MONTSERRAT

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EASTERN CARIBBEAN CENTRAL BANK

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ECONOMIC AND FINANCIAL REVIEW

MONTSERRAT

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The analysis in this report uses data available as at September 2024 to estimate 2024 full-year figures. For the most recent updates and detailed statistics, please refer to the Statistics page on the ECCB's website.

Montserrat

Economic and Financial Review - December 2024

Eastern Caribbean Central Bank

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Overview[1]

Montserrat's economy expanded in 2024,[2] driven by growth in the hotels and restaurants and construction industries, producing knock-on effects on ancillary industries.

In tandem with rising economic activity, public sector revenues increased over the year in review. Similarly, public sector expenditures grew, reflective of salary increases as well as a relatively high level of public sector investments.

The operations of the government resulted in both primary and overall surpluses for the fourth consecutive year. Additionally, the country continues to enjoy low levels of debt, which are likely to decline further in the short- to medium-term as loans are amortized within the context of fiscal surpluses.

Contrary to greater economic activity, credit flows from the banking system declined, with both business and household credit contracting. The banking system remained stable over the past year, with high levels of liquidity and capital adequacy as well as a reasonable level of non-performing loans. Montserrat's current account deficit narrowed marginally over the review period.

Recent Economic Developments

Real Sector Developments

Following the contraction of 1.1 per cent in 2020, owing to the COVID-19 pandemic and the resultant worldwide travel restrictions, the economy of Montserrat has been steadily expanding over the past four years, with real

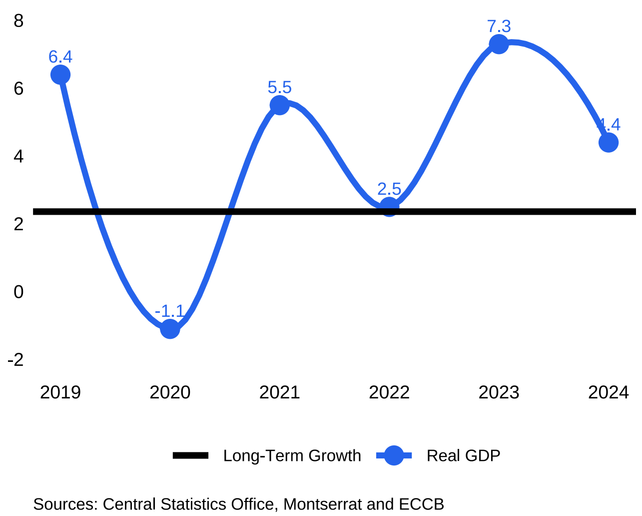
[1] Photo Credit: Leon Bullen

[2] The data presented for 2024 in this report reflect estimates based on data available through September 2024. Readers should note that these figures are subject to change as more complete data become available. Updated data for 2024 may be accessed via the statistics page on our website, and readers are encouraged to refer to this resource for the latest information

growth averaging 4.9 per cent, roughly 2.6 percentage points above Montserrat's long-run growth rate of 2.4 per cent (Figure 1). In 2024, real GDP is estimated to have expanded by 4.4 per cent to $224.8m, after recording a high of 7.3 per cent growth in 2023.

Figure 1: Real GDP Growth and Average Long-Term Growth

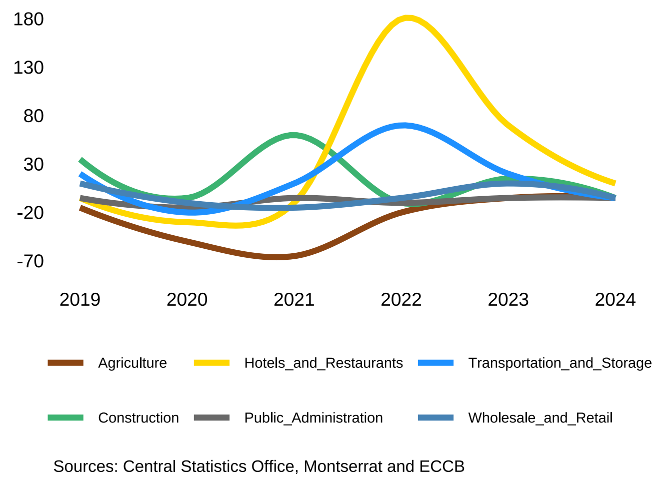
GDP growth has been volatile, but is expected to exceed the long-term averag



Growth was driven primarily by buoyancy in the hotels and restaurants and construction industries, with knock-on effects on wholesale and retail trade, as well as transportation and storage (Figure 2). In the tourism industry, additional marketing, coupled with efforts to improve access to the island, have paid dividends, while ongoing work on the Little Bay Port Project, valued at over EC$120.0m, has boosted construction sector activity. Additionally, value added in the public sector, which contributes approximately one-third of GDP, expanded over the past year.

Figure 2: Growth of Key Sectors in Montserrat

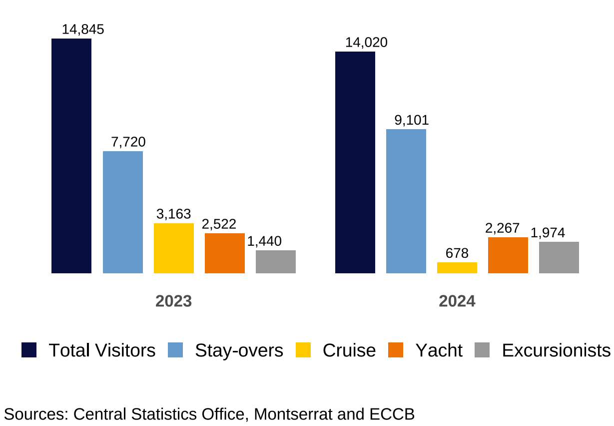
Developments in tourism, construction and transportation and storage have been the leading drivers of economic growth



Estimates for 2024 indicate that total visitor arrivals fell by 5.6 per cent (825), following more than a doubling of this indicator in 2023, as cruise ship arrivals declined on account of the ongoing infrastructural work at the Little Bay Port (Figure 3). However, the stay-over segment recorded robust growth of approximately 18.0 per cent (1,381), with double-digit expansions from all the major source markets, except Canada. The number of excursionists also rose by 37.0 per cent, but this was tempered by contractions in cruise ship and yacht passengers of 78.6 and 10.1 per cent, respectively.

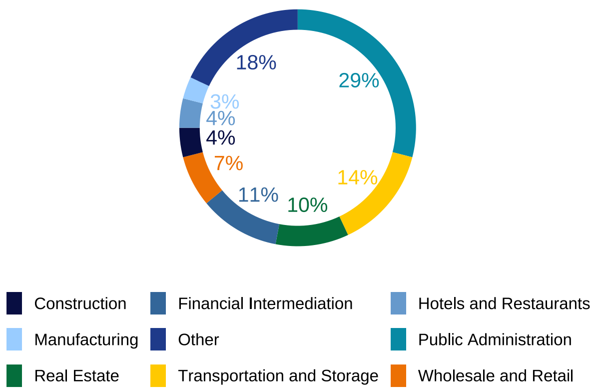
Figure 3: Performance of visitor Arrivals Segments (2023 - 2024)

Although total visitor arrivals fell, the stay-over segment made strong gains



In respect of the composition of Montserrat's Gross Domestic Product (GDP) as at end 2024, the public sector dominated, representing just under one third of value added (Figure 4). This was followed by transportation and storage, and real estate, renting and business activities, at 14.0 and 10.0 per cent, respectively. The hotels and restaurants industry represented 4.0 per cent of GDP.

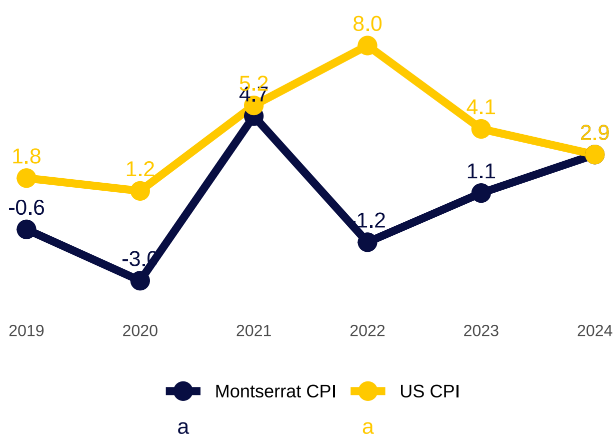
Figure 4: Main Contributors to Montserrat's GDP
Public Administration, Transport and Storage, and Real Estate are the three largest sectors in Montserrat



Sources: Central Statistics Office, Montserrat and ECCB

Domestic inflation, measured by the consumer price index, is primarily imported from the United States. Inflation is estimated to have accelerated to 2.9 per cent in 2024. This marks a notable acceleration compared to the 1.1 per cent inflation rate recorded in the preceding year (Figure 5).

Figure 5: Rate of Inflation (Montserrat vs. USA)
Inflation in Montserrat ticked up in 2024, but remains on par with that of the USA



Sources: Central Statistics Office, Montserrat and ECCB

The increase in prices was mainly associated with higher costs for health, transport, and recreation and culture. These expansions were moderated by declines in the sub-indices for furnishings and household equipment, clothing and footwear, and communication.

Fiscal Developments

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 2024. Preliminary estimates point to an overall surplus of 16.0 per cent of GDP ($37.3m), up from 4.2 per cent of GDP ($9.1m) in 2023. Likewise, a primary surplus of 16.1 per cent of GDP was generated, compared with 4.3 per cent of GDP, one year earlier (Table 1).

Fiscal table1

Table 1: Central Government Fiscal Operations

(in per cent of GDP)

Indicators	2019	2020	2021	2022	2023	2024
Current Revenue	29.6	29.5	26.1	27.8	27.5	26.5
Grants	43.8	50.3	38.8	45.5	48.4	44.3
Current Expenditure	77.3	77.7	70.3	70.6	71.9	68.5
Of which: personal emoluments	26.5	26.2	25.2	24.1	22.8	22.3
Capital Grants	0.1	8.9	17.7	8.0	9.2	21.6
Capital Expenditure	8.9	15.0	11.1	6.7	9.0	7.9
Overall Balance	−12.5	−4.0	1.2	3.9	4.2	16.0
Primary Balance	−12.4	−3.8	1.4	4.1	4.3	16.1
Financing:	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	12.8	4.2	−0.9	−3.5	−3.9	−16.0
External	−0.2	−0.3	−0.3	−0.4	−0.3	0.0
Total Public Sector Debt to GDP	6.5	6.0	5.2	4.5	3.6	2.9

Sources: Ministry of Finance, Montserrat and ECCB

The fiscal outturn was driven primarily by stronger capital grant inflows, which rose from 9.2 per cent of GDP in 2023 to 21.6 per cent of GDP in 2024, as work on the Little Bay Port Project advanced. In addition, the fiscal outturn was influenced by a decline in both current and capital expenditure as a per cent of GDP. The latter is explained by a lower-than-expected implementation rate on the port project, which was affected by delays and untimely breakdown of critical machinery.

Importantly, the generation of primary surpluses for the fourth consecutive year, along with ongoing amortization of existing debt, continues to put further downward pressure on the country's debt to GDP ratio to approximately 2.9 per cent, from 3.6 per cent one year earlier.

External Developments

Montserrat's merchandise trade deficit deteriorated for the fourth consecutive year in 2024, as imports grew with economic expansion, while exports declined (Figure 6). A trade deficit equivalent to 47.9 per cent of GDP (EC$111.3m) is estimated, relative to 45.4 per cent of GDP (EC$98.6m) recorded one year earlier. This development was largely influenced by a decrease in goods exports of 1.4 per cent of GDP, while import payments increased by 1.1 per cent of GDP (Table 2).

Table 2: Selected Indicators - External Sector

(in per cent of GDP)

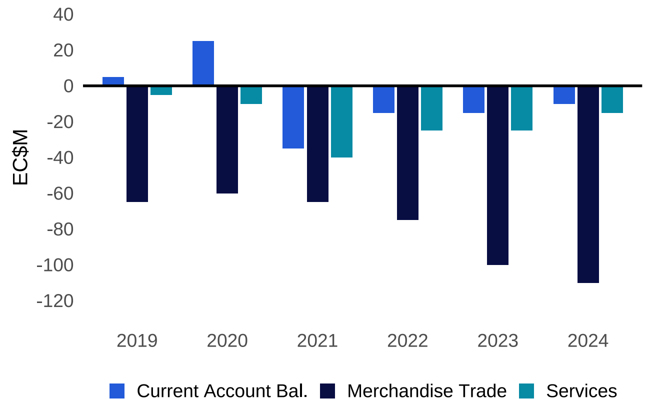
Indicator	2019	2020	2021	2022	2023	2024
Current Account	3.2	14.0	−18.3	−8.3	−6.6	−6.5
Trade Balance	−35.5	−31.9	−33.6	−39.1	−45.4	−47.9
Imports, FOB	44.0	40.5	45.6	48.3	52.6	53.6
Exports, FOB	8.5	8.6	12.0	9.2	7.2	5.7
Travel Receipts	15.1	7.6	2.3	6.4	9.8	10.8
Gov't Capital Grants	0.3	9.1	17.8	8.0	9.8	11.4
FDI	1.7	4.4	3.2	6.4	4.4	4.4

Sources: Central Statistics Office, Montserrat and ECCB

The decline in goods exports is consistent with the contraction of output in the volcanic sand mining sub-industry. In respect of services, total travel receipts amounted to 10.8 per cent of GDP, a 1.0 percentage point increase from 2023, driven by robust growth in the stay-over visitor segment as more nationals returned home for the Saint Patrick's Day and Christmas celebrations.

Figure 6: Selected Components of the Current Account

The current account deficit has improved over the past three years

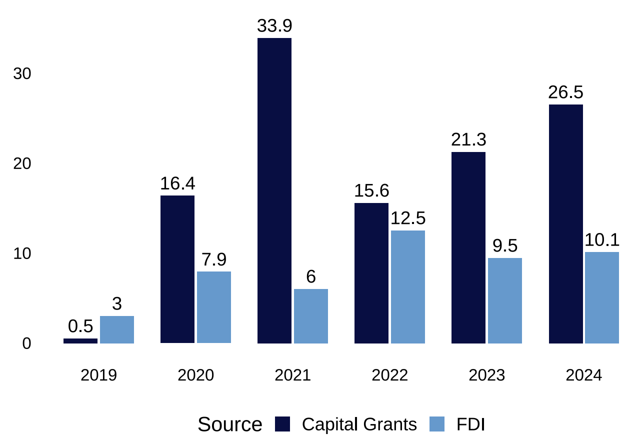


Sources: Central Statistics Office, Montserrat and ECCB

The increase in travel receipts contributed to a narrowing of the current account deficit to 6.5 per cent of GDP relative to 6.6 per cent in the previous year. Montserrat's current account deficit was financed primarily through larger inflows of government capital grants, funded by the United Kingdom's Foreign, Commonwealth and Development Office (FCDO), and reached 11.4 per cent of GDP in 2024. Meanwhile, foreign direct investments remained steady at 4.4 per cent of GDP, matching the level in 2023 (Figure 7).

Figure 7: Main Sources of Financing of External Defici

Current account deficits are primarily funded by capital grants and FDI (EC$M)



Banking and Monetary Developments

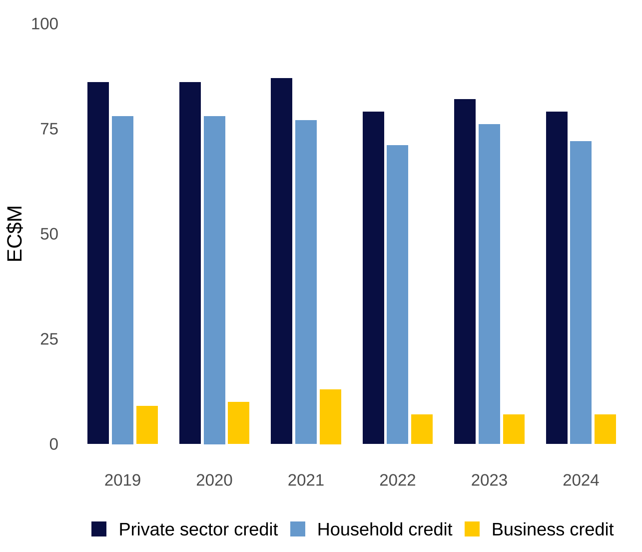
In contrast to increased real sector activity, claims on the private sector (credit) contracted by 4.7 per cent to

$79.0m in 2024, with the larger share (91.5 per cent) going to households (Figure 8). The decline in private sector credit reflected contractions for both businesses and households, with claims falling by 5.5 and 4.6 per cent, respectively. Of note, the net deposit position of the central government rose by 49.0 per cent to $98.0m, associated with the larger fiscal surplus generated throughout the year. The developments resulted in a contraction of net domestic claims (credit), influenced primarily by larger government deposits.

As expected, the expanding economy was associated with an increase in broad money liabilities (M2) of 4.7 per cent to $276.0m, driven by growth in net foreign assets, as high interest rates in key source markets persisted. Deposits in the banking system rose on aggregate, in particular, foreign currency deposits (15.5 per cent), with other deposits in national currency rising marginally by 1.4 per cent. However, transferable deposits in national currency saw a 4.1 per cent contraction, year-on-year.

Figure 8: Developments with Private Sector Credit

The decline in private sector credit reflected contractions in businesses and household credit



In respect of financial sector stability, the banking system strengthened its liquidity position, but saw a marginal deterioration in both its asset quality and capital adequacy levels in 2024 (Table 3). Accordingly, non-performing loans as a percentage of gross loans rose by 30 basis points to 5.7 per cent, 70 basis points above the prudential benchmark of 5.0 per cent. Additionally, the capital adequacy ratio stood at 12.0 per cent, 4.0 percentage points above the regulatory minimum, but 7.6 percentage points lower relative to the level one year earlier. By contrast, the liquidity ratio, measured by liquid assets to short-term liabilities, rose by 1.6 percentage points to 90.0 per cent, marking the third consecutive year of strengthening, and potentially indicating a need for greater intermediation by the banking sector.

Medium Term Outlook

Outlook

The outlook for Montserrat is broadly positive, with risks tilted to the downside. In the absence of any major shocks, the economy is projected to expand by 3.6 per cent in 2025 and a further 2.9 per cent in 2026, driven by continued growth in the hotels and restaurants and construction industries (Table 3). This is based on ongoing efforts to improve access to the island by both air and sea, as well as continued heightened construction activity, driven by the development of the Little Bay Port and the start of the new National Hospital, which is slated for April of 2025.

Consumer prices are expected to rise over the short term, consistent with US inflationary expectations. On the fiscal front, the government is projected to generate both primary and overall surpluses in 2025, as the economy continues to expand and tax revenues increase. In addition, the implementation rate on major capital expenditures is likely to be negatively affected by adverse weather conditions, equipment breakdown and shortages of material and staff. In 2026, the government's fiscal position is forecast to remain virtually unchanged.

Table 3: Medium Term Outlook- Selected Economic Indicators

(as a per cent of GDP unless stated otherwise)

Indicator	2025	2026
Real Sector		
Nominal GDP (EC$M)	246.4	258.9
Real GDP (EC$M)	232.9	239.6
Real GDP Growth	3.6	2.9
Inflation (end of period; per cent)	2.2	2.2
Government Sector		
Current Revenue	25.0	25.6
Current Expenditure	66.8	64.5
Capital Expenditure	8.4	8.4
Primary Balance	8.9	8.5
Overall Balance	8.8	8.4
Financing	−8.8	−8.4
External Sector		
Balance of trade	−45.8	−47.1
Travel receipts	11.2	11.8
Current account	−2.5	−1.4
Foreign Direct Investment	−4.3	4.4
Monetary Sector (EC$M)		
Money Supply	291.5	305.2
Net Foreign Assets	402.8	444.6
Net Domestic Assets	−111.4	−139.4
Domestic Credit	−42.6	−60.8
Of which credit to the private sector	83.8	88.1
Of which credit to businesses	7.1	7.5
Of which credit to households	76.7	80.6
Memo Items:		
Total public sector debt (EC$M)	5.6	4.6
Total public sector debt to GDP	2.3	1.8

Source: Central Statistics Office, Montserrat and ECCB

Additionally, the external current account deficit is projected to narrow, consistent with an expansion in services exports, driven by increased stayover arrivals and cruise ship passengers. The money supply is also forecast to increase in tandem with expansions in net foreign assets and domestic private sector credit. Further, the liquidity and capital adequacy positions of the banking system are expected to remain within prudential limits, while the asset quality position is expected to be marginally above the regulatory standard.

Risks

As stated earlier, risks are tilted to the downside and could significantly alter the baseline positions (Table 4 - Appendix). Specifically, growing geopolitical tensions could potentially derail global trade, increase inflationary pressures and reduce growth outcomes, thereby negatively affecting growth prospects and diminishing the government's fiscal space. Additional risks associated with climatic factors and growth outcomes in the United Kingdom, which can impact the magnitude of funding available to the people and government of Montserrat, also threaten to derail growth.

Policy Recommendations

Montserrat has recorded real growth of approximately 4.9 per cent since 2021 and has seen positive fiscal outcomes, along with very low levels of debt. However, given its very small size and the lasting effects of multiple volcanic eruptions, the country continues to be heavily dependent on grant funding from the UK government, with total grants reaching 65.9 per cent of GDP in 2024. Given the need to sustainably grow its economy, there are some key policy initiatives which should be considered:

I. Access

Improving access to Montserrat is one of the most critical pillars for the country's future growth and development, especially given its small population and limited fiscal revenue streams. In this regard, efforts to secure a consistent ferry service from Antigua and Barbuda at a reasonable cost, especially during the peak Christmas and Saint Patrick's Day periods, would be crucial to boost visitor arrivals.

The addition of Winair to the airline portfolio, which includes Fly Montserrat, is also an important step forward in providing larger carriers and attracting greater numbers of tourists to the island. Importantly, a comprehensive and integrated plan needs to be developed to extract maximum benefits from the Little Bay Port, which will serve as the island's most important gateway for small cruise ships, charter vessels and cargo. In this regard, policies should be put in place to encourage the growth of domestic small businesses to offer a variety of services to visitors, including restaurants, beauty salons, small agro-processing plants, adventure trails, tours and entertainment.

II. Economic Diversification

Efforts to accelerate economic diversification should continue apace, with emphasis on increased diversification in tourism, for example, heritage, culture and adventure tourism, together with supporting the growth of the creative economy, which is crucial for addressing youth unemployment. Additionally, engaging in regional and international partnerships as well as learning from international best practices, particularly for very small economies similar in structure, such as the Pacific Islands, would be important to move the sector forward.

III. Allocation of credit

Based on the low rate of growth in private sector credit over the past five years, there is a need for banks to reorient their policies and consider innovative financing instruments to support emerging industries, especially within the creative economy. In addition, financial institutions could play a more pivotal role in improving the financial acumen of budding entrepreneurs and collaborate with government to provide technical support in maintaining basic accounting practices and standards. By so doing, financial institutions would diversify their book of business and play a more active role in driving the future growth and development of the country.

IV. Skills Development

Given Montserrat's small population and the propensity of young people to migrate to the United Kingdom and the United States, a concerted effort should be made to train and retain talent in critical areas such as engineering, architecture, plumbing and electricians, among others. This is especially important as the tourism sector is poised to take off with the construction of the Little Bay Port and as the government embarks on other critical infrastructure projects such as the National Hospital. Additionally, enhancing skills in the labor force to support greater digitization in the public sector, removing bureaucratic delays with more efficient processing of permits, licenses and registrations, and improving local business conditions would redound to the benefit of the country.

Appendix I: Downside Risks

Table 4: Key Downside Risks

Risks	Likelihood	Impact
Global/External Risks		
Intensification of Geopolitical conflict. Escalation of conflict in the Middle East can disrupt trade routes and flows of key commodities including energy. Similarly, protectionist policies can upset global trade and worsen trade balances.	High	**High.** Intensified inflationary pressures can erode disposable incomes, stifle demand, widen fiscal and trade deficits and impact food and energy security. Higher tariffs imposed on major suppliers such as China can result in increased prices within the U.S economy. This inflation is likely to be passed on to the domestic economy and impact living standards.
Commodity price volatility. Exacerbated supply chain woes due to conflict and OPEC+ decisions can result in commodity (food and energy) price upswings.	High	**High.** Higher international oil prices would increase inflation, slow down growth and affect living standards.
Domestic/Local Risks		
Intensified Climatic Events. Extreme temperatures can result in heat waves, droughts and devastating tropical cyclones.	Medium/ High	**High.** This can result in lower growth and worse fiscal and external positions. Continued slow recovery of the agriculture sector can threaten food security.
United Kingdom's fiscal austerity measures	Medium/High	**High.** This could drastically reduce the aid envelope available to Montserrat, leading to a slowdown in economic activity and lower living standards.
Low capital implementation rate	High	**High.** The occasional break down of critical machinery, coupled with the shortage of material and human resources, hamper the timely completion of critical projects such as the Little Bay Port.

Selected Economic Indicators

Selected Economic Indicators

in EC$M, unless otherwise stated

Indicator	2019	2020	2021	2022	2023	2024	2025	2026
Real Sector								
Nominal GDP (EC$M)	177.2	180.5	190.5	195.1	217.2	232.3	246.4	258.9
Real GDP (EC$M)	187.7	185.6	195.7	200.7	215.3	224.8	232.9	239.6
Real GDP Growth	6.4	−1.1	5.5	2.5	7.3	4.4	3.6	2.9
Inflation (end of period; per cent)	−0.6	−3.0	5.2	−1.2	1.1	2.9	2.2	2.2
Government Sector								
Current Revenue	52.5	53.2	49.8	54.1	59.7	61.5	61.5	66.2
Current Expenditure	136.9	140.2	133.9	137.7	156.1	159.1	164.6	167.1
Capital Expenditure	15.8	27.1	21.0	13.0	19.5	18.3	20.8	21.8
Primary Balance	−22.0	−6.9	2.6	7.9	9.3	37.4	21.9	22.0
Overall Balance	−22.2	−7.1	2.4	7.7	9.1	37.3	21.7	21.8
Debt Servicing as a share of Current Revenue	2.1	2.2	2.2	2.5	2.0	1.2	1.1	1.0
Financing	22.2	7.1	−2.4	−7.7	−9.1	−37.3	−21.7	−21.8
External Sector								
Balance of trade	−63.0	−57.7	−64.0	−76.4	−98.6	−111.3	−112.9	−121.9
Travel receipts	26.8	13.8	4.3	12.4	21.3	25.2	27.7	30.5
Current account	5.7	25.3	−34.8	−16.2	−14.3	−15.0	−6.1	−3.6
Foreign Direct Investment	−3.0	−7.9	−6.0	−12.5	−9.5	−10.1	−10.7	11.3
Monetary Sector								
Money Supply	266.5	252.4	246.8	257.8	263.5	276.0	291.5	305.2
Net Foreign Assets	307.3	338.0	317.6	326.0	342.3	369.7	402.8	444.6
Net Domestic Assets	−40.8	−85.6	−70.8	−73.2	−78.9	−93.7	−111.4	−139.4
Domestic Credit	18.8	7.4	19.7	17.8	15.4	−21.0	−42.6	−60.8
Of which credit to the private sector	86.7	87.2	88.5	79.5	82.9	79.0	83.8	88.1
Of which credit to businesses	8.9	9.7	12.2	7.2	7.1	6.7	7.1	7.5
Of which credit to households	77.8	77.5	76.4	72.3	75.8	72.3	76.7	80.6
Memo Items:								
Total public sector debt (EC$M)	11.6	10.8	9.9	8.7	7.7	6.7	5.6	4.6
Total public sector debt to GDP	6.5	6.0	5.2	4.5	3.6	2.6	2.3	1.8

Source: Central Statistics Office and ECCB Data as at September 2024