ANGUILLA

JUNE 2023

ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank

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Anguilla

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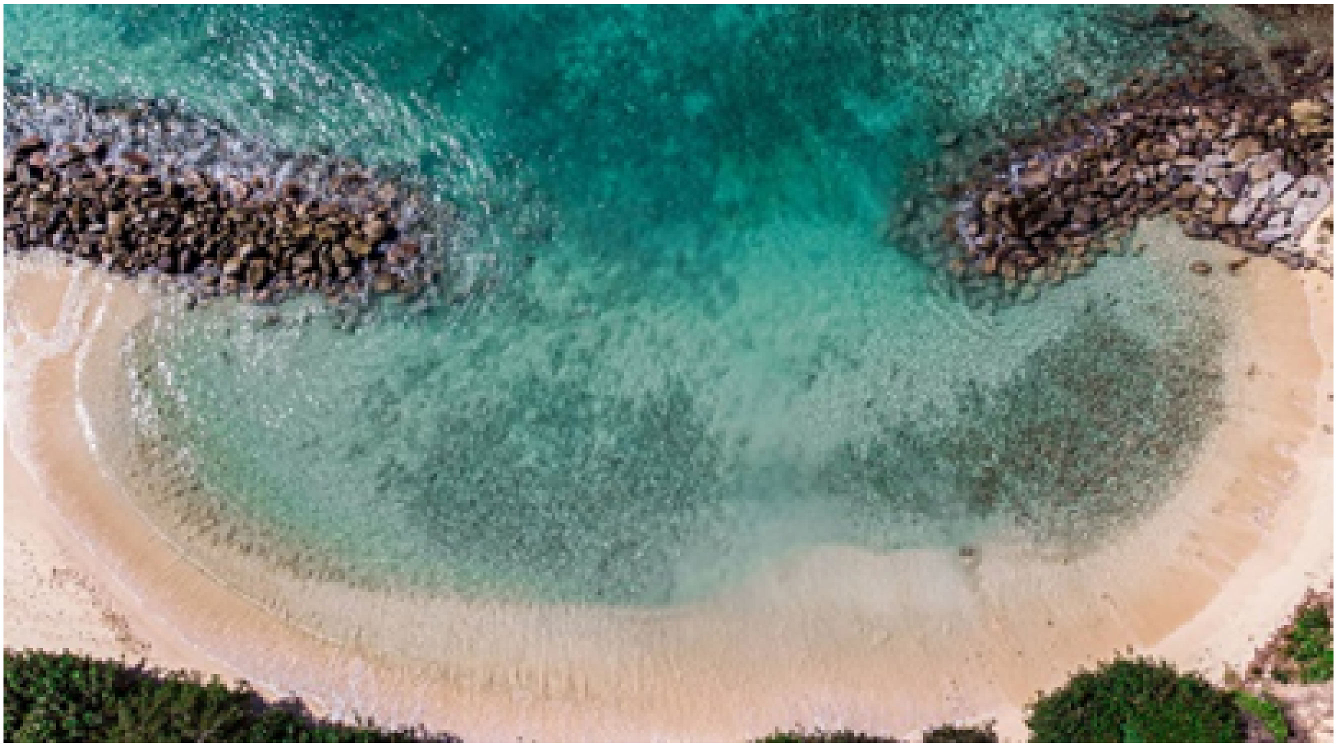
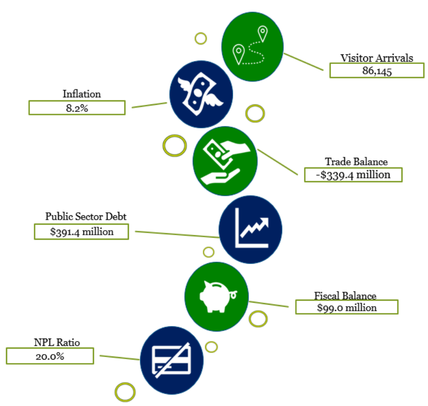


Overview

- The economy of Anguilla expanded over the first half of 2023, driven by an upsurge in tourism and construction activity.
- The fiscal performance of the government improved over the January to June 2023 period, reflected in a larger overall surplus. Public sector debt continued on a downward trend.
- Inflationary pressures increased on account of higher food and energy prices.
- For the full year 2023, the economy of Anguilla is projected to continue to expand, despite the slowdown in global growth, high inflation, geo-political instability, and natural disaster risks.

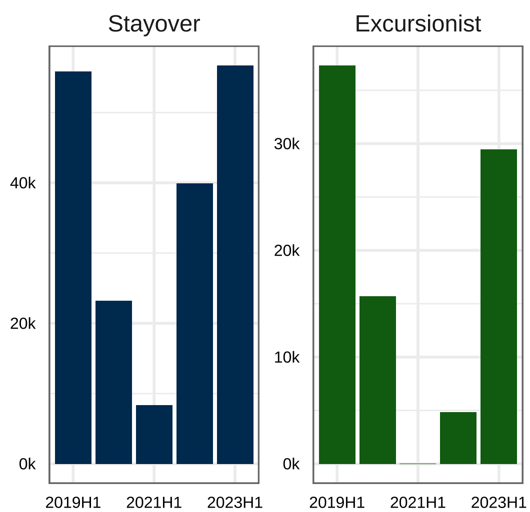


The Economy (Real Sector)

Economic activity in Anguilla expanded in the first half of the year, driven by growth in the tourism and construction industries. Stronger activity in these sectors is expected to have positively impacted ancillary sectors such as wholesale and retail trade; transport, storage and distribution; and renting and business activity.

Tourism activity in the first half of 2023 was marked by a 92.4 per cent increase in total visitor arrivals to 86,145, compared with 44,783 in the same period of the prior year. Anguilla continued to experience a sharp increase in its stay-over arrivals during the first half of 2023, expanding by 41.9 per cent to 56,702 (Figure 1). The USA retained the largest share of stayovers (71.5 per cent) in the review period. Of note, all the key source markets have recovered or surpassed their pre-pandemic levels.

Figure 1: Visitor Arrivals by Category



Source: ECCB

Likewise, the number of excursionists rose sharply to 29,443, more than six fold compared to the levels one year prior. This outturn however has not surpassed the pre-pandemic average (2017-2019) of 36,393 excursionists. Visitor expenditure peaked in the first half of 2023 at $360.7m, the highest recorded over the last five (5) years.

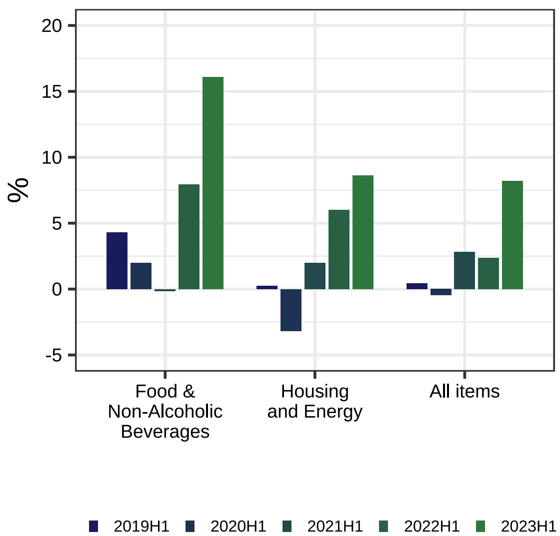
Construction activity is estimated to have expanded as a result of ongoing redevelopments, enhancements and construction projects. These projects include the ongoing work at the Clayton J Lloyd International Airport, the Albena Lake Hodge Comprehensive School and the construction of private resorts.

Consumer Prices

Domestic consumer prices continued to be impacted by external inflationary pressures. The consumer price index rose by 8.2 per cent as at June 2023 compared to a 2.4 per cent increase in the comparable 2022 period. This increase occurred despite the removal of duty and tax on a selection of essential food imports (June 2022 – June 2023) and on gasoline imports (April 2022 - June 2023).

The increase in consumer prices (Figure 2) was mainly influenced by higher costs associated with the sub-indices of Food and Non-Alcoholic Beverages (16.0 per cent), Housing & Energy (8.6 per cent) and Transport (3.4 per cent). Moderating the increase was 1.6 per cent decline in the cost of communication.

Figure 2: Selected Categories of Inflation



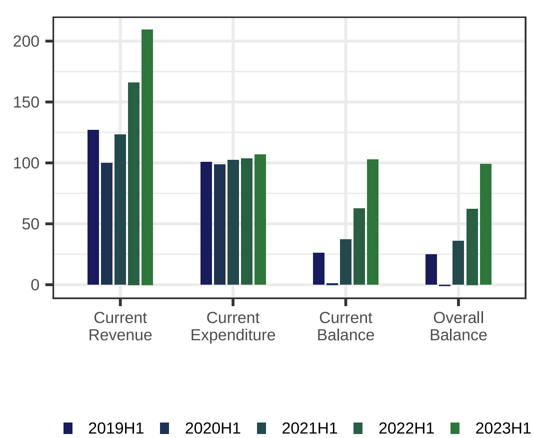
Source: ECCB

Government Operations

In line with an expanding economy, the operations of the central government resulted in an overall surplus of $99.0m in the first half of 2023, representing a 58.7 per cent improvement over the previous year's surplus (Figure 3). This development was driven by faster growth in current revenue relative to current expenditure.

Figure 3: Central Government Fiscal Balance

EC$M

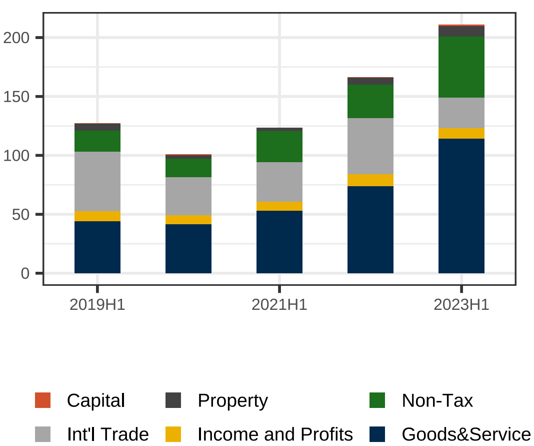


Source: ECCB

Accordingly, current revenue earnings increased 26.2 per cent ($43.5m) to $209.6m, up from $166.1m in the comparable period of 2022. This growth was attributable to expansions in both tax and non-tax revenue. Accordingly, tax revenue rose by 14.5 per cent and accounted 75.2 per cent of revenue collections, with taxes on goods and services being the primary contributor, specifically value added tax (VAT)/goods and services tax (GST) and hotel accommodation tax. The increase in tax revenue was curbed by lower receipts on international trade and transactions, which fell by 46.2 per cent, owing to the removal of the Interim Goods Tax (Figure 4).

Figure 4: Total Revenue Composition

EC$M



Source: ECCB

Non-tax revenue almost doubled to $52.0m from $28.5m in the previous year, accounting for 24.8 per cent of current revenue. This was partially explained by increasing use of the .ai domain name among top technology companies in the world, which has generated approximately $30m in revenue for the government.

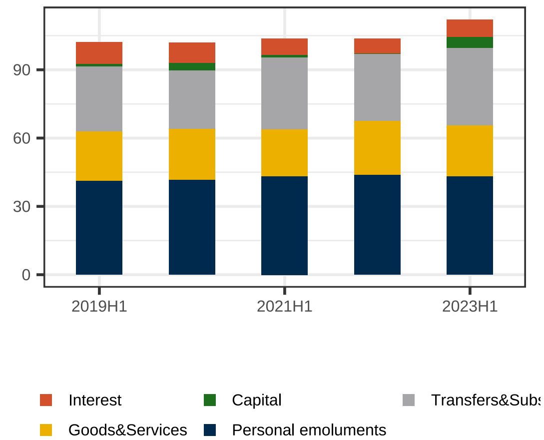
Current expenditure rose by 3.4 per cent to $107.0m (Figure 3). This increase was driven primarily by a (16.2 per cent) rise in the Transfers and Subsidies to $34.0m. The increase in current expenditure was moderated by lower outflows for goods and services (6.3 per cent) and personal emoluments (1.6 per cent), which constituted the largest contributor to current expenditure. As a result of the aforementioned, the government of Anguilla generated a current account surplus of $102.6m compared with $62.7m in the first half of 2022 (Figure 3).

On the capital side, government spending increased by

$4.71m to $5.0m in 2023, up from $0.3m one year earlier. This was driven primarily by several capital projects, including the redevelopment of the airport as well as road works.

Figure 5: Total Expenditure Composition

EC$M



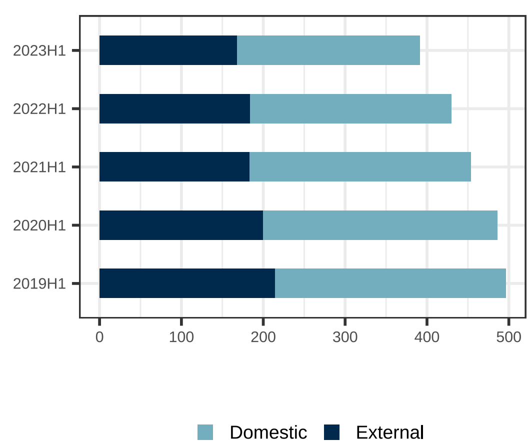
Source: ECCB

Debt

Public sector debt for Anguilla has been on a downward trajectory over the last five (5) years (Figure 6). As such, the aggregate debt stock as at June 2023 fell by 8.9 per cent ($38.2m) to $391.4m relative to $429.7m one year prior. The debt decline was dominated by domestic debt, which contracted by 9.1 per cent ($22.4m), with external debt falling by 8.7 per cent ($15.9m). Both central government and public corporation debt reduced over the review period, given regular debt amortization and the absence of new borrowing.

Figure 6:Outstanding Public Sector Debt

EC$M



Source: ECCB

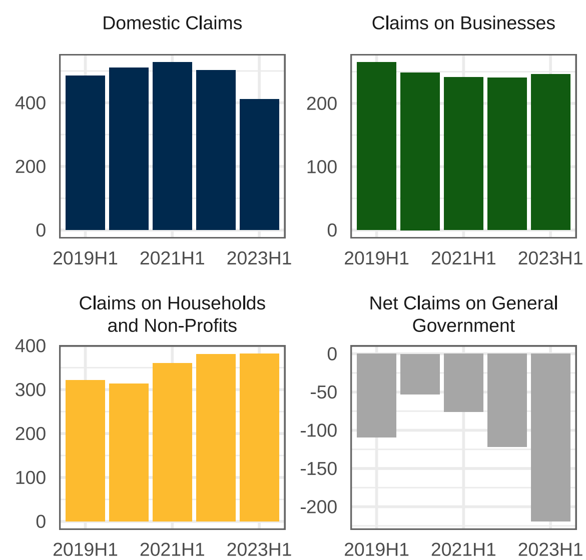
Banking Developments (Monetary)

Domestic claims (credit) contracted in the first half of 2023 by 18.2 per cent ($91.5m) to $411.2m, following a decline of 4.6 per cent in the comparable period of 2022 (Figure 7). This development was influenced by an increase in the net deposit position of the central government, which rose by 79.7 per cent ($97.2m), consistent with the government's thrust to attain compliance with the Framework for Fiscal Sustainability and Development (FSSD).

By contrast, claims on the private sector claims increased marginally by 0.9 per cent ($5.6m), dominated by business credit (2.1 per cent). Claims on households rose slightly by 0.2 per cent over the review period.

Figure 7: Claims (Credit) to Selected Sectors

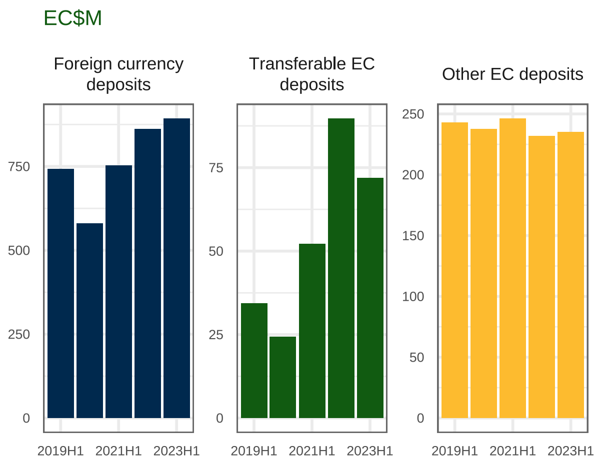
EC$M



Source: ECCB

Broad money liabilities in the domestic economy increased by 2.2 per cent ($27.1m) over the first half of the year, down from the 12.2 per cent expansion in the prior year (Figure 8). This was driven by an increase in currency in circulation (34.8 per cent), as well as increases to both foreign currency deposits (3.7 per cent) and other deposits in national currency (1.4 per cent). Transferable deposits in national currency fell by 19.9 per cent over the review period (Figure 8).

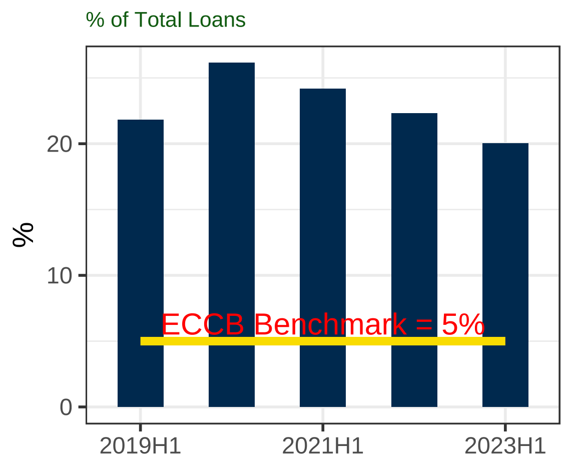
Figure 8: Selected Categories of Deposits



Source: ECCB

The asset quality of the Commercial banks improved in the first half of 2023 as the non-performing loans (NPL) ratio contracted by 2.3 percentage points to 20.0 per cent compared with 22.3 per cent over the same period in 2022 (Figure 9). Although this ratio is on a downward trend, it remains significantly above the ECCB benchmark of 5 per cent. Similarly, liquidity also improved as the ratio of liquid assets to short-term liabilities increased by 9.7 percentage points to 64.1 per cent relative to 54.4 per cent one year prior.

Figure 9: Non-Performing Loans Ratio

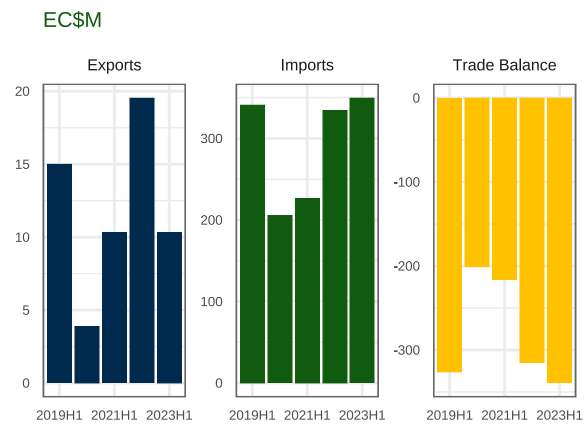


Source ECCB

External Trade

The merchandise trade deficit widened by 7.6 per cent ($24.1m) to $339.4m over the first six months of 2023, following the 45.6 per cent ($98.7m) expansion in 2022 (Figure 10). This development was influenced by a 4.5 per cent increase in imports to $349.7m compared with growth of 47.6 per cent in the previous year, reflective of both rising prices and increased import volume. The leading contributors to growth in imports were food and live animals (5.5 per cent), mineral fuels and related materials (5.1 per cent), and manufactured goods (4.7 per cent).

Figure 10: Selected Categories of External Sector



Source: ECCB

Conversely, total exports contracted by 47.0 per cent ($9.2m) to $10.4m, down from $19.5m in the previous year. The resulting trade deficit exceeded the five (5) year (2018-2022) average merchandise trade deficit of $284.5m.

Outlook

Anguilla's economy continued to make significant steps in recovering from the impacts of the pandemic as well as the ongoing effects of the war in Ukraine. Forecasts show further improvement within the economic sectors in the second half of 2023, premised on the following:

- Tourism activity is projected to continue to experience robust growth, driven by the anticipated increase in airlift (introduction of flights by Trade Wind Aviation, La Compagnie and Anguilla Air) for the upcoming winter period, as well as the opening of the newly renovated Blowing Point Terminal.
- Construction activity will continue to increase with the upsurge in construction projects specifically at

the Clayton J International Airport, the Blowing Point Sports Facility and roadway enhancements.

- The increasing use of the .ai domain name among top global technology companies is expected to generate greater revenue for the government, thereby providing a fillip for growth.

On the downside, Anguilla faces several risks which include a softening in global growth, which, based on the July update of the World Economic Outlook, was forecast at 3.0 per cent, down from 3.5 per cent in 2022. Any further deterioration in global activity may negatively affect tourism demand and foreign direct investment. In addition, persistently high rates of inflation and continued monetary tightening among major central banks could potentially reduce global growth. Further, the higher incidence of crime over the review period has raised concerns for the Government in relation to its impact on safety and tourism. Finally, Anguilla faces the inherent threat of natural disasters, the impact of which could be devastating to the domestic economy.

Selected Economic Indicators

Indicators	2019H1	2020H1	2021H1	2022H1	2023H1
Current Revenue (EC$M)	126.9	99.9	123.4	166.1	209.6
Current Expenditure (EC$M)	100.8	98.7	102.4	103.4	107.0
Current Balance (EC$M)	26.1	1.3	37.2	62.7	102.6
Primary Balance (EC$M)	34.2	7.9	43.1	68.8	106.4
Overall Balance (EC$M)	24.7	−1.1	36.0	62.4	99.0
Total Public Sector Debt (EC$M)	496.3	486.2	454.0	429.7	391.4
Inflation Rate (Y-o-Y)(end of period %)	0.4	−0.5	2.8	2.4	8.2
Total Visitor Arrivals	93,203.0	38,922.0	8,333.0	44,783.0	86,145.0
Total Visitor Expenditure (EC$M)	245.0	107.1	47.1	189.0	360.7
Net Foreign Assets (EC$M)	629.2	644.8	628.9	724.4	938.3
Domestic Credit (EC$M)	485.2	510.7	526.9	502.7	411.2
M2 (EC$M)	1,048.9	870.5	1,079.1	1,211.0	1,238.1
Currency in Circulation (EC$M)	33.0	33.4	33.7	33.0	44.5
Liquid assets to total assets	51.2	50.5	48.8	49.5	57.0
Liquid assets to short-term liabilities	61.6	58.1	54.1	54.4	64.1
Customer deposits to total (noninterbank)loans	197.9	158.6	184.0	216.3	232.3
Weighted Average Deposit Rate (%)	2.4	2.5	2.4	2.0	2.2
Weighted Average Lending Rate (%)	9.7	9.2	8.6	7.5	7.8
Interest Rate Spread (%)	7.3	6.7	6.1	5.5	5.5
Non-Performing Loans to Total Loans (%)	21.8	26.1	24.2	22.3	20.0

Data as at August 2023

Sources: ECCB & Central Statistics Offices