



**COUNTRY
ECONOMIC
REVIEW 2018
ANTIGUA &
BARBUDA**

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ANTIGUA AND BARBUDA ECONOMIC BRIEF 2018

OVERVIEW

Antigua and Barbuda's economy grew in 2018, driven by activity in the tourism and construction sectors. Moderate inflation and improved labour market conditions also contributed to macroeconomic stability. Domestic demand was constrained by a deteriorating fiscal position. The fiscal deficit widened against a backdrop of high public debt and increasing gross financing needs.

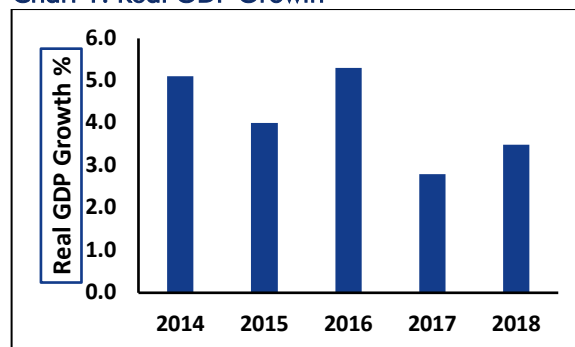
Building macroeconomic resilience remains a significant challenge. The Caribbean Development Bank (CDB) projects moderate economic growth in 2019, with key downside risks in the short term. Antigua and Barbuda's vulnerability to global economic shocks and adverse weather conditions poses significant risk to medium-term prospects. As a result, the authorities are encouraged to build resilience planning into their budget and economic development initiatives.

KEY DEVELOPMENTS IN 2018

Gross domestic product (GDP) is estimated to have grown by 3.5% in 2018, compared with 2.8% for 2017, (see Chart 1). The improved GDP position is due to increased buoyancy in tourism and construction activity. According to the Caribbean Tourism Organization, stayover arrivals grew by 9.1% to 239,797 January-November 2018. Key source markets— Canada (up 83.0% on the previous year) and the United States of America (USA) (up 7.6%) - provided more visitors. Both benefited from an in strategic marketing and subsequent improved airlift, such as the addition of Sunwing out of Canada. Conversely, visitor numbers from Europe fell 2.7%, reflecting major competition from

other destinations, and volatility of the British Pound as uncertainty surrounding BREXIT continued.

Chart 1: Real GDP Growth



Source: IMF, CDB staff estimate.

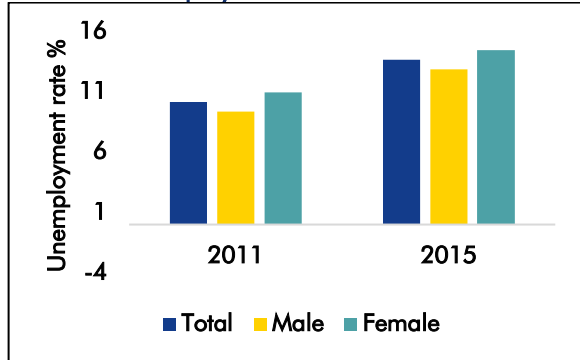
Similarly, cruise ship passenger arrivals grew by 13.5% to 768,838 (January-October 2018). This was due in part to earlier investments in port infrastructure to accommodate larger cruise ships. The cruise industry also benefitted from additional calls because of port closures in the Northern Caribbean due to Hurricanes Irma and Maria. Construction activity increased. Of significant note were hotel developments; the reconstruction efforts in Barbuda; and major road rehabilitation and expansion works. Ancillary sectors such as wholesale and retail; and transport, storage and communications also recorded positive growth.

Inflation grew by 1.3% at the end of September 2018, year-on-year. Overall price rises were registered in the food, housing and utilities, household and furniture equipment indices.

Unemployment is expected to have fallen in 2018. The last official unemployment data indicated a rate of 13.7% as at December 2015, with 14.5% of women and 12.9% of men unemployed. Youth unemployment (33.9%) was more than double the national rate (see Chart 2). However, anecdotal

evidence from Antigua and Barbuda’s Social Security Board statistics suggests a moderate uptick in active employment coinciding with the increased economic activity and demand for labour in 2018.

Chart 2: Unemployment

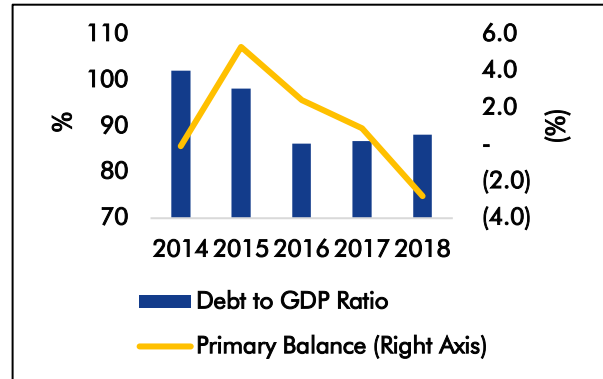


Source: Government of Antigua and Barbuda (GOAB).

Antigua and Barbuda’s fiscal position worsened, prompting an urgency toward consolidation. A primary deficit of 2.3% of GDP is estimated for 2018, due in large part to higher recurrent expenditure, capital spending and a reduction in non-tax revenue collection (see Chart 3). Recurrent expenditure grew by 1.7% (\$10.3 million [mn]) for the first nine months of 2018, due to increases in personal emoluments (16.1%), a consequence of a 5.0% pay rise for public officers, and interest payments (7.0%). Similarly, capital expenditure grew by 26.7% (\$9.3 mn) to \$44.1 mn, mainly to support the Government’s road rehabilitation and expansion programme, and an affordable housing project. Current revenue grew by 2.0% (\$11.9 mn) over the first nine months of 2018, associated with higher receipts from taxes on income and profits, domestic goods and services, and international trade. However, the better revenue take was tempered by an 11.2% (\$10.7 mn) fall in

non-tax revenue collection. Citizenship by Investment Programme (CIP) receipts are decelerating, with the September 2018 collection of \$35.6 mn below the four years average of \$49.1 mn.

Chart 3: Fiscal and Debt Performance



Source: GOAB, IMF.

Public sector debt, remains burdensome. According to the IMF, the public debt-to-GDP ratio is estimated at 88.2% in 2018, compared with 86.8% in 2017. 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 roughly 12%. GOAB will need to find new ways to raise revenue and manage expenditure in order to ensure fiscal and debt sustainability.

Money supply¹ grew by 6.3% during the first nine months of 2018. Private sector credit, the largest share of domestic credit, grew by 2.2% to \$1.9 billion reflecting more loans and advances to both businesses (distributive trades and tourism) and households (durable goods and other personal loans). The banking system was more resilient in 2018, with improvements in commercial banks’

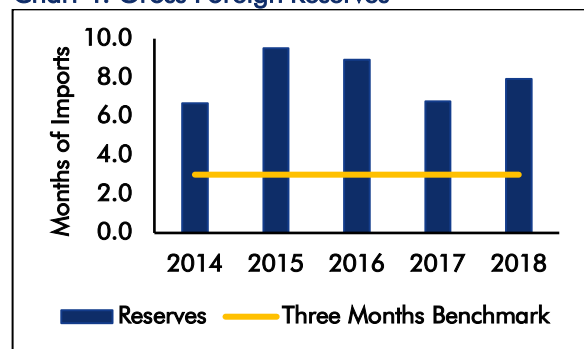
¹ Monetary liabilities (M2) is a calculation of the money supply that includes cash and checking

deposits, savings deposits, money market securities, mutual funds and other time deposits.

asset quality and profitability. The banking system's ratio of gross non-performing loans to total loans fell to 7.0% as at end of September; and banks, with a Capital Adequacy Ratio of 37.1%, were well capitalised.

Gross international reserves exceeded the three months of imports international benchmark. International reserves grew to an estimated 7.8 months of import cover as at September 2018, compared with 6.8 months in December 2017 (see Chart 4).

Chart 4: Gross Foreign Reserves



Source: Eastern Caribbean Central Bank (ECCB).

The current account deficit is expected to have widened, due in part to higher imports, some of which was related to the post-hurricane relief effort. The merchandise trade deficit grew by 18.0% to \$942.0 mn in the first nine

months of 2018, on account of increased imports of food, fuels, manufactured goods, machinery and transport equipment. Increased tourism receipts, associated with the larger number of stay-over visitors, helped to narrow the current account deficit.

OUTLOOK

CDB projects real GDP to be 3.0% in 2019. Global economic growth slowdown is likely to translate into dampened travel demand. Buoyancy in the tourism industry will depend largely on economic prospects in the main source markets (USA, Canada, Europe); additional airlift into Antigua and Barbuda; and upgrades to the existing hotel stock.

However, on the domestic end, public and private sector-related construction activities are expected to mitigate any fallout from reduced travel demand. Key construction activities include the continuation of the road rehabilitation project; reconstruction in Barbuda, and the affordable 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.

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.

Selected Indicators

	2014	2015	2016	2017	2018 ^e
Real GDP Growth (%)	5.1	4.0	5.3	2.8	3.5
Average Inflation (%)	1.1	1.0	-0.5	2.5	1.3
Unemployment (%)	n.a	13.7	n.a	n.a	n.a
Primary Balance (% of GDP)	-0.1	5.3	2.4	0.9	-2.8
Public Sector Debt (% of GDP)	102.1	98.2	86.2	86.8	88.2

Sources: GOAB, ECCB, IMF, CDB.

Notes: e – estimate; n.a. – not available.