

MONTSERRAT

DECEMBER 2022



ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank



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ANNUAL REVIEW

MONTSERRAT

EASTERN CARIBBEAN CENTRAL BANK





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Montserrat

Annual Economic and Financial Review - 2022

Eastern Caribbean Central Bank

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Overview

- The Montserrat economy contracted in 2022, as construction activity softened in tandem with a decline in public sector investments.
- Preliminary estimates indicate that the economy shrank by 1.2 per cent, in contrast to growth of 5.5 per cent in 2021.
- The economy is expected to rebound in 2023, barring any major shocks such as an escalation in the Russia-Ukraine war, a spike in global inflation, contraction in major source markets, and the emergence of new variants of the COVID-19 virus.
- Public sector debt to GDP is estimated to have declined relative to the previous year. As at 2022, the debt to GDP ratio stood at 4.7 per cent.

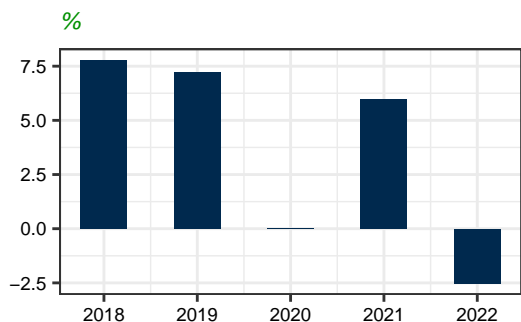


The Economy (Real Sector)

Montserrat's economy is estimated to have contracted by 1.2 per cent in 2022, in contrast to growth of 5.5 per cent in the previous year (Figure 1). This outcome is explained primarily by reduced activity in the construction sector (75.0 cent) and its impact on associated industries (Figure 2). The softening in overall activity was partially mitigated by expansions in the tourism sector (104.0 per cent); transport, storage and communications (6.5 per cent); and wholesale and retail trade (5.0 per cent).



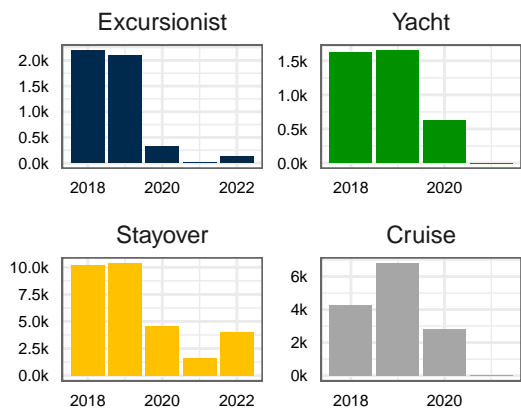
Figure 1: Real GDP Growth Rates (%)



Source: ECCB

The decline in the construction sector was reflected in a reduction in the value of construction starts, which fell to \$8.3m from \$23.9m one year earlier. In addition, government’s capital expenditure contracted to \$13.0m from \$19.3m, as major public sector investments suffered from slow implementation rates. As it relates to tourism, the sector showed strong growth as total visitor arrivals increased three-fold to 5,000 passengers, compared with 1,597 in the previous year (Figure 2). Stayover arrivals dominated the landscape, increasing to 4,028 from 1,591. Improvements were also seen in the other categories of visitors, including cruise ship and yacht passengers. Despite the growth in stayover visitors, the lack of ferry services to Montserrat has slowed the recovery in its largest source market, the Caribbean. Accordingly, the number of Caribbean stay-over visitors as at December 2022 was 74.9 per cent lower than that of 2019.

Figure 2: Visitor Arrivals by Category

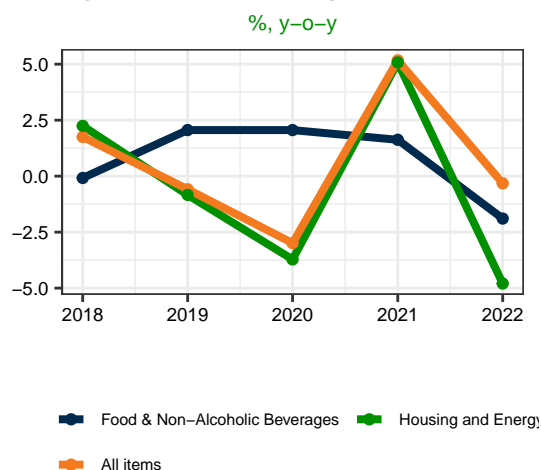


Source: ECCB

Consumer Prices

Price pressures, as reflected in the end of period consumer price index, softened marginally in 2022, falling by 0.3 per cent in contrast to an increase of 5.2 per cent in 2021 (Figure 3). Lower prices for alcoholic beverages (8.2 per cent); housing, water, electricity, gas and other fuels (4.8 per cent); education (3.9 per cent); and food and non-alcoholic beverages (1.9 per cent) were the main contributors to the decline in prices. Moderating the overall fall in prices were costs related to transport (6.9 per cent) and clothing and footwear (6.3 per cent).

Figure 3: Selected Categories of Inflation

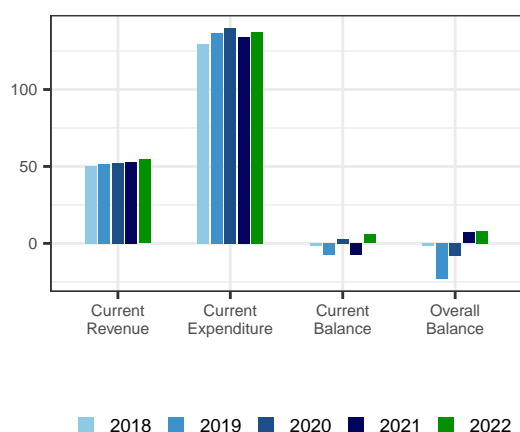


Source: ECCB

Government Operations

The government of Montserrat recorded an overall fiscal surplus after grants of \$8.3m (4.4 per cent of GDP) in 2022, up from a \$7.2m surplus (3.8 per cent of GDP) generated one year earlier (Figure 4). Driving the fiscal result was a 20.0 per cent increase in current grants funded by the United Kingdom’s Foreign, Commonwealth and Development Office (FCDO) to \$88.7m (47.4 per cent of GDP) compared with \$73.9m (38.8 per cent of GDP) in 2021. In addition, current revenue rose by 3.3 per cent to \$54.5m (29.1 per cent of GDP), relative to \$52.8m (27.7 per cent of GDP) one year prior. This compares with growth in current expenditure of 2.7 per cent to \$137.5m (73.4 per cent of GDP), relative to the \$133.9m (70.3 per cent of GDP) spent in 2021.

Figure 4: Central Government Fiscal Balance:
EC\$M



Source: ECCB

The growth in current revenue was driven mainly by tax inflows, which rose by 4.9 per cent (\$2.2m), with taxes on domestic goods and services being the largest contributor to the increase. By contrast, non-tax receipts fell by 7.0 per cent (\$0.5m) over the period.

In respect of current expenditure, increased spending on goods and services (\$2.3m) and transfers and subsidies (\$2.4m), drove the expansion. However, a \$1.1m decline in personal emoluments moderated the increase (Figure 6B). The aforementioned developments resulted in a current account surplus (after grants) of \$5.7m (3.0 per cent of GDP) compared with a deficit of \$7.2m (-3.8 per cent of GDP) in the prior year.

On the capital side, government spending declined by 32.8 per cent to \$13.0m (6.9 per cent of GDP), compared with \$19.3m (10.1 per cent of GDP) in 2021 as the implementation rate of key capital projects was subdued. In particular, progress on the Little Bay Port Development Project was slow and focused primarily on geotechnical studies and drilling, to inform the design process. The project is valued at EC\$90.2m and is expected to be completed over an 18-month period, once construction begins.

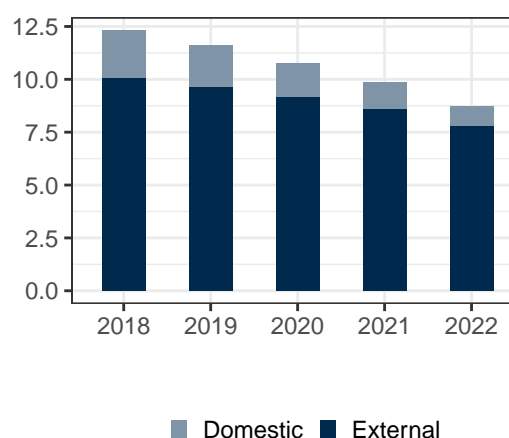
Debt

Montserrat’s public sector debt has been on a downward trajectory and has declined by 8.2 per cent on average in the last five years. Nominal public debt as at end December 2022 was EC\$8.7m (4.7 per cent of GDP), com-

prising primarily of external debt of EC\$7.8 million (4.2 per cent of GDP) and domestic debt of EC\$0.97 million (0.5 per cent of GDP), respectively, as illustrated in Figure 5. This represents a decline of 11.3 per cent in the nominal stock when compared to 2021, primarily on account of reductions in both the external and domestic components of the stock.

In fiscal year 2022, the government continued to honor its existing obligations to its lone multilateral creditor, the Caribbean Development Bank, as well as its domestic debt obligations.

Figure 5: Outstanding Public Sector Debt
EC\$M

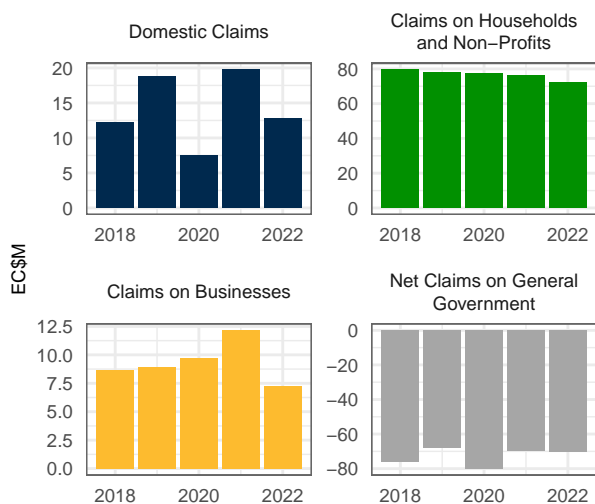


Source: ECCB

Banking Developments (Monetary)

Consistent with the general slowdown in economic activity, domestic claims (credit) in Montserrat contracted by 35.3 per cent to \$12.8m, after reaching a mark of \$19.7m in 2021 (Figure 6). More specifically, credit to the private sector fell by 10.2 per cent (\$9.0m), reversing the 1.5 per cent growth recorded one year earlier. Within the private sector, claims to businesses contracted by 40.5 per cent, while claims to households fell by 5.3 per cent. Meanwhile, the net deposit position of the central government improved marginally by 0.6 per cent to \$70.1m.

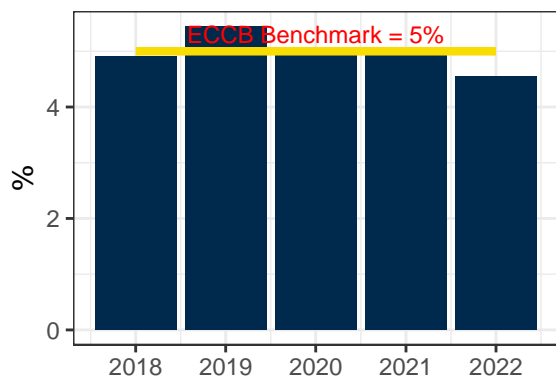
Figure 6: Claims (Credit) to Selected Sectors
in EC\$M



Source: ECCB

By contrast, deposits in the banking system grew on aggregate. Broad money liabilities increased by 2.4 per cent, reversing the 2.2 per cent decline in the prior year. This development reflected increases in foreign currency deposits (15.5 per cent) and other deposits in national currency (1.1 per cent), which was moderated by a decline in transferable deposits in national currency (4.0 per cent). The asset quality of commercial banks in Montserrat improved over the year. Accordingly, the ratio of non-performing loans to gross loans fell by 52 basis points to 4.6 per cent, compared with 5.1 per cent in 2021 (Figure 10). Additionally, banks' liquidity positions improved as the ratio of liquid assets to short-term liabilities rose by 2.4 percentage points to 86.5 per cent.

Figure 7: Non-Performing Loans Ratio
% of Total Loans

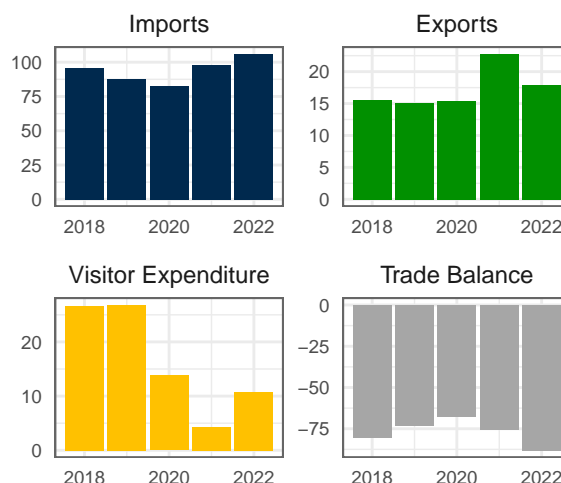


Source: ECCB

External Trade

Consistent with the ongoing economic recovery, Montserrat's merchandise trade deficit is estimated to have widened by 17.2 per cent to \$88.1m, following an expansion of 11.6 per cent in the previous year (Figure 11). Import payments rose to its highest level in over 5 years, surpassing the 2021 mark by 8.3 per cent to \$106.0m, reflecting greater domestic demand and higher global commodity prices. By contrast, export receipts declined by 21.2 per cent to \$17.9m compared with \$22.8m one year earlier. In respect of services, total visitor expenditure more than doubled to \$10.8m as the economy fully reopened and flights resumed.

Figure 8: Selected Categories of External Sector
EC\$M



Source: ECCB

Outlook

Economic activity in Montserrat is projected to be fairly robust in 2023 as the tourism sector continues to recover and some critical public sector projects get underway, such as the Little Bay Port Development. The latter, the biggest public sector project on the island, is envisaged to transform the transportation sector on the island, facilitating trade and reinvigorating the excursion and yachting segments of the tourism industry, with knock-on effects on other key sectors.

- However, risks to global economic activity are tilted to the downside, on account of the Russia/Ukraine



Montserrat

conflict, high inflation, and a tightening of monetary policy among major central banks.

- In addition, Montserrat faces the perennial threat of hurricanes and other natural disasters as well as

potential deterioration of the British Pound, which could adversely impact the value of the UK government's aid package to the country.



Selected Economic Indicators

Indicators	2018	2019	2020	2021	2022
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	5.4	4.4	1.8	5.5	-1.7
Real GDP at Market prices	7.6	6.4	-1.1	5.5	-1.2
Deflator	-2.1	-1.5	2.0	-0.2	0.3
Consumer Prices (end of period)	1.8	-0.6	-3.0	5.2	-0.3
Consumer Prices (period average)	1.3	-1.1	-1.9	2.6	3.1
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, Livestock and Forestry	-13.2	-16.8	-21.9	-4.0	-29.3
Construction	23.0	39.0	-20.3	64.1	-75.0
Wholesale & Retail Trade	26.4	3.7	-19.6	6.1	5.0
Hotels & Restaurants	18.4	-15.2	-52.2	-41.2	104.1
Transport, Storage and Communications	7.7	17.5	-4.8	2.1	6.5
Financial Intermediation	10.8	-18.7	97.6	6.2	1.0
Real Estate, Renting and Business Activities	3.6	-0.5	-1.1	-0.6	1.7
Public Administration, Defence & Compulsory Social Security	2.1	15.5	-4.8	2.8	1.0
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	7.3	6.5	6.0	5.2	4.7
Public Sector External Debt	5.9	5.4	5.1	4.5	4.1
Central Government (in XCD millions)					
Current Account Balance	-1.6	-7.6	2.8	-7.2	5.7
Current Revenue	50.2	51.6	52.1	52.8	54.5
Current Expenditure	129.8	136.9	140.2	133.9	137.5
Capital Expenditure and Net Lending	0.0	15.9	27.1	19.3	13.0
Overall Fiscal Balance	-1.6	-23.2	-8.2	7.1	8.3
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.1	1.1	1.1	1.2	1.2
Weighted Lending Interest Rates	6.7	6.6	6.1	6.1	6.0
Non-Performing Loans Ratio (%)	4.9	5.4	5.0	5.1	4.5
Memo (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	169.8	177.2	180.5	190.5	187.3
Real GDP at Market Prices	176.4	187.7	185.6	195.7	193.4
GDP per capita (EC\$)	32,062.2	34,961.8	34,841.5	39,284.1	37,199.9
Merchandise Imports (f.o.b)	95.9	87.9	82.8	97.9	106.0
Merchandise Exports (f.o.b)	15.5	15.1	15.4	22.8	17.9
Gross Visitor Expenditure	26.6	26.8	13.8	4.3	10.8
Net Foreign Assets	309.6	307.3	338.0	317.6	326.0
Domestic Credit	12.2	18.8	7.4	19.7	12.8
Money Supply (M2)	264.5	266.5	252.4	246.8	252.8
Currency in Circulation	25.4	28.6	31.2	29.6	33.9

Note:

Data as at February 2023

¹ Sources: Central Statistics Office and Eastern Caribbean Central Bank