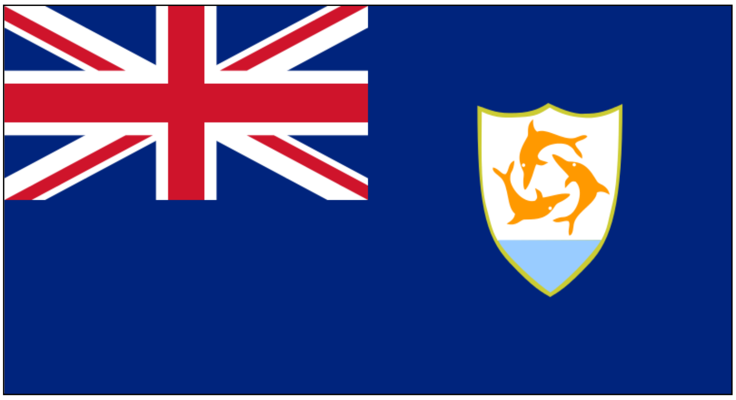
ANGUILLA DEBT PORTFOLIO REVIEW 2016



Prepared by the Debt Management Unit,
Ministry of Finance and Economic Development, Anguilla

In Collaboration with the

Canada-Eastern Caribbean
Debt Management Advisory Service (DMAS) Unit

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ANGUILLA
Atlantic Ocean
Scrub Island
Seal Island
Prickly Pear Cays
Shoal Bay East
Scilly Cay &
Island Harbour
The Fountain
Badcox Pond
Grey Pond
Little Bay
Caul's Pond
Sandy Island
The Valley
Sea Feather
Bay
Sandy
Ground
Wallblake Airport
Rendesvous
Salt Pond
Meads Bay
Blowing
Point
Maunday's
Bay
Caribbean Sea
0 4 km
0 2 miles

ACRONYMS

AASPA	Anguilla Air and Sea Ports Authority
ACC	Anguilla Community College
ADB	Anguilla Development Board
ASSB	Anguilla Social Security Board
ATB	Anguilla Tourist Board
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BGs	Borrowing Guidelines
CCB	Caribbean Commercial Bank Anguilla Ltd
CDB	Caribbean Development Bank
DMU	Debt Management Unit
DPT	Depositors’ Protection Trust
DSA	Debt Sustainability Assessment
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EIB	European Investment Bank
FAA	Financial Administration and Audit Act
FDI	Foreign Direct Investment
FFSD	Framework for Fiscal Sustainability and Development
GDP	Gross Domestic Product
GoA	Government of Anguilla
NBA	National Bank of Anguilla Ltd
NCBA	National Commercial Bank of Anguilla
NDAC	National Debt Advisory Committee
MFEDICT	Ministry of Finance, Economic Development, Investment, Commerce and Tourism
MTDS	Medium Term Debt Strategy
OCR	Ordinary Capital Resources
PAS	Principal Assistant Secretary
PBL	Policy-Based Loan
PS	Permanent Secretary
SFR	Special Fund Resources
UKG	United Kingdom Government

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SECTION 1.0 EXECUTIVE SUMMARY

The Anguilla Debt Portfolio Review for the calendar year ending 31 December 2016 was compiled by the Debt Management Unit, Ministry of Finance and Economic Development, with support from the Canada-Eastern Caribbean Debt Management Advisory Service (CANEC-DMAS)[1]. The report covers public and public guaranteed external and domestic debt over the period 2012-2016. The review also explores debt related issues in terms of the country's debt management strategy and debt sustainability analysis.

The debt portfolio review is divided into three other sections as outlined below:

SECTION 2: provides an overview of the economy in terms of the economic developments over the period 2012-2016, and the impact on both the levels and composition of the debt portfolio.

SECTION 3: examines the evolution of the total public sector debt, its composition, costs and risks inherent in the current portfolio, debt sustainability indicators and the United Kingdom Government (UKG) borrowing benchmarks.

SECTION 4: concludes with the key observations in the current debt portfolio and policy recommendations.

[1] The project which commenced in 2009 is managed by the Eastern Caribbean Central Bank and financed by the Government of Canada through Global Affairs Canada (GAC). The main objective of the project is to assist member countries of the Eastern Caribbean Currency Union in strengthening and improving debt mmanagement capabilities to effectively manage debt portfolios to sustainable levels.

SECTION 2.0 OVERVIEW OF ANGUILLA'S ECONOMY

Introduction

Anguilla is a small open economy with a narrow economic base focused on high-end tourism and construction, and to a lesser extent, offshore financial services. The performance of the economy is highly correlated with global trends and economic developments in the United States. The dependence on this narrow base has resulted in large fluctuations in economic growth over the last two decades, thus highlighting Anguilla's vulnerability to external shocks.

Anguilla is a member of the Eastern Caribbean Currency Union with the second smallest economy as at the end of 2016 accounting for 5.30 per cent of the Union's total gross domestic product (GDP). Anguilla is also a self-governing Overseas Territory of the United Kingdom (UK). This relationship requires the Government of Anguilla (GoA) to maintain fiscal and debt[2] operations within the context of the Fiscal Responsibility Act (FRA) 2013.

In 2016, a Medium Term Debt Management Strategy (MTDS) 2017-2020 was prepared with the main objective being to raise adequate levels of financing for the GoA at the lowest possible cost with a prudent degree of risk. This strategy is informed by the medium term fiscal framework and is guided by the debt benchmarks outlined in the FRA. The Debt Management Office is responsible for the implementation of the MTDS.

Macroeconomic Developments

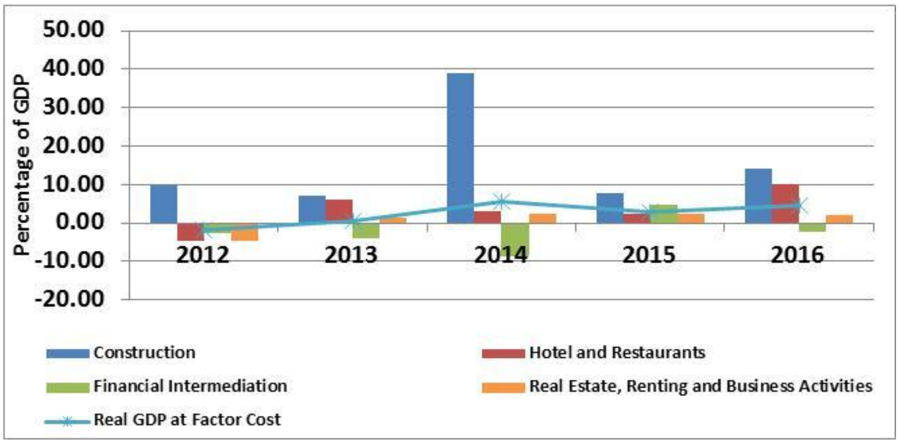
The global financial crisis which began in the fall of 2007 with the sub-prime mortgage crisis in the USA negatively impinged the economy of Anguilla by the end of 2008. Economic growth contracted continuously over the period 2008-2012. In 2013 the economy showed its first signs of recovery with real growth of 0.32 per cent as key economic sectors rebound. Preliminary estimates produced by the Eastern Caribbean Central Bank show that in 2016 the

[2] Anguilla's borrowing is constrained by borrowing ratios agreed to in the Framework for Fiscal Sustainability and Development signed in April 2013 and legislated in October via the Fiscal Responsibility Act 2013 (which replaced the 2003 Borrowing Guidelines Agreement): (i) Net debt not to exceed 80.0 per cent of recurrent revenue; (ii) Debt service not to exceed 10.0 per cent of recurrent revenue; and (iii) Liquid Assets should be sufficient to cover at least 25.0 per cent or 90 days of recurrent expenditure.

gross domestic product (GDP) of Anguilla was EC$924.19m. In real terms, the Gross Value Added (GVA)—which captures the total contributions of the economy's industries in basic prices—the economy grew by 4.5 per cent over 2015's output. Compared to the previous year's modest 2.8 per cent expansion, Anguilla's economy accelerated by 1.7 percentage points over 2015. This 'speeding up' can be attributed largely to increased growth in the large tourism and construction sectors which has effectively propelled the island to a level of economic activity (GDP) less than 5 percentage points below its historical peak level (EC$959.26m) in 2007.

The expansion in 2016 reflected increased activity in the hotels and restaurants (10.0 per cent), construction (14.0 per cent), wholesale and retail trade (2.5 per cent) and real estate, renting and business activities(2.2 per cent) sectors, tempered by a deceleration in financial intermediation (-2.2 per cent). Diagram 1 below, depicts real GDP growth for these selected economic sectors over the period, 2012-2016.

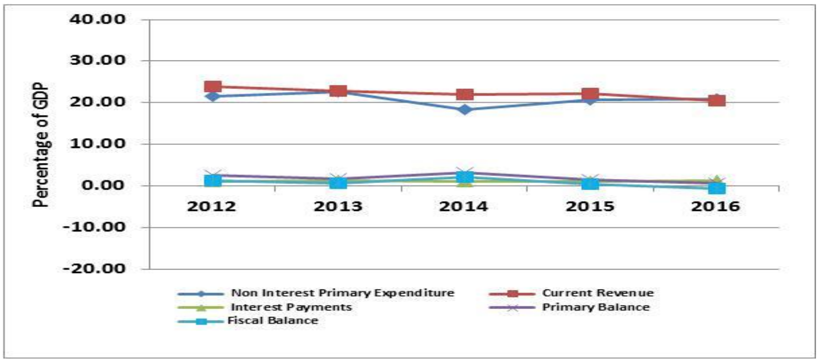
Diagram 1: Real GDP Growth, Selected Sectors Growth Performance (2012-2016)



Public Finance Trends

Diagram 2 shows the trend in central government fiscal position for the period under review.

Diagram 2: Central Government Fiscal Position 2012-2016
(as per cent of GDP)



The Government of Anguilla ended the 2016 fiscal year with a small recurrent balance of EC$1.07m, relative to the EC$16.12m projected at the time the budget was prepared. This was a consequence of challenges faced on the revenue side, despite projected growth in the economy. Actual collections totalled EC$188.71m. Collections were 13.86 per cent or EC$30.36m less than budget and 1.22 per cent less than 2015 collections. This decline in revenue collections spanned the various categories. On the recurrent expenditure side, Government was able to maintain expenditure at a reasonable level in light of the revenue performance by utilising the expenditure controls. Actual spend totalled EC$187.65m which is 6.77 per cent or EC$14.71m less than the estimate. However, this represented an increase of EC$4.14m (2.26 per cent) over expenditure in 2015. Total outstanding public debt increased to 51.39 per cent of GDP at the end of 2016. See Appendix 1: Table 1.

The Banking Resolution

In August 2013 the two local indigenous banks, National Bank of Anguilla (NBA) and Caribbean Commercial Bank (CCB) Ltd, were placed into receivership by the Eastern Caribbean Central Bank (ECCB). Thus creating uncertainty in Anguilla's banking sector. In 2016, the two banks were merged to form the National Commercial Bank of Anguilla (NCBA). A Deposit Protection Trust (DPT) Fund (EC$52.00m) will be established to protect the large depositors. The GoA issued a promissory note (EC$214.00m) to cover the Social Security deposits and the Caribbean Development Bank (CDB) provided financing of EC$59.4m in the form of a bridging bank capitalization loan. The intervention by the Government of Anguilla in this banking resolution amounted to EC$325.40m.

SECTION 3.0 PUBLIC DEBT STRUCTURE AND RATIOS

3.1 Total Public Debt

Anguilla's total public debt comprises central government debt and government guaranteed debt from domestic and external sources (see Table 1).

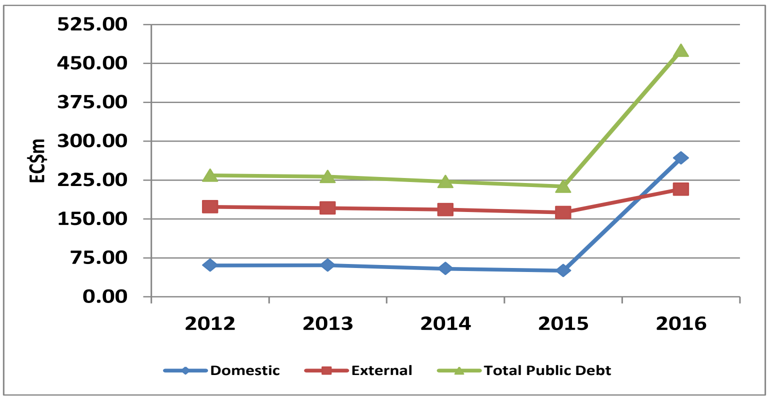
Table 1: Total Public Debt 2012-2016 (EC$m)

	2012	2013	2014	2015	2016
Central Government Debt	**217.34**	**216.79**	**209.14**	**201.52**	**462.71**
Domestic	59.11	59.55	53.02	49.55	264.43
External	158.23	157.24	156.12	151.97	198.28
Government Guaranteed Debt	**16.67**	**14.86**	**12.75**	**11.19**	**12.25**
Domestic	1.35	1.13	0.91	0.68	2.98
External	15.32	13.73	11.84	10.51	9.27
Total Public Debt	**234.01**	**231.65**	**221.89**	**212.71**	**474.96**
Domestic	60.46	60.68	53.93	50.23	267.41
External	173.55	170.97	167.96	162.48	207.55

At the end of 2016 total disbursed outstanding public sector debt stood at EC$474.96m or 51.39 per cent of GDP. Over the period 2012-2015 debt stock declined at an average annual rate of 3.1 per cent. The downward trajectory in debt was attributable primarily to scheduled amortization payments exceeding new borrowing. However, at the end of 2016 the debt stock increased to EC$474.96m a 123.3 per cent increase over the 2015 debt stock (EC$212.71m). This increase was due primarily to the new debt contracted in support of the banking resolution exceeding scheduled amortization payments.

Over the period under review, external debt accounted for the predominant share of the portfolio with a share averaging 68.75 per cent while domestic debt averaged 31.25 per cent. Worth noting is that in 2016 there was a shift in the debt portfolio structure with domestic debt accounting for the major share of the portfolio with a share of 56.30 percent while external debt accounted for 43.70 of the portfolio (see diagram 3).

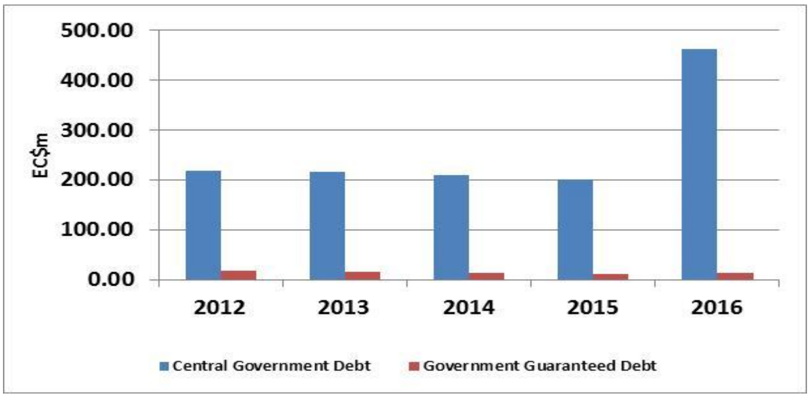
Diagram 3: Total Public Debt by Category (EC$m)



Central Government and Government Guaranteed Debt

As shown in diagram 4, central government debt accounted for 97.42 per cent (EC$462.71m) of the total disbursed outstanding debt at the end of 2016, growing from a 92.9 percentage share (EC$217.34m) in 2012. For the same period, the share of government guaranteed debt[3] declined from 7.12 per cent (EC$16.67m) to 2.58 per cent (EC$12.25m). Over the period 2012 - 2015 central government debt and government guaranteed debt had an average annual decline of 2.48 per cent and 12.43 per cent respectively. However at the end of 2016 central government and government guaranteed debt increased by 129.61 per cent and 9.47 per cent over the 2015 debt stock levels respectively.

Diagram 4: Central Government and Government Guaranteed Debt (EC$m)

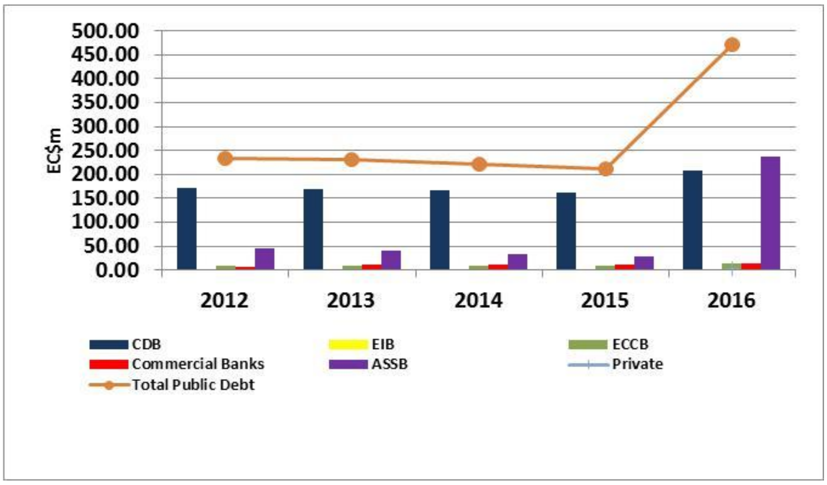


[3] Guaranteed debt was held by two statutory bodies, the Anguilla Development Board and the Anguilla Tourist Board up to 2015. In 2016 Anguilla Air and Sea Ports Authority contracted debt.

3.2 Public Debt Composition

Diagram 5 shows that at the end of 2016, the Anguilla Social Security Board (ASSB) held the largest share of total debt accounting for 49.77 per cent (EC$236.40m) of the portfolio. The share of debt owed to the other creditors, in descending order, were Caribbean Development Bank (CDB) at 43.54 per cent (EC$206.78m), National Commercial Bank of Anguilla (NCBA) at 3.04 per cent (EC$14.43m), Eastern Caribbean Central Bank (ECCB) at 2.96 per cent (EC$14.05m), a Private Creditor at 0.53 per cent (EC$2.54m) and European Investment Bank (EIB) at 0.16 per cent (EC$0.78m).

Diagram 5: Creditor Category of Public Debt (EC$m)



External Debt

Over the period under review, the external debt portfolio consisted entirely of loans. External debt grew by more than 19.59 per cent over the period. This significant increase in external debt at the end of 2016 is as a direct result of a loan contracted from CDB to recapitalize the bridge bank (NCBA). At the end of 2016, external debt stock stood at EC$207.55m. This represented an increase of 27.74 per cent over the 2015 debt level.

External Debt by Creditor

Anguilla's external debt over the period reviewed was owed to two multilateral creditors, the European Investment Bank and the Caribbean Development Bank. The latter has been the dominant holder with an average annual share of 99.42 per cent.

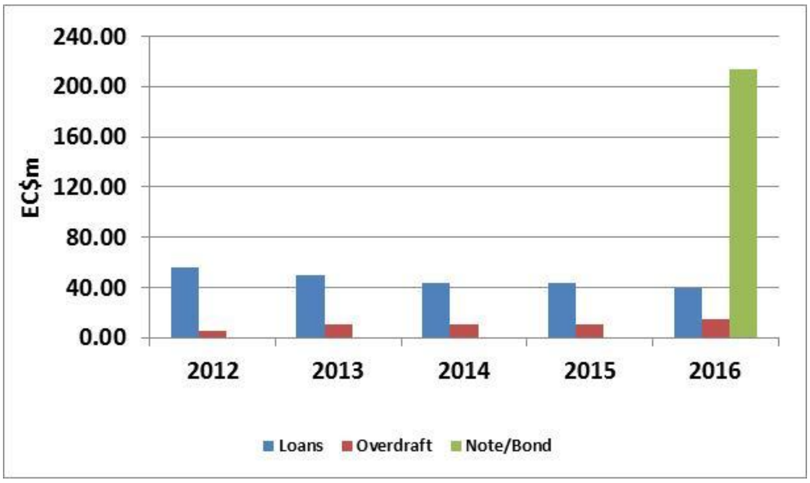
Domestic Debt

Domestic debt in 2012 and 2016 stood at EC$60.46m and EC$264.61m respectively. The level fluctuated over the five-year period largely due to end of year balances on the two short facilities (the overdraft and the Eastern Caribbean Central Bank cash advance). In addition, new borrowing (EC$214.00m) to aid in resolving the banking crisis has significantly increased the domestic debt stock in 2016. At the end of 2016 the overdraft stood at EC$14.16m and the cash advance totalled EC$14.05m.

Domestic Debt by Instrument

The domestic debt portfolio consisted of a promissory note, loans and an overdraft facility over the period under review (see diagram 6).

Diagram 6: Domestic Debt by Instrument (EC$m)

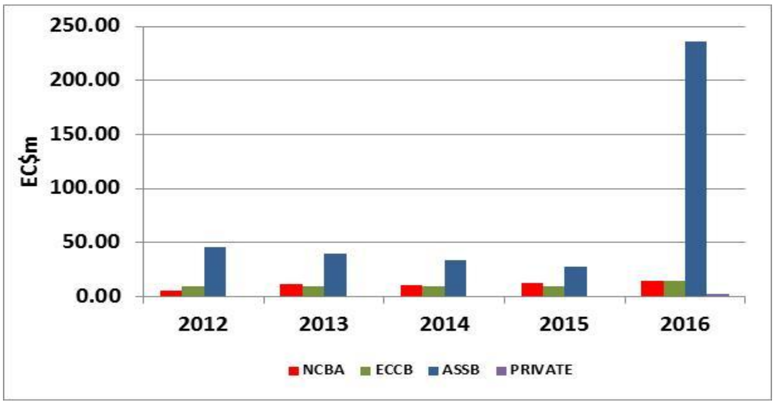


At the end of 2016 the promissory note accounted for 79.96 per cent of the domestic debt portfolio. Whereas loans accounted for 14.75 per cent of the domestic debt portfolio and the overdraft facility accounted for the remaining share of 5.29 per cent.

Domestic Debt by Creditor

As depicted in diagram 7, the ASSB has been the dominant holder of the domestic debt portfolio. At the end of 2016 debt owed to the ASSB stood at EC$236.40m or 88.40 per cent of total domestic debt. Other domestic creditors included, the NCBA with an amount of EC$14.43m (5.40 per cent), the ECCB EC$14.05m (5.25 per cent) and the Private Entity EC$2.54m (0.95 per cent).

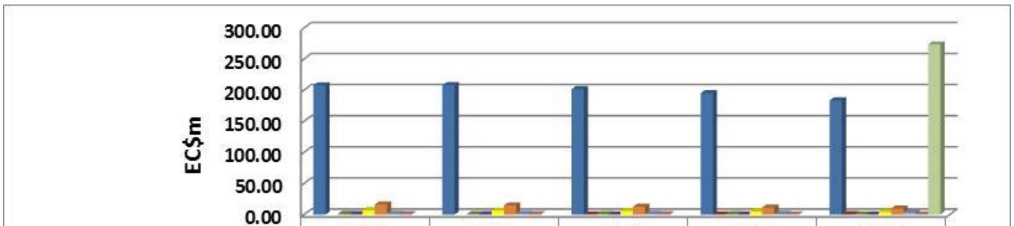
Diagram 7: Domestic Debt by Creditors (EC$m)



3.3 Debt by Economic Sector

Diagram 8 below captures Anguilla's total public debt by economic sector. At the end of 2016, Finance and Insurance accounted for the largest proportion of public debt with a share of 57.56 per cent. Borrowing under the Economic Sector of Finance and Insurance was due primarily to the banking resolution. Budget Support and Multi-sector followed with shares of 38.63 per cent and 2.04 per cent respectively. The remainder of the portfolio (1.77 per cent) was shared among four other economic sectors.

Diagram 8: Public Debt by Economic Sector (EC$m)



	2012	2013	2014	2015	2016
Budget Support	207.61	208.05	201.52	194.96	183.46
Education & Training			0.06	0.15	0.49
Housing	0.90	0.72	0.54	0.36	0.18
Industrial Development	0.67	0.47	0.26	0.05	-
Infrastructure	6.98	6.27	5.57	4.86	4.16
Multi-Sector	16.18	14.52	12.56	11.15	9.69
Roads and Bridges	1.22	1.21	1.01	0.86	3.31
Tourism & Hotel Industry	0.45	0.41	0.37	0.32	0.27
Finance, Insurance, Etc					273.40

3.4 New Borrowing and Debt Service Payments

New Borrowing

Table 2: New Borrowing and Disbursements 2012-2016 (EC$m)

New Financing (EC$M)	2012	2013	2014	2015	2016
External	**2.43**	**0.28**	**0.06**	**0.39**	**59.74**
Multilateral	2.43	0.28	0.06	0.39	59.74
Domestic	**-**	**-**	**-**	**-**	**216.70**
Bonds/Promissory Note	-	-	-	-	214.00
Private	-	-	-	-	2.70

At the end of 2016, new borrowings and disbursements totalled EC$276.44m. Of the new borrowings and disbursements Central Government accounted for EC$273.74m of which EC$273.40m was contracted in support of the banking resolution. The new instruments being a promissory note issued to ASSB to protect the funds deposited at the two former indigenous banks and a loan from CDB. The Promissory Note (EC$214.00m) has a five year grace period and a maturity period of 25 years (matures in 2041) with an interest rate of 2 per cent. The CDB loan (EC$59.40m) to capitalize the bridge bank (NCBA) has a 3 year grace period and a maturity of 17 years with the applicable interest rate being the CDB OCR rate[4]. During the year, disbursements on existing Central Government debt totalled EC$0.34m which was attributed to the Anguilla Community College (ACC) Project loan with CDB that was contracted in 2014 which had an undisbursed balance of EC$8.19m at the end of 2016. The remainder (EC$2.70m) was on a guaranteed loan contracted by the Anguilla Air and Sea Ports Authority (AASPA) to facilitate repairs to the Road Bay Jetty. This loan is an annuity which has a maturity period of five years and an interest rate of 7.5 per cent.

Debt Service Payments

Anguilla's total public sector debt service increased on average by 18.93 per cent moving from EC17.77m in 2012 to EC$32.95m in 2016 (see table 3).

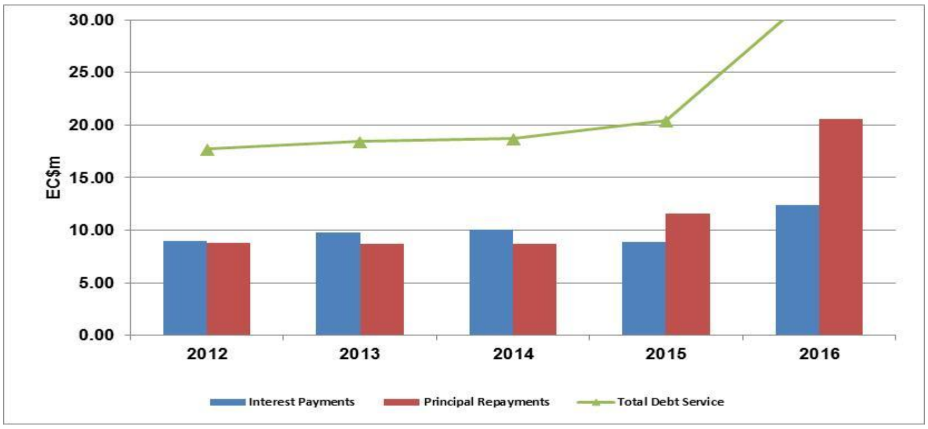
[4] 2.97 per cent at the end of 2016.

Table 3: Total Public Sector Debt Service 2012-2016 (EC$m)

Debt Service Payments (EC$m)	2012	2013	2014	2015	2016
Total Debt Service	**17.77**	**18.43**	**18.74**	**20.41**	**32.95**
Principal Repayments	*8.77*	*8.69*	*8.71*	*11.55*	*20.54*
Interest Payments	*9.00*	*9.74*	*10.03*	*8.86*	*12.40*
External Debt Service	**9.48**	**9.48**	**9.75**	**12.17**	**19.56**
Principal Repayments	*3.00*	*2.91*	*2.93*	*5.77*	*14.59*
Interest Payments	*6.48*	*6.57*	*6.82*	*6.40*	*4.97*
Domestic Debt Service	**8.29**	**8.95**	**8.99**	**8.25**	**13.39**
Principal Repayments	*5.77*	*5.78*	*5.78*	*5.78*	*5.96*
Interest Payments	*2.52*	*3.17*	*3.21*	*2.46*	*7.43*

This increase in debt service was mainly due to commencement of principal repayments on a domestic ASSB loan, external CDB PBL whose grace periods expired in 2012 and 2015 (last quarter) respectively and interest payments on the promissory note issued in April 2016. As shown, total principal repayments moved from EC$8.77m in 2012 to EC$20.54m in 2016. For the same period total interest payments after declining for the period 2012 to 2015 increased from EC$8.86m in 2015 to EC$12.40m in 2016. The trend in debt servicing is illustrated in diagram 9.

Diagram 9: Debt Service 2012-2016 (EC$m)



3.5 Risk/Cost Analysis

Risk refers to the potential for the cost of debt to deviate from its expected outcome due to variations of different economic variables such as interest rate and exchange rate[5]. Exposure of Anguilla's debt portfolio to risk is assessed using the following risk indicators: refinancing risk, interest risk and exchange risk.

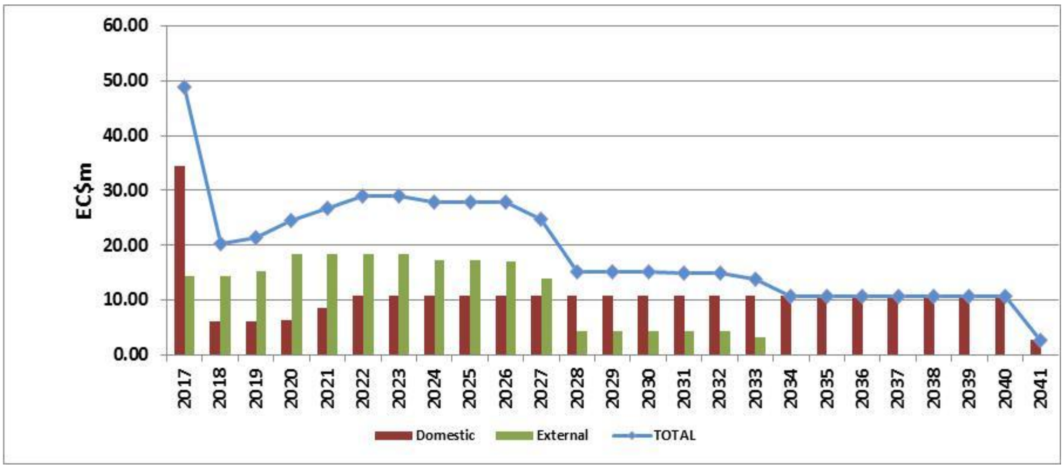
[5] See Appendix B for a more detailed description of the types of risk in debt management.

Refinancing Risk

Refinancing risks (rollover risk) refers to the risk a borrower faces when the actual cost of re-borrowing funds may exceed projected cost of financing existing obligations. Two measures used to assess Anguilla's exposure to refinancing risk are the maturity/redemption profile of debt and the Average Time to Maturity (ATM).

The maturity profile refers to the amount of debt that is falling due in a given period of time. This indicator shows the specific points of a country's vulnerability which is manifested by high debt service payments (principal repayments) in the debt repayment schedule. Diagram 10 depicts the maturity structure of Anguilla's debt given the stock of debt as at the end of 2016.

Diagram 10: Maturity Profile of Public Debt



The proportion of debt with a remaining maturity of 1 year or less (short-term) stood at 10.3 per cent (EC$48.89m) of total debt. External payments account for EC$14.4m due mainly to CDB. Domestic payments amount to EC$34.48m comprising of EC$28.27m for short term facilities (overdraft and ECCB cash advance).

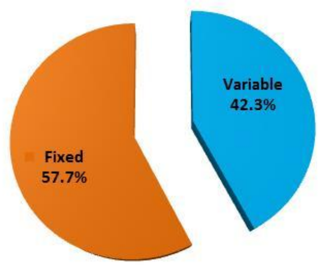
Debt falling due within 2 to 5 years (medium term) accounts for 19.6 per cent (EC$93.20m) of maturing debt. External payments account for EC$66.23m (71.1 per cent) with payments to the CDB totalling EC$66.02m. Domestic payments ranges from EC$5.6m in 2018 to EC$6.17m in 2021 and are due largely to the Anguilla Social Security Board EC$50.0m loan that matures in 2020 and the expiration of the grace period on the on the Promissory Note in 2021.

The proportion of debt with a remaining maturity exceeding 5 years (long term) was 70.1 per cent (EC$382.87m). Principal outlays of EC$205.98m and EC$128.38m are primarily to ASSB (Promissory Note) and to CDB respectively.

The analysis shows that Anguilla's public debt's susceptibility to refinancing risk is moderate. This is substantiated by the refinancing risk indicator, average time to maturity (ATM), which measures the sum of redemptions weighted by the time to maturity. It shows how long it takes on average to rollover the debt portfolio. The ATM of Anguilla's public is 9.43 years.

Interest Rate Cost and Risk[6]

Diagram 11: Interest Rate Composition



At the end of the period under review, 42.3 per cent of disbursed outstanding debt was attributed to instruments with variable interest rates and 57.7 per cent to fixed rate instruments (see diagram 11). All domestic debt had fixed interest rates, with rates ranging between 4.5 to 8.5 per cent. External debt had a mixture of both fixed and variable interest rates. The fixed interest rates related to the loan with the EIB which carried a rate of 0.75 per cent per annum and the Special Funds Resources (SFR) portion of CDB debt. The variable interest rate debt was associated with the Ordinary Capital Resources (OCR)[7] share of CDB loans.

At the end of 2016, the cost of the debt portfolio decreased significantly. The average interest rate stood at 3.09 per cent when compared to 4.11 per cent at the end of 2015. The domestic and external average interest rate stood at 3.11 per cent and 3.07 percent respectively. Both interest rates saw a decrease of 1.83 and 0.75 percentage points respectively when compared to 2015. This reduction in the cost of debt was due primarily to the impact of the promissory note issued in 2016 with a fixed interest rate of 2 per cent and a maturity of 25 years (see Appendix 1).

[6] The risk to the debt portfolio if there is a change in market interest rates

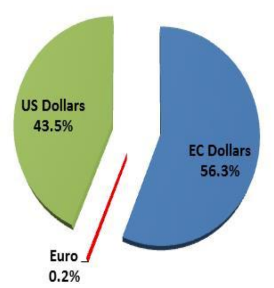
[7] OCR is the less concessional share of CDB loan portfolio. The rate is re-fixed every six months and stood at 2.97 per cent at 31st December 2016.

Interest rate risk refers to risk associated with movements of the interest rate on domestic and international capital markets. Changes in interest rates affect debt service payments as costs increase when interest rates rise and debt has to be refinanced. The average time to refixing (ATR) indicator measures interest rate risk. At the end of 2016 Anguilla's public debt had an average time to interest rate re-fixing (ATR)[8] of 6.85 years, which suggest that a significant proportion of the public debt will be subject to interest rate changes within this time period, thus posing a low to moderate risk portfolio.

Exchange Rate Risk

Diagram 12 shows the currency composition of the public debt profile at the end of 2016. It shows that 43.5 per cent (EC$206.78m) of Anguilla's debt stock was denominated in US dollars. The share of EC dollar denominated debt stood at 56.3 per cent ($267.40m) and Euro currency debt accounted for 0.2 per cent (EC$0.78m).

Diagram 12: Currency Composition of Total Debt



Exchange rate risk refers to risk associated with movements in the exchange rate. Given that Anguilla's domestic debt is denominated in local currency, the exchange rate risk is only applicable to the external portion of public debt.

However, the impact of foreign exchange fluctuation to the external debt portfolio is minimal based on two main factors. Firstly, the 43.5 percentage share of US dollar denominated debt acts as a buffer to the currency risk owing to the fixed exchange rate parity between the EC dollar and US dollar. Secondly, the exchange rate exposure with the Euro is minimal as it constitutes less than 1.0 per cent of the total debt portfolio.

3.6 Debt Sustainability Indicators

Debt ratios are measures of potential debt-related risks in the portfolio, which when combined with other macroeconomic variables in particular expected growth and interest rates can provide some insight as to the major risks facing the economy, conditions under which the debt level can stabilise and the possible need for policy adjustment.

[8]The average time until the interest rate is reset on the outstanding debt.

In 2003, the Monetary Council of the Eastern Caribbean Central Bank agreed on the establishment of fiscal benchmarks to guide the fiscal operations of member countries. The objectives of these benchmarks are to play an important role in strengthening public finances, support fiscal consolidation and ensure debt sustainability in the Eastern Caribbean. Two key fiscal benchmarks are to achieve a debt to GDP ceiling of 60 per cent[9], and to attain a primary balance that would meet the debt to GDP criterion by 2020. In February 2015 the ECCB Monetary Council extended the target date to 2030.

Table 4 shows some core debt sustainability indicators over the period 2012-2016.

Table 4: Debt Sustainability Indicators (in percentages)

Sustainability Indicators	2012	2013	2014	2015	2016
Public Sector Debt to GDP	**30.94**	**30.43**	**26.40**	**24.64**	**51.42**
External Debt to GDP	*22.95*	*22.46*	*19.98*	*18.82*	*22.46*
Domestic Debt to GDP	*7.99*	*7.97*	*6.42*	*5.82*	*28.96*
Public Sector Debt Service to Revenue	**9.87**	**10.56**	**10.12**	**10.69**	**17.46**
External Debt Service Ratio	*5.26*	*5.43*	*5.27*	*6.37*	*10.36*
Domestic Debt Service Ratio	*4.60*	*5.13*	*4.85*	*4.32*	*7.10*
Interest Service Ratio	**5.00**	**5.58**	**5.41**	**4.64**	**6.57**
External Interest Service Ratio	*3.60*	*3.77*	*3.68*	*3.35*	*2.63*
Domestic Interest Service Ratio	*1.40*	*1.81*	*1.73*	*1.29*	*3.94*
External Debt Service to Exports	**61.07**	**70.13**	**68.82**	**41.80**	**100.83**

There was a decline in the public sector debt to GDP indicator in all the years except for 2016 where the public sector debt to GDP increased by 26.78 percentage points over the 2015 ratio, notwithstanding a 7.05 per cent increase in GDP. Domestic debt saw a 23.14 percentage point increase while external debt increased by 3.64 percentage points. The debt service ratio shows a moderate increase over the period 2012 to 2015 but increased significantly in 2016 mainly as a result of the expiry of the moratorium on principal of the CDB PBL and interest payments on the promissory note issued in 2016. At the end of 2016 there was a decrease in exports along with the significant increase in external debt servicing resulting in external debt service to exports increasing by 59.03 percentage points over the 2015 ratio of 41.80 per cent

[9] The debt to GDP ratio (ranging between 60-75 per cent of debt to GDP) was viewed as an international debt sustainability benchmark, adopted by the European Union under the Maastricht Treaty, West African Economic and Monetary Union (WAEMU) and Central African Economic and Monetary Community (CEMAC)

3.7 UKG Borrowing Benchmarks

In addition to the ECCB Monetary Council fiscal benchmarks, the GoA must also comply with the Fiscal Responsibility Act 2013, which incorporates the Framework for Fiscal Sustainability and Development (FFSD) agreement with the United Kingdom Government (UKG). It requires that the Government of Anguilla manage its debt operations within the corridor of three debt ratios, namely: the net debt and debt service ratios should not exceed 80.0 per cent and 10.0 per cent[10] of recurrent revenue respectively, and liquid assets should be sufficient to cover 25 per cent (90 days) of recurrent expenditure. On a breach in any one of the ratios, explicit approval, to borrow is required from the UKG on a case by case basis. Since 2008 the government has been in breach of the benchmarks and in accordance with the FFSD is required to be compliant by the end of 2017. In 2016 with the UKGs approval for the Government of Anguilla to borrow in support of a banking resolution, an implicit arrangement has been made to extend the compliance deadline date to 2025.

Table 5 shows the Government of Anguilla's performance against the UK debt benchmarks over the period 2012-2016.

Table 5: UK Borrowing Guidelines/FFSD Ratios - 2012-2016

Debt Indicators (%)	Targets	2012	2013	2014	2015	2016
Net Debt/Recurrent Revenue	≤80%	106.37	109.23	97.90	92.95	239.10
Variance		26.37	29.23	17.90	12.95	159.10
Debt Service/Recurrent Revenue	≤8%-10%	8.32	9.35	8.98	9.73	16.72
Variance		0.32	-0.65	-1.02	-0.27	6.72
Liquid Assets/Recurrent Expenditure	≥25%	17.01	16.59	17.16	14.41	8.36
Variance		-7.99	-8.41	-7.84	-10.59	-16.64

At the end of 2016 the Government of Anguilla was in breach of the three debt ratios. As depicted in the table above the Government of Anguilla has been in breach of the net debt and liquid asset targets throughout the period being reviewed. On the other hand, the debt

[10] Under the 2003 Borrowing Guidelines (BGs) the debt service target was 8% (up to 2012); the target was increased to 10% under the 2013 FFSD. The FFSD also requires that the risk-weighted debt service cost of government guarantees be included in the calculation of the debt service ratio which was not the case under the BGs.

service ratio was in breach in 2012 and subsequently at the end of 2016 due primarily to the new debt contracted to aid in the banking resolution. At the end of 2016, the liquid assets ratio decreased by 6.05 percentage points when compared to the 2015 level of 14.41 per cent. This decrease was a result of GoA drawing down on reserves to meet its debt obligations because of the prevailing liquidity issues.

SECTION 4.0 CONCLUSION

The five year review of Anguilla's debt shows that there has been a sharp increase in the size of the public sector debt portfolio. This increase was attributable primarily to the new borrowing contracted in 2016 to aid in the banking resolution; resulting in new borrowing and disbursements exceeding scheduled amortization payments. While the debt to GDP ratio remained below the 60.0 per cent ECCU prudential debt benchmark, the GoA continues to be in breach of the UKG borrowing benchmarks.

In 2016 there was a structural change in the composition of Anguilla's public debt owing to fact that the debt contracted to aid in the banking resolution was mostly domestic. This resulted in lengthening the maturity profile and reducing the cost of debt significantly. The assessment shows that Anguilla's public debt presented a moderate to high risk portfolio. Government continues to monitor and manage the risk embedded in the portfolio by strengthening debt management and monitoring the debt levels closely.

While the cost of the portfolio declined and risk have improved the debt service to revenue continues to be of major concern due to cash flow constraints. The continuous breach of the UKG Benchmarks implies that the GoA will have to seek approval for all new borrowing; thus, posing a major challenge in the implementation of the Medium Term Debt Strategy (MTDS). The debt strategy seeks to source the majority of the financing from external and domestic semi-concessional sources to aid in the reduction of the cost and risk of the portfolio. The Debt Unit will continue to monitor the debt performance over time and will update the debt strategy on an annual basis to accommodate a changing economic and fiscal climate.

APPENDICES

Appendix 1: Selected Economic Indicators 2012-2016

Selected Economic Indicators	**2012**	**2013**	**2014**	**2015**	**2016**
Total Revenue and Grants	191.74	190.25	200.03	194.78	193.23
Current Revenue	180.10	174.53	185.21	191.04	188.71
Total Expenditure	181.41	185.95	182.15	190.86	190.01
Current Expenditure	171.89	177.68	178.72	183.52	187.65
Interest Payments	8.35	9.11	9.43	8.38	11.99
Domestic	2.42	3.08	3.13	2.41	7.34
External	5.93	6.03	6.30	5.97	4.64
Capital Revenue	11.64	15.72	14.82	3.74	4.52
Capital Expenditure	9.52	8.27	3.43	7.33	11.37
Primary Balance before grants	18.67	13.41	27.31	12.31	6.20
Overall Balance (before grants)	10.32	4.30	17.88	3.93	(5.78)
Overall Balance (after Financing)	10.32	4.30	20.88	11.43	1.07
Current Balance	8.21	(3.15)	6.49	7.52	1.07
Liquid Assets	29.24	29.47	30.67	26.45	15.69
Financing	-	-	3.00	7.50	6.85
Memo Items					
Nominal GDP at Market Prices (EC$M)	756.30	761.38	840.63	863.32	924.2
Merchandise Exports (EC$M)	15.52	13.52	14.17	29.11	19.40
Merchandise Imports (EC$M)	445.64	416.03	471.24	551.07	521.82
Real GDP (%)	(1.85)	0.47	5.62	2.81	4.50
Average Interest Rate (%)	4.23	4.19	4.35	4.11	3.09
External	3.71	3.81	4.01	3.82	3.07
Domestic	5.76	5.21	5.26	4.94	3.11
As % of GDP					
Total Expenditure	23.99	24.42	21.67	22.11	21.53
Non Interest Primary Expenditure	21.52	22.66	18.42	20.68	20.86
Current Revenue	23.81	22.92	22.03	22.13	20.42
Interest Payments	1.10	1.20	1.12	0.97	1.30
Primary Balance	2.47	1.76	3.25	1.43	0.67
Fiscal Balance	1.36	0.57	2.13	0.46	(0.63)
Real GDP	(1.85)	0.47	5.62	2.81	4.50
Public Debt (% of GDP)	30.94	30.43	26.40	24.64	51.39
Public Debt	234.01	231.65	221.89	212.71	474.96
Domestic Debt	60.46	60.68	53.93	50.23	267.41
External Debt	173.55	170.97	167.96	162.48	207.55

Appendix 2: Disbursements by Selected Creditors(EC$m)

Creditors	2012	2013	2014	2015	2016
Caribbean Development Bank	2.43	0.28	0.06	0.39	59.74
Anguilla Social Security Board	-	-	-		214.00
Anguilla Roads& Construction Inc. & WWR					2.70
Total	**2.43**	**0.28**	**0.06**	**0.39**	**276.44**

Appendix 3: Principal Repayments by Selected Creditors (EC$m)

Creditors	2012	2013	2014	2015	2016
Caribbean Commercial Bank (Anguilla) Ltd	0.04	0.04	0.04	0.05	0.05
Caribbean Development Bank	2.94	2.94	2.87	5.71	14.59
Anguilla Social Security Board	5.74	5.74	5.74	5.74	5.74
European Investment Bank	0.06	0.06	0.06	0.05	0.05
Anguilla Roads& Construction Inc. & WWR					0.17
Total	**8.77**	**8.77**	**8.71**	**11.55**	**20.60**

Appendix 4: Legal and Institutional Framework

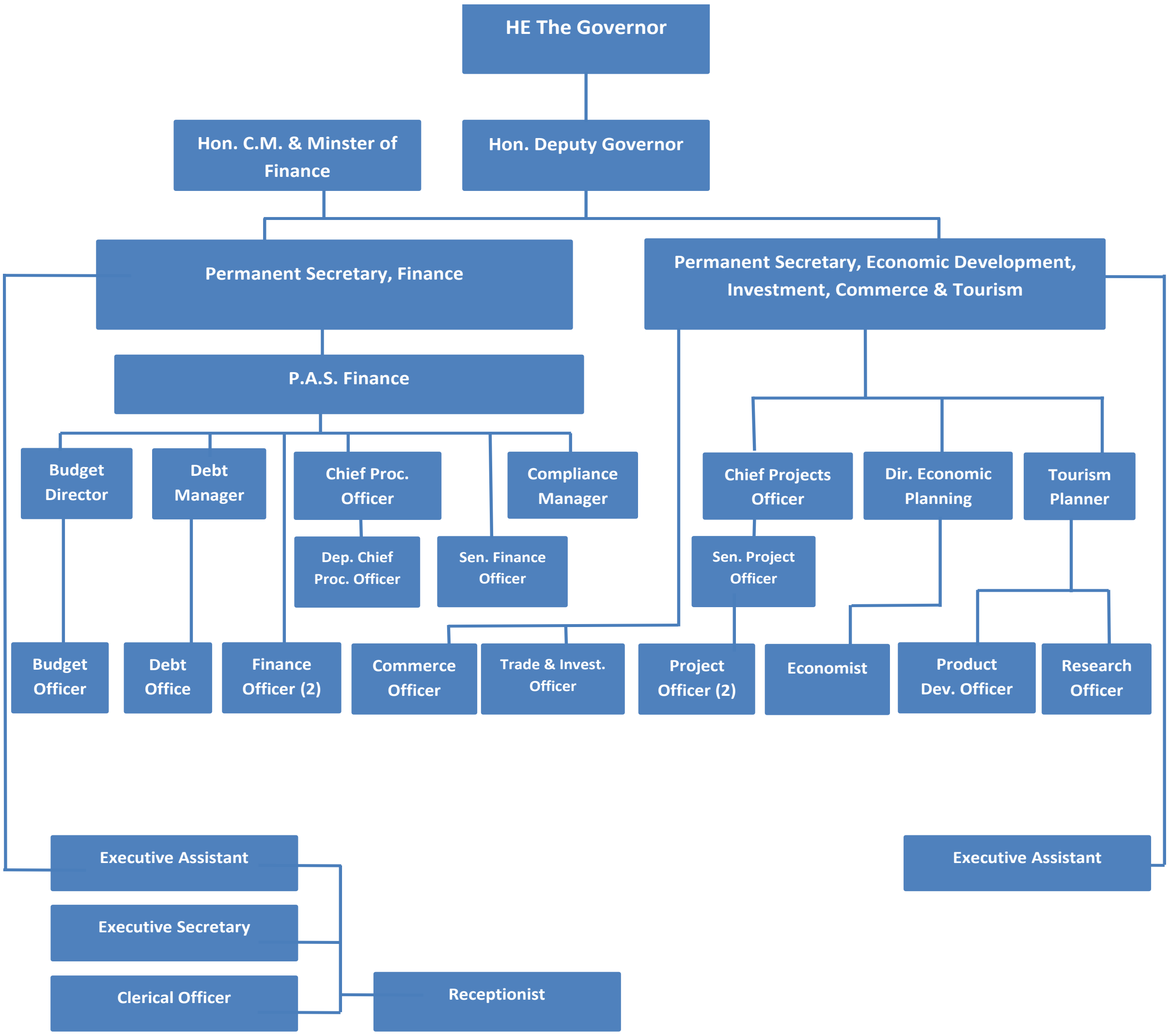
Institutional Framework

Debt management functions are shared across various departments and an inter-ministerial committee, the National Debt Advisory Committee (NDAC). The main debt management activities reside in the Ministry of Finance, Economic Development, Investment, Commerce and Tourism (MFEDICT). Key personnel include the Permanent Secretaries for Finance and Economic Development, staff of Economic Development and of the Debt Management Unit (DMU)[11]. The organizational structure of the MFEDICT is shown in Diagram 3 below.

[11] DMU staff complement at the end of 2014 stood at two.

[12] The Committee comprises PS Finance, PS Economic Development, PAS, Debt Officer, Accountant General, and Budget Officer among others. The Committee has not met regularly and some of its functions are sometimes subsumed under the Fiscal and Economic Recovery Team.

Diagram 3: Organisation Chart: Ministry of Finance, Economic Development, Investment, Commerce & Tourism



The Permanent Secretary of Finance is largely responsible for front office functions. These functions are shared with the Permanent Secretary Economic Development who is responsible for mobilizing funds for capital projects. Middle office functions are undertaken by the Debt Manager. Back office functions are performed by the Debt Officer. There is a National Debt Advisory Committee (NDAC)[12] with functions which are inter alia, to discuss debt and financing options for government through analysis of current debt stock against U.K benchmarks.

Legal Framework

[12] The Committee comprises PS Finance, PS Economic Development, PAS, Debt Officer, Accountant General, and Budget Officer among others. The Committee has not met regularly and some of its functions are sometimes subsumed under the Fiscal and Economic Recovery Team.
[13] The FFSD replaces the 2003 Borrowing Guidelines.

The legal framework which guides borrowing in Anguilla includes the Fiscal Responsibility Act 2013, the Financial Administration and Audit Act (FAA), the Treasury Bill Act, and the Development Bonds Act.

The Fiscal Responsibility Act, 2013 embodies government's commitment to responsible fiscal management, improved fiscal transparency and incorporates the Framework for Fiscal Sustainability and Development (FFSD)[13] agreement signed on 5 April 2013 between the GoA and UKG. It establishes transparent and sound procedures in the management of public debt to ensure that the level of debt is sustainable and consistent with macroeconomic and fiscal sustainability and financial stability in the short, medium and long term to minimize the cost and risk of the public debt portfolio.

The FAA explicitly gives the Minister of Finance the authority to borrow. It provides that borrowing can only be undertaken through a resolution of the House of Assembly.

The Treasury Bill Act 2009 governs the issuance of treasury bills. It authorises the Minister of Finance to borrow money by issuing treasury bills and it also stipulates that the principal sum of treasury bills outstanding at any one time shall not exceed 10.0 per cent of the estimated revenue of the Government of Anguilla (GoA) during the financial year.

The Development Bond Act 2009 gives authority to the Minister of Finance to borrow using development bonds. The Act specifies the purposes for which the Minister may use the funds borrowed, namely for:

(a) The repayment of money granted to the Government by statutory corporations;
(b) The financing of projects approved in the estimates prepared in accordance with the appropriation act;
(c) The repayment of public debt;
(d) The meeting of expenses incurred in raising and administering loans.

[13] The FFSD replaces the 2003 Borrowing Guidelines.

Ministry of Finance
Government of Anguilla
P O Box 60
The Valley
Anguilla

Tel: (264) 497-2547   Fax: (264) 497-3761
Website: www.gov.ai