



BUDGET ADDRESS 2003/4

“CHARTING OUR COURSE FOR THE FUTURE”

DELIVERED BY

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FINANCIAL SECRETARY

TO THE LEGISLATIVE ASSEMBLY

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Part 1: Introduction

Madam Speaker, it is my privilege to present the Budget for the 2003/2004 financial year on behalf of the Government. In keeping with the practice adopted last year I will share this responsibility with the Leader of Government Business who will move the budget debate.

Madam Speaker, in line with the new system of public management now used in these Islands, the budget document presented to this Honourable House today is called the “Annual Plan and Estimates”. This is much more than a name and the document is much more than a budget!

What the Leader of Government Business and I will be presenting today is the Government’s plan of action for the next 12 months.

It is a plan designed to support the local economy and create employment opportunities for Caymanians.

It is a plan designed to increase the educational opportunities available for our young people.

It is a plan designed to ensure that health care and social support are available to those in need.

It is a plan designed to improve the efficiency and effectiveness of government and its agencies.

And most important of all, Madam Speaker, it is a plan that actively pursues our own economic and social interests in an increasingly complex international environment.

Madam Speaker, the Government knows that we need to influence our own future. We need to chart our own course, and be at the helm of our future, not in the cargo hold.

This will require sustained commitment, foresight and effort, and the ability to engage constructively and successfully with our international partners including the United Kingdom. It also requires a clear idea of where we want to go and a plan to get there.

That plan is outlined in the 2003/2004 Annual Plan and Estimates. It is a plan designed to set the foundation for the future of our country. It is plan, which as the Leader of Government Business said in the debate on the Throne Speech, “charts a course to achieve our national aspirations”.

Part 2: The Government’s Strategy and Key Policy Actions

Madam Speaker, the Plan contained in the 2003/2004 Budget is a coherent set of policy actions designed to achieve pre-determined outcomes.

Those outcomes were set out in the 2003/2004 Strategic Policy Statement which, as Honourable Members are aware, established the policy and fiscal parameters on which today’s budget has been based.

The Government’s outcome goals reflect the aspirations of the people of the Cayman Islands as documented in Vision 2008. The Government’s initial seven goals have been expanded to eleven this year to better reflect the Vision document.

The eleven goals are as follows:

1. A strong economy that generates employment, income, and a high standard of living
2. A healthy resident population
3. A socially supported resident population
4. A strong Caymanian community and culture
5. An environment protected for the use of both current and future generations
6. A well educated and vocationally trained resident population
7. A safe and secure country for residents and visitors

8. An open, efficient and accountable Government
9. Young persons positively involved in the community
10. Strong family units; and
11. An economically and socially vibrant Sister Islands

These outcomes reflect the sort of country the Government is striving to achieve. They also provide the direction for the course the Government has charted and the rationale for the various policy initiatives contained in the Annual Plan and Estimates.

The Government has a strategy for progressing each of these outcomes and the Budget contains a wide range of initiatives to support those strategies. The Annual Plan and Estimates makes provision for 43 pieces of legislation, 231 output groups, 13 transfer payment categories, 26 Other Executive Expense categories, 8 equity investments, 1 sale of government assets, 11 capital acquisitions and 84 capital development projects. In total there are 423 separate policy actions provided for in the Budget.

Over the course of the Budget debate, the Ministers of Government will provide the House with a comprehensive explanation of these various policy actions so I do not intend to cover them all in detail now. However, I would like to provide Honourable Members with a summary of the Government's policy strategies and specific initiatives in some key areas.

Strategies and Key Policy Actions: Economic Development

I will begin with outcome 1 – a strong economy.

Of all the Government's outcome goals this is perhaps the most important. As a country we can only achieve the other outcomes – such as good levels of health, education, and social support - if our economy is strong enough to support it. Consequently, economic development is a key policy priority for the Government.

The Government recognises that it is the private sector, not the public sector that is the engine for economic growth. The Government's overall economic development strategy is therefore to establish an environment that encourages and supports private business.

There are three aspects to this enabling strategy.

- First, creating and maintaining a competitive commercial environment.
- Second, encouraging new investment and business development.
- And third, actively supporting and promoting key economic sectors, particularly financial services and tourism sectors.

Let me speak briefly about each one of these strategies.

Business Competitiveness

The Government recognises that in order for the Cayman Islands to be a good place to do business, the cost of doing business here needs to be competitive. A key economic development strategy is therefore to control, and where possible, reduce the operating costs faced by the private sector.

Controlling the Government's own fiscal position is an important part of this strategy and the 2003/2004 Budget is again a fiscally responsible one. It has been balanced without the need for new revenue measures or increasing the level of public debt.

In addition, as previously announced, the Government has decided not to proceed with some fees increases announced in the 2002 Budget – most notably the increase in garbage collection fees. This means that the Government is leaving more money in people's pocket. This is good for residents and it is good for business!

What's more, while the overall level of government revenue remains steady, operating revenue, as a percentage of Gross Domestic Product, is forecast to decline by 2% compared to 2002. As the level of operating revenue determines the level of operating expenditure, this means the overall size of government is forecast to shrink in 2003/2004 compared to previous years.

The Government recognises that the quality of infrastructural services has a big impact on our Country's competitiveness. Therefore, improving the country's road infrastructure is another key economic development strategy.

We are all aware of the traffic congestion problems in Grand Cayman and its potentially negative impact on business competitiveness. Quite a lot has been done in this area over the last three years, particularly with the development of the Linford Pierson Highway, the Galleria Roundabout and, more recently, the Louise Llewellyn Way. However, much is still to be done.

To provide greater focus on road development the Government has decided to establish a National Roads Authority. The legislation to give effect to this change will be introduced to the House in the early part of the financial year and the Budget makes provision for the purchase of \$3.7 million of outputs from the Authority. During 2003/2004, the Authority will construct \$13.38 million of roads. This will include \$7 million for phase 3 of the Estherly Tibbetts Highway from Galleria to Indies Suites. This is a major initiative to reduce traffic congestion to and from West Bay.

Also planned is \$800,000 to extend the Linford Pierson Highway from Bobby Thompson Way to Walkers Road, and \$1.3 million for the District Roads Programme.

The finance for these projects will be organised by the National Roads Authority in conjunction with private sector partners. This approach reflects the fact that a good road infrastructure is in the interests of both the public and private sectors.

Encouraging New Investment and Business Development

Madam Speaker, the Government's second economic development strategy involves encouraging new investment and business development in Cayman.

A key part of this involves promoting new international investment and business opportunities in Cayman to overseas investors. The Cayman Islands Investment Bureau is undertaking this work, and the Budget makes provision for an additional \$1.5 million to fund expanded international promotional outputs from the Bureau. In addition, the Marketing and Promotion Unit is being transferred from the Portfolio of Finance and Economics to the Ministry of Tourism, Environment, Development and Commerce to provide an integrated business promotion capacity.

The Bureau and the Cayman Islands Development Bank are also involved in encouraging and supporting the establishment of new local businesses. The Development Bank will increase its loan portfolio for small and micro businesses by \$350,000 over the 2003/4 fiscal year.

The promotion of new investment is being done with the assistance of the Growth Management Board, which is a joint venture with the private sector. This is to ensure that new business proposals are sound and focused in a way that reflects Cayman's competitive strengths.

Supporting Key Sectors: the Financial Services Sector

Madam Speaker, the Government's third economic development strategy involves supporting key economic sectors.

The first of these is the Financial Services Sector, which is heavily impacted by the challenging international environment. The international financial services industry is becoming increasingly

subjected to rules and standards that are being established and enforced by external blocs of interest groups such as the European Union, the Organisation for Economic Cooperation and Development, and the International Monetary Fund.

In addition to these global rules, changes to domestic legislation by one country – such as changes to tax rates or rules in the United States - can have a significant impact on the international market environment for cross-border financial services. This makes the international financial services environment very fluid and constantly changing.

The financial services industry is also becoming increasingly globalized. This means that while Cayman's market is potentially expanding, it is facing increasing competition from other countries that are replicating our service offerings, both in the Caribbean and elsewhere.

The Government accepts the reality of this often externally dictated, fluid and competitive financial services environment. We cannot put our heads in the sand and pretend that it is not so. However, the Government also recognises that Cayman is a major player in the global financial services market. We have the people and skills - in both the private and public sectors - capable of operating in this complex landscape.

The Government's financial services sector strategy is focused on responding pro-actively to the international environment. It is a strategy based on charting the course we want to take, and deliberately navigating our way to it. This means that we need to be active in the international arena and take strong, but measured actions to protect our position.

The Government will continue to pursue a policy of constructive engagement on matters affecting our financial services sector. This includes the application of due process and rule of law test as well as the protection of the Cayman Islands' legitimate economic interests.

As an example of this, the Government recently took a matter regarding the processes surrounding the European Union's Savings Directive to the Court of First Instance in Luxembourg. In doing so we succeeded in establishing that as a matter of EU Law, the Savings Directive cannot apply to the associated or dependent territories of EU member states, and, secondly, that any political commitments to apply the directive are unenforceable.

This policy of constructive engagement also involves the pursuit of negotiated bilateral arrangements with other countries in order to open new markets for our financial services sector. The Budget contains funding for a new output to negotiate up to 15 Tax Information Exchange Agreements with other countries as part of this process.

The Government will also continue to ensure that the domestic regulatory framework for financial services remains aligned with legitimate international standards that support a clean, secure and commercial financial services sector.

As outlined in Section 4 of the Annual Plan and Estimates, the Government will be introducing two new bills to the House in 2003/2004 to enhance the sector's regulatory framework. These are a terrorism bill and a bill to provide statutory backing for the body that will replace the Financial Reporting Unit.

The Government will also be introducing new legislation to enhance product offerings. These include an Exchange of Information and Data Protection laws and amendments to the Patents and Trademarks Law.

Overall, the Budget provides \$14.8 million for new and existing initiatives related to developing, promoting and regulating the financial services sector. This includes \$1.97 million for media and public relations outputs to ensure that our position and interests are actively represented internationally by regular contact with relevant persons in Washington, London and Brussels.

Supporting Key Sectors: the Tourism Sector

Madam Speaker, the Annual Plan and Estimates also contains a range of initiatives to support our other key sector – tourism.

As we all know, the tourism sector is heavily influenced by the external economic and security environment. This creates an ongoing challenge for this vital sector of our economy. However, the market is also hugely diverse and competitive. The Government's strategy involves identifying in partnership with the industry, our market niche and developing a unique tourism product that encourages tourists to come to Cayman.

With this in mind the Government has developed a Tourism Management Policy and Plan. The key elements of this plan are to:

1. Provide a high quality product for visitors
2. Present a distinctive Caymanian experience
3. Adopt a sustainable approach to tourism development
4. Protect and enhance the marine resource
5. Attract a more discerning and higher spending visitor
6. Develop a highly skilled Caymanian tourism workforce
7. Develop eco-tourism on the Sister Islands
8. Organise tourism more effectively, and
9. Research and monitor tourism more effectively.

The Budget contains new and existing policy actions designed to support this strategy, including the cruise conversion programme called "Welcome Back Cayman". It also includes a greater emphasis on Department of Tourism outputs related to travel trade shows, and the continuing development of nature tourism in Cayman Brac and Little Cayman.

Overall, the Budget provides \$23.3 million for tourism related initiatives. In addition, provision has been made in the capital development programme for the development of a tourism hospitality training centre.

A number of important tourism related initiatives are also being undertaken by statutory authorities. These are outlined in the relevant ownership agreements that have been tabled with the Budget today.

These include the \$30 million redevelopment of the Turtle Farm. The first phase of this project is worth \$13 million and will start during the next financial year. The funding for this project will not come from the Government, nor will the Government have to provide a guarantee.

The Port Authority is undertaking new docks and cruise-tourism facility developments. These include the George Town Port redevelopment and West Bay cruise facility and involve a US\$26 million investment. The funding for this project is being provided by the Florida Caribbean Cruise Association and the work is to be completed in 2004.

Although not funded through the core Government's budget, these are important tourism development initiatives supported by the Government.

Development of an Economic Plan

In addition to the economic development initiatives I have already outlined, the Government recognises that a longer-term economic development plan is needed for the country. The Government also recognises that this needs to be done in conjunction with the private sector and has commissioned a local firm to assist with this process. The Budget makes provision for this work.

Strategies and Key Policy Actions: Human Capital Development

Madam Speaker, economic development is closely related to another of the Government's outcome goals – goal number 6, a well educated and vocationally trained population.

Human capital development is important not only in terms of the development of the economy as a whole, but also to the future of our young people. In the increasingly globalised economy that exists today, good jobs are directly linked to the level of one's education. Skills are vital and education is the key to success!

The Government's human capital development strategy is six-fold:

1. Promote and support improvement in school facilities.
2. Strengthen local teacher education.
3. Improve information, communication, and technology amongst students and teachers.
4. Enhance technical and vocational education.
5. Establish citizenship education as part of schools' curricula.
6. Expand tertiary education opportunities and facilities.

The Government has agreed a number of important initiatives related to this strategy.

Key amongst these are plans for three new schools: the new secondary school at Frank Sound, and new primary schools at Spotts and West Bay. The Budget includes \$600,000 to complete the purchase of land for the new high school. The new primary school at Spotts is to be completed by September 2004, and the high school and West Bay primary school by September 2005. The funding for these projects will be done through private sector partnerships.

The Government recognises that overcrowded classrooms diminish the quality of education and that school accommodation problems are pressing now. The Budget therefore allocates \$420,000 for 5 temporary classrooms at George Hick's High School and 2 temporary classrooms at Bodden Town Primary School. These will be completed in time for the 2003/2004 school year.

In addition a further \$1.4 million has been provided for various maintenance, renovation and design projects relating to George Hicks, John Gray and Cayman Brac High Schools; Lighthouse School; and Savannah, George Town, West End and East End Primary Schools.

Madam Speaker, the Budget makes specific provision for a number of new initiatives specifically aimed at enhancing skills. This includes an expansion of curriculum development outputs and a further \$1 million to support teachers' computer literacy training and \$800,000 for computer software and hardware for schools. These expenditures are part of the ITALIC project designed to improve the information, communication, and technology skills of students and teachers.

The Budget also provides \$235,000 additional funding for the Community College to develop a four-year degree programme. This Baccalaureate Degree will be developed in time for the 2004/5 academic year.

Significant resources have also been allocated to provide increased financial support to tertiary students. This includes \$1 million for additional Education Council scholarships, an additional 15-20 scholarships for Caymanian students attending ICCI, an additional \$180,000 in CIDB loans for tertiary study, and \$42,000 for two new Quincentennial scholarships.

In total, the Budget allocates \$45.8 million in operating expenditure for new and existing initiatives relating to education and human capital development. This represents approximately 15% of total government operating expenditure.

An important legislative measure is also planned. This is the new Education Law, which will provide a major legislative overhaul of the national educational system.

Strategies and Key Policy Actions: Other Outcome Areas

Madam Speaker, in case Honourable Members get the wrong impression from my comments thus far, the Government is concerned with more than just the economy, important though it is.

The Annual Plan and Estimates makes provision for some important initiatives related to other outcomes goals and I would like to touch on one or two of these briefly.

The Government's social support strategy is based around protecting vulnerable groups in society, most notably the elderly, those who fall into the category of least affluent, the youth and families at risk.

The Budget makes provision for \$14.88 million of services and financial support for these vulnerable groups, including a \$400,000 increase in funding for youth rehabilitation outputs provided by the Children and Youth Services Foundation, an additional \$300,000 for prisoner rehabilitation, a \$100,000 increase in housing repair and construction support for indigents, an additional \$100,000 in financial assistance to students in the Young Parents Programme, and a \$50,000 increase in youth aftercare assistance.

In relation to housing needs, in 2003/2004 the Government will continue with the construction of low-cost houses. Two hundred houses will be built over the life of the project and the Government is establishing a new statutory authority called the National Community Housing and Development Trust to oversee the project and administer the low-cost housing loans scheme.

In addition to these housing initiatives, the Cayman Islands Development Bank loans portfolio for low and middle income housing purposes will be increased by \$1.2 million.

The Government is also part way through a major restructuring of the Department of Social Services. This involves moving some responsibilities to the Children and Youth Services Foundation and the creation of a new unit to focus on probation and aftercare services.

In relation to public order and safety, the Budget makes provision for a number of increased outputs. These include an extra \$800,000 for additional community policing, an additional \$100,000 for criminal investigation work, and a further \$300,000 for additional occupational and recreational safety inspections.

Provision has also been made for capital expenditure for new emergency radio communications equipment worth \$1.8 million, a new airport fire truck worth a further \$500,000, and \$28,000 for the purchase of land for a Bodden Town Fire Station.

In relation to environmental outcomes, the Budget allocates resources for several important projects. These include \$300,000 for a visitors centre at Barkers Environmental Park, \$750,000 for the Seven Mile Beach re-nourishment project, and \$550,000 for the Boggy Sand Road beach erosion project. These projects, while forming part of the Government's overall capital expenditure programme, will be funded from the Environmental Protection Fund.

The Annual Plan and Estimates also includes a number of initiatives designed to recognise, support and develop our own unique culture and community identity. In total \$10.2 million has been allocated to various outputs related to this outcome. These include \$765,000 for further Quincentennial events, ongoing support for arts and heritage activities and a small amount of financial support for the craft market.

In addition a wide range of community and sports organisations will once again receive funding to produce outputs. \$5.6 million has been budgeted for this purpose.

Capital expenditure has also been allocated for the construction of a first floor for the George Town Library.

Strategies and Key Policy Actions: Improving Government Performance

Madam Speaker, before I conclude this portion of my address I would like to mention a number of actions included in the Annual Plan and Estimates designed to improve government performance. These are related to outcome goal 8 – an open, efficient and accountable government.

Madam Speaker, as I said in my budget speech last year, the Government recognises that one of the most important things it can do to support the development of this country is to get its own house in order. For this reason the Government has embarked on a comprehensive programme of public management reform. In many respects this reform programme is more advanced than those in other parts of the Caribbean or indeed in the United Kingdom. This is yet another area where the Government is charting its own course.

A key element of these reforms is the Financial Management Initiative, about which I spoke extensively at the time of the last budget. Since then the reporting element of the reform has been implemented with the first quarterly reports recently being tabled in this House.

Early gains from the financial management reforms are already apparent. The appointment of chief financial officers in each ministry and portfolio is rapidly improving the quality of financial decision-making at the operational level. Improvements at the whole of government level are also evident. The more strategic and performance oriented budgeting system is focusing attention on the outcomes the government is seeking to achieve and the goods and services it funds to achieve those outcomes. This is an infinitely better approach than the one used in the past.

The new budgetary approach is providing much greater policy as well as fiscal control. It is allowing the Government to develop a budget that achieves exactly the fiscal and policy results it wants. The new systems and processes are also improving the Government's ability to monitor and control both expenditure and policy implementation during the year. In addition, the publication of comprehensive quarterly and annual reports allows Members of this House, and indeed individual members of the public to monitor independently the performance of the government during and at the end of each financial year.

FMI will be further progressed during 2003/2004, with the introduction of accrual accounting and the development of new performance management systems in Ministries and Portfolios. The next budget that is delivered to this House will be prepared using accrual accounting and in accordance with Generally Accepted Accounting Practice (GAAP). This will be yet another milestone and will give all readers confidence that the numbers are reliable and that the Government has not manipulated the accounting rules to achieve desired results.

During 2003/4 the Government plans to extend its public sector reform programme into two new areas that will complement FMI. These are Personnel Reform and Statutory Authority Reform.

The personnel reform will introduce a modern decentralised system of personnel management to Government with chief officers having authority over personnel matters relating to their ministry within defined limits. The reform will also create a new performance management system for the civil service involving performance agreements, performance assessments, and performance-related remuneration. A set of public service values and a public servant's code of conduct will also be established.

The statutory authority reform will establish an overarching framework for governance and accountability in the statutory authority and government company sector. Among other things it will bring individual statutory authority laws into line with the Public Management and Finance Law.

Bills for a Public Service Law and a Public Authorities Law will be introduced during the fiscal year to provide the legislative mandate for these reforms.

In addition the Government is taking action to improve its policy development and co-ordination capability.

The Budget makes provision for the establishment of a new ministry called the Cabinet Office. That Office will be responsible for co-ordinating the development of policy advice across government and monitoring its implementation, as well as providing administrative support to Executive Council and the Leader of Government Business.

Other initiatives underway to improve government performance include creating statutory authorities for Radio Cayman and the Department of Tourism. Work is also in progress to separate the regulatory and airport management functions of the Civil Aviation Authority into two organisations.

The Government is continuing to advance the construction of a new Government accommodation building. The Budget includes \$800,000 to cover legal and consulting costs relating to the development of the Public Finance Initiative specification and contract for the building. This project will not only support the local construction industry and save rental costs, it will also significantly improve the efficiency of the civil service by having them all located in a single building.

These public sector reforms are designed to ensure ongoing improvements in the efficiency and effectiveness of the public sector. Over time they will result not only in better decision-making and improved efficiency, but also a more customer focused delivery of public services.

Part 3: The Economic Environment and the Fiscal Position

Madam Speaker I would now like to turn to the economic and fiscal position.

Economic Position

Madam Speaker, in putting together the Budget the Government had to take account of state of the economy and ensure that, from a macro-economic perspective, the budget supports the achievement of the Government's three key economic management objectives, namely economic growth at or above 3% per annum, inflation at or below 3.2% per annum, and thirdly, unemployment at or below 4% per annum.

Achieving these economic management objectives over the medium term are important to ensuring that the Cayman Islands offers a competitive commercial environment for business. They are also important to achieving the Government's wider goal of generating employment, income and a high standard of living.

For the benefit of Honourable Members and the public, I would now like to summarise the current economic environment and the actions in the budget to achieve the Government's economic growth, inflation, and unemployment objectives.

The global economy expanded by 3.0 percent in 2002 following a growth rate of 2.3 percent in 2001. Current projections show a modest acceleration in economic activity to 3.2 percent in 2003. However, uncertainties still remain even after the war in Iraq and subsequent events in that region. Terrorism continues to be a major geopolitical concern. The SARS epidemic is having a negative impact on China and other Asian economies. There is yet to be a sustained increase in business spending. With continuing weakness in Japan and the Euro zone, the world is looking for strength in the US economy, which is projected to grow by 2.2 percent in 2003.

Despite these volatile times, the Cayman Islands domestic economy achieved a higher level of economic growth and a lower rate of unemployment in 2002 compared to the previous year.

Preliminary results from the National Income Survey showed economic growth at 1.7 percent for 2002. This rate represents an encouraging rebound from the estimated 0.6 percent attained in 2001. The unemployment rate declined considerably from 7.5 percent in October 2001 to 5.7 percent in April 2002. The Labour Force survey recorded a further reduction in this rate to 5.4 percent in October 2002.

Consumer inflation increased to 2.4 percent in 2002, up from 1.1 percent from 2001. This rate is very modest and an increase is to be expected as the economy strengthens.

The major industries showed considerable resilience in 2002, in spite of the challenging economic environment.

In 2002, the financial services industry recorded healthy growth in key areas:

- The Mutual Funds sector continued its strong growth of 17.5 percent in 2002, with registrations increasing from 3,648 in 2001 to 4,285 in 2002.
- The number of insurance licences increased by 10 percent, from 572 in 2001 to 629 in 2002.
- The total number listed issues at the Cayman Islands Stock Exchange reached 710 in 2002, compared to 418 in 2001.

On the other hand, company registrations, bank licences and stock market capitalisation declined. New company registrations for 2002 amounted to 7,016, a decline of 1,440 compared to the previous year. Nevertheless, the net position was still one of growth. There were 65,259 companies on the Register in December of 2002. This represented an increase of 1.2 percent over 2001.

The total number of bank and trust licences fell by 37, from 545 in 2001 to 508 in 2002. This decline largely Class 'B' banks, which were affected by the statutory requirement to establish a physical presence. Despite this fall in the number of licences, total assets in the banking sector rose from US\$811.7 billion in September 2001 to US\$945.4 billion in September 2002.

Stock market capitalisation declined by around 4.8% to US\$36.3 billion in 2002, from US\$38.1 billion in 2001. This decrease was mainly due to a fall in the value of the stocks contained in the mutual funds listed on the exchange.

The tourism industry experienced a 21 percent increase in total visitor arrivals, which rose to 1,877,547 in 2002. This increase was due to cruise arrivals, which rose by 29.6 percent from 1,214,757 in 2001, to 1,574,750 in 2002. The number of stay-over visitors declined by 9.4 percent, from 334,071 in 2001 to 302,797 in 2002.

The performance of the real estate industry was noticeably better in 2002 compared to 2001. The total value of real estate transfers increased by a remarkable 57.9 percent, from \$173.5 million to \$274.0 million.

The construction industry also showed clear improvements in 2002. Total planning approvals for all three islands increased by 52.3 percent, from \$162.7 million in 2001 to \$247.8 million in 2002. This rebound mainly reflected the Ritz Carlton hotel and condominium project, other condominium projects such as Water's Edge and the Meridian, and a small number of commercial buildings.

Looking forward, the forecasts for economic growth for the next three years project gradual improvement, providing for the achievement of Government's target growth of 3% by 2005/2006. While growth is forecast to be a modest 2.3% in 2003/2004, and then 2.8% in 2004/2005, this level is still around double what it was in 2001/2002, when it was 1.2%, and around three times what it was in 2000/2001, when it was only 0.6%. So overall the forecast growth levels represent a significant improvement over recent years.

Despite this, ensuring good levels of economic growth is a key government objective and the economic development measures that I outlined earlier are designed to support this resurgence in growth.

The forecasts for inflation are 2.8 % in 2003/2004, 2.9% in 2004/2005 and 3% in 2005/6. Although inflationary pressures are forecast to increase as economic growth improves, the overall position is consistent with the objective of keeping inflation at or below 3.2% per annum. The Government is comfortable with the current policy settings in this regard.

The forecasts for unemployment show a level of 5.6% in 2003/2004, decreasing to 5.3% by 2005/2006. This is a significant reduction from the high of 7.5% in 2001. Nevertheless this forecast level is still higher than the target level of 4%, which hasn't been achieved since 1999.

With this in mind, the Government recently abated stamp duty to support and stimulate real estate and construction activity. This initiative, combined with the economic development initiatives outlined earlier, and the Government's own capital development programme, are all expected to have a positive impact on employment over the next three years.

The Government recognises that our domestic economic performance is highly dependent on the international economic environment, particularly the US economy. There are significant downside risks to the economic growth forecasts and the Government will continue to keep a close watch on the domestic economy and take additional actions as necessary. However, as I said earlier, the private sector, not the public sector, is the main engine for growth. The Government's role is to create an enabling environment.

A very important part of doing this involves running a responsible fiscal policy. In times of lower growth, and therefore lower revenue, it is vital that the Government controls its aggregate expenditure and prioritises competing expenditure proposals accordingly. The country therefore needs to be realistic about what the Government can actually do to influence economic performance.

Fiscal Position

Madam Speaker this brings me to the fiscal position for 2003/2004. The Government has worked hard to ensure that the Budget is fiscally responsible, supportive of economic growth and complies with the principles of responsible financial management. Madam Speaker I am pleased to report that this goal has been achieved.

The key features of the 2003/2004 Budget position can be summarised as follows.

- First, no new revenue measures have been included.
- Second, an operating surplus of \$5.7 million has been achieved.
- Third, new borrowing has been restricted to \$8 million, which is less than the level of debt repayments, and results in a \$1.067 million net reduction in the overall level of public debt.
- Fourth, a debt-servicing ratio of 5.3% has been achieved. This is well below the 10% limit established by the Principles of Responsible Financial Management.
- Fifth, capital development expenditure has been limited to around \$12 million and restricted to essential projects with long-term benefits.
- Sixth, cash reserves have been maintained at a level equal to 60 days of operating expenditure, which is two-thirds of the level required by the Principles of Responsible Financial Management and a significant improvement on the past.

Madam Speaker, in terms of specific numbers, the Government expects to collect approximately \$309.408 million in operating receipts in the 2003/4 financial year. In absolute terms, this forecasted revenue for 2003/4 is similar to the revenue collected in 2002. As in the past, approximately 70% of operating revenue is forecast to come from two sources: duties and fees.

Total operating expenditure is forecast to be \$303.697 million in 2003/4. In accordance with the Strategic Policy Statement, the forecasts include provision for a 2.6% cost of living increase in wage and salary levels for civil servants, together with the commensurate increase in employee and employer pension contributions. This is the first such adjustment since the year 2000.

In nominal terms, the forecast for 2003/2004 expenditure is a little more than the aggregate operating expenditure for 2002. This was anticipated when the aggregate target was established in the Strategic Policy Statement.

Around 86% of operating expenditure is to be spent on funding outputs. This is consistent with the use of expenditure in 2003 (Half) and reflects the fact that the government's dominant activity is the provision of goods and services used by the public.

The net asset activity for 2003/4 is forecast to be a net outflow of \$27.409 million. The two largest components, which account for the majority of asset activity, are capital development expenditure and equity investments. These comprise \$12 million and \$10.6 million respectively.

Equity investments are the additional capital being contributed to organisations owned by the government. The forecast amount of this transaction mostly relates to subsidies for Cayman Airways Ltd and the Health Services Authority to maintain their liquidity in light of anticipated operating losses during 2003/2004.

The net amount of the forecast cash operating surplus and the forecast asset activity is the net deficit before financing. This deficit is the amount that needs to be financed and this financing can come from two sources: either from existing cash holdings or from borrowing. In 2003/4 the Government plans to use both sources of financing.

In line with the Strategic Policy Statement, the Government plans to borrow an additional \$8 million in 2003/2004. This is less than the \$9.067 million of borrowing repayments that will be made in 2003/4. This means that the overall level of Public Debt is forecast to decrease in 2003/4 by \$1.067 million. The remaining \$22.765 million will be financed from existing cash and fund balances.

This fiscal position reflects the fiscal strategy outlined in the Strategic Policy Statement, except that the operating surplus is less than planned.

The achievement of a responsible budget position is not just an academic exercise. It is necessary if we are to be self-supporting as a Country. It is a vital part of charting our own course for the future.

Part 4: Conclusion

Madam Speaker, this Quincentennial Year provides us all with a wonderful opportunity to reflect on our past and the rich history that we have as a country. All of us in this House are enjoying this occasion and the many events that mark it.

It is also important, Madam Speaker, that we look forward and actively plan for the future. The forthcoming constitutional changes are a key part of that process. They will provide us with the framework for a more modern system of government and the ability to have greater control over our own destiny.

However, merely having the opportunity to control our own destiny is not enough. We have to grasp that opportunity. As our seafaring forbears did before us, we need to work out where we want to go and then chart the course to get there. And we need to take account of the currents and winds in doing so.

The Annual Plan and Estimates that the Government is presenting today is designed to set the foundation for the future of this country. It is a plan of action that is based on a clear and deliberate set of strategies. It is a plan of action that sets our own course to achieve the national aspirations reflected in Vision 2008. It is a plan that takes account of the winds of the international environment, but which recognises that we must actively pursue our own economic and social interests in the increasingly globalised international environment. It is a plan that is fiscally responsible and that supports economic growth.

It is a plan that positions the Cayman Islands to chart its own course in the 21st century.