GREEN SHOOTS TOWARD SUSTAINABLE GROWTH:

Cultivating Strategies for Recovery and Development

Medium Term Fiscal Plan

2019-2021

Government of the Virgin Islands

MESSAGE FROM THE HONOURABLE PREMIER AND MINISTER OF FINANCE

More than a year ago, a flood and two hurricanes left an indelible mark on the history of our Virgin Islands. On 7 September 2018, the morning after the most severe of the three events - Hurricane Irma - it was not clear how the Virgin Islands would recover from the intensity of devastation wreaked on our homes, businesses and other critical infrastructure. It was not clear how we would survive the most devastating Atlantic storm in decades.

Months on, our Territory has demonstrated resilience. Our economy is expected to have shown real growth in 2018, with company incorporations and tourist arrivals on the upswing, and the construction sector booming as we rebuild. While at a glance it is clear that there is still much work to be done on rebuilding and repairing our roads, schools, ports and even our homes and businesses, it is also clear that the Virgin Islands has and will continue to thrive following 2017's storm impacts.

Our positive fiscal and economic results have not happened by accident. Instead, these have been the culmination of tireless efforts by our citizens and residents to persevere in the face of many obstacles. We now move from creating stability and observing "green shoots" to installing "sustainable growth" through a longer-term focus on development outcomes embodied in our Recovery and Development vision, namely: a vibrant and innovative economy, cohesive and empowered society, nurtured and sustainable environment, resilient infrastructure, good governance, and a high quality of life for all.

This being the last Medium Term Fiscal Plan (MTFP) and Budget that I will present as your Minister of Finance, I have worked to ensure, and truly believe that this MTFP steers us in the right direction as a Territory. It involves borrowing significant sums to propel our recovery and development, but not doing so at the expense of future growth. Instead, this MTFP demonstrates that our proposed borrowing levels are sustainable, and that we achieve compliance with the borrowing ratios in the Protocols for Effective Financial Mangement in the medium-term, maintaining this compliance throughout the forecast period.

The events of 2017 and even the years before, have made clear that we must have contingency plans: assessing risks, and preparing for unforeseen eventualities and shocks whether of an environmental or economic nature. As such, we have prepared various scenarios with specified courses of action that can be taken where risks crystallise.

In this way, we can be assured that our move from "green shoots toward sustainable growth" will withstand those challenges that lie ahead.

Dr. the Honourable D. Orlando Smith, OBE

INTRODUCTION

Following the storms of 2017, the Virgin Islands' economic and fiscal fortunes have demonstrated recovery. Physical infrastructure including electricity, roads and buildings have gradually been restored. Likewise, observed economic activity and Government revenue receipts are increasingly moving in positive directions. In the months since passage of the storms, sustained performance of our financial services sector in conjunction with notable increases in construction activity have buoyed the economic fortunes of the Territory. As we rebuild stronger, smarter, greener and better, we will position ourselves for future economic opportunities in tourism and technology-based sectors, ensuring that projected economic growth translates to improved living standards for all for years to come. We will "cultivate strategies for recovery and development," thereby moving our economy from "green shoots toward sustainable growth".

This Medium Term Fiscal Plan (MTFP) complements the Virgin Islands' Recovery to Development Plan, giving more detail on the economic and fiscal context of our recovery and development strategies over the next three years (2019-2021). As such, the MTFP continues to serve the following purposes, namely to:

- Assess the macroeconomic performance and fiscal sustainability of the Territory based on past trends and future development priorities;
- Provide a clear link between our recovery and development strategies and our fiscal obligations;
- Promote fiscal discipline by establishing specific targets and strategies for revenue collection, expenditure prioritisation, and debt management which will grow revenue, prioritise expenditure, and maintain sustainable levels of debt;
- Manage fiscal risk by closely examining our current and future debt obligations based on recovery and development objectives and forecasted fiscal space;
- Provide transparency and accountability in managing the affairs of the Territory;
- Support our multi-year, programme performance-based budget process by providing the framework for medium-term planning; and
- Guide our decisions in promoting effective and efficient allocation of resources.

As we embark on assuming increased debt to fund our medium-term recovery and development, the MTFP also plays a central role in analysing and assessing the sustainability of our debt profile in the coming years. We will borrow to invest in our future prosperity. The MTFP assists in assessing our forecasted ability to repay increased debt obligations as a result of this borrowing.

The MTFP contains:

1. **Economic Review and Outlook** summarising our recent economic performance and outlining our predicted macroeconomic performance in the medium term, specifically analysing Gross Domestic Product (GDP) growth, inflation and employment.

2. **Recovery and Development Strategy** presenting the GoVI's recovery and development priorities based on the finalised Recovery to Development Plan (RDP), demonstrating linkages with our medium-term development strategy which embodies Social, Economic, Environmental and Direction/Governance (SEED) dimensions as well as the global Sustainable Development Agenda.

3. **Fiscal Review** summarising the recent performance of revenue, recurrent and capital expenditure, and debt.

4. **Discussion of Fiscal Risks** providing a narrative on the main identified fiscal risks with potential to affect our fiscal position in the medium and longer-term horizons, and our strategies to manage these risks.

5. **Fiscal Strategy** explaining and demonstrating the expected results of our strategy to ensure fiscal sustainability in the medium-term, which involves generating increased revenues, improving expenditure efficiency, and maintaining sustainable debt levels. Our fiscal strategy demonstrates our commitment to ensuring that we will be able to service planned increases in our debt levels.

6. **Debt Strategy** briefly outlining our proposed borrowing under the UK Government up to GBP300 million guarantee, and the goal to refinance out of this guarantee in due course.

7. **Debt Sustainability Ratio Analysis** demonstrating the performance of the Protocols for Effective Financial Management's borrowing ratios of net debt, debt servicing, and liquid assets, as well as our forecast performance based on additional key debt sustainability ratios. Analysis of these ratios indicate our fiscal sustainability in the medium term, and demonstrate our trajectory of securing and maintaining compliance with the borrowing limits.

8. **Sensitivity Analysis** demonstrating the effects of a scenario with a shock to our financial services industry and possible strategy to respond such that fiscal targets are achieved.

9. **Budget Framework** presenting aggregate figures for revenue, expenditure and debt which set the framework for the 2019 Budget.

1. ECONOMIC REVIEW AND OUTLOOK

The Virgin Islands economy has shown heartening signs of recovery following the impacts of 2017's devastating storms. Company incorporations and re-registrations have continued, the construction industry is booming, tourist arrivals are increasing, and employment figures are improving. These green shoots all signal that the recovery is moving forward. Full recovery of our physical infrastructure will not happen overnight however, and as such there is still significant work to be done on our roads, schools, ports, water and sewerage infrastructure, and public buildings. As we steadfastly take on this work, we strive to build in a sustainable and resilient way, thereby improving our ability to withstand environmental and economic shocks. The process of rebuilding and the gradual recovery of our tourism sector is expected to lead to positive economic growth from 2019, where negative downside risks to financial services do not significantly materialise.

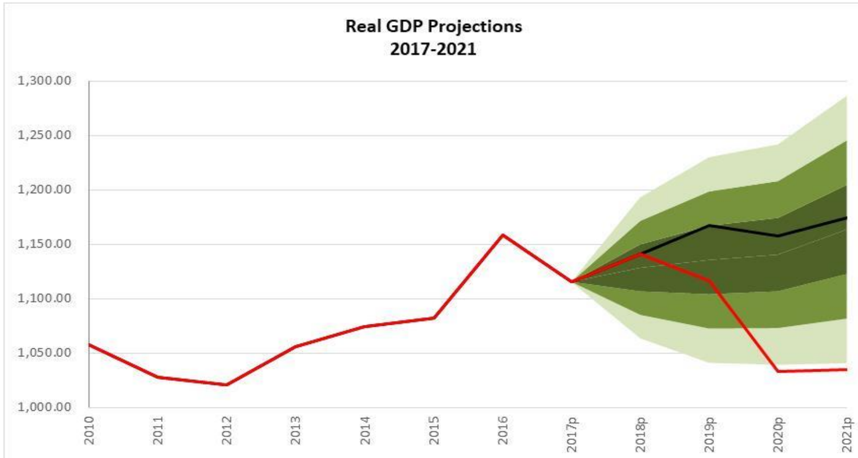
Economic Growth

The positive economic growth expected in our economy in 2019 is tempered by downside risks in relation to the financial services industry. The impact of the European Union's threat of being listed as a Non-cooperative Jurisdiction for Tax Purposes, and the UK's Sanctions and Anti-Money Laundering Act (SAMLA) on our financial services industry cannot be precisely predicted, as much will depend on industry behaviour and reaction to unfolding circumstances. The EU is requiring evidence of economic substance, while the Act, as passed, essentially requires UK Overseas Territories to make beneficial ownership registers public by the end of 2023, or have these imposed by a UK Parliamentary Order in Council.

Base case predictions for economic growth have been prepared alongside a sensitivity analysis of a shock scenario which would see negative impacts to financial services in the medium-term. Figure 1 below presents both the base-case (black) and the shock (red) scenarios for the Territory's economic trajectory in the medium-term.[1]

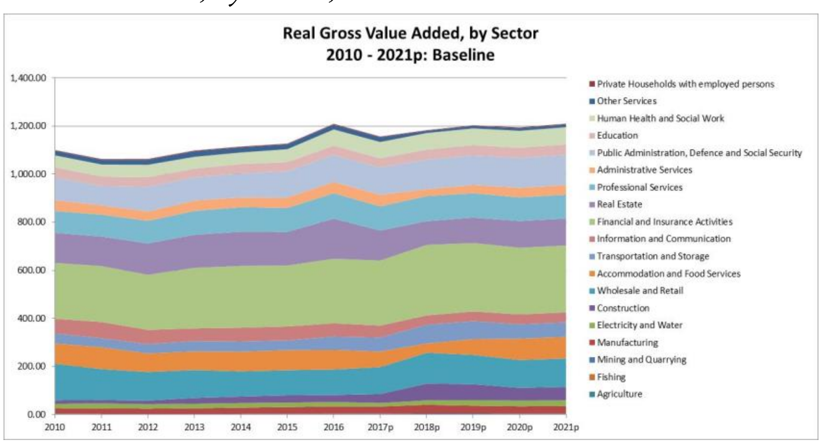
[1] GDP estimates from 2010 to 2016 are compiled by the Central Statistics Office (CSO). Higher GDP estimates reflect GDP revision process by the CSO in 2018. Projections for 2017 to 2021 have been produced by the Macro Fiscal Unit with technical assistance from the Caribbean Regional Technical Assistance Center (CARTAC).

Figure 1. Real GDP Projections, 2017-2021



From a sectoral perspective, positive growth is expected in the activities related to the tourism sector as this industry rebounds, and tourist arrival and expenditure numbers recover. Gross Value Added in Accommodation and Food Services is expected to increase by 133%, that is more than doubling, between 2018 and 2021, as our overnight tourism industry recovers. Similarly, Administrative Services, which captures the marine tourism sector, is expected to increase 39% over the same period.

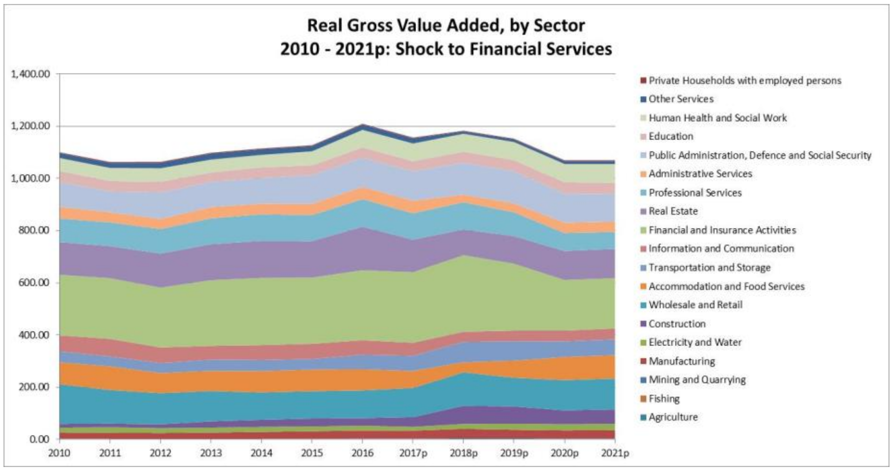
Figure 2. Real Gross Value Added, by Sector, Baseline



Higher-than-usual performance of the construction industry as well as transportation which is closely related to both construction and tourism, is expected to continue into 2019, propelling positive growth in the base case scenario. Construction activity skyrocketed in 2018, with an anticipated increase of 85%, and this heightened level of activity is expected to continue into 2019, with some tapering off in the forward years of the projection window.

Where there is a shock to financial services, negative overall economic change is anticipated in the medium-term as companies relocate to other jurisdictions and financial services activity in the Territory declines, eroding positive developments in the tourism sector.

Figure 3. Real Gross Value Added, by Sector, Shock to Financial Services

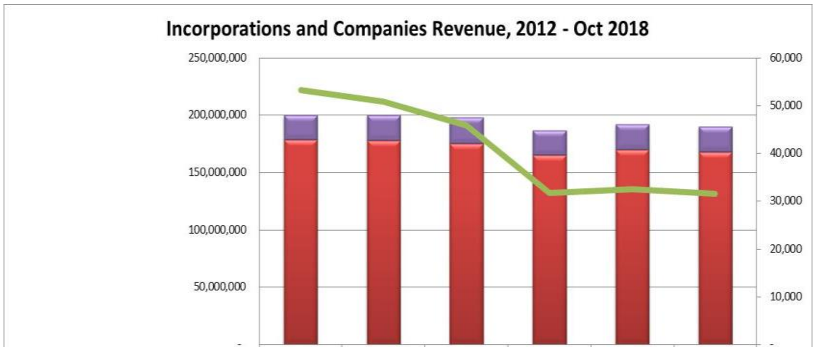


Financial Services

The resilience demonstrated in the continuity of the financial services sector has been a success story of our devastating storm experience thus far. Despite significant impacts to our physical infrastructure, the international nature of this industry has meant that company incorporations and ancillary services have largely continued unabated. Indeed, an increase of 2.3% in new company incorporations was recorded in 2017 in comparison to 2016, with a 9.8% increase recorded when comparing the last quarter of both years. At the end of 2017, however, there were fewer active companies on the register than at the end of the previous year, at 389,459, which evidences a decrease of 6.6% in total active companies on the register.

In 2018, new company incorporations to October were up 17.4% in comparison to the same period in 2017, and the total number of active companies on the register is buoyant, well above 380,000 at the end of October. Over the last several years, the financial services industry has faced challenges related to negative international coverage, derisking practices by banks, and regulatory pressures. We have implemented strategies aimed at shoring up the industry including revamping immigration and labour practices, public education campaigns, and facilitating innovation within the industry. The launch of the Bank of Asia as a digital financial services provider in conjunction with enacted legislation for the formation of micro business companies and revised legislation for limited partnerships in 2018, assisted in buttressing the industry and providing opportunities for future growth.

Figure 4. New Company Incorporations and Companies Revenue, 2012-Oct 2018[2]



	2013	2014	2015	2016	2017	2018 (YTD Oct)
FSC Retention of Companies Revenue	20,969,645	22,008,123	22,740,933	21,435,930	22,095,353	21,839,013
Government Portion of Companies Revenue	178,741,263	178,065,718	175,006,308	164,963,465	170,038,152	168,065,447
Incorporations	53,329	50,829	45,929	31,768	32,492	31,510

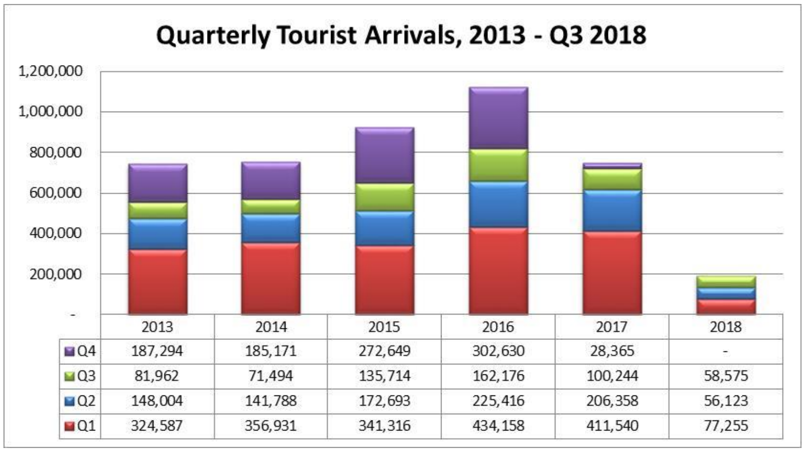
In terms of negative impacts on our financial services industry from the UK's Sanctions and Anti-Money Laundering Act, we have assumed impacts to several economic activities, namely Financial and Insurance Activities, and related Professional Services, Wholesale and Retail, and Public Administration from 2019. Where risks to financial services materialise, this will cause negative impacts on overall GDP, eclipsing any positive growth expected in the tourism sector.

Tourism

The recovery of the tourism sector has been slower than other sectors of the economy, due to this sector's heavy reliance on physical infrastructure still under reconstruction. Analysis of monthly tourist arrival numbers since September 2017 reveals that the monthly decrease in total tourist arrivals compared to the previous year has gradually moved from 96.8% in September 2017 to a comparative decrease of 40.6% in August 2018. This positive movement in comparative tourist arrivals is heartening given the scale and severity of impacts on our tourism infrastructure. For 2017, total tourist arrivals decreased 33.6%, with a particularly notable decrease in cruise and daytripper arrivals, at 41.2%. This marked decrease in cruise arrivals has continued into 2018, with cruise arrivals down 84.6% to October 2018.

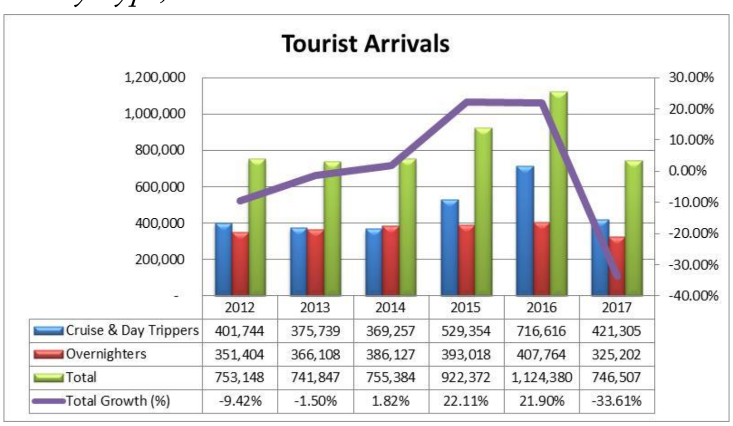
[2] Total Registry of Corporate Affairs revenue is reflected in this Figure. Since 2015, the proportion of financial services revenue remitted to Central Government has been 88.5%.

Figure 5. Quarterly Tourist Arrivals, 2013-2018



Major cruise lines including Disney and Norwegian resumed operations in the Territory from late Summer 2018, thereby injecting stimulus to the cruise tourism sector which was particularly negatively impacted by the storms. Of total arrivals, overnight arrivals for August 2018 were down only 28.4% in comparison to August 2017. This significant positive movement in overnight arrivals has been driven by increased activity in the charter boat industry as the recovery of this industry takes hold. Anticipated increases in tourism activity over the next several months as cruise lines return and repair and reconstruction of hotels and villas are completed, will facilitate positive economic growth in 2019 and beyond, in our base case analyses.

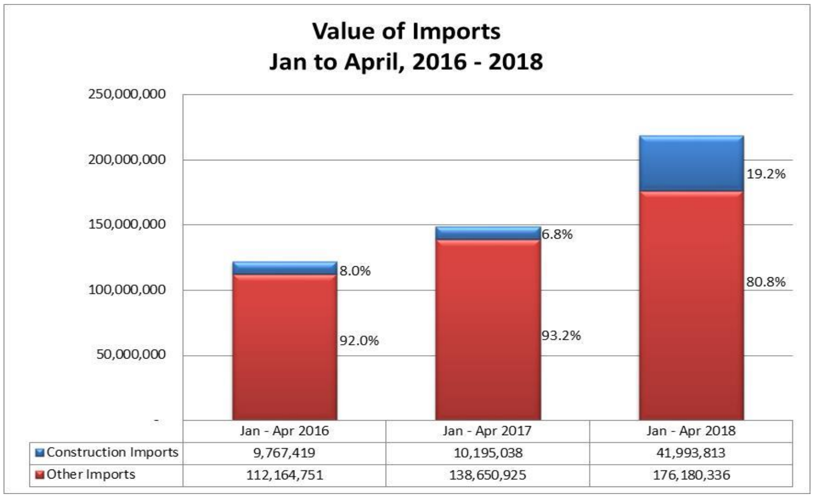
Figure 6. Tourist Arrivals by Type, 2012-2017



Construction

An analysis of construction imports over the last two years demonstrates the major boost experienced in this industry from the rebuilding effort following the 2017 storms. In 2016 total construction imports[3] were valued at $32.5 million. Demonstrating a modest 5.2% year-on-year increase, in 2017 construction imports totalled $34.2 million. Given the process involved for many in rebuilding in terms of acquiring estimates and filing claims, the significant boost in construction imports became most evident in the first months of 2018.

Figure 7. Value of Imports, Jan to April 2016-2018



From January to April 2016, $9.8 million worth of construction materials was imported, and from January to April 2017, $10.2 million was imported. Demonstrating the massive boost in the industry, the value of construction imports moved to $42.0 million from January to April 2018. This represents a 312% increase in the value of construction materials imported in comparison to 2017, signaling that following the storms, economic activity in this industry more than quadrupled for the first months of the year.

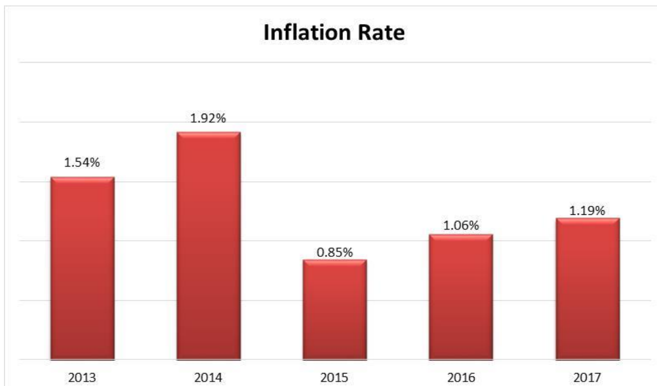
This increase in construction activity has undoubtedly helped in cushioning the impacts of the storms on tourism and related industries. This is evidenced by the fact that construction imports ordinarily made up approximately 7% of total imports, but for January to April 2018, construction imports comprised almost 20% of total imports (Figure 7). From 2016 to 2018, the contribution of Accommodation and Food Services to total Gross Value Added (GVA) is expected to move from 7.6% to 3.7% ($56.4 million; 3.9 percentage points) while the contribution of the Construction industry is expected to move from 2.5% to 6.3% ($50 million; 3.8 percentage points). In this way, the decrease in accommodation and food services GVA has been somewhat tempered by a significant increase in construction activity following the storm impacts. Thereby, the contraction in economic activity in the Territory was not as severe due to the massive increase in construction activity.

[3] Construction imports include imports classified as sand, gravel, cement, lumber, windows and doors, roofing, asphalt, and other construction materials.

Inflation

Maintaining a low, stable rate of inflation is one of our economic targets. In 2017, inflation moved to 1.19% from 1.06% in 2016. This slight uptick in inflation reflects increased prices in housing and utilities, and in communication costs. Thus far in 2018, price increases have been recorded in food, housing and transportation categories. As our recovery takes hold, it will be important to maintain low levels of inflation in ensuring that increased economic activity corresponds with an improved standard of living for persons in the Territory.

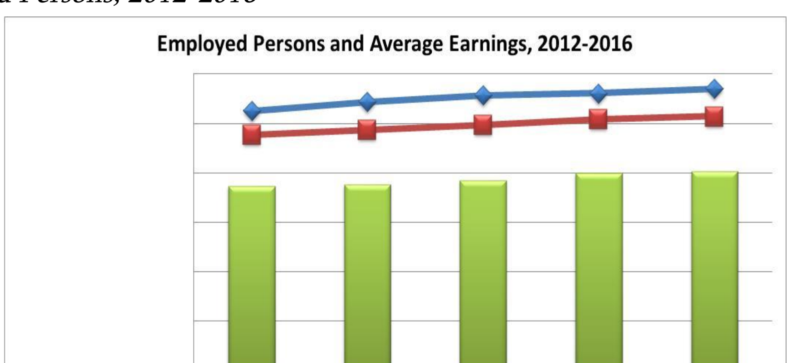
Figure 8. Inflation Rate, 2013 to 2017



Employment

Overall employment levels increased an average of 1.9% annually in the four years prior to the impact of the 2017 storms. At the end of 2016, the total number of persons employed in the Territory was 20,182 persons, up 0.71% from 2015. Similarly, mean earnings increased an average of 2.0% annually from 2012. In this way, indicators from the labour force had been moderately positive in the years prior to the 2017 storms. In terms of inequality in earnings, women's average proportion of male earnings remained the same from 2012 to 2016 at approximately 91 cents to the dollar.

Figure 9. Employed Persons, 2012-2016



	2012	2013	2014	2015	2016
Employment	18,709	18,865	19,291	20,038	20,182
Average Earnings - Men	26,271	27,175	27,846	28,056	28,535
Average Earnings - Women	23,873	24,373	24,850	25,453	25,716

The months following the storms have witnessed a shift in the employment profile of the Territory however, with overall employment numbers expected to be lower, a decrease in the number of persons employed in accommodation and services, and an increasing number of persons working in the construction industry. In the years before passage of the storms, an average of 9.4% of employed persons were employed in the construction industry, and 12.5% were employed in accommodation and food services. These percentages shifted in 2018, with more persons employed in construction than in accommodation and food services. This shift would mirror the movement in contribution of these economic activities to Gross Value Added (GVA) in the economy.

Conclusion

The economy of the Virgin Islands has shown signs of recovery following the storms of 2017, with a significant boost in construction activity, sustained company transactions, and increasing tourist arrivals. Going forward, as Government rolls out its full Recovery to Development Plan, it is expected that increased construction activity will continue over the next few years. This, in conjunction with rebounding tourist arrival numbers, is expected to translate to a trajectory of positive economic growth in the medium-term, in our base case analyses.

Where there is an impact to our financial services industry from the threat of the EU's listing of Non-cooperative Jurisdictions for Tax Purposes, and/or the UK's Sanctions and Anti-Money Laundering Act and ensuing actions however, this will translate to a negative trajectory for the Virgin Islands economy from 2019 to 2021. Thereafter, we would expect slight positive growth annually. In a worst-case scenario, the fallout in financial services would outstrip any positive growth garnered from increased construction activity and rebounding tourist arrival figures in the medium-term.

2. RECOVERY AND DEVELOPMENT STRATEGY

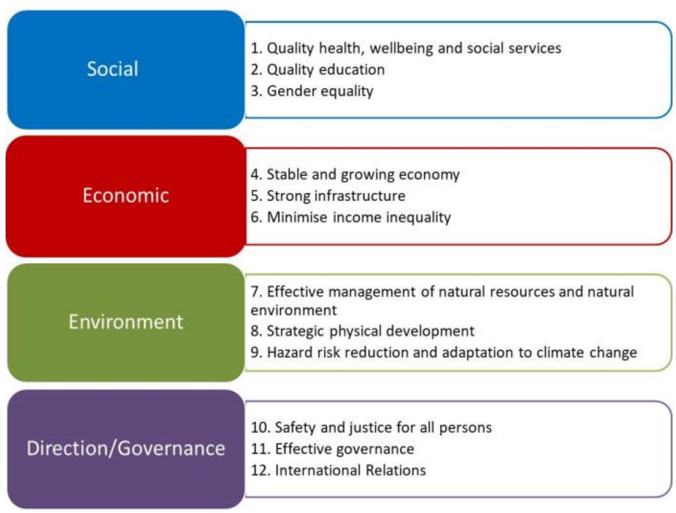
Following widespread consultation on the Preliminary Recovery and Development Plan at the end of 2017 and into 2018, we have produced a finalised Recovery to Development Plan (RDP). Projects in the RDP will guide the activities of the Recovery and Development Agency (RDA) over its five-year mandate in the first instance. The immediate focus of the RDP is recovery, given the need for rebuilding and reconstruction, with development imperatives for resilience in the longer-term.

	RECOVERY TO DEVELOPMENT STRATEGIC OUTCOMES	SEED RESULTS AREAS
1	Promoting healthy living by developing a modern healthcare system that is accessible and affordable and provides world class services through innovative technology and specialised services.	Quality health, wellbeing and social services
2	Enhancing livelihoods by providing social protection to every vulnerable member of society and ensuring that their basic needs are met.	Quality health, wellbeing and social services
3	Creating a highly skilled population (that can participate and contribute to the Virgin Islands economy) by further developing our education system to be modern, well-resourced, technology-driven and relevant to our industries.	Quality education
4	Embracing and showcasing the diversity of our cultural identity and heritage by developing and promoting our culture, history and traditions, and cultivating our talent, arts, sports and creative industries through education	Quality education
5	Solidifying Virgin Islands's worldwide competitive position in tourism and financial services by creating a unique and memorable experience for our visitors, delivered with the highest industry service standards, world class accommodation and an exceptional tourism product; remaining the premier yachting destination by incentivising the industry to grow and create an efficient business environment for it to thrive; placing the environment at the forefront of our tourism product by encouraging low impact, high yield business; and becoming the leading facilitator of global finance by offering a diversified suite of business solutions.	Stable and growing economy
6	Diversifying the economy by investing in new economic sectors (including fishing and agriculture) that will contribute to growth and employment; focusing on technology-based and innovative solutions; and exploiting our entrepreneurial spirit.	Stable and growing economy
7	Establishing an enabling environment for business development centered on streamlined policies and procedures for opening and operating a business, reliable energy sources, fast internet, efficient business support services, and access to finance and a highly skilled productive work force.	Stable and growing economy
8	Building robust infrastructure (buildings, roads, transport and utilities) that is capable of withstanding disasters and high levels of stress and recovery quickly by improving and enforcing building standards; incorporating resilient techniques; and utilizing a highly skilled workforce.	Strong infrastructure
9	Improving our telecommunications infrastructure by adding greater capacity and speed, incorporating innovative technology, building resilient and sustainable infrastructure, and having appropriate means and levels of contingency and redundancy.	Strong infrastructure
10	Ensuring that our infrastructure development meets the current and future development needs of the Territory by ensuring that it is aligned with and based on our National Physical Development Plan and a national development strategy	Strong infrastructure; Strategic physical development
11	Having an environment that is pristine, healthy, diverse and able to support the desired standard of living, quality of life and economic prosperity of the Virgin Islands by creating a near carbon neutral society focused on optimal utilisation of renewable energy, recycling, and reducing the use of non-biodegradable consumables; supporting the management of the environment through a strong legislative framework that will guide optimal use and protection of our natural resources; and creating a culture of environmental stewardship through programmes, public education and awareness raising of our communities on environmental issues and the importance of preservation and conservation.	Effective management of natural environment; Hazard risk reduction and adaptation to climate change
12	Managing the affairs of the Territory in an effective and responsible manner by adhering to the principles of integrity, accountability, transparency and responsiveness.	Effective governance
13	Improving efficiency in the delivery of public services by utilizing technology to automate; streamlining processes; reviewing service standards; and instilling an ethos of service and professionalism.	Effective governance
14	Protecting the safety, security and rights of our people and ensuring the rule of law is enforced by integrating the criminal justice system so that the courts, police and prison work harmoniously; modernizing the court system; strengthening policing capability, resources and engagement; and improving prison facilities, operations and rehabilitation programmes.	Safety and justice for all persons
15	Strengthening disaster management systems for greater resilience and response in light of climate change related stronger weather events by restoring emergency warning and response infrastructure of the Territory; ensuring availability of safe locations that offer refuge during disasters; putting in place plans and processes for uninterrupted operation of public services and critical infrastructure, before, during and after a disaster; raising awareness and building capacities in emergency preparedness and response and risk reduction measures; integrating disaster risk management principles into national policies, laws, strategies and improving leadership and management of disaster management activities; and limiting the financial impacts of devastating natural disasters.	Safety and justice for all persons; Hazard risk reduction and adaptation to climate change

As we recover, efforts to achieve our overall development goals which align with Social, Economic, Environment, and Direction/Governance (SEED) dimensions, will help to make the Territory more resilient. The five key target sectors included in the Recovery to Development Plan are: 1) Human and Social Services towards achieving a Cohesive and Empowered Society; 2) Business and Economy towards achieving a Vibrant and Innovative Economy; 3) Infrastructure towards achieving Resilient Infrastructure; 4) Natural Resources and Climate Change towards achieving a Nurtured and Sustainable Environment; and 5) Governance towards achieving Good Governance. These sectors can be viewed through the lens of our Medium Term Development Strategy, SEED, and its 12 Result Areas (see Chart above linking RDP strategic outcomes to SEED results areas).

The fifteen strategic outcomes of our recovery are rightly placed in the context of our medium and longer term development, and aim at achieving the bold and ambitious vision set out in the RDP that "The BVI will be a model for building stronger, smarter, greener and better, fostering a vibrant and innovative economy, cohesive and empowered society, nurtured and sustainable environment, resilient infrastructure, good governance, and a high quality of life for all" linked to the SEED vision of "a prosperous Virgin Islands, ideal to live, work, visit and do business."

SEED Results Areas



As we continue to focus on recovery and development, strategic prioritisation of projects has been critically important. Both the RDP and SEED have been mapped to the United Nations Sustainable Development Agenda and its 17 Goals (SDGs). Regionally CARICOM has selected a subset of the full list of 169 SDG indicators, which are referred to as the "Core Set" of CARICOM indicators. Taking it a step further, we have localised the SDG indicators to the VI context. In this way, we have linked the SDG goals and indicators to the institutional infrastructure of the Government in order to influence evidence-based policy development within all Ministries and other Government Agencies. We present below the recovery and development strategies to be undertaken over the next three years which are aimed at building a stronger, smarter, greener and better BVI.

Social: We are a healthy, vibrant and engaged populace, well-prepared to fully participate in the development of the Territory.

1. Quality Health, Wellbeing and Social Services

The recovery of the health industry is vital to our livelihood, and requires full restoration of our Peebles Hospital and community clinics which provide healthcare services to persons of all ages across the Territory. The projects related to the Hospital which will be completed within the next three years include upgrading the health information system and moving the institution towards international accreditation. Accreditation of the hospital is expected to open doors to medical tourism, thus diversifying our tourism product and boosting economic growth. We will also complete works on the old Peebles Hospital to better utilise the vacated space in providing additional healthcare services. The Ministry of Health and Social Development in conjunction with our Health Services Authority will be responsible for tracking targets related to SDG 3: health and wellbeing. This will consist of monitoring mortality ratios; ending preventable death of newborns and children under the age of 5; strengthening the prevention and treatment of substance abuse; and achieving universal health coverage.

With the promise to restore services to different communities, we will repair clinics and community centers Territory-wide. We will improve services offered to residents within communities through enhancement of our clinics. In July, operations at the Capoon's Bay Clinic were resumed to the benefit of residents of the West End and Capoon's Bay areas. Services restored include family planning, antenatal and postnatal care, well-baby clinic, and child and adult immunisation. Other areas that we are targeting for clinic restoration projects include East End/Long Look, Sea Cow's Bay, Cane Garden Bay and Jost Van Dyke. The new Iris O'Neal Clinic in Virgin Gorda is scheduled to be completed in 2019 and will usher-in the availability of 24-hour healthcare services on that island. These clinics will all help in tracking the incidence of communicable as well as non-communicable diseases through our upgraded, integrated health information system.

We will undertake community center restoration projects in Cane Garden Bay, West End, Long Trench, Brewer's Bay, and Sea Cow's Bay in ensuring that these important community spaces are available. Both the Adina Donovan Home and Virgin Gorda Home for the Elderly were completely restored with support from the Pan American Health Organisation (PAHO) in May 2018.

As the need for responding to emergencies will always be necessary, we have embarked on purchasing and installing related software and equipment for an upgraded 911 system. The expanded operations of the 911 system, which will be available 24 hours a day, will combine efforts of the Health Services Authority, Royal Virgin Islands Police Force and the Fire and Rescue Department working on a shift system.

By upgrading and expanding health, wellbeing and social services, we aim to improve the quality and standard of living of all of our residents, with specific focus on those most vulnerable among us, including our children, aged persons, and persons with disabilities.

2. Quality Education

In the education sector, the top priority has been to get students back into school and to return school environments to a sense of normalcy. Given that the storms significantly compromised the infrastructure of the education system, damage assessments were carried out at schools throughout the Territory to determine the scale of repair and restoration required. In cases where major repair was needed, redevelopment, rehabilitation and design projects have been prepared aimed at rebuilding stronger, smarter, greener and better. Where schools have been identified as usable, students have been able to enroll and have resumed their academic pursuits. While repair and restoration of the schools' physical infrastructure is ongoing, operating primary schools have had to share spaces, and at the secondary level a shift system has been implemented to accommodate students and will remain in place until completion of secondary school reconstruction. Under SDG 4, access to education is required for all children from early childhood education through secondary education.

Despite challenges to our physical infrastructure, the Virgin Islands was the only country to utilise electronic testing for all Caribbean Secondary Education Certificate (CSEC) and the Caribbean Advanced Proficiency Examinations (CAPE) in 2018. This accomplishment demonstrates the integration of technology in schools and our commitment to enshrine disaster resilience even as we rebuild. In terms of results, we recorded a pass rate of 87.7% for CSEC examinations and a pass rate of 100% for CAPE during the 2018 round of examinations.

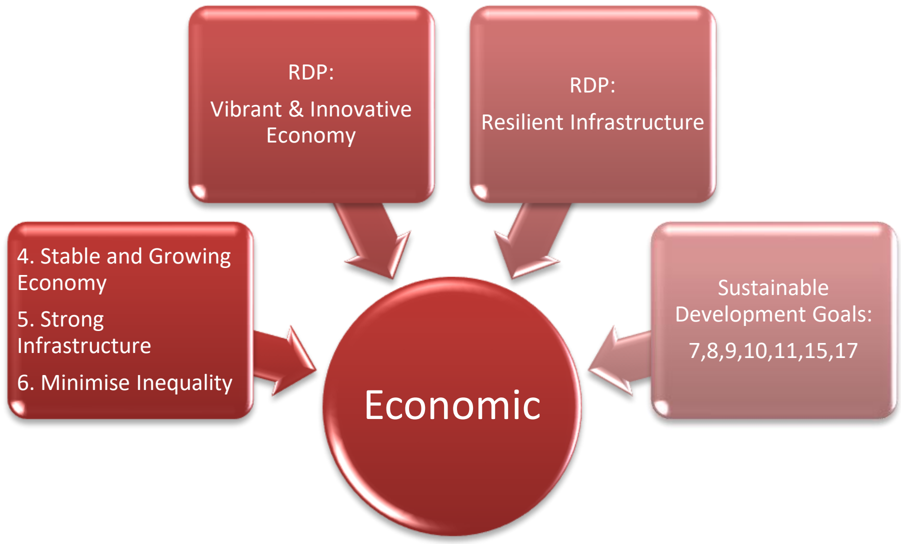
To further support the redevelopment of our education system, some 37 persons from levels ranging from pre-primary to tertiary in public and private institutions received training in sustained mitigation, adaptation and resilient techniques (SMART). This effort was a result of a partnership between the Ministry of Education and Culture, Department of Disaster Management (DDM), Adventist Development and Relief Agency (ADRA) and the United Nations Children's Fund (UNICEF) to ensure that schools are safe, healthy and green. Other development projects in education and sports include rebuilding the Eslyn Henly Richez Special Needs Learning Centre, and reconstructing recreational facilities including the Diamond Estate basketball court and repairs to the Multi-Purpose Sports Complex in Road Town.

3. Gender Equality

As it relates to gender equality, the GoVI is continuing to pay specific attention to data collection and where possible, the disaggregation of data by gender as well as age across Government. The effort to disaggregate data and track development outcomes by gender and age, is particularly apparent in health and education indicators as the SDGs require disaggregated data by gender. Our recently launched Budget Analysis for Investments in Children in partnership with UNICEF, has made data and analyses on public spending for children publicly available, with particular focus on tracking data by gender. The report demonstrates how Government funds are being used for the benefit of children and offers useful information and analysis to be channeled into policy development.

In relation to projects within the Recovery to Development Plan, psychosocial support will be provided to improve resilience and rebuild social structures within communities. Psychosocial support has already been delivered to teachers and students within the education sector to promote mental and emotional healing from the effects of the storms, and this work will continue. A community liaison consultant will workwith the general public and GoVI in integrating social and gender considerations into these psychosocial as well as the infrastructural projects undertaken as part of the RDP.

Economic: Our economy is thriving and buoyant, fostering growth through entrepreneurship and trade.



4. Stable and Growing Economy

Increasing economic activity is at the core of the recovery of the Territory. In terms of our two economic pillars, while the financial services industry proved its resilience in the aftermath of the storms, tourism and related industries have not yet been able to recover to pre-storm levels of activity. As such, there is much work to be done to see the entire private sector return to and grow beyond previous levels of performance. Ongoing efforts are being made to fully restore our tourism product including revitalisation of beaches, and derelict vessels and debris clearance, with the return of cruise liners at the end of the summer. We will continue to develop our tourism infrastructure. Following the storms, several smaller ships made calls to Road Town, and at the end of summer 2018, we welcomed the return of larger ships.

Our landside tourism product has also begun to recover, with increasing activity among hotels, private villas and restaurants, historical sites, and retail businesses across our islands. Other services such as land and sea tours have resumed operations. We are in the initial stages of crafting a National Tourism Strategy which will chart the direction of development for our tourism product in the coming years.

The GoVI is also committed to rebuilding and developing the Small and Medium-sized Enterprises (SME) sector in continuing to fuel the entrepreneurial spirit of Virgin Islanders. We have hosted several business events including the presentation of CaribConnect where local entrepreneurs are matched with Mentors, Investors and Financial Institutions. CaribConnect is an online incubator programme which encourages growth in the SME sector. Also in keeping with technology and innovation, local businesses owners and other public and private sector professionals were able to attend a conference partly sponsored by GoVI on Financial Technology ("Fintech"). The recovery efforts present an opportunity for many businesses to benefit especially within our burgeoning construction sector. In the months following the storms, GoVI has held skills and other training sessions for the construction sector, aimed at ensuring quality outputs from this sector. For smaller sectors such as fishing and agriculture we plan to revitalise the BVI Fishing Complex, and will host training and other events aimed at encouraging investments to support our local farmers.

The results of these initiatives and projects across different sectors will contribute to the overall recovery and development of the economy and can be tracked by SDG 7 to ensure universal access to affordable, reliable and modern energy services; SDG 8 related to economic growth; and SDG 9 related to infrastructure and industrialisation.

5. Strong Infrastructure

Given that a major part of the recovery process involves restoring our infrastructure, we have been presented with an opportunity to rebuild our infrastructure to be stronger and more resilient than it was before. Our infrastructure priorities include electricity, roads, ports, and our water and sewerage systems. Electricity works include the installation of new poles, transformers and transmission lines, as well as introducing renewable energy sources into the main electricity grid over the longer-term.

Road reconstruction projects are expected to take place across the Territory, in each district as well as across the main passages of the Sir Francis Drake's and Blackburn Highways on Tortola, as well as the main roads on Virgin Gorda, Anegada and Jost van Dyke. In restoring our main port facilities, May 2018, marked the reopening of the Road Town ferry terminal. Rehabilitation of the terminal building has involved expanding facilities for Immigration and Customs in order to facilitate a more speedy and comfortable clearing process for residents and visitors. Our recovery plan includes redevelopment of our other ports including St. Thomas Bay and Gun Creek in Virgin Gorda, Dog Hole in Jost van Dyke, and the West End and Anegada ports. Re-opening and expansion of our ports of entry will also contribute to SDG 9 on developing resilient transborder infrastructure to support economic development and human well-being, while allowing affordable and equitable access for all.

Problems with water distribution and thus access continue to plague several communities. In addressing these, one of our main priorities is upgrading and enhancing our water distribution network as part of our rebuilding efforts. Continuation of the National Sewerage Project will target three different areas on Tortola, namely Cane Garden Bay, East End and Road Town. A major contract for this projectwas signed in May 2018, and includes a review of the preliminary designs for the sewerage systems at Cane Garden Bay; review of existing designs for East End; reviewing recommendations for lift stations in the Road Town network; engineering services; as well as contracting administration and construction supervision for the phased works.

Other infrastructural developments within our plans include repairs to public buildings including our Courts, and restoration and expansion of our information and communications technology (ICT) infrastructure. We will replace damaged telephone and internet services infrastructure.

6. Minimise Inequality

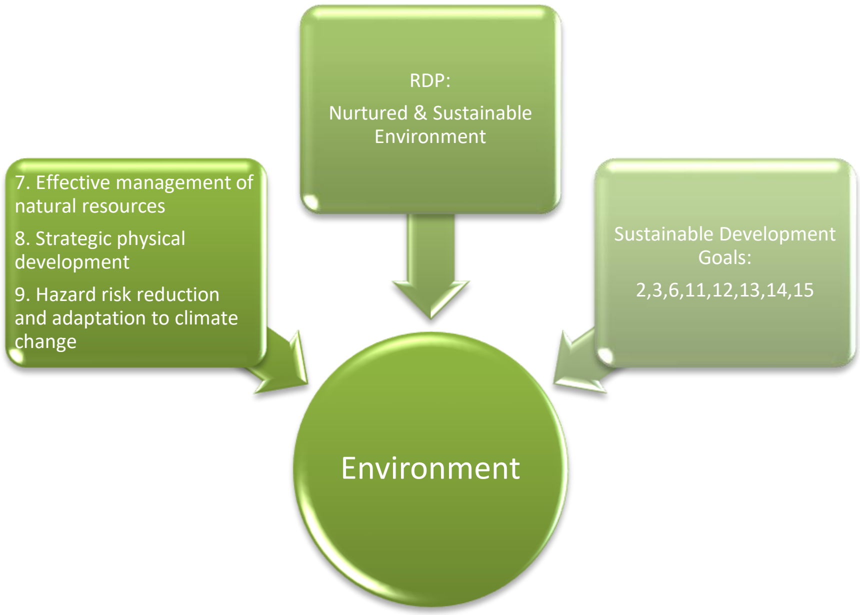
Given passage of the storms, there is a heightened risk of vulnerable persons falling into poverty. In order to minimise this risk, we have provided several forms of assistance to individuals and families in need. In May 2018, the Government of the Virgin Islands entered into an agreement with the National Bank of the Virgin Islands to facilitate roll-out of the National Housing Programme. This programme provides grants and soft-loans to assist property owners in their rebuilding efforts.

Prior to the 2017 storms, GoVI in collaboration with the OECS Commission was in the planning phase of undergoing a Country Assessment of Living Conditions (CALC). This multidimensional assessment of living conditions aims at evaluating prevailing standards of living in the Territory using several assessment tools including qualitative participatory and quantitative survey instruments. It is expected that many factors, as a result of the storms, has contributed to changes in the dynamics living standards for individuals and households.

In 2017, we implemented a new fee structure for work permits, assessed on earnings based on a progressive scale. This fiscal policy shift aimed to raise revenue through a fairer system, with persons earning more paying more for work permits. While achieving an increased revenue yield, persons at the lower end of the earnings scale would potentially pay less for a work permit. We aim to create a fairer, more equitable tax structure, across all tax types, evident in proposed fiscal policy shifts.

The Sustainable Development Goals focus on inequality in goal #10. Targets in relation to this goal include increasing and sustaining income growth of the bottom 40% of the population; empowering the society to promote the inclusion of all irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status; and adopting policies related to fiscal, wage and social protection which progressively achieve greater equality.

Environment: We value our natural resources and promote sustainability in physical planning and management



7. Effective management of natural resources and natural environment

When it comes to sustainable development of the Territory, finding a necessary balance between economic growth and environmental protection is paramount, such that growth does not imply environmental degradation. More specific to tourism-based island economies such as ours, the natural environment creates economic value, and the natural beauty of our islands is an important asset of our tourism product. Key to our tourism product following the 2017 storms is the rehabilitation of all of our beaches which involves clean-up and restoration projects. Shortly after passage of the storms, we received assistance from the RFA Mounts Bay in the cleanup of Cane Garden Bay and Smuggler's Cove. The crew carried out a thorough cleanup by diving into the seabed and removing debris to make it safe and enjoyable for residents and visitors. We are currently also revitalising the Cane Garden Bay area, undertaking critical repairs to damaged infrastructure. Under the Ministry of Natural Resources and Labour, several other beaches throughout the Territory will undergo similar beach development projects. These efforts are aimed at enhancing the beach experience for residents and visitors as we welcome back major cruiselines, and overnight tourist arrivals increase.

It is important that we focus strategically on the development of our physical landscape as we recover and grow economically. To this end, we are undertaking initiatives that contribute to effective land management throughout the Territory. Under the portfolio of the Ministry of Natural Resources and Labour, we will merge the Land Registry and Survey Departments to encourage greater efficiency and improved synergy between our land survey and registration functions. We also aim to complete a photogrammetric mapping exercise which will create digital mapping, control data and a terrain model of the Virgin Islands. This mapping will allow for better analysis of our physical environment and improved evaluation of policy decisions. We will also undertake projects to restore our National Parks Trust Office and all of our national parks which are an important part of our tourism product, demonstrating the beauty and encapsulating historical features of our Territory.

Waste management will also play a vital role in maintaining both our natural and built environments. Sustainable development goal 11 targets reduction of the impact of waste in developed areas. A significant amount of debris was spread across our natural environment as a result of 2017's storms. The Department of Waste Management has aggressively approached the task of waste removal, keeping the public informed of waste removal sites, techniques and strategies. To further assist waste removal efforts, the Ministry of Health and Social Development has received equipment from the Pan American Health Organisation (PAHO), and the Recovery and Development Agency has issued several debris removal contracts.

8. Strategic Physical Development

The SDGs aim at enhancing urbanisation and promoting sustainable human settlement planning and management by addressing land consumption. Inkeeping with these goals, we are currently in the process of developing a National Physical Development Plan which will provide a strategy for long term development, specifically involving land use across the Territory. Effective use of land and space for buildings and projects is an important feature of strategic physical development. We recognise the importance of building in areas that are not at heightened risk of hazards and natural disasters, and also building structures that improve resilience against weather effects. In improving resilience of our road infrastructure, the Ministry of Communication and Works has plans to oversee a number of Stabilisation Projects that will improve road safety in areas such as Great Mountain, Lower Hope and Sabbath Hill, Little Dix Bay, Long Trench and Cox Heath.

To better support the tourism industry, specific structures will be built at beaches and other tourist sites. These will include bathroom facilities at Brewer's Bay and Long Bay, Beef Island. Visitor centres will also be constructed strategically across the Territory aimed at enhancing the visitor experience.

9. Hazard Risk Reduction and Adaptation to Climate Change

Building resilience to weather effects and natural disasters is necessary to minimise risk of future damage as the pace of climate change hastens and threatens our regional development. SDG 13 focuses on climate change, and requires that countries integrate climate change measures into national policies, strategies and planning. Following review of the 2014-2018 Comprehensive Disaster

Management (CDM) Strategy, we are currently in the process of developing a five-year CDM strategy that will span 2019 to 2023.

The ongoing process of building resilience will include constructing natural defenses along our coastlines. Projects at Carrot Bay and Cane Garden Bay will enhance our coastal defenses, thereby helping to protect roads, homes and businesses from the devastating effects of storm surge.

To maintain readiness for any disasters, the Department of Disaster Management (DDM) has reinstalled equipment for emergency telecommunications that alert and notify the public of potential threats. DDM has recently collaborated with a local telecommunications company in launching a mobile application (app): "BVI DDM Alert". This app serves as a means of issuing public notices, and strengthens our early warning system aimed at enhancing public awareness and ability to respond.

DIRECTION/GOVERNANCE: We are governed transparently, ensuring the safety, security and cohesion of our populace.

10. Safety and justice for all persons

Maintaining safety for all in the Virgin Islands remains a top priority in the recovery and development of the Territory. The ongoing repair of police stations in Road Town, East End, West End, Virgin Gorda and Anegada contribute to crime prevention and protecting residents across all of our communities. SDG 16 addresses reduction of all forms of violence and related death rates. Also contributing to overall public safety is the ongoing repair of our fire infrastructure including the Road Town and Virgin Gorda fire stations.

We are also completing repairs to our prison facilities at Balsam Ghut, and in April, phase one of our repair plan was completed, which included three wings of the adult penitentiary. By rehabilitating our prison infrastructure, we have been able to return all twenty-one prisoners sent to St. Lucia following passage of the 2017 storms to the Territory. We are also in the process of completing repairs to our Courts including the High Court, Magistrate's Court, Commercial Court and Supreme Court buildings, as well as restoration of the Judges' and Attorney General's residences.

Towards better equipping our response to hazard impacts, in July we signed an agreement for the design of the new National Emergency Operations Centre (NEOC) which will be the home of the Department of Disaster Management. The NEOC will be designed and built to standards which ensure its ability to withstand hazard impacts and provide the necessary infrastructure to continually deliver services in the event of a major disaster. As it relates to human capacity-building for emergency-response, training has been ongoing, and over thirty persons across public and private sectors have been trained in emergency relief operations using Logistics Support Systems (LSS) tools.

11. Effective Governance

Delivery of Government services has been affected as a result of the storms, with workers displaced and departments relocated in the aftermath. Several projects are thus underway aimed at improving and enhancing public service delivery following the storms. We are currently undertaking repairs to Government properties and infrastructure including the Central Administration Complex, House of Assembly, Archives Repository, Civil Registry/Passport Office and the Department of Information Technology, among others.

In March 2018, the Deputy Governor's Office launched the Public Service Transformation Initiative which covers seven broad areas as it relates to the public sector: 1) redesign of the public service; 2) good governance; 3) e-government; 4) greening the public service; 5) rebuilding security; 6) public/private sector partnership; and 7) alignment of statutory agencies. Consultation has been carried out with Ministries and Departments to discuss strategies for improved efficiency. Officers across the public service as well as the general public have been invited to submit views and ideas to contribute to the vision of creating a world-class public service.

Beyond the restoration and transformation of public service delivery, we have also begun to lay the foundation for overall recovery and development of the Territory. The Virgin Islands Recovery and Development Agency Act was approved by the House of Assembly in March 2018, creating the Recovery and Development Agency. The Agency will be responsible for ensuring that the activities, projects and initiatives that comprise the Recovery to Development Plan are carried out effectively and efficiently. The RDA will have five (5) years to implement this plan in the first instance. It is anticipated that the process of formulating the Recovery to Development Plan will act as a springboard to the development of a longer-term National Development Plan which adequately encompasses ongoing planning processes across Government, including the National Physical Development Plan, the Comprehensive Disaster Management Plan, the Tourism Strategy and the Recovery to Development Plan.

We also aim to continually improve transparency and accountability in the public sector. This is also a targeted requirement of SDG 16, to develop the Government institution at all levels. Coordination of project planning and execution must be carefully undertaken in order to facilitate our recovery process. In this vein, twenty-five senior leaders across the public sector received training from the Caribbean Development Bank in June as an introduction to Public Policy Analysis and Project Cycle Management courses scheduled to take place between October and November this year. These courses aim to improve technical capacity for strategic development in the public service.

12. International Relations

In an effort to continue promoting the Virgin Islands as an international business jurisdiction, the Premier led a delegation on a five-city mission to Asia. During this mission, we proactively engaged regional stakeholders and further discussed opportunities and challenges for business expansion. The five city tour included stops in Hong Kong, Singapore, Beijing, Hangzhou and Shanghai, engaging in mini-conferences and events. The Asian market is the Virgin Islands' largest market for financial services, and we continue to promote our services across incorporations, fiduciary services, investment business, and operations of the commercial court. The trip itself marked the 30th anniversary of the International Business Companies (IBC) Act, later followed by the BVI Business Companies (BVIBC) Act, which has transformed the Virgin Islands economy and positioned our Territory as a leading global financial services jurisdiction. This year has also marked the opening of the Bank of Asia which expands service offerings in this sector.

Coming off of the Premier's trip to Asia, we recognise the huge potential for expanding our tourism industry by tapping into the Asian market. As such, we have recently granted visa-free access to Chinese nationals traveling to the Virgin Islands for tourism or business-related matters. Approximately 35% of our active BVIBCs are owned by Chinese beneficial owners. Visa-free access to Chinese nationals thus opens the door for business travellers to visit for company-related litigation matters as well as access to our International Arbitration Centre. This also lays the foundation for a natural transition into tourism. Given that China is now the world's largest tourism source market and other countries around the world are lining up to capture market share, we are also strategically positioning ourselves as a destination for business and leisure travel originating from Asia.

To further efforts to maintain international relations, the Deputy Premier led a delegation to London and attended the Joint Ministerial Council for Overseas Territories to discuss the Brexit negotiations between the European Union and the United Kingdom. Discussions with UK Ministers and other OT leaders included arrangements for the OTs after Brexit, future international trade agreements, and a special session on the UK-OT constitutional relationship. It is intended that the OTs retain some benefits with the EU or pursue policies to replicate the current status that may be lost as a result of Brexit. As the implications of Brexit become clearer, our concerns surround maintaining or replicating funding streams especially for environment and resilience-related projects, and maintaining the ability of Virgin Islanders to work, study and travel throughout Europe.

The Recovery to Development Plan outlines projects and initiatives aimed at building a stronger, smarter, greener and better BVI. We have centered and linked the RDP to the UN's Sustainable Development Agenda and our overarching medium-term development strategy SEED. The projects and initiatives of the RDP are thus intended to take us from the green shoots already evidenced in our economy and society following the storms, to sustainable growth and development that engender resilience across our five identified priority sectors.

3. FISCAL REVIEW

Revenue

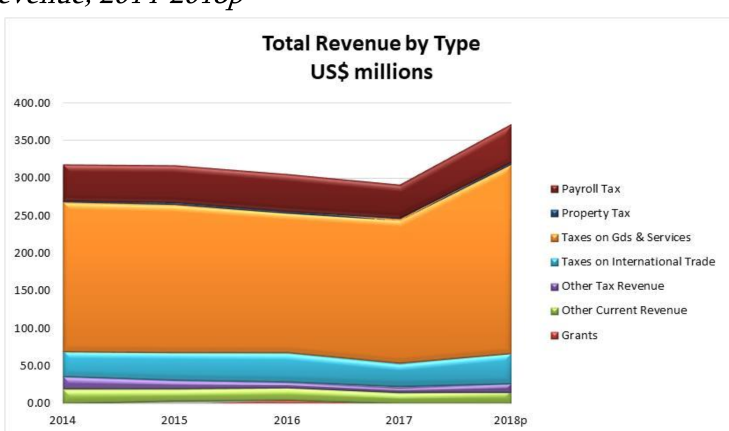
Revenue for 2017 totaled $292.9 million (Table 1), which is $30.2 million or 9.3% below budgeted expectations. This annual budget variance reflects an even larger difference of 22.1% for receipts between August and December 2017. While all other revenue streams were significantly affected, our efforts to build resilience in our financial services industry were well-placed, as the budget variance for financial services receipts for 2017 was positive, at 0.2%. In other words, financial services revenue matched pre-storm expectations.

Table 1. Annual Revenue 2018

Annual Revenue 2018	Original Budget	Preliminary Actual 2018	Actual 2017	Budget Variance $	Budget Variance %	Prior Year Variance $	Prior Year Variance %
TAX REVENUE	**278.92**	**354.03**	**277.53**	**75.11**	**26.9%**	**76.50**	**27.6%**
Income/Payroll Tax	36.69	50.30	46.12	13.61	37.1%	4.19	9.1%
Property Tax	1.38	3.02	1.91	1.64	118.8%	1.12	58.5%
Taxes on Goods and Services	206.18	251.45	190.68	45.27	22.0%	60.77	31.9%
FSC Revenue	*195.81*	*230.21*	*175.00*	*34.40*	*17.6%*	*55.21*	*31.6%*
Taxes on International Trade	27.29	39.56	31.18	12.27	45.0%	8.38	26.9%
Other Taxes	7.38	9.70	7.65	2.32	31.4%	2.05	26.8%
GRANTS	**4.40**	**1.01**	**-**	**(3.39)**	**-77.0%**	**1.01**	**N/A**
OTHER REVENUE	**27.72**	**17.19**	**15.37**	**(10.53)**	**-38.0%**	**1.82**	**11.8%**
TOTAL RECURRENT REVENUE	**311.04**	**372.23**	**292.90**	**61.19**	**19.7%**	**79.33**	**27.1%**

At $292.9 million, revenue for 2017 was $14.5 million or 4.7% below 2016 revenue receipts. Given the level of devastation wreaked by the unprecedented trio, a 4.7% decrease in revenue from the previous year is low, largely due to the resilience of financial services revenue as the main revenue earner for GoVI in the immediate aftermath of the storms. In 2017, financial services revenue comprised 59.7% of total revenue receipts.

Figure 10. Annual Revenue, 2014-2018p



Prior to the storms, GoVI had implemented increases in hotel accommodation tax, work permits, and cruising permits; and the environmental/tourism levy had just been introduced. In combination with these, at the beginning of 2018, an increase in financial services fees was implemented, which has meant significant growth in revenue received from this sector.

As our economic recovery has taken root, these revenue generating initiatives have assisted in the rebound of revenue receipts. Revenue in 2018 is expected to far exceed budgeted expectations, at $372.23 million compared to a budgeted $311.04 million (Table 1). 2018 will be a record year for revenue receipts in the Territory, which have reached their highest level ever. Revenue is expected to come in 19.7% above budget and 27.1% above 2017 receipts. Prior to 2018, the year with the highest level of Government revenue was 2014, in which revenue reached $318.60 million or 14.4% below 2018 expected revenue levels. The significant outperformance of revenue implies a lowered requirement for borrowing in financing our recovery and development.

Recurrent Expenditure

Overall recurrent expenditure for 2017 was $293.82 million, slightly over-budget, representing a 4.6% budget variance.

Table 2. Annual Expenditure 2018

Annual Expenditure 2018	Original Budget	Preliminary Actual 2018	Actual 2017	Budget Variance $	Budget Variance %	Prior Year Variance $	Prior Year Variance %
RECURRENT EXPENDITURE	**339.10**	**324.55**	**293.82**	**(14.55)**	**-4.3%**	**30.73**	**10.5%**
Employee Compensation	122.59	111.72	119.64	(10.87)	-8.9%	(7.92)	-6.6%
Goods and Services	81.69	63.42	74.05	(18.27)	-22.4%	(10.63)	-14.4%
Interest	8.10	7.04	5.14	(1.06)	-13.1%	1.90	37.0%
Transfers and Subsidies	112.04	124.99	81.93	12.95	11.6%	43.06	52.6%
Other Expenses	14.68	17.38	13.06	2.70	18.4%	4.32	33.1%
CAPITAL EXPENDITURE	**73.29**	**20.41**	**13.30**	**(52.88)**	**-72.2%**	**7.11**	**53.5%**
TOTAL EXPENDITURE	**412.39**	**344.96**	**307.12**	**(67.43)**	**-16.4%**	**37.84**	**12.3%**

Recurrent expenditure in 2017 was slightly less than in 2016, a year in which costs of Goods and Services were particularly high due to paying off outstanding water bills. In 2017, Central Government paid off outstanding electricity bills, resulting in a significant budget variance for the Goods and Services category of expenditure of $14.90 million or 25.3%. With outstanding balances on utility bills settled, and a reduction in Central Government's wage bill, recurrent expenditure for 2018 is not expected to surpass $310 million.

The increase in recurrent expenditure for 2018 shown in Table 2 above, has been driven by Transfers and Subsidies, as GoVI transferred funds to the National Bank for implementation of the National

Housing Programme, as well as to the Recovery and Development Agency for implementation of agreed projects. Overall, Central Government has achieved a substantial recurrent surplus during FY 2018, with revenue higher than anticipated, and recurrent expenditure coming in below budget based on preliminary actual figures (see Medium Term Fiscal Frame MTFF – Table 3).

Figure 11. Recurrent Expenditure, 2014-2018p

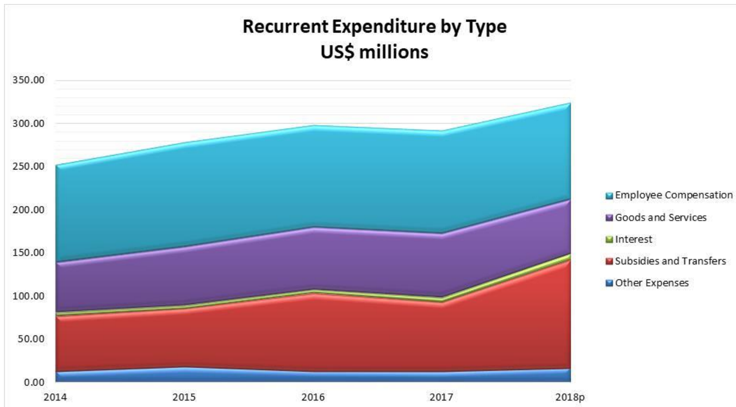
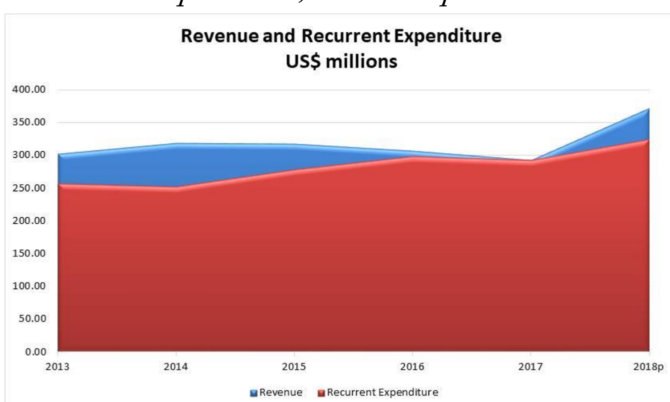


Figure 12. Revenue and Recurrent Expenditure, 2014-2018p



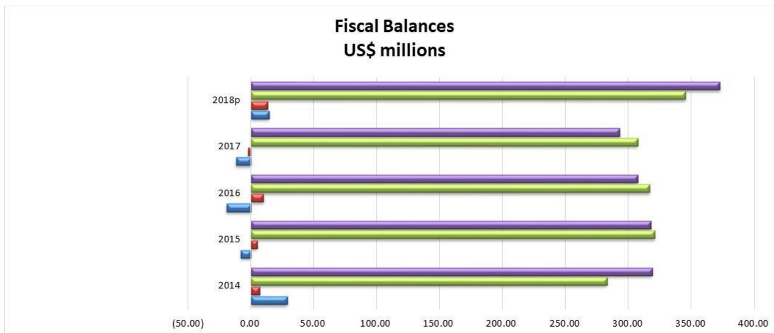
Capital Expenditure

Following the storms, the focus of our budgeted capital programme has shifted significantly. In the latter part of 2017, anticipated loan-funded projects to be pursued were largely suspended. As such, capital expenditure for 2017 was well under budgeted expectations, at $14.30 million, ($13.30 million of Capital expenditure and Net lending), resulting in a -33.3% variance from budget and a -5.6% variance from 2016 capital expenditure. Passage of the 2018 Budget in early 2018 signaled the reboot and realignment of our capital programme, with funding secured from the Caribbean Development

Bank for a significant portion of the programme through the Reconstruction and Rehabilitation Loan (RRL).

Capital expenditure figures for 2018 have once again not reached expected levels, as much of the year was spent setting up administrative and project management structures which will aid efficient and effective project implementation. As such, capital expenditure for 2018 was significantly below budgeted figures at $20.41 million. As the Recovery and Development Agency (RDA) becomes more institutionalised and secures funding, and cross-functioning and coordination with Central Government improves, it is expected that the rollout of capital development projects will accelerate. In this way, capital expenditure figures are expected to increase significantly in the coming months into 2019 and beyond.

Figure 13. Fiscal Balances, 2014-2018p



	2014	2015	2016	2017	2018p
Revenue	318.60	317.62	307.06	292.90	372.23
Total Expenditure and Net Lending	282.75	320.62	316.54	307.16	344.96
Reserve Contributions	7.03	5.01	10.01	(2.30)	13.06
Overall Surplus/(Deficit)	28.82	(8.02)	(19.49)	(11.96)	14.21

Fiscal Balance

Based on preliminary figures, a recurrent surplus of $34.62 million after Reserve contributions was recorded for 2018, with revenue outperforming expectations and recurrent expenditure coming in below budget (See MTFF – Table 3). Where capital expenditure is considered, an overall surplus of $14.21 million was recorded for 2018.

In 2018, we contributed to the Reserve Fund, and we have also utilised previously acquired debt from the Caribbean Development Bank (CDB), and disbursed an additional $50 million with the CDB in the form of a Policy Based Loan, and $2.25 million in the form of Immediate Response Loans. Due to outperformance of revenue, in 2018 we repaid the approximately $10.74 million drawn on the line of credit with First Caribbean International Bank (FCIB) at the end of 2017.[4] This clearing of the line led to principal repayments in 2018 totaling approximately $24.64 million, and net borrowing in 2018 (loan disbursements minus principal repayments) of $29.29 million.

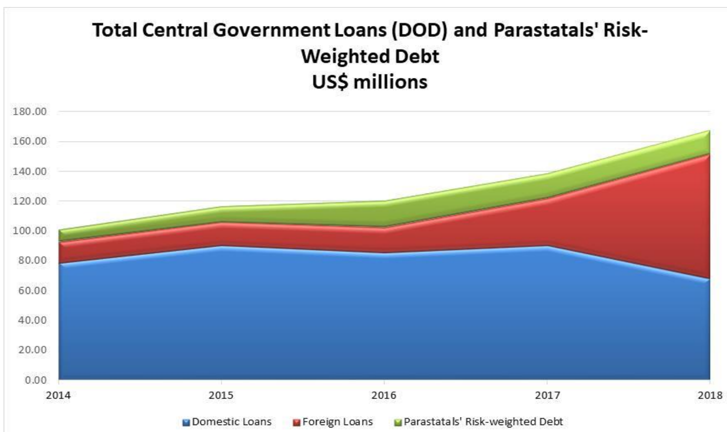
[4] Only the year-end balance of Central Government's line of credit with FCIB is reflected in annual disbursement figures.

Debt

As previously mentioned, GoVI has enjoyed enviably low debt levels over the last decades, with Central Government debt of approximately 11.5% of nominal GDP[5] at the end of 2017 and overall public debt at approximately 16.1% of nominal GDP. Given the impacts of the storms, public debt is expected to increase substantially in the medium-term as GoVI borrows to partially finance its Recovery to Development Plan which is expected to put the Territory back on a growth trajectory.

At the end of 2017, Central Government Disbursed Outstanding Debt (DOD), reached $122.50 million, and overall public borrowing which includes risk-weighted parastatal debt, reached a total of $138.90 million. With disbursement of the $50 million Policy Based Loan (PBL) in addition to the disbursement of $1.84 million in Immediate Response Loans (IRL) in 2018, Central Government DOD reached $151.79 million, and overall public borrowing comprising Central Government DOD and risk-weighted parastatals debt, reached approximately $167.97 million.

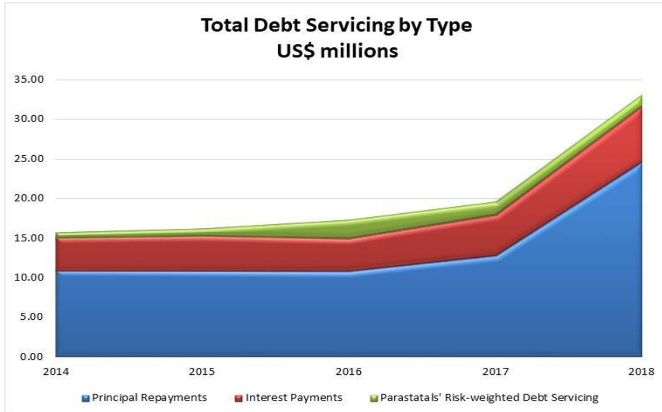
Figure 14. Central Government and Parastatal Risk-weighted DOD, 2014-2018



In 2018, GoVI paid approximately $7.04 million in interest and $24.64 million in principal repayments. The sharp increase in principal repayments from 2017's $12.88 million is a result of paying off the balance on the line of credit with FCIB. As GoVI secures additional debt to partially finance our Recovery and Development Plan, it is expected that our debt servicing costs will increase as well.

[5] Debt as a percentage of GDP is based on revised GDP estimates provided by the Central Statistics Office, 2010-2016.

Figure 15. Principal Repayments and Interest Payments, 2014-2018



Going forward, we place importance on carefully planning disbursement and contractual repayment of newly acquired debt in order to ensure that our debt and debt servicing levels are sustainable, including ongoing amortisation of existing debt. As part of this debt management process, we are proposing refinancing several of our existing loans under the proposed UKG guarantee which will enable us to borrow under more favourable terms, thus lowering our debt servicing requirements (see Debt Strategy section). Performance against the Borrowing Limits and additional Debt Sustainability Ratios demonstrated in the Ratio Analysis section address debt sustainability concerns.

UK Government Guarantee

In November 2017, the UK Government (UKG) announced its offering of a GBP300 million loan guarantee to GoVI to facilitate borrowing to finance our recovery to development plan. In the months following, GoVI has further outlined and detailed the proposed projects within the Recovery to Development Plan (RDP) passed by the House of Assembly (HoA), and this MTFP plays a pivotal role in demonstrating the sustainability of the required borrowing to finance the RDP.

A key factor in the sustainability of proposed borrowing is the more favourable terms achievable through the explicit UKG guarantee. Securing the proposed guarantee would mean that GoVI is able to not only finance additional borrowing, but refinance existing debt under more favourable terms, resulting in reduced interest payments, and longer borrowing terms, and creating more fiscal space for a faster-paced recovery. As such, GoVI's capacity to borrow and our debt trajectory has been enhanced.

4. DISCUSSION OF FISCAL RISKS

The ever-changing and vulnerable nature of our economic and environmental context demands that we consistently monitor and assess those factors which can affect our fiscal and economic trajectory. As such, this discussion of fiscal risks goes some way in beginning to evaluate our risks by identifying and proposing improved management of four of our main, significant risks, namely: vulnerability of financial services, natural disasters, state-owned enterprises, and our growing pension liability.

Revenue from financial services

The primary fiscal risk currently facing the Territory is the risk to our revenue base. In 2016, financial services receipts comprised 55.3% of Central Government revenue. In 2017, with the impact of the storms on other revenue sources, this figure moved to 59.7%. For 2018, this percentage increased even further, to approximately 62%. International regulatory pressures, embodied in the threat of the EU's listing of Non-cooperative Jurisdictions for Tax Purposes, as well as the UK Parliament's passage of the Sanctions and Anti-Money Laundering Act, imply risks to Central Government's revenue base and thus the overall fiscal position of the Territory. Managing these risks has involved a combination of demonstrating that our industry is well-regulated, updating relevant legislative frameworks, continued negotiations with the EU and the UK Government, diversifying our revenue base, and maintaining a fiscal buffer through Reserves, which can be called on in case of economic or fiscal shocks. Use of sensitivity analysis in scenarios of the Medium Term Fiscal Frame (MTFF), as demonstrated in our Sensitivity analysis of shocks to GDP and Revenue within this MTFP, also assists risk management.

Natural disasters

The significance and severity of the risk of natural disasters to the Territory's economy and fiscal position were crystallised with the passage of 2017's storms. The anticipated impact of ongoing climate change on the frequency and severity of natural disasters requires us to engage comprehensive disaster management strategies involving stronger and more resilient building practices; broader public awareness, engagement and training; and more effective communication systems for alerts, warnings and information dissemination. The Department of Disaster Management has led coordination of these risk management strategies. From a fiscal perspective, ensuring that business continuity practices are embedded in the public service, and that appropriate processes are established for accessing and disbursing emergency funding will facilitate our ability to respond to hazard impacts in the future. To this end, in early 2018, we strengthened our natural disaster risk management approach, joining the Caribbean Catastrophe Risk Insurance Facility (CCRIF) with coverage for tropical cyclone, earthquake and excess rainfall events. This source of emergency funding provides increased assurance of our access to funds in effectively responding to disasters.

Maintaining fiscal buffers, including our Reserve Fund, also strengthens our ability to respond in case of environmental and economic shocks.

State-owned enterprises

Given the environmental shocks experienced in 2017, the state-owned enterprises and statutory boards (parastatals) comprising the public sector along with Central Government have not been immune to impacts. This is evidenced for instance by the significant decrease in cruise tourist arrivals which has affected the BVI Ports Authority's revenue inflows from cruise passenger tax, and the damage and temporary closure of large properties catering to overnight visitors that has meant a decrease in the BVI Electricity Corporation's customer base and resulting electricity sales revenue.

The debt of our SoEs or parastatals is included as part of our liabilities and calculation of our net debt and debt servicing ratios at risk-weighted amounts detailed in the Appendix. This recognises the contingent liability that these bodies pose to Central Government. In managing this risk, work to improve the monitoring of and reporting by SoEs is ongoing and will continue in partnership with these bodies.

Pension liability

With pension payments to retirees funded from annual recurrent expenditure outlays, Central Government's growing pension liability poses an increasing fiscal risk for the Territory. Recognising this risk, plans are being made to require employee contribution to pensions, thereby funding the established Pension Fund and availing resources to fund future pension requirements for current employees. Central Government will also be required to contribute sums to the Pension Fund in addressing the increasing unfunded portion of the liability.

5. FISCAL STRATEGY

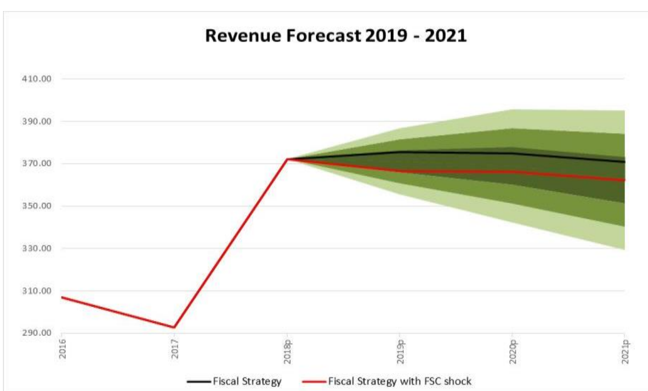
In the medium-term, our fiscal strategy involves increasing our recurrent balance, preserving the Reserve Fund as a buffer for public finances, and maintaining sustainable levels of debt and debt servicing, even as we increase borrowing to fund our Recovery to Development Plan. Specifically, we will pursue the following objectives over the medium-term:

1. Increase the recurrent surplus balance by implementing revenue generating and expenditure efficiency measures;
2. Preserve the Reserve Fund balance as a means of buffering public finances from unexpected future shocks;
3. Manage our pension liability; and
4. Achieve and maintain the borrowing ratios within limits outlined in the Protocols for Effective Financial Management.

Revenue generating initiatives

The noted uptick in overall Government receipts in the last several months has been a direct result of implementation of our fiscal strategy crafted to increase revenue. Through previous MTFPs, we committed to increasing revenue, and implementation of these strategies has witnessed increases in import duties on alcohol and tobacco products, hotel accommodation tax, work permits and cruising permits, the introduction of an environmental/tourism levy, and the increase of various transactional charges within the financial services sector. We estimate that due to these efforts, GoVI has raised an additional over $60 million in 2018 than if these initiatives had not been implemented.

Figure 16. Revenue Forecast with Financial Services Shock



The additional revenue earned from implementation of these initiatives over the last several years has provided a strong base for meeting our operational and development demands. We are cognisant that our economy is still very much in a state of recovery, and as such are not proposing any additional tax initiatives that would place undue burden on individuals and businesses as we rebuild in the short-term. The revenue initiatives added to the MTFF and included in the Appendix are thus initiatives rolled over from the 2018-2020 MTFP. We will focus instead on strengthening our assessment and collection systems for existing taxes and fees.

The revenue generating initiatives added to the Medium Term Fiscal Frame are listed in the Appendix, and have rolled over from the MTFP 2018-2020. Figure 16 above demonstrates the expected trajectory of Central Government Revenue based on implementation of our fiscal strategy, as well as in consideration of a shock to financial services. As the figure shows, with just the fiscal strategy, revenue would reach just over $371.02 million at the end of 2021. Where a shock to financial services is factored in, however, revenue in 2021 would reach only $362.32 million, which is $10 million less than revised revenue expectations for 2018, and approximately $8.7 million below revenue expectations for 2021 without the shock to financial services (see Sensitivity Analysis section). For this reason, where a shock to financial services is experienced, we would need to make further fiscal strategy decisions to buttress revenue receipts and cushion any fallout.

Figure 16 is also a fan chart, factoring in forecast uncertainty. There are six bands in the fan chart. There is a 30% chance that actual revenue receipts will fall within the darkest bands closest to the forecast lines, 60% chance within the middle bands, and 90% chance within the lighter outer bands. By conducting this forecast analysis, we acknowledge the uncertainty in our current forecasting environment, given downside risks to financial services, and some level of ambiguity in the future pace of our ongoing recovery process. Monitoring revenue receipts and other fiscal outcomes will be central to our fiscal management, enabling responsiveness to changing circumstances.

Encouraging expenditure efficiency[6]

As we move forward in our recovery and development, it is clear that value for money is a must. Thus, we renew our commitment to prioritise expenditures, ensuring that current and future taxpayers' dollars are put towards achieving our most urgent operational and developmental objectives. The Recovery and Development Agency, formed earlier this year, is aimed at assisting our efforts in improving transparency and accountability across the public sector. Additionally, we are progressing Procurement legislation which will engender best practices in our procurement processes across various sizes of projects. Our continued expenditure efficiency efforts work towards:

1. <u>Managing the Public Service</u> to improve performance and enhance efficiency and effectiveness in the delivery of services to the public. With some public officers retiring and

[6] The expenditure efficiency initiatives reflected in the Medium Term Fiscal Frame are detailed in the Appendix.

voluntarily leaving the service following the 2017 storms, voluntary attrition resulted in a reduction in the public sector wage bill for 2018. Employee Compensation moved from $119.64 million in 2017 to under $112 million in 2018. As we roll out the Public Sector Transformation programme and retool the public sector, we will aim to improve efficiency and achieve better results for the people of the Territory. Specifically, the action areas of the Public Sector Transformation include:

(i) Redesigning the public service;
(ii) E-Government;
(iii) Improving transparency and accountability;
(iv) Public Sector/Private Sector Collaboration; and
(v) Statutory bodies alignment.

2. Reducing the Cost of Goods and Services by renegotiating costs, including rent of buildings for public purposes. Reducing costs of Entertainment and other discretionary/non-essential spending as well as moving towards privatisation of certain market activities will assist in putting downward pressure on the increasing costs of procuring goods and services. Other initiatives aimed at reducing costs of procuring goods and services include the implementation of a vehicle pool for Government offices, and a negotiating team to negotiate contracts above a proposed $50,000 threshold towards containing costs.

3. Focusing capital expenditure in the short- and medium-terms on recovery and development efforts. To ensure transparency, accountability and efficient use of resources, our Recovery and Development Agency will be tasked with implementing a significant portion of the approved Recovery to Development Plan. This Agency will practice international standard-project appraisal and assessment processes, reassuring our development partners and more importantly the people of the Territory that we are achieving value for money as we rebuild "stronger, smarter, greener and better".

4. Preventing 'Budget Creep'. Our reformed budget processes with rolling forward estimates are aimed at containing expanding expenditure budgets. Through the budget process, Central Government programmes are annually required to identify areas of potential savings used to offset new spending approved by Cabinet.

Addressing contingent liabilities

We are committed to creating a National Pension System. Towards this, we will seek to design this system, largely based on the findings of a report[7] commissioned by the Government. It is envisioned that all new civil servants will be required to contribute to their pension plans under the new National Pension System, with special provisions made for incorporating existing employees into the contributory scheme. With this approach, our intention is to freeze the current pension liability, requiring contributions to fund any future growth in that liability.

Preserving our Reserves

The balance in our Reserve and Contingency Funds – liquid assets - at the end of 2018 is approximately $70 million. Based on the borrowing limits of the Protocols for Effective Financial Management (PEFM), GoVI aims to maintain liquid assets of at least 25% of annual recurrent expenditure. The liquid assets balance of $70 million is equal to approximately 21.6% of recurrent expenditure for 2018. With an expected $6 million contribution to the Reserve Fund in 2019, GoVI is expected to meet this borrowing ratio in 2019.

Maintaining the borrowing ratios

Over the last decades, the GoVI has been able to maintain low levels of debt and thus debt servicing while still meeting development imperatives and accessing necessary funding for capital projects. Following the 2017 storms, we drew on our Reserves to meet immediate needs, and going forward we will necessarily have to borrow additional sums in the medium-term to fund our recovery and development efforts. Our impressive fiscal recovery following the storms has meant that we expect to largely reach and maintain compliance with the borrowing ratios in 2019[8].

Financing the deficit

We have achieved an overall surplus for 2018, as our revenue receipts rebounded impressively, significantly outpacing our expectations. GoVI has consistently met its debt obligations, and has run overall deficits in the past to invest in infrastructural development, including roads and ports, the water and sewerage network, and healthcare facilities. Moving forward from the devastation wreaked

[7] "Proposed System of Supplemental Pension Plan for the Virgin Islands", Pension Management Interactive PMI.
[8] A technical breach in the debt servicing ratio is forecasted for 2019 as we fully repay a portion of existing debt.

by 2017's storms, we have borrowed and forecast requiring additional sums in making prudent investments that foster economic growth and improve the quality of life for our residents.

Our Capital Investment Plan over the next three years reflects our broader Recovery to Development Plan, and will be financed through annual recurrent surpluses and loan disbursements, including additional lending under the proposed UKG guaranteed up to GBP300 million for infrastructural development once approved – See MTFF in Table 3 below.

Table 3. Medium Term Fiscal Frame (MTFF)

MEDIUM TERM FISCAL FRAME (US$ millions)	ACTUALS			PRELIM. ACTUAL	PROJECTIONS		
	2015	2016	2017	2018	2019p	2020p	2021p
Total Revenue	**317.62**	**307.06**	**292.90**	**372.23**	**375.45**	**374.78**	**371.02**
Total Current Rev	**314.59**	**303.04**	**292.90**	**371.21**	**363.12**	**360.26**	**362.82**
Total Tax Revenue	**297.75**	**285.19**	**277.53**	**354.03**	**345.08**	**339.21**	**339.03**
Payroll/Income Tax	49.48	49.87	46.12	50.30	49.00	50.21	48.21
Property Tax	3.21	2.82	1.91	3.02	3.31	4.00	3.71
Taxes on Goods & Services	196.59	186.14	190.68	251.45	245.30	238.74	241.81
Taxes on International Trade	36.18	38.98	31.18	39.56	42.52	41.21	40.15
Other Tax Revenue	12.29	7.37	7.65	9.70	4.96	5.05	5.15
Other Current Revenue	16.84	17.85	15.37	17.19	18.04	21.04	23.79
Grants	3.02	4.02	0.00	1.01	12.33	14.52	8.20
Total Expenditure	**320.62**	**316.54**	**307.12**	**344.97**	**421.27**	**380.48**	**399.58**
Total Primary Expenditure	**316.19**	**312.41**	**301.99**	**337.93**	**414.60**	**374.50**	**392.02**
Total Recurrent Expenditure	**278.58**	**298.61**	**293.82**	**324.56**	**301.32**	**307.66**	**311.57**
Total Interest Payments on Existing Debt	**4.43**	**4.13**	**5.14**	**7.04**	**6.68**	**5.98**	**7.56**
Interest payments - Domestic	3.96	3.71	4.67	5.18	3.14	1.97	2.64
Interest payments - Foreign	0.48	0.42	0.47	1.86	3.53	4.02	4.92
Total Non-Interest Recurrent Expenditure	**274.15**	**294.48**	**288.68**	**317.52**	**294.64**	**301.68**	**304.01**
Employee Compensation	120.22	118.12	119.64	111.72	115.21	117.29	119.26
Goods & Services	67.74	72.47	74.05	63.42	79.36	79.56	79.32
Subsidies & Transfers	67.49	89.94	81.93	124.99	81.48	86.85	86.99
Total Other Expenses	18.70	13.95	13.06	17.38	18.58	17.97	18.45
Total Capital Expenditure and Net Lending	**42.04**	**17.93**	**13.30**	**20.41**	**119.96**	**72.82**	**88.01**
Capital Expenditure	34.04	18.93	14.30	20.41	119.96	72.82	88.01
Net Lending	8.00	-1.00	-1.00	0.00	0.00	0.00	0.00
Contribution to Reserve/Contingency Fund	4.83	10.01	0.00	13.06	6.00	6.00	6.00
OVERALL BALANCE: SURPLUS(DEFICIT)	-7.84	-19.49	-14.22	14.20	-51.83	-11.71	-34.56
PRIMARY BALANCE	-3.40	-15.36	-9.08	21.24	-45.15	-5.72	-27.00
CURRENT BALANCE	34.20	-1.57	-0.92	34.61	68.13	61.12	53.45
Financing	**7.84**	**19.49**	**14.22**	**-14.20**	**51.83**	**11.71**	**34.56**
Net Borrowing	12.98	-3.38	19.32	29.29	22.08	28.23	36.37
Loan Disbursements	23.91	7.50	32.20	53.93	55.66	37.74	44.86
Loan Disbursements - Domestic	20.24	3.55	14.65	0.00	28.58	15.56	44.55
Loan Disbursements - Foreign	3.67	3.95	17.55	53.93	27.08	22.18	0.31
Principal Repayments	10.93	10.88	12.88	24.64	33.58	9.52	8.49
Principal Repayments - Domestic	8.32	8.32	9.87	22.39	29.76	3.75	2.92
Principal Repayments - Foreign	2.61	2.56	3.01	2.25	3.82	5.77	5.57
Unsecured Debt Flow - Change in Cash	-5.14	22.87	-7.40	-43.48	29.74	-16.52	-1.81
Use of Reserve	0.00	0.00	2.30	0.00	0.00	0.00	0.00
Total Central Government DOD and Unsecured Debt	**83.21**	**102.71**	**114.63**	**100.43**	**152.26**	**163.97**	**198.53**
Total CG Disbursed Outstanding Debt	**106.56**	**103.18**	**122.50**	**151.79**	**173.87**	**202.09**	**238.46**
Total CG Disbursed Outstanding Debt - Domestic	90.80	86.03	90.81	68.42	67.24	79.06	120.69
Total CG Disbursed Outstanding Debt - Foreign	15.76	17.15	31.69	83.37	106.63	123.03	117.77
Unsecured Debt Stock - Cumulative Cash Balance	-23.35	-0.47	-7.87	-51.35	-21.61	-38.13	-39.94

6. DEBT STRATEGY

The UK Government has offered an up to GBP300 million guarantee to assist in financing the Territory's recovery and development. In aiming to secure this guarantee, GoVI has prepared a Debt Model which contains a debt management strategy and assesses the sustainability of GoVI's finances over the next twenty years, to 2039.

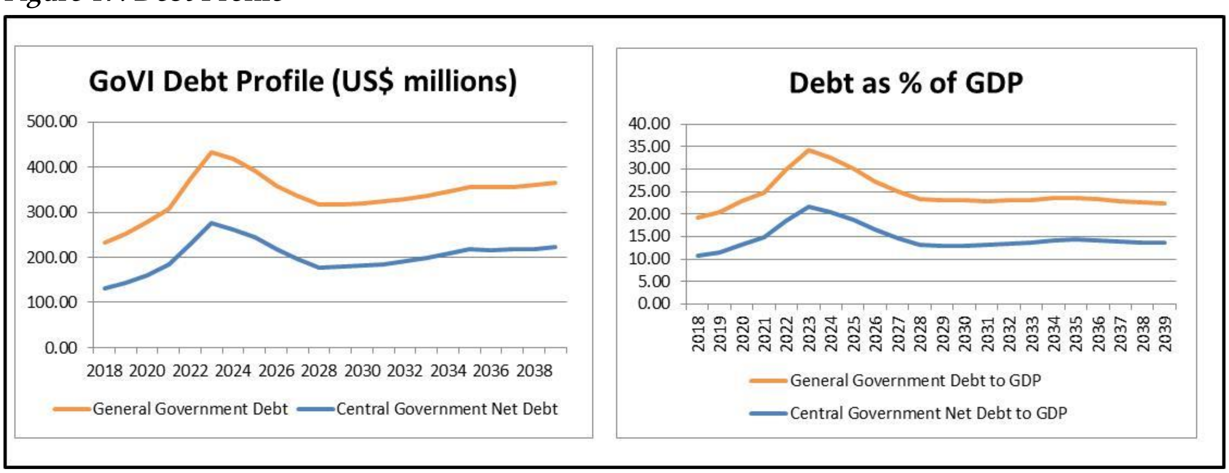
The proposed UKG guarantee will avail GoVI of more favourable borrowing terms as it relates to interest rates and repayment periods, thereby allowing GoVI to borrow greater sums while maintaining sustainable debt servicing amounts.

The proposed Debt Management Strategy over the next twenty years involves:

1) Refinancing a portion of existing debt under the proposed guarantee using a term loan;
2) Utilising a Revolving Credit Facility (RCF) to finance recovery to development projects undertaken by the Recovery and Development Agency, in the first instance;
3) Obtaining an internationally recognised credit rating; and
4) Refinancing the initial term loan and RDA RCF after a period of time into a fixed-rate bond, and term loan not guaranteed by UKG.

The debt strategy outlined above facilitates sustainability of GoVI's finances, with forecasted specific targets for key debt indicators over the next twenty years. Using the strategy outlined, GoVI's General Government debt, which includes total Central Government and parastatals debt, is expected to peak at $433.64 million in 2023 (Figure 17). As a percentage of GDP, General Government debt is expected to peak at 34.2% of GDP in 2023. Similarly, Central Government net debt is expected to reach a peak of $275.21 million in 2023, and as a ratio to GDP, a peak of 21.7% in 2023.

Figure 17: Debt Profile



7. DEBT SUSTAINABILITY RATIO ANALYSIS

Table 4 below demonstrates our performance against the Borrowing Ratio limits in the Protocols for Effective Financial Management over the forecast period, establishing the sustainability of our proposed borrowing. Parastatals debt and debt servicing is risk-weighted according to the schedule in the Appendix, and then included in calculation of the Net debt and Debt servicing ratios.

Table 4. Borrowing Ratios

BORROWING RATIOS	2015	2016	2017	2018	2019p	2020p	2021p
Total Debt of Parastatals	52.87	87.13	81.99	80.90	78.82	76.46	69.29
Total Risk-Weighted Debt of Parastatals	10.57	17.43	16.40	16.18	16.32	17.03	15.93
Capitalized Value of Public Private Partnerships	45.00	41.83	38.25	33.29	28.10	22.67	16.99
Total Public Borrowing	138.79	161.97	169.28	201.25	218.28	241.79	271.38
Total Public Borrowing (Without Unsecured)	162.13	162.44	177.15	201.25	218.28	241.79	271.38
Reserve Fund Balances - Liquid Assets	49.23	59.24	56.94	70.00	76.00	82.00	88.00
Parastatals' Interest payments	1.84	4.25	3.45	3.23	3.09	3.16	3.71
Parastatals' Principal repayments	2.73	7.47	5.13	3.20	8.30	9.31	10.26
Parastatals' Debt Service (Risk-Weighted)	0.91	2.35	1.72	1.28	3.20	5.34	6.15
Total Debt Service (Central Gov. and Parastatals)	16.28	17.36	19.73	32.96	43.46	20.84	22.19
Net Debt	89.56	102.73	112.34	131.25	142.28	159.79	183.38
Net Debt as % of Recurrent Revenue **(max 80%)**	28.47%	33.90%	38.35%	35.36%	39.18%	44.36%	50.54%
Debt Service as % of Recurrent Revenue **(max 10%)**	5.17%	5.73%	6.74%	8.88%	11.97%	5.79%	6.12%
Liquid Assets as % of Recurrent Expenditure **(at least 25%)**	17.67%	19.84%	19.38%	21.57%	25.22%	26.65%	28.24%

Analysis of our forecast performance against the borrowing ratios above indicate that we largely maintain compliance with the Protocols ratios in the medium-term, with only one technical breach anticipated in 2019, as we potentially repay $23.25 million in existing debt, causing our debt service to recurrent revenue ratio to reach 11.95%. It is noted though that we are expected to return to compliance with this ratio in the following years of the forecast period.

In light of our increasing debt portfolio and the mandate to use debt to assist in financing our Recovery to Development Plan over the coming years, we have included in Table 5 additional analysis of debt sustainability ratios. Specifically, we have analysed our debt service as well as interest coverage ratios, which demonstrate our forecasted ability to service our existing debt portfolio including newly acquired loans from the CDB, and service our expectations for additional borrowing. We have also included customary measures of debt sustainability for the medium-term, namely our Debt-to-GDP as well as Debt-to-Revenue ratios (Central Government and Public Sector Debt).

Table 5: Additional Debt Sustainability Ratios

ADDITIONAL DEBT SUSTAINABILITY RATIOS	2015	2016	2017	2018	2019p	2020p	2021p
General Government Debt to GDP	11.59	14.71	16.67	14.93	18.59	19.72	21.66
Change in General Government Debt to GDP	1.18	3.12	1.97	-1.74	3.66	1.13	1.94
General Government Interest as % of Revenue	1.98	2.73	2.93	2.76	2.60	2.44	3.04
Net Debt as % of GDP	7.63	7.96	9.53	10.81	11.45	13.11	14.83
Net Government Income (NGI)	43.47	12.58	4.22	54.71	80.80	73.10	67.01
Total General Government Debt Servicing	19.93	26.74	26.60	38.10	51.65	27.97	30.02
Total General Government Interest Cost	6.27	8.39	8.59	10.27	9.77	9.14	11.27
NGI as % of Total General Government Debt Servicing	2.18	0.47	0.16	1.44	1.56	2.61	2.23
NGI as % of Total General Government Interest Cost	6.93	1.50	0.49	5.33	8.27	8.00	5.94

Net Government Income (NGI) is defined as Total Central Government revenue minus Total Central Government non-interest recurrent expenditure.

In utilising our debt strategy to maintain debt sustainability, we will regularly monitor our fiscal situation, and adjust the strategy as required in order to meet our fiscal and economic objectives. Given the fiscal risks outlined, as well as the uncertainty of our changing environment, agility and the ability to adapt to changing circumstances will be crucial.

In consideration of this, we have prepared a sensitivity analysis through a shock case of the Debt Model and MTFF, with proposed additional fiscal strategy measures that can be used in addressing the shock.

8. SENSITIVITY ANALYSIS

As previously noted, the Virgin Islands economy is currently facing some downside risks to financial services due to the threat of the EU's listing of Non-cooperative Jurisdictions for Tax Purposes, and the requirement to implement a public beneficial ownership register. As such, we have considered the impact of a decline in the economic and revenue contribution of financial services through sensitivity analyses.

The following Table 6 demonstrates the difference between anticipated GDP and revenue outcomes in the base case and shock (to financial services) case scenarios:

Table 6: Sensitivity Assumptions for GDP and Revenue

GROSS DOMESTIC PRODUCT	2017p	2018p	2019p	2020p	2021p
Real GDP - Base	1,115,456,238	1,141,311,748	1,166,916,337	1,157,953,404	1,174,501,090
Real GDP - Shock	1,115,456,238	1,141,311,748	1,116,106,773	1,032,842,665	1,034,543,623
Difference $	-	-	50,809,564	125,110,739	139,957,468
Difference %	0.00%	0.00%	4.35%	10.80%	11.92%

REVENUE	2017p	2018p	2019p	2020p	2021p
Revenue - Base	292,904,032	372,225,186	375,445,819	374,775,684	371,020,842
Revenue - Shock	292,904,032	372,225,186	366,616,869	366,107,193	362,320,137
Difference $	-	-	8,828,950	8,668,491	8,700,705
Difference %	0.00%	0.00%	2.35%	2.31%	2.35%

Where a shock to financial services materialises, GoVI will need to make fiscal policy decisions beyond the core fiscal strategy outlined in the Appendix. Among the fiscal policy options is implementation of a more progressive payroll tax, which would result in a fairer tax system while increasing revenue yield for GoVI to invest in recovery and development in spite of the shock to financial services.

Figure 18. Sensitivity Analysis including possible Fiscal Correction

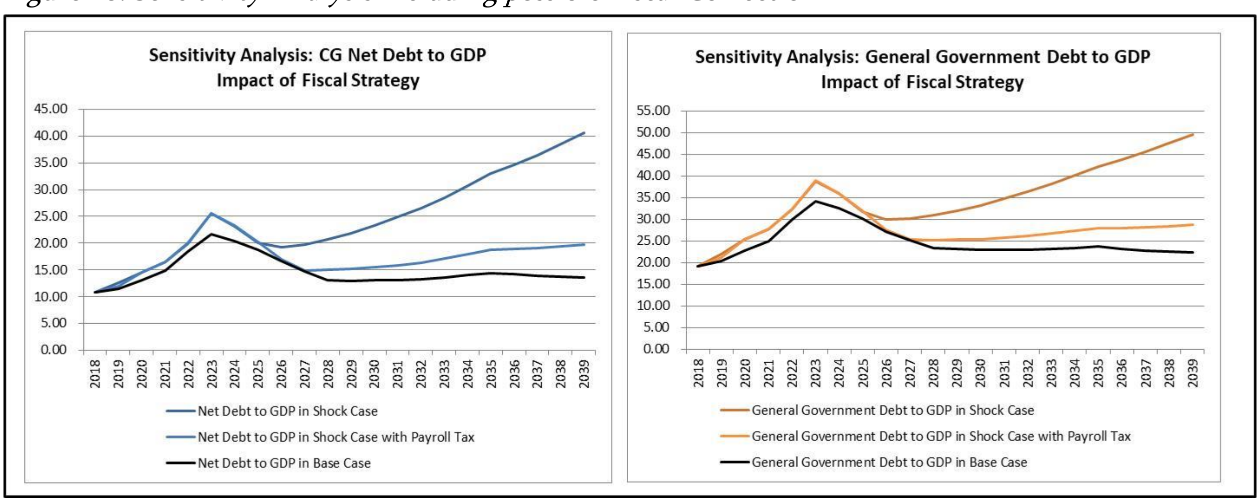


Figure 18 above demonstrates that the impact of the possible fiscal correction through introduction of a more progressive payroll tax on the shock fiscal scenario. As the Figure shows, introduction of an additional fiscal strategy would bring GoVI's finances back into sustainable levels, with Central Government net debt to GDP largely under 25%, and General Government debt to GDP under 40% in the "Shock Case with Payroll Tax" scenarios.

Given the level of forecast uncertainty, we will closely monitor our fiscal outcomes on an ongoing basis. It should be noted that where performance outpaces our targeted expectations, implementation of any fiscal strategy may not be required, and similarly where performance fails to meet targets, consideration will need to be given to enhancing the fiscal strategy. Flexibility of approach is paramount, and policy decisions will necessarily give consideration to the prevailing economic and fiscal environment and current conditions.

9. BUDGET FRAMEWORK

The MTFP sets the framework for the 2019-2021 Budget, and provides a narrative for the figures contained in the Medium Term Fiscal Frame. The Frame sets the upper limit and broad parameters for the Budget, which will be based approximately on the framework in Table 7 below.

Table 7. Budget Framework

	US$ millions
Revenue	375.45
Recurrent Expenditure	(301.32)
Contribution to Reserve	(6.00)
Capital Expenditure and Net Lending	
Capital Expenditure	119.96
Surplus/(Deficit)	(51.83)
Net Borrowing/Deficit Financing	
Loan Disbursements	55.66
Principal Repayments	(33.58)

APPENDIX

Revenue Generating Initiatives added to Medium Term Fiscal Frame (US$ millions)

		Impact on Medium Term Fiscal Frame	Date to Implement	Annual Yield	Risk-weighted 2019	Risk-weighted 2020	Risk-weighted 2021
1	SoEs Revenue	Taxes on Goods and Services	Jan-20	4.95		4.95	4.95
2	Property Tax	Property Tax	Jan-20	1.50		1.50	1.50
3	Water Rates	Other Revenue	Jan-19	8.05	1.04	2.47	8.05
4	Improved Collections*		Jan-19	3.00	3.00	3.00	3.00
5	Payroll Tax**	Income/Payroll Tax	Jan-20	7.31		7.24	7.31
	TOTAL REVENUE			**24.81**	**4.04**	**19.16**	**24.81**

*Improved collections assumed across Payroll tax, Hotel accommodation tax, and Import duties.

**Payroll Tax only included in Shock to financial services scenario.

Expenditure Efficiency Initiatives reflected in Medium Term Fiscal Frame (US$ millions)

		Impact on Medium Term Fiscal Frame	Date to Implement	Annual Yield	Risk-weighted 2019	Risk-weighted 2020	Risk-weighted 2021
1	Rent	Goods and Services	Jul-18	1.62	1.62	1.63	1.63
2	Entertainment	Goods and Services	Jan-18	0.31	0.31	0.32	0.32
3	Fishing Complex Privatisation	Goods and Services	Jan-19	0.36	0.36	0.37	0.37
4	SoEs	Transfers and Subsidies	Jan-20	2.32	2.34	2.36	2.36
5	Assistance Grants	Other Expenditure	Jan-18	1.67	1.68	1.70	1.70
	TOTAL EXPENDITURE			**6.28**	**6.31**	**6.38**	**6.38**

Parastatals Risk-Weighted Debt Schedule (US$ millions)

Statutory Authority / Government Company	Risk Weight	2015	2016	2017	2018	2019p	2020p	2021p
Tourist Board	100%	0	0	0	0	0	0	0
Health Services Authority	80%	0	0	0	0	0	0	0
HL Stoutt Community College	80%	0	0	0	0	0	0	0
Prospect Reef Management Company	80%	0	0	0	0	0	0	0
Airports Authority	50%	0	0	0	0	0.93	2.9	3.45
National Bank of the Virgin Islands	20%	0.14	0.11	0.09	0.07	0.25	0.43	0.62
Electricity Corporation	20%	3.44	7.92	7.37	6.75	5.92	5.06	4.79
Financial Services Commission	20%	0	0	0	0	0	0	0
Ports Authority	20%	7.00	9.39	8.94	9.36	9.22	8.65	7.07
Social Security Board	20%	0	0	0	0	0	0	0
Total Risk-Weighted Debt of Parastatals		**10.57**	**17.43**	**16.40**	**16.18**	**16.32**	**17.03**	**15.93**