TRANSFORMATION FOR RESILIENCE:

Smart Strategies, Stability, Empowered People, and Green Development

Medium Term Fiscal Plan

2020-2022

Government of the Virgin Islands

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MESSAGE FROM THE HONOURABLE PREMIER AND MINISTER OF FINANCE

It has been more than two years since the 2017 storms, and we are still in the recovery phase of restoration. A substantial amount of progress has been made such that we are more focused on planning for the commencement of developmental work, while we complete the major recovery projects. The lessons in resilience learnt from the recovery process after these storms have shaped the lives of my people and our Territory. Notwithstanding, my Government would like to harness this experience from shaping to transforming the lives of my people for resilience into the future.

Our economy despite the decline in company incorporations and revenue from financial services continues to show strong signs of growth triggered by increasing tourist arrivals, and a vibrant construction sector as we continue to rebuild and recover. With a revised Recovery to Development Plan (rRDP), along with strong supporting mechanisms and legislation, my Government's focus is to complete the major capital projects, such as the Elmore Stoutt High School and other schools, the Central Administration Complex, and the West End Terminal. In the execution of these projects, smart strategies will be engrained in the various stages of their implementation. Furthermore, through these projects not only will a stable economy emerge, but an empowered people through capacity building will rise. As a strong economic platform is created for investment, my Government will concentrate on the future sustainable growth of the Territory through green development initiatives.

When I came into Government in February of this year, the Medium Term Fiscal Plan (MTFP) and Budget was already approved by Cabinet and sent to the United Kingdom Government for approval. Therefore, this is my first MTFP and Budget that I have shaped and presented as your Minister of Finance. I have worked with my amazing team of public servants to ensure that this MTFP steers us in the right direction as a Territory. It involves borrowing significant sums of money to propel our recovery and development, but I continue to work tirelessly to negotiate terms and conditions that would not burden future generations and not stagnate the future growth of our country. 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 Management in the medium-term, and continue to maintain this compliance throughout the forecast period.

Along with various scenarios and specific courses of action that can be taken where risks do materalise, my Government and I will achieve this by creating a stable economic platform for investment, focusing on green development and empowering our people into a 'Smart' future.

The Honourable Andrew A. Fahie

INTRODUCTION

Two years following the storms of 2017, the Territory has a new Government driven by a resilience focus for the economy and the people. As we have been defining our priorities and plans, it is expected that recovery spending would be more focused on public sector. The 2018 windfall in revenue receipts from financial services and increased activity in construction facilitated the completion of the L-Shaped Building, and a temporary structure for the re-opening of the West End Terminal. With the decline of our financial services industry, it is imperative that we focus on diversifying our economy through the offering of new products and services within various industries. As we negotiate more favourable terms and conditions under the United Kingdom Government (UKG) Guarantee offer, our Government is laser focused on preserving a stable and sustainable economy for its people. In completing the recovery and moving towards development of a stable economic platform, we are rebuilding stronger using smart strategies, channeling innovation across industries through green development, and empowering our people through training and capacity building. With this focus, we are transforming our economy from recovery to resilience.

This Medium Term Fiscal Plan (MTFP) complements a revised Virgin Islands' Recovery to Development Plan (rRDP), giving more detail on the economic and fiscal context of our continued recovery and development strategies over the next three years (2020-2022). 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. 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 revised 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 possible 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.

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 indicates our fiscal sustainability in the medium term, and demonstrates our trajectory of securing and maintaining compliance with the borrowing limits.

8. **Sensitivity Analysis** demonstrating the effects of a scenario based on a combined shock to the economy due to the impact of a possible global recession, ongoing Brexit negotiations, natural disasters, increased competition, and economic substance, public registers and increased regulations on our financial services industry, and a 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 2020 Budget.

1. ECONOMIC REVIEW AND OUTLOOK

Over the period 2015 to 2016 (prior to the 2017 storms), nominal[1] Gross Domestic Product (GDP) recorded growth of between 7 – 10%. In 2018, the growth of nominal GDP was about 9% which demonstrates that the Virgin Islands economy has commenced its climb towards its pre-storm levels of growth. As the Territory continues to focus on rebuilding smarter and stronger towards a sustainable more investment friendly platform, there are a number of changes that the Territory must undergo to realise this goal. While rebuilding partnerships in tourism towards enhancing our tourism product, many avenues for diversification of our economy from its traditional pillars are being explored. The renewed focus on our tourism product is being seen in our increasing tourist arrival numbers. These changes have become even more important in 2019, as the financial services industry recorded a fall in the number of company incorporations and re-registrations. With the continued rebuilding of our infrastructure, the construction industry continues to boom and our employment figures continue to rebound. These small changes being made now are set to align the future of the Territory as a more sustainable and diversified economy.

Throughout the Territory there are significant signs of the recovery that were mostly driven by the private sector. However, as the full recovery of our physical infrastructure continues to slowly progress, the resiliency of our people has allowed the Government of the Virgin Islands (GoVI) to begin to concentrate on public infrastructure recovery works, such as roads, schools, ports, water and sewerage, and public buildings. As we slowly but steadfastly take on this work, we continue to strive to rebuild in a sustainable and resilient manner, thereby improving our ability to withstand environmental and economic shocks. The process of rebuilding our infrastructure, along with the diversification of our economy and re-building of our tourism sector is expected to lead to positive economic growth from 2020. However, there are possible exogenous risks to our financial services industry, and from a global recession which can negatively impact our services industries.

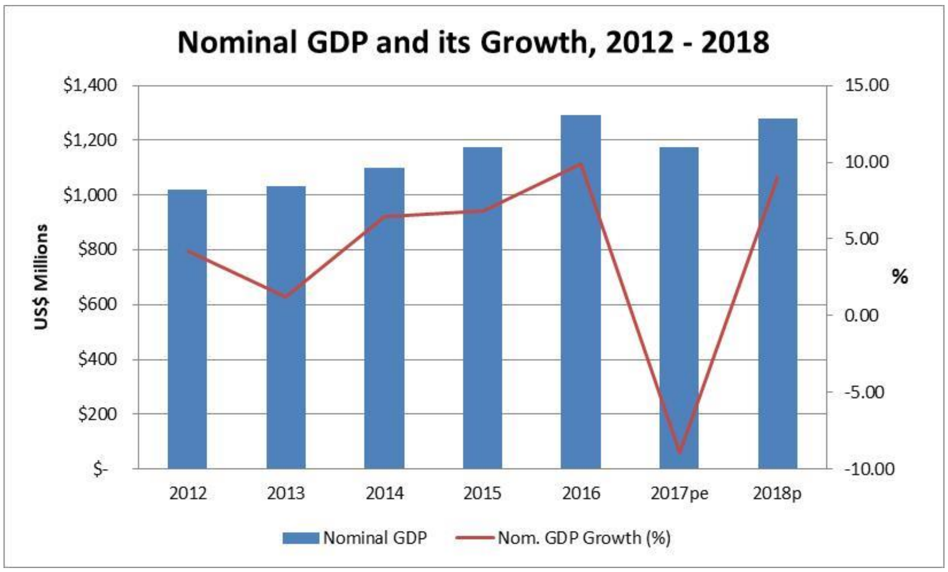
In this section we are reflecting on previous performance, then looking ahead to the medium term with the objective of building and maintaining a stable economy as we transform for resilience. The main points that are being developed further under the sections are: (a) Economic diversification towards a stable economy, (b) Building an investment friendly platform focused on green development, and (c) the importance of the construction sector and its contribution to overall growth, employment and the empowerment of our people.

[1] Nominal means valued at current market prices.

Economic Growth

Based on a 2017 preliminary nominal Gross Domestic Product (GDP)[2] estimate (US$1.18 billion), the economy contracted by about 9.0% when compared to 2016. With all the recovery works that occurred during 2018, along with the significant increase in growth of the financial services industry, it is projected that the nominal GDP grew by around 9.0% from 2017 (see **Figure 1** below). However, with the decline in the financial services industry in 2019 despite the continued significant contribution from construction and the growing tourist arrival numbers, it is forecasted that nominal GDP would only register a small growth of between 1-2% from 2018.

Figure 1. Nominal GDP and Growth, 2012 - 2018



The positive economic growth expected in our economy in 2020 would be lessened by the downside risks to the financial services industry. The fallout in the number of incorporations and re-registrations is expected to impact the financial services industry in a negative way through: (i) the European Union's (EU) threat of being listed as a Non-cooperative Jurisdiction for Tax Purposes, (ii) the UK's Sanctions and Anti-Money Laundering Act (SAMLA) on our financial services industry, (iii) the EU economic substance requirement, and (iv) the requirement that UK Overseas Territories make beneficial ownership registers public by the end of 2023. The general uncertainty from the looming BREXIT deal, along with increased reporting requirements and regional and international competition

[2] GDP estimates from 2010 to 2017 are compiled by the Central Statistics Office (CSO). The 2017 GDP estimate is a preliminary estimate provided by the CSO, prior to the publication of their final 2017 GDP estimates. At the time of compilation of this MTFP, this final estimate was not released.
Higher GDP estimates presented in this MTFP for the period 2010-2016 reflect revisions made by the CSO.
Projections for 2018 to 2022 have been produced by the Macro-Fiscal Unit.
pe means preliminary estimate, and p means projection.

within the industry could also be other factors that may be fueling the declining incorporations and re-registration numbers.

From a sectoral perspective, positive growth is expected in the activities directly related to the tourism sector, such as Accommodation and Food Services and Administrative Services, which captures the marine tourism sector. Higher than usual performance of the construction industry as well as transportation (ferries, airlines, shipping and trucking) which is closely related to both construction and tourism, is expected to continue into 2020 but with a lower rate of growth than in 2018 and 2019. This lower rate is linked to the private-public sector shift in recovery works. However, as the government begins large-scale construction works at the West-End Terminal and other ports of entry, the Central Administration Complex, the schools, and on the roads, the rate of growth of the construction and transportation sectors should once again increase over the period from 2020 to 2023, but not surpass the 2018 level of growth when the Territory was in its peak of recovery.

The potential medium to long-term economic impact from many planned policy changes and initiatives in the medical field, infrastructure, and diversification within the tourism, financial services and business industries would only serve to further stimulate the economy. These initiatives can result in increased revenue for the government for capital works and investment, increased employment, and positive and growing economic trajectory.

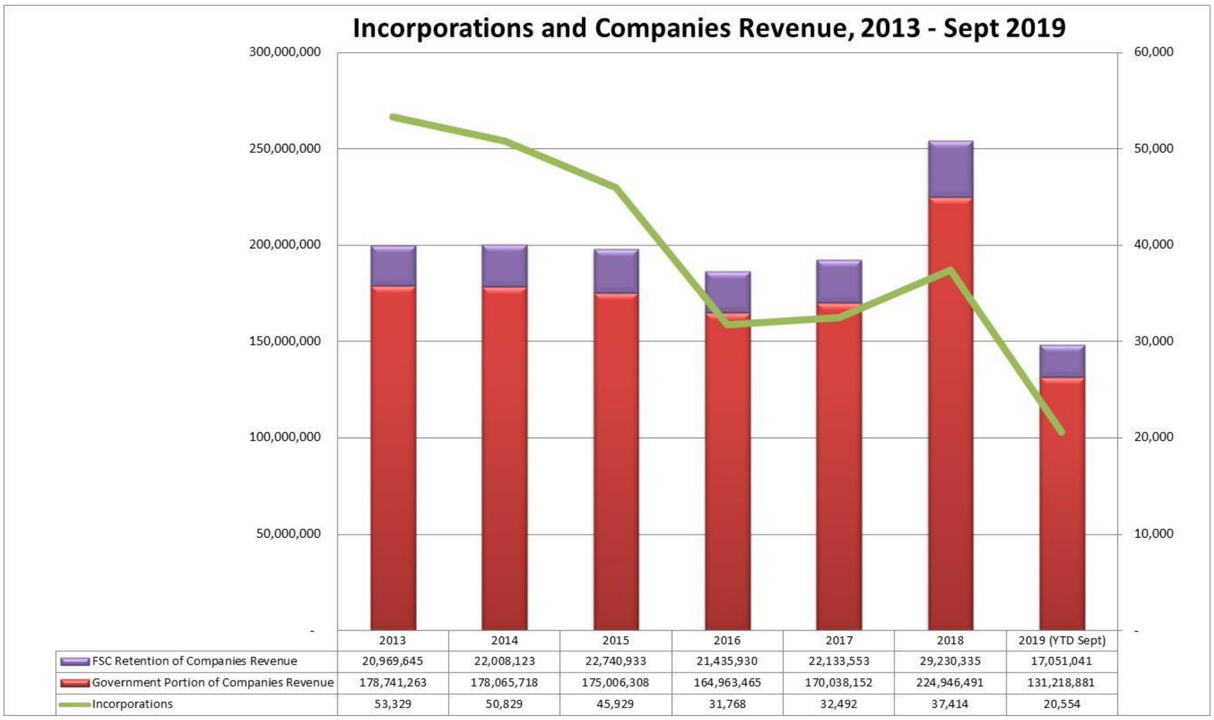
Base case predictions for economic growth have been prepared alongside a sensitivity analysis of a shock scenario which would see negative impacts to economy due to shocks from financial services, natural disasters, and a potential global economic recession, in the medium-term. For a detailed analysis, see the **Sensitivity Analyis** Section.

Financial Services

2018 was an extraordinary year for financial services with a growth of 3.5% in new company incorporations (37,414) in comparison to 2017, and an increase of 31.4% in revenue from the industry ($259.97 million) compared to 2017. The rise in revenue from this industry was propelled primarily by an increased number of incorporations, and an increase in registration fees under the Registry of Corporation Affairs. Over the last several years, the financial services industry has faced challenges related to negative international coverage, derisking practices by banks, and regulatory pressures. The growth recorded in new incorporations and in the overall stock of active companies can be attributed to the many strategies employed within the industry during 2017 prior to the storms to stimulate the development of the financial services industry. A critical component of this growth was 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.

The implementation of the requirements for economic substance on new companies from the 1st January 2019, along with existing companies being required to report by 1st July 2019 could have triggered a decline in the growth of new incorporations. As shown in **Figure 2** below and **Figure 3** two pages ahead, up to September 2019, there was a substantial 27.9% drop in new registrations compared with the same period in 2018. When the first, second and third quarters of 2018 were compared to the same quarters of 2019, declines in growth of 26.4%, 30.3% and 27.1% respectively were registered in new incorporations.

Figure 2. New Company Incorporations and Companies Revenue, 2013 – Sept. 2019[3]

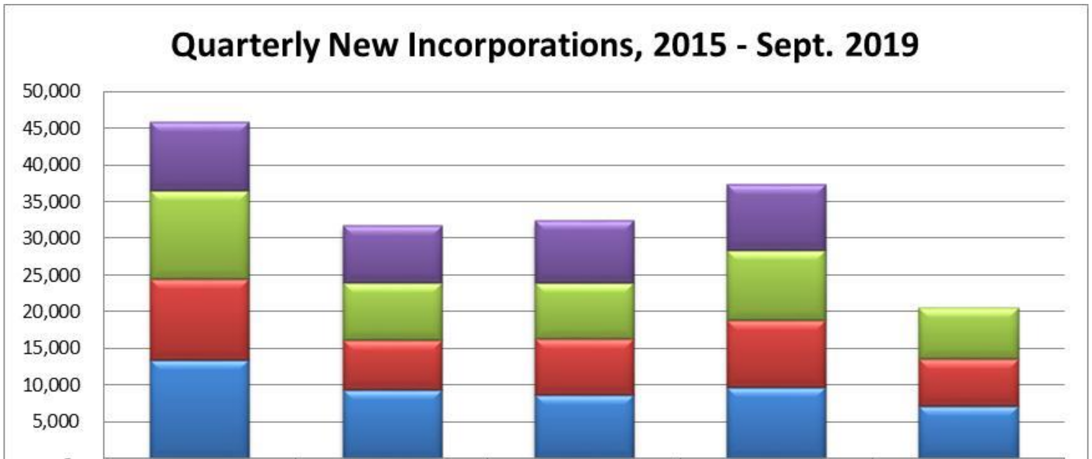


	2013	2014	2015	2016	2017	2018	2019 (YTD Sept)
FSC Retention of Companies Revenue	20,969,645	22,008,123	22,740,933	21,435,930	22,133,553	29,230,335	17,051,041
Government Portion of Companies Revenue	178,741,263	178,065,718	175,006,308	164,963,465	170,038,152	224,946,491	131,218,881
Incorporations	53,329	50,829	45,929	31,768	32,492	37,414	20,554

There was an 39.2% increase in revenue from incorporations/re-registrations at the end of first quarter of 2018 for the same period in 2017. However, at the end of the first quarter in 2019 only a 4.5% increase was recorded (see **Figure 4** on the next page). Although the decline in the growth of revenue from the Registry of Corporate Affairs was not as significant as the drop in new incorporations, there was an overall 8.7% decrease in revenue up to September 2019 when compared with revenue up to September 2018. However, this increase in first quarter growth was not sustained, and a decline in the growth rate of 13.4%, despite re-registrations in May, was recorded in the second quarter when compared with the same period in 2018. The decline in new incorporations and in total revenue from the Registry of Corporate Affairs is expected to continue to the end of 2019.

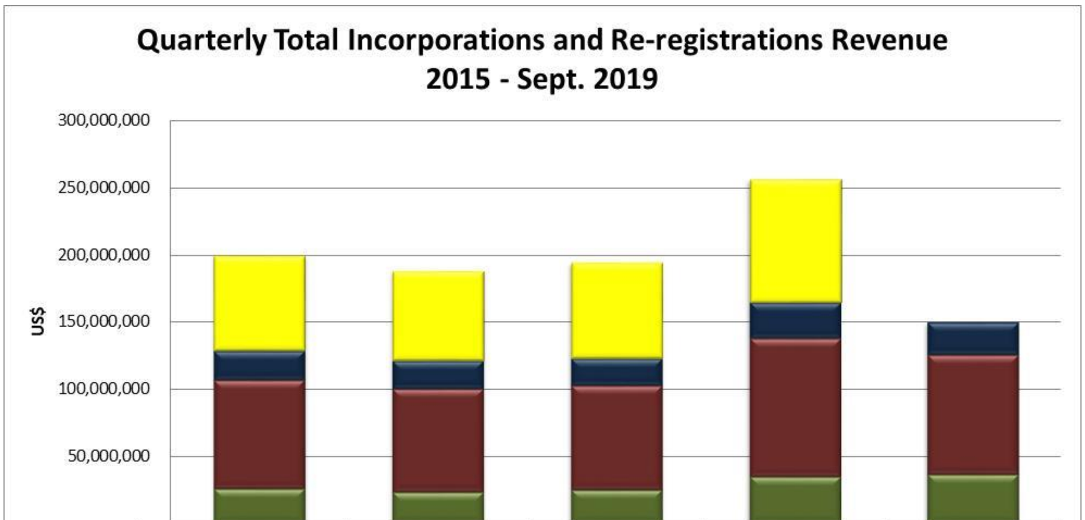
[3] Total Registry of Corporate Affairs revenue is reflected in this Figure. Since 2015, the proportion of financial services revenue remitted to Central Government has been 88.5%.

Figure 3. Quarterly New Company Incorporations, 2015 – Sept. 2019



	2015	2016	2017	2018	2019
Q4	9,388	7,779	8,538	8,916	-
Q3	11,951	7,768	7,639	9,574	6,975
Q2	11,059	6,767	7,621	9,126	6,365
Q1	13,531	9,454	8,694	9,798	7,214

Figure 4. Quarterly Incorporations and Re-registrations Revenue, 2015 – Sept. 2019



	2015	2016	2017	2018	2019
Q4	70,075,747	66,397,128	70,830,289	92,100,550	-
Q3	21,962,479	20,726,625	20,087,470	26,862,259	24,579,120
Q2	81,082,840	77,189,060	78,170,184	102,396,012	88,688,148
Q1	26,299,408	23,878,773	25,362,205	35,297,325	36,901,405

In the medium-term (2020-2022), growth in the financial services industry is anticipated to continue to decline as the industry is faced with an unprecedented level of uncertainty stemming from BREXIT, increasing regulations, possible 'blacklisting' by the EU of International Finance Centres (IFCs), an unstable global macro-economic environment, reputational risk, new competitors, and changing client expectations. Despite these challenges, the Territory is anticipated to continue to maintain its position in the industry with its tried-and-tested service, but the negative impact from changing regulations would outweigh any growth in the industry. Further regulations include the Common Reporting Standard (CRS) to be fully implemented by 2025 and the Public Register of Benefical Ownership on all British Overseas Territories (BOTs) by the end of 2023, along with lower cost technology-driven innovations would continue to retard growth in the industry.

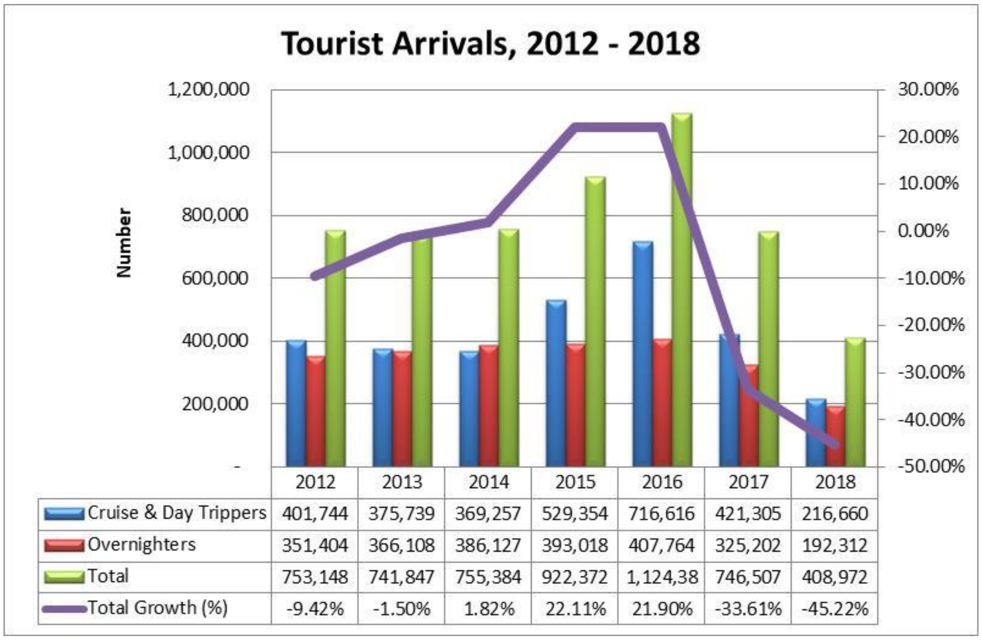
Therefore, it is imperative that the Territory carves out a niche from the vast potential expertise that could be developed through effective regulation and create innovative new products.[4] Regulation should be seen as an opportunity for growth and a tool to enhance the reputation of the industry by making the IFCs more popular with legitimate businesses than with criminals.[5] Emerging markets, like China, India and the Middle East, as opposed to our traditional markets, should be explored in the short-term as there may be potential for these markets to occupy a larger share and be more attractive for business and investment.

Tourism

The recovery of this industry in 2018 continued to be negatively impacted due to its direct reliance on the physical infrastructure of the Territory which is undergoing construction. This impact was evident in the negative growth of 45.2% in overall tourist arrivals in 2018 from arrivals in 2017 (See **Figure 5** on the next page). However, with the resumption of operations by Disney and Norwegian during the last quarter of 2018, the cruise tourism industry is well on its way to rebounding from the negative impacts of the 2017 storms. In addition, with the completion of rebuilding and restoration works on most hotels, villas and guest houses, the overnighter visitor numbers are well on their way to their pre-storms numbers. The fourth quarter of 2018 recorded a growth of about 600% over 2017 when there was a 90.6% decline in total visitor arrivals.

[4] Extracted from the 'Vistra 2020 The disruption advantage: opportunity in a changing world' Publication.
[5] Extracted from the 'Vistra 2020 The disruption advantage: opportunity in a changing world' Publication.

Figure 5. Tourist Arrivals by Type, 2012 - 2018



The quarterly analysis shown in **Figure 6** below demonstrates that the Tourism sector of the Territory is on its way to full recovery as the numbers are almost at the pre-storm levels for the first half of the 2019. In comparing the arrivals for the first half of the years 2017 to 2019, a significant growth of 300.5% was recorded in 2019 from 2018, after registering a decline in growth of 78.4% in 2018 from its 2017 level. This remarkable level of growth from the severe impact on our tourism infrastructure is a positive sign that the industry is on its upward trajectory in the short-term.

Figure 6. Quarterly Tourist Arrivals, 2013 - June 2019

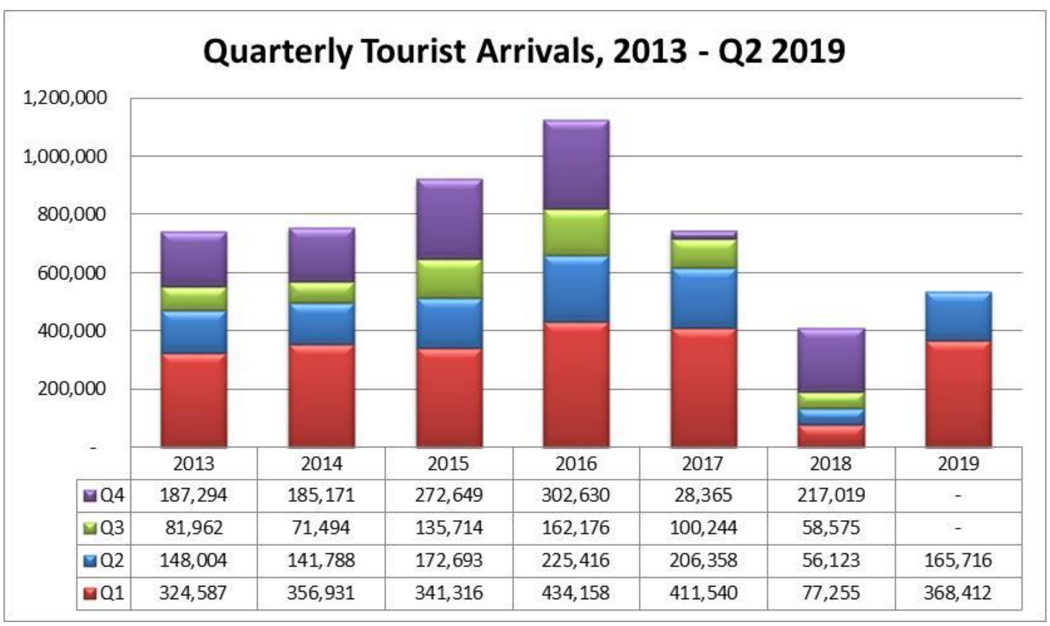
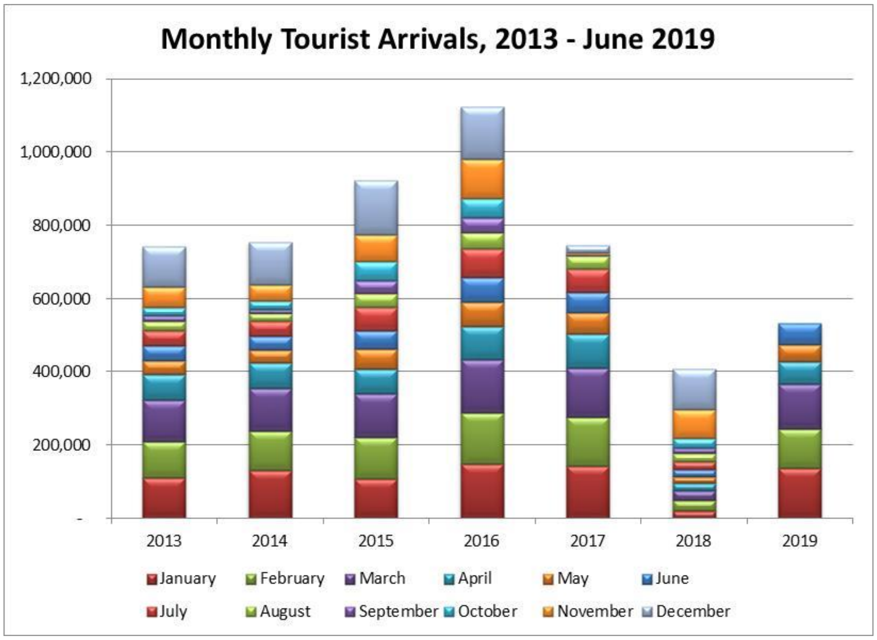


Figure 7. Monthly Tourist Arrivals, 2013 – June 2019



Positive and remarkable growth in the tourism industry is further supported by an analysis of the monthly tourist arrivals from January to June for the years 2013 to 2019 (see **Figure 7** above). Tourist arrivals numbers from January to June 2019 (534,128) were above the 2015 level (514,009) for the same period, and about 125,000 passengers short of the substantial 2016 level, when Tortola Pier Park was launched and the Disney and Norwegian agreements commenced.

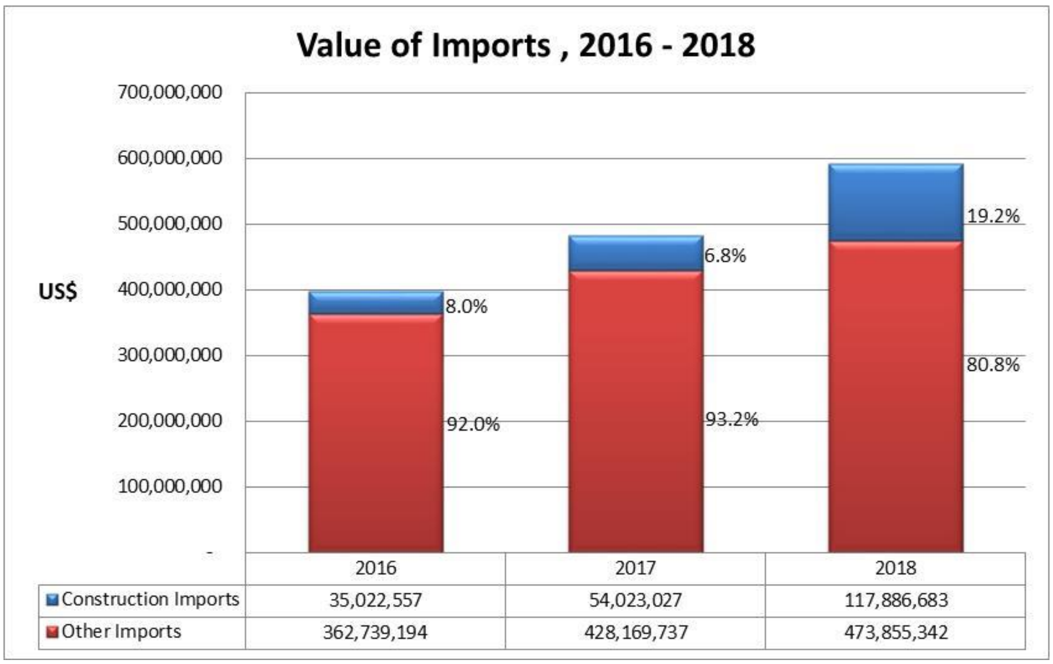
In our base case analysis, it is assumed that this positive movement in the tourism industry will continue in 2019 with the anticipated stimuli to the industry facilitated through: (i) the work of the BVI Tourist Board (BVITB) to re-brand the tourism product and launch new tourism products; (ii) continued restoration of the physical infrastructure with a direct link to tourism, such as roads, ports, tourist attractions, and historical sites; (iii) continued pioneer status assistance to the yachting industry and the accommodation industry and; (iv) a review and revision of the policies and regulations supporting the yachting industry.

It is a reasonable to make an assumption that the Buju Banton's 'Road to Freedom' concert held in July resulted in some level of economic injection into the economy, but there is no data to support this theory. Also, the yachting industry returned with its renowned 'BVI Spring Regatta & Sailing Festival' since the 2017 storms during the week of the 25th to 31st March, 2019. The increased activity in various industries resulting from this event which drew over 800 sailors and 90 boats would certainly have boosted the economy. During April 2019, the Government successfully held negotiations with Carnival Cruise Lines, and on the 14th June 2019 the Carnival Sunrise made an inaugural call to the Territory. Based on the leg-work that has commenced, along with the re-branding and new products being launched within the tourism industry, it is poised to rebound even beyond the levels seen in 2016.

Construction

An analysis of construction imports over the period 2016 to 2018 demonstrates the major boost experienced in this industry from the rebuilding effort following the 2017 storms. In 2016 total construction imports[6] were valued at $35.02 million. In 2017, with a substantial year-on-year increase of 54.3%, construction imports totalled $54.02 million. With many insurance claims being settled during 2018 combined with the delays in supplies due to the demand outweighing the supply, the substantial boost from construction was really experienced in 2018. Construction imports increased by massive 118.2% in 2018 from its 2017 level to attain an all-time high value of $117.89 million (See **Figure 8** below).

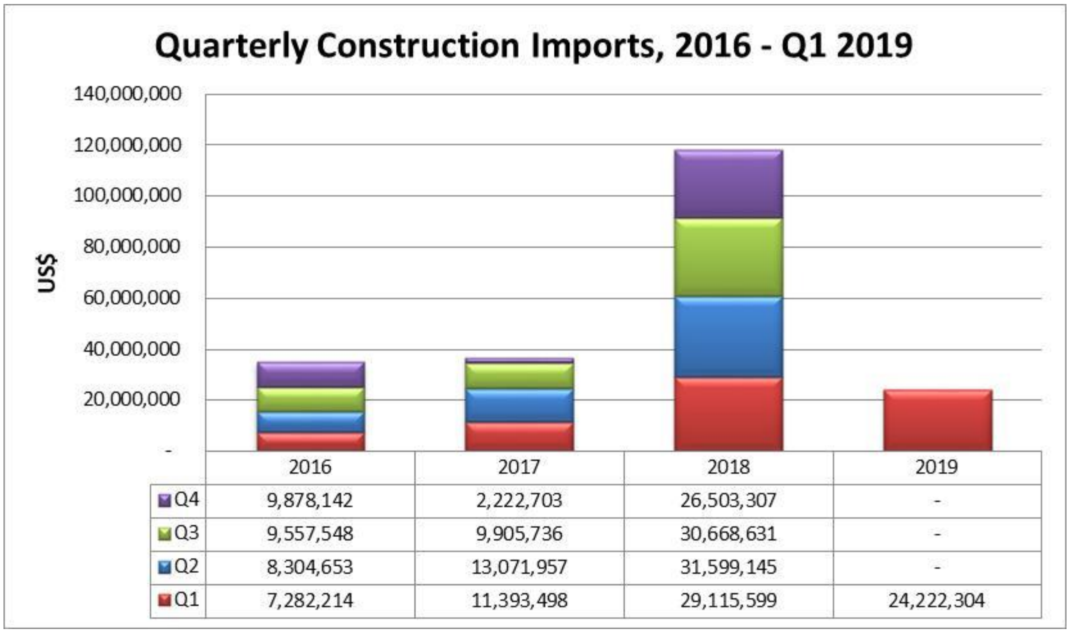
Figure 8. Value of Imports, 2016 - 2018



Construction imports in the first quarter of 2019 declined by 16.8% from its 2018 first quarter level which was 155.5% above the same quarter's level in 2017 (see **Figure 9** on the next page). Even though the first quarter of 2019's construction imports are still well above 2017 pre-storms levels, the decline in the growth experienced pointed to the completion of repair and/or restoration works on many businesses and homes across the Territory. This significant increase in construction activity in 2018 and into 2019 has undoubtedly helped in cushioning the impacts of the storms on tourism and its related industries.

[6] Construction imports include imports classified as sand, gravel, cement, lumber, windows and doors, roofing, asphalt, and other construction materials.
The imports data used in the 2020-2022 MTFP was revised in 2019 to better capture importation of fuel.

Figure 9. Quarterly Construction Imports, 2016 - March 2019



	2016	2017	2018	2019
Q4	9,878,142	2,222,703	26,503,307	-
Q3	9,557,548	9,905,736	30,668,631	-
Q2	8,304,653	13,071,957	31,599,145	-
Q1	7,282,214	11,393,498	29,115,599	24,222,304

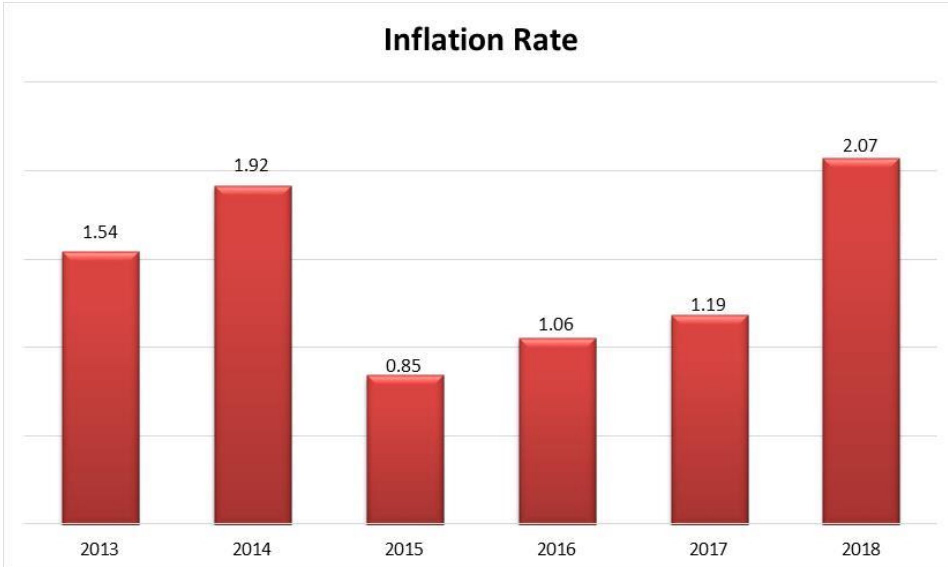
In the medium-term, it is anticipated that activity in the construction industry would continue to growth at higher rates than before the 2017 storms.

Inflation

Maintaining a low, stable rate of inflation is one of the economic targets. In 2018, inflation moved to 2.1% from 1.2% in 2017 (See **Figure 10** on the next page). This significant increase in inflation from 2017 reflects increased prices in health services, transportation, communication, and miscellaneous goods and services. Up to August 2019, the inflation rate stood at 1.8% and continued to be driven mainly by price increases in same categories responsible for the increase in prices in 2018.

As the Territory continues on its journey to recovery and a diversified economy, it will be important to maintain low levels of inflation of less than 3% to ensure that increased economic activity corresponds with an improved standard of living for persons in the Territory.

Figure 10. Inflation Rate, 2013 - 2018



Employment

Overall employment levels increased by an average of 2.4% 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 20,598 persons, up 2.8% from 2015 (See **Figure 11** on the next page).

To better illustrate the impact of the storms on employment numbers, it is best to analyse the data for 2017 in two periods – January to August, (pre-storm period) and September to December (post-storm period). Employment over the first period recorded a 2.1% decline in growth from the number employed at the end of 2016 (20,598). With the net loss of 4,691 employees due to the closure of businesses after the impact of the storms, there was a 23.3% drop in employment over the period September to December from the employment levels at the end of August.

With the resumption of businesses after the completion of repair/rebuild/restoration works, along with the massive recovery works required throughout the Territory, the employment numbers in 2018 which stood at 19,317 (a 24.8% growth from the September to December 2017) were once again on the rise, but not to the levels attained prior to the 2017 storms.

Average earnings in 2016 ($26,976) increased by a mere 0.9% from $26,748 in 2015. By the end of 2017, the effects of the storms were evident in the 1.4% decline in average earnings from the 2016 level stated above. In 2018, with the massive boost in the construction industry due to the recovery works throughout the Territory, average earnings rose to $27,256 which was a 2.1% increase from the 2017 level. Over the period 2012 – 2018, the gap between the average earnings of men and women has been slowly narrowing, with 2018 recording the lowest gap of $865 and consequently demonstrating a lessening of inequality in average annual earnings (See **Figure 11** below).

Figure 11. Employed Persons and Average Earnings by Gender, 2012-2018

As shown in **Figure 12** on the next page, analysis of fulltime employees within income groups over the period 2014 to 2018 demonstrates that more women than men constitute the low income group which directly links to more women working in low-income jobs, such as waitresses, and cleaners. **Table 1** below outlines the ranges of the three income groups – low, mid and high for fulltime employees for the period being analysed.

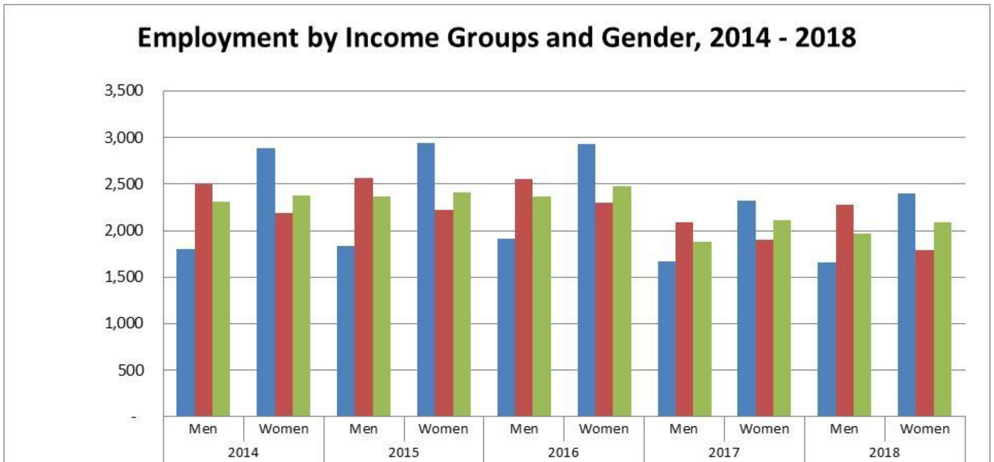
Table 1. Ranges for the Income Groups[7] of Employed Persons, 2014 - 2018

Ranges for Income Groups	2014 - 2016		2017		2018	
	Men	Women	Men	Women	Men	Women
Low Income	0 - $20,530	0 - $20,539	0 - $22,709	0 - $22,718	0 - $22,360	0 - $22,376
Middle Income	$20,531 - $34,265	$20,540 - $34,288	$22,710 -$36,765	$22,719 - $36,779	$22,360 - $36,200	$22,377 - $36,196
High Income	$34,266 - $1,149,996	$34,289 - $750,000	$36,766 - $941,666	$36,780 - $775,000	$36,201 - $900,000	$36,197 - $347,083

The mid income group, like the low-income group, was dominated by women, but the variation in numbers were lower than the variation in the low-income group, over the period 2014 to 2018. On the other hand, the reverse trend was recorded in the high income group with men out-numbering women for all the years, and with the variation widening in successive years. This trend in the high income group is evident in the Territory as more women than men occupy the top positions, such as many directors, managers, and professionals in businesses with very large turn-overs that operate within the financial services and the high-end yachting (administrative services) industries.

[7] The income groups were generated by dividing the annual incomes of fulltime employees in the BVI Social Security Board (SSB) database into three equal income groupings.

Figure 12. Number of Persons Employed by Income Groups and Gender, 2014-2018



	2014 Men	2014 Women	2015 Men	2015 Women	2016 Men	2016 Women	2017 Men	2017 Women	2018 Men	2018 Women
Low Income	1,805	2,880	1,831	2,946	1,915	2,933	1,665	2,326	1,662	2,398
Mid Income	2,497	2,187	2,562	2,217	2,552	2,297	2,086	1,900	2,273	1,788
High Income	2,315	2,372	2,368	2,410	2,371	2,477	1,882	2,116	1,969	2,091

As the Territory's recovery from the 2017 storms settles into a steadier pace in 2019, the tourism industry is well on its way to its pre-storm arrivals level, the Government explores various avenues for diversification of the economy, and the platform for various investment opportunities is being set by the Government, economic growth is expected to steady rise at least to its pre-storm levels. As the economy grows under these favourable conditions, the employment numbers is expected to increase by an estimated 1 – 3% annually, and average earnings to rise annually by modest percentage ranging between 1-2%. In addition, it is anticipated that the expected growth would result in a shift in the number of employees in the low income to the mid and high income groups.

Conclusion

The work towards a strong economic platform for the GoVI to transform for resilience has begun. 2019 tourist arrival numbers up to June shows a 300.5% increase over the same period in 2018 which could be linked to enhanced marketing by the BVI Tourist Board, and rebuilding relationships in the cruise-ship industry. The economic boost from the construction industry which grew by 24.7% from the September to December 2017 is still be felt, but at slower rates. The activity from this industry and a growing tourism industry can be seen in our increasing employment numbers, 19,317 employed at the end of 2018, a 24.8% increase from the position as at the second half of 2017. An inflation rate of 2.1% at the end of 2018 indicates that we have been fortunate to maintain rates between 1-3%, despite the fact that it mirrors that of the United States, our aim importer of goods. It is being anticipated that the economic stimuli resulting from increased activity in tourism, construction, small business development and investment will buffer the impact of a declining financial services industry, both from the prospective of number of incorporations and revenue.

2. RECOVERY AND DEVELOPMENT STRATEGY

The Medium-Term Development Strategy (SEED) is the framework for linking developed policy into medium to long-term result areas. This section highlights how the execution of public funds is being transformed into tangible projects and policies that are being realized in multiple areas of the territory and economy. These areas in turn contribute to achieving the long-term goal of sustainable development.

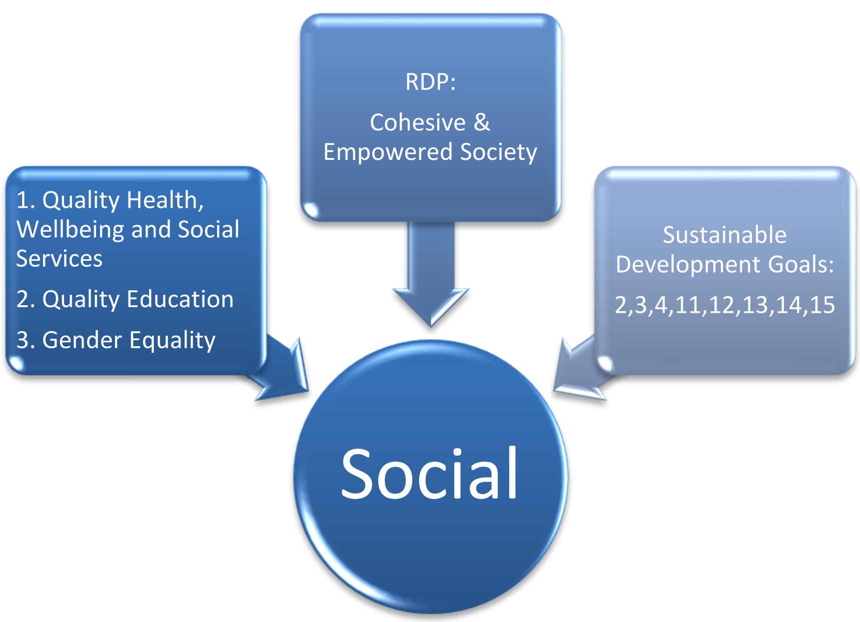
At the turn of the last budget cycle, there was a change in government administration as well as the early operations of the recently established Recovery and Development Agency (RDA). As we continue to recover and focus more on development, we will see the continued partnership of the Government of the Virgin Islands (GoVI) with the RDA. To ensure economic impact and value added growth, the RDA has also been engaging in capacity building workshops and sessions with local contractors in an effort to empower our people, on the road to development. Since the creation and implementation of the projects in the Recovery to Development Plan (RDP), the GoVI can attest to over 70 projects being completed and about another 40 currently in progress. The GoVI has since reviewed "the original" RDP and is now moving forward with a revised Recovery and Development Plan (rRDP). The work of the original RDP has been acknowledged and commended, the GoVI sees this plan as an opportunity to lay solid foundations for further transitioning into a more sustainable and resilient economy. This revised RDP will be the stepping block, to effectively contribute to a longer term National Sustainable Development Plan.

This road to sustainable development also involves having an inclusive approach to development. This approach is expected to contribute immensely to transparency, national pride and fostering the spirit of resilience within our communities. The GoVI has engaged the public in several forums/meetings/discussions, encouraging healthy debate which can also be a catalyst for public sector innovation.

Our overarching framework (SEED) remains steady in the integration of the core values of the RDP and the 2030 Sustainable Development Goals. This alignment of goals and strategies will set the pace for moving in to a smarter, greener and more resilient Virgin Islands.

SEED Results Areas

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 performance of the health and social services system remains a top priority within the Ministry of Health and Social Development in ensuring a sustainable society. The Ministry has a commitment to maintain clean, safe and healthy communities, which boosts the accessibility of healthcare. Human resources are our precious and most valuable resource. The monitoring of our heath indicators keep track of various diseases, life expectancy, social ills, gender issues and the status of infant and elder population. Therefore, a healthy population is positively correlated with a more productive economy.

At the Dr. D. Orlando Smith Hospital we have recently refurbished the Imaging Suite which carries the only digital mammography machine in the Territory, along with a CT Scanner, MRI, General Radiology and Ultrasound capabilities. As the accreditation of the BVI Health Services Authority (BVIHSA) is approaching its final stages this year, they have been preparing for an assessment of the infrastructure, facilities, equipment and any gaps.. The benefits of this will improve the professional image of the institution in the community while showing its dedication to higher standards and quality service.

As part of the service charter, the Ministry of Health and Social Development is also focusing on expanding the Adina Donovan Home through the utilisation of a section of the Old Peebles Hospital. Throughout our Electoral Districts there has been the need to ensure clinics and community centres are operational. Areas that have been highlighted for clinics include Road Town, Virgin Gorda, Jost Van Dyke, Sea Cow's Bay, Cane Garden Bay, Capoons Bay and East End.

In Virgin Gorda significant progress is being made in the construction of the new Nurse Iris O'Neal Medical Centre. This facility will enhance the level of primary care services available including audiological services, chronic care, dental health, pharmacy, and physiotherapy. A major part of health care is lifestyle and prevention, thus as a model, the Nurse Iris O'Neal Medical Centre will be advocating health promotion and education, family health and will also offer home visits. In cases of emergencies this Centre will be available 24 hours and be able to transfer patients to the Dr. D. Orlando Smith Hospital.

2. Quality Education

One of the focus of the ministry was to create an opportunity for equal education, from childhood to tertiary. As part of that focus, the ministry has prioritized raising the standards of the curriculum and strategies to improve the leadership and delivery of services.. The beginning of the 2019/20 school year has been highlighted by the return of the Junior High school students to the newly refurbished L-Shaped building; renamed after education figure Ms. Lillian Adorothy Turnbull, while the senior students remained at the CTL building., In the quest to continue its vision of quality education all secondary school students have returned to full day sessions, ending the shift system. In relation to primary schools, the recovery strategy focused on utilizing the schools that were deemed usable and reconstruct and rehabilitate the severely damaged ones. With support from the Department of Disaster Management and the private sector community, our schools are being rebuilt and repaired stronger and more resilient. Schools that have been reconstructed include Robinson O'Neal, Leonora Delville and Enid Scatliffe Pre-Primary School. The Enis Adams Primary School has also been reconstructed with assistance from a private donor. The action of the private sector signaled a spirit of resilience, and collaborated our drive to deliver an environment that fosters quality education. Also receiving focus from the Government and support from the community is the Eslyn Henley Richiez Special Needs Learning Centre. This learning facility will be reconstructed into a new building and is projected to be completed by December 2020.

A well-rounded education is comprised of more than just academics. The GoVI recognises this and is committed to facilitating the nurturing of skills that contribute to healthy minds and bodies. This is evident through the repairs of recreational facilities including the AO Shirley Recreational Grounds with bathroom facilities and perimeter wall. Repairs were also done to the multi-purposed sports complex in Road Town, basketball courts in Greenland and Purcell Estate and other sporting facilities in Capoons Bay and Carrot Bay. There are intentions to support sports and sports education which will equip our athletes as they compete locally, regionally, and internationally.

To further strengthen quality education in culture and heritage, the Department of Culture launched its first Virtual Museum to motivate young persons to appreciate the value of our Virgin Islands' treasures. A virtual museum tour, which targets persons who are unable, to visit the Territory's museums is a great initiative that will not only reach our local youth and elders alike, but also around the world.

3. Gender Equality

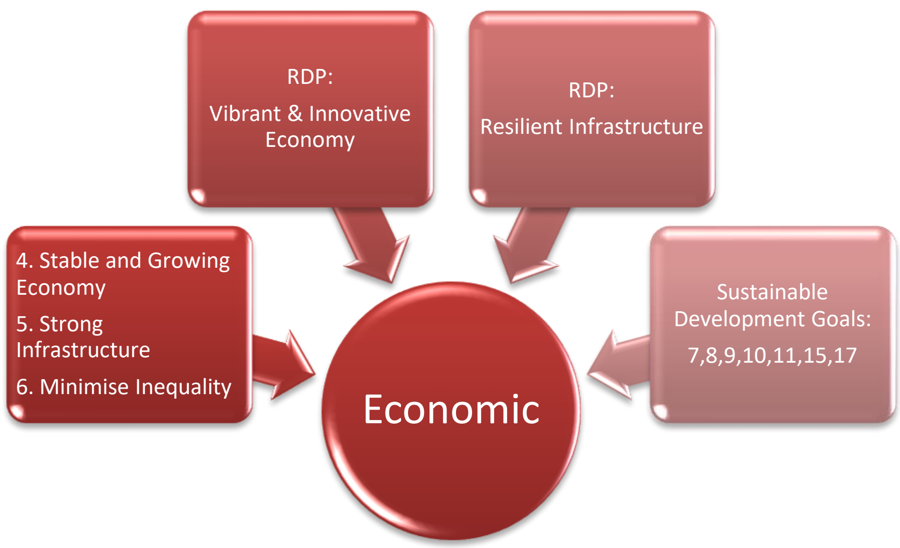
As the Virgin Islands is fully committed to health care and education, there remains equal access to these facilities regardless of gender. The Minister of Health and Social Development has disclosed that the Territory has coverage of 90%-95% of recommended childhood vaccinations. As we aim towards 100% coverage the Minister is strongly advocating to parents and caregivers to take action and continue to reduce the chances of transmission of diseases like Polio, Measles, Hepatitis A and B, Influenza, Tetanus and Chicken Pox. In relation to education, enrollment rates show fair and equal representation for boy and girls. Furthermore other indicators such as graduation and dropout rates, gender-specific policies are continuing to be formulated to minimize risk and contribute to a favorable outcome.

The Ministry of Health and Social Development, through the Office of Gender Affairs, partnered with the Department of Disaster Management (DDM), Ministry of Finance, the Disaster and Recovery Coordinating Committee (DRCC), the Recovery and Development Agency (RDA) and United Nations Development Programme (UNDP) to host the first joint Gender-Responsive Disaster Risk Reduction

Workshop. The aim of the workshop was to understand how natural disasters can differently affect the lives of men and women, and boys and girls, as we sought to develop disaster readiness plans to meet their needs.

This shows the commitment and awareness of our national stakeholders to continue to build capacity to facilitate gender mainstreaming from policy design, through implementation and evaluation. We can be assured that main implementing agencies are sound in gender considerations. The Office of Gender Affairs will continue their work according to the National Policy for Gender Equality and Equity. Equally, gender considerations will be evident through the Department of Disaster Management's Comprehensive Disaster Management Strategy, and the RDA while they implement recovery and reconstruction projects.

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



4. Stable and Growing Economy

The Virgin Islands prides itself on two main economic pillars, financial services and tourism. Other sectors contribute to the overall economic performance of the Territory. The drivers behind our economic activities are our human resources. As part of improving the process of labour hiring, the Department of Labour and Immigration began the process of a prototype system for uploading new work permit applications. This new process is aimed at streamlining the processing of work permits. The testing phase of this digitizing process included 32 companies from across different sectors and also the training of public officers in the use of the system. The impacts of smooth and effective processing of work permits will be felt in all sectors and will contribute to sustaining and growing the economy.

Specific to the financial services sector, 2018 proved to display the strength of the sector by recording the largest overall new incorporations in three years. This has been recognized by the CEO of BVI Finance and is a testament to the quality of business and the standards of professionals in our Territory. The Financial Services Industry continues to remain a significant pillar of economic activity, contributing to our livelihood and being the main driver of the revenue of our Government.

Geographically, other financial support to the residents comes in the form of returning banking services to the island of Virgin Gorda. Since 2018 Virgin Gorda has been without on-island banking services causing a major inconvenience in accessing banking services and also causing an increased cost to the residents due to the need to travel to Tortola to utilise banking facilities. The GoVI has made an agreement with Banco Popular to open a physical branch on the island.

The GoVI has committed to rebuilding our Cruise Tourism product through, discussions with the stakeholders. From these discussions, we expect to see increase in the number of ship calls which should positively impact employment and stimulate the tourism sector. The Government is continuing to work in partnership with local agencies, BVI Ports Authority, BVI Tourist Board, and Cyril B. Romney Pier Park to improve our current market position, and enhance the products offered by the Territory.

Food security in the sector of agriculture and fisheries is another area that we are actively pursuing as an added economic activity. The GoVI has provided support to farmers and fisher folk through financial assistance for the purpose of acquiring boat engines and other supplies. A shipment of materials and supplies including buoys, fish pots, wire, fencing and water tanks was acquired and distributed to aid in the sustainability and resilience of this sector.

Another initiative to support our domestic economy has taken the form of a “1000 Jobs in 1000 Days Initiative”, designed to tackle a number of hovering economic issues simultaneously. This policy seeks to provide opportunities for unemployed youth, will engage with the private sector and fill available vacancies. Not only will jobs be made available but they will receive the necessary training and develop the required skills. This is anticipated to reduce unemployment, widen the consumer base and enhance the skillset of the workforce.

5. Strong Infrastructure

A strong infrastructure supports and strengthens economic activities. Mediums such as electricity, telecommunication, water distribution and ports are vital structures that interconnect to build a strong infrastructure.

One of the most demanded services following the aftermath of the 2017 storms was electricity, since then close to 100% of the grid has been restored. Following the ambitious and commendable effort, subsequent works were executed to repair the power station in Pockwood Pond and supporting equipment. The completion of rehabilitation works to the electrical grid has been completed and estimated at $20.3 million.

In strengthening our infrastructure, Information Communications and Technology (ICT) creates a critical link to our economy through its useage across our main pillars and beyond. The Government has been challenging the telecom service providers to meet the rise in demands and expectations across various sectors. As a matter of regulation it is also necessary that this sector maintains a comparable price in the region and broaden its user base to ensure long-term profitability for operators. The GoVI has drafted a National ICT Policy and has been engaging in consultations with stakeholders to get feedback on its strategy and implementation. ICT infrastructure works have commenced at the following agencies; Her Majesty's Prison, HLSCC, Commercial Court and Fire & Rescue.

Substantial work has been done at all seaports to ensure that they are all operational. The needs of each port varied depending on the level of damage. Road Town and Port Purcell needed significant work and reconfigurations to the buildings. While the dock at St. Thomas Bay, Virgin Gorda had to be re-enforced. Temporary facilities for the West End Ferry Terminal have also been completed, and further plans for this port development are currently in place.

The BVI Airports Authority also required support for re-fencing the airport at Beef Island, rebuilding the vehicle fleet, securing scanning equipment and upgrading the weather station. The Taddy Bay Airport in Virgin Gorda has been reopened and works on the Auguste George Airport in Anegada have also been completed.

The road network is a necessary "vein" for the economy to allow the access to and the movement of people, goods and services. To be able to facilitate the ease of movement, road assessments and repairs were carried out on the main islands. The GoVI has also secured a consultant to design and oversee the construction of roadways and supporting structures. This project is being realized through the Central Development Bank RRL and it is expected that this project will be viewed as a model for enhancing road standards in the Territory. The RDA is also to execute road repairs in Brewer's Bay, Joe's Hill, Nail Bay, Johnson's Ghut and Long Bay.

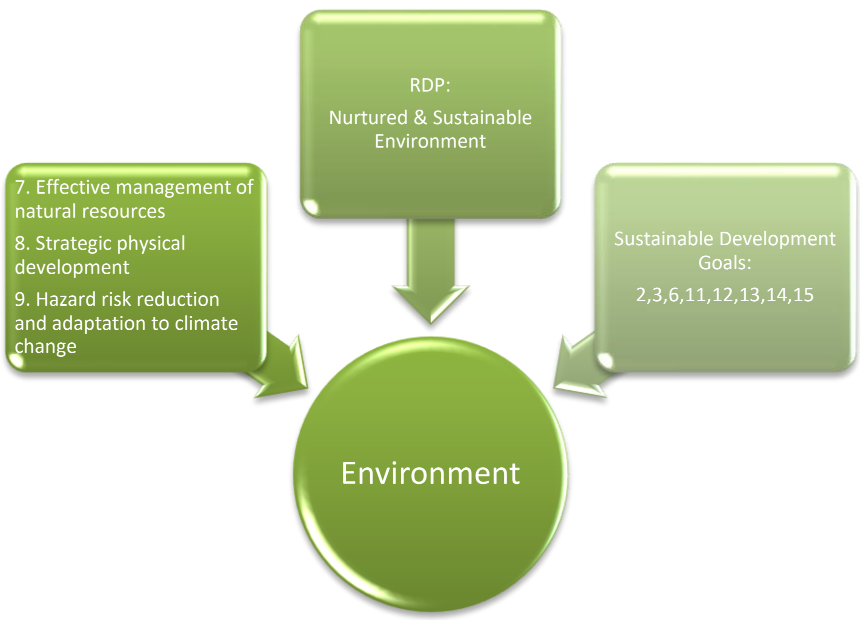
6. Reducing Inequality

Since the storms, inequality issues have been amplified by the increasing income gap between the fortunate and the less fortunate. The disadvantaged are having more difficulty accessing necessary funding for household repairs and reconstruction. Without addressing this growing issue, the vulnerable may become more subjected to lower standards of living and possibly poverty.

As a counter measure, the Ministry of Health and Social Development has begun reviewing the Housing Recovery Assistance Programme. This housing assistance was created to provide partial or full grants to persons in need of aid to repair and restore their homes. According to the applications received an estimated $40 million would be necessary for the overall funding of this programme. Recent updates indicate that so far only $15 million has been allotted in 2018 to this effort. Due to these challenges in gaining funding for recovery in the medium term, access has been restricted to the most vulnerable.

Price increases from 2018 placed addition pressures on the less fortunate in their ability to excise their purchasing power to afford basic needs. As a result of this pressure the more vulnerable experienced more social issues, such incest, rape, prostitution, and mental and physical abuse.

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



7. Effective Management of Natural Resources and Natural Environment

Sustainable development looks beyond economic growth and social protection. It is imperative to remember that our economy exists within the bounds of our natural environment, as it is not only a resource base for goods and services but its maintenance tangibly adds value our tourism product. Therefore we must protect our natural environment, not only for now, but for future generations.

In July 2019, GoVI approved the Green Paper on the Proposed Environmental Management and Climate Change Adaptation Bill. This bill aims to establish the overarching legislation to keep in line with everyone's right to a clean and healthy environment. This includes legal systems for environmental protection, and enhancing the knowledge of residents pertaining to natural and physical attributes of the Virgin Islands. Additionally, there has been the development of a Beach Use Policy and the GoVI has also engaged in consultations with stakeholders on the usage of public beaches to the benefit of everyone. Beaches provide benefits to the public, socially and economically, but this should not come at the cost of the ecological integrity.

The Ministry of Natural Resources, Labour and Immigration continues its mandate to protect specific areas as well as the biodiversity found in these locations. In partnership with National Parks Trust (NPT) and the Royal Botanical Gardens at Kew, they have worked on the Tropical Important Plants Project, and have identified and mapped about 18 areas to protect and nurture the unique biodiversity of the Virgin Islands. This project will provide a platform for educating the public about the range of indigenous species and locations that are to be treated as our treasures. It is expected that this information will permeate through our community and schools.

This Ministry also engaged in a nine month consultancy to revise ongoing practices, leading up to a comprehensive Waste Management Strategy. The aim of this strategy is to recommend policies, legal framework and best practices suited for the Virgin Islands. Smart strategies are to be developed to address operations, approaches to litter and derelicts, fee generation, waste collection and disposal, recycling, waste reduction, and landfill usage.

The GoVI has made other tangible efforts through the removal of derelict vehicles, bulky waste and debris. This waste has been accumulated from the four main populated islands (Tortola, Anegada, Virgin Gorda and Jost Van Dyke). The Department of Waste Management has removed approximately 1700 tons of scrap metal and approximately 600 derelict vehicles for export to Colombia for recycling. This has played a major role in the beautification efforts since the storms and the management of the amount of waste found at Cox Heath.

A Memorandum of Understanding between the Minister of Health and Social Development and Green VI had been developed. Under this agreement, there will be recycling bins placed throughout the Territory, and recycling trucks will be purchased for use on Tortola and Virgin Gorda. Also recycling data will be given to Green VI to analyse in order to develop, refine and implement new strategies in efficient recycling.

8. Strategic Physical Development

The "built environment" is just as important as the natural environment. We will continue to develop our physical infrastructure and must continue to give consideration to our unique landscape. We must strategically build in areas that are of lower risk to hazards in an effort to not compromise our natural environment. In particular, our roads and water and sewage networks require careful strategic considerations in order to avoid negative impacts on the environment as well as logistical risks to the public.

The national sewerage infrastructure has to ensure that homes and businesses are not affected by poor treatment services. The Ministry of Transportation, Works and Utilities is working closely with the team at the Water and Sewerage Department to upgrade the Cane Garden Bay sewerage treatment plant and sewerage network. This project includes, retrofitting the treatment plant, assessing the lift stations and identifying areas with the highest flows. As it relates to the water network, a three hundred thousand (300,000) gallon reservoir is slated to be installed on Virgin Gorda. This brand new reservoir replaces the damaged one hundred and eighteen thousand (118,000) gallon reservoir that sustained damages in 2017 and will provide an undisrupted water supply to the North Sound residents.

While it is important to maintain the natural environment, some physical structures are necessary to facilitate proper usage of the services they provide. The GoVI in collaboration with the Marine Association of the BVI has successfully reinstalled the new moorings system at the Paraquita Bay Lagoon. At some of our more popular beaches, such as Brewers Bay and Long bay, some bathroom facilities will be constructed. Simple structures such as these will play an important role in preserving the quality of the beaches and safeguarding the users.

9. Hazard Risk Reduction and Adaptation to Climate Change

The monitoring of vulnerable areas associated with natural disasters is a crucial part of disaster resilience and development of counter-measures. Particularly in the residential area of Cane Garden Bay which is close to the coastline, the installed rock revetment coastal defense system proved to withstand the storm surge of Hurricane Irma. Since then this project has been identified as a major successful model for the Organisation of Eastern Caribbean States (OECS). However with more works to be done, Cane Garden Bay was still identified for a wider revitalization project.

The GoVI has significantly invested in the Territory-wide Multi Hazard Early Warning System. This system included the purchase of six sirens, 18 weather stations, five Seismic units, five encoders and 100 smart radios, which have all been installed throughout the Territory including all schools. The emergency network has been built to reach beyond the four main islands of the Territory and supports communication at close to 400 sites. This investment will play an instrumental role in reducing risks to natural disasters.

The GoVI is dedicated to overseeing the repair of emergency facilities and identification of other buildings that can be utilised in the event of an emergency. Primary schools and community centres are being assessed for structural integrity and repairs are being made accordingly. Additional support is also being provided by the EU and CDEMA to ensure these building are of the highest possible standard. The recovery of 10 marine shelters are being managed by the Ministry of Natural Resources, Labour and Immigration.

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

10. Safety and justice for all persons

Promoting the safety of all persons is vital to human rights and the preservation of our territorial reputation. As mentioned previously, the early warning system will reinforce safety for all persons during times of uncertainty. It provides the population with the necessary information to secure their property, belongings and most importantly themselves. In tandem with the early warning system, the Department of Disaster Management has made available to information officers throughout the Public Service training in Crisis Communication. This training certifies that the Virgin Islands can maintain standards for emergency management accreditation. Further emphasizing on the importance of saving lives, officers from the Royal Virgin Islands Police Force, BVI Fire and Rescue Services and other critical departments completed the first DARTdrones' Basic Flight Training. The officers received hands-on training in the use of drones that would be used to aid in conducting searches as well as surveying the landscapes after a disaster.

The presence of police helps to keep crime low and give the communities the feeling of safety. To support this, the buildings from which they are operating need to be secure. The RDA has earmarked funding to repair the police stations across the four main islands. There will also be the construction of a new Police Headquarters and repairs to the Marine Base. Central Government has taken the lead on the rehabilitation of the Magistrates Court as well as the Judges' residences.

The Premier has spearheaded the programme "Clear Path to Regularisation" on the better manage the issue of residency and belonger status. The aim of the GoVI was to give all deserving residents a sense of security according to the number years they have lived in the Territory and contributed to the economy. It sets the platform for qualified persons to continue to invest and build a future in this country that they call home. This programme seeks to keep the Government in-line with our constitution, strengthen our national security and further reap some economic benefits.

11. Effective Governance

Maintaining standards of good governance continues to be a top priority of this administration. This entails keeping with appropriate standards of management, and developing policies for the benefit of all. Good governance also speaks to upholding the integrity of the public service and the implementation of international best practices that will place the Virgin Islands as one of the top ranking institutions in the region and around the world. Public Service Transformation is an initiative that is being led by the Deputy Governor's Office, which includes incorporating new and innovative processes into the everyday operations of the Government. This ranges from revamping of old processes and digitizing records management, to rewarding excellent service by our "front-line" public servants through the Virtual Mailbox to rate customer services. The Public Sector Transformation Programme includes the implementation of E-government services and has sparked the beginning phases of a digital transformation. All of these elements will work to guarantee that our Public Service continues to strive for excellence.

The GoVI remains committed to the implementation of the United Nations 2030 Sustainable Development Goals. As these goals range across various sectors, we continue to engage with international agencies to keep up-to-date with developments around the world in implementation practices. The GoVI remains devoted to transparency, sustainable and inclusive growth, and creating opportunities to empower our people.

12. International Relations

The importance of healthy international relations is a priority for the GoVI as this plays a huge role regionally and on the global stage. The direct relationship to the UKG remains in good faith as the Premier travelled in September to the United Kingdom to discuss details around the proposed support through a loan guarantee. As mentioned by the Premier, these discussions have been vital to ensuring an agreement caters to the financial requirements stated under the Protocols for Effective Financial

Management, while securing the potential for involvement of our locals in the recovery projects which would allow for capacity building.

In May 2019, BVI Finance hosted educational sessions for the private sector in Hong Kong and London on the economic susbstance requirements. These sessions also gathered comments and feedback on the BOSSs platform that was introduced in 2017. The GoVI has also made amendments to our legislation to remain in compliance with the European Union's economic substance regulations and avoid a "blacklist" designation. The Virgin Islands welcomes the EU's recognition of our Territory as a cooperative jurisdiction and we continue to engage positively with EU officials. The Premier continues to emphasise the Virgin Islands' commitment to effective cooperation between relevant law enforcement agencies and expects ongoing actions to remain proactive in our relationships with our partners.

3. FISCAL REVIEW

Recurrent Revenue

As shown in **Table 2** below, recurrent revenue for 2018 totaled $387.89 million which includes $11.35 million in capital claims from proceeds of insurance, a $94.99 million (32.4%) above 2017 receipts, and $76.85 million (24.7%) above the approved budget. This performance above budget was largely due to the increases in financial services, hotel accommodation tax, work permits, cruising permits, taxes on international trade, and the environmental/tourism levy. The Financial Services Commission also increased their fees at the beginning of 2018 thus boosting their revenue receipts by 31.4% ($55 million) from 2017 followed by the issuance of work permits, which saw a 126.2% ($7.20 million) increase from 2017. FSC Revenue contributed to 58.0% of total recurrent revenue receipts in 2018.

Table 2. Annual Revenue 2019

Annual Revenue 2019	Original Budget	Preliminary Actual 2019	Actual 2018	Budget Variance $	Budget Variance %	Prior Year Variance $	Prior Year Variance %
TAX REVENUE	**342.46**	**334.28**	**354.14**	**(8.19)**	**-2.4%**	**(19.86)**	**-5.6%**
Income/Payroll Tax	50.53	51.84	50.34	1.31	2.6%	1.50	3.0%
Property Tax	2.72	2.86	3.02	0.14	5.3%	(0.16)	-5.2%
Taxes on Goods and Services	244.14	228.97	251.34	(15.17)	-6.2%	(22.37)	-8.9%
FSC Revenue	*219.03*	*201.02*	*224.87*	*(18.01)*	*-8.2%*	*(23.84)*	*-10.6%*
Taxes on International Trade	40.17	44.73	39.69	4.56	11.3%	5.04	12.7%
Other Taxes	4.91	5.87	9.75	0.96	19.6%	(3.88)	-39.8%
GRANTS	**2.82**	**0.19**	**5.01**	**(2.63)**	**-93.4%**	**(4.82)**	**-96.3%**
OTHER REVENUE	**16.55**	**15.84**	**28.74**	**(0.71)**	**-4.3%**	**(12.90)**	**-44.9%**
TOTAL RECURRENT REVENUE	**361.83**	**350.30**	**387.89**	**(11.53)**	**-3.2%**	**(37.59)**	**-9.7%**

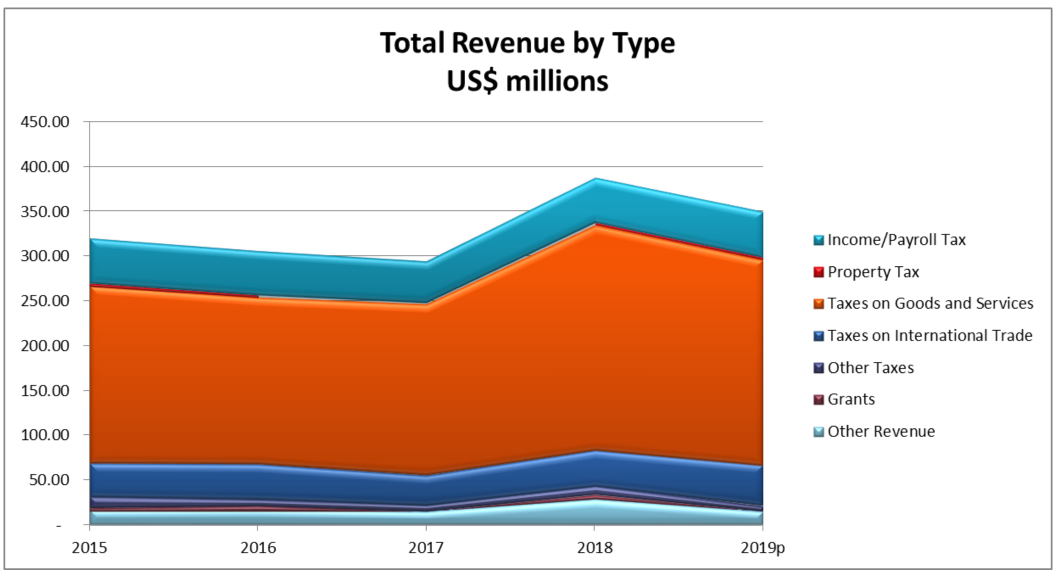
It is projected that in 2019, there will be a decline in revenue mainly due the newly implemented economic substance on the 1st of January for new incorporations and the 1st of July for existing incorporations. Other factors include the slowing down of our economy due to recovery works, the looming BREXIT deal, and UKG's 2023 deadline to impose public registers of beneficial ownership. As at September 2019, revenue stood at $249.63 million, a $14.44 million (5.5%) decrease from September 2018. Based on recurrent revenue numbers up to September 2019, it is expected that the end of year revenue would be $350.30 million. Revenue in 2019 would be driven by FSC Revenues with an approximate 57.4% share, followed by income from Payroll Tax with an approximate 14.8% share (see **Figure 13** on the next page).

The increase under Taxes on International Trade for 2019 is assumed to mainly stem from the continued importation of materials tied to our construction for recovery, both residential and commercial. However, as most homes have been completed or are near completion, there has been a decline on residential recovery. Public Sector construction and recovery is expected to accelerate as the RDA in collaboration with GoVI begin rolling out major capital investment projects slated for rehabilitation and recovery.

The decline in revenue from the financial services industry in 2019 compared to 2018 is assumed to be driven by a combination of factors, including economic substance requirement and the approaching 2023 deadline regarding the Public Registers of Beneficial Ownership.

Though rehabilitation and recovery is still ongoing and is expected to continue through to 2023, revenue streams relating to such will begin to see a decline as the focus of the recovery shifts from being private sector driven to be led by public sector. Revenue in 2019 is expected to come in at 3.2% below its budget expectations ($350.30 million) and 9.7% below 2018 revenue receipts, consistent with the trend within the financial services sector. However, there has been some growth in other revenue streams such as Import Duties, Hotel Accommodation tax and Payroll Tax Receipts for 2019.

Figure 13. Total Annual Revenue, 2015-2019p



Recurrent Expenditure

Overall recurrent expenditure for 2018 was $324.67 million, slightly under-budget, representing a 4.3% budget variance.

Table 3. Annual Expenditure 2019

Annual Expenditure 2019	Original Budget	Preliminary Actual 2019	Actual 2018	Budget Variance $	Budget Variance %	Prior Year Variance $	Prior Year Variance %
RECURRENT EXPENDITURE	**331.19**	**293.45**	**324.67**	**(37.74)**	**-11.4%**	**(31.22)**	**-9.6%**
Employee Compensation	119.73	116.52	111.72	(3.21)	-2.7%	4.80	4.3%
Goods and Services	81.31	62.26	63.53	(19.06)	-23.4%	(1.27)	-2.0%
Interest	5.50	5.98	7.04	0.48	8.7%	(1.06)	-15.1%
Transfers and Subsidies	105.28	98.25	125.00	(7.03)	-6.7%	(26.75)	-21.4%
Other Expenses	19.37	10.45	17.38	(8.92)	-46.1%	(6.93)	-39.9%
CAPITAL EXPENDITURE	**75.37**	**26.42**	**20.41**	**(48.95)**	**-64.9%**	**6.01**	**29.5%**
TOTAL EXPENDITURE	**406.56**	**319.87**	**345.08**	**(86.68)**	**-21.3%**	**(25.21)**	**-7.3%**

Though under budget, 2018's recurrent expenditure was significantly high compared to 2017 and 2019 (see **Table 3** above). This was largely attributed to an increase in Transfers and Subsidies, as GoVI transferred funds to the National Bank of the Virgin Islands for implementation of the National Housing Programme, as well as to the Recovery and Development Agency for implementation of agreed projects under the Recovery to Development Plan (RDP).

Recurrent expenditure for 2019 is expected to come in at 11.4% ($37.74 million) under approved budget expectations at $293.45 million from a budget of $331.19 million even with GoVI paying 2016 increments throughout the second half of the year. We also continue to expect to see a steady decline in Goods and Services which is anticipated to come in at 2.0% less than 2018 and 23.4% less than budget expectations ($62.26 million) (See **Figure 14** on the next page). The only over-expenditure for 2019 is projected to be in Interest in the amount of about $0.48 million. This has occurred because it was anticipated that GoVI would have been accepting the UKG loan guarantee in early 2019 which would have seen us refinancing some of our debt by the middle of 2019 under the said guarantee at a lower and more favourable interest rate.

Figure 15 on the next page depicts a visual comparison of our recurrent revenue and recurrent expenditure from 2015-2019.

Figure 14. Recurrent Expenditure, 2015-2019p

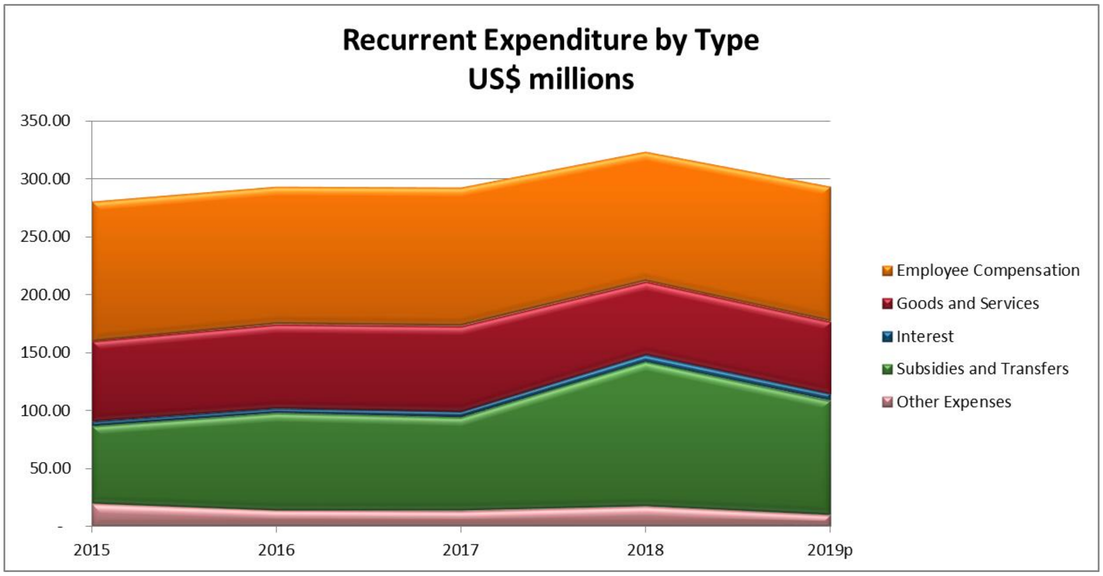
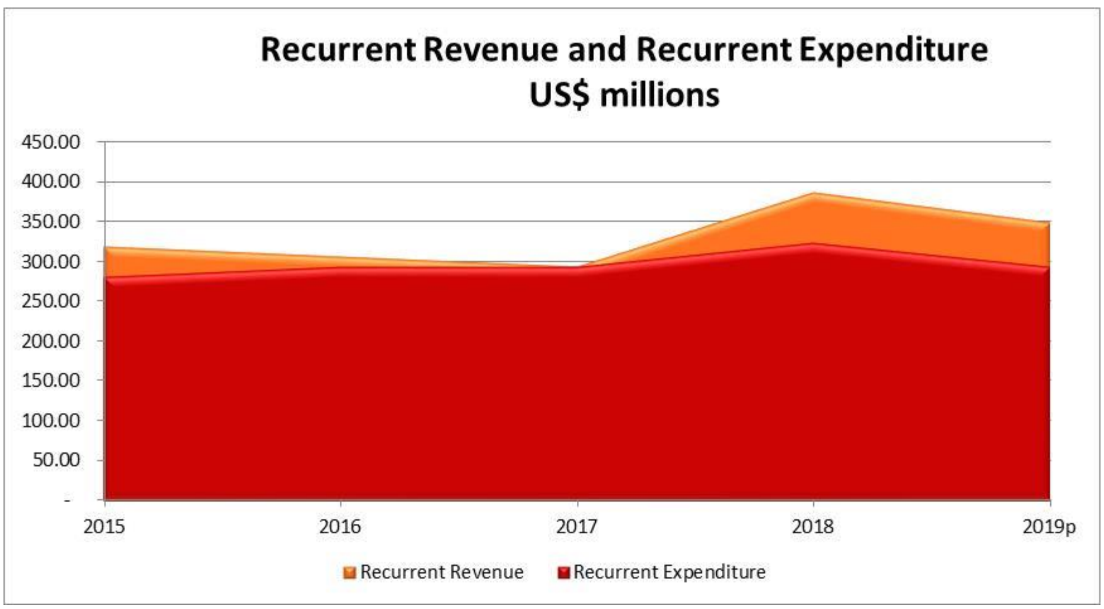


Figure 15. Recurrent Revenue and Expenditure, 2015-2019p



Capital Expenditure

Capital expenditure for 2019 was budgeted at $75.37 million but has been projected to come in at $26.42 million. This is mainly due to the reprioritization of projects in the CIP, when the Government changed in February 2019. As such there was a delay in proposal submissions, and in the tender process for most projects slated for 2019. The new Administration took the opportunity to realign the then existing RDP with their priorities as a Government. Thus, a rRDP was laid in the House of Assembly on 17th October 2019. This government's priorities are entrenched in stability, green development, smart strategies, and most importantly empowering its people. In addition, on 26th September 2019, Cabinet approved a formation of a Recovery Steering Group (RSG) with the sole purpose of advising the Premier on all recovery matters.

RDA was expected to complete $28.63 million in projects in 2019, but based on their September 2019 monthly report, only $2.26 million in works was completed. With the RDA and Central government working together, we would expect to see capital projects rolling out at an accelerated pace going into 2020 and onwards for the next few years. The balance on the CDB RRL loan ($48.71 million), which was secured to fund recovery and development projects is expected to be fully disbursed by 2021. In addition, it is expected that the projects in the rRDP assigned to the RDA to implement would be funded through debt facilities under the UKG Guarantee.

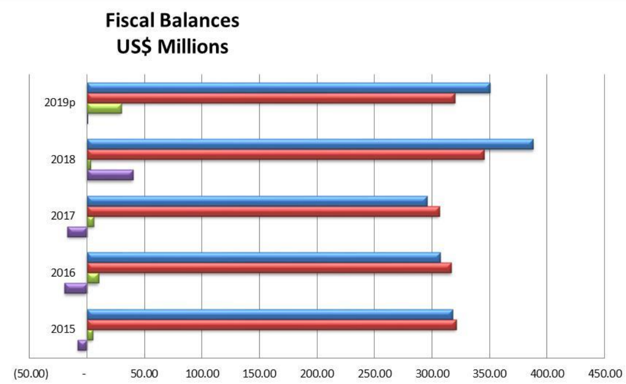
Capital expenditure is expected to increase significantly in 2020 through to 2023, and possibly beyond, as the RDA, in collaboration with Central Government, begin rolling out capital development projects geared toward rehabilitation and recovery.

Fiscal Balance

Based on preliminary figures as shown in **Figure 16** on the next page, a recurrent surplus of $30.43 million is projected to be recorded for 2019, with revenues underperforming and recurrent expenditure coming in below expectations. When the expected capital expenditure of 2019 is considered, an small overall surplus of $0.58 Million should be recorded. Given that the capital spend was substantially below budget expectations at projected $26.42 million, the overall surplus that would be realized given the below budget expectations of revenue and expenditure should have been higher than anticipated.

However, in order to meet the Liquid Assets Ratio under the Protocols for Effective Financial Management for 2019, $26.85 million had to be contributed to the Reserve Fund, and an additional $3.00 million towards the Contingency Fund. This significant contribution to towards our liquid assets has resulted in a very small overall surplus.

Figure 16. Fiscal Balances, 2015-2019p



	2015	2016	2017	2018	2019p
Revenue	317.62	307.06	295.19	387.90	350.30
Total Expenditure and Net Lending	320.62	316.54	306.07	345.08	319.87
Liquid Assets Contributions (Reserve & Contingency Funds)	5.01	10.01	6.00	3.00	29.85
Overall Surplus/(Deficit)	(8.01)	(19.49)	(16.88)	39.82	0.58

Debt

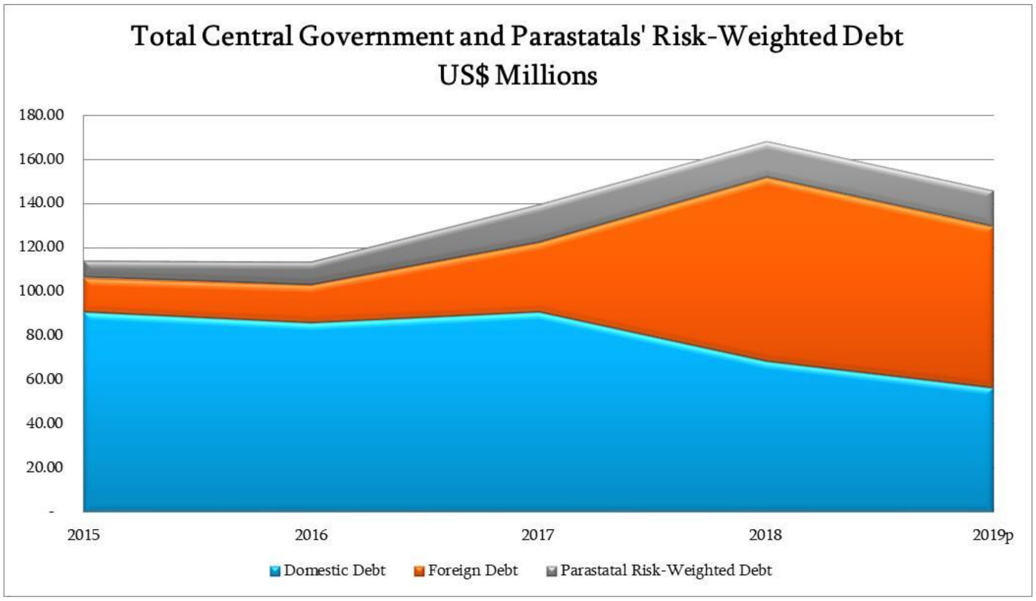
By the end of 2018, total public sector debt was at $232.68 million (19.2% of GDP), of which $151.78 million was Central Government debt and $80.90 million was parastatals guaranteed debt. This was largely due to the disbursement of Caribbean Development Bank's (CDB) $50 million Policy Based Loan (PBL), $0.73 million disbursement on the $65.29 million Rehabilitation and Reconstruction Loan (RRL) and disbursement of the $1.85 million balance on the $2.5 million Immediate Response Loans (IRLs)), all funded by CDB. Also, the $2.1 million Senior Secured Non-Revolving Loan, funded by CIBC-First Caribbean International Bank (CIBC-FCIB) and guaranteed by Central Government was disbursed to the BVI Ports Authority. In 2018 $151.78 million (65%) was attributed to central government's total debt for 2018 ($68.42 million domestic and $83.37 million external), while $80.90 million (35%) was linked to our total parastatal debt for 2018 ($80.55 million domestic and $0.35 million external).

In 2019, total public sector debt is expected to reach $215.80 million with $143.11 million in central government debt and $72.69 million in parastatal debt. By the end of the year, a total disbursement of about $4.47 million is anticipated comprising $0.40 million remaining on CDB's $2.25 million Immediate Response Loans (IRLs), along with other disbursements on CDB's Natural Disaster Loan and Reconstruction and Rehabilitation Loan (RRL). General government debt which is defined as the total of central government debt and risk weighted parastatal debt is expected to be around $158 million by the end of 2019, with $14.54 million in risk weighted parastatal debt.

As of April 2019, Student Loan Scheme V was transferred from under parastatal debt to central government debt. This means that all foreign debt now falls under central government. GoVI continues servicing its exisiting debt as we continue to negotiate the terms for acceptance of the UK

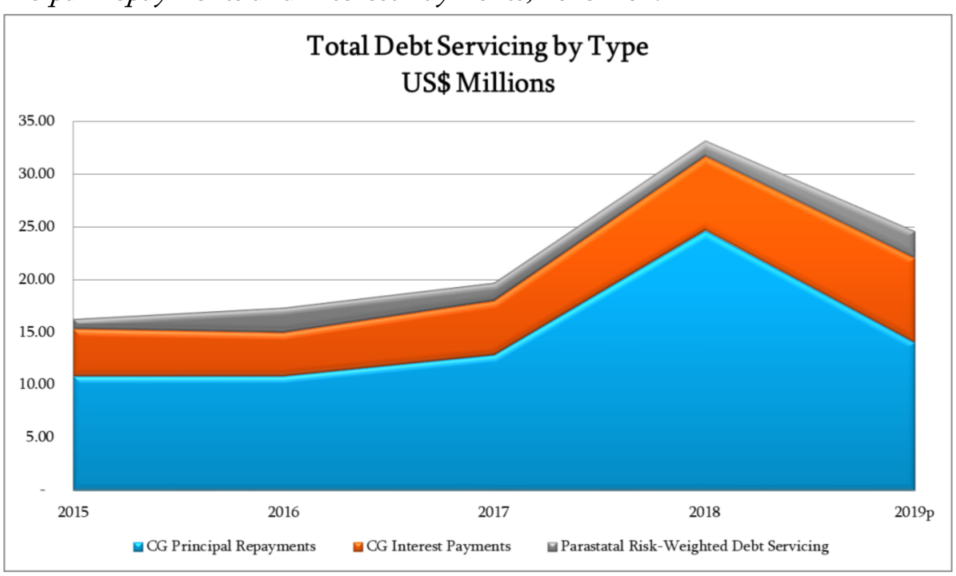
Guarantee. **Figure 17** below depicts the distribution of domestic and foreign central government debt, and risk weighted parastatal debt over the period 2015 to 2019.

Figure 17. General Government DOD, 2015-2019



In 2019, GoVI is expected to pay approximately $7.75 million in interest and $13.11 million in principal repayments. **Figure 18** below provides a distribution of our debt obligations for the period 2015 – 2019.

Figure 18. Principal Repayments and Interest Payments, 2015-2019



In the forward years, it is important to note the the government's increasing debt obligations to CDB as the grace periods for the CDB PBL and IRLs would expire in 2020, and principal repayments on these loans would commence. The newly acquired CDB RRL loan is expected to be fully drawn before the end of 2021, but principal payments are not expected until 2023. On the interest portion of debt servicing continue to be paid on the these loans, along with ongoing amortisation of other existing debt.

Though accepting the UKG Guarantee undoubtedly puts central government in an auspicious position to borrow under more favorable interest rates and terms, thus lowering our debt servicing requirements (see **Debt Strategy** section). It also requires the need to carefully plan our disbursements, and to continuously monitor, analyse and evaluate our debt profile and debt servicing levels to ensure that our borrowing is sustainable and our financial position remains stable.

Performance against the Borrowing Limits and additional Debt Sustainability Ratios presented in the **Debt Sustainability Ratio Analysis** Section address debt sustainability concerns, and return to compliance for any "technical" breaches within this forecast period. A separate document with a full analysis of the long-term sustainability of our debt would be prepared for the HM Treasury.

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. The previous Government detailed the proposed projects within the Recovery to Development Plan (RDP) passed by the House of Assembly (HoA). However, when this new Administration came into office in February 2019, and reviewed the RDP, a rRDP was passed in the House of Assembly. The rRDP in the value of $187 million focused on empowering the people stabilising and greening the economy, and smart strategies. This MTFP which was prepared using a 2020-2023 Capital Investment Programme (CIP) that included the rRDP plays a pivotal role in demonstrating the sustainability of the required borrowing to finance the rRDP.

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 under the guarantee envelope, but refinance a portion of its existing debt under more favourable terms. The utilisation of debt options under the guarantee would result in significantly reduced interest payments and longer borrowing terms, and thereby creating more fiscal space for a faster-paced and strategic recovery. As such, GoVI's capacity to borrow and our debt trajectory would be enhanced.

Although, negotiations for favourable terms and conditions under the guarantee are still being held, it has been assumed within this fiscal framework that the guarantee would be approved and used by the RDA to finance projects under an approved implementation schedule based on the rRDP.

4. DISCUSSION OF FISCAL RISKS

Fiscal Risk Statement

Recent global and regional events affecting the Virgin Islands have continued to prompt our government's response and readiness in our ability to handle fiscal risk in the short term to medium term. While we are aware of the threat surrounding our fiscal risk, we link our fiscal priorities to debt sustainability and the reduction of fiscal pressures in the medium term. However, despite this focus of the medium term framework, several smart strategies are being explored towards fiscal sustainability.

Before the devastating natural disasters of 2017, the GoVI prided itself on a manageable fiscal position. With a debt to GDP ratio of approximately 11.0%, the government was in a good position to service its obligations. However, post those events, there is much need for continued recovery and development, through smart strategies, stability, green developments, and the empowering of our people. To rebuild, consideration of a UK guarantee forms part of the overall medium to long-term recovery and development strategy. The survival of these development strategies will not be without the consideration of potential fiscal risks and the management of their risk factors.

In preparing our fiscal risk mitigation strategies, our fiscal priorities will focus on two broad categories, namely: operational risks and other risks.

On the operational risk side, we have identified the following macroeconomic risk areas: revenue, output (GDP), inflation, interest rates, recurrent expenditure, and the risk associated with the operation of State Owned Enterprises (SOEs) and Statutory Bodies (SBs).

Considering the other risk factors, we have identified the following areas:

i) Natural Disaster: flooding, hurricanes, earthquakes, and other natural hazards

ii) Environmental: Ecosystem (terrestrial and marine)

iii) Political: Impact of Brexit, impact of the US Economy, impact of the rest of the world

iv) Social: changing behavioural patterns, and job security

Fiscal Risk Summary Over The Medium Term

TYPE OF RISK	SUB RISK	RISK SOURCE	RISK DESCRIPTION	RISK ASSUMPTION	RISK MANAGEMENT/MITIGATION
Operational Risk	Macroeconomic	Shock to Revenue	Loss in reveune due to a hit to the largest single share of central government's revenue receipts, the Financial Services sector, can create an automatic negative response from other revenue streams and their potential to generate the projected collections.	3% shock to payroll tax	Explore new revenue generating initiatives as fiscal buffers. The following new initiatives are proposed in this frame: Money Transfer Fee, Medicinal Marijuana, TRC Levy, Medical Schools, collection of Passenger Tax (sea), improved collections from VISR
				7% shock to taxes on goods and services	
				3% shock to taxes on international trade	
			International regulatory pressures, sanctions, and accusation of money laundering associated with our financial services sector.	Grey and Blacklisting. Above normal drop off in business activities	Strategies for damage control. Complying with international standards and regulations. Revising of Legislation
			Shock to the Toursm sector can result in a slow down of tourism dollars, which can have a domino effect in the economy, affecting hotels, resturants, the charter yacht industry, property rental among other areas. The effects can affect our ability to collect tax and non tax revenues.	3% shock to other current revenue	Explore new revenue generating initiatives as fiscal buffers. The following new initiatives are proposed in this frame: Money Transfer Fee, Medicinal Marijuana, TRC Levy, Medical Schools, collection of Passenger Tax (sea), improved collections from VISR
		Shock to Output	Sluggish output growth as a result of a shock to the main economic pillars (Financial Services and Tourism)	10% - 25% shock to Financial and Insurance Industry	Boosting productivity. Create opportunities throught smart strategies for public investment. Identify ways to diversify the economy, by exploring new economic pillars that will foster green developments and empowerment of our people.
				5% - 10% shock to Wholesale and Retail Industry	
				5% shock to Professional Services	
				5% - 15% shock to Public Administration, Defence and Social Security Industry	
		Inflation	The effects of the changes in prices	Negative impact on prices and real output	Identify ways to manage government's expose to inflation. The implementation of the Consumer Protection Act as a measure to protect the interest of consumers
		Interest Rates	Potential higher medium to long-term interest rates	Cost of accessing loan funding	Negotiate for better rates where possible. Explore the possibility of lower rates on current and future borrowing under the UK guarantee. Push towards having our own credit rating inorder to secure better borrowing rates in the future.
		Increase in Recurrent Expenditure	Increases in recurrent expenditure while revenues are falling creates the potential for the realization of a recurrent deficit. This recurrent deficit, can restrict the opportunity for capital development from local funding source. Government can be forced to borrow for operation.	Rising cost associated with employee compensation	Incremental reduction towards desired targets. A drive towards imposing caps and limits on expenditure items. Reviews of current structures and recommendations for beneficial changes. No Supplementary Appropriations (SAPs). Changes on the policy of employee compensation. Efficiencies in the Public Service.
				Rising cost associated with Goods and Services	
				Rising cost associated with Transfers and Subsides	
				Cost associated with National Health Insurance (NHI), and Pension	Identifying sustainable plans for ensuring a drive towards pension reform.
		SOEs' operation	Inefficient operation of the SOEs	Unable to meet and manage obligations	Closely monitory the financial and management performance of SOEs to ensure that they operation with the most cost-effective and cost-efficient manner, and are sustainable. Legislate and implement the SOEs Management Framework

TYPE OF RISK	SUB RISK	RISK SOURCE	RISK DESCRIPTION	RISK ASSUMPTION	RISK MANAGEMENT/MITIGATION
Other Risks	Natural Disaster	Floodings, Hurricanes, Earthquakes, Other Natural Hazards	Unprecedented events that can significantly impact the Budget, and economic activities and development	Frequency and intensity of natural disasters	Create a Fiscal Risk fund or other related fund as an immediate buffer. Strengthen capacity to handle natural hazards through the formulation of smart strategies and green developments. Continue to be part of the CCRIF. Promote resilence in our approach to development. Exploration of grant funding for Climate Change and resiliency initiatives from international agencies.
	Enivornmental	Ecosystem (terrestial and marine)	Destruction of the Ecosystem (terrestial and marine)	Increased damage to the Ecosystem	Regular maintanence of vulnerable areas. Consider the implementation a Carbon Tax in 2021 as a means of curbing behaviours and heightening climate change awareness.
	Political	Impact of Brexit	Uncertainty of the UK's economy following the departure from the European Union	Challenges in assessing the guarantee	Carefully monitor the progress towards the exit and the potential impact to the Virgin Islands. Remain in compliance with agreed Protocol for Effective Financial Management. Establish and strengthen relationship with the EU.
		Impact of the US Economy	Pending slow down of the US' economy	Impact on Imports. Impact on the tourism product	Constant monitoring of the US economy, and revising our assumptions to keep more in line with the ongoing realities.
		Impact of the Rest of the World	Series of protest in the Asian market. The looming economic wars. Rising world trade tension. Downward projections of regional economic outlook	Impact on Financial Services Industry. Impact on Trade. Indirect impact on other sectors, including Tourism	Keep abreast with the current trends. Liase with our international offices to get a better prospective on the potential impacts. Conduct industry and economic watches to gaining current knowledge of activities/trends. Diversification of the economy.
	Social	Changing Behavioural Patterns	Coming out of the recent Youth Forum, views and concerns arose about the increase of alcoholic consumption at bars. Further concerns surrounding the consumption on contraband items and activities emerged.	Increase in criminal activities	Seek to create more recreative environments and activities (fun and relaxation) that will seek to channel the urge for substance abuse. Create a fund to address social concerns. Promote continuous education. Develop strategies and modernized programs in mitigation and controlling potential negative behaviours.
		Job Security	Increase level of unemployment	1000 jobs in 1000 days. Unavailable jobs for people who are seeking. The challenges in the licensing procedures.	The introduction of the 1000 jobs initiatives. Creating opportunties for skill development. Job training and mentorship programme. Business Innovation Lab.

5. FISCAL STRATEGY

Early adjustments in cases where projected revenues are not enough to cover the cost of baseline expenditure are an essential part of developing our fiscal strategies. The plans for managing our fiscal strategy will focus over the medium term on:

(a) maintaining a balance between revenue receipts and recurrent expenditure;
(b) creating fiscal buffers;
(c) preserving our reserve fund, and;
(d) maintaining the fiscal rules as outlined in the Protocols for Effective Financial Management.

Strategy formulation measurements that are linked to achieving deficit/surplus and debt targets are considered. In developing sound fiscal management principles, the following key fiscal measures are identified.

- **Revenue Initiatives**

  (a) While we are still in this post-recovery stage and heading into development, it is essential that we explore options to generate additional revenues (See **Table 4** below). From the baseline base case estimates, a resource-funding gap of $36.60 million in 2020, $34.20 million in 2021, and $12.50 million in 2022 would be required to meet the obligations in the medium term.

Table 4. Additional Revenue Generating Initiatives, 2020 - 2022

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

		Date to Implement	Risk-weighted 2020	Risk-weighted 2021	Risk-weighted 2022
1	TRC Royalties	Jan-20	700,000	1,500,000	2,000,000
2	Money Transfer Fee	Jun-20	1,209,139	2,463,011	2,554,269
3	Medicinal Marijuana	Sep-20	5,000,000	8,000,000	10,000,000
4	Medical Schools	Sep-20	15,000	30,000	30,000
5	FSC Grant	Jan-20	5,000,000	4,000,000	4,000,000
6	Passenger Tax (sea)	Jul-20	3,000,000	1,000,000	1,000,000
7	Shipping Registry	Jan-20	1,500,000	2,000,000	2,500,000
	TOTAL		**16,424,139**	**18,993,011**	**22,084,269**

  (b) As part of our fiscal strategy, and with the rising pressures to fund our recovery and bridge the funding gap for capital expenditure and other fiscal obligations, a few revenue initiatives have been identified with a proposed yield of $16.42 million in 2020, $18.99

million in 2021, and $22.08 million in 2020. Our main initiatives concentrate on improving efficiency across Government and our SOEs, along with exploring innovative new areas for increased revenue for the Government, and across various industries within our Territory.

- **Expenditure Efficiencies**

(a) To ensure that we maintain a continued drive toward expenditure efficiency, we will focus on committing to prioritize expenditures by looking across sectors, programs, and projects to identify the best way to restructure our policy objectives. The areas for consideration in this medium term will be:

(i) Managing efficiency in the Public Service

We will continue to manage the efficiency of the public service by actively seeking to reduce the amount of wastage in the service, and to enhance the effectiveness and efficiency in the delivery of public services. We anticipate that with the exiting from the service by some public officers, either by retirement or voluntary departure, the medium to long-term compensation pressure will reduce. Additionally, we will a freeze spending on employee compensation for 2021 and 2022, by only considering essential positions.

We will continue to monitor the progress and implementation strategies of the action areas for the Public Sector Transformation programme, and as a smart strategy towards achieving better results in the service. As part of the Public Sector Transformation Programme, the e-Government initiative has been morphed into a Public Service driven Digital Transformation Programme. Notwithstanding these processes, we will continue to improve transparency and accountability in the medium to long term through legislation like Procurement Act, and committees such as the Recovery Steering Group, and the Borrowing Committee.

(ii) Goods and Services

The aim to reduce spending supports the effectiveness of the initiatives instituted in 2018, like implementation of a vehicle pool, and streamlining purchases by obtaining several quotations of purchases. While the need to procure goods and services for our drive towards green developments and fiscal stability, we will continue to focus on negotiating better rates where possible, and procure goods and service that are not only cost effective, but purpose effective.

With the pending repair to the Central Administration Complex (CAC), the cost for rent of buildings would increase as the entire building will be evacuated to allow the repairs to take place more timely and efficiently. Additionally, we have reduced the spending on overseas travel as another measure to reduce costs. We have decided that the only new spending initiatives that will be part of this budget are those that are critical to supporting the goals of this budget.

(iii) Transfers and Subsidies

During this medium term, we plan to gradually reduce the expenditure on transfers and subsidies as a weaning step towards creating an opportunity for self-reliance, and ultimately independence. With this goal in mind, the subventions to a portion of SOEs have been cut. In doing so, we are expecting the receiving agencies to focus on creating ways of reducing the heavy reliance on central government's contributions and will seek to find innovative ways to fund their operations within the confines of the law.

(iv) Capital Expenditure

The projected levels of spending on capital projects for the medium term calls for large levels of funding when compared to past years. While these expenditures are necessary to accommodate the recovery and development process, the execution of such spending is expected to be done in the most accountable, efficient, and transparent way. Best international practices as outlined in our Procurement Act would be the foundation for our procurement processes, and value for money is expected to be received on the delivery of each project.

The RDA is the main implementer of Capital projects in the rRDP and it would be primarily responsible for the completion of large recovery projects like the West End Terminal, Central Administration Complex, Elmore Stoutt High School, and various tourist attraction projects and enhancements. These projects would be funded largely through borrowing under the UKG guarantee along with recurrent surplus, insurance proceeds, private/donors funding and grants.

Our aim continues to be to contain our expanding expenditure budget by requiring Ministries to identify areas of potential savings which are used to offset new spending approved by Cabinet.

In addition to the exploration of identifying revenue initiatives and expenditure efficiencies, we will examine other areas that bear weight to our strategies for sound fiscal management. These areas include, but are not limited to:

- **Contingent Liabilities**

One of the immediate liabilities facing us is our approach to our pension scheme. We remain committed to the creation of a National Pension System, which will require contributing to the fund as a means of building the levels and becoming sustainable. The overall goal would be to freeze the current pension liability, and require contributions from public servants to fund future growth in this liability. The previous study[8] completed by Pension Management Interactive (PMI) would have to be updated, and used as the basis for changing the legislation, and implementing a policy in this area. This change is legislation will be led by the Deputy Governor's Office. However, in the short term we will commence more aggressive funding of our Pension Fund through our recurrent budget.

- **Preserving Reserves**

Based on the borrowing limits of the Protocols for Effective Financial Management (PEFM), GoVI's target it to maintain liquid assets of at least 25% of annual recurrent expenditure. The liquid assets for the Territory is defined as the total of the Reserve and Contingency Funds. Therefore, at the time of preparation of this document, the 2019 liquid assets balance of $87.80 million is equal to approximately 29.3% of recurrent expenditure for 2019. We will continue to strive to preserve our reserves by ensuring that our balances in our Reserve and Contingency Funds are what is required to meet the borrowing limits of the Protocols for Effective Financial Management. We expect to make contributions between $1 - 2 million in as required the medium term to maintain this borrowing ratio.

- **Fiscal Rules**

Guided by the targets of fiscal rules, and maintaining the borrowing ratios is an active element in ensuring that we honor our commitment to the Protocols for Effective Financial Management. While government has been able over the years to maintain low levels of debt and debt servicing, the need for an increasing debt portfolio to finance our capital projects is a growing reality as we move from recovery to development following the 2017 storms. We are therefore cognizant of the fact that technical breaches in the debt service ratio would occur when various debt instruments are acquired for large stocks of debts we move from medium term to long-term development. Notwithstanding this reality, we will continue to ensure that efforts and mechanisms are in place to pull us back into compliance at the soonest realistic

[8] Proposed System of Supplemental Pension Plan for the Virgin Islands

time, pending on further risk disruptions. Our debt sustainability analysis section presents these breaches and our return to compliance.

- **Fiscal Buffers**

Since the passing of the storms in 2017, the Virgin Islands have been experiencing increasingly frequent threats of natural hazards and weather events. These activities have prompted us to examine our approach to Fiscal Risk Management and the Budget process with the aim of ensuring a level of fiscal responsibility, as an immediate first response to the impact of fiscal risk due to natural hazards. As part of our fiscal risk management strategy, we have included a way in which we can build fiscal resilience and strengthen fiscal management immediately following a disaster in the short term.

In building our fiscal buffer, we have adopted a risk-based approach to financial management for immediate post-disaster expenditure which would strengthen our fiscal responsibility towards fiscal transparency. Based on international recommendations of reserving up to 3% of spending, we have modeled our fiscal buffer using 3% of recurrent spending. However, this approach would not be fully implemented in 2020, but to jump start the process for its implementation, we recommend that any unused funds could within certain limits, be transferred at the end of the budget year to a notional fiscal buffer (Disaster Fund, or another Fund identified by government) for use during future disasters.

- **Financing the deficit**

With the current fiscal position for 2019, the fiscal trend indicates an expected recurrent surplus and a small expected overall surplus. Notwithstanding the expected fiscal surplus in 2019, pending overall deficits are projected in the medium term. The levels of financing required for the estimated recovery and development works are the main contributing factors for the medium term deficit positions. These deficit positions are not expected to prevent us for honoring our debt obligations, as we have always serviced our debt.

Our strategy for meeting and executing of the Capital Investment Programme, will be financed through recurrent surpluses, existing loan disbursements, insurance proceeds, and accessing financing options under the UK Government loan guarantee once approved.

Table 5 below presents a summary of our 2020-2022 MTFF (fiscal frame)

Table 5. Medium Term Fiscal Frame (MTFF), 2020 - 2022

MEDIUM TERM FISCAL FRAME (US$ millions)	ACTUALS			PRELIM. ACTUAL	PROJECTIONS		
	2016	2017	2018	2019	2020p	2021p	2022p
Total Revenue	**307.06**	**295.19**	**387.90**	**360.81**	**384.14**	**395.72**	**406.66**
Total Current Rev	**303.04**	**295.19**	**382.89**	**360.62**	**373.99**	**387.60**	**398.54**
Total Tax Revenue	**285.19**	**279.37**	**354.14**	**344.30**	**355.77**	**366.62**	**377.21**
Payroll/Income Tax	49.87	46.36	50.34	53.40	51.31	51.83	51.54
Property Tax	2.82	1.92	3.02	2.95	2.99	2.93	2.97
Taxes on Goods & Services	186.14	191.02	251.34	235.84	235.74	244.80	252.44
Taxes on International Trade	38.98	32.20	39.69	46.07	54.40	52.53	53.54
Other Tax Revenue	7.37	7.87	9.75	6.05	11.33	14.54	16.72
Other Current Revenue	17.85	15.83	28.74	16.32	18.22	20.97	21.33
Grants	4.02	0.00	5.01	0.19	10.15	8.12	8.12
Total Expenditure	**316.54**	**306.07**	**345.08**	**325.91**	**414.61**	**408.86**	**379.20**
Total Primary Expenditure	**312.41**	**300.93**	**338.04**	**318.16**	**407.47**	**402.34**	**370.81**
Total Recurrent Expenditure	**298.61**	**292.77**	**324.67**	**299.48**	**330.57**	**328.56**	**329.67**
Total Interest Payments on Existing Debt	**4.13**	**5.14**	**7.04**	**7.75**	**7.14**	**6.53**	**8.39**
Interest payments - Domestic	3.71	4.67	5.18	3.85	2.92	1.34	2.78
Interest payments - Foreign	0.42	0.47	1.86	3.90	4.22	5.19	5.61
Total Non-Interest Recurrent Expenditure	**294.48**	**287.63**	**317.63**	**291.73**	**323.42**	**322.04**	**321.28**
Employee Compensation	118.12	119.48	111.72	118.85	132.21	132.21	132.21
Goods & Services	72.47	73.77	63.53	63.50	78.81	77.93	76.91
Subsidies & Transfers	89.94	80.73	125.00	98.73	94.86	94.16	94.43
Total Other Expenses	13.95	13.65	17.38	10.66	17.55	17.73	17.73
Total Capital Expenditure and Net Lending	**17.93**	**13.30**	**20.41**	**26.42**	**84.05**	**80.30**	**49.54**
Capital Expenditure	18.93	14.30	20.41	26.42	84.05	80.30	49.54
Net Lending	-1.00	-1.00	0.00	0.00	0.00	0.00	0.00
Contribution to Reserve/Contingency Fund	10.01	6.00	3.00	29.85	2.00	2.00	1.00
OVERALL BALANCE: SURPLUS(DEFICIT)	-19.49	-16.88	39.82	5.06	-32.48	-25.00	16.57
PRIMARY BALANCE	-15.36	-11.74	46.86	12.80	-25.34	-18.48	24.96
CURRENT BALANCE	-1.57	-3.58	60.23	31.48	51.57	55.30	66.10
Fiscak Risk Buffer (Natural Disaster)	0.0	0.0	0.0	0.0	0.0	9.9	9.9
Financing	**19.49**	**16.88**	**-39.82**	**-5.06**	**32.48**	**25.00**	**-16.57**
Net Borrowing	-3.38	19.32	29.29	-8.64	21.53	155.13	33.35
Loan Disbursements	7.50	32.20	53.93	4.47	36.08	159.18	35.00
Loan Disbursements - Domestic	3.55	14.65	0.00	0.00	7.00	39.73	35.00
Loan Disbursements - Foreign	3.95	17.55	53.93	4.47	29.08	119.45	0.00
Principal Repayments	10.88	12.88	24.64	13.11	14.55	4.05	1.65
Principal Repayments - Domestic	8.32	9.87	22.39	11.00	9.82	2.92	0.73
Principal Repayments - Foreign	2.56	3.01	2.25	2.11	4.72	1.14	0.92
Use of Reserve	0.08	6.31	13.92	0.00	0.00	0.00	0.00
Total Central Government DOD	**123.37**	**133.94**	**80.20**	**75.15**	**107.63**	**132.63**	**116.06**
Total CG Disbursed Outstanding Debt	**103.15**	**122.46**	**151.75**	**143.11**	**164.65**	**319.77**	**353.13**
Total CG Disbursed Outstanding Debt - Domestic	86.03	90.81	68.42	57.42	54.60	91.40	125.67
Total CG Disbursed Outstanding Debt - Foreign	17.12	31.66	83.33	85.69	110.05	228.37	227.45

6. DEBT STRATEGY

Our Government decided to re-negotiate some of the terms and conditions that were presented to the previous Administration. The aim of the revisiting of this negotiation process was to bring the proposed terms and conditions more in line with the priorities of the country and values of the people of the Territory were not jeopardized. These negotiations have commenced and are still being continued at the time of preparation of this report. It is anticipated that once these issues with the proposal are agreed, then the GoVI and the UKG can approve the UKG Guarantee offer of up to GBP300 million guarantee. We envisage that the Guarantee would be utilised to secure instruments to finance the rRDP which would be executed by the RDA. We would also desire to refinance a portion of our existing high cost debt using the lower interest rates possible under the UK Guarantee. 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 2040.

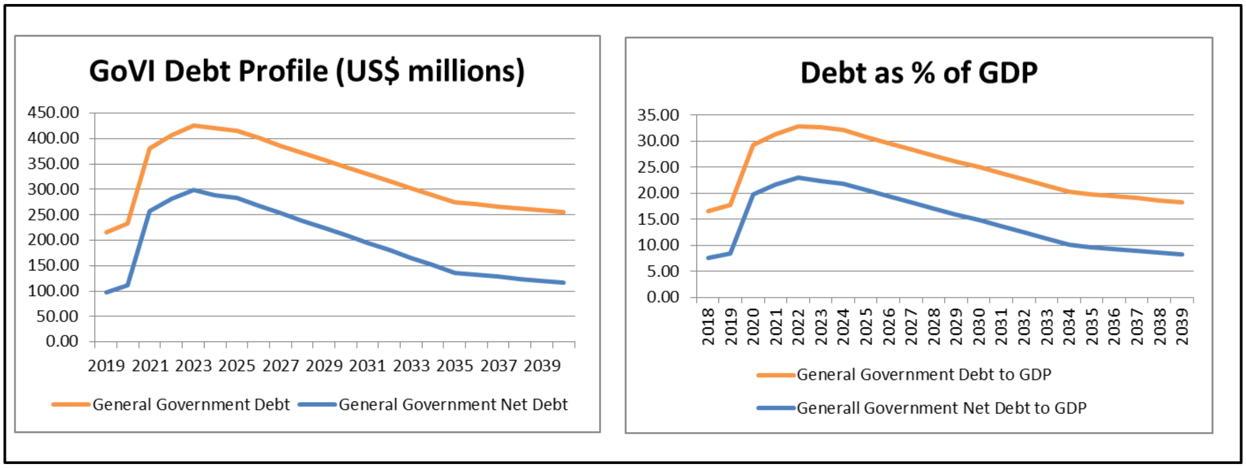
Our Government's overall debt management objective is to ensure that our financing requirements are met at the lowest possible cost while maintaining risk at prudent levels. The proposed UKG guarantee will avail GoVI of more favourable borrowing terms as it relates to interest rates and repayment periods, 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) It is assumed that by 1st July 2020, approval for the guarantee envelope would have been secured, and the GoVI would have approved financing based on the Request for Proposals (RFPs) to finance the rRDP;
2) Utilising an approved Revolving Credit Facility (RCF) to finance recovery to development projects as stated in the rRDP and being undertaken by the RDA, in the first instance;
3) Refinancing a portion of existing high cost debt under the proposed guarantee using a term loan;
4) Maintain debt servicing of the remaining portion of our existing debt, outside of the proposed guarantee;
5) Refinancing the balance on the RCF with an appropriate instrument, under the proposed guarantee;
6) Obtaining an internationally recognised credit rating; and
7) An exit strategy that would consist of refinancing with an appropriate instrument.

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 $425.49 million in 2023 (**Figure 19**). As a percentage of GDP, General Government debt is expected to peak at 32.8% of GDP in 2023. Similarly, General Government net debt is expected to reach a peak of $299.63 million in 2023, and as a ratio to GDP, a peak of 23.1% in 2023.

Figure 19: Debt Profile, 2019 - 2040



. DEBT SUSTAINABILITY RATIO ANALYSIS

Table 6 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 7** on the following page shows a detailed breakdown of risk weighted Parastatal debt.

Table 6. Borrowing Ratios, 2020 - 2022

BORROWING RATIOS	2016	2017	2018	2019p	2020p	2021p	2022p
Total Debt of Parastatals	87.13	81.99	80.90	72.69	68.26	60.04	53.40
Total Risk-Weighted Debt of Parastatals	17.43	16.40	16.18	14.54	13.65	12.01	10.68
Capitalized Value of Public Private Partnerships	41.83	38.25	33.29	28.10	22.67	16.99	11.05
Total Public Borrowing	162.41	177.12	201.22	185.75	200.96	348.77	374.86
Reserve/Contingency Fund Balances - Liquid Assets	59.34	59.03	55.54	85.39	87.39	89.39	90.39
Parastatals' Interest payments	4.25	3.48	4.29	4.59	3.65	3.71	3.38
Parastatals' Principal repayments	7.47	5.13	3.20	8.21	9.14	9.21	7.64
Parastatals' Debt Service (Risk-Weighted)	2.35	1.72	1.50	2.56	2.56	2.58	2.21
Total Debt Service (Central Gov. and Parastatals Risk-Weighted)	17.36	19.74	33.18	23.41	24.25	13.16	12.24
Net Debt	103.07	118.09	145.68	100.36	113.57	259.38	284.47
Net Debt as % of Recurrent Revenue **(max 80%)**	27.34%	36.11%	56.73%	46.68%	45.62%	115.20%	130.86%
Debt Service as % of Recurrent Revenue **(max 10%)**	5.73%	6.69%	8.66%	6.49%	6.48%	3.40%	3.07%
Liquid Assets as % of Recurrent Expenditure **(at least 25%)**	19.87%	20.16%	17.11%	28.51%	26.44%	27.21%	27.42%

Table 7. Parastatals Risk-Weighted Debt Schedule, 2020 - 2022

Statutory Authority / Government Company	Risk Weight	2016	2017	2018	2019p	2020p	2021p	2022p
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	0	0
National Bank of the Virgin Islands[1]	20%	0.11	0.09	0.07	0.20	0.40	0.60	0.80
Electricity Corporation	20%	7.92	7.37	6.75	5.88	5.02	4.55	4.08
Financial Services Commission	20%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ports Authority	20%	9.39	8.94	9.36	8.59	8.37	6.99	5.93
Social Security Board	20%	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Risk-Weighted Debt of Parastatals		**17.43**	**16.40**	**16.18**	**14.67**	**13.78**	**12.14**	**10.81**

[1] As of April 2019, the Student Loan Scheme V that was the balance being reflected under the National Bank of the Virgin Islands was reclassified from parastatal debt to central government debt.

Analysis of our forecast performance against the borrowing ratios above indicate that we largely maintain compliance with the protocols ratios in the medium-term, noting that we hit our liquid assets to recurrent expenditure target in 2019 at 28.5% and continue maintaining in forward years.

Our debt portfolio is projected to increase in upcoming years as we utilize debt to finance our rRDP over the coming years. **Table 8** below presents a further analyses our total public debt servicing and, interest coverage, debt along with debt sustainability measures for the medium term which includes Debt-to-GDP, and debt-to-revenue ratios. The ratios demonstrate our forecasted, as well as our overall ability to service our existing debt as we continue to drawdown on our existing CDB RRL loans, and as we anticipate additional borrowing in the short to medium-term.

Table 8: Additional Debt Sustainability Ratios, 2020-2022

ADDITIONAL DEBT SUSTAINABILITY RATIOS	2016	2017	2018	2019p	2020p	2021p	2022p
General Government Debt to GDP	16.31	18.37	12.58	11.34	13.36	14.83	13.03
Change in General Government Debt to GDP	2.95	2.06	-5.79	-1.24	2.02	1.47	-1.80
General Government Interest as % of Revenue	2.73	2.92	2.92	3.42	2.81	2.59	2.89
Net Debt as % of GDP	7.98	10.04	11.37	7.70	8.63	19.97	21.88
Net Government Income (NGI)	12.58	7.56	70.27	69.08	60.71	73.68	85.38
Total General Government Debt Servicing	26.74	26.63	39.16	33.65	34.48	23.50	21.06
Total General Government Interest Cost	8.39	8.62	11.33	12.33	10.80	10.23	11.77
NGI as % of Total General Government Debt Servicing	0.47	0.28	1.79	2.05	1.76	3.14	4.05
NGI as % of Total General Government Interest Cost	1.50	0.88	6.20	5.60	5.62	7.20	7.25

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, our agility and ability to adapt to changing circumstances will be crucial.

In consideration of this, we have prepared a sensitivity analysis (next section) through a shock case of the Debt Model and MTFF, which demonstrates the gap over the medium term that would need to be addressed through fiscal strategy measures.

8. SENSITIVITY ANALYSIS

The Virgin Islands economy is currently facing some downside risks to financial services possibly due to the economic substance requirements, uncertainty about the outcome of BREXIT, continued threats of blacklisting , and the requirement to implement a public beneficial ownership register. In addition, we continue to be faced with increasing threats from more intense and frequent hurricanes, storms and earthquakes. Other possible risks to the economy are presented in the **Discussion of Fiscal Risks** Section.

In the sensitivity analysis presented, the impact of macro-economic and other shocks to the economy and our revenue were considered. Once again, the **Discussion of Fiscal Risks** Section demonstrates the details of the potential risks, risk assumptions employed in the shock case, and various mitigation measures that can be utilised.

The following **Table 9** demonstrates the difference between anticipated GDP and revenue outcomes in the base case and shock case scenarios:

Table 9: Sensitivity Assumptions for GDP and Revenue, 2020 - 2022

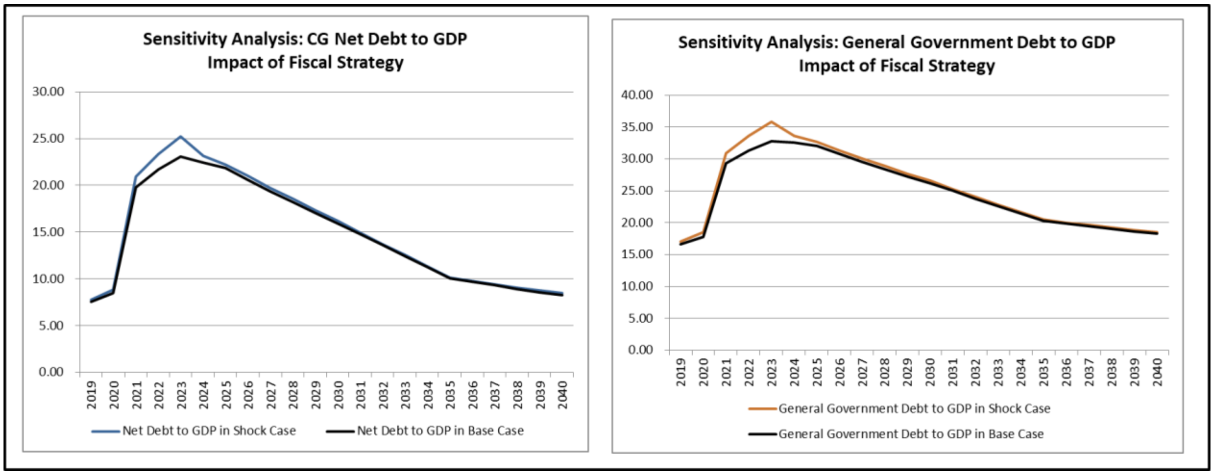
GROSS DOMESTIC PRODUCT	2018p	2019p	2020p	2021p	2022p
Nominal GDP - Base	1,281,065,026	1,303,630,547	1,316,658,790	1,298,964,968	1,300,213,024
Nominal GDP - Shock	1,281,065,026	1,303,630,547	1,260,126,828	1,231,277,462	1,209,434,682
Difference $	-	-	56,531,962	67,687,506	90,778,342
Difference %	0.00%	0.00%	4.29%	5.21%	6.98%

REVENUE	2018p	2019p	2020p	2021p	2022p
Revenue - Base	382,886,337	360,619,517	373,985,031	387,596,820	398,538,401
Revenue - Shock	382,886,337	360,619,517	354,396,416	367,611,755	378,199,008
Difference $	-	-	19,588,615	19,985,065	20,339,394
Difference %	0.00%	0.00%	5.24%	5.16%	5.10%

Figure 20 on the following page outlines the resulting gaps over 2019 - 2040 between the base case and shock case scenarios.

If a shock to the economy occurs, GoVI would need to make fiscal policy decisions beyond the core fiscal strategy as outlined in the **Fiscal Strategy** Section. The core objective of the fiscal policy options considered would be to increase revenue yield for GoVI to invest in recovery and development, in spite of the impact on the economy from the shock.

Figure 20. Sensitivity Analysis of Debt to GDP Ratios, 2019 – 2040



Given the level of forecast uncertainty in the medium to long term, we will continue to 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.

9. FRAMEWORK FOR BUDGET

The MTFP sets the framework for the 2020-2022 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 fiscal framework for 2020 in **Table 10** below.

Table 10. Framework for 2020 Budget

	US$ millions
Revenue	384.14
Recurrent Expenditure	(330.57)
Contribution to Reserve	(2.00)
Capital Expenditure and Net Lending	
Capital Expenditure	84.05
Surpus/(Deficit)	(32.48)
Net Borrowing/Deficit Financing	
Loan Disbursement	36.08
Principal Repayments	(14.55)