AICPA and CIIPA 3rd Annual Summit
Economic and Financial Update
Keynote Address by the Honourable Roy McTaggart, JP

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Kimpton Seafire Resort + Spa

Good Morning Colleagues. It is my pleasure to speak at this year's Summit and I thank the AICPA and CIIPA for extending the invitation for me to provide an economic and financial update on the Cayman Islands.

I must say that it is nice to be back among my fellow professionals once again. As this event is no doubt clocking up your CPD hours, I thought I would share with you a light momet to help with those hours.

As many of you will know, I am a fellow accountant so I thought I should be okay to ask for some help from one of the Government's economists to deal with the economic update part. Last week, he came to see me to say that he had bought a book to help him to better understand today's audience but he was having some trouble understanding it. He passed over a copy of "Accounting for Dummies" and asked for my help. I thought how hard can this be? So, I opened the book and found only one printed page which read, "Accounting for dummies. Credit cash. Debit dummies. Job done." Accountants nor economists are dummies – just an opening high moment.

It goes without saying that the Cayman Islands are currently enjoying an exceptionally robust period of economic activity with solid, sustained growth across all sectors; relatively low unemployment; moderate inflation, along with strong and stable Government finances.

As a Government and as a Country we have much to be proud of. However, Cayman's prosperity is hard fought and hard won and this reality is not to be taken for granted. We need to maintain our focus and ensure that we maintain long-term stability and sustainability that will bring maximum prosperity and opportunities for our people.

This Administration has taken deliberate steps to create and maintain an environment which encourages investment and innovation. Before I get into the details, I just wanted to highlight the five key strategies this Government has successfully put in place to encourage and support economic growth:

- First, soundly managed and sustainable public finances – more about that shortly;

- Secondly, investing in key national infrastructure projects including the airport, the road network and, in due course I believe, the new cruise berthing and enhanced cargo port facilities the Country needs;

- Thirdly, support for our two key, pillar industries, financial services and tourism – again, more on that shortly;

- Fourthly, encouraging economic diversification for example supporting the Cayman Enterprise City and Tech Cayman initiatives which are bringing new digital and knowledge-based industries to Cayman; and

- Finally, investment to ensure Caymanians can take advantage of the opportunities available in our growing economy – improving education, supporting entrepreneurship, creating pathways to work.

Our economic success is also a reflection of how well our citizens, residents and business community engage with each other and participate in the Cayman economy.

Gross Domestic Product (GDP)

Preliminary indicators of Economic Growth, as measured by Gross Domestic Product (GDP), showed that Cayman's GDP grew in real terms by 3.3 per cent in 2018, a further improvement on the already impressive economic performance in the previous year which saw growth of 3.0 per cent.

Over the last five years (2014–2018, inclusive) the economy has recorded an average growth rate of 3.0 per cent per year in real terms. This is, in my opinion, an impressive track record by any standard. By way of comparison, the GDP growth of 3.3 per cent in 2018 was stronger than the estimated growth of 2.9 per cent for the USA and the 2.2 per cent average growth for the world's most advanced economies. For the first half of 2019, preliminary indicators suggest that Cayman's economy continued on the path of robust growth, expanding by 3.1 per cent relative to the first half of 2018.

The foundations that we have put in place will continue to provide a platform for growth in the medium-term. Solid GDP growth is forecasted to continue over the next three years. GDP is expected to grow by 2.8 per cent in 2019; 2.3 per cent in 2020 and 2.1 per cent in 2021 and 2022. The moderation in the growth trajectory for 2019 to 2022 largely reflects the potential impact of the lowered growth projections of the International Monetary Fund for the USA and advanced economies in general, during this timeframe.

Despite the anticipated slowdown in the global economy and uncertainties and risks in the international economy – evidenced by the delayed Brexit negotiations and ongoing trade tensions between the US and China amongst others – we remain confident in the underlying strength, vitality and robustness of the Cayman economy.

Growth by Industry

Growth in 2018 was broad-based with all major industries recording positive expansion.

The ***construction sector***, for example, recorded the strongest increase in 2018 increasing in real terms by 8.3 per cent. Growth in the sector reflected the infrastructural capacity of the Islands keeping pace with the demand for residential, commercial and public facilities – arising from a higher population base which was estimated at 65,813 at the end of 2018 and which has grown further to an estimated 68,076 persons in Spring of 2019. The sector is estimated to have expanded by 5.9 per cent in the first half of 2019. This continued investment in the infrastructure of our Islands highlights a level of investor confidence that the Government has worked relentlessly to cultivate and to maintain. There are large businesses undertaking multi-million dollar projects creating jobs for our people. The Government is ensuring that Caymanians can access those jobs. For example we are expanding to 50 places the trade apprenticeship programme run by the Public Works Department. In addition there is a thriving small and medium sized construction sector, full of Caymanian businesses. The firms undertake many smaller scale projects and act as vital parts of the supply chain in larger projects. The developments therefore also create opportunities for local entrepreneurs to identify and supply the growing needs of investors.

The ***hotel and restaurant sector***, continued to be a major contributor of growth with its gross value added increasing by an estimated 5.1 per cent in 2018, following an increase of 4.3 per cent in 2017. The strong performance of the sector was driven by an increase in global income, improvements in local accommodation capacity, greater marketing efforts and additional air passenger routes coming on stream. The improvements locally reflect the success of the partnership between the industry and Government and the strategy that has been pursued under the last two Administrations. Stay-over tourist arrivals soared to a record 280,704 visitors in the first half of 2019, a growth of 11.0 per cent relative to the same period of 2018. This increased appetite for the 'Caymankind' experience is estimated to have resulted in growth of 8.0 per cent in the hotel and restaurant sector for the first half of 2019 relative to the corresponding period of 2018.

After two years of record cruise visitor numbers, in recent months these numbers have fallen back. The eight months to August saw a fall in cruise visitors of 12% when compared with the same period last year. This underlines the importance to the industry of making sure we remain competitive with the building of the new berthing facilities proposed for George Town Harbour.

The ***financial and insurance services sector***, consisting mainly of domestic banking and insurance services, remains dominant in the economy. This industry directly contributes approximately 31 per cent of GDP and it continues to grow at a steady rate, estimated 2.0 per cent in real terms for 2018 and 1.9 per cent in the first half of 2019. Again, the Government has responded to the risks presented to this sector by the various attempts to blacklist the jurisdiction. We continue to invest to ensure that Cayman fully complies with all international regulatory requirements. As our Premier has frequently said, if you are seeking to launder money or otherwise break the law, Cayman does not want or need your business and we will do all we can to thwart that intent.

The ***business services sector,*** comprising mainly of legal and accounting services, grew by 4.6 per cent in 2018. This industry is Cayman's second-largest sector and accounts for approximately 13 per cent of GDP. The industry's performance in 2018 is associated with sharp increases in new company and partnership registrations which rose by 25.1 per cent and 29.3 per cent, respectively. In addition, the number of listings on the Cayman Islands Stock Exchange surged by 37.2 per cent.

The strength of business activity in Cayman continues to be evident from this data. Despite the many efforts aimed at us, international business confidence remains strong, underpinned by the Government's absolute commitment to supporting our financial services industry.

Despite a reduction in new company and new partnership registrations for the first half of 2019, continued expansion in the number of stock exchange listings supported an estimated growth in the sector of 1.0 per cent for the period.

Inflation

After two consecutive years of declining consumer prices in 2015 and 2016, the CPI increased in 2017. This increase continued in 2018, peaking at 4.8% in the 2nd quarter, and averaged 3.3 per cent over the year. Rising fuel prices in the international market coupled with higher demand from the increased local population were the key drivers of inflation during the year.

The preliminary Consumer Price Index Report for the first half of 2019 revealed that consumer prices were up by 3.9 per cent compared to the same period in 2018. This increase was broad-based with increases being noted across most major categories, most notably, the ***Housing and Utilities*** index which was up by 10.8 per cent; ***Recreation and Culture*** up by 7.9 per cent; and ***Communication*** increased by 6.9 per cent.

While rising consumer prices are of concern because of the very real impact such increases have on individuals and businesses, it does indicate high levels of activity that are taking place within our economy. In that sense, it is a product of success and I would much rather Cayman was dealing with that than with the consequences of economic decline. The Government will continue to closely monitor the CPI and implement mitigation options where necessary.

In the end though, inflation is a product of market forces and for the most part we need to support the market to readjust rather than seeking direct government intervention to counteract inflationary pressures. The exception to that may be the housing market where, if we do nothing, we may find that middle class Caymanian families are priced out of the market.

That is not an acceptable situation to the Government: a holistic policy review has been launched to determine how best it might enable Caymanians both to buy and to rent on these Islands. In the meantime, we are assisting with, for example, significant stamp duty concessions for first time Caymanian buyers.

The Government also announced in its two-year budget earlier this month, a series of measures that enable those hardest hit by rising prices to cope better with the situation. These included duty concessions for older persons and further increases in the minimum income guaranteed to seamen, veterans, welfare recipients and long-serving Civil Service Pensioners. By January 2021, those 2000 most hard-pressed Caymanians will have seen their income rise by 73% since the current Government took office in May 2017.

Employment

Strong economic growth averaging 3.0 per cent between 2013 and 2017 with an estimated 3.3 per cent in 2018 and a projected 2.8 per cent in 2019 continues to propel increases in the demand for labour.

Significant job growth in 2018 meant the overall unemployment rate plunged to 2.8 per cent from 4.9 per cent at the end of 2017. Notably, unemployment among Caymanians fell from 7.3 per cent in 2017 to 4.6 per cent in 2018 meaning that for the first time since 2006 the number of unemployed Caymanians was less than 1,000 persons. For the first half of 2019, the overall unemployment rate was at 3.0 per cent while Caymanian unemployment was 4.8 per cent. It is worth emphasing that this figure is itself lower than the corresponding figure for the previous year, 2018.

The available job opportunities and sustained economic growth put the Government well on track to delivering its commitment we made to achieving full Caymanian employment – an economy where every Caymanian who is willing and able to work, can do so and find employment. Credit for such an achievement spanned the current and previous Administrations when the commitment for achieving full employment was first made. As a result, over 3,000 more Caymanians are now employed compared with the position when we took office in 2013.

Amid global economic challenges, and many they are, positive economic prospects for the Cayman economy still exist, which means that the robust employment market in Cayman will continue over the medium term. The new department we have established, Workforce Opportunities and Residency Cayman (WORC), will continue working with business to ensure that job opportunities are matched with suitably qualified Caymanians and also that we respond more positively and quickly to those businesses that need to bring in workers where no suitably qualified Caymanians are available.

Strong and sustained economic growth means **more** jobs for Caymanians and a continued need for work permits. WORC is mandated to ensure an appropriate balance is achieved that prioritizes Caymanian employment; is fair to non-Caymanian workers; and is responsive to changing business needs.

Fiscal Strategy

The Government remains committed to the fiscal strategy we established at the start of our first term in office that is centered on the following key principles:

- **compliance** with the Principles of Responsible Financial Management;
- **no** new fees or taxes levied on the public; and
- **no** new borrowings.

It is this sound, prudent fiscal strategy which has resulted in the significantly improved state of affairs of public finances and places the Government in the best possible position to respond to any potential economic downturn.

With an impressive Debt-to-GDP ratio of 9.2 per cent at the end of 2018, the Government's fiscal strategy regarding borrowing is grounded in our desire to avoid burdening future generations of Caymanians with the costs of the decisions made by this generation. Ideally, we want to minimize borrowings as much as possible so that when it is necessary to borrow for capital investments, we can match the repayment over the expected lifespan of the investment.

Moody's Investor Services, in March 2019, 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 comparatively low government debt burden.

Growing revenues through economic growth, controlling operating and financing expenses, containing capital investments and generating substantial cash flows from operating surpluses has enabled us to build and maintain significant cash reserves – a key component of ensuring compliance with the Principles of Responsible Financial Management and the Framework for Fiscal Responsibility which are set out in the Public Management and Finance Law.

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, the data shows that fewer than 20% of Governments reported having a fiscal surplus. The Cayman Islands ranks 7^{th} in the world with a budget surplus equal to 4.4% of our GDP, just behind Hong Kong which reported a surplus of 5.2% of GDP. Many countries, including a large number who criticize Cayman's tax neutral status, are running significant budget deficits. I will add for our visitors in the audience that the USA was 145^{th} on that list.

These prudent financial measures have resulted in exceptionally positive expected financial results for the 2019 financial year.

Forecast Operating Position

For the 2019 financial year, Central Government is forecast to achieve record operating revenues of $824.2 million, being $101.3 million more than budget.

The positive variances in operating revenues are due largely to the impact of higher volumes of dutiable transactions along with the continued growth of the local real estate market. Strong stayover tourism arrivals and higher interest rates earned on deposits have also bolstered the favourable revenue forecast for 2019.

Operating and financing expenditures for 2019 are forecast to be $743.5 million or $85.7 million more than the original budget of $657.8 million.

An operating surplus of $80.6 million is forecast to be achieved by Core Government, being $15.5 million more than budget.

Forecast Bank Balances

The Core Government is forecast to have bank account balances totalling $438.3 million as at 31 December 2019, of which $227.0 million is expected to be classified as cash and cash equivalents (including fixed deposits with terms less than 90 days to maturity). The original budget for 2019 estimated bank account balances to be $234.9 million.

Debt Balances

Up until this month, this Government has not had to borrow a single dollar and where possible, loan balances have been and continue to be repaid ahead of contractual maturity dates. This, I believe, is unprecedented by any Government in modern times.

As you may know, last week on Friday (22 November 2019), the Government repaid the US$312 million bond that was issued in 2009.

The Government used US$129.3 million from surplus cash from its operating activities along with US$182.7 million in borrowings to repay the bullet bond.

The decision to borrow the US$182.7 million was primariliy due to maintaining healthy cash reserves in the upcoming 2020 and 2021 financial years.

I am pleased to say that since this Administration assumed office on 31st May 2013, we have been able to reduce debt by CI$289.2 million.

Our debt and financial strategy is right for our Country now; appropriate for Cayman's future needs; and robust in the face of potential future economic shocks.

Compliance with Principles of Responsible Financial Management

For the 2019 financial year, the Government will comply with all of the Principles of Responsible Financial Management with the exception of the debt servicing ratio.

As a result of borrowing US$182.7 million to put towards the repayment of the bullet bond that was due this month, the debt serving cost – which includes both interest and principal payments – is forecast to be 39.5% at 31 December 2019.

This, of course, is simply a technical breach caused by the significant repayment of debt principal – something to be encouraged, not frowned upon.

The Government will however be in full compliance with the remaining Principles:

1. The forecast operating surplus is forecast to be $80.6 million;

2. The Net Worth will be a positive $1.5 billion;

3. Net Debt will be less than 0 percent – as the Government's bank balances of $438.3 million will exceed its total debt of $286.0 million; and

4. The Government will have sufficient Cash Reserves to cover 186.4 days of operating expenditures – which is significantly greater than the minimum 90-day legal threshold.

Conclusion

The Cayman Islands is continuing to benefit from its strong resilient economy that has weathered many challenges over the past eight years. Our future success depends on our ability to adapt and innovate and we have a responsibility to do everything that we can to ensure the continued success of these Islands.

The Government is committed to exercising prudent and responsible financial management and improving both the physical and institutional infrastructure capacity that is necessary to facilitate economic development in a sustainable and appropriate manner that enhances the quality of life for all our citizens and residents.

Thank you for listening, enjoy the rest of the Summit and, if you are a visitor to these Islands, I hope you also get the chance to relax and enjoy our world-famous beaches and our equally celebrated Caymankind hospitality.

Thank you.