

CREDIT OPINION

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Update



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Government of Cayman Islands – Aa3 stable

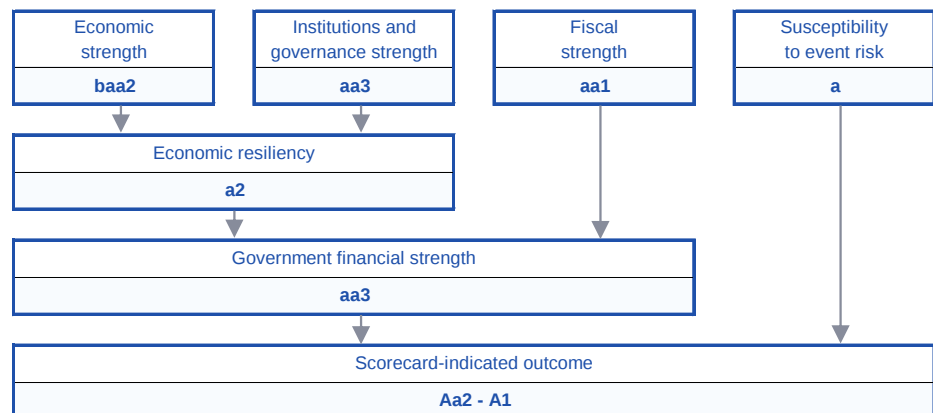
Regular update

Summary

The credit profile of the [Cayman Islands](#) balances its very high GDP per capita, robust institutional framework and comparatively low debt burden against a small economy that is concentrated in financial services and tourism. The economy had a modest recovery of 1.8% in 2021, with the tourism industry subdued during the year because of domestic travel restrictions. A relaxation of tourism restrictions and normalization of economic activity will support economic growth in 2022-23.

Exhibit 1

Cayman Islands' credit profile is determined by four factors



Source: Moody's Investors Service

Credit strengths

- » Very high per capita income
- » Comparatively low debt burden
- » Consistent macroeconomic management

Credit challenges

- » Undiversified economy that is highly dependent on tourism and financial services
- » Limited fiscal flexibility because of a narrow revenue base
- » Vulnerability to external shocks and weather-related events

Rating outlook

The stable outlook indicates that the Cayman Islands' rating is unlikely to change. The outlook balances the very high levels of economic development and strong debt metrics against credit challenges from its small and narrow economic base.

Factors that could lead to an upgrade

We would consider changing the outlook to positive if developments significantly alleviate the constraints the Cayman Islands' small and undiversified economy poses to the sovereign credit profile. High economic growth, which would push per capita GDP above that of its peers, could lead to a rating upgrade. The buildup of significant fiscal buffers to address any sudden economic shocks, and a policy framework that ensures debt levels remain very low, could also result in a positive rating action.

Factors that could lead to a downgrade

A negative outlook could result if the debt burden rises because of policy reasons or external shocks, or both. Changes to institutional arrangements that ease restrictions on excessive debt could lead to a rating downgrade. Sanctions on the financial sector that are severe enough to structurally weaken the country's growth prospects or storm-related damages to the country's infrastructure beyond historical levels could also lead to a downgrade.

Key indicators

Exhibit 2

Cayman Islands	2016	2017	2018	2019	2020	2021E	2022F	2023F
Real GDP (% change)	3.1	3.0	3.4	3.9	-5.7	1.8	3.9	3.1
Inflation (CPI, % change, Dec/Dec)	0.4	2.4	1.8	8.3	-0.6	7.6	10.0	4.0
Gen. gov. financial balance/GDP (%)	2.5	3.0	2.9	2.1	-2.1	-2.3	-0.5	-0.5
Gen. gov. primary balance/GDP (%)	3.2	3.6	3.4	2.5	-1.8	-2.1	-0.2	-0.2
Gen. gov. debt/GDP (%)	11.8	10.4	9.1	5.7	5.3	4.4	9.7	8.4
Gen. gov. debt/revenues (%)	68.6	59.6	50.4	33.1	31.2	23.2	59.8	53.3
Gen. gov. interest payment/revenues (%)	3.8	3.4	2.9	2.6	1.7	1.2	2.1	1.5
Current account balance/GDP (%) [1]	-16.9	-16.9	-16.8	-10.9	-13.7	-25.1	-21.3	-19.5
External debt/CA receipts (%) [2][3]	9.6	6.3	3.2	0.0	0.0	0.0	0.0	--
External vulnerability indicator (EVI) [4][5]	24.5	28.5	205.4	--	--	--	--	--

[1] Series break in 2012; Prior years calculated from merchandise exports and imports, tourism receipts, and interest payments only.

[2] Current account receipts.

[3] Central government.

[4] (Short-term external debt + currently maturing long-term external debt + total nonresident deposits over one year)/official foreign-exchange reserves.

[5] Central government; excludes total nonresident deposits over one year.

Source: Moody's Investors Service

Detailed credit considerations

Our "baa2" assessment of **economic strength** reflects a very high GDP per capita (purchasing power parity) of \$72,481, among the highest for the sovereigns we rate and significantly higher than the \$59,692 median for Aa-rated countries. The Cayman Islands' economic strength is counterbalanced by the scale of the economy, which is the smallest among the sovereigns we rate. We make a positive one-notch adjustment from the initial score of "baa3" to account for our expectation that real GDP growth volatility will return to pre-coronavirus pandemic levels.

Before the pandemic, the Cayman Islands' economic growth was strong relative to other Caribbean islands, averaging 3.3% between 2015 and 2019. Real GDP contracted by 5.7% in 2020 as a result of a significant slowdown in tourism caused by domestic public health measures and weak global demand for tourism. Nevertheless, the Cayman Islands' high economic development increases its resilience to economic and natural disaster shocks. The economy is concentrated in tourism and financial services, but large-scale projects have

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increased the economy's diversification over the past five years. As a result of continued domestic travel restrictions, the island saw a modest recovery in real GDP of 1.8% in 2021, but we expect growth to accelerate in 2022 to 3.9% as the country reopens to tourists.

The score for **institutions and governance strength** is set at "aa3" to reflect the institutional challenges stemming from the small size of the country. The Cayman Islands' Worldwide Governance Indicator scores are among the highest in the region and in the top 30th percentile of all sovereigns we rate, including highly developed countries. A long history of policy consensus and a consistent macroeconomic approach support its high economic development and declining debt burden. The [Government of United Kingdom](#) (Aa3 stable) provides further institutional support through fiscal oversight and judicial review.

The score for **fiscal strength** is set at "aa1", which is above the initial score of "aa3", to reflect the government's low debt burden and historical commitment to fiscal prudence. Although our scorecard penalizes large percentages of foreign-currency debt, the Cayman Islands' long history of a stable peg significantly reduces the risk of exchange-rate shocks. Prudent fiscal policies since 2013 reduced the debt burden to 4.4% of GDP in 2021, significantly lower than the peak debt burden of 17.6% of GDP in 2011.

The score for **susceptibility to event risk** is set at "a" because of the high risk of external shocks given the country's small, open economy and the potential effect from the banking sector because of its large scale.

The Cayman Islands has had a highly stable political environment in the past, and because the likelihood of a destabilizing event is very small because of strong institutions and the UK government's oversight, we set political risk at "aa."

Government liquidity risk, which is set at "a," is supported by low funding needs and ample access to capital markets.

Our score for banking sector risk is set at "aa" to account for the risks stemming from the large scale of the banking sector. However, because offshore banks in the Cayman Islands cannot directly lend in the local market, risks of external contagion are reduced. Alternatively, a more relevant economic risk is that the financial sector could shrink because of tighter regulations from the European Union (EU) or G-20/OECD initiatives involving offshore financial centers. In February 2020, the Cayman Islands was placed on the EU's list of noncooperative tax jurisdictions, bringing greater scrutiny to firms domiciled in the country. The country has since been removed from that list after quick legislative action.

We assess external vulnerability risk for the Cayman Islands at "a" to reflect the country's susceptibility to natural disasters and internal economic developments. Long-term economic risks related to loss of competitiveness for the islands' two key industries could hurt government finances and strain the country's external accounts.

Hurricanes are a recurrent threat given the islands' location, but the country's wealth provides a strong buffer against weather-related shocks. The islands quickly recovered after Hurricane Ivan hit in 2004 and inflicted damage equivalent to 200% of its GDP.

ESG considerations

Cayman Islands' ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

The Cayman Islands' ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting moderate exposure to environmental risks, neutral-to-low exposure to social risks, and a very strong governance profile that supports the sovereign's credit rating and its capacity to deal with sudden shocks.

Exhibit 4

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Its overall E issuer profile score is moderately negative (**E-3**), reflecting its location in the Caribbean, small size and significant reliance on tourism (about 30% of GDP), features that leave the islands vulnerable to the physical effects of climate-related shocks. In particular, the country is exposed to hurricanes that have the potential to cause flooding, loss of crops and life, and damages to infrastructure.

Social

We assess its S issuer profile score as neutral to low (**S-2**), reflecting low exposure to social risks across most categories. Cayman benefits from comparatively strong education results as well as a strong economy that supports low unemployment levels. Cayman is a wealthy economy and access to basic services and health provision compare well with other countries worldwide.

Governance

The Cayman Islands' very strong institutions and governance profile supports its positive G issuer profile score (**G-1**), reflecting the strength of domestic institutions and rule of law as well as the institutional support provided by its historical relationship with the UK.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

All of these considerations are further discussed in the "Detailed credit considerations" section above. Our approach to ESG is explained in our report on how the [scores depict varied and largely credit-negative impact of ESG factors](#) and our cross-sector methodology [General Principles for Assessing Environmental, Social and Governance Risks Methodology](#).

Recent developments

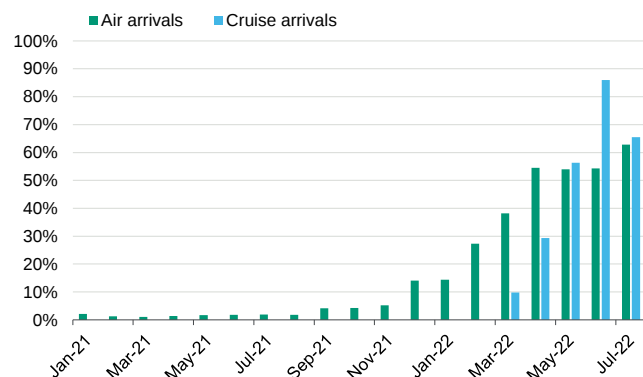
The tourism sector gained momentum over course of the year, indicating that the Cayman Islands' economic recovery is on track

Tourism arrivals reached 76% of their pre-pandemic level (2019) in June 2022, marking a landmark moment for the beleaguered tourism sector. The main driver of the upturn was cruise arrivals. Tight pandemic-related restrictions on cruise calls meant that the country saw zero cruise ships arrive between April 2020 and February 2022. Cruise arrivals resumed in March 2022 and quickly gained steam, rising from 10% of their pre-pandemic level in March to nearly 90% in June (see Exhibit 5). Cruise arrivals typically account for roughly 80% of tourism arrivals. Air arrivals, which were also highly restricted throughout the pandemic, have sustained similar momentum, rising from nearly 15% of pre-pandemic levels at the outset of 2021 to almost 65% as of July 2022.

We expect the tourism sector to continue to recover over the next 12-18 months. The remainder of the hurricane season (ending at the end of November) is likely to experience a slight dip in arrivals, but the outlook is positive. In August 2022, the government removed all pandemic-related restrictions on arrivals. This easing of restrictions is likely to help facilitate travel ahead of the high season for tourism (December to February). In addition, more than 90% of the population of the Cayman Islands is fully vaccinated (they have received at

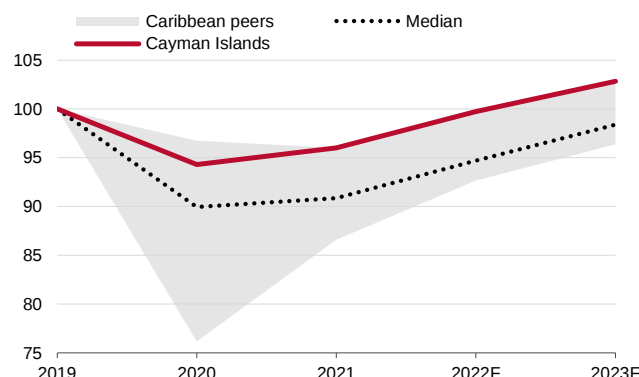
least two vaccine doses). As cruise ship arrivals continue to gain momentum, air arrivals will also benefit from the introduction of new routes. The tourism ministry expects new routes to increase the country's airlift capacity just above the 2019 level by year-end 2022.

Exhibit 5
Tourism arrivals are approaching their pre-pandemic levels ...
Monthly tourism arrivals vs. their 2019 level



Sources: National sources and Moody's Investors Service

Exhibit 6
... supporting the Cayman Islands' economic recovery
Real GDP index (2019=100)



Regional peers include The Bahamas, Barbados, Jamaica, St. Maarten, St. Vincent and the Grenadines, and Trinidad & Tobago.

Sources: National sources and Moody's Investors Service

Our economic growth outlook assumes that the upturn the tourism sector is experiencing will help drive an acceleration in real GDP growth in 2022-23. Real GDP growth was weak in 2021 because the tourism sector was essentially dormant. However, even in the face of slowing growth and rising borrowing costs in the US (the Cayman Islands' main tourism export market), the tourism sector is poised to continue to recover and support real GDP growth of 3.9% in 2022 and 3.1% in 2023. Notably, the tourism sector helped drive a 3.8% year-on-year growth in the real economy in Q1 2022, an improvement from the 0.4% growth recorded in Q1 2021 and 1.6% in the previous quarter. We project that the Cayman Islands' economy will be one of the first Caribbean economies to return to pre-pandemic levels (see Exhibit 6).

Solid fiscal performance in H1 2022

The fiscal accounts have been buoyed by the economy gaining momentum. In the first six months of 2022, the central government recorded a surplus of CI\$159 million (\$191 million), 10% higher than budgeted for and slightly bigger than the surplus recorded in the year-earlier period. The positive outturn is driven by greater-than-expected revenue, which reached CI\$636.6 million and exceeded last year's revenue by 10%. Revenue from financial services fees and real estate transactions helped lift overall revenue above the budgeted amount. Expenditure, however, was greater than budgeted for. This was partly because of overages in spending on a program that supports workers and firms in the tourism industry affected by the prolonged closure of the country's borders. Although these payments were overbudget, they were still smaller than the previous year; assuming a persistent recovery in the tourism industry, these payments are unlikely to expand to the point they strain the fiscal position of the government.

Increase in the debt burden driven by financial management considerations

The debt stock rose to CI\$534.7 million at the end of Q2 2022 from CI\$218 million at the end of Q1 2022 as the government withdrew the \$393 million balance from a \$403 million local credit facility. The government's decision came as the credit line, which would be available only until the end of June, allowed the authorities to borrow at a fixed interest rate of 3.25% for 15 years. Given the anticipated upward trajectory in domestic and international interest rates the government opted to access the credit line.

The debt burden virtually doubled as a result of the move. Funds will be used to finance capital spending for the next two years likely precluding the need to borrow during that period. Debt will rise from about 5% of GDP in 2021 to almost 10% by year-end 2022. In spite of this, Cayman's debt burden will remain low relative to peers. Furthermore, as the government is unlikely to take on additional debt, we expect the debt ratio to decrease starting in 2023.

Moody's rating methodology and scorecard factors: Cayman Islands - Aa3 stable

Factor / Sub-Factor	Metric	Indicator Year	Indicator	Initial Factor Score	Final Factor Score	Weights
Factor 1: Economic strength				baa3	baa2	50%
Growth dynamics	Average real GDP growth (%)	2017-2026F	2.0	ba1		25%
	Volatility in real GDP growth (%)	2012-2021	2.8	ba2		10%
Scale of the economy	Nominal GDP (\$ billion)	2021	6.1	caa3		30%
National income	GDP per capita (PPP, Int\$)	2021	72,481.0	aaa		35%
Adjustment to factor 1	# notches				1	max ±9
Factor 2: Institutions and governance strength				aa3	aa3	50%
Quality of institutions	Quality of legislative and executive institutions			aa		20%
	Strength of civil society and the judiciary			aa		20%
Policy effectiveness	Fiscal policy effectiveness			aa		30%
	Monetary and macroeconomic policy effectiveness			a		30%
Specified adjustment	Government default history and track record of arrears				0	max -3
Other adjustment to factor 2	# notches				0	max ±3
F1 x F2: Economic resiliency				a3	a2	
Factor 3: Fiscal strength				aa3	aa1	
Debt burden	General government debt/GDP (%)	2021	4.4	aaa		25%
	General government debt/revenue (%)	2021	23.2	aa1		25%
Debt affordability	General government interest payments/revenue (%)	2021	1.2	aaa		25%
	General government interest payments/GDP (%)	2021	0.2	aaa		25%
Specified adjustments	Total of specified adjustment (# notches)			-3	0	max ±6
	Debt trend	2017-2022F	-0.7	0	0	
	Foreign currency debt/general government debt	2021	100.0	-3	0	
	Other non-financial public sector debt/GDP	2021	0.0	0	0	
	Public sector assets/general government debt	2021	0.0	0	0	
Other adjustment to factor 3	# notches				-1	max ±3
F1 x F2 x F3: Government financial strength				a1	aa3	
Factor 4: Susceptibility to event risk				a	a	Min
Political risk	Domestic political risk and geopolitical risk			aa		
Government liquidity risk	Ease of access to funding			a	a	
Specified adjustment	High refinancing risk				0	max -2
Banking sector risk	Risk of banking sector credit event (BSCE)	Latest available	--	baa2	aa	
	Total domestic bank assets/GDP	2021	52.1	<80		
Adjustment to F4 BSR	# notches				0	max ±2
External vulnerability risk	External vulnerability risk			a	a	
Adjustment to F4 EVR	# notches				0	max ±2
Overall adjustment to F4	# notches				0	max -2
F1 x F2 x F3 x F4: Scorecard-indicated outcome				Aa3 - A2	Aa2 - A1	

Note: While information used to determine the grid mapping is mainly historical, our ratings incorporate expectations around future metrics and risk developments that may differ from the ones implied by the scorecard-indicated outcome. Thus, the rating process is deliberative and not mechanical, meaning that it depends on peer comparisons and should leave room for exceptional risk factors to be taken into account that may result in an assigned rating outside the scorecard-indicated outcome. For more information please see our Sovereign Ratings Methodology.

Footnotes: (1) **Initial factor score:** scorecard indicators combine with the automatic adjustments to produce an initial factor score for every rating factor, as detailed in Moody's Sovereign Ratings Methodology. (2) **Final factor score:** where additional analytical considerations exist, initial factor scores are augmented to produce a final factor score. Guidance on additional factors typically considered can be found in Moody's Sovereign Ratings Methodology; details on country-specific considerations are provided in Moody's research. (3) **Scorecard-indicated outcome:** Factor 1: Economic Strength, and Factor 2: Institutions and Governance Strength, combine with equal weight into a construct we designate as Economic Resiliency (ER). An aggregation function then combines ER and Factor 3: Fiscal Strength, following a non-linear pattern where Fiscal Strength has higher weight for countries with moderate ER and lower weight for countries with high or low ER. As a final step, Factor 4, a country's Susceptibility to Event Risk, is a constraint which can only lower the government financial strength as given by combining the first three factors. (4) **There are 20 ranking categories for quantitative sub-factors:** aaa, aa1, aa2, aa3, a1, a2, a3, baa1, baa2, baa3, ba1, ba2, ba3, b1, b2, b3, caa1, caa2, caa3, ca and 8 ranking categories for qualitative sub-factors: aaa, aa, a, baa, ba, b, caa, ca (5) **Indicator value:** if not explicitly stated otherwise, the indicator value corresponds to the latest data available.

Moody's related publications

» **Issuer In-Depth:** [Government of Cayman Islands – Aa3 stable: Annual credit analysis](#), 5 May 2022

» **Rating Methodology:** [Sovereign Ratings Methodology](#), 25 November 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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