



2020  
COVID-19

# **The Cayman Islands' Economic Assessment and Stimulus Plan**



**Economics and Statistics Office**

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## 2 EXECUTIVE SUMMARY

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### PRE-COVID-19 ECONOMIC PERFORMANCE

1.1 The Islands' **Gross Domestic Product (GDP)** is estimated to have grown by 3.1 percent in 2019. Growth estimate is based on actual economic indicators for the first nine months of 2019, coupled with the use of full-year economic indicators where available.

1.2 The **construction industry** remained robust in 2019 with economic activity in the sector, expanding by 6.1 percent. Growth in the sector was indicated by a rise in imported building materials and is consistent with an increase in demand for housing and commercial properties. The economic performance of the **hotels and restaurants industry** was boosted by a record number of stay-over visitor arrivals (502,739) for 2019. During the period, air arrivals rose by 8.5 percent compared to 2018. Consequently, the sector is estimated to have expanded by 5.3 percent for the year.

1.3 Price levels spiked in the calendar year 2019 - the **Cayman Islands recorded average Consumer Price Index (CPI) inflation** of 5.7 percent for the year. This is relative to CPI inflation of 2.0 and 3.3 percent in 2017 and 2018, respectively. The higher CPI inflation rate in 2019 was led by higher price trends of actual rentals paid by tenants for housing, followed by recreation and culture, and communication.

1.4 Economic growth in 2019 precipitated an increase in labour supply. The total labour force strengthened to 49,089, an expansion of 6.3 percent over the previous year, while the **unemployment rate** was 3.5 percent, an uptick from a year ago.

1.5 Central government **fiscal operations** resulted in a surplus of \$102.1 million in 2019. This surplus emanated from a 3.6 percent growth in total revenue to \$860.0 million which outweighed total expenditure of \$757.9 million.

### POST-COVID-19 PROJECTIONS

1.6 **Conditions and direction of the international economy.** The International Monetary Fund (IMF) assesses that the "great lock-down" will be the worst recession since the Great Depression, and much worse than the 2008/09 global financial crisis. In its April 2020, World Economic Outlook, the fund projected the global economy to contract by 3.0 percent in 2020. Global economic prospects are expected to be weakened by the current outbreak of COVID-19. Despite the uncertainty, the world economy is anticipated to rebound by 5.8 percent in 2021.

1.7 **Cayman Islands GDP Growth.** Due to the significant disruptions to tourist arrivals and policy restrictions to reduce the spread of COVID-19, the Cayman Islands' economy is projected

to contract between 11.4 percent and 12.2 percent in 2020, conditional on low visitor arrivals in the last quarter of 2020 or resumption of visitor arrivals in the first quarter of 2021.

**1.8 Hotels and restaurants sector.** The United Nations World Tourism Organization (UNWTO) projected that international arrivals would decline between 1.0 percent and 3.0 percent relative to the previous forecast for average growth of 3.5 percent. Notwithstanding the strong growth in air arrivals of 8.5 percent reported for the first two months of the year, the sector is projected to decline between 75.0 percent and 82.5 percent in 2020.

**1.9 Transport and storage sector.** The sector is forecast to contract between 40.8 and 42.5 percent as the industry grapples with the complete loss of cruise visitors for between six and nine (9) months, followed by an expected slow recovery due to residual fear factor on flights and cruises, coupled with the temporary closure of domestic public transportation.

**1.10 Construction.** The construction sector is expected to show some resilience in the medium term if existing projects are continued. However, a contraction of 14.6 percent is expected in the industry for the year. Additionally, with the cruise berthing facility development unlikely given the recent court ruling, and with cruise lines now grappling with being anchored indefinitely, the sector is expected to generate low economic growth barring any additional stimulus measures.

**1.11 Financial and insurance services.** The industry is expected to ride most of the initial falloff associated with the COVID-19 restrictions as most activities in the industry can be conducted online while employees work from home. However, increasing investment uncertainty and declining global stock markets are expected to have some lagged impact on the sector. Consequently, the sector is projected to contract by 6.5 percent for the year.

**1.12 Business services, administrative, and support services.** Business services remained relatively unimpeded by the domestic COVID-19 restrictions; however, they are expected to be affected by the general falloff in local and international demand in the latter half of the year. Administrative and support services will also be affected by the decline in both financial and business services, coupled with the general downturn in demand from the tourism industry.

**1.13 Government Services.** Government spending on public administration and defence is anticipated to rise by approximately 9.5 percent for the year, boosted in part by the increased salary payments effective January 2020. Despite the expansion in government outlay, revenue intake is expected to decline due mainly to loss of tourism-related revenue, and lower aggregate demand for imported goods.

**1.14 Inflation rate.** Despite a sharp uptick in food inflation for the first half of 2020, a gradual 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 the source

markets. In addition, local economic conditions are expected to exert downward pressure on housing rentals as displaced ex-pats exit the labour market, lower public transport coupled with a lower cost of fuel, and with plummeted visitor arrivals pushing domestic accommodation prices downwards. These factors combined are projected to exert downward pressure on the average inflation rate to 0.4 percent in 2020.

**1.15 Employment and labour force.** The demand for labour is expected to track the forecast contraction in real GDP. Reduction in employment in the hotels and restaurants, as well as the transport sector, is expected to dampen employment in other sectors. Total labour demand or employment for 2020 is projected to be between 37,812 and 38,535 persons relative to 47,394 persons in 2019.

**1.16 Fiscal operations.** Central government revenue is projected to decline between \$211.4 and 227.7 million. In comparison, expenditure is projected to increase by \$141.3 million mainly on account of increases in salary expense (up \$20 million), subsidies and social benefits payments (up \$6.6 million) and budgeted capital expenditure (up \$121.3 million).

**1.17 Impact of economic stimulus measures implemented.** The implementation of a series of economic stimulus measures are expected to propel economic growth, increase employment and hasten the economic recovery if the full impact is realised. The Cayman Islands' economy is projected to contract by 7.3 percent in 2020 as opposed to 11.4 percent without stimulus measures in 2020. Overall employment is estimated to improve to 40,003, higher by 1,468 persons.

**1.18 Impact of other economic stimulus measures for consideration.** The additional economic stimulus measures for consideration are expected to bolster economic growth, increase employment, and potentially speed-up economic recovery. The Cayman Islands' economy is projected to contract by 5.4 percent in 2020 as opposed to 7.3 percent with the stimulus measures already implemented in 2020. Overall employment is estimated to improve to 41,532 employing an additional 1,529 persons.



## ECONOMIC ASSESSMENT

This economic assessment reports on the Islands' estimated macroeconomic performance in 2019 and presents some of the policies implemented by the government in response to the COVID-19 pandemic. Additionally, the report presents some scenario forecasts and assumptions for 2020 as well as some stimulus measures, some of which have been used and more that could be used to incite policies for economic recovery. The assessment focuses on four core indicators:

- Gross domestic product (GDP) growth;
- Consumer price index (CPI) inflation;
- Employment; and
- Fiscal balance.

## 3 MACRO-ECONOMIC PERFORMANCE PRE-COVID-19

**GDP GROWTH:** Economic activity in the Cayman Islands grew at an average of 3.2 percent for the five years between 2014 and 2018, culminating in a 4.1 percent growth for 2018. For 2019, real Gross Domestic Product (GDP) is estimated to have grown by 3.1 percent. The 2019 GDP estimate is based on actual economic indicators for the first nine months of 2019 coupled with some indicators for the full year. Movements in the available indicators suggest increased activities in all sectors of the economy, with growth mainly emanating from construction, hotels and restaurants and auxiliary industries such as wholesale and retail trade and utilities.

**Table 1: Key Economic Variables**

	2017	2018	2019	2020	
	Actuals		Estimated	2020 With QTR 4 Tourism	2020 Without QTR 4 Tourism
				Projection	
Real Gross Domestic Product (GDP) %	3.1	4.1	3.1	-11.4	-12.2
Consumer Price Index (CPI) %	2.0	3.3	5.7	0.4	0.4
Number of Employed	40,856	44,887	47,394	38,535	37,812
Unemployment Rate %	4.9	2.8	3.5	11.6	12.3
Fiscal Balance/Net Lending (\$M)	130.2	132.4	102.1	-250.6	-266.9

Estimated - The GDP growth for 2019 is a preliminary estimate based on actual indicators as of September 2019 with some indicators as of December 2019.

Source: Cayman Islands Government's Economics and Statistics Office

Propelled by strong economic growth for the last five years, the *construction* industry remained robust with economic activity, expanding by 7.8 percent in 2018 and an estimated 6.1 percent in 2019. The estimated growth in 2019 is supported by a rise in imported building materials, which is consistent with an increase in demand for housing and commercial properties. The supply of constructed properties matched the heightened demand for properties which led to higher sale

and rental prices. This resulted in an estimated 2.6 percent growth in the real estate industry for the year.

The hotels and restaurants industry recorded economic growth of 8.2 percent in 2018, followed by an estimated expansion of 5.3 percent in 2019. A record number of stay-over visitors precipitated the estimated expansion in 2019. During the period, air arrivals rose by 8.5 percent compared to 2018. For the first two months of 2020, stayover arrivals grew by 8.5 percent to 93,558 visitors, relative to the same period in 2019.

Other industries that showed healthy rates of economic expansion are wholesale and retail trade, electricity and water supply, and transport, storage and communication grew by 5.0 percent, 4.7 percent and 3.3 percent, respectively. These performances partly reflected increased economic activity in other sectors as well as higher stayover visitors and population expansion.

Indicators for the financial and insurance services sector, which accounts for approximately 30.4 percent of GDP in 2019, point to continued stability in growth for the year, with an estimated expansion of 1.9 percent.

**INFLATION:** Price levels spiked in the calendar year 2019, with the Cayman Islands recording an average Consumer Price Index (CPI) inflation of 5.7 percent for the year. This is relative to CPI inflation of 2.0 percent and 3.3 percent in 2017 and 2018, respectively. The CPI inflation in 2019 reflected higher prices in all divisions, with housing and utilities recording the most substantial increase, as housing rental prices spiked. Inflationary pressures during the year largely emanated from localised demand-pull inflation - as in the case of housing rentals. International cost-push inflation declined as international commodity prices fell, while prices in the Islands' major trading partners remained stable.

**EMPLOYMENT<sup>1</sup>:** Economic growth in 2019 was supported by growth in labour supply. The total labour force stood at 49,089, an expansion of 6.3 percent, the increase emanated from higher demand for services in both local and foreign markets. The Caymanian labour force accounted for 43.3 percent or 21,269 of the total labour force and Permanent Residents (with rights to work) totalled 4,872 persons. The Non-Caymanian labour force, which includes persons married to Caymanians, those awaiting Permanent Residence and persons working by operation of law, was estimated at 22,948 or 46.7 percent of the total labour force.

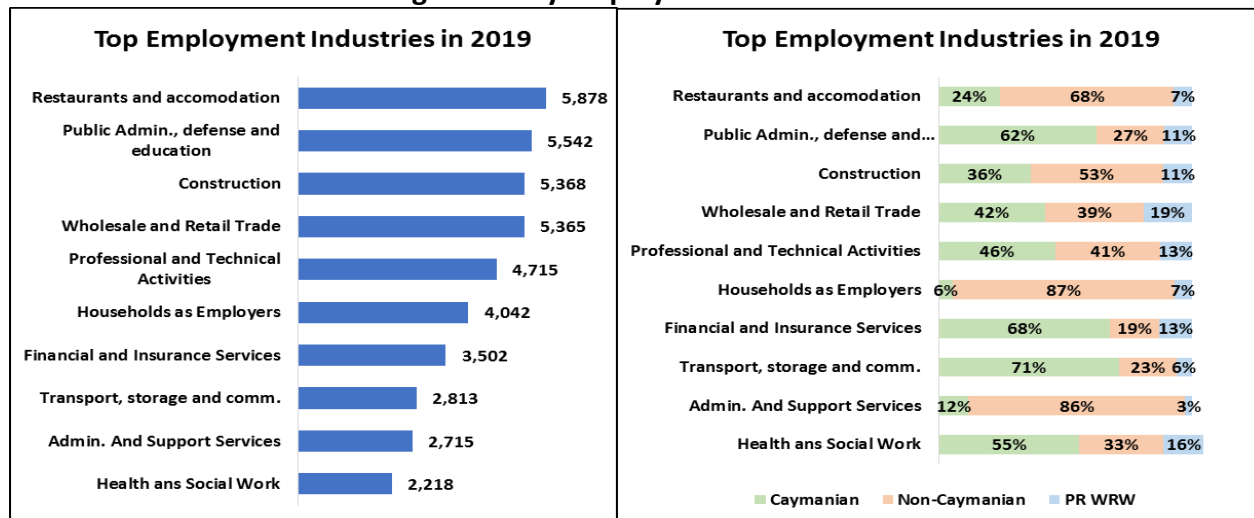
The robust growth of the domestic economy spurred an increase in demand for labour as total employment improved by 5.6 percent from 2018 and reached 47,394 in 2019. Restaurants and accommodation services combined were the top employers, followed by public administration and defence combined with education. Growth in labour demand slightly lagging the pace of

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<sup>1</sup> The labour force indicators are taken from the Labour Force Survey Fall (October) 2019, with the comparable indicators from the Labour Force Survey in Fall (October) 2018.

growth in labour supply, the overall unemployment rate increased to 3.5 percent as indicated in the Fall 2019 Labour Force Survey.

**Figure 1: Key Employment Industries**



Source: Cayman Islands Government's Economics and Statistics Office

## 4 GLOBAL ECONOMIC CONDITIONS

According to the International Monetary Fund (IMF), the “great lock-down” will be the worst recession since the Great Depression, and much worse than the 2008/09 global financial crisis. The IMF in the April 2020 World Economic Outlook (WEO) projected the world economy to contract by 3.0 percent in 2020 relative to the growth of 2.9 percent in 2019. This contraction is predicated on declines in advanced economies, emerging markets and developing economies. Advanced economies are projected to contract by 6.1 percent in 2020 compared with growth of 1.7 percent in 2019. Among them, economic activity in the US and UK are forecast to decline by 5.9 percent and 6.5 percent in 2020 respectively, relative to respective growth of 2.3 percent and 1.4 percent in 2019.

**Table 2: Key Global Economic Indicators**

	2018	2019	2020	2018	2019	2020	2018	2019	2020
	% Change in GDP			% Change in Prices			Unemployment (%)		
World	3.6	2.9	-3.0	-	-	-	-	-	-
Advanced Economies	2.2	1.7	-6.1	2.0	1.4	0.5	5.1	4.8	8.3
United States	2.9	2.3	-5.9	2.4	1.8	0.6	3.9	3.7	10.4
United Kingdom	1.3	1.4	-6.5	2.5	1.8	1.2	4.1	3.8	4.8
Canada	2.0	1.6	-6.2	2.3	1.9	0.6	5.8	5.7	7.5
Euro Area	1.9	1.2	-7.5	1.8	1.2	0.2	8.2	7.6	10.4
Emerging Markets and Developing Economies	4.5	3.7	-1.0	4.8	5.0	4.6	-	-	-

Source: IMF World Economic Outlook April 2020



The anticipated reduction in global output for the year is expected to eclipse the depth seen during the global financial crisis, which started in 2008. The gloomy economic outlook is underpinned by the adverse impact associated with countries' response to the COVID-19 pandemic. Most of the world's economies have taken extreme measures to reduce the spread of the virus. These include large scale quarantines, geographical and national lockdowns and extensive business closures.

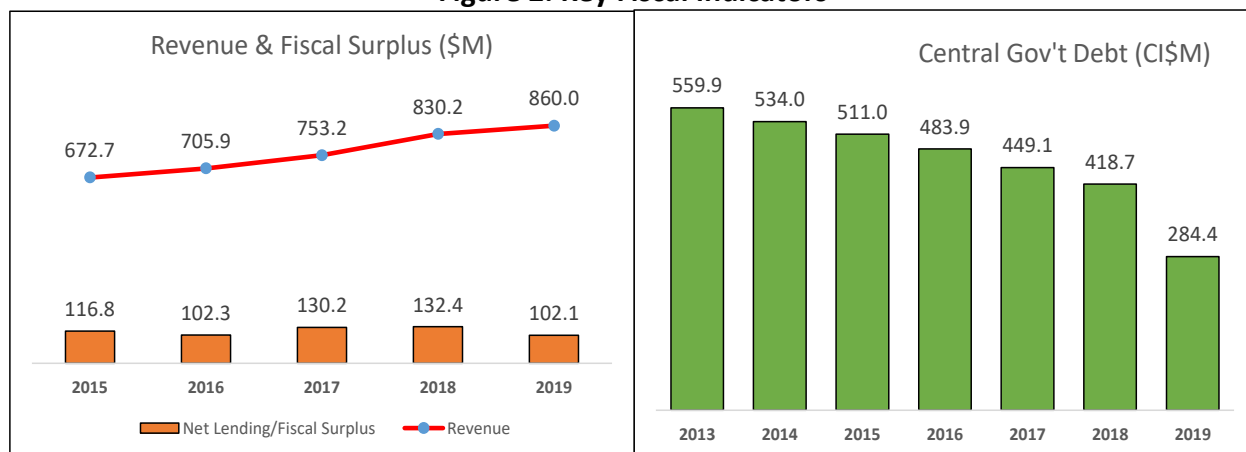
The immediate priority for countries has been, and rightly so, to prevent or mitigate contagion by prioritising healthcare. In its report, the IMF highlighted that public policies should target sustaining business relationships during the shut-down and to ensure gradual normalisation of activities after COVID-19 containment measures. Additionally, policymakers will need to implement targeted fiscal, monetary and financial measures to support households and businesses.

With respect to consumer prices, advanced economies are forecast to record an average inflation rate of 0.5 percent in 2020 compared with 1.4 percent in 2019. Most countries are expected to record lower price levels on account of subdued spending globally, as economies closed to prevent the spread of the virus, amid ample supply of commodities on the world market. Consistent with the reduction in demand and economic activity, unemployment rates for advanced economies are expected to surge to 8.3 percent in 2020 relative to 4.8 percent in 2019.

## 5 FISCAL POSITION, POLICY DIRECTION AND MEASURES TAKEN

**CENTRAL GOVERNMENT FISCAL CAPACITY:** The rapid global spread of COVID-19 has forced the Cayman Islands' government to take stringent actions to safeguard the health of residents. While there has been relative success limiting the spread of the virus locally, the measures taken have had a significant impact on the economic activities of various entities within the society. In this regard, the IMF and other international agencies have been keen to caution countries that despite the definite need to safeguard population health, simultaneously preserving the stability of the economy will require extensive fiscal planning, spending and strategic policy actions.

**Figure 2: Key Fiscal Indicators**



Source: Cayman Islands Government Treasury Department

For the seven years between 2013 and 2019, the Cayman Islands government has achieved the rare regional feat of consistently running fiscal surpluses backed by increasing revenue. This trend has coincided with a steady reduction in the Islands' debt stock over the period. For 2019, the central government recorded a fiscal surplus (net lending) of \$102.1 million. The consistent fiscal surplus over the years has been backed by robust economic growth which has supported the consistent growth in revenue. Concurrently, the revenue growth has been matched by a measured government response, underscored by continued monitoring and prudent spending to remain within budget. The government further reduced its debt stock significantly in November 2019, by repaying a bullet bond which matured in the period. The bullet bond was repaid with approximately 50 percent cash, and the remainder was refinanced with a loan. The cash payment on the bond is estimated to have consumed a notable portion of the government savings but also improved debt obligations and debt ratios.

The prudent fiscal measures pursued over the years has left the government in a favourable position to respond with appropriate fiscal measures. This premise was further supported by rating agency Moody's in its latest credit report published in April 2020. In its assessment, they maintained the Cayman Islands' Aa3 stable rating. They noted that "prudent government planning has left the islands with fiscal space to deal with the economic impact of the coronavirus pandemic."

Despite the favourable position of the government, the savings are insufficient to accommodate the magnitude of expenditure that will be required to maintain economic and social stability during and after COVID-19 successfully. Further, limitations set out in the Public Management and Finance Law (PMFL) are likely to restrict the government's ability to significantly increase public debt, despite the low debt ratios. The road to economic recovery will require substantial participation from the private sector to assist the government in achieving success.

**COMBATING THE SPREAD OF THE VIRUS:** There is some consensus internationally around a general best-practice approach to restricting the spread of the pandemic, while also restricting its long-term impact on the economy. This approach can be summarised in four key steps:

1. Implement measures to limit and eradicate the spread of the virus, while investing in the health care sector to improve its ability to manage the pandemic.
2. Increase social spending to minimise the impact of containment measures on the most vulnerable members of society, while simultaneously collaborating and partnering with the private sector to mitigate the impact on businesses and assist in continuity planning.
3. Assess the effects of containment measures on businesses and individuals and provide strategic and financial assistance to displaced workers and institutions struggling with working capital and liquidity needs.
4. Manage the strategic removal of containment measures and the promotion of sectors needed to drive economic recovery. This may include implementing fiscal measures to stimulate growth and minimise the possibility of a stagnant economic recovery.

The Cayman Islands' government has achieved success in navigating the first step by implementing a range of public health measures geared at containing the spread of the virus. These measures include but are not limited to:

- ✓ Travel restrictions on high-risk countries followed by the complete closure of the air and seaports to passengers;
- ✓ A nationwide closure of all schools;
- ✓ Closure of all non-essential business in tandem with a "shelter in place order" (hard and soft curfew policy); and
- ✓ A ban on public gathering of over fifty (50) persons which was later reduced incrementally to two (2) persons.

To mitigate the impact of COVID-19, steps were taken to advance-order supplies such as hospital ventilator beds, testing kits, and personal protective equipment (PPE). Further, support for the health sector remains the priority and efforts to slow the transmission rate of the pandemic have been unwavering.

**REINFORCING THE SOCIAL SAFETY NET:** The government has underscored its commitment to support vulnerable Caymanians with increased payments through the Needs Assessment Unit (NAU) and the Department of Children and Family Services (DCFS). Further, the government announced a series of direct measures to help mitigate economic hardship to the most vulnerable residents, with a focus on Caymanian families. From the onset, to further support the efforts of the health sector, the government allocated \$3.0 million from the government's Disaster Fund to finance any initial cost associated with COVID-19.

In addition, several private sector entities also took actions in the spirit of social responsibility. For instance, in an initial response, most financial institutions agreed to defer mortgage and loan payments up to six months to assist persons affected by the virus. Similarly, the electricity and water companies decided to suspend disconnection of customers until further notice and agreed to open dialogue with customers experiencing financial difficulties.

In assisting the vulnerable, in 2018, the NAU helped 2,059 families at the cost of \$15.6 million. The assistance provided varied across several services, including food, rent, utilities, medical care, school-related expenses, and other family-related expenses. As of the Fall 2019 LFS survey, the

number of unemployed Caymanians were 1,201, and the primary means of financial support among unemployed persons was household members and other relatives. Notably, 10.1 percent of unemployed persons (all of whom are Caymanians) indicated that their primary means of financial support was from social services.

The financially vulnerable employed persons – that is, persons with a monthly income of less than \$2,000 - from Fall 2019 stood at 14,479 (30.6% of employed persons) out of a total employed population of 47,394 persons. Among the employed persons with income less than \$2,000, 26.9 percent or 3,888 were Caymanians with an average household size of 2.3 persons.

**Table 3: Industry Employee Monthly Earnings by Status**

Industries: Vulnerable Income Earners	Total	Caymanians	Non Caymanians	Total	Caymanians	Non Caymanians	Total	Caymanians	Non Caymanians
	Total *			Less than \$ 2,000 monthly			\$ 2,000 and above monthly		
	Number of Persons								
Construction	5,368	1,944	3,425	1,389	400	989	3,980	1,544	2,436
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,365	2,258	3,107	2,255	772	1,483	3,111	1,487	1,624
Accommodation	3,131	800	2,330	1,360	372	989	1,770	429	1,342
Restaurants and Mobile Food Services									
Activities	2,747	629	2,118	1,480	314	1,165	1,268	314	953
Administrative and support service activities	2,715	314	2,401	1,703	114	1,589	1,012	200	812
Arts, entertainment and recreation	1,115	515	600	341	200	141	773	314	459
Other service activities	836	200	635	461	143	318	375	57	318
Activities of households as employers	4,042	229	3,813	3,243	172	3,072	799	57	741
Sub-Total	25,319	6,889	18,429	12,231	2,487	9,744	13,087	4,402	8,685
All Other Industries	22,075	13,179	8,897	2,248	1,401	847	19,827	11,778	8,049
Total	47,394	20,068	27,326	14,479	3,888	10,591	32,915	16,180	16,734

\* Figures may not all due to rounding

Source: Economics and Statistics Office (ESO), Labour Force Survey Fall 2019

Despite the known hard-hit sectors, employed persons with a monthly income of less than \$2,000 are distributed across all industries, led by households' employees (domestic helpers, gardeners, etc.), wholesale and retail trade, construction, administrative and support services, accommodation services, restaurants and mobile food services. Together, those sectors account for 78.9 percent of persons earning less than \$2,000 monthly. For employed Caymanians, the main low-paying industries were wholesale and retail trade, construction, accommodation services, restaurants and mobile food services, which accounted for 47.8 percent (see Table 3).

The effects of COVID-19 are wide-reaching with most individuals and institutions affected, albeit at varying degrees. Individuals employed at some of the hardest-hit industries and businesses are not only impacted by health uncertainties but by the loss of income and possibly livelihood. For some small businesses, economic survival would be severely hampered, if at all still possible.

The tourism industry and auxiliary tourism-related businesses are expected to bear the brunt of the post-COVID-19 impact as countries re-open borders with entrance restrictions and health requirements for visitors. Economic sectors which are dependent on visitors' spending would

bear the highest risk of survival. These include accommodation services and restaurants<sup>2</sup> that employ approximately 5,878 persons, and other tourism-related sectors (wholesale and retail sales, arts entertainment and recreation, and other services) that employ an additional 7,316 persons .

Small to micro firms<sup>3</sup> (excluding activities of households as employees) employ an estimated 11,426 and 6,458 persons respectively, which aggregates to 37.7 percent of the employed population. Employees at small to micro businesses with reduced access to financing are at a higher risk of being laid-off. Although 5,878 persons are employed with the hotels and restaurants industry, micro (1-5 employees) to small (6-10 employees) firms account for 28.1 percent or 1,649 persons, of whom approximately over 400 are Caymanians.

### **MAINTAINING SMALL BUSINESSES' ECONOMIC PULSE**

In a move strongly supported by the Chamber of Commerce, the government launched three key initiatives geared at supporting businesses. Firstly, a loan fund with favourable terms was created and made available to all businesses which are 100 percent Caymanian owned. Secondly, a grant fund was created and made available to the small and micro-businesses. Lastly, the government provided funding for technical assistance to Caymanian owned businesses to assist with strategy and balance sheet planning.

Preserving the economic viability of these Islands will undoubtedly require significantly more investment to safeguard the stability of the business environment and further stimulate the economy. Notwithstanding, the nature of Caymans' fiscal structure mandates that a significant portion of the financing required to keep businesses operational will need to emanate from within the private sector. Operating in a non-tax jurisdiction, businesses have a responsibility to work with the government to preserve the current favourable business environment. Fortunately, in a hub for creative financial solutions, the resources to conceptualise and implement unique financial solutions are already within reach.

In an early show of support, DART Enterprises created a National Recovery Fund with an initial deposit of \$1 million and with a commitment to match any funds raised from the private sector up to \$4 million. A private-sector board will manage the fund, which will be used to assist in all the phases of the COVID-19 response.

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<sup>2</sup> The industry comprises approximately 468 firms consisting mainly of hotels, guest houses, apartments, restaurants, fast food outlets, caterers, and cafeterias.

<sup>3</sup> Micro and small business employs from 1 to 5 persons and 6 to 10 persons, respectively based on ESO's definition.



## 6 ECONOMIC ASSESSMENT AND FORECAST FOR 2020

**GDP GROWTH:** Consequent to the significant disruptions in tourist arrivals and policy restrictions to curb the spread of COVID-19, the Cayman Islands economy is expected to contract between 11.4 percent and 12.2 percent in 2020. This decline in the marketplace is equivalent to a dollar value GDP loss of \$513.2 million and \$545.5 million respectively, a reduction in real gross output<sup>4</sup> (or sales revenue) of between \$924.7 million and \$982.9 million. This projection of economic decline is conditional on:

- I. Airports and seaports closed to passengers from mid-March 2020, followed by a measured re-opening beginning July 2020;
- II. The economy gradually re-opening following the current shelter-in-place restrictions beginning mid-March 2020; and
- III. No significant stimulus measures pursued during the shelter-in-place restrictions.

In addition to these assumptions, the GDP projection considered timeframes for the economy re-opening to visitor arrivals. However, these assumptions are conditional on our main trading partners stemming the spread of COVID-19, local conditions, and on visitors confidence towards international travel.

The rapid spread of the pandemic coupled with the closing of the Islands' borders, and the existing shelter-in-place order (hard and soft curfew) have weighed heavily on the **hotels and restaurants sector**<sup>5</sup>. With demand for accommodation services coming to a halt, and the Islands' border closed, hotels have effectively closed their doors to visitors. Further, the ban on cruise visitors has effectively ended all tourism-related activities. This catastrophic downturn in the industry has halted a decade of consecutive growth in stay-over visitor arrivals which recorded average annual growth of 6.4 percent since 2010. Similarly, cruise visitors grew by an average of 2.2 percent annually since 2010. In 2019, total visitor expenditure was estimated at CI\$770.2 million<sup>6</sup>, which resulted in an estimated cross-sectors real GDP of CI\$395.0 million, the majority going to hotels and restaurants. For the first two months of 2020, visitors to these Islands continued to arrive in record numbers, rising by 8.5 percent relative to the first two months of 2019.

Visitor arrivals are estimated to have remained robust for the first half of March 2020, hence ensuring a respectable performance in the sector for the first quarter of the year. The ensuing

<sup>4</sup> **Gross Output – Intermediate Input = Value Added (GDP):** This approach calculates GDP as the sum of the value added of all industries in the economy. This is the difference between gross output (essentially sales) of producers and the value of their intermediate inputs. Intermediate inputs refer to goods and services that are used up in the production process.

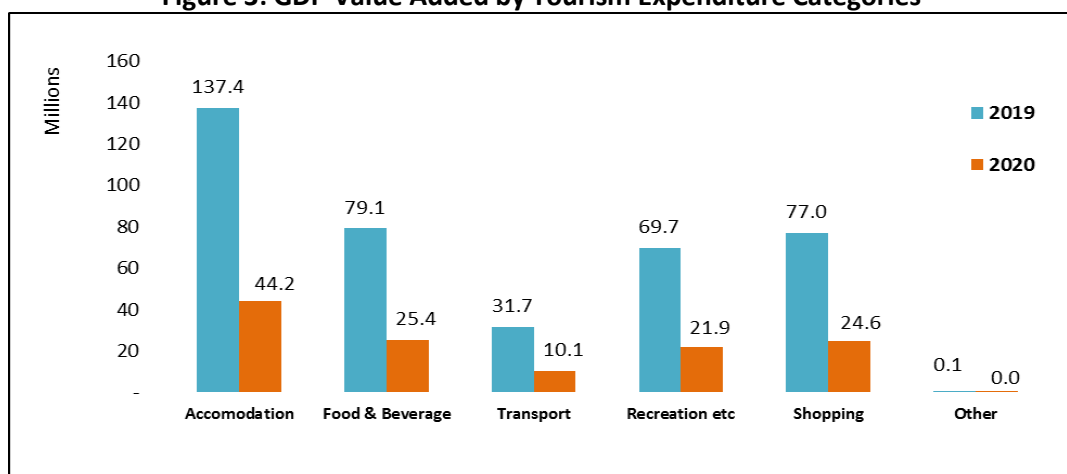
<sup>5</sup> The industry comprises approximately 468 firms consisting mainly of hotels, guest houses, apartments, restaurants, fast food outlets, caterers, cafeterias.

<sup>6</sup> Source: Visitor expenditure for 2019 calculated by the Department of Tourism, the 2020 visitor expenditure is estimated by the Economics and Statistics Office.

disruption in the industry is expected to persist throughout the second and third quarters of the year with limited activity occurring mostly in the restaurant and bar segment. For the last quarter of the year, it is assumed that some accommodation facilities will re-open with a trickle of visitors returning to the Cayman Islands. Consequently, the sector is forecast to contract by 75.0 percent for the year. The contraction in the hotels and restaurants sector amounts to roughly \$182.9 million, which effectively translates to 35.6 percent of the overall decline in real GDP estimate for 2020.

Beyond the hotels and restaurants industry, the collapse in total tourism spending is expected to result in an overall reduction in GDP of roughly \$268.8 million. This translates to a 52.4 percent reduction in gross value added (GDP) when the impact is factored across associated industries. As noted above, the hotels and restaurants industry is expected to be affected the most; however, the transportation industry, wholesale and retail trade and other activities – arts, recreation and culture - would also be affected by the falloff in stay-over and cruise visitors.

**Figure 3: GDP Value Added by Tourism Expenditure Categories<sup>7</sup>**



Source: Economics and Statistics Office

The contraction in the hotels and restaurants industry is expected to displace approximately 4,399 employees. This estimation is based on the output to employee ratio from the previous year. Hence, if on average, one employee contributed one unit of output, then it is assumed that if that one unit of output is lost, one employee will be displaced. As at end 2019, approximately 20 percent of all tourism workers were Caymanians. Therefore, if we assume that job displacement is evenly distributed, then about 1,069 Caymanians could be displaced from the fallout in the industry. Notably, this suggests that the jobs displacement in the hotels and restaurants sector, with the overall reduction in tourism, is expected to also affect employment in other industries consistent with the decrease in GDP highlighted above.

<sup>7</sup> Estimated by the Economics and Statistics Office based on 2019 visitor expenditure distribution. The 2019 visitor expenditure was calculated by the Department of Tourism.



Closure of the Islands' air- and seaports, coupled with the restrictions on movement, have significantly maimed economic activity in the **transport and storage sector**<sup>8</sup>. The grounding of airlines added to the fact that cruises, tour and public bus operators have been brought to a standstill, resulting in the sector suffering the second-largest impact from events surrounding the pandemic. The industry is forecast to contract 40.8 percent as it grapples with existing conditions and an expected slow recovery due to residual fear factors and a gradual re-opening of the economy.

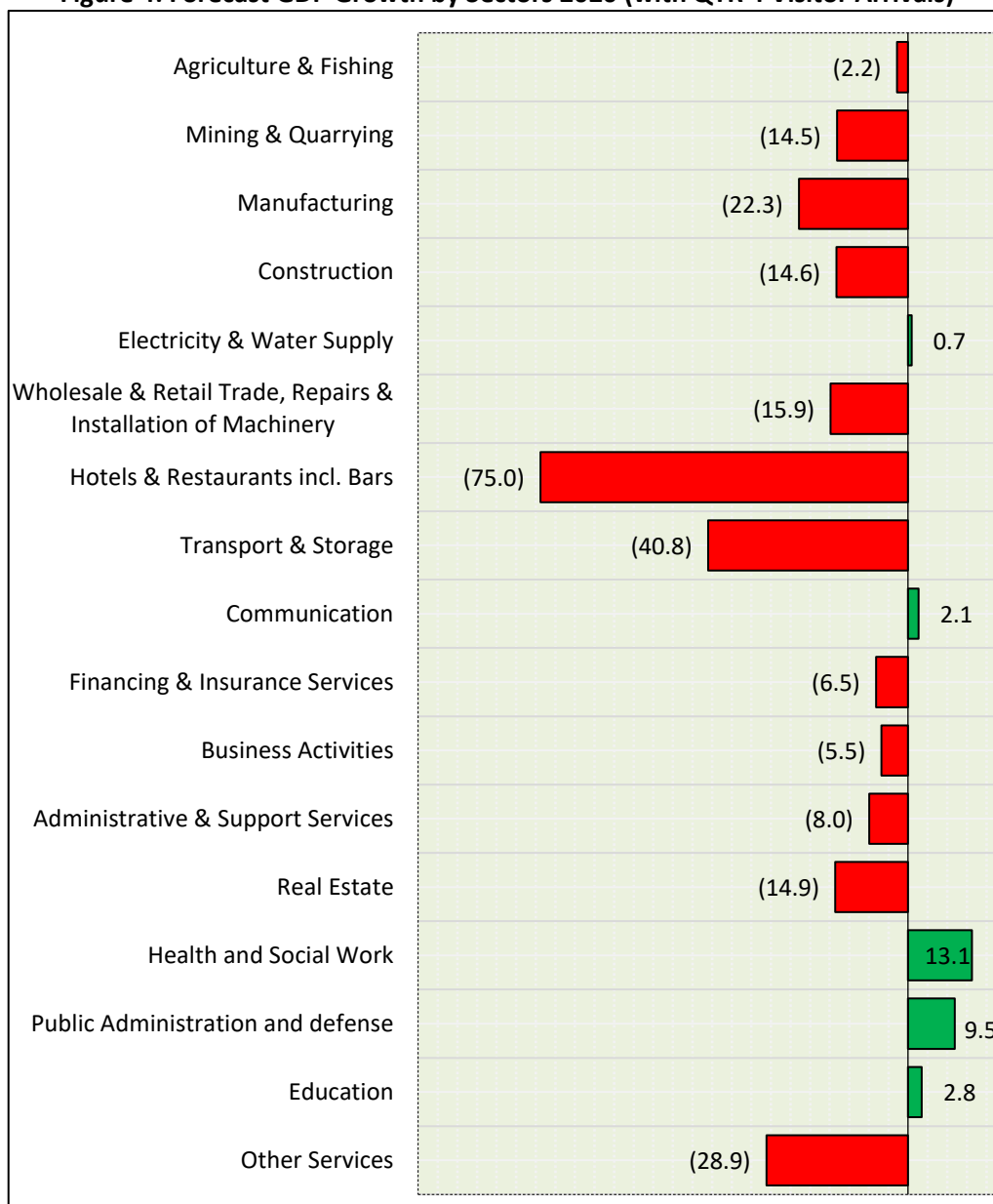
The contraction in the sector is expected to displace approximately 791 employees. As of the end of 2019, Caymanians accounted for roughly 80 percent of the industry's employees, hence leading to the displacement of an estimated 605 Caymanians. This number includes tour operators who were granted a one-off stipend by the government. Notably, some of these individuals have been slated for redeployment as delivery drivers for restaurants as well as in wholesale and retail sales outlets.

As economic activity slows and a significant portion of the population grapples with employment and income challenges, activities in the **real estate** sector are expected to contract. The impact on the sector is likely to be further affected by dislocated expatriate workers who will need to leave the jurisdiction. Additionally, as uncertainty permeates the economy in the near term, future demand in the sector is expected to be timid at best. Consequently, the sector is anticipated to contract by 14.9 percent. The contraction in the industry is expected to displace approximately 104 employees.

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<sup>8</sup> The sector comprises land, air, and sea transportation, including postal and courier services.

**Figure 4: Forecast GDP Growth by Sectors 2020 (with QTR 4 Visitor Arrivals)**



Source: Economics and Statistics Office

Subdued demand, associated with the temporary closure of non-essential businesses locally coupled with reduced visitor expenditure, is expected to drive a contraction in the **wholesale and retail sector**. Nevertheless, some of the declines are expected to be offset by the recent spike in local demand for medical, food and grocery items. Further, the sector is expected to absorb a small fraction of displaced transport activities as delivery services become a natural part of the services offered. Economic activity in the sector is expected to be subdued from stymied demand in the latter part of the year, on account of visitors falloff and reduction in the domestic population. Accordingly, the sector is expected to contract by 15.9 percent. This contraction is expected to displace approximately 848 employees, including 357 Caymanians.

Pressures in the domestic economy coupled with the temporary halt in non-essential economic activities are expected to jolt the recent uptick in **construction** on the Islands. Additionally, with the development of the cruise berthing facility now doomed, given the impending difficulties in the industry, the void created will be even more pronounced as the sector slows. The sector is projected to contract by 14.6 percent with an expected workers displacement of approximately 783 employees, including 283 Caymanians.

The **finance and insurance services** sector is expected to show some resilience in the short term as the industry has been able to get employees to work effectively remotely. Additionally, with most services already integrated with online platforms before the constraints associated with the pandemic, the sector was able to offer most services virtually seamlessly. Notwithstanding, contractions in the domestic economy are expected to filter through, with some institutions already offering payment waivers. Further, as international conditions worsen, demand in the sector is expected to slow. The sector is projected to decline by 6.5 percent for the year. **Business activities**<sup>9</sup> which have also been relatively unimpeded by current restrictions are expected to be impacted by the general fallout in domestic and international activities in the latter part of the year. Consequently, the sector is anticipated to fall by 5.5 percent for the year. Notably, there is a considerable downside risk to the forecast in both sectors. Activities could be impacted if the stock market recovery lingers after the first quarter sell-off, and remaining uncertainty in international stock markets become a trend over the latter half of 2020. The contraction in the two sectors is expected to displace approximately 257 and 215 employees in financial services and business activities respectively.

The threat of the COVID-19 pandemic has thrust increased responsibilities on the government to provide for the most vulnerable in the society whilst also gearing up to provide financial aid and stimulus to businesses as the need arises. Government spending on **public administration and defence** is therefore anticipated to rise by 9.5 percent for the year, boosted in part by increased salary payments in January 2020 in addition to increased spending. Propelled by COVID-19, the **health and social services** sector is also expected to expand by 13.1 percent as additional investment in the sector coupled with purchases of COVID-19 testing equipment and PPE are necessary to cope with the heightened demands for health screenings.

**Electricity & Water Supply** is expected to expand moderately for the year, rising by 0.8 percent as increased household consumption partially offsets the decline in commercial consumption. Similarly, **telecommunication** is expected to increase as virtual communication usage heightens amidst gathering restrictions. The rising need for broadband and telecommunication over the short term is expected to boost activity in the sector by 2.1 percent. Water consumption is also likely to rise, albeit marginally by 0.5 percent due to higher household activity and the frequent washing of hands as a preventative measure for COVID-19.

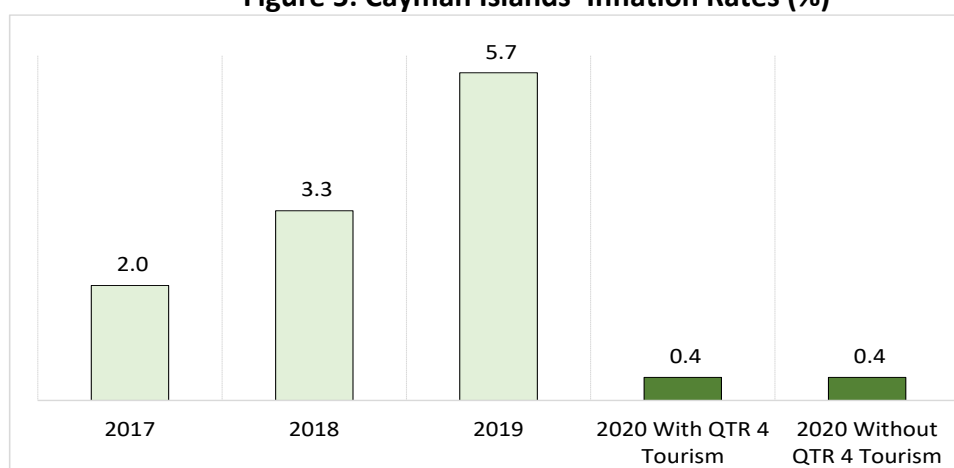
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<sup>9</sup> This sector is composed mainly of legal services, accounting and auditing services, business management and consultancy firms, corporate managers and corporate service providers, engineering services, architectural quantity surveying and mapping services, construction-related project management, etc.



**INFLATION RATE:** A gradual reduction in global demand coupled with declines in international commodity prices, is expected to relieve supply-side inflationary pressures for the year. The favourable commodity price environment internationally should also be supported by stymied local demand as unemployment rises and the population shrinks. While prices are expected to remain strong in the first quarter with food and medical-related inflation even persisting into the second quarter, the impact of subdued demand is expected to add downward pressure on durable and non-durable prices in the last two quarters. Further, with crude oil prices plummeting to levels not seen in the previous decade, electricity and transport costs are expected to follow suit beginning in the second quarter. Accordingly, the average inflation rate is forecast at 0.4 percent for the year.

**Figure 5: Cayman Islands' Inflation Rates (%)**

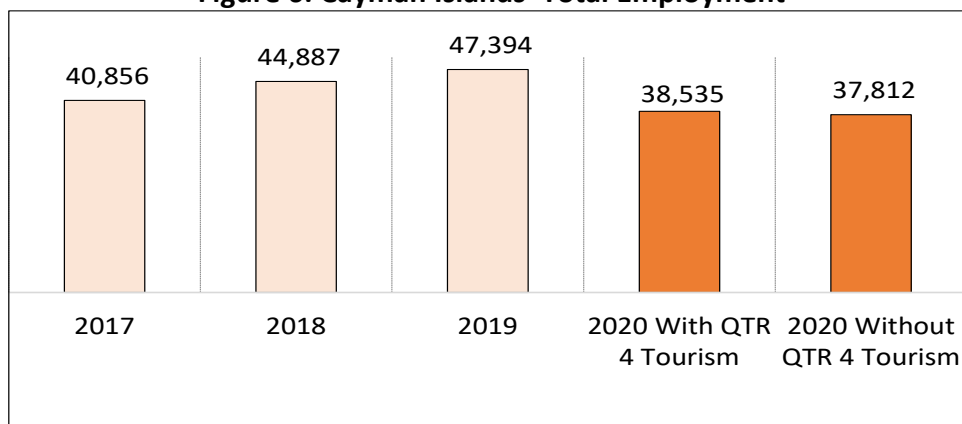


Note: CPI inflation rates for 2017 to 2019 are actual estimates, while 2020 is a forecast

Source: Economics and Statistics Office

**EMPLOYMENT AND LABOUR FORCE:** The demand for labour is expected to track the forecast contraction in real GDP. As mentioned above, considerable reductions in employment are expected in hotels and restaurants, transport, construction, and “other” sector. Notably, this assessment makes no provision for furloughed or paid employees during the period when an organisation is not producing or is being paid for less output than they would typically produce. The estimate assumes that firms will follow the employee-to-output ratio used in the previous year. Given the contractions in GDP noted above, the total labour demand for 2020 is projected at between 37,812 and 38,535, reflecting between 18.7 percent and 20.2 percent decline relative to the 47,394 demanded in 2019 (see Table 1 and Figure 6 below).

**Figure 6: Cayman Islands' Total Employment**

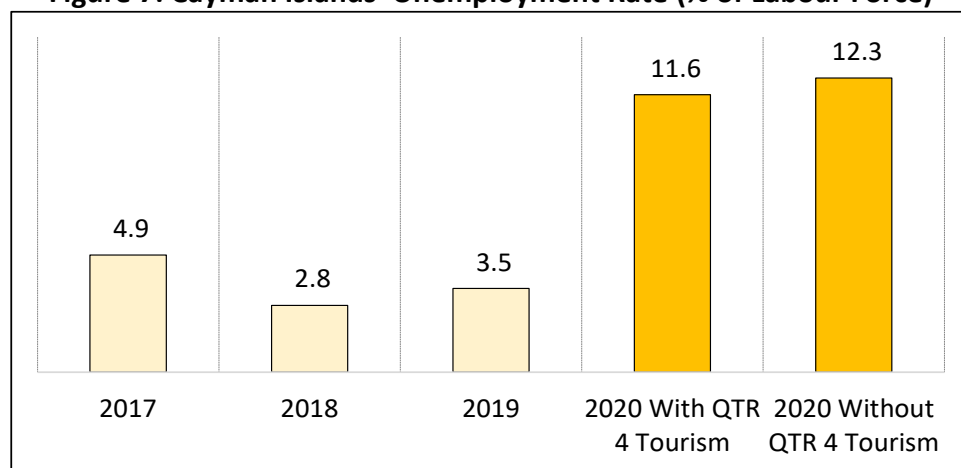


Note: Employment for 2017 to 2019 are actual estimates, while 2020 is a forecast

Source: Economics and Statistics Office

Under the Immigration Law, displaced expatriate workers exit the labour force and the Islands. The Non-Caymanian unemployment rate will virtually remain unchanged at 1.4 percent of the labour force for the year if they leave the labour force and the jurisdiction. Further, if we assume that there is no net change in the Caymanian labour force and that displaced Caymanians immediately enter the job market, then Caymanian unemployment is anticipated to rise to range between 18.7 and 19.7 percent for 2020. The overall unemployment rate ranges between 11.6 percent and 12.3 percent of the labour force (see Table 1 and Figure 7 below).

**Figure 7: Cayman Islands' Unemployment Rate (% of Labour Force)**



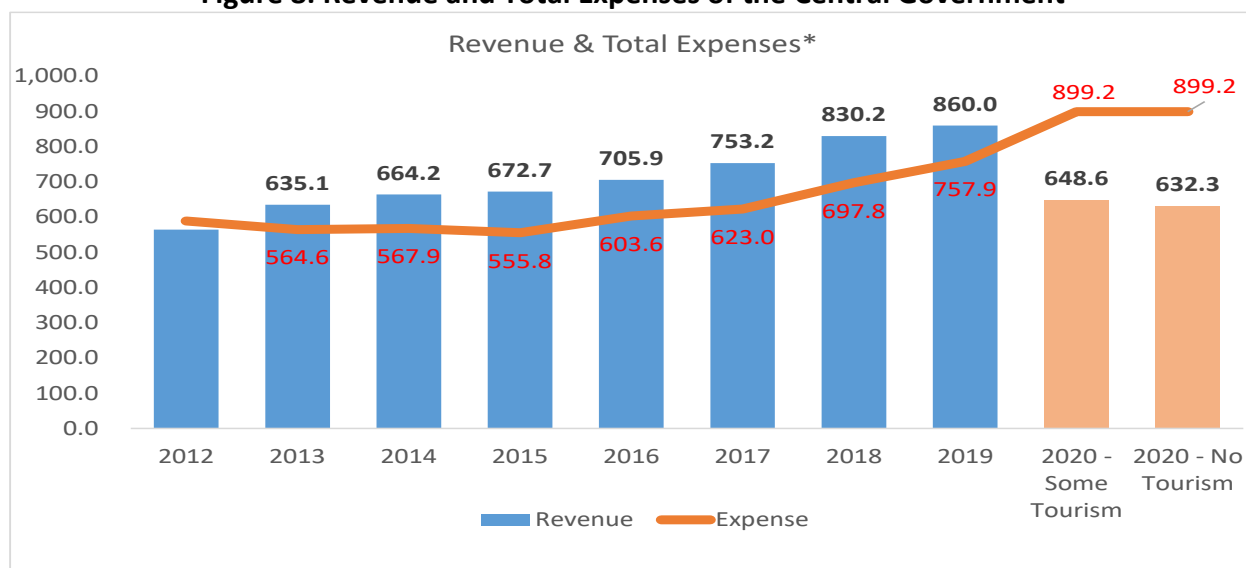
Note: The rates for 2017 to 2019 are actual estimates; while 2020 is a forecast

Source: Economics and Statistics Office

**FISCAL BALANCE:** Central government operations are expected to facilitate economic growth and adjust to developments in the economy. An increase in expenditure is forecast due to the government's stimulus-response measures, while revenue is projected to fall between \$211.4 and \$227.7 million on account of diminished revenue capacity in most revenue sources. For 2020,

the fiscal balance (net lending) is projected to contract to a deficit ranged from \$250.6 to \$266.9 million if the 2020 budgetary equity injections and executive assets are maintained. Total revenue is expected to total between \$632.3 million and \$648.6 million, on account of contractions in both tax and non-tax revenues. Within tax revenue, tax on international transactions and tax on goods and services are anticipated to record the most significant declines.

**Figure 8: Revenue and Total Expenses of the Central Government**



\*Total Expenses include operating expenses and capital expenditure

Source: Treasury Department and Economics and Statistics Office

Tax on international transactions is expected to fall as demand for both fuel and non-fuel imports contract. Duties on other imports are projected to record the most significant decline as demand fades amidst reduced income levels and the population wanes. Reductions are also expected in duties on motor vehicle imports and cruise ship departure charges. The forecast fall in motor vehicle duties is consistent with the decline in income and population levels. At the same time, cruise ship departure charges are expected to fall on account of the downturn in cruise visitors.

Tax on goods and services is forecast to contract, primarily reflecting declines in other domestic taxes and financial services licences. Other domestic taxes are projected to decline precipitated by lower tourist accommodation charges as revenue from that sector dissipates.

On the expenditure side, government spending is projected to rise by \$141.3 million due mainly to increases in both capital expenditure (Net Investment in Non-Financial Assets) and expenses. Net investment in financial assets is expected to increase by \$121.3 million, due to a budgeted rise in capital investment in ministries. The increase in expenses is primarily from the compensation of employees and social benefits. Compensation of employees is expected to increase for the year. This increase is in line with the 5.0 percent salary increase issued in the first quarter of the year, coupled with an expected increase in the number of public servants to help

combat the spread of Covid-19. Additionally, social benefits are projected to increase by \$3.0 million as the government strives to reinforce the social safety nets.

Due to the subjective nature of expenditure, particularly in the context of current uncertainties, the expenditure projection only includes actual, announced, and budgeted expenses. Consequently, there is some upside risk as the government contemplates current and capital expenditure measures to combat the spread of the virus and preserve economic stability.

## 7 VISITOR ARRIVALS SCENARIO AND RISK ANALYSIS

### VISITOR ARRIVALS SCENARIOS

The current economic forecast for these Islands generally assumes that the economy begins to gradually re-open following the shelter-in-place order. Additionally, the model assumes that the tourism sector will begin a gradual re-opening in the last quarter of the current year. This assumption of resumption of visitor arrivals in the last quarter of 2020 could potentially be viewed as a partly optimistic scenario. This section will explore the consequences of relaxing that assumption.

Table 4: Summary Scenarios Indicators

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

Source: Economics and Statistics Office

**Gradual return of visitors in the fourth quarter:** As indicated above assuming the government begins to re-open the economy gradually in line with announced expectations, the Islands' borders are expected to be open to visitors in the fourth quarter of the year. If this timeline materialises, the economy is expected to contract by 11.4 percent. The associated job displacement is projected to be 8,859, (11.6% unemployment) of which Caymanians would account for 2,772.

**No visitor arrivals for the remainder of the year:** If we relax the assumption that the tourism sector will trickle back on stream in the last quarter of the year and assume no further tourism

activity for 2020. The economy will then contract by 12.2 percent for the year. This assumes that the existing shelter-in-place order is gradually relaxed, climaxing in the beginning of July. With this contraction, it is estimated that the GDP will contract by 12.2 percent with 9,582 jobs displaced (12.3% unemployment), of which Caymanians would account for 2,981.

Without further visitor arrivals for 2020, the government's fiscal balance (net lending) for 2020 is projected to contract to a deficit of \$266.9 million<sup>10</sup>, relative to the \$250.6 million projected under the assumption of visitor arrivals in last quarter of 2020. This reflects a further deterioration in revenue sources directly and indirectly associated with tourism. Mainly, revenue from tourism accommodation charges would fall to \$8.5 million relative to the \$10 million in the baseline assumption. In comparison, combined revenue from cruise ship departure charges and environmental protection fund fees declines to \$5.1 million relative to \$6.8 million in the fourth quarter with no visitor arrivals.

### MEDIUM-TERM OUTLOOK

The economy is expected to expand over the medium term as business activity increases above the low levels currently allowed amidst restrictions and no tourist demand. Specifically, growth in 2021 and 2022 is projected at 5.9 percent and 4.5 percent respectively. Based on current forecasts, economic activity in these Islands is not expected to return to 2019 levels until after 2023. Economic growth over the period is expected to be driven by robust activity in the construction sector, supported by a gradual recovery in the tourism-related sectors.

**Table 5: Medium Term Economic Forecasts**

	2018	2019	2020		2021	2022
	Actual	Estimated	Some QTR 4	No QTR 4	Forecast	
			Tourism	Tourism		
			Projection			
Real Gross Domestic Product (GDP) (\$M)	4,348.6	4,484.8	3,975.6	3,943.3	4,210.6	4,402.0
Real Gross Domestic Product (GDP) %	4.1	3.1	-11.4	-12.2	5.9	4.5
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	37,812	42,271	45,181
Unemployment Rate %	2.8	3.5	11.6	12.3	9.6	7.2

Source: Economics and Statistics Office

Inflation is expected to remain low over the forecast horizon as demand slowly recovers to previous levels amidst stable supply capacity. Average inflation is forecast at 1.6 percent and 1.5 percent in 2021 and 2022, respectively. Employment is expected to track the expansions in economic activity, and this is expected to facilitate a decline in unemployment to 9.6 percent and 7.2 percent in 2021 and 2022, respectively.

<sup>10</sup> The fiscal deficit includes the 2020 budgeted equity injections/capital investment of \$147.6 million and executive asset of \$36.3 million.



## KEY RISKS

The developments surrounding the pandemic are marred by uncertainty, and naturally, with uncertainty comes risks. The greatest risk of all is the uncertainty surrounding the timeframe required to contain COVID-19 and return the economy to some state of normalcy; in fact, even this new state of normalcy is considered uncertain.

**Local Economic Risks:** With every day the economy is subdued business owners must ponder whether their businesses will survive. Therefore, there is an inherent risk that the sudden and sharp nature of the crisis could cripple the core of Cayman's small business structure. Further, the length of time required to contain the virus under the current restrictions could also impact the ability of core businesses to survive. If these institutions are compromised, the ability of the islands to remain resilient, post-COVID-19 will become even more difficult. Therefore, the government has committed to continue improving mechanisms for identifying, monitoring, and where possible, rescuing small businesses. While some elements of this have been done, more detailed micro-level assessments are continuing.

**Local Demand Risks:** The potential displacement of a large portion of expatriate workers is likely to have a medium-term impact on domestic demand. Depending on how other countries re-open, there is expected to be the continued departure of unemployed individuals from Cayman's shores. While this bodes well to the extent that it reduces the burden on the Islands' medical capacity and social infrastructure, it also has the potential to stifle domestic demand. The speed and volume of expats' departure will determine the extent to which the decline in local demand will permeate through the economy and further affect the bottom line of businesses. This further underscores the government's drive to monitor the pulse of the local economy, which will need to function independently over the short term.

**International Demand Risks:** The Cayman Islands is a premiere service destination for both tourism and financial services. While the tourism sector has taken the brunt of the fallout from COVID-19, the financial services sector has remained relatively unscathed. However, there remains a significant risk for the industry as it remains dependent on international demand. The recent uncertainty in global stock markets suggests that the direction of demand for financial services over the near to medium term requires close monitoring. The Ministry of Financial Services has always maintained a close relationship with the sector, and there are suggestions that there will be an increased dialogue with key industry players to detect and react to any potential changes in the industry. Further, with most countries struggling to recover post-crisis, jurisdictions that are opposed to the Cayman Islands' economic model are expected to increase lobbying against the jurisdiction.

**International Geopolitical Risks:** The economic inter-linkage with our major trading partners increases the uncertainty in our future growth prospects. This creates the risk that a slow recovery in advance economies could easily dwarf the Islands' progress. The World Trade Organization (WTO) in its most recent forecast indicates that world trade is expected to contract between 17 percent and 32 percent in 2020. The organisation concurs with the IMF that the

depth and length of the economic falloff from COVID-19 will depend on countries abilities to collaborate and implement sound policies that encourage international trade and growth. Though optimism abounds, the recent trend of internalist policies by some advanced economies presents a risk to global recovery, and by extension, the demand for Cayman's services.

## 8 STIMULATING THE ECONOMY WITH PUBLIC DEBT AND PUBLIC SAVINGS

The disruption associated with a sharp contraction in business activities can inhibit the structure and efficiency of the economy and limit its robust recovery. The government must, therefore, strive to reduce dislocation in the economy by assisting struggling industries and socio-economic groups. This policy of smoothing the impact of the crisis has been pursued by several developed countries through large stimulus policies, mostly financed by public borrowings. Further, the IMF<sup>11</sup> in recognition of this need by governments to access money for critical spending, approved US\$3.4 billion in emergency financial assistance. The fund is aimed at helping countries to navigate the severe impact of COVID-19 and the sharp fall in crude oil prices; unfortunately, the Cayman Islands is unable to access such funding.

**Public debt financing:** As noted earlier, the Cayman Islands public savings over the past seven years coupled with a consistent reduction in debt has placed the government in a favourable position to leverage its savings and possibly increase its debt to help sustain and possibly stimulate the economy post-re-opening. This is conditioned on the government's ability to successfully negotiate with the UK for any necessary relaxation of requirements under the Public Management and Finance Law (PMFL). This section explores a more comprehensive stimulus package geared at stimulating the entire economy. Despite showing that the government accumulated some savings over the years, the increased spending that was required during the shut-down, coupled with the projected decline in revenue, suggests that the savings could be exhausted quite quickly. This proposal considers the possibility of the government increasing public debt to finance broad-based stimulus measures. In funding government expenditure in the wake of the economic slump, the primary option available to the government is debt financing as using revenue-generating measures will perpetuate a continuous downward spiral in economic activity.

It is imperative that the government secures a line of credit in view of plummeting revenue intake coupled with the need to finance vulnerable residents and stabilise Caymanian owned small businesses. A line of credit of approximately 10 percent of GDP (CI\$500 million) could be used to support government expenditure for the next 18 months to 24 months. The additional loans will cause an increase in the debt-to-GDP ratio of 17.6 percent and the debt stock to approximately \$784.4 million. In addition to fiscal deficit financing, due to the falloff from tourism, small businesses in the five key economic sectors - hotels and restaurants, wholesale and retail,

<sup>11</sup> See IMF press release NO. 20/191, published on 28 April 2020.

transport, and arts entertainment and recreation - should be strategically targeted for low-cost financing and or grant financing.

## 9 MEASURES IMPLEMENTED BY THE GOVERNMENT

The government announced a series of direct measures to help mitigate economic hardship to the most vulnerable residents with a focus on Caymanian families. These measures include:

1. **COVID-19 support funding.** To further support the efforts of the health sector, the government announced that \$3.0 million was allocated from the government's disaster fund to finance any cost associated with COVID-19.
2. **Increase funding for vulnerable families.** Increased 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.** Amending 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 April to 30 September 2020 for employees and employers.
4. **Low-cost loan financing.** A loan fund valued at \$5.0 million was created and made available to all 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 the small and micro business. Micro-businesses are defined as a company that employs less than five (5) employees and have gross revenue of less than \$250,000. A small business is defined as those employing up to a maximum of twelve (12) employees and has a gross revenue of up to \$750,000. 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 provided to help Caymanian owned businesses to receive training to assist them in planning and navigating this economic downturn.

7. **Streamline the project approval process.** To generate construction activity effectively after re-opening, the application and paperwork approvals should possibly be completed before re-opening the economy, which will enable the projects to hit the ground running.
8. **Enhance the capacity of the Planning Department to monitor and expedite construction projects.** The construction sector creates the most demand across all other sectors and hence generates the most output in the overall economy. Therefore, it is imperative that the planning department human capital is beefed up to handle the increased demand for services.

## 10 ECONOMIC IMPACT OF STIMULUS MEASURES IMPLEMENTED

The measures implemented to date coupled with the plan to streamline the construction projects approval process and fast-track some government projects are expected to boost economic activity during the year (Section 9). Specifically, they are expected to boost GDP value added by approximately \$184.9 million (improve the GDP contraction from -11.4% to -7.3%), which translates to roughly 36.0 percent of the projected falloff in real GDP. This is expected to lead to an estimated 1,468 Jobs, of which 678 are likely to go to Caymanians. These estimates assume that approximately \$24.0 million of the expected pension drawdown will be spent in the Cayman Islands during the latter half of 2020. Anecdotal information indicates that there have been over 20,000 applications for pension withdrawals as at 15 May 2020. The estimates also assume that the entire grant fund provided to small business will be accessed. Increased payments through the Needs Assessment Unit (NAU), as well as the expected gains from improving the construction process, were also factored.

**Table 6: Medium Term Economic Forecasts**

	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

Source: Economics and Statistics Office

**Caymanian First Employment.** The government is conscious of the need to prioritize the employment of Caymanians in businesses as they respond to demand created from the measures implemented. As a result, there will be improved vigilance to ensure that Caymanians are considered first for opportunities that arise in the short term. The government will be targeting a higher proportion of Caymanians employed in the industries that are expected to benefit from the new stimulus measures. With this drive, businesses that usually employ five (5) Caymanians

to every ten (10) new Jobs will now be further encouraged to improve that ratio to six (6) Caymanians for every ten (10) new jobs. This is expected to increase the number of jobs created for Caymanians under the new stimulus measures by 104 to 821.

## 11 OTHER STIMULUS MEASURES FOR CONSIDERATION

The objective of stimulus policy is to boost aggregate demand to make up for the slump in private demand from both individuals and businesses due to the impact of COVID-19. The intention is to encourage business investment and customer spending by injecting money into the economy. The policy tools available to the Cayman Islands government are limited to increasing spending, transfer payments and reducing revenue intake. In other words, this injection can be through higher government spending and increased lending to businesses and customers. Transferring money into the hands of individuals and businesses can lead to fiscal deficit or reduction in surpluses. However, in stimulating economic activity, it is expected that the overall economy will expand, replacing short term deficits with long term economic growth. Besides, stimulus measures that are targeted smartly will have a multiplier effect across the entire economy.

Thus far, measures employed by the government have been relatively successful in arresting the rapid spread of the coronavirus pandemic. Some policy actions have also been initiated to protect the most vulnerable individuals and business. Notwithstanding, there is significantly more action required to maintain economic resilience and potentially return the Islands' to pre-COVID-19 GDP output levels. All indications are that the government remains resolute in the best practice approach to achieving success, with attention focused on providing socio-economic support to vulnerable and displaced individuals. Simultaneous attention must also be devoted to assisting small businesses through the crisis.

This section outlines some socio-economic policies and actions that can be used to achieve the desired outcome, (some of which are now implemented). The policy actions are classified into three groups according to the steps required: firstly, policies that are impactful in terms of sustaining the livelihood of affected individuals; secondly, policies that support small business survival and recovery post-crisis by making funding readily available, streamlining the approval process, and reducing business cost; and thirdly, policies aimed at stimulating growth in core business sectors during the recovery period.

Notably, the first two categories are aimed to be initiated and sustained throughout the lock-down period and even through the recovery phase. However, the third category is recommended for the recovery phase. In simple terms, the first will keep the economic engine running while the virus is contained, and the third tier of measures will accelerate economic growth after containment measures are lifted and the economy is recovering. In the context of limited resources, it is imperative to consider which policy actions in the various categories will deliver the most “bang for the buck.” While it is impossible to determine the exact effect a policy action



will have, economic multipliers can be a useful tool to estimate the impact that spending in an industry will have on the entire economy. Accordingly, Cayman's output multipliers will be used to justify and give some clarity on some of the measures recommended, depending on applicability.

Note that this is a general estimate based on past output in the industry and assumes the industry can absorb that much investment in at the same time. It is recommended that any such measure be gradual to allow the sector to grow in an efficient manner that uses as many Caymanian resources as possible.

### POLICIES TO SUSTAIN THE LIVELIHOOD OF AFFECTED INDIVIDUALS

- 1. Expand the capacity of the Needs Assessment Unit (NAU) to provide faster assistance to residents.** Higher requests for unemployment benefits and other services to displaced and vulnerable Caymanians, there is an urgent need to expand the capital and labour resources of the NAU; it will likely need to process several times its annual load of applicants until the economy returns to some form of normalcy. Due to the loss of income sources, financial support requests will require the NAU to get money in the hands of vulnerable Caymanians faster.
- 2. Increase employment programmes post-COVID-19.** Increase employment through a revised version of the National Community Enhancement (NiCE) project could be implemented utilising unemployed and displaced Caymanians. Create a committee to select and propose community projects. The committee from the different ministries and the community can recommend and evaluate projects that will create the most value.
- 3. Continue to repatriate Non-Caymanian tourism-related displaced workers.** Cayman Airways can be used to repatriate Non-Caymanian tourism-related workers back to their country of origin where possible, thereby reducing the medium-term to long-term health and social care costs.

### POLICIES THAT SUPPORT SMALL BUSINESS SURVIVAL

- 1. Increase the low-cost loan programme for small businesses.** The government can partner with small businesses in eligible sectors that were economically viable pre-COVID-19 to obtain low-cost loans through an approved agency with favourable loan terms. The government can also give a specified grant to economically viable Caymanian owned businesses that retain employees for at least 12 months Post-COVID-19. This would encourage employers, where possible, to retain their employees and reduce the financial demand on NAU resources.

2. **Improve Information Technology (IT) capacity in public and advocate for private school's IT upgrade to offer online services.** The intention is maintaining education standards and keeping teachers employed, especially in private schools. In addition, the policy caters to any future resurgence of COVID-19 or short to medium-term disruptions.

#### POLICIES AIMED AT STIMULATING GROWTH IN CORE BUSINESS SECTORS

1. **Expedite budgeted public sector capital investment programme focusing on construction projects.**
  - i. The approved 2020 – 2021 Core Government capital investment budget includes provision for \$154.6 million in 2020 and \$96.5 million in 2021 for significant projects such as phased development of the John Gray High School campus; new and enhanced road infrastructure; Long-Term mental health residential treatment facility; capping and remediation of George Town Landfill; implementation of the Integrated Solid Waste Management System; a new Prison Facility at Northward; and renovated Court facilities.
  - ii. Budgeted projects can be expedited where possible and alternative projects which have a shorter lead and execution timeframe considered given the state of readiness and secured financing.
2. **Tourism strategic plan to choreograph the resumption of visitor arrivals post COVID-19.** The Cayman Islands, a well-developed tourism destination, would need to plan post-COVID-19 visitor arrivals balanced with health concerns to maintain a stable economy. It is pertinent that such an exercise be undertaken as the tourism contribution to the local economy is significant enough not to be ignored.
3. **Establish a private-public partnership to provide the economic stimulus.** The government should incentivise and reward such contributions from private sector entities by offering soft loans, reduced fees, making it easier to rehire staff that were displaced, providing wage subsidies for companies employing interns and apprentices, etc.
4. **Bolster small businesses in key sectors by prioritising access to low-cost financing and other stimulus injections.** The falloff in tourism expenditure disproportionately affected the following key economic sectors: hotels and restaurants, wholesale and retail, transport, and arts entertainment and recreation. The small businesses in these sectors should be strategically targeted for low-cost financing and or grant financing, in addition to **assisting tourism-related businesses to diversify into other economic activities.**
5. **Continue with efforts to diversify the local economy.** The diversification programme intends to reduce the reliance on tourism and financial services. Investment in agriculture for domestic food security should be pursued as an instrument of diversification. Investment in agriculture can be in the form of: greenhouses purchase, widespread farm irrigation, improved animal husbandry, etc. **Boost local eggs production funding.** The CIG

could consider making funds readily available for domestic egg production. This programme would provide jobs for the unemployed and stimulate the local economy within the field of oogenesis.

#### Additional measures for consideration

Measures		Rationale/ Economic Impact	Investment/spending (CI\$)	
			2020	2021
1	Expand the capacity of the Needs Assessment Unit (NAU) to provide faster assistance to residents	Expand the capital and labour resources of the NAU to cope with the increased demand for services. At least five (5) additional employees with capital resources.	400,000	
2	Increase employment programmes post-COVID-19	National Community Enhancement (NiCE) project could be implemented utilising unemployed and displaced Caymanians.	5,000,000	3,000,000
3	Continue to repatriate Non-Caymanian tourism-related displaced workers.	<p>To reduce the medium-term to long-term health and social care costs. Reduce the physiological impact on displaced ex-pats.</p> <p>Increase subsidy to Cayman Airways to reduce the airfare costs of repatriating individuals. The airfare would be higher due to reduced aircraft capacity (no middle seats) and returning mostly empty.</p> <p>Individuals are less likely to afford to repatriate the longer the time without an income.</p>	3,000,000	
4	<p>Increase the low-cost loan-programme for small businesses.</p> <p>Current grant programme (\$9 m) should be targeted to the most affected economic sectors.</p>	<p>Bolster small businesses in key sectors by prioritizing access to low-cost financing and other stimulus injections.</p> <p><b>Tourism-related businesses low-cost loans</b></p> <ul style="list-style-type: none"> <li>• Accommodation services (40%)</li> <li>• Restaurants and bars (15%)</li> <li>• Art, entertainment, and recreation (15%)</li> <li>• Transportation services (10%)</li> <li>• Wholesale and retail (15%)</li> <li>• Other personal services (5%)</li> </ul>	50,000,000	
5	Improve Information Technology (IT) capacity in public and advocate for private schools IT- upgrade to offer online services.	<p>Maintaining education standards and keeping teachers employed, especially in private schools. In addition, the policy is geared to mitigate the impact of any future resurgence of COVID-19 or short to medium-term disruptions.</p> <p>Education investment can be in the form of free WIFI services throughout the Islands, and</p>	2,000,000	1,000,000



		subsidised computers purchase for less fortunate children.		
6	<p>Expedite budgeted public sector capital investment programme focusing on construction projects.</p> <p>Budgeted projects can be expedited where possible and alternative projects which have a shorter lead and execution timeframe considered given the state of readiness and secured financing.</p>	<p>Projects include: John Gray High School campus; new and enhanced road infrastructure; Long-Term mental health residential treatment facility; capping and remediation of George Town Landfill; implementation of the Integrated Solid Waste Management System; a new Prison Facility at Northward; and renovated Court facilities.</p> <p>2020 budget: \$154,600,000 2021 budget: \$96,500,000</p> <p>Due to construction industry capacity issues and possibly financial challenges, only the capital budget for 2020 is considered for implementation for 2020 and 2021.</p>	30,920,000	123,680,000
7	Continue with efforts to diversify the local economy	Economic diversification programme can be in the form of agriculture investment; assistance in greenhouses, widespread farm irrigation, improved animal husbandry, etc. Boost local eggs production funding.	3,000,000	2,000,000
8	Establish a private-public partnership (PPP) to provide the economic stimulus	<p>The CIG can incentivise contributions from private sector entities by offering soft loans, reduced fees, making it easier to hire displaced staff, providing wage subsidies for companies employing interns and apprentices, e.g. user fees reductions, etc.</p> <p>This PPP programme can be ramped up for specific projects in future years after a value for money analysis.</p>	1,000,000	500,000
9	Tourism resumption strategy	<p>The strategy is expected to present a plan for the resumption of tourism in earnest by the beginning of 2021. This plan is vital to the long-term survival of the Cayman Islands accommodation businesses and the current elevated construction industry (constructing accommodation facilities).</p> <p>Investment expenditure for COVID-19 screening equipment (temperature sensors and scanning apparatus, rapid testing of COVID-19, etc.) at the ports of entry for passengers in addition to short term isolation facilities.</p> <p>Accommodation space for Health Units at ports of entry to conduct the necessary COVID-19 health screenings.</p>	N/A	

## 12 POTENTIAL ECONOMIC IMPACT OF SUGGESTED STIMULUS MEASURES

The measures listed above (section 11) if pursued according to the prescribed schedule are expected to boost GDP value added by an additional \$85.6 million in 2020 and \$33.3 million in 2021. The additional value added estimated for both years translates to approximately 23.2 percent of the projected falloff in real GDP. This is expected to lead to an estimated 1,533 additional jobs in 2020 and 465 in 2021, of which 734 and 230 are expected to be for Caymanians in the respective years. This increased ratio assumes the government continues to pursue its drive to increase the ratio of Caymanians employed in the key service industries.

**Table 7: Medium Term Economic Forecasts**

	2018	2019	2020	2020	2021	2022
	Actual	Estimated	Without Stimulus	With suggested measures		
			Projection	Forecast		
Real Gross Domestic Product (GDP) (\$M)	4,348.6	4,484.8	3,975.6	4,246.1	4,478.2	4,677.9
Real Gross Domestic Product (GDP) %	4.1	3.1	-11.4	-5.4	5.5	4.5
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	41,532	44,522	47,506
Employed Caymanians	20,751	20,068	17,296	21,233	22,678	24,056

Source: Economics and Statistics Office

## 13 APPENDIX 1

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### 13.1 CAYMAN ISLANDS ECONOMIC STIMULUS PLAN – SUGGESTED MEASURES ALREADY IMPLEMENTED IN FULL OR IN PART.

1. **One-time payment of \$600 to displaced tourism and tourism-related workers.** Tourism workers were the first to feel the impact of the closure, are the most vulnerable, and will more than likely feel the financial pain of the crisis the longest. Provide Caymanian tourism workers immediately affected by the closure of the borders a one-time stipend of \$600. This measure has been enacted and currently being paid to applicants. The assessment process can be fast-tracked and the financial assistance for Caymanian tourism workers through the Needs Assessment Unit.
2. **Mandate the Red Cross to make facial masks.** The government could consider entering into an MOU with the Red Cross to manage the making of masks at a national level for every single person in the population to be distributed for free (to decrease the ability of people to spread respiratory droplets while in public). This effort could potentially reduce the risk of the spread of COVID-19 and thus lower the costs of the medical services that will be needed.
  - a. As a part of the MOU, the government could agree upon:
    - i. The standard of the mask;
    - ii. Price per mask produced that the Red Cross would pay each mask maker; and
    - iii. Stipulate that priority is given to utilising persons from specific industries that have been profoundly affected (i.e. persons from the craft market who now have no tourists to sell their products to, others unemployed in tourism, etc.).
3. **Grant \$3,000 monthly to small, vulnerable tourism-related businesses.** Small tourism-related businesses, deemed vulnerable, to be granted \$3,000 monthly for six (6) months.
4. **Partner with commercial banks, credit unions to provide soft loans.** In partnership with Cayman Islands Civil Service Association Cooperative Credit Union and local commercial banks, offer soft loans:
  - a. Between \$15,000 and \$75,000, to be provided to small tourism-related businesses that meet specific criteria for assistance.
  - b. Principal repayment can be deferred for six (6) months—the loan repayment period for up to 15 years.



5. **Provide financial assistance to displaced ex-pats.** CIG should consider **encouraging and providing support when necessary for, expatriates, particularly those who have lost jobs, to get to their home countries** if that is what they want or need to do.
6. **Waive Trade and Business License (TBL) fees for three (3) months** for businesses operating in the eligible sectors. Businesses would still be required to submit applications for TBLs and renewals of TBLs, with the understanding that the fee would be waived for three months and resumed July 2020.
7. **Fast track assessment of NAU.** Speed up the financial need of potential recipients to ensure a smooth and efficient transfer of money into the hands of vulnerable persons.
8. **Use hotel building for excess hospital capacity.** Hotels can be transformed into medical care spaces to absorb the escalating demand for hospital treatments. This is taking place currently as hotels are used to isolate and quarantine returning Caymanians and Residents.
9. **Invite UK Military to train Local Cadet Corps.** UK Military could be invited to work with Cayman Islands Cadet Corps and plan their own (financially supported) Adventurous Training opportunities (e.g. diving or sailing activities) in Cayman for their staff. They will bring finances to the economy while engaging in training opportunities with Cayman youths (as above) – potentially aiming to recruit Caymanians into UK military careers or preparing them for CI policing careers.
10. **Financial assistance for Caymanians.** Financial support or food aid for Caymanians who are unable to find work due to the economic slowdown and availability of jobs and/or skills gaps.
11. **Pension withdrawal and holiday.** Amend 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 April to 30 September 2020 for employees and employers.

## 14 APPENDIX 2

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### 14.1 CAYMAN ISLANDS ECONOMIC STIMULUS PLAN – STIMULUS MEASURES SUGGESTED BY CIVIL SERVANTS, BUSINESS COMMUNITY AND CIVIL SOCIETY

1. **Put money in the hands of individuals.** Increased employment through a revised version of the National Community Enhancement (NiCE) project could be implemented utilising unemployed and displaced Caymanians. NiCE beautification programme (tied in with the George Town Revitalisation Project) could be established so that when Cayman re-opens for outside tourism, our product is even more enhanced. Part of this beautification could include the planting of trees, flowers, etc. in various locations across the Islands.
2. **Capital injection to allow farmers and fisher folks to increase production.** This could be in the form of grants or low-interest loans. This should not be considered a bail-out, but an investment in the Islands' food security. Encourage local grocery stores and restaurants to buy from the locally registered fisher folks.
3. **Employ Caymanians at Coast Guard and DOE.** Cayman Islands Coast Guard (CICG) and Department of Environment (DOE) can employ several young Caymanians who meet the required standards and who may have been laid off from one of the watersport or tourism-related companies. The number of persons which can be employed will be impacted by CIG personnel budget allocation for new hires.
4. **Boost local eggs production funding.** CIG could consider making funds readily available for domestic egg production. This would provide jobs for the unemployed and stimulate the local economy within the field of oogenesis.
5. **Fast track government capital expenditure programmes such as those on construction projects.**
  - a. There are several CI Coast Guard base construction/improvement projects that could be undertaken within the next 18 months that could provide opportunities to companies that can prove that they employ between 80-100 percent Caymanian in each of the various construction disciplines.
  - b. Build new roads (e.g. Extend East-West Arterial) and sidewalks as too many persons are at risk walking on the side of the road. Able-bodied and likeminded tourism workers can be used in sidewalk construction to transition to the construction industry.
6. **Construction of hanger helipad project.** The development of this project would provide opportunities for construction, which would include the land, base of the hangar and two helipads, plumbing and electricians, and associated supply industry. The lifespan of the

helicopters is at least 25 years, at a rental cost of KY\$120k yearly, that is a potential rental cost of KY\$3m.

7. **Capital projects to complete the West Bay police station.** There should be a more aggressive push for capital projects such as: completion of work at West Bay police station to afford a conducive work environment to improve job satisfaction and staff morale. This will ensure person-environmental fit, thereby improving organisational commitment.
  - a. Acquisition of necessary work resources and equipment.
  - b. Increase in the salary of staff to afford for greater organisational commitment and reduce the loss to other entities of staff who will not fill the role of frontline officers in times of national crisis.
8. **Suspend investment subsidy to CUC.** Rather than the government giving a subsidy to CUC to reduce the cost of producing electricity, CIG could engage with CUC to see if they can **reduce their profits temporarily.**
9. **Waive/ reduce the duty on fuel for six (6) months.** Waive or reduce the duty on fuel AND negotiate with CUC, Water Authority, Cayman Water & Chamber of Commerce to ensure the reductions are passed on to consumers. Duty waiver on fuel will have a local impact on transportation costs, cost of living and ultimately disposable incomes.
10. **Waive/ reduce garbage collection fees.** These fees can be waived for the remainder of 2020.
11. **Ownership for the economic stimulus should be shared between the government and the private sector.** It would be reasonable for the government to incentivise and reward such contributions from private sector entities by offering soft loans, reduced fees, making it easier to rehire staff that were sent home, providing wage subsidies for companies taking on interns and apprentices, etc. The public-private partnership can be both short to medium term and long term as follows:

#### **Short-medium term**

CIG could request formal commitments from private sector entities to actively/financially contribute to the solution, for example:

- a. To forego some shareholder profits and reinvest to keep employees employed and supported for the next 3-6 months (for example, some banks in the UK have done this).
- b. To offer customer rebates (e.g. CUC, on electricity bills).
- c. Where business is booming, e.g. supermarkets, CIG could request companies to hire additional staff, increase the pay of staff (e.g. cashiers and shelf stockers) and to offer employment to Caymanians displaced from their normal industries.

- d. Specifically, for supermarkets, CIG could request reductions in the costs of a basket of the essential food items (most of which are brought in duty-free already but are still subject to price mark-ups).
- e. As part of their package of support for small to medium businesses, CIG and/or CUC could consider rebates on electricity bills.

**Medium to Long term**

- a. CIG and the private sector could collaborate to plan a Holiday at Home campaign, to encourage Caymanians to support our tourism industry this year.
- b. CIG could hire and encourage private sector companies to offer temporary employment, or paid internships and apprenticeships for the many Caymanian university students at home for extended periods from university, especially where there are temporary skill shortages.
- c. Government and the private sector could identify priority industries and projects that can be safely conducted in the medium term, with appropriate social distancing, and prioritise support to get them up and running. For example, CIG could identify planned infrastructure projects that could be fast-tracked to keep the economy going by providing increased opportunities for those who may have work disrupted in other industries. These can be prioritised to focus on those to be undertaken by local suppliers and workers and which can meet social distancing requirements. CIG could incentivise the same in the private sector.
- d. Government and the private sector could establish a joint Pandemic Recovery Fund to support economic recovery efforts.
- e. To support existing government contractors impacted by event cancellations, CIG could identify areas to redeploy these contractors for other beneficial work that can be conducted safely so that they can earn a wage, e.g. maintenance activities.
- f. CIG/private sector could collaborate to identify and provide support for businesses having difficulty accessing supplies they need to continue operating, employing persons and to meet customers' needs.
- g. CIG could consider reducing business licensing fees for new applications or renewals and waive these as part of the normal licensing process (no requirement for special applications or reviews).

12. **Waive all or part of currently owed Tourism Accommodation Tax.** Perhaps a waiver of 50% of February 2020 tax and waiver of 100% of March 2020 tax due. For those properties who have mailed or submitted taxes for February 2020 or March 2020, the discounted amount will take the form of a credit for future tourism accommodation tax payments.
13. **Defer all Import Duty owed by tourism-related businesses** for three (3) to six (6) months.
14. **Reduce/waive work permit fees, and royalties for entities.** Offer a predetermined percentage reduction in licence fee for entities that can show 75% or more Caymanians employed in each of the roles each entity has within its total operations: E.g. bartenders, waiters, and chefs licences and permit fees for construction employees. This can be short-term (6 months) or resumption of normal activities. **Waive or reduce permit fees for construction employees.** This can be short-term (6 months) or resumption of normal activities.
15. **Waiver Stamp duty waivers property purchases.** Waive stamp duty in addition to mortgage payments being waived for twelve (12) months, with a revised maturity date, consider lowering interest rates on mortgages/loans. Consider stamp duty waivers on property purchases. Create or improve programmes to encourage civil servants to acquire low-interest rate loans and mortgages through CIDB and CICSA.
16. **Liens on water sports equipment.** Liens could be placed on the Nautical equipment (charter boats, wave runners) of some of the larger water sports operators against short term low-interest loans to enable them to survive what looks like at least 12 months before the tourist industry has any chance of recovery.
17. **Increase money transfer fees.** Increase government fees on money wire transfers leaving the Cayman Islands.
18. **Consider allowing employees (esp. WPHs) to tap pension funds** to modest limit (e.g. \$1,000 per month). Suspend/relax pension contribution requirements to enable businesses to conserve cash.
19. **Voluntary contribution to COVID-19 fund.** Civil service employees to be requested to voluntarily give through their salary a one-off donation. Private sector implements a similar COVID-19 tax of 3% on all employees earning over an agreed annual salary. Any person earning over an agreed amount to pay a one-off COVID-19 payment. The amount to increase incrementally against the previous year's earning of the employee.
20. **Revenue measure.**
  - a. COVID-19 **ALCOHOL** increased duties to be implemented.
  - b. COVID-19 **FUEL** increased duties to be implemented.

21. **Police Clearance Certificate fees reduction.** Reduction in the fee for the first Police Clearance Certificate transaction conducted by residents for three (3) months. **Remove local police clearance certificate requirements.** Where someone is already an established resident here, local Police Clearance Certificates should no longer be required as part of gaining new permission. The government can access the information it needs to. The people who need them are already here anyway. There is little point to them, and they appear to be an unnecessary element of processes. Dealing with these issues would seem an inappropriate use of police resources at this time.
22. **Charge a fee for RCIPS services at private events.** Charge a fee, or at a minimum, recoup the costs incurred whenever the RCIPS provides security services at private events.
23. **Pension holiday.** - Leave more money in disposable income for employees and reduce payroll expense burden on employers. Allow access to pension for small business owners to use to save their businesses, Pension holiday for six (6) months.
24. **Commercial rent three (3) months holiday.** Mandate commercial property owners to waive office or shop rents for three (3) months for small businesses then re-assess.
25. **Extend current WP expiry dates.** Extend current WP expiry dates since staff are stranded on the Islands until the situation settles down and it is safe to travel. Look at WP fee reduction once the storm has passed to ensure skilled staff are still attracted to the island. Extension of work permits for those that we had to send away for three (3) months so when this is over, we can get back to normal ASAP.
26. **One-time grant to businesses with low wages.**
- a. **One-time grant to businesses.** CIG could offer a **one-time grant** for businesses in the eligible sectors to assist with alleviating their cash flow issues, paying business liabilities, or undertaking business improvement projects.
  - b. **Wage support scheme to businesses.** In order to encourage employers, wherever possible, to retain their employees, even if it means the employees having to work less hours or take unpaid leave for a short period of time during this disruption, CIG could introduce a **wage support scheme** for businesses operating in the eligible sectors for an initial period of twelve (12) weeks.
    - i. **Pay KYD 990.00 per employee as wage support for twelve weeks.** The **wage support payment** could be based on minimum wage (KYD 6.00) for 7.5 hours per day for 22 days a month for full-time employees and prorated for part-time employees. This would equate to KYD 990.00 per employee.



- ii. This scheme would not require the business only to pay the employee \$990 per month (especially if they are currently working) but be **used to offset some of the wages they are owed**.
- iii. History of pension plan contributions can be used to confirm the number of staff employed during the **assessment process**.

**27. Increase the National Minimum Wage.** Minimum Wage Advisory Committee can meet to consider increasing the minimum wage by December 2020.

**28. Refund work permit fees (in whole or pro-rata) to businesses** for WPHs on condition that the WPH leaves the country. Full refunds would be better as:

- a. It's a greater incentive, and
- b. It's less complicated to calculate and process. Issue refunds immediately by ACH. Enforce end dates once advised.

**29. Allow businesses to cancel work permits and receive refunds.** When businesses are ready to rehire and expedite approval of work permits for persons who had their work permits revoked.

**30. Offer financial support to human resources companies that can assist small businesses** that are ramping up hiring for new drivers for deliveries. HR companies can help with HR logistics, so the small businesses are not burdened with it as they increase staff.

**31. Waive (or at minimum accept IOUs) for government fees** for most local businesses (discuss with Cayman Finance whether financial services firms need this or not).

**32. Negotiate rent reduction agreements.** Meet with large commercial landlords to encourage concessions/forbearance on rent. Assist in negotiating the reduction of commercial rental cost. Encourage and assist local entrepreneurs in creating new businesses with the cooperation of the banking sector. Initiate programmes with the owners of commercial spaces where leasing fees can be reduced for new local businesses.

## 15 APPENDIX 3

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### 15.1 CAYMAN ISLANDS ECONOMIC EMERGENCY RESPONSE – SUBMISSIONS FROM CIVIL SERVICE, BUSINESS COMMUNITY AND CIVIL SOCIETY ( A NUMBER IMPLEMENTED)

1. **Use Cayman Airways to repatriate Non-Caymanian tourism-related workers affected by the COVID-19.** Cayman Airways to be used to repatriate Non-Caymanians tourism-related workers back to their country of origin. To reduce medium to long term health care cost.
2. **Voluntary cooperation between the tourism and health sectors.** Businesses to make available excess hospitality capacity to support the medical system, through the delivery of meals to medical personnel, or older people, or by providing spaces for people needing quarantine. Public Transport operators can be used to transport groceries, dry goods, locally grown produce, pharmaceuticals, liquor, and meals to reduce human interaction in supermarkets, pharmacies, liquor stores, and restaurants. This is currently being done to an extent but could be expanded.
3. **Reallocate displaced tourism workers to other areas of the economy.** Before the elimination of local COVID-19 transmission, tourism workers to be used to make face masks to limit the spread of the virus locally. After confirmed elimination of local COVID-19 transmission of the virus, tourism workers to carry out similar roles in other sectors, i.e. housekeeping and maintenance. **Provide opportunities for displaced workers.** Develop a plan to provide displaced workers (tour operators, retail sector, etc.) with opportunities to assist in other essential services support (delivery of supplies to quarantined and self-quarantined individuals and families).
4. **Re-open the Farmers Market.** The government could work with the operators of the Farmers Market at the Grounds. Establish social distancing protocols for the facility and provide security via CBC, RCIP and/or Cadet Corp to ensure that agreed-upon protocols are maintained. The perimeter would be secured since it is an open market.
5. **Remove restrictions on fishing.** Once restrictions on fishing have been lifted, then consideration could also be given to allow the fishers to sell their fresh fish at the Farmers Market. They too could be monitored under the social distancing protocols.
6. **Permit the sale of fish at Royal Watler Terminal.** Permit locally registered fisher folks to sell their catch from designated areas at Royal Watler Terminal until cruise ships recommence operations.
7. **Increase the legal catch limits on conch and lobster.** Increase conch and lobster catch to 30 and 15 per day respectively. This would avoid persons running afoul of the Marine Conservation Law and assist them with selling to local restaurants.
8. **Cull invasive Lionfish.** To generate stimulus in the diving industry, a similar incentive to cull invasive Lionfish could be introduced. Still, they would need a review/relaxation of current restrictions on spearfishing regulations – within DoE guidelines. This should encourage more people back into diving operations, generating income into this industry

while allowing some individuals to create a small income from culling this invasive species and providing fish for the table.

9. **Allow hardware stores to deliver during the current shut-down.** CIG could consider allowing online services from hardware stores to enable home repairs to make the best use of time at home.
10. **Launch a buy-local campaign.** Encourage the community to shop local; offer lower import fees for licensed businesses which have proven local stock also – and ensure savings are transferred to consumers. Also, local retailers should consider providing additional discounts to entice consumers. Preference for procurement should be given to domestic production over imported goods for a period of at least one year. Commitments should be given to local farmers that all available supply that meets specified quality standards *will* be purchased *and* at fair rates.
11. **Use convicted offenders' labour in projects.** Convicted offenders could be given community rehabilitation projects to work thereby saving CIG money on spending in this area, e.g. road or beach cleaning, garbage disposal, graffiti cleaning etc. This must be taken in context with the crime. Victims' views to be taken into consideration of any such projects.
12. **Secure food supply agreements.** Failed businesses could impact our supply or existing agreements with suppliers and may lead us to procure from non-traditional vendors who may impose high costs due to the demands.
  - a. Alternatives may also be sought for items that we cannot readily procure. For example, in the case of hand-sanitiser, we had to rely on the use of alcohol sprays as an alternative. Another example, the government is now encouraging local manufacturing of same to have these products on hand.
13. **Fast track the establishment of "Uber Cayman".** The "Uber in Cayman" app known as Flex can be approved to encourage the employment of taxi drivers and allocation of limited travellers. *"Flex had initially hoped to use private drivers, but after discussions with the government, they agreed to modify the plan to involve only taxi drivers licensed through the Public Transport Board."* Perhaps the Public Transport Board can relook at this business model given the current and future climate of transport. Having the ability for a local app that operates like Uber to be available during this time would provide an instant opportunity for many Caymanians to be taxi drivers and pick up an income in a cashless system which would be a welcome opportunity.
14. **Allow for temporary lay-off without terminating employment at large tourism-related businesses.** For large tourism-related businesses, amend legislation to allow for the provision of a temporary lay-off option for a period of up to six months without terminating employment.

15. **Employee lay-off periods should be permitted for the Agriculture and Construction sectors.** Terminations create a significant financial strain and restarting a business would carry a considerable start-up expense.
16. **Assist tourism-related businesses to diversify.** Tourism-related businesses can be provided technical assistance to identify alternative export markets or supply chains, methodologies to diversify their businesses, and if need be principles of financial management.
17. **Hotels can cater to residents.** Hotels could work in a limited capacity catering to residents. This would allow the local community to go on staycations considering that it is unlikely they will be able to spend their holidays off the islands. Offer local discounts to residents who may want to do staycations and or enjoy water sports activities.
18. **CIG could collaborate with CITA to promote spending locally.** Once the shelter-in-place is lifted, CIG could work with CITA to **promote spending locally** to jolt the economy. Restaurants that depend primarily on tourists could offer discounts to encourage the local community to spend locally at restaurants.
19. **Re-open the Post Office with stringent protocols.** CIG could perhaps consider re-opening domestic mail services with more stringent protocols. Maybe gradually ease into the opening of full services by initially starting with no face to face services offered. Persons could drop mail in post boxes and collect them from their post boxes accessible outside (Assumptions: persons could access the purchasing of stamps through a machine and cleaning protocols would be established at the various locations). The downside to this, of course, is that this would be one more place that persons could travel to during the soft curfew.
20. **Encourage remote meetings through IT.** Investment in secured IT networks can be considered based on any protracted impact on travel or extended travel restrictions that would impede potential employees being physically present in the jurisdiction. Perhaps employment contracts can be agreed with employees in another jurisdiction, and work conducted across a secured platform with the requisite IT infrastructure in place.
21. **Secure the health insurance sector post-COVID-19.** The government should immediately consult with the health insurance sector and others as necessary to **ensure that the industry stays afloat**. Employers would still be required to maintain contributions to pension and health insurance.
22. **CIG encourage financing from local institutions.** CIG should encourage private financing (new/increased/renegotiated) through retail banks/credit unions/building societies

rather than directly providing or guaranteeing to finance. If a landlord is successful in obtaining a waiver, encourage them to pass these savings on to their tenant.

**23. Work with financing institutions and landlords.** Work with financial institutions for **mortgage waiver, renegotiation of loan agreements and lines of credit** for the benefit of small businesses and households. Work with commercial landlords to work with small businesses to temporarily reduce rent for the next 2 - 3 months.

**24. Establish residential and commercial boards.** There should be a freeze on rent increases for an initial period of six months if there is an established Residential and Commercial Rent Board.

- a. A rent-increase notice from a landlord will not have the effect of increasing a tenant's rent unless the rent increase has already taken effect.
- b. Tenancies will not be terminated during the lock-down period, unless the parties agree, or in limited circumstances, regardless of when the notice was provided. The protections against terminations will apply for an initial period of three months.
- c. Tenants will still be able to terminate their tenancy as standard if they wish.
- d. Tenants will have the ability to revoke termination notices that they have already given in case they need to stay in the tenancy during the lock-down period.
- e. At the end of both initial periods, the government will evaluate whether they need to be extended.
- f. The Cabinet should consider **limiting (ex. using a quota) or no longer allowing the issuance of work permits** for real estate agents and property management.
- g. To subsidize this issue, CIG could consider enacting legislation such as New Zealand regarding rental protection measures.
- h. Perhaps this could be done through amendments to the current law: Price Gouging Control (Emergency Circumstances) Law (2015 Revision). At a minimum, the Law currently does allow for the establishment of a Price Gouging Control Commission and appointed by Cabinet.

**25. The amalgamation of all property leases.** Financial support by CIG for extended and/or new lease contracts and capital projects as required.

- a. West Bay Police Station to get back on track as soon as possible post-COVID-19.
- b. George Town Amalgamation of Leases project (7 down to 3 locations for optional service delivery) to get back on track as more quickly as possible post-COVID-19.

**26. Reduce bureaucracy for closing small business.** CIG in collaboration with the Chamber of Commerce and other key stakeholders could **develop a programme to rapidly and easily shut down or put local businesses (particularly micro-businesses or ones where there are no employees) into abeyance**, and in a way that minimises cost to the owner.

27. **Priority granting of work permits to government contract employees.** A policy which would allow spouses/partners of RCIPS officers and staff (and other essential CIG staffers) to be granted work permits similar to the immigration procedure for Spouses of Caymanians which would substantially increase the morale of the affected Officers. It may also assist in the retention of Officers in the event of any last resort salary cuts. Many of the serving expatriate Officers must maintain homes in their native countries: in the event of a substantial pay cut, remaining in the Cayman Islands may become unfeasible.
- a. Benefits – a dedicated operating area that the Unit is in control of, privacy and security, resilience. Financial saving in the longer term on rent while providing stimulus injection now.
28. **Staff Recruitment.** Recruit persons as Auxiliary Technical Flight Officers to undergo training as technical specialists (camera, pilot's assistant, Medevac, etc.). Over 12 months, they would be transitioned into full Tactical Flight Officers (police tactical command on the helicopter) and suggestion is that they attain Police Constable rank through appropriate training after the 12 months. They would also be trained in the operation of the RCIPS Drones to increase the capability to the front-line response. The selection process would have to be as the requirements for the current Tactical Flight Officers, focused on fitness to fly, swimming, spatial awareness and technical ability.
- a. Employment opportunity for Caymanians (impact of airfield reduced operations, especially around General Aviation). Providing employment opportunities to persons selected for their commitment and trustworthiness will be of great assistance to the general running of the unit.
  - b. General logistics, equipment audit and checking, hangar good order, engineers' assistant when required (labour - not training).
  - c. Increase in budgetary allotment to afford more robust recruitment and training of new employees to mitigate the shortfall in resources in the community and the loss to turnover. This will lessen the workload, reduce organisational stress and minimise turnover intentions.
29. **Increase social workers family visits.** Concerted efforts and employment of short-term contract social workers to make personal visits/arrangement to re-engage with families coming to attention during COVID-19 restrictions where no such visit was possible.
30. **Outsource NAU means-testing.** Outsource means-testing to the Cayman Islands Institute of Professional Accounting by publishing means testing procedures developed by the Needs Assessment Unit.



31. **Amend Labour Law.** Waive prohibition in Labour Law against rehiring in the same position within 12 months. Allow portability of positions and workplaces.
32. **Furlough staff.** Allow firms to furlough staff (reduce hours/pay) where necessary.
33. **Offer financial support to human resources companies that can assist small businesses** that are ramping up hiring for new drivers for deliveries. HR companies can help with HR logistics, so the small businesses are not burdened with it as they increase staff.
34. **Operate with a skeleton staff.** Encourage companies to maintain skeleton staffing (as opposed to total shutdown) to allow essential functions/services to continue.
35. **Cease medical requirements for WP renewal and PR.** Work permit renewal medicals and medicals expected in connection with PR applications by persons already resident here should cease immediately. They are a likely waste of much needed and soon to be overloaded resources, and a potentially dangerous transmission vector.
36. **Cease advertising for WP renewal requirements.** An “Emergency Period” can be declared with the direction that no advertising for renewals of permits in the next few weeks (say until the end of April) is required for tourism-related businesses whose affected staff may be on temporary lay-off.