

CAYMAN ISLANDS
GOVERNMENT

2012/13 STRATEGIC POLICY STATEMENT

FOR THE FINANCIAL YEAR ENDING 30th JUNE 2013

Table of Contents

1.	Introduction	3
2.	Government’s Outcome Goals	4
3.	Economic Overview	14
4.	Aggregate Financial Targets	20
5.	Summary of Financial Projections	31
6.	Financial Allocations	32
7.	Conclusion	35

1. Introduction

Purpose of the Strategic Policy Statement

This Strategic Policy Statement (SPS) sets out the policy and financial parameters the Government intends to use to prepare its Budget for the 2012/13 financial year.

In accordance with the requirements of the Public Management and Finance Law (2010 Revision) (PMFL), the SPS is strategic and high level in nature. It does not allocate resources to individual expenditure items or specify the particular initiatives the Government intends to pursue; rather the role of the SPS is to outline, for consideration and approval by the Legislative Assembly, the strategic parameters on which the Annual Plan and Estimates (the Budget) for 2012/13 will be based. Detailed information will be contained in the Budget when it is presented to the Legislative Assembly in April 2012.

Content of the SPS

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

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

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

Section 4 contains the aggregate financial targets that the Government has established for 2012/13 and the subsequent two financial years.

Section 5 contains a summary of the financial projections for the Core Government for the period 2012/13 through 2014/15

Section 6 sets out the indicative financial allocations to the Premier, each Minister and Official Member for the 2012/13 Budget, together with indicative planning allocations for the following two years. These allocations are to be used as the basis for the Premier, Ministers and Official Members and their Ministries, Portfolios and Offices to establish their operating and capital budgets for the 2012/13 financial year.

The Government's Strategic Approach

The Government's strategic focus continues to be based on delivering the commitments made in the United Democratic Party's (UDP) manifesto; and the 3-year plan agreed with the Foreign and Commonwealth Office which sets out fiscal projections and the Government's medium term policies and initiatives underlying these projections. The plan is based on five key strategies which the Government is committed to implementing over the medium term. The strategies underpin the various initiatives: including reform of the public sector, limiting new borrowings, re-alignment of existing revenue base, reducing operating expenditure and consideration of private finance initiatives as an alternative source of capital financing.

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

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

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

2. Government's Outcome Goals

Broad Outcomes

1. The UDP Government has established nineteen broad outcome goals to guide its policy actions. They are listed below in no particular order of priority:

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

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

Specific Outcomes

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

Table 1: Specific Outcomes and Key Policy Strategies

Broad Outcome	Specific Outcomes and Key Policy Strategies
Broad Outcome: 1 ***Creating a Vibrant Yet Stable and Sustainable Economy***	• Improve the competitive position of the Cayman Islands financial services industry • Raise awareness and create a positive impression of the jurisdiction as a preferred investment location and excellent place to do business • Ensure that the Cayman Islands continue to meet or exceed current and evolving international standards affecting the financial services industry including those standards set by the CFATF, OECD Global Forum and other international standard setting bodies • Maintain a highly effective regulatory environment to attract users and providers of financial services • Continue the development and implementation of a strategy for maintaining sustainable growth in the Cayman Islands Stock Exchange Limited (CSX) listings • Explore the viability of new and sustainable economic activities appropriate for the Cayman Islands • Develop and Implement new immigration policies • Work towards the transition of the Cayman Islands from a financial services centre to an international business centre • Enhance the image of the Cayman Islands through representation at both local and overseas conferences and events • Attract the interest of foreign film productions that will not negatively impact the image of the jurisdiction • Promoting the establishment of the Special Economic Zone and Medical Tourism in order to diversify economy. • Improve the efficiency of the processes for Trade and Business Licensing • Strengthen Cayman Islands global competitiveness as a well-regulated international financial services centre • Promote the establishment of a world class re-insurance centre in the Cayman Islands

Broad Outcome	Specific Outcomes and Key Policy Strategies
Broad Outcome: 2 ***Setting the Stage for Success in the Tourism Industry***	• Implementation of the National Tourism Management Policy • Management and enhancement of the image of the Cayman Islands Tourism Brand • Continued development of Human Capital for the Tourism Industry • Management of an environmental program for the tourism sector • Develop policies which support the sustainable development of the Tourism Industry • Support the development of a new cruise ship berthing facility on Grand Cayman • Continue the upgrade and expansion of Owen Roberts International Airport • Improve the visitor experience through education, improved signage, and technological enhancements • Preserve and enhance the environment and history of tourism attractions through physical renovations and social awareness Develop nature-based/soft adventure tourism throughout the Cayman Islands • Promotion of the “Go Green” initiative to establish the Cayman Islands as a premier eco-tourism destination • Caymankind Initiative

Broad Outcome	Specific Outcomes and Key Policy Strategies
Broad Outcome: 3 ***Addressing Crime and Policing***	• To improve the operational capabilities of the Royal Cayman Islands Police marine section • Strengthen and enhance border control by conducting biometric checks (finger-printing) of all international passengers • Enhancement of the Uniform Support Group • The development of a Serious Crime Task Force and a Tactical Support Group • Increase foot patrols to increase visibility of police officers • Strengthen and enhance community and neighbourhood policing • Improve on the infrastructure of the Prison Services to increase security and strengthen the rehabilitative capabilities of the correctional system • Develop a Crime Prevention Strategy • Foster partnerships with overseas law enforcement agencies • Establish programmes in Prison to target prisoners' criminal thinking, drug and alcohol abuse • Introduction of a Prison Video link to allow remand offenders to give evidence from Prison • Pilot E-filing in the Grand Court's Financial Services Division • Introduction of E- Payments and E-tickets by the Police Service • Establishment of Courts to deal with Mental Health and Domestic Violence Issues • Introduction of the 1st phase of the implementation of the Alternative Sentencing Law • Introduction of new initiatives for prisoners including: an intensive Day Supervision Programme; an annual Arts Programme for offenders; and a mentoring programme for young and/or first time offenders • Introduction of X-Ray scanner • Compliance and regulatory oversight of designated non-financial businesses and persons for anti-money laundering and counter financing of terrorists

Broad Outcome	Specific Outcomes and Key Policy Strategies
Broad Outcome: 4 ***Developing a World Class Education System to Foster Growth and to Benefit from Development***	• Continued implementation of the Education Stabilisation Plan and development of a new National Strategic Plan for Education • Introduction of new graduation criteria for secondary schools to include academic requirements • Phased completion of the new secondary schools and relocation of staff and students to new sites • Continued support for the effective implementation of the secondary education restructuring initiative • Completion of the national primary school redevelopment programme • Implementation of a comprehensive "Safer Schools" initiative, to provide school environments that are conducive to learning for all students, including our "At-Risk" students. • Development of a national numeracy strategy to improve teaching effectiveness and pupil performance in numeracy and mathematics • Introduction of the Early Years National Curriculum • Introduction of new training and qualification opportunities for Early Years Practioners • Establishment of enhanced registration criteria for Early Childhood Care and Education Centre • Establishment of new Teaching Training Programmes at UCCI • Phased Re-introduction of reception classes to government primary schools • Specialist teaching and respite facilities for students with autism spectrum disorder and mental health challenges. • Continued development of the Cayman Islands Further Education Centre in technical vocational education including construction and catering • Change of Alternative Education Services to School Inclusion Services • Opening of the new Clifton Hunter High School • Masters Programme added to Law School
Broad Outcome: 5 ***Improving Healthcare***	• Develop a National Strategic Health Plan • Improve access to healthcare by strengthening and expanding health insurance coverage • Enhance the capacity of the healthcare system to address mental health needs by establishing a Mental Health Task Force. • Amendments to legislation including Health Practice Law, Health Insurance and Pharmacy Laws • Develop policies to support Medical Tourism

Broad Outcome	**Specific Outcomes and Key Policy Strategies**
Broad Outcome: 6 ***Paving a better way forward for Cayman Brac and Little Cayman***	• Market and promote Cayman Brac and Little Cayman as a prime destination for tourism • Expand and improve sporting facilities in Cayman Brac and Little Cayman • Expand and upgrade road network in Cayman Brac • Continue development of a new hurricane shelter and multipurpose hall. • Improve ramps and Jetties in Cayman Brac and Little Cayman
Broad Outcome: 7 ***Developing our Youth***	• Continued support of National Employment Passport Programme, with expansion of Passport@ Success Programme for young unemployed youth, and the development of employment initiatives for other target groups • Introduce vibrant youth programmes including after-school and sports operated in each districts • Continue to support Cadets undertaking the Business Technology Education Council (BTEC) Diploma in Public Service • Introduction of a work related training Programme for young people • Introduce a programme to qualify individuals in specific sports • Strengthen youth rehabilitation by implementing a therapeutic community programme • Implementation of the National Youth Policy • Develop and implement a National Sports Policy • Introduce a range of innovative initiatives to develop, support and invest in our people, including "unemployed youth" and "youth at risk" • Access the Commonwealth Youth Programme training module • Commence the construction of a remand facility for youths who demonstrate antisocial and/or offending behaviours • Capital improvements to sports facilities • *Establishment of a Youth Rehabilitation Services Authority*

Broad Outcome	Specific Outcomes and Key Policy Strategies
	• of group treatment options • Family programmes to assist parents to develop positive and effective parenting skills • Expanded Counselling Services
Broad Outcome: 9 ***Restoring Prudent Fiscal Management***	• Establish and implement mechanisms to provide and encourage fiscal discipline • Manage Government financials within a medium to long term context • Continue the development of econometric models for forecasting coercive revenue • Develop and implement a macroeconomic compilation program • Implement changes to internal government processes and structures to improve efficiency and reduce operating costs • Examine the possibility of divestment of some public assets • Reduction and control of expenditure • Limit borrowings to absolute minimal levels to maintain the high Sovereign rating, fiscal sustainability and international reputation • Produce government financial statements in financial statements in compliance with the timelines and standards set out in the Public Management and Finance Law • Support the use of Private Finance Initiatives (PFI) and Public-Private Partnerships (PPP) as alternatives for funding/developing large public sector capital projects • Operate within the new Framework for Fiscal Responsibility

Broad Outcome	Specific Outcomes and Key Policy Strategies
Broad Outcome: 10 ***Ensuring Success and Participation of Caymanians in the Financial Services Industry***	• Enhanced careers assessment, guidance and counseling services, both for schools and job seekers
Broad Outcome: 11 ***Supporting our Caymanian Small Businesses***	• Implement programs to assist Caymanians in improving themselves and their communities especially those with bankable propositions who do not have ready access to conventional financing • Continued offering loans through Cayman Islands Development Banks particularly for small businesses and low income housing • Improve the viability of local businesses and entrepreneurial ventures through various training workshops
Broad Outcome: 12 ***Preparing our Labour Market For Future Opportunities***	• The launch of a new Human Capital Development Agency, to provide capacity to deliver innovative and high-quality programmes and services that support human capital development planning, workforce preparation and the employment needs of job seekers and those who want to further their careers • The launch of a new Department of Labour and Pensions, to provide a one-stop shop and more effective and efficient mechanisms for managing compliance and enforcement of pension and labour matters.
Broad Outcome: 13 ***Improving the Lives of the Elderly and Disabled***	• Provision of Residential and Day Care Services for the indigent elderly and disabled persons • Sensitizing the public, family members and care-givers to the needs and care of mentally ill, elderly and disabled • Amendments to the Poor Persons Regulations

Broad Outcome	Specific Outcomes and Key Policy Strategies
Broad Outcome: 14 ***Reducing Substance Abuse***	• Continued implementation of a therapeutic milieu model in the residential treatment programme • Revise policies and procedures to reflect current client-centred best practices • Development of a strategy to provide appropriate rehabilitation facilities for youth that will offer treatment programmes for substance abuse both at the community level and in a residential setting.
Broad Outcome: 15 ***Empowering Women***	• Introduction of legislation to contribute to the process of ensuring that the Convention of the Elimination of all forms of discrimination against women is extended to the Cayman Islands • Implement Legislation against Domestic Violence
Broad Outcome: 16 ***Addressing Energy and the Environment***	• Continue developing environmental health programs in the various districts • Continue developing and enhancing the food hygiene and safety programs • Introduction of the hazard analysis critical control point strategy • Implementation of Multilateral Environmental Agreements (MEA) • Implementation of the National Conservation Law and the Endangered Species Trade and Transport Law (2004) • Climate change adaptation and mitigation • Development of a National Sustainable Development Framework • Protect and enhance the marine and terrestrial environment • Comprehensive review of Cayman Islands Marine Parks system • Development of a National Energy Policy • Promotion of a comprehensive facility for solid-waste disposal management • Develop new environmental health legislation

Broad Outcome	Specific Outcomes and Key Policy Strategies
Broad Outcome: 17 *Strengthening our Infrastructure*	• Development of a National Infrastructure Plan • Continued upgrading and development of the road network • Development of affordable homes for Caymanians • Long term planning for vault construction and cemetery development • Community Centre upgrades • Landfill improvements • Draft development plans for all three islands • Continue upgrades to the Owen Roberts International Airport • Oversee construction of the Doppler Early Warning Radar System • Commence development on the Lightning Detection Station • Extension of Esterley Tibbetts Highway • Restoration of Government House • Construction of the Bodden Town Fire Station
Broad Outcome: 18 ***Preserving our Culture***	• Continue to collect material evidence of artistic, historic or scientific significance to the Cayman Islands, both terrestrial and underwater • Assist with the development of the Cayman Islands first Shipwreck Preserves • A Traditional Arts Programme (including Traditional Thatch Work Apprenticeship Programme) for Caymanian Masters and Apprentices • Promotion of a national learning culture that creates lifelong learning through the provision of programmes and access to historical and other information research facilities • Develop a National Cultural Policy • Documentary heritage of the Cayman Islands through Archive's oral history programme • Develop internet based access to historic public records • Continue the development of Barkers National Park • Development of Parks legislation
Broad Outcome: 19 ***Enhancing Agriculture***	• Continue to support the "Market at the Grounds" • Continue to support and assist farmers on all three islands • Drafting a Food and Nutrition Security Policy • Continue to develop Agriculture grounds and programmes in Cayman Brac. • Continue to provide technical support for Agriculture shows in the islands • Establish an Agro-Tourism market by the sea in West Bay

3. Economic Overview

Introduction

The domestic economy showed signs of recovery in the first half of 2011 following three consecutive years of output contraction. However, downside risks are emerging anew from the sharp downgrading of the outlook for the US and Euro area economies in 2011 and 2012. In this light, domestic private sector investments supported by government policies are critical in forming the economic forecasts for the Cayman Islands. This section presents these forecasts for FY 2011/12 to FY 2014/15 and their major assumptions preceded by a review of the global and domestic economic performance in 2010 up to the first half of 2011.

World Economic Performance and Forecasts[1]

The forecasts for the world economy have seen sharp changes since the last update of the Strategic Policy Statement in April 2011, reflecting the high degree of uncertainty among the advanced economies which are traditionally considered as the Cayman Islands' major source markets for financial and tourism services.

In April, global economic activity for 2011 was forecasted to grow 4.4 percent following a strong recovery of 5.1 percent in 2010. However, the forecast for 2011 is now placed at a slower pace of 4.0 percent in view of the actual performance in the first half of the year and the heightened downside risks foreseen in the second half emanating from the US and the Euro zone economies. Real growth of the aggregate gross domestic product (GDP) of the US and other major advanced economies faltered in the first half of 2011 to ¾ percent from 3.1 percent in 2010.

Growth in the US alone slowed from 3.0 percent in 2010 to 1.0 percent in the first six months of 2011 as a number of factors depressed household and business confidence anew. Low employment rates persisted while heightened uncertainty in the management of the fiscal deficit led to a downgrading of the US sovereign credit rating. External shocks from the tsunami in Japan and the sharp price increases in oil and other commodities also contributed to disruptions in production.

Growth of US GDP in 2011 is now forecasted at 1.5 percent, a sharp adjustment from the previous forecast of 2.8 percent. Similarly, the economic outlook for 2012 was diminished from 2.7 percent to 1.8 percent. A stronger growth of 3.4 percent is foreseen in 2016, conditional on a solid and sustained recovery of domestic private demand underpinned by the return of market confidence. The latter presupposes a credible commitment to a medium-term federal debt reduction plan.

In Canada which is a growing source of demand for the Cayman Islands' stay-over tourism market, GDP growth in 2010 was strong at 3.2 percent. In the first half of 2011, however, consumer and business confidence in this economy were weighed down by fiscal developments in the US along with the slow recovery of domestic employment. GDP growth forecasts for the country were also cut but are slightly higher than the US at 2.1 percent in 2011 and 1.9 percent in 2012. Growth forecast for 2016 is a moderate 2.2 percent as the government is expected to pursue strong fiscal withdrawal.

The Euro area recorded GDP growth in 2010 of 1.8 percent. Performance across the major economies was varied, with Germany on the high end at 3.6 percent while Spain further deteriorated. In the first half of 2011, aggregate growth strengthened to 2.0 percent but this is expected to decelerate in the second half to ¼ percent and to 1.1 percent in 2012. These recent setbacks arise from the area's debt crisis that elevated sovereign and banking industry risks. The outlook over the medium term is cautious, with growth in 2016 forecasted at 1.7 percent.

In the United Kingdom (UK), growth has been relatively low but stable, from 1.4 percent in 2010 to a forecast of 1.1 percent in 2011 and 1.6 percent in 2012. Private sector demand grew modestly in 2010 but is forecasted to stall in 2011 as unemployment remains high. Over the medium-term, private sector growth is expected to increasingly lead the recovery as fiscal consolidation continues. GDP growth in 2016 is forecasted at 2.7 percent.

The stalled recovery of the advanced economies in the first half of 2011 has highlighted the high growth performance among emerging and developing economies. Overall output growth for this group rebounded robustly by 7.3 percent in 2010 and is expected to continue expanding at 6.4 percent in 2011 and 6.1 percent in 2012 on the back of healthy domestic demand. Barring adjustments from overheating in some countries such as Brazil, and strong adverse

[1] This assessment is based on the World Economic Outlook (International Monetary Fund, September 2011).

impact from the low growth of the major economies, emerging and developing economies are expected to remain on the uptrend with output growth of 6.7 percent in 2016.

General price levels rose moderately among advanced economies in 2010 as consumption picked up on one hand while prices of oil and non-fuel commodities rose sharply by 27.9 percent and 26.3 percent respectively. Inflation is expected to rise among advanced economies from 1.6 percent in 2010 to 2.6 percent in 2011 as monetary policies are likely to continue supporting domestic growth. In addition, oil and nonfuel commodities prices are expected to surge further in 2011 by 30.6 percent and 21.2 percent respectively. However, a modest reversal of these commodity price trends is foreseen for 2012, reflecting the dampened growth prospects and rising financial instability among advanced economies. Inflation is forecasted to moderate to 1.4 percent in 2012 among these economies.

Table 2: Comparative Macroeconomic Forecasts (%)

	2009*	2010*	2011	2012
Real GDP growth (%)				
Cayman Islands	(7.0)	(4.0)	1.2	2.2
United States	(3.5)	3.0	1.5	1.8
World	(0.7)	5.1	4.0	4.0
Consumer Prices Inflation (%)				
Cayman Islands	(1.5)	0.3	0.9	1.5
United States	(0.3)	1.6	3.0	1.2
Advanced economies	0.1	1.6	2.6	1.4
Unemployment Rate (%)				
Cayman Islands	6.0	6.7	6.5	6.2
United States	9.3	9.6	9.1	9.0
Advanced economies	8.0	8.3	7.9	7.9
Current account of the balance of payments (% of GDP)				
Cayman Islands	(17.8)	(15.2)	(13.9)	(13.7)
United States	(2.7)	(3.2)	(3.1)	(2.1)
Advanced economies	(0.2)	(0.2)	(0.3)	0.1

*GDP and current account data for 2009 are actual; for 2010, these are estimates based on indicators.
Sources: IMF World Economic Outlook (September 2011) for the United States and global data; Cayman Islands Government, Economic and Statistics Office for the Cayman Islands data.

The Cayman Islands' Economic Performance and Forecasts for FY 2011/12

Output (GDP) Growth. Signs of recovery appeared in the first six months of 2011 as economic activity grew at an estimated 1.3 percent, following a 4.0 percent decline in 2010. The key sectors on the recovery trend were hotels and restaurants, financing and insurance, and wholesale and retail trade. However, other sectors continued to perform weakly led by construction and real estate, renting and business services.

Domestic recovery has been led so far by tourism services. In 2010, these services enjoyed an increase in external demand from the strong growth of air arrivals (6.0%) and cruise arrivals (5.1%). The strong upturn in the stay-over market continued in the first half of 2011 with air arrivals increasing by 8.0 percent although cruise visitors decreased by 3.4 percent.

In the first six months of 2011, economic activity of the domestic financing and insurance sector which comprises approximately half of the country's GDP saw an increase in their total foreign investment (29.5%) and loans to non-residents (10.1%), reversing the declines posted in 2010. Total domestic credit also rose in the first six months of 2011, although at a rate slower than in 2010, on the back of higher public sector borrowings.

Meanwhile, the financial licensing indicators in 2010 showed the continuing impact of the global financial cycle and restructuring on several services: bank and trusts licenses (-7.9%), stock exchange listing (-15.2%), mutual funds registration (-0.9%) and insurance licenses (-5.0%). However, new company registrations and new partnership registrations rebounded by 3.7 percent and 19.9 percent, respectively. For the first half of 2011, most of the financial indicators continued to fall, however, at lower rates compared to 2010 while strong growth was recorded for new company registrations.

The real estate, renting and business activities sector recorded another decline in 2010 at 2.4 percent, accounted mainly by the real estate sub-sector which dipped further by 13.5 percent. In the first half of 2011, the latter was revived with a steep increase in the value of property transfers due to a few high-value properties. Nonetheless, the overall performance of the sector declined.

In construction, the severe curtailment of demand persisted with double-digit declines in total value of building permits and project approvals in 2010 and in the first half of 2011.

The actual overall performance of the economy in the first six months points to a modest recovery of GDP by 1.2 percent in 2011. Continued recovery is forecasted for 2012 with a 2.2 percent growth, bringing GDP growth for FY 2011/12 to 1.7 percent. However, this is hinged on a more broad-based recovery of the financial services industry, stronger growth of tourism arrivals and construction.

Inflation In 2010, the domestic economy experienced higher prices for transport goods and services (8.1%) and electricity (21.3%) induced by the sharp increase in global oil prices. However, the overall price increase was held back at 0.3 percent, reflecting the downtrend in housing rental prices which comprise a significant portion of household spending. Inflation was slightly higher at 0.5 percent in the first half of 2011 as average prices of food and non-alcoholic beverages, transport, and miscellaneous good and services picked up while housing-related prices remained subdued.

The inflation rate for 2011 is forecasted at 0.9 percent considering the quarterly trend as of the first half of the year. Upward adjustment in the average prices of transportation, restaurants and hotels and alcohol and tobacco are expected to be mitigated by low inflation in the housing sector. The forecast inflation for FY 2011/12 is placed at 1.2 percent, conditional on the forecast downtrend in global prices of oil and non-oil commodities, and soft inflation forecast for the US.

Employment The economic downturn had severe impact on labor supply and employment. The total labor force was shrunk by 0.7 percent in 2010 as work permits for expatriate labor fell by 13.1 percent due largely to the loss of work opportunities in construction, hotels and condominiums and financial services. Consequently, the unemployment rate went up to 6.7 percent in 2010.

Work permits fell further by 7.5 percent in the first half of 2011 compared to the same period a year ago. The forecast unemployment rate is seen to decline marginally to 6.5 percent in 2011, mainly as a result of the reduction in expatriate labor force. Conditional on a modest GDP growth in 2012, the unemployment rate is forecasted to ease down to 6.2 percent next year. The resulting forecast unemployment rate for FY 2011/12 is placed at 6.4 percent as compared to 6.6 percent for FY 2010/11.

Current Account[2] Total merchandise imports dropped by 6.5 percent in 2010 to $688.3 million as local demand for consumption and other merchandise goods contracted. This, along with reduced outflow of workers' remittances induced the narrowing of the country's forecasted current account of the balance of payments to 15.2 percent of GDP in 2010.

During the first half of 2011, merchandise imports increased by 4.6 percent. However, this is expected to be countered by a revival of tourism and financial service receipts from abroad, narrowing the current account deficit to 13.9 percent of GDP in 2011. The resulting forecast for FY 2011/12 is 13.8 percent of GDP.

Economic Assumptions and Forecasts for Financial years 2012/13 to 2014/15

GDP Growth Overall economic growth of the Cayman Islands in the next three fiscal years will increasingly rely on private investments in the domestic sectors in light of heightened financial and fiscal uncertainty in the US and other advanced economies. The overall growth forecast for the advanced economies remains positive but modest at 1.9 percent in 2012 and 2.7 percent in 2016

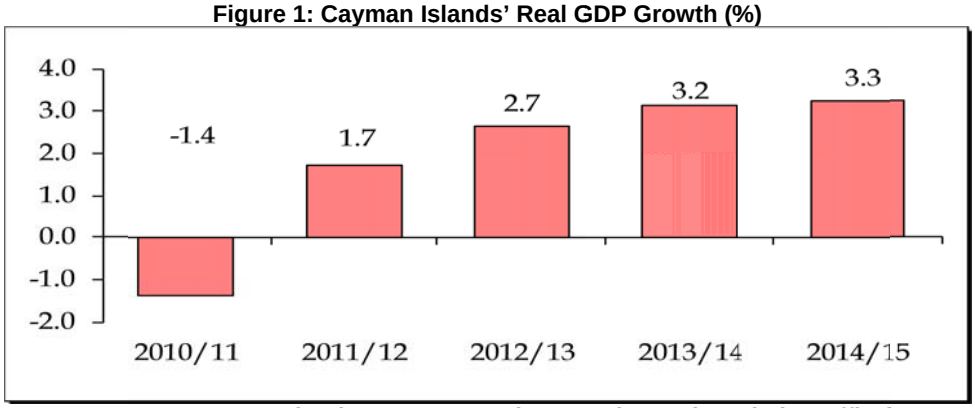
Construction is assumed to contribute towards the sustained recovery of domestic GDP with the implementation of recently announced private sector investment projects such as a cruise ship berthing facility in George Town; the development of Cayman Enterprise City; the setting up of a new private hospital mainly for medical tourism; several projects to enhance tourism facilities and infrastructure along the Seven Mile Beach as part of ForCayman development; the extension of the Owen Roberts Airport and continuing work on the school projects. The construction phase of these projects is assumed to take off in FY 2012/13 to boost the level of population which will in turn stimulate the demand of services in several sectors such as wholesale and retail; real estate, renting and business activities; hotels and restaurants; financing and insurance.

[2] The current account of the balance of payments measures the total value of the country's transaction against the rest of the world in terms of trade in goods and services, income and transfers. A deficit in the current account means that the Cayman Islands made more payments to the rest of the world compared to its receipts from these transactions.

It is assumed that the downward adjustments in the advanced economies' forecast growth for the medium-term will pose downward risks in the sustained recovery of the financial and tourism services sectors. However, it is also assumed that the impact of such risks will be mitigated by continuing industry programs. For instance, the government began in 2010 to work more closely with Cayman Airways and private sector stakeholders in offering short-term, tactical promotions, designed to not only increase visitor arrivals for current attractions, but to cultivate new businesses.

The government also continues to sustain its support in enhancing the services, structure and expertise of the financial services industry while the monetary authority implements three (3) strategic goals: (a) to further modernize and enhance regulation and ensure that the country keeps on par with the relevant standards and best practices that are evolving; (b) to intensify its international cooperation and involvement and enhance the country's reputation; and (c) to facilitate the efforts of the government and the private sector in further developing the country as an international financial centre. For instance, the passing of the Insurance Law 2010 facilitated the creation of two new classes of insurance – (a) special purpose vehicles that are explicitly for the creation of reinsurance arrangements financed through the capital markets such as catastrophe bonds, and (b) reinsurers or reinsurance companies domiciling in the Cayman Islands.
The above external and domestic assumptions support a forecast growth of real GDP in 2012/13 of 2.7 percent (see Figure 1). Slightly stronger growth of 3.2 percent and 3.3 percent are respectively forecasted for FY 2013/14 and FY 2014/15, conditional on the operation of the private sector investment projects and the modest but stable growth of demand for tourism and financial services.

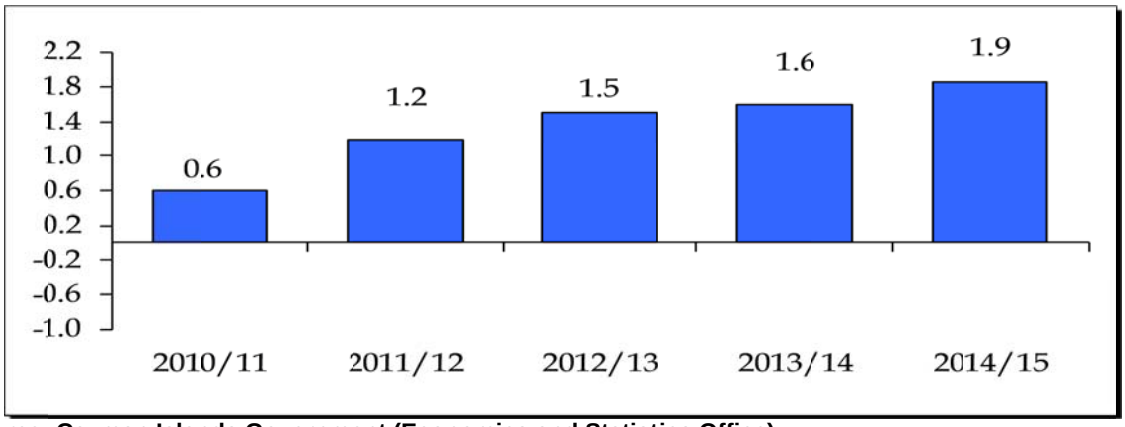
Figure 1: Cayman Islands' Real GDP Growth (%)



Source: Cayman Islands Government (Economics and Statistics Office)

Inflation Rate A gradual improvement of the population level as construction projects pick-up, along with a moderate US inflation, is assumed to slightly push domestic inflation in the succeeding fiscal years (see Figure 2). For FY 2012/13, inflation is forecasted at 1.5 percent. Barring sharp price increases in US goods and domestic housing rentals, inflation is expected to rise slightly to 1.6 percent in FY 2013/14 and to 1.9 percent in FY 2014/15.

Figure 2: Cayman Islands' Inflation Rates (%)

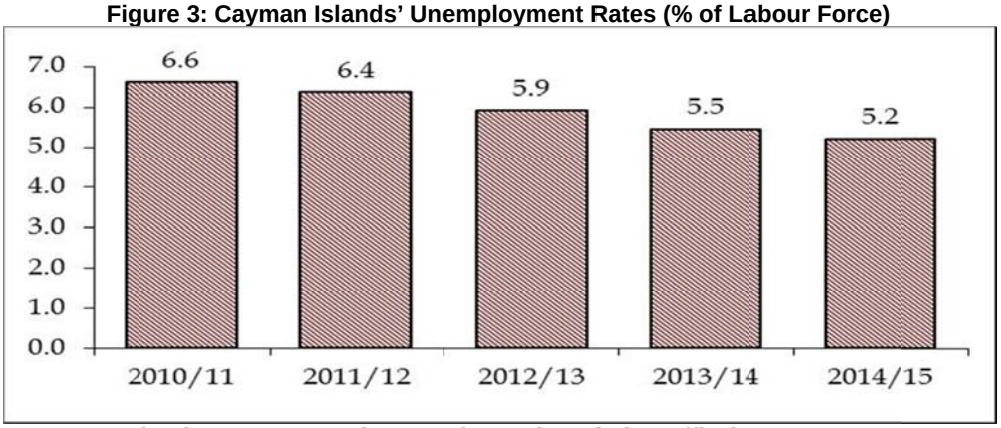


Source: Cayman Islands Government (Economics and Statistics Office)

Employment Local employment is assumed to have a lagged response to forecast output growth. New employment is expected to emanate from construction projects and in other local services with strong linkages to the envisioned private sector projects.

Unemployment rate is forecasted at 5.9 percent in FY 2012/13, followed by gradual improvements to 5.5 percent in FY 2013/14 and 5.2 percent in FY 2014/15 (see Figure 3).

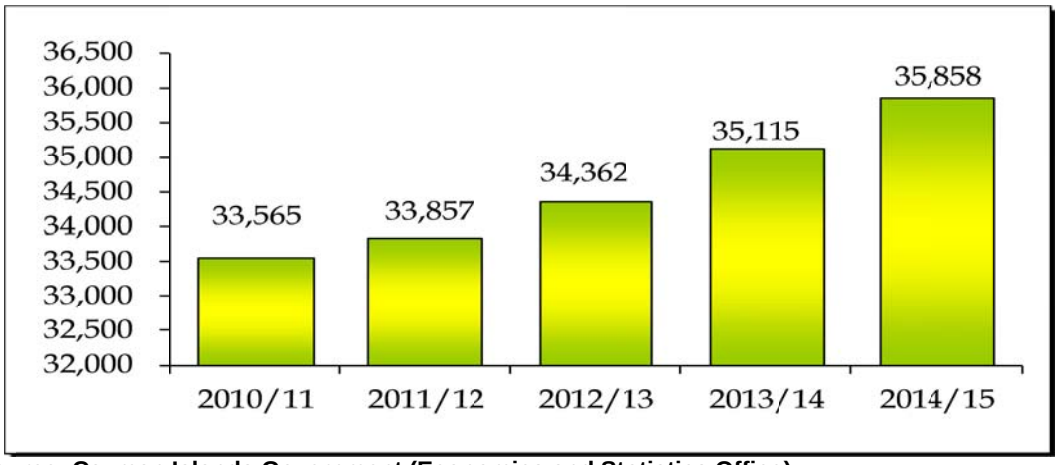
Figure 3: Cayman Islands' Unemployment Rates (% of Labour Force)



Source: Cayman Islands Government (Economics and Statistics Office)

Sustained improvements in the employment level are expected in the next three years; however, these will remain below the pre-crisis employment level in FY 2007/08 of 36,300.

Figure 4: Cayman Islands' Employment Level

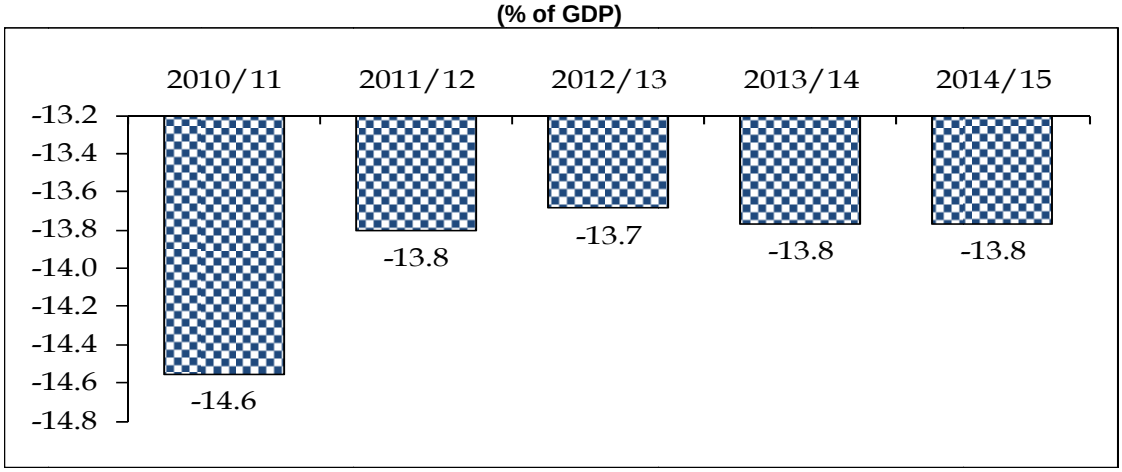


Source: Cayman Islands Government (Economics and Statistics Office)

Current Account For the financial year 2012/13, the deficit on the current account of the balance of payments (BOP) is expected to reach 13.7 percent of GDP. It is assumed that growth in imports and remittances will match changes in inflows from tourism and financial services.

In the next two years, the current account deficits are forecasted at 13.8 percent of GDP (see Figure 5). These forecasts are premised on constant growth from both inflows and outflows. It is assumed that the target private investment projects will induce income inflows that will offset increases in imports and remittances.

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



Source: Cayman Islands Government (Economics and Statistics Office)

4. Aggregate Financial Targets for 2012/13 – 2014/15

This section specifies the aggregate financial targets for the Core Government established by Cabinet for the preparation of the 2012/13 Budget and the financial targets for the 2013/14 and 2014/15 financial years. The targets for 2013/14 and 2014/15 provide a planning guide for the Government and will be updated in subsequent SPS documents in light of changes to the financial position of the government and/or policy priorities.

This section also outlines the fiscal strategy and rationale on which the aggregate financial targets are based as well as explaining how these targets comply with the Principles of Responsible Financial Management (the Principles) specified in the PMFL.

The Government's Fiscal Strategy

The Government's fiscal strategy continues to be similar to that outlined in the 2011/12 Budget. This strategy is centred on the primary goal of keeping the Government's finances compliant with the Principles of Responsible Financial Management and consists of the following five main components:

Strategy 1: Controlling Government Expenditure
The UDP Government is taking definitive steps to control expenditure in a sensible and logical manner. The Government has commenced an extensive review of public sector entities aimed at reducing the cost of the delivering services to the public. This SPS has established clear targets for the reduction of operating expenditure over the next three financial years.

Strategy 2: Management of Public Debt
The Government recognizes the significance of managing public debt in order to keep it at manageable and acceptable levels. Over the next three financial years, the Government does not intend to borrow in order to fund capital investment or operating activities. Instead the Government seeks to maximise operating surpluses and to pursue other initiatives for financing.

Strategy 3: Revenue Enhancement
The third element of the Government's fiscal strategy relates to the development and implementation of a more stable and sustainable revenue base for the Government. Continuing the efforts which commenced with the 2009/10 Budget, the government will continue to explore suitable options for new revenue streams, carefully considering the greater economic and financial impact on the people of the Cayman Islands.

Strategy 4: Financial Improvement of Statutory Authorities and Government Companies
The fourth element of the Government's fiscal strategy is to minimise losses within the public authority sector and reduce the level of operational and capital support required from core Government over the next three years. The Government is committed to working with the relevant Boards to implement appropriate policy actions necessary to realise this goal.

Strategy 5: Public Private Partnerships
The fifth element of the Government's fiscal strategy relates to the need for ongoing development of our country's infrastructure in order to support economic development. The Government will continue to seek partnership with qualified third party entities for the development of large capital projects. The primary objective of this strategy is to minimise the financial burden of these developments on the public purse while simultaneously creating economic opportunities.

The aggregate financial targets for the Core Government established by Cabinet for 2012/13 and the subsequent two financial years are provided in Table 3 below. These targets have been developed in order to comply with the three year fiscal plan agreed between the Government and the Foreign and Commonwealth Office in May 2010. The aggregate targets fall into three groups: operating targets, balance sheet targets and cash flow targets.

Table 3
Aggregate Financial Targets for Core Government

Financial Measure	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	Revised Budget $000s	**Target $000s**	**Target $000s**	**Target $000s**
Operating Targets				
Operating Revenue	548,382	560,863	572,662	587,409
Operating Expenses	511,082	497,988	502,968	507,998
Surplus Before Financing	37,300	62,875	69,694	79,411
Financing Expenses	33,410	32,149	30,924	29,709
Net Deficit in Investments in Public Authorities	8,405	7,183	7,183	7,183
Surplus (Deficit)	(4,515)	23,543	31,587	42,519
Balance Sheet Targets				
Borrowing (balance outstanding at year-end)	599,287	573,358	547,429	522,300
Net Worth	493,723	517,266	548,853	591,372
Cash Flow Targets				
Net Operating Cash Flows	32,537	56,617	64,949	75,954
Net Investing Cash Flows	(16,853)	(58,854)	(42,592)	(42,592)
Net Financing Cash Flows	(25,928)	(24,490)	(24,490)	(23,690)
Net Movement in Cash	(10,244)	(26,727)	(2,133)	9,672
Closing Cash Balance	179,056	152,329	150,196	159,868

Operating Targets

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

Operating revenues are forecast to increase at a moderate pace in line with the forecast improvement in the major macroeconomic indicators for the Cayman Islands over the next three financial years. Revenues are expected to grow from the current forecast level of $548.38 million in 2011/12 to $560.86 million in 2012/13; $572.66 million in 2013/14 and $587.41 million in 2014/15.

Operating expenses are forecasted to $498.0 million in 2012/13 a decrease of $13.1 million from 2011/12 levels of $511.1 Over the forecast period the Government seeks to be more innovative and less costly in delivering services. Operating Expenses are forecast to increase by an average of 1% over the SPS period. Operating Expenses are forecasted to $502.97 million and $508.00 million in 2013/14 and 2014/15 respectively. These targets are indicative of the Government's commitment to restoring prudent financial management.

Operating surpluses are targeted throughout the three -year forecast period. These surpluses are consistent with the Government's fiscal strategy outlined above and will be used to fund essential social and economic infrastructure projects contained in the capital program. The Net surplus is forecast to be $23.54 million in 2012/13; $31.59 million in 2013/14 and $42.52 million in 2014/15.

Balance Sheet Targets

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

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

The Government is not forecasting any new borrowings over the next three financial years; this is consistent with the Government's fiscal strategy of financing the development of new infrastructure by operating cash flows and divestment of certain assets. As a result the country's outstanding debt is forecast to decrease over the next three financial years from the current ending balance of $599.29 million in 2011/12 to $573.36 million in 2012/13; $547.43 million in 2013/14; $522.30 million in 2014/15.

Net worth is targeted to increase steadily over the next three financial years from $493.72 million in 2011/12 to $591.37 million in 2014/15. This is consistent with increases in the operating surplus targets over the same period.

Cash Flow Targets

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

Net operating cash flows are targeted to increase from $32.54 million in 2011/12 to $75.95 in 2014/15. This represents an increase of $43.41 million over the entire period or an average annual increase of 32.7%. These operating cash flows will enable the Government to fully fund its planned capital programme and repay principal on outstanding debt. The results of operating cash flows are a direct result of prudent fiscal management.

The Government is planning to raise $59.0 million from the divestment of certain assets in 2011/12 and the receipt of funds received from Dart re ForCayman Alliance initiative; these funds will be used to finance capital investment activities. Investing cash flows are expected to be $16.85 million in 2011/12, this figure is after reducing the investing outflows by the $59.0 million divestitures. Investing cash flows will increase to $58.85 million in 2012/13 thereafter remaining constant at $42.59 million in 2013/14 and 2014/15.

Financing cash flows comprises entirely of principal repayments of existing debt as the Government fulfils its financial obligations. No new borrowings are forecasted during 2011/12 to 2014/15.

The cash reserves are forecast to be $179.06 million in 2011/12 this is equivalent to 129.7 days of executive expenditure. Over the forecast period cash reserves are forecasted to remain relatively steady averaging 113.5 days. The cash balances are forecasted at $152.33 million in 2012/13, $150.20 million in 2013/14 and $159.87 million in 2013/14. Compliance with the minimum requirement of 90 days of executive expenses has met in all three years of the forecasted period.

Compliance with Principles of Responsible Financial Management

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

Table 4
Compliance with Principles of Responsible Financial Management

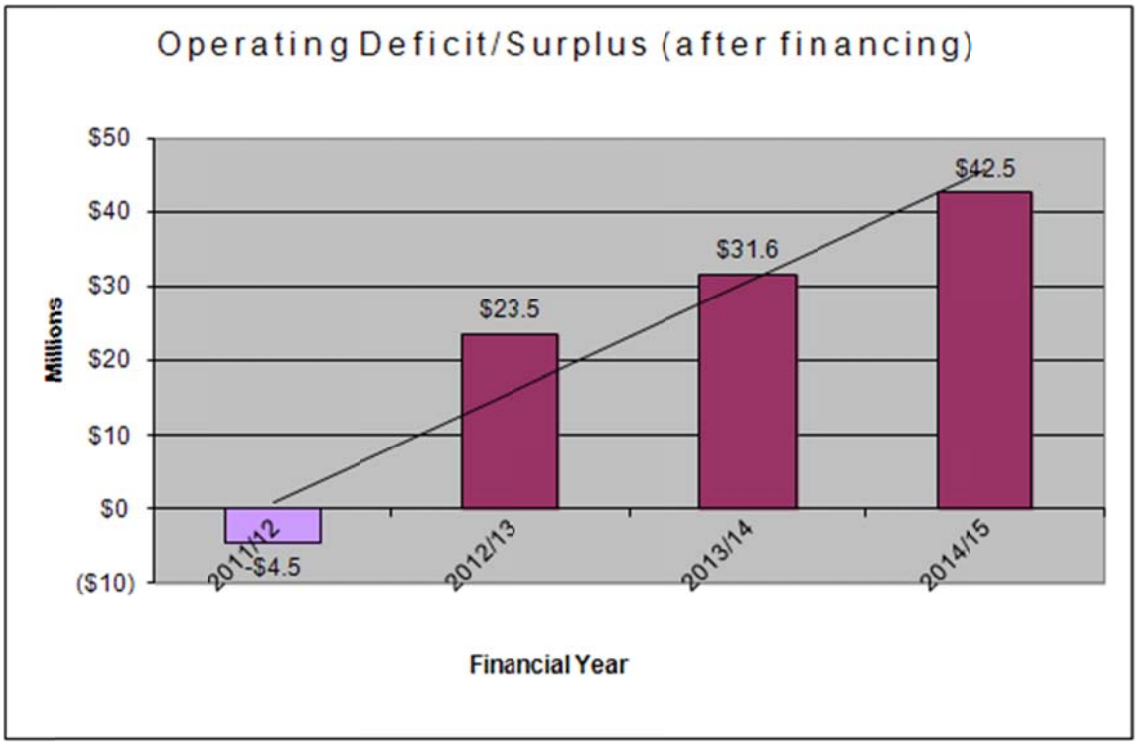
Principle	Degree of Compliance
Operating surplus: should be positive (Operating surplus = core government operating revenue – core government operating expenses)	**Complies in all years** 2012/13: $23.543 million 2013/14: $31.587 million 2014/15: $42.519 million
Net Worth: should be positive (Net worth = core government assets – core government liabilities)	**Complies in all years** 2012/13: $517.266 million 2013/14: $548.853 million 2014/15: $591.372 million
Borrowing: Debt servicing cost for the year should be no more than 10% of core government revenue (Debt servicing = interest + other debt servicing expenses + principal repayments for core government debt and self financing loans)	**Does Not Comply in 2012/13** 2012/13: 10.4 % 2013/14: 10.0 % 2014/15: 9.4 %
Net Debt: should be no more than 80% of core government revenue (Net debt = outstanding balance of core government debt + outstanding balance of self financing loan balance + weighted outstanding balance of statutory authority/government company guaranteed debt - core government liquid assets)	**Complies in 2014/15** 2012/13: 88.2 % 2013/14: 80.8 % 2014/15: 71.0 %
Cash Reserves should be no less than 90 days estimated executive expenses 90 days in 2012/13 90 days in 2013/14 90 days in 2014/15 (Cash reserves = core government cash and other liquid assets)	**Complies in all years** 2012/13: 113.2 days 2013/14: 110.6 days 2014/15: 116.6 days
Financial risks should be managed prudently so as to minimize risk	**Complies in all years** Insurance cover exists for key assets and major potential liabilities. Hurricane preparedness strategy in place

Overview of the Aggregate Financial Targets

Figures 6 to 12 provide a graphical representation of the aggregate financial targets for the period 2011/12 to 2013/14.

The Operating deficit of $4.5million in 2011/12 is expected to move to a surplus after financing of $23.5 million in 2012/13 to $42.5 million in 2014/15 due to continued prudent controls over operating expenditures as shown in Figure 6 below.

Figure 6
Government Operating Surplus

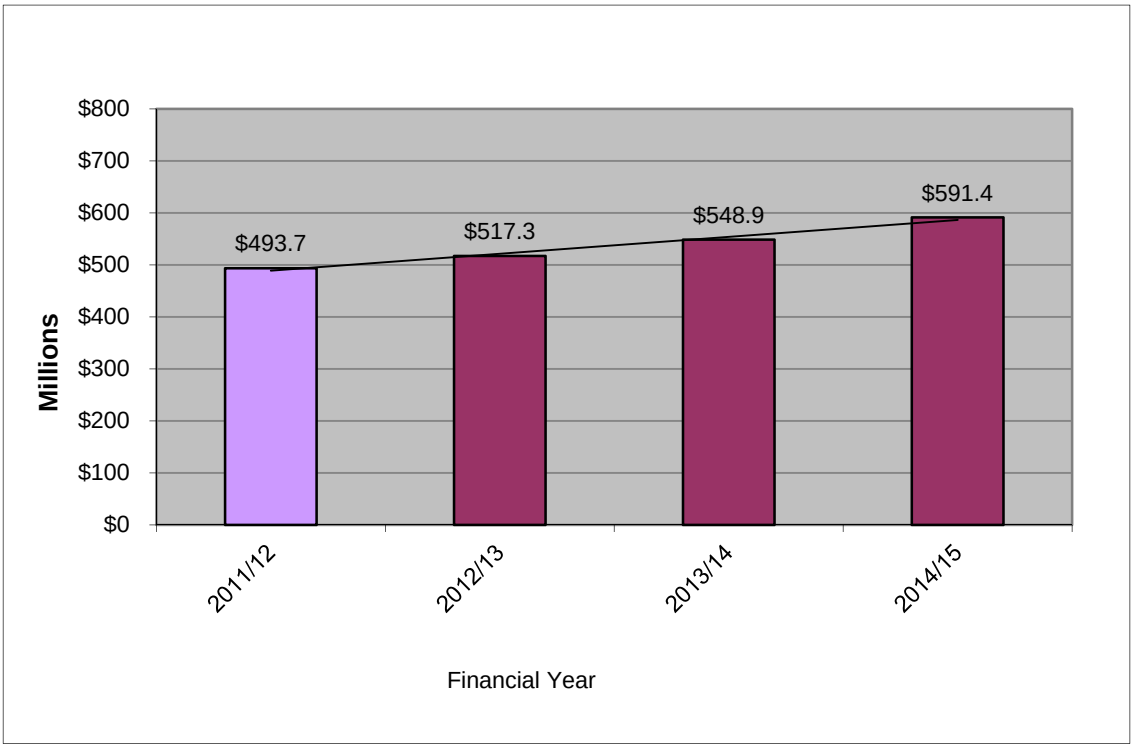


Key applies to Figures 7 thru 13

Budget **Forecast**

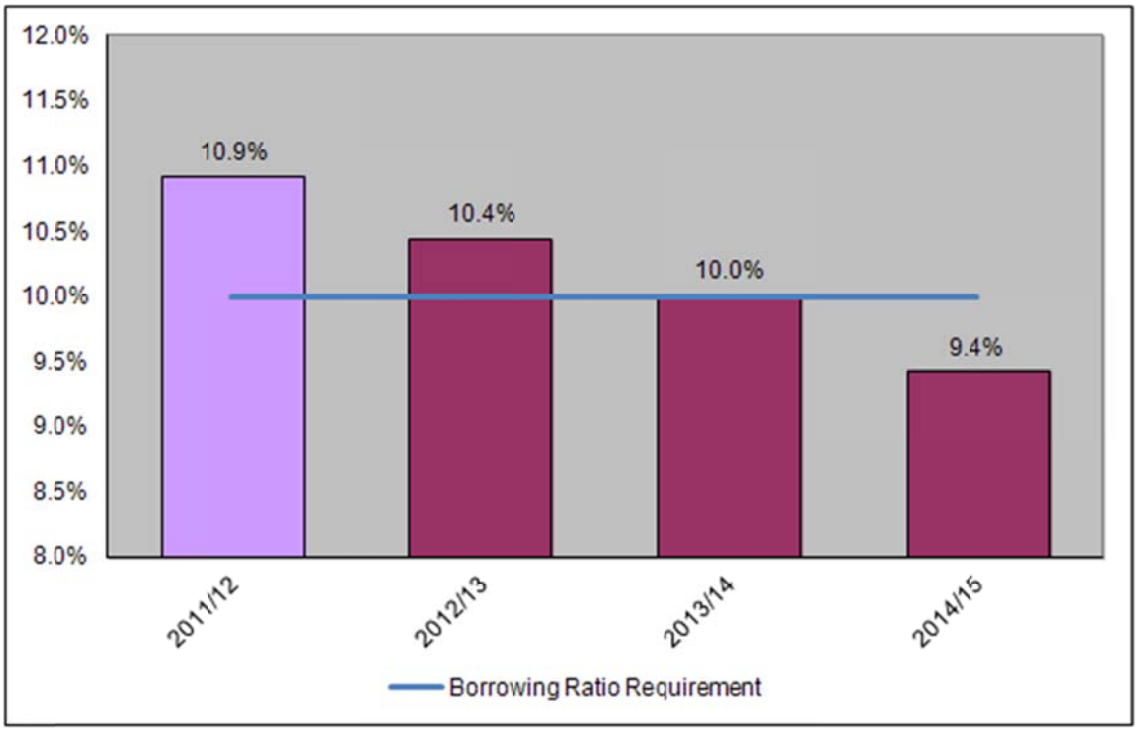
The Government's projected Net Worth position is forecast to grow steadily. This is reflective of a continued operating surplus position being forecasted over the three year period and is a positive indicator of the increasing financial health of the Government. See Figure 7 below.

Figure 7
Government Net Worth



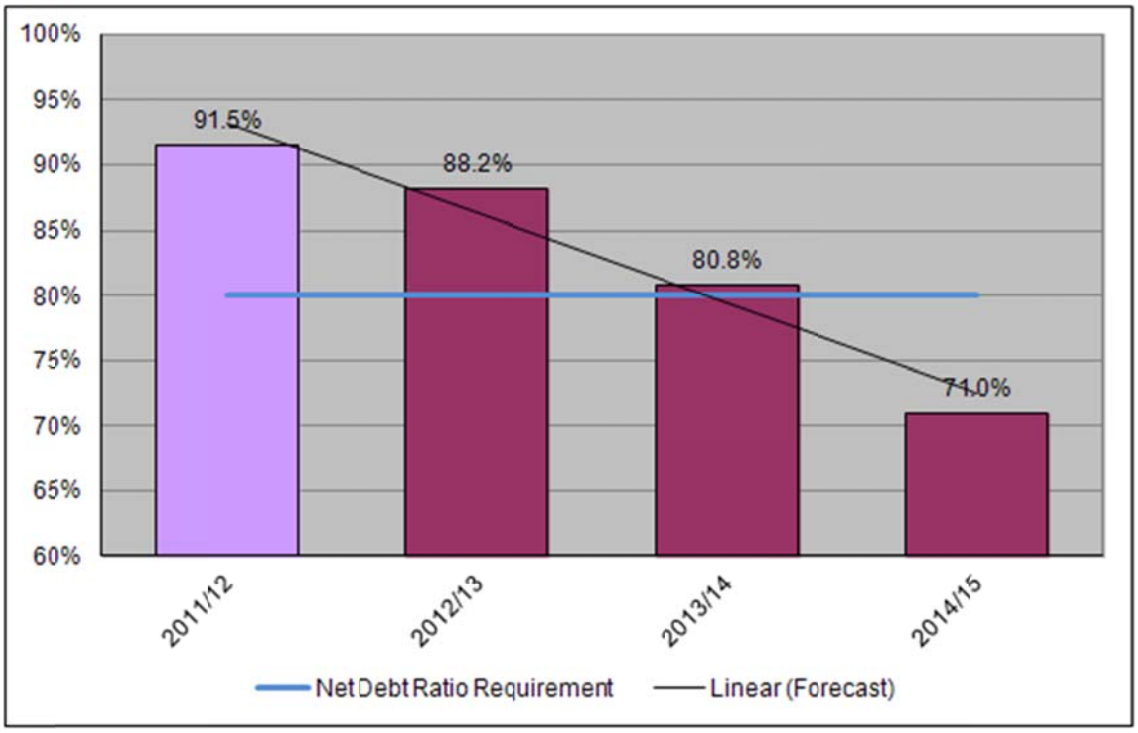
The Borrowing Ratio is forecast to improve steadily from 10.9% in 2011/12 to 9.4% in 2014/15 which brings the borrowings in compliance with the Principles of Responsible Financial Management. See Figure 8 below.

Figure 8
Borrowing Ratio



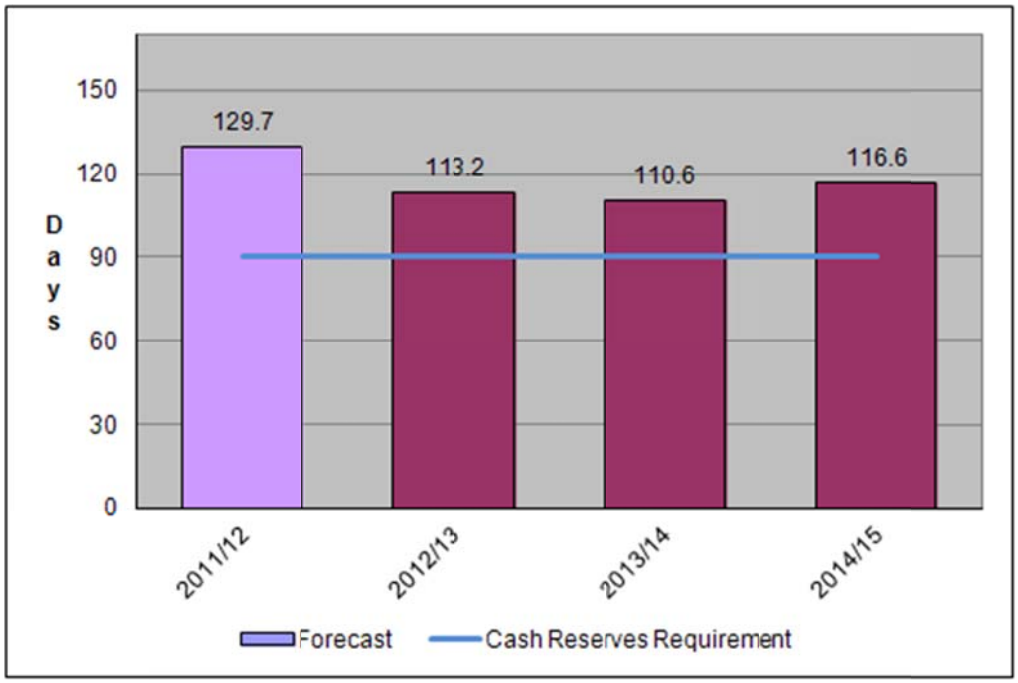
Net Debt Ratio is forecast to improve by 20.5 percentage points from 91.5 at the end of 2011/12 to 71.0% at June 30, 2015. This forecast improvement demonstrates the Government's commitment to taking definitive steps towards achieving compliance with this important Principle. See Figure 9 below.

Figure 9
Government Net Debt Ratio



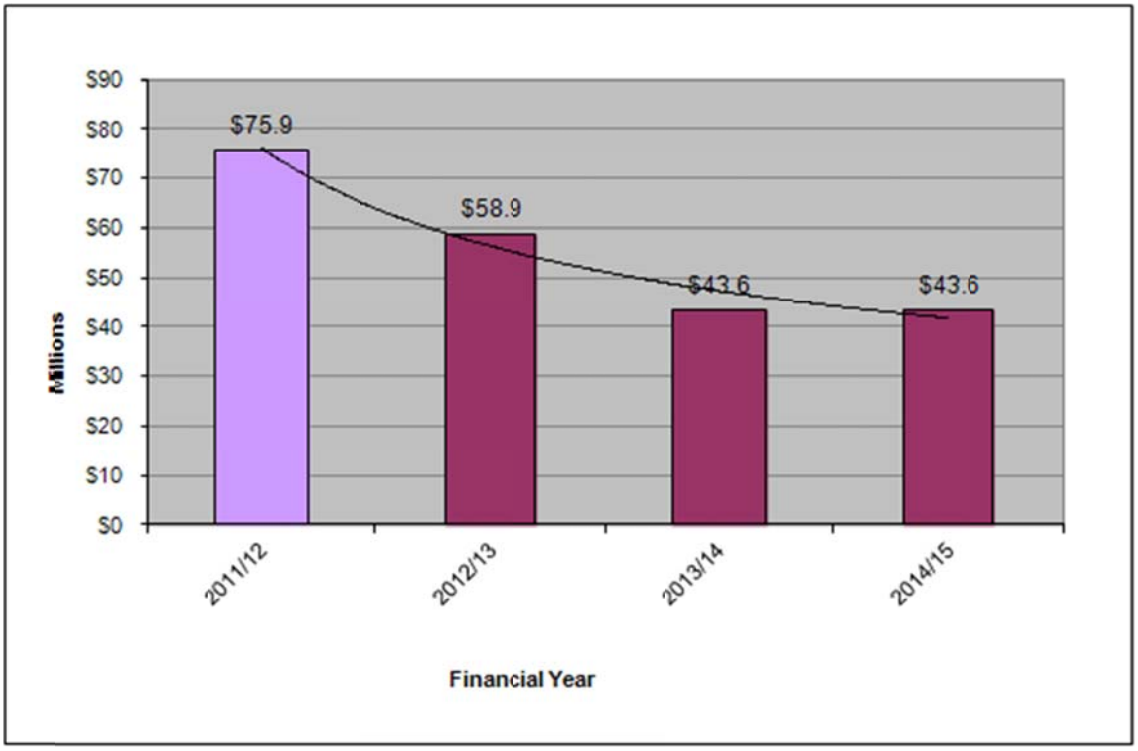
Cash Reserves is in compliance in all three years averaging 113.5 days during the period 2012/13 to 2014/15.

Figure 10
Cash Reserves



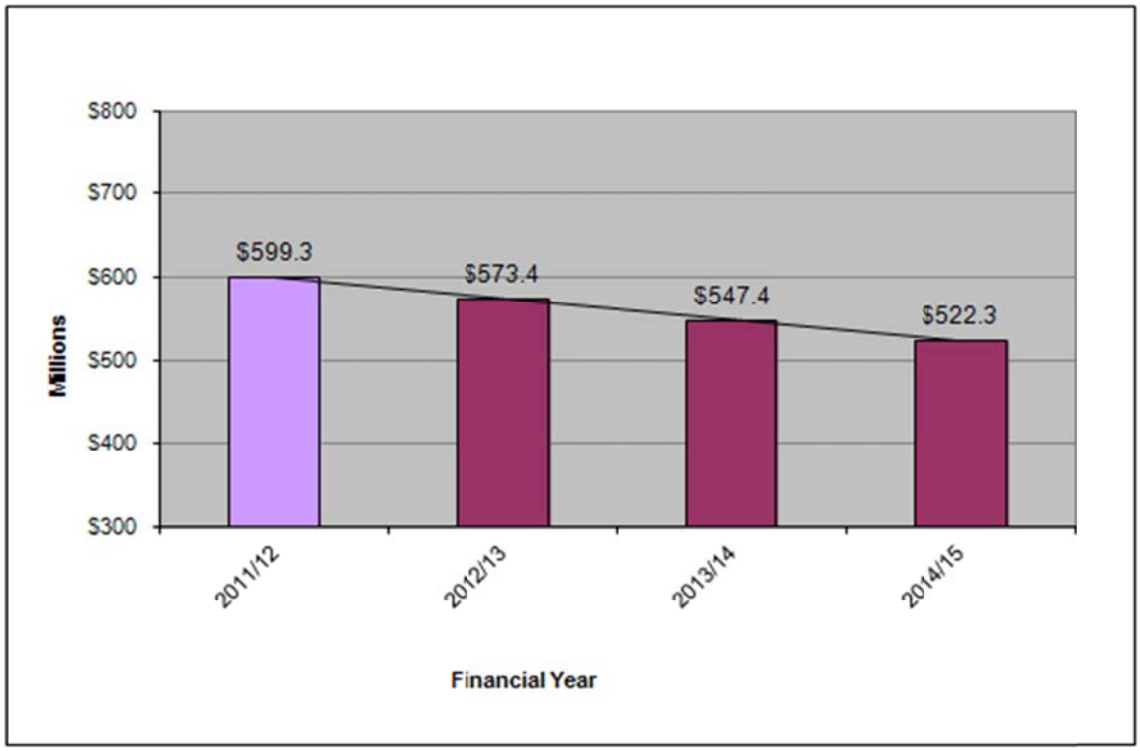
Executive Capital Investment activity by the government will be limited over the next three years to levels which can be funded by cash generated from operating surpluses and existing cash reserves. It is forecast to be approximately $59 million for 2012/13 and $44 million in subsequent years. See Figure 11 below.

Figure 11
Executive Capital Investment Expenditure



The outstanding balance of debt is forecast to decrease by $51.1 million from a high of $573.4 million at the start of 2012/13 to $522.3 million by the end of fiscal year 2014/15. This reflects the strategy of no new borrowings during the forecast period.

Figure 12
Government Public Debt Balance



5. Summary of Financial Projections

The Government has developed a set of financial projections to help guide the setting of the three year fiscal targets these are summarised in Table 5 below.

Table 5
Summary of Financial Projections

Financial Measure	**2011/12**	**2012/13**	**2013/14**	**2014/15**
	Revised Budget	**Target**	**Target**	**Target**
	$000s	**$000s**	**$000s**	**$000s**
Operating Surplus (before financing)	37.300	62.875	69.694	79.411
Operating Surplus after financing)	(4.515)	23.543	31.587	42.519
Net Worth	493.723	517.266	548.853	591.372
Executive Capital Investment Expenditure	68.657	58.854	43.592	43.592
New Borrowing (during the fiscal year)	0.000	0.000	0.000	0.000
Borrowing (balance outstanding at year-end)	599.287	573.358	547.429	522.300
Cash Balance	179.056	152.329	150.196	159.868

6. Financial Allocations

In accordance with the requirements of the PMFL this section specifies the indicative financial allocations to individual members of Cabinet for the 2012/13 Budget. These allocations are used as the basis for the Premier, Ministers and Official Members and their Ministries, Portfolios and Offices to establish their outputs and detailed budgets for the 2012/13 financial year.

Operating Allocations

The aggregate financial targets set out in Section 4 establish the operating limits for the core government for the 2012/13 financial year. These include the total operating expenses for the forecast year.

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

- Expenses of Ministries and Portfolios which are funded by revenue earned by them from sources other than Cabinet; and

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

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

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

Capital Allocations

The aggregate financial targets set out in Section 4 also establish a limit for capital expenditure, which consists of the executive investing cash flows which are controlled directly by Cabinet.

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

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

Table 6
Executive Operating Expenditure Allocations

Cabinet Member	2012/13 $000	2013/14 $000	2014/15 $000
Premier (Cabinet Office)	10,637	10,743	10,850
Minister for Finance, Tourism and Development	140,815	141,914	143,036
Minister for District Administration, Works, Lands and Agriculture	60,540	61,145	61,756
Minister for Education, Training and Employment	84,471	85,316	86,169
Minister for Community Affairs, Gender and Housing	36,138	36,499	36,864
Minister for Health, Environment, Youth, Sports and Culture	54,907	55,456	56,011
Deputy Governor (Portfolio of Internal and External Affairs)	68,475	69,160	69,852
Deputy Governor (Portfolio of the Civil Service)	17,782	17,960	18,140
Attorney General (Portfolio of Legal Affairs)	5,154	5,206	5,258
Attorney General (Judicial Administration)	7,779	7,857	7,936
Attorney General (Office of the Director of Public Prosecutions)	2,570	2,596	2,622
Public Accounts Committee (Audit Office)	575	581	587
Oversight Committee of the Legislative Assembly (Office of the Complaints Commissioner)	737	744	751
Oversight Committee of the Legislative Assembly (Information Commissioner's Office)	575	581	587
Total Executive Operating Expenditure Allocation	**491,155**	**495,758**	**500,419**

Figure 14
Executive Operating Expenditure 2012/13

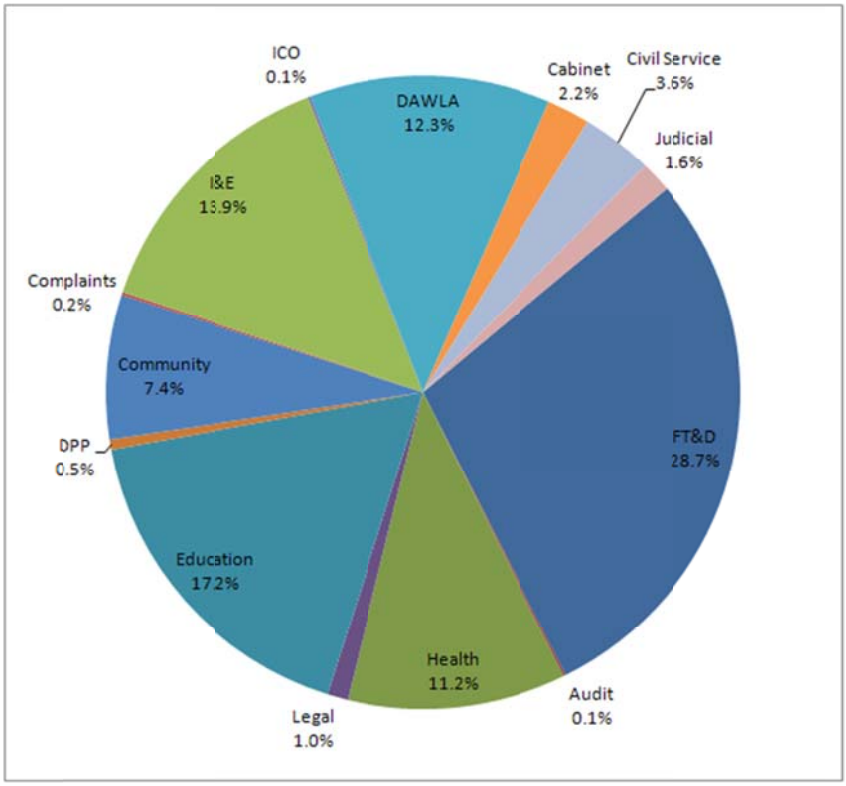
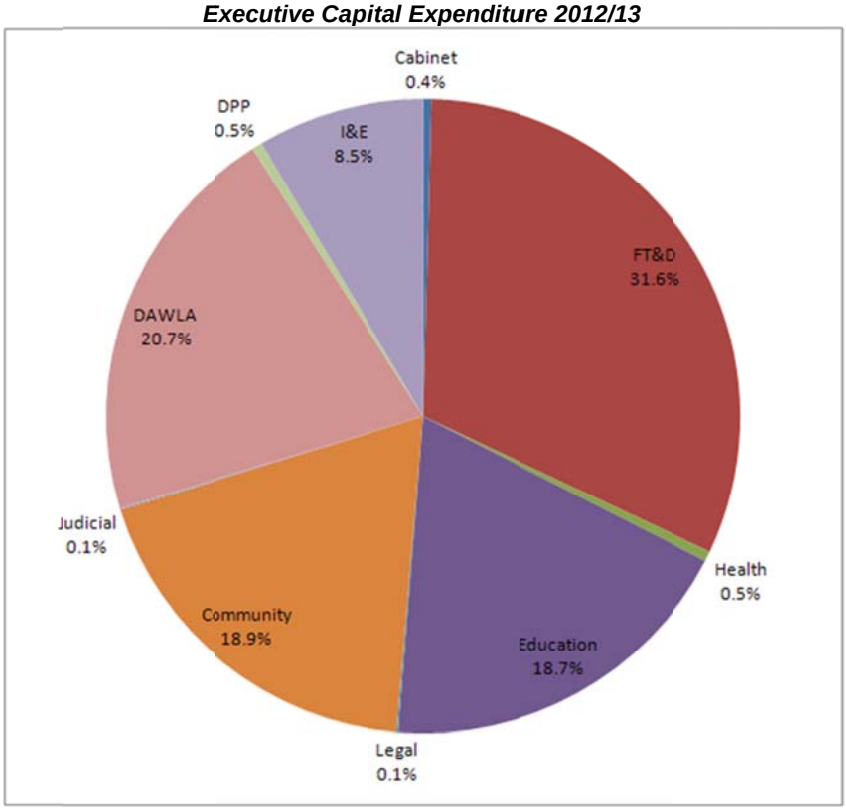


Table 7
Executive Capital Investment Allocations

Cabinet Member	**2012/13 $000**	**2013/14 $000**	**2014/15 $000**
Premier (Cabinet Office)	250	250	250
Ministry of Finance, Tourism and Development	18,600	16,975	16,155
Ministry of District Administration, Works, Lands and Agriculture	12,170	7,350	8,947
Ministry of Education, Training and Employment	11,000	9,000	10,000
Ministry of Community Affairs, Gender and Housing	11,114	3,692	3,028
Ministry of Health, Environment, Youth, Sports and Culture	300	100	100
Deputy Governor (Portfolio of Internal and External Affairs)	5,000	6,000	5,000
Deputy Governor (Portfolio of the Civil Service)			
Attorney General (Portfolio of Legal Affairs)	50	50	50
Attorney General (Judicial Administration)	50	50	50
Attorney General (Office of the Director of Public Prosecutions)	300		
Public Accounts Committee (Audit Office)	20	100	12
Oversight Committee of the Legislative Assembly (Office of the Complaints Commissioner)	0	0	0
Oversight Committee of the Legislative Assembly (Information Commissioner's Office)	0	25	0
Total Executive Capital Investment Allocation	**58,854**	**43,592**	**43,592**

Figure 15
Executive Capital Expenditure 2012/13



7. Conclusion

This Strategic Policy Statement establishes the policy and financial framework on which the 2012/13 budget will be prepared.

The policy goals and financial parameters outlined in this document clearly reflect a continuation of the policies established by the UDP Government. Those policies are based around 19 broad outcomes which include: creating a vibrant yet stable and sustainable economy, setting the stage for success in Tourism, addressing crime and policing, education, developing our youth, improving healthcare, strengthening our infrastructure and a better way forward for Cayman Brac and Little Cayman.

The financial targets set out in this SPS allow for the funding of various interventions to progress the key policy initiatives relating to these outcomes. Particularly, the targets provide for delivery of a capital development programme which includes continued work on the new schools, road network infrastructure and other significant assets. This capital programme will be funded primarily by operating surplus and other financial initiatives.

This Strategic Policy Statement shows that the Government is committed to delivering on its manifesto and the three year plan agreed with the Foreign and Commonwealth Office. It shows that the Government is continuing to manage the finances in a prudent manner.

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

30th November, 2011