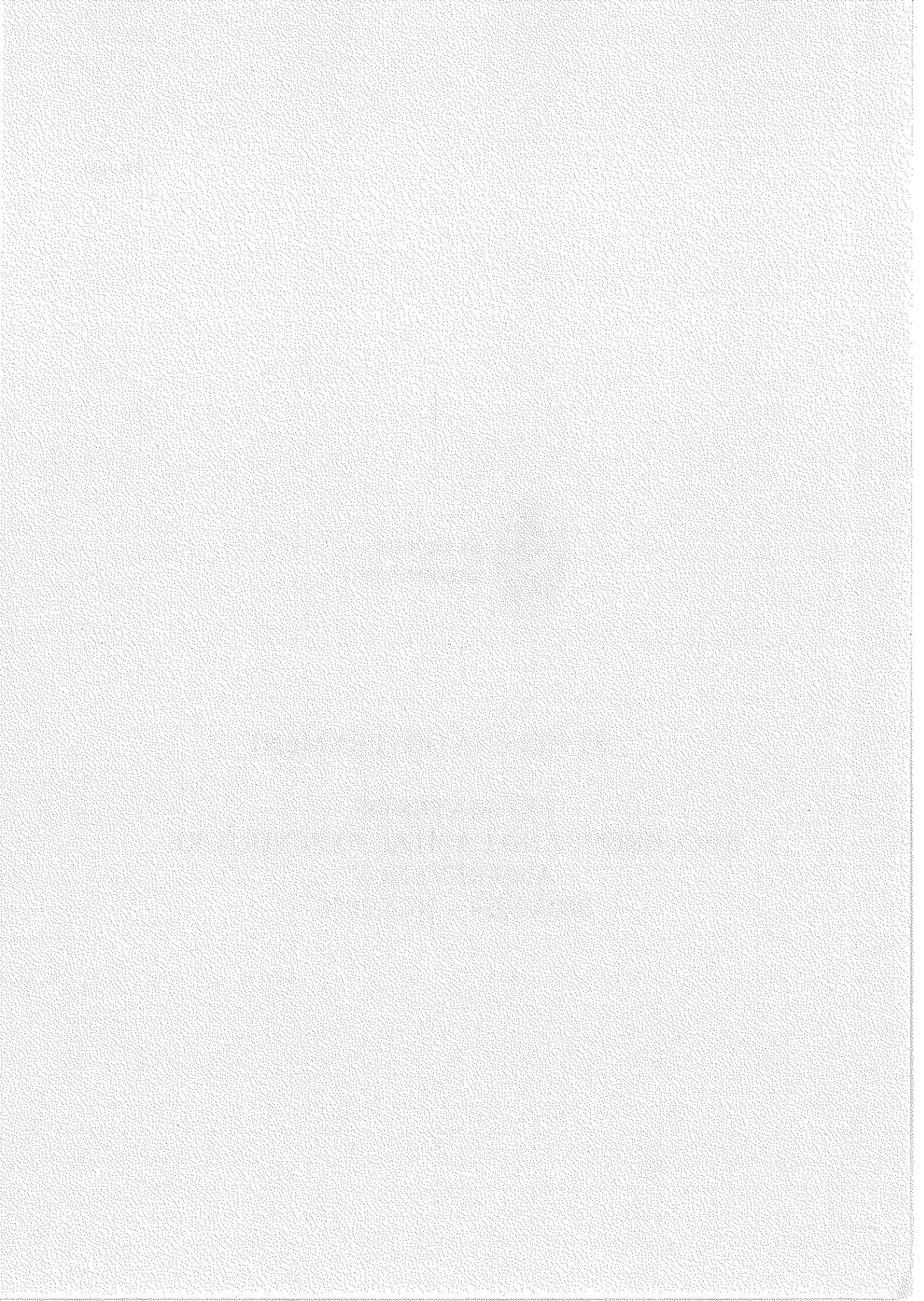
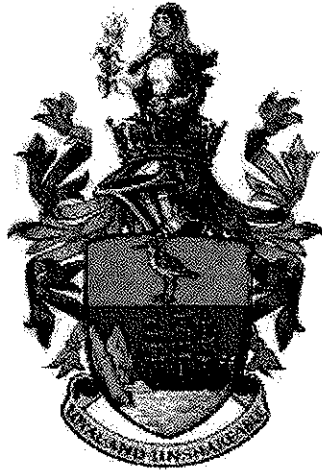




St Helena
Government

ST HELENA GOVERNMENT
ESTIMATES OF
RECURRENT AND CAPITAL EXPENDITURE
AND REVENUE
2023/2024 – 2025/2026

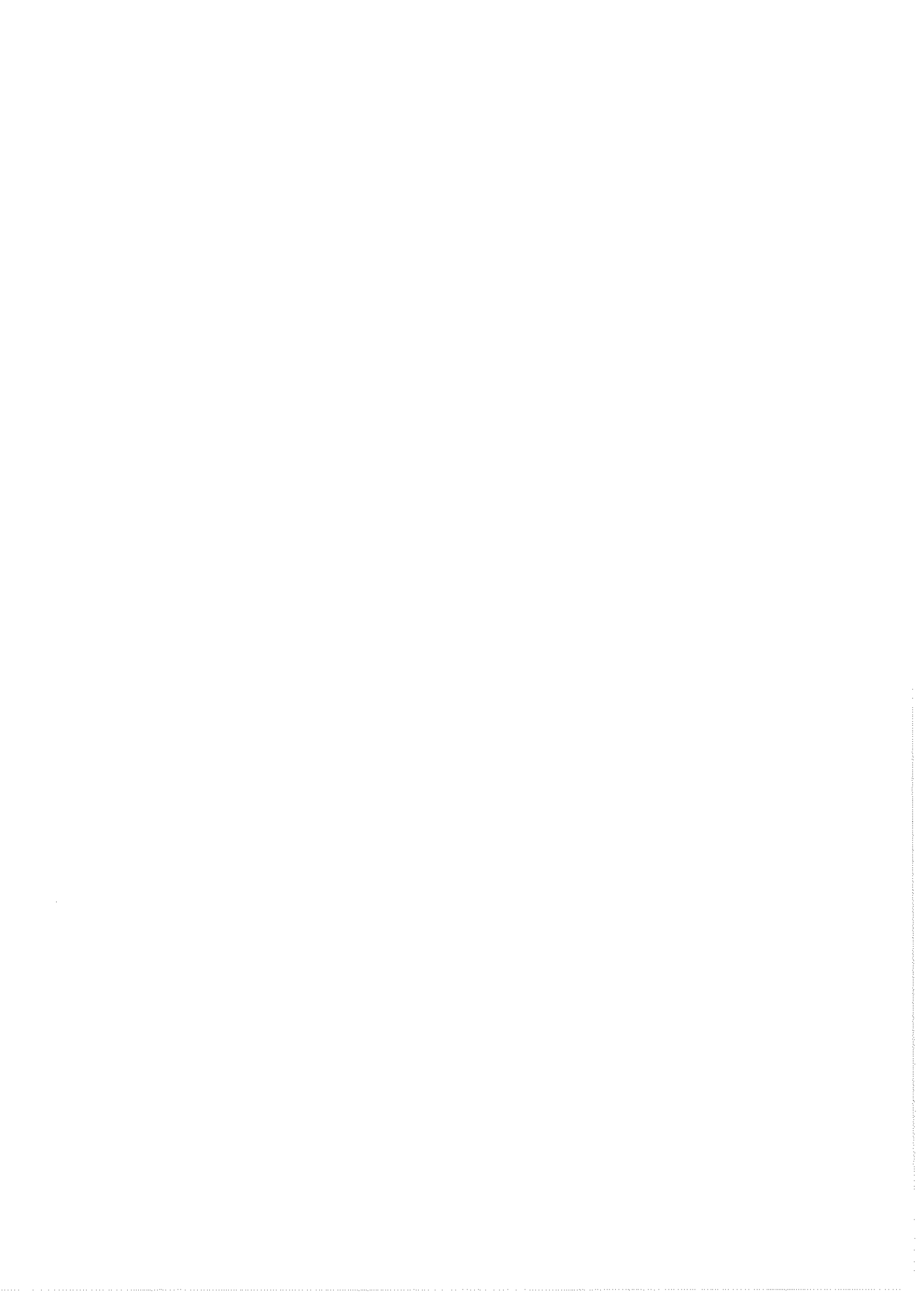




GOVERNMENT OF ST HELENA

**ESTIMATES OF RECURRENT AND
CAPITAL EXPENDITURE AND
REVENUE**

2023/2024-2025/2026



Key

-	Nil
*	The nature of the measure is such that a reliable estimate cannot be provided
£	St Helenian pounds
GBP	United Kingdom pounds
\$	United States dollars

Acronyms

FCDO	Foreign, Commonwealth and Development Office
GDP	Gross Domestic Product
GNI	Gross National Income
IMF	International Monetary Fund
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
UK	United Kingdom

Definitions

Nominal	Not adjusted for inflation, original prices
Real	Adjusted for inflation

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THE ECONOMIC OUTLOOK

Both the global and St Helenian economies continue to stabilise after recent shocks, but high inflation—both on St Helena and globally—risks eroding living standards.

Global outlook

The global economy continues to normalise as the economic shocks from Russia's invasion of Ukraine and COVID-19 pandemic begin to abate. Disruptions to global supply chains are easing and energy prices have moderated, although they still remain high. A particular effect of Russia's invasion of Ukraine has been high food (particularly grain) prices; compounded by high fertiliser prices.

Global growth

Table 1 shows the most recent global economic forecasts by the IMF and the OECD.

Table 1: Global growth forecasts (real GDP)

	2022 Actual Per cent	2023 Forecast Per cent	2024 Forecast Per cent	2025 Forecast Per cent
Global				
IMF	3.4	3.1	3.2	3.2
OECD	2.9	2.7	2.9	n/a

Period: Calendar year.

Source: IMF, *World Economic Outlook*, database, April 2023; OECD, *OECD Economic Outlook*, vol. 2023., 1, June 2023.

Despite the modest global growth forecasts, growth in advanced economies is forecast to remain subdued; although the OECD notes it is now forecast to be higher than one year ago. Recent shocks in some national banking systems have not spread, and the global monetary systems appears stable.

Global inflation

After a period of sustained monetary easing, however, global inflation continues to be of concern. The tightening of monetary policy around the world has lowered the growth outlooks for major economies and increased the risks of some economies entering into recession.

Inflation in St Helena's main trading partners—the UK and South Africa—is expected to remain relatively high in 2023, but is expected to moderate in 2024 and 2025.

Table 2: Global, OECD, UK and South African inflation forecasts

	2022 Estimate Per cent	2023 Forecast Per cent	2024 Forecast Per cent	2025 Forecast Per cent
Global	8.9	7	4.9	3.9
UK	10.5	5.1	2.3	1.0
South Africa	6.9	6.2	5.1	4.5

Period: Calendar year.

Source: IMF, *World Economic Outlook*, database, April 2023; UK Office of National Statistics; Bank of England, *Monetary Policy Report*, May 2023; South African Reserve Bank, *Statement of the Monetary Policy Committee*, May 2023.

Overall, high global inflation threatens to undermine the modest economic growth being experienced around the world.

Outlook for St Helena

St Helena continues to be affected by global economic developments, but also faces its own unique set of economic challenges; particularly due to its geographic isolation, limited supply of labour and land, and its aging and declining population.

The Island was effectively closed to the outside world from March 2020 to March 2022 due to the COVID-19 pandemic and, even then, its reopening was slowed by restrictions on global travel and a requirement to quarantine upon arrival in St Helena. St Helena's largest export sector, tourism, was significantly impacted by the closure, but is now showing strong signs of recovery.

On 31 March 2023, S&P Global Ratings reaffirmed St Helena's long term rating as 'BBB-' and its short term rating as 'A-3.' S&P Global Ratings also kept St Helena's outlook as 'stable.' These ratings show that St Helena continues to be a safe and predictable environment to invest.

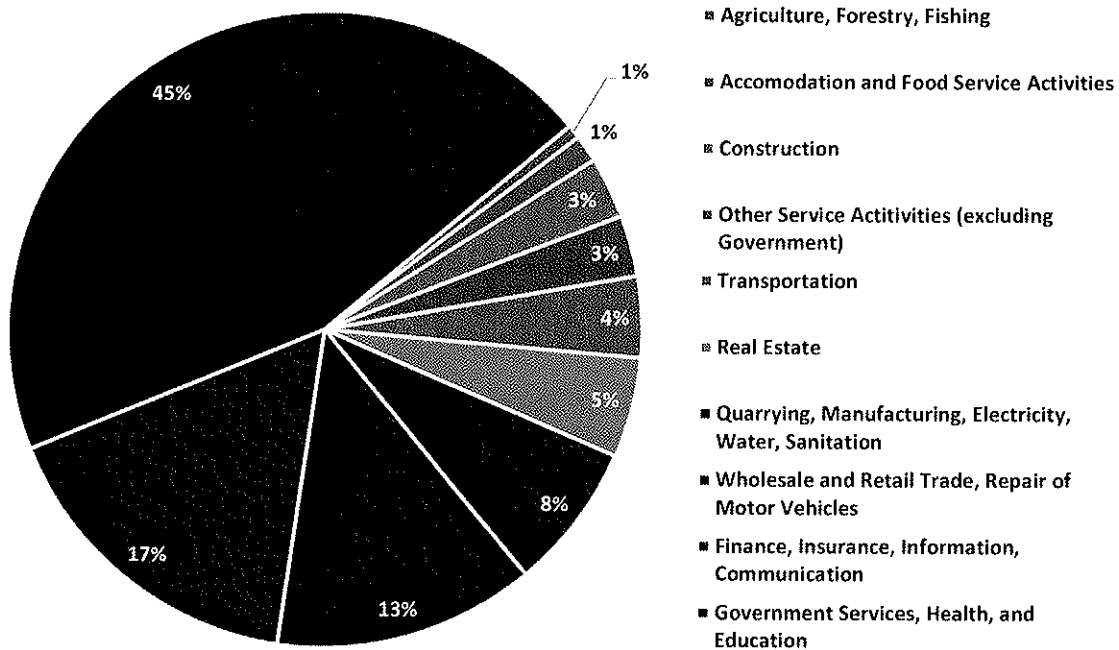
Economic activity

The amount of value added from economic activity on St Helena, as measured by Gross Domestic Product (GDP), has remained relatively stable over the last few years. In 2021/22, the last year for which data is available, total value added on St Helena was £39.2 million.

The Government recognises that GDP provides only a limited measure of the economic, social and environmental progress of the Island, and that its measurement is challenging on St Helena due to the volatile nature of some of the underlying data. Nonetheless, recent GDP data does provide an insight to the structure of the St Helenian economy.

Chart 1 shows the composition of St Helena's GDP in 2021/22.

Chart 1: Gross domestic product by sector



Note: 2021/22 data.
 Period: April to March.
 Source: St Helena Statistics Office.

Chart 1 shows that the government, health and education sector remains, by far, the dominant contributor to economic activity on the Island. Tourism related sectors, such as accommodation and food service activities, and transportation, make only small contributions of 1 per cent and 4 per cent respectively. The contribution of agriculture, forestry and fishing is the smallest of all sectors, at less than 1 per cent.

The Government has not specifically forecast the rate of GDP growth in 2023/24, but it anticipates that total nominal value added (nominal GDP) on the Island will be around £40.0 million in 2023/24. This figure, which is slightly higher than the £39.2 million figure recorded in 2021/22, is consistent with recent high price inflation, which increases the nominal value of GDP even if the same real amount of output is produced, and the 4 per cent nominal increase on the aid settlement from the UK, which will support a higher nominal contribution by the government sector.

In reaffirming its credit rating for St Helena in March 2023, S&P Global Ratings predicted that real economic growth will average 2.4 per cent in each of the calendar years 2024 to 2026; up from an estimated 1 per cent in calendar year 2023.

If the recent trend of population decreases continues, any real GDP per capita growth is likely to be slightly stronger than any real GDP growth, as the total amount of value added on the Island will be spread across a smaller population.

Resident population

Maintaining the Island's population is an increasingly critical challenge for St Helena.

To illustrate the challenge facing the Island, in January 2022 the St Helena Statistics Office released its *Population Projections 2022-2051*. Those projections used expected birth and death rates as a baseline, and then considered five population scenarios, based on different inward and outward migration assumptions. Those five scenarios were:

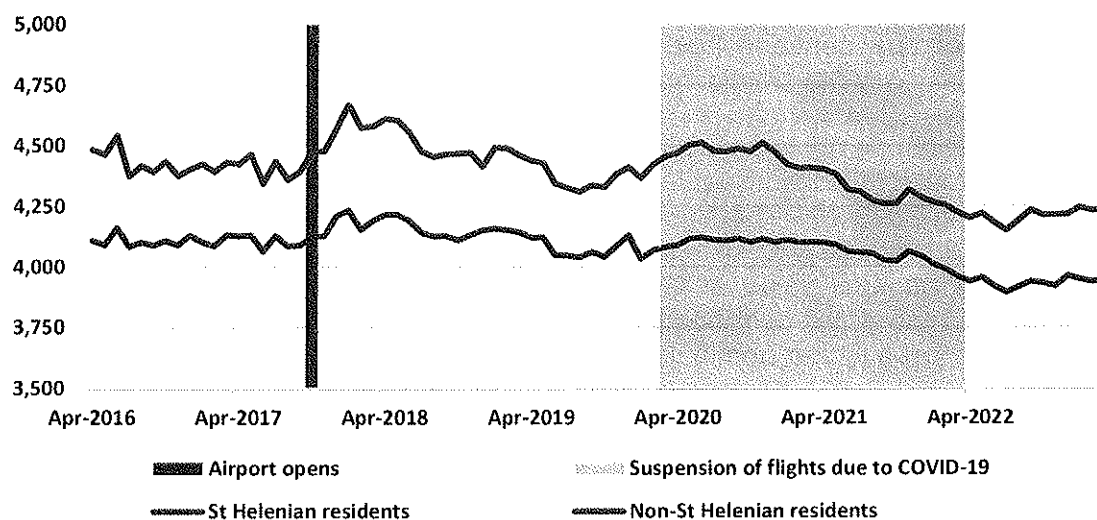
- no migration (inward or outward);
- residents leave when attaining working age then returning later in life, but no net migration (inward or outward);
- net outward migration of 20 residents per year;
- net inward migration of 20 residents per year; and
- net inward migration of 40 residents per year.

Only under the fifth scenario—net inward migration of 40 resident per year—was the Island’s population projected to be higher in 2051 than in 2022.

While the *Population Projections 2022-2051* are a useful planning tool for the Government, businesses, and the Island more generally, they assume there are no behavioural or policy changes during the forecast period. The actual population of the Island will be driven by the challenges posed, and opportunities offered, by the Island as a place to live; both of which are capable of being shaped substantially by policy decisions between now and 2051.

Chart 2 shows the composition of the Island’s resident population since April 2016.

Chart 2: St Helena resident population (April 2016 to March 2023)



Source: St Helena Statistics Office.

In the recent past, the resident population on the Island has ranged between around 4,250 to 4,500 people. The resident population of St Helenians increased following the opening of the airport (to about 4,250 in January 2017), but has declined since April 2022 (to about 3,900). During 2022/23, there were 57 deaths recorded on the Island, but only 19 births.

In the last two years, the average number of non-St Helenian's resident on the Island has been relatively stable, and on average about 270 at any one time. Around 150 of the non-St Helenian resident population are officers appointed under the Technical Cooperation (TC) programme. While open to all applicants—whether St Helenian or not—the TC programme does contribute to a significant number of non-St Helenians residing on the Island. While TC officers' and their families' presence assists St Helena Government's revenue receipts, the cost of the TC programme is a significant expense for the Island.

Whether the slight decline in the population towards the end of suspension of air travel to the Island due to COVID-19 merely reflects some residents undertaking travel that had been deferred during the pandemic, or whether it reflects permanent migration away from the Island, is uncertain at this stage.

The working age population (residents between 15 and 64 years) has fallen in the last two years, from about 2,700 in April 2021 to about 2,500 in March 2023. This has resulted in an increase in the age dependency ratio (the ratio of the number of residents of working age to the number of residents not of working age) from about 64 to about 68; meaning that there is now a higher number of residents not of working age for every resident of working age than two years ago. This has particular implications for the sustainability of the Island's health and social care system.

Inflation

Due to its high reliance on imports—particularly food, consumer goods and fuel—St Helena is particularly exposed to global inflation pressures.

The inflation shock from COVID-19 and the associated disruptions to global supply chains, and Russia's invasion of Ukraine, continue to be felt on St Helena; although their effects are moderating. While energy prices globally remain high, the price of oil, which is particularly significant for St Helena, has moderated somewhat in recent months.

Table 3 shows the forecast Retail Price Index (RPI) inflation for St Helena in 2023/24.

Table 3: Inflation (2023/24 to 2025/26)

	2022/23 Actual	2023/24 Forecast	2024/25 Planning assumption	2025/26 Planning assumption
	Per cent	Per cent	Per cent	Per cent
Retail Price Index	5.4	4 ½	3	2 ¾

Period: April to March.

The Government has forecast an increase in the Retail Price Index of 4 ½ per cent in 2023/24, against an actual of 5.4 per cent in 2022/23.

Underlying the forecast is an expectation that inflation on St Helena will moderate in 2023/24, as global monetary policy tightening begins to be felt, and the disruptions to global supply chains from Russia's invasion of Ukraine begin to unwind.

New shipping arrangements for St Helena may alter where many imports to St Helena are sourced, and therefore their prices, which may also affect retail price inflation on St Helena in 2023/24, but it is uncertain whether any impact would result in higher or lower inflation.

The Government has made a planning assumption that inflation will be about 3 per cent in 2024/25, and a little lower in 2025/26.

Exchange rates

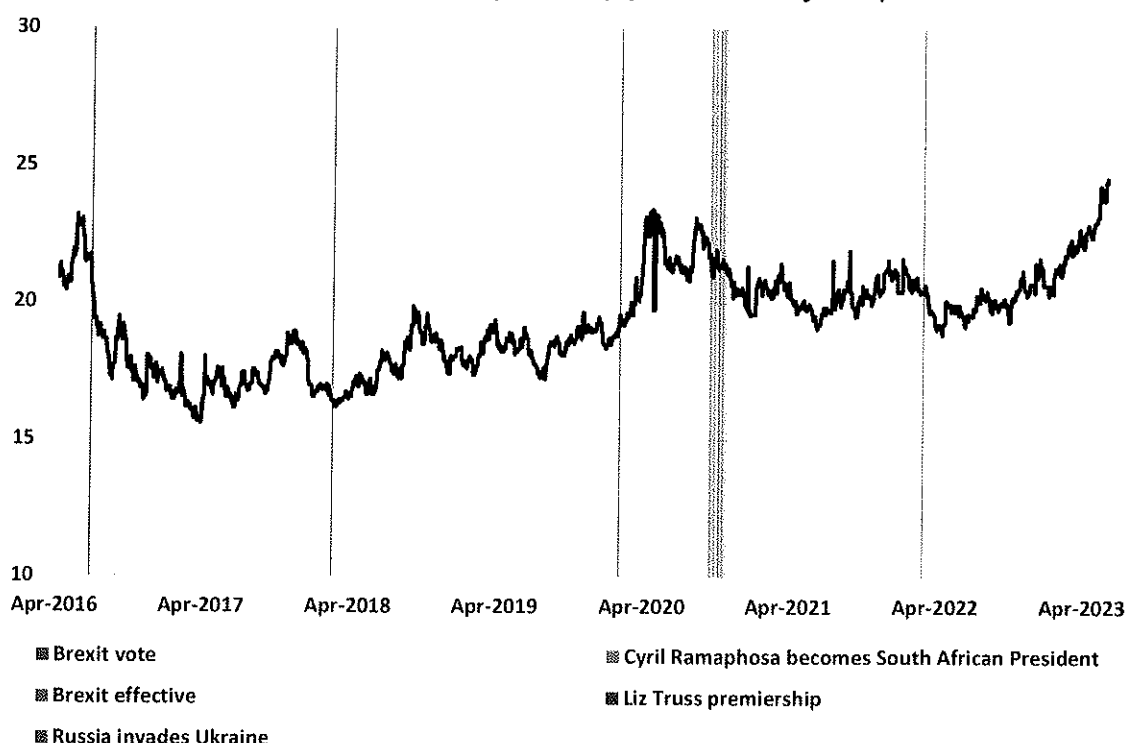
As an economy highly dependent on imports, movements in exchange rates can have a significant impact on the St Helenian economy.

Under St Helena's Currency Fund arrangement, the St Helenian pound (£) is pegged at a fixed 1-to-1 exchange rate with the UK pound (GBP); meaning that there is no movement in the rate of exchange between the £ and the GBP. St Helena, however, is exposed to exchange rate movements faced by the GBP, which can affect the Island's purchasing power and the value of its exports.

With a large proportion of St Helena's imports originating from South Africa, the exchange rate between the GBP and the South African Rand (ZAR) is of particular importance to the Island. Despite the clear impact exchange rate movements can have on prices faced on the Island, exchange rate movements are inherently difficult to predict and are not incorporated into the inflation forecasts; although the Government does monitor exchange rate developments closely.

Chart 3 shows recent development in the exchange rate of GBP and the ZAR.

Chart 3: Historic exchange rates — ZAR per GBP (April 2016 to May 2023)



Source: IMF.

After the decline of the GBP against all other currencies, including the ZAR, following the Brexit vote in 2016, the GBP has generally appreciated against the ZAR. In recent months, the ZAR has been particularly weak against other currencies; causing the exchange rate to reach 24 ZAR per GBP.

While this appreciation has probably caused imports from South Africa to be cheaper, it is unclear whether any effect on import prices will be sustained under the Island's new shipping arrangements, as goods may be now sourced from other African countries.

Wages

Nominal growth in wages on St Helena continues to be stagnant. In 2021/22 (the latest year for which data is available), the nominal median gross income from full-time employment increased 0.3 per cent to £9,460. In real terms, however, gross median income from full-time employment fell by 1.5 per cent in 2021/22.

The Government has not formally forecast either nominal or real wages for 2023/24. Nonetheless, the nominal wages are only expected to increase marginally, and any increase is expected to be less than inflation. Real median income from employment, therefore, is expected to fall on St Helena in 2023/24.

Increase in the Minimum Wage

On 21 March 2023, Executive Council agreed to an increase to the Minimum Wage of 28 pence per hour. The increase will take effect from 1 July 2023. When it does, the

Minimum Wage will increase to £3.65 for persons over 18 and £2.70 for persons aged 16 or 17.

This increase is in line with the Minimum Wage Policy of 2021, which sets out the principle for establishing a longer-term path to a more ambitious minimum wage; benefitting workers but also providing adequate time for businesses to plan and adapt.

As part of its implementation of the new minimum wage, the Government increased the wages of Grade A to Grade H public servants by between £668 and £20 per annum. This increase by the St Helena Government, also effective from 1 July 2023, is expected to have a positive influence on wage rates more broadly across the Island.

Impact of major projects

Going forward, several major projects on the Island, such as the Optical Fibre Project, completion of the Rupert's port facilities and the Field Road upgrade, may contribute to greater demand for labour and provide for slightly higher nominal wages during 2023/24. Maestro, the builder of the Optical Fibre Project, is expected to have about 40 overseas staff on Island during the peak of the rollout; however, it will also engage and train local workers to build and maintain the infrastructure.

As occurred following the completion of the St Helena Airport project, there is a risk that any real wage growth from major projects will be transitory, and not be sustained following completion; particularly if workers who are temporarily resident on the Island depart upon the completion.

Outlook for specific sectors

The outlook for several sectors of the St Helenian economy are of particular importance.

Tourism

Prior to COVID-19, tourism—through the provision of tourism services to visitors—had grown into St Helena's biggest export sector. In 2019/20 visitation expenses of tourists and other visitors were provisionally estimated by the St Helena Statistics Office to account for around 11 per cent of all money coming in from abroad.

The COVID-19 pandemic severely affected the Island's tourism sector. With the lifting of travel restrictions, including quarantine requirements, in August 2022, it was estimated that in the peak tourist demand season for 2022/23 (between October to March) the number of arrivals and spending would be about 50 per cent of the 2019/20 peak tourist demand season (the last season to be largely unaffected by COVID-19). Recent data indicates that tourism demand was, in fact, higher than estimated; suggesting recovery is happening faster than anticipated.

Total arrivals by air of visitors with a leisure purpose between April 2022 and March 2023 were 61 per cent of the number during the same period in 2019/20 (1,488 compared to 2,436). This is despite quarantine requirements being in effect for the first five months of this period. Figures for air arrivals of leisure visitors during the

peak tourist demand season between October 2022 and March 2023 were even stronger, at 74 per cent of the same period in 2019/20 (1,153 compared to 1,564).

The operation of a second weekly flight during the period 28 November 2023 to the end of February 2024 should provide additional growth opportunities for the tourism sector and Island businesses. However, on-Island capacity limitations, particularly in the accommodation and car hire sectors, will continue to limit the further growth of the tourism sector.

Agriculture, forestry and fishing

The most recent GDP data available shows that the agriculture, forestry and fishing sector makes up only a small portion (only about 0.7 per cent in 2021/22) of the economic activity on the Island. Looking forward, this sector's contribution to economic activity on the Island in 2023/24 is also expected to be quite minor.

The fishing industry is expected to make a modest contribution to the Island's economic activity in 2023/24. Catch volumes are expected to, after catering for local consumption, be sufficient to support a small level of exports. Overall catch volumes are expected, however, to be below the maximum allowable under current quotas. Further expansion of the export fishing industry will require additional capital investment and equipment on-Island, including fishing vessels, and processing and supply chain infrastructure. Some of this infrastructure and equipment is currently being sourced or constructed by the local industry.

No substantial changes to the agriculture or forestry sectors are expected during 2023/24; meaning that their economic contributions are likely to remain similar to that of recent years.

Communications

The economic contribution of the communications sector on St Helena is likely to structurally change significantly over the coming years.

Currently, the nature of the Island's telecommunications infrastructure means that consumers face high prices for what is, by international standards, a low level of service. The Optical Fibre Project, together with the Equiano subsea cable, are expected to both reduce the cost and substantially improve the quality of communications services on the Island. While expenditure on communications is expected to fall in coming years, leading to a lower contribution by communications to economic activity on the Island (when measured by GDP), the true economic contribution of communications to economic activity—whether through business growth, increased migration, or household consumption—is expected to be significant.

The announcement on 1 March 2023 that OneWeb, in partnership with Sure South Atlantic, will be constructing a satellite ground station on St Helena that will utilise 10 per cent of the secured capacity of the Equiano subsea cable, marks the emergence of a satellite ground station industry on the Island.