COUNTRY ECONOMIC REVIEW 2019

CAYMAN ISLANDS

Cayman Islands Dollar (CI$); United States Dollar (US$)
US$1 = CI$0.83

CAYMAN ISLANDS ECONOMIC BRIEF 2019

OVERVIEW

The Cayman Islands' economy continues to boom. In recent years, the economy has experienced a sustained period of steady growth; low and falling unemployment; moderate inflation; and strong public finances. This general trend continued in 2019. Growth occurred in tandem with rising employment that boosted private consumption demand, with knock-on inflationary impacts.

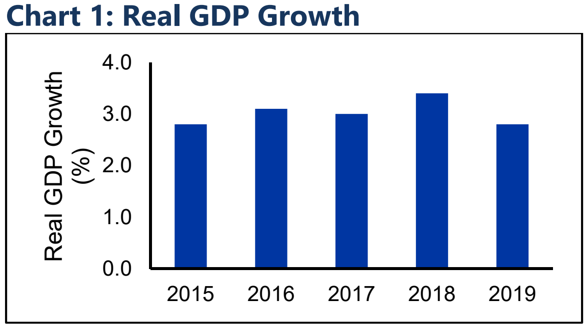
The Government continued to pursue a prudent fiscal strategy anchored within its Framework for Fiscal Responsibility (FFR). Revenues were robust; and the cash reserves continued to be amassed. Some of these reserves were used to pay a large maturing bullet bond obligation. Since 2013, the Government has fast-tracked debt reduction by avoiding new loans. As a result, public debt has been falling since it peaked in 2011 at CI$613.4 million (mn).

KEY DEVELOPMENTS IN 2019

Economic growth is estimated at 2.8%, driven by activity in the tourism and construction sectors (see Chart 1). This expansion brings the average growth over the last five years to 3%. According to the data from the Economics and Statistics Office (ESO), real gross domestic product (GDP), which grew at an annualised rate of 3% in the first quarter, was broad-based. Tourism activity, following the record performance in 2018, continued apace. Stayover arrivals rose by 8.9% to an all-time high of 502,739, with 83% of these visitors coming from the United States of America (USA). Robust external demand; additional room stock; an expansion of the Owen Roberts International Airport; and an increase in airlift, all contributed to this rise. Cruise passenger arrivals declined by 4.7% to 1.4 mn, as ships that had rerouted from the Eastern Caribbean in the aftermath of hurricanes Irma and Maria in 2017, returned to their original ports of call.

Wholesale and retail trade, electricity and water consumption, business services, financial services, real estate and construction activities expanded. The financial sector, which remains the largest contributor to GDP, grew by an estimated 1.7%, and construction by 5.8%. There was a corresponding increase in imports of machinery, equipment and manufactured goods. These supported increases in public and private infrastructure investments, driven by a growing demand for residential, commercial and public facilities.

Chart 1: Real GDP Growth



Source: ESO.

Inflation continued to be driven by domestic demand. Additional spending pressures came from rising employment and a steady influx of foreign workers. Consumer prices rose by 4.5% in the first quarter of

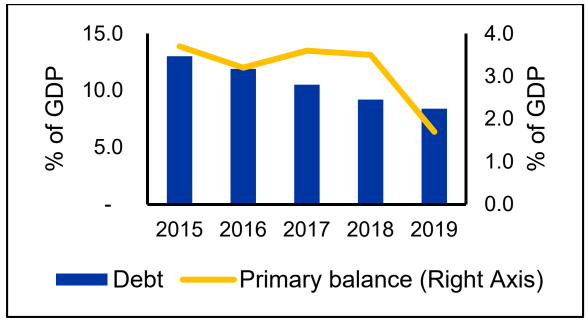
2019, compared with 3.2% in the comparable quarter of 2018. A 4.7% rise in non-food prices, fuelled by higher rental prices, made the biggest contribution to the jump in inflation. Prices of food and non-alcoholic beverages rose by 1.3%, and education by 3.4% on account of higher fees for pre-primary and primary education. Inflation for the full year was estimated at some 3%.

The unemployment rate was 3% as at the first half of 2019. During the first three months of the year, 27,374 work permits for resident employment were issued, an increase of 12.8% relative to the same period of 2018.

The country's fiscal position remained sound, buoyed in large measure by strengthened revenue collection. Along with improved internal control and collection systems, sustained economic expansion led to a steady rise in revenues. During the first nine months of 2019, revenues grew by 7% to CI$683.1 mn, with increases in most revenue streams, including import duties (20% of total revenues), work permit fees, and tourist accommodation charges. Stamp duty on land transfers rose due to higher volumes of property transactions coupled with increasing property values. Revenue growth was outpaced by an 11% expansion in expenditures to CI$517.8 mn. A 5% cost of living adjustment and the filling of vacancies contributed to a 12.0% rise in personnel costs to CI$238.4 mn (5% of GDP). Capital spending remained negligible – under 1% of GDP. The overall fiscal surplus for the first nine months was CI$165.3 mn (3.4% of GDP), CI$3.9 mn lower than the comparable period of 2018, but was sufficiently large to repay debt and add to the Government's cash position of CI$653.5 mn. Fiscal operations remained fully aligned with the FFR.

Public debt continued to decline. At September 2019, the debt stock stood at CI$404.6 mn, a decline of CI$15 mn, further lowering the debt ratio to 8.4% of GDP from 9.2% at the end of 2018 (see Chart 2). Utilising a portion of its cash reserves, the Government repaid a CI$261.3 mn bullet bond obligation (issued in 2009) in November, and refinanced CI$153 mn of this debt with an amortising loan to avoid running down its precautionary cash balance.

Chart 2: Fiscal and Debt Performance



Source: ESO.

Activity in the financial services industry was mixed during the first quarter of the year. The number of regulated financial institutions, including banks and insurance companies, as well as company registrations, declined. In contrast, financial market activity increased. The number of mutual funds grew by 4% on an annual basis to 10,916, while stock market listings were up by 35.4% to 1,808.

A Caribbean Financial Action Task Force evaluation of the financial services industry found weaknesses in the anti-money laundering regime in early 2019. Following this, the Government enhanced its anti-money laundering laws, regulatory oversight and processes, as well as its risk assessment capacity, ahead of a stipulated February 2020 deadline. In addition, the industry's legal framework, including economic substance legislation, was reviewed by the Organisation for Economic Co-operation and Development Forum on Harmful Tax Practices, and deemed not harmful. A European Union (EU) review, however, noted concerns over economic substance in relation to collective investment funds. While the Government adapted local legislation to address these concerns, these changes were implemented after the EU's 2019 year-end deadline.

Private sector domestic credit further weakened at the start of the year. Net credit to the domestic private sector declined by 6.9% between March 2018 and March 2019. This came on the back of a credit boom. The decline was mainly due to a 14.4% contraction in credit to the business sector, while credit to the household sector was stable, increasing by 0.2%.

Interest rate movements during the first quarter suggest that the rising trend since 2015 has come to a halt. The average prime lending rate rose by only four basis points to 5.5% during the first quarter, and the weighted average rate on loans declined by 20 basis points to 7.5%.

The high degree of dollarisation of the economy results in the Cayman Island Monetary Authority holding negligible amounts of international reserves. Net foreign assets of commercial banks increased by 12.7% annually to CI$5,333 mn, or 110% of GDP, mainly reflecting a decline in foreign liabilities as of March 2019.

OUTLOOK

The outlook for the Cayman Islands has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies. In early 2020 the tourism sector has seen mass cancellations. Construction activity has slowed, and government finances have come under increasing pressure.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

DATA

The table below summarises the key economic and social indicators underpinning this country brief. These data are taken from a number of sources and are the latest available at time of publication. Some are subject to revision. The 2019 data are estimates.

Selected Indicators

	2015	2016	2017	2018	2019[e]
Real GDP growth (%)	2.8	3.1	3.0	3.4	2.8
Average Inflation (%)	-2.3	-0.7	2.0	3.3	3.0
Unemployment (%)*	4.2	4.2	4.9	2.8	3.0
Primary Balance (% of GDP)	3.7	3.2	3.6	3.5	1.7
Public Sector Debt (% of GDP)	13.0	11.9	10.5	9.2	8.4

Sources: ESO, Government of the Cayman Islands.

*Notes: e – estimate (as at January 31, 2020). * - End of year estimates.*

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