



ANTIGUA AND BARBUDA

COUNTRY ECONOMIC REVIEW 2020

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

OVERVIEW

COVID-19 had a significant impact on Antigua and Barbuda's tourism-dependent economy in 2020. The outbreak in March prompted the implementation of a series of emergency public health measures to stem the spread of the virus that restricted the number of confirmed cases to 157 persons during the year. However, these measures severely affected economic output, employment, and public finances.

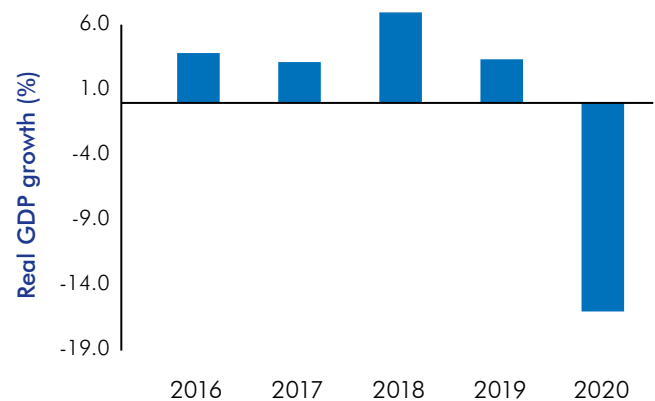
The economic recovery trajectory is uncertain. The country experienced a surge in cases during the first quarter of 2021. Even as mass vaccination programmes are being rolled out, external demand is likely to remain dampened by a similar surge in European nations that could delay plans to restart travel.

KEY DEVELOPMENTS IN 2020

The COVID-19 pandemic had a significant adverse macroeconomic impact in 2020. The health crisis severely affected economic activity with unprecedented output losses. Real gross domestic product (GDP) is estimated to have fallen by 16% due to the implementation of public health measures (including a temporary shutdown of the country's borders to international travel, the mandatory closure of non-essential business, and limitations on gatherings) to contain the spread of the virus that triggered a reduction in domestic and external demand (see Chart 1). Although the economy reopened to travel in the second half of the year,

recovery was stifled by a second wave of COVID-19 infections.

Chart 1: Real gross domestic product growth



Sources: Government of Antigua and Barbuda, Eastern Caribbean Central Bank (ECCB).

A steep fall in activity in the hotels and restaurants sector was matched with similar performances in most other economic sectors. Tourism accounts for approximately 48% of GDP (2019) and contributed approximately 62% of export earnings. The decline in the hotels and restaurants sector of 55% coincided with a 65% fall in cruise passenger arrivals and a 58% decline in stay-over arrivals. Linked to this decline, transportation (25%), construction (21%), and wholesale and retail (14%) all experienced significant fall-offs.

Consumer price index average inflation remained subdued. Inflation was 1.1%, mainly due to an increase in prices in several of the more heavily weighted sub-indices: food and non-alcoholic beverages; furnishing and household equipment; transport; and miscellaneous goods and services.

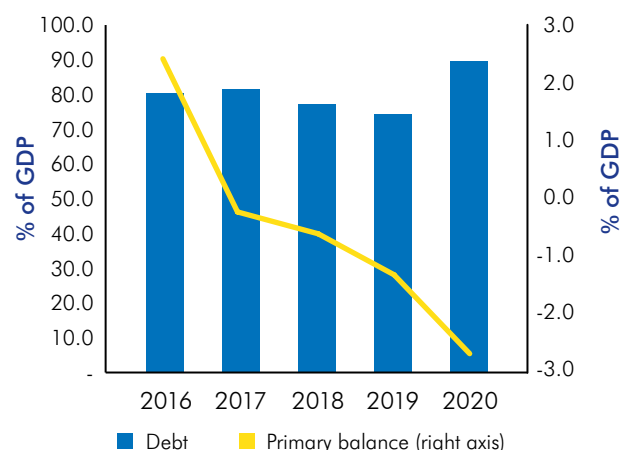
Unemployment is estimated to have sharply increased. Antigua and Barbuda Social Security Board estimates a 20.7% decline in active employment, consistent with the steep fall in economic activity¹. The largest changes in the labour market during the first six months of 2020, were observed in the hospitality industry (-47.9%) and among self-employed persons (-42%).

The Government responded swiftly to the pandemic in the areas of public health, social protection, and job retention. The measures included building a new medical facility, an expansion of social safety net programmes to meet the basic needs of the unemployed and persons living below the poverty line, with emphasis on vulnerable women and children, and investment incentives for home renovation and construction.

The pandemic had an immediate deleterious impact on public finances. Budgetary operations weakened with a widening of the primary deficit to 2.7% of GDP (see Chart 2). Tax receipts, which account for 79% of total revenue, contracted by 9% to EC\$610.1 million (mn). Taxes on domestic goods and services (14.0%); property (37%); and international trade (7%) all declined. However, taxes on income and profits grew due to a buoyant 2019 economic performance on which the taxes are applied. A 22%-decline in non-tax revenue to EC\$135.8 mn was associated with lower Citizenship-by-Investment Programme receipts. Recurrent expenditure contracted by 7% to EC\$882.0 mn, reflected in reduced outlays on domestic goods and services (23%), transfers and subsidies (10%), and personal emoluments (3%). However, capital expenditure grew by 19% to EC\$103.0 mn, driven by the Government’s road rehabilitation and housing investment projects.

1 The last official unemployment rate was 13.7% in December 2015.

Chart 2: Fiscal and debt performance



Source: Government of Antigua and Barbuda, International Monetary Fund (IMF).

As a result of the widened deficit, public debt increased. The debt-to-GDP ratio was estimated at 89.6%² in 2020, compared with 74.4% in 2019. Over the past five years, debt servicing (interest and amortisation) has accounted for an average of 53% of revenue collected on an annual basis, with interest payments alone accounting for approximately 12%.

Financial sector indicators have mostly weakened, but the sector remained stable. There was a reduction in commercial banks’ profitability, asset quality, and liquidity as COVID-19 took a toll on banking systems. To provide borrower relief and help contain default rates given the heightened risk environment related to the financial fallout of the pandemic (linked to job losses, pay cuts and disruptions in business revenue), banks offered temporary payment moratoria³, as well as waivers on late fees and commissions to customers. As a result, the increase in the ratio of gross non-performing loans to total loans was contained to 6.3%, from 5.3% in 2019. However, the relief programmes eroded earnings. Return on assets fell to 0.42% relative to 1.44% at the end of December 2019. The banking system’s liquid assets to total assets also declined from 46.4% to 36.9%.

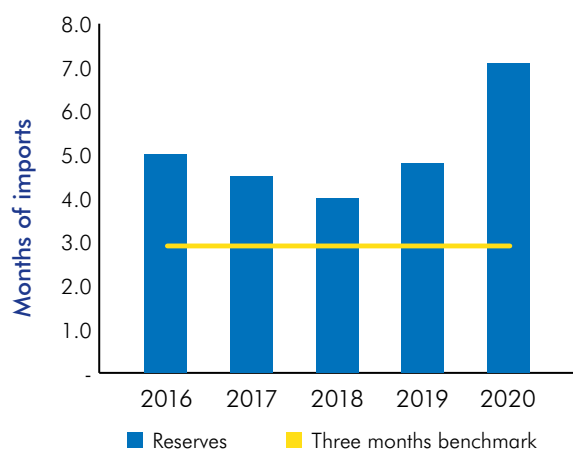
2 The public debt used to calculate this ratio excludes expenditure arrears and may underestimate the public total liabilities.

3 A provision allowing borrowers to temporarily defer all debt service obligations after the commencement of the crisis.

The demand for credit expanded despite the slump in economic activity. As at October, credit data showed an increase in domestic credit of 7.4% to EC\$2.6 billion (bn) for the first 10 months of the year, led by a 10.5% rise in credit to the private sector to provide liquidity. Net lending to Government fell marginally by 1.2% to EC\$380 mn.

Foreign reserves exceeded the three months of imports global benchmark. Imputed reserves⁴ were estimated at 7.1 months of import cover in September 2020, compared with 4.8 months in December 2019 (see Chart 3).

Chart 3: Imputed foreign reserves



Sources: ECCB.

Preliminary data through to the third quarter of 2020 indicate an overall deterioration in external operations. Total visitor expenditure, a key indicator of service trade, fell by 67% (EC\$1.4 bn) over the nine-month period, consistent with the significant fall-off in tourist arrivals. By contrast, the merchandise trade deficit narrowed by 47% (EC\$841.9 mn) but was not sufficient to offset the steep reduction in the services trade. COVID-19 restrictions contributed to lower imports of food,

fuels, manufactured goods, machinery, and transport equipment. Meanwhile, a reduction in public and private sector inflows adversely affected the capital account.

OUTLOOK

The COVID-19 pandemic showed little sign of abating going into 2021. The rebound in global economic activity is expected to be hampered by the ongoing second wave of COVID-19 in the main source markets. However, the vaccine roll-out provides some positive prospects.

The Caribbean Development Bank (CDB) projects a contraction in real GDP by 2% in 2021. This is attributed to the suspension of flights from Canada to the Caribbean until the end of April 2021, and the continued lockdown in the United Kingdom. CDB assumes a slow recovery in tourism activity from the middle of 2021, once vaccine roll-outs are accelerated in the advanced economies. With pent-up travel demand in source countries, tourism flows should return to normalcy towards the end of 2023. However, the risks to the economic outlook are tilted to the downside, with global economic recovery contingent on the containment of the virus, maintenance of stimulus measures, and equitable access to COVID-19 vaccines by all countries; coupled with the ever-present risk of exposure to natural hazard events.

The negative real GDP outlook is expected to place a significant strain on fiscal and debt sustainability. Notwithstanding the Government's effort to improve revenue collection, the planned higher expenditure is expected to lead to a worsening of the fiscal balance, as well as a knock-on effect on public debt.

⁴ ECCB does not allocate foreign reserves to any particular member country in the Eastern Caribbean Currency Union but reserves are pooled at the aggregate level.

DATA

The table below summarises the key economic and social 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.

Selected indicators

	2016	2017	2018	2019	2020 ^e
Real GDP growth (%)	3.8	3.1	7.0	3.4	-16.0
Average inflation (%)	-0.5	2.4	1.2	1.5	1.1
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Primary balance (% of GDP)	2.4	-0.1	-0.6	-1.2	-2.7
Public sector debt (% of GDP)	80.5	81.6	77.4	74.4	89.6

Sources: Government of Antigua and Barbuda, ECCB, IMF.

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

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