

**ADDRESS BY THE PREMIER OF THE CAYMAN
ISLANDS, MINISTER OF FINANCE, TOURISM AND
DEVELOPMENT
ON THE MOTION TO RECOMMEND THE
2010/11 STRATEGIC POLICY STATEMENT (SPS) OF THE
CAYMAN ISLANDS GOVERNMENT TO THE
LEGISLATIVE ASSEMBLY**

INTRODUCTION

Madam Speaker, this Motion recommends the approval by this Honourable Legislative Assembly of the Government's 2010/2011 Strategic Policy Statement which outlines the Government's strategic outcomes for the next three years, and establishes the broad parameters within which the 2010/2011 Budget will be prepared. The SPS has been prepared in full accordance with the Public Management and Finance Law, and represents this UDP Government's first SPS and also my first SPS as the Cayman Islands new, and first, Minister of Finance.

The Strategic Policy Statement is a high-level document whose primary purpose is to inform the public of the broad budgetary policy which will guide the Government's preparation of the 2010/2011 Budget. The SPS also provides economic and financial forecasts for the coming three financial years. Expenditure and policy details for each Ministry and Portfolio are not set out in the SPS. That information will be included in the detailed 2010/2011 Budget, which will be presented to this Honourable House not later than the 30 April 2010, as required.

The SPS also projects employment figures, as required; but is otherwise not strong on social data. This is a shortcoming built into the Law, and one we intend to address.

THE ECONOMY

The Cayman Islands, like countries across the world, faces serious economic challenges. The economies in North America and Europe have been severely impacted, and as is well known, our economic performance is closely tied to theirs.

Where we agree with the leadership of those countries, is that we accept it as a Government responsibility to take resolute action.

We must do everything possible to mitigate the negative impacts of this current crisis; and at the same time, we must re-build, for a stronger, more diverse economy, an economy which will enable these islands to better deal with any future crises.

My Government is committed to achieving these most important goals. This SPS continues what we started in the 2009/10 Budget.

We continue our drive for clear strategies:

- to strengthen and diversify our income base;
- to strengthen and enhance our competitive edge in financial services and tourism; and
- to improve the quality of education and training, the health status of our population, and social and cultural programmes, to genuinely enrich the lives of our citizens.

The Cayman Islands Government provides citizens and residents a wide variety of services. We have all benefitted from these services, and some of the more vulnerable members of our community depend on Government support for their very survival. This is one reason why Government requires financial resources - to deliver such services to those in need.

What I have said before and will continue to say, is that crisis brings both danger and opportunities. There is an opportunity now, for both businesses and individuals to reassess their ability to contribute. At the same time, I shall be pushing, with my colleagues, for proper evaluation of the voluntary contributions that already play a key role in our infrastructural development. I would say that there is significant giving, in this community, and this is not properly appreciated, up to now.

By the same token, what the Government itself has contributed to the Island's growth and viability, is apparently lacking in recognition within some Sectors of the Corporate Sector. I call a spade a spade. I say to the Corporate Sector, we wish for a genuine partnership; for that to develop, you must acknowledge the extent to which your ability to grow, to succeed, has been supported over the decades, by ease of access, openness of the Legislative process, development and maintenance of electronic and physical infrastructure, and so on.

I trust that I am being heard clearly; but to remove all doubt, let me illustrate the kind of vigour this Government has put into promoting and securing business.

A recent economic impact study commissioned by a consortium of associations of the private sector has reported the following findings:

- 1) that the financial services sector of the Cayman Islands generated CI\$ 1.2 billion of our GDP, which represents some 55% of our total GDP
- 2) that the Financial Services Sector employs approximately 5,723 persons, of whom 60% are Caymanian
- 3) that this Sector directly generated CI\$ 204 million, or 40 percent of all Government revenues in 2007.

These findings have not been independently verified, but they make a credible and important point. The Financial Services Sector has been, and continues to be, of great importance to our economy.

Accordingly, this Government has been leading a vigorous and intensive campaign to persuade financial services sector companies to consolidate their positions in the Cayman Islands, and to create incentives for new businesses to establish a presence amongst us.

Amongst the measures recently announced by this Government, in response to representations from the financial services sector, is the approval of Directives to the Immigration Dept. and the Immigration Boards, which will:

- (i) accelerate work permit processing times; and
- (ii) create a greater degree of certainty with respect to designation of key employees, whilst at the same time protecting opportunities for Caymanians.

It is hoped that these new measures will address the concerns of the financial services sector, and reassure those that we are seeking to attract.

I will not elaborate on the most recent Directives at this time. What the financial services sector, indeed all current and potential investors and managers need to hear, is that we are prepared to sustain a real dialogue. Our job is to deal fully and frankly with business leaders, indeed facilitating their options, while remaining truly responsive to the broader parameters of good governance.

In making changes, we will consult. When decisions are made, we will explain. If systems don't work, we will adjust. We are here for the good of the whole Cayman Islands and we know that to achieve such a balance requires us to be delicate at times, and tough when necessary.

Although much of the focus is on the present financial services sector, the Government is also seeking to attract high net worth individuals to reside in the Cayman Islands. Our view is that, important economic benefits can be derived from private individuals investing in our local economy. In the present climate,

the right incentives must be provided. As part of the overall package currently being promoted, it is proposed to reintroduce into the current Immigration Law 2009 (Revision) a Twenty -Five year Direct Investment Certificate which will be offered to such individuals, in return for appropriate levels of investment.

Subject to the criteria contained in the Law, to be supported by new Regulations, such individuals would be granted the right to reside here, and work in that business, for a (renewable) period of twenty-five years. This right of residency would also apply to persons already living here, who can show that they have made similar levels of investments.

The Direct Investment Certificate was previously called the Entrepreneur and Investor Certificate, and was first introduced into Immigration legislation by the Government in November 2003, with the unanimous consent of all Members of the House. The Twenty-Five Year Certificate was recommended by the original

Immigration Review Team. For reasons largely unexplained, the last Government removed these provisions, and discontinued the initiative.

While the original law did not specifically state it, it had been the clear intent of the original Immigration Review Team to allow the investor the right to work in his own business.

I believe that these recent measures will be welcomed by the financial services industry, and will additionally be an important factor in a package of incentives aimed at attracting new businesses to create a presence in the Cayman Islands.

World Economic Position

Madam Speaker, as I said earlier, we are living in challenging economic times the world over; if we are to come through this, we must pull together. The current position of the World economy may be summarized as follows:

The global economy has been depressed since the latter half of 2008 as a result of the financial crisis that originated from the mortgage sector in the United States (U.S.). In 2008, global output expanded by 3.0 percent, a significant decrease when compared to 5.2 percent growth the year before. The so-called “more developed” economies grew at a mere 0.6 percent.

The U.S. was at the epicenter of the global financial crisis, as its private sector suffered from a severe squeeze on credit, despite large cuts in interest rates. Consumer confidence plummeted with rising unemployment. GDP growth of the U.S. deteriorated in

2008 to 0.4 percent, down from 2.1 percent in 2007. Canada also suffered from the knock-on effect of the crisis, as it too grew by only 0.4 percent during 2008, compared to 2.5 percent in 2007.

Meanwhile, economic growth in the Euro area slipped to 0.7 percent in 2008. Specifically in the United Kingdom, economic growth slid to 0.7 percent from 2.6 percent the previous year. Next to the US, the UK was expected to suffer most heavily from credit constraints.

Despite low consumer confidence and lack of credit which depressed consumption demand during the year, consumer prices across advanced economies, rose by 3.4 percent in 2008. Inflation in the U.S. reached 3.8 percent in 2008 due to strong upward pressure in the first half of the year from high and volatile energy and food prices. However, this was tempered by a slow-down in private consumption.

The full impact of the financial crisis is expected to be felt in 2009, with recovery in sight in 2010. In 2009, world output is projected to decline by 1.1 percent, its steepest decline since World War Two. This outlook is cast amidst massive fiscal and policy support from Governments, particularly in the U.S., UK and others, to arrest a prolonged global recession. Output in the U.S. is still expected to decline by 2.7, percent while the UK and the Euro area economies, are projected to contract by 4.4 percent and 4.2 percent respectively. Recovery for the advanced economies is not expected to occur until the second half of 2010.

The weakening of global output is expected to lead to lower inflation, although this will be tempered by a rebound in energy and commodity prices in the second half of 2009. Inflation in 2009 is expected to average 0.1 percent among advanced economies, and 5.5 percent among emerging and developing economies.

Cayman Islands Economy - Out-turns for 2008, and January to September 2009

As a small open economy, largely dependent on the offshore financial services sector and tourism receipts, the Cayman Islands' economic performance in 2008 began to be impacted by the global economic downturn, although signs were evident from 2007. The impact will more serious in the 2009 calendar year: indicators in the first nine months suggest an unprecedented fall in GDP during the year.

Growth of gross domestic product (GDP) slowed to 1.1 percent in 2008 as compared to 4.4 percent in 2007. The modest growth was supported on the demand side by growth in government consumption and capital spending, and demand for stay-over tourism services.

In 2008, all performance indicators softened, and the financial services industry exhibited the effects of the global economic crisis, as mutual funds and insurance continued to grow, but at slower paces compared to 2007. Downturns were recorded in stock exchange listings (-9.7%), new companies registration (-16.7%) while banks and trusts registration continued to fall, this time by 1.1 percent.

In the first nine months of 2009, mutual funds fell by 4.5 percent as compared to a year before, while bank and trust company registrations continued to fall. Stock exchange listings contracted by 20.6 percent, and new company registrations declined by 21.6 percent.

Air arrivals expanded by 3.9 percent in 2008, down from the 9.0 percent growth recorded in 2007. Cruise arrivals fell by 9.5 percent. Altogether, total visitor arrivals declined by 7.5 percent relative to the previous year.

In the first nine months of 2009, air arrivals fell by 13.1 percent while cruise passengers arrivals was much more encouraging; these decreased at a slower rate of 1.9 percent.

Construction indicators were robust in 2008. While the number of building permits was marginally lower, the total value reached \$502.3 million, an increase of 12.5 percent over 2007.

For the period January to September 2009, building permits increased in number by 8.6 percent, but total value dropped significantly, down to \$300.1 million.

After softening in 2007, real estate activity marginally improved in 2008. The number of transferred freehold properties rose to 2,289, an increase by 4.5 percent valued at \$558.1 million.

In the first three quarters of 2009, the sector suffered a sharp reduction in the number of property transfers which went down by

18.0 percent, and correspondingly, the total value of property transferred fell by 40.0 percent.

The average inflation rate in 2007 was 2.9 percent, which went up to 4.1 percent recorded in 2008, as higher prices for food, oil and petroleum products pushed up the index in the first three quarters of the year. In the fourth quarter, these pressures were eased by a significant drop in utility costs, led by electricity.

In the first six months of 2009, the consumer price index fell 0.2 percent, a spill-over of the lower general price level in the U.S., and a fall in oil prices.

The total labour force in the Cayman Islands as of fall 2008 was estimated at 38,998, 4.2 percent higher than in 2007.

As expected, the 2008 unemployment rate rose to 4.0 percent compared to 3.8 percent in fall 2007.

For the period January to September 2009, work permits fell by 9.4 percent, largely due to declines in demand for foreign labour in construction, financial services and tourism-related services.

Merchandise imports grew from \$860.0 million in 2007 to \$876.5 million. This was on account of the surge in the value of fuel imports by 27.2 percent, because consumption goods, intermediate goods and capital goods actually contracted.

Preliminary data for the first nine months of 2009 indicate that merchandise imports fell by 18.0 percent to \$534.4 million from the comparative period in 2008 mainly due to reductions in building materials, transport and transport-related items, tobacco and alcohol, and manufactured products.

Madam Speaker, it is clear from this data that the Cayman Islands economy is hurting, our people are hurting and we must do everything possible to improve our economy.

Economic Forecasts for Financial years 2010/11 to 2012/13

Section 3 of the SPS provides the economic forecasts for the Cayman Islands for the 2010/11 through 2012/13 financial years as prepared by the Economics and Statistics Office within the Ministry of Finance.

Economic growth in the Cayman Islands is expected to worsen in 2010/2011, measured by changes in the Gross Domestic Product (GDP). This is projected to rebound in the succeeding two years. GDP growth is projected at 1.6 percent in 2010/11 followed by 4.0 growth in 2011/12 and 3.2 percent in 2012/13.

Given this forecast in economic growth rates, the numbers of persons employed, are expected to be 36,414 in 2010/2011, 37,428 in 2011/2012 and 38,058 in 2012/2013. The corresponding unemployment rates are forecasted at 3.8 percent in 2010/11, 3.0 percent in 2011/12 and 3.3 percent in 2012/13. We are determined to act to improve performance in this critical area.

The local inflation rate, as measured by changes in the prices of goods and services is highly influenced by three factors - U.S. price trends, local demand and changes in local tax rates for 2010. Based on conservative inflation forecasts for the US, the Cayman Islands inflation rate is forecast to be 4.3 percent in 2010/2011, 3.2 percent in 2011/2012 and 2.6 percent in 2012/2013.

Madam Speaker, this outlook means that the clouds of crisis are beginning to clear away, while we are not quite out of the storm, we can see ourselves approaching the end of it. Now is the time to continue to work, to work hard, and harder than ever before, to

prepare these islands to make the best of future economic improvement.

FISCAL STRATEGY

For this SPS, the Government has continued to apply the fiscal strategy it established in preparing the 2009/2010 Budget. This strategy has centered on the primary goal of bringing Government's finances back into compliance with the statutory Principles of Responsible Financial Management.

For the coming three financial years our efforts will continue to focus on:

- Controlling and reducing core Government expenditure;**
- Implementing new and sustainable revenue measures.**

- Improving the financial performance of our Statutory Authorities and Government Companies, and securing optimum dividends; and**

- Entering into partnerships with the Private Sector for appropriate large scale infrastructure development.**

We cannot allow the Governments operating expenses to continue to grow at the rates of previous years. Over the past 4 financial years, that is 2005/2006 – 2008/2009 Governments Operating Expenses grew from \$372.19 million to \$525.98 million. This is a 41% increase in four years. This rate of increase is unacceptable to my Government and we are taking definitive steps to address this in a sensible manner.

In addition to the expenditure reductions announced in the 2009/10 Budget, the Cabinet has recently commissioned a Review of Public Services to be conducted by a multidisciplinary team headed by the Deputy Governor, the Honourable Donovan Ebanks, which must

report its findings back to the Cabinet in January 2010. This will ensure that there is sufficient time for the recommendations to be considered by Cabinet and incorporated into the 2010/11 Budget.

Our undertaking as a Government is to act as needed to either reduce expenses or increase revenues, 1) whether over-staffing exists in a particular area; 2) if management needs improving; 3) if further training is needed; 4) if processes need to be streamlined, shortened, or otherwise simplified.

Madam Speaker, our primary goal in the area of revenue, is to seek a wider and more stable income base for the country. At the Cabinet press briefing on November 4, 2009, I announced that the Government had agreed with the Foreign and Commonwealth Office to appoint an independent commission that will conduct a professional assessment of the options for, and potential impact of, new revenue sources. The commission's report is to be submitted to Cabinet no later than 28 February 2010.

Madam Speaker, this commission is chaired by Mr. James C. Miller III (former US Federal Trade Commission Chairman and Budget Director for US President Ronald Reagan). This small but expert team, includes, Mr. David Shaw (former UK Member of Parliament) and Financial Secretary, Mr. Kenneth Jefferson.

The Commission's terms of reference include the following stipulations:

- conduct a comprehensive review of all present revenue-generation mechanisms
- indicate how these have been affected by competition; the global recession; and internal actions.
- make recommendations for the improvement and expansion, and more efficient operation, of these mechanisms;
- examine estimated government revenue sources and expenditures for the 2009-10 budget year, and recommend measures to balance current and/or estimated revenues against current and/or estimated expenditure;

- examine government's current short- and long-term debt obligations; and recommending methods of alternative financing for short- and long-term debt, in order to achieve possible savings;
- reviewing government's policies in order to recommend more cost-effective approaches to spending, as well as ways to reduce spending; and
- recommend new revenue sources, with particular regard to Cayman's location, size, population base, and cultural background, and determining whether these potential sources would provide a more sustainable revenue base. In making this assessment, the commission should consider the impact of any form of direct taxation on overall economic activity and examine, in particular, it's potential impact on the attractiveness of the Cayman Islands as a financial centre.

Public Private Partnerships

Cabinet has approved the selection of DECCO Ltd. as the potential development partner to finance, design and build the cruise-berthing enhancement facilities.

Cabinet has also approved the Port Authority's development of a non-binding three way memorandum of understanding with DECCO Ltd. and the Florida-Caribbean Cruise Association, (FCCA). This document will be presented to Cabinet for further consideration.

This is completely different than the MOU which the last Government entered into with the Atlantic Star Company – which proposed that the Port be moved to their site, and that control of the Port would be in their hands. Nothing went to Central Tenders – even with the giving up of control of our Port. Some sections of the media tried shamelessly to make much of this new MOU that

the Government will sign soon. But facts always destroy lies and innuendo, and poor and biased reporting.

Madam Speaker, the Auditor General was quick to try and smear the process which we have set out, but said nothing, on the previous occasion, when our Port was being signed away, without the Public or Central Tenders knowing.

Financial Forecasts

Madam Speaker, the financial forecasts and targets included in this SPS indicate that it will be possible for the Government to operate its finances within full compliance of the Principles of Responsible Financial Management, as set out in the Public Management and Finance Law.

We know that these targets are not going to be easy to achieve, and will require managers across the Public Service to exercise strict financial management. We as a government will do our part to support and encourage the operation of the Government's finances, within the financial targets set out in this SPS.

I maintain that in general we have a Civil Service of high quality. There is a saying that when the going gets tough, the tough get going - in other words, this is a chance for them to shine, to show what they can do.

Core Government operating revenue is forecast to be approximately \$580 million in 2010/11, \$585 million in 2011/12 and \$590 million in 2012/13.

Core Government operating expenses are forecasted to be approximately \$531.3 million in 2010/11, \$522.3 million in both 2011/12 and 2012/13.

Operating surpluses – after financing expenses - are forecasted to be \$22.8 million in 2010/11, \$35.6 million in 2011/12 and \$41.15 million in 2012/13.

On the balance sheet, Government's net worth (which is the difference between its total assets and its total liabilities) is expected to increase steadily over the forecasted period.

Aggregate borrowing (which is the balance outstanding at the end of a financial year in respect of those borrowings) is forecast to peak at \$504.6 million in 2010/11 and then decrease to \$489.1 million in 2011/12 and decrease further to \$470.2 million in 2012/13. This reflects a deliberate effort on our part to keep the Government's borrowing levels within the limits prescribed by the Principles of Responsible Financial Management.

Net operating cash flows are targeted to remain strong in line with the forecast operating surpluses. The Government has continued with its policy of maximizing the use of cash generated from operating surpluses, to finance its planned capital programme over the next three fiscal years.

Net investing cash flows or the amount of funding available for the Government's capital development programme is forecast to be \$69.7 million in 2010/11, \$49.7 million in 2011/12 and \$49.7 million in 2012/13. The decrease in the 2010/11 and 2011/12 financial years reflect the expected completion of major projects such as the new High Schools and the new Government Administration Building in the 2010/11 fiscal year.

The net financing cash flows reflect the Government's anticipated borrowings less its repayment of debt principal. Over the three-year period the Government is **not** forecast to undertake any new borrowings in the 2011/12 and 2012/13 financial years, resulting in a net payoff of the Government debt.

The targeted closing cash balance for all years is forecast to be just over the 90 day of operating expenses required by the Principles of Responsible Financial Management. This means our Budgets would be compliant.

Broad Outcome Goals

The Government has identified a total of 19 Broad Outcome Goals which will guide the development and implementation of our policies. Our Broad outcome goals are:

1. Addressing the Economic Crisis in the Cayman Islands
(enhancing the financial viability and sustainability of the economy of the Cayman Islands)
2. Restoring Prudent Fiscal Management
3. Setting the Stage for success in the Tourism Industry
4. Addressing Crime and Policing
5. Developing a World Class Education System to Foster Growth and to Benefit from Development
6. Improving Healthcare and the health of the population

7. Paving a better way forward for Cayman Brac and Little Cayman
8. Development of our Youth
9. Strengthening of families
10. Ensuring Success and Participation of Caymanians in the Financial Services Industry
11. Supporting Caymanian Small Businesses
12. Preparation of our labor market for future opportunities
13. Improvement of the lives of the elderly and disabled
14. Reduction of substance abuse
15. Empowerment of Women
16. Addressing Energy and Environmental needs
17. Strengthening of our Infrastructure
18. Preservation of our Culture
19. Enhancement of Agriculture

These Broad Outcome Goals should not be construed as being the only areas which the Government will be working on; instead they are a checklist to guide for our intended major policy actions.

Our 19 Broad Outcome goals apply to all three of the Cayman Islands and capture our intent in addressing major concerns which face this country. Our Broad Outcome goals can be classified into three main focus areas:

- Economic and Financial Improvement;**
- Enhanced social and community welfare; and**
- Elevating education standards and performance at all levels.**

During my address on the Budget and Throne speech on the 2 October 2009, I outlined details of the many new and innovative policy actions that this Government would be taking in this financial year, many of these are well into their planning and implementation phases.

The focus of this Administration is not on personal accusations and the destruction of people's character, it is not even on the winning of the next election, as was so evident in the political operations of the last Government. My Government's focus is on moving this Country to a higher and safer ground and making sure our people advance.

We have applied this approach in planning this SPS, and at the appropriate time, when the 2010/2011 budget is presented next year, we will roll-out further details of our specific policy actions.

Conclusion

Madam Speaker, this SPS signals the start of the 2010/2011 Budget process. There is much work to do across the Public Service, and indeed the country, to achieve the targets set out in this SPS.

Overall, we believe that this SPS establishes realistic and achievable targets for all Government agencies. We will all have to put on our thinking caps, explore all opportunities to reduce expenses and enhance revenues while always aiming to optimise the well being of the people of the Cayman Islands.

The challenges around us are many, and require creative, dynamic leadership to bring the Cayman Islands through. My Government will provide that leadership, and this SPS sets out the path we intend to follow to move the country forward, with the help of Almighty God, who confirms to us in the book of Isaiah 64:25 that “before they call I will answer and while they are yet speaking I will hear”. I assure Honourable Members that God is listening to us and will answer us if we humble ourselves and call on Him in spirit and in truth.

And with that Madam Speaker, I recommend all Honourable Members to give their full support to this important Motion. Thank You, Madam Speaker.