



# **COUNTRY ECONOMIC REVIEW 2019**

## **MONTserrat**

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## MONTSERRAT ECONOMIC BRIEF 2019

### OVERVIEW

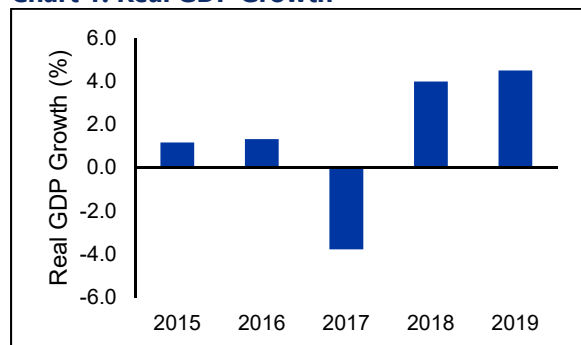
#### **Economic performance was robust.**

Growth was estimated at 4.5%, while prices were relatively stable. Fiscal balances weakened and the debt ratio remained negligible. Commercial bank lending to the private sector declined. The external current account deficit persisted.

### KEY DEVELOPMENTS IN 2019

Based on preliminary data from the Eastern Caribbean Central Bank (ECCB), gross domestic product (GDP) expanded by 4.5% (see Chart 1). Robust economic growth was driven mainly by developments in public administration, transport and storage, and real estate-related activities, which together account for more than 55% of GDP. Wage increases during the first half of the year influenced a 4.7% increase in public administration, the largest contributor to GDP. Output from transport, storage and communication grew by 11.7%; and real estate was up by 0.3%.

**Chart 1: Real GDP Growth**



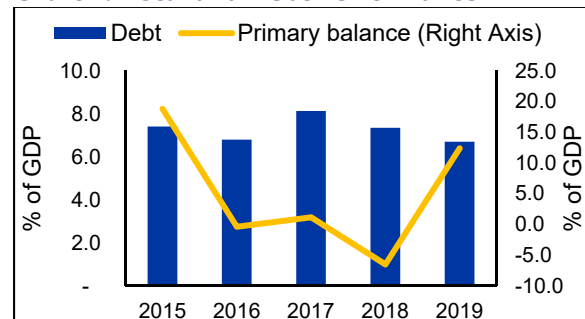
Source: ECCB.

**Quarterly data to September show that prices remained low and stable.** Based on

the consumer price index (period average), prices increased by a modest 0.6% during the review period.

**Provisional ECCB data show that Central Government's operations through to the third quarter led to a widening of fiscal deficits (after grants).** The overall deficit almost tripled to 12.4% of GDP as at September, from 4.7% in 2018. Negligible interest payments meant that the primary deficit was almost identical to the overall deficit (see Chart 2).

**Chart 2: Fiscal and Debt Performance**



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

**A combination of lower grants receipts and increased expenditure accounted for fiscal performance.** Grants from the United Kingdom Government, which account for over 60% of the budget, were down by 6.3% year-on-year to EC\$57.7 million (mn). Current revenue remained relatively unchanged at EC\$38.3 mn. Hence, total revenue and grants stood at EC\$95.2 mn, 4.0% lower than the outturn for the comparable period in 2018. Over the same period, total expenditure grew by 6.5% to EC\$112.7 mn. All spending categories, except transfers and subsidies payments, registered

increases; with spending on capital programmes posting the largest increase of 48.1% to reach EC\$11.7 mn.

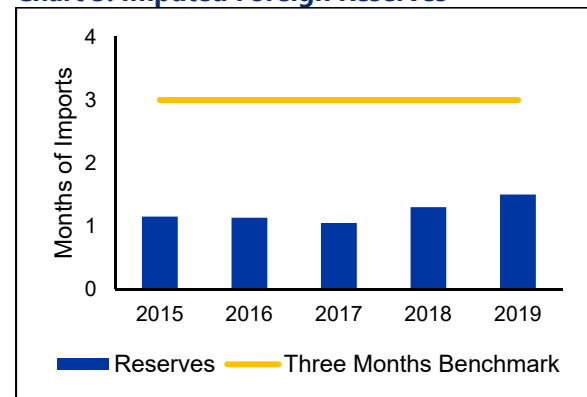
**Public sector debt as a share of GDP contracted.** Data from ECCB show that as at September the stock of public sector external debt stood at EC\$11.8 mn, compared with a disbursed balance of EC\$12.3 mn recorded at the end of December 2018. On an annualised basis, the public sector declined to 6.7% of GDP, versus 7.4% of GDP at the end of 2018. The slight increase in debt is related to fewer debts being contracted during the review period.

**The financial sector remained stable, although some outcomes were less than favourable.** Provisional data as at September show that the banking system remains sufficiently liquid, with the ratio of liquid assets to total assets being 72.1%. In contrast, asset quality marginally deteriorated as the ratio of gross non-performing loans to total loans jumped by 51 basis points to 5.4%. The commercial banks' lending to the private sector declined by 2.2%. Borrowing was done mainly by households for investments in property.

**Preliminary estimates for the external sector show that the trade deficit narrowed, while visitor expenditure declined.** The trade deficit fell to EC\$1.2 mn by the end of September compared with EC\$8.1 mn at the end of 2018. Meanwhile, visitor expenditure at September 2019 was

8.7% lower than one year previous. Data from ECCB as at September 2019 indicate that imputed international reserves provide approximately 1.5 months of import cover, well below the targeted three-month threshold.

**Chart 3: Imputed Foreign Reserves**



*\*Data as at September 2019.*

*Source: ECCB.*

## OUTLOOK

**The outlook for Montserrat has become clouded by the outbreak of COVID-19, which has significantly affected developed and developing economies.** All economic sectors are likely to be impacted in 2020, and government finances will 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.

## 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

	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019<sup>e</sup></b>
Real GDP Growth (%)	1.2	1.3	(3.8)	4.0	4.5
Average Inflation (%)	(1.2)	(0.3)	1.2	1.5	0.6*
Unemployment (%)	n.a.	n.a	n.a	n.a	n.a
Primary Balance (% of GDP)	18.8	(0.4)	1.2	(6.5)	12.4
Public Sector Debt (% of GDP)	7.4	6.8	8.1	7.4	6.7

Sources: ECCB, CDB.

Notes: e – estimate (as at January 31, 2020); n.a. – not available.

\*Inflation in 2019 average 12 months to the end of September.



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