



CAYMAN ISLANDS
GOVERNMENT



THE CAYMAN ISLANDS' THIRD QUARTER ECONOMIC REPORT 2020



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Overview*

- The international economy recovered partially in the September quarter amidst low inflation levels.
- Cayman's gross domestic product (GDP) continued to contract in the third quarter, resulting in an estimated annualized decline rate of 8.2% for the first three quarters of 2020.
- The average Consumer Price Index increased by 0.8%, as higher prices for food and other goods and services outweighed declines in energy-related costs.
- Merchandise imports declined by 8.6% to \$803.3 million, due to lower oil and non-oil imports.
- Work permits fell by 15.5% to 24,890, while public sector employment rose by 3.0%.
- Broad liquidity or money supply expanded by 10.1% as both local and foreign currency deposits held by residents expanded.
- The weighted average lending rate for KYD fell by 154 basis points to 5.96% while the prime lending fell by 183 basis points to 3.25%.
- Domestic credit expanded by 8.2% due to a 6.8% rise in credit to the private sector and a 29.9% increase in credit to the central government.
- Bank and trust company licences decreased by 6.8% to 123 and insurance licences fell by 0.3% to 679.
- Mutual funds including the category "master funds" grew by 6.9% to 11,691.
- The number of listings on the Stock Exchange rose by 16.3% to 2,274 while market capitalization increased by 18.1% to a record US\$450.8 billion.
- New company registrations fell by 14.5% to 8,484 while new partnership registrations rose by 0.7% to 3,350.
- Air arrivals fell by 62.6% while cruise passengers decreased by 59.6%.
- The value of building permits increased by 38.8% as the total number of permits fell by 24.5%.
- Property transfers fell by 15.8% in value and by 9.7% in volume.
- Electricity consumption contracted by 2.2% while water consumption fell by 1.9%.
- The central government's overall fiscal surplus was \$14.2 million compared to \$135.5 million a year ago.
- The total outstanding debt of the central government declined to \$261.4 million from \$404.6 million a year ago.

*Comparative data over the first nine months of 2019, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. International Economy

1.1 Economic Growth¹

The world's major economies rebounded during the third quarter of 2020 due to a relaxation of lock-down measures. The United States' economy grew at an annual rate of 33.4%. This growth was attributed to increased consumer spending, investment and exports. The Canadian economy grew at an annual rate of 40.5% due to the country's reopening, which led to significantly higher housing investment and household spending.

The United Kingdom (UK) and the Euro Area recorded annualised growth of 16.0% and 12.5%, respectively. Expansion in both economies reflected increased household expenditure and investment in the context of relaxed lock-down measures.

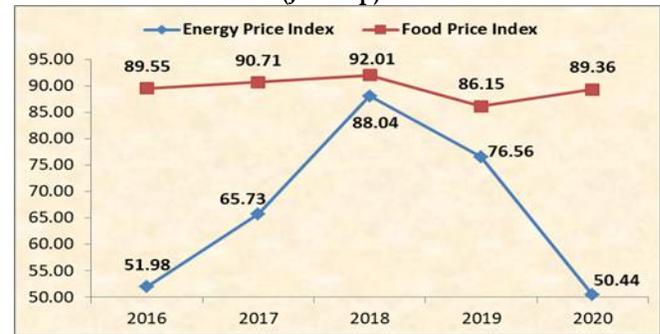
1.2 Inflation

The world's major economies recorded higher consumer prices in the first nine months of 2020 relative to the corresponding period in 2019. The USA and UK recorded inflation of 1.2% and 1.0%, respectively. At the same time, Canada and the Euro Area registered respective inflation rates of 0.7% and 0.4%.

The increase in consumer prices was mostly due to higher food and metal prices as energy prices declined. Food prices rose to reflect the higher cost of agricultural products. The decline in energy prices was attributed to lower cost of crude oil, coal and natural gas on

the world market. Crude oil averaged US\$40.46 per barrel in January–September 2020 compared with US\$61.76 per barrel in the comparable period of 2019.²

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

All major central banks maintained their policy interest rates at low levels for the review period. This policy stance was generally noted as necessary to continue providing credit to households and businesses during the ongoing global pandemic.

Notably, the Federal Reserve Bank maintained the target range for its federal funds rate between 0.00% and 0.25%. The Bank of Canada retained its policy interest rate at 0.25%. The Bank of England preserved its policy interest rate at 0.10% while the European Central Bank (ECB) kept its policy interest rates on the main refinancing operations, marginal lending facility and deposit facility at 0.00%, 0.25% and -0.40%, respectively.

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

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 on average strengthened nominally against two of the world's major traded currencies during the first nine months of 2020 compared with the corresponding period in 2019. Notably, the US Dollar strengthened by 0.2% against the Great Britain Sterling Pound and 1.9% against the Canadian Dollar. In contrast, the currency weakened by 0.1% against the Euro.

2. GDP Growth and Macroeconomic Forecasts

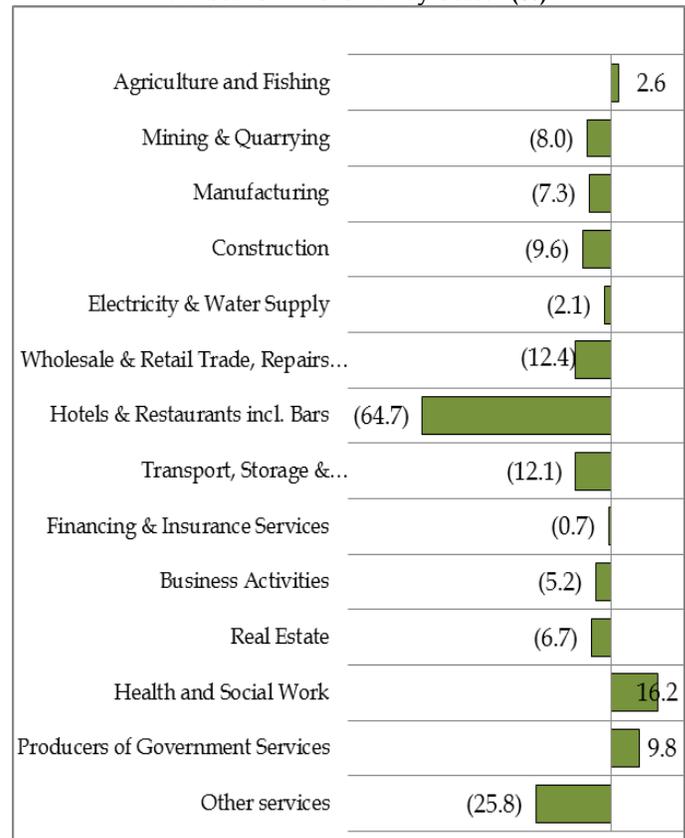
Available indicators suggest that the Cayman Islands' real gross domestic product (GDP) contracted by an estimated annualised rate of 8.2% in the first nine months of 2020 compared to a year ago.

The economic contraction for the period was relatively broad-based, with only three sectors estimated to have expanded. The largest declines were estimated for hotels and restaurants (down by 64.7%), wholesale and retail trade (down by 12.4%), other services (down by 25.8%), and transport storage and communication (down by 12.1%). The financing and insurance services sector, which continues to be the largest contributor to GDP, contract by 0.7% during the review period (see Figure 2).

In contrast to the general downward trends, social services is estimated to have expanded by 16.2% for the review period due to increased spending in the sector to combat the virus. Producers of government services which includes education are also estimated

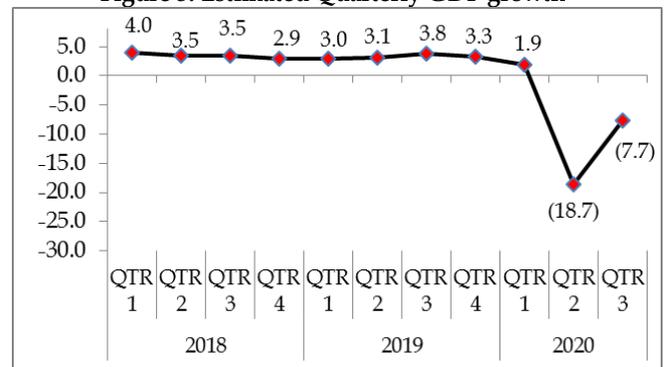
to have expanded as the government increased spending and activities to mitigate some of the fallout from the pandemic.

Figure 2: Estimated First Nine Months of 2020 Annualised GDP Growth by Sector (%)



Source: Economics and Statistics Office

Figure 3: Estimated Quarterly GDP growth



Source: Economics and Statistics Office

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

Consequent on a robust recovery in the construction sector coupled with higher than expected demand forecasted GDP for 2020 is revised upwards to a contraction of 7.0% (see Table 1). The revised forecast was also in the context of increased optimism for demand in the international economy as the IMF revised the forecast in its January update the World Economic Outlook. The IMF revised its forecast to reflect the approval of several Vaccines and better than expected performance in many world major economies.

The contraction in domestic inflation during the third quarter of the year is in line with inflation's initial projection. Consequently, the average inflation forecast for 2020 has been maintained at 0.5%.

Consistent with the revised GDP estimate, the forecast for the year-end unemployment rate has been revised downwards to 5.3%. This revision is also in the context of survey data which showed that business took measures to minimise the employment fallout associated with the pandemic.

Table 1: Macroeconomic Performance

				Projection
	2017	2018	2019	2020
	Percent (%)			
Real GDP	3.2	4.2	3.8	-7.0
CPI Inflation	2.0	3.3	5.7	0.5
Unemployment Rate	4.9	2.8	3.5	5.3

Source: Economics and Statistics Office

3. Inflation

Inflation in the Cayman Islands average 0.8% for the first nine months of 2020 (see Table 2). The inflation rate for the period reflected growth of 3.0%, 1.0% and -1.6% 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, recreation and culture and restaurants hotels which went down by 0.8%, 3.4% and 0.1%, respectively.

The highest absolute increase in prices was seen in communication (5.6%), food & non-alcoholic beverages (5.1%) and clothing and footwear (4.4%).

Table 2: Average Inflation (%)

Categories	Avg. Inflation Rates	
	9-Months 2019	9-Months 2020
Food & Non-alcoholic Beverages	1.8	5.1
Alcohol and Tobacco	2.4	0.7
Clothing and Footwear	3.8	4.4
Housing and Utilities	10.7	0.3
Household Equipment	2.3	1.4
Health	0.8	2.3
Transport	-1.2	-0.8
Communication	6.5	5.6
Recreation and Culture	7.7	-3.4
Education	3.7	4.2
Restaurants and Hotels	2.2	-0.1
Misc. Goods and Services	0.1	0.6
Overall CPI Inflation	4.8	0.8

Source: Economics and Statistics Office

The 1.6% deflation for the September 2020 quarter largely reflected the influence of

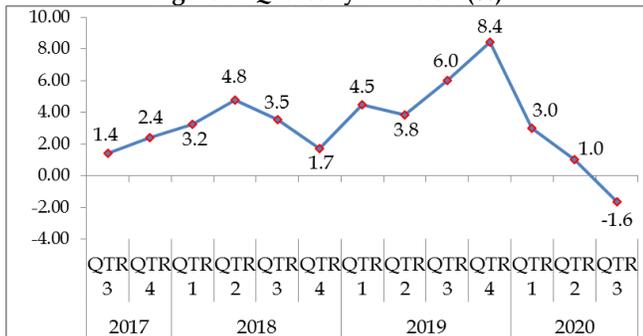
⁵ See also 'The Cayman Islands Consumer Price Index Report: September 2017,' www.eso.ky

lower utility costs and lower prices for some services and non-food items.

For the quarter non-food prices were lower by 2.1%, mainly driven by housing and utilities, which fell by 2.8% relative to the corresponding quarter of 2019. Additionally, the index for transport and recreation and culture, declined by 6.9% and 5.6%, respectively.

The fall in the housing and utilities index was attributed mainly to the decline in international oil prices for the quarter. Recreation and culture fell on account of a reduction in the cost of packaged holidays as demand declined.

Figure 4: Quarterly Inflation (%)

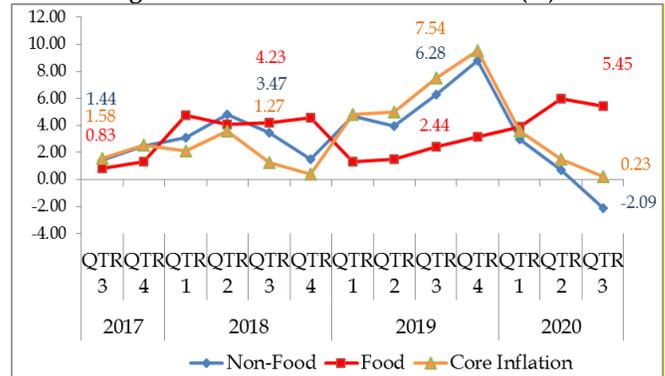


Source: Economics and Statistics Office

Food prices increased by 5.5% in the quarter largely due to an increase of 16.4% in the cost of oils and fats and a 12.5% rise in the cost of milk, cheese and eggs.

Core inflation, which is inflation, excluding food, electricity, and fuel, increased by 0.2% for the quarter relative to the same period of 2019 (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. International Trade⁶

Merchandise imports declined by 8.6% to \$803.3 million in the first nine months of 2020, relative to the corresponding period in 2019 (see Figure 6). This reduction in imports was reflected in all categories except inedible crude materials except fuels and chemicals and related products not elsewhere specified.

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



Source: Cayman Islands Customs and Border Control and ESO

The categories recording the largest declines were mineral fuels, lubricants and related

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

materials (down \$37.8 million to \$68.5 million), commodities and transactions not elsewhere classified (down \$16.7 million to \$52.1 million) and machinery and transport equipment (down \$13.0 million to \$169.4 million). The reduction in the value of fuel imports was due jointly to a fall in price and quantity.

The total quantity of fuel imported fell by 19.7%, driven by declines in all categories. Diesel and gas imports fell by 7.5% and 32.6%, respectively. While, imports of propane and aviation fuel declined by 23.8% and 54.2%, respectively (see Table 3).

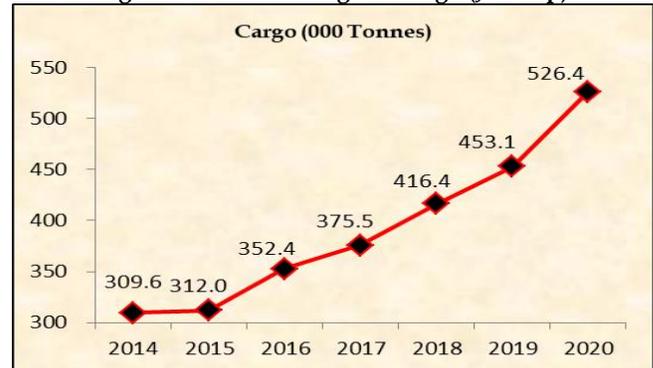
Table 3: Quantity of Fuel Imports (Jan-Sep)

	2018	2019	2020	% Change
Millions of Imperial Gallons				
Total Fuel	42.4	42.7	34.3	(19.7)
Diesel	26.6	25.1	23.2	(7.5)
Gas	10.1	11.5	7.7	(32.6)
Aviation Fuel	4.5	4.4	2.0	(54.2)
Propane	1.2	1.7	1.3	(23.8)

Source: Cayman Islands Port Authority

The total tonnage of landed cargo increased by 16.2% to 526,369 tonnes in the first nine months of 2020 (see Figure 7). The growth in total landed cargo was driven by increases of 35.3% in aggregates and 10.9% in cement bulk cargo as the construction sector remained robust during the period. Of the total landed cargo, aggregates accounted for 52.1% (274,228 tonnes). Containerized cargo accounted for 38.1% (200,654 tonnes). Cement bulk and break bulk cargo accounted for 8.8% (46,313 tonnes) and 1.0% (5,174 tonnes) of the total landed cargo, respectively.

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



Source: Cayman Islands Port Authority

5. Employment

5.1. Work Permits

During the review period, the number of work permits issued declined by 4,572 (15.5%), relative to the same period of 2019. This decline was in the context of the decline in economic activity associated with the pandemic. Relative to June 2020, work permits increased by 1.0% for the September quarter.

Figure 8: Work Permits



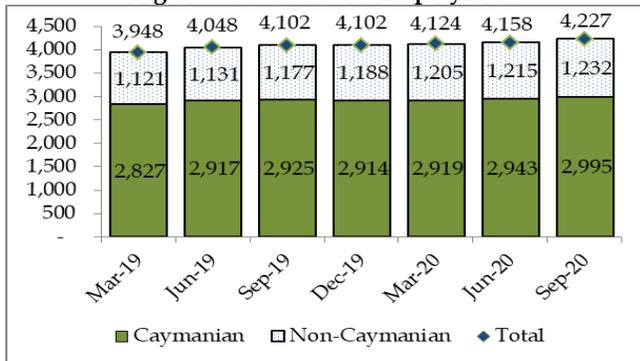
Sources: Work Force Opportunities and Residency Cayman, Economics & Statistics Office

5.2. Public Sector Employment

At end-September 2020, there were 4,227 civil servants employed by the government, an increase of 125 relative to the corresponding period of 2019. Employed Caymanians rose

by 70 to 2,995, while Non-Caymanian employment increased by 55 to 1,232.

Figure 9: Civil Service Employment

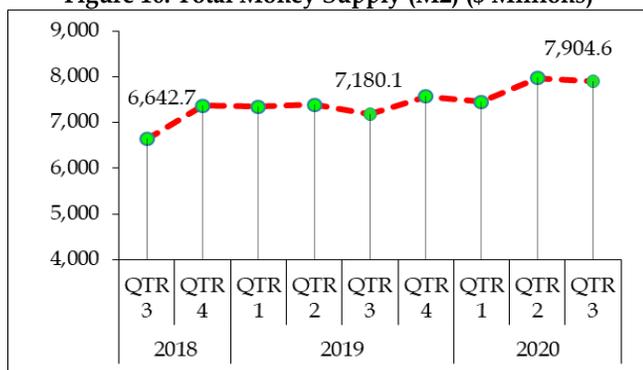


Source: Portfolio of the Civil Service

6. Money & Banking

Broad liquidity (M2), which comprises CI dollar-denominated money and foreign currency deposits, expanded by 10.1% to settle at \$7,904.6 million (see Figure 10). 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 5.3%, as US dollar-denominated deposits rose by 6.3% (or \$311.2 million). Similarly, total CI dollar-denominated deposits grew by 23.8%

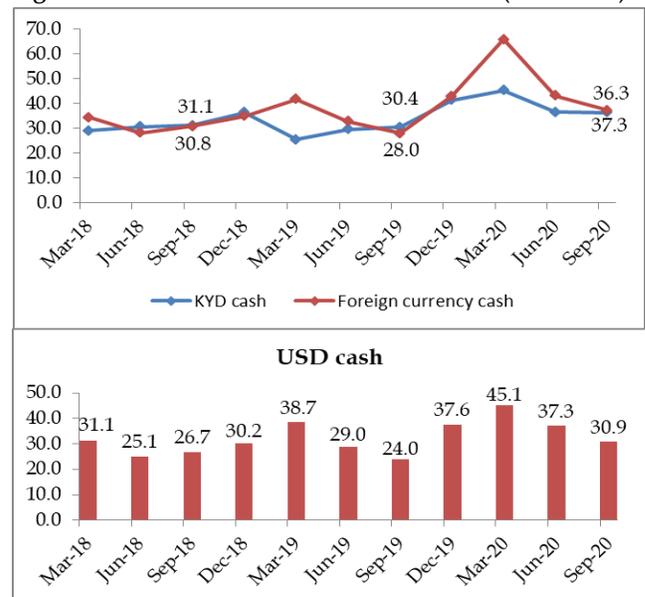
or \$401.4 million, while currency in circulation increased by 29.6% or \$36.2 million compared to a year ago (see Table 4).

The growth in broad money liquidity represents an increase in the liabilities of the monetary and banking sector. The corresponding asset side reflected increases in both net foreign assets and net domestic assets.

6.0. Commercial Banks Cash-on-Hand.

Consistent with the growth in demand deposits, commercial banks increased their cash in hand to meet any increased withdrawal needs. Cash balances in the banking system rose by 25.9% to \$73.6 million.

Figure 11: Commercial Banks Cash-on-Hand (\$ millions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

This increase reflected growth of 19.1% and 33.4% in KYD and foreign currency cash respectively. US dollar denominated cash increased by 29.0% to \$30.9 million. The volume of US dollar cash held as at end-

September 2020 was in line with the average of \$31.0 million for the previous 15 quarters. Despite the Cash balance in the commercial banks remaining stable, it is possible that individual banks could struggle with US dollar liquidity (see Figure 11).

In addition, for the last three years US dollars held by the commercial banks declined for the first three quarter of the year and increase in December. The US balance as at September 2020 is greater than the previous two years, possibly due to less cash spending curtailed by restricted international travel by residents.

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

	Sep-19	Sep-20	% Change
Total Assets	7,180.1	7,904.6	10.1
Net Foreign Assets	5,257.3	5,618.3	6.9
Monetary Authority	135.3	175.3	29.5
Commercial Banks	5,122.0	5,443.0	6.3
Net Domestic Assets	1,922.9	2,286.3	18.9
Domestic credit	3,135.5	3,391.0	8.2
Claims on central government	134.0	202.8	51.3
Claims on other public sector	51.8	38.6	(25.6)
Claims on private sector	2,949.6	3,149.6	6.8
Other items net	(1,212.6)	(1,104.7)	(8.9)
Broad Liquidity	7,180.1	7,904.6	10.1
Broad money (KYD) M2	1,807.2	2,244.8	24.2
Currency in circulation	122.5	158.7	29.6
KYD Deposits	1,684.7	2,086.1	23.8
Demand deposits	714.2	880.5	23.3
Time and savings deposits	970.5	1,205.6	24.2
FOREX deposits	5,372.9	5,659.8	5.3
of which: US dollars	4,938.7	5,250.0	6.3
US dollars share (%)	91.9	92.8	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.1. Net Foreign Assets (NFA). During the first nine months of 2020, there was a 6.9% build up in NFA, bringing the total in the monetary system to \$5.6 billion. The NFA of the monetary authority rose by 29.5%, while

commercial banks increased their NFA by 6.3%.

Table 5: Net Foreign Assets (\$ millions)

	Sep-19	Sep-20	% Change
Net Foreign Assets	5,257.3	5,618.3	6.9
Monetary Authority	135.3	175.3	29.5
Commercial Banks	5,122.0	5,443.0	6.3
Foreign Assets	8,813.1	9,546.7	8.3
Bal. with Banks & Branches	4,062.0	4,605.0	13.4
Total Investment	3,138.3	3,579.7	14.1
Total Non-Resident Loans	1,612.7	1,362.0	(15.5)
Foreign Liabilities	3,691.1	4,103.7	11.2
Total Non-Resident Deposits	3,361.3	3,797.4	13.0
Other Liabilities	329.8	306.3	(7.1)

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The rise in commercial bank's foreign assets reflected a 13.4% build-up in balances with banks and branches as well as a 14.1% increase in foreign investments. The impact of these increases was partially offset by a 15.5% reduction in non-resident loans.

An increase in foreign liabilities partially offset the effects of the increase in foreign assets. This was driven by a 13.0% expansion in non-resident deposits which outweighed a 7.1% fall in other liabilities (see Tables 4 and 5).

6.2. Net Domestic Assets/Domestic Credit.

Total domestic assets within the financial system expanded by 8.2% in the first nine months of the year as credit extended to the public and private sector increased during the period.

Specifically, private sector credit rose by 6.8%, while credit to the central government increased by 51.3%. In contrast, credit to other parastatals fell by 25.6%.

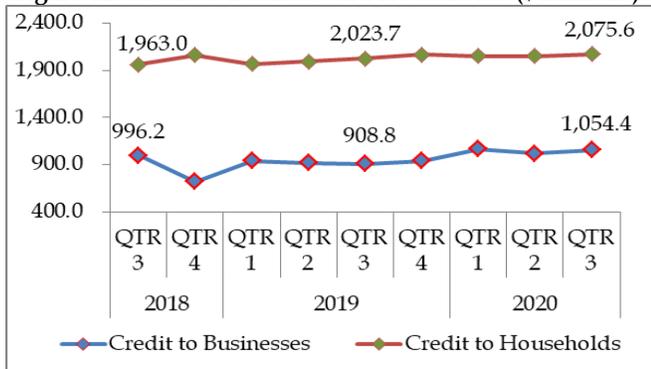
Table 6: Domestic Credit (\$ millions)

	Sep-19	Sep-20	% Change
Domestic Credit	3,135.5	3,391.0	8.2
Credit to Public Sector	185.9	241.4	29.9
Credit to Central Government	134.0	202.8	51.3
Credit to Other Public Sector	51.8	38.6	(25.6)
Credit to Private Sector	2,949.6	3,149.6	6.8

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Within the private sector, lending extended to businesses and non-profit organisations rose by \$145.6 million to \$1,054.4 million during the review period. The increase in business credit was mainly driven by an expansion in loans advanced to trade and commerce companies, particularly, wholesale and retail trade, and other business sectors. Credit to wholesale and retail trade companies rose by \$41.6 million, while credit to other business activities increased by \$38.6 million.

Additionally, loans to the production and manufacturing sector rose by 21.8% (or \$48.3 million). This mainly reflected a 24.4% rise in loans to the construction sector. Credit to other financial corporations rose by \$20.6 million, while loans to the services sector fell by 5.1% (Figure 12 and Table 7).

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


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit to households increased by \$51.9 million to \$2,075.6 million for the period. The expansion was traced to increased credit for domestic properties and motor vehicles of \$88.3 million and \$3.8 million, respectively. In contrast, loans for miscellaneous activities and loans for education and technology fell by \$39.6 million and \$0.5 million, respectively.

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

	Sep-19	Sep-20	% Change
Total Private Sector Credit	2,949.6	3,149.6	6.8
Credit to Businesses	908.8	1,054.4	16.0
Production & Manufacturing	221.8	270.1	21.8
Mining	4.9	8.9	83.1
Manufacturing	8.7	8.7	0.3
Utilities	35.3	37.3	5.7
Construction	173.0	215.2	24.4
Services	127.6	121.1	(5.1)
Accommodation, Food, Bar & Entertainment Services	62.1	64.5	3.9
Transportation, Storage & Communications	21.4	35.1	64.1
Education, Recreational & Other Professional Services	44.1	21.5	(51.3)
Trade and Commerce	550.4	633.6	15.1
Wholesale & Retail Sales Trade	21.4	63.0	194.0
Real Estate Agents, Rental and Leasing Companies	278.4	281.4	1.1
Other Business Activities (General Business Activity)	250.6	289.1	15.4
Other Financial Corporations	9.0	29.7	227.7
Credit to Households	2,023.7	2,075.6	2.6
Domestic Property	1,741.5	1,829.7	5.1
Motor Vehicles	53.9	57.7	7.0
Education and Technology	5.0	4.5	(10.2)
Miscellaneous*	223.3	183.6	(17.7)
NonProfit Organizations	17.1	19.7	14.9

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

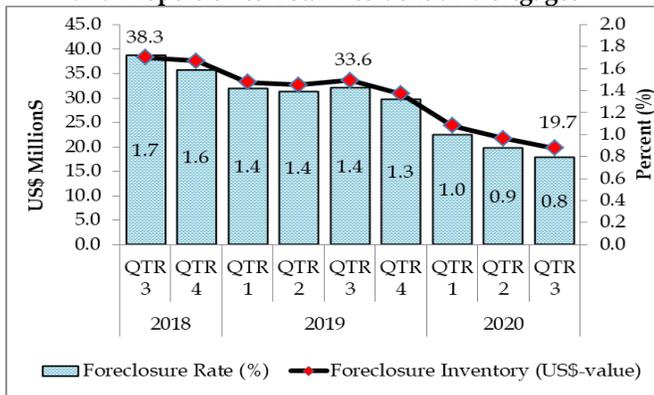
6.3. Residential Mortgage Foreclosures.

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 2020

relative to the corresponding period of the previous year (see Figure 12).

As of September 2020, there were 66 foreclosures in inventory, valued at US\$19.7 million. This reflected a 41.2% decline from the US\$33.6 million recorded a year ago. The value of foreclosure inventory accounted for 0.8% of the total value of residential mortgages, which amounted to \$2.5 billion.

Figure 13: Residential Mortgages Foreclosures Inventory and Proportion to Total Residential Mortgages

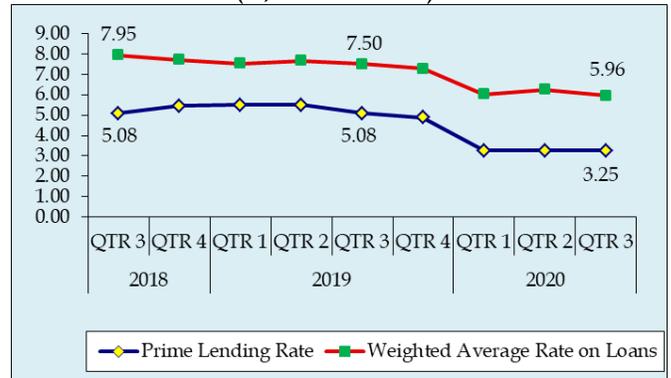


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

There were 3 completed mortgage foreclosures during the review period, lower than the 14 recorded for the same period of 2019.

6.4. Interest Rates. The Cayman Islands’ prime lending rate declined to 3.25% as of September 2020 relative to 5.08% in the corresponding period of 2019. Similarly, the KYD weighted average lending rate fell by 154 basis points to 5.96% in September 2020 from 7.50% in the same period of 2019 (see Figure 14).

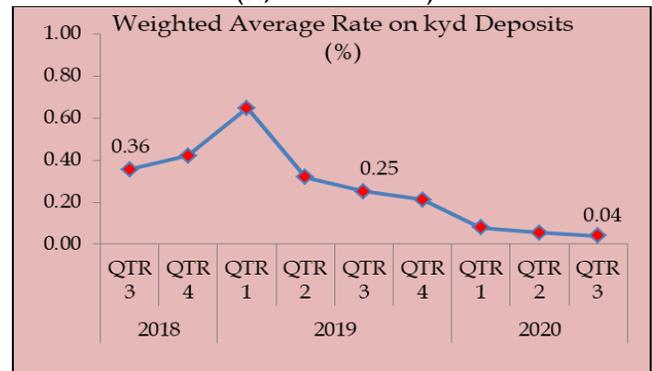
Figure 14: KYD Lending Rates (% End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As depicted in Figure 15, the weighted average savings rate on KYD deposits declined to 0.04% from 0.25% a year ago.

Figure 15: KYD Weighted Average Savings Rates (% End of Period)



Source: Cayman Islands Monetary Authority & ESO

7. Financial Services

The Financial Services industry reflected a mixed performance during the first nine months of 2020. Three of the indicators monitored improved while three declined.

7.1 Banks & Trust

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

market dynamics during the period. Consequently, the number of licenced Bank and Trust companies declined by 6.8% to 123 at the end of September 2020.

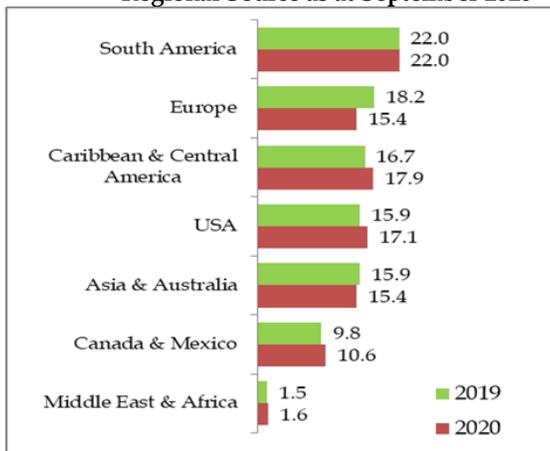
The number of Class 'A' Bank & Trust licences and the number of foreign banks or Class 'B' licences decreased by 10.0% to 9 and 6.6% to 114, respectively. In contrast, trust company licences increased by 1.7% to 117 at the end of the review period. This reflected respective increases of 1.7% and 1.8% in 'Restricted' and 'Unrestricted' licences.

Table 8: Bank & Trust Companies

	Sep 2018	Sep 2019	Sep 2020	% Change
Bank and Trust	146	132	123	(6.8)
Class A	11	10	9	(10.0)
Class B	135	122	114	(6.6)
Trust Companies	118	115	117	1.7
Restricted	60	58	59	1.7
Unrestricted	58	57	58	1.8

Source: Cayman Islands Monetary Authority

Figure 16: Percentage Proportion of Registered Banks by Regional Source as at September 2020



Source: Cayman Islands Monetary Authority

South America, the Caribbean & Central America, and the USA were the leading sources of Cayman's banking licences, accounting for 22.0%, 17.9%, and 17.1% of the total, respectively.

7.2 Insurance

The number of insurance licences totalled 679 at the end of September 2020 relative to 681 at the end of September 2019.

Class 'A' licences, which represents the domestic insurers, rose from 26 to 27 while captive licences declined from 655 to 652 at the end of the review period. Within captives, Class 'B' licences declined from 628 to 625 while Class 'C' and Class 'D' licences remained unchanged at 22 and 5, respectively.

Table 9: Insurance Companies

	Sep 2018	Sep 2019	Sep 2020	% Change
Domestic - Class 'A'	28	26	27	3.8
Captives	699	655	652	(0.5)
Class 'B'	670	628	625	(0.5)
Class 'C'	25	22	22	0.0
Class 'D'	4	5	5	0.0
Total	727	681	679	(0.3)

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 31.0% and 22.7% of the market, respectively. The 'Other' category⁷ was the next largest, representing 16.7% of the

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

market. North America remained the main source market of the captive insurance business accounting for 90.2% (588 licences).

Table 10: Captive Insurance Licences by Primary Class of Business

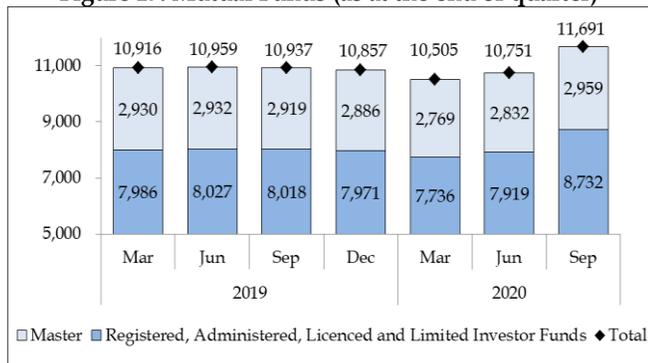
	Sep-19	Sep-20	Change	%	%
				Change	Proportion
Healthcare	214	202	-5.6		31.0
Workers' Compensation	139	148	6.5		22.7
Property	66	62	-6.1		9.5
General Liability	72	77	6.9		11.8
Professional Liability	55	54	-1.8		8.3
Other	109	109	0.0		16.7
Total	655	652	-0.5		100.0

Source: Cayman Islands Monetary Authority

7.3 Mutual Funds

The number of mutual funds increased by 754 (6.9%) to 11,691 at the end of September 2020 relative to the end of September 2019. This was due to increases of 40 (1.4%) in Master Funds to 2,959 and 714 (8.9%) in Registered, Administered, Licenced & Limited Funds to 8,732. The limited investor funds category was introduced in the June 2020 quarter; this category accounted for 573 registrations in the June and September quarters.

Figure 17: 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 16.3% (318) to a record 2,274 at the end of September 2020.

This was due solely to an increase in the number of specialist debt instruments, which rose by 352 listings to 1,762. Three of the remaining six categories recorded no change while the other three categories declined.

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

Instrument	2018	2019	2020	Change	%
Investment Fund Security	223	190	173	(8.9)	
Specialist Debt Security	1,015	1,410	1,762	25.0	
Corporate & Sovereign Debt Security	290	306	293	(4.2)	
Primary Equity Security	4	4	4	0.0	
Secondary Equity Security	1	1	1	0.0	
Insurance Linked Security	45	43	39	(9.3)	
Retail Debt Security	1	2	2	0.0	
Total	1,579	1,956	2,274	16.3	

Source: Cayman Islands Stock Exchange

Market scapitalisation rose by 18.1% to US\$450.8 billion at the end of the review period, the highest level on record. The growth in market capitalisation was attributed primarily to increases of 14.6% in specialist debt securities and 29.0% in corporate and sovereign debt securities. All instruments recorded higher levels of market capitalisation except insurance-linked securities which declined 10.8%.

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

Instruments	2018	2019	2020	Change	%
Investment Fund Security	11.7	11.2	11.2	0.7	
Specialist Debt Security	178.2	249.9	286.5	14.6	
Corporate & Sovereign Debt Security	102.7	113.7	146.6	29.0	
Primary Equity Security	0.4	0.3	0.4	18.0	
Secondary Equity Security	0.1	0.0	0.1	171.1	
Insurance Linked Security	5.9	5.7	5.0	(10.8)	
Retail Debt Security	0.8	0.8	0.9	12.5	
Total	299.8	381.6	450.8	18.1	

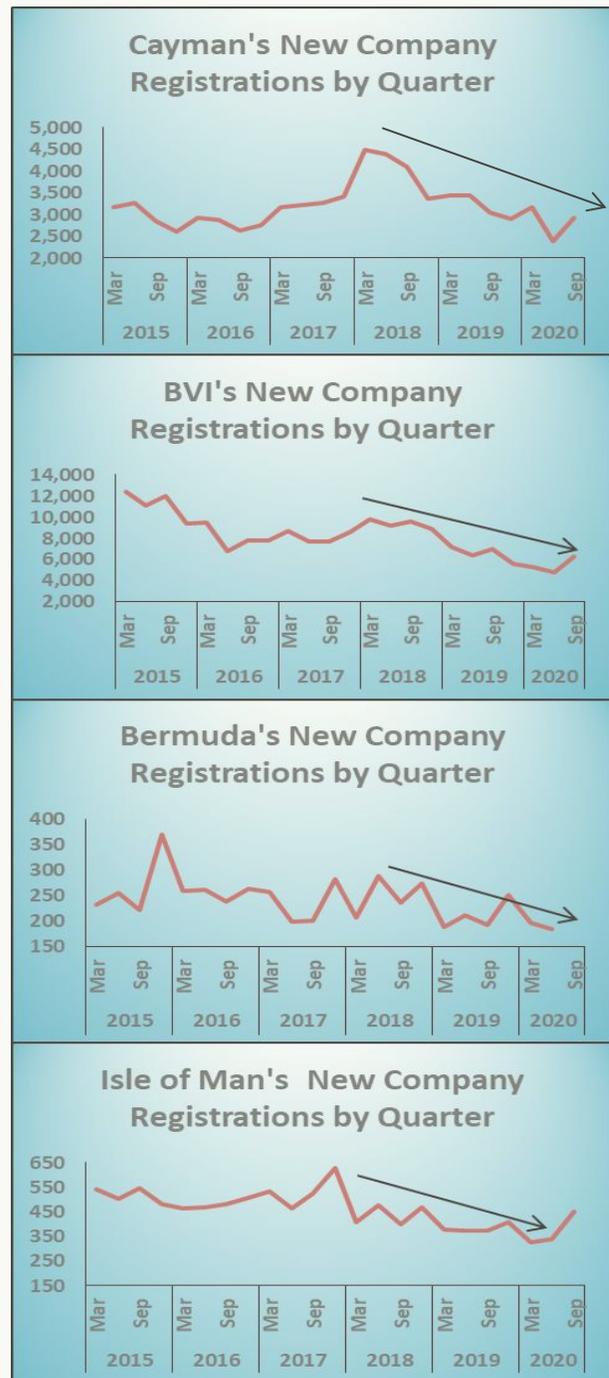
Source: Cayman Islands Stock Exchange

Box 1: Regional Trend in New Company Registration

The Cayman Islands made commitments in 2017 to implement certain requirements as part of the Organisation for Economic Co-operation and Development's (OECD) global Base Erosion and Profit Shifting (BEPS) initiative. The Islands also made additional commitments to meet the European Union's (EU) requirements targeting jurisdictions with nominal or no taxes. Some of these requirements include enacting laws to ensure that companies registered in the Islands meet certain economic substance requirements.

These commitments and regulations have increased uncertainty and the complexity of incorporating and maintaining corporate vehicles in the Cayman and other British Overseas Territories. The changes and associated uncertainties could partly explain a decline in new company registrations in Cayman and other similar jurisdictions since the end of 2017. Specifically, the number of new company registrations in Cayman declined by 34.9%, from 4,478 in March 2018 to 2,917 in September 2020. Similarly, new company registrations in the British Virgin Islands fell by 36.2% from 9,798 to 6,254 over the same period.

Similar declines were also seen in Bermuda and the Isle of Man. In Bermuda, new company registration fell by 34.6% between December 2017 and June 2020, while in the Isle of Man registrations declined by 28.1% between December 2017 and September 2020.



7.5 New Company Registration

New company registrations for January–September 2020 declined by 14.5% to 8,484 (see Table 13). This reduction was due to declines in all categories except the ‘Foreign’ and ‘LLC’ categories. ‘Exempt’ companies recorded the largest absolute decline, by 16.8% to 6,745. In contrast, there was an increase of 9.7% in the number of ‘Foreign’ companies to 576 while “LLCs’ remained unchanged at 635.

Table 13: New Company Registrations (Jan-Sep)

	2018	2019	2020	% Change
Total	12,967	9,920	8,484	(14.5)
Exempt	11,070	8,110	6,745	(16.8)
Non-Resident	13	21	6	(71.4)
Resident	579	586	499	(14.8)
Foreign	593	525	576	9.7
FDN*	0	43	23	(46.5)
LLC	712	635	635	0.0

Source: Registrar of Companies

*Started in February 2018

7.6 Partnerships

During the first nine months of 2020, there were 3,350 new partnership registrations, an increase of 0.7% relative to the comparable period in 2019 (see Table 14). This improvement was attributed to increases of 0.2% to 3,249 in the number of ‘Exempt’ companies and 18.8% to 101 in the number of ‘Foreign’ companies. Limited partnerships remained stable in the current and previous nine-month periods.

Table 14: New Partnership Registrations (Jan-Sep)

	2018	2019	2020
Total	3,833	3,328	3,350
Exempt	3,770	3,243	3,249
Foreign	63	85	101
Percentage Change (%)			
Total	35.9	(13.2)	0.7
Exempt	36.8	(14.0)	0.2
Foreign	(1.6)	34.9	18.8

Source: Registrar of Companies

8. Tourism

Restrictions to international travel and the fall-off associated with the COVID-19 pandemic impacted visitor arrivals. The tourism sector reflected a sharp contraction in the first three quarters of 2020. Total arrivals to the Islands’ fell by 60.3% to 682,567.

8.1 Air Arrivals

Air arrivals declined to 144,427 in the first three quarters of 2020, relative to 386,290 in the same period of 2019. This reduction followed the closing of Caymans’ borders in March 2020. Consistent with the global contraction, arrivals from all regions fell sharply for the review period.

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

	2018	2019	2020	% Change
In Thousands				
USA	294.9	325.7	118.7	(63.6)
Europe	16.5	17.2	7.0	(59.2)
Canada	18.8	21.9	13.3	(39.2)
Others	20.2	21.5	5.4	(74.8)
Total	350.3	386.3	144.4	(62.6)
USA (% share)	84.2	84.3	82.2	

Source: Department of Tourism

8.2 Cruise Arrivals

Cruise arrivals for the period totalled 538,140 a decline of 59.6% relative to the same period of 2019. The total number of cruise passengers arrived in the first quarter of the year as the Islands' cruise ports remained close for the second and third quarter.

Figure 18: Cruise arrivals ('000), Jan-Sep



Source: Department of Tourism

9. Construction

Construction indicators showed positive results for the first three quarters of 2020, with both the value of building permits and project approvals increasing.

9.1. Building Permits

The value of building permits rose by 38.8% in the first three-quarters of 2020 relative to the same period of 2019. This was mainly due to growth in the residential and commercial sectors (see Table 16).

Table 16: Building Permits (Jan-Sep)

	Building Permits (CI\$ Mil)			%
	2018	2019	2020	
Residential	124.7	245.5	276.1	12.5
<i>Houses</i>	70.9	98.4	121.8	23.8
<i>Apartments</i>	53.8	147.1	154.3	4.9
Commercial	33.5	18.9	125.5	565.1
Industrial	-	3.0	4.3	45.5
Hotel	-	0.2	-	(100.0)
Government	7.8	8.3	1.2	(85.97)
Other	29.6	54.2	50.6	(6.5)
Total	195.6	329.9	457.8	38.8

Source: Cayman Islands Planning Department

The value of residential permits increased by 12.5% for the period with both the houses and apartment categories increasing. Permits issued for several high-end houses boosted that category by 23.8% to \$121.8 million. Similarly, apartments' permits increased by 4.9%, partly reflecting approval for several luxury apartments, such as a 3-storey 18-unit complex valued at \$8.0 million.

The commercial category rose by \$106.7 million, owing partly to large scale approvals in the Harbor Walk and Cayman shores developments.

The overall rise in value for the review period was partially offset by declines in the government and 'other categories of 86.0% and 6.5%, respectively.

Despite the rise in value, the number of building permits issued for the period fell by 24.5%.

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

	Number of Permits			% Change
	2018	2019	2020	
Residential	274	409	371	(9.3)
Houses	192	283	244	(13.8)
Apartments	82	126	127	0.8
Commercial	54	72	60	(16.7)
Industrial	1	5	6	20.0
Hotel	1	1	-	(100.0)
Government	12	20	4	(80.0)
Other	327	475	300	(36.8)
Total	669	982	741	(24.5)

Source: Cayman Islands Planning Department

9.2. Project Approvals

The value of project approvals rose to \$638.1 million, relative to \$618.3 million in the same period of 2019. This reflected increases in the residential, commercial and industrial categories.

Table 18: Project Approvals (Jan-Sep)

	Project Approvals (CI\$ Mil)			% Change
	2018	2019	2020	
Residential	44.8	238.7	373.4	56.4
Houses	22.5	77.7	90.6	16.6
Apartments	22.4	161.1	282.8	75.6
Commercial	31.5	39.5	88.4	123.6
Industrial	0.1	1.3	5.6	319.5
Hotel	-	20.1	-	(100.0)
Government	-	5.8	0.6	(89.6)
Other	237.9	312.8	170.2	(45.6)
Total	314.3	618.3	638.1	3.2

Source: Cayman Islands Planning Department

Residential approvals increased by \$134.6 million in the first three quarters of the year to \$373.4 million. This increase was due to strong growth within the apartment and houses categories over the nine months. Within the non-residential segment, the commercial category rose by \$48.9 million.

In contrast, there was a notable reduction in the 'other' category, which fell by \$142.6 million.

The total number of project approvals also increased by 15.2% to settle at 635 at the end of September 2020 (See Table 19). The increase mainly reflected a rise in the number of residential approvals, which rose by 6.6%.

Table 19: Project Approvals (Jan-Sep)

	Number of Approvals			% Change
	2018	2019	2020	
Residential	183	241	257	6.6
Houses	148	189	180	(4.8)
Apartments	35	52	77	48.1
Commercial	9	22	16	(27.3)
Industrial	4	3	5	66.7
Hotel	-	1	-	(100.0)
Government	-	7	3	(57.1)
Other	314	277	354	27.8
Total	510	551	635	15.2

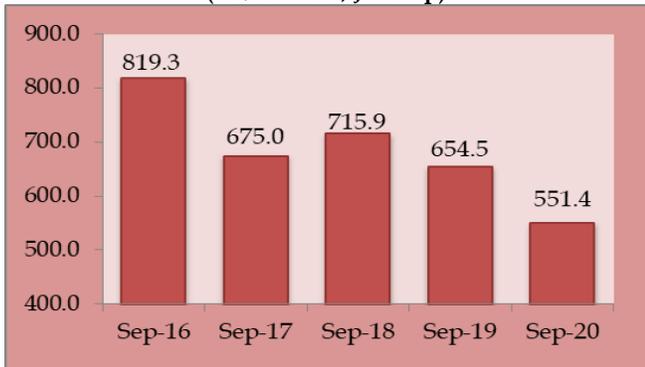
Source: Cayman Islands Planning Department.

10. Real Estate

Real estate activity as measured by the value and volume of traded properties contracted for the first three quarters of 2020.

The total value of traded properties declined to \$551.4 million as at end September 2020, a 15.8% fall relative to the same period of 2019.

The contraction in transfers was attributed to sharp reductions in the value of both leasehold and freehold transfers which declined by 40.7% and 14.0%, respectively.

**Figure 19: Value of Property Transfers:
(CI\$ Million, Jan-Sep)**


Source: Lands & Survey Department

The number of property transfers contracted by 155 or 9.7% to 1,451 as both leasehold and freehold volumes declined.

Figure 20: Number of Property Transfers (Jan-Sep)


Source: Lands & Survey Department

11. Utilities

11.1 Electricity

Electricity consumption contracted by 2.2% to 492.9 thousand megawatt-hours (MWh) in the first three quarters of 2020. The decline was attributed mainly to commercial and public consumption, which fell by 11.2% and 6.7%, respectively. The reduction in commercial consumption possibly reflected the closure of some businesses as well as increased remote

working. The fall in consumption occurred due to an 11.8% fall in the average consumption as the number of commercial customers increased by 0.7% for the period.

Consistent with the rise in remote work, residential consumption increased by 6.3% for the period. This was attributed to a 3.4% increase in the average consumption of residential customers and a 2.4% rise in the residential customer base

Table 20: Utilities Production and Consumption

			%
	Sep-19	Sep-20	Change
Millions of US Gallons			
Water Production	1,890.5	1,845.3	(2.4)
Water Consumption	1,581.4	1,550.7	(1.9)
'000 of megawatt hrs			
Electricity Production (Net)	512.9	498.0	(2.9)
Electricity Consumption	503.8	492.9	(2.2)
Residential	259.0	275.4	6.3
Commercial	240.7	213.6	(11.2)
Public	4.2	3.9	(6.7)
Total Customers	30,254	30,895	2.1
Residential	25,786	26,397	2.4
Commercial	4,468	4,498	0.7

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

Consistent with the general reduction in demand, electricity production was reduced by 2.9% to 498.0 thousand megawatt-hours (MWh).

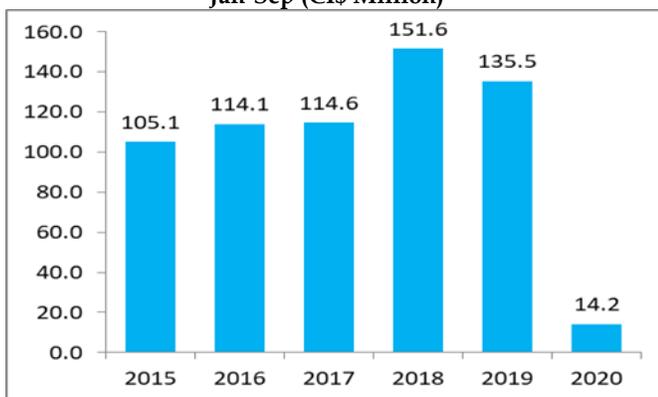
11.2. Water

Similar to the contraction in electricity consumption, the water demand fell during the first nine months of the year. Water consumption declined by 1.9%, while production fell by 2.4%.

12. Fiscal Operations of the Central Government⁸

For January–September 2020, the central government recorded **net lending (fiscal surplus)** of \$14.2 million relative to \$135.5 million during the corresponding period of 2019 (see Figure 21 and Table 21).

Figure 21: Central Government Overall Fiscal Balance Jan-Sep (CI\$ Million)



Source: Cayman Islands Treasury Department & Economics and Statistics Office

The reduction in net lending was due to a decline in revenue and an increase in total expenditure. The decline in revenue was observed in both the taxes and other revenue categories, while the expansion in expenditure reflected an increase in expenses (formerly current expenditure). Net investment in non-financial assets (formerly net capital expenditure and net lending) declined.

The **net operating balance (formerly current balance)**, which is revenue minus expense, declined to \$27.9 million from \$163.8 million in the first nine months of 2019.

Table 21: Summary of Fiscal Operations

	Sep-19	Sep-20	% Change
CI\$ Million			
Revenue	683.1	604.6	(11.5)
Expense	519.3	576.7	11.0
Net Operating Balance	163.8	27.9	(83.0)
Net Investment in Nonfinancial Assets ¹	28.3	13.7	(51.6)
Total Expenditure	547.6	590.4	7.8
Net Lending (Overall Balance)	135.5	14.2	(89.5)
Financing:			
Net Acquisition of Financial Assets	120.1	(8.8)	(107.3)
Net Incurrence of Liabilities	(15.4)	(23.0)	49.4

Source: Cayman Islands Treasury Department & Economics and Statistics Office

12.1 Revenue

Revenue declined by 11.5% to \$604.6 million in January–September 2020 (see Table 22) and was comprised of taxes (93.7%) and other revenue (6.3%).

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

	Sep-19	Sep-20	% Change
CI\$ Million			
Revenue	683.1	604.6	(11.5)
Taxes	632.2	566.3	(10.4)
Taxes on International Trade & Transactions	151.3	126.7	(16.3)
Taxes on Goods & Services	428.4	359.5	(16.1)
Taxes on Property	52.2	47.4	(9.3)
Other Taxes	0.3	32.7	12,517.0
Other Revenue	50.9	38.3	(24.7)
Sale of Goods & Services	32.2	22.1	(31.2)
Investment Revenue	14.8	7.6	(48.9)
Fines, Penalties and Forfeits	2.2	2.1	(5.7)
Transfers n.e.c.	1.7	6.5	275.4

Source: Cayman Islands Treasury Department & Economics and Statistics Office

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

Taxes amounted to \$566.3 million, a fall-off of 10.4% relative to the comparable period in 2019. All categories recorded declines except other taxes. Taxes on goods and services registered the largest decline.

Revenue collected from taxes on goods & services decreased by 16.1% to \$359.5 million in the first nine months of 2020 (see Table 23). Revenue from work permit and residency fees accounted for the majority of the decline in this category, decreasing by 56.8% to \$30.6 million. The reduction in work permit fees was the main contributor to this decline. Financial services licences, which is the largest source of revenue in taxes on goods and services, fell by 0.7% to \$250.2 million.

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

	Sep-19	Sep-20	% Change
Financial Services Licences	251.9	250.2	(0.7)
ICTA Licences & Royalties	5.8	5.6	(3.5)
Work Permit and Residency Fees	70.8	30.6	(56.8)
Other Stamp Duties	10.2	8.2	(19.8)
Traders' Licences	4.9	5.4	9.1
Other Domestic Taxes	84.7	59.6	(29.7)
Of which:			
Tourist Accommodation Charges	29.8	10.1	(66.0)
Motor Vehicle Charges	8.2	6.6	(19.2)
Taxes on Goods & Services	428.4	359.5	(16.1)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

During the review period, **tax receipts on international trade and transactions** fell by 16.3% to \$126.7 million (Table 22). This was due to reductions of 12.3% to \$121.4 million in

import duties and 58.7% to \$5.3 million in other levies on international trade and transactions. The decrease in revenue from import duties resulted from lower receipts in all categories. Within other levies on international trade and transactions, there were declines in environmental protection fund fees and cruise ship departure charges. The lower revenue from cruise ship departure charges was attributed to the significant reduction in cruise arrivals due to the border closure.

Taxes on property decreased by 9.3% to \$47.4 million (Table 22) due mainly to lower revenue from stamp duties on land transfers. **Other taxes**, which include mainly miscellaneous income and income from the "proceeds of crime law," rose by \$32.4 million to \$32.7 million.

Other revenue decreased to \$38.3 million, 24.7% lower than the corresponding period a year ago. Of significance, sale of goods & services fell by 31.2% to \$22.1 million, and investment revenue declined by 48.9% to \$7.6 million. Fees and charges accounted for most of the decline in the sale of goods and services.

12.2. Expenditure

Expenditure rose during the review period due to an increase in central government's expenses as net investment in non-financial assets⁹ declined.

Expense (formerly current expenditure) increased by 11.0% to \$576.7 million owing to

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

higher spending in five of the seven categories (see Table 24).

Compensation of employees (formerly personnel costs) rose by 11.5% to \$265.7 million. This was due primarily to increases in salaries and wages (including employee pension contributions) and healthcare expenses.

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

	Sep-19	Sep-20	% Change
	CIS\$ Million		
Expense	519.3	576.7	11.0
Compensation of Employees	238.4	265.7	11.5
Use of Goods and Services	75.9	65.3	(14.0)
Consumption of Fixed Capital	25.0	27.9	11.6
Subsidies	125.5	147.7	17.6
Social Benefits	30.5	43.5	42.7
Interest	17.4	8.6	(50.6)
Other Expense	6.6	18.1	173.3

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Consumption of fixed capital (formerly depreciation); which is a decline in the value of fixed assets owned and used by the central government due to physical deterioration, normal obsolescence or normal accidental damage; rose by 11.6% to \$27.9 million (Table 24). The primary contributor to this increase was the depreciation of buildings.

Subsidies increased by 17.6% to \$147.7 million. The entities receiving the largest increases in subsidies were Cayman Airways Limited and Health Services Authority.

Social benefits (formerly transfer payments) rose to \$43.5 million, an increase of 42.7%. Temporary financial assistance and support for business initiatives were the largest recipients of these benefits.

Other expense rose by #11.5 million to \$18.1 million (see Table 24). This was due mainly to increased spending on supplies to combat Covid-19.

Use of goods and services (formerly supplies and consumables) decreased by 14.0% to \$65.3 million. Purchase of services (down 14.2% to \$37.1 million) registered the largest decline in this category.

Consistent with a trend reduction in the overall debt stock, the interest expense of the government fell by 50.6% to \$8.6 million (see Section 12.4).

12.3 Investment in Non-financial Assets

During January–September 2020, gross investment in non-financial assets (formerly gross capital expenditure and net lending) decreased by 22.0% to \$41.5 million (see Table 25). Net investment in non-financial assets fell by 51.6% to \$13.7 million.

The decline in gross investment was observed in all categories of fixed assets. Capital investment in ministries and portfolios declined by 14.3% to \$18.3 million. This reduction resulted mainly from lower capital investment in the Ministry of Employment and Border Control.

Capital investment in statutory authorities and government-owned companies decreased by 25.0% to \$15.7 million. Lower investment in Cayman Turtle Farm Limited and Cayman Islands Insurance Company Limited were the main contributors to this decline.

Expenditure on executive assets fell by 32.1% to \$7.3 million. This decline was due primarily to reduced expenditure on road projects and the scrapped cruise berthing facility.

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

	Sep-19	Sep-20	% Change
	CI\$ Million		
Gross Investment in Non-financial Assets	53.3	41.5	(22.0)
Fixed Assets	53.3	41.5	(22.0)
Capital Investment in			
Ministries and Portfolios	21.4	18.3	(14.3)
Capital Investment in			
Statutory Authorities and	20.9	15.7	(25.0)
Government Owned			
Executive Assets	10.7	7.3	(32.1)
Net Investment in Non-financial Assets	28.3	13.7	(51.6)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

12.4. Net Financing and Debt

For the review period, there was a net reduction in financial assets, as loan repayment obligations outweighed the cash balance associated with the fiscal surplus. Consequently, the governments' financial assets were reduced by \$8.8 million. This is relative to a \$120.1 million build-up in financial assets for the same period of 2019 (see Table 26).

Table 26: Net Financing

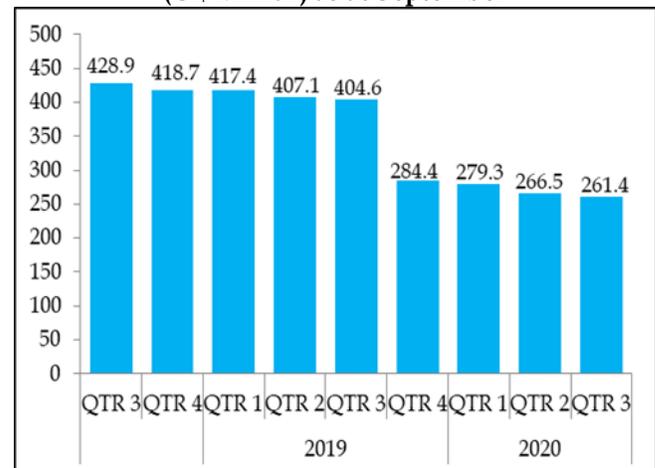
	Sep-19	Sep-20	% Change
	CI\$ Million		
Financing:			
Net Acquisition of Financial Assets	120.1	(8.8)	(107.3)
Net Incurrence of Liabilities	(15.4)	(23.0)	49.4
Incurrence (Disbursement)	0.0	0.0	-
Reduction (Loan Repayment)	15.4	23.0	49.4

Source: Cayman Islands Treasury Department

Net incurrence of liabilities amounted to -\$23.0 million relative to -\$15.4 million in January–September 2019. This reflected higher loan repayments during the review period as there were no loan disbursements for the first nine-month of 2019 or 2020.

The central government's outstanding debt continued to trend downwards in the first three quarters of 2020. The debt stood at \$261.4 million at the end of September 2020, \$143.2 million lower than the stock at the end of September 2019 (see Figure 22).

Figure 22: Central Government Outstanding Debt (CI\$ Million) as at September



Source: Cayman Islands Treasury Department

The interest expense indicators improved in January–September 2020 relative to the corresponding period in 2019. Interest expense as a percentage of total expense declined to 1.5% from 3.4%, while interest expense as a proportion of revenue fell to 1.4% from 2.5%. However, due to the notable reduction in revenue, the central government's debt service-to-revenue ratio rose to 5.2% from 4.8% in the corresponding period of 2019.

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Cayman Islands Stock Exchange
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Cayman Islands Water Authority
Cayman Water Company
Workforce Opportunities & Residency
Cayman
Lands and Survey Department
Port Authority of the Cayman Islands
Portfolio of the Civil Service**