



State of the Islands

Review 1
April 2021

Aims & Objectives

The bi-monthly Critical Economics' Reviews aim to assess how a number of island jurisdictions are faring in the current COVID Pandemic and what steps each is taking during its recovery period. Already a year has passed since the first Lockdown was imposed and a whole range of public and private sector organisations are having to redefine strategy and make significant changes to existing plans. Therefore, it is hoped that the Review series will assist in the decision-making process and highlight how similar challenges are being addressed in other small communities.

Key topics covered over a twelve months' reporting cycle will be as follows:

- Government Finance
- Economy
- Population
- Employment
- Environment
- Energy
- Education & Training
- Information Technology
- Health & Wellbeing
- Third Sector
- Tourism & Hospitality, Retail
- External Air & Sea Transport

There is considerable synergy between many of these topics and, where relevant, this will be emphasised as appropriate. Primary government data will always be the source of information.

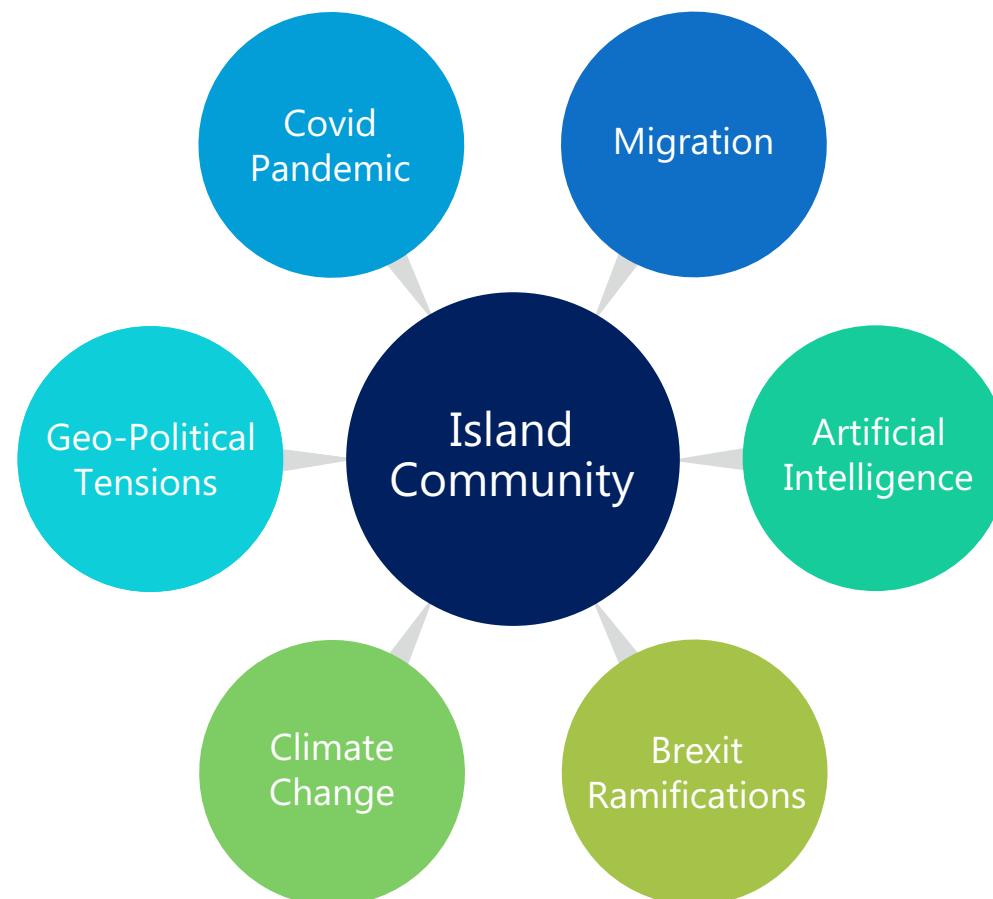
The islands featured initially in each Review are: **Bermuda, Cayman, Guernsey, Isle of Man, Jersey**. However, if best practice is identified in another island community, then this will be included.

In the current global environment, it is important to stress that there are many external/international factors which to a greater or lesser extent, are already impacting on islands and small communities both positively and negatively. Again, these factors are being monitored and will be recorded where they are influencing the strategic direction being taken by governments.



External Influencing Factors

External influencing factors are very real but are often not perceived important or relevant enough to be taken into account by island administrations. Factors identified as having the greatest impact on the island communities covered in this Review over the next decade are illustrated below.





Covid Pandemic

Quite clearly, the current COVID Pandemic will continue to have significant ramifications on island communities for a number of years to come. While small islands have more control over their entry ports and are able to test all arrivals, seamless air and sea connectivity is a vital component of a thriving island.

The challenge will be when the balance between the risk of opening up borders versus further isolated COVID related outbreaks has to be weighed up. What is unknown at this stage is how the vaccination rollout programme will gradually reduce the impact of the virus and how COVID variants will negate any positive gains achieved. As a consequence, island economies will be unable to recover as quickly as first thought in the summer of 2020.

Migration

Civil conflict, autocratic and religious persecution, terrorism, drought, and simply the seeking of a better life are all trigger factors for human migration. Given current trends, there is every likelihood that there will be an increase in migration patterns over the next ten years. Already islands which are located on the migratory routes are having to address large influxes of refugees and economic migrants (e.g. some Greek Islands).

It is hard to predict at this point in time what impact migration will have on islands generally and on the islands that are the focus of these Reviews. However, there could be some implications, albeit marginal at this stage, on the processing and regional distribution of refugees in the future.

Geo-Political Tensions

The tensions currently existing between major nations of the world are projected to increase rather than diminish over the next decade. The balance or imbalance of trade will be a factor as will the growth of authoritarian rather than democratic politics. Disputed political elections seem to be on the increase worldwide and will inevitably fuel more unrest generally, undermine the democratic process, and create greater divisions between the 'left' and 'right'.

These scenarios could well disrupt how business is carried out and where it is located. The finance sector is sensitive to instability and this could have ramifications on the economies of the five islands featured in the Review, all of which are very dependent on the future success of this sector.



Artifical Intelligence

The exponential development of artificial intelligence (AI) and information technology (IT) has both positive and negative implications on island economies and social infrastructure. Islands with an ageing population should benefit as the productivity of their working population would hopefully increase and enable those reaching retirement age to be economically active later in life.

This would reduce net migration pressures and help the jurisdiction to remain competitive in the world. However, the current COVID Pandemic is only accelerating the need to embrace AI and IT but, in many instances, the existing IT infrastructure of islands has not kept pace with information technology demands let alone being ahead of that demand curve.



Climate Change

Arguably, climate change is the single most important issue which has to be constantly addressed by islands around the globe. While islands can adopt carbon-free policies, they have no control over the speed which such measures are tackled by major countries.

There is some hope with the USA re-joining the Paris Climate Agreement thus accelerating the rate of change in following new policies. However, this is by no means certain and the vulnerability of islands will always be a concern. What islands are doing to reduce the impact will be covered in a later Review. However, island urban centres tend to be on the coast thus accentuating the adverse consequences of climate change on each community.



Brexit Ramifications

The ramifications of the UK leaving the European Union will impact in different ways on the five islands which are initially covered in these Reviews. However, the current Pandemic crisis has tended to mask or delay a full understanding of the BREXIT outcomes and it will probably be a year or so before all these are fully understood.

The financial services sector could well be the most affected but until the impact of BREXIT on the financial markets is clarified, there will always be some degree of uncertainty as to the status of the sector in the five sample islands. Another influencing factor is the possible repositioning of Hong Kong's financial services sector over the next five to ten years.

There are other issues such as regional policy changes which will have to be considered at the appropriate time but these are unlikely to be of international relevance.

COVID: Current Impact and Priorities

All five islands in this Review have made considerable strides in managing the implications of the COVID Pandemic over the last twelve months. The following sections set out a number of indicators and initiatives which illustrate both the progress being made and the impact that the Crisis is having and could have.

COVID Cases and Response

Monitoring and comparing COVID cases between the islands is a challenge due to trying to take a snapshot of the number of such cases at any particular point in the lifecycle of the Pandemic.

All five islands have had to respond to second waves of the virus but such waves have occurred at different times over the last twelve months and at a greater or lesser intensity. Both Bermuda and the Isle of Man are gradually bringing recent outbreaks under control while Jersey and then Guernsey had to impose stringent lockdown measures in December and at the end of January respectively when there were sizeable but unconnected outbreaks.

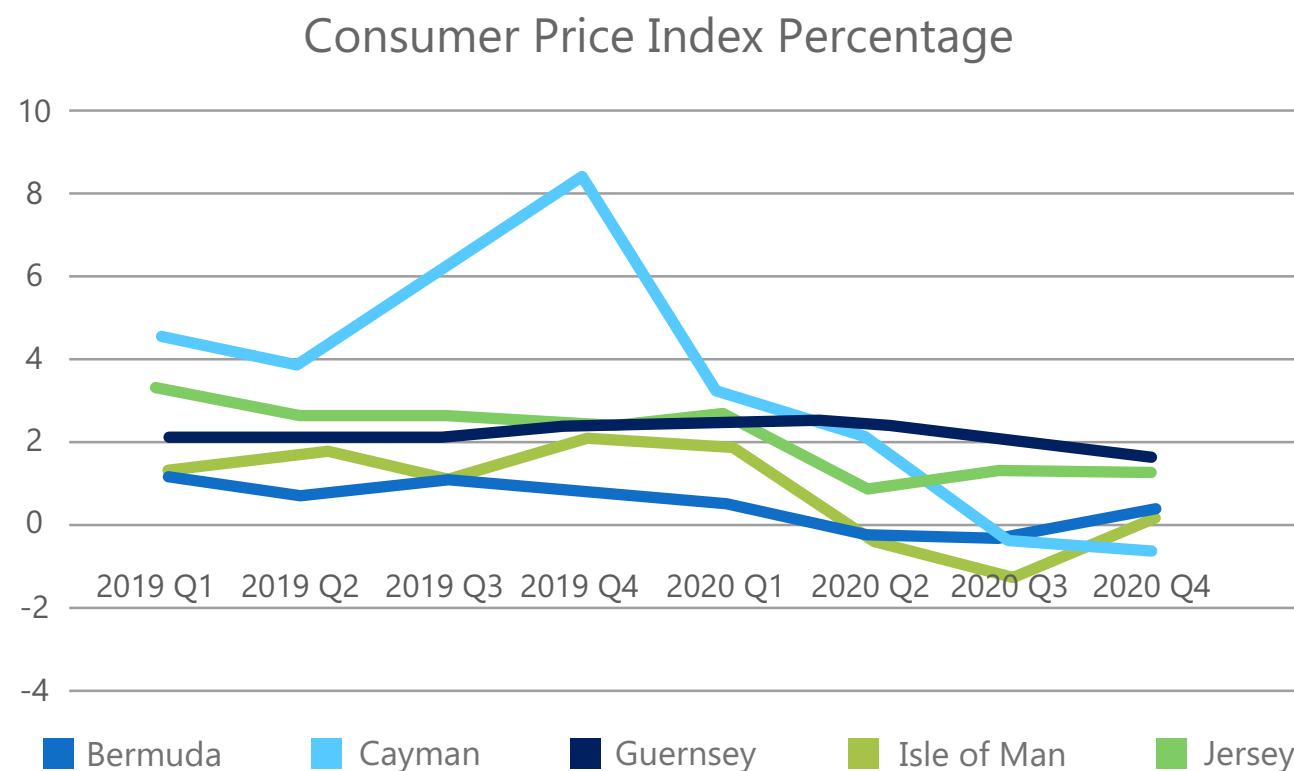
What is most encouraging to see is the progress being achieved in the vaccination rollout programme of each community. This success will be recorded in a later Review but the policies that are being and will be applied to open up the borders once again will also be monitored and how quickly the visitor economies of each island will recover or otherwise as a result.

Finally, while the economic and financial consequences of the Pandemic are being recorded, the social ramifications of the Crisis will be addressed in the Review focusing on health and wellbeing.



Inflation Trends

Apart from Cayman, the consumer price index prior to 2020 was reasonably stable and low in the other four jurisdictions. However, during the second half of 2020, negative rates were experienced by three of the five islands (Bermuda, Cayman and Isle of Man) – the first time for many years in these jurisdictions. It is interesting to note the high inflation rate in Cayman during the second half of 2019. This was due to increased costs across several sectors but, primarily, Housing and Utilities and Transport.



Early projections indicate that there could be a spike in inflation towards the end of this year and into 2022 when Lockdown restrictions are potentially eased. This will possibly be due to a surge in consumer spending and a round of significant price increases.



Employment Priorities

Employment priorities are at the heart of all five islands' recovery plans.

As at the end of 2020, the rate of unemployment in each of the five islands is not too dissimilar per head of population. In Guernsey, there were just over 500 people seeking work with another 360 looking for a job but doing some work. 1,400 people were actively looking for work in Jersey. In the Isle of Man, 756 people were seeking employment but this increased to just over 1,000 in January.

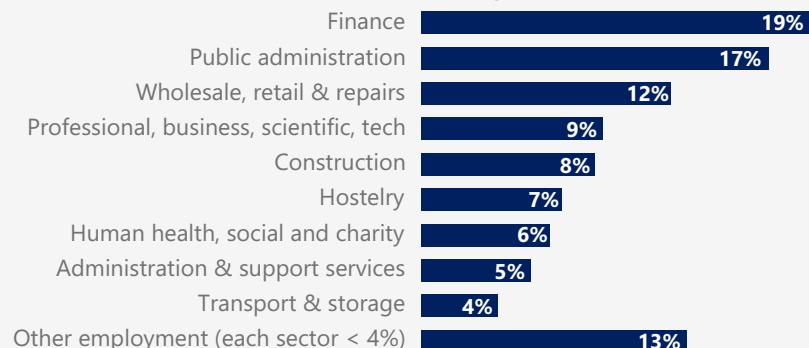
As far as Bermuda and Cayman are concerned, the work permits' system plays an important part in controlling employment levels. In 2020, the number of work permits in Cayman dropped to 24,890 from 29,426 in 2019. Employment levels are expected to recover to some extent in 2021 and an unemployment rate of 5% has been projected for the year. In Bermuda, initial estimates which include staff laid off in 2020 show that the total number of jobs in Bermuda declined by 1,935 posts from 34,378 in 2019 to 32,443 in 2020, equating to 5.6% decrease.

Prior to the Pandemic, the percentage of people employed by economic sector in 2019 was as follows:

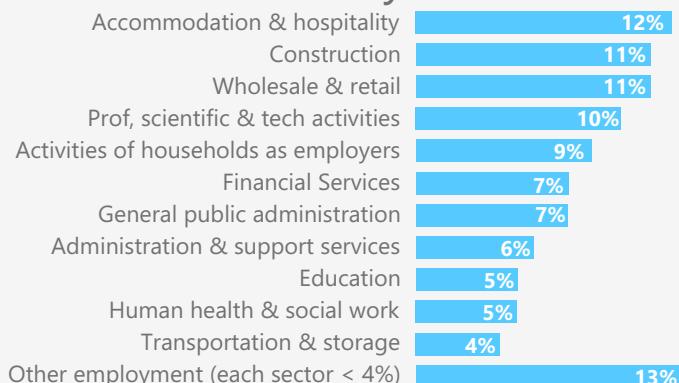
Bermuda



Guernsey



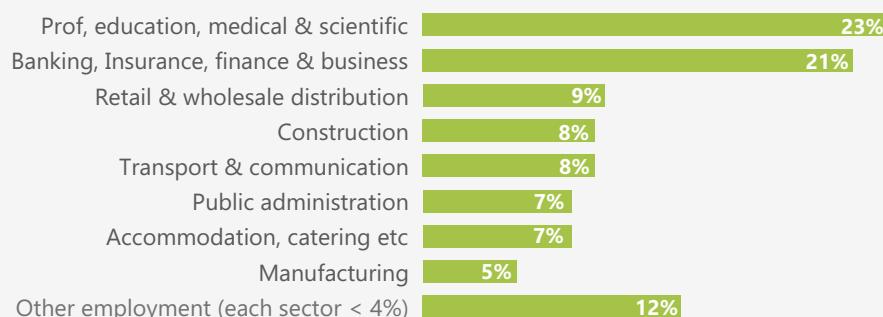
Cayman



Jersey



Isle of Man



Employment Priorities Contd.

Tourism/Hospitality and the Retail/Wholesale sector have been the most adversely affected by the current Crisis and only time will tell how the numbers employed in these two sectors will change once a degree of normality returns. It should be noted that very similar percentages of the overall workforce were employed in these sectors prior to 2020 (Bermuda 26%, Cayman 23%, Jersey 21%, Guernsey 19%, Isle of Man 16%).

It is hard to predict what the medium-term effect on local retail sectors will be as a result of the migration of high street to online shopping and how long it will take before tourism arrivals (including the cruise liner market) will recover, if at all, to pre-COVID levels.

Notwithstanding these unknowns, an absolute short-term focus in all of the islands is to embrace policies which stabilises business and enables local residents to get back into meaningful work. The range of initiatives includes:

- Protection of local jobs primarily through direct financial support to individuals and businesses
- The need for productivity improvements but, at the same time, ensuring that employee rights and expectations are fully recognised
- The introduction of reskilling and upskilling programmes for island residents
- Careful management of the requirement to employ non-local workers to supplement the local workforce
- Support in tertiary education initiatives both in terms of financial aid and training content
- The encouragement of soft skills training through internship programmes and other options.
- Creation of new job opportunities for the long term unemployed

There are other support mechanisms which address the changing face of work practices and growing use of artificial intelligence. These will be featured in more depth in a later Review once the full implications of these trends are known.

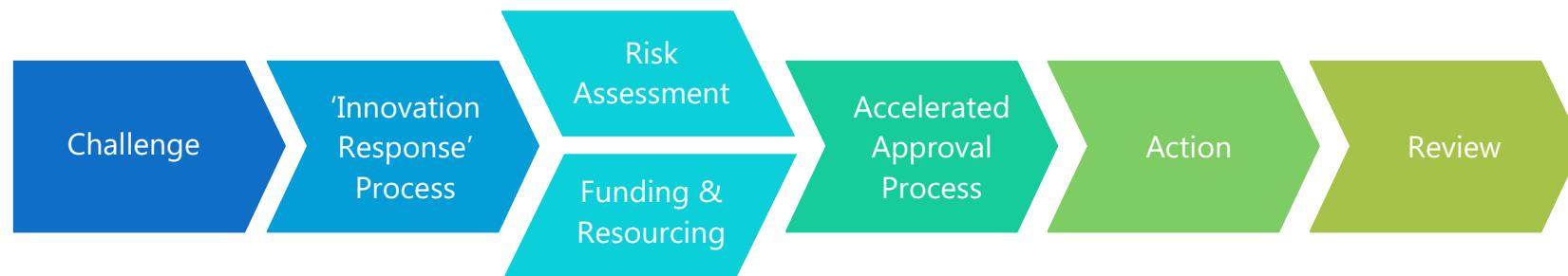
Adopting Innovation

While all five islands have faced similar challenges and followed roughly the same paths during the last twelve months, the need for innovative lateral thinking will be an important element in how successful an island community will be during the recovery period and beyond.

It is noticeable that over the last decade, the speed of government decision-making did slow down. This was most apparent in the production of lengthy strategic and policy documents which in many instances were not actioned. On the other hand, it is clear from an assessment of recent decision-making during the current Pandemic Crisis, innovation has come to the fore and red tape by necessity has been dispensed with in all five islands.

Much has been written and debated in recent years about the need to promote innovation within the public sector. Current circumstances now open up a real opportunity during the recovery process to maintain and develop an 'innovation mindset' to speed up government decision-making in tackling the immense challenges which inevitably will arise in the future.

The model below sets out the decision-making process in simple terms. Of course, there will still be a need for checks and balances to be built into the process. However, these checks and balances should not constrain innovative thinking which, in many instances, has been the case in the past.



Above all, the speed of response will be a critical function in the determination and implementation of a number of issues during the coming years. There could be many financial and operational uncertainties arising in the 'new normal' and the demand on limited human and physical resources is going to be high. Therefore, innovative, effective and speedy decision-making will be all-important particularly in the absence of best practice elsewhere upon which to draw.

Government Funding



After exactly one year into the current COVID Crisis, the financial implications of the emergency on government and, indeed, on the private sector are beginning to be much more clearly defined.

Significant financial stimuli in each of the jurisdictions have already been approved in the form of:

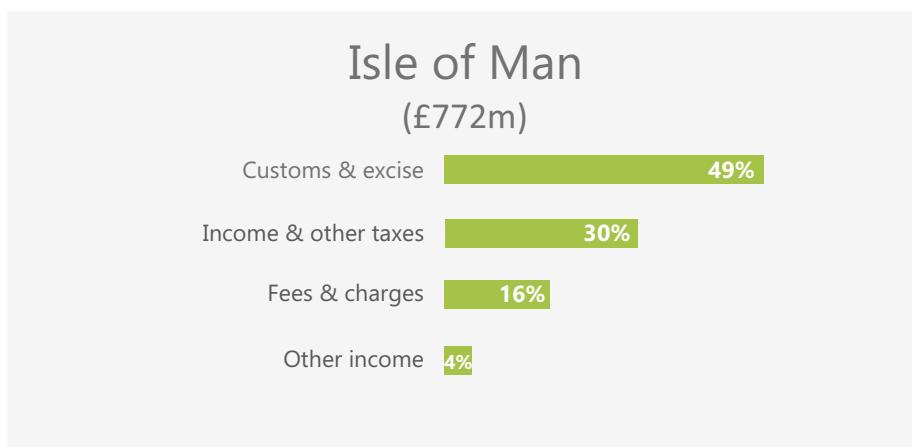
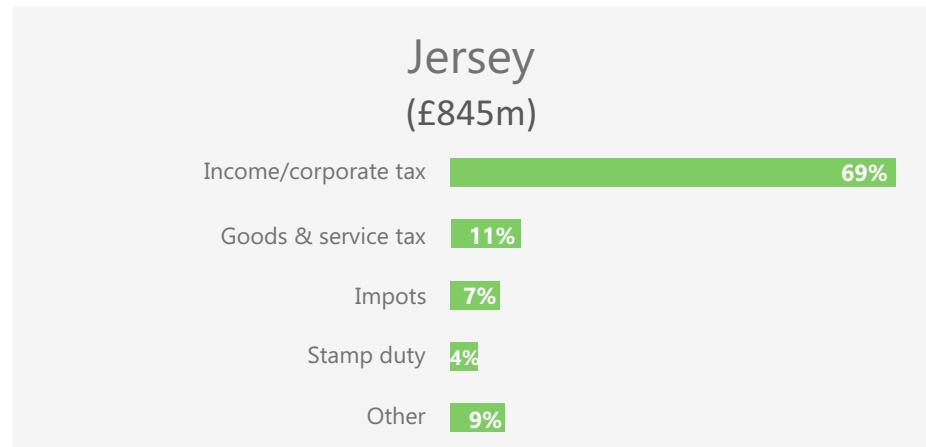
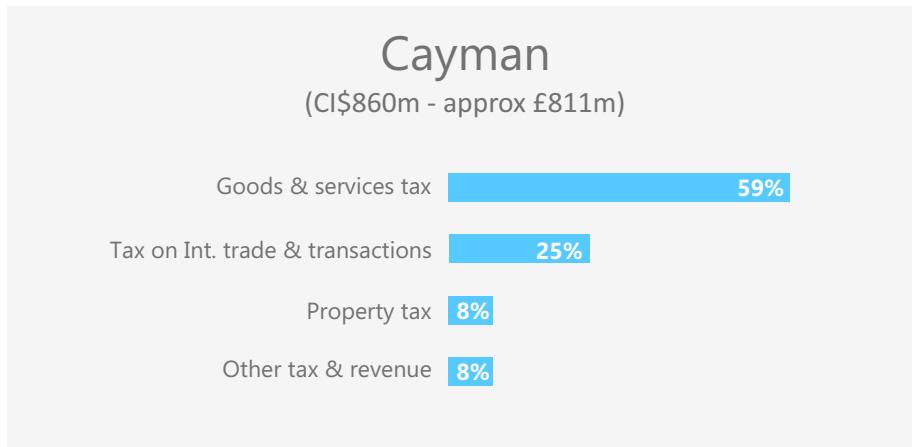
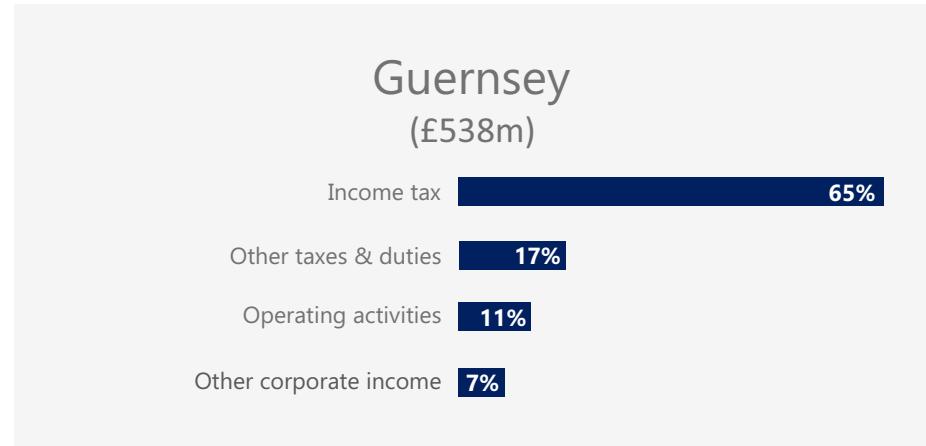
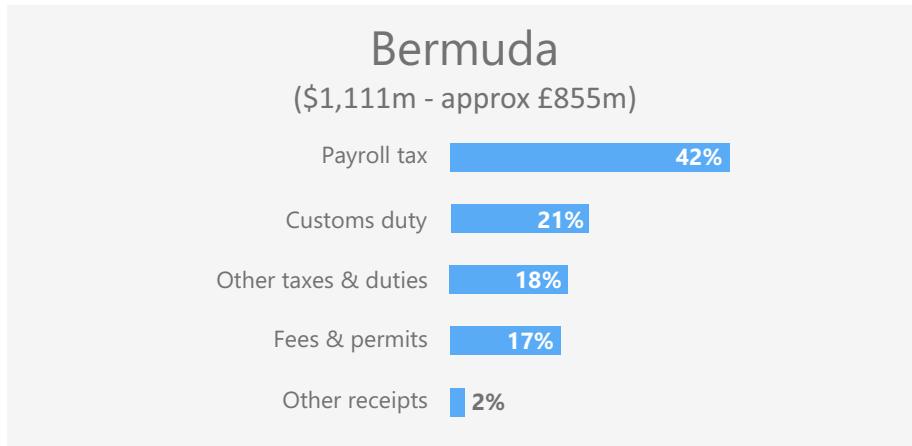
- Grants and loans to private sector businesses and individuals
- Fiscal incentives for businesses
- Additional revenue allocations to cover a whole range of key emergency public sector services

Such funding is being drawn from cash reserves, a redirection of already approved expenditure, and new loans. Ongoing financial support will very much depend upon how quickly a degree of normality returns to each island but it is important to note how the positive budgetary projections identified at the start of 2020 have now had to be amended in some key areas.

Current government policy in all five islands is not to raise or introduce new taxes. However, the repercussions of the current emergency on future government revenue streams is at an early review stage and it is unlikely that the ramifications will be fully known for two or three years until things begin to stabilise. On the other hand, it will be critical to see which revenue source will be most impacted by the Crisis. Such sources vary significantly between the island jurisdictions with Cayman, for instance, heavily reliant on indirect taxation while Guernsey and Jersey very dependent on direct taxation. Will there be a major consumer spending spree once restrictions are lifted or the reverse? Will salaries and wages and company profits drop?

Another factor which has to be accounted for is the ageing populations of four out of the five islands. The increase in retirement levels and the change from salary/wage-based to pension-based household incomes will reduce direct taxation revenue over the medium term.

These charts, based on government data prior to the COVID crisis illustrate how government revenue sources in 2019 differ between the islands.



NB. The financial year for Cayman, Guernsey, and Jersey governments is January to December while, in Bermuda and Isle of Man, it is April to March.

Review Programme

Review 2 - August 2021

The second Review will concentrate on 'The Environment and Energy Provision'. These are hugely important topics particularly taking into account the major UN climate change summit, known as COP26, originally scheduled for November 2020 but postponed to November 2021 due to the COVID Pandemic.

This is the most crucial climate summit since the landmark Paris Agreement was signed at COP21 in 2015. Arguably, climate change is the single greatest threat to island communities over the next ten years.

Review 3 - October 2021

The third Review will focus on 'Information Technology'. This embraces a wide range of areas which are now impacting on island communities both in economic and social terms.

Artificial intelligence is increasingly being adopted in sectors such as financial services, retail and the public sector. Given the employment profiles of the sample of islands currently included in the Reviews, this has potentially major ramifications on how these sectors evolve in the medium term.



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