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Antigua and Barbuda: 2010 Article IV Consultation and Request for Stand-By Arrangement—Staff Report; Supplements; Public Information Notice; Press Release; and ED's Statement.

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 2010 Article IV Consultation and Request for Stand-By Arrangement for Antigua and Barbuda, the following documents have been released and are included in this package:

- The staff report for the 2010 Article IV Consultation and Request for Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended March 19, 2010, 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 May 25, 2010. 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.
- Staff Supplements
- A Public Information Notice
- A Press Release
- The ED's Statement

The document listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of Antigua and Barbuda.*
Supplementary Memorandum of Economic Policies by the authorities of Antigua and Barbuda*
*Also included in Staff Report.

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

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INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

Staff Report for the 2010 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the Western Hemisphere Department
(In Consultation with Other Departments)

Approved by Rodrigo Valdés and Michele Shannon

May 24, 2010

Context and Key issues. Antigua and Barbuda's tourism-dependent economy has been severely impacted by the global economic and financial crisis. Falling tourism and FDI-related construction activities have triggered the worst recession in decades and contributed to a sharp decline in government revenue. This has aggravated an already unsustainable fiscal position resulting from longstanding fiscal imbalances and accumulation of a large stock of arrears to domestic and external creditors.

Policy framework. The authorities' main objectives are to restore debt sustainability and set the stage for a sustained recovery. They initiated a major fiscal adjustment in mid 2009, which has been intensified in the context of the 2010 budget and will entail a 14½ percent of GDP improvement in the primary balance. The authorities have also outlined a structural reform agenda to help strengthen the fiscal position and address vulnerabilities in the financial sector. As fiscal adjustment and structural reforms alone would not be sufficient to restore debt sustainability, a comprehensive restructuring of the public debt will be necessary to bring back sustainability.

Request for a SBA. In support of their macroeconomic and structural reform program, the authorities are requesting a three-year SBA in the amount of SDR 81 million (600 percent of quota). The program entails considerable risks given the magnitude of the targeted fiscal adjustment and remaining weaknesses in implementation capacity. However, these are mitigated by signs of strong policy ownership and by the fact that strong measures have already been implemented in the fiscal area.

Previous Article IV Consultation: The last Article IV Consultation was concluded on January 18, 2008. The staff report and summing up of the Executive Directors' discussions and policy recommendations are available at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=22161.0

Exchange system: 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.

Data provision is adequate for surveillance and for program monitoring, although significant areas for improvement remain**.**

Discussions. Staff teams visited St. Johns during October 12–16, 2009 and March 2–16, 2010. The staff representatives comprised Messrs W. Samuel (head), A. Brousseau, K. Nassar, and R. Perrelli (all WHD); Ms. A. Stuart and Mr. H. Sasaki (SPR); and Ms. J. Deslauriers (EXR). The missions met with the prime minister, the finance minister, other senior government officials, the leader of the opposition, and representatives of the private sector and labor unions. Mr. Purves (OED) participated in key policy meetings.

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Executive Summary

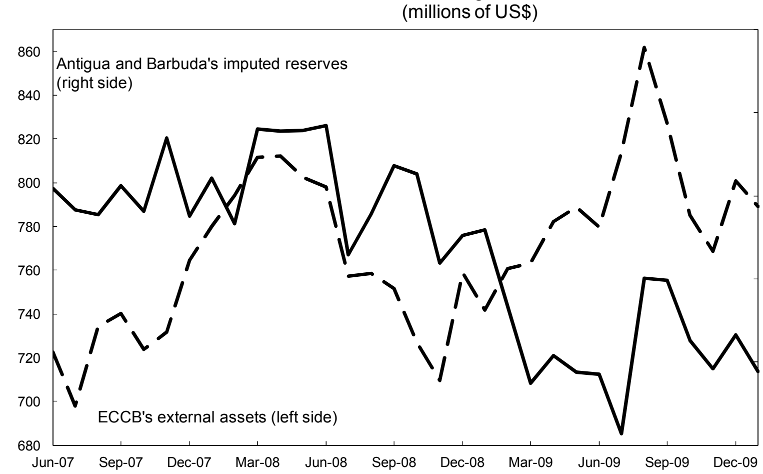
- **Antigua and Barbuda's economy contracted 7 percent last year, experiencing its worst recession in decades.** The global slowdown has severely affected Antigua and Barbuda's economy through its impact on tourist arrivals, FDI inflows and remittances, and fiscal revenue. The recession and associated fiscal crisis coincides with already weak public finances and mounting problems in the financial sector, including the collapse of the Stanford Group and the Trinidad-based CL Financial Group.
- **Following many years of accumulation of arrears to domestic and external creditors, the fiscal situation turned critical in 2009 as the recession led to a 20 percent decline in tax revenue**. The overall fiscal deficit widened from 6 percent of GDP in 2008 to about 19 percent in 2009, public debt increased to 115 percent and the total stock of arrears rose to about 53 percent of GDP, or 45 percent of the outstanding public debt.
- **The authorities have taken decisive action to address the fiscal crisis and set the stage for a sustained recovery**. In mid-2009, they implemented strong measures, including a 20 percent increase in petroleum product prices. Subsequently, with the 2010 budget, they implemented revenue measures amounting to about 4½ percent of GDP, including an expansion in the VAT base, an increase in import duties, and excise tax on alcohol and tobacco. On the expenditure side, the budget implies savings of 8 percent of GDP in relation to the 2009 outturn. The budget targets a 14½ percentage points of GDP turnaround in the 2010 primary fiscal balance, to a surplus of 3 percent of GDP. In 2011–12, the primary surplus would be strengthened by a further one percent of GDP.
- **Nonetheless, in the absence of a comprehensive debt restructuring, the public debt would remain at a very high level as a ratio of GDP**. Accordingly, and also to resolve the large stock of arrears, the authorities have begun discussions with their creditors on a comprehensive restructuring of both domestic and external debt with the aim of achieving interest savings of about 4½ percent of GDP in 2010.
- **Over the medium term, the fiscal structural reforms planned by the authorities will play a central role in their efforts to further strengthen the fiscal position and address financial sector vulnerabilities**. In the fiscal area, these comprise tax administration, public financial management, social security, and civil service reforms. In the financial sector, onsite inspection of banks by the ECCB will be stepped up and the regulatory and prudential framework will be strengthened.
- **Given their strong and comprehensive policy framework for restoring debt sustainability, and despite considerable risks, the authorities' proposed program merits the Fund support through the requested SBA**. The proposed access level reflects the large financing needs and takes into account the strong upfront adjustment effort and reform agenda. The staff is of the view that the authorities are in compliance with the Fund's policy on arrears, based on their good faith efforts to engage with their external creditors and commitment to clear all arrears to multilateral institutions.

I. Economic and Political Context

1. **Antigua and Barbuda's economy is experiencing its worst recession in decades.** The global slowdown has severely affected Antigua and Barbuda's economy through its impact on tourist arrivals, FDI inflows and remittances, and fiscal revenue. Real GDP contracted by 7 percent in 2009 after expanding on average by about 6 percent during the previous 5 years (Figure 1 and Table 1). Following a spike in 2008, inflation has remained in the low single digits despite a 20 percent increase in fuel prices and higher consumption taxes. The recession and associated fiscal crisis coincides with mounting problems in the financial sector—the collapse of the Stanford Group (the largest private conglomerate) and of the Trinidad-based CL Financial Group. Locally incorporated banks with large exposure to the government have experienced a decline in deposits, which stabilized toward the end of the year.

2. **Following many years of accumulation of arrears to domestic and external creditors, the fiscal situation turned critical in 2009 as the recession led to a 20 percent decline in tax revenue**.[1] Meanwhile, recorded primary expenditure rose by 4½ percent of GDP due to higher-than-budgeted current outlays as well as improved coverage of outstanding payments (Figure 2 and Tables 2 and 3). The overall fiscal deficit widened from 6 percent of GDP in 2008 to about 19 percent in 2009.[2] With limited financing options, the government accumulated arrears amounting to about 9 percent of GDP to domestic and external creditors, bringing the total stock of arrears to about 53 percent of GDP, or 45 percent of the outstanding public debt. To begin to address the deterioration in the fiscal position, the authorities implemented revenue measures in mid-2009 amounting to about 1½ percent of GDP on an annualized basis. These included raising petroleum product prices in August, by an average of 20 percent (about 1½ percent of GDP), while introducing a flexible and market-based petroleum-product pricing mechanism.

International Reserves of Antigua and Barbuda and ECCB
(millions of US$)



3. **The external current account deficit narrowed to 25 percent of GDP in 2009, reflecting a decline in FDI inflows** (Table 4). Aside from some financing from Venezuela, the deficit was financed mainly by a drawdown in commercial banks foreign asset position, a reduction in Antigua and Barbuda's share of international reserves at the

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[1] The revenue decline reflected in part a temporary tax relief granted in 2008 to offset the effects of higher food and energy prices.

[2] The 2009 deficit includes about 4½ percent of GDP in interest on arrears that were not covered in the fiscal accounts for 2008

Eastern Caribbean Central Bank (ECCB), and the further accumulation of arrears on public external debt.

4. **The contraction of economic activity has resulted in a significant slowdown in private sector credit growth, while domestic bank lending rates have remained broadly stable** (Figure 3 and Tables 5 and 6). However, non-performing loans (NPLs) fell sharply in 2009 as a percent of total loans, reflecting the restructuring of loans to both government and the private sector. In February 2009, the ECCB assumed control of the Bank of Antigua following a sharp withdrawal of deposits precipitated by the collapse of the Stanford Group.

Antigua and Barbuda: Banking Sector: Selected Financial Soundness Indicators 1/
(In percent)

	December 2008		December 2009	
	Antigua & Barbuda	ECCU	Antigua & Barbuda	ECCU
Capital adequacy ratio (indigenous banks)	16.5	19.5	18.7	21.8
Nonperforming loans/total loans	14.2	7.6	7.8	7.5
Gross government exposure/total assets	11.8	14.2	12.5	14.1
Provisions for loan losses/total loans	2.1	1.8	1.7	2.2
Provisions for loan losses/nonperforming loans	14.7	23.8	21.9	28.5
(Pre-tax) return on average equity (indigenous banks)	21.4	21.5	3.2	11.7
(Pre-tax) return on average assets	1.2	2.6	0.3	2.1

Source: ECCB.

1/ Prudential indicators are based on commercial banks' own reporting, with infrequent onsite verification by the ECCB.

5. **Since its independence in 1981, Antigua and Barbuda has enjoyed a stable political environment in the context of a parliamentary democracy**. Following many years of delays in the adoption of measures recommended by the Fund, important and broad-based tax reforms were implemented prior to the onset of the global crisis, including the introduction of a personal income tax, the adoption of the Antigua and Barbuda Sales Tax (ABST) in January 2007, and the (unsuccessful) attempt to reduce the wage bill through voluntary separation. Meanwhile, outlays on infrastructure for the cricket World Cup pushed up expenditures. At the conclusion of 2007 Article IV Consultation, Directors recommended additional measures to strengthen the fiscal position, but in the face of a spike in food and fuel prices in 2008, followed by a sharp contraction in economic activity, expenditure increased while revenue fell sharply. Progress on implementing recommendations to reduce vulnerabilities in the financial sector and to strengthen competiveness was also curtailed by the global financial crisis. Following tightly contested elections in April 2009, political tensions remained relatively high, reflecting the difficult economic situation and the government's announcements of a number of adjustment measures. However, the economic team, under the leadership of the recently appointed finance minister, seemed to have succeeded in their outreach efforts, which have strengthened domestic support for the government's economic program and decision to approach the Fund for financial support.

Box 1: Antigua and Barbuda—Banking Sector

Antigua and Barbuda's banking sector is the second largest among ECCU members, accounting for about one fifth of the region's deposits, assets, and loans. It comprises eight financial institutions: four locally incorporated ("indigenous") and four branches of foreign-owned banks. These two groups have broadly equal shares of assets, deposits, and loans, but their exposures to the public sector are strikingly different: as of end-2009, more than 90 percent of the total credit to the public sector was provided by indigenous banks, while the public sector credit accounted for about one third of indigenous banks' loans.

The collapse of the Stanford Group in February last year led to a significant withdrawal of deposits from its locally incorporated subsidiary. The Bank of Antigua suffered a classic bank run following allegations that the offshore institution was involved in an international Ponzi scheme. The failure of the Bank of Antigua threatened the stability of the domestic banking and financial system, and by extension that of the ECCU because of its participation in the clearing and settlement system of the currency union. To prevent the systemic threat, the ECCB assumed control of the Bank of Antigua, which remains under management by a consortium of regional banks and the Government of Antigua and Barbuda (GoAB). To cover the deposit outflow, the ECCB provided a 3-year loan to the GoAB (amounting to three percent of GDP), which represents Antigua's contribution to the recapitalization of the bank.

The scope for restructuring public debt with domestic banks is limited, and financial sector reform is paramount. The authorities have reported progress on bilateral discussions with indigenous banks towards agreements that would enhance the liquidity in the system while providing savings to the government. The authorities are also committed to strengthening bank supervision through on-site examination of domestic banks, and to enhance the regulation of domestic nonbanks and offshore financial institutions, with the support of the ECCB and CARTAC.

II. POLICY DISCUSSIONS

6. **The discussions focused on policies aimed at eliminating the arrears on the public debt, restoring fiscal and external sustainability, and reducing financial sector vulnerabilities.** There was agreement that, to place the public debt on a steady downward trajectory, the adjustment effort initiated in 2009 would have to be complemented by additional measures aimed at sharply reducing the budget deficit in 2010 and moving to a broadly balanced fiscal position in 2011–12. As additional fiscal measures alone cannot realistically achieve this outcome, it will be necessary for Antigua and Barbuda to seek debt relief from its domestic and external creditors. In parallel, the authorities indicated that they would undertake structural reforms with a view to supporting the fiscal adjustment effort and addressing vulnerabilities in the financial sector. In support of their policy framework, they are requesting Fund financial assistance in the context of a three-year Stand-By Arrangement (Section IV and Attachment I).

A. Fiscal Adjustment

7. **In the 2010 budget approved last December, the authorities have continued to move decisively to reverse the sharp deterioration in the fiscal position**. Further to the measures adopted in mid 2009 described above, they implemented revenue measures amounting to about 4½ percent of GDP, which would return the tax to GDP ratio close to the level achieved in the pre-crisis period. These include broadening of the base of the Antigua and Barbuda Sales Tax (VAT), increasing import duties, and introducing an excise tax on alcoholic beverages and tobacco (text table). On the expenditure side, the adopted measures comprise mainly a better prioritization of capital expenditure, implying savings of 8 percent of GDP in relation to the 2009 outturn. These measures, together with a 2 percent of GDP increase in grants (from Japan and the European Union), are expected to lead to a sharp turnaround in the primary fiscal balance, by about 14½ percentage points of GDP in 2010, implying a primary surplus of 3 percent of GDP this year.

Antigua and Barbuda: Yield of Fiscal Measures Implemented
(In percent of GDP)

	Implementation date	2009	2010
Total revenue yield		**0.5**	**4.5**
Increase in consumption tax on oil products	Aug-09	0.5	1.5
Increase in import duties	Jan-10	…	0.6
Increase in embarkation tax at the airport	Jan-10	…	0.2
Expand the base of the Antigua and Barbuda Sales Tax (VAT)	Mar-10	…	2.1
Introduce excise tax on alcohol and tobacco products 1/	Aug-10	…	0.2
Total expenditure reduction			**7.8**
Wages and salaries	Jan-10	…	0.2
Goods and services	Jan-10	…	1.0
Transfers	Jan-10	…	0.2
Capital expenditure	Jan-10	…	6.4

Sources: Antigua and Barbuda authorities and Fund staff estimates.
1/ Legislation is being drafted to introduce the excise tax.

8. **In 2011–12, the primary surplus would be strengthened by a further one percent of GDP, through improved tax administration and further efficiencies on the expenditure side of the budget, including through civil service reform.** The authorities envisage a 10 percent reduction in the government's wage bill by 2012 in relation to the budgeted 2010 level, which would reflect a freeze in wages and improvements in efficiency of the civil service as its employment and wage structure are rationalized. The authorities are also contemplating a broad-based public expenditure reform in line with FAD recommendations.[3]

B. Debt Restructuring

9. **There was agreement between the authorities and staff that Antigua and Barbuda's public debt would likely remain unsustainable even in the presence of strong fiscal adjustment measures being implemented**. In the absence of a comprehensive debt restructuring, the public debt-to-GDP ratio would remain at a very high level, leaving the economy extremely vulnerable to external shocks (Box 2 and Tables 6 and 7). Moreover, very high levels of arrears would still need to be regularized. Accordingly, the authorities have begun discussions with their creditors on a comprehensive restructuring of both domestic and external debt, aimed at placing the public debt on a firmly declining trajectory.

10. **The goal of the debt restructuring is to reduce the government's interest bill to 4½ percent of GDP in 2010, from a passive projection of 9 percent.** The government has already negotiated a voluntary restructuring of a significant portion of the domestic debt held by commercial banks, lengthening maturity to 20 years (from an average of 5 years) and cutting interest rates to 8 percent (from an average of 13 percent). Meanwhile, the restructuring of debt to statutory corporations is expected to deliver substantial savings—the authorities' proposal is to issue a long-term instrument to the statutory bodies, with step-up interest rates starting at zero during the first 5 years and rising to 5 percent over the life of the bond. On the external debt front, the authorities have also negotiated a lengthening of the maturity and a small reduction in interest rates with a major commercial creditor. These operations have been incorporated in the baseline. The authorities are also seeking relief from bilateral official creditors within the context of the Paris Club, while arrears with multilateral financial institutions have either been cleared or agreement on their clearance has been reached.

[3] An in depth FAD public expenditure TA mission, which visited Antigua in April 2010, has made recommendations for improving the efficiency of outlays on education, health, and social safety nets.

Box 2. Antigua and Barbuda: Debt Sustainability Analysis

Debt sustainability analysis (DSA) indicates that Antigua and Barbuda's public debt totaling 115 percent of GDP would remain unsustainable *even in the presence of the strong fiscal adjustment measures included in the authorities' program. The comprehensive debt restructuring currently underway is therefore necessary to achieve a sustainable fiscal position.*

- **The point of departure for the analysis is the target in the 2010 budget of a primary surplus of 3 percent of GDP, which implies an overall fiscal deficit of 2½ percent of GDP in 2010.** It is further assumed that, over the medium term, public sector reforms, and in particular civil service reform would further raise the primary surplus to 4 percent of GDP by 2012. Real GDP would decline by a further 2 percent in 2010, but then would begin to recover slowly, reaching 4 over the medium term—reflecting inter alia, a recovery in tourism and benefits from structural reform. While exports of goods would remain flat as a percentage of GDP, tourism receipts would rise in the context of an increase in tourism-related FDI inflows. Regarding new financing for the public sector, the analysis assumes a mix of domestic and external disbursements, both in the form of six-year bonds, at an initial interest rate of 7½ percent, with increments of 50 basis points each year over the medium term. ***However, even with these fiscal measures and structural reforms, the debt-to-GDP ratio would not decline from currently high levels without a comprehensive debt restructuring.***

- **The authorities' debt restructuring strategy is aimed at regularizing the extremely high level of external and domestic arrears, and achieving interest savings of about 4½ percent of GDP.** This, in combination with the fiscal adjustment measures, would balance the budget by 2012 and place the public debt on a firmly declining path.

- **The domestic debt restructuring will fall heavily on the social security scheme.** Being a relatively new pay-as-you-go scheme the social security system still presents a favorable dependency ratio, but recent actuarial analysis indicates that it could exhaust its reserves by 2030. The authorities are already considering reforms to the system, including extending the retirement age and raising the threshold for contributions to ensure its long-term sustainability.

- **While divestment proceeds are not incorporated into the analysis due to high uncertainty, the authorities plan to privatize a number of public enterprises.** This could contribute to further debt reduction as well as guard against potential failure to achieve the envisaged debt relief and/or fiscal costs related to resolution of insurance companies.

- **Significant vulnerabilities will persist given the still high public debt ratio.** Antigua and Barbuda is susceptible to external shocks and natural disasters. Commodity price shocks, coupled with the global downturn and problems in the domestic financial sector have reduced growth and worsened the fiscal position during the last two years. Possible contingent liabilities from the CL Financial subsidiaries could also raise the path of public debt-to-GDP ratio. These vulnerabilities strengthen the case for strong upfront fiscal adjustment and substantial savings from the debt restructuring.

C. Structural and Social Policies

11. **The authorities' policy framework incorporates structural reforms aimed at strengthening the budget and addressing financial sector vulnerabilities**. The highlights are:

- ***Strengthening revenue agencies***. On the revenue front, the authorities are working with CARTAC to develop a DFID-financed reform program for strengthening capacity at the Customs and Inland Revenue Department.

- ***Expenditure reforms.*** Regarding expenditure, the authorities have approached the World Bank to begin the design of a civil service reform.

- ***Social security reform***. In addition, social security reforms are underway (including raising the retirement age, and increasing the threshold for contributions), which would help ensure its long-run sustainability.

- ***Public financial management.*** To prevent further accumulation of expenditure arrears, the authorities implemented in January 2010 a system for controlling the expenditure commitments by line ministries, which requires approval by the Ministry of Finance for all expenditures. Further reforms include improving financial reporting and auditing by line ministries ahead of the 2011 budget year, as well as establishing a single treasury account over the medium term.

12. **Strengthening the banking system remains an urgent priority**. The authorities will, in collaboration with the Eastern Caribbean Central Bank (ECCB), strengthen bank supervision through on-site examination of domestic banks. In this connection, the indigenous banks are highly exposed to the government (see Figure 3), and it is therefore important to ensure that they remain liquid and profitable following the voluntary debt restructuring agreed with the government. The authorities and the ECCB will continue to monitor banking system indicators closely.

13. **The authorities are receiving assistance from CARTAC to strengthen the Financial Sector Regulatory Commission (FSRC), which is responsible for the offshore financial sector and domestic nonbanks.** This would help to avoid the regulatory arbitrage that created recent problems with the Stanford International Bank and in the insurance sector. Specifically, the authorities will expedite pending legislation to transform the FSRC into a single regulatory unit for offshore banks and nonbanks, in line with regional agreements and international best practice, while providing adequate resources to staff the institution effectively. In the offshore sector, the government will pass the remaining amendments needed to effectively combat money laundering and the financing of terrorism. In this connection, Antigua and Barbuda has signed 13 tax information exchange agreements (TIEA), one more than the required 12. The authorities are also hosting a regional conference in June 2010, to reassess the costs and benefits of offshore financial sector activities.

14. **The authorities are also committed to resolving the CL Financial insurance subsidiaries and the Bank of Antigua.** The authorities intend to continue to participate actively in regional efforts to develop a strategy for resolving the problems in the insurance sector that avoids systemic contagion, minimizes the fiscal costs, and is equitable to all stakeholders. Antigua's share of the possible resolution of the British American Insurance Company (BAICO) is estimated at EC$55 million (1¾ percent of GDP) (text table). The recapitalization of the Bank of Antigua, over which the ECCB assumed control pursuant to the 1993 *Banking Act*, will be completed by June 2010. The government's contribution (EC$89 million), which corresponds to the amount borrowed from the ECCB to stem the outflow of deposits last year, is already incorporated in the public debt.

Antigua and Barbuda - Estimated Exposure to CLICO and BAICO

	Antigua and Barbuda	ECCU 1/
CLICO Insurance Co. LTD		
(In millions of EC dollars)	216.0	989.4
(In percent of GDP)	6.9	8.1
British America		
(In millions of EC dollars)	288.4	1051.3
(In percent of GDP)	9.3	8.7
Total		
(In millions of EC dollars)	504.4	2040.7
(In percent of GDP)	16.2	16.8

Source: Data provided by country authorities.

1/ ECCU includes Anguilla and Montserrat.

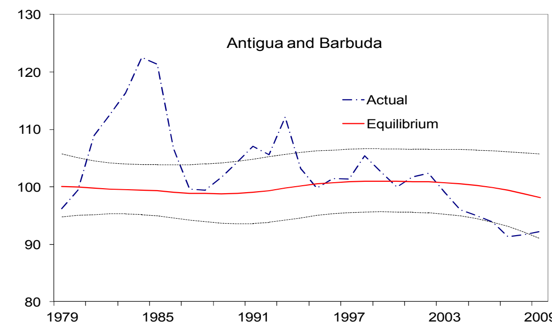
15. **Regarding social policies, the authorities attach high importance to protecting social spending**. Under the government's National Economic and Social Transformation (NEST) plan, social outlays for the most vulnerable will be protected, in particular the school meals program and allowances for the elderly. In addition, the government plans to create unemployment benefits and many basic commodities will continue to be exempted from the Antigua and Barbuda Sales Tax (ABST). The authorities are also committed to enhancing the targeting and improving the coordination of a variety of social protection programs.

D. Exchange Rate Assessment

16. **The exchange rate of the East Caribbean dollar, which is pegged to the U.S. dollar, appears to be broadly consistent with Antigua and Barbuda's economic fundamentals, assuming full implementation of the reform** (Box 3 and Figure 4). Over the medium term, strong fiscal consolidation is necessary to maintain the equilibrium REER at a level consistent with fundamentals. In the context of the quasi-currency board, greater wage and price flexibility would help facilitate the adjustment and limit the contraction of economic activity and employment.

Box 3. Exchange Rate Assessment and Competitiveness

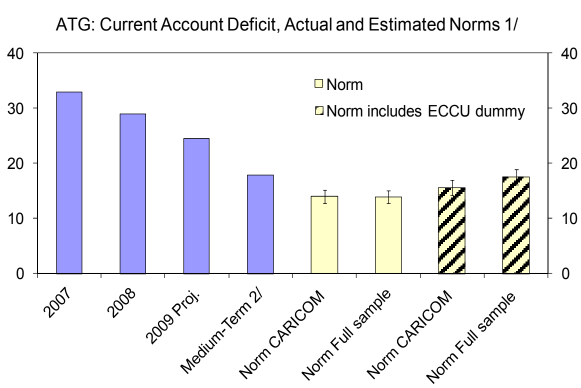
Antigua and Barbuda's exchange rate will remain broadly in line with equilibrium based on the macroeconomic fundamentals and assuming full implementation of reform measures. First, the equilibrium real exchange rate approach indicates a small undervaluation of about 6 percent in 2009, which nonetheless lies within the 95 percent confidence interval. The real exchange rate has declined over the last couple of years, reflecting the depreciation of the U.S. dollar against major currencies. The equilibrium real exchange rate has also declined, albeit gradually during the second half of this decade mainly due to earlier fiscal consolidation and the continuing accumulation of net foreign liabilities.

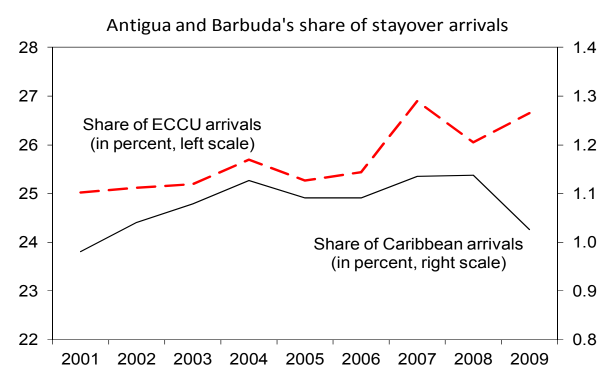


Over the medium term, however, the large fiscal adjustment will likely lower the equilibrium REER. Relatively weaker domestic demand conceivably will need to go hand in hand with some real depreciation to facilitate this adjustment. Thus, flexibility of both wages and prices will be key.

The macro balance approach, which incorporates the planned fiscal adjustment, suggests that Antigua and Barbuda's medium-term current account balance will be broadly at the equilibrium level. Antigua and Barbuda's equilibrium current account balance (i.e., current account "norm") ranges from -16 to -18 percent of GDP. The lower bound is obtained when the methodology employs parameters from regressions with ECCU dummy based on a CARICOM-only sample. The norm is close to -18 percent of GDP when the sample is enlarged to an expanded set of tourism-dependent economies. The medium-term current account deficit (in 2015) of Antigua and Barbuda is projected to be about 16 percent, assuming full implementation of the planned measures, which appears to be in line with the equilibrium level, and hence suggests little evidence of the real exchange rate misalignment.

Sustaining medium-term competitiveness depends on upgrading the capacity of the tourism sector. The gradual depreciation of the real effective exchange rate during the 2000s has improved the attractiveness of Antigua and Barbuda as a tourist destination, helping to increase the share of tourist arrivals relative to both the ECCU and other Caribbean economies. Antigua's competitiveness will also depend on upgrading the productive capacity of the tourism sector, including improvements in hotel capacity and infrastructure, along with greater airport capacity. Given that the tourism sector investment will continue to be financed by FDI, the fiscal and financial sector reforms incorporated in the authorities' policy framework would be important steps for ensuring the country's competitiveness and maintaining FDI inflows over the medium term.





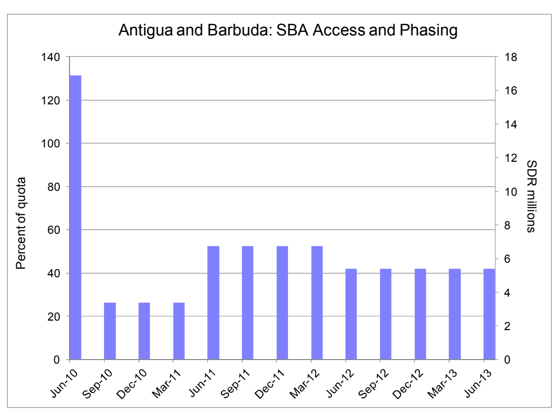
III. MEDIUM-TERM OUTLOOK

17. **The authorities' policy framework is predicated on the expectation that, following a projected further decline in economic activity in 2010, growth would resume in 2011 and pick up to about 4 percent by 2015**. The further decline (by -2 percent) in 2010 would occur despite a pick-up in tourism, as FDI-related and public construction would remain subdued. The recovery thereafter would reflect resumption of some high-end tourism projects as well as the effect of structural reforms. Inflation is expected to remain in the range of 2–3 percent over the medium term. The external current account is projected to improve by 8 percentage points of GDP to a deficit of about 16½ percent of GDP in 2010, reflecting major fiscal consolidation. Subsequently, the external current account deficit would remain at about the same level as a ratio of GDP, in line with the weak recovery in FDI. The overall balance of payments projections suggest that external financing gaps could reach an average of US$68 million (or 5 percent of GDP) per year during 2010–12. The Caribbean Development Bank is expected to provide about US$10 million a year. A Fund arrangement (discussed below) of SDR 81 million would help to fill the financing gap, keeping Antigua and Barbuda's imputed reserve levels at the ECCB stable at about 2 months of import cover. The remaining external financing gap would be covered by external debt restructuring.

18. **The medium-term growth outlook is critically dependent on recovery in the demand for tourism.** The downside risks relate mainly to a weaker-than-anticipated recovery in Antigua and Barbuda's key trading partners and slower than projected FDI inflows. Moreover, the economic downturn has increased macro-financial risks both in Antigua and Barbuda and in the Eastern Caribbean Currency Union (ECCU) as a whole. While direct cross-country exposure appears to be modest, there are risks of spillovers to other ECCU countries due to the fragility of indigenous banks, given in particular the shared payments system.

IV. REQUEST FOR STAND-BY ARRANGEMENT, RISKS TO THE PROGRAM, AND CAPACITY TO REPAY THE FUND

19. **In the attached letter of intent and accompanying Memorandum on Economic and Financial Policies (MEFP), the authorities have outlined a three-year economic program for 2010–13 in line with the policy framework discussed above, and they are requesting Fund financial support through a three-year SBA in the amount of SDR 81 million (600 percent of quota)**. Reflecting the immediate financing needs and the upfront nature of the adjustment effort, the SBA would incorporate a larger initial disbursement (125 percent of quota) on approval, followed by a fairly evenly phased access over the three-year period (Table 9). Program quantitative conditionality would focus on achieving the targeted fiscal adjustment. An adjuster for likely expenditure on resolution of financial sector difficulties is included; staff will review this adjuster in the context of future reviews in light of remaining macro-financial risks that stem from the unresolved companies



in the insurance sector, the fragility of the banking system and spillovers from financial sector in other ECCU economies. Quantitative and structural conditionality is specified in Tables 1–2 of the MEFP and discussed in Box 3 and the Technical Memorandum of Understanding (Attachment II). In the event that a projected shortfall emerges relative to the fiscal targets and/or programmed interest savings from restructuring, the government will take contingency measures and, in this context, the yield from consumption tax on fuel would be reviewed. The program would be monitored on the basis of quarterly reviews, the first of which would be completed by September 2010. The staff will assess the possible need to activate contingency measures at the time of the first review.

20. **The program is consistent with the Fund's policies on arrears**. The authorities are pursuing a debt restructuring strategy that emphasizes information transparency, inter-creditor equity, and dialogue with all creditor groups. Staff is of the view that there are reasonable expectations that a restructuring of the public debt consistent with Antigua's payments capacity is possible. Staff has received financing assurances from the Paris Club to address Antigua's public debt arrears and liquidity under the Evian approach. In addition, the government has reached understandings on the clearance of its remaining arrears with multilateral creditors. With the assistance of their external debt advisors, the authorities have contacted all of their external creditors and have either initiated active negotiations or plan to engage them (MEFP # 7). As noted earlier, agreement has already been reached with a major external commercial creditor.

21. **This financial support from Antigua's creditors is essential for closing the residual financing gaps**. The external financing requirement in 2010 is expected to be filled by IMF disbursements under the proposed SBA (SDR 24 million or US$36 million), by a policy based loan from the Caribbean Development Bank (US$10 million), with a residual financing gap of US$25 million that is programmed to be filled by further debt restructuring (Table 8).[4]

22. **The proposed program entails substantial risks**. These are associated mainly with the magnitude of the targeted fiscal adjustment. While the authorities have demonstrated a high degree of policy ownership—including by announcing their policies to the public in a timely and comprehensive fashion—and the bulk of the adjustment measures have already been implemented upfront, the yield of some measures is subject to uncertainty and the domestic political support needed to sustain them over three years would be considerable. In addition, weaknesses in implementation capacity might hamper progress with both fiscal adjustment and structural reforms. However, preliminary indicators suggest that the fiscal performance during the first quarter of the year was slightly better than the baseline projections.

[4] The residual gap takes into account restructuring already underway (see paragraph 10). For purposes of the DSA, the residual gap is assumed to be financed by new commercial borrowing.

Box 4. Structural Program

The authorities' policy framework will be supported by structural reforms aimed at strengthening the budget and addressing financial sector vulnerabilities. The fiscal reforms target strengthening of revenue agencies, containing expenditure growth, and enhancing public financial management. These reforms will underpin the strengthening of the budget over the medium term. The financial sector reforms are critical to reducing vulnerabilities and minimizing macro-fiscal risks associated with the fragile banking system and uneven regulation of non-bank financial institutions.

Strengthening revenue agencies. Reforms in Customs and Inland Revenue departments will be initially targeted at improving the information technology infrastructure and enhancing human resources, followed by legislation to strengthen the agencies and increase compliance. In this regard, legislation will be presented to harmonize tax laws, establish a revenue court, and close loopholes in duty-free shopping toward the end of 2010.

Reducing expenditures. The World Bank is expected to provide recommendations on the rationalization of the civil service, as well as the results of a government compensation survey in June 2010. These will be integrated into the government's Civil Service Transformation Program, which involves reducing the workforce through attrition, reviewing the compensation and functions of civil servants, and outsourcing some government activities.

Enhancing public financial management (PFM). A critical element of PFM reform, which is aimed at preventing the recurrence of extremely high expenditure arrears, enhancing financial reporting and increasing fiscal transparency, is the full implementation of the Finance Administration Act. Regulations for the act are expected to be issued by end-June and would enhance financial accountability and controls. Other measures include improving financial reporting and auditing by line ministries and establishing a single treasury account.

Strengthening Social Security finances. The authorities are developing a set of proposals for parametric reform of the social security that will raise the retirement age progressively from 60 to 65, and increase the maximum income for contributions. The authorities expect to initiate these reforms by end-December 2010. The proposals for the reform of the social security scheme will be finalized in the context of the ongoing actuarial review and will be discussed further during the first review.

Reducing banking system vulnerabilities. The benchmarks in this area are within the competence of the ECCB and seek to reduce systemic risks by obtaining a clear picture of banking system vulnerabilities and enhancing the capital of fragile banks.

Enhancing the regulation and supervision of nonbanks. The main goal of reforms is to reduce regulatory arbitrage through convergence with international best practice, thereby minimizing the potential fiscal cost of financial sector difficulties. The benchmarks focus on implementing legislation for regulation of nonbanks, the offshore sector, and AML-CFT.

23. **Full implementation of the program would place Antigua and Barbuda in a position to discharge its obligations to the Fund in a timely manner**. Antigua and Barbuda has no outstanding credit with the Fund (Table 10). Debt service to the Fund will comprise an annual average of 22 percent of total external debt service obligations, equivalent to 3 percent of exports of goods and services. The IMF debt to GDP would peak at 9 percent of GDP in 2013 before declining gradually over the medium term. A safeguards assessment of the ECCB was conducted in 2007, concluding that adequate safeguards were in place to manage resources, including IMF disbursements. The assessment determined low risk ratings in all ELRIC areas.

24. **Important debt-related vulnerabilities remain as the public debt would still be high even assuming a comprehensive debt restructuring.** There is some bunching of debt service payments during 2014–16 when Fund repayments are due. More generally, Antigua and Barbuda is exposed to external shocks, the aforementioned macro-financial risks, and weather-related vulnerabilities. However, the ECCB's reserves, which currently stand at US$800 million are projected to increase to US$825 million over the medium term and Antigua's participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF) provides insurance cover to reduce the fiscal costs associated with natural disasters.

V. Staff Appraisal

25. **Antigua and Barbuda's economy has been hard-hit by large exogenous shocks to tourism, tourism-related FDI inflows, and remittances**. These shocks have led to a marked decline in economic activity, weakened the balance of payments, and exacerbated an unsustainable fiscal position resulting from longstanding fiscal imbalances and an unmanageable stock of domestic and external arrears. The weak public finances, in turn, pose a serious threat to the prospects for a resumption of sustained economic growth and return to external stability. The authorities are therefore to be commended for their three-pronged approach to restoring fiscal and debt sustainability, which comprises front-loaded adjustment measures, debt restructuring to eliminate arrears and provide for interest flow relief, and structural reforms to further strengthen the fiscal position and to address financial sector vulnerabilities.

26. **The authorities have demonstrated a welcome commitment to a strong fiscal adjustment program, which—if sustained—will constitute a decisive step towards restoring debt sustainability.** Following the substantial measures taken in mid 2009, including the introduction of a flexible and market-based petroleum product pricing mechanism, they have adopted in the 2010 budget additional measures that are expected to shift the primary balance into a significant surplus, following a primary deficit of 11½ percent of GDP in 2009. These measures include prioritizing capital expenditure and containing the wage bill and spending on goods and services, complemented by revenue measures aimed at returning the tax-to-GDP ratio to pre-crisis levels. Given the magnitude of the targeted adjustments, the successful implementation of their policy framework will require the authorities' continued full and unequivocal commitment.

27. **Notwithstanding the strength of the targeted primary fiscal adjustment, the comprehensive public debt restructuring sought by the authorities is also paramount for achieving debt sustainability.** The authorities have taken welcome first steps as part of the process of developing and implementing a comprehensive public debt restructuring

strategy during the second half of 2010. Given the structure of the debt, and that the bulk of the interest relief will come from restructuring the domestic debt, the parametric reform envisaged by the authorities for the social security scheme—a key domestic creditor—will be needed to ensure its long-term viability. To complement domestic fiscal and debt restructuring effort, it is appropriate that external creditors have also been called upon to help with the burden sharing through a restructuring of the external debt. Staff therefore supports the authorities' efforts to engage in open, transparent negotiations with external creditors on a restructuring aimed at restoring public debt sustainability, consistent with Antigua and Barbuda's long-term repayment capacity.

28. **Over the medium term, the fiscal structural reforms planned by the authorities will play a central role in their efforts to further strengthen the fiscal position**. These include a needed strengthening of the revenue collection agencies, long overdue public financial management reforms, a highly timely rationalization of the civil service, and much needed improvements in the efficiency of other public spending, inter alia through better prioritization of investment projects. Such reforms are expected to further strengthen the primary balance and, together with the interest savings from debt restructuring, enable Antigua and Barbuda to achieve overall budget balance by 2012. This fiscal trajectory would not only help to place the public debt-to GDP ratio on a firmly declining path, but also guard against the possibility that the cost of resolving financial sector institutions turns out to be higher than expected.

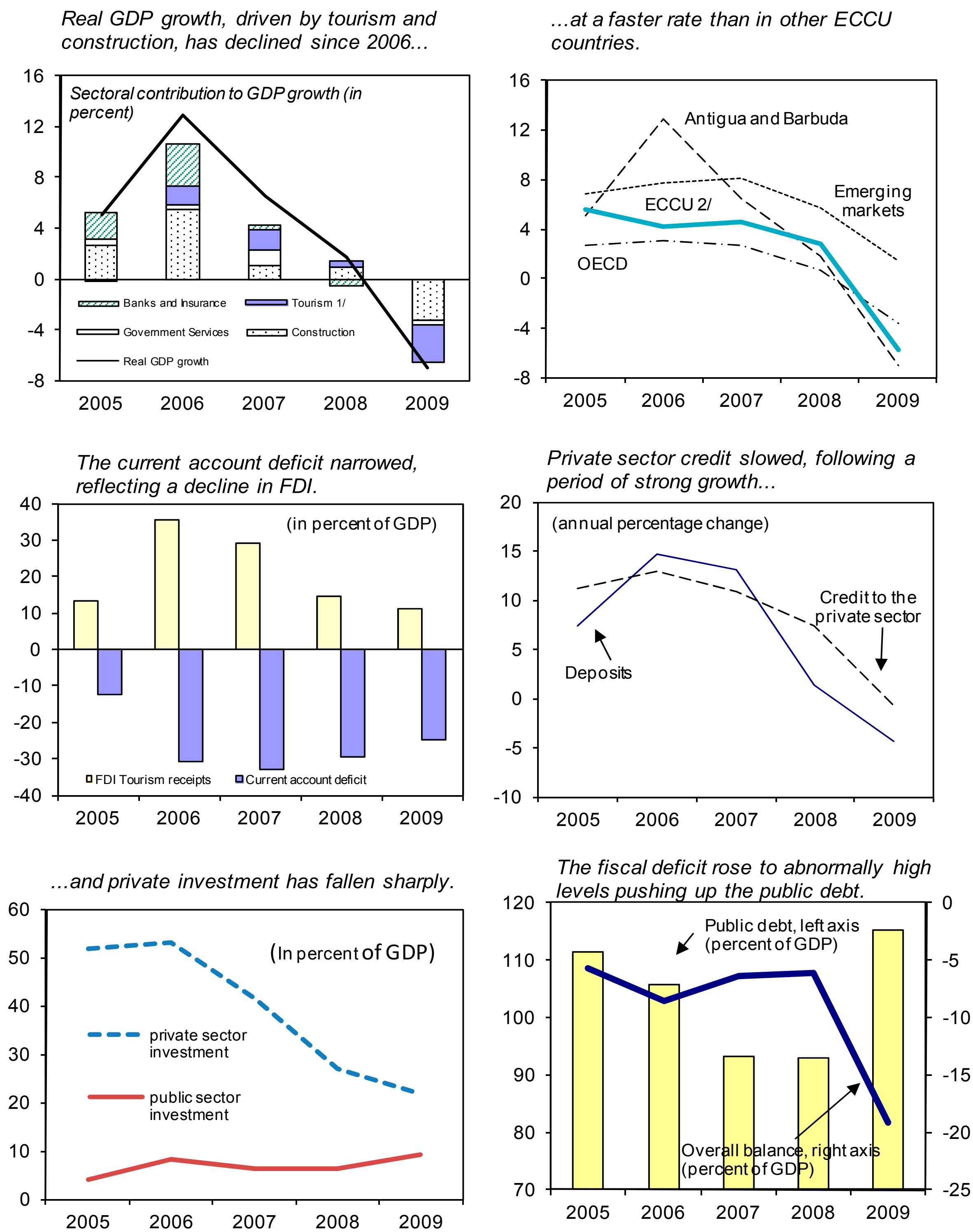
29. **The program's financial sector reform agenda is well-focused, addressing weaknesses in both bank and nonbank segments**. Onsite inspection by the ECCB will provide important information on the status of the banking system and form the basis for addressing fragilities of domestic banks in a timely manner. Meanwhile, strengthening of the regulatory and prudential framework for offshore financial services and nonbanks will address major weaknesses, as evidenced by the recent collapse of the Stanford International Bank and the problems in the insurance sector. The authorities' intention to participate actively in regional efforts to resolve the CLICO insurance subsidiaries is also welcome.

30. **Given their strong and comprehensive policy framework for restoring debt sustainability, and despite considerable risks, the authorities' proposed program merits Fund support through the requested SBA**. The arrangement would provide a framework for the needed adjustment and financing, including by helping restore confidence of foreign private investors and external creditors. The proposed access level reflects the large financing needs and takes into account the strong upfront adjustment effort and reform agenda. The staff is of the view that the authorities are in compliance with the Fund's policies on arrears, based on their good faith efforts to engage with external creditors and commitment to clear all arrears to multilaterals.

31. **The statistical information provided by Antigua and Barbuda is broadly adequate for Fund surveillance but important areas for improvement remain**. In particular, while preliminary monthly data on public expenditure and revenue have recently begun to be produced by the authorities, the new reporting system is as yet untested. The authorities are encouraged to improve the quality and timeliness of data provision, including possibly through technical assistance from CARTAC.

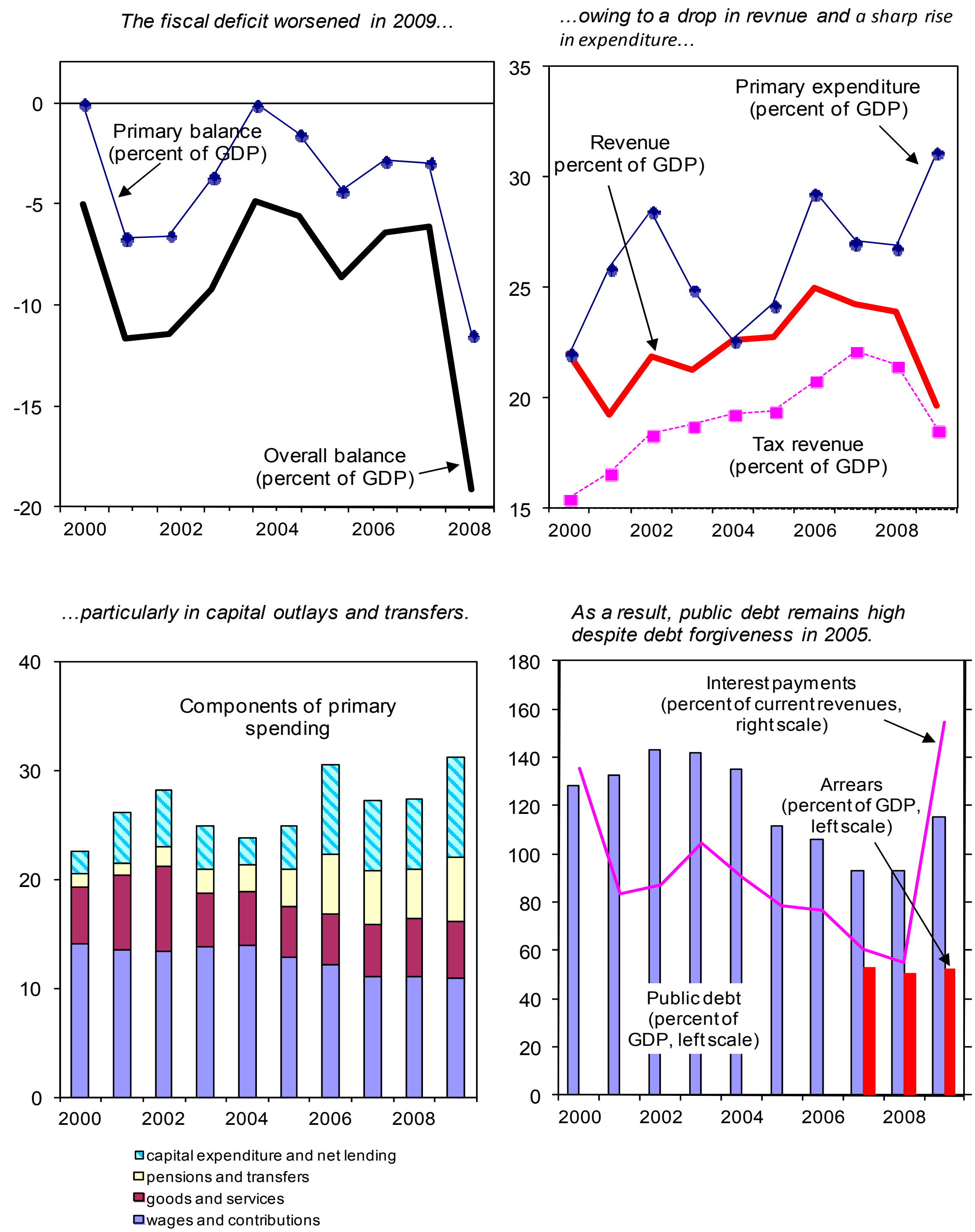
It is expected that the next Article IV consultation with Antigua and Barbuda will be held in accordance with Decision No. 12794–(02/76), as amended.

Figure 1. Antigua and Barbuda: Recent Economic Performance



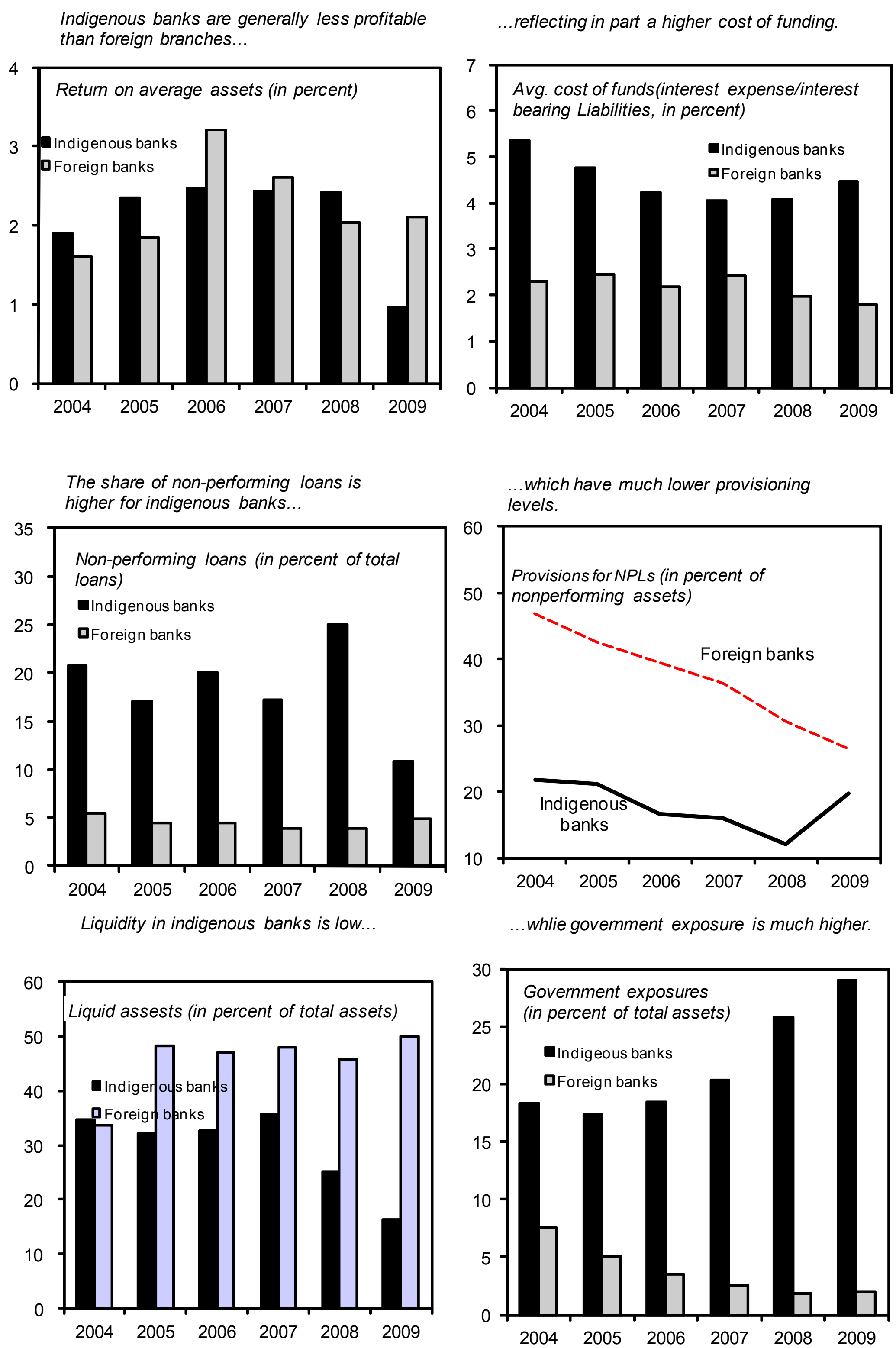
Source: Antigua and Barbuda Authorities; IMF, WEO; and Fund staff estimates.
1/ Tourism sector includes hotels and restaurants, wholesale and retail trade, and transportation.
2/ ECCU average growth rate excludes Antigua and Barbuda.

Figure 2. Antigua and Barbuda: Fiscal Developments, 2000–09



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

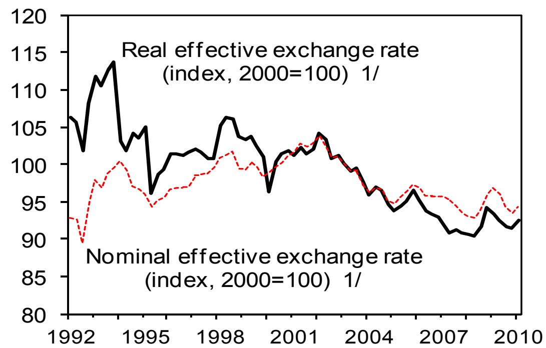
Figure 3. Antigua and Barbuda: Banking System Indicators, 2004–09



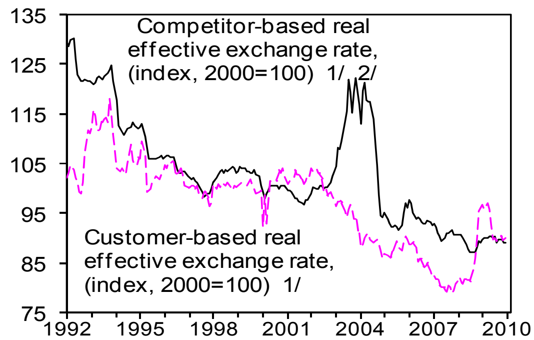
Sources: ECCB; and Fund staff calculations.

Figure 4. Antigua and Barbuda: External Competitiveness, 1992–2009

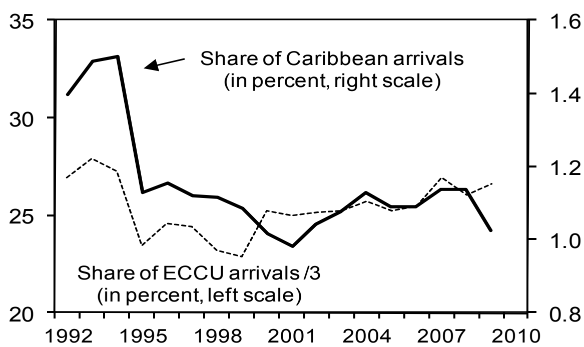
The CPI based real effective exchange rate has been depreciating for the past few years…



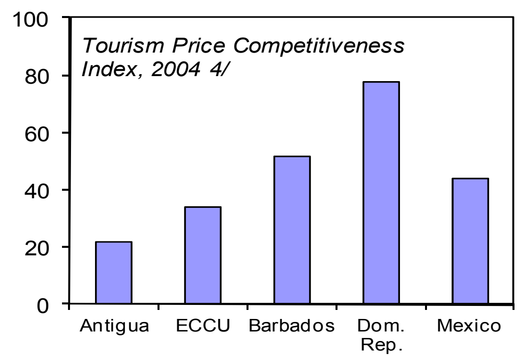
…and customer-based measures of REER for the tourism sector shows the same pattern.



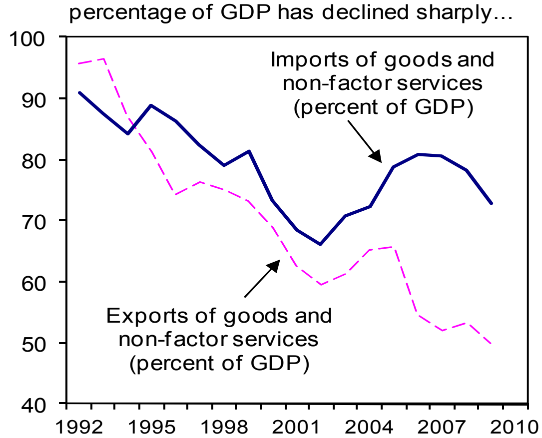
Antigua and Barbuda's share of stayover arrivals has been rising since 2001…



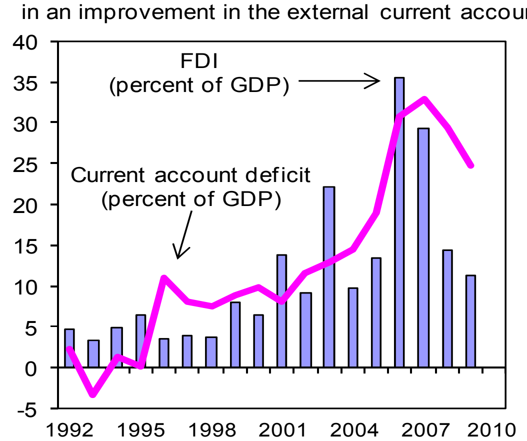
…despite being a high cost destination relative to its competitors.



Imports of goods and services as a percentage of GDP has declined sharply…



…reflecting a steep drop in FDI inflows, and resulting in an improvement in the external current account.



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 customers-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.

Table 1. Antigua and Barbuda: Basic Data

I. Social and Demographic Indicators

Area (sq. km)	443
Arable land (percent of land area)	27.3
Population (2007)	
Total	84,814
Annual rate of growth, 1991−2001 (percent a year)	1.0
Density (per sq. km.)	193
GDP per capita (US$), 2007	13,622
Population characteristics (1999)	
Life expectancy at birth (years)	75
Crude birth rate (per thousand)	18
Crude death rate (per thousand)	5
Poverty level (2005)	18

Health (most recent year)	
Population per physician	274
Population per hospital bed	164
Education (2001; in percent)	
Adult literacy rate	87
Energy (2005; in millions of US$)	
Imports of petroleum products	98.8
Exports of petroleum products	0
GDP (2009)	
(in millions of EC$)	3,097
(in millions of US$)	1,147

II. Selected Economic and Financial Indicators, 2004−10

						Prel.	Projections	
	2004	2005	2006	2007	2008	2009	2010	2011
	(Annual percentage change, unless otherwise indicated)							
National income and prices								
GDP at constant factor cost	5.4	5.0	12.9	6.5	1.8	-7.0	-2.0	0.8
Nominal GDP at market prices	8.5	5.9	16.6	14.3	4.2	-4.7	0.3	3.1
Consumer prices (period average)	2.0	2.1	1.8	1.4	5.3	1.0	3.0	1.6
External sector								
Exports, f.o.b.	27.7	44.5	-10.3	2.1	3.5	-8.6	-1.6	9.2
Imports, f.o.b.	14.2	13.2	22.9	15.9	3.4	-12.2	-15.8	7.3
Travel receipts (gross)	12.5	-8.3	5.6	3.4	-1.1	-15.7	3.2	6.5
Nominal effective exchange rate (period ave., depreciation -)	-2.7	-0.2	0.1	-1.4	-0.8	2.4	…	…
Real effective exchange rate (period ave., depreciation -)	-3.0	-1.1	-1.1	-2.8	0.7	2.8	…	…
	(Changes in percent of beginning of period broad money)							
Money and credit								
Net foreign assets	-1.4	3.4	9.2	-1.7	-11.4	-5.7	1.6	3.6
Net domestic assets	10.6	3.5	3.2	18.7	13.5	5.4	-0.8	-2.2
Net credit to the public sector	-1.1	0.9	0.8	0.9	0.3	10.7	-3.2	2.7
Credit to the private sector	0.9	12.2	12.9	10.9	4.2	2.4	1.5	-1.8
Broad money								
Average deposit rate (in percent per annum)	4.1	3.7	3.8	3.4	3.3	3.3	…	…
Average lending rate (in percent per annum)	12.0	11.2	10.7	10.3	10.1	9.5	…	…
	(In percent of GDP)							
Central government								
Primary balance	-0.1	-1.5	-4.3	-2.9	-3.0	-11.5	3.0	3.4
Overall balance	-4.9	-5.7	-8.5	-6.4	-6.1	-19.1	-2.3	-1.7
Total revenue and grants	22.6	22.8	25.0	24.3	23.9	19.7	26.5	25.7
Total expenditure	27.5	28.4	33.6	30.7	30.0	38.8	28.8	27.3
Financing	4.9	5.7	8.5	6.4	6.1	19.1	2.3	1.7
External	-3.6	-16.1	-1.4	0.5	-1.2	5.2	2.1	1.3
Domestic	12.1	11.2	7.2	2.3	7.6	3.0	-0.8	-1.3
Change in arrears	3.0	0.1	4.1	2.9	3.2	9.3	-1.1	0.0
Statistical discrepancy and revaluations	-6.7	10.5	-1.3	0.8	-3.5	1.6	0.0	0.0
Financing gap	...	...	...	...	...	0.0	2.2	1.7
External sector								
Current account balance	-14.5	-18.9	-30.7	-32.9	-29.4	-24.7	-16.8	-16.7
Trade balance	-42.2	-43.0	-48.0	-49.6	-49.3	-45.1	-37.0	-38.4
Nonfactor service balance								
Of which								
Gross tourism receipts	41.2	35.7	32.3	29.2	27.8	24.5	25.3	26.1
Overall balance	-2.8	-17.1	-2.1	-2.7	-3.4	-3.7	-6.2	-5.3
External government debt (end of year)	65.7	41.4	40.4	37.7	35.1	43.7	47.4	48.6
Of which								
Arrears	22.5	16.9	18.1	13.5	14.2	17.0	0.0	0.0
Scheduled external debt service	8.7	19.9	3.6	2.1	5.6	3.7	4.8	4.1
(In percent of exports of goods and services)	13.3	30.3	6.6	4.1	10.5	7.3	9.5	7.7
Memorandum items								
Gross international reserves of the ECCB								
(In millions of U.S. dollars)	632	601	696	765	759	…	…	…
(In percent of ECCU broad money)	20	18	19	19	18	…	…	…
Nominal GDP at market prices (in millions of EC$)	2,210	2,340	2,729	3,119	3,249	3,097	3,106	3,202
Central government debt stock								
(In millions of EC$)	2,806	2,411	2,673	2,745	2,849	3,310	3,393	3,460
(In percent of GDP)	127	103	98	88	88	107	109	108

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

Table 2. Antigua and Barbuda: Central Government Operations, 2005-15 1/
(In millions of Eastern Caribbean dollars)

					Prel.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue and grants	**533**	**683**	**757**	**778**	**609**	**822**	**822**	**861**	**913**	**971**	**1,034**
Current revenue	493	603	731	743	606	749	817	856	907	965	1,028
Of which: tax revenue	455	568	691	698	576	712	782	819	868	923	983
Capital revenue	18	5	5	4	3	5	5	5	6	6	6
Total grants	21	75	20	30	0	68	0	0	0	0	0
Total expenditure	**665**	**916**	**957**	**976**	**1,201**	**894**	**876**	**890**	**917**	**960**	**1,059**
Total primary expenditure	568	801	846	874	967	727	713	735	765	812	905
Primary current expenditure	474	577	645	664	680	637	617	635	659	698	743
Wages and salaries	252	268	309	303	299	293	276	279	283	299	318
Employment contributions 2/	33	34	34	41	36	43	41	41	42	45	48
Goods and services, incl. utilities	109	126	148	172	162	130	130	136	144	153	163
Pensions	38	43	80	64	68	51	51	54	57	60	64
Other transfers	42	106	75	84	116	120	119	125	133	141	150
Capital expenditure and net lending	94	224	201	210	287	90	96	101	107	113	161
Interest payments 3/	97	116	111	102	234	167	162	154	151	149	155
External	56	78	75	63	68	72	78	79	78	81	85
Domestic	41	37	36	39	166	95	84	76	73	68	70
Primary balance	**-36**	**-118**	**-89**	**-96**	**-357**	**95**	**109**	**126**	**148**	**159**	**129**
Overall balance	**-133**	**-233**	**-200**	**-198**	**-592**	**-72**	**-54**	**-28**	**-4**	**10**	**-25**
Financing	**133**	**233**	**200**	**198**	**592**	**72**	**54**	**28**	**4**	**-10**	**25**
External (net)	-376	-38	14	-39	160	66	41	20	-66	-118	-81
External borrowing	-376	-38	14	-39	160	66	41	20	-66	-118	-81
Disbursement	51	7	61	88	204	143	92	81	54	19	174
Of which: IMF	...	...	...	...	...	98	98	95	45	0	0
Amortization	-427	-45	-47	-127	-44	-77	-51	-61	-121	-137	-255
Increase in foreign assets	0	0	0	0	0	0	0	0	0	0	0
Domestic (net)	262	196	71	246	93	-26	-42	-60	-58	-76	-80
ECCB	0	0	0	8	86	0	0	-34	0	0	0
Banks and others	262	196	71	238	7	-26	-42	-26	-58	-76	-80
Resolution of Bank of Antigua	0	0	0	0	0	0	0	0	0	0	0
Change in arrears	1	112	90	96	288	-35	0	0	0	0	0
External	-14	111	88	96	35	0	0	0	0	0	0
Amortization	-59	49	38	52	-2	0	0	0	0	0	0
Interest	45	62	50	44	37	0	0	0	0	0	0
Domestic 4/	15	1	1	0	253	-35	0	0	0	0	0
Statistical discrepancy and revaluations	246	-36	25	-105	51	0	0	0	0	0	0
Valuation adjustments & write-offs	523	0	0	-102	53	0	0	0	0	0	0
External	523	0	0	2	53	0	0	0	0	0	0
Domestic	0	0	0	-104	0	0	0	0	0	0	0
Statistical discrepancy	-277	-36	25	-3	-2	0	0	0	0	0	0
Financing gap	...	...	...	...	0	68	55	68	128	184	187
Memorandum items:											
Central government debt stock	2,411	2,673	2,745	2,849	3,310	3,393	3,460	3,496	3,507	3,501	3,529
Central gov't debt (including guarantees)	2,609	2,888	2,911	3,016	3,571	3,644	3,697	3,725	3,729	3,719	3,744
GDP market prices	2,340	2,729	3,119	3,249	3,097	3,106	3,202	3,355	3,556	3,781	4,027

Sources: Antigua and Barbuda authorities; and Fund staff estimates.
1/ The projections are based on debt restructuring agreements that have already been completed or already in process.
2/ Includes contributions to social security, medical benefits, and education.
3/ The projections include an interest payment on outstanding arrears.
4/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.

Table 3. Antigua and Barbuda: Central Government Operations, 2005-15 1/
(In percent of GDP)

					Prel.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total revenue and grants	**22.8**	**25.0**	**24.3**	**23.9**	**19.7**	**26.5**	**25.7**	**25.7**	**25.7**	**25.7**	**25.7**
Current revenue	21.1	22.1	23.4	22.9	19.6	24.1	25.5	25.5	25.5	25.5	25.5
Of which: tax revenue	19.4	20.8	22.1	21.5	18.6	22.9	24.4	24.4	24.4	24.4	24.4
Capital revenue	0.8	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Total grants	0.9	2.8	0.6	0.9	0.0	2.2	0.0	0.0	0.0	0.0	0.0
Total expenditure	**28.4**	**33.6**	**30.7**	**30.0**	**38.8**	**28.8**	**27.3**	**26.5**	**25.8**	**25.4**	**26.3**
Total primary expenditure	24.3	29.3	27.1	26.9	31.2	23.4	22.3	21.9	21.5	21.5	22.5
Primary current expenditure	20.3	21.1	20.7	20.4	22.0	20.5	19.3	18.9	18.5	18.5	18.5
Wages and salaries	10.8	9.8	9.9	9.3	9.6	9.4	8.6	8.3	8.0	7.9	7.9
Employment contributions 2/	1.4	1.2	1.1	1.3	1.2	1.4	1.3	1.2	1.2	1.2	1.2
Goods and services, incl. utilities	4.7	4.6	4.7	5.3	5.2	4.2	4.0	4.0	4.0	4.0	4.0
Pensions	1.6	1.6	2.5	2.0	2.2	1.7	1.6	1.6	1.6	1.6	1.6
Other transfers	1.8	3.9	2.4	2.6	3.7	3.9	3.7	3.7	3.7	3.7	3.7
Capital expenditure and net lending	4.0	8.2	6.4	6.5	9.3	2.9	3.0	3.0	3.0	3.0	4.0
Interest payments 3/	4.1	4.2	3.6	3.2	7.6	5.4	5.1	4.6	4.3	3.9	3.8
External	2.4	2.9	2.4	1.9	2.2	2.3	2.4	2.3	2.2	2.1	2.1
Domestic	1.8	1.4	1.1	1.2	5.4	3.0	2.6	2.3	2.0	1.8	1.7
Primary balance	**-1.5**	**-4.3**	**-2.9**	**-3.0**	**-11.5**	**3.0**	**3.4**	**3.8**	**4.2**	**4.2**	**3.2**
Overall balance	**-5.7**	**-8.5**	**-6.4**	**-6.1**	**-19.1**	**-2.3**	**-1.7**	**-0.8**	**-0.1**	**0.3**	**-0.6**
Financing	**5.7**	**8.5**	**6.4**	**6.1**	**19.1**	**2.3**	**1.7**	**0.8**	**0.1**	**-0.3**	**0.6**
External (net)	-16.1	-1.4	0.5	-1.2	5.2	2.1	1.3	0.6	-1.9	-3.1	-2.0
External borrowing	-16.1	-1.4	0.5	-1.2	5.2	2.1	1.3	0.6	-1.9	-3.1	-2.0
Disbursement	2.2	0.3	2.0	2.7	6.6	4.6	2.9	2.4	1.5	0.5	4.3
Of which: IMF	...	...	...	...	...	3.1	3.0	2.8	1.3	0.0	0.0
Amortization	-18.2	-1.7	-1.5	-3.9	-1.4	-2.5	-1.6	-1.8	-3.4	-3.6	-6.3
Increase in foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	11.2	7.2	2.3	7.6	3.0	-0.8	-1.3	-1.8	-1.6	-2.0	-2.0
ECCB	0.0	0.0	0.0	0.2	2.8	0.0	0.0	-1.0	0.0	0.0	0.0
Banks and others	11.2	7.2	2.3	7.3	0.2	-0.8	-1.3	-0.8	-1.6	-2.0	-2.0
Resolution of Bank of Antigua	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.1	4.1	2.9	3.2	9.3	-1.1	0.0	0.0	0.0	0.0	0.0
External	-0.6	4.1	2.8	2.9	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-2.5	1.8	1.2	1.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.9	2.3	1.6	1.4	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic 4/	0.6	0.0	0.0	0.2	8.2	-1.1	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy and revaluations	10.5	-1.3	0.8	-3.5	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Valuation adjustments & write-offs	22.3	0.0	0.0	-3.1	1.7	0.0	0.0	0.0	0.0	0.0	0.0
External	22.3	0.0	0.0	0.1	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	-3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-11.8	-1.3	0.8	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	...	...	...	0.0	2.2	1.7	2.0	3.6	4.9	4.6
Memorandum items:											
Central government debt stock	103	98	88	88	107	109	108	104	99	93	88
Central gov't debt (including guarantees)	111	106	93	93	115	117	115	111	105	98	93
GDP market prices	2,340	2,729	3,119	3,249	3,097	3,106	3,202	3,355	3,556	3,781	4,027

Sources: Antigua and Barbuda authorities; and Fund staff estimates.
1/ The projections are based on debt restructuring agreements that have already been completed or already in process.
2/ Includes contributions to social security, medical benefits, and education.
3/ The projections include an interest payment on outstanding arrears.
4/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.

Table 4. Antigua and Barbuda: Balance of Payments, 2005-15

					Prel.	Projections					
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	(In millions of U.S. dollars)										
Current Account	**-164.1**	**-310.2**	**-379.9**	**-354.3**	**-283.8**	**-193.4**	**-198.1**	**-205.7**	**-215.3**	**-228.5**	**-245.2**
Trade balance	-372.8	-485.7	-573.3	-592.8	-517.8	-425.7	-455.1	-487.4	-514.7	-550.0	-585.0
Exports (f.o.b.)	82.5	74.0	75.6	78.2	71.5	70.4	76.9	82.4	87.6	93.4	99.3
Imports (f.o.b.)	455.4	559.7	648.9	671.1	589.4	496.0	532.0	569.8	602.3	643.4	684.3
Non-factor services balance	259.5	218.7	242.3	292.1	253.5	268.1	295.4	321.0	339.8	364.2	385.7
Of which											
Gross tourist receipts	309.4	326.7	337.8	334.0	281.5	290.5	309.5	331.1	350.8	374.7	397.8
Income (net)	-58.8	-65.2	-63.7	-68.5	-34.4	-55.9	-58.9	-60.0	-61.1	-63.3	-66.3
Of which											
Interest on public sector debt	-37.8	-39.7	-36.9	-38.2	-6.0	-26.8	-29.1	-29.2	-29.1	-29.9	-31.5
Current transfers (net)	8.0	21.9	14.9	14.9	14.9	20.1	20.5	20.7	20.7	20.5	20.3
Capital and Financial Account	**-93.2**	**322.7**	**403.2**	**322.8**	**264.3**	**122.3**	**135.2**	**141.7**	**157.4**	**183.8**	**211.6**
Capital grants	7.9	27.9	7.4	11.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Migrant transfers (net)	3.7	3.7	3.7	3.7	3.5	3.5	3.6	3.7	3.8	3.9	4.0
Official flows	-139.2	11.8	6.5	-14.4	58.7	36.1	-4.8	-7.5	-3.0	10.9	25.3
Portfolio liabilities	0.0	26.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector loans	-139.2	-14.2	6.5	-14.4	58.7	36.1	-4.8	-7.5	-3.0	10.9	25.3
Disbursements	18.8	2.7	13.0	32.5	75.1	64.7	14.0	15.0	41.6	61.6	119.6
Amortization (-)	158.0	16.9	6.6	47.0	16.3	28.6	18.8	22.6	44.7	50.7	94.3
Non-official flows	34.4	279.3	385.6	322.4	202.0	82.6	136.4	145.5	156.6	169.0	182.4
Foreign direct investment (net)	116.4	358.8	338.2	173.4	129.5	122.3	131.6	141.9	153.9	166.7	180.5
Portfolio investment (net)	10.5	-1.2	-1.2	-3.3	-13.2	-2.5	0.0	0.0	0.0	0.0	0.0
Commercial banks	-18.3	-64.5	17.3	117.2	33.5	-28.6	-1.9	-3.0	-3.9	-4.4	-4.8
Other private (net)	-74.3	-13.8	31.4	35.2	52.2	-8.5	6.7	6.7	6.7	6.7	6.7
Errors and omissions	**109.3**	**-33.6**	**-54.8**	**-9.8**	**-23.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-148.0**	**-21.1**	**-31.5**	**-41.3**	**-42.8**	**-71.0**	**-62.8**	**-64.0**	**-58.0**	**-44.7**	**-33.6**
Financing	**148.0**	**21.1**	**31.5**	**41.3**	**42.8**	**0.0**	**-3.0**	**-4.8**	**-6.3**	**-7.0**	**-7.7**
Change in imputed reserves (increase -)	-7.2	-15.3	-1.2	5.8	29.8	0.0	-3.0	-4.8	-6.3	-7.0	-7.7
Exceptional financing	155.2	36.5	32.7	35.5	13.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in arrears	-38.4	36.5	32.7	35.5	13.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness	193.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing gap	…	…	…	…	0.0	71.0	65.8	68.8	64.2	51.7	41.3
Memorandum items:	(In percent of GDP)										
Current account	**-18.9**	**-30.7**	**-32.9**	**-29.4**	**-24.7**	**-16.8**	**-16.7**	**-16.6**	**-16.4**	**-16.3**	**-16.4**
Of which											
Gross tourist receipts	35.7	32.3	29.2	27.8	24.5	25.3	26.1	26.6	26.6	26.8	26.7
External public sector debt service											
(in percent of exports of goods and services)	34.4	10.2	7.2	13.3	3.9	9.4	7.6	7.7	10.4	10.6	15.6
Imputed reserves	14.7	14.1	12.4	11.5	9.4	8.7	…	…	…	…	…

Sources: Antigua and Barbuda authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

Table 5. Antigua and Barbuda: Monetary Survey, 2005-11

					Prel.	Proj.	
	2005	2006	2007	2008	2009	2010	2011
			(In millions of EC dollars)				
Net foreign assets	**710.5**	**926.1**	**882.8**	**550.7**	**379.8**	**427.3**	**440.6**
ECCB imputed reserves	343.7	385.1	388.3	372.6	292.3	262.5	270.6
Commercial banks' net foreign assets	366.8	541.1	494.5	178.1	87.5	164.9	170.0
Net domestic assets	**1,636.2**	**1,682.0**	**2,036.3**	**2,430.5**	**2,592.4**	**2,566.3**	**2,645.8**
Net credit to public sector (net)	81.3	-30.1	21.2	175.2	494.4	395.7	301.4
Claims on central government (net)	261.7	196.8	264.3	464.2	628.5	597.2	507.5
ECCB net credit to central government	21.8	20.2	4.9	19.1	96.6	101.1	101.1
Commercial bank net credit to government	239.9	176.7	259.4	445.2	531.9	496.1	406.4
Net credit to other public sector	-180.4	-227.0	-243.1	-289.0	-134.2	-201.5	-206.1
Credit to private sector	1,757.0	2,060.1	2,344.6	2,559.8	2,539.5	2,588.7	2762.5
Other items (net)	-202.1	-348.0	-329.6	-304.5	-441.6	-418.1	-418.1
Monetary liabilities (M2)	**2,346.7**	**2,606.9**	**2,919.3**	**2,981.2**	**2,972.1**	**2,993.7**	**3,086.3**
Money (M1)	554.8	678.2	705.4	720.0	605.8	597.5	616.0
Currency circulating outside banks	122.1	143.7	133.9	142.9	146.1	138.9	143.2
Demand deposits	432.7	534.4	571.6	577.1	459.6	458.6	472.8
Quasi-money	1,791.9	1,928.8	2,213.8	2,261.2	2,366.4	2,396.2	2,470.3
Savings deposits	744.4	818.5	902.5	934.8	960.3	996.5	1,027.3
Time deposits	853.2	874.6	972.9	1,057.4	1,000.2	992.7	1,023.5
Foreign currency deposits	194.3	235.6	338.4	268.9	405.9	406.9	419.5
			(change in the percent of M2 at the beginning of the period)				
Net foreign assets	3.4	9.2	-1.7	-11.4	-5.7	1.6	0.4
ECCB imputed reserves	0.9	1.8	0.1	-0.5	-2.7	-1.0	0.3
Commercial banks' net foreign assets	2.4	7.4	-1.8	-10.8	-3.0	2.6	0.2
Net domestic assets	11.5	2.0	13.6	13.5	5.4	-0.9	2.7
Credit to the public sector (net)	-1.2	-4.7	2.0	5.3	10.7	-3.3	-3.2
Claims on central government	-0.3	-2.8	2.6	6.8	5.5	-1.1	-3.0
Credit to the rest of the public sector (net)	-0.9	-2.0	-0.6	-1.6	5.2	-2.3	-0.2
Private sector	12.2	12.9	10.9	7.4	-0.7	1.7	5.8
Other items (net)	0.5	-6.2	0.7	0.9	-4.6	0.8	0.0
			(12-month percentage change)				
Broad money	14.9	11.1	12.0	2.1	-0.3	0.7	3.1
Money (M1)	24.8	22.2	4.0	2.1	-15.9	-1.4	3.1
Quasi-money	12.1	7.6	14.8	2.1	4.7	1.3	3.1
Memorandum item:							
Income velocity of M2 (percent of M2)	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Credit to the private sector (net)	16.5	17.3	13.8	9.2	-0.8	1.9	6.7

Source: Eastern Caribbean Central Bank, and Fund Staff Projections.

Table 6. Antigua and Barbuda: Structure of Public Sector Debt, 2007-09

(In millions of E.C. dollars, unless noted otherwise)

	Outstanding debt (including arrears)				Structure of arrears (as of end-2009)				
	End-2007	End-2008	End-2009	(End-2009, in percent of GDP)	Principal	Interest	Total	(Total arrears, in percent of GDP)	(Total arrears, in percent of outstanding debt)
Total public debt 1/	**2,911.2**	**3,016.5**	**3,571.2**	**115.3**	**1,322.0**	**303.1**	**1,625.0**	**52.5**	**45.5**
Public sector domestic debt	**1,734.3**	**1,876.2**	**2,219.1**	**71.6**	**1,083.2**	**15.3**	**1,098.4**	**35.5**	**49.5**
ECCB	0.0	8.0	94.2	3.0	0.0	0.0	0.0	0.0	0.0
Bank loans (incl. overdraft)	465.3	689.7	687.4	22.2	13.2	1.2	14.4	0.5	2.1
Debt to statutory bodies	986.0	877.4	858.8	27.7	858.8	0.0	858.8	27.7	100.0
Medical Benefit Scheme	273.9	275.5	248.0	8.0	248.0	0.0	248.0	8.0	100.0
Social Security	579.6	582.3	588.8	19.0	588.8	0.0	588.8	19.0	100.0
Board of Education	104.4	0.9	3.2	0.1	3.2	0.0	3.2	0.1	100.0
State Insurance Corporation	28.0	18.7	18.7	0.6	18.7	0.0	18.7	0.6	100.0
Government securities	127.0	115.3	87.7	2.8	13.2	13.6	26.8	0.9	30.6
Supplier credits 2/	155.9	185.8	491.0	15.9	198.0	0.4	198.4	6.4	40.4
Public sector external debt	**1,177.0**	**1,140.3**	**1,352.0**	**43.7**	**238.8**	**287.8**	**526.6**	**17.0**	**38.9**
Multilateral	107.0	117.5	123.6	4.0	18.5	7.8	26.3	0.8	21.3
CDB	67.8	81.7	89.9	2.9	2.2	2.7	4.9	0.2	5.5
EEC/EIB	35.0	33.5	31.4	1.0	14.0	5.1	19.1	0.6	60.9
OPEC	4.3	2.3	2.3	0.1	2.3	0.0	2.3	0.1	100.0
Bilateral	662.4	720.1	765.2	24.7	180.2	180.6	360.8	11.6	47.1
Paris Club	448.2	442.6	325.6	10.5	92.7	122.5	215.2	6.9	66.1
France	75.4	76.6	75.2	2.4	38.3	17.7	56.0	1.8	74.5
Germany	3.8	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan 3/	239.7	239.7	93.0	3.0	15.5	8.7	24.2	0.8	26.0
Netherlands	20.8	20.5	21.4	0.7	8.7	12.7	21.4	0.7	100.0
U.K.	19.6	12.8	11.8	0.4	10.6	0.1	10.7	0.3	90.4
U.S.	88.8	91.6	124.2	4.0	19.5	83.4	102.9	3.3	82.9
Non-Paris Club	214.2	277.5	439.6	14.2	87.6	58.1	145.6	4.7	33.1
Brazil	79.6	81.6	59.4	1.9	13.8	45.6	59.4	1.9	100.0
China	63.7	113.8	131.8	4.3	20.2	2.4	22.6	0.7	17.2
Kuwait	60.1	60.9	83.0	2.7	53.0	9.9	62.9	2.0	75.8
Trinidad and Tobago	10.8	10.8	5.7	0.2	0.6	0.0	0.6	0.0	10.0
Venezuela	0.0	10.4	159.7	5.2	0.0	0.1	0.1	0.0	0.1
Commercial	407.6	302.7	463.2	15.0	40.1	99.4	139.5	4.5	30.1

Sources: Antigua and Barbuda authorities; NewState Partners advisors; and Fund staff estimates.

1/ Includes both principal and interest arrears and reflects reconciliation of outstanding debt from statutory bodies.
2/ Includes vouchers for capital as well as for goods and services.
3/ In 2009, the loan was reduced by the amount of EC$144 million overcharged by the creditor.

Table 7. Antigua and Barbuda: Selected Indicators of Vulnerability, 2005–09

	2005	2006	2007	2008	2009
Financial indicators					
Broad money (12-month percent change)	8.1	11.1	12.0	2.1	-0.3
Private sector credit (12-month percent change)	16.5	17.3	13.8	5.2	2.9
Commercial bank soundness indicators (in percent) 1/					
Capital adequacy ratio 2/	12.7	15.1	15.7	16.5	18.7
Unsatisfactory assets/total loans	10.4	11.5	9.7	14.2	7.8
Provision for loan losses/unsatisfactory assets	26.2	21.5	20.5	14.7	21.9
Net profit before taxes/average assets	2.1	2.9	2.5	2.2	1.6
Liquid assets/total assets	40.3	40.9	42.9	37.0	36.6
Gross government exposure/total assets 2/	17.4	18.4	20.3	25.8	29.0
External indicators					
Foreign exchange earnings from tourism (12-month percent change)	-8.3	5.6	3.4	-1.1	-15.7
Merchandise imports					
(12-month percent change in U.S. dollars)	13.2	22.9	15.9	3.4	-12.2
Current account balance (percent of GDP)	-18.9	-30.7	-32.9	-29.4	-24.7
Capital and financial account balance (percent of GDP)	-10.8	31.9	34.9	26.8	23.0
Of which					
Inward foreign direct investment	13.4	35.5	29.3	14.4	11.3
Imputed net international reserves					
In millions of U.S. dollars	127	143	144	138	108
In percent of broad money	14.6	14.8	13.3	12.5	9.8
Commercial banks' net foreign assets (millions of US$, end of period)	135.9	200.4	183.1	65.9	32.4
External public sector debt (millions of US$, end-period) 3/	359.0	408.8	435.9	422.3	500.7
External public sector debt service (in percent of exports					
of goods and services) 4/	34.4	10.2	7.2	13.3	3.9
External interest payments by public sector (in percent of exports of					
goods and services) 4/	6.6	7.2	6.1	5.9	1.0
External public sector amortization (in percent of exports of					
goods and services) 4/	27.7	3.1	1.1	7.3	2.9
Exchange rate (E.C.dollars per U.S. dollar), end-period	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate appreciation (+)					
(End-period, percentage change)	-1.1	-1.1	-2.8	0.7	2.8

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

1/ Prudential indicators reported by commercial banks, with infrequent onsite verification by the ECCB.

2/ Indigenous banks only.

3/ Central government and guaranteed debt.

4/ Scheduled.

Table 8. Antigua and Barbuda: External Financing Requirement and Sources, 2008–15
(In millions of US dollars)

	2008	Est 2009	Proj 2010	Proj 2011	Proj 2012	Proj 2013	Proj 2014	Proj 2015
A Gross financing requirements	**243.1**	**184.6**	**259.0**	**215.0**	**229.3**	**263.5**	**283.8**	**345.3**
Current account deficit (include interest arrears)	354.3	283.8	193.3	198.0	205.6	215.2	228.4	245.1
Amortization	-105.4	-69.4	65.7	14.1	18.9	42.0	48.4	92.5
Official (public sector and central govt)	47.0	16.3	28.6	18.8	22.6	44.7	50.7	94.3
of which to official creditors	5.4	6.9	21.5	12.9	16.2	25.8	48.2	92.3
Private sector (net)	-152.3	-85.8	37.2	-4.8	-3.7	-2.7	-2.2	-1.8
Commercial banks	-117.2	-33.5	28.6	1.9	3.0	3.9	4.4	4.8
Other private	-35.2	-52.2	8.5	-6.7	-6.7	-6.7	-6.7	-6.7
Arrears	35.5	13.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserves accumulation (+: increase)	-5.8	-29.8	0.0	3.0	4.8	6.3	7.0	7.7
B Sources of Financing	**217.4**	**194.8**	**188.1**	**149.3**	**160.6**	**199.3**	**232.2**	**304.1**
Capital grants and transfers	14.8	3.5	3.5	3.6	3.7	3.8	3.9	4.0
Foreign Direct Investment (net)	173.4	129.5	122.3	131.6	141.9	153.9	166.7	180.5
FDI outflows Abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FDI inflows to Antigua and Barbuda	173.4	129.5	122.3	131.6	141.9	153.9	166.7	180.5
Net inflows of equity and other capital	-3.3	-13.2	-2.5	0.0	0.0	0.0	0.0	0.0
New borrowing	32.5	75.1	64.7	14.0	15.0	41.6	61.6	119.6
of which public sector	32.5	75.1	64.7	14.0	15.0	41.6	61.6	119.6
C Financing Gap (A-B)	**25.7**	**-10.2**	**70.9**	**65.7**	**68.7**	**64.1**	**51.6**	**41.1**
Errors and omissions	-9.8	-23.2	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	35.5	13.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional external financing	**0.0**	**0.0**	**45.8**	**45.4**	**43.5**	**16.8**	**-16.3**	**-27.7**
IMF net disbursement	0.0	0.0	35.8	35.4	33.5	6.8	-26.3	-37.7
Potential Fund disbursements	0.0	0.0	36.2	36.2	35.1	16.5	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	-7.1	-23.9	-36.0
Interest due	0.0	0.0	-0.3	-0.7	-1.6	-2.6	-2.4	-1.6
Other new financing	0.0	0.0	10.0	10.0	10.0	10.0	10.0	10.0
Multilateral (CDB)	0.0	0.0	10.0	10.0	10.0	10.0	10.0	10.0
Residual external financing gap	0.0	0.0	25.1	20.3	25.1	47.3	67.9	68.8

Sources: Antigua and Barbuda authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

Table 9. Antigua and Barbuda: Schedule of Reviews and Purchases

Date	Amount of Purchase		Conditions
	Millions of SDR	Percent of Quota	
Board approval (June 7, 2010)	16.875	125	Approval of arrangement
September 1, 2010	3.375	25	First review and end-June 2010 performance criteria
December 1, 2010	3.375	25	Second review and end-September 2010 performance criteria
March 1, 2011	3.375	25	Third review and end-December 2010 performance criteria
June 10, 2011	6.75	50	Fourth review and end-March 2011 performance criteria
September 1, 2011	6.75	50	Fifth review and end-June 2011 performance criteria
December 1, 2011	6.75	50	Sixth review and end-September 2011 performance criteria
March 1, 2012	6.75	50	Seventh review and end-December 2011 performance criteria
June 10, 2012	5.4	40	Eight review and end-March 2012 performance criteria
September 1, 2012	5.4	40	Ninth review and end-June 2012 performance criteria
December 1, 2012	5.4	40	Tenth review and end-September 2012 performance criteria
March 1, 2013	5.4	40	Eleventh review and end-December 2012 performance criteria
May 1, 2013	5.4	40	Twelfth review and end-March 2013 performance criteria
Total	**81.0**	**600**	

Source: Fund staff estimates

Table 10. Antigua and Barbuda: Indicators of Capacity to Repay the Fund, 2008–18 1/

	Est.	Prel.	Projections								
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Fund obligations based on existing credit (in millions of SDRs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund obligations based on existing and prospective credit (in millions of SDRs)	0.0	0.0	0.2	0.5	1.0	6.3	17.1	24.5	23.2	12.4	2.0
Principal	0.0	0.0	0.0	0.0	0.0	4.6	15.6	23.5	22.8	12.3	2.0
Charges and interest	0.0	0.0	0.2	0.5	1.0	1.7	1.6	1.1	0.4	0.1	0.0
Fund credit outstanding based on existing and prospective credit (in millions of SDRs)	0.0	0.0	23.6	47.3	70.2	76.4	60.8	37.2	14.3	2.0	0.0
Total obligations based on existing and prospective credit											
In millions of U.S. dollars 2/	0.0	0.0	0.3	0.7	1.6	9.7	26.3	37.7	35.6	19.1	3.1
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.2	1.4	3.5	4.7	4.2	2.1	0.3
In percent of external debt service 3/	0.0	0.0	0.6	1.5	3.1	13.1	32.6	29.9	26.6	14.4	1.8
In percent of GDP	0.0	0.0	0.0	0.1	0.1	0.7	1.9	2.5	2.2	1.1	0.2
In percent of quota	0.0	0.0	1.6	3.6	7.8	46.8	126.9	181.8	171.9	92.0	15.1
In percent of net international reserves	0.0	0.0	0.3	0.7	1.5	8.7	22.2	31.8	30.1	16.1	2.7
Outstanding Fund credit 3/											
In millions of U.S. dollars 2/	0.0	0.0	36.1	72.3	107.5	117.1	93.2	57.1	22.0	3.1	0.0
In percent of exports of goods and services	0.0	0.0	6.2	11.5	16.1	16.5	12.3	7.1	2.6	0.3	0.0
In percent of external debt service 3/	0.0	0.0	65.2	150.9	207.8	158.7	115.7	45.4	16.5	2.4	0.0
In number of months of imports of goods and services	0.0	0.0	0.9	1.6	2.3	2.3	1.7	1.0	0.4	0.0	0.0
In percent of GDP	0.0	0.0	3.1	6.1	8.7	8.9	6.7	3.8	1.4	0.2	0.0
In percent of quota	0.0	0.0	175.0	350.0	520.0	565.6	450.0	275.6	106.2	15.0	0.0
In percent of net international reserves	0.0	0.0	37.2	72.1	102.4	105.2	78.8	48.3	18.6	2.6	0.0
Net use of Fund credit (in millions of SDRs)	0.0	0.0	23.6	23.6	22.9	6.1	-15.6	-23.5	-22.8	-12.3	-2.0
Disbursements	0.0	0.0	23.6	23.6	22.9	10.8	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.0	0.0	4.6	15.6	23.5	22.8	12.3	2.0
Memorandum items:											
Nominal GDP (in millions of U.S. dollars)	1,203.3	1,147.1	1,150.5	1,186.1	1,242.6	1,317.0	1,400.4	1,491.5	1,591.5	1,699.8	1,815.5
Exports of goods and services (in millions of U.S. dollars)	641.8	572.6	587.0	626.5	669.8	709.7	757.8	804.8	855.8	910.9	969.6
External debt service (in millions of U.S. dollars) 3/	55.5	41.6	55.4	47.9	51.7	73.8	80.6	125.8	133.8	132.1	173.2
Imports of goods and services (in millions of U.S. dollars)	671.1	589.4	496.0	532.0	569.8	602.3	643.4	684.3	730.0	779.6	832.5
Net imputed international reserves (in millions of U.S. dollars)	138.0	108.2	97.2	100.2	105.0	111.3	118.3	118.3	118.3	118.3	118.3

Sources: Antigua and Barbuda authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.

1/ Assumes a 3-year SBA with access in the amount of SDR 81 million (600 percent of quota).

2/ US$ 1 = 0.65599 SDR (as of April 16, 2010)

3/ Including prospective repurchases/repayments.

Annex I. Antigua and Barbuda: Summary of Appendices

Fund Relations

Antigua and Barbuda does not have outstanding obligations to the Fund. The last Article IV consultation was concluded by the Executive Board on February 4, 2008 (IMF Country Report No. 08/225). 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 in strengthening revenue collection.

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.

Relations with the World Bank Group

The World Bank Board discussed the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY 2010–14 on June 3, 2010. The four-year CAS aims to support the sub-region's development agenda through two main pillars: (i) building resilience to exogenous shocks; (ii) enhancing competitiveness and stimulating growth to help reduce poverty. Antigua and Barbuda has recently received two World Bank technical assistance grants to assist with its public sector transformation plan and environmental protection. The IFC is also assisting the government with its public sector divestment program.

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 December 31, 2009, CDB has approved loans totalling US$71.8 million, of which US$7.4 million are undisbursed. In December 2009, the CDB Board of Directors approved a US$30 million policy based loan to be disbursed over three years pending approval of an IMF program.

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 but some weaknesses remain, particularly in the real sector (including the consumer price index), fiscal and balance of payments data. An April 2007 data ROSC mission assessing monetary and financial statistics noted some recent improvements and identified some shortcomings in the ECCB's monetary statistics, which a technical assistance mission in December 2009 was aimed at addressing.

Annex II

May 21, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The Government of Antigua and Barbuda is addressing decisively the most severe fiscal and balance of payments crisis in the history of the country. The global financial turmoil that started in late 2008 has compounded decades of severe fiscal imbalances and drastically reduced tourism receipts, FDI inflows and remittances. The Antiguan and Barbudan economy experienced a 7 percent contraction in 2009 and a further decline of 2 percent is expected in 2010. The strains from the global liquidity crunch also precipitated the collapse of two large private financial conglomerates with significant presence in Antigua and Barbuda. The resulting decline in employment and economic activity has magnified the deterioration in the fiscal position and increase in public debt and arrears. Together, these developments threaten to seriously undermine the macroeconomic prospects of our country, with potential systemic implications to the Eastern Caribbean Currency Union.

In support of its strong and comprehensive program for 2010–12, aimed at restoring fiscal and external sustainability, the Government of Antigua and Barbuda is seeking the support of the International Monetary Fund through a three-year Stand-By Arrangement in the amount of SDR 81 million, equivalent to 600 percent of our quota. The program, which is described in the attached memorandum of economic and financial policies (MEFP), includes expenditure cuts and revenue measures amounting to about 13 percent of GDP in 2010 and also incorporates important structural reforms that will further enhance the fiscal position in 2011–12 while reducing vulnerabilities in the financial sector. Two of the structural benchmarks entail actions on the part of the Eastern Caribbean Central Bank, which has provided the government with assurances that such actions will be taken in a timely manner (see attached letter). As a key pillar of our effort towards fiscal sustainability, we have initiated discussions with our domestic and external creditors with the goal of reaching agreement on a restructuring of our debt that enables us to eliminate arrears and sharply reduce the debt service burden.

We believe that the economic and financial policies set forth in the MEFP are sufficient to ensure that the objectives of the 2010–12 program will be met. However, if needed, we stand ready to take any further measures that may prove necessary to meet our objectives, and would consult with the IMF on the adoption of such measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultations. In addition, the Government of Antigua and Barbuda does not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, introduce new or intensify existing trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

Sincerely yours,

/s/
Hon. Harold Lovell
Minister of Finance, the Economy and Public Administration
Antigua and Barbuda

Attachments: Memorandum of Economic and Financial Policies
Letter from the Governor of the Eastern Caribbean Central Bank

Attachment 1

Memorandum on Economic and Financial Policies, 2010–13

May 24, 2010

I. Background

1. Following many years of protracted fiscal imbalances, the current global economic and financial crisis has severely affected Antigua and Barbuda's economy, given our dependence on tourism, foreign direct investment (FDI), and remittances from abroad, all of which have declined in the difficult external environment. Economic activity contracted by 7 percent in 2009 and is projected to decline by a further 2 percent in 2010. This has contributed to further severe pressures on our fiscal and balance of payments positions. Inflation has remained low despite higher fuel prices and consumption taxes, reflecting lower international food prices.

2. The crisis has taken a major toll on our already fragile public finances, notably in the form of a roughly 20 percent drop in fiscal revenue last year. To help stem the deterioration in the fiscal position, we introduced a flexible fuel pricing mechanism in August last year to better align retail prices with import costs while raising the consumption tax on fuel and cutting current expenditure in relation to budgeted levels by the equivalent of 3½ percent of GDP. Notwithstanding these measures, the primary fiscal deficit reached 11½ percent of GDP in 2009, which—given interest obligations (including interest on arrears)—resulted in an overall fiscal deficit of 19 percent of GDP, more than three times the overall fiscal deficit to GDP recorded in 2008.[1] Given the limited available financing, the government accumulated further arrears amounting to about 9 percent of GDP in 2009 to domestic and foreign creditors. As a result, the total stock of arrears (including interest arrears) reached 53 percent of GDP.

[1] Interest obligations include contractual interest of about EC$90 million and interest on outstanding stock of arrears EC$155 million.

3. On the external front, tourism receipts, which account for about one-half of exports of goods and services, contracted by more than 15 percent in 2009. However, the external current account deficit—though still very high—narrowed to 25 percent of GDP, as lower international food and fuel prices, as well as the fall in FDI related imports, contributed to a reduced import bill. The overall deficit in the balance of payments was financed mainly by a decline in Antigua and Barbuda's net international reserves, a drawdown of commercial banks' net foreign assets, and the above-noted further build up of external arrears.

II. Program Objectives and Policies

4. The main objectives of the program will be to stabilize the public finances in 2010 and to entrench a downward trend for the public debt ratio in subsequent years. In 2010, we intend to deepen our fiscal adjustment process and to normalize Antigua and Barbuda's relations with its domestic and external creditors, thereby setting the stage for restored fiscal and external sustainability and revival of private investment—as is essential for achieving higher and sustainable growth. The government has already embarked on a major effort at strengthening budgetary performance, which will be intensified in the period ahead. Concurrently, the government is actively seeking debt relief from Antigua and Barbuda's domestic and external creditors. These efforts will be accompanied by supporting structural reforms in the public and financial sectors.

A. Fiscal Adjustment

5. The fiscal measures adopted for the 2010 budget are unprecedented in their magnitude and—along with the debt restructuring discussed below—will provide the critical mass of adjustment that must be put in place to restore debt sustainability. The revenue measures comprise broadening of the base of the Antigua and Barbuda Sales Tax (VAT), increasing import duties, and introducing an excise tax on alcoholic beverages and tobacco. The combined yield of these measures is projected at 4½ percent of GDP in relation to the 2009 outturn. On the expenditure side, the government will cut capital expenditure while protecting high-priority investment projects, and it will also reduce spending on goods and services by improving efficiencies, with a combined yield of 8 percent of GDP in relation to the 2009 outturn. Accordingly, we are targeting for 2010 a sharp improvement in the primary

fiscal balance, to a surplus equivalent to about 3 percent of GDP. In the event that a projected shortfall emerges relative to this target, the government will take contingency measures and, in this context, the yield from consumption tax on fuel would be reviewed. Similarly excess revenue would be saved or applied to arrears reduction should revenue exceed the baseline projections. In the second and third years of the program, the government will achieve further efficiencies on the expenditure side of the budget, including through civil service reform, which are expected to further increase the primary surplus by about 1 percent of GDP by 2012.

B. Debt Restructuring

6. While the bold actions outlined above would bring about, on a flow basis, a sharp improvement in the fiscal accounts, they would not in themselves provide a resolution for the very high stock of arrears. Moreover, the public sector debt would remain at dangerously elevated levels over the medium- and long-term. Accordingly, the government is in the process of eliminating the stock of arrears (presently, 53 percent of GDP) through a negotiated restructuring of the public debt. We expect that such a restructuring will be consistent with a reduction in the annual interest bill by about one-half, to about 4 percent of GDP during the program period. As a result, the projected overall fiscal deficits would be very small—about 1½ percent of GDP in 2010, ½ percent of GDP in 2011, and a roughly balanced fiscal position by 2012—as is necessary to place the public debt ratio on a firmly declining path.

7. Towards these objectives, and as we have communicated to the public, the government is seeking to restructure about 80 percent of the public debt, and has solicited the support of our creditors. With the assistance of debt advisors, we have developed a debt restructuring strategy emphasizing information transparency, inter-creditor equity, and dialogue with all creditor groups. Immediate cash flow relief, sustained reduction of our debt service burden, and significant balance of payments support from our international partners will be necessary. The government has reached understandings on the clearance of its remaining arrears with multilateral creditors. Moreover, we have approached official bilateral creditors with whom we have arrears seeking agreement on an arrears clearance strategy. With regard to domestic debt, we will ensure that the debt restructuring is consistent with the

continued stability of our banking system, which has a large portion of its assets in government debt. The provision of much needed debt restructuring from the statutory corporations will be accompanied by reforms that will ensure their long-term sustainability.

C. Macroeconomic Framework

8. Regarding the overall macroeconomic framework, the key variables underpinning the fiscal targets specified above are a further contraction in economic activity, by about 2 percent in 2010, followed by a small recovery in 2011 and a positive real growth of about 2.5 percent in 2012; and annual inflation in the range of 2 percent. Given this scenario, the fiscal stance is consistent with a reduction in the external current account deficit to about 16 percent of GDP by 2012; and a substantial recovery in Antigua's net international reserves to about EC$100 million by 2012. The ratio of gross public sector debt to GDP (in nominal terms) is projected to decline over the program period, from 115 percent in 2009 to 101 percent by 2013.

D. Structural and Social Policies

9. The government will take steps in 2010 to enhance public financial management. This is essential, in particular to ensure that the envisaged deep cuts in low priority spending are successfully implemented during the program period. To advance this important agenda, the government will take the following steps in 2010: (i) issue regulations to operationalize the Finance Administration Act passed by parliament in 2006; (ii) strengthen financial management, reporting and auditing in line ministries; (iii) strengthen capacity at Customs and Inland Revenue Departments, including the VAT Unit; (iv) continue to move towards establishment of a single treasury account; (v) strengthen medium-term macro framework to help frame annual budgets; and (vi) integrate the current and capital budget processes. In addition, we have requested Fund technical assistance to improve debt management and the recording of the public debt.

10. Civil service and pension reforms are key pillars of the government's medium-term strategy. The streamlining of Antigua and Barbuda's public sector, which began with a Voluntary Separation and Early-retirement Programme (VSEP) in 2006, will be continued in the context of the Public Sector Transformation Programme. Specifically, we envisage a

20 percent reduction in the government's wage bill from 2009 to 2012, which would reflect improvements in efficiency of the civil service as its employment and the wage structure are rationalized. The government will also introduce social security reforms, by March 2011, aimed at securing the scheme's long-term sustainability.

11. In the financial sector, the issues surrounding the Bank of Antigua (over which the Eastern Caribbean Central Bank (ECCB) assumed control in 2009 pursuant to the ECCB Agreement Act of 1983), will be resolved by June 2010. We will also strengthen the Financial Services Regulatory Commission (FSRC), which is responsible for the regulation of offshore banks and the nonbank financial sector, so as to avoid a recurrence of regulatory arbitrage episodes, such as with the Stanford International Bank and in the insurance sector. In particular, the government will pass legislation to establish a single regulatory unit for the nonbank financial sector by June 2010, and provide resources to adequately staff this institution. At the same time, the government will pass the remaining amendments needed to effectively combat money laundering and the financing of terrorism. Moreover, the government will continue to actively participate in regional efforts to reach a prompt resolution of the CL Financial subsidiaries with private sector participation.

12. The government will continue to protect the most vulnerable social groups under a variety of social programs. These include allowances for the elderly, funding for social protection projects (school meals and uniform programs), unemployment benefits, and targeted subsidies for a number of basic commodities.

III. Program Monitoring and Safeguards Assessment

13. Progress in the implementation of policies under this program will be monitored through quarterly reviews and through quantitative performance criteria, with indicative targets as well as structural benchmarks also defined. The first and second program and financing assurances reviews would be completed by September 15, 2010, and December 15, 2010, respectively. At this stage, quantitative performance criteria are set for end-June and end-September 2010, and quantitative indicative targets are set for end-December 2010 and end-March 2011. The quantitative performance criteria and indicative targets are set out in Table 1. Definitions of all relevant variables and reporting

requirements are contained in the attached Technical Memorandum of Understanding. The program also incorporates a continuous performance criterion on the non-accumulation of domestic and external debt arrears on the public debt. We have provided the Fund with a plan for the clearance of all arrears, and will provide quarterly reports on the outstanding stock of all arrears within one month of the end of each quarter. Structural benchmarks are presented in Table 2.

14. A safeguards assessment of the ECCB was conducted in 2007 and most of the recommendations of the assessment have been implemented. The ECCB is on a 4-year Safeguards Assessment cycle, and the next one is due in 2011.

Table 1. Antigua and Barbuda: Quantitative Performance Criteria and Indicative Targets

(In Millions of Eastern Caribbean dollars)

	End-June 2010	End-September 2010	End-December 2010 1/	End-March 2011 1/
Performance Criteria				
Central government overall deficit including grants (ceiling) 2/3/4/	41.0	40.0	52.0	8.0
Stock of central government external short term debt (ceiling)	0.0	0.0	0.0	0.0
Central government external arrears accumulation (ceiling) 5/	0.0	0.0	0.0	0.0
Central government budget expenditure arrears acumulation (celing) 5/	0.0	0.0	0.0	0.0
Indicative target				
Central government primary balance including grants (floor) 2/3/4/	67.5	72.7	95.6	26.7

1/ All targets for December 2010 and March 2011 are indicative.
2/ Cumulative within each calendar year.
3/ See the TMU for a description of adjustors.
4/ Assumes all debt restructuring agreements have been concluded.
5/ To be monitored on a continuous basis.

Table 2. Antigua and Barbuda: Structural Benchmarks 1/

Action	Objectives	Target Date
I. Fiscal and Public Sector Reforms		
Inland Revenue Department (IRD)	Strengthen revenue agencies	
Strengthen Information technology (including SITAS) and human recourses 2/	to improve budget performance	End-December 2010
Present legislation to harmonize tax laws and establish revenue court		End-March 2011
Customs Department	Strengthen revenue agencies	
Strengthen human recourses especially in the area of valuation and classification of goods	to improve budget performance	End-December 2010
Draft regulations to give effect to Customs Management and Control Act of 1993		End-September 2010
Public financial management	Improve fiscal transparency	
Implement regulations for the Finance Administration Act	and expenditure controls	End-June 2010
Strengthen Treasury operations, including cash and voucher management systems		End-December 2010
Enact new Procurement Act		End-September 2010
Civil service reform	Reduce the wage bill to help	
Initiate work on the Civil Service Transformation program (payroll survey)	improve fiscal performance	End-June 2010
Social Security reform	Strengthen social security finances	
Initiate comprehensive reform of the social security scheme	and reduce contingent liabilities	End-December 2010
Public enterprise reform		
Develop a plan for the privatization of selected government enterprises		End-September 2010
II. Financial Sector Reforms		
Recapitalization of Bank of Antigua	Strengthen capital of fragile bank	End-June 2010
ECCB onsite inspection of the banks		End-June 2010
Present legislation to Parliament to create a single regulatory unit for the nonbank financial sector in line with regional agreements	Strengthen nonbank regulation and supervision	End-September 2010
Amend legislation to effectively combat money laundering and financing terrorism	Strengthen AML-CFT	End-June 2010
Develop a plan for the resolution of the BAICO and CLICO in line with regional efforts	Reduce macro-financial risks	End-December 2010

1/ These benchmarks are discussed in Box 4 of the staff report.
2/ Standardized Integrated General Tax Administration System (SIGTAS).

Attachment 2

May 19, 2010

Hon. Harold Lovell
Minister of Finance, the Economy and Public Administration
Ministry of Finance and Economy
St. John's
Antigua and Barbuda

Dear Hon. Minister:

Thank you very much for sharing with the Eastern Caribbean Central Bank the draft Memorandum on Economic and Financial Policies agreed with the mission from the International Monetary Fund. We fully support the policies outlined therein, which should contribute greatly to placing Antigua and Barbuda on a sustainable fiscal path, addressing its balance of payments need, and reducing financial sector vulnerabilities—all of which are essential requirements for medium- and long-term growth.

The ECCB takes note of the fact that you have proposed in the MEFP two structural benchmarks—on the recapitalization of the Bank of Antigua and on-site inspection of domestic commercial banks—that require direct actions on our part. We welcome the inclusion of these benchmarks and would like to assure you that the ECCB will take the necessary steps for them to be observed within the time frame specified in Schedule 2 of the MEFP.

Please feel free to share this letter with the IMF in the context of your request for a Stand-By Arrangement.

Sincerely yours,

/s/
Sir K. Dwight Venner
Governor

Attachment 3

ANTIGUA AND BARBUDA: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. Performance under the Stand-By Arrangement (SBA) will be assessed on the basis of quantitative performance criteria and indicative targets, as well as structural benchmarks. This Technical Memorandum of Understanding presents the definitions of variables set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) and the reporting requirements to adequately monitor performance under the program.

2. For the purposes of the program, the exchange rate of the East Caribbean dollar (EC$) to the U.S. dollar is set at EC$2.70 = US$1. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will be first valued in the U.S. dollar at actual end-of-period exchange rates used by the ECCB to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.5 per SDR.

IV. COVERAGE

3. For the purpose of the program, the **central government** will cover all items included in the government budget.

4. The **nonfinancial public sector** is defined as the total central government and nonfinancial public enterprises. Public enterprises consist of Agricultural Development Corporation, Antigua and Barbuda Hospitality Training Institute, Antigua and Barbuda Institute of Continuing Education, Antigua and Barbuda Investment Authority, Antigua and Barbuda Social Security Board of Control, Antigua Barbuda Airport Authority, Antigua Barbuda Bureau of Standards Board, Antigua Barbuda Development Bank, Antigua Barbuda Tourism Authority, Antigua Barbuda Transport Board, Antigua Pier Group Limited, Antigua Port Authority, Antigua Public Utilities Authority, Board of Education 1994 Limited, Central Housing and Planning Authority, Central Marketing Corporation, Development Control Authority, Financial Services Regulatory Commission, Industrial Development Board, Medical Benefits Scheme, Mt St. John Medical Centre, National Parks Authority, National Solid Waste Management Authority, PDV Caribe, St John's Development Corporation, State Insurance Corporation and Youth Empowerment Corporation.

5. **External debt** is defined as all debt owed to creditors residing outside of Antigua and Barbuda, while **domestic debt** covers all debt owed to residents of Antigua and Barbuda. All bonds issued at the Regional Government Securities Market (RGSM) will be regarded as domestic debt.

V. Quantitative Performance Criteria

A. Central Government's Overall Deficit

6. The **central government's overall balance** will cover all its revenue, grants, expenditure, and transfers. Revenues will exclude any proceeds from the sale of public assets, which will be considered as financing.

7. The **central government's overall deficit** will be measured from the financing side as the sum of the net domestic financing plus net external financing.

8. **Net domestic financing** of the central government is the sum of:

- net domestic bank financing as measured by the change in the domestic banking system credit to the central government net of deposits, as reported by the consolidated balance sheet of the monetary authorities and commercial banks, including special tranches from the ECCB;

- net nonbank financing as measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions;

- the change in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid;

- gross receipts from divestment are defined as proceeds received from any privatization/divestment; and

- any exceptional financing (including rescheduled principal and interest).

9. **Net external financing** of the central government is defined as the sum of:

- disbursements of project and non-project loans, including securitization;

- proceeds from bonds issued abroad (with an original maturity of one year or greater;

- exceptional financing (including rescheduled principal and interest);

- net changes in cash deposits held outside the domestic banking system;

- net changes in short-term external debt excluding exceptional financing (with an original maturity of less than one year);

- any change in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid;

less:

- payments of principal on current maturities for bonds and loans on a due basis, including any prepayment of external but excluding repayments to the IMF.

10. The **ceiling on the overall deficit of the central government** will be adjusted:

- **upward** to the extent that grants fall short of the programmed amounts as specified in Table 1 by more than EC$10 million; and **upward** by the cumulative amount of up to EC$25 million spent on bank recapitalization and support to the British American Insurance Companies—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit. Grants are defined as noncompulsory transfers, in cash or in kind, received from other governments or from international organizations.

Table 1. Programmed Disbursementsof Grants in 2010
(in EC$ millions)

Quarter	I	II	III	IV
Grants	…	15	30	67

Source: Antiguan authorities and Fund staff estimates.
Note: Values presented are cumulative.

B. Stock of Central Government Short-Term External Debt

11. The **limit on short-term external debt** applies to debt owed or guaranteed by the central government of Antigua and Barbuda, with an original maturity of up to and including one year. Excluded from the limit are any rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Normal import credit is understood to be a self-liquidating operation where the proceeds from sales of imports are used to retire the debt. Debt falling within the limit shall be valued in US dollars at the time the contract or guarantee becomes effective.

C. External Arrears of the Public Sector

12. The **non-accumulation of arrears to external creditors** will be a continuous performance criterion under the program. This performance criterion applies to debt contracted or guaranteed by central government from multilateral or bilateral official creditors. External payment arrears consist of external debt service obligations (principal and

interest) falling due after December 31, 2009 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

D. Budget Expenditure Arrears

13. A ceiling is set on **central government budget expenditure arrears** to domestic private parties, equal to the stock of such arrears as at December 31, 2009 (Table 2). This ceiling will be monitored on a continuous basis. Budget expenditure arrears are defined as the sum of: (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or, in the absence of a grace period, within 60 days; and (2) unpaid wages, pensions, or transfers, pending for longer than 60 days to domestic or foreign residents, irrespective of the currency denomination of the obligation.

Table 2. Stock of Domestic Arrears at December 31 2009
(In EC$ millions)

Unpaid checks issued	210.5
Unprocessed claims and pending invoices	72.2
Interest and amortization arrears on domestic debt	1,176.0
Total stock of arrears	1,458.7

VI. Indicative Target on the Primary Balance of the Central Government

14. The **central government's primary balance** is defined as revenue and grants minus non-interest expenditures. As in the definition of the overall balance, revenues will exclude privatization proceeds. Net lending is a non-interest expenditure item (negative net lending is a revenue item). Interest expenditures include interest payments on outstanding arrears, as defined above in sections C and D (at their contractual rates) converted to a cash basis.

15. The **floor on the primary balance of the central government** will be monitored from above the line on a cash basis. Transfers among entities of the central government are mutually offsetting; hence, the difference between the simple sum of revenues and the simple sum of primary expenditures across all central government entities yields the consolidated central government balance. Should discrepancies arise, reconciliation between reported transfers and reported revenues from other central government entities will be required so that compliance with the central government primary balance target can be assessed.

16. The **floor on the primary balance of the central government** will be adjusted as follows:

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that grants fall short of the programmed amounts as specified in Table 1 by more than EC$10 million

- **downward** by the cumulative amount of up to EC$ 25 million spent on bank recapitalization and support to the British American Insurance Companies—any amounts spent in excess of this programmed contingency will need to be funded within the program limit on the overall deficit.

VII. Data and Information

17. To enable monitoring of performance relative to the above quantitative performance criteria and indicative targets, the Antigua and Barbuda authorities will provide Fund staff with the following specific data and information within 6 weeks after the end of each month.

Fiscal sector

- Central government budgetary accounts.

- Current grant inflows.

- Capital expenditure.

- Total disbursements/grant receipts, monthly, disaggregated into: (a) budgetary support (by type—either loans or external "bonds" and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.

- Central government domestic debt data.

- Stock of domestic arrears, including unpaid checks issued, stock of unprocessed claims due and invoices pending; interest and amortization on domestic debt.

- Stock of external arrears (creditor-by-creditor).

- Detailed (creditor by creditor) monthly external debt report from the Debt Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments, and outstanding stocks, for the central government and public enterprises.

- Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

Financial sector

- Monetary survey for Antigua and Barbuda as prepared by the Eastern Caribbean Central Bank.

All such information will be provided to Fund staff within one month of the end of each month, except for the monetary survey, which will be delivered by the ECCB to Fund staff within 8 weeks of the end of each month.

INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

External and Public Debt Sustainability Analysis

Prepared by the Staff of the International Monetary Fund

May 25, 2010

This debt sustainability analysis (DSA) indicates that Antigua and Barbuda's public and publicly guaranteed (PPG) debt would be unsustainable even in the presence of strong adjustment measures. The comprehensive debt restructuring, currently underway, is therefore necessary to achieve a sustainable fiscal position.

A. Introduction

1. **Antigua and Barbuda has one of the highest debt-to-GDP ratios in the Caribbean.** As of end 2009, the PPG debt stock is estimated to be around 115 percent of GDP.[1] About two thirds of Antigua and Barbuda's PPG debt is held domestically (72 percent of GDP), mostly by statutory bodies (28 percent of GDP) and commercial banks (22 percent of GDP). The external debt (44 percent of GDP) is mainly comprised of obligations to commercial creditors (15 percent of GDP), non-Paris Club bilateral creditors (14 percent of GDP), and Paris Club members (10 percent of GDP). Antigua's debt with multilaterals is low (about 4 percent of GDP), and mainly due to the Caribbean Development Bank and the European Investment Bank. In 2009, the country had to borrow also from the Eastern Caribbean Central Bank about 3 percent of GDP to address solvency problems faced by one of the major domestic banks (Figure 1, Panel A).

2. **The stock of arrears is estimated to be 45 percent of PPG debt (53 percent of GDP).** Most domestic arrears are due to statutory bodies (28 percent of GDP), essentially in the form of unpaid contributions (Figure 1, Panel B).[2] Arrears to domestic suppliers amount to 6 percent of GDP, while arrears to domestic banks amount to less than one percent of GDP. At the external level, the bulk of arrears are due to Paris Club members (7 percent of GDP, mostly on past due interest), non-Paris Club official creditors (5 percent of GDP), and commercial creditors (5 percent of GDP). The country has also a small portion of arrears with multilaterals, which will be cleared in the coming months.

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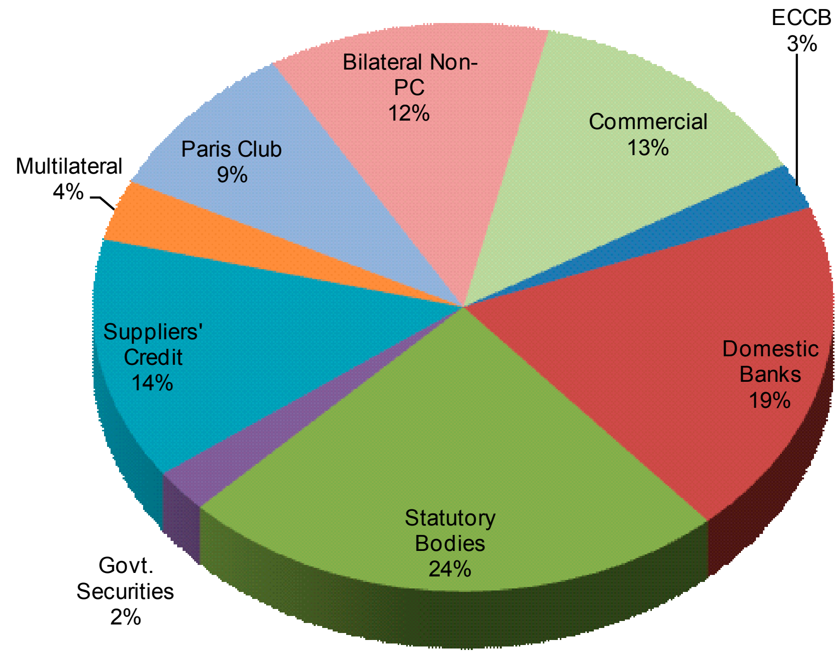
[1] PPG debt includes central government debt and government guaranteed debt contracted by non-financial parastatals. The stock data and service projections are provisional and subject to revisions upon reconciliation with creditors.

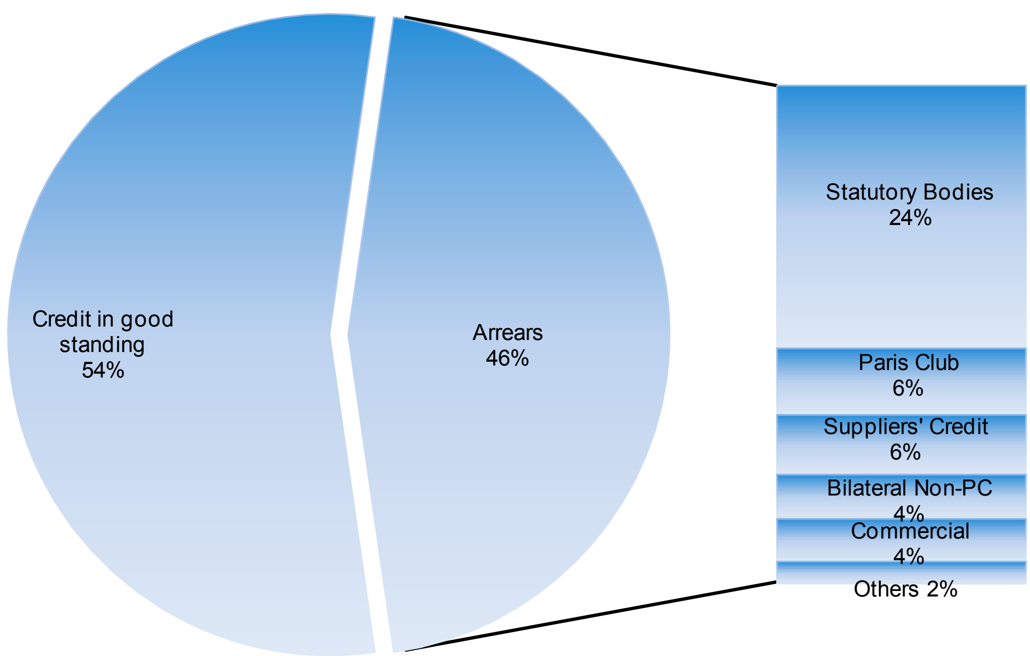
[2] In late 2007 the arrears with the statutory bodies decreased by EC$104 million (US$38 million) due to a bilateral agreement between the central government and the Board of Education.

Figure 1. Antigua and Barbuda: Composition of Public and Publicly Guaranteed Debt, end-2009
(in percent of total public and publicly guaranteed debt)

A. Creditors' shares in total public debt



B. Creditors' shares in arrears



Sources: Ministry of Finance; Eastern Caribbean Central Bank, and IMF staff calculations.

3. **Domestic credit to the government is concentrated on indigenous banks and statutory bodies.** About EC$ 780 million is held by the domestic banking sector, mostly by indigenous banks and the Eastern Caribbean Central Bank. The debt with statutory bodies amounts to near EC$ 860 million, as a result of unpaid contributions to the Social Security Board, the Medical Benefit Scheme, the State Insurance Corporation, and the Board of Education. The entire stock of outstanding debt with statutory bodies is on arrears.

4. **The exchange rate risk offered by foreign-denominated debt in Antigua and Barbuda is relatively low.** Reflecting the structure of its treasury operations, all domestic debt is denominated in local currency (Eastern Caribbean dollars). Moreover, about 83 percent of its external debt is denominated in U.S. dollars, to which the local currency has been pegged since 1976. Recent disbursements by China have—to a limited extent—contributed to a diversification away from the U.S. dollars and toward the Chinese renminbi (9 percent of the external debt)**.** The remaining portion of external debt is denominated mostly in euros (4 percent) and Kuwaiti dinars (3 percent).

5. **The residual maturity of the debt is skewed towards the short-term, as a result of significant accumulation of arrears and short-term commercial loans.** In addition to the existing stock of arrears, another 8.7 percent of GDP is due within one year on principal alone. If we add to that the interest on current and past due obligations accrued this year, the total debt service faced by Antigua and Barbuda in 2010 surpasses 17 percent of GDP—and this would only be sufficient for the country to avoid further defaults and increases in arrears. Reflecting these dire conditions, rollover risks had already materialized by mid-2009, with the cessation of most lending operations from domestic banks and external creditors, along with significant under-subscription in the auctions of Antigua and Barbuda's treasury bills at the Regional Government Securities Market (RGSM).

6. **Antigua and Barbuda has initiated debt restructuring renegotiations with some of its main creditors.** Discussions are underway with the statutory bodies—especially the Social Security Board and the Medical Benefit Scheme—which are expected to provide a significant relief in terms of stocks and flows. Furthermore, the authorities reported bilateral agreements with some indigenous banks towards the conversion of overdraft balances (with an average annual interest rate of 13 percent and very short maturity) into regular loans (with an average annual interest rate of 8.5 percent and multi-year maturities). In parallel, the authorities have negotiated with multilaterals the clearance of its arrears in the coming months. Finally, the authorities are also seeking relief from bilateral official creditors within the context of the Paris Club.

Macroeconomic Assumptions

7. The debt sustainability analysis is based on the following assumptions, in line with the macroeconomic framework presented in the staff report:

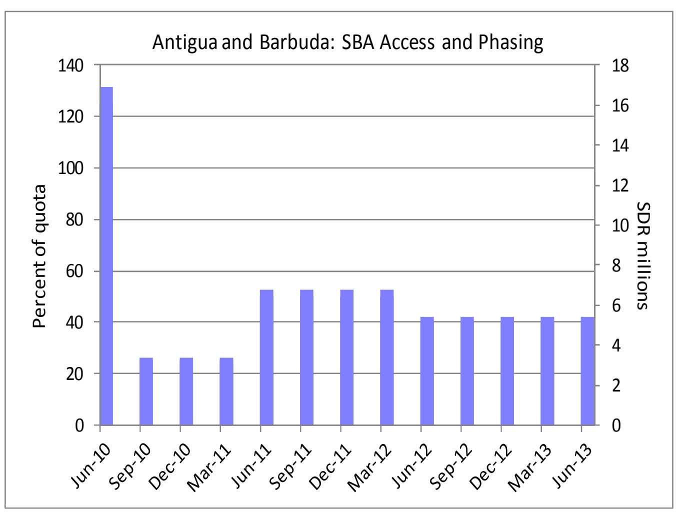
- **The adjustment measures included in the 2010 budget are expected to yield an average primary surplus of 3.6 percent of GDP over the medium term.** In addition, public sector reforms, and in particular civil service reform, could further raise the primary surplus up to 4.2 percent of GDP by 2013-14.

- **Growth is expected to recover starting 2011, while inflation will continue subdued.** Due to the global financial crisis and the collapse of the Stanford and the CL Financial groups, the three most important sectors of the Antiguan economy (tourism, construction, and banking services) are expected to continue underperforming this year, with initial signs of recovery to become noticeable by 2011. Real GDP growth would decline by 2 percent in 2010, and then begin to recover slowly, reaching 4 percent over the medium term, reflecting inter alia the recovery in tourism and the benefits of structural reforms.

- **Exports of goods as a percentage of GDP are expected to remain flat, but tourism receipts are projected to pick up with a modest increase in tourism-related FDI inflows.** Given the low liquidity in the domestic banking system, financing gaps would need to be filled mostly externally. For this reason, and based on the regional experience, it is assumed a mix of domestic and external financing—both in the form of six-year bonds, at an initial interest rate of 7½ percent, with increments of 50 basis points each year over the medium term.

- **Privatization.** While this is not incorporated into the scenarios below due to high uncertainty and political sensitivity, the authorities plan to privatize a small number of public enterprises, which could contribute to debt reduction over the medium term.

- **Fund program.** We consider public debt developments in the context of a three-year SBA with access of SDR 81 million (600 percent of quota). The disbursements are programmed to become available on a quarterly basis following the Board's approval after each review, and to respect the normal access limits (200 percent of quota disbursed each year, up to a maximum of 600 percent of quota cumulative).



Debt dynamics under the central scenario

8. **This analysis is based on the assumption that arrears would be cleared in 2010.** The authorities are seeking a resolution from Parliament authorizing the swap of the arrears with statutory bodies for long-term bonds (30-year maturity, 5-year grace period, and step-up coupon that starts at zero and increases by 100 basis points every five years, up to 6 percent).[3] For the remaining domestic arrears—mainly unpaid vouchers and matured securities—the assumption is commercial terms (12-year bonds, 5-year grace period, and a fixed coupon of 7.5 percent). For the external arrears, in light of the unknown outcome of the discussions with the Paris Club, we assumed similar commercial terms to clear the arrears with commercial and official creditors, but to the latter group the Commercial Interest Reference Rate (CIRR) would apply.

9. **A comprehensive debt restructuring is needed to put Antigua's total PPG on a sustainable path.** Even with the substantial fiscal measures contemplated, PPG debt would not decline significantly as a share of GDP in the absence of a comprehensive debt restructuring. Under the baseline scenario, which includes debt restructuring already underway, debt declines slowly, from 115 percent of GDP at end-2009 to 105 percent of GDP at the completion of the IMF program in 2013 (Table 1). The bound tests using the baseline scenario indicate vulnerability to a range of shocks (including growth rates, primary balance, interest rates, and contingent liabilities) (Figure 2). The ratio of PPG debt to GDP is projected to fall at a more robust pace with full implementation of the programmed restructuring.

10. **A comprehensive public debt rescheduling is also necessary to reduce external vulnerabilities.** Due to the high debt-stabilizing non-interest current account, Antigua's external debt would remain at 44 percent of GDP even after a severe compression in its deficit in the balance of goods and services (Table 2)[4]. Likewise, positive gains from higher economic growth would be offset by the heavy interest burden. Moreover, gross financing needs would average 20 percent of GDP in the medium term, and the vulnerability to current account shocks (including deteriorated terms of trade and lower demand for tourism) could push the external debt up to two-thirds of GDP (Figure 3).

Conclusion

11. **This DSA indicates that Antigua and Barbuda's risks of debt distress would remain elevated even in the presence of strong fiscal and external adjustments.** In spite of significant fiscal restraint and trade deficit compression, the PPG debt would linger at

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[3] The legislation is expected to be approved by Parliament in the coming months.

[4] This analysis incorporates debt restructuring currently underway, in particular the restructuring of one external commercial loan. External arrears are assumed to be cleared on commercial terms.

pre-IMF program levels in the medium term. Under such scenario, the country would be highly vulnerability to an array of shocks, and the risks of future defaults would be amplified. A comprehensive debt restructuring, therefore, is a keystone for the consolidation of fiscal and external sustainability.

Table 1. Antigua and Barbuda: Public Sector Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	111.5	105.8	93.3	92.8	115.3	**117.3**	**115.4**	**111.0**	**104.9**	**98.4**	**93.0**	**-2.4**
o/w foreign-currency denominated	41.4	40.4	39.5	35.1	43.7	47.4	48.6	48.6	46.9	44.9	43.8	
Change in public sector debt	-23.5	-5.7	-12.5	-0.5	22.5	2.0	-1.9	-4.4	-6.2	-6.5	-5.4	
Identified debt-creating flows (4+7+12)	-2.8	-7.2	-4.0	2.4	25.9	1.5	-2.3	-4.9	-6.6	-6.9	-5.7	
Primary deficit	1.5	4.3	2.9	3.0	11.5	-3.0	-3.4	-3.8	-4.2	-4.2	-3.2	
Revenue and grants	22.8	25.0	24.3	23.9	19.7	26.5	25.7	25.7	25.7	25.7	25.7	
Primary (noninterest) expenditure	24.3	29.3	27.1	26.9	31.2	23.4	22.3	21.9	21.5	21.5	22.5	
Automatic debt dynamics 2/	-4.3	-11.5	-6.8	-0.6	11.6	4.5	1.0	-1.1	-2.4	-2.7	-2.5	
Contribution from interest rate/growth differential 3/	-4.3	-11.5	-6.8	-0.6	11.6	4.5	1.0	-1.1	-2.4	-2.7	-2.5	
Of which contribution from real interest rate	2.1	0.8	-0.6	1.0	4.8	2.2	2.0	1.7	1.5	1.5	1.6	
Of which contribution from real GDP growth	-6.3	-12.3	-6.2	-1.6	6.8	2.3	-0.9	-2.8	-4.0	-4.1	-4.1	
Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	
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	0.0	0.0	0.0	0.0	2.8	0.0	0.0	0.0	0.0	0.0	0.0	
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) 5/	-20.7	1.5	-8.5	-2.9	-3.5	0.5	0.5	0.5	0.4	0.4	0.3	
Public sector debt-to-revenue ratio 1/	489.8	422.9	384.8	387.9	586.1	443.4	449.7	432.5	408.5	383.1	362.1	
Gross financing need 6/	7.0	10.6	6.1	8.5	23.4	5.9	2.5	3.6	1.7	2.0	7.2	
in billions of U.S. dollars	0.1	0.1	0.1	0.1	0.3	0.1	0.0	0.0	0.0	0.0	0.1	
Scenario with key variables at their historical averages 7/						**117.3**	**121.2**	**125.1**	**129.0**	**132.7**	**136.4**	**-0.6**
Scenario with no policy change (constant primary balance) in 2010-2015						**117.3**	**115.8**	**112.2**	**107.1**	**101.7**	**96.5**	**-2.4**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.0	12.9	6.5	1.8	-7.0	-2.0	0.8	2.5	3.8	4.2	4.4	
Average nominal interest rate on public debt (in percent) 8/	3.2	4.4	3.8	3.5	7.8	4.7	4.5	4.2	4.1	4.0	4.2	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.7	1.3	-0.4	1.2	4.8	1.9	1.8	1.6	1.6	1.6	1.8	
Nominal appreciation (increase in US dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	1.5	3.2	4.2	2.4	3.0	2.8	2.7	2.6	2.5	2.4	2.3	
Growth of real primary spending (deflated by GDP deflator, in percent)	11.8	36.5	1.3	0.9	7.4	-26.8	-4.5	0.5	1.5	3.6	8.9	
Primary deficit	1.5	4.3	2.9	3.0	11.5	-3.0	-3.4	-3.8	-4.2	-4.2	-3.2	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ 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.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

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

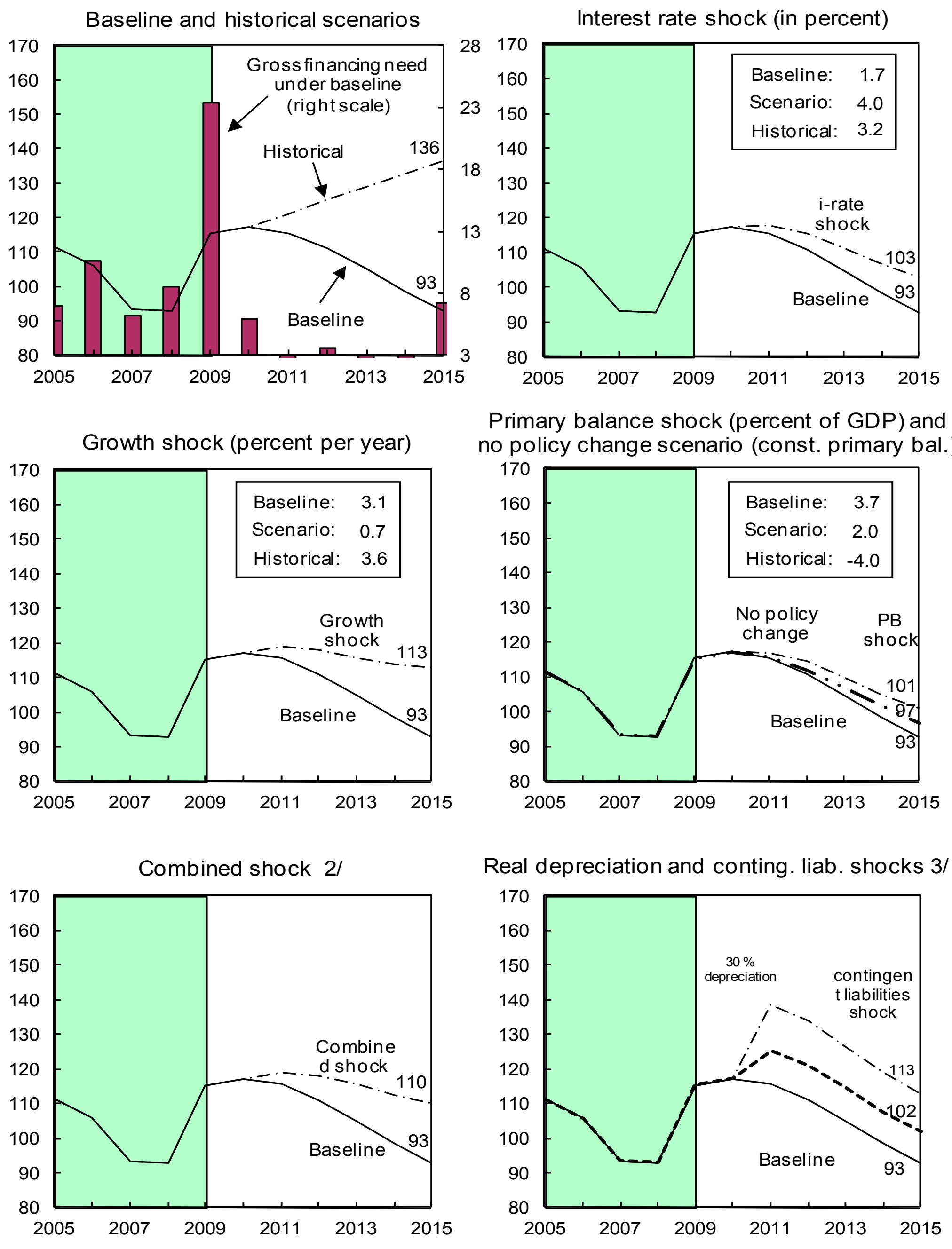
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

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

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

9/ 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.

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



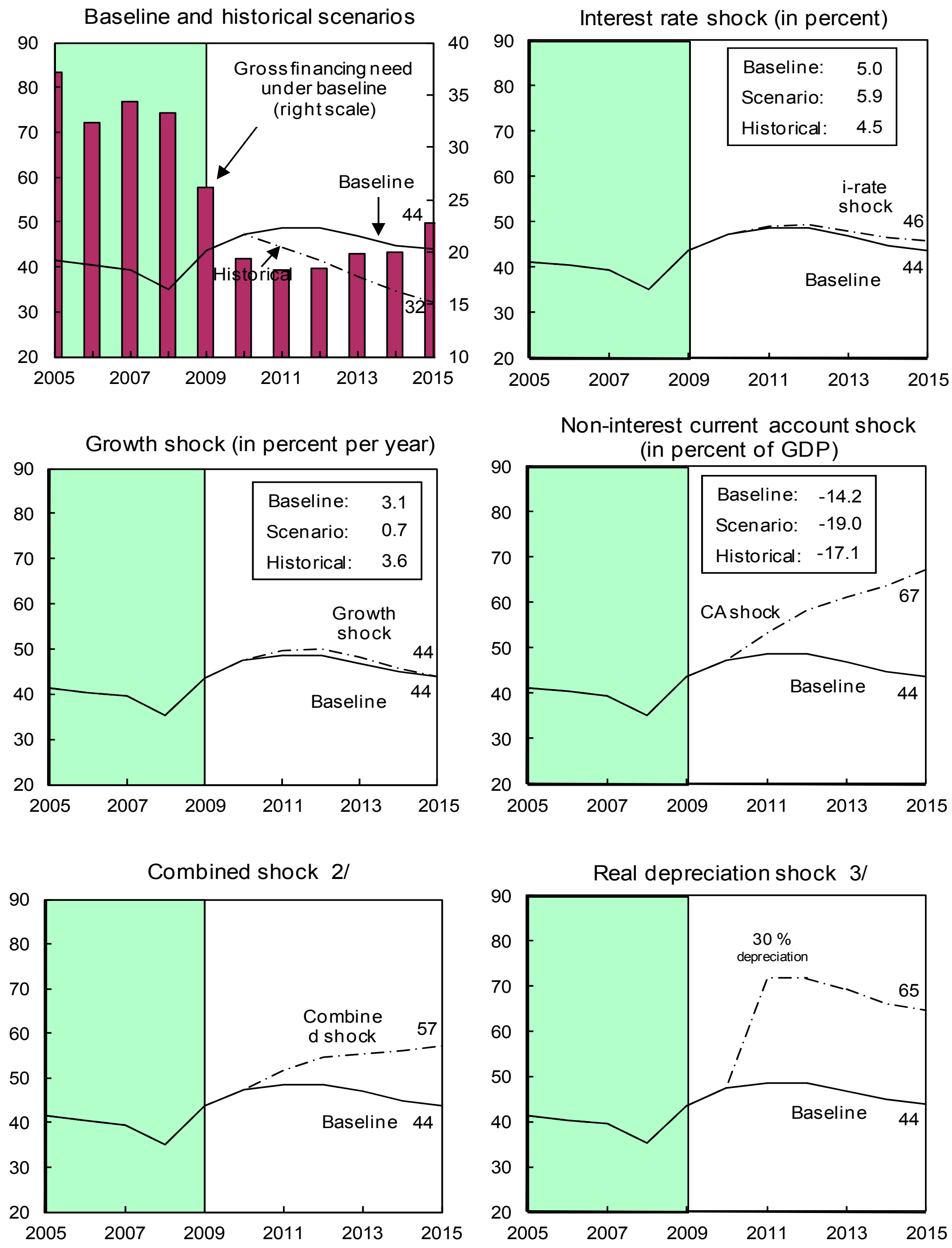
Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. 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 2010, 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 2. Antigua and Barbuda: External Debt Sustainability Framework, 2005-2015
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Debt-stabilizing non-interest current account 6/
Baseline: External debt	41.4	40.4	39.5	35.1	43.7	**47.4**	**48.6**	**48.6**	**46.9**	**44.9**	**43.8**	**-12.7**
Change in external debt	-24.3	-1.0	-1.0	-4.4	8.6	3.7	1.2	0.0	-1.7	-2.0	-1.1	
Identified external debt-creating flows (4+8+9)	1.8	-10.7	-1.5	13.5	15.2	7.0	5.2	4.0	2.9	2.6	2.5	
Current account deficit, excluding interest payments	16.6	28.2	30.3	28.7	22.5	14.5	14.2	14.2	14.1	14.2	14.3	
Deficit in balance of goods and services	13.1	26.4	28.7	25.0	23.0	13.7	13.5	13.4	13.3	13.3	13.4	
Exports	65.7	54.6	52.1	53.3	49.9	51.0	52.8	53.9	53.9	54.1	54.0	
Imports	78.8	81.0	80.7	78.3	73.0	64.7	66.3	67.3	67.2	67.4	67.3	
Net non-debt creating capital inflows (negative)	-13.4	-35.5	-29.3	-14.4	-11.3	-10.6	-11.1	-11.4	-11.7	-11.9	-12.1	
Automatic debt dynamics 1/	-1.4	-3.4	-2.4	-0.9	3.9	3.2	2.1	1.2	0.5	0.3	0.2	
Contribution from nominal interest rate	2.3	2.5	2.6	0.7	2.2	2.3	2.4	2.3	2.2	2.1	2.1	
Contribution from real GDP growth	-3.1	-4.6	-2.3	-0.7	2.6	0.9	-0.4	-1.2	-1.7	-1.9	-1.9	
Contribution from price and exchange rate changes 2/	-0.6	-1.3	-2.8	-0.9	-0.9	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-26.1	9.7	0.5	-17.8	-6.6	-3.3	-4.0	-4.0	-4.7	-4.6	-3.5	
External debt-to-exports ratio (in percent)	63.0	74.1	75.8	65.8	87.5	92.9	92.0	90.2	87.0	83.0	81.3	
Gross external financing need (in billions of US dollars) 4/	0.3	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.3	0.3	0.3	
in percent of GDP	37.2	32.4	34.4	33.3	26.2	19.3	18.3	18.4	19.7	19.9	22.8	
Scenario with key variables at their historical averages 5/						**47.4**	**44.4**	**41.5**	**38.0**	**34.5**	**32.0**	**-17.0**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.0	12.9	6.5	1.8	-7.0	-2.0	0.8	2.5	3.8	4.2	4.4	
GDP deflator in US dollars (change in percent)	0.8	3.3	7.3	2.4	2.5	2.3	2.3	2.2	2.1	2.0	2.0	
Nominal external interest rate (in percent)	3.7	7.0	7.4	1.9	6.0	5.4	5.3	5.1	4.8	4.8	5.0	
Growth of exports (US dollar terms, in percent)	6.6	-3.2	9.1	6.7	-10.8	2.5	6.7	6.9	6.0	6.8	6.2	
Growth of imports (US dollar terms, in percent)	15.3	19.9	14.0	1.1	-11.2	-11.0	5.6	6.4	5.8	6.7	6.4	
Current account balance, excluding interest payments	-16.6	-28.2	-30.3	-28.7	-22.5	-14.5	-14.2	-14.2	-14.1	-14.2	-14.3	
Net non-debt creating capital inflows	13.4	35.5	29.3	14.4	11.3	10.6	11.1	11.4	11.7	11.9	12.1	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,
ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).
3/ For projection, line includes the impact of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 3. Antigua and Barbuda: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and 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 2011.

INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

Staff Report for the 2010 Article IV Consultation and Request for Stand-By Arrangement

Informational Annex

Prepared by Western Hemisphere Department

May 25, 2010

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Appendix I. Antigua and Barbuda: Fund Relations

(As of April 30, 2010)

I. Membership Status: Joined: February 25, 1982; Article VIII

II. General Resources Account:	**SDR Million**	**%Quota**
Quota	13.50	100.00
Fund holdings of currency	13.50	99.99
Reserve Tranche Position	0.01	0.05
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	12.50	100.00
Holdings	12.51	100.05

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements: None

VI. Projected Payments to Fund[1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal					
Charges/Interest		0.00	0.00	0.00	0.00
Total		0.00	0.00	0.00	0.00

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. 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.

X. Safeguards Assessment: A safeguards assessment of the ECCB was conducted in 2007, concluding that adequate safeguards were in place to manage resources, including IMF disbursements. The assessment determined low risk ratings in all ELRIC areas.

XI. 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 February 4, 2008. The staff report is SM/08/23, and the accompanying statistical appendix is SM/08/25.

XII. 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.

XIII. Technical Assistance (May 2007–March 2010):

Technical Assistance Projects

	FY 2007	FY 2008	FY 2009	FY 2010
Fiscal Affairs Department				
PFM: CARTAC		1		
Budget Management Review	1	4		1
Treasury Department				4
Budget Department				
Public Expenditure and Financial Accountability (PEFA) Assessment and development of a PFM Action Plan (for Ministry of Finance)				1
PFM: HQ				
Antigua and Barbuda:PFM: 2nd side trip	1			
Revenue Administration: CARTAC				
ABST	7			
PIT	2	4		
Customs	2			
Other	13	11	2	4
Tax Policy: HQ	1			
Sub-total	**27**	**19**	**2**	**10**
LEG				
AML Law: HQ	1			
Financial Services Regulatory Commission: HQ	1			
ABST		1		
Sub-total	2	1	0	0
MCM				
Money and Capital Markets Dev: CARTAC	2			
Sub-total	**2**	**0**	**0**	**0**
STA				
Statistics: CARTAC				
National Accounts		2	1	1
Price Statistics		1	1	1
Statistics: HQ				
Government Finance Statistics		1		
Balance of Payments				
Other				
Sub-total	0	4	2	2
WHD				
Macroeconomic: CARTAC	4	0	0	3
Sub-total	4	0	0	3
Grand Total	**35**	**24**	**4**	**15**

Source: IMF staff.

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

(As of April 15, 2010)

The World Bank is in the process of elaborating its Eastern Caribbean Sub-Regional Partnership Strategy for FY10–14 which is scheduled to be presented to the Bank's Board in June 2010. The Bank's Eastern Caribbean Country Assistance Strategy (CAS) for FY06–09 supported 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. Antigua and Barbuda did not borrow under the FY06–09 CAS.

The Bank is engaged with the authorities through two grants offering technical assistance in: (1) preparing an Action Plan for the management of phasing out of Chloroflurocarbons ($100,000 from a Bank-administered multidonor trust fund, approved in February 2009); and (2) enhancing the efficiency of personnel expenditures by achieving a fiscally sustainable wage bill in support of the National Economic and Social Transformation (NEST) Plan ($310,000 from the Institutional Development Fund, approved in January 2010). Further, the Bank, collaborating with UNICEF and UNIFEM, has agreed to provide technical assistance in support of the government's efforts to strengthen its social safety nets program.

In addition, the International Finance Corporation (IFC) carried out its first direct investment in Antigua and Barbuda, in the education sector in the amount of US$30 million. The loan to a tertiary institution is expected to help diversify the local economy and contribute to local employment and development of service industries. The authorities have engaged the IFC to provide advisory services on divestiture of state-owned assets.

Additionally, Antigua and Barbuda will benefit from recently completed, ongoing and planned analytical and advisory activities to support the CAS' two main pillars including: an OECS study on Growth and Competitiveness (2005); an OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006), and a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007). In addition, an OECS Private Sector Financing Study and the OECS Tourism Backward Linkages Study were completed in 2008. The publication "Caribbean—Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" and the "CARICOM study on Managing Nurse Migration" were released in the summer of 2009 and in the first quarter of 2010, respectively. A preparatory study, ultimately aimed at developing a Caribbean Regional Electricity Generation, Interconnection and Fuel Supply Strategy, is being finalized.

Appendix III. Antigua and Barbuda: Relations with the Caribbean Development Bank (As of December 31, 2009)

Caribbean Development Bank (CDB) has supported Antigua and Barbuda's economic and social development by providing finance for priority capital projects and technical assistance. In addition, CDB has undertaken analytical work and engaged in policy dialogue on major developmental issues with the Government of Antigua and Barbuda. Since its inception in 1970, CDB's involvement in Antigua and Barbuda has included:

- assisting in the development and implementation of macroeconomic, social and sectoral policies aimed at maintaining sustainable economic growth;

- improving the skills of the country's human resource base;

- providing direct and indirect financing to the agriculture, manufacturing and tourism sectors; and

- assisting in emergency disaster relief and rehabilitation.

Major projects currently under implementation include:

- a consolidated line of credit to the Antigua and Barbuda Development Bank to finance mortgages, small and medium-sized enterprise development and student loans;

- a project to improve security at the V. C. Bird International Airport and the St. John's Deepwater Harbour to meet new international standards;

- a loan to support the transformation of LIAT (1974) Ltd., the intra-regional airline into a profitable enterprise by increasing its operational efficiency and strengthening its institutional capabilities; and

- a technical assistance grant to strengthen the operations of the Statistical Division in the Ministry of Finance, the Economy and Public Administration.

At the end of December 2009, CDB had approved US$71.8 million in loans, contingent loans, equity and grants to Antigua and Barbuda, of which undrawn balances totalled US$7.4 million.

CDB Assistance by Sector
(Cumulative 1970–2008

Sector	US$ mn	% of Total
Agriculture	3.5	4.9
Micro and Small Enterprises	1.0	1.4
Manufacturing	5.8	8.1
Tourism	1.9	2.6
Power and Energy	0.3	0.4
Transportation	28.5	39.7
Housing	3.5	4.9
Education	20.0	27.8
Multi-sector	7.3	10.2
Total	**71.8**	**100.0**

Source: CDB

Appendix IV. Antigua and Barbuda: Statistical Issues

(As of April 14, 2010)

Antigua and Barbuda participates in the Fund's General Data Dissemination System (GDDS), but metadata for the real, fiscal and external sectors and plans for improvement have not been updated since October 2002. Data provided to the Fund are broadly adequate for surveillance purposes but significant areas for improvement remain in the real sector (including the consumer price index), fiscal and balance of payments data. 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. In December 2009, a STA technical assistance mission took place to follow up on the ROSC and the ECCB has developed an action plan to implement the recommendations of the mission.

1. Real sector statistics

The national accounts are currently being rebased to a more recent year (2006) in accordance with the methodology of the 1993 *System of National Accounts.* The ECCB is planning to release the rebased national accounts of all member countries in September 2010. As part of the rebasing exercise, improvements in coverage, data sources, and methodology will be incorporated. Revisions will also be made to the classification of the GDP by economic activity. It is expected that the current GDP series have been grossly underestimated. Annual national account statistics are provided to the IMF for publication in the *International Financial Statistics (IFS).*

The ECCU is also rebasing national CPIs to a more recent year (January 2010) and the new index is expected to be published in September 2010 at the same time as the rebased national accounts. The new basket of goods and services will better reflect the importance of rent and owner's imputed rents, and additional outlets will be added to better cover services such as mobile phones, computers, and health insurance.

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. (was the survey for Antigua only or for the ECCU?) Work has already started for the 2010 population census.

2. Government finance statistics

The 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 the past several years, however, Antigua and Barbuda has not been reporting government finance statistics to the Fund for inclusion in the *Government Finance*

Statistics Yearbook (GFSY) and the *International Financial Statistics (IFS).* To better understand the underlying fiscal situation of member countries, the ECCB has agreed that the ECCU would implement the methodology of the *Government Finance Statistics Manual 2001 (GFSM 2001)* by May 2011. STA has proposed to organize a five-day regional workshop in St-Kitts in early Fall 2010 to help ECCU member countries move to the *GFSM 2001*.

3. Monetary and financial statistics

Monetary statistics are compiled by the ECCB on a monthly basis with a lag of six weeks. In July 2006, the ECCB started reporting monetary and financial statistics to the Fund in accordance with the methodology of the *Monetary and Financial Statistics Manual (MFSM 2000)*; the associated data have been published in the *IFS Supplement* since September 2006.

In November 2009, a STA mission helped the ECCB expand the coverage of the Other Depository Corporations Survey (ODCs) to include mortgage companies, finance companies, building societies, credit unions, and development banks; the mission also helped develop a financial corporations' survey, which would include other financial corporations (OFCs) such as offshore banks, trust companies, mutual funds, money service firms, and insurance companies. The ECCB has developed an action plan to implement the recommendations of the TA mission and the new ODC survey is expected be available by the end of 2010.

4. External sector statistics

The ECCB is also preparing new BOP survey forms, which will include trade in services and provide a better coverage of FDI. In the medium-term, the improved forms will allow for the presentation of the BOP in the Extended Balance of Payments Services (EBOPS) and for the preparation of the International Investment Position (IIP). Due to delay in updating the software to reflect changes made to the survey form, the launch of the new survey forms has been postponed. The ECCB reports annual balance of payments statistics for dissemination in the *Balance of Payments Statistics Yearbook (BOPSY).* Antigua and Barbuda, however, does not report trade data for publication in the *Direction of Trade Statistics Yearbook (DOTS)*.

Table of Common Indicators Required for Surveillance

(As of April 14, 2010)

	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[2,3]	February 2010	04/11/10	M	M	M
Reserve/Base Money[3]	February 2010	04/12/10	M	M	M
Broad Money[3]	February 2010	04/12/10	M	M	M
Central Bank Balance Sheet[3,4]	February 2010	04/12/10	M	M	M
Consolidated Balance Sheet of the Banking System[3,5]	February 2010	04/12/10	M	M	M
Interest Rates[6]	February 2010	04/12/10	M	M	M
Consumer Price Index[7]	February 2010	04/09/10	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[8] General Government[9]	January 2010	03/05/10	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt	December 2009	03/02/10	A	A	I
External Current Account Balance[10]	December 2009	3/03/10	Q	Q	Q
Exports and Imports of Goods and Services[10]	December 2009	3/03/10	Q	Q	Q
GDP/GNP[10]	December 2009	03/09/10	A	A	A
Gross External Debt	December 2009	03/02/10	A	A	I

[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. Published yearly in the *Financial Statistics Yearbook.*
[3] Published monthly in the IMF's *International Financial Statistics (IFS).*
[4] Central bank survey is published on the ECCB website and in the *IFS*.
[5] Monetary survey is published on the ECCB website and in the *IFS*
[6] The discount rate is published once a year in *Report and Statement of Accounts* and monthly in the *IFS*. Monthly statistics on deposits, lending, and weighted rates published annually in the *Financial Statistics Yearbook.* The interbank market rate, T-bills rates, deposit and lending rates, and government bond yields are published monthly in the *IFS*.
[7] Published on the ECCB website.
[8] Foreign, domestic bank, and domestic nonbank financing. Quarterly fiscal statistics are published once a year in the *Economic and Financial Review.*
[9] Central government only.
[10] Published on the ECCB website and in the *IFS*.

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FOR IMMEDIATE RELEASE
July 19, 2010

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Antigua and Barbuda

On June, 07, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Antigua and Barbuda.[1]

Background

Antigua and Barbuda's economy is experiencing its worst recession in decades. The global slowdown has severely affected the economy through its impact on tourist arrivals, Foreign Direct Investment (FDI) inflows and remittances, and fiscal revenue. Real GDP contracted by 7 percent in 2009 after expanding on average by about 6 percent during the previous 5 years. Following a spike in 2008, inflation has remained in the low single digits despite a 20 percent increase in fuel prices and higher consumption taxes. The recession and associated fiscal crisis coincided with an already unsustainable fiscal situation and mounting problems in the financial sector—the collapse of the Stanford Group (the largest private conglomerate) and of the Trinidad-based CL Financial Group.

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Following many years of accumulation of arrears to domestic and external creditors, the fiscal situation turned critical in 2009 as the recession led to a 20 percent decline in tax revenue. Meanwhile, recorded primary expenditure rose by 4.5 percent of GDP due to higher-than-budgeted current outlays. The overall fiscal deficit widened from 6 percent of GDP in 2008 to about 19 percent in 2009. With limited financing options, the government accumulated arrears amounting to about 9 percent of GDP to domestic and external creditors, bringing the total stock of arrears to about 53 percent of GDP, or 45 percent of the outstanding public debt, which totaled 115 percent of GDP. To contain the deterioration in the fiscal position, the authorities implemented revenue measures in mid-2009 amounting to about 1.5 percent of GDP on an annualized basis. These included raising petroleum product prices in August, by an average of 20 percent (about 1.5 percent of GDP), while introducing a flexible and market-based petroleum-product pricing mechanism.

The external current account deficit narrowed to 25 percent of GDP in 2009, reflecting a decline in FDI inflows. Aside from some financing from Venezuela, the deficit was financed mainly by a drawdown in commercial banks foreign asset position, a reduction in Antigua and Barbuda's share of international reserves at the Eastern Caribbean Central Bank (ECCB), and the further accumulation of arrears on public external debt.

The contraction of economic activity has resulted in a significant slowdown in private sector credit growth, while domestic bank lending rates have remained broadly stable. However, non-performing loans fell sharply in 2009 as percent of total loans, reflecting the restructuring of loans to both government and the private sector. In February 2009, the ECCB assumed control of the Bank of Antigua following a sharp withdrawal of deposits precipitated by the collapse of the Stanford Group. This has resulted in a shift of about 20 percent of indigenous banks' deposits to foreign owned banks.

The authorities have requested Fund financial assistance and the Executive Board approved a three-year Stand-By Arrangement in June (see Press Release No. 10/232) in support of a comprehensive reform strategy aimed at restoring fiscal and debt sustainability. The reforms include a significant and sustained tightening of fiscal policy supported by a comprehensive debt restructuring and structural reforms to strengthen the customs and inland revenue departments. The approved 2010 budget built on the fiscal measures taken in mid-2009, and features additional measures that are designed to shift the fiscal position to primary surplus of 3 percent of GDP from a primary deficit of 11.5 percent of GDP in 2009. These measures, which include prioritizing capital and goods and services expenditure and a freeze on public sector wages, will be complemented by revenue measures aimed at returning the tax-to-GDP ratio to pre-crisis levels and bring the overall deficit to zero by 2012. The authorities have approached their domestic and external creditors seeking to restructure their public debt and to regularize the extremely high level of arrears. The authorities' strategy also includes strengthening supervision and regulation of the financial sector to increase its resilience to shocks and reduce macro-financial risks.

Executive Board Assessment

The Executive Directors commended the authorities for their strong and comprehensive response to the exogenous shocks to tourism receipts, FDI inflows and remittances, which led to the most severe recession experienced by Antigua and Barbuda. The already unsustainable fiscal position, with high public debt and a large stock of arrears, turned critical and problems also mounted in the financial sector. Directors endorsed the authorities' three-pronged strategy comprising front-loaded fiscal adjustment measures, debt restructuring, and structural reforms to further strengthen the fiscal position, address financial sector vulnerabilities and foster growth. They stressed the critical importance of full implementation of this strategy which underpins the Fund-supported program.

Directors welcomed the authorities' commitment to a strong fiscal adjustment program, which will constitute a decisive step towards restoring debt sustainability. They observed that the combination of both, raising tax revenue and cutting expenditure by prioritizing capital spending and reducing the wage bill, are needed to shift the fiscal position from a significant primary deficit to a surplus. They welcomed the actions already taken and emphasized that maintaining fiscal discipline and following through on additional measures, if needed, would also be important. Directors stressed that sustained commitment to the planned fiscal structural reforms, including strengthening revenue agencies and reforming the civil service, social security and public financial management, will be central to further fortifying the fiscal position.

Directors emphasized that comprehensive domestic and external debt restructuring is paramount for achieving debt sustainability, given that the public debt of Antigua and Barbuda is unsustainable even with the significant fiscal adjustment envisaged. They welcomed the authorities' first steps to engage in open and transparent negotiations with external creditors as part of a restructuring strategy. In this context, Directors considered it essential to engage also non-Paris Club creditors and to seek treatment comparable to Paris Club creditors. Directors stressed that, since the bulk of the interest relief will come from restructuring domestic debt, the parametric reform envisaged by the authorities for the social security scheme, a key domestic creditor, will be essential to ensure its long-term viability.

Directors agreed that the financial sector reform agenda is well focused on both bank and nonbank segments. Onsite inspection of the banking system by the Eastern Caribbean Central Bank will provide important and timely information and form the basis to deal with fragilities of domestic banks. Strengthening the regulation and supervision of offshore financial services and nonbanks will address major shortcomings in the regulatory framework. Directors welcomed the ongoing efforts to strengthen legislation concerning anti-money laundering and combating the financing of terrorism, and encouraged the authorities to persevere in these efforts.

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 and Financial Indicators, 2005–2011

	2005	2006	2007	2008	2009	2010	2011
					Est.	Proj.	
NATIONAL INCOME AND PRICES			(Annual percentage change)				
GDP at constant factor cost	5.0	12.9	6.5	1.8	-7.0	-2.0	0.8
Nominal GDP at market prices	5.9	16.6	14.3	4.2	-4.7	0.3	3.1
Consumer prices (period average)	2.1	1.8	1.4	5.3	1.0	3.0	1.6
MONETARY ACCOUNTS							
Broad money	14.9	11.1	12.0	2.1	-0.3	0.7	3.1
Net foreign assets	10.7	30.3	-4.7	-37.6	-31.0	12.5	3.1
Net domestic assets	7.7	2.8	21.1	19.4	6.7	-1.0	3.1
Of which: To private sector	16.5	17.3	13.8	9.2	-0.8	1.9	6.7
CENTRAL GOVERNMENT FINANCES			(In percent of GDP, unless otherwise indicated)				
Total revenue and grants	22.8	25.0	24.3	23.9	19.7	26.5	25.7
Total expenditure	28.4	33.6	30.7	30.0	38.8	28.8	27.3
Overall balance	-5.7	-8.5	-6.4	-6.1	-19.1	-2.3	-1.7
Primary balance	-1.5	-4.3	-2.9	-3.0	-11.5	3.0	3.4
Public and publicly guaranteed debt	111.5	105.8	93.3	92.8	115.3	117.3	115.4
External	41.4	40.4	37.7	35.1	43.7	47.4	48.6
Domestic	70.1	65.4	55.6	57.7	71.6	69.9	66.8
BALANCE OF PAYMENTS							
Current account	-18.9	-30.7	-32.9	-29.4	-24.7	-16.8	-16.7
Of which: Gross tourism receipts	35.7	32.3	29.2	27.8	24.5	25.3	26.1
Capital and financial acct.	1.9	28.6	30.2	26.0	21.0	10.6	11.4
Of which: Net foreign direct investment	13.4	35.5	29.3	14.4	11.3	10.6	11.1
Overall balance	-17.1	-2.1	-2.7	-3.4	-3.7	-6.2	-5.3
MEMORANDUM ITEMS							
Gross intl. reserves of the ECCB							
(In millions of US dollars)	601	696	765	759	…	…	…
(In percent of ECCU broad money)	17.9	18.6	18.6	17.9	…	…	…
Nominal GDP at market prices							
(In millions of EC dollars)	2,340	2,729	3,119	3,249	3,097	3,106	3,202

Sources: Antiguan authorities; ECCB; and IMF staff estimates and projections.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves Three-Year US$117.8 Million Stand-By Arrangement with Antigua and Barbuda

The Executive Board of the International Monetary Fund (IMF) has approved a three-year Stand-By Arrangement (SBA) for an amount equivalent to SDR 81 million (about US$ 117.8 million) with Antigua and Barbuda. The arrangement will support the authorities' efforts to restore fiscal and debt sustainability and set the stage for a sustained recovery.

Antigua and Barbuda's tourism-dependent economy has been severely impacted by the global economic and financial crisis. Falling tourism and foreign direct investment (FDI)-related construction activities have triggered the worst recession in decades and contributed to a sharp decline in government revenue. This has aggravated an already unsustainable fiscal position resulting from longstanding fiscal imbalances and accumulation of a large stock of arrears to domestic and external creditors.

Following the Board's decision, a sum equivalent to SDR 16.875 million (about US$24.5 million) is available for immediate disbursement. The three-year SBA arrangement represents 600 percent of Antigua and Barbuda's SDR 13.50 million IMF quota. Antigua and Barbuda joined the Fund in February 1982.

Following the Executive Board's discussion of Antigua and Barbuda, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

"The Antiguan economy has been severely impacted by large exogenous shocks to tourism receipts, FDI inflows, and remittances. These shocks have led to a marked decline in economic activity, weakened the balance of payments, and exacerbated an unsustainable fiscal position.

"The government has formulated a comprehensive policy framework for restoring fiscal and debt sustainability which is supported by the IMF. The three-pronged approach comprises front-loaded adjustment measures, debt restructuring, and structural reforms to further strengthen the fiscal position, address financial sector vulnerabilities, and foster growth. The substantial measures already taken by authorities target a primary surplus of 3 percent of GDP following a primary deficit of 11½ percent last year.

"Over the medium term, structural reforms will play a central role in the authorities' efforts to further strengthen the fiscal position and balance the budget by 2012. These include the much needed strengthening of revenue collection agencies, public financial management reforms and improvements in the efficiency of public spending. Notwithstanding the strength of fiscal adjustment, the comprehensive public debt restructuring sought by the authorities is critical to achieving debt sustainability.

"The program also aims to rebuild international reserves to prudent levels and safeguard the stability of the payments system. To this end, the program includes measures to contain the risks to the financial system by bolstering supervision, including enhancing onsite inspection to detect and address the fragilities of domestic banks. The authorities will also put in place an effective regulatory framework for offshore financial services and nonbank financial institutions.

"The authorities' comprehensive and bold strategy merits strong support of the international community. While subject to considerable risks, if fully implemented, the program will provide a framework for the needed adjustment and financing, placing Antigua and Barbuda's economy back on a path of macroeconomic stability and sustained economic growth."

ANNEX

Recent Economic Developments

Antigua and Barbuda's economy contracted by 7 percent in 2009, experiencing its worst recession in decades. The global slowdown has severely affected Antigua and Barbuda's economy through its impact on tourist arrivals, FDI inflows and remittances, and fiscal revenue. The recession and associated fiscal crisis coincides with already weak public finances and mounting problems in the financial sector, including the collapse of the Stanford Group and the Trinidad-based CL Financial Group.

Following many years of accumulation of arrears to domestic and external creditors, the fiscal situation turned critical in 2009 as the recession led to a 20 percent decline in tax revenue. The overall fiscal deficit widened from 6 percent of GDP in 2008 to about 19 percent in 2009, public debt increased to 115 percent and the total stock of arrears rose to about 53 percent of GDP, or 45 percent of the outstanding public debt.

Program Summary

The authorities' comprehensive medium-term economic program aims to stabilize the public finances in 2010 and entrench the downward trend for the public debt ratio in subsequent years, thereby setting the stage for restored fiscal and external sustainability and revival of private investment.

Key reform objectives include:

- Continuous implementation of fiscal adjustment measures on both expenditure and revenue sides.
- Orderly restructuring of Antigua and Barbuda's debt in view of normalizing relations with its domestic and external creditors.
- Enhancing public financial management through improved reporting and auditing in ministries.
- Streamlining the country's public sector through a comprehensive civil service reform.
- Strengthening financial sector regulatory authorities so as to avoid a recurrence of regulatory arbitrage episodes.
- Continued support to the most vulnerable social groups through a variety of social programs.

Statement by Thomas Hockin, Executive Director for Antigua and Barbuda and Glenn Purves, Senior Advisor to the Executive Director for Antigua and Barbuda
June 7, 2010

At the outset, our authorities from Antigua and Barbuda wish to express their appreciation to the staff and management for the constructive policy dialogue, reflected in a very well-written document that accurately highlights the numerous risks and challenges that the authorities face.

The commitment of the government of Antigua and Barbuda to the program is discernable via the significant up-front fiscal measures they have taken thus far, their ongoing efforts to restructure their domestic and external debts to reduce interest costs and clear arrears, and their clear actions to strengthen the structures underpinning their fiscal and financial sector activities.

The principle of the program is to immediately contain debt accumulation and get it on a downward trajectory, whilst targeting repayment of domestic supplier arrears to support the private sector and growth. To achieve this, the authorities have implemented massive short-term fiscal adjustment to swing them into a primary balance surplus, and are pursuing debt restructuring to exit the program period in an overall surplus position. In the wake of registering a 19 percent of GDP overall deficit for 2009, such measures are vital and have been implemented as part of Budget 2010 which Parliament passed at the end of 2009.

As the staff paper identifies, in support of the authorities' macroeconomic and structural reform program they are seeking the Board's support for an SDR 81 million (600 percent of quota) loan under a 36-month Stand-By Arrangement. The Caribbean Development Bank Board of Directors has also approved a US$30 million policy based loan to be disbursed over three years, pending approval of an IMF program.

Background

For the past two decades, tourism and tourism-related construction have been the main drivers of economic growth, contributing to over two-thirds of GDP. After expanding robustly in the 1980s (growth rates averaging 13.6 percent per year), the economy of Antigua and Barbuda began to slow in the 1990s with growth averaging 5.7 percent due to rapid growth in fiscal imbalances and more rapid accumulation of public sector debt.

The current financial crisis, the largest in Antigua & Barbuda's history has led to a 7 percent economic contraction in 2009, driven by a widespread decline in construction, tourism, transport, wholesale, retail trade, and communications sectors. In particular, construction and tourism were adversely affected by a lack of financing as well as a decline in consumer spending in Antigua's major trading partners, most notably the US and the UK. The collapse of the Stanford Financial Group (SFG), a direct employer of 1,200, also had an impact on the economy.

Taken together, the Government experienced a decline in revenues of almost 22 percent in 2009.

The Program - Restoring Fiscal Sustainability in 2010

In consultation with international financial institutions, regional bodies and domestic stakeholders, a comprehensive set of structural reforms and long-term policies, detailed in the authorities' National Economic and Social Transformation Plan (NEST), have been formulated to restore fiscal and debt sustainability and place the economy on a firm footing.

The NEST plan calls for an aggressive shift in the primary balance of 12.3 percent of GDP in 2010 alone (not including grants): 4.5 percent targets the revenue side and comes primarily from a broadening of Antigua and Barbuda's VAT equivalent and an increase in import duties and consumption tax on oil products; the residual 7.8 percent comes from the expenditure side, primarily reductions in capital expenditures. As the staff report rightly highlights, these measures along with 2 percent of GDP in grants from the European Union and Japan are expected to lead to a one-year turnaround in the primary fiscal balance of roughly 14 - 14.5 percent of GDP, implying a 3 percent primary balance surplus for 2010.

It is important to note that the contraction in capital expenditures will not have a significant impact on growth given a lower GDP multiplier effect due to high import requirements. It is also not expected to compromise the infrastructural support for growth since substantial public sector investments in such capacity took place in more recent years. With this backdrop, real GDP growth is expected to contract by 2 percent in 2010, despite some pick-up in tourism revenues. The improving trend is expected to continue, with real GDP reaching over 4 percent in the medium-term. Inflation is expected to remain in the 2-3 percent range over the program period.

Addressing Arrears and Debt Sustainability

Despite the measures already taken in 2010, the authorities would still be facing an interest bill that would reach roughly 9 percent of GDP in 2010 without action (leaving the overall balance at 6 percent of GDP). The debt servicing costs need to be addressed if the debt-to-gdp ratio is to be placed on a meaningful downward trajectory. Thus, achieving a primary surplus in year one is a necessary but not a sole precondition for the success of this program, which ultimately focuses on reducing the stock of arrears in the medium term. The authorities recognize very well the importance of addressing and clearing arrears for generating good will and co-operation amongst domestic and external creditors alike, and domestic suppliers that are also taxpayers.

The authorities have engaged a debt advisor to assist them in their engagements with domestic and external creditors on a comprehensive voluntary restructuring that is largely expected to target interest payments. To date, the authorities have registered much progress on the domestic side—as illustrated in the staff report (paragraph 10) - and have engaged the Paris Club of creditors for financial assurances. The authorities have expressed confidence that they will be able to contain this interest bill by securing at least 4–4.5 percent of GDP in interest savings in 2010, placing the overall fiscal deficit at a more modest 2–2.5 percent of GDP (as opposed to 19 percent at the end of 2009).

Exiting the program, the intention is that all domestic arrears with the statutory bodies and external arrears would be converted, on a voluntary basis, into debt. The authorities would look to clear their arrears with domestic suppliers, based on the success of the program.

Tackling Needed Structural Reforms

The authorities of Antigua and Barbuda are aware that securing some yields from their NEST plan will require substantial structural reforms, particularly on the revenue administration side. Therefore, the authorities' policy framework incorporates structural reforms aimed at strengthening the primary balance and addressing financial sector vulnerabilities.

Key to the program is the need to **strengthen revenue agencies**. While a government can expand a tax base and impose new charges, ultimately the yield comes from changing the culture of those already enforcing tax compliance and administration to ensure that those who are expected to collect do, in fact, collect. The authorities are working very closely with CARTAC here to develop a UK DFID-financed program for strengthening capacity at the Customs and Inland Revenue Departments. An important success factor of this initiative is to have the technical expertise on the ground. As such, the CARTAC consultant is moving to Antigua and Barbuda for the year to help drive the initiative.

On **Public Financial Management** (PFM), as the staff report has rightly highlighted, the government of Antigua and Barbuda have in place a system of controlling expenditure commitments which requires approval by the Ministry of Finance, but is also looking to bolster the supporting processes and to establish a single treasury account in the medium-term. To this end, the government undertook a Public Expenditure and Financial Accountability Assessment which will be forming the basis for their PFM action plan, financed through a grant approved by the EU. As well, a new procurement act is currently at the committee phase of Parliament. This is expected to improve procurement of goods and services, with interim guidelines which empower the Ministry of Finance to monitor the process.

On the expenditure side, CARTAC is also working closely with the budget and treasury departments to ensure **good expenditure management practices** by introducing cash flow management procedures and budget reforms that will govern the budget call for 2011.

The authorities have also approached the World Bank for their assistance in designing a **civil service reform**. This reform is of longstanding importance to the authorities and will be pursued with vigor over the course of the program period. The staff are developing a transformation program which will form the basis of work to come, and will identify where efficiencies can be found in the system. Greater cuts in the wage bill are expected over the period 2011–12 from this rationalization exercise.

Finally, the authorities intend to **strengthen social security finances** on the basis of an actuarial review that is currently being completed. The idea is to adjust the retirement age on the basis of the actuarial assessment and to introduce reforms necessary to ensure the system achieves longer-term sustainability. The authorities expect to report more on this following the first review under the program.

Strengthening the Financial Sector

For the domestic banking sector, harmonized Banking Acts amongst the eight Eastern Caribbean Currency Union (ECCU) members recognize the Eastern Caribbean Central Bank (ECCB) as having primary responsibility for the supervision of domestic banks. All commercial banks and other institutions deemed to be carrying on banking business are required to be licensed under the Banking Act and are regulated by the ECCB. As part of the ongoing supervision, licensed financial institutions are required to submit monthly, quarterly and annual returns to the ECCB. These returns provide essential information to assess the performance of the institutions and the financial system, and to inform policy decisions. In addition, periodic visits are made to the institutions to verify the information submitted.

The authorities, along with the ECCB, have committed to strengthening on-site examinations of domestic banks. The ECCB for its part is on track with respect to the recapitalization of the Bank of Antigua and conducting on-site inspections of domestic commercial banks. Ongoing close monitoring by the ECCB and authorities will be essential.

For the offshore financial and domestic nonbank sectors, considerable actions are being taken to prevent the kind of regulatory arbitrage that ensued with Stanford International Bank and in the insurance sector. To bolster their system, the program envisages the following:

- **Strengthening the structure, oversight procedures and capacity of the Financial Services Regulatory Commission (FSRC), responsible for the offshore financial sector and domestic nonbanks**. The authorities will expedite legislation to create a single regulatory unit, in line with regional agreements and best practices, and will enhance the staff composition and expertise for oversight purposes. A key element is that the legislation will be more prescriptive about oversight procedures – the extent of investigations needed; the reporting requirements, etc. CARTAC has been providing extensive technical assistance to the authorities here.

- **Passing remaining amendments to effectively combat money laundering and financing of terrorism**. The authorities have signed 13 Tax Information Exchange Agreements (TIEAs). The authorities have a dedicated attorney working exclusively on the legislation amendments to meet the end-June structural benchmark.

- **Developing a plan for the resolution of insurers, in line with regional efforts**. The authorities will continue active participation in regional efforts to addressing exposures attributed to CL Financial Insurance Subsidiaries, CL Insurance Company (CLICO) and British American Insurance Company (BAICO). A regional target of end-2010 has been set and is also included as a structural benchmark in the program.

Structural Benchmarks – End-June

Speaking with the authorities, it appears they are on track to meet all end-June structural benchmarks as set out in their MEFP, including those where direct actions are required by the ECCB.