

# **Cayman Economic Outlook 2020**

## **Address from the Premier of the Cayman Islands**

**Hon. Alden McLaughlin MBE, JP, MLA**

**March 6<sup>th</sup> 2020**

Good morning.

Thank you Chris for your introduction and thanks too to Royal Fidelity for this invitation to address CEO 2020 this morning. This annual conference has certainly become a flagship event in the Cayman business calendar.

As I considered what I wanted to say to you today the opening lines from Dickens' 'A Tale of Two Cities' kept coming to me:

"It was the best of times, it was the worst of times..."

There are two reasons for this. The first has to do with the daily increasing concern regarding COVID-19, and its devastating impact on people's health; on already stretched health systems; and on world economies, juxtaposed with what is acknowledged as one of the longest periods of economic growth in decades.

The other reason revolves around the jagged edge of local politics and colliding domestic issues rather than global ones. And we must consider both local and global issues as the Government's ability to manage one is often impacted by the other. Certainly, recently it has felt like the best of times and the worst of times for Government. Indeed this past week some opponents of the Government were happily crowing on a local radio talk show that my Administration was having a very bad year.

The first words of 'A Tale of Two Cities' are often quoted, as I did just now. Few though go on to the next line: "it was the age of wisdom, it was the age of foolishness." Perhaps those of you who live here can appreciate why the discussions on that particular talk show would bring this quote to my mind.

Admittedly this year has not started well. If we set aside the politics, and there is always 'the politics', then we must recognize that Cayman now has three major economic issues to grapple with as a result of events over the last few weeks. The so called blacklisting of the Cayman Islands by the EU finance Ministers in a post Brexit world is one.

Another is the almost certain loss of Cayman's cruise berthing and enhanced cargo dock facility project following the recent court decision – a 7 year project, with over \$9M being

spent to date, on an improved seaport facility that is important to our cruise tourism sector and to many local jobs and businesses.

And as I have stated, there is the looming threat of COVID-19 to the country's economic health, as well as to public health.

But those of you who know something about how far these Islands have come over the past seven years will understand that the two Governments that I have led have proved our ability to manage through tough economic times.

When I formed the Government in 2013 we were faced with a country that was still struggling to emerge from the shadows of the recession which began in 2008. GDP growth was struggling at just over 1%; Caymanian unemployment had spiralled to 10.5%; annual stay over tourism numbers were under 350,000;

cruise passenger arrivals at 1.4M were the lowest they had been in over a decade. In summary, the economy was still depressed and many Caymanians, especially in the cruise tourism and construction sectors were hurting. Small businesses were having a hard time keeping the lights on, unemployment was persistently high and Caymanians were losing their homes.

Both the Governments I have led understood that unless we fostered the conditions necessary for business to flourish and for our economy to grow, Cayman would remain stuck in the rut in which we found ourselves when elected in 2013.

Crucial to our success was the plan we immediately put in place to restore government finances by increasing surpluses, paying down debt, and growing our reserves. Without that, we

knew we would not be able to restore the confidence of business to invest in Cayman.

Secondly, we knew that we had to develop and implement a strategy for sustainable economic growth that would benefit Caymanians now and position Cayman so that when the next inevitable economic slowdown arrived we would be best able to ride it out.

Fast forward seven years and we now have an economy that is undoubtedly the best in the region. GDP growth has averaged over 3% during the past five years; unemployment is at a very low 3% overall, while Caymanian unemployment remains below 5%; stayover tourism has grown to over ½ million visitors; cruise arrivals, although declining from a high of 1.9M in 2018, still ended 2019 at 1.8M visitors. The hotel & restaurant sectors

grew an average of 3.7% since 2013 while financial services business activity grew at almost 4% on average.

The development sector is booming with consecutive years of over 8% growth and there are three new hotel projects as well as other major commercial and housing projects under construction. In 2019, nearly 750 projects were approved with a combined total value of over \$890m. The population has increased from 56,000 in 2013 to about 68,000 in 2019, driven by the strong growth in Cayman's economy.

The success of our economic strategy has been the key component in my Government meeting our fiscal ambitions.

The two-year budget of some \$2.25bn that we steered through the Legislative Assembly late last year means that across our eight year term we will have delivered on the fiscal strategy

we established when we came into office in 2013. In short, we will have achieved and maintained full compliance with the Principles of Responsible Financial Management which has also freed us from UK oversight of our finances.

Across eight years, not only will we have delivered on our commitment to levy no new fees or taxes on the public, we will have taken opportunities to reduce the cost of government to both businesses and individuals and families across Cayman.

We have maintained our pledge to fund our significant investments in infrastructure and public services from the cash we generate. We have undertaken no new borrowings and we have continued to pay down government debt to around half the level we inherited in 2013. As at the close of 2019, Cayman's debt to GDP ratio stood at just 6.4%.



We have increased revenues through economic growth; controlled operating and financing expenses; prioritised capital investments, and generated substantial cash flows from operating surpluses. These achievements have combined to enable us to build and maintain significant cash reserves. The 2019 unaudited accounts show total cash balances of over \$520m.

The challenge of operating public sector finances to generate a surplus position is one that faces countries around the world. Few are responding to that challenge as positively as the Cayman Islands. Worldwide data indicates that fewer than 20% of governments reported having a budget surplus. On the latest available data, the Cayman Islands ranked 7<sup>th</sup> in the world with a budget surplus equal to 4.4% of our GDP. Many countries,

including a large number of those who criticize Cayman's tax neutral status, are running significant budget deficits.

It is this sound, prudent fiscal strategy which has resulted in the significantly improved state of public finances and places the Government in the best possible position to navigate a future of challenges and risks.

I hope that I have painted a picture not only of an Administration that has proven our ability to provide stable government, fiscal prudence, and a strong economy; but also of a country that is today economically robust with a thriving business sector.

If you compare the views of the critics of government with the facts, then what you get is a tale of two very different Cayman Islands.

The politics is as perennial and annoying as the mosquitoes are but what is important is that we are not led to believe that Cayman has been on autopilot these past seven years. Our economic results are the product of careful thought, sound economic policies and hard work in the context of a robust global economy.

Now, however, as I noted already, there are challenges looming for our Islands, some local and others global.

First, I want to touch on something that I believe provides the context for all that the conference today will discuss. That is the prospects for the global economy.

In January of this year, the IMF's economic report on the global economy was still fairly positive. However, before the ink was even dry on that forecast we were being reminded that

global risk can actually materialize quickly from unexpected sources and that there is nothing that even the best laid economic plans can do to prevent it.

The fast spread of the COVID-19 coronavirus to more than 80 countries both far away and close to home is a game changer. On Monday of this week, the Organisation for Economic Cooperation and Development (OECD) warned that over this year the global economy could grow at its slowest rate since 2009 because of the effects of the virus.

The OECD adjusted its global growth forecast for 2020 down by 0.5% to 2.4%. It added that a longer "more intensive" outbreak could tip many countries into recession, including Japan and the Eurozone. Governments and central banks are responding, most notably with a 50 basis point interest rate cut

by the Federal Reserve in America. I would note that actions like these by the US Fed have already been replicated by local banks, which will reduce rates domestically. The IMF, the World Bank, and other transnational institutions are promising support to vulnerable economies.

But let us not lose sight of the fact that COVID-19 is, first and foremost, a human story. As of this moment, there have been around 100,000 confirmed cases worldwide across at least 87 different countries and territories. Over 3,350 people have died. This is driving concern and indeed panic across the globe – including the growing concern of people in these islands.

Thankfully, as I address you this morning, Cayman has not yet had anyone test positive for the virus. But we are a very open society with more than 2.4 million visitors a year as well as

significant travel abroad by Caymanians and residents. Clearly, there is considerable risk, if not inevitability, that we will see cases in Cayman. However, health officials here in Cayman continue to ramp up preparations and are providing the Government and the public with excellent, timely advice on how to minimize that risk. Already we have imposed travel restrictions, including restrictions on at risk airline and cruise passengers, and we have instituted screening techniques at our borders to identify anyone who has an at risk travel history.

I thank our health professionals and border protection officers for the work they are doing and I promise that they will continue to get the support from the government that they need. As soon as the threat emerged, we provided \$1m to the preparedness efforts and should further resources be required, they will be forthcoming.

The government has acted promptly and our vigilance is being maintained. Travel restrictions have been put in place and this week we decided to restrict all non-essential travel overseas by public servants. This extends to the Cabinet as well and I have cancelled my planned trip to London for the Joint Ministerial Council at the end of this month. I am also urging the public and the business community to restrict travel unless absolutely required.

We cannot lock ourselves away from the world but we are being as thoughtful and pragmatic as we can. Government will continue to do all that we can to minimize the risk of infection spreading to Cayman. Today I can announce that the Cabinet has agreed to a duty waiver on all hand sanitisers, protective facial masks and surgical gloves. The waiver is effective

immediately and runs through to the end of 2020. I encourage merchants to pass on these savings to the consumer.

While we can minimize risk, we cannot eliminate it. Therefore we are also preparing for the worst.

Make no mistake, if there is a significant outbreak here it will have a potentially devastating effect on the health of the nation and the economy.

With that in mind, we have activated the National Emergency Response Operation Centre to co-ordinate all the necessary planning and activity needed for these types of situations. Much of the response is naturally being led by our Health Services Authority who are ramping up testing and screening procedures. The HSA has established an email address for enquiries, [flu@hsa.ky](mailto:flu@hsa.ky), and they are establishing a hotline for



people to call if they are concerned or if they believe they are displaying symptoms. Should any case be identified on Island, proper treatment and infection control protocols are in place.

The potential economic impact of COVID-19 on the Cayman Islands has the attention of our Finance Minister and indeed of all Government. Certainly, given the work that we have done to improve the Government's finances and to encourage a robust economy, we are as prepared as we could be for an economic downturn.

Of particular import for Cayman is what will precipitate a drop in predicted economic growth. Much of the impact will be the result of a drop off in discretionary consumption and, crucially for Cayman, reductions in travel and tourism. We have already seen a few planned visits from cruise ships being

cancelled as Cayman tries to stay infection free. The longer term impact on the cruise industry could be considerable. Weaker investment and the knock on effects in financial markets will also impact our economy.

I don't want to sound like a prophet of doom but we have to face reality. These impacts come at the end of a sustained decade or so of global growth. I had previously been warning that, in my view, a slow-down in the global economy was inevitable in the short to medium term. The impact of COVID-19 is likely to mean that the timescale is shorter and the impact deeper than I had previously thought. But again we are in a much better position that we were in 2008 to ride out these storms. Slowdowns are cyclical after all, and we shall be ready to take full advantage once we all come out the other side.

As I noted earlier there are other particular issues and risks that further impact Cayman. The Government's role is to recognize those issues and risks and to position Cayman for whatever the future holds.

Your theme here today is "Colliding Global Forces" but, in a very real sense, I believe it is not forces colliding that present Cayman with its key challenges. Rather, we are facing a period when one of the realities of our time is a rejection of globalization and integration.

The obvious example of that is the decision by the United Kingdom to quit the European Union. Brexit is now done and we are into the transition period during which a new relationship is being negotiated. I have spoken many times about the positive

opportunities that I believe that the UK's renewed outward focus can bring for Cayman if we are ready to seize them.

The Global Britain Initiative is potentially a gateway for Cayman to develop new relationships and to open up new markets. The strong and positive links we have built with the UK government over the last six years position us well and I am confident that Cayman will be an effective partner as the UK embraces the opportunities that life outside the EU will bring.

Understandably, Brexit creates a tension between the UK and the European Union, particularly in this initial phase as their future relationship is negotiated. That tension has already cast its shadow over Cayman with the decision last month by the EU to 'blacklist' Cayman as a so-called 'non-co-operative jurisdiction for tax purposes'.

Forgive me if I express my frustration here. In what sense exactly is Cayman non-co-operative? We have put in place very effective information sharing arrangements that allow us to provide responses to requests from taxation and law enforcement authorities across the globe. Equally, Cayman has been willing to adjust its legal and regulatory frameworks in order to keep pace with global standards and the requirements of international bodies including the European Union. Specifically, since 2018 Cayman has made some 15 or more legislative changes in order to meet the myriad requirements of the EU.

This is an example of how Cayman has benefitted from having the UK at the table in previous discussions on the listing process. Before Brexit, the UK Finance Minister would have been present at the meeting. He could have given the meeting

any reassurance needed about the actions that had been taken by Cayman. And there is every chance that had the UK still been a member of the EU then what is a technical blacklisting could have been avoided.

In passing, it is also worth noting that now the UK is on the outside, the EU is levelling threats at the UK itself as well as at Cayman. In the immediate aftermath of the blacklist announcement, we have seen the European People's Party grouping in the European Parliament saying, and I am going to read this out for you in full: "The UK would be well advised to take note that EU Finance Ministers put a British Overseas Territory on the blacklist of tax havens. This sends a clear signal that the idea of turning the UK into a tax haven will not be acceptable to the EU. If the British Government intends to do so, there is a good chance it will end up on the EU's blacklist as well,"

said Markus Ferber MEP, the EPP Group Spokesman on Economic and Monetary affairs.

Despite this hyperbole, we recognize that even though the EU review process is flawed, it is a process with which we must continue to engage. The technical part of this process remains a valid one as world regulatory standards are raised. Both Cayman and the EU agree on the need to eliminate money-laundering and to prevent the financing of terrorist activity. Cayman wants no part of such business. We can, and we will do everything possible to eliminate the risk of such activity in Cayman. We can, and we will ensure robust enforcement action against any who attempt to get around the regulations this jurisdiction puts in place.

Achieving technical compliance in order to have Cayman removed from the 'blacklist' when next the EU Finance Ministers meet is imperative. No doubt in the weeks and months ahead, the EU will continue to ratchet up its requirements. But even against a set of moving goalposts, Cayman will ably comply and continue to prosper as we have always done. I am grateful for the support already offered by Cayman Finance and firms within the industry, including a number in this room, which will help us to ensure we do so.

The political engagement required will remain one of my Government's key priorities this year.

In this effort, I know we can count on the support of the United Kingdom Government even though it is now outside of the EU. The remarks from Herr Ferber that I quoted just now



clearly demonstrate that the UK increasingly has its own interests at stake alongside Cayman's. The meetings I had in London last week with the new Overseas Territories Minister, as well as at 10 Downing Street and at the Department of International Trade, with key advisors to Prime Minister Johnson, reinforced both the mutual interest Cayman has with the UK and our shared commitment to working together. I remain grateful to the Governor and the UK government for their co-operation and support. I am also grateful to those members of the private sector who travelled to the UK to join with me in those conversations and to help champion the cause of Cayman.

Championing the cause of Cayman as well as the environmental interests of our region was certainly the focus of a conversation the Cayman delegation had last week with HRH Prince of Wales at his residence at Highgrove. We discussed an

initiative that the Prince proposed in 2015 but to date, no one had been able to get off the ground - that is a fund whose purpose is to provide financing for Blue/Green initiatives.

The Prince was pleased to learn that such a fund was being worked on by Cayman entities to provide financing for Blue/Green initiatives in the Caribbean, including here in the Cayman Islands. All going well, the launch of the fund should take place in June of this year.

The fund will certainly showcase the usefulness and importance of the Cayman Islands funds sector despite the views of some EU member states.

While our interests often align with the UK's, they are not exactly the same and Cayman must also be prepared to speak for itself and to defend our interests directly.

As we have learned, while periodic engagement can and does yield results, the EU bureaucracy grinds on in between such times and experience tells us that we need to invest in more routine engagement. We have therefore decided to establish a permanent presence in Brussels, subject to obtaining the requisite approvals.

Like all jurisdictions, Cayman will sometimes find itself buffeted in a dynamic global economy. It is government's role to assess and, as far as possible, mitigate risk. Where events are beyond our ability to mitigate fully, we must prepare and stand ready to respond as we are doing with the COVID-19 situation.

More generally, part of any effective strategy to mitigate the impact of changes in the global economy is to make sure that the things that are possible to be done right here in Cayman do

actually get done. Government must act in the long term interests of our economy by making sure that Cayman is as competitive as possible.

Therefore, it is still incredible to me, particularly given the not yet fully understood impact of a likely recession, that we have put ourselves in a position where the recent court decision quashing the Referendum Law means that the project is now seriously at risk because of the resulting delay. My concern is not about the cruise companies, they will be fine should the project fall away. My concern remains where it always has been - to secure the best possible outcome for those thousands of Caymanians and small businesses who rely on cruise tourism for their livelihood. Without a cruise berthing pier, I am afraid that we must again expect the inevitable decline in cruise visitor numbers over the next few years.

And equally important, we need to ensure that there is a viable solution to pay for the revitalization of our cramped outdated cargo port facilities. For make no mistake, without the cargo enhancements, we will struggle to import the quantity of goods we will need as our economy develops and our population increases. Without the cruise berthing project, any future cargo port improvements will have to be funded by the Port Authority and the costs passed on, no doubt, ultimately to consumers.

The cruise berthing part of this project would secure hundreds of jobs and create numerous business opportunities for Caymanians. The cargo element would secure our ability to import the goods we need as our country grows.

We had on the table a firm commitment to deliver both parts of the project at no financial risk to the Caymanian people,

with cruise passenger head tax paying for the construction. In a period of almost certain economic slowdown, the case for the project is even more clear and obvious. Without the project, we will be exposing our economy – and our people – to more risk. And, in my view, totally unnecessary risk.

Although I said earlier that I didn't want to be a prophet of doom, having heard what I have said so far, you might be tempted to conclude that my purpose here this morning is to say that the Cayman economic outlook is bleak.

If so, you would be wrong. I remain confident in the strength and resilience of Cayman's economy. I believe that the same entrepreneurial spirit, the same innovation, and the same creativity shown by Caymanians and residents that created and

fueled Cayman's economic miracle, will maintain our economic strength into the future.

The fundamentals of the Caymanian economy are sound, for all the reasons I noted earlier.

I have to add that this Government's own financial performance continues to underpin business and investor confidence in our jurisdiction.

This track record is reflected in market confidence in Cayman. Last year, Moody's Investor Services reaffirmed the Cayman Islands' Aa3 sovereign debt rating with a stable outlook. Moody's based the debt rating on our high per capita GDP; a robust institutional framework anchored on political stability; and the comparatively low government debt burden.

We must though recognize that our relative prosperity cannot be taken for granted. This government is ready to work through any coming downturn and we will continue to work tirelessly to strengthen our position in established markets and to diversify our economy for the good of our country and our people.

Cayman is at a point in its development where we need to think longer term about what will drive future growth in the economy. The more diverse the economy, the more resilient it becomes. Diversifying our economic base also creates new kinds of opportunities for our people, both as entrepreneurs and in the labour market.

In Cayman we have shown we can get things right if we work together. As some of our friends in the European Union



could do with learning, it is private sector innovation that drives an economy forward, not government. Government can and will play its part in providing the right kind of environment for inward investment and for the support of local business growth. However, it is the people in this room that will generate the growth and improved job opportunities in the future.

I understand there are risks and challenges in our future. There is risk enough in the international situation. This is not the time to be looking to create challenges for ourselves. We need to hold firm to the direction that this government has set and to continue with the sensible and pragmatic growth strategy we have put in place.

I see plenty of opportunity for Cayman. I remain ambitious for my country and I am determined that the government I lead

will complete its two terms and leave Cayman in a considerably stronger position than we found it.

I welcome, and I am very grateful for, the support this government has had from the business community. Ours has been a shared endeavour over the last seven years, we have one more year to go. I intend for us to finish as we began, guided by the principles of good governance, strong finances and sustainable growth that are indispensable to a vibrant economy and have been the hallmark of my two administrations.

I will leave you with words of inspiration again from Dickens' 'A Tale of Two Cities' of which I am very fond: "Nothing that we do is done in vain. I believe, with all my soul, that we shall see Triumph!"

ENDS