Medium-term Economic and Fiscal Plan 2018-2020

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MTEFP Overview

The Medium-term Economic and Fiscal Plan is a requirement of the Framework for Fiscal Sustainability and Development (FFSD). The FFSD is a an agreement between the Government of Anguilla (GOA) and the United Kingdom Government (UKG), that provides guidance on how the fiscal operations of the Government of Anguilla should be conducted to deliver its commitment of "a prosperous and stable future for the people of Anguilla firmly based on the implementation of sound economic and financial principles which support economic development." The agreement was signed in April 2013 and was legislated in October 2013 via the Fiscal Responsibility Act 2013.

Government's strategic objectives cover economic and fiscal priorities. The ultimate aim of the Government of Anguilla is to achieve sustainable, diversified economic growth through the enhancement of the tourism product, the diversification of traditional growth sectors and emerging sectors that have the potential for growth. Diversification will be centred on the development of the fisheries industry, the exploration of Special Economic Zones and Permanent Residency.

Over the medium-term, much of the capital development needs are financed through the £60 million UKG Capital Grant. The grant will restore a significant portion of the public infrastructure destroyed or damaged by Hurricane Irma.

Sound public financial management and debt sustainability are key priorities of the medium-term. Essential to this process is meaningful tax reform that includes preparation for implementation of Goods and Services Tax (GST), continued utilisation of expenditure controls and the exploration of other cost saving initiatives and maintaining a debt profile that is affordable, while providing the development that is required to advance Anguilla.

Increased engagement and harmonisation of support from Development partners has been key for the Plan's development and ultimately its sustainability. Flexibility of approaches and alignment with the realities and potential of the local context are also imperative for its success.

1. Economic Review

1.1 Recent Economic Performance 2017

2017 was a year of challenge and massive setbacks for the economy of Anguilla after having experienced a record-setting category 5 hurricane at the start of September, with such a devastating impact that the economy's sectors—major and minor—remained virtually crippled even beyond the year's end. Projections suggest that the economy declined by 3.5% in real terms, due mainly to declines in the most productive sectors, such as Hotels & Restaurants, Transportation and Real Estate, although in the midst of decline and disarray the Construction sector experienced a much-welcomed expansion. In nominal terms, the GDP of Anguilla was projected to be EC$909.76 million, representing a small decline in nominal activity by 0.7%. Although small, this would be the first time in 5 years that the island's nominal GDP has declined, thus making this seemingly miniscule fall significant to the state of the economy.

Figure 1: Gross Domestic Product 2008-2017

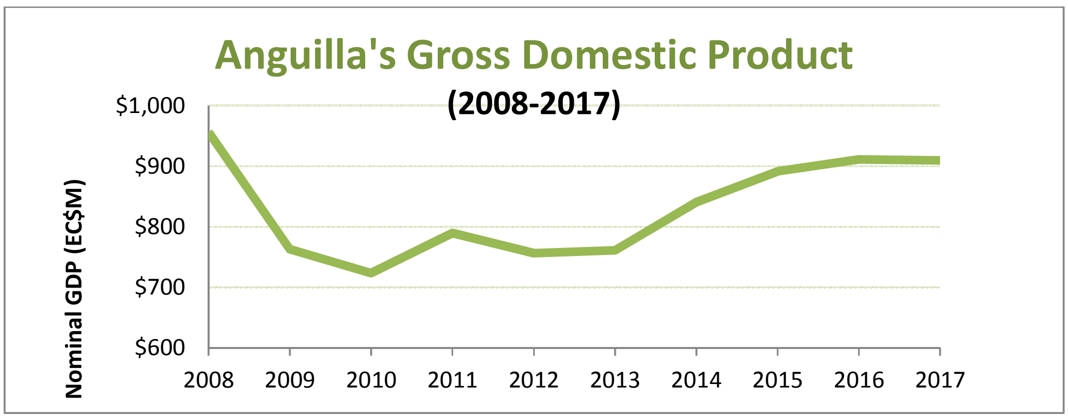
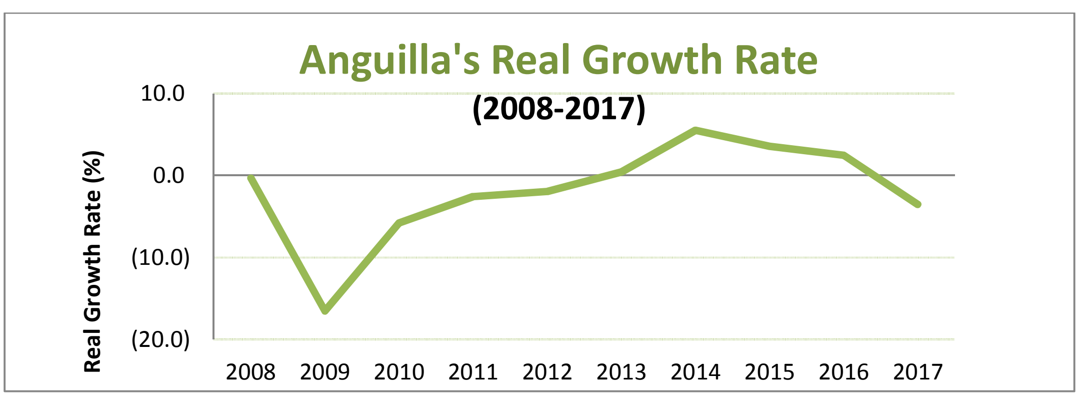


Figure 2: Real GDP Growth 2008-2017



Sector Performance

The top performing sectors in 2017, in descending order of their value-add to total Gross Value Added (which measures their absolute size of the sector without inflationary pressure) was:

1. **Hotels & Restaurants** – The tourism sector in Anguilla started the 2017 with a promising uptick, with increases in visitor arrivals (compared to arrivals in 2016) in every month preceding the catastrophic hurricane Irma in September. Visitor arrivals from January to August was 8.6% higher than in 2016, while the tourist (stay-over) sub-category of visitors increased by 7.1% over the same period, compared to tourist arrivals in 2016. However, the crippling impact of the hurricane, which destroyed hotel plant, infrastructure, ports, communications and the state of Anguilla's tourist product in total, resulted in a massive curtailing of arrivals by a whopping 88.1% alone in 2017 with significant declines estimated to continue for the remainder of the year as the major hotels remained closed for the remainder of the 2017 year. However, despite the favourable first eight months of the 2017, the profundity of the perilous final four months of the year—three of which are the start of the tourism 'high' season—left the sector in a serious decline by 10.4%. The total Gross Domestic Product for Anguilla's largest sector (21.4% of GDP) was projected to top out at EC$152.06 million at the end of 2017.

2. **Real Estate, Renting & Business Activities** – Anguilla's real estate sector –poised to continue its year on year expansion in 2017—experienced significant pressure in the latter part of 2017, due to the impact of Hurricane Irma. Ultimately the destruction to building stock and disruptions in real estate transactions is projected to have led to a real decline in the sector's output by an unexpectedly modest 0.82%. This sector benefitted from a small pick-up in large 'business services' sub-category which helped to offset the declines in real estate and renting activities. The value of this sector's contribution to overall GDP is projected to be EC$107.25 million in 2017, which in nominal terms is 1.7% higher than in 2016, suggesting that despite a real decline in the sector's output, there were inflationary pressures experienced in this sector. It is interesting to note that despite the losses and disruptions during the year, this is the largest/most productive that this sector has been in Anguilla's recorded history, due mainly to the constant year on year expansions in the large 'Owner Occupied Dwellings' and 'Real Estate Activities' sub-sectors over the decades.

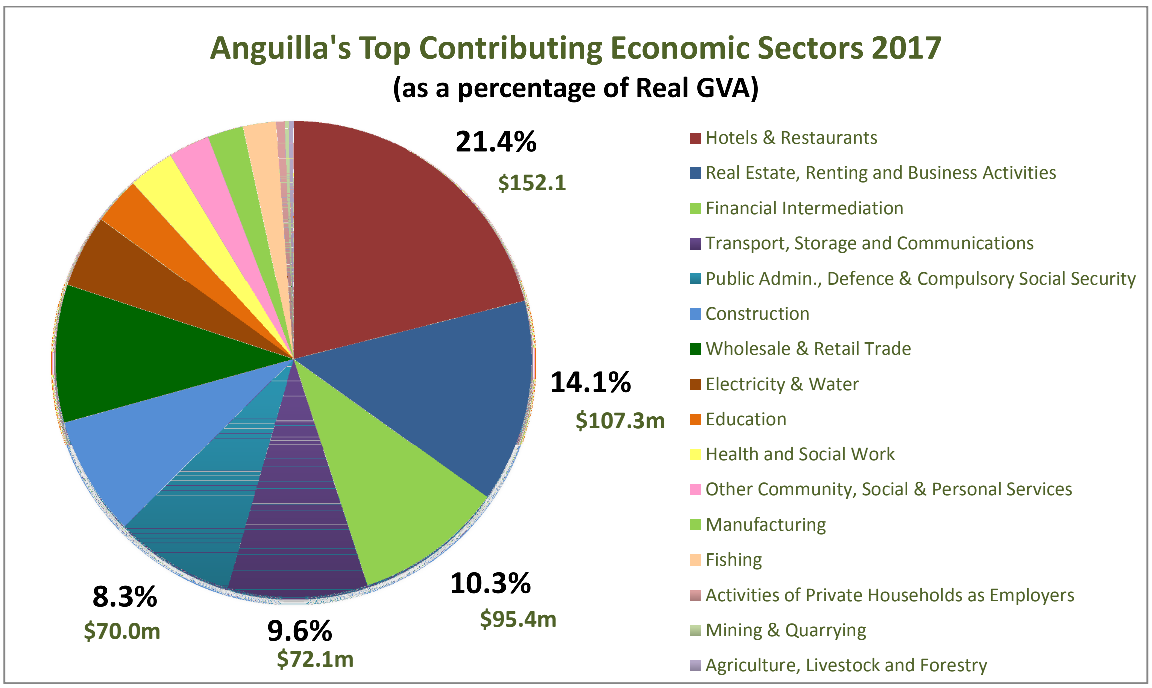
3. **Financial Intermediation** – This sector, comprised of banking, insurance and related auxiliary finance services is projected to have declined by a small -0.27% in real terms in 2017, compared to it level of output in the previous year. The downward pressure on output was the result of a decline in output by banks and other financial institutions over the year. In terms of the nominal output of the Financial Intermediation sector, it is projected to have contributed EC$95.44 million to the economy in 2017. This sector, whose output represents 10.3% of the total economy, expanded in nominal terms by 2% due to increase in prices in this sector, although in real terms, its output declined.

4. **Public Administration, Defence & Compulsory Social Security** – Total output of Government services increased in 2017 in both nominal and real terms, although by small amounts.

Despite the continuation of policies to restrict hiring and continue wage and increment freezes in the public sector, there was real growth of 0.5% in this sector. The real expansion was likely due to increases in overtime work by officers providing essential services (such as police and sanitation officers) after the passage of the Hurricane. The value of this sector in nominal terms is projected to be EC$69.97 million.

5. **Construction** – The critical construction sector was one of the few sectors positively affected by Hurricane Irma in 2017. In real terms, this sector expanded by an outstanding 8.9% over its value in 2016. Following a year of previous decline to the tune of 12.6% in 2016, there was quite a turn-around in 2016, due mainly to the repair and reconstruction work that commenced promptly after the passage of the storm and dominated economic activity for the remainder of the 2017 year. The nominal output of the Construction sector was projected at EC$68.42 million, a 13.3% increase over its nominal output in 2016, suggesting there was a significant increase in both output and price (to a lesser degree) of goods and services in this sector.

Figure 3: Top Contributing Economic Sectors



Inflation

The annual change in prices for 4th quarter 2017 compared to 2016, shows that in general (All Items Index) prices increased by 1.3%. Within the 12 price categories, there were 8 categories registering price increases, 4 registered price decreases and one category remained unchanged. The largest increases (5.8%) in the Transport category and (4.5%) in the Restaurant and Hotel category exerted the greatest upward pressure on price levels, while the moderate decrease (3.3%) in prices in the Clothing and Footwear category posed the strongest downward pressure on price levels in the economy.

Table 1: Consumer Price Index

Anguilla Annual Consumer Price Index by Category 2017			
Categories	Dec-16	Dec-17	% Change
Food & Non-Alcoholic Beverages	112.49	113.93	1.3%
Alcoholic Beverages, Tobacco	120.89	123.82	2.4%
Clothing & Footwear	106.65	103.15	-3.3%
Housing, Water, Electricity, Gas & Other Fuels	95.63	95.05	-0.6%
Furnishing, Household Equip. & Routine Household Maintenance	113.76	116.63	-0.1%
Health	115.90	115.23	-0.06%
Transport	110.67	117.15	-5.8%
Communication	115.82	117.40	1.4%
Recreation & Culture	91.44	94.26	3.1%
Education	121.84	121.84	0.0%
Restaurants & Hotels	104.96	109.69	4.5%
Miscellaneous Goods & Services	103.52	103.67	0.1%
All Items	**106.95**	**108.39**	**1.3%**

1.2 Outlook 2018

The economy of Anguilla is poised for a year of real growth in 2018, projected at 7.1%. Following a year of hurricane-induced decline, it is anticipated that the economy will rebound substantially in 2018, with an expected Nominal Gross Domestic Product of EC$979.42 million. This would represent the highest level of economic activity in the Anguilla economy in the island's recorded history, finally surpassing the previous high of EC$959.26 million recorded 11 years prior, on the brink of the global recession that threw the economy in a harsh downward spiral for many years following. It is being estimated that the largest growth thrust will come by way of the high level of reconstruction work on Anguilla throughout the entire 2018 year as the majority of the works on restoring destroyed buildings, hotels, schools, ports and other infrastructure projects will be commenced. Therefore, the Construction, Mining & Quarrying and Manufacturing sectors will experience a boom, with real growth of around 35%, while related sectors such as Transport, Storage & Communications, as well as Wholesale & Retail Trade will also see significant expansion as industries that complement reconstruction works.

Figure 4: Gross Domestic Product 2008-2018

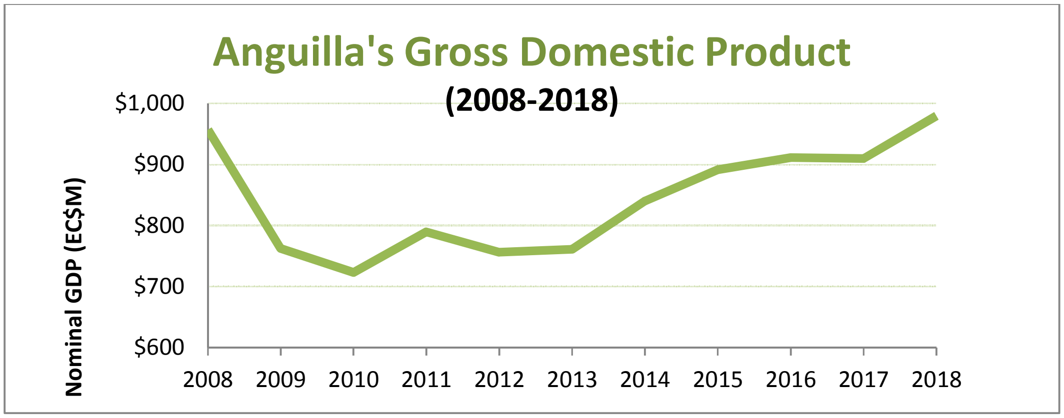
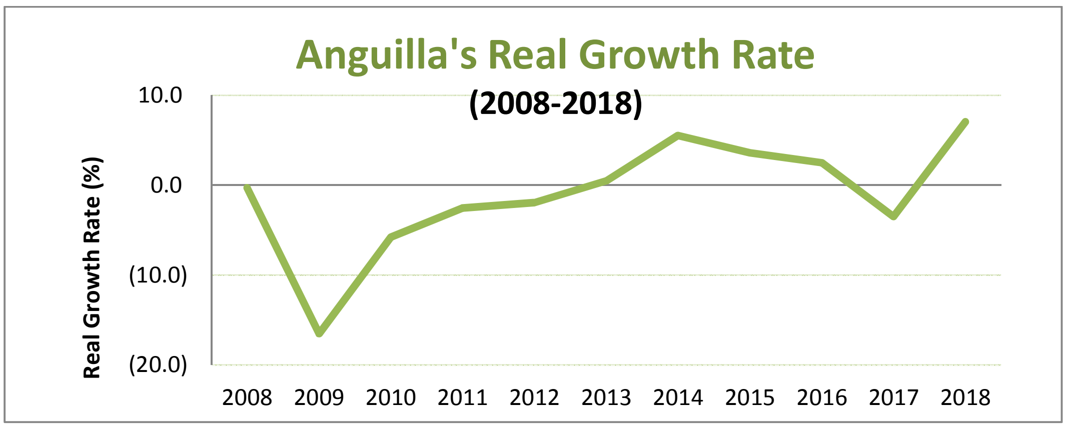


Figure 5: Real GDP Growth 2008-2018



Sector Performance

The top performing sectors in 2017, in descending order of their value-add to total Gross Value Added (which measures their absolute size of the sector without inflationary pressure) were:

1. **Hotels & Restaurants** – This sector which proxies our tourism sector represents the largest sector of Anguilla's economy (18.7% of real economic activity). Tourism, although battered severely by Hurricane Irma in the previous year, is still expected to retain its prowess as the most productive sector in terms of its contribution to the total output of the economy in nominal and real terms. Its nominal contribution is projected to reach EC$147.41 million, although this represents a decline in value relative to its level in the three previous years. The real decline is anticipated at -6.7% due mainly to the loss of a significant portion of the tourism 'high season' for

the first at least 3 months of 2018, as most major hotels remain closed to visitors for reconstructive works. However, on a more positive note, optimism among this sector supposes that many hotels & restaurants will re-open by the mid of 2018 --- the latter part of the 2018 high season—while the majority of the tourism plant will be fully operational for the start of the 2019 high season, which commences in the latter months of 2018. Although visitor arrivals are not expected to return to 2016 or even 2017 levels, given the high average spend of visitors, it is projected that the tourism sector will still be able to generate significant earnings for the local economy in 2018.

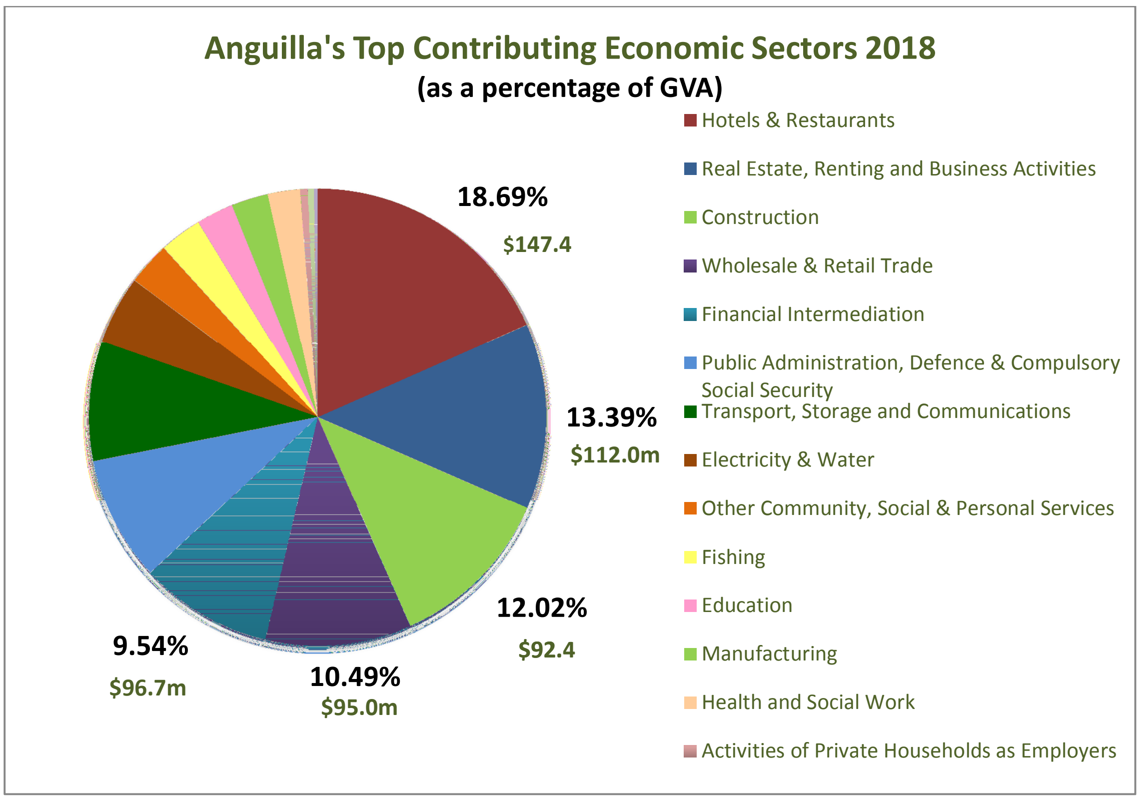
2. **Real Estate, Renting & Business Activities** – The second largest economic sector in Anguilla is expected to grow by a small 1.88% in 2018, more than reversing the marginal 0.82% decline in the previous year. Small expansions in all the major sub-categories are expected as the renting of dwellings and business activities in particular is expected to rebound from the hurricane-related losses and disruptions of the previous year. The total nominal output of this sector is projected to be EC$112.01 million which would be the most productive year of output for this sector in Anguilla's recorded history. This sector is expected to account for 13.39% of total real economic activity, measured as the portion of this sector's portion of total Gross Value Added (GVA).
3. **Construction** – In 2018 the pivotal Construction sector is anticipated to expand substantially, so much so that is would dominate as the third largest economic sector, accounting for 12.02% of real economic activity (GVA in Constant Prices). The last period in which this sector's economic output accounted for more the 10% of the total economy was during the heat and immediate fall off of the last economic boom, accounting for as much as 20.90% of GVA in 2008. It has since relegated to lower levels of output and economic value, contributing a meagre 6.08% to GVA in 2011. However, in response to crisis, the construction sector picked up steam in 2017 (8.9% real growth) and is expected to be in full heat in 2018 in response to ramped up reconstruction efforts island-wide as critical public and private sector projects are expected to commence works throughout the year. The level of expansion in the construction sector is being projected at 35.0% in real terms and total nominal output of EC$92.37 million.

4. **Wholesale & Retail Trade** – As a sector that generally moves in tandem with overall growth of the economy, it can be expected that likewise the Wholesale & Retail Trade sector will experience significant growth on 35.8% in 2018. This robust level of growth is predicated in a big way upon the massive construction expansion, which will necessitate that substantial purchasing of related construction goods, building materials, fuels and such will take place. The nominal output of the wholesale & retail trade sector is projected at EC$95.02 million, which will be by far the highest

level of output recorded in this sector in Anguilla's history. As well, this would be the most significant a contributor to the economy that this sector has ever been, accounting for 10.49% of the total economy output (GVA).

5. **Financial Intermediation** – This sector which comprises banking, insurance and auxiliary financial services is anticipated to experience a marginal decline by 0.71% in 2018. This is expected to ensue due to modest declines in loans, as a slight increase in Non-Performing Loans (NPLs) would be expected, given the closure of businesses and a calculated expectation of increased unemployment due to the continued effects of the hurricane on the economy. The nominal value of this sector is projected at EC$96.86 million and it is anticipated to represent 9.54% of total real economic activity.

Figure 6: Top Contributing Economic Sectors 2018



2. Statement of Government's Economic Objective

Anguilla's economy was making a slow recovery following the world economic crisis. The conditions have been exacerbated by the recent devastation brought on by the passage of Hurricane Irma. The Government of Anguilla recognises the need to be better prepared for and able to withstand and respond to the inevitable negative impacts of global warming and climate change on small island states. Additionally, Government needs to move beyond overdependence on a mono-economy through economic diversification.

The primary goal of the Government of Anguilla over the medium term is to stimulate and accelerate economic growth. Government proposes to do this through a combination of activities geared at increasing tourism numbers, assessing the business environment in Anguilla, exploring diversification options and privatisation of entities to improve efficiencies.

2.1 Increase tourism numbers

Tourism Marketing Development and Promotion

Tourism continues to be the main economic driver in the Anguilla economy. Prior to the passage of the storm, tourism arrivals were higher in 2017 when compared to 2016. The sector is open for business but there is an opportunity to increase tourist arrivals. To realise the increase in tourism levels, the Anguilla Tourist Board (ATB) will renew its marketing efforts through the development of a marketing and promotion strategy, geared towards existing and potential source markets.

Improving Access- Air and Seaport Development

Government is committed to improving access to the island. The need to improve access has been further highlighted following the destruction of the Princess Juliana Airport in St. Maarten and both Anguilla St Maarten Ferry Terminals at Simpson Bay and Marigot, in the wake of Irma and the resulting spin off effects, including reduced flight. Government will establish a tripartite committee comprising representatives from the Ministry of Tourism, the ATB and the Anguilla Air and Seaports Authority. The Committee will be tasked with negotiating regular flights to Anguilla via Antigua and St Kitts and code sharing with the major airlines.

Over 90.0% of visitors to Anguilla arrive via Blowing Point Port. The Terminal Building in Blowing Point was demolished following the passage of Irma due to the level of structural damage and health and safety risks it posed. Prior to this, the facility was deemed inadequate to meet the needs of the clients. DFID in their most recent study, Anguilla:

barriers to Growth and Priorities for Reform, noted that some expansion is necessary at Blowing Ferry Terminal to support the level of arrivals. The Government of Anguilla proposes to upgrade the facility over the medium term so as to improve the ferry and charter boat services and improve the port terminal and related infrastructure to be better able to accommodate travellers and provide an enhanced experience.

It has been agreed and supported by DFID, that the existing airport requires an upgrade and an extension if we are to increase direct airlift and tourism numbers and foster investment. Government will seek assistance in conducting the business case for the airport expansion project. After a review of the findings, an assessment will be undertaken to the most suitable funding mechanism (concession agreement or other public private partnership arrangements, or sale of the Airport to private developers).

2.2 Situational Analysis of the Business Environment

Currently, Government does not have sufficient information on the private sector and the business environment in Anguilla. Hence Government is not fully aware of the impediments to business or investment; its ranking to its competitors; and the labour market conditions. Knowledge of these areas is essential in informing policy decisions to make Anguilla more competitive and encourage investment and the development of SMEs. Government therefore seeks to embark on a series of surveys to acquire this information. These include:

- Ease of doing business survey;
- Private sector assessment review;
- Labour market survey; and
- Employers' survey.

The Caribbean Development Bank in its Country Strategy Paper has committed to providing technical assistance to Anguilla to conduct an "Ease of doing business" survey to strengthen business facilitation.

2.3 Fisheries Development

The recent shocks to the economy and the impacts of natural disasters on the main economic sector have highlighted the need for Anguilla to pursue alternative sectors as a means of generating economic activity. One area identified is the development of the fisheries sector. Anguilla has at its disposal 200 nautical miles of Exclusive Fishing Zone. It is believed that the waters can be utilised to establish a vibrant fishing industry through the sale of fishing licences to foreign vessels. These licences allow the holders to fish in Anguilla waters. To ensure the sustainability of the resources, quotas will be set and routine monitoring will need to be conducted. Resulting from this endeavour is the opportunity for establishing fishing processing plants on island to package fish for export. Currently, exports are limited to neighbouring islands as yields are caught and sold immediately due to the lack of proper storage and processing facilities. A processing plant opens up opportunities for tapping into larger markets, such as the US and Europe.

In an effort to realise this, technical assistance is required to aid the Department of Fisheries with the implementation of the Fisheries Sector Plan and a desk study to determine if this is still a viable diversification option.

2.4 Residency by Investment- Permanent Residency

Permanent Residency by Investment refers to the granting of residency rights based on specified investment. This is being investigated as a possible option for increasing economic activity and promoting development in Anguilla. These types of programmes are attractive to investors for many reasons including:

- Political stability concerns, particularly for the financially affluent, generate a desire for nationals of certain countries to have an alternative country of residency or citizenship;
- Given the increased regulatory environment obtaining an alternative citizenship or residence is necessary for tax planning and wealth protection; and
- An opportunity for entrepreneurs and investors to expand and protect their business activities.

A well development programme can derive many benefits including direct revenue to government from fees and investments, increased foreign direct investment and increased economic diversification. Similarly, there are many challenges that can arise with these programmes, most notably, abuse and corruption.

Government is in the process of updating the Permanent Residency Policy to facilitate the implementation of a two phased Permanent Residency by Investment Programme. Phase one, the Retroactive Fast Track Period, is geared towards persons who have previously made an eligible real estate investment and can demonstrate that they still own the property. Phase two will be the full launch of the programme with all residency pathways available to new investors. Phase one is slated to launch in summer of 2018 and Phase two will launch in the first quarter of 2019.

2.5 Special Economic Zone

As a means of further diversifying the economy, the Government of Anguilla wishes to explore the possibility of developing a Special Economic Zone in Anguilla. The type of Special Economic Zone that is being considered for Anguilla is defined in the 2009 OECD study as Specialized Zones (SZs) “targeted at specific sectors or economic activities. Examples of SZs include science/technology parks, petrochemical zones, logistics parks, airport-based zones, and so on. They may restrict the access of companies in non-priority sectors, and their infrastructure is mostly tailored according to their sectoral targets." Government has signed an engagement letter with Chord Group, who is experienced in establishing SEZs. The Chord group is in the process of conducting a full feasibility assessment of the potential success of the SEZ in Anguilla, to provide a high level economic impact analysis of the potential benefit of the SEZ to the Government of Anguilla, its citizens and Stakeholders and provide a road map to launch the SEZ.

2.6 Privatisation of Utilities

The Government of Anguilla is the largest shareholder of ANGLEC, the sole electricity company, with 40.0% of the shareholdings. Government and many other shareholders acknowledge that it is a conflict for Government to be the regulator and the largest shareholder that appoints members to the board. In 2017 significant work was carried out with the actual share offering launching in August. However, government took the decision to postpone the sale following the passage of Hurricane Irma. Government intends to divest all of its shareholdings by the end of the third quarter of 2018.

Similarly, the Government intends to divest 49% of its shares in the Water Corporation of Anguilla (WCA) to a strategic investor, the private sector or set up a concession arrangement for a strategic investor to finance, develop, operate and maintain the operations of the WCA. In 2019 Government intends to appoint a specialist manager to manage the WCA to ensure that it becomes a viable entity.

Government is required by the Banking Act 2015 to divest fully the bridge bank, the National Commercial Bank of Anguilla, within three years of the date of the bank resolution. A committee will be established and tasked with seeking a suitable buyer to be able to meet the April 2019 deadline.

3. Recent Fiscal Performance 2016-2017

3.1 Fiscal Performance 2016

The Government of Anguilla ended the 2016 fiscal year with a small recurrent balance of EC$1.07 million relative to the EC$16.12 million projected at the time the budget was prepared. This was a consequence of challenges faced on the revenue side, despite projected growth in the economy.

Recurrent Revenue

The 2016 revenue estimate was EC$219.07 million. This estimate was based on the implementation of a number of new revenue measures and changes to existing revenue streams. While majority of the measures were implemented, actual collections totalled EC$188.71 million. Collections were 13.86% or EC$30.36 million less than budget but more significant, was 1.22% less than 2015 collections. This decline in revenue collections spanned the various categories, making it difficult to explain.

The main contributors to recurrent revenue in 2016 were Import Duty Other (EC$45.41 million), Accommodation Tax (EC$17.08 million), Customs Surcharge (EC$17.69 million), Import Duty Fuel and Gas (EC$13.93 million) and Interim Stabilisation Levy (EC$14.44 million).

Recurrent Expenditure

On the recurrent expenditure side, Government was able to maintain expenditure at a reasonable level in light of the revenue performance by utilising the expenditure controls in two main categories, Personal Emoluments and Goods and Services. The 2016 recurrent expenditure estimate was EC$202.36 million. Actual spend totalled EC$187.65 million which is 6.77% or EC$14.71 million less than the estimate. However, this represented an increase of EC$4.14 million (2.26%) over expenditure in 2015.

Capital Expenditure

Capital expenditure in 2016 totalled EC $11.37 million out of a budget of EC $26.55 million. That is an implementation rate of 42.82%. It is also 1.23% of GDP. The main projects implemented in 2016 were the Telecommunications Tower Replacement, the start of Fire Services Development Project that comprises the development of the Fire Hall and Air Traffic Control Tower, repair and rehabilitation of Road Bay Jetty, establishment of the DOVE II Centre to cater for our children with severe disabilities and completion of the PAHO-supported STEPS survey looking at the prevalence of chronic diseases in Anguilla. Capital expenditure continues to be one of the main areas affected by the current fiscal situation, as Government is unable to provide the necessary level of investment that is required from its own sources and generally has limited access to grant financing and no access to loans without the approval of the United Kingdom Government.

Capital Grants

In 2016, capital grants totalled EC$4.40 million from the UK Government. Government also received EC$120,000 from PAHO for the implementation of the STEPS Survey.

Balances

On the recurrent side, a small surplus of EC$1.07 million was recorded. A deficit of EC$6.85 was recorded on the capital account. Financing totalling EC$24.75 was available from the Road Bay Jetty loan of EC$2.7 million, reserves of EC$11.81, overdraft facility of EC$9.62, CCRIF funds of EC$288,571 and CDB loan of EC$330,514. The balance of EC$18.96 was used to meet Debt amortisation payments of the same amount.

3.2 Fiscal Performance 2017

The Government of Anguilla ended the 2017 fiscal year with a recurrent deficit of EC$3.44 million, relative to the EC$2.93 million surplus that was projected at the time the budget was prepared and the EC$ 7.96 million deficit that was projected following the passage of Hurricane Irma.

Recurrent Revenue

The 2017 revenue estimate was EC$214.90 million. The revenue estimate was based on projected improvements to the economy and improved compliance and collections. Actual revenue collections totalled EC$191.99 million. Collections were 10.66% or EC$22.91 million less than budget but more significant, was 1.74% more than 2016 collections.

The main contributors to recurrent revenue in 2017 were Import Duty Other, Accommodation Tax, Stamp Duty, Customs Surcharge and Interim Stabilisation Levy.

Collections under Import Duty- Other totalled EC$40.37 million. This was EC$5.05 million less than 2016 collections and EC$7.52 million less than the budget estimate of EC$47.89 million. The underperformance of the head was due to the decline in consumption, resulting from the closure of the tourism sector following the passage of Hurricane Irma.

Accommodation Tax recorded an increase in collections in 2017 compared to 2016. Collections in 2017 totalled EC$19.67 million whereas collections in 2016 totalled EC$17.08 million. The increase in collections over the previous year was attributed to an overall increase in tourist arrivals by the end of the third quarter of the year and improvements in compliance. The budget estimate for 2017 was EC$19.85 million.

Stamp Duty collections totalled EC$16.01 million in 2017, surpassing the budget estimate of EC$11.00 million and 2016 collections of EC$7.08 million. The performance of this revenue head was directly impacted by the sale of a major tourism establishment, Cap Juluca Hotel.

Customs Surcharge contributed EC$15.80 million to recurrent revenue in 2017. Collections declined by EC$1.52 million from the 2016 total of EC$17.32 million as well as the budget estimate by EC$2.07 million.

The Interim Stabilisation Levy fell short of the budget estimate of EC$15.14 million to total EC$14.14 million. It was EC$0.29 million less than the 2016 collections of EC$14.44 million.

Recurrent Expenditure

On the recurrent expenditure side, Government was able to maintain expenditure at a reasonable level despite the effects of Hurricane Irma and the resulting immediate needs. The 2017 recurrent expenditure estimate was EC$211.96 million. Actual spend totalled EC$195.43 million which is 7.79% or EC$16.53 million less than the estimate. However, this represented an increase of EC$6.41 million (3.39%) over expenditure in 2016.

Capital Expenditure

Capital Expenditure totalled EC$21.02 million. The projects funded were The Fire Hall and Air Traffic Control Tower Project (EC$8.08 million), Post Irma clean up (EC$7.08 million), Health Services Development (EC$3.00 million), ALHCS Master Plan/Redevelopment Project (EC$403,285) and Tourism Sector Development (EC$310,002).

Capital Revenue and Grants

In 2017, capital revenue and grants totalled EC$31.04 million from the UK Government (EC$1.36 million), the European Development Fund (EC$11.61 million) and the Caribbean Catastrophic Risk Insurance Facility CCRIF (EC$18.14 million).

Balances

On the recurrent side a deficit of EC$3.44 million was recorded while a surplus of EC$10.01 million was recorded on the capital account, resulting in an overall balance of EC$6.57 million. Debt amortization payments for 2017 were EC$22.36 million. Financing totalling EC$21.61 million was available from reserves of EC$14.42 million, and the overdraft facility of EC$16.95 million.

4. Fiscal Strategy- toward the achievement of long-term sustainability of public finances

Government is committed to maintaining a fiscal climate that promotes growth and ensures debt sustainability. Essential to this process is meaningful tax reform, continued utilisation of expenditure controls and maintaining a debt profile that is affordable, while providing the development that is required to advance Anguilla.

4.1 Revenue Enhancement

Improvements to Inland Revenue Department and Customs Department

The Inland Revenue Department, over the medium term, will focus on improving procedures and systems that will lead to increased compliance and collections. IRD will develop a Strategic Plan, a Risk and Compliance Plan and a Departmental Procedural Manual. These plans will guide the activities of the department as it relates to auditing, collections, and tax payer services and information.

The Customs Department will also be implementing the Risk Based Assessment Policy and a Corporate Strategic Plan. The Risk Based Assessment Policy will ensure that every effort is made by the Management team and Officers to manage risk appropriately to maximise potential opportunities and minimise the adverse effects of risk. Additionally, the policy aims to maintain control over the cross-border movement of goods, people and conveyances in a way that reduces the level of interventions to a minimum. The Corporate Strategic Plan provides a framework and direction for Customs' Staff to professionally administer the processes and procedures of the Department efficiently and effectively in all its workstations. Key strategic objectives of the Plan are to protect society, facilitate legitimate trade and to maximize the Government of Anguilla's revenue collection.

Review of Arrears

The Inland Revenue Department will conduct a formal review of arrears. It is anticipated that a significant portion of the arrears will be uncollectible due to the statute of limitations on collections, inconsistencies within in SIGTAS operational businesses, and requests for relief. A proposal for writing off the uncollectible portion will be submitted to Executive Council. The Risk and compliance Plan will address the process for collectible portion.

.AI Initiative

The Government of Anguilla owns the registration domain .AI. Government will seek the services of a reputable firm to upgrade and manage the domain registration system for .AI.

The requested services will comprise a state-of-the-art, standards compliant, turnkey internet top level domain registry system, complete with DNS, administrative support, registrar relations, and support for every other aspect of registry operations needed to upgrade .AI to a world class operation. A well-managed domain registry has significant revenue potential.

Preparation for GST Implementation

Subsequent to the revenue study commissioned by the FCO, Government has received technical assistance from CARTAC to advance the process. Prior to implementation of any broad-based tax, the Inland Revenue Department requires significant improvements to effectively administer the tax. One of the recommendations is that tax reform should be implemented gradually to allow sufficient time for development of administrative capacity and assure smooth transition to the new taxation system. Over the medium term government proposes to implement the GST in three phases, with full implementation by 2023.

Phase 1 – a revenue neutral reconfiguration of Customs Duties (reduction of average tariff rate from 12.9% to 8%) and Customs Service Charges (increase from 6% to 9%) into an Interim Goods Tax by 1st January 2019.

Phase 2 – introduction of a partial Services Tax covering hotel accommodation, electricity, communications and wholesalers by 1st January 2021.

Phase 3 – expansion of the Services Tax to include all other services by 1st January 2023.

In order to inform the process and the projected yields from the GST, it is necessary to conduct a rate assessment. Assistance will be sought from CARTAC in this regards. Additionally, the UKG will be approached to fund a resident long-term GST Advisor and to request that the IT requirements including modernization of SIGTAS or its replacement be made a priority under the UKG Grant programme.

4.2 Consolidating Expenditure

Personal Emoluments

'Personal emoluments' (PE) is the largest recurrent expenditure account, averaging approximately 45% of overall expenditure. Government is committed to restricting PE so that it does not exceed 45% in any given year. To realise this Government maintains a freeze on annual increments, a freeze on hiring with few exceptions and restricts acting appointments to statutory positions.

Review of the 2011 Anguilla Civil Service Review

A public service efficiency review was conducted in 2011. Recommendations focused on 4 areas:

- Stream-lining the civil service;
- E-revolutionising government services;
- Sequential department reform; and
- Departmental efficiency and effective targets.

The proposal is for recommendations to be reviewed in 2018 with a view to right sizing the civil service.

Consolidation of Government Rental Accommodation

Many government departments are currently renting office space as the Government of Anguilla does not own adequate office space to accommodate all the departments under its umbrella. This has proven to be a financially-unsustainable practice that costs government approximately EC$1.54 million annually.

Government is currently investigating the possibility of acquiring the former NBA building through a lease to own arrangement. The building is large enough to accommodate a significant portion of government departments. It is anticipated that the annual office accommodation rental expenditure can be used to make annual lease/rental payments. This move will also have efficiency gains resulting from housing essential services on one area.

Energy Audit

The Government of Anguilla spends on average EC$3.30 million on electricity annually. In 2017 with the assistance of CDB, an energy audit of government facilities was conducted. The objectives were to:

- Determine the most energy inefficient facilities, assess energy conservation opportunities;
- Identify potential energy efficient improvements;
- Prioritise actions in sectors in which government policies are most likely to yield the largest, most cost-effective improvements; and
- Identify barriers to energy saving investments and a way to surmount these barriers.

The findings of the energy audit indicate that the cost to make the necessary improvements is EC$7.07 million (US$2.63 million). This will result in annual savings of EC$1.28 million (US$475,096) annually. Next steps include a review of the recommendations of the audit with a view to developing an implementation plan/ project.

National Health Fund

The National Health Fund (NHF) will be established in 2020 to provide financial support to the national healthcare system. Under the NHF system, health care will be purchased for the whole population of Anguilla as clinically needed and in an equitable manner. The Fund will be managed to ensure that money is spent on high-quality, value-for-money services. Individuals will contribute to the fund when they are economically active, but the Fund will have a component of Universal Health Care embedded into it for the purpose of providing health care to those who cannot afford it. It is the intention of the government to convert the Interim Stabilisation Levy into the NHF Levy. The introduction of the NHF will assist in defraying the medical financial burden that is currently borne by government. A well-managed NHF will reduce the need for subventions to the HAA, thereby reducing government expenditure.

Next steps include acquiring the services of a health economist, finalising the project plan to present to EXCO, finalising terms of reference for professional implementation team, contracting the professional implementation team, revising the NHF Act (2008), procuring a benefits management system, and establishing NHF Board and Management Team.

4.3 Debt Management and Sustainability

Debt Sustainability Analysis

The Government of Anguilla has been conducting Debt Sustainability Assessments (DSAs) since 2012 utilizing the International Monetary Fund (IMF) and World Bank (WB) DSA framework. The last update was undertaken in 2018 (the proposed borrowing is included in the analysis). A Debt Sustainability Analysis (DSA) assesses how a country's level of debt and prospective new borrowing affect its ability to service its debt in the future. It is an important tool for the assessment of macroeconomic stability, the long-term sustainability of fiscal policy and overall debt sustainability.

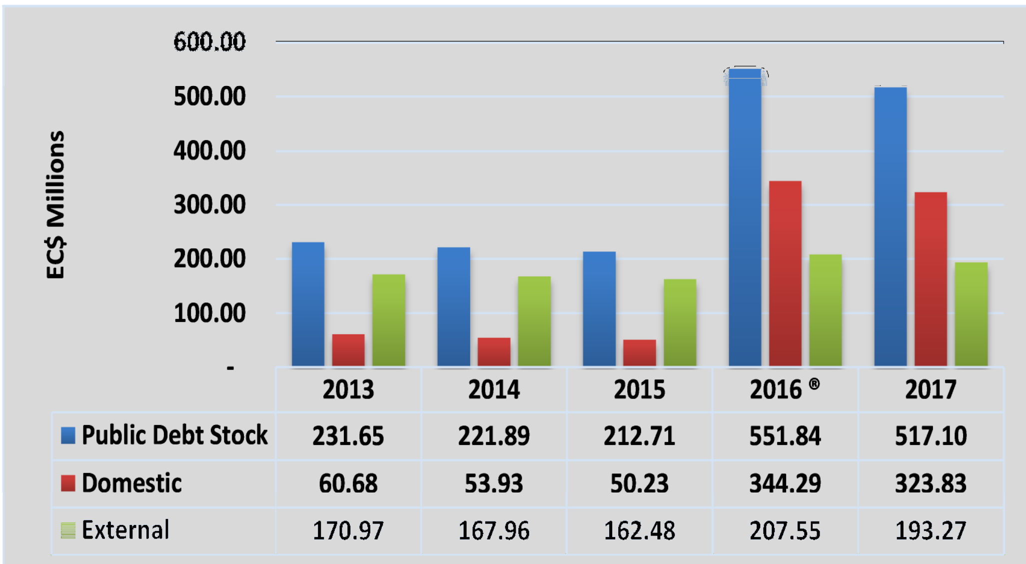
Debt Portfolio Review

Since 2009 the Government of Anguilla has been compiling Debt Portfolio Reviews (DPRs). In 2017, the 2015 and 2016 DPRs were uploaded to the Government's website. It is the intention of the government to have the 2017 DPR completed and uploaded to the Government's website by June of this Year. The DPR is an analytical report of developments in the public external and domestic portfolios over the last five years of the reporting year.

Debt Stock

Preliminary estimates show that at the end of 2017 public debt comprising Central Government and Government Guaranteed stood at EC$517.10 million or 56.94 % of GDP. Net Debt to Recurrent Revenue stood at 264.86 % and Debt Service to Recurrent Revenue stood at 20.63%; both ratios in breach by 184.86 and 10.63 percentage points above their stipulated targets of 80 % and 10 % respectively.

Figure 7: Total Public Debt Stock 2013-2017



	2013	2014	2015	2016 ®	2017
Public Debt Stock	231.65	221.89	212.71	551.84	517.10
Domestic	60.68	53.93	50.23	344.29	323.83
External	170.97	167.96	162.48	207.55	193.27

In light of this and the fiscal challenge exacerbated by the impact of Hurricane Irma, the Government of Anguilla devised a medium term debt management strategy with an objective of minimizing debt service costs with prudent risk levels. Debt financing in 2016 and 2017 was as a result of the bank resolution and the use of the overdraft facilities for cash flow needs.

Debt Restructuring

In order to curtail debt service costs, the government will attempt to restructure its debt by refinancing the balance on an existing loan of EC$50 million with the ASSB at a lower interest rate, minimize the use of the short term credit facilities and explore opportunities such as debt swaps in order to lengthen the maturity of the debt portfolio to smooth out debt service obligations. To achieve these goals the government will embark on the following debt restructuring:

- Convert Overdraft Amounts with National Commercial Bank of Anguilla (NCBA) and Eastern Caribbean Central Bank (ECCB) to a long term loan;

- Secure a Policy Based Loan (PBL) from the Caribbean Development Bank (CDB) to pay off overdrafts at the NCBA and the ECCB and the remaining balance of the 2010 Loan with the Anguilla Social Security Board (ASSB) ;
- Refinance $214.0 million Bank Resolution Note with ASSB by securing private sector finance;
- Explore with CDB debt for equity swap of its 2010 PBL Balance and NCBA Bank Resolution loan in conjunction with private partners; and
- Explore Debt for Climate Change Swap - Seek technical assistance from UNECLAC or the Commonwealth Secretariat on this initiative.

Debt Service

Debt service costs for 2017 and projections for the period 2018-2020 are provided in Table 2 below. Public sector debt servicing (risk-weighted) stood at EC$38.71 million in 2017 and is projected to climb to EC$51.24 million by 2020.

Table 2: Debt Service Actuals and Projections 2016-2020

Details	Actual		Projected		
	2016	2017	2018	2019	2020
Interest Payments	11.98	16.37	19.05	19.66	19.21
Principal Repayments	18.96	22.34	27.09	28.50	32.04
Total Debt Service	**30.95**	**38.71**	**46.15**	**48.16**	**51.24**

For 2018 central government debt service is estimated at EC$46.15 million. Of this amount interest payments account for EC$19.05 million while amortization amounts to roughly EC$27.09 million.

The proposed divestiture of Government entities over the medium will provide revenue to assist with the debt servicing costs for the same period.

Debt Benchmarks and Performance

The Government of Anguilla's fiscal policy is constrained by borrowing limits under the Framework for Fiscal Sustainability and Development (FFSD). Further, Government faces borrowing restrictions and requires the British Government's approval for borrowing due to continuous breach of the agreed prudential borrowing limits since 2008.

Performance against Borrowing Limits and Forecast

The ratio of net debt to recurrent revenue is defined as the total outstanding value of public borrowing minus liquid assets (reserves). At the end of 2016, this ratio was in breach of the benchmark by approximately 199.83% due to the debt contracted in support of the banking resolution to include a Promissory Note (EC$214.00m) to protect social security deposits; the bank recapitalization loan (EC$59.40m) from the Caribbean Development Bank; EC$20.0m from ECCB and the Depositors' Protection Trust Fund (EC$56.88m). There is a projected breach of the ratio from 2018 to 2026 with a spike in 2018 due primarily to the proposed debt restructuring plan. However, the ratio is projected to be in compliance by 2027 due to the projected surpluses.

The Debt service to recurrent revenue ratio includes principal and interest payments for central government and the risk-weighted payments for government agencies. As shown in table 3, the debt service ratio for 2016 and 2017 was 16.72 % and 20.63% respectively, 6.72 and 10.63 percentage points above the maximum benchmark of 10.00%. This ratio is projected to be in compliance by 2029.

The liquid assets/recurrent expenditure ratio gives an indication of the government's liquidity position. This ratio will be in compliance by 2029 as the forecasted fiscal performance allows for a build-up of sufficient reserves. The projected recurrent surpluses are sufficient to cover debt amortisation and allows for half of the remaining surpluses after amortization to be contributed to reserves.

Table 3: Performance against the borrowing limits and forecast for the period 2018-2030

	ACTUALS		PROJECTIONS												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Net Debt/Current Revenue	279.83	264.84	270.90	242.01	226.41	196.12	178.80	151.34	130.31	108.22	88.18	70.71	58.74	49.17	41.99
Variance	199.83	184.84	190.90	162.01	146.41	116.12	98.80	71.34	50.31	28.22	8.18	-9.29	-21.26	-30.83	-38.01
Debt Service/Current Revenue	16.72	20.63	37.88	22.05	23.93	21.37	23.07	22.53	23.02	22.95	20.68	17.87	12.27	9.72	7.49
Variance	6.72	10.63	27.88	12.05	13.93	11.37	13.07	12.53	13.02	12.95	10.68	7.87	2.27	-0.28	-2.51
Liquid Assets/Current Expenditure	8.36	0.90	0.18	0.17	0.17	0.17	0.17	0.16	0.16	1.88	5.41	11.15	20.94	26.69	26.27
Variance	16.64	24.10	24.82	24.83	24.83	24.83	24.83	24.84	24.84	23.12	19.59	13.85	4.06	-1.69	-1.27
Debt/GDP	59.71	56.84	52.21	48.70	45.62	41.94	38.16	33.76	29.02	24.06	19.57	15.67	12.99	10.86	9.26

Analysis of SOE Loans and Debt Guaranteed by the State

Outlined in the FFSD are risk weights for a number of SOEs based on a debt default criteria. SOEs are responsible for servicing their debt from their own revenue; however, given potential contingencies the government has put in place a framework to monitor the SOEs operations. Subventions are provided to three of the institutions: the ACC, HAA and the ATB which have all been given a risk weighting of 100.0%. This means that in the event of a default the Government will have to absorb the full impact of the SOE's obligations

Presently there are three agencies, namely, Anguilla Air and Sea Ports Authority (AASPA), Anguilla Development Board (ADB) and the Anguilla Tourist Board (ATB) with outstanding loan guarantees. They have assigned risk weights of 80%, 20% and 100% respectively. Table 4 below shows the guaranteed debt outstanding for these agencies and the amounts based on the risk weights. At the end of 2017 total outstanding government guaranteed debt amounted to EC$10.34 m or 2.00 % of total public debt and 1.14 % of the GDP. The total outstanding risk-weighted debt liabilities amounted to EC$3.50 million or 0.68 % of total public debt and 0.38 % of GDP.

Table 4: Outstanding Government Guaranteed Debt as at December 31, 2017

State Owned Enterprises	Risk Weight	Government Guaranteed Debt	Total Outstanding Risk Weighted Debt Liabilities	Total Outstanding Risk Weighted Debt Liabilities	
				As % of Total Debt	As % of GDP
Anguilla Air and Sea Ports Authority (AASPA)	80%	2,104,311.07	1,683,448.86	0.33	0.19
Anguilla Community College (ACC)	100%				
Anguilla Development Board (ADB)	20%	8,028,276.50	1,605,655.30	0.31	0.18
Health Authority of Anguilla (HAA)	100%				
Anguilla Social Security Board (ASSB)	20%				
Anguilla Tourist Board (ATB)	100%	209,524.83	209,524.83	0.04	0.02
Water Corporation of Anguilla (WCA)	80%				
Financial Services Commission (FSC)	20%				
Public Utilities Commission (PUC)					
TOTAL		**10,342,112.40**	**3,498,628.99**	**0.68**	**0.38**

Due to the risk to the fiscal outlook, Government is committed to ensuring that contingent and actual liabilities are properly managed. Government therefore plans to develop a corporate governance framework to monitor SOEs operations. The core objective is to extend financial and operational oversight of SOEs with the purpose of enhancing corporate governance practices, transparency and accountability. In 2018 Government intends to:

- Prepare a calendar of interactions with SOEs;
- Request SOEs to submit progress updates and action plans on bringing financial statements up to date;
- Create an information system for monitoring SOE accounts; and
- Prepare a spreadsheet/toolkit in collaboration with CARTAC.

4.4 Budget Aggregates

It is anticipated that the implementation of government's fiscal strategy and achievement of the debt objectives will result in the fiscal targets for the period 2018-2020 being realised. Government is projecting a recurrent deficit in 2018 and small recurrent surpluses in 2019 and 2020 as the fiscal climate improves.

4.4.1 Recurrent Revenue 2018-2020

The 2018 recurrent revenue estimate is EC$177.50 million. This represents a decline of 7.70% relative to 2017 when EC$191.99 million was collected. The projected decline is based on economic conditions that are expected to prevail as a result of the passage of Hurricane Irma and the impacts. Revised estimates project that revenue will perform better than expected to total EC$185.60 million.

The Tax revenue estimate for 2018 is EC$139.35 million comprising Taxes on Domestic Goods and Services (EC$28.99 million), Taxes on international Trade and Transactions (EC$76.65 million of which Duties is EC$61.78 million), and licences (EC$16.95 million). Non-tax revenue budget is EC$38.14 million comprising of mainly fines, fees and permits (EC$22.81 million).

In 2019 and 2020 recurrent revenue collections are expected to improve as the economy continues to rebound. Revenue estimates are projected to increase by 16.93% in 2019 to EC$207.55 million and by 4.09% in 2020 EC$216.04 million.

4.4.2 Recurrent Expenditure 2018-2020

For the period 2013-2017 the average annual rate of increase for recurrent expenditure was 2.67%. In 2018 the proposed rate of increase is 3.44% to EC$202.15 million, fuelled mainly by increases in personal emoluments to meet regulatory requirements, training and interest payments.

Recurrent Expenditure in 2018 consists of Personal Emoluments (EC$85.93 million), goods and services (EC$41.65 million), current transfers (EC$44.91 million), interest payments (EC$18.893 million) and retiring benefits (EC$10.76 million).

In 2019 and 2020 recurrent expenditure is projected to increase to EC$212.42 million and EC$211.35 million. The anticipated increases result from proposed payment of arrears and smaller increases in several other categories totalling EC$2.0 million.

4.4.3 Current Account Balance

The current account balance for 2018 is projected to be a deficit of EC$24.65 million to be financed through a policy based loan from CDB. In 2019 recurrent deficit of EC$4.87 million is anticipated and in 2020 a recurrent surplus of EC$4.90 million is projected.

4.4.4 Capital Investment Plan 2018-2020

In accordance with the Government of Anguilla's focus on medium term planning and budgeting and in line with the principles of the Framework for Fiscal Sustainability and Development and subsequent legislation, the Medium Term Economic and Fiscal Plan (MTEFP) is also supported by a Capital Investment Plan for the period 2018 – 2020. This Plan is a further reflection of the programming choices and priorities of the Government of Anguilla and consists of the range of capital projects and programmes considered to be essential for achievement of the MTEFP goals. It is also a statement of the estimated financial resource requirements to complete these projects over the Plan period.

Financing the Capital Investment Plan

The impact of the global financial crisis has meant that Anguilla has suffered from negligible levels and rates of capital expenditure in recent years. Capital investment was severely restricted and the results are seen in the negative economic and social impacts of impeded development including the rapid physical deterioration of Government's infrastructure assets. This situation is further exacerbated by the impacts of Hurricane Irma.

The Government of Anguilla has been able to secure a commitment of a significant injection of capital funds from the UK Government and from other development partners. This supportive framework facilitates increased project financing from both grants and a concessionary loan and will enable Anguilla to implement meaningful capital investments across priority sectors.

The total cost of implementing the projects and programmes of the Capital Investment Plan over the period 2018-2020 is currently estimated to be just over EC$250.00 million. Projections show that at present there will be no current surpluses available to finance the capital components and therefore the capital investments must be financed through a combination of capital grants and borrowing. The sources of funds are summarised in the Table below.

Table 5: 2018 - 2020 Capital Investment Plan – Source of Funds

BUDGET SOURCES	2018	2019	2020	TOTAL
UKG GRANT (ANGUILLA PROGRAMME)	61,551,135	95,140,462	56,514,538	213,206,135
GLOBAL BRITAIN FUND	6,793,865			6,793,865
CARIBBEAN DEVELOPMENT BANK LOAN	2,000,000	6,100,000		8,100,000
INFRASTRUCTURE FUND FOR MESOAMERICA AND THE CARIBBEAN		8,500,000	5,000,000	13,500,000
European Union - EDF 11 ENVELOPE B	8,900,000			8,900,000
TOTAL	**79,245,000**	**109,740,462**	**61,514,538**	**250,500,000**

- UK GOVERNMENT (UKG)

The UKG approved a £60 million (approximately EC$227.00 million) reconstruction grant to restore a significant proportion of the public infrastructure destroyed or damaged by Hurricane Irma. To date the funds have been identified to support the repairs, reconstruction and development of schools, health facilities, governments offices, ports, roads, the water distribution system, building resilience in information systems and communications and modernisation of public services and tourism sector development. The Government of Anguilla was also successful in securing additional funding (EC$6.79 million) from the Global Britain Fund's Disaster Management Programme. These funds will support the GoA Infrastructure and IT network resilience projects.

- CARIBBEAN DEVELOPMENT BANK (CDB)

Agreements with CDB to finance the construction of the Anguilla Community College and various capacity building initiatives (EC$8.70 million CDB loan & EC$90,000 CDB grant) were signed on 4 April 2014. The GoA in-kind contribution (Land acquisition etc.) is estimated at EC$6.80 million. Construction is planned to start in 2018.

CDB also acts as one of the financial intermediaries for the Infrastructure Fund for the Countries of Mesoamerica and the Caribbean (FIMCA). Through an MOU with the Government of Mexico's development bank, Banco Nacional de Comercio Exterior (Bancomext), CDB will administer the fund which aims to support governments of CDB's Borrowing Member Countries with their infrastructure development. The Government of Anguilla has requested up to US$5.0 million in grant funding which is intended to support the construction of the Anguilla Community College and the outfitting of TVET workshops at Albena Lake Hodge Comprehensive School.

- EUROPEAN DEVELOPMENT FUND(EDF)

The EDF is the main instrument providing European Union (EU) aid for development cooperation with the Overseas Countries and Territories (OCTs). Approximately EC$42.70 million (14m Euro) has been allocated to Anguilla for the 11th EDF period, 2015 – 2020 and in support of the implementation of the Education Development Plan: *Education and Training for a better Future - A Strategy for Education, 2015 to 2020.* To date the first tranche was disbursed in 2017 in the amount of EC$11.6 million. The anticipated tranches for 2018 – 2020 are EC$7.3m, EC$10.2m and EC$8.7m, respectively.

In the aftermath of Hurricane Irma, the Government of Anguilla applied to the European Commission to access reserves of the 11th EDF, specifically "Reserve B". This facility allows aid to be granted to the OCTs faced with serious economic and social difficulties of an exceptional nature resulting from natural or man-made disasters or extraordinary circumstances having comparable effects. It finances humanitarian and emergency assistance for the OCTs and can also make new allocations in accordance with the development of the needs and performance of the OCT. As with the existing EDF Programme, performance is evaluated taking into account, the use of the allocated resources, the effective implementation of the ongoing operations and the sustainable development measures adopted.

Approximately EC$8.90 million of EDF funds will be allocated towards funding capital projects.

As in previous years, these projects will be prioritised for implementation based on constant monitoring of Government’s fiscal and cash flow position.

The Capital Investment Plan Matrix lists the projects and programmes and source of funds for 2018. The forward years will be refined and updated as the programming and costing phases of the Anguilla Programme are completed. Detailed project summaries will be available in the final version of the 2018 Budget Estimates documentation.

5. Risks

Government is committed to assuring the long-term sustainability of public finances through lowering national debt as a share of GDP and meeting the long term fiscal objectives by 2030. This section identifies the principal risks to the economic and fiscal strategy that may affect the achievement of these objectives. A primary goal of the Government is to stimulate and accelerate economic growth which would have the resultant effect of improving recurrent revenues while restricting expenditure so as to build reserves from surpluses to provide an adequate level of financial protection.

The most significant fiscal risks over the next three years are below profile economic growth and the finances of some state-owned companies and public entities. Fiscal risks are interdependent and highly correlated: when a risk materialises it can have consequences for more than one category.

5.1 Fiscal Risk

An overview of potential risks to the economy and fiscal strategy are grouped by category.

a) Economic and Market Risks

Treasury operations of the Government are exposed to damaging fiscal consequences on the budget outturn when there are macro-fiscal shocks. The level of productivity in the Anguillan economy has vulnerabilities associated with the openness to the world market and heavy reliance on foreign markets. Macroeconomic shocks in the form of sharp declines in GDP growth represent one of the most common fiscal risks.

Downside Risks:

- Unforeseen financial or macroeconomic shocks to the United States (major trading partner) or on a global scale. Extreme economic conditions and market volatility could adversely impact the Government.
- Acceptance of contingent liabilities and the subsequent increase of debt stock/ debt servicing.
- Deterioration of debt sustainability and not obtaining the proposed CDB Policy Based Loan.

Upside Risks:

- Positive economic shocks leading to higher levels of economic activity than expected. This in turn would translate into greater revenue collections and a better fiscal situation than currently anticipated.
- Eastern Caribbean Central Bank lowered the minimum saving rate in 2017 and this may lead to a reduction in lending rates at commercial banks and thereby lower borrowing costs.

b) Natural Disasters and other Hazardous Events

Given Anguilla's geographical location, the territory is vulnerable to natural disasters-primarily hurricanes. The occurrence of natural disasters and other hazardous events presents a two-fold risk to public finances. Firstly, the Government's fiscal position is negatively impacted due to the fiscal cost of clean-up, prevention, remedial and rebuilding activities. Secondly, economic activity may be depressed from the occurrence of a disaster event or other perilous events such as acts of terrorism or public health concerns (e.g. mosquito-borne diseases), which would have a resultant negative impact to fiscal revenue. Travel and Tourism, the main export of Anguilla, is most vulnerable to the incidence of these events.

c) Investment Climate Risk

The 2018 and 2019 budget is reliant upon the Government realising at least EC$23.98 million in capital revenue through the sale of Government shares in the electricity company, ANGLEC. There is a risk that the revenue realised from the share sale may be less than estimated due to poor investor confidence in the company following the impacts of the restoration process following Hurricane Irma on the company's financials. There is also a timing risk associated with the sale. Delays in the finalisation of the financial statements will affect the timeline for sale. The financials will be needed to determine a sale price and governments negotiating position. Proceeding can put government at a disadvantage.

d) Financial Sector

Shocks from the financial sector though less frequent than macroeconomic shocks, tend to present a larger source of fiscal risk. In 2016, government's bailout of two troubled financial institutions represented a significant fiscal cost that continues to impact the budget. There is a risk that when the currently operating bridge bank is dissolved in 2019, if suitable buyers are not found further financial intervention from the Government may be required again.

e) **Tax Administration-** Delays in the implementation of the various stages of the proposed tax reform programme would severely impact government's ability to collect revenues, service its debts and achieve the borrowing ratios by 2030. Similarly, delays in the proposed IRD reform can negatively impact the tax reform programme. Inland Revenue Department has to be in a state of readiness to be able to implement the new measures and improve tax compliance.

5.2 Risk Mitigation

Proposed strategies to manage risks:

- Monthly monitoring fiscal position vis-à-vis the budget and adjusting treasury operations accordingly.
- Establishment of the Technical Consultative Group (consisting of representatives from GOA, FCO, CDB, ECCB, CARTAC, World Bank and IMF) to monitor government's Medium-term Economic and Fiscal Plan.
- Renewal of Caribbean Catastrophe Risk Insurance Facility (CCRIF)

Appendices

- Appendix 1-2015-2017 Fiscal Summary Outturn
- Appendix 2- 2018-2020 Medium Term Fiscal Summary
- Appendix 3- 2018-2020 Capital Investment Plan
- Appendix 4- 2018 Cash flow Projections
- Appendix 5- 2018-2030 Anguilla Fiscal Forecasting
- Appendix 6- List of Entities to whom GOA is Indebted
- Appendix 7- Medium-term Reform Programme Matrix