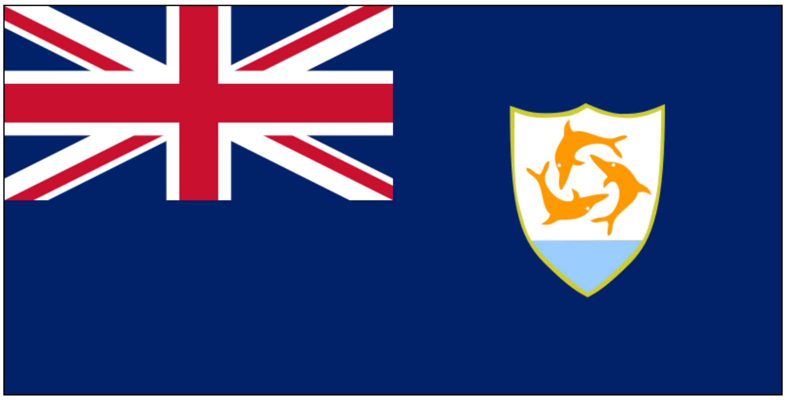
GOVERNMENT OF ANGUILLA
DEBT PORTFOLIO REVIEW
2015 -2019



Prepared by the Debt Management Unit,
Ministry of Finance and Health, Government of Anguilla

September 2020


ANGUILLA
Atlantic Ocean
Scrub Island
Seal Island
Prickly Pear Cays
Shoal Bay East
Scilly Cay &
Island Harbour
The Fountain
Badcox Pond
Grey Pond
Little Bay
Caul's Pond
Sandy Island
The Valley
Sea Feather
Bay
Sandy
Ground
Wallblake Airport
Rendesvous
Salt Pond
Meads Bay
Blowing
Point
Maunday's
Bay
Caribbean Sea
0
4 km
0
2 miles

ACRONYMS

AASPA	Anguilla Air and Sea Ports Authority
ACC	Anguilla Community College
ASSB	Anguilla Social Security Board
ATB	Anguilla Tourist Board
ATM	Average Time to Maturity
ATR	Average Time to Re-fixing
BGs	Borrowing Guidelines
CCB	Caribbean Commercial Bank Anguilla Ltd
CDB	Caribbean Development Bank
DMU	Debt Management Unit
DPT	Depositors' Protection Trust
DSA	Debt Sustainability Assessment
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EIB	European Investment Bank
FAA	Financial Administration and Audit Act
FFSD	Framework for Fiscal Sustainability and Development
GDP	Gross Domestic Product
GoA	Government of Anguilla
NBA	National Bank of Anguilla Ltd
NCBA	National Commercial Bank of Anguilla
NDAC	National Debt Advisory Committee
MFEDICT	Ministry of Finance, Economic Development, Investment, Commerce and Tourism
MTDS	Medium Term Debt Strategy
m	million
OCR	Ordinary Capital Resources
PAS	Principal Assistant Secretary
PBL	Policy-Based Loan
PS	Permanent Secretary
SFR	Special Fund Resources
UKG	United Kingdom Government

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EXECUTIVE SUMMARY

The Anguilla Debt Portfolio Review for the calendar year 2019 was compiled by the Debt Management Unit, Ministry of Finance and Economic Development now Ministry of Finance and Health[1]. The Debt Portfolio Review provides a comprehensive look at the debt situation of Anguilla over the period 2015 to 2019. As at end December 2019, the total public debt stock stood at $493.16m, which comprised of public and publicly guaranteed external and domestic debt. The report aims to provide a detailed overview of the total public debt portfolio, along with an analysis of the movements in the debt stock over the specified review period.

The review also explores debt related issues as identified in Anguilla's debt management strategy; debt sustainability analysis; and the impact of the banking resolution on the debt portfolio.

The Debt Portfolio Review is divided into three other sections as outlined below:

SECTION 1: provides an overview of the economy in terms of the economic developments over the period 2015-2019, and the impact on both the levels and composition of the debt portfolio.

SECTION 2: examines the evolution of the total public sector debt, that is: its composition, costs and risks inherent in the current portfolio, debt sustainability indicators and the Framework for Fiscal Sustainability and Development (FFSD) borrowing benchmarks.

SECTION 3: concludes with the key observations in the current debt portfolio and policy recommendations.

[1]The June 2020 General Elections resulted in a change in administration and subsequently, a change in ministerial portfolios. The Ministry of Finance and Economic Development, Investment, Commerce, Tourism and Information Technology has been separated. As of June 30th 2020 the change in ministerial portfolios has formed the Ministry of Finance and Health.

SECTION 1.0 OVERVIEW OF ANGUILLA'S ECONOMY

1.1 Introduction

Anguilla is a small open economy with a narrow economic base. Economic drivers are high-end tourism, tourism- related construction, and to a lesser extent, international financial services. The performance of the economy is highly correlated with global trends and economic developments, particularly in the United States which is the main trading partner. The dependence on this narrow base has resulted in large fluctuations in economic growth over the last two decades, thus highlighting Anguilla's vulnerability to external shocks.

Anguilla is a member of the Eastern Caribbean Currency Union (ECCU) and ranks as the second smallest economy. At the end of 2019, Anguilla accounted for 4.92 per cent of the Union's total gross domestic product[2] (GDP). Anguilla is also a self-governing Overseas Territory of the United Kingdom (UK). This relationship requires, inter alia, the Government of Anguilla (GoA) to maintain fiscal and debt[3] operations within the context of the Fiscal Responsibility Act (FRA) 2013.

In 2018, a Medium Term Debt Management Strategy (MTDS) 2018-2020 was prepared with the main objective being to raise adequate levels of financing for the GoA at the lowest possible cost with a prudent degree of risk. This strategy is informed by the medium term fiscal framework and is guided by the debt benchmarks outlined in the FRA. The Debt Management Unit is responsible for the implementation of the MTDS, which is updated on an annual basis and due to be updated later this year.

[2] GDP in constant prices. Data source is the Eastern Caribbean Central Bank.

[3] Anguilla's borrowing is restricted by the borrowing ratios delineated in the Framework for Fiscal Sustainability and Development which was signed in April 2013 and enshrined in legislation through the Fiscal Responsibility Act 2013 (which replaced the 2003 Borrowing Guidelines Agreement). These borrowing limits are as follows: (i) Net debt not to exceed 80.0 per cent of recurrent revenue; (ii) Debt service not to exceed 10.0 per cent of recurrent revenue; and (iii) Liquid Assets should be sufficient to cover at least 25.0 per cent or 90 days of recurrent expenditure.

1.2 Macroeconomic Developments

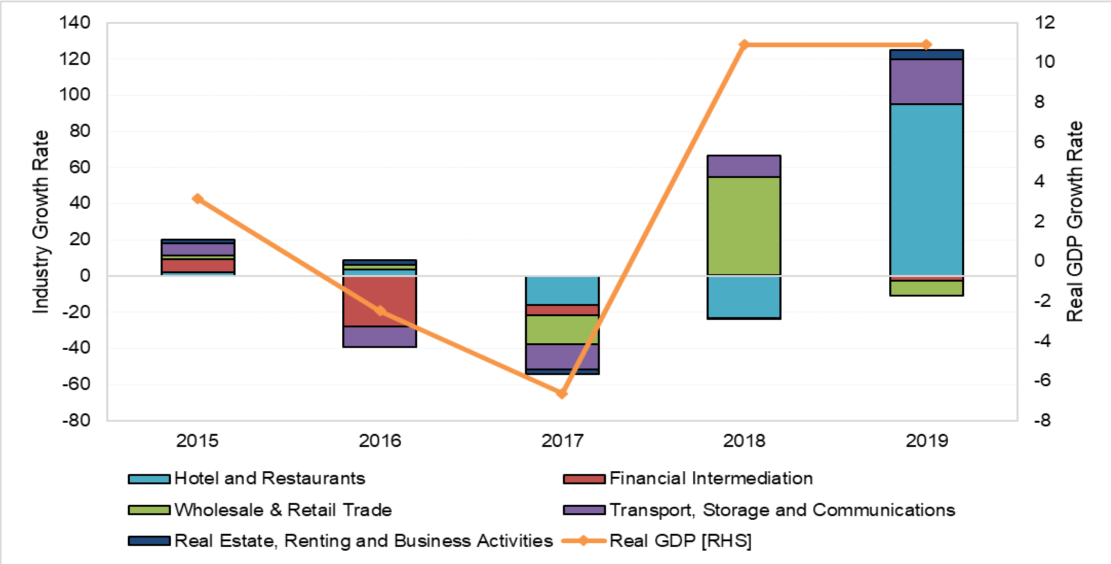
Anguilla's economy though small, has proven to be resilient over the years. The dependence on tourism, inward foreign direct investment and being a net-importer all contribute to Anguilla's vulnerability to both natural disasters and other external shocks.

The period 2018- 2019 represented a period of recovery from the damage and losses associated with the impact of Hurricane Irma in 2017. Estimates published by the Eastern Caribbean Central Bank show that 2018 was a year of significant growth for Anguilla, as a real economic expansion of 10.90 per cent was realized. This expansion came after a decline of 6.64 per cent in real economic activity in 2017 due to the widespread destruction by Hurricane Irma. In nominal terms, Gross Domestic Product was estimated to have been EC$870.46m in 2018. This performance was consistent with that of 2016, and represented the recovery of the Anguillian economy following the 2017 weather event.

Similarly, in 2019, Anguilla continued to flourish with a Nominal Gross Domestic Product of EC$987.73m. This figure represents Anguilla’s highest nominal GDP in the past twenty (20) years, topping the boom experienced in 2007 of EC$959.25m. The real economic expansion was also 10.90 per cent. The top five (5) sectors that contributed to growth in 2019 were Hotels & Restaurants (27.00 per cent), Real Estate (4.72 per cent), Transport (25.00 per cent), Wholesale & Retail (9.65 per cent) and Financial Intermediation sectors (6.16 per cent).

Figure 1 below, depicts real GDP growth for these selected economic sectors over the period, 2015-2019.

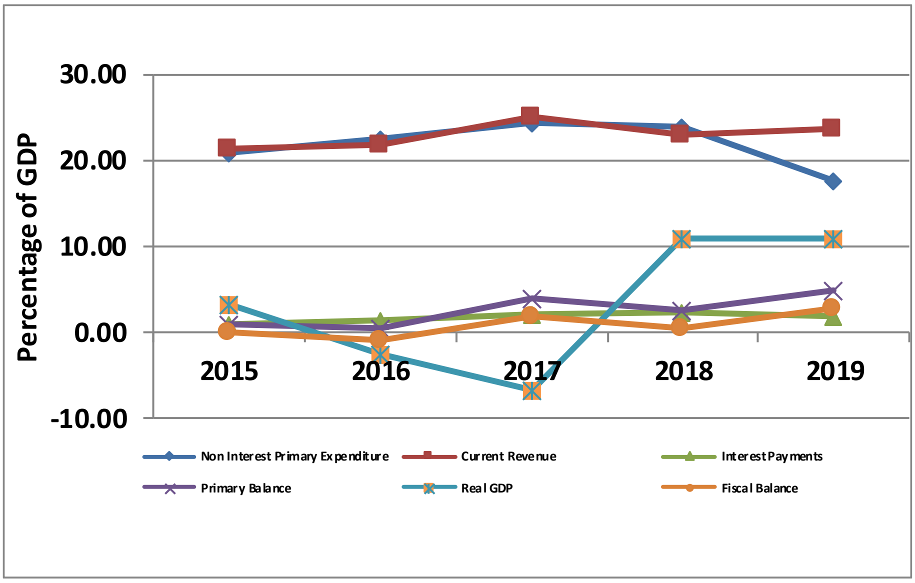
Figure 1: Real GDP Growth, Selected Sectors Growth Performance 2015-2019 (in percent)



Public Finance Trends

Figure 2 shows the trend in the central government's fiscal position for the period under review.

Figure 2: Central Government Fiscal Position 2015-2019 (as per cent of GDP)



The GoA ended the 2019 fiscal year with a current account surplus of EC$21.92m relative to the EC$5.12m deficit that was projected at the time the budget was prepared. The 2019 revenue estimate was EC$208.36m based on economic growth expectations, especially in the tourism and construction sectors, as well as improvements in tax administration and compliance. Actual revenue collections totalled EC$234.09m (23.70 per cent of GDP). Collections were 12.35 per cent or EC$25.73m more than budget and 17.29 per cent or EC$34.51m more than 2018 collections of EC$199.58m (22.93 per cent of GDP). The 2019 recurrent expenditure estimate was EC$213.48m. Actual spend totalled EC$212.18m (21.48 per cent of GDP), which is 0.61 per cent or EC$1.30m under the estimate. This represented an increase of EC$6.49m (3.16 per cent) over expenditure of EC$205.69m (23.63 per cent of GDP) in 2018. Total outstanding public debt stood at 49.93 per cent of GDP at the end of 2019. See Appendix 1.

1.3 The 2016 Banking Resolution

Anguilla experienced a banking crisis that posed risks and uncertainty for Anguilla's banking sector, though it remained localized, as there were no signals of contagion in the ECCU. This culminated in 2013 with the two indigenous banks, National Bank of Anguilla (NBA) and Caribbean Commercial Bank (CCB) Ltd, entering into receivership under the supervision of the Eastern Caribbean Central Bank (ECCB). In 2016, the GoA accepted the implicit contingent liability through the capitalization of a bridge bank named the National Commercial Bank of Anguilla ("NCBA") or the "Bridge Bank"). This intervention amounted to EC$330.28m. Financing instruments employed included a Depositors' Protection Trust (DPT) Fund (EC$56.88m); a promissory note (EC$214.00m); an interim loan from the ECCB (EC$20.00m) which was transferred to budgetary support when there was the disbursement of the Caribbean Development Bank loan (EC$59.4m).

At the end of the 2019 fiscal year, debt associated with the banking resolution stood at EC$316.42m a decline of EC$6.75m or 2.09 per cent over the outstanding balance at the end of 2018. This amounts to a principal repayment of EC$13.86m or a 4.20 per cent contraction from the total amount of the GoA's intervention at the end of 2016. At the end of 2019 debt associated with the banking resolution accounted for 64.16 per cent of the public debt stock.

SECTION 2.0 PUBLIC DEBT STRUCTURE AND RATIOS

2.1 Total Public Debt

Anguilla's total public debt comprises central government debt and government guaranteed debt from domestic and external sources (see Table 1).

Table 1: Total Public Debt 2015-2019 (EC$m)

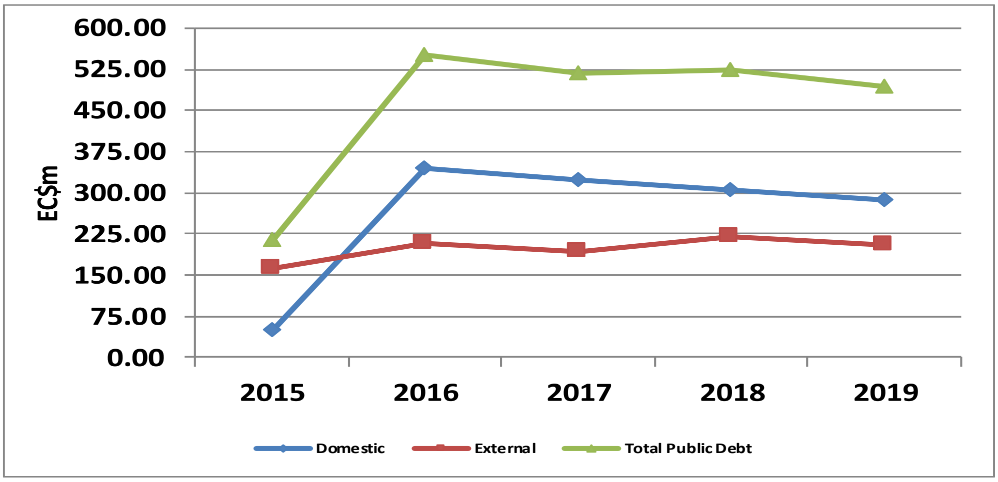
	2015	2016	2017	2018	2019
Central Government Debt	**201.52**	**539.59**	**506.76**	**516.69**	**486.53**
Domestic	49.55	341.31	321.52	304.06	286.26
External	151.97	198.28	185.24	212.63	200.27
Government Guaranteed Debt	**11.19**	**12.25**	**10.34**	**8.48**	**6.62**
Domestic	0.68	2.98	2.31	1.70	1.09
External	10.51	9.27	8.03	6.78	5.54
Total Public Debt	**212.71**	**551.84**	**517.10**	**525.17**	**493.16**
Domestic	50.23	344.29	323.83	305.76	287.35
External	162.48	207.55	193.27	219.41	205.80

At the end of 2019, total disbursed outstanding public sector debt stood at EC$493.16m or 49.93 per cent of GDP. Over the period of review total public debt grew on average by 49.54 per cent moving from EC$212.71m in 2015 to EC$493.16m in 2019. For year-end 2016, compared to year-end 2015, the debt stock increased to EC$551.84m. This represented a 159.4 per cent increase, (EC$339.13m) over the 2015 debt stock of EC$212.71m. This increase was due primarily to the new debt, contracted in support of the banking resolution, exceeding scheduled amortization payments. At the end of 2017 the debt declined by 6.30 per cent (EC$34.74m) when compared to the debt stock at end of 2016. At year-end 2018 the debt increased by 1.56 per cent (EC$8.07m) over the 2017 debt stock level. This increase was due primarily to new debt contracted in 2018 and disbursements exceeding scheduled amortization. At year-end 2019 the debt stock decreased by 6.10 per cent (EC$32.01) moving from EC$525.17 to EC$493.16m.

Over the period under review 2015- 2019, there has been a structural change in the debt composition shifting from largely external holders of debt in the pre-2016 period to predominantly domestic holders of debt in the following years, due to the banking resolution.

In 2015 external debt accounted for the predominant share of the portfolio of 76.39 per cent while domestic debt accounted for the remaining 23.61 per cent. It is worth noting that in 2016 there was a shift in the debt portfolio structure with domestic debt accounting for the major share (62.39 per cent) of the portfolio. At the end of 2019, domestic debt had a share of 58.27 per cent while external debt accounted for 41.73 per cent of the portfolio. (See Figure 3).

Figure 3: Total Public Debt by Category (EC$m)

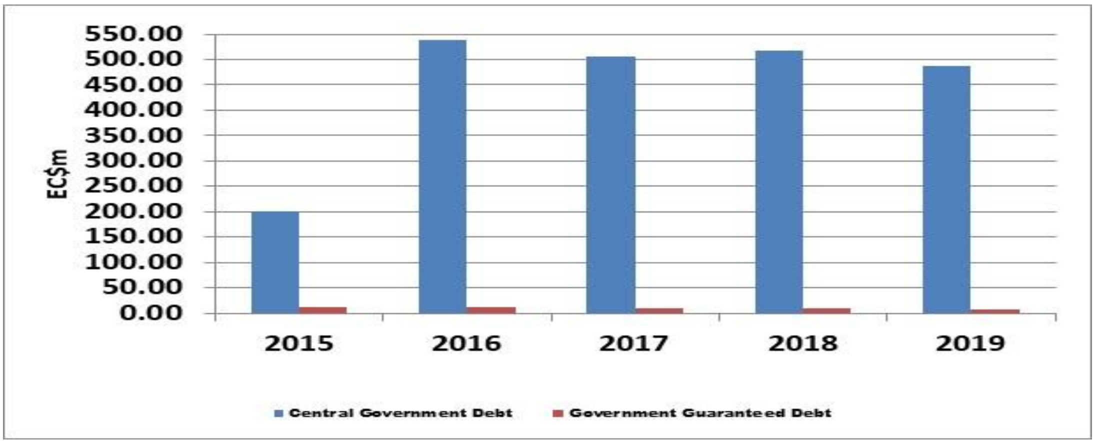


Central Government and Government Guaranteed Debt

As shown in Figure 4, central government debt accounted for 98.66 per cent (EC$486.53m) of the total disbursed outstanding debt at the end of 2019, growing from a 94.25 percentage share (EC$201.52m) in 2015. For the same period, the share of government guaranteed debt[4] declined from 5.26 per cent (EC$11.19m) to 1.34 per cent (EC$6.62m). At the end of 2019, central government debt stock decreased by 5.84 per cent (EC$30.16m) and government guaranteed debt stock declined by 21.93 per cent (EC$1.86m) over the 2018 debt stock level.

[4] Up to 2015, guarantees were extended to two statutory bodies, the Anguilla Development Board and the Anguilla Tourist Board. In 2016, the Anguilla Air and Sea Ports Authority contracted debt that was also guaranteed.

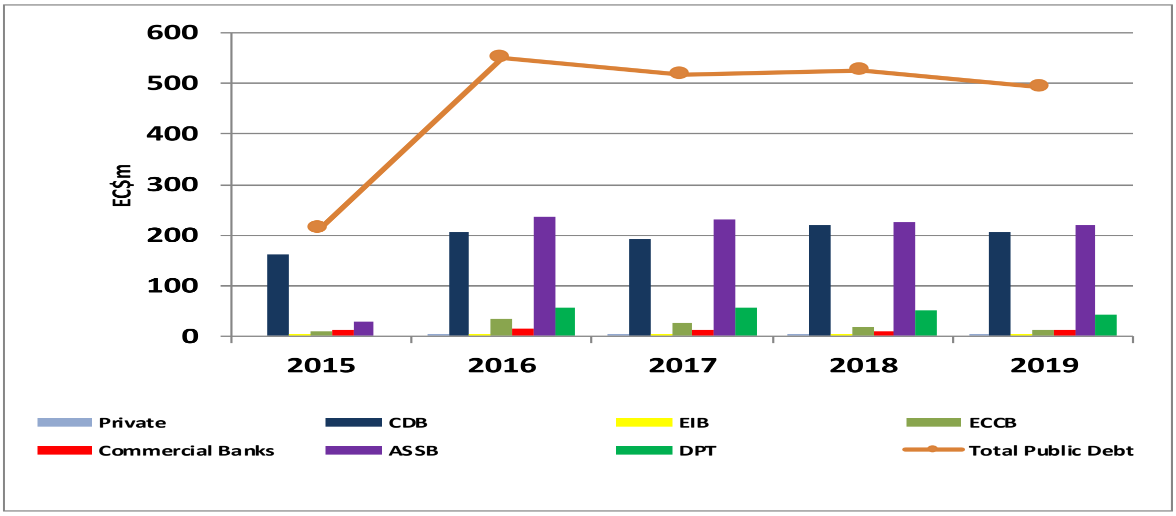
Figure 4: Central Government and Government Guaranteed Debt (EC$m)



2.2 Public Debt Composition

Figure 5 shows that at the end of 2019, the Anguilla Social Security Board (ASSB) held the largest share of total debt accounting for 44.52 per cent (EC$219.56m) of the portfolio. The share of debt owed to the other creditors, in descending order, were CDB at 41.60 per cent (EC$205.14m), DPT at 8.94 per cent (EC$44.08m), ECCB at 2.33 per cent (EC$11.49m), NCBA at 2.28 per cent (EC$11.22m), a Private Creditor at 0.20 per cent (EC$1.01m) and European Investment Bank (EIB) at 0.13 per cent (EC$0.66m).

Figure 5: Creditor Category of Public Debt (EC$m)



External Debt

For the year in review, the external debt portfolio consisted entirely of loans. Over the period 2015 to 2019 external debt grew by approximately 10.83 per cent; moving from EC$162.48m in 2015 to EC$205.80m at the end of 2019. This increase in external debt is as a direct result of a loan contracted from CDB to recapitalize NCBA (the bridge bank) in 2016; two loans contracted in 2018 as part of the fiscal stability and resilience building exercise; and continuous disbursements on the ACC Project loan contracted in 2014. However, at the end of 2019, external debt decreased by 6.20 per cent (EC$13.61m) over the 2018 debt stock level of EC$219.41m. The decrease is due primarily to scheduled amortization payments exceeding disbursements in 2019.

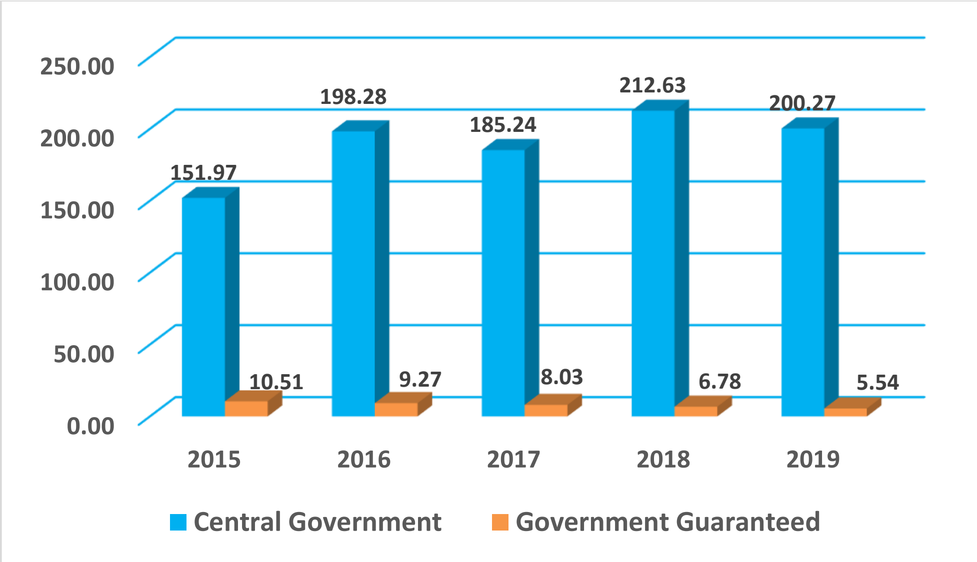
External Debt by Creditor

Anguilla's external debt over the period reviewed was owed to two multilateral creditors, the EIB and CDB. The latter has been the dominant holder with a five-year average annual share of 99.60 per cent.

External Debt by Borrower

As shown in Figure 6 below at the end of 2019 central government external debt stock stood at EC$200.27m (97.31 per cent) of the external debt portfolio. Government guaranteed external debt stock stood at EC$5.54m (2.69 per cent) of the external debt portfolio. At the end of 2019 central government external debt stock and government guaranteed external debt stock declined by EC$12.63m (5.81 per cent) and EC$1.24m (18.29 per cent) over the 2018 external debt stock levels of EC$212.63m and EC$6.78m respectively. Over the period of review central government external debt stock grew on average by 12.07 per cent. On the other hand, government guaranteed external debt stock declined on average by 1.24 per cent for the same period.

Figure 6: External Debt by Borrower (EC$m)



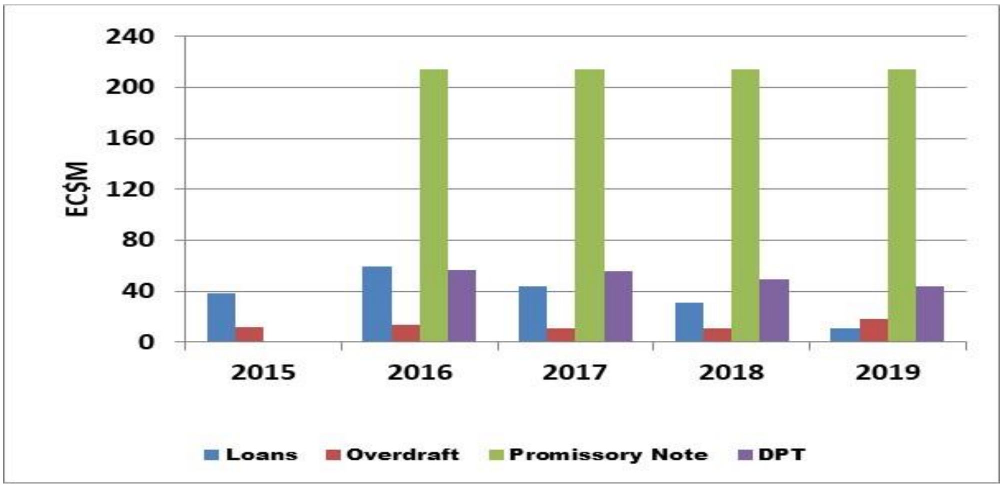
Domestic Debt

Domestic debt in 2015 and 2019 stood at EC$50.23m and EC$287.35m, respectively. The stock fluctuated over the five-year period largely due to end- of- year balances on the two short-term facilities (the NCBA overdraft and the Eastern Caribbean Central Bank operating account). There was a sharp increase in the domestic share of debt moving from EC$50.23m in 2015 to EC$344.29m in 2016. The new borrowing (EC$290.85m) contracted to aid in resolving the banking crisis has significantly increased the domestic debt stock in 2016. However, at the end of 2019, the domestic debt stock decreased by EC$18.41m or 6.02 per cent when compared to the 2018 domestic debt stock of EC$305.76m. At the end of 2019, the NCBA overdraft stood at EC$11.14m and the ECCB cash advance at EC$7.42m compared to 2018 year-end balances of EC10.70m and EC$11.49, respectively.

Domestic Debt by Instrument

The domestic debt portfolio consisted of a promissory note, DPT, loans and an overdraft facility (see Figure 7).

Figure 7: Domestic Debt by Instrument (EC$m)

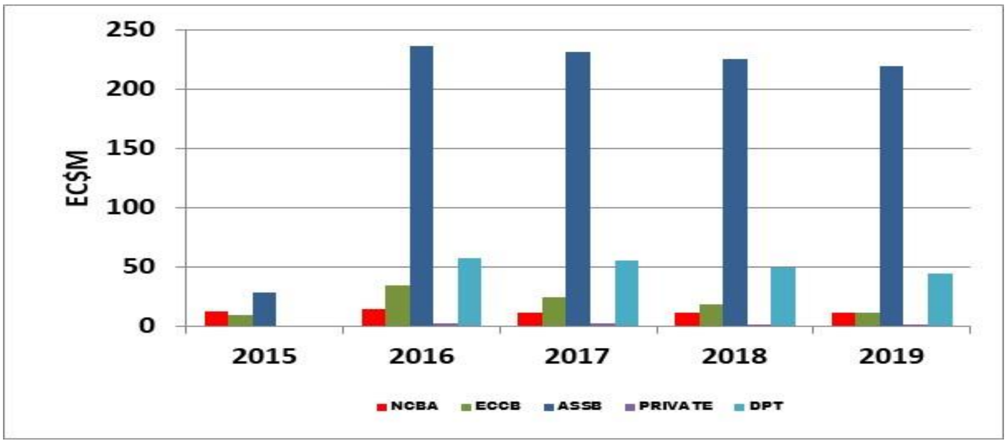


At the end of 2019, the promissory note accounted for EC$214.00m or 74.47 per cent of the domestic debt portfolio. The DPT accounted for EC$44.08m or 15.34 per cent; the short term facilities (NCBA Overdraft and ECCB Operating Account) accounted for EC$18.56m or 6.46 per cent; and loans accounted for EC$10.71m or 3.73 per cent of the domestic portfolio.

Domestic Debt by Creditor

As depicted in Figure 8, the ASSB has been the dominant holder in the domestic debt portfolio. At the end of 2019, debt owed to the ASSB stood at EC$219.56m (76.41 per cent) of total domestic debt. Other domestic creditors included, the DPT with an amount of EC$44.08m (15.34 per cent), the ECCB with an amount of EC$11.49m (4.00 per cent), NCBA with an amount of EC$11.22m (3.91per cent), and a private entity EC$1.01m (0.34 per cent).

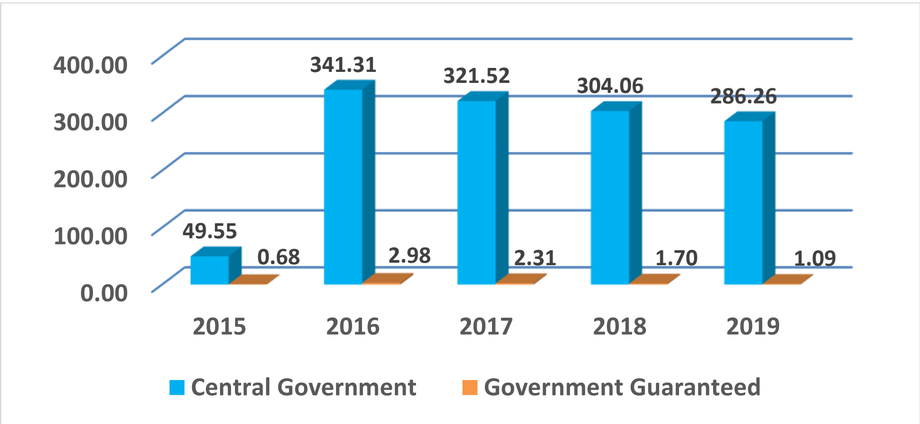
Figure 8: Domestic Debt by Creditors (EC$m)



Domestic Debt by Borrower

As shown in Figure 9 below at the end of 2019 central government domestic debt stock stood at EC$286.26m (99.62 per cent) of the domestic debt portfolio. Government guaranteed domestic debt stock stood at EC$1.09m (0.38 per cent) of the domestic debt portfolio. At the end of 2019 central government and government guaranteed domestic debt stock levels declined by EC$17.80m (5.85 per cent) and EC$0.61m (35.88 per cent) over the 2018 domestic debt stock levels of EC$304.06m and EC$1.70m respectively. Over the period of review central government domestic debt stock grew on average by 12.07 per cent and government guaranteed domestic debt stock declined by 1.24 per cent.

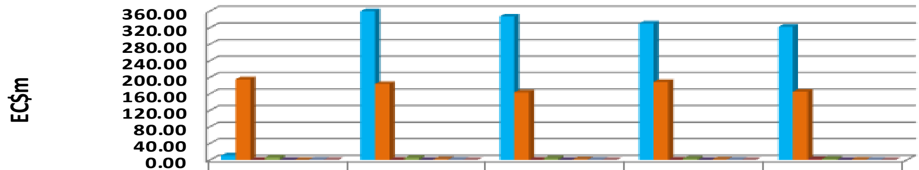
Figure 9: Domestic Debt by Borrower (EC$m)



2.3 Debt by Economic Sector[5]

Figure 10 below captures Anguilla's total public debt by economic sector. At the end of 2019, Financial Activities accounted for the largest proportion of public debt with a share of 65.28 per cent (EC$321.96m). Within this sector, activities were primarily related to the banking resolution. Public Administration and Construction followed with shares of 33.32 per cent (EC$164.32m), and 0.56 per cent (EC$2.74m) respectively. The remainder of the portfolio, 0.84 per cent (EC$4.13m), was shared among four other economic sectors; namely: - Education, Sea Transport, Road Transport and Accommodations and Food Services.

Figure 10:Public Debt by Economic Sector (EC$m)



	2015	2016	2017	2018	2019
Financial Activities	10.45	359.55	346.74	329.95	321.96
Public Administration	194.96	183.46	162.86	188.75	164.32
Education	0.15	0.49	0.57	0.81	2.38
Construction	5.92	4.76	3.79	3.24	2.74
Agriculture & Fishing	0.05	-	-	-	-
Sea Transport	-	2.54	2.10	1.56	1.01
Road Transport	0.85	0.78	0.82	0.73	0.66
Accommodation & Food Services	0.32	0.27	0.21	0.15	0.08

2.4 New Borrowing, Disbursements and Debt Service Payments

New Borrowing and Disbursements

Table 2: New borrowing and Disbursements 2015-2019 (EC$m)

New Financing (EC$M)	2015	2016	2017	2018	2019
Total	**0.39**	**353.32**	**0.08**	**40.41**	**1.67**
External	**0.39**	**59.74**	**0.08**	**40.41**	**1.67**
Multilateral	0.39	59.74	0.08	40.41	1.67
Domestic	**-**	**293.58**	**-**	**-**	**-**
Loans	-	20.00		-	-
Bonds/Promissory Note	-	270.88		-	-
Private	-	2.70		-	-

[5] Economic Sector revised and updated using the International Standard Industrial Classification of All Economic Activities (ISIC), Rev.4

During 2019, there were no new borrowings. During the year, disbursements to Central Government on existing loans totalled EC$1.67m of which EC$1.62m was attributed to the Anguilla Community College (ACC) Project loan with CDB that was contracted in 2014. At the end of 2019, the loan had a committed undisbursed balance of approximately EC$6.30m. The remaining EC$0.05m was associated with the Hurricane Recovery Support loan (CDB Refinance loan) contracted in 2018. There was no new borrowing or disbursements associated with the Government Guarantees.

Debt Service Payments

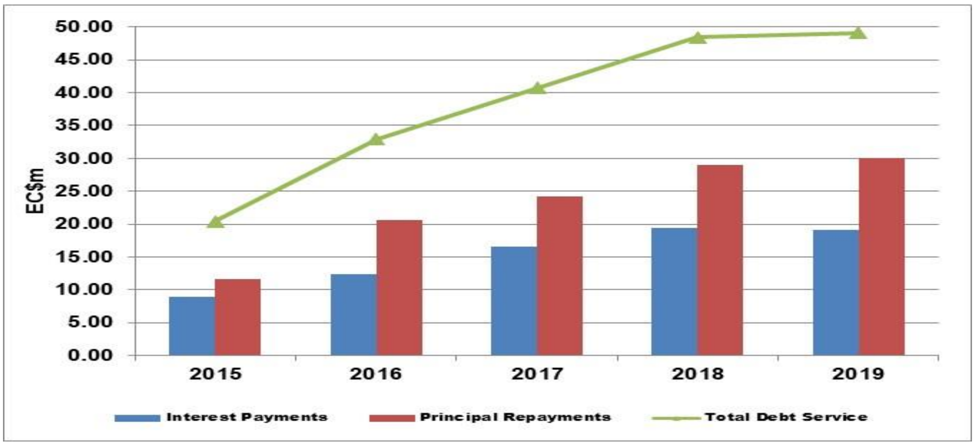
Anguilla's total public sector debt service showed an increasing trend over the period of review. The annual debt service increased on average by 6.35 per cent over the period of review moving from EC$20.42m in 2015 to EC$49.16m in 2019 (see table 3).

Table 3: Total Public Sector Debt Service 2015-2019 (EC$m)

Debt Service Payments (EC$m)	2015	2016	2017	2018	2019
Total Debt Service	**20.42**	**32.94**	**40.77**	**48.42**	**49.16**
Principal Repayments	*11.55*	*20.54*	*24.25*	*28.96*	*30.05*
Interest Payments	*8.86*	*12.40*	*16.52*	*19.46*	*19.11*
External Debt Service	**12.17**	**19.56**	**20.82**	**21.76**	**25.51**
Principal Repayments	*5.77*	*14.59*	*14.46*	*14.24*	*15.27*
Interest Payments	*6.40*	*4.97*	*6.36*	*7.52*	*10.24*
Domestic Debt Service	**8.25**	**13.38**	**19.95**	**26.66**	**23.65**
Principal Repayments	*5.78*	*5.95*	*9.79*	*14.72*	*14.78*
Interest Payments	*2.46*	*7.43*	*10.16*	*11.94*	*8.87*

The annual year-on-year increase in debt service from 2015 to 2019 was due to increased principal repayments and interest payments to holders of both existing and new domestic and external debt instruments. As shown, total principal repayments moved from EC$11.55m in 2015 to EC$30.05m in 2019. For the same period, total interest payments moved from EC$8.86m in 2015 to EC$19.11m in 2019. In 2019, interest payments declined by 1.80 per cent and principal payments increased by 3.76 per cent over the 2018 debt service payments. The trend in debt servicing is illustrated in Figure 11.

Figure 11: Debt Service 2014-2019 (EC$m)



2.5 Risk/Cost Analysis

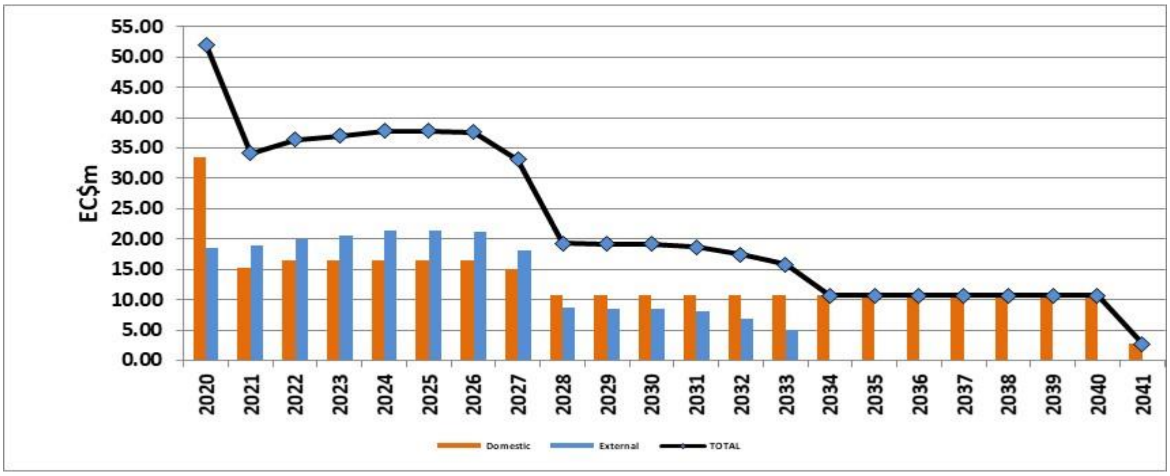
Risk in relation to debt costs, refers to the potential for the actual cost of debt to deviate from its expected cost due to variations of different economic variables such as interest rates and exchange rates. Exposure of Anguilla's debt portfolio to risk is assessed using the following risk indicators: refinancing risk, interest risk and exchange risk.

Refinancing Risk

Refinancing risk (rollover risk) refers to the risk a borrower faces when the actual cost of refinancing or rolling over existing debts may exceed the projected cost of financing the existing debt. Two measures used to assess Anguilla's exposure to refinancing risk are the maturity/redemption profile of debt and the Average Time to Maturity (ATM).

The maturity profile refers to the amount of debt that is falling due in a given period. This indicator shows the specific points of a country's vulnerability which is manifested by high debt service payments (principal repayments) in the debt repayment schedule. Figure 12 depicts the maturity structure of Anguilla's debt given the stock of debt as at the end of 2019.

Figure 12: Maturity Profile of Public Debt



The proportion of debt with a remaining maturity of 1 year or less (short-term) is 10.54 per cent (EC$52.00m) of total debt. The amount due in external payments in 2020 is EC$18.55m due mainly to CDB. Domestic payments amount to EC$33.45m comprising of EC$18.56m for the short-term facilities (NCBA overdraft and ECCB operating account); loans accounting for EC$9.21m and the DPT the remaining EC$5.69m.

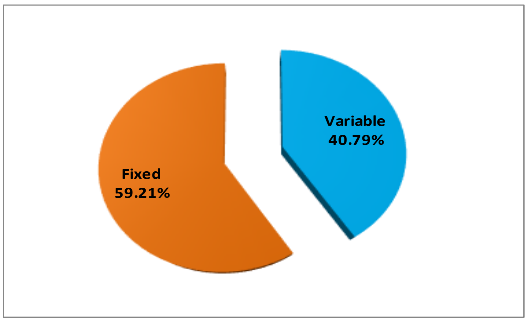
Debt falling due within 2 to 5 years (medium term) accounts for 29.47 per cent (EC$145.31m) of maturing debt. External payments account for EC$80.93m (55.69 per cent) with payments to CDB totalling EC$80.70m. Domestic payments range from EC$15.22m in 2021 to EC$16.39m in 2022 and are due largely to payments on the DPT and the expiration of the grace period on the ASSB Promissory Note in 2021.

The proportion of debt with a remaining maturity exceeding 5 years (long term) was 59.99 per cent (EC$295.84m). Principal outlays of EC$189.52m domestically and EC$106.33m externally are primarily to ASSB (Promissory Note) and to CDB respectively.

The analysis shows that Anguilla's public debt susceptibility in the public portfolio to refinancing risk is moderate. This is substantiated by the refinancing risk indicator, average time to maturity (ATM), which measures the sum of redemptions weighted by the time to maturity. It shows how long it takes on average to rollover the debt portfolio. The ATM of Anguilla's public debt stock is 7.57 years. Notably, the debt portfolio is predominantly made up of longer term instruments and presently the government does not issue short-term securities which are the contributing factors to the favourable length of the ATM.

Interest Rate Cost and Risk[6]

Figure 13: Interest Rate Composition



At the end of the period under review, 40.79 per cent (EC$201.15m) of disbursed outstanding debt was attributed to instruments with variable interest rates and 59.21 per cent (EC$292.00m) to fixed rate instruments (see Figure 11). All domestic debt had fixed interest rates, with rates ranging between 2.0 and 8.5 per cent. External debt had a mixture of both fixed and variable interest rates. The fixed interest rates related to the loan with the EIB, which carried a rate of 0.75 per cent per annum and the Special Funds Resources (SFR) portion of CDB debt, with a rate of 4.0 per cent. The variable interest rate debt was associated with the Ordinary Capital Resources (OCR)[7] share of CDB loans.

At the end of 2019, the cost of the debt portfolio decreased by 0.12 percentage points when compared to 2018. The average interest rate stood at 3.64 per cent when compared to 3.76 per cent at the end of 2018. The domestic and external average interest rates stood at 2.90 per cent and 4.67 per cent respectively. The change in domestic and external interest rates decreased 0.79 percentage points and increased 0.78 percentage points, respectively, in comparison to 2018. (See Appendix 1).

Interest rate risk refers to risk associated with movements of the interest rate on domestic regional and international markets. Changes in interest rates affect debt service payments, as costs increase when interest rates rise and debt has to be refinanced. The average time to refixing (ATR) indicator measures interest rate risk. At the end of 2019, Anguilla's public debt had an average time to interest rate re-fixing (ATR)[8] of 5.50 years, which suggests that an equitable proportion of the public debt will be subject to interest rate changes within this time period, thus posing moderate risk to the portfolio.

[6] The potential risk to the debt portfolio if there is a change in market interest rates
[7] OCR is the less concessional share of CDB loan portfolio. The rate is re-fixed every three months and stood at 4.80 per cent at 31st December 2019.
[8] The average time until the interest rate is reset on the outstanding debt.

Exchange Rate Risk

Figure 14: Currency Composition of Total Debt

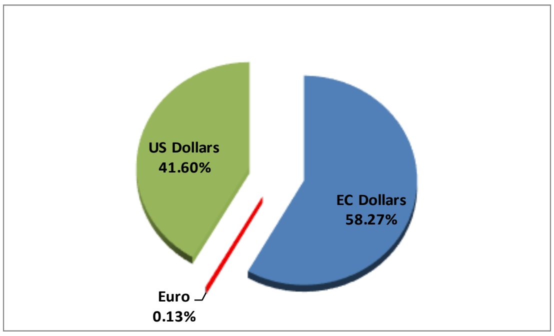


Figure 14 shows the currency composition of the public debt profile at the end of 2019. It shows that 41.60 per cent (EC$205.15m) of Anguilla's debt stock was denominated in US dollars. The share of EC dollar denominated debt stood at 8.27 per cent (EC$287.35m) and Euro currency debt accounted for 0.13 per cent (EC$0. 66m).

Exchange rate risk refers to risk associated with movements in the exchange rate. Given that all of Anguilla's domestic debt is denominated in local currency, the exchange rate risk is only applicable to the external portion of public debt.

However, the impact of foreign exchange fluctuations to the external debt portfolio is minimal based on two main factors. Firstly, the 41.60 percentage share of US dollar denominated debt acts as a buffer to the currency risk owing to the official exchange rate parity between the EC dollar and US dollar. Secondly, the exchange rate exposure with the Euro is low as it constitutes less than 1.0 per cent of the total debt portfolio.

2.6 Debt Sustainability Indicators

Debt ratios are measures of potential debt-related risks in the portfolio which when combined with other macroeconomic variables, in particular expected growth and interest rates, can provide some insight as to the; (1) major risks facing the economy; (2) conditions under which the debt level can stabilise; and (3) possible need for policy adjustment.

In 2003, the Monetary Council of the Eastern Caribbean Central Bank agreed on the establishment of fiscal benchmarks to guide the fiscal operations of member countries. The objectives of these benchmarks are to play an important role in strengthening public finances, support fiscal consolidation and ensure debt sustainability in the Eastern Caribbean. Two key fiscal benchmarks are to achieve a debt to GDP ceiling of 60 per cent[9], and to attain a primary balance that would meet the debt to GDP criterion by 2020. Later, in February 2015, the ECCB Monetary Council extended the target date to 2030.

Table 4 shows some core debt sustainability indicators over the period 2015-2019.

Table 4: Debt Sustainability Indicators (in percentages)

Sustainability Indicators	2015	2016	2017	2018	2019
Public Sector Debt to GDP	**23.83**	**63.82**	**67.55**	**60.33**	**49.93**
External Debt to GDP	*18.21*	*24.00*	*25.25*	*25.21*	*20.84*
Domestic Debt to GDP	*5.63*	*39.82*	*42.30*	*35.13*	*29.09*
Public Sector Debt Service to Revenue	**10.68**	**17.46**	**21.23**	**24.27**	**21.00**
External Debt Service Ratio	*6.37*	*10.37*	*10.84*	*10.91*	*10.90*
Domestic Debt Service Ratio	*4.32*	*7.10*	*10.39*	*13.36*	*10.10*
Interest Service Ratio	**4.64**	**6.57**	**8.60**	**9.75**	**8.16**
External Interest Service Ratio	*3.35*	*2.63*	*3.31*	*3.77*	*4.37*
Domestic Interest Service Ratio	*1.29*	*3.94*	*5.29*	*5.98*	*3.79*
External Debt Service to Exports	**41.80**	**109.63**	**171.65**	**155.36**	**75.80**

There was a sharp increase in the public sector debt to GDP indicator of 39.99 percentage points in 2016 when compared to that of 2015, as earlier expounded on. At the end of 2019, domestic debt and external debt showed a decrease of 6.04 and 4.37 percentage points respectively when compared to 2018. The public debt service to revenue ratio worsened by 6.78 percentage points over the period 2015 to 2016 and continued to deteriorate by 3.77 and 3.04 percentage points in 2017 and 2018, respectively. This increase in the debt service ratio is mainly as a result of debt service payments outpacing revenue growth. However, in 2019 the ratio improved by 3.27 percentage points. At the end of 2019, there was a decrease in the interest service ratio of 1.59 percentage points over the 2018 ratio of 9.75 per cent of revenue. This decrease is due primarily to the reduction in the debt stock during the fiscal year 2019. At the end of 2019, there was an improvement in the debt service-to-exports which declined to 75.80 per cent. The growth of export earnings from a rebound in tourism activity contributed to the improvement.

[9] The debt to GDP ratio (ranging between 60-75 per cent of debt to GDP) was viewed as an international debt sustainability benchmark, adopted by the European Union under the Maastricht Treaty, West African Economic and Monetary Union (WAEMU) and Central African Economic and Monetary Community (CEMAC)

2.7 FFSD Ratios

In addition to the ECCB Monetary Council fiscal benchmarks, the GoA must also comply with the Fiscal Responsibility Act 2013, which incorporates the Framework for Fiscal Sustainability and Development (FFSD) agreement with the United Kingdom Government (UKG). The FFSD requires that the Government of Anguilla manages its debt operations within the corridor of three parameters, which are that:

1. the net debt ratio should not exceed 80.0 per cent of recurrent revenue;
2. the debt service ratio should not exceed 10.0 per cent[10] of recurrent revenue; and
3. liquid assets should be sufficient to cover 25 per cent (90 days) of recurrent expenditure.

On a breach in any one of the ratios, explicit approval, to borrow is required from the UKG on a case-by-case basis. Since 2008, the government has been in breach of the benchmarks and in accordance with the FFSD was required to be compliant by the end of 2017. In 2016 with the UKGs approval for the Government of Anguilla to borrow in support of a banking resolution, an implicit arrangement was made to extend the date to comply with the limits to 2025. Subsequently, following the impacts of Hurricane Irma in 2017 the time to comply with the fiscal ratios was extended from 2025 to 2030.

Table 5 shows the Government of Anguilla's performance against the UKG debt benchmarks over the period 2015-2019.

[10] Under the 2003 Borrowing Guidelines (BGs) the debt service target was 8% (up to 2012); the target was increased to 10% under the 2013 FFSD. The FFSD also requires that the risk-weighted debt service cost of government guarantees be included in the calculation of the debt service ratio which was not the case under the BGs.

Table 5: FFSD Ratios - 2015-2019

Debt Indicators (%)	Targets	2015	2016	2017	2018	2019
Net Debt/Recurrent Revenue	≤80%	92.89	279.99	264.84	260.08	208.47
Variance		12.89	199.99	184.84	180.08	128.47
Debt Service/Recurrent Revenue	≤10%	9.73	16.73	20.63	23.57	20.42
Variance		-0.27	6.73	10.63	13.57	10.42
Liquid Assets/Recurrent Expenditure	≥25%	14.09	8.30	0.90	0.17	0.24
Variance		-10.91	-16.70	-24.10	-24.83	-24.76
Liquid Assets/Recurrent Expenditure	90 days	50.71	30.11	3.24	0.62	0.88
Variance		-39.29	-59.89	-86.76	-89.38	-89.12

As depicted in the table above the GoA has been in breach of the net debt and liquid asset ratio targets throughout the period being reviewed; but did not breach the debt service ratio until 2016. At the end of 2019, the Government remained in breach of the three ratios however, there has been some improvements when compared to 2018. The net debt to recurrent revenue ratio improved from 260.15 per cent in 2018 to 208.47 per cent in 2019. The debt service to recurrent revenue ratio declined to 20.42 per cent in 2019 when compared to 23.58 per cent in 2018. The liquid assets ratio at the end of 2018 and 2019 stood at 0.17 per cent (approximately 1 day) and 0.24 per cent (approximately 1 day) respectively. This ratio at year-end 2019 increased slightly by 0.07 percentage points when compared to the 2018 ratio.

SECTION 3.0 CONCLUSION

The five-year review of Anguilla's debt portfolio shows that there has been a sharp increase in the size of the public sector debt portfolio in 2016 and a slight increase in 2018 with contractions in 2017 and 2019. The increases were attributable primarily to the new borrowing contracted in 2016 to aid in the banking resolution and in 2018 to address liquidity challenges post Hurricane Irma; resulting in new borrowing and disbursements exceeding amortization payments in those two periods. While in 2019 the debt to GDP ratio fell below the 60.0 per cent ECCU prudential debt level benchmark, the GoA continues to be in breach of the UKG borrowing benchmarks.

In 2016 there was a structural change in the composition of Anguilla's public debt owing to the fact that the debt contracted to aid in the banking resolution was mostly domestic. The contracted debt lengthened the maturity profile and reduced the cost of debt significantly. The assessment shows that Anguilla's public debt presents a moderate risk portfolio. The Government continues to monitor and manage the risk embedded in the portfolio by strengthening debt management and monitoring the debt levels closely.

While the cost of the portfolio declined and risk indicators have improved, the debt service to revenue continues to be of major concern due to cash flow constraints. The continued breach of the UKG Benchmarks requires the GoA to seek UKG approval for all new borrowing, thus, limiting the GoA's discretion in financing sources and posing a major challenge in the alternative options in the development and implementation of the Medium Term Debt Strategy (MTDS). The current MTDS (2018-2020) seeks to source the majority of the financing from external semi-concessional sources to aid in the reduction of the cost and risk of the portfolio. Due to technical issues the MTDS was not updated for the 2019 fiscal year. The DMU continues to monitor the debt performance over time and commits to updating the MTDS on an annual basis to accommodate a changing macro-economic and fiscal climate.

APPENDICES

Appendix 1: Selected Economic Indicators 2015-2019

Selected Economic Indicators	2015	2016	2017	2018	2019
Total Revenue and Grants	194.89	193.12	229.90	233.80	250.75
Current Revenue	191.15	188.61	192.00	199.58	234.09
Total Expenditure	195.17	200.38	216.45	230.10	222.26
Current Expenditure	187.74	189.02	195.43	205.69	212.18
Interest Payments	8.38	11.99	16.42	19.13	18.78
Domestic	2.41	7.34	10.12	11.91	8.83
External	5.97	4.64	6.30	7.22	9.95
Capital Revenue	3.74	4.52	18.14	0.75	4.06
Capital Expenditure	7.42	11.37	21.02	24.41	10.09
Primary Balance before grants	8.09	4.73	29.87	22.83	47.27
Overall Balance (before grants)	(0.28)	(7.26)	13.45	3.70	28.49
Overall Balance (after Financing)	7.22	17.49	35.06	44.09	30.14
Current Balance	3.40	(0.41)	(3.43)	(6.11)	21.92
Liquid Assets	26.45	15.69	1.76	0.36	0.52
Financing	7.50	24.75	21.61	40.39	1.65
Memo Items					
Nominal GDP at Market Prices (EC$M)	892.44	864.82	767.38	864.82	987.73
Merchandise Exports (EC$M)	29.11	17.84	12.13	14.01	33.65
Merchandise Imports (EC$M)	551.07	523.50	477.37	789.45	766.62
Real GDP (%)	3.15	(2.48)	(6.64)	10.90	10.90
Average Interest Rate (%)	4.35	3.24	3.09	3.76	3.64
External	4.01	2.69	3.17	3.89	4.67
Domestic	5.26	3.77	3.04	3.69	2.90
As % of GDP					
Total Expenditure	21.87	23.17	28.21	26.61	22.50
Non Interest Primary Expenditure	20.96	22.62	24.31	23.97	17.72
Current Revenue	21.42	21.81	25.02	23.08	23.70
Interest Payments	0.94	1.39	2.14	2.21	1.90
Primary Balance	0.91	0.55	3.89	2.64	4.79
Fiscal Balance	(0.03)	(0.84)	1.75	0.43	2.88
Real GDP	3.15	(2.48)	(6.64)	10.90	10.90
Public Debt (% of GDP)	23.83	63.81	67.39	60.73	49.93
Public Debt	212.71	551.84	517.10	525.17	493.16
Domestic Debt	50.23	344.29	323.83	305.76	287.35
External Debt	162.48	207.55	193.27	219.41	205.80

Appendix 2: Disbursements by Selected Creditors(EC$m)

Creditors	2015	2016	2017	2018	2019
Caribbean Development Bank	0.39	59.74	0.08	40.41	1.67
Anguilla Social Security Board		214.00			
Eastern Caribbean Central Bank		20.00			
Depositors' Protection Trust		56.88			
Anguilla Roads & Construction Inc. & WWR		2.70			
Total	**0.39**	**353.32**	**0.08**	**40.41**	**1.67**

Appendix 3: Principal Repayments by Selected Creditors (EC$m)

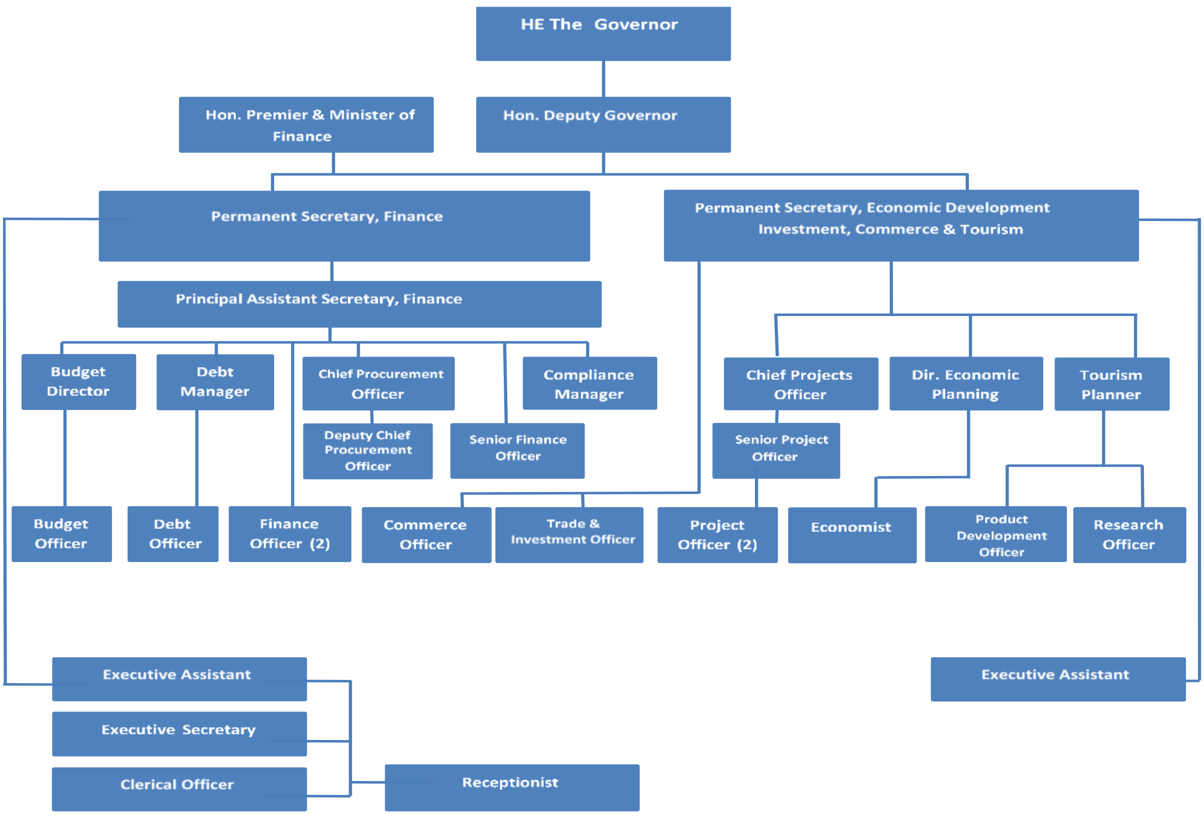
Creditors	2015	2016	2017	2018	2019
Anguilla Roads & Construction Inc. & WWR		0.17	0.43	0.55	0.55
Anguilla Social Security Board	5.74	5.74	5.74	5.56	5.56
Caribbean Commercial Bank (Anguilla) Ltd	0.05	0.05	0.06	0.06	0.07
Caribbean Development Bank	5.71	14.59	14.41	14.11	15.21
Depositors' Protection Trust			1.42	5.69	5.69
Eastern Caribbean Central Bank			2.14	2.86	2.90
European Investment Bank	0.05	0.05	0.06	0.06	0.06
Total	**5.82**	**14.69**	**18.09**	**22.78**	**30.03**

Appendix 4: Legal and Institutional Framework

Institutional Framework

Debt management functions are shared across various departments and an inter-ministerial committee, the National Debt Advisory Committee (NDAC). The main debt management activities resided in the Ministry of Finance, Economic Development, Investment, Commerce and Tourism (MFEDICT). Key personnel included the Permanent Secretaries for Finance and Economic Development, staff of Ministry of Economic Development, Investment, Commerce and Information Technology and of the Debt Management Unit (DMU)[11]. The organizational structure of the MFEDICT, as at end December 2019, is shown in Figure 15 below.

Figure 15: Organisation Chart: Ministry of Finance, Economic Development, Investment Commerce and Tourism



[11] DMU staff complement at the end of 2019 stood at one.

The Permanent Secretary of Finance is largely responsible for front office functions. These functions are shared with the Permanent Secretary for Economic Development who is responsible for mobilizing funds for capital projects. Middle office functions are undertaken by the Debt Manager. Back office functions are performed by the Debt Officer. There is a National Debt Advisory Committee (NDAC)[12] whose functions are, inter alia, to review debt and financing options for government through analysis of current debt stock against U.K benchmarks.

Legal Framework

The legal framework which guides borrowing in Anguilla includes the Fiscal Responsibility Act, the Financial Administration and Audit Act (FAA), the Treasury Bill Act, the Development Bonds Act and the Loans (Caribbean Development Bank) Act.

The Fiscal Responsibility Act, 2013 embodies government's commitment to responsible fiscal management, improved fiscal transparency and incorporates the Framework for Fiscal Sustainability and Development (FFSD)[13] agreement signed on 5 April 2013 between the GoA and UKG. It establishes guidelines and principles for prudent fiscal management, as well as procedures for the management of public debt to ensure that the level of debt is sustainable and consistent with macroeconomic and fiscal sustainability and financial stability in the short, medium and long term.

The FAA, 2010 authorises the Minister of Finance to borrow, provided that borrowing is approved through a resolution of the House of Assembly.

The Treasury Bill Act, 2009 governs the issuance of treasury bills. It authorises the Minister of Finance to borrow money by issuing treasury bills subject to the requirement that the principal sum of treasury bills outstanding at any one time shall not exceed 10.0 per cent of the estimated revenue of the Government of Anguilla (GoA) during the financial year.

[12] The ccommittee comprises PS Finance, PS Economic Development, PAS Finance , Debt Officer, Accountant General, and Budget Officer, among others. The Committee has not met regularly and some of its functions are sometimes subsumed under the Fiscal and Economic Recovery Team.

[13] The FFSD replaced the 2003 Borrowing Guidelines

The Development Bond Act, 2009 gives authority to the Minister of Finance to borrow using development bonds. The Act specifies the purposes for which the Minister may use the funds borrowed, namely for:

(a) The repayment of money granted to the Government by statutory corporations;
(b) The financing of projects approved in the estimates prepared in accordance with the appropriation act;
(c) The repayment of public debt;
(d) The meeting of expenses incurred in raising and administering loans.

The Loans (Caribbean Development Bank) Act, 2000 gives authority to the Minister of Finance to borrow from CDB. It stipulates that borrowing can only be undertaken after approval of a Secretary of State and a Resolution of the House of Assembly.

Ministry of Finance
Government of Anguilla
P O Box 60
The Valley
Anguilla

Tel: (264) 497-2547
Fax: (264) 497-3761
Website: www.gov.ai