

# MONTSERRAT

JUNE 2023



## ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank



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## MONTSERRAT

EASTERN CARIBBEAN CENTRAL BANK





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Montserrat  
Economic and Financial Review - June 2023

Eastern Caribbean Central Bank

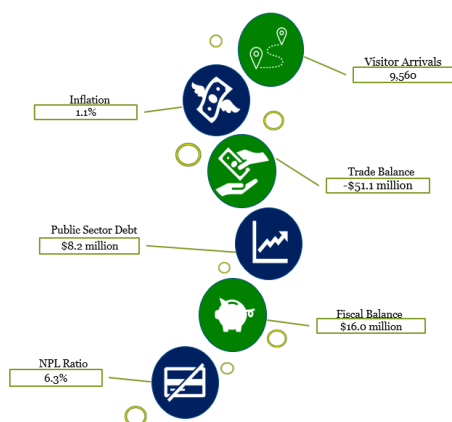
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## Overview

- The Montserrat economy strengthened over the first half of 2023, as the tourism sector continued to rebound and public sector construction activity gathered pace.
- The economy is expected to sustain growth in 2023, barring any major shocks such as an escalation in the Russia-Ukraine war, a spike in global inflation and contraction in major source markets.
- The fiscal performance of the government improved, resulting in larger overall and primary surpluses.
- Public sector debt declined over the first six months, with both central government and public corporation debt contracting.



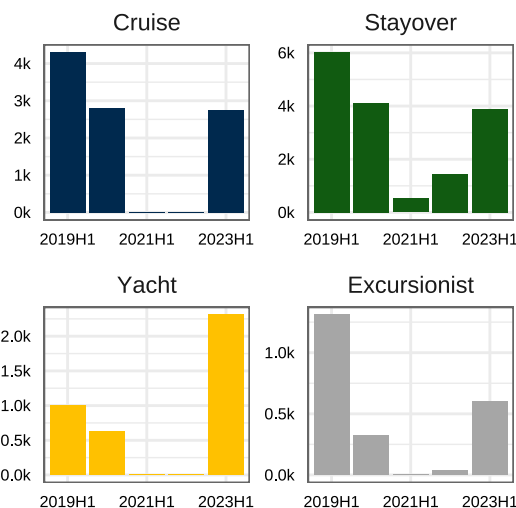
## The Economy (Real Sector)

Montserrat’s economy is estimated to have expanded during the first half of 2023, driven by growth in the tourism and construction sectors, which had positive knock-on effects on related sectors such as wholesale and retail trade, and transport, storage and communications. In addition, increased public sector capital expenditure in the first half of the year further propelled the ongoing economic expansion.

On the tourism front, total visitor arrivals increased over six-fold to 9,560 passengers compared with 1,492 in same period of the prior year, as the country fully reopened and international travel continued to rebound. The three

main categories of visitors rose appreciably, led by cruise passengers which recorded 2,760 passengers, after not seeing any passenger traffic in the comparable period of 2022. Similarly, stayover and yacht passenger arrivals saw large increases of 2,438 and 2,301, respectively (Figure 1).

**Figure 1: Visitor Arrivals by Category**



Source: ECCB

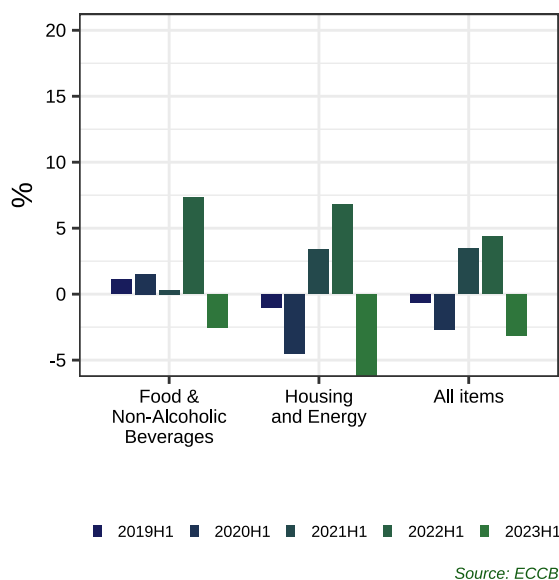
Montserrat’s construction sector also performed well in the first half of the year, with the number of new construction starts increasing by six units to 15 and the value rising to \$13.5m relative to \$3.3m one year earlier. Construction activity was dominated by the public sector, which saw a more than doubling in capital expenditure to \$8.9m, up from 3.8m in 2022.

## Consumer Prices

Based on the most recent available data, consumer prices in Montserrat declined in the first half of 2023 at a rate of 3.1 per cent (end of period basis), in contrast to an increase of 4.4 per cent one year earlier. Driving the consumer price index lower were decreases in the cost of housing, water, electricity, gas and other fuels (14.6 per cent); food and non-alcoholic beverages (2.5 per cent); and other miscellaneous goods and services (2.8 per cent). Moderating the overall price decrease were increases in the cost of transport (12.3 per cent);

furnishing, household equipment and routine household maintenance (9.2 per cent); and recreation and culture (7.7 per cent) (Figure 2).

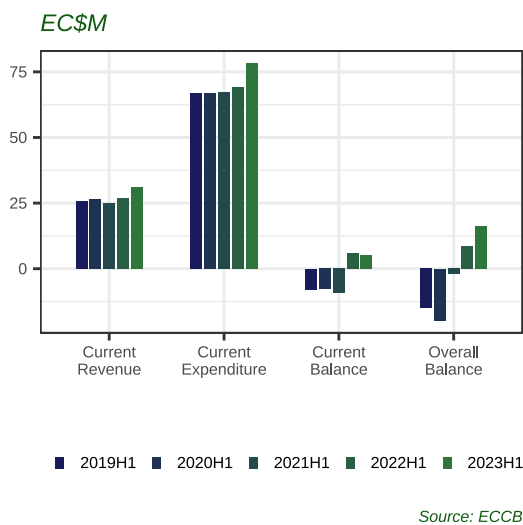
**Figure 2: Selected Categories of Inflation**



## Government Operations

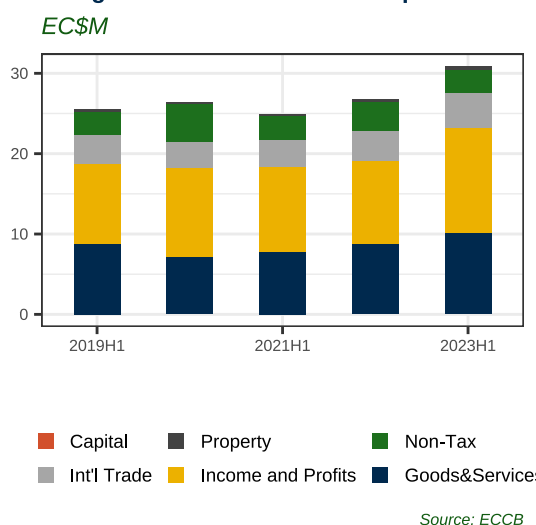
Consistent with an improving economy as well as an increase in the aid package from the United Kingdom’s Foreign, Commonwealth and Development Office (FCDO), the government of Montserrat managed to generate both primary and overall surpluses (after grants) in the first half of 2023. The data as at end June reflect an overall surplus of \$16.0m, up from a surplus of \$8.5 over the comparable period in 2022 (Figure 3).

**Figure 3: Central Government Fiscal Balances**



The positive fiscal outturn was primarily driven by stronger grant inflows on both the current and capital side, which increased by \$4.1m and \$13.5m, respectively, relative to the comparable period in 2022. In addition, current revenue grew by 15.4 per cent to \$30.9m compared with growth of 7.7 per cent to \$26.8m in 2022. By comparison, current expenditure rose by 13.1 per cent to \$78.2m, surpassing the 2.5 expansion to \$69.1m in the prior year. After accounting for grant inflows, the government recorded a smaller current account surplus of \$5.1m, relative to the surplus of \$6.0m in 2022.

**Figure 4: Total Revenue Composition**



In respect of tax receipts, the government recorded increases across all major tax categories, with the two best performers being taxes on income, profit and capital gains (\$2.8m) and taxes on goods and services (\$1.3m). By contrast, non-tax revenues fell by \$0.6m over the review period.

On the current expenditure side, higher outflows for transfers and subsidies (\$4.4m), goods and services (\$3.7m) and personal emoluments (\$1.1m), were the primary drivers of the increased expenditure.

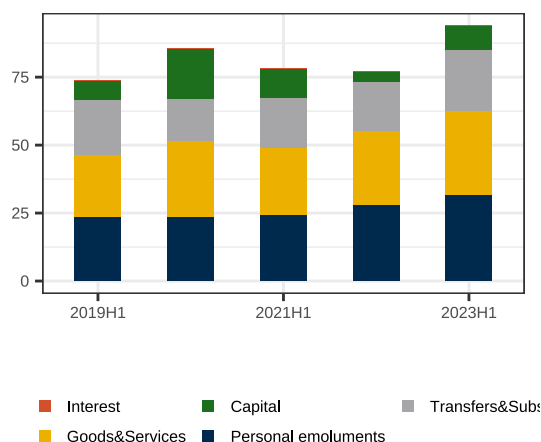
Similarly, the government of Montserrat boosted its capital investments by \$5.1m to \$8.9m over the review period, as work continued on essential roads such as the A01 road network, coupled with the impending completion and commissioning of the air traffic control tower at the John A. Osborne Airport.



## Banking Developments (Monetary)

**Figure 5: Total Expenditure Composition**

EC\$m



Source: ECCB

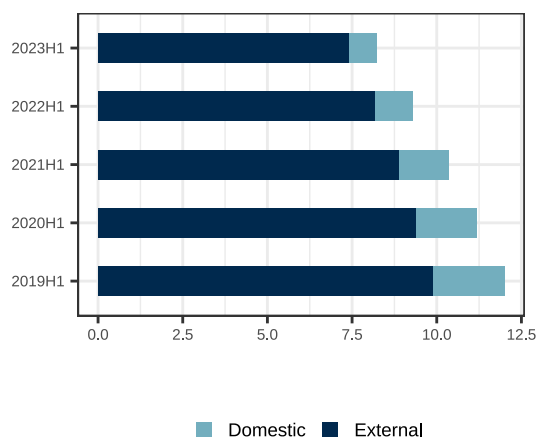
## Debt

Nominal public sector debt as at end June 2023 stood at \$8.2m, representing an 11.6 per cent (\$1.1m) decline relative to June 2022 levels. The debt stock comprised external debt of \$7.4m and domestic debt of \$0.8m, respectively, as illustrated in Figure 6.

The largest decline was observed for external debt, which fell by \$0.8m, while domestic debt saw a \$0.3m contraction. On aggregate, both central government and public corporation debt fell over the first half of 2023.

**Figure 6: Outstanding Public Sector Debt**

EC\$m

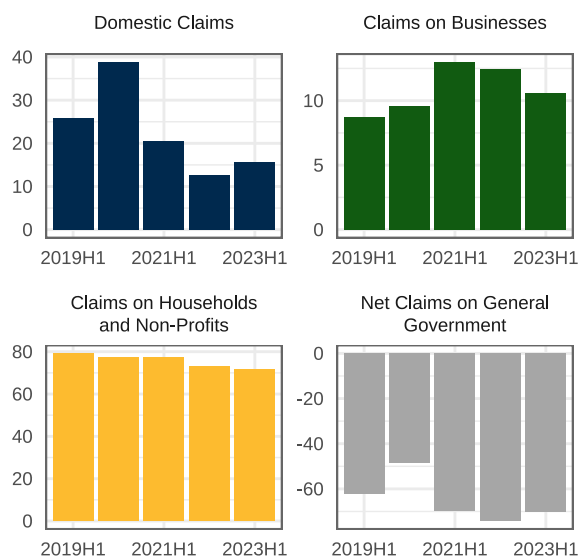


Source: ECCB

Domestic claims (credit) in Montserrat increased by 24.5 per cent (\$3.1m) in the first half of 2023, in contrast to the 38.7 per cent contraction recorded in the comparable period of 2022 (Figure 7). The rise in claims was primarily influenced by a 5.5 per cent (\$4.1m) reduction in liabilities (deposits) to the general government, which more than offset the 4.2 per cent (\$3.6m) decline in private sector claims. Within the private sector, claims to both businesses and households contracted by 15.1 per cent and 2.4 per cent, respectively, extending the previous year's decline.

**Figure 7: Claims (Credit) to Selected Sectors**

EC\$m



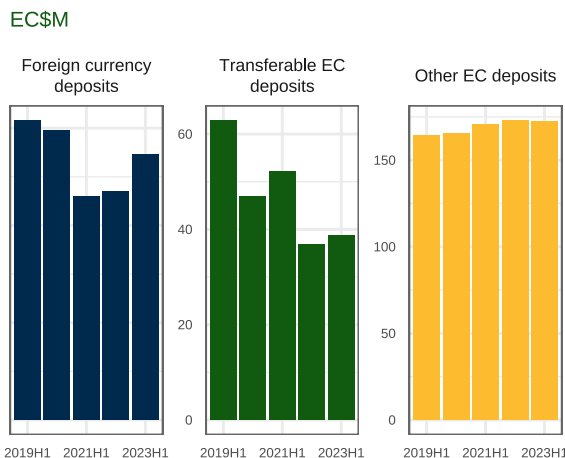
Source: ECCB

Similar to domestic claims, deposits in the banking system rose on aggregate (Figure 8). Broad money liabilities increased by 3.0 per cent, reversing the 4.6 per cent reduction in 2022. This was reflected in stronger growth in transferable deposits in national currency (5.0 per cent) and foreign currency deposits (16.1 per cent). In addition, currency in circulation expanded by 12.2 per cent, year-on-year. However, the increase in broad money was moderated by a 0.3 per cent contraction in other deposits in national currency.





**Figure 8: Selected Categories of Deposits**

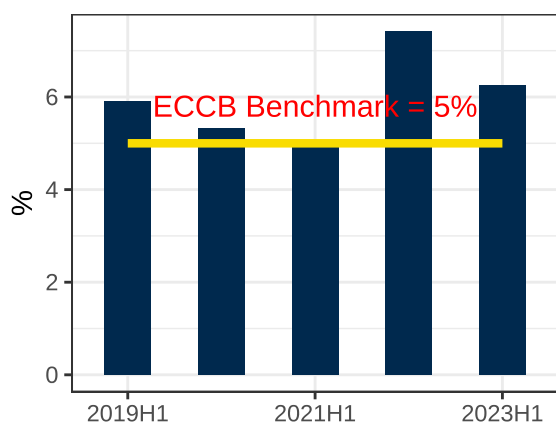


Source: ECCB

The asset quality of commercial banks in Montserrat improved over the first half of the year. Accordingly, non-performing loans (NPL) as a percentage of gross loans fell by 1.2 percentage points to 6.3 per cent, compared with 7.4 per cent in 2022 (Figure 9). Despite this drop, however, the NPL ratio stood marginally higher than the average for the past five years (2018-2022) of 6.0 per cent and above the 5 per cent prudential requirement established by the ECCB.

**Figure 9: Non-Performing Loans Ratio**

% of Total Loans



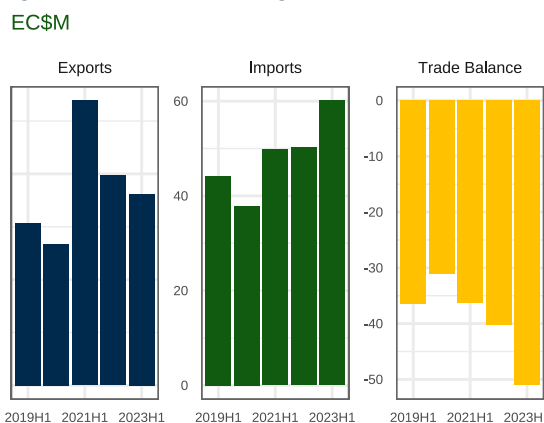
Source: ECCB

Similarly, banks' liquidity positions improved as the ratio of liquid assets to short-term liabilities increased by 3.1 percentage points to 88.1 per cent, surpassing the most recent five-year (2018-2022) average of 87.3 per cent.

## External Trade

Consistent with an expanding economy, marked by a recovering tourism industry and an easing in supply chain bottlenecks, Montserrat's merchandise trade deficit widened in the first half of the year by 26.8 per cent to \$51.1m. Import payments rose to their highest level in the past 5 years, surpassing the 2022 mark by 19.8 per cent to \$60.1m, reflecting greater domestic demand and higher global prices (Figure 10). Driving the increase in imports payments were larger outflows for machinery and transport equipment (48.6 per cent), manufactured goods (22.9 per cent) and mineral fuels (12.6 per cent). By contrast, export receipts declined by 8.7 per cent in 2023 to \$9.1m, relative to \$9.9m in the previous year.

**Figure 10: Selected Categories of External Sector**



Source: ECCB

In respect of services, total visitor expenditure is estimated to have more than doubled to \$11.9m relative to \$4.3m in 2022, as all categories of visitors expanded appreciably over the first half of the year.

## Outlook

Montserrat's economy is projected to expand further in 2023 as the tourism sector continues to recover and major public sector capital projects get underway. In addition, the government has indicated that it is committed to arriving at a permanent solution to passenger travel by sea, which if accomplished, would further accelerate visitor arrivals to the country.

However, risks to global economic activity are still tilted to the downside, on account of persistently high inflation,



continued tightening of monetary policy among major central banks and the prospect of escalation in the Russia/Ukraine conflict. In addition, Montserrat faces the perennial threat of hurricanes and other natural disasters in the second half of the year. As a result, Montserrat remains susceptible to a slowdown in its key tourism markets, with potentially negative economic spillovers to the domestic economy and all related sectors.

Should the aforementioned risks not materialize, the expansion of the Montserratian economy is expected to be

driven by:

- The Public Sector Investment Programme, including major road works, the Little Bay Port Development project (the largest in the island's history), the detailed design and commencement of construction of a new national hospital and the refurbishment of the Montserrat Secondary School.
- Improved access to the island, especially if a permanent solution to travel by sea is arrived at.



## Selected Economic Indicators

Indicators	2019H1	2020H1	2021H1	2022H1	2023H1
Current Revenue (EC\$M)	25.6	26.4	24.9	26.8	30.9
Current Expenditure (EC\$M)	66.7	67.0	67.4	69.1	78.2
Current Balance (EC\$M)	-7.9	-7.7	-9.2	6.0	5.1
Primary Balance (EC\$M)	-14.8	-19.6	-1.9	8.7	16.0
Overall Balance (EC\$M)	-15.0	-19.7	-2.0	8.5	16.0
Total Public Sector Debt (EC\$M)	12.0	11.2	10.3	9.3	8.2
Inflation Rate (Y-o-Y)(end of period %)	-0.6	-2.7	3.4	4.4	-3.1
Total Visitor Arrivals	12,624.0	7,858.0	525.0	1,492.0	9,560.0
Total Visitor Expenditure (EC\$M)	16.7	12.7	1.5	4.3	11.9
Net Foreign Assets (EC\$M)	299.9	304.1	330.2	326.9	330.5
Domestic Credit (EC\$M)	25.8	38.8	20.6	12.6	15.7
M2 (EC\$M)	267.4	251.3	261.6	249.6	257.0
Currency in Circulation (EC\$M)	27.6	29.4	30.3	31.4	35.3
Liquid assets to total assets	73.0	76.9	75.1	75.2	80.4
Liquid assets to short-term liabilities	84.1	94.6	84.8	85.0	88.1
Customer deposits to total (noninterbank)loans	306.1	286.7	315.1	325.3	337.8
Weighted Average Deposit Rate (%)	1.1	1.2	1.2	1.2	1.2
Weighted Average Lending Rate (%)	6.6	6.2	6.1	6.1	6.1
Interest Rate Spread (%)	5.5	5.0	5.0	4.9	4.8
Non-Performing Loans to Total Loans (%)	5.9	5.3	4.9	7.4	6.3

Data as at August 2023

Sources: ECCB & Central Statistics Offices