SHARED, SUSTAINABLE GROWTH

2016 – 2018

Government of the Virgin Islands

Medium Term Fiscal Plan

MESSAGE FROM THE HONOURABLE PREMIER AND MINISTER OF FINANCE

Citizens of the Virgin Islands I present to you my Government's Medium Term Fiscal Plan for the years 2016 to 2018.

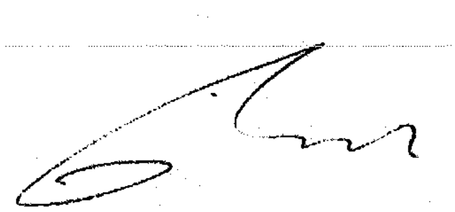
On the heels of our recent re-election, my Government is poised to continue our fiscal and development strategies laid out in this document which I believe will bring **"Shared, Sustainable Growth"** to the people of this Territory. With our development strategy SEED which embraces Social, Economic, Environmental and Directional (governance) ideals, we will embark on a path which will lead to: the expansion of our financial services industry; growth in the number of tourist arrivals and diversification of our tourism product; quality universal health care; rehabilitation of our infrastructure with the airport expansion being the highest priority and the largest infrastructural project in the Virgin Islands' history; a protected environment for future generations to enjoy; and capitalising on the long-term benefits of increased investment in education.

A fiscal strategy has been crafted to place us on the right financial footing to secure these development priorities and ensure that our resources are put to their most optimal use. We will be implementing revenue generating policies that promote equity and efficiency while simultaneously managing expenditure levels and cash flows.

We recognise the importance of saving and building our reserves to the levels that would provide us with a cushion for a "rainy day." We maintain our commitment to be fully compliant with the Protocols for Effective Financial Management by 2017.

The implementation of the tenets of this Medium Term Fiscal Plan will help us to achieve our vision of a prosperous Virgin Islands, ideal to live, work, visit and do business.

Sincerely



Dr. the Honourable D. Orlando Smith, OBE

INTRODUCTION

This Medium Term Fiscal Plan (MTFP) presents the Government of the Virgin Islands' (GoVI's) development and fiscal strategies over the next three years (2016-2018), outlining our efforts to foster shared, sustainable growth in the Territory. Since returning the Territory to positive economic growth in 2013, we have aimed to broaden and deepen this growth by implementing a strategy which considers the social, economic, environmental, and direction/governance (SEED) aspects of our development, and prioritises improving the standard of living for all. The MTFP forms an important part of our efforts to balance our imperatives for growth as well as fiscal sustainability.

Specifically, this MTFP aims to:

- Assess the macroeconomic performance and fiscal sustainability of the Territory based on past trends and future development obligations;
- Provide a clear link between our development strategy 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, build our Reserves, and maintain low levels of debt;
- Manage fiscal risk by closely examining our current and future debt obligations based on development objectives and financial capabilities;
- 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 our resources.

The MTFP is structured as follows:

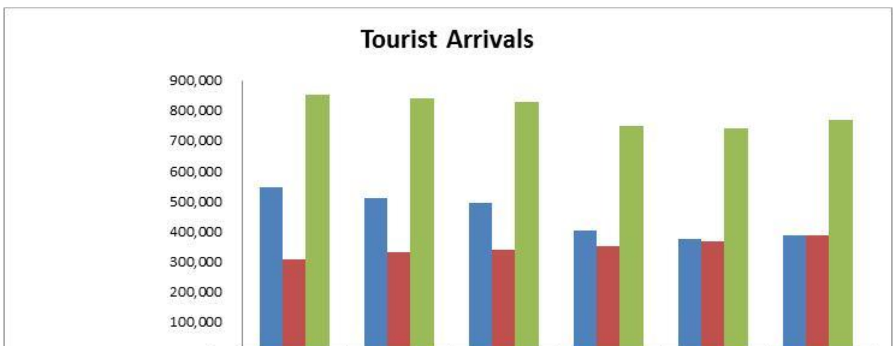
1. **Economic Review and Outlook** summarising the recent economic performance of the Territory by analysing the main economic indicators: GDP, inflation and employment, and outlining our predicted macroeconomic performance in the medium term.
2. **Development Strategy** outlining GoVI's development priorities within its medium-term strategy which embraces Social, Economic, Environmental and Direction/Governance (SEED) themes.
3. **Fiscal Review** summarising the recent performance of revenue, recurrent and capital expenditure, and debt.
4. **Fiscal Strategy** explaining and demonstrating the expected results of our strategy to ensure fiscal sustainability in the medium-term, which involves generating revenue, improving expenditure efficiency, and meeting the Protocols.
5. **Ratio Analysis** demonstrating the performance of key ratios including net debt, debt servicing, and liquid assets, indicating our fiscal sustainability in the medium term.
6. **Budget Framework** presenting the aggregate figures for revenue, expenditure and debt to which the 2016 Budget will correspond.

ECONOMIC REVIEW AND OUTLOOK

Economic Growth

Having returned to positive growth in 2013, our trajectory of economic growth continued in 2014, with an estimated year-on-year increase in our Gross Domestic Product (GDP) of nearly 3%, significantly higher than previous estimates of around 1%. This positive output growth can be attributed to growth in the Hotel and Restaurant, Wholesale and Retail, and Real Estate, Renting and Business Activity sectors of the economy. Growth in these sectors of the economy augurs well for the state of one of our main economic pillars: tourism.

The Hotel and Restaurant sector grew by 7.2% in 2014, likely driven by an increase in overall tourist arrival numbers during the year. In 2014, tourist arrivals reached over 770,000, reflecting an approximately 4% increase in the total number of tourists arriving to our shores. Once again, tourist arrival numbers were buoyed by overnight visitor numbers, which increased 5.4% from 366,108 to 386,049 in 2014. The charter boat industry continues to propel the growth in overnight visitor arrivals and overall arrivals for 2015 are expected to follow the same trend. Cruise arrivals also grew by 3% in 2014 after a decline in the previous year. With the successful completion and opening of the extended cruise pier earlier this year, and the anticipated completion of the landside development works in December, we expect to see a continued upward trend in cruise arrival numbers for2016 and beyond.



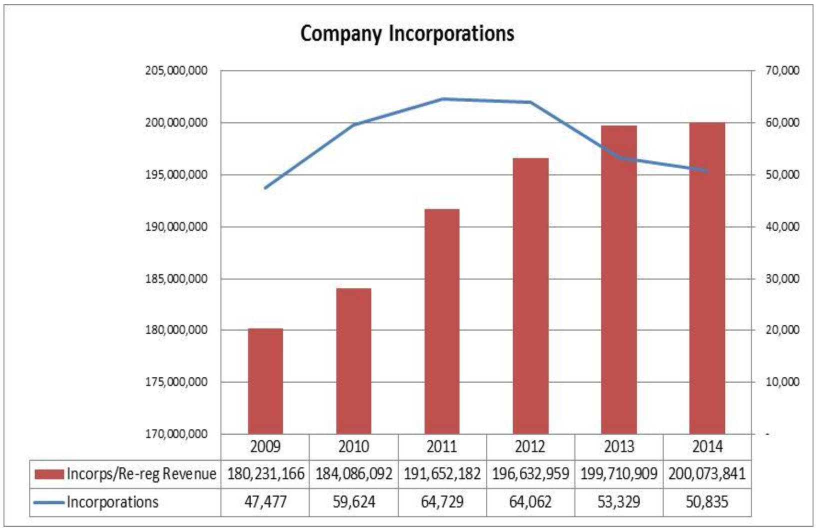
	2009	2010	2011	2012	2013	2014
Cruise & Day Trippers	548,071	512,154	493,661	401,744	375,739	386,449
Overnighters	308,615	330,343	337,773	351,404	366,108	386,049
Total	856,686	842,497	831,434	753,148	741,847	772,498

Partly driven by the growth in tourism, the real estate, renting and business activity sector of our economy increased 3.2% in 2014, helping to drive overall economic growth in the Territory.

In terms of our second economic pillar, financial services, one of the key indicators for the status of financial services in the Virgin Islands is company incorporation figures. In 2014, company incorporations were down 4.7% in comparison to 2013, but revenue from financial services remained resilient, due to the sustained performance of company re-registrations. Total revenue from financial services[1] remained virtually unchanged in 2014, at $207.9 million, with $200 million of this amount coming from company

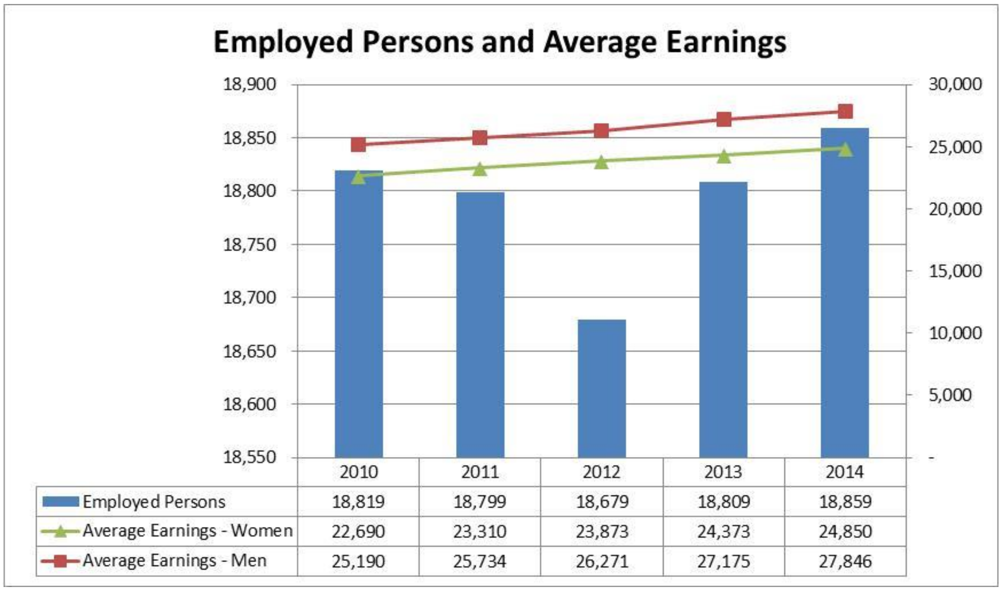
[1] Central Government retains 89% of this revenue, while the Financial Services Commission (FSC) retains 11%.

incorporations and re-registrations. We expect the implementation of policy interventions coming out of the 2014 McKinsey study on the sector to take root in the coming years, helping to sustain and provide other avenues for growth of this vital sector in our economy.



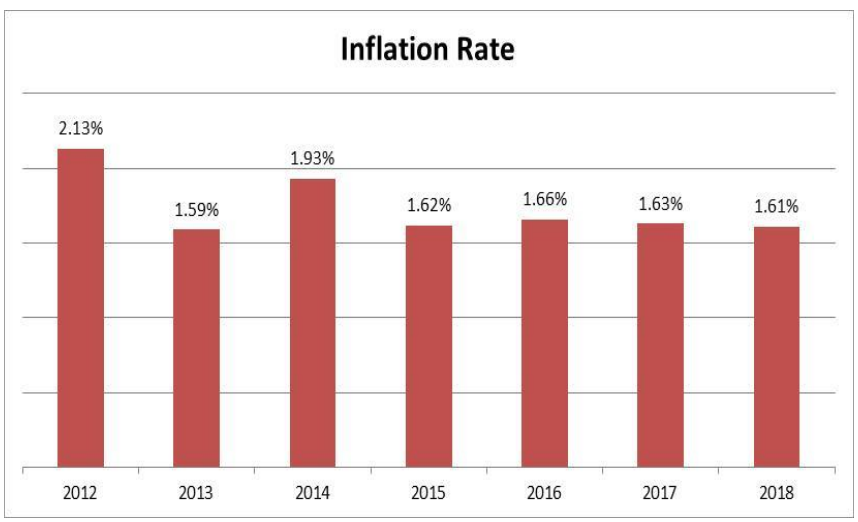
Employment

Economic growth for its own sake is not the goal of compassionate government. Rather, we have set our sights on improving the standard of living for all as our end-goal. In this vein, we have seen employment levels as well as average earnings increase over the last two years. From 2012 to 2014, the number of persons employed in our economy grew just under one per cent to 18,859 persons, while average earnings increased 5 per cent to $26,329. We expect that growth in employment as well as average earnings will continue in the coming years, as we implement important reforms to our education and training systems, and help to create even more opportunities for entrepreneurship and employment.



Inflation

Key to improving the standard of living for all in the Territory is maintaining a low, stable inflation rate. In 2014, inflation reached 1.93%, higher than the inflation level recorded in 2013, but lower than inflation in 2012. The highest price increases in 2014 were recorded in the consumer goods and services categories of Health Services, and Recreation and Culture. While inflationary pressures in the United States, our main supplier of goods, remain moderate, we expect inflation to remain relatively low and stable, well below 3%.

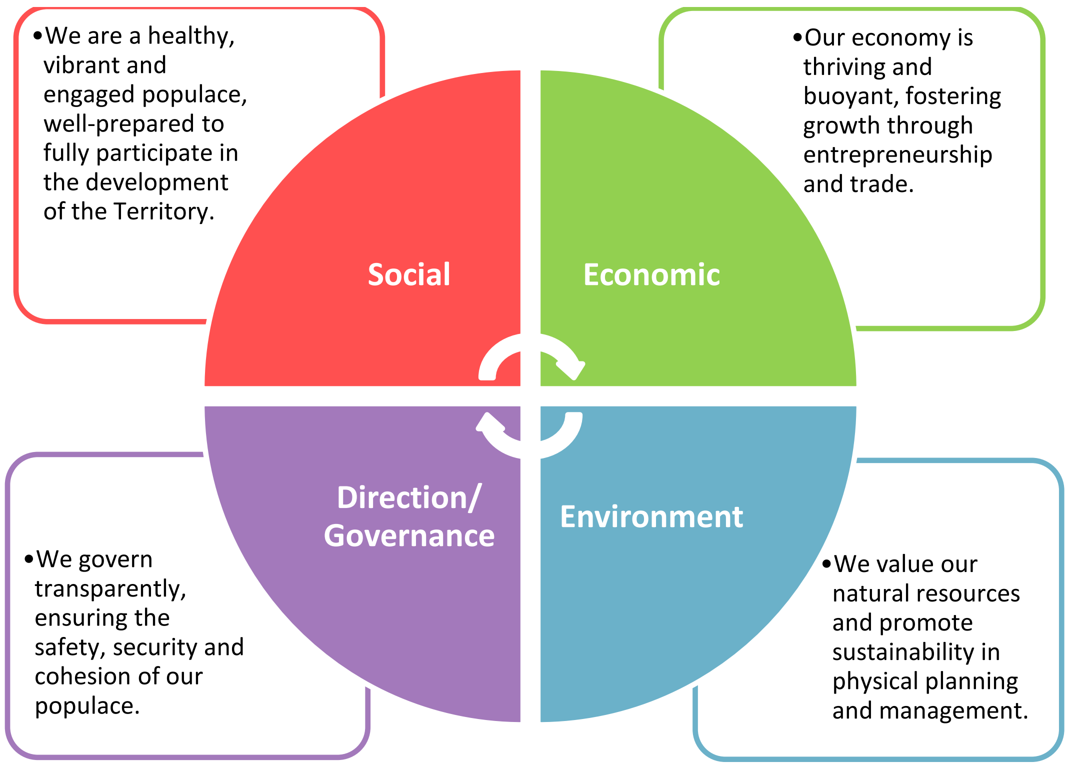


As our macroeconomic indicators provide evidence for cautious optimism regarding the state of our economy, we must ensure that the continued implementation of our development strategy treats as central an improved standard of living for all residents. Positive economic outcomes will assist us in reaching both our development and fiscal objectives.

DEVELOPMENT STRATEGY

The overarching vision of our medium-term development strategy, SEED (Social, Economic, Environment, Direction/Governance) is to build a prosperous Virgin Islands that is ideal to live, work, visit and do business. In doing so, we address various aspects of sustainable development, namely social, economic, environmental, and governance dimensions, and have four corresponding goals we aim to achieve.

A prosperous Virgin Islands, ideal to live, work, visit and do business.



This section outlines the strategic priorities for the next three years (2016-2018) that will bring us closer to achieving the goals above.

Social

- Strengthen the leadership, governance and performance of the health and social services systems, and improve the quality and accessibility of healthcare and social services.

One of the main ways GoVI envisions improving the quality and accessibility of healthcare in the Territory is through implementation of the National Health Insurance (NHI) system. With legislative and policy frameworks in place to launch this system, the NHI will be implemented on 1 January 2016, funded through a combination of Government budgetary allocations, employer and beneficiary contributions, as well as co-payments, surcharges and interest earned on the NHI reserve funds. The completion of the New Peebles Hospital, the start of the Virgin Gorda Medical Centre, and ongoing efforts to improve lifestyle choices are all part of the National Health Strategy to improve health outcomes for all in the Territory.

- Establish a sustainable, comprehensive and integrated social protection system.

Ensuring that we care for our most vulnerable is one of our key priorities, and involves creating a comprehensive social protection system which meets the needs of the elderly, the differently-abled, and those with mental health and other challenges. Having restructured the programmes and sub-programmes that comprise our social protection system, we aim to provide support to persons in our community in a more holistic and less ad-hoc way, thus providing a greater sense of security and sustainability to our collective social and economic status.

- Improve curriculum and strategies for assessment, and increase secondary graduation rate and CXC CSEC results.

Over the last three years, we have effected change to the curricula in our schools, by including Tourism, Financial Services and VI History subjects, as well as the National Citizen Service programme and the commissioning of the VI School of Technical Studies. Having made CXC CSEC mandatory for all school leaving students, we continue to set our sights on improving our students' performance on these examinations. To this end, we have laid the foundation for the introduction of an additional year of schooling in our public secondary schools, opening the door to higher achievement within the school system. At the primary level, we have introduced key stage assessments at grades 2, 4 and 6 as a more comprehensive measure of our students' progress, replacing the Primary V examinations. Our ultimate goal is to create an educational system that is able to meet the demands and needs of all students in the 21st century and beyond.

- Increase and expand access to quality Early Childhood Development Services (ECDS).

Early childhood development has been shown to be crucial in laying the foundation for the future educational progress of students. In this vein, we are placing particular emphasis on improving access to quality early education for our students, by defining and enforcing quality standards for private provision of these services.

Economic

- Promote a prosperous and diversified small business sector that drives greater economic output and provides opportunities for Virgin Islanders.

Our efforts in strengthening the small business sector in the Territory are evidenced by the work of the National Business Bureau which has provided technical assistance to entrepreneurs through business plan development, marketing and financial management training sessions. Our loan guarantee programme, administered through the National Bank of the Virgin Islands and the National Business Bureau, provides financial assistance to qualifying small businesses. Another crucial part of our encouragement of small business formation and sustainability is improving the regulatory framework across various Government departments to ensure ease of doing business in the Territory. Our work with the European Union funded Small and Medium-sized Enterprises (SME) project continues to assist in buttressing our efforts to support small businesses.

- Grow the tourism sector to maximize economic output in a manner that balances economic opportunity with environmental sustainability and social harmony.

Tourist arrival numbers increased in 2014 and are expected to further increase in 2015, supported by overnight tourist arrivals and larger ships bringing more cruise ship passengers. Our efforts to grow the tourism sector have included the extension of the cruise pier and landside attractions, and investments towards the expansion of the TB Lettsome International Airport. Improving access to the Territory as well as putting emphasis on cultural and eco-tourism aspects of our product will help to ensure the economic and environmental sustainability of this vital sector of our economy.

- Build a thriving and sustainable financial services sector where we remain a world leading corporate domicile, expands value added services and build best in class enabling mechanisms to facilitate the sector’s continued growth.

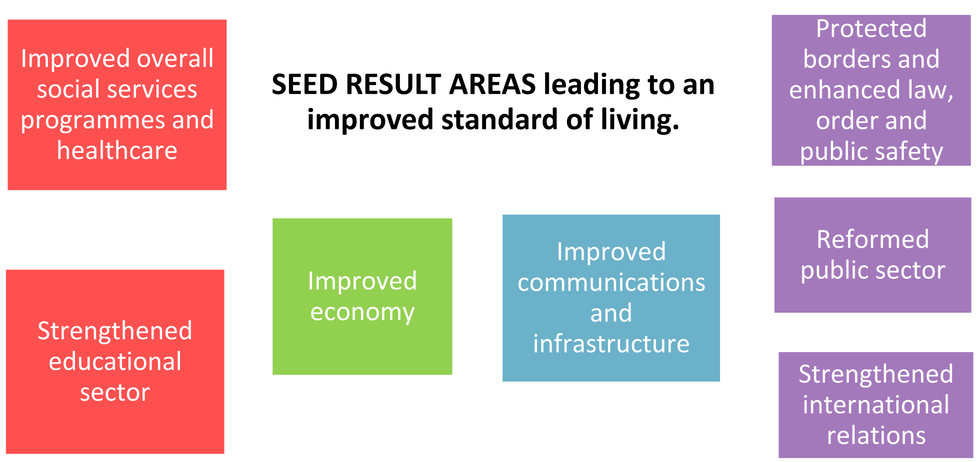
The decline in company incorporations observed over the last several years has signalled a clarion call to further diversify the financial services sector towards providing more value-added services. The 2014 McKinsey study has laid the framework for the protection and revitalisation of our financial services sector and, already, we have begun to implement recommendations from this consultation. The Financial Services Implementation Unit, under the Premier’s remit, has been tasked with leading the necessary transformations which will support growth of this industry. These recommendations include: revamping the International Finance Centre; strengthening the business development function; engaging the entire BVI population on financial services related matters and reforms; building BVIslander capability and participation in the industry; pursuing Tax Initiatives; enhancing customer service at the Financial Services Commission; attracting and offering Value-Added Services; reforming Immigration and Labour policies; and investing in Infrastructure.

Some notable achievements, thus far, include the establishment of an Arbitration Centre with the goal of strengthening the Territory's ability to facilitate the resolution of domestic and international disputes. From a financial services products perspective, the recent creation of two new funds – the incubator and approved funds - broadens the industry's reach.

The FSC has created two new regulated fund categories – incubator fund and approved funds. They were created in order to provide more flexibility to smaller and start-up financial services businesses. Under the new fund categories, managers and principals of smaller, open-ended funds may be approved to conduct business within a lighter regulatory framework.

- Ensure that sound labour practices are followed through the enforcement of the Labour Laws/Code so that a harmonious working environment can exist between the employer and employee while administering a system whereby programmes and services are designed to develop and maintain a viable workforce.

Our labour laws and practices are a key ingredient to our economic success. We will remain open to necessary additions to our labour force and, simultaneously, strengthen the "VIslanders first" job policy. While ensuring that education and training services adequately prepare residents for employment opportunities will help to decrease our reliance on foreign labour, we will also make certain that persons coming to the Territory to work are treated fairly and that unnecessary barriers to specific sectors accessing needed human resources are removed. Key to this initiative will be the revision of the legal and administrative frameworks governing the granting of work permits, including processing fees and timelines. We will also facilitate the continued work of the recently formed Labour Tribunal, in ensuring that labour disputes are settled fairly, and seek to implement the recommendations of the Minimum Wage Advisory Committee in a way that considers the needs of both employers and employees.



Environment

- Provide the Territory with alternative energy sources.

The GoVI has embarked on a programme to improve the supply of electricity in the Territory while promoting sustainable energy sources. Earlier this year, the Electricity Corporation (Amendment) Act was passed, removing restrictions to, and opening the door for greater investment in alternative energy sources in the Territory. By encouraging the use of alternative energy sources, and indeed increasingly utilising these sources for public buildings and facilities, GoVI hopes to decrease demand on the fossil fuel-powered main grid over the medium to long-term.

- Construct and upgrade roadways for improved vehicle and pedestrian flow of traffic in the Territory.

Since securing a $16 million loan from the Social Security Board for road reconstruction and rehabilitation earlier this year, the Ministry of Communication and Works has led an ambitious effort to improve the Territory's road network on all our major islands. This effort, which will continue in the coming year, has already witnessed the re-engineering of several miles of road on Tortola, making our roads more resilient to the elements through better engineering and drainage solutions. In conjunction with the previously approved Caribbean Development Bank (CDB) Road Infrastructure Development project, we envision substantial improvement in the Territory's road network.

- Adapt to Climate Change and protect natural resources

Earlier this year, legislation establishing the Virgin Islands Climate Change Trust Fund passed in the House of Assembly. The Trust Fund will act as the principal legal instrument to receive, disburse and manage local and international funding to support the implementation of the Climate Change Adaptation Policy. In the medium term, regulations will be developed to support the Trust Fund and operationalization and capitalization of the Fund.

The OECS Commission and European Union's Global Climate Change Alliance (GCCA) project has provided the resources to enable the drafting of the Environment and Climate Change Bill which would improve environmental management in the Virgin Islands. Regulations to support this Act and the strengthening of other environmental legislation, including the Fisheries Act, will be completed and resources will be dedicated to institutional strengthening, capacity building and enforcement.

The GCCA project is additionally funding the implementation of two pilot projects in Cane Garden Bay and Brewer's Bay to restore the integrity of those vital shorelines. New terrestrial and marine areas are being protected to enhance tourism and conservation of natural resources. Continued focus will be given to ecosystem restoration as well as legal protection of critical natural resources through existing mechanisms such as National Parks and Environmental Protection Areas.

- Fully integrate the environment and climate change into the development planning and approval process

This is critical to ensure protection of natural resources and sustainable development. While the EIA (Environmental Impact Assessment) and HVA (Hazard Vulnerability Assessment) processes have contributed towards this goal, the GoVI appreciates that a lot is still needed to enhance the development planning and approval processes to ensure this. In terms of development planning, a National Physical Development Plan and local area plans will be developed. In terms of the development review/approval process, an Environmental Sensitivity Index (ESI) and Certificate of Environmental Clearance (CEC) process are two key tools proposed under the draft Environment and Climate Change Bill that will be implemented in the medium term.

- Maintain clean, safe and healthy communities.

Part of maintaining clean, safe and healthy communities involves Waste Management. A comprehensive Waste Management Policy (supported by strong legislation) that addresses waste reduction, reuse and recycling is a priority. Our Waste Management strategy aims to increase recycling of materials such as glass, rubber, aluminium and other metals, thereby reducing the amount of waste that is incinerated, and reducing our overall waste output. Our recycling efforts will also help to maintain our spectacular, pristine natural environment.

Direction/Governance

- Strengthen internal capacity and systems to ensure law, order, good governance and national security remain a priority.

A safer Virgin Islands through modern, tactical and community policing, supported by up-to-date laws governing national security, is the overall objective of the Government's continued focus on national security. The strategic plan of the Royal Virgin Islands Police Force (RVIPF) is geared at active community policing, enhancing operational policing performance, improving detections and bringing offenders to justice in order to reduce crime. Additionally, improving public trust and confidence in the RVIPF in order to better fight crime through public cooperation remains a focus. This includes recognizing the need for improved relations between the youth and the police by having the police actively engaged in the life of the community (schools, churches, events, etc.).

In the medium term, the RVIPF will continue to upgrade its legislation to best support modern policing. For example, laws will be strengthen to enable the courts to confiscate the assets and property of drug dealers and other major criminals while introducing legislation geared at drug testing for criminals.

The RVIPF will upgrade its equipment and increase internal training and development methods for officers. As such, training of recruits locally and enhanced training of current officers will continue in an attempt to create a dynamic motivated workforce. Partnering with other law enforcement agencies such as Customs and Immigration will remain a focus as protection of the Virgin Island's border in order to strengthen counter terrorism capability is paramount to a secured Virgin Islands.

- Ensure sound public financial management through strong budgeting and comprehensive financial management procedures.

Since 2011, our public sector has undergone several reforms in its financial management systems. These include the presentation of this updated Medium Term Fiscal Plan which presents our development and fiscal objectives over the next three years and sets the framework for the multi-year programme performance-based budget which links policy objectives to spending allocations. The 2016-2018 Budget will be presented in full programme performance format, with all central government resources organised by subject area and results, helping to foster better policymaking and improved results.

The GoVI is also committed to improving central cash management. The focus over the next few months will be developing a cash flow management and forecasting structure to help alleviate cash shortfalls by predicting the availability of cash and improving cash flow planning. This will allow policymakers greater control over cash and reduce the instances of monthly cash shortages. A cash management committee has already been created to review the Government's weekly cash position and recommend any adjustments to cash inflows and outflows. The cash management committee will play a pivotal role in the execution and management of the 2016-2018 Budget.

- Collect data to inform the policy and decision-making process, and strengthen the framework for economic and social analysis to drive strong policy advice.

The programme performance format of the 2016-2018 Budget also vitally contains results and targets of specific performance indicators for each programme. We envision that this process of collecting, analysing and making policy decisions based on data will engender within the public service a greater focus on results and evidence-based policymaking. With the support of the Central Statistics Office, Ministries and Departments will become well-equipped to collect and store this and other statistical information which will be used to drive social and economic policy analysis and advice across the public sector. In this way, planning and budgeting will be fused together, with development objectives transparently put forward and executed through budget documentation, encouraging public participation and dialogue in development processes.

- Promote transformation of the public sector by finding efficiencies in Government's provision of services to the public.

A comprehensive change management strategy has also been developed focused on putting the internal structures in place that will drive public service performance, build leadership capabilities and an inclusive organisation culture within the Public Service. This strategy focuses on instituting evidence-based decision-making, building the needed skills and capabilities within the service and disseminating timely and accurate information to all stakeholders. In addition, the Public Service Management Act will provide the legal framework for the policies and procedures that guide working in the public service. Employees now have regulations governing their expected performance deliverables which are needed to ensure that collectively the public service is working towards the same goals. These priorities will help to transform the Public Service to one that supports good governance, accountability and transparency.

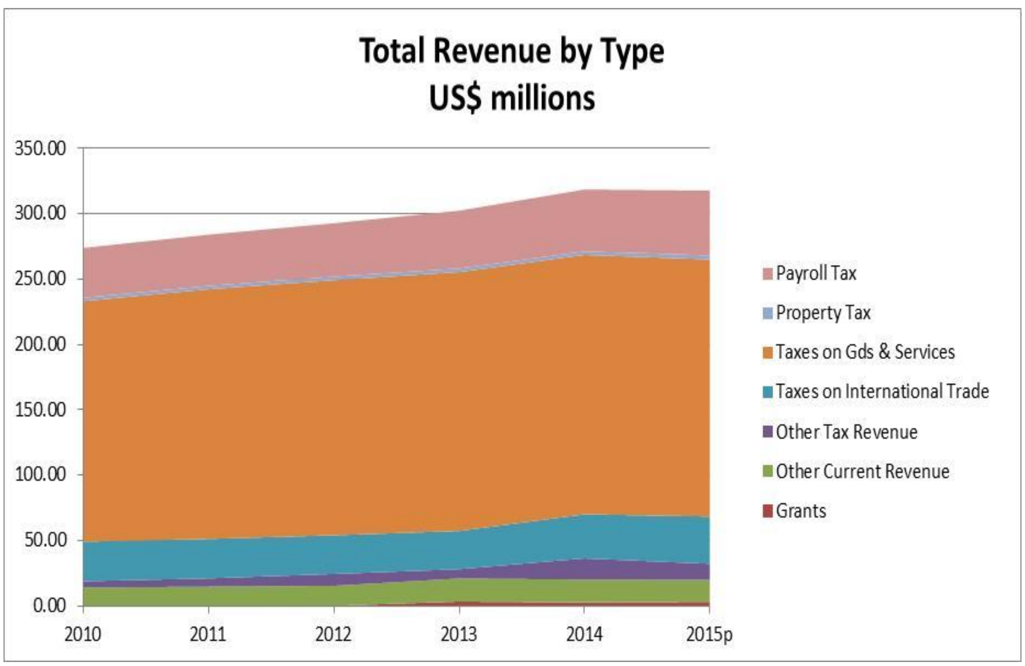
FISCAL REVIEW

Revenue

2014 marked the year with the highest ever amount of revenue collected by GoVI, outperforming expectations, at $318.6 million. This 5.4% year-on-year increase in revenue collected is due to a significant increase in other taxes collected, namely stamp duty, late in the year. 'Other tax revenue' more than doubled in 2014, increasing from $7.15 million in 2013 to $16.22 million in 2014. Sales of properties including villas at Oil Nut Bay in Virgin Gorda contributed to this increase.

The largest category of revenue collected was Taxes on Goods and Services, comprising 62.3% of total government revenue, a slightly lower proportion than 2013, given that revenue collected in this category remained largely unchanged in nominal terms. Of the $198.5 million in Taxes on Goods and Services collected by central government, $183.6 million was revenue retained from financial services, slightly lower than the $184.6 million retained in 2013. This decrease is partly due to an additional 0.5% of collections held by the Financial Services Commission in 2014.

Both taxes on international trade and transactions and payroll tax registered increases in 2014, at 15% and 7.1% respectively, due to a combination of greater collection efforts as well as increased economic activity during the year.



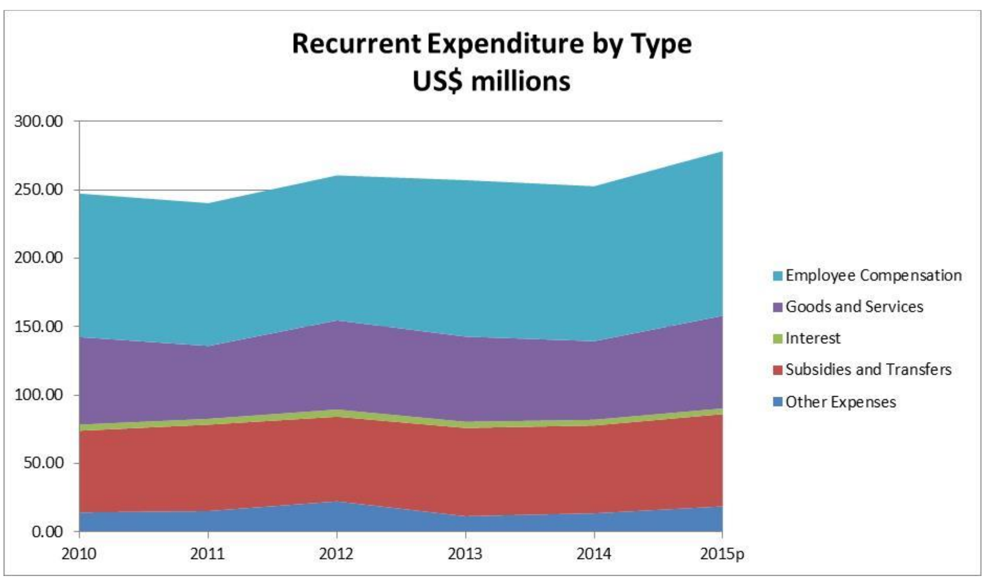
Collections for 2015 indicate that total revenue is in the region of $317.6 million, almost replicating collections for 2014 which equalled $318.6 million. A slight reduction in revenue retained from financial services[2], no notable growth in financial services receipts and lower collections from stamp duty account for the reduction in revenue.

Revenue is expected to grow in the medium term, mainly due to the planned implementation of a series of revenue generating initiatives outlined in the Fiscal Strategy section.

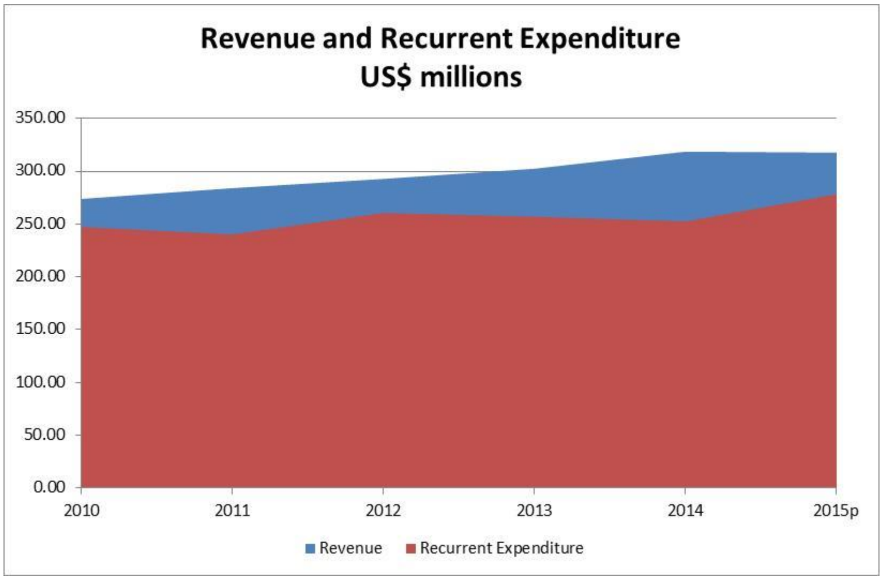
Recurrent Expenditure

Expenditure efficiency measures have continued to bear fruit, as recurrent expenditure in 2014 decreased 1.7% to $252.6 million. By creating stronger linkages between policy objectives and budgeted and actual expenditure, we have helped to better rationalise Government expenditure, and consistently encourage Ministries and Departments to eliminate waste, better target expenditure, and achieve greater value for money when procuring goods and services. Though recurrent expenditure decreased 3% between 2012 and 2014, we expect this to increase in 2015, as we grant civil service increments, implement the water purchase agreement, and incur additional administrative costs associated with ongoing infrastructural development on road and sewerage works.

Recurrent expenditure from 2016 is expected to increase as a result of Government's implementation of universal health care. The estimated costs to the government in 2016 are approximately $46 million inclusive of government's contribution on behalf of its employees.



[2] In 2015 the proportion of financial services revenue for Central Government and the Financial Services Commission is 88.5% and 11.5% respectively.

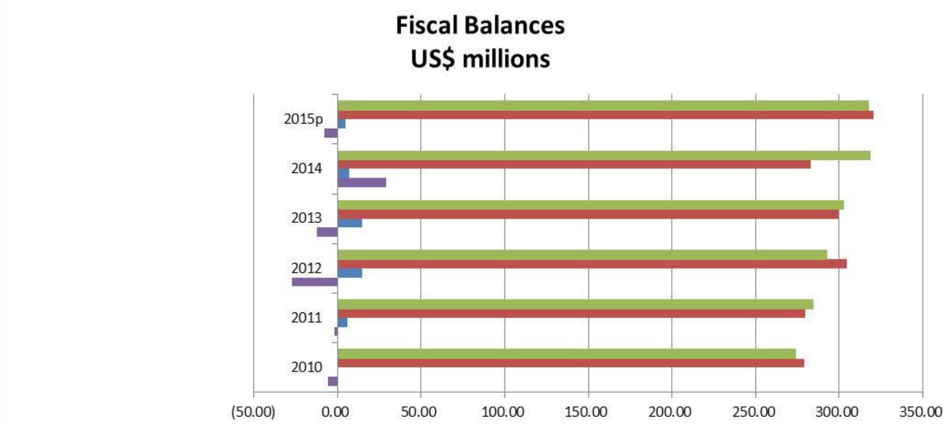


Capital Expenditure

For the BVI, infrastructural development is an important stimulus for economic growth. Given the small size of our economy, limited fiscal resources and the high relative cost of major capital projects, pursuing large scale development will always be challenging but is a necessity. Despite these challenges GoVI has embarked on a series of development projects that are essential for the economic viability of the Territory.

Capital funds in 2014, in the amount of $30.09 million, were channelled to outfitting the new Peebles Hospital which was officially opened in December 2014, road maintenance and commencing works on the national sewerage project. Other notable capital projects included the rehabilitation of the VI School of Technical Studies, continued works on the Queen Elizabeth II Park and the East End/Fat Hog's Bay Harbour, as well as upgrade and maintenance works on schools and recreational facilities.

Capital expenditure (central government) in 2015 reached approximately $34 million, with an additional $8 million in net lending to the Ports Authority for the continued development of the cruise ship pier.



	2010	2011	2012	2013	2014	2015p
Revenue	273.86	284.05	292.78	302.40	318.60	317.62
Total Expenditure and Net Lending	279.29	279.84	304.70	299.70	282.71	320.24
Reserve Contributions	0.03	6.05	15.02	15.01	7.00	5.00
Overall Surplus/(Deficit)	(5.46)	(1.84)	(26.95)	(12.31)	28.89	(7.63)

With the approval of loan funding for upgrading our road network early in the year, 2015 has seen considerable work done on repairing and re-engineering roads on the islands of Tortola, Virgin Gorda, Anegada and Jost van Dyke, in conjunction with continued work on the National Sewerage Project. Work has also begun on the Medical Centre in Virgin Gorda.

In order to enhance our tourism product, significant capital works were undertaken on the extension of the cruise pier and landside development by the Ports Authority. The pier expansion will allow the BVI to accommodate larger cruise ships and, therefore, welcome more passengers to our shores. Cruise tourist arrivals are expected to exceed half a million in the upcoming 2015/2016 season. The landside development features restaurants, shops and other tourism related businesses further enhancing the visitor experience and providing business opportunities for local entrepreneurs keen on showcasing local products.

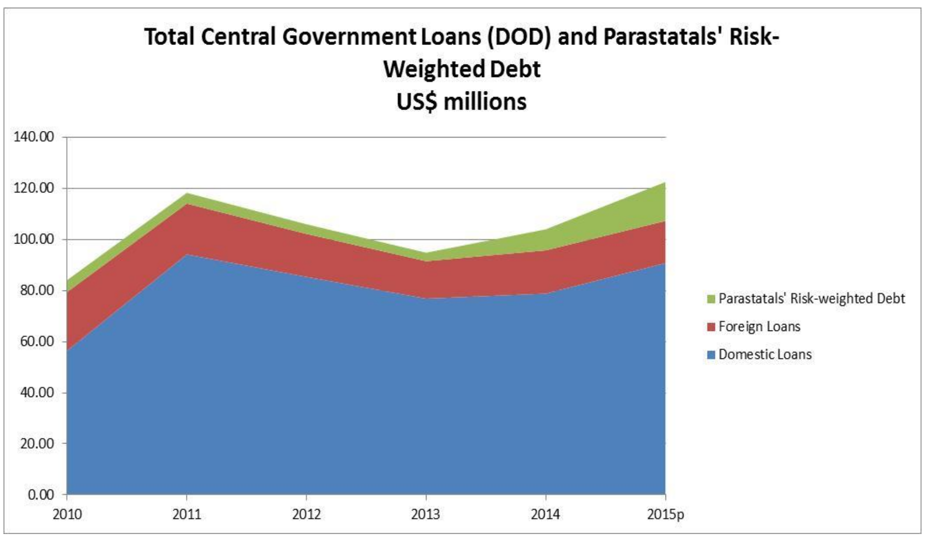
The Electricity Corporation has recently commenced the Phase V Power Development Plan of the electricity grid to extend capacity and improve energy production and the performance of the Electricity Corporation. The expansion involves the installation of additional diesel-fired generators.

Air access is the most critical infrastructural issue facing the BVI to date and has, therefore, become a top priority project for this Government. Growth of the financial services, tourism and construction sectors hinge on the BVI being more accessible to tourists, potential investors and clients. More specifically, we believe that investment in additional hotel capacity, the success of the Arbitration Centre, attracting foreign direct investment and diversifying our economy rests with the expansion of the T.B. Lettsome Airport.

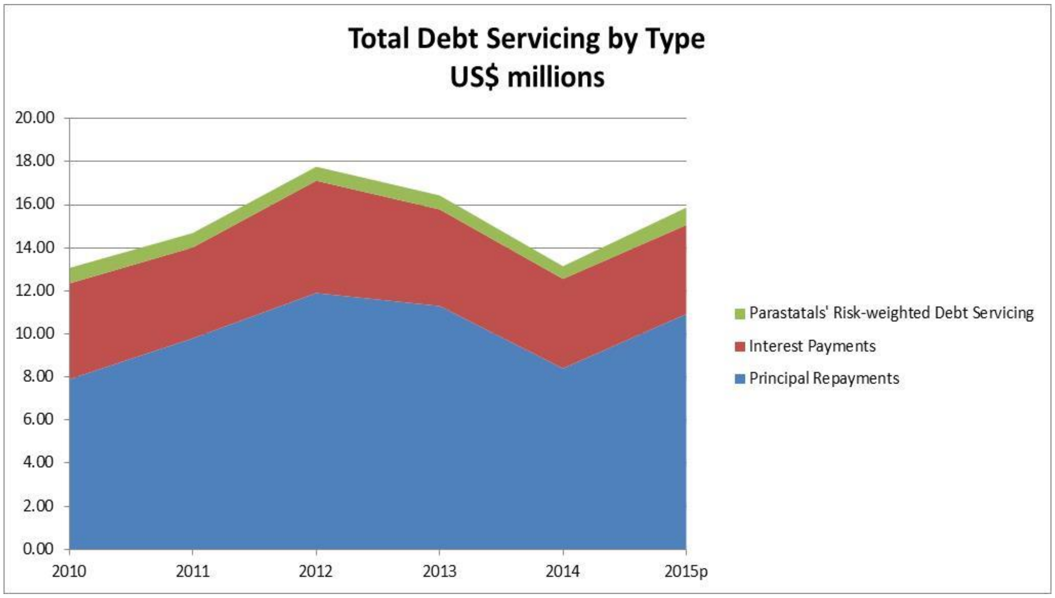
We expect these necessary infrastructural investments to propel economic growth in the Territory and create entrepreneurial and employment opportunities for our people. Additionally, by creating fiscal space by maintaining positive recurrent surpluses, and consistently repaying our existing debt, we have been able to maintain relatively low debt levels even while securing new debt to fund these capital investments.

Debt

Our debt levels continue to be relatively low as a percentage of GDP. At the end of 2014, central government disbursed outstanding debt (DOD) reached $95.8 million, slightly higher than the $91.6 million DOD recorded at the end of 2013. We have regularly met all of our debt obligations, while disbursing loans in the amount of $12.7 million in 2014 to fund capital projects on the hospital, sewerage and roads. Central Government DOD in 2014 was, thus, approximately 10.3% of gross domestic product (GDP). With partial disbursement of two new loans, one for central government's road reconstruction and rehabilitation of $16 million, and one for the Electricity Corporation's Phase V development project of $35 million, as well as continued disbursement of loans for works on the hospital, sewerage and ports, it is expected that central government disbursed outstanding debt (DOD) will reach $106.1 million at the end of 2015, while total public borrowing will reach $166.3 million. This would bring central government DOD to a modest 11.4% of GDP at the end of 2015.



With low levels of debt, our debt servicing costs are also comparatively low. Principal repayments and interest payments on central government debt amounted to $12.6 million in 2014, down from $15.8 million in 2013. As we complete repayment of older loans, the effective interest rate on our debt is decreasing, given the existence of a more favourable borrowing environment in recent years. Indeed, the effective interest rate we pay on total debt has decreased from a peak of 5.6% in 2010, and is expected to reach a low point of 3.85% at the end of 2015.


Total Debt Servicing by Type
US$ millions
20.00
18.00
16.00
14.00
12.00
10.00
8.00
6.00
4.00
2.00
0.00
2010
2011
2012
2013
2014
2015p
Parastatals' Risk-weighted Debt Servicing
Interest Payments
Principal Repayments

FISCAL STRATEGY

Notwithstanding additional fiscal pressures from the provision of universal health care and improving the reliability of our water network, the objectives of our fiscal strategy for 2016-2018 remain the same. We aim to maintain a positive recurrent balance by increasing revenue and encouraging expenditure efficiency, while contributing to our Reserves. Specifically, we continue to pursue the following objectives over the medium-term:

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

Revenue generating initiatives

The revenue generating initiatives which GOVI plans to implement in the medium-term are:

1. Reverse the charging of import duties on FOB rather than CIF value[3];
2. Revise the customs tariff on alcohol and tobacco to reflect the value of products imported;
3. Collect Passenger Tax charged at the sea ports of entry;
4. Collect $7 cruise passenger tax per visitor to the Territory;
5. Introduce a Tourist Arrival/Environmental Levy;
6. Change the current Work Permit structure such that the fees will reflect improvements in efficiencies of the Labour Department and be more aligned with fees charged in other Overseas Territories;
7. Review and revise the current marine fee structure by consolidating existing fees and creating a collection system that is fair and easy to monitor;
8. Increase hotel accommodation tax on hotels from 7% to 10%;
9. Collect from the Telecommunications Regulatory Commission telecom royalties due to Central Government;

[3] Amendments have been made to the Customs Management and Duties Act (2010) and the positive effects of this policy will affect revenue in 2016.

10. Continue a more aggressive approach to the collection of current taxes and fees and arrears[4] by reviewing current legislation to give revenue collecting agencies greater authority to enforce compliance; and

11. Introduce innovations to tax collection methods thereby improving efficiency and reducing the costs associated with collections.

It is envisaged that these revenue initiatives will be brought on stream between 2016 and 2017, and amass approximately $19.3 million in additional revenue in 2016, $26.7 million in 2017 and $26.8 million in 2018[5].

Encouraging expenditure efficiency

Alongside generating increased revenue and ensuring compliance with the Protocols, we recognise the importance of improving expenditure efficiency. As such, we are committed to prioritising expenditures, implementing a cash management framework, and improving procurement and project management practices to ensure that the people of the Territory are receiving value for money in the way we conduct business on their behalf.

1. Managing the Public Service to improve performance and enhance efficiency and effectiveness in the delivery of services to the public. The new performance management system sets out clear individual objectives and enforces accountability while identifying areas for skills assessment and development. Fostering greater linkages between performance and remuneration in the form of increments ensures that those who excel within the public service are adequately recognised while managing expenditure on personnel emoluments.

2. Offsetting the Cost of Goods and Services by reviewing and revising the Government's current fee structures with a view to closing loopholes, renegotiating the cost of obtaining goods and services and ensuring that fees at least cover the costs of providing services by introducing new fees for existing services. This will assist in reducing Government's significant subsidisation of public goods and services and the current cost associated with procuring goods and services. For instance, renegotiating existing water contracts will assist in reducing the costs associated with purchasing water.

   As we continue our efforts to contain costs of goods and services, we remain committed to improving the procurement and project development and assessment processes. The Ministry of Finance continues to play an active role in monitoring all capital projects executed by Central Government from a cost and quality perspective. This ensures that the Government receives value for money when purchasing goods and services. Budget monitoring will begin in earnest in 2016 and will help to identify areas of overspending and assist in curbing the need for

[4] The value of arrears has not been explicitly included in the fiscal strategy model.
[5] See Appendix for detail breakdown of revenue initiatives.

supplementary appropriations, except in emergency circumstances. In addition, ensuring that programmes are appropriately prioritised and costed during the more rigorous multi-year budget preparation process is expected to yield efficiencies and savings.

3. Improving financial management of parastatals. Implementing a framework which monitors the financial and operational performance of all parastatals is an integral part of managing the growth of transfers and subsidies and ensuring that they are achieving the overarching development goals of the Government. The framework will be launched in 2016.

4. Capital expenditure levels depend on the development policy initiatives of the governing administration. To help promote the effective and efficient use of resources on capital projects, we have begun to implement improved project appraisal and assessment processes. This will help ensure that the Government achieves value for money on all projects and forms part of the Government's public financial management reform programme.

5. Preventing 'Budget Creep'. During the 2016 budget process, Ministries and Departments were required to reduce their budgets by 6% based on revised revenue projections. Additionally, Ministries and Departments were required to identify areas of potential savings which are used to offset new spending approved by the Cabinet.

Building our Reserves

Towards meeting the liquid asset ratio requirement of 25% of recurrent expenditure by the end of 2017, the GoVI contributed $5 million in 2015, and will contribute $15 million annually to the Reserve Fund in 2016 and 2017. This, in conjunction with managing the growth of recurrent expenditure, will bring the Virgin Islands into full compliance with the borrowing guideline ratios set out in the Protocols for Effective Financial Management and, more importantly, offer a fiscal buffer available to the GoVI in case of future shocks.

Addressing contingent liabilities

The Government is committed to creating a national pension system. A recent report[6] commissioned by Government outlines the elements necessary for the establishment of such a system. The current civil service pension scheme has placed a burden on public finances, as in 2014 pension payments accounted for approximately 6% of recurrent expenditure. Under the new national pension system all new civil servants will be part of a contributory pension plan. Special provisions will be made for incorporating existing employees into the contributory scheme.

[6] "Proposed System of Supplemental Pension Plan for the Virgin Islands", Pension Management Interactive PMI.

Maintaining the borrowing ratios

The GoVI has been able to maintain low levels of debt and thus, debt servicing while still meeting development imperatives and accessing necessary funding for capital projects. In this way, the GoVI has stayed well-within borrowing ratio guidelines for net debt and debt servicing outlined in the Protocols. With anticipated compliance with the liquid assets ratio by the end of 2017, we look forward to greater autonomy in making borrowing decisions based on the unique context of the Virgin Islands.

Financing the deficit

GoVI has consistently met its debt obligations, and has run overall deficits in the past in order to invest in much needed infrastructural development for the Territory, including roads and ports, the water and sewerage network, and healthcare facilities. It is through these prudent investments that economic growth is fostered and, more importantly, the quality of life for the Territory's residents is improved in a sustainable manner.

Our Capital Investment Plan over the next three years ($29.5 million - 2016, $16 million – 2017 and $22 million – 2018) will be financed through annual recurrent balance surpluses, loan disbursements, and excess unsecured debt/liquid assets[7].

Unsecured Debt/Liquid Assets

Unsecured debt flows in any given year are approximated in the medium-term fiscal frame as the difference between the Government's overall deficit and its net borrowing (loan disbursements minus principal repayments) in that particular year. This approximation is necessary due to the lack of end of year fund balances which are currently being restated and forms the basis for the unsecured debt stock/liquid assets balance.

If net borrowing (loan disbursements minus principal payments) in a given year is greater than the deficit, unsecured debt flows will be negative, meaning there are excess funds or liquid assets available at the end of the year subsequent to financing the deficit. Conversely, if net borrowing (loan disbursements minus principal payments) is less than the deficit in a given year, unsecured debt flows will be positive, meaning arrears have been incurred in order to finance the deficit.

Likewise, a negative unsecured debt stock would be equal to the liquid assets on hand at the end of the year and a positive unsecured debt stock would be equal to the cumulative arrears balance.

[7] See definition for unsecured debt/liquid assets in Box above.

Further disbursement of existing, approved loans, namely the $16 million loan for road rehabilitation and the $22 million loan for the hospital, sewerage and ports projects, will be utilised along with anticipated recurrent funds to finance the 2016 capital investment programme. The expansion of the T.B. Lettsome International Airport is expected to cost $152.5[8] million and commence in 2017. Through loan financing by the Airports Authority, with the requisite approvals, we envision opening the door to increased passenger flow, greater levels of economic activity, and an improved standard of living for the people of the Virgin Islands. Given the fiscal demands of the airport expansion project, the 2017 and 2018 capital investment programme will be financed using local funds.

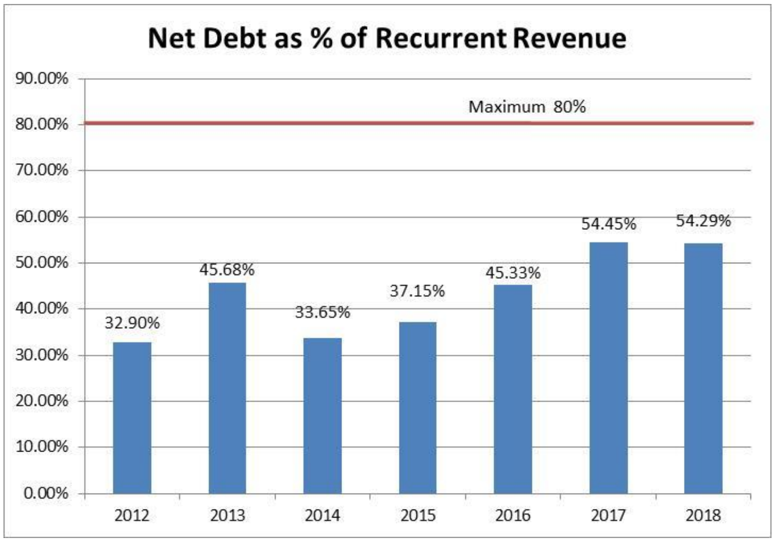
[8] Risk weighted at 50% for inclusion in the borrowing ratios.

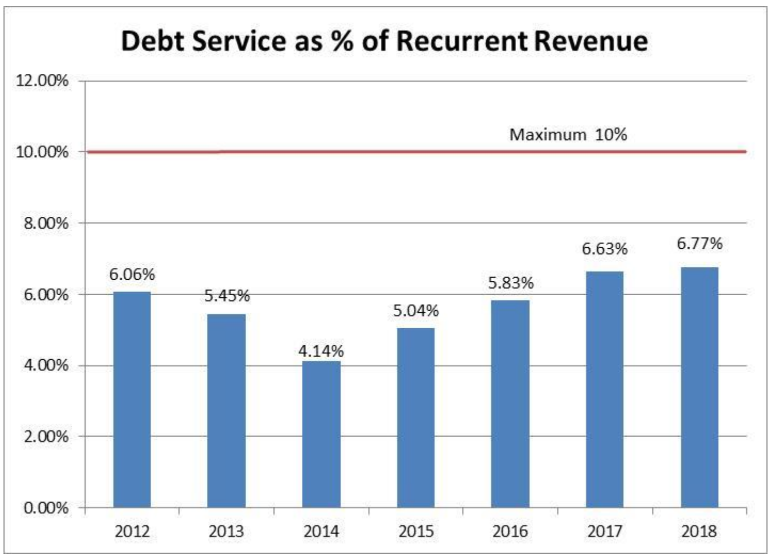
Medium-Term Fiscal Frame				EST'D	PROJECTIONS		
mn $	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total Revenue	**292.78**	**302.40**	**318.60**	**317.62**	**330.90**	**337.92**	**339.83**
Total Current Rev	292.78	299.10	316.08	314.59	330.90	337.92	339.83
Total Tax Revenue	277.46	281.44	298.46	297.75	313.94	320.78	322.44
Payroll-Inc Taxes	40.80	44.26	47.42	49.48	50.85	52.22	53.59
Property Tax	2.81	2.72	2.66	3.21	3.45	3.61	3.89
Taxes on Gds & Services	195.13	198.07	198.50	196.59	202.16	208.04	208.32
Tax-International Trade	29.60	29.25	33.65	36.18	46.04	48.27	49.16
Other Tax Revenue	9.13	7.15	16.22	12.29	11.43	8.64	7.48
Other Current Revenue	15.32	17.66	17.62	16.84	16.96	17.14	17.39
Grants	0.00	3.30	2.52	3.02	0.00	0.00	0.00
Total Expenditure	**304.71**	**299.71**	**282.75**	**320.24**	**335.84**	**335.58**	**329.46**
Total Primary Expenditure	299.49	295.21	278.59	316.11	331.19	331.31	325.82
Total Recurrent Expenditure	260.60	257.08	252.66	278.28	300.04	308.03	309.11
Total Interest Payments	5.22	4.50	4.16	4.13	4.66	4.28	3.64
Interest payments - Domestic	4.60	3.97	3.66	3.68	3.83	3.35	2.86
Interest payments - Foreign	0.61	0.53	0.50	0.45	0.82	0.92	0.78
Total Non-Interest Recurrent Expenditure	255.39	252.58	248.50	274.15	295.39	303.76	305.47
Employee Compensation	105.98	114.30	113.17	120.22	120.41	122.75	124.74
Goods & Services	65.12	62.22	57.44	67.74	68.60	69.48	69.84
Subsidies & Transfers	61.87	64.52	64.19	67.49	92.31	97.09	96.08
Total Other Expenses	22.41	11.55	13.70	18.70	14.06	14.43	14.81
Total Capital Expenditure and Net Lending	**44.11**	**42.63**	**30.09**	**41.97**	**35.80**	**27.55**	**20.35**
Capital Expenditure	44.11	42.63	30.09	33.97	35.80	27.55	20.35
Net Lending	0.00	0.00	0.00	8.00	0.00	0.00	0.00
Contribution to Reserve Fund	15.02	15.01	7.00	5.00	15.00	15.00	3.00
Total Surplus/(Deficit)	**-26.95**	**-12.32**	**28.85**	**-7.63**	**-19.94**	**-12.67**	**7.37**
RECURRENT BALANCE	32.18	45.32	65.94	39.34	30.86	29.88	30.72
RECURRENT BALANCE LESS RESERVE CONTRIBUTION	17.15	30.31	58.94	34.34	15.86	14.88	27.72
Financing	**26.95**	**12.32**	**-28.85**	**7.62**	**19.94**	**12.67**	**-7.37**
Net Borrowing	-11.87	-10.66	4.22	11.52	10.95	-14.92	-13.79
Loan Disbursements	0.01	0.67	12.65	22.45	23.43	0.00	0.00
Loan Disbursements - Domestic	0.00	0.00	10.30	20.24	7.46	0.00	0.00
Loan Disbursements - Foreign	0.01	0.67	2.35	2.21	15.97	0.00	0.00
Principal Repayments	11.88	11.34	8.43	10.93	12.48	14.92	13.79
Principal Repayments - Domestic	8.80	8.51	8.32	8.32	9.17	10.80	10.94
Principal Repayments - Foreign	3.08	2.83	0.11	2.61	3.31	4.12	2.85
Unsecured Debt Flow - Change in Cash	38.82	22.98	-33.07	-3.90	9.00	27.58	6.42

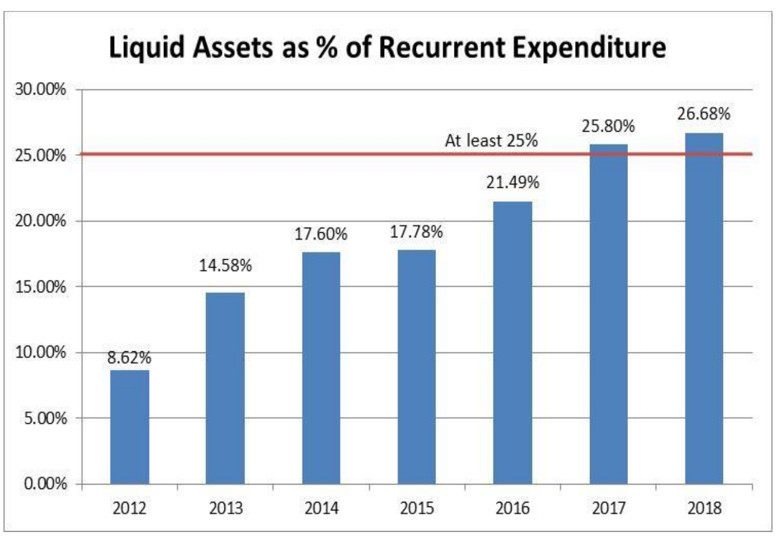
RATIO ANALYSIS

Through revenue generating and expenditure efficiency initiatives in conjunction with growing our Reserves, we will ensure compliance with the borrowing ratios set out in the Protocols for Effective Financial Management by the end of 2017. Our impressive trajectory for reaching and maintaining compliance and, thus, ensuring fiscal sustainability is demonstrated below. By 2017, we expect our reserve levels will be over 25% of recurrent expenditure and our debt ratios will be well below the limit.

Borrowing Limits				**EST'D**	**PROJECTIONS**		
	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total Disbursed Outstanding Central Gov. Debt	102.26	91.60	95.82	107.34	118.28	103.37	89.57
Unsecured Debt Stock	12.75	35.73	2.66	-1.23	7.77	35.35	41.77
Total Disbursed Outstanding Central Gov. Debt and Unsecured Debt	115.01	127.33	98.48	106.11	126.05	138.72	131.34
Total Disbursed Outstanding Debt of Parastatals	18.85	16.48	41.08	76.19	142.05	211.32	228.16
Total Risk-Weighted Disbursed Outstanding Debt of Parastatals	3.77	3.30	8.22	15.24	43.41	79.76	90.63
Capitalized Value of Public Private Partnerships	0.00	45.00	45.00	45.00	45.00	45.00	45.00
Total Public Borrowing	118.78	175.63	151.70	166.34	214.46	263.48	266.98
Reserve Fund Balances/Liquid Assets	22.47	37.48	44.48	49.48	64.48	79.48	82.48
Parastatals' Interest payments	0.99	0.87	0.79	1.89	4.71	4.42	9.97
Parastatals' Principal repayments	2.25	2.36	2.15	2.14	5.14	5.72	8.16
Parastatals' Risk-Weighted Debt Service	0.65	0.65	0.59	0.81	2.14	3.21	5.57
Total Debt Service of Central Gov. and Parastatals	17.75	16.48	13.18	15.87	19.28	22.40	23.00
Net Debt	96.31	138.15	107.22	116.86	149.98	184.00	184.50
Net Debt as % of Recurrent Revenue **(max 80%)**	32.90%	45.68%	33.65%	37.15%	45.33%	54.45%	54.29%
Debt Service as % of Recurrent Revenue **(max 10%)**	6.06%	5.45%	4.14%	5.04%	5.83%	6.63%	6.77%
Liquid Assets as % of Recurrent Expenditure **(at least 25%)**	8.62%	14.58%	17.60%	17.78%	21.49%	25.80%	26.68%


Net Debt as % of Recurrent Revenue
Maximum 80%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
32.90%
45.68%
33.65%
37.15%
45.33%
54.45%
54.29%
2012
2013
2014
2015
2016
2017
2018


Debt Service as % of Recurrent Revenue
Maximum 10%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
6.06%
5.45%
4.14%
5.04%
5.83%
6.63%
6.77%
2012
2013
2014
2015
2016
2017
2018


Liquid Assets as % of Recurrent Expenditure
At least 25%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
8.62%
14.58%
17.60%
17.78%
21.49%
25.80%
26.68%
2012
2013
2014
2015
2016
2017
2018

BUDGET FRAMEWORK

This MTFP has presented GoVI's development and fiscal strategies for the next three years, relaying the narrative of the figures contained in the Medium Term Fiscal Frame (MTFF). In doing so, the plan promotes effective and efficient allocation of resources, and guides the compilation of the 2016-2018 Budget Estimates.

The 2016 annual budget will be based approximately on the following framework, in accordance with the broad parameters presented in the MTFF:

	US$ millions
Revenue	$330.90
Recurrent Expenditure	$300.04
Contributions to Reserve Fund	$15.00
Capital Expenditure	$35.80
Debt Servicing/Principal Repayments	$12.48
Overall Surplus/(Deficit)	($19.94)
Deficit Financing/Loan Disbursements	$23.43

APPENDIX

Revenue Generating Initiatives by Major Revenue Category (millions)[9]

Major Revenue Category	2016	2017	2018
Taxes on International Trade			
Charge on FOB/CIF	2.50	2.55	2.60
Import Duties (Alcohol and Tobacco)	0.80	2.40	2.45
Passenger Tax (Sea)	3.50	3.57	3.57
Cruise Passenger Tax	5.00	5.00	5.00
Tourist Arrival Levy	1.90	1.90	1.90
Taxes on Goods and Services			
Work Permit Fees	2.72	5.42	5.42
Marine Fees	1.60	4.00	4.00
Hotel Accommodation Tax	0.30	0.90	0.90
Telecommunication Royalties	1.00	1.00	1.00
TOTAL	**19.32**	**26.74**	**26.84**

Parastatals Risk-Weighted Debt Schedule (US$ millions)

Statutory Authority/ Government Company	Risk Weight	2012	2013	2014	2015p	2016p	2017p	2018p
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
Airport Authority	50%	0	0	0	0	25	62.5	75
National Bank of the Virgin Islands	20%	.27	.20	.17	.14	.12	.09	.06
Electricity Corporation	20%	3.50	3.10	2.70	5.10	8.90	8.38	7.52
Financial Services Commission	20%	0	0	0	0	0	0	0
Ports Authority	20%	0	0	5.35	10.0	9.39	8.79	8.05
Social Security Board	20%	0	0	0	0	0	0	0
Total Risk-Weighted Debt of Parastatals		**3.77**	**3.30**	**8.22**	**15.24**	**43.41**	**79.76**	**90.63**

[9] This table only contains costed revenue initiatives.

Total Disbursed and Undisbursed Debt (US$ millions)

	2012	2013	2014	2015p	2016p	2017p	2018p
Central Government Disbursed, Undisbursed and Unsecured Debt	133.28	145.31	128.41	114.49	137.85	139.12	146.46
Parastatals Disbursed and Undisbursed Debt	18.85	16.48	64.33	97.19	244.6	238.82	230.66
Parastatals Risk-Weighted Disbursed and Undisbursed Debt	3.77	3.30	12.90	19.44	94.66	93.51	91.88