



THE CAYMAN ISLANDS' SEMI-ANNUAL ECONOMIC REPORT 2014

September 2014



The Economics and Statistics Office

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Overview*

- Gross domestic product was estimated to have expanded at an annualised rate of 2.2% in the first half of 2014.
- The Consumer Price Index inflation averaged 1.5%, driven by higher prices for several items led by restaurants and hotels, household equipment, education and transport.
- Merchandise imports grew by 7.1% to register at \$399.1 million.
- Current work permits declined by 2.2% to 20,166.
- Broad liquidity or money supply expanded marginally by 0.9% to reach \$5.4 billion.
- Domestic credit expanded in this period by 0.5% due to an increase in credit to the private sector while credit to the public sector fell.
- The KYD weighted average lending rate grew by 21 basis points to 6.47% while prime lending rate remained stable at 3.25%.
- Bank and trust company licenses continued on its downward trajectory, this time by 5.0% while insurance licenses increased by 1.8%.
- Total mutual funds registration rose by 0.8% to 11,296, due to the 'Master Funds' category which increased by 9.3%.
- Stock exchange listings declined by 5.2% as all types of instruments, except eurobonds, fell.
- New company registrations increased by 12.4% to total 5,391.
- Air arrivals surged by 9.5% and cruise passengers visitors by 8.6%.
- The value of building permits rose from \$93.4 million to \$271.2 million, traced largely to the Kimpton hotel and condominiums project.
- The number of property transfers was reduced by 5.7% to 934 while the total value also went down by 9.9% to \$234.4 million.
- Electricity consumption increased by 2.1% while water consumption fell by 2.9%.
- The central government's overall fiscal surplus improved to \$97.9 million from \$82.7 million a year ago.
- The total outstanding debt of the central government contracted to \$546.8 million from \$573.2 million a year ago.

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

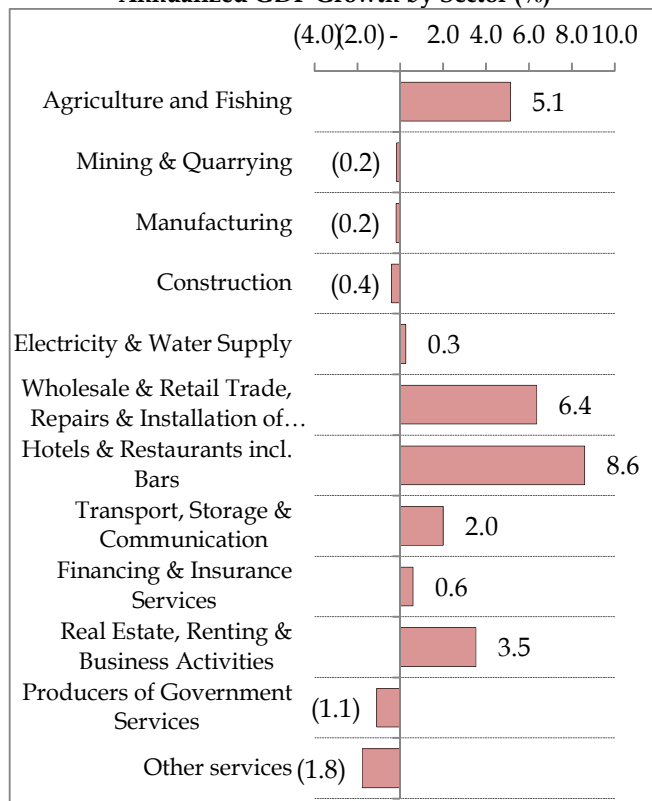
1. GDP Performance

Based on available indicators, the Cayman Islands' gross domestic product (GDP) in real terms grew by an estimated annualised rate of 2.2% in the first half of 2014 compared to a year ago.

Expanding sectors were led by hotels and restaurants (8.6%), wholesale and retail trade (6.4%), real estate, renting and business activities (3.5%), transport storage and communications (2.0%) and financing and insurance services (0.6%) (see Figure 1).

However, declines in economic activity were led by construction, government services and other services.

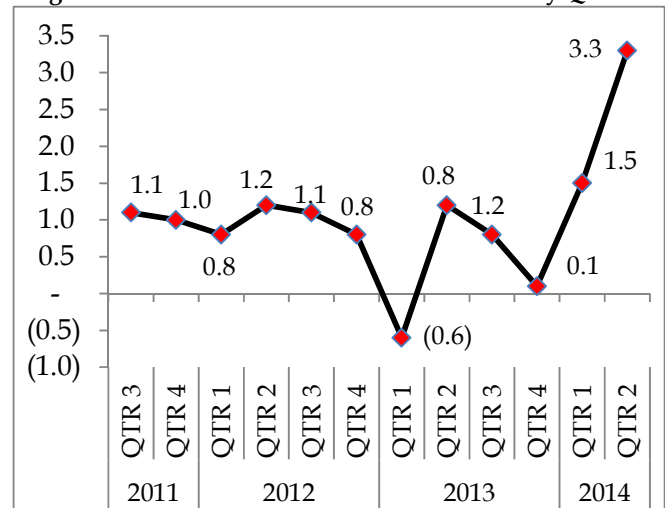
Figure 1: Estimated First Half of 2014 Annualized GDP Growth by Sector (%)



Source: Economics and Statistics office

As depicted in Figure 2, the economy expanded in the second quarter at its strongest pace (3.3%) since the economy started to recover in 2011, accelerating from the first quarter performance of 1.5%.

Figure 2: Estimated Annualized GDP Growth by Quarter



Source: Economics and Statistics Office

Given the first half of the year's performance, there is now a greater probability of achieving the GDP growth forecast for 2014 of 1.9% (see Table 1). This assumes that the economy continues on its current growth path. Growth improvement in the construction sector is expected to come from a new hotel project. Other sectors are foreseen to be sustained by robust growth in tourism services.

Barring sharp changes in international oil prices, the inflation forecast for 2014 is 1.8% given the 1.5% average inflation in the first six months of 2014.

Unemployment rate is forecasted at 6.1%, conditional on the continuing revival of economic activities.

**Table 1: Macroeconomic Outlook
Based on Semi-Annual Data**

	2011	2012	2013	Projection 2014
	Percent (%)			
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

*Year 2013 is estimated

Source: Economics and Statistics Office

2. Inflation

Average inflation for the first half of 2014 was recorded at 1.5% (see Table 2). This resulted mainly from rising price indices for restaurants and hotels (10.0%), household equipment (7.1%), education (4.2%), transport (3.6%), food and non-alcoholic beverage (2.5%), and miscellaneous goods and services (2.5%).

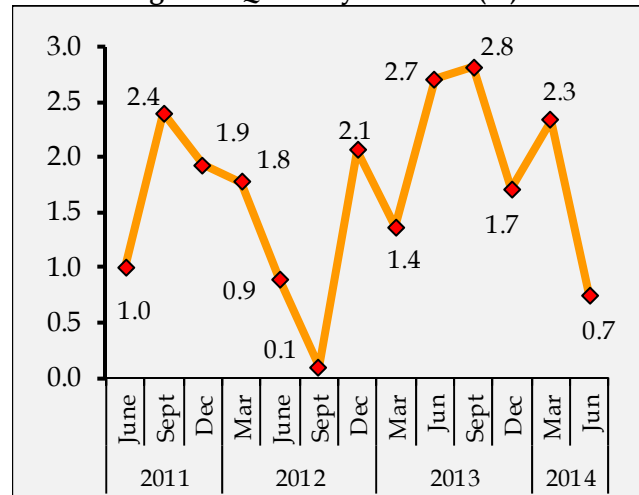
During the second quarter of 2014, the Consumer Price Index (CPI) stood at 104.9, higher by 0.7% compared to June 2013 (see Figure 3)¹. Rising price indices were recorded for restaurants and hotels (8.4%), household equipment (7.5%), transport (3.4%), food and non-alcoholic beverage (2.4%), education (2.1%), recreation and culture (1.9%) and communication (1.4%). These increases were offset by movements in housing and utilities (-1.4%), alcohol and tobacco (-0.2%), miscellaneous goods and services (-2.7%) and health (-0.2%).

¹ See also 'The Cayman Islands Consumer Price Index Report June 2014,' www.eso.ky

Table 2: Average Inflation (Jan-June)

Categories	Avg Inflation Rates (%)	
	2013	2014
Food & Non-alcoholic Beverages	3.5	2.5
Alcohol and Tobacco	13.6	-0.1
Clothing and Footwear	6.4	-0.2
Housing and Utilities	-0.5	-1.5
Household Equipment	6.8	7.1
Health	1.6	-0.2
Transport	0.8	3.6
Communication	0.5	1.1
Recreation and Culture	-1.8	1.9
Education	3.0	4.2
Restaurants and Hotels	-2.5	10.0
Misc. Goods and Services	8.4	2.5
Overall CPI Inflation	2.0	1.5

Source: Economics and Statistics Office

Figure 3: Quarterly Inflation (%)*


*Inflation of current quarter CPI over the same quarter a year ago.

Source: Economics and Statistics Office

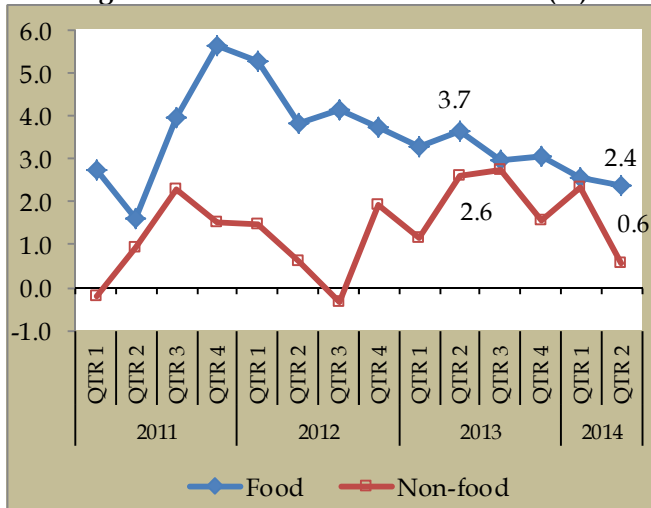
The higher index for hotels and restaurants can be traced directly to increases in accommodation and catering services by 15.8% and 7.3% respectively.

The average price of household equipment increased by 7.5%, traced mainly to the 11.4% rise in the cost of household textiles. Cost of

routine maintenance and glassware, and tableware household utensils also recorded increases of 8.7% and 9.0% respectively.

The index for food and non-alcoholic beverages increased by 2.4% on account of higher international food prices. Food price inflation was seen in bread and cereals, meat and meats products, and fish and seafood. As exhibited in Figure 4, despite the downward trajectory, food inflation has been consistently higher than non-food inflation.

Figure 4: Food and Non-food Inflation (%)



Source: Economics and Statistics Office

The transport index moved up by 3.4%, resulting from the price movements of vehicle purchases (7.1%) and transport services (7.7%).

The price index for education increased by 2.1%, mainly due to increases in the cost of pre-primary and primary, and secondary education.

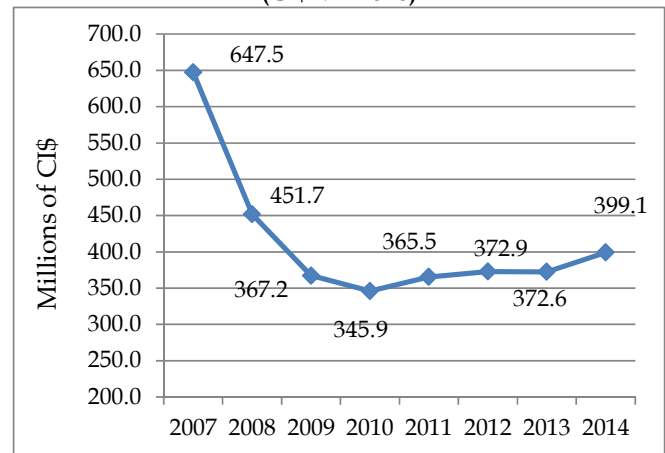
The price index for housing and utilities stood at 88.9, down by 1.4% in the second quarter. This was on account of a 3.2%

decrease in imputed rent (for owner-occupied units) while actual rent rose by 2.3% on average. Cost of utilities had mixed results, as cost of electricity, gas and other fuels decreased by 1.2% while water supply and miscellaneous services increased marginally.

3. Trade

Preliminary data for the first six months of 2014 indicates that merchandise imports recovered by 7.1% to \$399.1 million. This resulted from a 9.4% surge in the second quarter imports which bolstered a 5.0% growth in the first quarter of 2014.

Figure 5: Merchandise Imports (Jan-June) (CIS\$ Millions)



Source: Customs Department and ESO

The value of petroleum products - mineral fuels, lubricants and related materials - rose by 4.3%.

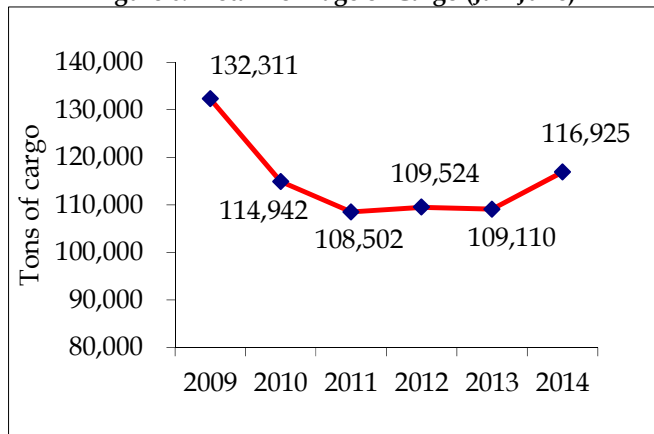
Non-petroleum products were also on the upswing, rising collectively by 8.0% as several categories registered double-digit growth rates. Food and live animals increased by 16.6% as world food prices trended up during the period. Also on the uptrend were

miscellaneous manufactured articles (11.6%), manufactured goods classified chiefly by materials (10.1%), and beverages and tobacco increased (17.6%).

The categories of imports that declined were commodities and transactions not classified elsewhere (-4.4%), machinery and transport equipment, and chemical and related products (-0.8%), and crude materials except fuels (-1.1%).

Consistent with the rise in non-oil imports, the total tonnage of landed cargo improved by 7.2% as compared to a year ago (see Figure 6).

Figure 6: Total Tonnage of Cargo (Jan-June)



Source: Cayman Islands Port Authority

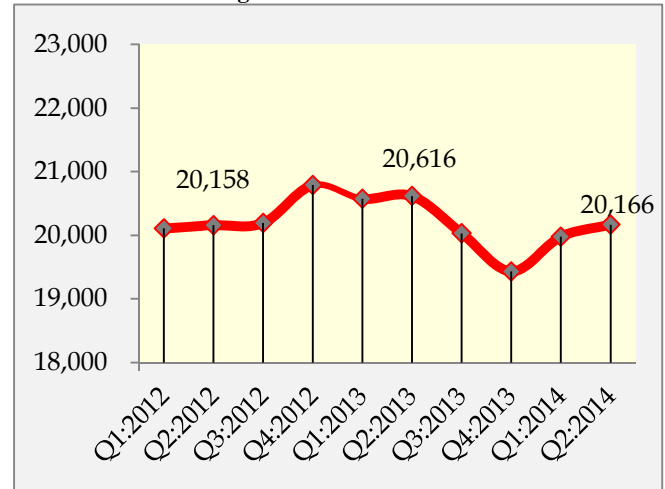
4. Employment

Coinciding with policy-driven efforts to increase Caymanian employment, the number of work permits and foreign civil servants declined in the review period.

In a near reversal of last year’s 2.3% increase, work permits fell by 2.2% to 20,166, although

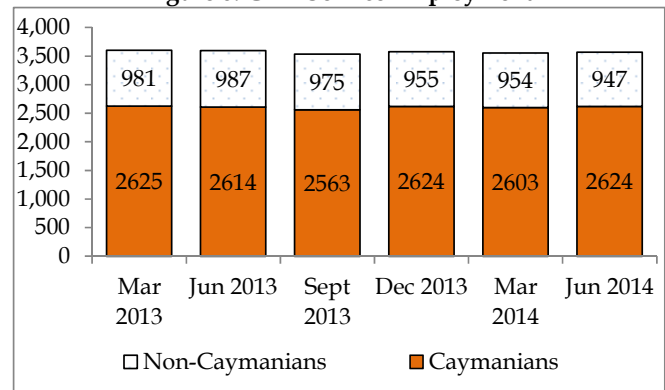
a quarter-to-quarter improvement was seen from March 2014 to June 2014 by 0.9%.

Figure 7: Work Permits



Sources: Immigration Department, Economics & Statistics Office

Figure 8: Civil Service Employment



Source: Portfolio of the Civil Service

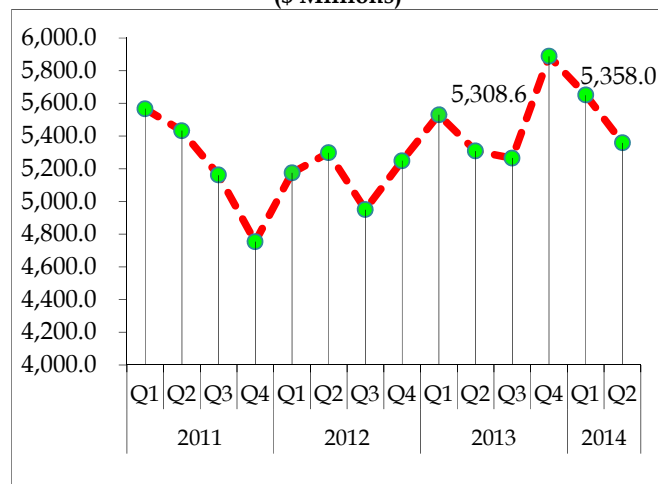
As depicted in Figure 8, civil service employment fell by 30 to total 3,571. Foreign workers decreased by 40 to 947 persons while Caymanians increased by 10 persons.

5. Money & Banking

Broad liquidity (M2) comprising CI dollar-denominated money and foreign exchange

deposits expanded by 0.9% to reach \$5,358.0 million in the first six months of 2014. During this period, CI dollar-denominated money grew by 7.4% which outweighed a 0.9% decline in total foreign currency deposits.

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Broad liquidity (M2) represents the liabilities of the monetary and banking sector. The corresponding asset side recorded a decrease in net foreign assets while net domestic assets increased.

5.1. Net Foreign Assets (NFA). During the review period, net foreign assets of domestic commercial banks fell by 0.8% (see Table 3), while that of the Cayman Islands Monetary Authority increased by 5.3%, resulting in an overall contraction of \$15.9 million (or 0.6%). The decline in commercial banks' NFA resulted from a decrease in foreign liabilities (-12.7%) which outweighed a 7.2% reduction in foreign assets (see Table 4). Foreign liabilities fell as total non-resident deposits was lower by \$438.5 million. Foreign assets dipped notwithstanding increases in foreign

investment and loans to non-residents, as balances with banks and branches abroad fell by \$712.5 million.

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

	Jun-13	Jun-14	% Change
Total Assets	5,308.6	5,358.0	0.9
Net Foreign Assets	2,813.7	2,797.8	(0.6)
Monetary Authority	92.2	97.1	5.3
Commercial Banks	2,721.5	2,700.7	(0.8)
Net Domestic Assets	2,494.9	2,560.2	2.6
Domestic credit	2,980.1	2,994.0	0.5
Claims on central government	282.5	264.2	(6.5)
Claims on other public sector	69.3	62.9	(9.2)
Claims on private sector	2,628.3	2,666.9	1.5
Other items net (assets +)	(485.2)	(433.8)	(10.6)
Broad Liquidity	5,308.6	5,358.0	0.9
Broad money (KYD) M2	1,152.1	1,237.2	7.4
Currency in circulation	87.2	91.7	5.2
KYD Deposits	1,064.9	1,145.5	7.6
Demand deposits	444.9	457.5	2.8
Time and savings deposits	620.0	688.0	11.0
FOREX deposits	4,156.5	4,120.8	(0.9)
of which: US dollars	3,584.0	3,746.7	4.5
US\$ Contribution (%)	86.2	90.9	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Table 4: Net Foreign Assets (\$ Millions)

	Jun-13	Jun-14	% Change
Net Foreign Assets	2,813.7	2,797.8	(0.6)
Monetary Authority	92.2	97.1	5.3
Commercial Banks	2,721.5	2,700.7	(0.8)
Foreign Assets	5,934.0	5,504.5	(7.2)
Bal. with Banks & Branches	4,199.9	3,487.4	(17.0)
Total Investment	1,017.8	1,125.0	10.5
Total Non-Resident Loans	716.3	892.1	24.5
Foreign Liabilities	3,212.5	2,803.8	(12.7)
Total Non-Resident Deposits	3,065.2	2,626.7	(14.3)
Other Liabilities	147.3	177.1	20.2

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.2. Net Domestic Assets/Domestic Credit.

Domestic credit declined by \$13.9 million due to a reduction in credit to the public sector by 7.0% while private sector borrowings increased by 1.5% during the period (see Table 5).

The contraction in public sector indebtedness by \$24.7 million is traced to both the central government and other public sector entities by \$18.3 million and \$6.4 million respectively (see Table 3).

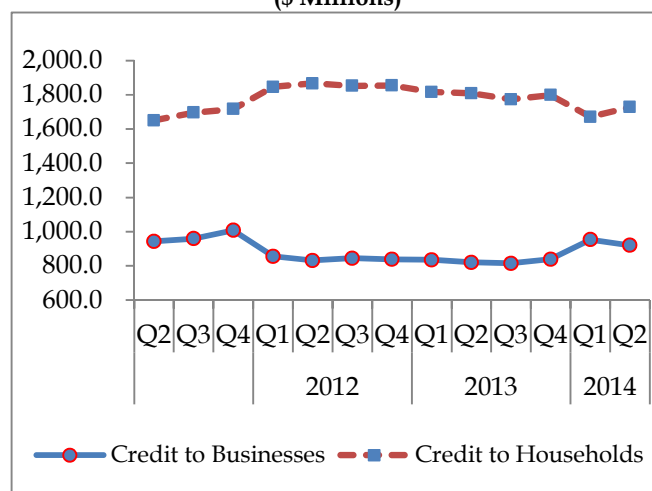
Table 5: Net Domestic Assets (\$ millions)

	Jun-13	Jun-14	Change %
Domestic Credit	2,980.1	2,994.0	0.5
Domestic Credit to Public Sector	351.8	327.1	(7.0)
Domestic Credit to Private Sector	2,628.3	2,666.9	1.5

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As compared to a year ago, the expansion in private sector borrowings was dominated by loans to businesses while loans to households declined (Figure 10 and Table 6).

Figure 10: Credit to Business and Households (\$ Millions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Coinciding with the resurgence in GDP growth during the period, overall loans to businesses increased by 12.2%.

Among the primary production sectors, higher borrowings were recorded for construction, utilities and agriculture, fishing and mining sectors; however, lower lending activity was posted for the manufacturing sector.

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

	Jun-13	Jun-14	Change %
Total	2,628.3	2,666.9	1.5
Credit to Businesses	820.1	919.8	12.2
Production & Manufacturing	331.6	419.2	26.4
Agriculture, Fishing and Mining	12.9	13.0	0.8
Manufacturing	26.6	13.8	(48.1)
Utilities	2.9	10.3	255.2
Construction	289.2	382.1	32.1
Services	87.4	64.7	(26.0)
Accommodation, Food, Bar & Entertainment Services	53.7	29.9	(44.3)
Transportation, Storage & Communications	13.3	16.5	24.1
Education, Recreational & Other Professional Services	20.4	18.3	(10.3)
Trade and Commerce	370.2	408.2	10.3
Wholesale & Retail Sales Trade	74.7	75.3	0.8
Real Estate Agents, Rental and Leasing Companies	142.6	129.2	(9.4)
Other Business Activities (General Business Activity)	152.9	203.7	33.2
Other Financial Corporations	30.9	27.7	(10.4)
Credit to Households	1,808.2	1,727.6	(4.5)
Domestic Property	1,541.7	1,432.9	(7.1)
Motor Vehicles	31.7	31.3	(1.3)
Education and Technology	4.3	5.0	16.3
Miscellaneous*	230.5	258.4	12.1
NonProfit Organizations	0.0	19.5	

*Miscellaneous include consolidated debt, insurance, medical & travel

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Lending to trade and commerce increased by 10.3% (\$38.0 million) as all areas under this rubric recorded increases except for real estate agents, rental and leasing companies.

Total credit to the service sectors contracted sharply by 26.0%, with all the sub-sectors declining except for transportation storage and communication.

Loans to households decreased by 4.5% (or \$80.6 million) as at June 2014 compared to the preceding year. Loans for domestic property and motor vehicles contracted by 7.1% and 1.3% respectively. Credit for education and technology increased by 16.3% while miscellaneous credit also went by 12.1% (see Table 6).

5.3. Broad Liquidity. As referenced in Table 3, broad liquidity (M2) in the Cayman Islands reached \$5,358.0 million in June 2014, compared to \$5,308.6 million for the same period last year.

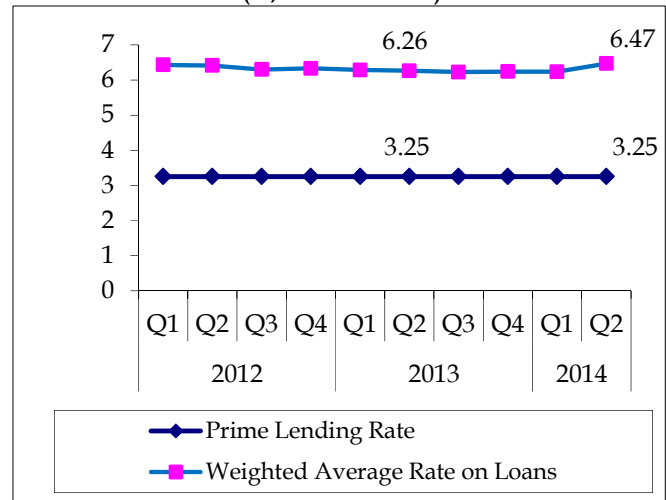
The 0.9% expansion stemmed from 7.4% growth in CI dollar-denominated money supply. CI dollar deposits rose by 7.6%. Local currency in circulation was also higher by 5.2%, an indication of possible higher levels of currency-related economic transactions.

Foreign currency deposits recorded a marginal contraction of 0.9%, although holdings of US dollar-denominated deposits increased by 4.5%.

5.4. Interest Rates. As depicted in Figure 11, the KYD weighted average lending rate rose by 21 basis points from 6.26% in June 2013 to 6.47% in the same period of 2014. The

Cayman Islands prime lending rate remained constant at 3.25%.

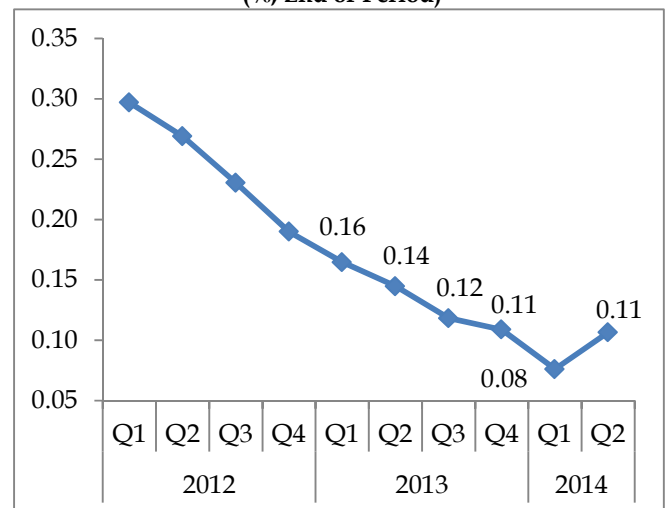
Figure 11: KYD Lending Rates (% End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As indicated in Figure 12, the weighted average savings rate on KYD deposits declined by 5.5 basis points during the first six months of 2014 from a year ago to 0.0950%.

Figure 12: KYD Weighted Average Savings Rates (% End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6. Financial Services

The financial sector continued in the first half of 2014 to exhibit mixed performance. Overall, there were fewer stock exchange listings and bank and trust licences while all other sub-sector indicators marked some improvement. Subdued activity in the 'class B' category for bank and trust licences during the quarter prolonged anew its downward trend, which reflects the consolidation among subsidiaries and branches of international banks.

6.1 Banks & Trust

Similar to previous periods, the total number of licensed bank and trust companies dipped to 210 by mid-year 2014, a 5.0% decrease from the June 2013 mark. Meanwhile, licences to trust companies narrowed by 4 (or -3.4%).

Table 7: Bank & Trust Companies

	Jun 2012	Jun 2013	Jun 2014	% Change
Bank and Trust	235	221	210	-5.0
Class "A"	15	15	15	0.0
Class "B"	220	206	195	-5.3
Trust Companies	124	118	114	-3.4
Restricted	71	67	65	-3.0
Unrestricted	53	51	49	-3.9

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences remained unchanged at 15, while Class 'B' licences was reduced by 11, to settle at 195.

Licensees from Europe and USA are the main participants in the Cayman Islands' banking industry, accounting for 25.7% and 21.0% respectively of the banking licensees. The rest originated from South America (17.6%), Asia and Australia (11.4%) Caribbean and Central

America (11.4%), Canada and Mexico (8.6%) and the Middle East and Africa (4.3%).

6.2 Insurance

The Cayman Islands insurance market continued its recovery as the total number of insurance licences grew by 14 (or 1.8%) – from 777 in June 2013, to 791 as at June 2014.

Class 'A' insurance licences remained constant at 27 while Class 'B' (captive) licences rose by 14 over the review period.

Table 8: Insurance Companies

	Jun 2013	Jun 2014	% Change
Class 'A'	27	27	0.0
Class 'B'	750	764	1.9
Total	777	791	1.8

Source: Cayman Islands Monetary Authority

The composition of captive insurance licences remained relatively constant during the period. Healthcare abounded as the primary class of business in the captive insurance sector constituting 33.6% followed by workers' compensation coverage (21.9%).

Table 9: Captive Insurance Licences by Primary Class of Business, June 2013

	Licences	%
Healthcare	257	33.6
Workers' Compensation	167	21.9
Property	90	11.8
General Liability	78	10.2
Professional Liability	68	8.9
Others	104	13.6
Total	764	100.0

Source: Cayman Islands Monetary Authority

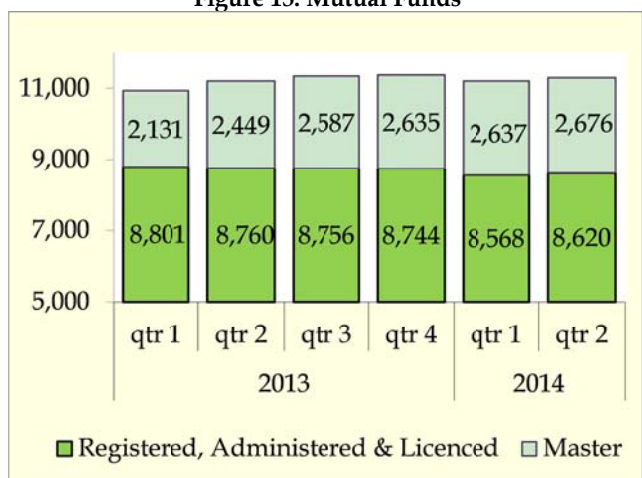
North America remained the prime geographical source for captive insurance companies, contributing 90.3% of the total.

Premiums for captive insurance reached US\$12.3 billion at the end of June 2014, a loss of about US\$1.2 billion from June 2013.

6.3 Mutual Funds

When compared to mid-year 2013, total mutual funds rose by 0.8% to reach 11,296. The increase is associated with the inclusion of master funds in accordance with the Mutual Funds (Amendment) Law (2011) which was enacted in December 2011. Master funds alone grew by 9.3% when matched over the same period a year ago.

Figure 13: Mutual Funds



Source: Cayman Islands Monetary Authority

6.4 Stock Exchange

The Cayman Islands Stock Exchange total stock listings narrowed from 1,125 in June 2013 to 1,066 in June 2014, a decrease of 5.2% (see Table 10). With the exception of eurobond and primary equity (which remained unchanged), the dip in market

capitalization for stock listings was recorded in all remaining instruments.

Table 10: Number of Stock Listings by Instruments

Instruments	2013	2014	% Change
Mutual Funds	320	275	(14.1)
Specialist Debt	598	584	(2.3)
Eurobond	111	134	20.7
Secondary Equity	2	1	(50.0)
Primary Equity	6	6	-
Insurance Linked Security	88	66	(25.0)
Total	1,125	1,066	(5.2)

Source: Cayman Islands Stock Exchange

Table 11: Market Capitalization by Instruments (US\$ billions)²

Instruments	2013	2014	% Change
Mutual Funds	12.8	10.7	(16.4)
Specialist Debt	75.0	80.0	6.7
Eurobond	63.5	72.3	13.9
Secondary Equity	0.11	0.10	(9.1)
Primary Equity	2.29	0.23	(90.0)
Insurance Linked Security	9.6	8.0	(16.7)
Total	163.3	171.3	4.9

Source: Cayman Islands Stock Exchange

6.5 New Company Registrations

During the first half of 2014, total new company registrations stood at 5,391, a 12.4% increase compared to a year ago. Exempt companies peaked to 4,867 listings (14.3% higher than the previous year) which offset the negative results noted for all remaining sub-categories. This overall performance represents a marked recovery for new company registrations following a slight improvement last year.

² 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.

Table 12: New Company Registrations (US\$ billions)

	2012	2013	2014
Total	4,794	4,798	5,391
Exempt	4,221	4,259	4,867
Non-Resident	39	20	15
Resident	291	232	229
Foreign	243	287	280
Percentage change (%)			
Total	-1.0	0.1	12.4
Exempt	-0.6	0.9	14.3
Non-Resident	-56.2	-48.7	-25.0
Resident	4.7	-20.3	-1.3
Foreign	4.7	18.1	-2.4

Source: Registrar of Companies

7. Tourism

When compared to 2013, total visitor arrivals to the Cayman Islands as at June 2014 stood at 1,072,008 – an increase of 8.8%. This upturn was associated with higher air arrivals and cruise arrivals of 9.4% and 8.6%, respectively.

Table 13: Air Arrivals by Country (Jan – June)

	2012	2013	2014	Change %
In thousands				
USA	145.7	152.8	163.0	6.7
Northeast	50.5	54.6	57.9	5.9
Midwest	36.4	37.2	39.9	7.1
Southeast	24.7	25.0	25.7	2.6
Southwest	24.7	26.1	29.0	11.1
West Coast	9.4	9.8	10.7	8.3
Europe	11.3	13.6	18.0	32.1
Canada	14.4	13.9	15.1	8.3
Others	9.8	12.1	14.4	19.1
Total	181.2	192.4	210.5	9.4
<i>of Which : USA</i>	<i>80.4</i>	<i>79.4</i>	<i>77.5</i>	

Source: Department of Tourism

7.1 Air Arrivals

Air arrivals increased by 9.4% over last year's mid-year results from 192,411 in 2013 to 210,491 this year.

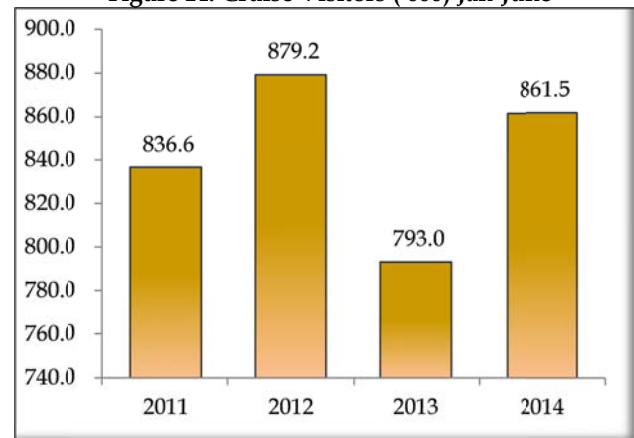
Robust expansion rates were recorded across all major markets. In particular, Europe had a sharp increase of 32.3%, followed by aggregate arrivals from other markets. These suggest the positive impact of the global economic recovery on one hand, and the widening reach of promotional efforts towards diversification. The strong performance of the USA regional markets coincided with the GDP growth of the country at 4.2% during the second quarter.

7.2 Cruise Arrivals

There were 29 additional cruise ship visits to Cayman's port as of June (i.e. from 278 in 2013 to 307 in 2014). This also translated into a total of 861,517 passengers compared to 792,976 cruise ship travellers who arrived a year ago.

Meanwhile, cruise passengers per day averaged 4,786 persons – an increase of 381 visitors over the first half of 2013.

Figure 14: Cruise Visitors ('000) Jan-June



Source: Department of Tourism

8. Construction

Mid-year construction intention indicators continued to demonstrate varied performance as gains in the total value of building permits were countered by declines in project approvals.

8.1 Building Permits

Building permit values increased 190.4% from a year ago to \$271.2 million, the highest level since 2007.

Table 14: Building Permits (Jan-Jun)

	2012	2013	2014	% Change
Millions CI\$				
Houses	60.6	51.8	38.5	(25.7)
Apartments	10.9	12.7	64.2	405.5
Hotel	0.0	-	139.0	-
Commercial	8.3	14.6	23.4	60.3
Government	2.0	0.2	2.1	950.0
Industrial	-	1.4	0.2	(85.7)
Other	6.2	12.7	3.8	(70.1)
Total	88.0	93.4	271.2	190.4

Source: Planning Department

This increase is mainly generated from the Kimpton hotel and condominium project. This single project which included the \$54.0 million apartment/condominiums recorded in the first quarter, contributed a \$139.0-million hotel permit in the second quarter. Both projects accounted for 71.2% of total permit values.

By major sector, non-residential buildings increased a further 58.6% to \$25.7 million, following last year's 57.3% increase. The lift came from the commercial and government segments as the industrial sub-sector declined.

On the residential side, permit values rose 59.2% to \$102.7 million, traced largely to the Kimpton condominium project. The latter pushed permits for apartments by 405.5%, overshadowing the 25.7% drop in house permit values.

In the 'Other' segment, permit values fell 70.1% to \$3.8 million, following unusually high activity a year ago.

The number of building permits fell 32.0% from 356 to 242. Double-digit contraction was recorded in all segments with only the government category increasing.

Table 15: Number of Building Permits (Jan-Jun)

	2012	2013	2014	% Change
Houses	189	172	114	(33.7)
Apartments	29	27	20	(25.9)
Hotels	0	1	1	-
Commercial	35	51	45	(11.8)
Government	8	2	3	50.0
Industrial	0	0	3	-
Other	122	103	56	(45.6)
Total	383	356	242	(32.0)

Source: Planning Department

8.2 Project Approvals

Following last year's spike, total value of project approvals weakened sharply in the review period, falling by 46.4% to \$79.6 million despite an increase in the volume.

Table 16: Project Approvals (Jan- Jun)

	2012	2013	2014	Change
Millions CI\$				
Houses	35.5	43.6	52.2	19.7
Apartments	14.6	13.2	5.6	(57.6)
Hotel	-	-	0.1	-
Commercial	4.3	70.3	5.5	(92.2)
Government	4.7	0.1	1.5	1400.0
Industrial	4.0	0.7	0.9	28.6
Other	10.5	20.7	13.8	(33.3)
Total	73.6	148.6	79.6	(46.4)

Source: Planning Department

In the residential sector, approval values edged upward by 1.8% to \$57.8 million, considerably less than the previous year's 13.1% growth. Strong downturn in intentions for apartments partly offset the 19.7% increase for houses. The former, totalling \$5.6 million, is the lowest in a decade, most likely due to vacancy levels in the market.

Meanwhile, non-residential intentions following last year's surge fell 88.9% to \$7.9 million. The contraction is traced to the commercial category, which declined 92.2% to \$5.5 million, given the completion of large projects a year earlier. However, both the government and industrial categories recorded upturns, albeit from very low bases.

The number of approvals increased 9.3% from 398 recorded a year ago to 435. This is traced to strengthening intentions in all but the house and commercial segments.

Table 17: Project Approvals (Jan- Jun)

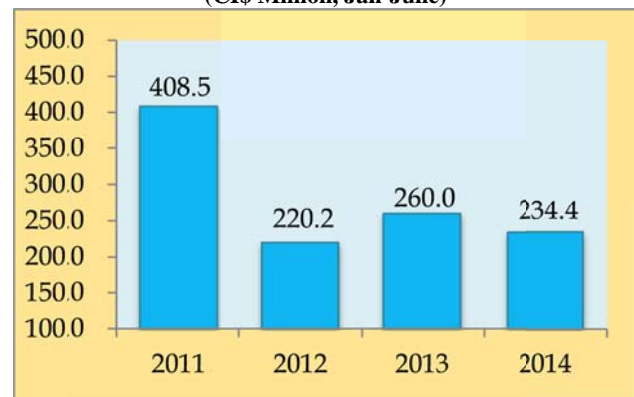
	2011	2012	2013	2014	% Change
Houses	137	125	112	101	(9.8)
Apartments	21	22	16	20	25.0
Hotels	0	0	0	1	-
Commercial	12	19	21	13	(38.1)
Government	8	2	1	2	100.0
Industrial	5	8	2	4	100.0
Other	204	255	246	294	19.5
Total	387	431	398	435	9.3

Source: Planning Department

9. Real Estate

Real estate performance as gauged by the volume and value of traded properties declined in the review period.

The value of traded properties totalled \$234.4 million, 9.9% lower than last year. This weaker performance stemmed from a decline in freehold property transfers, given last year's exceptionally strong second quarter which included the transfer of the \$143.9 million Ritz Carlton Hotel.

**Figure 15: Value Property Transfers:
(CI\$ Million, Jan-June)**


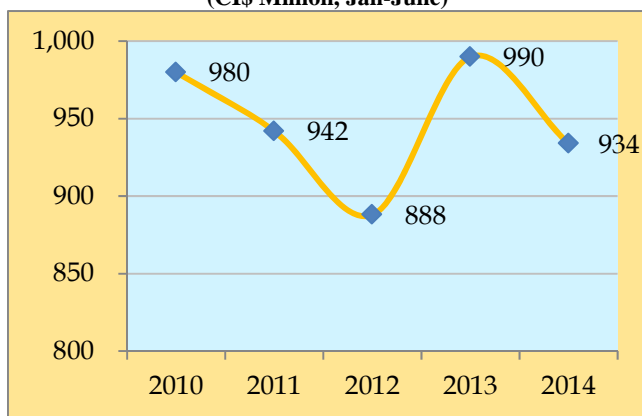
Source: Lands & Survey

The value of freehold transfers declined 11.1% to \$223.6 million. In contrast, leasehold

property transfers, which are primarily commercial, rose 26.7% to \$10.8 million.

During the review period, the number of transfers fell by 5.7% from 990 in 2013 to 934. This decline is traced to a 7.9% drop in freehold transfers as the number of leasehold transfers increased 24.3% to 87.

Figure 16: Number of Property Transfers:
(CI\$ Million, Jan-June)



Source: Lands & Survey

10. Utilities

10.1 Electricity

Electricity production rose by 2.1% to 295.0 megawatt hours (mWh) as at June 2014 (see Table 18). This coincided with higher electricity usage across all major consumer types. The modest growth in consumption may be directly related to warmer weather conditions during the first half resulting in increased air-conditioning loads among households, as well as the modest growth in economic activities among the production sectors (classified as commercial consumers of electricity).

10.2 Water

When compared to a year ago, water production rose by 0.3% notwithstanding a reduction in consumption by 2.9%. Water consumption stood at 873.7 million US gallons at the end of the period.

Table 18: Utilities Production/Consumption

	Jun-13	Jun-14	% Change
Millions of US Gallons			
Water Production	1,050.1	1,053.7	0.3
Water Consumption	900.0	873.7	(2.9)
000 of Megawatt Hrs			
Electricity Production	289.0	295.0	2.1
Electricity Consumption	269.7	275.2	2.0
Residential	123.7	128.1	3.6
Commercial	142.7	143.7	0.7
Public	3.3	3.4	3.0
Total Customers	27,171	27,462	1.1
Residential	23,197	23,476	1.2
Commercial	3,974	3,986	0.3

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

10.3 Telecommunications

The total number of paid domestic and international communication minutes decreased by 4.6% and 13.3%, respectively, for the first six months of 2014. This result was noted alongside a 7.1% decrease in the total number of telephones in service as at end of June 2014.

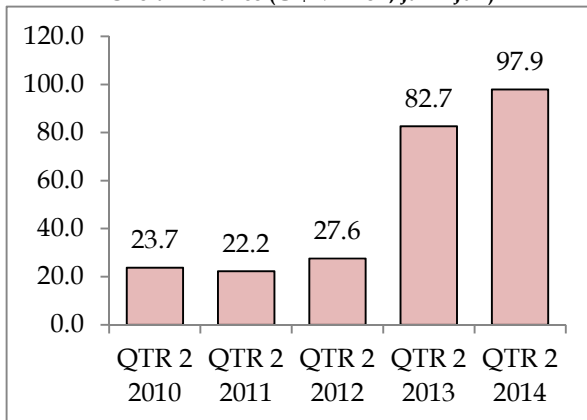
Table 19: Telecommunication Sector Indicators

	Jun-13	Jun-14	% Change
Fixed and mobile handsets in operation	132,777	123,354	(7.1)
Total fixed & mobile domestic & int'l minutes ('000)	137,293	127,417	(7.2)
Fixed and mobile domestic minutes ('000)	96,418	91,989	(4.6)
Fixed and mobile int'l retail minutes ('000)	40,875	35,428	(13.3)

Source: Information Communication and Technology Authority

11. Fiscal Operations of the Central Government

The overall fiscal balance improved to a surplus of \$97.9 million in the first six months of 2014 as compared to a surplus of \$82.7 million a year ago (see Figure 17). This resulted as total revenue grew by 2.9% while total expenditure declined by 1.1%.

Figure 17: Central Government Fiscal Overall Balance (CI\$ Million, Jan - Jun)


Source: Cayman Islands Treasury Department

Table 20: Summary of Fiscal Operations (Jan-Jun)

	Jun-13	Jun-14	% Change
CI\$ Millions			
Total Revenue	400.26	411.91	2.9
Total Expenditure	317.61	313.98	(1.1)
Current Expenditure	304.29	290.76	(4.4)
Net Capital Expenditure & Net Lending ¹	13.32	23.22	74.3
Current Balance	95.97	121.15	26.2
Overall Balance	82.65	97.93	18.5
Financing	(82.65)	(97.93)	
Net Borrowing	(13.34)	(20.32)	
Change in Cash	69.31	77.61	

¹ Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department

11.1 Revenue

During the first six months of 2014, total revenue increased by 2.9% to reach \$411.9 million as compared to the same period in 2013 (see Table 21).

Table 21: Revenue of the Central Government (Jan-Jun)

Revenue Sources	Jun-13	Jun-14	% Change
CI\$ Millions			
Total Revenue	400.26	411.91	2.9
Coercive Revenue	367.94	395.29	7.4
Taxes on Int'l Trade & Transactions	83.68	87.93	5.1
Domestic Taxes on Goods & Services	267.01	287.87	7.8
Taxes on Property	16.36	18.69	14.2
Fines	0.77	0.80	3.9
Other Taxes	0.12	-	(100.0)
Non-coercive Revenue	32.32	16.62	(48.6)
Sale of Goods & Services	31.31	15.91	(49.2)
Investment Revenue	0.66	0.41	(37.9)
Other Revenue	0.35	0.30	(14.3)

Source: Cayman Islands Treasury Department

Total revenue comprises both coercive (96%) and non-coercive revenue (4%). Coercive revenue which totalled \$395.3 million increased by 7.4% with increases in receipts from all revenue categories excluding other taxes. However, non-coercive revenue amounted to \$16.6 million, 48.6% below the comparative period a year ago.

Coinciding with the growth in imports, tax receipts from international trade and transactions increased by 5.1% during the period. Revenue from gasoline and diesel duty increased by 5.5%, motor vehicle duty and cruise ship departure charges increased by 15.1% and 8.7% respectively.

Revenue collected from domestic taxes on goods and services increased by 7.8% (or \$20.9 million) in the first six months of 2014 due to a reclassification of the revenue category company fees from sales of goods and services (see Table 22). Thus, revenue from financial services further improved; in total, it provided \$24.8 million of the increase in total domestic taxes. The contributors from the industry included partnerships (up by \$5.3 million), other exempt companies (up by \$12.4 million) and mutual fund administrators (up by \$5.3 million).

As depicted in Table 22, other significant increases were sourced from tourism accommodation charges, other stamp duties and motor vehicles charges.

Taxes on property increased to \$18.7 million from \$16.4 million.

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

	Jun-13	Jun-14	% Change
Various financial service licenses	179.03	203.86	13.9
ICTA licenses & royalties	3.50	1.69	-51.7
Work permit and residency fees	33.51	33.06	-1.3
Other stamp duties	3.18	4.02	26.3
Traders' licenses	3.64	3.71	1.9
Other domestic taxes	44.15	41.54	-5.9
<i>Of which</i>			
Tourism accommodation	10.32	13.28	28.6
Motor vehicle charges	5.38	5.76	7.0
Domestic Taxes on Goods & Services	267.01	287.87	7.8

Source: Cayman Islands Treasury Department

11.2 Expenditure

Current expenditure decreased by 4.4% while net capital expenditure and net lending rose by 74.3%. The former resulted as all expenditure categories declined except personnel costs and consumables (see Table 23).

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

	Jun-13	Jun-14	% Change
	CI\$ Millions		
Current Expenditure	304.29	290.76	(4.4)
Personnel Costs	126.93	127.34	0.3
Supplies & Consumables	48.24	51.89	7.6
Subsidies	76.60	68.20	(11.0)
Depreciation	13.51	13.29	(1.6)
Transfer Payments	12.93	12.08	(6.6)
Interest Payments	16.00	14.72	(8.0)
Extraordinary Expenses	0.00	0.00	
Other Executive Expenses	10.08	3.24	(67.9)

Source: Cayman Islands Treasury Department

Personnel cost, which includes past service pensions obligations, rose slightly by 0.3% to \$127.3 million during the first six months of 2014. This resulted notwithstanding a decline in civil service employment by 30 persons.

Supplies and consumables rose by 7.6% to total \$51.9 million due to increases in purchases of services, and other supplies and consumables.

Subsidies which are essentially payments to statutory authorities and corporations were lower by \$8.4 million or 11.0% to total \$68.2 million for the first six months of 2014. The reduction resulted as lower subsidies were paid to Cayman Islands National Insurance Company (down \$0.4 million); Cayman Islands Monetary Authority (down \$2.5 million); Cayman Airways (down \$1.2 million); National Roads Authority (down \$2.5 million), and primary and secondary education by private schools (down \$0.8 million).

Transfer payments which are payments to social welfare programmes totalled \$12.1 million, lower by 6.6% from a year ago. The reduction was due to the elimination of expenditure for the promotion of nation building and church-based support. During the period, funds paid to scholarship and bursaries increased.

Interest payments decreased by 8.0% to \$14.7 million on account of a lower debt stock.

Depreciation which is a provision for the decline in the value of the fixed assets owned by central government was lower by 1.6% to \$13.3 million.

11.3. Capital Expenditure and Net Lending

Gross capital expenditure and net lending rose during the period by 36.1% to reach \$36.5 million. This resulted as capital acquisition/equity injections grew by 51.6% to \$11.5 million while capital development/executive assets declined by \$1.2 million to \$5.7 million (see Table 24). Public entities' working capital support stood at \$17.8 million, 44% higher compared to a year earlier.

After netting-out depreciation, capital expenditure and net lending increased by 74.3% to \$23.2 million.

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

	Jun-13	Jun-14	% Change
Gross Capital Expenditure and Net Lending	26.83	36.51	36.1
Capital Acquisition/Equity Injections	7.56	11.46	51.6
Equity Injections and Working Capital support to Public Entities	12.33	17.75	44.0
Capital Development/Executive Assets	6.89	5.69	(17.4)
Net Lending	0.05	1.61	3,120.0
Net Capital Expenditure and Net Lending¹	13.32	23.22	74.3
Depreciation	13.51	13.29	(1.6)

¹ 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 \$77.6 million (see Table 25). Total loan repayment amounted to \$20.3 million³ while no loan disbursements were recorded during the review period.

The central government's debt service-to-current revenue ratio stood at 8.5% as at June 2014. Interest payments for the quarter accounted for 5.1% of recurrent expenditure.

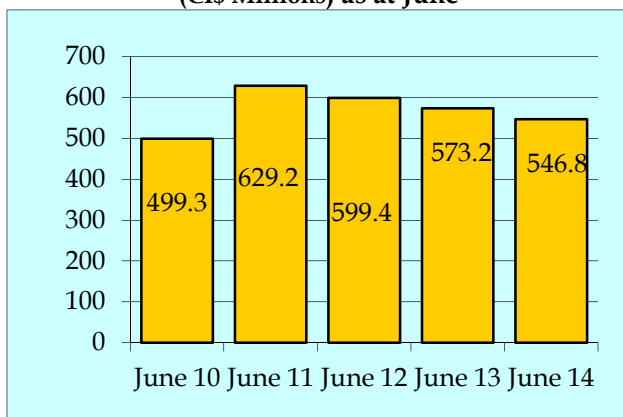
Table 25: Net Financing (Jan-Jun)

	Jun-13	Jun-14
	CI\$ Millions	
Financing	(82.7)	(97.9)
Net Borrowing	(13.3)	(20.3)
Disbursements	0.0	0.0
Loan Repayment	(13.3)	(20.3)
Change in Cash Balance	69.3	77.6

Source: Cayman Islands Treasury Department

The central government's outstanding debt continued to decline, amounting to \$546.8 million as at June 2014, lower by 4.6% from the same period a year ago (see Figure 18).

Figure 18: Central Government Outstanding Debt (CI\$ Millions) as at June



Source: Cayman Islands Treasury Department

³ Total loan repayment included an \$8.0 million repayment of a \$10.0 million loan borrowed from Public Authorities.

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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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