COUNTRY ECONOMIC REVIEW 2017

ANTIGUA AND BARBUDA

Disclaimer

Dollars ($) throughout denote Eastern Caribbean dollars (XCD) unless otherwise stated

OVERVIEW

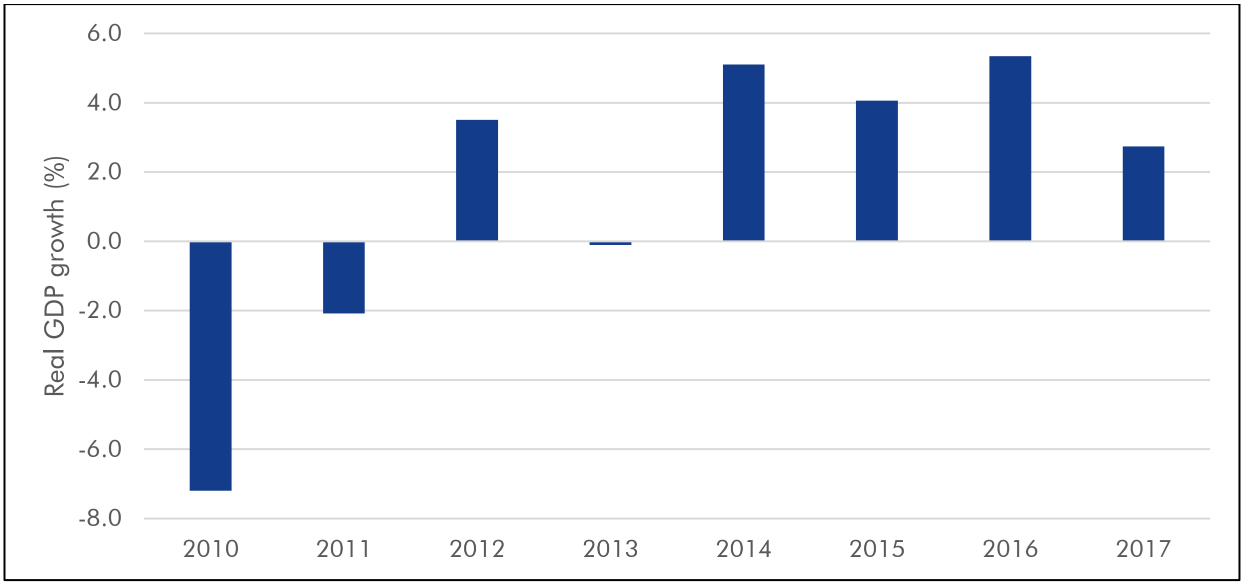
Macroeconomic conditions in Antigua and Barbuda have been mixed. Economic growth accelerated in 2016, but is estimated to decelerate in 2017. Notwithstanding buoyant growth for the past three years, fiscal conditions have deteriorated with relatively high gross financing needs and severe cash flow difficulties in Central Government (CG). A combination of a sharp decline in Citizenship by Investment Programme (CIP) and National Development Fund receipts; increased demands from spending post-Hurricane Irma; and rehabilitation and reconstruction requirements in the absence of grant or concessional funding, could further exacerbate the cash flow situation. These developments could further increase the underlying risks to macroeconomic stability and fiscal and debt sustainability.

1. REAL SECTOR

1.01 The Gross Domestic Product (GDP) in Antigua and Barbuda is estimated to have expanded in real terms by 2.7% in 2017, compared with real growth of 5.3% for 2016. This moderation in the growth of economic activity is due in part to declines in tourism and delays in key infrastructural projects. According to the Caribbean Tourism Organization, stayover arrivals fell by 6.7% to 247,320 in 2017. This decline was recorded in key source markets – the United States and Europe – reflecting major competition from other destinations and the uncertainty surrounding BREXIT. This was compounded on the domestic front with the closure of a number of hotels during the period August to November, including Sandals Resort Hotel, for maintenance and renovations. The weak tourism sector performance was mitigated by an increase in cruise ship passenger arrivals, by 26.3% to 768,838 (January to December 2017) relative to the corresponding period in 2016. Visitor expenditure fell, corroborating the weak contribution of the tourism industry to GDP.

1.02 Activity in the construction sector is estimated to have increased in the first three quarters of 2017, supported evidenced by increased imports of construction materials, particularly cement (2.9%). Despite a decline in CG capital expenditure over the period, construction activity rose in the rest of the public sector. In the private sector, construction works included enhancements to the hotel stock and work continued on several CIP-funded projects. There were also increases in ancillary sectors such as wholesale and retail, transport, storage and communications, evidenced by the 15.7% expansion in the importation of general cargo and 22.7% increase in vehicle importation.

FIGURE 1: REAL GDP GROWTH 2010-2017



Source: Eastern Caribbean Central Bank (ECCB).

1.03 Inflation as at the end of September 2017 fell to 2.6%, from 3.4% in September 2016, due to increases in the food, housing, transportation and communication, and personal services indices.

Social Sector

1.04 Antigua and Barbuda ranks as a country of high human development, with a Human Development Index (HDI) value of 0.786 in 2015. The HDI for 2015 indicates a steady increase from 0.773 in 2005. Notwithstanding, issues of poverty, inequality, vulnerability, and the ability of the poor to sustainably improve their well-being remain. The latest official data (2007) shows that 18% of the population is poor, 3.7% indigent, and 10% vulnerable to poverty in the event of a major economic shock or natural hazard. The global economic recession of 2008 exacerbated this vulnerability and there has been an increased number of applications from poor households for Government's social assistance. Comparative data shows the unemployment rate for youth being 2.4 times that of the total population in 2015 (33.9% versus 13.8%).

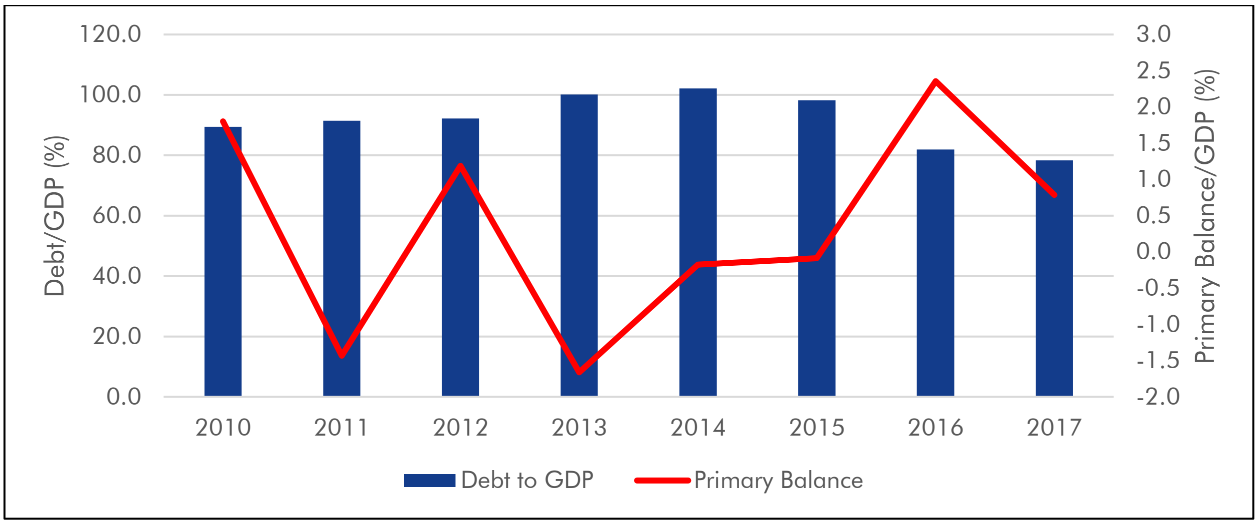
1.05 Further, 12.9% of men and 14.5% of women were unemployed. Women also contend with labour market segregation, and are more likely to be found in lower-paying and less secure occupations. Accordingly, higher proportions of men are represented in the sectors that contribute in the highest percentage to GDP.

2. CENTRAL GOVERNMENT OPERATIONS AND DEBT

2.01 The September 2017 passage of Hurricane Irma exacerbated the Government of Antigua and Barbuda's (GOAB) financing constraint. An underlying overall deficit of 5.4% of GDP is projected for 2017. The fiscal operations for the first nine months of 2017 resulted in a widened overall fiscal deficit of $55.8 million (mn) from $38.4 mn at the end of September 2016, due in large part to a reduction in current revenue. As a result, the primary surplus of $37.3 mn registered in September 2016 shrank to $26.6 mn as at the end of September 2017. The weak revenue performance was driven primarily by lower non-tax revenue (32.6% reduction) on account of lower CIP inflows, reduction in taxes on income (96%) and taxes on international trade (20.7%). Total expenditure was constrained during the first nine months of 2017. Personal emoluments (0.1%), and transfers and subsidies (2.6%) declined marginally, while capital expenditure contracted by as much as 59.4% to $34.8 mn, from $85.7 mn in the corresponding period in 2016.

2.02 Financing constraints are aggravated by the public sector debt, which remains burdensome. The public debt-to-GDP ratio is estimated at 83.9% in 2017, compared with 86.2% in 2016. Over the past few years, debt servicing (interest and amortisation) has accounted for 34% of revenue collected on an annual basis, while interest payments alone account for 15% of revenue generated. Public sector gross financing needs are expected to increase in 2018 to finance hurricane reconstruction. Cash flow problems have persisted, placing a strain on GOAB debt payments, resulting in it having difficulties meeting its current financial obligations. Both domestic and external arrears have built up over the past year, and are estimated to have reached 5.9% of GDP in 2017.

FIGURE 2: DEBT/GDP AND PRIMARY BALANCE



Source: GOAB, ECCB, IMF.

3. EXTERNAL SECTOR

3.01 Antigua and Barbuda's external position is estimated to have deteriorated over the period January to September 2017. The merchandise trade deficit widened by 26% on account of a significant fall in export earnings, relative to an 11% increase in import payments on mineral fuels and related materials. Gross travel receipts fell by 5.9% to $642.8 mn, consistent with the decline in the number of stayover tourists. Gross international reserves at the end of 2017 were $323 mn, covering 3.6 months of imports of goods.

4. FINANCIAL SECTOR

4.01 Monetary liabilities (M2) grew by 7.2% during the first nine months of 2017, compared with 3.3% in 2016. Domestic credit grew by 0.7% to $2,353.7 mn on account of increased public sector and non-financial public enterprises borrowing. In contrast, private sector credit, the largest share of domestic credit, contracted by 1.6% to $1,898 mn on account of a 9.7% reduction in credit to businesses. The slowdown in lending to the private sector was reflected in the general drop in credit to the most productive economic categories, except for government services, distributive trades, and transport and storage which grew by 2.3%, 1.4%, and 15.1%, respectively. Personal lending grew marginally by 0.9%.

4.02 The resilience of the banking system improved in 2017, although important vulnerabilities remain. The banking system's ratio of gross non-performing loans to total loans fell to 7.7% (34.4% net of provisions) at the end of September 2017. The reported Capital Adequacy Ratio increased by about 3.7% to 37.7%. Return on assets for the banking system was 1.36% at the end of September 2017, a reduction from 1.51% as at the end of December 2016. The decline reflected the general weaknesses in the financial sector and tighter credit controls, as well as the impact of Anti-Money Laundering/Countering the Financing of Terrorism on the banking sector.

5. OUTLOOK

5.01 Economic activity is projected to accelerate in 2018 as GOAB embarks on the Hurricane Reconstruction Programme, mainly on the island of Barbuda, and key infrastructural projects on Antigua. Real GDP growth for 2018 is projected to be 5.3%, before it returns to its long-run average of 2.7%. This prediction is, however, contingent on both global and domestic developments. The International Monetary Fund (IMF) World Economic Outlook (January 2018) predicts that the global economy should increase by 3.9% in 2018, compared with 3.7% in 2017. This pickup is likely to lead to greater travel demand. Domestically, the economy will benefit mainly from increased activity in the construction sector – both public and private. In the public sector, capital works will include a road rehabilitation project, renovations of Government buildings, and the Government housing project. Private sector construction activity will be focused on a few CIP-funded real estate developments, enhancements to the hotel stock, and residential construction.

5.02 Inflation is expected to moderate in the context of low international oil prices. Public sector-related construction activity should remain buoyant with the commencement of the road project; rehabilitation and reconstruction in Barbuda; the continuation of housing projects; and the port expansion.

5.03 Achieving macroeconomic stability remains a key priority for GOAB. In light of the current public financial outlook and the estimated cost of humanitarian relief and rebuilding in Barbuda, additional fiscal consolidation will be required, guided by a credible medium-term fiscal and debt strategy. This must incorporate a clear plan of action to arrest and reduce the accumulation of domestic and external arrears. The framework should also seek to lower reliance on CIP revenues and soften the cash flow constraints.

5.04 Risks to fiscal and debt sustainability have tilted further to the downside post-Hurricane

Irma. In addition, Antigua and Barbuda remains vulnerable to external shocks related to global macroeconomic conditions due to its heavy reliance on tourism. The implementation of robust building codes, for both residential and commercial properties, could reduce vulnerability to natural disasters.

5.05 Other risks are centred on the challenges faced by commercial banks as they relate to the loss of correspondent banking relationships. Furthermore, a sizeable contingent liability shock, similar to the 2015 bank resolution, could derail efforts to achieve debt sustainability. Consequently, the likelihood of a higher debt-to-GDP ratio in the medium to long term is greater in the absence of comprehensive macro-fiscal reforms.

TABLE 1: SELECTED INDICATORS

	2013	2014	2015	2016	2017
Real GDP Growth (%)	-0.1	5.1	4.1	5.3	2.7[e]
Average Inflation (%)	1.1	1.1	1.0	-0.5	2.6e
Unemployment (%)	n.a	n.a	13.8	n.a	n.a
Primary Balance (% of GDP)	-2.4	-0.1	5.3	2.3	0.8
Public Sector Debt (% of GDP)	100.1	102.1	98.2	81.9	78.3e

Sources: GOAB and IMF.
Notes: p – preliminary; e – estimate; and n.a. – not available.