MONTSERRAT

COUNTRY ECONOMIC REVIEW 2020

Eastern Caribbean dollar (EC$); United States dollar (US$). **US$1 = EC$2.70**

OVERVIEW

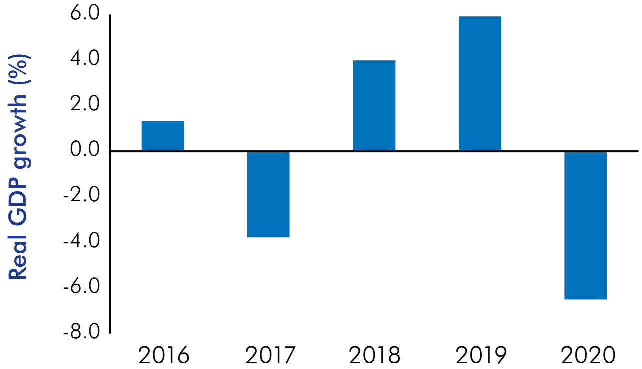
The economy contracted in 2020. The COVID-19 pandemic was the main reason for the negative impact on economic conditions. Real gross domestic product (GDP) declined. Fiscal conditions improved while the debt-to-GDP ratio remained very low. In the financial sector, credit quality was relatively unchanged, and commercial bank lending to the private sector grew. On the external side, the trade deficit narrowed.

Conditions are projected to improve in the short run. Risks to the outlook are however tilted heavily to the downside, particularly considering the ongoing COVID-19 challenges.

KEY DEVELOPMENTS IN 2020

Preliminary data shows that GDP fell by 6.5% (see Chart 1). The decline was led by contractions in most sectors. Transport, storage and communication registered a steep decline of 28.3% while value added for financial intermediation, wholesale and retail, and real estate-related activities showed declines of 5.4%, 3.0%, and 0.4%, respectively. The heavily weighted public administration, which accounts for about a third of the country's GDP, increased by 2.2% moderating the overall reduction in output growth.

Chart 1: Real gross domestic product growth

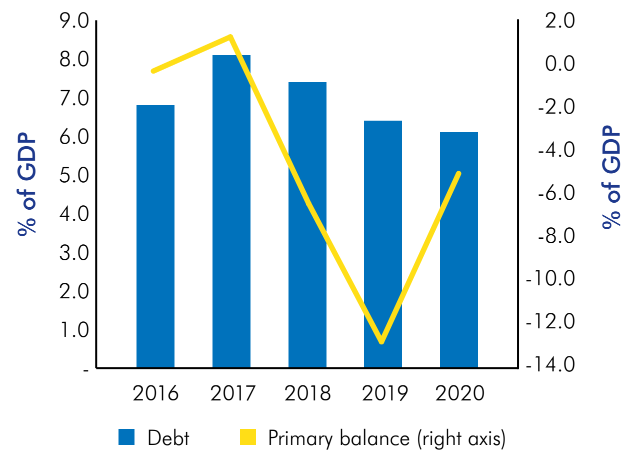


***Source:** Eastern Caribbean Central Bank (ECCB).*

Preliminary data for 2020 show a narrowing of fiscal deficits (after grants). The overall deficit is estimated to have more than halved to 5.1% of GDP, compared with 12.7% in 2019. Negligible interest payments meant that the primary deficit was almost identical to the overall deficit (see Chart 2). A 37.3%-increase in grants to $106.9 million (mn) from the United Kingdom (UK) Government was the main reason for the improvement in fiscal balances. The additional resources were made available to Montserrat to assist with addressing the COVID-19 challenges. Financing of the deficit was accommodated by a drawdown of public reserves.

Total expenditure grew by 9.9% to EC$167.9 mn mainly on account of an increase in capital spending. Capital expenditure almost doubled year on year to EC$27.1 mn, supported by a higher level of capital grant receipts. Current expenditure ticked up by 2% to EC$140.0 mn, led mainly by additional outlays on good and services, consistent with the Government's effort to fight the COVID-19 pandemic. Meanwhile, total revenue and grants rose by 22.8% to EC$159.2 mn. Of that increase, current revenue contributed a mere 1%, rising to EC$52.2 mn.

Chart 2: Fiscal and debt performance



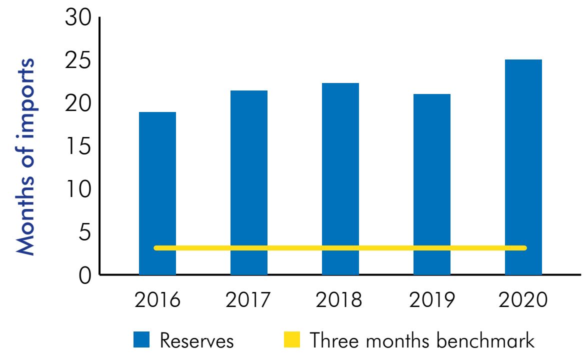
***Source:** ECCB, Caribbean Development Bank (CDB) staff calculations.*

Public sector debt declined. As a share of GDP, debt inched down to 6.1% from 6.4% in 2019, as the Government and public corporations continued to pay down their obligations without incurring additional borrowings.

The financial sector remained relatively stable. At end-December, bank liquidity, measured by the ratio of liquid assets to total assets, was 78.2%, seven percentage points higher than the outturn in 2019. Meanwhile, the ratio of non-performing loans to total loans, at 5.0%, remained below the regulatory benchmark. Commercial banks' lending to the private sector rose marginally by 0.6%, led by borrowing mainly by households for investments in property.

The trade deficit narrowed while visitor expenditure declined. The trade deficit fell slightly to EC$68.6 mn, compared with EC$72.8 mn in 2019. Meanwhile, consistent with a marked reduction in visitor arrivals, there was a steep decline of 48.6% year on year in visitor expenditure at year end. Imputed international reserves remained below the recommended three months of import cover.

Chart 3: Imputed foreign reserves



**Data as at March 2021.*
***Source:** ECCB.*

OUTLOOK

Growth prospects are positive, but risks are tilted heavily to the downside. The economy is projected to grow by 4.5% in 2021, driven by recovery in all key sectors. However, the continued presence of COVID-19 could derail or delay the recovery. Related to the prospect of better economic conditions, fiscal conditions could improve. However, this outcome is, in part, contingent on the level of grant receipts from the UK. Given its heavy reliance on grant financing, any meaningful reduction in these flows would constrain the Montserrat Government's operations.

DATA

The table below summarises the key economic indicators underpinning this country brief. These data are taken from several sources and are the latest available at time of publication. Some are subject to revision.

Selected indicators

	2016	2017	2018	2019	2020e
Real GDP growth (%)	1.3	-3.8	4.0	5.9	-6.5
Average inflation (%)	-0.3	1.2	1.5	0.6	-2.5
Unemployment (%)	n.a	n.a	n.a	n.a	n.a.
Primary balance (% of GDP)	-0.4	1.2	-6.5	-12.7	-5.1
Public sector debt (% of GDP)	6.8	8.1	7.4	6.4	6.1

***Sources:** ECCB, CDB.*

Note: e – estimate (as at April 15, 2021); n.a. – not available.