

Summary Economic Indicators: Half Year 2008*

- The average Consumer Price Index rose by 4.0%, mainly due to higher average prices for housing including utilities, personal goods & services, household equipment and transportation and communication.
- Merchandise imports rose by 2.1%, due to a 70.5% growth in imports of oil and oil products.
- Work permits rose by 7.2% to total 26,260.
- Credit to the private sector expanded by 7.9%.
- Money supply contracted by 28.3% due to the decline in foreign currency deposits held by residents.
- Interest rate indicators declined anew, including the weighted average lending rate which reached 8.86%.
- Air arrivals grew by 9.3% while cruise passengers decreased by 13.6%.
- Mutual funds grew by 11.9%.
- Bank and trust licences decreased by 2.4% while insurance licences increased by 2.6%.
- Stock exchange listings increased by 17.9% while stock market capitalization rose by US\$70.7 billion, an increase of 55.8%.
- New companies registration declined by 3.3%.
- The value of building permits fell by 26.2%, while the value of projects approvals declined by 17.0%.
- The property sector rebounded as total value of property transfers rose by 46.6%.

*Comparative data over the first half of 2007.

1. Overview

The economic indicators for the first half of 2008 (as summarized above) along with international economic conditions continue to exert downward pressure on the Cayman Islands' growth prospects. Projected

economic growth for 2008 is now placed at 1.5%.

Upside performance

Total merchandise imports for the period amounted to \$457.6 million, up by 2.1% from the same period a year ago. This was mainly due to higher

growth in the value of oil and petroleum products.

Total credit of the local commercial banks to the private sector expanded by 7.9%, as credit to households rose by 25.6% while credit to businesses increased by 0.7%.

Financial services remained resilient despite the downturn in source markets. In particular, mutual funds grew by 1,065 (or 11.9%); however, the growth rate is slower than that of the same period last year.

Air arrivals rose by 9.3% during the same period.

The number of work permits rose by 7.2% mainly due to higher labour demand for restaurants and bars, business services and financial services.

Downside risk

Non-oil imports fell by 5.7%.

In construction, the value of building permits fell by 26.2% to reach \$211.5 million. Similarly, the value of building intentions fell by 17.0% from \$257.9 million recorded a year ago.

New companies registration fell by 3.3% following a strong growth last year.

In tourism, total visitor arrivals fell by 10.5% mainly due to a 13.6% decline in cruise visitors.

2. Inflation

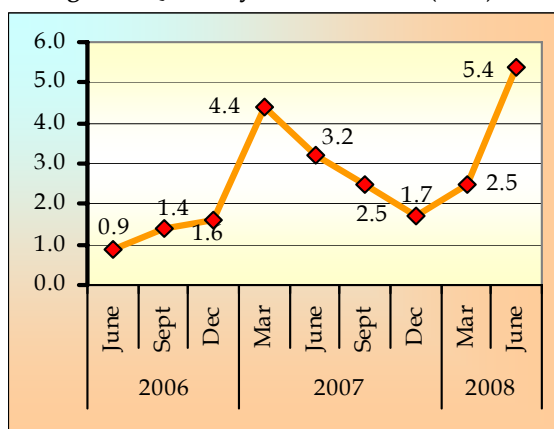
Average inflation for the first half of 2008 stood at 4.0% which resulted from price increases in housing (up 5.1%), education and medical (up 4.2%), household equipment (up 7.5%), transportation and communication (5.3%) and clothing (up 4.0%).

Table 2: Semi-Annual Inflation by Category

CPI Major Categories	Average Half-Year Inflation Rates (%)		
	2006	2007	2008
Food	1.5	6.0	3.6
Alcohol & tobacco	3.4	3.2	0.5
Housing	-6.6	2.1	5.1
Clothing	3.7	2.7	4.0
Household equipment	-3.6	5.2	7.5
Transport & communication	3.1	2.8	5.3
Education & medical	2.2	1.5	4.2
Personal goods & services	6.8	6.9	0.9
All items	0.0	3.7	4.0

Source: Economics and Statistics Office

For the quarter ended June 2008, the Consumer Price Index (CPI) stood at 155.9, up by 3.3% from March 2008, on account mainly of increasing price indices for housing, personal goods and services, transport and communication, and household equipment.

Figure 2: Quarterly Inflation Rates (in %)


Source: Economics and Statistics Office

As at the quarter ended June 2008, year-on-year inflation stood at 5.4%. This resulted from price increases in housing, household equipment and transportation and communication.

The price index for housing rose by 9.2% from June 2007 due to an increase in the average cost of utilities, rent maintenance and insurance of housing.

The household equipment index moved up by 8.7% due to higher average price of furniture and floor coverings, household appliances and household equipment.

The transportation and communication index increased by 6.8% as the average price of household vehicles and travel increased.

The average price index for education and medical services moved up by

4.5%, due to increases in the average cost of both medical care and education.

3. Labour Market

Work permits grew in the first half of the year by 7.2% to 26,260.

Table 3.1: Work Permits as at June 2007/08

	Jun-07	Jun-08	Change %
Trades/ Technical/ Skilled	10,916	11,426	4.7
Unskilled	8,963	9,730	8.6
Professional	3,765	4,306	14.4
Administrative/ Managerial	844	796	-5.7
Other	4	2	-50.0
Total	24,492	26,260	7.2

Source: Immigration Department

During the period, the 'Administrative/Managerial' category declined anew as construction-related permits posted the highest reductions.

Work permits rose sharpest in the 'Professional' category which increased by 14.4% from 3,765 in 2007 to 4,306 in 2008.

In the largest class, 'Trades/Technical/Skilled', work permits rose by 4.7% to 11,426.

By industry, work permits rose in all industries except for construction which fell slightly by 0.3% to 6,215. This industry employs the largest share of work permits of nearly a quarter.

Work permits for the financial services category expanded by 13.5% from 1,995 in 2007 to 2,264 in 2008. Similarly, work permits for business services increased by 11.1% to settle at 2,937.

Growth in air arrivals pushed permits in the restaurant and bars industry up by 14.0% to 2,638 in 2008. Hotels and condominiums also recorded higher work permits.

Table 3.2: Work Permits as at June 2007/08 for All Industries

	Jun-07	Jun-08	% Change
Construction	6,232	6,215	-0.3
Financial Services	1,995	2,264	13.5
Restaurant & Bars	2,315	2,638	14.0
Business Services	2,644	2,937	11.1
Wholesale & Retail	2,921	3,157	8.1
Private Households w/ Employed People	3,925	4,173	6.3
Community, Social & Personal Services	1,377	1,500	8.9
All Other Industries	3,083	3,376	9.5
Total	24,492	26,260	7.2
CI Government Contracts	1381	1462	5.9

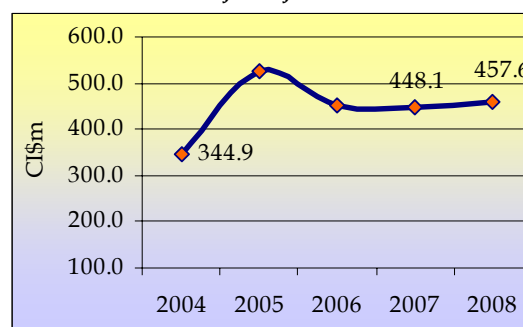
Source: Immigration Department and ESO

4. Trade

The total value of merchandise imports as at June 2008 grew by 2.1% to reach \$457.6 million. The growth in total imports was enhanced by strong growth in the value of oil and petroleum products which increased by 70.5% to settle at \$78.3 million for

the first half of 2008. In contrast, non-energy related imports fell by 5.7% compared to a year ago.

Figure 4: Merchandise Imports (CI\$ Million), Jan - June

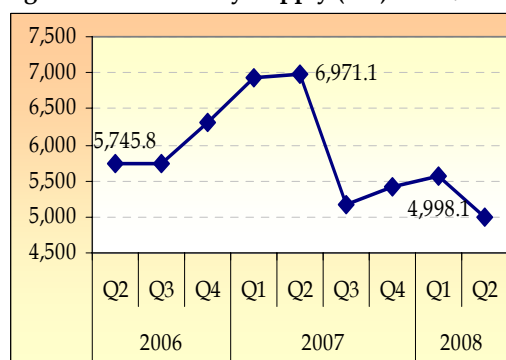


Source: Customs Department and ESO

5. Money & Banking

The total money supply (M2) was recorded at \$4,998.1 million in June 2008, a 28.3% reduction from \$6,971.1 million in June 2007. This contraction offset the 21.3% increase in M2 for 2007, resulting in the June 2008 figure being lower than the June 2006 figure.

Figure 5: Total Money Supply (M2) in CI\$M



Source: Cayman Islands Monetary Authority

According to the balance sheet concept, M2 also represents the liabilities side

which is equivalent to the asset side (see Table 5). The asset side shows a decline in the net foreign assets of \$2,403.6 million (or 42.3%) which overshadowed an increase in net domestic assets of \$278.2 million (or 13.1%).

Table 5: Monetary and Banking Summary Indicators (CI\$ millions)

	Jun-07	Jun-08	% Change
Net Foreign Assets	5,680.0	3,276.3	-42.3
Monetary Authority	100.1	96.1	-4.0
Commercial Banks	5,579.8	3,180.2	-43.0
Net Domestic Assets	2,130.8	2,409.0	13.1
Other Items	-839.6	-687.2	-18.1
Total Assets	6,971.1	4,998.1	-28.3
Narrow Money (M1)	285.0	318.4	11.7
Quasi Money	6,686.2	4,679.7	-30.0
Monetary Liabilities (M2)	6,971.1	4,998.1	-28.3

Source: Cayman Islands Monetary Authority

5.1 Net foreign assets. Net foreign assets of the Cayman Islands Monetary Authority and the local commercial banking sector fell by 42.3% during the review period. This was primarily attributed to a near tripling of total non-resident deposits, contributing to an increase in foreign liabilities (of \$2,238.4 million) that outpaced a \$161.1 million decline in foreign assets as shown in Table 5.1 below.

Table 5.1: Net Foreign Assets (CI\$ millions)

	Jun-07	Jun-08	% Change
Net Foreign Assets	5,680.0	3,276.3	-42.3
Monetary Authority	100.1	96.1	-4.0
Commercial Banks	5,579.8	3,180.2	-43.0
Foreign Assets	7,446.8	7,285.7	-2.2
Bal. with Banks & Branches	4,313.2	4,112.3	-4.7
Total Investment	1,712.9	1,530.8	-10.6
Total Non-Resident Loans	1,420.7	1,642.5	15.6
Foreign Liabilities	1,867.0	4,105.4	119.9
Total Non-Resident Deposit	1,353.8	3,929.4	190.3
Other Liabilities	513.2	176.0	-65.7

Source: Cayman Islands Monetary Authority

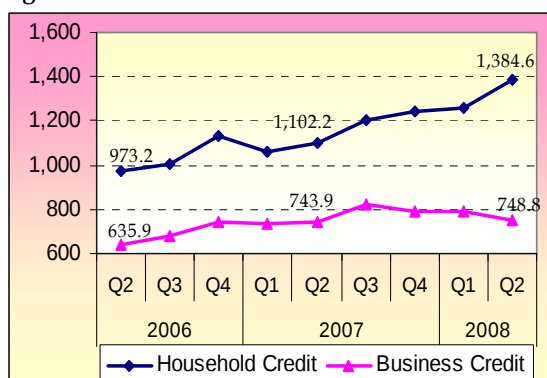
5.2 Net domestic assets. Total net domestic assets or total net domestic credit granted by the commercial banking sector grew by 13.1% to reach \$2,409.0 million in June 2008. Credit allocated to both public and private sectors increased by 78.9% (\$121.5 million) and 7.9% (\$156.6 million).

Table 5.2A: Net Domestic Assets (CI\$ millions)

	Jun 2007	Jun 2008	% Change
Net Domestic Assets	2,130.8	2,409.0	13.1
Net Domestic Credit to Public Sector	153.9	275.4	78.9
Net Domestic Credit to Private Sector	1,976.9	2,133.5	7.9

Source: Cayman Islands Monetary Authority

Figure 5.2 plots the major components of private sector domestic credit: i.e. credit to businesses and credit to households. Credit to households continued its upward trajectory whereas credit to businesses has slowed down.

Figure 5.2: Credit to Business and Households


Source: Cayman Islands Monetary Authority

The credit allocated to households, composing 62.8% of total credit to the private sector, increased by 25.6% (or \$282.4 million) in June 2008 compared to June 2007 (see table 5.5). The dominant form of household loans is the mortgage and property category which rose by \$113.7 million (or 11.3%) to reach \$1,117.7 million. Other credit to households expanded by \$105.9 million (or 221.1%) primarily because of a large increase in consolidated debt. On the contrary, loans for education and technology and for motor vehicles contracted by \$1.0 million (40.3%) and \$4.4 million (9.4%) respectively.

Total loans to the business sector- which accounted for 34.0% of total credit to the private sector- slightly grew by 0.7% over the review period (see Table 5.2B). Three sectors had higher borrowing activities: real estate business (by \$129.7 million or 51.3 %), utilities (by \$21.2 million or 251.0%) and hospitality (\$3.9 million or 6.7%). Some of the sectors that contracted

include trade and commerce (\$1.3 million or 1.7%).

Table 5.2B: Net Credit to the Private Sector (CI\$ millions)

	Jun-07	Jun-08	% Change
Total	1,976.9	2,201.8	11.4
Credit to Businesses	743.9	748.8	0.7
<i>of which</i>			
Construction	161.4	77.0	-52.3
Hotel, Restaurant and Bar	57.3	61.2	6.7
Real Estate, Renting & Other	252.9	382.6	51.3
Utilities (Electricity, Gas & Water)	8.5	29.7	251.0
Trade & Commerce	79.0	77.7	-1.7
Other	184.8	120.7	-34.7
Credit to Households	1,102.2	1,384.6	25.6
Domestic Property	1,004.0	1,117.7	11.3
Motor Vehicles	47.6	43.2	-9.4
Education & Technology	2.6	1.6	-40.3
Other ¹	47.9	153.8	221.1
Other NonProfit Organisations	130.8	68.4	-47.7

Source: Cayman Islands Monetary Authority

¹'Other' include consolidated debt, insurance, medical & travel

5.3 Money Supply. As stated earlier, total money supply (M2) decreased over the six-month period, reflecting a larger decrease in quasi money which counteracted the expansion in narrow money.

Quasi money contracted by 30.0% (\$2,006.5 million) to about \$4,679.7 million as at June 2008 (see Table 5.3). The reduction directly follows a large decline in the holdings of foreign currency deposits brought about by a reduction in U.S. interest rates.

In contrast, M1 or narrow money supply which is used mainly for transaction purposes rose by 11.7% to reach \$318.4 million as at June 2008,

mirroring a \$30.8 million (14.8%) increase in total demand deposits. Currency in circulation increased at a rate of 3.4%.

Table 5.3: Money Supply (CI\$ millions)

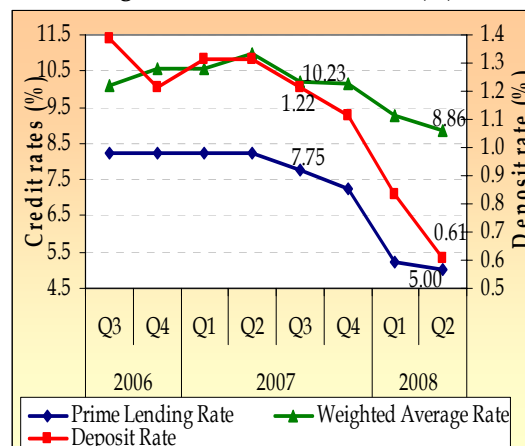
	Jun-07	Jun-08	% Change
Monetary Liabilities (M2)	6,971.1	4,998.1	-28.3
Narrow Money (M1)	285.0	318.4	11.7
Currency with public	76.2	78.8	3.4
Total demand deposits	208.8	239.6	14.8
Quasi Money	6,686.2	4,679.7	-30.0
Savings deposits	195.6	201.1	2.8
Fixed Deposits	405.4	528.3	30.3
Foreign Currency Deposits	6,085.2	3,950.3	-35.1

Source: Cayman Islands Monetary Authority

5.4 Interest Rates. In line with the decline in the US Federal Funds rate, all three interest rates (the prime lending rate, deposit rate on savings and the weighted average rate on outstanding loans) continued to fall for the fourth consecutive quarter. The prime lending rate was 5.0% as at June 2008, a cumulative decline of 2.25 percentage points from June 2007.

The weighted average rate on outstanding loans and the savings deposit rate were 8.86% and 0.61% respectively as at June 2008 (see Figure 5.4).

Figure 5.4: CI\$ Interest Rates (%)



Source: Cayman Islands Monetary Authority

6. Financial Services

Overall, the Cayman Islands financial service indicators improved in the first half of 2008 notwithstanding the worldwide financial slowdown since August 2007. Favourable increases were registered in the insurance company licences, mutual funds, stock exchange listings and market capitalisation. However, new company registrations and bank and trust licences were on a downward trend.

6.1 Banks & Trust

Bank and trust licences continued to fall due to global consolidations. The total number of bank and trust companies licensed in the Cayman Islands contracted to 280 as at June 2008, a 2.4% decline from the June 2007 figure. Similarly, licences issued to

trust companies fell by 0.7% to reach 136.

Table 6.1: Bank & Trust Companies

	Jun 2007	Jun 2008	% Change
Bank and Trust	287	280	-2.4
Class "A"	20	19	-5.0
Class "B"	265	260	-1.9
<i>Of which: Class</i>			
Class "B" restricted	2	1	-50.0
Trust Companies	137	136	-0.7
Restricted	86	85	-1.2
Unrestricted	51	51	0.0

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences declined by 1 to 19, while Class 'B' licences declined by 5, to settle at 260, since June 2007.

Europe and USA continued to dominate Cayman's banking licensees comprising 28.9% and 27.9% respectively. The other geographical sources of banking licenses are: South America 16.4%, Asia and Australia 10.4%, Caribbean and Central America 7.5%, Canada and Mexico 5.0% and Middle East and Africa 3.9%.

6.2 Insurance

The insurance business continued to strengthen as the total number of licences rose by 20 (or 2.6%) – from 780 in June 2007, to 800 as at June 2008.

Class 'A' insurance licences remained constant at 28, while Class 'B' (captive) licences increased by 20 to reach 772 over the review period.

Table 6.2A: Insurance Company Licenses

	Jun 2007	Jun 2008	% Change
Class 'A'	28	28	0.0
Class 'B'	752	772	2.7
Total	780	800	2.6

Source: Cayman Islands Monetary Authority

Cayman Islands is the world leader in the healthcare captive insurance sector. This sector remained the dominant primary class of business (constituting 36.0%) followed by the workers' compensation coverage (constituting 21.1%). The other major classes include property (11.4%), general liability (8.9%) and professional liability (8.3%).

Table 6.2B: Captive Insurance Licences by Primary Class of Business, March 2008

	Licences	%
Healthcare	278	36.0
Workers' Compensation	163	21.1
Property	88	11.4
General Liability	69	8.9
Professional Liability	64	8.3
Other	110	14.3
Total	772	100.0

Source: Cayman Islands Monetary Authority

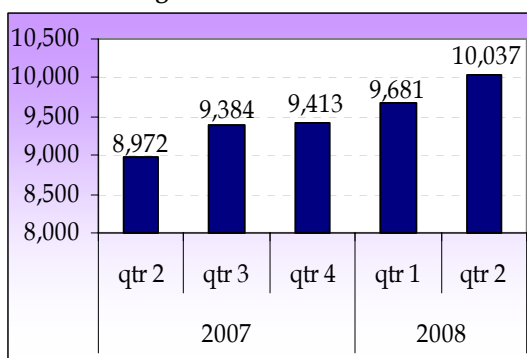
The prime geographical source for captive insurance licenses is North America (89.8%), followed by the Caribbean and Latin America region.

Premiums for captives rose by about US\$100 million to register at US\$7.6 billion at the end of June 2008.

6.3 Mutual Funds

Total mutual funds expanded by 11.9% or 1,065 since June 2007, to total 10,037 by the end of June 2008. This growth, however, represents a slowing growth compared to 14.1% in the first quarter of the year.

Figure 6.3: Mutual Funds



Source: Cayman Islands Monetary Authority

6.4 Stock Exchange

The Cayman Islands Stock Exchange's market capitalization improved to US\$197.3 billion in June 2008 compared to US\$126.6 billion a year ago, a 55.9% increase. The corresponding total stock listings rose by 17.9% to reach 1,586 as at June 2008. Mutual funds and specialist debts remained the dominant instruments (see Table 6.4). However, the fastest growing instruments were

specialist debt (203.2%) and Eurobonds (161.4%)

Table 6.4: Market Capitalization by Instruments (US\$ billions)

Instruments	Jun-07	Jun-08	% Change
Mutual Funds	88.8	90.4	1.9
Specialist Debt	27.1	82.2	203.2
Eurobond	8.7	22.6	161.4
International Equity	1.9	1.9	0.0
Domestic Equity	0.2	0.2	0.0
Total	126.6	197.3	55.9

Source: Cayman Islands Stock Exchange

6.5 New Companies Registration

During the first half of 2008, total new company registrations reached 6,838, a 3.3 percent decline compared to the same period a year ago. This was due to a decrease of 218 (or 3.5%) for exempt companies and 131 (46.3%) for non-resident companies which offset the increase of 30 (or 10.9%) for resident and 89 (or 45.6%) for foreign companies (see Table 6.5).

Figure 6.5: New Companies Registration

	2006	2007	2008
Total	6,238	7,068	6,838
Exempt (EX)	5433	6314	6096
Non-Resident (NR)	284	283	152
Resident (RES)	327	276	306
Foreign (FO)	194	195	284
Percentage change (%)			
Total	21.8	13.3	-3.3
Exempt (EX)	26.3	16.2	-3.5
Non-Resident (NR)	-11.0	-0.4	-46.3
Resident (RES)	-11.6	-15.6	10.9
Foreign (FO)	49.2	0.5	45.6

Source: Registrar of Companies

7. Tourism

Total visitor arrivals to the Cayman Islands as at June fell from 1,206,150 in 2007 to 1,079,795 in 2008 – a change of 126,355 (or by 10.5%).

The decline resulted from the continuing slide in cruise arrivals which accounted for 83.5% of total visitors. Cruise arrivals fell by 13.6% while air arrivals rose by 9.3%.

7.1 Air Arrivals

Air arrivals expanded by 9.3% during the period from 163,086 in 2007 to 178,321 this year.

The United States continued to be the major source of air arrival visitors contributing 81.3% of total arrivals. Other visitors emanated from Europe (6.6%), Canada (6.7%), and other countries (5.4%).

Table 7.1: Semi-Annual Air Arrivals

	2005	2006	2007	2008
	In Thousands			
USA	59.3	124.9	133.0	144.9
Northeast	18.3	40.9	44.7	51.3
Midwest	14.3	30.3	31.7	33.2
Southeast	14.1	27.1	27.6	28.6
Southwest	8.6	18.0	19.1	21.1
West Coast	4.0	8.6	9.9	10.7
Europe	6.1	9.1	11.0	11.8
Canada	5.3	9.2	10.1	11.9
Others	12.5	7.4	9.1	9.6
Total	83.2	150.6	163.2	178.2
<i>of Which: USA (%)</i>	71.3	82.9	81.5	81.3

Source: Department of Tourism

Between 2001 and 2004, U.S. visitors to the Cayman Islands through June averaged 82.6% of total air arrivals, which fell sharply to 71.2% in 2005 and rebounded to 82.9% in 2006, before falling in 2007 and 2008 to 81.5% and 81.3%, respectively. As U.S. air arrivals improved overall, this smaller (81.3%) share is due to higher growth in total air arrivals from other countries. Breaking down U.S. visitors by origin within the U.S. revealed that arrivals from all the regions improved over 2007.

Accommodation

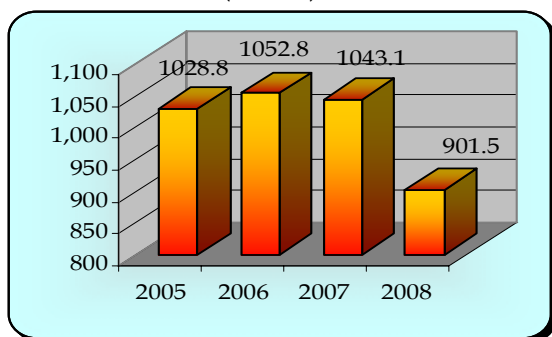
Occupancy levels for both hotels and apartments improved slightly from 70.2% in 2007 to 71.5% in 2008, and 46.5% to 53.1%, respectively.

The average length of stay for hotels showed a marginal decrease from 4.6 days to 4.5 days, while the average length of stay at apartments fell from 6.9 days to 6.2 days.

7.2 Cruise Arrivals

Cruise arrivals declined during the first half of the year. Whereas, 1,043,064 cruise passengers visited in 2007, a total of 901,474 visitors were noted this year.

**Figure 7.1: Semi-Annual Cruise Arrivals
(in '000)**



Source: Department of Tourism

As at June, the number of cruise ship calls decreased by 16.6% to 346 calls. Despite a brief upturn in 2006, this contraction began in 2004. Accordingly, cruise passengers per day averaged 5,008 persons, a decrease of 787 visitors compared to the first half of 2007.

8. Construction

All construction indicators weakened anew as of the first half of the year, including the total value of building permits (-26.2%) and projects approvals (-17.0%).

8.1 Building Permits

In the first six months of the year, the total value of building permits decreased by 26.2% from \$286.5 million in June 2007.

Table 8.1: Mid-Year Building Permits (in \$M)

	2005	2006	2007	2008
Houses	35.7	69.9	55.5	69.5
Apartments	22.8	61.3	74.7	40.5
Commercial	57.1	51.9	122.9	34.0
Government	0.0	0.0	0.6	62.2
Industrial	1.9	8.0	28.3	1.7
Other	2.8	18.9	4.4	3.6
Total	120.3	210.0	286.5	211.5

Source: Planning Department

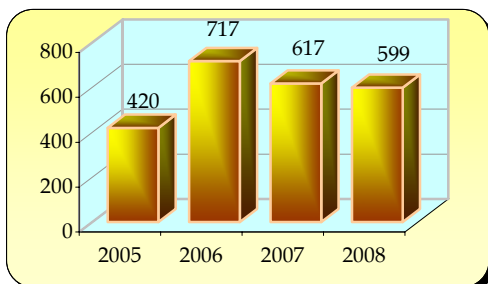
Both residential and non-residential sectors' building permits were lower for the first half of 2008. In contrast, the construction of new secondary schools pushed the government category to \$62.2 million.

Completion of several large-scale projects in the commercial and industrial sectors saw these categories fall respectively to \$34.0 million and \$1.7 million.

In the residential sector, building permits in the apartment/condominium segment totalled \$40.5 million, representing a drop of 45.8%. However, permits for houses rose by 25.2% to \$69.5 million.

The number of building permits also fell from 617 in June 2007 to 599, a 2.9% decrease (see Figure 8.1).

Figure 8.1: Mid-Year Number of Building (in \$M)



Source: Planning Department

8.2 Project Approvals

Project approvals, an early indicator of construction intentions, dipped in the first half of the year.

Compared to a year ago, the total value of project approvals fell by 17.0% from \$257.9 million in June 2007 to \$214.1 million.

Table 8.2: Mid-Year Project Approvals (in \$M)

	2005	2006	2007	2008
Houses	46.5	48.1	77.2	60.2
Apartments	215.9	154.7	59.4	67.4
Commercial	61.0	50.1	30.4	33.1
Government	1.4	5.0	51.4	18.2
Industrial	9.8	9.7	1.7	4.2
Other	41.3	36.7	37.9	31.0
Total	375.9	304.3	257.9	214.1

Source: Planning Department

The residential category declined by 6.5% on account of weaker demand for houses with its total value dropping by 22.0% after peaking at \$77.2 million in 2007.

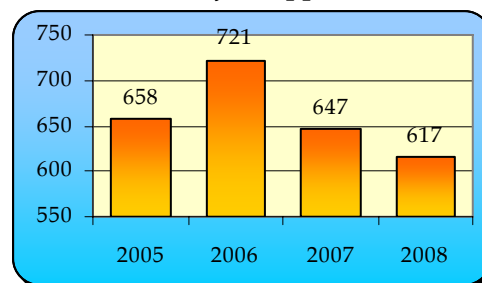
However, project approvals in the apartment/ condominium segment

edged up to \$67.4 million as at June 2008 after two consecutive years of decrease.

Project approvals for the non-residential sector also dipped on the whole. Lower construction intentions were noted in the government sector, while increases were recorded in the commercial and industrial components.

The number of planning approvals also fell by 4.6% from 647 in June 2007 (see Figure 8.2).

Figure 8.2: Mid-Year Number of Project Approvals



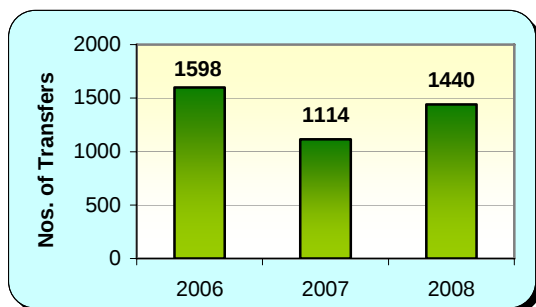
Source: Planning Department

9. Real Estate

The number of new additional properties traded in the first half of the year reached 326, bringing the total to 1,440, a 29.3 % increase compared to June last year (see Figure 9).

Freehold properties represented 85% or 1,224 of all properties traded.

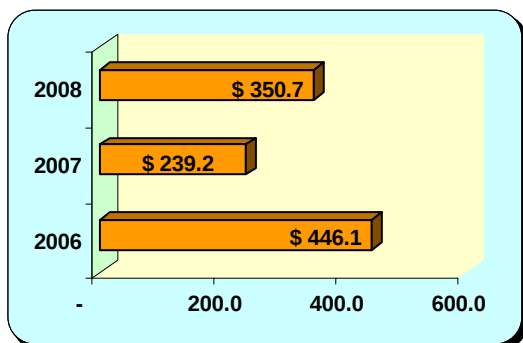
**Figure 9: Property Transfers,
Semi-Annual 2004-2007**



Source: Lands & Survey Department

Total value of transferred properties climbed from \$239.2 million to \$350.7 million in June 2008. In the leasehold category, the total value of properties traded shot up to \$64.9 million in 2008, compared to \$8.8 million in June 2007.

**Figure 9.2: Value of Property Transfers,
Semi-Annual 2004-2007**



Source: Lands & Survey Department

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