



**OFFICE OF THE
PREMIER**
CAYMAN ISLANDS GOVERNMENT

17 May, 2023

Mr. Richard Lewis
Chief Operating Officer
Cayman Islands Bankers' Association
P.O. Box 676
Grand Cayman KY1-1107
Cayman Islands

Via EMAIL

Re: Steps to Mitigate the Automatic and Immediate Interest Rate Hikes

Dear Mr. Lewis,

When I met with the local retail banks (the banks) last June, I asked the representatives of those banks to consider extending the notice period given to borrowers before implementing increases in a) the local lending interest rates charged on loans and mortgages, and b) other discretionary fees charged by banks.

You penned a reply on their behalf dated June 29th which stated that, at the time, the local banks felt it was 'unnecessary to implement the requested changes' because they had not seen any 'material deterioration in the quality' of their respective loan portfolios and concluded that a 'blanket approach was not warranted'.

In the 12 months since that meeting, the cost of living has risen sharply – food prices, fuel prices and electricity prices. The Cayman Islands is facing unusually high and sustained inflation, most of which is imported as the cost drivers are outside local control.

However, there is one cost driver where we can exert some local influence and directly help contain the rate of inflation. That is local borrowing interest rates.

Interest rates are driving up housing costs, and housing costs are one of the top three expenses for the majority of households. The cost of borrowing impacts housing costs, for homeowners with mortgages and for renters whose landlords have mortgages or loans on the rental property.

Similarly, where local businesses have commercial loans, the cost of higher interest rates will be passed on to the consumer in the form of higher prices. Taken together, higher interest rates can have a significant inflationary impact on the cost of living for Caymanians.

Interest rates are at a 16-year high and this is unsustainable for most borrowers. Local rates have increased TEN times in the past 14 months. Local banks choose to increase interest rates on mortgages and consumer loans in tandem with the US Federal interest rates, often with less than three business days' notice to consumers. By their very nature fixed deposits have interest rates that are fixed for the period of the deposit, and changes to the interest rate usually occur only at the time of maturation; therefore, deposit holders typically do not benefit from the immediate increases in interest rates for at least 30 days.

As a Government, we have a responsibility to make every effort to contain costs for the health of our economy and mitigate the escalating cost of living crisis that is hurting thousands of hard working, diligent Caymanians. Therefore, I am writing once again to ask the local banks to exercise discretion and to act in ways to help slow down the rate of inflation.

Specifically, I am asking the local banks to provide borrowers with a minimum of sixty days' notice before implementing increases in the lending interest rates and increases to other discretionary fees and charges.

Further, I am also formally requesting that the local banks reconsider the formula used to set the local CI prime rate with a view to using a rate lower than the New York Fed rate and lowering the margins used above the CI prime rate.

For illustration, the US Federal Rate is now 5.25% thus making the New York Prime Rate – and in effect the CI Prime Rate – 8.25%. Loans are then offered with an additional margin of approximately 1%-3% (effectively a rate of 9.25% to 11.25%) depending on the borrower's profile for majority of the borrowers.

These are unusual times and for the long-term prosperity of our shared Cayman Islands, I am asking the local banks to share in the responsibility to contain inflation and support a sustainable, shared prosperity across our islands.

I would be grateful if you could distribute this to your members immediately and ask for a response to be provided to me by close of business Monday, May 22nd.

Yours Sincerely



G. Wayne Panton, JP, MP

Premier and Minister of Finance & Economic Development