



**Speaking Notes on**

# **2020 Strategic Policy Statement**

**Hon. Roy McTaggart, JP, MLA**

**Minister of Finance and Economic Development**

**12 April 2019**

## Introduction

Mister Speaker, It is my honour to rise today and speak to the Government's 2018 Strategic Policy Statement, herein after referred to as the SPS.

Mister Speaker, the Government's 2020 Strategic Policy Statement outlines the Government's fiscal plans, policy priorities and broad strategic outcomes for the next three financial years which will cover the period from 1 January 2020 to 31 December 2022. This SPS will also guide the development of the detailed budget for the next budget period, consisting of two financial years, 1 January to 31 December 2020 and 1 January to 31 December 2021. This budget will be brought to this honorable Legislative Assembly in the latter part of this year.

Mister Speaker, this SPS is the second one produced since we changed to a two-year budgeting cycle and will be the last SPS by this Administration before the next General Elections are held in 2021.

## **Fiscal Strategy**

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

- 1. Compliance with the Principles of Responsible Financial Management – in particular, achieving substantial Surpluses each year;**
- 2. No new fees or taxes levied on the public; and**
- 3. No new borrowings.**

This SPS builds on these central guiding fiscal policy objectives for the management of the Government's finances over the forecast period.

### **Compliance with the Principles of Responsible Financial Management**

Managing the Government's Operating Expenditure in a way that maintains healthy Operating Surpluses remains a critical component of our fiscal strategy. By managing our finances in this manner the Government is able to use the cash generated by these surpluses to: steadily reduce debt; fund its capital investment program; and maintain cash reserves well above the minimum required by the Principles of Responsible Financial Management and the Framework for Fiscal Responsibility set out in the Public Management and Finance Law (PMFL).

This element of our strategy is key to ensuring the long-term fiscal sustainability; it clearly demonstrates our commitment to being prudent stewards of the Government's finances.

### **No new fees or taxes levied on the public**

As with the last SPS, the Government has made the decision not to seek to introduce any new coercive revenue measures in the medium term in an effort to keep the tax burden, cost of living and the cost of doing business as low as possible. This will build confidence and give certainty to the private sector to continue making investments that will stimulate economic activity and employment opportunities.

### **No new borrowings**

During the SPS period, barring any major catastrophes or economic disruptions, the Government does not intend to incur any new borrowings. Government plans to fund all of its operating expenditure and capital investments from cash generated from its operations and existing cash reserves. In fact, the Government is planning to reduce public sector debt by a further \$104 million during the forecast period – bringing it to the lowest level in over 20 years.

## Broad Strategic Outcomes

In addition to our fiscal strategy, this SPS is built on the eight Broad Strategic Outcomes which the Government has agreed will guide our policy actions over this term. These Outcomes are, in no particular order:

- 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**

## Economic Forecasts

This government remains committed to ensuring that our economy continues to grow in a stable and sustainable way that ensures maximum opportunities for Caymanians.

We will continue the major economic policy interventions introduced during the last administration such as: reduced import duties; lower business licensing fees; development concessions and extended support to small businesses.

Over the next three financial years the Economics and Statistics Office has forecast that our economy will grow at steady and healthy rates, in line with forecasts for the world's major economies, the source markets for our major economic pillars.

Economic growth as measured by the Real Gross Domestic Product (GDP) is expected to grow by 2.2% in 2020; 2.1% in 2021; and 2.0% in 2022. These forecasts are underpinned by the assumption that the three key sectors of the Cayman Islands economy: Financial Services; Tourism; and Business Services will all continue to evolve and maintain their global competitiveness.

Economic growth, led by the construction sector, will be directly influenced by several large construction projects from the private and public sectors, including:

- new hotel construction in Grand Cayman;
- completion of the new John Gray High School;
- Development of a new cruise and cargo port in George Town;
- construction of a new Long Term Residential Mental Health Facility;
- and
- implementation of the new Integrated Solid Waste Management System.

Over the next three years, economic growth will create additional jobs and is expected to keep the unemployment rate below 4%. Unemployment rates are forecast to be 3.5% in 2020; 3.6% in 2021; and 3.8% in 2022.

Economic growth and increased levels of employment mean that the consumption of goods and services will increase. This, in turn, places upward pressure on the rate of inflation which is expected to increase by 2.2% in 2020; 2.2% in 2021; and 2.2% in 2022.

To help manage the impact of inflation the Government has taken the decision to leave in place the significant import duty reductions implemented in the last administration, most notably:

- **Reduced Import Duty of 25 cents per gallon down from 75 cents per gallon on fuel used by Caribbean Utilities Company for the generation of electricity;**
- **Reduced Import Duty of 20% down from 22% for licensed traders on consumer goods for retail sale; and**
- **Reduced Import Duty of 15% on building materials.**

By keeping in place these import duty reductions, the Government is doing its part to keep retail prices as low as possible thereby keeping the cost of living for households and the cost of doing business as low as possible.

## **Financial Forecasts**

Mister Speaker, I will now highlight the financial forecasts that are contained in the SPS document.

## **Operating Revenue Forecasts**

The Government's main revenue streams are directly tied to the level of consumption and rate of economic growth; as the economy grows so do revenues.

In line with our overall fiscal strategy, the Government has no plans to introduce any new coercive revenue measures during the next three financial years. We will continue to pursue the implementation of enhanced business processes to improve the efficiency of revenue collection and the annual intake from the existing suite of revenue measures.

Mister Speaker, the SPS forecasts that the Government's revenues will be approximately \$829.1 million in 2020; \$851.0 million in 2021 and \$836.9 million in 2022.

These forecasts include one-off transfers to General Revenues from cash assets of Liquidated Entities which are forecast to be \$33.7 million in 2020; \$33.9 million in 2021 and \$6.7 million in 2022.

### **Operating Expenditure Forecasts and Targets**

Mister Speaker, Government's expenditures are inextricably tied to the growth of our economy and population; as they grow, so do the demands for Government services. Our main goal is to manage our expenses in a sustainable manner that allows us to efficiently deliver our services to the high standard expected.

In line with our fiscal strategy, we are committed to keeping our operating expenditures well below operating revenues. Over the SPS period the Government will seek to limit growth in operating expenditure while simultaneously pursuing operational efficiencies to reduce costs or limit growth in costs where possible.



Core Government Operating Expenses are forecast to be \$734.2 million in 2020; \$741.7 million in 2021; and \$746.8 million in 2022.

Over the SPS period, increased operating expenditure will be used to fund a number of important initiatives including, but not limited, to:

- improving safety and security through enhanced community policing and border security;
- delivering better management of labour markets through the new department of Workforce Opportunities and Residency Cayman;
- reforming our social assistance programs to ensure that the right persons get the right benefits at the right time;
- establishing a new ministry to foster international relations and promote foreign investment in the Cayman Islands;
- enhancing tourism marketing to high value source markets and continued implementation of the National Tourism Plan;
- enhancing financial services policy functions and the regulatory services provided by the Cayman Islands Monetary Authority in response to evolving international regulatory changes;
- continuing to develop and implement enhanced Information Technology services including improved cyber-security and e-Government initiatives;
- continued enhancement of teaching and learning in schools with a focus on increasing the use of online and computerized testing and strengthening core curriculum across primary and secondary schools;
- implementing the Integrated Solid Waste Management System;
- conducting the comprehensive population and housing Census in 2020;

- commencement of operations of the new Long Term Residential Mental Health Facility; and
- the preparation and execution of the 2021 General Elections.

### **Capital Investment Forecasts**

Mister Speaker, over the SPS period, planned public sector capital investments are forecast to total some \$383.4 million and will be spread over the three years as follows: \$177.7 million in 2020; \$126.4 million in 2021; and \$79.3 million 2022.

These investments will fund debt servicing obligations and operations of our Statutory Authorities and Government Companies (SAGCs) as well as the development of key infrastructure by the Core Government, such as:

1. completion of the new John Gray High School and upgrades to other key school infrastructure;
2. addressing the major traffic issues from eastern districts by extending the East-West Arterial and other key upgrades to the road network;
3. remediation of the George Town landfill and implementation of the Integrated Solid Waste Management System (ISWMS); and
4. construction of a Long Term Residential Mental Health Facility.

## **Compliance with Principles of Responsible Financial Management**

Mister Speaker, maintaining compliance with the Principles of Responsible Financial Management is another core element of this Government's fiscal strategy.

For the next three financial years we are forecasting that the Government will maintain compliance with the Principles of Responsible Financial Management.

**Operating Surplus:** The PMFL requires that the Government maintain a positive Operating Surplus. Over the next three years, the Core Government is forecast to remain in compliance with this requirement with Core Government's Operating Surpluses forecast to be \$94.9 million in 2020; \$109.2 million in 2021 and \$90.1 million in 2022.

These surpluses are critical to generating cash to pay off debt, maintain cash reserves and fund capital investments into both Core Government and our SAGCs.

Over the SPS period, our SAGCs combined, are forecasted to record a small Net Surplus of \$0.795 million in 2020 and Net Losses of \$1.2 million in 2021 and \$1.8 million in 2022.

### **Debt Service Ratio:**

The PMFL requires that annual Entire Public Sector debt service costs (interest and principal) not be greater than 10% of Core Government Revenues. The SPS forecasts indicate that the Government will be well below this limit with the Debt Service ratio forecast to be 6.8% in 2020; 6.2% in 2021; and 6.1% in 2022. This ratio will once again be at its lowest level in more than 20 years. This means that more of government's revenues will be available to fund the demands for services or capital projects.

### **Net Debt Ratio:**

The PMFL requires that the Government's Net Debt not exceed 80% of Core Government's Operating Revenues. Net Debt is calculated as the total amount of outstanding Core Government Debt plus the risk-weighted debt of SAGC's less the liquid assets of Core Government.

The Government is forecast to be in full compliance with this requirement over the next three financial years, with the Net Debt Ratio forecast to be 3.8% in 2020; 0.3% 2021; and negative 5.5% in 2022 as Core Government cash balances exceed debt balances of the entire public sector. This significant reduction places Government well below the maximum allowed limit of 80%, and is consistent with the Government's overall strategy of debt reduction and no new incremental borrowing.

### **Cash Reserves:**

The PMFL requires that the Government have liquid cash reserves of not less than 90 days of estimated executive expenses. This ratio is calculated at the point in the financial year when Government's liquid cash reserves are expected to be at their lowest, typically the 31 December of each year.

Over the period, the Government is forecasted to maintain full compliance with this Principle as allowable liquid cash reserves – for the purposes of the ratio calculation – are expected to be \$241.1 million (or 119.9 days) in 2020; \$231.0 million (or 113.7 days) in 2021; and \$241.4 million (or 118.0 days) in 2020.

## Conclusion

Mister Speaker, the 2020 Strategic Policy Statement provides a strategic overview of the Government's financial resources and how they are likely to be allocated over the next three years to fund necessary programs to progress its key policy initiatives.

We will:

- provide continued support of Cayman's financial services industry and direct representation of the Cayman Islands on the global financial stage;
- provide support for the continued development of our vital tourism industry;
- provide increased employment opportunities for all Caymanians;
- reform our social assistance programs to ensure we are providing appropriate help to the right people;
- invest in our youth through the completion of the John Gray High School, upgrades to other key education infrastructure and the implementation of enhanced curriculum and other education services;
- implementation of the Integrated Solid Waste Management System; and
- make further improvements to our road network infrastructure.

The Government remains steadfast and relentless in its commitment to improve the quality of life for all Caymanians whilst balancing the need to manage the country's finances in a prudent and responsible manner. This SPS clearly demonstrates that Government continues to exercise good stewardship in its management of the fiscal affairs of this paradise we all call our home.

Thank you, Mister Speaker.