ANTIGUA AND BARBUDA

ECONOMIC BRIEF

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

Overview

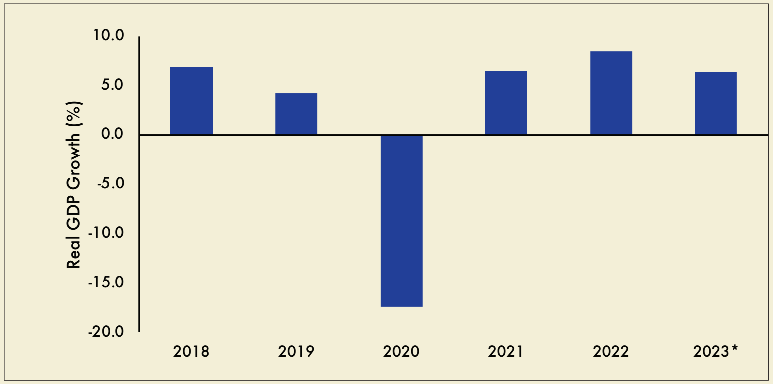
Antigua and Barbuda's real gross domestic product (GDP) expanded in 2022, completing the second year of recovery since the pandemic. The favorable output performance contributed to improvements in public finance, labour market conditions, and to financial sector stability, although prices ended significantly higher. External sector operations buoyed by a strong recovery in tourism led to a narrowing of the current account deficit.

The economic outlook for 2023 is cautiously optimistic. The economic recovery should continue, albeit at a slower pace in the face of headwinds emanating from high international prices and elevated interest rates.

KEY DEVELOPMENTS IN 2022

Macroeconomic conditions in Antigua and Barbuda improved in 2022. Real GDP increased by 8.5%, buoyed by tourism and construction activities (see Chart 1).

Chart 1: Real Gross Domestic Product Growth



Sources: *Government of Antigua and Barbuda (GOAB), Eastern Caribbean Central Bank (ECCB). *Caribbean Development Bank (CDB) estimate.*

A strengthening in consumer travel as COVID-19 restrictions eased, increased airlift, and aggressive destination marketing contributed to growth in tourist arrivals and related activities. Value-added in the Hotels and Restaurants sector, increased by 56.4%. Stay over arrivals were 56.4% higher than 2021, and equivalent to 88.1% of 2019 pre-pandemic levels. The overall performance of the sector was supported by an almost 400-fold increase in cruise passenger arrivals relative to 2021, when cruise ship arrivals had paused.

Ancillary sectors also strengthened. Construction activity was up by 20% based mainly on private sector activities. Wholesale and retail increased by 5%; and transportation, storage and communication by 13.5%, partly on account of the return of cruise passengers.

Average inflation, measured by the consumer price index, jumped by 7.5%. Higher prices were observed across all sub-indices and were particularly higher in the heavily weighted food and non-alcoholic beverages category (10.6%), transport (11.3%), and housing, utilities, gas and fuel (0.7%).

Up-to-date official unemployment data are unavailable[1]. However, based on the expansion in tourism which accounts for a sizable share of the labour force, it is anticipated that the unemployment rate trended downwards. Also, the addition of more than 900 employed and self-employed persons to the list of registered workers with the Antigua Social Security Board pointed to increased employment.

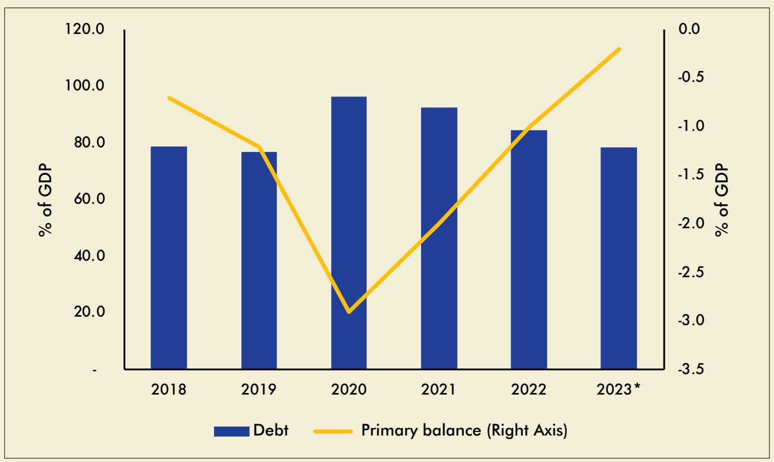
Consistent with the upsurge in activity, budgetary outcomes improved but fell short of target. Compared with a primary surplus target of 0.3% of GDP, fiscal operations yielded a deficit of 1.0% of GDP. This deficit was, however, lower than in 2021 on account of increased revenue collections. The overall deficit also shrank, moving

[1] The last available official unemployment data was published for 2018. The rate then was 9.9%.

from 4.4% of GDP in 2021 to 3.6%. Tax receipts rose by 12.8% year-on-year to 752.1 million (mn), due to strong growth in the Antigua and Barbuda Sales Tax, Revenue Recovery Charge, and increased rents paid on Government property. Meanwhile, receipts from the Citizenship-by-Investment Programme remained flat.

Government spending increased by 8.4% even though COVID-19 related expenditures were pared back. This was largely reflective of the increased outlays for capital expenditure (34.5%) as works on road and housing projects were ramped up. There were also increases in wages and salaries (7.1%), goods and services (20.2%) and interest payments (24.0%) which together eclipsed the reduction in transfers and subsidies(11.6%).

Chart 2: Fiscal and Debt Performance

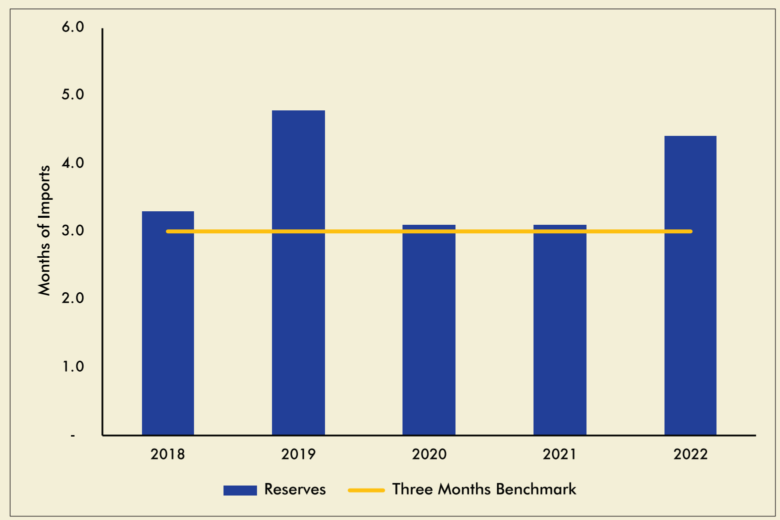


Sources: *GOAB, International Monetary Fund (IMF).* CDB estimate*

A higher nominal GDP and lower fiscal deficit contributed to a reduction in the public debt ratio. With an improvement in debt dynamics, the public debt-to-GDP ratio fell to 84.8% compared with 92.5% in 2021. The improvement was largely due to improvements in GDP as the total public sector debt stock increased from $3,896.9 mn in 2021 to $4,011.9 mn. The additional debt came from issuances on the Regional Government Securities Market and domestic commercial bank loans and advances.

Financial stability indicators point to a stable financial sector, despite mixed performance in some key indicators. Commercial banks' liquidity position as measured by liquid assets to total assets rose to 43.6%, from 40.5% a year earlier, reflecting an increase in deposits as economic activity expanded. Non-performing loans to total loans improved, moving down 99 basis points to 6.9%. Capital adequacy, at 26.7%, remained well above the minimum benchmark of 8%. Domestic credit remained relatively unchanged at $2.6 billion, as a 2.1% decline in lending to the private sector offset a 5.5% rise in net lending to General Government.

Chart 3: Imputed Foreign Reserves



Source: *ECCB.*

[2] GOAB 2023 Budget Statement.

External sector operations underpinned a narrowing of the current account deficit. The deficit declined by 8.0%, moving to $606.5 mn (13.4 % of GDP). This outturn was largely influenced by a 64.8% expansion in the surplus on the services trade account that was buoyed by increases in tourist expenditure receipts. This offset a 40.2% rise in the goods trade deficit, reflective of higher imports to meet the demand of a growing economy. Imputed foreign reserves exceeded the three months of imports global benchmark . At 3.5 months of import cover, this improved compared with 2021 (see Chart 3).

2023 OUTLOOK

Economic activity is expected to maintain momentum in 2023. Real GDP is projected to grow by 6.4%, contingent upon the continuation of the recovery in the tourism sector with the attendant positive spillovers to the ancillary sectors. The implementation of key capital projects in GOAB's public sector investment programme, including works at the cruise ship berth and in the health sector, along with private sector construction activities, are expected to provide additional boosts. However, risks are tilted to the downside, with headwinds coming from a slower global growth performance as inflation continues to be a drag on economic conditions. The ever-present risk of exposure to natural hazard events adds to the downside risks.

Fiscal operations are projected to improve slightly in 2023. The improved economic environment augurs well for revenue collection and this improvement is expected to outweigh increases in expenditures, including wage increases, which will lead to a marginal improvement in the fiscal deficit. The public sector debt is expected to contract as the expansion of the economy should outweigh the increase in the public debt stock. To stay on course to enhance fiscal sustainability and meet its debt target of under 60% of GDP by 2035, the strategic focus of budget policy in 2023 and beyond will be to correct and consolidate by firming expenditure management and raising revenue by strengthening administration, streamlining tax exemptions and concessions, and increasing the property tax rate. Antigua and Barbuda has the lowest tax ratio to GDP (16%) of the Eastern Caribbean countries in the Currency Union.

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. The 2023 data are estimates and are subject to revision.

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	4.3	-17.4	6.5	8.5	6.4
Average Inflation (%)	1.2	1.1	1.6	7.5	4.2
Primary Balance (% of GDP)	-1.2	-2.9	-2.0	-1.0	-0.2
Public Sector Debt (% of GDP)	76.8	96.5	92.5	84.5	78.4

Sources: *GOAB, ECCB, IMF.*

Notes: e-estimate