



CAYMAN ISLANDS  
GOVERNMENT

# 2018 *Strategic Policy Statement*



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Government of the Cayman Islands

## Foreword

As required by Section 23(1A) of the Public Management and Finance Law (2017 Revision) ("PMFL"), this Strategic Policy Statement ("SPS") for the next budget period, which consists of two financial years, 1 January to 31 December 2018, and 1 January to 31 December 2019 (hereinafter referred to as "the periods") must be presented to the Legislative Assembly by a Member of Cabinet, no later than three months after the date of the General Election; establishing a presentation date of not later than 24 August 2017 (three months after the 24 May 2017, General Election).

The SPS has an outlook of three (3) 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 2018 and, 1 January to 31 December 2019.

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;
- The total amount of Executive expenses for the next three financial years;
- Targets for Operating expenditure, Executive 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 & 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 18 August 2017, 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	5 July 2017
Economic Forecasts	5 July 2017
Fiscal Data	18 August 2017
Fiscal Forecasts	18 August 2017
Finalised Text	22 August 2017

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## MESSAGE FROM THE HONOURABLE PREMIER



It is an honour for me to be writing this message to introduce this Strategic Policy Statement, which is the first one for this new Administration. This SPS sets the financial framework for the next three years – 2018, 2019 and 2020. As such, it is the key to ensuring that the resources available are allocated to meet the strategic objectives set by this new Government of National Unity.

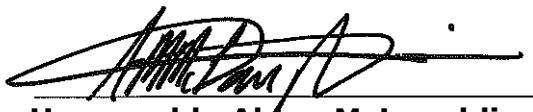
Those objectives are set out more fully in the section on “Broad Outcomes” in this document. They represent a commitment from this Government that I again have the privilege to lead to tackle the immediate issues facing our Islands and its people. Through this document we are also able to continue the work we began during the last Administration to create the foundations for future prosperity.

One essential element of continuity from the previous Government is an unequivocal commitment to sound public finances. Our previous Administration created the strong financial platform that enables this Government to move forward with confidence: its stewardship of the Government’s finances brought us into compliance with Principles of Responsible Financial Management set out in the Public Management and Finance Law; it cut duties and fees to benefit families and businesses; it paid down government debt; and it delivered robust surpluses in annual operating budgets.

The financial framework set out in this SPS is based on those same sound principles. We will remain in full compliance with the PMFL. We have pledged that there will be no new duties or taxes and we will strive to reduce the tax burden on households and businesses through reductions when we can do so prudently. We will deliver sustainable surpluses in the operating budgets of Government as we deliver much needed improvements in public services. We will continue to pay down Government debt, including repayment of at least half of the CI\$261.3 million (US\$312 million) bond that falls due in this budget period, and we will continue to invest in vital public infrastructure development.

This approach to public finances is not just the right thing to do for this four-year term of Government; it is the key to our future. Sound public finances and strong and stable government gives businesses the confidence they need to invest, which creates future wealth and jobs. At the same time, accumulated surpluses and reduced debt mean that if future shocks hit these Islands, we will be in the best possible shape to respond and minimise any long-term impact on our people.

This Government will remain true to these principles throughout our term in office. Turning our ambitions for our country into reality requires the hard work and dedication of civil servants and I would like to thank them for all that they do, every day, to achieve the objectives we set for them to improve these Islands and the lives of the people who live here.

A handwritten signature in black ink, appearing to read 'Alden McLaughlin', with a horizontal line extending to the right.

**Honourable Alden McLaughlin, MBE, JP**  
**Premier and Minister of Human Resources, Immigration and Community Affairs**

22 August 2017



## STATEMENT OF RESPONSIBILITY

The forecast financial statements presented in the SPS have been prepared in accordance with the Public Management and Finance Law (2017 Revision). The statements report the forecast financial results and positions for the Core Government for the financial years ending 31 December 2018, 31 December 2019 and 31 December 2020.

The forecast financial statements were prepared by the Ministry of Finance & 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 18 August 2017.

We accept responsibility for the accuracy and integrity of the financial information in these forecast financial statements and their compliance with the Public Management and Finance Law (2017 Revision).

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

- (a) complete and reliable;
- (b) fairly reflect the forecast financial position as at 31 December 2018, 31 December 2019 and 31 December 2020, and performance for the financial years ending 31 December 2018 and 31 December 2019; and 31 December 2020;
- (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 of Finance and Economic Development**  
22 August 2017



**Michael Nixon**  
**Acting Financial Secretary and Chief Officer**  
22 August 2017



# SUMMARY OF ECONOMIC AND FISCAL FORECASTS

## Overview of Economic and Fiscal Forecasts

The 2018 Strategic Policy Statement provides medium term economic and financial forecasts for the Government for the next three financial years covering the period 1 January 2018 to 31 December 2020 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 2018 and 2019 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.

### Summary of Key Economic Indicators

Key Economic Indicators	2017 (Calendar Year)	2018 (Calendar Year)	2019 (Calendar Year)	2020 (Calendar Year)
Real Gross Domestic Product (GDP) %	2.1	2.4	2.3	2.0
Consumer Price Index (CPI) %	1.8	2.3	2.6	2.4
Unemployment Rate %	4.3	3.6	3.4	3.5

## Economic Forecasts 2017 – 2020

The economic forecasts for the Cayman Islands over the medium term indicate that the Cayman Islands economy will grow at stable rates. Economic growth, as measured by changes in the Gross Domestic Product (GDP), is forecast to be positive with growth of 2.1% expected in 2017; 2.4% in 2018; 2.3% in 2019 and 2.0% in 2020. The economic growth is being driven by the planned investments from both the public and private sectors in the Cayman economy. The forecast is conditional on positive economic growth in our major source markets, particularly the United States of America (US).

The most significant investments which support the positive economic growth forecasts are in the construction sector and include: the development of a new five star hotel; the proposed Iron Wood Golf course development; the upgrade and expansion of the Owen Roberts International Airport terminal; the expansion of the Esterley Tibbetts and Linford Pierson highways; and the development of a new cruise berthing facility and upgraded cargo port.

The positive economic growth also gives rise to an increase in general price levels over the medium-term. The Consumer Price Index (CPI) which measures the change in retail prices is expected to increase by 1.8% in 2017; 2.3% in 2018; 2.6% in 2019 and 2.4% in 2020. These forecasted increases are primarily driven by forecasts in the US, the principal market from which the Cayman Islands imports its consumer products.

Unemployment is expected to generally decline over the forecast period due to general growth in the economy which will create additional new jobs. Unemployment rates are forecast to be 4.3% in 2017; 3.6% in 2018; 3.4% in 2019 and 3.5% in 2020.

## **Fiscal Strategy**

The marked fiscal turnaround over the past five years reflects both a growing economy and on-going commitment by the government to actively practice prudent financial management and at the same time improve public sector productivity and results.

This SPS is built on a fiscal strategy which is centred on the following key principles:

- Compliance with 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 apart from refinancing an element of the 2019 Bond.

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

For the past four budget and SPS presentations the Government has centred its fiscal strategy around achieving and maintaining compliance with the Principles of Responsible Financial Management (the “Principles”) as set out in the PMFL and the Framework for Fiscal Responsibility (the “FFR”). The 2018 SPS builds on this central guiding fiscal policy objective for the management of the Government’s finances over the forecast period.

As a result, the Government is forecast to maintain full compliance with the Principles throughout the next three financial years with one minor exception in 2019. The Government is planning to repay the CI\$261.3 million (US\$312 million) bullet bond which matures in November 2019. The act of repaying this bond will cause a temporary technical “non-compliance” with the Debt Service Ratio in 2019.

### **No New Revenue Measures**

The Government does not intend to introduce any new revenue measures or significantly increase existing rates during the next three financial years. The Government will focus efforts on maximizing collection on the existing rates of fees by strengthening enforcement efforts and improving the ease of payment through E-Government initiatives.

### **No New Incremental Borrowing**

No new borrowings are forecast to occur until 2019 when the Government plans to borrow CI\$130.65 million. These proposed borrowings are the first since April 2011 and will be used to refinance 50% of the CI\$261.3 million (US\$312 million) bullet bond which matures in November 2019; the remaining 50% will be paid down in full from Government’s cash balances.

Even with this 2019 borrowing activity, the Core Government debt balances are forecast to reduce steadily over the forecast period from \$451.1 million in 2017 to \$221.4 million by 31 December 2020.

### **Financial Forecasts 2018 - 2020**

Over the SPS period, Core Government Operating Expenditures will remain below Operating Revenues thereby generating strong Operating Surpluses which are being used to fund Capital Investments, repay debt and build cash reserves. Over the SPS period, the Government plans to reduce its debt by a net \$229.7 million: representing gross debt repayments of \$360.4 million and borrowings of \$130.65 million from \$451.1 million in 2017 to \$221.4 million by 31 December 2020.

## Summary of Key Fiscal Indicators

Key Fiscal Indicators	2015/16 FY Unaudited (12 months ending 30 June 2016)	2016/17 FY* Approved Budget (18 months ending 31 December 2017)	2018 FY Forecast (12 months ending 31 December 2018)	2019 FY Forecast (12 months ending 31 December 2019)	2020 FY Forecast (12 months ending 31 December 2020)
	\$000	\$000	\$000	\$000	\$000
Core Government Operating Revenue	712,421	908,534	717,955	694,431	730,231
Core Government Operating Expenditure	582,088	862,430	636,458	640,364	639,855
<b>Core Government Net Operating Surplus</b>	<b>130,333</b>	<b>46,104</b>	<b>81,497</b>	<b>54,068</b>	<b>90,375</b>
Public Authorities Net Operating Surplus (Deficit)	18,199	520	(11,994)	(12,074)	(14,397)
<b>Entire Public Sector Net Operating Surplus</b>	<b>148,532</b>	<b>46,624</b>	<b>69,503</b>	<b>41,994</b>	<b>75,978</b>
Core Government Year-end Cash Balances	407,788	341,211	380,083	232,879	236,184
Core Government Debt	503,318	451,114	420,797	264,387	221,376

\* 2016/17 FY covers an 18 month period as the Government transitions to a 1 January - 31 December fiscal year.

In examining the financial forecasts, it is important to note that the results for the 2018 to 2020 financial years represent 12-month figures and, such results are therefore not directly comparable to those for the 2016/17 18-month budget.

For the upcoming 2018 and 2019 fiscal periods, Operating Revenues are forecasted to be \$718.0 million and \$694.4 million, respectively. This decline in revenue between the 2018 and 2019 forecasts is as a result of the transfer of funds into General Revenue, at differing amounts, from various trust accounts whose holding period is schedule to mature in 2018, 2019 and 2020. Operating Expenditure for 2018 is forecasted at \$636.5 million resulting in a forecast surplus for Core Government of \$81.5 million. The Net Loss of Public Authorities is expected to be \$12.0 million bringing the combined Operating Surplus for the Entire Public Sector to \$69.5 million. Operating Expenditure for 2019 is forecasted to be \$640.4 million resulting in a forecast surplus for Core Government of \$54.1 million. The Net Loss of Public Authorities is expected to be \$12.1 million bringing the combined Operating Surplus for the Entire Public Sector to \$42.0 million.

During 2018, the Government is forecast to make Capital Investments totalling \$101.2 million and repay some \$30.3 million in debt. At the end of the 2018 financial year the Core Government is projected to have a total outstanding Debt balance of \$420.7 million and Cash balances will total some \$380.1 million. There will be no new borrowings during 2018.

During 2019, the Government is forecast to make Capital Investments totalling \$103.3 million and repay some \$287.1 million in debt. At the end of the 2019 financial year the Core Government is projected to have a total outstanding Debt balance of \$264.3 million and Cash balances will total some \$232.9 million. The Government intends to refinance 50% of the 2019 bullet bond or \$130.65 million in November 2019.

Operating Revenues in 2020 are forecasted to be \$730.2 million and Operating Expenditures at \$639.8 million resulting in a forecast surplus for Core Government of \$90.4 million. The Net Loss of Public Authorities is expected to be \$14.4 million bringing the combined Operating Surplus for the Entire Public Sector to \$76.0 million. During 2020, the Government is forecast to make Capital Investments totalling \$106.8 million and repay some \$43.0 million in debt. As at 31 December 2020, the Core Government is projected to have a total outstanding Debt balance of \$221.4 million and Cash balances will total some \$236.2 million.

## **Operating Expenditure Targets**

The Operating Expenditure Targets for Agencies set out in this SPS will be used as the framework within which the detailed 2018 and 2019 Budgets will be prepared.

The total operating expenditure target for the Core Government for the next three financial years have been set at \$636.5 million for 2018; \$640.4 million for 2019 and \$639.9 million for 2020. This expenditure will be primarily used over the next three years to fund the following key priorities:

- ***Ministry of Human Resources, Immigration & Community Affairs*** – Enhanced Policing capacity by the hiring of an additional 25 Police Officers per year for the next three years; the implementation of an enhanced Work Permit system which improves transparency on available jobs, increases accountability for employers and maximises employment opportunities for Caymanians; improved Border Control services; enhanced services for the elderly and disabled; and increased monthly Ex-Gratia payments made to seamen, veterans, and persons receiving poor relief payments.

- **Ministry of District Administration, Tourism and Transport** – Enhanced tourism marketing to high value source markets; launch of new air service routes by Cayman Airways to new strategic tourism markets; and development and implementation of a National Tourism Plan.
- **Ministry of Finance and Economic Development** – increased 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 order to keep pace with evolving international regulatory requirements; strengthen the capacity of the Cayman Islands Fire Services; and implementation of an expanded conditional release programme to better enable prisoners to successfully reintegrate into society as productive citizens following release from incarceration.
- **Ministry of Commerce, Planning and Infrastructure** – improved project management capacity to enhance the successful execution of capital projects; enhanced Information Technology services including improved cyber-security and E-Government initiatives; and creation of an Urban Development Commission to lead the George Town revitalisation project.
- **Ministry of Education, Youth, Sports, Agriculture & Lands** – continued enhancement of teaching and learning in schools with increased focus on: addressing students with special needs; strengthening core curriculum across primary and secondary schools for science, technology, mathematics and literacy; and increased funding for scholarships for advanced, specialized tertiary education.
- **Ministry of Health, Environment, Culture & Housing** – implementation of the Integrated Solid Waste Management System; an expanded mosquito control programme to reduce risk of mosquito borne illnesses; implementation of a new culling programme for the invasive green iguana; and commencement of operations of the new Long Term Residential Mental Health Facility.

- **Portfolio of the Civil Service** – the implementation of the “Second Chances” pilot programme which is aimed at providing employment opportunities to assist former prisoners with their reintegration to the workforce; and provision of an Ex-Gratia pension uplift to qualified low income Caymanian civil service pensioners with more than 10 years of qualifying service.

## **Capital Investment Targets**

The Capital Investment Targets for the entire SPS period total \$311.3 million, distributed as follows: \$101.2 million in 2018; \$103.3 million in 2019; and \$106.8 million in 2020.

The Capital Investment Target of \$101.2 million for the 2018 financial year will be used to fund: \$79.3 million in the purchase and construction of Core Government assets; \$21.2 million as Equity Investments into various Statutory Authorities and Government Companies to assist with debt service payments and forecast operational losses; and \$0.7 million in loans to be made by the Government to Civil Servants and persons requiring financial assistance for overseas medical care.

The Capital Investment Target of \$103.3 million for the 2019 fiscal year will be used to fund: \$74.1 million in the purchase and construction of Core Government assets; \$28.4 million as Equity Investments into various Statutory Authorities and Government Companies to assist with debt service payments and forecast operational losses; and \$0.7 million in loans to be made by the Government to Civil Servants and persons requiring financial assistance for overseas medical care.



# ECONOMIC FORECASTS

## ***Introduction***

This section presents the macroeconomic forecasts for 2017 to 2020 and their underlying major assumptions, along with a review of domestic and global economic performance in 2016.

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

Global economic expansion weakened in 2016 to 3.1% as overall demand moderated in response to socio-economic and political uncertainties. Advanced economies grew by 1.7%, compared to 2.1% for the previous year with most major economic groups recording a deceleration in growth except Canada. Global economic activity is forecasted to accelerate to 3.5% in 2017, as advanced economies which are anticipated to pick up moderately over the medium term. The uptick in growth for advanced economies, the main financial services and tourism markets for these Islands, should add some impetus to growth over the forecast period.

The United States (U.S.) economy expanded by 1.6% in 2016 relative to 2.6% in 2015, as weakness in non-residential investment weighed on growth. The U.S. is foreseen to generate an improved output growth of 2.1% in 2017. However, assuming that there will be no significant changes in fiscal policies, growth is expected to be slower at 2.1% in 2018, 1.9% in 2019 and 1.8% in 2020.

Economic momentum in the UK was tempered in 2016 despite stronger growth in private consumption as public consumption and investment demand decelerated. Similarly, the pace of economic activity in the Euro Area slid marginally as investment growth stalled in some of the larger economies. The UK and the Euro Area recorded growth of 1.8% and 1.7% respectively in 2016, lower than the 2.2% and 2.0% in 2015.

The Euro area is expected to sustain its cyclical recovery from the crises of 2008–09 and 2011–12 and is projected to grow by an average of 1.6%, between 2017 and 2020. Robust private demand is expected to spur growth in the U.K., which is projected to expand by an average of 1.8% between 2017 and 2020.

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<sup>1</sup> This assessment is based generally on the World Economic Outlook (International Monetary Fund (IMF), October 2015, the United States (U.S.) GDP forecasts is based on the IMF's 2017 Article IV Consultation Report with the U.S. published on 27 June 2017.

Emerging market and developing economies as a group expanded by 4.1% in 2016, lower than the 4.2% recorded in 2015. This largely reflected weakened growth in China and India. The Caribbean region had an estimated economic growth of 3.4% in 2016, a deceleration relative to the previous year.

Notwithstanding, some Caribbean countries improved on their economic performance, notably Barbados and Jamaica. Emerging markets and developing economies including the Caribbean are expected to grow at a faster pace in the coming years compared to 2015 and 2016, in tandem with the growth in advanced economies.

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

			Projections	Forecast			
	2014	2015	2016	2017	2018	2019	2020
<b>Real GDP growth (%)</b>							
Cayman Islands*	2.2	2.8	2.7	2.1	2.4	2.3	2.0
United States	2.4	2.6	1.6	2.1	2.1	1.9	1.8
Advanced Economies	2.0	2.1	1.7	2.0	2.0	1.9	1.7
World	3.5	3.4	3.1	3.5	3.6	3.7	3.7
<b>Consumer Prices Index (avg. %)</b>							
Cayman Islands	1.3	(2.3)	(0.6)	1.8	2.3	2.6	2.4
United States	1.6	0.1	1.3	2.7	2.4	2.6	2.3
Advanced Economies	1.4	0.3	0.8	2.0	1.9	2.1	2.0
<b>Unemployment (%)</b>							
Cayman Islands	4.6	4.2	4.2	4.3	3.6	3.4	3.5
United States	6.2	5.3	4.9	4.7	4.6	4.4	4.5
Advanced Economies	7.3	6.7	6.2	6.0	5.8	5.7	5.6
<b>Current Account of the Balance of Payments (% of GDP)</b>							
Cayman Islands*	-25.4	-22.0	-25.3	-26.2	-26.4	-25.4	-24.2
United States	-2.3	-2.6	-2.6	-2.7	-3.3	-3.5	-3.6
Advanced Economies	0.5	0.7	0.8	0.7	0.4	0.3	0.3

\* The GDP growth for 2016 is a preliminary estimate based on actual indicators as of December 2016. The current account balance for 2016 takes into account actual trade data as of December 2016.

Sources: IMF World Economic Outlook (April 2017) for the United States and Global data; IMF's 2017 Article IV Consultation Report for U.S. GDP; and the Cayman Islands Government, Economic and Statistics Office for the Cayman Islands data.

## ***The Cayman Islands' Economic Performance in 2016***

**GDP Growth:** The Islands' Gross Domestic Product (GDP) is estimated to have grown by 2.7% in 2016. This is based on actual indicators for 2016 which point to a stable level of activity in hotels and restaurants, and expansion across all other industrial sectors.

The construction industry remained robust with an estimated expansion of 4.5% in 2016, sustaining the growth trend observed since 2012, albeit it was weaker than the recorded growth of 6.1% in 2015 due to the completion of major development projects in the second half of 2016. The estimated expansion rate for 2016 reflects the growth of imported building materials during the period.

Real estate, renting and business activity had an estimated growth of 4.6% for 2016, as higher population supported increased renting activity. Real estate activity was also boosted by a 6.0% increase in the volume of property transfers.

Other industries that showed healthy rates of economic expansion were electricity and water supply, and transport, storage and communication with growth of 5.6% and 1.5%, respectively. These performances may be partly associated with the higher level of population in the Islands, as well as the increase in economic activity across most sectors.

Wholesale and retail trade expanded by 2.0%, as indicated by a rise in the importation of non-oil products during 2016. This sector benefitted from the multiplier effects of the performance of the construction sector as well as other sectors which altogether generated higher employment in 2016 compared to 2015.

Indicators for the financial services sector which accounts for approximately 40% of GDP point to a slightly improved performance in 2016, with growth estimated at 1.8%, compared to a 1.7% growth in 2015. This is traced mainly to a stronger domestic lending activity by commercial banks, as the listing and licensing activities for all services fell, except for captive insurance which recorded a modest growth of 0.4%.

The economic performance of the hotels and restaurants industry was impacted by a slowdown in the growth of arrivals in the fourth quarter in 2016. During the latter period, arrivals from both the air and cruise segments fell by 12.6% compared to the same period in 2015, after a strong growth of 4.7% in the first three quarters of 2016.

**Inflation:** In the calendar year 2016, the deflation observed in 2015 continued but at a slower pace of 0.6% compared to 2.3% in 2015. Several price indices directly contributed to the overall deflation, particularly housing and utilities which was affected mainly by the lower average rates for electricity and water associated with the downtrend in oil prices. The latter also cut average prices for transportation.

However, there were inflationary pressures during 2016 which emanated mainly from restaurants, recreation and culture, education and communication. These price uptrends may be generally associated with the growth in local demand resulting from higher population and employment levels.

**Employment<sup>2</sup>:** The robust growth of the domestic economy spurred an increase in demand for labour as total employment improved by 3.2% from a year ago and reached 40,411 in 2016. The wholesale and retail trade industry remained the top employer among all industries, followed by construction. With the growth in labor demand almost at pace with the growth in labour supply, the overall unemployment rate was stable at 4.2% in 2016.

The total labor force strengthened to 42,196 in 2016, an expansion of 3.2% over the previous year. The increase in supply emanated from both local and foreign markets. The former was made up of the Caymanian labour force and Permanent Residents (with rights to work); these together comprised 24,508 persons or 58.1% of the total labour force. The Non-Caymanian labour force, which includes persons married to Caymanians and awaiting Permanent Residence and persons working by operation of law, was estimated at 17,688 or 41.9% of the total labour force.

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<sup>2</sup> The labour force indicators are taken from the Labour Force Survey Fall (October) 2016, with the comparable indicators taken from the Labour Force Survey Fall (October) 2015.

**Current Account of the Balance of Payments<sup>3</sup>:** The growth in local economic activity was accompanied by higher demand for goods from abroad, which consequently increased the deficit on the current account of the balance of payments.

During 2016, total merchandise imports increased by 2.8% to \$854.2 million from a year ago. This increase reflected higher imports of non-fuel products. The importation of passenger motor vehicles recorded the highest surge of 47.9%. In contrast, the total value of petroleum and related products continued to fall, this time by 14.3%, as the total quantity and average prices of oil imports declined.

In addition to the higher payments for merchandise imports, the current account deficit in 2016 was also impacted by a slowdown in the two major sources of current account receipts: tourist arrivals and financial services. Total arrival of tourists from abroad fell by 0.2% by end 2016 to settle at 2.1 million, with stay-over arrivals experiencing almost no growth. All categories of financial services also showed lower activity except for the registration of captive insurance entities which had a slight improvement of 0.4% in 2016 compared to 2015.

The Islands' current account deficit on the balance of payments in 2016 is projected at \$742.0 million or 25.3% of GDP.

## ***The Cayman Islands' Economic Forecasts and Assumptions for 2017 to 2020***

**GDP Growth:** Barring major disruptions from the external environment, the economic growth of the Cayman Islands over the medium term is expected to remain higher than the average growth over the last five years, driven largely by private investments.

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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 construction sector is expected to continue leading the economic expansion, with an acceleration in activity foreseen starting in the second half of 2017 from private sector investment projects such as the Ironwood Golf course, expansion of the Esterley Tibbetts highway and the planned construction of a new five-star hotel. Additionally, approved public sector projects such as the George Town Cruise Berthing project and continuation of the Linford Pierson highway and the Owen Roberts airport expansion projects are also expected to contribute to growth over the medium-term.

The recently completed and forthcoming projects aimed at increasing the accommodation capacity for tourist arrivals are assumed to boost growth in hotels and restaurants, and recreation and culture. This forecast is also conditional on improving source markets particularly the US, albeit at a slower pace. The International Monetary Fund (IMF) revised its projection for the US downwards in their June 2017 Article IV consultation report relative to the projection as of April 2017. The recent strengthening of the US dollar relative to other major currencies is also expected to have a dampening effect on tourist demand from Europe, the UK and Canada. Notwithstanding, the forecasts assume continued product enhancements and diversification of source markets amidst the challenges. For the first four months of 2017 stay over tourist arrivals increased by 1.9%, while cruise arrivals declined by 7.7%.

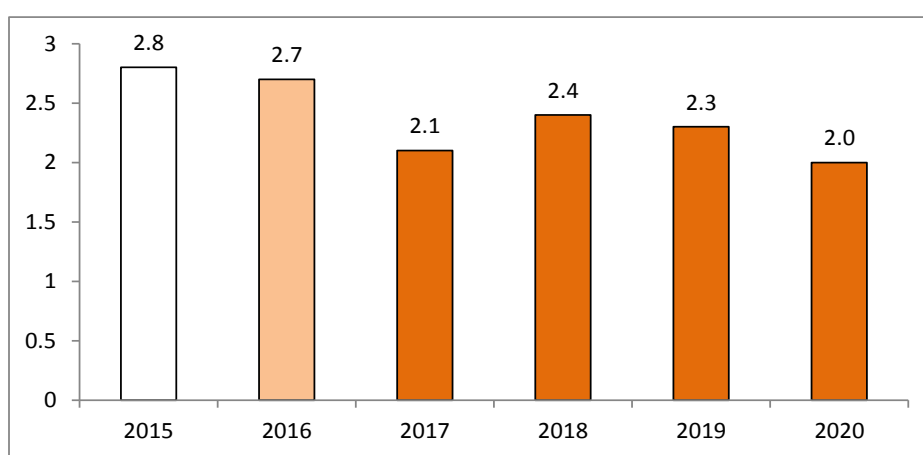
The above-cited sectors are expected to boost employment and stimulate growth in domestic demand for services in several sectors such as wholesale and retail trade; transport, storage and communication; real estate, renting and business activities; and electricity and water supply.

The financial services sector is assumed to sustain its recent performance over the medium-term, conditional mainly on continuing growth in domestic lending and a rebound in the financial listing and licensing business. Domestic Interest rates are expected to follow the current monetary stance of the US Federal Reserve Bank which has increased the federal funds rate by 25 basis points (bps) in June 2017 and indicated the possibility of a further increase before the end of 2017. Increases in domestic lending rates may dampen demand for borrowings and impact the banking services component of GDP.

In view of the Framework for Financial Responsibility, the Government's direct expenditure is not expected to increase its contribution to economic growth.

The above external and domestic assumptions support a forecasted growth in real GDP of 2.1%, for 2017, 2.4%, for 2018, 2.3% for 2019 and 2.0% for 2020 (see Table 1 and Figure 1 below). The forecasted modest slowdown in 2017 is premised primarily on the start of new capital spending projects toward the second half of 2017. The strengthening of GDP growth in 2018 and 2019 assumes the implementation of planned infrastructure projects such as the George Town Cruise Berthing project.

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



Note: Data for 2015 is an actual estimate; 2016 is a preliminary estimate; 2017-20 are forecasts

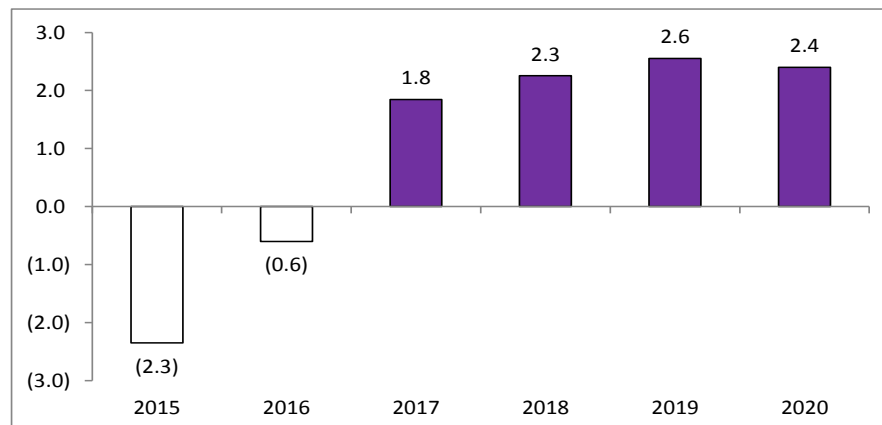
Source: Cayman Islands Government's Economics and Statistics Office

**Inflation rate<sup>4</sup>:** A gradual increase in the population level and higher demand for construction-related goods and services are assumed to push up the general price levels over the medium-term. The forecasted acceleration of consumer prices in the US from 1.3% in 2016 to an average of 2.5% per year between 2017 and 2020 is also expected to induce inflationary pressure on local prices, given that majority of merchandise imports are sourced from US markets. In addition, oil prices are foreseen to rise by 28.9% in 2017 but will decline marginally by an average of 0.8% per year between 2018 and 2020. For the first 3 months of 2017 the Cayman Islands recorded an inflation of 1.7%. Prices are anticipated to remain elevated for the rest of 2017 with the average inflation rate forecasted at 1.8% for the full year. Average inflation is then forecasted at 2.3% for 2018, 2.6% for 2019 and 2.4% for 2020 (see Table 1 and Figure 2 on the following page).

<sup>4</sup> The inflation forecasts are based on the 2008 Consumer Price Index (CPI) basket which will be in use for reporting inflation rates up to the second quarter of 2017. Starting in the third quarter of 2017, the inflation rates to be reported will be based on the 2016 CPI basket. The forecasts will be revised accordingly in future economic updates.



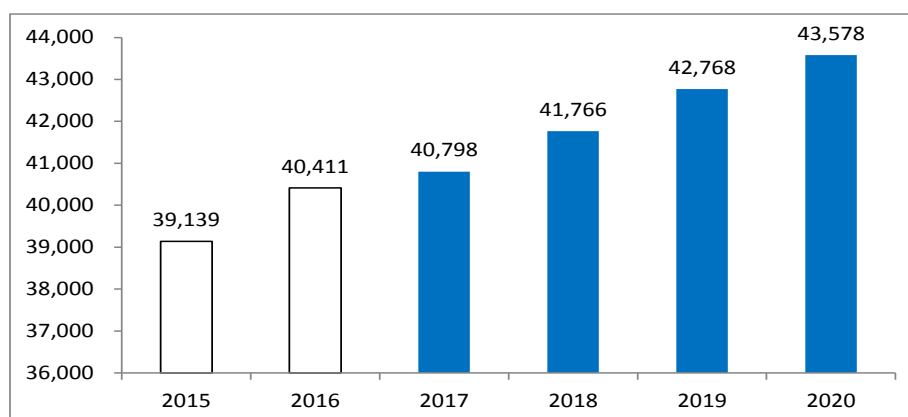
**Figure 2: Cayman Islands' Inflation Rates (%)**



Note: CPI inflation rates for 2015 and 2016 are actual estimates; 2017-20 are forecasts  
Source: Cayman Islands Government's Economics and Statistics Office

**Employment:** The demand for labour is expected to track the GDP growth forecasts. An increase in employment opportunities is expected from planned development projects including those that are anticipated to start in the second half of 2017. Over the medium-term, new employment is also expected from the Islands' hotel industry with the completion of new facilities and the renovation of existing ones (see Table 1 and Figure 3 below). However, the sensitivity of the labour market to external demand such as hotels and restaurants may be impacted by changes in US growth projections over the medium term as well as any further strengthening in the US dollar.

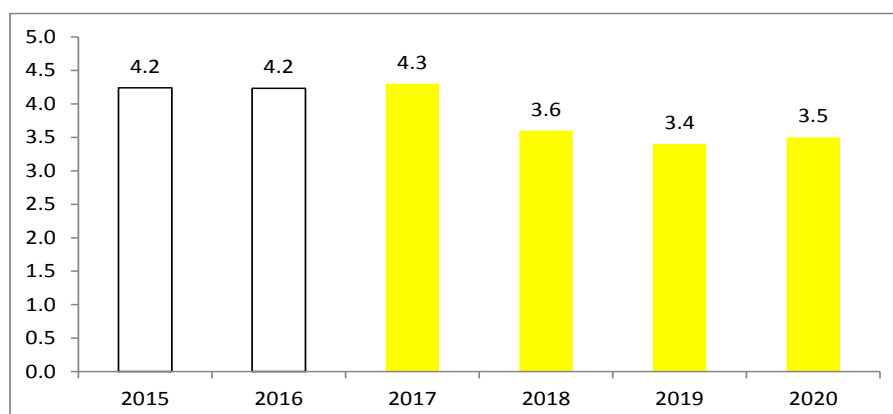
**Figure 3: Cayman Islands' Total Employment**



Note: Employment for 2015 and 2016 are actual estimates; 2017-20 are forecasts  
Source: Cayman Islands Government's Economics and Statistics Office

Given the projected GDP growth in 2017, the unemployment rate is forecasted at 4.3% of the labour force. The unemployment rate is then expected to improve to 3.6% in 2018, 3.4% in 2019 and 3.5% in 2020 (see Table 1 and Figure 4 below). A key assumption in the reduction of the unemployment rate is that the implementation of the National Pension Amendment Law in the beginning of 2018 will result in higher employment of Caymanians as anticipated by local business leaders.

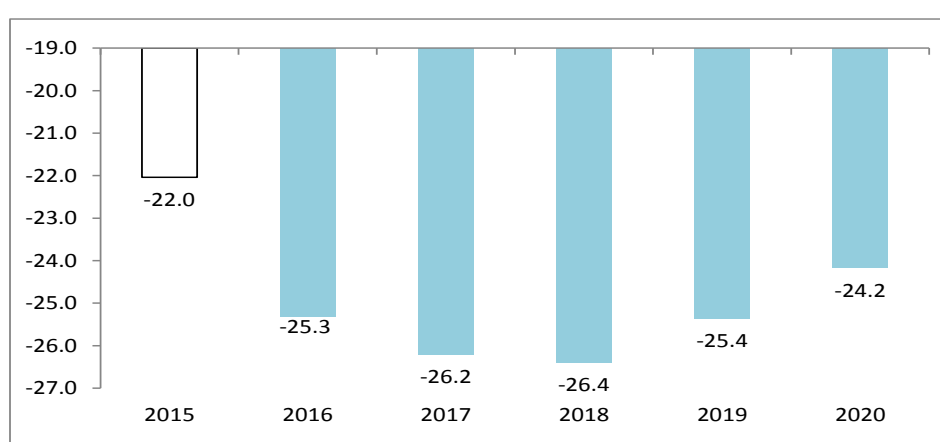
**Figure 4: Cayman Islands' Unemployment Rates (% of Labour Force)**



Note: The rates for 2015 and 2016 are actual estimates; 2017-20 are forecasts  
Source: Cayman Islands Government's Economics and Statistics Office

**Current account of the balance of payments:** The current account deficit is forecasted to be higher at 26.2% of GDP in 2017, 26.4% in 2018, 25.4% in 2019 and 24.2% in 2020 (see Table 1 and Figure 5 on the following page). These movements are consistent with assumed increases in payments for the importation of goods for new private sector projects. It is also assumed that improvements in current account receipts from new tourism-related projects will partially offset the impact of higher merchandise imports.

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



Note: Data for 2015 is an actual estimate; 2016 is a preliminary estimate; 2017-20 are forecasts

Source: Cayman Islands Government's Economics and Statistics Office

## PAST FISCAL PERFORMANCE

### 2014/15 Audited Financial Results and Analysis

Audited 2014/15 Results				
Amount in CI\$000's				
	Budget	Actual	Dollar Variance over/(under)	Percentage Variance over/(under)
<b>Revenues</b>				
Coercive Revenue	624,886	623,512	(1,374)	-0.22%
Sales of Goods & Services	32,278	34,759	2,481	7.69%
Investment Revenue	524	1,047	523	99.81%
Donations	60	283	223	371.67%
Other Revenue	25	38	13	52.0%
<b>Total Revenues</b>	<b>657,773</b>	<b>659,639</b>	<b>1,866</b>	<b>0.28%</b>
			Dollar Variance	Percentage Variance
<b>Expenses</b>	<b>Budget</b>	<b>Actual</b>	<b>(over)/under</b>	<b>(over)/under</b>
Personnel Costs	241,763	237,110	4,653	1.92%
Supplies and Consumables	87,761	84,430	3,331	3.80%
Depreciation and Amortisation	27,752	30,863	(3,111)	-11.21%
Finance Costs	28,525	28,518	7	0.02%
Litigation Costs	384	470	(86)	-22.40%
Outputs from Statutory Authorities and Government Companies	94,069	94,004	65	0.07%
Outputs from Non-Government Output Suppliers	22,695	29,445	(6,750)	-29.74%
Transfer Payments	31,284	27,274	4,010	12.82%
Other (Gains)/Losses	(1,883)	(2,826)	943	50.08%
Other Operating Expenses	4,488	5,493	(1,005)	-22.39%
<b>Total Expenses</b>	<b>536,838</b>	<b>534,781</b>	<b>2,057</b>	<b>0.38%</b>
<b>Core Government Surplus</b>	<b>120,935</b>	<b>124,858</b>	<b>3,923</b>	
Surplus/(Loss) on Statutory Authorities and Government Companies	7,095	21,831	<b>14,736</b>	<b>207.70%</b>
<b>Net Surplus</b>	<b>128,030</b>	<b>146,689</b>	<b>18,659</b>	

The Cayman Islands Government audited results for the year ended 30 June 2015 reflected a Net Surplus \$146.7 million, yielding a 14.57% favorable or \$18.7 million variance when compared to a budget of \$128.0 million. Total Revenues were \$659.6 million, which were \$1.9 million higher than the budgeted \$657.8 million. Total Expenses of \$534.8 million were favorably lower than the anticipated \$536.8 million, by \$2.0 million. Statutory Authorities and Government Companies (SAGC's) performed better than expected, which resulted in a net Surplus of \$21.8 million compared to a budgeted Surplus of \$7.1 million. The positive variance in SAGCs' Surpluses is responsible for 79% or \$14.7 million of the overall \$18.7 million reported positive variance in Net Surplus, from budgeted levels.

Core Government produced a surplus variance of \$3.9 million, of which \$2.1 million relates to expenses being lower than budget. Higher than budgeted results for Outputs from Non-Government Output Suppliers, Depreciation and Amortisation, and Other Operating Expenses were favourably offset, and fully mitigated by savings in Personnel Costs, Transfer Payments and Supplies and Consumables.

Increased funding to Non-Government Suppliers was due to additional request for health care services to indigents and uninsured persons, and services to refugees. Significant savings in Personnel Costs were largely as a result of continued attrition and restrained recruitment.

Cost management initiatives, increased air and cruise tourists arrivals together with declining fuel prices contributed to the positive variance in the operating results of Statutory Authorities and Government Companies.

Core Government's cash and cash equivalents totalled \$271.4 million at the 30 June 2015 year-end; an increase of \$97.5 million during the year and was directly attributable to another year of positive operating performance. The total cash and cash equivalents balance comprised \$127.0 million in Reserve and Restricted bank accounts and \$144.4 million in Operating bank accounts.

## 2015/16 Unaudited Financial Results and Analysis

Unaudited 2015/16 Results				
Amount in CI\$000's				
	Budget	Actual	Dollar Variance over/(under)	Percentage Variance over/(under)
<b>Revenues</b>				
Coercive Revenue	628,226	674,079	45,853	7.30%
Sales of Goods & Services	31,967	35,828	3,861	12.08%
Investment Revenue	950	2,161	1,211	127.47%
Donations	60	317	257	428.33%
Other Revenue	40	36	(4)	-10.0%
<b>Total Revenues</b>	<b>661,243</b>	<b>712,421</b>	<b>51,178</b>	<b>7.74%</b>
	Budget	Actual	Dollar Variance (over)/under	Percentage Variance (over)/under
<b>Expenses</b>				
Personnel Costs	252,366	263,586	(11,220)	-4.45%
Supplies and Consumables	91,029	87,889	3,140	3.45%
Depreciation and Amortisation	27,268	33,686	(6,418)	-23.54%
Finance Costs	27,604	27,609	(5)	-0.02%
Litigation Costs	560	316	244	43.57%
Outputs from Statutory Authorities and Government Companies	98,698	98,533	165	0.17%
Outputs from Non-Government Output Suppliers	22,767	32,538	(9,771)	-42.92%
Transfer Payments	32,555	30,251	2,304	7.08%
Other (Gains)/Losses	(2,382)	(2,381)	(1)	-0.04%
Other Operating Expenses	3,840	10,061	(6,221)	-162.01%
<b>Total Expenses</b>	<b>554,305</b>	<b>582,088</b>	<b>(27,783)</b>	<b>-5.01%</b>
<b>Core Government Surplus</b>	<b>106,938</b>	<b>130,333</b>	<b>23,395</b>	
Surplus/(Loss) on Statutory Authorities and Government Companies	12,882	18,199	5,317	41.27%
<b>Net Surplus</b>	<b>119,820</b>	<b>148,532</b>	<b>28,712</b>	

The unaudited results of the Cayman Islands Government for the year ended 30 June 2016 revealed a Net Surplus of \$148.5 million, compared to an initial budget expectation of \$119.8 million. This favorable 24% variance is due to Core Revenues of \$712.4 million being higher than budget by \$51.2 million but mitigated by Core Expenses of \$582.1 million also exceeding projections by \$27.8 million. Statutory Authorities and Government Companies (SAGCs) contributed an additional \$18.2 million which was \$5.3 million higher than budget and contributed 18.5% of the overall higher surplus variance of \$28.7 million.

Coercive Revenue contributed 89.6% or \$45.9 million of the overall favorable \$51.2 million variance in Total Revenues; although, Levies on Domestic Goods and Services and Import duties exceeded their anticipated performance, approximately 50% of the positive variance in coercive revenues came from Levies on Properties due to the sales of four major Hotels and an upswing in the real estate resale market.

Expenses also surpassed annual forecasts by \$27.8 million due to higher than anticipated outlays relating to Personnel Costs, Outputs to Non-Governmental Output Suppliers, Depreciation and Amortisation, and Other Operating Expenses. Personnel costs were higher than budgeted by \$11.2 million due to a 4.0% cost of living adjustment and a one-time honorarium payment of 2.2%, along with pay stagnation payments for teachers and police officers. Outputs from Non-Governmental Output Suppliers were higher by \$9.8 million primarily as a result of higher than budgeted overseas medical care of \$5.9 million and services for refugees of \$2.9 million. Depreciation and Amortisation and Other Operating Expenses were both higher than budget by \$6.4 million and \$6.2 million, respectively.

Core Government's cash and total deposits totaled \$408.1 million at the 30 June 2016 year-end. The total cash and deposits balance is comprised of \$134.1 million in Reserve and Restricted bank accounts and \$274.0 million in Operating bank accounts.



# FINANCIAL FORECASTS: 1 JANUARY 2018– 31 DECEMBER 2020

## Forecast Operating Statement

	SPS Forecast			
	Approved Budget 2016/17 (18 Months)	Forecast 2018	Forecast 2019	Forecast 2020
	\$000	\$000	\$000	\$000
<b>Revenues</b>				
Coercive Revenue	851,989	676,039	652,722	689,325
Sales of Goods & Services	51,832	37,127	37,587	37,699
Investment revenue	4,628	4,580	3,909	2,994
Donations	60	75	80	80
Other revenue	25	133	133	133
<b>Total Revenues</b>	<b>908,534</b>	<b>717,955</b>	<b>694,431</b>	<b>730,231</b>
<b>Expenses</b>				
Personnel costs	402,293	297,162	298,591	302,326
Supplies and Consumables	142,989	100,456	103,894	103,894
Depreciation and Amortisation	39,674	32,812	33,313	36,563
Finance costs	38,991	23,976	21,126	11,541
Outputs from Statutory Authorities & Government Companies	152,574	110,666	112,041	113,416
Outputs from Non-Governmental Suppliers	34,365	28,170	29,174	29,705
Transfer Payments	48,929	38,745	38,931	38,695
Other (Gains)/Losses	(4,474)	(372)	(1,671)	(1,671)
Other Operating Expenses	7,089	4,844	4,965	5,387
<b>Total Expenses</b>	<b>862,430</b>	<b>636,458</b>	<b>640,364</b>	<b>639,855</b>
<b>Core Government Surplus</b>	<b>46,104</b>	<b>81,497</b>	<b>54,068</b>	<b>90,375</b>
Profit/(Loss) on Statutory Authorities & Government	520	(11,994)	(12,074)	(14,397)
<b>Net Surplus</b>	<b>46,624</b>	<b>69,503</b>	<b>41,994</b>	<b>75,978</b>

The Government's three-year financial forecasts (Financial Years, "FY", 2018 to 2020), as shown above are based on information available on 21 August 2017.

The revenue base is forecasted to increase in line with GDP growth between 2016/17 and 2020. 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 schedule to mature during the SPS period – with amounts to be transferred of \$19.0 million in 2018, \$3.1 million in 2019, and a further \$30.0 million in 2020.

Growth in the local economy, particularly in the construction industry, is expected to result in increased demand for goods and services which are expected to drive revenue from stamp duty on land transfers, and import duties and other consumption based revenue items.

Total operating expenditures in 2018 are forecasted to increase from annualised 2016/17 levels as a result of enhanced and expanded services and programmes. Operating costs are expected to remain relatively constant throughout the remainder of the forecast period.

Personnel Costs include \$10.4 million of planned recruitment activities for the bolstering of public safety resources in the Royal Cayman Islands Police Service and Fire Services, as well as the Prison Department and Department of Community Rehabilitation Services. Health insurance premiums payable with respect to Civil Servants are also expected to increase for the first time since 2013. The Government has agreed to fund these increases of \$4.1 million in 2018 and a further \$1.2 million in 2019 and 2020.

Expenditures on supplies and consumables are forecasted to increase by 5.7% (annualised) between 2016/17 and 2018, a further 3.4% in 2019 and then remain constant. These costs are driven by the required support for expanded programmes.

The budgeted depreciation costs for the 2018 financial year reflect the increase in the value of the Government's assets as a result of a revaluation exercise completed in June 2016. Depreciation is expected to remain relatively constant until 2020 when a number of planned capital projects are expected to be completed.

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

Outputs from Statutory Authorities and Government Companies are expected to increase by \$8.9 million (annualised) in 2018, and a further \$1.4 million in 2019 and 2020. These increases are mostly attributed to an increase in health insurance premiums for pensioners and seamen and veterans. Increased annual output funding is forecasted for Cayman Islands Monetary Authority to enhance the regulation of the financial services industry and to Cayman Airways for the launch of new air service routes.

Support to Non-Governmental Output suppliers are also expected to remain stable over the forecast period.

Transfer payments are forecasted to increase by \$6.1 million (annualised) in 2018 for increased funding for poor relief and other social benefit programmes.

Collectively, Statutory Authorities and Government Companies are budgeted to produce a net loss of \$12.0 million, \$12.1 million and \$14.4 million in 2018, 2019 and 2020, respectively. These losses are driven primarily by the results of the Cayman Islands National Insurance Company ("CINICO") due to the variance between the actuarially assessed healthcare premiums and the level of funding agreed by the Government. A review of CINICO's business model, inclusive of operational costs, the risk profile of the enrolment population and, its ability to negotiate fees with health care providers, will be undertaken in the short-term to address the rising costs of health insurance premiums.

## Forecast Statement of Financial Position

SPS Forecast				
	Approved Budget 2016/17 (18 Months)	Forecast 2018	Forecast 2019	Forecast 2020
	\$000	\$000	\$000	\$000
<b>Current Assets</b>				
Cash and cash equivalents	341,211	380,083	232,879	236,184
Trade receivables	30,936	30,936	28,900	26,545
Other Receivables	8,623	6,661	6,561	6,594
Inventories	3,401	4,616	4,685	4,708
Prepayments	7,343	4,586	4,518	4,540
Loans	735	868	881	885
<b>Total Current Assets</b>	<b>392,249</b>	<b>427,750</b>	<b>278,423</b>	<b>279,456</b>
<b>Non-Current Assets</b>				
Investments	831	831	831	831
Loans	360	360	350	340
Net Worth - Public Entities	369,261	386,381	399,602	398,099
Property, plant and equipment	1,366,904	1,420,888	1,449,686	1,488,176
Intangible Assets	3,869	5,278	5,108	5,133
<b>Total Non-Current Assets</b>	<b>1,741,225</b>	<b>1,813,738</b>	<b>1,855,577</b>	<b>1,892,580</b>
<b>Total Assets</b>	<b>2,133,474</b>	<b>2,241,489</b>	<b>2,134,000</b>	<b>2,172,036</b>
<b>Current Liabilities</b>				
Trade payables	27,591	27,491	30,403	31,751
Other payables and accruals	39,542	26,045	30,936	35,281
Unearned revenue	16,332	41,031	40,156	39,481
Employee entitlements	7,970	9,887	9,887	9,936
Unfunded pension liability	21,400	11,400	11,400	11,400
Current Portion of Borrowings	30,280	287,060	43,011	41,411
<b>Total Current Liabilities</b>	<b>143,115</b>	<b>402,914</b>	<b>165,792</b>	<b>169,261</b>
<b>Non-Current Liabilities</b>				
Unearned Revenue	10,500	16,450	16,450	16,450
Unfunded pension liability	366,940	375,540	375,540	375,540
Long Term portion of Borrowings	420,834	133,737	221,376	179,966
<b>Total Non-Current Liabilities</b>	<b>798,274</b>	<b>525,727</b>	<b>613,366</b>	<b>571,956</b>
<b>Total Liabilities</b>	<b>941,389</b>	<b>928,641</b>	<b>779,159</b>	<b>741,217</b>
<b>Net Assets</b>	<b>1,192,085</b>	<b>1,312,848</b>	<b>1,354,841</b>	<b>1,430,819</b>
<b>NET WORTH</b>				
Reserves	173,851	173,022	171,303	167,367
Revaluation reserve	340,622	489,490	489,490	489,490
Current Year Surplus	46,624	69,503	41,994	75,978
Other Accumulated surpluses/(deficits)	630,988	580,833	652,055	697,984
<b>Total Net Worth</b>	<b>1,192,085</b>	<b>1,312,848</b>	<b>1,354,841</b>	<b>1,430,819</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 \$1.313 billion at the end of the 2018 fiscal year. This is expected to improve to \$1.431 billion at 31 December 2020.

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 2016/17	Forecast 2018	Forecast 2019	Forecast 2020
	\$000	\$000	\$000	\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
<i>Operating Cash Inflows</i>				
Coercive Receipts	852,991	679,420	655,985	692,772
Outputs to other government agencies	7,263	3,878	4,027	4,144
Sale of goods and services - third party	49,228	35,935	37,619	35,511
Interest received	4,562	4,502	3,875	2,737
Donations / Grants received	60	75	155	80
Other receipts	24,251	15,308	15,313	15,313
<i>Operating Cash Outflows</i>				
Personnel costs	(412,811)	(297,162)	(298,591)	(302,326)
Supplies and consumables	(150,080)	(100,956)	(104,394)	(105,394)
Outputs from public authorities	(150,655)	(108,766)	(110,261)	(112,211)
Outputs from non-governmental organisations	(34,957)	(28,170)	(29,174)	(29,705)
Transfer payments	(48,895)	(38,695)	(38,856)	(38,611)
Financing/interest payments	(39,459)	(24,220)	(22,911)	(11,695)
Other payments	(22,430)	(10,844)	(10,465)	(10,387)
<b>Net cash flows from operating activities</b>	<b>79,068</b>	<b>130,305</b>	<b>102,323</b>	<b>140,228</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<i>Investing Cash Inflows</i>				
Proceeds from sale of Loans/investments	1,043	690	690	690
Receipt of Dividends/Capital withdrawals	3,077	2,900	3,073	3,202
<i>Investing Cash Outflows</i>				
Purchase of property, plant and equipment	(67,836)	(71,312)	(67,829)	(81,050)
Purchase of Loans/investments	(1,020)	(680)	(680)	(680)
Equity injection paid to public authorities	(35,208)	(21,239)	(28,368)	(16,096)
<b>Net cash flows from investing activities</b>	<b>(99,944)</b>	<b>(89,641)</b>	<b>(93,114)</b>	<b>(93,934)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Borrowings	-	-	130,650	-
Repayment of Borrowings	(52,305)	(30,318)	(287,063)	(42,989)
<b>Net cash flows from financing activities</b>	<b>(52,305)</b>	<b>(30,318)</b>	<b>(156,413)</b>	<b>(42,989)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(73,181)</b>	<b>10,346</b>	<b>(147,204)</b>	<b>3,305</b>
Cash and cash equivalents at beginning of period	414,392	369,737	380,083	232,879
<b>Cash and cash equivalents at end of period</b>	<b>341,211</b>	<b>380,083</b>	<b>232,879</b>	<b>236,184</b>

In 2018 it is anticipated that Government's annual net cash flow increase for the year will be a positive \$10.3 million; however, as Government intends to pay off a bullet bond in the amount of CI\$261.3 million (US\$312 million) in November 2019, it is forecasted that net cash flow will decrease by \$147.2 million in the 2019 fiscal year.

The Government forecasts a total cash balance of \$353.5 million at 31 December 2017, and is forecasted to grow to \$380.1 million at 31 December 2018. Following the repayment of the CI\$261.3 million bond, cash balances are forecast to be \$232.9 million at 31 December 2019 and \$236.2 million at 31 December 2020.

The Government plans to invest an average of \$21.9 million annually into Statutory Authorities and Government Companies to provide them with on-going support, debt servicing and to facilitate a modest capital program.

Approximately \$360.4 million will also be used to pay off Core Government Debt over the 3-year period; this amount is inclusive of the CI\$261.3 million (US\$312 million) bond mentioned above.

As the Forecast Cash Flow Statement depicts, the Government does not plan to undertake any new borrowings until 2019 – when it is anticipated that an amount of CI\$130.65 million will be borrowed in order to refinance an element of the bullet bond which matures in November 2019.



## Forecast Statement of Core Government Debt

Central Government Statement of Borrowings						
Loan	Opening Balance 1 July 2016	Forecast 2016/17	Forecast 2018	Forecast 2019	Principal Repayments	
					Forecast 2020	Closing Balance for each facility
2003 Bond Issue	18,224	(13,668)	(4,556)	-	-	-
FCIB Loan # 10276203	17,685	(3,930)	(2,620)	(2,620)	(2,620)	5,895
FCIB Loan # 10330158	18,367	(3,800)	(2,533)	(2,533)	(2,533)	6,967
FCIB Loan # 10331239	25,375	(5,250)	(3,500)	(3,500)	(3,500)	9,625
FCIB Loan # 10123355	7,200	(2,400)	(1,600)	(1,600)	(1,600)	-
2009 Bond Offering	261,300	-	-	(261,300)	-	-
FCIB Loan #10444245	154,228	(23,037)	(15,423)	(15,423)	(15,423)	84,922
European Investment Bank Loan 8.0283	654	(72)	(51)	(51)	(52)	429
European Inv. Bank Loan 8.0244	247	(32)	(22)	(22)	(22)	149
European Inv Bank Loan 8.0056	41	(18)	(12)	(11)	-	-
New Facility in 2019	-	-	-	130,650	(17,261)	113,389
<b>Total</b>		<b>(52,207)</b>	<b>(30,317)</b>	<b>(156,410)</b>	<b>(43,011)</b>	
<b>Debt Portfolio Closing Balances</b>	<b>503,321</b>	<b>451,114</b>	<b>420,797</b>	<b>264,387</b>	<b>221,376</b>	<b>221,376</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. The core Government is expected to close the 2016/17 fiscal period with an outstanding debt balance of \$451.1 million. This balance is expected to decrease to \$221.4 million by 31 December 2020. Therefore, over the SPS period, the Government plans to reduce its debt by a net \$229.7 million: representing gross debt repayments of \$360.4 million and borrowings of \$130.65 million.

Core Government cash balances will continue to grow throughout the SPS period. This means that the Government should not have any difficulties meeting its debt service obligations during the SPS period.

## Forecast Statement of Changes in Net Worth

SPS Forecast				
	Statutory Reserves	Revaluation Reserve	Accumulated Surplus/ (Deficits)	Total
	\$000	\$001	\$000	\$000
<b>Balance at 30 June 2016</b>	<b>132,803</b>	<b>298,871</b>	<b>672,036</b>	<b>1,103,710</b>
<b>Changes in Net Worth for 2016/17</b>				
Transfers	41,048		(41,048)	-
Changes in Revaluation Reserve		41,751		41,751
Surplus for the period 2016/17			46,624	46,624
<b>Balance at 31 December 2017</b>	<b>173,851</b>	<b>340,622</b>	<b>677,612</b>	<b>1,192,085</b>
<b>Changes in Net Worth for 2018</b>				
Transfers	(829)		829	-
Changes in Revaluation Reserve		148,868	(97,608)	51,260
Surplus for the period 2018			69,503	69,503
<b>Balance at 31 December 2018</b>	<b>173,022</b>	<b>489,490</b>	<b>650,335</b>	<b>1,312,848</b>
<b>Changes in Net Worth for 2019</b>				
Transfers	(1,719)		1,719	-
Surplus for the period 2019			41,994	41,994
<b>Balance at 31 December 2019</b>	<b>171,303</b>	<b>489,490</b>	<b>694,048</b>	<b>1,354,841</b>
<b>Changes in Net Worth for 2020</b>				
Transfers	(3,936)		3,936	-
Surplus for the period 2020			75,978	75,978
<b>Balance at 31 December 2020</b>	<b>167,367</b>	<b>489,490</b>	<b>773,963</b>	<b>1,430,819</b>

The Government's Net-Worth position is expected to improve from a budgeted \$1.192 billion at 31 December 2017, to \$1.431 billion as at 31 December 2020. This improvement will largely result from the anticipated surpluses of \$187.5 million over the SPS period the Government is expected to generate over the forecast fiscal period.

## ***Forecast Operating Revenue Performance by Agency***

The 2016/17 Approved Budget is for an 18-month period and is based on the Government structure as at 1 July 2016. The agency allocations/targets for the SPS forecast period reflect the Government's organisational structure as at 1 July 2017, changed as a result of the 2017 General Election, and are for a 12-month period. Therefore comparability between agencies allocations/targets in the 2016/17 period and forecast years is restricted.

<b><i>Operating Revenue Targets by Agency</i></b>				
<b>Agency</b>	<b>Approved Budget 16/17 (18 Months) \$000</b>	<b>Forecast 2018 \$000</b>	<b>Forecast 2019 \$000</b>	<b>Forecast 2020 \$000</b>
Cayman Islands Audit Office	2,891	2,144	2,219	2,270
Cabinet Office	17,295	11,564	11,564	11,564
Ministry of Human Resources & Immigration	146,418	98,383	98,383	98,383
Ministry of Community Affairs	80	120	125	125
Ministry of District Administration, Tourism & Transport	31,243	28,596	29,106	30,469
Ministry of Finance & Economic Development	264,358	203,333	188,339	217,723
Ministry of Financial Services & Home Affairs	312,639	260,278	265,339	269,785
Ministry of Commerce, Planning & Infrastructure	115,152	32,003	32,546	33,102
Ministry of Education, Youth, Sports, Ag & Lands	1,795	69,176	54,200	54,200
Ministry of Health, Environment, Culture & Housing	4,809	4,128	4,355	4,355
Portfolio of the Civil Service	791	388	388	388
Portfolio of Legal Affairs	782	855	880	880
Judicial Administration	10,281	6,987	6,987	6,987
<b>Total Operating Revenue</b>	<b>908,534</b>	<b>717,955</b>	<b>694,431</b>	<b>730,231</b>

The table above provides a breakdown of operating revenues by Ministry/Portfolio/Office.

The Government will be transferring approximately \$19.0 million, \$3.1 million, and \$30.0 million into General Revenue from various trust accounts whose holding period is schedule to mature in 2018, 2019 and 2020, respectively.

The anticipated increase in the Ministry of Education, Youth, Sports, Agriculture and Lands is driven by stamp duty on land transfers due to several development projects planned during the 2018 period.

## Forecast Operating Expenditures by Agency

<b><i>Operating Expenditure Targets by Agency</i></b>				
<b>Agency</b>	<b>Approved Budget 2016/17 (18 Months)* \$000</b>	<b>Forecast 2018 \$000</b>	<b>Forecast 2019 \$000</b>	<b>Forecast 2020 \$000</b>
Cayman Islands Audit Office	3,812	2,689	2,805	2,999
Cabinet Office	14,031	11,813	11,813	11,813
Ministry of Human Resources & Immigration	143,004	66,122	67,416	69,169
Ministry of Community Affairs	67,953	39,471	39,471	39,471
Ministry of District Administration, Tourism & Transport	78,802	56,180	56,180	56,180
Ministry of Finance & Economic Development	94,208	85,093	84,243	77,158
Ministry of Financial Services & Home Affairs	46,568	66,947	66,147	66,147
Ministry of Commerce, Planning & Infrastructure	79,227	52,101	52,300	52,104
Ministry of Education, Youth, Sports, Ag & Lands	149,896	114,710	117,360	118,860
Ministry of Health, Environment, Culture & Housing	92,268	75,107	76,333	79,684
Portfolio of the Civil Service	57,480	40,387	40,387	40,387
Portfolio of Legal Affairs	11,631	8,241	8,212	8,136
Judicial Administration	20,017	14,693	14,793	14,843
Director of Public Prosecutions	4,747	3,802	3,802	3,802
Office of the Ombudsman	2,371	2,092	2,092	2,092
<b>Total Operating Expenditure</b>	<b>866,015</b>	<b>639,447</b>	<b>643,353</b>	<b>642,844</b>
Total Eliminations of Interagency Transactions	(3,585)	(2,989)	(2,989)	(2,989)
<b>Total Net Operating Expenditure</b>	<b>862,430</b>	<b>636,458</b>	<b>640,364</b>	<b>639,855</b>

\*The 2016/17 Approved Budget is for an 18-month period and is based on the Government structure as at 1 July 2016. The agency allocations/targets for the SPS forecast period reflect the Government's organisational structure as at 1 July 2017, changed as a result of the 2017 General Election, and is for a 12-month period.

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.

Where the Government was not able to afford the plans presented, discussions with Agencies resulted in some plans being deferred or executed through efficiencies identified within their Ministries/Portfolios/Offices.

The operating expenditure by Agency (as in the above table) shows the result of those deliberations. Whilst all Agencies are shown as having some element of increase in their individual allocations, this increase is for various reasons including staffing of a number of departments as well as some increases in supplies and consumables.

## ***Executive Operating Expenditure Allocation by Minister/ Official Member***

<b><i>Executive Operating Expenditure Allocation</i></b>				
<b>Agency</b>	<b>Approved Budget 2016/17 (18 Months)* \$000</b>	<b>Forecast 2018 \$000</b>	<b>Forecast 2019 \$000</b>	<b>Forecast 2020 \$000</b>
Public Accounts Committee (Audit Office)	921	735	760	770
Premier for Cabinet Office	12,333	11,343	11,343	11,343
Minister for Ministry of Human Resources & Immigration	131,079	59,489	59,474	59,844
Minister for Ministry of Community Affairs	67,873	38,283	38,283	38,283
Minister for Ministry Of District Administration, Tourism & Transport	78,140	55,680	55,680	55,680
Minister for Ministry Of Finance & Economic Development	61,899	83,909	83,255	77,881
Minister for Ministry of Financial Services & Home Affairs	38,559	62,947	62,147	62,147
Minister for Ministry of Commerce, Planning & Infrastructure	63,681	42,101	42,101	42,101
Minister for Ministry of Education, Youth, Sports, Ag & Lands	148,101	109,710	111,360	112,860
Minister for Ministry of Health, Environment, Culture & Housing	89,332	73,107	74,333	77,684
Deputy Governor (Portfolio of the Civil Service)	56,690	39,287	39,287	39,287
Attorney General (Portfolio of Legal Affairs)	10,699	7,623	7,632	7,561
Attorney General (Judicial Administration)	19,961	14,638	14,738	14,788
Attorney General (Director of Public Prosecutions)	4,747	3,802	3,802	3,802
Office of the Ombudsman (Oversight Committee of the LA)	2,372	2,315	2,489	2,516
<b>Total Executive Operating Expenditure Allocations</b>	<b>825,378</b>	<b>604,969</b>	<b>606,684</b>	<b>606,547</b>

\*The 2016/17 Approved Budget is for an 18-month period and is based on the Government structure as at 1 July 2016. The agency allocations/targets for the SPS forecast period reflect the Government's organisational structure as at 1 July 2017, changed as a result of the 2017 General Election, and is for a 12-month period.

The Executive Operating Expenditure allocations shown above represent expenditure that is funded by Cabinet and does not include expenditure that is funded by Entity revenue. This explains the difference between the allocations shown in the above table - that Cabinet will fund - and the overall total Operating Expenditures shown on page 36 (the latter being inclusive of expenditures that are not funded by Cabinet but are funded by Entity Revenues).

The executive Operating Expenditure allocations shown above were developed following reviews of the various agencies of the Core government. The allocations are based on the policy priorities of the Government.

These Executive Operating Expenditure allocations represent the total target Appropriations that each Minister/Official Member will be seeking from the Legislative Assembly as part of the 2018 and 2019 Budgets.

## Capital Investment Targets by Minister/ Official Member

<b><i>Capital Investment</i></b>				
Agency	Approved Budget 2016/17 (18 Months)* \$000	Forecast 2018 \$000	Forecast 2019 \$000	Forecast 2020 \$000
Public Accounts Committee (Audit Office)	23	10	-	-
Premier for Cabinet Office	2,305	85	85	85
Minister for Ministry of Human Resources and Immigration	3,983	6,056	7,608	15,200
Minister for Ministry of Community Affairs	5,500	150	150	150
Minister for Ministry Of District Administration, Tourism & Transport	33,275	21,050	17,450	11,700
Minister for Ministry Of Finance & Economic Development	350	4,835	5,980	5,630
Minister for Ministry Of Financial Services, & Home Affairs	8,602	14,270	7,433	11,400
Minister for Ministry Of Commerce Planning, & Infrastructure	21,382	20,845	16,600	9,350
Minister for Ministry Of Education, Youth, Sports, Ag and Lands	13,663	18,659	21,034	33,976
Minister for Ministry of Health, Environment, Culture and Housing	13,792	14,414	26,598	16,226
Deputy Governor (Portfolio of the Civil Service)	508	111	50	50
Attorney General (Portfolio of Legal Affairs)	75	20	-	-
Attorney General (Judicial Administration)	-	570	250	3,000
Attorney General (Director of Public Prosecutions)	10	30	15	15
Office of the Ombudsman (Oversight Committee of the LA)	-	50	50	50
<b>Total Capital Investment Target</b>	<b>103,468</b>	<b>101,155</b>	<b>103,303</b>	<b>106,832</b>

\*The 2016/17 Approved Budget is for an 18-month period and is based on the Government structure as at 1 July 2016. The agency allocations/targets for the SPS forecast period reflect the Government's organisational structure as at 1 July 2017, changed as a result of the 2017 General Election, and is for a 12-month period.

The Government's capital investments over the next three financial years have been structured in such a way that it addresses critical priority areas such as strengthening and upgrading of education and transportation infrastructure; strengthening our public safety management and response capabilities; and the stabilization of our Statutory Authorities and Government Companies.

Planned capital investments total approximately **\$311.3 million** over the forecast period, \$101.2 million in 2018; \$103.3 million in 2019; and \$106.8 million in 2020.

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

The planned capital investment of **\$311.3 million** over the next three financial years provide for the following:

- **\$2.1 million** in loans to be made by the Government to Civil Servants and persons requiring financial assistance for overseas medical care.

- **\$65.6 million** of capital investments into Statutory Authorities and Government Companies 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 Turtle Farm (1983) Limited, \$22.5 million; Cayman Airways Limited, \$17.8 million; National Housing and Development Trust, \$14.1 million; and Cayman Islands Development Bank \$11.2 million.
- **\$243.65 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;
  - remediation of the George Town Landfill (*to be funded by withdrawals from the Environmental Protection Fund*);
  - construction of a new long term residential mental health facility;
  - continued development and upgrade of Grand Cayman road infrastructure;
  - implementation of a new Public Safety Communications system;
  - purchase of new vehicles and safety equipment for the Cayman Islands Fire Service;
  - purchase of new equipment for the Royal Cayman Islands Police Service;
  - continued development of the Cayman Islands cruise berthing facility;
  - 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	Degree of Compliance	Degree of Compliance
	Forecast 2018	Forecast 2019	Forecast 2020
<b>Operating Surplus : should be positive</b> (Operating surplus = core government operating revenue – core government operating expenses)	Complies Surplus=\$81.497 million	Complies Surplus=\$54.068 million	Complies Surplus=\$90.375 million
<b>Net Worth: should be positive</b> (Net worth = core government assets – core government liabilities)	Complies Networth = \$1.313 billion	Complies Networth = \$1.355 billion	Complies Networth = \$1.431 billion
<b>Borrowing:</b> 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, public authorities debt and self financing loans)	Complies Debt servicing = 8.9 %	Does not comply* Debt servicing = 48.2 %	Complies Debt servicing = 9.1 %
<b>Net Debt:</b> 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	Complies Net debt = 21.5 %	Complies Net debt = 18.2 %	Complies Net debt = 9.2 %
<b>Cash Reserves</b> should be no less than estimated executive expenses for 90 Days:  (Cash reserves = core government cash and other liquid assets)	Complies Cash reserves = 175.3 days	Complies Cash reserves = 91.7 days	Complies Cash reserves = 97.0 days
<b>Financial risks</b> should be managed prudently so as to minimize risk	Complies Insurance cover exists for all government Hurricane Preparedness Strategy in place.	Complies Insurance cover exists for all government buildings, Hurricane Preparedness Strategy in place.	Complies Insurance cover exists for all government Hurricane Preparedness Strategy in place.

\*Technical non-compliance due to scheduled debt repayment

The ratios above were calculated in accordance with the 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 forecast to be \$81.5 million in 2018, \$54.1 million in 2019, and rising to \$90.4 million in 2020.

## Net Worth

The Government is forecasted to maintain a positive Net Worth throughout the forecast period. Net Worth is forecast to be \$1.313 billion at the end of 2018; \$1.355 billion at the end of 2019; and \$1.431 billion at 31 December 2020.



## **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 to achieve full compliance with the Debt Service ratio in 2018 and remaining compliant throughout the SPS period with the exception of the 2019 period where the CI\$261.3 million (US\$312 million) bullet bond will be repaid. The Debt Service ratios are expected to be 8.9% 2018. In 2019 the debt servicing is at 48.2% as a result of the repayment of the bond mentioned above. This technical breach has been thoroughly discussed with, and agreed by, the UK Government's Foreign and Commonwealth Office. After the repayment of the bullet bond in November 2019, the Government's debt service will decrease to approximately 9.1% in 2020.

## **Net Debt Ratio**

The Government is required to maintain a Net Debt balance that is not greater than 80% of Core Government's revenue. For the three-year forecast period, Net Debt is forecasted to remain well below this limit, achieving full compliance with this ratio. In 2018, Net Debt is forecasted to be 21.5%; in 2019 it reduces to 18.2%; and by 2020 it reduces further to 9.2%.

The aggressive reduction in Net Debt is a combination of maintaining substantial cash balances and an overall Government debt strategy which focuses on reducing debt.

## **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 2018 to be \$305.8 million or 175.3 days of executive expenses; in 2019 to be \$161.0 million or 91.7 days of executive expenses; and by 2020 to be \$170.0 million or 97.0 days of executive expenses.

# PUBLIC SECTOR DEBT PROFILE AND DEBT MANAGEMENT STRATEGY

## Core Government Debt Profile as at 30 June 2017

Cayman Islands Government Core Government Debt Portfolio As at 30 June 2017								
Loan	CUR	Date of Origin	Original Amount	Amortized or Bullet	Current Balance KYD	Annual Principal KYD	Interest rate	Maturity date
FCIB Loan # 10444245	USD	19-Apr-11	185,074,626	Amortized	138,805,611	7,711,423.0	5.4400%	19-Apr-26
2009 Bond Offering	USD	24-Nov-09	312,000,000	Bullet	261,300,000	Bullet	5.9500%	24-Nov-19
2003 Bond Issue	USD	8-Apr-03	163,200,000	Amortized	9,112,000	9,112,000	5.3000%	8-Apr-18
FCIB Loan # 10276203	USD	26-Oct-07	47,159,962	Amortized	15,064,981	2,620,002	2.6700%	11-Feb-23
FCIB Loan # 10330158	USD	24-Jun-08	45,599,964	Amortized	15,833,316	2,533,335	2.7100%	24-Jul-23
FCIB Loan # 10331239	USD	27-Jun-08	62,999,950	Amortized	21,874,976	3,500,003	2.7100%	24-Jul-23
FCIB Loan # 10123355	USD	23-Nov-05	28,800,000	Amortized	5,600,004	1,600,001	5.5800%	30-Nov-20
European Investment Bank Loan 8.0283	EUR	3-May-87	1,489,812	Amortized	630,362	% Based	1.0000%	15-Apr-29

Cayman Islands Government Self-Financing Debt Portfolio As at 30 June 2017								
Loan	Currency	Date of Origin	Original Amount	Amortized or Bullet	Current Balance KYD	Annual Principal KYD	Interest rate	Maturity date
European Investment Bank Loan 8.0244	EUR	1-Aug-87	658,000	Amortized	224,776	% Based	1.0000%	15-May-27
European Investment Bank Loan 8.0056	EUR	10-Feb-80	330,000	Amortized	29,463	% Based	1.0000%	1-Feb-19

The Government remains committed to the reduction of debt through annual principal payments and, it does not plan to incur any new borrowings over the forecast period with the exception of 2019 when funds will be borrowed to proceed with capital expenditures and investments while concurrently retiring the CI\$261.3 million (US\$312 million) bullet bond.

The Public Sector debt profile is expected to show a significant decrease in debt by the end of 2019. This is largely due to the repayment of the above mentioned bullet bond.

## Statutory Authority and Government Companies Debt Profile

Cayman Islands Government  
Statutory Authorities Debt Portfolio  
As at 30 June 2017

Agency	Loan	Currency	Date of Origin	Original Amount \$000s	Amortized or Bullet	Current Balance KYD \$000s	Annual Principal KYD \$000s	Interest Rate	Maturity Date
C.I. Development Bank	CIBC FirstCaribbean International Bank	USD	30-Jun-15	36,800	Amortized	28,800	15 equal semi-annual principal payments of US\$2.453 million starting July 2018	3.48%	23-Jul-20
Cayman Airways	RBC Consolidated Loan	USD	31-Jul-17	20,870	Amortized	19,992	Blended Monthly Payment of US\$0.519 million (Principal and Interest)	Libor + 1.25%	28-Jun-22
Cayman Turtle Farm	William Blair (Placement Agent)	USD	12-Mar-04	37,464	Amortized	8,057	4,536	4.85%	1-Mar-19
National Housing Development Trust	Scotia Bank & Trust Bond	USD	24-Oct-04	11,890	Amortized	5,772	528	5.24%	28-Oct-24
National Housing Development Trust	Bank of Butterfield Bond	USD	31-Aug-09	12,083	Amortized	8,053	620	3.25%	30-Dec-19
Water Authority	Ocean Conversion (North Side)	KYD	1-Jul-09	9,176	Amortized	1,782	Variable	0.54%	30-Jun-19

Statutory Authorities and Government Companies are expected to adhere to a policy of no new borrowings over the forecast 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 no new borrowings until the repayment of the 2019 bullet bond.

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 \$360.4 million in outstanding Core Government debt. At 31 December 2020, it is forecasted that Core Government will have approximately \$221.4 million in debt. The Government intends to refinance 50% of the 2019 bullet bond or \$130.65 million when the bond matures in November 2019.

## **Liability Management Plan**

The Government consists of “Core Government” (Ministries, Portfolios and Offices), plus Statutory Authorities and Government Companies.

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 (SAGCs). 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 Governor in 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 (GGHAM)

The GGHAM program that is administered by the National Housing Development Trust was introduced on 9<sup>th</sup> 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 \$10.7 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 2016 actuarial valuation is a net liability of \$415.8 million. The Government has included \$11.4 million annually throughout the SPS period towards reducing the net liability. The Government will reassess its contribution rate after that period with a view to increase the annual contribution based on the ability of public finances at that time.

Presently, the Public Service Pensions Board is able to fund all of the monthly pensions 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 recognises its obligations for the future health care 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 health care benefit upon retirement.

The results of health care liability actuarial valuation, completed in October 2016, estimated the post-retirement health care obligation as at 30 June 2016 to be \$1.7 billion with the post-retirement medical expense totalling \$141 million for the year ended 30 June 2016. The assumptions of the actuarial valuation have not been accepted by the Government and therefore the post-retirement health care obligation and related expenditure has not been formally recognised in the Statements of Financial Position and Performance.

Therefore, for all intents and purposes, the Government is on a "pay-as-you-go" plan in respect of post-retirement health care liabilities. Currently, no long term assets are set aside off balance sheet in respect of the Government's post-retirement health care liability.

## BROAD OUTCOMES

The Government has developed eight (8) strategic broad outcomes and specific actions aimed to achieve 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) Increase support to Cayman Finance;
- b) Implement a new National Tourism Plan;
- c) Complete the improvements to Owen Roberts International Airport to increase capacity and improve 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 from the small business sector;
- j) Support the agricultural industry to implement more 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) Increase the ex-gratia payment for 'poor relief' and to Seamen and Veterans;
- m) Increase pension payments to qualified former civil servants to at least an amount in line with the 'poor relief' ex-gratia payment;
- n) Intervene if necessary to improve the competitiveness of markets starting with fuel;
- o) Encourage an increase in the supply of affordable housing through duty incentives and the introduction of more flexible planning policies; and
- p) Complete a new National Development Plan.

## Strategic Broad Outcome 2

### Achieving Full Employment - Jobs for All Caymanians

- a) Create a new Human Resources Department to improve the planning and monitoring of the workforce, including managing the work permit regime;
- b) Increase the transparency and fairness of the work permit and immigration systems;
- c) Implement changes to job advertising requirements to ensure Caymanians are not disadvantaged;
- d) Implement the National Jobs Clearinghouse to benefit both employers advertising vacancies and Caymanian jobseekers;
- e) Extend the Ready2Work.Ky programme to support unemployed Caymanians into long-term employment;
- f) Ensure that businesses that actively hire and develop Caymanian employees are recognised and rewarded;
- g) Improve the effective monitoring and enforcement of labour regulations;
- h) Work with the private sector to increase the opportunities for work-based training programmes for the under 25s including apprenticeships;
- i) Support workplace training and lifelong learning to ensure skills development keeps pace with technological and other developments; and
- j) Ensure that the immigration and work permit regimes operate efficiently and fairly.

## **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 we give children the best possible start to their education;
- d) Extend the delegation of responsibility to schools and improve the accountability of Principals for the standards achieved;
- e) 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;
- f) Invest in programmes that support improved attainment in academic disciplines at all levels with a key focus on literacy, numeracy and science; and
- g) 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 based wardens or officers, and improved equipment and facilities to increase visibility and deterrence and improve responsiveness;
- b) Develop and implement a programme to identify young people at risk of offending behavior and to intervene to support them 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) Reform the marine unit as part of an improved approach to border security;
- f) Continue the work to develop a new, modern court building that meets future needs; and
- g) Establish a Cayman Islands Police Authority to enhance the accountability of policing to the community.

## **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 an Urban Development Commission alongside the George Town Revitalisation project and consider the application of similar approaches in other areas;
- e) Implement the priorities in the National Culture Policy; and
- f) Support the development of facilities and activities that improve the well-being and self-esteem of young people including through sport.

## **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 landfill through increased recycling and composting and the introduction of waste to energy technologies;
- b) Continue to ensure that beach access is maintained;
- c) Take opportunities to purchase more land to safeguard beach access and to create public parks/open spaces;
- d) 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; and
- g) Review the implementation of the Conservation Law to ensure that an appropriate and sustainable balance between development and conservation is achieved.

## **Strategic Broad Outcome 8**

### **Stable, Effective and Accountable Government**

- a) 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, building on Project Future;
- d) Improve the effectiveness of government communication;
- e) Extend opportunities for individuals to engage with individual MLAs; and
- f) Establish a District Council in each district to increase community engagement and enhance democratic accountability

## CONCLUSION

The Government is committed to keeping Cayman strong. This medium-term plan sets out a platform for stable economic development and delivering enhanced Public Service to the citizens while maintaining full compliance with the Principles of Responsible Financial Management.

As the Cayman Islands continue on track to greater economic progress, the Government, through a collaborative approach, has embarked upon aligning its priorities in delivering greater prosperity and improved quality of life for all Caymanians. The Government's objectives will be achieved by investing in the future of its youth, improving benefits for its seniors, and helping the most vulnerable in society to lead a more successful life. The Government is laying a foundation for a stronger, brighter future for our Islands.