CARIBBEAN DEVELOPMENT BANK

ANGUILLA

ECONOMIC BRIEF

Eastern Caribbean Dollar (EC$); United States Dollar (US$) US$1 = EC$2.70

Overview

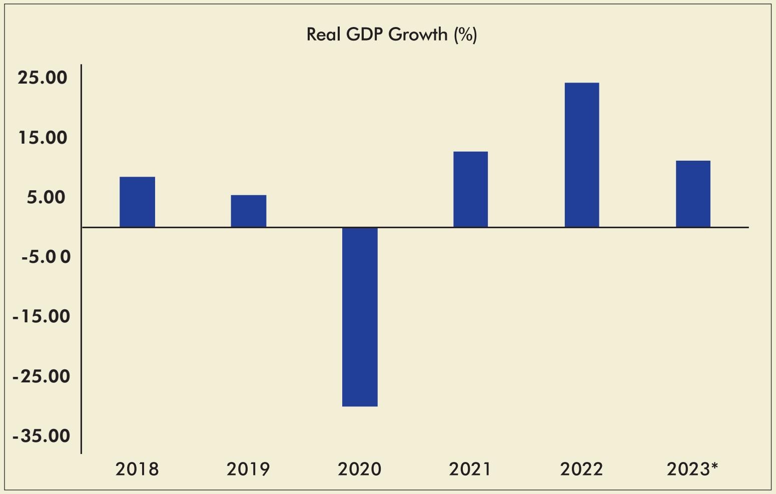
The Anguillian economy grew by 24.2% in 2022, amid a waning COVID-19 pandemic and a resurgence in travel demand. The full lifting of border restrictions and reopening of the high-end tourism industry coupled with increased airlift propelled a strengthening in tourism performance. Overall growth performance, however, was dampened somewhat by rising inflation that more than doubled in 2022. Higher fiscal revenues due, in part, to the application of a new Goods and Services Tax (GST) and prudent spending, allowed the Government of Anguilla (GOA) to maintain fiscal surpluses and to consolidate its operations without compromising social support for the most vulnerable. The financial system remained stable but vulnerable.

Continued economic growth is expected in 2023, but there are risks. The global economy continues to face formidable headwinds from the ongoing Russia-Ukraine conflict, tightening monetary conditions, and heightened volatility in financial markets with recessionary risks looming large.

KEY DEVELOPMENTS IN 2022

The Anguillian economy continued to recover after declining in 2020, nearing pre-pandemic real gross domestic product (GDP) levels in 2022. A strengthened tourism sector, the country's main economic sector, facilitated by a ramp up in global travel following the ending of COVID-19 entry restrictions and increased airlift from Miami, resulted in growth in real GDP of 24.2% (see Chart1).

Chart 1: Real Gross Domestic Product Growth



Source: Eastern Caribbean Central Bank (ECCB); *Caribbean Development Bank (CDB) estimate.

Total visitor arrivals were 57.6% of pre-COVID 2019 arrivals. Stayover arrivals amounted to 95,767, a 161.0% increase over the 2021 outturn and was equivalent to 77.6% of the 2019 level. By source market, arrivals from the United States of America (USA), Anguilla's main market, recovered to 77.6% of its 2019 level. Excursionists, which historically account for approximately half of total visitor arrivals, had a slower recovery, improving to 21,714 visitors from just 320 in 2021, but still only 30.6% of its 2019 level. The increase in arrivals contributed to 161.0% growth in the hotel and restaurant sector.

With improved tourism activity, growth was also recorded in other economic sectors. Value added increased by 34.2% and 9.9% in the transportation, storage and communications, and real estate, renting and business activities sectors, respectively. Wholesale and retail grew by 15.6%, a slowing compared with 2021, reflecting the dampening effect of higher inflation. Construction activity increased by 5.7% as tourism-related and private housing projects progressed.

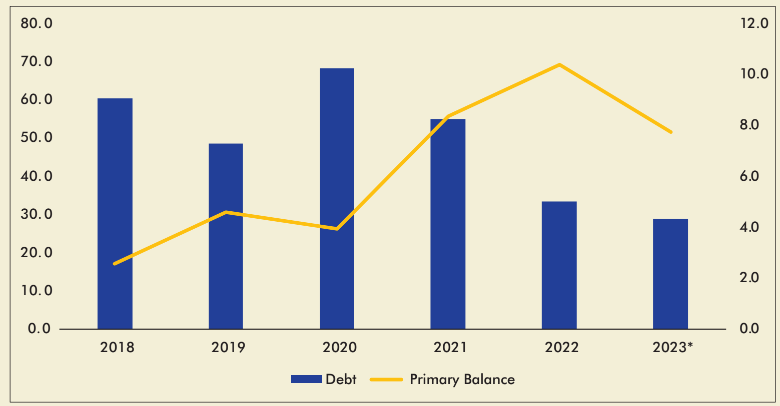
Price pressures intensified amid the war in Ukraine, pent up consumer demand, and global supply chain disruptions. Compared with 1.8% in 2021, the average Consumer Price Index (CPI) rose by 5.6%, the sharpest annual increase since 2011. This acceleration was propelled by price hikes in the heavily weighted transport and food and non-alcoholic beverages CPI categories because of higher imported prices. As international fuel prices continued to rise, there were successive increases in the fuel surcharge for electricity, pushing the index for the housing, utilities, gas and fuels category up by 7.8%. In addition, the July 1st application of GST imposed a one-time increase to the price of taxable items .

Labour market conditions continued to improve in 2022. With the full reopening of the tourism industry, the main employer on the island, the unemployment situation triggered by the pandemic eased.

Central Government (CG) operations generated surpluses, benefitting from the economic rebound, strong pick-up in tourist arrivals, high room rates and a disciplined fiscal policy supported by tax reform. The overall fiscal surplus doubled to EC$113.2 million (mn), [9.3% of GDP], as tax reform generated significant revenues, particularly from the new GST that contributed to a 44.9% increase in tax revenues to EC$291.9 mn (23.9% of GDP). Notably, the GST mobilised additional revenues from a broader tax base that helped to offset losses attributed to special tax expenditure initiatives introduced during the pandemic to lower individual tax burdens and provide cost of living support. Among these measures were a temporary removal of duty and tax from specified fuel imports and from essential food items.

Government expenditure increased mostly related to social assistance provided to the vulnerable even as COVID-19-related spending wound down. Total expenditure, at EC$234.4 mn, was 7.0% higher than in 2021, led by outlays for one-off energy credits, and food vouchers to the elderly to address the higher cost-of-living. Recurrent spending on goods and services also increased, while personal emoluments and interest payments steadied. Capital expenditure of EC$7.1 mn (0.6% of GDP) funded the completion of the reconstructed Blowing Point Ferry Terminal and works at the new Albena Lake Hodge Comprehensive School.

Chart 2: Fiscal and Debt Performance



Sources: *ECCB, GOA. *CDB estimate.*

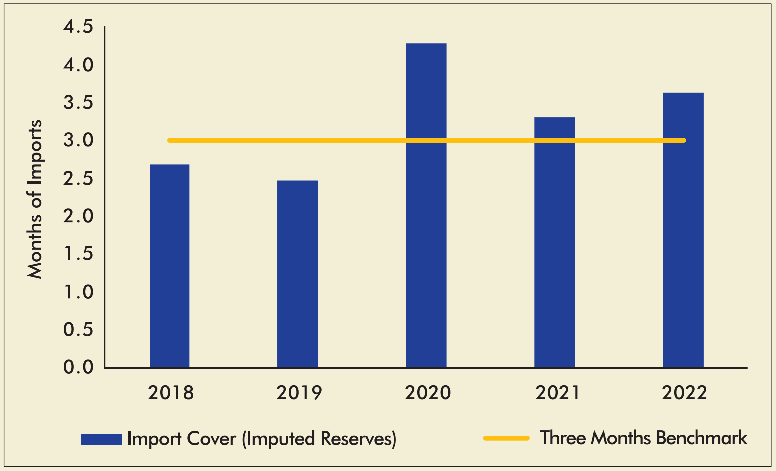
Government's debt management strategy focused on lowering debt to restore compliance with legislated sustainability targets. No new loans were acquired, and CG debt was reduced to the equivalent of 32.2% of GDP (see Chart 2). GOA, nonetheless, remained in breach of its fiscal sustainability targets. At 100.8%, the net public

[1] Accommodation Tax, as well as other taxes and levies such as the Interim Goods Tax, communication levy, and environmental levy were replaced by GST, effective July 1, 2022.

debt to recurrent revenue target of 80% was exceeded even though a 63.6 percentage point improvement over 2021 was attained. GOA also improved the liquid assets position to 26.6% of recurrent expenditure – just above the required 25.0% target.

The external current account position improved relative to 2021. This was buoyed by strongly rebounding visitor expenditure inflows which were more than twice the amount attained in 2021. Increases in imports, on account of rising fuel and food import prices, overshadowed the recovery in goods export earnings, widening the merchandise trade deficit to ECS645.1 mn (52.8% of GDP). Imputed foreign reserves of EC$203.7 mn, represented the equivalent of 3.6 months of imports (see Chart 3).

Chart 3: Gross Foreign Reserves



Sources: *ECCB, CDB estimates.*

The financial system remained stable and compliant with minimum capital requirements, but stability risks remain linked to pre-existing vulnerabilities. Capital adequacy improved from 8.5% to 10.5%. Banks remained highly liquid, with a liquid asset ratio of 47.2%, notwithstanding a 4.5% expansion in credit, driven by lending for real estate, wholesale and retail and construction activities. The unwinding of forbearance measures related to the COVID-19 loan moratoria programme, did not result in an increased level of non-performing loans (NPLs) to total loans which fell to 20.7% in 2022, but remained well above the prudential benchmark of 5% related to legacy NPLs in the system. Weak profitability continued as return on average assets remained low at 1.2%.

In October, Anguilla was added to the European Union list of non-cooperative jurisdictions for tax purposes and assessed to be non-compliant with the international standard for exchange of information. Legislative amendments are being made to the Commercial Registry and Beneficial Ownership Registration System Act and to the Limited Liability Company Act which, together, will govern the maintenance and exchange of beneficial ownership information, in line with international standards.

2023 OUTLOOK

The Anguillian economy is expected to fully recover in 2023. Real GDP growth of 11.3% is forecast based on continued recovery in tourism. Arrivals data for January to April 2023 continued to show strong growth ending the period on par with corresponding 2019 arrivals levels, and this pattern is expected to continue for the rest of the year. In addition to airlift secured, the completion of the new ferry port, the planned expansion of the airport terminal should facilitate increased tourism flows. Planned private sector construction projects are also expected to support economic growth. Growth forecasts are subject to some uncertainty due to Anguilla's heavy economic dependence on USA-based tourism and vulnerability to adverse weather events. Maintaining prudent policy frameworks is therefore important to cushion unexpected shocks and to build resilience.

Robust fiscal revenues should help underpin GOA's convergence and compliance with borrowing limits over the medium term. GST has continued to perform well in 2023 to date, supporting forecasts for a positive fiscal outturn for this year. GOA's focus will remain on mobilising revenue to further reduce its debt ratio and improve debt sustainability, while allowing continuation of cost-of-living support in 2023 and investment in priority areas such as infrastructure, healthcare, and food security.

DATA

The table below summarises the key economic indicators underpinning this Country Brief. These data are taken from several sources and are the latest available at time of publication. 2023 data are estimates and are subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	5.5	-29.9	12.8	24.2	11.3
Average Inflation (%)	0.8	-0.5	1.8	5.6	4.3
Primary Balance (% of GDP)	4.6	4.0	8.4	10.4	7.7
Public Sector Debt (% of GDP)	48.5	68.3	55.1	33.5	28.9

Sources: *ECCB, Statistics Department, CDB forecasts.*

Note: e-estimate.