



CAYMAN ISLANDS

ECONOMIC BRIEF

Cayman Islands dollar (CI\$); United States dollar (US\$). 1 CI\$ = 1.2 US\$

The economic recovery in the Cayman Islands continued in 2022. Economic output exceeded its 2019 levels following a 3.7% rise in real gross domestic product (GDP). Labor market conditions improved. Government of the Cayman Islands (GOCI) maintained low debt levels as fiscal balances improved. Stronger-than-expected revenue compensated for ongoing expenditure pressures including elevated social and health-related expenditure.

With a slowing global economy, the 2023 growth rate is expected to moderate following the pandemic-related recovery. Inflation is expected to decelerate but will remain elevated. Main risks are stemming from economic weakness in the main tourism source market, the United States of America (USA), and from potential instability in global financial markets impacting Cayman's financial services industry.

KEY DEVELOPMENTS IN 2022

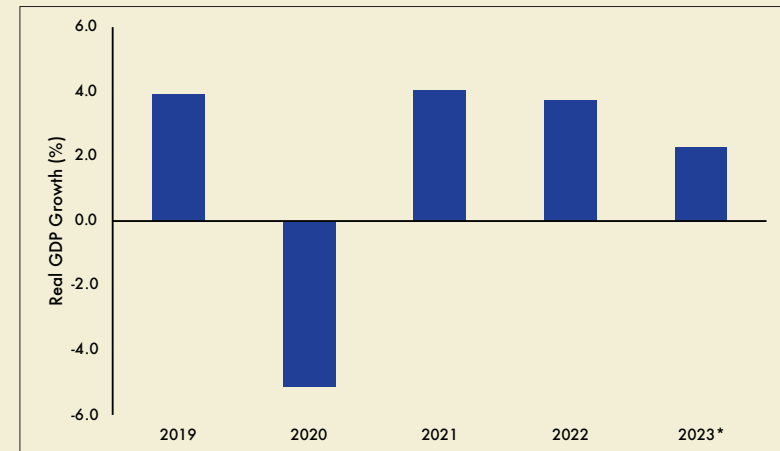
Economic output expanded in 2022, though weaker than initially expected. The economy grew by 3.7% following 4.0% GDP growth in 2021 (see Chart 1). The expansion was broad based as all industries grew, but primarily reflected a recovery in tourism and transportation-related sectors as GOCI continued to ease COVID-19 entry requirements, implementing the fifth and last phase of its reopening plan in January 2022 before lifting all travel restrictions in August 2022.

The slow reopening of the tourism sector restricted the recovery of stayover arrivals. Stayover arrivals amounted to 284,372, only 57% of 2019 levels. However, during the last quarter, arrivals surged concomitant with the return in airlift, rallying to average just under 90% of visitation levels in the same quarter of 2019. Airlift rebounded in the last quarter exceeding the same period of 2019 by 1%. Overall, value added for hotels and restaurants rebounded

by 23.2% and transport and storage by 24.5%. Due to still weak tourism arrival numbers, output in the two sectors remained 47% and 39% below 2019 levels, respectively.

Other economic sectors contributed to growth as the economic recovery became increasingly broad based. Important growth contributions of between 0.3 and 0.5 percentage points came from financial and insurance services, business services, real estate activities, and wholesale and retail trade.

Chart 1: Real Gross Domestic Product Growth



Source: Economics and Statistics Office (ESO). *Caribbean Development Bank (CDB) estimate.

Consumer price inflation increased strongly from a year ago. Inflation accelerated at 9.5% on average, higher than 3.3% recorded in 2021. Strong increases were noted in housing and utilities (14.4%) and transport (11.3%) which were driven by higher energy prices while food and non-alcoholic beverages were up 9.2%. The higher price inflation exacerbated the pre-existing cost-of-living crisis in the Cayman Islands, prompting policy responses from GOCI to help offset its impact on the most vulnerable.

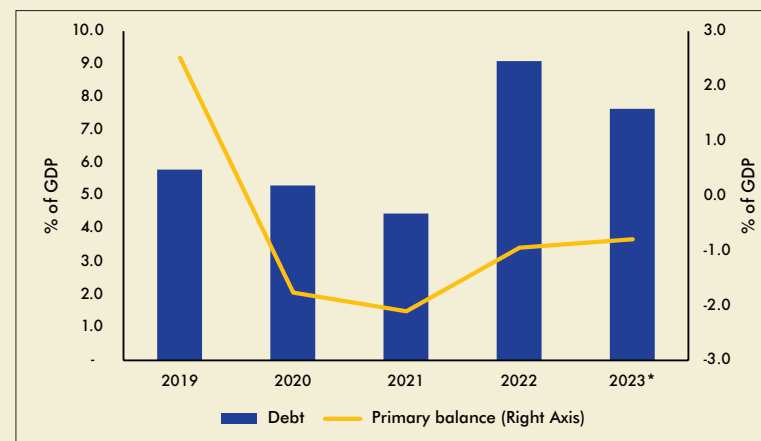
The unemployment rate declined in 2022. During the second half of the year unemployment declined to 2.1% from 5.7% in the 2021 Census, and below the pre-pandemic unemployment rate of 3.5%. The unemployment rates for both male and female were almost identical.

The fiscal position improved in 2022. In the light of the broadening economic recovery central government’s (CG) primary balance deficit narrowed to 0.9% of GDP, from 2.1% in 2021. Stronger-than-expected revenue compensated for ongoing expenditure pressures and elevated social and health-related expenditure. Total revenue increased by 6.3% and exceeded CI\$1 billion (bn) for the first time, with strong inflows from financial services, work permits and property-related transactions amid a luxury condominium sales boom. Government spending growth slowed to 1% following 15% annual expenditure growth between 2018 and 2021, as social transfers declined by 38.1%, even though GOCl continued to take steps to mitigate the continued rise in cost of living. Meanwhile, the rise in personnel cost and capital expenditure, by 8.9% and 14.0% respectively, tempered further improvements in fiscal balances.

Though debt dynamics generally improved, GOCl financial transactions led to a more than doubling of the debt-to-GDP ratio. CG debt-to-GDP ratio increased to 9.1% in 2022, from 4.5% in 2021 (see Chart 2). In June, GOCl drew down the remaining US\$393 million (mn) of a US\$403 mn commercial line of credit¹ at an interest rate of 3.25% and purchased US 12-month Treasury Notes, with a yield of 2.9%, reducing the cost of carry of the line of credit. While this added to the stock of debt outstanding, debt remained low and sustainable.

¹ From a consortium of local banks.

Chart 2: Fiscal and Debt Performance




Sources: Ministry of Finance and Economic Development (MOFED), ESO. *CDB estimate.

GOCl made further strides to keep the financial services sector well-regulated. Notwithstanding earlier improvements on compliance with the Financial Action Task Force (FATF) recommendations for anti-money laundering (AML) and countering the financing of terrorism, Cayman remained on FATF’s grey list having not fully implemented the necessary reforms to address strategic deficiencies in its AML regime. Outstanding issues pertain to the low level of prosecutions and convictions for money laundering and terrorist financing offences. In the meantime, Cayman froze US\$8.5 bn of assets linked to Russian interests in connection with Russia’s invasion of Ukraine.

2023 OUTLOOK

GOCl projects a moderation in economic growth to 2.3% in 2023. The 2022-23 winter season pointed to a robust tourism recovery which boosted related industries in the early part of 2023, contributing to broader economic growth. Cayman Airways also added a weekly year-round service to Los Angeles, the first direct flight connection between California and the Caribbean, which should



support arrivals from the Cayman Islands' key tourism source market. This outlook is, however, subject to a projected slow-down in the USA, which is the biggest tourism source market for Cayman with a share of more than 80%.

With the return of the economy to steady growth, Cayman will likely reduce the size of its budget deficits which it had started to incur since the economy was hit by the impacts of the COVID-19 pandemic. In

September, the Legislative Assembly's Finance Committee approved a supplementary budget of close to CI\$70 mn, with major allocations to the health and education sectors which is expected to delay the return of the primary balance to surplus to the year 2024 or beyond. The renewed cost overruns in the health care sector will likely lead to an update of the estimates of the Strategic Policy Statement 2024-26 during the upcoming Budget 2024-25 and the size of future budget surpluses will also depend on the degree to which GOCI ramps up its capital investment programme. Budget 2022-23 had envisaged faster implementation of key economic and social infrastructure projects including all three airports, major road works, sustainable waste management, education and public security. The investments are to be funded by the loan facility which was drawn in 2022. The debt-to-GDP ratio is expected to decline to 7.7% in 2023, as GOCI is expected to achieve a small budget surplus and the financial assets balance is projected to decline modestly.

Early indications for 2023 are that price inflation is moderating. Inflation embarked on a decelerating trend but remained elevated at 6.6% in March 2023, when compared with March 2022. Purchasing power could be strengthened following the submission of the National Minimum Wage Advisory Committee's 2023 report on the national minimum wage, which has remained unchanged at CI\$6 since 2016.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from several sources and are the latest available at time of publication. 2023 data are estimates and subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	3.9	-5.1	4.0	3.7	2.3
Average Inflation (%)	6.0	1.0	3.3	9.5	5.2
Unemployment (%)	3.5	5.2	5.7	2.1	2.2
Primary Balance (% of GDP)	2.5	-1.8	-2.1	-0.9	-0.8
Public Sector Debt (% of GDP) ²	5.8	5.3	4.5	9.1	7.7

Sources: ESO, MOFED, CDB staff estimates.

Note: e-estimate.

² CG debt as a percentage of GDP.