



CAYMAN ISLANDS
GOVERNMENT



THE CAYMAN ISLANDS'
FIRST
QUARTER
ECONOMIC
REPORT
201,



Contents

<i>Overview</i>	3
<i>1. International Economy</i>	4
<i>2. GDP Growth</i>	5
<i>3. Inflation</i>	6
<i>4. Trade</i>	8
<i>5. Labour Market Indicators</i>	8
5.1. Work Permits.....	9
5.2. Public Sector Employment.....	9
<i>6. Money & Banking</i>	9
6.1 Net Foreign Assets.....	10
6.2. Net Domestic Credit.....	10
6.3. Broad Liquidity/Money Supply.....	11
6.4. Interest Rates.....	11
<i>7. Financial Services</i>	14
7.1 Banks & Trust.....	14
7.2 Insurance.....	14
7.3 Mutual Funds.....	15
7.4 Stock Exchange.....	15
7.5. Company Registrations.....	16
7.6. Partnerships.....	16
<i>8. Tourism</i>	17
8.1. Air Arrivals.....	17
8.2. Cruise Arrivals.....	17
<i>9. Construction</i>	18
9.1. Building Permits.....	18
9.2. Project Approvals.....	18
<i>10. Real Estate</i>	19
<i>11. Utilities</i>	20
<i>12. Fiscal Operations of the Central Government</i>	20
12.1. Revenue.....	21
12.2. Expenditure.....	22
12.3. Investment in Non-financial Assets.....	23
12.4. Net Financing and Debt.....	24

Overview*

- Several advanced economies showed growth coupled with higher inflation in the first quarter of 2018 relative to the corresponding period of 2017.
- Gross domestic product (GDP) in real terms was estimated to have expanded at an annualised rate of 4.0% for the first three months of 2018. The forecast GDP growth for the year is maintained at 3.0%.
- The Consumer Price Index increased by 3.2% mainly due to higher prices across all the major categories of household expenses led by food and energy.
- Total merchandise imports increased by 8.9% to \$248.2 million with both oil and non-oil products increasing.
- Current work permits were relatively unchanged at 24,273. Civil service employment rose by 129 persons, with Caymanian staff increasing by 69 and non-Caymanian staff by 60.
- Money supply (M2) expanded by 15.3% due to higher CI dollar-denominated deposits and foreign currency deposit holdings by residents.
- Domestic credit expanded by 14.1% as credit to the private sector increased by 16.7% while public sector borrowings contracted by 13.1%.
- The number and value of foreclosed properties declined in the first quarter of 2018.
- The weighted average lending rate went up to 7.69% from 7.05%, and the prime lending rate increased to 4.67% from 3.92%.
- Bank and trust company licences decreased by 5.7% and insurance licences fell by 1.5%.
- Mutual funds, including “master funds” recorded an increase of 0.4%.
- The number of listings on the Stock Exchange increased by 30.9% and market capitalization increased by 27.1%.
- New company registrations rose to 4,474 or by 41.7%, the highest first quarter growth on record. New partnership registrations increased by 28.7% to 1,183.
- Air arrivals rebounded by 20.6%, the highest growth since the December 2006 quarter when arrivals went up by 34.9%. Cruise passenger arrivals rose by 17.6%.
- The value of building permits rose by 44.3% while project approvals fell by 86.7%.
- The value of property transfers rose to CI\$258.4 million.
- Electricity and water consumption rose by 2.8% and 3.6%, respectively.
- The central government’s overall fiscal surplus increased to \$186.8 million compared with \$176.9 million a year ago.
- The total outstanding debt of the central government declined to \$447.2 million from \$481.3 million a year ago.

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

1. International Economy

1.1 Economic Growth¹

Economic activity is estimated to have grown in the world's major economies during the first quarter of 2018. The United States' economy grew at an annualised rate of 2.2%, driven largely by higher personal consumption expenditure; investment; government spending; and exports. The United Kingdom (UK) and Euro Area recorded growth of 0.1% and 2.5%, respectively. UK's growth stemmed from a marginal increase in personal consumption expenditure, albeit a slower growth relative to the previous year.

The Canadian economy expanded by 1.3% in the first quarter of 2018 as all expenditure components expanded. Preliminary estimates revealed that China's economy grew at an annualised rate of 6.8%.

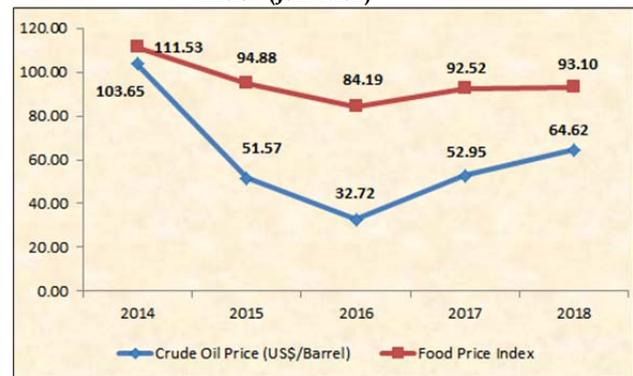
1.2 Inflation

The world's major economies recorded higher consumer prices for the first three months of 2018 relative to the comparable period in 2017. The USA and Canada recorded inflation rates of 2.2% and 2.1%, respectively. The UK and the Euro Area recorded respective inflation rates of 2.7% and 1.3%, while Japan and China registered inflation of 1.3% and 0.8%, respectively.

Inflation in these economies was mainly impacted by an increase in global

commodity prices. Notably, the price of crude oil averaged US\$64.62 per barrel compared with US\$52.95 per barrel in January–March 2017² (see Figure 1). Similarly, prices for base metals, precious metals and food rose during the period.

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



Source: World Bank commodity prices (The Pink Sheet)

The increase in world crude oil prices was due to stronger demand coupled with a reduction in global inventories as OPEC and non-OPEC members lowered production. Base metal prices rose on account of robust global demand and fears over tightening supplies, especially in China. The higher prices for precious metals were influenced by expectations of rising inflation and elevated concerns about geopolitical risks. The increase in food prices resulted from reduced wheat and maize plantings in the US and lower banana and soybean production in Central America and Argentina, respectively.

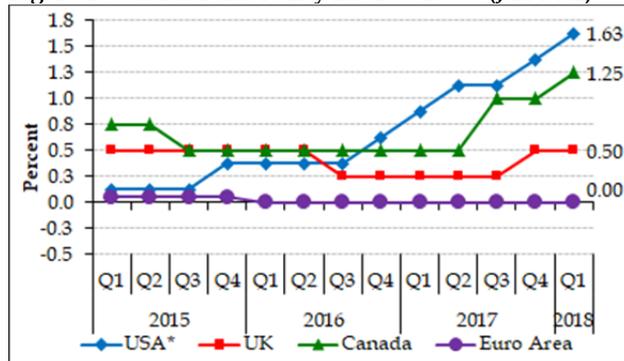
¹ Data sourced from the US Bureau of Economic Analysis, Statistics Canada, Office for National Statistics in the UK and the National Bureau of Statistics of China.

² Data sourced from The World Bank's Commodity Price Data and represent the average of Brent, Dubai and West Texas Intermediate prices.

1.3 Interest Rates and Exchange Rates³

The Federal Reserve raised the target range for its federal funds rate to 1.50% to 1.75% during the first quarter of 2018. This occurred against the background of a more positive outlook for the labour market and economic activity.

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



*The mid-point of the federal funds rate is used.

The Bank of Canada raised its policy interest rate in January 2018 by 25 basis points to end the quarter at 1.25%. The increase was predicated on inflation being close to target and the economy operating close to capacity. The Bank of England maintained its policy interest rate at 0.50% during the review period against a stable economic outlook and accommodating financial conditions. 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 ECB is expected to maintain an accommodative policy stance for the foreseeable future.

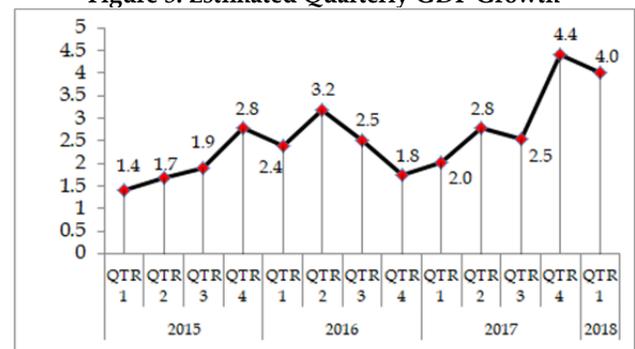
³ Data sourced from the US Federal Reserve, Bank of England, Bank of Canada and European Central Bank.

The US Dollar, on average, depreciated nominally against five of the world’s major traded currencies during the first quarter of 2018, compared with the similar period in 2017. Notably, the US Dollar weakened by 12.2% against the Great Britain Pound Sterling; 15.3% against the Euro; 4.4% against the Canadian Dollar; 4.6% against the Japanese Yen and 7.7% against the Chinese Yuan. The fall in the US Dollar is partially due to uncertainty about the future of government trade policy. This trend has been amplified in recent months as economic growth among advanced economies became more broad-based.

2. GDP Growth

The Cayman Islands’ real GDP is estimated to have grown at an annualised rate of 4.0% in the first quarter of 2018. This represents a sharp acceleration in economic activity relative to the 2.0% GDP growth in the first quarter of 2017 (Figure 3).

Figure 3: Estimated Quarterly GDP Growth



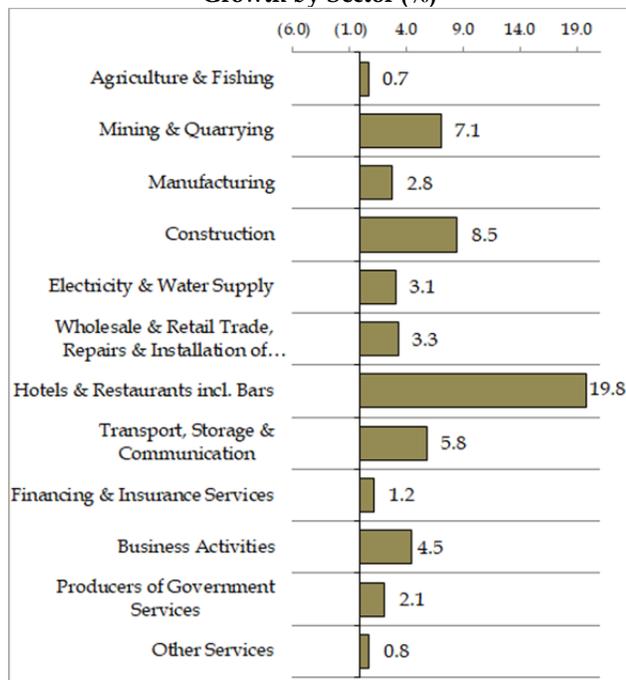
Source: Economics and Statistics Office

Economic expansion during the quarter occurred across all sectors with growth in hotels and restaurants (19.8%); construction (8.5%); transport, storage and

communication (5.8%); business activities, mainly legal and accounting (4.5%) and wholesale and retail trade, repair and installation of machinery (3.3%) being the major contributors (see Figure 4).

The financial services sector, which remains the largest contributor to GDP, had an estimated growth of 1.2%.

Figure 4: Estimated First Quarter 2018 Annualised GDP Growth by Sector (%)



Source: Economics and Statistics Office

The economic performance in the first quarter strengthens the macroeconomic outlook for calendar year 2018 with GDP growth of 3.0% (see Table 1). It is expected that growth in some sectors, notably tourism and transport will stabilize over the year with a positive outlook for all sectors.

Table 1: Macroeconomic Performance and Outlook as at March 2018

	2015	2016	2017	Projection 2018
	Percent (%)			
Real GDP*	3.0	3.1	2.9	3.0
CPI Inflation	-2.3	(0.7)	2.0	2.7
Unemployment Rate	4.6	4.2	4.2	4.4

* Real GDP is estimated for 2017

Source: Economics and Statistics Office

Demand for construction services is expected to remain strong throughout the year with some major projects continuing over the medium term. Construction activities are expected to be boosted by three major hotel projects over the next two to four years.

The consumer price index (CPI) inflation rate is forecasted to be higher at 2.7% in 2018. This is expected to be driven by rising crude oil prices in the international market, as well as increased demand in the US, our major source market. Inflationary pressure is also expected from higher demand for goods and services associated with the recent increase in population.

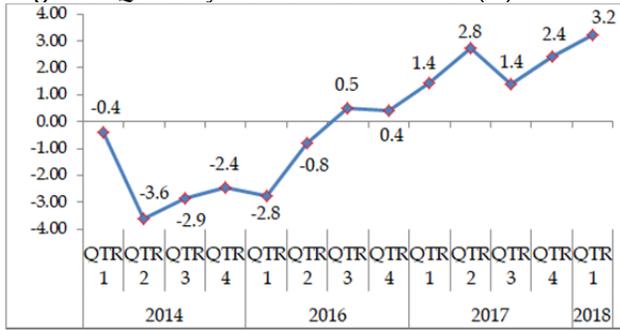
3. Inflation⁴

Average prices increased sharply in the first quarter of 2018, continuing an upward trend observed since the second quarter of 2016. The Consumer Price Index (CPI) as at March 2018 stood at 103.5, 3.2% higher when compared to March 2017. The sharper rise occurred as both food and non-

⁴ A detailed CPI report is posted at www.eso.ky

food prices surged by more than 3.0%. Higher prices were observed in all divisions of the CPI for the review period.

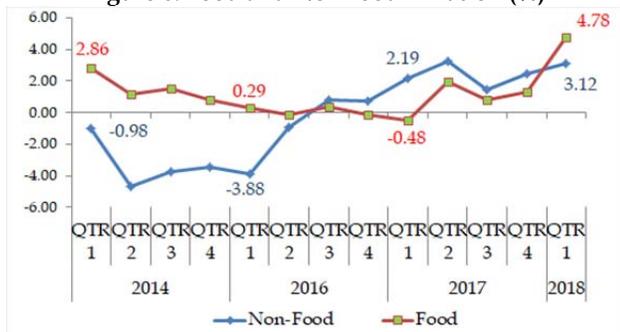
Figure 5: Quarterly Year-on-Year Inflation (%)



Source: Economics and Statistics Office

On average, prices for food and non-alcoholic beverages increased by 4.8%, a sharpe turn-around from the decline of 0.5% recorded in the corresponding period of 2017. The overall food price index was partly driven by price increases for fruits (up by 18.1%); milk, cheese and egg (up by 7.5%); and vegetables (up by 7.7%).

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



Source: Economics and Statistics Office

Among the non-food categories, the transport index moved up by 7.5% during the quarter as increases in crude oil prices were transmitted into the price of fuels and lubricants. Average prices of passenger transport by air and transport services also

increased by 21.6% and 3.4%, respectively, during the quarter compared to the same quarter in 2017.

The housing and utilities price index rose by 3.1%, mainly on account of increases in electricity cost by 16.5% and water supply and miscellaneous services by 2.6%. Similarly the price index for furnishings, household equipment and routine household maintenance increased by 3.7%, as the average price of furniture and furnishings increased by 13.7%.

Table 2: Inflation Rates by Categories

Categories	Avg. Inflation Rates (%)	
	Q1 2017	Q1 2018
Food & Non-alcoholic Beverages	-0.5	4.8
Alcohol and Tobacco	2.0	1.0
Clothing and Footwear	2.3	0.7
Housing and Utilities	3.8	3.1
Household Equipment	2.3	3.7
Health	-0.9	5.5
Transport	3.0	7.5
Communication	0.5	1.2
Recreation and Culture	1.0	0.4
Education	1.3	4.1
Restaurants and Hotels	3.4	0.2
Misc. Goods and Services	-3.0	1.0
Overall CPI Inflation	1.4	3.2

Source: Economics and Statistics Office

Notable price increases were also observed for the health index which increased by 5.5% on account of higher prices for pharmaceutical and medicinal products.

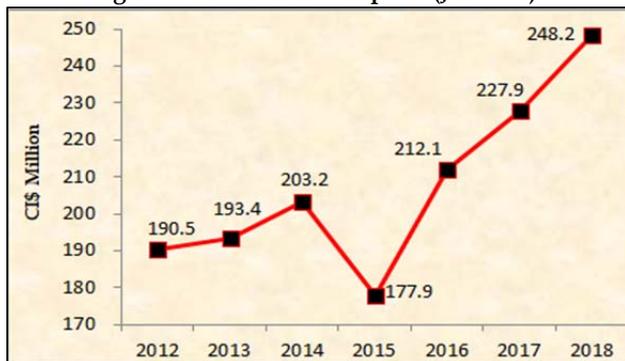
Other price increases include education (up by 4.1%), communication (up by 1.2%), alcoholic beverages and tobacco (up by 1.0%), clothing and footwear (up by 0.7%

and miscellaneous goods and services (up by 1.0%).

4. Trade⁵

The total value of merchandise imports increased by 8.9% to \$248.2 million in the first quarter of 2018 compared with the corresponding period of 2017 (see Figure 7). This performance was evident in all categories with the exception of commodities & transactions not classified elsewhere.

Figure 7: Merchandise Imports (Jan-Mar)



Source: Customs Department and ESO

The categories recording the largest increases were miscellaneous manufactured articles (up \$5.9 million to \$44.9 million); chemicals and related products (up \$5.8 million to \$17.6 million); and mineral fuels, lubricants and related materials (up \$5.1 million to \$30.4 million). The increase in the value of petroleum and related product imports was due to higher crude oil prices on the global market which outweighed a decline in the volume of fuel imports. Specifically, the volume of fuel imported during the first three months of the year declined by 5.7% relative to 2017.

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

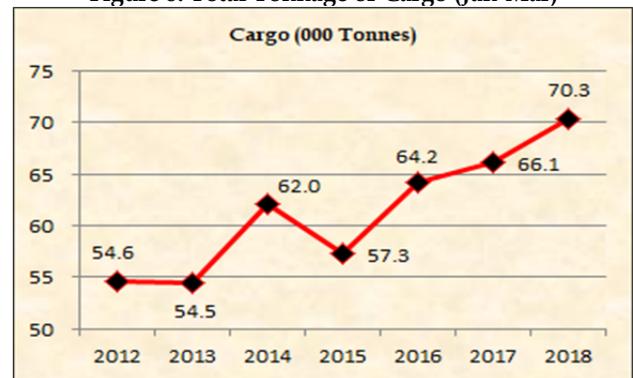
Table 3: Quantity of Fuel Imports (Jan-Mar)

	2016	2017	2018	% Change
	Millions of Imperial Gallons			
Total Fuel	11.8	12.6	11.9	(5.7)
Diesel	7.1	8.3	6.7	(19.3)
Gas	2.2	2.9	2.9	2.9
Aviation Fuel	1.8	1.0	1.9	78.0
Propane	0.7	0.4	0.4	(0.4)

Source: Cayman Islands Port Authority

The total tonnage of landed cargo increased by 6.3% to 70,262 tonnes (see Figure 8). Of this amount, containerized cargo accounted for 86.1% (60,489 tonnes), while bulk cement and break bulk cargo accounted for 12.1% (8,530 tonnes) and 1.8% (1,244 tonnes), respectively.

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



Source: Cayman Islands Port Authority

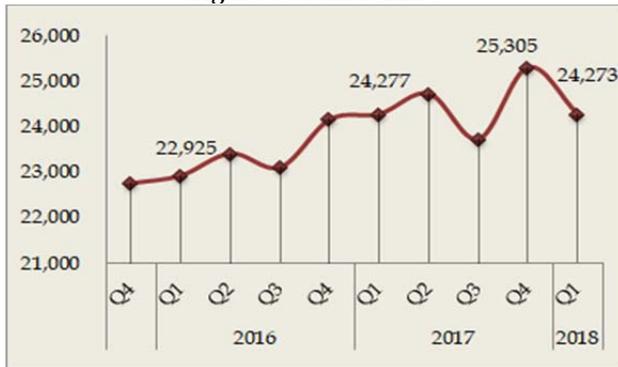
5. Labour Market Indicators

During the first three months of 2018, the demand for foreign labour was stable while public service employment continued to increase.

5.1. Work Permits

For the first three months of 2018, there were 24,723 work permits issued, four less than the total issued in the same period of 2017. The number also reflected a decline relative to the December 2017 quarter when 25,305 permits were issued.

Figure 9: Work Permits

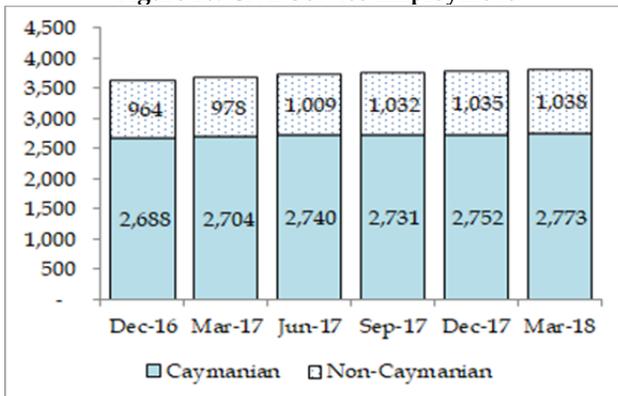


Sources: Immigration Department & ESO

5.2. Public Sector Employment

The number of civil servants employed by the Cayman Islands' government increased to 3,811 in the review period relative to 3,682 persons in the previous year. The number of Caymanian civil servants increased by 69 to 2,773, while non-Caymanian civil servants increased by 60 to 1,038.

Figure 10: Civil Service Employment

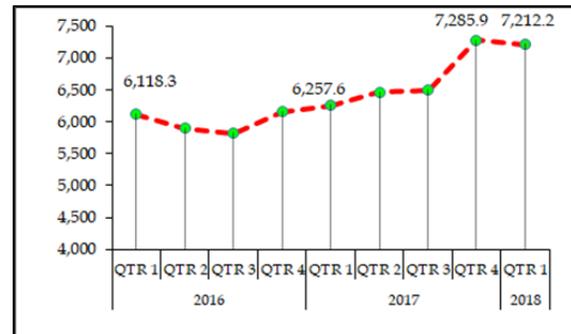


Source: Portfolio of the Civil Service

6. Money & Banking

For the first quarter of 2018, growth in both local and foreign currency denominated money supported a sharp increase in broad liquidity (M2) of 15.3% to \$7,212.2 million. Foreign currency deposits increased by 16.7%, while CI dollar-denominated money grew by 10.9% (see Figure 11 and Table 4).

Figure 11: Total Money Supply (M2) in CI\$ millions



Source: Cayman Islands Monetary Authority & ESO

Table 4: Monetary and Banking Summary Indicators (CI\$ millions)

	Mar-17	Mar-18	% Change
Total Assets	6,257.6	7,212.2	15.3
Net Foreign Assets	4,293.2	4,917.1	14.5
Monetary Authority	116.4	124.1	6.6
Commercial Banks	4,176.8	4,793.0	14.8
Net Domestic Assets	1,964.4	2,295.1	16.8
Domestic credit	2,957.4	3,373.3	14.1
Claims on central government	207.3	172.6	(16.8)
Claims on other public sector	55.5	55.9	0.6
Claims on private sector	2,694.5	3,144.8	16.7
Other items net	(993.0)	(1,078.2)	8.6
Broad Liquidity	6,257.6	7,212.2	15.3
Broad money (KYD) M2	1,592.2	1,765.8	10.9
Currency in circulation	109.5	116.6	6.5
KYD Deposits	1,482.8	1,649.2	11.2
Demand deposits	589.7	635.5	7.8
Time and savings deposits	893.0	1,013.7	13.5
FOREX deposits	4,665.4	5,446.4	16.7
of which: US dollars	4,231.1	5,102.1	20.6
US dollars share (%)	90.7	93.7	

Source: Cayman Islands Monetary Authority & ESO

The increase in M2, which also represents the liabilities of the monetary and banking sector, was matched by increases in both net foreign assets and net domestic assets.

6.1 Net Foreign Assets. The higher NFA among commercial banks largely reflected a decline in foreign liabilities in tandem with a stronger foreign asset base. Foreign liabilities fell by 9.4% mainly due to a 9.8% reduction in non-resident deposits. Foreign assets expanded by 2.1% with a rise in balances with banks and branches abroad of 37.1% outweighing reductions in non-resident loans and total investment.

Table 5: Net Foreign Assets (CI\$ millions)

	Mar-17	Mar-18	% Change
Net Foreign Assets	4,293.2	4,917.1	14.5
Monetary Authority	116.4	124.1	6.6
Commercial Banks	4,176.8	4,793.0	14.8
Foreign Assets	8,736.5	8,922.8	2.1
Bal. with Banks & Branches	3,383.2	4,639.4	37.1
Total Investment	2,537.9	2,424.4	(4.5)
Total Non-Resident Loans	2,815.5	1,858.9	(34.0)
Foreign Liabilities	4,559.7	4,129.8	(9.4)
Total Non-Resident Deposits	4,351.1	3,926.6	(9.8)
Other Liabilities	208.6	203.2	(2.6)

Source: Cayman Islands Monetary Authority & ESO

6.2. Net Domestic Credit. Domestic credit continued to be driven by expansions in loans to the private sector during the review period. Net domestic credit increased by 14.1% as loans to the private sector rose by 16.7% while public sector indebtedness continued on its downward trajectory, this time falling by 13.1%. The latter resulted from a fall in the amount of credit extended to the central government as there was a marginal increase in credit to parastatal and public authorities.

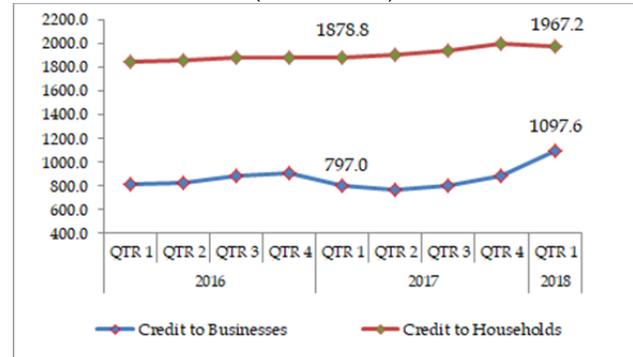
Table 6: Net Domestic Credit (CI\$ millions)

	Mar-17	Mar-18	% Change
Domestic Credit	2,957.4	3,373.3	14.1
Credit to Central Government	207.3	172.6	(16.8)
Credit to Other Public Sector	55.5	55.9	0.6
Credit to Private Sector	2,694.5	3,144.8	16.7

Source: Cayman Islands Monetary Authority & ESO

Credit to households increased by 4.7% to CI\$1,967.2 million during the quarter (see Figure 12). The growth in household loans is largely traced to increased borrowings for domestic properties, motor vehicles and education and technology, which rose by 4.8%, 22.2% and 6.3%, respectively (see Table 7).

Figure 12: Credit to Business and Households (CI\$ Million)



Source: Cayman Islands Monetary Authority & ESO

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

	Mar-17	Mar-18	% Change
Total Private Sector Credit	2,694.5	3,144.8	16.7
Credit to Businesses	797.0	1,097.6	37.7
Production & Manufacturing	145.5	155.2	6.6
Mining	4.8	4.6	(4.7)
Manufacturing	19.3	14.0	(27.4)
Utilities	17.1	17.7	3.6
Construction	104.3	118.8	14.0
Services	73.8	115.2	56.2
Accommodation, Food, Bar & Entertainment Services	14.3	47.2	230.5
Transportation, Storage & Communications	20.5	23.3	13.7
Education, Recreational & Other Professional Services	39.0	44.7	14.8
Trade and Commerce	510.7	764.3	49.7
Wholesale & Retail Sales Trade	50.2	168.0	234.4
Real Estate Agents, Rental and Leasing Companies	194.0	150.8	(22.3)
Other Business Activities (General Business Activity)	266.5	445.5	67.2
Other Financial Corporations	67.0	62.9	(6.1)
Credit to Households	1,878.8	1,967.2	4.7
Domestic Property	1,606.1	1,683.3	4.8
Motor Vehicles	46.5	56.9	22.2
Education and Technology	5.8	6.2	6.3
Miscellaneous*	220.4	220.8	0.2
NonProfit Organizations	18.7	80.0	328.2

*Miscellaneous include consolidated debt, insurance, medical & tra

Source: Cayman Islands Monetary Authority & ESO

6.3. Broad Liquidity/Money Supply.

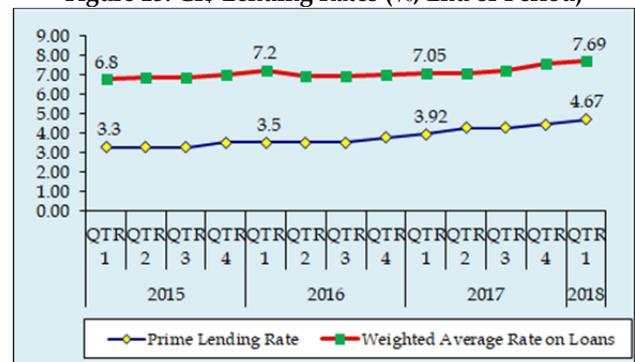
Broad liquidity (M2) in the Cayman Islands expanded in the first half of 2018 to settle at \$7,212.2 million, relative to \$6,257.6 million for the same period last year. The additional liquidity in the system was fostered by higher levels of both foreign deposits and local currency denominated currency.

Local currency denominated money supply expanded as currency in circulation and deposits increased by 6.5% and 11.2%, respectively. Similarly, foreign currency deposits rose by 16.7%, as residents'

holdings of US dollar-denominated deposits rose by 20.6%.

6.4. Interest Rates. The Cayman Islands' prime lending rate increased by 75 basis points to 4.67% as at March 2018, adding upward pressure on the KYD weighted average lending rate which edged upwards to 7.69% for the same period (see Figure 13).

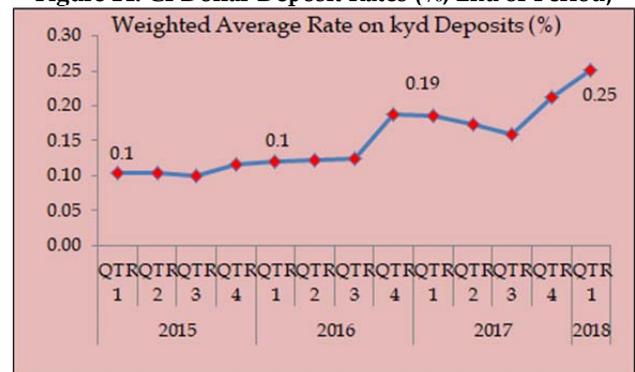
Figure 13: CI\$ Lending Rates (% End of Period)



Source: Cayman Islands Monetary Authority & ESO

The weighted average KYD deposit savings rate stood at 0.25% for the first quarter of 2018, higher than the 0.19% recorded a year ago (see Figure 14).

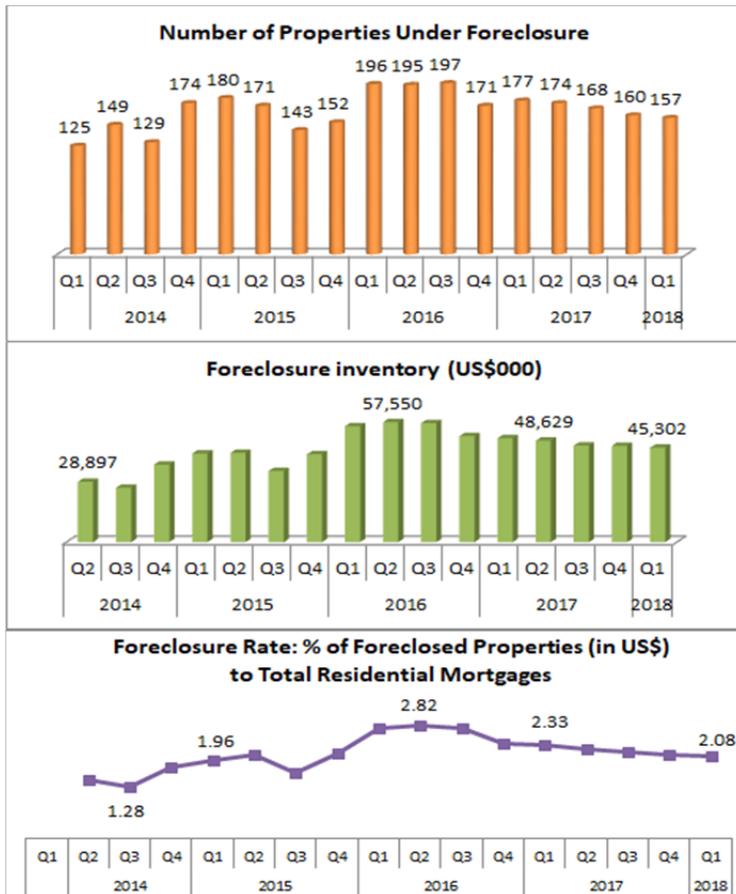
Figure 14: CI Dollar Deposit Rates (% End of Period)



Source: Cayman Islands Monetary Authority & ESO

Box 1: Mortgage Foreclosure Dynamics in the Cayman Islands

Indicators on mortgage foreclosure have been reported in the QER starting in the 2015 *Semi-Annual Report* based on data provided by CIMA. This note briefly describes recent trends of key quarterly foreclosure indicators.



The number of properties under foreclosure has trended downwards from its peak levels in the first three quarters of 2016, reaching 157 by the end of March 2018, albeit this is still higher than the 125 properties in the comparative period in 2014.

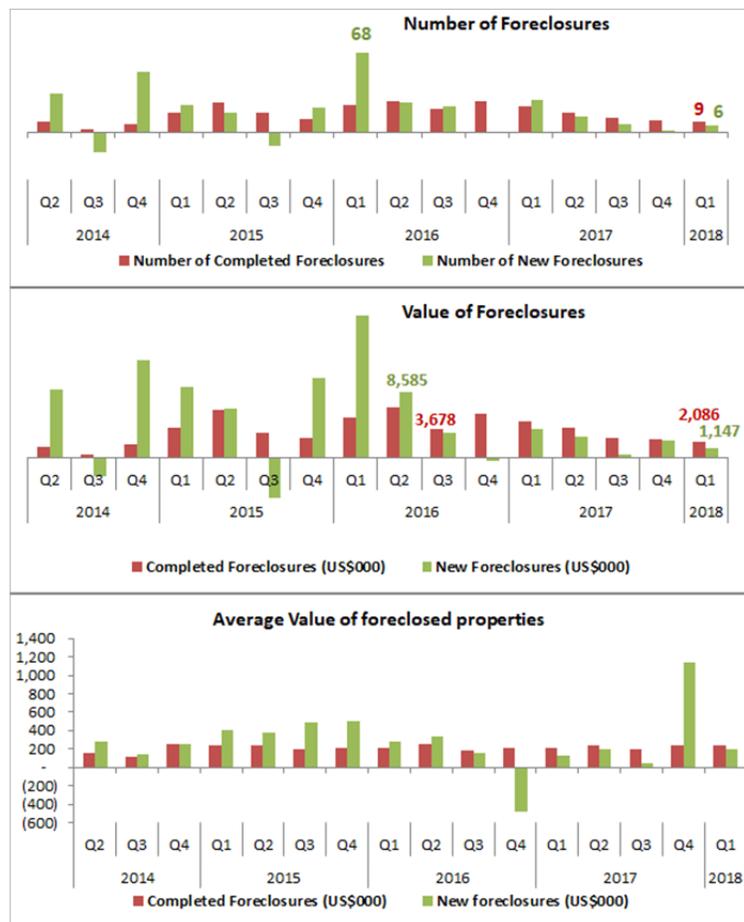
The total value of foreclosed properties also trended downwards, from the peak value of US\$57.6 million in the second quarter of 2016 to US\$45.3 million as of the first quarter of 2018. The latter, nonetheless, is more than twice the total value of foreclosed properties in 2014. In addition to the higher number of foreclosures, this could also be correlated to the average value of foreclosures which went up from US\$203,000 in the last three quarters of 2014 to US\$292,000 in 2016 and US\$289,000 in the first quarter of 2018.

The foreclosure rate (defined as the ratio of the total value of foreclosed properties to total residential mortgages) followed similar trends – there was a general upward trend from the lowest rate of 1.28% in the third quarter of 2014 to 2.82% in the second quarter of 2016 after which it gradually slid to 2.08% in the first quarter of 2018. This trend seems to indicate that lending by domestic banks for residential properties was not adversely impacted by the number or value of foreclosures. Total residential mortgages continued to rise from US\$2.0 billion in the second quarter of 2014 to \$2.2 billion as at the end of March 2018.

Dynamics of foreclosure inventory: For the foreclosure inventory to increase over any given period, the number of new foreclosures must exceed completed foreclosures⁶. An analysis of these two measures show that beginning in the second quarter of 2017, the count of completed quarterly foreclosures has consistently been greater than new foreclosures. Consequently, there has been a steady decline in the foreclosure inventory in number and value over this period as described earlier. In prior periods, the trend was erratic.

Beginning in the third quarter of 2016, the total value of completed foreclosures has persistently been greater than the total value of new foreclosures. In prior periods, new foreclosures exceeded completed foreclosures except in Q3 2015 and Q3 2016 when there were reductions in the value of new foreclosures.

The average value per foreclosed property (computed by dividing total value by total number) for both new and completed foreclosures went up persistently from 2014 to 2016 but both declined in 2017. The data for Q1 2018 are also lower than the average in 2017 and the value for Q4 2017. Notably, however, between 2014 and mid-2016 the average value of new foreclosures were generally higher than the value for completed foreclosure. While this could have been due in part to inflationary pressures it could have also be indicative of higher value properties being foreclosed than those being completed. This may create a concern with regards to the recent trend where the average value of new foreclosure is generally lower than completed foreclosure (except in Q4 2017 which may be an aberration). This could imply that lower valued homes were taking up a larger share of foreclosure inventory in the recent quarters.



⁶ Completed foreclosures are sold properties. New foreclosures is the difference between the foreclosure inventory as of end of the quarter and the foreclosure inventory as of the previous quarter net of completed foreclosures during the quarter. Negative values could be due to withdrawal or suspension of foreclosure proceedings.

7. Financial Services

Indicators of performance in the financial services sector displayed improvements for the first quarter of the year. Stronger performance was recorded in all categories with the exception of banks & trusts and insurance companies.

7.1 Banks & Trust

The banking system of the Cayman Islands continued to be impacted by challenges in the offshore banking space during the review quarter. Consequently, the number of licenced Bank and Trust companies declined by 5.7% to 149 for the review period.

The number of Class 'A' Bank & Trust licences remained at 11 while the number of foreign banks or Class 'B' licences decreased by 6.1% (or 9) to 138.

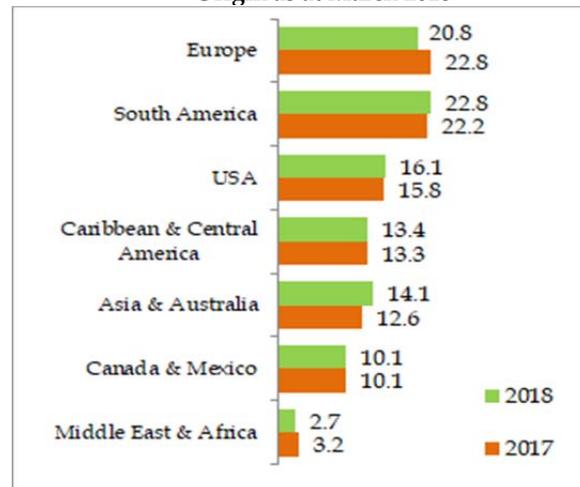
Table 8: Bank and Trust Companies

	Mar 2016	Mar 2017	Mar 2018	% Change
Banks & Trusts	179	158	149	(5.7)
Class A	11	11	11	-
Class B	168	147	138	(6.1)
Trust Companies	119	118	118	-
Restricted	62	61	61	-
Unrestricted	57	57	57	-

Source: Cayman Islands Monetary Authority

The number of trust company licences was unchanged at 118 at the end of March 2018, as both the number of 'Restricted' and 'Unrestricted' licences held firm.

Figure 15: Percentage Proportion of Banks by Region of Origin as at March 2018



Source: Cayman Islands Monetary Authority

A reduction in licences from Europe resulted in the region falling to the second largest source market, behind South America.

7.2 Insurance

The number of insurance licences contracted to 721 at the end of March 2018, a decline from the 732 at the end of March 2017.

Table 9: Insurance Companies*

	Mar 2016	Mar 2017	Mar 2018	% Change
Domestic - Class 'A'	29	29	28	(3.4)
Captives	<u>713</u>	<u>703</u>	<u>693</u>	(1.4)
Class 'B'	687	675	665	(1.5)
Class 'C'	25	25	25	0.0
Class 'D'	1	3	3	0.0
Total	742	732	721	(1.5)

Source: Cayman Islands Monetary Authority

*Class B: captives and segregated portfolio companies (SPC); Class C: special purpose vehicles; Class D: other captives.

Class 'A' licences, which represents domestic insurers, declined by 1 to 28, while captive licences fell by 10 to 693. Within captives, the entire reduction in licences occurred in the Class 'B' segment which fell from 675 licences to 665 licences. Class 'C' and Class 'D' licences remained unchanged at 25 and 3, respectively.

The primary classes of business within the captive insurance market continued to be Healthcare and Workers' Compensation, which accounted for 32.3% and 21.8% of the market, respectively. The 'Other' category was the third largest, representing 16.2% of the market.

Table 10: Captive Insurance Licences by Primary Class of Business

	Licences	%
Healthcare	224	32.3
Workers' Compensation	151	21.8
Property	67	9.7
General Liability	78	11.3
Professional Liability	61	8.8
Other	112	16.2
Total	693	100

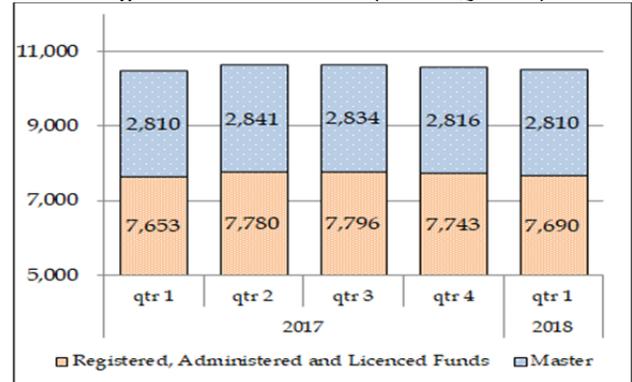
Source: Cayman Islands Monetary Authority

By risk location, North America remained the primary choice with 89.6% (621) of the captive insurance business.

7.3 Mutual Funds

Registered mutual funds in the Cayman Islands' increased by 0.4% to 10,500 at the end of March 2018 relative to the end of March 2017. This was attributed to an increase of 0.5% (to 7,690) in Registered, Administered & Licenced Funds. Master Funds remained unchanged at 2,810 for the period.

Figure 16: Mutual Funds (end of Quarter)



Source: Cayman Islands Monetary Authority

7.4 Stock Exchange

There was greater activity in the Cayman Islands Stock Exchange as a conduit for raising capital during the first quarter of the year.

The number of stocks listed on the exchange rose by 315 to 1,335 at the end of March 2018. Four of the seven categories recorded increases while one declined and two held firm. Specialist debt instruments registered the largest absolute increase, rising by 284 listings to 786. The number of sovereign debt instruments grew by 39 to 286.

Table 11: Number of Stock Listings by Instrument (as at end-March)

Instrument	2016	2017	2018
Investment Fund	251	233	215
Specialist Debt	563	502	786
Sovereign Debt Security	197	247	286
Primary Equity	7	3	4
Secondary Equity	1	1	1
Insurance Linked Security	43	33	42
Retail Debt	2	1	1
Total	1,064	1,020	1,335

Source: Cayman Islands Stock Exchange

Market capitalization increased by US\$56.9 billion to US\$267.0 billion as at March 2018. The growth in market capitalization reflected increases in all instruments except primary equity, which declined, and secondary equity, which was unchanged.

Table 12: Market Capitalization by Instrument
(US\$ Billion, as at end-March)

Instruments	2016	2017	2018
Investment Fund	9.3	9.8	11.3
Specialist Debt	83.9	99.2	149.7
Corporate & Sovereign			
Debt Security	98.1	95.5	100.1
Primary Equity	0.2	0.3	0.2
Secondary Equity	0.1	0.1	0.1
Insurance Linked Security	5.9	4.9	5.2
Retail Debt	0.0	0.4	0.4
Total	197.5	210.1	267.0

Source: Cayman Islands Stock Exchange

7.5. Company Registrations

There was a sharp increase in new company registrations for the first quarter of 2018. Specifically, new company registrations totalled 4,474, an increase of 41.7% compared with the corresponding period in 2017. This increase is the sharpest first quarter year-on-year growth on record.

The higher registrations reflected increases in all categories except 'Non-Resident' companies. The number of 'Exempt' (the largest category) and 'Resident' companies grew by 44.5% and 9.3%, respectively. 'Foreign' and Limited Liability' companies registered respective increases of 18.0% and 59.9%.

Table 13: New Company Registrations (Jan-Mar)

	2016	2017	2018
Total	2,915	3,158	4,474
Exempt	2,594	2,672	3,862
Non-Resident	14	5	3
Resident	134	183	200
Foreign	173	161	190
LLC	-	137	219
Percentage Change (%)			
Total	(7.9)	8.3	41.7
Exempt	(9.6)	3.0	44.5
Non-Resident	-	(64.3)	(40.0)
Resident	3.1	36.6	9.3
Foreign	13.8	(6.9)	18.0
LLC	-	-	59.9

Source: Registrar of Companies

7.6. Partnerships

During the first quarter of 2018, there were 1,183 new partnership registrations, an increase of 28.7% relative to the same period of 2017. This improvement reflected a continuation of the trend increases recorded in the preceding two years.

Table 14: New Partnership Registrations (Jan-Mar)

	2016	2017	2018
Total	893	919	1,183
Exempt	874	900	1,161
Foreign*	19	19	22
Percentage Change (%)			
Total	8.8	2.9	28.7
Exempt	8.7	3.0	29.0
Foreign*	11.8	-	15.8

Source: Registrar of Companies

8. Tourism

The tourism sector showed a strong recovery in the first quarter of the year, following a contraction in the previous year. Both air and cruise arrivals recorded increases for the period.

Figure 17: Total Arrivals for the First Quarter, 2015-2018



Source: Department of Tourism

8.1. Air Arrivals

Air arrivals rose to 134,170 in the review period, a 20.6% increase over the corresponding period of 2017, reflecting the highest quarterly growth since the December 2006 quarter when arrivals went up by 34.9%. Growth in arrivals was recorded across all regional markets, with the USA market recording the highest increase of 23.6%.

Arrivals from the Canadian market rose by 11.2% while the European and 'Other' regional markets increased by 4.9% and 6.3%, respectively.

Tourist arrivals during the quarter benefited from sustained economic growth in source countries. In addition, neighboring tourist destinations have yet to recover fully from the impact of hurricanes Irma and Maria.

Table 15: First Quarter Air Arrivals by Origin

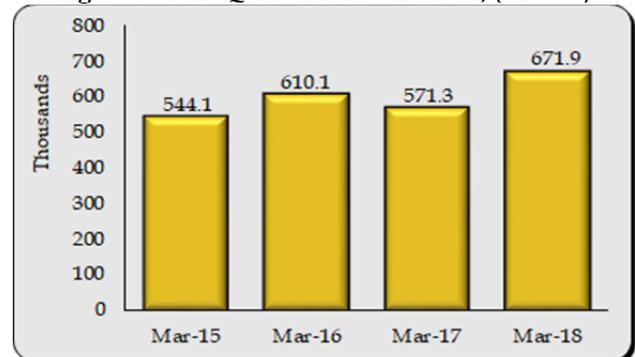
	2015	2016	2017	2018	% Change
In Thousands					
USA	88.9	89.4	89.8	111.0	23.6
Europe	9.6	8.5	6.4	6.7	4.9
Canada	10.1	9.3	9.7	10.8	11.2
Others	7.0	5.6	5.3	5.6	6.3
Total	115.6	112.8	111.2	134.2	20.6
USA (% share)	76.9	79.3	80.7	82.7	

Source: Cayman Islands Department of Tourism

8.2. Cruise Arrivals

During the months of January to March 2018, cruise arrivals increased by 17.6% to 671,935. This increase corresponded to a rise in the number of cruise ship calls to 241 from 209.

Figure 18: First Quarter Cruise Arrivals, (in 000's)



Source: Department of Tourism

9. Construction

Indicators of construction intentions remained mixed during the first quarter of 2018, with building permits increasing and approvals declining.

9.1. Building Permits

The value of building permits grew to \$41.9 million in the review period, a 44.3% increase relative to 2017. This increase mainly stemmed from growth in the apartment and commercial categories (see Tables 16).

Table 16: Building Permits (Jan-Mar)

	2016	2017	2018	% Change
Millions CIS				
Houses	24.6	19.8	13.3	(32.9)
Apartments	2.7	0.9	10.4	1,055.6
Commercial	2.7	1.6	17.2	975.5
Government	-	-	0.0	-
Industrial	1.9	2.0	-	-
Hotel	-	2.8	-	-
Other	3.8	1.9	1.0	(46.9)
Total	35.8	29.0	41.9	44.3

Source: Planning Department

The value of permits issued for commercial structures increased to \$17.2 million from \$1.6 million in the previous year. This level of activity was mainly due to a large commercial project and a warehouse project which accounted for 81.0% of permit values.

Greater building intentions in the apartment category resulted in an increase in value to \$10.4 million from \$0.9 million

in the previous year. A multi-million apartment complex dominated this increase, which included other small projects.

The number of building permits issued rose by 13.4% to 178 for the quarter.

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

	2016	2017	2018	% Change
Houses	58	57	44	(22.8)
Apartments	8	9	18	100.0
Hotels	-	2	0	-
Commercial	22	14	25	78.6
Government	0	0	1	-
Industrial	2	1	0	-
Other	101	74	90	21.6
Total	191	157	178	13.4

Source: Planning Department

9.2. Project Approvals

With the non-recurrence of some major projects, the value of approved projects fell to \$28.6 million in the review period with declines reflected in all categories. The decline reflects a stabilization of development projects after the recent years of strong expansion.

Table 18: Project Approvals (Jan-Mar)

	2016	2017	2018	% Change
Millions CIS				
Houses	25.7	37.6	16.7	(55.7)
Apartments	29.5	94.7	6.0	(93.6)
Hotel	0.4	-	-	-
Commercial	36.0	12.1	0.0	-
Government	6.3	0.2	-	-
Industrial	1.3	2.0	0.1	-
Other	7.7	68.3	5.8	(91.4)
Total	106.9	214.9	28.6	(86.7)

Source: Planning Department

Within the residential sector, the absence of larger projects particularly within the apartment category drove approvals down to \$22.7 million. The apartment category decreased by 93.6% while the houses category declined by 55.7%

Similarly, the value of approved projects in the non-residential sector fell to \$5.9 million. Notably, there were no approved projects within the hotel, commercial or government sectors.

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

	2016	2017	2018	% Change
Houses	56	73	46	(37.0)
Apartments	17	27	3	(88.9)
Hotels	1	0	0	-
Commercial	11	7	2	(71.4)
Government	2	2	0	-
Industrial	4	5	2	(60.0)
Other	138	182	81	(55.5)
Total	229	296	134	(54.7)

Source: Planning Department

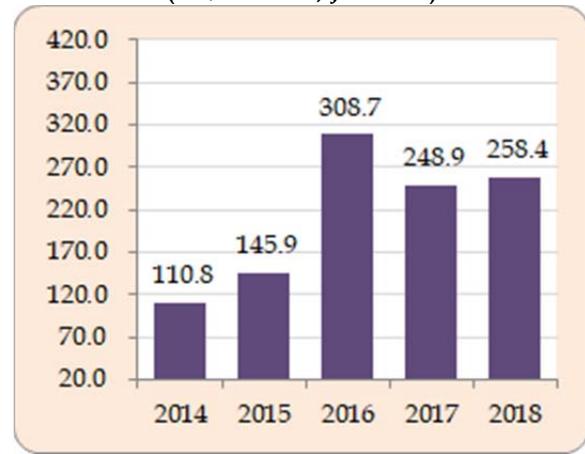
The number of project approvals contracted by 54.7% to 134 for the period.

10. Real Estate

Real estate activity, as measured by traded properties, strengthened in the first quarter of 2018 relative to 2017.

Traded properties totalled \$258.4 million, expanding by 3.8% relative to 2017. The value of transfers in the quarter was the second highest on record in recent history. The value of transfers reached a record high of \$308.7 million in the first quarter of 2016.

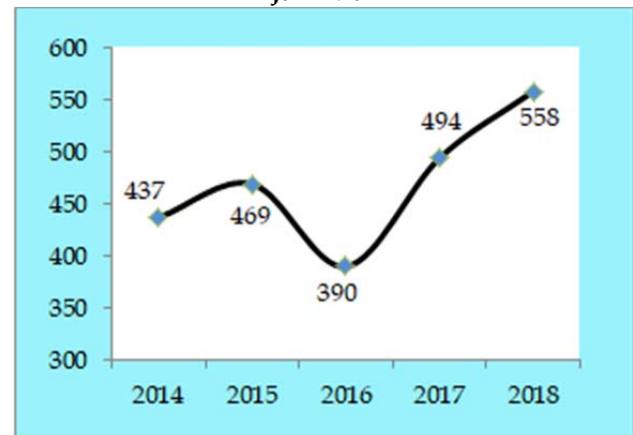
Figure 19: Value of Property Transfers: (CIS\$ Million, Jan-Mar)



Source: Lands & Survey Department

The trading of both freehold and leasehold properties contributed to the increase for the first quarter. The value of leasehold transfers increased by \$4.9 million to \$6.5 million, while the value of freehold property transfers increased by 4.6 million to \$251.8 million.

Figure 20: Number of Property Transfers: Jan- Mar



Source: Lands & Survey Department

Similarly, the total number of property transfers rose by 64 to reach 558. Freehold properties increased by 59 to 509, while leaseholds grew by 5 to 49.

11. Utilities

11.1 Electricity

Demand for electricity increased by 2.8% in the first three months of 2018, driven by a rise in the level of economic activity. The higher demand was reflected across the entire electricity customer base. Specifically, residential customers increased their consumption by 1.6%, while the public sector and commercial customers increased their consumption by 8.1% and 3.7%, respectively.

Table 20: Utilities Production and Consumption

	Mar-17	Mar-18	% Change
Millions of US Gallons			
Water Production	598.1	614.3	2.7
Water Consumption	515.8	534.6	3.6
'000 of megawatt hrs			
Electricity Production (Net)	146.4	143.0	(2.3)
Electricity Consumption	136.6	140.4	2.8
Residential	65.0	66.0	1.6
Commercial	70.0	72.6	3.7
Public	1.7	1.8	8.1
Total Customers	28,764	29,273	1.8
Residential	24,503	24,952	1.8
Commercial	4,261	4,321	1.4

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

Similarly, the electricity customer base increased for the period by 1.8%, comprising of a 1.8% increase in residential customers and a 1.4% increase in commercial customers. Notably, the average consumption of commercial customers increased while average consumption of residential customers was relatively unchanged.

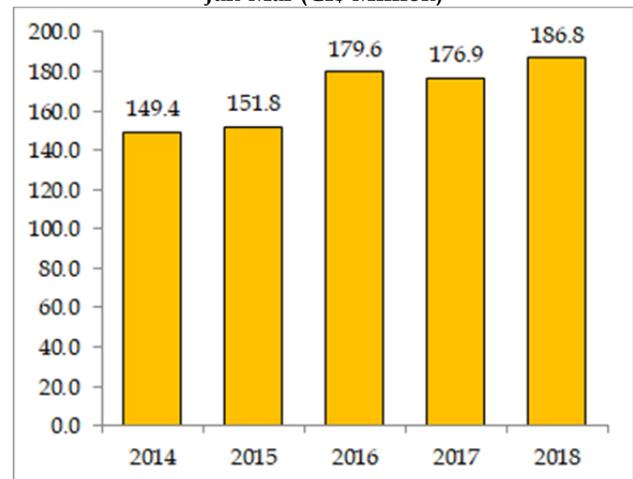
11.2. Water

Similar to the consumption of electricity, water consumption was boosted by the rise in economic activity; accordingly, the consumption and production of water increased by 3.6% and 2.7%, respectively.

12. Fiscal Operations of the Central Government⁷

Net lending (fiscal surplus) of the central government, which is revenue less total expenditure, rose to \$186.8 million in the first quarter of 2018 from \$176.9 million during 2017. This reflects the highest surplus on record for a March quarter (see Figure 21 and Table 22).

Figure 21: Central Government's Net Lending Jan-Mar (CIS\$ Million)



Source: Cayman Islands Treasury Department & Economics and Statistics

⁷ The tables, graphs and information presented in this section has been adjusted to conform with the 2014 Government Finance Statistics Manual 2014 published by the IMF.

The 5.6% increase in net lending was due to an increase in revenue which outweighed a rise in expenditure. The growth in revenue was observed in both coercive revenue (taxes) and non-coercive revenue. The increase in expenditure reflected higher outturns in both expenses (formerly current expenditure) and net investment in non-financial assets (formerly net capital expenditure and net lending).

The **net operating balance (formerly current balance)**, which is revenue minus expense, increased to \$195.1 million from \$182.7 million in the first quarter of 2017.

Table 21: Summary of Fiscal Operations

	Mar-17	Mar-18	Q/Q Change
CIS Million			
Revenue	326.0	345.6	6.0
Current Expense	143.3	150.5	5.0
Net Operating Balance	182.7	195.1	6.8
Net Investment in Nonfinancial Assets	5.8	8.3	44.1
Total Expenditure	149.1	158.8	6.5
Net Lending (Overall Balance)	176.9	186.8	5.6
Financing:			
Net Acquisition of Financial Assets	174.3	184.2	5.7
Net Incurrence of Liabilities	(2.6)	(2.6)	0.0

Source: Cayman Islands Treasury Department & Economics and Statistics Office

12.1. Revenue

Revenue rose by 6.0% to \$345.6 million for the quarter with taxes and other revenue contributing 96.1% and 3.9%, respectively (see Table 22).

Taxes: All major tax categories reflected increased collection during the quarter, with taxes on goods and services

registering the largest absolute increase of \$11.9 million to \$266.0 million. The other categories that increased were taxes on international trade & transactions, taxes on property, and other taxes.

During the review period, **tax receipts from international trade and transactions** rose by 3.8% to \$47.7 million. This was due to increases of 2.3% in import duties and 15.1% in 'other' levies on international trade and transactions. An improvement in duty collections on alcoholic beverages, tobacco products and 'other' import duties boosted international duty collection for the period. Notwithstanding the general rise in import duties, collections from the import of gasoline and diesel products declined as the volume of fuel imports fell.

Table 22: Revenue Collection of the Central Government

	Mar-17	Mar-18	Q/Q Change
CIS Million			
Revenue	326.0	345.6	6.0
Taxes	313.5	332.2	6.0
Taxes on International Trade & Transactions	45.9	47.7	3.8
Taxes on Goods & Services	254.1	266.0	4.7
Taxes on Property	13.4	18.5	38.0
Other Taxes	0.0	0.1	25.0
Other Revenue	12.4	13.4	7.6
Sale of Goods & Services	10.1	10.2	0.9
Property Income	1.6	2.5	60.1
Fines, Penalties and Forfeits	0.6	0.6	(9.0)
Transfers n.e.c.	0.1	0.0	(40.0)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Increased collection was also contributed by cruise ship departure charges and environmental protection fund fees which rose by 16.9% and 12.0%, respectively.

Cruise ship departure charges reflected the higher number of cruise passengers for the quarter.

Revenue collected from taxes on goods & services increased by 4.7% to \$266.0 million in the first three months of 2018 (Table 23). Financial service licences accounted for majority of the increase in this category, rising by \$9.9 million (or 4.9%) to \$209.4 million. This increase reflected marked increases in new partnership and new company registrations. Additionally, there was a notable increase in 'other' domestic taxes by 10.2% to \$30.5 million.

Table 23: Domestic Taxes on Goods & Services of the Central Government (CIS\$ Million)

	Mar-17	Mar-18	% Change
Financial Service Licences	199.5	209.4	4.9
ICTA Licences & Royalties	1.9	2.0	5.9
Work Permit and Residency Fees	19.8	19.3	(2.8)
Other Stamp Duties	2.8	2.5	(10.8)
Traders' Licences	2.4	2.4	(3.2)
Other Domestic Taxes	27.6	30.5	10.2
Of which:			
Tourist Accommodation Charges	10.2	10.6	3.9
Motor Vehicle Charges	2.9	3.0	2.9
Taxes on Goods & Services	254.1	266.0	4.7

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Taxes on property rose by 38.0% to \$18.5 million due to higher revenue from stamp duty (Table 22).

Other revenue grew to \$13.4 million at the end of the quarter, 7.6% higher than the corresponding quarter a year ago. Property income (formerly investment revenue, which includes interest income, distributed

income of corporations, investment income and rent) increased by 60.1% to \$2.5 million.

12.2. Expenditure

Total expenditure for the first quarter of 2018 increased as spending on both expenses and investment in non-financial assets⁸ rose for the quarter.

Current expense (formerly current expenditure) increased by 5.0% to \$150.5 million owing to higher spending in employee compensation, social benefits and 'other' expense (see Table 24).

Table 24: Current Expenditure of the Central Government

	Mar-17	Mar-18	% Change
	CIS Million		
Current Expense	143.3	150.5	5.0
Compensation of Employees	64.7	70.0	8.1
Use of Goods and Services	22.1	21.2	(4.1)
Consumption of Fixed Capital	8.4	8.0	(4.4)
Subsidies	35.2	33.8	(3.9)
Social Benefits	5.3	9.2	75.6
Interest	6.5	6.0	(8.5)
Other Expense	1.2	2.4	98.5

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Compensation of employees (formerly personnel costs) rose by 8.1% to \$70.0 million. This was attributed primarily to increases in salaries and wages (including employee pension contributions) and healthcare, both of which could be

⁸ Net investment in nonfinancial assets is gross investment in nonfinancial assets less consumption of fixed capital.

associated with the higher number of employees.

Social benefits (formerly transfer payments) totalled \$9.2 million for the quarter, an increase of 75.6% over the corresponding quarter of 2017. Within this category, scholarships and bursaries increased by \$3.4 million while financial assistance vouchers and financial assistance for poor relief rose by \$1.0 million.

Other expense rose to \$2.4 million, mainly due to an additional \$0.9 million spending on general insurance.

In contrast, subsidies, which are payments to statutory authorities and corporations, recorded the largest decline in expenses of 3.9%. The Health Services Authority saw the largest reduction in subsidies for the quarter (down by \$1.1 million to \$7.3 million).

Use of goods and services (formerly supplies and consumables) decreased by 4.1% to \$21.2 million, with general insurance and purchase of services registering the largest declines.

Consumption of fixed capital (formerly depreciation) which is a decline in the value of fixed assets owned and used by central government as a result of physical deterioration, normal obsolescence or normal accidental damage fell by 4.4% to \$8.0 million.

Interest expense fell by 8.5% for the review period, consistent with the reduction in the debt stock (see Section 11.4).

12.3. Investment in Non-financial Assets

During the first quarter of 2018, gross investment in non-financial assets (formerly gross capital expenditure and net lending) increased by 15.4% to \$16.3 million (see Table 25). This increase reflected a rise in fixed assets⁹ as there were no non-produced assets¹⁰ during the first quarters of 2017 and 2018. Net investment in non-financial assets increased by 44.1% in the review quarter, as gross investment outweighed depreciation.

Within fixed assets, capital investment in statutory authorities and government owned companies increased by \$9.3 million to \$12.6 million. The main recipients of the higher investments were Cayman Airways Limited (up \$7.5 million to \$8.8 million) and Cayman Islands Development Bank (up \$2.3 million to \$2.3 million).

Table 25: Investment in Non-financial Assets

	Mar-17	Mar-18	% Change
	CIS Million		
Gross Investment in Non-financial Assets	14.1	16.3	15.4
Fixed Assets	14.1	16.3	15.4
Non-Produced Assets	-	-	-
Net Investment in Nonfinancial Assets¹	5.8	8.3	44.1

Source: Cayman Islands Treasury Department and Economics and Statistics Office

In contrast, capital investment in ministries and portfolios declined by \$1.5 million. Similarly, expenditure on executive assets

⁹ This category includes expenditure on buildings and structures as well as machinery and equipment.

¹⁰ Comprises of investment in tangible assets, natural resources over which ownership rights are enforced and intangible non-produced assets.

decreased by \$5.5 million to \$3.4 million, mainly due to reduced expenditure on ongoing land purchase and the George Town Revitalization Project.

12.4. Net Financing and Debt

Net acquisition of financial assets, which includes the cash balance of the government, increased by 5.7% to \$184.2 million in the first quarter of 2018 (see Table 26). Loan repayment amounted to \$2.6 million, similar to the corresponding period in 2017. There were no loan disbursements over the review period.

Table 26: Net Financing

	Mar-17	Mar-18	% Change
CIS Million			
Financing:			
Net Acquisition of Financial Assets	174.3	184.2	5.7
Net Incurrence of Liabilities	(2.6)	(2.6)	0.0
Incurrence (Disbursement)	0.0	0.0	-
Reduction (Loan Repayment)	2.6	2.6	0.0

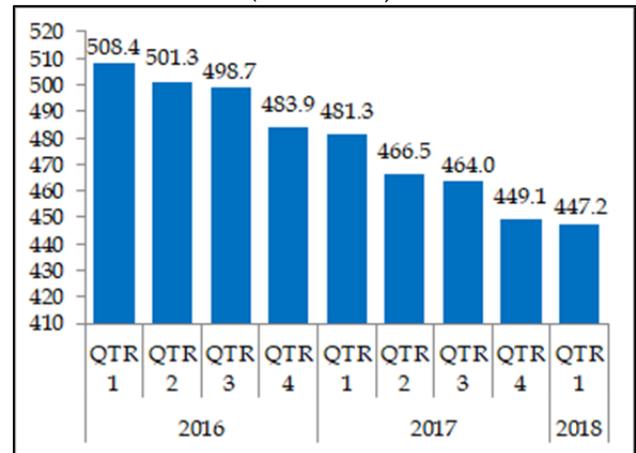
Source: Cayman Islands Treasury Department

The central government’s outstanding debt continued to decline after peaking at the end of the second quarter of 2011. The debt stood at \$447.2 million at the end of March 2018, \$34.1 million lower than the stock at

the end of March 2017 (see Figure 22). In comparison with the end of June 2011, the debt fell by 28.9% or \$181.9 million.

The central government’s debt service-to-revenue ratio was 2.5% for the first three months of 2018 relative to 2.8% for 2017. Interest expense accounted for 4.0% of total expense compared with 4.6% in the corresponding quarter of 2017. Interest expense as a proportion of revenue declined to 1.7% from 2.0% in the comparable period of 2017.

Figure 22: Central Government Outstanding Debt (CIS\$ Million)



Source: Cayman Islands Treasury Department

ACKNOWLEDGMENT

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**Caribbean Utilities Company
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Cayman Islands General Registry
Cayman Islands Monetary Authority
Cayman Islands Planning Department
Cayman Islands Stock Exchange
Cayman Islands Water Company
Department of Immigration
Lands and Survey Department
Port Authority of the Cayman Islands
Portfolio of the Civil Service
Utility Regulation and Competition Office**

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