

FISCAL AND STRATEGIC POLICY STATEMENT 2022-2026



Approved

Prepared by the Ministry of Finance, Investment and Trade
Hibiscus Square, Grand Turk
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FISCAL STRATEGY OVERVIEW

The Fiscal Strategic Policy Statement (FSPS) utilises the baseline projections budgeting technique, a mid-term expenditure framework (MTEF) model applied over the base period 2022-23 and projected over 2023-2026. It sets out the future budget requirements based on existing services and the resource implications of the policy changes and the Government's new programmes. It links the macroeconomic environment to Government strategic priorities.

Long-term fiscal sustainability is a central government priority. It has long been recognised that TCI Public Revenue Structure needs to be modernised to more progressive and equitable. Given its economic construct, population geography, development pressure, and mounting social, TCIG must take the necessary actions to rationalise public revenue generation. Consequently, while there are no new taxes proposed in the FSPS for FY 2022-23, TCIG is engaged with the IMF and CARTAC to advance work to develop a revenue regime that balances the principles of efficiency, equitability, and fairness in the medium term. The work will be concluded during the second quarter of the fiscal year 2022/23. It may inform an anticipated Supplementary Appropriation Bill at the beginning of the third quarter.

The Governments of the United Kingdom and the Turks and Caicos Islands, through the 2012 Framework Agreement, agreed to five underlying pillars mentioned below for the 2012 FSPS.

- a. Budget surplus
- b. Controlling government expenditure
- c. Management of Public Debt (Public-Private Partnerships)
- d. Revenue enhancement and;
- e. The financial improvement of state-owned agencies

The fiscal projects for the 2022-23 and the medium-term indicate that the Government plans to meet most debt sustainability ratios outlined in the Framework Document. Likewise, the TCI's Vision 2040 Document has five (5) high-level outcomes or Sustainable Development Dimensions (SDDs), these are:

- Robust and climate-resilient infrastructure- SDD 1;
- A socially cohesive society – SDD 2;
- The healthy, natural environment, heritage and cultural assets - SDD 3;
- Citizen security – SDD 4; and
- Good governance – SDD 5¹

¹TCI's Vision Document 2040

The targeted outcomes established by the Framework Agreement and the Vision 2040 document are consistent with the Government overarching triple bottom line approach to enhance residents' quality of life through social, environmental, and economic sustainability. Therefore, resilience, sustainability, and inclusive growth must be the lynchpin of all decision-making processes. The Islands is inherently susceptible to weather-related disasters that are now exacerbated by climate change. The prospect of severe damage requires resilience planning and investment - a critical component is upgrading existing physical infrastructure inventory and developing new facilities to support growth. It needs to share investment risk through an innovative but secure partnership with the private sector to fast-track projects and services as part of the TCI growth strategy while retaining the ability to invest directly in commercially unattractive and less capital intensive critical public sector projects, training and human capital development.

In the mid-term, the Government will therefore continue to focus on:

- Infrastructure upgrades and expansion
- Public Sector transformation – through the modernisation of the public sector,
- food security by expanding the agriculture and fishing sectors,
- efficient service delivery by transitioning to e-government,
- sustainable tourism through tourism destination management reform,
- Administrative decentralisation – through local government transformation,
- Social Equity – by reforming social welfare delivery
- Human Capital Development – improvement in the TCI HDI
- citizen and border security,
- population policy strategy based on sustainability and development strategy
- Elevating climate and environment agenda.

Total expenditure excluding capital is capped at \$320.8 million or 31.2 per cent of GDP. An increase in recurrent spending is budgeted at 2.5 per cent for the medium term. \$109.2 million is budgeted for infrastructure upgrades over the next three years, with \$49.3 million budgeted for 2022-23. The targets do not include investments in new infrastructure through Debt or Public-Private Partnership (PPP) financing.

ECONOMIC OUTLOOK

International Economy

The International Monetary Fund (IMF), in its October 2021 edition of the World Economic Outlook (WEO), projected that the global economy would increase by 5.9 percent in 2021 and 4.9 percent in 2022; reflecting a decline of 0.1 percentage for 2021 from the 6.0 percent forecasted in July 2021. The outlook for 2022 remains unchanged from the July forecast.

Although small, the slight decline in economic activity of 0.1 percentage can be attributed to disruptions in supply in the advanced economies and worsening pandemic dynamics in the low-income developing countries. Globally, the projected economic performance is mainly dependent on a successful vaccination program and additional policy support to help countries through the pandemic. The forecasted global increase in economic performance reflects growth in the following economies and regions: USA, Canada, the United Kingdom (UK), the Euro Area, Latin America and the Caribbean, and Emerging Markets and Developing Economies. See table 1 for details.

Table 1- International Economic Assumptions

| | Actuals 2018 | Actuals 2019 | 2020 | Projections | |
|---|-----------------|-----------------|------|-------------|------|
| | | | | 2021 | 2022 |
| World Growth | 3.6 | 2.8 | -3.1 | 5.9 | 4.9 |
| US | 2.9 | 2.2 | -3.4 | 6.0 | 5.2 |
| Canada | 1.9 | 1.9 | -5.3 | 5.7 | 4.9 |
| UK | 1.4 | 1.4 | -9.8 | 6.8 | 5.0 |
| China | 6.6 | 6.0 | 2.3 | 8.0 | 5.6 |
| Euro Area | 2.2 | 1.3 | -6.3 | 5.0 | 4.3 |
| Latin America and the Caribbean | 1.0 | 0.2 | -7.0 | 6.3 | 3.0 |
| Emerging Markets and Developing Economies | 4.5 | 3.6 | -2.1 | 6.4 | 5.1 |
| Low-Income Developing Countries | 4.9 | 5.3 | -0.1 | 3.0 | 5.3 |

Source: IMF World Economic Outlook – October 2021

Advanced economies are estimated to have experienced a decline of 4.5 percent in 2020 but are forecasted to improve and experience an increase of 5.2 percent in 2021 and 4.5 percent in 2022. The Emerging Markets and Developing Economies is forecast to increase by 6.4 percent in 2021 and 5.1 percent in 2022, after a projected decline of 2.1 percent in 2020. The United States of America (US) economy is estimated to have declined by 3.4 percent in 2020 but is expected to increase by 5.2 percent in 2021 and 4.5 percent in 2022.

The United Kingdom economy, after experiencing an estimated decline of 9.8 percent in 2020, is forecast to expand by 6.8 percent in 2021 and by 5.0 percent in 2022. The Euro area is estimated to have declined by 6.3 percent in 2020. Still, with a forecasted increase of 5.0 percent in 2021 and

4.3 percent in 2022, all due to an anticipated recovery in external demand and a successful vaccination campaign.

The economy of China is projected to grow by 8.0 percent in 2021 and 5.6 percent in 2022. Because of the ongoing pandemic, China's 2020 Gross Domestic Product (GDP) was much lower than forecast, weakening economic activity. Due to the current pandemic, India's economy is projected to have declined by 7.3 percent in 2020 but is expected to rebound and experience growth of 9.5 percent in 2021 and 8.5 percent in 2022.

Among the Low-Income Developing Countries, economic growth is projected to increase by 3.1 percent in 2021 and 5.2 percent in 2022, which is lower than the July 2021 projections due to the slow rollout of COVID-19 vaccines. These countries' improvements are realisable if fiscal expenditure prioritises debt containment and infrastructural development over poorly targeted subsidies.

The IMF October 2021 forecasts show Latin America and the Caribbean economies growing by 6.3 percent in 2021 and 3.0 percent in 2022. This is up from July, when it was forecasted that Latin American and Caribbean economies would grow by 5.8 percent and 3.2 percent in 2021 and 2022, respectively. However, there is a lot of uncertainty shadowing this forecast. Suppose there are continued virus mutations, premature withdrawal of policy support, and a low vaccine take. In that case, the outcome can worsen, but the results can improve with increased policy support and significant uptake of the vaccines.

DOMESTIC ECONOMY

The Turks and Caicos Islands economy has made tremendous strides in recovering from the significant economic decline experienced in 2020 due to the COVID-19 pandemic. The tourism sector has led the comeback and shows signs of a significant "uptick" in economic activity. This is partly attributed to the Government's targeted containment measures to help minimise the economic fall-out due to the COVID-19 pandemic. Tourist arrivals rebounded tremendously in 2021 and are expected to rise steadily as global travel returns to pre-pandemic levels, leading to a recovery of real GDP to 2019 levels by 2023. The Department of Statistics predicts that due to increased vaccinations in the Country and within important source markets, thereby leading to greater comfort with international travel, the economic recovery will continue throughout 2023 and into 2024. Full economic recovery is anticipated in 2023, but it is primarily dependent on the buoyancy of the tourism sector and post-pandemic economic recovery.

To date, the performance in 2021 has turned out to be much stronger than previous forecasts, reflecting the combined effects of an expansion in private spending and the recovery of the tourism sector. Currently, tourist arrivals, while still trending below pre-pandemic levels, continue to show strong growth. The cautious and measured pace of opening the Turks & Caicos Islands' economy has positively impacted the growth in domestic business activities, but that growth remains fragile and uneven. However, the forecast for 2022 assumes that borders will remain fully open, and there will be no more "shelter in place" orders and stringent curfews implemented.

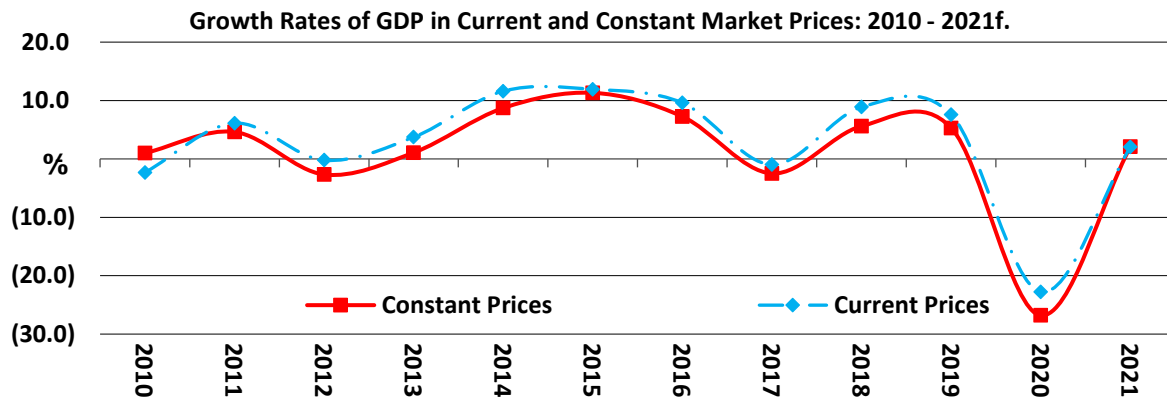
Although the Turks & Caicos Islands' economy is vulnerable to external shocks, as evidenced by the domestic economic trends over the last decade, the economy has always shown an ability to bounce back quickly, due mainly to the Country's strong fiscal policies and controls. The national economy continues to feel the effects of the COVID-19 pandemic. However, all indicators point to a rebound in development. As such, the TCIG anticipates significant economic growth in 2021 and 2022. The local economy is forecasted to quickly get back on the path to sustainable international competitiveness in the tourism industry, as brand TCI has remained robust amid the economic and environmental hurdles. This is critical, given the importance of tourism to the national economy. The Government's current strategic focus and investments are designed to enhance further and cement the unmatched tourism product that the Turks & Caicos Islands offers.

Inbound tourism, which due to the pandemic, was practically nonexistent in 2020, has shown tremendous signs of recovery, evidenced by the outstanding growth in "Stay-over" arrivals during the first nine months of 2021. The road to normalcy is underway, supported by an increased airlift out of the USA, helping further spur growth during this winter season. While the overall number of tourist arrivals to the Turks & Caicos Islands for 2021 is expected to be below pre-pandemic levels, forward bookings for long-stay visitors, and the resumption of cruise ships in December 2021, provides optimism that the economy sustained its robust recovery throughout 2021, with further growth projected for 2022 and 2023.

TCIG's revenues benefit tremendously from the uptick in economic activity, which has led to a return of jobs in some of the main economic sectors over the past nine months. Notwithstanding, unemployment remains somewhat elevated.

Energy and food prices are rising globally, reflecting the pent-up demand and global shortages caused in part by bottlenecks at shipping ports and disruptions in critical links in global supply chains. In addition, rising energy and commodity prices, along with increased freight costs, are leading to increased import prices and further increasing inflationary pressures. Due to these issues, the cost of imported goods for final and intermediate consumption is anticipated to remain high, with some relief expected by mid-2022.

Figure 1- Growth Rate of GDP



The Department of Statistics is projecting that Wholesale and Retail Trade activities will increase by 6 percent in 2021, with further increases in 2022 and 2023. However, with a decline of 53.0 percent in 2020, hotel and Restaurant activities are also expected to rebound and increase significantly in 2021 and 2022.

The Construction sector is forecasted to have achieved a growth of 6 percent in 2021, compared to an increase of 3.5 percent in 2020, with further growth expected in future years. The curfews, though necessary to save lives, placed a strain on small businesses offering personal services (e.g. hairdressers, barbershops, spas, gyms, etc.), and the relaxing of the same is leading to an uptick in activities by those businesses, which will further increase the overall economic activity. The Real Estate sector, which performed relatively well between 2018-2020, is also forecasted to have increased significantly in 2021, with a further increase expected in 2022.

Although forecasted to have grown approximately 11 percent in 2020, as persons were laid off due to the COVID-19 pandemic, the unemployment rate is projected to have decreased in 2021, with a further decrease expected in 2022, as the tourism industry and other sectors return to normalcy. As economic conditions improve and more workers return to work, the unemployment rate is forecasted to drop to 8 percent in 2022, based on forecasts of the current economic climate and anticipated changes within the medium term.

Table 2 Domestic Macroeconomic Assumptions – 2015 to 2022

| | Actuals | Actuals | Actuals | Actuals | Actuals | Estimate | Estimate | Projections |
|-------------------------------|---------|---------|---------|---------|---------|----------|----------|-------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Nominal GDP (bill. US\$) | 0.94 | 1.03 | 1.02 | 1.1 | 1.2 | 0.92 | 0.98 | 1.03 |
| Nominal GDP Growth (%) | 11.9 | 9.6 | -1 | 8.9 | 7.6 | -22.8 | 5.6 | 5.0 |
| Real GDP (%) | 11.3 | 7.3 | -2.5 | 5.6 | 5.3 | -26.8 | 3.0 | 3.0 |
| CPI (%) | 2.2 | 2 | 2.1 | 2.1 | 2.2 | 2.3 | 2.9 | 2.5 |
| Population | 36.7 | 37.9 | 39.8 | 41.4 | 43 | 44.5 | 46.1 | 47.7 |
| Nominal GDP per capita \$ | 25,677 | 27,234 | 25,695 | 26,909 | 27,877 | 20,758 | 21,162 | 21,480 |
| Value of Imports (\$MN) | 409.7 | 389.3 | 432.6 | 483.7 | 487.6 | 434.9 | 441.4 | 448.0 |
| Exports (\$mn) | 4.6 | 4.5 | 2.3 | 5.8 | 5.3 | 5.9 | 6.8 | 7.7 |
| Balance of Trade | -405 | -384.8 | -430.2 | -477.9 | -482.3 | -429.0 | -434.6 | -440.3 |
| Foreign Direct Investment (%) | 5.8 | 4.4 | -1 | 2.5 | 3 | 2.5 | 3 | 3 |
| Unemployment (%) | 11 | 7 | 6 | 7 | 7 | 11 | 9 | 8 |

Source: Statistics Department

Table 3, illustrated below, shows the Nominal and Real GDP per capita for 2010 to 2019 and projections for 2020 to 2022. Both indicators show that the TCI has achieved significant growth over the period. Nominal GDP grew from \$686.8 million in 2010 to an estimated \$1.2 billion in 2019. Unfortunately, due to the COVID-19 pandemic, nominal GDP is projected to have declined by 23 percent to \$924 million in 2020. However, it is forecasted to rebound to \$1.03 billion by 2022.

With strategic capital development geared towards the Turks & Caicos Islands' recovery and projected large-scale development projects, the economy is forecasted to have experienced nominal growth of approximately 5.6 percent in 2021, with 5 percent launched in 2022. Nominal GDP per capita peaked at \$27,877 in 2019, experienced a decline to \$20,758 in 2020 and is forecasted to rebound to \$21,480 in 2022.

Table 3-Levels of Nominal GDP and Nominal GDP Per Capita

| Year | Nominal GDP \$m | Nominal GDP Per Capita (\$) |
|------|-----------------|-----------------------------|
| 2010 | 686,788 | 19,907 |
| 2011 | 728,790 | 21,755 |
| 2012 | 727,161 | 22,583 |
| 2013 | 754,238 | 22,396 |
| 2014 | 841,700 | 23,934 |
| 2015 | 942,070 | 25,677 |
| 2016 | 1,032,452 | 27,234 |
| 2017 | 1,022,365 | 25,695 |
| 2018 | 1,113,178 | 26,914 |
| 2019 | 1,197,415 | 27,877 |
| 2020 | 924,583 | 20,758 |
| 2021 | 979,042 | 21,162 |
| 2022 | 1,027,995 | 21,542 |

Source: Statistics Department

Construction

The construction sector is forecasted to continue its strong performance in 2021 and 2022. This sector is predicted to have grown by 9 percent in 2021. It is forecasted to grow at an average of four (4) percent from 2022 to 2025, driven by activities of businesses and private individuals.

With the Government's new and ongoing capital programmes focusing on infrastructural development, improved physical working conditions, and community-based projects, the construction industry's strong performance is expected to continue. In addition, construction activity is expected to be further propelled by foreign direct investment in tourism-related and other projects and an increase in domestic private sector investments.

Agriculture and Fishing

The Agriculture and Fishing sectors currently contribute less than 1.0 percent to the Turks and Caicos Islands' GDP. Together, they are estimated to have declined by 10.3 percent in 2020 but are forecasted to increase by 2.17 percent in 2021. In recent years, the Government has appropriately policed and educate fishermen about the dangers of bleaching the coral reefs while stepping up its enforcement efforts. Due to these measures, there have been reductions in the catching of under-sized lobsters and fewer illegal fishing activities. These factors are forecasted to have a continued positive impact on the industry. In addition to the fishing industry, the Government has implemented initiatives such as "eat what you grow, and grow what you eat", designed to stimulate and grow the agricultural sector, thereby increasing the overall contribution of the Agricultural industry.

Tourism

Tourism is the primary driver of the Turks and Caicos Islands economy. With limited natural resources, the economy is heavily dependent on tourism and related services (including tourism-related construction). The tourism sector over the years has attracted most of the Foreign Direct Investment (FDI), and investments in this sector is heavily encouraged by the Government. Tourism and related services make up more than 65 percent of the Country's GDP.

The Statistics Department has forecasted that the Turks and Caicos Islands gross domestic product (GDP) will grow by 5.6 percent in 2021, with a growth of 5 percent projected for 2022, which will lead to a much more robust economic recovery than what was predicted earlier in the year. GDP forecasts for 2021 have been increased from the 2.1 percent growth initially forecasted to 5.6 percent.

Tourist arrivals, which remained significantly challenged in the first quarter of 2021 compared to 2019, started to grow in June 2021. The change became more pronounced during the July to September period, based on preliminary estimates from the "in-bound travel portal". Notwithstanding, COVID-19 remains a deterrent for the travelling public. During July 2021, some

56,022 visitors travelled to the Turks & Caicos Islands, a significant increase of 8,919 (18.9 percent) compared to the corresponding period in 2019. Tourist arrivals for August 2021 are estimated at 41,734, an increase of 5,514 visitors (15.2 percent) compared to August 2019. Total long-stay arrivals for the third quarter of 2021 equalled 117,236, a 21.2 percent increase over the 96,765 total arrivals for the same period in 2019. Due to the closure of the border as a result of the COVID-19 pandemic, there were no long-stay arrivals during the same period in 2020.

Based on the most recent statistics from the Tourist Board, tourist arrivals to the Turks & Caicos Islands from June to September 2021 were up to when compared to the same period in 2019, and further growth is projected to occur during the upcoming winter tourist season. This has led to optimism that year over year growth in tourist arrivals will continue throughout the 2022 and 2023 tourism seasons.

With all the significant properties within the Turks & Caicos Islands reopened and reporting a projected increase in booking pace, occupancy levels, and average daily rates (ADR); the Department of Statistics has projected a rebound in tourist arrivals in 2021, which it estimates was approximately 75 per cent of that of 2019. By the way, it's trending; the recovery of the tourism sector is projected to continue throughout 2022, driven mainly by increased vaccinations among tourists, and by extension, their increased comfort with international travel. Due to this, stopover arrivals are projected to return to 2019 levels by 2022, but unfortunately, the cruise ship industry is expected to take a little longer to recover.

Due to its interdependence with other sectors of the economy, the negative impact of the tourism sector's shut-down has been widely felt throughout the whole Turks & Caicos Islands economy. However, based on its current trajectory, the tourism sector is leading the rebound of the entire economy, resulting in a positive outlook for 2022 and beyond.

The Turks & Caicos Islands tourism sector, predicted to have declined by 53 percent in 2020 compared to 2019, is projecting in 2022 to be just 10 percent below 2019's numbers, with a complete rebound expected by the end of 2023. Given the new investments in the pipeline for the industry and the return of cruise tourism in mid-December 2021, it is likely that the overall tourism contribution to the economy should exceed the pre-pandemic statistics significantly. Should that pan out, the Turks & Caicos Islands' economy will experience robust growth in the near term.

Fig 2. Stayover Visitors January to December 2012 - 2021p

| MONTH | YR 2012 | YR 2013 | YR 2014 | YR 2015 | YR 2016 | YR 2017 | YR 2018 | YR 2019p | YR 2020 | YR 2021p | % Change 2019 - 2021 |
|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------------------|
| January | 29,549 | 24,353 | 31,155 | 38,377 | 44,567 | 44,888 | 31,737 | 42,949 | 44,166 | 13,631 | -68.3 |
| February | 29,540 | 24,771 | 32,962 | 35,912 | 41,981 | 43,597 | 41,160 | 41,704 | 51,644 | 12,798 | -69.3 |
| March | 36,353 | 31,877 | 41,389 | 41,690 | 50,913 | 48,354 | 50,128 | 56,138 | 26,224 | 25,210 | -55.1 |
| Total Quarter 1 | 95,442 | 81,001 | 105,506 | 115,979 | 137,461 | 136,839 | 123,025 | 140,791 | 122,034 | 51,639 | -63.3 |
| April | 30,648 | 28,780 | 34,212 | 37,633 | 49,933 | 50,206 | 43,632 | 45,045 | 0 | 28,988 | -35.6 |
| May | 22,623 | 23,413 | 28,779 | 29,650 | 33,495 | 33,946 | 38,090 | 42,019 | 0 | 37,687 | -10.3 |
| June | 23,290 | 25,844 | 30,850 | 32,258 | 37,985 | 34,606 | 42,012 | 45,781 | 0 | 46,825 | 2.3 |
| Total Quarter 2 | 76,561 | 78,037 | 93,841 | 99,541 | 121,413 | 118,758 | 123,734 | 132,845 | 0 | 113,500 | -14.6 |
| July | 24,734 | 28,562 | 34,206 | 35,525 | 43,421 | 37,497 | 45,206 | 47,103 | 1,305 | 56,022 | 18.9 |
| August | 18,459 | 25,203 | 30,175 | 33,358 | 34,992 | 36,244 | 34,622 | 36,220 | 5,595 | 41,734 | 15.2 |
| September | 14,094 | 11,443 | 14,376 | 15,078 | 19,202 | 2,346 | 15,768 | 13,442 | 3,062 | 19,480 | 44.9 |
| Total Quarter 3 | 57,287 | 65,208 | 78,757 | 83,961 | 97,615 | 76,087 | 95,596 | 96,765 | 9,962 | 117,236 | 21.2 |
| October | 17,466 | 15,712 | 14,385 | 19,625 | 24,582 | 22,579 | 21,854 | 24,182 | 5,572 | | |
| November | 19,475 | 21,881 | 26,904 | 27,319 | 29,955 | 23,221 | 33,736 | 40,996 | 9,730 | | |
| December | 25,492 | 28,738 | 34,329 | 39,627 | 42,586 | 38,950 | 43,399 | 51,160 | 17,241 | | |
| Total Quarter 4 | 62,433 | 66,331 | 75,618 | 86,571 | 97,123 | 84,750 | 98,989 | 116,338 | 32,543 | 0 | 0 |
| TOTAL | 291,723 | 290,577 | 353,722 | 386,052 | 453,612 | 416,434 | 441,344 | 486,739 | 164,539 | 282,375 | -56.7 |

Note: Quarter 3, 2021 are estimates taken from the Visitors' portal.

Trade

The merchandise trade data indicate that the value of imports in 2020 declined by 0.8 percent year-over-year (compared to 2019), primarily due to decreased activities in the Hospitality, Wholesale and Retail Trade sectors and restrictions imposed to protect the Country's health. The current forecast projects average year-over-year growth of 5 percent from 2021 to 2023.

Exports from the Turks & Caicos Islands in 2020 were valued at \$5.3 million, down 8.6 percent compared to the \$5.8 million for the same period in 2019. The overall merchandise trade deficit in 2020 was approximately \$482.3 million, which is up by roughly 1 percent year-over-year. This trend in merchandise trade imbalance is predicted to continue for the foreseeable future, with the possibility that the gap could widen as a result of price increases due to supply chain issues, as well as the predominantly service orientation of the Turks & Caicos Islands' economy, instead of commodity or manufacturing. Overall, although imports declined in 2020, they are forecasted to have increased during 2021, with further increases projected for 2022 and 2023, with a significant proportion being related to construction materials to develop commercial and residential properties for a growing global clientele. However, the importation of construction materials is counter-balanced by sales and tax returns from a robust real estate sector.

Notwithstanding the above, the Turks & Caicos Islands invisible trade balance, representing the intangibles of tourism services exports, financial services, and other professional services; when added to the physical trade balance, results in an overall positive trade balance. Some of the goals



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set out in the TCIG's Citizens Contract aim to increase the Country's growth in invisible exports, reduce its dependence on the importation of critical supplies (including foodstuff), and achieve essential goods sovereignty over the medium to long term.

Downside Risk

The Department of Statistics has forecasted a growth of approximately 5.6 percent in 2021, with roughly 5 percent predicted for 2022, although it remains sensitive to the overall outturn for tourism. The increased availability of COVID-19 vaccines in key source markets, and the gradual easing of travel restrictions, have contributed to the rebound of the tourism sector in 2021. The projections for 2022 is predicated on the assumptions that there will not be any significant spikes in COVID infections in our source tourism markets or restrictive travel protocols due to the same.

Given the susceptibility of the Turks & Caicos Islands to hurricanes and other exogenous global and regional shocks, adverse weather incidence may negatively impact the Country's growth targets. In addition, considering the risks above and given the volatility of the tourism sector as a whole, the TCIG believes that it is essential to keep this FSPS and the associated operational strategies under constant review.



TURKS AND CAICOS ISLANDS
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2022- 2026

AGGREGATE FINANCIAL TARGETS

The aggregate financial targets for core Government operations, listed below, have been established for 2022-23 and the three forward years 2023-2026, as per the agreement between the TCI and the UK governments. The targets fall into three (3) categories: operating, balance sheet, and cash flow.

Table 4- Aggregate Financial Target

| FINANCIAL MEASURES | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---|---------------------------|---------------------------|---------------------------|--------------------------|------------------|--------------------|--------------------|--------------------|
| | Unaudited Actuals \$'000s | Unaudited Actuals \$'000s | Unaudited Outturn \$'000s | Forecast Outturn \$'000s | Estimate \$'000s | Projection \$'000s | Projection \$'000s | Projection \$'000s |
| OPERATING TARGETS | | | | | | | | |
| Recurrent Revenue | 303,844 | 313,785 | 196,138 | 362,177 | 350,296 | 360,805 | 371,629 | 382,778 |
| Non-Recurrent Revenue | 11,181 | 1,222 | 6,647 | 1,403 | 454 | 453 | 453 | 453 |
| Total Revenue | 315,025 | 315,007 | 202,785 | 363,579 | 350,749 | 361,258 | 372,082 | 383,231 |
| Recurrent Expenditure | 219,490 | 231,585 | 258,711 | 304,171 | 311,230 | 317,396 | 325,331 | 331,154 |
| Non-Recurrent Expenditure | 9,359 | 8,035 | 5,455 | 10,490 | 9,565 | 8,689 | 10 | 7 |
| Total Operating Expenditure | 228,849 | 239,620 | 264,166 | 314,661 | 320,795 | 326,084 | 325,341 | 331,161 |
| Surplus Before Capital Programme | 86,176 | 75,387 | (61,380) | 48,918 | 29,955 | 35,174 | 46,741 | 52,070 |
| Capital Development Projects | (32,641) | (28,060) | (25,206) | (32,002) | (49,250) | (30,000) | (30,000) | (25,000) |
| Net Operating Surplus/Deficit | 53,534 | 47,327 | (86,587) | 16,916 | (19,295) | 5,174 | 16,741 | 27,070 |
| BALANCE SHEET TARGETS | | | | | | | | |
| Net Government Debt | (36,553) | (75,891) | 3,579 | (18,631) | (4,949) | (15,736) | (38,091) | (70,775) |
| CASH FLOW TARGETS | | | | | | | | |
| Opening Cash Balance | 119,492 | 155,318 | 207,170 | 30,365 | 47,358 | 28,140 | 33,390 | 50,208 |
| Net Operating Cash Surplus | 53,534 | 47,327 | (86,587) | 16,916 | (19,295) | 5,174 | 16,741 | 27,070 |
| Other Net Cash Inflows | 697 | 2,749 | 367 | 367 | 367 | 367 | 367 | 367 |
| Debt Repayment | (10,389) | (6,373) | (2,183) | (290) | (290) | (290) | (290) | (290) |
| *National Wealth Fund-In | (8,015) | (17,777) | - | - | - | - | - | - |
| New Borrowing | - | 25,925 | (88,402) | - | - | - | - | - |
| Closing Consolidated Fund Cash Balance | 155,318 | 207,170 | 30,365 | 47,358 | 28,140 | 33,390 | 50,208 | 77,356 |
| Closing Development Fund Balance | 31,015 | 30,728 | 31,261 | 26,314 | 26,314 | 13,130 | - | - |
| Closing National Forfeiture Fund Balance | 5,023 | 6,432 | 6,432 | 6,432 | 6,432 | 6,432 | 6,432 | 6,432 |
| Closing National Wealth Fund/Sinking Fund Balance | 8,029 | 25,806 | 25,806 | 25,806 | 25,806 | 25,806 | 25,806 | 25,806 |
| CASH FROM ALL SOURCES | 199,385 | 270,136 | 93,864 | 105,910 | 86,691 | 78,758 | 82,446 | 109,593 |

Source: Prepared by the Budget Office

Operating Targets

The operating targets reflect the three (3) primary areas from the working statement: operating revenue, operating expenses, and operating surplus. The operating surplus is the fundamental operating measure.

According to Table 4, total revenue in 2022-23 is forecast at \$350.7 million, which is \$12.8 million lower than the forecast outturn for 2021-22, and \$35.7 million higher than the audited actuals of 2019-20.



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Total expenditure before the capital contribution is forecast at \$320.8 million, an increase of \$6.1 million (1.9 percent) over the unaudited outturn for FY 2021-22, and \$81.2 million (33.5 percent) above the approved budget of 2019-20. Capital Expenditure is forecast at \$49.3 million. The forecast is for an operating deficit in 2022-23, funded through previous surpluses.

Balance Sheet Targets

Core Government assets and liabilities are reported as targets. Fixed assets are not currently recorded in the Government accounts. Net Government debt is forecast at negative \$4.9 million.

Cash Flow Targets

Net operating deficit before debt repayment is forecast at \$19.3 million in 2022-23 – 6.0 percent of recurrent revenue. Operating surplus is forecast at \$5.2 million in 2023-24, \$16.7 million in 2024-25, and \$27.0 million in 2025-26.

**COMPLIANCE WITH PRINCIPLES OF RESPONSIBLE FINANCIAL
MANAGEMENT**

Table 5 below summarises the extent to which the aggregate financial targets comply with responsible financial management principles. The table shows the degree of compliance with the principles in each forecast period year. An operating deficit is a forecast for FY 2022-23, and the Net Debt is forecast at a negative 1.4 percent of Recurrent Revenue.



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Table 5-Compliance with Principles of Responsible Financial Management

| PRINCIPLES | DEGREE OF COMPLIANCE | |
|--|--|---|
| <p>Operating Surplus: should be positive all years</p> <p>Operating Surplus = Total Operating revenue - Total Operating expenditure</p> | Complies in all years | |
| | 2013/14 | 25,851 |
| | 2014/15 | 69,633 |
| | 2015/16 | 47,395 |
| | 2016/17 | 30,803 |
| | 2017/18 | 45,553 |
| | 2018/19 | 45,519 |
| | 2019/20 | 11,508 |
| | 2020/21 | (133,449) |
| | 2021/22 | 16,916 |
| | 2022/23 | (19,295) |
| | 2023/24 | 5,174 |
| | 2024/25 | 16,741 |
| | 2025/26 | 27,070 |
| | <p>Debt Service: Debt servicing cost for the year should be no more than 10% of core revenue by the end of fiscal 2018/19</p> <p>(Debt servicing = interest + principal repayments + other debt related expenses + transfers to the Sinking Fund)</p> | Complies by the end of Fiscal year 2016/17 |
| 2013/14 | | 16.1% |
| 2014/15 | | 33.9% |
| 2015/16 | | 58.2% |
| 2016/17 | | 6.3% |
| 2017/18 | | 5.2% |
| 2018/19 | | 3.6% |
| 2019/20 | | 1.5% |
| 2020/21 | | 1.2% |
| 2021/22 | | 0.1% |
| 2022/23 | | 0.1% |
| 2023/24 | | 0.0% |
| 2024/25 | | 0.0% |
| 2025/26 | | 0.0% |
| <p>Net Debt : Should be no more than 110% of core revenue by fiscal 2015/16 and 80% of revenue by the end of 2018/19</p> <p>(Net debt = Government debt balances + weighted outstanding balance of statutory entities guaranteed debt - government cash balances)</p> | | Complies in 2014/15 and 2014/15 |
| | 2013/14 | 128.8% |
| | 2014/15 | 74.3% |
| | 2015/16 | 42.4% |
| | 2016/17 | 31.2% |
| | 2017/18 | 6.4% |
| | 2018/19 | -12.0% |
| | 2019/20 | -18.5% |
| | 2020/21 | 1.8% |
| | 2021/22 | -5.1% |
| | 2022/23 | -1.4% |
| | 2023/24 | -4.4% |
| | 2024/25 | -10.2% |
| | 2025/26 | -18.5% |
| | <p>Liquid Cash Reserves: Should be no less than 90 days of estimated expenditure by the end of financial year 2018/19</p> <p>At least 90 days in 2018/19: Liquid cash reserves = government cash balances +National Wealth Fund balance</p> | Complies by the end of Fiscal year 17/18 |
| (DAYS) | | |
| 2013/14 | | 35 |
| 2014/15 | | 41 |
| 2015/16 | | 64 |
| 2016/17 | | 95 |
| 2017/18 | | 148 |
| 2018/19 | | 214 |
| 2019/20 | | 271 |
| 2020/21 | | 118 |
| 2021/22 | | 121 |
| 2022/23 | | 96 |
| 2023/24 | | 100 |
| 2024/25 | | 117 |
| 2025/26 | | 145 |
| <p>Financial Risks: Should be managed prudently so as to minimise risk</p> | Complies in all years | |
| Insurance coverage exist for key assets and major potential liabilities. | | |
| Hurricane and other natural disaster preparedness strategy in place | | |

Source: Budget Office



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Operating Deficit/Surplus

The targets forecast an operating deficit for 2022-23 and an operating surplus for the immediate future (see further under budget aggregates).

Public Debt and Debt Servicing

Strategy 2 – Management of Public Debt, addresses debt repayment and servicing.

Liquid Cash Reserves

Liquid Cash Reserves include the cash balances, money market investments, and the Turks and Caicos National Wealth Fund (TCNWF). The compliance target requires a minimum of ninety (90) days of planned expenditure by the fiscal year 2018-19. The forecast for 2022-23 has ninety-six (96) days of planned spending – 6 days better than the Framework Document requires. TCIG will utilise balances in the development fund and the new FY 2022-23 over multiple fiscal years. Therefore, the actual cash flow position may be more robust than reflected in these projections, which assumes that development expenditure occurs in the year of approval. If the investment portfolio of the TCNWF changes to long-term, then the liquid cash reserves will change accordingly.



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FISCAL OUTLOOK

Budget Aggregates

The aggregate financial targets inform the 2022-23 estimates preparation and the economic outlook for 2023-24 to 2025-26. All projections are based on medium-term estimates that may change as the global and local public health response unfold. The strategic directions and actions to strengthen economic recovery align with the Vision 2040 document and the soon to be Medium-Term Development Strategy (MTDS). TCIG plans to make extensive investments in the Country's public infrastructure, pursued through a revenue generation regime that balances the principles of efficiency, equitability, and fairness.

Table 6- Turks & Caicos Islands Government General Government Sector Budget Aggregates

| | Unaudited Actuals | Original Estimates | Revised Estimates | Unaudited Actual | Approved Estimates | Forecast | Estimates | Projections | | | Totals |
|--------------------------------|----------------------|-----------------------|----------------------|---------------------|-----------------------|------------------|------------------|------------------|------------------|------------------|--------------------|
| | 2019-20 | | 2020-21 | | 2021-22 | | 2022-23 | 2023-24 | 2024-25 | 2025-26 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Recurrent Revenue | 313,785 | 261,541 | 169,703 | 196,138 | 271,973 | 362,177 | 350,296 | 360,805 | 371,629 | 382,778 | 2,540,690 |
| Per cent of GDP | 26.15% | 23.56% | 18.45% | 21.32% | 28.93% | 36.96% | 34.01% | 33.36% | 32.73% | 32.10% | |
| Recurrent Expenses | (231,585) | (294,755) | (273,565) | (258,711) | (305,815) | (304,171) | (311,230) | (317,396) | (325,331) | (331,154) | (2,203,704) |
| Per cent of GDP | 19.30% | 26.55% | 29.74% | 28.12% | 32.53% | 31.04% | 30.22% | 29.35% | 28.65% | 27.77% | |
| Underlying cash balance | 82,200 | (33,214) | (103,863) | (62,573) | (33,841) | 58,005 | 39,066 | 43,409 | 46,298 | 51,623 | 336,986 |
| Per cent of GDP | 6.85% | -2.99% | -11.29% | -6.80% | -3.60% | 5.92% | 3.79% | 4.01% | 4.08% | 4.33% | |
| Total Revenue | 315,007 | 266,345 | 174,045 | 202,785 | 273,396 | 363,579 | 350,749 | 361,258 | 372,082 | 383,231 | 2,582,310 |
| Per cent of GDP | 26.25% | 24.00% | 18.92% | 22.04% | 29.08% | 37.10% | 34.05% | 33.40% | 32.77% | 32.14% | |
| Total Expenses | (239,620) | (301,321) | (279,948) | (264,166) | (315,880) | (314,661) | (320,795) | (326,084) | (325,341) | (331,161) | (2,254,874) |
| Per cent of GDP | 19.97% | 27.15% | 30.43% | 28.71% | 33.60% | 32.11% | 31.15% | 30.15% | 28.65% | 27.77% | |
| Net operating balance | 75,387 | (34,976) | (105,903) | (61,380) | (42,483) | 48,918 | 29,955 | 35,174 | 46,741 | 52,070 | 327,437 |
| Net capital investment | (28,060) | (35,259) | (27,546) | (25,206) | (27,053) | (32,002) | (49,250) | (30,000) | (30,000) | (25,000) | (237,920) |
| Fiscal balance | 47,327 | (70,235) | (133,449) | (86,587) | (69,536) | 16,916 | (19,295) | 5,174 | 16,741 | 27,070 | 89,517 |
| Per cent of GDP | 3.94% | -6.33% | -14.51% | -9.41% | -7.40% | 1.73% | -1.87% | 0.48% | 1.47% | 2.27% | |
| GDP | 1,200,000 | 1,110,000 | 920,000 | 920,000 | 940,000 | 980,000 | 1,030,000 | 1,081,500 | 1,135,575 | 1,192,354 | |

*GDP forecast provided by STATS

Table Prepared by Budget Office

The 2022-23 projection for recurrent receipt is \$350.3 million (34.0 percent of GDP), approximately \$11.9 million lower than the forecast outturn for 2021-22, and \$36.5 million higher than the actual performance for 2019-20.

Non-recurrent revenue is \$0.4 million. Total revenue is \$350.7 million, which is 31.0 percent of GDP. The forecast for FY 2022-23 is for most sectors to normalise to the pre-pandemic period of FY 2019-20.



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The 2022-23 forecast for recurrent expenditure is \$311.2 million (30.2 percent of GDP), approximately \$7.0 million greater than 2021-22 and \$79.6 million above 2019-20. Total expenditure excluding capital is forecasted at \$320.8 million, 31.1 per cent of GDP. The growth plan for recurrent expenditure is 2.5 per cent for the future years.

Projections for total expenditure in 2023-24 to 2025-26 is \$326.1 million, \$325.3 million, and \$331.2 million, respectively. The predictions for Net Capital Investment for the period 2022-2026 is \$134.3 million, with \$49.3 million allocated for 2022-23.

Table 7- Summary of Turks and Caicos Islands Government General Government Sector Cash Flows

| | Unaudited Actuals 2018-19 \$'000s | Unaudited Actuals 2019-20 \$'000s | Revised Estimates 2020-21 \$'000s | Unaudited Actuals 2020-21 \$'000s | Estimates 2021-22 \$'000s | Forecast | Estimate 2022-23 \$'000s | Projections 2023-24 \$'000s | 2024-25 \$'000s | 2025-26 \$'000s |
|---|--|--|--|--|---------------------------------|-----------------|--------------------------------|-----------------------------------|--------------------|--------------------|
| Cash Receipts | | | | | | | | | | |
| Recurrent Revenue/ Operating cash receipts | 303,844 | 313,785 | 169,703 | 196,138 | 271,973 | 362,177 | 350,296 | 360,805 | 371,629 | 382,778 |
| Non Recurrent Receipts | 11,181 | 1,222 | 4,342 | 6,647 | 1,423 | 1,403 | 454 | 453 | 453 | 453 |
| Total cash receipts | 315,025 | 315,007 | 174,045 | 202,785 | 273,396 | 363,579 | 350,749 | 361,258 | 372,082 | 383,231 |
| Cash Payments | | | | | | | | | | |
| Recurrent Expenditure/Operating cash payments | 219,490 | 231,585 | 273,565 | 258,711 | 305,815 | 304,171 | 311,230 | 317,396 | 325,331 | 331,154 |
| Non Recurrent Expenditure | 9,359 | 8,035 | 6,382 | 5,455 | 10,065 | 10,490 | 9,565 | 8,689 | 10 | 7 |
| Capital Expenditure | 32,641 | 28,060 | 27,546 | 25,206 | 27,053 | 32,002 | 49,250 | 30,000 | 30,000 | 25,000 |
| Total cash payments | 261,490 | 267,680 | 307,494 | 289,372 | 342,932 | 346,663 | 370,045 | 356,084 | 355,341 | 356,161 |
| Underlying cash balance | 52,608 | 269,471 | 82,200 | (33,214) | (103,863) | (62,573) | (33,841) | 58,005 | 39,066 | 46,298 |
| Per cent of GDP | 4.78% | 22.46% | 8.93% | -3.61% | -11.05% | -6.38% | -3.29% | 5.36% | 3.44% | 3.88% |
| Fiscal Balance | 53,534 | 47,327 | (133,449) | (86,587) | (69,536) | 16,916 | (19,295) | 5,174 | 16,741 | 27,070 |
| Per cent of GDP | 4.87% | 3.94% | -14.51% | -9.41% | -7.40% | 1.73% | -1.87% | 0.48% | 1.47% | 2.27% |
| GDP | 1,100,000 | 1,200,000 | 920,000 | 920,000 | 940,000 | 980,000 | 1,030,000 | 1,081,500 | 1,135,575 | 1,192,354 |

Source: GDP forecast for 2022-23 to 2024-25 provided by SPPD

Table Prepared by Budget Office

A fiscal balance/operating deficit of negative \$19.3 million, which is 1.9 percent of GDP, is projected for 2022-23. Projections are that there will be operating surpluses of \$5.1million (0.5 percent of GDP) in 2023-24, \$16.7 million (1.5 percent of GDP) in 2024-25, and \$27.0 million (2.3 percent of GDP) in 2025-26.

TCIG pursues a sustainable fiscal macroeconomic policy that encourages and enhances private sector (local and foreign) investment. The plan is to impose no new taxes on the citizenry during FY 2022-23.

The expenditure growth target is 7.0 percent over the approved 2021-22, with the allocation to capital investments at approximately 13.3 percent of the planned expenditure for 2022-23. Table 8 below shows the budget reconciliation details and the revised baseline ceilings for the medium term.



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Table 8-Baseline Budget Ceiling

| | 2022-23 | 2023-24 | 2024-25 |
|---|----------------|-------------------|-------------------|
| | Budget Ceiling | Forward Estimates | Forward Estimates |
| | \$'000s | \$'000s | \$'000s |
| Budget and Forward Estimates (rolled forward from 2021/22 budget document) | 315,497 | 295,440 | 295,440 |
| + Increase in SIPT Costs | 5,242 | 5,242 | |
| + Forward Year Impact of 2021-22 Post-Budget Decisions | 10,538 | 2,218 | 2,218 |
| + Adjustment of New Spending Requests Approval(Recurrent) | 6,768 | 16,444 | 16,290 |
| + Adjustment of New Spending Requests Approval (Capital) | 20,000 | 20,000 | 20,000 |
| + Allocation for Covid Expenses | 3,000 | | |
| + Increase in Salaries, Pension and Gratuities | 9,000 | 9,000 | 9,000 |
| BASELINE BUDGET CEILING | 370,045 | 348,343 | 342,948 |

Source: Budget Office

Spending priorities will ensure that the TCIG remains compliant with the "Principles of Responsible Financial Management" outlined in the framework document. Discussed below are the major components of the five (5) strategies:



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Strategy 1 - Controlling Government Expenditure –Spending Priorities

In 2022-23, the operating expenditure target is \$370.0 million. Table 9 below illustrates the allocations into categories and by ministries.

Table 9-Budget Allocations by Ministry

| Ministries | 2022/23 | | | | | 2023/24 | 2024/25 |
|---|--|-------------------------|---------------|----------------------------|-------------------|-------------------|-------------------|
| | Baseline Budget Ceiling R/F from 2021/22 | Post Budget Adjustments | New Spends | Revised Based Line Ceiling | % of Total Expen. | Forward Estimates | Forward Estimates |
| | \$'000 | \$'000 | \$'000 | \$'000 | % | \$'000 | \$'000 |
| Office of the Governor | 7,617 | 500 | 96 | 8,213 | 2.2% | 8,135 | 8,135 |
| Police | 29,160 | 1,805 | 700 | 31,665 | 8.6% | 32,282 | 28,672 |
| Attorney General's Chambers | 6,147 | 2,008 | - | 8,155 | 2.2% | 7,458 | 7,458 |
| Judicial Administration | 6,646 | 2,736 | 319 | 9,701 | 2.6% | 9,559 | 4,087 |
| Statutory Charges | 47,577 | 1,123 | 29,000 | 77,699 | 21.0% | 58,449 | 58,449 |
| Ministry of Immigration & Border Services | 14,678 | 750 | | 15,428 | 4.2% | 15,522 | 15,522 |
| Ministry of Finance, Investment & Trade | 19,324 | 1,600 | 849 | 21,773 | 5.9% | 20,966 | 20,966 |
| Office of the Deputy Governor | 2,645 | 129 | 125 | 2,899 | 0.8% | 2,933 | 2,933 |
| Ministry of Education, Labour, Employment and Customer Service | 41,987 | 512 | 1,000 | 43,499 | 11.8% | 44,410 | 44,410 |
| Office of the Director of Public Prosecution | 1,675 | - | 93 | 1,767 | 0.5% | 1,763 | 1,763 |
| Ministry of Home Affairs and Transportation | 19,816 | 326 | 919 | 21,061 | 5.7% | 21,344 | 21,344 |
| Ministry of Physical Planning & Infrastructure Development | 19,330 | 98 | 500 | 19,928 | 5.4% | 19,720 | 19,720 |
| Ministry of Tourism, Agriculture, Fisheries, Heritage & the Environment | 13,878 | 1,572 | 400 | 15,850 | 4.3% | 14,615 | 14,615 |
| Ministry of Health and Human Services | 77,368 | 661 | 3,045 | 81,074 | 21.9% | 79,415 | 79,415 |
| House of Assembly | 3,564 | (3) | 250 | 3,811 | 1.0% | 3,787 | 3,787 |
| Office of the Premier and Public Policy | 3,493 | 683 | 700 | 4,876 | 1.3% | 4,951 | 4,951 |
| National Security Secretariat | 1,944 | | 702 | 2,646 | 0.7% | 3,034 | 3,034 |
| BASELINE RECURRENT BUDGET CEILING | 316,848 | 14,499 | 38,698 | 370,045 | 100.0% | 348,343 | 339,261 |

Source: Budget Office

The allocations by Ministry are indicative and may be subject to adjustments as the budget progresses.

Funding Prioritisation

1.0 Investment in Digitization and E-Governance

The Government will continue to strategically focus on the sustainable modernisation of the public sector service delivery. The Government will spend approximately \$6.0 million over the next three years.



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2.0 Investment in Public Health Response to COVID-19

As the pandemic continues, the Government has allocated \$3.0 million for the ongoing management of the pandemic. The allocation will primarily focus on healthcare management and the support and management of the in-bound travellers' portal.

3.0 Investment in Tourism Development

\$5.7 million has been allocated towards enhancing the tourist product, including developing a Destination Management Office (DMO).

4.0 Investment in Law Enforcement, Border Control and Security

The Government has prioritised funding for the TCI Regiment to increase its reserve complement by 20 officers and funding for twelve marine officers in the Royal Turks and Caicos Islands Police Force (RT&CIPF). In addition, the Government has agreed to bolster the operating expenses of the RT&CIPF to enhance intelligence gathering and investigations by \$1.4 million.

5.0 Investment in Human Capital Development

5.1 Civil Service

Following consultation between the Civil Service Association (CSA) and the Deputy Governor's Office to identify a suitable retiring benefit package, the Government has allocated approximately \$9.0 million to facilitate a contributory pension scheme, increase employers' contribution to the National Insurance Board (NIB), and increase Civil Servants' basic salary.

5.2 Scholarship Fund

The Government's flagship priority is **Human Capital Development**. It proposes increasing the scholarship fund by an additional \$0.5 million (12 percent) in this FY to increase the number of international and local scholarships awarded annually.

5.3 Increased Access to Secondary Education

The Government will upgrade the Clement Howell and Louise Garland-Thomas high schools to senior high schools offering 1st to 5th form education. The Government has allocated the necessary resources to facilitate the upgrade.



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6.0 Social Welfare

An additional \$0.65 million is available to enhance social welfare. The allocation will accommodate an increase in monthly payments to indigents.

7.0 Legal Aid

An additional \$150,000 has been allocated to extend legal aid to the accused at the point of arrest.

8.0 Statistical Surveys

Approximately \$0.8 million is allocated to facilitate the institutional improvements in the national statistical system as outlined in the Government's manifesto, particularly the transformation of the Central Statistics Organization (CSO) into a National Statistics Institute. The aim is to improve the regulatory framework for the coordination and governance of the National Statistics Institute. A national census will be conducted in the financial year.

9.0 Environmental Health and Emergency Medical Services

The Government has allocated resources to facilitate 12 port health officers to enact the International Health Regulations of 2005. It is a national approach to standardise the functions and activities in delivering port health services.

In addition, a second ambulance base with appropriate staffing is funded for Providenciales.

10.0 Investment in Government Communication and Protocol

Funding is available to formulate a communication directorate to manage the overarching government communications and support citizenship engagement.



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Discussed below is the allocation by economic classifications:

| | Unaudited Actuals | Unaudited Actuals | Unaudited Actuals | Original Estimates | Revised Estimates | Unaudited Actuals | Estimates | Forecast Outturn | Estimates | Projections | | |
|---|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|----------------|------------------|----------------|----------------|----------------|----------------|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2020-21 | 2021-22 | 2021-22 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Recurrent Expenditure | | | | | | | | | | | | |
| Total Personnel Costs | 80,862 | 84,070 | 87,949 | 104,744 | 92,053 | 88,217 | 102,623 | 99,238 | 119,898 | 124,110 | 127,213 | 127,213 |
| Pension and Gratuity | 6,361 | 6,378 | 6,012 | 7,273 | 9,115 | 8,934 | 9,955 | 9,455 | 13,105 | 13,433 | 13,769 | 14,113 |
| Transfers to Nhib and medical treatment | 35,885 | 32,701 | 33,254 | 33,254 | 31,481 | 31,481 | 32,534 | 32,534 | 32,894 | 33,717 | 34,560 | 35,424 |
| Hospital Provisional Charges | 20,692 | 20,043 | 21,403 | 22,585 | 22,181 | 22,137 | 22,907 | 23,884 | 23,907 | 24,505 | 25,118 | 25,746 |
| Subventions | 11,523 | 12,514 | 13,658 | 19,391 | 16,314 | 14,843 | 23,648 | 22,678 | 27,118 | 27,796 | 28,491 | 29,991 |
| Rental of Assets | 4,682 | 4,716 | 5,033 | 5,341 | 5,278 | 5,084 | 6,077 | 6,071 | 5,827 | 5,972 | 6,122 | 6,275 |
| COVID-19 Expenditure | - | - | - | - | 10,074 | 4,500 | 6,655 | 6,655 | 3,136 | - | - | - |
| Fiscal Policy Intervention Costs | - | - | - | 25,500 | 27,900 | 15,000 | 8,300 | 8,300 | - | - | - | - |
| Other Expenditure | 48,804 | 59,066 | 64,275 | 76,667 | 59,170 | 68,514 | 93,115 | 95,286 | 85,344 | 87,863 | 90,059 | 92,311 |
| Total Recurrent Expenditure | 208,808 | 219,490 | 231,585 | 294,755 | 273,565 | 258,711 | 305,815 | 304,101 | 311,230 | 317,396 | 325,331 | 331,071 |
| <i>Annual per cent recurrent expenditure inc:</i> | 42.28% | -8.49% | -6.43% | 27.28% | -7.19% | -5.43% | 18.21% | -0.56% | 2.34% | 1.98% | 2.50% | 1.76% |
| Non-Recurrent Expenditure | | | | | | | | | | | | |
| Civil Recovery | 729 | 888 | 431 | 500 | 900 | 986 | 700 | 1,625 | 700 | - | - | - |
| SIPT Legal Aide | 4,605 | 4,164 | 4,119 | 3,310 | 3,000 | 2,286 | 5,065 | 5,065 | 5,065 | 5,065 | - | - |
| SIPT Prosecution | 3,731 | 3,608 | 3,200 | 2,610 | 2,336 | 2,061 | 3,610 | 3,610 | 3,610 | 3,610 | - | - |
| Debt service, interest and fees | 985 | 699 | 285 | 146 | 146 | 122 | 690 | 190 | 190 | 14 | 10 | 7 |
| Total Non-Recurrent Expenditure | 10,050 | 9,359 | 8,035 | 6,566 | 6,382 | 5,455 | 10,065 | 10,490 | 9,565 | 8,689 | 10 | 7 |
| Total Operating Expenditure | 218,858 | 228,849 | 239,620 | 301,321 | 279,948 | 264,166 | 315,880 | 314,591 | 320,795 | 326,084 | 325,341 | 331,078 |

Table 10 - Expenditure by Economic Classifications

Source: Budget Office

Staff Costs

Personnel costs will account for \$119.9 million, 37.6 percent of expenditure, and 38.6 percent of recurrent revenue in 2022-23. Ministries, Departments, and Agencies will reprioritise existing vacant positions to identify other critical positions needed in the FY. Included in staff costs is a 6.5 percent salary increase for Civil Servants. They will contribute 3.5 percent of the increase as their employees' contribution to the NIB and the newly formed contributory pension scheme.

The estimates continue to support the payment of biennial performance-based increments.

Pension and Gratuity

The pension and gratuity allocations for 2022-23 account for \$13.1 million, which is 3.7 per cent of total spending, and 4.6 per cent of recurrent revenue. Included is an increase of 3.0 percent employer's contribution to support a contributory pension scheme for public servants and a 0.5 percent increase in NIB.



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PPP Provisional Charges and Subventions to the NHIB

The subvention of \$32.9 million to the National Health Insurance Plan (NHIP) will subsidise the treatment abroad programme, utility charges for the two major hospitals, and health care costs for juvenile and the indigent population. In addition to approximately \$38 million projected to be received in Contribution Income. In addition, hospitals' related debt obligations for the construction and equipment contract is \$23.9 million.

Subvention (Net NHIP)

The subvention allocation for Statutory Bodies is \$27.1 million or 8.6 per cent of recurrent expenditure. Increases in FY 2022-23 over 2021-22 are:

- Destination Management Organisation - \$1.2m
- Gaming – 700k
- Integrity Commission – 500k
- InvestTCI – 500k
- Community College – 500k
- National Trust – 100k

Special Investigation and Prosecution Team (SIPT)

The annual forecast allocation for the prosecution and defence of the ongoing special investigation trials is \$8.7 million or 2.7 percent of the recurrent expenditure. Grants for the prosecution team is \$3.6 million, and the legal aid for the defence team is \$5.1 million. The assumption is that the trials will last for a further 24 months. Other Civil Recovery matters are allocated at \$0.7 million.



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Other Goods and Services

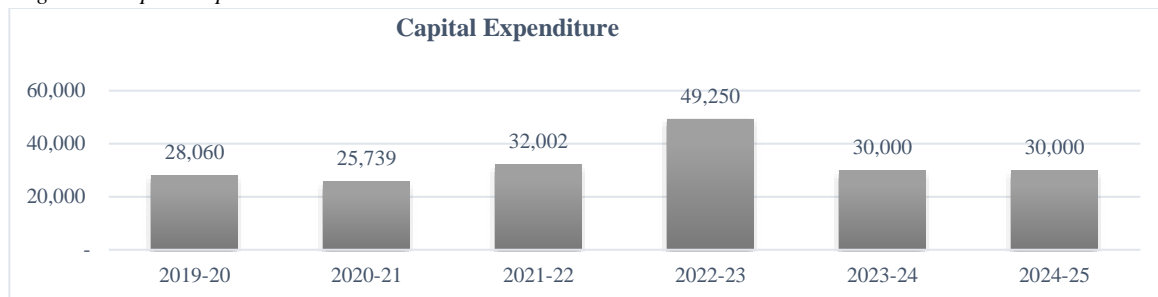
The Government will continue to provide funding in the budget for the following areas of importance:

- Tertiary education scholarships for students and civil servants to reduce the number of imported skills into the Country;
- Curriculum development at all levels, including adult education courses designed to address the findings of the skills audit, increase skills, and address skills shortage;
- Government grants to MSME businesses to encourage and support innovation;
- Home help and social welfare;
- Maintenance of government infrastructure; and
- Fiscal prudence and good governance.

Capital Expenditure

Over the years, strong fiscal discipline has allowed for the release of additional funds to improve public infrastructure. The objective is to reduce structural barriers to a global competitive advantage by unlocking a sustainable macro-fiscal environment favourable to private sector investments and citizens' wealth creation. Funding allocation for capital investment programmes continues to outpace the actual performance. The funding allocation for FY 2022-23 is \$49.3 million.

Figure 3- Capital Expenditure Allocations - 2019-25



Source: Budget Office

*2019-2021 – actual performance 2021-25 approved and projections.



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Strategy 2 - Management of Public Debt

Background

The Constitution sets out many general principles for public financial management. These principles assert that the Government shall, after a countrywide public consultation, formulate a framework document stating its principles of public financial management, which sets: (i) limits on the levels of public Debt relative to public revenue; (ii) limits on debt service costs as a proportion of total public Expenditure; and (iii) levels of reserves relative to public Expenditure.

The Fiscal Framework Document (FFD), agreed with the Secretary of State, lays out the prerequisites for new borrowing that must be met unless, in exceptional circumstances, different arrangements are agreed in writing between TCIG and the Secretary of State. These are that TCIG will borrow only to fund capital expenditure where:

- (i) the proposed project is forecast to yield enough revenues to support the additional debt service costs; or
- (ii) The Government can demonstrate that it has enough surplus operating cash flows to fund the additional debt service costs, which arise from borrowing to finance such capital expenditure. The FFD further states that the TCIG should prefer borrowing from concessional lenders to ensure that the lender's expertise is brought to projects.

In addition, according to the FFD, the level of Debt must be affordable and consistent with the delivery of macroeconomic and fiscal sustainability and allow for financial stability in the short, medium, and long term. To this end, the TCIG must: (i) comply with certain borrowing limits within specified dates specified; (ii) remain in compliance with the borrowing limits after the dates specified, or such earlier date by which compliance is achieved; and (iii) put in place arrangements to fully amortise each loan by its maturity date.



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Borrowing requirement

No new borrowing is forecast in FY 2022-23. Below is a summary of the FFD ratio thresholds and TCIG's projected compliance in addition to that:

1. Operating Surplus target will be met in all years.
2. Net Debt must not exceed 80% of annual operating revenue by 2018-19; this will be completed in all years.
3. Debt Service should not exceed 10% of annual operating income. The debt service ratio is met in all years.
4. Liquid Cash Reserves should not fall below 25 percent operating yearly expenditure. LCR is completed in all years.

The Airports Authority repaid its loan in FY 2020-21, so TCIG's obligation to maintain a 20 percent debt guarantee has ceased. The Imputed Debt obligation for the hospital PPP agreement is forecast to reduce to \$50.5 million. Net Government Debt is forecast to be negative 0.48 percent of GDP.

Table 11- Government Debt Schedule at Year-end

| GOVERNMENT DEBT | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|---------------------------------------|------------------|------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | \$' 000 | \$' 000 | \$' 000 | \$' 000 | \$' 000 | \$' 000 | \$' 000 | \$' 000 |
| RBC 2015-2016 | 4,000 | - | - | - | - | - | - | - |
| CDB Loans | 1,164 | 804 | 688 | 572 | 456 | 340 | 224 | 108 |
| CDB 2015-2016 | 2,000 | 1,000 | - | - | - | - | - | - |
| TC Bank Loan | 2,340 | 1,273 | - | - | - | - | - | - |
| Core Government Debt | 9,504 | 3,077 | 688 | 572 | 456 | 340 | 224 | 108 |
| Imputed PPP Hospital debt outstanding | 71,336 | 66,118 | 60,901 | 55,683 | 50,466 | 45,248 | 40,031 | 34,813 |
| Total Government Debt | 80,840 | 69,195 | 61,589 | 56,255 | 50,922 | 45,588 | 40,255 | 34,921 |
| Net Government Debt | (36,553) | (75,891) | 3,579 | 7,531 | (4,949) | (15,736) | (38,091) | (70,775) |
| Net Core Debt | (119,011) | (169,141) | (83,127) | (73,958) | (81,221) | (86,790) | (103,927) | (131,394) |

Table Prepared by Budget Office

Debt Servicing

The Framework document defines Debt Servicing as the annual payments resulting from public borrowing commitment or any other forms of borrowing, including the entire public sector, any other debt guaranteed by the Government, and the amounts transferred to the Sinking Fund each year. The Government has been compliant with responsible financial management ratio principles and is forecasting that debt servicing will remain below 1 percent of GDP.



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Table 12- Net Worth, Net Financial Worth, Net Debt and Net Interest Payments

| | Unaudited | Unaudited | Unaudited | Unaudited | Estimates | Projection | | | |
|-----------------------|------------------|------------------|------------------|----------------|----------------|------------------|------------------|------------------|------------------|
| | Actual | Actual | Actuals | Actual | Estimates | Estimates | | | |
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2024-25 |
| | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s |
| Net debt | - | (36,553) | (75,891) | 3,579 | (18,631) | (4,949) | (15,736) | (38,091) | (70,775) |
| Per cent of GDP | 0.00% | -3.32% | -6.32% | 0.39% | -1.98% | -0.48% | -1.46% | -3.35% | -5.94% |
| Net Interest payments | 985 | 699 | 285 | 122 | 690 | 190 | 14 | 10 | 7 |
| Per cent of GDP | 0.10% | 0.06% | 0.02% | 0.01% | 0.07% | 0.02% | 0.00% | 0.00% | 0.00% |
| GDP | 1,020,000 | 1,100,000 | 1,200,000 | 920,000 | 940,000 | 1,030,000 | 1,081,500 | 1,135,575 | 1,192,354 |

Source: GDP forecast for 2021-22 provided by SPPD and 2022-2024 by S&P

Table Prepared by Budget Office

Strategy 3 - Revenue Enhancement Strategy

In FY 2022-23, the forecast includes no new revenue streams. The Government is keen on transforming the taxation system to be less volatile and susceptible to global, regional, and environmental factors while being fair, equitable, and efficient. A strategic priority is to transform the revenue collection agencies across the ministries, departments, and agencies into a single-autonomous Revenue Authority (RA). The Caribbean Regional and Technical Assistance Centre (CARTAC) will continue to work with the Ministry of Finance, Trade and Investments to advance the transformation process in the FY 2022-23.

Inland Revenue Department (IRD)

In FY 2022/23, the IRD plans to streamline the processes started in FY 2021-22. The objective is to ensure the tax department continues to evolve via the implementation of new revenue measures, which will create sustainability to the Government's revenue streams. Enhancing value service delivery makes it easier to do business and brings about greater efficiencies in TCIG's compliance and administrative programs. Some of the critical initiatives for FY2022-23 are:

- Creation of the legal framework to govern the RA;
- Creation of Organisational Structure that would capture the functions of RA, which encompasses all the functions of the present IRD and the revenue arm of the Customs Department;
- A Human Resource (HR) framework which will include the staff and remunerations;
- Information Technology (IT) systems that will meet the needs of the RA to maximise efficiencies;



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- Collaboration with other RA counterparts to learn from their experiences and ensure the functions align with a modern RA.
 - Consultancy for the rationalisation and broadening of the tax structure.
- ❖ Phase two (2) of the E-Services program should complete within a calendar year. This phase entails the migration of the following revenue streams to the E-Services Portal:
- Hotel and Tourism (Taxation) Ordinance (HTT);
 - Domestic Financial Services Sales Tax Ordinance;
 - Insurance Premium Sales Tax Ordinance;
 - Dormant Accounts Ordinance;
 - Telecommunication Taxation Ordinance;
 - Business Licensing Ordinance; and
 - Stamp Duty Ordinance (Vehicle Hire).
 - The merging of NIB and NHIB collection and compliance function.

This initiative aims to add value to TCIG's service delivery and make it easier to do business with the IRD. Additionally, it will enhance compliance efforts as it will be possible to transact with the IRD online 24x7. It will be a significant step towards transiting and reforming the IRD operations.

Revenue Assumptions

The primary revenue streams are volatile because they are linked directly or indirectly to the tourism sector - the sector most impacted by the ongoing pandemic. Therefore, the revenue streams have been forecasted using best-case, most likely, and worst-case scenarios, with the baseline adjusted to +/- 10 percent. Revenues for the financial year assume greater than 80 percent hotel occupancy. The forecast is robust, as historically, the tourism sector has shown significant resilience to the global economic crisis, as experienced between 2011-2016, and the rapid recovery from the passages of Hurricanes Irma and Maria in 2017, and the increase in tourist arrivals since summer 2021. The primary revenue streams that the change in tourism arrivals will impact are hotel and restaurant taxes, customs and related duties, work permit fees, and fuel tax.



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Table 13- Revenue Forecast

| Recurrent Revenue | Audited Actual | Audited Actual | Revised Estimate | Unaudited Actual | Estimate | Forecast Outturn | Estimate | Per. R/R | Projection | | |
|--|----------------|----------------|------------------|------------------|----------------|------------------|----------------|-------------|----------------|----------------|----------------|
| | 2017/18 | 2018/19 | 2020/21 | | 2021/22 | | 2022/23 | | 2023/24 | 2024/25 | 2025/26 |
| | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s | \$'000s |
| Import Duty | 67,935 | 76,570 | 41,856 | 42,915 | 60,060 | 73,433 | 83,806 | 24% | 86,320 | 88,910 | 91,577 |
| Hotel & Restaurant Tax | 59,152 | 67,218 | 12,810 | 19,852 | 64,944 | 80,170 | 85,381 | 24% | 87,942 | 90,580 | 93,298 |
| Customs Processing Fee | 33,464 | 34,911 | 22,695 | 22,065 | 28,759 | 36,899 | 40,513 | 12% | 41,728 | 42,980 | 44,269 |
| Stamp Duty on Land Transactions | 26,554 | 28,988 | 22,174 | 34,498 | 45,000 | 79,875 | 45,000 | 13% | 46,350 | 47,741 | 49,173 |
| Work Permits and Residency Fees | 23,221 | 29,515 | 17,310 | 22,932 | 25,392 | 27,814 | 29,927 | 9% | 30,825 | 31,749 | 32,702 |
| Fuel Tax | 8,547 | 10,285 | 7,022 | 7,581 | 8,848 | 10,948 | 11,787 | 3% | 12,141 | 12,505 | 12,880 |
| Business Licences | 2,380 | 2,705 | 2,785 | 2,677 | 4,777 | 3,440 | 3,663 | 1% | 3,773 | 3,886 | 4,003 |
| Other Recurrent Revenues | 40,163 | 53,652 | 43,050 | 43,618 | 34,195 | 49,598 | 50,219 | 14% | 51,726 | 53,278 | 54,876 |
| Total Recurrent Revenue | 261,416 | 303,844 | 169,703 | 196,138 | 271,973 | 362,177 | 350,296 | 100% | 360,805 | 371,629 | 382,778 |
| MOF annual per cent revenue increase | -0.6% | 11.3% | -45.9% | -25.0% | 60.3% | 84.7% | 28.8% | -100% | 3.0% | 3.0% | 3.0% |
| Non-Recurrent Revenue | | | | | | | | | | | |
| Land Sale Receipts | 692 | 1,079 | 342 | 428 | 428 | 408 | 453 | 100% | 453 | 453 | 453 |
| EU Grants and Other Grants | 4,780 | 7,732 | 4,000 | 6,219 | 995 | 995 | 0 | 0% | - | - | - |
| Civil Recovery Program | - | 2,370 | - | - | - | - | - | 0% | - | - | - |
| Hurricanes Irma and Maria CCRIF Payout | 15,284 | - | - | - | - | - | - | 0% | - | - | - |
| Total Non-Recurrent Revenue | 20,756 | 11,181 | 4,342 | 6,647 | 1,423 | 1,403 | 454 | 100% | 453 | 453 | 453 |
| Total Revenue | 282,173 | 315,025 | 174,045 | 202,785 | 273,396 | 363,579 | 350,749 | | 361,258 | 372,082 | 383,231 |

Prepared by the Budget Office

Strategy 4 - Financial Improvement of Statutory Authorities and Government Companies

The fourth element of the Government's fiscal strategy is to reduce Expenditure within Statutory Boards (SBs) and Government Companies, thereby decreasing the level of operational and capital support required over the next six (6) years. TCIG is committed to working with the relevant entities to implement appropriate policy actions necessary to realise this goal. Quarterly financial reports from SBs are submitted to the Ministry of Finance for review, and if interventions are needed, the required steps are taken. There is a statutory requirement for the Turks and Caicos Airport Authority, Financial Services Commission, Telecommunications Commission, Invest TCI, Port's Authority, and the bodies of good governance to remit proportions of their net surpluses to the Government annually. In 2022-23, the forecasted remittance from SBs is over \$10.0 million.



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Airports Authority

The pandemic has underscored the need to expand the Providenciales International Airport, where there is the need for a new terminal facility to accommodate the increased passenger inflow. In July 2011, the Airports Authority completed a total redevelopment and rehabilitation of the airside of the Providenciales International Airport to become fully compliant with ICAO annex 14 and accommodate the B777-300 passenger jet, thereby facilitating direct services from, as far as, Asia and Europe. In December 2014, an extension to the existing terminal was completed to improve the passenger experience and obtain IATA service level compliance. The terminal size nearly doubled, from 51,462 sq. ft. to 92,321 sq. ft., which, based on forecasts at that time, was considered sufficient to accommodate passenger growth up to the year 2028. However, the Country has experienced growth over the nominal estimates of 3.0 percent annually, resulting in the Providenciales International Airport being inadequate to accommodate the current level of traffic – both airline and passenger – while offering a high level of customer service. As such, urgent discussions on the expansion of the Providenciales International Airport have commenced, and the Public-Private Partnership (PPP) financing model is the favoured option. The Providenciales International Airport is the most critical component of the public sector infrastructure driving growth. The Government is committed to ensuring that it is appropriately sized (for now and into the future), modernised, and fit for purpose.

Ports Authority

The Seaports infrastructure development in the Turks & Caicos Islands is consistent with the Vision 2040 Document, the MTDS, and SDD 1, which speaks to the Turks & Caicos Islands having a robust and climate-resilient infrastructure, as well as SDD 5, which addresses good governance. The continued improvement, maintenance, and resilience of port infrastructure is the strategic priority. The authority commenced the South Dock – the largest shipping port in the TCI – redevelopment in October 2021. TCIG has budgeted \$31 million for this project, which it estimates will run through 2022-23. Project expenditure ramped up in 2021-22, with \$7.3 million allocated towards this project.



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Strategy 5 - Public-Private Partnerships

The fifth element of the Government's fiscal strategy relates to the need for ongoing development of the Country's infrastructure to support economic growth. A Contract Management Unit is to be established in the Ministry of Finance to evaluate and monitor future and existing PPPs and other contractual obligations. The forecast considers no new PPPs in FY 2022-23; however, utilising the Caribbean PPP toolkit framework, the Government is exploring the financing model to expand the Providenciales International Airport. Requirements of the Framework Document are acknowledged.



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STATEMENT OF FISCAL PERFORMANCE – (Previous Two Financial Years)

REVIEW OF FINANCIAL PERFORMANCE

Table 14-Financial Performance

| | 2014-15 | | 2015-16 | | 2016-17 | | 2017-18 | | 2018-19 | | 2019-20 | | 2020-21 | |
|--------------------------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|----------------|------------|-----------------|-------------|
| <i>Figures in US\$ '000</i> | | %GDP | | %GDP | | %GDP | | %GDP | | %GDP | | %GDP | | %GDP |
| Recurrent Revenue | 246,462 | 42% | 258,346 | 42% | 262,951 | 41% | 261,416 | 41% | 303,622 | 43% | 314,374 | 41% | 195,652 | 35% |
| Recurrent Expenses | 168,549 | 29% | 191,762 | 31% | 202,146 | 31% | 213,409 | 34% | 218,786 | 31% | 233,407 | 31% | 254,503 | 45% |
| Total Revenue | 252,954 | 43% | 263,884 | 43% | 267,100 | 41% | 282,172 | 44% | 315,025 | 45% | 315,288 | 41% | 202,293 | 36% |
| Total Expenses | 175,421 | 30% | 196,582 | 32% | 207,874 | 32% | 218,858 | 34% | 228,849 | 32% | 239,620 | 31% | 269,176 | 48% |
| Net Operating balance | 77,533 | 13% | 67,303 | 11% | 59,226 | 9% | 63,314 | 10% | 86,176 | 14% | 75,668 | 12% | (66,883) | 0% |
| Capital Investment | 7,900 | 1% | 11,459 | 2% | 23,509 | 4% | 16,058 | 3% | 17,581 | 2% | 28,348 | 4% | 25,302 | 5% |
| Fiscal Balance | 69,632 | 12% | 55,843 | 9% | 35,717 | 6% | 47,256 | 7% | 68,595 | 11% | 47,320 | 7% | (92) | 0% |
| Net Debt | 191,738 | 33% | 44,281 | 7% | 32,376 | 5% | 19,783 | 3% | 9,394 | 1% | 3,021 | 0% | 839 | 0% |
| Finance Cost | 7,015 | 1% | 6,634 | 1% | 1,260 | 0% | 984 | 0% | 699 | 0% | 324 | 0% | 122 | 0% |
| Underlying Cash Balance | 2,939 | 1% | 15,728 | 3% | 17,655 | 3% | 36,255 | 6% | 62,154 | 9% | 44,629 | 0% | (77,629) | -14% |
| *GDP at constant market prices | 582,266 | | 616,860 | | 644,000 | | 634,436 | | 726,200 | | 764,700 | | 560,029 | |
| GDP at current market prices | 823,968 | | 893,502 | | 950,358 | | 962,526 | | 1,022,312 | | 1,197,400 | | 924,583 | |

Note: Numbers may not add due to rounding.

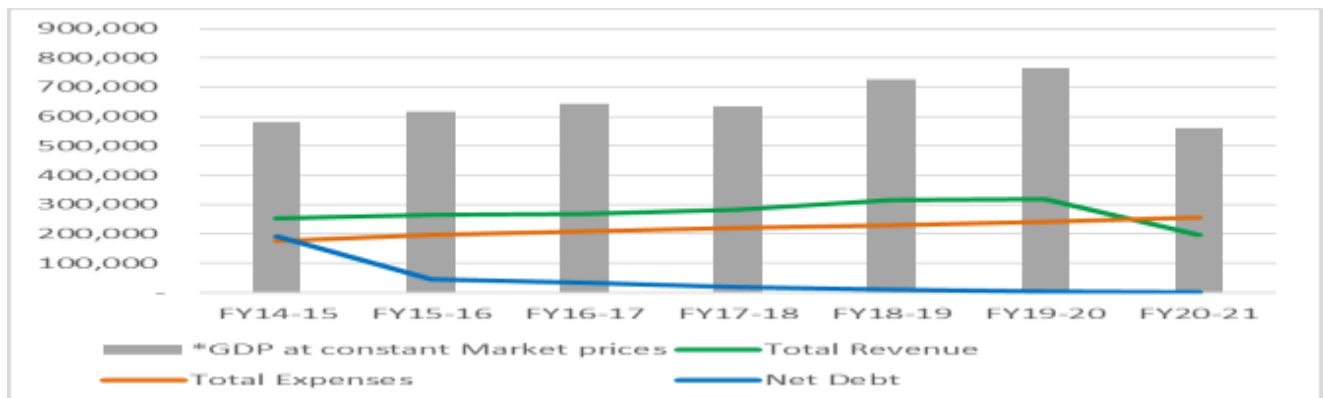


Figure 5: Performance against GDP at Constant Market Prices



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Table 15-Financial Performance

| <i>figures in US\$'000</i> | 31-Mar-21 Actual | 31-Mar-21 Budget | 31-Mar-20 Prior Year | Actual vs Rev. Budget | | Actual vs Prior Year | |
|------------------------------|---------------------|---------------------|-------------------------|-----------------------|-------------|----------------------|---------------|
| Recurrent Revenue | 195,652 | 168,998 | 314,374 | 26,654 | 16% | (118,721) | (38%) |
| Recurrent Expenditure | 254,503 | 272,291 | 233,407 | 17,789 | 7% | (21,096) | (9%) |
| Net Recurrent Surplus | (58,850) | (103,293) | 80,967 | 44,443 | -43% | (139,817) | (173%) |
| Non-Recurrent Revenue | 6,641 | 5,047 | 914 | 1,594 | 32% | 5,726 | 626% |
| Non-Recurrent Expenditure | 14,673 | 7,276 | 6,213 | (7,397) | (102%) | (8,460) | -136% |
| Operating Deficit | (66,883) | (105,522) | 75,668 | 38,640 | -37% | (142,551) | -188% |

Expenditure categorisation differs from the Management Accounts produced and published monthly to conform to the IPSAS cash basis of accounting.

In FY 2020-21, TCIG recorded an operating deficit of \$66.9 million, down from a \$75.7 million surplus in FY 2019-20, resulting in a year-over-year reduction of \$142.5 million (188%). Compared to the budget, the performance was 37% better than the projected deficit of \$105.5 million. Capital expenditure of \$25.3 million (FY 2019-20: \$28.3 million) and debt repayment of \$2.1 million (FY 2019-20: \$6.3 million) was also made during FY 2020-21.

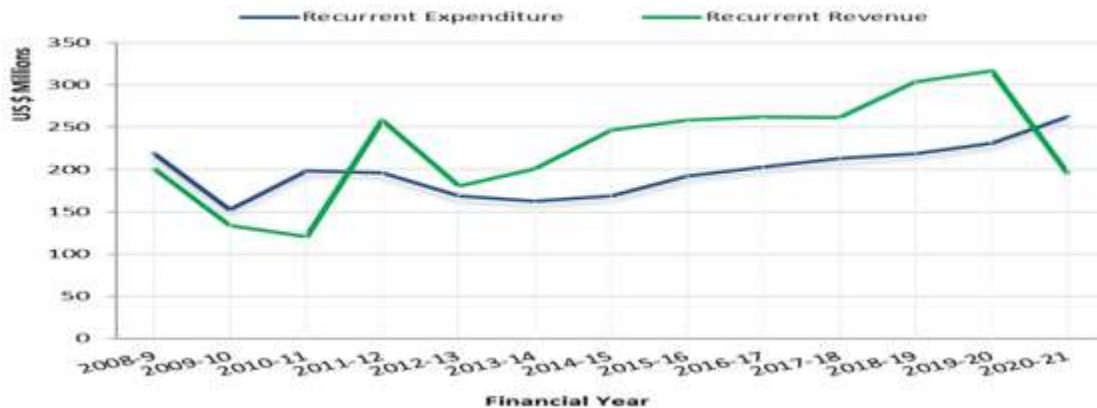


Figure 6: Financial Performance



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Revenues

TCIG revenue for FY 2020-21 totalled \$202.3 million (FY 2019-20: \$315.3 million). This represents a year-over-year decrease of \$113.0 million but \$28.2 million (16%) higher than the original FY 2020-21.

Measures implemented by the Government which directly impacted revenue collections included:

- i. The waiver of payment of HRTT, which was due and payable on 21st April 2020, under section 13 (1) of the Hotel, Restaurant & Tourism Tax Ordinance, along with the deferrals of the payments which became due and payable on 21st May 2020 and the 21st June 2020 to the 21st July 2020;
- ii. As of 1st April 2020 to 30th June 2020, the importation of construction materials was exempted from import duty chargeable under the Customs Ordinance;
- iii. From 1st April 2020 to 30th June 2020 (completion to have occurred on or before 30th June 2020), a 50% reduction in stamp duty payable on real estate transactions;
- iv. Extension of the grace period to renew 2020/2021 Business Licenses on or before 31st July 2020 without penalty;
- v. From 21st September 2020 to 30th December 2020 (completion to have occurred on or before specific times outlined in the policy), a reduction of 75%, 50%, or 25%, in stamp duty payable on real estate transactions.

Total revenue for FY 2020-21 included \$43.5 million (22%) derived from import duties, \$36.0 million (18%) from stamp duty on land transactions, \$22.3 million (11%) from customs processing fees, \$20.0 million from Hotel & Restaurant Tax, \$17.8 million from work permits, and \$16.0 million in revenue returns from statutory bodies, which together accounted for 27% of revenues.



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Table 16-Revenue Performance

figures in US\$'000

| RECURRENT REVENUES | 31-Mar-21 | 31-Mar-21 | 31-Mar-20 | Actual vs Rev. Budget | | Actual vs Prior Year | |
|--------------------------------------|----------------|----------------|-------------------|-----------------------|------------|----------------------|-------------|
| | Actual | Budget | Prior Year | | | | |
| Import Duty | 43,520 | 41,856 | 78,582 | 1,664 | 4% | (35,062) | -45% |
| Stamp Duty on Land Transactions | 35,954 | 22,174 | 33,079 | 13,780 | 62% | 2,875 | 9% |
| Customs Processing Fee | 22,302 | 22,695 | 36,029 | (393) | -2% | (13,727) | -38% |
| Hotel and Restaurant Tax | 20,025 | 12,810 | 74,256 | 7,216 | 56% | (54,231) | -73% |
| Work Permits | 17,825 | 13,638 | 22,795 | 4,187 | 31% | (4,969) | -22% |
| Excess Revenue from Statutory Bodies | 15,911 | 14,647 | 3,298 | 1,264 | 9% | 12,613 | 382% |
| Other Revenues | 40,115 | 41,179 | 66,335 | (1,063) | -3% | (26,220) | -40% |
| Total Recurrent Revenues | 195,652 | 168,998 | \$ 314,374 | 26,654 | 16% | (118,721) | -38% |

Numbers may not add due to rounding

Total duties (excluding stamp duty) collected for FY 2020-21 were \$73.9 million (FY 2019-20: \$127.6 million), representing a \$53.7 million year-on-year decrease but a \$1.6 million increase on the budget estimates. As a result of the pandemic, Import Duties for FY 2020-21 decreased 45% year-on-year.

Taxes on goods and services in FY 2020-21 were \$21.5 million above estimates, mainly owing to the increase in stamp duty on land transactions and tourism volumes, but down by \$62.2 million year-on-year. **Hotel and Restaurant Tax** in FY 2020-21 were 56% higher than budget but down 73% year-on-year. **Stamp Duty on Land Transactions** in FY 2020-21 was 62% higher than budget and up 9% year-on-year.

In FY 2020-21, Fees, Fines, and Permits, which totalled \$25.3 million, decreased by \$9 million (26%) year-on-year but was up \$5 million (25%) compared to budget. The major contributor to this performance was **Work Permit fees** of \$17.8 million, which was \$4.2 million (31%) higher than budget but down by \$5 million (22%) year-on-year.



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Table 17-Revenue Performance Cont'd

figures in US\$'000

| OTHER RECURRENT REVENUES | 31-Mar-21 | 31-Mar-21 | 31-Mar-20 | Actual vs Rev. Budget | | Actual vs Prior Year | |
|---------------------------------|------------------|------------------|-------------------|------------------------------|------------|-----------------------------|-------------|
| | Actual | Budget | Prior Year | | | | |
| Fuel Tax | 7,612 | 7,022 | 10,994 | 589 | - | (3,382) | - |
| Communications Tax | 4,142 | 3,986 | 4,845 | 155 | 4% | (703) | -15% |
| Vehicle Licence | 4,041 | 4,611 | 4,750 | (570) | -12% | (709) | -15% |
| Business Licence Renewal | 2,676 | 2,785 | 2,374 | (109) | -4% | 302 | 13% |
| Telecommunications licence | 2,438 | 3,688 | 4,165 | (1,251) | (34%) | (1,727) | -41% |
| Gaming Machine Tax | 1,694 | 1,864 | 3,901 | (171) | -9% | (2,207) | -57% |
| Permanent Residency Fees | 1,449 | 1,469 | 2,057 | (20) | -1% | (608) | -30% |
| Overtime Cost recovered | 1,353 | 1,747 | 3,299 | (394) | -23% | (1,946) | -59% |
| Crown Land Rents Received | 1,310 | 1,119 | 1,083 | 191 | 17% | 227 | 21% |
| Insurance Premium Tax | 1,156 | 1,026 | 1,353 | 130 | 13% | (197) | 0% |
| Other Revenue Heads | 12,245 | 11,860 | 27,514 | 386 | 3% | (15,269) | -55% |
| Total Other Revenues | 40,115 | 41,179 | 66,335 | (1,063) | -3% | (26,220) | -40% |

Numbers may not add due to rounding

Other Recurrent Revenues collected in FY 2020-21 totalled \$40.1 million (FY 2019-20: \$66.3 million), which is 3% below budget, and down 40% year-on-year.

Table 18-Non-Recurrent Revenues Performance

figures in US\$'000

| NON-RECURRENT REVENUES | 31-Mar-21 | 31-Mar-21 | 31-Mar-20 | Actual vs Rev. Budget | | Actual vs Prior Year | |
|-------------------------------------|------------------|------------------|-------------------|------------------------------|------------|-----------------------------|-------------|
| | Actual | Budget | Prior Year | | | | |
| Revenue from Grants | 6,202 | 4,705 | 351 | 1,497 | 32% | 4,851 | 1381% |
| Land Sales | 439 | 342 | 397 | 97 | - | 42 | 11% |
| Civil Recovery Income | - | - | 166 | - | 100% | (166) | 100% |
| Total Non-Recurrent Revenues | 6,640.61 | 5,046.52 | 914.15 | 1,594 | 32% | 5,726 | 626% |

Non-recurrent revenue for the year totalled \$6.6 million (FY 2019-20: \$0.9 million).



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Expenditure

TCIG's expenditure (excluding capital) for FY 2020-21 totalled \$269.2 million (FY 2019-20: \$239.6 million), which is down \$10.4 million (4%) compared to budget, but up \$29.6 million (12%) year-on-year.

Table 19-Expenditure Performance

figures in US\$'000

| RECURRENT EXPENDITURE | 31-Mar-21 | 31-Mar-21 | 31-Mar-20 | Actual vs Rev. Budget | | Actual vs Prior Year | |
|---------------------------------------|----------------|----------------|----------------|-----------------------|-----------|----------------------|-------------|
| | Actual | Budget | Prior Year | | | | |
| Total Personnel Costs | 97,103 | 100,923 | 93,961 | 3,819 | 4% | (3,143) | (3%) |
| Medical Treatment & Transfers to NHIB | 31,481 | 31,481 | 33,254 | 0 | 0% | 1,773 | 5% |
| Grants and Contributions | 30,828 | 34,149 | 7,585 | 3,321 | 10% | (23,243) | (306%) |
| Hospital Provisional Charges | 22,137 | 22,181 | 21,403 | 44 | 0% | (734) | (3%) |
| Subventions | 14,928 | 16,094 | 13,658 | 1,165 | 7% | (1,270) | (9%) |
| Maintenance Expenses | 10,230 | 10,505 | 9,535 | 275 | 3% | (695) | (7%) |
| Other Expenses | 47,796 | 56,960 | 54,011 | 9,164 | 16% | 6,216 | 12% |
| Total Recurrent Expenditure | 254,503 | 272,291 | 233,407 | 17,789 | 7% | (21,096) | (9%) |

Figures may not add due to rounding

All expenditure heads were below or on par with estimates for the year.

In FY 2020-21, the total spent was \$97 million (36% of expenditure) for **Personnel Costs**, a year-over-year increase of \$3.1 million (3%) due to filling vacant positions. Still, due to delays in the recruitment process, exacerbated by the late passage of the budget, the actual spend was \$3.8 million below budget.

Medical Treatments and Transfers to NHIB totalled \$31.5 million, together with **Hospital Provisional Charges** of \$22.1 million, accounting for 20% of expenditure. These results were on par with estimates, with both expenditure categories reflecting a marginal year-on-year variance. TCIG is actively pursuing measures that it hopes will reduce the cost of healthcare while maintaining or improving the delivery of care for its citizens.

Grants and Contributions totalled \$30.8 million for the year, which is 10% below the budget of \$34.1 million, but reflecting a year-on-year increase of over 300% - a direct result of the payments issued for stimulus relief to combat the economic turmoil resulting from the ongoing global COVID pandemic.



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Subventions totalled \$14.9 million, a 9% increase over FY 2019-20 cost of \$13.7 million, but a 7% decrease compared to budget.

Table 20-Expenditure Performance Cont'd

figures in US\$'000

| OTHER RECURRENT EXPENDITURE | 31-Mar-21 | 31-Mar-21 | 31-Mar-20 | Actual vs Rev. Budget | | Actual vs Prior Year | |
|--|---------------|---------------|---------------|-----------------------|------------|----------------------|------------|
| | Actual | Budget | Prior Year | | | | |
| Rental of Assets | 5,165 | 5,246 | 5,033 | 80 | 2% | (132) | (3%) |
| Professional and Consultancy Services | 5,065 | 5,673 | 4,055 | 608 | 11% | (1,010) | (25%) |
| Utilities | 3,264 | 3,631 | 4,395 | 368 | 10% | 1,131 | 26% |
| Social Welfare | 3,141 | 3,631 | 4,395 | 490 | 13% | 1,254 | 29% |
| Recurrent Sub Programmes and Projects | 3,224 | 3,368 | 3,799 | 144 | 4% | 575 | 15% |
| Security Expenses | 2,585 | 3,232 | 2,102 | 647 | 20% | (483) | (23%) |
| Other Recurrent Expenditure | 25,351 | 32,178 | 30,232 | 6,827 | 21% | 4,881 | 16% |
| Total Other Recurrent Expenditure | 47,796 | 56,960 | 54,011 | 9,164 | 16% | 6,216 | 12% |

Figures may not add due to rounding.

Other recurrent expenditures for the year totalled \$47.8 million (FY 2019-20: \$54 million), a 12% decrease year-on-year and an underspend of \$9.2 million or 16% compared to budget.

Table 21-Non-Recurrent Expenditure

| NON-RECURRENT EXPENDITURE | 31-Mar-21 | 31-Mar-21 | 31-Mar-20 | Actual vs Rev. Budget | | Actual vs Prior Year | |
|---|---------------|--------------|--------------|-----------------------|--------------|----------------------|--------------|
| | Actual | Budget | Prior Year | | | | |
| Covid-19 Expenses | 9,241 | - | - | (9,241) | - | (9,241) | - |
| Special Investigation Prosecution Team (SIPT) | 4,296 | 6,140 | 5,236 | 1,844 | 30% | 940 | 18% |
| Civil Recovery | 1,015 | 369 | 427 | (646) | -175% | (588) | -138% |
| Statutory Land Acquisition | 121 | 766 | 550 | 645 | 84% | 429 | 78% |
| Total Non-Recurrent Expenditure | 14,673 | 7,276 | 6,213 | (7,397) | -102% | (8,460) | -136% |

Non-recurrent expenditure for the year totalled \$14.7 million (FY 2019-20: \$6.2 million), \$7.4 million (102%) above budget. Of this amount, and due to it being unforeseen, **COVID-19 Expenses** accounted for an unbudgeted \$9.2 million. **SIPT** expenses of \$4.3 million were down 18% year-on-year and below budget by 30%. **Civil Recovery** expenses were \$0.6 million higher than the budget of \$0.4 million. Statutory Land Acquisitions were 84% below budget and down 78% year-on-year.



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Capital Expenditure

The total amount spent on capital projects for the fiscal year was \$25.3 million, funded by capital contributions appropriated from the Consolidated Fund. The total budgeted expense for capital projects was \$27.5 million. Contracts with a value of \$31.4 million were committed during the year and will be available for expenditure over the life of the specific projects to which they relate. Payment will be made from the Development Fund as approved in the Appropriation Ordinance.

Current Liabilities

Current Liabilities comprise refundable deposits and payables from exchange transactions totalling \$15.2 million and the principal payments of the Debt, which is due within the next twelve months.

Borrowings

Table 22-Outstanding Public Debt

figures in US\$'000

Outstanding Public Debt

Unsecured

| | Loan Balances 01- Apr-2020 | Repayment During 2020/21 | Loan Balances 31-Mar-2021 |
|------------------------------|-------------------------------|--------------------------------|------------------------------|
| Caribbean Development Bank | 1,746 | 1,116 | 630 |
| RBC Royal Bank | - | - | - |
| TCI Bank Limited | 1,275 | 1,067 | 208 |
| Total unsecured debts | 3,021 | 2,183 | 839 |

Figures may not add due to rounding



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TCI's outstanding Debt as of 31st March, 2021, was \$0.8 million (FY 2019-20: \$3.0 million). Total principal debt repayment for the year was \$2.2 million (FY 2019-20: \$6.4 million), while total finance costs were \$0.1 million (FY 2019-20: \$0.3 million). In December 2020, the Government reached an agreement with Republic Bank Limited to make an \$80 million revolving credit facility available. No drawdowns have been carried out to date. There also remains \$1.0 million in undrawn CDB loans.

TCIG continues to repay its Debt on time and is projecting for all current borrowings to be repaid as scheduled.

Contingent Liabilities

Estimates of quantifiable commitments and contingent liabilities at the reporting date stood at US\$1.2 billion at the end of March 2021. This amount includes an estimated long-term commitment of \$627.4 million. It also consists of the estimated liability for providing pension benefits attributable to years of past service for the TCIG public service of \$115.8 million as of 31st March 2021, the last actuarial valuation, which comprises \$87.0 million for established employees and \$28.8 million for Legislative Allowances. Additionally, the unfunded pension liability totalling \$439.4 million relating to the National Insurance Board as of the 31st March 2020 is also reflected in this amount.

TCIG is subject to claims and potential claims related to damages to persons and property, breach of contract, and similar items. As of 31st March 2021, the value of such claims is reflected in Contingent Liabilities totalling \$17.7 million. The effect of legal claims cannot be determined until they are settled or dismissed. No liability has been admitted or is reasonably foreseen. Consequently, no claim provision has been included in the Annual Statement of Public Accounts. As such, any resulting costs to TCIG will be recorded in the year when an amount can reasonably be determined or ordered.



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FISCAL RISK ASSESSMENT

The fiscal Risks Matrix below identifies the implicit and explicit obligations that may cause fiscal outcomes to differ from expectations.

Fiscal Risks Matrix

POSSIBLE SOURCES OF FISCAL RISK - TURKS AND CAICOS ISLANDS

| | DIRECT LIABILITIES | INDIRECT/CONTINGENT LIABILITIES |
|---|---|--|
| EXPLICIT LIABILITIES (LEGAL OBLIGATIONS, NO CHOICE) | <ul style="list-style-type: none"> • Debt Repayment and Servicing Payments • Recurrent expenditure, legally binding over the medium/long term, e.g., salaries and wages/PPP monthly contractual obligation, gratuities, and pensions, SIPT Prosecution and Legal Aide Costs | <ul style="list-style-type: none"> • Guarantees related to Airport's Authority • NIB- Pension plan • Claims against Government/Compulsory Land Acquisition • NHIB - the continuous increase in healthcare costs passed on to the Government. |
| IMPLICIT LIABILITIES (EXPECTATIONS AND POLITICAL DECISIONS) | <ul style="list-style-type: none"> • Maintenance costs for Public Sector Investment Plan - schools, clinics, hospitals etc. • Social Services • Continuous spending due to political cycles/elections | <ul style="list-style-type: none"> • Response after natural disasters • The default of State-owned companies on non-guaranteed obligations (National Trust, AA, NHIB, Ports Authority) |

Table 23-Fiscal Risk Matrix

Source: Prepared by the Budget Office - Format adopted from the World Bank



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Primary Sources of Fiscal Risk

- Legal or moral obligations – recurrent expenditure due to binding contracts, debt servicing
- Loan Guarantees and PPPs
- Treatment Abroad Programme – NHIB
- Exposure to natural disasters resulting from climate change
- Crime and border protection issues
- A global economic fall-out with major trading partners and source markets such as the United States and the United Kingdom

APPROACHES FOR MANAGING MAJOR RISKS

Risk Reduction – Reduce Vulnerability and Exposure to Hazards

- During the budget planning stage, climate measures are costed and prioritised
- Improve building codes and monitoring
- Strengthen reefs
- Improve citizen security

Risk Financing – Retention and Risk Transfer

- Catastrophic Risk Insurance
- Mandatory Private insurance (Residential homes)

Residual Risk Management Strategies – Post Disaster/Catastrophic Event Response

- Contingency Fund
- Budget reallocation
- National Wealth Fund
- Liquid Cash Reserves-Net Deficits
- Low debt portfolio
- Credit Rating BBB+
- Expenditure controls



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NATIONAL WEALTH FUND

Turks and Caicos National Wealth Fund was enacted in 2017. The cumulative total in the National Wealth Fund is \$25.7 million, representing an initial sum of \$8 million, which was transferred into the Fund in the financial year 2018-19, and \$17.7 million from the excess revenue of 2018-19.

The Established Fund has the following components:

- Stabilisation Fund;
- Infrastructure and Competitiveness Fund;
- and Heritage Fund.

The National Wealth Fund is funded through deficit revenue from the Consolidated Fund, deposited into the Fund, and acquired and earned from investments. The Ordinance provides for funds to be transferred to the Fund under the following guidelines:

Where in any financial year, the actual revenue exceeds the estimated payment by—

- (a) 5 percent but is less than 20 per cent, then 50 per cent of the excess of the revenue for that financial year shall be withdrawn from the Consolidated Fund and deposited to the Fund;
- (b) or 20 per cent or more, 70 per cent of the excess of the revenue for that financial year shall be withdrawn from the Consolidated Fund and deposited to the Fund.



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1. The funds in the Stabilisation Fund may be withdrawn when the amount of funds accumulated is equal to 25 percent of the gross domestic product in the following circumstances—
 - (a) wherein any financial year an external economic shock or a natural disaster negatively impacts the collection of recurrent revenue so that the revenue collection falls below the level collected in the base year;
 - (b) wherein any financial year the amount of shortfall in recurrent revenue is more than 20 per cent of the level collected in the base year;
 - (c) where the fall in revenue results in a fiscal deficit; and
 - (d) where any available accumulated deficit in the Consolidated Fund has been exhausted.

2. Withdrawal from the Infrastructure and Competitiveness account may occur from time to time subject to the approval by the House of Assembly for special projects emanating from a long-term development plan, and no maximum limit shall apply to the withdrawal from the Infrastructure and Competitiveness Fund.

3. The funds in the Heritage Fund may be withdrawn from time to time subject to the approval by the House of Assembly in the following circumstances—
 - (a) to facilitate cross fund usage;
 - (b) for extraordinary circumstances that hurt the national welfare of the Islands; or
 - (c) The Heritage Fund has reached 10 per cent of the gross domestic product.