



CAYMAN ISLANDS
GOVERNMENT



THE CAYMAN ISLANDS' THIRD QUARTER ECONOMIC REPORT 2016

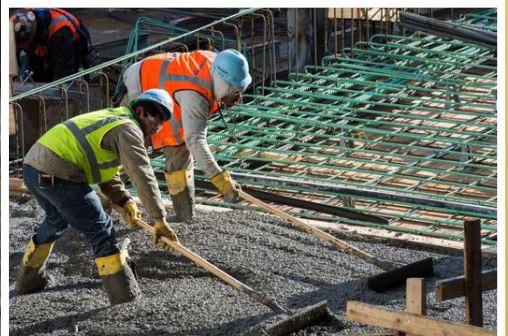
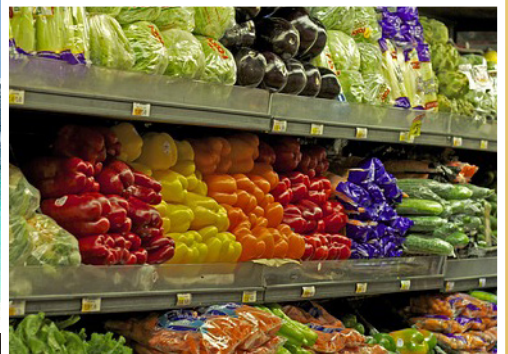


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Overview*

- Estimated gross domestic product (GDP) continued to expand in the third quarter, resulting in an average annualized growth rate of 2.8% for the first three quarters.
- The average Consumer Price Index fell by 1.0%, as lower price indices were recorded for housing and utilities, transport, household equipment, and health.
- Merchandise imports increased by 9.2% to \$586.6 million as the value of most categories rose.
- Current work permits rose by 4.0% to 23,104, compared to a year ago.
- Broad liquidity or money supply expanded by 7.0% as foreign currency deposits held by residents and local currency money supply expanded.
- The weighted average lending rate for KYD increased by 2 basis points to 6.88% while the prime lending rate remained stable at 3.50%.
- Domestic credit expanded by 1.9% as credit to the private sector increased by 2.7% outweighing the 9.9% decline in credit to the Central Government.
- Bank and trust company licenses fell by 9.3% while insurance licenses remained unchanged.
- Mutual funds including the category “master funds” recorded an overall decline of 3.4%.
- Stock exchange listings declined by 3.5% to settle at 1,019; similarly, market capitalization fell by 1.8%.
- New company registrations declined by 9.2% to total 8,417 as all categories of company registration recorded declines except new foreign company registrations.
- Air arrivals and cruise passengers registered increases of 0.3% and 5.7%, respectively.
- The value of building permits issued increased by 65.6% while total number of permits increased 16.5%.
- Property transfers increased in value by 81.7% and grew in volume by 6.0%.
- Electricity and water consumption increased by 5.0% and 6.8%, respectively.
- Demand for telecommunication services continued on a downward trajectory except for broadband connections which rose by 0.9%.
- The central government’s overall fiscal surplus improved to \$112.5 million compared to \$105.1 million a year ago.
- The total outstanding debt of the central government declined to \$498.7 million from \$518.4 million a year ago.

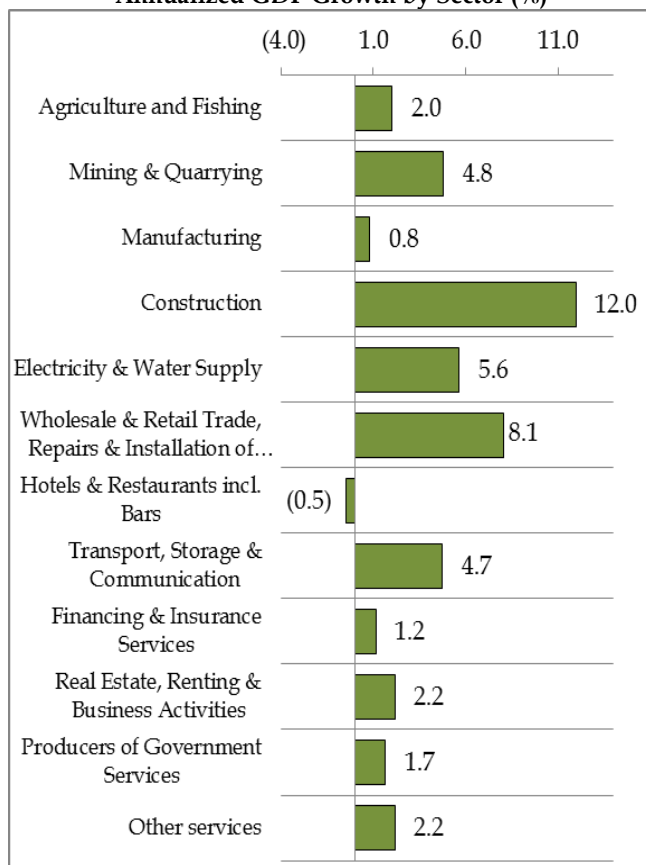
*Comparative data over the first nine months of 2015, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

1. GDP Growth and Macroeconomic Forecasts

Based on available indicators, the Cayman Islands' real GDP grew by an estimated annualised rate of 2.8% for the first nine months of 2016 compared to a year ago.

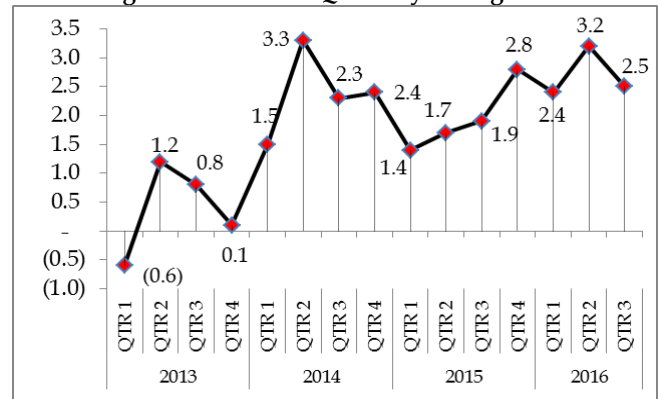
Growth was recorded across the major sectors as follows: financing and insurance services (1.2%), real estate, renting and business activities (2.2%), construction (12%), transport, storage communication (4.7%), electricity & water supply (5.6%) and wholesale & retail trade, repairs & installation of machinery (8.1%).

Figure 1: Estimated First Nine Months of 2016 Annualized GDP Growth by Sector (%)



Source: Economics and Statistics Office

Figure 2: Estimated Quarterly GDP growth



Source: Economics and Statistics Office

Given the first nine months of the year's performance, forecasted GDP growth for the calendar year 2016 is maintained at 3.0%, (see Table 1). This assumes a marginal improvement in growth during the last quarter of the year.

The inflation forecast for 2016 is revised downwards to -0.5% from 0.5% in June 2016, given that the average inflation in the first nine months stood at -1.0%, supported by declining world oil prices.

The forecast for the unemployment rate is revised upwards to 4.5% from 4.1%, in the context of an expected rise in the labour force participation rate outweighing any improvement in economic activities in the last quarter of 2016.

Table 1: Macroeconomic Performance Based on First Three Quarters Indicators

	2013	2014	2015	Projection 2016
	Percent (%)			
Real GDP*	1.5	2.4	2.0	3.0
CPI Inflation	2.2	1.3	(2.3)	(0.5)
Unemployment Rate	6.3	4.7	4.2	4.5

Source: Economics and Statistics Office

2. Inflation

The first nine months of 2016 recorded average inflation of -1.0% (see Table 2). This largely reflected lower price indices for Housing and Utilities (3.8%), Transport (2.5%), Household Equipment (0.3%), and Health (0.1%). The impact of these declines was partly offset by higher price indices for Restaurants and Hotels (1.9%), Miscellaneous Goods and Services (1.3%), Food and Non-Alcoholic Beverages (0.2%), Education (1.5%), Recreation and Culture (1.3%), Clothing and Footwear (0.8%), Communication (0.9%), and Alcohol and Tobacco (0.5%).

Table 2: Average Inflation (%)

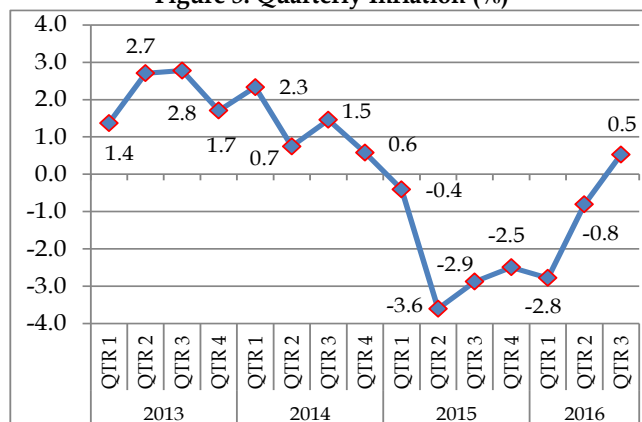
Categories	Avg. Inflation Rates	
	2015	2016
Food & Non-alcoholic Beverages	1.9	0.2
Alcohol and Tobacco	0.5	0.5
Clothing and Footwear	2.8	0.8
Housing and Utilities	-6.4	-3.8
Household Equipment	0.3	-0.3
Health	0.3	-0.1
Transport	-4.3	-2.5
Communication	2.9	0.9
Recreation and Culture	1.8	1.3
Education	4.2	1.5
Restaurants and Hotels	-3.0	1.9
Misc. Goods and Services	-1.6	1.3
Overall CPI Inflation	-2.3	-1.0

Source: Economics and Statistics Office

For the quarter ended September 2016, the Consumer Price Index (CPI) was higher by 0.5% compared to a year ago (see Figure 3)¹. Inflationary pressures emanated from Housing and Utilities (0.5%), Food and Non-Alcoholic Beverages (0.3%), Communication

(0.5%), Restaurant and Hotels (6.6%), Recreation and Culture (2.6%), Education (1.2%), and Alcohol and Tobacco (0.5%). However, these inflationary pressures were dampened by declines in Household Equipment, Clothing and Footwear, Health, Transport and Miscellaneous Goods and Services.

Figure 3: Quarterly Inflation (%)



Source: Economics and Statistics Office

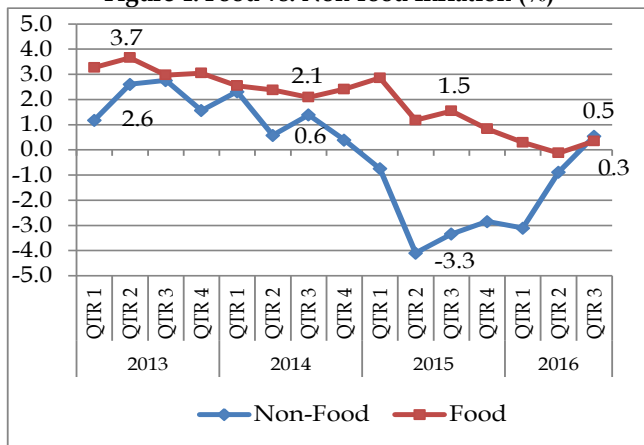
The price index for Housing and Utilities stood at 82.1 in the third quarter of 2016, an increase of 0.5% from a year ago. This was mainly on account of a 3.5% rise in imputed rentals for owner-occupied housing, coupled with a 6.5% increase in actual rentals of housing. In contrast, declines in the cost of electricity, gas & other fuels and water supply and miscellaneous services of 18.4% and 13.2%, respectively, offset some price pressures. The increase in rental cost outweighed the continued declines in global fuel prices.

The Food and Non-Alcoholic Beverages index increased by 0.3% in the third quarter of 2016 compared to the same period a year ago.

¹ See also 'The Cayman Islands Consumer Price Index Report: September 2016,' www.eso.ky

The inflation in food was lower than the 1.5% observed a year ago but higher than the -0.1% recorded in the previous quarter. Similarly, non-food prices increased by 0.5% in the September 2016 quarter relative to a decline of 3.4% in the corresponding period of 2015. This represented the first increase since the fourth quarter of 2014 (see Figure 4).

Figure 4: Food vs. Non-food Inflation (%)



Source: Economics and Statistics Office

The Communication price index was higher by 0.5%, resulting from an increase in the cost of postal services coupled with a marginal increase in the cost of telephone and telefax services.

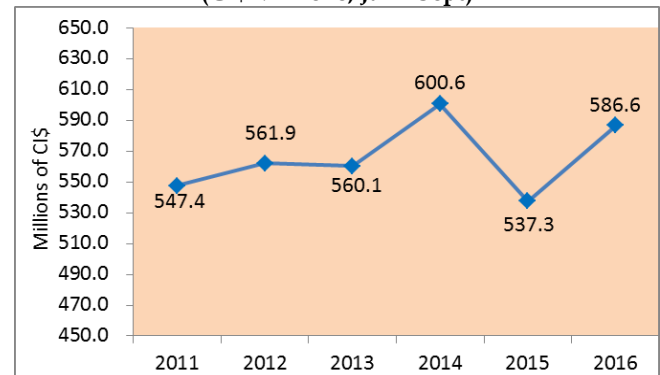
The Transport price index decreased by 0.8%, due mainly to a reduction in the cost of operating personal transport vehicles (mainly fuel).

Lower cost of insurance services led the Miscellaneous Goods and Services index to decline by 0.2%.

3. Trade

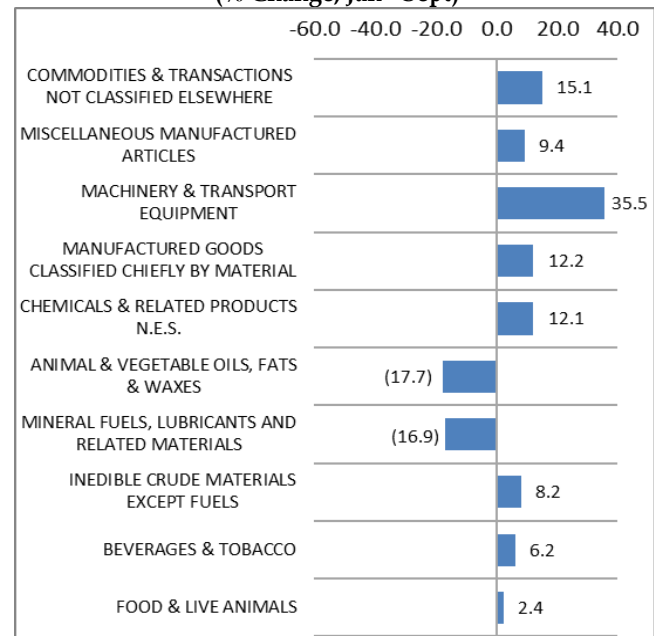
Merchandise imports increased by 9.2% to \$586.6 million during the first nine months of 2016 (see Figure 5). This increase reflected higher imports for all categories except two as displayed in Figure 6. Purchases of road vehicles accounted for the largest increase in merchandise imports.

Figure 5: Merchandise Imports (CIS\$ Millions, Jan - Sept)



Source: Customs Department and ESO

Figure 6: Merchandise Imports by SITC Classification (% Change, Jan - Sept)



Source: Customs Department and ESO

The value of petroleum and related products fell by 16.9% to settle at \$65.5 million during January–September 2016. Fuel imports declined as a reduction in price outweighed an increase in quantity. The reduction in fuel price continued to reflect lower crude oil prices on the world market while the increase in quantity reflected higher imports of road vehicles, mainly motor cars. The quantity of imported fuel rose by 7.2% to 39.9 million imperial gallons.

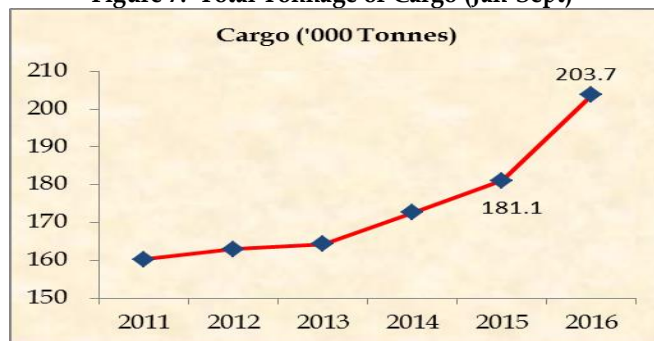
Table 3: Quantity of Fuel Imports

	2014	2015	2016	% Change
Millions of Imperial Gallons				
Total Fuel	39.32	37.25	39.94	7.2
Diesel	27.22	24.36	26.12	7.2
Gas	8.33	7.75	8.55	10.3
Aviation Fuel	2.83	3.66	3.88	5.8
Propane	0.94	1.47	1.40	(4.6)

Source: Cayman Islands Port Authority

Importation of non-petroleum and non-related products grew by 13.6% to \$521.1 million during the first three quarters of 2016. Significant increases were recorded as follows: machinery and transport equipment (35.5%), manufactured goods classified chiefly by material (12.2%), miscellaneous manufactured articles (9.4%), and chemicals and related products (12.1%).

The increase in the value of merchandise imports was consistent with a higher tonnage of landed cargo, which grew by 12.5% relative to January–September 2015 (see Figure 7).

Figure 7: Total Tonnage of Cargo (Jan–Sept)


Source: Cayman Islands Port Authority

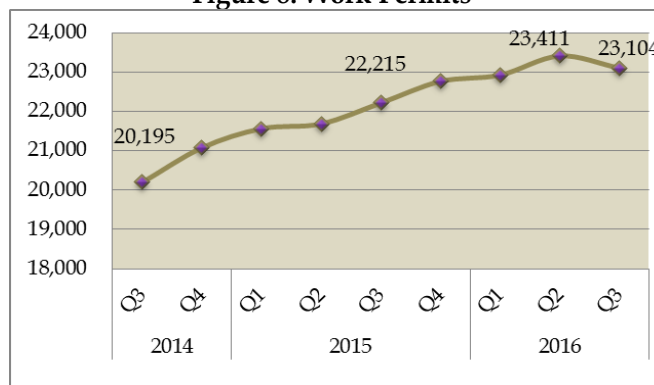
4. Labour Market

The labour market showed variation in demand for the first three quarters of 2016. Growth in work permit figures softened while civil service employment increased.

4.1. Work Permits

Work permits grew by 4.0% to 23,104 in January–September 2016, a deceleration from the 10.0% rise in the comparable period of 2015.

When compared to the previous quarter, work permits declined by 1.3%. This decrease represents the first decline since the fourth quarter in 2013.

Figure 8: Work Permits


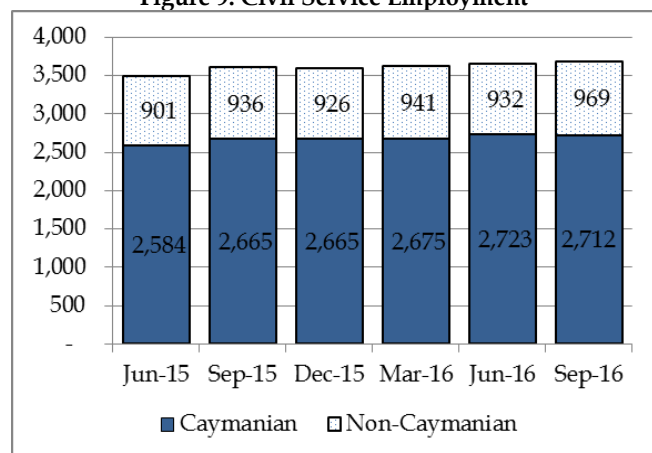
Sources: Immigration Department, Economics & Statistics Office

4.2. Public Sector Employment

As depicted in Figure 9, civil service employment increased to 3,681 from 3,601 compared to the corresponding period of 2015.

The employment of Caymanians in the civil service increased by 47 to 2,712, and the Non-Caymanian civil servants increased by 33 persons to 969.

Figure 9: Civil Service Employment

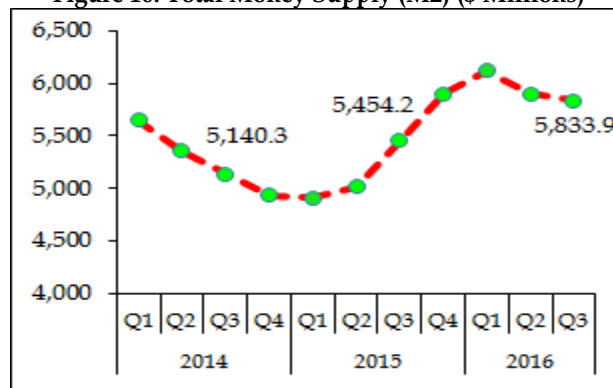


Source: Portfolio of the Civil Service

5. Money & Banking

Broad liquidity (M2) which comprises CI dollar-denominated money and foreign exchange deposits expanded by 7.0% to settle at \$5,833.9 million in the first nine months of 2016. The expansion emanated from growth in foreign exchange deposits, by 4.8% and CI dollar-denominated money supply by 14.2% (see Figure 10 and Table 4).

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The growth in broad money liquidity represents an increase in the liabilities of the monetary and banking sector. Consistently, the corresponding asset side recorded an increase in net foreign assets, the impact of which was partly offset by a decline in net domestic assets.

5.1. Broad Liquidity. The 7.0% improvement in Broad liquidity (M2) reflected growth in both foreign currency deposits and CI dollar denominated money supply. Foreign currency deposits increased by 4.8%, as US dollar denominated deposits rose by 4.0% (or \$151.5 million).

Similarly, total CI dollar denominated money supply grew by 14.2%, as CI dollar deposits rose by 14.6% or \$169.9 million while currency in circulation increased by 9.4 % or \$9.4 million compared to a year ago (see Table 4).

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

	Sep-15	Sep-16	% Change
Total Assets	5,454.2	5,833.9	7.0
Net Foreign Assets	3,206.0	3,804.3	18.7
Monetary Authority	104.3	115.4	10.7
Commercial Banks	3,101.7	3,688.9	18.9
Net Domestic Assets	2,248.3	2,029.6	(9.7)
Domestic credit	3,008.9	3,066.4	1.9
Claims on central government	234.8	211.5	(9.9)
Claims on other public sector	76.3	83.1	8.9
Claims on private sector	2,697.8	2,771.8	2.7
Other items net (assets +)	(760.7)	(1,036.8)	36.3
Broad Liquidity	5,454.2	5,833.9	7.0
Broad money (KYD) M2	1,263.3	1,442.6	14.2
Currency in circulation	99.7	109.1	9.4
KYD Deposits	1,163.6	1,333.5	14.6
Demand deposits	457.1	567.1	24.1
Time and savings deposits	706.5	766.4	8.5
FOREX deposits	4,190.9	4,391.4	4.8
<i>of which: US dollars</i>	<i>3,806.3</i>	<i>3,957.8</i>	<i>4.0</i>
US\$ Contribution (%)	90.8	90.1	

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.2. Net Foreign Assets (NFA). During the review period, NFA expanded by 18.7% to \$3.8 billion. NFA of the domestic commercial banks grew by 18.9% while that of the Cayman Islands Monetary Authority went up by 10.7% (see Tables 4 and 5).

The higher NFA of commercial banks' resulted from growth in foreign assets which outweighed the increase in foreign liabilities. Significant growth in investments and non-resident loans by 15.3% and 14.4%, respectively, pushed foreign assets up by 9.6%. Foreign liabilities increased as non-

resident deposits increased by \$255.9 million, outweighing the \$121.7 million decline in other liabilities.

Table 5: Net Foreign Assets (\$ millions)

	Sep-15	Sep-16	% Change
Net Foreign Assets	3,206.0	3,804.3	18.7
Monetary Authority	104.3	115.4	10.7
Commercial Banks	3,101.7	3,688.9	18.9
Foreign Assets	7,541.2	8,262.7	9.6
Bal. with Banks & Branches	2,934.6	2,974.7	1.4
Total Investment	2,069.1	2,385.1	15.3
Total Non-Resident Loans	2,537.6	2,902.9	14.4
Foreign Liabilities	4,439.5	4,573.8	3.0
Total Non-Resident Deposits	4,169.0	4,424.9	6.1
Other Liabilities	270.5	148.8	(45.0)

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

5.3. Domestic Credit. During the review period, credit to the private sector increased by 2.7% arising from growth in commercial bank loans to both business and households sectors (see Table 6).

The central government reduced its debt by \$23.3 million (down 9.9%) while other public sector entities' debt increased by \$6.8 million (up 8.9%).

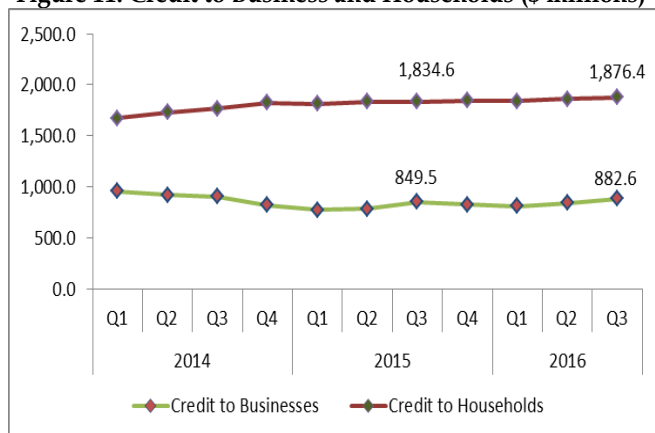
Table 6: Domestic Credit (\$ millions)

	Sep-15	Sep-16	% Change
Domestic Credit	3,008.9	3,066.4	1.9
Central Government	234.8	211.5	(9.9)
Other Public Sector	76.3	83.1	8.9
Private Sector	2,697.8	2,771.8	2.7

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Lending to the domestic private sector (businesses, households and non-profit organizations) expanded by 2.7% compared to a year ago (Table 7 and Figure 11).

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



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Household loans, the largest component of domestic credit, increased by 2.3% (or \$41.8 million) as at September 2016 compared to the same period a year ago. This movement largely reflected a rise of 2.5% in borrowings for domestic property. Notably, loans for motor vehicles, education and technology declined while loans for miscellaneous purposes increased over the period.

Credit to businesses improved by 3.9% for the period as net lending to the production and manufacturing sector grew by 37.8%. The improvement in business loans was aided by a 5.8% growth in lending to Other Financial Corporations. In contrast, credit to the Trade & Commerce and the Services sectors fell by 4.3% and 0.7%, respectively.

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

	%		
	Sep-15	Sep-16	Change
Total	2,697.8	2,771.8	2.7
Credit to Businesses	849.5	882.6	3.9
Production & Manufacturing	136.0	187.5	37.8
Agriculture, Fishing and Mining	8.7	4.6	(47.6)
Manufacturing	16.5	18.2	10.4
Utilities	13.4	51.7	285.5
Construction	97.5	113.0	15.9
Services	70.4	69.9	(0.7)
Accommodation, Food, Bar & Entertainment Services	25.4	13.9	(45.1)
Communications	13.7	16.5	20.1
Education, Recreational & Other Professional Services	31.3	39.5	26.1
Trade and Commerce	547.9	524.6	(4.3)
Wholesale & Retail Sales Trade	68.7	81.6	18.8
Real Estate Agents, Rental and Leasing Companies	201.7	207.9	3.1
Other Business Activities (General Business Activity)	277.5	235.1	(15.3)
Other Financial Corporations	95.1	100.6	5.8
Credit to Households	1,834.6	1,876.4	2.3
Domestic Property	1,542.7	1,582.0	2.5
Motor Vehicles	46.9	45.5	(2.9)
Education and Technology	6.2	6.0	(3.4)
Miscellaneous*	238.8	242.8	1.7
NonProfit Organizations	13.7	12.8	(6.5)

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

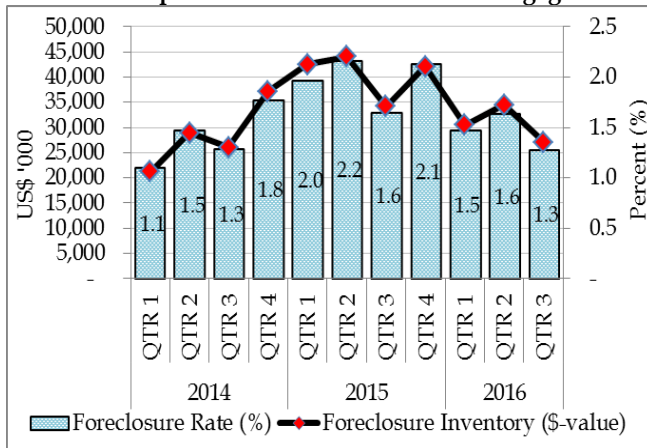
5.4. Residential Mortgage Foreclosures.

Residential mortgage foreclosure data from CIMA show that foreclosures of residential mortgages reflected a downward trajectory in value and quantity as of the third quarter of 2016. The decline in foreclosure was relative to both the corresponding period of the previous year as well the preceding quarter (see figure 12).

As at end-September 2016, there were 98 foreclosures in inventory, valuing US\$27.0 million. This reflected a 20.8% decline in the value of foreclosure inventory from the

US\$34.1 million recorded a year ago. The value of foreclosure inventory accounts for 1.3% of the total value of residential mortgages, which amounted to \$2.1 billion as at September 2016.

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

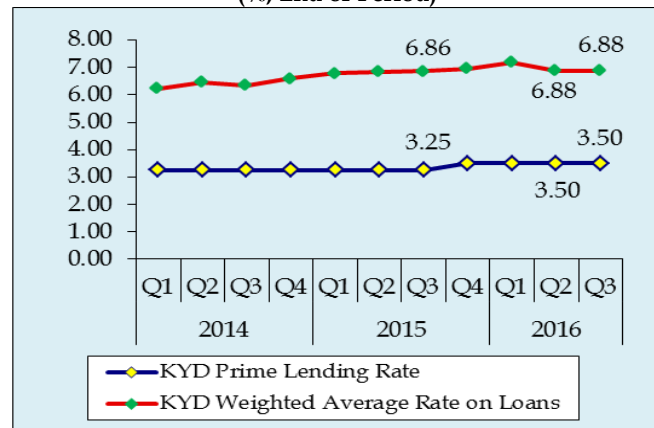


Source: Cayman Islands Monetary Authority & Economics and Statistics Office

The total number of completed mortgage foreclosures during the review period was 8, notably lower than the 17 recorded in the same quarter of 2015. Consistently, the total value of completed foreclosures also declined.

5.5. Interest Rates. The weighted average lending rate in KYD rose by 2 basis points from 6.86% in September 2015 to 6.88% in the same period of 2016. The Cayman Islands prime lending rate, which is based on the Federal Funds Rate, remained constant at 3.50% (see Figure 13).

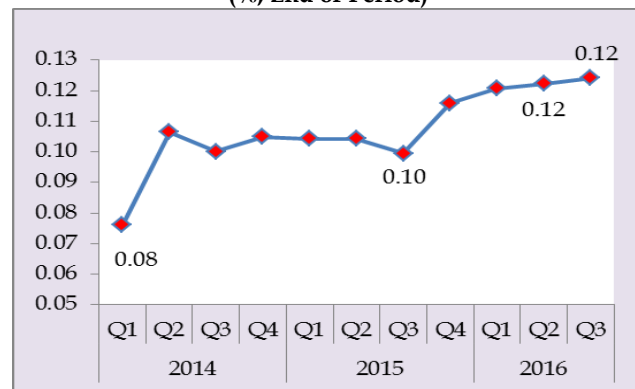
Figure 13: KYD Lending Rates (% End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As depicted in Figure 14, the weighted average savings rate in KYD improved to 0.12% from 0.10% a year ago.

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



Source: Cayman Islands Monetary Authority & ESO

6. Financial Services

The Financial Services sector continued to show a mixed performance in the first nine months of the year. While registration of trust companies expanded, all other sub-sectors recorded declines.

6.1 Banks & Trust

The Cayman Islands' banking and trust licence environment continued to be impacted by efforts to improve efficiencies and operational risk management.

As at September 2016, the number of licensed Bank and Trust companies declined by 9.3%, moving from 193 to 175 licensees.

Class 'A' Bank & Trust licensees narrowed to 11 following the termination of one licence. Similarly, foreign banks or Class 'B' licensees decreased by 17 to 164.

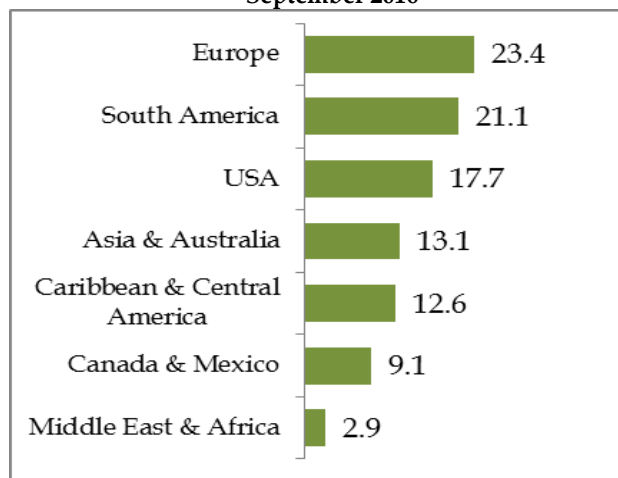
Table 8: Bank & Trust Companies

	Sep 2014	Sep 2015	Sep 2016	% Change
Bank and Trust	206	193	175	(9.3)
Class "A"	15	12	11	(8.3)
Class "B"	191	181	164	(9.4)
Trust Companies	113	120	122	1.7
Restricted	64	62	62	-
Unrestricted	49	58	60	3.4

Source: Cayman Islands Monetary Authority

Trust company licenses increased to 122 for the first nine months of 2016, a change of 1.7% relative to 2015. This growth was attributable to a 3.4% increase in 'Unrestricted' licences. There was no change in 'Restricted' licences for the period.

Figure 15: Percentage proportion of Banks by Region as at September 2016



Source: Cayman Islands Monetary Authority

Europe, South America and the USA continued to be the leading sources of Cayman's banking licences, accounting for 23.4%, 21.1% and 17.7% of the total, respectively. The remaining licences originated from Asia & Australia (13.1%), Caribbean & Central America (12.6%), Canada & Mexico (9.1%), and the Middle East & Africa (2.9%).

6.2 Insurance

The number of insurance licenses totalled 740 at the end of September 2016, similar to the outturn at the end of September 2015.

Class 'A' licences, which represents the domestic insurers, remained unchanged at 29. Captive licences also remained unchanged at 711. Within Captives, respective increases in Class 'B' and Class 'D' licences of 6 and 1 were offset by a decline of 7 in Class 'C' licences.

Table 9: Insurance Companies

	Sep 2014	Sep 2015	Sep 2016	% Change
Domestic - Class 'A'	28	29	29	-
Captives	765	711	711	-
Class 'B'	724	679	685	0.9
Class 'C'	39	31	24	(22.6)
Class 'D'	2	1	2	100.0
Total	793	740	740	-

Source: Cayman Islands Monetary Authority

Similar to 2015, the primary classes of business within the captive insurance market were Healthcare and Workers' Compensation, which accounted for 33.2% and 21.2% of the market, respectively. These categories, combined, accounted for more than 50.0% of the market.

Table 10: Captive Insurance Licences by Primary Class of Business, September 2016

	Sep-15	Sep-16	% Change	% Proportion
Healthcare	240	236	(1.7)	33.2
Workers' Compensation	151	151	-	21.2
Property	79	68	(13.9)	9.6
General Liability	73	79	8.2	11.1
Professional Liability	62	62	-	8.7
Others	106	115	8.5	16.2
Total	711	711	-	100.0

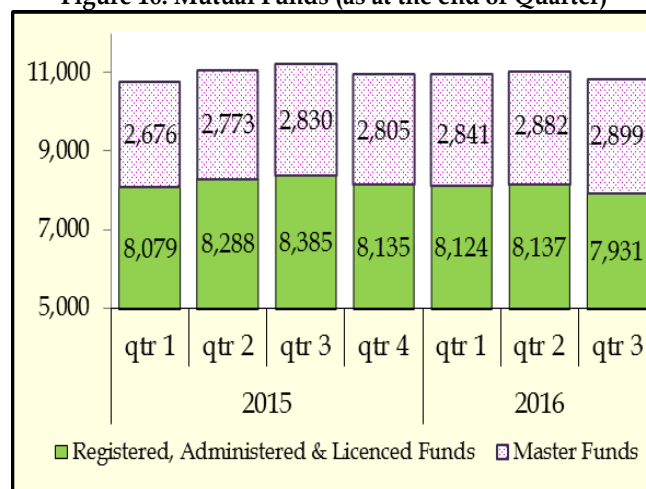
Source: Cayman Islands Monetary Authority

By risk location, North America remains the preferred choice with 89.9% (639) of the captive insurance business.

6.3 Mutual Funds

The number of Mutual Funds decreased by 3.4% to 10,830 at the end of September 2016 relative to the end of the corresponding period in the previous year. This reflected a

decline in Registered, Administered & Licenced Funds of 5.4% to 7,931. The impact of this decline outweighed an increase in Master Funds of 2.4% to 2,899.

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


Source: Cayman Islands Monetary Authority

6.4 Stock Exchange

The number of stocks listed on the Cayman Islands Stock Exchange decreased by 3.5% to 1,019 as at September 2016. The instruments recording declines were primary equity, insurance linked and specialist debt. Specialist debt registered the largest absolute decline of 79 listings to 497.

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

Instruments	2015	2016	% Change
Mutual Funds	241	253	5.0
Specialist Debt	576	497	(13.7)
Sovereign Debt	182	226	24.2
Secondary Equity	1	1	-
Primary Equity	7	4	(42.9)
Insurance Linked	47	36	(23.4)
Retail Debt	2	2	-
Total	1,056	1,019	(3.5)

Source: Cayman Islands Stock Exchange

Market capitalization fell by US\$3.6 billion (or 1.8%) to US\$ 192.7 billion as at September 2016. The reduction in market capitalization was attributed partly to a decrease in the number of stock listings and reflected declines in all instruments except mutual funds and sovereign debt.

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

Instruments	2015	2016	% Change
Mutual Funds	9.24	9.43	2.1
Specialist Debt	85.54	81.66	(4.5)
Sovereign Debt	94.96	96.16	1.3
Secondary Equity	0.07	0.06	(23.5)
Primary Equity	0.23	0.27	14.5
Insurance Linked	6.17	5.09	(17.5)
Retail Debt	0.01	0.01	(10.4)
Total	196.23	192.67	(1.8)

Source: Cayman Islands Stock Exchange

6.5 New Company Registration

New company registrations for January–September 2016 were 8,417, a decline of 9.2% compared to the similar period in 2015. The decline for the period was in contrast to increases of 17.1% and 11.1% in 2014 and 2015, respectively.

The decline in new company registrations was due to respective reductions of 11.3% and 27.3% in ‘Exempt’ (the largest category) and ‘Non-Resident’ companies. In contrast, there was an increase in new ‘Foreign’ company registrations of 3.6% to 483 while new ‘Resident’ company registrations remained unchanged.

Table 13: New Company Registrations (Jan–Sept)

	2014	2015	2016
Total	8,345	9,273	8,417
Exempt	7,554	8,370	7,428
Non-Resident	23	33	24
Resident	338	404	404
Foreign	430	466	483
LLC*	0	0	78
Percentage Change (%)			
Total	17.1	11.1	(9.2)
Exempt	19.3	10.8	(11.3)
Non-Resident	(25.8)	43.5	(27.3)
Resident	(0.6)	19.5	0.0
Foreign	0.7	8.4	3.6
LLC*	-	-	-

Source: Registrar of Companies

6.6. Partnerships

During the review period, there were 2,479 new Partnership registrations, a decline of 2.3% from the same period a year ago. This decline was in contrast to notable increases of 20.1% and 24.4% in 2014 and 2015, respectively.

Table 14: New Partnership Registrations (Jan–Sep)

	2014	2015	2016
Total	2,040	2,537	2,479
Exempt	2,020	2,478	2,421
Foreign*	20	59	58
Limited	0	0	0
Percentage Change (%)			
Total	20.1	24.4	(2.3)
Exempt	18.9	22.7	(2.3)
Foreign*	-	195.0	(1.7)

Source: Registrar of Companies

7. Tourism

Total visitor arrivals stood at 1,576,683 for the first three quarters of 2016, an increase of 4.7% over the comparative period in 2015. This increase was mainly associated with cruise arrivals as growth in stay-over arrivals remained relatively flat.

7.1 Air Arrivals

Air arrivals grew by 0.3% to 296,447 for the first three quarters of 2016, reflecting a rise in visitor arrivals from the USA, the impact of which was partly offset by contraction amongst the European and Canadian markets.

Visitor arrivals from the USA improved by 3.4% for the review period, relative to a 0.9% increase for the corresponding period last year. The European arrivals declined by 13.3% compared to last year's decrease of 6.0%. Similarly, the Canadian arrivals fell by 5.2% compared with a 1.2% decline a year earlier. The accelerated decline in arrivals from the areas could possibly be due to the depreciation of the Euro and Canadian dollar relative to the US dollar for 2015 as well as a slower pace of growth relative to the United States.

Table 15: Air Arrivals by US Regions (Jan-Sept)

	2014	2015	2016	% Change
In Thousands				
USA	224.4	226.5	234.1	3.4
Europe	26.6	25.0	21.6	(13.3)
Canada	18.0	17.8	16.9	(5.2)
Others	24.7	26.3	23.8	(9.4)
Total	293.7	295.5	296.4	0.3
of which: USA (%)	76.4	76.6	79.0	

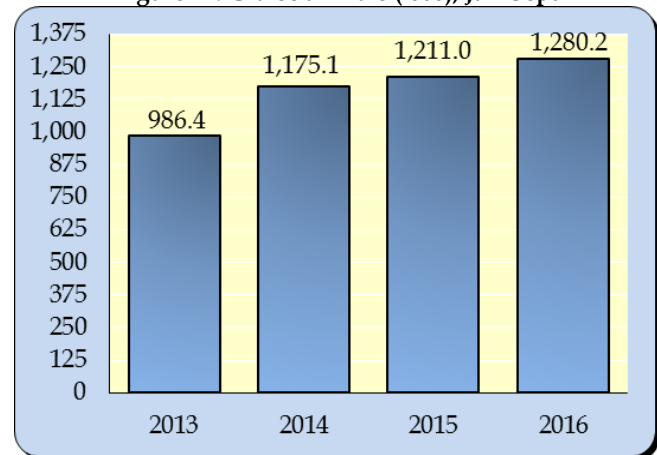
Source: Department of Tourism

7.2 Cruise Arrivals

The cruise sector was boosted by an additional 69,200 visitors for the first three quarters of 2016, to reach 1,280,236, an increase of 5.7%.

For the period, port calls in the Cayman Islands increased by 21 to 426, representing an increase of 5.2% relative to the slower growth rate of 1.5% last year.

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



Source: Department of Tourism

8. Construction

Construction intentions for the first nine months of 2016 showed recovery, as both building permits and project approvals increased.

8.1. Building Permits

In the review period, the value of building permits rose by 65.6% to \$223.6 million, a reversal of the 56.8% contraction a year earlier. The upturn was broad based with all but two categories recording increases (see Table 16).

Table 16: Building Permits (Jan-Sept)

	2014	2015	2016	% Change
	Millions			
Houses	64.0	76.3	71.0	(7.0)
Apartments	69.2	28.9	68.5	137.3
Commercial	22.7	17.1	38.0	122.2
Government	5.8	1.0	10.9	963.3
Industrial	0.2	0.5	3.4	661.8
Hotel	141.5	4.6	3.1	(32.7)
Other	8.9	6.7	28.8	326.6
Total	312.3	135.0	223.6	65.6

Source: Cayman Islands Government, Planning Department

The residential sector (houses and apartments) improved by 32.7% to \$139.5 million, despite a decline in houses to \$71.0 million (7.0%). The increase is traced to a revival in apartment activity owing mainly to the Stone Island development valued at \$45 million.

Similarly, the commercial and government categories increased over the review period by 122.2% and 963.3% to \$38.0 million and \$10.9 million, respectively.

The 'Other' category soared to \$28.8 million relative to \$6.7 million a year ago. The improvement in the category was partly due to the Entropy Solar farm valued at \$18 million.

Consistent with the increase in building permit values the number of building permits increased for the second consecutive year to total 655.

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

	2013	2014	2015	2016	% Change
Houses	230	171	182	190	4.4
Apartments	41	37	51	48	(5.9)
Commercial	81	55	51	67	31.4
Government	2	5	5	8	60.0
Industrial	1	3	2	4	100.0
Hotel	-	-	3	11	266.7
Other	153	112	268	327	22.0
Total	508	383	562	655	16.5

Source: Cayman Islands Government, Planning Department

8.2. Project Approvals

The total value of project approvals increased to \$331.9 million for the first nine months of 2016, its highest level since the corresponding period of 2009. Significant increases were registered in the apartments, commercial, industrial and 'other' categories.

Table 18: Projects Approval (Jan-Sept)

	2014	2015	2016	% Change
	Millions CI\$			
Houses	107.0	85.9	71.2	(17.1)
Apartments	87.2	32.3	48.8	51.0
Commercial	9.2	11.8	150.4	1,174.6
Government	2.2	50.1	13.0	(74.1)
Industrial	15.5	5.6	18.5	232.3
Hotel	0.1	-	1.7	-
Other	28.1	16.7	28.3	68.9
Total	249.3	202.5	331.9	63.9

Source: Cayman Islands Government, Planning Department

Project approval values for the commercial category soared to \$150.4 million for the review period relative to \$11.8 million in the corresponding period of 2015. The increase largely reflected approval for the construction of a Golf Course valued at approximately \$100 million as well as

construction of office space valued at approximately \$20 million.

In the residential sector, project approvals reflected sustained growth, edging upwards to \$120 million. The increase largely reflected improvements in the apartment category which increased by 51.0% while the houses category contracted by 17.1%.

The other category also increased to \$28.3 million following a double-digit decline last year.

The number of project approvals reached 707, improving by 13.3% when compared to its comparative period in 2015.

Table 19: Project Approvals (Jan-Sept)

	2014	2015	2016	% Change
Houses	211	159	177	11.3
Apartments	31	32	37	15.6
Hotels	1	-	4	-
Commercial	25	10	29	190.0
Government	7	4	7	75.0
Industrial	6	7	10	42.9
Other	518	412	443	7.5
Total	799	624	707	13.3

Source: Cayman Islands Government, Planning Department.

9. Real Estate

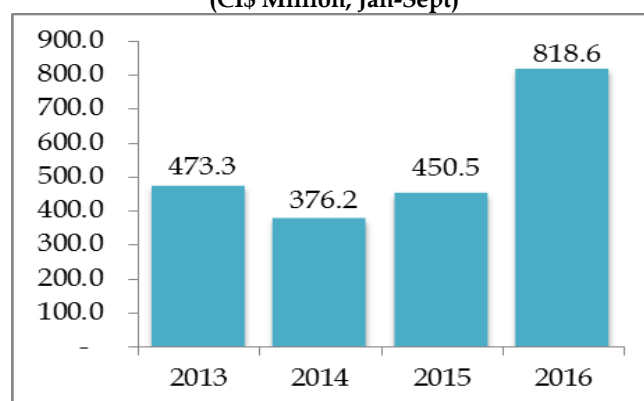
Real estate activity showed improved performance during the first nine months of 2016.

Following last year's recovery, the value of properties traded soared to \$818.6 million. This was precipitated mainly by a sharp

upturn in leasehold activity to \$157.7 million, from \$14.6 million in the comparative period of 2015.

The improvement in transfer value also reflected an increase in freehold property transfers which grew by 51.6% to \$660.9 million.

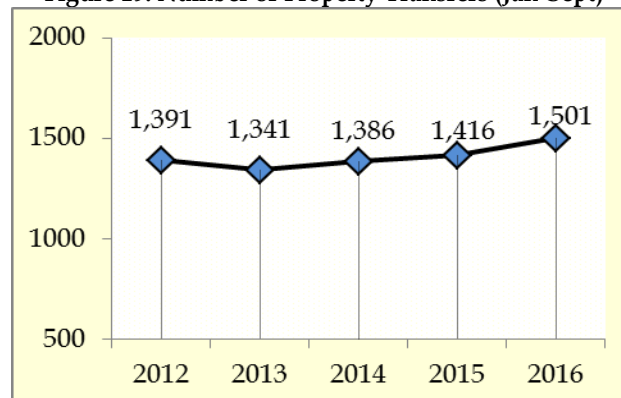
**Figure 18: Value Property Transfers:
(CI\$ Million, Jan-Sept)**



Source: Lands & Survey Department

Similarly, the volume of property transfers improved year-on-year by 85 or 6.0% to 1501. The increase was in the context of increases in both the number of freehold property transfers and leasehold transfers.

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



Source: Lands & Survey Department

10. Utilities

Higher demand was recorded for utilities during the first nine months of 2016. Increases were registered for electricity and water consumption as well as broadband services. Demand for phone services, phones in operation and phone usage contracted.

10.1 Electricity

Electricity consumption rose by 5.0% to 457.1 megawatts hours as at September 2016. Larger commercial development combined with a higher customer base largely contributed to the rise in electricity usage. Warmer weather conditions also positively impacted the electricity usage (see Table 20).

10.2. Water

Both water consumption and production levels advanced in September 2016, reflecting a growth of 6.8% and 6.1%, respectively. Higher levels of water usage could be explained by the increase in construction coupled with the increase in the number of tourist arrivals.

Table 20: Utilities Production and Consumption

	Sep-15	Sep-16	% Change
Millions of US Gallons			
Water Production	1,549.1	1,643.0	6.1
Water Consumption	1,333.5	1,424.3	6.8
000 of megawatt hrs			
Electricity Consumption	435.4	457.1	5.0
Residential	205.9	224.9	9.2
Commercial	224.4	227.1	1.2
Public	5.1	5.1	0.9
Total Customers	28,035	28,498	1.7
Residential	23,874	24,241	1.5
Commercial	4,161	4,257	2.3

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

10.3 Telecommunications

The total number of handsets in operation dipped, following improvement in traditional telecommunication services a year earlier.

Broadband services continued to erode the market share of domestic suppliers, increasing for the sixth consecutive year, this time by 0.9% to 74,200.

Meanwhile, the total paid domestic and international minutes decreased by 2.8% and 9.7%, respectively.

Table 21: Telecommunication Sector Indicators

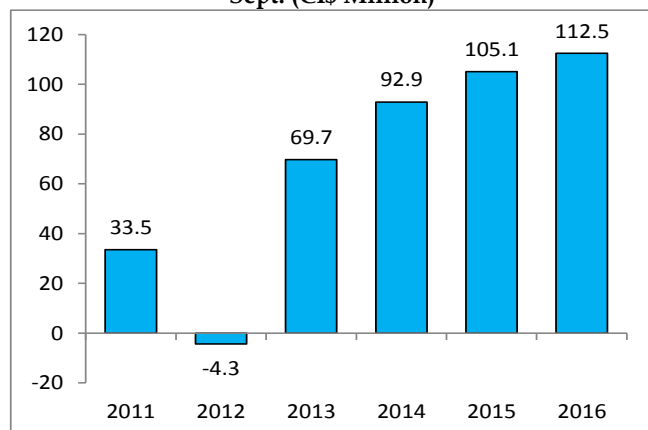
	Sep-14	Sep-15	Sep-16	% Change
Fixed and Mobile handsets in operation	122,521	125,799	125,758	(0.0)
Total fixed & mobile domestic & int'l minutes ('000)	187,931	167,585	159,741	(4.7)
Fixed and mobile domestic minutes	135,535	121,077	117,735	(2.8)
Fixed and mobile int'l retail minutes	52,396	46,508	42,006	(9.7)
Broadband connections	63,836	73,515	74,200	0.9

Source: Information Communication and Technology Authority (ICTA)

11. Fiscal Operations of the Central Government

For the fourth consecutive year, the overall fiscal surplus improved. For January–September 2016, the fiscal surplus increased to \$112.5 million compared with \$105.1 million for the comparative period in 2015 (see Figure 20).

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



Source: Cayman Islands Treasury Department & Economics and Statistics Office

Table 22: Summary of Fiscal Operations

	Sep-15	Sep-16	% Change
	CI\$ Millions		
Total Revenue	520.20	567.63	9.1
Total Expenditure	415.11	455.15	9.6
Current Expenditure	406.74	437.42	7.5
Net Capital Expenditure & Net Lending ¹	8.37	17.72	111.8
Current Balance	113.46	130.20	14.8
Overall Balance	105.09	112.48	7.0
Financing	83.05	86.33	3.9
Net Borrowing	(15.15)	(12.29)	(18.9)
Change in Cash	67.90	74.03	9.0

¹ Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department & Economics and Statistics Office

The fiscal surplus increased to \$112.5 million relative to \$105.1 million for January–September 2015 (see Table 22). This 7.0% improvement was due to an increase in total revenue which outweighed an expansion in total expenditure. Higher revenue was observed in both the coercive and non-coercive categories while the increase in total

expenditure reflected higher outturns for both current and capital expenditure.

11.1. Revenue

Total revenue rose by 9.1% to \$567.6 million for January–September 2016 (see Table 23). Total revenue was comprised of both coercive (94.7%) and non-coercive revenue (5.3%).

Coercive Revenue totalled \$537.8 million, an increase of 8.9% above receipts in the preceding year. All categories recorded increases with ‘Domestic Taxes on Goods and Services’ (up 5.3% to \$358.1 million) is registering the largest absolute increase. The other increases were Taxes on International Trade & Transactions, up 3.5% to \$126.0 million; Fines, up 34.6% to \$2.1 million; and Other Taxes increased from \$0.4 million to \$4.5 million.

Table 23: Revenue Collection of the Central Government

	Sep-15	Sep-16	% Change
	CI\$ Millions		
Total Revenue	520.20	567.63	9.1
Coercive Revenue	493.96	537.77	8.9
Taxes on Int'l Trade & Transactions	121.71	125.95	3.5
Domestic Taxes on Goods & Services	339.94	358.10	5.3
Taxes on Property	30.39	47.13	55.1
Fines	1.54	2.08	34.6
Other Taxes	0.38	4.51	1,099.1
Non-Coercive Revenue	26.23	29.86	13.8
Sale of Goods & Services	25.26	27.03	7.0
Investment Revenue	0.73	2.61	255.7
Other Revenue	0.24	0.22	(8.9)

Source: Cayman Islands Treasury Department & Economics and Statistics Office

During the review period, **tax receipts from international trade and transactions** rose by

\$4.2 million. This was due mainly to an increase of 5.7% to total \$71.7 million in duties from other imports. Higher revenue from duties on other imports reflected an increase in the importation of manufactured goods. Motor vehicle duties rose by 34.7% to \$12.0 million.

Revenue on duties from alcoholic beverages and tobacco products also increased. These increases emanated from higher imports of motor vehicles, alcoholic beverages and tobacco products. Additionally, levies on cruise ship departure charges and environmental protection fund fees rose by 5.4% to \$7.7 million and 4.5% to \$4.2 million, respectively. An increase in cruise passenger visitors resulted in higher receipts from cruise ship departure charges. The only category to record a decline was gasoline and diesel duty, which fell by 27.4% to \$11.0 million.

Revenue collected from Domestic Taxes on Goods & Services increased by 5.3% to \$358.1 million in the first nine months of 2016 (Table 23). Financial service licences accounted for most of the increase in revenue, moving by 3.9% to \$224.1 million. Partnership fees, which rose by 13.3% to \$37.9 million, were the major contributor to the increase in financial service licences. Other notable increases were other domestic taxes (up 6.9% to \$57.3 million), residency fees (up 5.9% to \$58.2 million) and other stamp duties (up 40.3% to \$7.5 million).

**Table 24: Domestic Taxes on Goods & Services
Of the Central Government (CI\$ Millions)**

	Sep-15	Sep-16	% Change
Various Financial Service			
Licenses	215.6	224.1	3.9
ICTA Licences & Royalties	5.8	5.6	(4.6)
Work Permit and Residency			
Fees	55.0	58.2	5.9
Other Stamp Duties	5.4	7.5	40.3
Traders' Licences	4.5	5.4	18.5
Other Domestic Taxes	53.6	57.3	6.9
Of which			
Tourist Accommodation			
Charges	17.5	17.6	0.8
Motor Vehicle Charges	6.0	7.1	18.5
Domestic Taxes on Goods & Services	339.9	358.1	5.3

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Levies on Property increased by 55.1% to \$47.1 million due to higher stamp duty collections from the sale of properties along the Seven Mile road.

Non-Coercive Revenue amounted to \$29.9 million, 13.8% higher than the comparative period a year ago.

11.2. Expenditure

Total expenditure for the first three quarters of 2016 increased, reflecting increases in both current expenditure and net capital expenditure & net lending².

Current Expenditure increased by 7.5 per cent to \$437.4 million during the first three quarters of 2016 as a result of higher spending on all categories except interest payments (see Table 25).

² Net capital expenditure and net lending is gross capital expenditure and net lending after accounting for depreciation.

Table 25: Current Expenditure of the Central Government

	Sep-15	Sep-16	% Change
	CI\$ Millions		
Current Expenditure	406.74	437.42	7.5
Personnel Costs	181.81	189.82	4.4
Supplies & Consumables	61.73	71.19	15.3
Depreciation	24.70	26.25	6.3
Subsidies	94.73	102.83	8.6
Transfer Payments	19.10	22.67	18.7
Interest Payments	21.05	20.43	(2.9)
Other Operating Expenses	3.61	4.24	17.2

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Personnel costs rose by 4.4% to \$189.8 million, primarily reflecting an increase in salaries and wages, including employee pension contributions of 8.0% to \$137.7 million. A 2.2% honorarium payment in June 2016 for all employees was the main contributor to this increase.

Expenditure on supplies and consumables recorded an increase of 15.3% to \$71.2 million. Purchases of services, other supplies and consumables, and supply of goods registered the largest increases in this category.

Depreciation, which is a non-cash provision for the decline in the value of fixed assets owned by central government, expanded by 6.3% to \$26.3 million (Table 25). The primary contributor to this increase was the depreciation of vehicles.

Subsidies, which are payments to statutory authorities and corporations, rose by 8.6% to total \$102.8 million. The categories receiving the largest increases in subsidies were the Cayman Islands Monetary Authority (up \$2.5

million to \$8.6 million); Services for Refugees (up \$2.0 million to \$3.3 million); Health Services Authority (up \$1.8 million to \$22.1 million); and medical care at various overseas providers (up \$1.5 million to \$16.1 million).

Transfer payments, which are payments to social welfare programmes, totalled \$22.7 million, higher by 18.7%. Scholarships and bursaries (up by \$1.4 million to \$8.3 million) and financial assistance vouchers (up by \$1.1 million to \$1.5 million) were the main recipients of the increase in transfer payments.

Interest payments declined by 2.9% to \$20.4 million which was consistent with a lower stock of outstanding debt (see Section 11.4).

Other operating expenses rose by 17.2% to \$4.2 million (Table 25). This increase was due mainly to higher spending on settlement claims and judiciary expenses.

11.3. Capital Expenditure and Net Lending

During the first nine months of 2016, gross capital expenditure and net lending increased by 33.0% to \$44.0 million (see Table 26).

Capital investment in ministries and portfolios decreased by 5.0% to \$13.0 million. This decline emanated from lower capital investments in the Ministry of Health, Youth Sports and Culture (down by \$3.8 million to \$5.5 million); Ministry of Financial Services, Commerce and Environment (down by \$0.8 million to \$1.4 million); and Ministry of Finance and Economic Development (down by \$0.4 million to \$1.0 million).

Capital investment in Statutory Authorities and Government Owned Companies increased by 57.3% to \$19.3 million. The entities that received the largest investments during the review period were Cayman Turtle Farm (1983) Limited (\$7.4 million), Cayman Airways Limited (\$6.2 million) and Cayman Islands Airport Authority (\$2.5 million).

Table 26: Capital Expenditure and Net Lending

	Sep-15	Sep-16	% Change
	CI\$ Millions		
Gross Capital Expenditure and Net Lending	33.07	43.98	33.0
Capital Investment in Ministries and Portfolios	13.70	13.02	(5.0)
Capital Investment in Statutory Authorities and Government Owned Companies	12.25	19.26	57.3
Executive Assets	6.86	11.38	66.0
Net Lending	0.27	0.31	17.7
Net Capital Expenditure and Net Lending¹	8.37	17.72	111.8

¹ Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department & Economics and Statistics Office

Expenditure on Executive Assets rose by 66.0% to \$11.4 million. The major share of the expenditure was allocated to land purchase (\$4.7 million); the George Town Revitalization project (\$1.6 million); the Cayman Brac and Little Cayman Roads project (\$1.3 million); and the Cruise Berthing Facility project.

Net capital expenditure and net lending totalled \$17.7 million, up 111.8% relative to the comparative period in 2015.

11.4. Net Financing and Debt

The cash balance of the central government increased by \$74.03 million for the first nine months of 2016, which was facilitated by an improvement in the fiscal surplus (see Table 27). Total loan repayment amounted to \$12.3 million compared with \$15.2 million in the corresponding period of 2015. There were no new loan disbursements during the review period.

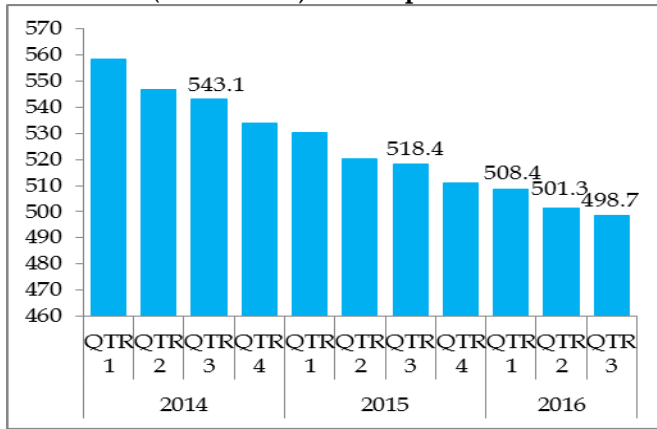
Table 27: Net Financing

	Sep-15	Sep-16	% Change
	CI\$ Millions		
Financing	83.05	86.33	3.9
Net Borrowing	(15.15)	(12.29)	(18.9)
Disbursements	0.00	0.00	
Loan Repayment	(15.15)	(12.29)	(18.9)
Change in Cash	67.90	74.03	9.0

Source: Cayman Islands Treasury Department

The central government's outstanding debt continued to decline after peaking at the end of the second quarter of 2011. The debt stood at \$498.7 million as at September 2016, \$130.4 million lower than the stock at the end of June 2011. In comparison to the end of September 2015, the debt decreased by 3.8% or \$19.7 million (see Figure 21).

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



Source: Cayman Islands Treasury Department

The central government's debt service-to-current revenue ratio was 5.8% for the first nine months of 2016. Interest payments for January–September 2016 accounted for 4.8% of recurrent expenditure and 3.6% of revenue. This was compared with 5.2% of recurrent expenditure and 4.0% of revenue in the corresponding period of 2015.

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Cayman Islands Water Company
Department of Immigration
Lands and Survey Department
Port Authority of the Cayman Islands
Portfolio of the Civil Service**