MONTSERRAT

ECONOMIC BRIEF

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

Overview

Montserrat recorded an increase in real gross domestic product (GDP) in 2022 as tourism activity continued to rebound. The easing of COVID-19 restrictions contributed to an improved tourism performance during the year, with positive knock-on effects on the ancillary sectors – transport and wholesale and retail trade. However, there was a fall-off in construction activity due, in part, to the delayed start on works associated with the Port Development Project. Fiscal operations resulted in an overall surplus for the Fiscal Year (FY) 2022/23 (April to March); and the Government of Montserrat (GOM) debt-to-GDP ratio remained negligible. The financial sector was broadly stable; however, credit to the private sector declined. On the external account, the trade deficit weakened due to higher imports.

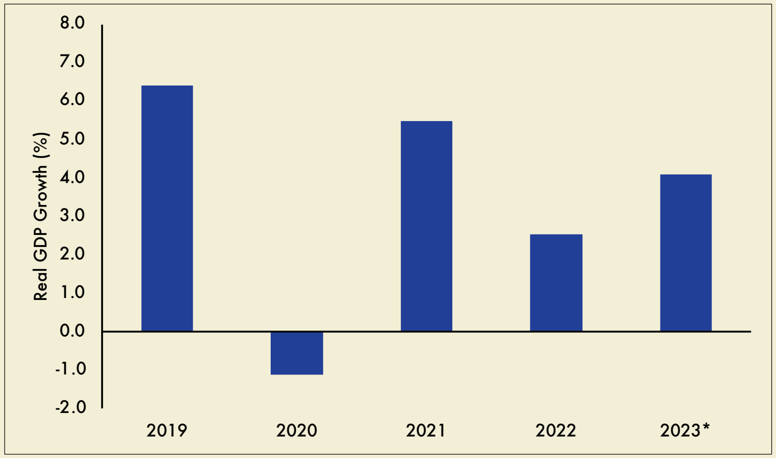
Improved macroeconomic conditions are projected to continue in 2023, amid downside risks. Economic prospects depend on continued budget support, a gradual tourism recovery, and public sector construction activity. However, downside risks remain elevated related to a further slowdown in global economic activity and the ever-present threat of natural hazards.

KEY DEVELOPMENTS IN 2022[1]

Real GDP grew by 2.5%, relative to 5.5% recorded a year earlier (see Chart 1). This outturn was underpinned by improved performances in the tourism and related sectors that continued to rebound with the removal of COVID-19 protocols and restrictions. Value added in the hotels and restaurants sector grew by 188.0% in line with higher stayover visitor arrivals that recovered to reach about 44% of pre-pandemic 2019 levels. In 2022, stayover arrivals increased to 4,613, up from 1,591 recorded in the previous year. Cruise tourism also rebounded following no recorded passengers in 2021. Additional boost to GDP came from growth in the transport, storage and communications sector (48.1%) and the wholesale and retail trade sector (3.9%).

The economic outturn was moderated by weaker construction activity. Value added in the construction sector fell by 44.1%, associated with a decline in new construction starts and a reduction in public sector investments following the delayed start to construction on the Port Development Project. At the same time, public administration, which accounts for about a third of the country's GDP and is the single largest employer, fell by 5.5%, due to lower personal emoluments.

Chart 1: Real Gross Domestic Product Growth



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

Inflationary pressures increased during the year. The consumer price index (period average) rose by 3.0%, compared with an increase of 2.6% in 2021, reflecting rising global commodity prices and continued supply and logistical challenges. The most heavily weighted sub-index, housing, utilities, gas and fuels, grew by 2.0%. Moreover, food and non-alcoholic beverages (3.4%), clothing and footwear (10.0%), and communication (4.2%) sub-indices also rose during the period. In contrast, decreases were

[1] All comparisons are with respect to 2021, unless otherwise stated.

recorded for the alcoholic beverages, tobacco and narcotics, and hotels and restaurants sub-indices.

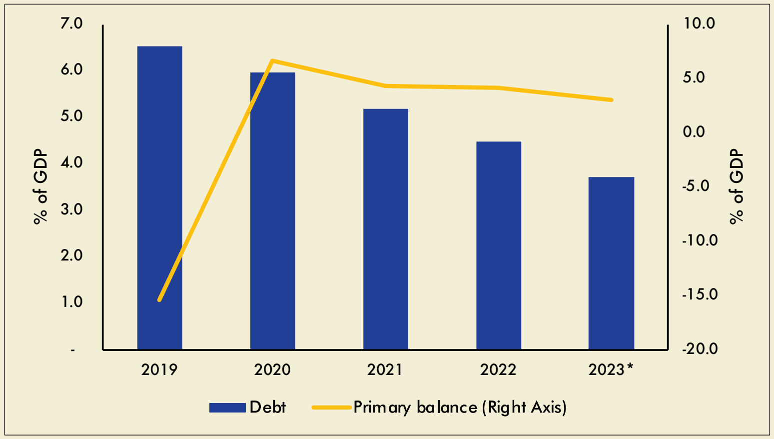
An overall fiscal surplus (inclusive of grants) was recorded for FY 2022/23. The surplus amounted to EC$7.9 million (mn), the equivalent of 4.0% of GDP, marginally below the outturn in the previous FY (see Chart 2)[2]. The resourcing of GOM's operations relies heavily on the timely annual disbursement of grant funding from the United Kingdom Government (UKG) as part of its commitment to partially fund the fiscal deficits in the aftermath of devastating volcanic eruptions in 1995. Grants from UKG are the highest contributor to the Budget, accounting for around 60% of the resource envelope.

Revenue collection outpaced higher expenditure. Current revenue grew by 8.6% to reach EC$55.1 mn, led by higher taxes on income and profits, and goods and services. Grant inflows rose by an estimated 6.6% to reach EC$113.9 mn (58.4% of GDP) compared with EC$106.9 mn (56.1% of GDP) in FY 2021/22. Over the same period, current expenditure grew by 7.4% to reach EC$144.6 mn, underpinned by higher spending on transfers and subsidies, and goods and services which grew by 22.0% and 6.1%, respectively. Capital expenditure increased by 11.5% to reach EC$16.4 mn which was, in part, associated with the pick-up of works on the Port Development Project during the first quarter to 2023.

In the context of continued current grant support and the surplus on fiscal operations, public borrowing declined. Public debt fell to EC$8.7 mn (4.5% of GDP) from EC$9.9 mn (5.2% of GDP) registered in 2021 (see Chart 2). Central government debt fell by 12.0% to reach EC$7.1 mn. Similarly, public corporation debt declined by 8.9% to EC$1.6 mn.

[2] Negligible interest payments meant that the primary deficit was almost identical to the overall deficit.

Chart 2: Fiscal and Debt Performance[3]



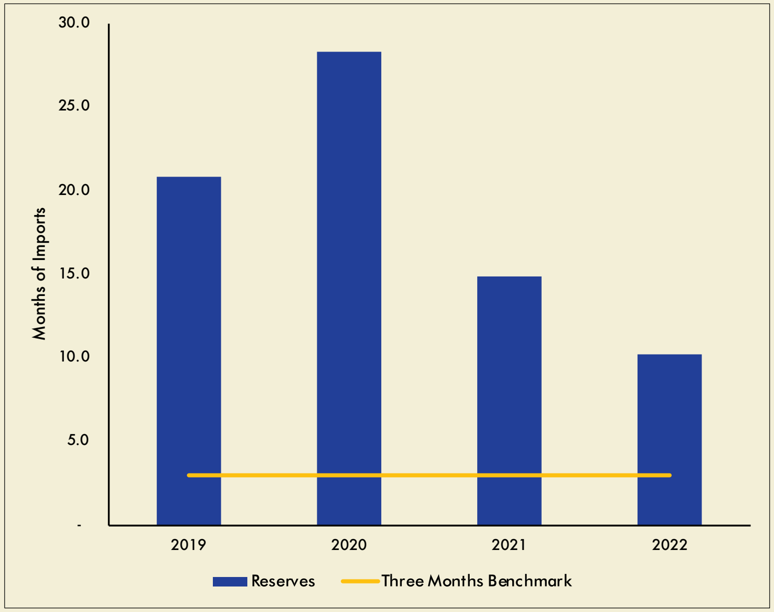
Source: *GOM, ECCB. *CDB's forecast.*

The financial sector remains relatively stable. The ratio of liquid assets to total assets stood at 79.5% in 2022, which was 5.4 percentage points above the position a year earlier. The ratio of non-performing loans to gross loans at 4.6%, fell below the 5% prudential limit. Profitability returned to the banking sector as return on average assets stood at 0.5% relative to a loss position in 2021. Total loans and advances decreased by 4.8% to EC$100.3 mn, of which construction and land development declined by 12.9%. Credit to the private sector fell by 10.2% to reach EC$79.5 mn for the 12-month period ending December 2022.

The trade deficit weakened due to higher imports. The merchandise trade deficit widened by 17.2% to reach EC$88.1 mn, led by an 8.3% increase in imports. Total exports fell by 21.2% to reach EC$17.9 mn. International reserves remained well above the recommended three months of import cover, reaching at 10.2 months (see Chart 3).

[3] Primary balance data is in FYs.

Chart 3: Imputed Gross Foreign Reserves



Source: *ECCB.*

2023 OUTLOOK

Growth prospects are positive but the risks to this outlook are skewed to the downside. The economy is estimated to grow by 4.1%, driven by a nascent tourism recovery and key infrastructure development. The implementation of key capital projects, including the Little Bay Port Development Project that will increase accessibility and the new national hospital, are expected to bolster growth. Moreover, planned public investments in the Little Bay Town Centre, as well as the development of a new Volcano Interpretation Centre, should augur well for the tourism sector. Medium-term prospects are also expected to be bolstered by investments in renewable energy projects, building on existing investments in solar and geothermal energy. Challenges associated with the ongoing Russia/Ukraine war, increases in global food and fuel prices, slower economic expansion in advanced economies, and natural hazard events pose downside risks and could delay the full recovery.

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

Selected Indicators

	2019	2020	2021	2022	2023e
Real GDP Growth (%)	6.4	-1.1	5.5	2.5	4.1
Average Inflation (%)	-1.1	-1.9	2.6	3.0	2.0
Primary Balance (% of GDP)	-15.5	6.7	4.4	4.2	3.0
Public Debt (% of GDP)	6.5	6.0	5.2	4.5	3.7

Sources: *GOM, ECCB, and CDB.* **Note:** *e-estimate.*