

Antigua and Barbuda: 2007 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of Antigua and Barbuda

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation with Antigua and Barbuda, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on October 4, 2007, with the officials of Antigua and Barbuda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 17, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its February 4, 2008 discussion of the staff report that concluded the Article IV consultation.
- A statement by the authorities of Antigua and Barbuda.

The document listed below will be separately released.

Statistical Appendix

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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ANTIGUA AND BARBUDA

Staff Report for the 2007 Article IV Consultation

Prepared by the Staff Representatives for the 2007 Consultation with Antigua and Barbuda

Approved by Markus Rodlauer and Anthony Boote

January 17, 2008

Executive Summary

Economic situation: Following real GDP growth of over 12 percent in 2006, led by construction, growth is expected to moderate to about 6 percent in 2007. Some further slowing is projected for 2008, but a recession is not expected. Weaker activity in major tourist markets poses a risk, but the link to the U.S. dollar has led to a significant depreciation of the real exchange rate and improved competitiveness.

Key issues: Despite the recent strong growth, Antigua and Barbuda continues to face policy challenges, including achieving fiscal consolidation, lowering public debt, and diversifying exports.

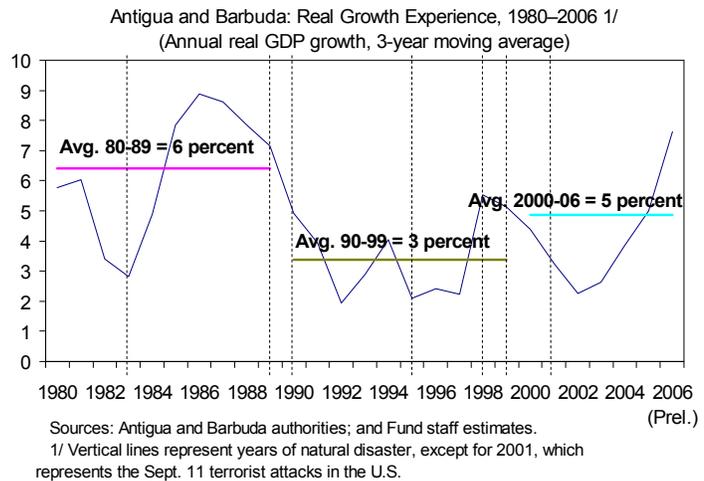
- **Fiscal imbalances.** Overall and primary deficits remained sizeable during 2006–07, notwithstanding policy measures to increase revenues. The challenge in 2008 will be to reverse temporary spending pressures and stay the course with tax reforms, allowing a significant reduction in fiscal imbalances.
- **Debt burden.** While public debt declined in 2005 following debt relief, the debt burden remains high. The intention to normalize relations with creditors is welcome, but strong fiscal measures will still be needed to reduce the debt burden over the medium term.
- **Volatile growth.** Risks to the medium-term outlook include natural disasters, a shock to tourist activity, and higher international oil prices. Structural challenges (including export diversification, competitiveness, and labor market flexibility) need to be addressed to raise growth durably.
- **Financial sector vulnerabilities.** Strong credit growth calls for close monitoring of financial sector soundness. Enhanced regulation of insurance companies and credit unions is also a priority.

Discussions: The authorities concurred on the need to advance fiscal consolidation in 2008 by containing spending and staying the course with tax reforms. There was also broad consensus on the additional measures required to reduce public debt to less than 60 percent of GDP by 2020. The authorities noted that consultants had been hired to continue the work on a debt strategy. To enhance the resilience of the economy to shocks, the mission recommended improvement of the investment climate, training to reduce skills mismatches, export diversification, and telecommunications deregulation. The authorities indicated that reforms are either underway or envisaged in these areas.

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I. BACKGROUND¹

1. **Antigua and Barbuda has enjoyed impressive growth in recent years.** Following a relatively weak performance in the 1990s and again in 2001–03, growth has accelerated, reaching over 12 percent in 2006. Recent growth has been driven mainly by construction activity associated with the Cricket World Cup (CWC). Official data indicate that inflation has remained low, although their quality is weak and concerns have arisen recently about the impact of external price shocks.



2. **Despite the rebound in economic activity, fiscal imbalances have remained large, reflecting a number of one-off expenditures in 2006–07** (Box 1). Tax revenues have increased significantly, buoyed by the upturn in economic activity as well as the Antigua and Barbuda Sales Tax (ABST) introduced in January 2007. But spending has also surged, largely reflecting the effects of the CWC and one-time costs associated with the voluntary separation program for public employees. As a result, the primary deficit is expected to narrow only slightly to about 3¼ percent of GDP in 2007. Public debt, which fell from a peak of 143 percent of GDP in 2002 to 107 percent in 2006, has remained broadly stable during 2007. Notwithstanding the fiscal imbalances, the authorities have continued to rollover debt on the regional government securities market at relatively low rates.

3. **Broad money growth has strengthened in recent years.** Monetary growth accelerated in 2006, reflecting strong economic activity. In 2007, credit growth is expected to remain strong, in line with estimated nominal GDP growth.

4. **Locally incorporated banks continue to face balance-sheet challenges.** These include high ratios of nonperforming loans (NPLs), low provisioning levels, and significant government exposures. Competition in mortgage lending, including from insurance companies, has lowered mortgage rates from 10–11 percent in 2004–05 to around 8 percent in 2007, compressing spreads.

¹ The Article IV discussions were held in St. John's during September 25–October 5, 2007. The staff team comprised Messrs. Meredith (Head), Nassar (both WHD), and Kovtun (PDR). Ms. Duttagupta (WHD) supported the work of the mission from headquarters. The mission met with Prime Minister Hon. Baldwin Spencer, Minister of Finance Dr. Errol Cort, other senior government officials, and representatives of the financial and business sectors. Staff of the Eastern Caribbean Central Bank (ECCB) and Caribbean Development Bank (CDB) also participated. Mr. Ladd (OED) joined for the final discussions.

5. **The external current account deficit has widened in recent years.** The deficit increased to 16 percent of GDP in 2006, reflecting imports associated with the construction boom. It is expected to rise further in 2007, but will be financed almost entirely by foreign direct investment.

II. ECONOMIC OUTLOOK AND RISKS

6. **The growth outlook is favorable, although vulnerabilities remain.** Growth is expected to moderate to about 6 percent in 2007, reflecting the unwinding of the construction boom, although there are signs that investment may be slowing less rapidly than earlier envisaged. While growth in 2008 is projected to decline further as investment returns to more normal levels and the global economy slows, a recession is not expected. Medium-term growth is expected to remain close to 5 percent—within historical norms—assuming there is no sustained deterioration in the external outlook, including external financing conditions. Price developments are difficult to assess due to lack of reliable data, but inflation is expected to remain contained in the context of the regional currency board, with the pickup in 2008 reflecting higher oil prices.

Antigua and Barbuda: Selected Economic Indicators, 2004-09

	2004	Est. 2005	Prel. 2006	Projections		
				2007	2008	2009
	(Change in percent)					
Real GDP	5.2	5.5	12.2	6.1	2.1	4.0
CPI, period average	2.0	2.1	1.8	1.5	3.0	2.0
Stayover arrivals 1/	10.9	-8.4	3.4	3.0	7.0	7.0
Travel receipts	12.6	-6.3	8.1	5.1	9.1	9.2
Real effective exchange rate, dep. (-) 2/	-3.0	-1.1	-1.1	-3.3	...	...
Broad money	9.2	6.9	15.2	10.7	3.4	6.5
Private sector credit	1.1	10.4	20.4	8.8	4.5	6.0
	(In percent of GDP)					
Current account balance	-8.3	-12.4	-16.1	-17.9	-15.4	-12.5
Foreign direct investment, net	9.8	13.4	18.9	14.7	13.0	10.0

Sources: Antigua and Barbuda authorities; and Fund staff estimates.

1/ The sharp decline in 2005 is due to a change in the data source.

2/ The figure for 2006 is up to August.

7. **The outlook will continue to depend on exogenous factors as well as domestic policy responses.** Antigua and Barbuda remains vulnerable to external shocks, given its dependence on imported oil, volatile tourism receipts, and exposure to natural disasters. The turmoil in international financial markets and higher world oil prices could have an adverse impact on global growth, which could, in turn, weaken prospects for Antigua and Barbuda. On the domestic front, the fiscal outlook will depend on the ability of the government to stay the course with tax reforms—and indeed strengthen implementation over the medium term—while resisting spending pressures and further rationalizing the size and operations of the civil service.

III. POLICY DISCUSSIONS

8. **Discussions focused on achieving a significant improvement in fiscal balances, placing the public debt on a sustainable path and accelerating structural reforms to sustain growth and boost competitiveness.** The authorities are firmly pursuing their fiscal and structural reform agenda, along with efforts to enhance public awareness of the rationale and benefits of the government's program. Following introduction of the ABST and a market-valuation-based property tax system, discussions focused on strengthening tax administration and collection. On the expenditure front, although some measures have

already been taken (including the new Financial Administration Act and the partial rollout of the FreeBalance software), much more remains to be done to effectively contain public spending and rein in the accumulation of arrears.

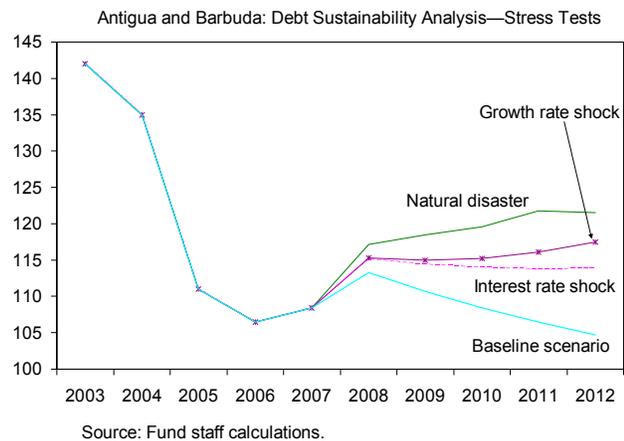
A. Restoring Fiscal Sustainability

9. **Achieving a primary fiscal surplus in 2008 is a key challenge.** According to the authorities, the limited progress to date in improving fiscal positions was partly due to delays in enacting reforms, weaknesses in tax administration, and temporary expenditure spikes. The mission emphasized the need to show significant progress in fiscal consolidation in 2008, based on the measures already implemented. The authorities agreed with staff that, as one-off expenditure increases in 2006–07 are phased out (mainly the voluntary separation program and CWC-related capital spending), such an outcome is achievable if the government firmly controls spending and stays the course with tax reforms.

10. **Staff encouraged the authorities to adopt a formal budget proposal for 2008 that is consistent with these objectives.** In the event, the authorities presented a 2008 budget to Parliament on December 3, 2007 that envisages a primary surplus of 0.7 percent of GDP, consistent with the near-term objectives discussed during the mission. Expenditure is budgeted to remain sizable, mainly in social and capital spending, financed by grants from the PetroCaribe Agreement with Venezuela (Box 2).

11. **Current policies would be consistent with a small primary surplus over the medium term, but this would not allow a significant reduction in the debt-to-GDP ratio.** Staff projections show that the medium-term primary balance would remain below 1 percent of GDP under current policies, which assume: existing tax rates; a slight decline in public investment to 4 percent of GDP; modest growth in public employment of 2½ percent per year; and real public

sector wage increases of 2 percent per year. Under this scenario, debt would remain stable relative to GDP and far above the authorities' objective of reducing public debt to less than 60 percent of GDP in 2020, consistent with the ECCB benchmark. While fiscal gaps could be filled via domestic and regional sources as well as a possible debt strategy, their significant size may create pressures for further financing through arrears. The less favorable debt paths



illustrate the vulnerability of the economy to exogenous shocks, particularly natural disasters.²

12. The mission emphasized that, in the medium term, additional measures are needed to achieve public debt

sustainability. To achieve the ECCB benchmark, a primary surplus of around 4 percent of GDP would be required. The mission suggested a mix of revenue and spending measures, including:

- *VAT (ABST) reform.* The mission welcomed implementation of the VAT, with registrations exceeding initial expectations and strong revenues likely reflecting a large informal economy that was previously untapped. The staff expressed concerns, however, about differential rates (the VAT rate for hotels is 10 percent, compared with 15 percent for other sectors)³ and low filing rates. In addition, the compliance rate in Antigua and Barbuda is about 70 percent, compared with about 85 percent elsewhere in the region. The mission recommended strengthening tax and customs administration and moving to a uniform VAT rate of 15 percent in 2009, including on hotels. These measures are projected to raise tax revenues to about 24 percent of GDP by 2012 (close to the ECCU average). In line with staff's recommendations, the authorities announced in the 2008 Budget Speech their intention to strengthen the administration of the ABST.
- *Property tax reform.* Although the real estate sector has boomed in recent years, tax on property continues to underperform. The mission welcomed the move to a market-valuation-based property tax system in 2007 and the ongoing cadastral surveys as important first steps toward strengthening tax collection.
- *Domestic oil pricing.* While the 40 percent increase in gasoline prices in late 2005 helped restore effective tax levels, there have been no subsequent adjustments, and the budget remains vulnerable to fluctuations in world oil prices. The mission welcomed the authorities' intention to move to a full pass-through system as announced in the 2007 Budget Speech, and recommended that they do so in the

Antigua and Barbuda: Yield from Additional Measures Under the Active Scenario
(In percent of GDP)

	Average 2009–12
Improvement in primary balance over the baseline	3.0
Revenue gains	1.3
Unification of the VAT rate in 2009	0.6
Yield from improved tax administration and compliance	0.8
Expenditure reductions	1.7
Wages	0.5
Employment contributions	0.1
Civil service pension reform	0.3
Transfers to public sector	0.3
Capital expenditure	0.5

Source: Fund staff projections.

² The debt dynamics reflect average impact of 12 large natural disasters in the ECCU (Rasmussen, WP/04/224). Policy measures to better prepare the region for natural disasters are discussed in the *ECCU Staff Report for the 2007 Discussion on Common Policies*, IMF Country Report No. 08/94.

³ See Koffie Nassar, "Corporate Income Tax Competition in the Caribbean," Chapter VI of *ECCU: 2007 Selected Issues*, IMF Country Report No. 08/96.

- context of a regional initiative. In the 2008 Budget Speech, the authorities announced their intention to develop a framework for quarterly price adjustments in 2008.
- *Public expenditure management.* The mission emphasized the need to promote efficiency, accountability and transparency in government financial operations. While the Freebalance software has been installed in most ministries, it is critical that the required IT support be put in place to strengthen central monitoring and control of expenditure. This should also minimize further arrears with suppliers. Regarding relations with other public sector entities, the mission recommended that the government establish a transparent and commercial basis for dealing with the public utility company (APUA), including full payment for all utility services received.
- *Civil service reform.* The recent voluntary separation program should help contain the wage bill. However, skill shortages have emerged in certain areas, for instance in the Internal Revenue Department. The mission recommended that future retrenchment programs be targeted at areas where changing needs have made staff redundant, while redirecting resources to more productive uses. In addition, the authorities noted that rigidities in public sector employment practices inhibited the hiring and retention of qualified staff in key areas and that greater flexibility is needed to build the capacity to formulate and implement policies effectively.

Antigua and Barbuda: Size of the General Government, 2005

Country	Government Employment (Percent of Labor Force)	Government Wages		
		(Percent of GDP)	(Percent of Current Revenue)	(Percent of Total Expenditure)
ECCU countries 1/				
Antigua and Barbuda	33	11	51	37
Dominica	13	13	40	33
Grenada 2/	10	11	40	25
St. Kitts and Nevis 2/	22	14	38	32
St. Lucia 2/	20	10	39	31
St. Vincent & Grens.	11	14	47	38
Other Caribbean				
Barbados 1/ 3/	21	10	31	29
Belize 2/	16	10	44	36
Jamaica 1/	...	11	38	31
Trinidad and Tobago 4/	23	5	14	17
Other small states 5/				
Mauritius	...	7	33	26
Samoa 1/	...	7	28	15
Seychelles	...	15	31	30
Tonga	...	11	42	44

Sources: World Economic Outlook; International Financial Statistics; Government Financial Statistics; and Fund staff estimates.

1/ Data for central government.

2/ Employment data as of 2002.

3/ Employment data as of 2004.

4/ Employment data includes government public service and statutory boards.

5/ Government wage data as of 2004.

B. Debt Strategy

13. **The authorities are committed to strengthening debt management and normalizing relations with creditors.** They have started the second phase of the debt strategy with the assistance of international financial advisors. While the ultimate objective is to normalize relationships with all creditors, the immediate focus is on resolving disputed claims, regularizing arrears to statutory bodies, and preventing further accumulation of arrears. The mission supported this approach, and recommended that, if a more comprehensive restructuring is undertaken, the authorities should engage all creditors in an open and collaborative dialogue and assure the stability of the domestic financial and social security systems. A contingency plan should be designed to address a possible sudden lack of

access to regional financial markets. The capacity of the debt management unit should be strengthened, as there could be scope for reducing overall debt costs within a prudent and transparent debt management framework.

14. **Even with debt restructuring, substantial fiscal effort will be needed to achieve fiscal sustainability.** The mission noted that even with some write-off of existing debt, a strong fiscal effort would still be needed to place public debt on a sustainable path and increase the likelihood that investors would be willing to participate in future debt restructuring. The authorities generally concurred with these views, and reiterated their commitment to regularize arrears to statutory bodies and normalize relations with creditors in the framework of a medium-term debt strategy.

15. **PetroCaribe.** The PetroCaribe Agreement with Venezuela could provide significant budgetary support. The mission commended the innovative and transparent measures that had been taken to separate out the grant from the loan element of the program, while underscoring the need to ensure that PetroCaribe funds are linked to social development programs in the budget, consistent with overall fiscal objectives.

C. Addressing Contingent Risks

16. **Coverage of fiscal accounts.** A comprehensive assessment of Antigua and Barbuda's public finances should include not only the central government, but also the broader public sector. The weakness of data on public sector activities hinders a full assessment of the fiscal position, including contingent risks to the central government. The mission underscored the need to fully implement the regulations associated with the new Financial Administration Act, which will allow the government to better monitor and control all public accounts.

17. **Pension reform.** The Social Security System (SSS) is running down its liquid assets owing to a cash deficit, reflecting the absence of government contributions to pay for the social security benefits of its employees. The authorities announced in the 2008 Budget Speech their intention to make these contributions. In addition, the government's debt to the system needs to be regularized, including from past unpaid contributions. Even with these actions, the longer-term prospects for the system are a cause for concern. The mission welcomes the ongoing actuarial review, and hopes that its findings will provide the basis for timely reform actions to forestall the need for more drastic adjustments down the road. Equally important is the need to reform civil service pensions, which currently are noncontributory and unfunded, implying a large medium-term fiscal burden.

D. Enhancing Medium-Term Growth

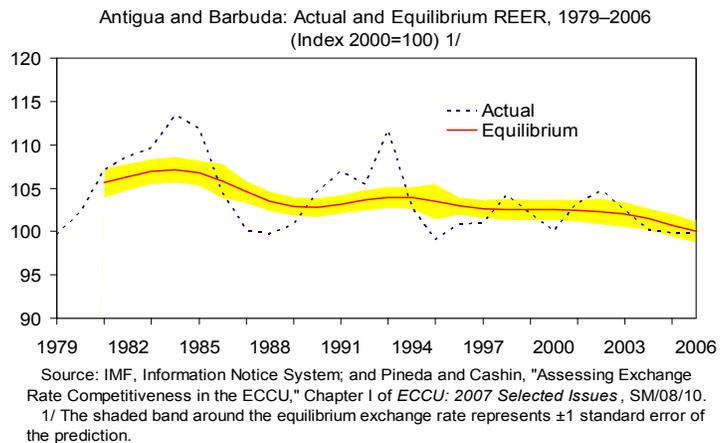
18. **Medium-term growth prospects are broadly favorable, but need to be supported by structural reforms.** The unwinding of construction activity to more normal levels strengthens the case for accelerating structural reforms so as to allow the private sector to take full advantage of the increase in hotel capacity created in recent years.

- *Improving the investment climate.* Delays in clearing goods at customs have been identified as a major impediment to economic growth. The mission welcomed the ongoing Customs Renewal Program, which is expected to substantially reduce the process for clearing goods, thereby lowering the cost of doing business. Discussions also focused on labor market reforms, including training to reduce skills mismatches, and easing of labor market regulations. The authorities indicated that the Investment Authority, established in 2006, serves as a one-stop center for all prospective investors and that the USAID, through its Caribbean Open Trade Support (COTS), has been supportive of private sector development and works closely with the business community in identifying weaknesses in the investment environment.
- *Export diversification.* The offshore financial sector remains a possible area for diversification and job creation, notwithstanding the trade dispute with the U.S. in the internet gaming sector. The mission welcomed the authorities' efforts to expand the variety of services offered by the offshore sector, and encouraged them to continue strengthening offshore financial sector regulations.
- *Telecommunications deregulation.* The authorities recognized that telecommunications deregulation has been a catalytic source of growth in many countries, and concurred with staff that pursuit of this objective in Antigua and Barbuda is particularly important to reduce business costs and facilitate economic diversification.

E. External Competitiveness

19. **The real exchange rate does not appear to be out of line with fundamentals.** The CPI-based real effective exchange rate (REER) and the customer-weighted REER (which tracks REER movements relative to main tourism customers) have been depreciating since 2002 with the weakening of the U.S. dollar. In addition, the erosion of the Antigua share of tourist arrivals in ECCU and the Caribbean has been partially reversed (Figure 4).

Estimating a long-term relationship between REER and a set of fundamentals suggests that the current level of REER is close to its equilibrium value.⁴ However, given the high level of



⁴ See Pineda and Cashin, "Assessing Exchange Rate Competitiveness in the ECCU," Chapter I of *ECCU: 2007 Selected Issues*.

public debt, substantial fiscal adjustment—as envisaged under the “active” policy scenario—will be necessary to underpin the stability of the regional currency board arrangement.

20. **Sustaining competitiveness in the medium term depends on upgrading the capacity of the tourism sector.** The depreciation of the effective exchange rate has improved the attractiveness of Antigua and Barbuda as a tourist destination and helped to reverse the declining trend in its share of tourist arrivals in the Caribbean region. The mission stressed, however, that success in sustaining competitiveness will depend on upgrading the productive capacity of the tourism sector. The authorities expect that the ongoing improvements in hotel capacity (which has increased by about 20 percent since 2005) and infrastructure, along with greater airport capacity and increased promotional efforts, would help boost tourism outcomes.

F. Financial Sector Vulnerabilities

21. **Strong credit growth calls for close monitoring of financial sector soundness.**⁵ In light of the rapid growth in private sector credit, the mission recommended frequent assessments of credit quality and risk management, particularly through on-site examinations by the ECCB. Discussions also focused on careful monitoring of short-term liabilities in regional capital markets with a view to limiting potential roll-over risks and ensuring that AML/CFT measures in the offshore financial sector are effectively enforced. The authorities indicated that the ECCB has carried out on-site supervision of commercial banks in 2007 and that they are awaiting the report.

22. **Enhanced regulation of insurance companies and credit unions is also a priority.** The mission commended the authorities for drafting prudential regulations for the supervision of the nonbank sector, and urged that these regulations be passed and enforced promptly to allow the effective supervision of all nonbank financial intermediaries. The mission stressed that, as the nonbank sector grows in importance, it is critical that a build-up of vulnerabilities be avoided.

G. Data Issues

23. **Improvements in all areas of statistical systems and data dissemination are needed to facilitate surveillance, policymaking and public debate.** The authorities concurred with the mission that data deficiencies, in particular weaknesses in the collection and dissemination of CPI data, compromise the quality of policy analysis and design.

⁵ See the staff report, *ECCU: 2007 Discussion on Common Policies*, for a broader regional discussion of issues relating to financial sector supervision.

IV. STAFF APPRAISAL

24. **Antigua and Barbuda's economy has performed well in recent years.** Growth soared during 2006–07, led by booming construction activity, both public and private. Inflation appears to have remained relatively low, and current account deficits have been largely financed by FDI. Market confidence in government policies has enabled access to financing from the regional securities market at reasonable rates.

25. **Recent tax measures appear to be working well.** Key measures have been taken to address Antigua and Barbuda's longstanding fiscal problems. In particular, important and broad-based tax reforms have been implemented—most recently the ABST in January 2007—and the revenue gains from these measures are materializing. The priority now is to implement the tax measures in a uniform and transparent manner (including unifying the VAT rate across sectors, and raising tax compliance to levels observed elsewhere in the region), underpinning the perception that they are fairly designed and administered.

26. **Looking ahead, 2008 will be an important year for the government to demonstrate fiscal strengthening in response to the measures taken.** Firm expenditure restraint will be needed to complement actions taken on the revenue side. In particular, it will be important to ensure that spikes in investment and transfer spending in 2006–07 are reversed, and that firm restraint is exercised on other components of spending. The risks to the budget from fluctuations in world oil prices also need to be addressed by moving to a flexible mechanism for retail prices. This should allow the government to achieve a primary fiscal surplus in 2008.

27. **Additional fiscal measures will be needed over the medium term to significantly reduce public debt.** On the basis of measures already taken, the primary balance is projected to remain slightly positive over the medium term, while the debt-to-GDP ratio would remain well above the government's longer-term objective. Additional fiscal adjustment—based on a mix of revenue enhancement and further expenditure restraint—will be needed to place the debt-to-GDP ratio securely on a downward path. Further downsizing of the public service can play an important role, but needs to be complemented by more flexible employment practices to enhance the government's efficiency and capacity. The need for fiscal measures is underscored by Antigua and Barbuda's vulnerability to exogenous shocks.

28. **Although the recent growth outcome has been favorable, reforms to address persistent structural weaknesses would enhance medium-term prospects and reduce exposure to external shocks.** Further reforms (including improving the investment climate, training to reduce skills mismatches, diversifying exports, and deregulating telecommunications) are needed to promote durable growth. Staff welcomes the authorities' ongoing efforts to raise public awareness of the need and benefits of structural reforms.

29. **Financial system vulnerabilities call for close monitoring.** The ongoing credit boom could erode the quality of banking system assets, raising the importance of effective

onsite and offsite inspections. In addition, rapid growth of the unregulated nonbank financial sector, in particular insurance companies and credit unions, is a growing concern. In this context, the authorities' efforts to prepare legislation for unified supervision of nonbank financial institutions are well placed.

30. **Economic and social statistics need to be upgraded.** Data remain very weak in terms of coverage, timeliness, and reliability. Of particular importance for macroeconomic analysis are data on consumer prices, national accounts, tourism, labor markets, public enterprises, public sector debt and the balance of payments. The mission encourages the authorities to strengthen their capacity in these areas, and to seek complementary technical assistance from CARTAC, the CDB, and the Fund.

31. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Box 1. The Government's Fiscal Objectives, Reforms, and Outcomes

Fiscal objectives. The United Progressive Party, which took office for the first time in 2004, adopted an ambitious reform agenda to address fiscal imbalances and high debt. The government's fiscal targets were further elaborated in the 2006 Budget Speech, calling for: a current account surplus of 4 percent of GDP; an overall deficit of less than 3 percent of GDP in five years; and public debt of less than 60 percent of GDP by 2016. The time frame for the latter target has subsequently been extended to 2020, consistent with the objective set by the ECCB's Monetary Council in July 2006.

Progress in reforms. Progress has been made in implementing tax reforms and reducing the wage bill.

- *Key tax reforms.* (i) the personal income tax was reintroduced in April 2005; (ii) discretionary tax concessions were suspended in late 2005; (iii) a market-valuation-based property tax system was introduced in 2007; and (iv) a VAT was implemented in January 2007.
- *Voluntary civil service separation.* The program received over 1,000 applicants (10 percent of civil service employment). Actual separations are expected to be completed by the first quarter of 2008.
- *Public expenditure reform.* The Finance Administration Act was passed by Parliament in November 2006, and implementation began with the 2008 budget. Technical assistance is being provided by CARTAC in cash and expenditure management.
- *Social security reform.* Key issues and options were discussed at a public symposium in July 2006 and a White Paper was published in late 2006. There is no timetable for the next steps, however.

Outcomes. Despite these reforms, the primary fiscal deficit deteriorated from 1¼ percent of GDP in 2004 to almost 4½ percent of GDP in 2006, reflecting a number of factors:

- Implementation of the tax reform package (VAT and property tax) was delayed due to capacity constraints, implying that its full effect will not be realized until 2008; the excise tax—initially estimated to yield about 1 percent of GDP—was not implemented, and is temporarily off the table as a policy measure.
- Tax yields were affected by generous tax exemptions (under the property tax, corporate income tax and also VAT) to investment projects associated with the 2007 CWC.
- Revenue performance continues to be affected by weak tax compliance and enforcement. Customs procedures are inefficient, reflecting delays in the anticipated reform of the customs department.
- Capital outlays and transfers to public enterprises sharply increased in 2006–07, largely reflecting upgrading of public infrastructure in relation to hosting the CWC.
- Delays in implementing the civil service reform imply that the associated wage savings will not be fully realized until 2008.

Box 2. PetroCaribe Agreement

Under the PetroCaribe agreement, Venezuela supplies refined oil products to Antigua and Barbuda on concessional terms. Venezuela delivers the products at market prices, but 40 percent of the value—if world prices are in the range of US\$50–100 per barrel—is financed at a 1 percent interest rate over 25 years.¹

PDV Caribe, a government-owned corporation, handles all operations under PetroCaribe, and implements the authorities' guidance regarding allocating the grant element. To cover the future debt obligations to Venezuela, PDV Caribe invests in zero-coupon deposits that have the same present value as the debt obligations. At current interest rates—around 7 percent—the grant element is about 50 percent of concessional financing.

To avoid excessive dependence on a single oil supplier, the authorities limit shipments from Venezuela to about one half of total consumption. With imports of oil products amounting to about 10 percent of GDP at recent world prices, the Venezuela component is about 5 percent of GDP. With 40 percent of the latter value being concessional, and an implicit grant element of 50 percent, net resources from PetroCaribe could amount to about 1 percent of GDP per year.

The authorities indicated that they intend to spend the grant element on social projects, consistent with the PetroCaribe Agreement. At the time of discussions, the authorities were searching for appropriate projects, and the extent to which resources from PetroCaribe would generate new projects or support existing ones was not clear. The mission pointed to the need for careful planning in order to minimize the potential impact on the budget in case of an unexpected termination of the agreement.

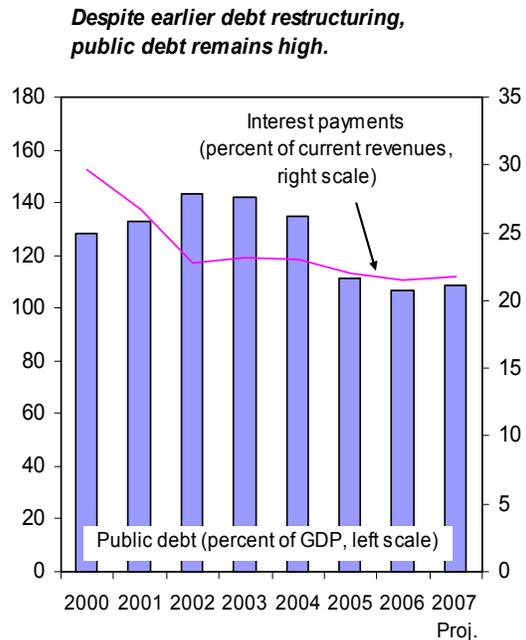
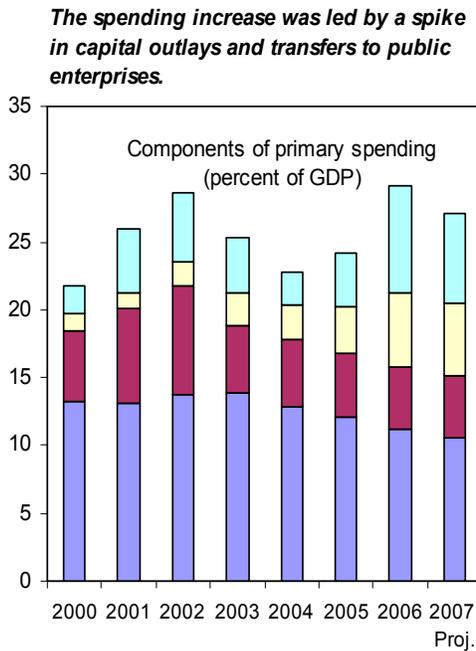
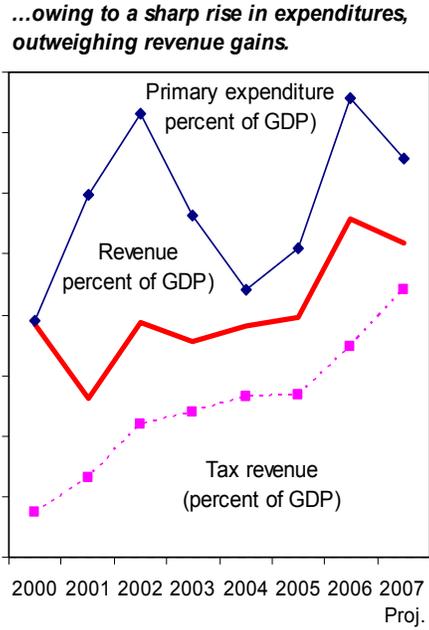
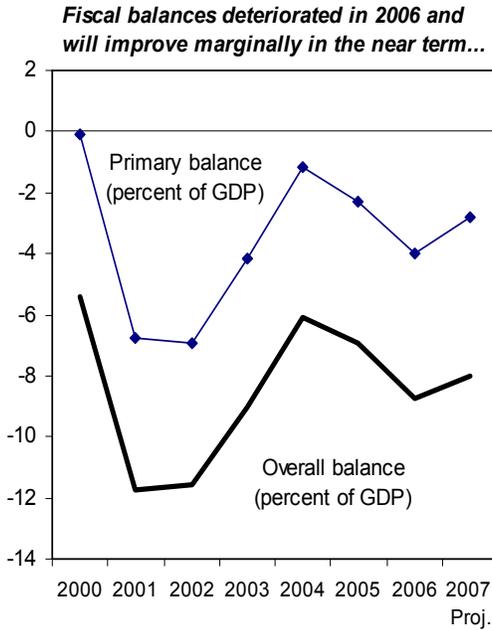
Despite the innovative and transparent vehicle that has been designed for extracting the grant element, some risks remain:

- *Credit risk.* To date, the zero-coupon instruments have been acquired from one local bank, implying a concentrated financial exposure. The authorities indicated that they intend to diversify these placements as the size of the funds increases, but pointed to the limited scope for this given thin regional financial markets.
- *Policy change risk.* Although the long-term liability to Venezuela is backed by financial assets in the first instance, the risk of a possible change in the government's policy intent remains, which could jeopardize debt sustainability over the long run.
- *Contingent liability risk.* If the agreement terminates unexpectedly, the authorities would need to provide resources for maintaining existing projects financed under the arrangement.

^{1/}The financed part is repaid in 23 equal payments after a two-year grace period during which the accrued interest is capitalized.

Figure 1. Antigua and Barbuda: Fiscal Developments, 2000–07

Fiscal imbalances have remained significant.



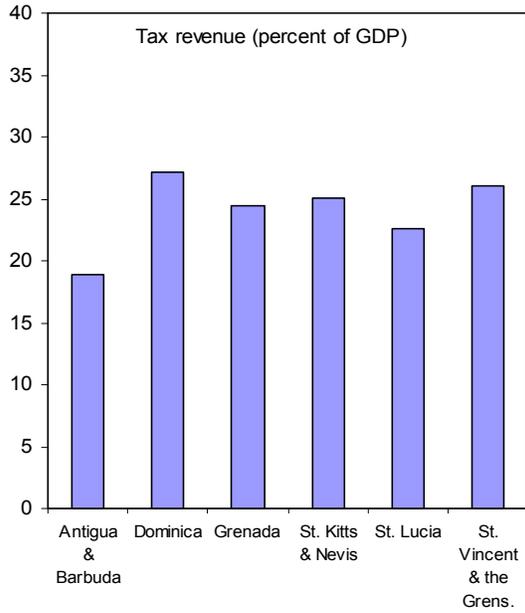
■ wages and contributions ■ goods and services
 □ pensions and transfers □ capital

Sources: Antigua and Barbuda authorities; ECCB; IMF World Economic Outlook; and Fund staff calculations.

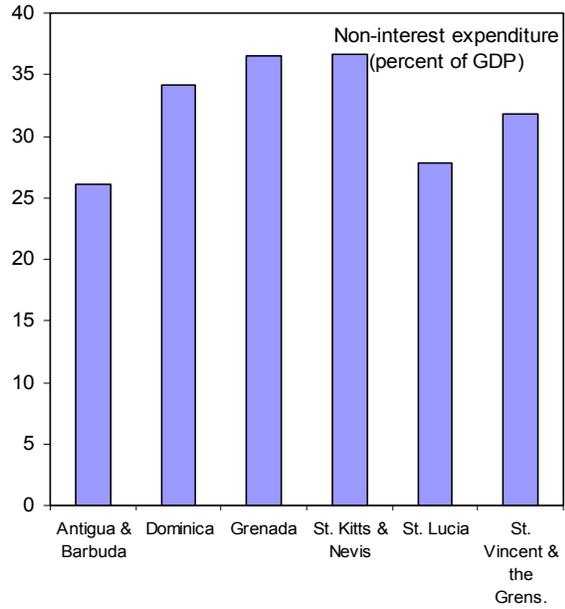
Figure 2. ECCU: Fiscal Performance, Average 2001–06

Historically, fiscal performance in Antigua and Barbuda has lagged behind other ECCU countries

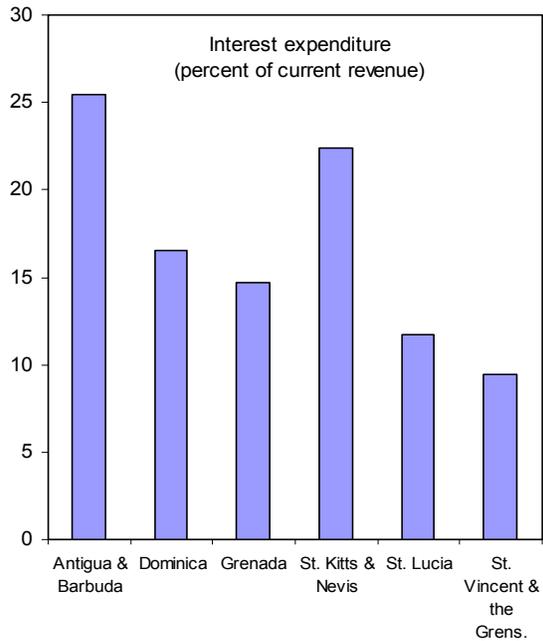
Tax revenue performance has been weaker in Antigua and Barbuda relative to other ECCU countries.



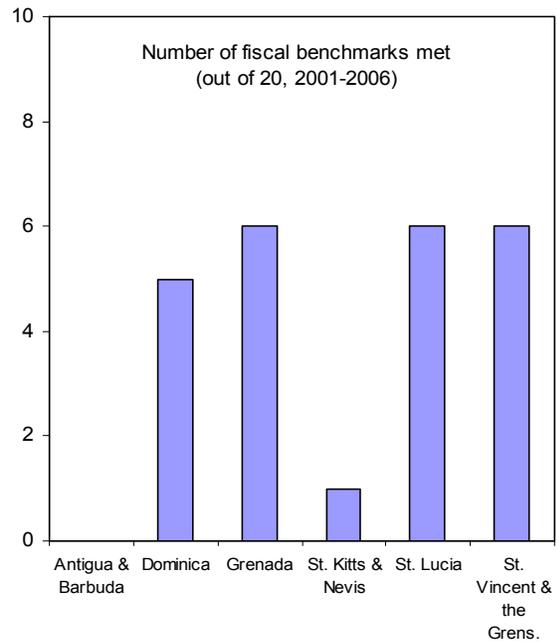
While primary expenditure has also been somewhat lower...



...the cost of the debt burden has been higher...



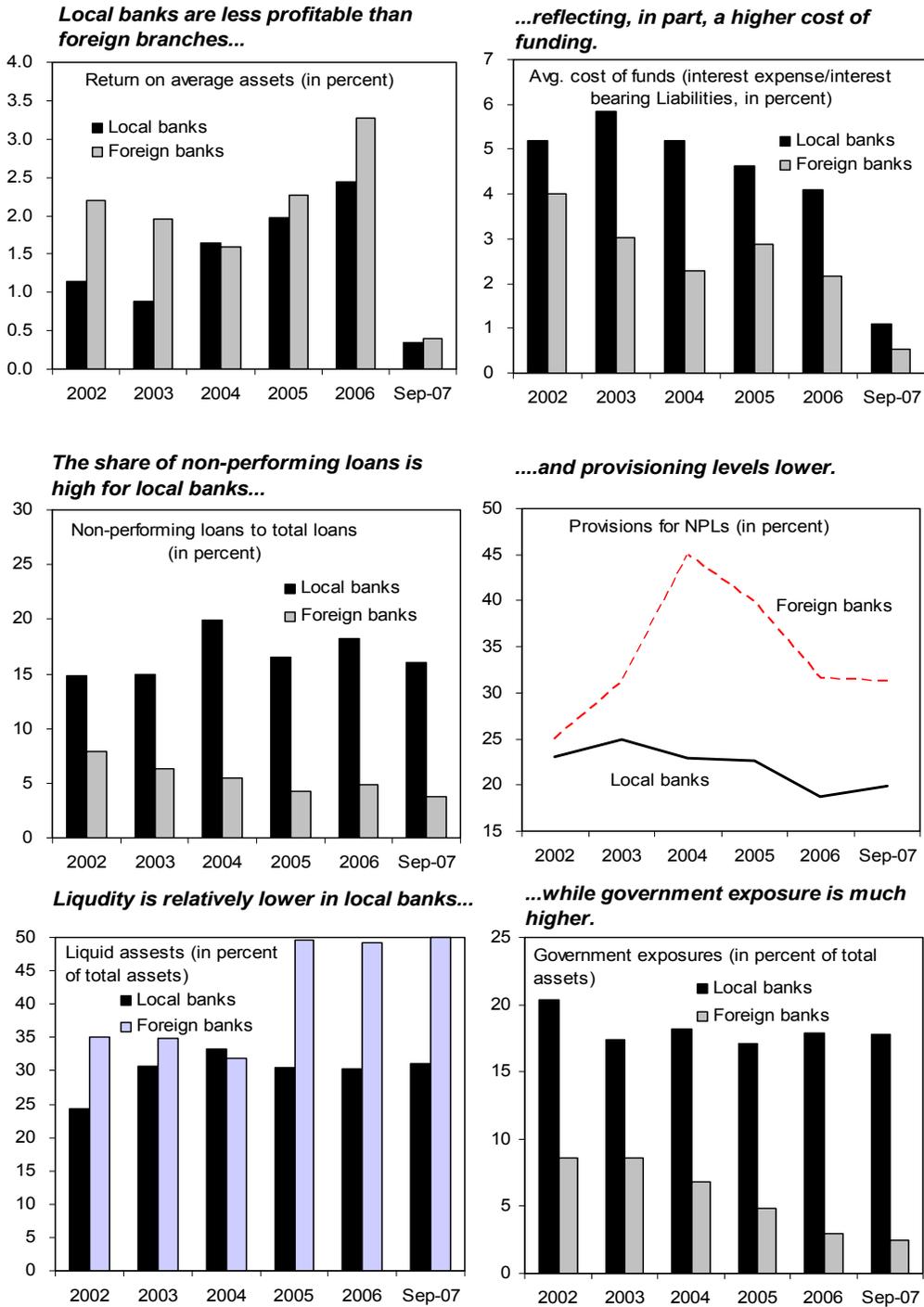
...and Antigua and Barbuda is the only ECCU country to have never met the ECCB's fiscal benchmarks.



Sources: ECCU authorities; and Fund staff estimates.

Figure 3. Antigua and Barbuda: Banking System Vulnerabilities, 2002–07

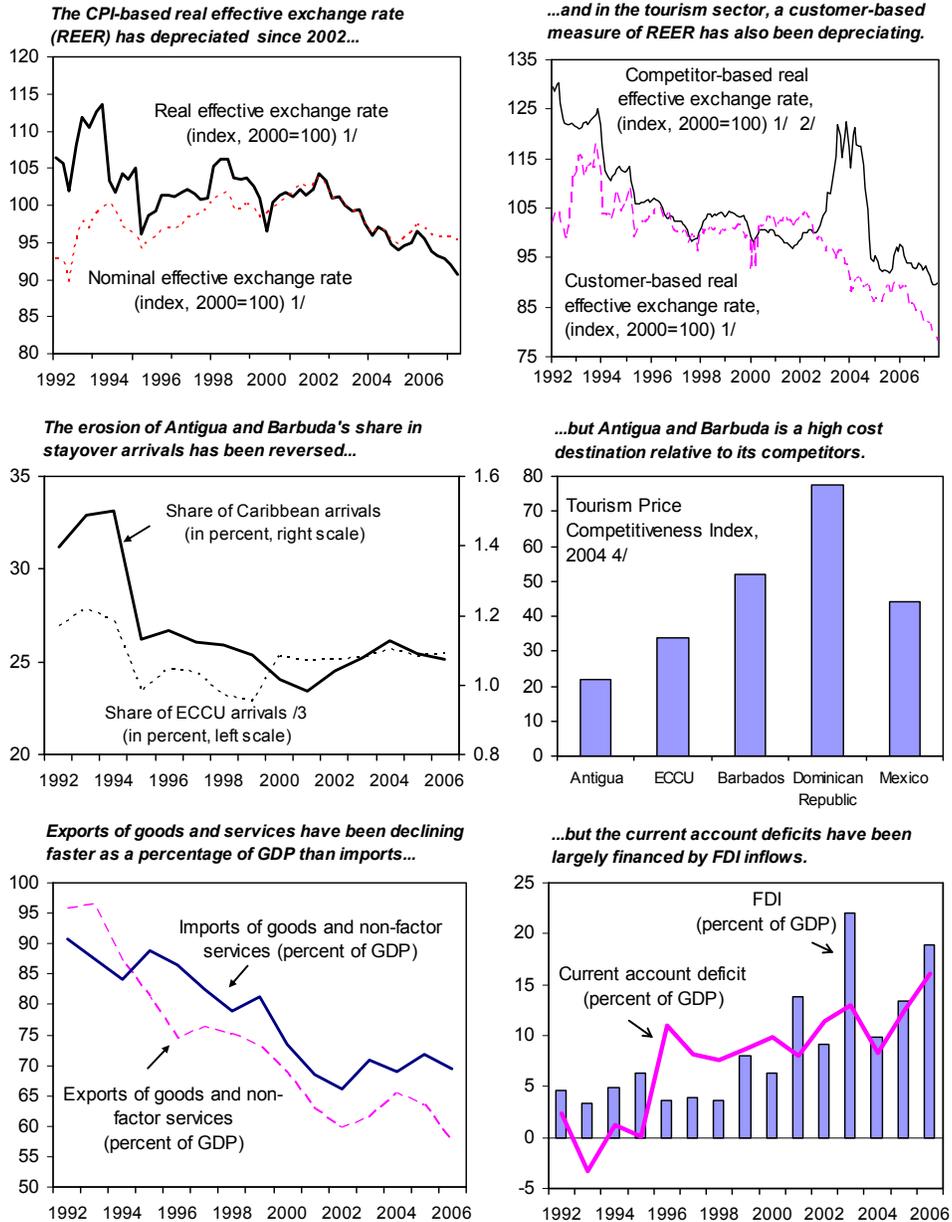
Local banks are less profitable than foreign banks, face higher costs, have lower asset quality and are more exposed to the government.



Sources: ECCB; and Fund staff calculations.

Figure 4. Antigua and Barbuda: External Competitiveness, 1992–2006

Antigua's attractiveness as a tourist destination has improved, although its long-term competitiveness depends on revamping the tourism sector



Sources: ECCB; Caribbean Tourism Organization; ECCU country authorities; Insurance Schemes; World Travel and Tourism Council; and Fund staff estimates.

1/ An increase (decrease) indicates an appreciation (depreciation). Customer REER measures customer-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices.

2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the Dominican Republic's peso.

3/ Arrivals to Antigua and Barbuda are defined as stayover arrivals by air.

4/ Scaled from 1 to 100. A higher value means that the country is more competitive in the tourism market.

Table 1. Antigua and Barbuda: Basic Data

I. Social and Demographic Indicators								
Area (sq. km)	443	Health (most recent year)						
Arable land (percent of land area)	27.3	Population per physician						274
		Population per hospital bed						
Population (2005)		Education (2001; in percent)						
Total	84,334	Adult literacy rate						87
Annual rate of growth, 1991–2001 (percent a year)	1.0							
Density (per sq. km.)	171	Energy (2005; in millions of US\$)						
GDP per capita (US\$), 2005	10,319	Imports of petroleum products						96.5
		Exports of petroleum products						
Population characteristics (1999)		GDP (2005)						
Life expectancy at birth (years)	75	(in millions of EC\$)						2,350
Crude birth rate (per thousand)	19	(in millions of US\$)						
Crude death rate (per thousand)	8							
Poverty level (2005)	18.4							
II. Selected Economic and Financial Indicators, 2003–08								
	2003	2004	2005	Est. 2006	Baseline			
					Proj. 1/ 2007	Rev. Proj. 2007	Proj. 1/ 2008	Rev. Proj. 2008
(Annual percentage change, unless otherwise indicated)								
National income and prices								
GDP at constant factor cost	4.3	5.2	5.5	12.2	6.1	6.1	2.1	2.1
Nominal GDP at market prices	5.1	8.5	6.3	15.4	9.9	8.5	2.5	3.4
Consumer prices (period average)	2.0	2.0	2.1	1.8	3.2	1.5	2.0	3.0
External sector								
Exports, f.o.b.	32.9	27.7	44.3	-12.1	10.0	10.0	3.7	3.7
Imports, f.o.b.	16.3	6.3	11.4	10.8	8.3	8.3	3.4	3.4
Travel receipts (gross)	9.5	12.6	-6.3	8.1	5.1	5.1	9.1	9.1
Nominal effective exchange rate (period ave., depreciation -) 2/	-3.2	-2.7	-0.3	0.1	-1.0	-1.0	...	...
Real effective exchange rate (period ave., depreciation -) 2/	-3.3	-3.0	-1.1	-1.1	-3.3	-3.3	...	...
(Contribution to broad money growth)								
Money and credit								
Net foreign assets	21.9	-1.4	3.4	9.9	3.4	3.0	1.7	1.9
Net domestic assets	-0.8	10.6	3.5	5.3	8.8	7.6	0.8	1.5
Net credit to the public sector	3.0	-1.1	-1.2	-5.2	2.4	2.4	-2.0	-2.1
Credit to the private sector	2.2	0.9	7.7	15.6	8.1	7.0	2.8	3.6
Broad money	21.1	9.2	6.9	15.2	12.1	10.7	2.5	3.4
Average deposit rate (in percent per annum) 3/	4.9	4.1	3.9	3.8	...	...	...	...
Average lending rate (in percent per annum) 3/	12.8	12.0	11.4	10.9	...	...	...	...
(In percent of GDP)								
Central government								
Primary balance	-4.2	-1.2	-2.3	-4.0	-2.6	-2.8	0.7	0.7
Overall balance	-9.0	-6.1	-6.9	-8.8	-7.3	-8.0	-5.9	-4.5
Total revenue and grants	21.1	21.6	21.9	25.2	24.2	24.4	23.6	23.9
Total expenditure and net lending	30.2	27.7	28.8	33.9	31.5	32.4	29.6	28.4
Identified financing	10.9	7.4	9.4	8.8	3.3	5.0	-1.6	-2.1
External	6.3	-1.5	-20.3	4.4	2.9	3.0	-1.6	-1.7
Domestic	4.5	6.9	7.5	4.4	0.4	2.1	0.0	-0.4
Debt relief	...	1.9	22.2	...	...	...	...	...
Statistical discrepancy	-1.8	-1.2	-2.5	0.0	...	...	...	...
Financing gap	...	...	...	...	4.1	3.0	7.6	6.6
External sector								
Current account balance	-12.9	-8.3	-12.4	-16.1	-17.9	-17.9	-15.4	-15.4
Trade balance	-40.8	-38.8	-38.5	-38.8	-38.1	-38.6	-38.4	-38.6
Nonfactor service balance	31.2	35.1	30.1	26.8	24.7	25.3	27.7	27.9
Of which								
Gross tourism receipts	39.8	41.3	36.4	34.1	32.6	33.0	34.7	34.8
Overall balance	-0.6	-2.8	-17.0	-2.1	-2.6	-2.7	-2.2	-2.2
External government debt (end of year)	71.6	65.7	41.3	40.7	41.4	41.9	46.1	46.3
Of which								
Arrears	22.7	22.5	16.8	18.2	19.4	19.7	19.0	19.0
Scheduled external debt service 4/								
(In percent of exports of goods and services)	9.5	14.5	32.2	7.3	7.7	7.7	7.8	7.8
Memorandum items								
Gross international reserves of the ECCB								
(In millions of U.S. dollars)	539.9	632.4	600.8	...	...	...	...	...
(In percent of ECCU broad money)	19.8	20.5	17.9	...	...	...	...	...
Nominal GDP at market prices (in millions of EC\$)	2,036	2,210	2,350	2,712	2,986	2,941	3,090	3,042
Central government debt stock								
(In millions of EC\$)	2,681	2,806	2,411	2,673	2,884	2,926	3,037	3,061
(In percent of GDP)	132	127	103	99	97	99	98	101

Sources: Antigua and Barbuda authorities; ECCB; and Fund staff estimates and projections.

1/ Based on information available at the time of the consultation discussions.

2/ Data for 2007 is up to April 2007.

3/ There is a break in the interest rate series in 2003, owing to changes in reporting requirements for banks.

4/ Data for 2005 includes debt relief from Italy.

Table 2. Antigua and Barbuda: Monetary Survey, 2005–12 (Baseline Scenario)

	Sept.		Sept.		Proj.					
	2005	2006	2006	2007	2007	2008	2009	2010	2011	2012
Net foreign assets	710.5	863.1	926.1	818.8	1,002.7	1,056.3	1,134.5	1,221.5	1,314.6	1,414.9
ECCB imputed reserves	343.7	325.5	385.1	413.3	414.5	447.9	486.8	531.6	579.4	630.4
Commercial banks' net foreign assets	366.8	537.6	541.1	405.5	588.2	608.4	647.7	689.8	735.2	784.4
Net domestic assets	1,473.5	1,501.8	1,589.6	1,899.3	1,781.5	1,823.2	1,931.3	2,043.5	2,162.7	2,289.0
Net credit to public sector (net)	81.3	-40.3	-31.4	-67.4	29.8	-27.3	-55.4	-84.8	-126.2	-144.7
Claims on central government (net)	261.7	174.5	195.6	174.6	218.1	166.8	144.6	121.5	86.8	75.6
ECCB net credit to central government	21.8	20.5	20.2	4.3	20.2	20.2	20.2	20.2	20.2	20.2
Commercial bank net credit to government	239.9	154.0	175.4	170.2	197.9	146.6	124.4	101.4	66.6	55.4
Net credit to other public sector	-180.4	-214.8	-227.0	-241.9	-188.3	-194.1	-200.0	-206.3	-212.9	-220.3
Credit to private sector	1,665.6	1,894.8	2,005.5	2,243.6	2,180.9	2,279.8	2,415.9	2,557.6	2,718.2	2,862.9
Other items (net)	-273.4	-352.6	-384.5	-277.0	-429.3	-429.3	-429.3	-429.3	-429.3	-429.3
Monetary liabilities (M2)	2,184.1	2,364.9	2,515.7	2,718.1	2,784.2	2,879.6	3,065.8	3,280.1	3,509.7	3,755.5
Money (M1)	525.3	576.8	681.9	663.5	755.3	781.2	831.7	889.0	950.4	1,016.3
Currency circulating outside banks	122.1	149.1	183.8	163.7	204.3	211.3	224.9	239.5	255.3	272.4
Demand deposits	403.2	427.7	498.0	499.8	551.0	569.9	606.8	649.4	695.1	743.9
Quasi-money	1,658.7	1,788.1	1,833.8	2,054.6	2,028.9	2,098.4	2,234.1	2,391.2	2,559.3	2,739.2
Savings deposits	741.7	815.7	817.9	866.7	909.3	940.4	1,001.2	1,071.6	1,147.0	1,227.6
Time deposits	780.2	806.0	813.2	940.5	899.7	930.5	990.7	1,060.4	1,134.9	1,214.7
Foreign currency deposits	136.8	166.5	202.7	247.3	219.9	227.4	242.1	259.2	277.4	296.9
	(12-month percentage change)									
Credit to the private sector (net)	10.4	18.4	20.4	18.4	8.8	4.5	6.0	5.9	6.3	5.3
Broad money	6.9	11.9	15.2	14.9	10.7	3.4	6.5	7.0	7.0	7.0
	(12-month change in percent of M2 at the beginning of the period)									
Net foreign assets	3.4	7.7	9.9	-1.9	3.0	1.9	2.7	2.8	2.8	2.9
ECCB imputed reserves	0.9	1.2	1.9	3.7	1.2	1.2	1.3	1.5	1.5	1.5
Commercial banks' net foreign assets	2.4	6.5	8.0	-5.6	1.9	0.7	1.4	1.4	1.4	1.4
Net domestic assets	3.5	4.2	5.3	16.8	7.6	1.5	3.8	3.7	3.6	3.6
Credit to the public sector (net)	-1.2	-6.3	-5.2	-1.1	2.4	-2.1	-1.0	-1.0	-1.3	-0.5
Claims on central government	-0.3	-3.7	-3.0	0.0	0.9	-1.8	-0.8	-0.8	-1.1	-0.3
Credit to the rest of the public sector (net)	-0.9	-2.5	-2.1	-1.1	1.5	-0.2	-0.2	-0.2	-0.2	-0.2
Private sector	7.7	13.9	15.6	14.8	7.0	3.6	4.7	4.6	4.9	4.1
Other items (net)	-3.0	-3.4	-5.1	3.2	-1.8	0.0	0.0	0.0	0.0	0.0
Memorandum item:										
Income velocity of M2	1.1	...	1.2	...	1.1	1.1	1.1	1.1	1.1	1.1

Sources: ECCB, and Fund staff projections.

Table 3. Antigua and Barbuda: Balance of Payments, 2003–12 (Baseline Scenario)

	2003	2004	Prel. 2005	Prel. 2006	Proj.					
					2007	2008	2009	2010	2011	2012
	(In millions of U.S. dollars)									
Current account	-97.6	-67.6	-107.5	-162.1	-194.6	-173.1	-150.5	-142.7	-145.3	-149.1
Trade balance	-307.6	-317.5	-334.7	-389.7	-420.7	-434.7	-440.6	-466.0	-498.3	-533.3
Exports (f.o.b.) 1/	44.7	57.1	82.4	72.4	79.7	82.6	87.7	93.8	100.1	106.9
Imports (f.o.b.) 1/	352.3	374.6	417.1	462.1	500.4	517.3	528.3	559.7	598.3	640.2
Nonfactor services balance	235.4	287.3	261.5	269.1	275.3	314.4	347.5	384.1	417.4	453.1
<i>Of which</i>										
Gross tourist receipts	299.8	337.7	316.6	342.1	359.7	392.5	428.5	468.0	506.4	548.0
Income (net)	-38.7	-45.7	-42.4	-47.8	-56.1	-59.9	-65.0	-68.9	-73.0	-78.1
<i>Of which</i>										
Interest on public sector debt	16.5	19.8	19.9	25.0	29.7	32.6	35.9	37.9	40.0	42.8
Current transfers (net)	13.3	8.3	8.0	6.3	6.9	7.1	7.6	8.1	8.6	9.2
Capital account	4.5	5.3	11.6	31.6	3.7	0.0	0.0	0.0	0.0	0.0
Capital grants	1.2	2.0	7.9	27.9	3.7	0.0	0.0	0.0	0.0	0.0
Migrant transfers (net)	3.3	3.3	3.7	3.7	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	97.5	80.5	-66.4	133.6	161.6	148.4	129.7	121.7	116.7	123.4
Official flows	17.4	-29.1	-139.2	11.8	1.6	27.8	-22.2	-20.8	-20.3	-20.4
Portfolio liabilities	0.0	0.0	0.0	26.0	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
Public sector loans	17.4	-29.1	-139.2	-14.2	5.3	31.6	-18.5	-17.1	-16.6	-16.7
Disbursements	44.9	28.8	18.8	2.7	22.6	50.7	0.0	0.0	0.0	0.0
Amortization (-)	27.5	57.9	158.0	16.9	17.3	19.1	18.5	17.1	16.6	16.7
Nonofficial flows	80.1	109.6	72.8	121.8	160.1	120.5	151.9	142.5	137.0	143.8
Foreign direct investment (net)	166.3	80.4	116.4	189.9	160.5	146.2	120.0	115.0	122.5	130.7
Portfolio investment (net)	2.6	12.1	10.5	9.8	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	-99.5	16.0	-18.3	-64.5	-17.5	-7.5	-14.6	-15.6	-16.8	-18.2
Other private (net)	10.6	1.1	-35.9	-13.3	17.0	-18.3	46.5	43.1	31.3	31.3
Errors and omissions	-9.1	-40.9	14.3	-24.2	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.6	-22.6	-148.0	-21.1	-29.2	-24.7	-20.8	-21.0	-28.7	-25.7
Financing	4.6	22.6	148.0	21.1	21.1	-12.4	-14.4	-16.6	-17.7	-18.9
Change in imputed reserves (increase -)	-26.1	-6.4	-7.2	-15.3	-10.9	-12.4	-14.4	-16.6	-17.7	-18.9
Exceptional financing	30.7	29.0	155.2	36.5	32.0	0	0	0	0	0
Increase in arrears	30.7	13.3	-38.4	36.5	32.0	0	0	0	0	0
Debt forgiveness	0.0	15.7	193.6	0	0	0	0	0	0	0
External financing gap	...	...	...	...	8.1	37.1	35.2	37.6	46.3	44.6
	(In percent of GDP)									
Current account	-12.9	-8.3	-12.4	-16.1	-17.9	-15.4	-12.5	-11.2	-10.7	-10.3
<i>Of which</i>										
Trade balance	-40.8	-38.8	-38.5	-38.8	-38.6	-38.6	-36.7	-36.5	-36.6	-36.7
Merchandise imports	46.7	45.8	47.9	46.0	45.9	45.9	44.0	43.8	43.9	44.1
Gross tourist receipts	39.8	41.3	36.4	34.1	33.0	34.8	35.7	36.6	37.2	37.7
Capital account	0.6	0.7	1.3	3.1	0.3	0.0	0.0	0.0	0.0	0.0
Financial account	12.9	9.8	-7.6	13.3	14.8	13.2	10.8	9.5	8.6	8.5
<i>Of which</i>										
Official flows	2.3	-3.6	-16.0	1.2	0.1	2.5	-1.9	-1.6	-1.5	-1.4
Direct investment	22.1	9.8	13.4	18.9	14.7	13.0	10.0	9.0	9.0	9.0
Errors and omissions	-1.2	-5.0	1.6	-2.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-0.6	-2.8	-17.0	-2.1	-2.7	-2.2	-1.7	-1.6	-2.1	-1.8
Financing										
Change in imputed reserves (increase -)	-3.5	-0.8	-0.8	-1.5	-1.0	-1.1	-1.2	-1.3	-1.3	-1.3
Exceptional financing	4.1	3.5	17.8	3.6	2.9	0	0	0	0	0
Increase in arrears	4.1	1.6	-4.4	3.6	2.9	0	0	0	0	0
Debt forgiveness	0	1.9	22.2	0	0	0	0	0	0	0
Financing gap	...	...	...	...	0.7	3.3	2.9	2.9	3.4	3.1
Memorandum items:										
External public sector debt 2/ 3/	71.6	65.7	41.3	40.7	41.9	46.3	44.5	43.1	42.4	41.4
External public sector debt service (in percent of exports of goods and services)	9.5	14.5	32.2	7.3	7.7	7.8	7.6	7.0	6.7	6.5

Sources: Antigua and Barbuda authorities; ECCB; and Fund staff estimates and projections.

1/ Based on ECCB estimates. There is a structural break in 2005 owing to introduction of data from ASYCUDA.

2/ Reflects debt relief from Devoncon in 2004 and Italy in 2005.

3/ Includes financing gap.

Table 4. Antigua and Barbuda: Central Government Operations, 2005–12 (Baseline Scenario)
(In millions of Eastern Caribbean dollars)

	2005	Est. 2006	Rev.			Updated		Budget	Proj.			
			Proj. 1/ 2007	Proj. 2/ 2007	Est. 3/ 2007	Proj. 1/ 2008	Proj. 2/ 2008		2009	2010	2011	2012
Total revenue and grants	515	683	717	717	723	729	728	883	753	802	854	911
Current revenue	493	603	707	707	698	729	728	760	753	802	854	911
<i>Of which</i>												
Tax revenue	455	568	671	671	656	692	690	714	712	759	809	863
<i>Of which</i>												
Tax arrear collections	0	35	0	0	0	0	0	0	0	0	0	0
Capital revenue	0	0	0	0	0	0	0	0	0	0	0	0
Capital revenue	0	5	0	0	5	0	0	5	0	0	0	0
Grants	21	75	10	10	20	0	0	118	0	0	0	0
Total expenditure	677	920	939	953	951	914	864	952	906	970	1040	1117
Current expenditure	583	707	743	757	751	790	742	792	776	832	893	961
Wages and salaries	252	268	277	277	284	284	284	328	289	308	329	350
Employment contributions 4/	33	34	35	35	32	36	36	42	37	39	42	45
Goods and services, incl. utilities	109	126	133	133	135	149	149	171	157	167	178	190
Interest payments 5/	109	130	140	154	127	206	158	91	168	181	195	212
External	49	61	74	74	...	74	75	...	77	83	89	97
Domestic	60	68	67	80	...	132	84	...	91	98	106	115
Pensions	38	43	49	49	39	56	55	39	62	69	77	86
Other transfers	42	106	109	109	133	59	59	122	64	67	72	77
<i>Of which</i>												
Severances	...	...	63	63	63	...	...	...	...	...	...	...
Capital expenditure and net lending	94	214	196	196	201	124	122	160	130	138	147	157
Current account balance	-90	-104	-36	-50	-52	-61	-14	-33	-24	-31	-38	-49
Primary balance	-54	-108	-82	-82	-100	21	23	22	15	13	10	6
Overall balance	-162	-237	-222	-236	-228	-185	-136	-69	-153	-169	-185	-206
Identified financing	221	239	99	148	...	-51	-65	...	-37	-34	-65	-35
External (net)	-477	120	87	87	...	-51	-53	...	-51	-48	-49	-49
Increase in arrears 6/	-92	79	75	75	...	0	0	...	0	0	0	0
Amortization	-42	32	32	32	...	0	0	...	0	0	0	0
Interest	-50	47	44	44	...	0	0	...	0	0	0	0
External borrowing	-385	41	12	12	...	-51	-53	...	-51	-48	-49	-49
Domestic (net)	176	119	12	61	...	0	-12	...	14	14	-16	14
Increase in arrears 6/	131	60	-26	31	...	0	-12	...	14	14	14	14
ECCB	0	0	0	0	...	0	0	...	0	0	0	0
Banks and others	27	59	33	25	...	0	0	...	0	0	-30	0
Asset sales	18	0	5	5	...	0	0	...	0	0	0	0
Debt relief 7/	523	...	...	...	...	...	...	...	...	...	...	...
External	523	...	...	...	...	...	...	...	...	...	...	...
Domestic	0	...	...	...	...	...	...	...	...	...	...	...
Statistical discrepancy	-59	-1	...	...	...	...	...	...	...	...	...	...
Financing gap 8/	...	...	123	87	...	235	200	...	190	203	250	241
Memorandum items:												
Central government debt stock 9/	2,411	2,673	2,871	2,926	...	3,056	3,061	...	3,215	3,383	3,569	3,776
GDP market prices	2,350	2,712	2,986	2,941	2,996	3,090	3,042	3,056	3,239	3,449	3,676	3,922

Sources: Antigua and Barbuda authorities; and Fund staff estimates and projections.

1/ Based on information on debt and interest payments available at the time of the consultation discussions.

2/ Reflects recent reconciliation of outstanding debt to statutory bodies.

3/ Based on 2008 budget estimates.

4/ Includes contributions to social security, medical benefits, and education.

5/ The projections include an interest payment on outstanding arrears (at their contractual rates).

6/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.

7/ Includes debt relief from a commercial supplier in 2004, and from the Italian Government in 2005.

8/ The gap is assumed to be filled by new borrowing at 8.5 percent interest rate on average.

9/ Excludes asset sales.

Table 5. Antigua and Barbuda: Central Government Operations, 2005–12 (Baseline Scenario)
(In percent of GDP)

	2005	Est. 2006	Proj. 1/ 2007	Rev.	Updated	Proj. 1/ 2008	Rev. Proj. 2/ 2008	Budget	Proj.			
				Proj. 2/ 2007	Est. 3/ 2007				2009	2010	2011	2012
Total revenue and grants	21.9	25.2	24.2	24.4	24.1	23.6	23.9	28.9	23.2	23.2	23.2	23.2
Current revenue	21.0	22.2	23.7	24.0	23.3	23.6	23.9	24.9	23.2	23.2	23.2	23.2
<i>Of which</i>												
Tax revenue	19.4	20.9	22.5	22.8	21.9	22.4	22.7	23.4	22.0	22.0	22.0	22.0
<i>Of which</i>												
Tax arrear collections	...	1.3	...	...	0.0	...	...	0.0	...	...	...	...
Capital revenue	0.0	0.2	0.2	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Grants	0.9	2.8	0.3	0.3	0.7	0.0	0.0	3.9	0.0	0.0	0.0	0.0
Total expenditure and net lending	28.8	33.9	31.5	32.4	31.7	29.6	28.4	31.2	28.0	28.1	28.3	28.5
Current expenditure	24.8	26.1	24.9	25.7	25.1	25.6	24.4	25.9	24.0	24.1	24.3	24.5
Wages and salaries	10.7	9.9	9.3	9.4	9.5	9.2	9.3	10.7	8.9	8.9	8.9	8.9
Employment contributions 4/	1.4	1.3	1.2	1.2	1.1	1.2	1.2	1.4	1.1	1.1	1.1	1.1
Goods and services, incl. utilities	4.7	4.7	4.4	4.5	4.5	4.8	4.9	5.6	4.9	4.9	4.9	4.9
Interest payments 5/	4.6	4.8	4.7	5.2	4.2	6.6	5.2	3.0	5.2	5.3	5.3	5.4
External	2.1	2.3	2.5	2.5	...	2.4	2.5	...	2.4	2.4	2.4	2.5
Domestic	2.6	2.5	2.2	2.7	...	4.3	2.7	...	2.8	2.8	2.9	2.9
Pensions	1.6	1.6	1.7	1.7	1.3	1.8	1.8	1.3	1.9	2.0	2.1	2.2
Other transfers	1.8	3.9	3.7	3.7	4.4	1.9	2.0	4.0	2.0	2.0	2.0	2.0
<i>Of which</i>												
Severances	...	...	2.1	2.1	2.1	...	...	...	...	...	...	...
Capital expenditure and net lending	4.0	7.9	6.6	6.7	6.7	4.0	4.0	5.2	4.0	4.0	4.0	4.0
Current account balance	-3.8	-3.8	-1.2	-1.7	-1.7	-1.9	-0.5	-1.1	-0.7	-0.9	-1.0	-1.3
Primary balance	-2.3	-4.0	-2.6	-2.8	-3.3	0.7	0.7	0.7	0.5	0.4	0.3	0.2
Overall balance	-6.9	-8.8	-7.3	-8.0	-7.6	-5.9	-4.5	-2.3	-4.7	-4.9	-5.0	-5.3
Identified financing	9.4	8.8	3.3	5.0	...	-1.6	-2.1	...	-1.1	-1.0	-1.8	-0.9
External (net)	-20.3	4.4	2.9	3.0	...	-1.6	-1.7	...	-1.6	-1.4	-1.3	-1.2
Increase in arrears 6/	-3.9	2.9	2.5	2.6	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Amortization	-1.8	1.2	1.1	1.1	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Interest	-2.1	1.7	1.5	1.5	...	0.0	0.0	...	0.0	0.0	0.0	0.0
External borrowing (net)	-16.4	1.5	0.4	0.4	...	-1.6	-1.7	...	-1.6	-1.4	-1.3	-1.2
Disbursement	1.4	2.8	2.0	2.1	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Amortization	-17.8	-1.3	-1.6	-1.7	...	-1.6	-1.7	...	-1.6	-1.4	-1.3	-1.2
Domestic (net)	7.5	4.4	0.4	2.1	...	0.0	-0.4	...	0.4	0.4	-0.4	0.4
Increase in arrears 6/	5.6	2.2	-0.9	1.1	...	0.0	-0.4	...	0.4	0.4	0.4	0.4
ECCB (net)	0.0	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Banks and others (net)	1.2	2.2	1.1	0.8	...	0.0	0.0	...	0.0	0.0	-0.8	0.0
Asset sales	0.8	0.0	0.2	0.2	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Debt relief 7/	22.2	...	...	...	...	...	...	...	...	...	...	...
External	22.2	...	...	...	...	...	...	...	...	...	...	...
Domestic	0.0	...	...	...	...	...	...	...	...	...	...	...
Statistical discrepancy	-2.5	0.0	...	...	...	...	...	...	...	...	...	...
Financing gap 8/	...	...	4.1	3.0	...	7.6	6.6	...	5.9	5.9	6.8	6.1
Memorandum items:												
Central government debt stock 9/	102.6	98.6	96.6	99.5	...	98.3	100.6	...	99.3	98.1	97.1	96.3
Interest payment on financing gap	...	...	1	0.6	...	...	...	...	...	...	...	...
GDP market prices (millions of EC\$)	2,350	2,712	2,986	2,941	2,996	3,090	3,042	3,056	3,239	3,449	3,676	3,922

Sources: Antigua and Barbuda authorities; and Fund staff estimates and projections.

1/ Based on information on debt and interest payments available at the time of the consultation discussions.

2/ Reflects recent reconciliation of outstanding debt to statutory bodies.

3/ Based on 2008 budget estimates.

4/ Includes contributions to social security, medical benefits, and education.

5/ The projections include an interest payment on outstanding arrears (at their contractual rates).

6/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.

7/ Includes debt relief from a commercial supplier in 2004, and from the Italian Government in 2005.

8/ The gap is assumed to be filled by new borrowing at 8.5 percent interest rate on average.

9/ Excludes asset sales.

Table 6. Antigua and Barbuda: Central Government Operations, 2005–12 (Active Scenario)
(In millions of Eastern Caribbean dollars)

	2005	Est. 2006	Rev.			Updated		Budget	Proj.			
			Proj. 1/ 2007	Proj. 2/ 2007	Est. 3/ 2007	Proj. 1/ 2008	Proj. 2/ 2008		2009	2010	2011	2012
Total revenue and grants	514.9	683.0	717.1	717.1	723.4	729.2	728.2	882.9	786.0	846.3	909.3	972.4
Current revenue	493.4	602.7	707.1	707.1	698.3	729.2	728.2	759.7	786.0	846.3	909.3	972.4
<i>Of which</i>												
Tax revenue	454.8	567.6	670.6	670.6	655.8	691.5	690.5	714.0	745.9	803.6	863.8	923.8
<i>Of which</i>												
Recuperation of tax arrears	0.0	35.0	0.0	0.0	0.5	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Capital revenue	0.0	5.0	0.0	0.0	5.1	0.0	0.0	5.3	0.0	0.0	0.0	0.0
Grants	21.4	75.3	10.0	10.0	20.0	0.0	0.0	118.0	0.0	0.0	0.0	0.0
Total expenditure	677.3	920.4	939.3	952.8	951.0	941.0	863.9	952.2	778.1	814.2	850.8	887.8
Current expenditure	583.1	706.8	743.4	756.9	750.5	790.0	742.3	792.2	778.1	814.2	850.8	887.8
Wages and salaries	252.1	268.2	276.8	276.8	284.3	284.5	284.4	327.9	281.5	292.8	304.7	317.0
Employment contributions 4/	32.8	34.1	35.3	35.3	32.1	36.3	36.3	41.6	35.9	37.3	38.8	40.4
Goods and services, incl. utilities	109.4	126.2	132.5	132.5	135.0	149.2	149.1	170.7	157.1	167.4	178.4	190.3
Interest payments 5/	108.9	129.8	140.2	153.6	127.3	205.6	158.3	91.3	168.1	174.8	180.8	185.7
External	48.7	61.4	73.6	73.6	...	74.0	74.7	...	91.0	95.0	98.8	101.9
Domestic	60.3	68.4	66.6	80.0	...	132.0	83.7	...	157.1	167.4	178.4	190.3
Pensions	38.2	42.9	49.3	49.3	39.2	56.0	54.8	39.2	77.1	79.8	82.0	83.8
Other transfers	41.7	105.6	109.3	109.3	132.6	59.0	59.4	121.5	58.3	62.1	66.2	70.6
<i>Of which</i>												
Severances	...	0.0	62.6	62.6	62.6	...	...	...	...	62.1	...	...
Capital expenditure and net lending	94.2	213.6	195.9	195.9	200.5	124.0	121.7	160.0	0.0	0.0	0.0	0.0
Current account balance	-89.7	-104.1	-36.4	-49.8	-52.2	-61.0	-14.1	-32.6	7.9	32.1	58.5	84.6
Primary balance	-53.5	-107.6	-82.1	-82.1	-100.3	21.0	22.6	22.0	176.0	206.9	239.3	270.3
Overall balance	-162.4	-237.4	-222.2	-235.7	-227.6	-185.0	-135.8	-69.3	7.9	32.1	58.5	84.6
Identified financing	221.5	238.6	99.1	148.2	...	-51.0	-64.6	...	-37.0	-34.2	-64.8	-34.6
External (net)	-477.3	119.6	87.0	87.0	...	-51.0	-53.0	...	-51.2	-48.4	-49.0	-48.8
Increase in arrears 6/	-92.4	78.6	75.2	75.3	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Amortization	-42.4	32.0	31.6	31.7	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Interest	-49.9	46.6	43.6	43.6	...	0.0	0.0	...	0.0	0.0	0.0	0.0
External borrowing	-384.9	40.9	11.8	11.8	...	-51.0	-53.0	...	-51.2	-48.4	-49.0	-48.8
Disbursement	32.2	77.2	60.7	60.7	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Amortization	-417.1	-36.3	-48.9	-48.9	...	-51.0	-53.0	...	-51.2	-48.4	-49.0	-48.8
Domestic (net)	176.2	119.1	12.1	61.2	...	0.0	-11.6	...	14.2	14.2	-15.8	14.2
Increase in arrears 6/	131.3	59.8	-26.0	31.1	...	0.0	-11.6	...	14.2	14.2	14.2	14.2
ECCB	0.0	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Banks and others	27.1	59.3	32.8	24.7	...	0.0	0.0	...	0.0	0.0	-30.0	0.0
Asset sales	17.8	0.0	5.4	5.4	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Debt relief 7/	522.6	...	...	...	...	...	...	...	...	...	...	...
External	522.6	...	...	...	...	...	...	...	...	...	...	...
Domestic	0.0	...	...	...	...	...	...	...	...	...	...	...
Statistical discrepancy	-59.1	-1.2	...	...	...	...	...	...	...	...	...	...
Financing gap 8/	...	...	123.1	87.5	...	235.0	200.3	...	29.1	2.1	6.3	-50.0
Memorandum items:												
Central government debt stock 9/	2,411	2,673	2,871	2,926	...	3,056	3,061	...	3,509	3,572	3,603	3,618
GDP market prices	2,350	2,712	2,986	2,941	2,996	3,090	3,042	3,056	3,239	3,449	3,676	3,922

Sources: Antigua and Barbuda authorities; and Fund staff estimates and projections.

1/ Based on information on debt and interest payments available at the time of the consultation discussions.

2/ Reflects recent reconciliation of outstanding debt to statutory bodies.

3/ Based on 2008 budget estimates.

4/ Includes contributions to social security, medical benefits, and education.

5/ The projections include an interest payment on outstanding arrears (at their contractual rates).

6/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.

7/ Includes debt relief from a commercial supplier in 2004, and from the Italian Government in 2005.

8/ The gap is assumed to be filled by new borrowing at 8.5 percent interest rate on average.

9/ Excludes asset sales.

Table 7. Antigua and Barbuda: Central Government Operations, 2005–12 (Active Scenario)
(In percent of GDP)

	2005	Est. 2006	Rev.			Updated		Budget	Proj.			
			Proj. 1/ 2007	Proj. 2/ 2007	Est. 3/ 2007	Proj. 1/ 2008	Proj. 2/ 2008		2009	2010	2011	2012
Total revenue and grants	21.9	25.2	24.2	24.4	24.1	23.6	23.9	28.9	24.3	24.5	24.7	24.8
Current revenue	21.0	22.2	23.7	24.0	23.3	23.6	23.9	24.9	24.3	24.5	24.7	24.8
<i>Of which</i>												
Tax revenue	19.4	20.9	22.5	22.8	21.9	22.4	22.7	23.4	23.0	23.3	23.5	23.6
<i>Of which</i>												
Recuperation of tax arrears	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital revenue	0.0	0.2	0.2	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Grants	0.9	2.8	0.3	0.3	0.7	0.0	0.0	3.9	0.0	0.0	0.0	0.0
Total expenditure and net lending	28.8	33.9	31.5	32.4	31.7	29.6	28.4	31.2	26.6	26.8	25.9	25.5
Current expenditure	24.8	26.1	24.9	25.7	25.1	25.6	24.4	25.9	23.1	23.3	22.4	22.0
Wages and salaries	10.7	9.9	9.3	9.4	9.5	9.2	9.3	10.7	8.7	8.5	8.3	8.1
Employment contributions 4/	1.4	1.3	1.2	1.2	1.1	1.2	1.2	1.4	1.1	1.1	1.1	1.0
Goods and services, incl. utilities	4.7	4.7	4.4	4.5	4.5	4.8	4.9	5.6	4.9	4.9	4.9	4.9
Interest payments 5/	4.6	4.8	4.7	5.2	4.2	6.6	5.2	3.0	5.2	5.1	4.9	4.7
External	2.1	2.3	2.5	2.5	...	2.4	2.5	...	2.4	2.3	2.2	2.1
Domestic	2.6	2.5	2.2	2.7	...	4.3	2.7	...	2.8	2.8	2.7	2.6
Pensions	1.6	1.6	1.7	1.7	1.3	1.8	1.8	1.3	1.8	1.8	1.8	1.8
Other transfers	1.8	3.9	3.7	3.7	4.4	1.9	2.0	4.0	1.5	2.0	1.5	1.5
<i>Of which</i>												
Severances	0.0	0.0	2.1	2.1	2.1	...	0.0	0.0	0.0	0.5	0.0	0.0
Capital expenditure and net lending	4.0	7.9	6.6	6.7	6.7	4.0	4.0	5.2	3.5	3.5	3.5	3.5
Current account balance	-3.8	-3.8	-1.2	-1.7	-1.7	-1.9	-0.5	-1.1	1.1	1.3	2.3	2.8
Primary balance	-2.3	-4.0	-2.6	-2.8	-3.3	0.7	0.7	0.7	2.8	2.8	3.7	4.0
Overall balance	-6.9	-8.8	-7.3	-8.0	-7.6	-5.9	-4.5	-2.3	-2.4	-2.2	-1.2	-0.7
Identified financing	9.4	8.8	3.3	5.0	...	-1.6	-2.1	...	-1.1	-1.0	-1.8	-0.9
External (net)	-20.3	4.4	2.9	3.0	...	-1.6	-1.7	...	-1.6	-1.4	-1.3	-1.2
Increase in arrears 6/	-3.9	2.9	2.5	2.6	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Amortization	-1.8	1.2	1.1	1.1	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Interest	-2.1	1.7	1.5	1.5	...	0.0	0.0	...	0.0	0.0	0.0	0.0
External borrowing (net)	-16.4	1.5	0.4	0.4	...	-1.6	-1.7	...	-1.6	-1.4	-1.3	-1.2
Disbursement	1.4	2.8	2.0	2.1	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Amortization	-17.8	-1.3	-1.6	-1.7	...	-1.6	-1.7	...	-1.6	-1.4	-1.3	-1.2
Domestic (net)	7.5	4.4	0.4	2.1	...	0.0	-0.4	...	0.4	0.4	-0.4	0.4
Increase in arrears 6/	5.6	2.2	-0.9	1.1	...	0.0	-0.4	...	0.4	0.4	0.4	0.4
ECCB (net)	0.0	0.0	0.0	0.0	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Banks and others (net)	1.2	2.2	1.1	0.8	...	0.0	0.0	...	0.0	0.0	-0.8	0.0
Asset sales	0.8	0.0	0.2	0.2	...	0.0	0.0	...	0.0	0.0	0.0	0.0
Debt relief 7/	22.2	...	...	...	...	...	...	...	...	...	...	...
External	22.2	...	...	...	...	...	...	...	...	...	...	...
Domestic	0.0	...	...	...	...	...	...	...	...	...	...	...
Statistical discrepancy	-2.5	0.0	0.0	...	...	...	...	...	...	...	...	...
Financing gap 8/	...	...	4.1	3.0	...	7.6	6.6	...	3.5	3.2	2.9	1.6
Memorandum items:												
Central government debt stock 9/	102.6	98.6	96.6	99.5	...	98.3	100.6	...	96.9	93.2	88.7	83.8
GDP market prices (millions of EC\$)	2,350	2,712	2,986	2,941	2,996	3,090	3,042	3,056	3,239	3,449	3,676	3,922

Sources: Antigua and Barbuda authorities; and Fund staff estimates and projections.

1/ Based on information on debt and interest payments available at the time of the consultation discussions.

2/ Reflects recent reconciliation of outstanding debt to statutory bodies.

3/ Based on 2008 budget estimates.

4/ Includes contributions to social security, medical benefits, and education.

5/ The projections include an interest payment on outstanding arrears (at their contractual rates).

6/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.

7/ Includes debt relief from a commercial supplier in 2004, and from the Italian Government in 2005.

8/ The gap is assumed to be filled by new borrowing at 8.5 percent interest rate on average.

9/ Excludes asset sales.

Table 8. Antigua and Barbuda: Structure of Public Sector Debt, June-2007
(In millions of U.S. dollars, unless noted otherwise)

	Outstanding Debt (Including Arrears)					Structure of Arrears			
	End-2006	June 2007	Percentage Earmarked	(In Percent of Total Debt)	(In Percent of GDP)	Principal	Interest	Total	(In Percent of GDP)
Total government debt 1/	1,069.6	1,105.9	23.2	100.0	101.5	390.7	244.1	634.7	58.3
Total external debt	408.8	417.9	42.1	37.8	38.4	76.9	123.4	200.4	18.4
Central government	360.9	369.1	44.5	33.4	33.9	65.5	110.8	176.3	16.2
Multilateral	11.0	11.7	0.0	1.1	1.1	3.6	1.6	5.3	0.5
CDB	2.8	2.8	0.0	0.3	0.3	0.0	0.0	0.0	0.0
EEC/EIB	6.7	7.3	0.0	0.7	0.7	2.9	0.8	3.7	0.3
OPEC	1.6	1.6	0.0	0.1	0.1	0.7	0.9	1.6	0.1
Bilateral	125.6	130.2	30.6	11.8	12.0	36.4	21.9	41.8	3.8
Paris Club	93.0	95.0	41.9	8.6	8.7	24.5	20.3	28.2	2.6
France	27.8	28.2	0.0	2.5	2.6	10.9	5.7	16.6	1.5
Germany	2.4	1.9	0.0	0.2	0.2	0.0	0.1	0.1	0.0
Japan (IHI Debt Settlement Company) 2/	38.4	39.8	100.0	3.6	3.7	8.8	1.7	10.5	1.0
U.K.	5.8	5.9	0.0	0.5	0.5	2.4	0.0	2.4	0.2
U.S.	18.6	19.1	0.0	1.7	1.8	2.4	12.8	15.2	1.4
Other	32.6	35.2	0.0	3.2	3.2	12.0	1.6	13.6	1.2
China	14.0	16.2	0.0	1.5	1.5	6.5	0.1	6.5	0.6
Kuwait	16.5	16.9	0.0	1.5	1.5	5.5	1.6	7.1	0.6
Trinidad	2.1	2.1	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Commercial	224.2	227.2	54.8	20.5	20.9	25.4	87.3	112.7	10.3
<i>Of which</i>									
Stanford Financial Group Limited	72.0	70.4	100.0	6.4	6.5	13.7	11.1	24.8	2.3
Banco do Brasil 3/	67.3	71.0	0.0	6.4	6.5	5.1	65.9	71.0	6.5
Republic Finance and Merchant Bank Ltd.	30.4	32.9	100.0	3.0	3.0	0.0	6.6	6.6	0.6
Others	54.6	52.9	40.2	4.8	4.9	6.6	3.7	10.3	0.9
Government guaranteed debt	48.0	48.8	23.3	4.4	4.5	11.4	12.6	24.0	2.2
Total domestic public debt	660.8	688.1	11.8	62.2	63.2	313.7	120.7	434.4	39.9
Central government	629	656	11.6	59.3	60.3	308	119	427.8	39.3
Bank loans 4/	94.6	108.8	69.7	9.8	10.0	6.3	2.6	8.9	0.8
Overdrafts	21.5	24.8	0.0	2.2	2.3	0.0	0.0	0.0	0.0
Government securities 4/	77.5	77.5	0.0	7.0	7.1	0.0	17.8	17.8	1.6
Debt to statutory bodies	327.2	338.1	0.0	30.6	31.0	195.1	98.9	294.0	27.0
Unpaid contributions	210.5	219.1	0.0	19.8	20.1	189.0	30.1	219.1	20.1
Loans and securities	116.7	119.0	0.0	10.8	10.9	6.1	68.8	74.9	6.9
Supplier credits 5/	44.6	43.1	0.0	3.9	4.0	43.1	0.0	43.1	4.0
Wage backpay and other arrears	63.8	64.1	0.0	5.8	5.9	64.1	0.0	64.1	5.9
Government guaranteed	31.6	31.7	17.0	2.9	2.9	5.3	1.3	6.6	0.6

Sources: Antigua and Barbuda authorities; Houlihan Lokey Howard & Zukin Ltd.; and Fund staff estimates.

1/ Includes both principal and interest arrears and reflects reconciliation of outstanding debt to statutory bodies.

2/ This loan is currently under investigation.

3/ Status to be verified.

4/ Excluding debt owed to statutory bodies.

5/ Includes vouchers for capital as well as for goods and services.

Table 9. Antigua and Barbuda: Selected Indicators of Vulnerability, 2002–07

	2002	2003	2004	2005	Est. 2006	Proj. 2007
Financial indicators						
Broad money (12-month percent change)	6.3	21.1	9.2	6.9	15.2	10.7
Private sector credit (12-month percent change)	8.0	2.4	1.1	10.4	20.4	8.8
Commercial bank soundness indicators (in percent) 1/						
Capital adequacy ratio 2/	14.7	13.0	11.6	11.6	15.1	14.2
Unsatisfactory assets/total loans	11.3	10.5	12.5	10.4	11.5	10.2
Provision for loan losses/unsatisfactory assets	23.8	26.8	27.8	26.2	21.5	21.9
Net profit before taxes/average assets	1.7	1.4	1.6	2.1	2.9	0.4
Liquid assets/total assets	28.7	32.3	32.4	40.6	40.4	41.1
Gross government exposure/total capital 2/	202.2	186.6	231.1	210.2	168.7	183.4
External indicators						
Foreign exchange earnings from tourism (12-month percent change)	0.6	9.5	12.6	-6.3	8.1	5.1
Merchandise imports (12-month percent change in U.S. dollars)	-4.6	16.3	6.3	11.4	10.8	8.3
Current account balance (percent of GDP)	-11.5	-12.9	-8.3	-12.4	-16.1	-17.9
Capital and financial account balance (percent of GDP)	14.9	13.5	10.5	-6.3	16.5	15.2
<i>Of which</i>						
Inward foreign direct investment	9.2	22.1	9.8	13.4	18.9	14.7
Imputed net international reserves						
In millions of U.S. dollars	88	114	120	127	143	154
In percent of broad money	15.3	16.4	15.9	15.7	15.3	14.9
Commercial banks' net foreign assets (millions of US\$, end of period)	34.2	133.6	117.6	135.9	200.4	170.2
External public sector debt (millions of US\$, end-period) 3/	533.6	539.8	537.8	359.0	408.8	456.4
External public sector debt service (in percent of exports of goods and services) 4/	9.3	9.5	14.5	32.2	7.3	7.7
External interest payments by public sector (in percent of exports of goods and services) 4/	3.9	3.6	3.7	3.6	4.3	4.9
External public sector amortization (in percent of exports of goods and services) 4/	5.4	5.9	10.8	28.6	2.9	2.8
Exchange rate (E.C.dollars per U.S. dollar), end-period	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate appreciation (+) (End-period, percentage change)	0.6	-3.3	-3.0	-1.1	-1.1	-3.3

Sources: ECCB; Ministry of Finance; and Fund staff estimates.

1/ Prudential indicators reported by commercial banks, with infrequent onsite verification by the ECCB. Data as of end-September 2007.

2/ Locally incorporated banks only.

3/ Central government and guaranteed debt.

4/ Scheduled.

Annex I: Debt Sustainability Analysis

A. Public Sector DSA

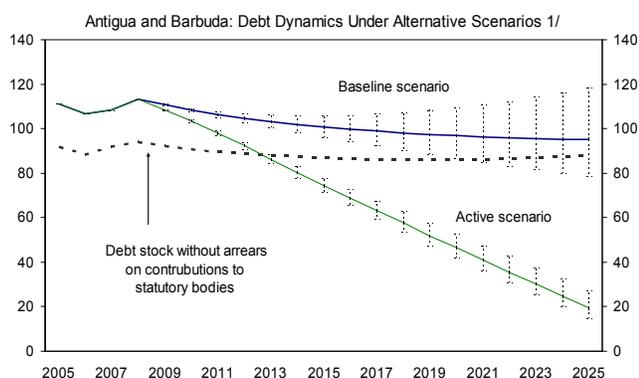
The public debt ratio fell sharply from over 143 percent of GDP in 2002 to 102 percent of GDP in June 2007 on account of debt relief in 2004–05 and rapid expansion of the economy in 2006. However, the debt burden remains high and the government continues to accumulate arrears to a wide spectrum of creditors. As debt dynamics depend on the terms on which arrears are regularized and on the interest rate at which financing gaps are filled, strong fiscal adjustment is key for placing debt squarely on the sustainable path.

Debt sustainability analysis was performed for the baseline as well as the active scenario with the key difference being the strength of fiscal adjustment. To judge the significance of the terms at which financing gaps are filled for debt sustainability, staff computed bands corresponding to “favorable” financing conditions (an interest rate of 6 percent) and “unfavorable” conditions (a rate of 11 percent) around the central assumption of a

marginal interest rate of 8½ percent. The scenarios reflect debt reconciliation between central government and statutory bodies conducted in late 2007, but exclude expected regularization of arrears. Arrears are assumed to accrue at contractual interest rates without a reduction of their face value.

In the baseline scenario with no regularization of arrears, the debt-to-GDP ratio remains uncomfortably high for nearly the entire spectrum of financing conditions. The debt ratio stays over 80 percent and remains highly vulnerable to various shocks such as a slowdown in growth, a worsening of financing conditions, or fiscal slippages (Figure I.1 and Table I.1).

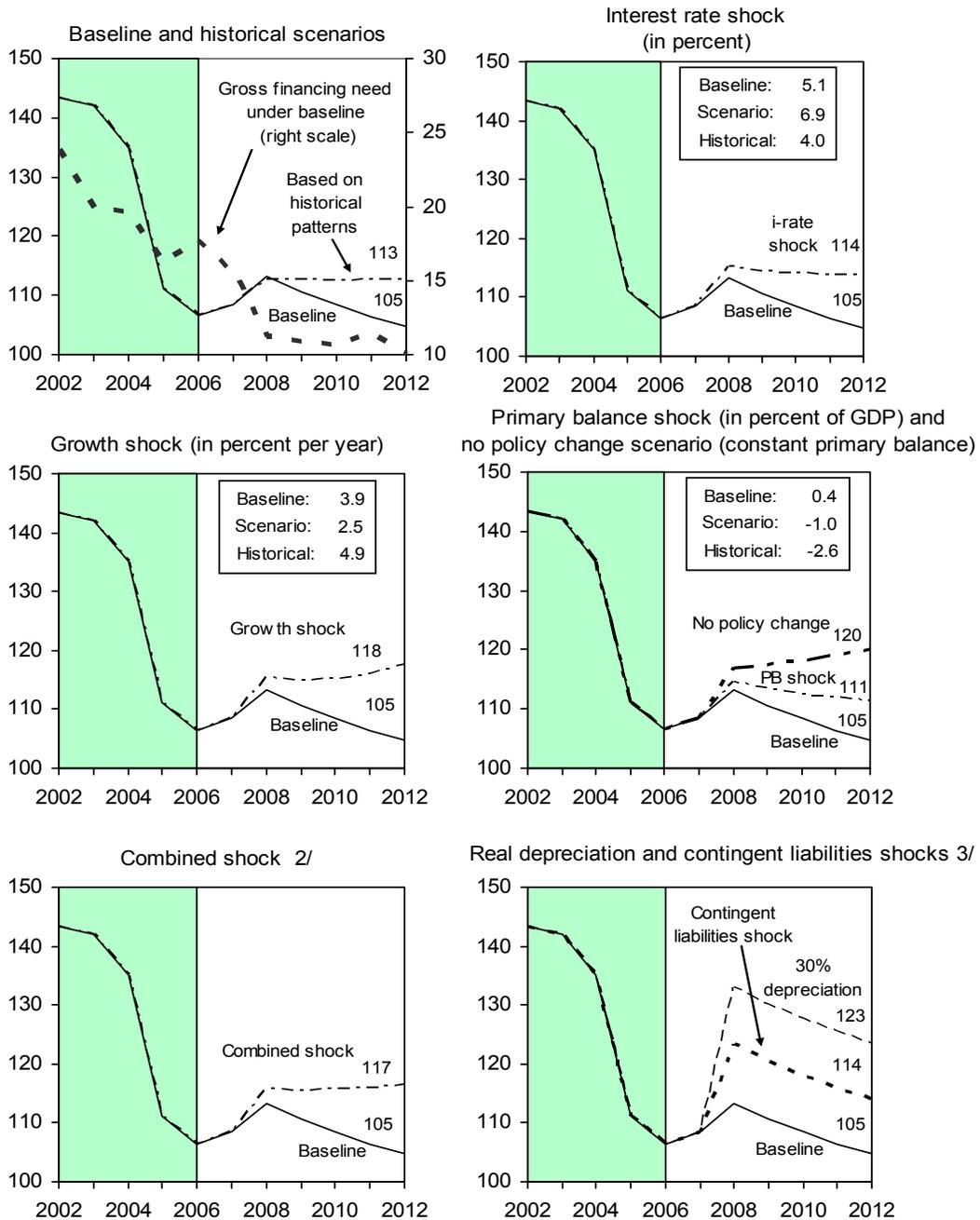
On the other hand, the extra fiscal adjustment of the active scenario makes an important difference to the dynamics. It places debt firmly on a downward path even under unfavorable financing conditions. To illustrate the extent to which debt dynamics can be affected by an expected regularization of arrears with statutory bodies, staff estimated the debt path excluding the stock of unpaid contributions to these entities. The adjusted debt stock declines only gradually in the long term, illustrating the need for further measures to address the debt burden. On the other hand, the fiscal adjustment envisaged in the active



Source: Fund staff calculations.

1/ The GDP path underlying the three scenarios is the same. Upper (lower) bands in active and passive scenarios assume new financing at 11 percent (6 percent).

Figure I.1. Antigua and Barbuda: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: Antigua and Barbuda authorities; and Fund staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2008, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table I.1. Antigua and Barbuda: Public Sector Debt Sustainability Framework, 2002–12
(In percent of GDP, unless otherwise indicated)

	Actual						Projections						Debt-stabilizing primary balance 1/
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012		
Baseline: public sector debt 2/	143.3	142.0	135.0	111.0	106.5	108.4	113.3	110.7	108.4	106.5	104.7	-1.6	
<i>Of which</i>													
Foreign-currency denominated	74.3	71.6	65.7	41.3	40.7	41.9	46.3	44.5	43.1	42.4	41.4		
Change in public sector debt	10.4	-1.2	-7.0	-23.9	-4.5	1.9	4.9	-2.6	-2.3	-2.0	-1.8		
Identified debt-creating flows (4+7+12)	5.8	-2.4	-9.2	3.0	-2.6	1.3	4.9	-2.6	-2.3	-2.0	-1.8		
Primary deficit	6.9	4.2	1.2	2.3	4.0	2.8	-0.7	-0.5	-0.4	-0.3	-0.2		
Revenue and grants	21.7	21.1	21.6	21.9	25.2	24.4	23.9	23.2	23.2	23.2	23.2		
Primary (noninterest) expenditure	28.7	25.3	22.8	24.2	29.2	27.2	23.2	22.8	22.9	23.0	23.1		
Automatic debt dynamics 3/	-0.7	-6.9	-8.9	-0.2	-7.2	-3.1	1.6	-1.7	-1.5	-1.4	-1.3		
Contribution from interest rate/growth differential 4/	-0.7	-6.9	-8.9	-0.2	-7.2	-3.1	1.6	-1.7	-1.5	-1.4	-1.3		
<i>Of which: Contribution from real interest rate</i>	1.9	-1.2	-2.2	7.0	4.9	2.9	3.8	2.6	3.1	3.2	3.3		
<i>Of which: Contribution from real GDP growth</i>	-2.6	-5.7	-6.7	-7.1	-12.1	-6.0	-2.2	-4.3	-4.6	-4.6	-4.5		
Contribution from exchange rate depreciation 5/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Denominator = 1+g+p+gp	1.0	1.1	1.1	1.0	1.1	1.1	1.0	1.1	1.1	1.1	1.1		
Other identified debt-creating flows	-0.4	0.3	-1.5	0.9	0.6	1.6	4.0	-0.5	-0.4	-0.3	-0.3		
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of implicit or contingent liabilities 6/	-0.4	0.3	-1.5	0.9	0.6	1.6	4.0	-0.5	-0.4	-0.3	-0.3		
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual, including asset changes (2-3) 7/	4.5	1.2	2.2	-27.0	-1.9	0.6	0.0	0.0	0.0	0.0	0.0		
Public sector debt-to-revenue ratio 2/	659.6	672.2	624.7	506.7	422.8	444.7	473.4	476.4	466.6	458.0	450.6		
Gross financing need 8/	23.8	20.0	19.6	16.2	17.7	15.6	11.2	10.9	10.6	11.5	10.0		
in billions of U.S. dollars	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.1	0.1	0.2	0.1		
Alternative Scenarios													
Scenario with key variables at their historical averages 9/						108.4	112.8	112.6	112.6	112.6	112.6	-2.6	
Scenario with no policy change (constant primary balance) in 2007–12						108.4	116.8	117.4	118.2	119.2	120.2	-1.8	
A natural disaster scenario (a hurricane in 2008) 10/						108.4	117.2	118.5	119.6	121.8	121.6		
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Nominal GDP (local currency)	1.9	2.0	2.2	2.3	2.7	2.9	3.0	3.2	3.4	3.7	3.9		
Real GDP growth (in percent)	2.0	4.3	5.2	5.5	12.2	6.1	2.1	4.0	4.5	4.5	4.6		
Average nominal interest rate on public debt (in percent) 11/	3.5	3.6	3.8	3.7	5.0	5.3	5.0	4.9	5.1	5.2	5.4		
Average nominal interest rate on forex debt (in percent) 11/	3.5	3.1	3.7	3.7	7.0	7.3	7.1	6.9	7.1	7.3	7.4		
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.5	-0.7	-1.4	5.3	5.0	3.1	3.7	2.5	3.1	3.2	3.4		
Exchange rate (EC\$ per US\$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7		
Nominal depreciation of local currency (EC\$ per US\$)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Exchange rate (US\$ per EC\$)	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4		
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.0	4.3	5.2	-1.6	0.0	2.2	1.3	2.4	2.0	2.0	2.0		
Growth of real primary spending (deflated by GDP deflator, in percent)	9.3	-11.1	-7.0	14.7	39.1	-1.1	-12.8	2.1	4.9	5.0	5.0		
Primary deficit	6.9	4.2	1.2	2.3	4.0	2.8	-0.7	-0.5	-0.4	-0.3	-0.2		
Revenue to GDP ratio	21.7	21.1	21.6	21.9	25.2	24.4	23.9	23.2	23.2	23.2	23.2	23.5	
B. Bound Tests													
B1. Real interest rate is at historical average plus one standard deviation						108.4	115.1	114.4	114.0	113.8	113.8	0.2	
B2. Real GDP growth is at historical average minus one standard deviation						108.4	115.3	114.9	115.2	116.1	117.5	-0.1	
B3. Primary balance is at historical average minus one standard deviation						108.4	114.7	113.4	112.5	111.8	111.3	-1.7	
B4. Combination of B1–B3 using 1/2 standard deviation shocks						108.4	115.7	115.5	115.6	116.0	116.6	0.0	
B5. One time 30 percent real depreciation in 2008						108.4	133.1	130.2	127.7	125.4	123.4	-1.8	
B6. 10 percent of GDP increase in other debt-creating flows in 2008						108.4	123.3	120.6	118.1	116.0	114.2	-1.7	

Sources: Antigua and Barbuda authorities; and Fund staff estimates.

1/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

2/ Includes gross central government and government guaranteed debt and reflects reconciliation of outstanding debt to statutory bodies.

3/ Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

4/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

5/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.

6/ An increase in 2008 reflects a guaranteed loan to finance airport development project.

7/ For projections, this line includes exchange rate changes.

8/ Defined as public sector deficit, plus amortization of medium- and long-term public sector debt, plus short-term debt at end of previous period.

9/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

10/ Dynamics of GDP growth and the primary balance are taken from the average impact of 12 large natural disasters in the ECCU (Rasmussen, WP/04/224).

11/ Derived as nominal interest expenditure divided by previous period debt stock.

scenario places debt firmly on a downward path even in the case of unfavorable financing conditions.

B. External DSA

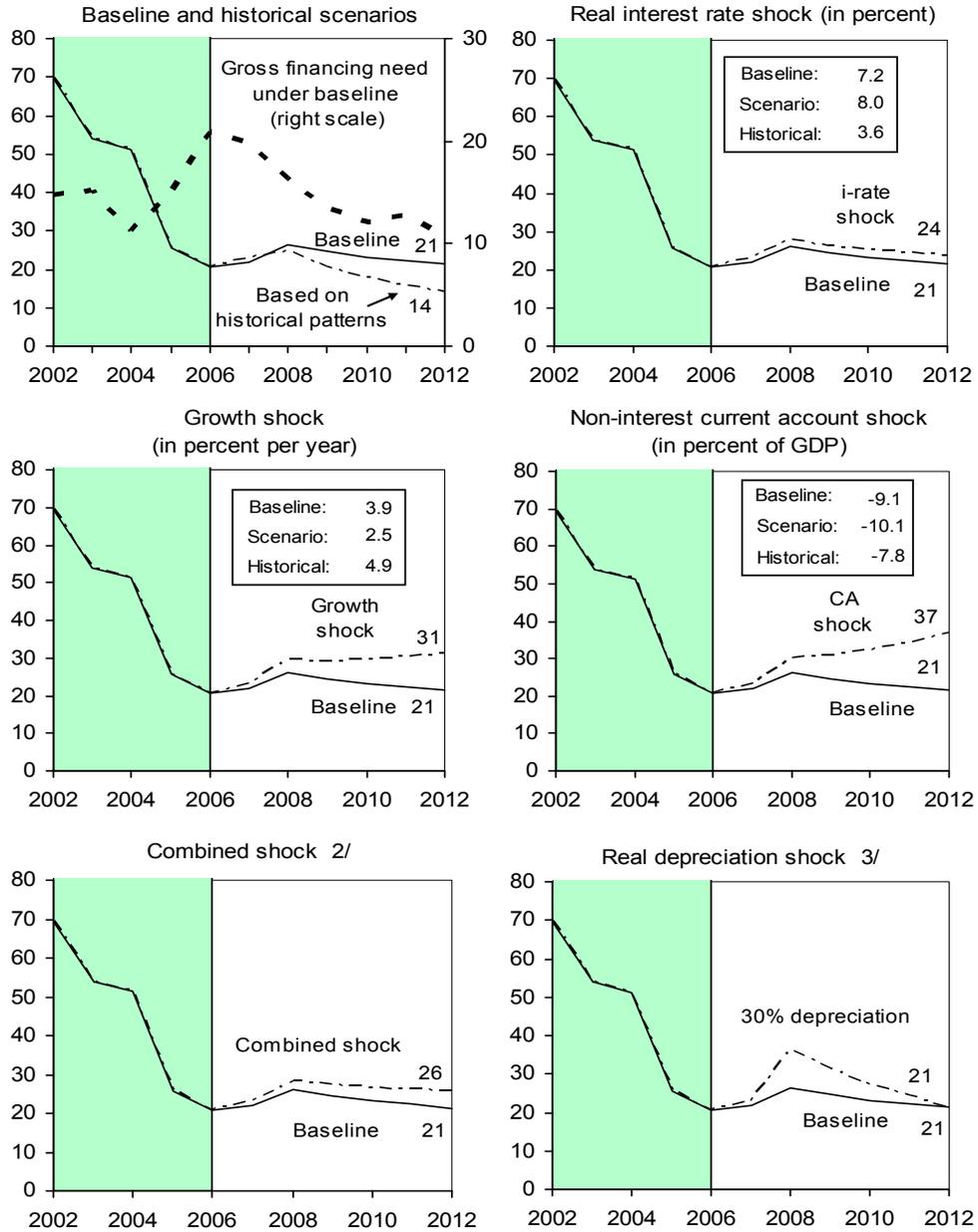
While the absence of data on the international investment position poses a challenge for assessing external debt sustainability, there is no obvious problem of sustainability at current levels of the real exchange rate and the associated medium-term external forecast. At the same time, reducing the public component of net external debt will depend on the prospects for further fiscal adjustment.

At end-2006, the net external debt—proxied by the aggregated net external positions of the public sector and the banking system—was estimated at 21 percent of GDP. This is comparable with an estimate of about 16 percent obtained via an alternative approach in which the stock of net debt is calculated as a sum of historical current account balances in the balance of payments minus nondebt creating inflows such as foreign direct investment, increases in imputed reserves, and debt forgiveness.

Debt sustainability was analyzed for both baseline and active scenarios. In both scenarios, key assumptions included: (i) no debt relief; (ii) arrears accruing contractually or at penalty interest rates; (iii) filling approximately a half of the fiscal gap through external sources at an 8½ percent interest rate; and (iv) maintaining the net foreign assets of the banking system at its 2006 level of 20 percent of GDP.

In the baseline scenario, the debt path is declining very slowly and is moderately sensitive to various negative shocks, including the current account shock and a combination of small current account, interest rate and growth shocks (Figure I.2 and Table I.2). A sustained fiscal adjustment is necessary to contain the public component of the overall external debt.

Figure I.2. Antigua and Barbuda: External Debt Sustainability: Bound Tests 1/ (External debt in percent of GDP)



Sources: Antigua and Barbuda authorities; and Fund staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

3/ One-time real depreciation of 30 percent occurs in 2008.

Annex II. Antigua and Barbuda: Summary of Appendices

Fund Relations

Antigua and Barbuda does not have outstanding obligations to the Fund. Antigua and Barbuda is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar since July 1976. Antigua and Barbuda has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The last Article IV consultation was concluded by the Executive Board on January 17, 2007 (IMF Country Report No. 07/238). Several missions from the Caribbean Regional Technical Assistance Centre (CARTAC) and the Fiscal Affairs Department (FAD) have visited Antigua and Barbuda since the beginning of 2006 to assist the authorities.

Relations with the World Bank Group

In September 2005, the World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2006–09. The four-year strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability by promoting greater social inclusion and strengthening disaster risk management. The CAS envisages, under a high case lending scenario, US\$10 million for investment lending and/or Development Policy Lending to support policy reform efforts in the areas of growth and competitiveness (including interventions on Public Sector Modernization and Public Utilities Reform).

Relations with the Caribbean Development Bank

The CDB supports the economic and social development of Antigua and Barbuda through policy dialogue and the financing of priority capital projects and technical assistance. As of November 30, 2007, CDB has approved loans totalling US\$49.3 million, of which US\$28.2 million are undisbursed.

Statistical Issues

Antigua and Barbuda participates in the Fund's General Data Dissemination System (GDDS). Data provided to the Fund are broadly adequate for surveillance purposes, although major improvements are needed to facilitate effective surveillance and resolve significant shortcomings with the real sector (including the consumer price index), fiscal and balance of payments data. Monetary statistics are compiled by the ECCB on a monthly basis with a lag of eight weeks. An April 2007 data ROSC mission to assess monetary and financial statistics noted some recent improvements and identified some shortcomings in the ECCB's monetary statistics, which have a potential for detracting from the accurate and timely analysis of monetary and financial developments and formulation of appropriate policies.

INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

Staff Report for the 2007 Article IV Consultation—Informational Annex

Prepared by the Western Hemisphere Department

January 17, 2008

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Appendices

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Appendix I. Antigua and Barbuda: Fund Relations
(As of November 30, 2007)

I. Membership Status: Joined 2/25/82; Article VIII

II. General Resources Account:	SDR Million	%Quota
Quota	13.50	100.00
Fund holdings of currency	13.50	99.99
Reserve Position	0.01	0.05
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
Holdings	0.01	N/A

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Obligations to the Fund: None

VII. Exchange Rate Arrangement: Antigua and Barbuda is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar since July 1976. In practice, the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

Antigua and Barbuda accepted the obligations of Article VIII, Sections 2, 3, and 4 in November 1983. It maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

VIII. Last Article IV Consultation: Antigua and Barbuda is on the standard 12-month cycle. The last Article IV consultation was concluded by the Executive Board on January 17, 2007. The staff report is IMF Country Report No. 07/238, and the accompanying statistical appendix is IMF Country Report No. 07/237.

IX. FSAP Participation, ROSCs, and OFC Assessments:

Antigua and Barbuda participated in the regional ECCU FSAP conducted in September and October 2003. The FSSA is available at www.imf.org/external/pubs/ft/scr/2004/cr04293.pdf. A ROSC for a BCP assessment of Antigua and Barbuda's offshore sector is www.imf.org/external/pubs/ft/scr/2004/cr04366.pdf.

X. Technical Assistance (May 2006–December 2007):

Departments	Sector	RTAC vs HQ		FY 2007	FY 2008 (Est.)
FAD	Public Financial Management	CARTAC	Budget Management Review		1
			Treasury Assistance to Antigua & Barbuda		3
		HQ	Treasury review mission to Antigua	1	
	Revenue Administration	CARTAC	Antigua and Barbuda:PFM: 2nd side trip	1	
			Antigua: Tax Administration: Collection Enforcement Training	1	
			Antigua: Tax Administration: Rulings		1
			Customs Administration: ABST	2	
			Implementation of ABST	3	
			Personal Income Tax - Follow up compliance assistance mission to Antigua	1	
			Personal Income Tax: additional detailed compliance assistance	1	
			Tax Administration	7	
			Tax Administration - Collection enforcement training in Antigua	2	
			Tax Administration		2
			Tax Administration Mission	1	
			Tax Administration mission to Antigua	3	
			Tax Administration mission to Antigua & Barbuda	1	
			Tax Administration mission to Antigua (VAT)	1	
			Tax administration mission to Antigua and Barbuda		1
			Tax Administration: IT Management reporting for ABST		1
			Tax Administration: Operational assistance with Personal Income Tax		3
Tax Administration: Personal Income Tax follow-up		1			
Tax Administration: Post ABST implementation support - basic audit training		1			
Tax Administration: Post ABST implementation support - cross checking system		1			
Tax Administration: Post ABST implementation support - taxpayer services		1			
Tax Administration: Annual Audit Program and Risk Assessment Mission		1			
Tax Administration: basic excise training and set up of self-assessment operatic	1				
Tax Administration: Revenue sharing assessment		1			
VAT Mission to Antigua	1				
Tax Policy	HQ	Personal Income Tax Review		1	
No sector defined	HQ	VAT Revenue Sharing Workshop	1		
FAD Total				27	19
LEG	AMLLAW	HQ	Participate in USDOJ Trng Wkshop on AMLCFT	1	
	FSC	HQ	Participate in Workshop on Dvlpmnt Handbook for Fin. Investigations & Prosc	1	
LEG Total				2	1
MCM	CapMarket Dev & I	CARTAC	Credit Analysis Training	1	
MCM Total				1	0
Other	No sector defined	CARTAC	BOP Data Series Revision		
			CARTAC Programme Extension Document	1	
		HQ	TA Country-Specific Missions		4
		HQ	Debt Problems of High Indebted Non-HIPC Small States		1
Other Total				5	5
STA	BOP and External S	HQ	Balance of Payments Statistics: Including Trade Statistics		1
	National Accounts	CARTAC	CARTAC: National Accounts - STE: Strengthening tourism statistics		1
STA Total				0	2

Appendix II. Antigua and Barbuda: Relations with the World Bank Group

(As of August 2, 2007)

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY 2006–09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management.

The CAS, which covers the period FY 2006–09, does not include any lending to Antigua and Barbuda under the base case scenario. However, during the implementation period, the country could benefit from participation in the Catastrophe Risk Insurance Facility financed through on-lending, possibly through the Caribbean Development Bank. Antigua and Barbuda could also benefit from a GEF-funded Mainstreaming Adaptation to Climate Change Environmental Protection project, which seeks to assist in the incorporation of climate change concerns in sector and regional planning for the OECS nations. Additionally, Antigua and Barbuda will benefit from recently completed, ongoing and planned analytical and advisory activities to support the CAS' two main pillars including the following activities: "Towards a New Agenda for Growth"-OECS growth and competitiveness study, Caribbean Air Transport Rationalization report, a Caribbean Skills and Curriculum Study, a report on Institutions, Performance and the Financing of Infrastructure Services in the Caribbean (recently completed), Caribbean Financial Sector and Regulation report, Caribbean Social Projection Strategy Review (draft recently completed), a regional study on Crime, Violence and Exclusion (recently completed) and an OECS private sector financing study (recently completed). Under the High Case lending scenario, US\$10 million is planned for investment lending and/or Development Policy Lending to support policy reform efforts in the areas of growth and competitiveness (including interventions on Public Sector Modernization and Public Utilities Reform).

The previous CAS, which covered the period FY 2002–06, did not include any lending to Antigua and Barbuda.

Appendix III. Antigua and Barbuda: Relations with the Caribbean Development Bank

(As of September 30, 2007)

The Caribbean Development Bank (CDB) supports the economic and social development of Antigua and Barbuda through the financing of priority capital projects and technical assistance (TA) and policy dialogue on major developmental issues. CDB's involvement with Antigua and Barbuda has covered such areas as:

- Assisting in the development and implementation of macroeconomic, social and sectoral policies geared towards achieving sustainable economic growth;
- Developing infrastructure to encourage private sector investment;
- Improving the human resource skills base to promote economic growth and diversification;
- Directly and indirectly lending funds to the agriculture, tourism and manufacturing sectors; and
- Helping in emergency disaster rehabilitation.

Antigua and Barbuda: CDB Assistance by Sector
(Cumulative 1970-2006)

Sector	In millions of US dollars	In percent of total
Agriculture	3.5	7.1
Micro and Small Enterprise	1.0	2.0
Manufacturing	5.7	11.5
Tourism	1.9	3.8
Power and Energy	0.3	0.7
Transportation	6.7	13.6
Housing	3.5	7.1
Education	19.7	40.0
Multi-sector	7	14.2
Total	49.3	100

Source: CDB

Major projects currently under implementation include:

- A consolidated line of credit to the Antigua and Barbuda Development Bank to help in its lending to the housing, education, and micro and small enterprise sectors.
- A basic education project to upgrade the learning environment in secondary schools, strengthen institutional arrangements in the Ministry of Education and improve the delivery of education services.
- An airport and seaport security improvement project to help in upgrading security at the international airport and deep-water harbour to meet new international standards.
- A loan to support the transformation of the intra-regional airline LIAT (1974) Ltd. to profitability by increasing operational efficiency and strengthening its institutional capabilities.

Over the years, institutional weaknesses have resulted in delays in the timely completion of several projects under implementation. As at the end of July 2007, undrawn balances totalled US\$28.2 million. Of this undrawn balance, the loan to support the transformation of LIAT (1974) Ltd. accounted for US\$21.8 million.

Appendix IV. Antigua and Barbuda: Statistical Issues

(As of December 19, 2007)

Antigua and Barbuda has participated in the General Data Dissemination System (GDDS) since October 2000. Data provided to the Fund are broadly adequate for surveillance purposes, although staff's analysis was affected by the shortcomings with real sector, fiscal, and balance of payments data outlined below. Recommendations of an April 2007 data ROSC mission assessing monetary and financial statistics compiled by the Eastern Caribbean Central Bank (ECCB) are also outlined.

1. Real sector statistics

GDP is compiled in current and constant (1990) prices using the outdated methodologies prescribed in the 1968 *System of National Accounts*. Compilation has been hampered by the absence of trade data, which has had a serious impact on the estimation of value added in some sectors, especially construction and wholesale and retail trade. The Central Statistical Office (CSO) has restarted compilation, with merchandise trade data extracted from data files provided by Customs since the fourth quarter of 2004. The Caribbean Regional Technical Assistance Centre (CARTAC) plans to work with the ECCB in developing a program to improve the compilation of national accounts through the development of a supply and use table as a precursor to rebasing the national accounts.

The consumer price index uses expenditure weights derived from a Household Income and Expenditure Survey conducted during February 1998–January 1999. However, the survey and price collection exclude Barbuda. There is no comprehensive labor force survey and thus little coverage of the labor market developments. An Annual Wages and Hours Worked Survey for the private sector was conducted in 2003, though the coverage of Barbuda was limited. Results of the 2001 population census have been analyzed and published.

2. Government finance statistics

Annual and quarterly data on central government finances published by the ECCB are compiled broadly in line with the methodology set out in the 1986 *Government Financial Statistics Manual*. For several years however, Antigua and Barbuda has not been reporting government finance statistics to the Fund for inclusion in the *GFS Yearbook* and *IFS* publications. The authorities participated in a December 2007 regional workshop introducing the *GFSM 2001* methodology (particularly for compiling cash based fiscal statistics) to ECCB member states.

3. **Monetary and financial statistics**

Monetary statistics are compiled by the ECCB on a monthly basis with a lag of eight weeks. In July 2006, the ECCB started reporting monetary and financial statistics to the Fund using standardized report forms; the associated data have been published in the *IFS Supplement* since September 2006. The depository corporations survey does not include the accounts of credit unions that accept deposits; the ECCB is taking steps to collect reliable data on credit unions.

An April 2007 data ROSC mission to assess monetary and financial statistics noted some recent improvements and identified some shortcomings in the ECCB's monetary statistics, which have a potential for detracting from the accurate and timely analysis of monetary and financial developments and formulation of appropriate policies. In particular, (i) the methodological soundness of monetary statistics can be improved by adopting internationally accepted concepts and definitions, expanding their institutional coverage, and revising the classifications of financial instruments and the basis for recording; (ii) the transparency of monetary statistics can be improved, for example, by releasing monetary data to all users at the same time and strengthening the validation of the disseminated data; (iii) the timeliness of the dissemination of the data on broad money and credit aggregates can be improved to meet best international practices; and (iv) the access to officially disseminated monetary data and metadata can be improved.

4. **External sector statistics**

Annual balance of payments statistics are provided to the Fund by the ECCB, but are not reported in the format recommended in the fifth edition of the IMF's *Balance of Payments Manual* (1993). The latest balance of payments data provided for redissemination in the *International Financial Statistics* refer to 2005. Partial provisional 2006 data have been produced by the ECCB and are expected to be finalized in early 2008.

The GDSS metadata (last updated in October 2002) identify priorities for improving the balance of payment statistics over the short term, including plans to improve merchandise trade statistics and visitor expenditure estimates for cruise passengers. Medium-term priorities include compiling quarterly balance of payments statistics and partial international investment position tables containing information on debt and monetary operations, both under the guidance of the ECCB.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of December 19, 2007)

	Date of latest observation	Date received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of publication ¹
Exchange Rates	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	Aug. 2007	09/15/07	M	Q	Q
Reserve/Base Money	Oct. 2007	12/14/07	M	Q	Q
Broad Money	Oct. 2007	12/14/07	M	Q	Q
Central Bank Balance Sheet	Oct. 2007	12/14/07	M	Q	Q
Consolidated Balance Sheet of the Banking System	Oct. 2007	12/14/07	M	Q	Q
Interest Rates ³	Oct. 2007	12/14/07	M	Q	Q
Consumer Price Index	March 2007	06/26/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ General Government ⁵	December 2006	06/26/07	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	December 2006	06/26/07	A	A	A
External Current Account Balance	December 2005	4/22/06	A	A	A
Exports and Imports of Goods and Services	December 2005	4/22/06	M	M	Q
GDP/GNP	December 2006	06/26/07	A	A	A
Gross External Debt	December 2006	06/26/07	A	A	A

¹ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

³ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic nonbank financing.

⁵ Central government only.

⁶ Including currency and maturity composition



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IMF Executive Board Concludes 2007 Article IV Consultation with Antigua and Barbuda

On February 4, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Antigua and Barbuda.¹

Background

Macroeconomic outcomes have strengthened significantly in recent years. Real GDP growth averaged 5 percent during 2003–05, and is estimated to have reached 12 percent in 2006. Economic activity was sustained by construction—mainly in hotels, but also public investment related to the Cricket World Cup (CWC). In 2007, growth is expected to moderate to about 6 percent, as construction activity slows. The external current account deficit widened in recent years due to surging world oil prices and construction-related imports. Money and credit growth have strengthened in recent years, reflecting strong economic activity. While recent growth outcomes have been favorable, Antigua and Barbuda remains vulnerable to exogenous shocks, given its dependence on imported oil, volatile tourism receipts, and exposure to natural disasters. High debt levels also leave it vulnerable to a tightening of regional and international financing conditions.

Despite the rebound in economic activity, fiscal imbalances have remained large, reflecting a number of one-off expenditures in 2006–07. Tax revenues have increased significantly, buoyed by the upturn in economic activity as well as the Antigua and Barbuda Sales Tax (ABST) introduced in January 2007. But spending has also surged, largely reflecting the effects of the CWC and one-time costs associated with the voluntary separation program for public employees. As a result, the primary deficit is expected to narrow to about 3 percent of GDP in 2007. Public debt, which fell from a peak of 143 percent of GDP in 2002 to 107 percent in 2006, has remained broadly stable during 2007. Notwithstanding the fiscal imbalances, the authorities have continued to reissue debt on the regional government securities market at relatively low rates.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The CPI-based real effective exchange rate (REER) and the customer-weighted REER (which tracks REER movements relative to main tourism customers) have depreciated since 2002 with the weakening of the U.S. dollar. However, given the high level of public debt, substantial fiscal adjustment will be necessary to underpin the stability of the regional currency board arrangement.

There has been progress in implementing broad structural reforms. On fiscal issues, the authorities intend to enhance revenue performance, including the introduction of a more flexible mechanism for retail fuel pricing in 2008. They also intend to improve the investment climate, reduce skills mismatches, diversify exports, and deregulate telecommunications, with a view to enhancing the resilience of the economy to shocks.

Executive Board Assessment

Directors welcomed Antigua and Barbuda's recent strong economic growth and relatively low inflation, and commended the authorities for their ongoing efforts to improve the country's fiscal position. Looking forward, Directors supported the authorities' continuing efforts to address structural weaknesses in order to reduce the country's exposure to external shocks and promote durable growth. This should entail, in particular, improving the investment climate, reducing skills mismatches, diversifying exports, and making regulations in telecommunications more efficient.

Directors agreed that it will be important for the government to demonstrate fiscal strengthening in 2008. They commended the implementation of broad-based tax reforms, including the VAT, and looked forward to their uniform and transparent implementation. Directors welcomed the authorities' intention to introduce a fuel price adjustment mechanism to achieve greater pass-through of oil price increases. Firm expenditure restraint would allow the surge in spending in 2006 and 2007 to be unwound.

Directors welcomed the authorities' commitment to strengthen debt management and their ongoing efforts to normalize relations with creditors. They looked forward to the early clearance of external and internal arrears. Directors stressed that additional fiscal measures will be essential, over the medium term, to placing the debt-to-GDP ratio securely on a downward path. Expenditure restraint will be critical to this effort, including, in particular, civil service reform to contain the wage bill and enhance efficiency in the public sector.

Directors noted that the real exchange rate appears broadly in line with fundamentals, with the depreciation in recent years having contributed to improved competitiveness. They emphasized that maintaining competitiveness will depend on the authorities maintaining their commitment to sustained fiscal consolidation and structural reforms, which will also underpin the regional currency arrangement.

Directors cautioned that rapid growth in private sector credit could erode the quality of loan portfolios. They welcomed efforts to further strengthen financial sector supervision, including through unified supervision of nonbank financial institutions.

Directors saw a need for strengthening economic data in terms of coverage, timeliness, and reliability. They encouraged the authorities to enhance the resources devoted to this area, and supported the provision of technical assistance as appropriate.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Antigua and Barbuda: Selected Economic Indicators, 2004–08

	2004	2005	2006	Proj. 2007	Proj. 2008
(Annual percentage change, unless otherwise specified)					
Output and prices					
Real GDP (factor cost)	5.2	5.5	12.2	6.1	2.1
Nominal GDP (market prices)	8.5	6.3	15.4	8.5	3.4
Consumer prices, end of period	2.8	2.5	0.0	1.5	3.0
Consumer prices, period average	2.0	2.1	1.8	1.5	3.0
Banking system					
Net foreign assets 1/	-1.4	3.4	9.9	3.0	1.9
Net domestic assets 1/	10.6	3.5	5.3	7.6	1.5
<i>Of which</i>					
Net credit to the public sector	-1.1	-1.2	-5.2	2.4	-2.1
Credit to private sector	0.9	7.7	15.6	7.0	3.6
Broad money	9.2	6.9	15.2	10.7	3.4
(In percent of GDP, unless otherwise specified)					
Public sector					
Central government finances					
Total revenue and grants	21.6	21.9	25.2	24.4	23.9
Total expenditure and net lending	27.7	28.8	33.9	32.4	28.4
Current expenditure	25.2	24.8	26.1	25.7	24.4
Capital expenditure	2.5	4.0	7.9	6.7	4.0
Overall balance (cash basis)	-6.1	-6.9	-8.8	-8.0	-4.5
Primary balance (after grants)	-1.2	-2.3	-4.0	-2.8	0.7
Central government debt	127.0	102.6	98.6	99.5	100.6
Gross public sector debt	135.0	111.0	106.5	108.4	113.3
External sector					
External current account	-8.3	-12.4	-16.1	-17.9	-15.4
Stayover arrivals (percentage change)	10.9	-8.4	3.4	3.0	7.0
Public sector external debt (end of period)	65.7	41.3	40.7	41.9	46.3
External public debt service					
In percent of exports of goods and services	14.5	32.2	7.3	7.7	7.8
Real effective exchange rate (- = depreciation)					
Percentage change	-3.0	-1.1	-1.1	-3.3	...
External terms of trade (- = deterioration)					
Percentage change	-4.4	-5.4	-3.0	0.1	-3.8

Sources: Antigua and Barbuda authorities; ECCB; and Fund staff estimates and projections.

1/ Contribution to broad money growth.

**ARTICLE IV CONSULTATION 2007:
STATEMENT BY THE GOVERNMENT OF ANTIGUA AND BARBUDA ON
THE IMF STAFF REPORT**

Between September 25th and October 5th 2007, the Government of Antigua and Barbuda welcomed the International Monetary Fund (IMF) officials for the annual Article IV Consultation. We were pleased to once again have the opportunity to engage the Fund staff on the fiscal and other economic challenges facing Antigua and Barbuda and to exchange ideas on how best to meet these challenges. Over the two week period of the Article IV Consultation, the Fund staff met with a wide range of public sector officials along with representatives from the private sector and civil society. Through these various meetings the Fund was able to undertake a comprehensive assessment of macroeconomic developments in Antigua and Barbuda. At the conclusion of the mission, the Fund and the Government held a joint press conference where the IMF presented its findings and engaged the media in discussions on the various issues facing the Antigua and Barbuda economy.

While the Government agrees that the fiscal balances are not yet at sustainable levels, it must be emphasised that there has been significant adjustment in fiscal performance over recent years. Indeed, the primary balance has declined from 5.8 percent of GDP in 2003 to 2.8 percent of GDP for 2007. This was made possible through aggressive reforms on the revenue side which have contributed to revenue increases of over 20 percent. The strong revenue performance was boosted by robust economic growth and ongoing efforts to strengthen the key institutions that are responsible for revenue collection. We concur that adjustments on the expenditure side have been less aggressive than the interventions on the revenue side. However, the Government has been and remains adamant that measures to reduce expenditure must be undertaken with caution and should not precipitate economic and social hardship on the population. Such an approach is even more critical given the persistent increases in international prices for oil and non-oil commodities and the implications of these external price shocks for the economy as a whole. Despite these challenges, we remain committed to transforming the macroeconomic landscape of Antigua and Barbuda and will continue to pursue policies and strategies that will bring about fiscal sustainability and at the same time encourage investment and promote economic growth.

We are pleased with the Fund's assessment of economic growth prospects for Antigua and Barbuda and concur that the Antigua and Barbuda would grow at a rate of just over 6 percent in 2007 compared to growth of over 12 percent in 2006. For 2008 and into the medium term, the Government anticipates that economic growth would average between 5 and 6 percent – a medium term projection that is not significantly dissimilar to the 5 percent estimated by the Fund. We expect that economic growth will be driven by a number of private sector and public sector development projects. It is also expected that the tourism sector will continue to grow as the Government intensifies marketing programmes in traditional and non-tradition markets and as efforts to capitalise on the

increased room capacity developed during preparations for Cricket World Cup 2007 begin to bear fruit.

With respect to the fiscal accounts, we agree that achieving a primary surplus in 2008 is critical to moving the Government closer to attaining its fiscal objectives. Following the one-off resource outlays in 2006 and 2007, particularly for CWC 2007 related expenses and for the implementation of the Voluntary Separation and Early Retirement Programme (VSEP), which slowed progress in reducing the fiscal balances, the Government will focus on greater expenditure controls and further enhancing revenue performance in 2008. The Government's commitment to moving ahead with its home-grown adjustment programme is reflected in Budget 2008, which estimates current account and primary surpluses of about 1 percent of GDP.

We expect to achieve these outcomes through the continued implementation of key expenditure management programmes – particularly the FreeBalance system and the Human Capital Accountability Programme (HCAP). In addition, we intend to enact the regulations for the Finance Administration Act and will seek to finalise the new Procurement Act. These measures along with ongoing efforts to reorganise the Treasury Department will all help to curtail expenditure and firmly establish new and modern procedures for more effective financial management. On the revenue side, the Government will continue to undertake various measures aimed at enhancing tax administration thereby further boosting revenue performance. In particular, it is expected that the Customs Renewal Programme, which faced some challenges over the past several months, will move apace in 2008. This has been made possible through the kind assistance of the Government of Jamaica, the Organisation of American States and the United States Agency for International Development (USAID) through its Country Open Trade Support (COTS) programme. Further, the Government has established an oversight committee to assist the Inland Revenue Department to better achieve its mandate and to more effectively meet its revenue targets.

Another critical component of the Government's programme to transform the macroeconomic environment in Antigua and Barbuda is its debt management strategy. This strategy was developed with the financial assistance of the Canadian International Development Agency (CIDA) and with the technical assistance of the international debt advisory firm, Houlihan Lokey Howard and Zukin (Europe) Ltd. Our debt management strategy has focused on normalising relations with creditors, assessing the Government's payment capacity, reducing the overall level of debt, and establishing more prudent borrowing procedures. We commenced implementation of this strategy in 2007 and have already begun to realise positive results which are reflected in a further decline in the debt to GDP ratio to 97 percent. This is a significant achievement given that in 2002 and 2003, the debt to GDP ratio exceeded 140 percent. While the public debt remains high, we are encouraged that as the implementation of this debt management strategy continues in 2008, we will realise further reductions in the debt stock that would ensure the achievement of debt sustainability.

At the same time that this Government is seeking to correct the large fiscal imbalances that characterised the Antigua and Barbuda economy for many years, we are also dedicated to implementing policies and strategies that will encourage investment and promote the growth and development of the private sector. This is indeed a difficult undertaking but we have managed to generate some successes on the fiscal side while at the same time realising economic growth, which averaged over 7 percent between 2004 and 2007. The Government is very cognisant of the need for various structural reforms to ensure sustainable growth. An important part of the Government's plans to encourage private sector development is the Antigua Barbuda Investment Authority (ABIA). This institution has the responsibility for facilitating and promoting investment in Antigua and Barbuda. It serves as a one-stop-shop for all investors – whether local or foreign and represents a more transparent and predictable mechanism for granting concessions and tax incentives.

Along with the ABIA, the Government enacted legislation to support the development of micro and small businesses. We are very cognisant of the role of small businesses in generating employment, reducing poverty and promoting economic growth. In this regard, the Small Business Development Act was passed in 2007 and provides fiscal incentives and concessions for small businesses and offers technical assistance for small business owners in areas such as budgeting, accounting, product development, marketing, development of business plans and general management procedures. Also, a Loan Guarantee Scheme will be established in 2008 and is intended to provide micro and small businesses with greater access to financing. We believe that these interventions along with the fiscal reform initiatives are critical for the transformation of the economy of Antigua and Barbuda.

One of the major constraints to the policy making process in Antigua and Barbuda has been limited availability of reliable and timely data. The Government has recognised the need to strengthen the Statistics Division in order to ensure that critical economic and social data can be readily obtained. This process is expected to commence in 2008 with financial and technical assistance provided through the Caribbean Development Bank (CDB). The programme will focus on enhancing human resources, reorganising the Statistics Division, and providing appropriate tools and equipment for data collection, analysis and dissemination.

In conclusion, the Government remains grateful for the support and assistance provided by the Fund. We welcome the opportunity to engage the Fund staff on the wide range of fiscal and other economic issues that are important to Antigua and Barbuda. While these discussions with the Fund have proven instructive, the Government has and will continue to pursue its own policies and strategies. These policies and strategies have been based on the overarching principle of balancing macroeconomic transformation with the need to safeguard the economic and social welfare of the people of Antigua and Barbuda. The Government will continue to utilise the technical expertise of the Fund and other international and regional institutions in its ongoing effort to promote fiscal and economic sustainability in Antigua and Barbuda.