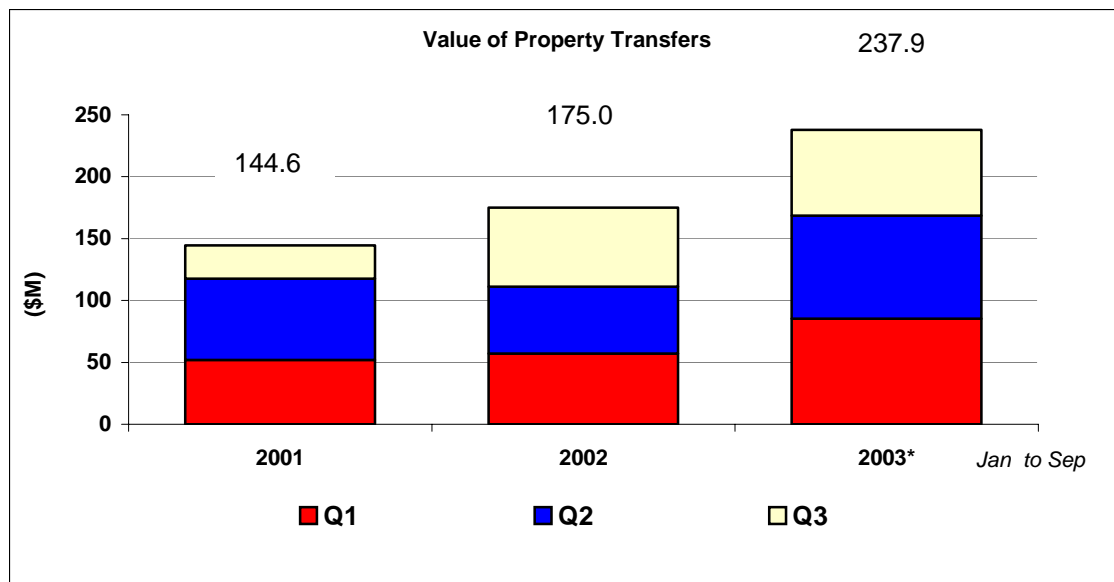
2.3 Real Estate

Real estate continued to perform well throughout the first nine months of 2003. The introduction of new stock on the market, such as the condominium developments of the 'Residences' of the Ritz Carlton Grand Cayman, along with sustained favourable market conditions for buyers made investment in real estate very attractive.

The values of property transferred during the first nine months of the year rose by 36 percent from \$175.0 million in 2002 to \$237.9 million in 2003. This increase was the result of sales of high-end condominium units

such as the Ritz Carlton and the Meridian, with starting prices of US\$2.1 million and US\$2.4 million, respectively.

According to Coldwell Bankers in its *Market Report – Mid Year 2003 and Property Listings*, lease rates for office space have fallen by 15% since 2000. This excess office space is being slowly absorbed by the financial sector.



Major Developments in Real Estate

The Government has made public their intention to purchase all the land within the 260-acre designated national park at Barkers. The timetable for the purchase of the land, which is to be done in three phases, is still being finalised.

The Government will extend its concession on stamp duties and planning application fees for an additional two months to 14th January 2004.

2.4 Construction

The construction industry maintained its momentum throughout the first nine months of 2003.

Planning Approvals

The value of planning approvals also rose by \$39.8 million (+22.8%) to \$214.2 million largely on account of government projects and planned construction of private homes. Government plans to construct a primary school at Spotts valued at \$6.0 million.

Strong demand for the construction of new homes continued, fuelled by historically low interest rates and 50 percent concession on building permit and infrastructure fees. Approvals in this category rose by 30 percent from \$43.4 million to \$56.2 million in 2003.

Table 6: Value of Project Approvals, January -September (\$M)

Category	2001	2002	2003	Change In Value 2002-2003
Apartment/Condo	45.8	54.3	52.0	-2.3
House	46.6	43.4	56.2	+12.8
Commercial	15.2	44.7	23.8	-20.9
Government	2.6	0.5	54.3	+53.8
Hotel	1.7	0.1	0.0	-0.1
Industrial	6.9	4.0	4.1	+0.1
Other	15.9	27.5	23.8	-3.7
Total	134.7	174.4	214.2	+39.8

Building Permits

Building permit values totalled \$174.1 million in the first nine months of 2003. This represented a decline of \$38.1 million (-18%) from the \$212.2 million achieved during the same period in 2002. This decline was anticipated, given the large projects that were granted permits last year.

These included the \$6.5 million UBW Ltd Building (Citrus Grove) and the US\$109.0 million Ritz Carlton Hotel & Condominium development.

Buoyant demand for family homes resulted in building permit values rising by \$14.3 million (or 42.6%) from \$34.5 million in 2002 to \$49.2 million in 2003. Within this category, permit values for expansion and renovations of houses rose from \$2.9 million in 2002 to \$6.5 million in 2003.

The value of building permits in the commercial category rose by \$18 million from \$16.5 million recorded in 2002 to \$34.5 million in 2003. The most significant project in this category was the Progressive Distributor's warehouse centre valued at \$4.2 million. The project, a 53,000 square foot building is a merger of the Foster's Food Fair and Kirkconnell's grocery store wholesale section.

There was decline in the industrial category as last year's figures reflected the grant of a permit for the completion of Phase I of the Waste Water Treatment Plant by Cayman Islands Water Authority.

Table 7: Value of Building Permits, January -September (\$M)

Category	2001	2002	2003	Change In Value 2002-2003
Apartment/Condo	27.6	87.8	67.0	-20.8
House	32.5	34.5	49.2	+14.3
Commercial	20.3	16.5	34.5	+18.0
Government	5.1	0.0	9.9	+9.9
Hotel	0.8	68.7	8.9	-59.8
Industrial	0.8	4.2	0.6	-3.6
Other	1.9	0.5	3.9	+3.4
Total	88.9	212.2	174.1	-38.1

Major Developments in Construction

In September ground breaking took place for the *Royal Watler Terminal Cruise Tendering Facility*. The terminal represents the first phase of the development of cruise facilities in Grand Cayman funded by the Florida Caribbean Cruise Association in its US\$26 million agreement with government. The new facility plans include amenities such as custom-designed cruise terminals with retail stores, cabana kiosks, and customs and Immigration offices. Scheduled completion of the terminal in George Town is early 2004. The schedule for the West Bay Cruise terminal will be announced at a later date.

It is anticipated that 2004 will be an extremely busy year for construction with many projects set for completion during the year or early 2005. Government's primary school in Spotts and secondary school in Frank Sound are set for completion by September 2004.

Later in the year, the \$2 million marina collaboration between Ritz-Carlton, Grand Cayman and the Cayman Islands Port Authority will be finished. The project boasts a commercial docking, a fuelling station and parking for cars and boats.

2.5 Utilities

Electricity Services

Electricity production through September 2003 was up by 4.8 percent to 367,239 MWh compared to the 349,487 MWh registered during the same period last year.

Total electricity consumption grew by 4.7 percent during this period from 319,277 million MWh a year ago to 334,335 MWh this year. Of the total consumption recorded for 2003, commercial usage rose by 3.1 percent to 172,119 MWh, while residential usage registered a 6.5 percent increase to

158,849 million. Public Lighting also rose by 5.9 percent to 3,367 million MWh.

Water Services

Water production expanded by 3.4 percent from 880.4 million gallons recorded for the first three quarters of 2002 to 910.0 million gallons during the comparative period of 2003.

Telecommunications Services

Telecommunications usage contracted by 8.6 percent from 30.3 million paid minutes during the period January to September 2002 to 27.7 million paid minutes during the period of January to September of 2003. The number of telephone lines also declined from 33,213 to 32,985. However, the number of Internet connections increased from 9,099 in 2002 to 9,667 in 2003.

Major Developments in the Utilities

On July 10, 2003 the Cayman Islands Government and Cable & Wireless signed an agreement marking the official liberalisation of the telecommunications industry. Additionally, on September 10th, licenses were granted to nine companies for the provision of telecom services. The phased-in liberalisation process will be completed over a period of approximately eight months with alternative Internet service providers allowed to begin operations on 1 November 2003.

Table 8: Utilities Consumption

	Jan-Sept 2001	Jan-Sept 2002	Jan-Sept 2003	% Change 2002-2003
Electricity				
<i>Electricity Usage (000's of MWh)</i>	310.5	319.3	334.3	+4.7%
Water				
<i>Water Production (US millions of gallons)</i>	851.9	880.4	910.0	+3.4%
Telecommunications				
<i>Telephone/Fax Paid Minutes (000's)</i>	31,287	30,341	27,747	-8.6%
<i>Internet Lines</i>	8,387	9,099	9,667	+6.4%
<i>Telephone Lines</i>	33,425	33,213	32,985	-0.7%

3. Outlook

The Cayman Islands economy has shown steady improvements since reaching a low in 2001. Economic growth is expected to accelerate from a projected 2.0 percent in 2003 to 2.5 percent in 2004. This outlook is contingent upon a continued expansion in developed economies. The initial signs are encouraging as the US experienced a 7.2 percent expansion in third quarter of 2003. Strong global growth will be beneficial to the Cayman Islands, especially if it is accompanied by a rebound in business spending and increased employment in the US.

Table 9: Macroeconomic Forecast for 2004

	2001	2002	2003 ^p	2004 ^f
Economic Growth	0.6	1.7	2.0	2.5
Unemployment	7.5	5.6 ¹	4.8	4.6
Inflation	1.1	2.4	0.8	1.8

Notes: p – Projected f – Forecasted ¹Average from the April and October 2002 Labour Force Surveys.

Results from the October 2003 Labour Force survey will be forthcoming shortly. The annual forecast is for a slight decline in unemployment from an average of 4.8 percent in 2003 to 4.6 percent in 2004.

Consumer inflation is expected to rise from 0.8 percent in 2003 to 1.8 percent in 2004. This is based on the assumption that prices in the housing market, particularly rental costs, will stabilise in 2004.