



THE CAYMAN ISLANDS' ANNUAL ECONOMIC REPORT 2007

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1. Executive Summary

1.1 Economic activity moderated in 2007 as gross domestic product (GDP) grew at an estimated rate of 2.2 percent, down from 4.6 percent a year ago.

1.2 The estimated mid-year population reached 53,198, growing by 2.3 percent over the mid-year population in 2006. Growth in nominal GDP was 5.2 percent which resulted in an increase in GDP per capita to reach \$40,242 in 2007¹.

1.3 In 2007, economic expansion was fuelled on the demand side by growth in government consumption and demand for stay-over tourism services. Other demand indicators were also on the uptrend: intermediate goods imports (up by 11.5%), electricity consumption (up by 8.7%) and water consumption (up by 6.2%). Government capital spending increased while private investment in capital goods declined.

1.4 The financial services industry expanded in 2007 despite the turbulence in the international economy. The industry's performance was supported by strong growth in mutual funds (15.7%), stock exchange listings (42.7%), insurance licenses (3.4%), stock exchange capitalization (50.9%) as well as new companies registration (16.0%). However, banks and trusts continued to fall by 3.4 percent, primarily due to on-going consolidations in the banking industry worldwide.

1.5 Air arrivals further strengthened in 2007 amidst the overall decline in total arrivals for the year. Air arrivals grew by 9.1 percent to reach 291,506 in 2007. However, cruise arrivals fell by 11.1 percent to reach 1.7 million, which pulled down the total visitor arrivals to 2.01 million or a decline of 8.7 percent relative to 2006. Thus, total visitors' expenditure fell by 6.6 percent.

1.6 In 2007, construction moderated from the strong performances over the last two years. Building permits reached 1,090 (or 15.5% lower than in 2006) valued at \$446.3 million, up marginally by 0.1 percent. There were 494 certificates of occupancy valued at \$176.8 million issued during the period, or 14.8 percent below 2006. The value of planning approvals plummeted to total

¹ All values in this report are in CI\$ unless specified otherwise.

\$505.2 million, as the economy continued to revert to its pre-hurricane Ivan level of development.

1.7 The real estate market softened significantly in 2007. The volume of freehold property transfers fell by 21.1 percent while total value declined by 21.2 percent, despite the average nominal value of property transfers remaining stable compared to 2006.

1.8 The average Consumer Price Index continued to increase in 2007. The average inflation was 2.9 percent which is higher than the 0.8 percent in 2006. However, the inflation rate was on the downtrend throughout the year. From 4.4 percent in March 2007, this fell to 3.2 percent in June, 2.5 percent in September and 1.7 percent in December.

1.9 Total employment as a proportion of the labour force was 96.2 percent in fall 2007 as opposed to 97.4 percent in spring 2006. Hence, the unemployment rate rose to 3.8 percent compared to 2.6 percent in fall 2006. Total labour force as of fall 2007 was estimated at 36,476.

1.10 Merchandise imports declined to \$881.8 million from \$888.7 million a year ago. This was mainly due to strong reduction in capital goods imports by 21.9 percent, while consumption goods also fell by 2.9 percent. In contrast, the value of fuel imports grew by 21.7 percent which could be traced to increases in both the unit price and the quantity of oil and petroleum products imported.

1.11 Total money supply (M2) stood at \$5.5 billion (US\$6.6 billion) in 2007, a decline of 12.9 percent (or \$817.0 million) compared to 2006. The drop in money supply is traced to a 13.5 percent reduction in quasi-money comprising mainly of foreign currency deposits held by residents.

1.12 Net domestic credit from the commercial banks increased by 6.1 percent to reach \$2.3 billion. Net credit to the public sector went up by 45.4 percent while credit to the private sector rose by 3.5 percent.

1.13 The net foreign asset position of local commercial banks fell by 20.5 percent to \$3.7 billion, mainly as a result of increases in liabilities in the form of deposits of non-residents by 162.7 percent.

1.14 Fiscal operations of the central government in 2007 resulted in a current surplus (total current revenue minus current expenditure) of \$77.4 million or 3.6

percent of GDP, down from 5.7 percent of GDP a year ago. The overall balance (total revenue minus total expenditure) recorded a deficit of \$39.1 million, compared to a surplus of \$67.3 million in 2006. Strong growth (27.4%) in expenditure outlays resulted in a decline in cash reserves and an increase of central government indebtedness. The central government's total outstanding debt stood at \$210.5 million as at December 2007 or 9.8 percent of GDP.

1.15 GDP growth in 2008 is projected at 1.5 percent. This slow growth prospect is aligned with a slowing world economy predominantly in the source markets of the Cayman Islands for tourism and financial services. Inflation rate in 2008 is expected at 3.1 percent due to anticipated pressures in food prices and oil.

The Cayman Islands Economic Performance: Summary Indicators

Indicators	2005	2006	2007
GDP growth in real terms (percent)	6.5	4.6	2.2
GDP per capita (in \$)	39,913	39,137	40,242
Nominal GDP (\$million)	1,929.9	2,034.8	2,140.8
Population (year-end)	52,465	53,172	53,886
Of which Caymanians	31,787	32,265	32,367
Population (mid-year)	48,353	51,992	53,198
Employment	35,464	35,016	35,081
Unemployment rate (percent of labour force)	3.5	2.6	3.8
Inflation rate (percent)	7.3	0.8	2.9
Total imports (in \$million)	995.3	888.7	881.8
Total imports (percent of GDP)	51.6	43.7	41.2
Overall fiscal balance of the central government (\$million)	-3.4	67.3	-39.1
Overall fiscal balance of the central government (percent of GDP)	-1.8	3.3	-1.8
Outstanding debt of the central government (\$million)	180.9	175.4	210.5
Outstanding debt of the central government (percent of GDP)	9.4	8.6	9.8
Total money supply (M2, in billion)	5.2	6.4	5.5
Stay-over tourists (in thousands)	167.8	267.3	291.5
Cruise ship passengers (in thousands)	1,799.0	1,930.1	1,715.7
Mutual funds	7,106	8,134	9,413
Insurance licenses	759	767	793
Banking and trust licenses	305	291	281
Trust companies	127	134	138
Stock exchange listings	1,015	1,225	1,748
Company registration	74,905	83,532	87,109
Stock exchange capitalization (US\$, in billion)	75.6	111.5	168.3
Building permits (\$million)	335.8	445.8	446.3
Planning approvals (\$million)	520.5	638.9	505.2
Property transfers (\$million)	450.8	691.1	544.7
Electricity consumption (percent growth)	13.0	14.9	8.7
Water consumption (percent growth)	3.9	19.9	6.2
Total fixed and mobile telephone lines	110,656	122,167	130,622

2. Global and Regional Macroeconomic Environment

The Cayman Islands grew in 2007 against the backdrop of softer global economic growth particularly for the United States. However, despite the global uncertainty which became more pronounced in the last quarter of 2007, local stay-over tourism and financial services remained resilient. This review is based on information culled from the International Monetary Fund and other international organizations.

2.1 Economic Growth

Global output expanded by 4.9 percent in 2007 compared to 5.0 percent in 2006, as the advanced economies grew by 2.7 percent while emerging and developing countries rose by 7.9 percent (see Table 2.1A). Global economic condition in 2007 was also marked by growing financial difficulties in the advanced economies, specifically in the United States and to a lesser extent in Western Europe. The mortgage crisis in the U.S. spread to the financial markets, while the commodity market was increasingly challenged by food and oil prices.

U.S. GDP weakened in 2007 to 2.2 percent from 2.9 percent in 2006, mainly arising from a sharp drop in the growth of domestic demand. This slower pace of economic expansion was impacted by a decline in gross domestic capital formation. Canada grew by 2.7 percent, a slight moderation from 2.8 percent in 2006, as growth slowed during the last quarter of the year due to suppressed external demand and tighter credit conditions following the uncertainty in the U.S. market.

Table 2.1A: Global Economic Growth

	2005	2006	2007
	in Percent (%)		
World GDP	4.4	5.0	4.9
Advanced economies	2.6	3.0	2.7
US	3.1	2.9	2.2
Euro area	1.6	2.8	2.6
Japan	1.9	2.4	2.1
UK	1.8	2.9	3.1
Canada	3.1	2.8	2.7
Emerging market and developing countries	7.1	7.8	7.9
China	10.4	11.1	11.4
India	9.1	9.7	9.2

Source: International Monetary Fund (April 2008)

In the UK, economic growth remained robust as private consumption rose by 3.1 percent from 2.9 percent in 2006 although capital spending also began to pace at a slower rate. The Euro area recorded average growth of 2.6 percent as the major economies recorded almost stable growth with the exception of Germany which absorbed reduction in private consumption. Emerging and developing economies posted another year of rapid economic expansion through investment and export expansions, particularly in China and India. Generally, growth in Asia was due to strong domestic demand.

The Caribbean recorded another year of strong growth, albeit slower than the previous two years, as all countries with the exception of Jamaica and Dominica recorded growth greater than 3.0 percent (see Table 2.1B). Overall growth in the Caribbean was 5.7 percent compared to 7.8 percent in 2006, as the region's construction activities softened in the aftermath of the 2007 Cricket World Cup. Meanwhile, the region continued to enjoy strong demand for tourism services. Trinidad and Tobago gained from strong petroleum prices on the world market.

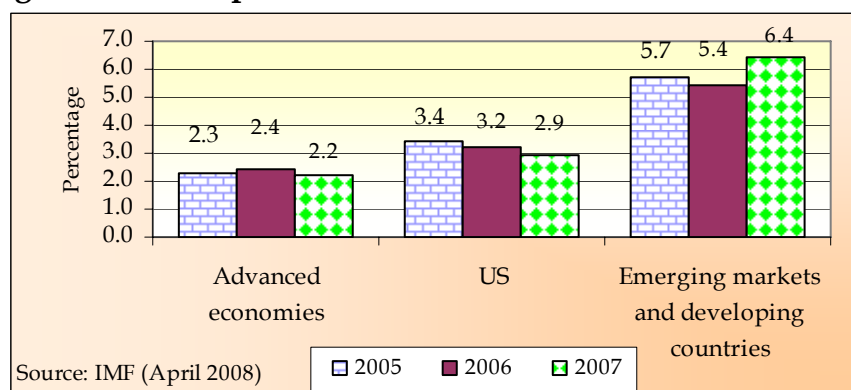
Table 2.1B: Regional Economic Growth

	2005	2006	2007
	in Percent (%)		
Caribbean	6.5	7.8	5.7
Bahamas	2.5	3.4	3.1
Barbados	4.1	3.9	4.2
Trinidad & Tobago	8.0	12.0	5.5
Jamaica	1.4	2.5	1.4
OECS			
Antigua & Barbuda	5.5	12.2	6.1
Dominica	3.3	4.0	0.9
Grenada	11.0	-2.4	3.1
St. Kitts & Nevis	4.8	6.4	3.3
St. Lucia	3.8	5.0	3.2
St. Vincent & the Grenadines	2.6	6.9	6.6

Source: International Monetary Fund (April 2008)

2.2 Inflation

The overall increase in consumer prices across advanced economies fell slightly to 2.2 percent in 2007, supported by lower inflation rate in the US (see Figure 2.2A). The latter softened slightly to 2.9 percent in 2007 amidst high and volatile energy and food prices; however, slowing private consumption coupled with a softening labour market tempered inflationary pressures in the US.

Figure 2.2A Comparative Inflation Rate: Advanced Economies


Inflation rate in the Caribbean averaged 6.7 percent in 2007 which was lower than the 7.8 percent posted in 2006. However, the inflation rates in Bahamas and Jamaica rose anew in 2007 (Table 2.2A).

**Table 2.2A Comparative Inflation Rates (%):
Caribbean Region**

	2005	2006	2007
Caribbean	6.7	7.8	6.7
<i>of which:</i>			
Bahamas	2.2	1.8	2.4
Barbados	6.0	7.3	5.5
Trinidad & Tobago	6.9	8.3	7.9
Jamaica	15.1	8.5	9.3

Source: IMF (April 2008)

2.3 International Finance

On the whole, the central governments' fiscal balance of advanced economies improved in 2007 to a deficit of 1.0 percent of GDP compared to 1.5 percent in 2006. The U.S, Japan and the Euro Area reduced their fiscal deficit to GDP ratios, while the U.K deteriorated and Canada improved its fiscal surplus to GDP ratio.² Strong economic growth in emerging and developing countries resulted in an expansion of central government fiscal surpluses to 0.3 percent of GDP in 2007, from 0.2 percent in 2006.³

The global financial market has been in turmoil since August 2007 due to deepening defaults on sub-prime mortgages in the U.S. which extended to other advanced nations exposed to the housing financial crisis. The crisis spread to related securities and other structured credits including collateralized debt obligations structured to attract high credit ratings. This threatened the viability of several financial institutions. Moreover, the financial crisis has expanded to other sectors of the U.S. economy and has affected consumer confidence, subsequently causing an economic slowdown in the U.S. economy in the last quarter.

The Federal Reserve Bank responded through consecutive cuts in the Federal Funds Rate from 5.25 percent in August 2007 to 4.75 percent in September 2007, 4.5 percent in November and to 4.25 percent in December 2007. In contrast, the European Central Bank kept its key interest rate constant at 4.0 percent throughout the second-half of 2007 as they battled inflation.⁴ The Bank of

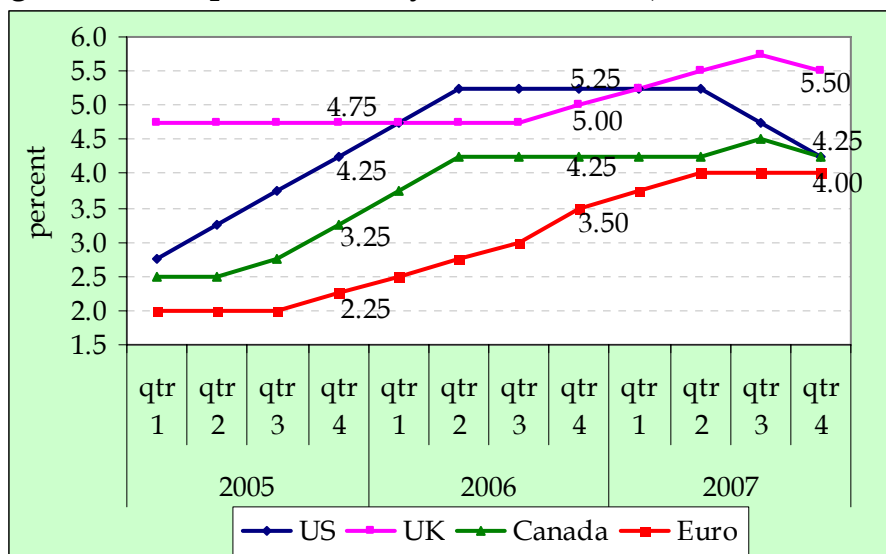
² The U.S fiscal deficit to GDP ratio improved from 2.0 percent in 2006 to 1.8 percent in 2007.

³ These figures were computed using a weighted average by the IMF.

⁴ The ECB's key interest rate is for main refinancing operations.

England responded to the spreading financial crisis in December as it lowered its key interest rate to 5.5 percent from 5.75 percent in the preceding month.⁵ Similarly, the Bank of Canada reduced its key policy rate in December to 4.25 percent reversing its earlier increase in July⁶ (see Figure 2.3).

Figure 2.3: Comparative Policy Interest Rates (% , End of Quarter)



Source: Bank of England, Federal Reserve Bank, European Central Bank & Bank of Canada

The financial crisis also affected the foreign exchange markets as evidenced by the falling real effective exchange rate for the U.S. dollar since mid-2007. This is attributed to the dwindling of foreign investment in U.S. bonds and equities, the dampening of U.S. growth prospects and the consecutive interest rate reductions.⁷ The continuous decline in the value of the U.S. dollar since 2001 has enhanced net exports – a key support to the US economy in 2007 – which resulted in the lowering of the U.S. current account deficit to about 5.3 percent of GDP in 2007, down from its highest of 6.2 percent of GDP in 2006. Conversely, the decline of the US dollar saw an appreciation of other floating currencies including the euro, the yen, the Canadian dollar and the pound sterling.

⁵ The Bank of England’s key interest rate is also called **current official bank rate**.

⁶ The Bank of Canada’s key policy rate is also called **the key interest rate** or **the target for the overnight rate**

⁷ The reduction of foreign investment in U.S. bonds and equities is associated with the loss of confidence in the liquidity and the returns on such assets.

2.4 Regional and International Tourism⁸

International tourism arrivals rose by an estimated 6.0 percent in 2007. On the whole, visitor arrivals reached nearly 900 million, up from its 800 million mark achieved two years earlier. The growth in visitor arrivals was led by the Middle East, with an estimated 13.0 percent increase, followed by Asia and the Pacific (up by 10.0%), Africa (8.0%), the Americas (5.0%), and Europe (4.0%). Overall, tourism activity remained buoyant despite various factors impacting the industry during the year. These factors ranged from airline fuel surcharges (driven by the continued volatility in aviation fuel prices), exchange rate fluctuations due to the continued weakness of the US dollar, and the US economic slowdown and credit crisis which ensued in the latter part of the year.

Regionally, milder increases in stay-over arrivals were noted for destinations such as Barbados (2.1%), Jamaica (1.3%), and the Dominican Republic (0.4%). Moreover, while preliminary estimates as of November showed Bahamas' stay-over arrivals being reduced by 5.0 percent over the previous year, Cuba registered a total loss of 3.1 percent by year-end. The cruise arrivals sector also recorded mixed performances during the year. Based on preliminary data, whereas the volume of cruise visitors to Antigua and Barbuda, Barbados, British Virgin Islands and the Dominican Republic accelerated, the Bahamas and Jamaica had fewer cruise passengers in 2007.

⁸ Source of basic information: World Tourism Organization website

3. Macroeconomic Performance

The Cayman Islands' economic growth in 2007 was supported by a robust performance of the financial services sector and stay-over tourism, which alleviated the slowdown in construction services. The inflation rate rebounded in tandem with rising international food prices, along with high and volatile oil and petroleum prices. The labour force rose marginally and pushed up the unemployment rate.

3.1 Economic Growth

In 2007, Gross Domestic Product (GDP) in real terms was estimated to have expanded by 2.2 percent. In nominal terms, GDP grew by approximately 5.2 percent in 2007 on account of a higher inflation rate as compared to a year ago.

Table 3.1: Cayman Islands, GDP Estimates 2004-2007

	2004	2005	2006	2007
GDP at Current Prices (\$M)	1,688.8	1,929.9	2,034.8	2,140.8
Per Capita GDP at current prices (CI\$) ¹	38,173	39,913	39,137	40,242
GDP at constant 1986 prices (\$M)	854.5	910.0	951.9	973.3
Real GDP growth (%)	0.9%	6.5%	4.6%	2.2%

Source: Cayman Islands Government, Economics & Statistics Office

¹ Using mid- year population figures.

Given the increase in nominal GDP, per capita income based on a mid-year population of 53,198 was approximated at \$40,242 compared to \$39,137 a year ago or an increase of 2.8 percent (see Table 3.1).

Government consumption expenditure grew in real terms in 2007 by 10.1 percent, albeit, at a slower rate than in 2006, when it grew by 12.3 percent (see also Section 5). Meanwhile, private consumption showed mixed trends. Total consumer imports, adjusted for US inflation rate, fell 2.8 percent in 2007. However, consumption of utilities rose: electricity consumption (up by 8.7%) and water consumption (up by 6.2%).

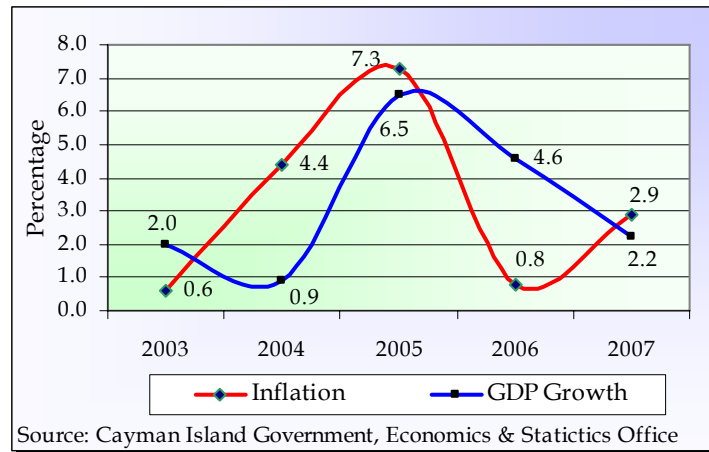
Indicators of gross domestic capital formation (domestic investment) showed mixed signals for investment activity. Capital imports fell but construction imports rose in 2007 (see Section 3.4). Capital and net lending expenditures of

the central government also recorded strong growth at 167.2 percent during the year (see Section 5).

With regards to the production sectors, the stay-over tourism industry expanded its output (measured in terms of actual stay-over tourists) by 9.1 percent. This is also supported by an 8.9 percent increase in work permits issued for restaurant and bars, hotels and condominiums during the year.

The financial services sector (financial services and business services) also exhibited a 10.3 percent increase in current work permits, which supports the growth of insurance licences, mutual funds and company registration.

Figure 3.1: GDP Growth and Inflation



3.2 Inflation

Consumer prices rose on average by 2.9 percent in 2007, as compared to a modest 0.8 percent posted in 2006. Household equipment recorded the largest increase in prices (7.8%) followed by personal goods & services (6.0%), food (5.2%), clothing (3.8%), transport & communication (2.6%), education and medical services (1.8%), and alcohol and beverages (2.2%). Housing recorded a decline of 0.2 percent for the year.

Inflation in 2007 was impacted by higher international prices for food, and oil and petroleum products. International prices of corn, wheat and rice all contributed to higher food prices (see Box 1 for more information). Specifically, corn is being used to produce ethanol which is used as an alternative source of renewable energy. Hence, food production competes for arable land now being cultivated to produce the higher priced corn. Consequently, food which

accounts for approximately 12.0 percent of the household expenditure basket went up by 5.2 percent.

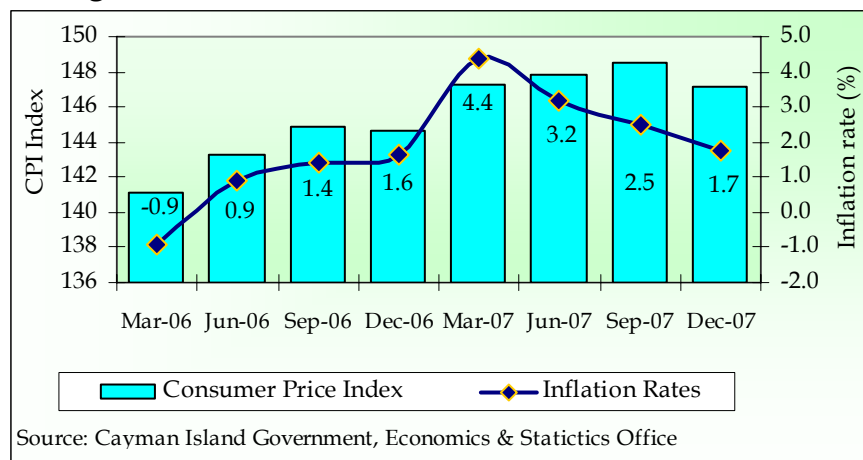
High and volatile oil and petroleum prices also impacted the prices of the transport and communication services to move the average price index up by 2.6 percent.

Table 3.2: Comparative Annual Average Inflation Rates

CPI Major Categories	Inflation Rates (%)		
	2005	2006	2007
Food	2.7	2.7	5.2
Alcohol & beverage	5.2	1.9	2.2
Housing	18.6	-4.2	-0.2
Clothing	-2.3	5.0	3.8
Household equipment	-2.2	-0.1	7.8
Transport & communication	5.2	4.7	2.6
Education & medical	3.0	1.6	1.8
Personal goods & services	2.5	3.8	6.0
All items	7.3	0.8	2.9

Source: Cayman Islands Government, Economics & Statistics Office

Figure 3.2: Consumer Price Index and Inflation Rates



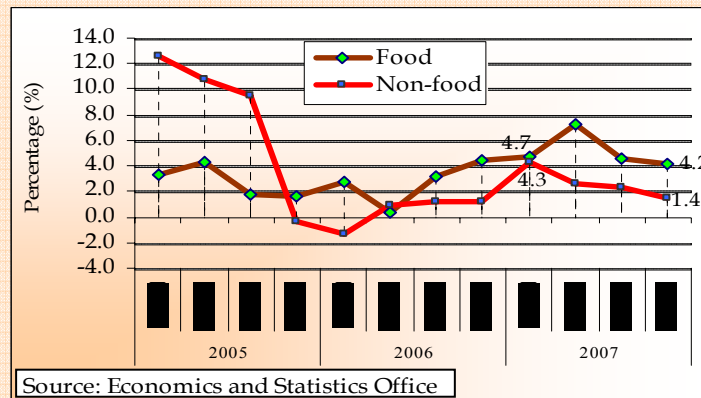
Source: Cayman Island Government, Economics & Statistics Office

The 2.9 percent average inflation in 2007 was generated amidst a gradual decline throughout 2007 (see Figure 3.2). The inflation rates for all four quarters of 2007 were higher than the similar periods of 2006.

Box 1: Food Prices

Food prices in the Cayman Islands have risen consistently since the third quarter of 2006. Thus, the average annual food inflation for 2007 stood at 5.2 percent as compared to the 2.7 percent average for non-food items.

Cayman Islands: Quarterly CPI Inflation



The annual quarter-on-quarter food inflation from the third quarter of 2006 on average has been 2.5 percentages higher than the inflation on non-food items. Among the food items monitored by the ESO, the following categories registered average price increases: bread and cereal (3.6%), meat (3.0%), fish (7.7%), dairy products and eggs (9.8%), oil and fats (4.6%), fruits and vegetables (0.4%), non-alcoholic drinks (7.9%), sugar products (7.0%) and other foods (5.8%).

According to IMF "...food prices have increased by 45.0 percent since the end of 2006. The surge was led by major food crops (corn, wheat, and edible oil), but has spread to other foods including, most recently, rice." Reasons cited for the growth in food prices were:

- Strong food demand from emerging economies, due to strong growth and increased consumption. Supply has been lagging and responding slowly to the growing food demand;
- Rising bio-fuel production adds to the demand for corn and rapeseed oil which is spilling over into other foods through demand and crop substitution. Most of the increased consumption of major food crops in 2007 was related to bio-fuels, mostly because of corn-based ethanol production in the U.S. It is believed that new bio-fuel mandates in the US and EU that favours domestic production will continue to put pressure on food prices; and
- Drought conditions in major wheat-producing countries, higher input cost and restrictive trade policies (some countries have introduced export bans, or other restrictions on export of agricultural products) in major net exporters of key food staples such as rice have also contributed.

3.3 Labour Force and Employment

The supply of labour based on the results of the 2007 Fall Labour Force Survey (LFS) rose by 1.4 percent in 2007 and stood at 36,476 (see Table 3.3A). This expansion is associated with the growth of the country's population by 3.6 percent to reach 53,886 persons. However, there was a slight decline in the labour force participation rate from 83 percent in 2006 to 82.0 percent.

Table 3.3A: Summary of Labour Force Survey Results⁹

	Fall 2005	Spring 2006	Fall 2007
Population Estimate	52,465	51,992	53,886
Labour Force	36,767	35,959	36,476
Labour Force Participation Rate	84%	83%	82%
Unemployment Rate	3.5%	2.6%	3.8%
Caymanian Labour Force	19,064	18,303	18,466
% Share of Labour Force	51.9%	50.9%	50.6%
Employed	18,025	17,621	17,406
Unemployed	1,039	682	1,059
Non-Caymanian Labour Force	17,703	17,656	18,010
% Share of Labour Force	49.1%	49.1%	49.4%
Employed	17,439	17,395	17,675
Unemployed	264	261	336
Labour Force by Gender			
Male	50.2%	50.7%	52.0%
Female	49.8%	49.3%	48.0%

Source: Economics and Statistics Office

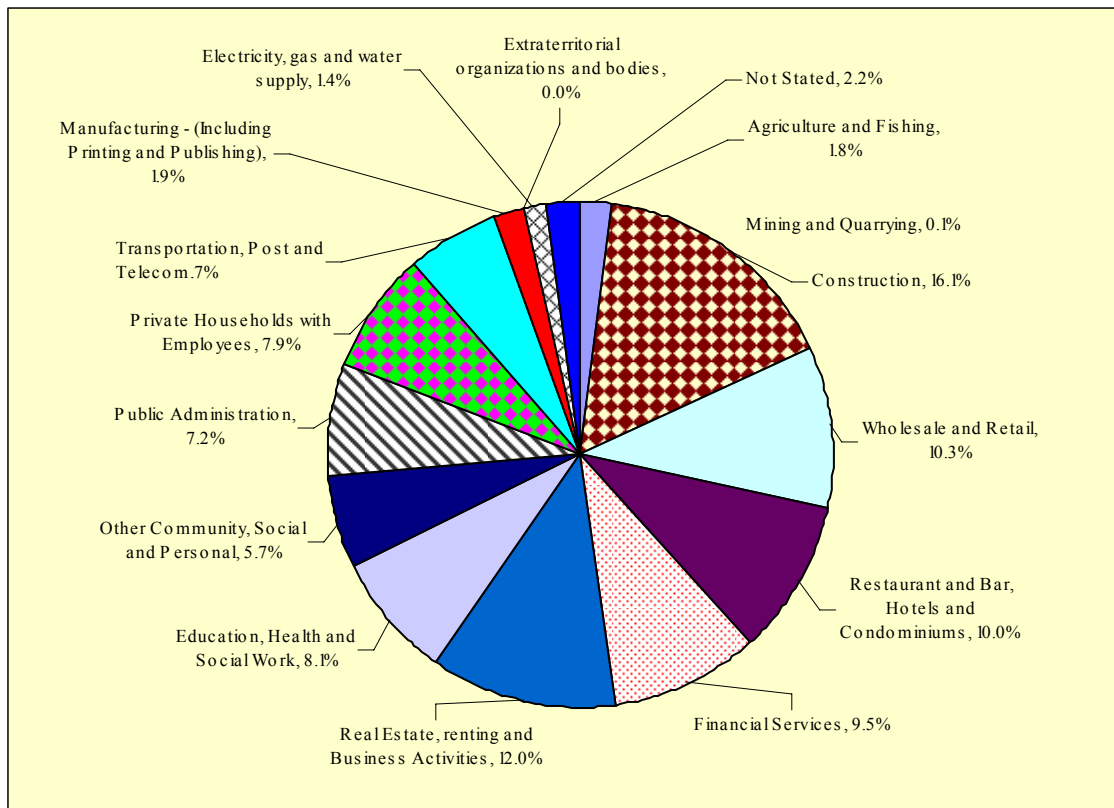
Despite the marginal growth in the labour force, the unemployment rate went up to 3.8 percent in 2007 from 2.6 percent in 2006. This is directly attributed to the marginal improvement of total employment during the year at 0.2 percent to reach 35,081.

Despite the easing of construction activity, this industry remained the largest employer in 2007 as it accounted for 16.1 percent of total employment (see Figure

⁹ In this and other tables in the Report, total figures may not be equal to the sum of component items due to rounding off. Similarly, percentage change calculations may not be exact due to rounding-off.

3.3A). The other major employers were business services (12.0%), wholesale and retail (10.3%), restaurants/bars, hotels and condominium (10.0%) and financial services (9.5%).

Figure 3.3A: Employment by Industry, Fall 2007



Source: Economics and Statistics Office

Current work permits issued from the Immigration Department as of year-end 2007 indicate a strong increase in the number of work permits by 11.1 percent (or 2,483 permits) from 22,394 in 2006 to 24,877.¹⁰

“Trades, Technical and Skilled” category increased by 4.4 percent during 2007. Growth in this category was propelled by increases in construction and tourism related skills such as servers and chefs and highly skilled labourers and heavy equipment operators. The “Unskilled” category which comprised the second

¹⁰ The analysis in this section must be qualified. Work permits includes; 1 year renewals, work permit grants for more than one year, fixed term permits (abolished in December 2006), temporary work permits and temporary work permits extensions. The work permits dataset is not standardized with respect to duration of the permit.

largest group, grew by 21.3 percent. Domestic-related services led the growth in this category and reversed the downward trend over the last two years.

Table 3.3B: Work Permits in Effect, December 2005-2007

	2005	2006	2007	2006/07 % Change
Trades/Tech/Skilled	10,576	11,143	11,637	4.4
Unskilled	8,411	8,016	9,727	21.3
Professional	1,957	2,397	2,690	12.2
Admin/Managerial	819	838	823	-1.8
Total	21,763	22,394	24,877	11.1

Source: Immigration Department and Economics and Statistics Office

The professional category contributed with a growth of 12.2 percent while the administrative/managerial category fell by 1.8 percent.

By industry classification, all categories recorded strong increases during 2007. The 'construction' category continued to account for the largest number of permits, which grew by 7.4 percent to 6,446 permits as at the end of December 2007. 'Private households with employed people' followed as the second largest with 4,241 permits. During the year 651 additional work permits were issued to individuals in this category.

Meanwhile, work permits for business services, consisting of 'skilled tradespersons (not in construction),' 'accountants,' 'security guards' and other business services rose by 9.0 percent to total 3,140 in 2007. The wholesale and retail sector also expanded by 8.6 percent to reach 2,789. Work permits to the financial services sector continued on an upward trajectory to increase by 12.2 percent to total 2,172 in 2007.

Table 3.3C: Work Permits for All Industries

	Dec 05	Dec-06	Dec-07	2006/07 % Change
Construction	6,448	6,002	6,446	7.4
Financial Services	1,743	1,935	2,172	12.2
Restaurant & Bars	2,082	2,397	2,638	10.1
Hotels and Condominiums	564	714	751	5.2
Business Services	2,718	2,882	3,140	9.0
Wholesale & Retail	2,261	2,568	2,789	8.6
Private Households w/ Employed People	3,799	3,590	4,241	18.1
Community, Social & Personal Services	1,286	1,305	1,530	17.2
All Other Industries	862	1,001	1,170	16.9
Total	21,763	22,394	24,877	11.1
CI Government Contracts	N/A	1,332	1,473	10.6

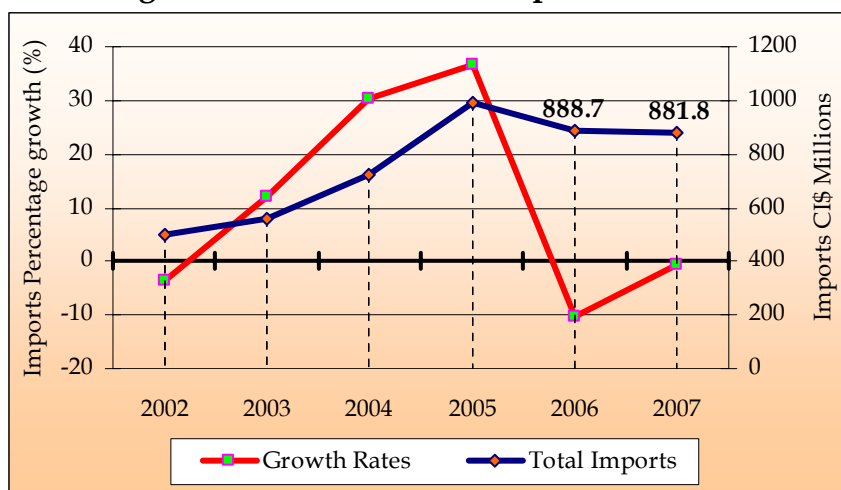
Source: Immigration Department and Economics & Statistics Office

Growth in the tourism sector pushed current work permits for hotels and condominiums combined with restaurants and bars to total 3,389, an increase of 8.9 percent. This was mainly a result of the large increase in demand for 'food and beverage servers', 'front desk personals' and 'sous chefs or skilled cooks.'

3.4 External Sector

Imports. Total merchandise imports in 2007 reached \$881.8 million, which was 0.8 percent lower than the level in 2006 mainly due to the easing of economic activity in the country (see Figure 3.4A). As shown in Table 3.4A, the decline is attributed to consumption goods and capital goods as both intermediate goods and fuel further grew in 2007.

Figure 3.4A: Merchandise Imports 2002-2007



Source: Economics and Statistics Office

Consumer goods imports fell by 2.9 percent in 2007 to settle at \$389.2 million following the strong growth for the previous two years (see Table 3.4A). The decline can be traced to the winding down of post-Ivan reconstruction coupled with a decline in new investments in accommodation.

Intermediate goods import rose by 11.5 percent during the period. Construction related materials imports increased by 8.1 percent to settle at \$98.5 million as compared to a year ago. Meanwhile, capital goods imports fell by 22.0 percent in 2007 as road transportation vehicles further declined by 29.3 percent following a similar drop in 2006. The successive years of decline in transportation vehicles were expected following a surge in vehicle importation following hurricane Ivan in 2004.

In 2007, the value of fuel imports amounted to \$160.0 million, up by 21.6 percent, from the 2006 level as average oil prices in the world market increased by 10.6

percent from US\$64.3 per barrel.¹¹ This also resulted from a higher quantity of imported gasoline by 11.4 million imperial gallons (or 45.9%), along with the increase in diesel by 2.7 million imperial gallons (or 32.5%) during the year.

Table 3.4A: Imports by Broad Economic Categories

	2004	2005	2006	2007
CI\$ Millions				
CONSUMER GOODS				
Total	281.4	346.8	401.0	389.2
Food and Beverages	136.0	166.1	213.8	218.1
Clothing and Footwear	10.1	15.1	16.2	16.0
Other	135.3	165.6	171.0	155.1
INTERMEDIATE GOODS				
Total	133.6	262.7	163.2	181.9
Construction	66.5	160.5	91.0	98.5
Others	67.1	102.2	72.3	83.3
FUEL	114.8	123.6	131.5	160.0
CAPITAL GOODS				
Total	195.0	262.2	193.0	150.7
Transportation	133.0	206.4	142.0	100.5
Others	61.9	55.8	51.0	50.2
TOTAL IMPORTS	724.7	995.3	888.7	881.8

Source: Economics and Statistics Office

Exports. Total merchandise exports in 2007 was estimated at \$21.5 million, an 11.9 percent improvement above the previous year, mainly due to significant increases in rum exports and re-exports.¹² Meanwhile, export of services was estimated at \$442.9 million, a surge of 3.6 percent over 2006, mainly on account of the growth in stay-over receipts.

¹¹ See International Monetary Fund (April 2008), World Economic Outlook (website: www.imf.org).

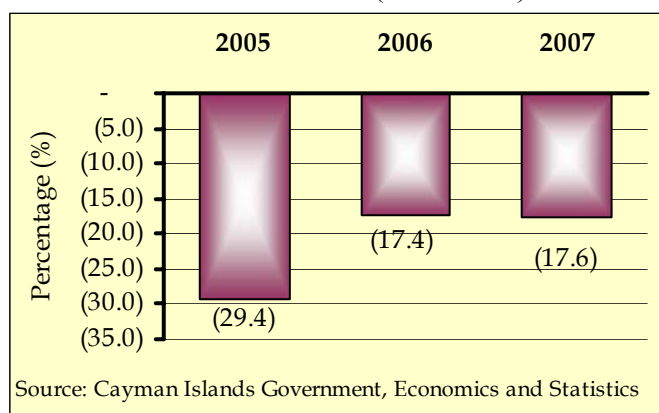
¹² Re-exports are goods imported into the Cayman Islands and is not of a permanent nature thus are re-exported when the intended purpose is complete. e.g. music equipments for shows and cultural celebrations, project equipments, etc.

Table 3.4B: Exports by Broad Economic Categories

	2004	2005	2006	2007
	CI\$ Millions			
Food & live animals	1.53	2.14	3.07	1.01
Beverages & tobacco	0.00	0.01	0.27	0.38
Crude Materials	2.41	0.28	0.33	1.83
Petroleum products and gas	0.00	0.01	0.03	0.02
Animal & vegetable oils,fats and waxes	0.00	0.09	0.00	0.40
Chemicals & related products	0.07	0.13	0.05	0.01
Manufactured goods classified chiefly by materials	1.48	1.99	0.18	0.64
Machinery & transport equipment	0.61	0.21	0.90	1.36
Miscellaneous manufactured articles	1.25	2.73	1.75	1.20
commodities & transactions not classified elsewhere	6.24	0.62	5.74	1.86
Total Domestic Merchandise Exports	13.60	8.20	12.31	8.71
Total Re-Exports	6.16	40.42	6.88	12.75
Total Merchandise Exports	19.75	48.63	19.19	21.45

Customs Department and Economics and Statistics Office

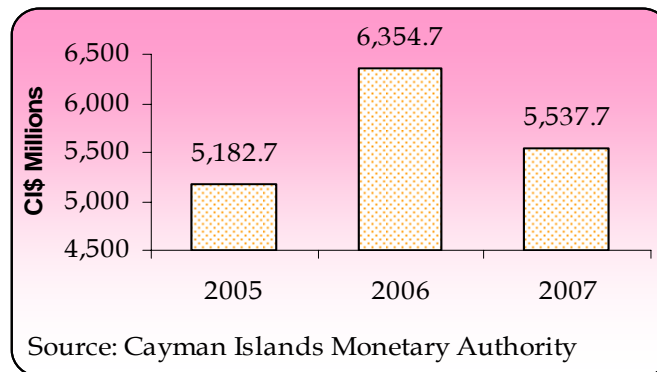
Current Account. With the decline in imports and increase in exports receipts, the country's current account deficit fell by 6.7 percent to \$376.8 million, or 17.6 percent of GDP (see Figure 3.4B).

Figure: 3.4B: Balance of Payments
 Current Balance (% of GDP)


3.5 Money & Banking

Total money supply (M2) which consists of the monetary liabilities of the Cayman Islands Monetary Authority (CIMA) and commercial banks was recorded at \$5,537.7 million in 2007, a decrease of 12.9 percent compared to 2006 (see also Box 2). Although M2 fell, it remained slightly higher than the 2005 figure (see Figure 3.5A and Table 3.5A). The \$817.0 million decline in M2 in 2007 and the \$106.0 million increase in nominal GDP led to a contraction in the ratio of M2 to GDP, from 312.3 percent during 2006 to 258.7 percent in 2007 (see Table 3.5B). This decline is normally interpreted as a weakening of financial sector depth, or the extent to which the financial sector mobilizes resources. However, it should be noted that Cayman’s M2-to-GDP ratio exceeds the equivalent ratio for most developed countries such as the US (54.1%) and Canada (51.2%)

Figure 3.5A: Total Money Supply (M2)



Based on the balance sheet concept, M2 is also equivalent to total assets of CIMA and the commercial banks, consisting of net foreign assets, net domestic assets and other items. In 2007, the total net foreign assets declined by 19.9 percent (\$954.7 million) which overshadowed the 6.1 percent increase in net domestic assets (\$129.7 million).

Box 2. Money Supply

1. What is Money?

Money is anything that is generally accepted as a *medium of exchange*, a *unit of account* and a *store of value*.

2. Official Definitions/Measures of Money

There is no universally applicable empirical definition of money supply and the choice may vary dependent on what issue is being examined. The monetary aggregates are alternative measures of the **money supply** by degree of liquidity¹³. The definitions for monetary aggregates available to the Cayman Islands are:

M0 – Base money or monetary base which is made up of notes and coins in circulation. Unlike most countries where M0 also includes reserves of the banking system with the central bank, this is not the case for the Cayman Islands

M1 – After M0 this is the next most liquid definition consisting of currency in circulation (M0) and demand deposits in the banking system.

M2 – this is made up of M1 plus time deposits, savings deposits and foreign currency deposits

3. Why report money supply?

Money supply has important economic significance in every country. In a currency board system such as the Cayman Islands where the domestic currency is pegged at CI\$1: US\$1.20, the country is required to keep sufficient foreign reserves to cover the notes and coins in circulation. Without a sufficient supply of reserves, the fixed exchange rate cannot be maintained.

Four indicators, M0/M2, M2/GDP, (M2-M1)/GDP and (M2-M1)/M1, are alternatively used to measure progress in the financial sector development (depth) which plays a key role in the economic growth process. The ratio of currency to broad money (M0/M2) is a measure of liquidity preference – it declines when the public is willing to put more of its funds into the banking system¹⁴, and is thus inversely related to public confidence in the system.

The ratio M2/GDP measures the overall size of the financial intermediary sector and a higher ratio indicates greater financial sector depth. However, the measure is not a perfect indicator of the financial sector development since it can also be used as a measure of monetization in inflation-prone countries. That is, M2 includes currency in circulation, which is usually in abundance in high inflation countries therefore boosting the size of M2. Hence, some studies use (M2-M1)/GDP or (M2-M1)/M1, which removes the effect of high levels of currency in circulation. Typical of high income countries, as the volume of deposits [(M2-M1)/GDP] grows, the size of private investment rises. Moreover, the ratio of quasi-money (M2-M1) to money (M1) or the share of relatively low liquidity to high liquidity increases as the financial sector grows.

¹³ An asset's **liquidity** refers to the ease with which it can be converted into cash.

¹⁴ This can be achieved by using alternative forms of money such as credit cards and debit cards as a medium of exchange.

Table 3.5A: Monetary and Banking Summary, 2005-2007 (CI\$ million)

				% Change
	2005	2006	2007	2006-2007
Net Foreign Assets	4,048.5	4,791.0	3,836.3	(19.9)
Monetary Authority	89.8	99.2	89.6	(9.7)
Commercial Banks	3,958.7	4,691.7	3,729.7	(20.5)
Net Domestic Assets	1,949.2	2,127.3	2,257.0	6.1
Other Items	(815.1)	(563.6)	(555.6)	1.4
Total Assets	5,182.7	6,354.7	5,537.7	(12.9)
Narrow Money (M1)	389.9	344.7	339.6	(1.5)
Quasi Money	4,792.7	6,009.9	5,198.1	(13.5)
Monetary Liabilities (M2)	5,182.7	6,354.7	5,537.7	(12.9)
M2/GDP (%)	268.5	312.3	258.7	(53.6)

Source: Cayman Islands Monetary Authority and Economics & statistics Office

Net foreign assets. As shown in Table 3.5B, total net foreign assets of CIMA and the commercial banks fell by 9.7 percent and 20.5 percent respectively, during 2007. The decline is a direct result of a large increase of \$1,231.5 million in foreign liabilities of commercial banks against a much lower (\$267.5 million) increase in increase in their foreign assets. Specifically, the increase in foreign liabilities is traced to the non-resident deposits which increased by 162.7 percent.

Table 3.5B: Net Foreign Assets, 2005-2007 (CI\$ million)

				% Change
	2005	2006	2007	2006-07
Net Foreign Assets	4,048.5	4,791.0	3,836.3	(19.9)
Monetary Authority	89.8	99.2	89.6	(9.7)
Commercial Banks	3,958.7	4,691.7	3,729.7	(20.5)
Foreign Assets	5,138.5	6,486.2	6,755.7	4.2
Balances with Banks & Branches	3,789.3	3,824.0	3,889.0	1.7
Total Investment	656.6	1,358.2	1,449.4	6.7
Loans & Advances to Banks & Branches	232.2	90.7	0.0	(100.0)
Total Non-Resident Loans	460.4	1,213.4	1,417.4	16.8
Foreign Liabilities	1,179.7	1,794.5	3,026.0	68.6
Total Non-Resident Deposits	1,006.5	1,117.2	2,934.5	162.7
Other Liabilities	173.3	677.3	91.5	(86.5)

Source: Cayman Islands Monetary Authority

Net domestic assets. Total net domestic assets or total domestic credit provided by the commercial banking sector increased by 6.1 percent during 2007. This directly follows from an increase in both credit allocated to the public and resident private sectors which expanded by 45.4 percent (\$59.4 million) and 3.5 percent (\$70.4 million) respectively (see Table 3.5C). The expansion in credit to the public sector is consistent with the increase in net borrowing of the central government (see Section 5.1). Meanwhile, the fall in lending rates in the second half of 2007 partially contributed to the rise in loans to the private sector.

Table 3.5C: Net Domestic Assets, 2005-2007 (CI\$ million)

	2005	2006	2007	% Change 2006-07
Net Domestic Assets	1,949.2	2,127.3	2,257.0	6.1
Net Domestic Credit to Public Sector	124.0	130.8	190.2	45.4
Net Domestic Credit to Private Sector	1,825.3	1,996.5	2,066.9	3.5

Source: Cayman Islands Monetary Authority

Credit to households – which accounts for over 60.0 percent of total credit to the private sector – increased by 9.7 percent in 2007. This is consistent with the increased household needs for acquiring property as mortgage and other property loans remained the dominant form of household loans expanding by \$50.4 million (4.9%). This is followed by motor vehicle loans increasing by \$2.6 million, and loans for education and technology rose by \$1.9 million. Other credit which includes consolidated debt, insurance, medical and travel to household increased by 127.5 percent primarily because of a large increase in consolidated debt (see Table 3.5D).

Lending to the private business sector – which accounts for over 38.1 percent of total credit to the private sector – increased by 6.5 percent in 2007. Among the increase were in real estate business (119.4%), construction (9.9%) and the hospitality industry (1.8%). However, loans to the utilities sector and trade and commerce industry declined by 8.6 percent and 11.7 percent respectively over the review period (see Table 3.5D).

Table 3.5D: Net Credit to the Private Sector, 2005-2007 (CI\$ million)

	2005	2006	2007	% Change 2006-2007
Total	1,825.3	1,996.5	2,066.9	3.5
Credit to Businesses	818.3	740.9	788.8	6.5
<i>Of which</i>				
Construction	85.6	141.1	155.1	9.9
Hotels, Restaurants and Bars	71.5	59.0	60.0	1.8
Real Estate, Renting & Other	177.0	136.2	298.8	119.4
Utilities (Electricity, Gas & Water)	29.0	12.9	11.8	-8.6
Trade & Commerce	87.5	97.3	85.9	-11.7
Credit to Households	887.5	1,130.4	1,240.6	9.7
Domestic Property	797.4	1,039.7	1,090.1	4.9
Motor Vehicles	43.7	44.4	47.0	5.8
Education and Technology	2.8	2.9	4.8	62.5
Others ¹	43.6	43.4	98.7	127.5
Other Non-Profit Organisations	119.5	125.2	37.5	-70.0

Source: Cayman Islands Monetary Authority

¹Other credit to households include consolidated debt, insurance, medical & travel.

Money Supply. Narrow money (M1) which is used mainly for transaction purposes continued to decline, contracting by 1.5 percent (\$5.1 million) in 2007 to reach \$339.6 million. This is a direct result of a decrease in total demand deposits of \$8.8 million (3.3%) which offset the \$3.7 million (4.8%) expansion in currency in circulation.

Quasi-money declined in 2007 by 13.5 percent. All components of quasi-money rose with the exception of foreign currency deposits which dropped by \$877.7 million (16.3%), mostly reflect the fall-off in US dollar-denominated deposits. The other components, fixed deposits and savings deposits rose by 13.9 percent and 3.2 percent respectively. The fall in interest rates in the second half of 2007 led to a reduction in the holdings of US dollars denominated deposits of about \$1,089.1 million as the public re-adjusted their portfolios to optimize their returns.

Table 3.5E: Money Supply, 2005-2007 (CI\$ million)

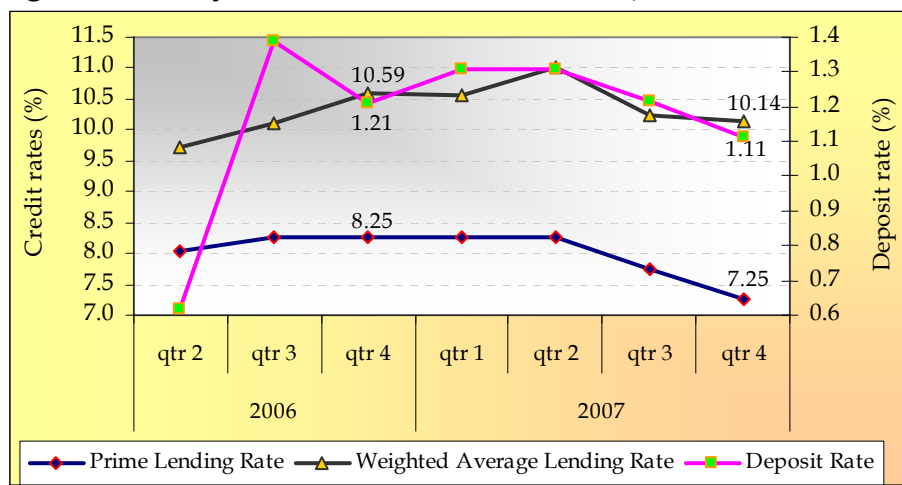
	2005	2006	2007	% Change 2006-2007
Monetary Liabilities (M2)	5,182.7	6,354.7	5,537.7	(12.9)
Narrow Money (M1)	389.9	344.7	339.6	(1.5)
Currency with the public	74.2	78.2	81.9	4.8
Total demand deposits	315.8	266.5	257.7	(3.3)
Quasi Money	4,792.7	6,009.9	5,198.1	(13.5)
Savings Deposits	222.3	205.0	211.7	3.2
Fixed Deposits	343.6	426.6	485.8	13.9
Foreign Currency Deposits	4,226.8	5,378.3	4,500.6	(16.3)

Source: Cayman Islands Monetary Authority

Interest Rates. The Cayman Islands’ prime lending rate fell by one percentage point in the second half of 2007 to tally at 7.25 percent at the end of 2007 (see Figure 3.5F). The downtrend followed the decline in the US Federal Funds Rate of equivalent magnitude (see Section 2.3). The weighted average rate on outstanding loans shows an upward trend up to the second quarter of 2007. The series fell in the subsequent quarters to tally at 10.14 percent at the end of 2007, consistent with the decline in the prime lending rate.

In line with the decline in the prime lending rate, the savings deposit rate also fell in the second half of 2007. Consequently, the interest on deposits (or savings) was 1.11 percent at the end of 2007, 0.10 percentage points below the rate at the end of 2006 (see Figure 3.5F).

Figure 3.5F: Cayman Islands Interest Rates (% – End of Quarter)



Source: Cayman Islands Monetary Authority

4. Key Sector Developments

Amidst the turbulence in the global financial market in 2007, Cayman's financial services industry turned in a strong performance in 2007, with all sectors experiencing growth with the exception of banks. Stay-over tourism sector continued to rebound but total arrivals declined due to the drop-off in cruise arrivals. The year 2007 was a period of consolidation in the construction industry after two years of sharp post-Ivan reconstruction growth. The real estate market also moved downward. However, the utilities sector remained robust following strong economic growth for the last three years.

4.1 Financial Services

The financial services industry is one of the two major economic sectors in the Cayman Islands contributing approximately 21.3 percent of government's revenue. The sector was resilient in 2007 as it kept pace with international best practices through changes in financial sector legislation (see Box 3).

The industry registered positive growth in insurance company licences, mutual funds, stock exchange listings and capitalization, and company registrations. Banking and trust continued its downward trend due mainly to consolidations in the industry.

Banks & trusts. The total number of bank & trust licences declined by 10 (or 3.4%) in 2007 to reach 281 of which pure trust companies numbered 138 at the end of 2007 compared to 134 a year ago (see Table 4.1A).

At the end of December 2007, Class 'A' bank & trust licences remained constant at 19 while Class 'B' bank & trust licences fell by 8 to settle at 261.¹⁵

¹⁵ A Class "A" license allows the license holder to conduct business both inside and outside the Cayman Islands. A Class "B" license holder is permitted to conduct business outside the Cayman Islands only.

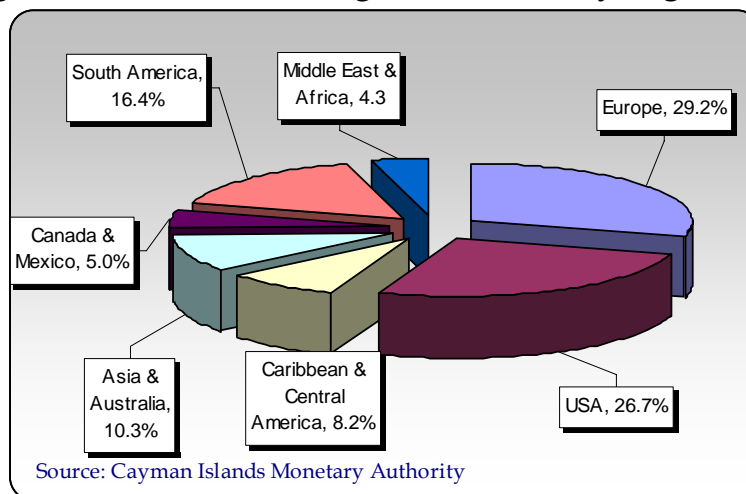
Table 4.1A: Bank & Trust Companies, 2005-2007

	2005	2006	2006-07	
			2007	% Change
Banks and Trust Licences	305	291	281	-3.4
Class 'A' Bank & Trust	21	19	19	0.0
Class 'B' Bank & Trust	284	269	261	-3.0
<i>of which</i> : Class 'B' Bank & Trust (Restricted)	3	3	1	-66.7
Trust Companies	127	134	138	3.0
Unrestricted	50	51	51	0.0
Restricted	77	83	87	4.8
	US\$ trillions			
External Position of Banks^a				
Assets	1.27	1.41	1.81	28.4
Liabilities	1.25	1.37	1.77	29.2

Source: Cayman Islands Monetary Authority

^aData available as of June 2007

Despite the decline in the total number of registered banks during the period, the Cayman Islands continued to attract licensees from Europe and the United States, representing 29.2 percent and 26.7 percent of total licences respectively.

Figure 4.1A: Number of Registered Banks by Region, 2007


Insurance. The insurance market continued to show a high level of activity with the total number of insurance licences increasing by 26 (or 3.4%), from 767 in 2006 to 793 in 2007.

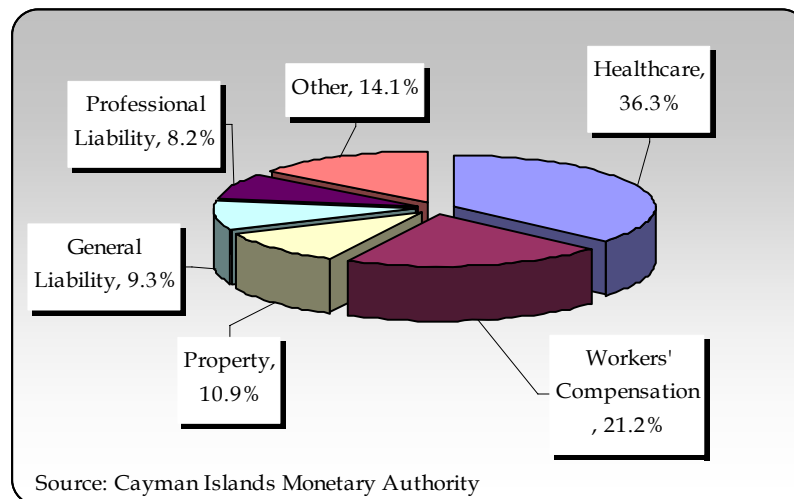
Table 4.1B: Captive Insurance Companies, 2005-2007

	2005	2006	2006-07	
			2007	% Change
Total Insurance Licences	759	767	793	3.4
Class 'A' Licences (Domestic)	26	27	28	3.7
Class 'B' Licences (Captives)	733	740	765	3.4
Unrestricted	670	674	692	2.7
Restricted	63	66	73	10.6
Financial Position of Captives	US\$ Billions			
Premiums	6.7	7.1	7.5	5.6
Net Income	0.9	1.3	1.9	46.2
Net Worth	5.9	6.7	8.4	25.4
Total Assets	26.7	29.6	32.9	11.1

Source: Cayman Islands Monetary Authority

Class 'A' insurance licences recorded a net increase of 1 for a final tally of 28 in 2007.

As in previous years, most of the growth in insurance licences came from the captive market as Class 'B' (captive) licences rose by 25 to tally at 765 in 2007. This market continued to be dominated by the following primary classes of business: healthcare (36.3%), workers' compensation (21.2%), property (10.9%), general liability (9.3%) and professional liability (8.2%) (see also Figure 4.1B).

Figure 4.1B: Captive Insurance Licences by Primary Class of Business, 2007


The Cayman Islands maintained its status as a leading offshore captive domicile, ranking as the second largest (after Bermuda) in the international insurance market. Total assets of Cayman-based captives reached US\$32.9 billion in 2007 rising by 11.1 percent from a year ago. North America continues to be the leading risk location for Cayman’s captive market, accounting for 89.9 percent of total companies registered. Companies originating from Caribbean and Latin America constitute 3.4 percent; Africa Asia and Middle East comprised 1.3 percent, Europe 1.2 percent and the rest of the world 4.2 percent.

Meanwhile, other financial indicators of captives also improved in 2007. Premiums for captives increased by about US\$400 million to register at US\$7.5 billion while their net income rose by about US\$500 million to reach US\$1.9 billion in 2007.

Mutual funds. Cayman’s role in international finance continued to strengthen through the hedge fund industry. The total number of mutual funds that were registered, administered and licensed in the country increased by 1,279 funds (or 15.7%) to tally at 9,413 in 2007.¹⁶

Table 4.1C: Mutual Funds, 2005-2007

	2005	2006	2006-07	
			2007	% Change
Registered Mutual Funds	6,429	7,481	8,751	17.0
Administered Mutual Funds	598	548	543	-0.9
Licensed Mutual Funds	79	105	119	13.3
Total	7,106	8,134	9,413	15.7

Source: Cayman Islands Monetary Authority

Whereas the number of licensed and registered mutual funds showed positive growth of 13.3 percent and 17.0 percent respectively; administered funds slowed down by 0.9 percent. The continuous decline in the number of administered funds is expected due to the amendment in the “definition of carrying on mutual

¹⁶*Registered Fund* – A mutual fund that either has a US\$100,000 minimum subscription or has its equity interest listed on a CIMA-recognized stock exchange. This type of fund is not required to have a license but must be authorized by CIMA.

Administered Mutual Fund – A mutual fund whose principal office is provided by a CIMA licensed-administrator that ensures that the fund is run in a fit and proper manner. This type of fund is not required to have license but must be authorized by CIMA.

Licensed Mutual Fund – A mutual fund granted a license to carry on business on or from the Cayman Islands. The types of funds which must be licensed and the criteria for granting licenses are set out in the Mutual Funds Law (2007).

fund business” in the Mutual Funds Law in November 2006. The revised definition restricts foreign funds from being registered simply because they have a Cayman Islands domiciled administrator. Consequently, several mutual funds in the administered mutual funds category no longer qualified as administered funds.

Stock exchange. The Cayman Islands Stock Exchange (CSX) continued to improve its performance in 2007. Stock listings rose by 42.7 percent (or 523 listings) to register at 1,748 during the review period. Stock market capitalisation increased by 50.9 percent (or approximately US\$56.8 billion) to sum up to US\$168.3 billion (see Table 4.1D).

The growth of CSX is mainly a result of the growth in mutual funds. Mutual funds represent 57.9 percent of the total capitalization, with the remainder accounted for by specialist debt (29.7%), Eurobonds (11.2%), and international (1.1%) and domestic equity (0.1%).

Table 4.1D: Market Capitalization, 2005-2007

	2005	2006	2006-07	
			2007	% Change
Mutual Funds	64.8	81.0	97.4	20.2
Specialist Debt	5.2	19.8	50.1	152.6
Eurobond	3.4	8.6	18.8	119.5
International Equity	2.1	1.9	1.9	0.0
Domestic Equity	0.1	0.2	0.2	0.3
Total	75.6	111.5	168.3	50.9

Source: Cayman Islands Stock Exchange

Companies registry. Amidst the turbulence in the global financial market, total company registrations rose by 3,577 (or 4.3%) during 2007 to reach 87,109 (see Table 4.1E). New company registrations increased by 1,961 (or 16.0%) to reach 14,238.

The additions to company registrations were seen in foreign companies (23.9%) and exempt companies (18.3%). However, resident and non-resident companies decreased by 9.7 percent and 6.3 percent respectively over the same period.

Table 4.1E: Company Registrations, 2005-2007

	2005	2006	2007	2006-07 % Change
Total Company Registrations	74,905	83,532	87,109	4.3
New Company Registrations	<u>10,210</u>	<u>12,277</u>	<u>14,238</u>	16.0
Exempt (EX)	8,694	10,735	12,697	18.3
Non-Resident (NR)	595	569	533	-6.3
Resident (RES)	650	588	531	-9.7
Foreign (FO)	271	385	477	23.9

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

The **Banks and Trust Companies Law (2007 Revision)** amended the Banks and Trust Companies Law (2003 Revision) for the preparation process of implementing the new Basel 11 framework between 2010 and 2012. The new measures include the revision of capital adequacy requirements (requiring all licence holders to have capital adequacy ratio of not less than 10 percent at any time or any percentage CIMA specifies), enforcing greater reporting obligations on the auditors of licensees, increasing the protection of depositors and beneficiaries of a trust, and increasing CIMA's regulatory powers in relation to banks and trust companies.

The Insurance Law (2007 Revision) amends the Insurance Law (2004 Revision) giving greater consumer protection provisions in the operation of insurers, particularly approved external insurers. Under the new law, approved external insurers are required to keep a fund maintained under a CIMA-approved trust with discharge of the insurer's obligation in respect of its Cayman Islands domestic business. Approved external insurers are also now required to submit annual accounts and financial statements to CIMA. Additionally, proceeds of a policy contract are specified as payable only to policy holders and beneficiaries under the policy.

The Mutual Funds Law (2003 Revision) was amended by The **Mutual Funds Law (2007 Revision)** to clarify and formalize the power and functions of CIMA. Among other amendments, the threshold for minimum investment in registered funds was raised to CI\$100,000 from CI\$50,000. The definition of "carrying on business in the Islands" was revised to indicate the situation where a mutual fund makes an invitation to the public in the Islands to subscribe for its equity interest, it is carrying on business in the Islands. This is therefore subject to regulation. In addition, certain retail funds from approved jurisdictions are listed on a stock exchange specified by CIMA (and the funds are being sold through a person licensed under the local Securities and Investment Business Law) can be marketed without local registration, licensing or administration.

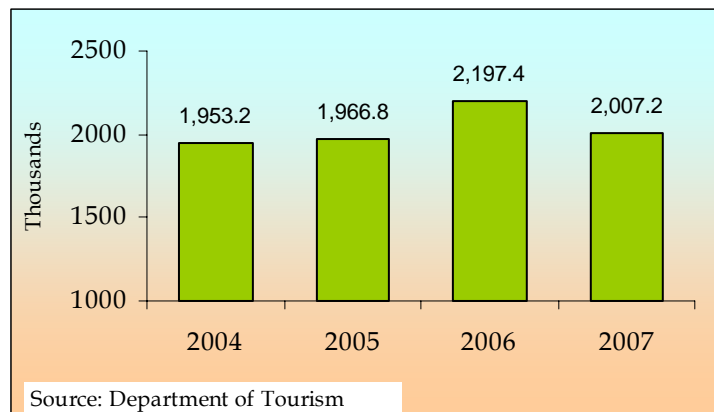
E-reporting – CIMA introduced the e-reporting in March 2007 which is used for electronic submission of audited accounts and annual return of mutual funds registered in the Cayman Islands. The documents should be submitted within six months of the fund's financial year-end.

Source: CIMA website (www.cimoney.com.ky)

4.2 Tourism

The tourism sector staged a mixed performance in 2007. While growth in air arrivals has improved since 2005, a decline was noted in the number of cruise passengers arriving to the Cayman Islands.

Figure 4.2A: Tourist Arrivals in 2004-2007

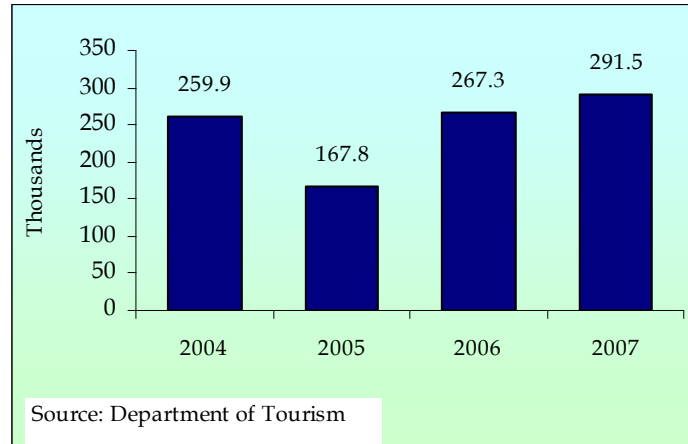


Total visitor arrivals stood at 2,007,172 in 2007, an 8.7 percent decrease compared to a year ago. Air arrivals accounted for 291,506 visitors, a growth of 9.1 percent from the 2006 level (see Figure 4.2A). In contrast, cruise arrivals reached 1,715,666 visitors, 11.1 percent lower than the previous year. The growth in stay-over arrivals is consistent with statistics released by the World Tourism Organization (WTO), which points to the expansion of arrivals worldwide by 6.0 percent to reach a new record of 898 million, as compared to 2006.

In addition to the global trend, stay-over arrivals to Cayman was also boosted by new services by Cayman Airways, the weakening of the US dollar, and improvement in bedroom capacity.

Stay-over market. Despite the termination of flights to Fort Lauderdale and Boston in May by Cayman Airways, stay-over arrivals to the Cayman Islands were further boosted by its newly re-launched direct service to the New York region, after nearly 15 years.

Figure 4.2B: Air Arrivals, 2004-2007



Overall, arrivals from the USA grew by 6.7 percent. Arrivals from Europe, Canada and other regions registered stronger (double-digit) growth rates. This was most likely due to the weakening of the US dollar against the Euro, Canadian dollar and other major currencies, which made tourism services in the Cayman Islands more competitive in terms of relative prices.

Nevertheless, the United States remained the biggest market for stay-over tourism in the Cayman Islands, as it accounted for 79.5 percent of the total market while Europe and Canada comprised 7.0 percent, and 6.0 percent, respectively. Within the United States the Northeast remained the largest source of visitors by a share of 26.2 percent (see Table 4.2A). This composition is further detailed as follows: Southeast (17.9%), Midwest (17.0%), Southwest (12.1%), and the West Coast (6.3%). The West Coast market remained the smallest source of visitors; however, it registered the highest growth of 14.1 percent in 2007.

Table 4.2A: Stay-over Arrivals by Country of Origin, 2005-2007

	2005	2006	2007	Absolute Change	% Change
In Thousands					
USA	118.8	217.4	231.9	14.5	6.7
Northeast	35.8	69.7	76.3	6.6	9.5
Midwest	26.2	47.4	49.7	2.3	4.8
Southeast	29.1	50.6	52.0	1.4	2.8
Southwest	18.6	33.5	35.4	1.9	5.6
West Coast	9.1	16.2	18.4	2.3	14.1
Europe	13.2	17.4	20.4	2.9	16.9
Canada	10.5	14.9	17.4	2.4	16.4
Other	25.3	17.6	21.9	4.4	24.8
Total	167.8	267.3	291.5	24.2	9.1

Source: Cayman Islands Department of Tourism

During the start of the year, the first phase of the new Western Hemisphere Travel Initiative (WHTI) was implemented. This new regulation, established by the United States Department of State and Homeland Security, requires that all passengers travelling by air present a passport when entering or departing the US from countries within the western region. Overall, results of the WHTI have shown little disruption to travel, thus far, as nearly all western travellers previously possessed passports. Implementation of the second phase of the initiative (i.e. sea-cruise/land border travel) is scheduled for June 1, 2009.

As reported by the Department of Tourism (DOT), a total of 4,484 bedrooms remained in operation as at year-end which surpassed the previous figure of 3,907. Similarly, the total number of licensed tourism accommodation properties increased from 178 to 236 in 2007. Whereas, the room stock experienced some losses with the closure of the 66-room Spanish Bay Reef Hotel in July, the opening of other properties such as the Wembley building of Morrit's Tortuga Club also served to sustained local room supply.

Actual use of accommodation improved as the average hotel occupancy rate rose slightly from 59.4 percent in 2006 to 61.7 percent in 2007. While apartments/condominiums occupancy rates also rose from 40.7 percent to 42.5 percent.

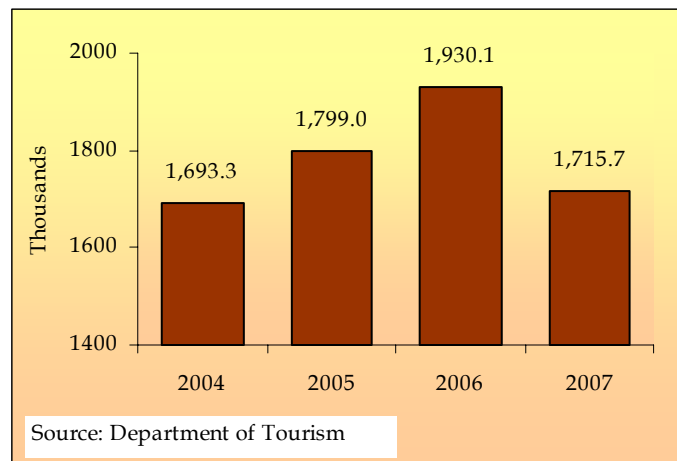
With respect to the average length of stay at local establishments, this also improved for both hotels and apartments/condos from 4.5 to 4.7 days, and 6.6 to 6.7 days, in 2006 and 2007, respectively.

Cruise Market. The cruise ship sector remained the largest contributor of visitors to the Cayman Islands in 2007. Cruise ship visitors totalled 1,715,666 during the year, compared with 1,930,136 in 2006, a decrease of 11.1 percent (see Figure 4.2C).

An 18.1 percent decrease in the number of cruise ship calls was also noted, which totalled 657 at year-end. This fall reversed the 2.3 percent increase recorded last year.

In January, the luxury vessel, *Europa*, visited Cayman Brac with a total number of 350 passengers. This was the first cruise ship call to the Sister Islands since April 2001.

Figure 4.2C: Cruise Arrivals, 2004-2007



Cruise passengers per day averaged 4,766 persons, which was 595 visitors less than the average a year ago.

With the restoration of Mexican ports previously damaged by Hurricane Wilma in 2005, cruise vessels returned to their regular schedules over the past year; resulting in fewer cruise arrivals to the Cayman Islands. Moreover, increased competition within the cruise market as a result of widening demand in both the Asian and European market also contributed to the decline.

Tourism Expenditures. Total estimated tourist expenditures in 2007 fell to \$399.1 million, or 6.6 percent from a year ago.

Total spending of stay-over tourists climbed to an estimated \$316.5 million, an 10.7 percent improvement over 2006 (see Table 4.2B). In addition to the 9.1 percent increase in the number of arrivals, the rise in total receipts also resulted from higher spending per person at \$1085.6 compared to \$1069.8 in 2006. The latter may be attributed to the increase in demand for higher-value services from new facilities such as the Ritz Carlton coupled with strong growth in spending of non-U.S. tourists due to the depreciation of the US dollar against other major currencies.

Table 4.2B: Visitor Expenditure, 2005-2007

	2005	2006	2007	% Change 2006-07
Stay-over Expenditure				
Avg Spending per Person	874.9	1,069.8	1,085.6	1.5
Avg Spending per Day/Night	115.3	161.5	164.4	1.8
Total Spending (\$Millions)	146.8	285.9	316.5	10.7
Cruise Expenditure				
Avg Spending per Person	92.5	81.4	53.5	(34.3)
Total Spending (\$Millions)	149.8	141.5	82.6	(41.6)
Total	296.6	427.4	399.1	(6.6)

Source: Cayman Islands Department of Tourism

In contrast, total spending of cruise tourists continued on a downward trajectory in 2007 as it fell by 41.6 percent to \$82.6 million from a year ago. This is a result of an 11.1-percent drop in cruise visitors, and a sharp fall (34.3%) in average spending per person.

4.3 Construction

Building permits. In 2007, the number of building permits fell to 1,090 from 1,290 a year ago. This decline signals the beginning of an anticipated downward trend in view of the stabilization of the re-stocking of housing supply following hurricane Ivan in 2005 and 2006.

The number of building permits in the residential sector fell by 19.8 percent from 891 in 2006 to 715 in 2007. The sharpest decline occurred in the apartment/condominium category, which fell by 41.4 percent to 219 in 2007.

Building permits for commercial and industrial categories also declined by 71.4 percent and 5.6 percent respectively. In contrast, building permits for both government and hotel categories doubled during this period.

Table 4.3A: Grand Cayman Building Permits

Sectors	2004	2005	2006	2006-07	
				2007	% Change
Houses	341	533	517	496	-4.1
Apt./Condominiums	145	164	374	219	-41.4
Hotel	0	31	2	4	100.0
Government	8	5	8	16	100.0
Commercial	26	163	197	186	-5.6
Industrial	42	8	35	10	-71.4
Other	192	64	157	159	1.3
Total	754	968	1,290	1,090	-15.5

Source: Cayman Islands Planning Department

A handful of large-scale projects in the commercial and government categories, however, boosted the total value building permits. Between 2006 and 2007, this indicator remained largely unchanged, increasing by 0.1 percent only to reach \$446.3 million in 2007 (see Table 4.3B).

Table 4.3B: Grand Cayman Building Permits

Sectors	2004	2005	2006	2006-07	
				2007	% Change
Millions of CI\$					
Houses	66.8	145.9	119.6	100.7	-15.8
Apt./Condominiums	46.1	96.3	172.4	116.4	-32.5
Hotel	-	8.1	0.3	1.0	284.7
Government	1.2	7.3	0.9	6.1	613.1
Commercial	7.5	71.9	118.5	183.2	54.6
Industrial	7.9	3.5	12.1	4.3	-64.5
Other	12.5	2.8	22.1	34.6	56.2
Total	142.0	335.8	445.8	446.3	0.1

Source: Cayman Islands Planning Department

Project approvals. Project approvals peaked at \$638.9 million in 2006 due to strong growth in apartments/condominiums. In 2007, the value of project approvals declined by 20.9 percent to \$505.2 million despite the growth in housing, hotels and governmental project approvals. The depression of approvals in terms of value was most pronounced in the apartments/condominiums category which fell 61.7 percent. Similarly, there were strong declines in the commercial, industrial and other categories.

Table 4.3C: Cayman Islands Planning Approvals, 2004-2007

Category	2004	2005	2006	2006-07	
				2007	% Change
Millions of CI\$					
Houses	74.1	111.7	81.6	137.7	68.9
Apartment/Condo	153.8	196.1	294.3	112.8	-61.7
Hotel	45.0	16.2	11.5	55.0	376.5
Government	4.2	3.9	10.2	56.6	455.0
Commercial	135.1	104.6	120.4	72.1	-40.2
Industrial	11.4	21.0	45.9	8.4	-81.7
Other	46.4	66.9	74.9	62.6	-16.5
Total	470.0	520.5	638.9	505.2	-20.9

Source: Cayman Islands Planning Department

Similarly, the number of projects also fell in 2007 by 11.1 percent to settle at 1,227. With the exception of houses, all other categories declined, led by apartments/condominiums which fell by 46.8 percent.

Table 4.3D: Cayman Islands Planning Approvals, 2004-2007

Sectors	2004	2005	2006	2007	2006-07 % Change
Houses	395	575	375	472	25.9
Apt./Condominiums	112	136	222	118	-46.8
Hotel	1	4	2	1	-50.0
Government	17	20	25	19	-24.0
Commercial	65	104	75	61	-18.7
Industrial	21	27	40	14	-65.0
Other	502	467	641	542	-15.4
Total	1,113	1,333	1,380	1,227	-11.1

Source: Cayman Islands Planning Department

Certificates of Occupancy. In 2007, the seal of occupancy certificates declined by 6.6 percent to settle at 494 as compared to a record high of 529 in 2006. The commercial category dipped by 6.0 percent while the residential categories (houses and apartments/condominiums) declined by 10.9 percent. The latter trend is consistent with the expectation of a general decline in residential construction in the aftermath of the boom in recent years. Bucking these trends, the certificates of occupancy rose in the industrial and other categories.

Table 4.3E: Certificates of Occupancy, Grand Cayman Islands, 2004-2007

Sectors	2004	2005	2006	2007	% Change 2006-07
Houses	197	183	281	240	-14.6
Apt./Condominiums	80	71	150	144	-4.0
Hotel	1	0	3	1	-66.7
Government	1	0	1	1	0.0
Commercial	14	41	83	78	-6.0
Industrial	2	2	8	23	187.5
Other	39	0	3	7	133.3
Total	334	297	529	494	-6.6

Source: Cayman Islands Planning Department

Similarly, the monetary value of properties granted with completion approval also declined by 14.8 percent compared to the jump a year ago. The combined commercial and industrial properties recorded an increase of 175.4 percent, mainly due to high-valued properties completed during the review period. These include properties in Camana Bay along with those in Governor's Square. Meanwhile, the value of residential properties declined by 1.3 percent in comparison to last year¹.

Table 4.3E: Certificates of Occupancy, Grand Cayman Islands, 2004-2007

Sectors	2004	2005	2006	2007	% Change 2006-07
Millions of CI\$					
Houses	36.9	37.6	56.1	55.5	(1.1)
Apt./Condominiums	21.9	46.0	61.8	60.9	(1.4)
Hotel	4.4	-	34.7	-	(100.0)
Government*	0.3	-	-	-	
Commercial*	2.2	9.6	13.6	32.5	139.3
Industrial	0.2	0.5	4.3	6.8	59.8
Other	0.8	-	37.1	21.0	(43.3)
Total	66.6	93.6	207.6	176.8	(14.8)

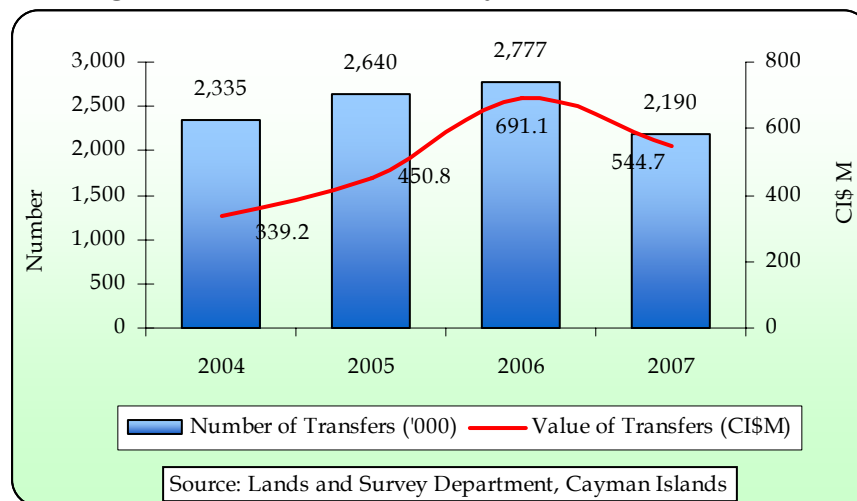
* No value for Certificate of Occupancy was collected in 2007

Source: Cayman Islands Planning Department

4.4 Real Estate

In 2007, real estate activity slowed with the number of transferred freehold properties falling by 21.1 percent from 2,777 to 2,190 when compared to a year ago. Total values of transferred freehold property also fell by similar margins from \$691.1 million in 2006 to \$544.7 million in 2007.

Figure 4.4: Freehold Property Transfers, 2004-2007



Along the Seven Mile Beach, unprecedented sale of condominiums saw a record number of leasehold transfers (360) taking place in 2007. However, the total value of this category declined steeply from \$119.1 million in 2006 to \$23.2

million in 2007 (owing to strong sales of Water's Edge and Residences at the Ritz Carlton in the previous year).

4.5 Utilities and Telecommunications

Utilities. Local electricity production rose by 9.1 percent to 584.4 kWh as at year-end 2007 (see Table 4.5A). The increase in electricity production was driven by growth in demand which increased by 8.7 percent to 534.2 kWh as at December 2007. All categories of electricity consumption recorded increases: commercial (up 8.3%), residential (up 9.3%) and public lighting (up 1.9%).

Similarly, water consumption increased further by 6.2 percent in 2007 compared to 2006 on account of increases by the following categories of users: residential (8.5%), commercial and industrial (0.8%), and public authority (72.0%). Water demand by truckers was, however, on the decline in 2007 by 14.0 percent.

Table 4.5A: Utilities Production/Consumption, 2005-2007

	2005	2006	2007	2006-07 % Change
Water				
Water Consumption (<i>millions of US gallons</i>)	1,301.7	1,560.6	1,657.7	6.2
Electricity				
Electricity Production (kWh)	453.8	535.7	584.4	9.1
Electricity Consumption (<i>kWh</i>)	427.7	491.5	534.2	8.7
• Residential	200.3	228.2	249.4	9.3
• Commercial	222.4	258.0	279.4	8.3
• Public	5.0	5.3	5.4	1.9

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

Telecommunications. Growth in the local telecommunications sector strengthened during the year with a 6.9 percent increase in the number of fixed and mobile lines. This translated into an average of 2.46 lines per capita as compared to 2.35 the previous year. In addition, utilization (in minutes) per line was also longer by 0.37 percent.

Both major providers (Cable and Wireless and Digicel) sought to upgrade their services further in 2007. Improved high-speed Broadband plans were introduced by Cable and Wireless in an effort to accommodate growing demand. In the meantime, Digicel launched its Code Division Multiple Access (CDMA) service, in partnership with Huawei Technologies, which aims to increase roaming

capabilities for North American tourists and business travellers while in the Cayman Islands.

Table 4.5B: Telecommunication Sector Indicators, 2005-2007

Indicators	2005	2006	2007	2006-07 % Change
Fixed and mobile lines in service as of year-end	110,656	122,167	130,622	6.9
Total lines to population ratio*	2.29	2.35	2.46	4.7
Total domestic and international minutes for fixed and mobile lines ('000)	323,572	369,699	444,213	20.2

*Using mid-year population

Source: Information Communication and Technology Authority (ICTA)

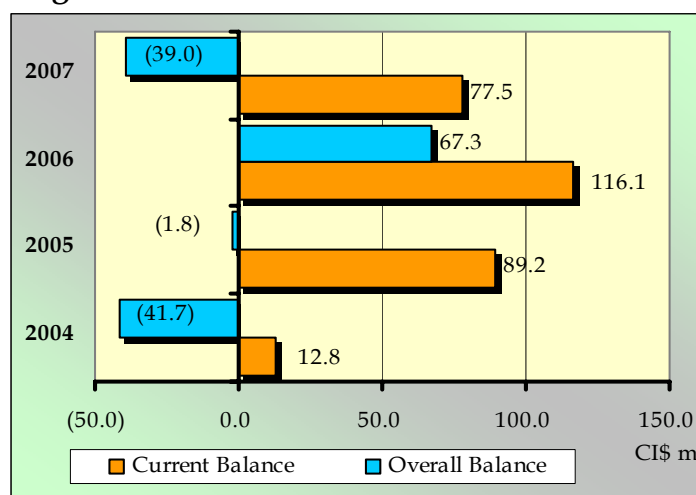
5. Fiscal Operations of the Central Government

Amidst the moderate economic expansion in 2007, the overall fiscal position suffered as revenue collection grew marginally, predominantly through domestic sources. Adjustment in the civil servants' cost of living allowance contributed to the growth in recurrent expenditures coupled with an expansion in capital and net lending expenditures. The growth in expenditure outlay resulted in a decline in cash reserves and an increase in central government debt.

5.1 Overview

In 2007, the fiscal performance for the Cayman Islands deteriorated as strong growth in expenditure outpaced the moderate increase in revenue. Total revenue grew by 2.5 percent to reach \$512.9 million, whereas, total expenditure grew by 27.4 percent, to total \$552.0 million (see Table 5.1). This resulted in an overall fiscal deficit of \$39.1 million or 1.8 percent of GDP as compared to a surplus of \$67.3 million in 2006 (or 3.3% of GDP). This sharp downturn in the overall balance¹⁷ came from a reduced current surplus¹⁸ to \$77.4 million from \$116.1 million a year ago (see Figure 5.1).

Figure 5.1: Central Government Fiscal Balance



Source: Cayman Islands Treasury Department

¹⁷ Overall balance is total revenue less total expenditure.

¹⁸ Current surplus (deficit) is total current revenue (coercive revenue plus non-coercive revenue) less current expenditure.

The marginal increase in revenue during 2007 was associated with the strong growth in collections from domestic taxes on goods and services which, however, were partially offset by the decline in receipts from international trade and transactions. Domestic taxes on goods and services were boosted through the introduction of new revenue measures for the financial year 2006/7. Some of the new revenue measures were higher work permits fees, planning fees, general registry fees, legal practitioners' fees, law firms' operational licenses and bank and trust licenses and application fees.

Table 5.1: Summary of Fiscal Operations, 2004-2007

	2004	2005	2006	2007	% Change 2006/07
	Millions of Cayman Islands Dollars				
Total Revenue	336.4	428.5	500.4	513.0	2.5
Total Expenditure	378.1	430.3	433.1	552.0	27.4
Current Expenditure	349.2	339.4	384.3	435.4	13.3
Extraordinary Expenses	0.0	39.4	7.2	3.2	(55.1)
Other Executive Expenses	0.0	3.0	2.0	7.4	270.0
Capital Expenditure & Net Lending	28.9	48.5	39.6	105.9	167.2
Current Balance	12.8	89.2	116.1	77.5	(33.2)
Overall Balance	(41.7)	(1.8)	67.3	(39.0)	(158.0)
Financing	41.7	1.8	(67.3)	39.0	(158.0)
Net Borrowing	13.8	27.6	(4.5)	35.9	(897.8)
Change in Cash (minus=increase)	27.9	(25.8)	(62.8)	3.1	(104.9)

Source: Cayman Islands Treasury Department

On the expenditure side, capital expenditure and net lending rose sharply by 167.2 percent in 2007, coupled with a 13.3 percent increase in current expenditure. The latter was precipitated by strong growth in personnel cost, subsidies and transfer payments.

5.2 Revenue

During 2007, revenue grew moderately by 2.5 percent to reach \$512.9 million. The growth emanated from higher work permit fees and other fees (see Table 5.1). The revenue to GDP ratio fell slightly to 24.0 percent compared to 24.6 percent in 2006.

Total revenue comprises both coercive (87.3% of total) and non-coercive revenue (12.7% of total). Coercive revenue which totalled \$448.0 million, posted a meagre increase of \$5.5 million, or 1.2 percent, over the receipts in 2006 (see Table 5.2A).

On the other hand, non-coercive revenue amounted to \$64.9 million and rose by 12.1 percent over the previous year.

Table 5.2A: Revenue Collection of Central Government

Revenue Sources	2004	2005	2006	2007	% Change 2006/07
Millions of Cayman Islands Dollars					
Coercive Revenue	303.2	376.3	442.5	448.0	1.2
Taxes on Int'l Trade & Transactions	132.2	171.9	187.0	178.6	(4.5)
Domestic Taxes on Goods & Services	144.8	171.5	193.7	223.2	15.2
Taxes on Property	22.3	21.4	47.2	37.2	(21.1)
Fines	0.8	0.9	1.6	1.7	11.1
Other Taxes	3.1	10.6	13.1	7.3	(44.4)
Non-coercive Revenue	32.8	52.3	57.9	65.0	12.3
Sale of Goods & Services	30.7	40.8	53.8	58.4	8.7
Investment Revenue	2.1	4.3	0.1	6.2	5,495.1
Operating and Other Revenue	0.0	1.6	4.0	0.4	(90.0)
Extraordinary items	0.0	5.5	0.0	0.0	

Source: Cayman Islands Treasury Department

Coercive revenue from international trade and transactions. Receipts from international trade and transactions which comprised 39.9 percent of coercive revenue in 2007, declined by 4.5 percent to reach \$178.6 million (see Table 5.2B). Comparatively, this reflects a weaker performance against its contribution of 42.3 percent in 2006.

Table 5.2B: Revenue from Import Duties 2004-2007

	2004	2005	2006	2007	Absolute Change	% Change
Millions of Cayman Islands Dollars						
Import Duties	117.6	155.7	168.4	163.3	(5.1)	(3.0)
Gasoline/Diesel	16.1	19.2	22.0	24.0	2.0	9.0
Alcoholic Beverages	13.3	13.5	15.3	14.1	(1.2)	(7.8)
Motor Vehicles	15.3	25.7	13.9	12.7	(1.2)	(8.7)
Tobacco Products	2.8	3.2	3.2	2.9	(0.3)	(9.8)
Other Import Duties	70.1	94.1	114.0	109.7	(4.3)	(3.8)
Cruise Ship Departure Charges	9.9	11.3	12.4	10.3	(2.0)	(16.5)
Environmental Protection Fund Fees	4.7	4.9	6.3	4.9	(1.3)	(21.2)
Taxes on International Trade	132.2	171.9	187.0	178.6	(8.4)	(4.5)
Percentage Contribution (%)						
Import Duties	89.0	90.6	90.0	91.4		

Source: Cayman Islands Treasury Department

The decline in revenue from international trade and transactions is traced to all of the three major sources: import duties (down by 3.0%), cruise ship departure charges (down by 16.5%) and environmental protection fund fees (down by 21.2%). The slippage in import duties was due to the 0.8 percent drop in merchandise imports (see Section 3.4). All categories of import duties fell except receipts from gasoline/diesel which rose by 9.0 percent.¹⁹ Meanwhile, revenue from cruise ship market also fell with the 11.1 percent drop in cruise ship visitors during 2007.

Coercive revenue from domestic taxes on goods and services. Revenue collections from domestic taxes totalled \$223.2 million in 2007, 15.2 percent over the collections of a year ago (see Table 5.2C). Collections from work permits rose by 51.7 percent, which could also be correlated with fee increases in some permit categories as well as the increase in work permits (see Section 3.3). Other stamp duties fell slightly to \$12.7 million from \$13.4 million in 2006.

Despite a \$10.6 million increase in fees associated with mutual funds administration, total fees from various financial services still declined by 1.6 percent. The significant increase in mutual funds fees followed from a 15.7 percent increase in mutual funds (see Table 4.1C). This however, was offset by a downturn in revenues from exempt company fees by \$10.2 million. The revenues from other company fees fell despite an 18.3 percent hike in the registration of new companies in this category (see Section 4.1, Table 4.1D).

Other sources of domestic revenue also showed upbeat contribution in 2007. Other domestic taxes surged by 56.2 percent, while traders' licences and Information and Communication Technology Authority (ICTA) licences and royalties strengthened by 25.1 percent and 5.4 percent respectively.

¹⁹ The quantity of gasoline imported increased by 11.4 million imperial gallons (or 45.9%) while diesel increased by 2.7 million imperial gallons (or 32.5%) during the year.

Table 5.2C: Domestic Taxes on Goods and Services, 2005-2007

	2005	2006	2007	% Change
Millions of Cayman Islands Dollars				
Domestic Taxes				
Various financial service licenses	107.3	110.8	109.0	(1.6)
ICTA licences & royalties	7.3	8.2	8.6	5.4
Work permit fees	28.7	30.8	46.7	51.7
Other stamp duties	7.6	13.4	12.7	(5.1)
Traders' licenses	6.0	4.7	5.9	25.1
Other domestic taxes	14.7	25.8	40.3	56.2
Domestic Taxes on Good & Services	171.5	193.7	223.2	15.2

Source: Cayman Islands Treasury Department

During the year, revenue from taxes on property declined by 21.1 to settle at \$37.2 millions. Additionally, fines increased by 11.1 percent to \$1.7 million while other taxes plummeted by 44.4 percent to \$7.3 million.

Non-coercive revenue. This source turned in a stronger performance in 2007, to total \$64.9 million or 12.1 percent higher from the collections a year ago (see Table 5.2). Sales of goods and services generated \$58.4 million during the year, an increase of 8.7 percent. Investment income soared to \$6.2 million from \$0.1 million in 2006, off-setting the 91.8 percent reduction in operating and other income.

5.3 Expenditure

Expenditure escalated in 2007 to \$552.0 million, up 27.4 percent over the previous year (see Table 5.1). As a proportion to GDP, total expenditure rose from 21.3 percent in 2006, to 25.8 percent in 2007. This jump was primarily due to a 167.2 percent increase in capital expenditure and net lending coupled with a 13.3 percent increase in current expenditure.

Current expenditure. In 2007, personnel costs expanded to \$213.5 million, higher by 16.9 percent compared to 2006 (see Table 5.3A). This included adjustments in cost of living allowance and increases due to a higher number of personnel from 3,520 in 2006 to 3,843 in 2007. Additionally, contributions to unfunded pension liability increased by \$8.0 million. Spending on supplies and consumables fell by 7.3 percent to reach \$101.0 million in 2007 following a sharp increase in 2006. Subsidies increased by 31.7 percent on account of increased

government support for Statutory Authorities and Government companies: University College of the Cayman Islands (UCCI) up \$3.0 million, Health Services Authority up \$4.4 million; Cayman Islands National Insurance Company (CINICO), \$11.0 million and Cayman Islands Monetary Authority (CIMA) up \$3.0 million. Meanwhile, transfer payments moved up by 37.3 percent to settle at \$23.2 million. Interest payment rose to \$9.6 million in the wake of additional interest payments for servicing net additional debt of \$35.9 million disbursed during the year (see Table 5.5A).

Table 5.3A: Current Expenditure of the Central Government

	2004	2005	2006	2007	% Change 2006/07
Millions of Cayman Islands Dollars					
Current Expenditure	349.2	339.4	384.3	435.4	13.3
Personnel Costs	159.0	163.8	182.6	213.5	16.9
Supplies & Consumables	88.0	89.5	109.0	101.0	(7.3)
Subsidies	70.4	59.7	66.9	88.1	31.7
Transfer Payments	24.5	17.0	16.9	23.2	37.3
Interest Payments	7.3	9.5	8.9	9.6	7.5

Source: Cayman Islands Treasury Department

Other executive expenses. This comprises expenditure mainly for social intervention projects and other government measures which are not categorised as transfers payments or subsidies to public authorities. This increased from \$2.0 million in 2006 to \$7.4 million in 2007 partly due to payments to the Caribbean Catastrophic Risk Insurance Facility of \$2.4 million and past service pension of \$1.2 million (see Table 5.1).

Capital expenditure and net lending. Aggregate spending on capital acquisition, capital development and net lending reached \$105.9 million (or 4.9% of GDP) in 2007 (see Table 5.3B). This was higher by 167.2 percent than in 2006 (or 3.0% percent of GDP). The increase was on account of a 194.6 percent hike in capital acquisition/equity investment and 137.9 percent increase in capital development. Some of these projects included the land acquisition and construction of the East West arterial road, acquisition of law enforcement equipment (e.g. patrol cars, helicopter) and the start-up of the new Government Administration Building.

Table 5.3B: Capital Expenditure and Net Lending of Central Government

	2004	2005	2006	2007	% Change 2006/07
Millions of Cayman Islands Dollars					
Capital Expenditure and Net Lending	28.9	48.5	39.6	105.9	167.2
Capital Acquisition (now Equity Investments)	10.0	40.8	20.5	60.4	194.6
Capital Developmet (now Executive Assets)	19.2	6.7	19.1	45.5	137.9
Net Lending	(0.3)	1.0	0.0	0.0	

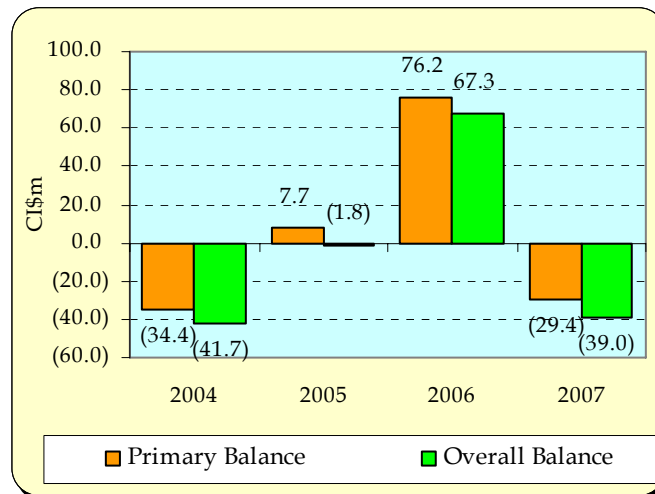
Source: Cayman Islands Treasury Department

5.4. Primary Balance

The primary balance is the overall fiscal balance excluding interest payments and is a standard indicator of the central government’s capacity to service debt obligations. Given the strong expenditure outlay and the marginal revenue increase in 2007, the overall balance slipped from a surplus of \$67.3 million (3.3% of GDP) in 2006 to a deficit of \$39.1 million (1.8% of GDP) in 2007 (see Figure 5.4).

With this deterioration, the primary balance worsened from a surplus of \$76.2 million or 3.7% of GDP in 2006 to a deficit of \$29.5 million or 1.4 percent of GDP in 2007.

Figure 5.4: Overall & Primary Fiscal Balance



Source: Cayman Islands Treasury Department

5.5. Net Financing and Debt Service Indicators

The overall deficit was financed by a disbursement of loan funds which totalled \$52.3 million during the year (see Table 5.5A). Net borrowing totalled \$35.9 million after accounting for the loan repayment of \$16.4 million. Additional financing requirements were also met by a reduction of cash reserves by \$3.1 million.

Table 5.5A: Financing of Central Government

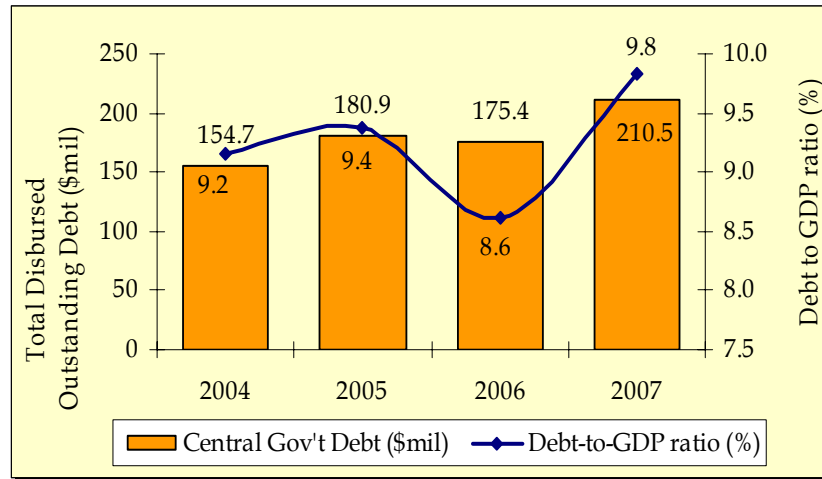
	2004	2005	2006	2007	% Change 2006/07
	Millions of Cayman Islands Dollars				
Financing	41.7	1.8	(67.3)	39.0	158.0
Net Borrowing	13.8	27.6	(4.5)	35.9	897.8
Disbursements	23.3	39.0	10.0	52.3	423.0
Loan Repayment	(9.5)	(11.4)	(14.5)	(16.4)	(13.1)
Change in Cash (minus = increase)	27.9	(25.8)	(62.8)	3.1	104.9

Source: Cayman Islands Treasury Department

The expansion in net borrowings during 2007 resulted in an increase in the central government's outstanding debt to total \$210.5 million as at end December 2007 (see Figure 5.5) from \$175.4 million as at end 2006.²⁰ This placed the debt-to-GDP ratio at 9.8 percent, higher than the 8.6 percent as at December 2006.

²⁰ Central government's outstanding debt includes only debt managed directly by the Treasury Department.

Figure 5.5: Central Government's Outstanding Debt & Debt- to- GDP Ratio



Source: Cayman Islands Treasury Department, Economics and Statistics Office

The expansion in central government's outstanding debt by 20.0 percent in 2007 has worsened the central government's debt service-to-current revenue ratio to 5.1 percent, from 4.7 percent a year ago (see Table 5.5B). Similarly, interest payments-to-current revenue ratio stood at 1.9 percent compared to 1.8 percent in 2006. However, the debt service to GDP ratio remained stable at 1.2 percent.

Table 5.5B: Central Government Debt Service Indicators

Debt Service Indicators	2004	2005	2006	2007
	Percentage (%)			
Interest Payments - to - Current Revenue Ratio	2.2	2.2	1.8	1.9
Debt Service - to - GDP Ratio	1.0	1.1	1.2	1.2
Debt Service - to - Current Revenue Ratio	5.0	4.9	4.7	5.1

Source: Cayman Islands Treasury Department, Economics and Statistics Office

The moderate macroeconomic performance in 2007 along with management of central government's outstanding debt remaining within prudential limits as stipulated in the Public Management and Financial Law led to a stable sovereign debt rating in 2008 for the Cayman Islands Government (see Box 5).

Box 4 Government Bond Rating for Cayman Islands as at 2008

According to Moody's Investors Services, the Cayman Islands Government (CIG) can maintain the rating of Aa3 applicable to bonds issued in foreign currency. This assessment was made in the rating agency's latest report issued in February 2008. The CIG's rating of Aa3 is the second highest in the Caribbean after Bermuda. It was noted that despite some accumulation of public debt and a large external imbalance, the Cayman Islands' primary public and external debt indicators remain favorable when compared to its peers.

Rating History: Cayman Islands as at February 08								
	Foreign currency Ceilings				Government Bonds			Date
	Bonds & Notes		Bank Deposit		Foreign Currency	Local Currency	Outlook	
	<u>Long-term</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Short-term</u>				
Rating Raised	Aaa							May-06
Rating Assigned					Aa3		Stable	October-00
Rating Assigned	Aa3	P-1						December-97
Rating Assigned			Aa3	P-1				September-89

Source: Moody's Investors Services (February 2008)

The CIG rating benefits from very strong governance indicators, as high degree of policy predictability and sound institutions. However, Moody's also point to macroeconomic challenges such as "vulnerability to hurricanes, limited flexibility given an income base that excludes direct income taxation". Other key observations from Moody's assessment are as follows:

- There are a number of important challenges facing the tourism industry. A slowdown is anticipated over the next couple of years as the majority of tourists originate from the U.S. Because the Cayman Islands tend to attract higher-income tourists, a U.S recession or slowdown would likely affect the tourism industry. This is already somewhat evident in the decline in cruise arrivals in 2007 and in January 2008.
- Over the next few years, the government intends to commence an unparalleled, large capital investment program which includes the construction of new schools and office buildings as well as continuing a road extension program. The new buildings are expected to also serve as hurricane shelters. Public construction activity is expected to be complemented by the Camana Bay development, a private construction project, which includes a gated community and several commercial buildings.
- The 2007 projected central government direct debt to GDP ratio of 13.3% is well below the 26.0% mean for Aa rated developing countries, even after taking into account the additional level of indebtedness incurred during the current fiscal year.

Moody's Rating System		
Long Term	Short Term	
Aaa	P-1	Prime
Aa1		High Grade
Aa2		
Aa3		
A1	P-2	Upper Medium Grade
A2		
A3		
Baa1	P-3	Lower Medium Grade
Baa2		
Baa3		
Ba1	Not Prime	Non Investment Grade
Ba2		
Ba3		
B1		Highly Speculative
B2		
B3		
Caa		Substantial risks
Ca		
C		Extremely Speculative
		In default, with little prospect for recovery

6. Macroeconomic Outlook for 2008

The Cayman Islands' economy is projected to grow in 2008, albeit at a much slower pace compared to 2007 in view of the possible dampening effect of a slower global economic growth. Expansion of domestic demand is likely to come from growth in government consumption and capital spending. The financial sector services are expected to grow but maybe hampered by projected recessionary conditions in major source markets. The resilience of the stay-over tourism market is expected to be supported by the weakening of the dollar, allowing expansion of arrivals from non-traditional markets. Domestic inflation will be severely challenged by rising food and oil prices.

6.1 Global Outlook²¹

Global expansion is anticipated to moderate in 2008 in the wake of severe financial adjustments to the sub-prime housing finance crisis in the US on one hand, and the twin supply-side shocks from the oil and food markets on the other hand. Global output is forecasted at 3.7 percent in 2008 from 4.9 percent in 2007, as growth in advanced economies is projected to be limited to 1.4 percent. Other emerging market and developing countries are also expected to post lower growth rates in 2008.

Growth prospects for all advanced economies have been dampened for 2008. The U.S. economy is projected to grow at 0.5 percent as compared to 2.8 percent a year ago, in the wake of an anticipated recession. The Euro area in 2008 is projected to slowdown as overall GDP growth is anticipated at 1.4 percent compared to 2.3 percent in 2007. In the UK, growth is projected to moderate to 1.6 percent, partly as a result of monetary tightening.

Pressures to inflation in the advanced economies 2008 is expected to come from sharp changes in the average prices of oil and grains. The inflation rate for the US is forecasted at 3.0 percent in 2008 from 2.9 percent in 2007; this moderate increase is due to the expected dampening of domestic demand amidst the threat of a recession. Average inflation rate among advanced economies is expected at 2.6 percent in 2008 from 2.2 percent in 2007. Higher inflation in emerging and developing economies is also expected.

²¹ This global outlook is based on information culled from the International Monetary Fund (April 2008) and other international organizations.

6.2 Domestic Growth

The pace of economic activity in the Cayman Islands is expected to dip in the wake of a global economic slowdown in 2008. GDP growth is projected at 1.5 percent from 2.2 percent in 2007, as growth of local financial services and tourism market will be challenged by developments in the major source markets. The U.S. continues to be the main source of demand for financial services and accounts for approximately 80.0 percent of stay-over tourism.

Table 6.2: Macroeconomic Indicators 2005-2009

	2005	2006	2007	Projected	
				2008	2009
Real GDP growth (%)					
Cayman Islands	6.5	4.6	2.2	1.5	1.2
US	3.1	3.3	2.2	0.5	0.6
World	4.4	5.4	4.9	3.7	3.8
Consumer Prices Inflation (CPI) (%)					
Cayman Islands	7.3	0.8	2.9	3.1	3.0
US	3.4	3.2	2.9	3.0	2.0
Advanced economies	2.3	2.4	2.2	2.6	2.0
Unemployment Rate (%)					
Cayman Islands	3.5	2.6	3.8	3.8	4.5
US	5.1	4.6	4.6	5.4	6.3
Advanced economies	6.1	5.7	5.4	5.6	5.9

Sources: International Monetary Fund and Economics (for data on the US, World and Advanced Economies) and Economics and Statistics Office (for Cayman data).

The central government's expenditure in 2008 will serve as a key stimulus to domestic growth. Current spending of the central government is expected to grow by 2.9 percent and capital spending by 59.4 percent.

The service sectors are expected to remain as sources of marginal growth. Financial services indicators for the first quarter of 2008 suggest strong resilience in the local industry although the negative contagion effect from the uncertainty in the source markets still remains. This resilience is evident with growth in mutual funds (up by 13.6%), insurance licenses (up by 2.1%) and stock exchange listings (up by 37.8%).

Moderate growth is expected for stay-over tourism market. This is supported by a 9.0 percent growth in air arrivals for the first quarter of 2008 while cruise visitors were down 21.5 percent. Tourist arrivals is largely influenced by economic conditions in the North American market which is the main source of air arrivals providing approximately 80.0 percent of total air arrivals. However, arrivals from other countries of origin such as Europe and Canada are likely to be boosted by the weakening of the US dollar, as already manifested in 2007.

Falling interest rates is expected to boost local consumption. The average prime interest rates have been lowered in line with falling interest rates in the U.S. Federal Funds rate which was further lowered by 100 basis points for the first quarter of 2008.

6.3 Domestic Inflation

The consumer price index (CPI) is forecasted at 3.1 percent in 2008. This CPI inflation is expected to be influenced by rising cost of food and oil and petroleum-related products. However, weak consumer expenditure in the U.S. is expected to reduce the cost of non-food imported items which could benefit local inflation rates.

7. Acknowledgement

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

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

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Table A1: Gross Domestic Product

Year	Nominal GDP (CI\$M)	Real GDP 1986 Prices (CI\$M)	Mid-Year Population (000s)	GDP Per Capita (\$)	Real GDP Growth (%)
1998	1,275.2	777.5	38.1	33,470	5.8
1999	1,382.5	803.8	39.0	35,449	3.4
2000	1,444.9	811.7	40.2	35,943	1.0
2001	1,482.3	816.2	41.4	35,848	0.6
2002	1,546.0	830.3	42.5	36,419	1.7
2003	1,603.2	846.9	43.6	36,771	2.0
2004	1,688.8	854.5	44.2	38,173	0.9
2005	1,929.9	910.0	48.4	39,913	6.5
2006	2,034.8	951.9	51.9	39,137	4.6
2007	2,140.8	973.3	53.2	40,242	2.2

Source: Cayman Islands Government, Economics & Statistics Office

Table A2: Consumer Price Index & Inflation
(September 1994=100)

Year	Index Year-end	Index Average	Inflation Rate (%)
1994	100.8	99.9	...
1995	103.1	102.4	2.5
1996	106.4	105.0	2.6
1997	109.5	107.9	2.7
1998	112.1	111.1	3.0
1999	120.8	118.7	6.8
2000	122.8	121.9	2.7
2001	123.5	123.3	1.1
2002	127.2	126.3	2.4
2003	128.1	127.1	0.6
2004	142.3	132.7	4.4
2005	142.3	142.4	7.3
2006	144.6	143.5	0.8
2007	148.0	147.7	2.9

Source: Cayman Islands Government, Economics & Statistics Office

Table A3: Labour Force and Employment

Year	Labour Force	Total Employed	Total Unemployed
1995	19,820	18,845	980
1996	20,410	19,370	1,040
1997	21,620	20,725	895
1998	22,725	21,820	905
2001	27,971	25,862	2,109
2002	28,905	27,355	1,550
2003	29,905	28,827	1,079
2004	30,257	28,946	1,311
2005	36,767	35,464	1,303
2006	35,959	35,016	943
2007	36,476	35,081	1,395

Source: Cayman Islands Government, Economics & Statistics Office

Note:

No Labour Force Surveys were conducted in 1999 and 2000

*2004 results are derived from Spring LFS and not Fall 2004 LFS on account of September 2004 hurricane.

Table A4: Composition of the Employed Labour Force

Year	Total	Caymanian	Non-Caymanian
1995	18,845	10,490	8,355
1996	19,370	10,705	8,665
1997	20,725	10,390	10,335
1998	21,820	11,525	10,295
2001	25,862	12,479	13,383
2002	27,355	12,993	14,362
2003	28,827	13,973	14,854
2004	28,946	14,775	14,171
2005	35,464	18,025	17,439
2006	35,016	17,621	17,395
2007	35,081	18,466	18,010

Source: Cayman Islands Government, Economics & Statistics Office

Table A5: The Unemployed

Year	Total Unemployed	Caymanian	Non-Caymanian
1995	978	703	275
1996	1,049	692	357
1997	895	579	316
1998	907	609	298
1999	...	...	...
2000	...	...	...
2001	2,109	1,311	798
2002	1,550	1,058	492
2003	1,079	857	222
2004	1,311	887	424
2005	1,303	1,039	264
2006	943	682	261
2007	1,395	1,059	336

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

Note:

No Labour Force surveys were conducted by the Statistics Office in 1999 or 2000

Table A6: The Employed by Industry

Year	Agric., Fish, Manufacturing, Construction, Utilities	Wholesale, Retail, Hotel & Restaurant	Transport, Postal & Communications	Insurance, Financial & Business	Public Administration	Education, Health & Social Services	Recreation, Community & Personal	Other	Total
1992	2,895	4,160	1,385	2,375	700	1,405	2,300	-	15,220
1993	2,790	4,310	1,345	3,610	770	1,210	1,960	-	15,995
1994	2,995	4,715	1,205	2,920	1,015	1,410	2,570	-	16,830
1995	2,640	5,555	1,785	3,570	950	1,320	3,025	-	18,845
1996	3,545	5,375	1,125	3,840	890	1,330	3,265	-	19,370
1997	3,505	5,580	1,475	4,025	995	1,665	3,480	-	20,725
1998	3,660	6,175	1,450	4,230	870	1,605	3,830	-	21,820
2001	4,608	6,644	1,347	5,373	1,765	2,143	3,982	-	25,862
2002	4,923	6,932	1,640	5,399	1,948	2,416	4,087	10	27,355
2004	5,456	7,286	1,446	6,099	1,760	2,428	4,427	-	28,947
2006	8,258	8,011	1,477	7,648	2,380	2,421	4,821	-	35,016
2007	7,493	7,118	2,004	7,532	2,509	2,833	4,810	780	35,079

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

Note:

No Labour Force surveys were conducted by the Statistics Office in 1999, 2000 and 2005

2004 and 2006 Labour Force Surveys refer to the Spring Labour Force

Table A7: Work Permits Issued by Occupational Class

Year	Administrative/ Managerial	Professional	Trades/ Technical/ Skilled	Un- Skilled	Other	Total
1995	786	668	4,606	4,138	-	10,198
1996	676	554	4,741	3,980	-	9,951
1997	755	788	5,455	4,316	-	11,314
1998	698	968	6,331	4,888	-	12,885
1999	...	...	...	...	...	...
2000	752	1,039	7,633	4,837	23	14,284
2001	664	1,077	7,285	4,852	5	13,883
2002	699	1,530	7,167	6,383	1	15,779
2003	682	1,748	7,383	7,310	-	17,123
2004	671	1,834	9,385	8,618	-	20,508
2005	819	1,957	10,576	8,411	-	21,763
2006	838	2,396	11,143	8,016	-	22,393
2007	823	2,690	11,637	9,727		24,877

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

Table A8: Merchandise Trade, CI\$M

Year	Total Imports	Exports	Trade Balance
1995	331.6	3.4	(328.2)
1996	314.9	2.2	(312.7)
1997	423.7	1.8	(421.9)
1998	447.8	1.0	(446.8)
1999	452.2	1.2	(451.0)
2000	575.7	2.0	(573.7)
2001	515.1	2.4	(512.7)
2002	496.6	3.0	(493.6)
2003 ^R	556.8	19.5	(537.3)
2004 ^R	724.7	19.8	(704.9)
2005 ^R	995.3	48.6	(946.7)
2006 ^R	888.7	19.2	(869.5)
2007 ^R	881.8	21.5	(860.3)

^R Beginning in 2003 the data was revised in 2007.

Source of basic data: Cayman Islands Customs Department

Table A9: Imports by Standard International Trade Classification

	2004	2005	2006	2007	% Change		Absolute Change 2005-2006
					2005-2006	2006-2007	
Total Imports	724.7	995.3	888.7	881.8	(10.7)	(0.8)	(89.2)
Food and Live Animals	58.4	53.3	44.9	61.0	(15.8)	35.9	(8.4)
Beverages and Tobacco	17.1	35.1	44.3	46.8	26.2	5.6	9.2
Inedible Crude Materials	7.5	13.7	11.2	11.2	(18.2)	0	(3.6)
Mineral Fuels, Lubricants and Related Materials	70.6	76.2	70.0	102.9	(8.1)	47.0	(6.2)
Animal and Vegetable Oils, Fats and Waxes	0.1	0	0	0	0	0	0
All Chemical & Rel. Prods N.E.S.	16.8	22.1	26.1	27.5	18.1	5.4	0
Manufactured Goods (classified chiefly by material)	47.1	107.8	56.2	75.6	(47.9)	34.5	(51.6)
Machinery & Transport Equipment	117.3	168.2	94.9	101.8	(43.6)	7.3	(73.3)
Misc. Manufactured Articles	318.7	319.1	460.1	401.6	44.2	(12.7)	163.5
Commodities and Transactions (not classified elsewhere)	71.0	200.0	80.9	53.1	(59.6)	(34.4)	(119.1)

Source of basic data: Cayman Islands Customs Department

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

	2005	2006	2007
Domestic Credit	1,949,249	2,127,313	2,257,022
Total Loans and Advances to Private Sector	1,825,269	1,996,532	2,066,851
Credit to Businesses	818,308	740,863	788,751
Agriculture and Fishing	397	2,353	3,658
Mining and Quarrying	2,271	3,232	2,178
Manufacturing	3,452	5,997	6,591
Construction	85,603	141,074	155,078
Hotel, Restaurant and Bar	71,509	58,986	60,040
Transportation, Storage & Communications	21,123	16,864	14,981
Utilities (Electricity, Gas & Water)	29,013	12,863	11,763
Real Estate, Renting & Other	177,013	136,218	298,795
Recreational, Personal & Communication	19,802	24,335	8,763
Other Professional services	46,982	104,382	99,933
Trade & Commerce	87,529	97,319	85,925
Other	273,614	137,243	41,049
Credit to Households	887,453	1,130,419	1,240,580
Domestic Property	797,400	1,039,708	1,090,140
Motor Vehicles	43,670	44,412	46,998
Education and Technology	2,823	2,935	4,770
Other	43,560	43,365	98,673
Other	119,508	125,249	37,520
Credit to Government	61,997	63,508	118,238
Credit to other Public Sector	61,983	67,273	71,933

Source: Cayman Islands Monetary Authority

Table A11: Financial Services Indicators

Year	Bank & Trust Licences	Insurance Licences	Captive Insurance Premiums (US\$B)	Mutual Funds	New Companies Registered	Stock Market Cap. (US\$B)	Stock Listings
2002	383	629	4.2	4,285	7,016	36.30	710
2003	349	672	4.9	4,808	7,254	43.94	735
2004	322	722	5.6	5,932	8,892	53.57	857
2005	305	759	6.7	7,106	10,210	75.56	1,015
2006	291	767	7.1	8,134	12,277	111.52	1,225
2007	281	793	7.5	9,413	14,232	168.33	1,748

Source: Cayman Islands Monetary Authority

Table A12: Banks & Trust Licences

Year	Bank & Trust Licenses			Trust Only		Total
	Class 'A'	Class 'B'	Class "B" Restricted	Unrestricted	Restricted	
2002	30	348	5	58	67	508
2003	27	316	6	49	73	471
2004	23	295	4	49	75	446
2005	21	281	3	50	77	432
2006	19	269	3	51	83	425
2007	19	261	1	51	87	419

Source: Cayman Islands Monetary Authority

Table A13: Insurance Licences

Year	Class 'A' Insurance	Class "B" Insurance		Total
		Unrestricted	Restricted	
2002	29	532	68	629
2003	28	581	63	672
2004	29	634	59	722
2005	26	670	63	759
2006	27	674	66	767
2007	28	692	73	793

Source: Cayman Islands Monetary Authority

Table A14: Mutual Funds Domiciled in the Cayman Islands

Year	Administered Funds	Licensed Funds	Registered Funds	Total
2002	641	51	3,593	4,285
2003	592	48	4,168	4,808
2004	616	67	5,249	5,932
2005	598	79	6,429	7,106
2006	548	105	7,481	8,134
2007	543	119	8,751	9,413

Source: Cayman Islands Monetary Authority

Table A15: New Companies Registered in the Cayman Islands

Year	Exempt	Non-Resident	Resident	Foreign	Total
2002	5,795	768	310	143	7,016
2003	5,941	692	439	182	7,254
2004	7,480	674	530	208	8,892
2005	8,694	595	650	271	10,210
2006	10,735	569	588	385	12,277
2007	12,691	533	531	477	14,232

Source: Company Registrar

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

	2005	2006	2007
Total Assets	5,182,663	6,354,659	5,537,734
Net foreign Assets	4,048,515	4,790,951	3,836,308
Monetary Authority	89,779	99,228	106,621
Foreign Assets	89,779	99,228	106,621
Foreign Liabilities	-	-	
Commercial Banks	3,958,737	4,691,723	3,729,687
Foreign Assets	5,138,464	6,486,213	6,755,690
Balances with Banks & Brnchs	3,789,280	3,823,993	3,888,951
USD	3,401,361	3,374,320	3,172,628
OTH	387,919	449,673	716,323
Total Investment	656,593	1,358,150	1,449,358
USD	651,721	1,352,602	1,449,358
OTH	4,873	5,548	0
Loans & Advances to Banks & Branches	232,152	90,687	
KYD	34,471	0	
USD	197,681	90,687	
OTH	0	0	
Total Non-Resident Loans	460,439	1,213,384	1,417,381
KYD	26,630	29,090	32,884
USD	432,988	1,183,213	1,380,302
OTH	821	1,082	4,195
Foreign Liabilities	1,179,728	1,794,490	3,026,003
Total Non-resident Deposits	1,006,468	1,117,210	2,934,462
KYD	36,034	37,177	122,932
USD	810,856	945,570	2,577,522
OTH	159,578	134,463	234,008
Other Liabilities	173,260	677,280	91,542
USD	171,648	672,893	158,302
OTH	1,613	4,388	-66,760
Net Domestic Assets	1,949,249	2,127,313	2,257,022
Total Domestic Credit	1,949,249	2,127,313	2,257,022
Public Sector	123,980	130,781	190,171
Central Government	61,997	63,508	118,238
Other Public Sector	61,983	67,273	71,933
Private Sector	1,825,269	1,996,532	2,066,851
Other Items	-815,101	-563,605	-555,595

Source: Cayman Islands Monetary Authority

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

	2005	2006	2007
Monetary Liabilities (M2)	5,182,664	6,354,659	5,537,734
Money Supply (M1)	389,920	344,726	339,603
Currency with the public	74,168	78,189	81,932
Total demand deposits (KYD)	315,752	266,537	257,671
Quasi Money	4,792,744	6,009,933	5,198,132
Savings Deposits Residents (KYD)	222,346	205,043	211,685
Fixed Deposits Residents (KYD)	343,640	426,593	485,807
Foreign currency deposits held by residents	4,226,758	5,378,297	4,500,640

Source: Cayman Islands Monetary Authority

Table A18: Visitor Arrivals ('000)

Year	Stay Over Arrivals (in '000)	Cruise Arrivals (in '000)	Total Arrivals (in '000)	Cruise Ship Calls (in '000)
1995	361.4	682.8	1,044.2	504
1996	373.2	800.3	1,173.5	525
1997	381.2	866.6	1,247.8	572
1998	404.2	871.4	1,275.6	518
1999	394.7	1,035.5	1,430.2	638
2000	354.1	1,030.9	1,385.0	612
2001	334.1	1,214.8	1,548.9	711
2002	302.8	1,574.8	1,877.6	732
2003	293.5	1,819.0	2,112.5	825
2004	259.9	1,693.3	1,953.2	732
2005	167.8	1,799.0	1,966.8	784
2006	267.3	1,930.1	2,197.4	802
2007	291.5	1,715.7	2,007.2	657

Source: Cayman Islands Department of Tourism

Table A19: Occupancy Rates and Length of Stay

Year	Hotel Occupancy Rates (%)	Apt/Condo Occupancy Rates (%)	Hotel Length of Stay (Days)	Apt/Condo Length of Stay (Days)
1995	75.3	53.9	4.7	6.8
1996	66.1	51.0	4.6	7.3
1997	66.9	48.2	4.8	7.0
1998	73.1	52.3	5.0	7.0
1999	71.8	46.9	4.7	5.8
2000	62.4	46.8	4.6	7.0
2001	55.3	43.1	4.5	7.3
2002	50.6	40.2	4.8	7.3
2003	51.2	37.7	4.7	7.4
2004	61.7	43.1	4.9	6.8
2005	55.8	46.0	4.9	6.7
2006	59.4	40.7	4.5	6.6
2007	61.7	42.5	4.7	6.7

Source: Cayman Islands Department of Tourism

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

Year	USA	Europe	Canada	Others	Total Arrivals
1995	266.2	37.3	14.1	43.8	361.4
1996	274.7	33.5	16.2	48.8	373.2
1997	278.7	32.7	18.2	51.6	381.2
1998	295.2	34.7	18.4	55.9	404.2
1999	280.3	34.5	18.9	61.0	394.7
2000	281.6	22.6	15.0	34.3	354.1
2001	270.1	20.4	13.6	34.9	334.1
2002	244.9	17.9	13.6	26.2	302.8
2003	232.4	18.2	14.1	28.8	293.5
2004	205.2	15.3	12.1	27.3	259.9
2005	118.8	12.7	10.5	25.8	167.8
2006	217.4	16.7	14.9	18.3	267.3
2007	231.9	20.4	17.4	21.9	291.5

Source: Cayman Islands Department of Tourism

Table A21: Property Transfers (CI\$M)¹

Year	Freehold		Leasehold		Total Transfers	
	Number	Value	Number	Value	Number	Value
1995	1,729	191.2	127	3.6	1,856	194.8
1996	2,055	267.2	153	3.3	2,208	270.5
1997	2,151	281.8	125	6.1	2,279	287.9
1998	2,344	317.2	128	2.3	2,472	319.5
1999	2,293	222.5	201	7.4	2,494	229.9
2000	1,868	257.3	143	2.3	2,011	259.6
2001	1,846	172.8	181	0.8	2,027	173.6
2002	1,842	269.9	147	4.1	1,989	274.0
2003	2,357	324.3	205	1.7	2,562	326.0
2004	2,335	339.2	127	1.9	2,462	341.1
2005	2,640	450.8	245	1.4	2,885	452.2
2006 ¹	2,777	691.1	179	4.1	2,956	695.2
2007	2,190	544.7	322	6.3	2,512	551.0

Source: Cayman Islands Lands & Survey Department

¹Property transfers numbers and values were revised as at 2006.

Notes:

Freehold transfers exclude property transfers for “love and affection.”

Leasehold transfers include lease transfers and subleases.

Table A22: Numbers of Project Approvals in Grand Cayman

Year	Apts/ Condos	Houses	Commercial	Government	Hotel	Industrial	Other	Total
2000	96	369	34	21	1	16	511	1,048
2001	79	309	45	7	3	11	442	896
2002	88	327	83	4	5	17	424	948
2003	129	385	67	12	0	34	504	1,131
2004	111	359	52	6	1	17	427	973
2005	132	532	95	15	4	26	394	1,198
2006	222	336	70	15	1	30	574	1,248
2007	112	437	56	10	1	14	493	1,123

Source: Cayman Islands Planning Department

Table A23: Value of Project Approvals in Grand Cayman

Year	Apt/ Condos	Houses	Commercial	Government	Hotel	Industrial	Other	Total
2000	90.6	63.3	21.2	21.0	75.0	14.4	24.7	310.1
2001	44.5	54.2	18.0	0.8	1.7	5.5	24.4	149.1
2002	82.0	60.6	48.9	0.8	9.7	9.9	24.4	236.3
2003	65.9	80.0	29.0	55.1	-	7.1	29.4	266.5
2004	153.7	67.5	133.2	3.9	45.0	7.3	45.7	456.3
2005	194.9	105.8	103.9	3.7	16.2	20.5	66.1	511.2
2006	294.3	74.8	119.8	7.5	6.0	44.4	74.2	620.9
2007	88.9	131.3	71.7	54.5	55.0	8.4	59.1	468.9

Source: Cayman Islands Planning Department

Table A24: Numbers of Project Approvals in the Sister Islands

Year	Houses	Apt/Condo	Hotel	Government	Commercial	Industrial	Other	Total
2000	49	3	0	7	6	7	53	125
2001	41	7	0	5	9	3	46	111
2002	21	2	0	5	2	9	74	113
2003	29	3	-	4	14	2	60	112
2004	36	1	-	11	13	4	75	140
2005	43	4	0	5	9	1	73	135
2006	39	0	1	10	5	10	67	132
2007	35	6	0	9	5	0	49	104

Source: Cayman Islands Planning Department

Table A25: Values of Project Approvals in the Sister Islands (CI\$ Millions)

Year	Houses	Apt/Condo	Hotel	Government	Commercial	Industrial	Other	Total
2000	5.2	3.2	-	1.0	0.5	1.6	1.0	12.4
2001	-	2.8	-	2.1	1.1	1.1	0.8	8.0
2002	3.2	0.2	-	0.3	0.3	1.2	2.3	7.6
2003	4.1	0.8	-	0.1	1.4	0.4	0.7	7.4
2004	6.6	0.1	-	0.3	1.9	4.0	0.7	13.7
2005	5.9	1.3	-	0.2	0.6	0.5	0.8	9.3
2006	6.7	0	5.5	2.7	0.7	1.6	0.8	17.9
2007	6.5	23.9	0	2.1	0.3	0	3.5	36.2

Source: Cayman Islands Planning Department

Table A26: Building Permits in Grand Cayman

Building Permit	Numbers					Value (CI\$M)				
	2003	2004	2005	2006	2007	2003	2004	2005	2006	2007
Apartment/ Condo	211	145	164	374	219	45.7	46.1	96.3	172.4	116.4
Houses	375	341	533	517	496	67.0	66.8	145.9	119.6	100.7
Commercial	35	26	163	197	186	15.6	7.5	71.9	118.5	183.2
Government	21	8	5	8	16	4.1	1.2	7.3	0.9	6.1
Hotel	5	0	31	2	4	9.8	-	8.1	0.3	1.0
Industrial	19	42	8	35	10	20.3	7.9	3.5	12.1	4.3
Other	205	192	64	157	159	15.0	12.5	2.8	22.1	34.6
Total	871	754	968	1,290	1,090	177.6	142.0	335.8	445.8	446.3

Source: Cayman Islands Planning Department

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

Year	Production¹	Consumption
1995	592.9	637.6
1996	631.0	678.1
1997	730.7	779.8
1998	808.9	849.4
1999	874.3	908.8
2000	986.5	1,028.5
2001	1,097.4	1,069.2
2002	1,147.9	1,056.1
2003	1,197.9	1,173.7
2004	1,291.3	1,252.7
2005	1,371.6	1,301.7
2006	1,639.6	1,560.7
2007	1,720.8	1,657.7

Source: Cayman Islands Water Authority, Cayman Water Company

¹ Excludes Non-Portable Water

Table A28: Electricity

Year	Production	Consumption			
		Domestic	Industrial/ Commercial	Public Lighting	Total
1995	297.4	118.1	147.5	3.3	268.9
1996	309.7	124.6	153.8	3.1	281.4
1997	347.8	140.3	168.7	3.3	312.3
1998	381.1	158.9	181.3	3.3	343.5
1999	390.4	168.2	191.5	3.3	363.0
2000	426.5	179.5	203.1	3.4	386.0
2001	449.3	189.7	213.9	3.5	407.0
2002	466.1	200.4	221.0	4.2	425.6
2003	489.7	211.2	228.5	4.5	444.2
2004	433.4	183.1	191.5	4.1	378.7
2005	463.2	200.3	222.4	5.0	427.8
2006	535.7	228.2	258.0	5.3	491.5
2007	584.4	249.4	279.4	5.4	534.2

Source: Caribbean Utilities Company

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

Year	Current Revenue	Capital Revenue	Total Revenue	Current Expenditure	Capital Expenditure	Net Lending	Total Expenditure	Current Balance	Overall Balance
1995	163.4	0.1	163.5	143.7	23.7	(1.3)	166.1	19.7	(2.6)
1996	189.7	1.1	190.7	161.8	34.1	(0.4)	195.5	27.8	(4.7)
1997	213.8	0.6	214.4	187.2	46.5	(0.2)	233.5	26.6	(19.1)
1998	248.6	0.0	248.6	214.7	31.3	(1.2)	244.8	33.9	3.8
1999	275.7	-	275.7	245.2	37.6	(1.9)	280.9	30.5	(5.3)
2000	277.7	0.5	278.2	268.4	43.2	(0.5)	311.2	9.3	(33.0)
2001	284.4	0.9	285.4	290.6	26.1	(0.1)	316.6	(6.2)	(31.2)
2002	314.0	0.0	314.1	277.9	17.6	0.1	295.7	36.1	18.4
2003	326.2	0.0	326.2	283.7	21.2	0.3	305.2	42.5	21.0
2004	336.0	0.4	336.4	349.2	29.2	(0.3)	378.1	(13.2)	(41.7)
2005	426.9	0.0	428.6	339.4	47.5	1.0	430.3	87.5	(3.4)
2006	500.4	0.0	500.4	384.3	39.6	0.0	433.1	116.1	67.3
2007	513.0	0.0	513.0	435.4	105.9	0.0	552.0	77.4	(39.0)

Source: Cayman Islands Treasury Department

Note:

Interdepartmental Purchases and Services and Vehicle and Equipment Maintenance Fees were netted in Current Expenditure from 1992 to 1999.

Table A30: Central Government Debt and Self- Financing Debt, (CI\$M) a/

Year	Disbursed Outstanding Debt	Drawings	Exchange Gain/ (Loss)	Amortisation	Interest Payments
1995	51.6	1.8		11.2	4.1
1996	67.6	22.4		6.6	3.4
1997	82.9	25.5		8.7	4.5
1998	93.8	21.5		10.9	5.9
1999	98.3	18.2		13.1	5.6
2000	107.8	23.8		14.3	7.0
2001	143.5	49.7		14.0	6.8
2002	132.1	10.9	(0.3)	21.3	3.8
2003	143.9	136.9		124.5	5.1
2004	157.6	23.3		9.5	7.9
2005	185.2	39.0		11.4	7.7
2006	172.6	11.4		15.1	9.2
2007	210.5	52.3	0.2	17.5	9.6

Source: Cayman Islands Treasury Department

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

Table A31: Fiscal Operations (CI\$ Million)

Year	2003	2004	2005	2006	2007
	CI\$	CI\$	CI\$	CI\$	CI\$
Total Revenue	326.2	336.4	426.9	500.4	513.0
Current Revenue	326.2	336.0	426.9	500.4	513.0
Coercive Revenue	286.7	303.2	376.3	442.5	448.0
Taxes on International Trade & Transactions	117.6	132.2	171.9	187.0	178.6
Domestic taxes on Goods & Services	146.1	144.8	171.5	193.7	223.2
Taxes on Property	17.3	22.3	21.4	47.2	37.2
Fines	1.3	0.8	0.9	1.6	1.7
Other taxes	4.4	3.1	10.6	13.1	7.3
Non-coercive Revenue	39.5	32.8	50.6	57.9	64.9
Sale of Goods & Services	33.8	30.7	49.1	53.8	58.4
Investment Revenue	5.7	2.1	4.3	0.1	6.2
Other Operating Revenue			1.6	4.0	0.3
Extraordinary Revenue			(4.5)	0.0	0.0
Capital Revenue	0.0	0.4	0.0	0.0	0.0
Total Expenditure	305.2	378.1	430.3	433.1	552.0
Current Expenditure	283.7	349.2	339.4	384.3	435.4
Personnel Costs	138.9	159.0	163.8	182.6	213.5
Supplies & Consumables	61.3	88.0	89.5	109.0	101.0
Subsidies	58.8	70.4	59.7	66.9	88.1
Transfer Payments	18.8	24.5	17.0	16.9	23.2
Interest Payments	5.9	7.3	9.5	8.9	9.6
Extraordinary Expenses			39.4	7.2	
Other Executive Expenses			3.0	2.0	
Capital Expenditure & Net Lending	21.5	28.9	48.5	39.6	105.9
Capital Acquisition (now Equity Investments)	7.7	10.0	40.8	20.5	60.4
Capital Development (now Executive Assets)	13.5	19.2	6.7	19.1	45.5
Net Lending	0.3	(0.3)	1.0	0.0	0.0
Current Balance	42.5	(13.2)	87.5	116.1	77.4
Overall Balance	21.0	(41.7)	(3.4)	67.3	(39.0)
Financing	(21.0)	41.7	3.4	(67.3)	39.0
Net Borrowing	12.4	13.8	27.6	(4.5)	35.9
Disbursements	136.9	23.3	39.0	10.0	52.3
Loan Repayment	(124.5)	(9.5)	(11.4)	(14.5)	(16.4)
Change in Cash (minus = increase)	(33.4)	27.9	(24.2)	(62.8)	3.1