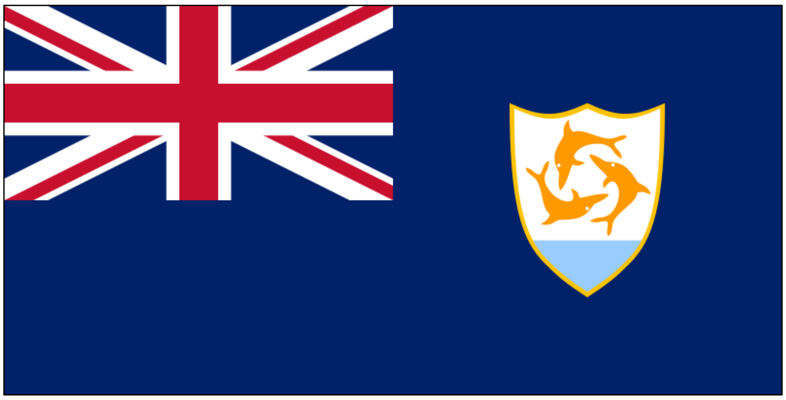
GOVERNMENT OF ANGUILLA
DEBT PORTFOLIO REVIEW
2016 -2020



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

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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

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
m	million
MoFH	Ministry of Finance and Health
MTDS	Medium Term Debt Strategy
OCR	Ordinary Capital Resources
PAS	Principal Assistant Secretary
PBL	Policy-Based Loan
PPPs	Public Private Partnerships
PS	Permanent Secretary
SFR	Special Fund Resources
SOEs	State Owned Enterprises
UKG	United Kingdom Government

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EXECUTIVE SUMMARY

The Anguilla Debt Portfolio Review for the calendar year 2020 was compiled by the Debt Management Unit, Ministry of Finance and Health (MoFH). The Debt Portfolio Review provides a comprehensive look at the debt situation of Anguilla over the period 2016 to 2020. As at end December 2020, the total public debt stock stood at $476.93m, which comprised of public and publicly guaranteed external and domestic debt. Also included in this report is the non-guaranteed debt of State-Owned Enterprises (SOEs) at the end of fiscal year 2020. 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 2016-2020, 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.

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 and tourism related construction, and, to a lesser extent, international financial centre services. The performance of the economy is highly correlated with global trends and economic developments, particularly in the United States, which is Anguilla's main trading partner. The dependence on this narrow base and susceptibility to developments in the North American sphere have resulted in large fluctuations in economic growth over the last two decades, thus highlighting Anguilla's vulnerability to external shocks.

Anguilla is a self-governing Overseas Territory of the United Kingdom (UK). This relationship requires the Government of Anguilla (GoA) to maintain fiscal and debt operations within the context of the Fiscal Responsibility Act, 2013 (FRA). Anguilla is also a member of the Eastern Caribbean Currency Union (ECCU) and ranks as the second smallest economy within this group. At the end of 2020, Anguilla accounted for 4.19 per cent of the Union's total Gross Domestic Product[1] (GDP).

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 planned operations are guided by the debt benchmarks outlined in the FRA. The Debt Management Unit is responsible for the implementation of the MTDS. Scheduled annual updates occur in the latter half of each year.

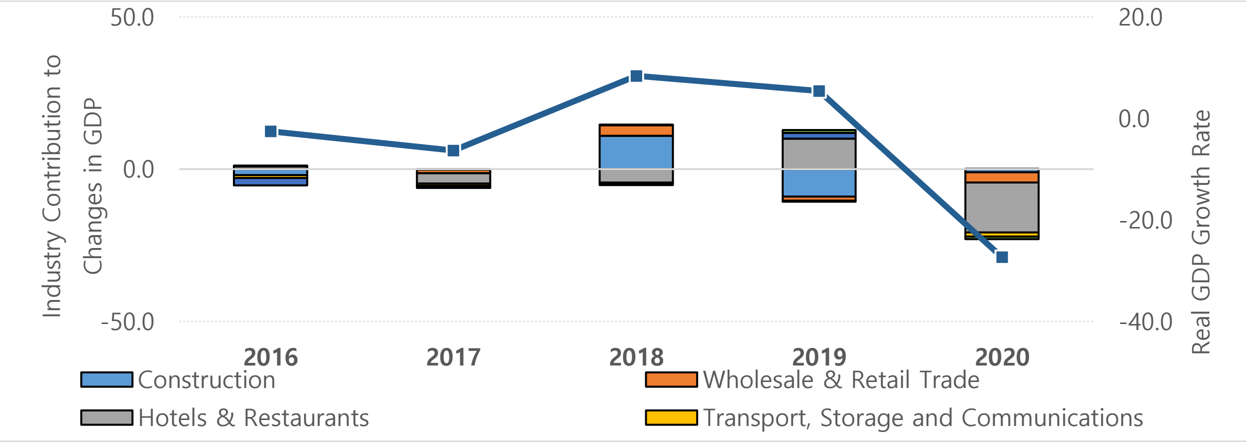
[1] GDP in constant prices. Data source is the Eastern Caribbean Central Bank.

1.2 Macroeconomic Developments

Anguilla's vulnerability to both natural disasters and other external shocks is exacerbated by its dependence on tourism and inward foreign direct investment as well as due to being a net-importer. As the economy was set to rebound from the devastation of Hurricane Irma in 2017, the year 2020 marked the beginning of the COVID-19 pandemic. The pandemic brought economic activity to a near standstill as tight restrictions on movement were imposed to halt the spread of the virus. As a result, estimates published by the Eastern Caribbean Central Bank (ECCB) reflect that 2020 was a year of significant decline for Anguilla, with a real economic contraction of 27.35 per cent. This came after an expansion of 5.40 per cent in real economic activity in 2019. The adverse effects of the pandemic permeated through several sectors, particularly Hotels and Restaurants, leading to a significant drop in associated fiscal revenue and a worsening of labour market conditions.

Real sector developments were adversely impacted by the pandemic (see **Error! Reference source not found.**), which brought a sudden halt to tourism activity lasting from March to November 2020. This led to a decline in the Hotel & Restaurant industry by 74.00 per cent. The knock-on effects of severely limited tourism activity led to contractions in other major sectors such as the Wholesale & Retail Trade sector (43.00 per cent), the Real Estate and Renting sector (7.14 per cent), and the Transport, Storage & Communication sector (23.74 per cent). The completion of many Hurricane Irma related construction projects and delays in work from supply chain interruptions also led to a decline in the Construction sector (15.00 per cent).

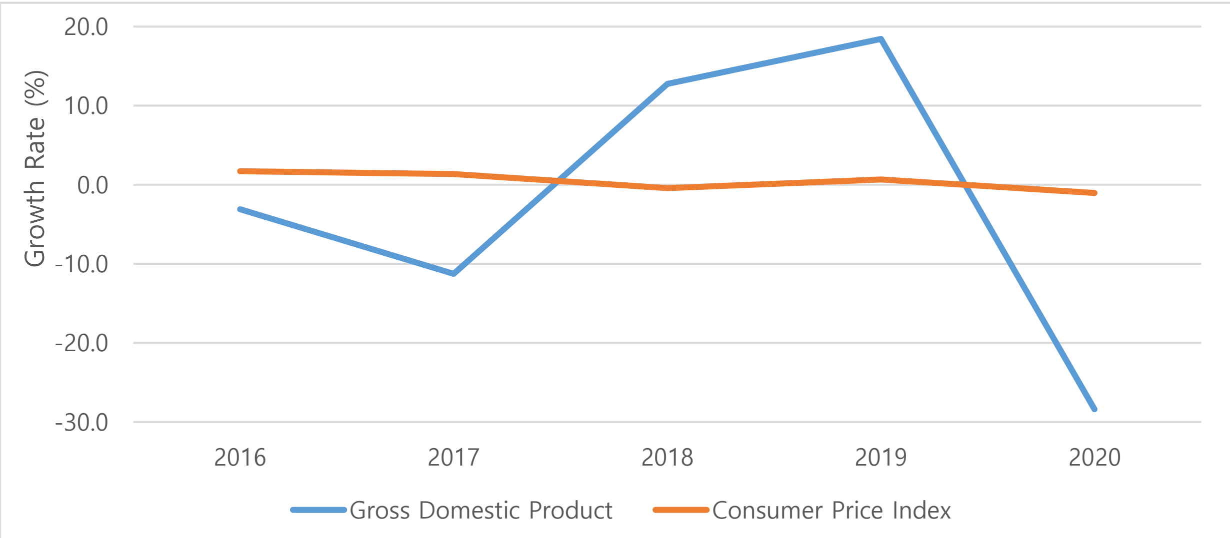
Figure 1: Selected Sectors' Real Growth Performance, 2016-2020 (in percent)



Source: (data) Anguilla Statistics Department and Eastern Caribbean Central Bank

In nominal terms, GDP was estimated to have been EC$733.92m in 2020. This figure represents Anguilla's lowest nominal GDP since 2010 when the global financial crisis took a toll on the worldwide economy. This performance also represented a decrease by EC$290.96m, or 28.39 per cent (see **Error! Reference source not found.**) when compared to 2019's nominal GDP of EC$1,024.88m. This is the greatest decline in Anguilla's growth on record, since the series of national accounts started in 1984. The Consumer Price Index fell by 1.04 per cent during 2020, in contrast to an increase of 0.66 per cent during 2019. Depressed economic activity and relatively low global oil prices are key contributing factors to this inflation rate decline.

Figure 2: Nominal GDP and Consumer Price Index Growth Figure Rates, 2016-2020 (in percent)

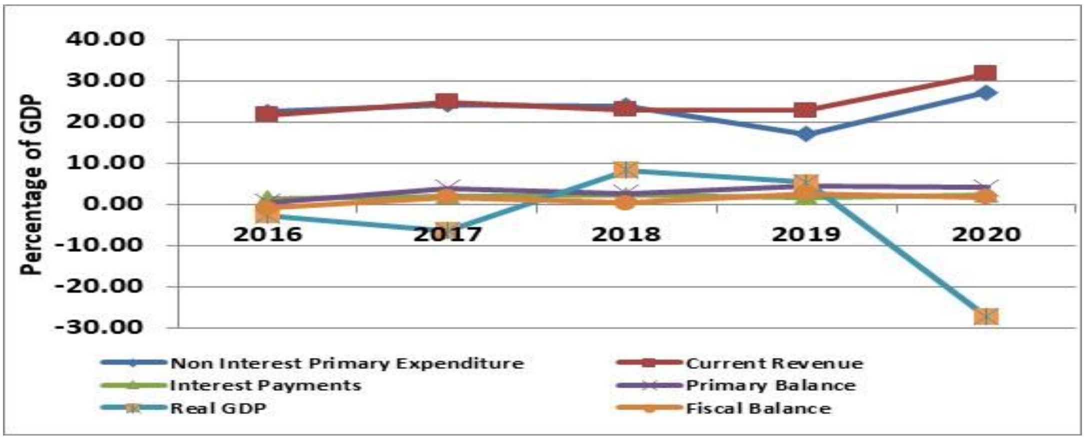


Source: (data) Anguilla Statistics Department and Eastern Caribbean Central Bank

Public Finance Trends

Figure 3 shows the trend in the central government's fiscal position for the period under review.

Figure 3: Central Government Fiscal Position 2016-2020
(as per cent of GDP)



The Government of Anguilla ended the 2020 fiscal year with a recurrent surplus of EC$8.27m, a positive end when compared to the budgeted recurrent balance of a deficit of EC$5.11m. The first quarter of 2020 revenue collections was $2.45m lower when compared to the same period in 2019 with an actual of EC$65.24m. Revenue collections were curbed by the onset of the COVID-19 Pandemic, which forced the country to close its borders in March. The pandemic directly impacted the tourism sector, forcing many hotel closures, which in turn caused major revenue declines in import duties. The construction sector was also impacted; however, projects under the Anguilla Programme were still ongoing. Recurrent revenue amassed at the end of the fiscal year EC$233.97m (31.87 per cent of GDP), a 0.05 per cent decrease over 2019 actuals of EC$234.09m

Recurrent expenditure at the end of the fiscal year 2020 stood at EC$225.69 (30.75 per cent of GDP), an increase of EC$13.52m or 6.30 per cent over the 2019 actual. During the 2020 fiscal year, supplementary budgets were passed to reallocate funds of approximately EC$29m, to facilitate the provision of financial assistance for persons unemployed due to the COVID-19 pandemic as well as to support the proper management and functioning of various statutory bodies impacted by the pandemic. Total outstanding public debt at the end of the 2020 fiscal year stood at 64.98 per cent of GDP. 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". 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 the Caribbean Development Bank Bridge Bank Recapitalization loan (EC$59.4m) was disbursed. The intervention amounted to EC$330.28m, excluding the interim loan.

At the end of the 2020 fiscal year, debt associated with the banking resolution stood at EC$306.49m a decline of EC$6.75m or 3.14 per cent over the outstanding balance at the end of 2019. This amounts to a principal repayment of EC$23.79m or a 7.2 per cent contraction from the total amount of the GoA's intervention at the end of 2016. At the end of 2020 debt associated with the banking resolution accounted for 64.26 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, government guaranteed debt and non-guaranteed debt of SOEs from domestic and external sources (see Table 1).

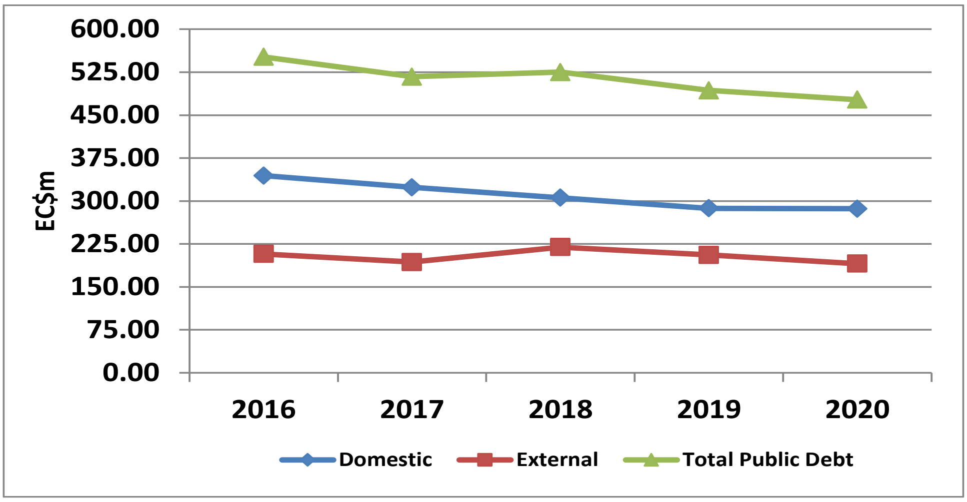
Table 1: Total Public Debt 2016-2020 (EC$m)

	2016	2017	2018	2019	2020
Central Government Debt	**539.59**	**506.76**	**516.69**	**486.53**	**452.80**
Domestic	341.31	321.52	304.06	286.26	266.58
External	198.28	185.24	212.63	200.27	186.22
Government Guaranteed Debt	**12.25**	**10.34**	**8.48**	**6.62**	**4.71**
Domestic	2.98	2.31	1.70	1.09	0.42
External	9.27	8.03	6.78	5.54	4.29
Non-Guaranteed Debt	**-**	**-**	**-**	**-**	**19.41**
Domestic	-	-	-	-	19.41
External	-	-	-	-	-
Total Public Debt	**551.84**	**517.10**	**525.17**	**493.17**	**476.93**
Domestic	344.29	323.83	305.76	287.35	286.41
External	207.55	193.27	219.41	205.81	190.51

At the end of 2020, total disbursed outstanding public sector debt stood at EC$476.93m or 64.98 per cent of GDP. Over the period of review total public debt declined on average by 14.12 per cent moving from EC$551.84m in 2016 to EC$476.93m in 2020. At year-end 2016, the debt stock stood at EC$551.84m. This represented the highest public debt stock position in the history of outstanding debt stock. The spike in 2016 debt stock was due primarily to the contracting of new debt in support of the banking resolution, which exceeded scheduled amortization payments. At the end of 2017, the debt declined by 6.29 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 2020 the debt stock decreased by 3.29 per cent (EC$16.24m) moving from EC$493.17m to EC$476.93m. Notably, the debt stock at end of 2020 included non-guaranteed debt of SOEs that amounted to EC$19.41m.

Over the period under review 2016- 2020, 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. This structural change in the debt portfolio occurred in 2016 where domestic debt accounted for the major share (62.39 per cent) of the portfolio. At the end of 2020, domestic debt had a share of 60.05 per cent while external debt accounted for 39.95 per cent of the portfolio. (See Figure 4).

Figure 4: Total Public Debt by Category (EC$m)



Central Government, Government Guaranteed Debt and Non-Guaranteed Debt

As shown in Figure 5, central government debt stood at EC$452.80m (94.94 per cent) of the total disbursed outstanding debt at the end of 2020. For the period of review central government debt declined by 16.08 per cent moving from EC$539.59m in 2016 to EC$452.80m at end 2020.

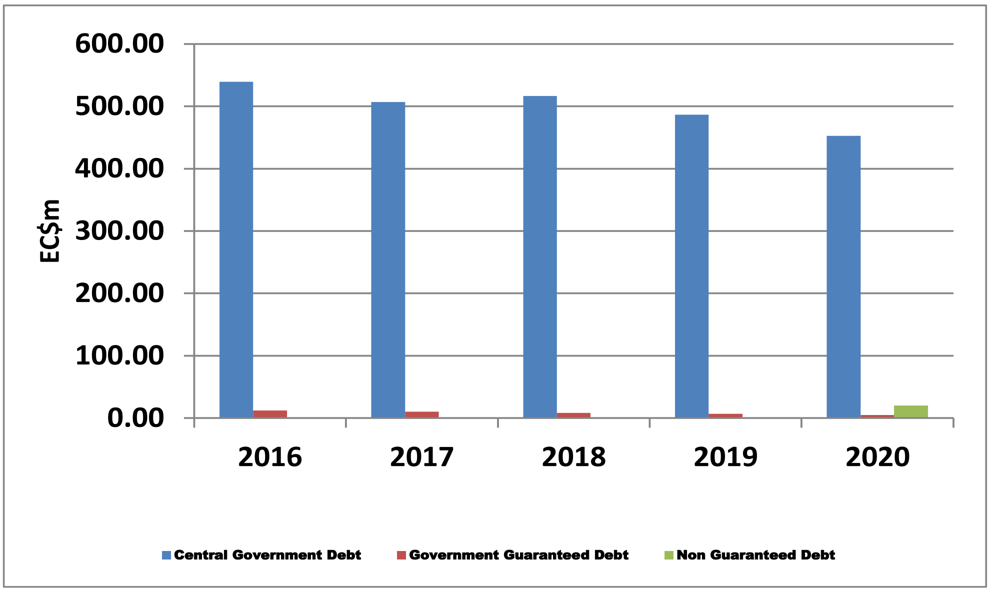
For the same period, the share of government guaranteed debt[2] stood at EC$4.71m (0.99 per cent share of the total debt stock) declining by 61.55 per cent over the period of review. At the

[2] Up to 2016, 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.

end 2020, non-guaranteed debt of the SOEs stood at EC$19.41m accounting for 4.07 per cent of the outstanding debt stock.

At the end of 2020, central government debt stock decreased by 6.93 per cent (EC$33.73m) and government guaranteed debt stock declined by 28.85 per cent (EC$1.91) over the 2019 debt stock level.

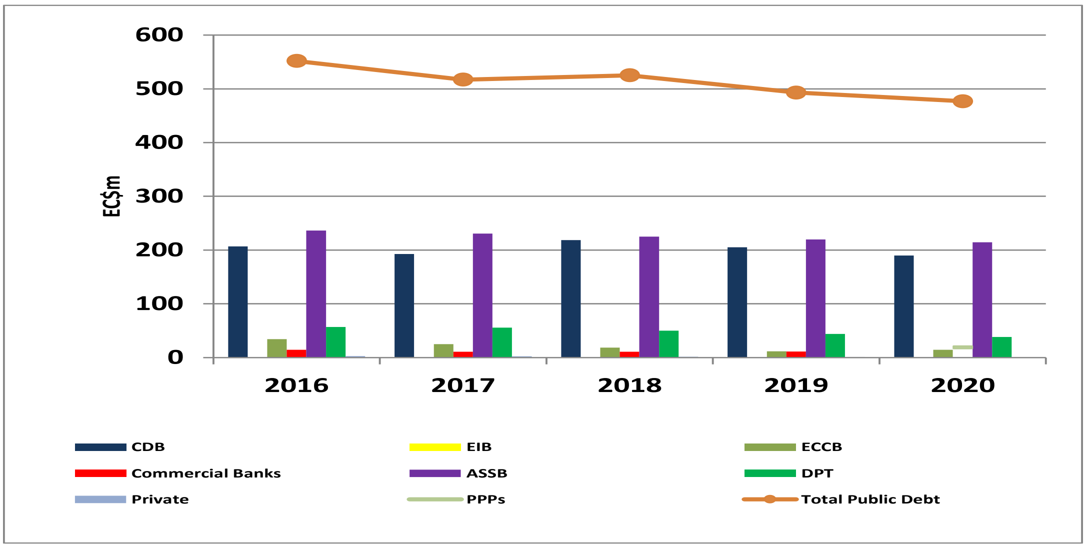
Figure 5: Central Government, Government Guaranteed and Non-Guaranteed Debt (EC$m)



2.2 Public Debt Composition

Figure 6 shows that at the end of 2020, the Anguilla Social Security Board (ASSB) held the largest share of total debt accounting for 44.96 per cent (EC$214.42m) of the portfolio. The shares of debt owed to the other creditors, in descending order, were as follows:- CDB at 39.81 per cent (EC$189.85m); DPT at 8.05 per cent (EC$38.39m); Public Private Partnerships (PPPs) at 3.98 per cent (19.00m); ECCB at 2.97 per cent (EC$14.19m); European Investment Bank (EIB) at 0.14 per cent (EC$0.67m); and a Private Creditor at 0.09 per cent (EC$0.42m).

Figure 6: 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 2016 to 2020 external debt declined by approximately 7.02 per cent; moving from EC$202.55m in 2016 to EC$190.51m at the end of 2020. This decrease in external debt is due to scheduled amortization payments exceeding disbursements. At the end of 2020, external debt decreased by 7.43 per cent (EC$15.29m) over the 2019 debt stock level of EC$205.80m. The decrease is due primarily to scheduled amortization payments exceeding disbursements in 2020.

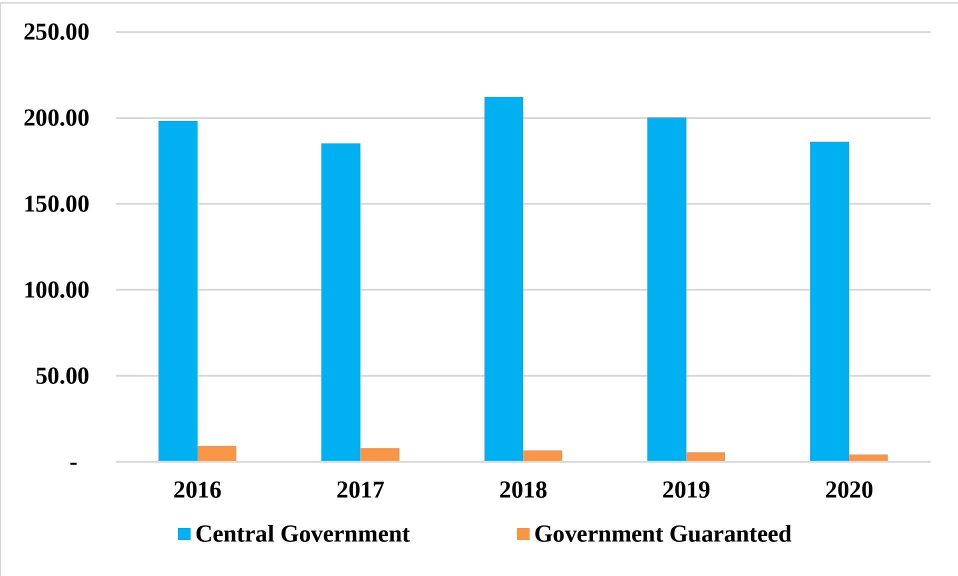
External Debt by Creditor

Anguilla's external debt over the period reviewed was owed to two multilateral creditors, the EIB and CDB. The latter was the dominant holder with a five-year average annual share of 99.65 per cent.

External Debt by Borrower

As shown in Figure 7 below at the end of 2020 central government external debt stock stood at EC$186.23m (97.75 per cent) of the external debt portfolio. Government guaranteed external debt stock stood at EC$4.29m (2.25 per cent) of the external debt portfolio. There was no external debt associated with the non-guaranteed SOEs. At the end of 2020 central government external debt stock and government guaranteed external debt stock declined by EC$14.04m (7.01 per cent) and EC$1.25m (22.52 per cent) over the 2019 external debt stock levels of EC$200.27m and EC$5.54m respectively. Over the period of review, central government external debt stock grew on average by 1.16 per cent. On the other hand, government guaranteed external debt stock declined on average by 17.47 per cent for the same period.

Figure 7: External Debt by Borrower (EC$m)



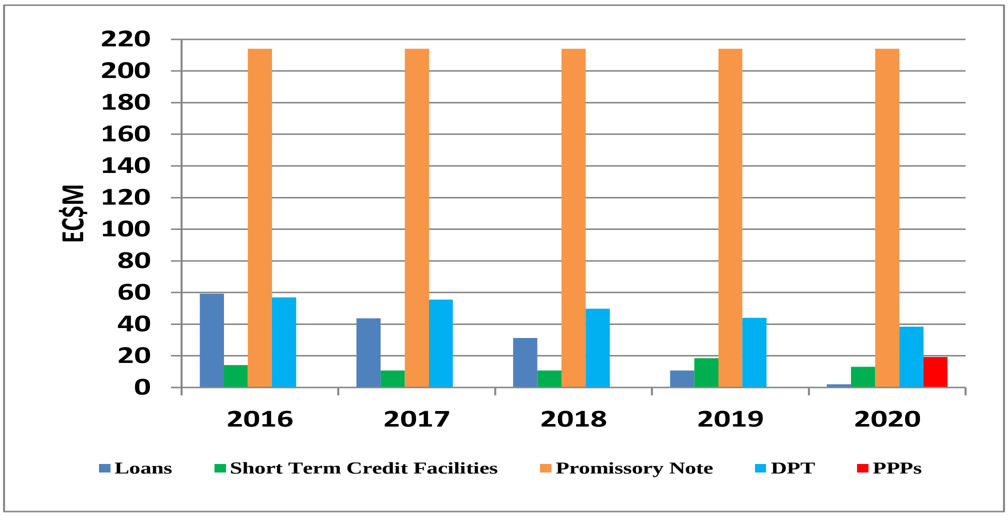
Domestic Debt

Domestic debt in 2016 and 2020 stood at EC$344.29m and EC$286.41m, respectively. The stock fluctuated over the five-year period largely due to end- of- year balances on the two short-term credit facilities (the NCBA overdraft and the Eastern Caribbean Central Bank operating account). At the end of 2020, the domestic debt stock decreased by EC$0.94m or 0.32 per cent when compared to the 2019 domestic debt stock of EC$287.35m. This minute decrease is due primarily to the inclusion of the non-guaranteed SOEs debt at the end of 2020, which amounted to EC$19.42m. At the end of 2020, the NCBA overdraft stood at EC$0.00m and the ECCB operating account at EC$13.10m compared to 2019 year-end balances of EC$11.14m and EC$7.42, respectively.

Domestic Debt by Instrument

The domestic debt portfolio consisted of a Promissory Note, DPT, PPPs, loans and short term credit facilities (see Figure 8).

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

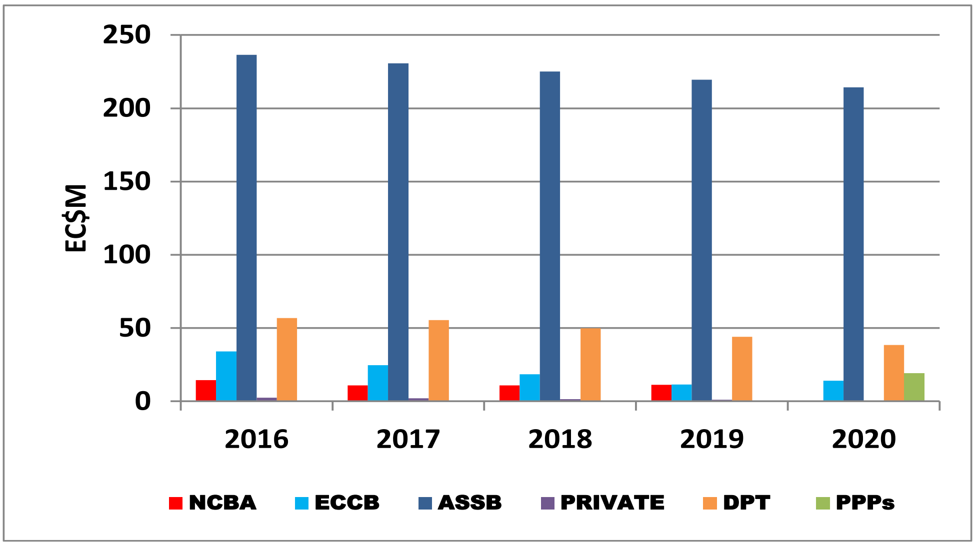


At the end of 2020, the promissory note accounted for EC$214.00m or 74.72 per cent of the domestic debt portfolio. In addition, of the domestic debt portfolio, the DPT accounted for EC$38.39m or 13.40 per cent; the PPPs accounted for EC$19.00m or 6.63 per cent; the short term credit facilities (NCBA Overdraft and ECCB Operating Account) accounted for EC$13.10m or 4.57 per cent; and loans accounted for EC$1.92m or 0.67 per cent.

Domestic Debt by Creditor

As depicted in Figure 9, the ASSB has been the dominant holder in the domestic debt portfolio. At the end of 2020, debt owed to the ASSB stood at EC$214.42m (74.86 per cent) of total domestic debt. Other domestic creditors included, the DPT with an amount of EC$38.69m (13.40 per cent), the PPPs with an amount of EC$19.00m (6.63 per cent), the ECCB with an amount of EC$14.19 (4.95 per cent), a private entity EC$0.42m (0.15 per cent) and NCBA with less than 1 per cent.

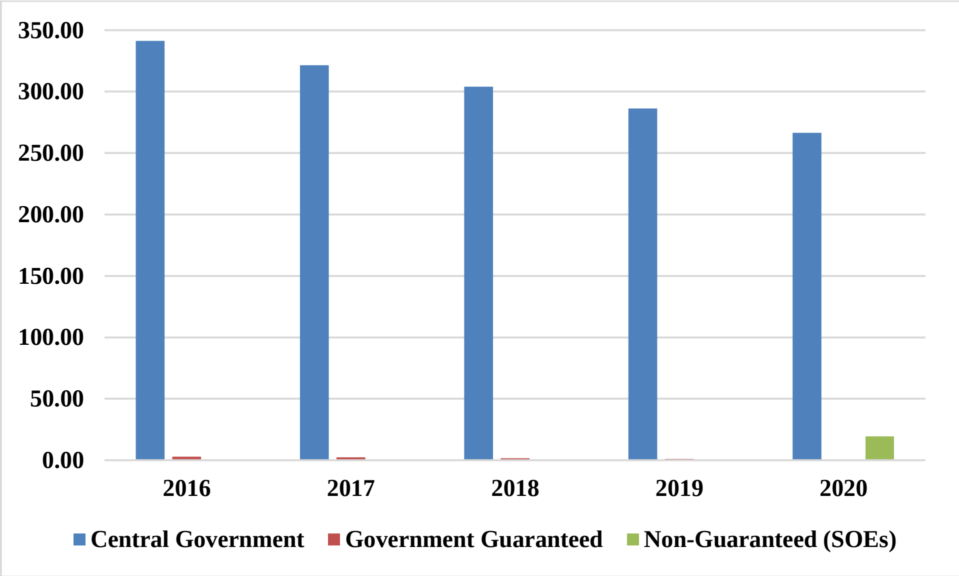
Figure 9: Domestic Debt by Creditors (EC$m)



Domestic Debt by Borrower

As shown in Figure 10 below at the end of 2020 central government domestic debt stock stood at EC$266.58m (93.07 per cent) of the domestic debt portfolio. Government guaranteed domestic debt stock stood at EC$0.42m (0.15 per cent) of the domestic debt portfolio. Non-guaranteed SOEs debt stood at EC$19.41m (6.78 per cent) of the domestic debt portfolio. At the end of 2020 central government and government guaranteed domestic debt stock levels declined by EC$19.69m (6.88 per cent) and EC$0.66m (61.10 per cent) over the 2019 domestic debt stock levels of EC$286.26m and EC$1.09m respectively. Over the review period, central government and government guaranteed domestic debt socks declined on average by 5.99 per cent and 36.51 per cent respectively.

Figure 10: Domestic Debt by Borrower (EC$m)

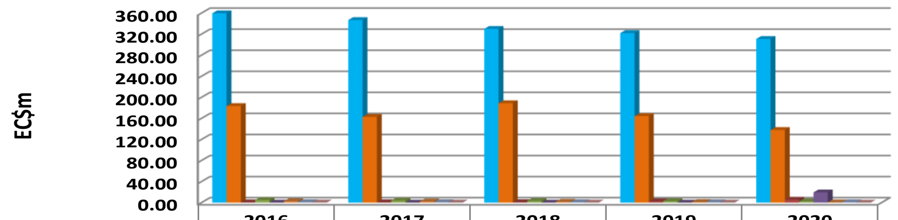


2.3 Debt by Economic Sector[3]

Figure 11 below captures Anguilla's total public debt by economic sector. At the end of 2020, Financial Activities accounted for the largest proportion of public debt with a share of 65.16 per cent (EC$310.78m). Within this sector, activities were primarily related to the banking resolution. Public Administration and Water Collection followed with shares of 28.92 per cent (EC$137.95m), and 4.07 per cent (EC$19.41m) respectively. The remainder of the portfolio, 1.85 per cent (EC$8.79m), was shared among four other economic sectors; namely: - Education, Construction, Road Transport and Sea Transport.

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

Figure 3: Public Debt by Economic Sector (EC$m)



	2016	2017	2018	2019	2020
Financial Activities	359.55	346.74	329.95	321.96	310.78
Public Administration	183.46	162.86	188.75	164.32	137.95
Education	0.49	0.57	0.81	2.38	5.38
Construction	4.76	3.79	3.24	2.74	2.32
Water Collection, Treatment & Supply	-	-	-	-	19.41
Sea Transport	2.54	2.10	1.56	1.01	0.42
Road Transport	0.78	0.82	0.73	0.66	0.67
Accommodation & Food Services	0.27	0.21	0.15	0.08	0.00

2.4 New Borrowing, Disbursements and Debt Service Payments

New Borrowing and Disbursements

Table 2: New borrowing and Disbursements 2016-2020 (EC$m)

New Financing (EC$M)	2016	2017	2018	2019	2020
Total	**353.32**	**0.08**	**40.41**	**1.67**	**3.29**
External	**59.74**	**0.08**	**40.41**	**1.67**	**3.29**
Multilateral	59.74	0.08	40.41	1.67	3.29
Domestic	**293.58**	**-**	**-**	**-**	**-**
Loans	20.00	-	-	-	-
Bonds/Promissory Note	270.88	-	-	-	-
Private	2.70	-	-	-	-

During 2020, there were no new borrowings. During the year, disbursements to Central Government on existing loans totalled EC$3.29m, which was attributed to the Anguilla Community College (ACC) Project loan with CDB that was contracted in 2014. At the end of 2020, the loan had a committed undisbursed balance of approximately EC$2.96m. There was no new borrowing or disbursements associated with the Government Guarantees.

Debt Service Payments

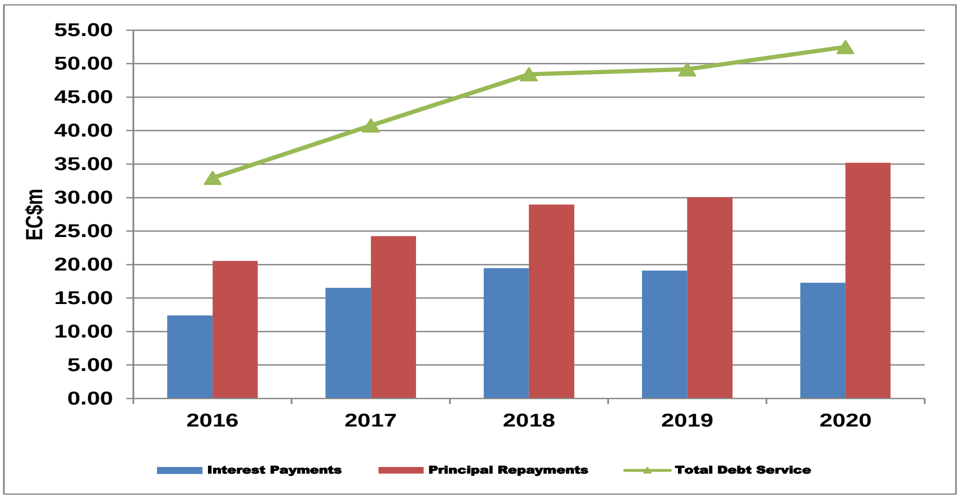
Anguilla's total public sector debt service showed an increasing trend over the period of review. The annual debt service increased on average by 12.71 per cent over the period of review moving from EC$32.94m in 2016 to EC$52.48m in 2020 (see table 3).

Table 3: Total Public Sector Debt Service 2016-2020 (EC$m)

Debt Service Payments (EC$m)	2016	2017	2018	2019	2020
Total Debt Service	**32.94**	**40.77**	**48.42**	**49.16**	**52.48**
Principal Repayments	*20.54*	*24.25*	*28.96*	*30.05*	*35.19*
Interest Payments	*12.40*	*16.52*	*19.46*	*19.11*	*17.29*
External Debt Service	**19.56**	**20.82**	**21.76**	**25.51**	**27.51**
Principal Repayments	*14.59*	*14.46*	*14.24*	*15.27*	*18.65*
Interest Payments	*4.97*	*6.36*	*7.52*	*10.24*	*8.86*
Domestic Debt Service	**13.38**	**19.95**	**26.66**	**23.65**	**24.97**
Principal Repayments	*5.95*	*9.79*	*14.72*	*14.78*	*16.55*
Interest Payments	*7.43*	*10.16*	*11.94*	*8.87*	*8.43*

The annual year-on-year increase in debt service from 2016 to 2020 was due to increased principal repayments and interest payments to holders of both existing and new domestic and external debt instruments and the inclusion of the non-guaranteed SOE's debt at the end of fiscal year 2020. As shown, total principal repayments moved from EC$20.54m in 2016 to EC$35.19m in 2020. For the same period, total interest payments moved from EC$12.40m in 2016 to EC$17.29m in 2020. In 2020, interest payments declined by 1.82 per cent and principal payments increased by 17.10 per cent over the 2019 debt service payments. The trend in debt service is illustrated in Figure 12.

Figure 12: Debt Service 2016-2020 (EC$m)



2.5 Risk/Cost Analysis

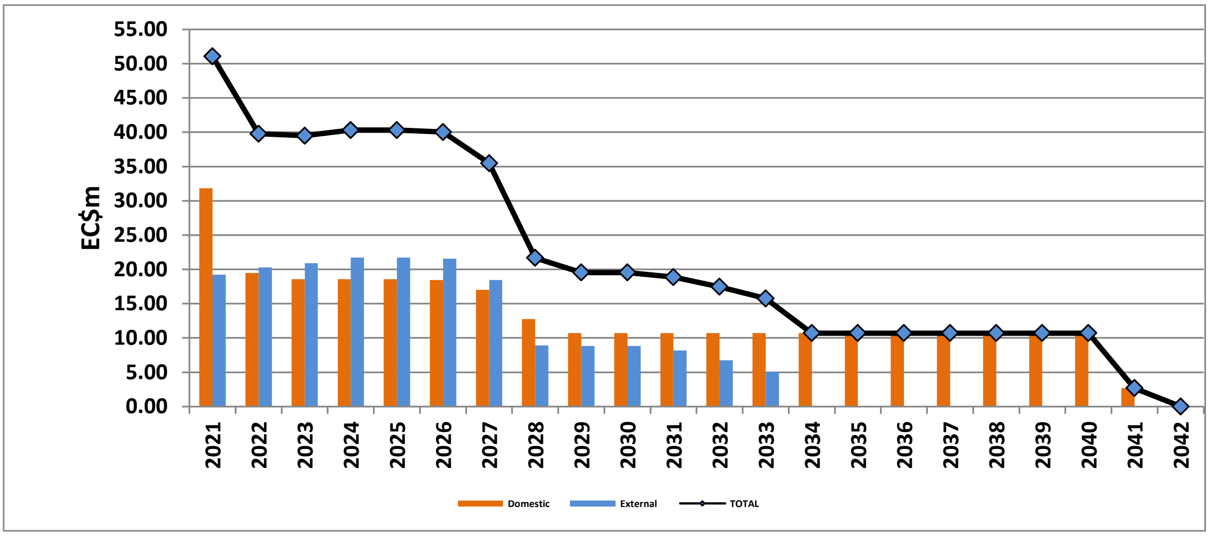
Risk in relation to debt costs, refers to the potential for the actual cost of debt to deviate from its expected cost due to variations of different economic variables such as interest rates and exchange rates. Exposure of Anguilla's debt portfolio to risk is assessed using the following risk indicators: refinancing risk, interest rate risk and exchange rate 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 13 depicts the maturity structure of Anguilla's debt given the stock of debt as at the end of 2020.

Figure 43: Maturity Profile of Public Debt



The proportion of debt with a remaining maturity of 1 year or less (short-term) is 10.71 per cent (EC$51.07m) of total debt. The amount due in external payments in 2021 is EC$19.24m due mainly to CDB. Domestic payments amount to EC$31.83m comprising of EC$13.10m for the short-term facilities (NCBA overdraft and ECCB operating account); loans accounting for EC$13.04m and the DPT the remaining EC$5.69m.

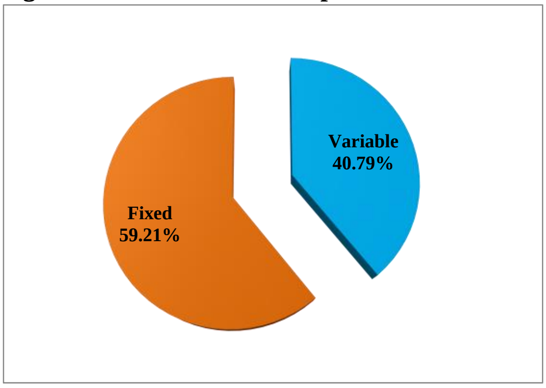
Debt falling due within 2 to 5 years (medium term) accounts for 33.53 per cent (EC$159.91m) of maturing debt. External payments account for EC$84.66m (52.94 per cent) with payments to CDB totalling EC$84.42m. Domestic payments range from EC$19.49m in 2021 to EC$18.59m in 2024 and are due largely to payments 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 55.76 per cent (EC$265.96m) of outstanding debt. Principal outlays of EC$179.33m domestically and EC$86.63m 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 7.04 years. Notably, the debt portfolio is predominantly made up of longer-term instruments and at present, 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[4]

Figure 5: 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 14). 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)[5] share of CDB loans.

At the end of 2020, the cost of the debt portfolio decreased by 0.13 percentage points when compared to 2019. The average interest rate stood at 3.51per cent when compared to 3.64 per cent at the end of 2019. The domestic and external average interest rates stood at 2.93 per cent and 4.30 per cent respectively. The change in domestic and external interest rates increased 0.03 percentage points and decreased 0.37 percentage points, respectively, in comparison to 2019. (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 2020, Anguilla's public debt had an average time to interest rate re-fixing (ATR)[6] of 5.69 years, which suggests that an

[4] The potential risk to the debt portfolio if there is a change in market interest rates
[5] OCR is the less concessional share of CDB loan portfolio. The rate is re-fixed every three months and stood at 3.75 per cent at 31st December 2020.
[6] The average time until the interest rate is reset on the outstanding debt.

equitable proportion of the public debt will be subject to interest rate changes within this time period, thus posing moderate risk to the portfolio.

Exchange Rate Risk

Figure 15: Currency Composition of Total Debt

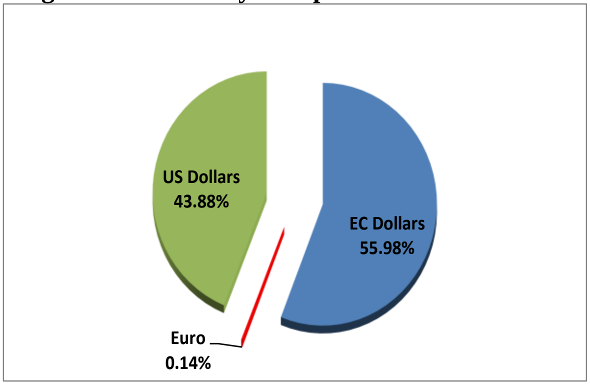


Figure 15 shows the currency composition of the public debt profile at the end of 2020. It shows that 43.88 per cent (EC$209.26m) of Anguilla's debt stock was denominated in US dollars. The share of EC dollar denominated debt stood at 55.98 per cent (EC$267.00m) and Euro currency debt accounted for 0.14 per cent (EC$0. 67m).

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 43.88 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 ECCB 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 for member states to achieve a debt to GDP ceiling of 60 per cent[7], as well as to attain a primary balance that would meet the debt to GDP criterion by 2032. 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 2016-2020.

Table 4: Debt Sustainability Indicators (in percentages)

Sustainability Indicators	2016	2017	2018	2019	2020
Public Sector Debt to GDP	**63.81**	**67.39**	**60.69**	**48.12**	**64.98**
External Debt to GDP	*24.00*	*25.19*	*25.36*	*20.08*	*25.96*
Domestic Debt to GDP	*39.81*	*42.20*	*35.34*	*28.04*	*39.03*
Public Sector Debt Service to Revenue	**17.46**	**21.23**	**24.26**	**21.00**	**22.48**
External Debt Service Ratio	*10.37*	*10.84*	*10.90*	*10.90*	*11.78*
Domestic Debt Service Ratio	*7.10*	*10.39*	*13.36*	*10.10*	*10.70*
Interest Service Ratio	**6.57**	**8.60**	**9.75**	**8.16**	**7.41**
External Interest Service Ratio	*2.63*	*3.31*	*3.77*	*4.37*	*3.80*
Domestic Interest Service Ratio	*3.94*	*5.29*	*5.98*	*3.79*	*3.61*
External Debt Service to Exports	**109.63**	**171.65**	**155.31**	**75.79**	**409.34**

Public sector debt to GDP increased by 16.86 percentage points moving from 48.12 per cent in 2019 to 64.89 per cent in 2020. This significant increase is due primarily to the impact of the COVID-19 global pandemic on Anguilla's economy, as evidenced by the decline in GDP. At the end of 2020, domestic debt and external debt showed an increase of 10.99 and 5.88 percentage points respectively when compared to 2019. The public debt service to revenue ratio worsened by 3.77 percentage points over the period 2016 to 2017 and continued to deteriorate by 3.03 percentage points in 2018. 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 3.26 percentage points. At the end of 2020 the ratio worsened with an increase by

[7] 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)

1.48 percentage points when compared to 2019 due to the impact of the pandemic on Government Revenues. At the end of 2020, there was a decrease in the interest service ratio of 0.75 percentage points over the 2019 ratio of 8.16 per cent of revenue. This decrease is due primarily to the reduction in the debt stock during the fiscal year 2020. At the end of 2020, the debt service-to-exports ratio deteriorated significantly moving from 75.79 per cent in 2019 to 409.34 per cent in 2020. The halt in tourism activities and closure of Anguilla's borders due to the global pandemic – COVID-19 contributed to this substantial decline.

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 manage 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[8] 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.

[8] 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 shows the Government of Anguilla's performance against the UKG debt benchmarks over the period 2016-2020.

Table 5: FFSD Ratios - 2016-2020

Debt Indicators (%)	Targets	2016	2017	2018	2019	2020
Net Debt/Recurrent Revenue	≤80%	279.99	264.84	260.08	208.47	202.53
Variance		199.99	184.84	180.08	128.47	122.53
Debt Service/Recurrent Revenue	≤10%	16.73	20.63	23.57	20.42	22.21
Variance		6.73	10.63	13.57	10.42	12.21
Liquid Assets/Recurrent Expenditure	≥25%	8.30	0.90	0.17	0.24	0.23
Variance		-16.70	-24.10	-24.83	-24.76	-24.77
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, debt service and liquid asset ratio targets throughout the period under review. At the end of 2020, the Government remained in breach of the three ratios however; the following changes were noted when compared to 2019. The net debt to recurrent revenue ratio improved from 208.47 per cent in 2019 to 202.53 per cent in 2020. The debt service to recurrent revenue ratio deteriorated by increasing to 22.21 per cent in 2020 when compared to 20.42 per cent in 2019. This worsening is due to the inclusion of the non-guaranteed SOE's debt in 2020. The liquid assets ratio at the end of 2019 and 2020 stood at 0.24 per cent (approximately 1 day) and 0.23 per cent (approximately 1 day) respectively with no notable change.

SECTION 3.0 CONCLUSION

The five-year review of Anguilla's debt portfolio shows the movement in the size of the public sector debt portfolio from 2016 to 2020. The GoA saw its highest level of outstanding debt stock in 2016 and has declined over the years with a slight increase in 2018. 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 ratio increased significantly in 2020 due to the impact of the COVID -19 pandemic on GDP. In addition, the GoA continues to be in breach of the FFSD ratios/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 ratio continues to be of major concern due to cash flow constraints. The continued breach of the FFSD ratios/borrowing 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. The MTDS is updated on an annual basis but the update did not take place for the 2020 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 2016-2020

Selected Economic Indicators	2016	2017	2018	2019	2020
Total Revenue and Grants	193.12	229.90	233.80	250.75	243.73
Current Revenue	188.61	192.00	199.58	234.09	233.45
Total Expenditure	200.38	216.45	230.10	222.26	230.65
Current Expenditure	189.02	195.43	205.69	212.18	222.37
Interest Payments	11.99	16.42	19.13	18.78	17.07
Domestic	7.34	10.12	11.91	8.83	8.36
External	4.64	6.30	7.22	9.95	8.71
Capital Revenue	4.52	18.14	0.75	4.06	-
Capital Expenditure	11.37	21.02	24.41	10.09	8.29
Primary Balance before grants	4.73	29.87	22.83	47.27	30.14
Overall Balance (before grants)	(7.26)	13.45	3.70	28.49	13.08
Overall Balance (after Financing)	17.49	35.06	44.09	30.14	37.99
Current Balance	(0.41)	(3.43)	(6.11)	21.92	11.08
Liquid Assets	26.45	15.69	1.76	0.36	0.52
Financing	24.75	21.61	40.39	1.65	24.91
Memo Items					
Nominal GDP at Market Prices (EC$M)	864.82	767.38	865.31	1,024.88	733.92
Merchandise Exports (EC$M)	17.84	12.13	14.01	33.66	6.72
Merchandise Imports (EC$M)	523.50	477.37	789.45	763.72	399.43
Real GDP (%)	(2.53)	(6.34)	8.37	5.40	(27.35)
Average Interest Rate (%)	3.24	3.09	3.76	3.64	3.51
External	2.69	3.17	3.89	4.67	4.30
Domestic	3.77	3.04	3.69	2.90	2.93
As % of GDP					
Total Expenditure	23.17	28.21	26.59	21.69	31.43
Non Interest Primary Expenditure	22.62	24.31	23.95	17.07	27.32
Current Revenue	21.81	25.02	23.06	22.84	31.81
Interest Payments	1.39	2.14	2.21	1.83	2.33
Primary Balance	0.55	3.89	2.64	4.61	4.11
Fiscal Balance	(0.84)	1.75	0.43	2.78	1.78
Real GDP	(2.53)	(6.34)	8.37	5.40	(27.35)
Public Debt (% of GDP)	63.81	67.39	60.69	48.12	64.98
Public Debt	551.84	517.10	525.17	493.16	476.93
Domestic Debt	344.29	323.83	305.76	287.35	286.41
External Debt	207.55	193.27	219.41	205.80	190.51

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

Creditors	2016	2017	2018	2019	2020
Caribbean Development Bank	59.74	0.08	40.41	1.67	3.29
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	**353.32**	**0.08**	**40.41**	**1.67**	**3.29**

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

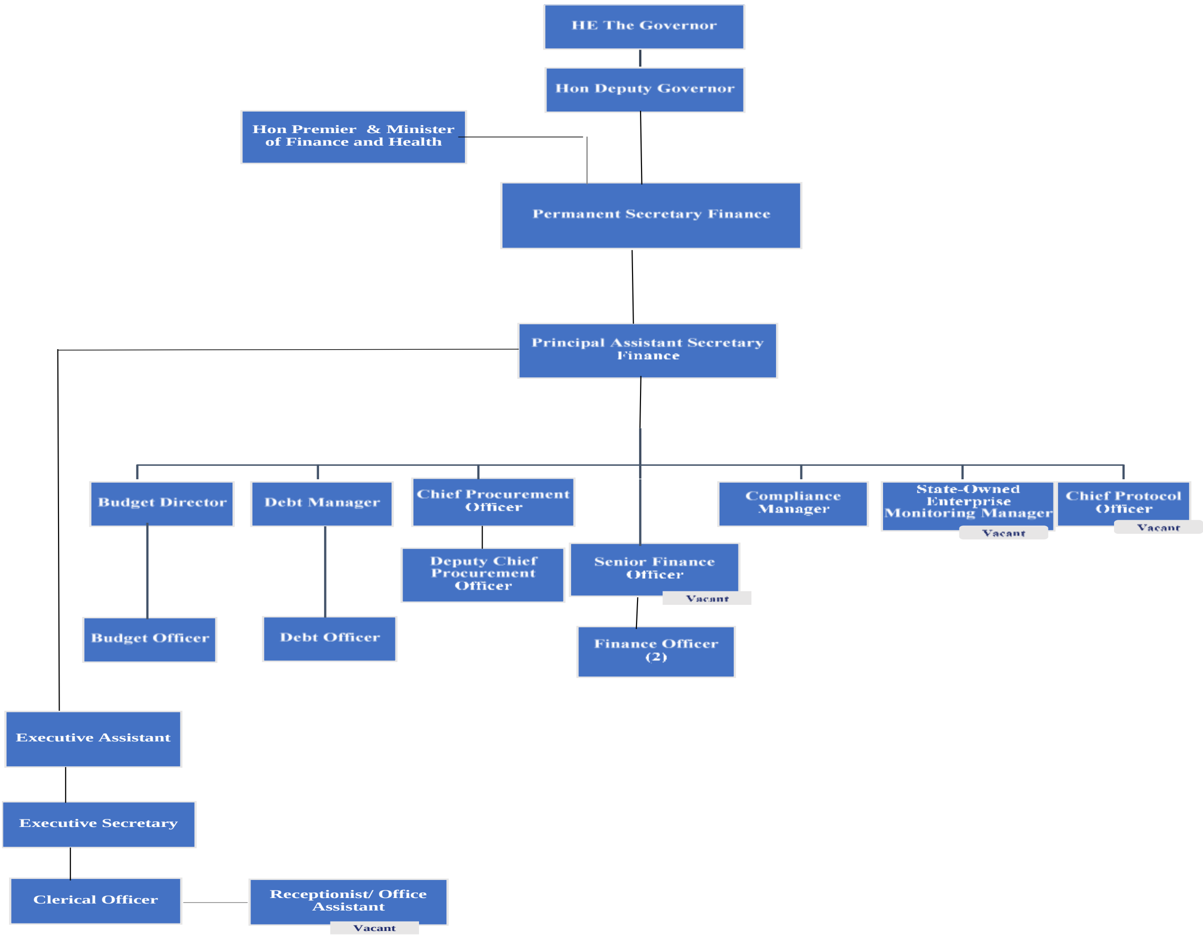
Creditors	2016	2017	2018	2019	2020
Anguilla Roads & Construction Inc. & WWR	0.17	0.43	0.55	0.55	0.59
Anguilla Social Security Board	5.74	5.74	5.56	5.56	5.87
Caribbean Commercial Bank (Anguilla) Ltd	0.05	0.06	0.06	0.07	0.07
Caribbean Development Bank	14.59	14.41	14.11	15.21	18.59
Depositors' Protection Trust		1.42	5.69	5.69	5.69
Eastern Caribbean Central Bank		2.14	2.86	2.90	2.98
European Investment Bank	0.05	0.06	0.06	0.06	0.06
Public Private Partnerships (PPPs)					1.34
Total	**20.60**	**24.26**	**28.89**	**30.04**	**35.19**

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 and Health. Key personnel included the Permanent Secretaries for Finance and Economic Development, staff of Ministry of Economic Development, Treasury Department, Budget and the Debt Management Unit (DMU)[9]. The organizational structure of the Ministry of Finance and Health (Finance division), as at end December 2020, is shown in Figure 15 below.

Figure 15: Organisation Chart: Ministry of Finance



[9] DMU staff complement at the end of 2020 stood at two.

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)[10] 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)[11] 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.

[10] 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.

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