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# THE CAYMAN ISLANDS' ANNUAL ECONOMIC REPORT 2006

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## **1. Executive Summary**

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1.1 Following the exceptional growth in 2005, the pace of economic expansion moderated in 2006 as gross domestic product (GDP) grew at an estimated rate of 4.6 percent, down from 6.5 percent a year ago.

1.2 The estimated mid-year population reached 51,992 growing by 7.5 percent over the mid-year population in 2005. This population growth being faster than the nominal GDP growth in 2006 resulted in a slight decline in GDP per capita to reach \$39,137 in 2006<sup>1</sup>.

1.3 Economic growth in 2006 was stimulated on the demand side by renewed growth in demand for tourism services, government consumption and government capital spending as demand for investment in capital goods receded with the completion of the post-Ivan reconstruction work and in the midst of a rise in real interest rates. Upward movement of demand indicators include those of consumer imports (up by 24.6%), electricity consumption (up by 14.9%) and water consumption (up by 19.9%).

1.4 On the production side, robust performances from the financial and tourism services sector, supported by continued, albeit, slower growth of the construction industry were key to the economic growth in 2006.

1.5 Resilience within the financial services industry was marked by a 14.5 percent increase in mutual funds. Other notable upward movements were stock exchange listings (15.2%), insurance licenses (1.1%), and stock exchange capitalization (40.5%). However, banks and trusts fell by 4.6 percent, primarily due to an on-going series of acquisitions and consolidations in the banking industry worldwide.

1.6 The year 2006 saw a strong recovery in the tourism sector: visitor arrivals totalled \$2.2 million, an increase of 11.7 percent over 2005. Air arrivals surged by 59.3 percent to reach 267,257 in 2006.

1.7 Construction remained a growth sector in 2006 as building permits reached 1,290 (or 33.3% higher than in 2006) valued at \$445.8 million. There were

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<sup>1</sup> All values in this report are in CI\$ unless specified otherwise.

529 certificates of occupancy valued at \$207.6 million issued during the period, this being 21.8 percent above 2005. The value of planning approvals remained on the uptrend as it expanded anew by 22.8 percent.

1.8 The real estate market posted a mixed performance in 2006. The volume of property transfers rose by 34.3 percent while total value slid down by 24.1 percent indicating that average value of property transfers declined compared to 2005.

1.9 The Consumer Price Index moved up throughout 2006. From -0.9 percent in March 2006, this inflation rate inched up by 0.9 percent in June, 1.4 percent in September and 1.6 percent in December. Nonetheless, the average inflation rate of 0.8 percent in 2006 represented a sharp decline from the 7.3 percent in 2005. This can be attributed to the increase in supply of private residences to cause a downward pressure on housing cost.

1.10 Total employment as a proportion of the labour force improved to 97.4% in spring 2006 from 96.5% in fall 2005. Hence, the unemployment rate fell to 2.6 percent compared to 3.5 percent in fall 2005.

1.11 As expected, the winding down of the post-Ivan reconstruction work led to a decline in merchandise imports to \$906.1 million from \$995.3 million a year ago. This is traced mainly to the reduction in capital goods imports by 27.0 percent, and in intermediate goods by 42.0 percent. On the other hand, imports of consumer goods recorded a robust growth of 24.6 percent in 2006 which could be linked to the recovery of stay-over tourism during the year. The value of fuel imports also grew by 5.4 percent which could be traced to the increase in unit price by 15.3 percent.

1.12 Total money supply (M2) increased by 22.7 percent to reach CI\$6.3 billion (US\$7.5 billion) compared to 10.5 percent decline in 2005. This growth in money supply emanated primarily from a 27.2 percent increase in foreign currency deposits held by residents during the year.

1.13 Net domestic credit extended by the commercial banks increased by 9.1 percent to reach \$2.1 billion. This was comprised of net credit to the public sector which rose by 5.5 percent, and credit to the private sector which rose by 9.4 percent.

1.14 The net foreign asset position of local commercial banks increased by 18.5 percent to \$4.7 billion, mainly as a result of increases in investment and loans to non-residents.

1.15 The fiscal sector had another strong year in 2006 with a current surplus of \$116.1 million or 5.7 percent of GDP in 2006. Overall surplus was \$67.3 million, an improvement over the \$3.4 million deficit in 2005. This strong performance resulted in a build up of cash reserves and amortization of central government loans. The central government's total outstanding debt stood at \$168.4 million as at December 2006 or 8.3 percent of GDP.

1.16 GDP growth in 2007 is projected at 3.8 percent. This modest prospect is aligned with the downscaling of GDP growth in advanced economies which make up the dominant markets of the Cayman Islands' financial and tourism services. Inflation rate in 2007 is expected to rebound to 3.6 percent mainly due to pressures to the cost of personal services arising from a tightening labour market.

**The Cayman Islands Economic Performance: Summary Indicators**

<b>Indicators</b>	<b>2005</b>	<b>2006</b>
GDP growth in real terms (percent)	6.5	4.6
GDP per capita (in \$)	39,913	39,137
Nominal GDP (\$million)	1,929.9	2,034.8
Population (year-end)	52,465	53,172
Of which Caymanians	31,787	32,265
Population (mid-year)	48,353	51,992
Employment	35,464	35,016
Unemployment rate (percent of labour force)	3.5	2.6
Inflation rate (percent)	7.3	0.8
Total imports (in \$million)	995.3	906.1
Total imports (percent of GDP)	51.6	44.5
Overall fiscal balance of the central government (\$million)	-3.4	67.3
Overall fiscal balance of the central government (percent of GDP)	-1.8	3.3
Outstanding debt of the central government (\$million)	172.9	168.4
Outstanding debt of the central government (percent of GDP)	9.0	8.3
Total money supply (M2, in billion)	5.1	6.3
Stay-over tourists (in thousands)	167.8	267.3
Cruise ship passengers (in thousands)	1,799.0	1,930.1
Mutual fund licenses	7,106	8,134
Insurance licenses	759	767
Banking and trust licenses	305	291
Trust companies	127	135
Stock exchange listings	1,015	1,169
Company registration	74,905	83,532
Stock exchange capitalization (US\$, in billion)	75.6	106.2
Building permits (\$million)	335.8	445.8
Planning approvals (\$million)	520.5	638.9
Property transfers (\$million)	450.8	342.0
Electricity consumption (percent growth)	13.0	14.9
Water consumption (percent growth)	3.9	19.9
Total fixed and mobile telephone lines	110,656	122,167

## 2. Global and Regional Macroeconomic Environment

*The Cayman Islands' economic performance in 2006 was supported by a more robust global economy, particularly among the advanced economies which make up the key markets for tourism and financial services. This review is based on information culled from the International Monetary Fund and other international organizations.*

### 2.1 Economic Growth

The global economy grew by 5.4 percent in 2006 compared to 4.9 percent in 2005, as the advanced economies grew by 3.1 percent and the emerging and developing countries rose by 7.9 percent. The vigorous global performance occurred amidst a slower growth in oil prices but higher interest rates. World trade rose by 9.1 percent, with the exports of advanced economies expanding by 8.4 percent while those of other emerging market and developing countries also growing by 10.6 percent. Meanwhile, domestic demand was stronger across many advanced economies in 2006, except in the United States, Japan and Canada.

Growth in the Cayman Islands outpaced the economic performance of the main North American trading partners during 2006. US growth improved slightly in 2006 at 3.3 percent from 3.2 percent in 2005, despite a softening in private consumption and gross domestic capital formation marked by a sharp downturn in the housing market. Canada's growth slowed during the year due to a timid growth in domestic demand.

**Table 2.1A: Global Economic Growth**

	2005	2006
	in Percent (%)	
World GDP	4.9	5.4
Advanced economies	2.5	3.1
US	3.2	3.3
Euro area	1.4	2.6
Japan	1.9	2.2
UK	1.9	2.7
Canada	2.9	2.7
Emerging market and developing countries	7.5	7.9
China	10.4	10.7
India	9.2	9.2

Source: International Monetary Fund (April 2007)

The Euro area recorded the highest growth in six years, as the German, French, and Italian domestic markets expanded at healthy rates in 2006. Developing countries also posted another year of rapid growth through investment and export expansions, particularly in China and India. Japan's economy in 2006 was boosted by private investment and rising export growth.

In 2006, the Caribbean recorded a stronger performance over the previous year. Growth in the Caribbean was 8.3 percent compared to 6.5 percent in 2005, as the region saw booming construction sectors, mainly due to stadiums, accommodation facilities and physical infrastructure built in preparation for the hosting of the 2007 Cricket World Cup. Additionally, the region continued to enjoy strong demand for tourism services. Trinidad and Tobago also gained further momentum from strong petroleum prices in the world market.

**Table 2.1B: Regional Economic Growth**

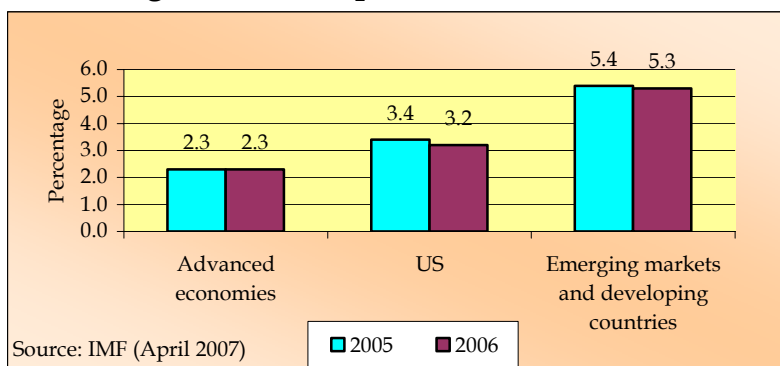
	2005	2006
	in Percent (%)	
Caribbean	6.5	8.3
Bahamas	2.7	4.0
Barbados	4.1	3.5
Trinidad & Tobago	7.9	12.0
Jamaica	1.4	2.7
OECS		
Antigua & Barbuda	5.3	8.0
Dominica	3.4	4.1
Grenada	12.1	2.1
St. Kitts & Nevis	4.1	4.6
St. Lucia	5.8	4.2
St. Vincent & the Grenadines	2.2	4.1

Source: International Monetary Fund (April 2007)

## 2.2 Inflation

The increase in consumer prices across advanced economies was stable at 2.3 percent, helped by a tamer inflation rate in the US. The latter softened slightly to 3.2 percent in 2006 despite higher wage costs in a tight labour market with slowing productivity. The easing of inflation in the US seems to indicate the effectiveness of the US Federal Reserve's higher interest rate policy.



**Figure 2.2A Comparative Inflation Rate**


Regionally, the inflation rate in the Caribbean averaged at 8.0 percent in 2006 which was higher than the 6.7 percent posted in 2005. The inflation rates in Barbados and Trinidad and Tobago further inched up in 2006 while those of Jamaica and Bahamas moderated.

**Table 2.2A Comparative Inflation Rates (%)**

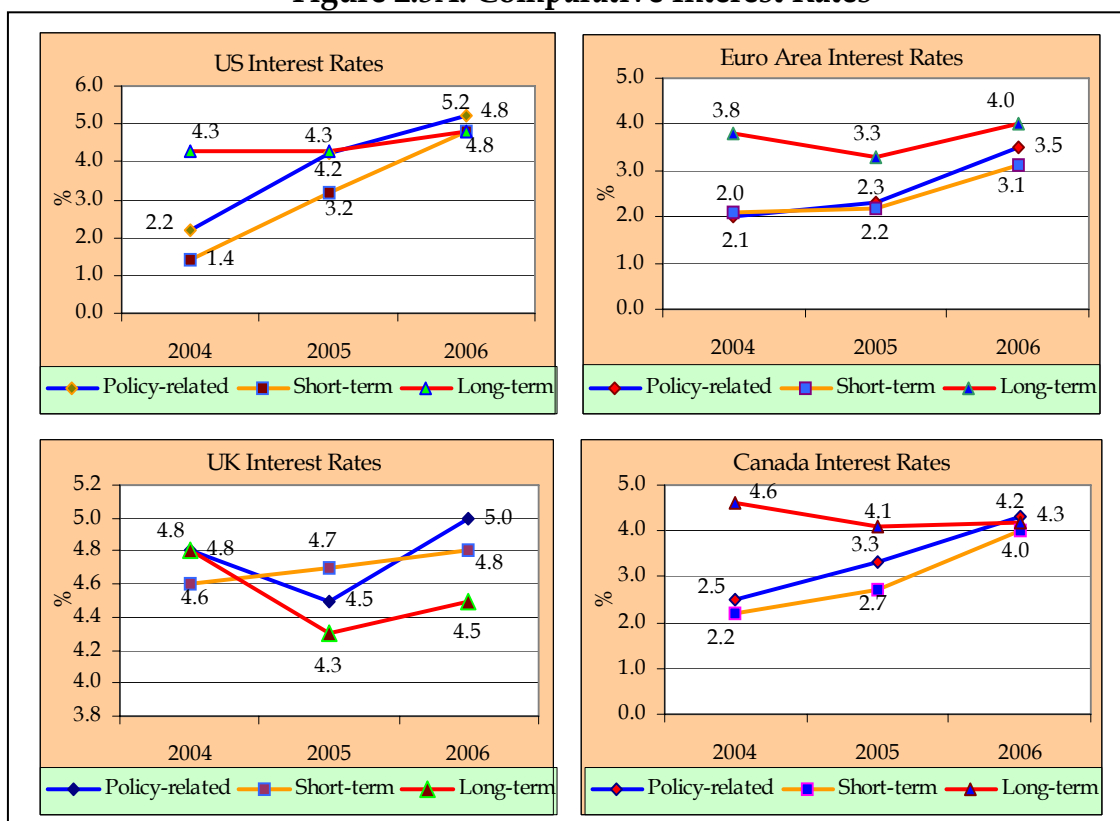
	2005	2006
Bahamas	2.2	1.9
Barbados	6.0	7.2
Trinidad & Tobago	6.9	8.3
Jamaica	15.3	8.6

Source: IMF (April 2007)

### 2.3 Financial Indicators

On the whole, fiscal balances of most governments saw improvements in 2006. Central governments of advanced economies narrowed down their fiscal deficit to an average of 1.8 percent of GDP from 2.5 percent of GDP in 2005. In particular, the US federal government deficit declined to 1.9 percent of GDP due to buoyant revenues. Central governments of other emerging and developing countries also eased down their fiscal deficits to 0.4 percent of GDP in 2006, from 0.9 percent in 2005.

The global financial market remained buoyant against the backdrop of solid world growth performance in 2006 and higher interest rates.

**Figure 2.3A: Comparative Interest Rates**


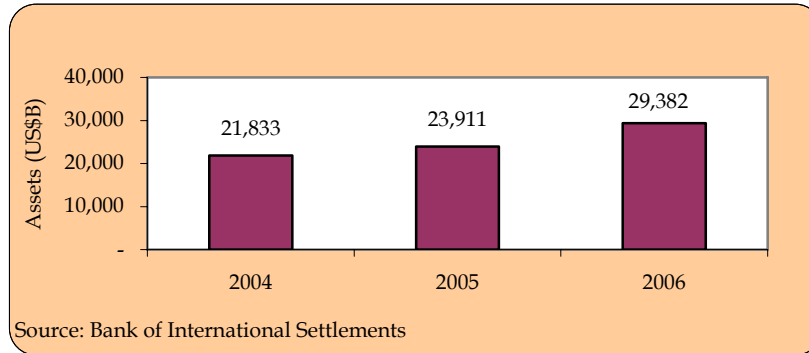
Source of data: International Monetary Fund (April 2007)

The US Federal funds rate finally stabilized at 5.2 percent in the second half of 2006 after increasing rates by 1.0 percentage points between January and June 2006. US short-term interest rate also moved from 3.2 percent to 4.8 percent while long-term rate settled at 4.8 percent from 4.3 percent a year ago. Similarly, short and long-term interest rates increased at varying paces in Japan, Euro area, United Kingdom and Canada.

Supply of broad money rose in 2006 at higher rates of increases for advanced economies except Japan where growth was slower and Canada where broad money growth was stable. Nonetheless, the Euro and pound sterling appreciated against the US dollar in 2006 along with most other European and some emerging Asian economies.

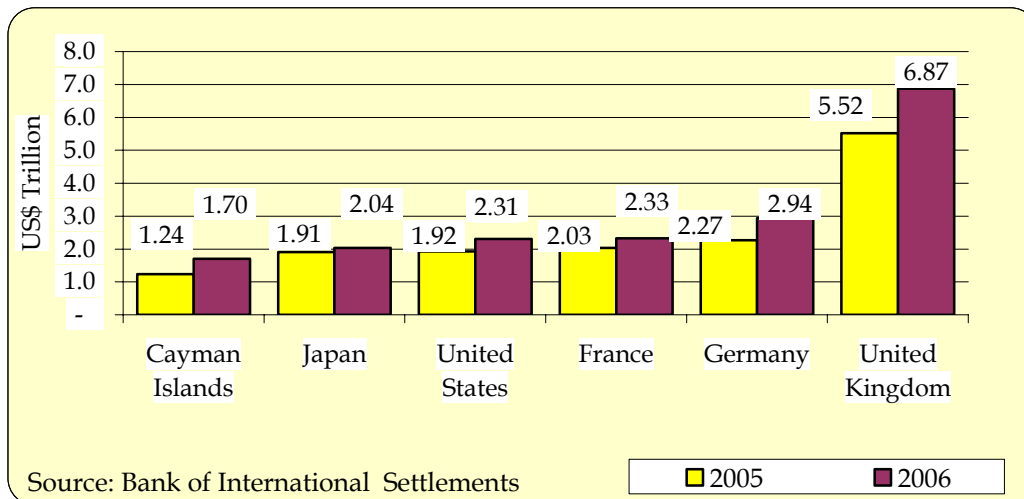
Meanwhile, the global banking sector's international position continued to increase in terms of total assets, which reached US\$29.4 trillion as of 2006, a 22.9 percent growth over 2005.

**Figure 2.3B: Total Int'l Asset of BIS Reporting Banks**



By reporting countries, the UK banking sector further grew by 24.4 percent in 2006 and continued to remain the largest with a combined international asset of US\$6.87 trillion. Cayman maintained its sixth place, with total assets of the banking sector increasing by 37.2 percent, reaching US\$1.7 trillion.

**Figure 2.3C: Total International Assets**



## 2.4 Tourism<sup>2</sup>

The global tourism market expanded anew in 2006 as the volume of international arrivals rose by 4.5 percent, albeit this was slower than the 5.5 percent growth

<sup>2</sup> Source of basic information: World Tourism Organization website

recorded in 2005. The moderation of growth was spread across all major regional markets at varying degrees: Asia Pacific increased by 7.6 percent in 2006 compared to 7.7 percent a year ago; Europe by 4.0 percent in 2006 from 3.9 percent the past year; and Africa at 8.5 percent in 2006 from 8.1 percent in 2005. The sharpest drops in growth rates were recorded for the Americas (from 6.0% in 2005 to 2.1% in 2006) and the Middle East (from 8.4% in 2005 to 3.9% in 2006).

Regionally, visitor arrivals remained highly resilient in most destinations such as the Dominican Republic (7.4%) and Jamaica (13.5%). The exceptions are Cuba and the US Virgin Islands which suffered losses of 4.3 percent and 3.7 percent, respectively. Meanwhile the Caribbean cruise tourism business had a mix performance in 2006. Based on preliminary data, the Bahamas, Barbados, Antigua and Barbuda, British Virgin Islands and the US Virgin Islands had fewer cruise passengers in 2006. However, Bermuda and Jamaica had strong expansion rates, followed by the Dominican Republic.

**Box 1.**
**Moody's Credit Ratings for the Cayman Islands in 2006**

Moody's Investors Services (Moody's), one of the top two international commercial providers of independent credit ratings, issued its latest report on the Cayman Islands in August 2006 which is an update of a similar report issued in July 2005. Moody's assigned the following five foreign-currency ratings to the Cayman Islands:

- **Aaa (highest country ceiling) for long-term foreign currency obligations.** Cayman's ceiling is the same as that of Bermuda, the UK, US and Canada and is higher than that of Bahamas (Aa1) and other Caribbean countries. This also represents a two-notch upgrade over the previous years' Aa3 as a result of a change in Moodys' rating methodology in 2006 which raised the foreign-currency country ceilings of approximately 70 countries. Of these countries, the Cayman Islands is one of only 3 countries which had their ceilings upgraded to Aaa.
- **P-1 (Prime 1, highest country ceiling) for short-term foreign currency obligations.** This rating, which has been maintained since December 1997, is also issued for the UK, US, Canada, Bermuda and Bahamas.
- **Aa3 (a strong "high grade" country ceiling for long-term foreign-currency bank deposits).** This rating for the Cayman Islands has been maintained since September 1989. This rating is the same as that of Bermuda, the UK, US and Canada and is higher than that of Bahamas (Aa1) and other Caribbean countries.
- **P-1 (Prime-1, highest country ceiling for short-term foreign-currency bank deposits).** Banks rated P-1 are deemed to have a superior ability for full and timely repayment of short-term foreign-currency deposits. This ceiling for Cayman has been maintained since September 1989 and is the same as that of Bermuda, the UK, US, Hong Kong and Canada but higher than that of Bahamas (P2) and other Caribbean countries.
- **Aa3 (a high "investment grade" rating) for long-term foreign-currency bonds of the Cayman Islands Government.** This reflects the assessment that "despite some accumulation of public debt and a large external trade imbalance, the Cayman Island's key public and external debt indicators remain favourable compared to its peers and relative to its own ability and willingness to meet its obligations." Aa3 is similar to Taiwan's and Hong Kong's but slightly below Bermuda's because of its central government's debt-to-GDP ratio of 5.7 percent. It is also lower than those for the US and the UK both of which have Aaa. Cayman's rating is, however, better than those of Bahamas and other Caribbean countries.

### 3. Macroeconomic Performance

*Following the exceptionally strong growth in 2005, the pace of expansion in the Cayman Islands subsequently moderated in 2006. Economic growth in 2006 was supported by a robust performance of the financial services sector, the recovery of stay-over tourism and continued, albeit, slower growth of construction services. On the demand side, economic expansion was led by a revival in stay-over tourism and consumption while investment activity softened. The latter could be associated with the rising real interest rates and the end stage of the post-Ivan recovery process. The inflation rate was relatively benign, as the housing price index declined. The labour force slid down marginally, inducing further improvement of the unemployment rate.*

#### 3.1 Economic Growth

Following the strong recovery of the economy in 2005, Gross Domestic Product (GDP) in real terms was estimated to have expanded by 4.6 percent in 2006. In nominal terms, GDP grew by approximately 5.4 percent in 2006 on account of a marginal change in average inflation.

**Table 3.1: Cayman Islands, GDP Estimates 2003-2006**

	2003	2004	2005	2006
GDP at Current Prices (\$million)	1,603.2	1,688.8	1,929.9	2,034.8
Per Capita GDP at current prices <sup>a</sup>	36,771	38,173	39,913	39,137
GDP at constant 1986 prices (\$million)	846.9	854.5	910.0	951.9
Real GDP growth (%)	2.0%	0.9%	6.5%	4.6%

Source: Cayman Islands Government, Economics & Statistics Office

<sup>a</sup> Using mid- year population figures.

Given the increase in nominal GDP, per capita income based on a mid-year population of 51,992, was approximated at \$39,137 compared to \$39,913 a year ago.

**Demand side.** Economic expansion was stimulated mainly by the strong recovery of external demand for tourism services. Total tourist expenditures in real terms rose by 44.1 percent in 2006 from the slump in 2005, as air arrivals bounced back by 59.3 percent. Arrivals from the US accounted for majority of the recovered tourism activity with arrivals from Europe and Canada also contributing. Tourism arrivals in 2006 also surpassed the 2004 level (see also Section 4.2).

Government consumption expenditure also rebounded in 2006 as this grew in real terms by 12.5 percent from a decline of 9.8 percent in 2005 (see also Section 5). Meanwhile, consumer imports data indicate stable and strong growth of private consumption demand. Total consumer imports, adjusted for US inflation rate, went up by 20.0 percent in 2006. This healthy growth benefited most likely from the rise in the (mid-year) local population from 48,353 in 2005 to 51,992 in 2006.

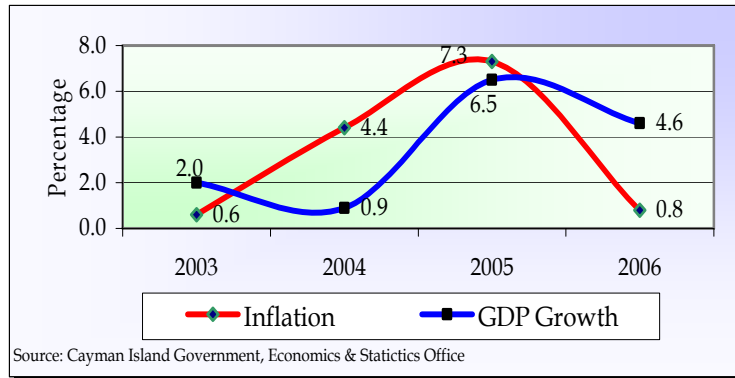
However, indicators show falling investment (gross domestic capital information) activity. Capital imports and intermediate construction imports fell in 2006 (see Section 3.4). Capital and net lending expenditures of the government also declined during the year (see Section 5).

**Production side.** With the revival of demand for tourism services, it is expected that this sector show the strongest growth in 2006. Supporting indicators include the 17.6 percent increase in work permits for restaurant and bars, hotels and condominiums during the year.

The financial services sector also exhibited an 11.0 percent increase in work permits data, consistent with the healthy growth of licensed banks (in terms of assets), insurance licences, mutual funds and company registration.

Other sectors that showed vibrant growth in terms of employment were wholesale and retail (13.6%) and business services (6.0%). Meanwhile, construction has mixed indicators as its work permit data declined by 6.9 percent while the number and value of building permits rose 33.3 percent and 32.8 percent, respectively. As pointed out in Section 3.3 below, the former is partly attributed to the seven-year roll-over policy as stipulated in the Immigration Law (2003).

Figure 3.1: GDP Growth and Inflation



### 3.2 Inflation

Notwithstanding the increase in money supply, consumer prices rose timidly by 0.8 percent in 2006, as compared to the 7.3 percent posted in 2005. The high inflation of 2005 was caused by severe bottlenecks in market supply, particularly in housing following devastation due to hurricane Ivan the previous year.

In 2006, the cooling of the construction sector led the way in reducing inflation, as greater supply of residential housing induced reductions in housing rental rates. The overall index for housing slipped by 4.2 percent. Household equipment also showed a marginal decline in 2006. All other categories in the CPI basket recorded positive increases as shown in Table 3.2.

Table 3.2: Comparative Inflation Rates

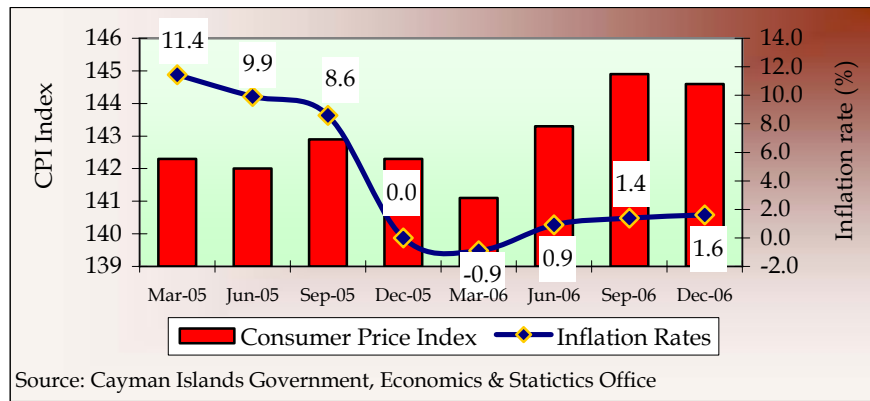
CPI Major Categories	Inflation Rates (%)	
	2005	2006
Food	2.7	2.7
Alcohol & beverage	5.2	1.9
Housing	18.6	-4.2
Clothing	-2.3	5.0
Household equipment	-2.2	-0.1
Transport & communication	5.2	4.7
Education & medical	3.0	1.6
Personal goods & services	2.5	3.8
All items	7.3	0.8

Source: Cayman Islands Government, Economics & Statistics Office



Clothing recorded the largest increase in prices (5.0%) followed by transport and communication (4.7%), personal goods (3.8%), food (2.7%), alcohol and beverages (1.9%) and education and medical services (1.6%).

**Figure 3.2: Consumer Price Index and Inflation Rates**



The 0.8 percent average inflation in 2006 was generated amidst a gradual increase throughout 2006 (see Figure 3.2). The inflation rates for the first three quarters, are, however, lower than those recorded in 2005. The exception is the December 2006 inflation rate which represents an increase compared to the same period a year ago.

### 3.3 Labour Force and Employment

With the expected easing of economic growth in 2006, the supply of labour, based on the results of the 2006 Spring Labour Force Survey (LFS), fell marginally by 2.2 percent, and stood at 35,959. This decline was anticipated since the labour-intensive physical phase of the post-Ivan reconstruction work has reached its end stage. The population stood at 51,992 persons, comprising of 60.7 percent Caymanians and 39.3 percent non-Caymanians. The year-end population is estimated at 53,172.

**Table 3.3: Summary of Labour Force Survey Results<sup>3</sup>**

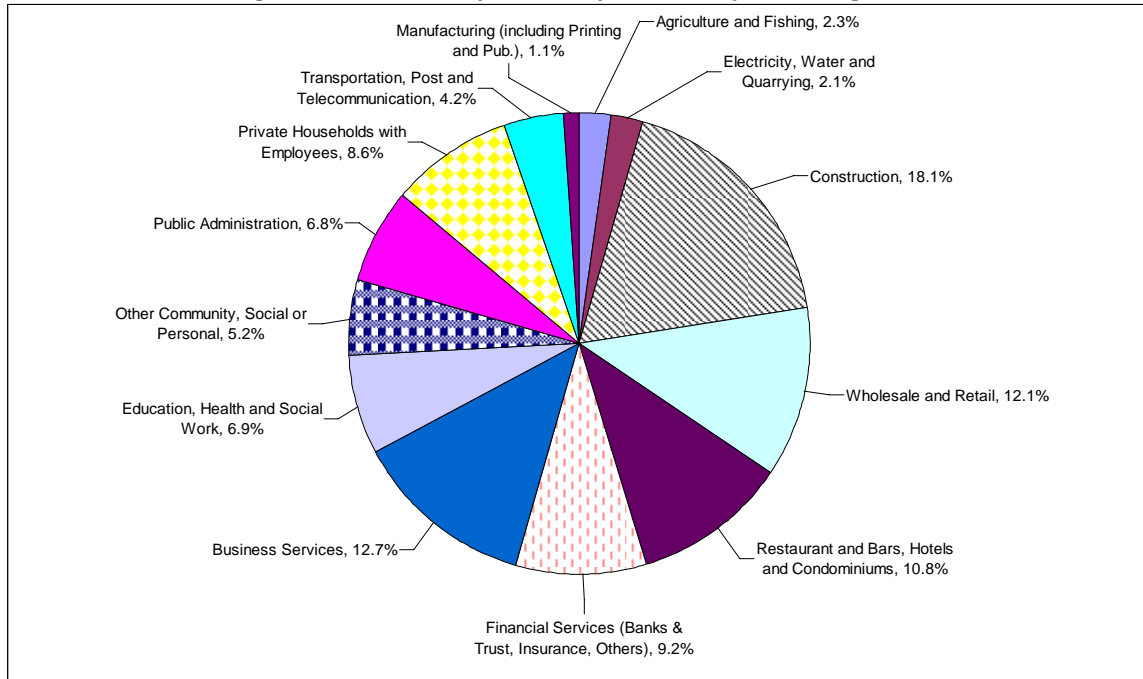
	Fall 2004	Fall 2005	Spring 2006
<b>Population Estimate</b>	36,340	52,465	51,992
<b>Labour Force</b>	23,453	36,767	35,959
<b>Labour Force Participation Rate</b>	85%	84%	83%
Unemployment Rate	4.4%	3.5%	2.6%
<b>Caymanian Labour Force</b>	<b>11,892</b>	<b>19,064</b>	<b>18,303</b>
% Share of Labour Force	50.7%	51.9%	50.9%
Employed	11,444	18,025	17,621
Unemployed	448	1,039	682
<b>Non-Caymanian Labour Force</b>	<b>11,562</b>	<b>17,703</b>	<b>17,656</b>
% Share of Labour Force	49.3%	49.1%	49.1%
Employed	10,976	17,439	17,395
Unemployed	586	264	261
<b>Labour Force by Gender</b>			
Male	53.0%	50.2%	50.7%
Female	47.0%	49.8%	49.3%

Source: Cayman Islands Government, Economics & Statistics Office

Total employment in 2006 reached 35,016, slightly lower than in 2005. Nonetheless, the decline in the labour force brought down the unemployment rate to 2.6 percent in 2006 from 3.5 percent in 2005. Despite the easing of construction activity, this industry remained the largest employer in 2006 as it accounted for 18.1 percent (see Figure 3.3). The other major employers were business services (12.7%), wholesale and retail (12.1%), restaurants/bars, hotels and condominium (10.8%) and financial services (9.2%).

<sup>3</sup> In this and other tables in the Report, total figures may not be equal to the sum of component items due to rounding off.

**Figure 3.3: Employment by Industry, Spring 2006**



Source: Cayman Islands Government, Economics and Statistics Office

Data available from the Immigration Department as of year-end 2006 indicate a modest increase in the number of work permits by 2.9 percent from 21,763 in 2005 to 22,394<sup>4</sup>.

**Table 3.4: Work Permits in Effect, December 2004-2006<sup>5</sup>**

	2004	2005	2006	% Change 2005-06	Change 2005-06
<b>Total</b>	<b>20,508</b>	<b>21,763</b>	<b>22,394</b>	<b>2.90</b>	<b>+631</b>
<b>Trades/Tech/Skilled</b>	9,385	10,576	11,143	5.36	+567
<b>Unskilled</b>	8,618	8,411	8,016	-4.70	-395
<b>Professional</b>	1,834	1,957	2,397	22.48	+440
<b>Admin/Managerial</b>	671	819	838	2.32	+19

Source: Immigration Department

<sup>4</sup> The analysis in this section must be qualified. The work permits dataset is not standardized with respect to duration of the permit.

<sup>5</sup> Persons on a Cayman Islands Government Contract have been excluded from the total number of work permits for each of the above years. Note that there were 1330 persons reported on CI Government Contract as at 2006.

In terms of skills classifications, the majority of work permits granted in 2006 were issued for the “Trades, Technical and Skilled” category. This was largely a result of increases in tourism related skills such as servers and chefs and highly skilled labourers and heavy equipment operators. The “Unskilled” category comprised the second largest group, but has actually been declining in number since 2004. Decreases in the ‘unskilled worker (helper) construction’ category along with the ‘domestic workers’ were the main sources of the said decline.

By industry, ‘construction’ continued to log in the largest number of work permits, with 6,002 permits as at the end of December 2006. ‘Private households with employed people’ followed as the second largest with 3,590 permits. Both industries, however, experienced declines in 2006 of 6.9 percent and 5.5 percent, respectively. Such declines could be partly attributed to the seven-year term limit policy as stipulated in the Immigration Law (2003). There were 484 individuals who were expatriated during 2006, of which 30.0 percent were from the construction industry, while 23.0 percent were domestic workers.

Meanwhile, work permits for business services, consisting of ‘skilled tradespersons (not in construction),’ ‘accountants,’ ‘security guards’ and other business services rose by 6.0 percent for a total of 2,882 in 2006. The wholesale and retail sector also expanded by 13.6 percent to reach 2,568. Work permits to the financial services sector rebounded by 11.0 percent to total 1,935 in 2006, after experiencing a decline in 2005.

The economic recovery in the tourism sector pushed the number of work permits for hotels and condominiums along with restaurants and bars, increasing by 26.6 percent and 15.1 percent respectively, to sum up to 3,111. This was mainly a result of the large increase in demand for ‘food and beverage servers’ and ‘sous chefs or skilled cooks.’

**Table 3.5: Work Permits for All Industries**

	Dec-04	Dec-05	Dec-06
Construction	6,005	6,448	6,002
Financial Services	1,799	1,743	1,935
Restaurant & Bars	1,886	2,082	2,397
Hotels and Condominiums	335	564	714
Business Services	2,655	2,718	2,882
Wholesale & Retail	2,057	2,261	2,568
Private Households w/ Employed People	3,825	3,799	3,590
Community, Social & Personal Services	1,168	1,286	1,305
All Other Industries	778	862	1,001
<b>Total</b>	<b>20,508</b>	<b>21,763</b>	<b>22,394</b>

Source: Immigration Department and Economics & Statistics Office

Box 2.

**Cayman's Labour Force and "Building Brighter Futures"**

Sustained long term economic growth can be achieved by raising labour productivity. The Cayman Islands Government has over the years ensured this partly by opening the country's labour market to skilled expatriates within the context of its immigration laws. Recently, the awareness that the local population's skills must be kept up to par with the world's best was re-ignited. The results of the Spring 2006 Labour Force Survey can provide a backdrop of this vision: 10.5 percent of the Caymanian labour force have Bachelors degrees (as compared to 12.8% among non-Caymanians), while 4.3 percent have graduate degrees (as compared to 4.9% among non-Caymanians) and 4.8 percent have professional qualifications (compared to 7.4% among non-Caymanians).

"Building Brighter Futures," is a program of the Ministry of Education that seeks to transform the education system and produce an adequate amount of qualified graduates to handle the demands of Cayman's ever evolving economy. The strategies of the program were documented in the report "National Consensus on the Future of Education in the Cayman Islands." This report, approved by the Legislative Assembly in October 2005, stands as a blueprint for the national education reform, with the working committee, 'Education Innovation Oversight Committee,' overseeing the implementation of its 10 strategies.

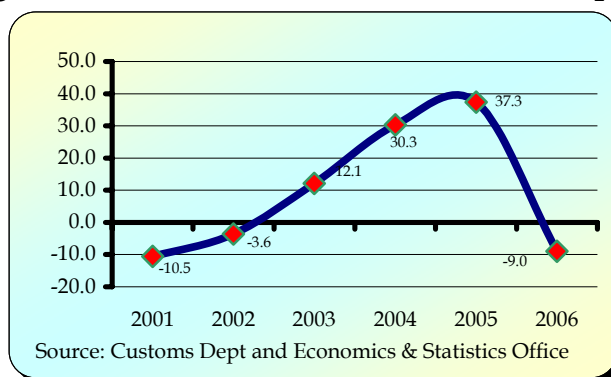
Among the strategies achieved in 2006 were an inclusive review of the national curriculum; establishment of a fully operational Early Childhood Unit; overhaul of human resources practices within the sector; and the successful introduction of the 'schools within a school' concept. The Ministry anticipates that a new governance model will be in effect by September 2007, and at present, there are plans underway to construct three new high schools, improve security in schools, and enhance tertiary and technical vocational offerings.

Source: Ministry of Education and Economics and Statistics Office

### 3.4 External Sector

**Imports.** As expected, total merchandise imports in 2006 which reached \$906.1 million, was 9.0 percent lower compared to the level in 2005 mainly due to the normalization of intermediate and capital good imports towards their pre-Ivan levels.

**Figure 3.4: Growth Rate of Merchandise Imports**



Imports of consumer goods bucked the downward trend, rising by 24.6 percent to reach \$432.1 million. Part of this strong growth could be traced to the rebound in stay-over tourism as shown in the increase of food and beverage imports by 27.6 percent.

Capital goods imports fell by 27.0 percent in 2006 due mainly to a 31.8 percent decline in imports of road transportation vehicles. Meanwhile, foreign purchases of intermediate goods shrunk by 42.0 percent to settle at \$152.3 million. A significant portion of this decline is attributed to construction materials which fell by 43.8 percent.

Imports of fuel in 2006 amounted to \$130.3 million, up 5.4 percent, from the 2005 level as petroleum prices in the world market further increased by 20.5 percent<sup>6</sup>.

<sup>6</sup> See International Monetary Fund (April 2007), World Economic Outlook.

**Table 3.6: Imports by Broad Economic Categories**

	2004	2005	2006
CI\$ Millions			
<b>CONSUMER GOODS</b>			
Total	281.4	346.8	432.1
Food and Beverages	136.0	166.1	212.0
Clothing and Footwear	10.1	15.1	16.1
Other	135.3	165.6	204.1
<b>INTERMEDIATE GOODS</b>			
Total	133.6	262.7	152.3
Construction	66.5	160.5	90.2
Others	67.1	102.2	62.1
<b>FUEL</b>	114.8	123.6	130.3
<b>CAPITAL GOODS</b>			
Total	195.0	262.2	191.3
Transportation	133.0	206.4	140.7
Others	61.9	55.8	50.6
<b>TOTAL IMPORTS</b>	<b>724.7</b>	<b>995.3</b>	<b>906.1</b>

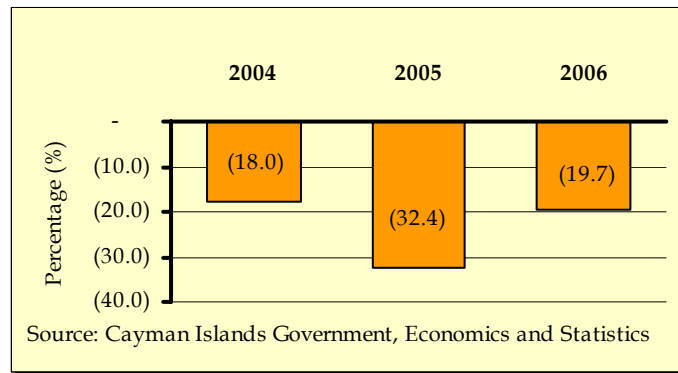
Source: Customs Department & Economics and Statistics Office

**Exports.** Exports of goods in 2006 was estimated to have reached \$10.7 million, 723.1 percent improvement over the previous year, mainly due to significant increases in rum exports and re-exports. Meanwhile, export of services was estimated at \$517.8 million, a surge of 33.1 percent over 2005, mainly on account of the recovery in tourism receipts.

**Current Account.** With the decline in imports and increase in exports receipts, the country's current account deficit fell by 35.9 percent to \$401.0 million, or 19.7 percent of GDP (see Figure 3.5).



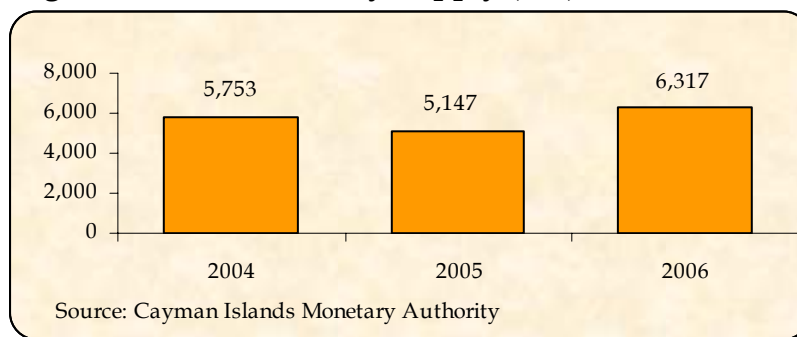
**Figure: 3.5: Balance of Payments**  
Current Balance (% of GDP)



### 3.5 Money & Banking

Total money supply (M2) in the Cayman Islands increased by 22.7 percent, to reach CI\$6.3 billion (US\$7.6 billion) in 2006 compared to 2005, a rebound from the 10.5 percent drop a year ago. Monetary deepening thus improved further as M2-to-GDP ratio went up from 266.7 percent in 2005 to 310.5 percent in 2006.

**Figure 3.5A: Total Money Supply (M2) in CI\$ millions**



On the asset side, the main source of the rebound was the growth in net foreign assets of local commercial banks. On the liabilities side, the increase in quasi-money (primarily the foreign currency deposits held by residents) was the main impetus.

**Table 3.5B: Monetary and Banking Summary, 2004-2006 (CI\$'000)**

	2004	2005	2006	% Change 2005-2006
<b>Net Foreign Assets</b>	<b>4,220,649</b>	<b>4,048,515</b>	<b>4,790,951</b>	<b>18.3</b>
Monetary Authority	87,167	89,779	99,228	10.5
Commercial Banks	4,133,483	3,958,737	4,691,723	18.5
<b>Net Domestic Assets</b>	<b>1,950,525</b>	<b>1,949,249</b>	<b>2,127,313</b>	<b>9.1</b>
<b>Other Items</b>	<b>(418,233)</b>	<b>(851,135)</b>	<b>(600,782)</b>	<b>-29.4</b>
<b>Monetary Liabilities (M2)</b>	<b>5,752,941</b>	<b>5,146,629</b>	<b>6,317,481</b>	<b>22.7</b>
Narrow Money	702,033	379,756	335,733	-11.6
Quasi Money	5,050,908	4,766,873	5,981,748	25.5
<b>M2/GDP (%)</b>	<b>340.7</b>	<b>266.7</b>	<b>310.5</b>	

Source: Cayman Islands Monetary Authority

**Net foreign assets.** The combined net foreign assets of the Cayman Islands Monetary Authority and the local commercial banking sector increased by 18.3 percent in 2006. This was a result of the 26.2 percent rise in gross foreign assets of commercial banks, mainly from the sector's foreign investment and loans to non-residents, which more than doubled over the period, by 106.8 and 163.5 percent respectively. On the other hand, loans and advances to foreign banks and branches decreased substantially by 60.9 percent.

On the liabilities side, foreign deposits of non-residents increased by 11.0 percent, while other foreign liabilities soared by 290.9 percent over the review period.

**Table 3.5C: Net Foreign Assets, 2004-2006  
(CI\$'000)**

	2004	2005	2006	% Change 2005-2006
<b>Net Foreign Assets</b>	<b>4,220,649</b>	<b>4,048,515</b>	<b>4,790,951</b>	<b>18.3</b>
<b>Monetary Authority</b>	<b>87,167</b>	<b>89,779</b>	<b>99,228</b>	<b>10.5</b>
<b>Commercial Banks</b>	<b>4,133,483</b>	<b>3,958,737</b>	<b>4,691,723</b>	<b>18.5</b>
<b>Foreign Assets</b>	<b>5,297,432</b>	<b>5,138,464</b>	<b>6,486,213</b>	<b>26.2</b>
Balances with Banks & Branches	2,965,425	3,789,280	3,823,993	0.9
Total Investment	376,912	656,593	1,358,150	106.8
Loans & Advances to Banks & Branches	1,318,826	232,152	90,687	-60.9
Total Non-Resident Loans	636,269	460,439	1,213,384	163.5
<b>Foreign Liabilities</b>	<b>1,163,949</b>	<b>1,179,728</b>	<b>1,794,490</b>	<b>52.1</b>
Total Non-resident Deposit	823,673	1,006,468	1,117,210	11.0
Other Liabilities	340,277	173,260	677,280	290.9

Source: Cayman Islands Monetary Authority

**Net domestic assets.** Total net domestic assets or domestic credit extended by the commercial banking sector increased by 9.1 percent during 2006. Credit allocation to both the public and resident private sectors expanded moderately by 5.5 percent and 9.4 percent respectively.

**Table 3.5D: Net Domestic Assets, 2004-2006 (CI\$'000)**

	2004	2005	2006	% Change 2005-2006
<b>Net Domestic Assets</b>	<b>1,950,525</b>	<b>1,949,249</b>	<b>2,127,313</b>	<b>9.1</b>
Net Domestic Credit to Public Sector	384,108	123,980	130,781	5.5
Net Domestic Credit to Private Sector	1,566,418	1,825,269	1,996,532	9.4

Source: Cayman Islands Monetary Authority

Consistent with the increased number and value of building intentions by households, credit to households - which accounts for over 56.6 percent of total credit to the private sector - increased by 27.4 percent in 2006, a jump from the 3.0 percent increase in 2005. Mortgage and other property loans continued to be the dominant type of household loans, expanding briskly by 30.4 percent to reach \$1,040 million in 2006. Loans for vehicles had a modest growth of 1.7 percent during the year, following an influx of vehicles over the last two years.

Lending to private businesses - which account for 37.1 percent of total credit to the private sector - decreased by 9.4 percent in 2006. Among the sharpest declines were: real estate business (23.0%), the hospitality industry (17.5%), and

the utility industry (55.7%). However, credit to the construction industry increased substantially by 64.8 percent over the review period.

**Table 3.5E: Net Credit to the Private Sector, 2004-2006 (CI\$'000)**

	2004	2005	2006	% Change 2005-2006
<b>Total</b>	<b>1,566,418</b>	<b>1,825,269</b>	<b>1,996,532</b>	<b>9.4</b>
<b>Credit to Businesses</b>	<b>598,478</b>	<b>818,308</b>	<b>740,863</b>	<b>(9.5)</b>
Of which				
Construction	51,364	85,603	141,074	64.8
Hotel, Restaurant and Bar	82,388	71,509	58,986	(17.5)
Real Estate, Renting & Other	142,052	177,013	136,218	(23.0)
Utilities (Electricity, Gas & Water)	28,775	29,013	12,863	(55.7)
Trade & Commerce	90,334	87,529	97,319	11.2
<b>Credit to Households</b>	<b>861,235</b>	<b>887,453</b>	<b>1,130,419</b>	<b>27.4</b>
Domestic Property	782,741	797,400	1,039,708	30.4
Motor Vehicles	25,582	43,670	44,412	1.7
Education and Technology	951	2,823	2,935	4.0
Other	51,962	43,560	43,365	(0.4)
<b>Other</b>	<b>106,704</b>	<b>119,508</b>	<b>125,249</b>	<b>4.8</b>

Source: Cayman Islands Monetary Authority

**Money Supply.** As previously mentioned, total money supply (M2) rose in 2006, primarily as a result of the increases in quasi money<sup>7</sup> and as narrow money declined anew.

The narrow money supply (M1) which is used mainly for transaction purposes, has been contracting since 2004, and reached \$335.7 million during 2006. This contraction was a direct result of the sharp fall in total demand deposits, by 15.7 percent in 2006, continuing a downward trend in 2005 when it fell by 51.3 percent.

Currency in circulation increased slightly, by 5.4 percent, over the review period.

Meanwhile, quasi-money surged by 25.5 percent in 2006, a rebound from 2005 when it dropped slightly by 5.6 percent.

<sup>7</sup> Quasi money includes deposits of Cayman Islands residents in other currencies including US dollars.

**Table 3.5F: Money Supply, 2004-2006 (CI\$'000)**

	2004	2005	2006	% Change 2005-2006
<b>Monetary Liabilities (M2)</b>	5,752,941	5,146,629	6,317,481	22.7
<b>Narrow Money (M1)</b>	702,033	379,756	335,733	-11.6
Currency with the public	73,911	74,168	78,189	5.4
Total demand deposits	628,122	305,588	257,544	-15.7
<b>Quasi Money</b>	5,050,908	4,766,873	5,981,748	25.5

Source: Cayman Islands Monetary Authority

## 4. Key Sector Developments

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*Economic growth in 2006 was more broad-based than in 2005 with the recovery of tourism services. The financial services industry logged in a mixed performance, with the banking sector experiencing continued decline in licences due to worldwide consolidations in the industry, while the mutual funds and other sectors remained resilient during 2006. The construction industry continued to be a growth sector although certain segments trended downwards in 2006. The real estate sector posted mixed results as total value of transfers dipped while total volume rose. The utilities and telecommunications sectors continued to post upbeat performances in 2006.*

### 4.1 Financial Services

The financial services industry, a pillar of the domestic economy contributing 22.1 percent of the Government's revenue recorded another year of robust performance in 2006. This occurred amidst a regulatory environment that continued to keep pace with international best practises through changes in financial sector legislation.

Overall, the industry recorded positive growth in 2006. With the exception of the banking and trust sector, increases were seen in insurance company licences, mutual funds, stock exchange listings and capitalization, and company registrations.

**Banks & trusts.** The number of bank & trust licences declined by 14 (or 4.6%) in 2006 to 291. Pure trust companies numbered 135 at the end of 2006, from 127 a year ago.

Class 'A' bank & trust licences<sup>8</sup> totalled 19 at the end of December 2006, down by two from a year ago. During the year, three licences within the category 'A' status were terminated, two of which were completely terminated while the other one was downgraded to Category 'B'. There was only one new Class A licensee during the review period.

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<sup>8</sup> A Class "A" license allows the license holder to conduct business both inside and outside the Cayman Islands. A Class "B" license holder is permitted to conduct business other than from within the Cayman Islands.

In 2006 Class 'B' bank & trust licences fell by 12 to settle at 272, as a result of the continuing worldwide trend of acquisition and consolidation within the banking industry.

**Table 4.1A: Bank & Trust Companies, 2004-2006**

	2004	2005	2006	2005-2006 %
				Change
<b>Banks &amp; Trust Licences</b>	<b>322</b>	<b>305</b>	<b>291</b>	<b>-4.6</b>
Class 'A' Bank & Trust	23	21	19	-9.5
Class 'B' Bank & Trust	299	284	272	-4.2
<i>of which</i> : Class 'B' Bank & Trust (Restricted)	4	3	3	0.0
<b>Trust Companies</b>				
Trust Companies (Unrestricted)	49	50	51	2.0
Trust Companies (Restricted)	75	77	84	9.1
			US\$ Billions	
<b>External Position of Banks<sup>a</sup></b>				
Assets	1,144	1,265	1,413	11.7
Liabilities	1,109	1,250	1,373	10

Source: Cayman Islands Monetary Authority

<sup>a</sup> Data available as of June

Despite the decline in the number of registered banks during the period, the Cayman Islands continued to attract high-ranking licensees especially from Europe and the United States, represent 31.0 percent and 27.0 percent of total licences respectively.

In terms of total assets, the Cayman Islands maintained its place as the sixth largest banking centre in the world, ranking after the UK, Germany, France, US, and Japan. However, Cayman was ranked fifth in terms of liabilities, placing behind the UK, US, France and Germany.

**Insurance.** The total number of insurance licences increased by 8 (or 1.1%) – from 759 in 2005, to 767 in 2006. This was principally due to moderate increases in the number of Class 'B' (captive) licences.

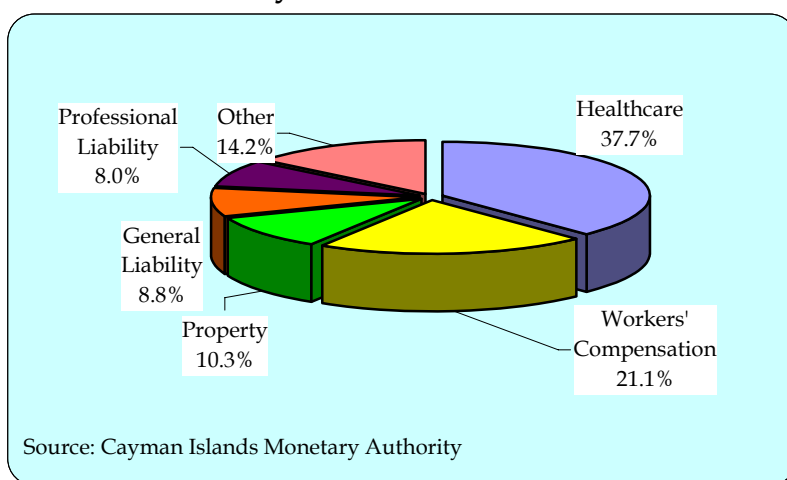
**Table 4.1B: Captive Insurance Companies, 2004-2006**

	2004	2005	2005 2006	-2006 % Change
<b>Total Insurance Licences</b>	<b>722</b>	<b>759</b>	<b>767</b>	<b>1.1</b>
Class 'A' Licences (Domestic)	29	26	27	3.8
Class 'B' Licences (Captives)	693	733	740	1.0
Unrestricted	634	670	674	0.6
Restricted	59	63	66	4.8
<b>Financial Position of Captives</b>	US\$ Billions			
Premiums	5.6	6.7	7.1	6.0
Net Income	0.5	0.9	1.3	44.4
Net Worth	4.8	5.9	6.7	13.6
Total Assets	22.3	26.7	29.6	10.9

Source: Cayman Islands Monetary Authority

Class 'A' insurance licences recorded a net increase of 1 for a final tally of 27 in 2006. Two licences were terminated during the review period, but this decrease was offset by the licensing of three new Class 'A' insurance companies: The Insurance Company of the West Indies (Cayman) Ltd., Colonial Medical Insurance Company Limited, and Gulf Insurance Limited.

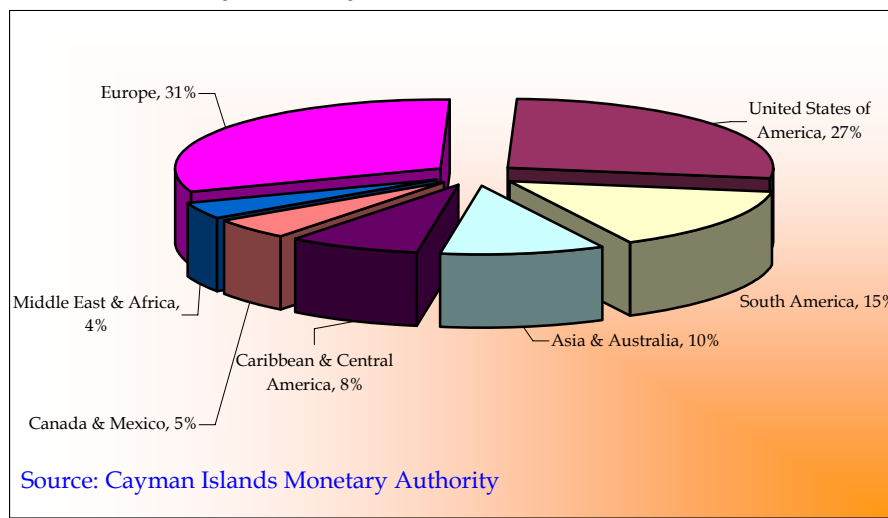
Class 'B' (captive) licences increased by 7 to register at 740 in 2006. Captive insurance licences continued to be dominated by the following primary classes of business: healthcare (37.7%), workers' compensation (21.1%), property (10.3%), general liability (8.8%) and professional liability (8.0%).

**Figure 4.1C: Captive Insurance Licences by Primary Class of Business, 2006**




The Cayman Islands maintained its status as a leading offshore captive domicile, ranking as the second largest (after Bermuda) in the international insurance market. Total assets of Cayman-based captives reached \$29.6 billion in 2006 rising by 10.9 percent from a year ago. North America continues to be the leading risk location for Cayman’s captive market, accounting for 89.5 percent of total companies registered.

**Figure 4.1C: Captive Insurance Licences by Primary Class of Business, 2006**



Meanwhile, other financial indicators of captives also improved in 2006. Premiums for captives increased by US\$334 million to register at US\$7.1 billion while their net income rose by US\$365 million to reach US\$1.3 billion in 2006.

In August 2006, A.M. Best<sup>9</sup> assigned a rating of A- (Excellent) and an issuer credit rating of “a-“ to Greenlight Reinsurance Ltd. The latter was licensed in August 2004 and is the first global property and casualty reinsurance company to be based in Cayman.

**Mutual funds.** Cayman’s role in international finance continued to strengthen through the hedge fund industry. The number of mutual funds that were registered, administered and licensed in the country increased by 1,028 funds (or 14.5%) to tally at 8,134 in 2006.

<sup>9</sup> A.M. Best Co. is the most respected insurance rating company in the world.

As of June 2006, twelve of the top fifteen administrators who account for more than 80.0 percent of the US\$2.5 trillion-hedge fund assets, held a mutual fund administrator’s licence issued by the Cayman Islands Monetary Authority (CIMA).

**Table 4.1C: Mutual Funds, 2004-2006**

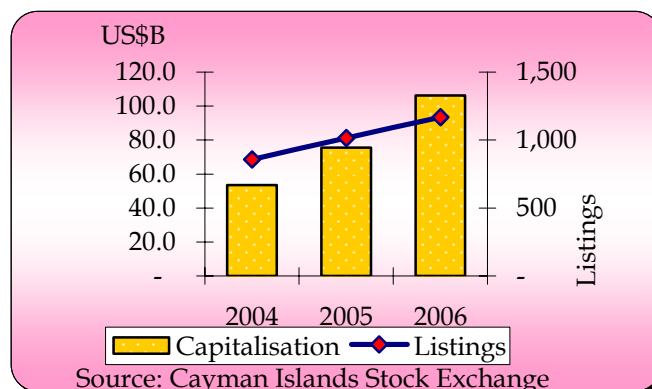
	2004	2005	2006	2005-2006 % Change
Registered Mutual Funds	5,249	6,429	7,481	16.4
Administered Mutual Funds	616	598	548	(8.4)
Licensed Mutual Funds	67	79	105	32.9
<b>Total</b>	<b>5,932</b>	<b>7,106</b>	<b>8,134</b>	<b>14.5</b>

Source: Cayman Islands Monetary Authority

**Stock exchange.** The Cayman Islands Stock Exchange (CSX) further improved its performance in 2006. Stock listings rose by 15.2 percent (or 154 listings) to register at 1,169 during the review period. Stock market capitalisation increased by 40.5 percent (or approximately US\$ 30.6 billion) to sum up to US\$106.16 billion.

The growth of CSX is mainly a result of the growth in mutual funds. Mutual funds represent 75.7 percent of the total capitalization, with the remainder accounted for by specialist debt (16.2%), Eurobonds (6.2%), and international (1.8%) and domestic equity (0.2%).

**Figure 4.1E: Stock Listing and Market Capitalization, 2004-2006**



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**Companies registry.** Total company registrations rose by 8,627 (or 11.5%) during 2006 to reach 83,532. New company registrations increased by 2,067 (or 20.2%) to reach 12,277.

The main increases to company registrations were seen in foreign companies (42.1%) and exempt companies (23.5%). However, resident and non-resident companies decreased by 9.5 percent and 4.4 percent respectively.

**Table 4.1 F: Company Registrations, 2004-2006**

	2004	2005	2006	2005-06 % Change
Total Company Registrations	70,133	74,905	83,532	11.5
New Company Registrations	8,892	10,210	12,277	20.2

Source: Cayman Islands General Registry

**Box 3.****Legislative Changes in the Financial Sector**

The **Banks and Trust Companies (Amendment) Law 2006** amended the Banks and Trust Companies Law (2003 Revision) by implementing new measures to complement CIMA's adoption of Basel 11. Such measures included the revision of capital adequacy requirements, enforcing greater reporting obligations on the auditors of licensees, increasing the protection of depositors and beneficiaries of a trust, and increasing CIMA's regulatory powers regarding banks and trust companies. In addition, the Amendment introduced a registration regime for special purpose subsidiaries of trust companies.

The **Insurance (Amendment) Law 2006** amended the Insurance Law (2004 Revision) and, in essence, provides for greater policy holder protection in regards to Cayman domestic business, and ensures the protection of proceeds payable to a policy holder under an insurance contract issued by a Cayman insurer engaged in long term business. Approved external insurers which were previously exempt from certain requirements of the preceding Insurance law are now subject to such requirements.

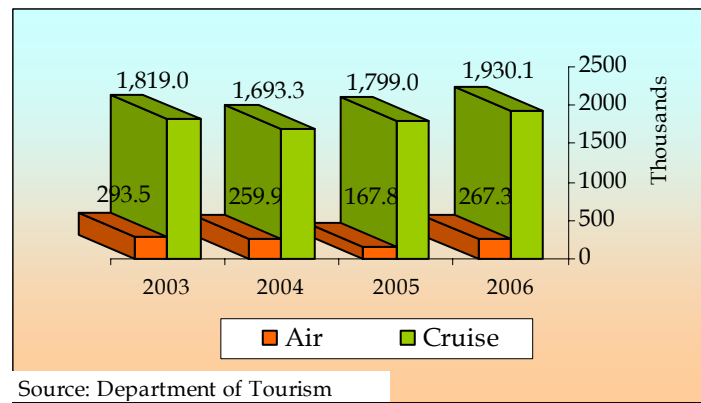
The Mutual Funds Law (2003 Revision) was amended by The **Mutual Funds (Amendment) Law, 2006**. The Amendment provides for an increase in an investor's minimum initial subscription for registered funds to CI\$80,000 from CI\$40,000. In addition, foreign funds (funds incorporated outside of Cayman) need no longer register with CIMA simply because it is administered in Cayman. Instead, a foreign fund will be subjected to regulation if it is considered to be carrying on business in Cayman **and** makes an invitation to the public in Cayman to subscribe for its equity interest (note that there are exemptions to registration specified in the law). Lastly, funds from approved jurisdictions can be administered by a licensed mutual funds administrator in Cayman without registration from CIMA.

Source: CIMA website ([www.cimoney.com.ky](http://www.cimoney.com.ky))

## 4.2 Tourism

The tourism sector staged a strong rebound in 2006 after the hurricane-induced setback in 2005. The rebound came mainly through the stay-over tourists, which comprise the higher spending segment of the market.

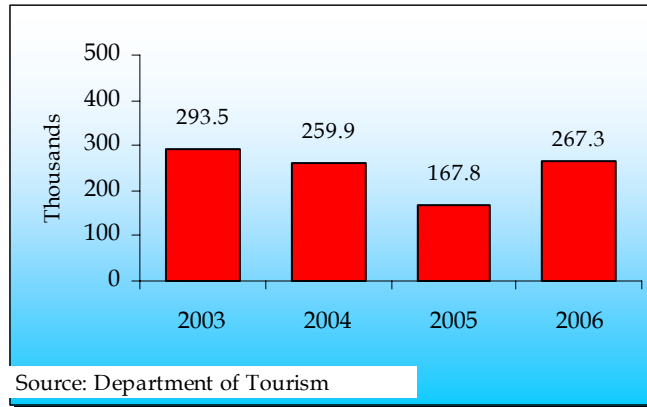
Figure 4.2A: Tourist Arrivals in 2003-2006 (in '000)



Total visitor stood at 2,197,393 in 2006, an 11.7 percent increase over last year's performance. Air arrivals accounted for 267,257 visitors, a jump of 59.3 percent from the 2005 level. Cruise arrivals reached 1,930,136 visitors, 7.3 percent higher than the previous year.

**Stay-over market.** The recovery of air arrivals in 2006 can be attributed mainly to the improvement in the supply side of the market. Room stock increased with the opening of the Ritz Carlton Hotel and other new or rebuilt accommodation facilities. Improvements in the quality of attractions such as Boatswain Beach, as well as other government initiatives such as the 'Go East' program and the special launching of events (such as the Florida Caribbean Cruise Association Conference) also benefited the stay-over market.

Figure 4.2B Air Arrivals, 2003-2006



Air arrivals were further boosted with the introduction of Spirit Airlines in February. The carrier provides services to 28 cities in the US, Bahamas, and the Caribbean, and offers low cost fares for both residents and visitors alike.

In 2006, the United States remained the core market for stay over visitors to the Cayman Islands accounting for 81.3 percent. Europe and Canada also comprised 6.2 percent, and 5.6 percent, respectively. In the case of Europe and Canada, it is noted that the appreciation of their currencies against the CI dollar may have helped in the recovery.

Table 4.2A: Stay-over Arrivals by Country of Origin, 2004-2006

	2004	2005	2006	Absolute Change	% Change
In Thousands					
<b>USA</b>	<b>205.2</b>	<b>118.8</b>	<b>217.4</b>	<b>98.6</b>	<b>82.9</b>
Northeast	65.3	35.8	69.7	33.9	94.6
Midwest	52.4	26.2	47.4	21.2	80.7
Southeast	40.2	29.1	50.6	21.5	73.8
Southwest	32.7	18.6	33.5	14.9	80.3
West Coast	14.7	9.1	16.2	7.1	77.6
<b>Europe</b>	<b>15.3</b>	<b>12.7</b>	<b>16.7</b>	<b>4.0</b>	<b>31.5</b>
<b>Canada</b>	<b>12.1</b>	<b>10.5</b>	<b>14.9</b>	<b>4.4</b>	<b>42.3</b>
<b>Other</b>	<b>27.3</b>	<b>25.8</b>	<b>18.3</b>	<b>(7.5)</b>	<b>(29.1)</b>
<b>Total</b>	<b>259.9</b>	<b>167.8</b>	<b>267.3</b>	<b>99.5</b>	<b>59.3</b>

Source: Cayman Islands Department of Tourism

As reported by the Department of Tourism (DOT), room stock has fluctuated for the past two years since Hurricane Ivan due to room closures and renovations of damaged accommodations on one hand, and the opening of new ones on the

other hand. A total of 3,907 bedrooms were reported available for visitor occupancy in 2006 compared to 5,108 recorded before the hurricane. In September 2006, the Divi Tiara Beach Resort in Cayman Brac permanently ceased operation. The hotel was one of the biggest employers on the Island with a total of approximately 37 employees.

Actual use of accommodation varied as hotel occupancy slightly improved from 55.8 percent in 2005 to 59.4 percent in 2006. Meanwhile, apartments/condo occupancy rates contracted from 46.0 percent to 40.7 percent.

**Cruise Market.** The cruise ship sector remained the largest contributor of visitors to the Cayman Islands in 2006. Cruise ship visitors totalled 1,930,136 during the year, compared with 1,798,999 in 2005 - a growth of 7.3 percent.

Locally, the result of a milder hurricane season translated into fewer interruptions and a total of 802 cruise ship calls at year-end. This figure surpassed the levels in 2005 (784) and 2004 (732).

The Royal Watler Cruise Terminal officially opened in Grand Cayman in October 2006. Some of its key facilities include a 200-foot pier and a terminal with retail stores, kiosks and customs and immigration offices. The new terminal equally aims to accommodate larger cruise ships and supplement the smaller cruise facility in the central area of George Town.

The Cayman Islands hosted the Florida Caribbean Cruise Association Annual Conference, in 2006. The FCCA conference was attended by over 1,000 delegates and served to promote the Islands, and further strengthened business relationships with other Caribbean entities.

A policy to better distribute cruise arrivals to Grand Cayman was launched in 2006 through strategic initiatives such as the "Go East." "Go East" seeks to facilitate a number of new businesses in the Eastern Districts and, at the same time, attract cruise ship guests eastward.

**Tourism Expenditures.** The strong rebound in the stay-over market boosted total tourist expenditures in 2006 to \$427.4 million, an increase of 44.1 percent from a year ago.

Total spending of stay-over tourists soared to \$285.9 million, a 94.7 percent rebound from 2005. In addition to the increase in the number of arrivals, (see

below), the rise in total receipts also resulted from higher spending per person at \$1069.8 compared to \$874.9 in 2005. The latter may be attributed to the increase in demand for higher-value services from new facilities such as the Ritz Carlton.

**Table 4.2B: Visitor Expenditure, 2004-2006**

	2004	2005	2006	% Change 2005-2006
<b>Stay-over Expenditure</b>				
Avg Spending per Person (\$)	767.1	874.9	1,069.8	22.3
Avg Spending per Day/Night (\$)	110.7	115.3	161.5	40.0
Total Spending (\$ 000)	279,332.5	146,809.8	285,908.0	94.7
<b>Cruise Expenditure</b>				
Avg Spending per Person (\$)	102.8	92.5	81.4	(12.0)
Total Spending \$ 000)	156,637	149,780	141,457	(5.6)
<b>Total</b>	<b>435,969.7</b>	<b>296,590.1</b>	<b>427,365.1</b>	<b>44.1</b>

Source: Cayman Islands Department of Tourism

Total spending of cruise tourists continued to decline in 2006 as it fell by 5.6 percent to \$141.5 from a year ago. This is on account of a 12.0 percent drop in average spending per person.

### 4.3 Construction

The construction of additional housing units significantly contributed to the stabilization of housing rentals during 2006, thus resulting to benign inflation rates. However, building permits and project approvals for houses have slid down during the year, although those for apartments and condominiums remained on the upturn. Significant increases were also noted for other categories of buildings.

**Building permits<sup>10</sup>.** The number of building permits issued grew by 33.3 percent, moving from 968 in 2005 to 1,290 in 2006. The major sources of this expansion were industrial buildings (337.5%), other structures (145.3%) and

<sup>10</sup> The number and value of building permits and certificate of occupancy referenced in this document pertain only to Grand Cayman. However, project approvals include all three islands.



apartments (128.1%). Permits for commercial (up by 20.9%) and government (up by 60.0%) also boosted the demand for permits. However, permits for houses fell by 3.0 percent.

**Table 4.3A: Grand Cayman Building Permits**

Sectors	2003	2004	2005	2006	2005-06 % Change
Houses	375	341	533	517	-3.0
Apt./Condominiums	211	145	164	374	128.0
Hotel	5	0	31	2	-93.5
Government	21	8	5	8	60.0
Commercial	35	26	163	197	20.9
Industrial	19	42	8	35	337.5
Other	205	192	64	157	145.3
<b>Total</b>	<b>871</b>	<b>754</b>	<b>968</b>	<b>1,290</b>	<b>33.3</b>

Source: Cayman Islands Planning Department

In terms of value, the building permits granted amounted to \$445.8 million in 2006, 32.8 percent higher than in 2005. The average value of permits, however, dipped slightly by 3.7 percent, from \$346,904 in 2005 to \$345,606 in 2006. The downturn can be traced mainly to industrial, residential (homes and apartments) and government permits.

**Table 4.3B: Grand Cayman Building Permits (CI\$ Million)**

Sectors	2003	2004	2005	2006	% Change 2005- 2006
Houses	67.0	66.8	145.9	119.6	-18.0
Apt./Condominiums	45.7	46.1	96.3	172.4	79.0
Hotel	9.8	-	8.1	0.3	-96.9
Government	4.1	1.2	7.3	0.9	-88.2
Commercial	15.6	7.5	71.9	118.5	64.9
Industrial	20.3	7.9	3.5	12.1	249.7
Other	15.0	12.5	2.8	22.1	677.5
<b>Total</b>	<b>177.6</b>	<b>142.0</b>	<b>335.8</b>	<b>445.8</b>	<b>32.8</b>

Source: Cayman Islands Planning Department

**Project approvals.** Project approvals in the Cayman Islands reached \$638.9 million, representing an expansion of 22.7 percent over a year ago. Partly reflecting the building permit trends, much of the growth came from apartments/condominiums. Significant drops were, however recorded for houses (27.0%) and hotels (28.8%).

**Table 4.3C: Cayman Islands Planning Approvals, 2003-2006**

Category	2003	2004	2005	2006	2005-06
					% Change
Millions of CI\$					
Houses	84.2	74.1	111.7	81.6	-27.0
Apartment/Condo	66.7	153.8	196.1	294.3	50.0
Hotel	0.0	45.0	16.2	11.5	-28.8
Government	55.1	4.2	3.9	10.2	158.8
Commercial	30.3	135.1	104.6	120.4	15.2
Industrial	7.5	11.4	21.0	45.9	118.6
Other	30.2	46.4	66.9	74.9	11.9
<b>Total</b>	<b>273.9</b>	<b>470.0</b>	<b>520.5</b>	<b>638.9</b>	<b>22.7</b>

Source: Cayman Islands Planning Department

Underlying the latter trends were similar declines in the number of project approvals for homes (-34.8%) and hotels (-50.0%). The number of commercial approvals was also down by 27.9 percent while its value went up, suggesting an increase in average project cost.

**Table 4.4D: Cayman Islands Planning Approvals, 2003-2006**

Sectors	2003	2004	2005	2006	2005-06
					% Change
Houses	414	395	575	375	-34.8
Apt./Condominiums	132	112	136	222	63.2
Hotel	0	1	4	2	-50.0
Government	16	17	20	25	25.0
Commercial	81	65	104	75	-27.9
Industrial	36	21	27	40	48.1
Other	564	502	467	641	37.3
<b>Total</b>	<b>1,243</b>	<b>1,113</b>	<b>1,333</b>	<b>1,380</b>	<b>3.5</b>

Source: Cayman Islands Planning Department

**Certificates of occupancy.** These certificates, which are given at the completion of buildings, rose by 78.1 percent in 2006. The rebound is traced mainly to industrial buildings (300.0%), apartments (111.3%) and all other categories including houses. The increase in completion particularly for apartments and houses is believed to have contributed in the downtrend of the consumer price index in 2006.

**Table 4.3E: Certificates of Occupancy, Grand Cayman  
2003-2006**

Sectors	2003	2004	2005	2006	% Change
					2005-2006
Houses	171	197	183	281	53.6
Apt./Condominiums	107	80	71	150	111.3
Hotel	0	1	0	3	0.0
Government	0	1	0	1	0.0
Commercial	24	14	41	83	102.4
Industrial	12	2	2	8	300.0
Other	27	39	0	3	0.0
<b>Total</b>	<b>341</b>	<b>334</b>	<b>297</b>	<b>529</b>	<b>78.1</b>

Source: Cayman Islands Planning Department

**Table 4.3F: Certificates of Occupancy, Grand Cayman (in CI\$ Million)  
2003-2006**

Sectors	2003	2004	2005	2006	% Change
					2005-2006
Houses	32.1	36.9	37.6	56.1	49.4
Apt./Condominiums	24.2	21.9	46.0	61.8	34.4
Hotel	-	4.4	-	34.7	
Government	-	0.3	-	-	
Commercial	3.9	2.2	9.6	13.6	42.0
Industrial	10.1	0.2	0.5	4.3	759.1
Other	3.0	0.8	-	37.1	
<b>Total</b>	<b>73.3</b>	<b>66.6</b>	<b>93.6</b>	<b>207.6</b>	<b>121.8</b>

Source: Cayman Islands Planning Department

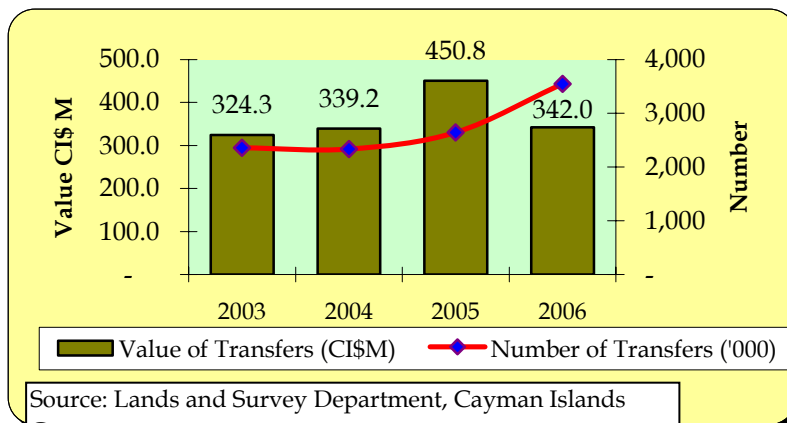
#### 4.4 Real Estate

The real estate market posted mixed results in 2006 amidst amendments in the stamp duty<sup>11</sup>.

At year end, the number of freehold properties transferred stood at 3,547—an increase of 34.4 percent over a total of 2,640 property transfers recorded a year ago. In contrast, the total value of these properties declined from \$450.8 million in 2005 to \$342.0 million in 2006. The average value of properties sold also fell from \$170.8 thousand to \$96.4 thousand, reflecting current demand within the housing market for affordable properties (e.g. Frank Hall Homes).

The number of leasehold real estate transfers grew by 10.2 percent from 245 in 2005 to 270 in 2006. Similarly, the value of transfers recorded for this category increased from \$1.4 million to \$32.1 million. This significant increase was largely due to the completion of the Ritz Carlton Residences.

**Figure 4.4: Freehold Property Transfers, 2003-2006**



Construction of several new condominium developments such as Beachcomber and Renaissance commenced during the year, while other projects such as the

<sup>11</sup> In July 2006, the stamp duty rate changed from 5 percent to 4 percent for Caymanians and 6 percent for non-Caymanians in areas other than Seven Mile Beach (SMB) and George Town (GT). A Stamp Duty fee of 7.5 percent for non-Caymanians currently prevails for those properties along SMB and in GT. In addition from July 2006, Caymanian first time buyers are entitled to 0 percent Stamp Duty on houses up to CI\$200,000 in value, and for land up to CI\$50,000. However, a fee of 2 percent is in effect for houses up to CI\$300,000 and for land up to CI\$70,000.

Caribbean Club neared completion. As indicated by Coldwell Bankers *Market Report – Year End 2006 and Property Listings*, local condominium sales grew by 63.0 percent over the previous year.

**4.5 Utilities and Telecommunications**

**Utilities.** Consistent with the growth in consumption spending, demand for utilities further surged in 2006 over the pervious year. Growth in electricity demand rose by 14.9 percent despite increases in electricity rates due to the pressures on global oil prices. Robust growth was noted in all categories of electricity consumption: commercial (16.0%), domestic (13.9%) and public lighting (5.3%).

Meanwhile demand for water accelerated in 2006, as it jumped by 19.9 percent compared to 3.9 percent in 2005. Significant growth were registered across major users in 2006: irrigation (81.5%), public authority (34.3%), commercial and industrial (29.8%) and residential (10.3%). Water demand by truckers was, however, on the decline in 2006 by 17.4 percent.

**Table 4.5A: Utilities Consumption, 2004-2006**

	2004	2005	2006	2005-06 % Change
<b>Water</b>				
<i>Water Consumption (millions of US gallons)</i>	1,252.7	1,301.7	1,560.7	19.9
<b>Electricity</b>				
<i>Electricity Usage (MWh)</i>	378.7	427.8	491.5	14.9

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

**Telecommunications.** Local demand for telecommunications posted another year of growth in 2006. Underlying this growth was the expansion in the number of fixed and mobile lines by 10.4 percent bringing the number of lines to 2.30 per capita. In addition, utilization (in minutes) per line was also longer by 3.8 percent.

The telecommunications providers continued to upgrade coverage of services. In August, Cable and Wireless established an agreement with the Caribbean Disaster Emergency Response Agency (CDERA) to enhance its ability to better

respond to disasters. This crucial agreement will serve to facilitate future partnerships for comprehensive disaster management.

**Table 4.5B: Telecommunication Sector Indicators, 2004-2006**

Indicators	2004	2005	2006	2005-06 % Change
Fixed and mobile lines in service as of year-end	96,293	110,656	122,167	10.4
Total lines to population ratio	2.65	2.11	2.30	9.0
Total domestic and international minutes for fixed and mobile lines ('000)	294,064	323,572	369,699	14.3
Minutes per line ('000)	3.05	2.92	3.03	3.8

Source of basic data: Information and Communications Technology Authority (ICTA)

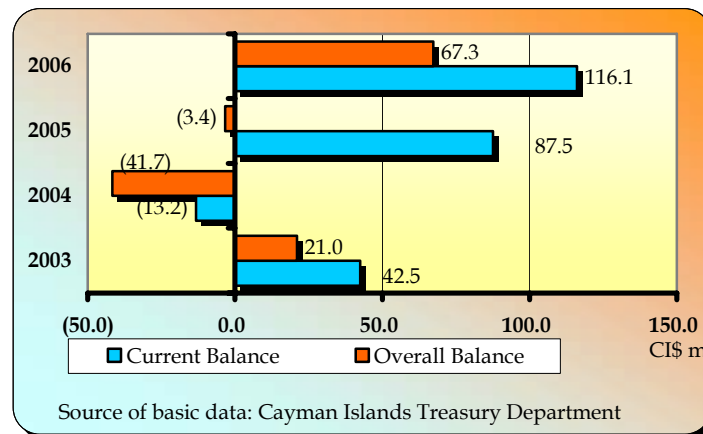
## 5. Fiscal Operations of the Central Government

Notwithstanding a slower economic growth in 2006, the fiscal sector showed stronger current and overall surpluses. Revenue collection rose anew despite a downturn in merchandise imports. Adjustment in the civil servants' cost of living allowance contributed to the growth in recurrent expenditures which was mitigated by declines in capital and net lending expenditures. The strong performance resulted in a build up of cash reserves and amortization of central government loans.

### 5.1 Overview

The year 2006 was marked by robust fiscal performance for the Cayman Islands, where strong growth in revenue outpaced the moderate increase in expenditure. Total revenue grew by 17.2 percent to reach \$500.4 million, whereas, total expenditure grew by 0.6 percent, to total \$433.1 million. This resulted in an overall fiscal surplus of \$67.3 million or 3.3 percent of GDP as compared to a deficit of \$3.4 million in 2005 (or -0.2% of GDP). This sharp upswing in the overall surplus came from a current surplus of \$116.1 million as compared to \$87.5 million a year ago.

Figure 5.1: Central Government Fiscal Balance



The healthy revenue performance in 2006 is associated with two key factors. First was the cessation of the temporary duty concessions that were implemented in 2005 in the aftermath of hurricane Ivan. Second was the strategic policy of the government in the fiscal year 2006/07 to introduce new revenue measures to support the operating cost of new schools and other new assets.<sup>12</sup> To this end,

<sup>12</sup> See Strategic Policy Statement 2006/7.

new revenue measures were introduced such as increases in general registry fees, legal practitioners' fees, law firms' operational licenses and bank and trust licenses and application fees.

**Table 5.1: Summary of Fiscal Operations, 2003-2006**

	2003	2004	2005	2006	2005-06 Change	%
Million of Cayman Islands Dollars						
<b>Total Revenue</b>	326.2	336.4	426.9	500.4		17.2
<b>Total Expenditure</b>	305.2	378.1	430.3	433.1		0.6
<i>of which</i>						
Current Expenditure	283.7	349.2	339.4	384.3		13.2
Capital Expenditure & Net Lending	21.5	28.9	48.5	39.6		-18.3
Current Surplus (Deficit)	42.5	(13.2)	87.5	116.1		32.6
Overall Surplus (Deficit)	21.0	(41.7)	(3.4)	67.3		2079.4
% of GDP	1.3	-2.5	-0.2	3.3		-1750.0
<b>Financing</b>	(21.0)	41.7	3.4	(67.3)		-2079.4
Net Borrowing (Lending)	12.4	13.8	27.6	(4.5)		-116.3
Change in Cash (minus=increase)	(33.4)	27.9	(24.2)	(62.8)		159.6

Source: Cayman Islands Treasury Department

On the expenditure side, capital expenditure and net lending dropped sharply by 18.3 percent in 2006, partly mitigating the 13.2 percent increase in current expenditure.

## 5.2 Revenue

As in 2005, the improvement in the fiscal balance in 2006 can be attributed mainly to a significant growth in revenue collection. Various adjustments in fees along with growth in the revenue base combined to bring a 17.2 percent jump in total revenue in 2006 to reach \$500.4 million. This pushed the revenue to GDP ratio to 24.6 percent compared to 22.1 percent in 2005.

Total revenue comprises both coercive and non-coercive revenue. Coercive revenue which totalled \$442.5 million or 88.4 percent of revenue, posted an increase of \$66.2 million, or 17.6 percent, over the receipts in 2005. On the other hand, non-coercive revenue which amounted to \$57.9 million, or 11.6 percent of the total, rose by 14.4 percent over the previous year. During 2006, collections

<sup>13</sup> The total current revenue for 2005 was adjusted downwards by \$9.9 million which represent losses from the sale of fixed assets by various government departments in the aftermath of hurricane Ivan.



from all coercive and non-coercive revenue experienced growth, except for investment income.

**Table 5.2: Revenue Collection of Central Government**

Revenue Sources	2003	2004	2005	2006	2005-06 % Change
Million of Cayman Islands Dollars					
<b>Coercive Revenue</b>	<b>286.7</b>	<b>303.2</b>	<b>376.3</b>	<b>442.5</b>	<b>17.6</b>
Taxes on Int'l trade & Transactions	117.6	132.2	171.9	187.0	8.8
Domestic Taxes on Goods & Services	146.1	144.8	171.5	193.7	12.9
Taxes on Property	17.3	22.3	21.4	47.2	120.1
Fines	1.3	0.8	0.9	1.6	75.3
Other Taxes	4.4	3.1	10.6	13.1	23.2
<b>Non-coercive Revenue</b>	<b>39.5</b>	<b>32.8</b>	<b>50.6</b>	<b>57.9</b>	<b>14.4</b>
Sale of Goods & Services	33.8	30.7	49.1	53.8	9.5
Investment Revenue	5.7	2.1	4.3	0.1	-97.5
Operating and Other Revenue	0.0	0.0	1.6	4.0	149.1
Extraordinary items	0.0	0.0	(4.5)	0.0	

Source: Cayman Islands Treasury Department

**Coercive revenue from international trade and transactions.** Receipts from international trade and transactions comprised 42.3 percent of coercive revenue in 2006, and reached \$187.0 million. Comparatively, this reflects a marginally weaker performance when compared to its contribution of 45.7 percent in 2005.

**Table 5.3: Revenue from Import Duties 2003-2006**

	2003	2004	2005	2006	2005-06 % Change
Million of Cayman Islands Dollars					
<b>Import Duties</b>	<b>101.5</b>	<b>117.6</b>	<b>155.7</b>	<b>168.4</b>	<b>8.2</b>
Gasoline/Diesel	18.7	16.1	19.2	22.0	14.3
Alcoholic Beverages	11.5	13.3	13.5	15.3	13.7
Motor Vehicles	8.8	15.3	25.7	13.9	-46.0
Tobacco Products	2.5	2.8	3.2	3.2	2.0
Other Import Duties	60.0	70.1	94.1	114.0	21.1
<b>Cruise Ship Departure Charges</b>	<b>11.1</b>	<b>9.9</b>	<b>11.3</b>	<b>12.4</b>	<b>9.7</b>
<b>Environmental Protection Fund Fees</b>	<b>5.0</b>	<b>4.7</b>	<b>4.9</b>	<b>6.3</b>	<b>26.7</b>
<b>Taxes on International Trade</b>	<b>117.6</b>	<b>132.2</b>	<b>171.9</b>	<b>187.0</b>	<b>8.8</b>

Source: Cayman Islands Treasury Department

Revenue from international trade and transactions rose 8.8 percent in 2006 on account mainly of the 8.2 percent growth in import duties. Receipts from

gasoline/diesel, alcohol beverages and other import duties recorded double-digit increases while those from motor vehicles declined by 46.0 percent compared to 2005. Following the 7.3 percent in cruise ship visitors during 2006, cruise ship departure charges rose by 9.7 percent to settle at \$12.4 million. Fees accruing to the environmental protection fund expanded by 26.7 percent during the year, contributing \$6.3 million.

**Coercive revenue from domestic taxes on goods and services.** Revenue collections in this category totalled \$193.7 million in 2006, 12.9 percent over the collections in 2005. Fees from various financial services continued to contribute majority (57.2 percent) of domestic revenue. Financial fees such as company registration fees were raised during the fiscal year 2006/07, which could explain the increase by \$3.5 million or 3.2 percent of this revenue source in 2006. Other sources of domestic revenue also showed upbeat contribution in 2006. Work permit fees rose by 7.2 percent, which could also be correlated with fee increases in some permit categories. Other domestic fees surged by 157.7 percent most likely due to fee increases in selected items such as postage fees and building permit fees. On the other hand, trader's licenses and other stamp duties fell sharply in 2006 by 20.8 percent and 80.0 percent respectively.

**Table 5.4: Domestic Taxes on Goods and Services,  
2005-2006**

	2005	2006	% Change
CI\$ millions			
Various financial service licenses	107.3	110.8	3.2
ICTA licences & royalties	7.3	8.2	12.1
Work permit fees	28.7	30.8	7.2
Other stamp duties	7.6	1.5	(80.8)
Traders licenses	6.0	4.7	(20.8)
Other domestic taxes	14.7	37.8	157.7
<b>Total Domestic Taxes</b>	<b>171.5</b>	<b>193.7</b>	<b>12.9</b>

Source: Cayman Islands Treasury Department

**Non-coercive revenue.** This source turned in a stronger performance in 2006, to total \$57.9 million, up 14.4 percent from the collections in 2005. Sales of goods and services generated \$53.8 million during the year, an increase of 9.5 percent. Other operating revenue also went up from \$1.6 million to \$4.0 million or by 149.1 percent. However, receipts from investment income plummeted from \$4.3 million in 2005 to settle at \$0.1 million in 2006.

### 5.3 Expenditure

Prudent fiscal management through tight expenditure control has resulted in maintaining expenditure within manageable levels to \$433.1 million, up 0.6 percent over the previous year. As a proportion to GDP, total expenditure fell from 22.3 percent in 2005, to 21.3 percent in 2006. Underlying this drop were the contraction in hurricane related extraordinary expenses (down by 81.7%), other executive expenses (down by 34.3%) and capital expenditure and net lending (down by 18.3%). These adjustments mitigated the impact of the 13.2 percent increase in current expenditure on the current and overall balance.

**Current expenditures.** In 2006, personnel costs expanded to \$182.6 million, higher by 11.5 percent compared to 2005. This included adjustments in cost of living allowance and increases due to higher number of personnel from 2,404 in 2005 to 3520 in 2006. Spending on supplies and consumables was 21.8 percent higher than in 2005 to reach \$109 million. Subsidies increased by 12.2 percent while transfers and interest payment both decreased marginally.

**Table 5.5: Current Revenue of the Central Government**

	2003	2004	2005	2006	2005-06 % Change
	Million of Cayman Islands Dollars				
<b>Current Expenditure</b>	<b>283.7</b>	<b>349.2</b>	<b>339.4</b>	<b>384.3</b>	13.2
Personnel Costs	138.9	159.0	163.8	182.6	11.5
Supplies & Consumables	61.3	88.0	89.5	109.0	21.8
Subsidies	58.8	70.4	59.7	66.9	12.2
Transfer Payments	18.8	24.5	17.0	16.9	-0.5
Interest Payments	5.9	7.3	9.5	8.9	-5.9

Source: Cayman Islands Treasury Department

**Capital expenditure and net lending.** Aggregate spending for capital acquisition, capital development and net lending reached \$39.6 million (or 2.0% of GDP) in 2006. This was 18.3 percent lower than the amount incurred in 2005, mainly due to a 50 percent reduction in capital acquisition and equity investment. Meanwhile, outlays for net lending disappeared in 2006.

**Table 5.6: Capital Expenditure and Net Lending of Central Government**  
(in CI\$ Millions)

	2003	2004	2005	2006
<b>Capital Expenditure &amp; Net Lending</b>	21.5	28.9	48.5	39.6
Capital Acquisition ( now Equity Investments)	7.7	10.0	40.8	20.5
Capital Development( now Executive Assets)	13.5	19.2	6.7	19.1
Net Lending	0.3	(0.3)	1.0	0

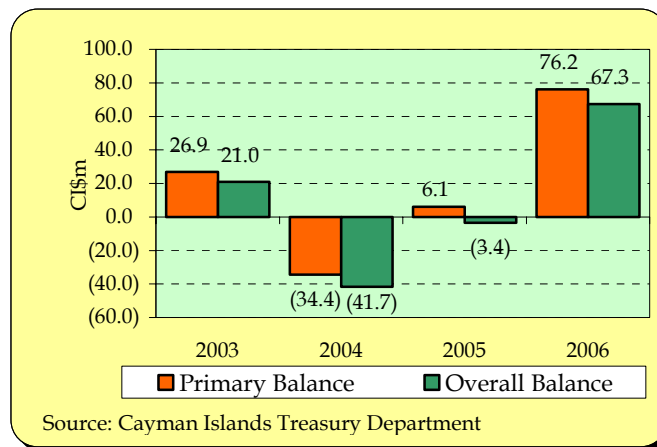
Source: Cayman Islands Treasury Department

#### 5.4. Primary Balance

The primary balance is the overall fiscal balance excluding interest payments and is a standard indicator of the central government’s capacity to service debt obligations. The robust growth of revenues and the marginal increase of expenditure significantly improved the overall balance from a deficit of \$3.4 million (-0.2% of GDP) in 2005 to a surplus of \$67.3 million (3.3% of GDP) in 2006.

With this turn-around, the primary balance improved sharply from \$6.1 million or 0.3% of GDP in 2005 to \$76.2 million or 3.7 percent of GDP in 2006.

**Fig. 5.11: Overall & Primary Fiscal Balance**



The improvement in the primary balance also gained support from the 5.9 percent decline in the government’s interest payments.

### 5.5. Net Financing and Debt Service Indicators

With the upbeat fiscal balance in 2006, the need for financing by the central government vanished. In fact, loan repayments exceeded loan disbursements by \$4.5 million. Cash reserves also surged to \$62.8 million, approximately equivalent to 53 days of average daily expenditures.

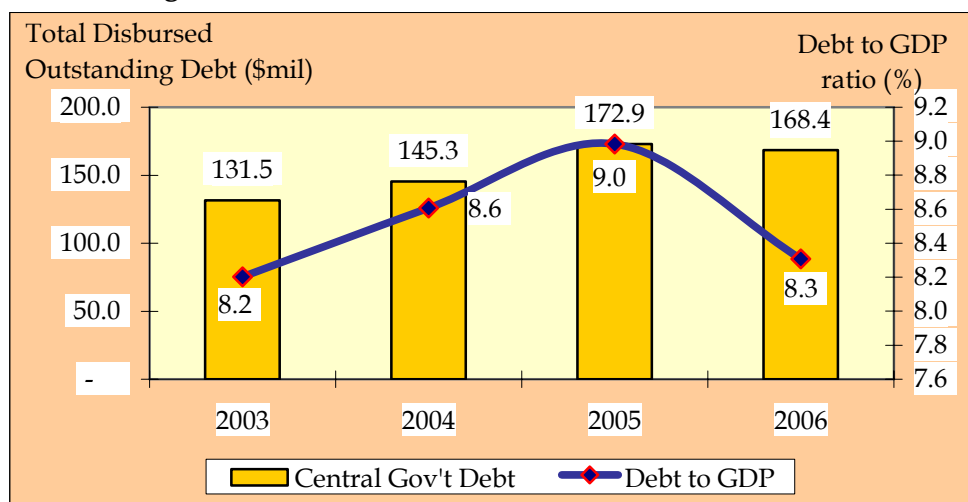
**Table 5.7: Financing of Central Government**

	2003	2004	2005	2006	% Change 2005/06
Million of Cayman Islands Dollars					
<b>Financing</b>	<b>(21.0)</b>	<b>41.7</b>	<b>3.4</b>	<b>(67.3)</b>	-2064.1
Net Borrowing	12.4	13.8	27.6	(4.5)	-116.3
Disbursements	136.9	23.3	39.0	10.0	-74.4
Loan Repayment	(124.5)	(9.5)	(11.4)	(14.5)	27.2
Change in Cash (minus = increase)	(33.4)	27.9	(24.2)	(62.8)	159.6

Source: Cayman Islands Treasury Department

The reduction in net borrowings in 2006 brought down the central government's outstanding debt to \$168.4 million as at end December 2006 from \$172.9 million as at end 2005. This placed the debt-to-GDP ratio at 8.3 percent, slightly down from 9.0 percent in 2005.

**Figure 5.12: Central Government Debt- to- GDP Ratio**



Source: Cayman Islands Treasury Department

The marginal reduction in central government's debt by 2.6 percent in 2006 has improved the central government's debt service-to-current revenue ratio to 4.7 percent, from 4.9 percent a year ago. Similarly, interest payments- to- current

revenue declined to 1.8 percent from 2.2 percent in 2005. However, the debt service to GDP ratio slid down to 1.2 percent.

**Table 5.8: Central Government Debt Service Indicators**

<b>Debt Service Indicators</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Revenue Ratio (%)	1.8	2.2	2.2	1.8
Debt Service/ GDP (%) a/	8.1	1.0	1.1	1.2
Debt Service/ Current Revenue (%) a/	40.0	5.0	4.9	4.7

a/ Debt service consists of amortization and interest payments

Source: Cayman Islands Treasury Department, Economics and Statistics Office

## **6. Macroeconomic Outlook for 2007**

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*The Cayman Islands' economy is expected to post strong growth in 2007, albeit at a slower pace compared to 2006 in view of the possible dampening effect of a slower global economic growth and higher expected inflation. Expansion of domestic demand is likely to come from growth in government consumption and capital spending. The financial sector services are expected to lead economic growth, followed by tourism services. Among the potential risks to growth is the pressure on local wages due to a possible tightening of the labour market.*

### **6.1 Global Outlook**

A moderation of global economic growth is foreseen in 2007 compared to the sanguine performance in 2006. Global output is forecasted at 4.9 percent in 2007 from 5.4 percent in 2006, as advanced economies and other emerging market and developing countries are expected to post lower growth rates.

As far as the advanced economies are concerned, only the UK, Japan, and Portugal are expected to improve their economic performance in 2007. The US faces the prospect of recording a 2.2 percent GDP growth from 3.3 percent a year ago primarily due to risks in the housing market. A similar but more benign downtrend for the Euro area in 2007 is projected, as overall GDP growth in 2007 is placed at 2.3 percent compared to 2.6 percent in 2006. Unlike in the US, where gross fixed capital formation is expected to contract by 2.1 percent due to its housing problem, growth in the Euro area will remain dependent on robust investment growth.

The outlook for inflation in the advanced economies is generally upbeat as the average price of oil is projected to fall from \$64.27 a barrel in 2006 to \$60.75 a barrel in 2007. In addition, a vigilant anti-inflationary stance by the US Federal Reserve Bank is likely to rein average inflation among advanced economies from 2.3 percent in 2006 to 1.8 percent in 2007. Inflation in the US is seen to pace lower in 2007 at 1.7 percent from 2.9 percent in 2006.

World tourism is projected to have another year of robust growth in 2007. The aggregate international tourist arrivals is forecasted by the World Tourism Organization to move up by 4.0 percent in 2007 in line with forecast long-term annual growth of 4.1 percent.

## 6.2 Domestic Growth

The pace of economic activity in the Cayman Islands is expected to ease in 2007 after two years of sustained post-Ivan reconstruction work. GDP growth is projected at 3.8 percent from 4.6 percent in 2006. This modest prospect is also aligned with the downscaling of GDP growth in the advanced economies which make up the dominant market for the Cayman Islands' pillars of growth—tourism and financial services.

**Table 6.2A: Macroeconomic Indicators 2004-2006**

	2005			2006			2007 Forecast		
	Cayman Islands	U.S.	World	Cayman Islands	U.S.	World	Cayman Islands	U.S.	World
Real GDP growth (%)	6.5	3.2	4.9	4.6	3.3	5.4	3.8	2.2	4.9
Inflation (CPI) (%)	7.3	3.4	2.3 a/	0.8	3.2	2.3 a/	3.6	1.9	1.8 a/
Unemployment Rate (%)	3.5	5.1	6.0 a/	2.6	4.6	5.5 a/	3.5	4.8	5.4 a/

a/ Applies to advanced economies only

Source: International Monetary Fund for world and US data; Cayman Islands Economics and Statistics Office for Cayman data

On the demand side, GDP could be boosted by sharp increases in both consumption and capital spending of the central government. Operating expenses in the fiscal year 2007/08 is targeted to increase by 19.6 percent while total capital investment expenditure is targeted to grow by 22.4 percent.

However, growth of private consumption could be slower in 2007 in view of higher inflation and stabilization of the local population. The impact of these factors, however, could be partly offset by the changing structure of the labour force. Work permits data as of the first quarter of 2007 show that while total permits inched up marginally by 0.2 percent, employment in the higher paying categories (professional, managerial/ administration, and skilled) rose by 4.8 percent. Higher per capita income for the employed labour force could thus mitigate the dampening effect of a stable or marginally increasing local population on domestic demand.



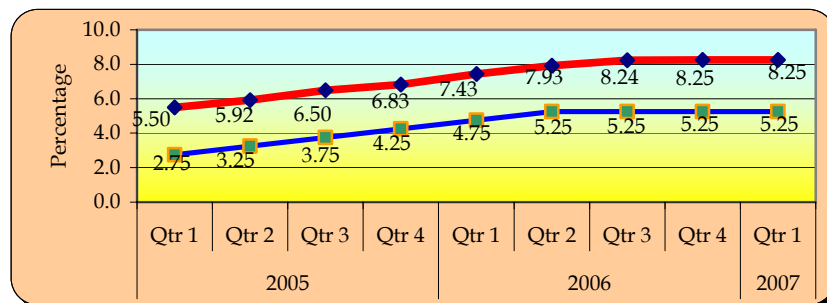
On the production side, the traditional sources of growth in the pre-Ivan years- financial services and tourism- are expected to re-emerge as the banners of growth in 2007. Work permits data for financial services grew by 10.8 percent in the first quarter of 2007. This lead indicator is further supported by continuing robust growth in the first quarter for mutual funds registration, licenses and administration (up by 14.1%), new companies' registration (up by 16.7%) and stock exchange listings (up by 28.4%).

Meanwhile, tourist arrivals also showed further growth in the first quarter of 2007, although at a slower rate compared to the same period in 2006. Air arrivals jumped by 13.3 percent while cruise arrivals rose 5.9 percent. As well, work permits granted for bar and restaurant business grew by 10.9 percent.

The indicators for construction industry as of the first quarter of 2007 are mixed. Work permits granted for the industry fell by 8.4 percent compared to a year ago. However, development projects approved in 2006, with their implementation expected to spill over in 2007, rose in terms of number (up by 3.5%) and value (up by 22.7%). A similarly upbeat prognosis is culled from the growth in the number and value of building permits which rose at approximately the same rate of 33.3 percent.

The key risks to economic growth in 2007 could come from both domestic and external factors. Domestically, the residential construction industry is vulnerable to a slowdown in demand for housing if the population growth stabilizes as indicated in the timid growth of work permit approvals. Demand for housing may also be impacted by mortgage rate increases, as these are affected by recent interest rate adjustments. These risks, however, can be offset by strong growth in the commercial/ industrial construction segments as indicated by building permit approvals for this category in 2006.

**Figure 6.1: US Federal Rates and Cayman Prime Lending Rates (%)**



Source: United States Federal Reserve Bank,  
Cayman Islands Economics and Statistics Office

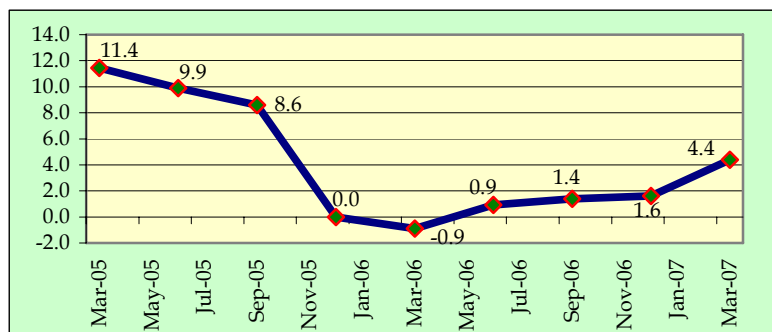
Another emerging domestic risk is a wage-induced increase on the general price level. The inflation data for the first quarter of 2007 show the possibility of higher wage rates for jobs adversely affected by declining supply in the labour market. Work permits for unskilled workers contracted by 7.3 percent, which partly fed back on inflation in the first quarter (see below). This could dampen growth to the extent that demand for domestic goods and services are negatively affected by a higher general price level in 2007.

Externally, the tourism sector is vulnerable to the softening of income growth in the US, the major source of tourist arrivals. On the other hand, arrivals from other countries of origin such as Europe and Canada could be boosted by the weakening of the US dollar (to which the Cayman dollar is pegged) vis-à-vis the Euro and Canadian dollars.

### 6.3 Domestic Inflation

The consumer price index (CPI) is forecasted to accelerate in 2007 on account of pressures on wages for domestic services. The inflation rates could inch up from 0.8 percent in 2006 to 3.6 percent in 2007.

**Figure 6.2: Cayman Islands Inflation Rates (%)**



Source: Cayman Islands Economics and Statistics Office

As of March 2007, the CPI rose by 4.4 percent compared to March 2006, which is traced to an uptrend in the average prices of all major categories in the CPI basket. In particular, the highest inflation rates were recorded for personal goods and services (7.4%), housing equipment (6.6%) and food (4.6%).

The sharp rise in the average cost of personal goods and services in the first quarter highlights the direct risk from possible pressures in the labour market on

inflation in 2007. Wage rates for lower skilled services such as maid services, baby- sitting and gardening contributed to the significant jump in the inflation rate for personal goods and services in the first quarter. These wage risks could be tempered for the rest of 2007 contingent on the flexibility of the market in stabilizing the supply of such skills.

## **7. Acknowledgement**

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The Economics and Statistics Office gratefully acknowledges the assistance of the following local companies and agencies in generating the data sets used in this edition of the Annual Economic Report:

**Caribbean Utilities Company  
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Cayman Islands Department of Tourism  
Cayman Islands General Registry  
Cayman Islands Lands and Survey Department  
Cayman Islands Monetary Authority  
Cayman Islands Planning Department  
Cayman Islands Stock Exchange  
Cayman Islands Treasury Department  
Cayman Islands Water Authority  
Cayman Water Company  
Department of Immigration  
Information & Communication Technology Authority  
Maritime Authority of the Cayman Islands**

**8. Statistical Appendix**


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**Table A1: Gross Domestic Product**

<b>Year</b>	<b>Nominal GDP (CI\$M)</b>	<b>Real GDP 1986 Prices (CI\$M)</b>	<b>Mid-Year Population (000s)</b>	<b>GDP Per Capita (\$)</b>	<b>Real GDP Growth (%)</b>
1998	1,275.2	777.5	38.1	33,470	5.8
1999	1,382.5	803.8	39.0	35,449	3.4
2000	1,444.9	811.7	40.2	35,943	1.0
2001	1,482.3	816.2	41.4	35,848	0.6
2002	1,546.0	830.3	42.5	36,419	1.7
2003	1,603.2	846.9	43.6	36,771	2.0
2004	1,688.8	854.5	44.2	38,173	0.9
2005	1,929.9	910.0	48.4	39,913	6.5
2006	2,034.8	951.9	51.9	39,137	4.6

Source: Cayman Islands Government, Economics & Statistics Office

**Table A2: Consumer Price Index & Inflation**

(September 1994=100)

Year	Index Year-end	Index Average	Inflation Rate (%)
1994	100.8	99.9	...
1995	103.1	102.4	2.5
1996	106.4	105.0	2.6
1997	109.5	107.9	2.7
1998	112.1	111.1	3.0
1999	120.8	118.7	6.8
2000	122.8	121.9	2.7
2001	123.5	123.3	1.1
2002	127.2	126.3	2.4
2003	128.1	127.1	0.6
2004	142.3	132.7	4.4
2005	141.9	142.4	7.3
2006	144.4	143.5	0.8

Source: Cayman Islands Government, Economics &amp; Statistics Office

**Table A3: Labour Force and Employment**

Year	Labour Force	Total Employed	Total Unemployed
1995	19,820	18,845	980
1996	20,410	19,370	1,040
1997	21,620	20,725	895
1998	22,725	21,820	905
2001	27,971	25,862	2,109
2002	28,905	27,355	1,550
2003	29,905	28,827	1,079
2004*	30,257	28,946	1,311
2005	36,767	35,464	1,303
2006*	35,959	35,016	943

Source: Cayman Islands Government, Economics & Statistics Office

Note:

No Labour Force Surveys were conducted in 1999 and 2000

\*2004 and 2006 results are derived from Spring LFS and not Fall LFS.

**Table A4: Composition of the Employed Labour Force**

Year	Total	Caymanian	Non-Caymanian
1995	18,845	10,490	8,355
1996	19,370	10,705	8,665
1997	20,725	10,390	10,335
1998	21,820	11,525	10,295
2001	25,862	12,479	13,383
2002	27,355	12,993	14,362
2003	28,827	13,973	14,854
2004	28,946	14,775	14,171
2005	35,464	18,025	17,439
2006	35,016	17,621	17,395

Source: Cayman Islands Government, Economics & Statistics Office



**Table A5: The Unemployed**

<b>Year</b>	<b>Total Unemployed</b>	<b>Caymanian</b>	<b>Non-Caymanian</b>
1995	978	703	275
1996	1,049	692	357
1997	895	579	316
1998	907	609	298
1999	...	...	...
2000	...	...	...
2001	2,109	1,311	798
2002	1,550	1,058	492
2003	1,079	857	222
2004	1,311	887	424
2005	1,303	1,039	264
2006	943	682	261

Source: October Labour Force Surveys, Cayman Islands Government, Economics & Statistics Office

Note:

No labour force surveys were conducted by the Statistics Office in 1999 or 2000.

Data presented for 2004 and 2006 were taken from the Spring labour force surveys.

**Table A6: The Employed by Industry**

Year	Agric., Fish, Manufacturing, Construction, Utilities	Wholesale, Retail, Hotel & Restaurant	Transport, Postal & Communications	Insurance, Financial & Business	Public Administration	Education, Health & Social Services	Recreation, Community & Personal	Other	Total
1992	2,895	4,160	1,385	2,375	700	1,405	2,300	-	15,220
1993	2,790	4,310	1,345	3,610	770	1,210	1,960	-	15,995
1994	2,995	4,715	1,205	2,920	1,015	1,410	2,570	-	16,830
1995	2,640	5,555	1,785	3,570	950	1,320	3,025	-	18,845
1996	3,545	5,375	1,125	3,840	890	1,330	3,265	-	19,370
1997	3,505	5,580	1,475	4,025	995	1,665	3,480	-	20,725
1998	3,660	6,175	1,450	4,230	870	1,605	3,830	-	21,820
2001	4,608	6,644	1,347	5,373	1,765	2,143	3,982	-	25,862
2002	4,923	6,932	1,640	5,399	1,948	2,416	4,087	10	27,355
2004	5,456	7,286	1,446	6,099	1,760	2,428	4,427	-	28,947
2006	8,258	8,011	1,477	7,648	2,380	2,421	4,821	-	35,016

Source: October Labour Force Surveys, Cayman Islands Government, Economics & Statistics Office

**Note:**

No Labour Force surveys were conducted by the Statistics Office in 1999, 2000 and 2005  
2004 and 2006 Labour Force Surveys refer to the Spring Labour Force

**Table A7: Work Permits by Occupational Class**

Year	Administrative/ Managerial	Professional	Trades/ Technical/ Skilled	Un- Skilled	Others	Total
1995	786	668	4,606	4,138	-	10,198
1996	676	554	4,741	3,980	-	9,951
1997	755	788	5,455	4,316	-	11,314
1998	698	968	6,331	4,888	-	12,885
1999	...	...	...	...	...	...
2000	752	1,039	7,633	4,837	23	14,284
2001	664	1,077	7,285	4,852	5	13,883
2002	699	1,530	7,167	6,383	1	15,779
2003	682	1,748	7,383	7,310	-	17,123
2004	671	1,834	9,385	8,618	-	20,508
2005	819	1,957	10,576	8,411	-	21,763
2006	838	2,397	11,143	8,016	-	22,394

Source: 1995-1999 data from Statistics Office; 2000-2006 data from Immigration Department.

**Table A8: Merchandise Trade, CI\$M**

<b>Year</b>	<b>Total Imports</b>	<b>Exports</b>	<b>Trade Balance</b>
1995	331.6	3.4	328.2
1996	314.9	2.2	312.7
1997	423.7	1.8	421.9
1998	447.8	1.0	446.8
1999	452.2	1.2	451.0
2000	575.7	2.0	573.7
2001	515.1	2.4	512.7
2002	496.6	3.0	493.6
2003	556.8	4.3	552.5
2004	724.7	2.1	723.8
2005	995.4	1.3	989.1
2006	906.1	10.7	895.4

Source of basic data: Cayman Islands Customs Department, Economics and Statistics Office

**Table A9: Imports by Standard International Trade Classification**

Total Imports	2003	2004	2005	2006	% Change		Absolute Change 2005-2006
					2004-2005	2005-2006	
<b>Total Imports</b>	<b>556.0</b>	<b>724.7</b>	<b>995.3</b>	<b>906.1</b>	<b>37.3</b>	<b>(9.0)</b>	<b>(89.2)</b>
Food and Live Animals	43.9	58.4	53.3	44.9	(8.7)	(15.8)	(8.4)
Beverages and Tobacco	27.0	17.1	35.1	44.3	105.3	26.2	9.2
Inedible Crude Materials	5.2	7.5	13.7	10.1	82.7	(26.3)	(3.6)
Mineral Fuels, Lubricants and Related Materials	43.2	70.6	76.2	70.0	7.9	(8.1)	(6.2)
Animal and Vegetable Oils, Fats and Waxes	0	0.1	0	0	0	0	0
All Chemical & Rel. Prods N.E.S.	14.2	16.8	22.1	22.1	31.5	0	0
Manufactured Goods (classified chiefly by material)	21.7	47.1	107.8	56.2	128.9	(47.9)	(51.6)
Machinery & Transport Equipment	54.5	117.3	168.2	94.9	43.4	(43.6)	(73.3)
Misc. Manufactured Articles	249.8	318.7	319.1	482.6	0.1	51.2	163.5
Commodities and Transactions (not classified elsewhere)	96.2	71.0	200.0	80.9	181.7	(59.6)	(119.1)

Source of basic data: Cayman Islands Customs Department

**Table A10: Domestic Credit from Retail Banks, CI\$'000**

	2004	2005	2006
<b>Domestic Credit</b>	<b>1,950,525</b>	<b>1,949,249</b>	<b>2,127,313</b>
<b>Total Loans and Advances to Private Sector</b>	<b>1,566,418</b>	<b>1,825,269</b>	<b>1,996,532</b>
<b>Credit to Businesses</b>	<b>598,478</b>	<b>818,308</b>	<b>740,863</b>
Agriculture and Fishing	309	397	2,353
Mining and Quarrying	3,322	2,271	3,232
Manufacturing	1,523	3,452	5,997
Construction	51,364	85,603	141,074
Hotel, Restaurant and Bar	82,388	71,509	58,986
Transportation, Storage & Com	24,015	21,123	16,864
Utilities (Electricity, Water)	28,775	29,013	12,863
Real Estate, Renting & Other	142,052	177,013	136,218
Recreational, Personal & Communication	19,271	19,802	24,335
Other Professional Services	43,116	46,982	104,382
Trade & Commerce	90,334	87,529	97,319
Other	112,011	273,614	137,243
<b>Credit to Households</b>	<b>861,235</b>	<b>887,453</b>	<b>1,130,419</b>
Domestic Property	782,741	797,400	1,039,708
Motor vehicles	25,582	43,670	44,412
Education and Technology	951	2,823	2,935
Other	51,962	43,560	43,365
<b>Other</b>	<b>106,704</b>	<b>119,508</b>	<b>125,249</b>
<b>Credit to Government</b>	<b>327,461</b>	<b>61,997</b>	<b>63,508</b>
<b>Credit to other Public Sector</b>	<b>56,647</b>	<b>61,983</b>	<b>67,273</b>

Source: Cayman Islands Monetary Authority

**Table A11: Financial Services Indicators**

Year	Bank & Trust Licences	Insurance Licences	Captive Insurance Premiums (US\$B)	Mutual Funds	New Companies Registered	Stock Market Cap. (US\$B)	Stock Listings
2002	383	629	4.2	4,285	7,016	36.30	710
2003	349	672	4.9	4,808	7,254	43.94	735
2004	322	722	5.6	5,932	8,892	53.57	857
2005	305	759	6.7	7,106	10,210	75.56	1,015
2006	291	767	7.1	8,134	12,277	106.16	1,169

Source: Cayman Islands Monetary Authority

**Table A12: Banks & Trust Licences**

Year	Bank & Trust Licenses			Trust Only		Total
	Class 'A'	Class 'B'	Class "B" Restricted	Unrestricted	Restricted	
2002	30	348	5	58	67	508
2003	27	316	6	49	73	471
2004	23	295	4	49	75	446
2005	21	281	3	50	77	432
2006	19	269	3	51	84	426

Source: Cayman Islands Monetary Authority

**Table A13: Insurance Licences**

Year	Class 'A' Insurance	Class "B" Insurance		Total
		Unrestricted	Restricted	
2002	29	532	68	629
2003	28	581	63	672
2004	29	634	59	722
2005	26	670	63	759
2006	27	674	66	767

Source: Cayman Islands Monetary Authority

**Table A14: Mutual Funds Domiciled in the Cayman Islands**

Year	Administered Funds	Licensed Funds	Registered Funds	Total
2002	641	51	3,593	4,285
2003	592	48	4,168	4,808
2004	616	67	5,249	5,932
2005	598	79	6,429	7,106
2006	548	105	7,481	8,134

Source: Cayman Islands Monetary Authority



**Table A15: New Companies Registered in the Cayman Islands**

<b>Year</b>	<b>Exempt</b>	<b>Non-Resident</b>	<b>Resident</b>	<b>Foreign</b>	<b>Total</b>
2002	5,795	768	310	143	7,016
2003	5,941	692	439	182	7,254
2004	7,480	674	530	208	8,892
2005	8,694	595	650	271	10,210
2006	10,735	569	588	385	12,277

Source: Company Registrar

**Table A16: Money and Banking Survey: Monetary Assets (CI\$000s)**

	2004	2005	2006
<b>Total Assets</b>	<b>5,752,941</b>	<b>5,146,629</b>	<b>6,317,481</b>
<b>Net foreign Assets</b>	<b>4,220,649</b>	<b>4,048,515</b>	<b>4,790,951</b>
<b>Monetary Authority</b>	<b>87,167</b>	<b>89,779</b>	<b>99,228</b>
Foreign Assets	87,167	89,779	99,228
Foreign Liabilities	-	-	-
<b>Commercial Banks</b>	<b>4,133,483</b>	<b>3,958,737</b>	<b>4,691,723</b>
<b>Foreign Assets</b>	<b>5,297,432</b>	<b>5,138,464</b>	<b>6,486,213</b>
Balances with Banks & Branches	2,965,425	3,789,280	3,823,993
USD	2,653,342	3,401,361	3,374,320
OTH	312,083	387,919	449,673
Total Investment	376,912	656,593	1,358,150
USD	371,483	651,721	1,352,602
OTH	5,429	4,873	5,548
Loans & Advances to Banks & Branches	1,318,826	232,152	90,687
KYD	33,848	34,471	0
USD	1,198,005	197,681	90,687
OTH	86,973	0	0
Total Non-Resident Loans	636,269	460,439	1,213,384
KYD	22,146	26,630	29,090
USD	609,206	432,988	1,183,213
OTH	4,918	821	1,082
<b>Foreign Liabilities</b>	<b>1,163,949</b>	<b>1,179,728</b>	<b>1,794,490</b>
Total Non-resident Deposits	823,673	1,006,468	1,117,210
KYD	34,023	36,034	37,177
USD	660,768	810,856	945,570
OTH	128,882	159,578	134,463
Other Liabilities	340,277	173,260	677,280
USD	339,005	171,648	672,893
OTH	1,272	1,613	4,388
<b>Net Domestic Assets</b>	<b>1,950,525</b>	<b>1,949,249</b>	<b>2,127,313</b>
<b>Total Domestic Credit</b>	<b>1,950,525</b>	<b>1,949,249</b>	<b>2,127,313</b>
Public Sector	384,108	123,980	130,781
Central Government	327,461	61,997	63,508
Other Public Sector	56,647	61,983	67,273
Private Sector	1,566,418	1,825,269	1,996,532
<b>Other Items</b>	<b>-418,233</b>	<b>-851,135</b>	<b>-600,782</b>

Source: Cayman Islands Monetary Authority

**Table A17: Money and Banking Survey: Monetary Liabilities (CI\$000s)**

	2004	2005	2006
<b>Monetary Liabilities</b>	<b>5,752,941</b>	<b>5,146,629</b>	<b>6,317,481</b>
<b>Money Supply (M1)</b>	<b>702,033</b>	<b>379,756</b>	<b>335,733</b>
Currency with the public	73,911	74,168	78,189
Total demand deposits (KYD)	628,122	305,588	257,544
<b>Quasi Money</b>	<b>5,050,908</b>	<b>4,766,873</b>	<b>5,981,748</b>
Savings Deposits Residents (KYD)	224,643	206,715	189,503
Fixed Deposits Residents (KYD)	267,285	333,400	413,949
Foreign currency deposits held by residents	4,558,980	4,226,758	5,378,297

Source: Cayman Islands Monetary Authority

**Table A18: Visitor Arrivals and Cruise Ship Calls**

Year	Stay Over Arrivals (in '000)	Cruise Arrivals (in '000)	Total Arrivals (in '000)	Cruise Ship Calls (in '000)
1995	361.4	682.8	1,044.2	504
1996	373.2	800.3	1,173.5	525
1997	381.2	866.6	1,247.8	572
1998	404.2	871.4	1,275.6	518
1999	394.7	1,035.5	1,430.2	638
2000	354.1	1,030.9	1,385.0	612
2001	334.1	1,214.8	1,548.9	711
2002	302.8	1,574.8	1,877.6	732
2003	293.5	1,819.0	2,112.5	825
2004	259.9	1,693.3	1,953.2	732
2005	167.8	1,799.0	1,966.8	784
2006	267.3	1,930.1	2,197.4	802

Source: Cayman Islands Department of Tourism

**Table A19: Occupancy Rates and Length of Stay**

Year	Hotel Occupancy Rates (%)	Apt/Condo Occupancy Rates (%)	Hotel Length of Stay (Days)	Apt/Condo Length of Stay (Days)
1995	75.3	53.9	4.7	6.8
1996	66.1	51.0	4.6	7.3
1997	66.9	48.2	4.8	7.0
1998	73.1	52.3	5.0	7.0
1999	71.8	46.9	4.7	5.8
2000	62.4	46.8	4.6	7.0
2001	55.3	43.1	4.5	7.3
2002	50.6	40.2	4.8	7.3
2003	51.2	37.7	4.7	7.4
2004	61.7	43.1	4.9	6.8
2005	55.8	46.0	4.9	6.7
2006	59.4	40.7	4.5	6.6

Source: Cayman Islands Department of Tourism

**Table A20: Total Stay-over Arrivals by Country of Origin ('000)**

<b>Year</b>	<b>USA</b>	<b>Europe</b>	<b>Canada</b>	<b>Others</b>	<b>Total Arrivals</b>
<b>1995</b>	266.2	37.3	14.1	43.8	361.4
<b>1996</b>	274.7	33.5	16.2	48.8	373.2
<b>1997</b>	278.7	32.7	18.2	51.6	381.2
<b>1998</b>	295.2	34.7	18.4	55.9	404.2
<b>1999</b>	280.3	34.5	18.9	61.0	394.7
<b>2000</b>	281.6	22.6	15.0	34.3	354.1
<b>2001</b>	270.1	20.4	13.6	34.9	334.1
<b>2002</b>	244.9	17.9	13.6	26.2	302.8
<b>2003</b>	232.4	18.2	14.1	28.8	293.5
<b>2004</b>	205.2	15.3	12.1	27.3	259.9
<b>2005</b>	118.8	12.7	10.5	25.8	167.8
<b>2006</b>	217.4	16.7	14.9	18.3	267.3

Source: Cayman Islands Department of Tourism

**Table A21: Property Transfers**

Year	Freehold		Leasehold		Total Transfers	
	Number	Value (CI\$M)	Number	Value (CI\$M)	Number	Value (CI\$M)
1995	1,729	191.2	127	3.6	1,856	194.8
1996	2,055	267.2	153	3.3	2,208	270.5
1997	2,151	281.8	125	6.1	2,279	287.9
1998	2,344	317.2	128	2.3	2,472	319.5
1999	2,293	222.5	201	7.4	2,494	229.9
2000	1,868	257.3	143	2.3	2,011	259.6
2001	1,846	172.8	181	0.8	2,027	173.6
2002	1,842	269.9	147	4.1	1,989	274.0
2003	2,357	324.3	205	1.7	2,562	326.0
2004	2,335	339.2	127	1.9	2,462	341.1
2005	2,640	450.8	245	1.4	2,885	452.2
2006	3,547	342.0	270	32.1	3,817	374.1

Source: Cayman Islands Lands & Survey Department

**Notes:**

Freehold transfers exclude property transfers for "love and affection."

Leasehold transfers include lease transfers and subleases.

**Table A22: Number of Project Approvals in Grand Cayman**

Year	Apts/ Condos	Houses	Commercial	Government	Hotel	Industrial	Other	Total
2000	96	369	34	21	1	16	511	1,048
2001	79	309	45	7	3	11	442	896
2002	88	327	83	4	5	17	424	948
2003	129	385	67	12	0	34	504	1,131
2004	111	359	52	6	1	17	427	973
2005	132	532	95	15	4	26	394	1,198
2006	222	336	70	15	1	30	574	1,248

Source: Cayman Islands Planning Department

**Table A23: Total Value of Project Approvals in Grand Cayman (CI\$Million)**

Year	Apt/ Condos	Houses	Commercial	Government	Hotel	Industrial	Other	Total
2000	90.6	63.3	21.2	21.0	75.0	14.4	24.7	310.1
2001	44.5	54.2	18.0	0.8	1.7	5.5	24.4	149.1
2002	82.0	60.6	48.9	0.8	9.7	9.9	24.4	236.3
2003	65.9	80.0	29.0	55.1	-	7.1	29.4	266.5
2004	153.7	67.5	133.2	3.9	45.0	7.3	45.7	456.3
2005	194.9	105.8	103.9	3.7	16.2	20.5	66.1	511.2
2006	294.3	74.8	119.8	7.5	6.0	44.4	74.2	620.9

Source: Cayman Islands Planning Department

**Table A24: Number of Project Approvals in the Sister Islands**

Year	Houses	Apt/Condo	Hotel	Government	Commercial	Industrial	Others	Total
2000	49	3	0	7	6	7	53	125
2001	41	7	0	5	9	3	46	111
2002	21	2	0	5	2	9	74	113
2003	29	3	-	4	14	2	60	112
2004	36	1	-	11	13	4	75	140
2005	43	4	0	5	9	1	73	135
2006	39	0	1	10	5	10	67	132

Source: Cayman Islands Planning Department

**Table A25: Total Value of Project Approvals in the Sister Islands (CI\$ Million)**

Year	Houses	Apt/Condo	Hotel	Government	Commercial	Industrial	Others	Total
2000	5.2	3.2	-	1.0	0.5	1.6	1.0	12.4
2001	-	2.8	-	2.1	1.1	1.1	0.8	8.0
2002	3.2	0.2	-	0.3	0.3	1.2	2.3	7.6
2003	4.1	0.8	-	0.1	1.4	0.4	0.7	7.4
2004	6.6	0.1	-	0.3	1.9	4.0	0.7	13.7
2005	5.9	1.3	-	0.2	0.6	0.5	0.8	9.3
2006	6.7	0	5.5	2.7	0.7	1.6	0.8	17.9

Source: Cayman Islands Planning Department



**Table A26: Building Permits in Grand Cayman**

	Number					Value (CI\$ Million)				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Apartment/ Condo	114	211	145	164	374	50.9	45.7	46.1	96.3	172.4
Houses	283	375	341	533	517	46.3	67.0	66.8	145.9	119.6
Commercial	61	35	26	163	197	22.8	15.6	7.5	71.9	118.5
Government	3	21	8	5	8	0.3	4.1	1.2	7.3	0.9
Hotel	14	5	0	31	2	111.5	9.8	-	8.1	0.3
Industrial	14	19	42	8	35	4.9	20.3	7.9	3.5	12.1
Other	116	205	192	64	157	6.2	15.0	12.5	2.8	22.1
<b>Total</b>	<b>605</b>	<b>871</b>	<b>754</b>	<b>968</b>	<b>1,290</b>	<b>242.9</b>	<b>177.6</b>	<b>142.0</b>	<b>335.8</b>	<b>445.8</b>

Source: Cayman Islands Planning Department

**Table A27: Water Production and Consumption, Millions of US Gallons**

<b>Year</b>	<b>Production<sup>1</sup></b>	<b>Consumption</b>
1995	592.9	637.6
1996	631.0	678.1
1997	730.7	779.8
1998	808.9	849.4
1999	874.3	908.8
2000	986.5	1,028.5
2001	1,097.4	1,069.2
2002	1,147.9	1,056.1
2003	1,197.9	1,173.7
2004	1,291.3	1,252.7
2005	1,371.6	1,301.7
2006	1,639.6	1,560.7

Source: Cayman Islands Water Authority, Cayman Water Company

<sup>1</sup> Excludes Non-Potable Water

**Table A28: Electricity (Mwhrs)**

Year	Production	Consumption			Total
		Domestic	Industrial/ Commercial	Public Lighting	
1995	297.4	118.1	147.5	3.3	268.9
1996	309.7	124.6	153.8	3.1	281.4
1997	347.8	140.3	168.7	3.3	312.3
1998	381.1	158.9	181.3	3.3	343.5
1999	390.4	168.2	191.5	3.3	363.0
2000	426.5	179.5	203.1	3.4	386.0
2001	449.3	189.7	213.9	3.5	407.0
2002	466.1	200.4	221.0	4.2	425.6
2003	489.7	211.2	228.5	4.5	444.2
2004	433.4	183.1	191.5	4.1	378.7
2005	453.8	200.3	222.4	5.0	427.8
2006	535.7	228.2	258.0	5.3	491.5

Source: Caribbean Utilities Company, Ltd. Grand Cayman

Table A29: Summary of Government Operations (CI\$ M)

Year	Current Revenue	Capital Revenue	Total Revenue	Current Expenditure	Capital Expenditure	Net Lending	Total Expenditure	Current Balance	Overall Balance
1995	163.4	0.1	163.5	143.7	23.7	(1.3)	166.1	19.7	(2.6)
1996	189.7	1.1	190.7	161.8	34.1	(0.4)	195.5	27.8	(4.7)
1997	213.8	0.6	214.4	187.2	46.5	(0.2)	233.5	26.6	(19.1)
1998	248.6	0.0	248.6	214.7	31.3	(1.2)	244.8	33.9	3.8
1999	275.7	-	275.7	245.2	37.6	(1.9)	280.9	30.5	(5.3)
2000	277.7	0.5	278.2	268.4	43.2	(0.5)	311.2	9.3	(33.0)
2001	284.4	0.9	285.4	290.6	26.1	(0.1)	316.6	(6.2)	(31.2)
2002	314.0	0.0	314.1	277.9	17.6	0.1	295.7	36.1	18.4
2003	326.2	0.0	326.2	283.7	21.2	0.3	305.2	42.5	21.0
2004	336.0	0.4	336.4	349.2	29.2	(0.3)	378.1	(13.2)	(41.7)
2005	426.9	0.0	428.6	339.4	47.5	1.0	430.3	87.5	(3.4)
2006	500.4	0.0	500.4	384.3	39.6	0.0	433.1	116.1	67.3

Source: Cayman Islands Treasury Department

Note:

Interdepartmental purchases and services and vehicle and equipment maintenance fees were netted in current expenditure from 1992 to 1999.

**Table A30: Central Government Debt and Self- Financing Debt<sup>14</sup>, (CI\$M)**

Year	Disbursed Outstanding Debt	Drawings	Exchange Gain/ (Loss)	Amortisation	Interest Payments
1995	51.6	1.8		11.2	4.1
1996	67.6	22.4		6.6	3.4
1997	82.9	25.5		8.7	4.5
1998	93.8	21.5		10.9	5.9
1999	98.3	18.2		13.1	5.6
2000	107.8	23.8		14.3	7.0
2001	143.5	49.7		14.0	6.8
2002	132.1	10.9	(0.3)	21.3	3.8
2003	143.9	136.9		124.5	5.1
2004	157.6	23.3		9.5	7.9
2005	185.2	39.0		11.4	7.7
2006	172.6	11.44		15.1	9.2

Source: Cayman Islands Treasury Department

<sup>14</sup> Self-financing debt refers to the loans raised by the central government on behalf of agencies, which are required to reimburse the servicing of these loans.

**Table A31: Fiscal Operations (CI\$ M)**

Year	2002	2003	2004	2005	2006
<b>Total Revenue</b>	<b>314.0</b>	<b>326.2</b>	<b>336.4</b>	<b>426.9</b>	<b>500.4</b>
<b>Current Revenue</b>	<b>314.0</b>	<b>326.2</b>	<b>336.0</b>	<b>426.9</b>	<b>500.4</b>
Coercive Revenue	276.8	286.7	303.2	376.3	442.5
Taxes on International Trade & Transactions	106.7	117.6	132.2	171.9	187.0
Domestic taxes on Goods & Services	150.8	146.1	144.8	171.5	193.7
Taxes on Property	14.3	17.3	22.3	21.4	47.2
Fines	1.3	1.3	0.8	0.9	1.6
Other taxes	3.7	4.4	3.1	10.6	13.1
Non-coercive Revenue	37.2	39.5	32.8	50.6	57.9
Sale of Goods & Services	30.5	33.8	30.7	49.1	53.8
Investment Revenue	6.7	5.7	2.1	4.3	0.1
Other Operating Revenue				1.6	4.0
Extraordinary Revenue				(4.5)	0.0
<b>Capital Revenue</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Expenditure</b>	<b>295.6</b>	<b>305.2</b>	<b>378.1</b>	<b>430.3</b>	<b>433.1</b>
<b>Current Expenditure</b>	<b>277.9</b>	<b>283.7</b>	<b>349.2</b>	<b>339.4</b>	<b>384.3</b>
Personnel Costs	150.1	138.9	159.0	163.8	182.6
Supplies & Consumables	68.2	61.3	88.0	89.5	109.0
Subsidies	38.1	58.8	70.4	59.7	66.9
Transfer Payments	17.7	18.8	24.5	17.0	16.9
Interest Payments	3.9	5.9	7.3	9.5	8.9
Extraordinary Expenses				39.4	7.2
Other Executive Expenses				3.0	2.0
<b>Capital Expenditure &amp; Net Lending</b>	<b>17.7</b>	<b>21.5</b>	<b>28.9</b>	<b>48.5</b>	<b>39.6</b>
Capital Acquisition (now Equity Investments)	3.1	7.7	10.0	40.8	20.5
Capital Development (now Executive Assets)	14.5	13.5	19.2	6.7	19.1
Net Lending	0.1	0.3	(0.3)	1.0	0
<b>Current Balance</b>	<b>36.1</b>	<b>42.5</b>	<b>(13.2)</b>	<b>87.5</b>	<b>116.1</b>
<b>Overall Balance</b>	<b>18.4</b>	<b>21.0</b>	<b>(41.7)</b>	<b>(3.4)</b>	<b>67.3</b>
<b>Financing</b>	<b>(18.4)</b>	<b>(21.0)</b>	<b>41.7</b>	<b>3.4</b>	<b>(67.3)</b>
Net Borrowing	(10.5)	12.4	13.8	27.6	(4.5)
Disbursements	10.9	136.9	23.3	39.0	10.0
Loan Repayment	(21.4)	(124.5)	(9.5)	(11.4)	(14.5)
Change in Cash (minus = increase)	(7.9)	(33.4)	27.9	(24.2)	(62.8)

Source: Cayman Islands Department of Treasury