

The background of the cover is a photograph of a tropical landscape. In the foreground, there is a dense thicket of green foliage. In the middle ground, a white, multi-story building with a flat roof is visible. In the background, a large, dark, and rugged mountain rises, partially shrouded in mist or smoke. The sky is filled with heavy, grey clouds, suggesting an overcast or stormy day. A yellow horizontal bar is positioned at the top of the page, with a downward-pointing arrow shape cutout in the center.

COUNTRY ECONOMIC REVIEW 2018 MONTserrat

Disclaimer

Copyright © Caribbean Development Bank (CDB). The opinions, findings, interpretations and conclusions expressed in this publication are those of the staff of CDB and do not necessarily reflect the official policy or position of CDB, its Board of Directors, or the countries they represent.

This work may be reproduced, with attribution to CDB, for any non-commercial purpose. The use of CDB's name for any purpose other than for attribution, and the use of CDB's logo shall be subject to a separate written licence agreement between CDB and the user and is not authorized as part of this licence. No derivative work is allowed.

CDB does not necessarily own each component of the content contained within this document and therefore does not warrant that the use of any third-party owned individual component or part contained in this work will not infringe on the rights of those third parties. Any risks of claims resulting from such infringement rest solely with the user. CDB does not guarantee the accuracy of the data included in this work.

Any dispute related to the use of the works of CDB that cannot be settled amicably shall be submitted to arbitration pursuant to the UNCITRAL rules. Nothing herein shall constitute or be deemed to constitute a waiver of the privileges and immunities of CDB, all of which are specifically reserved.

MONTSERRAT ECONOMIC BRIEF 2018

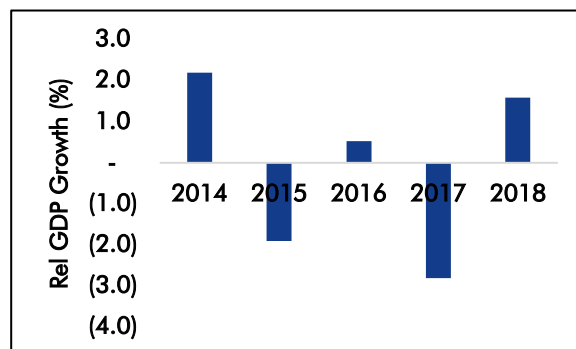
OVERVIEW

Economic growth in Montserrat for 2018 is estimated at 1.6%, representing a reversal for the contraction of 2.8% in 2017. The outturn was led by a significant turnaround in construction activity, supported by expansions in the real estate and the transport and storage subsectors. Fiscal balances improved and public debt as a percentage of gross domestic product (GDP) remained negligible. Commercial bank credit to the private sector grew; and the spread between lending and deposit rates widened. The external current account remained in deficit.

The economic outlook for 2019 is positive. Output growth is projected to accelerate slightly, reaching 2.0% in 2019, and fiscal conditions should remain on par with the 2018 outturn. However, the balance of risks to the outlook is slightly negative.

KEY DEVELOPMENTS IN 2018

Preliminary data from the Eastern Caribbean Central Bank (ECCB) show that GDP expanded by 1.6% in 2018 (see Chart 1). The expansion was supported by a 5.0% growth in construction activity, following a decline of 33.0% in 2017. Output in the transport and storage sub-sector rose by 7.5% on account of the improved reliability of the ferry service and increased construction activity. Additionally, real estate activity grew by 1.5%. However, a 1.0% fall in public administration, the country's largest contributor to GDP, acted as a drag on economic performance.

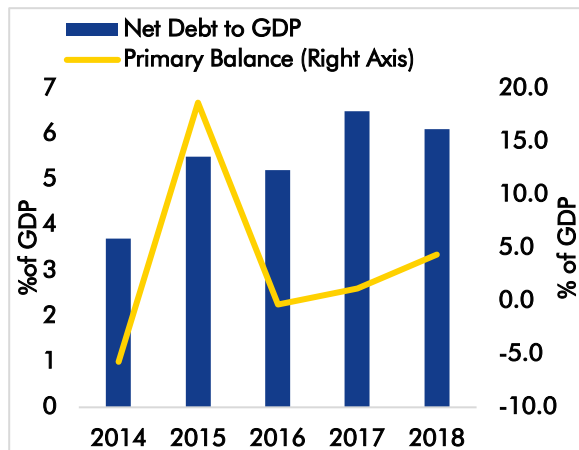


Source: ECCB.

Quarterly data to September 2018, indicate that Montserrat experienced price deflation. Based on the Consumer Prices Index (period average), prices declined by an average of 0.2% on account of price drops in all major sub-indices relative to 2017. As at September, prices for housing, utilities, gas and fuels; transport; and food and non-alcoholic beverages had fallen by 2.1%; 1.1%, and 0.7%, respectively.

Preliminary estimates of Central Government's operations through to the third quarter of 2018 show a healthier fiscal position. Provisional ECCB data indicate that the overall deficit narrowed to approximately 3.8% of GDP as at September 2018, from a 6.9% of GDP in 2017. With interest payments being marginal, the primary deficit moved in tandem with the overall balance (see Chart 2).

Chart 1: Real GDP Growth

Chart 2: Fiscal and Debt Performance

Source: ECCB and Caribbean Development Bank (CDB) Staff calculations.

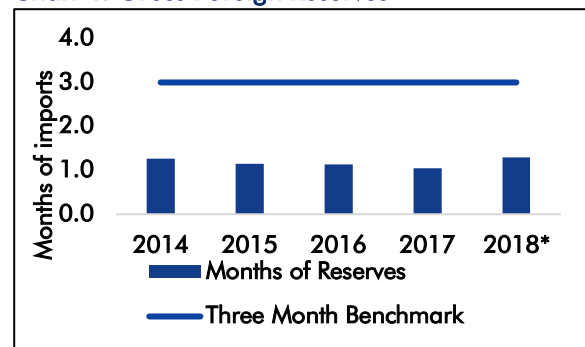
The United Kingdom Government funds over 62% of Montserrat's budget via official grant transfers. A 2.3% year-on-year increase in total grants to \$61.6 million (mn) mainly explains the improved fiscal balances. The outturn was also supported by a 9.5% growth in current revenue to \$38.3 mn. As such, total revenue and grants stood at \$99.9 mn, 4.9% higher than the comparable period of 2017. Meanwhile, total expenditure grew by 1.2% over the same period to \$104.7 mn. All spending categories, except interest payments, posted increases but outlays on goods and services, which grew by 12.6% year-on-year as at September 2018, recorded the largest increase.

Public sector debt fell slightly. Data from ECCB as at June 2018, indicate that the stock of public sector external debt stood at \$10.3 mn (6.1% of annualised GDP) at the end of June 2018, compared with a balance of \$10.5 mn (6.5% of GDP) at the end of December 2017. The slight reduction in debt outstanding is related to the amortisation of existing debt.

Outcomes in the financial sector were largely positive. Provisional data as at September 2018, indicate that commercial banks' lending to the private sector increased by 2.4% relative to end-December 2017

outturn. Borrowing was done mainly by households to finance investments in property. Meanwhile, the ratio of gross non-performing loans to total loans fell to 5.2% from 5.7% at the end of 2017. The liquidity position as measured by the ratio of liquid assets to total assets was 73.6%. The prime lending rate remained unchanged at 8.0% through the first three quarters of 2018. Meanwhile, compared with the end 2017 rates, the spread between the weighted average lending and deposit rates widened by 28 basis points to 6.0%.

Preliminary estimates for the external sector suggest that the external current account deficit continued to narrow since its recent spike in 2016. The deficit narrowed to 8.6% of GDP, compared with 9.4% of GDP at end 2017. Available data from ECCB as at September 2018 put estimates for imputed international reserves at \$135.1 mn, representing roughly 1.3 months of import cover, well below the standard 3-month threshold.

Chart 4: Gross Foreign Reserves

*Data as at September 2018.

Source: ECCB.

OUTLOOK

Growth prospects are good, albeit with slight downside risk. The economy is projected to grow by 2.0% in 2019, due largely to public sector construction activity. Consequently, growth in ancillary economic activity should trend higher, further supporting growth outcomes. Fiscal conditions are expected to

remain stable . Higher levels of expenditure, mainly capital spending, will be funded primarily through additional grant receipts.

Uncertainty surrounding BREXIT and the vulnerability to adverse weather conditions present downside risks.

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 ^e	2018 ^e
Real GDP Growth (%)	2.2	-1.9	0.5	-2.8	1.6
Average Inflation (%)	-0.3	-1.0	-0.5	1.3	0.2
Unemployment (%)	n.a.	n.a	n.a	n.a	n.a
Primary Balance (% of GDP)	-6.2	18.8	-0.4	1.2	-3.8
Public Sector Debt (% of GDP)	3.7	5.5	5.2	6.5	6.1

Sources: ECCB, CDB.

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