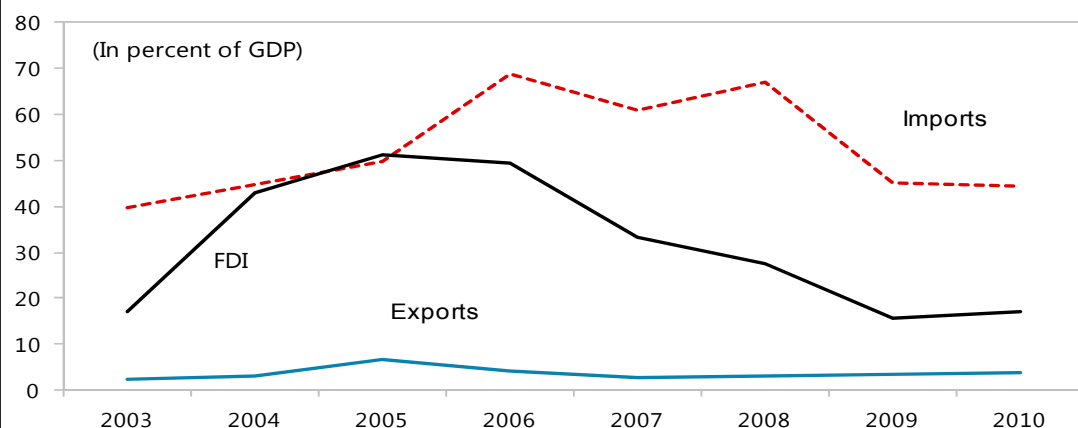
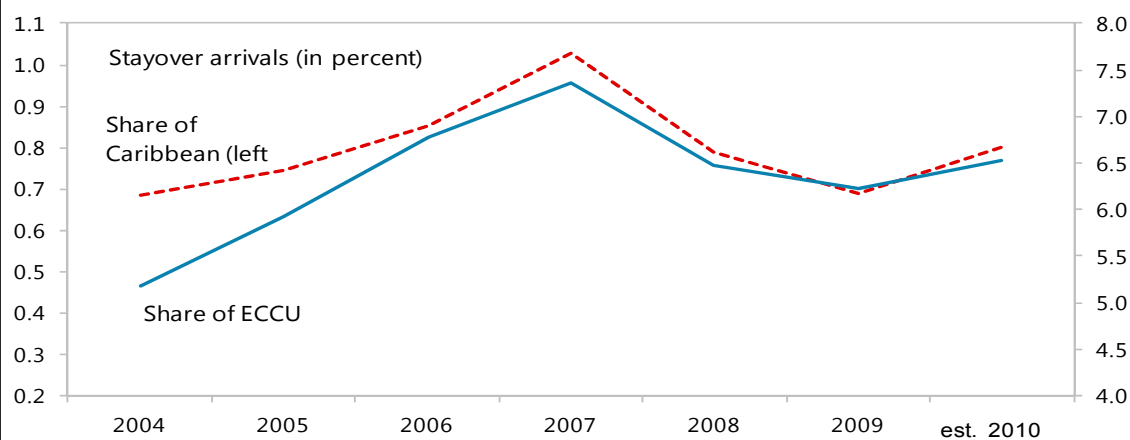


**Figure 5. Anguilla: External Sector Developments**

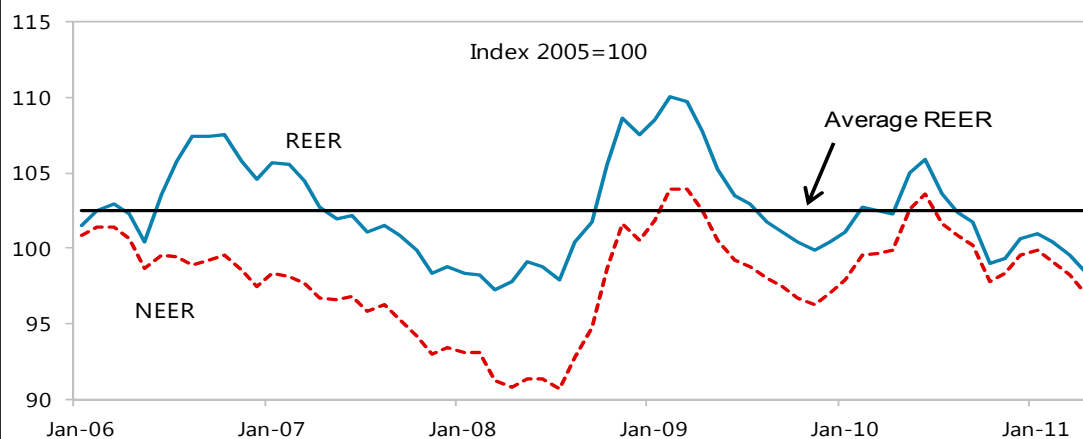
Imports have remained high even as FDI has declined.



Tourism market share improved in 2010.



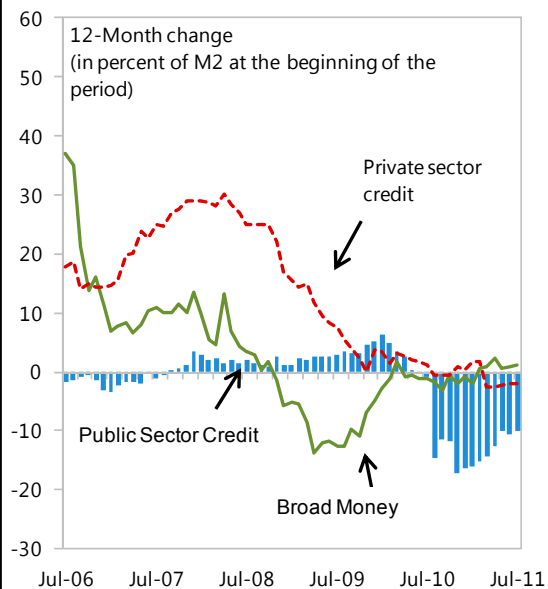
The real effective exchange rate has been volatile but without a clear trend upward or downward.



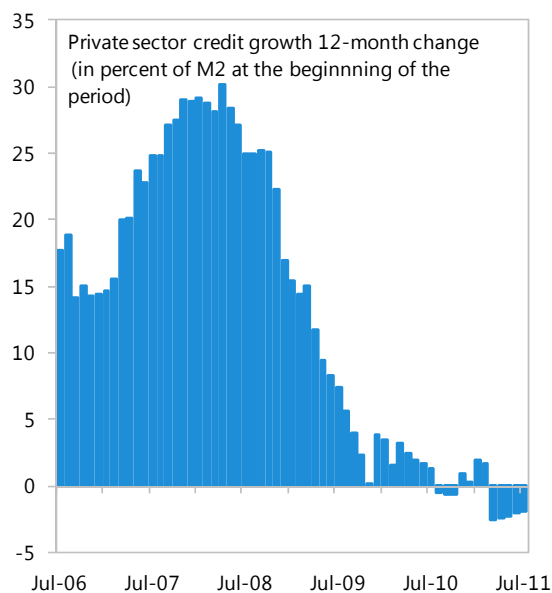
Source: ECCB; and Fund staff estimates.

Figure 6. Anguilla: Monetary Developments

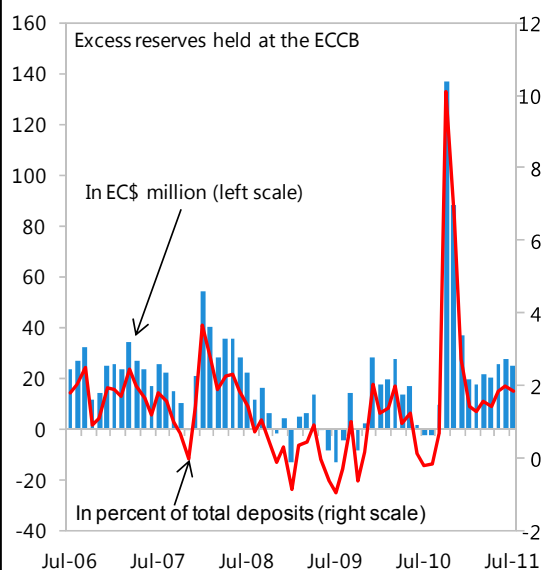
Broad money growth has stagnated since early 2010.



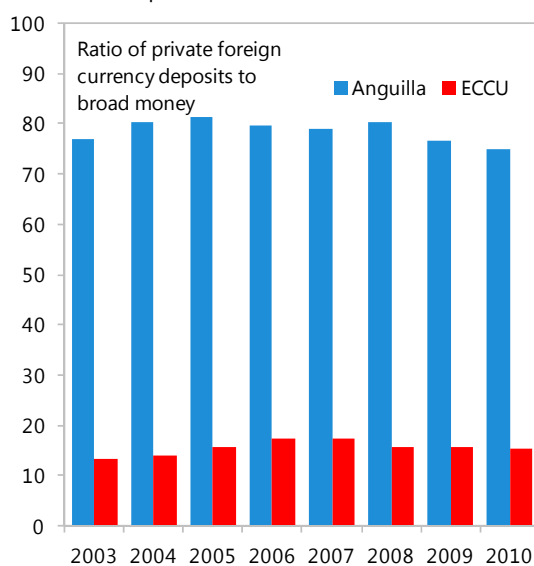
Private sector credit has been stagnant...



...while liquidity is declining.



Foreign currency deposits remain very large, as Anguilla did not adopt the Eastern Caribbean dollar until 1987.



Source: ECCB; and Fund staff calculations.



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## **IMF Executive Board Concludes 2011 Article IV Consultation Discussions with United Kingdom–Anguilla–British Overseas Territory**

On November 28, 2011, the Executive Board of the International Monetary Fund (IMF) concluded the first ever Article IV consultation discussions with United Kingdom–Anguilla–British Overseas Territory.<sup>1</sup>

### **Background**

Anguilla has experienced a boom-bust cycle related to the global crisis and faces a persisting hangover. Several large resort projects fueled a FDI boom during 2003–08, which doubled nominal GDP. The stalling of one of these projects and the global crisis led to declines in real GDP of 16.5 percent in 2009 and 5.9 percent in 2010 respectively. The fiscal situation deteriorated sharply as revenue collapsed while expenditure remained elevated after the increases during the boom years, notwithstanding a series of fiscal measures.

The downturn has accentuated strains on the financial system. The asset portfolio of the banking system, which is concentrated in construction, tourism, and personal loans, was

<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country or territory, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

adversely affected, and the ratio of nonperforming loans to total loans in the indigenous banks increased to 36 percent by end-June 2011.

The growth outlook is improving with the major tourism projects getting back on course, though a slow recovery is only expected to begin in 2012. Risks are tilted to the downside given the global outlook. Nevertheless, balancing the overall budget by the start of 2013 will be challenging.

### **Executive Board Assessment**

The Executive Directors noted that the severe boom-bust cycle related to the global crisis has accentuated weaknesses in the financial sector, undermined the fiscal position, and pushed the island into recession. They concurred that urgent action is needed to improve the health of the financial sector, to stabilize public finances, and to increase the potential for long-run economic growth.

Directors agreed that close cooperation will be needed to address financial sector vulnerabilities, particularly those related to the indigenous banks. They recommended developing a strategy to strengthen the banks' capital and clean up their balance sheets and underscored the need for an action plan which could usefully spell out the respective roles of the key players.

Directors emphasized that a new fiscal framework is needed with an appropriate balance between current and capital expenditure and in line with the resources available. Fiscal policy should be designed to meet the combined objectives of debt sustainability, deficit reduction, and long-term economic growth. Given financing constraints and economic vulnerabilities, they urged the government to accumulate buffers during good times to allow for countercyclical spending during slowdowns. As part of the new framework, they suggested that the 2012 budget restore capital spending to historical levels, cut current spending, while ensuring adequate revenue given financing constraints.

Directors welcomed efforts toward reforming the inefficient and inequitable tax system. They supported a comprehensive tax reform that would simplify the tax structure and broaden the tax base. They noted that a general consumption-based tax such as a VAT/GST and a permanent income tax would attain both objectives. The complex system of customs duties and exemptions should be replaced with a tariff with few rates and limited exemptions.

Directors noted that the tourism sector, the driver of the economy, has begun to recover, benefiting from its high-end focus. They were encouraged that prospects have brightened now that the two major tourism projects are getting back on track. However, they recognized that air and sea access to the island needs to be improved.