CARIBBEAN DEVELOPMENT BANK

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COUNTRY ECONOMIC REVIEW 2019

ANGUILLA

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

ANGUILLA ECONOMIC BRIEF 2019

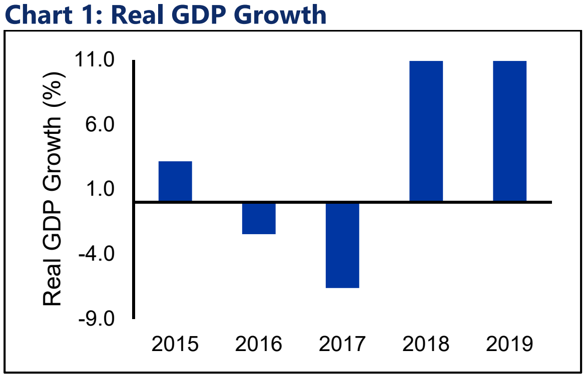
OVERVIEW

The economy grew by 10.9% in 2019 as Anguilla continued to rebound following Hurricane Irma in 2017. This boost to the economy was primarily driven by tourism activity. The Government of Anguilla (GOA) was able to maintain a stable fiscal performance. The primary and overall fiscal balances improved, continuing the progress made in 2018. The Government maintained its programme of tax reform; and public debt fell during the year. Consumer prices rose marginally, while commercial bank lending contracted and non-performing loans increased slightly.

KEY DEVELOPMENTS IN 2019

The economy recorded double-digit growth for the second consecutive year (see Chart 1). In 2018, growth was buoyed by large-scale reconstruction activity in the wake of Hurricane Irma the previous year. In 2019, the tourism industry re-established itself as the key driver of economic activity, following the expeditious re-opening of major hotels and restaurants.

Chart 1: Real GDP Growth



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

In just under two years, tourism surpassed the 2016 pre-hurricane levels. In 2019, total visitors to Anguilla increased by 90.5% to 166,351 persons. The growth in visitor arrivals was evident across all visitor categories, with stayover arrivals increasing by 74.9% over the 54,533 persons who visited in 2018. The United States of America (USA) remained the primary source market, accounting for 66.3% of stayover tourists. On the negative side, the average length of stay fell from 8.6 days in 2018 to 7.2 days in 2019. Robust tourist arrivals contributed to an acceleration in ancillary services, such as transport, storage, and communication. This was also evident in real estate, rentals, and business activity, which saw an increase in the rental of machinery and equipment.

Construction activity contracted by 40% in 2019. This decline tempered overall growth, but was expected given that many of the major tourism-related private reconstruction projects had been completed in 2018.

On the public sector side, implementation of large reconstruction projects progressed slowly. Under the Anguilla programme of the United Kingdom Government, only US$9.9 million (mn) and US$8.5 mn were spent in 2018 and 2019, respectively. Some projects were in the early stages of implementation while others were undertaking procurement-related activities. Notwithstanding the pace of implementation, progress was made on several projects, including the hospital, government administrative buildings, and schools, as well as the fire hall and air traffic control tower.

The price level remained relatively stable. On average, the Consumer Price Index grew by 0.8%. The rise reflected higher prices for communication (3.3%), alcohol beverages and tobacco (3.1%), food and non-alcohol beverages (2.3%), and restaurants and hotels (1.4%). These effects were dampened somewhat by a 5.3% decrease in recreation and cultural activities .

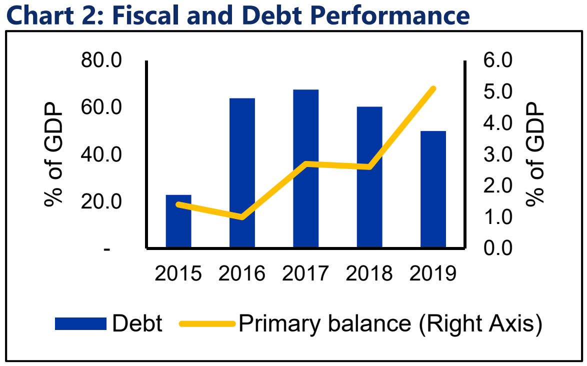
The fiscal stance tightened and the fiscal position strengthened. Overall, fiscal operations resulted in a surplus of 3.2% of gross domestic product (GDP) compared with 0.1% of GDP in 2018. This larger surplus was as a result of higher revenue collection, a containment of recurrent expenditure, and a fall in capital expenditure. The primary surplus (after grants) was 5.1% of GDP, almost doubling the 2.6% of GDP in 2018. Total revenue grew by 7.3%, driven by increased collection of import and other duties; a rise in the accomodation tax rate to 12%, and improvements in tax administration.

Total expenditures fell by 4.8%. Recurrent expenditure was EC$209.0 mn, a mere 1.6% increase over 2018. Outlays for personal emoluments, goods and services, and interest payments all declined. Capital expenditure fell by more than half from EC$24.4 mn to EC$10.1 mn, due to a deceleration of the Government-funded reconstruction effort. The majority of the remaining reconstruction work is to be financed by the United Kingdom-funded Anguilla programme for capital projects. These resources are not appropriated as a part of the formal budget.

The Government introduced reforms to its tax structure with the implementation of the Interim Goods Tax (IGT) of the Goods and Services Tax (GST). The IGT is intended to be a revenue neutral reconfiguration of the customs duties and customs services charges. It is applied to goods imported at a rate of 9%, replacing the Customs Service Charge of 6%. The reform process also reduced the number of import duty rates from eight to four; resulted in the passage of an excise tax; created a Customs Service Fee of 1% of the customs insurance and freight value; and decreased the average customs tariff rate from 12.9% to 8%.

The public debt ratio fell to 49.9% of GDP in 2019 (see Chart 2). New public borrowings declined significantly. The only financing secured was a drawdown of EC$1.6 mn from an existing CDB loan to commence construction of the Anguilla Community College. Notwithstanding the stable fiscal performance and the reduction in public debt, the Government remains in breach of all of the targets within its fiscal responsibility framework.

Chart 2: Fiscal and Debt Performance

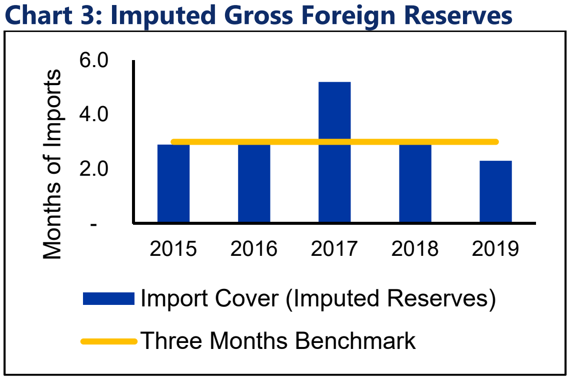


Source: GOA, CDB.

As at September 2019, the indicators of financial remained favourable. Total savings deposits increased by 3.5% as the sector continued to meet and improve on liquidity and capital adequacy requirements. For the first nine months there was a decrease in credit provided by the sector, despite a fall in the average interest rate spread by 0.4 percentage points compared with the same period in 2018. Total loans and advances declined by 11.6% to EC$1.7 billion, while non-performing loans to gross loans remained elevated, increasing from 22.6% to 23.3% over the same period in 2018. Credit extended to private businesses also declined by 10.4%.

Reserves fell below the recommended benchmark of three months of imports (see Chart 3). This fall to 2.3 months of imports represented a decline in the Central Bank's imputed reserves[1] by 33.9% to EC$129 mn. As at September 2019, the merchandise trade deficit contracted by 10.7% to EC$179.1 mn compared with the same period for 2018.

Chart 3: Imputed Gross Foreign Reserves



Source: ECCB, CDB Staff estimates

OUTLOOK

The outlook for Anguilla has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies. In early 2020 Anguilla's tourism sector has seen mass cancellations. Construction activity has slowed, and government finances have come under increasing pressure.

Given the uncertainty as to how long this situation will persist, it is very difficult to forecast how the economy will perform in 2020 and beyond. This will be addressed in an updated Economic Brief later this year.

[1] Anguilla, a member of the Eastern Caribbean Currency Union, benefits from the safety net of having access to the pooled reserves of all member countries.

DATA

The table below summarises the key economic 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 2019 data are CDB estimates.

Selected Indicators

	2015	**2016**	**2017**	**2018**	**2019 [e]**
Real GDP Growth (%)	3.2	-2.5	-6.6	10.9	10.9
Average Inflation (%)	-1.0	-0.5	1.5	0.2	0.8
Primary Balance A*fter Grants* (% of GDP)	1.4	1.0	2.7	2.6	5.1
Public Sector Debt (% of GDP)	22.6	63.9	67.6	60.3	49.9

Sources: GOA, ECCB, CDB.

Notes: e – estimate (as at January 31, 2020).

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