GOVERNMENT OF THE
VIRGIN ISLANDS
Ministry of Finance

2024-2026 MEDIUM TERM DEBT STRATEGY

Theme:

Nation Building and Sustainability:
Planning, Priorities and Progress

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LIST OF ABBREVIATIONS AND ACRONYMS

ACRONYMS & ABBREVIATIONS

Creditors

CDB	Caribbean Developent Bank
EIB	European Investment Bank
FCIB	CIBC First Caribbean International Bank
SSB	BVI Social Security Board

Currencies

EUR	Euro
GBP	British Pound Sterling
USD	United States Dollar

Others

ABP	Annual Borrowing Plan
ATM	Average Time To Maturity
ATR	Average Time to Re-fixing
CARTAC	Caribbean Regional Technical Assistance Centre
CoI	Commission Of Inquiry
COMSEC	Commonwealth Secretariat
DSA	Debt Sustainability Analysis
DOD	Disbursed Outstanding Debt
FSC	Financial Services Commission
FX	Foreign Exchange
GoVI	Government of the Virgin Islands
KPI	Key Performance Indicators
IMF	International Monetary Fund
MFU	Macro Fiscal Unit
MTDS	Medium Term Debt Strategy
MTFF	Medium Term Fiscal Frame
MTFP	Medium Term Fiscal Plan
OCR	Ordinary Capital Resources
PEFM	Protocols For Effective Financial Management
PARBOs	Publicly Assessible Registers Of Beneficial Ownership
PFM	Public Finance Management
SFR	Special Funds Resources
SOE	State Owned Enterprises
SB	Statutory Bodies
RRL	Rehabilitation and Reconstruction Loan
UKG	United Kingdom Government
VI	Virgin Islands
WAIR	Weighted Average Interest Rate

DEFINITIONS

Average Time to Maturity (ATM)	A measure of the weighted average time to maturity of all principal repayments in the portfolio. A longer ATM implies lower financing risk, and vice versa.
Average Time to Refixing (ATR)	A measure of the weighted average time until all principal repayments in the debt portfolio become subject to a new interest rate.
Gross Domestic Product (GDP)	The market value of all final goods and services produced within a country in a given period. The GDP is determined using data for production, expenditures, or income, and is presented in current or constant prices.
Refinancing Risk	The possibility that a borrower cannot refinance its debt by borrowing to repay existing debt.
Weighted Average Interest Rate (WAIR)	The weighted average interest rate or implied interest rate on outstanding debt is determined by the value of the debt as a percentage of the total outstanding amount.
Yield Curve	A graph that plots the structure of interest rates, at a set point in time, of government securities with different maturities, ranging from the 3-month T-bills to the 30-year bonds. It enables investors to compare yields offered on short, medium and long-term government paper.
Primary Balance	Total revenue less non-interest expenditure.
Overall Fiscal Balance	Total revenue less total expenditure

NOTES

Fiscal Year	The VI's fiscal year runs from 1 January to 31 December
Reporting Currency	The domestic currency of The VI is the USD at 1:1. Unless otherwise stated, all values are in US Dollar equivalents.
Coverage	The Medium Term Debt Strategy (MTDS) includes only central government existing debt and projected borrowings. However, guarantees are included in a simulation exercise, as presented in Appendix 1.
Classification	For the purposes of the MTDS, debt is classified by currency and not residency.
Source	The source of all tables and figures is the Ministry of Finance. Historical statistics on GDP up to 2020 and prices up to 2022 are obtained from the Central Statistics Office and projections for both are prepared by the Ministry of Finance.

FOREWARD

The persistence of external vulnerabilities and their alignment to the Virgin Islands' ("the Territory") main economic pillars strongly supports the importance of having effective debt management practices as part of the government's plans for achieving macro-fiscal stability and long-term economic growth and development.

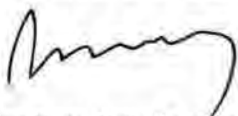
A Medium Term Debt Strategy (MTDS) is one mechanism that can be used to determine the parameters being measured under Section 20 of the Protocols for Effective Financial Management (PEFM), 2012. A MTDS presents a debt management strategy with a medium-term focus that would guide the government's borrowing policies and debt management operations to achieve the debt management objectives. Against the backdrop of the improved macro-fiscal forecasts, as updated in the recent 2024 Budget, the government is pleased to release the 2024 – 2026 Medium Term Debt Strategy ("the MTDS"). As designed, the MTDS aligns with the primary debt management objective of meeting government's financing needs at the lowest cost, consistent with a prudent degree of risk and with the secondary objective of developing the domestic debt market.

Four (4) alternative financing options were evaluated under the macro-economic assumptions to ensure the selection of a feasible financing strategy. This process culminated in the government's adoption of Strategy 1 (S1) which is expected to improve debt sustainability by reducing interest and refinancing risks in the portfolio while encouraging private sector participation in national development. Under uncertain global financial conditions as previously outlined, S1 is more feasible, produced better overall performance under stressed conditions and therefore has greater benefits to the debt management objectives of the VI. Additionally, S1 is aligned well with the gradual approach towards achieving the long-term internal debt targets and presents the lowest risk for approximately the same level of costs as the other alternative strategies.

Consistent with the medium-term fiscal framework of the government, the MTDS was formulated to finance the net fiscal deficit including capital expenditure of $202.95 million over the next three fiscal years. Under the optimal strategy, S1, the combined three-year deficit would be financed through existing disbursements on Caribbean Development Bank (CDB) loans of $20.04 million, and the remaining $182.91 million through the domestic market investing in the development of the Territory.

The preparation and release of this document affirms the government's commitment to promoting clarity, transparency and accountability in debt management operations, and facilitating constructive dialogue with the VI's investor base. The government will monitor the MTDS due to changes in the macro-economic environment to maintain consistency with key debt management objectives.

Completion of this very comprehensive exercise would not have been possible without the invaluable support of various stakeholders. I wish to recognise the committed efforts of the Financial Secretary and the team in the Macro Fiscal Unit, Ministry of Finance, for coordinating this exercise, and the ongoing strategic input and guidance from the Commonwealth Secretariat.



Dr. the Hon. Natalio Wheatley
Minister of Finance

ACKNOWLEDGMENT

The global pandemic rendered the use of debt management tools, such as the Medium Term Debt Strategy (MTDS) and the Debt Sustainability Analysis (DSA) essential tools for countries to monitor and safeguard the sustainability and proper management of debt portfolios. These tools, once developed, should be updated annually to reflect the current macro-economic and fiscal positions of countries. A MTDS for the Virgin Islands (VI) would enable comprehensive consideration of measures that would minimise cost and risk in the evolving portfolio. It is also a broad-based platform that considers the macro-economic framework, future borrowing requirements of the government, market conditions and other relevant factors.

The 2024-2026 MTDS marks a significant milestone for the Government of the Virgin Islands, representing the culmination of three ongoing efforts to establish a strong Medium Term Development Strategy. Building on the 2023 base year, this report demonstrates the government's commitment to long-term territorial development planning.

This commitment is further evidenced by the previous attempts in 2014 and 2022 to create similar multi-year plans. These earlier efforts provided valuable insights that helped shape the current successful MTDS.

The preparation for the 2024-2026 MTDS would not have been possible without the commitment and effective contribution and collaboration of various stakeholders. My sincere appreciation is extended to Macro-Fiscal Unit Coordinator, Michele Richmond-Phillips and Financial Analyst Sandra Brewley of the Debt Management Section of the Macro-Fiscal Unit within the Ministry of Finance, which spearheads the MTDS exercise, along with all other support team members.

This would also not be possible without the ongoing technical assistance and capacity building support and guidance provided by the Commonwealth Secretariat's (COMSEC's) Debt Management Unit and IMF/CARTAC to the VI's team, especially in the use of the various debt management analytical tools. Based on the analysis of the cost risk trade-offs among the four (4) alternative strategies reviewed, the optimal strategy selected Strategy (S1) suggests 100% of gross financing needs will be financed in USD. It also envisages the domestic market's development while maximising opportunities for concessional and semi-concessional borrowings and credit enhancements to contain costs and lengthen the debt's maturity. In implementing S1, the Ministry of Finance, will review and monitor prevailing macro-economic and financial conditions to ensure the ongoing relevance and appropriateness of the strategy to achieve the debt management objectives.

In keeping with our government's endorsement of the principles of good governance in fiscal affairs, all debt strategy reports are available on the government's website at www.bvi.gov.vg.

Jeremiah Frett
Financial Secretary

EXECUTIVE SUMMARY

In today's dynamic global economy, governments are exploring innovative strategies to ensure sustainable funding for public services. Many have opted for debt financing to cover their deficit budgeting. The Virgin Islands has not been excluded from this complicated fiscal imbalance. With the increasing social needs of the population, the necessity for development in critical areas, and the low probability of realising fiscal surpluses, the fiscal position of the territory must be delicately balanced.

Under Section 20 of the Protocols for Effective Financial Management, 2012, the United Kingdom Government (UKG) requires the Government of the Virgin Islands (GoVI) to ensure that the level of debt is sustainable and consistent with the delivery of macro-economic and fiscal stability in the short, medium and long-term. The Medium Term Debt Strategy (MTDS) and a Debt Sustainability Analysis (DSA) are two mechanisms that are able to assess the sustainability of planned new borrowings in the short, medium and long-term. As a result, the Ministry of Finance prepared a MTDS for 2024-2026 which is the roadmap for the government's debt management decisions, policies and operations. The base year for this current exercise was 2023, and there is alignment with the three-year period of the Budget and Medium Term Fiscal Plan (MTFP). The MTDS is structured based on the overall debt management objective of the government to ensure that the Territory's financing requirements are at the lowest possible cost, while maintaining risks at prudent levels.

In the Virgin Islands where tourism and financial services are the main drivers of the economy, it was predicted that Gross Domestic Product (GDP) would grow by 5.5% in nominal terms for 2023. This expected level of growth, although heavily influenced by rising inflation and supply-chain issues, is a testament of the resilience of the economy, within this very challenging global economic environment. This growth, which was seen throughout the main industries in the economy, was driven by increased activity in the financial services, tourism and construction industries.

This outcome supported an improvement in fiscal consolidation, as revenue out-performed budget expectations and prior year performance, combined with spending below budgeted levels, realised an overall surplus of $12.21 million, a 2.1% improvement from the surplus of 2022 ($11.96 million). With the uptick in economic activity in 2023, the stock of central government debt ($118.98 million) was 7.7% of nominal GDP compared to 9.3% by the end of 2022. Despite a higher GDP in 2023, the lower central government debt realised a lower debt to GDP ratio than that in 2022 when debt was higher and GDP was lower.

The medium-term macro-economic forecasts for the VI are modest but positive which assumes a durable revival in tourism, a stable financial services industry, public investment in infrastructure, and an increase in foreign investment flows. Continuing the positive trend from 2023, nominal GDP is expected to grow by 1.4% in 2024, 1.7% in 2025 and 2.1% in 2026. These very conservative growth levels are expected to be mainly driven by tourism, which has a multiplier effect across virtually all industries in the Territory. In spite of positive but conservative economic growth fundamentals, an overall deficit is expected to be realised in 2024, at 2.7% of GDP. Moreover, the overall fiscal position is expected to continue at lower levels, reaching a fiscal deficit to GDP ratio of 2.2% by 2026. However, this projected deterioration in fiscal developments will be linked to the elevated investment by government in infrastructure development projects across the Territory.

With shrinking savings and no new borrowing in 2023, to be able to significantly invest in the development of the infrastructure of the VI, the government would need to acquire new borrowing in 2024 and into the medium-term. The VIs' debt portfolio is predominantly exposed to refinancing risk, given changes in interest rates and interest rate risk with 90.2% of the portfolio with floating rates. Therefore, the terms and conditions of any new borrowing should be composed of fixed rate debt instruments that would reduce interest costs while maintaining a prudent level of risk. The portfolio currently has no exchange rate risk as there are no foreign currency denominated loans.

Four (4) alternative financing options were evaluated under the same macro-economic assumptions in the 2024 Budget to ensure the selection of a feasible financing strategy. The options have also taken into consideration prevailing domestic and international financial market conditions, the availability of financing from various creditors, and vulnerabilities that could impact future borrowing requirements and debt service costs. The strategies were evaluated in terms of their cost risk profile and subjected to various stress scenarios. The analysis culminated in the government's adoption of Strategy 1 (S1) as providing the best balance, under both the baseline economic projections and shocks to the baseline. This strategy is expected to improve debt sustainability by reducing refinancing risks in the existing portfolio and achieving a lower cost risk profile of the debt stock by 2026. Consistent with the government's debt management objectives, certain benchmarks for the cost and market risk indicators were also established for (i) interest rate risk and (ii) refinancing risk.

The optimum debt strategy selected through this process seeks to utilise domestic sources of financing to mitigate foreign currency risk and promote the development of the domestic capital market. The strategy prioritises the utilisation of more fixed interest rate instruments, extending maturities, and implementing liability management operations to manage refinancing risk, extend the average time to maturity of the portfolio, and manage interest rate risk, while also balancing cost. The financing mix under S1 that minimises costs and risks of the debt stock suggests 100% of gross borrowings in USD.

The 2024-2026 MTDS report is presented in five sections. The first section outlines the debt management objectives and the scope for the strategy. This section is followed by an analysis of our existing portfolio – stocks, flows, risk analysis and redemption profile at the end of 2023. The third section focuses on macro-economic performance, medium-term outlook and key risks. The fourth section presents alternative strategies with assumptions to finance the government's borrowing needs, based on its current economic constraints. The last section presents the preferred strategy with regard to the cost-risk trade-off and proposes the implementation methods and financing plan for this strategy. In Appendix 2, the annual borrowing plan for 2024 has been outlined.

The preparation and release of this document affirms the government's commitment to promoting clarity, transparency and accountability in debt management operations, and facilitating constructive dialogue with the VIs' investor base. The domestic investor base continues to remain committed to the development of the Territory and is willing to invest at substantial levels.

Although S1 was selected as the optimal approach, uncertainties related to the global economy, market conditions and geopolitical developments may necessitate deviations from this strategy. Consequently, the strategy will be closely monitored and reviewed in the context of any emerging changes and may be adjusted accordingly.

1. Introduction

1.1 Background

A Medium Term Debt Strategy (MTDS) is one mechanism that can be used to determine the parameters being measured under Section 20 of the Protocols for Effective Financial Management (PEFM), 2012. A MTDS presents a debt management strategy with a medium-term focus that would guide the GoVI's borrowing policies and debt management operations to achieve the debt management objectives.

1.2 Objectives

"Our debt management objective is *to ensure that our financing requirements are met at the lowest possible cost, while maintaining risks at prudent levels."*

The Medium Term Debt Strategy seeks to:

1. provide a framework to guide borrowing decisions consistent with the GoVI's debt management objective and having regard to the outlook in the GoVI's medium-term fiscal plan and the borrowing limits set out in the PEFM; and
2. increase financing options and diversify funding sources in order to provide opportunities to lower the costs and/or risks of the debt portfolio.

The formulation of the MTDS is consistent with the GoVI's 2024-2026 Budget Estimates and the Medium Term Fiscal Plan (MTFP) which were approved in December 2023 in the House of Assembly.

1.3 Scope of the MTDS

The MTDS analysis covers foreign currency and US Dollar debt contracted by central government and managed by the Macro Fiscal Unit (MFU) in the Ministry of Finance. It also incorporates the assessed financing needs of the Statutory Bodies (SBs) and State-Owned Enterprises (SOEs), insofar as these have been incorporated in the 2024 budget forecasts. Although the analysis is statutorily limited to central government debt only, the government undertook a secondary analysis to consider the impact of guaranteed debt on the risk and cost profile of the government (see ***Appendix 1)***.

To assess portfolio risks more accurately, debt is grouped by currency, as opposed to residency of holders. ***Therefore, throughout the document, external debt captures all foreign currency denominated debt and domestic debt represents USD debt.***

The baseline data for the MTDS analysis is the government's debt outstanding and disbursed, as at 31 December, 2023.

The MTDS spans a three-year rolling time horizon of the upcoming budget year (2024) and the next two fiscal years (2025 and 2026). The strategy will be reviewed and published annually. In preparing the MTDS, the World Bank/IMF analytical tool kit was used to simulate and compare the cost risk profiles of alternative financing sources, with a view to identifying the optimal strategy.

1.4 Legal and Institutional Framework for the MTDS

a. Legal Framework

There is currently no dedicated legislation for debt management, but on a broader perspective, debt is embodied under the Public Finance Management (PFM) Acts and the Constitution of the Virgin Islands. The PFM Acts are as follows, No. 2 of 2004 - Public Finance Management Act, 2004 and No. 9 of 2012 - Public Finance Management (Amendment) Act, 2012, along with the Regulations, S.I. No. 28 of 2007 - Public Finance Management (Amendment) Regulations, 2007. The government is finalising a revision of the PFM Act, 2004 and subsequent amendments which would include an in-depth and comprehensive section on debt management.

Further supporting the broad legislative framework for debt in the PFM Acts is the PEFM, 2012 which is an agreement between the Government of the VI and the United Kingdom Government on fiscal sustainability and accountability. Under Section 20 of the PEFM, the Government is responsible:

> *"To ensure that the level of debt is affordable and consistent with the delivery of macro-economic and fiscal sustainability and financial stability in the short, medium and long term as outlined in the MTFP, the Government of the Virgin Islands will comply with the borrowing limits defined".*

The MTDS is one mechanism that can be used to determine the parameters being measured under Section 20 of the PEFM. A MTDS establishes the roadmap to achieve the objectives of public debt management for the upcoming budget year and at least two subsequent financial years. The MTDS guides the government's borrowing policies and debt management operation and is based on a detailed assessment of the costs and risks of alternative borrowing strategies. It considers the government's fiscal policy, the annual budget, the fiscal strategy, the macro-economic environment, market conditions and other relevant factors.

b. Institutional Arrangements

The ultimate responsibility for public debt management operations in the VI rests with the Ministry of Finance. The Macro-Fiscal Unit within the Ministry of Finance is responsible for back, middle and front office functions of debt management. These functions are performed by two staff members, one who conducts the back office and occasionally the middle office functions, and the other performs the remaining middle office and front office functions. The government's debt portfolio is only constituted of standard loans, and there have been no securities acquired up to this point. There is a close collaboration with the Treasury Department, under the Ministry of Finance, as this agency makes the actual payments to all lenders.

The Ministry of Finance continues to collaborate with development partners to enhance the institutional arrangements for debt management which includes ongoing efforts to build the team and its technical capacity for debt management analysis. Implementation of the new debt management system MERIDIAN which replaced CS-DRMS, has also been instrumental in an easier management of the debt portfolio with its web-based capability and enhanced processing and reporting platforms. To further strengthen transparency and accountability in debt management, a Debt Management Committee, with representatives across the public and private sectors, will be established to help the government explore,

identify and implement financing alternatives that would optimise the cost/risk, while minimising debt management objective.

The upcoming sections will present:

- the key macro-fiscal and market backdrop to the preparation of the MTDS, (Section 2);
- the 2023-2026 costs and risks relative to the projected debt strategy, (Section 3);
  a review of the existing debt portfolio, (Section 4);
- the medium-term macro-economic context for the MTDS, (Section 5);
- the medium-term debt strategy, (Section 6);
- a summary of the optimal debt management strategy, (Section 7);
- debt sustainability analysis, (Section 8); and
- the MTDS implementation, monitoring, review and reporting process, (Section 9).

2. Recent Macroeconomic and Market Developments

2.1 Economic Developments

In the Virgin Islands where tourism and financial services are the main drivers of the economy, it was predicted that a growth in Gross Domestic Product (GDP) of 5.5%, in nominal terms for 2023, may be realised. This expected level of growth, although heavily challenged by the influence of rising inflation and supply-chain issues, was a testament of the resilience of the economy, within this ever-challenging global economic environment. This growth, which was seen throughout the main industries in the economy, was driven by increased activity in the financial services, tourism and construction industries.

The financial services industry, one of the two main pillars of the economy, contributes about 60% of government's revenue, and as such, any shocks to this industry has the potential to immediately affect the operations of the government. In recent years, the financial services industry has faced, and continues to face many challenges, including but not limited to, new global reporting standards, the lingering effects of the pandemic, the ever-increasing uncertainty surrounding a global recession, and the possible catastrophic impact of the PARBOs. In 2023, new incorporations (22,317) dropped by 20.5% from 2022's level (28,061). The impact of the decline was minimized by the fee increase implemented from 1st January 2023. With the increase, revenue from industry collected by the Financial Services Commission in 2023 was $252.14 million or 13.8% above that for 2022, $221.66 million.

Tourism, the other pillar of the economy, is the industry that is widely spread across almost all sectors of the economy, and as such, has a greater impact on the overall GDP. The impact of inflation continues to mask the real activity level of the industry, with a substantial rise in the dollar value of tourism revenue. Overnight visitors are the main driver behind increases in the value of tourism revenue. Tourist arrivals in 2023 grew by 89.7% to 994,896 from 524,427 in 2022. Almost 73% of the visitors in 2023 were cruise passengers (719,519), while just under 27% were overnighters (262,080). There was a 109.4% increase in cruise passengers from 343,571 in 2022 to 719,519 in 2023. There was also a 50.3% increase in overnight visitors from 174,344 to 262,080 by the end of 2023.

The Virgin Islands (VI), being a small and open economy, is vulnerable to changes in the global economic environment. The Territory relies heavily on imported consumer goods resulting in the rising prices on the domestic market which are a direct consequence of imported inflationary pressure. Additionally, the VI has its share of imported monetary policy, with the US dollar being the official currency of the Virgin Islands. Therefore, when the Federal Reserve adopts an expansionary monetary policy that would further lead to inflationary pressures on the Virgin Islands' economy. The inflation rate was 4.0% by the end of 2022 and for 2023, it was 2.7% which was below the rate of 3.5% projected for the year.

By the end of 2022, there were 21,134 persons employed throughout the Territory, a 2.6% increase over 2021 (20,609 persons). Employment in 2023 was projected to grow by between 1-2% over 2022.

Construction imports in 2022 ($68.01 million) decreased by 12.0% from 2021 ($77.25 million). The value of imports of construction goods in 2023 was expected to be above that for 2022, with the increase in the prices of goods, but not in the volumes imported. A total of $328.32 million from 2019-2022 was imported in construction material, which was on average 15.6% of all imports for the period, $2.14 billion.

Fewer real estate transactions were recorded in 2022 at 238 (a 29.6% decline from 2021), but a higher value of $143.30 million (a 11.6% increase from 2021) in sales was achieved. 81.5% of all sales in 2022 were made by Belongers and VIslanders. Over the period from 2018-2022, the highest value for home sales, in the amount of $61.90 million was realised in 2021.

Moving into 2024, the heavy influence of high inflation on the economy will continue to be seen in the value of tourism revenue, in nominal GDP, in construction activity, and further in real estate. The inflation rate is projected at 2.5% for 2024 but is subject to changes due to unpredictable global economic conditions, policy changes and unforeseen events like natural disasters and shocks.

In the medium-term (2024-2026), plans by Government to undertake extensive infrastructural works will lead to growth in employment between 1-2%, growth in nominal GDP, and growth in construction imports. Although the financial services industry continues to face seemingly insurmountable challenges and new incorporations continue to decline, it is projected that the stock of companies will remain at a sustainable level. By the end of 2024, it is anticipated that there will be around 23,000 new incorporations and an overall $248 million in revenue from fees collected. The Territory is expected to welcome about one million visitors in 2024. Over the medium-term, overnight tourism is expected to be boosted with the completion of several large-scale planned tourism development projects and the increase in the frequency of daily flights to mainland USA. The necessary public infrastructure and tourism development will place the nation on a sustainable path, which would be driven by the resilience of citizens and residents and the natural beauty of the Territory.

Credit rating for the VI is undertaken by CARICRIS, a regional credit rating agency in the Caribbean, with the most recent rating in March 2023 of CariAA-. Except over the period May 10 to August 11, 2022, when CARICRIS placed the Territory on a Rating Watch - Developing, the credit rating for the Government remained at CariAA- for foreign and local currency. In the March 2023 rating update reports on the VI, CARICRIS stated that the stable outlook was based on expected continued good control over fiscal operations guided by the PEFM and the consolidation of economic growth based on recovery in tourism and resilience in financial services.

2.2 Fiscal Developments

Total preliminary revenue for 2023 at $387.67 million was 7.0% above 2022 intake of $362.19 million and was 2.9% above the 2023 budget estimate at $376.76 million. This improvement in performance was mainly attributed to an active tourist season, along with an increase in incorporation and renewal fees implemented by the government from 1 January 2023. The increase in tourist arrivals resulted in growth in hotel accommodation taxes, cruising permits and tourist arrival levy. The 8.8% increase in income/payroll taxes for 2023 from $57.27 million in 2022 is linked to the improvement in the economy, while the expiration of the waiver on property taxes ended resulting in a growth of 10.8% in collection for this revenue stream in 2023 from $3.34 million in 2022. With the discontinuation of 5% reduction in import duty policy, along with the improvement of the economy, the performance of taxes on international trade recorded noticeable growth 39.6% in 2023 from $36.93 million in 2022. The shortfalls in performance were seen in other taxes from reduced stamp duty from a sluggish real estate industry, and in grants with minimal donations and dividends from Statutory Bodies and State-Owned Enterprises. The decline in other revenue was mainly due to a reduction in court fees to normal levels after the spike in 2022 due to a lump sum payment being made to the government by an interim collector of fees, along with the reduction of the money transfer fee charge from 7.0% to 3.5% in 2022.

On the recurrent spending side, the preliminary outlays for 2023 of $353.71 million was $40.43 million, 13.0% higher than that of 2022 at $313.10 million but was 8.7% below the revised budget expenditure for 2023 of $387.21 million. The increase in interest rates and prices which significantly impacted the use of goods and services, along with the policy decision to pay public servants outstanding increments were the main drivers behind the increase in expenditure in 2023 from 2022. A 41.4% decline in public sector investments in 2023 rendered capital spending significantly lower by $15.38 million from 2022 ($37.13 million). This reduction was mainly due to not being able to execute planned projects as the level of required preparation was not realised.

Preliminary data for 2023 confirm that despite the noticeable rise in recurrent spending with the increase in revenue collections, there was a steady improvement in the fiscal outturn. An overall fiscal surplus of $12.21 million was realised, a 2.1% improvement from the surplus of 2022 ($11.96 million). Consequently, the primary position moved from a surplus of $16.83 million in 2022 to $18.97 million in 2023, a 12.7% improvement in fiscal performance.

2.3 Market Developments

During the recent fiscal year, the Government has been able to successfully manage the debt portfolio, in line with the macro-fiscal objectives, Government's financing needs and the medium-term strategic objectives of debt management. There was no new borrowing in 2023, no disbursements on existing borrowing, and as debt servicing continued, debt balances reduced for the year.

a. Domestic

In June 2021, the Government acquired a standard fixed rate loan from the domestic market, but since this addition no new debt has been acquired. Despite not borrowing in 2023, based on meetings held during the year with some of the main players in the domestic market, there is still a high interest in lending to the government and a high level of liquidity is available to facilitate this, if approached.

Based on the fourth quarter 2023 Statistical Bulletin of the Financial Services Commission (FSC), total risk-weighted assets of the banking sector stood at $1.41 billion at the end of the quarter and deposits were at $2.35 billion. From this Bulletin, there was $110.51 million in non-performing loans which was 8.2% of total loans. Total non-performing loans in the fourth quarter of 2023 increased by 3.1% when compared with the same quarter in 2022 ($107.19 million) and increased by 2.9% when compared with the third quarter of 2023 ($107.41 million). At the end of the fourth quarter, the loans to deposits ratio stood at 70.4% which was lower than the 72.9% at the end of the fourth quarter of 2022. The sensitivity to market risk of net open position as a percentage of capital was 0.3% at the end of the fourth quarter. At the end of December, there was $630.99 million in cash and investments, a 19.5% decrease from the third quarter of 2023 ($783.60 million) and a 7.6% increase from the fourth quarter of 2022 ($586.41 million).

b. External

Global economic conditions remained challenging throughout 2023, amid the ongoing conflict in Ukraine, the Israel–Hamas war that commenced in October 2023, and continued inflationary concerns. High interest rates continued to impact debt service costs and impose a further strain on already stretched economies.

The rapid interest rate hikes registered across major advanced economies have resulted in a tight monetary policy stance that is expected to endure into 2025. There are signs that tighter monetary policies have started to work their way through the financial system, which has resulted in constrained credit conditions increasingly affecting real activity. Higher interest rates more than likely placed banks in major economies under increased pressure, both directly through higher cost of financing and indirectly as the quality of credit deteriorates.

The latest projections confirm that the global economy is slowing as inflation declines from 2022's peak. As short-term inflation expectations decline, real interest rates are likely to stay elevated. Although monetary tightening is starting to bear fruit, it is not the major factor for the decline in inflation. The central driver of the fall in inflation is the decline in international commodity prices.

Debt markets have started to reflect tighter monetary policies, while spreads to risk-free government debt have basically remained constant. This suggests that there is no immediate indication of a credit crunch, although credit conditions have significantly tightened.

Federal Reserve officials left interest rates unchanged in their final policy decision of 2023 and forecast that they will cut borrowing costs three times in 2024. This decision in December 2023 was a sign that the central bank is shifting towards the next phase in its fight against rapid inflation. Interest rates are set to a range of 5.3 to 5.5 %, at which levels they have been since July 2023. With the Federal Reserve keeping rates steady, inflation falling and a cooling economy, bond investors are feeling optimistic about the future. According to Capital Economics, the United States 20 Year Government Bond Yield is expected to be 4.0% by the end of December 2024.

The UK 10 Year Gilt Bond Yield traded at 4.2% at the end of March 2024, according to Trading Economics global macro models and analysts' expectations. By the end of 2024, it is expected to trade at 3.9 %, according to World Government Bonds. Further, it is estimated that the Bank Rate will fall

to around 4.8% by the end of 2024, down from its current 5.3%, according to Trading Economics. The UK 20 Year Bond Yield is expected to trade at 0.5 percentage points above the 10 Year Gilt Bond Yield. A risk margin of 2.5% was estimated for the BVI for bonds.

3. Review of the 2023 Actual Borrowing

The gross financing needs of government for 2023 was met by disbursements from existing loans from the CDB RRL, insurance proceeds from the 2017 hurricanes, and savings from the Consolidated Fund and other funds. There were no new debt instruments acquired in 2023.

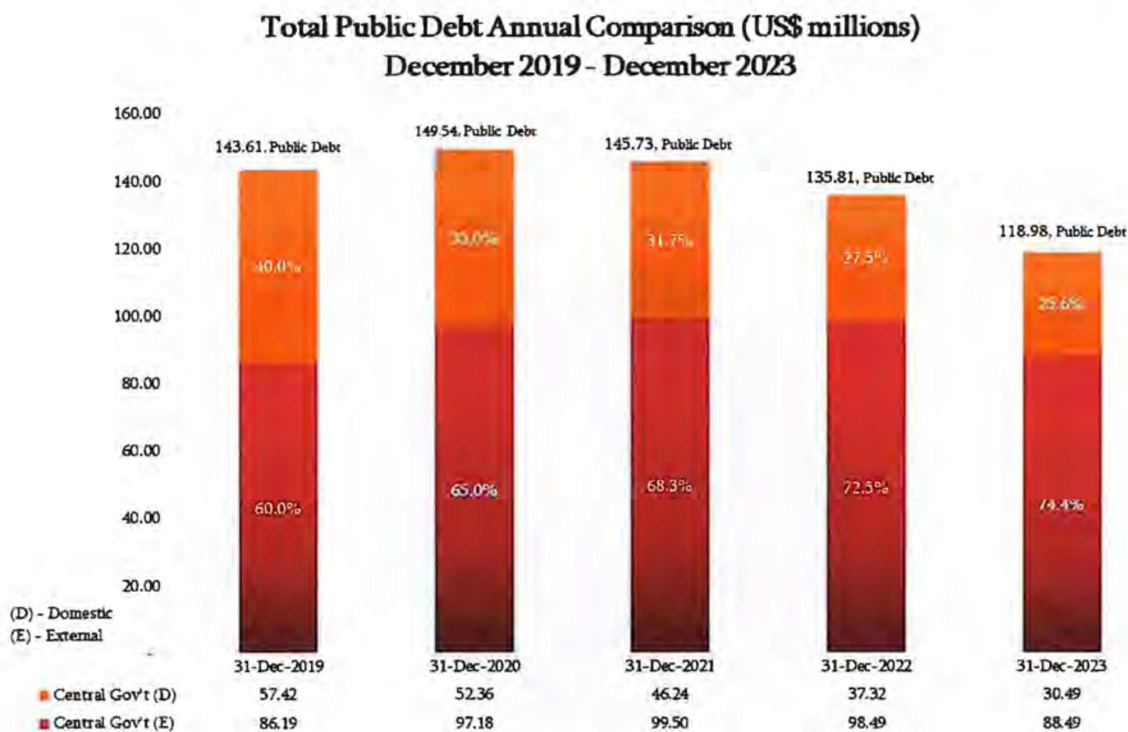
Borrowing in the VI has been guided by best practice and the approved budget and usually articulated in the Debt Strategy Section of the three-year MTFP. This inaugural MTDS represents key debt reforms which align with the GoVI's commitment to improved governance, transparency and prudent debt management. This MTDS also includes the Territory's ABP which is appended to the document.

4. Review of Existing Debt Portfolio

4.1 Composition of Outstanding Central Government Debt

As illustrated in ***Figure 1***, at the end of 2023, public outstanding debt stood at $118.98 million—a decline of $16.83 million (12.4%) from December 2022 ($135.81 million). This decrease was solely attributed to the continuous servicing of debt as there were no disbursements throughout the entire year.

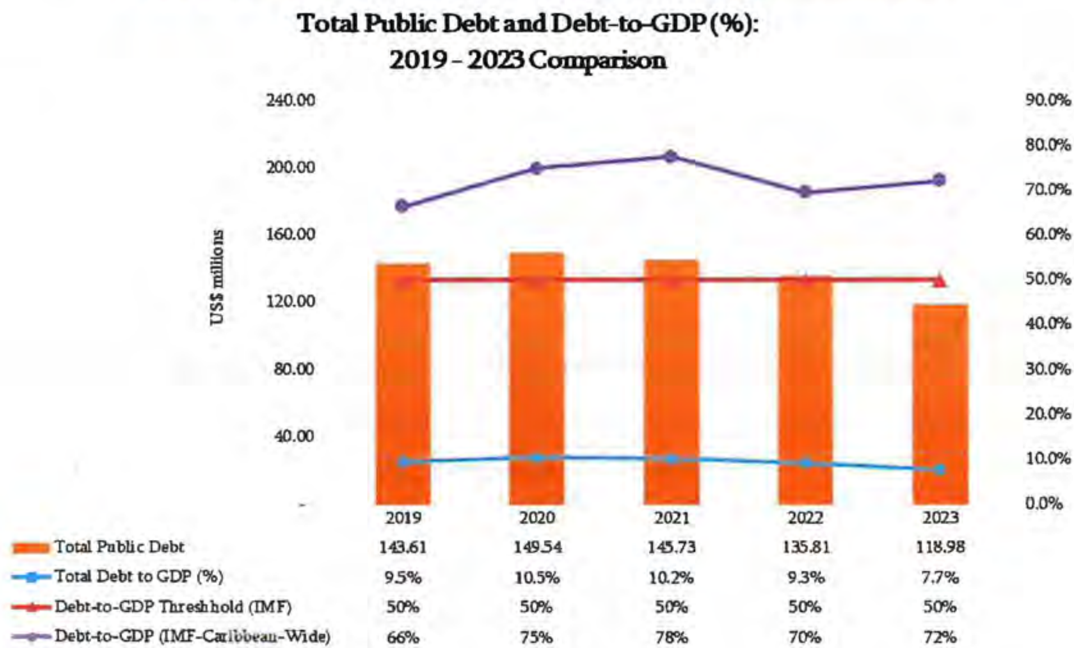
Figure 1: Public Sector Debt Portfolio



With the uptick in economic activity in 2023, the stock of government debt recorded an improvement with 7.7% of nominal GDP compared to 9.3% by the end of 2022 (see ***Figure 2***). Historically, the debt to GDP ratio for the Virgin Islands has always remained below 20%, which is well below any global threshold established for the ratio. This ratio level indicated that the VI, currently and historically, has been producing sufficient output to continue servicing its level of debt.

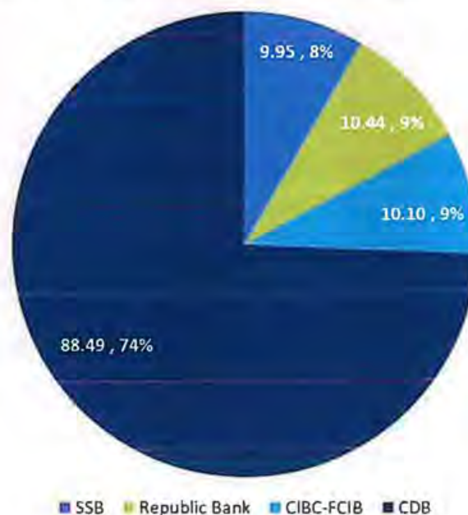
The CDB with $88.49 million in outstanding debt with the government occupied the largest share, 74.0% of total public debt. The remaining $30.49 million (26.0%) of central government debt was with domestic sources (see ***Figure 3***).

Figure 2: Central Government Debt as a percentage of Nominal GDP



	2019	2020	2021	2022	2023
Total Public Debt	143.61	149.54	145.73	135.81	118.98
Total Debt to GDP (%)	9.5%	10.5%	10.2%	9.3%	7.7%
Debt-to-GDP Threshhold (IMF)	50%	50%	50%	50%	50%
Debt-to-GDP (IMF-Caribbean-Wide)	66%	75%	78%	70%	72%

Figure 3: Public Debt Lending Institution, end of December 2023



The government's domestic debt profile amounted to $84.62 million (48.9%) of total public sector debt, with SSB ($28.03 million), Republic Bank ($10.44 million) and FCIB ($46.14 million) making up this amount. The remaining $88.49 million (51.1%) of total public sector debt made up the external debt profile which comprised solely CDB loans.

4.2 Domestic Debt

By the end of December 2023, central government's domestic debt was at $30.49 million, 25.6% of total public debt. Central Government's domestic debt ($30.49 million) occupied the Construction, Health and Sewerage sectors and it was held by SSB ($9.95 million), Republic Bank ($10.44 million) and FCIB ($10.10 million). There were no major changes in the domestic debt portfolio.

Figure 4: Public Domestic Debt by Sector and Lender, end of December 2023

4.3 Foreign Currency Debt

In November 2023, the remaining EIB loan ($0.82 million/$823.59 thousand) held in the Water sector was repaid in full, thus closing out the euro denominated portion of our debt profile. Therefore, as of December 2023, there were no foreign currency debt in the portfolio.

4.4 External Debt

By the end of December 2023, external debt was solely comprised of central government debt totaling $88.49 million. External outstanding debt occupied the Construction, Education[1], Transportation and Public Administration sectors, and was solely held by CDB[2].

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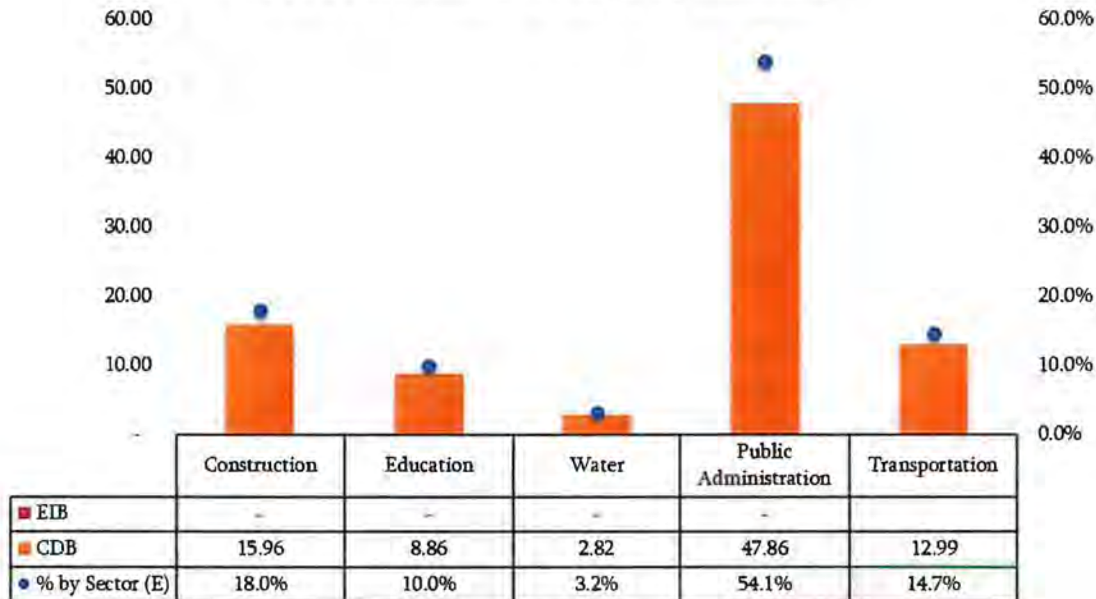
[1] Student Loan Scheme loans are held by GoVI but are administered and managed by NBVI.

[2] CDB's loan profile comprises of eight (8) loans covering disaster infrastructure, disaster recovery, rehabilitation and relief, education and administrative. All loans have been fully drawn except for the Rehabilitation and Reconstruction Loan ($65.29 million) (RRL).

Figure 5: Public External Debt by Sector and Lender, end of December 2023

External Debt Profile by Sector and Lender as at 31 December 2023 (US$ millions)



	Construction	Education	Water	Public Administration	Transportation
EIB	-	-	-	-	
CDB	15.96	8.86	2.82	47.86	12.99
% by Sector (E)	18.0%	10.0%	3.2%	54.1%	14.7%

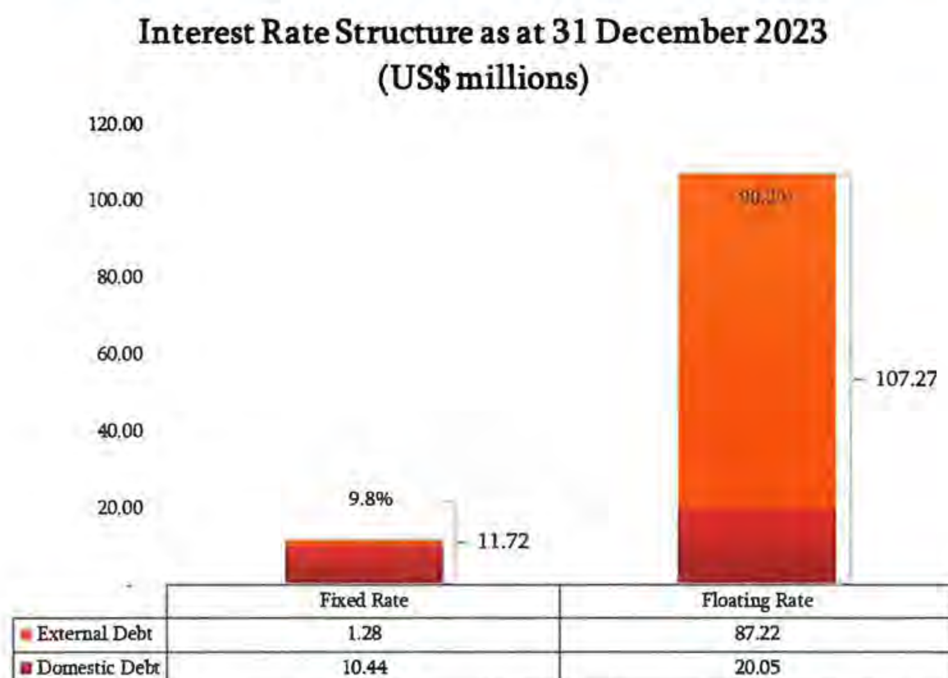
In October 2023, the balance of the Hurricane Rehabilitation (Sea Defense) loan of ($0.41 million/$405.27 thousand) was repaid in full. Also in that same month, the fourth quarter payment of the Student Loan Scheme VI OCR ($4.70 million) which is managed by National Bank of the Virgin Islands (NBVI), was handled by Government due to a shortfall in student loan payments. The SFR portion of Student Loan Scheme VI ($0.30 million or $300,000) would be fully repaid by April 2024.

CDB is the only multilateral agency from which the government borrows at this time, and it is considered as external debt by residency definition. Therefore, external debt is at present equivalent to multilateral debt for the Virgin Islands.

4.5 Interest Rate Structure of Public Debt

A substantial 90.2% ($107.27 million) of GoVI's public sector debt profile was attributed to debt with floating interest rates held by SSB ($9.95 million), FCIB ($10.10 million) and CDB ($87.22 million) loans. The remaining $11.72 million (9.8%) was ascribed to debt with fixed interest rates held by Republic Bank ($10.44 million) and CDB ($1.28 million) (see ***Figure 6***).

Figure 6: Public Debt by Interest Rate Type, end of December 2023



4.6 Maturity Structure of Public Debt

Public sector debt scheduled to mature in five years at the end of 2023, stood at $23.13 million, 19.5% of total public sector debt. This amount was held by Republic Bank ($10.44 million), FCIB ($12.39 million) and CDB ($2.59 million).

As at the end of 2023, $16.72 million (14.1%) and $79.13 million (66.5%) of existing public debt is set to mature within 10 years and after 10 years respectively. This means that the majority (80.6%) of our debt profile consists of long-term debt (see ***Figure 7***).

4.7 Debt Service Payments

By the end of 2023, debt servicing for central government totalled $23.51 million, $8.83 million or 42.2% was attributed to domestic debt. The remaining 57.8% was attributed to external debt and was dominated by CDB with $13.94 million in debt servicing.

Debt service costs were higher in 2023 from 2022 as repayments on the CDB $65.29 million RRL began in January 2023. In addition, in October 2023, the Hurricane Rehabilitation (Sea Defense) loan and the remaining EIB water loan were fully repaid. The impact of higher interest rates was also another factor in the increase in costs in 2023 over 2022.

Notably, the exceptionally high costs in 2021 were directly linked to the early repayment of the remaining balance of $17.25 million on the Peebles Hospital Loan with Banco Popular (see ***Figure 8***).

Figure 7: Maturity Profile of Public Debt, end of December 2023

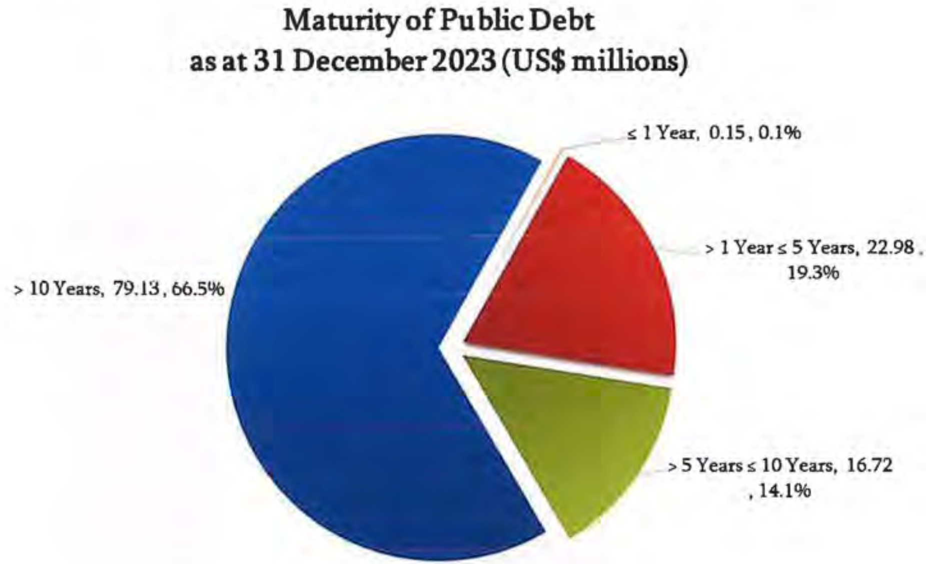
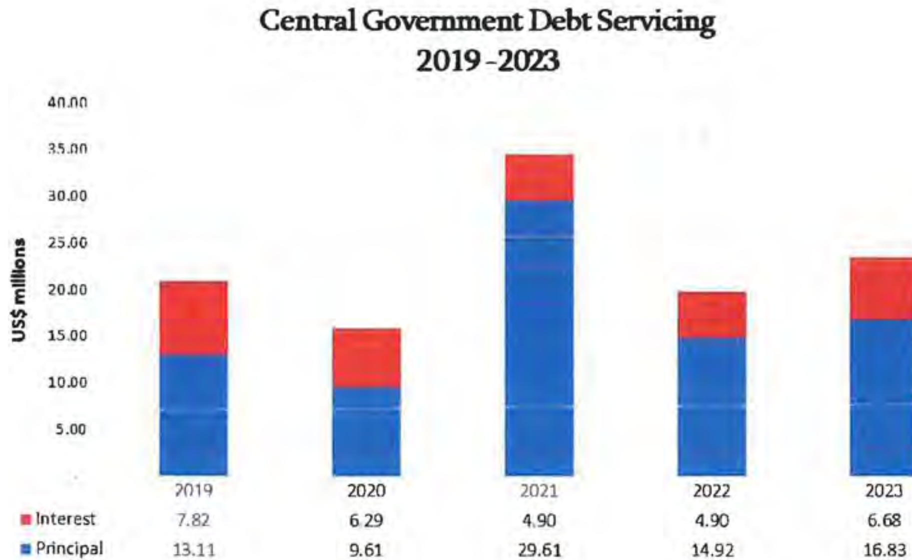


Figure 8: Debt Service Costs from 2019 - 2023



4.8 Cost and Risk Analysis of the Debt Portfolio

The VI's debt portfolio is predominantly exposed to refinancing risk, given changes in interest rates and interest rate risk with 90.2% of the portfolio with floating rates. ***Table 1*** illustrates key cost and risk indicators for the debt portfolio at the end of December 2023.

Table 1: Cost and Risk Indicators of Existing Debt

COST AND RISK INDICATORS FOR EXISTING DEBT AS AT END DECEMBER 31, 2023			
Risk Indicators		Domestic debt	Total debt
Amount (in Thousands of USD)		118,982.8	118,982.8
Amount (in Thousands of USD)		118,982.8	118,982.8
Nominal debt as percent of GDP		7.7	7.7
Present Value (PV) as percent of GDP[1]		7.0	7.0
Cost of debt[2]	Interest payment as percent of GDP[3]	0.4	0.4
	Weighted Average Interest Rate (percent)	5.2	5.2
Refinancing risk[2]	ATM (years)	4.5	4.5
	Debt maturing in 1 year (percent of total)	13.2	13.2
	Debt maturing in 1 year (percent of GDP)	1.0	1.0
Interest rate risk[2]	ATR (years)	0.6	0.6
	Debt refixing in 1 year (percent of total)	92.8	92.8
	Fixed rate debt incl T-bills (percent of total)	9.8	9.8
	T-bills (percent of total)	0.0	0.0

Notes:

[1]PV as percent of GDP is calculated based on projected debt service payments where discount rate of 6% is applied to those instruments on concessional or semi-concessional terms.

[2] Cost-Risk indicators that use projected cash flows such as weighted average interest rate, refinancing and interest rate risks use projected exchange rate assumptions.

[3] Interest payment as percent of GDP is calculated by dividing interest payment on outstanding debt at 2023 to 2023 GDP.

ATM means Average Time to Maturity, and ATR means Average Time to Refixing.

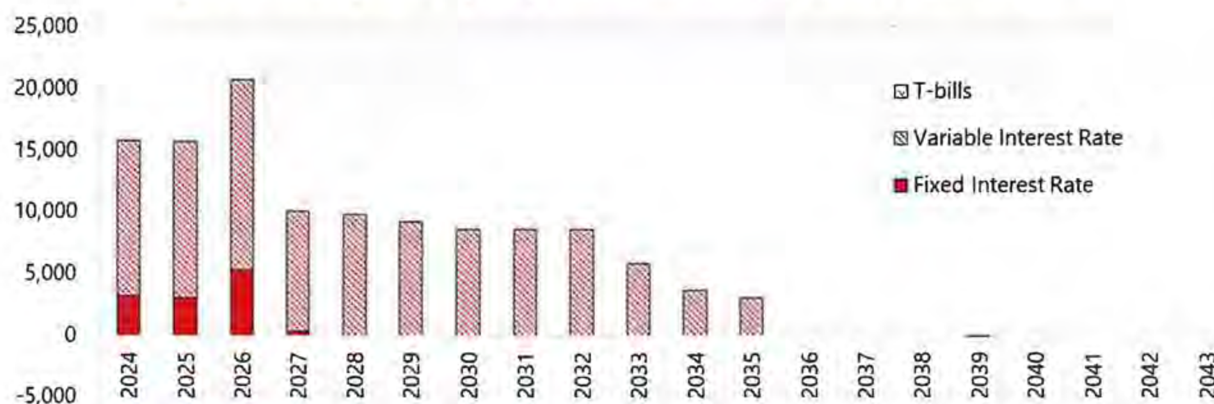
The overall debt portfolio of the VI is very small, and this can be seen in the indicators in ***Table 1***. The cost of the existing debt portfolio is very low, with both nominal debt as a percentage of GDP and present value as a percentage of GDP below 10. There is no foreign currency debt as at the end of December 2023, and therefore, no exposure to exchange rate risk.

Rollover/refinancing risk captures the exposure of the debt portfolio to higher refinancing costs for maturing debt obligations within a specified period or, in extreme cases, the inability to rollover the debt. The key indicators for measuring refinancing risk are debt maturing in one year as a percentage of total debt, Average Time to Maturity (ATM) and debt maturing in one year as a percentage of GDP.

The ATM of 4.5 years indicates that a significant portion of the loans are maturing within five years. Based on the information presented in the section on the maturity profile of existing debt, $23.13 million (19.5%) of total public sector debt will be maturing in five years. This amount almost entirely relates to the Republic Bank and FCIB loans with final bullet payments in 2026. To improve the ATM, these loans should be restructured, with extensions on maturity between 2-5 years.

The maturity profile of the debt, as presented in **Figure 9**, highlights the amortization of the outstanding debt and the risk inherent in the structure of the debt. The maturity profile is well distributed over the years, except in 2026 when two loans will mature with large bullet payments. Over the longer-term, the forecasted redemptions are entirely from floating rate, longer maturity debt, indicating interest rate risk for many years ahead.

Figure 9: Redemption Profile of Government Debt, as at end-December 2023



Interest rate risk relates to the changes in debt service cost arising from variability in market interest rates. The Average Time to Re-fixing (ATR) captures the vulnerability of the portfolio to higher market interest rates at the point at which the interest is reset or fixed rate debt is refinanced.

The debt portfolio has an overall ATR of 0.6 years, at the end of 2023, with 92.8% of the total debt subject to a change in interest rate in one year. These indicators mirror the prevalence of floating rate debt in the portfolio. Fixed rate debt represented a mere 9.8% of the total debt. Interest rate risk of the portfolio is assessed as high as the bulk (92.8%) of the portfolio is comprised of floating rate debt and as shown by the low ATR.

Outside of the cost and risk indicators above, other risk factors can disrupt debt service and the overall debt management operations. Fiscal risk will be one such factor which can emerge from natural disasters, major decline in revenue from the financial services industry, and other impacts on the economy. Contingent liability risk will be another factor that can emerge from the operations of State-Owned Enterprises (SOEs) and Statutory Bodies (SBs). Another potential risk factor can be operational from lack of a robust debt management legal framework.

5. Medium-Term Macroeconomic Framework

5.1 Macroeconomic Assumptions

As summarised in ***Table 2***, the baseline macroeconomic assumptions for the MTDS are predicated on the forecasts as outlined in the approved 2024-2026 Budget, and the fiscal strategy as articulated in the 2024-2026 MTFP that aim at achieving sustainability and nation building through planning, priorities and progress.

The medium-term macroeconomic forecasts for the VI are modest but positive and based on the assumption of a durable revival in tourism, a stable financial services industry, public investment in infrastructure, and an increase in foreign investment flows. These are expected to support economic growth and employment, sustainability of new borrowing, adherence to the ratios under the Protocols for Effective Financial Management (PEFM) and allow for a rebuilding of the savings from surpluses.

Continuing the positive trend from 2023, nominal GDP is expected to grow by 1.4% in 2024, 1.7% in 2025 and 2.1% in 2026. These conservative growth levels are expected to be mainly driven by tourism which has a multiplier effect across virtually all industries in the Territory. The tourism industry is anticipated to be further boosted by large-scale private sector tourism development projects across the islands. Major investment by both private and public sector in infrastructural development across the Territory is also expected to elevate economic activity in the medium-term. Consequently, employment is anticipated to grow between 1-2% over the period 2024-2026.

Real GDP is projected to continue to be heavily influenced by supply-chain issues from shipping routes obstruction, the wars and inflation rates that are falling but still high. With this backdrop, real growth is expected to range between 1-2% over the period 2024-2026.

Over the medium-term (2024-2026), projections are expected to indicate a trend toward more stable and moderate inflation rates of 2.5, 2.4, and 2.3%, respectively. While these projections look moderate, they are subject to changes based on global economic conditions, policy changes, and unforeseen events like natural disasters and other internal and external shocks to the economy.

Table 2: Baseline Macro-Fiscal Projections

USD Thousands	2024	2025	2026
Budgeted Revenue and Grants	387,969	384,463	386,629
Budgeted Primary Expenditure	454,852	434,359	421,764
Budgeted interest payments	6,195	5,924	5,415
Total Expenditures including budgeted interest payments	461,048	440,282	427,179
Nominal GDP	1,483,426	1,540,368	1,621,248
Use of existing funds/deposits that reduce gross financing requirement	32,399	-	-

Source: Macro-Fiscal Unit, Ministry of Finance

Against the backdrop of positive but conservative economic growth fundamentals, fiscal assumptions highlight the government's proposal to target a progressive improvement in revenue collections through the revision of aged fee structures, collection of arrears, and use of technology to implement systems for recording and processing of payments. Based on projections for revenue intake in the medium-term, the government anticipates collections to be above 2% of GDP.

The government is increasingly aware that its dependence on the financial services industry for revenue (around 60% comes from fees within this sector) could pose a risk to its operations. To address this vulnerability, they are actively seeking new and diversified revenue streams across various industries, including financial services.

Over the period 2024-2026, the focus for expenditure was anticipated to be on improving efficiencies, mainly through embracing technology, and reviewing processes and laws related in charges and rates of SOEs and SBs. Based on projections for spending in the medium-term, the government envisages informally limiting total spending to around 30% of GDP.

Under the assumptions for revenue and expenditure, the government, therefore, forecasts in 2024, a deficit of $40.73 million or 2.7% of GDP. This overall fiscal position is expected to deteriorate in 2025 with a higher deficit of $55.39 million or 3.6% of GDP followed by a lower deficit in 2026 of $39.91 million or 2.5% of GDP. Clearly primary deficits would be recorded with the highest over the three-year period being in 2025 at 3.2% of GDP and an improvement in 2026 to 2.2% of GDP. The projected high primary and overall balances are linked directly to the elevated investment by government in infrastructure development projects across the Territory.

5.2 Risks Associated with the Macroeconomic Indicators

Estimates of the baseline macroeconomic assumptions are exposed to risks and vulnerabilities of varying intensity that could cause deviations from the projections and crystallise in higher borrowing requirements and increased debt levels. Some key risk exposures are:

- Uncertainty in economic growth and price conditions, due to ongoing geo-political tensions, wars, global inflation, high interest rates, financial challenges in the insurance market and climate change related supply chain disruptions.
- Severe climate-related events and the possibility of a future pandemic could disrupt growth expectations, given the potential adverse implications for tourism and fiscal performance.
- Delays in and/or not implementing the proposed revenue measures, efficiencies in recurrent spending, and execution of planned development projects could jeopardise the government's ability to achieve the medium-term revenue targets, with downside risks for the fiscal sustainability of the Territory, the borrowing requirements under the PEFM, debt levels and debt servicing costs.
- Delays in or not implementing the CoI recommendations could lead to the enactment of the 'Order in Council' by the United Kingdom government which would impact the governance in the Territory.
- The implementation of PARBOs and reporting standards for the financial services industry, along with reputational issues being faced could translate to a significant loss in revenue and as such, crisis for the continued operations of government.
- Continuation of an un-funded pension bill and the rise in subsidies to SOEs and SBs due to inefficient operations could increase debt levels beyond those projected and lead to issues with sustainability of debt costs.
- Monetary tightening in advanced economies could elevate borrowing costs and curtail access to domestic markets and international capital markets.

To contend with these exposures, the government's risk mitigation action plan envisages a range of strategies to support the various agencies across government in ensuring that a robust and sustainable fiscal position is maintained.

6. Assessment of Potential Sources of Financing

6.1 Domestic Sources

Over the medium-term, the domestic market will continue to be the main source of financing for the government's needs, to ensure the improvement of costs in accordance with the objectives set to manage the risks of the debt portfolio. Funding is planned to be secured via loans issued at varying maturities and at fixed interest rates, with variable rates to be considered based on conditions in the domestic market, i.e., demand preferences and interest rate trends.

External sources of funding will be used to complement domestic sources. To optimise portfolio risks, the government will continue to secure external financing in the form of concessional loans. These loans may be from multilateral agencies and leverage credit enhancement options such as guarantees, from credible international organizations like the Caribbean Development Bank, and explore other financing on an opportunistic basis.

a. New financing Alternatives

Beyond the traditional borrowing instruments, the government acknowledges the availability of alternative financing instruments being used to address public policy concerns in confronting the effects of climate change, as well as for blue economy and biodiversity protection and climate change mitigation and adaptation. Addressing these concerns will require substantial financing and will need to be accompanied by a sound debt management strategy to support effective access to national and international debt markets.

The VI has not explored this alternative financing option as yet. But, in December 2023, a technical assistance mission by IMF/CARTAC and COMSEC was the first step in the Territory's journey towards eventually using these options as a financing source. After the mission, a 'roadmap', to establish the Territory's eligibility for climate financing was prepared by the mission team. Considering the very small team dedicated to debt management, the Ministry will be heavily reliant on IMF/CARTAC, COMSEC, and other donors and partners in achieving the various steps involved in the process. The process would be a multi-year one and will involve several agencies across the Government of the VI, and the steps will have to be divided accordingly. Also, the process will involve several national organizations and ministries. A detailed list of activities will be included in the Ministry of Finance annual work plan.

As observed from international experience, there is an increased interest among private, bilateral and multilateral investors in two main sets of sovereign debt instruments has emerged. These instruments have the potential to improve market access and financial conditions for sustainable financing by offering opportunities for broadening the investor base, improving financing conditions (in tenor and cost), and increasing the transparency and accountability of sovereign debt markets. A few new alternatives being evaluated by the government are:

- Sustainable Green, Blue or Social Bonds, styled "use of proceeds" loans or bonds that are directed to finance new or existing projects with environmental and/or social benefits (e.g., a renewable energy, social housing, clean transportation project). Typically, these bonds are aligned with the

Green Bond Principles (GBP) from the 2020 International Capital Market Association (ICMA)—a set of guidelines that foster a transparent and unified reporting on the benefits and expected impact, and the 2019 Sustainability Linked loans principles form the Loan Market Association (LMA); and

- Sustainability-linked Bonds or Loans, which are structured using KPIs that are linked to the achievement of climate or social goals and where performance vis-à-vis the KPIs result in a decrease (step down) or increase (step up) in the instruments' coupon or interest rate. These loans and bonds are also sometimes aligned to the Sustainable Development Goals (SDGs).

As a first step, the officers assigned to debt will work with the other agencies in government to identify green, blue and social projects as well as key SDGs, that supports climate change mitigation and adaptation or biodiversity protection. The government intends to build a framework that incorporates blue and green taxonomies, and that is aligned with internationally recognised best practices, as provided by the ICMA and the LMA. The framework will explain the context and background of the policy intervention and the functioning of the instruments in terms of execution, expected outcomes, monitoring and reporting. Typically, this framework requires the examination and analysis of a Second Party Opinion (SPO) provider—a reputed organisation that validates compliance of the framework with international best practices.

As a final step, the government would then identify the creditor/investor, the type of climate finance instrument that is best for the BVI debt portfolio, and also identify whether the creditor/investors should be domestic or external.

The government intends to commence this work during 2024, with technical assistance provided by the IMF/CARTAC, COMSEC and other donors and partners, working with a team in the Ministry of Finance.

6.2 Strategic Benchmark and Targets

For the efficient management of the government debt, it is important to identify risks inherent in the debt portfolio and to establish corresponding quantitative targets for the risk indicators. These targets help to communicate the debt management objectives more clearly, in terms of cost and risk factors, and facilitate a more sustainable and predictable debt strategy, independent of political or other exogenous impacts inherent to the debt portfolio.

Quantitative targets also allow for clear comparisons with the actual outcomes of the underlying indicators. However, because unanticipated exogenous shocks and changes in market conditions create uncertainty and risks, which often give rise to the potential need for quick responses by the debt management team, these indicators are normally defined in ranges.

The key debt portfolio risks for the BVI are interest rate and refinancing risks and the objective of the debt management strategy is managing these risks within prudent levels. However, if foreign-currency debt is acquired, then there will be an associated risk and the benchmark would then apply. The indicative benchmark and target for key risk indicators are summarised below.

a. Interest Rate Risk Benchmark

This is the main risk in the portfolio for the VI. The MTDS will place emphasis on stabilising debt service costs by increasing the share of fixed rate debt in total debt portfolio to keep average time for refixing greater than or equal to five years.

b. Re-Financing Risk Benchmark

The MTDS would seek to ensure a stable and affordable maturity structure to reduce refinancing risk exposure by maintaining an ATM of greater than or equal to 7 years.

c. Foreign Currency Risk Benchmark

The currency and interest rate composition of debt and its maturity structure are important determinants of debt vulnerability. Therefore, external (FX) debt will be maintained at 30% (+/-5%) of total debt.

Foreign currency borrowings, if acquired, will be targeted at financing government's capital expenditures, secure improvements in the policy, legal, and institutional framework for state-owned entities, public–private partnerships, fiscal management, and the small business and investment promotion, and build resilience to climate change, including emergency and disaster response. There are no plans in place to borrow in foreign currency as part of this strategy.

7. Modelling of the Medium-Term Debt Strategy

In formulating the MTDS, the costs and risks of four alternative debt strategies were assessed, under both the baseline economic projections and potential shocks to the baseline. These plausible strategies were developed by increasing/reducing the tenor of the domestic debt and the variation of domestic financing instruments. Various debt strategies were analysed under the baseline macroeconomic and financing assumptions and with different shock scenarios, involving interest rate, exchange rates, and a combined interest rate and exchange rate shock.

An optimal strategy was then selected based on cost and risk outcomes, as well as its impact on development of the domestic bond market. Consistent with the medium-term fiscal framework of the Government, the MTDS was framed to finance the net fiscal deficit including capital expenditure over the next three fiscal years.

Baseline-Pricing Assumptions and Description of Shock Scenarios

This section is based on the Government's projections and the assumptions of the expected market interest and exchange rates during the strategy period.

a. Description of Stylized Instruments

Seven USD-denominated representative debt instruments were created for the analysis. The domestic stylized debt instruments included market-based bonds and loans. The loans comprised concessional,

semi-concessional and commercial loans grouped into fixed and floating interest rates. ***Table 3*** presents a summary of the debt instruments and underlying terms.

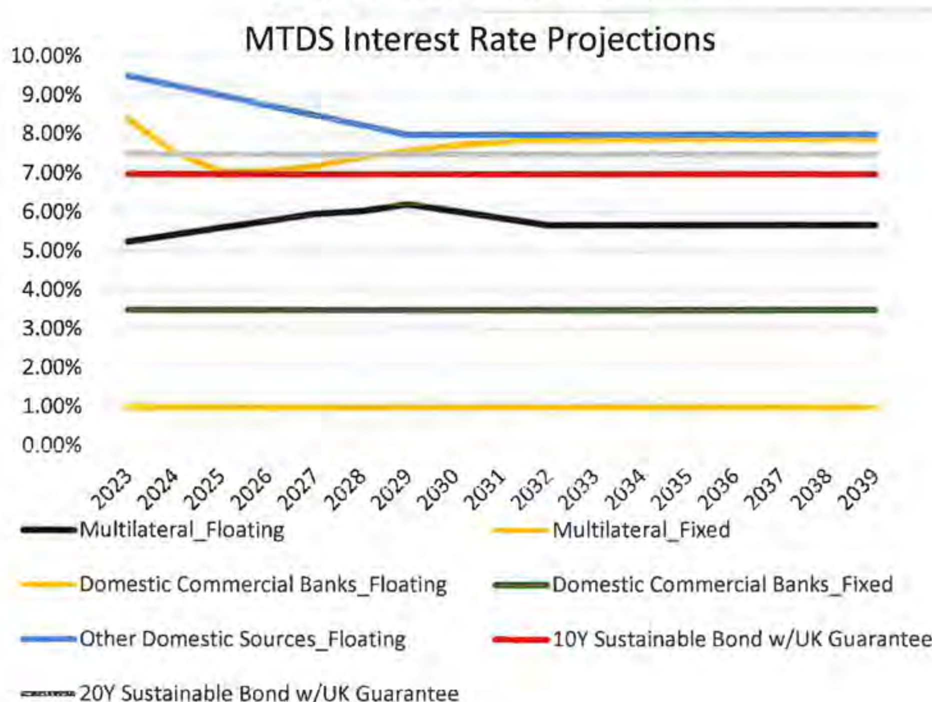
Table 3: Baseline Pricing Assumptions

Financing Source	Interest Rate Type	Maturity (Yrs.)	Grace (Yrs.)	Currency Type
DX Multilateral Loans	Floating	15	5	USD
DX Multilateral Loans	Fixed	15	5	USD
DX Domestic Commercial Loans	Fixed	12	2	USD
DX Domestic Commercial Loans	Floating	12	2	USD
DX Other Domestic Loans	Floating	12	2	USD
USD 10Y Sustainable Bond w/ UK Guarantee	Fixed	10	9	USD
USD 20Y Sustainable Bond w/ UK Guarantee	Fixed	20	19	USD

b. Interest Rate Assumptions

To ensure that the MTDS baseline projections reflected current circumstances, different methodologies and sources were utilised to appropriately model domestic and international markets rates. Overall, the baseline projected an environment of increasing interest rates in the short-term, stabilising in the medium to long-term.

Figure 10: Interest Rate Projections



c. Exchange Rate Assumptions

For the MTDS, it is assumed that all debt financing will be contracted in USD, the local currency of the VI.

d. Description of Shocks

Within the MTDS framework, different shock scenarios were applied to capture possible adverse deviations from the baseline projections emanating from any further increases in the interest rates and non-USD currency valuations that can impact the cost and risk profile of the portfolio. The extreme/moderate shocks to the baseline projects are detailed below.

- **Interest rate shock**. Given this is the main risk in the portfolio, the moderate risk scenario simulated a 200-basis point interest rate hike over the baseline projections applied to floating rate instruments each year in the projection period. The extreme risk scenario assumed a stand-alone 400-basis points rise over the baseline reference rate projections and, where applicable, variable spreads for floating rate instruments, for each year of the strategy period, allowing a parallel shift or change in the yield curve.
- **Exchange rate shocks**. Given the official currency of the VI is the USD, there were no foreign currency denominated instruments in the portfolio to necessitate modelling of a currency depreciation.

7.1 Description of Alternative Debt Management Strategies

Considering the debt management objectives, four financing strategies were formulated to inform the gross financing needs and guide medium-term borrowing over the three-year MTDS timeline as shown in **Table 4**. The first two strategies (S1 and S2) focused on possible strategies for the short to medium-term. The final two strategies (S3 and S4) were modelled after the strategy selection to explore the portfolio cost/risk impact of integrating climate finance into the chosen strategy. Hence, S3 and S4 comprise components of S1 together with terms representative of 10- and 20-year sustainable bonds. For each strategy, the cost and risk implications on the debt profile in the future are analysed to determine the most suitable debt strategy for the VI.

Each strategy considered a distinctive financing mix, comprising debt instruments issued in the local domestic market open to both residents and non-residents denominated in USD. The alternative strategies considered are summarised in ***Table 5***.

Table 5 presents new financing and the gross borrowing by financing sources from the alternative strategies considered for the period ending December 2026. Each alternative strategy presented different combinations of borrowing instruments, thereby resulting in various debt compositions at the end of the strategy period.

Table 4: Descriptions of Alternative Strategies

Strategy	Description
S1:	▪ Rolling over existing debt at similar or better terms ▪ Lengthening portfolio maturity using various domestic commercial sources ▪ Addressing interest rate risk by issuing fixed rate debt
S2:	▪ Lengthening maturity using mainly multilateral sources ▪ Roll over maturing debt at similar or better terms
S3:	▪ Financing the gap similar to S1, but instead, addressing refinancing and interest rate risk by issuing a 10-year sustainable bond ▪ Roll over maturing debt at similar or better terms
S4:	▪ Financing the gap, similar to S1, but instead, addressing refinancing and interest rate risk by issuing: o a 10-year sustainable bond o a 20-year sustainable bond ▪ Roll over maturing debt at similar or better terms

Table 5: Gross Borrowing by Instrument under Alternative Strategies
(In % of Gross Financing Needs by end-December 2026)

Gross Financing Source	Total Gross Borrowing (2024- 2026) US$M			
	S1	S2	S3	S4
Multilateral Sources	20.00	157.70	20.00	20.00
Commercial Sources	178.30	40.00	118.30	118.30
10Y Sustainable Bond	-	-	60.00	30.00
20Y Sustainable Bond	-	-	-	30.00
Gross Financing	**198.30**	**197.70**	**198.30**	**198.30**
Net Financing*	**146.20**	**145.60**	**146.20**	**146.20**

*A negative figure represents an overall debt repayment, which means that for this representative instrument, there were more repayments than disbursements.

7.2 Result Analysis: Costs and Risks of Alternative Strategies

The outcomes of cost and risk trade-offs of the various alternative strategies reflect a balance between costs and risks and are used to inform the choice of the optimal strategy. ***Table 6*** and ***Figure 11*** highlight the cost and risk characteristics of the debt portfolio under the four alternative strategies considering the underlying assumptions.

Table 6: Cost and Risk Indicators under Alternative Strategies

Cost and Risk Indicators		2023	As at 2026				Long-term Targets
		Current	S1	S2	S3	S4	
Nominal debt as % of GDP		7.7	16.4	16.3	16.4	16.4	<20%
Present value debt as % of GDP		7.0	15.7	14.1	15.7	15.7	
Interest payment as % of GDP		0.4	0.7	0.7	0.7	0.7	
Weighted Average interest rate (%)		5.3	5.9	5.2	5.9	5.9	<4.5%
Refinancing risk	Debt maturing in 1 yr. (% of total)	13.2	5.5	3.8	5.5	5.5	
	Debt maturing in 1 yr. (% of GDP)	1.0	0.9	0.6	0.9	0.9	
	ATM Domestic Portfolio (yrs.)	4.5	5.7	7.3	5.3	5.3	
	ATM Total Portfolio (yrs.)	4.5	5.7	7.3	5.3	5.3	>5.5 yrs.
Interest rate risk	ATR (yrs.)	0.6	2.1	2.0	2.2	2.2	
	Debt refixing in 1 yr. (% of total)	92.8	72.5	78.9	53.7	53.7	
	Fixed rate debt (% of total)	9.9	28.6	21.3	47.5	47.5	>40%
	T-bills (% of total)	-	-	-	-	-	
FX risk	FX debt as % of total	-	-	-	-	-	

Note: Fixed rate debt includes T-bills, but VI does not currently engage in market instruments.

a. Growth of Public Debt

Nominal Debt to GDP: In the case of nominal Debt to GDP ratio, all four alternative strategies result in a higher ratio compared to the baseline on account of increased financing needs required for capital expenditure. Notwithstanding the increase, all strategies maintain the ratio at a sustainable level and are within the target for this ratio. All strategies performed similarly when nominal debt to GDP is considered. However, S2 outperformed the other strategies when the present value of debt as a percentage of GDP was considered given the higher proportional financing from multilateral concessional sources.

b. Cost of Debt

Implied Interest Rate: All strategies presented similar interest payments as a percentage of GDP. Although, S2 presented a marginally lower implied interest rate than other strategies, S2 presented higher proportional interest rate risk (see point c below).

c. Evaluation of Risks Profile

Interest Rate Risk: Interest rate risk was the most significant risk identified in the portfolio. As such, managing interest rate risk was a key consideration during the strategy selection process. Overall, S1 outperformed the other alternative strategies for managing interest rate risk when the interest rate risk indicators were considered.

Refinancing Risk: All strategies performed well at reducing refinancing risk. Overall, S2 produced the best results at extending the maturity of the portfolio.

Foreign Exchange Risk: All strategies performed similar given the portfolio comprises no non-USD-denominated debt.

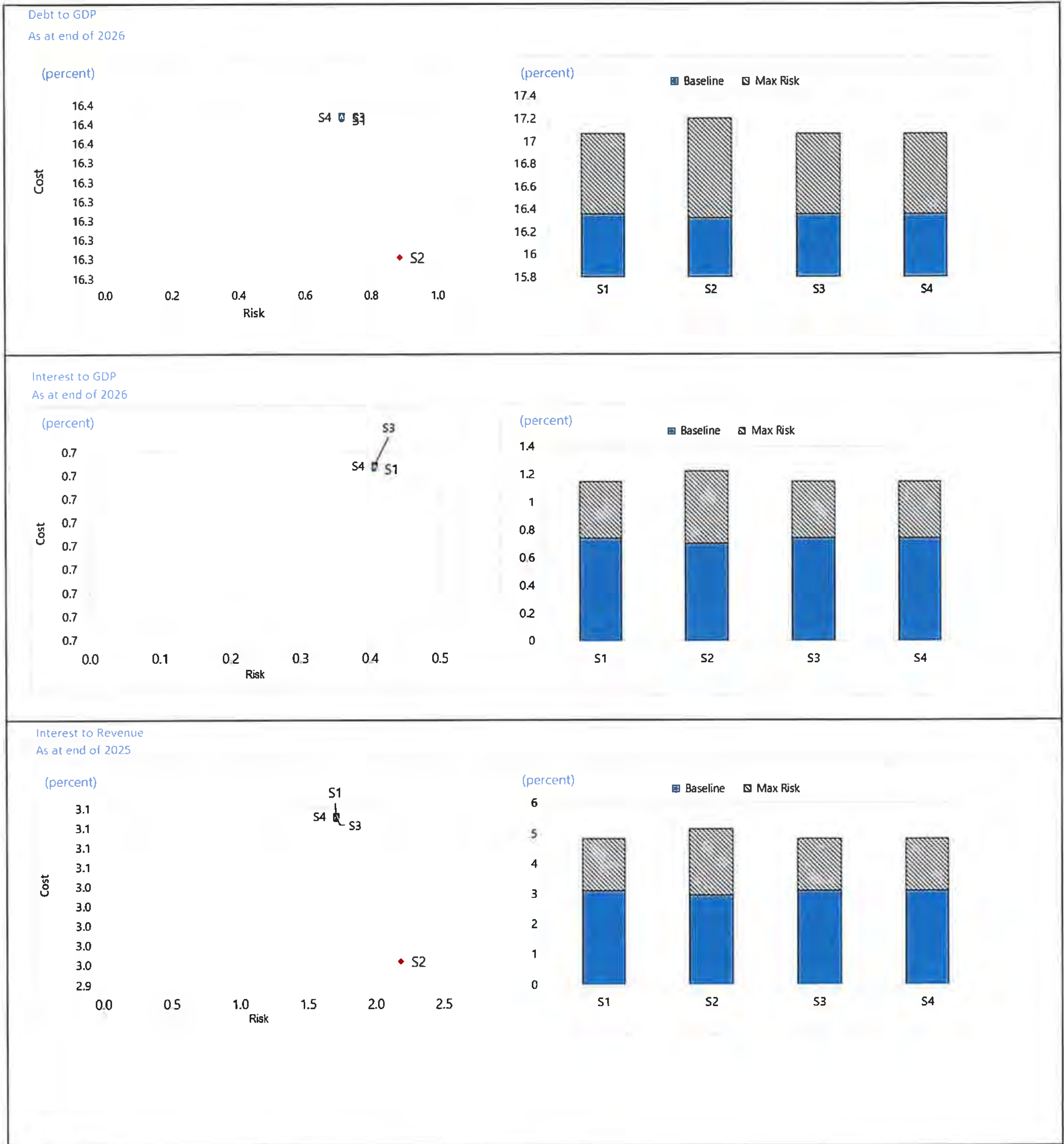
Overall, the cost and risk indicators analysed under each strategy improved over the medium-term, signaling progress towards achieving the long-term debt targets and benchmarks.

As shown in ***Table 6***, under current market conditions, S1 is more feasible, produced better overall performance under stressed conditions and therefore, has greater benefits to the debt management objectives in the VI. S1 performed best at managing the main portfolio risk, interest rate risk. Additionally, S1 performed well at managing refinancing risk and aligned well with the gradual approach towards achieving the long-term debt internal targets. When taken overall, S1 achieves the Government's broad debt management objectives at the lowest possible cost and a prudent degree of risk, despite the uncertain global financial conditions previously outlined. Further, S1 presents the lowest risk for approximately the same level of costs of the other alternative strategies while providing opportunities for the domestic market to invest in Government debt and by extension national development.

7.3 Analysis of Cost-Risk Trade-Off of the Strategies

Several shocks were applied to the projected macroeconomic and market conditions, to ensure the Government of the Virgin Islands implements the most robust and resilient debt management strategy among its various financing options. The capacity of the strategies considered in the analysis to withstand economic shocks are evaluated in ***Figure 11*** which depicts the effects of baseline pricing and shock scenario analysis considered. Specifically, the effects of these shocks on Debt/GDP and potential increased costs measured by interest payments/revenues and interest payments/GDP were considered. Risk measures estimate the potential unexpected increase in debt service payments produced by an unanticipated shift in market variables, including changes in interest rates. In a deterministic setting, risk is measured as the difference between the cost over the period under a shock scenario and the baseline cost. Overall, S1 performed better against alternative strategies under the various shock scenarios further supporting the point that S1 presents the lowest risks among the strategies and remains the most robust even in stressed conditions. As such, the cost risk combinations for S1 align well with achieving the debt management objectives of balancing both low cost and a prudent degree of risk, despite the uncertain global financial conditions as outlined previously.

Figure 11: Cost-Risk Representation of Alternative Borrowing Strategies[3]



[3] The charts on the left present the cost risk combination of the various strategies. The vertical axes represent the baseline cost and risk combination for each ratio, while the horizontal axes represent the additional risk presented by the most pronounced shock in each case. The bar charts on the right presents this information in column form. The blue section of the bar represents the baseline while the grey striped portion represents the potential additional downside risk to the various ratios realised for each strategy when the shocks are applied.

8. Optimal Debt Management Strategy

As discussed in the previous section, the Government should pursue Strategy 1 (see details in ***Table 7***) given its feasibility, resilience and ability to satisfy the debt management objectives, while remaining within the internal long-term risk benchmarks.

The benefits and risks associated with the recommended strategy are as follows:

a. It manages both refinancing risk and interest rate risk.

b. It extends the portfolio's maturity while providing appropriate financing for budgeted projects and programmes at a low cost.

c. It balances concessional sources while capitalising on financing at fixed interest rates.

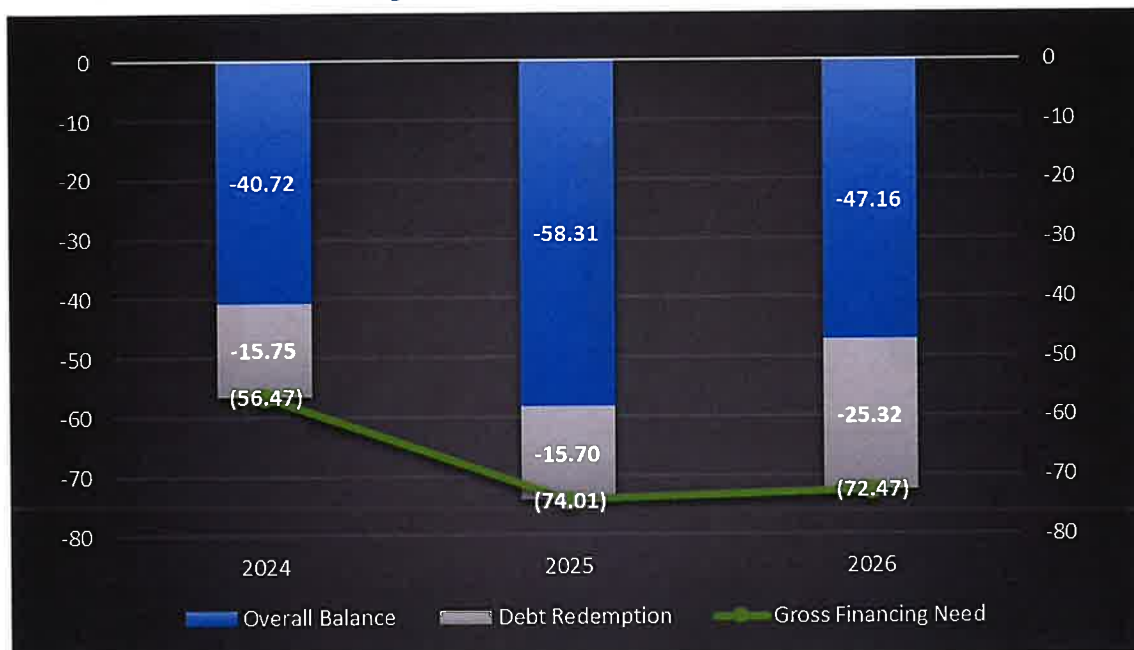
d. It capitalises on the dollarised environment to maintain foreign currency risk at a minimum given no non-USD debt in the portfolio.

e. It supports domestic market development and lengthening the maturity of domestic debt and encourages private sector participation in national development.

Table 7: Selected Strategy Details (US$M)

Indicators	Financial Year ended			3-year
	2024	**2025**	**2026**	**Total**
Budgeted Revenue	387.97	384.46	386.63	1,159.06
Budgeted Primary Expenditure	454.85	434.36	421.76	1,310.97
Budgeted Primary (Deficit)/Surplus	**- 66.88**	**- 49.90**	**- 35.13**	**-151.91**
Add: Use of existing funds/deposits	32.40	-	-	
Revised Primary (Deficit)/Surplus	**- 34.48**	**- 49.90**	**- 35.13**	**-119.51**
Less:				
Interest on Existing Debt	6.24	5.49	4.78	16.51
Amortization on Existing Debt	15.75	15.70	20.67	52.12
Interest on New Debt	-	2.93	7.24	10.17
Amortization on New Debt	-	-	4.65	4.65
Gross Financing Needs	**- 56.47**	**- 74.01**	**- 72.47**	**-202.95**
Financed by:				
Multilateral Sources	10.00	10.04	-	20.04
Commercial Sources	46.47	63.97	72.47	182.91
Total	**56.47**	**74.01**	**72.47**	**202.95**

Figure 12: Gross Financing Needs



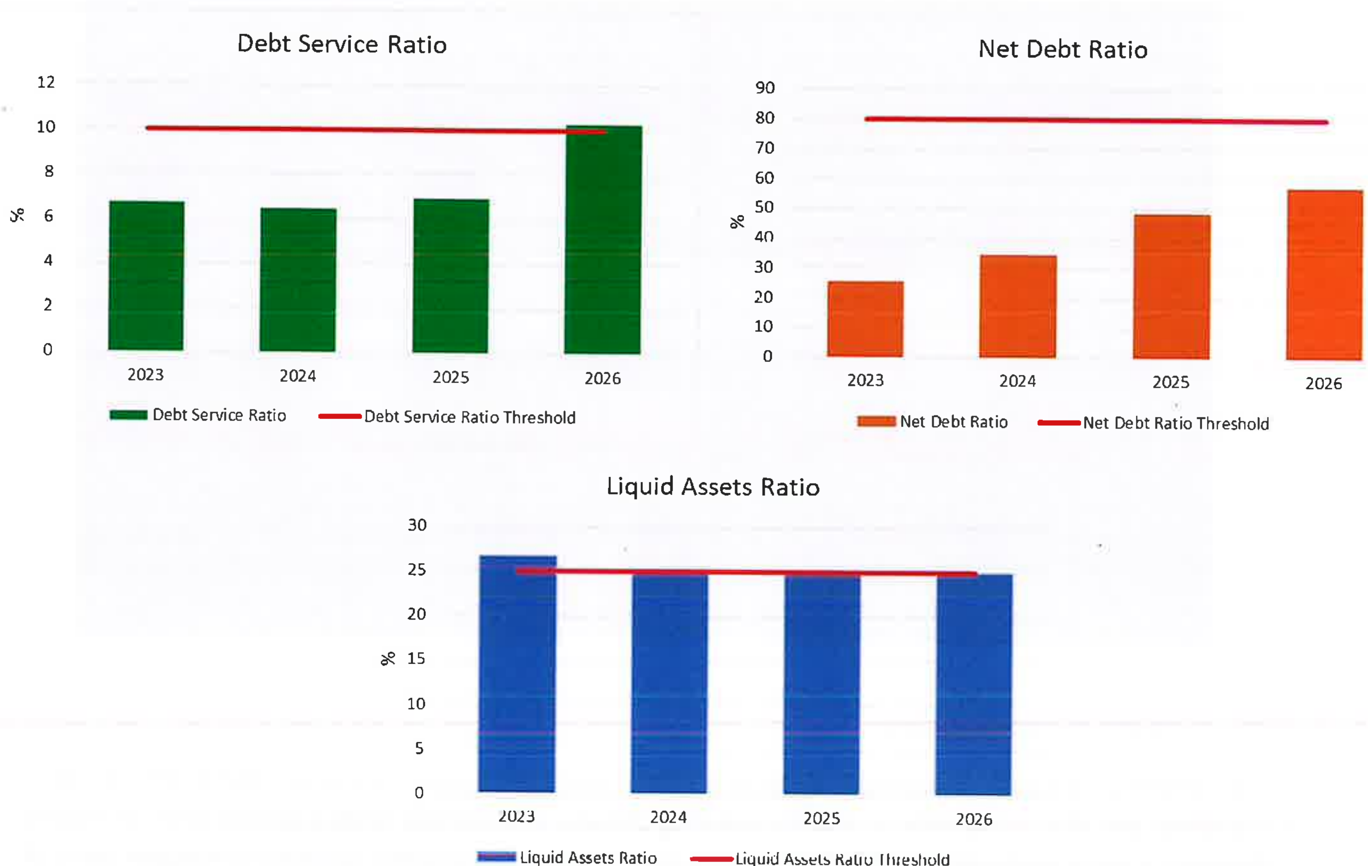
9. Debt Sustainability

The Territory continues to maintain debt at prudent levels. However, as a small island with an open economy, the VI is vulnerable to shocks including climate and climate related events such as natural disasters, a more prolonged pandemic and sharp rises in global risk premia. S1 seeks to mitigate some of this risk by increasing borrowing from domestic sources in USD.

However, like most economies, the impact of the global COVID-19 crisis, current global financial conditions and geopolitical circumstances combined with local natural disasters, have increased risks to debt sustainability. The impact of the higher interest costs of the portfolio was seen in 2022 and 2023 and has resulted in an elevated level of interest rate risk for the BVI. Therefore, the S1 strategy would be the optimal of the four strategies to mitigate this heightened risk.

While the interest rate risk has been and continues to be monitored, the ratios under the PEFM are also required to be monitored to ensure compliance. Compliance currently equates to the VI having a liquid assets ratio above 25% of recurrent expenditure, a debt service ratio below 10% of recurrent revenue and a net debt ratio below 80% of recurrent revenue. With disbursements on new borrowing over the period 2024-2026, the debt service and net debt ratios are still within their threshold levels. In 2026, the debt service ratio will be at its threshold as principal repayments on new borrowing commence from this year. Based on ***Figure 13***, there are no breaches in any of the ratios. However, for compliance with the liquid assets ratio, 25% of the projected recurrent expenditure for each year must be maintained.

Figure 13: Compliance with Protocols for Effective Financial Management Ratios[4]



Despite the pandemic and current market conditions, the VI has continued to receive support from key technical assistance providers to implement several key public financial and public debt reforms to support debt sustainability including this inaugural MTDS and ABP.

The Government's medium-term fiscal framework outlines a path for a gradual, sustained and orderly achievement of a fiscal surplus with the implementation of a medium-term fiscal strategy, by 2026. Accordingly, in addition to the underlying projected primary surpluses, the financing combination of the selected medium-term debt strategy (S1) is expected to achieve gradual convergence to the long-term debt target.

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[4] Liquid Assets Ratio is liquid assets to recurrent expenditure; Debt service ratio is debt service to recurrent revenue; and net debt ratio is net debt to recurrent revenue. Liquid Assets Ratio refer to all unallocated cash and cash equivalent balances of the Government. Debt Service refers to central government debt service, risk weighted guaranteed debt service and commitment fees, penalties and late charges less any debt refinanced. Net debt is central government debt, risk weighted guaranteed debt and capitalised value of PPPs less liquid assets.

10. MTDS Implementation, Monitoring, Review and Reporting

10.1 Annual Borrowing Plan

The recommended debt management strategy will be implemented through the Annual Borrowing Plan (ABP) in **Appendix 2**, which delivers the Government's gross funding needs over the medium-term. The ABP will outline the timing, currency and potential terms of the expected securities to be issued and the anticipated loan disbursements per creditor.

The mix of instruments defined in the ABP will be aligned to the MTDS objectives, and include loans of medium to long-term tenor, contracted in USD, with a preference for fixed interest rates to simultaneously reduce refinancing and interest rate risks in the debt portfolio. The Government will consider liability management operations where opportunities arise, to achieve the preferred debt portfolio structure.

10.2 Review and Monitoring

The ABP will be reviewed on an ongoing basis to promote transparency, will benefit from engagement with market participants and other relevant stakeholders. Underlying macro-fiscal assumptions, key risk parameters and targets will be evaluated against the outcomes, with adjustments undertaken if prevailing macroeconomic and market conditions change beyond expectations.

10.3 Reporting

Progress on the implementation of the MTDS will be monitored and reported through regular debt management reports which include the quarterly Public Debt Bulletins. This will include deviations due to unexpected changes in the macroeconomic and market conditions. To improve communications with market players and ensure ease of access to vital information, timely and accurate data relative to Government's debt operations will continue to be made available on Government's websites. These activities will be supported by active engagement with investors and market participants.

APPENDIX 1: SCENARIO ANALYSIS INCORPORATING GUARANTEED DEBT

Over the years, Government has issued sovereign guarantees to several state-owned entities to carry out projects which contribute positively to the development priorities of Government, at reasonable costs and risks. These guarantees represent explicit contingent liabilities which, if called, would increase the debt service cost of the central government. The Government, therefore, continues to monitor the financial stability and debt repayment capacity of these entities, which allows the Government to provide any assistance in a timely manner.

At the end of December 2023, the stock of guarantees to state-owned entities was estimated at $54.13 million[5]—all of which was USD-denominated and commanded 31.3% share of total Government and Government guaranteed debt. The $54.13 million exposure included $36.00 million from the commercial banking sector and the remaining $18.13 million due to the Social Security Board. Government continued monitoring of the cost and risk profile of the Government and Government guaranteed debt portfolio (see ***Table 8***) driven by domestic considerations.

Simulation Design of Government and Government Guaranteed Debt

Guaranteed debt represents an additional 31.3% in potential exposure to the Government. Therefore, its impact on the central Government's cost and risk indicators, as simulated in ***Table 8***, prompted this analysis. The simulation exercise utilised the borrowing patterns for the selected strategy, S1, and to meet the additional financing needs, a new stylised instrument was created using similar assumptions as S1.

Simulation Results

As presented in ***Table 8***, the simulation exercise produced moderate increases in cost and risk after incorporating Government guaranteed debt. The risk indicators for both the interest rate risk and refinancing risk remained within the indicative long-term targets. The nominal debt to GDP performed as expected with a marginal 0.4% above the long-term benchmark, while the WAIR exceeded the target by just about 1.2 percentage points. Overall, the results of this analysis indicated that S1 represents a robust strategy that can withstand a contingent liability realisation of almost 100%.

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[5] Balances are reflecting balances when the report was generated from MERIDIAN, not as at year-end.

Table 8: Comparing Risk Indicators including Guaranteed Debt

Cost and Risk Indicators		2023	As at 2026		Long-term Targets
		Current Central Gov't Debt	S1 Central Gov't Debt	S1 incl. Gov't Guaranteed Debt	
Nominal debt as % of GDP		11.2	16.4	20.4	<20%
Present value debt as % of GDP		10.5	15.7	19.7	
Interest payment as % of GDP		0.5	0.7	1.0	
Weighted Average interest rate (%)		4.8	5.9	5.7	<4.5%
Refinancing risk	Debt maturing in 1 yr. (% of total)	14.1	5.5	10.9	
	Debt maturing in 1 yr. (% of GDP)	1.6	0.9	2.2	
	ATM Domestic Portfolio (yrs.)	4.0	5.7	5.4	
	ATM Total Portfolio (yrs.)	4.0	5.7	5.4	>5.5 yrs.
Interest rate risk	ATR (yrs.)	1.3	2.1	2.6	
	Debt refixing in 1 yr. (% of total)	69.4	72.5	64.7	
	Fixed rate debt (% of total)	36.7	28.6	37.3	>40%
	T-bills (% of total)	-	-	-	
FX risk	FX debt as % of total	-	-	-	

APPENDIX 2: ANNUAL BORROWING PLAN

The Ministry of Finance and the Government are empowered to borrow money under the broad legislative framework of the Constitution of the Virgin Islands 2007, along with the PFM Acts, No. 2 of 2004 - Public Finance Management Act, 2004 and No. 9 of 2012 - Public Finance Management (Amendment) Act, 2012, as well as the regulations, S.I. No. 28 of 2007 - Public Finance Management (Amendment) Regulations, 2007. The Protocols for Effective Financial Management (PEFM), 2012 which is an agreement between the Government and the United Kingdom Government on fiscal sustainability and accountability further supports the PFM Act.

A Medium Term Debt Strategy (MTDS) is one mechanism that can be used to determine the parameters being measured under Section 20 of the Protocols for Effective Financial Management (PEFM), 2012. The Annual Borrowing Plan (ABP) is critical for the implementation of the strategy in 2024, and serves as a key pillar in the reinforcement of Government's commitment to fiscal accountability and transparency in debt management arrangements.

The ABP sets out:

- The projected borrowing needs of the Government for the current fiscal year, as provided in the annual budget approved by the House of Assembly;
- The various categories of debt instruments to be issued by the Government during the fiscal year, and their estimated nominal amounts under each category of debt instruments.

The 2024 ABP is closely aligned with the approved 2024 Budget, the approved 2024-2026 Medium Term Fiscal Plan (MTFP) and the 2024-2026 MTDS, of which it is an Appendix.

Overall Borrowing Requirements for 2024

The ABP for 2024 executes on the first year of Government's three-year MTDS which is aimed at fiscal sustainability, accountability and transparency. It is structured on the foundation of providing the government's borrowing needs at the lowest possible cost, while maintaining a prudent level of risk and providing opportunities for the domestic market to invest in national development.

Based on the projected outcomes for intake and spending, Government's gross financing needs for 2024 are expected to reach $88.87 million or 6.0% of GDP.

In keeping with Government's debt management objectives, this borrowing strategy seeks to manage refinancing and interest rate risks, extends the maturity of the portfolio, and supports the development of the domestic market. This strategy also allows Government to remain within long-term risk benchmarks and in compliance with the ratios under the Protocols for Effective Financial Management (PEFM). For maintenance of compliance with the liquid assets ratio, a minimum 25% of recurrent expenditure (including interest) in 2024 is assumed which amounts to $96.10 million.

Table 9: Borrowing Requirements, 2024

Description	US$M	% of GDP
Revenue	387.97	26.2%
Recurrent Expenditure w/o interest	-377.89	-25.5%
Capital Expenditure	-76.96	-5.2%
Net Financing Needs	**-66.88**	**-4.5%**
Debt Repayment	**-21.99**	**-1.5%**
Domestic	-8.15	-0.5%
External	-13.84	-0.9%
Gross Financing Needs	**-88.87**	**-6.0%**

The ABP is subject to revision when there are changes in the credit market conditions and the evolution of the fiscal situation and needs. Government will consider liability management operations where opportunities arise, to achieve the preferred debt portfolio structure.

Planned Funding Sources for 2024

The ABP for 2024 is being formulated within the context of a challenging external environment for emerging markets and development economies, where high interest rates and inflationary pressures drive borrowing costs upwards. Notwithstanding, domestic financing conditions remain strong with high levels of liquidity in the banking sector, as contemplated in the design of the 2024 to 2026 MTDS. This presents opportunities to utilise local currency (USD) sources to meet all Government's financing needs. ***Table 10*** presents Government's ABP for 2024.

Table 10: 2024 Annual Borrowing Plan

Description	US$M	% of TOTAL
Gross Financing Needs	**88.87**	**100.0%**
Use of Existing Funds	**32.4**	**36.5%**
Domestic Debt	**46.47**	**52.3%**
Commercial Bank Loans	46.47	52.3%
External Debt	**10.00**	**11.3%**
CDB Loan	10.00	11.3%

In implementing the MTDS through the ABP, macro and market conditions will be continuously monitored. Changes in macro and market conditions may result in adjustments as appropriate, to achieve Government's management objectives including raising financing at the lowest cost within acceptable levels of risk. The timing of the borrowing will be aligned with Government's cashflow requirements.

The ABP represents an incremental approach towards implementing the MTDS and attaining the long-term internal targets of Government. The projected cost risk indicators as at end 2024 (current) show

progress towards reducing interest rate risk and refinancing risk by lengthening the ATR and ATM respectively. Currency risk also remains minimised (**Table 11**).

Table 11: Projected Cost Risk Indicators following implementation of ABP

Cost and Risk Indicators		2023	2024	Long-term Targets
		Current	Projected	
Nominal Debt as % of GDP		7.7	10.8	<20%
Present Value Debt as % of GDP		7.0	10.3	
Interest Payment as % of GDP		0.4	0.4	
Weighted Average Interest Rate (%)		5.3	6.8	<4.5%
Refinancing risk	Debt maturing in 1 yr. (% of total)	13.2	9.8	
	Debt maturing in 1 yr. (% of GDP)	1.0	1.1	
	ATM Domestic Portfolio (yrs.)	4.5	7.5	
	ATM Total Portfolio (yrs.)	4.5	7.5	>5.5 yrs.
Interest rate risk	ATR (yrs.)	0.6	2.6	
	Debt refixing in 1 yr. (% of total)	92.8	79.1	
	Fixed rate debt (% of total)	9.9	22.8	>40%
	T-bills (% of total)	-	-	
FX risk	FX debt as % of total	-	-	

Reporting Monitoring and Evaluation

The ABP will be reviewed on an ongoing basis to promote transparency, and will benefit from engagement with market participants and other relevant stakeholders. Underlying macro-fiscal assumptions, key risk parameters and targets will be evaluated against the outcomes, with adjustments undertaken if prevailing macroeconomic and market conditions change beyond expectations.

Progress on the implementation of the ABP will be monitored and reported through regular debt management reports which include the quarterly Public Debt Bulletins. This will include deviations due to unexpected changes in the macroeconomic and market conditions and include implications for the future. The performance of the ABP is reviewed against the original plan, and a revised version of the ABP explaining deviations from the original plan may be made publicly available if appropriate (e.g., if borrowing requirements and targets change significantly according to the updated fiscal information and market conditions).

Investor Relations

The Government of the Virgin Islands remains committed to debt transparency through timely and accurate disclosure of public debt data and information on borrowing activities. Government will continue to engage investors and market participants through various mediums on matters focused on market developments, financing plans and macro-economic performance. This inaugural MTDS and ABP represent Government's commitment to proving opportunities for the domestic sector to participate in national development. Progress towards the implementation of the MTDS through the ABP will also be reported. Continued feedback will be sought from market participants to improve efficiency and to inform the update of the medium-term debt strategy.

2024 – 2026

MEDIUM TERM DEBT SRATEGY

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Rita Frett-Georges Building
Road Town
Tortola
British Virgin Islands, VG1110

Website: www.bvi.gov.vg **Email:** mof@gov.vg **Telephone: 1-284-468-2144**