COUNTRY ECONOMIC REVIEW 2018

ANGUILLA

OVERVIEW

Anguilla's economy contracted by 2.4% in 2018, even as construction activity surged. The impact of the passage of Hurricane Irma in 2017 was evident in the steep decline in tourism arrivals and in the Government of Anguilla's (GOA) fiscal performance. The current, primary, and overall balances weakened. The fiscal imbalance was financed with an external loan and domestic resources. During the year, the debt level rose slightly and foreign assets dwindled. Overall consumer prices increased marginally and private sector borrowing contracted.

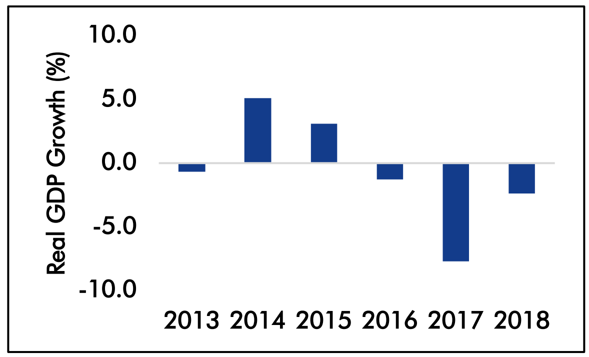
The economic outlook is positive with output projected to increase by 3.9% in 2019. The planned reconstruction of critical public infrastructure and the recovery of the tourism industry should drive economic growth. Although fiscal conditions are likely to improve as GOA's tax administration strengthens, financing gaps are expected to remain in 2019.

KEY DEVELOPMENTS IN 2018

The economy contracted for the third consecutive year (see Chart 1). After losing an estimated 97% of gross domestic product (GDP) due to damage caused by Hurricane Irma, economic recovery in Anguilla was slow in 2018. It is estimated real GDP shrank by 2.4%, compared with the 7.7% contraction of 2017.

Traditional economic engines have not yet rebounded to pre-hurricane levels. Growth was near stagnant in the transport and real estate sectors, while activity slowed in tourism. Despite efforts to repair the island's most productive industries from the devastating impact of Hurricane Irma, most hotels were closed during the 2017/18 peak season. While the Clayton J. Lloyd Airport reopened within a week of the Hurricane, air access through St. Maarten – a critical hub – was limited until October 2018. As at November, tourist arrivals stood at 45,399, a 31% decline from the figures for the first 11 months of the previous year. As a result, there was less demand for air, land and sea transportation.

Chart 1: Real GDP Growth



Source: Eastern Caribbean Central Bank (ECCB), CDB.

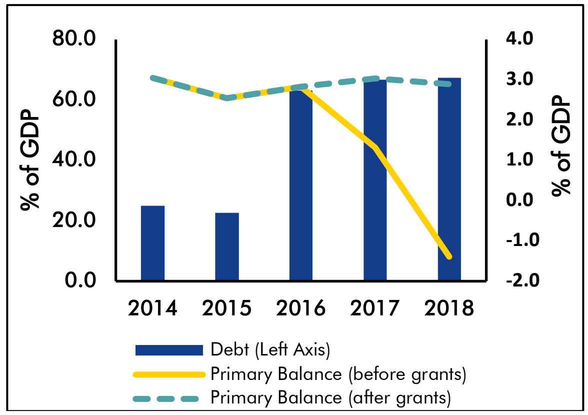
Losses in tourism-based industries depressed spending on other economic activities. While power and water supply were restored island-wide towards the start of 2018, demand was constrained by the low tourist numbers and high local unemployment. At the end of 2017, an estimated 2,000 hospitality workers – over 10% of the population – were displaced. These jobs would have been slow to return in 2018, as some hotels reopened late in the year. Lower domestic demand adversely impacted wholesaling and retailing activities in 2018. The financial intermediation sector also declined.

Massive rebuilding work tempered the overall contraction of the economy. The private sector's reconstruction efforts propelled an over 20% expansion in the construction industry. The majority of hotels were operational by the start of the 2018/19 peak tourist season. While some repairs began on key public infrastructure (including the hospital and airport), financial resource constraints limited the work.

The general price level remained relatively stable. Based on the Anguilla Statistics Department's Consumer Price Index (CPI), consumers paid 0.2% more for goods and services in December 2018, relative to a year earlier. Prices varied for items in the heaviest weighted categories in the CPI basket. The falling cost of housing (-0.2%) and communication services (-1.4%) largely dampened the effect of price increases for transport and food.

Government fiscal operations resulted in a widening of the overall deficit to 0.8% of GDP in 2018. This outturn resulted in the primary balance slipping from a surplus of 1.3% of GDP in 2017 to a primary deficit of 1.4% in 2018. (See Chart 2). Hotel and business closures significantly eroded the base for taxing domestic goods and services. Accommodation taxes, which accounted for a tenth of recurrent income in 2017, fell from 2.6% of GDP to 0.7% of GDP. However, the increase in construction activity provided a small boost in other revenue streams. Revenue from import and customs duties expanded from 10% to 12% of GDP, while revenue from licensing, fees and permits increased from 5% to 6% of GDP. On the recurrent expenditure side, salaries and interest payments increased. Grant financing mitigated the fiscal slippages associated with reconstruction efforts post-Hurricane Irma. In 2018, Anguilla received over $33 million (mn) in grants from CDB, the European Development Fund, and the United Kingdom Government (UKG), as well as a $750,000 insurance payout.

Chart 2: Fiscal and Debt Performance



Source: GOA, CDB.

Public sector debt levels rose slightly in 2018. The ratio of debt to GDP increased from 66.7% to 67.0%. Rising debt has been an ongoing challenge since the bank resolution[1] of 2016. In 2018, a loan of $40.2 mn from CDB provided direct budgetary support to close GOA's financing gap[2].

Domestic credit provided by the financial sector decreased. In particular, loans to the private sector contracted by 2.9%. In the year to October, the money supply[3] had declined by 0.2% compared with an expansion of 2.2% in the corresponding period of 2017. While the total net foreign assets of the banking system expanded by 10.6% in the year to September, this growth was solely driven by

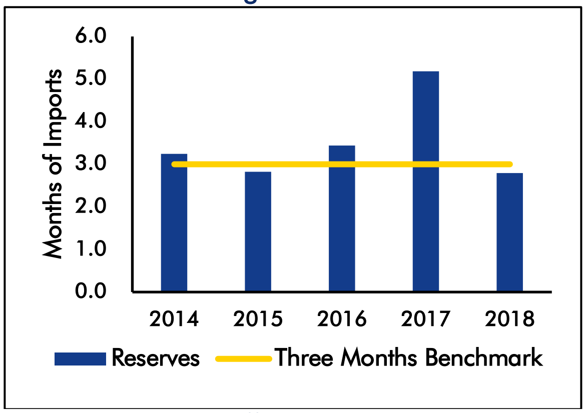
[1] In 2013, ECCB assumed control of two heavily insolvent, indigenous banks in Anguilla. In 2016, GOA incurred significant debt in order to fund the resolution of the banks and to stabilise the financial sector.

[2] Anguilla remains non-compliant with all three legislated borrowing limits under its Framework for Fiscal Sustainability and Development agreed with UKG.

[3] Monetary liabilities (M2) measures the money supply of an economy, accounting for cash, checking deposits, savings deposits, money market securities, mutual funds, and other time deposits.

an improvement of the net asset position of the commercial banks.

Chart 3: Gross Foreign Reserves[4]



Source: ECCB, CDB Staff calculations.

Reserves fell below the recommended benchmark of three months of imports (see Chart 3). From the start of the year to October, the Central Bank's net foreign assets declined by 15%. The merchandise trade deficit expanded over the year to $537.2 mn, primarily due to an increase in imports, particularly fuel, food and manufactured goods.

OUTLOOK

CDB projects growth of 3.9% in 2019, driven by an anticipated rise in tourist arrivals. The Medium-term Economic and Fiscal Plan (MTEFP) for 2018-2020 highlights a number of investments , including upgrading both the Blowing Ferry Terminal and the airport to increase tourism numbers through marketing and access Similar growth is expected in the sea and air transport industries. Although public sector reconstruction projects should accelerate in 2019, much of private sector rebuilding would have tapered off, leading to an overall slight contraction in the sector.

Sound public financial management and debt sustainability are GOA priorities. In the MTEFP, GOA acknowledged the need for fiscal resilience and economic diversification. The Government plans to divest its shares in the sole electricity utility, Anguilla Electricity Company, raising an estimated $23.9 mn – close to a tenth of annual inflows. Similarly, planned tax reforms and strengthening of the tax administration will also increase revenue and improve the overall sustainability of public finances.

Going forward, additional external financing is planned as GOA executes its fiscal reform agenda. GOA is expected to receive grant aid of £60 mn from UKG to facilitate capital investments in the medium term.

[4] Calculations use ECCB's imputed reserves as at December 2014, 2015, 2016, 2017, and September 2018. Imports for each period estimated as an average of monthly merchandise imports in the year to date.

DATA

The table below summarises the key economic and social indicators underpinning this Country Brief. These data are taken from a number of sources, and are the latest available at time of publication. Some are subject to revision. The 2018 data are CDB estimates.

Selected Indicators

	2013	2014	2015	2016	2017	2018[e]
Real GDP Growth (%)	-0.7%	5.1%	3.1%	-1.3%	-7.7%	-2.4%
Average Inflation (%)	0.1%	-0.3%	-1.0%	-0.5%	1.5%	-0.2%
Primary Balance *Before Grants* (% of GDP)	-0.5%	3.0%	2.5%	2.8%	1.3%	-1.4%
Primary Balance *After Grants* (% of GDP)	1.6%	3.0%	2.5%	2.8%	3.0%	2.9%
Public Sector Debt (% of GDP)	28.5%	24.9%	22.6%	63.0%	66.7%	67.4%

Sources: GOA, ECCB, CDB.

Notes: e – estimate.