

**2009-2010  
STRATEGIC  
POLICY STATEMENT**

**BY  
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Madam Speaker, around this time every year, Government is required by law to fulfil an important obligation to this Honourable House. It is required to submit, for the consideration and approval of Honourable members, a broad outline of the strategic parameters that will inform the preparation of the budget for the forthcoming fiscal year. In this instance, we are referring to the 2009-2010 fiscal year beginning on July 1, 2009.

And so, in compliance with the relevant provisions of the Public Management and Finance Law as revised in 2005, I dutifully present, for the consideration and approval of this Honourable House, the Government's 2009-2010 Strategic Policy Statement (SPS). As is usually the case, the SPS does not allocate resources to individual expenditure items. Neither does it specify particular initiatives which Government intends to pursue. All of these details will be provided when the Annual Plan and Estimates are presented on Budget Day 2009.

### **THE GLOBAL ENVIRONMENT**

Madam Speaker, this presentation of the 2009-2010 SPS takes place against the backdrop of a worrying downturn in the global economy. So deep and complex is

the crisis that some experts are saying the world is facing a situation almost similar to the Great Depression of the 1930s.

Several leading economies, most notably the United States, Japan, Germany and Canada, have already slipped into recession. In fact, it was recently acknowledged that the US economy was in recession for almost a year. Other economies, including the United Kingdom, appear to be tottering on the brink. Big or small, developed or developing, every country is being adversely affected in some way by the present global slowdown.

Amidst this unfolding global scenario, a few million workers have already lost jobs and the numbers are expected to rise even further as companies continue to shed staff in response to falling demand for their products and services. To give you a general picture of the worsening unemployment situation worldwide, the International Labour Organization – the ILO – is forecasting that the number of persons out of work will reach 210 million by late 2009. This figure represents an increase of 20 million from a year ago.

Global financial markets are in turmoil. This was triggered in large part by a worsening of the sub-prime mortgage crisis in the United States during the past year. Thousands of hapless American homeowners have become casualties of the crisis, as a result of losing their properties through foreclosure after defaulting on loans.

The sub-prime mortgage crisis has contributed significantly to instability in the banking industry. Major institutions, not only in the USA but also elsewhere, found themselves overexposed in the collapsed US housing market and suffered consequences. Lehman Brothers, a leading U.S.-based international banker, collapsed after Government turned down its appeal for a bail-out. It has been the biggest banking casualty so far.

The collapse of Lehman Brothers only aggravated the crisis in the financial markets, forcing the Bush administration to rethink its initial opposition to bail-outs. Subsequently, other leading financial institutions, including the AIG Group and Citibank, have received a life-line from government that has enabled them to remain afloat. As a result of these developments, credit has become particularly

hard to obtain, not only for businesses or governments looking to raise capital but also for individuals for routine spending purposes.

As I speak, the US Congress is getting ready to vote on a US\$15 billion bail-out for the country's three largest automobile manufacturers -- General Motors, Ford and Chrysler. The three were asking for a US\$34 billion rescue package to ease pressure off the industry amid plunging vehicle sales linked to the slowdown in the global economy.

The credit crunch has contributed to a noticeable fall-off in consumer spending, especially in the United States, the world's leading consumer market. The one per cent decline in consumer spending recorded in October, was the biggest in the US since 2001. These days, global stock markets are volatile and share prices are on a downward trend. Overall, the global economic environment is characterised by much uncertainty. Generally speaking, it seems as if the world is pinning considerable hope on the policy direction of the incoming administration of US president-elect Barack Obama who takes office next month.

In the meantime, investors are understandably cautious about taking risks in new ventures. This resulting slowdown in investment is compounding the slowdown in global economic activity. The link is quite obvious because in market-driven economies, the private sector is assigned the key role of 'engine of growth'. The immediate outlook is for these trends to continue, certainly into 2009, and perhaps for a year or even two beyond.

In recent weeks, it seems the only bright spot on an otherwise gloomy horizon has been a welcome decline in oil prices. After soaring steadily over the past year, oil prices reached an all-time high of near US\$150 a barrel around the middle of the year. Then, in a dramatic reversal, they plunged gradually over the past five months to reach US\$40 by last Friday, their lowest level in four years. It is estimated that crude oil prices have dropped by an average of a dollar a day in the last three months.

The dramatic surge in oil prices, coupled with a steep rise in commodity prices especially for certain food staples, only added to the pressure on most economies in the last year. Needless to say, consumers were hit hard in their pockets. It meant having to fork out more money to eat and to travel. Adding to the pressure was the

fact that incomes were either stagnating or declining in real terms as a result of rising inflation. High oil prices drove up production costs which, in turn, pushed up the prices of most manufactured goods and services to consumers.

Government has been mindful of the financial pressure which the combination of rising food and oil prices has placed on consumers in the Cayman Islands over the past year. The Cayman Islands import virtually everything we consume and thus, despite our best efforts, the problem has proved to be a really tough nut to crack. In the case of food, there was very little further government intervention could do to ease prices as most food items already enter the country free of duty. However, as you are aware, Madam Speaker, we have done something which is now finally bringing down electricity prices.

Under the new agreement which Government has negotiated with the Caribbean Utilities Company (CUC) and which took effect earlier this year, consumers were to benefit from an average 15 per cent reduction on their electricity bills. However, as the agreement was taking effect, oil prices unexpectedly shot up by around 30 per cent, effectively negating the price reduction which consumers were to start receiving.

Madam Speaker, that is the simple truth of the matter. It is not that the agreement with CUC was a bad one, as some persons would like us all to believe. No one could have anticipated when the agreement was being negotiated that oil prices would have subsequently soared to the levels that they did. However, the good news is that now that prices have fallen -- and are continuing to fall, consumers are finally starting to reap the benefits of the agreement with CUC.

In fact, CUC has announced that customers will see a reduction on their bills for November. This is a direct result of a drop in the fuel charge, a consequence of falling oil prices on the world market. This situation is expected to improve even further over the coming months. For instance, for January 2009 bills which will reflect November 2008 fuel costs, small residential consumers will pay approximately \$105 for monthly consumption of 500 kWh compared to \$176 paid last September at peak fuel prices. This represents a 40% reduction in their bill.

Medium residential customers who paid \$348 for 1000 kWh last September will pay \$205 in January for the same level of consumption, a 41% reduction. And for the large residential consumer of 1800 kWh who paid \$637 in September, that bill will also fall by 40% to \$380, a reduction of over \$250 for the month.

As a result of the new agreement with CUC which took effect in January 2008, consumers can look forward to paying a January 2009 electricity bill that will be lower in real terms than was the case in 2005. This is a direct result of the rate reduction by CUC, the fuel duty rebate by the Cayman Islands Government, along with the falling fuel prices on the world market.

The outlook for fuel prices for the rest of 2009 is also positive based on the projections of the Energy Information Administration. This is the official energy statistic source for the US Government and its outlook is for crude oil prices to average \$51 per barrel in 2009 compared to \$100 in 2008.

Oil is a major component in the generation of electricity in the Cayman Islands. It is inevitable, therefore, that the price of oil on the world market will directly influence the price of electricity paid by the consumer.

Madam Speaker, this Government also took a number of actions to ease the pressure off motorists at the pump. To be specific, we required gas stations to start prominently displaying their prices to give motorists an opportunity to make

informed comparisons and decide where it is cheapest to buy. This has had the positive effect of evening out the price of fuel across stations at the lower end of the price spectrum. We also required distributors to justify any proposed price increases and seek approval of the Chief Petroleum Inspector before implementation. These actions have contributed in some way to bringing down prices at the pump.

We are going another step further. Under new regulations coming into effect shortly, distributors of petroleum product will also be required to justify any planned price increases for propane or cooking gas. Before they can introduce the proposed increases, it must be okayed by the Chief Petroleum Inspector. Madam Speaker, the evidence is there and it is irrefutable. Government has been looking out for the interests of the consumer.

Within recent weeks, a clear consensus seems to be emerging among policy-makers on the most effective way to counteract the global economic slowdown. From a policy perspective, it is being proposed that governments must take the lead through fiscal stimulus packages and pump much-needed cash into flagging domestic economies through a combination of tax breaks and capital projects. This

approach is quite similar to what happened in response to the Great Depression of the 1930s when the world embraced the formula put forward by the great British economist, John Maynard Keynes.

At the recent summit of the G20 nations in Washington, it was agreed that fiscal policy must be emphasized in shoring up faltering economies. In subsequent remarks, the Managing Director of the International Monetary Fund (IMF), Mr. Dominique Strauss-Khan, endorsed this approach. Some governments have already started moving in this direction.

For example, the incoming US administration of President-elect Barack Obama has announced plans to spend billions of dollars on modernizing key infrastructure – bridges, highways, schools, et cetera. Obama's proposed stimulus package also includes tax breaks for the average American – the man and woman on Main Street, as the incoming president describes them. The Government of China too is taking a similar route. It has announced plans to spend US\$560 billion to boost economic growth which has been stymied by falling demand for its exports.

And, three weeks ago, the British Chancellor of the Exchequer, Alistair Darling, unveiled a stimulus package worth 20 billion pounds. Its objective is to stimulate declining consumer spending and help cushion the impact of a deep recession which is expected to hit the UK in the New Year.

### **THE DOMESTIC CONTEXT**

Madam Speaker, I have provided this brief overview of the prevailing global environment to clearly illustrate the challenging context in which Government has to pursue its economic objectives for the Cayman Islands over the coming year. Now, some persons may ask: “What has all of this got to do with us? Where is the connection?”

Such questions would not take us entirely by surprise. There are certain persons, some in positions of influence and who should really know better, who would have Caymanians believe that we are islands unto ourselves, cut off from the world. The conclusion to be drawn from this flawed line of reasoning is that we are pretty much insulated from the external environment, and do not have to be really concerned with what is happening in the rest of the world.

Madam Speaker, persons who espouse such a misleading view are not only engaging in intellectual dishonesty but are also doing a great disservice to the noble cause of public education and enlightenment. A reality of living and doing business in the globalized world of today is the increasing level of interdependence among countries and economies.

Needless to say, the fortunes of the Cayman Islands are inextricably tied to the fortunes of the global economy. Therefore, what happens on the international scene does matter to us. Through tourism and financial services, the two pillars of our economy, the Cayman Islands are fully integrated into the global economy.

When the global economy is doing well, we are presented with opportunities to reap significant benefits. As the evidence shows, this is precisely what happened during the past decade when our economy recorded phenomenal growth and prosperity in the country increased. Unfortunately, when things are going badly with the global economy, we inevitably will experience some fall-out. However, we can determine to some extent how much of the fall-out we will experience based on how we respond.

We are basically faced with two choices. We can behave as helpless victims of the circumstances, hopelessly throw our hands up in the air, and do nothing else. Alternatively, we can take bold and decisive action to minimize the impact of any fall-out. Madam Speaker, this Government has opted for the latter approach and it will be reflected in the 2009-2010 budget. We are trying in everything we do to be pro-active in dealing with this global crisis.

We intend to keep a close eye on developments and, as the situation warrants, we will take appropriate action not only to address challenges head-on, but also to seize any opportunities which may arise and from which we can benefit. Because we may not come out publicly and discuss every single detail of what we are doing, it does not mean Government is not working assiduously in looking out for our national interests.

I wish to emphasize this point because it is pretty obvious that attempts are on to discredit this government through an aggressive campaign of disinformation and deception. As a government which has publicly committed itself to being transparent and accountable, we are not averse to being criticized. We welcome criticism as long as it is constructive. Indeed, constructive criticism can serve as a

catalyst to finding effective solutions. As a government, we do not claim to have all the answers.

If our country is to grow and mature, and our people truly empowered through the acquisition of knowledge to tackle the various challenges of life with confidence, we must have more wholesome public debate, especially via the media. Public debate which highlights not only the problems but which seeks, more importantly, to encourage outside-the-box thinking to come up with innovative solutions. In this way, our country and people will benefit.

Despite the enormous challenges we face arising from the global crisis, the overriding goal remains the same for this PPM Government over the coming year. As we have repeatedly made clear since our election to office back in 2005, we are committed to improving the overall quality of life for Caymanians and residents of our three beautiful islands – Grand Cayman, Cayman Brac and Little Cayman.

Every policy, every project, every initiative of this government over the past four years, was undertaken in support of this goal. Be it improving and expanding the

road network to ease traffic congestion, building new schools and upgrading the curriculum to better equip our young citizens for the increasingly competitive world of work, increasing opportunities for home ownership, or improving the health sector and expanding the range of services available to our citizens.

These are but a few examples. There are so many other achievements of this government that I can point to. Madam Speaker, any fair evaluation of this Government's performance will show that we have made significant headway in advancing our goal of making life in the Cayman Islands better. Now, in light of the challenges arising from the global crisis, a primary objective of Government's policy over the next year must be to safeguard these gains to prevent any erosion of our quality of life.

### **ECONOMIC OUTLOOK**

According to the most recent forecasts by the Government's Economic and Statistics Office (ESO), it seems the global downturn will have its greatest effect on the Cayman Islands economy during the current fiscal year. Taking this expectation into account, the ESO is forecasting that the Gross Domestic Product (GDP) will grow marginally by 1.2 per cent in this fiscal year, down from 1.9 per cent in 2007-08. GDP reflects the total output of goods and services by a country

within a specified period. It is the most commonly-used yardstick for measuring an economy's performance.

Madam Speaker, when you consider that the GDP of many countries are in decline because of recession, 1.2 per cent growth for the Cayman Islands in the present trying circumstances is not so bad after all. It is a laudable achievement because it shows we are managing to weather the storm and to keep our heads above the choppy waters. That the economy is still growing, albeit at a slower rate, supports what we have been saying all along. Namely, that the fundamentals of our economy remain strong, despite the U.S. economy being in recession and other external challenges.

Looking to the next two years, the latest ESO forecasts give cause for guarded optimism. During the coming 2009-2010 fiscal year, the economy is forecast to start showing signs of a rebound and is expected to grow slightly faster at 1.7 per cent. It is projected to pick up some momentum during the following financial year – that is, 2010-2011 -- when a much higher growth of 2.5 per cent is anticipated.

These forecasts by the ESO are based on three key assumptions: firstly, an acknowledgement that the global slowdown will have some impact on key local sectors; secondly, that the local credit market will remain resilient, and thirdly, that consumer confidence will remain stable.

As you can appreciate, Madam Speaker, no one can predict the future with 100% accuracy. Hence, it is important to point out that these forecasts can change depending on how the international situation evolves especially over the next year.

However, I wish to emphasize the importance of this country staying on the present course. Changing course is too fraught with uncertainty and risk. It is akin to gambling with the future. What the Cayman Islands need now more than ever is to have all hands on deck and united around a common goal. With a clear eye, a cool head, and a steady hand on the wheel, I have every confidence we will pull through.

Since taking office in 2005 under the most trying circumstances left by Hurricane Ivan the previous year, this government has proved it can competently manage the

economy. Under the watch of the PPM government, the economy grew by 6.5 per cent in 2005. The following year, it grew by a further 4.6 per cent before slowing to 1.9 per cent in 2007, when the initial winds of the present global storm started to be felt.

In contrast, under the previous UDP government, the economy grew by a mere 2 per cent in 2003 when conditions for growth were far more favourable. The figure slipped to 0.9 per cent in 2004. If our critics wish to be taken seriously, then they need to spell out clearly how they propose to do better than we have done. And I do not mean empty rhetoric that sounds impressive to the ear but offers little of substance when it comes to implementation. I mean specific, concrete proposals that can be subjected to the most rigorous scrutiny.

Madam Speaker, as I have said before, the international crisis poses a direct threat to our economy through the tourism and financial services sectors which rely heavily on the global economy for most of their business. However, available evidence suggests that despite being under some stress, both sectors are holding their own. Naturally, we are hoping and praying that this trend will not only

continue but also improve. And we are taking a number of important measures to enhance Cayman's offerings and environment to bolster these key industries.

## **TOURISM**

With the approach of the peak winter tourist season, available information indicates that bookings on the whole are going reasonably well. Generally speaking, our hotels are saying that they expect at least to do as well this winter as they did last year. This should be seen as encouraging news when you consider that some Caribbean tourism destinations are struggling. So much so that some hotels in the region have alluded to the possibility of lay-offs if a pick-up in business does not occur anytime soon.

What seems to be working to our advantage is the fact that our tourism product essentially caters to the upper end of the market. This category of visitor appears to be less vulnerable to the impact of an economic downturn as customers in other segments of the market, especially the mass segment. As a result, persons at the upper end of the market are less likely to forego taking an annual overseas vacation just because their country's economy happens to be in recession.

Had the fortunes of our tourism been tied to the mass market, the picture most likely would have been quite different. Another factor which is working in Cayman's favour is this Government's strategic decision to increase airlift out of the key North American market for this winter season at a time when several Caribbean destinations are actually facing a decline in airlift.

Thanks to the recent launch of new flights by our national airline, Cayman Airways, following an expansion and upgrade of its fleet, we now have access to two additional U.S. gateways – Chicago and Washington, D.C. This was a conscious policy decision of Government to boost market opportunities for our tourism during these challenging times. Writing recently in the Cayman Islands Journal, the Executive Director of the Cayman Islands Tourism Association noted that these new services will not only “stimulate the market for potential visitors” but will also create “a potential for new business”.

Despite these positives, we cannot afford to be complacent. We have to redouble our efforts to ensure that the Cayman Islands remain a destination of choice in the market niche where we are competing. We have to keep looking at how we can enhance the overall visitor experience so that our customers have the satisfaction

of knowing they are getting excellent value for their money whenever they choose the Cayman Islands.

So much for the land-based segment of our tourism industry. The cruise segment, on the other hand, is going through a challenging period. Some of it is related to the global situation. However, there is another dimension and it stems from an apparently growing perception in the marketplace that the Caribbean is becoming a stale destination.

While we are pursuing various initiatives, such as providing better berthing facilities, to enhance the attractiveness of the Cayman Islands as a cruise destination, a solution to the perception problem has to be found through a regional approach.

There are some persons who play down the importance of the cruise ship visitor vis-à-vis the stay-over visitor. However, as government sees it, both visitors are important. They contribute in different ways to our economy. Our duty free shops,

bars, restaurants, taxis, attractions, and other tourism-related services derive significant business from the cruise sector.

More importantly, the cruise passenger is a potential stay-over visitor for the future. If a cruise passenger is impressed by his or her experience during the brief stay, the temptation is there to come back for a longer stay. It is our business to ensure that this conversion takes place.

I wish to laud our various local tourism stakeholders for the generally pro-active approach they have taken in response to dealing with these challenging times. As a result, we have effective strategies in place today to support the viability of the Cayman Islands as a leading holiday destination during this difficult period.

Last January, in response to clear signs that the global economy was heading for a nose-dive, the Ministry of Tourism convened a strategic meeting of tourism stakeholders for the purpose of reviewing and revising the destination's marketing and sales strategies. Particular attention was paid to the United States as it is our leading market.

Participants at this strategic meeting included the Department of Tourism's staff ; the agencies responsible for sales promotions, public relations, media buying and advertising; Cayman Airways; local attractions; hoteliers; and representatives from the Cayman Islands Tourism Association and the Sister Islands Tourism Association.

As a result, new plans were developed to suppress the extent to which US recessionary forces would impact upon the Cayman's tourism sector. These plans honed in on our target demographics with household income ranging between \$100,000 to \$300,000 depending on seasonality. They also relentlessly pursued key markets comprising families, dive, romance, and events.

After successfully increasing our marketing presence in the United Kingdom over the past two years – a decision that has resulted in 6.7 percent growth year to date, the DoT established a dedicated office in Canada this year to increase our sales presence there as well. For 2009, the DoT will continue to research viable opportunities to diversify our source markets for air arrivals by exploring other viable secondary markets whose economic prospects remain strong. Their ability to conveniently access the destination must also be relatively high.

Overall, year to date, the tourism industry is up 8 percent for the 10-month period of January through October 2008. This is well ahead of predictions of only 2 percent annual growth in global tourism this year by the United Nations World Tourism Organization.

Amidst this overall outlook, the tourism industry remains cautiously optimistic about performance in the short term. Expectations for growth in the medium term have been tempered in favour of strategies to preserve market share and brand awareness.

### **FINANCIAL SERVICES**

Madam Speaker, I wish now to devote some time to examining the prospects of our financial services industry, in light of the downturn in the global economy. A major consequence of contracting economic activity worldwide has been a noticeable decline in government revenue. This holds true for the governments of developed countries as well as developing countries such as our own.

Against this backdrop, the governments of a number of leading developed countries have reignited an international debate on the role of offshore financial centres, drawing attention to countries such as our own. Government is not only

closely monitoring international developments that have the potential to affect our financial services sector, but also is fully engaged in what needs to be done to support and protect this vital sector .

Indeed, most of these international developments are not new. They have just acquired, rightly or wrongly, fresh oxygen from the prevailing period of international turmoil in the financial markets. As a result, we are now hearing increasingly talk of the necessary tempering of ‘the invisible hand of the market with the iron fist of regulation’, to quote one US commentator.

We believe balance is important. Hence, as a responsible partner in the global financial community, the Cayman Islands has consistently checked and calibrated our position to ensure that we are on the right side of international regulatory, anti-money laundering, and international cooperation standards. We must adapt to change and challenging circumstances, from a core of strength and integrity.

As we all know, Senator Barack Obama emerged the impressive victor from the November 4<sup>th</sup> US presidential elections. I publicly congratulate President-elect

Obama for his win as I did by letter to him on November 6<sup>th</sup>. Government recognizes the vital importance of maintaining our strong relationship with the United States. We have already had extensive briefings from our Washington DC team. And it is our intention to dispatch a high-level delegation to the U.S. capital to talk with the new administration as soon as it is practical from the DC perspective to do so.

In this regard, our job is two-fold. Firstly, to continue to ensure, to the best of our ability, that facts and fundamentals drive policy, not headlines and sound bites; and, secondly, to ensure that the incoming US administration knows that it can continue to rely on the Cayman Islands to be a partner, not a problem.

I wish now to give an update on what is known as the ‘green list’ of the Organization of Economic Cooperation and Development (OECD). As most honourable members ought to be aware, the Cayman Islands has been an active participant in this OECD exercise since 2000, in particular as a member of the OECD subcommittee known as the ‘level playing field sub-group’. The work of this sub-committee is ongoing and has direct input on OECD developments in the area of transparency and exchange of information in tax matters.

We intend to continue with our policy of constructive engagement in relation to the OECD exercise (and others). Having done our analysis, in consultation and from an ‘insider’s’ vantage point, we are confident on that basis that the track we are pursuing will achieve the right results for the Cayman Islands.

Now to another issue – namely, the European Union Savings Directive. At the Overseas Territories Consultative Committee meeting held in London in late October, the UK Treasury Minister responsible advised that it was too early to yet say what the implications of the EU Savings Directive were for the Overseas Territories. However, he has pledged full consultation.

What I can assure this Honourable House is that Government is directly monitoring developments regarding the EU Savings Directive. We are ready and able to provide input to the UK regarding any proposals for changing this directive. I should like to make three other points related to this issue.

**Firstly**, the UK understands that there is no automatic route between formal changes to the Savings Directive and the Cayman Islands. Our agreed

implementation is contained in 27 bilateral agreements with the EU member states, which would all be subject to re-negotiation if there were changes to the Directive.

**Secondly**, the Cayman Islands are fully compliant with our obligations under the existing bilateral agreements and so there is no question of our not having adhered to our commitments. **Thirdly**, the risk presented by any changes to the Directive will be a direct function of the UK Government's policy approach and the extent to which disproportionate or asymmetric compliance burdens are sought to be applied to the UK's Overseas Territories. If the playing field is level, a position that we'd expect the UK government to support, then the risk profile adjusts accordingly.

Regarding the review involving the Crown Dependencies and Overseas Territories announced by Her Majesty's Treasury in the UK on December 2<sup>nd</sup>, as we have said publicly, given the approach to be taken and the experience of the reviewer, the Cayman Islands are happy to support the review and we are mobilizing accordingly. It is our experience that thorough, thoughtful and objective external reviews are valuable to all parties.

I should also like to note that the government has had a productive series of meetings and discussions with the private sector, not only on international developments, but also on issues and trends within local industry and ways of moving in partnership to address matters that can secure our continued success.

New legislation, new markets and new approaches to consolidating Cayman's position as a first-rank international financial services centre are all part of that strategy for continued success. The meetings and discussions between government and the private sector have re-affirmed the partnership ethic central to Cayman's strength. We are a little country, but together our achievements, our drive and our resolve are not little.

### **GOVERNMENT'S RESPONSE**

Madam Speaker, I now wish to give some insights into how Government has been responding to the global financial and economic crisis. Firstly, let me say that we find it particularly interesting that a global consensus is emerging that sees fiscal policy as the most effective tool, currently available, for kick-starting flagging domestic economies. This Government came to the said conclusion months ago when the Cayman Islands started to really feel the effects of the global slowdown.

This explains why we decided to proceed with the implementation of a number of major capital works projects. Among them, the construction of Government's new headquarters building, new schools, and road improvements. The decision was and is still being roundly criticized, particularly on one talkshow. Our critics say circumstances dictate that a halt should be put to these projects.

However, we have chosen to press ahead with as many as the country can afford, not only because the country desperately needs them but also because we realize that in trying times like these, Government has a moral duty and responsibility to stimulate economic activity.

Besides, these projects represent a strategic investment in building capacity which will redound to the benefit of the country in the future. We do not believe development is achieved through piece-meal solutions that address issues only in the short-term. Rather, we take a medium to long range view of development because we are cognizant that as an economy grows, a country must build the necessary capacity, in terms of both human and material resources, to keep progressing for the benefit of its people.

Admittedly, in the prevailing circumstances of an economic slowdown, the current capital projects are also having an important short-term benefit. What may not be apparent to our blinkered critics is that these projects actually are having a multiplier effect throughout the economy. The money which Government is spending on these projects is generating spin-off business for our hardware stores and other suppliers and helping to keep their staff employed.

Construction workers, who are employed on these projects, use a percentage of their earnings to patronize supermarkets, bars, restaurants, barber saloons and other businesses. Ultimately, these projects are also contributing to economic growth as they will be captured in the calculation of our Gross Domestic Product. Altogether, they have had a positive impact in supporting growth of the economy this year. The fact that our economy is continuing to grow is made even more remarkable in the context of the recent revelation that the US economy has been in recession for the past year.

Contrary to what our critics would have the public believe, Government is not being reckless in managing the country's finances. I must emphasize for the benefit of everyone, especially the general public, that there are strict guidelines

established by law which Government has to abide by. Meeting the country's needs within the confines of a balanced budget is a legal requirement which this government has satisfied every year it has been in office. In fact, surpluses were produced every year. In the 2009-2010 fiscal year, a surplus of \$28.2 million is forecast, up from the \$20.1 million projected for the current fiscal year.

As for the outrageous charge of excessive borrowing, I also need to make it clear that Government is again constrained by law as to how much money it can raise through loans. Under the laws of the land, no more than 10 per cent of government's revenue in any given year can go towards repaying debt. This figure is very low by global standards and represents a most comfortable position for any government to be in.

While these various legal restrictions may hinder us from doing as much as we would like, they impose strong fiscal discipline and forces government as much as possible to live within its means. So that, altogether, Government is required to run a tight operation. Which explains why occasionally some needs cannot be met as swiftly as everyone, including ourselves, would like.

It is not that we are indifferent to people's needs. As we have little choice but to abide by the laws, we can only do as much as available resources will allow at the particular point in time. Needless to say, the unwelcome visit of Hurricane Paloma has placed Government under additional financial pressure. It occurred as Government was starting to feel the effects of a shortfall in revenue arising from the economic slowdown.

To protect the country's fiscal position, cost-saving measures have been instituted. They include a temporary freeze on hiring in the public sector and a mandated 6% reduction in operational expenditure. Additionally, we have decided to finish capital projects already in progress but not to begin work on any new ones over the coming year.

Projects being deferred include the construction of the Beulah Smith High School, the George Town Primary School, the Bodden Town Emergency Response Centre, the seawall at Savannah, and the double lane extension to the Esterley Tibbetts Highway. Projects which are underway and will be completed include the new Government Administration Building, the Clifton Hunter High School at Frank Sound, the new John Gray High School, the annex to the George Town Public

Library, and the boxing gym. A range of necessary road works will also be undertaken during the coming year.

Given the tight constraints under which Government is operating to cushion the impact of the global slowdown, Hurricane Paloma's unwelcome visit has only served to compound the situation. It has introduced pressing needs which must be addressed but which were not anticipated or planned for. These needs could not be ignored. Government therefore has already channelled substantial resources into the relief and reconstruction of Cayman Brac and Little Cayman and will continue to do so.

The private sector and civil society have also pitched in with their contributions. Government salutes their public spiritedness and welcomes this partnership. As demands on the public purse are growing faster than the generation of revenue, we are reaching a stage where it can no longer be realistically expected that Government can meet every need.

A month into the recovery and reconstruction on Cayman Brac and Little Cayman, Government is satisfied that good progress has been made. Admittedly, things may not happen as fast as everyone would like, but things are happening nevertheless. Compared with a month ago, the situation today is much improved and life is gradually returning to normal. In the same way that this Government got Grand Cayman back on its feet after the devastation of Hurricane Ivan, we will do the same for Cayman Brac and Little Cayman.

However, patience is required because building back both islands and attempting to make their infrastructure stronger, will take time. By my calculation, at least six months to a year in the first instance. It just cannot happen overnight. In another demonstration of this Government's commitment to helping the people of Cayman Brac and Little Cayman to rebuild their lives, Cabinet has just agreed to a six-month waiver of import duties on furniture and appliances entering the sister islands.

This measure is intended to help residents with damaged furniture and appliances to replace them. And we are presently seeking the approval of this House for a Government guarantee of up to \$6 million for loans provided to civil servants on

the Brac by the Cayman Islands Civil Service Association Cooperative Union. These loans are to assist civil servants with post-hurricane recovery. Government has also decided to take the further step of paying the interest on all loans guaranteed under this programme.

Madam Speaker, it is regrettable and unfortunate that some persons have deliberately sought to politicize the relief and reconstruction effort. Their voices are conspicuous. It seems their crude aim is to manipulate public opinion in the hope of profiting politically from the tragedy which has befallen the people of Cayman Brac and Little Cayman. They know who they are and should be ashamed of themselves.

However, there was a really heartening piece of news which came out of the Brac a week ago. It came from a well-known and, you could say, credible voice. In essence, it showed that a pledge made by Government regarding the employment of Brackers in post-Paloma reconstruction work has been acted on. This Bracker, whose name I will not call but who is well known nationally, called a local talk show one morning to give an update on the situation. During his contribution, he

made an important observation. He remarked: “Everyone who wants to find work can do so and they are getting paid.”

Government had made it clear up front that there was no need to import workers and that Brackers should be given preference in gaining employment during the reconstruction period, especially persons who had been displaced from their regular jobs. From what the caller indicated, this is obviously happening. Later on in this debate, I intend to bring this Honourable House fully up-to-date on the recovery and rebuilding effort in Cayman Brac and Little Cayman.

Whilst on the subject of employment, it would be remiss of me if I did not seize this opportunity to address the issue in a broader context. A complaint which we hear repeatedly is that the hiring practices of employers seem biased towards foreign labour at the expense of Caymanians. The complaint is usually accompanied by the charge that Government is doing nothing to ensure that Caymanians are given a fair opportunity when it comes to employment.

The charge that Government is not standing up for Caymanians is without foundation. Government always acts whenever hard evidence is presented to support charges of job discrimination against Caymanians. We cannot act unless hard evidence is presented. If I must be very clear, Government supports a Caymanians first policy when it comes to employment, as long as the applicants satisfy the requirements for the job. It is only if suitably qualified or skilled Caymanians are not available or are not interested, that employers should turn to foreign labour.

Admittedly, this policy has not always worked as Government would like. Regardless of our best efforts, some employers will occasionally seek to get around this 'Caymanians First' policy to recruit who they wish. This is not unique to the Cayman Islands. It happens in just about every country. Through a recent amendment to our Immigration legislation, Government is introducing a new system that will allow for more effective management of migration into this country.

In doing so, we are aiming to strike a balance between the needs of employers and the aspirations of Caymanians who want to use their skills to participate in the

economic development of our country. However, Caymanians need to appreciate that there will continue to be a demand for foreign labour as long as the Cayman Islands continue to grow at the rate it has been growing. During the past decades, our economy has expanded so rapidly that job creation has simply outstripped the national capacity to supply all the labour that is needed.

Hence, the recruitment of foreign labour is necessary to make up the shortfall. To support the continued growth of our economy and to ensure that our key industries remain globally competitive and on the cutting edge technologically, especially in these challenging times, it is also necessary to bring in workers with specialist skills which are not available here.

### **NEW APPROACHES**

The recent amendment to the Immigration legislation addresses these underlying issues. Effective January 5, 2009, there will be a new approach to the processing of applications for work permits which previously were handled entirely by the Work Permit Board and the Business Staffing Plan Board.

Under the new approach, approval of certain categories of work permits will be made administratively within the Immigration Department using a carefully chosen checklist of criteria. This move is expected to eliminate a yearly backlog of applications, significantly speed up the approval of work permits, and contribute to improving business efficiency.

Government is committed to working closely with the private sector, as we have done in reforming our immigration procedures, to create a more business-friendly environment. If we accept that the private sector is the engine of growth in our economy, a major part of Government's responsibility is to provide businesses with the relevant support and create the enabling environment.

As a result of this new approach, the Work Permit and Business Staffing Plan Boards will now be able to focus on difficult or sensitive applications and the critical issue of Key Employee designation. Both boards will retain decision making control of all applications where a Caymanian applied for the position; or where there is a signed complaint against a prospective employee on file; or where the Department of Employment Relations identifies that there is a Caymanian who is capable and available for the position.

The Boards will also retain responsibility for determining applications involving the promotion and re-designation of an employee; the revocation of work permits; applications for the grant, renewal or amendment of a Business Staffing Plan, and requests for the waiver of the requirement to advertise a position.

Madam Speaker, we are reforming our immigration procedures in phases. The next phase will focus on combating work permit abuse by unscrupulous employers. Measures will be introduced requiring employers to pre-qualify before they are able to apply for and obtain any work permits. This pre-qualification process will ensure that employers are complying with health insurance and pension requirements in respect of their employees. It will also ensure that employers have programmes in place to ensure that Caymanians are given every opportunity through on-the-job training, mentoring or further education to advance in their careers.

As part of this initiative, mechanisms will also be introduced to reward those employers who stand out as good corporate citizens. The development of this next phase is also being done in consultation with representatives from the private

sector. The joint public - private sector group will be submitting proposals on this next stage to Cabinet by 15 January 2009.

Some persons have criticized the major investment which this Government has made in modernizing our education system during the past four years. They obviously cannot see the link between education and employment. By equipping our people with the skills demanded by the technology-driven modern economy, Government is quietly laying the groundwork for Caymanians to play an increasingly bigger role in building our country and economy. This will have the effect of gradually reducing the need for foreign labour.

## **EDUCATION**

Madam Speaker, a few words on education. While there will be a delay in the start of construction of the Beulah Smith campus and the George Town Primary School, the heart of the transformation process underway over the past three years in our education system, is not merely the provision of physical structures but also a radical transformation of teaching and learning. That process continues unabated.

Dramatic strides are being made towards introducing the International Baccalaureate (IB) Primary years programme in our primary sector (GTPS being one of them). This process will proceed unaffected over the next three years.

At the secondary level, significant improvements have already been initiated in the options programme. This should provide greater opportunities for success for our students who began their options study this school year and those who do so in subsequent school years. September 2009 will see the launch of the IB diploma programme which will provide exciting new opportunities for advanced secondary studies.

Overall, while significant physical constraints will be imposed on our existing facilities as a result of the delays in construction of Beulah Smith and George Town Primary, the Department of Education Services is working to ensure it is able to deliver the critical components of the new secondary curriculum to all high school students. It is expected that we will be able to complete Beulah Smith and George Town Primary in the medium term.

## **AFFORDABLE HOUSING**

Madam Speaker, I wish to speak a bit about the Government's affordable housing programme. Despite the general affluence of our country, there is a segment of our population for whom home ownership would remain an elusive dream without government's support.

It is in response to this social need that Government has introduced the Affordable Housing Programme which has been making a difference. Two agencies are responsible for executing the programme – the Sister Islands Affordable Housing Development Corporation in the case of Little Cayman and Cayman Brac and, here in Grand Cayman, the National Housing Development Trust. Affordable housing will continue to receive major attention during the coming fiscal year.

On Cayman Brac, the Sister Islands Affordable Housing Development Corporation has already constructed six homes on the Bluff, and will continue to develop this site during the course of the 2009-10 financial year. These homes are well

designed and built; indeed, the first batch certainly proved their mettle as they were relatively unscathed by the fury of Hurricane Paloma.

While they were not quite finished at the time Paloma struck, they were to a sufficient state of completion to provide much-needed temporary housing for the relief workers after the hurricane. Once the final touches are completed, and the new owners have their financing in place, these units will be transferred to the new owners. I expect this will be done in fairly short order.

During the coming fiscal year, the SIAH plans to develop additional affordable homes on the Bluff site and on their Tibbetts Turn site. As honourable members ought to be aware, the Government vested these sites to the SIAH during the past year. Together, these two sites provide sufficient land to allow the SIAH to continue to provide more affordable housing solutions for the next few years.

Honourable Members should be familiar with the various programmes of the National Housing Development Trust, as I touched on them briefly when I moved the two vesting motions in this Honourable House on the 5<sup>th</sup> of December. The National Housing Development Trust, or NHDT, has several programmes that are aimed at providing a “helping hand” to those Caymanians who aspire to own their own home but may face some difficulties in doing so.

There is the “**Government Guaranteed Home Assisted Mortgage**” programme (GGHAM) which is targeted at those first-time Caymanian home buyers who have the income required to service a mortgage, but are unable to come up with the lump sum payment that is required. Through the GGHAM programme, which is available to Caymanians on all three of our islands, qualified applicants have a portion of their mortgage guaranteed by Government. This guarantee allows them to obtain financing through banks which are our partners in the GGHAM programme.

Since being launched in late 2007, the GGHAM programme has helped over 126 first-time Caymanians to realise the dream of home ownership. I would like to take

this opportunity to acknowledge the banks which have partnered with Government and to thank them for their participation. The banks are:

- Butterfield Bank
- Cayman National Bank
- Fidelity Bank
- First Caribbean
- HSBC
- Royal Bank of Canada
- Scotiabank & Trust

Earlier this year, the NHDT launched another programme called **Build On Your Own Property**. It caters to qualified applicants who already own land. In this programme, the NHDT provides “bridge financing” to applicants, a range of house plans to choose from, and a list of pre-qualified contractors to build the house. This assistance to the client represents a significant cost saving, and helps to make the new home even more affordable. To date, two homes have been constructed through this programme, and two more are expected to commence shortly.

These support programmes aside, the NHDT is also involved in the actual construction and sale of affordable homes. As members are aware, the NHDT has three existing housing sites – two in George Town and one in West Bay. These sites have provided much-needed affordable housing. However, there is still a lot of unmet demand.

Accordingly, the NHDT has set the goal of identifying and developing affordable housing sites in each of the 5 districts in Grand Cayman. I am pleased to report that significant progress has been made toward achieving this goal. Sites have been identified in each of the 5 districts. Members will be familiar with the proposed sites in West Bay and Bodden Town, as I tabled the vesting reports for those properties just last week.

Subdivision plans for new sites in West Bay, Bodden Town, George Town, and East End have been completed and have either received planning approval or are currently with the Central Planning Authority for consideration. A site in North Side is currently being acquired and I am hopeful that once this is completed,

development will progress fairly quickly. Combined, these new developments will provide some 240 affordable single family homes. I anticipate that the first of these new homes will be handed over to their new owners early in the 2009-10 financial year.

Recognising the importance of these programmes, especially in economically trying times, this Strategic Policy Statement maintains Government's commitment to our two affordable housing agencies.

### **STRATEGIC PRIORITIES**

Madam Speaker, I wish to summarize the Government's priorities in the coming fiscal year. They are as follows:

- To protect the economy from the full impact of the current global downturn.
- To stimulate business activity in order to keep our people working and prevent the economy from slipping into decline.

- To continue much needed capital development projects to the extent that we can afford to.
- To maintain a sound fiscal position by ensuring the usual balance is achieved between spending and revenue.
- To rebuild Cayman Brac and Little Cayman with an emphasis on providing stronger infrastructure that can stand up better to any future hurricanes or natural disasters.
- To do everything that is required to promote and protect the interests of our tourism industry.
- To do everything that is required to promote and protect the interests of our vital financial services industry, with particular attention to the various international challenges and the need to further enhance the attractiveness of

Cayman as a jurisdiction specializing in the provision of international financial services.

- To make the Cayman Islands more business friendly so that more investors will want to come and do business here and support further growth and development of our economy.
- To continue providing support to vulnerable social groups, including our elderly, so that they enjoy a reasonable standard of living.

In this regard, I am pleased to announce that again this year, in time for Christmas, Government has decided to grant an additional \$550 to enhance the lives of our retired seamen, veterans, the elderly and those who receive government financial assistance. We believe this will go some way in enabling them to share in the holiday festivities in a way that might otherwise not have been possible. This extraordinary payment will be made, along with their regular monthly cheque, ahead of Christmas.

Madam Speaker, this government commits itself to pursuing this path and to doing these things which I have just mentioned. Despite the prevailing challenges, this PPM government remains firmly committed to the overall goal of improving the quality of life for Caymanians, as stated in our 2005 election manifesto. We have made significant headway in this regard over the last three years in office. Indeed, we have made our country stronger and in a better position to cope with the challenges arising from the present global downturn.

## **CONCLUSION**

As I was reflecting on the challenging times facing us, my thoughts were directed to some remarks made years ago by the late US civil rights leader, Dr. Martin Luther King Jr. He said and, I quote, "The ultimate measure of a man is not where he stands in moments of comfort, but where he stands at times of challenge and controversy."

Madam Speaker, I believe these remarks are highly applicable in the present circumstances. Naturally, there are some who will have Caymanians believe that there is an easy way out. They speak in terms that suggest it is simply a matter of waving a magic wand and the problems will disappear. Madam Speaker, persons espousing such views have taken leave of the real world. They have entered the

comfort zone of the fantasy world and wish to lead everyone else there to join them. Someday, like Alice in Wonderland, it is inevitable that they will wake up and have to face the real world. Unfortunately, because valuable time would have been lost, the problems will most likely have worsened.

Grappling with challenging times is nothing new to the Caymanian experience. Just four years ago, this nation was put to the test by the devastation caused by Hurricane Ivan. We did not run away. We held hands and faced up to the challenge. Indeed, the speed at which we were able to rebuild is testimony of our resilience when we believe that we can.

If we believe as a country that we will rise triumphantly over these present challenges, we definitely can. When you think about it, there is nothing really unusual about the world entering a recession. It simply happens to be a normal occurrence in the overall scheme of economic things. Economics 101 tells you there will be times of boom followed by times of bust. The world recently went through a period of boom and has now entered a period of bust.

The good news is that this period of bust is not going to last forever. It too will pass and will be followed by another period of boom as a new economic cycle

begins. Getting through this bumpy period requires discipline, sacrifice, prudence and a resolve to pull through. How economies perform largely reflects the behaviour of the people living therein. When people are brimming with confidence, economies tend to do well. When their confidence dips, economies also tend to dip.

At least, there seems to be a glimmer of hope on the gloomy global economic horizon. It is the optimism which the election of Barack Obama as US president, has generated around the world. His victory is seen as an opportunity for the world to change for the better. If Obama can match promise with performance and provide effective leadership on the world stage, he may succeed in rekindling the confidence which is needed to jumpstart the global economy.

The challenges we face present an opportunity for stocktaking, to look at our economy critically, to determine what we have got right and what we have got wrong, and to plan and reposition for future growth and prosperity. If we do so, we will emerge stronger and better and will reap greater benefits when the global economy recovers. We can. We must. We will. Madam Speaker, I am much obliged.