

# ANTIGUA AND BARBUDA

## ECONOMIC AND FINANCIAL REVIEW

*June 2024*

Eastern Caribbean Central Bank



JUNE 2024

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## ANTIGUA AND BARBUDA

EASTERN CARIBBEAN CENTRAL BANK





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# Antigua and Barbuda

## Economic and Financial Review - June 2024

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Total visitors rose by **24.7 per cent** to **718,772** in the first half of 2024.



Consumer prices accelerated by **5.7 per cent** for the 12 months ended June 2024, compared with a **2.3 per cent** rise in 2023.



The outstanding debt of the public sector is estimated to have decreased by **4.4 per cent** to **\$3,965.6m** at the end of June 2024.



Central government recorded a surplus of **\$94.1m** from one of **\$68.1m** in the first six months of 2023.



The ratio of commercial banks' non-performing loans to total loans (NPL) fell to **5.6 per cent**, from **6.9 per cent** at the end of June 2023.



A merchandise trade deficit of **\$1,027.4m** was recorded for the first half of 2024, below an imbalance of **\$1,040.4m** in the corresponding six months of 2023.

**“The economy of Antigua and Barbuda is estimated to expand by 4.8 per cent in 2024, buttressed by buoyancy in the tourism industry and private sector construction.”**

## Overview

- The post-pandemic economic recovery in Antigua and Barbuda remains broad-based, sustained by favourable developments in the real, fiscal and monetary sectors.
- Economic activity for the first half of 2024 reflect a full recovery from the effects of the pandemic and point to a return to pre-pandemic levels of output. Robust activity in the accommodation and food services sector coupled with buoyant private sector construction, positively impacted developments in the wholesale and retail trade, and transport and storage sectors.
- Government finances improved significantly, driven by a substantial increase in tax revenue. Consequently, the overall surplus widened and outstanding debt levels fell.
- A favourable outlook is projected for 2024, contingent on the muted impact of seasonal tropical weather disturbances that can adversely disrupt

the tourism industry – the country’s major foreign exchange earner. Other risks to the outturn point to a less optimistic global economic outlook, owing to heightened geo-political tensions. Conflicts in Ukraine and Gaza, as well as sporadic attacks by the Houthis threaten to disrupt the global security apparatus and impair global logistics and commodity price stability.

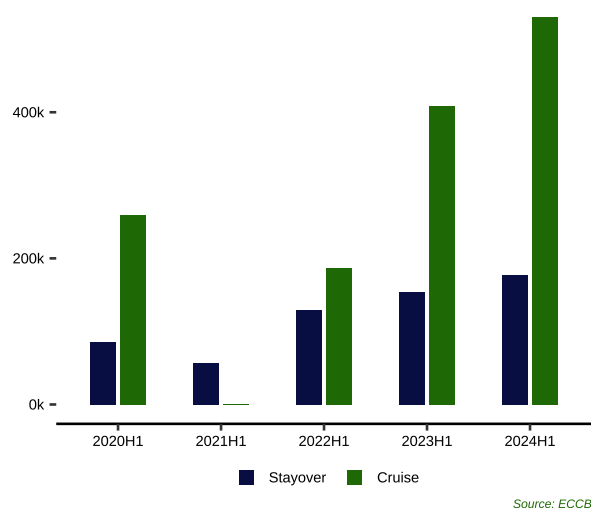
## The Economy (Real Sector)

**Economic activity strengthened during January to June 2024, building on the strong performance in the corresponding period of 2023.**

The continued strengthening of international travel fuelling a concomitant increase in direct investment from abroad have buoyed economic developments during the review period. Visitor demand combined with intensified marketing drove total visitors higher (24.7 per cent) to 718,772 in the first half of 2024. The perfor-

mance reflected surges in both stayover visitors (14.5 per cent to 176,655) and cruise arrivals (29.6 per cent to 529,827) (Figure 1). Notably, stayover visitors more than doubled the numbers recorded at the beginning of the pandemic (2020) and exceeded pre-pandemic levels. Similarly, the number of cruise passengers surpassed the levels recorded prior to COVID-19 and doubled the numbers reported in 2020.

**Figure 1: Visitor Arrivals in Selected Categories**



All major source markets except the United Kingdom recorded increases. The United States of America contributed the most, increasing to 91,556 from 76,178. Major increases in stay over arrivals were also recorded for the Caribbean and Canadian markets of 16.1 per cent and 7.6 per cent respectively. Investments in additional airlift as well as the commencement of flights by a recently incorporated regional air carrier facilitated the surge in stay-over visitors. Conversely, stay over visitors from the UK fell by 1.0 per cent to 30,070, while visitors by yacht decreased by 6.1 per cent to 12,290.

Activity in the construction sector remained buoyant underpinned by private sector developments. Work continued on the Peace Love and Happiness (PLH) development and the Paradise Found resort on the island of Barbuda. A doubling of capital expenditure on roads and residential units, after unusually low rates of public

investment, also contributed to the positive impact of construction to the economic performance in the first six months. Notwithstanding the expansion in private and public investments, the volume of cement imports, an indicator of construction activity, contracted by 3.4 per cent, after a 6.7 reduction in the first six months of 2023. The decline was likely associated with the completion of a major hotel property during the first half of the year.

Developments in the accommodation and food service activities<sup>1</sup> and construction sectors, created positive externalities for wholesale and retail trade; repair of motor vehicles and motorcycles; transport and storage, and the real estate, renting and business activities sectors.

## Consumer Prices

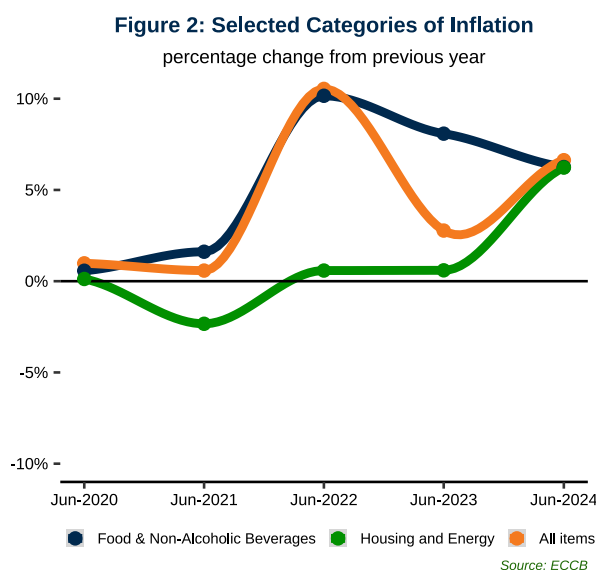
**Inflationary pressures in Antigua and Barbuda intensified due to a combination of global and domestic economic factors.** The consumer price index (CPI) accelerated by 5.7 per cent on an end of period basis, for the 12 months ended June 2024, compared with a 2.3 per cent rise during the corresponding period of 2023. Higher prices for miscellaneous goods and services (21.8 per cent) and communication (13.1 per cent) contributed to the increase in the CPI.

Volatility in global commodity prices, particularly food and energy prices contributed to upward movements in the sub-indices for food and non-alcoholic beverages (4.7 per cent) and housing, water, electricity, gas, and other fuels (3.1 per cent). Other noteworthy upward movements in the sub-indices included: hotels and restaurants (11.0 per cent), and furnishing, household equipment and routine household maintenance (3.1 per cent). Inflationary pressures were constrained by a 1.6 per cent decline in the clothing and footwear sub-index. Year on year inflation ended June 2024, compared with June 2023, rose by 6.6 per cent fuelled by inter alia

<sup>1</sup>formerly categorised as the hotels and restaurant sector



increases in housing and energy and food and non-alcoholic beverages of 6.2 per cent and 6.3 per cent respectively (Figure 2).



## Government Operations

The fiscal position of the central government strengthened to a surplus of \$94.1m from one of \$68.1m in the first six months of 2023, buoyed by higher current revenues (Figure 3). Current revenue rose by 15.1 per cent (\$74.6m) to \$570.0m, fuelled by a surge in tax revenue. Tax receipts from goods and services, international trade and transactions, and income, profits and capital gains rose by 18.8 per cent, 17.2 per cent and 14.4 per cent respectively. The expansion in receipts from goods and services was buoyed by an increase in the Antigua and Barbuda Sales Tax (ABST) by two percentage points to 17.0 per cent effective 1 January 2024 (see Box 1). However, higher tax receipts were tempered by declines in non-tax inflows (1.4 per cent) largely due to lower yields from the Citizenship by Investment Programme (CIP).

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

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Current Revenue	400.0	384.0	446.0	495.4	570.0
Tax Revenue	321.5	322.7	381.2	441.3	516.7
Non-Tax Revenue	78.6	61.3	64.8	54.1	53.3
Current Expenditure	400.0	449.7	389.3	417.6	454.4
Current Account Balance (after Grants)	0.1	-65.7	56.8	77.8	115.6
Capital Revenue	1.2	1.1	0.9	1.6	2.9
Grants	0.0	28.9	0.0	0.0	0.0
Capital Expenditure and Net Lending	35.7	28.7	9.7	11.4	24.4
Primary Balance (after Grants)	14.8	-19.7	107.4	132.9	150.5
Overall Balance (after Grants)	-34.4	-64.4	48.0	68.1	94.1

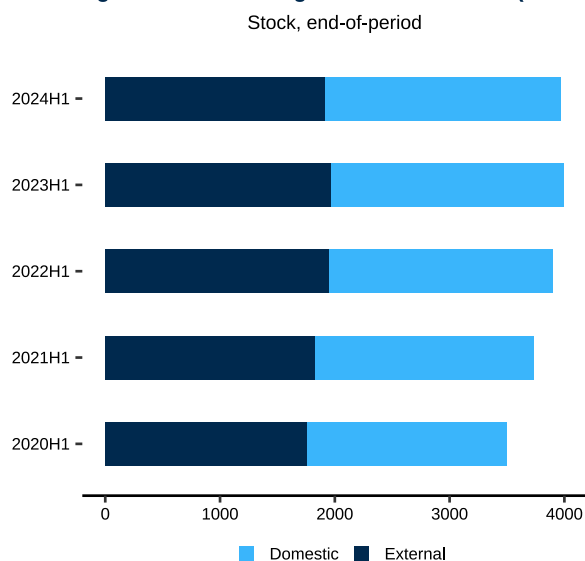
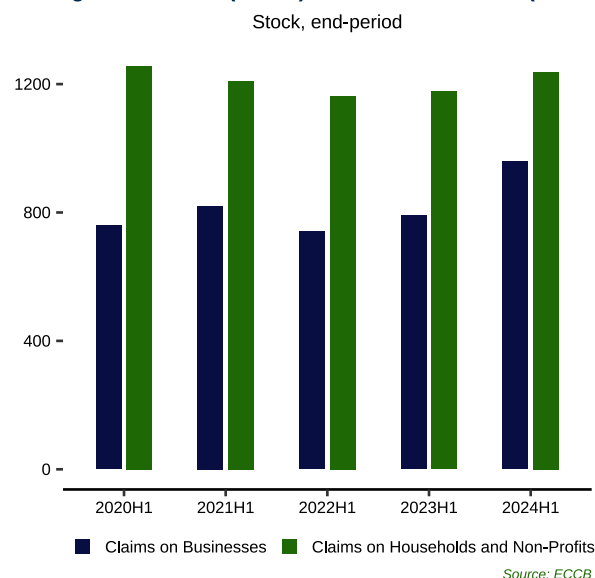
\* Sources: ECCB and National Statistics Office

Current expenditure rose by 8.8 per cent (\$36.8m) to \$454.4m, attributable to higher outlays on personal emoluments and transfers of 15.2 per cent (\$31.7m) and 14.0 per cent (\$14.0m), respectively. Higher outlays on personal emoluments reflected the effects of a 9.0 per cent salary increase granted to public servants from January 2024.

Partially mitigating higher current outlays was a decrease in interest payments (13.0 per cent) and spending on goods and services (1.0 per cent). Public sector capital investment doubled to \$24.4m and capital revenue increased by 79.5 per cent (\$1.3m).

## Debt

The outstanding debt of the public sector is estimated to have decreased by 4.4 per cent to \$3,965.6m at the end of June 2024. This outturn was largely attributable to lower central government external obligations. Of total central government debt, 52.5 per cent represented the domestic portfolio, while the remainder (47.5 per cent) represented external obligations.

**Figure 3: Outstanding Public Sector Debt (EC\$M)**

**Figure 4: Claims (Credit) on Selected Sectors (EC\$M)**


## Banking Developments

Both credit and deposits in the banking system in Antigua and Barbuda expanded at the end of June 2024 relative to the end of June 2023 consistent with expanded real sector activity. Domestic claims (credit) expanded by 1.9 per cent to \$2,839.1m at the end of June 2024, outpacing a 1.1 per cent expansion at the end of June 2023 (Figure 4). Outstanding domestic claims, remained about 6.9 per cent higher than the average for the previous five years (2019 to 2023). The increase reflected higher outstanding claims (credit) to businesses (14.5 per cent) and households and non-profit institutions (6.7 per cent).

Banking deposits rose by 0.8 per cent to \$4,543.0m, marked by advances in other EC-currency deposits and transferrable EC-currency deposits of 5.8 per cent and 4.6 per cent respectively. Higher EC-dollar deposits were moderated by declines in foreign currency deposits (5.8 per cent).

Asset quality in the banking system gradually improved at the end of June 2024. The ratio of commercial banks' non-performing loans to total loans (NPL) fell to 5.6 per cent, from 6.9 per cent at the end of June 2023, steadily converging to the 5.0 per cent prudential benchmark. Liquidity in the banking system rose, at the end of June 2024 to 45.4 per cent from 43.7 per cent at the end of June 2023.

## External Trade

**A merchandise trade deficit of \$1,027.4m was recorded for the first half of 2024, narrowing from an imbalance of \$1,040.4m in the corresponding six months of 2023.** The improvement in the trade balance was attributable to an increase of 71.0 per cent (\$24.0m) in exports, mainly re-exports, which outpaced a 1.0 per cent (\$11.0m) rise in import payments. Gross travel receipts, are estimated to have risen by 24.3 per cent to \$1,390.5m in the first six months of 2023, compared with a 22.2 per cent expansion in the first half of last year. Improved performances in all of the visitor categories except visitors by yacht, contributed to the surge in gross travel receipts.



## Outlook

**The economy of Antigua and Barbuda has demonstrated resilience in the face of severe global economic shocks and uncertain global economic prospects.** The post-pandemic era brought with it a more modest global economic recovery than anticipated, stymied by persistent, high inflation. The economy of Antigua and Barbuda is estimated to expand by 4.8 per cent in 2024, buttressed by buoyancy in the tourism industry and private sector construction.

The positive outlook is however, framed by uncertainties, including:

- Prospects for global growth. Estimates remain around 3.3 per cent over the medium term (2024 to 2025), according to the International Monetary Fund's (IMF) July 2024 World Economic Outlook update.
- Stubborn inflationary pressures. Global central banks may maintain rates longer or raise them, with consequential negative impacts on growth prospects.
- Unprecedented, geo-political tensions. Intensifying conflicts in Ukraine, and Gaza may create investor uncertainty and trade tensions, further constraining growth.
- The ongoing threat of climate change. The impact of this threat looms large as the frequency of dangerous storms intensifies.
- Fluctuations in the business cycle. This could quickly erase fiscal surpluses and return the economy to low levels of public investment, further constraining growth.
- The sustainability of regional Citizenship by Investment Programmes. Increased scrutiny faced by these Programmes could negatively affect the perception of Antigua and Barbuda's own programme.

On the upside, increasing demand for Antigua and Barbuda's tourism product coupled with stepped up marketing and additional airlift out of North America and Europe bode well for the industry and the broader economy. Barring any rapid deterioration in geo-political tensions this trend is expected to continue. Similarly, continued buoyancy in real sector activity is projected, supported by ongoing private sector construction. Consistent with the strength of the economy, an improved overall fiscal position relative to 2023 is projected for the remainder of 2024. The maintenance of fiscal stability, however, will require targeted fiscal reforms in addition to the current favourable business cycle.

## Box 1: Enhancing Equity and Efficiency in the Tax System

The economic performance is encouraging, buoyed by an impressive pipeline of transformative foreign direct investment projects particularly on the island of Barbuda. Notwithstanding the encouraging medium term economic prospects, the public sector of Antigua and Barbuda continues to be hamstrung in its efforts to collect tax revenue commensurate with the rate of expansion in the economy. This challenge in revenue collection was part of the justification for the increase in the Antigua and Barbuda Sales Tax (ABST) by two percentage points to 17.0 per cent effective 1 January 2024.

However, a more equitable measure of recouping foregone revenue may necessitate broadening the tax base by collecting on revenues that are owing to the government. It is well known that the areas of customs duties and property tax represent significant revenue leakages. Efforts were made in the most recent budget to address the revenue growth mismatch through the increase in the ABST rate, however the policy decision to do so may not address completely the inefficiencies in the tax administration system and may foster greater delinquency as lower income persons bear proportionally more of the brunt of taxation. Addressing the inefficiencies in the tax administration system, such as tax evasion and discretionary tax breaks, will be crucial to increasing the government's tax revenue. These inefficiencies not only reduce government revenue but also create an unfair burden on compliant taxpayers. By addressing these issues, the government would improve tax compliance, reduce tax evasion, and increase tax revenue which could be used to fund public services and infrastructure projects.

## Selected Economic Indicators

Item	2020H1	2021H1	2022H1	2023H1	2024H1
<b>Banking and Monetary</b>					
Net Foreign Assets (EC\$M)	1,768.4	1,906.7	2,597.6	2,458.7	2,602.7
Domestic Credit (EC\$M)	2,509.0	2,659.0	2,606.4	2,662.7	2,839.1
M2 (EC\$M)	3,619.7	3,742.4	4,331.3	4,350.3	4,543.0
Currency in Circulation (EC\$M)	249.8	257.2	283.6	308.9	321.5
Liquid assets to total assets	44.4	37.4	46.4	43.7	45.4
Liquid assets to short-term liabilities	51.6	42.3	51.6	49.2	51.7
Customer deposits to total (noninterbank)loans	132.2	132.6	151.1	151.4	147.7
Weighted Average Deposit Rate (%)	1.5	1.5	1.4	1.1	1.2
Weighted Average Lending Rate (%)	7.7	7.6	7.6	7.1	6.8
Interest Rate Spread (%)	6.2	6.1	6.2	5.9	5.6
Non-Performing Loans to Total Loans (%)	6.9	7.0	7.7	6.9	5.6
<b>Real Sector and Prices</b>					
Inflation Rate (year-on-year)(end-June) (%)	1.0	0.6	10.5	2.8	6.6
Inflation Rate (half-year) (%)	1.8	-0.4	8.8	2.3	5.7
Total Visitor Arrivals	356,441	59,928	324,695	576,358	718,772
Total Visitor Expenditure (EC\$M)	585.9	443.7	915.3	1,118.4	1,390.5
<b>Government Finances</b>					
Current Revenue (EC\$M)	400.0	384.0	446.0	495.4	570.0
Current Expenditure (EC\$M)	400.0	449.7	389.3	417.6	454.4
Current Balance (EC\$M)	0.1	-65.7	56.8	77.8	115.6
Primary Balance (EC\$M)	14.8	-19.7	107.4	132.9	150.5
Overall Balance (EC\$M)	-34.4	-64.4	48.0	68.1	94.1
Total Public Sector Debt (EC\$M)	3,498.4	3,738.9	3,903.4	3,997.1	3,965.6
Data as at August 2024					



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# 2024

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