RESILIENCE BEYOND RECOVERY:

Securing our Sustainable Development

Medium Term Fiscal Plan

2018-2020

Government of the Virgin Islands

MESSAGE FROM THE HONOURABLE PREMIER AND MINISTER OF FINANCE

"Our Territory is at a critical juncture." Every year, at every presentation of the Medium Term Fiscal Plan and the Budget, these words are spoken. This year in particular however, they ring exceptionally loud and true. Following the unprecedented events of August and September 2017, we have made efforts to restore our Territory over the last months. We have truly embodied my earlier comments that as a Territory in September 2017 we were knocked down, but we were certainly not knocked out. Our greenery has gradually returned. Our electricity services have largely been restored. Individuals and families have been slowly able to make repairs to their homes and businesses. As the words of our Territorial Song sing, these green shoots have "replenish[ed] our hopes and pride."

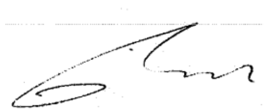
Of our challenges, we have surpassed many. Still, many remain to be surpassed. This Medium Term Fiscal Plan (MTFP) presents the fiscal and economic context within which we make decisions to continue our forward movement in building "Resilience beyond Recovery". Over the last several weeks, we have sought your input and advice to inform our Draft Recovery and Development Plan. We have been hearing you. We will listen to you and present our full Plan for the Territory's Recovery and Development, having taken your comments and contributions into consideration.

As such, this MTFP is set out to ensure that Government operations can continue over the next year through the Budget, and presents the broad strokes of our Plan going forward. As is customary, the MTFP will be revised and refined for the 2019-2021 Budget. That updated version will be further informed by your comments and contributions, and critically, by the finalised Recovery and Development Plan.

We have recognised that the passage of 2017's storms have mandated that as a Government, we do certain things differently. As such, this MTFP incorporates a Fiscal Strategy which includes increasing revenue from financial services through the already implemented changes in company fees, as well as improving expenditure efficiency on Government's new contractual obligations.

Recognising that the required investment to restore our infrastructure sustainably and resiliently is immense, this MTFP also anticipates borrowing to complement our increased and recovering revenue, some of which we endeavour to obtain through additional grants. We will borrow only to a sustainable level – i.e. to a reasonable level which we will assuredly be able to repay. We will do this because we recognise that borrowing today means repaying tomorrow. We must do this though, because where we are unable to relatively quickly restore our infrastructure, we risk losing our business and our standard of living to competitors.

I hope that you take the time to digest the contents of this document, as we work towards building the Virgin Islands "stronger, smarter, greener and better" and focus on securing our Territory's "Resilience beyond Recovery".



Dr. the Honourable D. Orlando Smith, OBE

INTRODUCTION

The year 2017 has been etched into the history books and historical consciousness of the Virgin Islands and its people as a particularly challenging one, marked by the unprecedented trio of events of August and September; namely the torrential rain and floods of the August tropical wave, and the passage of the two Category V hurricanes Irma and Maria in September. This unprecedented trio has caused over an initially estimated $3.6 billion in damages and losses to the Territory, constituting more than 3.5 times the size of our economy at the end of 2016. This, all in the context of significant political and socioeconomic challenges globally.

It has become clear that moving forward we will necessarily have to do things differently. We must rebuild the Virgin Islands, "stronger, smarter, greener and better" as embodied in our Recovery and Development Plan, able to withstand the challenges that lie ahead. We must move "Beyond Recovery"; and make decisions now that will set the pace for our development in the medium and longer-terms, and strengthen our resilience to economic and environmental impacts that will undoubtedly form part of our developing future.

This Medium Term Fiscal Plan (MTFP) complements the Virgin Islands' Recovery and Development Plan, giving more detail on the economic and fiscal context of our recovery and development strategies over the next three years (2018-2020). As such, in the Virgin Islands' post-trio reality, 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 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.

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. The economic trajectory of the Territory has shifted given the impacts of the unprecedented trio.

2. **Recovery and Development Strategy** presenting the GoVI's recovery and development priorities based on the Recovery and Development Plan, demonstrating linkages with our medium-term strategy which embodies Social, Economic, Environmental and Direction/Governance dimensions.

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 increased revenues, improving expenditure efficiency, and maintaining sustainable debt levels.

5. **Ratio Analysis** demonstrating the performance of our key ratios of net debt, debt servicing, and liquid assets, which indicate our fiscal sustainability in the medium term, and our trajectory of securing compliance with the borrowing limits in the Protocols for Effective Financial Management.

6. **Budget Framework** presenting aggregate figures for revenue, expenditure and debt which set the framework for the 2018 Budget.

ECONOMIC REVIEW AND OUTLOOK

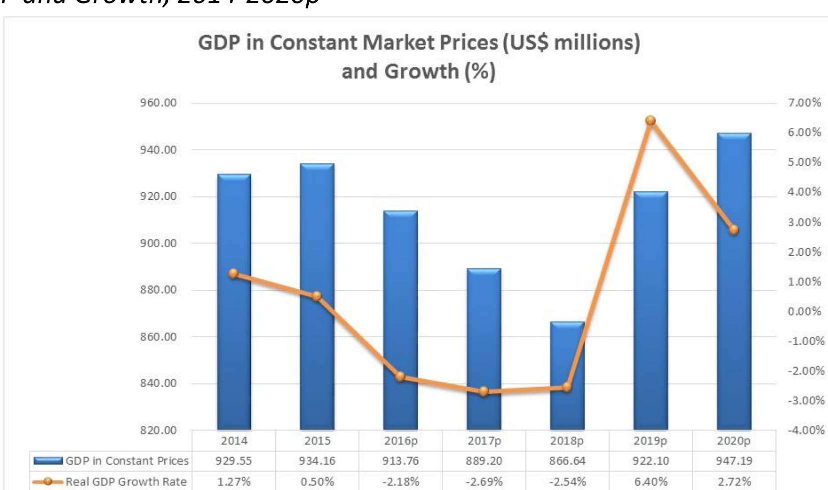
Over the last two years, the Virgin Islands economy has not been immune to economic challenges, with several shocks observed. In 2016, public relations and regulatory pressures affected our financial services industry while growth in tourism helped to cushion any negative impacts on the overall recovery. In quite the reversal of roles, the natural disasters of 2017 wreaked significant impacts on the tourism industry in particular, with business continuity in the financial services industry assisting in buoying the economy and Government finances as recovery efforts unfold and take hold.

The resilience of our economy has been tested. Global politicoeconomic dynamics and climate change have gone beyond our doorstep and have driven right into the center of our living rooms, obliterating our front doors in the process and destroying much of what made us feel safe and secure. We must rebuild, conscious of our new reality. As we move forward in rebuilding "stronger, smarter, greener and better," it is clear that the open and vulnerable nature of our economy demands diversification in a global context of uncertainty and ever-shifting dynamics. As we shore up and buttress our two main economic pillars of tourism and financial services, we will also look towards future diversification and innovation in traversing this new global reality.

Economic Growth

The Virgin Islands economy reached a peak of $934.2 million in Real GDP in 2015, marking an increase of 0.5% in comparison to 2014 real GDP (Figure 1). Economic growth observed in 2015 and performance in 2016 was driven mainly by growth in the tourism industry: including hotels, charter boats, and transportation, alongside increases in construction, telecommunications, real estate and Government investment.

Figure 1. Real GDP and Growth, 2014-2020p



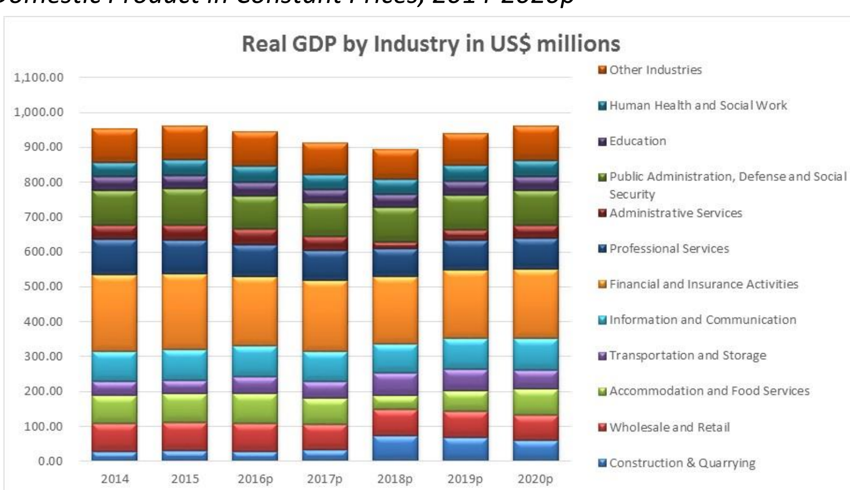
We expect that real GDP declined in 2016 by approximately 2.18%. This projected decline was driven by a combination of factors, namely the effects of unwarranted negative attention from the Panama Papers leak and correspondent bank de-risking on our financial services industry, increasing global economic uncertainty following the UK's decision to leave the European Union, and strong regional competition in tourism.

While declines in growth are expected for financial services and related industries in 2016, slight positive growth is expected in the hotels and charter boat industries in 2016, helping to cushion that decline. In 2017 and 2018, it is expected that financial services as well as increased construction activity will cushion the significant declines in the tourism sector caused by the impacts of the unprecedented trio. It has been heartening to observe the resiliency of the financial services sector following the floods and hurricanes, as while businesses have had to temporarily relocate, business activity in terms of incorporations and re-registrations have largely continued unabated.

Over the last several months, we have worked to shore up the financial services industry through product enhancement, widened marketing efforts, and improved Government processing and approval processes. We expect these efforts as well as improving consumer confidence in our source markets, and increased construction activity to fuel economic performance as the Territory recovers. A renewed growth trajectory is expected to take hold in 2019 and beyond. Public investment in repairing and rebuilding our road infrastructure network, schools and sea ports is expected to help in buttressing economic performance in the short- and medium-terms.

A significant rebound in growth is expected in 2019 of 6.4% with more usual levels of modest growth expected thereafter in 2020 and going forward. We expect that the momentum for growth in 2019 and beyond will come primarily from tourism and related industries, as accommodation and marina services properties are restored and tourist arrivals increase. Recent ongoing and expected investments in our tourism infrastructure across both public and private sectors are expected to buttress economic growth in the coming months and years.

Figure 2. Gross Domestic Product in Constant Prices, 2014-2020p



Tourism

Tourist arrivals continued their positive growth trajectory in 2016, with growth in both cruise and overnight tourist arrivals (Figure 3). For 2016, overall tourist arrivals increased 21.9% with the total number of visitors reaching over one million at 1,124,380. Impressively, the number of cruise passengers arriving in the Territory in 2016 continued to grow, up 35.4% from 2015 cruise passenger numbers.

Figure 3. Tourist Arrivals by Type, 2012-2017

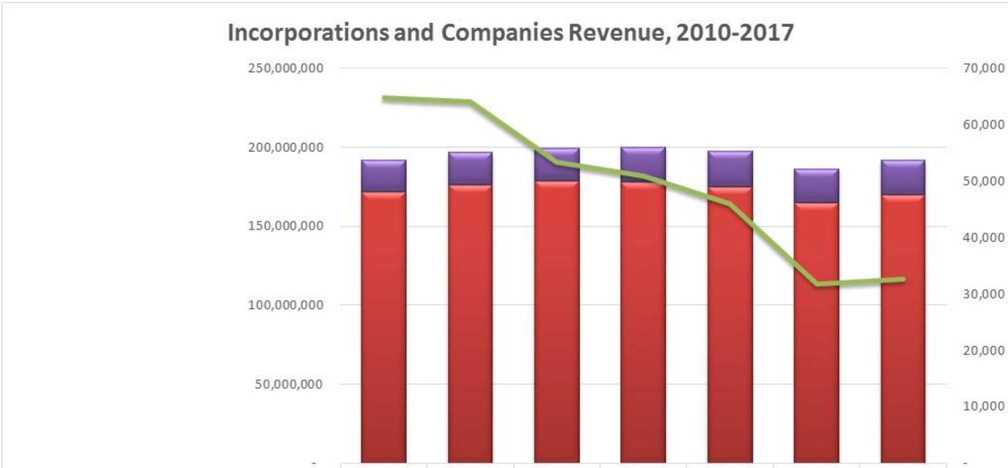
	2012	2013	2014	2015	2016	2017
Cruise and Daytrippers	401,744	375,739	369,257	529,354	716,616	409,406
Overnighters	351,404	366,108	386,127	393,018	407,764	334,630
Total Tourist Arrivals	753,148	741,847	755,384	922,372	1,124,380	744,036
Cruise and Daytrippers Growth (%)	-18.5%	-6.5%	-1.7%	43.4%	35.4%	-42.9%
Overnighters Growth (%)	4.1%	4.2%	5.5%	1.8%	3.8%	-17.9%

The number of overnight tourists increased as well, driven by charter boats, at 3.8%. The performance of overnight tourist arrivals in 2016 is particularly heartening, as this was a larger increase than 2015 (1.8%), and overnight tourist arrivals contribute more to overall tourism expenditure, translating to increases in economic activity. Due to impacts of the unprecedented trio, total tourist arrivals decreased 33.8% in 2017. Cruise and daytripper tourist arrivals decreased 42.9% in 2017, and overnighters decreased 17.9%. 2018 is expected to be another hard year for our tourism sector. In particular, cruise tourism and the hotels portion of overnighters may face further declines in 2018. As properties are restored and infrastructure improvements take hold, we expect tourist arrivals to rebound in 2019, with overall tourist arrivals expected to exceed one million in 2019 and continue a growth trajectory thereafter.

Financial Services

The challenging nature of 2016 for our financial services industry is evident in the notable decline in new company incorporations. While new company incorporations in 2016 fell some 30.8%, sustained performance of re-registrations and other company transactions meant that overall economic activity and revenue from companies did not face as steep a decline (Figure 4). Incorporations and revenue figures for 2017 demonstrated a modest recovery from a challenging 2016, despite the passage of two Category V hurricanes in September. The total number of active companies registered at the end of 2017 was 389,459 companies. The Capital Economics report published last year on the VI's contribution to the global economy revealed that by facilitating cross-border business, the VI supports jobs, prosperity and government revenues worldwide.[1]

Figure 4. New Company Incorporations and Companies Revenue, 2011-2017[2]

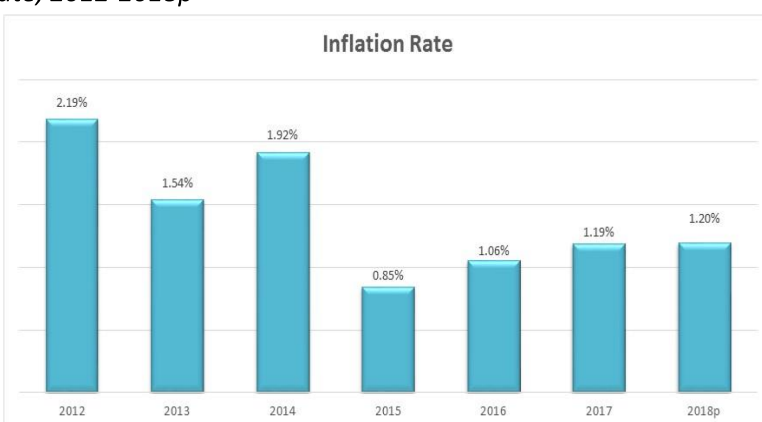


	2011	2012	2013	2014	2015	2016	2017
FSC Retention of Companies Revenue	20,123,480	20,646,461	20,969,646	22,008,123	22,740,933	21,435,930	22,095,353
Government Portion of Companies Revenue	171,528,702	175,986,498	178,741,263	178,065,718	175,006,308	164,963,465	170,038,152
Incorporations	64,729	64,062	53,329	50,834	45,929	31,769	32,592

Inflation

The inflation rate in 2016 remained low and stable, well under 2% at 1.06%, up from 0.85% in 2015 (Figure 5). Higher inflation in 2016 was driven specifically by price changes in health services and communications, at 10.8% and 7.2% respectively. Commencement of the National Health Insurance at the beginning of the year seemingly drove increased prices for health services.

Figure 5. Inflation Rate, 2012-2018p



[1] Capital Economics, "Creating Value: The BVI's Global Contribution," June 2017.
[2] Total Registry of Corporate Affairs revenue is reflected in this Chart. Since 2015, the proportion of financial services revenue remitted to Central Government has been 88.5%.

Recovery from the unprecedented trio has meant increased levels of inflation, as demand for consumer goods has increased and the availability of supplies has been somewhat hampered due to the regional impact of natural disasters in 2017. The inflation rate in 2017 was 1.19%, driven by increases in housing and utilities, transportation, and construction. Inflation is expected to increase in 2018 as well, as global fuel prices increase, duty-free exemptions expire and demand for certain consumer goods continues to be higher. At under 2%, inflation levels in the Territory are moderately low. Maintaining low and stable inflation is one of our economic targets, and helps to contain the rising cost of living. Another important economic target is increased employment and average wages.

Employment

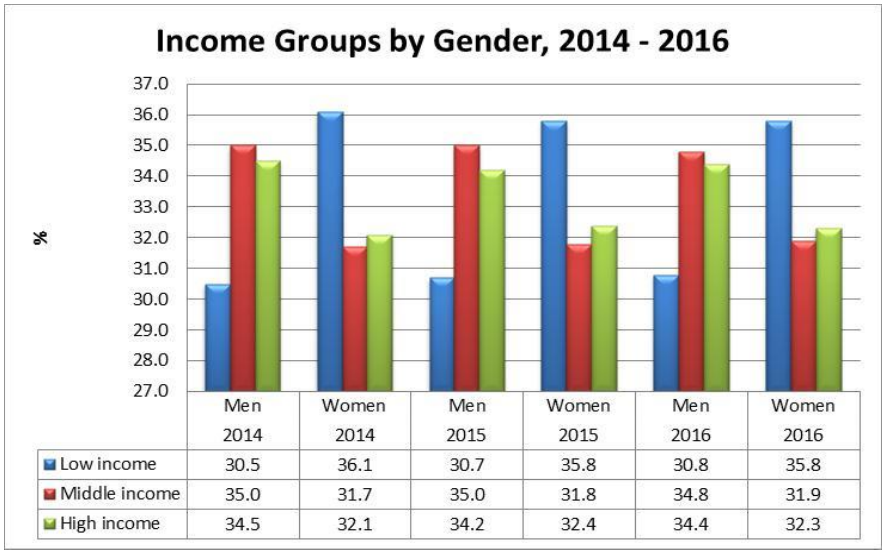
In 2016, the total number of persons employed increased by approximately 2.0% from the total number of employed persons in 2015 which was 20,029. There was also an approximately 1.2% increase in average earnings in 2016, from average earnings of $26,748 in 2015. This translates to slight improvement in the standard of living for our people, given that inflation for 2016 was lower than the increase in average earnings, at 1.06%.

Table 1. Gini Coefficients by Gender, 2014-2016

Gini Coefficients	2014	2015	2016
Men	0.3510	0.3424	0.3498
Women	0.3526	0.3496	0.3476
Total	**0.3533**	**0.3475**	**0.3501**

Also in positive news, our Gini coefficients which measure wage inequality, demonstrated improved equality in the labour force between 2014 and 2015, with lower Gini coefficient values in 2015 than in 2014 across both men and women (Table 1). Between 2015 and 2016 however, only the Gini coefficient for women showed an improvement in equality in the labour force, with increased wage inequality among men, and in the overall Gini figures. The lower Gini coefficient for women in 2016 than in 2015 meant that as earnings increased, wage equality within women also increased. On the other hand, as earnings increased across both gender categories, overall wage equality decreased, with higher Gini coefficients and thus higher inequality levels overall and for men in 2016. It is heartening to observe however that from 2014 to 2016, the Gini coefficients for both men and women, and thus overall, decreased, with an overall Gini coefficient of 0.35 at the end of 2016, indicating improved wage equality from 2014 to 2016 across both genders.

Figure 6. Earnings Categories, 2014-2016



A more in depth look at wage dynamics for 2015 and 2016 reveals that a higher proportion of women were in the low- category of earnings than men, and similarly, a higher proportion of men were in the mid- and high- categories of earnings than women from 2014 to 2016[3] (Figure 6 and Table 2).

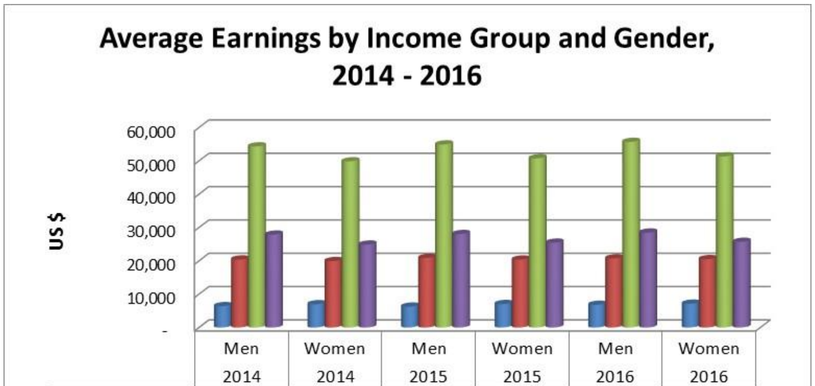
Table 2. Ranges for Earnings Categories, 2014-2016

Ranges for Earnings Categories	2014		2015		2016	
	From	To	From	To	From	To
Low	$0	$13,198	$0	$13,200	$0	$13,439
Middle	$13,198	$27,648	$13,200	$28,514	$13,439	$28,260
High	$27,648	$1,363,482	$28,514	$1,149,996	$28,260	$1,149,996

This, as well as average earnings figures, suggests disparity in women's earnings compared to men's earnings in the labour market. Reflecting this, women's average earnings decreased more than men's average earnings in 2016 (Figure 7), resulting in women's average earnings moving from 91 cents to 90 cents for each dollar of men's average earnings. In this way, the earnings disparity between men and women's average earnings increased between 2015 and 2016. The level of the Gini coefficients, along with the growing disparity in earnings between genders point to a widening gap in inequality of earnings by gender.

[3] For 2014-2016, the three income groupings (low, mid, and high) were obtained by using percentiles to group the gross earnings of all employees into three equal income groups. The minimum and maximum of these percentiles were then used to create the limits for the three income groups.

Figure 7. Average Earnings by Income Group and Gender, 2014-2016



	Men 2014	Women 2014	Men 2015	Women 2015	Men 2016	Women 2016
Low income	6,409	6,983	6,263	7,039	6,819	7,143
Middle income	20,406	19,936	20,875	20,375	20,740	20,521
High income	54,348	49,863	54,933	50,755	55,690	51,361
Total	27,871	24,873	28,048	25,460	28,479	25,705

Given that minimising inequality is a target of our economic strategy, is embedded in the global Sustainable Development Goals, and inequality can be a drag on potential growth, these results suggest that policy intervention may be needed to ensure that we move in the right direction. It will be important going forward to continually monitor and analyse employment and wage dynamics in the context of the impact of the unprecedented trio, since research has demonstrated that economic shocks often most negatively impact vulnerable groups and can exacerbate inequalities.

Due to the impacts of the unprecedented trio, total employment levels are expected to decrease slightly in 2017 and 2018 particularly within the tourism industry, even as expansion takes hold in the construction industry based on recovery efforts. As the recovery takes hold however, we expect that increases in GDP growth in 2019 and beyond will be accompanied by increased levels of employment and increases in average wages, resulting in a higher standard of living.

Conclusion

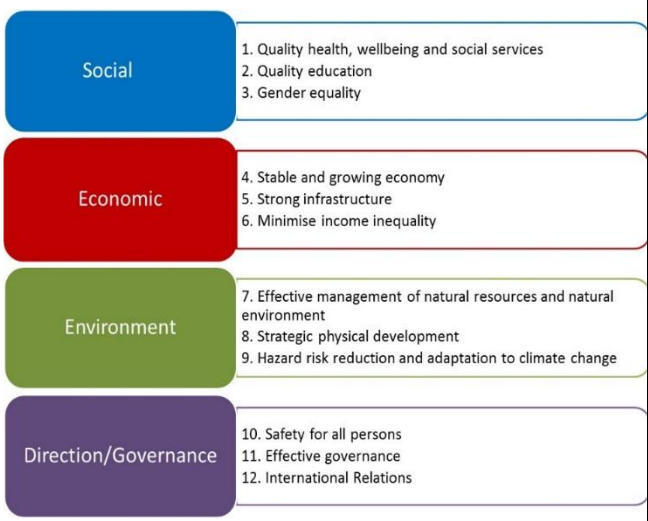
While it is clear that there are a myriad of economic challenges facing the Virgin Islands in the wake of the unprecedented trio, including recovery of destroyed and degraded infrastructure, global economic uncertainty, regional competition, and the need for diversification, it is also clear that the Virgin Islands is capable of meeting these challenges head on, with resilience and determination. The priorities of our recovery and development strategy highlighted in the next section demonstrate our commitment to secure sustainable development for our people and ensure that we are indeed moving “beyond recovery” in improving the standard of living for our people as we rebuild our Territory “stronger, smarter, greener and better”.

RECOVERY AND DEVELOPMENT STRATEGY

The following section highlights the details of our Recovery and Development Strategy specific to public expenditure during the projected budget period, namely 2018-2020. Having experienced major natural disasters, the focus of this strategy has shifted in the immediate term, to recovery, given the need for rebuilding and repairing. That said, as we recover, our overall development goals, aligned with Social, Economic, Environment, and Direction/Governance (SEED) dimensions, will work towards making the Territory more resilient. The key target sectors included in the Recovery and Development Plan are: 1) Business and Economy, 2) Infrastructure, 3) Governance, 4) Human and Social Services including Pride and Cultural Identity, and 5) Natural Resources and Climate Change. These sectors can be viewed through the lens of our Medium Term Development Strategy, SEED, and its 12 Result Areas (see Chart below).

This will rightfully place the targeted outcomes of our recovery in the context of our medium and longer term development.

Recovery and Development: Building stronger, smarter, greener and better in a sustainable and resilient way.



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

	RECOVERY AND DEVELOPMENT OUTCOMES	SEED RESULTS AREAS
1	Improved health and social outcomes through SMART investments in infrastructure, technology, systems and services	Quality health, wellbeing and social services
2	Providing healthy, safe and green (SMART) learning institutions to support teaching excellence and student growth	Quality education
3	Re-establishment of culturally significant contributions and activities that promote national identity and cultural pride	Quality education
4	Policy and operational framework for sustained levels of green growth and innovation in the economic sectors	Stable and growing economy
5	Improved natural resource base and environmental management to address compliance issues, promote social inclusion and reduce environmental footprint to achieve long term economic prosperity.	Effective management of natural resources and natural environment; Hazard risk reduction and adaptation to climate change
6	Resilient and environmentally sustainable physical infrastructure	Strategic physical development
7	A peaceful and safe Territory using green technologies to support good governance	Safety for all persons; Effective governance
8	Re-establishment of a national system to support prison security programmes tailored for retribution, incapacitation, deterrence and rehabilitation	Safety for all persons
9	A SMART Footprint: Working towards disaster resilience and safeguarding the sustainable development of the Virgin Islands	Effective governance

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

- ### Quality health, wellbeing and social services

In recovering and developing general health and wellbeing in the Territory, the main focus over the next several years will be the development of health infrastructure which allows the GoVI to restore service delivery on the main island of Tortola as well as the outer islands. Central to healthcare services in the Territory is the Peebles Hospital, and to strengthen our services, we will invest in the Hospital's information systems to support its international accreditation, and expand the secondary and specialist health services offered at this institution. The development plan for the Hospital also includes retrofitting its 5th floor to allow for provision of specialist services. This is expected to yield revenue of approximately $3 million through repatriation of health spending and increased participation in the international medical tourism market.

Recognising the importance of primary healthcare services in meeting our health challenges, especially as it relates to chronic non-communicable diseases (CNCDs), we will prioritise the construction of polyclinics on the Eastern and Western ends of Tortola. These polyclinics will complement the already commenced construction of the Iris O'neal Clinic on Virgin Gorda, aimed at offering a wider range of services required to serve the population while reducing the total number of clinic sites throughout the Territory. Our plans also include expansion of the Road Town Clinic housed at the site of the refurbished Old Peebles Hospital.

As it relates to Social Protection, an increase in applications for Public Assistance Grants is understandable and thus expected, given the impacts of the unprecedented trio on the standard of living of many residents. In particular, research has demonstrated that crises affect the most vulnerable persons in any population more severely. As such, vulnerable persons including persons in the lower income brackets, seniors and children will require specific attention and targeted programs to ensure their sustainable recovery and resilience. Projects to provide assistance to vulnerable persons include provision of temporary roofing, rapid repairs, and some reconstruction of homes of eligible individuals and households. Additionally, through the National Bank of the Virgin Islands, we will be offering soft loans to affected individuals and households to aid in repair and reconstruction.

The severe flood and hurricane damage to the Territory created widespread and dangerous debris, much of which still needs to be properly disposed. Disaster Waste Recovery, an international NGO, has indicatively estimated a total debris quantity of 2,753,112 tons. As such, a Debris Management Plan has been developed to guide debris collection and disposal in the short to medium term.

- ### Quality education

Pride and cultural identity

The storms of 2017 caused widespread damage to our education infrastructure, specifically our public primary and secondary schools. As such, we will rebuild and modernise our school infrastructure to Safe/SMART (Sustained Mitigation, Adaptation and Resilient Techniques) standards. Going beyond the physical infrastructure of schools, we will also focus on the standard of teaching in our classrooms, providing necessary ICT equipment and supplies to all public primary and secondary schools, and ensuring that education adequately meets the needs and prepares our students for our 21st century reality.

Following passage of the storms, central library services have been displaced, with the Elmore Stoutt High School temporarily located at Pasea Estate. In keeping with the need to preserve our heritage, efforts will be made to reopen museums in 2018 and plans will be developed to build a multi-purpose building in the Road Town area which would take in the museum which was previously housed on Main Street, the Sugar Works Museum, and a Performing Arts Center and National Library.

- ### Gender equality

In terms of gender equality, we continue to encourage the collection of gender-disaggregated statistics across all policymaking areas through our framework for programme performance-based budgeting. It is expected that the Recovery and Development Agency (RDA) will use similar structures in monitoring the results of recovery spending, especially looking at the situation of and impacts by gender and by age. In collecting and analysing these statistics, we can ensure that gender is mainstreamed throughout public policymaking. In 2016, UNICEF conducted a Budget Analysis and through its report has highlighted the importance of continuing our push to embed gender and child responsive budgeting as a means of measuring how our fiscal resources reach distinct groups of people within our population. Our National Gender Policy similarly aims at mainstreaming gender throughout society, promoting the use of gender perspective throughout the policymaking process.

Business and economy

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

- ### Stable and growing economy

As expected, the growth trajectory of the Virgin Islands' economy has shifted following the impacts of the unprecedented trio, with the tourism sector in particular being significantly affected (see GDP forecasts in Economic Review and Outlook section). At the same time, our changing economic trajectory has also meant expanded opportunities in specific sectors such as construction and waste management. We firmly believe that it is part of the role of GoVI to facilitate new business opportunities and aid in the short term recovery of small businesses. This facilitation will be done through access to Governmentbacked loans, grants, and technical and operational support. Incentives for redevelopment will be offered to key Small and Medium-sized Enterprises (SME) sectors.

Some businesses within the financial services sector were able to relocate operations outside of the Virgin Islands in the aftermath of the storms. The GoVI has facilitated the return of these businesses in order to assist in stabilising our economy and strengthening our economic recovery.

Specifically in relation to the hard-hit tourism industry, we have been committed to providing assistance in support of the hotel sector and smaller businesses in need of assistance such as small properties and villas. In terms of beautification, plans are afoot to revitalise beaches such as Cane Garden Bay, and to redevelop other minor tourist attractions.

Improvements in our infrastructure are central to encouraging business activity to return, attracting value-added financial services business, further developing our tourism product and developing new and innovative areas of economic activity. The environment for doing business is also an important factor. As such, we will continue to work on streamlining processes and developing a new trade policy framework for the Territory to further improve the attractiveness of our Territory as an ideal place to invest and do business.

- **Strong infrastructure**

Infrastructure

Our Infrastructure Action Plan (IAP) will support our short, medium, and long-term recovery efforts. The Plan is informed by a Critical National Infrastructure assessment. Actions in the IAP include:

Electrical Infrastructure – The short-term focus has been on repairing the electrical power distribution and transmission network throughout the Territory and repairs to the Pockwood Pond Station. The medium-term to longer-term focus will necessarily be on improving resilience by, for example, burying cables underground and exploring expanded use of renewable energy.

Electrical Inspection and Testing – The short-term focus has been on testing electrical facilities in properties of all types (many of which have been damaged) to ensure consumer safety as properties are reconnected to the grid.

Road Network – The short-term focus has been on making the road network functional and safe for users, followed by a 5-year programme of full repair and improvement. It is estimated that of our 780 kilometres of road, some 70% was damaged as a result of the 2017 storms.

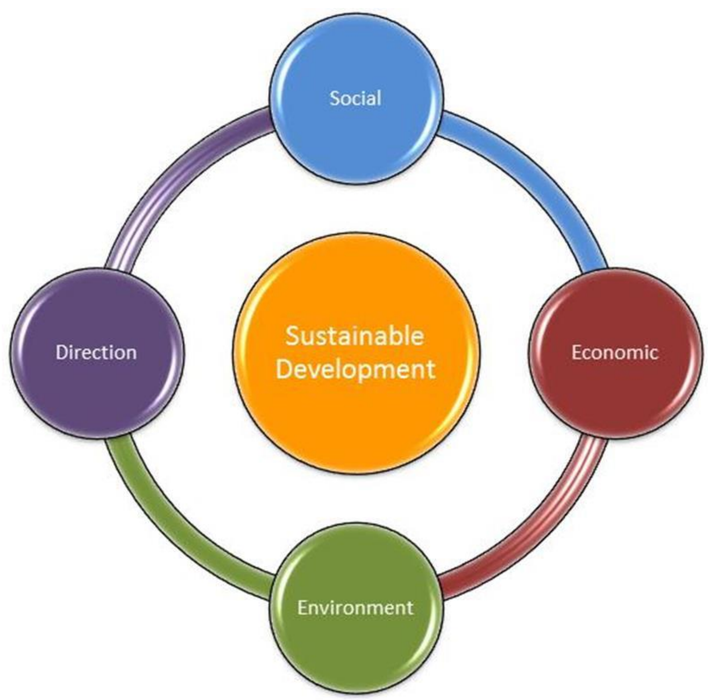
Sewerage – Restoration of our sewerage network will continue to be pursued, followed by enhancement of the network in order to increase its resilience. Proposed works include modernising and streamlining the network in operation at Cane Garden Bay, commissioning the Paraquita Bay Waste Water Treatment plant, enhancing the network of sewerage pump stations in and around Road Town, and repairing the Burt Point Waste Water Treatment Plant.

Water – Repair and reinstatement of reverse osmosis plants, water distribution networks, damaged pump stations and all reservoirs are priorities. The burial of all service lines will increase resilience and the fitment of meters to commercial and residential properties will enable better monitoring of water usage and leak detection.

- **Minimise inequality**

In response to the impacts of the 2017 storms, an Order under the Customs Management and Duties Act was made, allowing duty-free importation of items critical to the Territory's recovery. Certain items including primarily construction materials, have remained duty-free in importation to the end of March 2018. This measure has been aimed at providing some financial ease to persons in acquiring goods and materials necessary for recovery and reconstruction.

Inequality is often heightened during and following times of crisis. As such, it will be important to monitor societal and labour market inequalities in designing policies to minimise these, which will thus assist in social cohesion, peace and social justice. Our introduction of a new Work Permit fee structure in July 2017 considered income levels in designing a more equitable system of fees. This is expected to help in alleviating levels of income inequality across all employed persons as our ongoing recovery takes hold.



Natural resources and climate change

Infrastructure

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

- ### Effective management of natural resources and natural environment

As the natural environment is critically important to our economy, it is imperative that we complete the ongoing assessment of different sections of the environment such as marine shelters, beaches, ponds, forests and biodiversity hotspots. In 2017, the Ministry of Natural Resources and Labour in its continued partnership with the UK Joint Nature Conservation Committee (JNCC) began overseeing a broader study on the total economic value of our natural resources, following on from the 2014 Institute for Environmental Studies' report entitled "The Tourism Value of Nature in the Virgin Islands". This study will not only assess the value of our natural resources as it relates to tourism, but across all aspects of the economy, through natural capital accounting. Understanding the value of our natural capital will help in raising awareness and providing information that will better inform policy decision-making.

We will also execute plans that aid in the recovery of sectors related to the environment including biodiversity, wetlands, agriculture and fisheries. The iLand resilience project, funded by the European Union through the OECS, includes the development of land policies and land use plans, an operational plan for the recently-installed Climate Change Trust Fund, drainage works in Brewers Bay, and sewerage retrofitting and drainage works in Cane Garden Bay.

- ### Strategic physical development

While constructing and redeveloping our physical infrastructure is an important priority, this should not be done at the cost of good environmental stewardship. It is sound environmental stewardship that will assist in ensuring our adaptation to and resilience in facing the impacts of climate change. Our Natural Resources and Climate Change Action Plan will re-establish initiatives that address sound environmental management, biodiversity conservation, rational and effective land and seabed management, and a sufficient and skilled workforce sourced to support economic activities through fair and equitable practices.

Capital projects and improvements will support a more sustainable economy, striking the necessary harmony between environmental stewardship and economic development. Since before the passage of the storms, in a joint effort between the Town and Country Planning Department and the Ministry of Natural Resources and Labour, we have been in the midst of crafting a National Physical Development Plan (NPDP) which will serve as a longer term road map for land use as well as physical and infrastructural development in the Virgin Islands. It is essential that land use be considered in aiming to meet development needs so that we can maintain our natural environment, or more importantly that our development does not come at the unacknowledged or ill-considered cost of the natural environment.

This plan is called "EnVIsion2040" and will be completed in five major phases: the Project Preparation and Inception Report, Situation Analysis, Visioning, Introduction of the First Draft of the NPDP, and Monitoring and Evaluation. Through community meetings, the NPDP has already begun to incorporate the views of the public in its development, such that this plan engrains the long term hopes and intentions of our people. Further public consultations will be held over the course of the NPDP's crafting, development, implementation and monitoring.

- **Hazard risk reduction and adaptation to climate change**

The Department of Disaster Management has worked with the Ministry of Education in building schools' resilience to the status of SMART (Sustained Mitigation, Adaptation and Resilient Techniques). Prior to the trio of events, two of our schools were upgraded from "Safe" to "SMART". In rebuilding our schools and other public infrastructure, we will keep the internationally recognised SMART tenets in mind.

Recognising the vulnerability of our coasts and their communities, we will also be undertaking coastal projects to help in protecting our shores and our marine environment. The projects contained in the Natural Resources and Climate Change Action Plan will enhance our capacity to manage our resources, while acquiring data for improved management of land, marine and human resources.

As it relates to response and adaptation to climate change, July 2017 saw the installation of the first Board of Trustees of the Virgin Islands Climate Change Trust Fund. This Fund will be used as an instrument for financing programmes and projects intended to reduce the effects of climate change and the Board of Trustees will be responsible for making decisions regarding the direction and purpose of funding. Board positions include representatives of the tourism and financial services industries, academic and research organisations, and community-based organisations. The cross-section of persons represented on the Board ensures a holistic perspective in considering funding sources and proposed projects for climate change mitigation and adaptation.

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

- **Safety for all persons**

As safety for all persons remains a priority for the GoVI, immediate efforts are being placed on the infrastructure for detecting and monitoring natural disasters, and further into strengthening communications during and following disasters. This will be done through installing and re-establishing networks for seismic and weather monitoring, and re-establishing emergency telecoms and early warning systems. The National Emergency Operations Centre (NEOC) will be commissioned to provide a headquarters for disaster monitoring, management and recovery efforts. This will assist in building our resilience to natural disasters in the future.

Recent records demonstrate that overall levels of crime in the Territory have decreased when compared to previous years. Notwithstanding, in relation specifically to violent crime, there has been a concerning upsurge. Aiming to staunch this, we have dedicated additional resources to the Royal Virgin Islands Police Force, Her Majesty's Customs and other law enforcement agencies to enhance their operations and strengthen the fight against crime. With additional resources the RVIPF will purchase computer software, increase CCTV capabilities, enhance marine operations, and provide extensive officer training.

Concurrently, the K-9 unit of Her Majesty's Customs is also strengthening its capabilities, and recently received training in advanced scent detection techniques for officers as well as their dogs. This training will assist in sharpening skills while searching for contraband, explosives, drugs, firearms and ammunition. We expect our investments in crime prevention and detection to protect and secure the highly-regarded safety and peacefulness of the Territory to which residents and visitors alike have become accustomed.

- **Effective governance**

Governance issues in the short, medium and long term include areas that focus on Continuity of Government operations; The Public Service; Law and Order; Disaster Management; and Communications. At the core of our recovery and development process has been the theme of rebuilding infrastructure and restoring services. Across all sectors of the public service there is critical need for rebuilding physical infrastructure to ensure continuity of Government operations. Also contributing to law and order will be the restoration of the Magistrate's Court, High Court and the Judges' residences.

On the course of ensuring that public services are responsive to the needs of the public, we have been strengthening governance mechanisms across our Ministries over the last several years. Planning and coordination within and between Ministries is crucial for effective governance. Recognising this, we have sought assistance from the Economic Commission of Latin America and the Caribbean (ECLAC) in further building our medium-term development strategy SEED into an overarching National Development Plan through public consultations, and greater alignment of our development agenda with the United Nation's Sustainable Development Goals as part of its 2030 Agenda. The importance of this work is underlined now in the process of rightfully placing the immediate needs of the recovery in the context of a broader, longer-term vision for the Territory.

In Public Financial Management (PFM), we have continued our efforts to improve transparency and accountability. Our efforts in strengthening cash accounting and management are ongoing, and a significant feat was accomplished this year as we were able to submit outstanding accounts for 2012-2015 to the Auditor General for auditing and subsequent presentation at the House of Assembly. We have also worked to strengthen project appraisal practices by requiring earlier submission, assessment and prioritisation of capital projects in an expanded budget formulation process. For the 2017-2019 Budget, we produced the first ever Budget in Brief. The Budget in Brief has improved the accessibility of the Budget by providing a snapshot of economic, fiscal and performance information included in the full budget documentation. We are committed to continually strengthening our public finance management systems, and our efforts in improving transparency and accountability were acknowledged by the Caribbean Information and Credit Rating Services (CariCRIS), in its assessment of the Government's high creditworthiness, with an assessed rating of CariAA- in 2017. CariCRIS' rating cited strong income and economic fundamentals, dollarisation, trade stability, prudent fiscal policy and low levels of debt as factors contributing to their positive rating and outlook for the Territory.

Recognising the importance of the labour market to the performance of our top industries and our economy as a whole, we have recently implemented more efficient administrative processes in the Labour and Immigration Departments. In conjunction with an increase in work permit fees implemented in July 2017, we have improved work permit processing, with the processing time for renewals reduced to approximately two weeks. More efficient work permit processing is expected to facilitate expansion in our financial services, legal and tourism industries as the recovery takes hold.

The impact of the three weather events produced a significant challenge for Government operations. The Governance Action Plan includes reforms that will deliver greater continuity in the event of future disasters with efficiency improvements in normal business conditions.

The creation of the Recovery and Development Agency (RDA) this year is aimed at the efficient and effective implementation of the projects in the finalised Recovery and Development Plan. It will be important that necessary synergies are created between the public service and the RDA in order to ensure that best practices for governance and administration are shared between the two institutions. Alongside these efforts, the public service will implement initiatives aimed at making it "stronger, more resilient and more efficient" through Transformation of the Public Service.

• International relations

The last two years have witnessed some volatility and uncertainty in the global political economy, most evidenced by the United Kingdom's decision to leave the European Union, and political shifts in the United States. The Virgin Islands along with other Overseas Territories participated in talks with the UK about its Brexit negotiation, and attended the Joint Ministerial Council on European Negotiations in February this year. Following this, we have formed a Brexit Task Force of technical experts to produce a White Paper on the impact of Brexit on the Territory. As the UK's future relationship with the EU takes shape, we will ensure that our concerns regarding international trade, EU funding, freedom of movement, our future relationship with the EU and financial services are considered.

While ensuring that our trade relationships with the US and Europe remain strong, we have also been broadening our markets for tourism and financial services by establishing and deepening relationships with trading partners in Asia and Latin America. Prior to and following the establishment of BVI House Asia in Hong Kong in 2013, we have worked to strengthen investment from Asia in the Territory. Continuing in this vein, in late 2016, we signed a Memorandum of Understanding with the Tianjin Binhai New Area to promote economic and trade cooperation, and will execute a joint strategy for this relationship going forward.

FISCAL REVIEW

Revenue

Revenue to July 2017 was performing just slightly below budgeted expectations, with revenue from financial services comprising 56.7% of total receipts for the year to that point, which represented a 1.6% positive variance in comparison to the budget for financial services revenue, and a 4.9% positive variance in comparison to 2016 financial services revenue. Overall, GoVI receipts were a mere 0.9% below budget, and actually well-above 2016 performance for the same time period, with a 5.5% positive variance to 2016 (see Table 3).

Table 3. Revenue, YTD July 2017

YTD July 2017	Budget	Actual	YTD July 2016	Budget Variance $	Budget Variance %	Prior Year Variance $	Prior Year Variance %
TAX REVENUE	**173.30**	**172.33**	**164.51**	**(0.97)**	**-0.6%**	**7.82**	**4.8%**
Income/Payroll Tax	24.77	23.94	24.53	(0.83)	-3.4%	(0.59)	-2.4%
Property Tax	0.73	0.74	0.76	0.01	1.6%	(0.02)	-3.2%
Taxes on Goods and Services	116.17	116.06	110.10	(0.11)	-0.1%	5.96	5.4%
FSC Revenue	*102.77*	*104.41*	*99.51*	*1.64*	*1.6%*	*4.90*	*4.9%*
Taxes on International Trade	29.27	24.98	*23.63*	(4.29)	-14.7%	*1.35*	5.7%
Other Taxes	2.37	6.62	5.50	4.25	179.3%	1.12	20.4%
GRANTS	**-**	**-**	0.02	**-**	**N/A**	**(0.02)**	**-100.0%**
OTHER REVENUE	**12.53**	**11.85**	**10.08**	**(0.68)**	**-5.4%**	**1.77**	**17.5%**
TOTAL RECURRENT REVENUE	**185.83**	**184.19**	**174.62**	**(1.65)**	**-0.9%**	**9.56**	**5.5%**

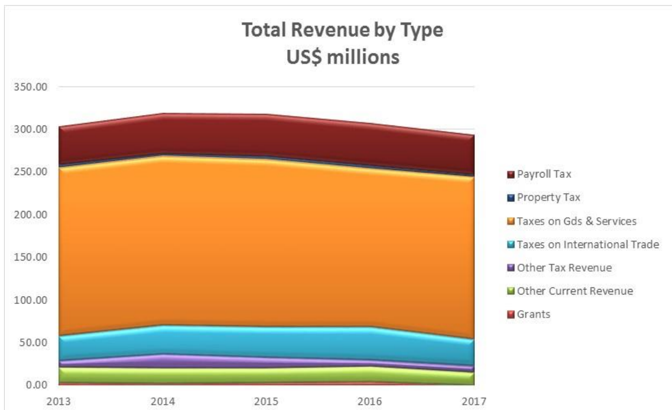
Due to the impacts of the unprecedented trio however, total revenue to the end of 2017 was approximately $292.9 million (Table 4), which is $30.2 million or 9.3% below budgeted expectations. This annual budget variance reflects an even larger variance of 22.1% for receipts between August and December 2017. It has been heartening to observe that our efforts to build resilience in our financial services industry have been well-placed, as the budget variance for financial services for 2017 is positive, at 0.2%. In other words, financial services receipts have matched pre-trio expectations, even in the context of the unprecedented occurrences.

Table 4. Annual Revenue 2017

Annual Revenue 2017	Budget	Preliminary Actual	Actual 2016	Budget Variance $	Budget Variance %	Prior Year Variance $	Prior Year Variance %
TAX REVENUE	**302.02**	**277.53**	**285.18**	**(24.48)**	**-8.1%**	**(7.65)**	**-2.7%**
Income/Payroll Tax	51.62	46.12	49.87	(5.50)	-10.7%	(3.75)	-7.5%
Property Tax	2.76	1.91	2.82	(0.85)	-30.9%	(0.91)	-32.3%
Taxes on Goods and Services	194.70	190.68	186.14	(4.02)	-2.1%	4.54	2.4%
FSC Revenue	*174.61*	*174.99*	*169.89*	*0.38*	*0.2%*	*5.10*	*3.0%*
Taxes on International Trade	47.71	31.18	38.98	(16.53)	-34.7%	(7.80)	-20.0%
Other Taxes	5.22	7.65	7.37	2.42	46.4%	0.27	3.7%
GRANTS	-		4.02	-	**N/A**	**(4.02)**	**-100.0%**
OTHER REVENUE	**21.09**	**15.37**	**17.85**	**(5.72)**	**-27.1%**	**(2.48)**	**-13.9%**
TOTAL RECURRENT REVENUE	**323.11**	**292.90**	**307.06**	**(30.21)**	**-9.3%**	**(14.15)**	**-4.6%**

At $292.9 million, revenue for 2017 was $14.2 million or 4.6% below 2016 revenue receipts (Table 4). Given the level of devastation wreaked by the unprecedented trio, a 4.6% decrease in revenue from the previous year is low, largely due to the resilience of financial services revenue as the main revenue earner for GoVI through the storms. Financial services revenue comprised 59.7% of total revenue receipts for 2017.

Figure 8. Annual Revenue, 2013-2017



It will be important going forward to continue efforts to strengthen and broaden our revenue base for resiliency. Prior to the trio, GoVI had implemented increases in hotel accommodation tax, work permits, and cruising permits, and the environmental/tourism levy had just been introduced. As our economic recovery takes root, these revenue generating initiatives in conjunction with the GoVI's revised fiscal strategy (Appendix) are expected to assist in the full rebound of revenue receipts over the coming months.

Recurrent Expenditure

The nature of Government recurrent expenditure necessarily shifted following the trio, and overall recurrent expenditure for 2017 is approximately $292.4 million, slightly over-budget, representing a 4.1% budget variance (see Table 5).

Table 5. Annual Expenditure 2017

Annual Expenditure 2017	Budget	Preliminary Actual	Actual 2016	Budget Variance $	Budget Variance %	Prior Year Variance $	Prior Year Variance %
RECURRENT EXPENDITURE	**280.90**	**292.42**	**298.66**	**11.52**	**4.1%**	**(6.24)**	**-2.1%**
Employee Compensation	120.96	119.64	118.12	(1.32)	-1.1%	1.52	1.3%
Goods and Services	59.11	73.79	72.47	14.67	24.8%	1.32	1.8%
Interest	5.44	5.14	4.18	(0.30)	-5.4%	0.96	23.1%
Transfers and Subsidies	84.85	80.79	89.94	(4.05)	-4.8%	(9.15)	-10.2%
Other Expenses	10.54	13.05	13.95	2.51	23.8%	(0.90)	-6.5%
CAPITAL EXPENDITURE AND NET LENDING	**46.60**	**13.29**	**18.93**	**(33.31)**	**-71.5%**	**(5.65)**	**-29.8%**
TOTAL EXPENDITURE	**327.50**	**305.70**	**317.59**	**(21.80)**	**-6.7%**	**(11.89)**	**-3.7%**

Recurrent expenditure in 2017 was slightly less than in 2016, a year in which costs of Goods and Services were particularly high due to paying off outstanding water bills. In 2017, Central Government paid off outstanding electricity bills, resulting in a significant budget variance for the Goods and Services category of expenditure of $14.7 million or 24.8%.

Figure 9. Recurrent Expenditure, 2013-2017

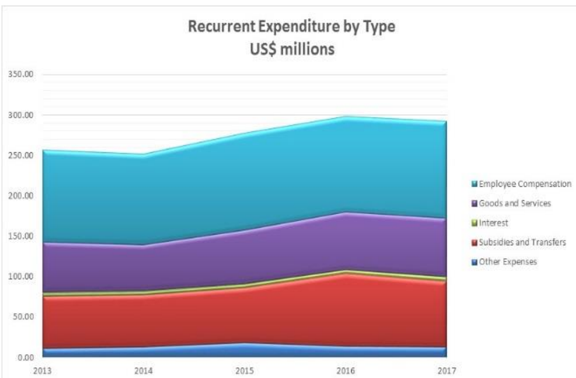
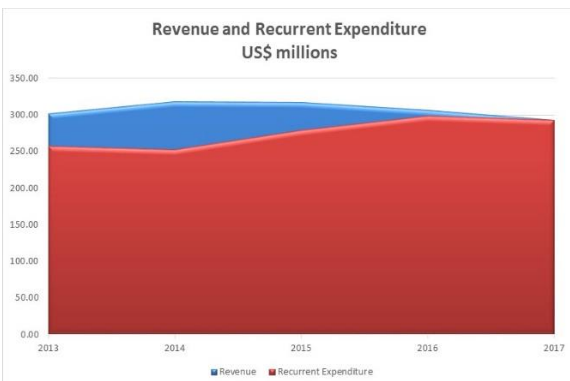


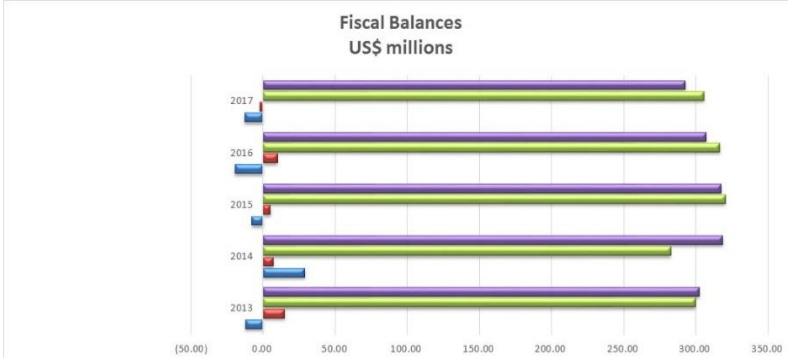
Figure 10. Revenue and Recurrent Expenditure



Capital Expenditure

Following the unprecedented trio, GoVI has not been able to pursue its budgeted capital programme. In particular, the anticipated loan-funded projects to be pursued were largely suspended. As such, capital expenditure for 2017 is expected to be well under budgeted expectations, at approximately $14.3 million, ($13.3 million of Capital expenditure and Net lending), resulting in a -33.3% variance from budget and a negative 5.7% variance from 2016 capital expenditure.

Figure 11. Fiscal Balances, 2013-2017



	2013	2014	2015	2016	2017
Revenue	302.40	318.60	317.62	307.06	292.90
Total Expenditure and Net Lending	299.71	282.75	320.62	316.59	305.69
Reserve Contributions	15.01	7.03	5.01	10.01	(2.30)
Overall Surplus/(Deficit)	(12.32)	28.82	(8.02)	(19.54)	(12.79)

Fiscal Balance

The shortfall of $30.2 million in revenue combined with above-budget recurrent expenditure and reduced capital expenditure resulted in a recurrent balance of approximately $0.5 million and an overall deficit of approximately $12.8 million (See MTFF Tables).

In order to finance this deficit, we drew down on our Reserve Fund in 2017 by approximately $2.3 million, and disbursed a total of $34.7 million in lending, inclusive of approximately $11 million drawn on the line of credit with First Caribbean International Bank (FCIB) at the end of the year.[4] With principal repayments in the year totaling $12.9 million, net borrowing (loan disbursements minus principal repayments) was $21.8 million.

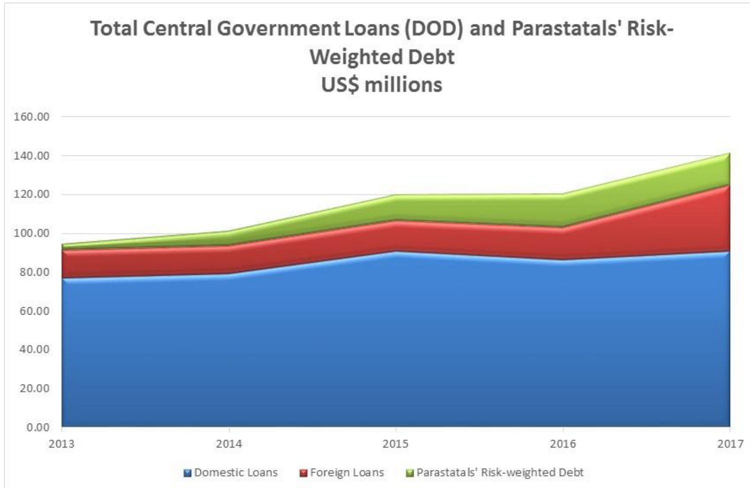
Debt

As previously mentioned, the GoVI has enjoyed enviably low debt levels over the last decades, with Central Government debt of approximately 12.4% of nominal GDP at the end of 2016 and overall public debt at approximately 21.1% of nominal GDP. Given the impacts of the unprecedented trio, public debt is expected to increase substantially in the medium-term as GoVI borrows to partially finance its Recovery and Development Plan to put the Territory back on a growth trajectory.

At the end of 2017, Central Government Disbursed Outstanding Debt (DOD), reached $125 million, and overall public borrowing which includes risk-weighted parastatal debt, reached a total of $188.5 million.

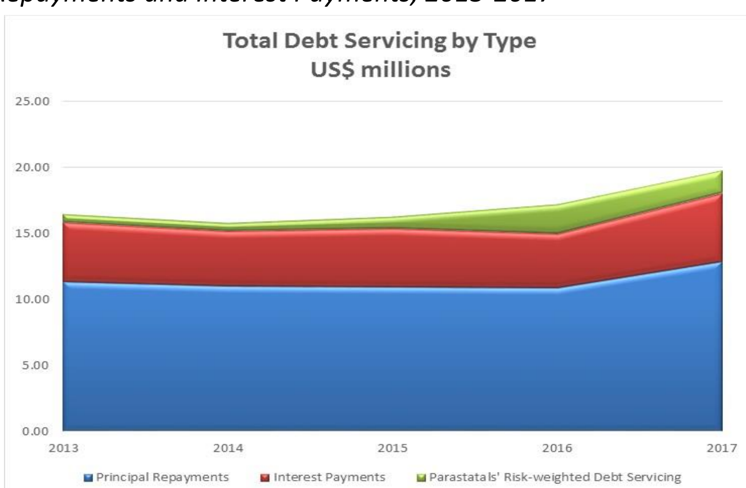
[4] Only the year-end balance of Central Government's line of credit with FCIB is reflected in annual disbursement figures.

Figure 12. Central Government and Parastatal Risk-weighted DOD



With shifting of debt servicing payments due to GoVI requesting and taking advantage of some moratoria on debt payments, GoVI paid approximately $5.1 million in interest and $12.9 million in principal repayments in 2017. As GoVI secures debt to help in financing our Recovery and Development Plan, it is expected that our debt servicing costs will increase as well. It will be important to carefully plan disbursement and contractual repayment of newly acquired debt in order to ensure that in conjunction with ongoing amortisation of existing debt, our debt levels and debt servicing levels are sustainable. Performance against the Borrowing Limits demonstrated in the Ratio Analysis Section addresses debt sustainability concerns.

Figure 13. Principal Repayments and Interest Payments, 2013-2017



FISCAL STRATEGY

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

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

Revenue generating initiatives

In the months preceding the unprecedented trio, we implemented several initiatives aimed at broadening and strengthening our revenue base without putting undue pressure on the people of this Territory or our economy. We were able to implement charging import duties on the cost insurance freight (CIF) value of goods, as well as increases in import duties on alcohol and tobacco products, hotel accommodation tax, work permits and cruising permits, and the introduction of an environmental/tourism levy. These initiatives helped in buttressing revenue receipts as the impact of the unprecedented trio took an immediate toll on our economic and fiscal situation. As our recovery takes hold, these and other revenue generating initiatives will assist in ensuring that GoVI has a resilient revenue base and thus that we are able to meet operational and development demands.

Following the unprecedented trio, in ameliorating the impact on our fiscal situation, GoVI has approved a revised medium-term fiscal strategy to be implemented between 2018 and 2020.[5] This fiscal strategy includes revenue generating initiatives to further broaden our revenue base and assist in funding our recovery and development efforts. In total, these initiatives are expected to yield $29.6 million in 2018, with increases thereafter to 2020.

We have also made a concerted effort not to unduly burden the people of the Territory as they work to rebuild their homes, their businesses, and their lives. We recognise that burdensome taxation which strangles progress and development is counterproductive and will actually have the outcome of stymieing rather than growing revenue receipts.

[5] The revenue generating initiatives added to the Medium Term Fiscal Frame base case are detailed in the Appendix.

Encouraging expenditure efficiency[6]

Following the unprecedented trio, it has become even more apparent that GoVI must achieve the best "bang for our buck" in all that we do. Thus, we renew our commitment to prioritise expenditures, ensuring that each penny of current and future taxpayers' money is put towards achieving our most urgent operational and developmental objectives. The formation of the Recovery and Development Agency will assist our efforts in improving transparency and accountability across the public sector. We renew our commitment to our ongoing public financial management reform programme. Specifically, our expenditure efficiency efforts will work towards:

1. Managing the Public Service to improve performance and enhance efficiency and effectiveness in the delivery of services to the public. In the coming months, we will be implementing a Public Sector Transformation aimed at improving efficiency and achieving better results for the people of the Territory. Specifically, the action areas of the Public Sector Transformation include:
   (i) Redesigning the public service;
   (ii) E-Government;
   (iii) Improving transparency and accountability;
   (iv) Public Sector/Private Sector Collaboration; and
   (v) Statutory bodies alignment

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

3. Improving financial management of parastatals. Implementing a framework which monitors the financial and operational performance of all parastatals is an integral part of public financial management reform, managing the growth of transfers and subsidies, and ensuring that parastatals are achieving the overarching development goals of the Government. The framework has been prepared, and with Cabinet approval, will be implemented in 2018.

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

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

5. Preventing 'Budget Creep'. Our reformed budget processes with rolling forward estimates are aimed at containing expanding expenditure budgets. Through the revised budget process, Ministries and Departments are annually required to identify areas of potential savings used to offset any new spending approved by the Cabinet in the budget process.

Addressing contingent liabilities

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

Preserving our Reserves

While we expected to meet the liquid assets requirement of maintaining 25% of recurrent expenditure in the Reserve Fund at the end of 2017, the unprecedented trio actually meant that we drew down slightly on our Reserves in 2017, resulting in a balance of approximately $57.1 million at the end of the year. The importance of having this fiscal buffer was squarely on display, as GoVI was able to meet continued demands of paying salaries, wages and pensions as well as providing immediate relief and support to our residents in the wake of the trio by using Reserve funds. GoVI's ability to meet these demands and stay current on debt payments has engendered confidence in our economic and fiscal viability, and undoubtedly assisted in ensuring our recovery and development.

Maintaining the borrowing ratios

Over the last decades, the GoVI has been able to maintain low levels of debt and thus debt servicing while still meeting development imperatives and accessing necessary funding for capital projects. Following the unprecedented trio, we have drawn down on our Reserves to meet immediate needs, and will necessarily have to borrow additional sums in the medium-term to fund our recovery and development efforts. Implementation of revenue generating and expenditure efficiency initiatives will assist us in achieving compliance with all three borrowing ratio limits in the future.

Financing the deficit

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

GoVI has consistently met its debt obligations, and has run overall deficits in the past to invest in much needed infrastructural development for the Territory, including roads and ports, the water and sewerage network, and healthcare facilities. Moving forward from the devastation wreaked by the unprecedented trio, we will need to borrow to make prudent investments which will foster economic growth and improve the quality of life for the Territory's residents as we piece our lives back together.

Our Capital Investment Plan over the next three years reflects our broader Recovery and Development Plan, and will be financed through any annual recurrent balance surpluses, and loan disbursements (including additional lending for infrastructural development once approved) – See MTFF in Table 6 below.

Table 6. Medium Term Fiscal Frame (MTFF)

MEDIUM TERM FISCAL FRAME (US$ millions)	ACTUALS				PROJECTIONS		
	2014	2015	2016	2017	2018p	2019p	2020p
Total Revenue	**318.60**	**317.62**	**307.06**	**292.90**	**298.40**	**316.79**	**330.81**
Total Current Rev	**316.08**	**314.59**	**303.04**	**292.90**	**298.40**	**316.79**	**330.81**
Total Tax Revenue	**298.46**	**297.75**	**285.19**	**277.53**	**283.08**	**301.26**	**313.80**
Payroll/Income Tax	47.42	49.48	49.87	46.12	37.21	45.99	49.45
Property Tax	2.66	3.21	2.82	1.91	1.40	1.83	3.15
Taxes on Goods & Services	198.50	196.59	186.14	190.68	209.31	212.29	213.52
Taxes on International Trade	33.65	36.18	38.98	31.18	27.68	33.64	40.17
Other Tax Revenue	16.22	12.29	7.37	7.65	7.48	7.51	7.52
Other Current Revenue	17.62	16.84	17.85	15.37	15.33	15.53	17.00
Grants	2.52	3.02	4.02	0.00	0.00	0.00	0.00
Total Expenditure	**282.75**	**320.62**	**316.59**	**305.70**	**387.09**	**366.61**	**360.18**
Total Primary Expenditure	**278.59**	**316.19**	**312.41**	**300.56**	**378.77**	**356.96**	**349.34**
Total Recurrent Expenditure	**252.66**	**278.58**	**298.66**	**292.41**	**334.70**	**318.96**	**320.26**
Total Interest Payments on Existing Debt	**4.16**	**4.43**	**4.18**	**5.14**	**8.32**	**9.64**	**10.84**
Interest payments - Domestic	3.66	3.96	3.72	4.67	5.70	4.05	2.97
Interest payments - Foreign	0.50	0.48	0.46	0.47	2.62	5.59	7.87
Total Non-Interest Recurrent Expenditure	**248.50**	**274.15**	**294.48**	**287.27**	**326.38**	**309.32**	**309.42**
Employee Compensation	113.17	120.22	118.12	119.64	125.32	126.21	126.54
Goods & Services	57.44	67.74	72.47	73.79	77.02	79.02	76.99
Subsidies & Transfers	64.19	67.49	89.94	80.79	107.12	86.82	88.21
Total Other Expenses	13.70	18.70	13.95	13.05	16.92	17.26	17.67
Total Capital Expenditure and Net Lending	**30.09**	**42.04**	**17.93**	**13.29**	**52.39**	**47.65**	**39.92**
Capital Expenditure	30.09	34.04	18.93	14.29	52.39	47.65	39.92
Net Lending	0.00	8.00	-1.00	-1.00	0.00	0.00	0.00
Interest on Unsecured Debt							
Contribution to Reserve Fund							
OVERALL BALANCE: SURPLUS(DEFICIT)	35.85	-3.00	-9.53	-12.79	-88.69	-49.82	-29.38
PRIMARY BALANCE	40.01	1.43	-5.35	-7.65	-80.37	-40.17	-18.53
CURRENT BALANCE	65.94	39.03	8.40	0.49	-36.30	-2.17	10.55
Financing	**-35.85**	**3.00**	**9.53**	**12.79**	**88.69**	**49.82**	**29.38**
Net Borrowing	1.92	12.98	-3.38	21.82	77.58	49.81	29.38
Loan Disbursements	12.94	23.91	7.50	34.69	92.00	63.32	44.95
Loan Disbursements - Domestic	10.30	20.24	3.55	14.65	0.00	0.00	0.00
Loan Disbursements - Foreign	2.64	3.67	3.95	20.05	92.00	63.32	44.95
Principal Repayments	11.01	10.93	10.88	12.88	14.42	13.51	15.57
Principal Repayments - Domestic	8.32	8.32	8.32	9.87	11.80	11.15	9.98
Principal Repayments - Foreign	2.69	2.61	2.56	3.01	2.62	2.35	5.59
Unsecured Debt Flow - Change in Cash	-30.75	-4.96	22.92	-11.32	-8.89	0.01	0.00
Use of Reserve	0.00	0.00	0.00	2.30	**20.00**	**0.00**	**0.00**
Total Central Government DOD and Unsecured Debt	**95.84**	**103.85**	**123.39**	**133.88**	**202.57**	**252.39**	**281.76**
Total CG Disbursed Outstanding Debt	**93.58**	**106.56**	**103.18**	**125.00**	**202.57**	**252.38**	**281.76**
Total CG Disbursed Outstanding Debt - Domestic	78.88	90.80	86.03	90.81	79.00	67.85	57.87
Total CG Disbursed Outstanding Debt - Foreign	14.70	15.76	17.15	34.19	123.57	184.54	223.90
Unsecured Debt Stock - Cumulative Cash Balance	2.25	-2.71	20.21	8.89	0.00	0.00	0.00

RATIO ANALYSIS

Table 7 below demonstrates our performance against the Borrowing Ratio limits in the Protocols for Effective Financial Management. 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: Borrowing Ratios

BORROWING RATIOS	2014	2015	2016	2017	2018p	2019p	2020p
Total Debt of Parastatals	39.08	67.87	87.13	81.99	74.41	66.25	58.18
Total Risk-Weighted Debt of Parastatals	7.82	13.57	17.43	16.40	14.88	13.25	11.64
Capitalized Value of Public Private Partnerships	45.00	45.00	41.83	38.25	33.29	28.10	22.67
Total Public Borrowing	148.65	162.42	182.65	188.53	250.74	293.74	316.07
Total Public Borrowing (Without Unsecured)	146.40	165.13	162.44	179.65	250.74	293.73	316.07
Reserve Fund Balances - Liquid Assets	44.40	49.41	59.42	57.12	37.12	37.12	37.12
Parastatals’ Interest payments	0.89	1.83	3.32	3.45	4.85	3.60	3.17
Parastatals’ Principal repayments	2.15	2.73	7.47	5.13	7.58	8.16	8.07
Parastatals’ Debt Service (Risk-Weighted)	0.61	0.91	2.16	1.72	2.49	2.35	2.25
Total Debt Service (Central Gov. and Parastatals)	15.79	16.28	17.22	19.73	25.23	25.50	28.66
Net Debt	104.25	113.01	123.23	131.41	213.62	256.62	278.95
Net Debt as % of Recurrent Revenue **(max 80%)**	32.98%	35.92%	40.66%	44.87%	71.59%	81.01%	84.32%
Debt Service as % of Recurrent Revenue **(max 10%)**	5.00%	5.17%	5.68%	6.74%	8.46%	8.05%	8.66%
Liquid Assets as % of Recurrent Expenditure **(at least 25%)**	17.57%	17.74%	19.90%	19.53%	11.09%	11.64%	11.59%

BUDGET FRAMEWORK

The MTFP sets the framework for the 2018-2020 Budget, and provides a narrative for the figures contained in the Medium Term Fiscal Frame. The Frame sets the upper limit and broad parameters for the Budget, which will be based approximately on the framework in Table 8 below.

Table 8. Budget Framework

	US$ millions
Revenue	298.40
Recurrent Expenditure	334.70
Capital Expenditure and Net Lending	**52.39**
Capital Expenditure	52.39
Surplus/(Deficit)	(88.69)
Net Borrowing/Deficit Financing	
Loan Disbursements	92.00
Principal Repayments	14.42
Use of Reserve Fund	20.00

APPENDIX

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

		Impact on Medium Term Fiscal Frame	Date to Implement	Annual Yield	Risk-weighted 2018	Risk-weighted 2019	Risk-weighted 2020
1	Increase in FSC Fees	Taxes on Goods and Services	Jan-18	29.60	29.60	29.90	30.20
2	SoEs Revenue	Taxes on Goods and Services	Jan-19	5.10		3.06	4.95
3	Property Tax	Property Tax	Jan-20	1.50			1.50
4	Water Rates	Other Revenue	Jan-19	8.05		1.04	2.47
	TOTAL REVENUE			**44.25**	**29.60**	**34.00**	**39.12**

		Impact on Medium Term Fiscal Frame	Date to Implement	Annual Yield	Risk-weighted 2018	Risk-weighted 2019	Risk-weighted 2020
1	Rent	Goods and Services	Jul-18	1.62	0.81	1.62	1.63
2	Entertainment	Goods and Services	Jan-18	0.31	0.31	0.31	0.32
3	Fishing Complex Privatisation	Goods and Services	Jan-19	0.36		0.36	0.37
4	SoEs	Transfers and Subsidies	Jan-20	2.32	2.32	2.34	2.36
5	Assistance Grants	Other Expenditure	Jan-18	1.67	1.67	1.68	1.70
	TOTAL EXPENDITURE			**6.28**	**5.11**	**6.31**	**6.38**

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

Parastatals Risk-Weighted Debt Schedule (US$ millions)

Statutory Authority / Government Company	Risk Weight	2014	2015	2016	2017	2018	2019	2020
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	20%	0.17	0.14	0.11	0.09	0.07	0.05	0.03
Electricity Corporation	20%	2.30	3.44	7.92	7.37	6.77	5.90	5.13
Financial Services Commission	20%	0	0	0	0	0	0	0
Ports Authority	20%	5.35	10.00	9.39	8.94	8.05	7.30	6.47
Social Security Board	20%	0	0	0	0	0	0	0
Total Risk-Weighted Debt of Parastatals		**7.82**	**13.57**	**17.43**	**16.40**	**14.88**	**13.25**	**11.64**