ANGUILLA

JUNE 2022

ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank

JUNE 2022

Economic and Financial Review

HALF-YEAR REVIEW

ANGUILLA

EASTERN CARIBBEAN CENTRAL BANK

ADDRESS

Headquarters: P O Box 89
Basseterre
St Kitts and Nevis
West Indies

Telephone: (869) 465-2537
Facsimile: (869) 465-5615
Email: rsdad@eccb-centralbank.org
Website: www.eccb-centralbank.org

Anguilla

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

Research, Statistics and Data Analytics Department

Contents

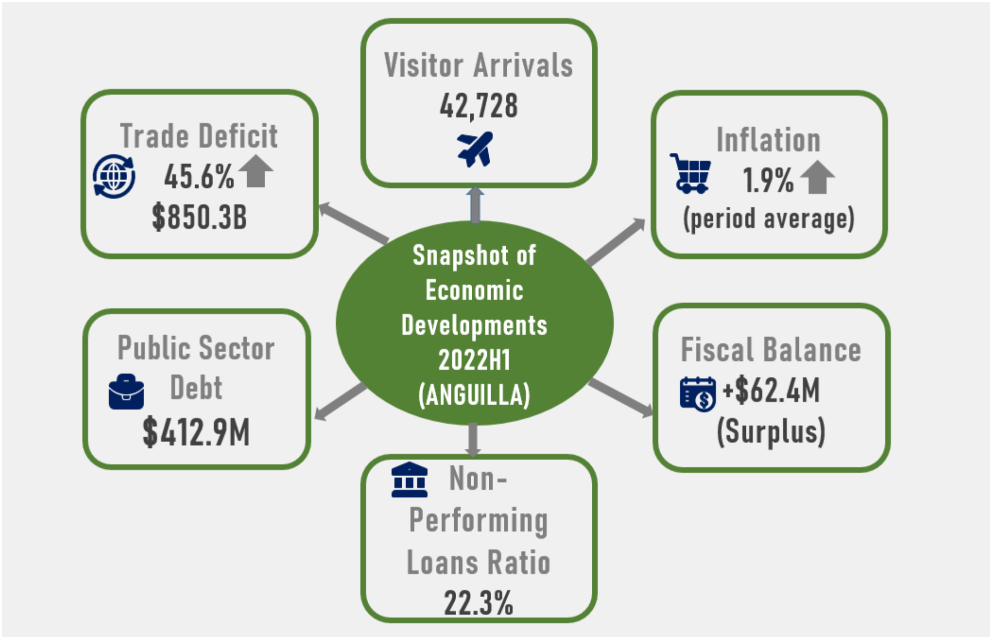

Figure 1: Snapshot of Economic and Financial Developments for 2022H1

1 Overview

- Economic activity rebounded in the first half of 2022,[1] relative to performance in the corresponding period of last year on account of a resurgence in tourism.
- Developments in the tourism industry positively impacted ancillary sectors; construction, wholesale and retail trade, transportation, storage and communication and real estate renting and business activities.
- The fiscal accounts recorded an improvement, inflationary pressures were marginally higher and increases were recorded for banking system loan quality, lending and government deposits.
- The economy is projected to expand at a more rapid pace in 2022, subject to significant downside risks associated with slowing global growth particularly in the major tourism markets, inflationary pressures, rising geo-political tensions and the perennial risk of storm damage due to climate change.

---

2 The Economy (Real Sector)

Economic activity rebounded largely due to a reversal in the fortunes of the hotels and restaurants sector which directly contributed about 28.5 per cent of GDP, pre pandemic (2019). The expansion in tourism activity also positively impacted related sectors; construction, wholesale and distribution and real estate and renting and business activities. During the first half of 2022, total visitors rebounded fourfold to 42,728 of which 38,210 were stay-over arrivals. The sharp increase reflected rebounds in the performance of all of the

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

major source markets, attributable to the gradual resumption of global travel coupled with the easing of entry protocols at the air and sea ports during the first half of 202 (Figure 2). The number of stay-over visitors for January to June 2022 exceeded the previous half year average for the last five (5) years (2017 to 2021), however, the recovery in excursionists over the same period was less potent.

Among the major markets for stay-over arrivals, the USA retained the largest share of the tourism market accounting for 79.2 per cent, followed by Canada, the UK and the Caribbean respectively which collectively accounted for another 12.9 per cent of stay-over visitors.

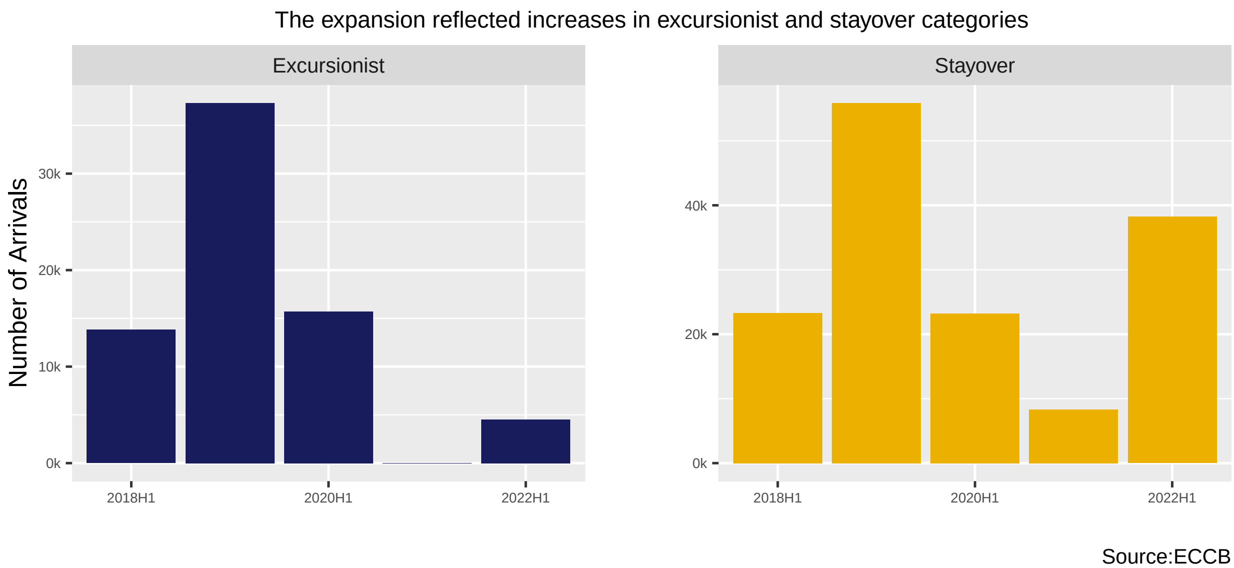

Figure 2: Visitor Arrivals to Anguilla by Category

Construction activity is estimated to have picked-up as development work continued at the Aurora Anguilla Resort, the construction of a modernized spa facility at Belmond Cap Juluca and on-going residential construction stimulated by financing initiatives launched by banking institutions.

Overall, the economy is estimated to have expanded in the first six months of 2022, driven by greater tourism activity and positive developments in construction, wholesale and retail trade, transport, storage and communications and real estate, renting and business activities.

2.1 Consumer Prices

Supply chain and geo-political developments continued to impact domestic prices particularly the cost of energy and food during the period under review. The Consumer Price index (period average) rose by 1.9 per cent in the first half of 2022 (see Figure 3), a slight uptick from the 1.8 per cent increase in the corresponding period of 2021.

Consistent with recent developments, the major factors accounting for the higher level of inflation were increased prices for food and non-alcoholic beverages (4.8 per cent), and housing utilities gas and fuels (3.3 per cent). One mitigating factor was the decline in the price paid for transport which fell by 1.9 per cent due to on average, lower airline ticket prices to the USA, Dominican Republic and the USVI.

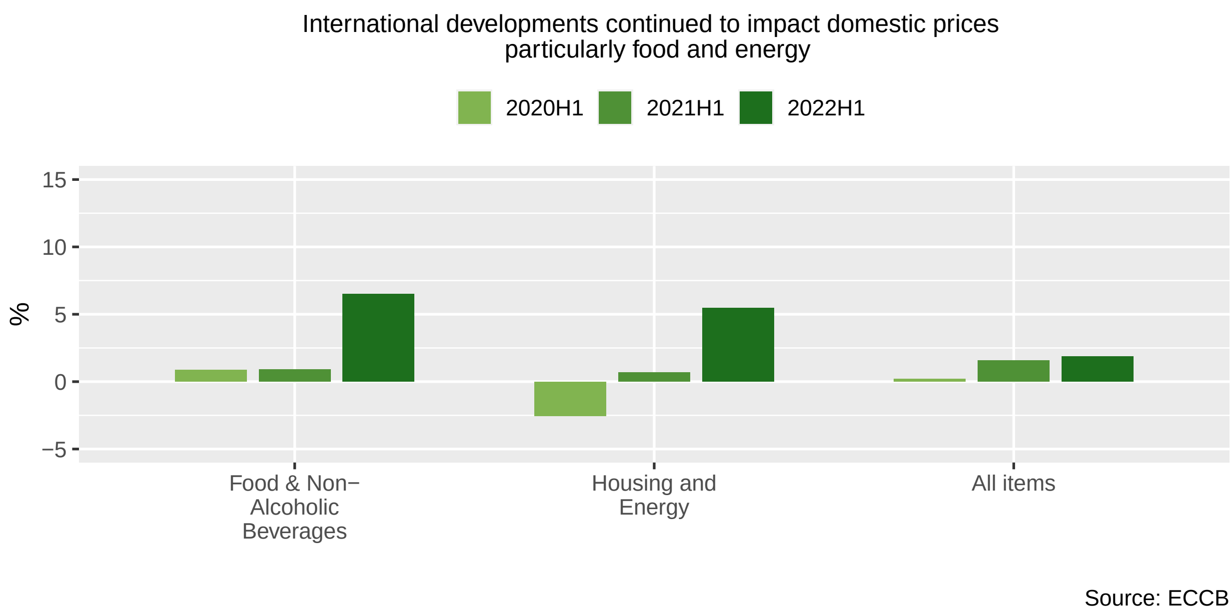

Figure 3: Trends in Period-Average Inflation

3 Government Operations

The fiscal balance of the central government strengthened further in the first six months of 2022 buoyed by higher tax revenue. An overall surplus of $62.4m was recorded, compared with one of $36.0m realised for the comparable period of 2021 (see Figure 4).

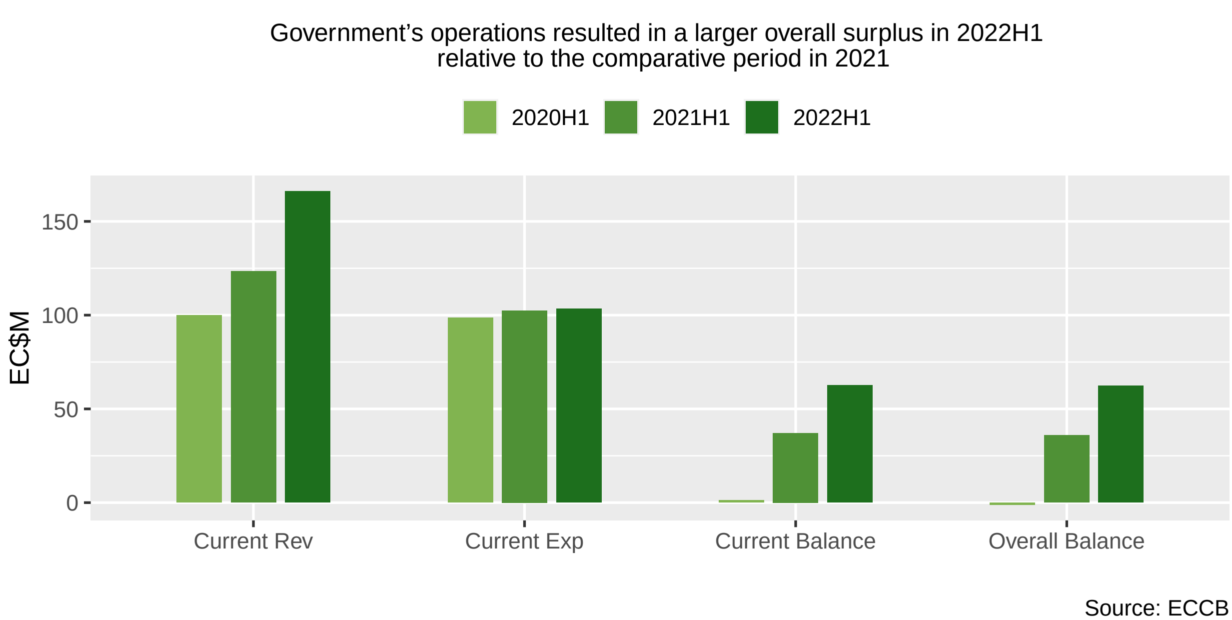

Figure 4: Trends in the Government's Fiscal Operations

Current revenue receipts rose by 34.6 per cent to $166.1m, which was $42.7m higher than the level reported one (1) year ago and 48.0 per cent above the recent five (5) year average for January to June.

Tax revenue, which accounted for 82.8 per cent of current revenue, increased by 41.3 per cent ($40.2m) fuelled mainly by a rebound in receipts of hotel accommodation tax in line with the uptick in the tourism industry. Higher collections of import duty also contributed to greater tax receipts (Figure 5A).

Current revenue receipts were also supplemented by increases in non-tax revenue by $2.5m to $28.5m. Current expenditure (Figure 4) rose marginally by 1.0 per cent to $103.4m, driven mainly by higher outlays on goods and services and personal emoluments (Figure 5B). The outturn was 7.1 per cent higher than the last five (5) year average for January to June.

There were no current grants received during the period under review in contrast to receipts of $16.3m in the previous comparable period of 2021. Notwithstanding the decline in current grant inflows, the current account surplus widened to $62.7m up from $37.2m at the end of June 2021, well above average of the last five (5) years of $2.2m for January to June 2017 to 2021. Capital expenditure was negligible at $0.3m owing to spending constraints (Figure 5B).

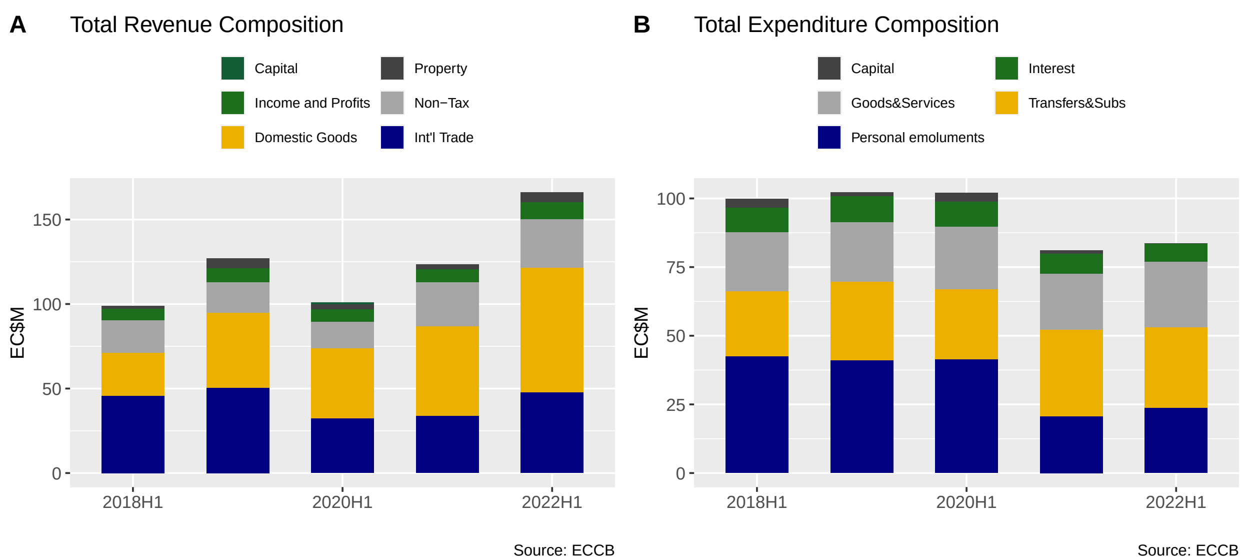

Figure 5: Half-Year Trends in the Composition of Revenue and Expenditure

3.1 Debt

At the end of June 2022, the total public sector debt amounted to $412.9m, 5.1 per cent below the stock at the end of the comparable period in 2021 (see Figure 6). The overall reduction in the debt was attributable to the regular amortization of the existing debt obligations for both the central government and public corporations which reduced outstanding amounts by 4.8 per cent and 35.9 per cent respectively.

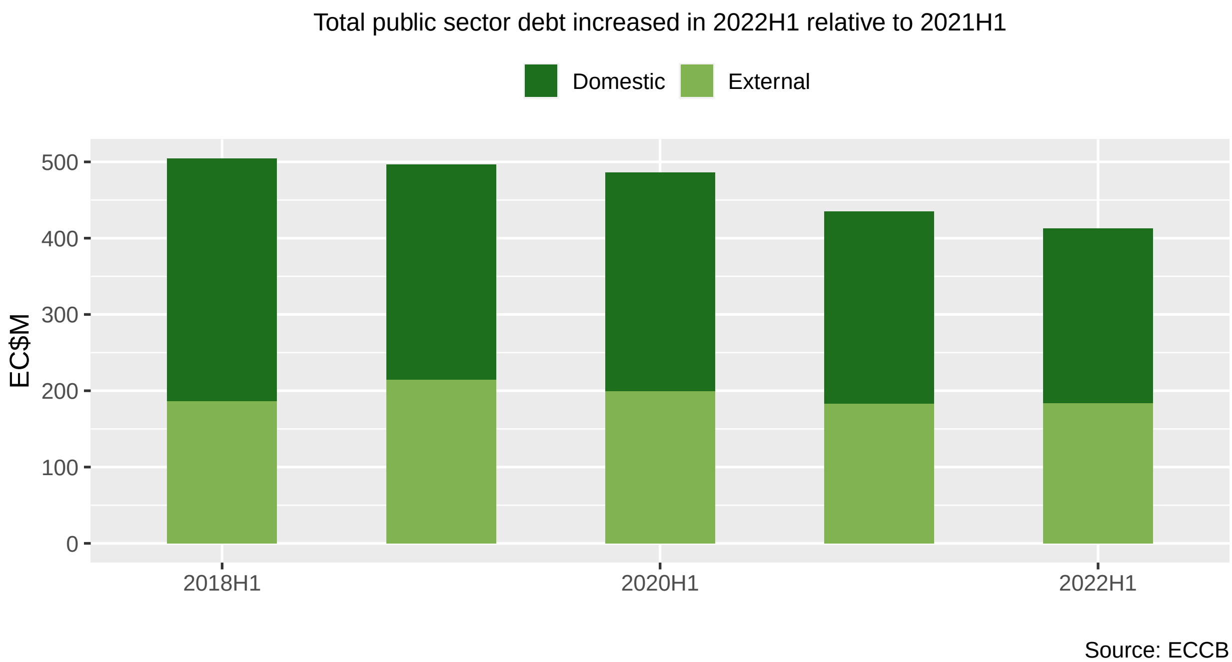

Figure 6: Trends in Outstanding Public Sector Debt

4 Banking Developments (Monetary)

At the end of June 2022, the net domestic assets of the banking sector expanded to $486.5m nearly double the $265.0 accumulated at the end of June 2021 for the most part influenced by an increase in central government deposits (liabilities).

Overall claims on the private sector rose by 3.3 per cent, on account of a 5.6 per cent increase in credit to households, moderated by a 0.1 per cent reduction in lending to businesses (see figure 7). Banking sector credit to the government or claims fell by $7.2m while deposits rose by $38.9m, consequently the net deposit position of the government rose to $121.9m, as depicted in Figure 7.

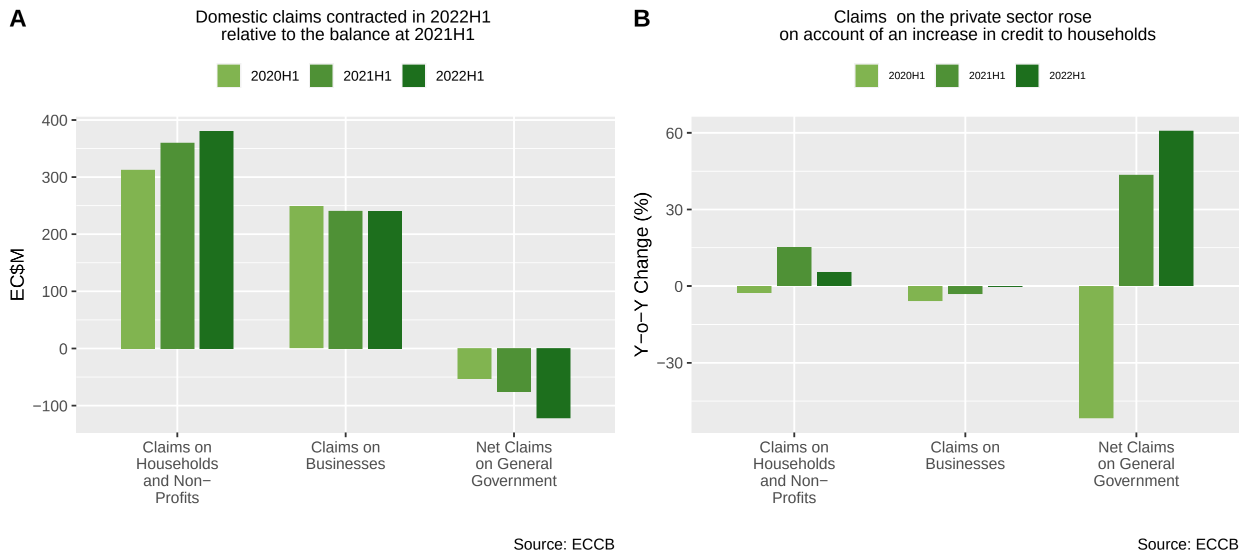

Figure 7: Claims to Selected Sectors

Transferable deposits[2] nearly trebled by $57.2m consistent with an improvement in labour market conditions as depositors return to work and increase their earnings. Foreign currency deposits also rose by $263.4m, while other deposits declined by $3.4m (see Figure 7).

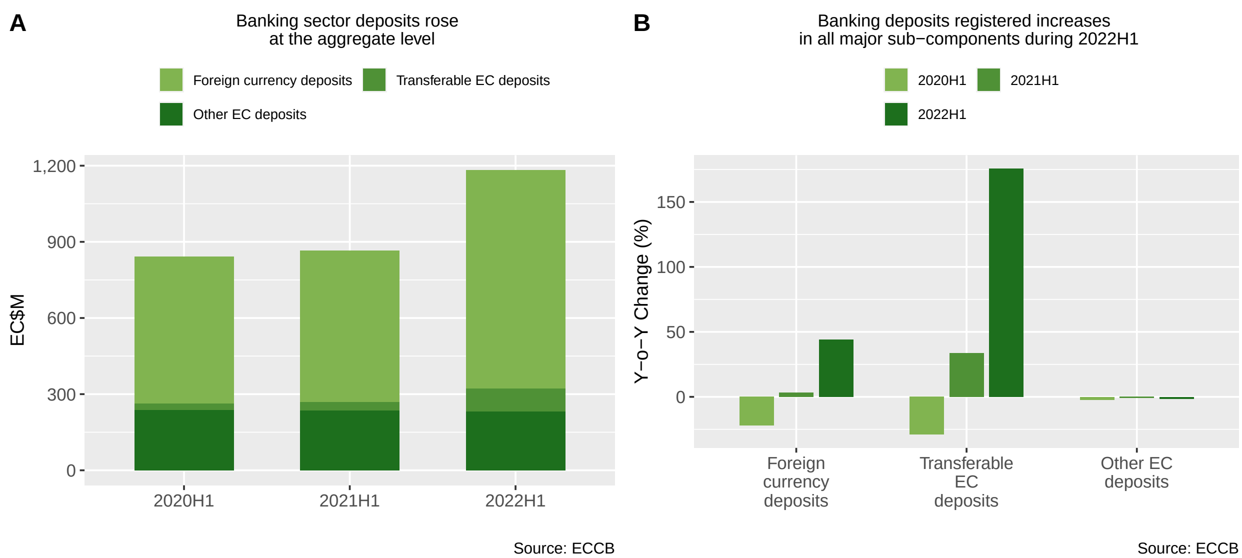

Figure 8: Domestic Deposit Trends

Banking system asset quality improved as indicated by a reduction in the ratio of non-performing loans (NPLs) to gross loans by 1.9 percentage points to 22.3 per cent (Figure 9). The ratio of NPLs remains significantly above the ECCB's prudential benchmark of 5.0 per cent, however, it is noteworthy that the majority of the loans in this category were as a result of a previous bank resolution process.

[2] Tranferable deposits include chequing accounts and other demand deposits

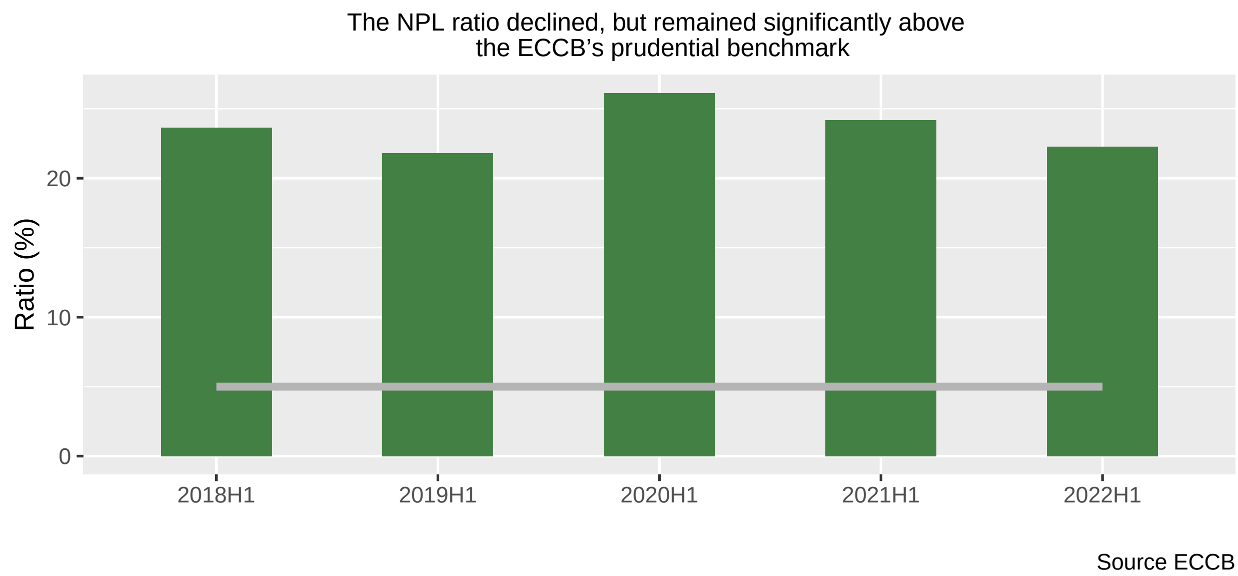

Figure 9: Half-Year Trends in Non-Performing Loans Ratio

5 External Trade

Complementing more robust real sector activity, the merchandise trade deficit widened to $315.3m from $216.5m in the first six (6) months of 2021 (see Figure 10). This imbalance exceeded the average merchandise trade deficit of $266.7m over the last five (5) year period ended 2021, by 18.2 per cent. An upswing in imports by 47.6 per cent ($107.9m) in support of the resurgent tourism industry, was the major contributing factor, while total exports nearly doubled to $19.5m.

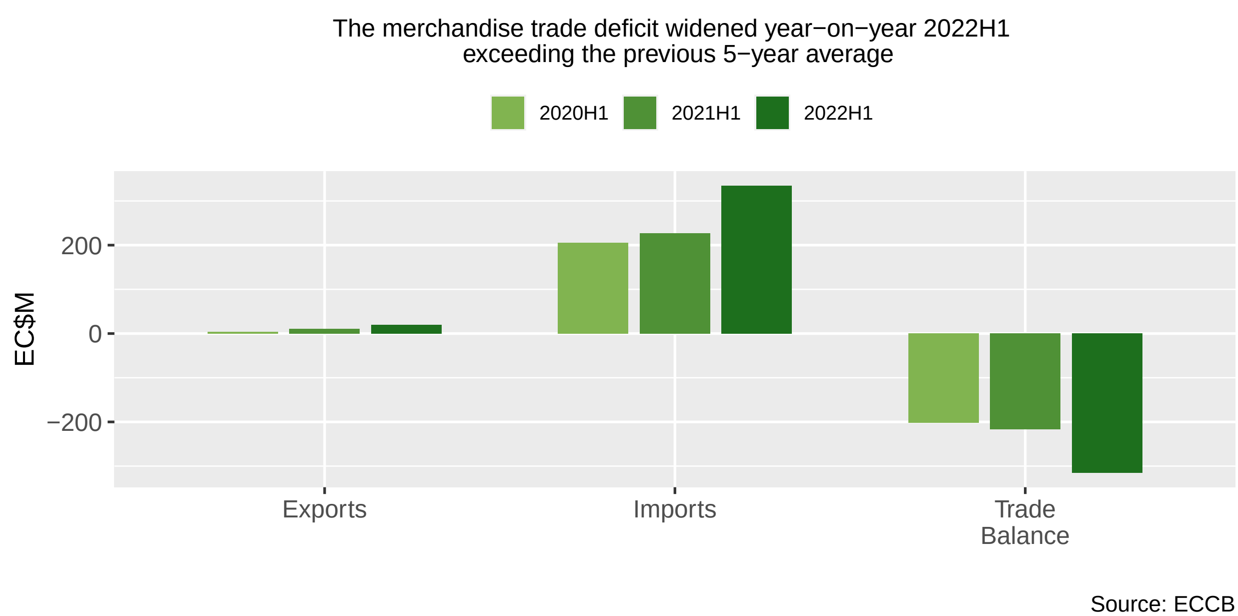

Figure 10: Selected Components of External Trade

6 Outlook

The medium term for Anguilla changed dramatically since the country was mired in the effects of the COVID-19 pandemic in 2020 and 2021. Subsequent to these events the country gradually relaxed travel entry protocols in 2022 and raised vaccination rates which helped stimulate the return of stay-overs visitors. However, the conflict between Ukraine and Russia which began early in 2022 has altered global and domestic prospects and threatens to stall the nascent recovery.

- Barring further escalation of the conflict in Ukraine, tourism is forecasted to expand further partly due to the success of direct air service from Miami, USA to Anguilla and an anticipated faster recovery in same day visitors (excursionists) to Anguilla.
- Construction continues in the private sector on hospitality and residential projects, consequently economic growth is forecasted to accelerate in the latter part of 2022.
- The fiscal accounts are projected to strengthen further in the near–term as the authorities constrain expenditure and realise higher yields from recent tax reforms.
- On the downside, inflationary pressures may likely intensify as supply chain constraints are exacerbated by ongoing geo-political tensions headlined by the Ukraine-Russia conflict which could escalate.
- Pressures on global oil prices may likely be maintained based on recent moves by Saudi Arabia and Russia to cut petroleum output based on the prospects of lower demand. These strategic moves may not significantly increase energy prices, however they may mitigate any anticipated decline associated with dimming global growth prospects.
- The combination of these events could result in continued upward pressures on prices and the inflation rate could exceed 2.0 per cent by the end of 2022.
- Seasonal storm damage remains a major threat to growth outcomes in Anguilla.

7 Selected Economic Indicators

Indicator	2018H1	2019H1	2020H1	2021H1	2022H1
Current Revenue (EC$M)	98.8	126.9	99.9	123.4	166.1
Current Expenditure (EC$M)	96.6	100.8	98.7	102.4	103.4
Current Balance (EC$M)	2.2	26.1	1.3	37.2	62.7
Primary Balance (EC$M)	11.6	34.2	7.9	43.1	68.8
Overall Balance (EC$M)	2.8	24.7	-1.1	36.0	62.4
Total Public Sector Debt (EC$M)	504.5	496.3	486.2	435.0	412.9
Inflation (Period Average %)	0.9	0.5	0.2	1.6	1.9
Total Visitor Arrivals ('000)	37.1	93.2	38.9	8.3	42.7
Total Visitor Expenditure (EC$M)	130.0	245.0	107.1	47.0	280.4
Net Foreign Assets (EC$M)	534.3	629.2	644.8	628.9	724.4
Domestic Credit (EC$M)	535.8	485.2	510.7	526.9	502.7
M2 (EC$M)	1075.9	1048.9	870.5	893.9	1211.0
Currency in Circulation (EC$M)	30.6	33.0	33.4	33.7	33.0
Liquid assets to total assets	46.9	51.2	50.5	48.8	49.5
Liquid assets to short-term liabilities	51.9	61.6	58.1	54.1	54.4
Customer deposits to total (noninterbank) loans	179.2	197.9	158.6	156.0	216.3
Weighted Average Deposit Rate (%)	2.2	2.4	2.5	2.4	2.0
Weighted Average Lending Rate (%)	9.8	9.7	9.2	8.6	7.5
Interest Rate Spread (%)	7.7	7.3	6.7	6.1	5.5
Non-Performing Loans to Total Loans (%)	23.6	21.8	26.1	24.2	22.3

EASTERN CARIBBEAN CENTRAL BANK
P. O Box 89
Basseterre
ST KITTS, W.I

Tel: 1 (869) 465 2537
Fax: 1 (869) 465 5615
www.eccb-centralbank.org