

eGram



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Subject
Summary

Cayman Islands: Throne Speech and 2006/07 Budget

1. Governor's maiden Throne Speech. Ambitious first full year's budget for the PPM Government. Government revenue forecast to rise due to continuing economic growth and new revenue measures. CI\$130M capital investment focused on schools, roads and healthcare. Barring another external shock, the Borrowing Guidelines should not be breached.

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Detail

2. The Governor gave his maiden Throne Speech on Friday 28 April, followed for the first time by the Budget Address. In his opening remarks, the Governor expressed his encouragement with the resumption of contacts with the UK aimed at modernising the Constitution and stressed the need for proper public consultations. He also welcomed progress on human rights and the fostering of Government transparency (with plans to adopt FOI Laws in this session). He also outlined his personal priorities as further improving law and order, the best possible planning for disasters and continuing civil service reform.

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3. The Financial Secretary, Ken Jefferson's, Budget Address for the 2006/07 (June-July) financial year painted a bright picture of Government finances (full speech available on: www.gov.ky). His optimism was underpinned by forecast growth of 3.6% and robust revenues, expected to rise almost 20% on the 05/06 budget forecast to CI\$442M (approx. US\$550M), with an operating surplus of CI\$32M. Half of the increased revenues would come from raised fees and levies, with the brunt to be borne by the financial services industry, combined with sizeable contributions from higher fees for a broad range of Government services and increased stamp duty for non-Caymanians. The increased revenues would fund an ambitious capital expenditure programme of CI\$130M with schools, roads and health taking the lions share. Jefferson stressed that even if borrowing reached the forecast of CI\$94M the Government would remain compliant with the Borrowing Guidelines.

4. In his speech the Leader of Government Business, Kurt Tibbetts, stressed that years of under-investment made the ambitious, though financially prudent, capital investment programme a political imperative to ensure Cayman had modern infrastructure to meet the needs of its people and key financial services and tourism industries.

5. Reaction to the budget and throne speech has focussed on the new revenue measures and Government borrowing. The former were heavily trailed and resulted from broad consultations with the private sector. While publicly there has been no reaction from the financial services sector, there is increasing private concern that the costs of doing business, infrastructure capacity constraints and immigration rules are hitting Cayman's competitiveness with value-added work going elsewhere. Increased tax on the sector could exacerbate this, although the fundamentals remain strong. A later CIG press release sought to dampen concerns saying that this would be a one-off rise that would not be repeated.

6. Leader of the Opposition, McKeeva Bush, has heavily criticised the proposed debt levels as a significant burden for future generations. Opposition colleagues have claimed the budget was over-optimistic with little "wriggle room" should revenues fail to meet forecasts. However, falling literacy standards in sub-standard schools, daily traffic jams and increased demands for health services (in part due to rising levels of lifestyle linked diseases), make this expansive budget popular, which has been reflected in editorial and talk show comment.

COMMENT

7. This is an ambitious first full-year budget for the PPM Government aimed at showing delivery against their Manifesto pledges. By CIG's own calculations, even if they draw down the full CI\$94M borrowing, which is unlikely given the track record on implementing capital investment projects, they would still be within the Borrowing Guidelines (albeit only just with respects to Cash Reserves). But the risk of external shocks remains with another busy hurricane season forecast.

We will monitor these, and their impacts on the Borrowing Guidelines, closely.

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