

ECONOMIC AND FINANCIAL REVIEW - JUNE 2021

MONTSERRAT

The economy of Montserrat is projected to return to moderate growth in 2021, consistent with the IMF's July update for global output growth of 6.0 per cent, influenced in part by 7.0 per cent recovery for both the US and UK markets.

OVERVIEW



Available data indicate that the economy of Montserrat contracted in the first half of 2021, following a decline observed over the same period in 2020.



The domestic economy is expected to expand moderately in the second half of the year, as the tourism industry slowly recovers, private sector construction projects advance and the labour market improves.

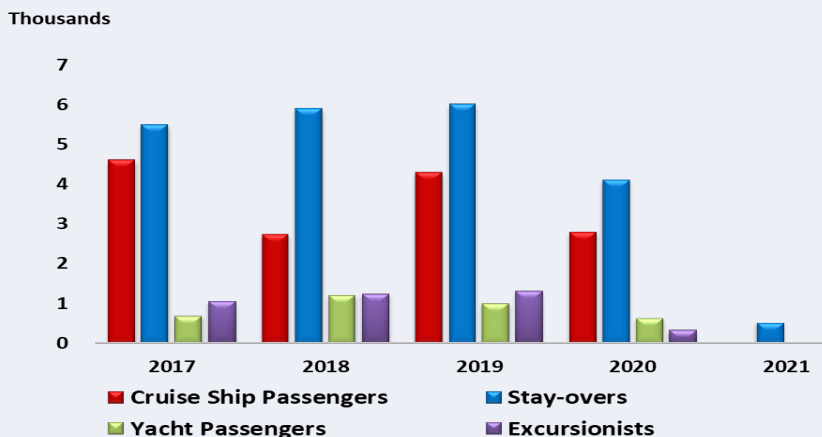


Uncertainties persist with respect to the evolution of the COVID-19 pandemic and its impact on the wider economy.

REAL SECTOR

The economy of Montserrat continued to be negatively impacted by the COVID-19 pandemic in the first half of 2021 as value added in the hotels and restaurants sector contracted relative to the corresponding period of 2020.

Figure 1 - Montserrat Visitor Arrivals (Jan-June)



Total visitor arrivals declined by 93.4 per cent, with the number of stayover visitors falling by 87.5 per cent, while no cruise passengers were recorded (see figure 1). When compared with the average levels over the past five years (2016 – 2020), the contraction in the number of visitors is even sharper at 95.1 per cent. Declines in stayover arrivals, exceeding 80.0 per cent, were observed for all the major markets.

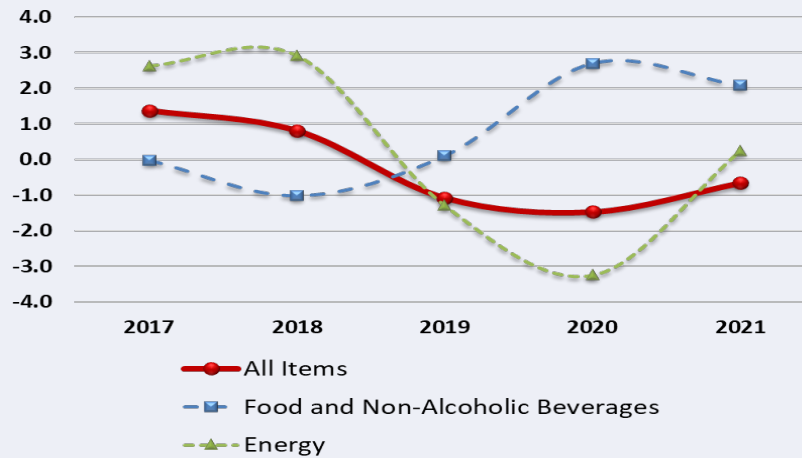
The contraction in the hotels and restaurants sector negatively impacted a number of related sectors including transport, storage and communications; wholesale and retail trade; and real estate activities. Value added in the construction sector, the eighth largest in the economy, is estimated to have increased as the value of new construction starts rose by \$10.3m to \$13.4m. New construction starts were dominated by the private sector, which saw a \$10.2m increase relative to 2020 levels. Construction sector activity was mitigated somewhat by an estimated 44.8 per cent (\$8.4m) decline in government's capital expenditure.

CONSUMER PRICES

Consumers in Montserrat faced marginally lower prices in the first half of the year, as the consumer price index fell by 0.7 per cent on a period average basis.

Driving the decline were the communication and transport sub-indices which fell by 7.2 per cent and 1.4 per cent, respectively, accounting for just over 25.0 per cent of the average consumer basket. Further downward pressure was observed for miscellaneous goods and services, which contracted by 13.0 per cent. By contrast, prices for food and non-alcoholic beverages rose by 2.1 per cent, while the cost of energy advanced marginally by 0.2 per cent (see figure 2). Clothing and footwear's 4.4 per cent increase also mitigated the overall decline in prices.

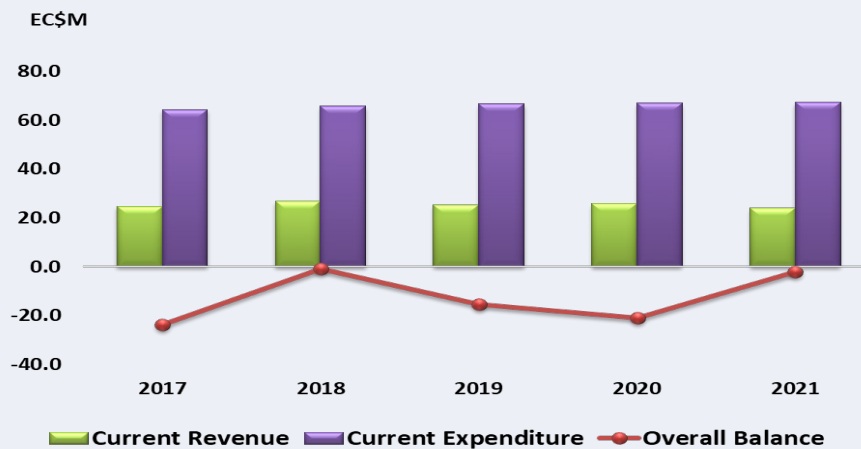
Figure 2 - Montserrat Consumer Price Index Percentage Change (Period Average)



GOVERNMENT OPERATIONS (FISCAL AND DEBT)

The government recorded an overall deficit of \$2.2m in the first half of 2021, compared with one of \$21.1m in the comparable period of 2020 (see figure 3) and an average half-yearly deficit of \$12.7m over the previous 5 years. This development was due mainly to an increase in grant flows and a concomitant decline in capital expenditure.

Figure 3 - Montserrat Public Finance (June)



Consistent with a slowing economy, current revenue declined by 7.0 per cent (\$1.8m) compared with the performance one year earlier and by 4.7 per cent relative to the average over the past five years. Most of the contraction is explained by non-tax revenue which fell by \$1.7m, while tax revenue declined by \$0.1m (see figure 4). Conversely, current expenditure rose marginally by 0.5 per cent (\$0.4m), with increases being observed for personal emoluments and transfers and subsidies, while payments for goods and services fell (see figure 5). When compared with the average outflows over the last five years, current expenditure expanded by 5.2 per cent (\$3.4m). As a result, the government recorded a current account deficit of \$9.9m, representing an increase of \$1.7m, year-on-year.

An analysis of the composition of government revenue and expenditure reveals that grants accounted for the largest share of government inflows (68.3 per cent), while goods and services dominated government expenditure at 36.9 per cent.

Figure 4 - Government Revenue, Jan -Jun 2021 (EC\$M)

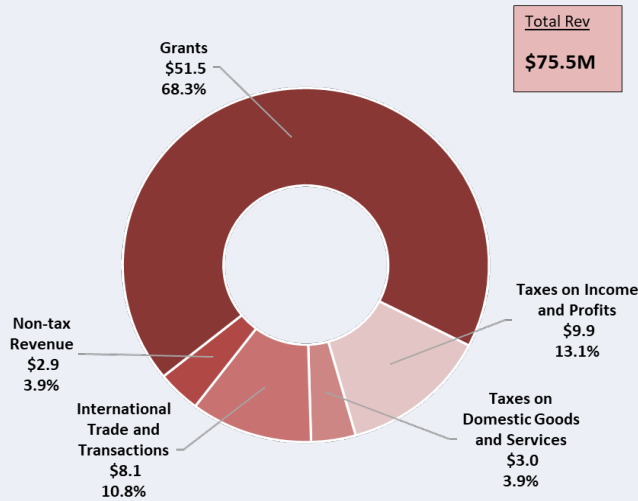
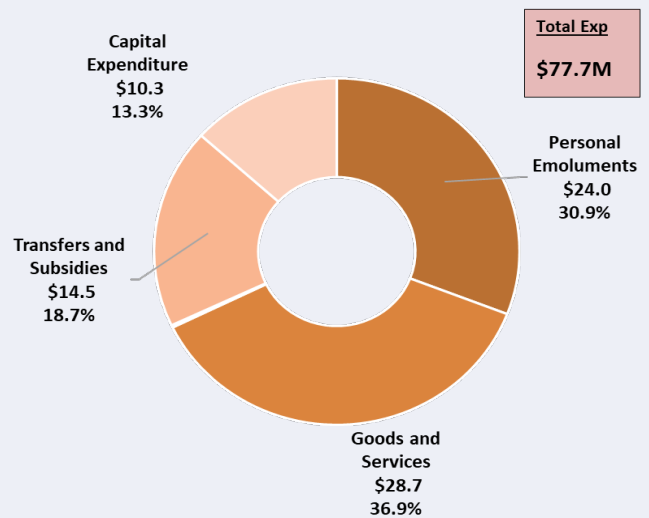
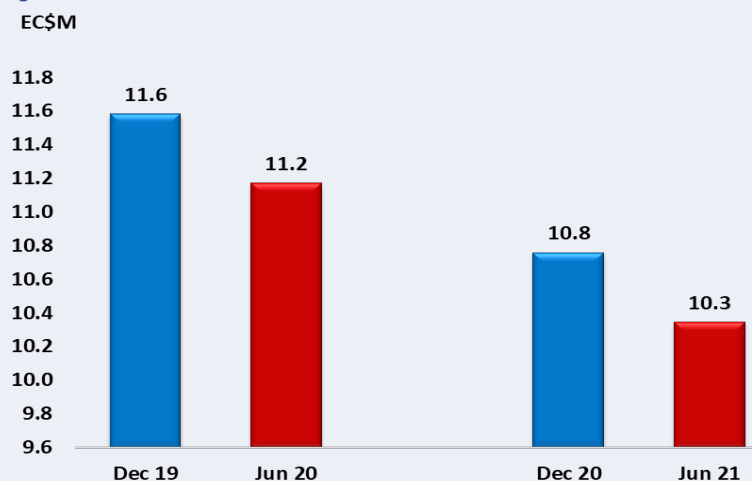


Figure 5 - Government Expenditure, Jan -Jun 2021 (EC\$M)



Capital grant inflows from Montserrat’s main development partners, including the UK Foreign, Commonwealth and Development Office (FCDO) and the European Union, increased by \$11.3m to \$18.1m over the review period. This development, coupled with an \$8.4m decline in capital expenditure, resulted in a narrowing of the overall deficit. Given Montserrat’s general fiscal prudence and ongoing debt servicing, the total outstanding public sector debt contracted by \$0.8m to \$10.3m as at June 2021 (see figure 6).

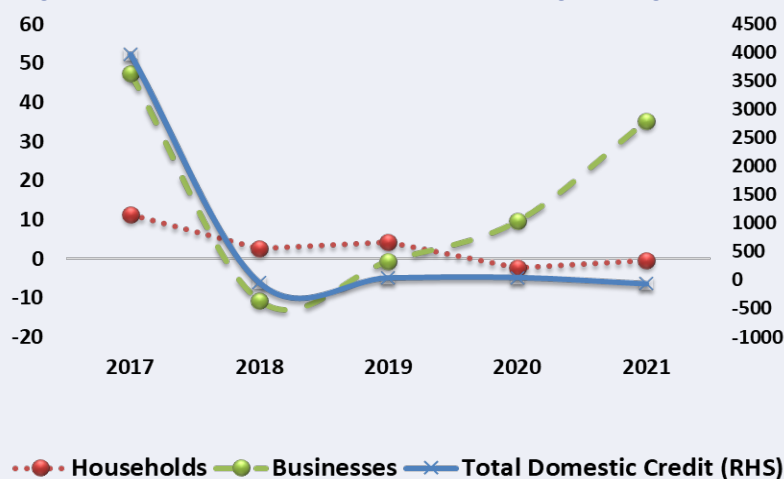
Figure 6 - Total Public Sector Debt



BANKING DEVELOPMENTS (MONETARY)

Reflecting the economic realities on the ground, domestic claims¹ (credit) over the first half of 2021 declined by \$23.0m, in contrast to a \$13.1m expansion one year earlier. The contraction in credit was driven by a \$26.0m increase in government deposits to \$74.4m. Conversely, credit to the private sector expanded by \$3.1m, largely associated with businesses, as household credit declined marginally (see figure 7).

Figure 7 - Montserrat Domestic Credit Percentage Change (June)

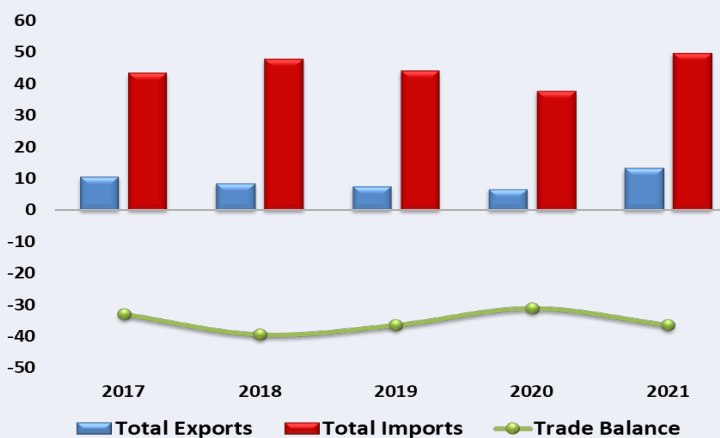


Deposits in the banking system grew as households and businesses curtailed spending and adopted a cautious approach to the uncertainty posed by the pandemic. This development was driven by savings deposits which recorded a \$6.1m increase, while foreign currency and transferable deposits contracted by \$3.4m and \$0.2m, respectively. Additionally, commercial banks' asset quality improved, with the non-performing loan (NPL) ratio declining to 4.9 per cent from 5.3 per cent in June 2020, and falling within the ECCB's prudential benchmark of 5.0 per cent.

EXTERNAL TRADE

Over the first half of 2021, the merchandise trade deficit widened by \$5.3m to \$36.4m, following an improvement in the previous year. This outcome is explained by a \$12.0m increase in import payments relative to a \$6.7m expansion in export receipts (see figure 8). Import payments for machinery and transport equipment dominated the outflows. Additionally, available data show that gross travel receipts contracted by 88.5 per cent (\$11.2m) in the first half of 2021, as cruise tourism was non-existent and stayover visitor arrivals fell across all the major markets.

Figure 8 - Montserrat Visible Trade (June)



¹ Due to a change in methodology in compiling the monetary, the nomenclature changed to 'claims' from 'credit'

OUTLOOK

The economy of Montserrat is projected to return to moderate growth in 2021, consistent with the IMF's July update for global output growth of 6.0 per cent, influenced in part by 7.0 per cent recovery for both the US and UK markets. However, there is some uncertainty regarding the pace of the recovery as the Delta variant of the COVID-19 virus threatens to hinder the potential economic expansion. The following are noteworthy:

- On the upside, the domestic economy is projected to receive significant support from key public sector investments, including the construction of the air traffic control tower at the John A Osborne Airport and commencement of construction activities at Little Bay Port. Additional support is expected from the private sector, given the relatively high number and value of construction starts for the year to date.
- Some rebound in tourism activity is also anticipated for the second half of the year as flights resume and cruise ship calls gain traction. This is expected to have a multiplier effect on the wider economy and positively impact labour market conditions.
- Important downside risks include the potential spread of the Delta variant among residents, which could trigger travel restrictions to Montserrat and further destabilise the domestic economy. Additionally, a potential spike in inflation, coupled with suboptimal implementation of public sector projects could dampen the recovery. Further, the potential for natural disasters is ever present and continually threatens to reverse past economic gains.

TABLES

The five-year formatted tables for Montserrat's main economic sectors

- Table M1 - Central Government Fiscal Operations
- Table M2 - Monetary Survey
- Table M3 - Selected Trade Statistics
- Table M4 - Consumer Price Index
- Table M5 - Selected Tourism Statistics

Table M1
Montserrat - Central Government Fiscal Operations
(In millions of Eastern Caribbean dollars)

	January to June					Average 2015 to 2019	Average 2016 to 2020
	2017	2018	2019	2020	2021		
Current Revenue	24.77	26.73	25.18	25.80	23.98	24.78	25.17
Tax Revenue	22.11	23.83	22.26	21.16	21.06	21.82	22.08
Taxes on Income and Profits	10.18	11.00	9.82	10.56	9.89	9.90	10.25
Of which:							
Personal	6.95	7.17	7.35	7.17	7.29	6.75	6.97
Company/Corporation	2.82	3.23	1.86	1.78	1.12	2.62	2.52
Taxes on Property	0.05	0.10	0.13	0.05	0.09	0.09	0.09
Taxes on Domestic Goods and Services	2.66	3.40	3.27	2.93	2.97	2.87	2.95
Of which:							
Licences and Stamp Duties	1.54	1.75	1.54	1.45	1.53	1.57	1.56
Hotel Occupancy	0.03	0.01	0.02	0.02	0.02	0.02	0.02
Insurance Company Levy	0.10	0.09	0.12	0.15	0.10	0.11	0.12
Taxes on International Trade and Transactions	9.22	9.33	9.03	7.62	8.12	8.96	8.79
Of which:							
Import Duty	3.34	3.17	2.88	2.91	3.11	3.07	3.09
Consumption Tax	5.50	5.74	5.74	4.43	4.78	5.40	5.29
Non-Tax Revenue	2.66	2.89	2.92	4.63	2.91	2.96	3.09
Current Expenditure	64.42	65.88	66.72	66.99	67.34	62.74	63.99
Personal Emoluments	21.38	22.18	23.27	23.46	23.99	21.75	22.28
Goods and Services*	22.89	24.91	26.00	30.46	28.67	23.17	24.94
Interest Payments	0.13	0.12	0.15	0.13	0.17	0.11	0.12
Domestic	0.08	0.05	0.05	0.05	0.07	0.04	0.05
External	0.06	0.07	0.09	0.08	0.11	0.07	0.07
Transfers and Subsidies	20.01	18.68	17.29	12.94	14.51	17.71	16.65
Of which: Pensions	6.57	5.78	6.65	6.30	7.46	6.26	6.26
Current Account Balance before grants	(39.65)	(39.16)	(41.53)	(41.19)	(43.37)	(37.96)	(38.83)
Current Account Balance after grants	(24.30)	1.90	(8.24)	(8.23)	(9.94)	(3.73)	(8.68)
Capital Revenue	-	-	-	-	-	-	-
Grants	24.28	45.15	33.38	39.70	51.51	44.88	36.65
Of which: Capital Grants	8.94	4.09	0.09	6.74	18.08	10.65	6.51
Capital Expenditure and Net Lending	8.40	6.76	7.20	19.62	10.35	9.27	10.48
Of which: Capital Expenditure	6.08	6.71	7.11	18.75	10.35	8.78	9.81
Primary Balance before grants	(47.91)	(45.80)	(48.59)	(60.69)	(53.54)	-	-
Primary Balance after grants	(23.63)	(0.66)	(15.21)	(20.98)	(2.03)	-	-
Overall Balance before grants	(48.05)	(32.78)	(22.36)	(33.70)	(20.01)	-	-
Overall Balance after grants	11.85	(31.83)	43.96	(12.22)	10.01	-	-
Financing	23.77	0.78	15.36	21.11	2.21	-	-
Domestic	21.70	0.97	15.52	21.36	2.46	-	-
ECCB (net)	(0.60)	(0.08)	0.60	0.45	(0.11)	-	-
Commercial Banks (net)	29.86	4.03	13.52	22.44	10.93	-	-
Other	(7.56)	(2.98)	1.40	(1.53)	(8.36)	-	-
External	2.06	(0.20)	(0.16)	(0.25)	(0.25)	-	-
Net Disbursements/(Amortisation)	2.06	(0.20)	(0.16)	(0.25)	(0.25)	-	-
Disbursements	2.32	0.05	0.09	0.00	0.00	-	-
Amortisation	(0.25)	(0.25)	(0.25)	(0.25)	(0.25)	-	-
Change in Government Foreign Assets	0.00	0.00	0.00	0.00	0.00	-	-
Arrears	-	-	-	-	-	-	-
Domestic	-	-	-	-	-	-	-
External	-	-	-	-	-	-	-
Other Financing	-	-	-	-	-	-	-

Source: Ministry of Finance and Economic Management, Montserrat and ECCB Estimates

*Goods and Services include Miscellaneous Payments

Data as at 23 August 2021

Actual data up to June 2021.

Table M2
Montserrat - Monetary Survey
(EC\$M at end of period)

	2017	2018	2019	2020	2021 E	June Moving Averages	
	June	June	June	June	June	2015 - 2019	2016 - 2020
Net Foreign Assets	273.23	295.63	299.85	304.13	354.47	295.56	294.72
Claims On Non-Residents	360.69	383.08	389.89	388.01	411.14	380.45	381.02
Central Bank	121.43	135.16	132.91	179.75	150.56	132.72	141.42
Other Depository Corporations (Commercial Banks)	239.26	247.92	256.98	208.25	260.59	247.73	239.60
Liabilities To Non-Residents	87.47	87.45	90.04	83.88	56.67	84.89	86.30
Central Bank	0.01	0.06	0.01	0.01	0.01	0.03	0.03
Other Depository Corporations (Commercial Banks)	87.46	87.39	90.03	83.87	56.66	84.86	86.27
Net Domestic Assets	(20.20)	(37.60)	(32.43)	(52.85)	(97.99)	(37.77)	(37.64)
Domestic Claims	30.61	17.85	25.79	38.83	15.83	12.29	22.46
Net Claims On General Government	(53.10)	(66.84)	(62.18)	(48.37)	(74.39)	(67.21)	(60.86)
Claims On General Government	-	0.05	-	-	-	0.01	0.01
From Central Bank	-	0.05	-	-	-	0.01	0.01
From Other Depository Corporations	-	-	-	-	-	-	-
Liabilities To General Government	53.10	66.89	62.18	48.37	74.39	67.22	60.87
Claims On Other Sectors	83.72	84.69	87.97	87.20	90.22	79.50	83.31
Claims On Other Financial Corporations (Non-Bank Financial Institutions)	-	-	-	0.10	-	-	0.02
Claims On Public Non-Financial Corporations	-	-	-	-	-	0.00	0.00
Claims On Private Sector	83.72	84.69	87.97	87.10	90.22	79.50	83.29
Claims On Other Non-Financial Corporations (Business Credit)	9.85	8.81	8.76	9.61	13.00	8.33	8.74
Claims On Other Resident Sectors (Households and Non-profit institution)	73.86	75.88	79.21	77.50	77.22	71.18	74.55
Other Items (Net)	(50.81)	(55.44)	(58.21)	(91.69)	(113.82)	(50.05)	(60.10)
Broad Money Liabilities (M2)	253.03	258.04	267.43	251.27	256.48	257.79	257.08
Narrow Money (M1)	68.90	73.12	87.56	71.06	73.56	67.55	71.12
Currency Outside Depository Corporations	19.34	22.19	24.67	24.24	26.96	20.34	21.95
Currency Issued By Central Bank (Currency In Circulation)	22.83	26.10	27.58	29.45	30.12	23.97	25.84
Less Holdings Of National Currency By Odc (Commercial Banks)	3.49	3.91	2.91	5.21	3.16	3.63	3.89
Transferable Deposits, In National Currency	49.56	50.93	62.89	46.82	46.61	47.22	49.16
Quasi Money	184.13	184.92	179.87	180.22	182.92	190.24	185.96
Other Deposits, In National Currency	175.78	175.37	164.47	165.33	171.44	179.89	174.46
Foreign Currency Deposits	8.35	9.55	15.41	14.88	11.49	10.35	11.50
Memo Items							
Liquidity Ratios							
Liquid assets to total assets	72.59	73.84	72.62	76.91	75.10	74.44	74.21
Liquid assets to short-term liabilities	83.42	84.90	84.11	94.63	n.a.	85.09	69.41
Customer deposits to total (noninterbank) loans	304.77	309.17	306.10	286.71	315.09	346.13	304.37
Weighted Average Interest Rate							
Total Deposits Rate	1.20	1.13	1.13	1.22	1.17	1.16	1.17
Lending Rate	6.96	6.08	6.62	6.22	6.13	6.99	6.40
Spread between reference lending and deposit rates (basis points)	5.75	4.94	5.49	5.00	4.96	5.83	5.23
Nonperforming loans to gross loans	5.66	5.94	5.92	5.33	4.94	5.92	5.56

Source: Eastern Caribbean Central Bank
Data as at 06 August 2021

Table M3
Montserrat - Selected Trade Statistics
(Value: EC\$M)

	January to June					Average	Average
	2017	2018	2019	2020	2021	2015 to 2019	2016 to 2020
Visible Trade Balance	(32.98)	(39.45)	(36.46)	(31.11)	(36.43)	(38.71)	(36.08)
Total Imports	43.59	47.91	44.15	37.81	49.81	45.86	43.74
Total Exports	10.61	8.45	7.69	6.70	13.37	7.15	7.67
Total Domestic Exports	9.04	6.15	6.48	5.91	7.54	5.85	6.28
Total Re-Exports	1.57	2.30	1.21	0.78	5.84	1.30	1.38

Source: Statistics Department, Ministry of Finance and Economic Development, Montserrat
 Data as at 23 August 2021
 Actual data up to June 21.

Table M4
Montserrat - Consumer Price Index

	Period Average January to December		January to June					Percentage Change*	
			Period Average					Jun-20	Jun-21
	2019	2020	2017	2018	2019	2020	2021	Dec-19	Dec-20
All Items	99.69	97.80	99.66	100.47	99.38	97.92	97.27	(1.78)	(0.55)
Food & Non-Alcoholic Beverages	98.87	100.74	98.80	97.79	97.89	100.54	102.64	1.69	1.88
Alcoholic Beverages, Tobacco & Narcotics	109.39	114.92	99.91	100.88	104.78	113.66	118.37	3.91	3.00
Clothing & Footwear	84.85	87.42	93.53	94.71	84.16	87.16	91.02	2.72	4.12
Housing, Water, Electricity, Gas and Other Fuels	102.76	99.17	100.98	103.93	102.59	99.25	99.49	(3.41)	0.32
Furnishing, household equipment and Routine House	99.08	97.52	98.26	94.89	98.77	97.62	98.77	(1.47)	1.28
Health	107.38	107.21	104.05	104.96	107.49	107.15	106.89	(0.22)	(0.30)
Transport	100.92	101.05	98.71	99.67	100.91	101.44	100.01	0.51	(1.03)
Communication	105.50	93.80	100.70	97.85	105.34	93.22	86.52	(11.64)	(7.76)
Recreation & Culture	95.69	95.36	97.07	98.07	94.46	94.99	103.43	(0.73)	8.46
Education	104.22	104.03	102.95	103.97	103.97	103.79	104.74	(0.41)	0.68
Restaurants and Hotels	101.53	100.87	100.80	101.35	101.41	100.77	109.21	(0.75)	8.27
Miscellaneous goods and services	84.54	82.40	99.92	101.00	84.96	84.30	73.23	(0.28)	(11.13)

Sources: Central Statistical Offices, ECCU and ECCB Estimates

*January to June average index / January to December Average index of the previous year

Actual data up to March 2021. April to June 2021 estimated.

Data as at 23 August 2021

Table M5
Montserrat - Selected Tourism Statistics

	January to June					Average 2015 to 2019	Average 2016 to 2020
	2017	2018	2019	2020	2021		
Total Visitors	11,861	11,069	12,624	7,858	516	10,456	10,564
Stay-Over Visitors	5,501	5,895	6,018	4,107	513	5,143	5,159
Of which:							
USA	1,480	1,496	1,551	1,145	192	1,379	1,380
Canada	398	421	323	265	14	350	339
UK	1,431	1,668	1,659	1,482	148	1,368	1,465
Caribbean	1,933	2,089	2,257	1,080	136	1,816	1,767
Other Countries	259	221	228	135	23	230	208
Excursionists	1,056	1,238	1,309	320	3	1,060	943
Cruise Ship Passengers	4,611	2,738	4,300	2,805	-	3,134	3,488
Number of Cruise Ship Calls	6	11	15	7	-	11	11
Yacht Passengers	693	1,198	997	626	-	626	973
Number of Yachts	471	313	336	212	-	366	334
Total Visitor Expenditure (EC\$M)	15.52	16.53	16.66	12.67	1.46	14.43	14.70

Source: Statistics Department, Ministry of Finance and Economic Development, Montserrat and ECCB estimates.

Data as at 23 August 2021

Visitor expenditure estimated up to June 2021. Actual arrivals up to June 2021.



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