

MONTSERRAT

EASTERN CARIBBEAN CENTRAL BANK

**ANNUAL
ECONOMIC
AND
FINANCIAL
REVIEW
2023**

EASTERN CARIBBEAN CENTRAL BANK



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ECONOMIC AND FINANCIAL REVIEW

MONTSERRAT

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Montserrat
Annual Economic and Financial Review - 2023

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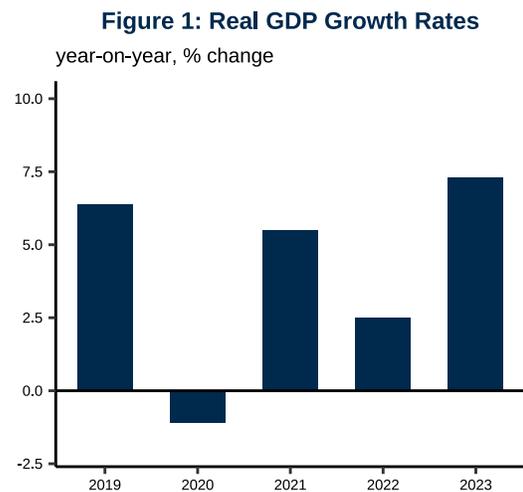
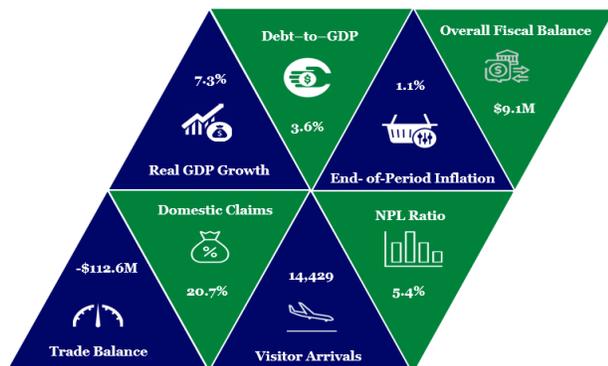
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Overview¹

- Preliminary estimates indicate that the economy expanded by 7.3 per cent, following growth of 2.5 per cent in 2022.
- Inflation rates were broadly contained during the year.
- Public finances improved in 2023, with both primary and overall surpluses recorded.
- Public sector debt to GDP is estimated to have declined relative to the previous year. As at December 2023, the debt to GDP ratio stood at 3.6 per cent.

of 2.5 per cent in the previous year (Figure 1). This outcome reflects robust activity in the tourism industry, proxied by hotels and restaurants, which experienced a four-fold increase in value added. The heightened level of activity in the tourism industry had a positive knock-on effect on wholesale and retail trade (16.0 per cent) and transport, storage and communications (13.0 per cent).



Source: ECCB

The Economy (Real Sector)

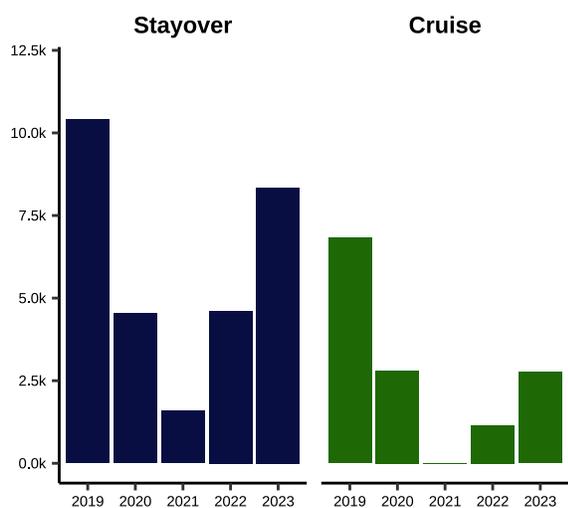
Montserrat’s economy is estimated to have expanded by 7.3 per cent in 2023, following growth

¹Photo Credit: Montserrat Tourism Division

The construction sector expanded by 20.0 per cent, year-on-year, as the value of construction starts, including additions and renovations, increased by 14.5 per cent. This development was further supported by a 49.5 per cent increase in the level of public sector capital expenditure to \$19.5m. The overall expansion was tempered by a 3.0 per cent contraction in mining and quarrying activity.

As it relates to tourism, total visitor arrivals more than doubled to 14,429 passengers, compared with 6,169 in the previous year. Stayover arrivals continued to dominate the landscape, increasing to 8,344 from 4,613 (Figure 2). Strong growth was seen in all the major source markets, with the Canadian market surpassing its 2019 level, while the US market recovered 79.1 per cent of its 2019 stayover arrivals. Complementing this development was a more than doubling in the number of cruise ship passengers, coupled with an eight-fold increase in the number of yacht passengers, which surpassed its 2019 level.

Figure 2: Visitor Arrivals in Selected Categories



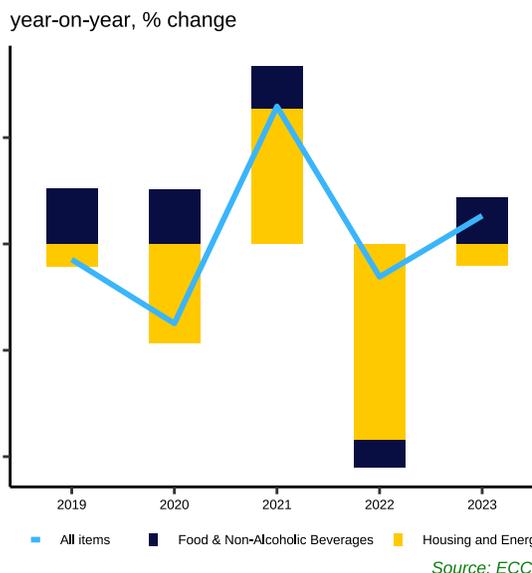
Source: ECCB

Consumer Prices

Inflation in Montserrat, as reflected in the end of period consumer price index, rose by 1.1 per cent, reversing the 1.1 per cent contraction in 2022 (Figure 3). The general increase in prices was

driven by furnishing, household equipment and routine household (10.0 per cent); recreation and culture (10.7 per cent); and food and non-alcoholic beverages (1.8 per cent). Moderating the overall price level were decreases in costs related to transport (0.9 per cent) and housing, water, electricity, gas and other fuels (0.8 per cent).

Figure 3: Selected Categories of Inflation



Source: ECCB

Government Operations

In 2023, the government of Montserrat recorded both primary and overall fiscal surpluses, after grants, of \$9.3m (4.3 per cent of GDP) and \$9.1m (4.2 per cent of GDP), respectively. This compares with primary and overall surpluses of \$7.9m and \$7.7m, respectively, one year earlier (Table 1).

Driving the fiscal result was an 18.4 per cent increase in current grants, funded by the United Kingdom’s Foreign Commonwealth and Development Office (FCDO), to \$105.0m (48.4 per cent of GDP) compared with \$88.7m (45.5 per cent of GDP) one year earlier. Consistent with an expanding economy, current revenue rose by 10.3 per cent to \$59.7m (27.5 per cent of GDP), relative to \$54.1m (27.8 per cent of GDP) one year prior. This compares with growth in current expenditure of 13.4 per cent to \$156.1m (71.9 per cent of GDP), relative to the \$137.7m (70.6 per cent of GDP) spent in 2022.

Table 1: Central Government Fiscal Operations (EC\$M)

Item	2019	2020	2021	2022	2023
Current Revenue	52.5	53.2	49.8	54.1	59.7
Tax Revenue	44.2	44.6	42.7	47.6	53.2
Non-Tax Revenue	8.4	8.6	7.0	6.6	6.5
Current Expenditure	136.9	140.2	133.9	137.7	156.1
Current Account Balance (after Grants)	-6.7	3.8	-10.2	5.1	8.6
Capital Revenue	0.0	0.0	0.0	0.0	0.0
Grants	77.9	107.0	107.6	104.2	124.9
Capital Expenditure and Net Lending	15.9	27.1	21.0	13.0	19.5
Primary Balance (after Grants)	-22.0	-6.9	2.6	7.9	9.3
Overall Balance (after Grants)	-22.2	-7.1	2.4	7.7	9.1
Financing	22.2	7.1	-2.4	-7.7	-9.1

^a Sources: ECCB and National Statistics Office

The growth in current revenue was driven mainly by tax inflows. Tax receipts rose by 11.8 per cent (\$5.6m), with taxes on income and profits, and domestic goods and services being the largest contributors to the increase. By contrast, non-tax receipts fell by 0.5 per cent (\$.03m) over the period.

In respect of current expenditure, larger outlays for goods and services (\$12.1m) and transfers and subsidies (\$3.8m), drove the expansion. Accordingly, government operations resulted in a current account surplus (after grants) of \$8.6m (4.0 per cent of GDP) compared with one of \$5.2m (2.6 per cent of GDP) in the prior year.

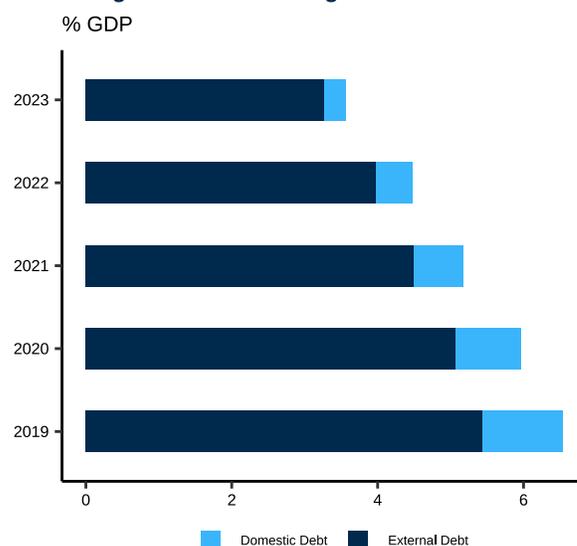
On the capital side, government spending increased by 49.8 per cent to \$19.5m (9.0 per cent of GDP), compared with \$13.0m (6.7 per cent of GDP) in 2022. Key initiatives included the commencement of work on the Little Bay Port Development Project, the purchase of critical life-saving equipment for the hospital and the continued upgrading of the road network.

Debt

Montserrat’s public sector debt has continued its downward trend, falling by 11.5 per cent in 2023 to \$7.7m (3.6 per cent of GDP), after an 11.3 per cent decline to \$8.7m (4.5 per cent of GDP) in the prior year (Figure

4). The total debt was comprised of external debt of \$7.1 million (3.4 per cent of GDP) and domestic debt of \$0.7 million (0.2 per cent of GDP).

Figure 4: Outstanding Public Sector Debt



Source: ECCB

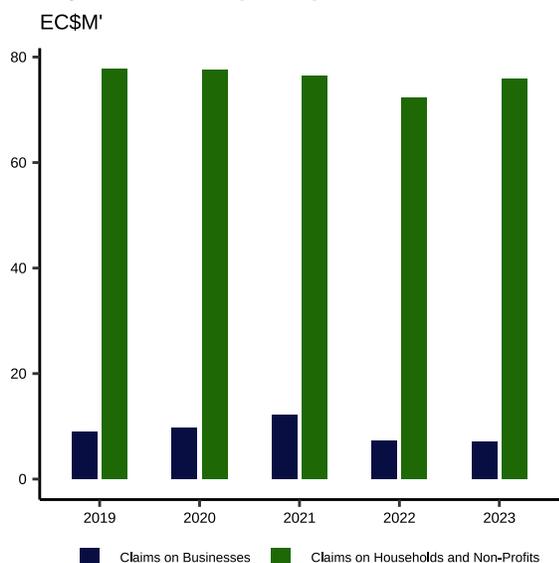
In 2023, the government continued to honour its existing obligations to its lone multilateral creditor, the Caribbean Development Bank, as well as its domestic debt obligations.

Banking Developments

Growth in the economy was tied to an increase in domestic claims (credit), which rose by 20.7 per cent to \$15.4m, after declining in the previous year to \$12.8m (Figure 6). More specifically, credit to the private sector increased by 4.3 per cent (\$3.4m), reversing the \$9.0m contraction in 2022. This development was led by claims to households, which expanded by 4.9 per cent (\$3.5m), while claims to businesses contracted by 2.1 per cent (\$0.2m). Meanwhile, the net deposit position of the central government fell marginally by 2.7 per cent to \$71.9m.



Figure 5: Claims (Credit) on Selected Sectors



Source: ECCB

Another feature of Montserrat’s expanding economy was the recorded increase in broad money liabilities. These liabilities rose by 4.2 per cent (\$10.7m), following the 2.4 per cent growth one year prior. This was reflected in the expansion of deposits in the banking system on aggregate. Specifically, foreign currency deposits and other deposits in national currency rose by 9.0 per cent and 2.3 per cent, respectively. However, this growth was moderated by a 3.4 per cent contraction in transferable deposits in national currency.

In a reversal from 2022, the asset quality of commercial banks in Montserrat deteriorated over the year. Accordingly, the ratio of non-performing loans to gross loans increased by 88 basis points to 5.4 per cent, compared with 4.6 per cent one year earlier. However, banks’ liquidity positions improved, as the ratio of liquid assets to short-term liabilities rose by 1.9 percentage points to 88.4 per cent.

External Trade

Consistent with the ongoing economic recovery, the merchandise trade deficit is estimated to

have widened by 27.9 per cent to \$112.6m, following an expansion of 17.1 per cent in the previous year. The value of imports rose to their highest level in over five years, surpassing the 2022 mark by 21.0 per cent to \$128.1m, reflecting greater domestic demand and generally higher global prices. The deficit was exacerbated by a 13.2 per cent decline in export receipts to \$15.6m compared with \$17.9m in 2022. In respect of services, total visitor expenditure rose by 86.9 per cent to \$23.2m relative to \$12.4m recorded in the prior year.

Montserrat’s economy is expected to record robust growth in 2024 as the tourism industry continues to rebound, amid improvements in air and sea access; and continued work on the Little Bay Port Development project, which is expected to be commissioned in 2024

Outlook

Montserrat’s economy is expected to record robust growth in 2024 as the tourism industry continues to rebound, amid improving access conditions by both sea and air. Further supporting growth is the critical Little Bay Port Development project, which is expected to be commissioned later in the year. The latter 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. In addition, initial work is expected to begin on the new National Hospital, and the social housing construction programme is anticipated to begin in earnest.

Despite the aforementioned, key downside risks exist and include the possibility of freight charges returning to their 2022 highs, on account of continued vessel attacks in the Red Sea; higher oil prices, driven by a larger regional conflict between Iran and Israel; the ongoing war between Russia and the Ukraine and its implications for food prices. In addition, Montserrat faces the perennial threat of hurricanes and other natural disasters, which could negatively impact economic activity.



Selected Economic Indicators

Item	2019	2020	2021	2022	2023
National Income and Prices (Annual % change)					
Nominal Gross Domestic Product (GDP) at Market Prices	4.4	1.8	5.5	2.4	11.3
Real GDP at Market prices	6.4	-1.1	5.5	2.5	7.3
Consumer Prices (end of period)	-0.6	-3.0	5.2	-1.2	1.1
Consumer Prices (period average)	-1.1	-1.9	2.6	3.0	-1.1
Real Gross Value Added (GVA) at basic prices (%)					
Agriculture, Livestock and Forestry	-16.8	-21.9	-4.0	-21.7	1.5
Manufacturing	73.5	-28.2	52.5	1.0	2.0
Construction	39.0	-20.3	64.1	-44.1	20.0
Wholesale & Retail Trade	3.7	-19.6	6.1	3.9	16.0
Hotels & Restaurants	-15.2	-52.2	-41.2	188.0	167.9
Transport, Storage and Communications	17.5	-4.8	2.1	48.1	13.0
Financial Intermediation	-18.7	97.6	6.2	-2.4	1.0
Real Estate, Renting and Business Activities	-0.5	-1.1	-0.6	0.2	2.0
Public Administration, Defence & Compulsory Social Security	15.5	-4.8	2.8	-5.5	4.8
Total Public Sector Debt (% GDP)					
Total Public Sector Debt	6.5	6.0	5.2	4.5	3.6
Public Sector External Debt (end-of-period)	5.4	5.1	4.5	4.0	3.4
Central Government Finances (in XCD millions)					
Current Account Balance	-6.7	3.8	-10.2	5.1	8.6
Current Revenue	52.5	53.2	49.8	54.1	59.7
Current Expenditure	136.9	140.2	133.9	137.7	156.1
Capital Expenditure and Net Lending	15.9	27.1	21.0	13.0	19.5
Overall Fiscal Balance	-22.2	-7.1	2.4	7.7	9.1
Monetary Sector (% p.a.)					
Weighted Deposit Interest Rates	1.1	1.1	1.2	1.2	1.2
Weighted Lending Interest Rates	6.6	6.1	6.1	6.0	5.8
Non-Performing Loans Ratio (%)	5.4	5.0	5.1	4.5	5.4
Memorandum items (in XCD millions, unless otherwise stated)					
Nominal GDP at Market Prices	177.2	180.5	190.5	195.1	217.2
Real GDP at Market Prices	187.7	185.6	195.7	200.7	215.3
GDP per capita (EC\$)	34,961.8	34,841.5	39,284.1	38,733.2	42,432.0
Merchandise Imports (f.o.b)	87.9	82.8	97.9	105.9	128.1
Merchandise Exports (f.o.b)	15.1	15.4	22.8	17.9	15.6
Gross Visitor Expenditure	26.8	13.8	4.3	12.4	23.2
Net Foreign Assets	307.3	338.0	317.6	326.0	342.3
Domestic Credit	18.8	7.4	19.7	12.8	15.4
Money Supply (M2)	266.5	252.4	246.8	252.8	263.5
Currency in Circulation	28.6	31.2	29.6	33.9	40.8

Note:

Data as at 29 February 2024

¹ Sources: Central Statistics Office and Eastern Caribbean Central Bank (ECCB)

2023

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