



CAYMAN ISLANDS
GOVERNMENT



THE CAYMAN ISLANDS'
**THIRD
QUARTER
ECONOMIC
REPORT
2019**



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Overview*

- The international economy recorded higher growth and inflation in the first nine months of 2019 relative to 2018.
- Cayman's gross domestic product (GDP) continued to expand in the third quarter, resulting in an estimated annualized growth rate of 3.4% for the first three quarters.
- The average Consumer Price Index increased by 4.7%, as higher prices were recorded in all divisions except one.
- Merchandise imports increased by 17.3% to \$878.4 million, due to higher oil and non-oil imports.
- Work permits rose by 15.1% to 29,462, while public sector employment rose by 5.4%.
- Broad liquidity or money supply expanded by 8.1% as both local and foreign currency deposits held by residents expanded.
- The weighted average lending rate for KYD fell by 45 basis points to 7.50% while the prime lending remained unchanged 5.08%.
- Domestic credit contracted by 3.5% due to a 2.8% decline in credit to the private sector and a 16.1% decline in credit to the central government.
- Bank and trust company licences decreased by 9.6% to 132 and insurance licences fell by 6.3% to 681.
- Mutual funds including the category "master funds" grew by 0.4% to 10,937.
- The number of listings on the Stock Exchange rose by 23.9% to 1,956 while market capitalization increased by 27.3% to a record US\$381.6 billion.
- New company registrations fell by 23.5% to 9,915 while new partnership registrations declined by 13.2% to 3,328.
- Air arrivals grew by 10.3% while cruise passengers decreased by 5.9%.
- The value of building permits increased by 68.6% as the total number of permits rose by 46.8%.
- Property transfers grew by 14.3% in value and by 5.0% in volume.
- Electricity consumption increased by 7.0% while water consumption rose by 2.7%.
- The central government's overall fiscal surplus was \$135.5 million compared to \$151.5 million a year ago.
- The total outstanding debt of the central government declined to \$404.6 million from \$428.9 million a year ago.

*Comparative data over the first nine months of 2018, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. International Economy

1.1 Economic Growth¹

Real GDP was estimated to have grown in the major international economies during the third quarter of 2019. The United States' economy recorded an annualised growth of 2.1%. This growth resulted from higher personal consumption expenditure, government spending, residential fixed investment and exports. The Canadian economy grew at an annualised rate of 1.3% which was attributed to an increase in household spending and business investment.

The United Kingdom (UK) and Euro Area recorded growth of 1.1% and 1.2%, respectively. UK's economic growth emanated from increased output in the construction and services industries.

1.2 Inflation

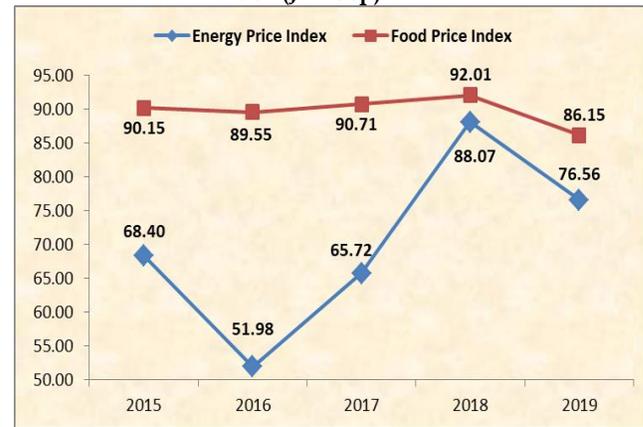
The world's major economies recorded higher consumer prices in January–September 2019 relative to the corresponding period in 2018. The USA and Euro Area recorded respective inflation rates of 1.7% and 1.4%. Canada and the UK both registered inflation of 1.9%.

The energy and food price indices decreased during the review period (see Figure 1) despite an increase in consumer prices among the major economies. The reduction in the cost of energy commodities was due primarily to the lower price of crude oil on the international market, which averaged

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

US\$61.76 per barrel in January–September 2019 relative to US\$69.69 per barrel in January–September 2018².

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



Source: World Bank commodity prices (The Pink Sheet)

1.3 Interest Rates and Exchange Rates³

The US Federal Reserve Bank (Fed) lowered its federal funds rate twice during the review period, with the target range closing at 1.75% to 2.00% end-September 2019.

All other major central banks maintained their policy interest rates during the review period. The Bank of England preserved its policy interest rate at 0.75%. The Bank of Canada upheld its policy interest rate at 1.75%. While, the European Central Bank (ECB) retained its policy interest rates on the main refinancing operations, marginal lending facility and deposit facility at 0.00%, 0.25% and -0.40%, respectively.

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

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

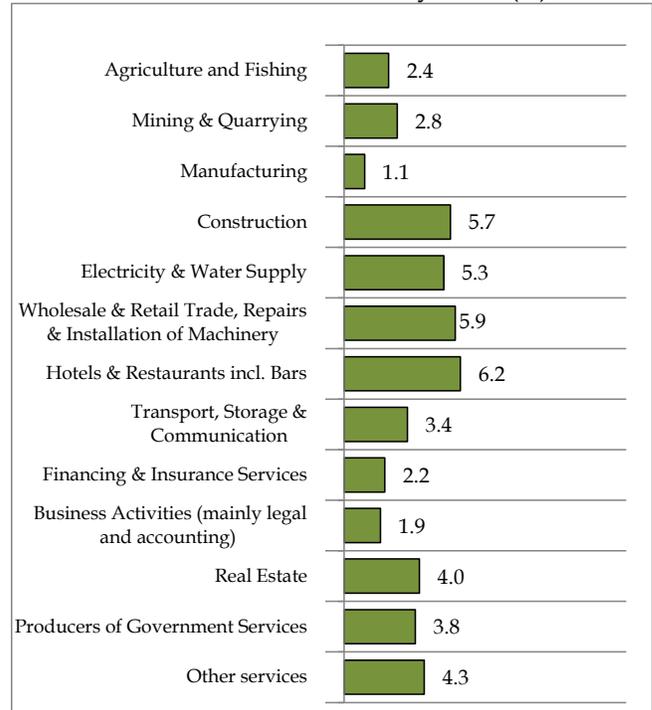
The US Dollar⁴ strengthened against some of the world’s major traded currencies during January–September 2019 compared with the corresponding period in 2018. Of significance, the US Dollar strengthened 5.8% against the Great Britain Pound Sterling, 6.0% against the Euro and 3.2% against the Canadian Dollar.

2. GDP Growth and Macroeconomic Forecasts

Available indicators suggest that the Cayman Islands’ real gross domestic product (GDP) grew by an estimated annualised rate of 3.4% in the first nine months of 2019 compared to a year ago.

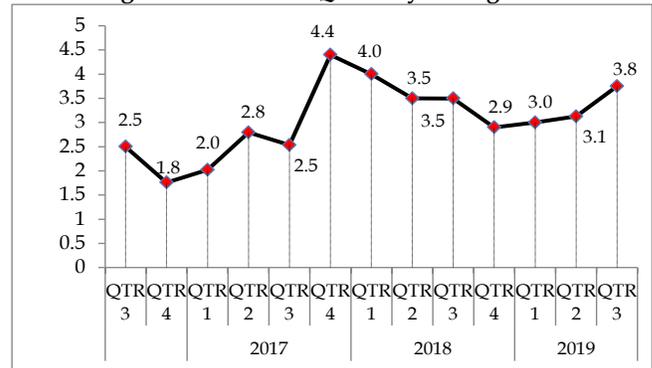
Growth for the period was broad-based with all sectors of the economy improving. The largest increases were estimated for hotels and restaurants (6.2%), wholesale and retail trade (5.9%), construction (5.7%), and electricity and water supply (5.3%). The financing and insurance services sector, which continues to be the largest contributor to GDP, grew by 2.2% during the review period (see Figure 2).

Figure 2: Estimated First Nine Months of 2019 Annualized GDP Growth by Sector (%)



Source: Economics and Statistics Office

Figure 3: Estimated Quarterly GDP growth



Source: Economics and Statistics Office

Against the acceleration in growth for the second and third quarter of the year, the forecasted GDP for 2019 is revised upwards to 3.1% (see Table 1). The revised forecast was also in the context of higher than anticipated population growth in the first three quarters of the year which has resulted

⁴ The average nominal exchange rate for the nine-month period was used.

in higher than expected growth in most auxiliary sectors.

Despite a reduction in international crude oil prices, domestic inflation accelerated in the third quarter of the year. The sustained increase in domestic prices for the first three quarters supported an upward revision in the forecast for the year. The Cayman Islands is projected to record inflation of 4.1% for 2019.

The forecast for year-end unemployment rate is maintained at 3.5%, conditional on the stability in projected GDP growth as well as stable local labour market conditions.

Table 1: Macroeconomic Performance

	2016	2017	2018	Projection
				2019
Percent (%)				
Real GDP	3.2	3.1	4.1	3.1
CPI Inflation	-0.7	2.0	3.3	4.1
Unemployment Rate	4.2	4.9	2.8	3.5

Source: Economics and Statistics Office

3. Inflation

The Cayman Islands recorded an average inflation rate of 4.7% for the first nine months of 2019 (see Table 2). The inflation rate for the period reflected growth of 4.5%, 3.8% and 6.0% in the first three quarters of the year relative to the corresponding quarters of the previous year (see Figure 4)⁵. Higher prices for the first nine months of the year were recorded in all divisions except transport, which went down by 1.2%.

⁵ See also 'The Cayman Islands Consumer Price Index Report: September 2017,' www.eso.ky

The highest absolute increase in prices were seen in housing and utilities (10.7%), recreation and culture (7.7)% and communication (6.5%).

Table 2: Average Inflation (%)

Categories	Avg. Inflation Rates (%)	
	9-Months 2018	9-Months 2019
Food & Non-alcoholic Beverages	4.4	1.8
Alcohol and Tobacco	0.1	2.4
Clothing and Footwear	-0.4	3.8
Housing and Utilities	4.1	10.7
Household Equipment	3.0	2.3
Health	3.6	0.8
Transport	10.4	-1.2
Communication	2.1	6.5
Recreation and Culture	0.2	7.7
Education	3.8	2.6
Restaurants and Hotels	-0.2	2.2
Misc. Goods and Services	0.9	0.1
Overall CPI Inflation	3.8	4.7

Source: Economics and Statistics Office

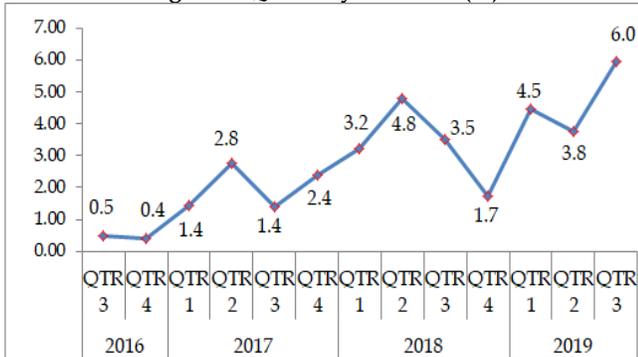
The 6.0% inflation for the September 2019 quarter largely reflected the influence of higher costs of utilities and other non-food items.

For the quarter non-food inflation was driven by housing and utilities, which increased by 10.6% relative to the corresponding quarter of 2018. Additionally, the index for recreation and culture, as well as clothing and footwear, rose by 7.3% and 6.1%, respectively.

The rise in the housing and utilities index was largely attributed to an increase of 19.7% in rental costs relative to the same quarter of 2018. Recreation and culture rose on account of a general increase in sports and gaming services and equipment. While clothing and

footwear reflected a rise in the cost of items purchased locally.

Figure 4: Quarterly Inflation (%)

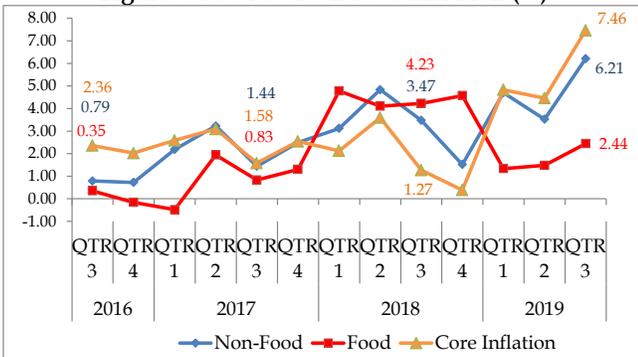


Source: Economics and Statistics Office

Food prices increased by 2.4% in the quarter largely due to an increase of 9.1% in the cost of oils and fats and a 6.3% rise in the cost of fish and seafood.

Core inflation, which is inflation excluding food, electricity, and fuel, increased by 7.5% for the quarter relative to the same period of 2018 (see Figure 5).

Figure 5: Food vs. Non-food Inflation (%)



*Core inflation is measured as inflation excluding food, electricity, and fuel

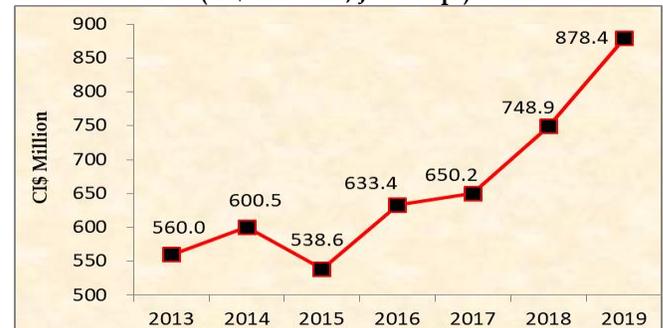
Source: Economics and Statistics Office

4. Trade⁶

Merchandise imports continued to reflect increased economic demand, rising by 17.3% to \$878.4 million in the first nine months of 2019 when compared with the corresponding period in 2018 (see Figure 6). This performance was partly influenced by a rise in the population as the economy continued on its growth trend.

All categories of imports expanded led by commodities and transactions not classified elsewhere (up \$48.5 million to \$70.1 million); machinery and transport equipment (up \$32.1 million to \$182.9 million) and miscellaneous manufactured articles (up \$17.7 million to \$168.9 million).

Figure 6: Merchandise Imports (CI\$ Millions, Jan - Sept)



Source: Customs Department and ESO

The total value of imported non-petroleum products rose by \$126.0 million to \$773.8 million during the review period.

Imports of mineral fuels, petroleum, and related products rose by \$3.5 million to \$104.6 million. This mostly reflected an increase in the quantity imported, as crude oil prices declined on the international market for the period.

⁶ A detailed trade report is posted at www.eso.ky

The total quantity of fuel imported rose by 0.5%, driven by increases in propane and gas imports by 41.7% and 13.9%, respectively. In contrast, imports of diesel and aviation fuel declined by 5.6% and 2.2%, respectively (see Table 3).

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

	2017	2018	2019	% Change
Millions of Imperial Gallons				
Total Fuel	42.1	42.5	42.7	0.5
Diesel	28.0	26.6	25.1	(5.6)
Gas	9.1	10.1	11.5	13.9
Aviation Fuel	3.6	4.5	4.4	(2.2)
Propane	1.4	1.2	1.7	41.7

Source: Cayman Islands Port Authority

Cargo landed on the Islands increased by 8.8% to 453,083 tonnes in the first 9 months of 2019 (see Figure 7). Of this amount, Aggregates represented 44.7% (202.7 thousand tons) of total landed cargo. While containerized cargo accounted for 44.7% (202.6 thousand tons), cement bulk accounted for 9.2% (41.8 thousand tons), and breakbulk cargo accounted for 1.3% (6.1 thousand tons) of total landed cargo.

Figure 7: Total Tonnage of Cargo (Jan-Sep)



Source: Cayman Islands Port Authority

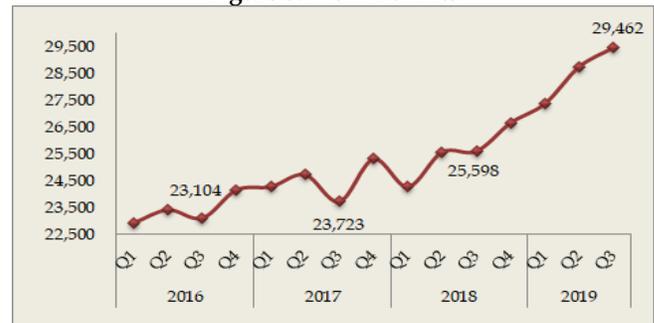
5. Employment

5.1. Work Permits

During the review period, 3,864 additional permits were issued reflecting a 15.1% increase over the corresponding period of last year. This reflected acceleration relative to the 1,875 (7.9%) additional permits that were issued for the same period of 2018.

Relative to June 2019, work permits increased by 2.5% for the September quarter.

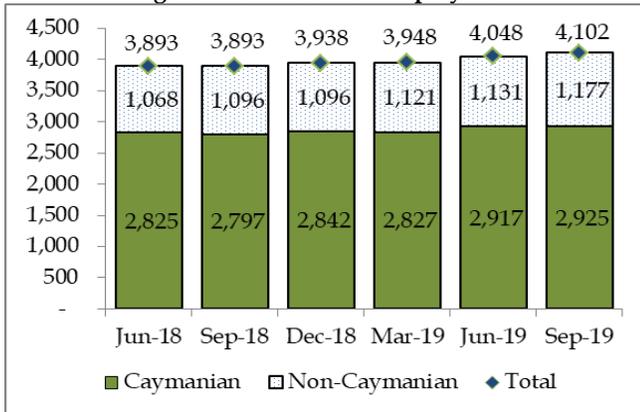
Figure 8: Work Permits



Sources: Immigration Department, Economics & Statistics Office

5.2. Public Sector Employment

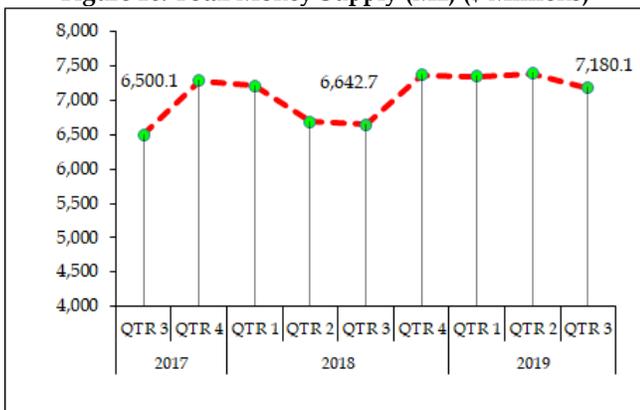
At end-September 2019, there were 4,102 civil servants employed by the government, an increase of 209 relative to the corresponding period of 2018. Employed Caymanians rose by 128 to 2,925, while Non-Caymanian employment increased by 81 to 1,177.

Figure 9: Civil Service Employment


Source: Portfolio of the Civil Service

6. Money & Banking

Broad liquidity (M2), which comprises CI dollar-denominated money and foreign currency deposits, expanded by 8.1% to settle at \$7,180.1 million. The expansion was attributed to growth in both local and foreign currency-denominated money.

Figure 10: Total Money Supply (M2) (\$ Millions)


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Foreign currency deposits increased by 7.4%, as US dollar-denominated deposits rose by 5.8% (or \$270.6 million). Similarly, total CI dollar-denominated deposits grew by 10.6% or \$162.1 million while currency in

circulation increased by 4.9% or \$5.7 million compared to a year ago (see Figure 10 and Table 4).

The growth in broad money liquidity represents an increase in the liabilities of the monetary and banking sector. The corresponding asset side reflected an increase in net foreign assets, the impact of which outweighed a decline in net domestic assets.

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

	Sep-18	Sep-19	% Change
Total Assets	6,642.7	7,180.1	8.1
Net Foreign Assets	4,575.3	5,257.3	14.9
Monetary Authority	124.5	135.3	8.6
Commercial Banks	4,450.7	5,122.0	15.1
Net Domestic Assets	2,067.4	1,922.9	(7.0)
Domestic credit	3,248.0	3,135.5	(3.5)
Claims on central government	159.7	134.0	(16.1)
Claims on other public sector	53.3	51.8	(2.8)
Claims on private sector	3,034.9	2,949.6	(2.8)
Other items net	(1,180.5)	(1,212.6)	2.7
Broad Liquidity	6,642.7	7,180.1	8.1
Broad money (KYD) M2	1,639.4	1,807.2	10.2
Currency in circulation	116.7	122.5	4.9
KYD Deposits	1,522.7	1,684.7	10.6
Demand deposits	588.4	714.2	21.4
Time and savings deposits	934.3	970.5	3.9
FOREX deposits	5,003.3	5,372.9	7.4
of which: US dollars	4,668.1	4,938.7	5.8
US dollars share (%)	93.3	91.9	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.1. Net Foreign Assets (NFA). During the first nine months of 2019, there was a 14.9% build up in NFA, bringing the total in the monetary system to \$5.3 billion. The NFA of the monetary authority rose by 8.6%, while commercial banks increased their NFA by 15.1%.

The rise in commercial bank's foreign assets reflected a 12.4% build-up in balances with banks and branches as well as a 16.2% increase in foreign investments. The impact of these increases was partially offset by a 12.2% reduction in non-resident loans.

A decline in foreign liabilities further supported the higher NFA, as a 2.1% fall in non-resident deposits outweighed a 23.2% rise in other liabilities (see Tables 4 and 5).

Table 5: Net Foreign Assets (\$ millions)

	Sep-18	Sep-19	% Change
Net Foreign Assets	4,575.3	5,257.3	14.9
Monetary Authority	124.5	135.3	8.6
Commercial Banks	4,450.7	5,122.0	15.1
Foreign Assets	8,151.8	8,813.1	8.1
Bal. with Banks & Branches	3,613.2	4,062.0	12.4
Total Investment	2,701.2	3,138.3	16.2
Total Non-Resident Loans	1,837.5	1,612.7	(12.2)
Foreign Liabilities	3,701.1	3,691.1	(0.3)
Total Non-Resident Deposits	3,433.3	3,361.3	(2.1)
Other Liabilities	267.8	329.8	23.2

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.2. Net Domestic Assets/Domestic Credit.

Total domestic assets within the financial system contracted by 7.0% in the first nine months of the year as credit extended to the public and private sector declined during the period.

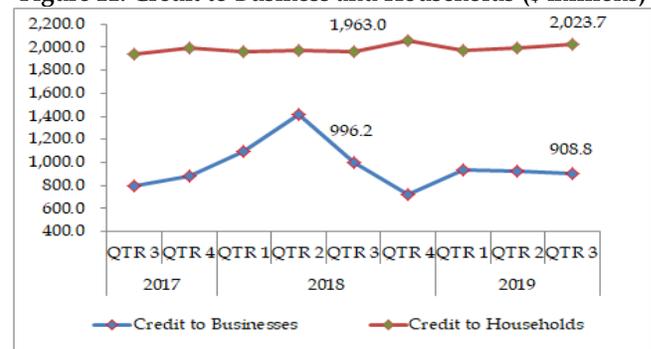
Specifically, private sector credit fell by 2.8%, while credit to the central government and other parastatals declined by 16.1% and 2.8%, respectively.

Table 6: Domestic Credit (\$ millions)

	Sep-18	Sep-19	% Change
Domestic Credit	3,248.0	3,135.5	(3.5)
Credit to Public Sector	213.1	185.9	(12.8)
Credit to Central Government	159.7	134.0	(16.1)
Credit to Other Public Sector	53.3	51.8	(2.8)
Credit to Private Sector	3,034.9	2,949.6	(2.8)

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Within the private sector, lending extended to businesses and non-profit organizations declined, while household credit rose relative to the corresponding period of 2018 (Figure 11 and Table 6).

Figure 11: Credit to Business and Households (\$ millions)


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit extended to businesses fell by \$87.3 million (8.8%) to \$908.8 million. General business activities and other financial corporations were the main industries to reduce their borrowing, with reductions of \$115.8 million and \$71.3 million, respectively.

Similarly, there was a decline of \$58.6 million in credit extended to non-profit organizations for the period, due partly to the re-classification of some institutions.

In contrast to the general declining trend, household loans, the largest component of domestic credit, rose by 3.1% for the period. This increase was driven by an expansion in borrowings for domestic property by 3.7%. The impact of this expansion was partly offset by a decline in credit for motor vehicles and education and technology, which fell by 10.9% and 18.0%, respectively.

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

	%		
	Sep-18	Sep-19	Change
Total Private Sector Credit	3,034.9	2,949.6	(2.8)
Credit to Businesses	996.2	908.8	(8.8)
Production & Manufacturing	206.5	221.8	7.4
Mining	4.7	4.9	3.4
Manufacturing	14.1	8.7	(38.3)
Utilities	33.7	35.3	4.5
Construction	154.0	173.0	12.4
Services	98.9	127.6	29.0
Accommodation, Food, Bar & Entertainment Services	42.7	62.1	45.4
Transportation, Storage & Communications	21.7	21.4	(1.5)
Education, Recreational & Other Professional Services	34.4	44.1	28.1
Trade and Commerce	610.5	550.4	(9.8)
Wholesale & Retail Sales Trade	89.6	21.4	(76.1)
Real Estate Agents, Rental and Leasing Companies	154.5	278.4	80.2
Other Business Activities (General Business Activity)	366.3	250.6	(31.6)
Other Financial Corporations	80.3	9.0	(88.7)
Credit to Households	1,963.0	2,023.7	3.1
Domestic Property	1,679.0	1,741.5	3.7
Motor Vehicles	60.5	53.9	(10.9)
Education and Technology	6.1	5.0	(18.0)
Miscellaneous*	217.4	223.3	2.7
NonProfit Organizations	75.7	17.1	(77.4)

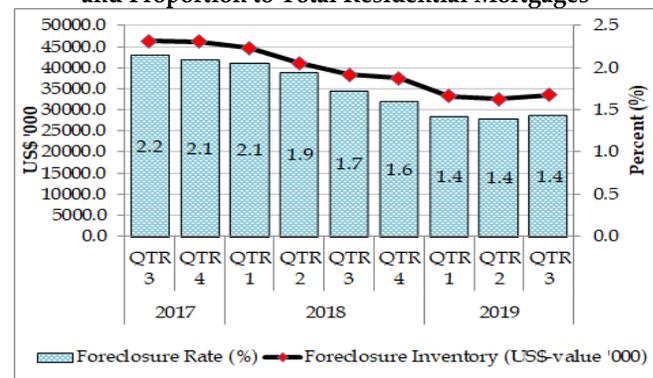
Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.3. Residential Mortgage Foreclosures.

Data from CIMA show that foreclosures of residential mortgages continued on a downward trajectory in terms of both value

and quantity as of the third quarter of 2019 relative to the corresponding period of the previous year (see Figure 12).

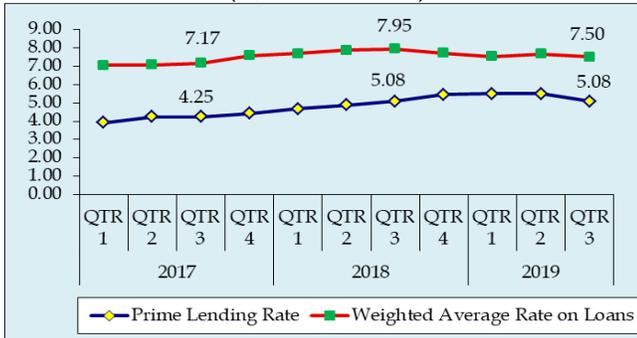
As of end-September 2019, there were 115 foreclosures in inventory, valued at US\$33.6 million. This reflected a 12.4% decline from the US\$38.3 million recorded a year ago. The value of foreclosure inventory accounted for 1.4% of the total value of residential mortgages, which amounted to \$2.3 billion as of September 2019.

Figure 12: Residential Mortgages Foreclosures Inventory and Proportion to Total Residential Mortgages


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

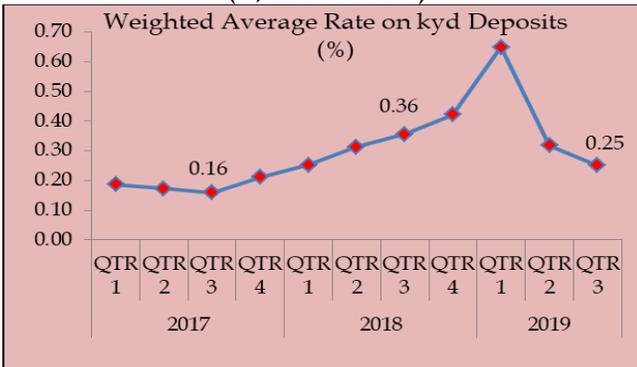
There were 14 completed mortgage foreclosures during the review period, lower than the 16 recorded for the same period of 2018.

6.4. Interest Rates. The Cayman Islands' prime lending was unchanged at 5.08% as of September 2019 relative to the corresponding period of 2018. Notwithstanding the stability in the prime rate, the KYD weighted average lending rate fell by 45 basis points to 7.50% in September 2019 from 7.95% in the same period of 2018 (see Figure 13).

**Figure 13: KYD Lending Rates
(%, End of Period)**


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As depicted in Figure 14, the weighted average savings rate on KYD deposits declined to 0.25% from 0.36% a year ago.

**Figure 14: KYD Weighted Average Savings Rates
(%, End of Period)**


Source: Cayman Islands Monetary Authority & ESO

7. Financial Services

Key indicators of the financial services sector suggest a general contraction in activities. During the review period, all indicators fell except for mutual funds and stock exchange activities.

7.1 Banks & Trust

The Cayman Islands' banking and trust licence environment continued to be impacted by global market pressures and

changing market dynamics. Consequently, the number of licenced Bank and Trust companies declined by 9.6% to 132 at the end September 2019.

The number of Class 'A' Bank & Trust licences and the number of foreign banks or Class 'B' licences decreased by 9.1% to 10 and 9.6% to 122, respectively. Similarly, trust company licences fell by 2.5% to 115 at the end of the review period. This reflected respective declines of 3.3% and 1.7% in 'Restricted' and 'Unrestricted' licences.

Table 8: Bank & Trust Companies

	Sep 2017	Sep 2018	Sep 2019	% Change
Bank and Trust	155	146	132	(9.6)
Class A	11	11	10	(9.1)
Class B	144	135	122	(9.6)
Trust Companies	120	118	115	(2.5)
Restricted	61	60	58	(3.3)
Unrestricted	59	58	57	(1.7)

Source: Cayman Islands Monetary Authority

Figure 15: Percentage Proportion of Registered Banks by Regional Source as at September 2019


Source: Cayman Islands Monetary Authority

South America, Europe, and the Caribbean & Central America were the leading sources of Cayman's banking licences, accounting for 22.0%, 18.2%, and 16.7% of the total, respectively.

7.2 Insurance

The size of the insurance industry contracted in the first three quarters of 2019, evidenced by a decline in the number of licences to 681 relative to 727 at the end of September 2018. Class 'A' licences, which represents domestic insurers, fell by 2 to 26, while, captive licences declined by 44 to 655. Within captives, Class 'B' licences declined by 42 to 628, Class 'C' licences decreased by 3 to 22 while Class 'D' licences rose by 1 to 5.

Table 9: Insurance Companies

	Sep 2017	Sep 2018	Sep 2019	% Change
Domestic - Class 'A'	28	28	26	(7.1)
Captives	<u>705</u>	<u>699</u>	<u>655</u>	(6.3)
Class 'B'	677	670	628	(6.3)
Class 'C'	25	25	22	(12.0)
Class 'D'	3	4	5	25.0
Total	733	727	681	(6.3)

Class B: captives and segregated portfolio companies;

Class C: special purpose vehicles

Class D: other insurance vehicles

Source: Cayman Islands Monetary Authority

The primary classes of business within the captive insurance market continued to be Healthcare and Workers' Compensation, which accounted for 32.7% and 21.2% of the market, respectively. The 'Other' category⁷ was the next largest, representing 16.6% of the market. North America remained the

main source market of the captive insurance business accounting for 90.5% (593 licences).

Table 10: Captive Insurance Licences by Primary Class of Business

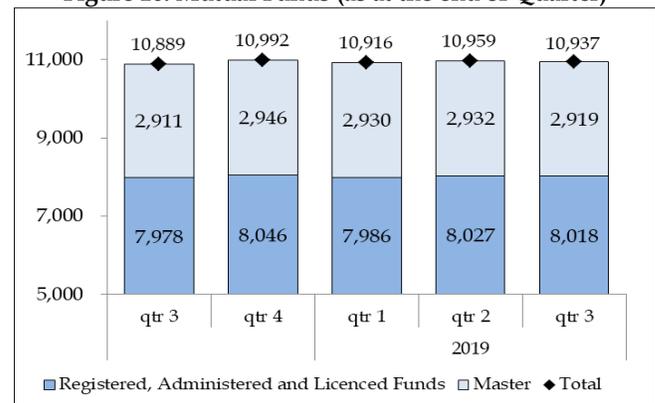
	Sep-18	Sep-19	% Change	% Proportion
Healthcare	225	214	-4.9	32.7
Workers' Compensation	153	139	-9.2	21.2
Property	67	66	-1.5	10.1
General Liability	79	72	-8.9	11.0
Professional Liability	60	55	-8.3	8.4
Other	115	109	-5.2	16.6
Total	699	655	-6.3	100.0

Source: Cayman Islands Monetary Authority

7.3 Mutual Funds

The number of mutual funds increased by 48 (0.4%) to 10,937 at the end of September 2019 relative to the end of September 2018. This was due to increases of 8 (0.3%) in Master Funds to 2,919 and 40 (0.5%) in Registered, Administered & Licenced Funds to 8,018.

Figure 16: Mutual Funds (as at the end of Quarter)



Source: Cayman Islands Monetary Authority

7.4 Stock Exchange

The number of stocks listed on the Cayman Islands Stock Exchange rose by 377 to a record 1,956 at the end of September 2019, the highest level since the end of September 2008, when the listings were 1,657. Three of the seven instruments recorded increases

⁷ This category includes life, automobile p.d. and liability, accident and health, products liability, credit life, marine and aviation and surety bonds.

while two declined, and two remained unchanged. Specialist debt instruments registered the largest absolute increase, rising by 395 listings to 1,410. The next largest increase was recorded by corporate and sovereign debt instruments, which grew by 16 to 306.

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

Instrument	2017	2018	2019	% Change
Investment Fund Security	233	223	190	(14.8)
Specialist Debt Security	593	1,015	1,410	38.9
Corporate & Sovereign Debt Security	259	290	306	5.5
Primary Equity Security	3	4	4	0.0
Secondary Equity Security	1	1	1	0.0
Insurance Linked Security	39	45	43	(4.4)
Retail Debt Security	1	1	2	100.0
Total	1,129	1,579	1,956	23.9

Source: Cayman Islands Stock Exchange

Market capitalization increased by US\$81.8 billion to US\$381.6 billion as of end-September 2019, the highest on record. The growth in market capitalization reflected increases in specialist debt and corporate & sovereign debt securities. Notably, all other categories declined.

Table 12: Market Capitalization by Instruments (US\$ Billion, as at end September)

Instruments	2017	2018	2019	% Change
Investment Fund Security	11.8	11.7	11.2	4.3
Specialist Debt Security	117.8	178.2	249.9	40.3
Corporate & Sovereign Debt Security	98.1	102.7	113.7	10.7
Primary Equity Security	0.3	0.4	0.3	(25.0)
Secondary Equity Security	0.1	0.1	0.0	(40.5)
Insurance Linked Security	5.1	5.9	5.7	(3.9)
Retail Debt Security	0.4	0.8	0.8	(0.7)
Total	233.5	299.8	381.6	27.3

Source: Cayman Islands Stock Exchange

7.5 New Company Registration

New company registrations for the first nine months of 2019 fell by 23.5% to 9,915 when compared with the similar period of 2018 (see Table 13).

Table 13: New Company Registrations (Jan-Sep)

	2017	2018	2019
Total	9,626	12,967	9,915
Exempt	8,230	11,070	8,107
Non-Resident	22	13	21
Resident	466	579	586
Foreign	438	593	525
FDN*	0	0	41
LLC	470	712	635
Percentage Change (%)			
Total	14.2	34.7	(23.5)
Exempt	10.7	34.5	(26.8)
Non-Resident	(8.3)	(40.9)	61.5
Resident	14.5	24.2	1.2
Foreign	(9.7)	35.4	(11.5)
FDN*	-	-	-
LLC	494.9	51.5	(10.8)

Source: Registrar of Companies

The reduction in registrations was linked to declines in three of the six categories. The number of 'Exempt' companies (the largest category) fell by 26.8% to 8,107, while, 'Foreign' and Limited Liability' companies registered respective declines of 11.5% and 10.8%.

7.6. Partnerships

During the first nine months of 2019, there were 3,328 new partnership registrations, a reduction of 13.2% relative to January-September 2018 (see Table 14). This was due to a decline of 14.0% in 'Exempt'

partnerships to 3,243. In contrast, 'Foreign' partnerships increased by 34.9% to 85.

Table 14: New Partnership Registrations (Jan-Sep)

	2017	2018	2019
Total	2,821	3,833	3,328
Exempt	2,756	3,770	3,243
Foreign*	64	63	85
L.P.	1	0	0
Percentage Change (%)			
Total	13.8	35.9	(13.2)
Exempt	13.8	36.8	(14.0)
Foreign	10.3	(1.6)	34.9
L.P.	-	-	-

Source: Registrar of Companies

8. Tourism

The tourism sector benefitted from a rise in stay-over arrivals during the first three quarters of 2019, despite a decline in cruise arrivals, which weighed on the total arrivals for the period. Total arrivals to the Islands' fell by 2.7% to 1,718,449.

8.1 Air Arrivals

Growth in air arrivals remained strong over the review period, with 386,290 persons visiting these Islands. This reflected an increase of 10.3% relative to the first 3-months of 2018. Visitors from all regional markets strengthened, with the US market recording the largest absolute increase of 30,839 additional visitors.

Consistent with the growth in arrivals, the Department of Tourism data shows an 11.3% improvement in the expenditure by stay-over visitors which expanded to \$560.9 million for

the first nine month of 2019, from \$503.8 million in the same period of 2018.

Table 15: Air Arrivals by Region (Jan-Sep)

	2017	2018	2019	% Change
In Thousands				
USA	256.8	294.9	325.7	10.5
Europe	17.5	16.5	17.2	4.3
Canada	17.3	18.8	21.9	16.5
Others	20.5	20.2	21.5	6.7
Total	312.1	350.3	386.3	10.3
USA (% share)	82.3	84.2	84.3	

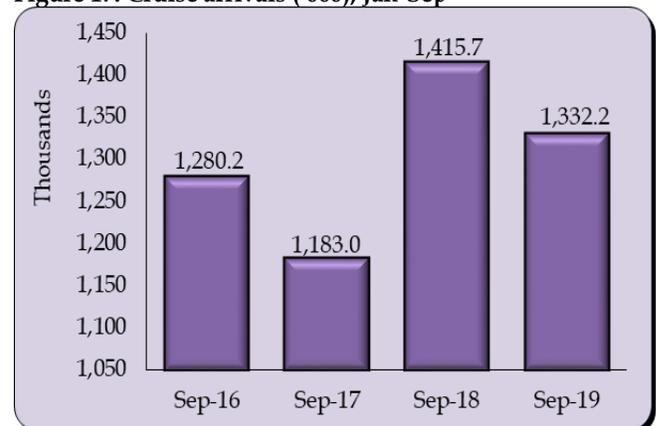
Source: Department of Tourism

8.2 Cruise Arrivals

As of September 2019, 431 vessels visited Caymans' ports, a reduction of 7.1%, relative to 2018. This decline coincided with a 5.9% fall in cruise arrivals, which totaled 1,332,159 for the period.

During the first three quarters of 2019, expenditure by cruise visitors also fell to \$140.0 million relative to \$145.3 million in corresponding period of 2018.

Figure 17: Cruise arrivals ('000), Jan-Sep



Source: Department of Tourism

9. Construction

Construction indicators showed positive results for the first three quarters of 2019. Building permits reflected sustained growth while project approval recovered.

9.1. Building Permits

The value of building permits rose by 68.6% in the first three-quarters of 2019 relative to the same period of 2018. This was mainly due to growth in the residential and 'other' categories. (see Table 16).

Table 16: Building Permits (Jan-Sep)

	Building Permits (CI\$ Mil)			% Change
	2017	2018	2019	
Residential	127.9	124.7	245.5	96.9
Houses	85.2	70.9	98.4	38.8
Apartments	42.6	53.8	147.1	174.5
Commercial	35.3	33.5	18.9	(43.7)
Industrial	3.5	-	3.0	-
Hotel	2.8	-	0.2	-
Government	0.2	7.8	8.3	6.40
Other	14.7	29.6	54.2	83.1
Total	184.3	195.6	329.9	68.6

Source: Cayman Islands Planning Department

The value of residential permits increased by 96.9% for the period with both the houses and apartment categories increasing. Permits issued for several high-end houses boosted the category of the house by 38.8% to \$98.4 million. Similarly, permits for apartments increased by 174.5%, partly reflecting approval for several luxury apartments, such as a 7-unit complex valued at \$15.0 million.

The "other" category rose by \$24.6 million, owing partly to the approval of a diesel generator system in the quarter valued at \$9.0 million.

The rise in value for the review period was partially offset by a 43.7% reduction in the commercial category.

Consistent with the rise in value, the number of building permits issued for the period expanded anew by 46.8%.

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

	Number of Permits			% Change
	2017	2018	2019	
Residential	238	274	409	49.3
Houses	175	192	283	47.4
Apartments	63	82	126	53.7
Commercial	68	54	72	33.3
Industrial	5	1	5	400.0
Hotel	2	1	1	-
Government	7	12	20	66.7
Other	326	327	475	45.3
Total	646	669	982	46.8

Source: Cayman Islands Planning Department

9.2. Project Approvals

The value of project approvals soared to \$618.3 million, relative to \$314.3 million in the same period of 2018. This reflected increases in all categories.

Table 18: Project Approvals (Jan-Sep)

	Project Approvals (CI\$ Mil)			% Change
	2017	2018	2019	
Residential	297.0	44.8	238.7	432.8
Houses	99.5	22.5	77.7	245.3
Apartments	197.5	22.4	161.1	619.2
Commercial	21.1	31.5	39.5	25.4
Industrial	73.8	0.1	1.3	1,200.0
Hotel	230.0	-	20.1	-
Government	4.4	-	5.8	-
Other	53.9	237.9	312.8	31.5
Total	680.2	314.3	618.3	96.7

Source: Cayman Islands Planning Department

Residential approvals increased by \$193.9 million in the first three quarters of the year to \$238.7 million. This increase was due to strong growth within the apartment and house categories over the nine months.

Within the non-residential segment, the 'Other' category rose by \$74.9 million, while approval for the barefoot beach hotel increased that category by \$20.1 million.

The total number of project approvals also increased by 8.0% to settle at 551 at the end of September 2019 (See Table 19). The increase mainly reflected a rise in the number of residential and commercial approvals, which rose by 31.7% and 144.4%, respectively.

Table 19: Project Approvals (Jan-Sep)

	Number of Approvals			% Change
	2017	2018	2019	
Residential	311	183	241	31.7
Houses	241	148	189	27.7
Apartments	70	35	52	48.6
Commercial	31	9	22	144.4
Industrial	16	4	3	(25.0)
Hotel	2	-	1	-
Government	10	-	7	-
Other	615	314	277	(11.8)
Total	985	510	551	8.0

Source: Cayman Islands Planning Department.

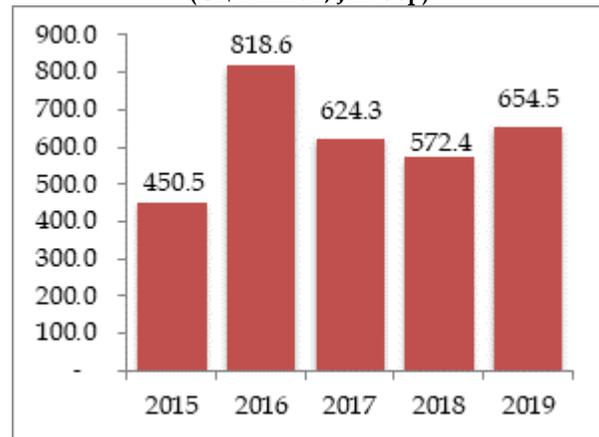
10. Real Estate

The real estate sector posted a strong performance for the first three quarters of 2019. This was reflected increases in the value and volume of property transfers for the period.

The value of property transfers rose by 14.3% to \$654.5 million, effectively reversing the

decline observed in the corresponding period of 2018. The increase was mainly attributed to a rise in the value of freehold transfers, which increased to \$611.7 million from \$550.1 million. The value of leasehold transfers rose to \$42.8 million from \$22.3 million in the same period of 2018.

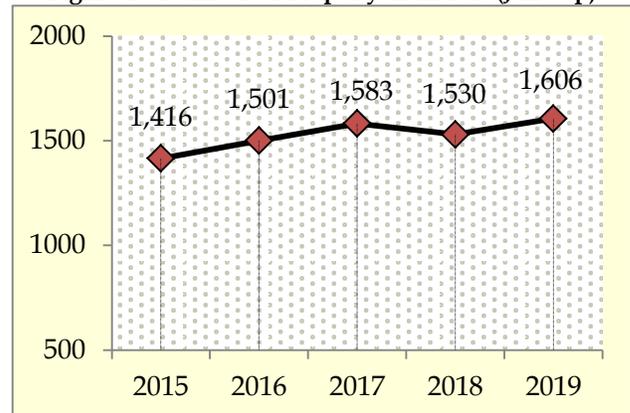
Figure 18: Value of Property Transfers: (CI\$ Million, Jan-Sep)



Source: Lands & Survey Department

The number of property transfers increased by 76 or 5.0% to 1,606 as both leasehold and freehold volumes grew.

Figure 19: Number of Property Transfers (Jan-Sep)



Source: Lands & Survey Department

11. Utilities

11.1 Electricity

Electricity consumption rose by 7.0% to 503.8-megawatt-hours (MWh) in the first three quarters of 2019. The increase was largely attributed to residential customers who increased their consumption by 10.3% for the period. The number of residential customers increased by 2.3% for the period, while the average consumption per customer rose by 7.8%.

Electricity consumption by commercial entities also increased, rising by 4.1%, while public consumption declined by 16.3%.

The commercial customer base increased by 2.3%, with the average customer consuming 1.8% more MWh of electricity.

Table 20: Utilities Production and Consumption

	Sep-18	Sep-19	% Change
Millions of US Gallons			
Water Production	1,813.7	1,890.5	4.2
Water Consumption	1,540.0	1,581.4	2.7
'000 of megawatt hrs			
Electricity Production (Net)	480.1	512.9	6.8
Electricity Consumption	471.0	503.8	7.0
Residential	234.9	259.0	10.3
Commercial	231.1	240.7	4.1
Public	5.0	4.2	(16.3)
Total Customers	29,584	30,254	2.3
Residential	25,215	25,786	2.3
Commercial	4,369	4,468	2.3

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

Consistent with the general expansion in demand, the production of electricity was increased by 6.8% to 512.9 megawatt-hours (MWh).

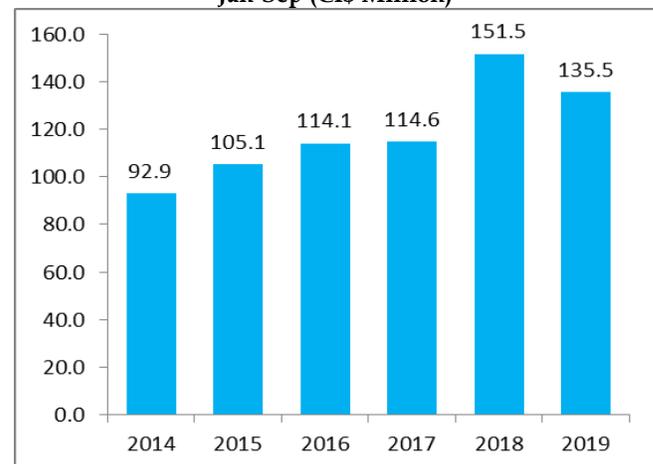
11.2. Water

Similar to the expansion in electricity consumption, the demand for water intensified during the first nine months of the year. Water consumption increased by 2.7%, while production rose by 4.2%.

12. Fiscal Operations of the Central Government⁸

The central government recorded a surplus for the period of January–September 2019. Specifically, net lending (or fiscal surplus), which is revenue less expenditure totalled \$135.5 million relative to \$151.5 million during the corresponding period of 2018 (see Figure 20 and Table 21).

Figure 20: Central Government Overall Fiscal Balance Jan-Sep (CI\$ Million)



Source: Cayman Islands Treasury Department & Economics and Statistics Office

The positive fiscal balance occurred despite a faster pace of growth in expenses relative to the expansion in revenue for the period. Consequently, the level of the surplus was

⁸ The ESO follows the Government Finance Statistics Manual (2014 Edition) framework for presenting and analysing fiscal operations.

lower when compared to same period in 2018. Growth in revenue was observed in both the taxes and other revenue categories, while the rise in expenditure reflected higher expenses (formerly current expenditure) and net investment in nonfinancial assets (formerly net capital expenditure and net lending).

The **net operating balance (formerly current balance)**, which is revenue minus expense, declined to \$163.8 million from \$170.8 million in the first nine months of 2018.

Table 21: Summary of Fiscal Operations

	Sep-18	Sep-19	% Change
CI\$ Million			
Revenue	639.3	683.1	6.8
Expense	468.5	519.3	10.8
Net Operating Balance	170.8	163.8	(4.1)
Net Investment in Nonfinancial Assets ¹	19.3	28.3	46.5
Total Expenditure	487.8	547.6	12.3
Net Lending (Overall Balance)	151.5	135.5	(10.6)
Financing:			
Net Acquisition of Financial Assets	130.9	120.1	(8.3)
Net Incurrence of Liabilities	(20.6)	(15.4)	(25.3)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

12.1 Revenue

Revenue rose by 6.8% to \$683.1 million in January–September 2019 (see Table 23) and was comprised of taxes (92.5%) and other revenue (7.5%).

Taxes amounted to \$632.2 million, an increase of 5.6% relative to the comparable period in 2018. All categories recorded increases except other taxes.

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

	Sep-18	Sep-19	% Change
CI\$ Million			
Revenue	639.3	683.1	6.8
Taxes	598.4	632.2	5.6
Taxes on International Trade & Transactions	143.7	151.3	5.3
Taxes on Goods & Services	401.6	428.4	6.7
Taxes on Property	51.3	52.2	1.9
Other Taxes	1.8	0.3	(83.3)
Other Revenue	40.9	50.9	24.4
Sale of Goods & Services	29.5	32.2	9.0
Property Income	8.6	14.8	72.1
Fines, Penalties and Forfeits	2.6	2.2	(15.4)
Transfers n.e.c.	0.2	1.7	750.0

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Revenue collected from taxes on goods & services increased by 6.7% to \$428.4 million in the first nine months of 2019 (Table 23). Revenue from financial service licences accounted for the majority of the increase in this category, rising by 4.2% to \$254.5 million. Partnership fees, which rose by 16.0% to \$55.4 million, were the major contributor to this increase.

Table 23: Domestic Tax Collection of the Central Government (CI\$ Million)

	Sep-18	Sep-19	% Change
Financial Service Licences	244.4	254.5	4.2
ICTA Licences & Royalties	5.6	5.8	3.6
Work Permit and Residency Fees	61.1	70.8	15.9
Other Stamp Duties	8.4	10.2	21.4
Traders' Licences	5.1	4.9	(3.9)
Other Domestic Taxes	77.0	82.1	6.6
Of which:			
Tourist Accommodation Charges	26.1	29.8	14.1
Motor Vehicle Charges	8.3	8.2	(1.2)
Taxes on Goods & Services	401.6	428.4	6.7

Source: Cayman Islands Treasury Department & Economics and Statistics Office

A significant increase in revenue also stemmed from work permit and residency fees as well as other domestic taxes, which rose by 15.9% and 6.6%, respectively. Driving these increases were a 15.4% increase in work permit fees and a 14.1% rise in tourism accommodation charges.

During the review period, **tax receipts on international trade and transactions** rose by 5.3% to \$151.3 million. This was partly due to an increase of 6.1% in import duties, which rose to \$138.4 million. The increase in import duties was seen in most categories, with a notable 6.6% rise in other import duties.

The total increase in international trade and transaction taxes was partly mitigated by a decline in “other levies”, which contracted by 2.4% to \$12.9 million. Within other levies, cruise ship departure charges fell by 6.1% to \$8.0 million.

Resilience in the real estate sector continued to support an increase in **taxes on property**, which rose by 1.9% to \$52.2 million (Table 22) due mainly to higher stamp duties on land transfers. **Other taxes**, which include mainly miscellaneous income and income from the “proceeds of crime law,” fell by \$1.6 million to \$0.3 million.

Other revenue increased to \$50.9 million, 24.4% higher than the corresponding period a year ago. Property income (formerly investment revenue) increased by 72.1% to \$14.8 million, and sale of goods & services rose by 9.0% to \$32.2 million. Property income includes interest income, distributed income of corporations, investment income, and rent.

12.2. Expenditure

The increased government expenditure for the period was due to higher expenses and net investment in nonfinancial assets⁹.

Expense (formerly current expenditure) increased by 10.8% to \$519.3 million owing to higher spending in five of the seven categories (see Table 24).

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

	Sep-18	Sep-19	% Change
	CI\$ Million		
Expense	468.5	519.3	10.8
Compensation of Employees	212.7	238.4	12.1
Use of Goods and Services	66.1	75.9	14.9
Consumption of Fixed Capital	24.1	25.0	3.7
Subsidies	114.8	125.5	9.4
Social Benefits	24.8	30.5	23.1
Interest	18.1	17.4	(3.9)
Other Expense	7.9	6.6	(16.4)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Compensation of employees (formerly personnel costs) rose by 12.1% to \$238.4 million. This was due primarily to an increase of 10.5% rise in wages and salaries (including employee pension contributions), which moved to \$178.5 million.

Subsidies increased by 9.4% to total \$125.5 million for the period, with Cayman Islands National Insurance Company (up 19.3% to \$29.3 million) and Health Services Authority (up 14.4% to \$26.3 million) receiving the largest increases.

⁹ Net investment in nonfinancial assets is gross investment in nonfinancial assets less consumption of fixed capital.

The use of goods and services (formerly supplies and consumables) increased by 14.9% to \$75.9 million. Purchase of services (up 20.3% to \$43.3 million) and supply of goods (up 11.6% to \$12.2 million) registered the largest increases in this category.

Social benefits (formerly transfer payments) rose by 23.1% to \$30.5 million. Scholarships and bursaries (up 31.6% to \$11.3 million) accounted for most of the increase in this category.

Consumption of fixed capital (formerly depreciation); which is a decline in the value of fixed assets owned and used by central government as a result of physical deterioration, normal obsolescence or normal accidental damage; rose by 3.7% to \$25.0 million. The primary contributor to this increase was the depreciation of computer hardware, up 56.7% to \$2.2 million.

Consistent with a trend reduction in the overall debt stock, interest expense of the government fell by 3.9% for the period to \$17.4 million (see Section 12.4).

12.3 Investment in Non-financial Assets

Gross investment in non-financial assets (formerly gross capital expenditure and net lending) increased by 22.6% to \$53.3 million (see Table 25). The additional investment was channelled through capital investment in ministries and portfolios within fixed assets¹⁰. The expansion was sufficient to outweigh the rise in depreciation and resulted in a 46.5% growth in net investments for the period.

¹⁰ Includes expenditure on buildings and structures as well as machinery and equipment.

Within fixed assets, capital investment in ministries and portfolios rose by \$16.8 million to \$21.4 million. This increase resulted mainly from higher capital investments in the Ministry of Human Resources and Immigration and the Ministry of Education, Youth, Sports, Agriculture, and Lands.

In contrast, Capital investment in statutory authorities and government-owned companies decreased by \$5.2 million to \$20.9 million, while expenditure on executive assets fell by \$1.9 million to \$10.7 million.

Table 25: Investment in Non-Financial Assets (Jan-Sep)

	Sep-18	Sep-19	% Change
	CIS\$ Million		
Gross Investment in Non-financial Assets	43.4	53.3	22.6
Fixed Assets	43.4	53.3	22.6
Capital Investment in Ministries and Portfolios	4.5	21.4	375.6
Capital Investment in Statutory Authorities and Government Owned Companies	26.1	20.9	(19.9)
Executive Assets	12.6	10.7	(15.1)
Net Investment in Non-financial Assets	19.3	28.3	46.5

Source: Cayman Islands Treasury Department & Economics and Statistics Office

12.4. Net Financing and Debt

Net acquisition of financial assets, which includes the cash balance associated with the fiscal surplus, fell to \$120.1 million from the \$130.9 million recorded for the same period of 2018 (see Table 27).

Net incurrence of liabilities amounted to -\$15.4 million relative to -\$20.6 million in January–September 2018. This reflected lower loan repayments during the review

period as there were no loan disbursements for the first nine-month of 2018 or 2019.

Table 26: Net Financing

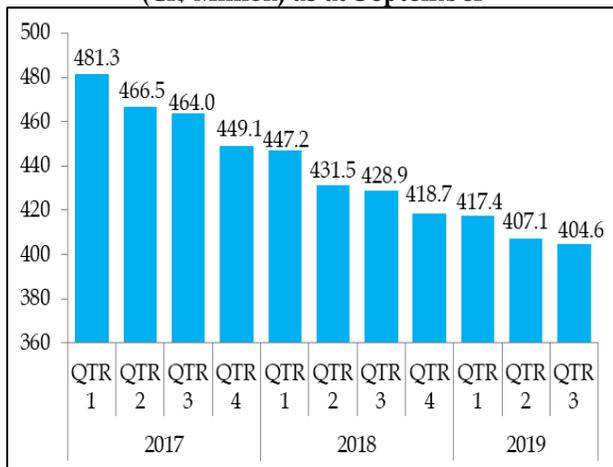
	Sep-18	Sep-19	% Change
CI\$ Million			
Financing:			
Net Acquisition of Financial Assets	130.9	120.1	(8.3)
Net Incurrence of Liabilities	(20.6)	(15.4)	(25.3)
Incurrence (Disbursement)	0.0	0.0	-
Reduction (Loan Repayment)	20.6	15.4	(25.3)

Source: Cayman Islands Treasury Department

The central government’s outstanding debt continued to decline after peaking at the end of the second quarter of 2011. The debt stood at \$404.6 million at the end of September 2019, \$24.4 million lower than the stock at the end of September 2018 (see Figure 21).

The key fiscal ratios also declined in January–September 2019 relative to the corresponding period in 2018. The central government’s debt service-to-revenue ratio was lowered to 4.8% relative to 6.0%. While, interest expense as a percentage of total expense decreased to 3.4% from 3.9%. Interest expense as a proportion of revenue fell to 2.5% from 2.8%.

Figure 21: Central Government Outstanding Debt (CI\$ Million) as at September



Source: Cayman Islands Treasury Department

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Cayman Islands Planning Department
Cayman Islands Stock Exchange
Cayman Islands Water Company
Department of Immigration
Lands and Survey Department
Port Authority of the Cayman Islands
Portfolio of the Civil Service
Utility Regulation and Competition Office