



CAYMAN ISLANDS
GOVERNMENT

2010/11 STRATEGIC POLICY STATEMENT

FOR THE
FINANCIAL
YEAR
ENDING
30 JUNE 2011

Contents

Page

1.	Introduction	5
2.	Government's Outcome Goals	7
3.	Economic Overview	15
4.	Aggregate Financial Targets	21
5.	Financial Projections	31
6.	Financial Allocations	32
7.	Conclusion	35

1. Introduction

Purpose of the Strategic Policy Statement

This Strategic Policy Statement (SPS) sets out the policy and financial parameters the Government intends to use to prepare its Budget for the 2010/11 financial year.

In accordance with the requirements of the Public Management and Finance Law (2005 Revision) (PMFL), the SPS is strategic and high level in nature. It does not allocate resources to individual expenditure items or specify the particular initiatives the Government intends to pursue; rather the role of the SPS is to outline, for consideration and approval by the Legislative Assembly, the strategic parameters on which the Annual Plan and Estimates (the Budget) for 2010/11 will be based. Detailed information will be contained in the Budget when it is presented to the Legislative Assembly in April 2010.

Content of the SPS

The content of the SPS reflects the requirements of the PMFL.

Section 2 outlines the Government's outcome goals for the next three years. These goals, which are set at a broad level, establish the policy direction for the Government over the period. They will be used by the Government to determine specific policy priorities for the Budget.

Section 3 contains an overview of the expected medium term economic performance of the Cayman Islands relative to the global economic outlook.

Section 4 establishes the aggregate financial targets that the Government has established for 2010/11 and the subsequent two financial years.

Section 5 contains financial projections for the Core Government for the period 2010/11 through 2012/13

Section 6 sets out the indicative financial allocations to the Premier, each Minister and Official Member for the 2010/11 Budget, together with indicative planning allocations for the following two years. These allocations are to be used as the basis for the Premier, Ministers and Official Members and their Ministries, Portfolios and Offices to establish their operating and capital budgets for the 2010/11 financial year.

The Government's Strategic Approach

The Government's strategic focus continues to be based on delivering the commitments made in the United Democratic Party's (UDP) manifesto; and the importance of taking a medium and long term perspective to government finances.

The Government is fully committed to delivering on its campaign promises. These include creating a vibrant yet stable and sustainable economy, restoring prudent fiscal management, enhancing Tourism and Financial Services as the twin pillars of the economy; addressing the needs of the youth, elderly and disabled; support for Caymanian small businesses and the unemployed, creating opportunities for Caymanians, expanding/enhancing police services, strengthening our health care and education system.

Policy actions and strategies have also been put in place for a better way forward for Cayman Brac and Little Cayman and other areas to improve the lives of all the people of the Cayman Islands. The parameters contained in this SPS reflect the continuation of that policy path.

During the last year, the unprecedented global financial crisis have negatively impacted the Cayman Islands and placed major stress on the local economy. Dealing with the slowing economy and managing international pressures affecting the financial services industry has required bold measures by the UDP Administration.

Since the UDP Government came into office in May 2009, many decisions/actions have been taken and although, great strides have been made, the UDP Government continues – in consultation with the private sector – to take proactive decisions which will assist to minimize any adverse affects internationally and locally on our economy.

The publication of this SPS, therefore, reflects the UDP Government’s continued commitment to ensuring that the Cayman Islands economy recovers from the affects of the global recession

2. Government's Outcome Goals

Broad Outcomes

1. The UDP Government has established nineteen broad outcome goals to guide its policy actions. They are:

- Creating a Vibrant Yet Stable and Sustainable Economy
- Setting the Stage for Success in the Tourism Industry
- Addressing Crime and Policing
- Education: The Key to Growth and Development
- Improving Healthcare
- Paving a Better Way Forward for Cayman Brac and Little Cayman
- Developing our Youth
- Strengthening Families
- Restoring Prudent Fiscal Management
- Ensuring Success and Participation of Caymanians in the Financial Services Industry
- Supporting our Caymanian Small Businesses
- Preparing our Labor Market for Future Opportunities
- Improving the Lives of the Elderly and Disabled
- Reducing Substance Abuse
- Empowering Women
- Addressing Energy and the Environment
- Strengthening our Infrastructure
- Preserving our Culture
- Enhancing Agriculture

These broad outcome goals indicate the Government's policy priorities and serve as a guide to how the government allocates its resources.

Specific Outcomes

The specific outcomes the Government intends to target in order to achieve the nineteen broad outcomes are summarised in Table 1.

Table 1: Specific Outcomes and Key Policy Strategies

Broad Outcome	Specific Outcomes and Key Policy Strategies
<p>Broad Outcome: 1</p> <p><i>Creating a vibrant yet stable and sustainable economy</i></p>	<ul style="list-style-type: none"> • Introduction of Private Financing Initiative (PFI) for large Government Capital Projects • Provide assistance to film and photography projects seeking to utilize the Cayman Islands • Develop and implement marketing campaigns that enhance the image and profile of the Cayman Islands as the investment location of choice. • Ensuring that the Cayman Islands continues on the OECD “white list” by signing the required number of Tax Information Agreements (TIAs) • Continued diligence to address issues relating to Cayman Islands financial services industry • Maintain a highly effective regulatory environment to attract users and providers of financial services. • Continue the development and implementation of a strategy for maintaining sustainable growth in the Cayman Islands Stock Exchange Ltd. (CSX) listings. • Encourage and promote inward investment • Enhance Cayman’s position on the world stage by focusing on new markets • Explore new economic activities • New Immigration Policies
<p>Broad Outcome: 2</p> <p><i>Setting the Stage for Success in the Tourism Industry</i></p>	<ul style="list-style-type: none"> • Implementation of the National Tourism Management Policy • Rebranding of the Cayman Islands Tourism Product. • Continued development of Human Capital for the Tourism Industry • Environmental program for the tourism sector • Continue developing and promoting the Eco-Tourism project • Improve the image of the Cayman Islands and the experience of the cruise tourist by upgrading the existing cruise ship arrival facilities in George Town and at Spotts • Continue the expansion of Owen Roberts International Airport in order to meet capacity requirements of the Cayman Islands • Improve the visitor experience through education, improved signage, and technological enhancements. • Preserve and enhance the environment and history of tourism attractions through physical renovations and social awareness. • Establish a Hospitality Services Centre of Excellence

<p>Broad Outcome: 3</p> <p><i>Addressing Crime and Policing</i></p>	<ul style="list-style-type: none"> • Improved border control by expanding the offshore capability of the Marine Section of the Royal Cayman Islands Police • Increase the security of H.M. Prison by the redevelopment of the infrastructure • Provision of new custody cells at the Central George Town Lock-up • Increased aerial support by the introduction of the Helicopter and Police Aerial Support Unit • Strengthen and enhance border control by conducting biometric checks (finger-printing) • Implementation of alternative sentencing options • Amend the relevant laws to include harsher punishment for crimes • Strengthen and enhanced police community and security services • Development of a Police Task Force • Increase foot patrols to increase visibility of police officers • Increase Community and neighbourhood policing • Construction of new West Bay Police Station • Implementation of a container scanning machine • Develop legislation to afford better protection for witnesses
<p>Broad Outcome: 4</p> <p><i>Developing a world class education system to foster growth and to benefit from development</i></p>	<ul style="list-style-type: none"> • Transition to new high schools • Launching of new post-secondary education centre • Implementation of the Educational Modernisation Law and Regulations • New national strategic plan for education • Enhanced early childhood services • Enhanced secondary education student services (New career assessment, guidance and counseling centre) • Revised High School graduation criteria • Enhanced life skills programmes/character/values education • Mandatory 16+ bridge year of additional secondary school education • Support the implementation of the new National Curriculum • Support the Primary Years Programme of the International Baccalaureate Organization • Educational Leadership Training • National Secondary Literacy Initiative • National Primary Numeracy Initiative • Continued teaching/development of Baccalaureate Degree/Postgraduate Programmes.

	<ul style="list-style-type: none"> • Development of new educational programmes • Identify and address existing barriers to achieving a high-performing Cayman Islands education system • New education governance and management system • Enhanced education planning by conducting a comprehensive “health check” of the education system • Introduce a range of innovative initiatives to develop, support and invest in our people, including “unemployed youth” and “youth at risk” • Establish a foundation for an effective provision of technical and vocational education • Creation of an Education Advisory Council and a Council on Professional Standards in Education • Implementation of the Technical and Vocational Education Training (TVET) programme
<p><i>Broad Outcome: 5</i></p> <p><i>Improving Healthcare</i></p>	<ul style="list-style-type: none"> • Expansion of the health facility registration to include inspections • Development of standards for all healthcare facilities in the Cayman Islands. • Comprehensive health care to residents 60 years and older; under-insured and those who are under-insured • Establishment of a dedicated Flu Clinic at the Health Services Authority to manage the H1N1 pandemic • Formulation of a vaccine strategy for the Cayman Islands • Development of a Hospital Volunteer Program • Enhancement of Cardiology Services to include Cardiac Catheterization laboratory. • Enhancement of Oncology Services to include purpose built facility and full time Oncologist. • Introduction of a National Wellness Program • Reduction of chronic non-communicable disease through an effective disease management program • Amendments to legislation relating to Health Practice Law, Tobacco Law and Regulations
<p><i>Broad Outcome: 6</i></p> <p><i>Paving a better way forward for Cayman Brac and Little Cayman</i></p>	<ul style="list-style-type: none"> • Market and promote Cayman Brac and Little Cayman as a prime destination for tourists and business • Expand and improve sporting facilities and activities in Cayman Brac and Little Cayman • Continue rebuilding Cayman Brac • Expand and upgrade road network in Cayman Brac • Develop a new playfield on the Bluff in Cayman Brac • Construct a new Emergency Shelter for

	<p>Cayman Brac</p> <ul style="list-style-type: none"> • Develop nature-based/soft adventure tourism in the Cayman Brac and Little Cayman • Continue development of the airfield in Little Cayman • Introduction of a direct flight between Miami and Cayman Brac
<p>Broad Outcome: 7</p> <p><i>Developing our Youth</i></p>	<ul style="list-style-type: none"> • Creation of the National Employment Passport Programme (NEPP) • Introduce vibrant youth programmes including after-school and sports operated in each districts • Introduction of a new Young Leaders Program • Establish cadet units/detachments within districts and secondary schools across the islands • Introduction of a Business Technology Education Council (BTEC) Diploma in Public Service • Introduction of a work related training Programme for young people • Introduce a programme to qualify individuals in a specific sport • Develop a secure juvenile remand and rehabilitation facility
<p>Broad Outcome: 8</p> <p><i>Strengthening Families</i></p>	<ul style="list-style-type: none"> • Parenting workshops and family programs • Continue provision of crisis intervention services • Continue to support foster care families • Implementation of the Children’s Law
<p>Broad Outcome:9</p> <p><i>Restoring Prudent Fiscal Management</i></p>	<ul style="list-style-type: none"> • Develop robust econometric models for forecasting coercive revenue • Develop and implement a macroeconomic compilation program • Establish and implement mechanisms to provide and encourage fiscal discipline • Undertake a review of the public service focusing primarily on major spending entities • Examine the possibility of divestment of some public assets • Manage Government finance to remain in full compliance with the Public Management and Finance Law
<p>Broad Outcome: 10</p> <p><i>Ensuring Success and Participation of Caymanians in the Financial Services Industry</i></p>	<ul style="list-style-type: none"> • Establish a Financial Services Institute

<p>Broad Outcome: 11</p> <p><i>Supporting our Caymanian Small Businesses</i></p>	<ul style="list-style-type: none"> • Implement programs to assist Caymanians in improving themselves and their communities especially those with bankable propositions who do not have ready access to conventional financing. • Continued offering loans through Cayman Islands Development Banks particularly for small businesses and low income housing • Increased financing for residents from the Sister Islands for housing, small businesses and human resources training.
<p>Broad Outcome: 12</p> <p><i>Preparing our Labour Market for Future Opportunities</i></p>	<ul style="list-style-type: none"> • Amendments to National Pensions Law and Regulations • Implement an E-Government Strategy • Strengthen capacity and performance in promoting the development and application of sound employment and labour policies • Enhance understanding of the supply and demands of our local workforce • Planning and investment in training and learning • Support for the growing numbers of unemployed, including job placement, counseling and interest assessments • Re-organization of the Department of Employment Relations • Implement a National Employment Program • Re-organization of National Pensions Office • New Employment Initiatives including Cayman@Work and Seniors@Work • Establish a national workforce development advisory council • Continue to develop the infrastructure of the Civil Service College • New streamlined labour regulatory regime • Enhanced focus on human capital development and job placement services
<p>Broad Outcome: 13</p> <p><i>Improving the Lives of the Elderly and Disabled</i></p>	<ul style="list-style-type: none"> • New legislation for persons with disabilities • Regulations to deal with poor relief awards • Complete upgrading of Golden Age Home and Joyce Hilton Centre • Complete construction of a new Sunrise Centre and a Senior Citizen's Day Care Centre in North Side • Enhancements to facilities and programmes to advance the cause of persons with additional educational needs and disabilities. • Increased residential and Day Care Services for the elderly and disabled indigent persons • Education on the care and welfare of the elderly
<p>Broad Outcome: 14</p> <p><i>Reducing Substance Abuse</i></p>	<ul style="list-style-type: none"> • Implement the National Strategic Plan for Drug Abuse Prevention and Rehabilitation. • Expand anti-drug campaigns, awareness and interdiction programmes • Continued implementation of a therapeutic milieu

	<ul style="list-style-type: none"> model of treatment • Development and implementation of an array of group treatment options • Revise policies and procedures to reflect current client-centred best practices
<p>Broad Outcome: 15</p> <p><i>Empowering Women</i></p>	<ul style="list-style-type: none"> • Introduction of legislation to contribute to the process of ensuring that the Convention of the Elimination of all forms of discrimination against women is extended to the Cayman Islands
<p>Broad Outcome: 16</p> <p><i>Addressing Energy and the Environment</i></p>	<ul style="list-style-type: none"> • Continue developing environmental health programs in the various districts • Continue developing and enhancing the food hygiene and safety programs • Introduction of the hazard analysis critical control point strategy • Review and updating of local environmental legislation • Development of a National Sustainable Development Framework • Implementation of the National Conservation Law • Planning and implementation of a terrestrial system of protected areas • Climate Change Adaptation and Mitigation, • Implementation of Multilateral Environmental Agreements (MEA) • Prepare development plans for all three islands • Conduct an Island-wide clean up campaign
<p>Broad Outcome: 17</p> <p><i>Strengthening our Infrastructure</i></p>	<ul style="list-style-type: none"> • Implementation of the new constitution • Development of a National Infrastructure Plan • Continue work on new Government Office Accommodation • Expansion of Esterley Tibbetts Highway • Continued upgrading and development of roads in Grand Cayman • Fire Station repairs and upgrades • Development of affordable homes • Long term planning for vault construction and cemetery development • Improve efficiency of the cargo operations by repairing and enhancing the cargo facility in Industrial Park • Improve the efficiency of both the cruise and cargo operations by planning to separate and erect new facilities
<p>Broad Outcome: 18</p> <p><i>Preserving our Culture</i></p>	<ul style="list-style-type: none"> • Development of a Cayman Art History book for cross curricular primary school learning • Commence the purpose built National Gallery and Art Education Centre • Continue to collect material evidence of artistic,

	<p>historic, or scientific significance to the Cayman Islands, both terrestrial and underwater</p> <ul style="list-style-type: none"> • Assist with the development of the Cayman Islands first Shipwreck Preserves • A Traditional Arts Programme (including Traditional Thatch Work Apprenticeship Programme) for Caymanian Masters and Apprentices • Promotion of a national learning culture that creates lifelong learning through the provision of programmes and access to historical and other information research facilities
<p><i>Broad Outcome: 19</i></p> <p><i>Enhancing Agriculture</i></p>	<ul style="list-style-type: none"> • Upgrading of Cayman Brac Agriculture facility • Continued development of Farm Roads in Grand Cayman and Cayman Brac • Continued support of the Market at the Grounds

3. Economic Overview

Introduction

This section outlines the forecasted economic position of the Cayman Islands for the period 2010/2011 to 2012/13. It includes a brief review of the global economic situation and the country's performance from January 2008 to September 2009 to provide the context for the Cayman Islands' macroeconomic forecasts. These forecasts are a key determinant of the Government's Aggregate Financial Targets.

World Economic Position¹

The global economy, particularly the advanced economies, was increasingly depressed since the latter half of 2008 when the financial crisis that originated from the mortgage sector in the United States (U.S.) became more pronounced and spread to other advanced economies. In 2008, global output expanded by 3.0 percent, a significant moderation compared to 5.2 percent a year ago. The advanced economies grew at a much slower rate of 0.6 percent while emerging and developing countries rose by 6.0 percent.

The U.S. was at the epicenter of the crisis as its private sector suffered from a severe squeeze on credit despite large cuts in policy interest rates, and as consumer confidence plummeted with rising unemployment. GDP growth of the U.S. deteriorated in 2008 to 0.4 percent from 2.1 percent in 2007. Canada also suffered from the contagion effect as it grew by 0.4 percent during the period, compared to 2.5 percent in 2007. Meanwhile, economic growth in the Euro area slipped to 0.7 percent in 2008, exacerbated by the recession in Italy and Ireland. In the UK, 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, given the major correction in housing finance and the reliance on household borrowing to support consumption.

Despite low consumer confidence 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 slowing private consumption.

The full impact of the financial crisis is expected to occur in 2009, with recovery in sight in 2010. In 2009, world output is projected to decline by 1.1 percent, its steepest decline since the Second World War. This outlook is cast amidst massive fiscal and policy support particularly in the U.S. and other advanced economies to arrest a prolonged global recession. Output growth in the U.S. is expected to decline by 2.7 percent while the UK and the Euro area economies are projected to contract by 4.4 and 4.2 respectively. Recovery for the advanced economies is expected to be slow and is projected to occur at the second half of 2010.

The weakening of global output growth 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 foreseen to average 0.1 percent among advanced economies, and 5.5 percent among emerging and developing economies.

¹ This assessment is based on the World Economic Outlook (International Monetary Fund, October 2009).

Table 1: Comparative Macroeconomic Forecasts (%)

	2007*	2008*	2009	2010
Real GDP growth (%)				
Cayman Islands	4.4	1.1	(5.8)	(0.9)
United States	2.1	0.4	(2.7)	1.5
World	5.2	3.0	(1.1)	3.1
Consumer Prices Inflation (%)				
Cayman Islands	2.9	4.1	0.1	5.0
United States	2.9	3.8	(0.4)	1.7
Advanced economies	2.2	3.4	0.1	1.1
Unemployment Rate (%)				
Cayman Islands	3.8	4.0	6.3	4.6
United States	4.6	5.8	9.3	10.1
Advanced economies	5.4	5.8	8.2	9.3
Current account of the balance of payments (% of GDP)				
Cayman Islands	(15.2)	(15.2)	(16.3)	(14.6)
United States	(5.2)	(4.9)	(2.6)	(2.2)
Advanced economies	(0.9)	(1.3)	(0.7)	(0.4)

*Latest actual data except for the 2008 GDP and current account of the balance of payments of the Cayman Islands which are forecasts.

Sources: IMF World Economic Outlook (October 2009) for the United States and global data; Cayman Islands Government, Economic and Statistics Office for the Cayman Islands data.

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. The impact will be heavier in 2009: indicators in the first nine months show signs of 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, the financial services industry exhibited the effects of the global economic crisis as all performance indicators softened. Mutual funds and insurance continued to grow but at lower paces compared to 2007. Downturns were recorded in stock exchange listings (-9.7%), new companies registration (-16.7%) while banks and trusts 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 ago while bank and trust company registrations continued on its downward trajectory. Stock exchange listings contracted by 20.6 percent even as new company registrations declined by 21.6 percent.

Air arrivals expanded by 3.9 percent in 2008, a moderation from the 9.0 percent growth recorded in 2007. Cruise arrivals fell by 9.5 percent to reach 1.55 million passengers, which pulled down the total visitor arrivals to 1.86 million or a decline of 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 decreased at a slower rate of 1.9 percent.

Construction indicators were robust in 2008 but dipped anew in the first nine months of 2009 in terms of value. In 2008, the number of building permits was marginally lower but the total value reached \$502.3 million, an improvement by 12.5 percent. Building permits increased in number by 8.6 percent during January -September 2009 but its total value dropped to \$300.1 million.

After softening in 2007, real estate activity marginally improved in 2008 with the number of transferred freehold properties rising by 4.5 percent to 2,289 and valued at \$558.1 million. In the first three quarters of 2009, the sector

suffered a sharp reduction in the number of property transfers by 18.0 percent whilst the total value slumped by 40.0 percent.

The average inflation rate in 2008 was 4.1 percent, higher than the 2.9 percent recorded in 2007 as higher prices for food, oil and petroleum products pushed the index in the first three quarters of the year. In the fourth quarter, these pressures were eased off by a significant drop in utility cost, 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 depressed pressures from oil prices.

Total labour force as of fall 2008 was estimated at 38,998, 4.2 percent higher than in 2007. As expected, unemployment rate rose to 4.0 percent compared to 3.8 percent in fall 2007. In January-September 2009, work permits fell by 9.4 percent, largely on account of declines in demand for foreign labour in construction, financial services and tourism-related services.

Merchandise imports grew in 2008 to \$876.5 million from \$860.0 million a year ago. However, this was on account of the surge in the value of fuel imports by 27.2 percent as consumption goods, intermediate goods and capital goods 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 2009 mainly due to reductions in building materials, transport and transport-related items, tobacco and alcohol, and manufactured products.

In 2008, the fiscal position of the central government deteriorated to a marginal current surplus (total current revenue minus current expenditure) of \$19.5 million or 0.2 percent of GDP, down from 2.2 percent of GDP a year ago. Similarly, the overall balance (total revenue minus total expenditure) recorded a deficit of \$131.1 million, compared to a deficit of \$39.0 million in 2007 due to strong growth in expenditure outlays. The central government's total outstanding debt expanded by 68.7 percent to \$354.9 million as at December 2008. In the first half of 2009, the overall fiscal deficit widened to \$80.8 million as compared to \$1.6 million for the same period a year ago. This came about as total expenditure grew by 10.4 percent while total revenue shrunk by 13.7 percent.

Estimates for the Financial Year 2009/10

The estimated real growth of GDP in 2009/10 is placed at -3.4 percent due to the projected decline in 2009. Specifically, GDP growth rate for 2009 is forecasted at -5.8 percent. These forecasts take into account the local economic indicators in the first nine months of 2009 and the economic outlook for the U.S. and other advanced economies.

Inflation is expected to reach 2.6 percent in 2009/10, compared to 2.1 percent in 2008/9, due mainly to the impact of new revenue measures in 2010 which includes an increase in imports tariff by 2.0 percent. Specifically, local inflation is projected at 0.1 percent in 2009 and 5.0 percent in 2010.

The unemployment rate is forecasted at 5.5 percent for 2009/10, higher than the 5.2 percent forecast for 2008/9. Unemployment rate in fall 2009 is expected to rise sharply to 6.3 percent due to slack in demand for labour across construction, financial services and tourism related sectors. The projected unemployment rate is 4.6 percent in 2010.

For the financial year 2009/10, the deficit on the current account of the balance of payments (BOP) is expected to reach 15.4 percent of GDP. This marginal improvement compared to 2008/09 is premised on a decline in imports and continued weakening of receipts from tourism and financial services in 2010.

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

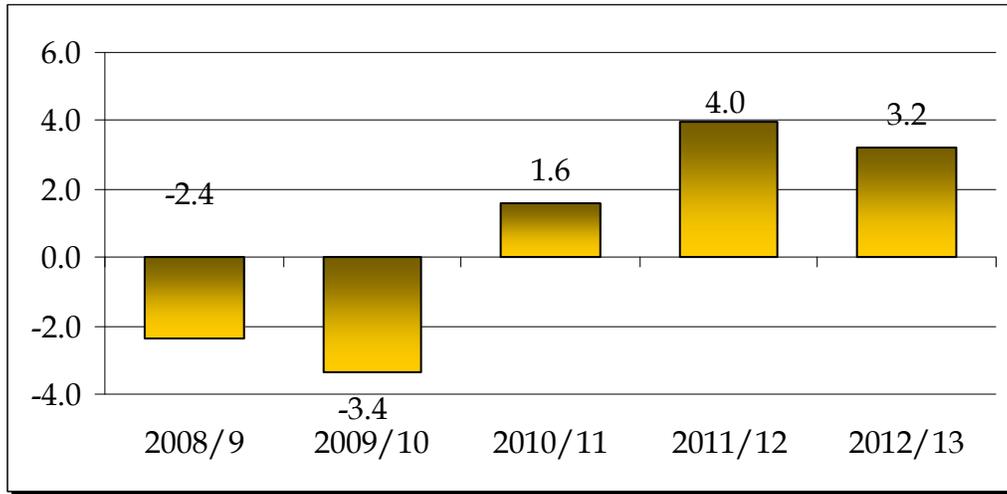
Real GDP. Economic growth in the Cayman Islands is expected to worsen in 2010/11 but this is projected to stage a rebound in the succeeding two years. Given the slow pace of recovery among advanced economies, GDP growth is projected at 1.6 percent in 2010/11 followed by a 4.0 growth in 2011/12 and 3.2 percent in 2012/13 (see Figure 1).

Employment level and unemployment rate. Given the above forecast growth rates, employment levels are expected at 36,414 in 2010/11, 37,428 in 2011/12 and 38,058 in 2012/13 (see Figure 2). The corresponding unemployment rates are forecasted at 3.8 percent in 2010/11, 3.0 percent in 2011/12 and 3.3 percent 2012/13 (see Figure 3).

Inflation. The general price level remains highly influenced by three factors - U.S. price trends, local demand and changes in local tax rates for 2010. Based on tame inflation forecasts for the US, the local inflation forecasts are 4.3 percent in 2010/11, 3.2 percent in 2011/12 and 2.6 percent in 2012/13 (see Figure 4).

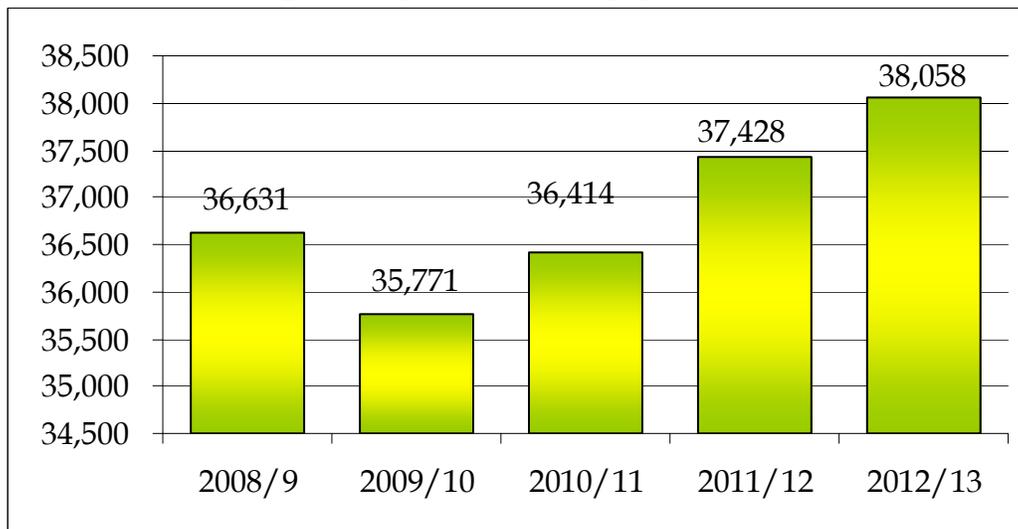
Current account. The current account of the balance of payments measures the total value of the country's transaction against the rest of the world in terms of trade in goods and services, income and transfers. A deficit in the current account means that the Cayman Islands made more payments to the rest of the world compared to its receipts from these transactions. In the next three years, the current account deficits are forecasted at 14.9 percent of GDP in 2010/11, 15.5 percent in 2011/12, and 16.0 percent in 2012/13 (see Figure 5).

Figure 1: Cayman Islands' Real GDP Growth (%)



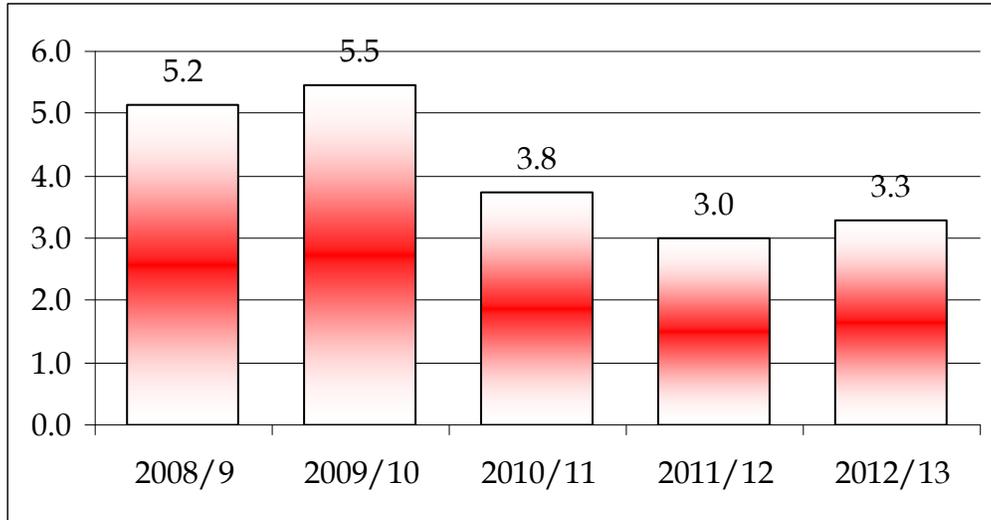
Source: Cayman Islands Government (Economics and Statistics Office)

Figure 2: Cayman Islands' Employment Level



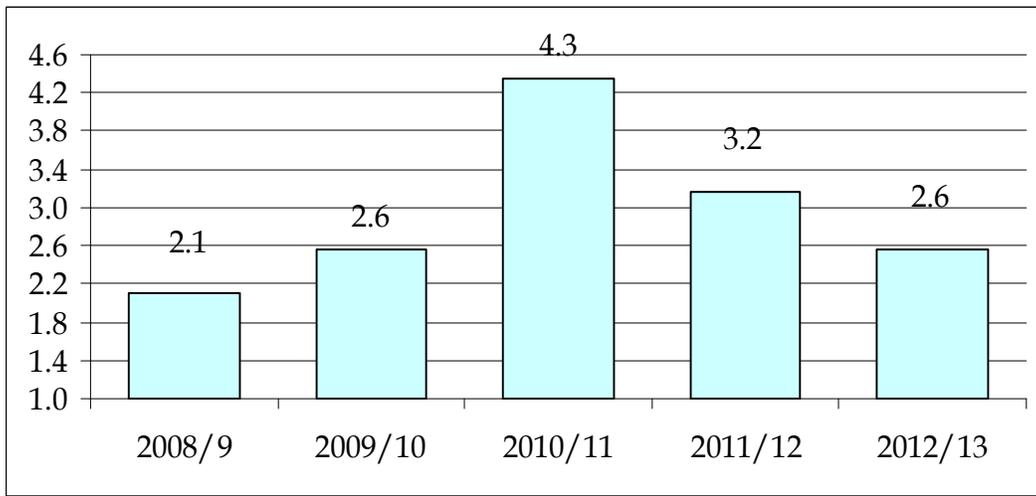
Source: Cayman Islands Government (Economics and Statistics Office)

Figure 3: Cayman Islands Unemployment Rates (% of Labour Force)



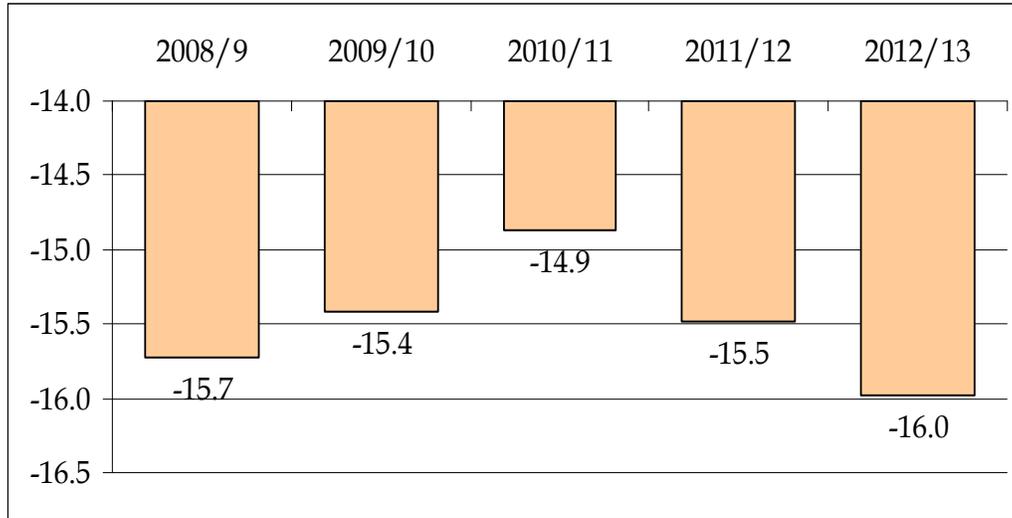
Source: Cayman Islands Government (Economics and Statistics Office)

Figure 4: Cayman Islands' Inflation Rates (%)



Source: Cayman Islands Government (Economics and Statistics Office)

**Figure 5: Cayman Islands Current Account of the Balance of Payments
(% of GDP)**



Source: Cayman Islands Government (Economics and Statistics Office)

Significant Assumptions Underlying the Economic Forecasts

The prevailing outlook of depressed global economic activity in 2009 has been mirrored in Cayman’s economic indicators in the first nine months of the year, and is expected to continue to do so throughout the rest of the year up to the first half of 2010. In the second half of 2010, economic recovery among advanced economies is expected to boost their consumer confidence and employment. Their spill-over effects on Cayman is expected to benefit local industries, particularly in 2011.

In addition to the recovery of external demand, it was assumed that local property development projects currently in various stages of preparation along with a cruise ship port and a new cargo port will be implemented to boost construction services and other related industries beginning 2010/11.

The government is expected to implement various revenue measures to finance its deficit and the amortization of government debt. The potential impact of these measures is expected to be inflationary and carries the risk of depressing economic growth in 2010. The planned reduction in government spending will also heighten the risk against recovery.

Unlike the credit difficulties abroad, it is assumed that the retail banking sector will maintain its robust supply of credit to businesses and households.

Finally, inflation forecasts continue to hinge on the use of the current CPI basket. A new CPI basket will be introduced starting in the second half of 2009 and forecasts based on this new basket are assumed not to vary significantly from the current forecast. The general outlook of commodity prices is derived from the global outlook.

4. Aggregate Financial Targets

Introduction

In addition to achieving the Government's broad policy objectives, the Budget must comply with the Principles of Responsible Financial Management (the Principles) specified in the PMFL. Accordingly, the SPS is required to specify the aggregate financial targets for the Core Government on which the Budget will be based, and show that those targets comply with the Principles.

This section specifies the aggregate financial targets for the Core Government established by Cabinet for the 2010/11 Budget and the planning targets for the 2011/12 and 2012/13 Budgets. The targets for 2011/12 and 2012/13 provide a planning guide for the Government and will be updated in subsequent SPS documents in light of changes to the financial position of the government and/or policy priorities.

This section also outlines the fiscal strategy and rationale on which the aggregate financial targets are based as well as explaining how the targets comply with the Principles.

The Government's Fiscal Strategy

The Government's fiscal strategy continues to be similar to that outlined in the 2009/10 Budget. This strategy is centered on the primary goal of keeping the Government's finances compliant with the Principles of Responsible Financial Management and consists of the following five main components:

Strategy 1: Controlling Government Expenditure

Over the past four financial years the Government's Annual Operating Expenses grew by 41% from \$372.19 million in 2005/6 to \$525.98 million in 2008/9. This rate of increase is not sustainable and the UDP Government is taking definitive steps to address this in a sensible and logical manner. This SPS, therefore, has established clear targets which will slow this unacceptable level of growth; resulting in substantial decreases in operating expenditure below the current levels by 2011/12 and 2012/13.

Accordingly, the Government is fully committed to full compliance with all the principles of the Public Management and Finance Law (2005 Revision); and this is therefore the first, and most important, element of the Government's fiscal strategy. It is, and will continue to be, a key driver of the Government's financial decision-making.

Strategy 2: Strict Management of Public Debt

The Government recognizes the significance of managing public debt in order to keep it at affordable and acceptable levels. To achieve this, we will only borrow for capital investments and then only, when it is well within the limits prescribed in the Principles of Responsible Financial Management. This strategy is important in order to keep some capacity for the Government to borrow; if necessary to respond to emergency situations and also to minimise the burden on future generations.

Strategy 3: Revenue Enhancement

The third element of the Government's fiscal strategy relates to the development and implementation of a more stable and sustainable revenue base for the Government. Continuing the efforts which commenced with the 2009/10 Budget, the government will continue to explore suitable options for new revenue streams, carefully considering the greater economic and financial impact on the people of the Cayman Islands.

Strategy 4: Financial Improvement of Statutory Authorities and Government Companies

The fourth element of the Government's fiscal strategy is to minimise losses from the public authority sector over the next three years. Ultimately, our goal would be to have this sector achieve a breakeven position and to this effort, the Government is committed to working with the relevant Boards to implement appropriate policy actions necessary to realise this goal.

Strategy 5: Public Private Partnerships

The fifth element of the Government's fiscal strategy relates to the need for ongoing development of our country's infrastructure in order to support economic development. The Government will continue to seek partnership with qualified third party entities for the development of large expensive capital projects. The primary objective of this strategy is to minimize the financial burden for these developments on the public purse while simultaneously creating economic opportunities.

Aggregate Financial Targets for 2010/11 – 2012/13

Targets

The aggregate financial targets for the Core Government established by Cabinet for 2010/11 and the subsequent two financial years are provided in Table 3.

*Table 3
Aggregate Financial Targets for Core Government*

Financial Measure	2009/10 Approved Budget \$000s	2010/11 Target \$000s	2011/12 Target \$000s	2012/13 Target \$000s
Operating Targets				
Operating Revenue	562,218	580,000	585,000	590,000
Operating Expenses	(531,864)	(531,300)	(522,300)	(522,300)
Surplus Before Financing	30,354	48,700	62,700	67,700
Financing Expenses	(20,839)	(25,925)	(27,050)	(26,550)
Surplus (Deficit)	9,515	22,775	35,650	41,150
Balance Sheet Targets				
Borrowing (balance outstanding at year-end)	495,616	504,616	489,116	470,216
Net Worth	568,653	591,428	627,078	668,228
Cash Flow Targets				
Net Operating Cash Flows	29,456	50,075	62,950	68,450
Net Investing Cash Flows	(63,024)	(69,700)	(49,700)	(49,700)
Net Financing Cash Flows	80,072	9,000	(15,500)	(18,900)
Net Movement in Cash	46,504	(10,625)	(2,250)	(150)
Closing Cash Balance	136,927	126,302	124,052	123,902

Basis for the Targets

The targets in this 2010/11 SPS have been derived from a thorough forecasting exercise with the Ministries/Portfolios. This has allowed the Government forecasts to more accurately reflect the expected financial impact of Government's policy priorities. As part of the forecasting exercise, operating revenues and expenses as well as capital investment forecasts were updated. These forecasts were reviewed to ensure that they are sustainable over the medium term; particularly in relation to capital expenditure and financing, and also that they are consistent with the Principles of Responsible Financial Management.

Explanation of the Targets

The aggregate targets fall into three groups: operating targets, balance sheet targets and cash flow targets.

Operating Targets

The operating targets reflect the three main numbers from the operating statement: operating revenue, operating expenses and operating surplus/deficit. The surplus/deficit is the key operating measure.

A healthy operating surplus is targeted throughout the three -year forecast period. These surpluses are consistent with the Government's fiscal strategy outlined above and will be used to fund essential social and economic infrastructure projects contained in the capital program.

The Balance Sheet Targets

The balance sheet reports the assets and liabilities of the core government and the difference between them is termed "net worth". Net worth can be thought of as the amount the citizens of the Islands have invested in the government and is equivalent to shareholder funds in a company.

The balance sheet targets reflect the two main measures important to assess a government's financial position: borrowings and net worth.

Aggregate borrowing (i.e. the balance outstanding at the end of the period) is expected to increase over the forecast period. This is consistent with the Government's fiscal strategy (see the fiscal strategy discussion above) and will be used to fund the development of new infrastructure. The borrowing levels targeted comply with the Principles throughout the forecast period.

Net worth is targeted to increase steadily over the period. This is consistent with increases in the operating surplus targets over the three years.

Cash Flow Targets

The cash flow targets relate to the three categories that make up the cash flow statement: operating cash flows (operating receipts and payments), investing cash flows (equity injections and the purchase or construction of assets) and financing cash flows (borrowing).

Net operating cash flows are targeted to remain at healthy positive levels. This reflects the operating surplus targets and is a deliberate fiscal strategy as these cash surpluses will be used to partially finance the Government's capital programme, thereby reducing the borrowing requirement.

In line with the Government's policy priorities, substantial net investing cash flows are targeted throughout the forecast period in order to fund the capital expenditure programme for the next three years, including new schools, a new Government Office Building and improved road infrastructure.

The net financing cash flows reflect the Government's anticipated borrowing programme over the period. This level of financing is consistent with the Government's fiscal strategy outlined above.

The cash position is targeted to be 90.4 days which reflects the requirement of the PMFL for the Government's cash reserves to be no less than 90 days of executive expenditure in 2010/11, 2011/12 and 2012/13. The targeted closing cash balances for each of the three years satisfies the level of cash reserves required by the Principles of Responsible Financial Management.

Compliance with Principles of Responsible Financial Management

Table 4 summarises the extent to which the aggregate financial targets comply with the Principles. The table shows that the targets comply with all the Principles in each year of the forecast period.

Table 4
Compliance with Principles of Responsible Financial Management

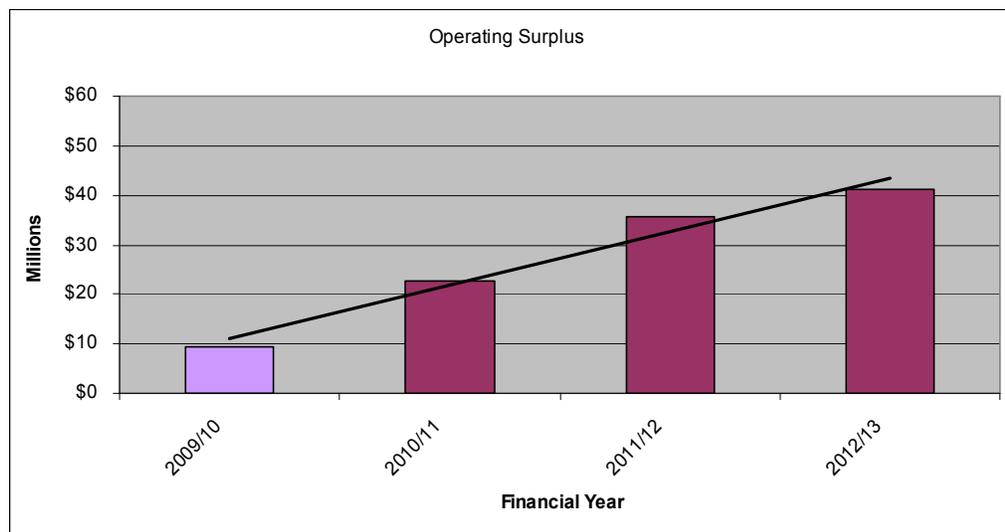
Principle	Degree of Compliance
<p>Operating surplus: should be positive</p> <p>(Operating surplus = core government operating revenue – core government operating expenses)</p>	<p>Complies in all years</p> <p>2010/11: \$22.775 million 2011/12: \$35.650 million 2012/13: \$41.150 million</p>
<p>Net Worth: should be positive</p> <p>(Net worth = core government assets – core government liabilities)</p>	<p>Complies in all years</p> <p>2010/11: \$591.428 million 2011/12: \$627.078 million 2012/13: \$668.228 million</p>
<p>Borrowing: Debt servicing cost for the year should be no more than 10% of core government revenue</p> <p>(Debt servicing = interest + other debt servicing expenses + principal repayments for core government debt and self financing loans)</p>	<p>Complies in all years</p> <p>2010/11: 9.1% 2011/12: 9.82% 2012/13: 9.89%</p>
<p>Net Debt: should be no more than 80% of core government revenue</p> <p>(Net debt = outstanding balance of core government debt + outstanding balance of self financing loan balance + weighted outstanding balance of statutory authority/government company guaranteed debt - core government liquid assets)</p>	<p>Complies in all years</p> <p>2010/11: 79.5 % 2011/12: 76.4 % 2012/13: 72.4 %</p>
<p>Cash Reserves should be no less than 90 days estimated executive expenses</p> <p>90 days in 2010/11 90 days in 2011/12 90 days in 2012/13 (Cash reserves = core government cash and other liquid assets)</p>	<p>Complies in all years</p> <p>2010/11: 90.4 days 2011/12: 90.3 days 2012/13: 90.2 days</p>
<p>Financial risks should be managed prudently so as to minimise risk</p>	<p>Complies in all years</p> <p>Insurance cover exists for key assets and major potential liabilities.</p> <p>Hurricane preparedness strategy in place</p>

Overview of the Projections

Figures 6 to 13 provide the financial projections for the periods 2010/11 to 2012/13. In summary the projections show:

- Net surplus position in each of the projected fiscal years. These projections are conservative in nature and assume minimal growth to revenue over the period along with continued prudent controls over operating expenditures.
- There is also a steady increase in the Government's projected net worth position. This is reflective of the continued surplus position being forecasted and is a positive indicator of the financial health of the Government (see Figure 6).
- The Government intends to borrow \$61.0 million over the next 3 financial years in order to finance its planned capital programme (see Figure 9). This borrowing is affordable over the medium and long term as the financial position is projected to remain fully compliant with the Principles of Responsible Financial Management throughout that period.
- Cash reserves will decrease in tandem with a decrease in operating expenditures allowing the Government to always maintain a minimum of 90 days of executive expenditures at the end of each financial year as required under the Public Management and Finance Law (2005 Revision).

Figure 6
Government Operating Surplus



KEY

Budget

Forecast



Figure 7
Government Net Worth

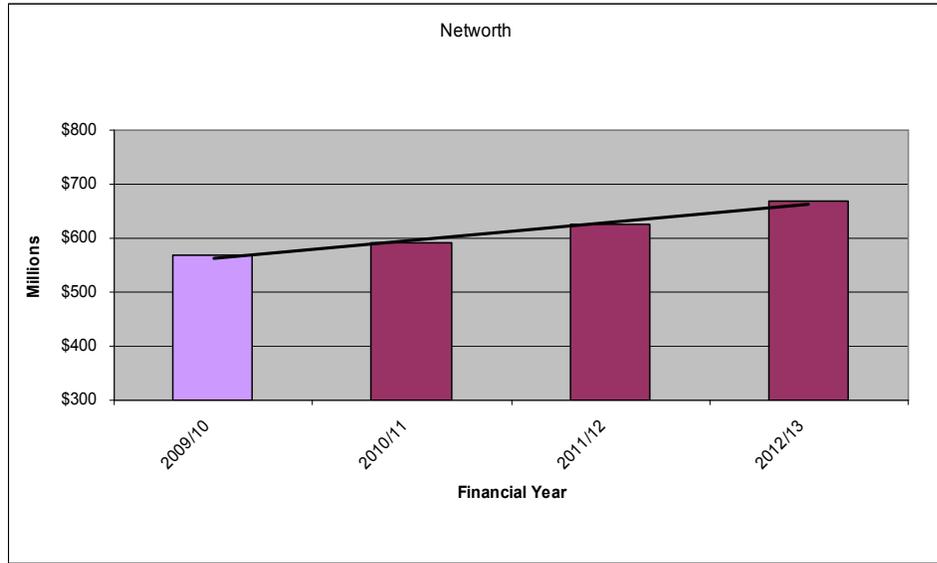


Figure 8
Executive Capital Investment Expenditure

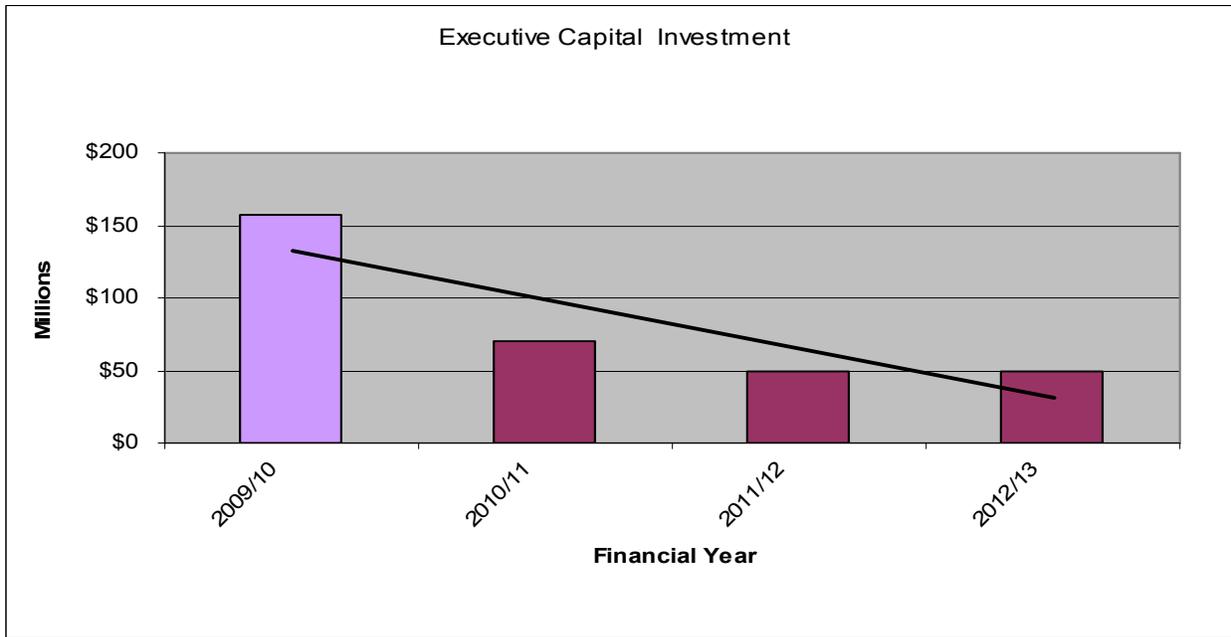


Figure 9
Government New Borrowings

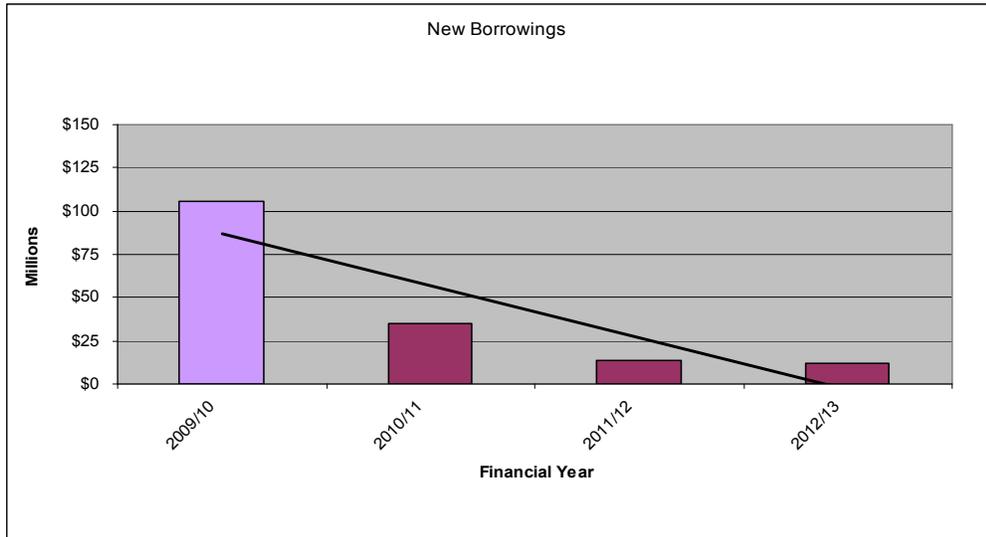


Figure 10
Government Public Debt Balance

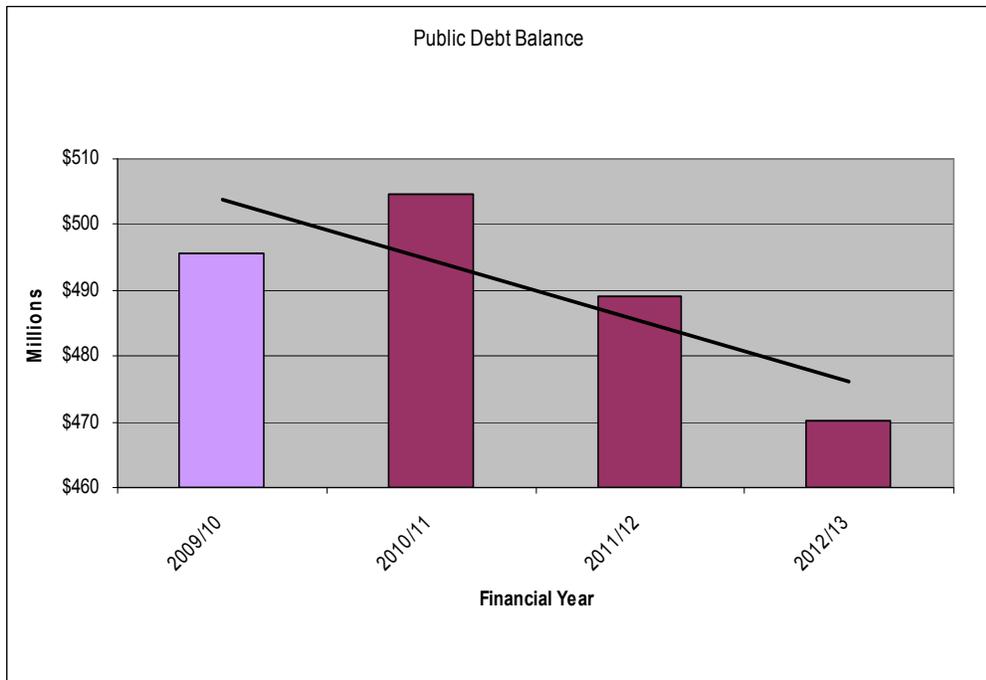
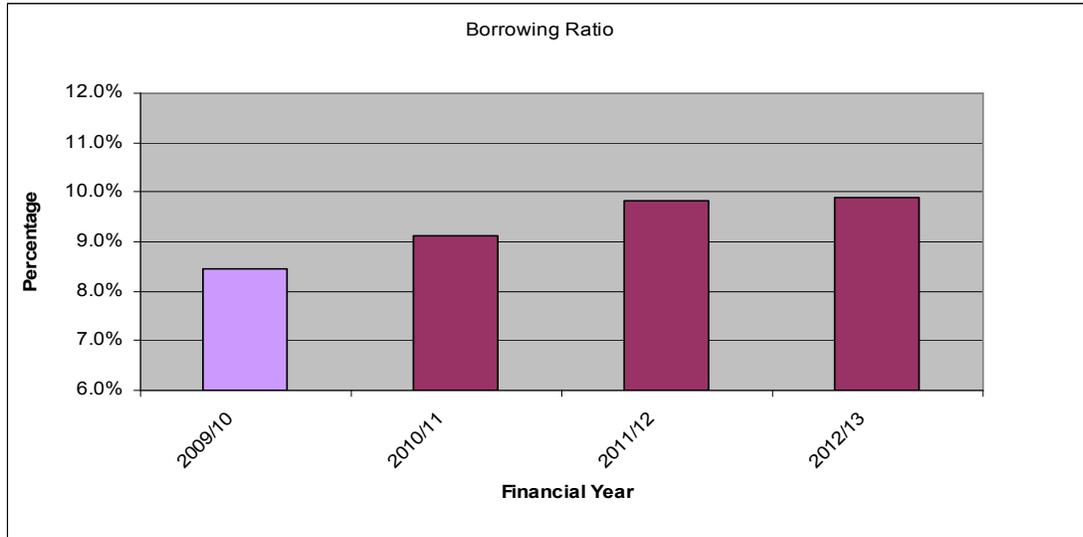
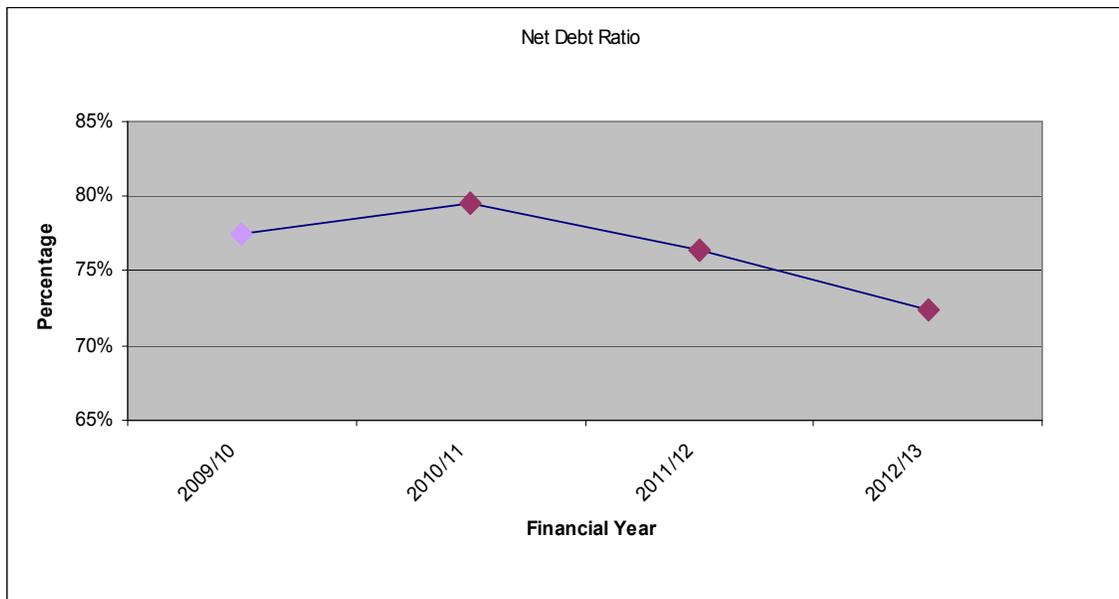


Figure 11
Borrowing Ratio



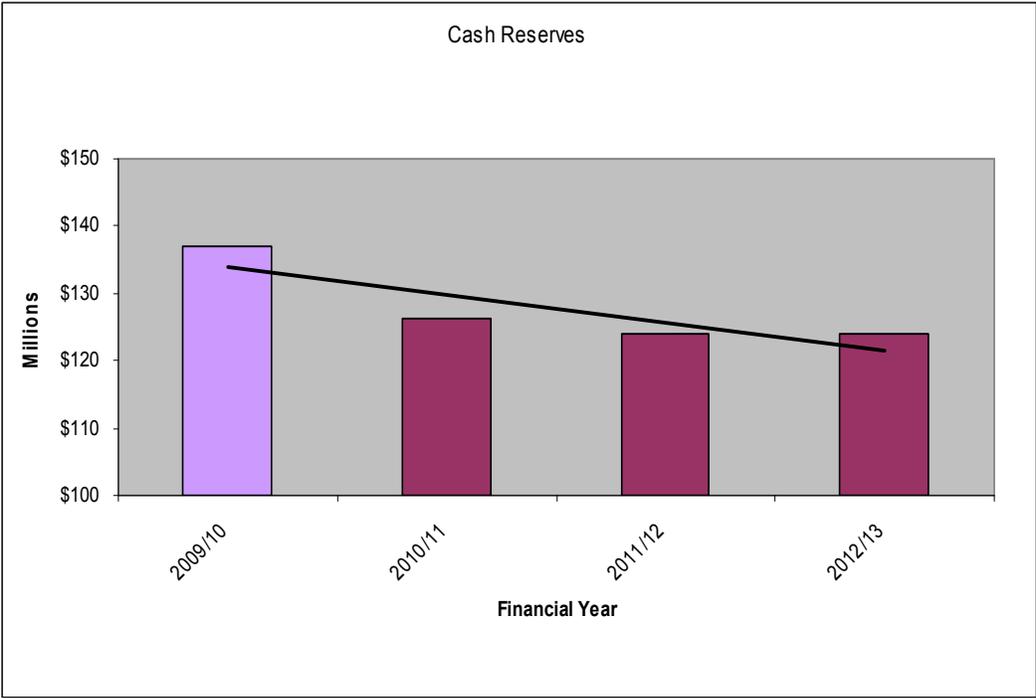
KEY: Budget Forecast

Figure 12
Government Net Debt Ratio



KEY: Budget Forecast

Figure 13
Cash Reserves Amount



KEY: Budget Forecast

5. Financial Projections

Introduction

The Government has developed a set of financial projections to help guide the setting of the three year fiscal targets.

Table 5

Fiscal Measure (\$Millions)	2009/10 Approved Budget \$000s	2010/11 Target \$000s	2011/12 Target \$000s	2012/13 Target \$000s
Operating Surplus (before financing)	30.354	48.700	62.700	67.700
Net Worth	568.653	591.428	627.078	668.228
Executive Capital Investment Expenditure	168.201	70.000	50.000	50.000
New Borrowing (during the fiscal year)	106.000	35.000	14.000	12.000
Borrowing (balance outstanding at year-end)	495.616	504.616	489.116	470.216
Cash Balance	136.927	126.302	124.052	123.902

6. Financial Allocations

Introduction

In accordance with the requirements of the PMFL this section specifies the indicative financial allocations to individual members of Cabinet for the 2010/11 Budget. These allocations are used as the basis for the Premier, Ministers and Official Members and their Ministries, Portfolios and Offices to establish their outputs and detailed budgets for the 2010/11 financial year.

Operating Allocations

The aggregate financial targets set out in Section 4 establish the operating limits for the core government for the 2010/11 financial year. These include the total operating expenses for the forecast year.

Operating expenses are made up of two broad categories of expenses:

- Expenses of Ministries and Portfolios which are funded by revenue earned by them from sources other than Cabinet; and
- Executive expenses, being expenses incurred by the Cabinet in funding the outputs they are purchasing from Ministries, Portfolios, Statutory Authorities, Government Companies and Non-Governmental Output Suppliers, the cost of transfer payments and various other miscellaneous executive expense items.

Although the overall level of Government expenses is important for the financial management of the government as a whole, executive expenses are the focus of budget allocations. This is because executive expenses represent the amount Cabinet has to spend on buying outputs or funding other interventions.

Table 6 provides the indicative allocations of executive operating expenses to the Premier, each Minister or Official Member for the forecast period. These allocations represent the amount available for the Premier, each Minister or Official Member to purchase outputs from their ministries/portfolios, statutory authorities and government companies, and other third parties (Non-Governmental Output Suppliers) and to fund transfer payments or other executive operating expenses for which the member of Cabinet is responsible.

Capital Allocations

The aggregate financial targets set out in Section 4 also establish a limit for capital expenditure.

It comprises the following:

- Executive investing cash flows, being the investing cash flows controlled directly by Cabinet.

The executive investing cash flow is the focus of the budget allocations because it represents the amount that Cabinet has at its disposal limit to spend on capital.

Table 7 provides the indicative capital (or investment) allocations to each Minister or Official Member for the forecast period. This allocation can be used to fund one of three capital items: equity investments into Ministries, Portfolios, Statutory Authorities, Government Companies; acquisition or replacement of executive assets; or loans-made.

Table 6
Executive Operating Expenditure Allocations

Cabinet Member	2010/11 \$000	2011/12 \$000	2012/13 \$000
Premier (Cabinet Office)	15,334	14,680	14,495
Minister of Finance, Tourism and Development*	132,140	128,015	127,494
Minister of District Administration, Works and Gender Affairs	67,789	65,289	64,780
Minister of Education, Training and Employment	94,634	93,786	93,786
Minister of Community Affairs and Housing	38,915	38,915	39,544
Minister of Health, Environment, Youth, Sports and Culture	60,033	58,785	58,562
Deputy Governor (Portfolio of Internal and External Affairs)	77,581	76,830	76,830
Head of the Civil Service	18,899	18,400	18,630
Attorney General (Portfolio of Legal Affairs)	7,893	8,261	8,520
Attorney General for Chief Justice (Judicial Administration)	8,365	8,365	8,565
Public Accounts Committee (Audit Office)	688	688	758
Oversight Committee of the Legislative Assembly (Complaints Commissioner)	977	977	1,027
Total Executive Expenditure Allocation	523,248	512,991	512,991

*N.B. As a result of the implementation of the new constitution, the Portfolio of Finance and Economics and the Ministry of Financial Services and Tourism has been merged and renamed the Ministry of Finance, Tourism and Development.

Total allocation of \$132.1 million, therefore includes \$47.590 million for the Portfolio of Finance and Economics, and \$27.8 million for Financing Expenses.

Table 7
Executive Investment Allocations

Cabinet Member	2010/11 \$000	2011/12 \$000	2012/13 \$000
Premier (Cabinet Office)			
Minister of Finance, Tourism and Development	10,900	11,000	10,000
Minister of District Administration, Works and Gender Affairs	18,000	17,000	29,750
Minister of Education, Training and Employment	28,500	5,000	3,000
Minister of Community Affairs and Housing	5,980	7,000	2,500
Minister of Health, Environment, Youth, Sports and Culture	2,500	5,000	2,500
Deputy Governor (Portfolio of Internal and External Affairs)	4,000	4,500	2,000
Head of the Civil Service		100	50
Attorney General (Portfolio of Legal Affairs)	60	200	100
Attorney General for Chief Justice (Judicial Administration)	60	200	100
Public Accounts Committee (Audit Office)			
Oversight Committee of the Legislative Assembly (Complaints Commissioner)			
Total Executive Investment Allocation	70,000	50,000	50,000

7. Conclusion

This Strategic Policy Statement establishes the policy and financial framework on which the 2010/11 budget will be prepared.

The policy goals and financial parameters outlined in this document clearly reflect a continuation of the policies established by the UDP Government. Those policies are based around nineteen broad outcomes which include: Creating a vibrant yet stable and sustainable economy, setting the stage for success in Tourism, addressing crime and policing, education, developing our youth, improving healthcare, strengthening our infrastructure and a better way forward for Cayman Brac and Little Cayman.

The financial targets set out in this SPS allow for the funding of various interventions to progress the key policy initiatives relating to these outcomes. Particularly, the targets provide for delivery of a capital development programme which includes continued work on the Clifton Hunter and John Gray High schools, new Government Office Accommodation, road network infrastructure and other significant assets. This capital programme will be funded primarily by operating surplus and minimal borrowings over the three year forecast period.

At the same time the financial targets reflect the Government's fiscal strategy: be fiscally responsible; acquire the resources necessary to address the country's social and economic infrastructure needs; and support the ongoing economic development of the country. Updated long-run fiscal projections continue to show that the targets are sustainable beyond the forecast period and therefore remain affordable.

This Strategic Policy Statement shows that the Government remains focussed and committed to delivering on its manifesto commitments. It shows that the Government is continuing with the policy direction it has established since coming into office, and it shows that the Government is continuing to manage the country's finances diligently, responsibly and prudently.



Honourable W. McKeeva Bush, OBE, JP
Premier
Minister of Finance, Tourism and Development

18th November, 2009