



## Media Statement

### **Statement from Premier and Minister for Finance & Economic Development Hon. G. Wayne Panton, MP, JP On Interest Rates**

**Grand Cayman, 26 May 2022** - All of us in the Cayman Islands have been impacted by the rising cost of living in our Islands. Prices have increased across the board, with food, utilities, gas, accommodation, and other basic necessities of life becoming more and more expensive.

I recognise, as I think most people do, that in this period of global high inflation and rising cost of living, few of the drivers originate in Cayman.

As a market dependent on the importation of essential goods, including food and fuel, we are often at the mercy of soaring costs that we have no control over. This is but one of the unique challenges of being a non-manufacturing, service-based economy.

While there is very little we can do locally as a Government to control the cost of food, fuel and other consumables, there are some areas in which we could have influence and rely on local discretion.

One of these is the decision to increase local interest rates. Higher interest rates increase the price of borrowing and drive housing costs up by adding to property owners' mortgage payments every month, which affects both home owners and renters.

Interest rate hikes also impact small business owners, and their higher costs then get passed on to consumers – who have no real notice of these price increases and then are unable to prepare and adjust. And honestly, sometimes they just can't adjust because their budgets are too tight to have room for increases.

While local banks have historically immediately increased interest rates in tandem with rate hikes by the US Federal Reserve (the Fed), which sets the "prime" or "base" interest rate for borrowing, there is no reason why this must be the case.

Indeed, banks in our fellow British Overseas Territory of Bermuda do not automatically increase their prime rate in tandem with US Federal Reserve increases.



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With this in mind, I have met and corresponded with the Cayman Islands Bankers Association twice over the past year to ask that the local retail banks implement delays in rate increases and other measures to mitigate the impact on both homeowners and businesses.

In June of last year, I met the bankers and asked them to consider adding a longer notice period before increasing interest rates. The rationale behind this request was to give people more time to adapt, to plan and adjust their monthly budgets to better handle the higher cost implications.

At that time, the banks responded to the request justifying why they felt it was necessary to increase rates immediately. Only one bank was willing to agree, and they applied a delayed implementation period, but since the other banks did not follow suit, they discontinued it.

I have written to the Cayman Islands Bankers Association again this month with the same request, and the banks have once again collectively refused to consider this simple mitigation measure.

Given this refusal, I would like to publicly register both my disappointment in their position to date and also my expectation that they will engage in further dialogue with Government to determine how best to alleviate the impact of future rate increases.

I also honestly do hope they will reconsider their position regarding the proposed 60-day implementation delay on interest rate increases and also re-examine the policy of automatic local rate increases every time the Fed raises the US Prime Rate.

Although my efforts in this respect have not yet met with success, I would like to assure the Caymanian public that the campaign does not end here.

The banks are insisting that their residential mortgage portfolios are not “degrading”, however, my colleagues and I are continually hearing from constituents that their mortgage payments have increased to an unsustainable degree – in some cases up to \$1,000 or more per month. This is a huge increase that might negatively impact any family in these times.

We must guard against Caymanian homeowners potentially losing their homes due to the inability to meet increased interest charges.



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Additionally, my colleagues and I in Cabinet will be considering other measures to help Cayman's consumers get through this inflationary period. We already have some initiatives coming up that will help to some degree.

Through the Ministry of Sustainability & Climate Resiliency, the Government will be offering two programmes to help reduce energy costs. The first is a "do-it-yourself" energy audit programme, and the next is a programme whereby eligible Caymanians may apply to have their homes audited, and if they qualify, have their air conditioning systems retrofitted to decrease energy consumption. More details on these efforts will be shared soon.

The Government will also be funding, in partnership with Inspire Cayman training, free financial planning workshops for consumers to help them navigate this high inflationary period by adjusting and containing their costs where possible. These workshops will be offered across all districts of the Cayman Islands, free of charge to participants.

I have offered these workshops in my constituency of Newlands and the adjoining constituency of Savannah and have received rave reviews from participants who found that it helped them to manage their insurance costs, borrowing costs, and other necessary household expenditures.

In the absence of cooperation from the retail banks on providing implementation delays on interest rate increases, I would encourage all borrowers to investigate fixed rate mortgage options and to maintain open lines of communication with their lending institutions.

There is hope on the horizon, as most economists predict that the current trend of increasing interest rates is nearing its peak, and rates should start falling soon.

In the meanwhile, your Government recognises our responsibility to make every effort we can to mitigate the current cost of living crisis that is negatively impacting thousands of hard working, diligent Caymanians.

In the absence of the cooperation that we'd hoped for from the retail banks, we will endeavor to find other ways to effectively alleviate the stress that the rising cost of living is creating for Caymanian families.

**ENDS**