CAYMAN ISLANDS
GOVERNMENT

THE CAYMAN ISLANDS' THIRD QUARTER ECONOMIC REPORT 2022

ESO
The Economics and Statistics Office

March 2023

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Overview*

- Global economic activity accelerated in the September quarter led by the United States which expanded by 3.2%. The robust demand and rising commodity prices led to surging inflation levels. Inflation in the US reached 8.3% for the quarter.
- Cayman's gross domestic product (GDP) expanded by an estimated annualized rate 3.4% in the first three quarters of 2022.
- The average Consumer Price Index increased by 10.8%, as all divisional indices grew for the period.
- Merchandise imports expanded by 20.0% to $1,105.7 million, due to increases in both oil and non-oil imports.
- Work permits rose by 24.6% to 32,341, while public sector employment rose by 0.4%.
- Broad liquidity or money supply contracted by 0.2% as foreign currency deposits held by residents declined.
- The weighted average lending rate for KYD rose by 164 basis points (bps) to 7.41%, while the prime lending increased by 288 bps to 6.13%.
- Domestic credit expanded by 12.3% due to a 6.6% rise in credit to the private sector and a 105.0% increase in public sector loans.
- Bank and trust company licences decreased by 9.3% to 988, while insurance licences rose by 0.9% to 693.
- Mutual funds, including the category "master funds" grew by 2.7% to 13,016.
- The number of listings on the Stock Exchange rose by 4.7% to 2,670 while market capitalization increased by 3.8% to a record US$767.3 billion.
- New company registrations declined by 24.1% to 9,750, while new partnership registrations fell by 10.7% to 3,826.
- Air arrivals rose to 180,624 from 6,634, while cruise visitors rose to 426,293, relative to no visitors in the previous year.
- The value of building permits increased by 34.1% as the total number of permits fell by 15.0%.
- Property transfers fell by 11.6% in value and by 15.7% in volume.
- Electricity consumption expanded by 2.1%, while water consumption rose by 4.7%.
- The central government's overall fiscal surplus was $66.6 million compared to $61.9 million a year ago.
- The total outstanding debt of the central government increased to $524.4 million from $235.1 million a year ago.

*Comparative data over the first nine months of 2021, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. International Economy

1.1 Economic Growth[1]

The world's major economies expanded during the third quarter owing mainly to a robust upward trend in consumer demand. The United States' economy grew at an annualised rate of 3.2%. This growth was attributed to increased consumer spending, government expenditure and net exports. The Canadian economy grew at an annualised rate of 0.6% due to higher household spending, government consumption and net exports.

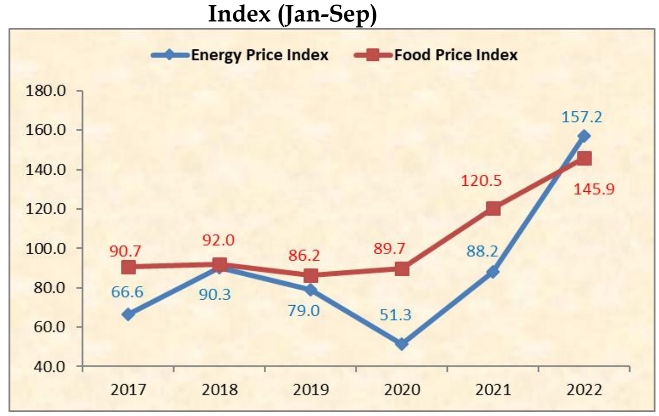
The United Kingdom (UK) and the Euro Area recorded annualised growth of 1.8% and 1.2%, respectively. Expansion in both economies reflected increased government expenditure and exports.

1.2 Inflation[2]

Inflation surged in the world's major economies for the first nine months of 2022. The USA and Canada recorded inflation of 8.3% and 6.7%, respectively. At the same time, the UK and the Euro Area registered respective inflation rates of 7.6% and 7.8%.

The rise in consumer prices is traced to increases in the energy and non-energy price indices. Energy prices rose in the context of the increased cost of coal, crude oil and natural gas, while non-energy prices increased due to higher prices for food, fertiliser and raw materials. Specifically, crude oil prices averaged US$101.05 per barrel in January–September 2022 compared with US$66.00 per barrel in January–September 2021.[3]

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 Rates[4]

All major central banks tightened monetary policy during the review period. This policy stance was generally noted as necessary to curb price pressures and return inflation to target levels.

The Federal Reserve Bank raised the target for its federal funds rate to the range of 3.0% to 3.25% from 1.5% to 1.75% in the June 2022 quarter. Relative to the June quarter, the Bank of Canada increased its policy rate by 175 basis points (bps) to 3.25%, while the Bank of England increased its policy interest rate by 100 bps to 2.25%. The European Central Bank (ECB) increased its policy interest rates on the main refinancing operations from zero to 1.25%. Similarly, it increased the rate on its deposit facility and marginal lending facility

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

[2] Data obtained from the US' Bureau of Labour Statistics, Bank of Canada, Office for National Statistics and Eurostat.

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

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

from -0.50% and 0.25% to 0.75% and 1.50%, respectively.

The US Dollar, on average, appreciated nominally against three of the world's major traded currencies during the review period compared to 2021. Notably, the US Dollar strengthened by 9.2% against the Great Britain Sterling Pound, 11.0% against the Euro and 2.5% against the Canadian Dollar.

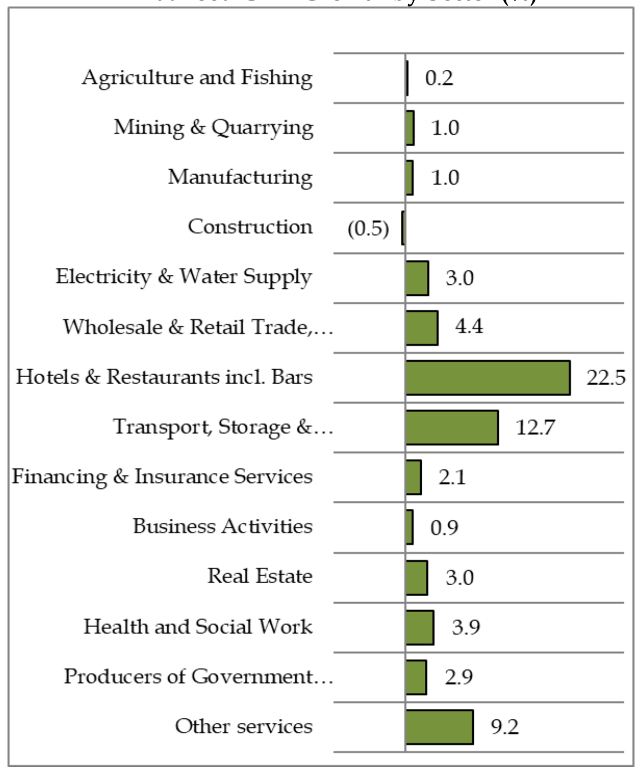
2. GDP Growth and Macroeconomic Forecasts

Available indicators suggest that the Cayman Islands' Real Gross Domestic Product (GDP) expanded by an estimated annualised rate of 3.4% in the first nine months of 2022 compared to a year ago.

The economic expansion for the period was relatively broad-based, with only one sector estimated to have contracted. The highest growth was estimated for hotels and restaurants (up by 22.5%), transport storage and communication (up by 12.7%), and 'other;' services (up by 9.2%). Finance and insurance services, which continue to be the largest contributor to GDP, expanded by 2.1% during the review period (see Figure 2).

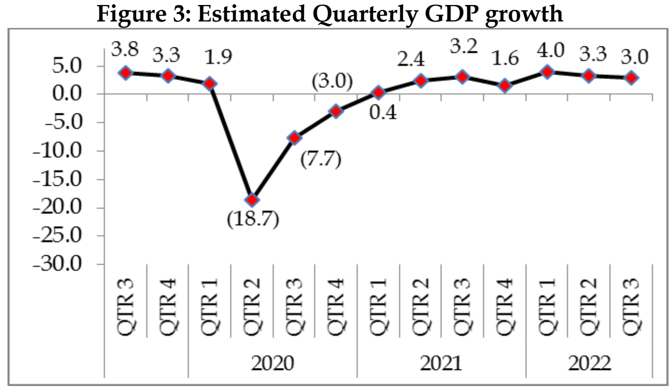
Notable expansions in economic activity is also estimated in auxiliary services such as electricity and water supply as well as wholesale and retail trade, which expanded by 3.0% and 4.4%, respectively. Despite the general upward trend in growth, the construction sector is estimated to have contracted by 0.5% for the review period.

Figure 2: Estimated First Nine Months of 2022 Annualised GDP Growth by Sector (%)



Source: Economics and Statistics Office

Figure 3: Estimated Quarterly GDP growth



Source: Economics and Statistics Office

Given the robust growth in the first three quarters of the year, the forecast for 2022 has been adjusted upwards to 3.7%. Growth is expected to strengthen in the transport and accommodation sectors, despite weak economic activity in construction and real estate for the last quarter (see Table 1).

The surge in domestic inflation during the first the three quarters and persistence price pressures on the global stage is expected to sustain inflation for the year. Consequently, the forecasted average inflation for 2022 has been maintained at 10.1%. The risk to this forecast is balanced; actions by the US Federal Reserve is expected to taper some price pressures, while international uncertainties foster continued impetus.

The employment rate for the year has been revised downwards to 3.0% in line with the upward revision to economic growth and an adjusted productivity ratio coming out of the official GDP and census estimates for 2021.

Table 1: Macroeconomic Performance

	2019	2020	2021	Projection 2022
	Percent (%)			
Real GDP	3.9	-5.7	1.8	3.7
CPI Inflation	6.0	1.0	3.3	10.1
Unemployment Rate	3.5	5.2	5.7	3.0

Source: Economics and Statistics Office

3. Inflation

Inflation in the Cayman Islands remained elevated at an average of 10.8% for the first nine months of 2022 (see Table 2). The inflation rate for the period reflected sharp expansions of 11.2%, 12.1% and 9.2% in the first, second and third quarters 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 of the index. The highest absolute increase in prices was seen in housing and utilities (17.7%), transport (14.3%), clothing and footwear (9.5%) and food & non-alcoholic beverages (7.7%).

Table 2: Average Inflation (%)

	Avg. Inflation Rates (%)	
Categories	9-Months 2021	9-Months 2022
Food & Non-alcoholic Beverages	3.6	7.7
Alcohol and Tobacco	0.6	1.2
Clothing and Footwear	2.0	9.5
Housing and Utilities	0.4	17.7
Household Equipment	2.5	7.2
Health	3.3	1.0
Transport	1.1	14.3
Communication	4.7	3.6
Recreation and Culture	1.9	4.6
Education	3.2	0.3
Restaurants and Hotels	1.9	6.3
Misc. Goods and Services	5.6	3.1
Overall CPI Inflation	1.9	10.8

Source: Economics and Statistics Office

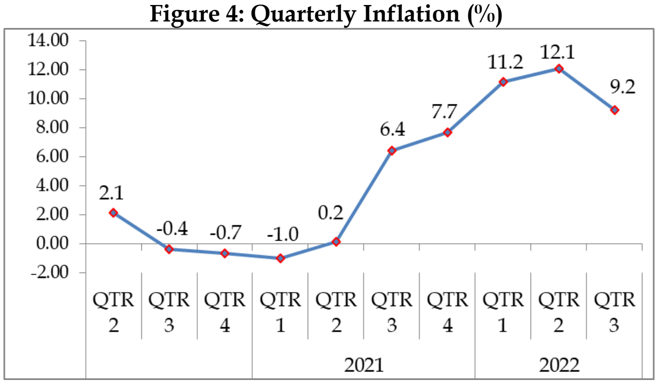
The 9.2% increase in the index for the September 2022 quarter primarily reflected the influence of higher utility, energy, food and service costs. For the quarter, non-food prices rose by 9.2%, mainly driven by housing and utilities, which increased by 14.2% relative to the corresponding quarter of 2021. Additionally, the transport index expanded by 10.5%, while restaurants and accommodation services rose by 7.6%.

The rise in the housing and utilities index was attributed mainly to increased electricity and water supply costs, which rose by 41.1% and 53.4%, respectively. The increase in

[5] See also 'The Cayman Islands Consumer Price Index Report: September 2022,' www.eso.ky

restaurants and accommodations was due to a general rise in the cost of both accommodation services and meals at restaurants.

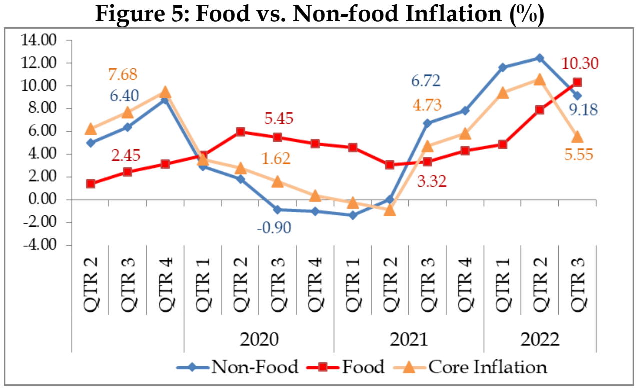
Figure 4: Quarterly Inflation (%)



Source: Economics and Statistics Office

Food prices rose by 10.3% in the quarter largely due to increases of 13.6% and 21.5% in the cost of meat products and fish and seafood, respectively.

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



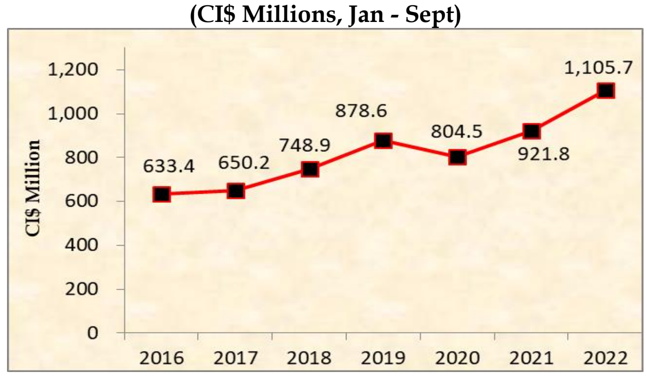
*Core inflation is measured as inflation excluding food, electricity, and fuel
Source: Economics and Statistics Office

Core inflation, which is inflation excluding food, electricity, and fuel, increased by 5.6% for the quarter relative to the same period of 2021 (see Figure 5). The core CPI rose by 8.5% for the first nine months of the year, relative to the same period in 2021.

4. International Trade[6]

Amidst rising prices, the total value of Merchandise imports soared in the first nine months of 2022. Imports rose by 20.0% to $1,105.7 million relative to the corresponding period in 2021 (see Figure 6). This import expansion was reflected in all categories except inedible crude materials (down $1.7 million to $17.3 million) and machinery and transport (down $2.3 million to $211.3 million).

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



Source: Cayman Islands Customs and Border Control and ESO

The categories recording the largest increases were mineral fuels, lubricants and related materials (up $88.9 million to $181.9 million), miscellaneous manufactured articles (up $37.7 million to $223.0 million) and food and live animals (up $29.8 million to $170.7 million).

The surge in fuel imports was due jointly to a rise in price and quantity. The total quantity of fuel imported rose by 10.6%, driven by increases in all categories. Diesel and gas imports expanded by 2.2% and 19.6%, respectively. Propane and aviation fuel imports expanded by 234.6% and 34.1%,

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

respectively (see Table 3). The rise in import quantity was in line with the reopening of the island ports, which stimulated land and air transport.

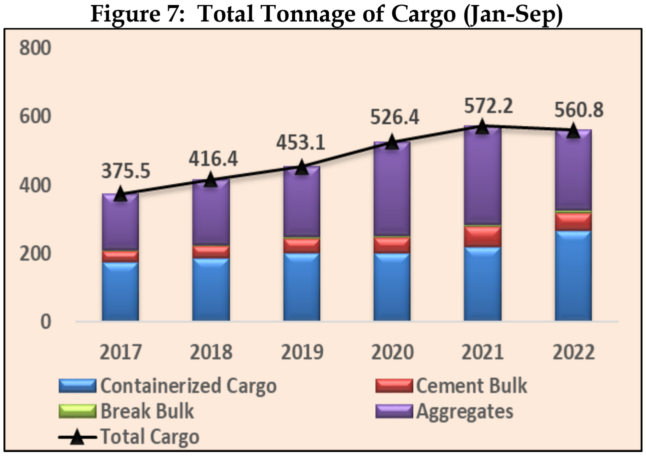
Table 3: Quantity of Fuel Imports (Jan-Sep)

	2020	2021	2022	% Change
	Millions of Imperial Gallons			
Total Fuel	**34.3**	**35.0**	**38.7**	**10.6**
Diesel	23.2	25.4	26.0	2.2
Gas	7.7	8.0	9.6	19.6
Aviation Fuel	2.0	0.5	1.8	234.6
Propane	1.3	1.0	1.4	34.1

Source: Cayman Islands Port Authority

The total tonnage of landed cargo declined by 2.0% to 560,827 tonnes in the first nine months of 2022 (see Figure 7). The reduction in cargo volume was driven by reductions in aggregates and cement bulk of 18.1% and 14.5%, respectively. In contrast, containerised cargo increased by 22.2%, while breakbulk cargo rose by 3.7%.

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



Source: Cayman Islands Port Authority

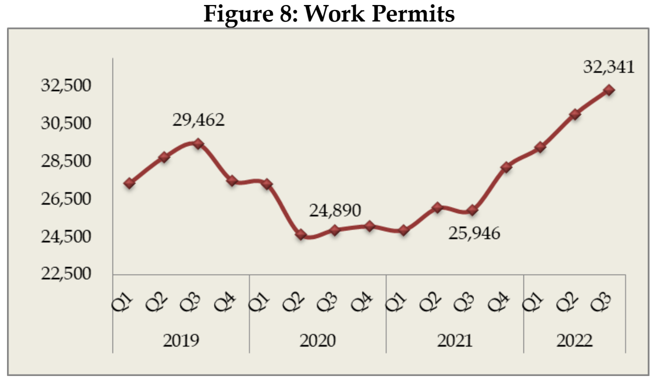
Aggregates accounted for 41.8% (234,422 tonnes). Containerised cargo accounted for 47.8% (268,217 tonnes). Cement bulk and break-bulk cargo accounted for 9.1% (50,954 tonnes) and 1.3% (7,232 tonnes) of the total landed cargo, respectively.

5. Employment

5.1. Work Permits

During the review period, the number of work permits issued increased by 6,395 (or 24.6%) to 32,341, relative to the same period in 2021. This rise in work permits continued to reflect the rebound in economic activity from the contraction associated with the 2020 pandemic. Relative to June 2022, work permits rose by 4.2% for the September quarter. The construction sector was the largest user of work permits, accounting for 18.4% of issued permits, while accommodation and food services accounted for 14.9%.

Figure 8: Work Permits

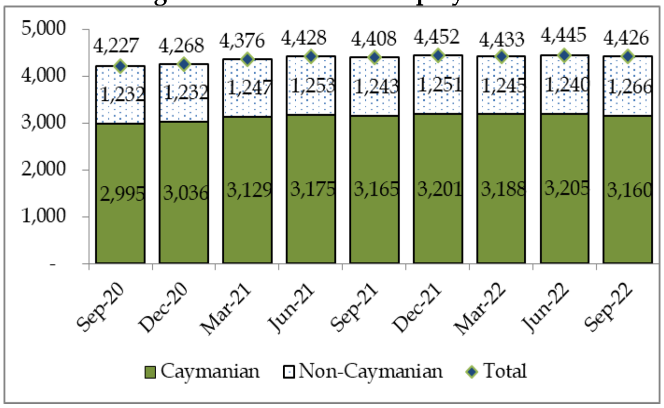


Sources: Work Force Opportunities and Residency Cayman, Economics & Statistics Office

5.2. Public Sector Employment

At the end of September 2022, there were 4,426 civil servants employed by the government, an increase of 18 (or 0.4%) relative to the corresponding period of 2021. Employed Caymanians fell by 5 to 3,160, while Non-Caymanian employment increased by 23 to 1,266.

Figure 9: Civil Service Employment

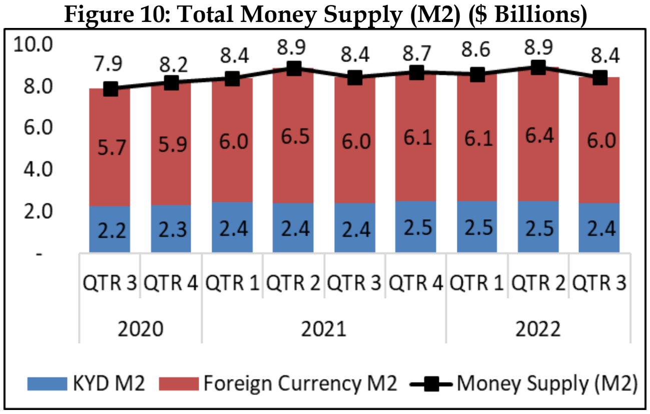


Source: Portfolio of the Civil Service

6. Money & Banking

Broad liquidity (M2), which comprises CI dollar-denominated money and foreign currency deposits, contracted by 0.2% to $8,420.4 million (see Figure 10 and Table 4). The decline was attributed to a reduction in foreign currency-denominated money which outweighed an increase in the local currency supply.

Figure 10: Total Money Supply (M2) ($ Billions)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Foreign currency deposits declined by 0.7% due to a contraction of 21.6% in the deposits of foreign currencies, not including the US dollar. Notably, US dollar-denominated deposits rose by 1.3% for the period. Total CI dollar-denominated deposits increased by 0.9% (or $19.0 million), while currency in circulation rose by 7.3% (or $11.4 million) compared to the same period of the previous year.

The growth in broad money liquidity represents an increase in the liabilities of the monetary and banking system. The corresponding asset side reflected reduced foreign assets and increased domestic assets.

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

	Sep-21	Sep-22	% Change
Total Assets	**8,434.8**	**8,420.4**	(0.2)
Net Foreign Assets	**5,814.4**	**5,255.9**	(9.6)
Monetary Authority	174.7	183.6	5.1
Commercial Banks	5,639.7	5,072.4	(10.1)
Net Domestic Assets	**2,620.3**	**3,164.4**	20.8
Domestic credit	3,650.1	4,100.4	12.3
Claims on central government	179.4	415.5	131.6
Claims on other public sector	34.6	23.2	(33.0)
Claims on private sector	3,436.2	3,661.8	6.6
Other items net	(1,029.8)	(936.0)	(9.1)
Broad Liquidity	**8,434.8**	**8,420.4**	(0.2)
Broad money (KYD) M2	**2,389.6**	**2,420.1**	1.3
Currency in circulation	156.7	168.1	7.3
KYD Deposits	**2,232.9**	**2,251.9**	0.9
Demand deposits	1,016.1	999.4	(1.6)
Time and savings deposits	1,216.8	1,252.5	2.9
FOREX deposits	6,045.2	6,000.3	(0.7)
of which: US dollars	5,516.7	5,586.0	1.3
US dollars share (%)	*91.3*	*93.1*	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.1. Net Foreign Assets (NFA). During the first nine months of 2022, there was a 9.6% draw down in NFA, bringing the total in the system to $5.3 billion. The reduction in NFA was due to a 10.1% reduction in commercial bank's NFA. In contrast, the NFA of the monetary authority increased by 5.1%.

Table 5: Net Foreign Assets ($ millions)

	Sep-21	Sep-22	% Change
Net Foreign Assets	**5,814.4**	**5,255.9**	(9.6)
Monetary Authority	174.7	183.6	5.1
Commercial Banks	5,639.7	5,072.4	(10.1)
Foreign Assets	**8,888.4**	**8,230.3**	(7.4)
Bal. with Banks & Branches	3,686.8	3,395.2	(7.9)
Total Investment	4,101.4	3,897.7	(5.0)
Total Non-Resident Loans	1,100.3	937.5	(14.8)
Foreign Liabilities	**3,248.6**	**3,157.9**	(2.8)
Total Non-Resident Deposits	2,937.9	2,651.1	(9.8)
Other Liabilities	310.8	506.8	63.1

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The contraction in commercial bank's NFA was largely due to a reduction in foreign assets which outweighed a corresponding decline in liabilities. Foreign assets declined by 7.4% (or $658.1 million), reflecting a 7.9% (or $291.6 million) reduction in balances with banks and branches and a 5.0% (or $203.7 million) decline in foreign investments. Similarly, non-resident loans fell by 14.8% (or $162.8 million).

Foreign liabilities contracted by 2.8% (or $90.7 million) due to a 9.8% reduction in non-resident deposits. In contrast, other liabilities rose by 63.1% for the period (see Table 5).

6.2. Net Domestic Assets/Domestic Credit. Total domestic assets within the financial system expanded by 12.3% in the first nine months of the year as credit extended to both the private and public sectors increased. Private sector credit rose by 6.6% to $$3,661.8 million, while loans to the central government rose by 105.0% to $438.7 million.

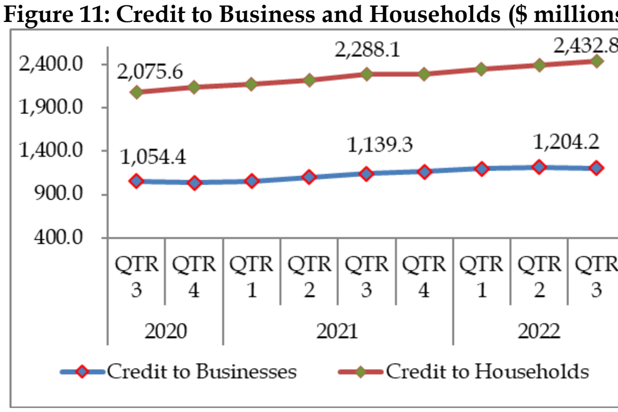
Table 6: Domestic Credit ($ millions)

	Sep-21	Sep-22	% Change
Domestic Credit	**3,650.1**	**4,100.4**	**12.3**
Credit to Public Sector	214.0	438.7	105.0
Credit to Central Government	179.4	415.5	131.6
Credit to Other Public Sector	34.6	23.2	(33.0)
Credit to Private Sector	3,436.2	3,661.8	6.6

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Credit extended to businesses rose by 5.7% to $1,204.2 million, while household credit increased by 6.3% to $2,432.8 million for the period. Loans to non-profit organisations increased by 184.2% to $24.8 million.

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The increase in business credit was mainly driven by an expansion in loans issued to the utilities and construction sectors. Credit to the utilities sector increased by 193.3% (or $29.6 million), while credit to the construction sector rose by 11.8% (or $20.5 million). Loans to the services sector expanded by 11.8% (or $14.3 million). This mainly reflected a 31.4% rise in loans to professional service providers (Figure 11 and Table 7).

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

	Sep-21	Sep-22	% Change
Total Private Sector Credit	**3,436.2**	**3,661.8**	**6.6**
Credit to Businesses	**1,139.3**	**1,204.2**	**5.7**
Production & Manufacturing	**202.7**	**252.6**	**24.6**
Mining	5.1	4.5	(12.0)
Manufacturing	8.0	8.4	5.4
Utilities	15.3	44.9	193.3
Construction	174.3	194.8	11.8
Services	**121.1**	**135.4**	**11.8**
Accommodation, Food, Bar & Entertainment Services	64.1	75.1	17.2
Transportation, Storage & Communications	29.3	23.8	(18.6)
Education, Recreational & Other Professional Services	27.7	36.4	31.4
Trade and Commerce	**793.0**	**799.3**	**0.8**
Wholesale & Retail Sales Trade	97.2	111.3	14.6
Real Estate Agents, Rental and Leasing Companies	320.5	318.4	(0.7)
Other Business Activities (General Business Activity)	375.3	369.5	(1.6)
Other Financial Corporations	**22.5**	**17.0**	**(24.7)**
Credit to Households	**2,288.1**	**2,432.8**	**6.3**
Domestic Property	2,017.0	2,169.5	7.6
Motor Vehicles	59.2	56.4	(4.8)
Education and Technology	3.5	3.1	(11.4)
Miscellaneous*	208.4	203.8	(2.2)
NonProfit Organizations	**8.7**	**24.8**	**184.2**

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

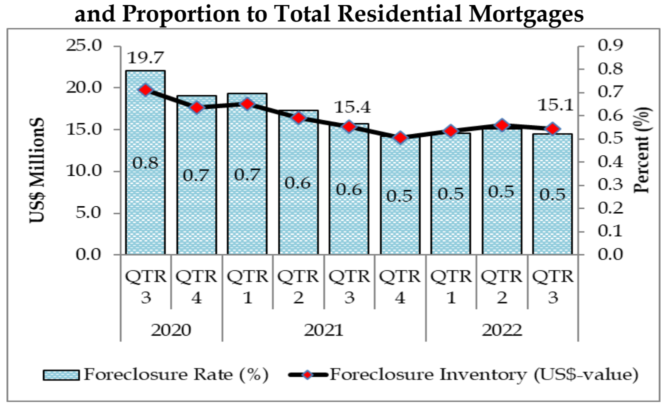
The expansion of household credit was traced to increased lending for domestic properties of 7.6% (or $152.5 million). In contrast, loans for motor vehicles, education and technology, and miscellaneous fell by 4.8% (or $2.8 million), 11.4% (or $0.4 million) and 2.2% (or $4.6 million), respectively.

6.3. Residential Mortgage Foreclosures.

Data from CIMA indicates that no residential property was foreclosed in the third quarter of 2022. Notably, the value and quantity of properties in foreclosure declined in the quarter relative to both the June 2022 and September 2021 Quarters.

As of September 2022, there were 56 properties in the foreclosure inventory valued at US$15.1 million. This reflected a decline from the 57 properties valued at US$15.4 million a year ago. The foreclosure inventory value accounted for 0.5% of the total value of residential mortgages, which amounted to $2.9 billion (see Figure 12).

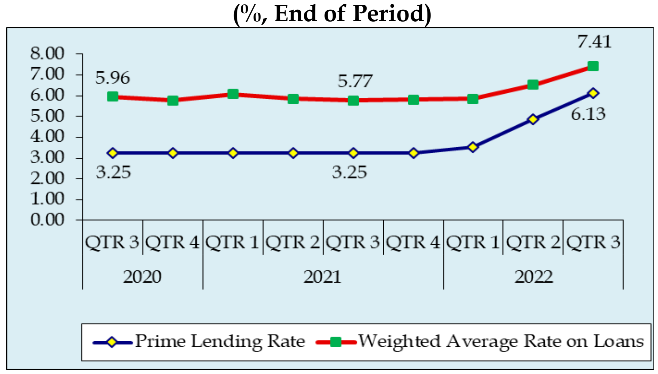
Figure 12: Residential Mortgages Foreclosures Inventory and Proportion to Total Residential Mortgages



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

6.4. Interest Rates. The Cayman Islands' prime lending rate rose by 288 basis points (bps) to 6.13% for the review period. Consistently, the KYD weighted average lending increased by 164 bps to 7.41% (see Figure 13).

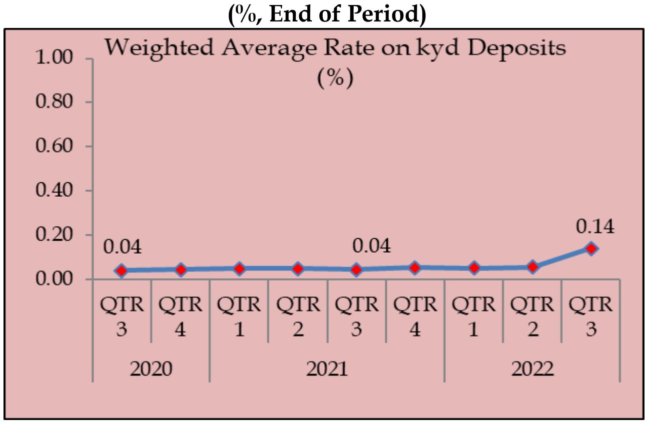
Figure 13: KYD Lending Rates (%, End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As depicted in Figure 14, the weighted average savings rate on KYD deposits expanded by 10 bps 0.14% for the period.

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



Source: Cayman Islands Monetary Authority & ESO

7. Financial Services

Indicators in the financial services industry generally was mixed for the first nine months of 2022, with declines recorded in four of the eight indicators monitored.

7.1 Banks & Trust

The number of bank and trust licenses issued in the Cayman Islands declined by 9.3% to 98 (see Table 8). This decline reflected an 11.2% fall in Class 'B' licensees, which contracted to 87. In contrast the number of Class 'A' licensees rose from 10 to 11.

The number of trust company licensees declined to 115 at the end of September 2022 relative to 117 in the corresponding period of 2021.

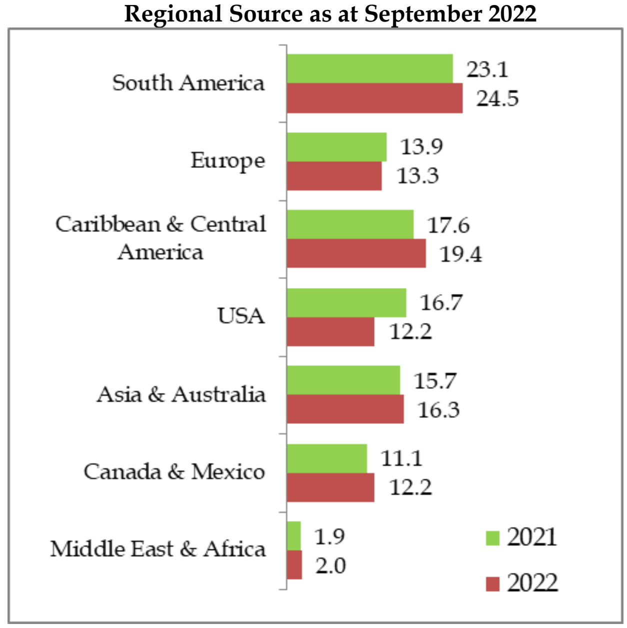
Table 8: Bank & Trust Companies

	Sep 2020	Sep 2021	Sep 2022	% Change
Bank and Trust	**123**	**108**	**98**	**(9.3)**
Class A	9	10	11	10.0
Class B	114	98	87	(11.2)
Trust Companies	**117**	**117**	**115**	**(1.7)**
Restricted	59	59	57	(3.4)
Unrestricted	58	58	58	0.0

Source: Cayman Islands Monetary Authority

South America, the Caribbean & Central America, and Asia & Australia were the leading sources of Cayman's banking licences, accounting for 24.5%, 19.4%, and 16.3% of the total, respectively.

Figure 15: Percentage Proportion of Registered Banks by Regional Source as at September 2022



Source: Cayman Islands Monetary Authority

7.2 Insurance

Insurance licences issued in the Islands rose by 0.9% to 693 at the end of September 2022. Class 'A' licensees, the domestic insurers, was unchanged at 25, while the number of captive licensees rose from 662 to 668. Within captives, the number of Class 'B' licences rose from 634 to 639. The number of Class 'C' licensees remained unchanged at 22, while the number of Class 'D' licensees increased from 5 to 6.

Table 9: Insurance Companies

	Sep 2020	Sep 2021	Sep 2022	% Change
Domestic - Class 'A'	27	25	25	0.0
Captives	652	662	668	0.9
Class 'B'	625	634	639	0.8
Class 'C'	22	22	22	0.0
Class 'D'	5	6	7	16.7
Total	**679**	**687**	**693**	**0.9**

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 28.7% and 22.3% of the market, respectively (see Table 10). North America remained the primary source market of the captive insurance business, accounting for 89.0% (596 licenses).

Table 10: Captive Insurance Licences by Primary Class of Business

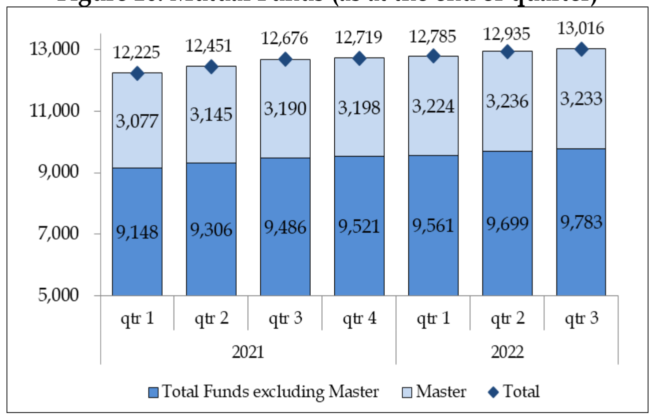
	Sep-21	Sep-22	% Change	% Proportion
Healthcare	201	192	(4.5)	28.7
Workers' Compensation	148	149	0.7	22.3
Property	66	72	9.1	10.8
General Liability	80	84	5.0	12.6
Professional Liability	57	58	1.8	8.7
Other	110	113	2.7	16.9
Total	**662**	**668**	**0.9**	**100.0**

Source: Cayman Islands Monetary Authority

7.3 Mutual Funds

The number of mutual funds increased by 340 (or 2.7%) to 13,016 at the end of September 2022 relative to the end of September 2021. This was due to increases of 43 (or 1.3%) in Master Funds and 297 (or 3.1%) in Registered, Administered, Licenced & Limited Funds.

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 increased by 4.7% to 2,670 as of September 2022 (see Table 11). This was due mainly to an increase in the number of specialist debt instruments, which rose by 142 listings to 2,264. There was also one additional insurance-linked security added during the review period. Three categories recorded no change, while two declined.

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

Instrument	2021	2022	% Change
Investment Fund Security	113	107	(5.3)
Specialist Debt Security	2,122	2,264	6.7
Corporate & Sovereign Debt Security	270	254	(5.9)
Primary Equity Security	3	3	0.0
Secondary Equity Security	1	1	0.0
Insurance Linked Security	39	40	2.6
Retail Debt Security	1	1	0.0
Total	**2,549**	**2,670**	**4.7**

Source: Cayman Islands Stock Exchange

Market capitalisation rose by 3.8% to US$767.3 billion as at September 2022. The higher market capitalisation was attributed primarily to an increase of US$20.0 billion (or 3.5%) in specialist debt securities. The value of investment fund securities rose by US$3.0 billion (20.3%), while primary equity securities increased by US$0.2 billion (39.4%). In contrast, three of the seven instruments declined in value.

Table 12: Market Capitalisation by Instruments (US$ Billion as of the end of September)

Instruments	2021	2022	% Change
Investment Fund Security	14.6	17.6	20.3
Specialist Debt Security	576.4	596.4	3.5
Corporate & Sovereign Debt Security	142.3	147.6	3.7
Primary Equity Security	0.4	0.5	39.4
Secondary Equity Security	0.2	0.1	(45.4)
Insurance Linked Security	4.9	4.6	(5.3)
Retail Debt Security	0.5	0.4	(10.3)
Total	**739.3**	**767.3**	**3.8**

Source: Cayman Islands Stock Exchange

7.5 New Company Registration

New company registrations for January–September 2022 declined by 24.1% to 9,750 (see Table 13). This was mainly due to a reduction in the exempt category, which fell by 27.4% to 7,500. Contractions were also seen in the LLC category (down by 37.8% to 973) and the resident category (down 6.0% to 567). In contrast, foundation companies rose by 108.9% to 234, while foreign and resident companies rose by 15.7% and 20.0%, respectively.

Table 13: New Company Registrations (Jan-Sep)

	2020	2021	2022	% Change
Total	**8,550**	**12,848**	**9,750**	**(24.1)**
Exempt	6,784	10,333	7,500	(27.4)
Non-Resident	6	10	12	20.0
Resident	520	603	567	(6.0)
Foreign	578	605	700	15.7
FDN*	26	112	234	108.9
LLC	636	1,185	737	(37.8)

Source: Registrar of Companies.

7.6. Partnerships

During the first nine months of 2022, new partnership registrations declined by 10.7% relative to the comparable period in 2021 (see Table 14). This was due to 11.1% and 78.9% reductions in the number of 'Exempt' partnerships and 'Limited Liability Partnerships, respectively. Despite the general contraction, foreign partnerships rose by 16.8% to 132.

Table 14: New Partnership Registrations (Jan–Sep)

	2020	2021	2022	% Change
Total	**3,361**	**4,284**	**3,826**	**(10.7)**
Exempt	3,260	4,152	3,690	(11.1)
Foreign	101	113	132	16.8
LLP	0	19	4	(78.9)

Source: Registrar of Companies

8. Tourism

The reopening of the stayover tourism market in the last two months of 2021 and the cruise sector in March 2022 resulted in total tourist arrivals of 606,917 for the first nine months of the year relative to 6,634 in the corresponding period of 2021.

8.1 Air Arrivals

Stayover arrivals rose to 180,624 from 6,634 in the same period of 2021. This increase was seen across all regional source markets, with the USA market generating the largest increase in arrivals, expanding from 3,342 to 147,597 visitors. Notably, the share of US visitors as a proportion of total arrivals increased in the aftermath of the pandemic restrictions. The Canadian, European and "Other" markets also provided increased visitors relative to the corresponding period of 2021.

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

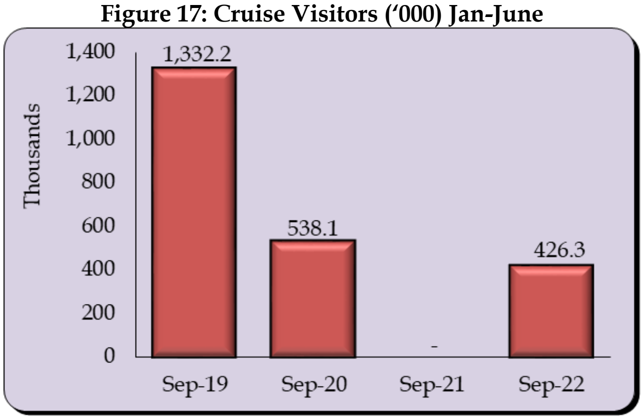
	2020	2021	2022	% Change
	In Thousands			
USA	98.0	3.3	147.6	4316.4
Europe	5.9	1.0	10.8	1034.3
Canada	11.1	0.5	11.0	2142.9
Others	4.6	1.9	11.3	507.8
Total	119.6	6.6	180.6	2622.7
USA (% share)	81.9	50.4	81.7	

Source: Department of Tourism

8.2 Cruise Arrivals

Cruise arrivals totaled 426,293 following an absence in 2021. The re-introduction of cruise ships in the first quarter of the year started a recovery which continued during the quarter.

Figure 17: Cruise Visitors ('000) Jan-June



Source: Tourism Department

9. Construction

Construction indicators showed mixed results for the first three quarters of 2022. The value of building permits increased while project approvals declined.

9.1. Building Permits

The value of building permits rose by 34.1% in the first three-quarters of 2022 relative to the same period of 2021. This was mainly due to growth in the residential and 'hotel categories (see Table 16).

Table 16: Building Permits (Jan-Sep)

	Building Permits (CI$ Mil)			%
	2020	2021	2022	Change
Residential	276.1	286.1	322.7	12.8
Houses	*121.8*	*113.8*	*122.5*	*7.6*
Apartments	*154.3*	*172.3*	*200.3*	*16.2*
Commercial	125.5	107.2	93.2	(13.0)
Industrial	4.3	4.9	8.4	73.3
Hotel	-	80.0	297.0	271.3
Government	1.2	5.5	0.6	(90.1)
Other	50.6	128.1	98.7	(23.0)
Total	**457.8**	**611.8**	**820.6**	**34.1**

Source: Cayman Islands Planning Department

The value of residential permits rose by 12.8% for the period, with both the houses and apartment categories increasing. Permits issued for several high-end properties boosted the houses category by 7.6% to $122.5 million. Similarly, building permits for apartments increased by 16.2%, largely reflecting approvals for several luxury apartments, including an apartment complex valued at $51.7 million.

The hotel category rose by $217.0 million, owing partly to approvals for segments of the Beach Bay and One GT hotel developments.

Similarly, the value of industrial permits increased by 73.3% to $8.4 million.

Despite the overall rise in value for the review period, there were declines in the commercial, government and other sectors of 13.0%, 90.1 %, and 23.0%, respectively.

Despite the rise in value, the number of building permits issued for the period fell by 15.0% to 820.

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

	Number of Permits			%
	2020	2021	2022	Change
Residential	371	470	419	(10.9)
Houses	*244*	*309*	*273*	*(11.7)*
Apartments	*127*	*161*	*146*	*(9.3)*
Commercial	60	70	75	7.1
Industrial	6	9	6	(33.3)
Hotel	-	1	4	300.0
Government	4	16	4	(75.0)
Other	300	399	312	(21.8)
Total	**741**	**965**	**820**	**(15.0)**

Source: Cayman Islands Planning Department

9.2. Project Approvals

The value of project approvals contracted to $513.2 million from to $885.7 million in the same period of 2021. The decline was mainly attributed to reductions in the hotel and 'other' sectors.

The decline in the 'other' sector was due to the non-recurrence of a planned area development valued at $350.0 million in the previous year. Similarly, the hotel sector's fall reflected the non-recurrence of a large-scale hotel project during the last period.

There were notable increases in the residential, commercial, and industrial categories. Residential approvals rose by $83.4 million due to growth in the houses and apartments categories, which rose by $72.9 million and $10.5 million, respectively.

The commercial and industrial categories rose by 54.3% and 41.6% to $51.9 million and $22.9 million, respectively.

Table 18: Project Approvals (Jan-Sep)

	Project Approvals (CI$ Mil)			%
	2020	2021	2022	Change
Residential	389.8	248.6	332.0	33.6
Houses	*90.7*	*88.3*	*161.2*	*82.5*
Apartments	*299.1*	*160.3*	*170.8*	*6.6*
Commercial	73.8	33.6	51.9	54.3
Industrial	26.1	16.2	22.9	41.6
Hotel	-	160.0	77.0	(51.9)
Government	1.0	2.0	-	(100.0)
Other	242.1	425.4	29.4	(93.1)
Total	**732.8**	**885.7**	**513.2**	**(42.1)**

Source: Cayman Islands Planning Department

As mentioned, the reduction in value was in the context of two large-scale projects in the previous period. Consistent with the general increase in the remaining categories, the total number of project approvals rose by 25.8%, settling at 780 for the period (See Table 19).

Table 19: Project Approvals (Jan-Sep)

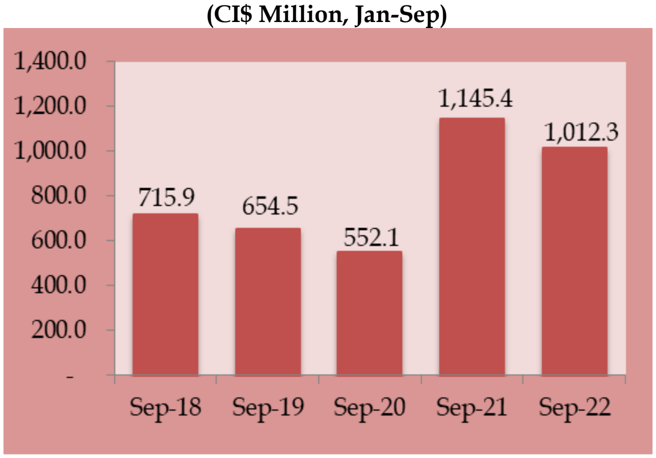
	Number of Approvals			%
	2020	2021	2022	Change
Residential	257	282	387	37.2
Houses	*180*	*188*	*280*	*48.9*
Apartments	*77*	*94*	*107*	*13.8*
Commercial	16	23	29	26.1
Industrial	5	10	13	30.0
Hotel	-	2	3	50.0
Government	3	9	-	(100.0)
Other	354	294	348	18.4
Total	**635**	**620**	**780**	**25.8**

Source: Cayman Islands Planning Department.

10. Real Estate

Real estate activity as measured by the value and volume of traded properties, contracted in the first three quarters of the year relative to the record level recorded in the previous year. The total value of traded properties fell to $1,012.3 million, a decline of 11.6% relative to the same period in 2021.

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

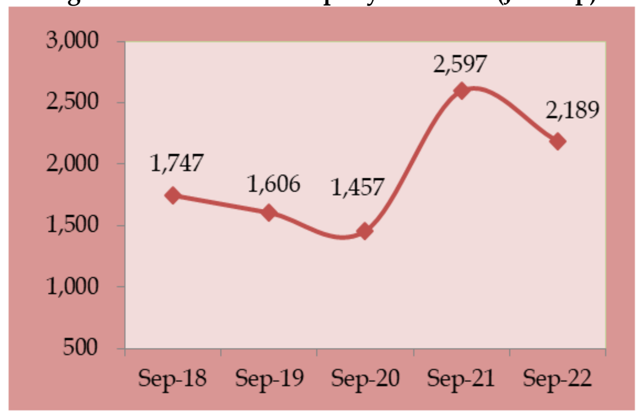


Source: Lands & Survey Department

This reduction in transfers was reflected in both freehold and leasehold transfers. Freehold transfers declined by 9.5% to $987.6 million, while leasehold transfers fell by 54.0% to $24.7 million. The reductions were recorded in the second and third quarters of the year as the value of transfers increased in the first quarter.

The number of property transfers declined by 408 or 15.7% to 2,189, with both leasehold and freehold volumes falling. Despite the reduction in value and volume, the average cost of a transferred property rose by 4.9% in the period.

Figure 29: Number of Property Transfers (Jan-Sep)



Source: Lands & Survey Department

11. Utilities

11.1 Electricity

Electricity consumption expanded by 2.1% to 504.6 thousand megawatt-hours (MWh) in the first three quarters of 2022. The expansion reflected higher levels of both residential and commercial consumption, which rose by 1.0% and 3.5%, respectively. The rise in commercial consumption during the period was attributed to both a surge in the number of customers and their average consumption. The number of commercial customers rose by 1.3% to 4,669, while average commercial consumption rose by 2.2%.

The rise in residential consumption was due solely to a rise in the number of customers as the average consumption of customers declined. Residential customers rose by 3.1%, while the average consumption fell by 2.0%. Consistent with the rise in demand, electricity production expanded by 2.0% to 509.2 thousand megawatt-hours (MWh).

Table 20: Utilities Production and Consumption

	Sep-21	Sep-22	% Change
Millions of US Gallons			
Water Production	1,880.2	1,937.1	3.0
Water Consumption	1,502.8	1,573.0	4.7
'000 of megawatt hrs			
Electricity Production (Net)	499.1	509.2	2.0
Electricity Consumption	494.5	504.6	2.1
Residential	270.9	273.6	1.0
Commercial	219.8	227.5	3.5
Public	3.8	3.6	(5.9)
Total Customers	31,964	32,865	2.8
Residential	27,355	28,196	3.1
Commercial	4,609	4,669	1.3

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

11.2. Water

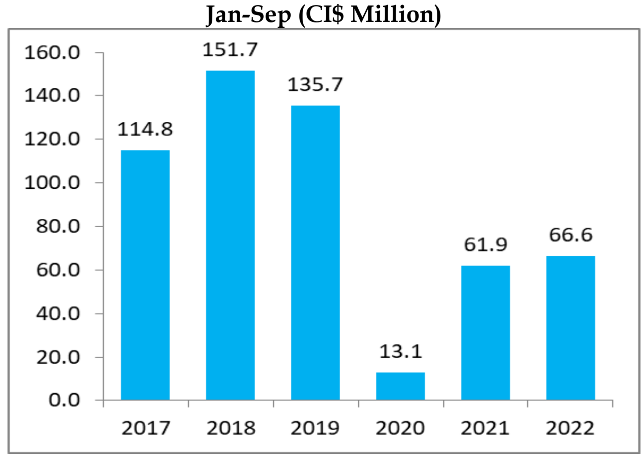
Water consumption expanded during the first nine months of the year by 4.7%, while production increased by 3.0%.

12. Fiscal Operations of the Central Government[7]

The central government recorded **net lending (fiscal surplus)** of $66.6 million for the first nine months of 2022 relative to $61.9 million during the corresponding period in 2021 (see Figure 20 and Table 21).

The improvement in the overall surplus was largely due to an increase in revenue which outweighed a rise in expenditure. Higher revenue occurred in both the taxes and 'other' revenue categories. The increased spending level was due to a rise in expenses (current expenditure), the impact of which was partly offset by a fall in the government's net investment in non-financial assets (net capital expenditure and net lending).

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



Source: Cayman Islands Treasury Department & Economics and Statistics Office

The **net operating balance (current balance)**, which is revenue minus expense, fell by 16.2% to $97.1 million for the review period.

Table 21: Summary of Fiscal Operations

	Sep-21	Sep-22	% Change
	CI$ Million		
Revenue	**784.7**	**818.0**	**4.2**
Expense	**668.9**	**720.9**	**7.8**
Net Operating Balance	**115.8**	**97.1**	**(16.2)**
Net Investment in Nonfinancial Assets[1]	54.0	30.5	(43.4)
Total Expenditure	**722.9**	**751.4**	**4.0**
Net Lending (Overall Balance)	**61.9**	**66.6**	**7.6**
Financing:			
Net Acquisition of Financial Assets	48.4	368.3	660.3
Net Incurrence of Liabilities	(13.4)	301.7	2345.1

Source: Cayman Islands Treasury Department & Economics and Statistics Office

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

12.1 Revenue

For January–September 2022, revenue collection rose by 4.2% to $818.0 million (see Table 22). The revenue intake for the period reflected 95.4% taxes and 4.6% other revenue.

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

	Sep-21	Sep-22	% Change
	CI$ Million		
Revenue	**784.7**	**818.0**	**4.2**
Taxes	**749.0**	**772.3**	**3.1**
Taxes on International Trade & Transactions	151.3	171.0	13.0
Taxes on Goods & Services	473.8	519.3	9.6
Taxes on Property	87.5	78.4	(10.4)
Other Taxes	36.4	3.7	(90.0)
Other Revenue	**35.7**	**45.7**	**27.8**
Sale of Goods & Services	30.1	32.9	9.1
Investment Revenue	2.0	6.6	232.6
Fines, Penalties and Forfeits	3.3	4.0	18.3
Transfers n.e.c.	0.3	2.2	724.6

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Taxes increased by 3.1% to $772.3 million relative to the comparable period in 2021. Two of the four categories recorded higher receipts, with taxes on goods and services registering the largest absolute increase.

Revenue collected from taxes on goods & services increased by 9.6% to $519.3 million (see Table 23). Revenue from financial services licences (up 5.8% to $332.1 million) and work permit and residency fees (up 18.6% to $85.3 million) accounted for most of the growth in this category.

Increases of $9.5 million and $7.1 million in private fund fees and partnership fees were the largest contributors to the increase in financial services licences. Similarly, an increase of $10.6 million in work permit fees was the main contributor to higher work permit and residency fees.

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

	Sep-21	Sep-22	% Change
	CI$ Million		
Financial Services Licences	313.9	332.1	5.8
ICTA Licences & Royalties	6.3	6.3	0.6
Work Permit and Residency Fees	72.0	85.3	18.6
Other Stamp Duties	14.5	12.7	(12.5)
Traders' Licences	5.6	6.5	16.8
Other Domestic Taxes	61.7	76.4	23.8
Of which:			
Tourist Accommodation Charges	1.0	13.5	1258.6
Motor Vehicle Charges	9.2	9.5	2.8
Taxes on Goods & Services	**473.8**	**519.3**	**9.6**

Source: Cayman Islands Treasury Department & Economics and Statistics Office

During the review period, **tax receipts on international trade and transactions** rose by 13.0% to $171.0 million (Table 22). This was due to an increase in the revenue collected from all import duties except the duty on motor vehicle. The revenue collected from import duties grew by 10.3% to $166.6 million, with other import duties recording the largest increase. Revenue collection from cruise ship departure charges rose to $2.6 million relative to no collection in the previous year. Environmental protection fund fees also increased from $0.2 million to $1.8 million.

Taxes on property declined by 10.4% to $78.4 million (Table 22) as transfers in the real estate market moderated and resulted in lower stamp duty collections. **Other taxes,** including miscellaneous income and income from the "proceeds of crime law," declined by 90.0% to $3.7 million. This was attributed to a reduction in proceeds from liquidated entities.

Other revenue increased to $45.7 million, 27.8% higher than the corresponding period a year ago (Table 22). Of significance, investment revenue and sale of goods and services rose by $4.6 million and $2.8 million, respectively.

12.2. Expenditure

Central government's expenditure increased during the review period due to higher expenses, while capital spending declined.

Expenses (current expenditure) rose by 7.8% to $720.9 million due to higher spending in five of the seven categories (see Table 24).

Compensation of employees (personnel costs) rose by 7.8% to $300.7 million. This was mainly due to increases in salaries and wages (including employee pension contributions) of $15.3 million and healthcare expenses of $7.6 million.

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

	Sep-21	Sep-22	% Change
	CI$ Million		
Expense	**668.9**	**720.9**	**7.8**
Compensation of Employees	278.8	300.7	7.8
Use of Goods and Services	82.9	98.5	18.9
Consumption of Fixed Capital	30.5	39.2	28.5
Subsidies	150.6	191.7	27.2
Social Benefits	92.0	73.4	(20.2)
Interest	9.0	11.1	23.1
Other Expense	25.0	6.3	(74.9)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Use of goods and services (supplies and consumables) increased by 18.9% to $98.5 million. Purchase of services (up $7.2 million) and the cost of utilities (up $2.6 million) registered the largest increases in this category.

Consumption of fixed capital (depreciation) rose by 28.5% to $39.2 million. The primary contributor to this increase was the depreciation of buildings, roads and sidewalks.

Payment of subsidies to statutory authorities, government-owned companies and private suppliers increased by 27.2% to $191.7 million. Increased allocations to tertiary care at local and overseas institutions of $15.0 million and increased allocation to the Health Services Authority of $12.8 million accounted for the largest increases in spending.

Interest expenses rose by 23.1% to $11.1 million. This includes accrued interest payment on the debt drawdown during the period (see Section 11.4).

Social benefits (transfer payments) contracted for the period to $73.4 million, a decline of 20.2%. The reduction largely resulted from the non-recurrence of payments under the tourism stipend program valued at $45.3 million. The impact of this decline was partly offset by an additional Ex-gratia stipend of $26.7 million.

Other operating expenses fell by 74.9% to $6.3 million. This was due mainly to the non-recurrence of additional spending on Covid-19-related materials in the previous year.

12.3 Investment in Non-financial Assets

Gross investment in non-financial assets (gross capital expenditure) decreased by 17.5% to $69.7 million (see Table 25).

Investments in ministries and portfolios as well as executive assets, contracted for the period. Net investment in non-financial assets fell by 43.4% to $30.5 million, reflecting the additional increase in depreciation.

Within fixed assets, capital investment in ministries and portfolios contracted by 19.3% to $33.4 million. This expansion resulted mainly from lower investment in the Ministry of Youth, Sports, Agriculture and Lands of $8.6 million.

Expenditure on executive assets fell by 28.2% to $20.7 million. This was due primarily to a reduction in expenditure on a Cayman Brac's sporting facility.

Capital investment in statutory authorities and government-owned companies increased by 11.3% to $16.2 million. Cayman Airways and the National Housing Development Trust received the bulk of the additional investments with higher injections of $4.3 million and $3.3 million, respectively.

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

	Sep-21	Sep-22	% Change
	CI$ Million		
Gross Investment in Non-Financial Assets	**84.5**	**69.7**	**(17.5)**
Fixed Assets	84.9	70.4	(17.0)
Capital Investment in Ministries and Portfolios	41.4	33.4	(19.3)
Capital Investment in Statutory Authorities and Government Owned Companies	14.6	16.2	11.3
Executive Assets	28.9	20.7	(28.2)
Inventories	(0.4)	(0.7)	64.3
Net Investment in Non-Financial Assets	**54.0**	**30.5**	**(43.4)**

Source: Cayman Islands Treasury Department & Economics and Statistics Office

12.4. Net Financing and Debt

There was a net acquisition of $368.3 million in financial assets for the review period. This assumes the cash balance associated with the fiscal surplus and the loan amount disbursed during the period. Loan payments in the quarter partially offset the rise in financial assets (see Table 26).

Table 26: Net Financing

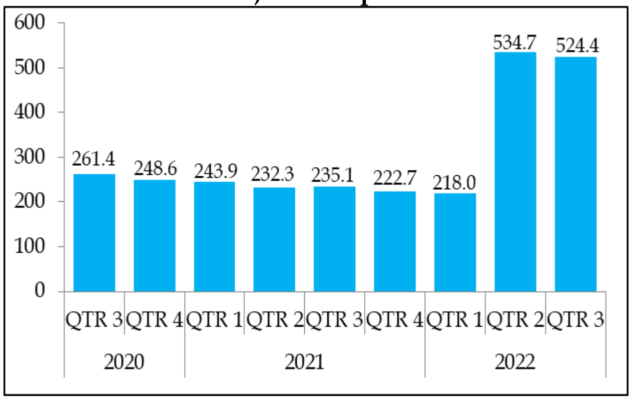
	Sep-21	Sep-22	% Change
	CI$ Million		
Financing:			
Net Acquisition of Financial Assets	48.4	368.3	660.3
Net Incurrence of Liabilities	(13.4)	301.7	2345.1
Incurrence (Disbursement)	8.4	329.2	3830.9
Reduction (Loan Repayment	21.8	27.5	26.2

Source: Cayman Islands Treasury Department

Net incurrence of liabilities amounted to $301.7 million relative to -$13.4 million in January–September 2021. Notably, the negative balance in 2021 reflected a reduction in liability relative to a $329.2 million loan disbursement in current period.

The central government's outstanding debt rose to $524.4 million at the end of September 2022, higher than the stock at the end of September 2021 by $289.3 million (see Figure 21).

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

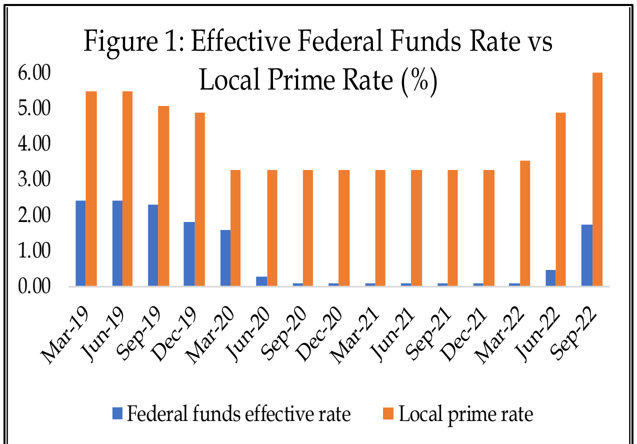


Source: Cayman Islands Treasury Department

The selected key fiscal ratios deteriorated in January–September 2022 relative to a similar period in 2021. As a percentage of total expenses, interest expenses increased to 1.5% from 1.4%. As a proportion of revenue, interest expenses rose to 1.4% from 1.2%, while the central government's debt service-to-revenue ratio increased to 4.7% from 3.9%.

Box 1: Interest Rates and Credit

The Federal Reserve Bank (Fed) in the US began to raise its target policy rate in March 2023, with further increases occurring in the ensuing quarters. The rise in Fed's policy rate resulted in an upward adjustment to the US effective federal funds rate, which led to an increase in Cayman's prime rate. Since the beginning of 2022, Cayman's prime interest rate rose from 3.25 percent to 6.13 percent at the end of September 2022. Over the last five years, Cayman's prime rate has averaged 3.2 percentage points above the effective federal funds rate in the US.



Source: Federal Reserve Bank and the Cayman Islands Monetary Authority

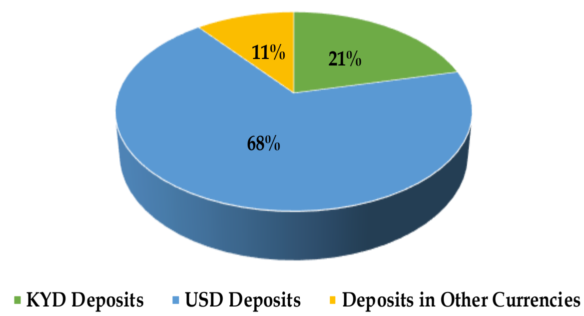
The local prime rate is the lowest interest rate for commercial banks to issue loans. It is also used as the base on which other loans are priced. Note that the line of credit secured by the Cayman Islands government in 2020 and accesses between 2021 and 2022 was priced at the current prime rate of 3.25 percent at the time. While the prime rate is the lowest rate at which banks will lend, existing loans may have been priced at lower prime rates and carry a current rate below prime. However, most loans and especially mortgage loans, are issued with a variable interest rate which adjusts with changes in the prime rate, albeit sometimes with a lag.

Why is Cayman's prime interest rate pegged to the prime rate of the US?

Central banks like the US Federal Reserve Bank set a policy rate at which they are willing to lend to commercial banks in their financial system. This policy rate acts as a base rate for interbank loans. Theoretically, the central bank can always print and lend unlimited funds at the policy rate to control the money supply. The Cayman Islands monetary authority (CIMA) by virtue of not being a central bank but having an alternative mandate to maintain the KYD currency peg, cannot set a policy rate. Any new currency issued by CIMA must be backed by sufficient reserve to maintain the existing exchange rate. This creates a pseudo-dollarized economy, with Cayman's financial system is inherently linked to the US financial system. The link between Cayman's monetary system and that of US is partly evidenced by the fact that approximately 79.0 percent of deposits in Cayman's Banks at the end of September 2022 was denominated in a foreign currency with

68.0 percent denominated in US dollar. Further, 24.3 percent of deposits in the banking system is held by non-residents. This highlights the competitiveness of the sources of funds in the banking system. Hence if rates are held below rates of similar risk profiles in the US, persons consider moving their funds to the US, including the banks, to seek a better return for their shareholders.

Figure 2: Currency Denomination of Deposits in Cayman's Banking system at end Sept. 2022

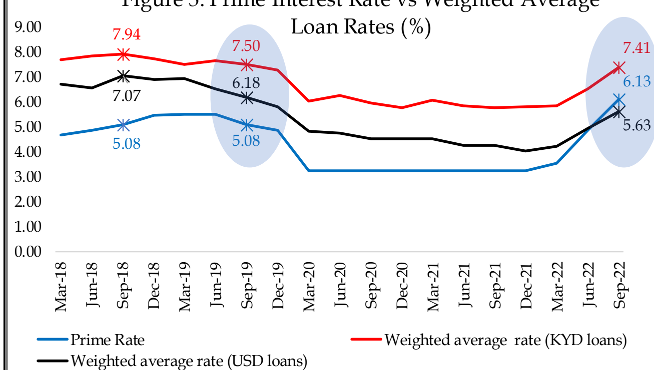


Source: Cayman Islands Monetary Authority

How is the prime rate related to other rates in Cayman?

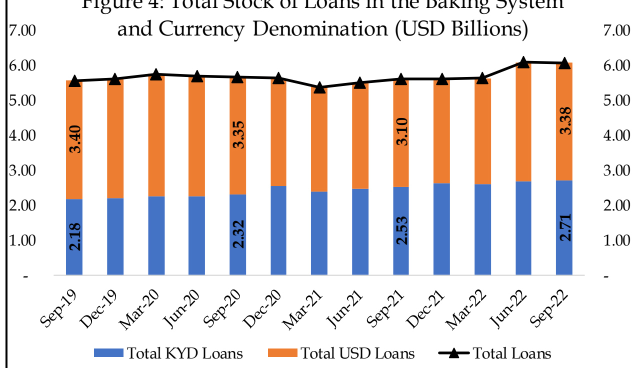
As the local prime rate is the base rate for other variable-rate loans issued by commercial banks, there is a strong correlation between the rate charged for different loans and the prime rate. Notably, the average interest rate on loans weighted by the total value of the loan has trended in line with the prime rate. The trend also shows that the weighted average interest rate on both KYD and USD loans are slightly below their pre-pandemic levels. It is worth highlighting that the difference between the prime rate and the weighted average rate on USD loans has narrowed since the end of 2018. This narrowing is linked to a persistent decline in the 'other' loans category, which carries relatively high interest rates. The fact that the weighted average rate on USD loans was higher than the prime rate in the September 2022 quarter is partly linked to this continued decline as well as the fact that the central government accessed a notable USD-denominated loan at a fixed rate significantly below the current prime rate during the quarter. Over the last five years USD

Figure 3: Prime Interest Rate vs Weighted Average Loan Rates (%)



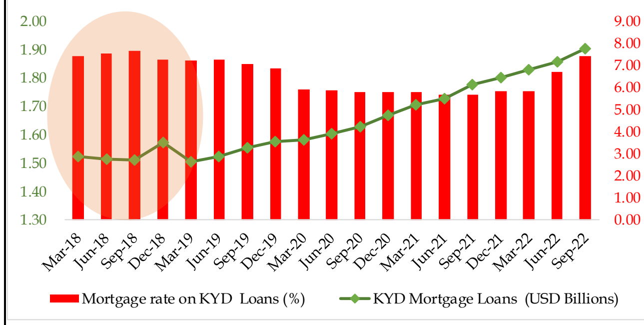
Source: Cayman Islands Monetary Authority and ESO

Figure 4: Total Stock of Loans in the Baking System and Currency Denomination (USD Billions)



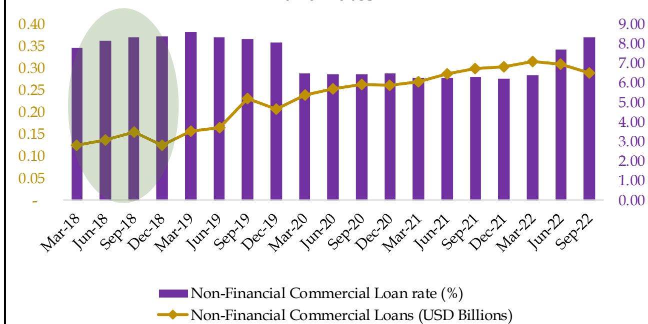
Source: Cayman Islands Monetary Authority and ESO denominated loans has remained relatively stable, with a rise in KYD-denominated loans driving an increase in the overall loan portfolio of commercial banks. The growth in KYD loans has been on a sustained trajectory during the relatively low interest rate environment which was precipitated by the pandemic. The strong growth in KYD-denominated loans was large due to the booming real estate sector during the period. As at end September 2022, residential mortgage loans accounted for 70.3 percent of the KYD-denominated loan stock. *Figure 5* shows that the stock of KYD-denominated mortgage loans declined marginally in 2018 when mortgage rates were at their highest for the review period. Since then, there has been a sustained rise in mortgage stock as mortgage rates simultaneously declined. Notable as of the September 2022 quarter, the stock of mortgage loans continued to rise despite two consecutive quarters of the increase in the average interest rate charged on mortgage loans. This may indicate some resilience in the mortgage market as the real estate sector remained attractive. Alternatively, the continued increase could have been due to a delayed response to the rate increases, as mortgage processes usually take months to be finalized. Commercial loans to non-financial businesses, the second largest contributor to the stock of KYD-denominated loans, were also stymied in 2018 before recording sustained growth in the ensuing quarters amidst lower interest rates. Notably, however, as average rates within the category increased in the last three quarters of the review period, there was a moderate reduction in business

Figure 5: KYD Denominated Mortgage Loan Stock and Rates



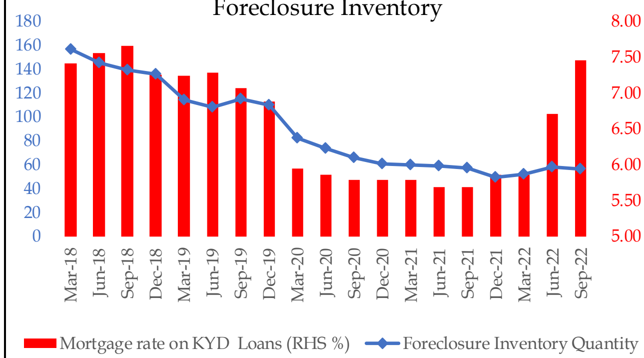
Source: Cayman Islands Monetary Authority and ESO

Figure 6: KYD Denominated Commercial Loan Stock and Rates



Source: Cayman Islands Monetary Authority and ESO

Figure 7: Mortgage Rates vs Quantity of Foreclosure Inventory



Source: Cayman Islands Monetary Authority and ESO borrowings in the last two quarters. The number of properties in commercial bank's foreclosure inventory has trended downward since the third quarter of 2016. Since March 2018, the number of properties fell from 157 to 56 at the end of September 2022. Of note, however, the number of properties increased from 52 at the end of March 2022 to 58 in June 2022 and 56 in September. While the inflexion points being depicted by non-financial commercial borrowings and mortgage foreclosure inventory could be due to market frictions, they could also reflect an initial market reaction to the rising interest rate environment.

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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