

MONTSERRAT

JUNE 2022



ECONOMIC AND FINANCIAL REVIEW

Eastern Caribbean Central Bank



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Economic and Financial Review

HALF-YEAR REVIEW

MONTSERRAT

EASTERN CARIBBEAN CENTRAL BANK





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Montserrat

Economic and Financial Review: 2022 Half-Year (2022H1)

Research, Statistics and Data Analytics Department

Contents

1 Overview	2
2 The Economy (Real Sector)	2
2.1 Consumer Prices	3
3 Government Operations	4
3.1 Debt	5
4 Banking Developments (Monetary)	6
5 External Trade	8
6 Outlook	9
7 Selected Economic Indicators	10

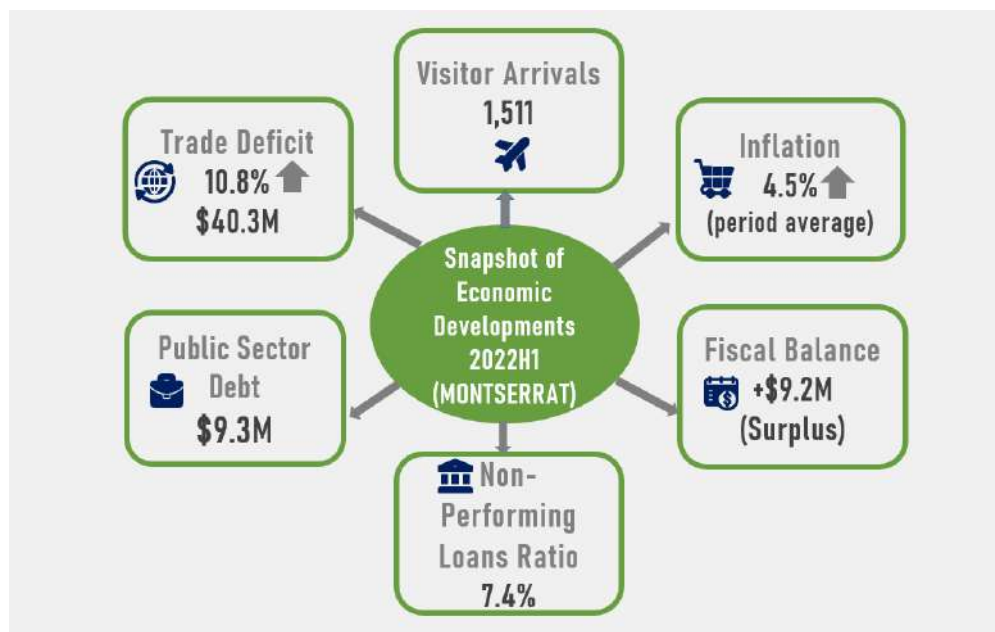


Figure 1: Snapshot of Economic and Financial Developments for 2022H1

1 Overview

- Preliminary data indicate that the Montserratian economy contracted in the first half of 2022,¹ consistent with reduced construction activity. However, the tourism sector rebounded somewhat.
- The government's fiscal performance improved as current revenue growth outpaced that of current expenditure; debt levels contracted.
- The economy is expected to remain on the path to recovery in 2022, but faces some potentially severe headwinds including an escalation of the Russia-Ukraine war, sustained high prices for commodities and crude oil, and a looming recession in the economies of its major trading partners. ∴

2 The Economy (Real Sector)

Montserrat's economy is estimated to have contracted during the first six months of 2022, compared with the same period one year earlier. Reduced activity in the construction sector and its impact on associated industries was the primary driver of this outcome.

In the case of the public sector, capital expenditure is estimated to have declined to \$3.8m from \$10.9m one year earlier, while in the private sector, the value of construction starts fell from \$15.0m to \$4.7m.

¹The review period for this report is the first 6 months of 2022, and is abbreviated 2022H1 in this report



2.1 Consumer Prices

The downturn in overall activity was partially mitigated by the ongoing recovery in the tourism sector. Based on data for the first half of the year, total visitor arrivals almost tripled to 1,511 compared with 525 in 2021, but fell well below the five-year (2017 to 2021) average of 8,787 (Figure 2). Stayover arrivals dominated the landscape, increasing to 1,469 from 522 in the previous year. Additionally, the number of excursionists rose to 36 from 3 in 2021.

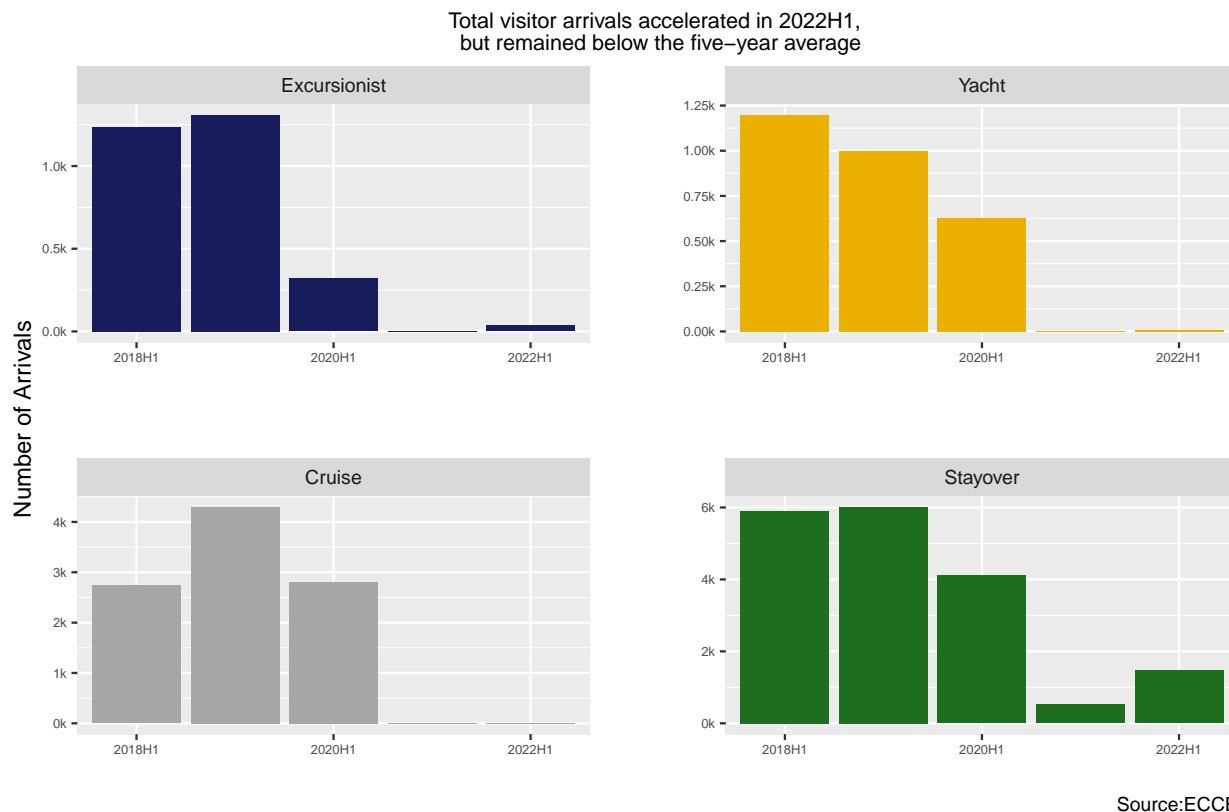
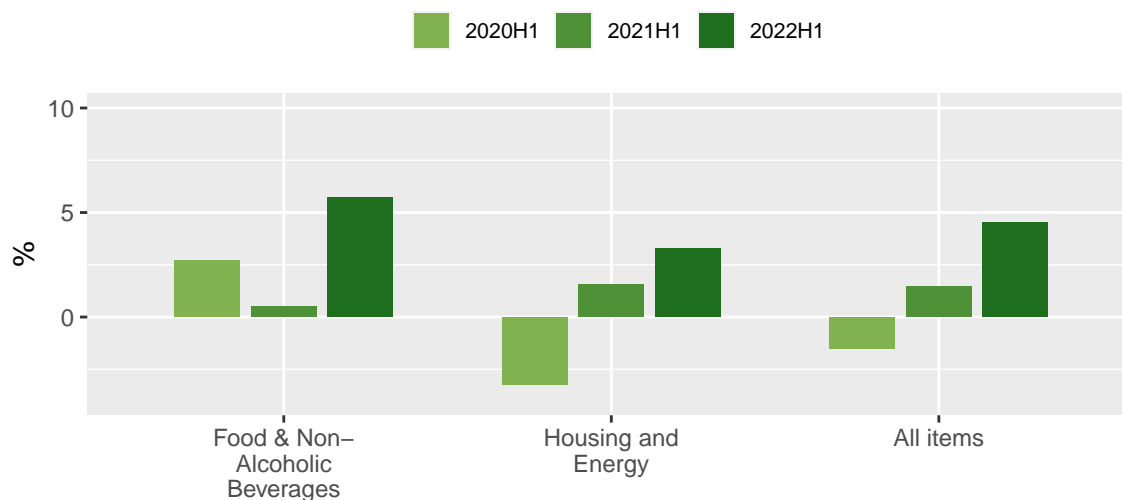


Figure 2: Visitor Arrivals to Montserrat by Category

2.1 Consumer Prices

Inflationary pressures intensified in Montserrat in the first half of 2022, driven by higher costs for energy and food (Figure 3). The Consumer Price Index (period average) rose by 3.2 per cent as at June 2022, doubling the 1.6 per cent increase recorded over the comparable period in the prior year. Higher prices for food; clothing; housing, utilities, gas and fuels; transport; and communication were the main contributors to the spike in prices.

International developments continued to impact domestic prices



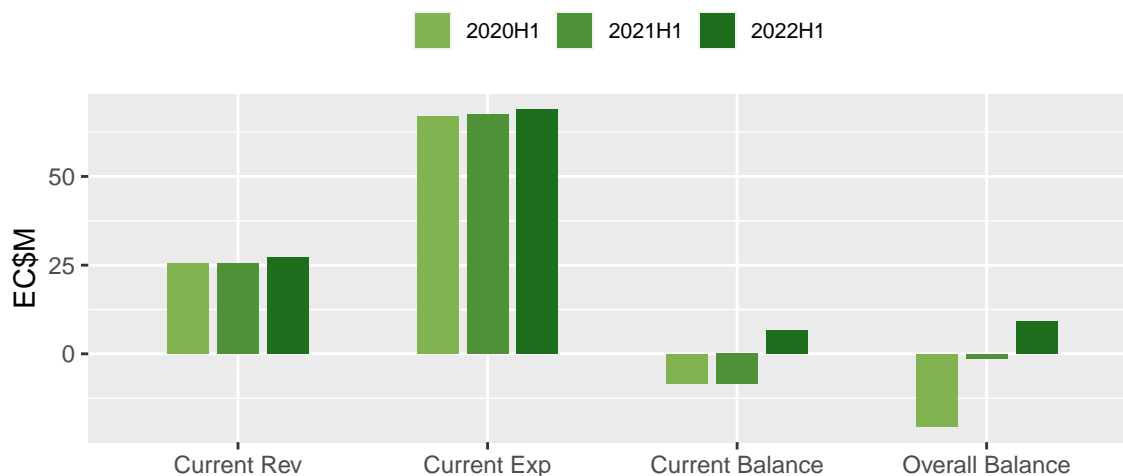
Source: ECCB

Figure 3: Trends in Period-Average Inflation

3 Government Operations

The government of Montserrat recorded an overall fiscal surplus of \$9.2m (after grants) during the first half of 2022, in contrast to the \$1.3m deficit recorded one year earlier (Figure 4). This outcome also outperformed the five-year average deficit of \$11.9m.

Government's operations resulted in an overall surplus in 2022H1 relative to a deficit in 2021H1



Source: ECCB

Figure 4: Trend in the Government's Fiscal Operations



3.1 Debt

Driving the fiscal result was a 6.1 per cent increase in current revenue to \$27.1m, after recording a decline of 0.1 per cent in the comparable period of 2021. Tax revenue accounted for the largest share of the increase, rising by \$0.9m, with taxes on goods and services and on international trade and transactions recording the largest gains (Figure 5A). Non-tax receipts grew by \$0.7m. Additionally, current grants, provided by the UK government for budget support, rose by \$14.9m to \$48.4m over the period.

Similarly, current expenditure increased by 2.0 per cent to \$68.8m, primarily driven by greater outlays for goods and services (Figure 5B). By contrast, the government recorded smaller expenditures on personal emoluments, interest payments, and transfers and subsidies.

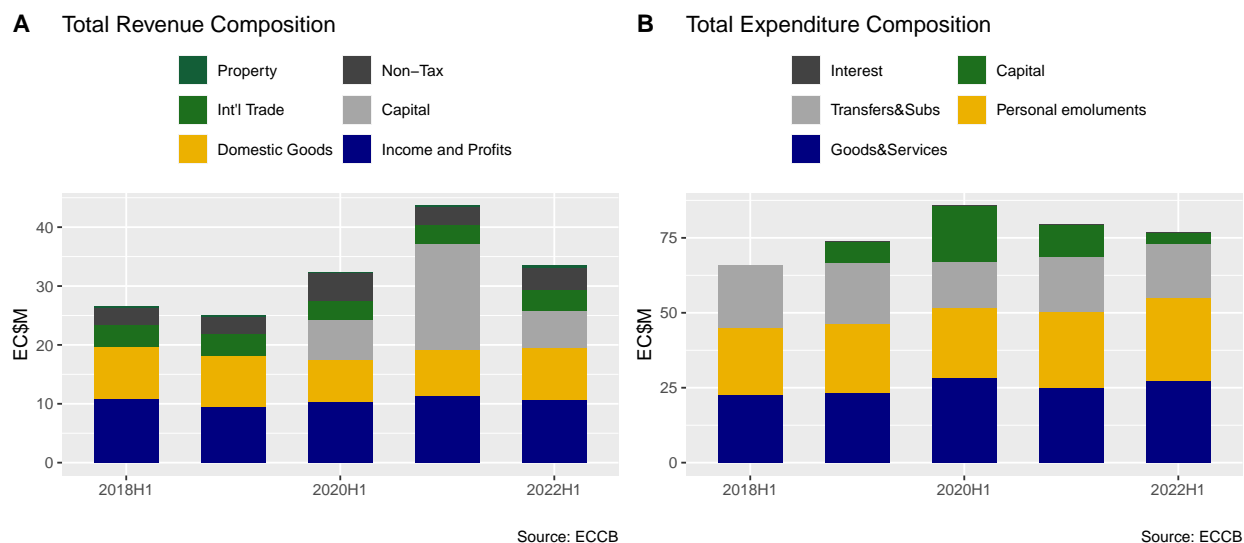


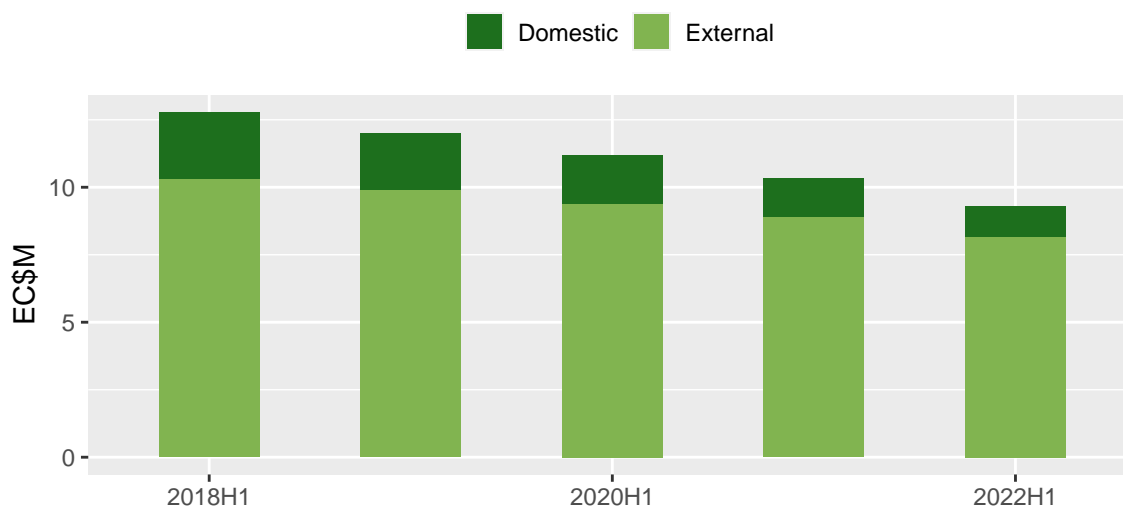
Figure 5: Half-Year Trends in the Composition of Revenue and Expenditure

On the capital side, the government recorded a smaller capital expenditure of \$3.8m, relative to the \$10.9m spent in the first half of 2021. This development was partially influenced by the slow implementation of some projects, affected by supply chain issues as well as the finalization of contracts.

3.1 Debt

Consistent with the improved fiscal performance, the public sector debt portfolio fell by \$1.0m to \$9.3m compared with the balance as at June 2021, of which central government debt declined by \$0.9m to \$7.6m (Figure 6). Likewise, the debt stock of public corporations contracted by \$0.2m to \$1.7m over the review period.

Public sector debt fell at end 2022H1 compared with the balance at end 2021H1

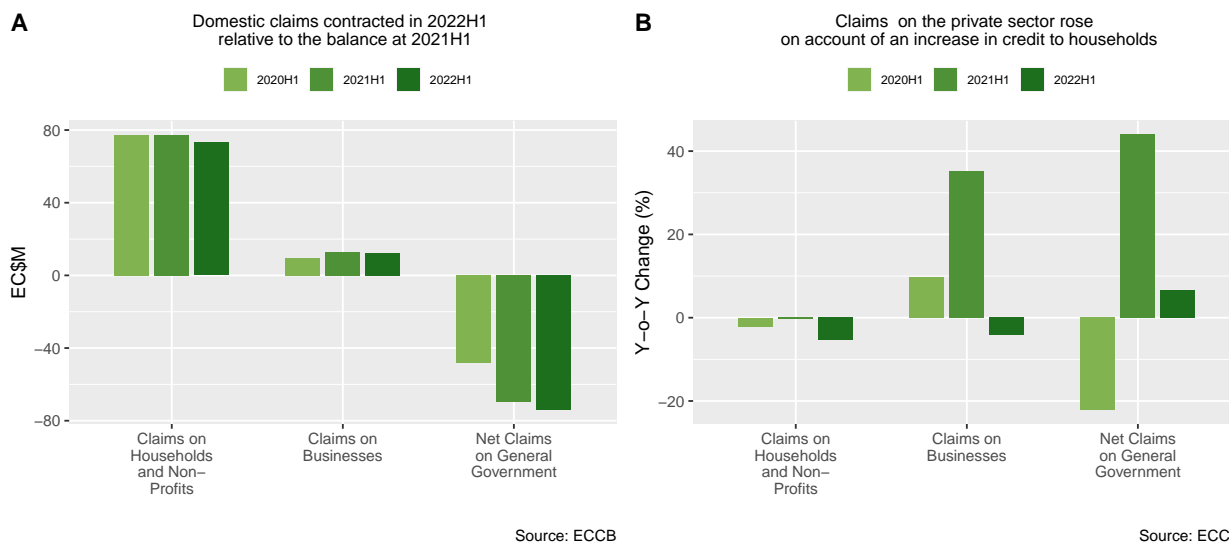


Source: ECCB

Figure 6: Trends in Outstanding Public Sector Debt

4 Banking Developments (Monetary)

Domestic claims (credit) contracted by 38.7 per cent to \$12.6m in the first half of 2022, following the 47.0 per cent decline recorded over the comparable period in 2021 (See Figure 7). Consistent with this development, credit to the private sector fell by 5.2 per cent (\$4.7m), reversing the 3.6 per cent growth recorded one year earlier.



Source: ECCB

Source: ECCB

Figure 7: Claims to Selected Sectors

Additional analysis shows claims to both households and businesses were negatively impacted, contracting by 5.3 per cent and 4.1 per cent, respectively. Meanwhile, the public sector did not record any outstanding obligations to financial institutions, but saw a 6.6 per cent increase in its deposits to \$74.2m over the review period.

Consistent with the general slowdown in economic activity, deposits in the banking system fell on aggregate. Broad money liabilities decreased by 4.6 per cent, after expanding by 4.1 per cent in the previous year. This development partially reflected a contraction in transferable deposits^[2] (Figure 8) of 29.2 per cent, relative to the marginal gains in other (savings) deposits (1.3 per cent) and foreign currency deposits (2.2 per cent).

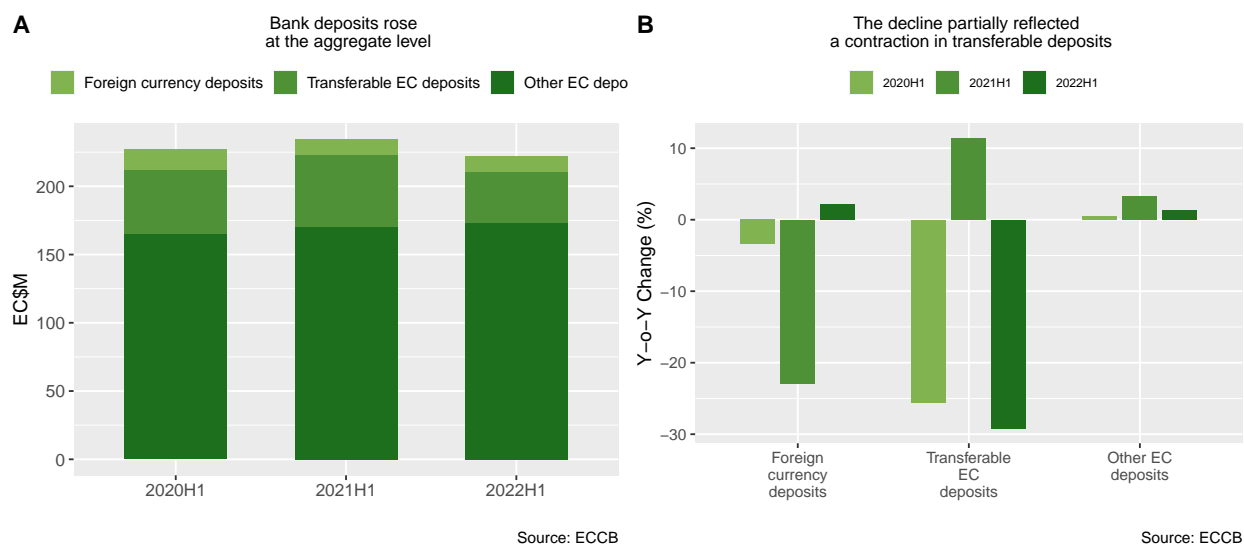


Figure 8: Domestic Deposit Trends

Commercial banks' asset quality, represented by non-performing loans as a percentage of gross loans, deteriorated to 7.4 per cent from 4.9 per cent one year earlier, exceeding the ECCB benchmark of 5.0 per cent. However, liquidity in the banking system improved, with the ratio of liquid assets to total deposits increasing by 10 basis points to 75.2 per cent, considerably above the ECCB's minimum benchmark of 20.0 per cent (see Figure 9).

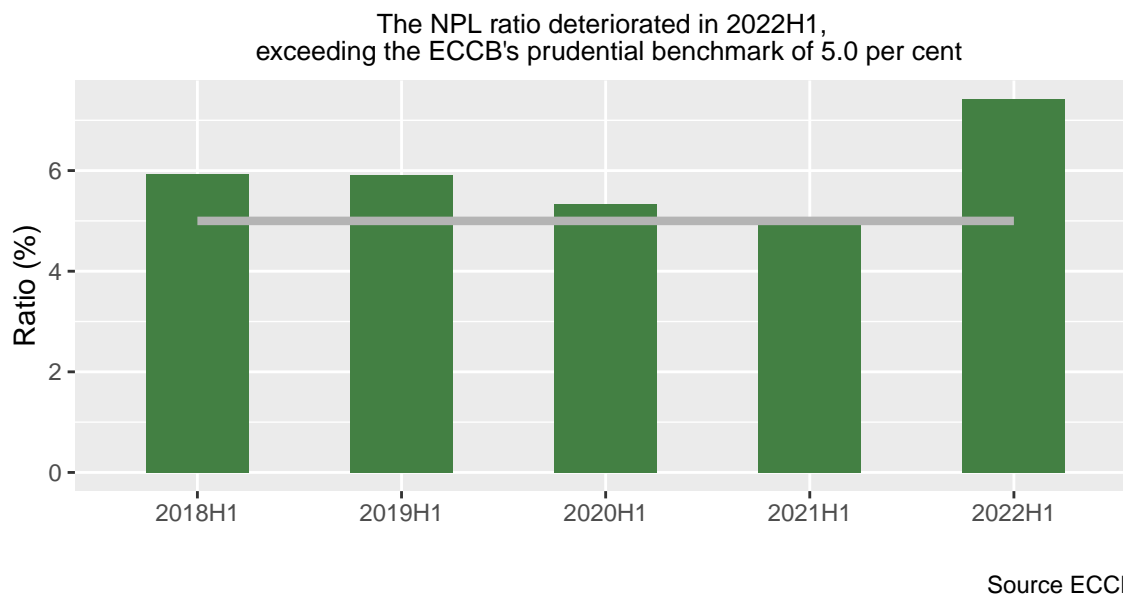


Figure 9: Half-Year Trends in Non-Performing Loan Ratio

5 External Trade

The merchandise trade deficit is estimated to have widened by 10.8 per cent to \$40.3m in the first half of the year, following the 16.8 per cent expansion in the previous year (Figure 10). This outcome reflected a \$0.4m increase in import payments, coupled with a \$3.6m decline in export receipts. A fall in the re-exports of machinery and transport equipment drove the reduction in export receipts.

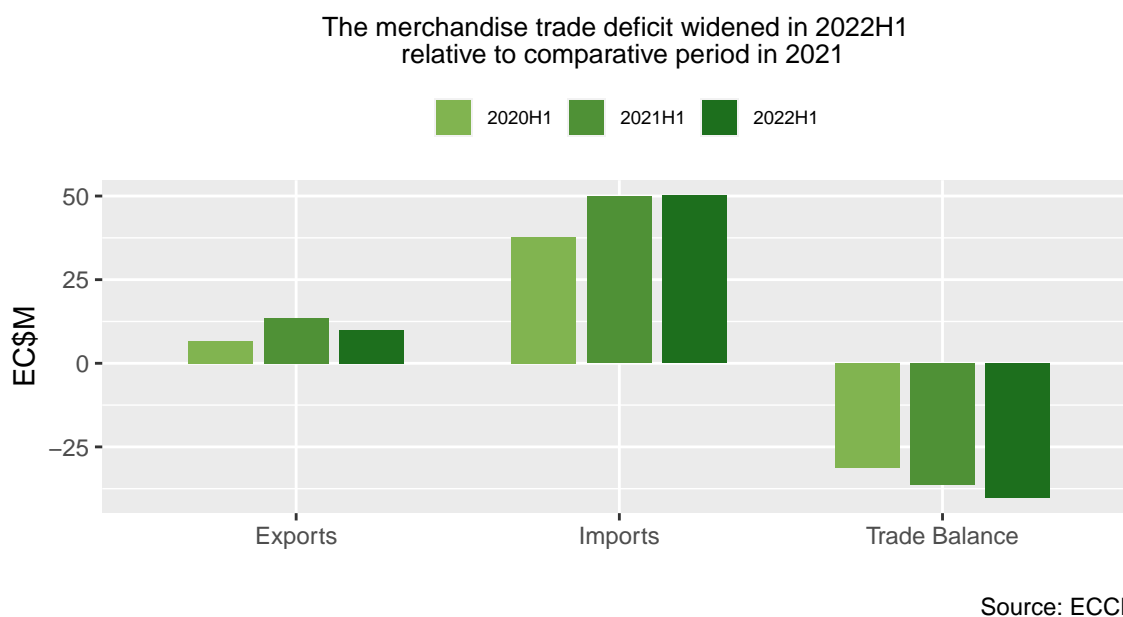


Figure 10: Selected Components of External Trade



6 Outlook

Economic activity in Montserrat is projected to register modest growth in 2022 as the tourism sector continues to recover and some critical public sector projects get underway, such as the Little Bay port as well as the completion of the airport tower.

Notwithstanding, the positive projection could potentially be derailed by some developing headwinds, which could dampen economic prospects for the rest of the year and over the medium term. These risks are varied and include, among others:

- Further escalation of the Russia-Ukraine war, potentially spilling over into NATO countries;
- Sustained inflationary pressures, which could further reduce real incomes and simultaneously increase costs for the productive sectors;
- Further deterioration in the British Pound, which could adversely impact the value of the UK government's aid package;
- The threat of recession in Montserrat's major trading partners, as central banks tighten monetary policy to curb inflation;
- Inherent vulnerability to climatic shocks, including hurricanes, earthquakes and volcanic eruptions. ...



7 Selected Economic Indicators

Indicator	2018H1	2019H1	2020H1	2021H1	2022H1
Current Revenue (EC\$M)	26.6	25.0	25.6	25.6	27.1
Current Expenditure (EC\$M)	65.8	66.7	67.0	67.5	68.8
Current Balance (EC\$M)	1.9	-8.4	-8.4	-8.5	6.7
Primary Balance (EC\$M)	1.9	-15.4	-20.3	-1.2	9.2
Overall Balance (EC\$M)	1.9	-15.6	-20.4	-1.3	9.2
Total Public Sector Debt (EC\$M)	12.8	12.0	11.2	10.3	9.3
Inflation (Period Average %)	0.8	-0.9	-1.5	1.5	4.5
Total Visitor Arrivals ('000)	11.1	12.6	7.9	0.5	1.5
Total Visitor Expenditure (EC\$M)	16.5	16.7	12.7	1.5	4.3
Net Foreign Assets (EC\$M)	295.6	299.9	304.1	330.2	326.9
Domestic Credit (EC\$M)	17.8	25.8	38.8	20.6	12.6
M2 (EC\$M)	258.0	267.4	251.3	261.6	249.6
Currency in Circulation (EC\$M)	26.1	27.6	29.4	30.3	31.4
Liquid assets to total assets	74.0	73.0	76.9	75.1	75.2
Liquid assets to short-term liabilities	84.9	84.1	94.6	84.8	85.0
Customer deposits to total (noninterbank) loans	309.2	306.1	286.7	315.1	325.3
Weighted Average Deposit Rate (%)	1.1	1.1	1.2	1.2	1.2
Weighted Average Lending Rate (%)	6.1	6.6	6.2	6.1	6.1
Interest Rate Spread (%)	4.9	5.5	5.0	5.0	4.9
Non-Performing Loans to Total Loans (%)	5.9	5.9	5.3	4.9	7.4



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