



# 2020

## STRATEGIC POLICY STATEMENT

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GOVERNMENT OF THE CAYMAN ISLANDS



Prepared by:

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Government of the Cayman Islands

## FOREWORD

As required by Section 23(1) of the Public Management and Finance Law (2018 Revision) (“PMFL”), this Strategic Policy Statement (“SPS”) for the next budget period, which consists of two financial years, 1 January to 31 December 2020 and 1 January to 31 December 2021 must be presented to the Legislative Assembly by a Member of Cabinet, not later than 1 May 2019 for approval within two months.

The SPS has an outlook of three financial years and its purpose is to outline the Government’s policy priorities. It also establishes the foundation for the development of the Budgets for the next two financial years – i.e. 1 January to 31 December 2020 and, 1 January to 31 December 2021.

This SPS contains the following elements:

- Economic forecasts for each of the next three financial years;
- Total financial targets for the Core Government for the next three financial years, relating to operating revenues, operating expenses, surpluses, borrowings, net worth and cash reserves;
- An explanation of how the Core Government forecast financial statements accord with the Principles of Responsible Financial Management;
- Targets for operating expenditure and capital investments allocated to each Minister, Official Member, the Office of the Ombudsman, the Office of the Director of Public Prosecutions and the Audit Office for the next three financial years; and
- A summary of the Broad Outcomes, the Specific Outcomes and the links between them, that the Government intends to achieve in each of the next three financial years.

This SPS demonstrates the Government’s continued commitment to managing public finances responsibly – in order to ensure that compliance with the six Principles of Responsible Financial Management is maintained, as required by the PMFL.

The information contained herein is based on the professional judgement of staff in the Ministry of Finance and Economic Development, using the most recent information available on economic conditions, fiscal performance and forecasts. The information takes into account, to the fullest extent possible, all Government decisions made up to 29 March 2019, and all other known circumstances that may have a material effect on the economic and fiscal outlook.

The forward-looking information provided in this document is based on a number of factors and assumptions. Forward-looking financial statements carry an element of inherent risk and uncertainty. As a result, actual results may differ from those forecasted.

**Dates on which the Data Forecasts and Other Information in  
this SPS were Finalised**

Economic Data	12 March 2019
Economic Forecasts	12 March 2019
Fiscal Data	29 March 2019
Fiscal Forecasts	29 March 2019
Finalised Text	8 April 2019

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## MESSAGE FROM THE HONOURABLE PREMIER



This Strategic Policy Statement (“SPS”) sets out the financial framework for the next three years through to the end of 2022. It maintains the principles of sound financial management of the country’s public finances that we set out previously: full compliance with the Public Management and Finance Law; no increases in the fees and duties already impacting households and businesses; achieving sustainable surpluses in government’s operating budgets; and continuing to pay down government debt.

Two years ago, in our first SPS, this Government set out an ambitious programme that aimed to meet the immediate needs of our country and our people while also tackling the long term challenges that we face. Considerable progress has been made and I thank my colleagues across the Government for their support and for their relentless focus on delivering our priorities.

We have delivered strong economic growth and Caymanian unemployment has reduced to its lowest level in a decade. We have protected some of the poorest in our community by raising the guaranteed minimum income of seafarers, veterans, poor relief recipients and long serving civil service pensioners.

We have invested in infrastructure, most notably in the road network, and we have invested in the future of our people as we accelerated the improvement of education in our public schools. We have funded more visible neighbourhood policing and reformed government so we can better protect our borders. We have made government services more accessible by making them available online and improved customer service.

This represents a track record of achievement, but there is more to do if we are to realise our ambitions for our country.

Therefore, the SPS again directs resources in such a way as to continue the delivery of the goals we have set. The eight Strategic Broad Outcomes that this Administration set out two years ago are still the right direction for the Cayman Islands. The more detailed priorities within each of those outcome areas we have updated to reflect changing circumstances, not least the fact that a number of important targets have already been achieved. You can find more details about the priorities that we are working towards in the section in this document that sets out the Strategic Broad Outcomes of the Government.

The Government is working to deliver our programme with a single-minded determination, focused on future prosperity and improving the quality of life for Caymanians. The implementation of our programme depends upon the commitment of this country's talented civil servants. I thank them for their hard work and dedication to achieving the ambitious goals that the elected Government has set out.



**Honourable Alden McLaughlin, MBE, JP**

**Premier and Minister of Human Resources, Immigration and Community Affairs**

9 April 2019

## STATEMENT OF RESPONSIBILITY

The forecast financial statements presented in the SPS have been prepared in accordance with the Public Management and Finance Law (2018 Revision) (“the PMFL”). The statements report the forecast financial results and positions for the Core Government for the financial years ending 31 December 2020, 31 December 2021 and 31 December 2022.

The forecast financial statements were prepared by the Ministry of Finance and Economic Development (“the Ministry”). The Ministry used its best professional judgement in preparing these forecast statements.

The forecast financial statements incorporate all Government decisions and circumstances as at 29 March 2019.

We accept responsibility for the accuracy and integrity of the financial information in these forecast financial statements and their compliance with the PMFL.

To the best of our knowledge, these forecast financial statements:

- (a) are complete and reliable;
- (b) fairly reflect the forecast financial position as at 31 December 2020, 31 December 2021 and 31 December 2022, and performance for the financial years ending 31 December 2020, 31 December 2021 and 31 December 2022;
- (c) include all policy decisions and other circumstances that have, or may have, a material effect on the forecast statements; and
- (d) comply with generally accepted accounting principles as defined by International Public Sector Accounting Standards (IPSAS), except for IPSAS 25, Employee Benefits, as it relates to the accounting for post-retirement benefits and IPSAS 6, Consolidated and Separate Financial Statements, as it relates to the non-consolidation of the Public Service Pensions Board.



**Honourable Roy McTaggart, JP**  
**Minister for Finance and Economic Development**  
9 April 2019



**Michael Nixon**  
**Acting Financial Secretary and Chief Officer**  
9 April 2019



# SUMMARY OF ECONOMIC AND FISCAL FORECASTS

The 2020 Strategic Policy Statement (“SPS”) provides medium term economic and financial forecasts for the Government for the next three financial years covering the period 1 January 2020 to 31 December 2022 along with the Government’s Broad Strategic Outcomes which will guide the development and implementation of Government Policy during this period.

In addition, the SPS sets the parameters for the preparation of the detailed 2020 and 2021 Budgets and provides the Operating Expenditure and Capital Investment targets to be achieved by each Ministry, Portfolio, and Office over the next three financial years.

## Economic Forecasts 2019 – 2022

### Summary of Key Economic Indicators

Key Economic Indicators	Forecast			
	2019	2020	2021	2022
Real Gross Domestic Product (GDP) %	2.8	2.2	2.1	2.0
Consumer Prices Index (avg. %)	2.7	2.2	2.2	2.2
Unemployment (%)	3.5	3.5	3.6	3.8

Overall economic growth in the Cayman Islands is forecasted to increase at steady rates over the medium term. Economic growth, as measured by changes in the Gross Domestic Product (GDP), is forecasted to grow by 2.8% in 2019; 2.2% in 2020; and 2.1% in 2021; and 2.0% in 2022.

The Consumer Price Index (CPI) which measures the change in retail prices is also expected to increase by 2.7% in 2019; followed by increases of 2.2% per year in 2020, 2021 and 2022. These forecasted changes are primarily driven by forecasts in the United States, the principal market from which the Cayman Islands imports its consumer products.

## Fiscal Strategy

The Government remains committed to a fiscal strategy that is centred on the following key principles:

- compliance with the Principles of Responsible Financial Management – in particular, achieving substantial Surpluses each year;
- no new fees or taxes levied on the public; and
- no new borrowings.

The 2020 SPS builds on this central guiding fiscal policy objective for the management of the Government’s finances over the forecast period.

## Summary of Key Fiscal Indicators

Key Fiscal Indicators	2018 FY Preliminary Unaudited \$000	2019 FY Approved Budget \$000	2020 FY Forecast \$000	2021 FY Forecast \$000	2022 FY Forecast \$000
Core Government Operating Revenue	830,155	722,838	829,051	850,954	836,884
Core Government Operating Expenditure	650,580	657,772	734,170	741,743	746,797
<b>Core Government Operating Surplus</b>	<b>179,575</b>	<b>65,066</b>	<b>94,881</b>	<b>109,211</b>	<b>90,087</b>
Public Authorities Net Operating Surplus/(Deficit)	394	(5,781)	795	(1,215)	(1,767)
<b>Entire Public Sector Net Operating Surplus</b>	<b>179,969</b>	<b>59,285</b>	<b>95,676</b>	<b>107,996</b>	<b>88,320</b>
Core Government Year-End Cash Balances	553,848	234,858	284,105	272,591	290,007
Core Government Debt	419,965	286,682	250,113	215,837	181,560

Growth in revenue is driven primarily by increased demand for goods and services as all sectors in the local economy are projected to expand during the forecast period. The Government also anticipates transferring a total of \$74.3 million to General Revenues from various trust accounts whose holding period is scheduled to mature during the SPS period.

The total operating expenditure targets for the Core Government for each of the next three financial years have been set at \$734.2 million for 2020; \$741.7 million for 2021 and \$746.8 million for 2022. This expenditure will be used over the next three years to fund the following key priorities:

- **Ministry of Human Resources, Immigration and Community Affairs** – Improving safety and security through enhanced community policing; improving security of our borders; delivering better management of labour markets; implementation of the immediate priorities in the Older Persons’ Policy; and social assistance programme reform.
- **Ministry of International Trade, Investments, Aviation and Maritime Affairs** – Establishing a new ministry to foster international relations and promote foreign investment in the Cayman Islands.
- **Ministry of District Administration, Tourism and Transport** – Enhancing tourism marketing to high value source markets; continuing service by Cayman Airways to strategic tourism markets; and the continued implementation of the National Tourism Plan.
- **Ministry of Finance and Economic Development** – Increasing funding to the Cayman Islands National Insurance Company for the continued provision of health insurance services to its clients.
- **Ministry of Financial Services and Home Affairs** – Enhancing the Financial Services policy functions of the Ministry and the regulatory services provided by the Cayman Islands Monetary Authority in response to recent international regulatory changes; and building capacity in Cayman Islands Fire Services and Prison Service.
- **Ministry of Commerce, Planning and Infrastructure** – Continuing to develop and implement Information Technology services including improved cyber-security and E-Government initiatives; and the continuation of the George Town revitalisation project.

- **Ministry of Education, Youth, Sports, Agriculture and Lands** – Continuing enhancement of teaching and learning in schools with a focus on increasing the use of online and computerised testing; strengthening core curriculum across primary and secondary schools; funding for scholarships for advanced, specialised tertiary education – such as Medical and Special Education Needs; and supporting and promoting growth in the agriculture sector.
- **Ministry of Health, Environment, Culture and Housing** – Implementing the Integrated Solid Waste Management System and the commencement of operations of the new Long Term Residential Mental Health Facility.

The total capital expenditure target for the Core Government over the next three financial years has been set at \$383.4 million to address critical investment in areas such as education facilities, road infrastructure, solid waste management, improvements to public safety facilities and continued support of Statutory Authorities and Government Companies (SAGCs).

The Government is forecasted to maintain year-end cash balances averaging \$282.2 million over the SPS period and full-compliance with the Principles of Responsible Financial Management.

The Government does not intend to incur any new borrowings and plans to fund all of its operating expenditure and capital investments from cash generated from its operations.

# ECONOMIC FORECASTS

## ***Introduction***

This section presents a review of the domestic and global economic performance in 2018 as well as updated macroeconomic forecasts for 2019 to 2022 along with their major underlying assumptions.

## ***World Economic Performance and Forecasts<sup>1</sup>***

Global demand remained robust in 2018, evidenced by a 3.7 percent expansion in world output, similar to the previous year. The improvement reflected growth in investments and international trade among advanced economies and emerging markets. Advanced economies grew by 2.3 percent, compared to 2.4 percent for the previous year with most major economic groups recording strong growth. Global economic activity is projected to expand at a similar pace of 3.7 percent in 2019 and 2020, largely arising from an expected pickup in growth among emerging markets and developing economies.

The United States of America (US) economy expanded by 2.9 percent in 2018 relative to 2.2 percent in 2017, driven by higher levels of personal consumption expenditure, non-residential fixed investment and government consumption. Government consumption expenditure and gross investment rose by 1.5 percent relative to a 0.1 percent decline in 2017. Growth in the US is expected to slow to 2.5 percent and 1.8 percent in 2019 and 2020, respectively, as the impact of the fiscal stimulus diminishes.

Economic growth in the United Kingdom (UK) slowed to 1.4 percent in 2018, its lowest growth in six years. The slowdown in growth was reflected in most sectors. Growth in the UK is expected to recover gradually to 1.5 percent and 1.6 percent in 2019 and 2020, respectively. Economic growth in the Euro Area decelerated to 1.8 percent in 2018 from 2.4 percent in 2017, and is expected to moderate further in 2019 to 1.1 percent as uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets appear to impact economic sentiment<sup>2</sup>.

Emerging markets and developing economies as a group expanded by 4.6 percent in 2018, slightly lower than the 4.7 percent recorded in 2017. Growth in net exports and private consumption, particularly in China and India, were the main contributors to the improved outturn. Higher levels of fixed investment also supported growth in this group. Latin America and the Caribbean region had an estimated economic growth of 1.1 percent in 2018, a deceleration relative to the previous year. Growth in the region is projected to accelerate to

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<sup>1</sup> This assessment is based generally on the World Economic Outlook (International Monetary Fund (IMF), January 2019 update.

<sup>2</sup> European Central Bank [https://www.ecb.europa.eu/pub/projections/html/ecb.projections201903\\_ecbstaff~14271a62b5.en.html](https://www.ecb.europa.eu/pub/projections/html/ecb.projections201903_ecbstaff~14271a62b5.en.html), March 2019

2.0 percent and 2.5 percent in 2019 and 2020, respectively. Generally, emerging markets and developing economies including the Caribbean are expected to grow at an average pace of 4.7 percent for the period 2019 to 2020.

**Table 1: Comparative Macroeconomic Indicators and Forecasts (%)**

	2015	2016	2017	Projections 2018	Forecast			
					2019	2020	2021	2022
<b>Real GDP growth (%)</b>								
Cayman Islands*	2.8	3.1	3.0	3.4	2.8	2.2	2.1	2.0
United States	2.9	1.6	2.2	2.9	2.5	1.8	1.7	1.5
Advanced Economies	2.3	1.7	2.4	2.3	2.0	1.7	1.7	1.5
World	3.4	3.3	3.7	3.7	3.7	3.7	3.6	3.6
<b>Consumer Prices Index (avg. %)</b>								
Cayman Islands	(2.3)	(0.7)	1.9	3.3	2.7	2.2	2.2	2.2
United States	0.1	1.3	2.1	2.4	2.1	2.3	2.2	2.2
Advanced Economies	0.3	0.8	1.7	2.0	1.7	2.0	2.0	2.0
<b>Unemployment (%)</b>								
Cayman Islands	4.2	4.2	4.9	2.8	3.5	3.5	3.6	3.8
United States	5.3	4.9	4.4	3.8	3.5	3.4	3.6	3.6
Advanced Economies	6.7	6.2	5.6	5.2	5.0	4.9	4.9	4.8
<b>Current Account of the Balance of Payments (% of GDP)</b>								
Cayman Islands*	-13.8	-14.9	-19.4	-18.2	-19.5	-16.7	-16.5	-14.7
United States	-2.2	-2.3	-2.3	-2.5	-3.0	-3.2	-3.3	-3.4
Advanced Economies	0.7	0.7	0.9	0.7	0.5	0.5	0.4	0.3

\* The GDP growth and current account balance for 2018 are preliminary estimates based on actual indicators as of November 2018.

Sources: IMF World Economic Outlook (January 2019) for the United States and other global data; and the Cayman Islands Government, Economic and Statistics Office for the Cayman Islands data.

## ***The Cayman Islands' Economic Performance in 2018***

**GDP Growth:** Robust demand in the international market supported the continued expansion of the Cayman Islands' economy, with gross domestic product (GDP) estimated to have grown by 3.4 percent in 2018 based on indicators available up to November 2018. The economic expansion brings the average growth over the last five years to 3.0 percent.

Growth in 2018 remains broad-based with all sectors expanding, led by accommodation and restaurants, construction, and business services (mainly legal and accounting). Driven by a sharp increase in tourist arrivals, activities in the accommodation and restaurants sector is estimated to have soared by 10.6 percent in 2018. Growth in the sector benefited from the rise in global income coupled with the expansion in local accommodation capacity, greater marketing efforts, and additional air passenger routes. The expansion of the Owen Roberts

International Airport also significantly increased the capacity to facilitate increased tourism traffic to the Islands.

The construction industry remained a key driver of growth in 2018, expanding by an estimated 8.1 percent and continuing the sustained expansion observed since 2012. A number of infrastructure projects have been completed such as the expansion of the Linford Pierson Highway and the Esterley Tibbetts Highway. The expansion of the Owen Roberts International Airport is near completion. Residential development projects have also contributed to economic activity, stimulated by the growth in population which is estimated at 65,813 persons at the end of 2018.

The business services sector (mainly legal and accounting) is estimated to have grown in real terms by 4.6 percent in 2018, supported by sharp rises in both new company (by 25.1%) and new partnership (by 29.3%) registrations.

Strong growth in domestic credit by the business sector and households indicate a projected growth of 1.8 percent for the financing and insurance sector in 2018, which accounts for approximately 33 percent of GDP.

Other sectors which showed robust growth rates in 2018 were wholesale and retail trade (6.6%); transport and storage (6.4%); manufacturing (6.7%); agriculture and fishing (7.1%), and mining and quarrying (4.2%). Health and social services which showed the strongest growth among all domestic sectors in the previous five years, is estimated to have grown by 4.0 percent in 2018.

**Inflation:** After two consecutive years of deflation in 2015 and 2016 and a recovery in 2017, local inflation remained on the uptrend in 2018. Rising fuel prices in the international market impacted the CPI, along with higher local demand for food, resulting in an average inflation rate of 3.3 percent for the year. The inflation rate rose throughout the four quarters of the year peaking at 4.8 percent in the second quarter and slowing down in the second half. Specifically, inflation during the year was largely driven by electricity cost and airfare which increased by 21.3 percent and 18.6 percent, respectively. Food and non-alcoholic beverages rose by 4.4 percent on average during the year. Generally stable housing rentals moderated the overall inflation rate during 2018.

**Employment:** The solid performance of the local economy in 2018 contributed to a surge in demand for labour during the year. Total employment increased by 9.5 percent to reach 44,743 in the Fall 2018 Labour Force Survey. The rise in demand was more than sufficient to outweigh the 7.2 percent increase in the labour force estimated at 46,044. The unemployment rate thus fell to 2.8 percent, a sharp improvement over the previous year's 4.9 percent.

**Current Account of the Balance of Payments<sup>3</sup>:** Merchandise imports for 2018 increased by 20.9 percent to \$1,059 million from the same period a year ago as demand for goods from abroad surged to support the higher level of economic activity. The total volume of imported fuel products rose by 4.0 percent to 55 million imperial gallons. Higher payments for merchandise imports were partly offset by receipts from tourist arrivals and financial services which increased significantly for the period. The Islands' current account deficit on the balance of payments in 2018 is projected at \$843.2 million or 18.2 percent of GDP.

## ***Projections and Assumptions for 2019 to 2022***

**GDP Growth:** The domestic economy is expected to sustain its expansion path from 2019 to 2022. However, given the latest outlook on the world economy, particularly the projected growth for the US and advanced economies, the pace of expansion is projected to moderate. Growth is projected at 2.8 percent for 2019, and an average of 2.1 percent is forecasted for 2020 – 2022.

All industries are expected to contribute to growth in 2019, led by construction; however, slower growth relative to the pace in 2018 is foreseen for most sectors.

Accommodation and restaurant services have the potential of being impacted by the foreseen slowdown in the US, the major source of the Islands' tourist arrivals. Notwithstanding this external threat, it is assumed that recent improvements in local capacity and services will improve the resiliency of the sector as shown in the January 2019 stay-over arrivals which grew by 5.6 percent to 41,365. Growth in air arrivals continued to be driven by visitors from the US and Canada. New creative entertainment events are expected to support the projected growth of 5.0 percent in 2019. The average growth for the sector in 2020 – 2022 is forecasted at 4.3 percent. The latter is assumed to benefit from large-scale projects that were launched recently such as the Grand Hyatt Hotel and Hilton/NCB Hotel.

The construction sector is expected to continue to be a driver of economic growth as existing works in progress support a projected expansion rate of 8.0 percent for 2019, with further growth averaging at 4.3 percent forecasted for 2020 – 2022. These projections assume the implementation of three new hotel projects and proposed residential and commercial development projects, as well as the announced expansion of Health City, planned road works and the proposed construction of a waste-to-energy plant. Additionally, construction activities arising from other public sector projects such as the proposed George Town cruise berthing and cargo port project has the potential of bolstering the outlook for the sector. These projects will not only provide additional value to the construction sector; they are also expected to facilitate the diversification of the service sectors in the economy over the long-term.

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<sup>3</sup> The current account of the balance of payments measures the total value of the Islands' transactions 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.

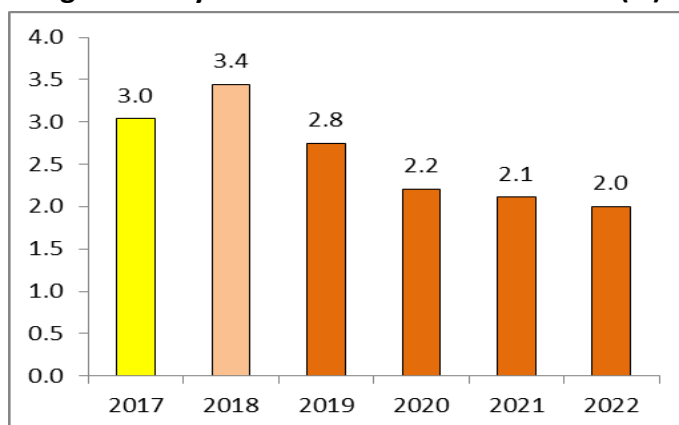
The financing and insurance sector is expected to continue its stable performance over the medium term, contingent mainly on continuing growth in domestic lending associated with the projected pace of output. The potential for the Federal Reserve Bank to gradually increase interest rates will, however, continue to pose a risk to the demand for credit. The sector, along with business services (mainly legal and accounting) could also be impacted by changes in regulation as the government seeks to adhere to international requirements, such as the economic substance requirement. Any negative impact from the latter, however, has not yet been observed in recent trends of new company and new partnership registrations. The projected growth for the financing and insurance sector in 2019 is 1.6 percent while average growth for 2020 – 2022 is forecasted at 1.5 percent. Business services is projected to grow by 3.5 percent in 2019 with further growth in 2020 – 2022 forecasted at 2.7 percent, contingent on moderate growth for new company and new partnerships registration.

The projected growth in the above-cited sectors are expected to provide spillover benefits for other sectors such as wholesale and retail trade; mining and quarrying; transport, storage and communication; real estate; and electricity and water supply. Consequently, output and employment in these sectors are forecasted to rise over the period.

Given the Government’s prudent fiscal posture, it is assumed that it will be mainly supportive of private sector growth without the need to push spending to further stimulate domestic demand over the medium term.

The above assumptions support a forecast growth in real GDP of 2.2 percent for 2020, 2.1 percent for 2021 and 2.0 percent for 2022 (see Table 1 on page 8 and Figure 1 below). The lower growth rates relative to 2018 are premised on the projected growth for the US and the rest of the advanced economies, albeit the impact is foreseen to be partially mitigated by new projects and the growth in services arising from the completed projects and new service offerings.

**Figure 1: Cayman Islands’ Real GDP Growth (%)**



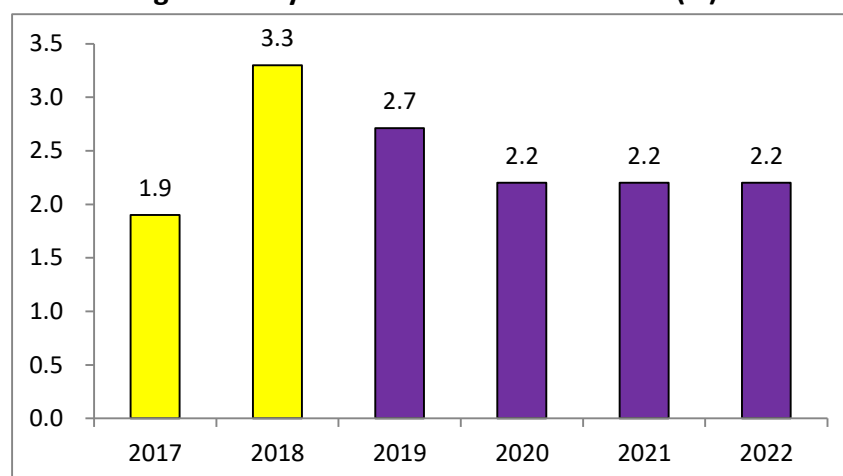
Note: Data for 2018 is preliminary; 2019-22 are forecasts.

Source: Economics and Statistics Office



**Inflation Rate:** Elevated commodity prices in the international market are expected to sustain inflationary pressures. Consumer prices in the US are projected to trend upward by 2.1 percent in 2019, 2.3 percent in 2020 and 2.2 percent in 2021 and 2022. Contingent on the above-mentioned factors, average local inflation is forecasted at 2.7 percent for 2019 and an average of 2.2 percent in the succeeding years (see Table 1 on page 8 and Figure 2 below). It is assumed that a sustained increase in domestic housing supply to meet rising demand associated with higher population will moderate the inflationary pressures from housing rentals.

**Figure 2: Cayman Islands' Inflation Rates (%)**



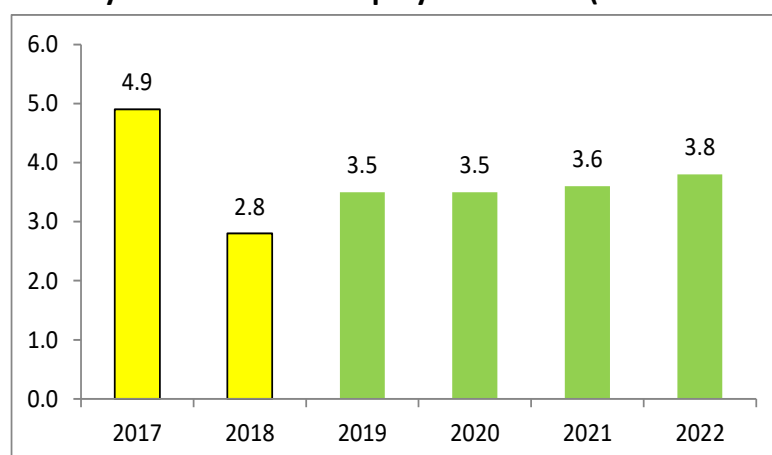
Note: Figures for 2019-22 are forecasts

Source: Economics and Statistics Office

**Employment:** The unemployment rate in 2019 is forecasted at 3.5 percent of the labour force, as the sharp rise in labour demand seen in 2018 is expected to be restrained by moderate growth in the labour-intensive sectors particularly accommodation and construction.

The demand for labour between 2020 and 2021 is expected to track the GDP growth forecasts (see Table 1 on page 8 and Figure 3 on page 13). Stable employment opportunities are expected from planned development projects as well as from the Islands' hotel industry, assuming the completion of the currently proposed new facilities. The unemployment rate is thus expected to stabilise at 3.5 percent in 2020 before rising slightly to 3.6 percent in 2021 and 3.8 percent in 2022. The forecasts also assume that improvements in the Government-assisted employment search system for Caymanians and the restructuring of work permit administration will bring some efficiency gains to the labour market. However, the sensitivity of the labour market to external demand such as accommodation services may be impacted by changes in US growth projections over the medium term.

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

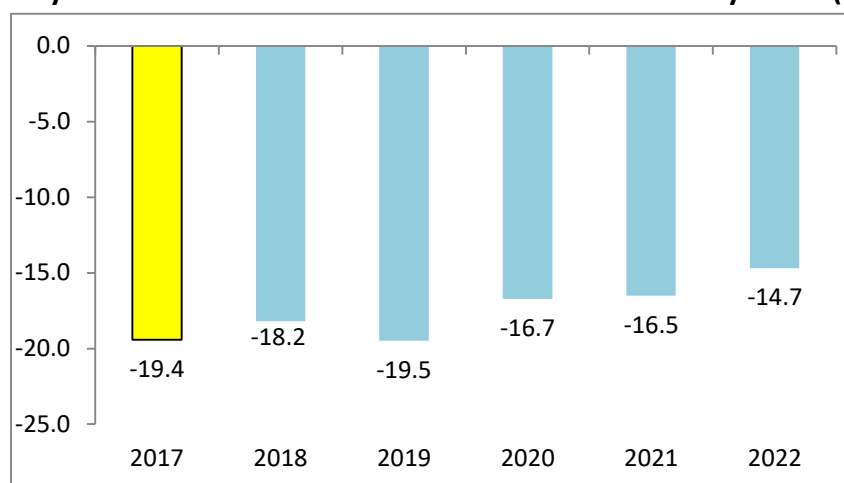


Note: The rates for 2019-22 are forecasts

Source: Economics and Statistics Office

**Current Account of the Balance of Payments:** The current account deficit is forecasted to increase marginally to 19.5 percent of GDP in 2019 as receipts from travel services may be adversely impacted by a restrained growth in tourism arrivals. The deficits are forecasted to improve to 16.7 percent in 2020, 16.5 percent in 2021 and 14.7 percent in 2022 (see Table 1 on page 8 and Figure 4 below). The latter improvements are consistent with assumed moderate growth in payments for the importation of goods and stable growth of receipts from financial and tourism services.

**Figure 4: Cayman Islands' Current Account of the Balance of Payments (% of GDP)**



Note: Data for 2018 is a preliminary estimate; figures for 2019-22 are forecasts

Source: Economics and Statistics Office

## PAST FISCAL PERFORMANCE

### 2016/17 Unaudited Financial Results and Analysis

2016/17 Unaudited Results				
Amount in CI\$000s				
			Dollar Variance	Percentage Variance
<b>Revenues</b>	Budget	Actual	over/(under)	over/(under)
Coercive Revenue	851,989	952,951	100,962	11.85%
Sales of Goods & Services	51,832	59,602	7,770	14.99%
Investment Revenue	4,628	9,242	4,614	99.70%
Donations	60	1,101	1,041	1735.00%
Other Revenue	25	61	36	144.0%
<b>Total Revenues</b>	<b>908,534</b>	<b>1,022,957</b>	<b>114,423</b>	<b>12.59%</b>
<b>Expenses</b>	Budget	Actual	Dollar Variance (over)/under	Percentage Variance (over)/under
Personnel Costs	402,293	390,284	12,009	2.99%
Supplies and Consumables (including leases)	142,267	134,423	7,844	5.51%
Depreciation and Amortisation	39,674	55,814	(16,140)	-40.68%
Finance Costs	38,991	39,064	(73)	-0.19%
Litigation Costs	722	561	161	22.30%
Outputs from Statutory Authorities and Government Companies	152,574	150,969	1,605	1.05%
Outputs from Non-Government Output Suppliers	34,365	51,585	(17,220)	-50.11%
Transfer Payments	48,929	48,556	373	0.76%
Other (Gains)/losses	(4,474)	(2,369)	(2,105)	-47.05%
Other Operating Expenses	7,089	15,108	(8,019)	-113.12%
<b>Total Expenses</b>	<b>862,430</b>	<b>883,995</b>	<b>(21,565)</b>	<b>-2.50%</b>
<b>Core Government Surplus</b>	<b>46,104</b>	<b>138,962</b>	<b>92,858</b>	
Surplus/(Loss) on Statutory Authorities and Government Companies	520	(767)	(1,287)	-247.50%
<b>Net Surplus</b>	<b>46,624</b>	<b>138,195</b>	<b>91,571</b>	

A Net Surplus of \$138.2 million was achieved by the Entire Public Sector ("EPS") for the 18-month period ending 31 December 2017, which was \$91.6 million higher than budgeted for the same period.

Higher revenues of \$114.4 million were primarily attributable due to better than expected performance in Levies on Property (\$39.2 million), Import Duties (\$19.2 million), Tourism Accommodation Tax (\$8.9 million) and Building Permit Fees (\$5.6 million).

Savings in Personnel Costs and Supplies and Consumables were offset by higher Depreciation and Amortisation (\$16.2 million) and \$17.2 million for Outputs purchased from Non-Government Output Suppliers driven by overseas medical expenses for indigents and uninsured persons.

Positive operating results for the Central Government yielded overall favourable cash and cash equivalents of \$61.1 million coupled with Fixed Deposits (over 90 days but fewer than 365 days) of \$398.7 million.

## 2018 Unaudited Financial Results and Analysis

2018 Preliminary Unaudited Results				
Amount in CI\$000s				
			Dollar Variance	Percentage Variance
<b>Revenues</b>	Budget	Actual	over/(under)	over/under
Coercive Revenue	691,357	775,706	84,349	12.20%
Sales of Goods & Services	34,718	40,156	5,438	15.66%
Investment Revenue	4,583	12,150	7,567	165.11%
Donations	30	1,970	1,940	6466.67%
Other Revenue	50	173	123	246.0%
<b>Total Revenues</b>	<b>730,738</b>	<b>830,155</b>	<b>99,417</b>	<b>13.61%</b>
<b>Expenses</b>	Budget	Actual	Dollar Variance (over)/under	Percentage Variance (over)/under
Personnel Costs	301,410	283,515	17,895	5.94%
Supplies and Consumables (including leases)	106,908	97,272	9,636	9.01%
Depreciation and Amortisation	30,038	32,575	(2,537)	-8.45%
Finance Costs	23,968	24,037	(69)	-0.29%
Litigation Costs	583	264	319	54.72%
Outputs from Statutory Authorities and Government Companies	110,471	119,308	(8,837)	-8.00%
Outputs from Non-Government Output Suppliers	24,867	47,151	(22,284)	-89.61%
Transfer Payments	36,462	36,199	263	0.72%
Other (Gains)/losses	(688)	(2,047)	1,359	197.53%
Other Operating Expenses	10,092	12,306	(2,214)	-21.94%
<b>Total Expenses</b>	<b>644,111</b>	<b>650,580</b>	<b>(6,469)</b>	<b>-1.00%</b>
<b>Core Government Surplus</b>	<b>86,627</b>	<b>179,575</b>	<b>92,948</b>	
(Loss)/Surplus on Statutory Authorities and Government Companies	(5,599)	394	5,993	-107.04%
<b>Net Surplus</b>	<b>81,028</b>	<b>179,969</b>	<b>98,941</b>	

Preliminary unaudited results indicate that the operations of the Government of the Cayman Islands recorded a Net Surplus of \$180.0 million for the year ended 31 December 2018. Total Operating Revenues were \$830.2 million, approximately \$99.4 million more than budgeted revenue of \$730.7 million. Total Expenses were \$650.6 million versus a budget of \$644.1 million resulting in additional spending of \$6.5 million. SAGCs performed better than expected resulting in a Net Surplus of \$0.4 million compared to a budgeted loss of \$5.6 million.

Increased volumes and values of property transfers provided \$36.6 million in additional revenue over a budgeted amount of \$46.5 million; additionally, Import Duties and Domestic Levies on Goods and Services exceeded their budgeted targets by \$25.0 million in \$17.8 million, respectively.

Savings in Personnel Costs and Supplies and Consumables were exceeded by overspends in Outputs from Non-Government Output Suppliers and Outputs from Statutory Authorities and Government Owned Companies. These overspends were mainly related to tertiary medical care at various local and overseas providers and, the increase in the cost of services provided by the Health Services Authority, Cayman Airways Limited and the Utilities Regulation and Competition Office.

Core Government's cash balances at 31 December 2018 totaled \$553.8 million.

# FINANCIAL FORECASTS: 1 JANUARY 2020 –31 DECEMBER 2022

## Forecast Operating Statement

SPS Forecast				
	Approved Budget 2019	Forecast 2020	Forecast 2021	Forecast 2022
	\$000	\$000	\$000	\$000
<b>Revenues</b>				
Coercive Revenue	683,448	786,268	808,192	794,130
Sales of Goods and Services	35,352	38,113	38,288	38,449
Investment Revenue	3,958	4,590	4,394	4,225
Donations	30	30	30	30
Other Revenue	50	50	50	50
<b>Total Revenues</b>	<b>722,838</b>	<b>829,051</b>	<b>850,954</b>	<b>836,884</b>
<b>Expenses</b>				
Personnel Costs	310,900	340,579	342,478	341,269
Supplies and Consumables	108,204	129,057	131,638	134,270
Depreciation and Amortisation	30,169	36,644	37,209	37,721
Finance Costs	24,845	12,272	10,680	9,180
Outputs from Statutory Authorities & Government Companies	111,222	122,530	124,981	127,480
Outputs from Non-Governmental Suppliers	23,804	39,086	39,868	40,673
Transfer Payments	38,910	39,699	40,493	41,303
Other (Gains)/Losses	(1,986)	(1,125)	(1,069)	(1,128)
Other Operating Expenses	11,704	15,428	15,465	16,029
<b>Total Expenses</b>	<b>657,772</b>	<b>734,170</b>	<b>741,743</b>	<b>746,797</b>
<b>Core Government Surplus</b>	<b>65,066</b>	<b>94,881</b>	<b>109,211</b>	<b>90,087</b>
(Loss)/Profit on Statutory Authorities & Government Companies	(5,781)	795	(1,215)	(1,767)
<b>Net Surplus for Entire Public Sector</b>	<b>59,285</b>	<b>95,676</b>	<b>107,996</b>	<b>88,320</b>

The Government's three-year financial forecasts (Financial Years 2020 to 2022), as shown above are based on information available on 29 March 2019.

The revenue forecast does not include any major new revenue measures as per the Government's fiscal strategy to not introduce any new fees or charges. Additionally, the revenue forecast includes the transfer to General Revenue from various trust accounts whose holding period is scheduled to mature during the SPS period – with amounts to be transferred of \$33.7 million in 2020, \$33.9 million in 2021 and, a further \$6.7 million in 2022.

Sustained growth across all sectors of the local economy, led by the expansion of the construction sector, is expected to result in increased demand for goods and services driving revenue from import duties and other consumption based revenue items.

Total operating expenditures in 2020 are forecasted to increase from budgeted 2019 levels as a result of remuneration and benefits to Civil Servants (including increasing teachers' salaries to a minimum of \$5,000 per month); increased funding for healthcare benefits for indigents and uninsured persons, Civil Service pensioners, seamen and veterans; response to increased international regulatory requirements for the financial service providers; increased community policing; establishment of a new Ministry to foster international relations; funding the costs of the 2020 Census and, the General Elections in May 2021.

Finance costs are expected to decline throughout the forecast period in line with the Government's debt management strategy.

Outputs from SAGCs are expected to increase by \$11.3 million in 2020 and, a further \$2.5 million in 2021 and 2022. Forecast expenditure includes additional resources for the Cayman Islands Monetary Authority to increase its functional capacity in line with new international regulatory requirements.

Support to Non-Governmental Output suppliers is forecasted to increase by approximately \$15.0 million between 2019 and 2020 and will remain at that level for the remainder of the SPS period. This increase is to provide additional funding for tertiary healthcare costs related to indigents and uninsured persons when referred locally or overseas.

Transfer payments are forecast to remain relatively constant throughout the forecast period.

## Forecast Statement of Financial Position

SPS Forecast				
	Approved Budget 2019	Forecast 2020	Forecast 2021	Forecast 2022
	\$000	\$000	\$000	\$000
<b>Current Assets</b>				
Cash and Cash Equivalents	234,858	284,105	272,591	290,007
Trade Receivables	15,028	17,161	17,780	17,354
Other Receivables	11,066	12,617	13,041	12,797
Inventories	3,423	3,622	3,662	3,712
Prepayments	2,768	4,087	4,120	4,143
Loans	725	610	760	913
<b>Total Current Assets</b>	<b>267,868</b>	<b>322,203</b>	<b>311,955</b>	<b>328,925</b>
<b>Non-Current Assets</b>				
Trade Receivables	2,508	427	442	432
Investments	831	831	831	831
Loans	76	18	21	22
Net Worth - Public Entities	388,760	408,066	428,912	442,695
Property, Plant and Equipment	1,528,974	1,690,342	1,756,435	1,771,966
Intangible Assets	5,981	6,962	7,221	6,977
<b>Total Non-Current Assets</b>	<b>1,927,130</b>	<b>2,106,646</b>	<b>2,193,862</b>	<b>2,222,922</b>
<b>Total Assets</b>	<b>2,194,998</b>	<b>2,428,849</b>	<b>2,505,816</b>	<b>2,551,847</b>
<b>Current Liabilities</b>				
Trade Payables	17,936	20,807	22,236	23,509
Other Payables and Accruals	37,332	52,057	58,953	58,174
Unearned Revenue	65,012	73,681	75,428	73,815
Employee Entitlements	6,243	6,839	6,844	6,768
Unfunded Pension Liability	11,400	28,586	29,157	29,740
Current Portion of Borrowings	35,950	34,277	34,277	30,803
<b>Total Current Liabilities</b>	<b>173,873</b>	<b>216,247</b>	<b>226,895</b>	<b>222,808</b>
<b>Non-Current Liabilities</b>				
Unfunded Pension Liability	374,440	412,935	405,535	398,135
Long Term Portion of Borrowings	250,732	215,836	181,560	150,757
<b>Total Non-Current Liabilities</b>	<b>625,172</b>	<b>628,771</b>	<b>587,095</b>	<b>548,892</b>
<b>Total Liabilities</b>	<b>799,045</b>	<b>845,018</b>	<b>813,990</b>	<b>771,700</b>
<b>Net Assets</b>	<b>1,395,953</b>	<b>1,583,831</b>	<b>1,691,827</b>	<b>1,780,147</b>
<b>NET WORTH</b>				
Reserves	165,090	149,204	150,873	161,075
Revaluation Reserve	489,490	489,490	489,490	489,490
Current Year Surplus	59,285	95,676	107,996	88,320
Other Accumulated Surpluses	682,088	849,461	943,468	1,041,262
<b>Total Net Worth</b>	<b>1,395,953</b>	<b>1,583,831</b>	<b>1,691,827</b>	<b>1,780,147</b>

The financial position of the Government is forecasted to steadily improve over the SPS period. The Government is expected to have a closing net worth of \$1.6 billion at the end of the 2020 fiscal year. Net worth is expected to improve to \$1.8 billion at 31 December 2022.

This improvement is driven primarily by annual operating surpluses and declining debt balances. The annual surplus will continue to be used to: build and maintain cash reserves; fund capital investments; and repay public sector debt.

## Forecast Statement of Cash Flows

SPS Forecast				
	Approved Budget 2019	Forecast 2020	Forecast 2021	Forecast 2022
	\$000	\$000	\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<i>Operating Cash Inflows</i>				
Coercive Receipts	683,648	786,488	808,419	794,360
Sale of Goods and Services	31,658	34,130	34,287	34,431
Interest Received	3,875	4,494	4,302	4,136
Donations / Grants Received	30	30	30	30
Other Receipts	14,663	15,049	15,153	15,188
<i>Operating Cash Outflows</i>				
Personnel Costs	(310,046)	(339,133)	(341,024)	(339,820)
Supplies and Consumables	(108,031)	(128,944)	(131,523)	(134,153)
Outputs from Public Authorities	(110,308)	(121,523)	(123,954)	(126,433)
Outputs from Non-Governmental Organisations	(23,805)	(39,086)	(39,868)	(40,673)
Transfer Payments	(38,910)	(39,699)	(40,493)	(41,303)
Financing/Interest payments	(25,928)	(12,272)	(10,680)	(9,180)
Other Payments	(25,634)	(28,580)	(28,684)	(28,719)
<b>Net cash flows from operating activities</b>	<b>91,212</b>	<b>130,954</b>	<b>145,965</b>	<b>127,864</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<i>Investing Cash Inflows</i>				
Proceeds from Sale of Loans/Investments	700	705	710	707
Receipt of Dividends/Capital Withdrawals	3,384	3,205	3,384	3,264
<i>Investing Cash Outflows</i>				
Purchase of Property, Plant and Equipment	(70,385)	(159,231)	(104,375)	(63,732)
Purchase of Loans/Investments	(860)	(860)	(860)	(860)
Equity Investment in Public Authorities	(28,688)	(18,511)	(22,061)	(15,550)
<b>Net cash flows from investing activities</b>	<b>(95,849)</b>	<b>(174,692)</b>	<b>(123,202)</b>	<b>(76,171)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Borrowings	153,000	-	-	-
Repayment of Borrowings	(287,062)	(35,877)	(34,277)	(34,277)
<b>Net cash flows from financing activities</b>	<b>(134,062)</b>	<b>(35,877)</b>	<b>(34,277)</b>	<b>(34,277)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(138,699)</b>	<b>(79,615)</b>	<b>(11,514)</b>	<b>17,416</b>
Cash and cash equivalents at beginning of period	373,557	363,720	284,105	272,591
<b>Cash and cash equivalents at end of period</b>	<b>234,858</b>	<b>284,105</b>	<b>272,591</b>	<b>290,007</b>

The Government forecasts an average closing cash balance of \$282.2 million over the SPS period with a total cash balance of \$290.0 million at 31 December 2022.

During the SPS period the Government plans to invest a total of \$327.3 million in various Core Government capital projects. A further \$56.1 million will be invested in SAGCs to provide on-going support for debt servicing, operations and capital upgrades over the forecast period.

Approximately \$104.4 million will also be used to pay down Core Government Debt over the 3-year period.

The Government does not plan to undertake any new borrowings during the SPS period.



## Forecast Statement of Core Government Debt

Cayman Islands Government Core Government Statement of Borrowings					
Loan	Opening Balance \$000s	Forecast 2020 Principal Repayments \$000s	Forecast 2021 Principal Repayments \$000s	Forecast 2022 Principal Repayments \$000s	Close Balance for each facility
FCIB Loan # 10123355	1,600	1,600	-	-	-
FCIB Loan # 10276203	8,515	2,620	2,620	2,620	655
FCIB Loan # 10330158	9,500	2,533	2,533	2,533	1,901
FCIB Loan # 10331239	13,124	3,500	3,500	3,500	2,624
FCIB Loan # 10444245	100,248	15,423	15,423	15,423	53,979
2019 Bond Refinancing	153,000	10,200	10,200	10,200	122,400
<b>Total</b>	<b>285,987</b>	<b>35,876</b>	<b>34,276</b>	<b>34,276</b>	<b>181,559</b>

The table above shows the Core Government's debt portfolio, the opening balance for each facility and the associated principal obligations over the forecast period. Over the SPS period, the Government plans to reduce its debt portfolio by \$104.4 million thereby reducing debt from \$286.0 million at the end of 2019 to \$181.6 million at the end of 2022.

## Forecast Statement of Changes in Net Worth

SPS Forecast				
	Statutory Reserves	Revaluation Reserve	Accumulated Surplus	Total
<b>Budgeted Balance at 31 December 2019</b>	<b>165,090</b>	<b>489,490</b>	<b>741,373</b>	<b>1,395,953</b>
<b>Changes in Net Worth for 2020</b>				
Transfers	(15,886)	-	15,886	-
Changes in Net Worth	-	-	92,202	92,202
Current Year Surplus	-	-	95,676	95,676
<b>Balance at 31 December 2020</b>	<b>149,204</b>	<b>489,490</b>	<b>945,137</b>	<b>1,583,831</b>
<b>Changes in Net Worth for 2021</b>				
Transfers	1,669	-	(1,669)	-
Current Year Surplus	-	-	107,996	107,996
<b>Balance at 31 December 2021</b>	<b>150,873</b>	<b>489,490</b>	<b>1,051,464</b>	<b>1,691,827</b>
<b>Changes in Net Worth for 2022</b>				
Transfers	10,202	-	(10,202)	-
Current Year Surplus	-	-	88,320	88,320
<b>Balance at 31 December 2022</b>	<b>161,075</b>	<b>489,490</b>	<b>1,129,582</b>	<b>1,780,147</b>

The Government's Net Worth position is expected to improve from a budgeted \$1.4 billion at 31 December 2019, to \$1.8 billion at 31 December 2022. This improvement will largely result from anticipated surpluses totaling \$292.0 million that the Government is expected to generate over the forecast fiscal period.

## ***Operating Expenditures Targets by Minister/Official Member***

The Government reviewed the strategic goals and objectives of Government Agencies over the next three years and requests for additional resources required.

The Government considered these strategic goals and objectives within the context of its overall fiscal strategy. Where a critical need was identified and the Government could afford to fund it, appropriate resources were directed to the relevant area. The allocations by Agency are shown in the table below.

<b>Operating Expenditures Targets by Agency / Allocation by Minister/Official Member</b>			
<b>\$000s</b>			
<b>Agency</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Public Accounts Committee (Audit Office)	2,945	2,975	3,004
Attorney General (Judicial Administration)	17,234	17,407	17,581
Attorney General (Director of Public Prosecutions)	4,196	4,237	4,280
Attorney General (Portfolio of Legal Affairs)	9,567	9,662	9,759
Deputy Governor (Portfolio of the Civil Service)	45,378	47,132	46,203
Cabinet Office	16,101	15,999	16,159
Office of the Ombudsman	2,196	2,218	2,240
Minister for Ministry of Human Resources and Immigration	86,679	87,546	88,421
Minister for Ministry of Community Affairs	43,797	44,235	44,677
Minister for Ministry of International Trade, Investments, Aviation and Maritime Affairs	1,717	1,734	1,752
Minister for Ministry of Finance and Economic Development	76,985	75,002	74,731
Minister for Ministry of District Administration, Tourism and Transport	61,428	62,042	62,663
Minister for Ministry of Commerce Planning and Infrastructure	59,815	60,414	61,018
Minister for Ministry of Education, Youth, Sports, Agriculture and Lands	131,611	134,892	136,241
Minister for Ministry of Health, Environment, Culture and Housing	98,265	99,248	100,240
Minister for Ministry of Financial Services and Home Affairs	81,022	81,832	82,650

## ***Capital Investment Targets by Minister/Official Member***

<b>Capital Allocation by Minister and Official Member</b>			
<b>\$000s</b>			
<b>Agency</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Public Accounts Committee (Audit Office)	40	12	12
Attorney General (Judicial Administration)	8,280	1,250	1,375
Attorney General (Director of Public Prosecutions)	20	10	10
Attorney General (Portfolio of Legal Affairs)	25	25	25
Deputy Governor (Portfolio of the Civil Service)	1,788	725	-
Cabinet Office	147	90	90
Office of the Ombudsman	25	25	25
Minister for Ministry of Human Resources and Immigration	7,033	6,601	6,601
Minister for Ministry of Community Affairs	150	150	150
Minister for Ministry of International Trade, Investments, Aviation and Maritime Affairs	128	128	128
Minister for Ministry of Finance and Economic Development	5,720	4,900	4,900
Minister for Ministry of District Administration, Tourism and Transport	17,416	17,410	16,949
Minister for Ministry of Commerce Planning and Infrastructure	29,800	23,300	13,499
Minister for Ministry of Education, Youth, Sports, Agriculture and Lands	48,503	29,594	14,165
Minister for Ministry of Health, Environment, Culture and Housing	39,605	24,418	3,330
Minister for Ministry of Financial Services and Home Affairs	19,062	17,798	18,023

The Government's capital investments over the next three financial years address critical priority areas such as expanding and upgrading of education facilities, improving the road infrastructure (including specific measures to address traffic issues from the eastern districts); remediating the landfill and implementing a long-term waste management solution; developing facilities for long-term mental health needs and improving our Judicial, Prisons and Fire Service facilities.

Planned capital investments total approximately \$383.4 million over the forecast period, \$177.7 million in 2020; \$126.4 million in 2021; and \$79.3 million in 2022.

These capital investments will be funded from surplus cash generated from operating activities and existing reserves.

The planned capital investments of \$383.4 million over the next three financial years provide for the following:

- \$56.1 million of capital investments into SAGCs to allow these agencies to meet their debt service obligations and to assist in the funding of operational losses. The major investments in this category are: Cayman Airways Limited, \$15.3 million; Cayman Turtle Centre, \$13.6 million; Cayman Islands Development Bank, \$13.5 million; and National Housing and Development Trust, \$7.0 million.

- \$327.3 million is forecast to be invested in various Ministries and Portfolios primarily to fund the following major items:
  - completion of new John Gray High School;
  - upgrade of other School infrastructure;
  - implementation of the Integrated Solid Waste Management System (to be funded from the Environmental Protection Fund);
  - remediation of the George Town Landfill (to be funded from the Environmental Protection Fund);
  - construction of a new long term residential mental health facility;
  - continued development and upgrade of Grand Cayman road infrastructure – including addressing traffic congestion from the eastern districts;
  - expansion and renovations for new Court Room facilities;
  - upgrade Fire Service facilities and equipment;
  - addressing Prison facilities in need of repair and improvement;
  - continued development of Cayman Brac and Little Cayman infrastructure; and
  - upgrade of public sporting facilities.

# COMPLIANCE WITH PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT

Principle	SPS Forecast		
	Degree of Compliance Forecast 2020	Degree of Compliance Forecast 2021	Degree of Compliance Forecast 2022
<b>Operating Surplus : should be positive</b>  (Operating Surplus = Core Government operating revenue – Core Government operating expenses)	Complies  Surplus = \$94.9 million	Complies  Surplus = \$109.2 million	Complies  Surplus = \$90.1 million
<b>Net Worth: should be positive</b>  (Net Worth = Core Government assets – Core Government liabilities)	Complies  Net Worth = \$1.6 billion	Complies  Net Worth = \$1.7 billion	Complies  Net Worth = \$1.8 billion
<b>Borrowing: Debt servicing cost for the year should be no more than 10% of Core Government revenue</b>  (Debt servicing = interest + other debt servicing expenses + principal repayments for Core Government debt, Public Authorities debt and self financing loans)	Complies  Debt servicing = 6.8 %	Complies  Debt servicing = 6.2 %	Complies  Debt servicing = 6.1 %
<b>Net Debt: should be no more than 80% of Core Government revenue</b>  (Net debt = outstanding balance of Core Government debt + outstanding balance of self financing loan balance + weighted outstanding balance of Public Authorities guaranteed debt - Core Government liquid assets)	Complies  Net debt = 3.8 %	Complies  Net debt = 0.3 %	Complies  Net debt = -5.5 %
<b>Cash Reserves: should be no less than estimated executive expenses for 90 Days:</b>  (Cash reserves = Core Government cash and other liquid assets)	Complies  Cash reserves = 119.9 days	Complies  Cash reserves = 113.7 days	Complies  Cash reserves = 118.0 days
<b>Financial risks should be managed prudently so as to minimise risk</b>	Complies  Insurance cover exists for all government buildings, vehicles and major potential liabilities.  Hurricane Preparedness Strategy in place.	Complies  Insurance cover exists for all government buildings, vehicles and major potential liabilities.  Hurricane Preparedness Strategy in place.	Complies  Insurance cover exists for all government buildings, vehicles and major potential liabilities.  Hurricane Preparedness Strategy in place.

The ratios above were calculated in accordance with the Framework for Fiscal Responsibility (“FFR”) specified in the PMFL.

## Operating Surplus

Throughout the forecast period the Government is projected to remain in compliance with the requirement to maintain a positive Operating Surplus. The Operating Surplus of Core Government is forecasted to be \$94.9 million in 2020; \$109.2 million in 2021; and \$90.1 million in 2022.

## **Net Worth**

The Government is forecasted to maintain a positive Net Worth throughout the forecast period. Net Worth is forecasted to be \$1.6 billion at the end of 2020; \$1.7 billion at the end of 2021; and \$1.8 billion at 31 December 2022.

## **Debt Service or Borrowing Ratio**

As per the FFR, this measure requires that the Entire Public Sector debt service costs (interest + principal + other debt service costs), be no more than 10% of Core Government revenue.

The Government is forecast remain compliant throughout the SPS period. The Debt Service ratios are expected to be 6.8% 2020; 6.2% in 2021; and 6.1% in 2022.

## **Net Debt Ratio**

The Government is required to maintain a Net Debt balance that is not greater than 80% of Core Government's revenue in a year. For the three-year forecast period, Net Debt is forecasted to remain well below this limit, achieving full compliance with this ratio. In 2020, Net Debt is forecasted to be 3.8%; in 2021 it reduces to 0.3%; and by 2022 it reduces further to a negative 5.5% as cash balances exceed debt balances.

## **Cash Reserves**

The Government is required to achieve and maintain cash reserves (liquid assets) equivalent to at least 90 days of executive expenditures. For the purposes of the cash reserve days calculation, liquid assets are limited to unrestricted operating bank balances and General Reserves.

This ratio is calculated at the point in the financial year when cash reserves are expected to be at their lowest. This point usually occurs in December each year given the current cycle for revenue inflows.

The Government achieved compliance with this ratio from December 2015 and is forecasted to continue compliance throughout the SPS period.

Over the forecast period, unrestricted cash reserves at their lowest point are expected in 2020 to be \$241.1 million or 119.9 days of executive expenses; in 2021 to be \$231.0 million or 113.7 days of executive expenses; and by 2022 to be \$241.4 million or 118.0 days of executive expenses.

# PUBLIC SECTOR DEBT PROFILE AND DEBT MANAGEMENT STRATEGY

## Core Government Debt Profile

Cayman Islands Government Core Government Debt Portfolio As at 28 February 2019											
Loan	Currency	Date of Origin	Original Amount	Amortised or Bullet	Current Balance KYD	Annual Principal KYD	Interest Rate	Maturity Date	KYD Balance 31-Dec-20	KYD Balance 31-Dec-21	KYD Balance 31-Dec-22
2009 Bond Offering	USD	24-Nov-09	312,000,000	Bullet	261,300,000	Bullet	5.9500%	24-Nov-19	-	-	-
FCIB Loan # 10123355	USD	23-Nov-05	28,800,000	Amortised	2,800,002	1,600,001	5.5800%	30-Nov-20	-	-	-
FCIB Loan # 10276203	USD	26-Oct-07	47,159,962	Amortised	10,479,977	2,620,002	2.6700%	11-Feb-23	5,894,973	3,274,971	654,969
FCIB Loan # 10330158	USD	24-Jun-08	45,599,964	Amortised	11,399,978	2,533,335	2.7100%	24-Jul-23	6,966,642	4,433,306	1,899,971
FCIB Loan # 10331239	USD	27-Jun-08	62,999,950	Amortised	15,749,970	3,500,003	2.7100%	24-Jul-23	9,624,966	6,124,963	2,624,960
FCIB Loan # 10444245	USD	19-Apr-11	185,074,626	Amortised	115,671,342	15,422,846	5.4400%	19-Apr-26	84,825,651	69,402,806	53,979,960
2019 Bond Refinancing	USD	24-Nov-19	182,686,567	Amortised	-	10,200,000	5.4400%	19-Apr-26	142,800,000	132,600,000	122,400,000

The Government remains committed to the reduction of debt through annual principal payments and does not plan to incur any new borrowings over the forecast period.

Cayman Islands Government Public Authorities Debt Portfolio As at 28 February 2019												
Agency	Currency	Guaranteed	Date of Origin	Original Amount	Amortised or Bullet	Current Balance KYD	Annual Principal KYD	Interest Rate	Maturity Date	KYD Balance 31-Dec-20	KYD Balance 31-Dec-21	KYD Balance 31-Dec-22
C.I. Development Bank	USD	YES	29-Jun-15	30,573,440	Amortised	19,850,581	4,076,459	Libor + 1.125%	30-Jun-25	11,697,664	7,621,205	3,544,747
Cayman Airways	USD	YES	28-Feb-19	23,639,560	Amortised	19,857,231	1,747,218	US Prime - 1.75%	28-Feb-29	16,776,227	15,002,368	13,153,719
National Housing Development Trust	USD	YES	24-Oct-04	11,890,000	Amortised	5,069,377	739,559	5.23800%	28-Oct-24	3,551,014	2,730,882	1,867,229
National Housing Development Trust	USD	YES	31-Aug-09	12,083,000	Amortised	7,433,000	7,433,000	3.25000%	30-Dec-19	-	-	-
Water Authority	KYD	NO	1-Jul-09	9,176,422	Amortised	1,782,000	1,782,000	Libor +0.54%	30-Jun-19	-	-	-

It is anticipated that Statutory Authorities and Government Companies will not incur any new borrowings during the SPS period.

## Debt Management Strategy

A robust debt management strategy is a key component of the Government's overall fiscal strategy to comply with the Principles of Responsible Financial Management as set out in the PMFL.

The Government's debt management strategy continues to be focused on the reduction of public sector debt.

The Government intends to manage its finances in such a way as to fund all of its operating expenditure and capital investments from cash generated from its operations.

During the period covered by this SPS, the Government is expected to pay off approximately \$104.4 million in outstanding Core Government debt. At 31 December 2022, it is forecast that Core Government will have approximately \$181.6 million in debt.



## **Liability Management Plan**

The Government consists of 'Core Government' (Ministries, Portfolios and Offices), plus SAGCs.

The Government is exposed to various contingent liabilities as part of its normal course of business. Contingent liabilities are disclosed when there is a possible obligation or present obligations that may require an outflow of resources.

The main recurring contingent liabilities which have a financial impact for the Government are: Guarantees; Litigation; and Post-Retirement benefits obligations.

### **Guarantees**

The Government is not currently planning to issue any new guarantees during the SPS period. It currently has outstanding guarantees in respect of:

- debt of Statutory Authorities and Government Companies; and
- the Government Guaranteed Home Assistance Mortgage ("GGHAM") program.

#### *Statutory Authorities and Government Companies*

In accordance with Section 50 of the Financial Regulations (issued under the authority of the PMFL), Government is expected to calculate the portion of the guaranteed debt of Statutory Authorities and Government Companies. This represents at minimum, the Government's immediate level of exposure and, as such, is disclosed as a contingent liability. Guarantees issued by the Government in respect of the debt of SAGCs are reflected in the calculation of the Net Debt ratio, to assess PMFL compliance, at the following rates:

- (a) SAGCs that require an unpredictable level of budgetary support from the Cabinet, are given an 80% weighting;
- (b) SAGCs that are financially stable and require predictable levels of budgetary support are given a 50% weighting; and
- (c) where the SAGC has not required budgetary support during the last three years are given 20% weighting.

#### *Government Guaranteed Home Assistance Mortgage Program*

The GGHAM program that is administered by the National Housing Development Trust was introduced on 9 November 2007 and, to date, has helped over 325 households achieve home ownership.

The initial 5-year GGHAM agreement provided approval for \$5.0 million to each of the six participating banks. Due to the high demand for this program, some participating banks reached the maximum lending amounts, which required that additional funding be put in place. Core Government approved additional funding for this program, through a supplementary agreement to the participating banks.

The current GGHAM approved amount is \$65.0 million; however this agreement expired in November 2012. To date, the GGHAM drawn balance is approximately \$57.3 million for which, on face value, indicates that Core Government is committed to a contingent liability of approximately \$3.8 million.

### **Past Service Pension Liability**

The Government, through the Public Service Pensions Board, operates both defined benefit and defined contribution pension schemes for Public Servants, Parliamentarians and the Judiciary. These various public service pension plans have varying degrees of past service liabilities based on the contributions to the pension Funds and the accrued length of service of the participants of the various Plans. The overall liability arising from the Plans is recognised in Government's financial statements.

IPSAS 25 – requires that the pension liabilities be revalued annually in order to present the fair value of the fund balances. The Government has employed actuaries to do this annual fair value assessment. The result of the 2017 actuarial valuation is a net liability of \$420.3 million. The Government has included \$15.4 million annually throughout the SPS period towards reducing the net liability.

Presently, the Public Service Pensions Board is able to fund all of the monthly pension benefits from its existing resources, and with the regular receipt of monthly pensions contributions from Core Government and other participating Public Sector Entities. This is expected to remain the position over the forecast period.

### **Post-Retirement Healthcare Liability**

The Government acknowledges its obligations for the future healthcare costs of Civil Servants (including their dependents) and other parties.

The Public Service Management Law requires that Civil Servants have a minimum of 10-years' qualifying service with the Cayman Islands Government, and also retire from the Civil Service in order to be entitled to a healthcare benefit upon retirement.

The results of healthcare liability actuarial valuation, completed in March 2018, estimated the post-retirement healthcare obligation as at 31 December 2017 to be \$1.6 billion with the post-retirement medical expense totaling \$240.5 million for the 18-month period ended 31 December 2017. The post-retirement healthcare obligation and related expenditure has not been formally recognised in the Statements of Financial Position and Performance.

The Government is on a “pay-as-you-go” plan in respect of post-retirement healthcare liabilities. Currently, no long term assets are set aside off balance sheet in respect of the Government’s post-retirement healthcare liability.

## BROAD OUTCOMES

The Government has developed eight (8) strategic broad outcomes and specific actions aimed at achieving these outcomes through the delivery of Government programmes, Cabinet policy actions and legislative changes. These outcomes are outlined below.

- 1. A Strong Economy to Help Families and Businesses**
- 2. Achieving Full Employment – Jobs for All Caymanians**
- 3. The Best Education Opportunities for All Our Children**
- 4. Reducing Crime and the Fear of Crime**
- 5. Access to Quality, Affordable Healthcare**
- 6. Stronger Communities and Support for the Most Vulnerable**
- 7. Ensuring Caymanians Benefit from a Healthy Environment**
- 8. Stable, Effective and Accountable Government**

## Strategic Broad Outcome 1

### A Strong Economy to Help Families and Businesses

- a) Continue support of Cayman's Financial Services industry;
- b) Continue to implement the National Tourism Plan;
- c) Continue to improve Owen Roberts International Airport in line with the masterplan to enhance the facilities available;
- d) Continue the work to develop a modern cruise dock and cargo port that will meet the future needs of the Islands and the Tourism Industry;
- e) Complete the George Town Revitalisation project;
- f) Develop and implement sector-based plans that support the diversification of the Caymanian economy;
- g) Develop and implement area-based plans that support economic growth across Grand Cayman and the Sister Islands;
- h) Improve the advice and support available to entrepreneurs wanting to start and grow small businesses;
- i) Remove unnecessary regulation and bureaucracy that hinders businesses, but in particular the small business sector;
- j) Support the agricultural industry to implement modern practices, which increase yields and improve quality so enhancing food security;
- k) Ensure the minimum wage keeps pace with inflation and maintains living standards;
- l) Intervene if necessary to improve the competitiveness of markets starting with fuel;
- m) Encourage an increase in the supply of affordable housing through duty incentives and the introduction of more flexible planning policies and to continue to support the National Housing Trust and the Sister Islands Affordable Housing Development Corporation;
- n) Continue the work started under 'Plan Cayman' that will create a new National Development Plan;
- o) Increase Cayman's capability for positive engagement of overseas governments, investors and businesses through the establishment of a new Ministry of International trade, Investments, Aviation and Maritime Affairs; and
- p) Deliver a programme of infrastructure improvements that supports future economic growth.

## Strategic Broad Outcome 2

### Achieving Full Employment – Jobs for All Caymanians

- a) Improve the planning and monitoring of the workforce, including managing the work permit regime;
- b) Increase the efficiency, transparency and fairness of the work permit and immigration systems;
- c) Establish a Fair Employment Opportunities Commission to ensure Caymanians are not disadvantaged when seeking employment or advancement;
- d) Extend programmes to support unemployed Caymanians into long-term employment;
- e) Implement an accreditation scheme so that businesses that actively hire and develop Caymanian employees are recognised;
- f) Improve the effective monitoring and enforcement of labour regulations;
- g) Work with the private sector to increase the opportunities for work-based training programmes for young Caymanians in the job market, including apprenticeships; and
- h) Support workplace training and lifelong learning to ensure skills development keeps pace with technological and other developments.

## **Strategic Broad Outcome 3**

### **The Best Education Opportunities for All Our Children**

- a) Complete the new John Gray High School and create a positive learning environment;
- b) Extend the use of information and communications technology in schools;
- c) Improve and expand primary school facilities to ensure that children are given the best possible start to their education;
- d) Implement a new primary school curriculum;
- e) Extend the delegation of responsibility to schools and improve the accountability of Principals for the standards achieved;
- f) Develop and implement a new approach to technical and vocational education and training that maximises the opportunities for all students to develop the skills needed for future employment;
- g) Invest in programmes that support improved attainment in academic disciplines at all levels with a key focus on literacy, numeracy and science; and
- h) Enhance opportunities for young people with special needs through better training of teachers and improvements in facilities.

## **Strategic Broad Outcome 4**

### **Reducing Crime and the Fear of Crime**

- a) Invest in more, better trained front-line police officers, including community police officers and community safety officers, as well as improve equipment and facilities to increase visibility and deterrence to improve responsiveness;
- b) Develop and implement an anti-gang strategy to reduce crime and to support young people to make better life choices;
- c) Reduce recidivism by improving work to rehabilitate offenders and support them into suitable employment;
- d) Develop resilience in communities for example by supporting new neighbourhood watch schemes;
- e) Improve border security through the continuing development of the new Customs and Border Control and Coast Guard services;
- f) Continue the work to develop a new, modern court building that meets future needs;
- g) Continue to support the work of the National Security Council to enhance the accountability of policing to the community; and
- h) Commence work on building a modern, fit-for-purpose prison for the Cayman Islands.

## **Strategic Broad Outcome 5**

### **Access to Quality, Affordable Healthcare**

- a) Extend partnership arrangements between health providers to give Caymanians better access to the best possible healthcare;
- b) Utilise new procurement practices to reduce the cost of drugs and equipment;
- c) Review the impact of recent changes to health insurance regulations that enable the elderly and people with long-term conditions to access appropriately-priced coverage and propose further changes if necessary;
- d) Improve the focus on prevention and the promotion of healthy lifestyles to reduce the prevalence of preventable illnesses among the population; and
- e) Construct the new long-term residential mental health facility that will enable patients to be treated on-Island.

## **Strategic Broad Outcome 6**

### **Stronger Communities and Support for the Most Vulnerable**

- a) Advance the changes required under the Disabilities (Solomon Webster) Law in order to improve the lives of people with disabilities;
- b) Implement the immediate priorities in the Older Persons' Policy;
- c) Reform social assistance programmes and the agencies delivering them to ensure that the right people get the right help at the right time;
- d) Create a George Town Revitalisation Steering Committee that will help guide the work on the George Town Revitalisation project;
- e) Continue to implement the priorities in the National Culture Policy;
- f) Support the development of facilities and activities that improve the well-being and self-esteem of young people including through sport; and
- g) Continue to improve the country's readiness and resilience in case of natural disaster.



## Strategic Broad Outcome 7

### Ensuring Caymanians Benefit from a Healthy Environment

- a) Implement the Integrated Solid Waste Management Strategy to reduce the Islands' reliance on the landfill through increased recycling and composting and the introduction of waste to energy technologies;
- b) Continue to ensure that beach access is maintained;
- c) Continue to take opportunities to purchase more land to safeguard beach access and to create public parks/open spaces;
- d) Continue to ensure that the future need for cemetery space can be met;
- e) Implement the National Energy Policy to increase energy from renewable sources and to support "green jobs";
- f) Support environmental infrastructure development on the Sister Islands;
- g) Review the implementation of the Conservation Law to ensure that an appropriate and sustainable balance between development and conservation is achieved; and
- h) Enhance protection for Cayman's natural habitats and species, including the important work being done to cull invasive species such as green iguana and lion fish.

## Strategic Broad Outcome 8

### Stable, Effective and Accountable Government

- a) Continue to implement the E-Government Programme to extend access to public services, improve the quality of customer service and increase efficiency;
- b) Enhance the security of data and systems across government;
- c) Create and implement a cross-government efficiency programme;
- d) Continue to improve the effectiveness of government communication, both internal and external;
- e) Establish a District Council in each district to increase community engagement and enhance democratic accountability;
- f) Implement reforms that promote good governance; and
- g) Continue to deliver sound government finances in compliance with the Public Management and Finance Law.

## CONCLUSION

The financial targets set out in this Strategic Policy Statement allow for the funding of various interventions to progress the key policy initiatives of the Government. Particularly, the targets provide for continued support of Cayman's financial services industry; direct representation of the Cayman Islands on the global financial stage; support further growth of our Tourism industry; partnering with the private sector to increase employment opportunities for young Caymanians; enhance education programmes; reform of social assistance programmes to ensure that the right people get the right help at the right time. The SPS targets also provide for the delivery of a capital development programme which includes completion of the John Gray High School and upgrades to other key education infrastructure; implementation of the Integrated Solid Waste Management System; and continued improvement to the country's road network infrastructure.

The Government remains steadfast in its commitment to delivering its programme to improve the quality of life for all Caymanians whilst balancing the need to manage the country's finances diligently, responsibly and transparently.



Government of the Cayman Islands

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