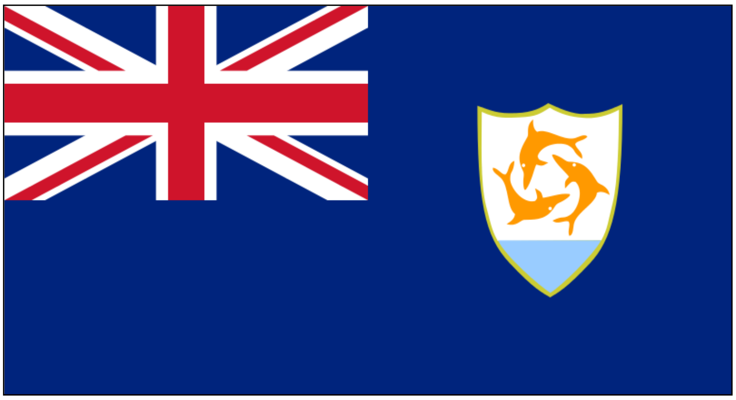
ANGUILLA DEBT PORTFOLIO REVIEW 2018



Prepared by the Debt Management Unit,
Ministry of Finance and Economic Development, Anguilla

September 2019


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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SECTION 1.0 EXECUTIVE SUMMARY

The Anguilla Debt Portfolio Review for the calendar year 2018 was compiled by the Debt Management Unit, Ministry of Finance and Economic Development, with support from the - Eastern Caribbean Central Bank (ECCB) Debt and Domestic Markets Unit. The debt Profile Review provides a comprehensive look at the debt situation of Anguilla over the period 2014 to 2018. As at end December 2018, the total public debt stock stood at $525.17m, which comprised of public and publicly guaranteed external and domestic. The report aims to provide a detailed overview of the total public debt portfolio, which analyses the movements in the debt stock over the review period 2014 - 2018.

The review also explores debt related issues in terms of 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 2: provides an overview of the economy in terms of the economic developments over the period 2014-2018, and the impact on both the levels and composition of the debt portfolio.

SECTION 3: examines the evolution of the total public sector debt, its composition, costs and risks inherent in the current portfolio, debt sustainability indicators and the United Kingdom Government (UKG) borrowing benchmarks.

SECTION 4: concludes with the key observations in the current debt portfolio and policy recommendations.

SECTION 2.0 OVERVIEW OF ANGUILLA'S ECONOMY

2.1 Introduction

Anguilla is a small open economy with a narrow economic base focused on high-end tourism and construction, and to a lesser extent, offshore 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 with the second smallest economy as at the end of 2018, accounting for 4.38 per cent of the Union's total gross domestic product (GDP). Anguilla is also a self-governing Overseas Territory of the United Kingdom (UK). This relationship requires the Government of Anguilla (GoA) to maintain fiscal and debt[1] 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 Office is responsible for the implementation of the MTDS. An update is scheduled for later this year.

[1] Anguilla's borrowing is constrained by borrowing ratios agreed to in the Framework for Fiscal Sustainability and Development signed in April 2013 and legislated in October via the Fiscal Responsibility Act 2013 (which replaced the 2003 Borrowing Guidelines Agreement): (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.

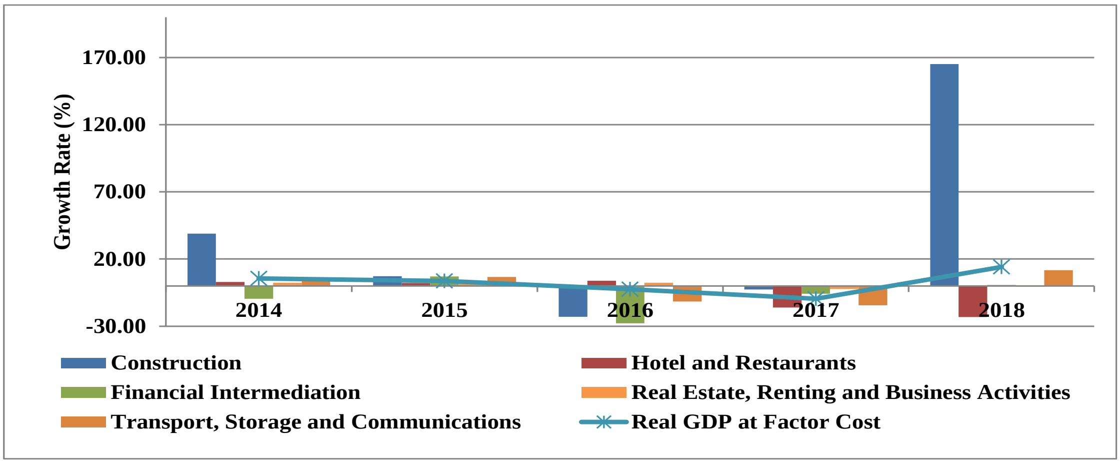
2.2 Macroeconomic Developments

At the start of September 2017, Anguilla experienced a record-setting category 5 hurricane which devastated the economy's major and minor sectors. As such, 2018 was a year of recovery and rehabilitation. Estimates suggest that the economy grew by 10.90 per cent in real terms compared to a decline of 6.64 per cent the previous year. In nominal terms, the GDP of Anguilla is estimated to total EC$870.46m, representing an increase in nominal activity by 13.70 per cent.

The expansion was fuelled by growth in the Construction sector (165.14 per cent), Wholesale and Retail sector (54.2 per cent), and Transport, Storage and Communications (11.64 per cent). Sectors linked to construction such as mining and quarrying and manufacturing are projected to have grown in 2018; the construction activities were both public and private sector driven. Growth was also tempered by the contraction of the Hotels and Restaurants sector (23.27 per cent), Real Estate, Renting and Business Activities (0.69 per cent) and Public Administration, Defence & Compulsory Social Security (0.77 per cent). Despite recording significant decline, the tourism sector was the second largest contributor to GDP, behind construction. The start of the 2018/2019 tourism season also saw the return of guests in record numbers, signalling the rebound of the sector.

Diagram 1 below, depicts real GDP growth for these selected economic sectors over the period, 2014-2018.

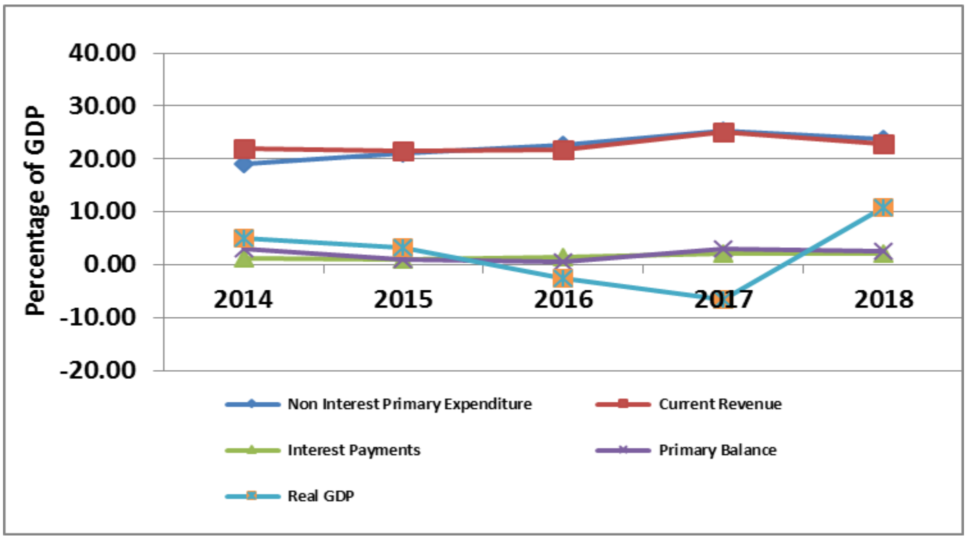
Diagram 1: Real GDP Growth, Selected Sectors Growth Performance (2014-2018)



Public Finance Trends

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

Diagram 2: Central Government Fiscal Position 2014-2018 (as per cent of GDP)



The GoA ended the 2018 fiscal year with a recurrent deficit of EC$6.32m relative to the EC$24.65m deficit that was projected at the time the budget was prepared. The 2018 revenue estimate was EC$177.5m based on projected negative impacts to the economy, especially the tourism sector, following Hurricane Irma. Actual revenue collections totalled EC$199.53m. Collections were 12.41 per cent or EC$22.03m more than budget and 3.92 per cent more than 2017 collections. The 2018 recurrent expenditure estimate was EC$202.15m. Actual spend totalled EC$205.64m, which is 1.70 per cent or EC$3.49m above the estimate. This also represented an increase of EC$10.21m (5.22 per cent) over expenditure in 2017. Total outstanding public debt stood at 60.33 per cent of GDP at the end of 2018. See Appendix 1: Table 1.

2.3 The Banking Resolution

In August 2013, the two local indigenous banks, National Bank of Anguilla (NBA) and Caribbean Commercial Bank (CCB) Ltd, were placed into receivership under the supervision of the Eastern Caribbean Central Bank (ECCB). The banking crisis posed risks and uncertainty for Anguilla's banking sector, though it remained localized, as there were no signals of contagion in the ECCU. In 2016, the two banks were merged to form the National Commercial Bank of Anguilla ("*NCBA")* or the "*Bridge Bank"*). A Depositors' Protection Trust (DPT) Fund (EC$56.88m) was established to protect the large depositors of the two failed banks. The GoA also issued a promissory note (EC$214.00m) to cover the deposits from the Social Security funds; the Caribbean Development Bank (CDB) provided financing of EC$59.4m in the form of a bridging bank capitalization loan and the ECCB provided an interim loan of EC$20.00m of which, EC$8.00m was repaid by the Bridge Bank. The remaining EC$12.0m was repaid from the disbursement of funds associated with the CDB bridging bank capitalization loan. The intervention by the GoA in this banking resolution amounted to EC$330.28m.

At the end of the 2018 fiscal year, debt associated with the banking resolution stood at EC$323.17m a decline of EC$7.11m or 2.15 per cent when compared to the initial amount of the GoA's intervention in 2016.

SECTION 3.0 PUBLIC DEBT STRUCTURE AND RATIOS

3.1 Total Public Debt

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

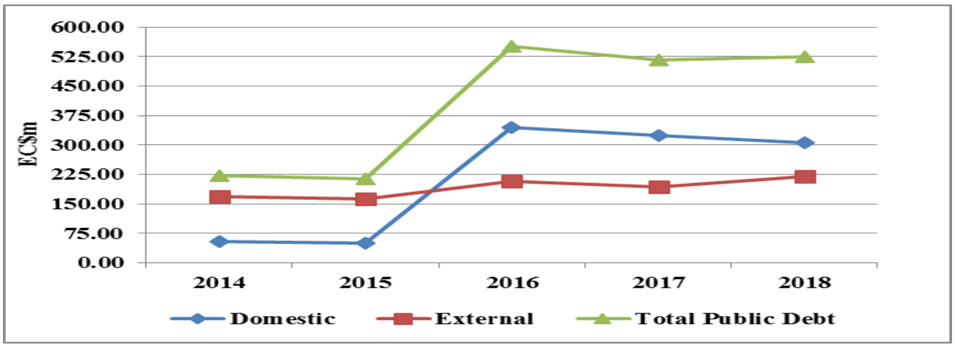
Table 1: Total Public Debt 2014-2018 (EC$m)

	2014	2015	2016	2017	2018
Central Government Debt	**209.14**	**201.52**	**539.59**	**506.76**	**516.69**
Domestic	53.02	49.55	341.31	321.52	304.06
External	156.12	151.97	198.28	185.24	212.63
Government Guaranteed Debt	**12.75**	**11.19**	**12.25**	**10.34**	**8.48**
Domestic	0.91	0.68	2.98	2.31	1.70
External	11.84	10.51	9.27	8.03	6.78
Total Public Debt	**221.89**	**212.71**	**551.84**	**517.10**	**525.17**
Domestic	53.93	50.23	344.29	323.83	305.76
External	167.96	162.48	207.55	193.27	219.41

At the end of 2018, total disbursed outstanding public sector debt stood at EC$525.17m or 60.33 per cent of GDP. For year-end 2014, compared to year-end 2015, the debt stock declined by an annual rate of 4.14 per cent. The downward trajectory in debt was primarily attributable to scheduled amortization payments exceeding new borrowing. However, at the end of 2016 the debt stock increased to EC$551.84m. This represented a 159.4 per cent increase, (EC$212.71m) over the 2015 debt stock. This increase was due primarily to the new debt, contracted in support of the banking resolution, exceeding scheduled amortization payments. Over the period 2016 -2018 the debt stock increased by an annual average rate of 2.37 per cent. In 2018, the debt stock increased by 1.56 per cent (EC$8.07m) over the 2017 debt stock level due to disbursements exceeding scheduled amortization.

Over the period under review 2014 - 2018, there has been a structural change in the debt composition shifting from largely, external holders pre-2016 to domestic debt accounting for the predominant share of the portfolio averaging 53.77 per cent while domestic debt averaged 46.23 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 of the portfolio. At the end of 2018, domestic debt had a share of 58.22 per cent while external debt accounted for 41.78 per cent of the portfolio. (See diagram 3).

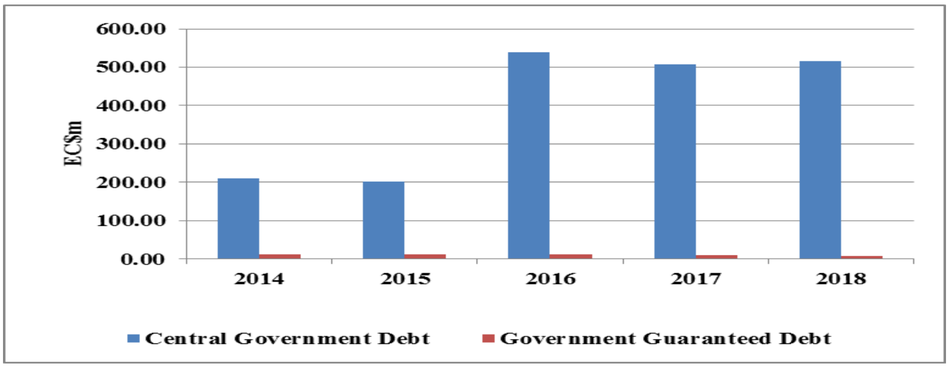
Diagram 3: Total Public Debt by Category (EC$m)



Central Government and Government Guaranteed Debt

As shown in diagram 4, central government debt accounted for 98.38 per cent (EC$516.17m) of the total disbursed outstanding debt at the end of 2018, growing from a 94.25 percentage share (EC$209.14m) in 2014. For the same period, the share of government guaranteed debt[2] declined from 5.75 per cent (EC$12.75m) to 1.62 per cent (EC$8.48m). Over the period 2014 - 2015 central government debt and government guaranteed debt had an average annual decline of 3.64 per cent and 12.24 per cent respectively. However, at the end of 2016, central government and government guaranteed debt increased by 167.76 per cent and 9.47 per cent over the 2015 debt stock levels respectively. At the end of 2018, central government debt stock increased by 1.96 per cent (EC$9.92m) and government guaranteed debt declined by 17.96 per cent (EC$1.86m) over the 2017 debt stock level.

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

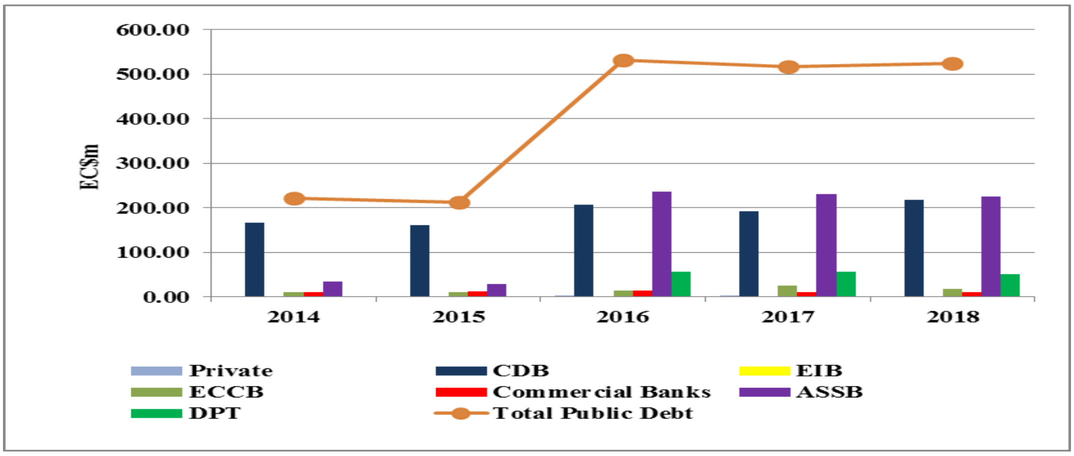


[2] Guaranteed debt was held by two statutory bodies, the Anguilla Development Board and the Anguilla Tourist Board up to 2015. In 2016 Anguilla Air and Sea Ports Authority contracted debt.

3.2 Public Debt Composition

Diagram 5 shows that at the end of 2018, the Anguilla Social Security Board (ASSB) held the largest share of total debt accounting for 42.86 per cent (EC$225.11m) of the portfolio. The share of debt owed to the other creditors, in descending order, were CDB at 41.64 per cent (EC$218.68m), DPT at 9.48 per cent (EC$49.77m), ECCB at 3.52 per cent (EC$18.48m), NCBA at 2.07 per cent (EC$10.85m), a Private Creditor at 0.30 per cent (EC$1.56m) and European Investment Bank (EIB) at 0.14 per cent (EC$0.73m).

Diagram 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 2014 to 2018 external debt grew by approximately 12.86 per cent; moving from EC$167.96m in 2014 to EC$219.41m at the end of 2018 . This increase in external debt is as a direct result of a loan contracted from CDB to recapitalize the bridge bank in 2016 and two loans contracted in 2018 as part of the debt restructuring exercise as outlined in the 2018 – 2020 Medium Term Economic and Fiscal Plan[3]. At the end of 2018, external debt increased by 13.52 per cent (EC$26.14m) over the 2017 debt stock level of EC$193.27m.

[3] Medium Term Economic and Fiscal Plan 2018-2020 - http://www.gov.ai/documents/finance/MTEFP%202018-2020-%20Final.pdf

External Debt by Creditor

Anguilla's external debt over the period reviewed was owed to two multilateral creditors, the European Investment Bank and the Caribbean Development Bank. The latter has been the dominant holder with a five-year average annual share of 99.55 per cent.

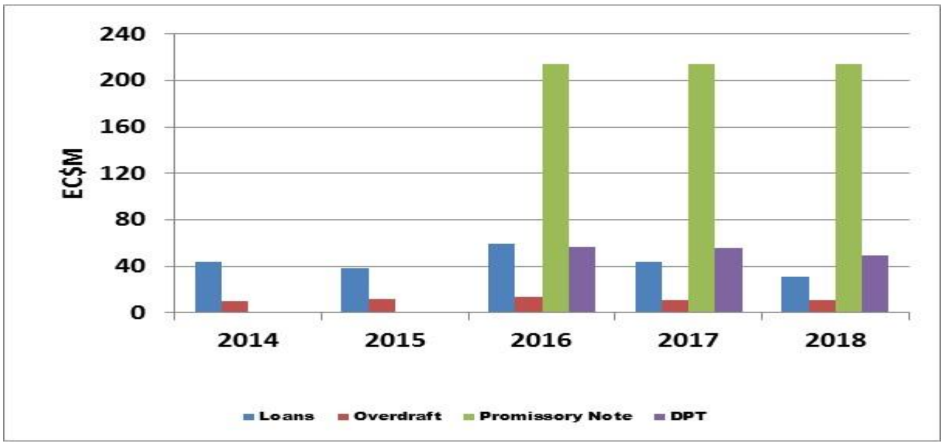
Domestic Debt

Domestic debt in 2014 and 2018 stood at EC$53.93m and EC$305.76m, 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 2018, the domestic debt stock decreased by EC$18.07m or 5.58 per cent when compared to the 2017 domestic debt stock of EC$323.83m. At the end of 2018, the NCBA overdraft stood at EC$10.70m and the ECCB cash advance at EC$11.49m.

Domestic Debt by Instrument

The domestic debt portfolio consisted of a promissory note, DPT funds, loans and an overdraft facility (see diagram 6).

Diagram 6: Domestic Debt by Instrument (EC$m)

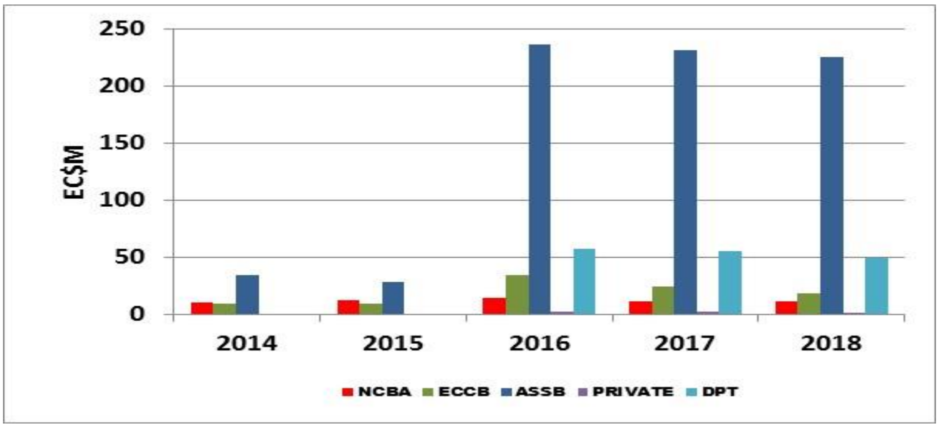


At the end of 2018, the promissory note accounted for 69.99 per cent of the domestic debt portfolio. The DPT accounted for 16.28 per cent, loans accounted for 10.23 per cent of the domestic debt portfolio and the overdraft facility accounted for the remaining share of 3.50 per cent.

Domestic Debt by Creditor

As depicted in diagram 7, the ASSB has been the dominant holder in the domestic debt portfolio. At the end of 2018, debt owed to the ASSB stood at EC$225.11m (73.62 per cent) of total domestic debt. Other domestic creditors included, the DPT with an amount of EC$49.77m (16.28 per cent), the ECCB EC$18.48m (6.04 per cent), NCBA with an amount of EC$10.85m (3.55per cent), and a private entity EC$1.56m (0.51 per cent).

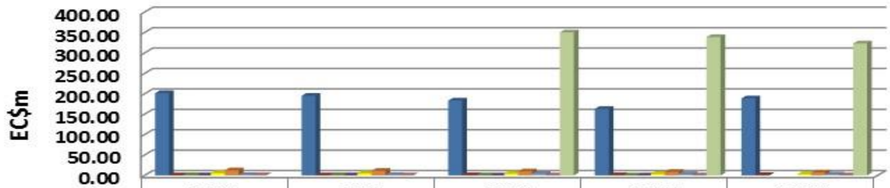
Diagram 7: Domestic Debt by Creditors (EC$m)



3.3 Debt by Economic Sector

Diagram 8 below captures Anguilla's total public debt by economic sector. At the end of 2018, financial intermediation accounted for the largest proportion of public debt with a share of 61.54 per cent. Within this sector, activities were primarily related to the banking resolution. Budget Support and Multi-sector followed with shares of 35.94 per cent and 1.34 per cent respectively. The remainder of the portfolio (1.18 per cent) was shared among four other economic sectors.

Diagram 8: Public Debt by Economic Sector (EC$m)



	2014	2015	2016	2017	2018
Budget Support	201.52	194.96	183.46	162.86	188.75
Education & Training	0.06	0.15	0.49	0.57	0.81
Housing	0.54	0.36	0.18	-	
Industrial Development	0.26	0.05	-	-	
Infrastructure	5.57	4.86	4.16	3.46	2.98
Multi-Sector	12.56	11.15	9.69	8.36	7.03
Roads and Bridges	1.01	0.86	3.31	2.93	2.29
Tourism & Hotel Industry	0.37	0.32	0.27	0.21	0.15
Finance, Insurance, Etc			350.28	338.71	323.17

3.4 New Borrowing and Debt Service Payments

New Borrowing

Table 2: New Borrowing and Disbursements 2014-2018 (EC$m)

New Financing (EC$M)	2014	2015	2016	2017	2018
Total	**0.06**	**0.39**	**353.32**	**0.08**	**40.41**
External	**0.06**	**0.39**	**59.74**	**0.08**	**40.41**
Multilateral	0.06	0.39	59.74	0.08	40.41
Domestic	**-**	**-**	**293.58**	**-**	**-**
Loans	-	-	20.00	-	-
Bonds/Promissory Note	-	-	270.88	-	-
Private	-	-	2.70	-	-

In 2018 EC$40.23m was raised in new borrowings from CDB. All new borrowings were attributable to Central Government. The new instruments contracted were:

i. Hurricane Recovery Support Loan (CDB Refinance Loan) – EC$15.12m of which EC$15.07m had been disbursed. The loan was contracted to meet government's financial obligations to CDB for the remainder of 2018. The Hurricane Recovery Support Loan has a three- year grace period and a maturity period of 13 years (matures in 2031) with the applicable interest rate being CDB OCR rate[4]; and

[4] 4.80 per cent at the end of 2018

ii. First Programmatic Stability & Resilience Building - Policy-Based Loan (PBL) - EC$25.11m that was fully disbursed during the month of October 2018. The loan was contracted to aid in the restoration of fiscal stability and to build resilience in the aftermath of Hurricane Irma in 2017. The First Programmatic Stability and Resilience Building - PBL has a grace period of five years and a maturity of 15 years (matures in 2033) with the applicable interest rate being CDB OCR rate.

At the end of 2018, disbursements totalled EC$40.41m. There were disbursements totalling EC$40.18m on the two new instruments contracted from CDB and a disbursement of approximately EC$0.24m on the Anguilla Community College (ACC) Project Loan contracted in 2014 from CDB. At the end of 2018, approximately EC$0.81m has been disbursed on the ACC Project Loan with an undisbursed balance of EC$7.87m. There was no new borrowing or disbursements associated with the Government Guarantees.

Debt Service Payments

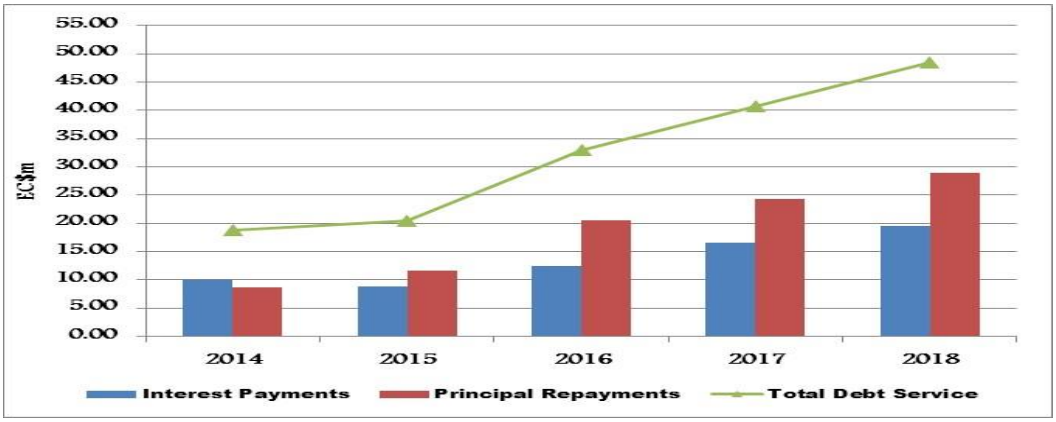
Anguilla's total public sector debt service showed an increasing trend especially since 2015. The annual debt service increased on average by 28.20 per cent over the period of review moving from EC$18.74m in 2014 to EC$48.42m in 2018 (see table 3).

Table 3: Total Public Sector Debt Service 2013-2017 (EC$m)

Debt Service Payments (EC$m)	2014	2015	2016	2017	2018
Total Debt Service	**18.74**	**20.42**	**32.94**	**40.77**	**48.42**
Principal Repayments	*8.71*	*11.55*	*20.54*	*24.25*	*28.96*
Interest Payments	*10.03*	*8.86*	*12.40*	*16.52*	*19.46*
External Debt Service	**9.75**	**12.17**	**19.56**	**20.82**	**21.76**
Principal Repayments	*2.93*	*5.77*	*14.59*	*14.46*	*14.24*
Interest Payments	*6.82*	*6.40*	*4.97*	*6.36*	*7.52*
Domestic Debt Service	**8.99**	**8.25**	**13.38**	**19.95**	**26.66**
Principal Repayments	*5.78*	*5.78*	*5.95*	*9.79*	*14.72*
Interest Payments	*3.21*	*2.46*	*7.43*	*10.16*	*11.94*

The annual year-on-year increase in debt service from 2014 to 2018 was mainly due to increased principal repayments and interest payments on both existing and new domestic and external debt instruments. As shown, total principal repayments moved from EC$8.71m in 2014 to EC$28.96m in 2018. For the same period, total interest payments, after declining for the period 2014 to 2015, increased from EC$8.86m in 2015 to EC$12.40m in 2016 and continued to rise in 2018. In 2018, interest and principal payments increased by 17.80 per cent and 19.42 per cent respectively over the 2017 debt service payments. The trend in debt servicing is illustrated in diagram 9.

Diagram 9: Debt Service 2014-2018 (EC$m)



3.5 Risk/Cost Analysis

Risk refers to the potential for the cost of debt to deviate from its expected outcome due to variations of different economic variables such as interest rate and exchange rate[5]. Exposure of Anguilla's debt portfolio to risk is assessed using the following risk indicators: refinancing risk, interest risk and exchange risk.

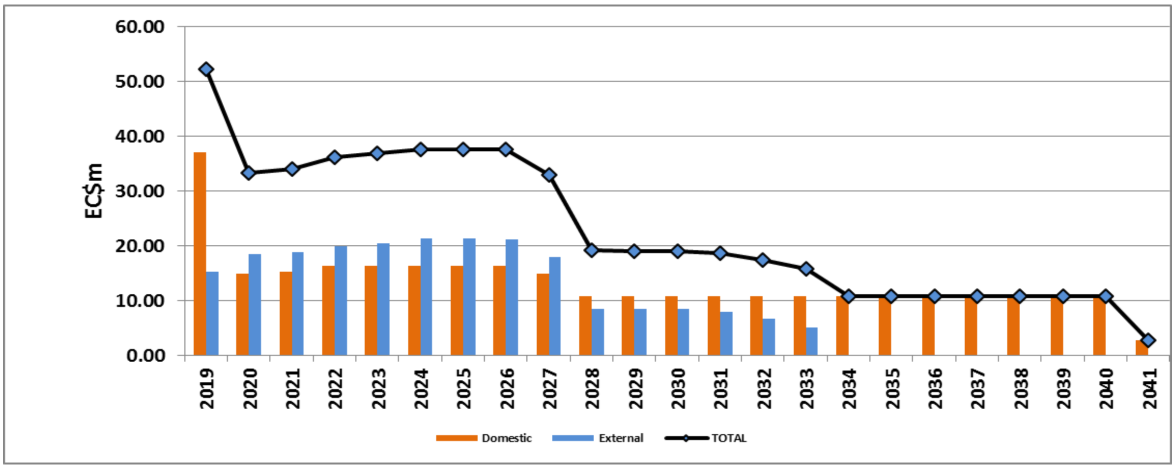
Refinancing Risk

Refinancing risk (rollover risk) refers to the risk a borrower faces when the actual cost of re-borrowing funds may exceed projected cost of financing existing obligations. 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. Diagram 10 depicts the maturity structure of Anguilla's debt given the stock of debt as at the end of 2018.

[5] See Appendix B for a more detailed description of the types of risk in debt management.

Diagram 10: Maturity Profile of Public Debt



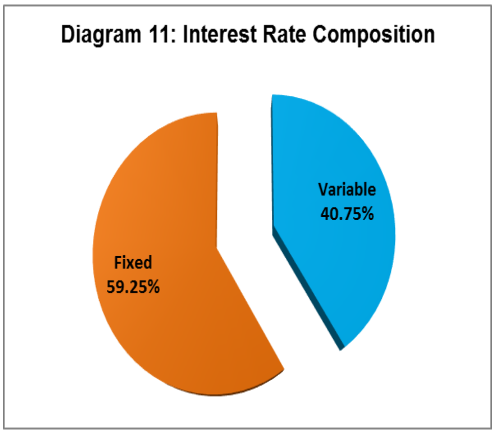
The proportion of debt with a remaining maturity of 1 year or less (short-term) is 9.95 per cent (EC$52.23m) of total debt. The amount due in external payments in 2018 is EC$15.26m due mainly to CDB. Domestic payments amount to EC$36.97m comprising of EC$22.19m for short-term facilities (NCBA overdraft and ECCB cash advance).

Debt falling due within 2 to 5 years (medium term) accounts for 26.73 per cent (EC$140.38m) of maturing debt. External payments account for EC$77.49m (55.20 per cent) with payments to the CDB totalling EC$77.26m. Domestic payments range from EC$5.69m in 2020 to EC$10.70m in 2022 and are due largely to the maturity of the ASSB EC$50.0m loan in 2020 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 63.32 per cent (EC$332.56m). Principal outlays of EC$205.90m domestically and EC$126.66m 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 8.02 years. Worth noting is that 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]



At the end of the period under review, 40.75 per cent of disbursed outstanding debt was attributed to instruments with variable interest rates and 59.25 per cent to fixed rate instruments (see diagram 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. The variable interest rate debt was associated with the Ordinary Capital Resources (OCR)[7] share of CDB loans.

At the end of 2018, the cost of the debt portfolio increased by 0.67 percentage points when compared to 2017. The average interest rate stood at 3.76 per cent when compared to 3.09 per cent at the end of 2017. The domestic and external average interest rates stood at 3.69 per cent and 3.89 per cent respectively. The change in domestic and external interest rates saw an increase of 0.65 and 0.72 percentage points in comparison to 2017. The overall increase in the cost of debt was due primarily to an increase in the CDB OCR variable rate that moved from 3.80 per cent at the end of 2017 to 4.80 per cent at the end of 2018. (See Appendix 1).

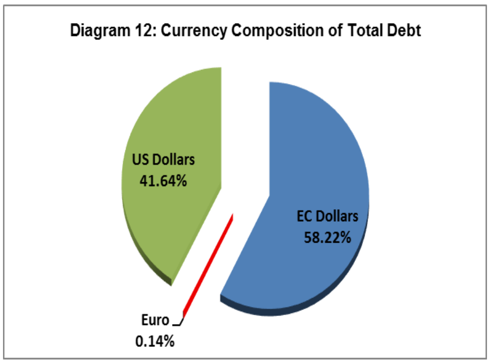
Interest rate risk refers to risk associated with movements of the interest rate on domestic and international capital markets. Changes in interest rates affect debt service payments, as costs increase when interest rates rise and debt has to be refinanced. The average time to refixing (ATR) indicator measures interest rate risk. At the end of 2018, Anguilla's public debt had an average time to interest rate re-fixing (ATR)[8] of 5.72 years, which suggests that a significant 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 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 2018.

[8]The average time until the interest rate is reset on the outstanding debt.

Exchange Rate Risk

Diagram 12 shows the currency composition of the public debt profile at the end of 2018. It shows that 41.64 per cent (EC$218.68m) of Anguilla's debt stock was denominated in US dollars. The share of EC dollar denominated debt stood at 58.22 per cent (EC$305.76m) and Euro currency debt accounted for 0.14 per cent (EC$0. 73m).



Exchange rate risk refers to risk associated with movements in the exchange rate. Given that 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 41.64 percentage share of US dollar denominated debt acts as a buffer to the currency risk owing to the official parity between the EC dollar and US dollar. Secondly, the exchange rate exposure with the Euro is minimal as it constitutes less than 1.0 per cent of the total debt portfolio.

3.6 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 major risks facing the economy; conditions under which the debt level can stabilise; and the 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. In February 2015, the ECCB Monetary Council extended the target date to 2030.

Table 4 shows some core debt sustainability indicators over the period 2014-2018.

Table 4: Debt Sustainability Indicators (in percentages)

Sustainability Indicators	2014	2015	2016	2017	2018
Public Sector Debt to GDP	**26.40**	**23.83**	**63.82**	**67.55**	**60.33**
External Debt to GDP	*19.98*	*18.21*	*24.00*	*25.25*	*25.21*
Domestic Debt to GDP	*6.42*	*5.63*	*39.82*	*42.30*	*35.13*
Public Sector Debt Service to Revenue	**10.11**	**10.68**	**17.46**	**21.23**	**24.27**
External Debt Service Ratio	*5.26*	*6.37*	*10.37*	*10.84*	*10.91*
Domestic Debt Service Ratio	*4.85*	*4.32*	*7.10*	*10.39*	*13.36*
Interest Service Ratio	**5.41**	**4.64**	**6.57**	**8.60**	**9.75**
External Interest Service Ratio	*3.68*	*3.35*	*2.63*	*3.31*	*3.77*
Domestic Interest Service Ratio	*1.73*	*1.29*	*3.94*	*5.29*	*5.98*
External Debt Service to Exports	**68.82**	**41.80**	**109.63**	**171.65**	**155.36**

There was a decline in the public sector debt to GDP indicator of 2.57 percentage points in 2015 when compared to that of 2014. However, in 2016 the public sector debt to GDP increased by 39.99 percentage points over the 2015 ratio. At the end of 2018, domestic debt saw a 7.22 percentage points decrease with external debt showing a marginal decrease of 0.04 percentage points when compared to 2017. The public debt service ratio shows a moderate increase over the period 2014 to 2015 but increased significantly by 6.78, 3.77 and 3.04 percentage points in 2016, 2017 and 2018, respectively. This increase in the debt service ratio is mainly as a result of debt service payments (as explained previously) outpacing revenue growth. At the end of 2018, there was an increase in the interest service ratio of 1.15 percentage points over the 2017 ratio of 8.60 per cent of GDP. This increase is due primarily to the new debt contracted in the latter part of 2018 in support of the debt restructing programme. At the end of 2018, there was an increase in exports along with the slight increase in external debt servicing resulting in external debt service to exports decreasing by 16.29 percentage points over the 2017 ratio of 171.65 per cent.

[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)

3.7 UKG Borrowing Benchmarks/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). It requires that the Government of Anguilla manages its debt operations within the corridor of three debt ratios, namely: the net debt and debt service ratios should not exceed 80.0 per cent and 10.0 per cent[10] of recurrent revenue respectively, and 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 is 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 has been made to extend the compliance deadline date to 2025. Subsequently, following the impacts of Hurricane Irma return to compliance with the fiscal ratios was extended to 2030.

Table 5 shows the Government of Anguilla's performance against the UK debt benchmarks over the period 2014-2018.

Table 5: UK Borrowing Guidelines/FFSD Ratios - 2014-2018

Debt Indicators (%)	Targets	2014	2015	2016	2017	2018
Net Debt/Recurrent Revenue	≤80%	97.90	92.95	279.83	264.86	260.15
Variance		17.90	12.95	199.83	184.86	180.15
Debt Service/Recurrent Revenue	≤10%	8.98	9.73	16.72	20.63	23.58
Variance		-1.02	-0.27	6.72	10.63	13.58
Liquid Assets/Recurrent Expenditure	≥25%	17.16	14.41	8.36	0.90	0.17
Variance		-7.84	-10.59	-16.64	-24.10	-24.83

[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.

At the end of 2018 the GoA was in breach of the three debt ratios. As depicted in the table above the GoA has been in breach of the net debt and liquid asset targets throughout the period being reviewed. On the other hand, the debt service ratio was in breach in 2016 and subsequently at the end of 2018 due primarily to the new debt contracted to aid in the banking resolution. At the end of 2018, the liquid assets ratio decreased by 0.73 percentage points to 0.17 per cent when compared to the 2017 level of 0.90 per cent. This decrease was as a result of GoA drawing down on reserves to meet its debt obligations due to the prevailing fiscal challenges.

SECTION 4.0 CONCLUSION

The five-year review of Anguilla's debt shows that there has been a sharp increase in the size of the public sector debt portfolio in 2016 with a contraction in 2017 and 2018. This increase was attributable primarily to the new borrowing contracted in 2016 to aid in the banking resolution; resulting in new borrowing and disbursements exceeding amortization payments in the period. While the debt to GDP ratio remained marginally above the 60.0 per cent ECCU prudential debt 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. This resulted in lengthening the maturity profile and reducing the cost of debt significantly. The assessment shows that Anguilla's public debt presented a moderate to high-risk portfolio. 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 continuous breach of the UKG Benchmarks implies that the GoA will have to seek approval for all new borrowing; thus, limiting the GoA's financing sources and posing a major challenge in the alternative options in the development and implementation of the Medium Term Debt Strategy (MTDS). The debt strategy seeks to source the majority of the financing from external semi-concessional sources, CDB to be specific, to aid in the reduction of the cost and risk of the portfolio. The Debt Unit will continue to monitor the debt performance over time and will commit to updating the debt strategy on an annual basis to accommodate a changing economic and fiscal climate.

APPENDICES

Appendix 1: Selected Economic Indicators 2014-2018

Selected Economic Indicators	2014	2015	2016	2017	2018
Total Revenue and Grants	200.18	194.89	193.12	223.04	231.59
Current Revenue	185.36	191.15	188.61	192.00	199.53
Total Expenditure	184.61	195.17	200.38	216.45	228.89
Current Expenditure	181.18	187.74	189.02	195.43	205.85
Interest Payments	9.43	8.38	11.98	16.42	19.13
Domestic	3.13	2.41	7.34	10.12	11.91
External	6.30	5.97	4.64	6.30	7.22
Capital Revenue	14.82	3.74	4.52	18.06	0.75
Capital Expenditure	3.43	7.42	11.37	21.02	23.04
Primary Balance before grants	25.00	8.09	4.72	23.00	21.84
Overall Balance (before grants)	15.57	(0.28)	(7.26)	6.58	2.70
Overall Balance (after Financing)	18.57	7.22	17.49	28.19	43.12
Current Balance	4.18	3.40	(0.41)	(3.43)	(6.32)
Liquid Assets	30.67	26.45	15.69	1.76	0.36
Financing	3.00	7.50	24.75	21.61	40.41
Memo Items					
Nominal GDP at Market Prices (EC$M)	840.53	892.44	864.69	765.54	870.46
Merchandise Exports (EC$M)	14.17	29.11	17.84	12.13	14.01
Merchandise Imports (EC$M)	471.24	551.07	523.50	477.37	789.45
Real GDP (%)	5.07	3.15	(2.48)	(6.64)	10.90
Average Interest Rate (%)	4.19	4.35	3.24	3.09	3.76
External	3.81	4.01	2.69	3.17	3.89
Domestic	5.21	5.26	3.77	3.04	3.69
As % of GDP					
Total Expenditure	21.96	21.87	23.17	28.27	26.30
Non Interest Primary Expenditure	18.99	20.96	22.63	25.27	23.79
Current Revenue	22.05	21.42	21.81	25.08	22.92
Interest Payments	1.12	0.94	1.39	2.14	2.20
Primary Balance	2.97	0.91	0.55	3.00	2.51
Fiscal Balance	1.85	(0.03)	(0.84)	0.86	0.31
Real GDP	5.07	3.15	(2.48)	(6.64)	10.90
Public Debt (% of GDP)	26.40	23.83	63.82	67.55	60.33
Public Debt	221.89	212.71	551.84	517.10	525.17
Domestic Debt	53.93	50.23	344.29	323.83	305.76
External Debt	167.96	162.48	207.55	193.27	219.41

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

Creditors	2014	2015	2016	2017	2018
Caribbean Development Bank	0.06	0.39	59.74	0.08	40.41
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	**0.06**	**0.39**	**353.32**	**0.08**	**40.41**

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

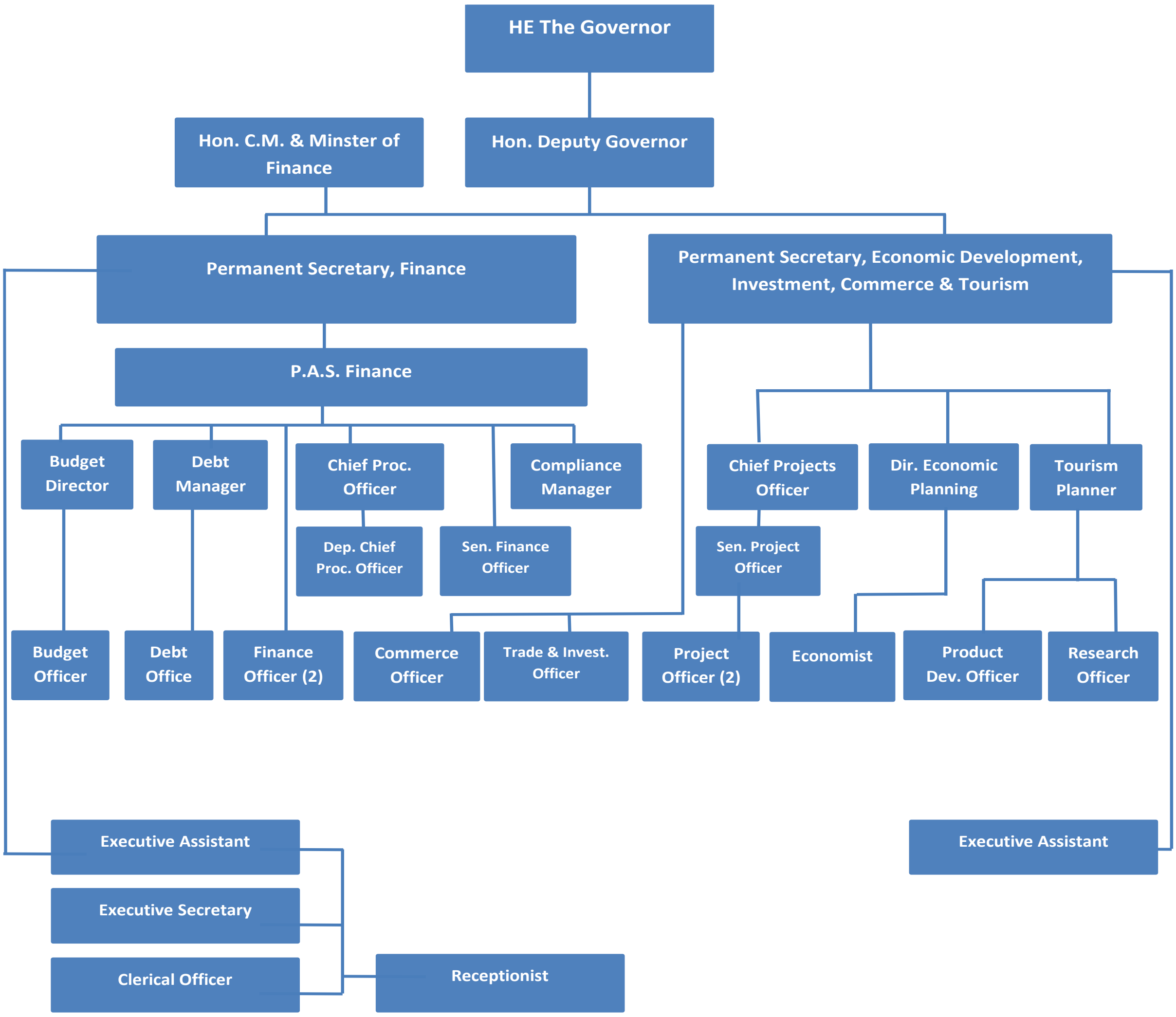
Creditors	2014	2015	2016	2017	2018
Caribbean Commercial Bank (Anguilla) Ltd	0.04	0.05	0.05	0.06	0.06
Caribbean Development Bank	2.87	5.71	14.59	14.41	14.11
Anguilla Social Security Board	5.74	5.74	5.74	5.74	5.56
European Investment Bank	0.06	0.05	0.05	0.06	0.06
Eastern Caribbean Central Bank				2.14	2.86
Depositors' Protection Trust				1.42	5.69
Anguilla Roads & Construction Inc. & WWR			0.17	0.43	0.55
Total	**8.77**	**8.71**	**11.55**	**20.60**	**28.88**

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 reside in the Ministry of Finance, Economic Development, Investment, Commerce and Tourism (MFEDICT). Key personnel include the Permanent Secretaries for Finance and Economic Development, staff of Economic Development and of the Debt Management Unit (DMU)[11]. The organizational structure of the MFEDICT is shown in Diagram 3 below.

Diagram 3: Organisation Chart: Ministry of Finance, Economic Development, Investment, Commerce & Tourism



[11] DMU staff complement at the end of 2018 stood at one.

The Permanent Secretary of Finance is largely responsible for front office functions. These functions are shared with the Permanent Secretary 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] with functions which are inter alia, to discuss 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 2013, 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 transparent and sound procedures in 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 to minimize the cost and risk of the public debt portfolio.

The FAA explicitly gives the Minister of Finance the authority to borrow. It provides that borrowing can only be undertaken 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 and it also stipulates 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 Committee comprises PS Finance, PS Economic Development, PAS, 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 replaces 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.

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