MONTSERRAT

ECONOMIC AND FINANCIAL REVIEW

June 2024

Eastern Caribbean Central Bank

JUNE 2024

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EASTERN CARIBBEAN CENTRAL BANK

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Total visitor arrivals fell by 9.8 per cent to 8,386 visitors. **Stayover visitors rose** by 29.4 per cent.

Inflation rose by 2.8 per cent, in contrast to a decline of 3.1 per cent in the prior year

Public sector debt contracted by 11.3 per cent to $7.3m, compared with $8.2m one year earlier

The government recorded an overall fiscal surplus of $12.5m, down from the surplus of $15.3m over the comparable period in 2023

Non-performing loans fell from 6.3 to 5.9 per cent, year-on-year

The **merchandise trade deficit widened** from $49.0m to $56.3m

"The economic outlook for Montserrat is broadly positive, premised on ongoing recovery in the tourism industry as well as added activity in the construction sector "

Overview[1]

- The economy of Montserrat strengthened over the first half of 2024, driven by stronger activity in the tourism sector; public sector construction activity also accelerated over the review period.
- Inflation rates picked up year-on-year, but remained broadly contained.
- The fiscal performance of the government resulted in both overall and primary surpluses.

[1]Photo Credit: Leon Bullen

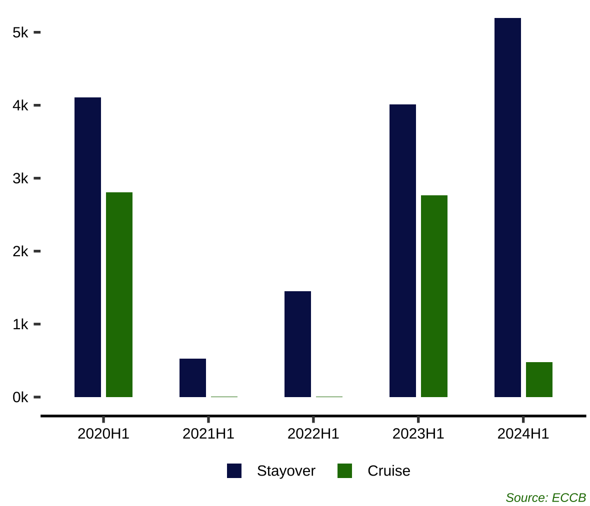
- The economy is expected to sustain growth in 2024, barring any major global or climactic shocks.

The Economy (Real Sector)

The economy of Montserrat expanded during the first half of 2024, driven by growth in the tourism industry and its consequent knock-on effects on ancillary sectors. Further support was provided by increased public sector capital expenditure as well as higher spending on private sector commercial spaces.

On the tourism front, the number of stay-over visitors increased by 29.4 per cent to 5,191, compared with 4,011 over the same period in the prior year (Figure 1). The number of excursionists also expanded by 89.5 per cent to 1,139. Tempering these increases were contractions in the number of cruise ship passengers (82.7 per cent) and yacht passengers (17.8 per cent), owing to the construction of the new Port at Little Bay. As a result of the developments in the latter two categories of travellers, total visitor arrivals into Montserrat fell by 9.8 per cent (906) to 8,386 over the first half of the year.

Figure 1: Visitor Arrivals in Selected Categories

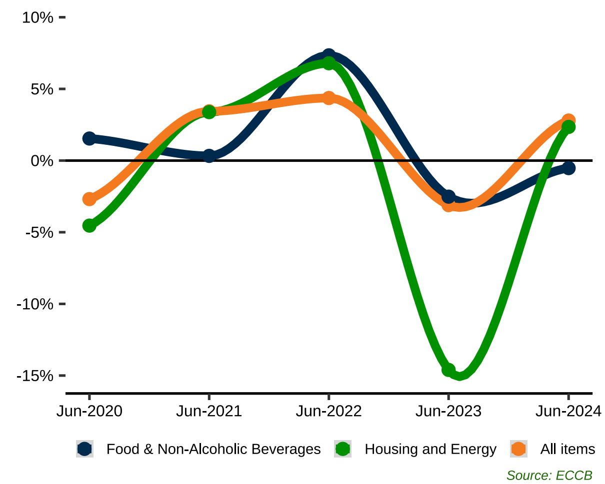


Consumer Prices

Inflationary pressures strengthened as at June 2024, with the CPI index rising by 2.8 per cent, in contrast to a decline of 3.1 per cent over the comparable period one year earlier (Figure 2). Driving prices higher were increased costs for recreation and culture; health; transport; and housing, water, electricity, gas and other fuels.

Figure 2: Selected Categories of Inflation

end-period, y-o-y



Conversely, reductions in the cost of furnishings, household equipment and routine household maintenance; food and alcoholic beverages; and clothing and footwear, moderated the overall price rise.

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 generated both primary and overall surpluses (after grants) in the first half of 2024. The data as at end June reflect an overall surplus of $12.5m, down from one of $15.3m one year ago (Table 1). Likewise, a primary surplus of $12.5m was generated relative to one of $15.5m over the comparable period in 2023.

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

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Current Revenue	26.4	24.9	26.8	30.9	**33.5**
Tax Revenue	21.7	21.9	23.2	27.9	**28.8**
Non-Tax Revenue	4.6	2.9	3.6	3.0	**4.7**
Current Expenditure	67.0	67.4	69.1	78.7	**82.0**
Current Account Balance (after Grants)	-7.7	-9.2	6.0	4.7	**-1.8**
Capital Revenue	0.0	0.0	0.0	0.0	**0.0**
Grants	39.7	51.5	54.7	72.2	**73.4**
Capital Expenditure and Net Lending	18.8	10.9	3.8	9.1	**12.4**
Primary Balance (after Grants)	-19.6	-1.9	8.7	15.5	**12.5**
Overall Balance (after Grants)	-19.7	-2.0	8.5	15.3	**12.5**

* Sources: ECCB and National Statistics Office

The fiscal outturn was driven primarily by stronger capital grant inflows, which increased by $6.9m to $26.7m, as work on the Little Bay Port Project intensified. In addition, current revenue grew by 8.4 per cent to $33.5m, with increases being recorded in both the tax ($0.9m) and non-tax ($1.7m) components.

On the current expenditure side, higher outflows for transfers and subsidies ($1.7m), personal emoluments ($1.0m), and goods and services ($0.6m), were the primary drivers of the increased expenditure. After accounting for current grant inflows of $46.7m relative to $52.4m in the prior year, the government recorded a current account deficit of $1.8m, in contrast to a surplus of $4.7m over the comparable period in 2023.

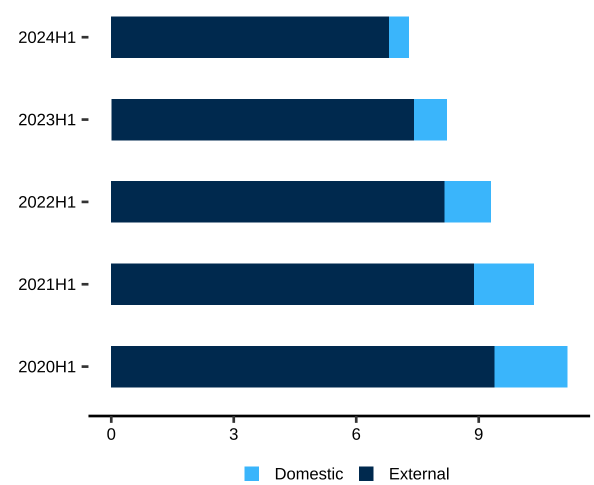
The government also boosted its capital investments by $3.3m to $12.4m, as work advanced on the construction of the Little Bay Port.

Debt

Public sector debt as at end June 2024 stood at $7.3m, representing an 11.3 per cent ($0.9m) decline relative to June 2023 levels. The debt stock comprised external debt of $6.8m and domestic debt of $0.5m, respectively, as illustrated in Figure 3.

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

Stock, end-period



Source: ECCB

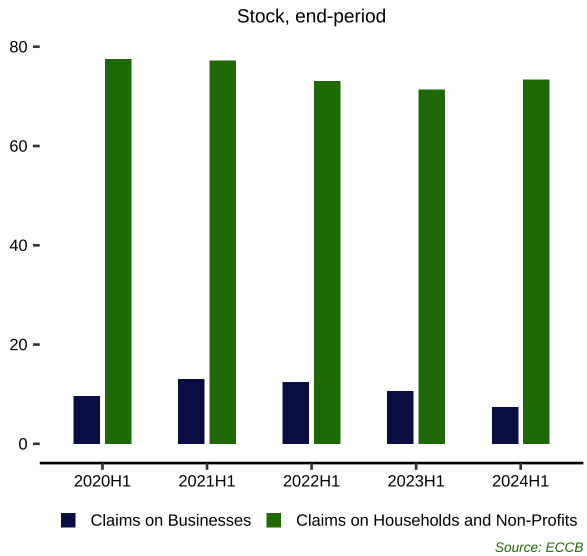
The largest decline was observed for external debt, which fell by $0.6m, while domestic debt saw a $0.3m contraction. On aggregate, both central government and public corporation debt fell over the first half of 2024.

Banking Developments

In contrast to real sector activity, claims on the private sector (credit) fell marginally by 1.4 per cent ($1.1m) to $80.8m in the first half of 2024 (Figure 4). Within the private sector, claims to households expanded by 2.8 per cent ($2.0m), while business claims contracted by 29.8 per cent ($3.2m). Of note, credit allocated for accommodation and food service activities recorded the strongest gains, growing by $2.6m, year-on-year, while credit for construction and land development fell by $1.5m.

Meanwhile, the net deposit position of the central government rose by 7.3 per cent to $75.2m, associated with increased grant flows and the less-than-optimal implementation of some capital projects. Given the aforementioned developments, net domestic claims (credit) fell by 36.5 per cent to $10.0m.

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



Broad money liabilities (M2) increased, year-on-year, by 5.7 per cent to $271.8m, primarily driven by growth in deposits in the banking system on aggregate. Specifically, foreign currency deposits, transferable deposits in national currency and other deposits in national currency grew by 15.0, 6.8 and 1.7 per cent, respectively. Additionally, currency in circulation expanded by 19.4 per cent, year-on-year.

Also of note was the improvement in the asset quality of commercial banks over the first half of the year. Accordingly, non-performing loans as a percentage of gross loans fell by 34 basis points to 5.9 per cent, following the 1.2 percentage point decline in the prior year. Likewise, the liquidity position of commercial banks strengthened, reflected by an increase in the ratio of liquid assets to short-term liabilities of 2.8 percentage points to 90.9 per cent.

External Trade

Consistent with an expanding economy, Montserrat's merchandise trade deficit widened in the first half of the year by 14.9 per cent to $56.3m. Import payments rose to their highest level in the past 5 years, surpassing the 2023 mark by 10.6 per cent to $63.7m. Driving the increase in these payments were larger outflows for manufactured goods (42.5 per cent) and machinery and transport equipment (14.8 per cent). The food import bill also rose by 2.8 per cent to $8.8m over the first half of the year. By contrast, export receipts declined by 14.2 per cent to $7.4m, relative to $8.6m over the comparable period in 2023.

In respect of services, total visitor expenditure increased by 27.9 per cent to $15.6m, relative to $12.2 over the same period one year ago.

Outlook

Montserrat's economy is projected to expand at a moderate pace in 2024, based on mixed results in the tourism industry as well as an uptick in the construction sector. For the year to date, both the stayover and excursionist sub-categories have recorded strong growth, however, they have been moderated by declines in the cruise and yacht passenger segments, owing to ongoing work on the Little Bay Port project. These developments are expected to continue for the rest of year.

With respect to construction activity, work on the Little Bay Port Development Project, valued at over EC$120.0m, continues apace and is expected to be completed by the end of the first quarter of 2025. This project is envisaged to transform the landscape at Little Bay, with a 130-metre pier capable of accommodating ships up to 187 metres in length. In addition, the project is expected to provide the impetus for greater private sector activity in the areas of accommodation, transport, food and beverage services, and other local entrepreneurial activities.

Despite the aforementioned, Montserrat faces many downside risks, including ongoing geopolitical tensions in the Middle East, which could negatively impact the price of oil and global inflation. In addition, the perennial threat of natural disasters is a constant concern, coupled with the fact that the Soufriere Hills Volcano remains active, with potentially devastating consequences. Additionally, any unanticipated slowdown in Monserrat's key source markets of the United States of America and the United Kingdom, would negatively affect the tourism industry, employment and output levels.

Box 1: Little Bay Port Project Could Serve as a Catalyst for the Future Growth of Montserrat

After breaking ground in June 2022, construction at the Little Bay Port got underway in the first quarter of 2024, with the placement of temporary caissons in the water. These are important building blocks that form the foundation of the pier.

The project is being financed by the United Kingdom Caribbean Infrastructure Fund (UKCIF), the European Development Fund and the government of Montserrat. It is estimated to cost EC$126m.

The Little Bay Port Development Project is one of the most consequential capital investments in Montserrat as Little Bay is projected to be the centre of economic activity in the future, as the island continues to rise from the ashes of the many volcanic eruptions, starting in 1995. Tourism continues to recover, following the global pandemic and many small and mid-size vessels are showing interest in Montserrat. However, given the periodic rough seas that are characteristic of the Little Bay area, it is estimated that approximately 30 – 35 per cent of ships have had to turn away in the past.

It is envisaged that this new pier, which serves as a natural breakwater, will alleviate some of those concerns. The pier will be 130 metres in length and will be able to birth ships up to 187 metres. With proper marketing and planning, it is envisaged that Montserrat will become a hotbed for adventure tourism and that the Little Bay Port will meet and exceed the expectations of cruise ships and yachts alike. It is also expected that the port will have a multiplier effect on the economy, serving as a catalyst for more tour operators and service providers in the hospitality industry as well as the broader business sector.

Selected Economic Indicators

Item	2020H1	2021H1	2022H1	2023H1	2024H1
Banking and Monetary					
Net Foreign Assets (EC$M)	304.1	330.2	326.9	330.5	360.7
Domestic Credit (EC$M)	38.8	20.6	12.6	15.7	10.0
M2 (EC$M)	251.3	261.6	249.6	257.0	271.8
Currency in Circulation (EC$M)	29.4	30.3	31.4	35.3	42.1
Liquid assets to total assets	76.9	75.1	75.2	80.4	81.9
Liquid assets to short-term liabilities	94.6	84.8	85.0	88.1	90.9
Customer deposits to total (noninterbank)loans	286.7	315.1	325.3	337.8	337.7
Weighted Average Deposit Rate (%)	1.2	1.2	1.2	1.2	1.2
Weighted Average Lending Rate (%)	6.2	6.1	6.1	6.1	5.8
Interest Rate Spread (%)	5.0	5.0	4.9	4.8	4.6
Non-Performing Loans to Total Loans (%)	5.3	4.9	7.4	6.3	5.9
Real Sector and Prices					
Inflation Rate (year-on-year)(end-June) (%)	−2.7	3.4	4.4	−3.1	2.8
Inflation Rate (half-year) (%)	−2.6	3.9	3.1	1.1	2.9
Total Visitor Arrivals	7,858	525	1,492	9,292	8,386
Total Visitor Expenditure (EC$M)	12.7	1.5	4.3	12.2	15.6
Government Finances					
Current Revenue (EC$M)	26.4	24.9	26.8	30.9	33.5
Current Expenditure (EC$M)	67.0	67.4	69.1	78.7	82.0
Current Balance (EC$M)	−7.7	−9.2	6.0	4.7	−1.8
Primary Balance (EC$M)	−19.6	−1.9	8.7	15.5	12.5
Overall Balance (EC$M)	−19.7	−2.0	8.5	15.3	12.5
Total Public Sector Debt (EC$M)	11.2	10.3	9.3	8.2	7.3

Data as at August 2024

2024

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