ANGUILLA

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

In 2020, the economy suffered its largest contraction on record as it shrank by 27.4% due to the impacts of the COVID-19. While the early closure of international borders limited the spread of the virus, tourism was hard hit, reversing the sector's recovery since Hurricane Irma in 2017.

The social consequences were equally severe. Wide-spread business closures and job losses resulted in increased unemployment and loss of income for many. Policy responses to cushion this dislocation included temporary duty exemptions on food and hygiene products, as well as tax payment deferrals. Financial institutions offered support through temporary repayment moratoria and waivers on late fees and charges.

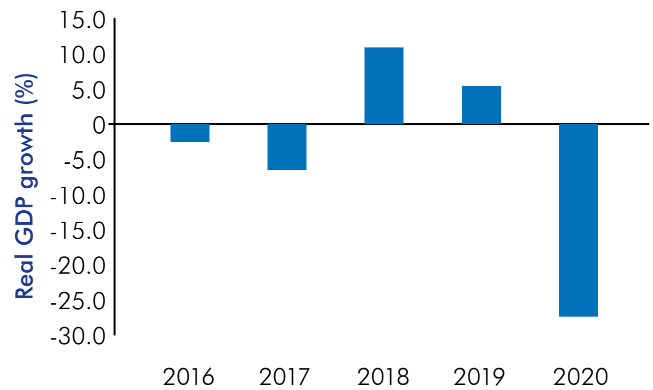
The Government secured budgetary support from its development partners to compensate for lower fiscal revenues on account of COVID-19. These grants assisted with the funding of expanded expenditures for COVID-19 healthcare management and social protection for the most vulnerable people while allowing for the maintenance of fiscal stability.

KEY DEVELOPMENTS IN 2020

Anguilla's economic recovery from Hurricane Irma in 2017 was derailed by its latest external shock – the COVID-19 pandemic. Following two consecutive years of strong growth in the aftermath of Hurricane Irma, the economy is estimated to have suffered its largest contraction on record (-27.4%) in 2020 (see Chart 1). Real gross domestic product (GDP) fell to below its 2004 level.

This contraction is largely attributed to the impact of COVID-19 on the main economic sector, tourism. The global onset of COVID-19 and surging cases in source markets triggered international travel restrictions and the closure of country borders which contributed to the underperformance of the tourism sector in Anguilla. Stayover arrival numbers collapsed by 75%, from approximately 71,000 in 2019, to 15,700. Hotel and restaurant activity, the proxy used for the tourism sector, contracted by almost 75%.

Chart 1: Real gross domestic product growth



Sources: *Caribbean Development Bank (CDB), Eastern Caribbean Central Bank (ECCB).*

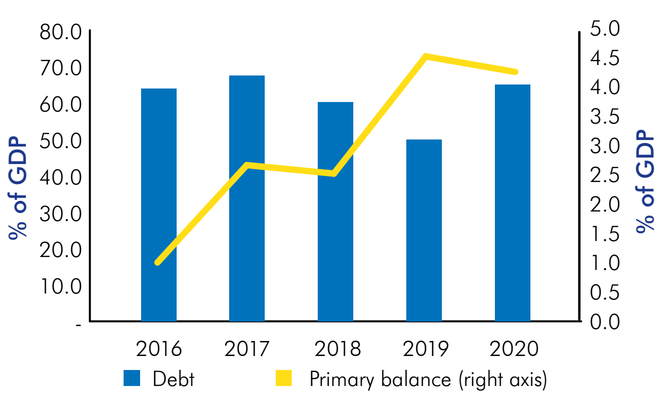
Anguilla was able to limit the spread of COVID-19 to 14 cases and avoid community transmission of the disease. The country's low-risk tier allowed the country to reopen its border to visitors at the end of the year through the creation of a vacation bubble initiative. This allows visitors, including long-term visitors who wish to work remotely, to quarantine at designated resorts that offer access to a variety of amenities and activities within a restricted area until cleared by health officials.

The knock-on effects of tourism's decline have been significant, leading to job layoffs and increased unemployment. Other sectors linked to tourism were substantially affected, either indirectly via a weakened labour market or directly via dampened consumer demand. Wholesale and retail trade (-41%) and transport, storage, and communication (-29.4%) recorded the largest individual declines outside of hotels and restaurants.

Consumer prices trended down. On average, the Consumer Price Index declined by 0.5% in 2020, influenced heavily by a reduction in global oil prices. This fall was reflected by lower prices for: clothing and footwear (-2.2%); housing, water, electricity, gas, and other fuels (-2.5%); furnishing, household equipment and routine household maintenance (-1.5%); health (-0.6%); and transport (-1.3%). The single largest increase in consumer prices was observed for restaurant and hotels (5.3%) reflecting the higher cost of restaurant meals.

The fiscal position remained stable despite a steep decline in revenues. Fiscal operations resulted in an overall surplus of 1.8% of GDP compared with 2.8% of GDP in 2019. The primary surplus (including grants) was 4.3% of GDP, down from 4.6% in 2019 (see Chart 2).

Chart 2: Fiscal and debt performance



Sources: *Government of Anguilla, CDB.*

Fiscal savings were facilitated by compensatory grants received from the United Kingdom (UK) Government, which helped offset a steep decline in revenues. The UK Government guaranteed grant resources to Anguilla of up to a maximum of EC$100 million (mn) in 2020. Further, expenditure restraint was built into public supplementary budget that lowered expenditures to 2019 levels through a deferral of non-priority expenditures. Major expenditure reductions were observed in travel and subsistence (58%) and utilities (47%). These measures provided expenditure savings of approximately EC$29 mn, 4.0% of GDP, for direct COVID-19 response actions.

In 2020, total fiscal revenues fell by 19.4% to EC$202.2 mn. However, fiscal resources were bolstered by grants of EC$41.5 mn from the UK. Taking grants into consideration, the public total revenue and grants declined by 3% (EC$243.7 mn). Most tax and non-tax revenue categories declined. The hardest hit were duties (-42.2%), taxes on income (-17.2%), and taxes on domestic goods and services (-17.1%). Conversely, taxes on international trade and transactions increased by 26.6% to EC$34 mn, owing mostly to the excise tax and the interim goods tax, which were introduced in 2018 as part of reforms to simplify and broaden the tax base. The Government expects to fully implement a goods and services tax in 2022. Reform efforts are also geared at strengthening tax administration to help improve fiscal sustainability and rebuild fiscal buffers.

UK grants assisted with meeting pressing expenditure commitments. Total expenditure was EC$230.7 mn, a 3.8% increase over 2019. Reccurrent expenditures, which increased by 4.8% or EC$10.2 mn, represented 96% of total expenditure. Major public capital works are being financed by the UK under its Anguilla Programme that allocates capital grants for reconstruction after Hurricane Irma.

Social services expenditures more than doubled to EC$15.2 mn. COVID-19-related allocations were made to the Unemployment

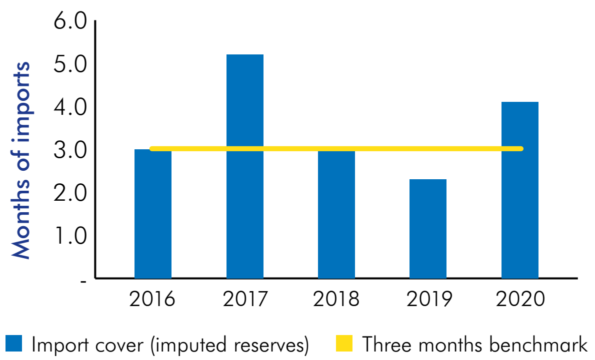
Assistance Scheme that provided EC$800 per month from April for eligible citizens who could not benefit from the existing Anguilla Social Security Scheme. Rentals increased by 56% to EC$11.1 mn reflecting the rental of quarantine and isolation facilities to accommodate physical distancing requirements. Funds were also utilised to hire additional staff to assist with the monitoring of quarantined persons. Subventions were provided to statutory bodies that suffered significant revenue losses directly attributed to the pandemic, including the Health Authority, the Water Corporation, and the Air and Sea Ports Authority. The Anguilla Development Board received resources to support small businesses. During the year, the Government strengthened its oversight of state-owned enterprises.

Fiscal savings were supplemented by liquidity buffers. However, the Government fully exhausted its sinking fund in October and increased its use of short-term borrowing to assist with cash management during the year. The only external loan financing received was EC$3.3 mn from an existing CDB project loan for construction of the Anguilla Community College. Although the public debt stock declined (due to scheduled amortisation payments exceeding disbursements), the public debt ratio jumped to 65.0% of GDP, from 49.9% in 2019, because of the contraction in GDP. The Government remained in breach of its borrowing limits and liquid assets targets.

The challenges in the domestic economy have weakened the financial system and amplified vulnerabilities and risks. Due to the negative impact of the COVID-19 shock on capital adequacy levels, the regulatory capital to risk-weighted assets ratio for the banking system declined to 9.6% from 10.5% at year end 2019, although the levels remained just above the regulatory benchmark of 8%. Non-performing loans (NPLs) remained elevated, well above the 5% prudential benchmark, but stable at around 25% throughout the year. Thus, one in every four loans was categorised as NPLs. Legacy NPLs in the banking system have carried over from previous years, undermining the banks' ability to record profits and absorb shocks. The banking system's largest exposures are to households and tourism, both vulnerable to loan defaults. To help ease borrower distress brought on by the pandemic, the banks extended loan repayment moratoria and waived fees and commissions. Already exhibiting weak profitability, banks faced further setbacks to earnings. The return on average assets of the banking system declined from 0.9% to 0.4%.

Reserves rose above the recommended benchmark of three months of imports (see Chart 3). This increase to 4.1 months reflected a significant decline (40.5%) in total merchandise imports as of September 2020. The balance of trade deficit, as a result, narrowed from EC$479.6 mn in 2019 to EC$291.9 mn. Exports remained negligible.

Chart 3: Imputed gross foreign reserves



__Sources:__ ECCB, CDB staff estimates.

Anguilla was added to the European Union (EU) list of non-cooperative jurisdictions for tax purposes. In September, Anguilla was downgraded from partially compliant to non-compliant with the international standard of transparency and exchange of information, with EU citing a need for Anguilla to improve financial transparency in its financial services sector. Notably, Anguilla continues to make progress to address recommendations to strengthen transparency and deter illicit transactions and has committed to the implementation of Registers of Beneficiary Ownership by 2023.

OUTLOOK

GDP growth of 6% is projected for 2021, with a positive outlook for the medium term. A gradual recovery is expected in tourist arrivals as the roll-out of COVID-19 vaccines ramp up in source markets and in Anguilla. The country's vaccination efforts have advanced significantly, and most eligible persons should receive their vaccinations well ahead of the opening of the 2021-22 winter tourist season. In addition, the sale and renovation of CuisinArt Resort and Golf Course, the resurfacing of the Clayton J Lloyd International Airport runway, as well as the continuation of reconstruction projects associated with the Anguilla Programme, will help to bolster growth in 2021. Public finances should remain stable, with revenues buoyed by economic recovery and additional budget support.

Anguilla's low-risk travel designation could provide opportunities for an accelerated pace of recovery in 2021. However, there are downside risks. More stringent health requirements and supply delays and apprehension surrounding the vaccine may present challenges. This could be further complicated by the identification of new COVID-19 strains, which could precipitate a resurgence in global infections and lead to further lockdowns. Anguilla also faces the risk of natural disasters.

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. Some are subject to revision. The 2020 data are CDB estimates.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	-2.5	-6.6	10.9	5.4	-27.4
Average inflation (%)	-0.5	1.5	0.2	0.8	-0.5
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Primary balance after grants (% of GDP)	1.0	2.7	2.6	4.6	4.3
Public sector debt (% of GDP)	63.9	67.6	60.3	49.9	65.0

Sources: *Government of Anguilla, ECCB, CDB.*

Notes: e – estimate (as at April 15, 2021); n.a. – not available.

Disclaimer