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# THE CAYMAN ISLANDS' THIRD QUARTER ECONOMIC REPORT 2012

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December 2012



The Economics and Statistics Office

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### Overview\*

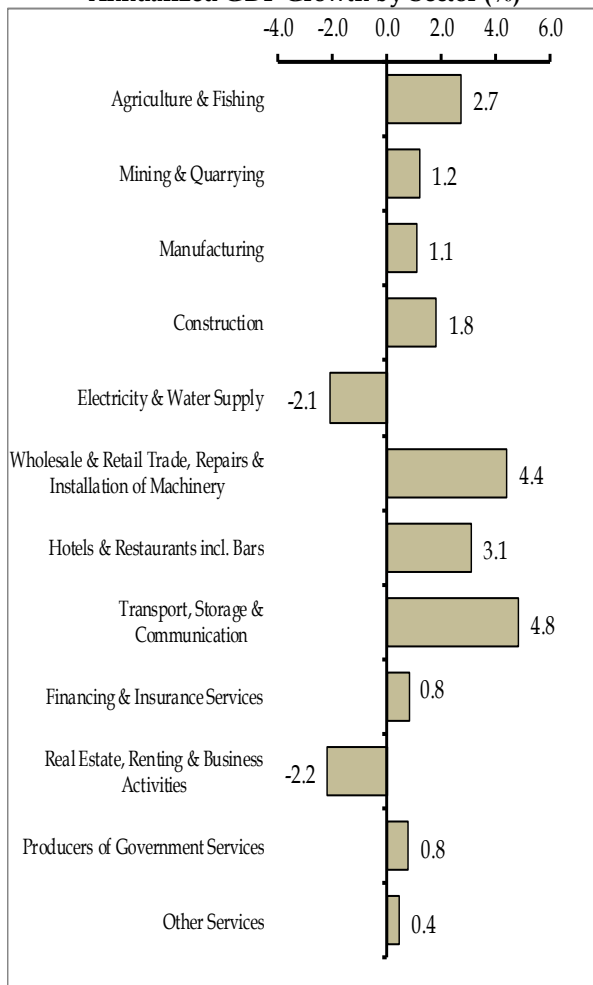
- Gross domestic product was estimated to have expanded at an annualised rate of 0.8% in the first nine months of 2012.
- The average Consumer Price Index increased by 0.9%, as higher price indices were recorded led by for clothing and footwear, food and non-alcoholic beverages, transport and health.
- Merchandise imports rose by 1.5% to register at \$555.4 million in contrast to a growth of 5.4% in the same period last year.
- Current work permits grew by 4.3% compared to a year ago.
- Broad liquidity or money supply contracted by 4.1% due to reductions in foreign currency deposits held by residents.
- The weighted average lending rate fell by 32 basis points to 6.30% while prime lending rate remained stable at 3.25%.
- Domestic credit expanded by 0.7% as credit to the private sector increased by 1.6% (due mainly to households) while credit to the public sector fell by 5.6%.
- Bank and trust company licenses declined by 6.8% while insurance licenses rose by 0.4%.
- Mutual funds (registered, administered and licensed) declined by 3.2%; however, the addition of the new category “master funds” resulted to an overall expansion by 16.3%.
- Stock exchange listings expanded by 1.1% to settle at 1,146 amidst an increase in market capitalization.
- New company registrations declined by 4.1% to total 6,775.
- Air arrivals and cruise passengers grew by 3.9% and 6.9%, respectively.
- Building permits fell by 1.9% to settle at 564, valued at \$113.5 million.
- The number of property transfers fell by 3.9% to 1,391 and the total value by 41.1% to \$327.4 million.
- Electricity consumption fell by 1.4%. Similarly, water production and consumption declined by 2.9% and 4.3% respectively.
- Demand for telecommunication services showed declines across major types of indicators, including total domestic minutes (-8.7%).
- Central government recorded an overall fiscal deficit of \$1.5 million compared to a surplus of \$33.4 million a year ago.
- The total outstanding debt of the central government declined to \$595.8 million from \$622.3 million a year ago.

\*Comparative data over the first nine months of 2011, except when otherwise indicated. Percentage calculations may not be exact due to rounding-off.

## 1. GDP Growth and Forecasts

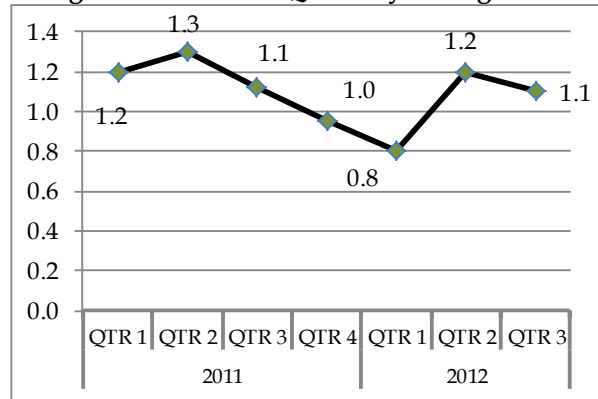
Indicators for the nine months of 2012 suggest that the Cayman Islands' real GDP grew by an estimated annualised rate of 0.8% compared to a year ago when the estimated growth was 1.2%. Positive growth rates were indicated for all sectors except real estate, renting and business activities, and utilities (see Figure 1).

**Figure 1: Estimated First Nine Months of 2012 Annualized GDP Growth by Sector (%)**



Source: Economics and Statistics office

**Figure 2: Estimated Quarterly GDP growth**



Source: Economics and Statistics Office

As depicted in Figure 2, for the first three quarters of 2012, GDP growth was estimated at 0.8%, 1.2% and 1.1%, respectively. The growth outlook for the calendar year 2012 is revised to 1.2% from 1.4% (see Table 1). The downside risks to this forecast include declining financial services indicators, delayed implementation of public-private partnership construction projects, and contraction in government spending.

The inflation forecast for 2012 is revised downwards to 1.2% from 1.7%, as average inflation for the first three quarters of the year was benign at 0.9% (see page 3). The main contributors were food and alcoholic beverages, transport, and clothing footwear while housing and utilities which contributes 39.4% of the CPI basket fell slightly.

The 2012 unemployment rate forecast is maintained at 6.3%.

2

**Table 1: Macroeconomic Outlook  
Based on First Three Quarters Data**

|                   | 2010        | 2011 | Forecast<br>2012 |
|-------------------|-------------|------|------------------|
|                   | Percent (%) |      |                  |
| Real GDP          | (2.9)       | 0.9  | 1.2              |
| CPI Inflation     | 0.3         | 1.3  | 1.2              |
| Unemployment Rate | 6.2         | 6.3  | 6.3              |

Source: Economics and Statistics Office

## 2. Inflation

Average inflation for the first nine months of 2012 was recorded at 0.9% (see Table 2). This resulted mainly from rising price indices for clothing and footwear (6.0%) followed by food and non-alcoholic beverages (4.4%), transport (2.9%) and health (1.8%), as housing and utilities, restaurants and hotels, and recreation and culture declined.

In the quarter ended September 2012, the Consumer Price Index (CPI) stood at 100.9, slightly higher by 0.05% compared to a year ago (see Figure 3)<sup>1</sup>. Rising price indices were recorded for clothing and footwear (8.9%), health (2.9%), food and non-alcoholic beverages (4.2%), household equipment (1.0%), alcohol and tobacco (0.6%), and miscellaneous goods and services (2.6%). However, these

<sup>1</sup> See also 'The Cayman Islands Consumer Price Report September 2012,' [www.eso.ky](http://www.eso.ky)

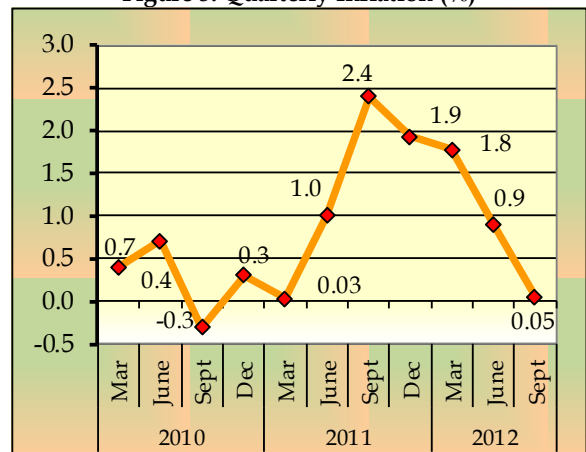
increases were offset by declines in restaurants and hotels (-6.2%), housing and utilities (-1.7%), recreation and culture (-2.3%), transport (-1.0%), and communication (-0.5%).

**Table 2: Average Inflation (%)**

| Categories                     | First Three Quarters<br>Avg Inflation Rates |      |
|--------------------------------|---|------|
|                                | 2011  | 2012 |
| Food & Non Alcoholic Beverages | 2.8   | 4.4  |
| Alcohol and Tobacco            | 0.2   | 0.5  |
| Clothing and Footwear          | -0.3  | 6.0  |
| Housing and Utilities          | -1.7  | -0.3 |
| Household Equipment            | 0.9   | 0.8  |
| Health                         | 1.0   | 1.8  |
| Transport                      | 11.2  | 2.9  |
| Communication                  | 1.0   | 0.1  |
| Recreation and Culture         | 0.8   | -1.5 |
| Education                      | 1.2   | 0.3  |
| Restaurants and Hotels         | 1.5   | -1.8 |
| Misc. Goods and Services       | 1.5   | 1.0  |
| Overall CPI Inflation          | 1.1   | 0.9  |

Source: Economics and Statistics Office

**Figure 3: Quarterly Inflation (%)**



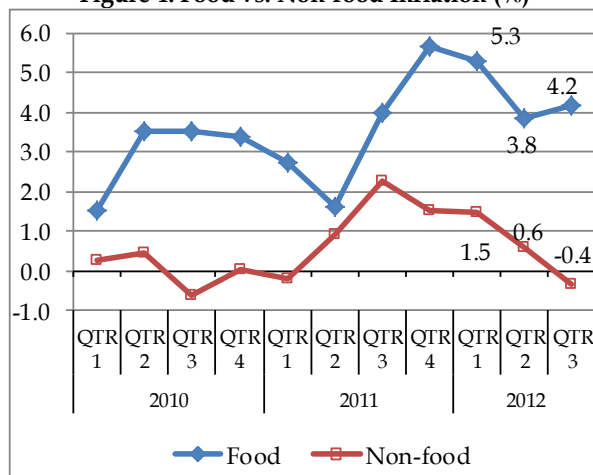
Source: Economics and Statistics Office

The clothing and footwear index increased by 8.9% as the average price of clothing and footwear increased by 9.2% and 7.3%, respectively.

The index for food and non-alcoholic beverages increased by 4.2% on account

of higher international food prices due mainly to adverse weather conditions in producing countries. A dissection of year-on-year inflation showed that while food inflation was 4.2%, non-food inflation actually declined by 0.4% (see Figure 3).

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



Source: Economics and Statistics Office

The health index rose by 2.9% during this period mainly on account of a 6.2% increase in the cost of hospital services and outpatient services by 4.2%.

The price index for housing and utilities stood at 89.7 in the third quarter of 2012, a decline of 1.7% from a year ago. This was mainly on account of decreases in actual rental for housing by 2.1%, and imputed rentals for owner-occupied housing by 1.6%. Similarly, declines were recorded in the cost of utilities: water supply and miscellaneous services by 1.1%, and electricity, gas and other fuels by 5.5%. The decline in utility prices was caused largely by the lower price for international oil and oil-related products,

resulting to cheaper production cost of electricity and pumping cost of water.

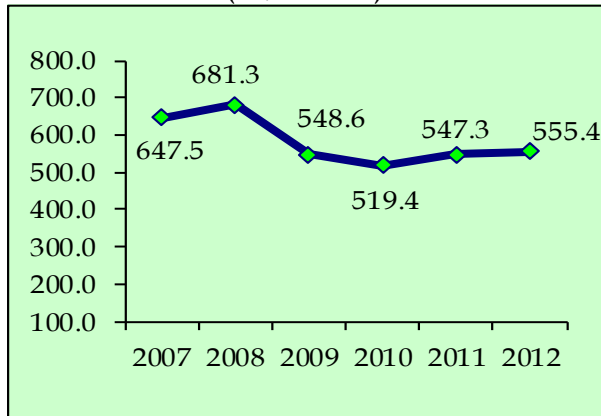
Similarly, lower oil prices accounted for the decline in the transport index by 1.0% as the cost of transport services and cost of operations slipped by 3.4% and 0.8% respectively.

### 3. Trade

Preliminary trade data for the first nine months of 2012 indicate higher imports compared to a year ago. Merchandise imports increased by 1.5% in the first three quarters of 2012, settling at \$555.4 million from \$547.3 million during the comparative period in 2011 (see Figure 5). The increase in imports resulted from higher value of non-oil and petroleum-related products which increased by 5.9% while oil and petroleum-related products imports declined by 12.0%.

The major categories of non-oil and petroleum-related products which increased in value were: manufactured good classified chiefly by materials (19.8%), chemicals and related-products (17.7%), food and live animals (6.4%), machinery and transport equipment (5.3%), miscellaneous manufactured articles (6.1%), beverages and tobacco (4.5%). The categories which moved downward were animal and vegetable oil etc. (-15.7%), commodities and transactions not classified elsewhere (-14.0%), and crude materials excluding oil-related products (-3.3%).

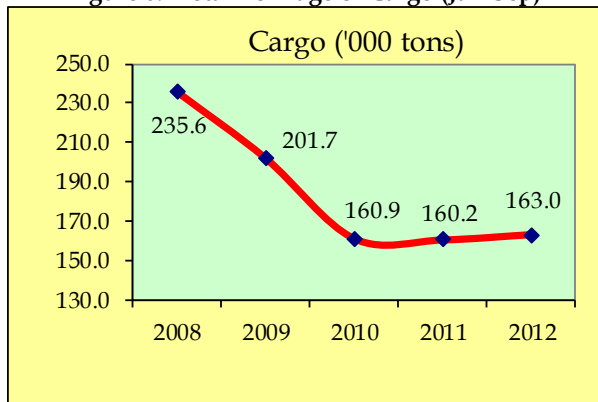
**Figure 5: As at September Merchandise Imports (CI\$ Millions)**



Source: Customs Department and ESO

Consistent with the increase in the value of merchandise imports for the first three quarters of 2012, the volume of imported cargo recorded a marginal increase. The total tonnage of landed cargo grew slightly by 1.8% (see Figure 6), an amelioration compared to the 0.4% decline a year ago.

**Figure 6: Total Tonnage of Cargo (Jan-Sep)**



Source: Cayman Islands Port Authority

As exhibited in Table 3, the total quantity of imported fuel fell by 9.1% during the first three quarters of 2012.

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

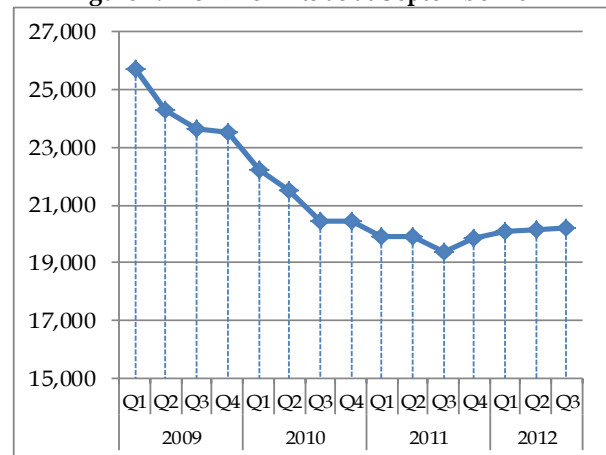
|               | Sep-10                       | Sep-11 | Sep-12 | % Change |
|---------------|------------------------------|--------|--------|----------|
|               | Millions of imperial gallons |        |        |          |
| Total Fuel    | 35.9                         | 37.5   | 34.1   | -9.1     |
| Diesel        | 25.6                         | 25.2   | 23.0   | -8.7     |
| Gas           | 7.1                          | 8.1    | 7.2    | -11.1    |
| Aviation Fuel | 2.6                          | 3.0    | 2.9    | -3.3     |
| Propane       | 0.6                          | 1.2    | 1.0    | -16.7    |

Source: Cayman Islands Port Authority

#### 4. Work Permits

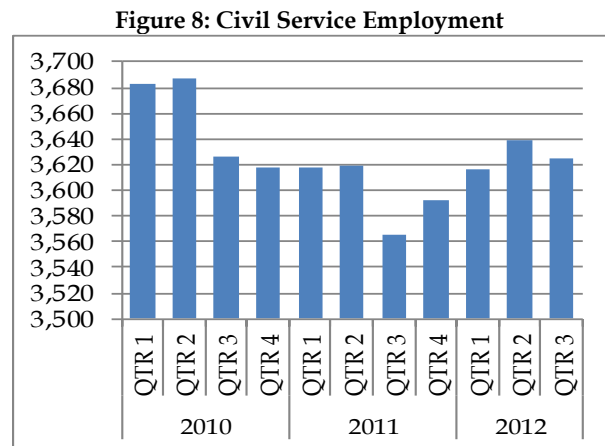
Work permits showed further improvement as at September 2012. In contrast to a 5.2% decrease recorded a year ago, work permits moved up by 4.3% to total 20,193 in this period. This marks the fourth consecutive quarter of growth, albeit modest. (see Figure 7).

**Figure 7: Work Permits as at September 2012**



Sources: Immigration Department and Economics & Statistics Office

As compared to a year ago (see Figure 8), civil service employment increased by 1.7% (or 60 persons) to total 3,625. The majority of this increase over last year was due to the hiring of law enforcement officers.

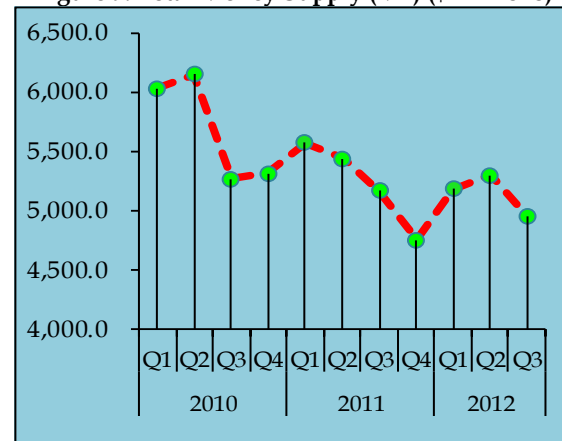


Sources: Portfolio of the Civil Service

## 5. Money & Banking

Broad liquidity (M2) which comprises CI dollar-denominated money and foreign exchange deposits contracted by 4.1% to settle at \$4,949.4 million in the first nine months of 2012. This contraction arose despite growth in CI dollar-denominated deposits and money in circulation. The decline emanated from reduction in foreign currency deposits by 6.8% as this has a significant share (78.6%) in total money supply (see Figure 7 and Table 4).

**Figure 9: Total Money Supply (M2) (\$ millions)**



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

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

|                               |                |                | %            |
|-------------------------------|----------------|----------------|--------------|
|                               | Sep-11         | Sep-12         | Change       |
| <b>Total Assets</b>           | <b>5,161.2</b> | <b>4,949.4</b> | (4.1)        |
| <b>Net Foreign Assets</b>     | <b>2,917.5</b> | <b>2,613.9</b> | (10.4)       |
| Monetary Authority            | 86.8           | 91.8           | 5.8          |
| Commercial Banks              | 2,830.7        | 2,522.1        | (10.9)       |
| <b>Net Domestic Assets</b>    | <b>2,243.7</b> | <b>2,335.5</b> | 4.1          |
| Domestic credit               | 3,043.3        | 3,063.4        | 0.7          |
| Claims on central government  | 301.3          | 280.4          | (6.9)        |
| Claims on other public sector | 86.9           | 86.1           | (0.9)        |
| Claims on private sector      | 2,655.1        | 2,696.9        | 1.6          |
| Other items net (assets +)    | (799.6)        | (727.9)        | (9.0)        |
| <b>Broad Liquidity</b>        | <b>5,161.2</b> | <b>4,949.4</b> | <b>(4.1)</b> |
| Broad money (KYD) M2          | 986.3          | 1,058.4        | 7.3          |
| Currency in circulation       | 82.1           | 86.9           | 5.8          |
| KYD Deposits                  | 904.2          | 971.5          | 7.4          |
| Demand deposits               | 287.2          | 307.4          | 7.0          |
| Time and savings deposits     | 617.0          | 664.1          | 7.6          |
| FOREX deposits                | 4,174.9        | 3,891.0        | (6.8)        |
| of which: US dollars          | 3,606.4        | 3,279.3        | (9.1)        |
| US\$ Contribution (%)         | 86.4           | 84.3           |              |



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

**5.1. Net Foreign Assets (NFA).** During the review period, NFA of domestic commercial banks fell by 10.9% (see Table 5), while that of the Cayman Islands Monetary Authority increased by 5.8%, resulting in an overall contraction of \$303.6 million (or 10.4%). The decline in commercial banks' NFA resulted from an increase in foreign liabilities (9.5%) as non-resident deposits and other liabilities increased augmented with a reduction in foreign assets (0.1%) as non-resident loans declined sharply.

**Table 5: Net Foreign Assets (\$ millions)**

|                            | Sep-11         | Sep-12         | % Change      |
|----------------------------|----------------|----------------|---------------|
| <b>Net Foreign Assets</b>  | <b>2,917.5</b> | <b>2,613.9</b> | <b>(10.4)</b> |
| Monetary Authority         | 86.8           | 91.8           | 5.8           |
| Commercial Banks           | 2,830.7        | 2,522.1        | (10.9)        |
| <b>Foreign Assets</b>      | <b>6,004.9</b> | <b>5,996.8</b> | <b>(0.1)</b>  |
| Bal. with Banks & Branches | 3,428.7        | 3,743.5        | 9.2           |
| Total Investment           | 908.0          | 906.9          | (0.1)         |
| Total Non-Resident Loans   | 1,668.2        | 1,346.4        | (19.3)        |
| <b>Foreign Liabilities</b> | <b>3,174.2</b> | <b>3,474.7</b> | <b>9.5</b>    |
| Deposits                   | 3,070.3        | 3,344.1        | 8.9           |
| Other Liabilities          | 103.9          | 130.6          | 25.7          |

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

**5.2. Domestic Credit.** During the review period, a 0.7% expansion in domestic credit was driven by a 1.6% growth in credit to the private sector despite a reduction in public sector indebtedness by 5.6% compared to a year ago (see Table 6).

The amortization of central government debt by \$20.9 million led to a contraction

in public sector indebtedness by \$21.7 million. Other public sector entities also had a net decrease in borrowings of \$0.8 million (see Table 4).

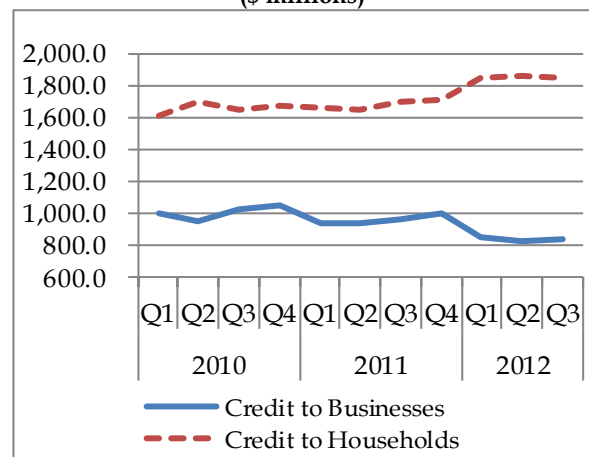
**Table 6: Domestic Credit (\$ millions)**

|                                   | Sep-11         | Sep-12         | % Change   |
|-----------------------------------|----------------|----------------|------------|
| <b>Domestic Credit</b>            | <b>3,043.3</b> | <b>3,063.4</b> | <b>0.7</b> |
| Domestic Credit to Public Sector  | 388.2          | 366.5          | (5.6)      |
| Domestic Credit to Private Sector | 2,655.1        | 2,696.9        | 1.6        |

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Lending to the domestic private sector (businesses and households) increased by 1.6% compared to a year ago. As Figure 8 shows, loans to households increased while loans to businesses declined compared to the same period last year.

**Figure 10: Credit to Business and Households (\$ millions)**



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

Loans to households increased by 9.3% (or \$156.9 million) as at September 2012 compared to the preceding year. This was dominated by a 4.4% increase in

lending for domestic property and miscellaneous debt<sup>2</sup> (see Table 7) by 59.2%.

Credit to businesses contracted during the review period as lending to the major sectors declined.

Lending to the production and manufacturing sectors contracted by 12.3%, as amortization of loans to the utility and construction sectors combined fell by \$69.4 million over the last twelve months.

During the review period, loans to the services sector contracted by 30.3% as a total of \$53.6 million in loans were amortised across different services. (However, during the last three months, lending to the services sector increased by \$21.4 million).

Lending to trade and commerce declined by \$13.9 million (or 3.9%). While credit to the real estate, rentals and leasing sector dropped sharply, those for general business activity picked up significantly.

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

|   | Sep-11  | Sep-12  | % Change |
|---|---------|---------|----------|
| <b>Total</b>  | 2,655.1 | 2,696.9 | 1.6      |
| <b>Credit to Businesses</b>                           | 958.9   | 844.4   | (11.9)   |
| <b>Production &amp; Manufacturing</b>                 | 382.1   | 335.1   | (12.3)   |
| Agriculture, Fishing and Mining                       | 6.8     | 13.4    | 97.1     |
| Manufacturing   | 12.5    | 28.3    | 126.4    |
| Utilities   | 23.3    | 3.4     | (85.4)   |
| Construction  | 339.5   | 290.0   | (14.6)   |
| <b>Services</b>                                       | 176.8   | 123.2   | (30.3)   |
| Entertainment Services                                | 98.0    | 92.8    | (5.3)    |
| Transportation, Storage & Communications              | 43.2    | 15.7    | (63.7)   |
| Education, Recreational & Other Professional Services | 35.6    | 14.7    | (58.7)   |
| <b>Trade and Commerce</b>                             | 356.1   | 342.2   | (3.9)    |
| Wholesale & Retail Sales Trade                        | 69.1    | 66.5    | (3.8)    |
| Real Estate Agents, Rental and Leasing Companies      | 255.2   | 127.3   | (50.1)   |
| Other Business Activities (General Business Activity) | 31.8    | 148.4   | 366.7    |
| <b>Other Financial Corporations</b>                   | 43.9    | 43.9    | 0.0      |
| <b>Credit to Households</b>                           | 1,695.5 | 1,852.4 | 9.3      |
| Domestic Property                                     | 1,479.0 | 1,543.9 | 4.4      |
| Motor Vehicles  | 40.2    | 33.7    | (16.2)   |
| Education and Technology                              | 6.3     | 4.2     | (33.3)   |
| Miscellaneous*  | 170.0   | 270.6   | 59.2     |
| <b>NonProfit Organizations</b>                        | 0.7     | 0.1     | (85.7)   |

\*Miscellaneous include consolidated debt, insurance, medical & travel

Source: Cayman Islands Monetary Authority & Economics and Statistics Office

**5.3. Broad Liquidity.** As referenced in Table 4, broad liquidity (M2) in the Cayman Islands reached \$4,949.4 million in September 2012, compared to \$5,161.2 million for the same period last year. This represents a 4.1% decline which resulted from a decrease in foreign

<sup>2</sup> Miscellaneous debt is consolidated debt, insurance, medical and travel

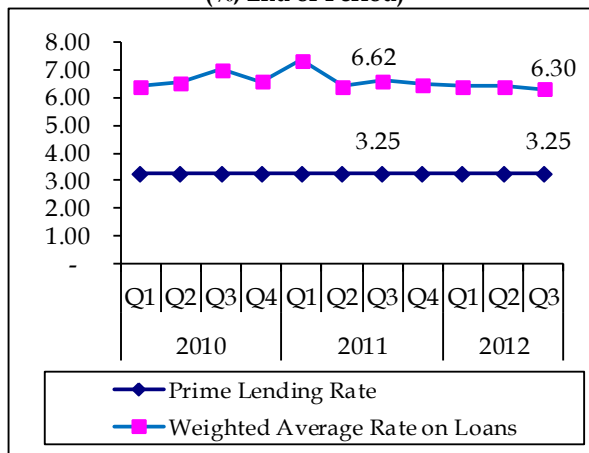
currency deposits even as local currency money grew.

Foreign currency deposits recorded a decline of 6.8% or \$283.9 million. This reduction comprised \$327.1 million US dollar denominated deposits, which was partially offset by a \$43.2-million growth in other currency denominated deposits dominated by Euro area currencies (pound and Euro).

Total CI dollar deposits rose by 7.4% or \$67.3 million while currency in circulation grew by 5.8% or \$4.8 million compared to a year ago.

**5.4. Interest Rates.** As depicted in Figure 11, the weighted average lending rate on KYD fell by 32 basis points from 6.62% in September 2011 to 6.30% in the same period of 2012. The Cayman Islands prime lending rate remained constant at 3.25%.

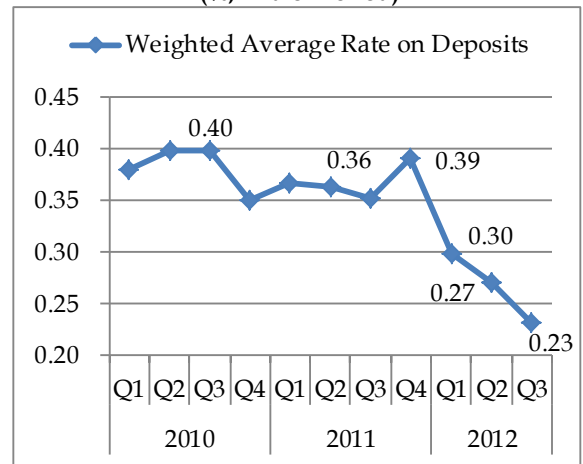
Figure 11: KYD Lending Rates (% , End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

As depicted in Figure 12, the weighted average savings rate on KYD declined by 13 basis points from a year ago to 0.23%.

Figure 12: KYD Weighted Average Savings Rates (% , End of Period)



Source: Cayman Islands Monetary Authority & Economics and Statistics Office

## 6. Financial Services

The financial services sector generated mixed results during the first nine months of 2012. With the exception of insurance companies and stock exchange listings, fewer registrations were recorded for all other sub-sector indicators.

### 6.1 Banks & Trust

Reflective of continued global economic uncertainties, weaker activity was noted in the Cayman Islands' banking sector. As of September 2012, the total number of licenced bank and trust companies

lessened to 233 (i.e. 6.8% lower than last year). Licenced trust companies totalled marginally less by 0.8% to level at 122.

rebounded by 4 to reach 734 over the review period. Meanwhile, total premium of captives improved by US\$2,250 million.

**Table 8: Bank & Trust Companies**

|                        | Sept<br>2010 | Sept<br>2011 | Sept<br>2012 | %<br>Change |
|------------------------|--------------|--------------|--------------|-------------|
| <b>Bank and Trust</b>  | <b>262</b>   | <b>250</b>   | <b>233</b>   | <b>-6.8</b> |
| Class 'A'              | 17           | 16           | 15           | -6.3        |
| Class 'B'              | 245          | 234          | 218          | -6.8        |
| <b>Trust Companies</b> | <b>129</b>   | <b>123</b>   | <b>122</b>   | <b>-0.8</b> |
| Restricted             | 78           | 71           | 69           | -2.8        |
| Unrestricted           | 51           | 52           | 53           | 1.9         |

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences declined by 1 to 15, while Class 'B' licences declined by 16, to settle at 218.

Europe and USA led Cayman's sources of banking licensees with 29.2% and 26.4%, respectively. The rest of the banking license sources are distributed as follows: South America 17.2%, Asia and Australia 10.0%, Caribbean and Central America 8.4%, Canada and Mexico 5.2% and Middle East and Africa 3.6%.

## 6.2 Insurance

For 2012, in contrast to 2011, the insurance sector improved slightly as the total number of insurance licences rose by 3 to reach 761.

Whereas Class 'A' insurance licences fell to 27, Class 'B' (captive) licences

**Table 9: Insurance Companies**

|              | Sep<br>2010 | Sep<br>2011 | Sep<br>2012 | %<br>Change |
|--------------|-------------|-------------|-------------|-------------|
| Class 'A'    | 29          | 28          | 27          | -3.6        |
| Class 'B'    | 729         | 730         | 734         | 0.5         |
| <b>Total</b> | <b>758</b>  | <b>758</b>  | <b>761</b>  | <b>0.4</b>  |

Source: Cayman Islands Monetary Authority

The captive licensees' primary class of business comprised of healthcare (34.6%), workers' compensation coverage (21.4%), property (12.3%), general liability (9.7%) and professional liability (8.9%).

**Table 10: Captive Insurance Licences by Primary Class of Business, September 2012**

|                        | Licences   | % share      |
|------------------------|------------|--------------|
| Healthcare             | 254        | 34.6         |
| Workers' Compensation  | 157        | 21.4         |
| Property               | 90         | 12.3         |
| General Liability      | 71         | 9.7          |
| Professional Liability | 65         | 8.9          |
| Other                  | 97         | 13.2         |
| <b>Total</b>           | <b>734</b> | <b>100.0</b> |

Source: Cayman Islands Monetary Authority

North America remained the most popular origin of captive insurance companies with a share of 90.5%, while the Caribbean and Latin America region accounted for 3.1% and 3.5% respectively.

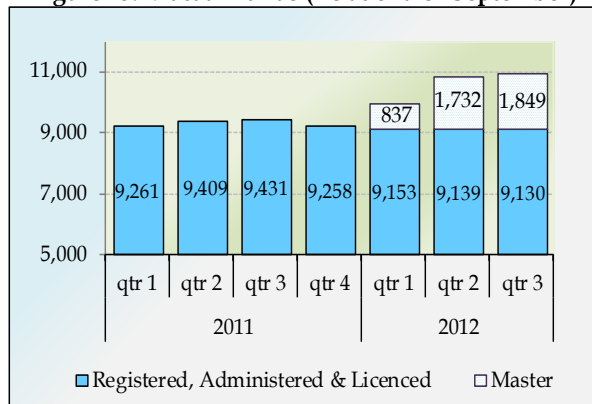
Premiums for captives increased by about US\$2,250 million (or 23.5%) to register at

US\$11.8 billion at the end of September 2012.

### 6.3 Mutual Funds

When compared to third quarter of 2011, the number of registered, administered and licenced mutual funds licences recorded was lower by 301 (or by 3.2%) to 9,130. With its classification being introduced earlier this year, master funds showed a steady improvement of 117 over the second quarter of 2012. When combined, all regulated categories of mutual funds as at September 2012 totalled 10,979.

**Figure 13: Mutual Funds (As at end of September)**



Source: Cayman Islands Monetary Authority

### 6.4 Stock Exchange

The total Cayman Islands Stock Exchange listings increased by 1.1% from 1,133 in September 2011 to 1,146 in September 2012. Whereas specialist debt was lower compared to a year ago, all remaining categories grew – with Eurobond, primary equity and insurance linked security all registering double-digit increases.

**Table 11: Number of Stock Listings by Instruments**

| Instruments               | 2011         | 2012         |
|---------------------------|--------------|--------------|
| <b>Total</b>              | <b>1,133</b> | <b>1,146</b> |
| Mutual Funds              | 322          | 336          |
| Specialist Debt           | 639          | 597          |
| Eurobond                  | 93           | 116          |
| Primary Equity            | 4            | 5            |
| Secondary Equity          | 2            | 2            |
| Insurance Linked Security | 73           | 90           |

Source: Cayman Islands Stock Exchange

The strengthening in total stock exchange listings is also represented by its higher market capitalization which grew by US\$21.2 billion (or 14.6%) to reach US\$166.7 billion in September 2012.

This performance was largely supported by the significant increase in capitalization for Eurobonds amounting to \$30.1 billion.

**Table 12: Market Capitalization by Instruments (US\$ Billions)**

| Instruments               | 2011         | 2012         |
|---------------------------|--------------|--------------|
| <b>Total</b>              | <b>145.5</b> | <b>166.7</b> |
| Mutual Funds              | 29.2         | 16.8         |
| Specialist Debt           | 76.9         | 73.1         |
| Eurobond                  | 34.3         | 64.4         |
| Primary Equity            | 0.2          | 2.7          |
| Secondary Equity          | 0.0          | 0.8          |
| Insurance Linked Security | 4.9          | 8.9          |

Source: Cayman Islands Stock Exchange

## 6.5 New Company Registration

During the period January to September 2012, total new company registrations reached 6,775 as compared to 7,063 for the same period of 2011, representing a 4.1% decrease. This was largely on account of the 59.2% downturn in non-resident companies, followed by a smaller fall of 3.9% for exempt companies.

Table 13: New Company Registrations

|                       | 2010         | 2011         | 2012         |
|-----------------------|--------------|--------------|--------------|
| <b>Total</b>          | <b>6,192</b> | <b>7,063</b> | <b>6,775</b> |
| Exempt                | 5,334        | 6,210        | 5,966        |
| Non-Resident          | 186          | 125          | 51           |
| Resident              | 360          | 397          | 409          |
| Foreign               | 312          | 331          | 349          |
| Percentage change (%) |              |              |              |
| <b>Total</b>          | <b>6.0</b>   | <b>14.1</b>  | <b>-4.1</b>  |
| Exempt                | 6.0          | 16.4         | -3.9         |
| Non-Resident          | 29.2         | -32.8        | -59.2        |
| Resident              | -7.2         | 10.3         | 3.0          |
| Foreign               | 12.6         | 6.1          | 5.4          |

Source: Registrar of Companies

## 7. Tourism

Total visitor arrivals stood at 1,381,128 as of the end of September 2012, an increase of 6.3% over the comparative period of 2011. This upturn is associated with higher visitor figures for both air and cruise arrivals.

### 7.1 Air Arrivals

From the 236,447 stay-over visitors registered in 2011, air arrivals for the first

three quarters of 2012 rose by 3.9% to 245,637.

While arrivals from visitor markets generally performed favourably, the Canadian region weakened by 5.3% when compared to the previous year.

As shown in Table 14, visitor arrivals from across regions of the US improved when compared to the previous year, except for the Northeast.

Table 14: Air arrivals by US regions

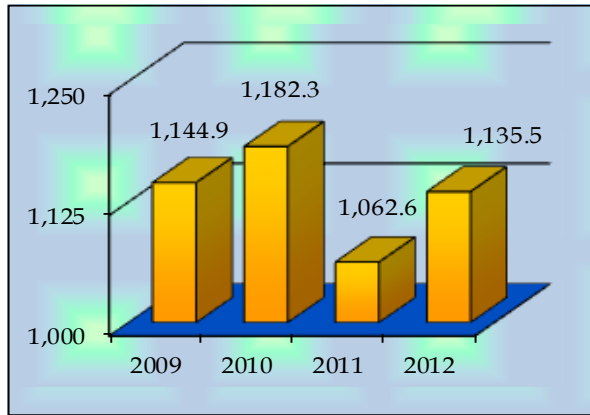
|                   | 2010  | 2011  | 2012  | % Change |
|-------------------|-------|-------|-------|----------|
| <b>USA</b>        | 177.3 | 188.9 | 196.8 | 4.2      |
| Northeast         | 65.3  | 67.4  | 65.9  | -2.2     |
| Midwest           | 38.0  | 40.7  | 44.4  | 9.0      |
| Southeast         | 32.3  | 35.1  | 35.4  | 1.0      |
| Southwest         | 30.4  | 33.4  | 37.7  | 12.9     |
| West Coast        | 11.3  | 12.3  | 13.3  | 8.3      |
| <b>Europe</b>     | 14.5  | 15.4  | 15.4  | 0.0      |
| <b>Canada</b>     | 13.2  | 17.9  | 17.0  | -5.3     |
| <b>Others</b>     | 14.9  | 14.2  | 16.5  | 16.3     |
| <b>Total</b>      | 219.9 | 236.4 | 245.6 | 3.9      |
| of Which: USA (%) | 80.6  | 79.9  | 80.1  |          |

Source: Department of Tourism

### 7.2 Cruise Arrivals

During the first three quarters of 2012, cruise arrivals totalled 1,135,489 visitors. This represents an upturn of 6.9% over the comparative period for 2011, despite a decline in the number of cruise ship calls.

Figure 14: Cruise arrivals ('000), Jan-Sep



Source: Department of Tourism

Between January and September 2012, the number of cruise ship calls to George Town port decreased by 2.5% to 388. This performance translates to an average of 4,206 cruise passengers per day or 271 additional visitors per day when compared to the first three quarters of 2011.

## 8. Construction

Construction indicators fell anew in the first nine months of the year as both building permits and project approvals weakened.

### 8.1. Building Permits

During the review period, building permit values contracted by 20.2% to \$113.5 million, a stronger decline than the 15.7% recorded in 2011.

Table 15: Building Permits (Jan-Sep)

|                      | 2010         | 2011         | 2012         | % Change      |
|----------------------|--------------|--------------|--------------|---------------|
| <b>Millions CI\$</b> |              |              |              |               |
| Houses               | 74.6         | 64.0         | 76.7         | 19.8          |
| Apartments           | 42.5         | 34.0         | 14.5         | (57.4)        |
| Commercial           | 40.9         | 31.5         | 11.2         | (64.4)        |
| Government           | -            | 6.5          | 2.9          | (55.4)        |
| Industrial           | 2.3          | 0.5          | 0.4          | (20.0)        |
| Other                | 8.5          | 5.8          | 7.8          | 34.5          |
| <b>Total</b>         | <b>168.8</b> | <b>142.3</b> | <b>113.5</b> | <b>(20.2)</b> |

Source: Cayman Islands Government, Planning Department

The downturn was broad based with all but two categories ('House' and 'Other') recording double-digit declines.

Overall, permit values in the residential sector comprising 'House' and 'Apartment', decreased by 6.9% to \$91.2 million. The decline is traced to a 57.2% contraction in apartment building activity with a declining expatriate population plausibly dampening demand for this building type. In contrast, 'House' values rose by 19.8% to \$76.7 million. This upsurge is traced to the growing popularity of single family home property developments which accounted for approximately \$41.3 million (or 53.8%) of total House permits.

Non-residential building values plunged anew by 62.3% to \$14.5 million following the 26.9% fall a year earlier. All sub-categories recorded sharp declines: commercial 64.4%, government 55.4% and industrial 20.0%.

In the review period, the number of building permits fell by 1.9% from 575 to 564. The increase in permit numbers for Houses (9.3%) and Government (62.5%)

categories were offset by declines in all other categories.

**Table 16: Number of Building Permits (Jan-Sep)**

|              | 2010       | 2011       | 2012       | % Change     |
|--------------|------------|------------|------------|--------------|
| Houses       | 305        | 246        | 269        | 9.3          |
| Apartments   | 92         | 54         | 45         | (16.7)       |
| Commercial   | 102        | 77         | 70         | (9.1)        |
| Government   | 3          | 8          | 13         | 62.5         |
| Industrial   | 6          | 1          | 1          | -            |
| Other        | 249        | 189        | 166        | (12.2)       |
| <b>Total</b> | <b>757</b> | <b>575</b> | <b>564</b> | <b>(1.9)</b> |

Source: Cayman Islands Government, Planning Department

## 8.2. Project Approvals

Construction intentions, as measured by project approvals retracted further during the review period, as values slid by 42.6% from \$179.5 million to \$103.1 million in 2012.

**Table 17: Projects Approval (\$ Millions, Jan-Sep)**

|              | 2010                 | 2011         | 2012         | % Change      |
|--------------|----------------------|--------------|--------------|---------------|
|              | <b>Millions CI\$</b> |              |              |               |
| Houses       | 63.4                 | 86.5         | 54.7         | (36.8)        |
| Apartments   | 30.0                 | 12.1         | 15.4         | 27.3          |
| Commercial   | 78.1                 | 20.1         | 4.9          | (75.6)        |
| Government   | 0.9                  | 14.1         | 5.0          | (64.5)        |
| Industrial   | 0.9                  | 15.1         | 5.3          | (64.9)        |
| Other        | 37.1                 | 31.6         | 17.8         | (43.7)        |
| <b>Total</b> | <b>210.4</b>         | <b>179.5</b> | <b>103.1</b> | <b>(42.6)</b> |

Source: Cayman Islands Government, Planning Department

With the exception of 'Apartments' all other categories of construction intentions weakened during the review period.

Within the non-residential sector, commercial approval values plummeted

by 75.6% to \$4.9 million in the absence of any large private sector project.

The industrial and government segments also recorded similar declines of 64.9% and 64.5% respectively.

In the residential sector, the performance was mixed with building approvals for the house category receding by 36.8% to \$54.7 million, while apartments rose by 27.3% to \$15.4 million.

Following an increase of 0.8% in the number of approval values a year earlier, this period showed a reversal by 5.3%.

Lower intentions in the 'Government' and 'Other' category overshadowed improvements in remaining categories.

**Table 18: Number of Project Approvals (Jan-Sep)**

|              | 2010       | 2011       | 2012       | Change       |
|--------------|------------|------------|------------|--------------|
| Houses       | 203        | 225        | 230        | 2.2          |
| Apartments   | 50         | 28         | 36         | 28.6         |
| Hotels       | 0          | 0          | 0          | 0            |
| Commercial   | 28         | 21         | 30         | 42.9         |
| Government   | 5          | 12         | 7          | (41.7)       |
| Industrial   | 3          | 7          | 8          | 14.3         |
| Other        | 350        | 351        | 299        | (14.8)       |
| <b>Total</b> | <b>639</b> | <b>644</b> | <b>610</b> | <b>(5.3)</b> |

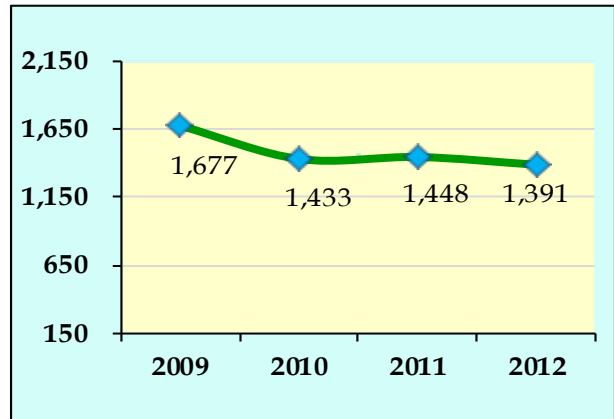
Source: Cayman Islands Government, Planning Department

## 9. Real Estate

In the first nine months of the year, real estate performance - as measured by total value of traded properties - was weaker in comparison to the last two years.

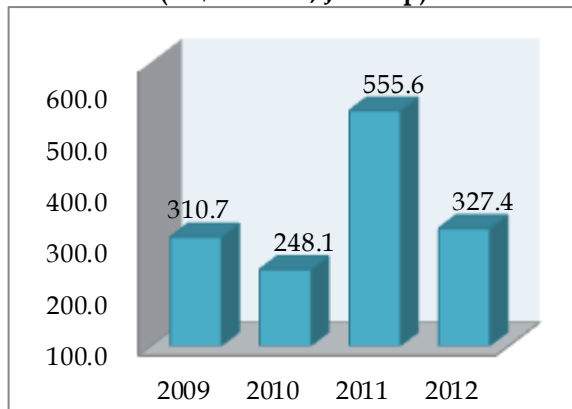


The total value of traded properties declined by 41.1% from the peak \$555.6 million in 2011 to \$327.4 million in 2012. This value, however, is 32.0% and 5.4% higher than the same period in 2009 and 2010.



Source: Lands & Survey Department

**Figure 15: Value Property Transfers:  
(CI\$ Million, Jan-Sep)**



Source: Lands & Survey Department

Both types of traded property recorded decreases with freehold property falling by 40.7% to \$319.7 million and leasehold property by 53.1%, to \$7.7 million in 2012.

Similarly, the volume of traded properties in the first nine months of the year fell by 3.9% to 1,391.

**Figure 16: Number of Property Transfers:  
Jan-Sep**

## 10. Utilities

Demand in the utilities sector weakened overall during the first three quarters of the year.

### 10.1. Water

Total water production fell by 2.9% during the period in review while consumption also declined by 4.3% to settle at 1,310.9 million US gallons.

### 10.2. Electricity

Local electricity consumption fell by 1.4% to 415.4 kWh as at September 2012 mainly due to reductions in residential and commercial consumption whilst public consumption expanded (see Table 19).

Residential consumption fell by 1.8% despite an increase in the number customers by 1.4% to 22,952.

Commercial consumption also moderated by 1.1% although the number of commercial customers increased by 2.9% to total 3,942.

Public lighting consumption increased by 2.0% during the period.

Despite the marginal rise in handsets, the total number of paid domestic and international communication minutes during the first three quarters decreased by 8.7% and 36.3%, respectively compared to the same period a year ago. These led to a combined reduction of 20.8% which may be explained by lower demand among businesses in the financial services sector and other sectors with international transactions on the one hand, as well as the rising supply of substitutes for telephones on the other hand.

**Table 19: Utilities Production and Consumption**

|                               | Sep-11        | Sep-12        | %<br>Change |
|-------------------------------|---------------|---------------|-------------|
| <b>Millions of US Gallons</b> |               |               |             |
| Water Production              | 1,556.3       | 1,511.4       | -2.9        |
| Water Consumption             | 1,369.7       | 1,310.9       | -4.3        |
| <b>'000 of megawatt hrs</b>   |               |               |             |
| Electricity Consumption       | 421.4         | 415.4         | -1.4        |
| Residential                   | 197.1         | 193.5         | -1.8        |
| Commercial                    | 219.7         | 217.2         | -1.1        |
| Public                        | 4.6           | 4.7           | 2.0         |
| <b>Total Customers</b>        | <b>26,456</b> | <b>26,894</b> | <b>1.7</b>  |
| Residential                   | 22,624        | 22,952        | 1.4         |
| Commercial                    | 3,832         | 3,942         | 2.9         |

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

**Table 20: Telecommunication Sector Indicators**

|  | Sep-11         | Sep-12         | %<br>Change  |
|--|----------------|----------------|--------------|
| <b>Fixed and Mobile handsets in operation</b>                        | <b>131,871</b> | <b>132,304</b> | <b>0.3</b>   |
| <b>Total Fixed &amp; Mobile domestic &amp; international minutes</b> | <b>311,324</b> | <b>246,627</b> | <b>-20.8</b> |
| Fixed & Mobile domestic minutes                                      | 175,167        | 159,889        | -8.7         |
| Fixed & Mobile international minutes                                 | 136,157        | 86,738         | -36.3        |
| <b>Broadband connections</b>   | <b>18,612</b>  | <b>18,857</b>  | <b>1.3</b>   |

Source: Information Communication and technology Authority (ICTA)

### 10.3. Telecommunications

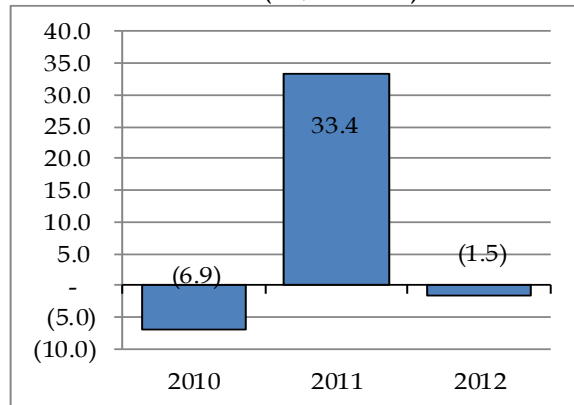
Telecommunications handsets demand improved slightly as shown by a marginal increase (0.3%) in the total number of telephones in service.

### 11. Fiscal Operations of Central Government

For the first nine months, the overall fiscal balance changed from a surplus of \$33.4 million a year ago to a deficit of \$1.5

million in 2012, albeit this is lower than the deficit in 2010 (see Figure 17).

**Figure 17: Jan-Sep Central Government Overall Fiscal Balance (CI\$ Millions)**



Source: Cayman Islands Treasury Department & ESO

This slight deterioration in the fiscal position was due to a reduction in the current surplus and a simultaneous expansion in capital expenditure. The current surplus stood at \$35.4 million as compared to \$51.6 million a year ago. This reduction of 31.4% resulted from a 0.2% decrease in current revenue and an increase in recurrent expenditure by 3.9%. Meanwhile, capital expenditure more than doubled (see Table 21).

**Table 21: Summary of Fiscal Operations: Jan-Sep**

|                                       | Sep-11        | Sep-12       | % Change |
|---------------------------------------|---------------|--------------|----------|
|                                       | CI\$ Millions |              |          |
| <b>Total Revenue</b>                  | <b>444.2</b>  | <b>443.5</b> | (0.2)    |
| <b>Total Expenditure</b>              | <b>410.8</b>  | <b>445.0</b> | 8.3      |
| Current Expenditure                   | 392.6         | 408.1        | 3.9      |
| Net Capital Expenditure & Net Lending | 18.2          | 36.9         | 102.7    |
| Current Balance                       | 51.6          | 35.4         | (31.4)   |
| Overall Balance                       | 33.4          | (1.5)        | 104.5    |
| <b>Financing</b>                      | <b>(33.4)</b> | <b>1.5</b>   | (104.5)  |
| Net Borrowing                         | 29.4          | (16.6)       | 156.5    |
| Change in Cash (minus=increase)       | (62.8)        | 18.1         | (128.8)  |

Source: Cayman Islands Treasury Department & ESO

### 11.1. Revenue

For the first nine months of 2012, total revenue contracted by 0.2% to reach \$443.5 million (see Table 22). Total revenue comprises both coercive (90.7%) and non-coercive revenue (9.3%). Coercive revenue which totalled \$402.3 million rose by 0.2% above the receipts in the preceding year. Coercive revenue benefited from higher yield on taxes on international trade and transactions by 3.7%, along with domestic taxes on goods and services by 2.2% while taxes on property fell by 36.3%.

The increase in domestic taxes on goods and services emanated mainly from higher collections of tourism accommodation charges, partnership fees, ICTA licences among others.

Higher aggregate yield of taxes on international trade and transactions was propelled by all categories, however, stronger growth emanated from motor vehicle duty and other import duties.

Taxes on property reverted to \$20.4 million with lower stamp duty collections this period following a higher intake a year ago which was due to the sale of properties along the Seven Mile road.

On the other hand, non-coercive revenue amounted to \$41.2 million, 3.7% lower than the comparative period a year ago. This fall-off originated from a reduction in receipts from other goods and services revenue.

**Table 22: Revenue Collection of the Central Government: Jan - Sep**

| Revenue Sources                     | Sep-11        | Sep-12       | %      |
|-------------------------------------|---------------|--------------|--------|
|                                     | CI\$ Millions |              | Change |
| <b>Total Revenue</b>                | <b>444.2</b>  | <b>443.5</b> | (0.2)  |
| <b>Coercive Revenue</b>             | <b>401.4</b>  | <b>402.3</b> | 0.2    |
| Taxes on Int'l Trade & Transactions | 118.4         | 122.8        | 3.7    |
| Domestic Taxes on Goods & Services  | 250.0         | 255.4        | 2.2    |
| Taxes on Property                   | 32.0          | 20.4         | (36.3) |
| Fines                               | 1.0           | 0.9          | (10.0) |
| Other Taxes                         | -             | 2.8          |        |
| <b>Non-coercive Revenue</b>         | <b>42.8</b>   | <b>41.2</b>  | (3.7)  |
| Sale of Goods & Services            | 42.2          | 40.5         | (4.0)  |
| Investment Revenue                  | 0.5           | 0.6          | 20.0   |
| Other Revenue                       | 0.1           | 0.1          | 0.0    |

Source: Cayman Islands Treasury Department & ESO

## 11.2. Expenditure

Total expenditure for the first three quarters of 2012 increased due to higher recurrent and net capital expenditure. Net capital expenditure and net lending<sup>3</sup> more than doubled during the period,

<sup>3</sup> Net capital expenditure and net lending is gross capital expenditure and net lending after accounting for depreciation.

while recurrent expenditure increased by 3.9%. The latter was precipitated by increases in supplies and consumables, transfer payments, interest payments, personnel cost and extraordinary expenses while subsidies had a marginal decline (see Tables 23 and 24).

**Table 23: Current Expenditure of the Central Government: Jan - Sep**

|                            | Sep-11        | Sep-12       | %      |
|----------------------------|---------------|--------------|--------|
|                            | CI\$ Millions |              | Change |
| <b>Current Expenditure</b> | <b>392.6</b>  | <b>408.1</b> | 3.9    |
| Personnel Costs            | 161.3         | 171.3        | 6.2    |
| Supplies & Consumables     | 70.2          | 71.9         | 2.4    |
| Subsidies                  | 97.1          | 96.6         | (0.5)  |
| Depreciation               | 15.9          | 17.1         | 7.5    |
| Transfer Payments          | 21.2          | 21.3         | 0.5    |
| Interest Payments          | 24.5          | 25.1         | 2.4    |
| Other Executive Expenses   | 2.4           | 4.8          | 100.0  |

Source: Cayman Islands Treasury Department & ESO

During the period, personnel costs totalled \$171.3 million, which was higher by 6.2% compared to a year ago. This resulted partly from an increase in civil servants salaries for the first eight months of this year as compared to the same period of 2011. This temporary increase in salaries arose from the reinstatement in December 2011 and ended in August 2012 of a previous 3.2% cut. Additionally, between January and September, higher number of employees in the civil service contributed to higher personnel costs. The number of employees in the civil service grew by 0.9% (or 32 persons) to 3,625 as at end of September 2012. In addition to the aforementioned reasons, health care cost and pension expense also increased (see Table 24).

**Table 24: Personal Cost Breakdown: Jan - Sep**

| Personnel Cost  | 2011         | 2012         |
|---|--------------|--------------|
| Salaries and Wages (including Employee Pension Contributions) | 131.7        | 137.6        |
| Health Care   | 19.6         | 22.2         |
| Employer/Government Pension Expense                           | 7.7          | 8.4          |
| Movement in Leave Provision Expense                           | 0.2          | 1.2          |
| Movement in Unfunded Pension Liability                        | 1.4          | 1.4          |
| Other Personnel Cost  | 0.7          | 0.5          |
| <b>Total</b>  | <b>161.3</b> | <b>171.3</b> |

Source: Cayman Islands Treasury Department & ESO

During the review period, increases were also recorded in supplies and consumables, depreciation, transfer payments and interest payments (see Table 23).

Other executive expenses doubled over the previous year to amass \$4.8 million.

Interest payments for servicing the disbursed outstanding debt amounted to \$25.1 million, higher by 2.4% from a year ago. (The stock of debt as at beginning of January 2011 was \$612.8 million; this stock contracted by \$17.0 million between January and September 2012.)

### 11.3. Capital Expenditure and Net Lending

Expenditure on the construction of schools of \$23.0 million during 2012 led gross capital expenditure and net lending to be higher by 58.4% to \$54.0 million for the first nine months of 2012. This resulted as capital acquisition/equity injections were higher by \$23.0 million while capital development/executive assets fell by 15.9% (see Table 25). After taking depreciation into consideration,

net capital expenditure and net lending grew by \$19.7 million to settle at \$36.9 million as at the end of September 2012.

**Table 25: Capital Expenditure and Net Lending: Jan - Sep**

|  | Sep-11      | Sep-12      | % Change     |
|--|-------------|-------------|--------------|
| <b>Gross Capital Expenditure and Net Lending</b>           | <b>34.1</b> | <b>54.0</b> | <b>58.4</b>  |
| Capital Acquisition (now Equity Investments)               | 25.1        | 48.1        | 91.6         |
| Capital Development (now Executive Assets)                 | 8.8         | 7.4         | (15.9)       |
| Net Lending  | 0.2         | (1.5)       | (850.0)      |
| <b>Net Capital Expenditure and Net Lending<sup>1</sup></b> | <b>18.2</b> | <b>36.9</b> | <b>102.7</b> |
| Depreciation   | 15.9        | 17.1        | 7.5          |

<sup>1</sup> Net Capital Expenditure and Net Lending is equal to Gross Capital Expenditure and Net Lending less Depreciation

Source: Cayman Islands Treasury Department & ESO

### 11.3. Net Financing

The overall deficit was financed from a reduction of cash of \$18.1 million during the period as no loan borrowing disbursement was transacted. Meanwhile, \$16.6 million worth of outstanding debt was amortised.

**Table 26: Net Financing: Jan-Sep**

|                                   | Sep-11        | Sep-12     | % Change       |
|-----------------------------------|---------------|------------|----------------|
|                                   | CI\$ Millions |            |                |
| <b>Financing</b>                  | <b>(33.4)</b> | <b>1.5</b> | <b>(104.5)</b> |
| Net Borrowing                     | 29.4          | (16.6)     | (156.5)        |
| Disbursements                     | 153.6         | 0.0        |                |
| Loan Repayment                    | (124.2)       | (16.6)     | (86.6)         |
| Change in Cash (minus = increase) | (62.8)        | 18.1       | (128.8)        |

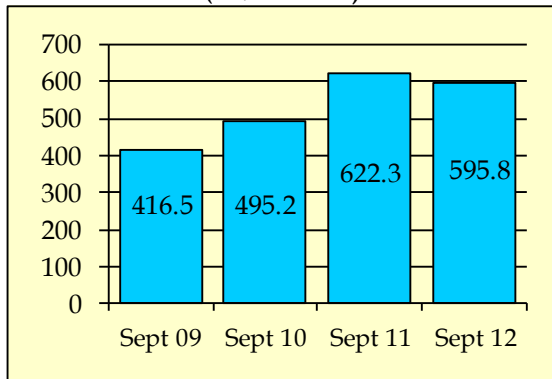
Source: Cayman Islands Treasury Department & ESO

### 11.4. Debt and Debt Service

There was a contraction of total outstanding debt between September 2011 and September 2012 as some \$26.5 million was amortised during the period. The central government’s outstanding debt stood at \$595.8 million (see Figure 18) from \$622.3 million as at end September 2011.

The central government’s outstanding debt contracted by 4.3% or \$26.5 million compared to a year ago. This movement increased the central government’s debt service-to-current revenue ratio to 9.4%, from 9.3% a year ago. Similarly, interest payments-to-current revenue ratio stood at 5.7% compared to 5.5% as at September 2012.

Figure 18: Central Government Outstanding Debt (CI\$ Millions)



Source: Cayman Islands Treasury Department

### ACKNOWLEDGMENT

The Economics and Statistics Office (ESO) gratefully acknowledges the assistance of the following local companies, government offices and statutory authorities in generating the data sets used in this edition of the quarterly report:

- Caribbean Utilities Company**
- Cayman Islands Customs Department**
- Cayman Islands Department of Tourism**
- Cayman Islands General Registry**
- Cayman Islands Monetary Authority**
- Cayman Islands Planning Department**
- Cayman Islands Stock Exchange**
- Cayman Islands Water Company**
- Department of Immigration**
- Lands and Survey Department**
- Port Authority of the Cayman Islands**
- Portfolio of the Civil Service**

This was produced by the Economics Unit of the ESO. General support from the staff of the ESO is gratefully acknowledged.