



**Press Briefing Address**  
**by the Honourable Roy McTaggart, JP**

**May 2020**

**Opening**

Good afternoon everyone, I thank you for the opportunity to engage with you and share information with you about the current economic environment, share with you what stimulus measures we have taken and propose to take in the coming months and finally give you an update on government's financial performance. In so doing, I hope you will have a better understanding of the impacts we are seeing and the fiscal challenges we face. At the conclusion, I will be happy to answer your questions.

**PRE-COVID-19 ECONOMIC PERFORMANCE**

Ladies and gentlemen, "we woke up in 2020 and met a different world with COVID-19."

We concluded 2019 with a thriving economy growing at about 3%, led by construction growth of 6.1%, hotels and restaurants by 5.3%, inflation running at 5.7% and unemployment rate at 3.5%.

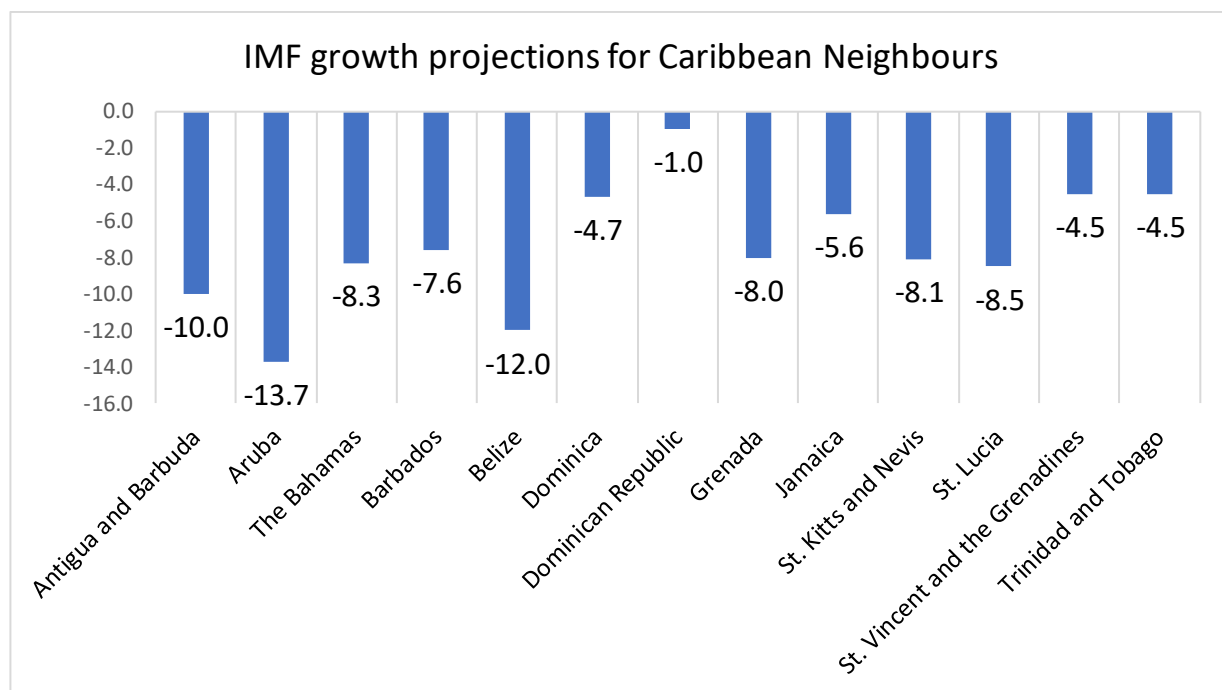
This state of affairs continued through February and in March when Covid19 was visited upon us, it turned our world upside down overnight and forever changed it.

So where are we now?

### **Economic Projections for 2020**

According to the International Monetary Fund (IMF) in its April 2020 World Economic Outlook (WEO), the "great lockdown" will be the worst recession since the Great Depression and much worse than the 2008/09 global financial crisis. The IMF projects the global economy to contract by 3.0% in 2020. Advanced economies are expected to contract by 6.1% with the US forecast to decline by 5.9%.

For Latin America and the Caribbean, the IMF projects the region will contract by 5.2%. Among Caribbean countries, Aruba is projected to show the largest contraction, with a GDP decline of 13.7%. Regional GDP declines projected for other countries include Antigua and Barbuda (down 10%), Barbados (down 7.6%), St Lucia (down 8.5%), The Bahamas (down 8.3%), and Jamaica (down 5.6%) just to name a few. I hope that this gives some well-needed context to our economic projections that I am about to discuss.



### **Cayman Islands GDP performance**

In the best-case scenario that was considered, the local economy would be reopened by the beginning of July 2020. This scenario also assumed that visitors to these islands would begin to arrive, in October of this year, albeit in small numbers. Under these scenarios, GDP is projected to contract by 11.4% with the unemployment rate rising to 11.6%. The number of displaced jobs was estimated at 8,859 (or an unemployment rate of 18.7%), of which 2,772 would be Caymanian jobs. The scenarios are conditioned on the gradual return of visitors (less than 20% of normal visitor levels that usually prevails at the high tourist season) beginning in the last quarter of 2020.

If international developments prevent the arrival of visitors to our shores for the rest of this year, then based on the economic projections, we would see a further uptick in the unemployment rate and a further contraction in the ability of our residents to earn money. Under this scenario with a July 2020 lifting of most domestic restrictions, the income earning capacity (GDP) of these Islands is projected to contract by 12.2% with the unemployment rate rising to 12.3%.

As a result of the projected decline, the Caymanian unemployment rate is projected to jump to 19.7% (or 2,981 persons), and a total of 9,582 jobs (or 12.3%) would be displaced. It is disheartening for me to relay such bad news. Still, our government will continue to tell you the unvarnished truth, whether it be good or bad.

Tourism Scenarios	2020	
	With Tourism in Q4	With No Tourism in
Real GDP (%)	-11.4	-12.2
Displaced Employees	8,859	9,582
Displaced Caymanians	2,772	2,981
Overall Unemployment rate (%)	11.6	12.3
Caymanian Unemployment rate (%)	18.7	19.7

### **Consumer Prices**

Despite a sharp uptick in food and medical/sanitary goods inflation for the first quarter of 2020, a reduction in non-food demand coupled with a decline in international commodity prices – including oil prices - is expected to relieve inflation pressures for the year. The global demand is expected to remain subdued for non-food items over the short term, especially in our source markets. In addition, locally, downward pressure on housing rental is expected as displaced ex-pats exit our shores, lower transport costs due to lower cost of fuel, and with the halt in visitor arrivals pushing domestic accommodation prices downwards. Consequently, these factors combined are projected to exert downward pressure on the average inflation rate to 0.4% in 2020, compared to 5.7% for 2019.

At the request of the Government, the Economics and Statistics Office prepared a report titled "The Cayman Islands Economic Assessment and Stimulus Plan". This Plan focuses on the Islands' estimated macroeconomic performance in 2019, together with an assessment of policies announced and/or implemented by the government in response to the COVID-19 pandemic to date. In addition, the report presents forecasts and assumptions for 2020 and recommends stimulus measures that could be adopted to incite economic recovery.

### **Some Recommended Stimulus Measures**

Included in the report is an extensive list of measures submitted by government ministries, private sector entities, and civil society for consideration. All of the measures submitted are included in the report that has been received by Cabinet for consideration.

The policy measures recommended are based on three broad categories: Firstly, government policies aimed at leaving money in the hands of affected individuals. Secondly, policies that support small business survival by buttressing their bottom line. Third, policies that assist in the post-crisis recovery by making funding readily available, streamlining approval processes, and reducing business cost, aimed at stimulating growth in the core business sectors. And finally, policies aimed at maintaining fiscal prudence while stimulating the entire economy.

### **Current measures implemented or in the process of being implemented**

1. **COVID-19 support funding.** To further support the efforts of the health sector, the government allocated \$3.0 million from the disaster relief fund to finance the initial costs associated with COVID-19.
2. **Funding for vulnerable families.** Increase staffing at the NAU to accommodate an expected increase in applications for assistance.
  - a. A one-off payment of \$425 to the disabled, seamen, veterans and persons already receiving personal financial assistance from the government.
  - b. A one-off stipend of \$600 paid to taxi drivers affected by the fall-out of cruise ship visitors.
  - c. A one-time grant of \$600 to Caymanian tourism workers affected by the shut-down.

- d. Expanding the NAU public assistance to allow work permit holders affected by the closure to apply for food voucher assistance.
3. **Pension withdrawal and pension payment holiday.** Amended the pension law to allow persons to withdraw up to 100 percent of their pension funds not exceeding \$10,000, and 25 percent of funds above \$10,000. In addition, to the suspension of pension payments from 1<sup>st</sup> April to 30<sup>th</sup> September for employees and employers.
4. **Low-cost loan financing.** A loan fund valued at \$5.0 million was created and made available to micro and small businesses, which are 100 percent Caymanian owned. The loans will be provided through the Cayman Islands Development Bank at an annual interest rate of 1.0 percent after a six (6) months re-payment moratorium.
5. **Grant fund for small and micro business.** A grant fund valued at \$9.0 million was created and made available to small and micro business. Assistance to evaluate qualification and to apply for the grant is also being provided free of cost.
6. **Funding for technical assistance to Caymanian businesses.** The government is providing funding of \$500,000 for technical assistance to Caymanian owned businesses to assist with strategy and balance sheet planning. Similarly, funding of \$200,000 is being provided for Caymanian owned businesses to receive training to assist them in planning and navigating this economic downturn.
7. **Waived accommodation taxes and TBL fees.** Tourism accommodation taxes, trade and business licence fees for a short period, etc.
8. **Streamline the project approval process.** To generate construction activity effectively after reopening the application and paperwork approvals should possibly be completed before

reopening the economy, which will enable the projects to hit the ground running.

9. **Approved enhancements to the capacity of the Planning Department to monitor and expedite construction projects and applications.** The construction sector creates the most demand across all other industries and hence generate the most output in the overall economy. The Planning department human capital will be beefed up to handle the increased demand for services

### **Economic assessment of measures announced and implemented to date.**

The measures implemented to date by our government are expected to boost GDP value added by approximately \$184.9 million in 2020, an improvement on the GDP contraction from -11.4% to -7.3%. This translates to roughly 36.0 percent of the projected falloff in real GDP. As a result of the measures implemented, more jobs will be saved, an estimated 1,468 jobs, of which 678 are likely to go to Caymanians.

	2018	2019	2020	2020	2021	2022
	Actual	Estimated	Without Stimulus	With Stimulus		
			Projection	Forecast		
Real Gross Domestic Product (GDP) (\$M)	4,348.6	4,484.8	3,975.6	4,160.6	4,371.0	4,573.4
Real Gross Domestic Product (GDP) %	4.1	3.1	-11.4	-7.3	5.1	4.6
Consumer Price Index (CPI) %	3.3	5.7	0.4	0.4	1.6	1.5
Number of Employed	44,887	47,394	38,535	40,003	42,903	45,910
Employed Caymanians	20,751	20,068	17,296	18,013	19,114	20,169

### **Other Stimulus Measures that are actively being pursued or under consideration**

I want to thank the Deputy Governor, civil servants, the private sector and the general public for participating in the process of submitting

policy suggestions and ensuring that we have an abundance of policy measures to consider. The ESO through the Deputy Governor received more than 50 suggestions after merging the similar ones.

I appreciate all suggestions, but in the interest of time, I cannot go through them all here today. However, these are the stimulus measures that are currently being acted on and developed by government:

1. A low-cost loan program for small businesses most affected by the closure of the tourism industry;
2. Increase community employment programs (NiCE and others) post-COVID-19, using unemployed and displaced Caymanians;
3. Expedited resumption of Government's 2020/21 capital expenditure program, focusing initially on the resumption of construction projects that were in progress prior to the onset of Covid19. For example, this will include projects such as the Mental Health Facility in East End, enhancements to the road infrastructure by the NRA, and the John Gray High School.
4. A tourism strategic plan is being developed by the Ministry of District Administration, Tourism and Transport, to cerograph the resumption of visitor arrivals post COVID-19. Tourism represents about 20% of the Cayman economy, so it should be abundantly clear to everyone that the reopening of our borders to the resumption of tourists is of paramount importance to the



government and the success of the country. We will however only do this when it is safe to do so.

5. Continue with efforts to diversify the local economy, with a focus on agriculture for domestic food security and resilience.

So the policy and stimulus measures we have implemented thus far is not the end; we continue to evaluate and continuously monitor the economy. If other rounds of stimulus measures are needed, then we stand ready to do whatever is necessary to regain and maintain a strong economy for these blessed Islands.

### **Government's Fiscal Performance to date**

Before I conclude, it would be remiss of me if I did not take some time to provide the country with an update of government's financial performance for the year to date. Many of you have been asking for this.

Last week, the Ministry of Finance released the quarterly financial report for the three months ended March 31, 2020, and reported on by the local media. That report may be found on the Ministry's website. Because of the continued strong performance of the economy through the majority of that period, it gave very little foresight into the financial disaster that unfolded in April, and will continue to play out in the months ahead. Let me share those figures with you now:

For the four months ended April 30, 2020, Core Government:  
Revenues were \$376m, \$28m less than the \$404m budgeted;  
Expenses were \$248m, \$10m less than the \$258m budgeted;  
Surplus was \$127m, \$18m less than the \$145m budgeted.

Contrast that with the results for the three months ended March 31, 2020 where:

Revenues were \$353m, \$1m more than the \$352m budgeted;  
Expenses were \$181m, \$26m less than the \$207m budgeted;  
Surplus was \$172m, \$27m more than the \$145m budgeted.

What this means, is that for the month of April, 2020:  
Revenues were \$23m;  
Expenses were \$68m;  
Deficit was \$45m.

We also burned through \$38.5m of our cash reserves.

Depending on the outcome of the stimulus measures implemented and the timing of the opening of our borders to tourism, the ESO estimates that our Revenues could contract to between \$632m to \$649m for the year. If this holds true, this would represent a decline in revenue of between \$211m and \$227m for the year, or 24% to 26%. With the increased spending required to manage the Covid19 crisis, government could be faced with a deficit of \$250m this year.

I hope to have a more detailed and complete picture that we can share with the public once the Ministry of Finance completes their exercise to re-forecast the 2020 budget. At the present time however, we believe that the earliest we can reasonably expect to return to a fiscal surplus will be in 2022.

In light of the significant deterioration in governments' fiscal performance and in order to give the country the financial security and build the resilience that we need, Cabinet last week authorized the Ministry of Finance to issue a Request for Proposal for the establishment of a Standby Line of Credit in the amount of \$500m for a period of 18 months. This line of credit will be utilized, or drawn down, only if we find ourselves in the unfortunate position of having exhausted all of the cash reserves available to us. We will of course

need to seek approval of the Legislative Assembly and the Foreign and Commonwealth Office if and when we need to draw down on the Line of Credit. We anticipate that the Request for Proposal will be issued sometime within the next week and will be posted on the Governments Bonfire Procurement Portal.

### **Conclusion**

You know, the resilience of these Islands' is astounding. Our ability to rise from the destruction of Hurricane Ivan in 2004 was a testament to the resolve of all residents, especially Caymanians. We can replicate that in 2020! While the challenges are indeed enormous and may seem unsurmountable, I would posit that our actions so far have left us in a strong position and well placed to eradicate COVID-19 from our community.

We have been safely navigating the single largest health disaster in this generation, and this is a demonstration of this government's commitment to the lives and livelihood of all residents. However, we are aware that this is not the end and we remain resolute and committed to charting the next steps in this journey just as we have charted the previous phase, in a prudent, responsible and professional manner that is befitting of what the Caymanian people deserve.

Amidst this crisis our Islands' have become a beacon to the region, Moody's in its latest credit report published April 13, 2020 maintained Caymans' Aa3 rating with a stable outlook, amidst this economic uncertainty. They noted that "prudent government planning has left the islands with fiscal space to deal with the economic impact of the coronavirus pandemic." Those were the words of Moody's, not mine. Arguably, even the worlds' largest debt rating agency has confidence in our little islands and our government.

One of the region's best-known economists, Marla Dukharan of Barbados, notes that "The sudden-stop will affect both fiscal and external accounts, and the countries best positioned to mitigate these impacts are those that have built buffers, giving them the space to implement counter-cyclical policy through fiscal and monetary stimulus." The Cayman Islands is one of those countries that has built such buffers, and we will answer that call as we managed prudently during the last few years, and we will respond with targeted economic stimulus measures when its safe to do so. Let's take one step at a time; our focus at the outset is preserving the life, health and wellbeing of our people, take care of taking care of those who are most vulnerable, preserving jobs, and supporting our private sector.

Cayman, I reaffirm my government's commitment to do all that is humanly possible to address our economic fundamentals and get these islands up and running again. We, as the government, will continue to be prudent while seeking out the best ways to impact the lives of our citizens in the most positive ways.

Please allow me to say a special 'Thank You' to all the hard working public servants in my Ministry for their tireless efforts in very difficult circumstances. I truly appreciate all that they are doing and continue to do to keep government functioning.

A big shout out to my management team, led by Chief Officer, Kenneth Jefferson, Deputy Chief Officers Anne Owens and Michael Nixon, Accountant General Matthew Tibbetts, Director of the ESO Adolphus Laidlow, Postmaster General Sheena Glasgow, Director of the Procurement Office Taraq Bashir. Also to CEO of CINICO Michael Gayle, and CEO of CIDB Tracy Ebanks.

Thank you!