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# THE CAYMAN ISLANDS' FIRST QUARTER ECONOMIC REPORT 2014

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July 2014



The Economics and Statistics Office

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## Overview\*

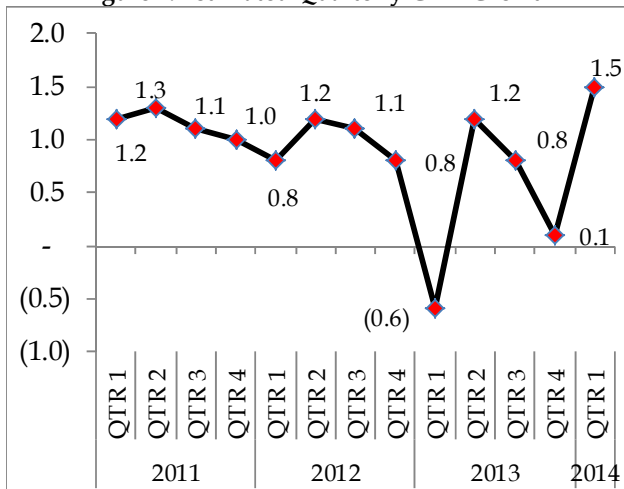
- Gross domestic product (GDP) in real terms was estimated to have expanded at an annualised rate of 1.5% in the first quarter of 2014. The forecast GDP growth for the year is placed at 1.9%.
- The Consumer Price Index increased by 2.3% mainly due to higher price indices for food and non-alcoholic beverage, restaurants and hotels, household equipment, education, and miscellaneous goods and services which were offset by a decrease in the housing and utilities index.
- Total merchandise imports rose by 5.0% to register at \$203.0 million as non-fuel imports increased by 7.1%.
- Current work permits fell by 2.9% to total 19,978.
- Money supply (M2) expanded by 2.2% due to increases in both foreign currency deposits and CI dollar-denominated money.
- Domestic credit contracted by 1.6% as credit to the public sector and to the private sector declined by 6.3% and 1.0% respectively.
- The weighted average lending rate fell from 6.29% to 6.23%, while the prime lending rate remained at 3.25%.
- Bank and trust company registration continued on its downward trajectory, this time by 4.5%, while insurance licenses went up by 2.5%.
- Mutual funds grew by 2.5% this period, propped up by master funds registration; excluding this category, mutual funds registration fell by 2.6%.
- Stock exchange listings fell by 12.1% to settle at 1,034.
- New company registrations rebounded by 20.7% to total 2,718 following two years of decline.
- Air arrivals grew by 5.2% and cruise passengers by 2.0%.
- The value of building permits rose by 57.9% while project approvals fell by 56.8%. The increase in building permits is due to the Kimpton Hotel development.
- The value of property transfers increased by 2.7% to \$110.8 million.
- Water consumption fell by 4.6% while electricity consumption rose by 4.2%.
- The central government's overall fiscal surplus improved to \$149.4 million from \$131.8 million a year ago.
- The total outstanding debt of the central government continue to contract, this time by \$24.3 million to settle at \$558.3 million.

\*Comparative data over the first quarter of 2013, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off

## 1. GDP Growth

The Cayman Islands' real GDP grew by an estimated annualised rate of 1.5% in the first quarter of 2014 compared to a year ago when the economy was estimated to have declined by 0.6% (Figure 1).

Figure 1: Estimated Quarterly GDP Growth

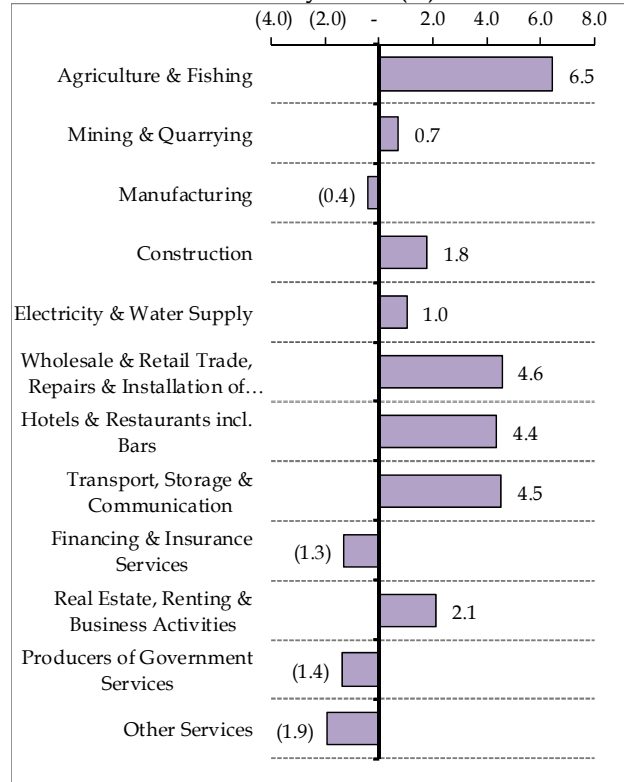


Source: Economics and Statistics Office

Upbeat growth rates were estimated for hotels and restaurants (4.4%), transport storage and communication (4.5%), wholesale and retail trade (4.6%), real estate, renting and business services (2.1%), construction activities (1.8%) and agriculture and fishing (6.5%) (see Figure 2).

However, significant negative movement was indicated for financing and insurance services (-1.3%) and government services (-1.4%).

Figure 2: Estimated First Quarter 2014 Annualized GDP Growth by Sector (%)



Source: Economics and Statistics Office

As supported by the first quarter economic performance, the macroeconomic outlook for the calendar year 2014 remains upbeat (see Table 1). GDP growth will rely mainly on the recovery of the financing and insurance sector, and the sustained growth of construction and tourism services (hotels & restaurants including bars).

Table 1: Macroeconomic Outlook as at March 2014

	2011	2012	2013	Projection
	Percent			2014
Real GDP*	0.9	1.4	1.2	1.9
CPI Inflation	1.3	1.2	2.2	1.8
Unemployment Rate	6.3	6.2	6.3	6.1

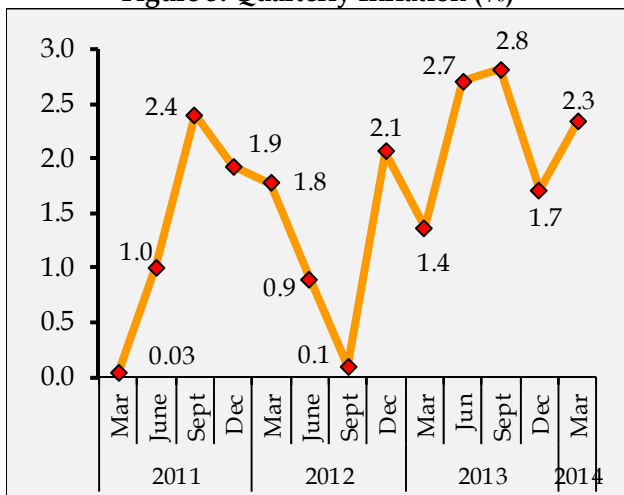
\*GDP for 2013 is estimated

Source: Economics and Statistics Office

## 2. Inflation

The Consumer Price Index (CPI) stood at 104.7 in the first quarter, 2.3% higher than in March 2013. This resulted mainly from rising price indices for food and non-alcoholic beverage (2.5%), restaurants and hotels (11.6%), household equipment (6.8%), education (6.2%), and miscellaneous goods and services (7.6%). However, these increases were offset by declines mainly in housing and utilities (-1.7%) and clothing and footwear (-1.1%).

**Figure 3: Quarterly Inflation (%)**

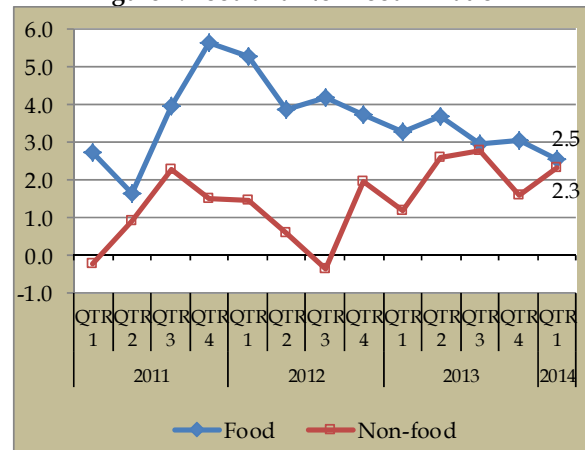


Source: Economics and Statistics Office

The index for food and non-alcoholic beverages increased by 2.5% on account of higher international food prices. A dissection of year-on-year inflation showed that non-food inflation was actually lower than food inflation at 2.3% (see Figure 4).

The average price of household equipment rose by 6.8% in the first quarter from a year ago mainly on account of higher cost of household textiles which went up by 10.3%.

**Figure 4: Food and Non-food Inflation**



Source: Economics and Statistics Office

The price movement for miscellaneous goods and services by 7.6% was a result of higher insurance cost.

The 11.6% inflation rate for restaurants and hotels may be associated with the stronger demand from tourist arrivals.

The housing and utilities price index declined by 1.7%, mainly on account of decreases in actual and imputed rent by 1.1% and 3.2%, respectively while maintenance and repair of dwelling cost fell by 2.8%. Cost of water supply and miscellaneous services declined by 1.5% while the average price of electricity, gas and other fuels moved up by 3.7%.

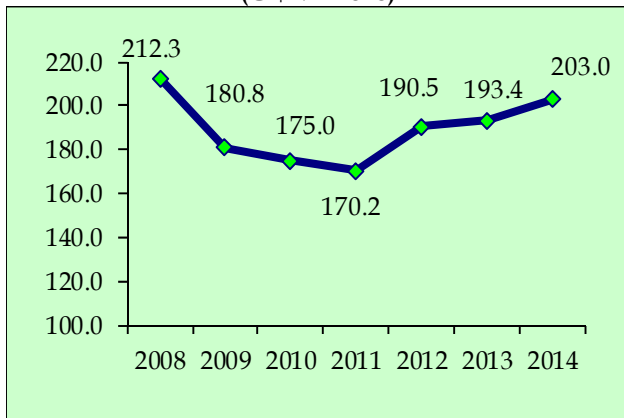
Other indices that recorded declines were alcohol and tobacco (-0.1%), and health (-0.2%).

## 3. Trade

For the first quarter of 2014, preliminary data indicates that merchandise imports rose by 5.0% to \$203.0 million from the

comparative period in 2013 (see Figure 5). This coincides with a 13.8% increase in the tonnage of imported cargo as depicted in Figure 6.

**Figure 5: First Quarter Merchandise Imports (CI\$ Millions)**

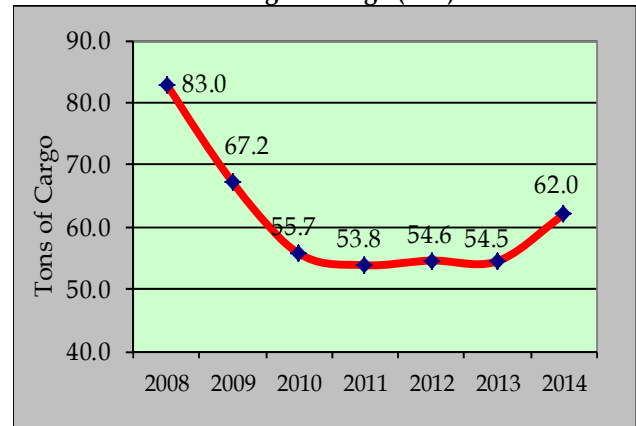


Source: Customs Department and ESO

The increase in merchandise imports was led by non-oil imports such as food and live animals (12.3%), beverages and tobacco (17.2%), machinery and transport equipment (9.1%), manufactured goods classified chiefly by materials (10.4%) and miscellaneous manufactured articles (9.8%).

The total value of fuel and petroleum related imports declined by 2.0 to settle at \$44.6 million during the period. The decrease can be directly attributed to a reduction in the volume of imports (see Table 2) by 28.8%, most likely due to a shipment timing issue.

**Figure 6: First Quarter Total Tonnage of Cargo ('000)**



Source: Cayman Islands Port Authority

**Table 2: First Quarter Oil Imports**

	Mar-12	Mar-13	Mar-14	% Change
<u>Millions of imperial gallons</u>				
Total Fuel	10.36	14.63	10.42	-28.8
Diesel	6.37	9.50	7.4	-22.5
Gas	2.20	3.52	2.2	-37.5
Aviation	1.44	1.26	0.9	-31.7
Propane	0.35	0.35	0.0	-100.0

Source: Cayman Islands Port Authority

#### 4. Work Permits

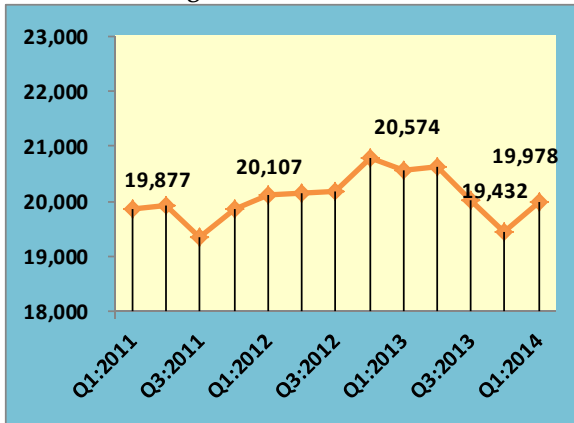
Foreign employment levels subsided in the first quarter 2014 when compared to a year ago.

During the review period, work permits fell 2.9% from 20,574 to 19,978. This decline in part reflects measures to boost Caymanian employment as well as changes to work permit policy in the latter half of 2013.

However, in terms of quarterly performance, work permits relative to the

quarter ending December 2013 increased by 2.8%.

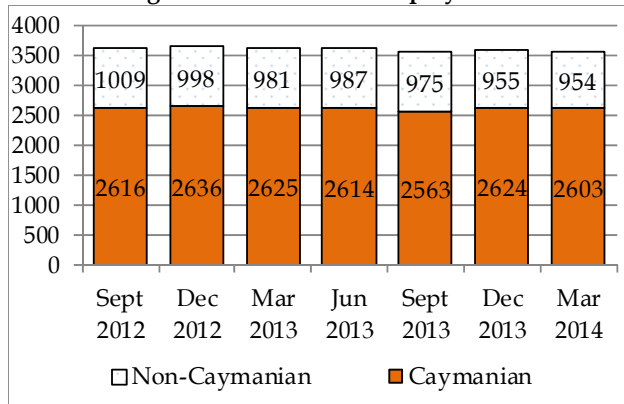
**Figure 7: Work Permits**



Sources: Immigration Department & ESO

As depicted in Figure 7, civil service employment fell by 49 to total 3,557. Foreign workers decreased by 27 to 954 persons while Caymanians decreased by 22 persons.

**Figure 8: Civil Service Employment**

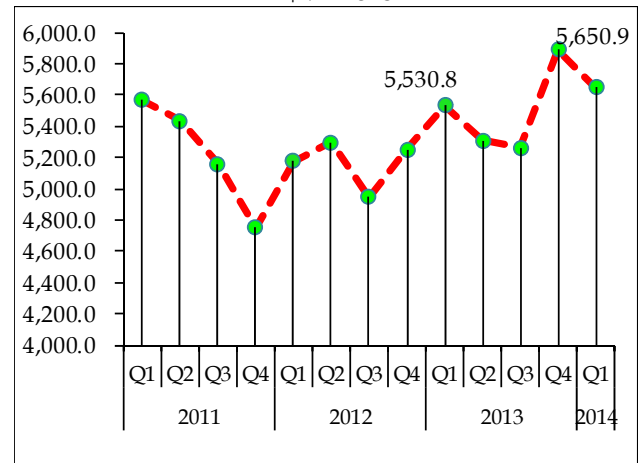


Source: Portfolio of the Civil Service

## 5. Money & Banking

Broad liquidity (M2) expanded by 2.2% to settle at \$5,650.9 million in the first quarter of 2014 (see Figure 9 and Table 3). This resulted from expansions in both foreign currency deposits and CI dollar-denominated money by 0.6% and 8.4% respectively.

**Figure 9: Total Money Supply (M2) in \$Millions**



Source: Cayman Islands Monetary Authority & ESO

According to the balance sheet concept, M2 also represents the liabilities of the monetary and banking sector as shown in Table 3. The corresponding asset side recorded an increase in net foreign assets and net domestic assets.

**Table 3: Monetary and Banking Summary Indicators**  
 (\$ millions)

	Mar-13	Mar-14	Change %
<b>Total Assets</b>	<b>5,530.8</b>	<b>5,650.9</b>	<b>2.2</b>
<b>Net Foreign Assets</b>	<b>3,080.1</b>	<b>3,142.3</b>	<b>2.0</b>
Monetary Authority	94.3	97.0	2.9
Commercial Banks	2,985.8	3,045.3	2.0
<b>Net Domestic Assets</b>	<b>2,450.7</b>	<b>2,508.6</b>	<b>2.4</b>
Domestic credit	3,006.6	2,957.2	(1.6)
Claims on central government	283.3	258.9	(8.6)
Claims on other public sector	71.6	73.7	2.9
Claims on private sector	2,651.7	2,624.6	(1.0)
Other items net (assets +)	(555.9)	(448.6)	(19.3)
<b>Broad Liquidity</b>	<b>5,530.8</b>	<b>5,650.9</b>	<b>2.2</b>
Broad money (KYD) M2	1,140.2	1,235.6	8.4
Currency in circulation	89.0	91.7	3.0
KYD Deposits	1,051.2	1,143.9	8.8
Demand deposits	391.7	447.4	14.2
Time and savings deposits	659.5	696.5	5.6
FOREX deposits	4,390.6	4,415.3	0.6
of which: US dollars	3,815.7	3,839.5	0.6
US\$ Contribution (%)	86.9	87.0	

Source: Cayman Islands Monetary Authority &amp; ESO

**5.1. Net Foreign Assets (NFA).** For the first quarter ended March 2014, net foreign assets of domestic commercial banks rose by 2.0% (see Table 4) which was augmented with an increase of 2.9% in Cayman Islands Monetary Authority's net foreign assets. The expansion in commercial banks' NFA resulted from a decrease in foreign liabilities (15.5%) which outweighed the 7.1% decrease in foreign assets. Among the assets, non-resident loans decreased by 31.2%. On the liabilities side, non-resident deposits dipped by 18.8%.

**Table 4: Net Foreign Assets (\$ millions)**

	Mar-13	Mar-14	Change %
<b>Net Foreign Assets</b>	<b>3,080.1</b>	<b>3,142.3</b>	<b>2.0</b>
Monetary Authority	94.3	97.0	2.9
Commercial Banks	2,985.8	3,045.3	2.0
<b>Foreign Assets</b>	<b>6,219.7</b>	<b>5,779.2</b>	<b>(7.1)</b>
Bal. with Banks & Branches	3,901.4	3,796.3	(2.7)
Total Investment	1,019.3	1,089.4	6.9
Total Non-Resident Loans	1,299.0	893.5	(31.2)
<b>Foreign Liabilities</b>	<b>3,233.9</b>	<b>2,733.9</b>	<b>(15.5)</b>
Total Non-Resident Deposits	3,255.7	2,644.5	(18.8)
Other Liabilities	(21.8)	89.4	(510.1)

Source: Cayman Islands Monetary Authority &amp; ESO

**5.2. Net Domestic Assets.** During the review period, net domestic credit declined by 1.6% as public sector indebtedness contracted by 6.3% while credit to the private sector declined by 1.0% compared to a year ago.

**Table 5: Net Domestic Credit (\$ millions)**

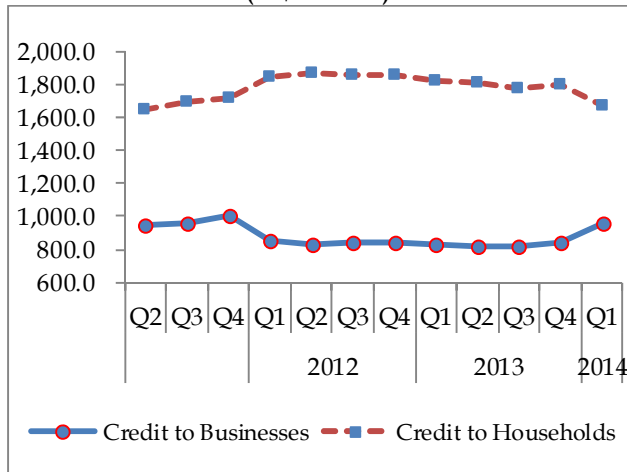
	Mar-13	Mar-14	Change %
<b>Domestic Credit</b>	<b>3,006.6</b>	<b>2,957.2</b>	<b>(1.6)</b>
Domestic Credit to Public Sector	354.9	332.6	(6.3)
Domestic Credit to Private Sector	2,651.7	2,624.6	(1.0)

Source: Cayman Islands Monetary Authority &amp; ESO

Lending to the public sector contracted as the central government continued to embark on a program of reducing its debt as stipulated in the Framework of Fiscal Responsibility (FFR). The fall-off in domestic lending to the private sector is traced to lower levels of lending to households (see Figure 10).



**Figure 10: Credit to Business and Households (CI\$ Million)**



Source: Cayman Islands Monetary Authority & ESO

During the period in review, loans to households contracted by 8.0% (or \$145.2 million) compared to the same period a year ago. This decrease resulted from high loan amortisation for domestic property and miscellaneous credit to households (see Table 6). A reduction in building permits for houses also suggest falling demand for housing loans.

Credit to the business sector rose by 14.1%, as lending to the trade and commerce and the production and manufacturing sectors expanded (see Table 6).

Services sector borrowings fell by 13.0% which is traced to declines in loans to accommodation and entertainment services and education recreational and other professional services.

Credit to the trade and commerce sector was higher by 33.4%, due to sharp increases for real estate, rental and leasing companies and other business activities. Production and manufacturing borrowings increased

as loans to the construction sector rose by 9.1% as compared to a year ago.

**Table 6: Net Credit to the Private Sector (\$ millions)**

	Mar-13	Mar-14	% Change
<b>Total</b>	2,651.5	2,624.4	(1.0)
<b>Credit to Businesses</b>	835.5	953.6	14.1
<b>Production &amp; Manufacturing</b>	349.2	368.1	5.4
Agriculture, Fishing and Mining	10.6	13.4	26.4
Manufacturing	28.0	16.9	(39.6)
Utilities	3.3	2.5	(24.2)
Construction	307.3	335.3	9.1
<b>Services</b>	105.3	91.6	(13.0)
Accommodation, Food, Bar & Entertainment Services	66.8	54.7	(18.1)
Transportation, Storage & Communications	15.9	16.7	5.0
Education, Recreational & Other Professional Services	22.6	20.2	(10.6)
<b>Trade and Commerce</b>	351.5	468.9	33.4
Wholesale & Retail Sales Trade	88.4	57.8	(34.6)
Real Estate Agents, Rental and Leasing Companies	113.6	144.3	27.0
Other Business Activities (General Business Activity)	149.5	266.8	78.5
<b>Other Financial Corporations</b>	29.5	25.0	(15.3)
<b>Credit to Households</b>	1,816.0	1,670.8	(8.0)
Domestic Property	1,539.5	1,439.7	(6.5)
Motor Vehicles	31.8	30.1	(5.3)
Education and Technology	4.0	5.0	25.0
Miscellaneous*	240.7	196.0	(18.6)
<b>NonProfit Organizations</b>	0.0	0.0	

\*Miscellaneous include consolidated debt, insurance, medical & travel

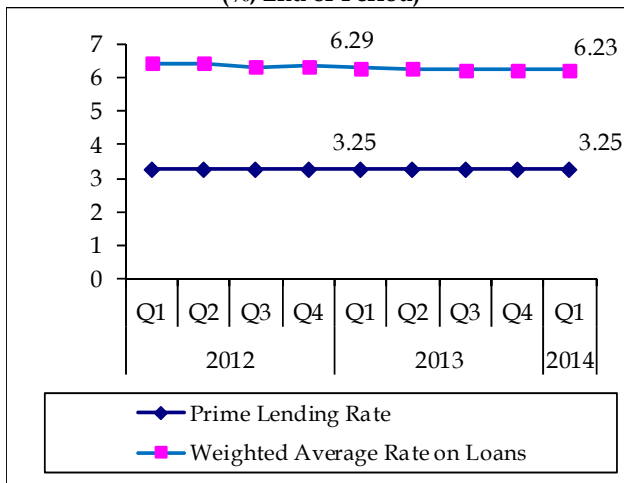
Source: Cayman Islands Monetary Authority & ESO

**5.3. Broad Liquidity.** As referenced in Table 4, broad liquidity (M2) in the Cayman Islands reached \$5,650.9 million in March 2014, compared to \$5,530.8 million for the same period last year. This 2.2% expansion directly emanated from increases in local currency money supply and, to a lesser extent, foreign currency-denominated deposits.

Money supply in KYD increased by 8.4% arising from both deposits and currency in circulation. Foreign currency deposits recorded an increase of 0.6%, as local residents' holding of US dollar-denominated deposits was higher by 0.6%.

**5.4. Interest Rates.** As depicted in Figure 11, the Cayman Islands' prime lending rate remained at 3.25% while the weighted average lending rate on KYD fell by 6 basis points from 6.29% in the first quarter of 2013 to 6.23% in the same period of 2014.

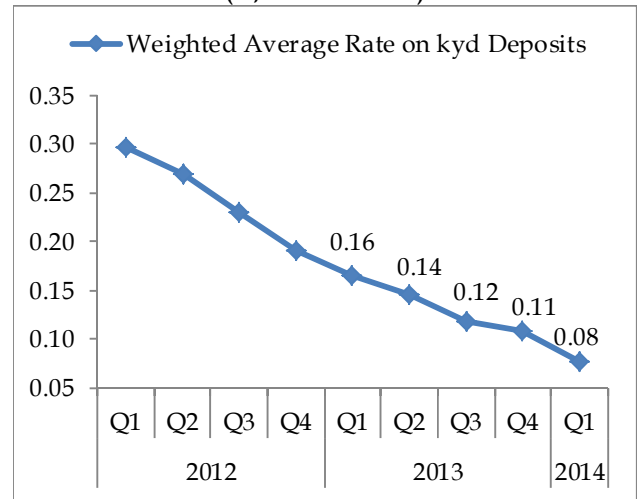
**Figure 11: CI\$ Lending Rates**  
(%, End of Period)



Source: Cayman Islands Monetary Authority & ESO

During the same period, the weighted average KYD deposit savings rate also decreased as depicted in Figure 12.

**Figure 12: CI Dollar Deposit Rates**  
(%, End of Period)



Source: Cayman Islands Monetary Authority & ESO

## 6. Financial Services

The financial services sector posted a mixed performance during the first quarter of 2014. While insurance, mutual fund licences and new company registrations improved, there were fewer listings noted for the remaining sub-sectors.

### 6.1. Banks & Trust

As at March 2014, the total number of bank and trust companies registered stood at 212, 4.5% lower than the previous year. Similarly, trust company licences numbered 114, 4.2% lower when compared to March 2013.

Table 7: Bank &amp; Trust Companies

	Mar 2012	Mar 2013	Mar 2014	% Change
<b>Bank and Trust</b>	<b>233</b>	<b>222</b>	<b>212</b>	<b>-4.5</b>
Class "A"	15	15	15	0.0
Class "B"	218	207	197	-4.8
<i>Of which:</i>				
Class "B" restricted				
<b>Trust Companies</b>	<b>124</b>	<b>119</b>	<b>114</b>	<b>-4.2</b>
Restricted	71	67	65	-3.0
Unrestricted	53	52	49	-5.8

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences remained constant at 15, while Class 'B' licences fell by 10, to settle at 197.

The drop in B licenses is traced to lower activity from Europe (-6), the U.S (-6) and South America (-4). In contrast, the Caribbean and Central America generated additional four (4) licenses.

## 6.2. Insurance

Class 'A' insurance licences was unchanged at 27. Class 'B' (captive) licences, inclusive of the new categories Class C (special purpose vehicles) and class D (reinsurance companies), increased by 21 (or 2.6%) to record 760 by end of the review period.

Table 8: Insurance Companies

	Mar 2012	Mar 2013	Mar 2014	% Change
Class 'A'	27	27	27	0.0
Class 'B'	728	741	760	2.6
<b>Total</b>	<b>755</b>	<b>768</b>	<b>787</b>	<b>2.5</b>

Source: Cayman Islands Monetary Authority

Table 9 shows the composition of the captive insurance business. The share of workers' compensation (21.8%) represents an increase compared to a year ago (21.1%) on account of the additional 10 licensees for this category. North America remained the primary risk location for all captive companies, accounting for 90.3%.

Table 9: Captive Insurance Licences by Primary Class of Business, March 2014

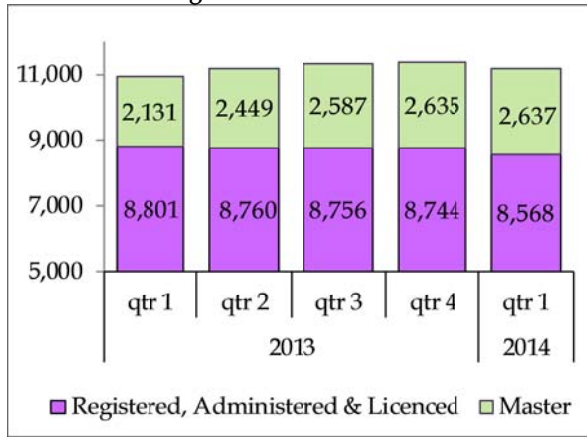
	Licences	%
Healthcare	257	33.8
Workers' Compensation	166	21.8
Property	89	11.7
General Liability	75	9.9
Professional Liability	68	8.9
Other	105	13.8
<b>Total</b>	<b>760</b>	

Source: Cayman Islands Monetary Authority

Premiums for captives increased by US\$1.8 billion to record US\$13.6 billion as at the end of March 2014.

## 6.3. Mutual Funds

Inclusive of master funds, total mutual funds grew by 2.5% to tally at 11,205 as at March 2014 compared to the same period a year ago. Excluding master funds, mutual funds activity actually declined by 2.6% (or 233). Master funds accounted for 23.5% of total mutual funds. This category expanded by 506 to register 2,637 licences as at March 2014.

**Figure 13: Mutual Funds**


Source: Cayman Islands Monetary Authority

#### 6.4. Stock Exchange

Total stock exchange listings in the Cayman Islands decreased by 12.1% to settle at 1,034 by the end of March 2014. Exception for Eurobond listings, a downward trend is noted for most categories particularly for insurance linked securities which saw delisting due to maturity as well as early redemption.

**Table 10: Number of Stock Listings by Instrument as at March Each Year**

Instruments	2012	2013	2014
Mutual Funds	337	359	300
Specialist Debt	626	601	581
Eurobond	111	117	122
International Equity	2	2	1
Domestic Equity	3	5	5
Insurance Linked Security	88	93	25
<b>Total</b>	<b>1,167</b>	<b>1,177</b>	<b>1,034</b>

Source: Cayman Islands Stock Exchange

Market capitalization for specialist debt and Eurobond listings strengthened marginally: the former by US\$5.4 billion to reach US\$79.4 billion, and the latter by US\$3.8 billion to total US\$68.5 billion. Other categories moved negatively by the end of March 2014.

**Table 11: Market Capitalization by Instruments as at March<sup>1</sup> (in US\$ billions)**

Instruments	2012	2013	2014
Mutual Funds	18.8	14.0	11.1
Specialist Debt	84.3	74.0	79.4
Eurobond	59.2	64.7	68.5
International Equity	0.8	0.8	0.1
Domestic Equity	2.63	2.71	0.25
Insurance Linked Security	8.70	10.2	8.17
<b>Total</b>	<b>174.4</b>	<b>166.4</b>	<b>167.5</b>

Source: Cayman Islands Stock Exchange

#### 6.5. New Company Registration

During the review period, total new company registrations improved by 20.7% to reach 2,718 in March 2014 as a result of double-digit growth in exempt and foreign company registrations. Resident company registration also rebounded from the sharp loss a year ago.

**Table 12: New Company Registrations: Jan-Mar**

	2011	2012	2013	2014
<b>Total</b>	<b>2,397</b>	<b>2,374</b>	<b>2,252</b>	<b>2,718</b>
Exempt	2,091	2,082	2,017	2,446
Non-Resident	53	23	11	8
Resident	139	148	111	121
Foreign	114	121	113	143
<b>Percentage change (%)</b>				
<b>Total</b>	<b>11.9</b>	<b>-1.0</b>	<b>-5.1</b>	<b>20.7</b>
Exempt	12.7	-0.4	-3.1	21.3
Non-Resident	0.0	-56.6	-52.2	-27.3
Resident	6.1	6.5	-25.0	9.0
Foreign	10.7	6.1	-6.6	26.5

Source: Registrar of Companies

<sup>1</sup> The figures for mutual funds and domestic equity refer to market capitalization. Figures for specialist debt, Eurobond and international equity are based on par values.

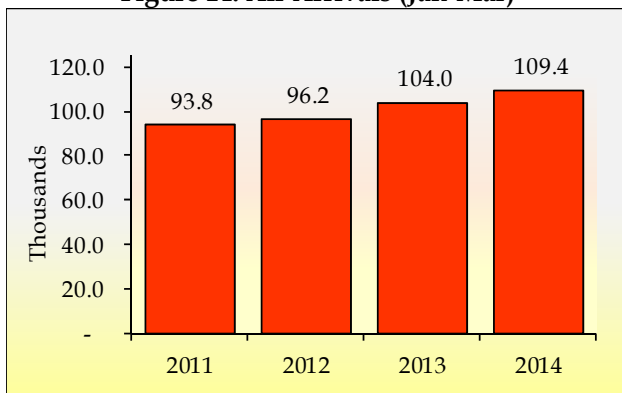
## 7. Tourism

Tourism continued to strengthen in the first quarter of 2014. Total visitor arrivals recorded an increase of 2.5% over the comparative period of 2013. Air arrivals grew by 5.2% while cruise arrivals recovered with a 2.0% growth.

### 7.1. Air Arrivals

Air arrivals totalled 109,406 visitors, which was 5.2% above the figure for the same quarter of 2013.

Figure 14: Air Arrivals (Jan-Mar)



Source: Department of Tourism

The northeast USA region remained as the primary market with slightly over 30,000 air arrivals; however, this market seems to be in a correction phase as it posted the only decline during the quarter. Other regions showed robust increases notably Europe (17.7%), Canada (11.4%) and southwest USA (10.5%).

Table 13: First Quarter Air Arrivals by Country of Origin in 000s

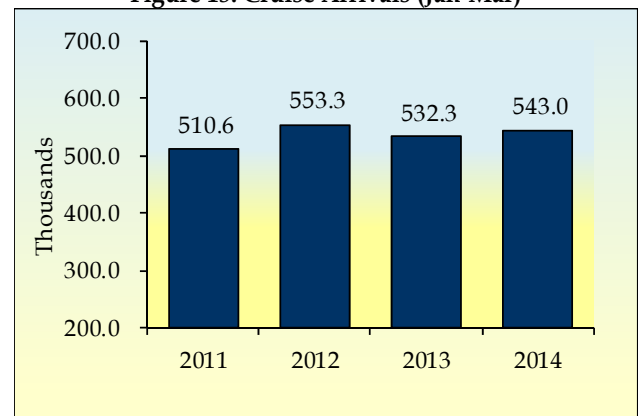
	2012	2013	2014	% Change 2014/2013
<b>USA</b>	<b>75.4</b>	<b>81.5</b>	<b>84.0</b>	3.0
Northeast	27.6	30.7	30.1	(1.9)
Midwest	23.5	24.6	26.0	5.8
Southeast	11.0	11.4	11.7	3.2
Southwest	9.7	10.5	11.6	10.5
West Coast	3.6	4.4	4.5	2.3
<b>Europe</b>	<b>6.6</b>	<b>7.6</b>	<b>9.0</b>	17.7
<b>Canada</b>	<b>10.2</b>	<b>9.3</b>	<b>10.3</b>	11.4
<b>Other</b>	<b>4.0</b>	<b>5.6</b>	<b>6.1</b>	9.8
<b>Total</b>	<b>96.2</b>	<b>104.0</b>	<b>109.4</b>	5.2
<i>of which: USA (%)</i>	<b>78.4</b>	<b>78.4</b>	<b>76.7</b>	

Source: Cayman Islands Department of Tourism

### 7.2. Cruise Arrivals

During the first three months of 2014, cruise arrivals totalled 543,017 visitors which represents a recovery of 2.0% over the first quarter of 2013.

Figure 15: Cruise Arrivals (Jan-Mar)



Source: Department of Tourism

The number of cruise ship calls to George Town port rose by 5.2% from 193 calls in 2013 to 203 during the first quarter of 2014. Correspondingly, cruise passengers per day averaged 6,034 persons, an increase of 120

visitors compared to the first quarter of 2013.

## 8. Construction

Construction indicators recorded varied movements in the first three months of the year.

### 8.1. Building Permits

The value of building permit in year-on-year terms surged 57.9% to \$86.2 million. This increase, however, conceals weaknesses across the sub-categories as the surge is attributable to the condominium portion of the Kimpton Hotel. This single project valued at \$53.0 million accounts for 61.5% of all building permits.

**Table 14: Building Permits (Jan-Mar)**

	2011	2012	2013	2014	% Change
	Millions CI\$				
Houses	23.0	24.8	30.8	18.6	(39.6)
Apartments	24.3	7.2	5.9	54.6	825.4
Commercial	11.9	2.0	12.6	11.7	(7.1)
Government	-	1.6	-	0.3	-
Industrial	0.5	-	-	0.2	-
Other	1.3	3.2	5.3	0.8	(84.9)
<b>Total</b>	<b>61.1</b>	<b>38.8</b>	<b>54.6</b>	<b>86.2</b>	<b>57.9</b>

Source: Planning Department

Within the residential sector, house permit values as compared to a year earlier fell by 39.6% to \$18.6 million. This decline coincided with the substantial fall (38.3%) in the number of house permits.

In contrast, apartment values bolstered by the Kimpton condominium rose to \$54.6 million as compared to the \$5.9 million in 2013.

In the non-residential sector, the 7.1% decrease in commercial permits overshadowed the meagre activities in the government and industrial categories.

The Other category, reflecting the lacklustre activity in most segments, decreased by 84.9% to \$0.8 million in 2014.

The volume of building permits issued during the review period fell sharply by 40.6% to 111, with only the government and industrial categories increasing. The general downtrend may be linked to the fall in population (in 2013, this went down by 1.8% to 55,691).

**Table 15: Number of Building Permits (Jan-Mar)**

	2011	2012	2013	2014	% Change
Houses	89	91	94	58	(38.3)
Apartments	19	16	12	7	(41.7)
Hotels	0	0	0	0	-
Commercial	23	14	27	21	(22.2)
Government	1	2	0	1	-
Industrial	1	0	0	3	-
Other	46	67	54	21	(61.1)
<b>Total</b>	<b>179</b>	<b>190</b>	<b>187</b>	<b>111</b>	<b>(40.6)</b>

Source: Planning Department

### 8.2. Project Approvals

Project approvals eased down from the unusually high levels in 2013, dropping by 56.8% to \$42.6 million in the first quarter of 2014.

**Table 16: Project Approvals (Jan-Mar)**

	2011	2012	2013	2014	% Change
Millions CI\$					
Houses	22.7	18.5	24.8	28.8	16.1
Apartments	1.1	12.4	5.9	2.8	(52.4)
Commercial	3.4	2.3	50.8	3.7	(92.7)
Government	1.9	4.7	0.0	0.1	-
Industrial	0.0	2.8	0.7	0.8	14.3
Other	2.5	6.0	16.5	6.4	(61.0)
<b>Total</b>	<b>31.6</b>	<b>46.7</b>	<b>98.7</b>	<b>42.6</b>	<b>(56.8)</b>

Source: Planning Department

On the residential side, higher approval values for houses (16.1%) offset the sharp drop for apartments (-52.4%).

Meanwhile, in the non-residential sector, project values totalled \$4.6 million, a sharp fall from the 2013 record. The latter included the \$50.0 million Health City Hospital which was eventually completed in the first quarter of 2014.

In the 'Other' category, approval values following last year's \$16.5 million record declined by 61.0% to \$6.4 million.

**Table 17: Number of Project Approvals (Jan-Mar)**

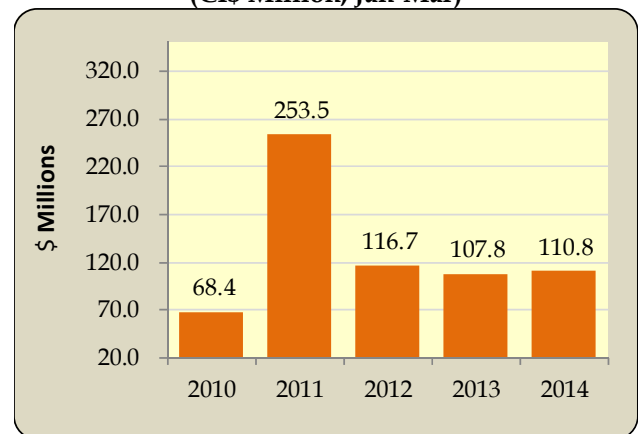
	2011	2012	2013	2014	% Change
Houses	63	60	54	60	11.1
Apartments	8	10	8	8	-
Hotels	0	0	0	0	-
Commercial	6	11	9	6	(33.3)
Government	4	2	0	1	-
Industrial	1	5	2	2	-
Other	97	149	120	143	19.2
<b>Total</b>	<b>179</b>	<b>237</b>	<b>193</b>	<b>220</b>	<b>14.0</b>

Source: Planning Department

Nonetheless, the number of approvals totalling 220 is 14.0% higher than a year ago. This increase is mainly driven by the 'house' and 'other' categories.

## 9. Real Estate

The total value of traded properties increased by 2.7% to \$110.8 million in the first quarter of 2014, representing a recovery from the 7.6% decline a year earlier.

**Figure 16: Value Property Transfers: (CI\$ Million, Jan-Mar)**


Source: Lands & Survey Department

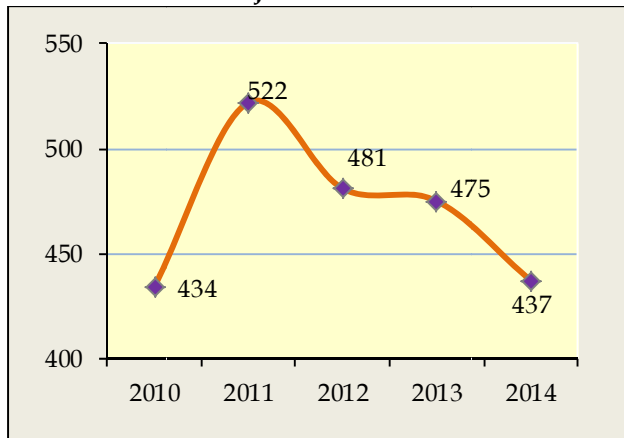
However, on the volume side, the number of traded properties declined by 8.0% to 437.

Freehold properties recorded higher values (14.1%) to reach \$107.4 million. The value of leasehold properties, however, fell by 75.5% to \$3.4 million following last year's unusually strong performance.

In terms of volume, the number of traded freehold transfers declined anew, this time by 12.5% to 379 - its lowest level in thirteen

years. On the other hand, leasehold properties, which are primarily commercial, rose 38.1 percent to 58.

**Figure 17: Number of Property Transfers: Jan- March**



Source: Lands & Survey Department

## 10. Utilities

While consumption of electricity recovered, demand for water and telecommunication softened. The latter may be associated with the lower population base as noted from the 2013 population estimate. On the hand, electricity consumption may have been alleviated by the expansion during the quarter of key sectors such as hotels and restaurants, wholesale and retail and construction.

**10.1. Electricity and water.** Local electricity production rose by 4.2% to 140.1 million kWh as at March 2014 (see Table 18). This result also coincided with an increase in total consumption by 4.2% (to 130.7 million kWh). All categories of electricity users increased with the residential segment expanding by 5.7%, and public lighting and

commercial lighting rising by 4.2% and 2.9%, respectively.

Meanwhile, when compared to the first quarter of 2013, water consumption fell by 4.6% to reach 432.9 million US gallons. Water production was also lower by 2.1%.

**Table 18: Utilities Production/Consumption, 2013-2014**

	Mar-13	Mar-14	% Change
Millions of US Gallons			
Water Production	525.1	514.0	-2.1
Water Consumption	453.6	432.9	-4.6
000 of Megawatt Hrs			
Electricity Production	134.4	140.1	4.2
Electricity Consumption	125.5	130.7	4.2
Residential	56.8	60.0	5.7
Commercial	67.1	69.0	2.9
Public	1.6	1.7	4.2
Total Customers	27,086	27,438	1.3
Residential	23,098	23,454	1.5
Commercial	3,988	3,984	-0.1

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

**10.2. Telecommunications.** In the first quarter of 2014, the total number of paid telecommunication minutes decreased by 8.1% to 62,545 notwithstanding an increase in the number of telephone lines (fixed lines and mobile) by 3.7%. Market changes such as the emergence of cheaper on-line substitutes may have negatively impacted the demand for paid minutes.



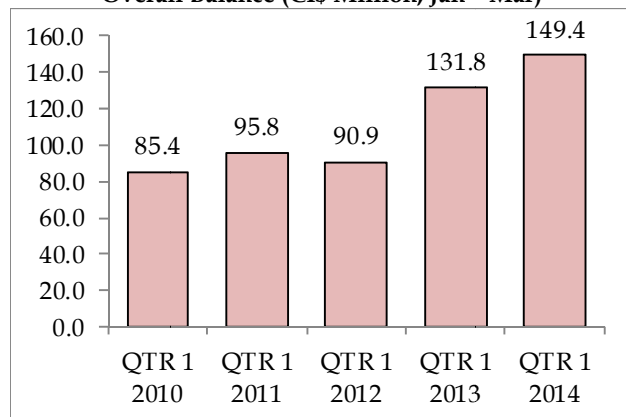
**Table 19: Telecommunication Sector Indicators, 2013-2014**

	Mar-13	Mar-14	% Change
Fixed and mobile handsets in operation	131,410	136,326	3.7
Total fixed & mobile domestic & int'l minutes ('000)	68,026	62,545	-8.1
Fixed and mobile domestic minutes ('000)	47,465	44,398	-6.5
Fixed and mobile int'l retail minutes ('000)	20,561	18,147	-11.7

Source: Information Communication and Technology Authority (ICTA)

## 11. Fiscal Operations of the Central Government

The overall fiscal balance improved to \$149.4 million in the first quarter of 2014 as compared to \$131.8 million a year ago (see Figure 18). This resulted as total revenue was higher by 4.9% while total expenditure declined by 2.4%.

**Figure 18: Central Government Fiscal Overall Balance (CI\$ Million, Jan - Mar)**


Source: Cayman Islands Treasury Department and ESO

**Table 20: Summary of Fiscal Operations (Jan-Mar)**

	Mar-13	Mar-14	% Change
CI\$ Millions			
<b>Total Revenue</b>	282.86	296.72	4.9
<b>Total Expenditure</b>	151.02	147.34	(2.4)
Current Expenditure	145.51	143.68	(1.3)
Net Capital Expenditure & Net Lending <sup>1</sup>	5.51	3.66	(33.6)
Current Balance	137.35	153.04	11.4
Overall Balance	131.84	149.38	13.3
<b>Financing</b>	<b>(131.84)</b>	<b>(149.38)</b>	<b>(13.3)</b>
Net Borrowing	(3.90)	(11.70)	(199.6)
Change in Cash	127.94	137.68	7.6

<sup>1</sup> Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department and ESO

### 11.1. Revenue

During the first quarter, total revenue increased by 4.9% as compared to the same period in 2013 to yield a total of \$296.72 million (see Table 21).

Total revenue comprises both coercive (96.8%) and non-coercive revenue (3.2%). Coercive revenue which totalled \$287.34 million increased by 7.5% with increases from taxes on international trade and transaction, domestic taxes on goods and services and fines while taxes on property and other taxes declined. Non-coercive revenue amounted to \$9.38 million, 40.1% below the comparative period a year ago.

**Table 21: Revenue Collection of the Central Government (Jan-Mar)**

Revenue Sources	Mar-13	Mar-14	% Change
	CIS\$ Millions		
<b>Total Revenue</b>	<b>282.86</b>	<b>296.72</b>	4.9
<b>Coercive Revenue</b>	<b>267.21</b>	<b>287.34</b>	7.5
Taxes on Int'l Trade & Transactions	42.30	44.11	4.3
Domestic Taxes on Goods & Services	214.98	234.04	8.9
Taxes on Property	9.32	8.76	(6.0)
Fines	0.36	0.40	11.1
Other Taxes	0.25	0.03	(88.0)
<b>Non-coercive Revenue</b>	<b>15.65</b>	<b>9.38</b>	(40.1)
Sale of Goods & Services	15.38	9.20	(40.2)
Investment Revenue	0.02	0.18	800.0
Other Revenue	0.25	-	(100.0)

Source: Cayman Islands Treasury Department

Income generated from international trade and transactions increased by 4.3% to \$44.1 million during the period. This resulted from higher intake from alcohol and tobacco products, cruise ship departure charges, and other import duty<sup>2</sup>.

Revenue collected from domestic taxes on goods and services grew by 8.9% (or \$19.1 million) in the first quarter of 2014 (see Table 22). The majority share of the increase was generated from financial services which grew by 13.1% or \$21.6 million. The main contributors from the industry were company fees (up \$8.3 million), mutual fund administrators (up \$6.5 million) and partnership fees (up by \$4.5 million). Company fee and

<sup>2</sup> Other import duty is a 'catch all category' which excludes the major categories of gasoline/diesel, alcoholic beverages, motor vehicles and tobacco products.

partnership fees benefitted from a higher volume of registration while mutual fund revenue was enhanced by master fund registration.

**Table 22: Domestic Tax Collection of the Central Government (Jan-Mar)**

	Mar-13	Mar-14	% Change
	CIS\$ Millions		
Various financial service licenses	165.64	187.26	13.1
ICTA licenses & royalties	2.82	1.23	-56.4
Work permit and residency fees	16.00	18.44	15.3
Other stamp duties	1.58	1.78	12.7
Traders' licenses	1.92	2.15	12.0
Other domestic taxes	27.02	23.18	-14.2
<i>Of which</i>			
Tourism accommodation	5.01	6.70	33.7
Motor vehicle charges	2.69	2.90	7.8
<b>Domestic Taxes on Goods &amp; Services</b>	<b>214.98</b>	<b>234.04</b>	<b>8.9</b>

Source: Cayman Islands Treasury Department

As depicted in Table 23, other significant increases were sourced from work permit and residency fees, tourism accommodation charges, trade licences and motor vehicle charges.

Collections from taxes on property declined to \$8.8 million from \$9.3 million as sales of properties slowed.

## 11.2. Expenditure

Current expenditure decreased by 1.3% while net capital expenditure and net lending fell by 33.6%. The former resulted from lower personnel costs, subsidies, transfer and interest payments (see Table 23).

**Table 23: Current Expenditure of the Central Government (Jan-Mar)**

	Mar-13	Mar-14	% Change
	CI\$ Millions		
<b>Current Expenditure</b>	<b>145.51</b>	<b>143.68</b>	(1.3)
Personnel Costs	65.27	62.89	(3.6)
Supplies & Consumables	20.36	22.99	12.9
Subsidies	37.43	34.85	(6.9)
Depreciation	5.92	7.51	26.9
Transfer Payments	7.68	7.13	(7.2)
Interest Payments	8.13	7.51	(7.6)
Extraordinary Expenses	0.00	0.00	
Other Executive Expenses	0.72	0.80	11.1

Source: Cayman Islands Treasury Department

For the first three months of the year, personnel cost was lower by 3.6% to settle at \$62.9 million, due mainly to restrained recruitment efforts. (Personnel cost includes a \$9.0 million payment for past service pensions obligations). Civil service employment stood at 3,557 reflecting a decline of 1.4% (or 49), compared to the same quarter of 2013.

Subsidies which are payments to statutory authorities and corporations, declined by \$2.6 million or 6.9% to total \$34.9 million for the first three months of 2014. The major recipients during the first quarter were the Cayman Islands Monetary Authority (\$2.5 million); Health Services Authority (\$9.2 million); Cayman Islands National Insurance Company (\$6.5 million); and Cayman Airways (\$5.8 million). Payments for tertiary care at various overseas institutions amounted to \$3.6 million.

For the first quarter of 2014, transfer payments which are payments to social welfare programmes totalled \$7.1 million, lower by 7.2% from a year ago. Majority of

this amount was allocated to scholarships and bursaries (\$3.0 million), Department of Children and Family Services' poor relief (\$1.5 million) and Seaman Ex-Gratia Payments (\$1.0 million).

Expenditure on supplies and consumables increased by 12.9% to total \$23.0 million; these comprised mainly of purchase of services, cost of utilities, supply of goods and general insurance.

Interest payments decreased by \$0.6 million to \$7.5 million on account of a lower debt stock.

Depreciation which measures the decline in the value of the fixed assets owned by central government amounted to \$7.5 million.

### 11.3. Capital Expenditure and Net Lending

Gross capital expenditure and net lending declined by 2.3% to settle at \$11.2 million. This resulted as capital acquisition/equity injections were cut by \$1.8 million while capital development/executive assets increased by \$0.9 million (see Table 24). Public entities' working capital support increased by 9.0% to \$7.4 million.

Capital expenditure and net lending net of depreciation declined by 33.6% to \$3.7 million compared to a year ago.

**Table 24: Capital Expenditure and Net Lending (Jan-Mar)**

	Mar-13	Mar-14	% Change
<b>Gross Capital Expenditure and Net Lending</b>	<b>11.43</b>	<b>11.17</b>	<b>(2.3)</b>
Capital Acquisition/Equity Injections	2.17	0.36	(83.4)
Equity Injections and Working Capital support to Public Entities	6.81	7.42	9.0
Capital Development/Executive Assets	2.31	3.21	39.0
Net Lending	0.14	0.18	28.6
<b>Net Capital Expenditure and Net Lending<sup>1</sup></b>	<b>5.51</b>	<b>3.66</b>	<b>(33.6)</b>
Depreciation	5.92	7.51	26.9

<sup>1</sup> Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department & ESO

#### 11.4. Net Financing and Debt Service Indicators

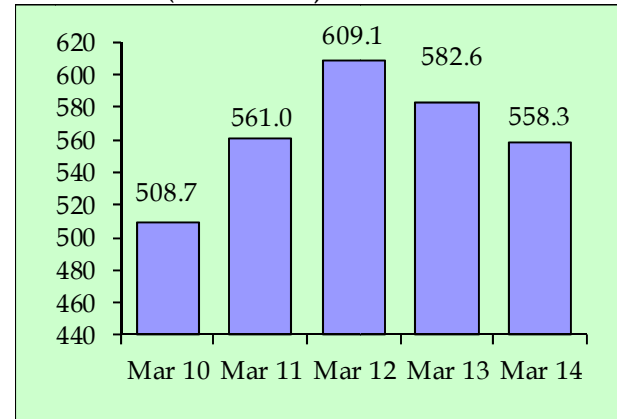
With the improved overall balance, cash balances of the central government rose by \$137.7 million (see Table 25). Total loan repayment amounted to CI\$11.7 million while no loan disbursements were recorded during the review period.

**Table 25: Net Financing (Jan-Mar)**

	Mar-13	Mar-14	% Change
	CI\$ Millions		
<b>Financing</b>	<b>(131.84)</b>	<b>(149.38)</b>	<b>13.3</b>
Net Borrowing	(3.90)	(11.70)	200.0
Disbursements	0.00	0.00	
Loan Repayment	(3.90)	(11.70)	200.0
Change in Cash Balance	127.94	137.68	7.6

Source: Cayman Islands Treasury Department

The central government's outstanding debt amounted to \$558.3 million as at March 2014, lower by 4.2% from the same period a year ago (see Figure 19).

**Figure 19: Central Government Outstanding Debt (CI\$ Millions) as at March**


Source: Cayman Islands Treasury Department

The central government's debt service-to-current revenue ratio stood at 6.5% as at March 2014. Interest payments for the quarter accounted for 5.2% of recurrent expenditure.

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**Cayman Islands General Registry**  
**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 and Communication Technology Authority**  
**Lands and Survey Department**  
**Port Authority of the Cayman Islands**  
**Portfolio of the Civil Service**

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