

# CAYMAN ISLANDS GAZETTE

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## SUPPLEMENT

The following supplement is published with this Extraordinary Gazette. Further copies may be obtained from the Clerk of the Legislative Assembly.

1. The Law Reform Commission Law, 2005 (Commencement) Order, 2005. (Price 80 cents).

## NOTICE

### PRE-ELECTION ECONOMIC AND FINANCIAL UPDATE CAYMAN ISLANDS GOVERNMENT THE PUBLIC MANAGEMENT AND FINANCE LAW (2003 REVISION) SECTION 26

There will be a General Election in the Cayman Islands on 11 May, 2005.

In accordance with Section 26 of the Public Management and Finance Law (2003 Revision) the Financial Secretary is required to publish a Pre-Election Economic and Financial Update (PREFU). This update includes:-

1. The economic forecasts for the current financial year (the 2004/5 year that ends on 30 June 2005) and for the next two financial years (2005/6 and 2006/7);
2. The forecast financial statements for the core government and entire public sector for the current financial year (2004/5) and for the next two financial years (2005/6 and 2006/7); and
3. An explanation of how the core government financial statements accord with the principles of responsible financial management.

The complete PREFU is published on the Cayman Islands Government website [www.gov.ky](http://www.gov.ky) ; in addition copies will be made available at the Legislative Assembly and the Government Administration Building on Grand Cayman and at the District Administration Building, Cayman Brac.

The following is a summary of the PREFU.

### ECONOMIC OUTLOOK

Hurricane Ivan had a major impact on most sectors of the Cayman Islands economy for the calendar year 2004, however, the hurricane did not have a severe impact on the overall performance of the financial services sector.

Key changes to the macroeconomic performance of the Cayman Islands economy are:-

- Prior to the hurricane, **real GDP growth** was projected at 2.8 percent for the 2004 calendar year, however a significant decline in economic activity during the last four months of the calendar year resulted in an estimated real GDP growth of 0.9 percent for the 2004 calendar year;
- **Employed labour force** declined from 27,886 in April 2004 to 22,420 in November 2004, in line with a decline in the Grand Cayman population from 42,397 in April 2004 to 33,853 in November 2004;
- **Consumer prices rose** by 4.4 percent on average, during calendar year 2004;

- The **value of imports** surged to \$722.4 million in calendar year 2004, representing a 30.5 percent increase from the previous year. The increase was due to a strengthening economy prior to Hurricane Ivan and due to the recovery and reconstruction efforts after the hurricane.

The Table below summarizes the key economic statistics during the forecast periods.

<b>Macroeconomic Forecast For Financial Years 2004/5 to 2006/7</b>			
	<b>2004/5</b>	<b>2005/6</b>	<b>2006/7</b>
<b>Economic Growth</b>	2.7%	5.4%	3.7%
<b>Unemployment</b>	3.9%*	4.4%	4.7%
<b>Total Employment</b>	23,541	25,464	26,659
<b>Inflation</b>	6.9%	2.6%	2.5%

*\* The Spring 2004 Labour Force Survey showed that the unemployment rate for Caymanians was 5.8% and for Non-Caymanians was 2.9%. The Fall 2004 Labour Force Survey showed the unemployment rate for Caymanians at 3.8% and Non-Caymanians at 5.1%.*

Going forward: the key economic indicators for 2004/5 through 2006/7 are:

- **Economic growth** for financial year 2004/5 is projected at 2.7 percent, despite a fall in the normal economic activity of the last four months in the 2004 calendar year. Economic growth is projected to increase in 2005/6 by 5.4 percent, and then taper off to a normal level of around 3.7 percent in 2006/7. The increase in economic growth during 2005/6 is being driven by the construction sector as reconstruction takes place after Hurricane Ivan;
- The **Unemployment rate** is projected to rise from 3.9 percent in 2004/5, to 4.4 percent and 4.7 percent in 2005/6 and 2006/7, respectively. This increase in the unemployment rate during the forecast period is mostly attributable to adjustments in the workforce brought about by the impact of Hurricane Ivan. As a result of the hurricane some employers were forced to scale down or close their business operations either temporarily or permanently, thus causing some workers to become unemployed. It is currently forecast that such adjustments will likely result in a slight increase in the unemployment rate through 2006/7.

The results of the Fall 2004 Labour Force survey conducted in November 2004, indicate that the Caymanian workforce had an unemployment rate of 3.8 percent versus an unemployment rate of 5.1 percent among Non-Caymanians.

It is important to note that the forecast unemployment rates of 4.4 percent in 2005/6 and 4.7 percent in 2006/7 are only slightly above the generally accepted “full employment” rate of 4 percent. The Cayman Islands economy outperforms both the US economy and the Global economy in terms of the unemployment rate throughout the forecast periods;

- **Inflation** is expected to spike to 6.9 percent in 2004/5 and then subside to more normal levels at 2.6 percent and 2.5 percent for 2005/6 and 2006/7, respectively;
- **Tourism receipts** are projected to rise gradually from \$382.4 million in 2004/5, to \$411.9 million in 2005/6, to \$430.7 million in 2006/7.

## FISCAL OUTLOOK

The Table below summarizes the financial outlook for the Core Government and the Entire Public Sector during the forecast periods.

	Core Government				Entire Public Sector			
	2004/5 Supplementar y Budget	2004/5 Forecast	2005/6 Forecast	2006/7 Forecast	2004/5 Supplementar y Budget	2004/5 Forecast	2005/6 Forecast	2006/7 Forecast
	\$M's	\$M's	\$M's	\$M's	\$M's	\$M's	\$M's	\$M's
<b>Operating Statement:</b>								
Operating Revenue	351.9	363.6	364.0	372.3	489.7	489.3	512.2	531.3
Operating Expenses	(330.7)	(331.8)	(343.1)	(347.2)	(476.5)	(467.2)	(496.3)	(507.4)
Net income/(loss) in investments in Statutory Authorities and Government Companies	(13.2)	(14.9)	(10.8)	(7.7)				
Surplus/(Deficit) from Operating Activities	8.0	16.9	10.1	17.4	13.2	22.1	15.9	23.9
Financing Expense & Gains/(losses) on foreign exchange transactions	(9.7)	(8.2)	(9.9)	(11.1)	(14.9)	(13.4)	(15.7)	(17.6)
Surplus/(Deficit) before Extraordinary Items	(1.7)	8.7	0.2	6.3	(1.7)	8.7	0.2	6.3
Extraordinary Items	(29.3)	(46.1)	-	-	(29.3)	(46.1)	-	-
Net Surplus/(Deficit) after Extraordinary Items	(31.0)	(37.3)	0.2	6.3	(31.0)	(37.3)	0.2	6.3
<b>Balance Sheet :</b>								
Bank Balance at June 30	48.1	49.2	37.8	46.2	86.6	97.2	70.6	84.8
Borrowings (Balance Outstanding)	(224.2)	(211.6)	(237.9)	(314.3)	(377.3)	(362.1)	(397.6)	(473.6)
Net Worth at June 30	387.3	386.9	394.0	416.3	387.3	386.9	394.0	416.3
<b>Cash Flow :</b>								
Net Operating Cash Flows	(2.0)	0.2	28.2	31.7	23.5	11.8	28.7	48.1
Net Investing Cash Flows	(87.0)	(85.9)	(65.4)	(99.7)	(135.9)	(119.6)	(90.5)	(107.4)
Net Financing Cash Flows	51.6	49.4	25.8	76.4	72.9	79.5	35.2	73.5
Net Increase/(Decrease) in Cash	(37.4)	(36.3)	(11.4)	8.4	(39.5)	(28.3)	(26.6)	14.2
Opening Cash Balance (@ Jul 1)	85.5	85.5	49.2	37.8	126.1	125.5	97.2	70.6
Net Increase/(Decrease) in Cash	(37.4)	(36.3)	(11.4)	8.4	(39.5)	(28.3)	(26.6)	14.2
Closing Cash Balance (@ Jun 30)	48.1	49.2	37.8	46.2	86.6	97.2	70.6	84.8

**The commentary below relates to the financial highlights of the Core Government**

- **Net Deficit after Extraordinary Items** is forecasted at \$37.3 million in 2004/5 and then improve to a surplus of \$0.2 million in 2005/6, and a surplus of \$6.3 million in 2006/7. The Net Deficit in 2004/5 is due to extraordinary items related to Hurricane Ivan. For 2005/6 and 2006/7, the absence of Extraordinary items together with higher revenues has resulted in a Net Surplus position for those two years.
- **Operating revenue** is forecasted to increase from \$363.6 million in 2004/5 to \$364.0 million and \$372.3 million, in 2005/6 and 2006/7, respectively. Increases are attributable to import duties, company registrations and the tourism sector.
- **Operating expenses** are forecasted at \$331.8 million in 2004/5, and to subsequently increase to \$343.1 million and \$347.2 million in 2005/6 and 2006/7, respectively.
- The **Balance of Borrowings** is forecasted to increase from \$211.6 million in 2004/5 to \$237.9 million and \$314.3 million in 2005/6 and 2006/7 stemming from increases in capital expenditure relating to education, government office accommodations, and improvements to the Islands' security.
- The **aggregate financial targets** and their **compliance with the Principles of Responsible Financial Management** are shown below:

<b>Compliance with Principles of Responsible Financial Management</b>					
	<b>Net Surplus/(Deficit) After Extraordinary Items (\$M's)</b>	<b>Net Worth (\$M's)</b>	<b>Borrowing (%)</b>	<b>Net Debt (%)</b>	<b>Cash Reserves (days)</b>
<b>Requirement</b>	Should be positive	Should be positive	< 10%	<80%	2004/5: 30 days, 2005/6: 45 days, 2006/7: 60 days
<b>Forecast Year</b>					
2004/5 Supplementary Budget	\$ (31.0) non compliant	\$ 387.3 complies	5.7% complies	65.2% complies	51 complies
2004/5 PREFU forecast	\$ (37.3) non compliant	\$ 386.9 complies	5.7% complies	60.1% complies	50 complies
2005/6 PREFU forecast	\$ 0.2 complies	\$ 394.0 complies	8.2% complies	70.1% complies	45 complies
2006/7 PREFU forecast	\$ 6.3 complies	\$ 416.3 complies	9.6% complies	86.4% non compliant	54 non compliant

K. Jefferson, JP  
**Financial Secretary**  
**11 April 2005**