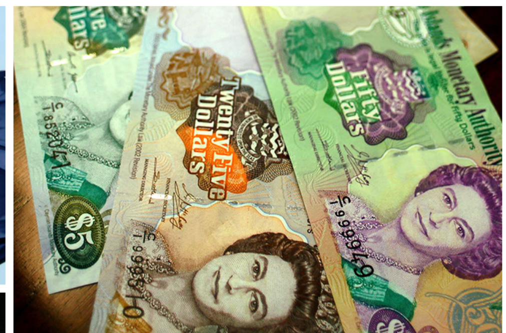
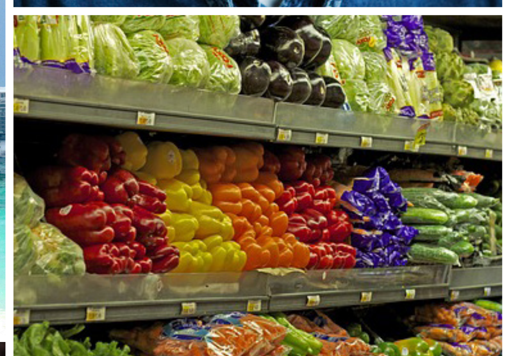
CAYMAN ISLANDS
GOVERNMENT





THE CAYMAN ISLANDS'

SEMI-ANNUAL ECONOMIC REPORT 2018

ESO
The Economics and Statistics Office

October 2018

Contents

Overview*

- The advanced economies reflected growth in the first half of 2018, led by the US which grew by 3.2%, coupled with higher inflation.
- Cayman's gross domestic product was estimated to have expanded in real terms at an annualised rate of 3.7% in the first half of 2018.
- The Consumer Price Index inflation averaged 4.0%, driven by price trends in several divisions led by transport, fuel, utilities and food.
- The value of merchandise imports increased by 12.0% to $502.2 million.
- The unemployment rate in the first half of the year reached its lowest level since 2007 at 3.4%.
- Broad liquidity or money supply expanded by 3.5% to reach $6.7 billion.
- Domestic credit expanded by 25.1% driven by credit to the private sector as public sector credit fell.
- The KYD weighted average lending rate rose by 79 basis points to 7.87% while prime lending rate increased by 63 basis points to 4.88%.
- Bank and trust company licences decreased by 7.0% to 147 and insurance licences fell by 0.5% to 726.
- Total mutual funds registered, including the category "master funds", increased by 0.8%.
- The number of listings on the stock exchange surged by 37.7% to 1,464 and market capitalization increased by 31.1% to US$285.4 billion.
- New company and new partnership registrations both rose by 39.1% to 8,863 and 2,621, respectively.
- Air arrivals grew by 16.0% while cruise visitors rose by 20.4%.
- The value of building permits fell by 3.4% to $110.7 million while project approvals dropped from $349.4 million to $87.3 million.
- The total value of property transfers fell to $401.0 million from $481.4 million.
- Electricity consumption increased by 0.9% while water consumption grew by 3.5%.
- The central government's overall fiscal surplus improved to $178.1 million compared with $145.1 million a year ago.
- The total outstanding debt of the central government declined to $431.5 million from $466.5 million a year ago.

*Comparative data over the first six months of 2017, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. International Economy

1.1 Economic Growth[1]

The world's major economies reported growth during the first half of 2018. The USA and Canada grew at an annualised rate of 3.2% and 2.1%, respectively. Growth in both economies was driven by higher consumption expenditure and exports.

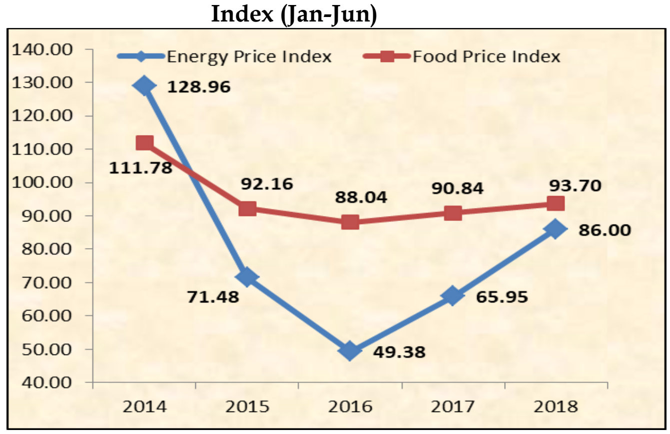
The UK and the Euro Area recorded annualised growth of 1.2% and 2.2%, respectively. Growth in the UK stemmed mainly from increased service activities and construction.

1.2 Inflation[2]

There was a general increase in price levels across the world's major economies during the first six months of 2018. The USA and Canada recorded inflation rates of 2.5% and 2.2%, respectively. Consumer prices in the UK and the Euro Area also went up by 2.6% and 1.5% respectively.

Inflation in these economies was impacted by increases in global commodity prices. Notably, the price of crude oil averaged US$68.01 per barrel during January–June 2018, a 32.9% increase when compared with the average of US$51.18 per barrel in January–June 2017[3]. The increase was due to reductions in global inventories coupled with growth in demand. Similarly, international food prices were also on the uptrend (see Figure 1).

Figure 1: Global Crude Oil Prices and Food Prices Index (Jan-Jun)



Source: World Bank commodity prices (The Pink Sheet)

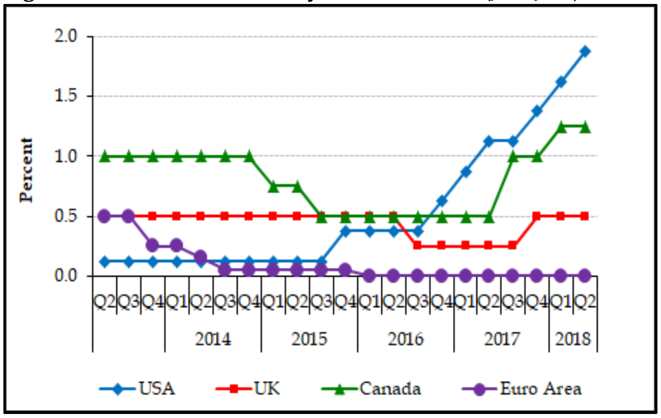
1.3 Interest Rates and Exchange Rates[4]

The US Federal Reserve raised in June 2018 the target range for its federal funds rate, the second time in the year, to 1.75% to 2.00%. This occurred against the background of a decline in the unemployment rate and sustained economic growth. The Bank of Canada maintained its policy interest rate at 1.25%, premised on inflation being near its 2.00% target.

[1] Data sourced from the US Bureau of Economic Analysis, Statistics Canada, UK Office for National Statistics and Eurostat.
[2] Ibid.

[3] Data sourced from the World Bank's Commodity Price Data, which represent the average of Brent, Dubai and West Texas Intermediate prices.
[4] Data obtained from the Federal Reserve Bank, Bank of England, Bank of Canada, European Central Bank

Figure 2: Central Bank Policy Interest Rates (Jan-Jun)



Source: Federal Reserve Bank, Bank of England, Bank of Canada and European Central Bank.

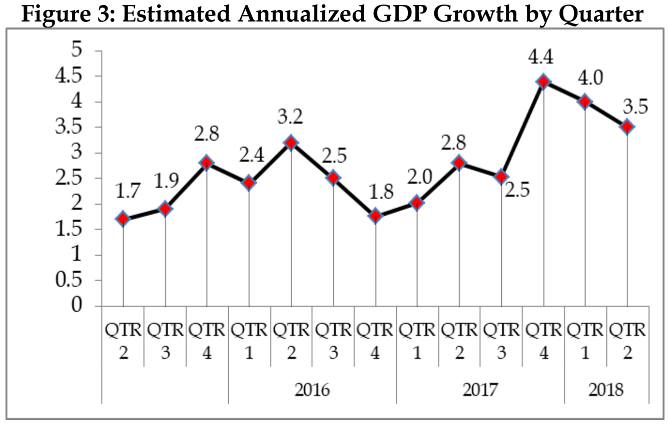
The Bank of England preserved its policy interest rate at 0.50% as economic growth, employment and inflation remained broadly in line with expectations. The European Central Bank (ECB) also retained its policy interest rates on the main refinancing operations, marginal lending facility and deposit facility at 0.00%, 0.25% and -0.40%, respectively.

The US dollar, on average, depreciated nominally against most of the world's major traded currencies in the first half of 2018 relative to the same period of 2017. Notably, the US dollar weakened against the Great Britain sterling pound, the Euro and the Canadian dollar by 9.3%, 11.8% and 4.2%, respectively. The strengthening of these currencies against the US dollar partly emanated from the healthier pace of growth in the respective economies.

2. Cayman Islands' Estimated GDP

Available indicators suggest that the Cayman Islands' gross domestic product (GDP) grew in real terms by an estimated annualised rate of 3.7% in the first six months of 2018 compared to a year ago. The estimated second quarter growth is 3.5% which reinforced the 4.0% growth in the first quarter.

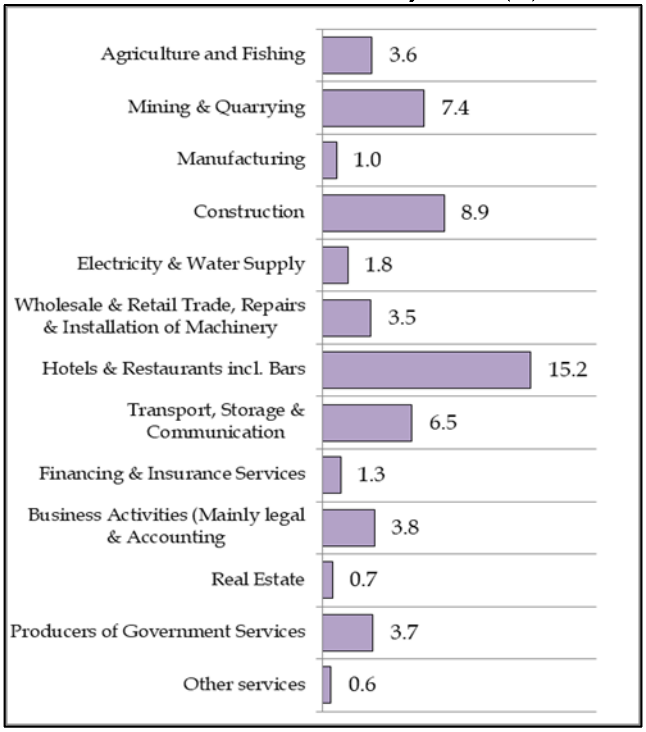
Figure 3: Estimated Annualized GDP Growth by Quarter



Source: Economics and Statistics Office

The economic performance in the first half of the year was broad-based with all sectors contributing to growth. The sectors with the highest estimated growth rates were hotels and restaurants (15.2%), construction (8.9%), transport, storage and communication (6.5%), and business activities mainly legal and accounting (3.8%). The financing and insurance services sector, which continues to be the largest contributor to GDP, grew by 1.3% during the review period (see Figure 4).

Figure 4: Estimated First Half of 2018 Annualized GDP Growth by Sector (%)



Source: Economics and Statistics office

Given the solid performance in the first two quarters, and with growth expected to persist in some sectors, the forecasted GDP growth for the year is revised up to 3.4% from 3.0% (see Table 1). The revision is supported by the stronger-than-projected growth in the US economy during the second quarter which has the potential to boost the demand for local services in the second half of the year. General stability is also expected to continue in the financing and insurance sector which will help to maintain the forecasted path.

Strong increases in international commodity prices for the first half of 2018 compared to the same period a year ago caused the consumer price level to spike by 4.0% for the first half of 2018. These pressures are expected to continue for the remainder of the year and form the basis for an upward revision in the inflation forecast to 3.5% for the year from the 2.7% previously anticipated.

The year-end unemployment rate is now forecasted at 4.0%, conditional on the projected GDP growth as well as stable local labour market conditions.

Table 1: Macroeconomic Outlook Based on Semi-Annual Data

	2015	2016	2017	Projection 2018
	Percent (%)			
Real GDP*	3.0	3.1	2.9	3.4
CPI Inflation	-2.3	(0.7)	2.0	3.5
Unemployment Rate	4.6	4.2	4.2	4.0

Source: Economics and Statistics Office

3. Inflation

For the first half of 2018, the inflation rate averaged at 4.0%, the highest half year price increase since June 2005. The rise in prices was reflected in both the first and second quarter of the year which posted inflation rates of 3.2% and 4.8%, respectively (see Table 2 and Figure 5).

Higher prices were recorded for most divisions, continuing a positive trend in price movements over the last five quarters. The increase was also consistent with the sustained rise in global food and fuel prices.

Despite the increasing price trends in most divisions, there was a slight decline in the cost of restaurant and accommodation services which is traced to declines in school accommodation rates abroad for Caymanian students as well as for hotels abroad during the second quarter.

Table 2: Inflation Rates (%, Jan-June)

Categories	Avg. Inflation Rates Half year 2017	Half year 2018
Food & Non-alcoholic Beverages	0.7	4.4
Alcohol and Tobacco	2.8	0.3
Clothing and Footwear	2.4	0.2
Housing and Utilities	4.6	3.3
Household Equipment	2.2	3.4
Health	-0.1	4.9
Transport	2.0	12.6
Communication	1.6	1.4
Recreation and Culture	0.9	0.1
Education	1.3	4.1
Restaurants and Accommodations	5.3	-0.1
Misc. Goods and Services	-1.4	0.9
Overall CPI Inflation	2.1	4.0

Source: Economics and Statistics Office

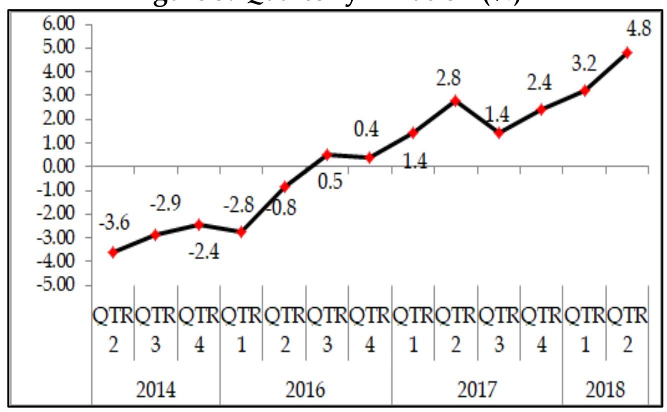
The 4.8% inflation rate in the second quarter is traced largely to price trends for transport, utilities and food.

The cost of transportation services increased by 17.7% during the quarter, led by a sharp rise in air transport of 52.3% as the cost of US gulf coast jet fuel soared by 61.3%. Increases were also seen in the cost of fuel for motor vehicles.

Despite stable housing rents, the price index for housing and utilities rose by 3.6% as the cost of electricity, gas and other fuels surged by 20.5%. This generally reflected the rise in international crude oil prices during the period.

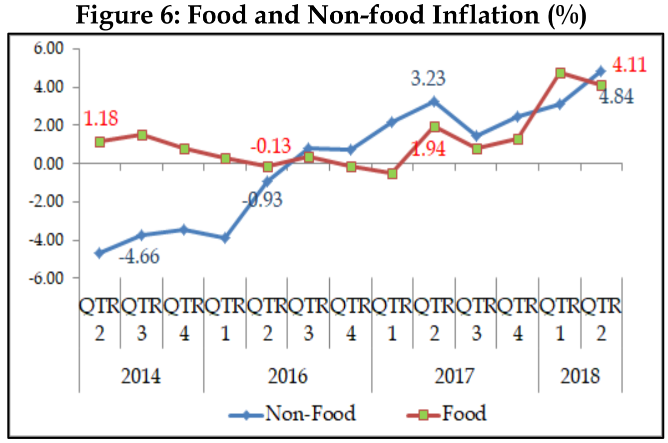
Food and alcoholic beverages showed an average inflation rate of 4.1% as imported inflation was manifested in the prices of fruits (up by 12.0%), milk, cheese and eggs (up by 8.7%) and bread and cereals (up by 8.5%).

Figure 5: Quarterly Inflation (%)*



*Inflation of current quarter CPI over the same quarter a year ago.
Source: Economics and Statistics Office

Figure 6: Food and Non-food Inflation (%)



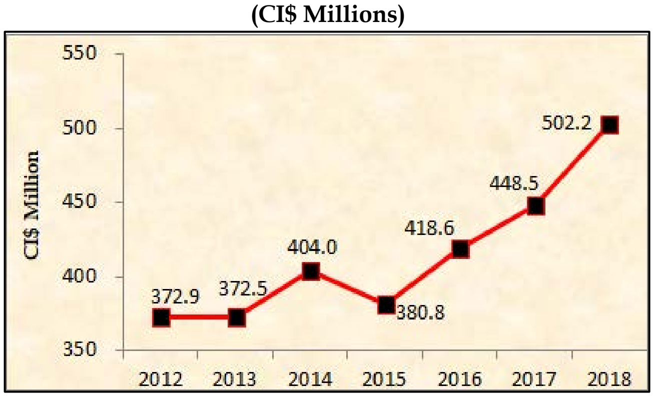
Source: Economics and Statistics Office

4. Trade[5]

Driven by the rise in local economic activity, the total value of merchandise imports increased by 12.0% to $502.2 million in the first six months of 2018 (see Figure 7). This performance was reflected in most major categories of imports. Fuels and petroleum-related products rose by 21.8% to $67.9 million while non-petroleum products grew by 10.6%.

Within non-petroleum products, the categories recording the largest increases were *miscellaneous manufactured articles* (up by $12.4 million to $90.1 million), *chemicals and related products* (up by $9.0 million to $36.0 million) and *machinery and transport equipment* (up by $6.2 million to $103.4 million).

Figure 7: Merchandise Imports (Jan-June) (CI$ Millions)



Source: Customs Department and ESO

The rise in petroleum related products reflected an increase in the price of imports as global crude oil prices moved in response to increased demand. Additionally, the quantity of fuel imports increased by 8.2% to reach 31.7 million imperial gallons. Higher imports of diesel, gas and aviation fuel contributed to the rise in the quantity (see Table 3).

Table 3: Oil Imports (Jan-June)

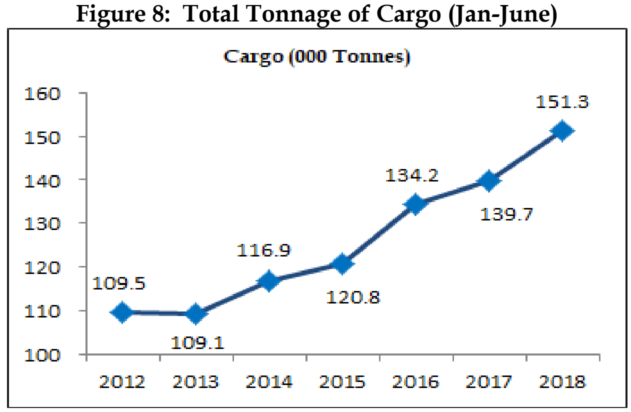
	2016	2017	2018	% Change
	Millions of Imperial Gallons			
Total Fuel	**30.1**	**29.3**	**31.7**	**8.2**
Diesel	17.5	17.8	19.4	9.1
Gas	6.2	6.3	7.6	20.6
Aviation Fuel	3.1	2.9	3.5	19.1
Propane	3.3	2.3	1.2	(46.4)

Source: Cayman Islands Port Authority

The total tonnage of landed cargo increased by 8.3 percent to 151,270 tonnes (see Figure 7). Of this amount, containerized cargo accounted for 81.1% (122,681 tonnes). Cement bulk and break bulk cargo accounted for 16.8% (25,447 tonnes) and 2.1% (3,141 tonnes) of the total landed cargo, respectively.

As the quantity of cargo improved, the productivity at the port fell as the amount of cargo handled per hour declined to 809 tonnes from 891 tonnes in the corresponding period of 2017.

Figure 8: Total Tonnage of Cargo (Jan-June)



Source: Cayman Islands Port Authority

[5] A detailed trade report is posted at www.eso.ky

5. Employment

5.1. Labour Force[6]

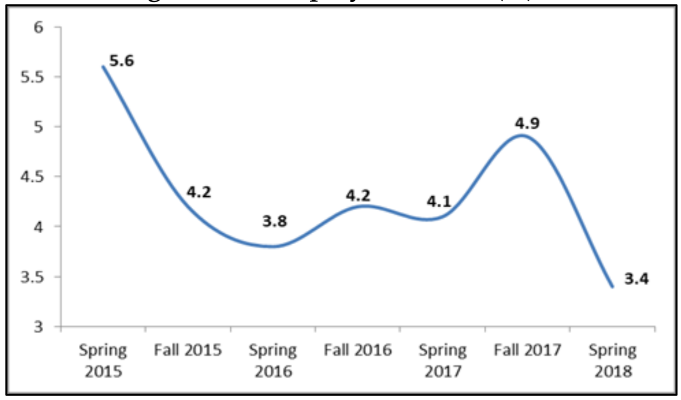
According to the 2018 Spring Labour Force Survey, the labour force expanded by 1.5% to 44,213. This expansion was attributed to the 2.4% growth in Caymanian labour and 31.9% in Permanent Residents with Rights to Work (WRW). In contrast, Non-Caymanian labour decreased by 4.5%.

The increase in the supply of labour rose from rises in the working-age population of Caymanians (by 0.9%) and Permanent Residents WRW (34.2%), with the latter associated with the improved processing of permanent residency applications.

Employment increased by 2.3% (or 953) to 42,717 persons, with Caymanian employment increasing by 3.4% to 19,842. Employment among Permanent Residents WRW rose by 34.6% to 4,283 while employment among Non-Caymanians declined by 4.1% to 18,592.

The unemployment rate decreased to 3.4% from 4.1% in the same period of 2017. This decline emanated from reductions in unemployment across all status groups. The highest reduction in unemployment was recorded among Caymanians, which fell by 159 to 1,118 or from 7.3% in the first half of 2017 to 5.3% in the same period of 2018.

Figure 9: Unemployment Rate (%)

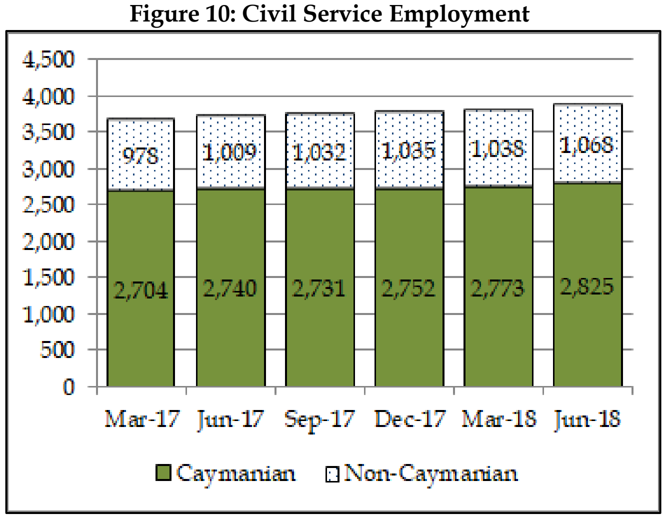


Source: Economics and Statistics Office

5.2 Central Government Employment

Central government employment rose to 3,893 at the end of the review period from 3,749 at the end of June 2017. Caymanian and Non-Caymanian employment increased by 85 to 2,825 and 59 to 1,068, respectively. Caymanians accounted for 72.6% of the civil service while Non-Caymanians represented 27.4%.

Figure 10: Civil Service Employment



Source: Portfolio of the Civil Service

[6] See also "The Cayman Islands' Labour Force Survey Report Spring 2018," www.eso.ky

5.3. Work Permits

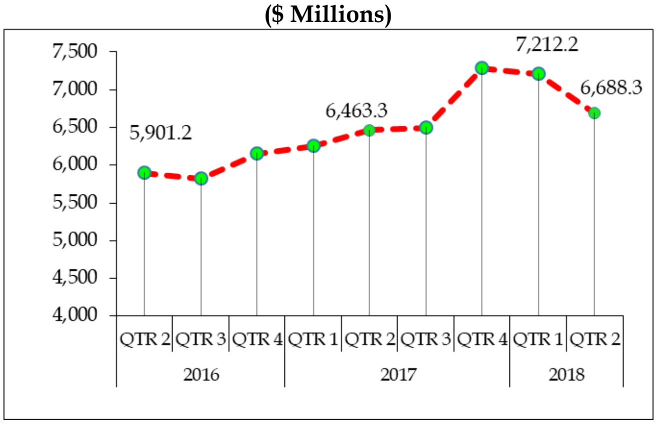
Based on the database of the Immigration Department, the number of work permits issued in the Cayman Islands was recorded at 25,570 at the end of June 2018 from 24,724 at the end of June 2017. The former represented the highest level since March 2009. The number of work permits has shown an increasing trend since the third quarter of 2014.

When compared with the end of March 2018, the number of work permits increased by 5.3% from 24,273.

6. Money & Banking

Growth in both local and foreign currency denominated money boosted broad liquidity (M2) by 3.5% to $6,688.3 million in the first half of 2018. During this period, foreign currency deposits increased 2.3%, while CI dollar-denominated money grew by 7.3%.

Figure 11: Total Money Supply (M2) ($ Millions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The growth in broad liquidity (M2), which represents the liabilities of the monetary and banking sector, was supported by an increase in net domestic assets while net foreign assets declined.

Table 4: Monetary and Banking Indicators ($ Millions)

	Jun-17	Jun-18	% Change
Total Assets	**6,463.3**	**6,688.3**	3.5
Net Foreign Assets	**4,364.7**	**4,080.0**	(6.5)
Monetary Authority	119.6	125.1	4.6
Commercial Banks	4,245.2	3,954.9	(6.8)
Net Domestic Assets	**2,098.5**	**2,608.3**	24.3
Domestic credit	2,951.2	3,691.9	25.1
Claims on central government	198.0	170.0	(14.1)
Claims on other public sector	63.3	52.0	(17.8)
Claims on private sector	2,690.0	3,469.9	29.0
Other items net	(852.7)	(1,083.6)	27.1
Broad Liquidity	**6,463.3**	**6,688.3**	3.5
Broad money (KYD) M2	**1,567.6**	**1,682.4**	7.3
Currency in circulation	112.2	117.9	5.1
KYD Deposits	**1,455.3**	**1,564.5**	7.5
Demand deposits	591.4	591.4	0.0
Time and savings deposits	864.0	973.1	12.6
FOREX deposits	4,895.7	5,005.9	2.3
of which: US dollars	4,481.5	4,644.2	3.6
US dollars share (%)	*91.5*	*92.8*	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.1. Net Foreign Assets (NFA). A sharp reduction in loans extended to non-residents led to a 6.5% decline in the net foreign assets of the monetary system in the first half of 2018. Specifically, the NFA of domestic commercial banks fell by 6.8%, while the foreign assets of the Cayman Islands Monetary Authority rose by 4.6% (see Table 5).

Table 5: Net Foreign Assets ($ Millions)

	Jun-17	Jun-18	% Change
Net Foreign Assets	**4,364.7**	**4,080.0**	(6.5)
Monetary Authority	119.6	125.1	4.6
Commercial Banks	4,245.2	3,954.9	(6.8)
Foreign Assets	**8,535.3**	**7,972.0**	(6.6)
Bal. with Banks & Branches	3,558.6	3,733.6	4.9
Total Investment	2,472.8	2,655.7	7.4
Total Non-Resident Loans	2,503.9	1,582.7	(36.8)
Foreign Liabilities	**4,290.1**	**4,017.1**	(6.4)
Total Non-Resident Deposits	4,078.2	3,776.5	(7.4)
Other Liabilities	212.0	240.6	13.5

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The decline in commercial banks' NFA resulted from a reduction in foreign assets by 6.6%, largely reflecting a 36.8% fall in non-resident loans. On the liabilities side, there was a reduction in non-resident deposits by 7.4%, which led to a fall in foreign liabilities by 6.4%. This tempered the deterioration in the NFA for the period.

6.2. Net Domestic Assets/Domestic Credit. Borrowings of the private sector continued to rise in the review period while credit to both central government and parastatals declined (see Table 6). The rise in private borrowings facilitated a 25.1% increase in the total domestic credit extended by the banking sector.

Table 6: Net Domestic Assets ($ Millions)

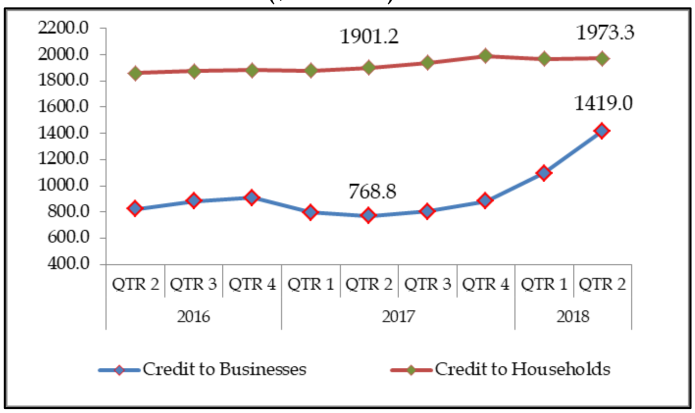
	Jun-17	Jun-18	% Change
Domestic Credit	**2,951.2**	**3,691.9**	**25.1**
Credit to Central Government	198.0	170.0	(14.1)
Credit to Other Public Sector	63.3	52.0	(17.8)
Credit to Private Sector	2,690.0	3,469.9	29.0

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Continued commitment to fiscal discipline coupled with solid revenue growth, facilitated a decline in central government debt with the local commercial banks by 14.1%. Similarly, lending to parastatals authorities fell by 17.8% over the period.

Private sector credit soared by 29.0% in the first half of 2018, driven by growth in business lending of 84.6% and household credit of 3.8% (Figure 12).

Figure 12: Credit to Business and Households ($ Millions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit advanced to business enterprises spiked by $650.2 million during the review period, driven by a rise in loans to the trade and commerce sector, particularly other business activities (up by 235.9% or $585.7 million). Additionally, loans to the primary production sector increased by 21.9% (or $32.3 million) while credit to the services sector increased by 32.8% (or $26.0 million).

Credit to households increased by $72.1 million as household borrowings increased across all segments, led by credit for domestic properties which rose by 2.7% (or $44.8 million) (see Table 7).

Table 7: Net Credit to the Private Sector ($ Millions)

	Jun-17	Jun-18	% Change
Total Private Sector Credit	**2,690.0**	**3,469.9**	**29.0**
Credit to Businesses	**768.8**	**1,419.0**	**84.6**
Production & Manufacturing	**147.5**	**179.8**	**21.9**
Mining	4.6	4.4	(5.2)
Manufacturing	17.7	14.1	(20.6)
Utilities	18.3	33.9	85.5
Construction	106.9	127.5	19.3
Services	**79.4**	**105.4**	**32.8**
Accommodation, Food, Bar & Entertainment Services	20.0	45.9	129.0
Transportation, Storage & Communications	21.7	23.7	9.3
Education, Recreational & Other Professional Services	37.6	35.8	(4.8)
Trade and Commerce	**477.4**	**1,068.3**	**123.8**
Wholesale & Retail Sales Trade	48.2	60.5	25.5
Real Estate Agents, Rental and Leasing Companies	180.8	173.6	(4.0)
Other Business Activities (General Business Activity)	248.4	834.1	235.9
Other Financial Corporations	**64.6**	**65.5**	**1.4**
Credit to Households	**1,901.2**	**1,973.3**	**3.8**
Domestic Property	1,634.1	1,678.9	2.7
Motor Vehicles	48.4	62.8	29.8
Education and Technology	6.2	7.2	16.1
Miscellaneous*	212.5	224.3	5.6
NonProfit Organizations	**20.0**	**77.5**	**288.6**

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

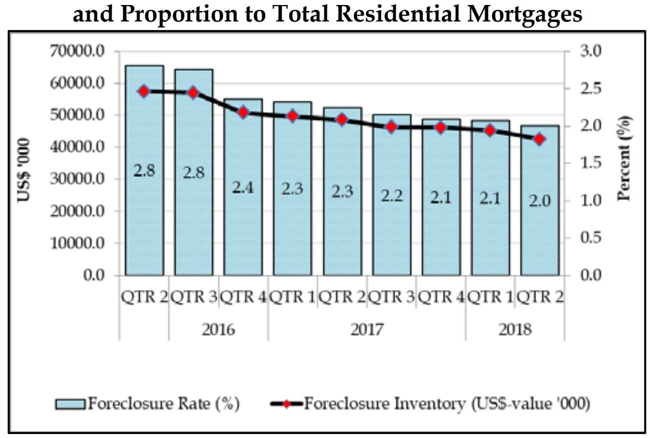
6.3. Residential Mortgage Foreclosures

At end-June 2018, data from CIMA shows that there were 145 properties in the local commercial banks' foreclosure inventory valued at US$42.6 million. This represented a decrease compared to the 174 properties valued at US$48.6 million in the comparative period in 2017.

Foreclosure rate (foreclosure inventory over total residential mortgages) as at June 2018 declined to 2.0% in 2018 from 2.3% in 2017 and 2.8% in 2016.

The total number of completed foreclosures declined to 15 (or 10.3% of all foreclosures) in 2018 from 17 (or 9.8% of all foreclosures) in 2017.

Figure 13: Residential Mortgages Foreclosures Inventory and Proportion to Total Residential Mortgages



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

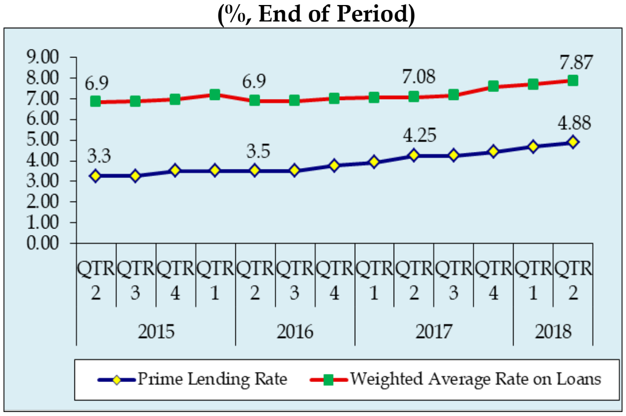
6.4. Broad Liquidity. Broad liquidity (M2) in the Cayman Islands expanded by 3.5% in the first half of 2018 to settle at $6,688.3 million, relative to $6,463.3 million for the same period last year.

The additional liquidity in the system was fostered by higher levels of both foreign deposits and local currency denominated money.

Local currency denominated money supply, which is comprised of currency in circulation and deposits, increased by 7.3%. Foreign currency deposits rose by 2.3%, with holdings of US dollar-denominated deposits rising by 3.6%.

6.5. Interest Rates. The Cayman Islands' prime lending rate increased by 63 basis points to 4.88% as at June 2018, adding upward pressure on the **KYD** weighted average lending rate which edged upwards to 7.87% for the same period (see Figure 14).

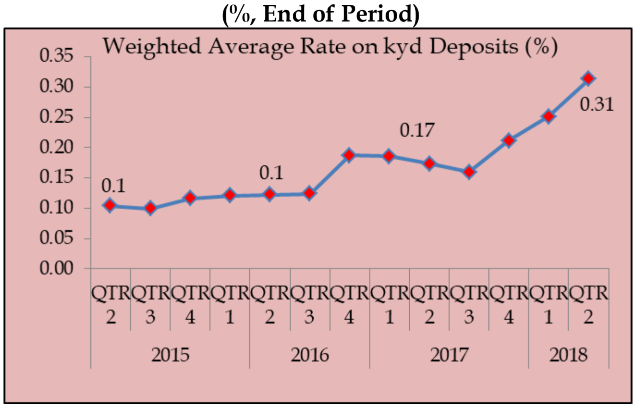
Figure 14: KYD Lending Rates
(%, End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As indicated in Figure 15, the weighted average savings rate on KYD deposits increased by 14 basis points during the first six months of 2018 from a year ago to 0.31%.

Figure 15: Weighted Average KYD Deposit Rates
(%, End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

7. Financial Services

Financial service indicators generally exhibited positive signals in the first six months of the year. Record-level improvements were reflected in a few registration categories, although those of banks & trusts and insurance companies showed weaker performance.

7.1 Banks & Trust

The Cayman Islands' banking and trust licence environment continued to be impacted by consolidation and changing regulations in the offshore financial market.

As at June 2018, the number of licenced Bank and Trust companies declined by 7.0% to 147.

The number of Class 'A' Bank & Trust licences remained at 11 while the number of foreign banks or Class 'B' licences decreased by 7.5% to 136. Trust company licences remained unchanged at 118 at the end of June 2018.

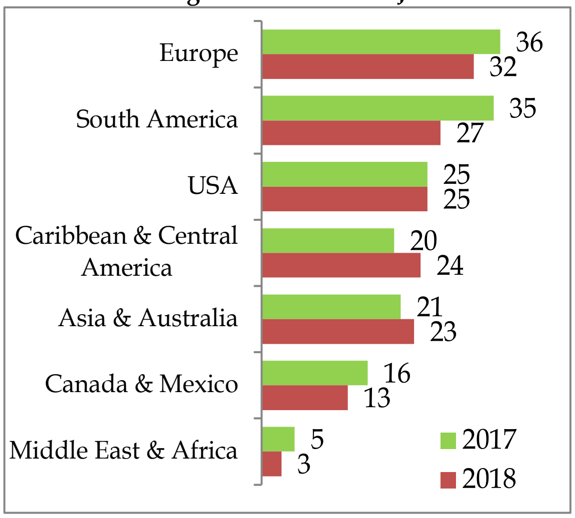
Table 8: Bank & Trust Companies

	Jun 2016	Jun 2017	Jun 2018	% Change
Bank and Trust	**176**	**158**	**147**	**(7.0)**
Class A	11	11	11	-
Class B	165	147	136	(7.5)
Trust Companies	**121**	**118**	**118**	**-**
Restricted	62	61	61	-
Unrestricted	59	57	57	-

Source: Cayman Islands Monetary Authority

Europe, South America and the USA continued to be the leading sources of Cayman's banking licences, accounting for 32.0%, 27.0% and 25.0% of the total, respectively.

Figure 16: Percentage Proportion of Registered Banks by Regional Source as at June 2018



Source: Cayman Islands Monetary Authority

7.2 Insurance

The number of insurance licences fell to 726 at the end of June 2018 relative to 730 at the end of June 2017.

Domestic insurers reflected as class 'A' licences, fell by 1 to 28. Similarly, captive licences declined by 3 to 698. The reduction in captives was mainly attributed to Class 'B' licences, which declined by 4 to 669. This was partly offset by the addition of one Class 'D' licence which increased to 4.

Table 9: Insurance Companies

	Jun 2016	Jun 2017	Jun 2018	% Change
Domestic - Class 'A'	29	29	28	(3.4)
Captives	709	701	698	(0.4)
Class 'B'	683	673	669	(0.6)
Class 'C'	24	25	25	0.0
Class 'D'	2	3	4	33.3
Total	**738**	**730**	**726**	**(0.5)**

Class B: captives and segregated portfolio companies;
Class C: special purpose vehicles
Source: Cayman Islands Monetary Authority

Cayman's captive insurance space continued to be dominated by Healthcare and Workers' Compensation, which accounted for 32.2% and 21.8% of the market, respectively.

North America continued to be the major source market for captive insurance business with 89.4% (624) of the total captives.

Table 10: Captive Insurance Licences by Primary Class of Business, June 2018

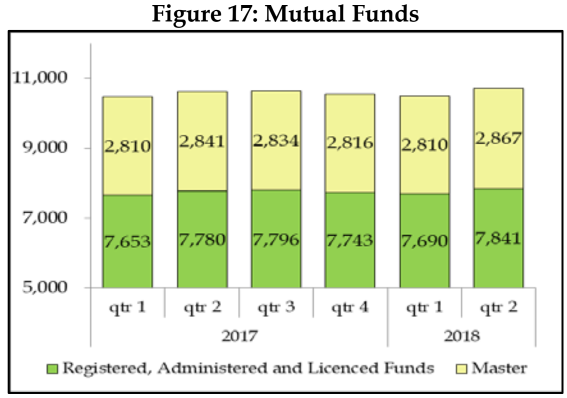
	Jun-17	Jun-18	% Change	% Proportion
Healthcare	226	225	-0.4	32.2
Workers' Compensation	150	152	1.3	21.8
Property	69	68	-1.4	9.7
General Liability	80	78	-2.5	11.2
Professional Liability	61	60	-1.6	8.6
Other	115	115	0.0	16.5
Total	**701**	**698**	**-0.4**	**100.0**

Source: Cayman Islands Monetary Authority

7.3 Mutual Funds

The number of mutual funds went up by 0.8% to 10,708 at the end of June 2018 relative to the end of June 2017. This was due to increases of 0.9% to 2,867 in Master Funds and 0.8% to 7,841 in Registered, Administered & Licenced Funds.

Figure 17: Mutual Funds



Source: Cayman Islands Monetary Authority

7.4 Stock Exchange

Activities on the Cayman Islands Stock Exchange surged in the first half of 2018, as the Islands' status as a key conduit for raising capital becomes more pronounced.

The number of stocks listed on the Cayman Islands Stock Exchange rose by 401 (or 37.7%) to 1,464 at the end of June 2018, the highest level since the end of June 2008 when 1,586 securities were listed. Four of the seven instruments recorded increases while one declined and two remained unchanged. Specialist debt instruments registered the largest absolute increase, rising by 386 listings to 915. The next largest increase was recorded by sovereign debt instruments, which grew by 27 to 281.

Table 11: Number of Stock Listings by Instruments, end June

Instrument	2016	2017	2018
Investment Fund Security	253	236	215
Specialist Debt Security	531	529	915
Corporate & Sovereign Debt Security	215	254	281
Primary Equity Security	4	3	4
Secondary Equity Security	1	1	1
Insurance Linked Security	17	39	47
Retail Debt Security	2	1	1
Total	**1,023**	**1,063**	**1,464**

Source: Cayman Islands Stock Exchange

Market capitalization increased by US$67.7 billion (or 31.1%) to US$285.4 billion as at June 30, 2018, the highest on record. The growth in market capitalization reflected increases in all instruments except primary equity and secondary equity.

Table 12: Market Capitalization by Instruments, (US$ Billions), end June

Instrument	2016	2017	2018
Investment Fund	9.3	10.0	11.3
Specialist Debt	83.0	108.1	165.8
Corporate & Sovereign Debt Security	97.1	93.8	101.4
Primary Equity	0.3	0.3	0.2
Secondary Equity	0.1	0.1	0.1
Insurance Linked Security	5.3	5.1	6.1
Retail Debt	0.0	0.4	0.4
Total	**195.0**	**217.7**	**285.4**

Source: Cayman Islands Stock Exchange

7.5 New Company Registrations

New company registrations for the first half of 2018 surged by 39.1%, to a record high of 8,863 (see Table 13). Higher registrations were due to increases in all categories except 'Non-Resident' companies.

The number of 'Exempt' companies (the largest category) and 'Resident' companies grew by 39.7% and 22.2% to 7,574 and 385, respectively.

Similarly, 'Foreign' and 'Limited Liability' companies registered respective increases of 39.4% and 46.0% to 439 and 457. 'Non-Resident' companies remained unchanged at 8 in the review period.

Table 13: New Company Registrations, end June

	2016	2017	2018
Total	**5,798**	**6,372**	**8,863**
Exempt	5,170	5,421	7,574
Non-Resident	18	8	8
Resident	271	315	385
Foreign	339	315	439
LLC	-	313	457
Percentage Change (%)			
Total	**(9.9)**	**9.9**	**39.1**
Exempt	(11.5)	4.9	39.7
Non-Resident	(5.3)	(55.6)	-
Resident	2.3	16.2	22.2
Foreign	9.4	(7.1)	39.4
LLC	-	-	46.0

Source: Registrar of Companies

7.6 New Partnership Registrations

During the review period, there were 2,621 new partnership registrations, a spike of 39.1% relative to the corresponding period of 2017. This represented the highest number of new partnerships registered during a six month period.

Table 14: New Partnership Registrations, end June

	2016	2017	2018
Total	**1,710**	**1,884**	**2,621**
Exempt	1,671	1,839	2,577
Foreign*	39	45	44
Percentage Change (%)			
Total	**(2.5)**	**10.2**	**39.1**
Exempt	(2.4)	10.1	40.1
Foreign*	(4.9)	15.4	(2.2)

Source: Registrar of Companies

8. Tourism

Total visitor arrivals showed a strong recovery during the first half of the year, increasing by 19.5% to 1,315,000. This recovery was linked to stronger performances of both air and cruise arrivals.

Table 15: Air Arrivals by Regional Market (Jan – June)

	2016	2017	2018	% Change
	In Thousands			
USA	168.6	180.0	213.1	18.4
Europe	14.6	12.0	11.8	(1.5)
Canada	14.1	14.3	15.8	10.3
Others	13.3	11.9	12.6	5.1
Total	210.5	218.2	253.2	16.0
USA (% share)	80.1	82.5	84.2	

Source: Tourism Department

8.1 Air Arrivals

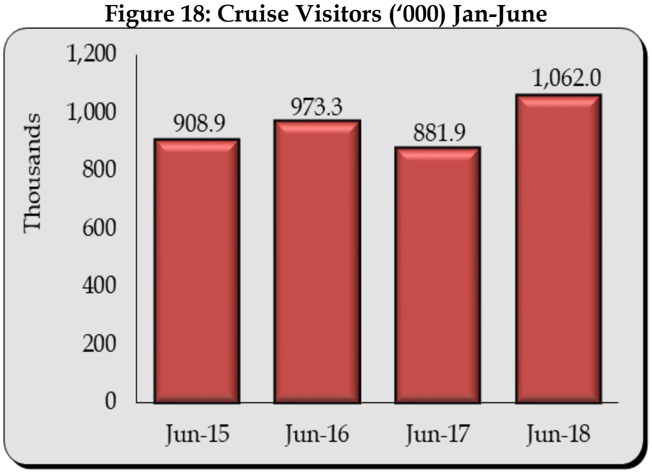
The Islands continued to capitalize on higher global demand for tourism, particularly from the North American market. On the supply side, local capacity was boosted from a number of hotel projects that were recently completed. Air arrivals rose by 16.0% from a year ago to 253,198. Arrivals from all regions increased with the exception of Europe. The USA market generated the largest increase in arrivals, increasing by 18.4% to 213,100. The Canadian market also expanded by 10.3%.

Tourist arrivals to the Islands were also enhanced by the temporary displacement of a number of neighboring tourist destinations due to the passing of hurricanes Irma and Maria in 2017.

8.2 Cruise Arrivals

Consistent with the demand for stay-over tourism, cruise arrivals spiked by 20.4% in the first half of 2018. This increase was supported by an additional 57 port calls to the Islands, bringing the total for the first half of the year to 359.

Figure 18: Cruise Visitors ('000) Jan-June



Source: Tourism Department

9. Construction

Indicators of construction intention declined in the first six months of 2018.

9.1 Building Permits

The value of building permits declined by 3.4% in the review period, due primarily to a fall-off in the non-residential sector.

Within the non-residential category, the industrial and other sectors were the primary contributors with declines of $3.5 million and $3.7 million, respectively. These declines were partly offset by an increase in the commercial sector of $4.7 million.

In contrast, the residential sector inched up by 1.7% to $80.4 million, driven by increases of 3.0% and 0.8% in the apartment and houses category, respectively. The increase in the apartment sector mainly reflected the construction of a number of high-end apartment complexes.

Table 16: Value of Building Permits (Jan- Jun)

	2016	2017	2018	% Change
	Millions CI$			
Houses	57.3	42.4	42.8	0.8
Apartments	18.0	36.5	37.6	3.0
Hotel	0.1	2.8	-	-
Commercial	24.8	23.8	28.5	19.9
Government	1.0	0.1	0.0	(96.3)
Industrial	3.4	3.5	-	-
Other	24.9	5.5	1.9	(66.2)
Total	**129.5**	**114.7**	**110.7**	(3.4)

Source: Planning Department

The number of building permits increased to 416 compared to 410 for the same period last year. This was due to more permits being granted in the houses, apartment and commercial sectors.

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

	2016	2017	2018	% Change
Houses	137	112	119	6.3
Apartments	30	44	65	47.7
Hotels	1	2	1	(50.0)
Commercial	38	35	38	8.6
Government	2	2	1	(50.0)
Industrial	4	5	1	(80.0)
Other	235	210	192	(8.6)
Total	**447**	**410**	**416**	1.5

Source: Planning Department

9.2 Project Approvals

Following robust growth in the first half of the last three years, the total value of project approvals plunged by 75.0% in the first half of 2018. This decline resulted as most categories contracted, except for commercial approvals which posted growth for the period.

Table 18: Value of Project Approvals (Jan-Jun)

	2016	2017	2018	% Change
	Millions CI$			
Houses	51.6	68.9	19.4	(71.9)
Apartments	39.9	147.5	18.8	(87.3)
Hotel	1.5	-	-	-
Commercial	146.0	24.9	31.2	25.4
Government	0.1	1.4	-	-
Industrial	10.1	21.2	0.1	(99.8)
Other	17.8	85.3	17.8	(79.1)
Total	**267.2**	**349.4**	**87.3**	(75.0)

Source: Planning Department

The apartment sector recorded the largest absolute decline by $128.7 million. The houses sector also fell, declining by $49.5 million for the period.

Similarly, the value of permits in the non-residential category fell by 34.3% to $47.5 million in the previous year. This was attributed to a sharp decline in the 'other' category which fell by $67.5 million (79.1%). In contrast, the value of approvals in the commercial category increased by $6.3 million (or 25.3%), largely due to an office to be built within the Cayman Enterprise City.

Overall, the total number of project approvals declined sharply by 53.4% to settle at 297. Declines were seen across all categories.

Table 19: Number of Project Approvals (Jan-Jun)

	2015	2016	2017	2018	% Change
Houses	102	123	158	96	(39.2)
Apartments	22	25	44	14	(68.2)
Hotels	2	3	-	-	-
Commercial	7	21	24	5	(79.2)
Government	1	1	7	-	-
Industrial	5	7	13	3	(76.9)
Other	260	283	392	179	(54.3)
Total	**399**	**463**	**638**	**297**	(53.4)

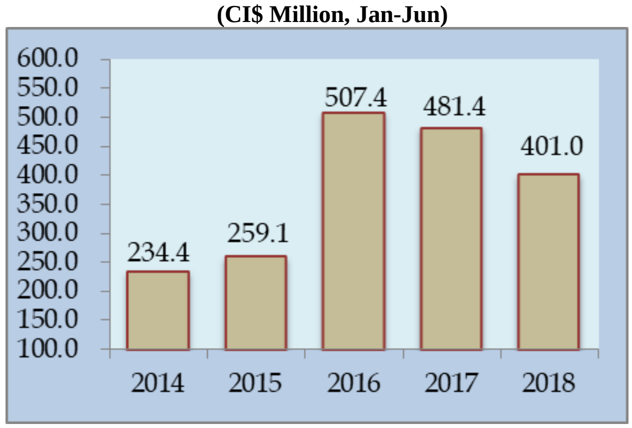
Source: Planning Department

10. Real Estate

Real estate activity, as measured by the value and volume of traded properties, weakened in the first half of 2018 relative to the high levels observed in 2017.

The value of property transfers during the first half of the year declined by 16.7% to $401.0 million. The decline reflected a slowdown in the value of freehold transfers by 17.3%, the impact of which was partly offset by an increase in leasehold transfers by 3.8% to reach $13.4 million.

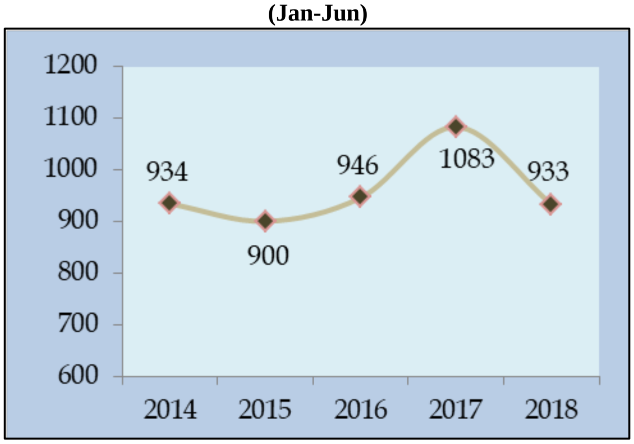
Figure 19: Value of Property Transfers (CI$ Million, Jan-Jun)



Source: Lands & Survey Department

The number of property transfers also declined in the first half of 2018 by 14.6% to reach 933. The volume of freehold property transfers declined by 15.5% to 840 while leasehold transfers rose by 4.5% to 93.

Figure 20: Number of Property Transfers (Jan-Jun)



Source: Lands & Survey Department

11. Utilities

11.1 Electricity

Demand for electricity increased by 0.9% to 300.2 megawatts hours (Mwh) in the first half of 2018. There was a 3.6% increase in commercial consumption and 1.7% increase in public consumption. In contrast, residential consumption declined by 1.8% during the period. As the consumption of electricity slowed, net production declined by 2.7% to 306.1 Mwh over the period.

The growth in commercial consumption was partly related to a larger customer base as the total number of customers increased by 2.0% to reach 4,357. Notably, the average consumption of commercial customers increased by 1.8% while the average consumption of residential customers declined by 3.3%.

Table 20: Utilities Production/Consumption

	Jun-17	Jun-18	% Change
Millions of US Gallons			
Water Production	1,185.5	1,223.6	3.2
Water Consumption	1,025.0	1,060.9	3.5
'000 of megawatt hrs			
Electricity Production (Net)	314.5	306.1	(2.7)
Electricity Consumption	297.6	300.2	0.9
Residential	149.2	146.5	(1.8)
Commercial	144.9	150.2	3.6
Public	3.4	3.5	1.7
Total Customers	28,803	29,377	2.0
Residential	24,531	25,020	2.0
Commercial	4,272	4,357	2.0

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

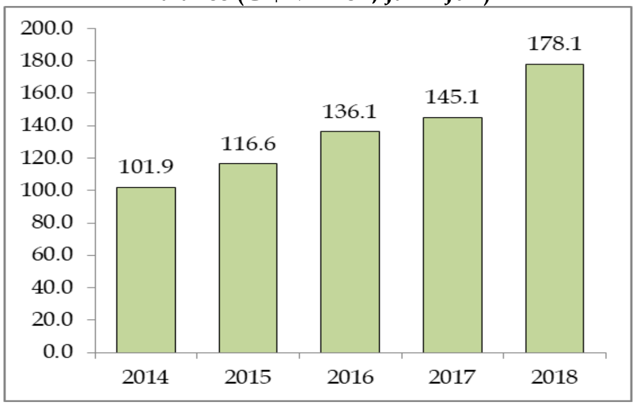
11.2 Water

Domestic water production and consumption increased by 3.2% and 3.5%, respectively, for the first six months of 2018. The rise in water activity could partly be due to increases in construction activity as well as growing population levels.

12. Fiscal Operations of the Central Government

Net lending (fiscal surplus), which is revenue less expenditure, increased for the seventh consecutive half-year period, rising to $178.1 million from $145.1 million during the corresponding period of 2017 (see Figure 21 and Table 21).

Figure 21: Central Government Overall Fiscal Balance (CI$ Million, Jan – Jun)



Source: Treasury Department

The improved surplus occurred in the context of an expansion in revenue which outweighed an increase in expenditure. Growth in revenue was observed in most categories while the increase in expenditure reflected a higher outturn for expenses (formerly current expenditure) as net investment in non-financial assets (formerly capital expenditures) declined.

Table 21: Summary of Fiscal Operations (Jan-Jun)

	Jun-17	Jun-18	% Change
	CI$ Million		
Revenue	**454.6**	**498.4**	**9.6**
Expense	**286.3**	**310.0**	**8.3**
Net Operating Balance	**168.3**	**188.4**	**11.9**
Net Investment in Non-financial Assets[1]	23.2	10.3	(55.6)
Expenditure	**309.4**	**320.3**	**3.5**
Net Lending (Overall Balance)	**145.1**	**178.1**	**22.7**
Financing:			
Net Acquisition of Financial Assets	127.7	160.0	25.3
Net Incurrence of Liabilities	(17.4)	(18.0)	3.6

[1] Net Investment in Nonfinancial Assets is equal to Gross Investment in Nonfinancial Assets *less* Depreciation

Source: Treasury Department & Economics and Statistics Office

12.1 Revenue

Total revenue rose by 9.6% to $498.4 million in January–June 2018 (see Table 22) and was comprised of taxes (94.6%) and other revenue (5.4%).

Table 22: Revenue of the Central Government (Jan-Jun)

	Jun-17	Jun-18	% Change
	CI$ Million		
Revenue	**454.6**	**498.4**	**9.6**
Taxes	**430.2**	**471.5**	**9.6**
Taxes on International Trade & Transactions	88.4	96.7	9.4
Taxes on Goods & Services	314.6	334.7	6.4
Taxes on Property	27.2	38.8	42.9
Other Taxes	0.1	1.3	1,354.0
Other Revenue	**24.3**	**26.9**	**10.7**
Sale of Goods & Services	19.0	20.1	5.9
Property Income	3.5	5.3	53.8
Fines, Penalties and Forfeits	1.0	1.4	33.9
Transfers n.e.c.	0.8	0.1	(90.0)

Source: Treasury Department & Economics and Statistics Office

Taxes amounted to $471.5 million, an increase of 9.6% relative to the comparable period in 2017. All categories reached higher amounts, with taxes on goods and services registering the largest absolute increase of $20.1 million.

Taxes on goods and services increased by 6.4% to $334.7 million in the first six months of 2018 (Table 23). This was predominantly attributed to higher collection from financial service licences, which rose by 6.3% to $228.3 million. In particular, the rise in partnership registrations improved collection from this source by 11.3% to reach $45.2 million. Higher tourist arrivals also contributed to the increase in revenue.

For the review period, **total taxes on property** was higher by 42.9% (or $11.6 million) to reach $38.8 million (Table 22), traced to a number of high valued land transfers during the period.

Table 23: Domestic Tax Collection of the Central Government (Jan-Jun)

	Jun-17	Jun-18	% Change
Financial Service Licences	214.8	228.3	6.3
ICTA Licences & Royalties	4.2	4.0	(6.1)
Work Permit and Residency Fees	39.5	37.8	(4.3)
Other Stamp Duties	5.0	5.2	5.0
Traders' Licences	4.0	3.9	(3.1)
Other Domestic Taxes	47.1	55.5	17.9
Of which:			
Tourist Accommodation Charges	17.0	20.8	22.5
Motor Vehicle Charges	5.4	5.7	6.1
Taxes on Goods & Services	**314.6**	**334.7**	**6.4**

Source: Treasury Department & Economics and Statistics Office

Higher merchandise imports during the first half of the year resulted in a rise in **tax receipts from international trade and transactions** of 9.4% or $8.3 million. Specifically, import duties rose by 8.3% to $86.7 million. Alcoholic beverages, gasoline and diesel, tobacco products and other imports were the main contributors to the increase in import duties.

Other levies on international trade and transactions also increased by 19.4% to $10.0 million. Among these, cruise ship departure charges and environmental protection fund fees rose by 20.2% to $6.4 million and 18.1% to $3.6 million, respectively. Cruise ship departure charges increased as the country recorded growth in cruise passenger arrivals for the period.

There was a 10.7% increase in **other revenue,** to reach $26.9 million. Property income (formerly investment revenue) increased by 53.8% to $5.3 million. Notably, property income includes interest income, distributed income of corporations, investment income and rent.

12.2. Expenditure

The rise in expenditure for January–June 2018 was due to an increase in government expenses as net investment in non-financial assets[7] declined by 55.6% to $10.3 million.

Current expense (formerly current expenditure) increased by 8.3% to $310.0 million owing to higher spending in four of the seven categories (see Table 24).

Table 24: Expenses of the Central Government (Jan-Jun)

	Jun-17	Jun-18	% Change
	CI$ Million		
Expense	**286.3**	**310.0**	**8.3**
Compensation of Employees	131.4	140.3	6.7
Use of Goods and Services	44.0	44.0	(0.1)
Consumption of Fixed Capital	16.0	16.2	1.2
Subsidies	65.2	77.8	19.3
Social Benefits	14.9	14.8	(0.9)
Interest	12.9	12.1	(6.5)
Other Expense	1.9	5.1	164.5

Source: Treasury Department & Economics and Statistics Office

[7] Net investment in nonfinancial assets is gross investment in nonfinancial assets less consumption of fixed capital or depreciation.

An increase in the number of civil servants led to an expansion in compensation of employees (formerly personnel costs) by 6.7% to $140.3 million. In this regard, wages and salaries (including employee pension contributions) increased by 3.4% to $105.3 million.

Subsidies, which are payments to statutory authorities and corporations, increased by 19.3% to total $77.8 million for the review period, with Cayman Islands National Insurance Company (up by 18.0% to $17.1 million) and Cayman Airways Limited (up by 20.0% to $9.0 million) as the largest recipients.

Consumption of fixed capital (formerly depreciation) rose by 1.2% to $16.2 million. The primary contributor to this was the depreciation of buildings which went up by 58.1% to $8.4 million.

Use of goods and services (formerly supplies and consumables) decreased by 0.1% to $44.0 million. Social benefits (formerly transfer payments) totalled $14.8 million, representing a decline of 0.9%. This was mainly due to a reduction in scholarships and bursaries by 25.6% to $3.6 million.

Interest expense declined by 6.5% to $12.1 million as the government continued to pay down its debt stock during the period (see Section 11.4).

12.3. Investment in Non-financial Assets

Investment in fixed assets[8] declined by 32.4% during the first half of 2018, leading to a similar fall in gross investment in non-financial assets (formerly gross capital expenditure and net lending) (see Table 25).

Table 25: Investment in Non-Financial assets (Jan-Jun)

	Jun-17	Jun-18	% Change
	CI$ Million		
Gross Investment in Non-financial Assets	**39.2**	**26.5**	**(32.4)**
Fixed Assets	39.2	26.5	(32.4)
Capital Investment in Ministries and Portfolios	3.7	4.0	8.8
Capital Investment in Statutory Authorities and Government Owned Companies	24.4	17.1	(30.1)
Executive Assets	11.3	5.2	(53.7)
Net Investment in Non-financial Assets	**23.2**	**10.3**	**(55.6)**

[1] Net Investment in Nonfinancial Assets is equal to Gross Investment in Nonfinancial Assets *less* Depreciation

Source: Treasury Department & Economics and Statistics Office

Within fixed assets, capital investment in ministries and portfolios increased by $0.3 million to $4.0 million. This increase resulted from a higher capital investment in the Ministry of Financial Services and Home Affairs. In contrast, capital investment in statutory authorities and government-owned companies decreased by $7.3 million to $17.1 million.

Expenditure on executive assets fell by $6.1 million to $5.2 million as the government concluded some land purchases and reduced

[8] Includes expenditure on buildings and structures as well as machinery and equipment.

expenditure on the George Town Revitalization Project.

12.4. Financing and Debt

The overall surplus of $178.1 million led to an increase in the net acquisition of financial assets (equivalent to the change in cash balance) by 25.3% to $160.1 million in the first six months of 2018 (see Table 27). Loan repayment amounted to $18.0 million relative to $17.4 million in January–June 2017. No new borrowings occurred during the period.

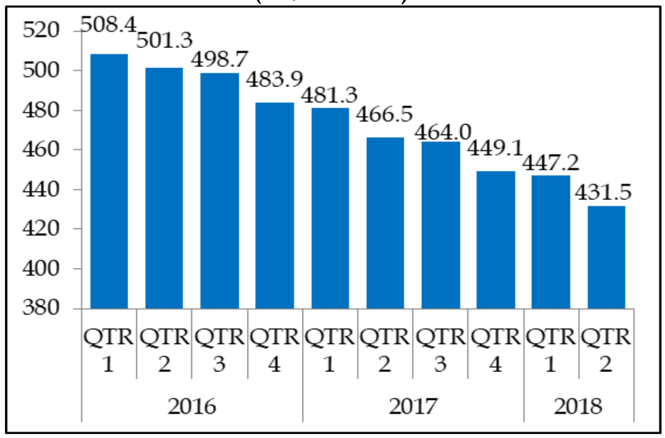
Table 26: Net Financing (Jan-Jun)

	Jun-17	Jun-18	% Change
	CI$ Million		
Financing:			
Net Acquisition of Financial Assets	127.7	160.1	25.4
Net Incurrence of Liabilities	(17.4)	(18.0)	3.6
Incurrence (Disbursement)	0.0	0.0	-
Reduction (Loan Repayment)	17.4	18.0	3.6

Source: Treasury Department & Economics and Statistics Office

The central government's outstanding debt continued to decline after peaking at the end of the second quarter of 2011. The debt stood at $431.5 million at the end of June 2018, $35.0 million lower than the stock at the end of June 2017 (see Figure 21). In comparison with the end of June 2011, the debt decreased by 31.4% or $197.7 million.

Figure 22: Central Government Outstanding Debt (CI$ Millions)



Source: Treasury Department

The central government's debt service-to-revenue ratio was 6.0% for the first six months of 2018 relative to 6.7% for January–June 2017. Interest expense for January–June 2018 accounted for 3.9% of total expense compared with 4.5% in the corresponding period of 2017. Interest expense as a proportion of revenue declined to 2.4% from 2.8% in the comparable period of 2017.

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Cayman Islands Stock Exchange
Treasury Department
Cayman Islands Water Authority
Cayman Water Company
Department of Immigration
Lands and Survey Department
Port Authority of the Cayman Islands
Portfolio of the Civil Service

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