

ANTIGUA AND BARBUDA JUNE 2022



ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank



JUNE 2022

Economic and Financial Review

HALF-YEAR REVIEW

ANTIGUA AND BARBUDA

EASTERN CARIBBEAN CENTRAL BANK





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Antigua and Barbuda

Economic and Financial Review: 2022 Half-Year (2022H1)

Research, Statistics and Data Analytics Department

Contents

1 Overview	2
2 The Economy (Real Sector)	2
2.1 Consumer Prices	4
3 Government Operations	4
3.0.1 Debt	6
4 Banking Developments (Monetary)	7
5 External Trade	9
6 Outlook	9
7 Selected Economic Indicators	11

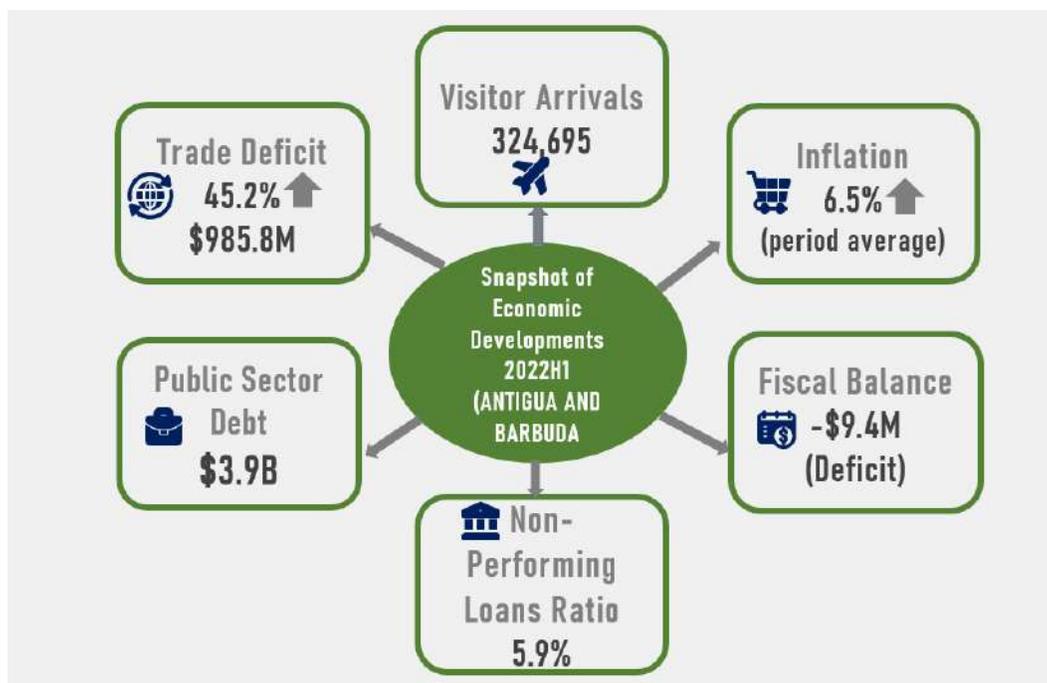


Figure 1: Snapshot of Economic and Financial Developments for 2022H1

1 Overview

- The economic recovery in Antigua and Barbuda was occasioned by a gradual diminution of the effects of COVID-19 on the major visitor source markets as, allowing for a resumption in travel to the destination¹.
- Recovery was buoyed by improvement in the hotels and restaurants sector with some knock-on effects on wholesale and retail and private sector construction. Government finances recorded a lower overall deficit and the financial system remained resilient in the face of the effects of the pandemic.
- A further strengthening in the economic recovery is anticipated in the remainder of 2022, however, going forward prospects, are uncertain associated with a weaker global economic outlook underpinned by possible escalation of the Ukraine/Russia conflict and sustained inflationary pressures.

2 The Economy (Real Sector)

Economic activity rebounded in the first half of 2022 following the further easing of entry protocols into the country. More liberal immigration requirements spurred increases in visitor arrivals from the major markets which represented a major driver in the economic recovery relative to the first six months of the previous

¹The review period for this report is the first 6 months of 2022, and is abbreviated 2022H1 in this report

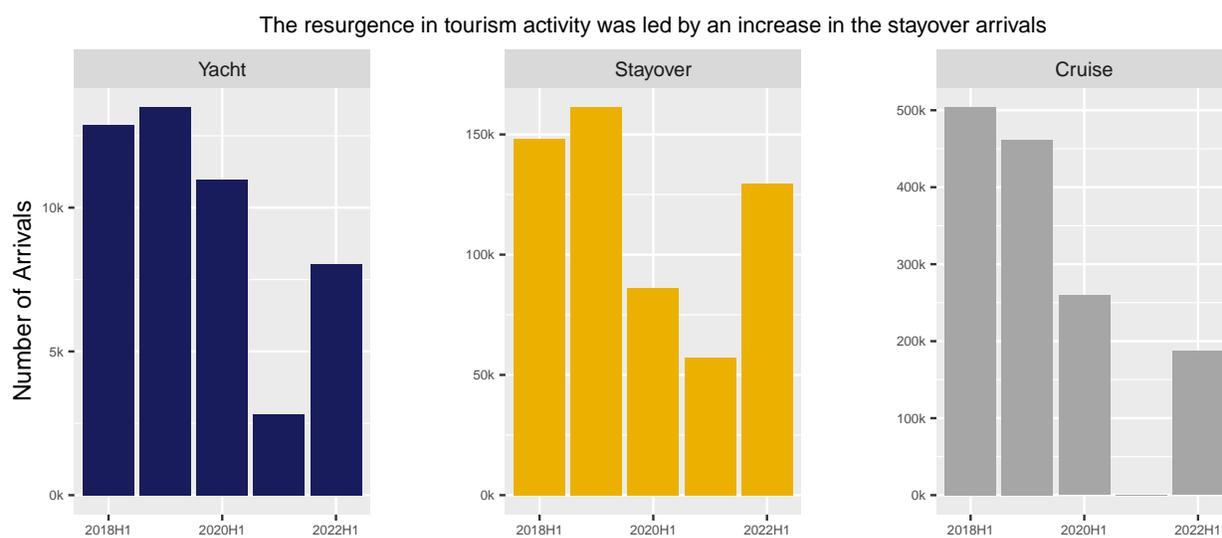


year. Activity in the tourism industry is estimated to have expanded, evidenced by an increase in total visitor arrivals to 324,695 from 59,928 in the first half of 2021.

The resurgence was led by a more than doubling in the stay-overs to 129,426 and a resumption in cruise activity after the pandemic related suspension resulting in 187,242 cruise passengers compared with none the previous year (Figure 2).

Notwithstanding the improvement, the cruise category remained significantly below the averages of the past five years, while stay-overs exceeded the prior 5-years (2017 to 2021) including the start of the pandemic, by 9.6 per cent. The performance however, was 4.7 per cent below the pre-pandemic period (2016 to 2020).

The rebound in stay-over arrivals reflected increases from all source markets, including the United States to 63,080 from 45,731, the United Kingdom to 37,934 from 5,785 and Canada to 6,257 from 466. Visitors from the Caribbean market totalled 8,429, exceeding the 2,510 stay-overs from that market during the corresponding period of 2021, as the partial resumption of flights by an inter-regional carrier whose operations were hamstrung by the pandemic, allowed for more inter-regional travel.



Source:ECCB

Figure 2: Visitor Arrivals to Antigua and Barbuda by Category.

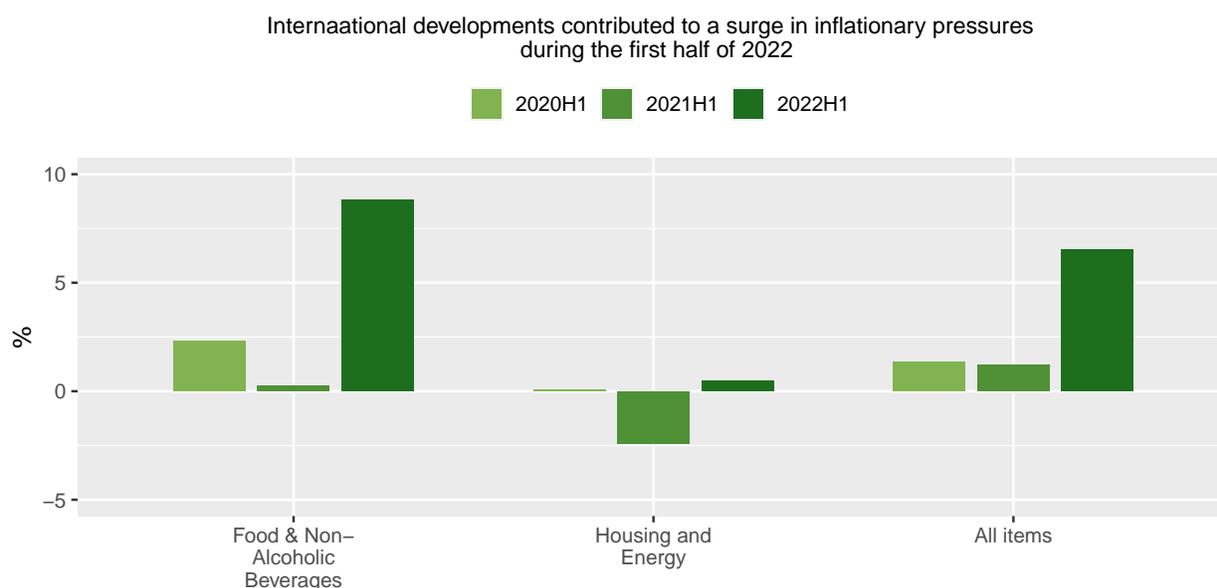
Allied ancillary service sectors, including transport, storage and communication, wholesale and retail trade and real estate, renting and business activities are all estimated to have been positively impacted by developments in the hotels and restaurant sector.

Construction sector activity was buoyed by robust activity in the private sector, including a major hospitality development, Peace Love and Happiness (PLH) on the island of Barbuda. Performance in the sector was moderated by lower spending (38.0 per cent) on public sector capital investment, which contributed to the volume of cement imports, a proxy of construction activity, contracting by 3.1 per cent. Albeit lower cement imports remained well above the half-yearly average volume of the last five years (2017 – 2021).



2.1 Consumer Prices

Prices in Antigua and Barbuda were more reflective of international developments, as the impact of the war in Ukraine heightened global uncertainty and further constrained global supply chains, contributing to a surge in inflationary pressures during the first half of 2022. The consumer price index (CPI) surged by 6.5 per cent on a period average basis, outpacing a 1.2 per cent rise during the corresponding period of 2021 (see Figure 3). Major contributors to the increase in the CPI based on the movement and weights of the sub-components included; higher prices for transport (9.4 per cent) miscellaneous goods and services (17.2 per cent), food and non-alcoholic beverages (8.8 per cent) and household furnishings, supply and maintenance (9.8 per cent).



Source: ECCB

Figure 3: Trends in Period-Average Inflation

3 Government Operations

Provisional numbers for the fiscal operations of the government yielded an overall deficit of \$9.4m, lower than the \$64.4m imbalance recorded in the comparative period in the previous year, and represented a significant improvement in the fiscal outturn. This outturn was below the previous five year average of a deficit of \$42.0m and was mainly attributable to the achievement of a current account surplus of \$7.6m in contrast to a deficit of \$65.7m, in the first half of 2021 (see figure 4). The improvement in the current fiscal position to a surplus also exceeded the half-yearly average deficit of \$18.8m over the last five years.

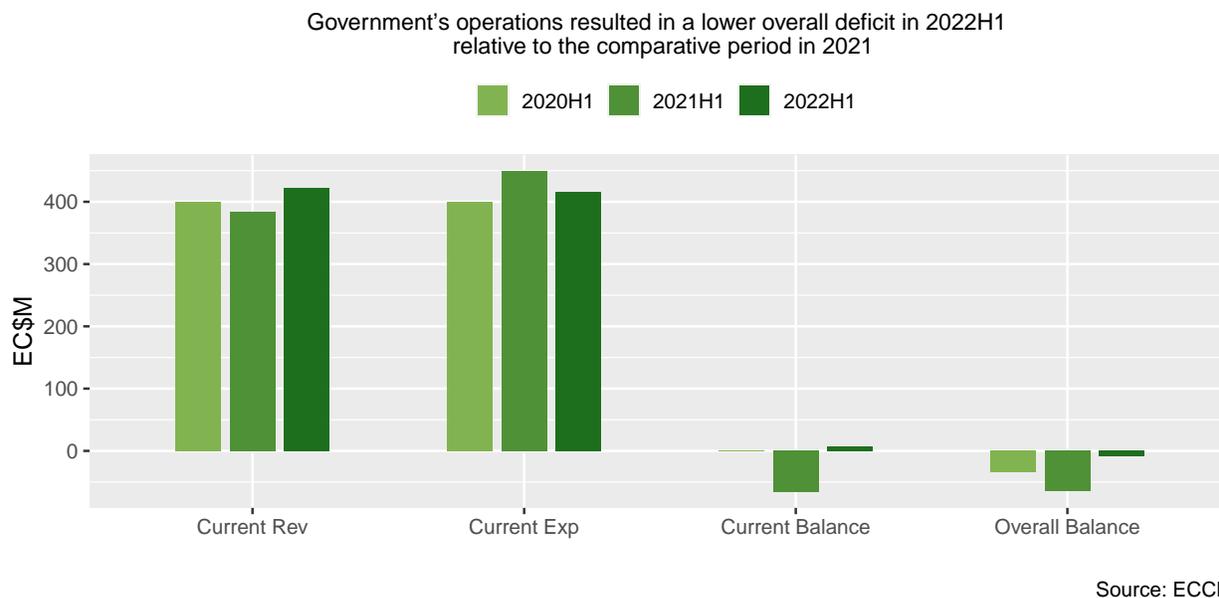


Figure 4: Trends in Fiscal Operations

Current revenue rose by 10.1 per cent (\$38.9m) to \$423.00m, fuelled mainly by rebounds in tax revenue yields (see figure 4). Taxes collections from goods and services and international trade and transactions recovered by 41.4 per cent and 6.1 per cent respectively (see Figure 5A). These increases were moderated by lower collections from taxes on income, profit and capital gains, (16.5 per cent) and property tax (6.7 per cent). Receipts of non-tax also fell by 31.9 per cent largely due to lower performance of the Citizenship Investment Programme (CIP).

Current expenditure declined by 7.6 per cent (\$34.3m) to \$415.4m as the recovery in the real sector gained traction and the need for transfers and other expenses associated with the need to address health care concerns caused by the pandemic dissipated. Outlays shrank for goods and services (\$19.1m), transfers and subsidies (\$50.5m) and personal emoluments (\$3.0m), partly mitigated by higher interest payments (38.3 per cent). (see Figure 5B). Capital revenue fell marginally (\$0.2m), while public sector capital investment declined by \$10.9m to \$17.8m, below the average outlay for this category over the last five years (2017 – 2021) of \$31.7m.

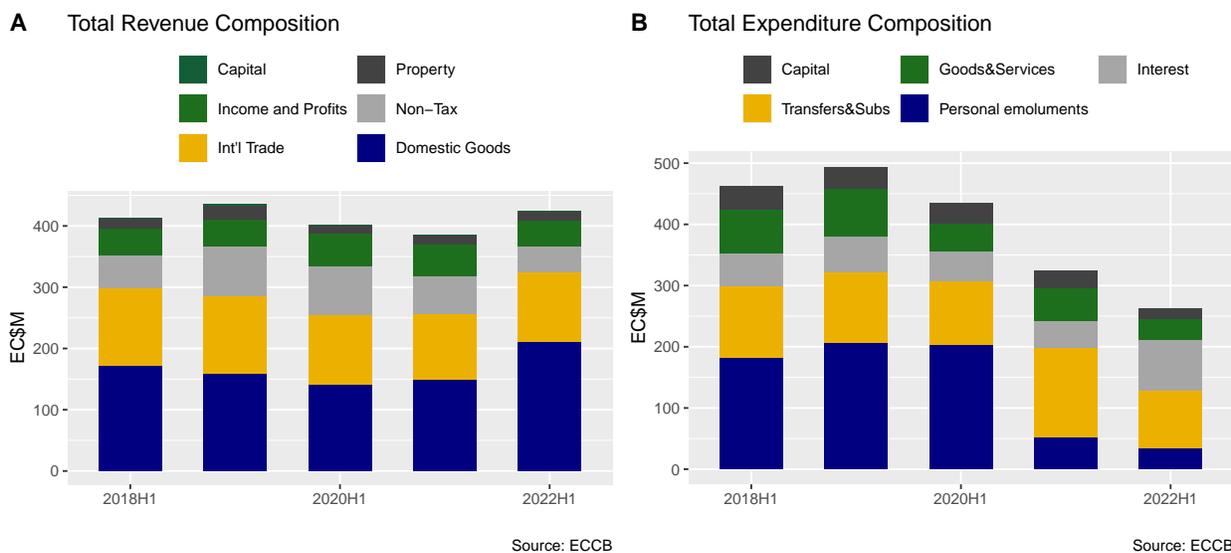


Figure 5: Half-Year Trends in the Composition of Revenue and Expenditure

3.0.1 Debt

Notwithstanding the improvement in government’s fiscal operations, total public sector debt increased by 4.3 per cent relative to June 2021 to \$3,877.8m (see Figure 6), rising approximately 4.0 per cent on average over the previous five years. During the period June 2021 to June 2022, the Government of Antigua and Barbuda contracted \$543.2m in new debt and accumulated \$94.8m in arrears.

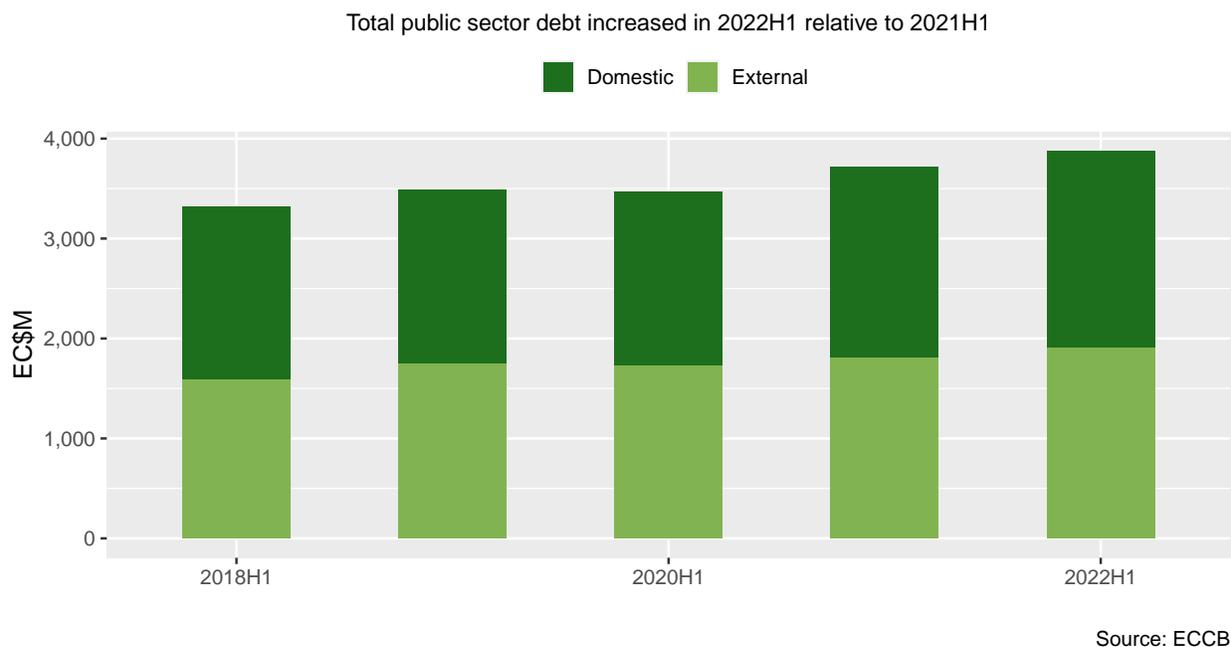


Figure 6: Trends in Outstanding Public Sector Debt

4 Banking Developments (Monetary)

The banking system in Antigua and Barbuda exhibited robust growth in deposits during the recovery period, however outstanding credit contracted. Domestic claims (credit) reversed the gains in the previous period and contracted by 2.0 per cent at the end of June 2022, following a 6.0 per cent expansion during the first half of 2021. Outstanding domestic claims, albeit lower than 2021, remained above the average for the previous five years (2017 to 2021). The decrease was largely on account of lower outstanding claims (credit) to businesses, which fell by 9.8 per cent as a number of institutions exited loan moratoria and remained highly leveraged stemming from the pandemic (Figure 7). Credit to households and non-profit institutions also contracted by 3.8 per cent year-on-year.

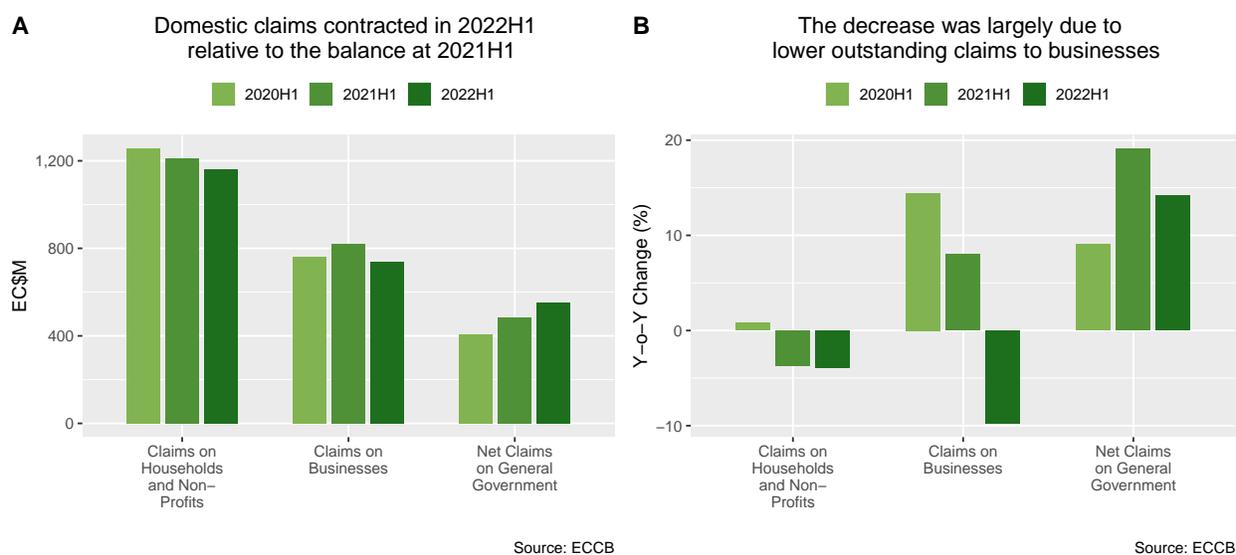


Figure 7: Claims to Selected Sectors.

System wide banking deposits registered increases in all major sub-components during the review period. Most notably, transferable (demand) EC-currency deposits rebounded by 17.2 per cent when compared with June 2021 (Figure 8), further supported by, a surge in foreign currency and other EC-currency deposits, of 54.4 per cent and 7.4 per cent respectively, consistent with the rebound in tourism. Rising deposits in the banking system apart from indicating a resumption of growth, may well be precautionary as depositors monitor the economic and business environment going forward.

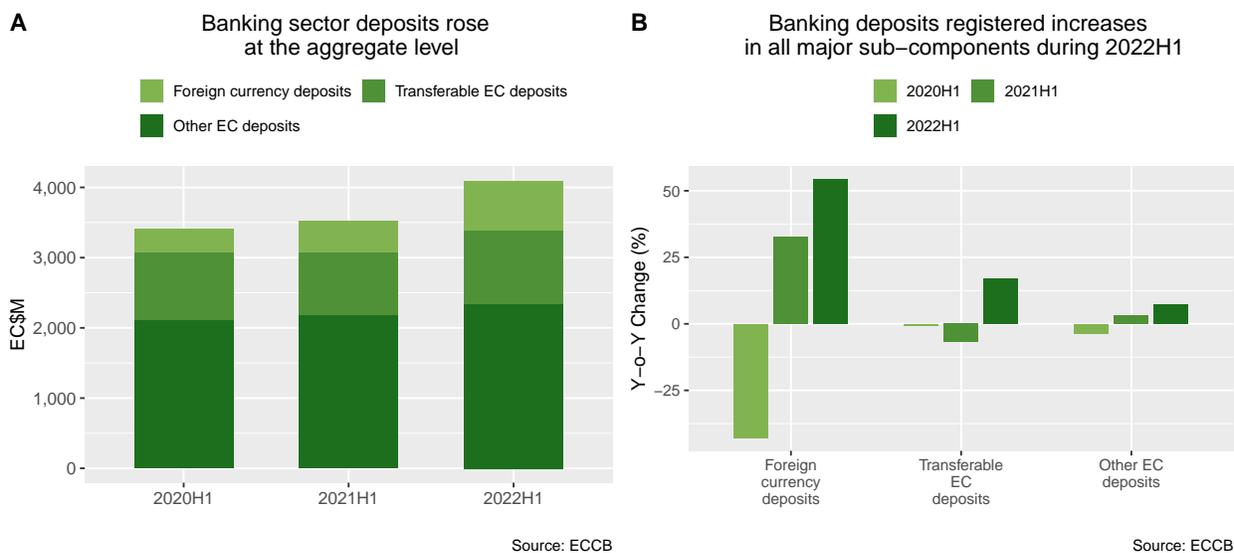


Figure 8: Domestic Deposit Trends

Banking system asset quality improved over the period, as the ratio of commercial banks' non-performing loans to total loans (NPL) fell to 5.9 per cent, from 6.7 per cent in 2021, converging to the ECCB's 5.0 per cent prudential benchmark (Figure 9).

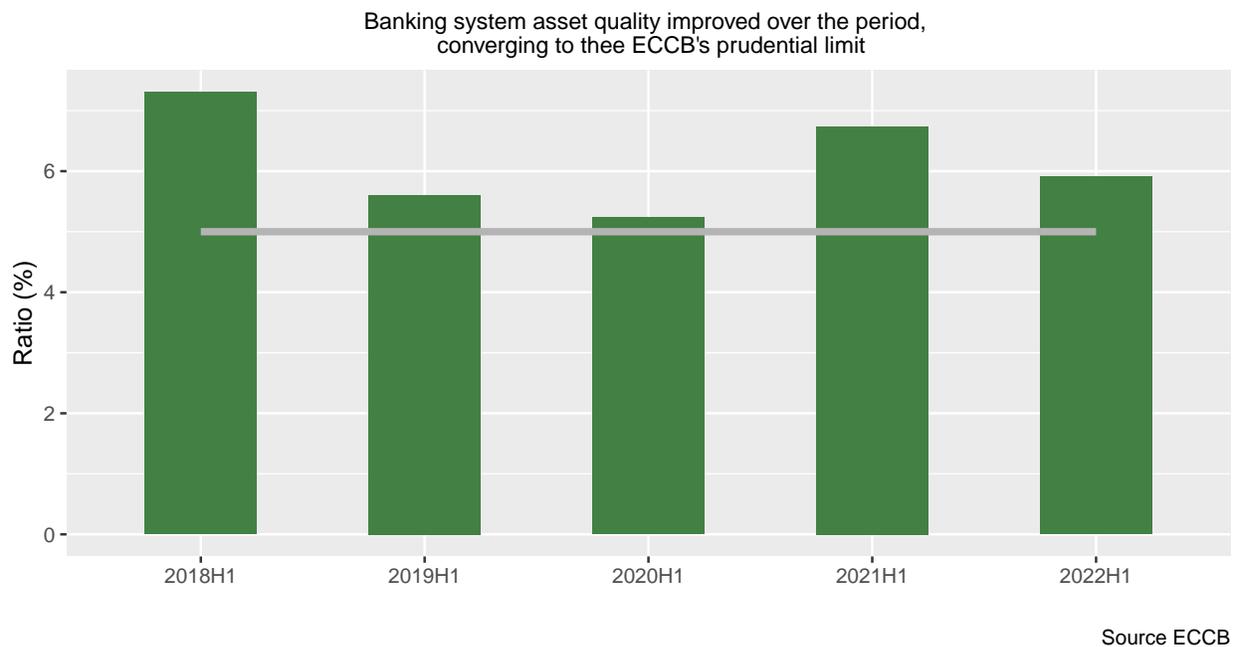
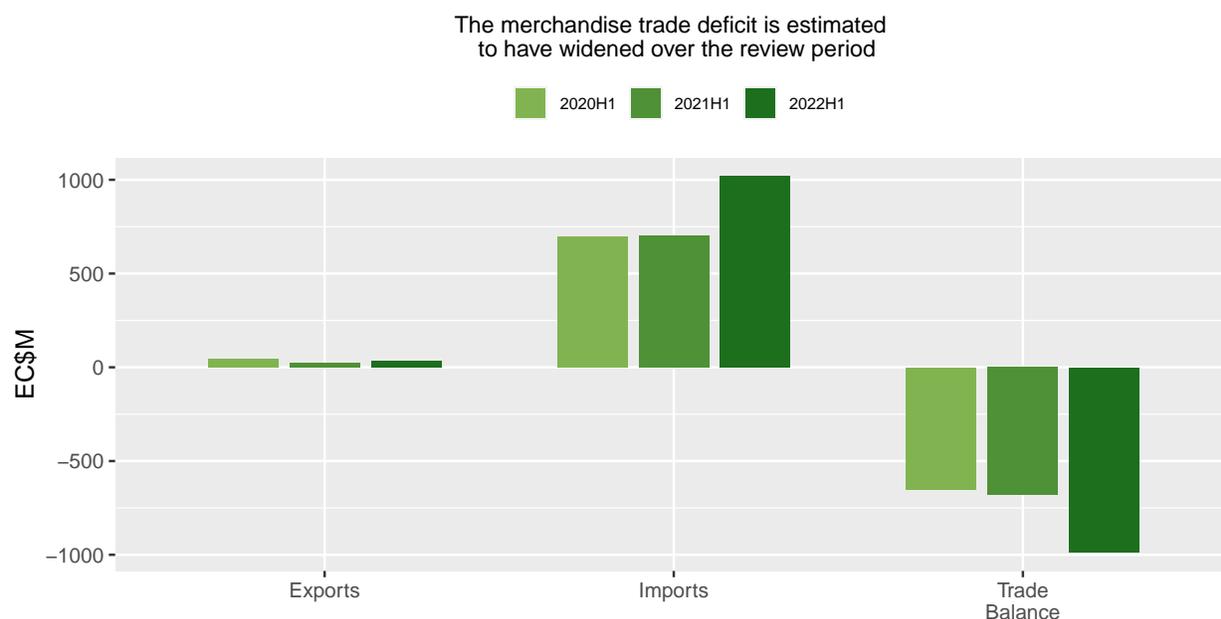


Figure 9: Half-Year Trends in Non-Performing Loans

5 External Trade

The merchandise trade deficit is estimated to have widened by 45.2 per cent to \$985.8m over the first half of 2022, following a slight expansion over the corresponding period of 2021 (Figure 10). The higher deficit was driven by a rebound in imports by 44.6 per cent (\$314.4m) to \$1,019.1m, fueled by the recovery in the real sector. Increases in the import value of mineral fuels and related material along with food and manufactured goods accounted for the higher import bill. Partially mitigating the wider deficit was higher export earnings which climbed 29.3 per cent (\$7.6m), attributable largely to higher re-exports. The trade deficit exceeded the average over the previous five years.



Source: ECCB

Figure 10: Selected Components in External Trade

6 Outlook

The economy of Antigua and Barbuda is provisionally estimated to expand by 8.3 per cent in 2022, largely dependent on the intensity of the global economic recovery, in particular the global travel market, combined with domestic developments in relation to private sector construction.

The level of public investment will be limited by fiscal constraints, namely access to concessional financing. The demands placed on the public purse by the pandemic in previous periods have subsided, which should translate into lower transfers and a further narrowing of the overall deficit.

The outlook, however, remains uncertain attributable to a number of downside risks:

- World global economic growth is forecasted by the International Monetary Fund to slow to 3.2 per cent in 2022 from 6.1 per cent in 2021.



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- The US and UK economies, major source markets for Antigua and Barbuda are estimated to grow at decelerated rates of 2.3 per cent and 3.2 per cent respectively this year.
 - The conflict in Ukraine threatens to escalate ratcheting up uncertainty, inflationary pressures and disruptions to the goods supply chain.
 - The latent threat of hurricane damage to the capital stock and growth potential is omnipresent.
 - Government's financing remained constrained by high debt and limited access to low cost borrowing and
 - The possibility of elections by the first quarter of 2023 may forestall investment and construction activity.
 - On the upside, the global pandemic represents a much lower risk than in the recent past.
 - The recent strong recovery in stay-overs if sustained could help sustain growth and improve public finances.



7 Selected Economic Indicators

Indicator	2018H1	2019H1	2020H1	2021H1	2022H1
Current Revenue (EC\$M)	411.8	433.6	400.0	384.0	423.0
Current Expenditure (EC\$M)	423.6	457.1	400.0	449.7	415.4
Current Balance (EC\$M)	-11.8	-23.5	0.1	-65.7	7.5
Primary Balance (EC\$M)	5.3	0.3	14.8	-19.7	73.7
Overall Balance (EC\$M)	-48.5	-58.6	-34.4	-64.4	-9.4
Total Public Sector Debt (EC\$M)	3319.7	3488.6	3467.6	3719.4	3877.8
Inflation (Period Average %)	NA	NA	1.4	1.2	6.5
Total Visitor Arrivals ('000)	665.3	636.5	356.4	59.9	324.7
Total Visitor Expenditure (EC\$M)	962.3	1121.4	585.9	443.7	1158.1
Net Foreign Assets (EC\$M)	1863.6	1761.9	1768.4	1906.7	2597.6
Domestic Credit (EC\$M)	2465.6	2556.9	2509.0	2659.0	2606.4
M2 (EC\$M)	3922.2	3961.8	3619.7	3742.4	4331.3
Currency in Circulation (EC\$M)	219.4	233.5	249.8	257.2	283.6
Liquid assets to total assets	59.6	55.9	44.4	37.4	46.4
Liquid assets to short-term liabilities	64.9	60.2	51.6	42.3	51.6
Customer deposits to total (noninterbank) loans	155.4	140.1	132.2	132.6	151.1
Weighted Average Deposit Rate (%)	1.6	1.6	1.5	1.5	1.4
Weighted Average Lending Rate (%)	9.1	8.6	7.7	7.6	7.6
Interest Rate Spread (%)	7.5	7.0	6.2	6.1	6.2
Non-Performing Loans to Total Loans (%)	7.3	5.6	5.2	6.7	5.9



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