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STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REQUEST FOR WAIVER OF APPLICABILITY

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 2012 Article IV consultation with Antigua and Barbuda, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV Consultation, Seventh Review under the Stand-By Arrangement and Financing Assurances Review prepared by a staff team of the IMF, following discussions that ended on August 23, 2012, 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 October 16, 2012. 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.
- **Informational Annex** prepared by the IMF.
- **Press Release**
- **Public Information Notice** (PIN).

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ANTIGUA AND BARBUDA

October 16, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REQUEST FOR WAIVER OF APPLICABILITY

EXECUTIVE SUMMARY

Context. In response to the severe effects of the global financial crisis, the Executive Board approved a 36-month Stand-By Arrangement on June 7, 2010, to support fiscal adjustment, debt restructuring, the reduction of arrears and flow relief, and fiscal and financial structural reforms. The first review was completed on October 29, 2010, the combined second and third review was completed on March 30, 2011, and the combined fourth, fifth, and sixth review was completed on June 1, 2012.

Economic developments. After three years of contraction the economy is expected to grow by 1 percent in 2012 led by construction and tourist arrivals. Inflation rose to over 5 percent yoy in early 2012 due to the lagged effect of high oil and food prices, but fell to 3½ percent yoy in July, consistent with a year-end projection of 3 percent. The current account deficit is expected to widen marginally to 11½ percent of GDP in 2012 as domestic demand recovers, but will remain well below pre-crisis levels.

Program review. All quantitative performance criteria for end-June were met, except for the continuous performance criterion on external arrears which was missed by a small amount due to a temporary delay in payments. Available information indicates that the authorities are on track to meet the performance criteria for end-September.

Appraisal. The authorities continue to show strong commitment to their fiscal consolidation program. Based on generally satisfactory performance under the macro-program, staff supports the completion of the seventh review and financing assurances review under the Stand-By Arrangement. Risks to the program remain substantial, including to the implementation of structural reforms for which the authorities face capacity constraints and political resistance.

Article IV consultation. The last Article IV consultation was concluded on June 7, 2010. The staff report and summing up of the Executive Director's discussion and policy recommendations are available at: Country Report No. 10/279. The recommendations are embedded in the current program and staff has reported on progress in program reviews. Antigua and Barbuda has accepted the obligations of Article VIII, Sections 2, 3 and 4, and maintains an exchange system free of restrictions on making payments and transfers for current international transactions.

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

Approved By
Adrienne Cheasty and Chris Lane

A staff team visited St. John's during August 14–24, 2012, comprising Mr. G. Bannister (head), Ms. H. Shi, Ms. D. Singh (all WHD), Ms. S. Kwon (SPR) and Ms. Diane Mendoza (MCM). The mission met with the Prime Minister, the Minister of Finance and other cabinet members, other senior government officials, parliamentary members of the opposition, labor unions, and representatives of civil society and the private sector. Consultations were also held with the Governor and staff of the Eastern Caribbean Central Bank (ECCB) by videoconference, both from St. John's and from Washington, DC. Mr. Hockin and Mr. Brunelle-Cote (both OED) participated in key policy meetings.

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CONTEXT

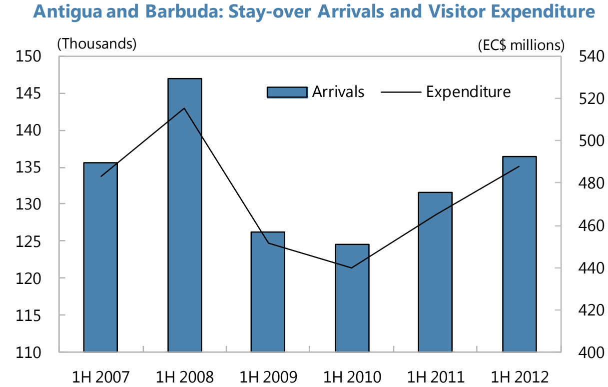
1. **A 36-month Stand-By Arrangement for 600 percent of quota was approved by the IMF Executive Board on June 7, 2010.** The program was requested in response to a looming fiscal crisis precipitated by large fiscal deficits and a rapid increase in debt in the run-up to the international financial crisis. The main goals were fiscal consolidation and debt restructuring to bring public sector debt to a more sustainable level, and structural reforms to strengthen the fiscal position and address financial sector vulnerabilities.

2. **Performance under the program has been affected by financial sector problems.** Significant progress has been achieved in debt restructuring, and fiscal consolidation has moved forward, despite some challenges. The first review was concluded as expected on October 29, 2010. The second review was delayed due to the need to assess the condition of an indigenous bank, and was completed in conjunction with the third review on March 30, 2011. The fourth, fifth, and sixth reviews were delayed after the intervention of an indigenous bank (ABIB) by the Eastern Caribbean Central Bank (ECCB) in July 2011, which led to uncertainty about the cost of resolution and its implications for the fiscal program. The three reviews were completed together on June 1, 2012, and the program was revised to include a pessimistic scenario for the cost of resolution and an adjustor for the fiscal program, should the cost turn out to be different. The revised program also placed a greater emphasis on structural measures in the financial sector and lowered access to 500 percent of quota, in line with a reduced balance of payments financing need.

ECONOMIC AND POLITICAL DEVELOPMENTS

3. **High frequency indicators point to a modest recovery in 2012 after three years of negative growth (Figure 1).** Tourism arrivals rose by 4 percent in the first half of the year compared to 2011, and construction activity is recovering gradually with the reconstruction and expansion of the airport terminal and the implementation of the government's Construct Antigua and Barbuda initiative, which offers exemptions for new home construction. The volume of imports for domestic consumption rose by 1 percent in the first half of the year, with fuel import volume for domestic consumption rising by 3½ percent. Based on these indicators staff maintains its projection for real GDP growth of 1 percent for the year.

Antigua and Barbuda: Stay-over Arrivals and Visitor Expenditure



Source: Central Statistical Office, Antigua and Barbuda

4. **Headline inflation has been trending down after a high of 5½ percent in January 2012 due to the lagged effect of high food and fuel prices.** Core inflation also rose early in 2012 due to one-off adjustments in core categories (mainly medical and education services), but has decelerated in recent months. In July, headline inflation fell to 3½ percent yoy while core inflation

was 2½ percent yoy. CPI inflation is expected to end the year at around 3 percent, as the projected decline in international oil prices is expected to more than offset the effect of higher imported food prices.

5. **The current account deficit is expected to widen in 2012 as domestic demand and external financing recover.** Preliminary data suggest that the CIF value of imports (including imports for re-export) rose by 7 percent in the first half of the year, while tourism receipts rose by 5 percent. The current account deficit is expected to widen to 11½ percent of GDP in 2012 compared to 10¾ percent in 2011. Although imported food prices are expected to rise in 2012, their effect on the current account deficit is expected to be more than offset by a decline in imported fuel prices.

6. **A weak economy continues to weigh on bank balance sheets**. Deposits remained broadly unchanged in the first half of the year, and private sector credit contracted by about 1 percent as banks continue to reduce their loan portfolios. Financial soundness indicators continue to reflect rising NPLs (13.9 percent in June 2012 compared to 12.8 percent in December 2011), and declining profitability, particularly for indigenous banks. On the positive side, provisioning has increased and the aggregate capital adequacy ratio (CAR) for indigenous banks—excluding the intervened bank (ABIB), which remains open under the conservatorship of the ECCB—is well above the regulatory minimum of 8 percent.

Antigua and Barbuda: Selected Financial Soundness Indicators
(In percent)

	December 2011	June 2012
Credit growth (year-on-year)		
All banks	-1.9	-3.1
Indigenous banks	-4.9	-4.4
Nonperforming loans/total loans		
All banks	12.8	13.9
Indigenous banks	19.1	18.2
Provisions for loan losses/nonperforming loans		
All banks	31.9	39.2
Indigenous banks	29.6	37.6
Capital adequacy ratio		
Indigenous banks 1/	4.4	4.7

Source: ECCB.
2/ Excluding ABIB, the CAR for indigenous banks at end-March was 25.4 percent.

7. **The current political environment is relatively calm although aggressive policy implementation is constrained.** The ruling United Progressive Party (UPP) has 9 of the 17 seats in the House of Representatives, and the support of the Barbuda People's Movement (BPM), which has 1 seat. However, this majority is not sufficient to push through difficult reform measures, especially as the next general election nears. A no-confidence motion against the Prime Minister was filed by the opposition Antigua Labor Party (ALP) in May 2012, but never debated. National elections take place on a 5-year cycle and the next one is constitutionally due by April 2014.

OUTLOOK AND RISKS

8. **An illustrative medium-term scenario envisions a return to a conservative medium-term growth path by 2015.** After a gradual recovery in 2012–13, real GDP is expected to return to a conservative long-term historical trend of between 3 and 3½ percent growth per annum, predicated on an improving external environment (although still below the level before the crisis) and a return of tourism and investment activity. Consumer price inflation is expected to trend down to around 3 percent, close to trading partner inflation, assuming stable international commodity prices and a continuation of the fixed peg to the US dollar. Fiscal policy is assumed to continue to be oriented to reaching a target ratio of debt-to-GDP of 60 percent by 2020. Under current

assumptions about the cost of the ABIB resolution, this would require a primary surplus of 3½ percent of GDP in 2013 and beyond, consistent with an overall fiscal surplus of 0.6–0.8 percent of GDP. This would lead to a decline in the ratio of debt-to-GDP from close to 100 percent in 2012 in this scenario, to 76 percent in 2016. The current account deficit is expected to widen with increased domestic demand related to a recovery in private investment and tourism activity, but to remain somewhat below historical levels due to the higher level of public savings and the relative scarcity of external financing after the program concludes in 2013.

Antigua and Barbuda: Medium-Term Economic Performance

					Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(Annual percentage change)									
GDP at constant factor cost	1.5	-10.4	-8.9	-5.5	1.0	1.5	3.2	3.4	3.5	3.5
Consumer prices (e.o.p.)	0.7	2.4	2.9	3.9	3.0	3.0	2.8	2.8	2.8	2.8
	(In percent of GDP)									
Primary fiscal balance	-2.9	-11.0	1.8	-1.0	-9.0 2/	3.5	3.5	3.5	3.5	3.5
Overall fiscal balance	-5.7	-18.1	-0.2	-3.1	-12.0 2/	0.6	0.7	0.8	0.8	0.9
Current account balance	-27.2	-19.3	-14.3	-10.7	-11.4	-12.3	-14.5	-16.1	-16.4	-16.2
Public debt 1/	77	102	89	93	98	93	87	81	76	72

1/ Includes central government guarantees of state enterprises and statutory bodies' debt.
2/ Assumes issuance of recapitalization bond of EC$340 million (10.7 percent of GDP) for ABIB.

9. **However, risks are predominantly to the downside.**[1]

- **Growth may turn out to be lower than expected**. A deepening of the euro-zone crisis and a slowdown in advanced economies could continue to affect main tourism markets and sources of foreign direct investment.

- **Fiscal consolidation and debt sustainability remain a challenge**. The fiscal and debt paths depend critically on the sustained implementation of reforms in revenue administration and public financial management, which are facing some obstacles. There is also a risk that contingent liabilities for the public sector (including in statutory bodies and the financial sector) could continue to materialize, further eroding the fiscal position and constraining public investment.

- **The financial sector remains weak**. Additional shocks to the already weakened balance sheets of commercial banks could put stress on the financial system, and lead to a loss of confidence in the system and the economy.

- **The economy is very vulnerable to terms of trade shocks.** An increase in oil and food prices or other terms of trade shocks could put further pressure on the balance of payments, international financing and inflation. The economy is highly dependent

[1] A risk assessment matrix (RAM) can be found in Appendix 1.

on imports, although a move to diversify production to agricultural products may mitigate somewhat the effects of imported food prices.

- **The probability of a natural disaster is higher than in most other countries.** According to data from the Centre for Research on the Epidemiology of Natural Disasters, a natural disaster inflicting damage equivalent to 2 percent of a country's GDP can be expected to hit one of the countries in the ECCU roughly once every 2½ years.

PROGRAM PERFORMANCE AND REVIEW

A. ABIB Resolution and Financial Sector Measures

10. Progress on the resolution of ABIB has been slower than expected. The authorities are waiting for the valuation update to be concluded so that the purchase and assumption transaction can take place. The ECCB received the first draft of the report in early October, and the process for the transfer of assets was expected to begin shortly thereafter. Since the intervention, a number of resolution options have been considered; the current plan is to establish a holding company to own the new bank that will result from the purchase and assumption transaction.[2] An external consultant and the shareholders of the new bank have begun preparing the business plan that will be submitted for the licensing process. The authorities expect the new bank to be licensed and begin operation by the end of November, 2012.

11. An asset management company (AMC) which will dispose of the impaired assets of ABIB has been incorporated by the government, but is not yet staffed and operational. The authorities prefer to wait for the resolution process before bringing the company into full operation. A board of directors has been identified, from which a managing director will be selected. An external consultant is working with the authorities to address any legal and funding issues, although no challenges are expected.

12. There has been limited progress on the completion of other financial sector benchmarks:

- ***Provision of a strategic plan for the new bank* (August 2012 - delayed)**. The submission of a strategic business plan for the new bank under the licensing process is expected in late October, in line with the timetable for resolution.

- ***Provision of a strategic plan for restructuring the indigenous banks in Antigua and Barbuda* (August 2012 – delayed)**. The ECCB has presented the outline of a plan for the consolidation of the indigenous banks in the ECCU in which the consolidation of the indigenous banks in Antigua and Barbuda is the first step. However, this outline provides few

[2] The holding company will be owned by the same shareholders as the Eastern Caribbean Amalgamated Bank (ECAB): Antigua Commercial Bank; Eastern Caribbean Financial Holding Company; St. Kitts-Nevis-Anguilla National Bank; National Bank of Dominica; Bank of St. Vincent and the Grenadines; and the Government of Antigua and Barbuda.

specifics on how the process will be carried out. In particular, the strategic plan needs to be developed to address: (a) how the mergers of private institutions would be managed; and (b) the conduct of a comprehensive assessment of the balance sheets of the banks to be merged, so that these can be cleaned up and any deficiency in capital made up by shareholders.

- ***Conducting on-site full scope examinations of remaining indigenous banks* (August 2012 - completed)**. The ECCB completed these examinations in July, and the results confirm the information generated by the Task Force on the ECCU Financial System.[3]

B. Fiscal Policy

13. The fiscal outturn for the first half of 2012 was in line with the program.

- ***Revenue.*** The revenue objectives under the program were broadly met. Tax revenue increased by 9 percent in nominal terms compared to the first half of 2011. Taxes on domestic transactions over-performed, while customs revenue lagged. Stamp duties more than tripled compared to the first half of 2011 due to a large one-off real estate transaction in February, and revenue from the Antigua and Barbuda Sales Tax (ABST) revenue increased by 8 percent. However, taxes on international transactions remained flat in nominal terms and fell as a percent of the CIF value of imports.

- ***Expenditure.*** Current expenditure was higher than envisaged under the program by 0.7 percent of GDP, due to unexpected one-off payments on wage settlements and compensation indemnities (0.4 percent of GDP) related to a legal claim, and unexpected transfers to statutory bodies. These transfers were made to cover external debt payments guaranteed by the central government (0.2 percent of GDP for Antigua Public Utilities Authority (APUA) and St. John's Development Corporation) and operational costs for the Antigua and Barbuda Port Authority (0.1 percent of GDP). To compensate for the higher current expenditure, capital expenditure was cut well below program levels (by 0.5 percent of GDP). Interest payments were also lower due to favorable exchange rate movements and some liability management operations on domestic debt.

- ***Overall balance.*** The performance criterion on the overall balance was met. The outcome was a deficit of EC$16 million (0.5 percent of GDP), in line to meet the end-September performance criterion of a EC$32 million deficit (1 percent of GDP).

- ***Primary balance.*** The indicative target on the primary balance was missed by a margin of EC$8 million (0.3 percent of GDP), as the savings on interest payments were used to

[3] The Task Force on the ECCU Financial System was set up by the Monetary Council of the ECCU in October 2011. It is chaired by the Governor of the ECCB and comprises senior staff of the ECCB, Ministries of Finance of the ECCU countries, and staff from the Caribbean Development Bank, International Monetary Fund and World Bank. Its main task to date has been to conduct a diagnostic analysis of the ECCU financial system and prepare a comprehensive strategy for reform.

accommodate part of the larger than programmed current expenditure. Despite this slippage the authorities expect to meet their end-September primary balance target.

14. Performance criteria on external debt and domestic arrears were met, although the continuous performance criterion on external debt arrears was missed. Arrears of EC$1 million were accumulated on a payment to the Caribbean Development Bank due in June, but these were cleared by early July. A waiver is being requested on the basis that the nonobservance was minor and temporary and has been corrected.

Antigua and Barbuda: Performance Criteria and Indicative Targets for end-June 2012
(millions of EC dollars)

	June 2012		
	Performance Criteria	Actual Outurn	Status
Central government (CG) overall deficit	16.0	16.0	√
Stock of CG external short term debt	0.0	0.0	√
CG external arrears accumulation	0.0	1.0	x
CG budget expenditure arrears accumulation	0.0	0.0	√
Contracting/guaranteeing of external debt by the non-financial public sector	10.0	0.0	√
CG primary balance (indicative target)	28.2	20.0	x

15. Preliminary numbers indicate that the performance criteria for end-September are expected to be met. Revenue performance continues improving with total revenue collected at the Inland Revenue Department (IRD) up 18.4 percent in nominal terms in January-August 2012 over the same period in 2011, while Customs and Excise Department (CED) revenue is up 6.2 percent over the same period. Data on expenditure and financing are only available with a six-week lag, and a supplement will be provided on end-August performance before the Board meeting. The seasonality of the deficit targets allows the authorities twice the space in the third quarter (with a total deficit of EC$16 million) as in the first two quarters (with a deficit of EC$8 million in each).

16. The fiscal position is expected to deteriorate significantly this year reflecting the costs of resolution of ABIB (Figure 2). The underlying overall balance (excluding resolution costs) is expected to be in deficit by 1.3 percent of GDP, consistent with an underlying primary surplus of 1.7 percent of GDP. The resolution of ABIB will require the issuance of a bond to recapitalize the new bank, which could be as large as 10.7 percent of GDP (EC$340 million) in the program's baseline scenario, bringing the overall deficit to 12 percent of GDP and the primary balance to a deficit of 9 percent of GDP.

17. The issuance of a recapitalization bond will result in a significant increase in the public and publicly guaranteed debt. The underlying debt ratio (excluding ABIB resolution costs) is expected to decline from 93 percent in 2011 to 87 percent in 2012 due to the effects of nominal GDP growth and a debt restructuring worth EC$101 million (about 3.2 percent of GDP). However, the issuance of a recapitalization bond would bring the debt ratio back up to 98 percent of GDP.

18. As discussed in the last staff report, for 2013, the fiscal program puts in place the average primary surplus necessary to reach the debt target of 60 percent of GDP in 2020. Given prudent assumptions for growth, inflation and nominal interest rates (see DSA appendix), staff and authorities agree that an average primary surplus of 3½ percent of GDP over the period from 2013 to 2020 would bring the debt to GDP ratio down to the target of 60 percent. The overall balance consistent with this primary balance surplus implies targeting a budget surplus of 0.6 percent of GDP in 2013.

- **Revenues.** Tax revenues are projected to increase to 21.3 percent of GDP in 2013 from 19.6 percent of GDP in 2012. The projection assumes an increase of 1½ percent of GDP based on additional measures and the expected yields from structural reforms being supported by technical assistance. Non-tax and capital revenue is maintained at the same nominal level as in 2012, but grants are estimated to be much higher in 2013, reaching EC$25 million, mainly from capital donations for airport construction. The authorities will implement additional measures amounting to EC$50.2 million (1½ percent of GDP) if necessary to achieve the targeted primary surplus. These measures would be sufficient to reach a primary surplus of 4 percent of GDP in 2013.

- **Expenditure.** Primary current expenditure is projected to fall again to 16.8 percent of GDP in 2013 from 18 percent of GDP in 2012, reflecting a nominal freeze in most headline categories, and lower transfers. Capital expenditure is projected to be 3.1 percent of GDP, more than double the level in 2011 to make up for compressed levels of investment in previous years. The authorities have signaled that any additional fiscal space in 2013 and beyond that might result from a lower outcome of the recapitalization bond would be used for public investments in infrastructure including refurbishing roads and equipment at the Port Authority.

19. A symmetric adjustor will allow for a revision of the fiscal targets for 2013 if the size of the recapitalization bond were to be different from EC$340 million. The adjustor is based on a simple linear formula to maintain consistency with implementing the average primary balance necessary to reach the debt target by 2020. The adjustor would lower the primary surplus to 2.6 percent of GDP in the most optimistic case consistent with a recapitalization bond of EC$150 million (4.7 percent of GDP). In all cases the adjusted target for the performance criterion would be set in nominal terms as the overall balance consistent with the primary balance surplus calculated in the adjustor minus interest payments.

C. Structural Reforms

20. Progress on the fiscal reform agenda has also been limited, although there has been progress in the Inland Revenue Department (IRD). The Minister of Finance is committed to the overall reform, despite some political resistance and delays in the Customs and Excise Department (CED).

Inland Revenue Department

- ***Activate legislation authorizing garnishment of overdue taxes*** **(June 2012 – delayed).** A new tax law (the Tax Administration and Procedures Act – TAPA) has been drafted with the help of IMF experts and had its first reading in parliament in June. The procedure for garnishing of taxes has been folded into this legislation, which is expected to receive its second and third readings in parliament in October and November 2012. The full law would not come into effect until January 1, 2013.

- ***Compliance of State Owned Enterprises (SOEs) with tax obligations*** **(June 2012 – delayed).** Compliance has been confirmed for 12 SOEs by end-August and three more are expected to enter into compliance by end-October. The largest SOEs are in compliance, and most are in compliance with monthly obligations, though late on their obligations for annual filing.

- ***Compliance of 40 percent of professionals with tax obligations*** **(September 2012 - delayed).** IRD has not met this benchmark, although compliance has improved considerably. Compliance for chartered accountants has been increased to 60 percent at end-September, and the IRD is working on increasing compliance of lawyers (historically around 20 percent) and medical professionals at the Mount St. John's Medical Center to 40 percent by December 2012.

Customs and Excise Department

- ***Valuation/compliance audit on petroleum imports*** **(June 2012 – delayed).** The Comptroller of Customs and Excise has been reticent to implement the audit, but agreed to do it with the benefit of technical assistance beginning in September 2012, to be concluded by early November 2012.

- ***Implementation of the HS 2007 code in customs*** **(June 2012 – delayed).** The implementation of the code will allow for a much clearer classification of imports for the purpose of assessing valuation and duties. It has been approved but has not been gazetted due to a strike at the government's printing press. The code is expected to be gazetted and fully implemented by end-October 2012.

- ***Presentation and passage of New Customs Act*** **(September 2012 - delayed).** The Customs Act was ready to be sent to parliament by end-September, but awaits the completion of an explanatory memorandum before it can proceed to parliament. It is expected to be passed by end-October.

- ***Completion of a tax expenditure study*** **(September 2012 - delayed).** A recent technical assistance report (June 2012) determined that collections could be as low as 30 percent of potential, mainly due to concessions, exemptions and tax incentives. The regime for tax exemptions gives discretion to Ministers to grant exemptions. With technical assistance on the ground in September, the authorities agreed that a tax expenditure study will be concluded by end-October 2012 with a view to designing a strategy for the reform of tax expenditures.

21. Public financial management and civil service reforms have also been delayed. A draft of the revised public service legislation has been completed, but the other three benchmarks in this area due before end-September are likely to be delayed (see Table 2).

D. Debt Management

22. Following the multilateral agreement with the Paris Club, the bilateral agreement with Brazil remains to be ratified, while discussions with non-Paris Club creditors for restructuring on comparable terms continue. Agreements with Trinidad and Tobago and Kuwait remain outstanding but the government is making best efforts to pursue negotiation. Negotiations with the two remaining external private creditors are also ongoing and the government is making good faith efforts to conclude them as soon as possible. The government is also pursuing a debt for nature swap with Brazil.[4] On the domestic side, the government has successfully completed four Treasury bill issues on the Regional Government Securities Market (RGSM) for EC$47.6 million, which it intends to use to pay down arrears and overdrafts with domestic creditors and roll over some of its existing RGSM liabilities. This is part of the government's initiative to maintain activity on the RGSM, creating a track record of regular issuance and repayment.

MEDIUM-TERM POLICY DISCUSSIONS

23. Antigua and Barbuda faces a number of important policy choices to restore growth and secure macroeconomic stability in the medium term. Staff held discussions with authorities, private sector and members of civil society on three broad medium-term policy issues: growth and improving competitiveness; fiscal consolidation and debt sustainability; and financial stability.

A. Growth and Competitiveness

24. Growth has been declining for some years, even before the crisis. As in other ECCU countries, this reflects the small size and lack of diversification of the economy, as well as its openness and vulnerability to external shocks. Tourism drives over 60–70 percent of economic activity, with the remaining 30–40 percent attributed mostly to government and financial services. During the current crisis, the strong decline in tourism source markets, a contraction in government services and weakness in the local banking sector have contributed to a precipitous fall in real output. Antigua and Barbuda has also lost competitiveness in the tourism industry, while real expenditure per tourist has declined (Box 1).

[4] In the model being considered, The Nature Conservancy (TNC) would purchase outstanding debt of Antigua and Barbuda to Brazil at a discount, and in return the Government of Antigua and Barbuda would fund a conservation trust to finance projects related to climate adaptation and marine ecosystem preservation.

25. Weak output growth and a declining share of the Caribbean tourist market point to a loss in competitiveness (Box 2). REER measures suggest a modest loss of competitiveness from 2008, and unit labor costs, the highest in the ECCU in 2010, are rising as productivity has fallen more rapidly than real wages. CGER estimates point to an overvaluation of the REER, ranging from 6.7 percent (macro balance approach) to 15.8 percent (external sustainability approach).

26. The mission discussed policies for boosting medium-term growth and competitiveness:

- **Raising productivity in the public sector.** The authorities recognized that the productivity of public workers needs to be improved, particularly since the public sector is the largest employer and civil service employment is a benchmark for other parts of the economy. The government has already implemented a wage and hiring freeze in the central government, but the civil service remains fragmented, and contains a large number of non-established employees, generally free from strict controls over benefits and accountability provisions. The mission emphasized the importance of including a provision for the unification of the civil service in the forthcoming draft Public Service Act.

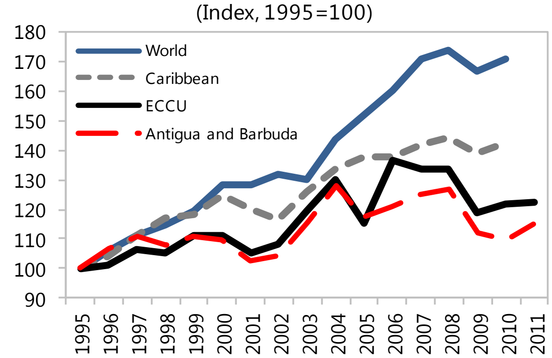
- **Measures to improve structural competitiveness:**

    - ***Labor market reform is important***. Labor market rigidities, particularly the ability to hire temporary or seasonal workers, are cited by the private sector as an impediment to competitiveness. In addition, minimum wages are high relative to other Caribbean tourism destinations. A first step would be improving labor market statistics, which are nonexistent in Antigua and Barbuda. The authorities indicated they will begin a new harmonized labor force survey in 2013, implemented on an annual basis with other ECCU countries. A harmonized labor code across the ECCU could also level the regulatory playing field, but the authorities indicated this would be politically challenging. Although they agreed on the need to improve labor productivity, the authorities saw little scope for traditional fiscal devaluation policies (a more broad based and lower labor tax accompanied by a VAT increase) as labor taxes are already low.

Box 1. Antigua and Barbuda has Lost Ground in Tourism

Tourism drives 60–70 percent of economic activity in Antigua and Barbuda, and its slowdown has hit the economy hard. Stay-over tourist arrivals to the island fell by 13.5 percent in 2009–10, as the two largest tourism source markets (the US and the UK) were severely impacted by the global crisis. The ECCU and wider Caribbean also saw tourist arrivals fall, but by a lower amount, and they have rebounded more quickly. When arrivals to Antigua and Barbuda finally began to recover in 2011, they remained well below pre-crisis levels. In addition to the external economic environment, the collapse of the Stanford business group may have contributed to the severity of the tourism shock faced by the island. All told, about three-quarters of the economic contraction in Antigua and Barbuda from 2009–11 is estimated to have come from the slowdown of tourism related subsectors.

Tourist Stay-over Arrivals
(Index, 1995=100)

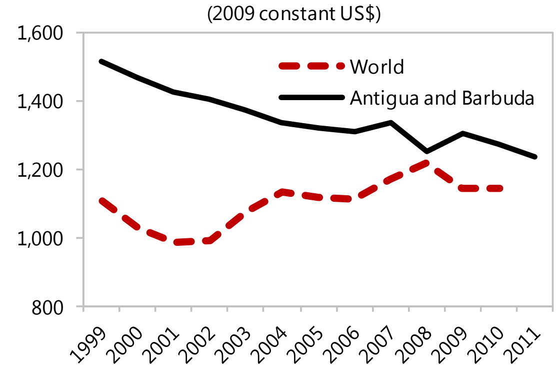


Sources: Caribbean Tourism Organization; World Development Indicators; and IMF staff calculations.

The crisis changed the composition of tourists going to Antigua and Barbuda. The US has overtaken the UK as the largest source market, with its share of arrivals growing from 30 to 35 percent between 2007 and 2011, while the UK's share dropped from 37 to 28 percent. There was also a slight drop in the share of Caribbean visitors, from 18 to 15 percent. The most notable development was the rise in the share of Canadian tourists, which more than doubled, from 4 percent in 2007 to 10 percent in 2011—a testament to the strong recovery of the Canadian economy.

The change in tourist composition has had a negative impact on tourist expenditures, which were already on the decline. Real expenditure per tourist fell by 19 percent from 1999–2011, in contrast to the global trend. Visitors from the UK were typically known to yield the most receipts per tourist as they stayed at relatively high tier accommodations for relatively longer periods of time (two weeks, on average). US tourists, who have taken over as the largest market segment, typically stay for shorter periods, while Canadian tourists, the most rapidly growing segment, are also known to yield less per visitor due to lower-tier accommodations and shorter stays.

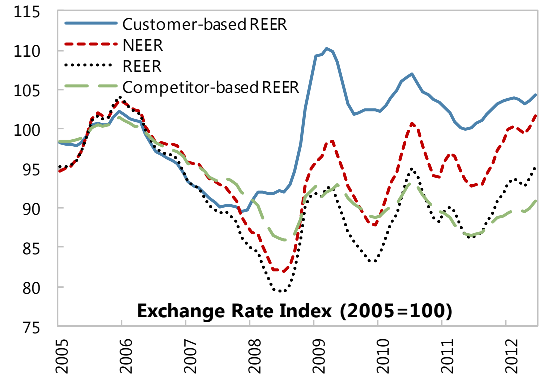
Real Expenditure per Tourist
(2009 constant US$)



Sources: World Development Indicators; and IMF staff calculations.

Box 2. Exchange Rate and Unit Labor Cost Analyses Point to Overvaluation

Antigua and Barbuda lost some exchange rate competitiveness in the past four years, although the REER is still below its 2005 level. Nominal and real effective exchange rates have been appreciating since mid 2008. The NEER appreciated by some 20 percent, largely reflecting the appreciation of the US dollar vis-à-vis other trade partners (principally Europe). With inflation in Antigua and Barbuda below that of its trade partners, the REER appreciated by some 15 percent since 2008.



Alternative REER measures also point to a loss in competitiveness. Tourist competitor- and customer-based real exchange rates diverged since 2008, with the competitor-based rate appreciating by over 15 percent and the customer-based rate fluctuating around 2008 levels. Decomposing competitor- and customer-based rates reveals that Antigua and Barbuda is losing competitiveness vis-à-vis other ECCU countries and the UK (traditionally its largest tourist source market) since 2009.

Rising unit labor costs (ULCs) contributed to the erosion of price competitiveness. ULCs rose by an estimated 15 percent since 2008 as output contracted by more than real wages and employment. While the rise in ULCs looks modest compared to other ECCU countries, the level of ULCs in Antigua and Barbuda is already the highest in the ECCU. However, these numbers must be treated with caution as the underlying data are based on different sources and coverage.[1]

CGER estimates consistently indicate that the REER is overvalued, underscoring the need to improve price competitiveness. The Macro-Balance (MB) and External-Sustainability (ES) approaches yield estimates for Antigua and Barbuda's medium-term current account deficit norm that are between 2 and 5 percentage points of GDP lower than the underlying deficit, respectively. Using an elasticity of -0.31, this translates into an estimated implied overvaluation of between 6.7 percent (MB) and 15.8 percent (ES).[2] This finding is confirmed by the equilibrium real exchange rate (ERER) approach that shows the REER is overvalued by about 13.7 percent.

Antigua and Barbuda: Exchange Rate Assessment Results

	Macro Balance	External Sustainability	Equilibrium Real Exchange Rate	Average
Underlying current Account Balance (2017) (percent of GDP)	-16.2	-16.2		
Current Account Norm (percent of GDP)	-14.1	-11.3		
Implied Overvaluation (percent of REER)	6.7	15.8	13.7	12.1

Source: Staff calculations based on CGER methodology

[1]Due to the lack of official labor market statistics, employment and wages are estimated using social security and pension information. See Tashu, M. (2012), in "Macroeconomic and Financial Systems in the ECCU – A Handbook" forthcoming.

[2]The elasticity of the current account to the REER is obtained by assuming that changes in the REER affect the current account solely through the balance of goods and services and by using export and import volume elasticities of -0.71 and 0.92 respectively, as reported in Isard and Faruqee (1998), "Exchange Rate Assessment: Extensions of the Macroeconomic Balance Approach", IMF Occasional Paper No. 167, Washington DC.

  - ***Improving the business climate is also important.*** While Antigua and Barbuda's ranking in the World Bank's Doing Business Indicators is high relative to the rest of the Caribbean, it has been deteriorating since 2006, and particular weaknesses are related to cross-border trading, tax administration and the cost of electricity. Ongoing reforms in the Inland Revenue Department and the Customs and Excise Department, including the introduction of codes of conduct and greater transparency and efficiency in operations could help reduce the cost of doing business. In addition, the authorities agreed that significant reforms in the Antigua Public Utilities Authority along with other statutory bodies could improve the provision of essential services such as electricity and transport.

- **Economic diversification**. The government has put a renewed emphasis on agriculture, including incentives for fruit and vegetable production and a large poultry project. Other projects include the sub-region's first comprehensive cancer treatment center, and sports tourism.

B. Fiscal Consolidation and Debt Sustainability

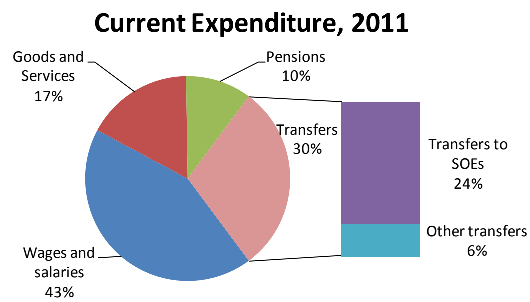
27. The high level of public debt presents a challenge to macroeconomic management. There is little space for cushioning shocks in an economy that has a high level of external vulnerability and for which fiscal policy is the only instrument for macroeconomic management. It is thus critical to reduce debt and recapture fiscal policy space through rationalizing expenditure and reforms in public sector financial management. There are considerable downside risks for fiscal consolidation going forward including contingent liabilities from further distress in the banking system, or hidden liabilities in the state owned enterprises (SOEs) (Box 3).

28. The mission discussed possible measures to reduce risks in four different areas:

- **Expenditure Rationalization and Structural Reforms**. The authorities agreed that it would be important to explore the feasibility of savings in current spending, including from more targeted subsidies and transfers, rationalizing public benefit packages, and improving government services through outsourcing, amalgamating departments, and forming a single civil service. They also agreed that sustained implementation of current revenue administration, public financial management and macro-financial planning reforms under the EU program will be key to maintain momentum on fiscal consolidation. Enhancing capacity and institutionalizing reforms will be critical to making gains sustainable.

Box 3. Contingent Liabilities from SOEs are a Major Source of Fiscal Risk

Antigua and Barbuda has 28 SOEs which account for a significant amount of public employment and spending. At end-2009, employment in SOEs was equivalent to slightly less than one half of employment in the central government, and their expenditures were equivalent to 40 percent of the central government budget's primary spending. Expenditures of SOEs are partly funded by transfers from the budget, which grew from about 2.1 percent of GDP in 2010 to almost 5 percent in 2011, but they can also access financing from domestic banks (though often only with a government guarantee).



The financial information of SOEs is often incomplete and not sufficiently reliable to provide a timely and accurate assessment of the fiscal risk from this source. Most SOEs do not fully comply with the reporting requirements of the Financial Administration Act (FAA). Only 12 out of the 28 SOEs reported financial information in 2010. Available information mostly relates to the budget of the entities, but detailed execution information on revenues, expenditures and reconciliation with financing is absent for most SOEs. The quality of available information is also dubious as audited statements have a lag of four to five years and have not been submitted to the parliament as required by the FAA.

Oversight, governance and risk management of the SOEs is weak. Currently there is no SOE oversight unit in the Ministry of Finance to monitor the financial situation and potential contingent liabilities of SOEs. The existing oversight and governance regime is inadequate for enforcing a hard budget constraint on the SOEs and ensuring that resources are used in a cost-effective manner, safeguarding the budget from contingent liabilities (including running arrears).

Several SOEs are currently experiencing financial difficulties. In early 2012, the Antigua and Barbuda Public Utilities Authority (APUA) and St. John's Development Corporation (SJDC) faced debt defaults and the government had to make transfers to service the loans guaranteed by the government. In June 2012, Antigua Port Authority (APA) failed to pay wages on time which triggered a strike by the workers and required additional unexpected transfers from the central government. In addition, the finances of Antigua and Barbuda Social Security Board (ABSSB) have deteriorated significantly since 2007 and the national pension scheme is unsustainable under current parameters, despite a relatively favorable dependency ratio.

The contingent liabilities from SOEs pose significant fiscal risks for the government. By end-2011, the government's guaranteed debt of SOEs amounted to 15.7 percent of the total public sector debt (14.6 percent of GDP). More seriously, ABSSB has been running cash deficits since 2007 and is projected to run losses in 2019 with its reserves depleted by 2029 if no action is taken. The actuarial deficit over 2009–50 was estimated to be 151 percent of GDP according to the June 2010 FAD TA report.

- **Tax reform.** Authorities agreed that broadening the tax base by eliminating exemptions would be a good way to enhance revenue, and acknowledged the importance of carrying out a tax expenditure study under the program to identify possible reforms.

- **SOE oversight and reform**. The authorities agreed that the structural benchmarks under the program (Set up an oversight, institutional and reporting framework for SOEs, due in December 2012, and commence reviews of selected SOEs to assess fiscal risks, due in January 2013) would be important to begin to address financial risks from SOEs.

- **Parametric reforms in the pension system.** These are needed to ensure the sustainability of the pension schemes and minimize the fiscal costs. The social security system is not sustainable under current parameters. An IMF TA mission in June 2010 found the social security system has been running cash deficits since 2007 despite a favorable dependency ratio. Staff recommended raising the contribution rate, increasing the retirement age, and changing the formula for calculating pensionable earnings. Similar measures were also recommended for the non-contributory civil service pension scheme. The authorities have established a Pension Modernization Commission to pursue reforms and are exploring seeking further technical assistance in this area.

C. Financial Sector Stability

29. The diagnostic work of the Task Force on the ECCU Financial System has brought to light weaknesses in the banking sector and supervision (Box 4).[5] The mission discussed two areas of vulnerability:

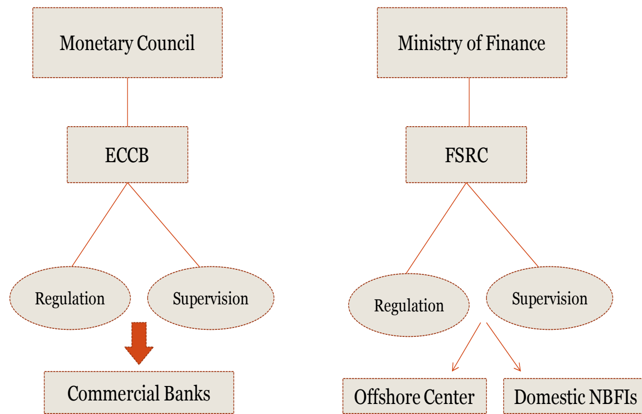
- **Offshore banks and non-bank financial institutions.** The Financial Services Regulatory Commission (FSRC) is an organ of the Government of Antigua and Barbuda that oversees the offshore banks and other non-bank financial institutions. The FSRC has undergone significant reform in recent years and the authorities are set to present new legislation to parliament to govern the FSRC by December as a structural benchmark under the program. Staff voiced a strong concern about the need for a more coordinated approach to supervision that takes into account possible links between off-shore institutions and the domestic financial system. Staff recommended that consolidated supervision be put in place or that contemporaneous examinations of linked offshore and onshore entities be conducted.

- **Banking supervision and regulatory reform.** The mission discussed the need for the introduction of consolidated supervision, and inquired about the status of plans for improvements in the regulations for asset classification and loan loss provisioning, tighter prudential regulations and the introduction of risk-based supervision. The mission also

[5] Weaknesses in the regulatory and supervisory framework had already been pointed out in the FSAP for the ECCU that was conducted in 2004.

Box 4. Recent Bank Failures Point to the Need for Reform

Antigua and Barbuda has the largest financial sector in the ECCU, in absolute terms and relative to GDP. With EC$ 8.8 billion in assets (292 percent of GDP), Antigua and Barbuda's financial system is deep relative to the size of the economy and highly monetized (the ratio of M2 to GDP was around 98 percent in 2011). Commercial banks dominate the financial system, accounting for 61 percent of total assets, but Antigua also has the largest offshore financial center in the ECCU. The sector is highly interconnected, and the Government of Antigua and Barbuda is closely linked to the country's indigenous banks, both in terms of credit and deposit exposures as well as through a significant ownership stake in one of the institutions (ECAB).



Regulation and supervision of the financial sector is shared by the government and the ECCB. The ECCB is responsible for the regulation and supervision of commercial banks (domestic and foreign) in Antigua and Barbuda and the rest of the ECCU. The regulation and supervision of the rest of the financial system, including the offshore center and all domestic non-bank financial institutions, is the responsibility of an independent regulatory body called the Financial Services Regulatory Commission (FSRC).

Antigua and Barbuda's indigenous banks were hit hard by the global financial crisis. NPLs of indigenous and foreign banks have been rising since 2009 while the level of provisioning for loan losses at the indigenous banks is relatively low. In addition, liquidity at some of the indigenous banks has tightened significantly. The combination of rising credit risk and tighter liquidity has had negative consequences for profitability, with the return on assets for indigenous banks falling from 2.4 percent in 2007 to 0.2 percent in 2011.

The recent failures of two indigenous banks offer important lessons for reform in the regulatory and supervisory framework. The failures of the Bank of Antigua and ABIB (in 2009 and 2011, respectively) revealed challenges in supervision of commercial banks—including infrequent onsite examinations and weak enforcement of corrective actions for noncompliance. The failures also revealed the need for closer coordination between the ECCB and FSRC and for consolidated supervision of financial conglomerates, as well as for a proper resolution framework with well defined participants, procedures, roles and responsibilities.

Addressing the weaknesses in the supervisory and regulatory framework is a critical priority. There is a need to update and modernize the Banking Act and regulations, including to revise and strengthen regulations for asset classification and provisioning, tighten regulations for capital adequacy, and develop a proper resolution framework for failed institutions. In addition, more frequent, risk-based and consolidated supervision will be essential going forward, given the interconnectedness of the system and the existence of financial conglomerates. Finally, the recent bank failures also point to the need to eventually establish some form of deposit insurance and to strengthen AML/CFT supervision.

discussed the need to change the legal framework to allow for stronger corrective action and enforcement on the part of supervisors and continue to improve the AML/CFT supervisory framework in line with the action plan agreed with the Financial Action Task Force. The authorities acknowledged the need for changes in regulations and the legal framework but pointed out that these initiatives have to be implemented on an ECCU-wide basis and would require significant coordination across different countries. Actions that could be taken immediately include increasing the frequency of on-site examinations with a specific focus on consolidated supervision, and revising regulations for asset classification and loan loss provisioning.

PROGRAM ISSUES

30. A revised Letter of Intent (LOI), Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understandings (TMU) are attached. There are no significant revisions and the authorities' program continues to be guided by the LOI and MEFP of May 2012.

31. Full implementation of the program should ensure Antigua and Barbuda's capacity to repay the Fund in a timely manner. Outstanding credit to the Fund reached 3.7 percent of GDP in 2011 and is expected to peak at 8 percent of GDP in 2013 (Table 12). Debt service to the Fund is expected to peak at 1.9 percent of GDP and 3.7 percent of exports of goods and services in 2016 and decline thereafter. An update safeguards assessment of the ECCB was completed in April 2012 in accordance with the four year cycle of assessment applicable to regional central banks under the safeguard policy. No significant safeguards risks were identified.

STAFF APPRAISAL

32. The authorities continue to show strong commitment to their fiscal consolidation program, despite the need for more progress in customs. They met most of the performance criteria under the program and are on track to meet their overall fiscal balance target for the year. The continuous performance criterion on external debt arrears was missed by a very small amount and the arrears were cleared quickly. There are signs of a gradual recovery in the economy after three years of contraction and inflation remains contained, which should help consolidation efforts going forward.

33. Progress on revenue reform has been mixed. The authorities met their revenue goals for the first half of the year, partly through a large one-off transaction in real estate, but also because reforms in tax collection on the ABST and other domestic taxes have begun to take hold. However collection of taxes on international transactions remained flat, and fell per unit of CIF imports.

34. The materialization of contingent liabilities is affecting the fiscal outcome. While the authorities met their target on the overall balance, they had to compensate for an increase in current expenditure related to higher transfers to statutory bodies and one-off wage and benefits payments related to an adverse judgment on settlements and compensation indemnities. The authorities should work to quantify risks from contingent liabilities more carefully in the context of setting up a macro fiscal unit within the Ministry of Finance and improving oversight and reporting of state-owned enterprises. There is also a need to make decisive efforts to modernize the public pension system.

35. The pattern of adjustment continues to be less than desirable. Current primary expenditure overruns with respect to the program have been compensated by lower capital spending, continuing a pattern begun in 2011. The authorities should work to secure space for much-needed capital spending going forward by implementing expenditure rationalization and structural reforms.

36. The authorities should be commended for their debt management efforts. On the external front, they continue to pursue debt renegotiations which will help ease the debt burden. On the domestic front, debt management efforts have succeeded in reducing the interest burden by rolling over expensive overdraft credits into lower interest RGSM instruments and at the same time establishing a good track record of issuance and redemption on the RGSM.

37. Progress on the resolution of ABIB and financial sector measures has been slower than expected. The long delay illustrates the constraints the ECCB faces in implementing resolution strategies and the need for a clearer and more expedited bank resolution framework. There have also been significant delays in the implementation of other financial sector benchmarks. Although the ECCB has presented an outline of a plan for the amalgamation of the indigenous banking system in the ECCU, a number of significant details need to be fleshed out as soon as possible, so that the plan can credibly be put into action. The authorities should also ensure that the AMC is ready to receive and manage the assets that will be transferred from ABIB, with sufficient time to ensure that adequate controls over information can be put in place.

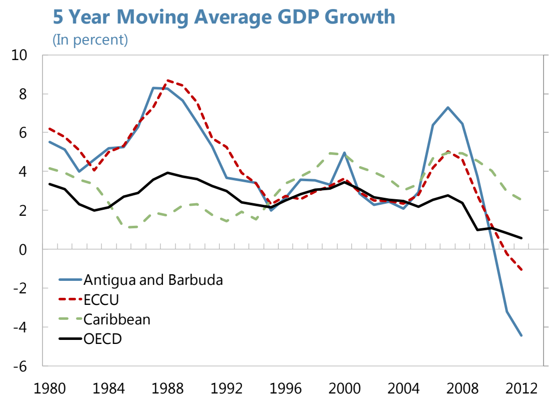
38. Progress in the implementation of structural benchmarks outside the financial sector has also been disappointing. All structural benchmarks due to be implemented by end-June were delayed, and are now due to be completed in October or December. Furthermore, of the seven other benchmarks due to be completed before or by end-September, one was completed and six will be delayed. In some areas (e.g. tax compliance in the Inland Revenue Department) tangible progress has been made, and delays reflect a lack of capacity for implementation. In other cases, as in customs administration and some legal reforms, the delays reflect political opposition and deliberations within the cabinet. Staff has emphasized that adhering to the structural reform agenda is critical to the success of the fiscal consolidation program.

39. Staff supports the completion of the seventh review and the granting of associated waivers. Based on the demonstrated performance and the authorities' commitment to their program of fiscal consolidation supported by the current Stand-By Arrangement, staff supports the completion of the seventh review, and the authorities' request for a waiver of nonobservance on the continuous performance criterion on external debt arrears, and a waiver of applicability for the end-September performance criteria.

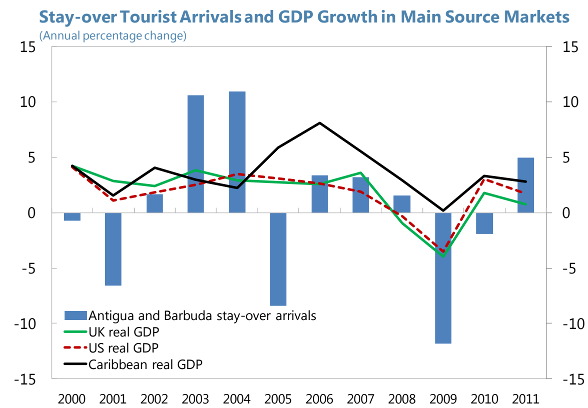
40. It is proposed that the next Article IV consultation with Antigua and Barbuda will be held in accordance with Decision No. 14747-(10/96) adopted on September 28, 2010.

Figure 1. External and Domestic Shocks Caused the Worst Recession in Antigua's History

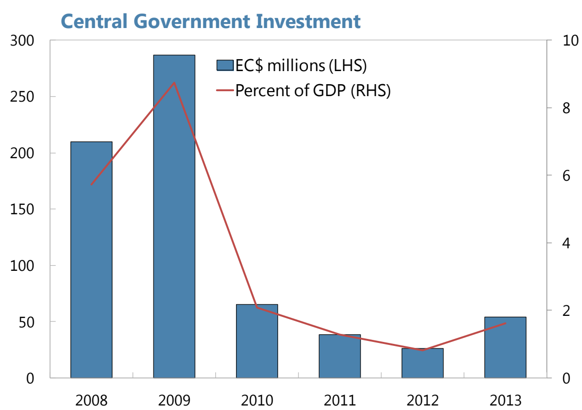
Antigua and Barbuda was disproportionately hit by the global financial crisis.



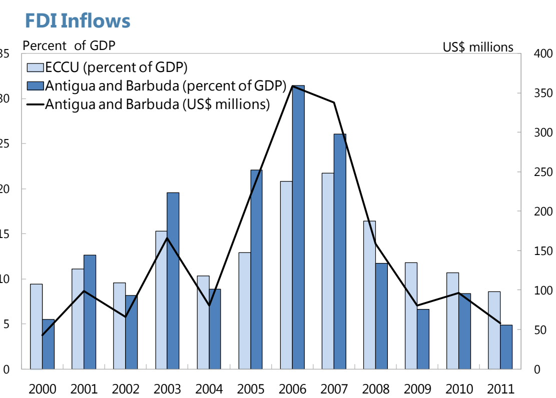
Tourism, the main driver of growth, was affected by recessions in source markets …



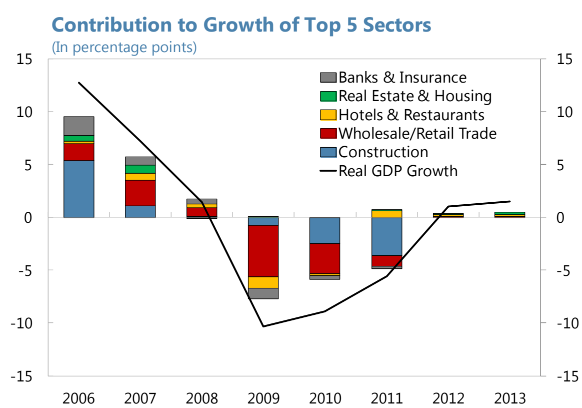
… while fiscal consolidation led to a contraction in public investment, a main driver of growth …



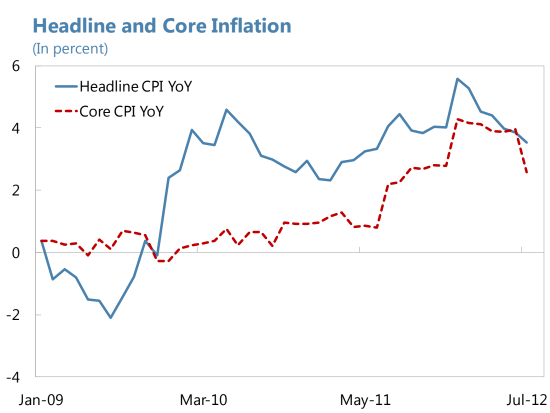
… even as FDI to the ECCU and Antigua and Barbuda collapsed.



The economic contraction was led by declines in wholesale/retail trade and construction.



Inflation pressures increased due to rising food and fuel prices in 2011, but have recently begun to ease.

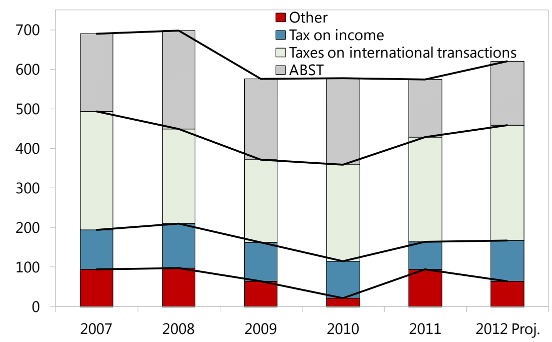


Sources: ECCB, WEO, and IMF staff calculations.

Figure 2. Fiscal Consolidation has Progressed, but Large Challenges Remain

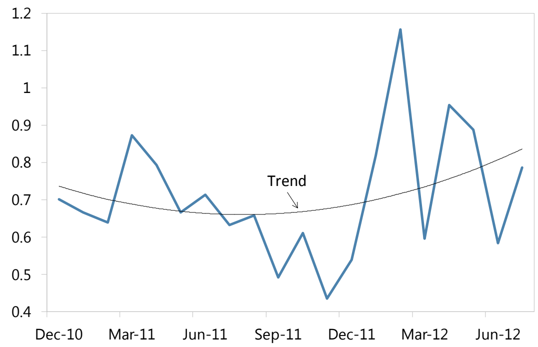
Revenues shrank across the board following the crisis, led by ABST and import duties.

Revenues
(In millions of EC dollars)



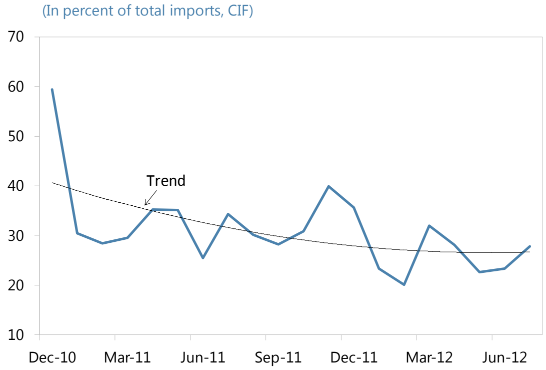
However, taxes on domestic transactions have begun to recover, due to reforms in the IRD …

Total IRD Revenue
(In percent of GDP)



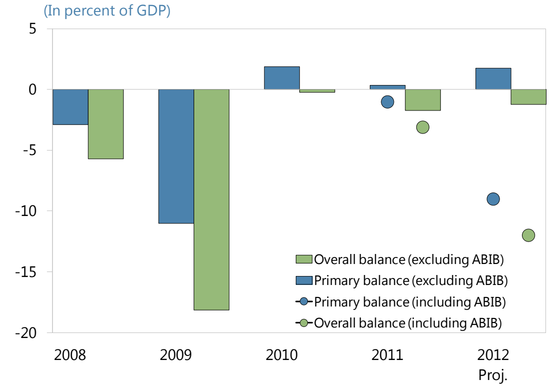
… while revenues related to international transactions have declined per unit of imports.

Total Custom Revenue
(In percent of total imports, CIF)



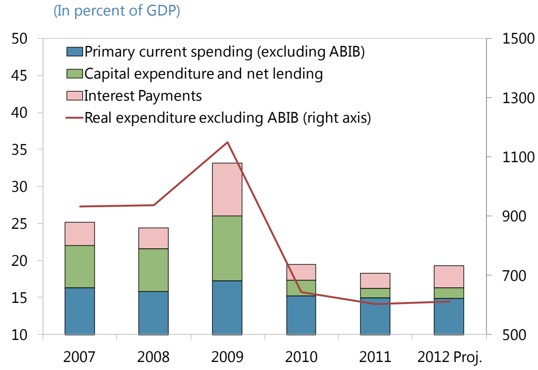
Fiscal consolidation has stabilized public finances, but ABIB resolution presents new challenges.

Fiscal Balances
(In percent of GDP)



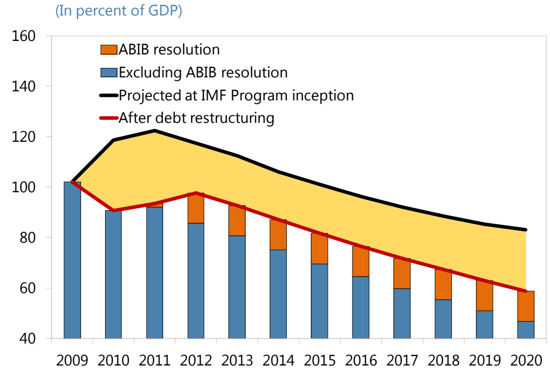
Adjustment has come mainly from cuts in capital expenditure and savings from interest payments.

Current Expenditures
(In percent of GDP)



Debt restructuring has reduced debt distress, but ABIB resolution has worsened the debt trajectory.

Public Debt Trajectory
(In percent of GDP)

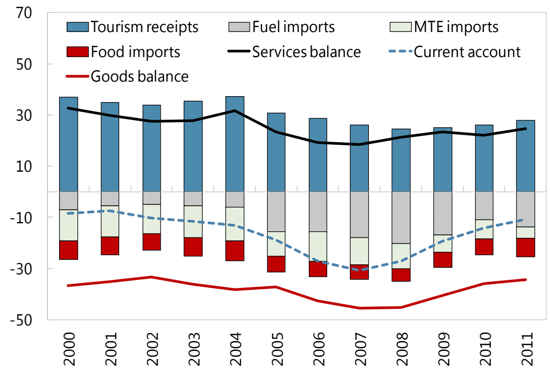


Sources: Government of Antigua and Barbuda and IMF staff calculations.

Figure 3. Antigua and Barbuda has Been Losing External Competitiveness

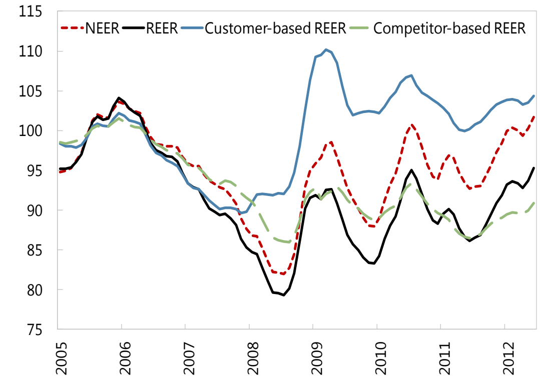
Gaining competitiveness is key given Antigua and Barbuda's high dependency on imports and tourism.

Key Current Account Components
(percent of GDP)



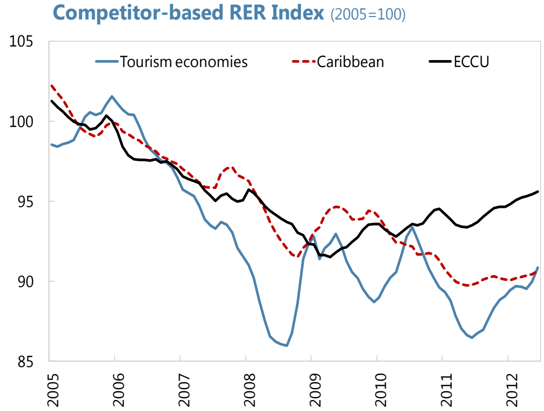
While volatile, effective exchange rate measures have been appreciating since 2008.

Exchange Rate Index (2005=100)



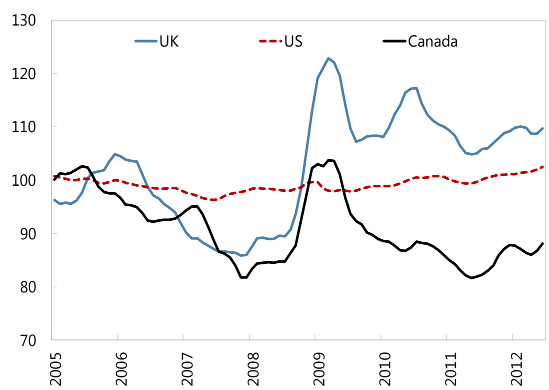
Antigua and Barbuda is losing competitiveness within the ECCU ...

Competitor-based RER Index (2005=100)



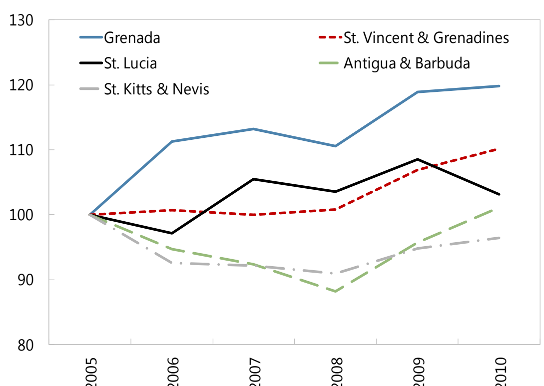
... as well as vis-à-vis the UK, traditionally its main tourist source market.

Customer-based RER Index (2005=100)



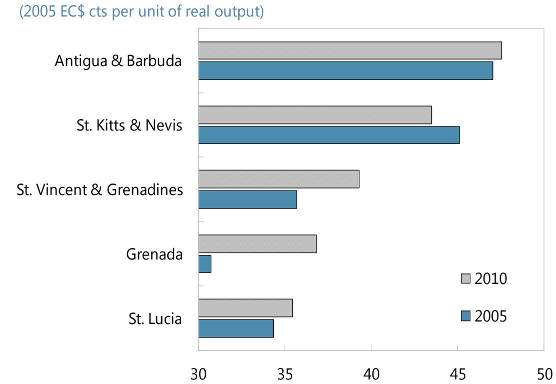
Unit labor costs have risen since 2008, as output contracted more than real wages and employment ...

Unit Labor Cost Index (2005=100)



... while the level of unit labor cost is already the highest in the ECCU.

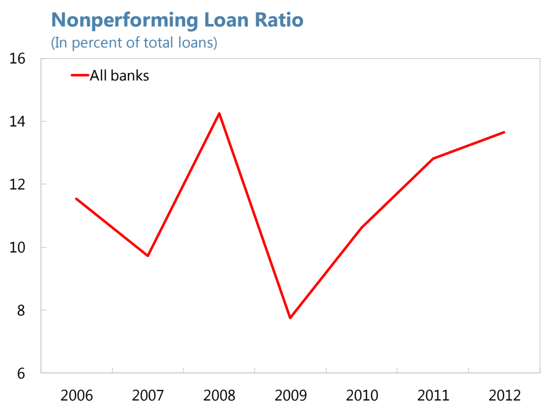
Unit Labor Cost
(2005 EC$ cts per unit of real output)



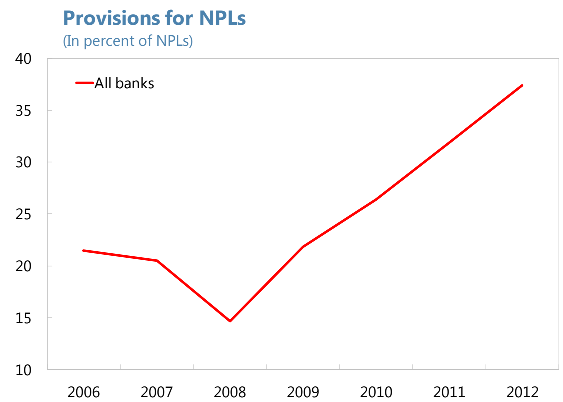
Source: IMF staff calculations based in IMF INS, IFS, WEO, ECCB and M. Tashu (2012, forthcoming).

Figure 4. The Banking System was Affected by the Crisis

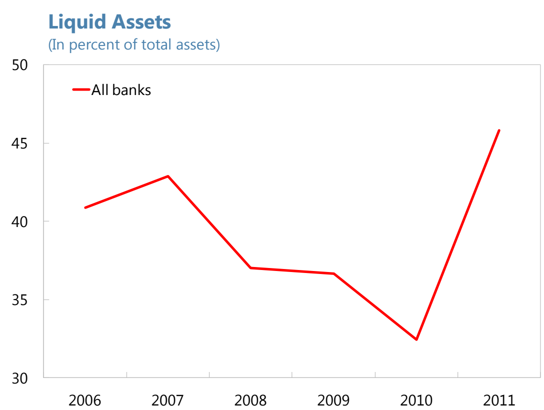
NPLs have been rising …



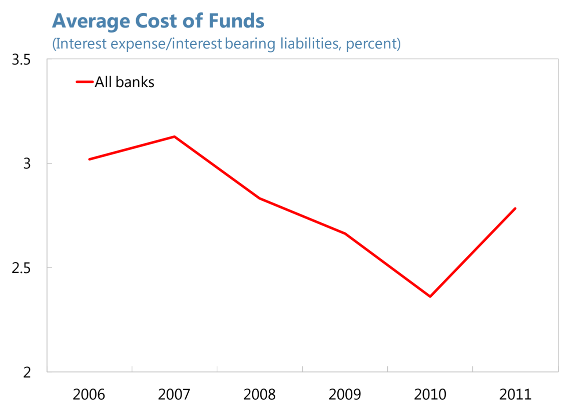
While provisions have also risen.



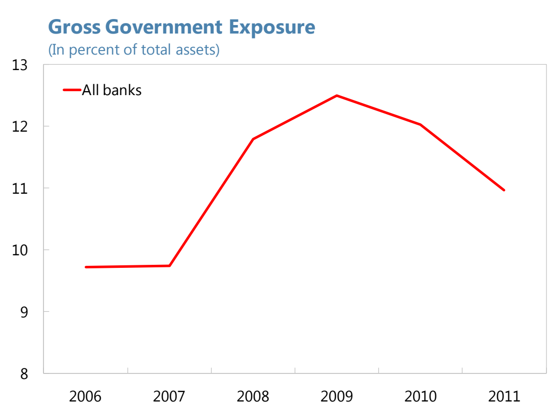
Overall, bank liquidity has improved …



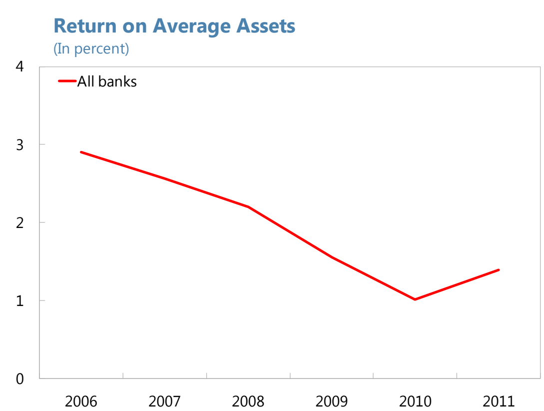
…and the cost of funds is rising back to pre-crisis levels.



Exposure to the government has fallen, but remains high.



As a result of these factors, profitability has declined.



Sources: ECCB and IMF staff calculations.

Table 1. Quantitative Performance Criteria and Indicative Targets[1/]

(In millions of Eastern Caribbean dollars)

	End-March 2011		End-June 2011		End-September 2011		End-December 2011 7/		End-June 2012		End-September 2012		End-December 2012		End-March 2013	
	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual
Performance Criteria																
Central government overall deficit including grants (ceiling) 2/ 3/	8.0	18.5	30.0	26.8	70.0 6/	86.8	79.0 6/	109.7	16.0	16.0	32.0		40.0		-5.3	
Stock of central government external short term debt (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0		0.0	
Central government external arrears accumulation (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0		0.0		0.0	
Central government budget expenditure arrears accumulation (ceiling) 4/	0.0	-17.0	0.0	-25.2	0.0	3.2	0.0	-21.0	0.0	0.0	0.0		0.0		0.0	
Contracting and guaranteeing of external debt by the nonfinancial public sector (ceiling) 5/			10.0	0.0	10.0	12.0	10.0	12.0	10.0	0.0	10.0		10.0		10.0	
Indicative target																
Central government primary balance including grants (floor) 2/ 3/	26.7	5.7	34.0	6.5	16.0 6/	-32.4	24.0 6/	-46.4	28.2	20.0	38.4		54.5		28.9	

1/ Cumulative within each calendar year.
2/ See the TMU for a description of adjustors.
3/ Assumes all debt restructuring agreements have been concluded.
4/ To be monitored on a continuous basis.
5/ Excludes debt already contracted with IMF and CDB, any development policy loans contracted with the World Bank in 2012, and loans contracted with China Eximbank for airport improvement as described in the framework agreement of Dec. 31, 2010, up to 210 million Chinese yuan.
6/ Adjusted target (including EC$25 million for bank recapitalization), the original program target for the overall deficit was EC$ 45 million (end-September), and EC$ 54 million (end-December).
7/ All end-December 2011 targets are indicative targets.

Table 2. Structural Benchmarks

Action	Timing: Original	Timing: Revised	TA	Status as of: September 2012
Fiscal and Public Sector Reform				
Inland Revenue Department (IRD) and Customs and Excise Department (CED)				
Present legislation to harmonize tax laws and establish revenue court	Dec-12		TA	**On track**. TAPA to receive second and third readings in parliament in October-November.
Activate legislation authorizing garnishment of overdue ABST and personal income taxes	Jun-12	Dec-12	TA	**Delayed** - to be done in conjunction with the TAPA as the provision is folded into the TAPA legislation.
Implement legislation to tax benefits as required under the PAYE law	Apr-12		TA	**Done.**
Increase compliance of 15 out of 23 state-owned enterprises to file all tax returns and remit all taxes or have payment arrangements in place with IRD 2/	Jun-12	Oct-12	TA	**Delayed** - 12 done by end-August, 15 expected to be compliant by end-October.
Increase compliance of 40 percent of professionals with tax obligations	Sep-12	Dec-12	TA	**Delayed -** 70 percent of chartered accountants compliant, but lawyers and doctors still outstanding.
Commence and complete a valuation/ compliance audit on petroleum imports including the required use of dip stick process to reduce contraband	Jun-12	Oct-12	TA	**Delayed** - TA to be provided for a review of current system in September and a petroleum sector control audit in October - recommendations to be made for reforms going forward.
Implement HS2007 code in Customs	Jun-12	Oct-12	TA	**Delayed** - due to be gazetted in October.
New Customs Law presented and passed by Parliament	Sep-12	Oct-12	TA	**Delayed** - under review by Attorney General, revised date by end-October.
Complete a tax expenditure study	Sep-12	Oct-12	TA	**Delayed** - awaiting TA, should be completed by end-October.
Public financial management				
Activate purchase order module in Free Balance to improve commitments control for PSIP projects	Sep-12	Oct-12	TA	**Delayed** - due to technical and hardware problems. Free balance current procedures to apply. Expected to be completed by end-October.
Review external audit department and adopt a strategic development plan	Aug-12	Oct-12	TA	**Delayed** - TA will begin in September, expected to be completed by end-October.
Clear up the FY2007 to FY2010 financial statements backlog	Dec-12		TA	**On track.**
Civil service reform				
Complete draft of revised public service legislation	Sep-12		TA	**Done.**
Initiate functional reviews of ministries not already reviewed	Jul-12	Nov-12	TA	**Delayed** - TOR prepared and being reviewed by World Bank, functional review to start in November.
Public enterprise reform				
Set up an oversight institutional and reporting framework for SOEs	Dec-12		TA	**On track.**
Commence reviews of selected SOEs to assess fiscal risks	Jan-13		TA	**On track.**
Financial Sector Reforms				
ECCB to submit terms of reference for bank valuation (prior action)	May-12			**Done.**
Present to Parliament stand-alone legislation to govern the Financial Services Regulatory Commission (FSRC)	Dec-12			**On track.**
ECCB to provide a strategic plan of action for the new bank	Aug-12	Oct-12		**Delayed** - resolution awaits conclusion of updated valuation, expected in September. Resolution expected in October.
Activate and staff the asset management company to deal with assets from ABIB not transferred	Aug-12	Oct-12		**Delayed** - AMC set up but not staffed or operational, pending resolution of ABIB, expected in October.
ECCB to provide strategic plan for restructuring the indigenous banking system	Aug-12	Oct-12	TA	**Delayed** - plan presented for ECCU but specifics to be provided.
ECCB to conduct on-site examinations of indigenous banks in Antigua and Barbuda	Aug-12			**Done.**

1/ These benchmarks are discussed in Box 4 of EBS/10/96 (05/25/10).
2/ Increase compliance of all 23 SOEs by December 2012.

Table 3. Selected Economic and Financial Indicators, 2005–13

I. Social and Demographic Indicators

Area (sq. km)	443	Health (most recent year)	
Arable land (percent of land area)	27.3	Population per physician	275
		Population per hospital bed	165
Population (2011)			
Total	86,295	Education (2008; in percent)	
Annual rate of growth, 1999−2011 (percent a year)	1.2	Adult literacy rate	99
Density (per sq. km.)	195		
		Energy (2005; in millions of US$)	
Population characteristics (2002)		Imports of petroleum products	99.8
Life expectancy at birth (years)	78	Exports of petroleum products	1
Crude birth rate (per thousand)	21		
Crude death rate (per thousand)	6	GDP per capita, PPP (2011)	
Poverty level (2005, percent)	18	(in US$)	16,121

II. Selected Economic and Financial Indicators, 2005−13

	2005	2006	2007	2008	2009	2010	Second and Third Reviews 2011	Prel. 2011	Proj. 2012	Proj. 2013
	(Annual percentage change, unless otherwise indicated)									
National income and prices										
GDP at constant factor cost	7.6	12.8	7.1	1.5	-10.7	-8.5	3.1	-5.5	1.0	1.5
Nominal GDP at market prices	10.7	13.9	13.5	4.5	-10.6	-6.1	6.4	-1.7	5.0	4.7
Consumer prices (e.o.p)	2.5	0.0	5.2	0.7	2.4	2.9	3.7	4.0	3.0	3.1
External sector										
Exports, f.o.b.	44.8	-10.5	-19.8	-2.9	-38.8	28.6	6.6	-4.1	5.4	6.9
Imports, f.o.b.	13.2	22.9	15.9	3.2	-21.2	-14.0	17.8	-5.9	8.1	10.4
Travel receipts (gross)	-8.3	5.6	3.4	-1.1	-8.6	-2.4	6.9	4.8	5.8	7.5
Nominal effective exchange rate (e.o.p, depreciation -)	9.7	-8.6	-8.0	7.6	-5.5	8.2	4.6	4.6	…	…
Real effective exchange rate (e.o.p, depreciation -)	9.3	-11.3	-7.6	4.8	-5.9	7.1	3.1	4.0	…	…
	(Changes in percent of beginning of period broad money)									
Money and credit										
Net foreign assets	3.1	9.2	-1.7	-11.4	-5.7	1.3	-2.1	-2.2	0.8	2.3
Net domestic assets	5.3	2.0	13.6	13.5	5.4	-1.2	8.5	2.8	1.6	1.7
Net credit to the public sector	-3.1	-4.7	2.0	5.3	10.7	-3.2	-1.9	0.4	8.5	-2.1
Credit to the private sector	7.9	12.9	10.9	7.4	-0.7	0.2	9.1	-3.7	0.1	1.7
Broad money	6.1	11.1	12.0	2.1	-0.3	0.0	-0.2	-0.2	3.3	4.0
Average deposit rate (in percent per annum)	3.7	3.8	3.4	3.3	3.3	3.2	3.1	3.1	…	…
Average lending rate (in percent per annum)	11.2	10.7	10.3	10.1	9.5	10.2	10.0	10.0	…	…
	(In percent of GDP)									
Central government										
Primary balance	-11.6	-5.0	-1.8	-2.9	-11.0	1.8	1.4	-1.5	-9.0	3.5
Overall balance	-15.1	-8.7	-5.0	-5.7	-18.2	-0.3	-1.5	-3.6	-12.0	0.6
Total revenue and grants	19.7	22.2	21.6	21.3	18.6	22.4	20.3	20.6	21.1	23.5
Total expenditure	34.8	30.9	26.6	27.0	36.8	22.7	21.8	24.3	33.1	22.8
Financing	15.1	8.7	5.0	5.7	18.2	0.3	1.5	3.6	12.0	-0.6
External	-13.9	-1.2	0.4	-1.1	4.3	2.5	3.3	2.7	6.2	0.9
Domestic	9.7	6.3	2.0	6.7	2.8	15.6	-1.9	3.8	13.3	-1.5
Change in arrears	0.0	3.6	2.6	2.8	9.4	-1.1	0.0	-1.1	-4.4	0.0
Valuation adjustments & write-offs	19.3	0.0	0.0	-2.8	1.6	-16.8	0.0	-1.8	-3.2	0.0
Financing gap	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0
External sector										
Current account balance	-18.8	-27.2	-30.9	-27.2	-19.3	-14.3	-16.6	-10.7	-11.4	-12.3
Trade balance	-37.2	-42.6	-45.5	-45.2	-40.7	-35.9	-37.8	-34.3	-35.4	-37.5
Nonfactor service balance	23.5	19.2	18.4	21.3	23.4	22.2	21.3	24.7	25.0	26.2
Of which										
Gross tourism receipts	30.9	28.6	26.1	24.7	25.2	26.2	23.5	27.9	28.1	28.9
Overall balance	-14.8	-1.9	-2.4	-3.0	-4.2	-1.2	-5.8	-0.5	-2.3	-2.3
External government debt (end of year)	35.8	35.8	33.6	31.2	35.7	38.7	38.7	39.4	38.4	38.6
Of which										
Arrears	14.6	16.0	12.0	12.6	15.2	8.8	6.5	7.7	0.0	0.0
Scheduled external debt service	17.2	3.2	1.9	5.0	4.6	10.6	1.2	8.5	1.7	2.4
(In percent of exports of goods and services)	31.6	6.6	4.3	10.9	10.1	3.9	2.9	1.7	3.4	4.9
Memorandum items										
Gross international reserves of the ECCB										
(In millions of U.S. dollars)	601	696	765	759	801	926	936	1,007	957	902
(In percent of ECCU broad money)	18	19	19	17	17	20	20	21	20	18
Nominal GDP at market prices (in millions of EC$)	2,705	3,082	3,499	3,657	3,271	3,071	3,577	3,019	3,170	3,317
Central government debt stock 1/										
(In millions of EC$)	2,558	2,785	2,757	2,811	3,337	2,783	2,864	2,817	3,096	3,075
(In percent of GDP)	95	90	79	77	102	91	80	93	98	93

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

1/ Includes central government guarantees of state enterprises' and statutory bodies' debt. From 2012 onwards, the debt figures include the recapitalization bond of EC$340 million and debt renegotiation agreements that reduce debt by 3.2 percent of GDP.

Table 4. Central Government Operations, 2009–20[1/]

(In millions of Eastern Caribbean dollars)

			2011		Projections							
					2012							
	2009	2010	Second and Third Reviews	Prel.	(Excluding ABIB) 6/	(Including ABIB)	2013	2014	2015	2016	2017	2020
Total revenue and grants	**609**	**689**	**726**	**623**	**670**	**670**	**778**	**792**	**834**	**878**	**923**	**1,076**
Current revenue 2/	606	641	705	597	666	666	751	789	831	875	920	1,073
Tax revenue	576	578	636	552	620	620	705	743	785	829	874	1,027
Non-tax revenue	30	63	69	45	46	46	46	46	46	46	46	46
Capital revenue	3	3	2	3	3	3	3	3	3	3	3	3
Total grants	0	45	19	23	1	1	25	0	0	0	0	0
Current grants (EU V-Flex)	0	32	0	0	0	0	0	0	0	0	0	0
Capital grants	0	13	19	23	1	1	25	0	0	0	0	0
Total expenditure	**1,203**	**697**	**780**	**733**	**710**	**1,050**	**757**	**767**	**804**	**848**	**889**	**1,035**
Total primary expenditure	969	632	677	670	615	955	663	669	705	741	779	907
Primary current expenditure	680	570	592	613	571	911	559	590	624	659	694	817
Wages and salaries	299	267	270	264	266	266	266	281	297	313	330	389
Employment contributions 3/	36	18	18	20	21	21	21	22	23	25	26	31
Goods and services, incl. utilities	162	117	120	104	115	115	115	121	128	136	143	168
Pensions	68	66	66	64	70	70	71	75	79	84	88	104
Other transfers	116	103	118	162	99	439	86	91	96	101	107	126
Of which: capital transfer to ABIB	…	…	…	41	0	340	…	…	…	…	…	…
Capital expenditure and net lending	287	65	85	39	44	44	104	79	81	82	84	90
Statistical discrepancy	2	-3	0	18	0	0	0	0	0	0	0	0
Interest payments 4/	234	65	103	63	95	95	94	98	99	106	110	128
External	68	15	15	24	27	27	27	31	28	26	23	15
Domestic	166	49	88	40	68	68	67	66	71	81	87	113
Primary balance	**-360**	**57**	**49**	**-46**	**55**	**-285**	**115**	**123**	**130**	**137**	**144**	**169**
Overall balance	**-594**	**-8**	**-54**	**-110**	**-40**	**-380**	**21**	**25**	**31**	**30**	**34**	**42**
Financing	**594**	**8**	**54**	**110**	**40**	**380**	**-21**	**-25**	**-31**	**-30**	**-34**	**-42**
External (net)	140	76	119	81	198	198	30	-92	-92	-120	-130	-81
External borrowing	140	66	120	40	97	97	30	-92	-92	-120	-130	-81
Disbursement	184	106	141	56	124	124	84	0	0	0	0	0
Of which: IMF	…	85	114	28	84	84	84	0	0	0	0	0
Amortization	-44	-40	-21	-15	-27	-27	-54	-92	-92	-120	-130	-81
Increase in foreign assets	0	0	0	0	0	0	0	0	0	0	0	0
Debt relief (2010 restructuring)	…	10	-1	41	101	101	0	0	0	0	0	0
Domestic (net)	93	479	-66	116	82	422	-51	67	62	90	97	40
ECCB	86	14	0	38	-12	-12	-19	-8	-8	-6	-6	-6
Banks and others	7	-39	-66	64	94	434	-32	75	70	96	102	45
Of which: Resolution of ABIB	0	0	0	41	0	340	0	0	0	0	0	0
Debt relief (2010 restructuring)	…	504	0	14	0	0	0	0	0	0	0	0
Change in arrears	308	-33	0	-33	-139	-139	0	0	0	0	0	0
External	56	0	0	-12	0	0	0	0	0	0	0	0
Amortization	19	0	0	-16	0	0	0	0	0	0	0	0
Interest	37	0	0	4	0	0	0	0	0	0	0	0
Domestic 5/	253	-33	0	-21	-139	-139	0	0	0	0	0	0
Valuation adjustments & write-offs	53	-515	1	-55	-101	-101	0	0	0	0	0	0
External	53	-10	1	-41	-101	-101	0	0	0	0	0	0
Domestic	0	-504	0	-14	0	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:												
Central government debt stock	2,745	2,341	2,398	2,375	2,328	2,668	2,648	2,635	2,618	2,601	2,580	2,589
Central govt debt (including guarantees) 7/	3,337	2,783	2,864	2,817	2,756	3,096	3,075	3,050	3,020	2,990	2,956	2,920
GDP market prices	3,271	3,071	3,577	3,019	3,170	3,170	3,317	3,503	3,704	3,909	4,121	4,846

Sources: Antigua and Barbuda authorities; and Fund staff estimates.
1/ The projections are based on debt restructuring agreements that have already been completed or are already in process.
2/ Current revenue in 2010 inlcuded a one off transaction of EC$47.3 million.
3/ Includes contributions to social security, medical benefits, and education.
4/ The projections include an interest payment on outstanding arrears.
5/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.
6/ Includes interest payments consistent with a recapitalization bond of EC$340 million (10.7 percent of GDP).
7/ From 2012 onwards, the debt figures include the recapitalization bond of EC$340 million and debt renegotiation agreements that reduce debt by 3.2 percent of GDP.

Table 4A. Quarterly Indicators of Central Government Operations, 2010–12 1/

(In millions of Eastern Caribbean dollars)

	2010		2011								2012 projection (Excluding ABIB) 6/					
	Program Q4	Actual Q4	Second & Third Reviews Q1	Actual Q1	Second & Third Reviews Q2	Actual Q2	Second & Third Reviews Q3	Actual Q3	Second & Third Reviews Q4	Preliminary Q4	4th, 5th & 6th Reviews Q1	Actual Q1	4th, 5th & 6th Reviews Q2	Actual Q2	4th, 5th & 6th Reviews Q3	4th, 5th & 6th Reviews Q4
Total revenue and grants	**822**	**689**	**168**	**168**	**367**	**320**	**607**	**469**	**726**	**623**	**165**	**166**	**334**	**330**	**492**	**670**
Current revenue 2/	749	641	168	151	367	302	606	444	705	597	164	165	332	328	490	666
Tax revenue	712	578	160	142	353	284	593	408	636	552	155	156	315	311	454	620
Non-tax revenue	37	63	8	8	14	17	13	36	69	45	8	9	17	17	36	46
Capital revenue	5	3	0	1	0	2	1	2	2	3	1	1	2	1	2	3
Total grants	68	45	0	16	0	16	0	23	19	23	0	0	0	0	0	1
Current grants (EU V-Flex)	38	32	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital grants	30	13	0	16	0	16	0	23	19	23	0	0	0	0	0	1
Total expenditure	**874**	**697**	**177**	**186**	**397**	**347**	**652**	**556**	**780**	**733**	**168**	**170**	**350**	**346**	**524**	**710**
Total primary expenditure	727	632	142	162	333	311	566	502	677	670	140	150	306	310	454	615
Primary current expenditure	636	570	130	144	296	291	497	466	592	613	138	148	282	304	426	571
Wages and salaries	293	267	60	65	124	131	239	197	270	264	65	67	130	135	195	266
Employment contributions 3/	43	18	5	5	9	10	14	15	18	20	5	7	10	13	15	21
Goods and services, incl. utilities	130	117	21	20	78	50	92	80	120	104	22	24	55	55	88	115
Pensions	51	66	18	22	31	36	50	50	66	64	25	21	38	41	54	70
Other transfers	120	103	27	32	54	64	103	124	118	162	22	30	50	60	74	99
Of which : capital transfer to ABIE	...	... ...	...	...	...	...	...	29	...	41	...	...	...	1		
Capital expenditure and net lending	90	65	12	17	37	19	69	33	85	39	2	2	24	7	28	44
Statistical discrepancy	0	-3	0	2	0	1	0	3	0	18	0	-3	0	1	0	0
Interest payments 4/	147	65	35	24	63	35	86	54	103	63	28	22	44	35	70	95
External	62	15	5	14	10	16	13	24	15	24	11	6	16	9	25	27
Domestic	85	49	30	10	53	19	73	31	88	40	17	16	28	26	45	68
Primary balance	**95**	**57**	**27**	**6**	**34**	**6**	**41**	**-32**	**49**	**-46**	**25**	**18**	**28**	**20**	**38**	**55**
Overall balance	**-52**	**-8**	**-8**	**-18**	**-30**	**-27**	**-45**	**-87**	**-54**	**-110**	**-3**	**-4**	**-16**	**-16**	**-32**	**-40**
Financing	**52**	**8**		**18**		**27**		**87**	**54**	**110**		**4**		**16**		
External (net)	66	76		19		63		81	119	81		-8		48		
External borrowing	66	66		-3		22		40	120	40		-8		48		
Disbursement	143	106		0		28		55	141	56		1		55		
Of which: IMF	98	85		0		28		28	114	28		0		55		
Amortization	-77	-40		-3		-6		-14	-21	-15		-10		-7		
Increase in foreign assets	0	0		0		0		0	0	0		0		0		
Debt relief (2010 restructuring)	0	10		22		41		41	-1	41		0		0		
Domestic (net)	-26	479		52		44		49	-66	116		15		-6		
ECCB	0	14		15		18		4	0	38		2		-13		
Banks and others	-26	-39		23		13		31	-66	64		12		7		
Of which: Resolution of ABIB	0	0		0		0		29	0	41		0		0		
Debt relief (2010 restructuring)	0	504		14		14		14	0	14		0		0		
Change in arrears	-35	-33		-17		-25		11	0	-33		-2		-25		
External	0	0		0		0		8	0	-12		0		1		
Amortization	0	0		0		0		3	0	-16		0		1		
Interest	0	0		0		0		5	0	4		0		0		
Domestic 5/	-35	-33		-17		-25		3	0	-21		-2		-26		
Valuation adjustments & write-offs	0	-515		-36		-55		-55	1	-55		0		0		
External	0	-10		-22		-41		-41	1	-41		0		0		
Domestic	0	-504		-14		-14		-14	0	-14		0		0		
Financing gap	48	0		0		0		0	0	0		0		0		
Memorandum items:		8														
Central government debt stock		2,341								2,375						2,668
Central govt debt (including guarantees) 7/		2,783								2,817						3,096
GDP market prices		3,071								3,019						3,170

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/ Current revenue in 2010 inlcuded a one off transaction of EC$47.3 million.
3/ Includes contributions to social security, medical benefits, and education.
4/ The projections include an interest payment on outstanding arrears.
5/ Includes interest and amortization arrears, unpaid vouchers to domestic creditors, personnel payables, and unpaid contributions.
6/ Includes interest payments consistent with a recapitalization bond of EC$340 million (10.7 percent of GDP).
7/ For 2012, the debt figures include the recapitalization bond of EC$340 million and debt renegotiation agreements that reduce debt by 3.2 percent of GDP.

Table 5. Central Government Operations, 2009–20[1/]

(In percent of GDP)

			2011		2012		Projections					
	2009	2010	Second and Third Reviews	Prel.	(Excluding ABIB) 6/	(Including ABIB)	2013	2014	2015	2016	2017	2020
Total revenue and grants	**18.6**	**22.4**	**20.3**	**20.6**	**21.1**	**21.1**	**23.5**	**22.6**	**22.5**	**22.5**	**22.4**	**22.2**
Current revenue 2/	18.5	20.9	19.7	19.8	21.0	21.0	22.6	22.5	22.4	22.4	22.3	22.1
Tax revenue	17.6	18.8	17.8	18.3	19.6	19.6	21.2	21.2	21.2	21.2	21.2	21.2
Non-tax revenue	0.9	2.1	1.9	1.5	1.5	1.5	1.4	1.3	1.2	1.2	1.1	0.9
Capital revenue	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total grants	0.0	1.5	0.5	0.8	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Current grants (EU V-Flex)	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	0.0	0.4	0.5	0.8	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Total expenditure	**36.8**	**22.7**	**21.8**	**24.3**	**22.4**	**33.1**	**22.8**	**21.9**	**21.7**	**21.7**	**21.6**	**21.4**
Total primary expenditure	29.6	20.6	18.9	22.2	19.4	30.1	20.0	19.1	19.0	19.0	18.9	18.7
Primary current expenditure	20.8	18.6	16.5	20.3	18.0	28.7	16.9	16.9	16.9	16.9	16.9	16.9
Wages and salaries	9.1	8.7	7.5	8.7	8.4	8.4	8.0	8.0	8.0	8.0	8.0	8.0
Employment contributions 3/	1.1	0.6	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Goods and services, incl. utilities	4.9	3.8	3.4	3.4	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Pensions	2.1	2.2	1.8	2.1	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Other transfers	3.5	3.3	3.3	5.4	3.1	13.8	2.6	2.6	2.6	2.6	2.6	2.6
Of which: capital transfer to ABIB	…	…	…	1.4	0.0	10.7	…	…	…	…	…	…
Capital expenditure and net lending	8.8	2.1	2.4	1.3	1.4	1.4	3.1	2.3	2.2	2.1	2.0	1.9
Statistical discrepancy	0.1	-0.1	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest payments 4/	7.2	2.1	2.9	2.1	3.0	3.0	2.8	2.8	2.7	2.7	2.7	2.6
External	2.1	0.5	0.4	0.8	0.9	0.9	0.8	0.9	0.8	0.7	0.6	0.3
Domestic	5.1	1.6	2.5	1.3	2.1	2.1	2.0	1.9	1.9	2.1	2.1	2.3
Primary balance	**-11.0**	**1.8**	**1.4**	**-1.5**	**1.7**	**-9.0**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**	**3.5**
Overall balance	**-18.2**	**-0.3**	**-1.5**	**-3.6**	**-1.3**	**-12.0**	**0.6**	**0.7**	**0.8**	**0.8**	**0.8**	**0.9**
Financing	**18.2**	**0.3**	**1.5**	**3.6**	**1.3**	**12.0**	**-0.6**	**-0.7**	**-0.8**	**-0.8**	**-0.8**	**-0.9**
External (net)	4.3	2.5	3.3	2.7	6.2	6.2	0.9	-2.6	-2.5	-3.1	-3.2	-1.7
External borrowing	4.3	2.1	3.4	1.3	3.1	3.1	0.9	-2.6	-2.5	-3.1	-3.2	-1.7
Disbursement	5.6	3.5	3.9	1.8	3.9	3.9	2.5	0.0	0.0	0.0	0.0	0.0
Of which: IMF	…	2.8	3.2	0.9	2.7	2.7	2.5	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-1.3	-0.6	-0.5	-0.8	-0.8	-1.6	-2.6	-2.5	-3.1	-3.2	-1.7
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	0.0
Debt relief (2010 restructuring)	…	0.3	0.0	1.4	3.2	3.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	2.8	15.6	-1.9	3.8	2.6	13.3	-1.5	1.9	1.7	2.3	2.3	0.8
ECCB	2.6	0.5	0.0	1.3	-0.4	-0.4	-0.6	-0.2	-0.2	-0.1	-0.1	-0.1
Banks and others	0.2	-1.3	-1.9	2.1	3.0	13.7	-1.0	2.2	1.9	2.4	2.5	0.9
Of which: Resolution of ABIB	0.0	0.0	0.0	1.4	0.0	10.7	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (2010 restructuring)	…	16.4	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	9.4	-1.1	0.0	-1.1	-4.4	-4.4	0.0	0.0	0.0	0.0	0.0	0.0
External	1.7	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.6	0.0	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic 5/	7.7	-1.1	0.0	-0.7	-4.4	-4.4	0.0	0.0	0.0	0.0	0.0	0.0
Valuation adjustments & write-offs	1.6	-16.8	0.0	-1.8	-3.2	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
External	1.6	-0.3	0.0	-1.3	-3.2	-3.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	-16.4	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Central government debt stock	84	76	67	79	73	84	80	75	71	67	63	53
Central govt debt (including guarantees) 7/	102	91	80	93	87	98	93	87	82	76	72	60
GDP market prices	3,271	3,071	3,577	3,019	3,170	3,170	3,317	3,503	3,704	3,909	4,121	4,846

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/ Current revenue in 2010 inlcuded a one off transaction of EC$47.3 million.

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

4/ The projections include an interest payment on outstanding arrears.

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

6/ Includes interest payments consistent with a recapitalization bond of EC$340 million (10.7 percent of GDP).

7/ From 2012 onwards, the debt figures include the recapitalization bond of EC$340 million and debt renegotiation agreements that reduce debt by 3.2 percent of GDP.

Table 6. Balance of Payments, 2008–17

			Est.	Prel.	Projections					
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(In millions of U.S. dollars)									
Current Account	**-368.9**	**-233.6**	**-162.2**	**-120.1**	**-133.4**	**-151.5**	**-188.8**	**-221.2**	**-237.7**	**-246.9**
Trade balance	-612.3	-492.6	-408.6	-383.5	-415.9	-460.8	-517.2	-573.7	-618.5	-659.5
Exports (f.o.b.)	57.6	35.3	45.3	43.4	45.8	49.0	52.1	55.4	58.7	62.2
Imports (f.o.b.)	669.9	527.9	453.9	427.0	461.7	509.8	569.3	629.1	677.2	721.7
Non-factor services balance	288.2	283.2	252.3	276.4	293.7	321.4	342.8	366.6	394.8	426.3
Of which										
Gross tourist receipts	334.0	305.1	297.7	311.9	329.9	354.5	376.6	400.8	428.2	457.9
Income (net)	-69.7	-50.9	-31.9	-35.8	-33.8	-34.9	-37.5	-37.5	-37.8	-38.0
Of which										
Interest on public sector debt	-38.2	-21.6	-7.1	-12.6	-9.8	-10.1	-11.6	-10.5	-9.6	-8.6
Current transfers (net)	24.8	26.6	26.0	22.8	22.6	22.7	23.0	23.4	23.8	24.3
Capital and Financial Account	**325.9**	**193.0**	**179.3**	**114.8**	**106.8**	**123.5**	**193.7**	**226.3**	**248.8**	**265.5**
Capital grants	11.1	0.0	16.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Migrant transfers (net)	3.7	3.3	3.8	3.7	3.7	3.8	3.8	4.0	4.1	4.2
Official flows	-14.4	66.3	-20.3	-2.8	6.6	-8.2	-34.1	-34.1	-44.4	-48.2
Portfolio liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector loans	-14.4	66.3	-20.3	-2.8	6.6	-8.2	-34.1	-34.1	-44.4	-48.2
Disbursements	32.5	82.7	0.0	2.9	16.5	11.9	0.0	0.0	0.0	0.0
Amortization (-)	47.0	16.3	20.3	5.7	9.9	20.0	34.1	34.1	44.4	48.2
Non-official flows	325.5	123.4	179.3	113.9	96.5	127.9	224.0	256.5	289.2	309.5
Foreign direct investment (net)	158.8	80.6	96.7	57.7	70.3	98.8	131.7	163.0	186.2	200.0
Portfolio investment (net)	8.1	-4.7	-5.7	1.3	1.9	3.3	4.5	4.5	4.5	4.5
Commercial banks	117.2	33.5	13.7	35.1	5.8	-23.3	-3.3	-22.2	-1.3	-2.8
Other private (net)	41.4	13.8	74.6	19.8	18.5	49.1	91.1	111.2	99.7	107.7
Errors and omissions	**1.7**	**-9.8**	**-30.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-41.3**	**-50.4**	**-13.5**	**-5.3**	**-26.5**	**-28.0**	**5.0**	**5.1**	**11.1**	**18.5**
Financing	**41.3**	**50.4**	**-27.8**	**-15.6**	**-14.7**	**-3.2**	**-5.0**	**-5.1**	**-11.1**	**-18.5**
Change in imputed reserves (increase -)	5.8	29.8	-27.8	-11.0	-14.7	-3.2	-5.0	-5.1	-11.1	-18.5
Exceptional financing	35.5	20.6	0.0	-4.5	0.0	0.0	0.0	0.0	0.0	0.0
Increase in arrears	35.5	20.6	0.0	-4.5	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	0.0	0.0
External financing gap	**0.0**	**0.0**	**41.3**	**20.8**	**41.2**	**31.2**	**0.0**	**0.0**	**0.0**	**0.0**
IMF financing (gross)	0.0	0.0	31.2	10.4	31.2	31.2	0.0	0.0	0.0	0.0
CDB financing (gross)	0.0	0.0	10.1	10.5	10.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(In percent of GDP)									
Current account	**-27.2**	**-19.3**	**-14.3**	**-10.7**	**-11.4**	**-12.3**	**-14.5**	**-16.1**	**-16.4**	**-16.2**
Of which										
Trade balance	-45.2	-40.7	-35.9	-34.3	-35.4	-37.5	-39.9	-41.8	-42.7	-43.2
Merchandise imports	49.5	43.6	39.9	38.2	39.3	41.5	43.9	45.9	46.8	47.3
Gross tourist receipts	24.7	25.2	26.2	27.9	28.1	28.9	29.0	29.2	29.6	30.0
Export growth (annual percent change)	-2.9	-38.8	28.6	-4.1	5.4	6.9	6.5	6.3	6.0	5.9
Import growth (annual percent change)	3.2	-21.2	-14.0	-5.9	8.1	10.4	11.7	10.5	7.6	6.6
External public sector debt service										
(in percent of exports of goods and services)	13.8	6.9	5.2	3.4	3.5	4.9	7.1	6.5	7.4	7.2
Imputed reserves	10.2	8.9	12.0	13.2	13.8	13.4	13.1	12.8	12.5	…

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

Table 7. Monetary Survey, 2005–13

	2005	2006	2007	2008	2009	2010	Prel. 2011	Proj. 2012	Proj. 2013
	(In millions of Eastern Caribbean dollars)								
Net foreign assets	**710.5**	**926.1**	**882.8**	**550.7**	**379.8**	**417.9**	**352.9**	**376.9**	**448.7**
ECCB imputed reserves	343.7	385.1	388.3	372.6	292.3	367.4	397.2	436.9	445.7
Commercial banks' net foreign assets	366.8	541.1	494.4	178.1	87.5	50.5	-44.3	-60.0	3.0
Net domestic assets	**1,636.2**	**1,682.0**	**2,036.3**	**2,430.5**	**2,592.4**	**2,555.3**	**2,639.6**	**2,686.2**	**2,737.9**
Net credit to public sector	81.3	-30.1	21.2	175.2	494.4	398.6	411.8	663.9	598.2
Claims on central government (net)	261.7	196.8	264.3	464.2	591.9	460.3	534.4	823.7	791.3
ECCB net credit to central government	21.8	20.2	4.9	19.1	96.6	64.7	102.4	89.0	90.0
Commercial bank net credit to government	239.9	176.7	259.4	445.2	495.3	395.6	431.9	734.7	701.3
Net credit to other public sector	-180.4	-227.0	-243.1	-289.0	-97.6	-61.7	-122.6	-159.8	-193.2
Credit to private sector	1,757.0	2,060.1	2,344.6	2,559.8	2,539.5	2,544.3	2,433.2	2,437.2	2,488.7
Other items (net)	-202.1	-348.0	-329.6	-304.5	-441.6	-387.5	-205.4	-415.0	-349.0
Monetary liabilities (M2)	**2,346.7**	**2,606.9**	**2,919.3**	**2,981.2**	**2,972.1**	**2,973.2**	**2,966.4**	**3,063.1**	**3,186.6**
Money (M1)	554.8	678.2	705.4	720.0	605.8	585.9	577.4	602.4	627.4
Currency circulating outside banks	122.1	143.7	133.9	142.9	146.1	137.7	130.1	141.7	148.3
Demand deposits	432.7	534.4	571.6	577.1	459.6	448.1	447.3	460.7	479.1
Quasi-money	1,791.9	1,928.8	2,213.8	2,261.2	2,366.4	2,387.4	2,389.0	2,460.7	2,559.1
Savings deposits	744.4	818.5	902.5	934.8	960.3	964.9	995.6	1,025.5	1,066.5
Time deposits	853.2	874.6	972.9	1,057.4	1,000.2	989.3	995.6	1,025.5	1,066.5
Foreign currency deposits	194.3	235.6	338.4	268.9	405.9	433.1	397.8	409.8	426.1
	(change in the percent of M2 at the beginning of the period)								
Net foreign assets	3.1	9.2	-1.7	-11.4	-5.7	1.3	-2.2	0.8	2.3
ECCB imputed reserves	0.9	1.8	0.1	-0.5	-2.7	2.5	1.0	1.3	0.3
Commercial banks' net foreign assets	2.2	7.4	-1.8	-10.8	-3.0	-1.2	-3.2	-0.5	2.1
Net domestic assets	5.3	2.0	13.6	13.5	5.4	-1.2	2.8	1.6	1.7
Credit to the public sector (net)	-3.1	-4.7	2.0	5.3	10.7	-3.2	0.4	8.5	-2.1
Claims on central government	-2.2	-2.8	2.6	6.8	4.3	-4.4	2.5	9.8	-1.1
Credit to the rest of the public sector (net)	-0.8	-2.0	-0.6	-1.6	6.4	1.2	-2.0	-1.3	-1.1
Credit to the private sector	7.9	12.9	10.9	7.4	-0.7	0.2	-3.7	0.1	1.7
Other items (net)	0.5	-6.2	0.7	0.9	-4.6	1.8	6.1	-7.1	2.2
	(12-month percentage change)								
Broad money	6.1	11.1	12.0	2.1	-0.3	0.0	-0.2	3.3	4.0
Money (M1)	7.4	22.2	4.0	2.1	-15.9	-3.3	-1.5	4.3	4.2
Quasi-money	5.7	7.6	14.8	2.1	4.7	0.9	0.1	3.0	4.0
Memorandum item:									
Income velocity of M2 (percent of M2)	1.2	1.2	1.3	1.2	1.1	1.0	1.0	1.0	1.0
Credit to the private sector (net)	11.1	17.3	13.8	9.2	-0.8	0.2	-4.4	0.2	2.1
GDP	2,705	3,082	3,499	3,657	3,271	3,071	3,019	3,170	3,317

Source: Eastern Caribbean Central Bank; and Fund staff estimates and projections.

Table 8. Structure of Public Sector Debt, 2007–11

(In millions of U.S. dollars, unless noted otherwise)

	Outstanding debt (including arrears)					Structure of arrears (as of end-2011)				
	End-2007	End-2008	End-2009	End-2010	End-2011	Principal	Interest	Total	(Total arrears, in percent of GDP)	(Total arrears, in percent of outstanding debt)
Total public debt 1/	**1,021.1**	**1,041.1**	**1,236.1**	**1,031.1**	**1,043.2**	**123.6**	**33.8**	**157.4**	**14.1**	**15.1**
Public sector domestic debt	**585.2**	**618.8**	**804.2**	**591.0**	**602.5**	**68.2**	**3.1**	**71.2**	**6.4**	**11.8**
ECCB	0.0	3.0	34.9	33.7	43.0	0.0	0.0	0.0	0.0	0.0
Bank loans (incl. overdraft)	143.8	179.3	254.6	274.4	283.6	8.2	1.9	10.1	0.9	3.5
Debt to statutory bodies	365.2	325.0	318.1	171.2	168.8	0.0	0.0	0.0	0.0	0.0
Medical Benefit Scheme	101.5	102.0	91.9	46.6	46.6	0.0	0.0	0.0	0.0	0.0
Social Security	214.7	215.7	218.1	122.2	122.1	0.0	0.0	0.0	0.0	0.0
Board of Education	38.7	0.3	1.2	2.0	0.0	0.0	0.0	0.0	0.0	0.0
State Insurance Corporation	10.4	6.9	6.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Government securities	47.0	42.7	32.5	42.9	44.0	12.8	1.2	14.0	1.3	31.9
Supplier credits and others 2/	29.2	68.8	164.1	68.8	63.0	47.1	0.0	47.1	4.2	74.8
Public sector external debt	**435.9**	**422.3**	**431.9**	**440.1**	**440.7**	**55.5**	**30.7**	**86.2**	**7.7**	**19.6**
Multilateral	39.6	43.5	45.8	76.0	91.8	0.1	0.1	0.2	0.0	0.3
CDB	25.1	30.3	33.3	39.1	45.6	0.1	0.1	0.2	0.0	0.5
EEC/EIB	12.9	12.4	11.6	4.8	4.1	0.0	0.0	0.0	0.0	0.0
OPEC	1.6	0.8	0.8	0.8	0.7	0.0	0.0	0.0	0.0	0.0
IMF	…	…	…	31.2	41.5	…	…	…	0.0	0.0
Bilateral	245.3	266.7	283.4	288.6	278.3	15.1	5.9	21.1	1.9	7.6
Paris Club	166.0	163.9	120.6	97.8	100.4	0.5	0.0	0.6	0.1	0.6
France	27.9	28.4	27.8	30.3	31.6	0.3	0.0	0.3	0.0	0.9
Germany	1.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan 3/	88.8	88.8	34.4	32.4	34.7	0.0	0.0	0.0	0.0	0.0
Netherlands	7.7	7.6	7.9	6.8	5.5	0.0	0.0	0.1	0.0	1.2
U.K.	7.2	4.8	4.4	2.3	2.2	0.0	0.0	0.0	0.0	0.0
U.S.	32.9	33.9	46.0	26.0	26.4	0.2	0.0	0.2	0.0	0.9
Non-Paris Club	79.3	102.8	162.8	190.9	177.9	14.6	5.9	20.5	1.8	11.5
Brazil	29.5	30.2	22.0	22.7	22.2	0.0	0.0	0.0	0.0	0.0
China	23.6	42.1	48.8	90.9	73.1	0.0	0.0	0.0	0.0	0.0
Kuwait	22.3	22.5	30.7	20.0	22.4	13.5	5.8	19.3	1.7	86.2
Trinidad and Tobago	4.0	4.0	2.1	2.1	2.1	1.1	0.0	1.1	0.1	50.0
Venezuela	0.0	3.9	59.2	55.3	58.0	0.1	0.0	0.1	0.0	0.2
Commercial	151.0	112.1	102.7	75.5	70.6	40.2	24.7	64.9	5.8	91.9

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, floating debt and debt to Finance and Development Company and Sagicor.

3/ In 2009, the loan was reduced by the amount of US$53 million overcharged by the creditor.

Table 9. Selected Indicators of Vulnerability, 2006–11

	2006	2007	2008	2009	2010	2011
Financial indicators						
Broad money (12-month percent change)	11.1	12.0	2.1	-0.3	0.0	-0.2
Private sector credit (12-month percent change)	17.3	13.8	9.2	-0.8	0.2	-4.4
Commercial bank soundness indicators (in percent) 1/						
Capital adequacy ratio 2/	15.1	15.7	16.5	18.4	16.1	4.1
Unsatisfactory assets/total loans	11.5	9.7	14.2	7.8	10.6	12.8
Provision for loan losses/unsatisfactory assets	21.5	20.5	14.7	21.9	26.4	31.9
Net profit before taxes/average assets	2.9	2.5	2.2	1.6	0.2	0.3
Liquid assets/total assets	40.9	42.9	37.0	36.6	32.7	45.8
Gross government exposure/total assets 2/	17.9	19.1	24.1	29.0	27.8	32.3
External indicators						
Foreign exchange earnings from tourism (12-month percent change)	5.6	3.4	-1.1	-8.6	-2.4	4.8
Merchandise imports						
(12-month percent change in U.S. dollars)	22.9	15.9	3.2	-21.2	-14.0	-5.9
Current account balance (percent of GDP)	-27.2	-30.9	-27.2	-19.3	-14.3	-10.7
Capital and financial account balance (percent of GDP)	28.3	31.1	24.1	15.9	15.8	10.3
Of which						
Inward foreign direct investment	31.4	26.1	11.7	6.7	8.5	5.2
Imputed net international reserves						
In millions of U.S. dollars	143	144	138	108	136	147
In percent of broad money	14.8	13.3	12.5	9.8	12.4	13.4
Commercial banks' net foreign assets (millions of US$, end of period)	200.4	183.1	65.9	32.4	18.7	-16.4
External public sector debt (millions of US$, end-period) 3/	408.8	435.9	422.3	431.9	440.1	440.7
External public sector debt service (in percent of exports						
of goods and services) 4/	10.2	7.5	13.8	6.9	5.2	3.4
External interest payments by public sector (in percent of exports of						
goods and services) 4/	7.2	6.4	6.2	4.0	1.4	2.3
External public sector amortization (in percent of exports of						
goods and services) 4/	3.1	1.1	7.6	3.0	3.9	1.1
Exchange rate (E.C.dollars per U.S. dollar), end-period	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate appreciation (+)						
(End-period, percentage change)	-11.2	-7.6	4.8	-5.9	7.1	4.0

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 10. External Financing Requirements and Sources, 2008–17

(In millions of U.S. dollars)

	2008	2009	2010	Prel. 2011	Projections 2012	2013	2014	2015	2016	2017
A. Gross financing requirements	**251.4**	**172.8**	**122.0**	**81.9**	**133.7**	**148.9**	**140.1**	**171.5**	**194.8**	**208.8**
Current account deficit	368.9	233.6	162.2	120.1	133.4	151.5	188.8	221.2	237.7	246.9
Amortization (net)	-111.6	-31.1	-68.0	-49.2	-14.4	-5.8	-53.6	-54.8	-54.0	-56.7
Official (public sector and central govt.)	47.0	16.3	20.3	5.7	9.9	20.0	34.1	34.1	44.4	48.2
of which to official creditors	5.4	6.9	12.4	5.6	9.9	20.0	34.1	34.1	44.4	48.2
Private sector (net)	-158.6	-47.4	-88.3	-54.9	-24.3	-25.8	-87.7	-88.9	-98.4	-104.9
Commercial banks	-117.2	-33.5	-13.7	-35.1	-5.8	23.3	3.3	22.2	1.3	2.8
Other private	-41.4	-13.8	-74.6	-19.8	-18.5	-49.1	-91.1	-111.2	-99.7	-107.7
Arrears	35.5	20.6	0.0	-4.5	0.0	0.0	0.0	0.0	0.0	0.0
Reserves accumulation (+: increase)	-5.8	-29.8	27.8	11.0	14.7	3.2	5.0	5.1	11.1	18.5
B. Sources of Financing	**214.3**	**162.0**	**111.3**	**65.6**	**92.4**	**117.7**	**140.1**	**171.5**	**194.8**	**208.8**
Capital grants and transfers	14.8	3.3	20.3	3.7	3.7	3.8	3.8	4.0	4.1	4.2
Foreign Direct Investment (net)	158.8	80.6	96.7	57.7	70.3	98.8	131.7	163.0	186.2	200.0
FDI outflows Abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FDI inflows to Antigua and Barbuda	158.8	80.6	96.7	57.7	70.3	98.8	131.7	163.0	186.2	200.0
Net inflows of equity and other capital	8.1	-4.7	-5.7	1.3	1.9	3.3	4.5	4.5	4.5	4.5
New borrowing (gross)	32.5	82.7	0.0	2.9	16.5	11.9	0.0	0.0	0.0	0.0
of which public sector	32.5	82.7	0.0	2.9	16.5	11.9	0.0	0.0	0.0	0.0
C. Financing Gap (A–B)	**37.1**	**10.8**	**10.7**	**16.3**	**41.2**	**31.2**	**0.0**	**0.0**	**0.0**	**0.0**
Errors and omissions	1.7	-9.8	-30.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	35.5	20.6	0.0	-4.5	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	0.0	0.0
Exceptional external financing	**0.0**	**0.0**	**41.3**	**20.8**	**41.3**	**31.3**	**0.0**	**0.0**	**0.0**	**0.0**
IMF financing (gross)	0.0	0.0	31.2	10.4	31.3	31.3	0.0	0.0	0.0	0.0
Potential disbursements 1/	0.0				31.3	31.3	0.0	0.0	0.0	0.0
CDB financing (gross)	0.0	0.0	10.1	10.5	10.0	0.0	0.0	0.0	0.0	0.0
Residual external financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Assumes US$ 1 = 0.647565 SDR (as of October 5, 2012).

Table 11. Schedule of Reviews

Date	Amount of Purchase: Millions of SDR	Amount of Purchase: Percent of Quota	Conditions
June 7, 2010	16.875	125	Approval of arrangement
October 29, 2010	3.375	25	First review and end-June 2010 performance criteria
March 30, 2011	6.750	50	Second & Third reviews and end-December 2010 performance criteria
June 1, 2012	13.500	100	Fourth, Fifth and Sixth reviews and end-September 2011 performance criteria
September 1, 2012	3.375	25	Seventh review and end-June 2012 performance criteria
December 1, 2012	3.375	25	Eighth review and end-September 2012 performance criteria
March 1, 2013	3.375	25	Ninth review and end-December 2012 performance criteria
June 1, 2013	16.875	125	Tenth review and end-March 2013 performance criteria
Total	**67.5**	**500**	

Source: Fund staff estimates

1/ For completed reviews the dates refer to Board dates and for future reviews the dates refer to availability dates.

Table 12. Indicators of Capacity to Repay the Fund, 2008–18[1/]

	Est. 2008	Est. 2009	Est. 2010	Prel. 2011	Projections 2012	2013	2014	2015	2016	2017	2018
Fund obligations based on existing and prospective credit (in millions of SDRs)	0.0	0.0	0.1	0.3	0.2	5.3	12.9	13.3	17.7	17.1	4.7
Principal	0.0	0.0	0.0	0.0	0.0	4.2	11.8	12.7	17.3	16.9	4.6
Charges and interest	0.0	0.0	0.1	0.3	0.2	1.0	1.1	0.7	0.4	0.2	0.0
Fund credit outstanding based on existing and prospective credit (in millions of SDRs)	0.0	0.0	20.3	27.0	47.3	63.3	51.5	38.8	21.5	4.6	0.0
Total obligations based on existing and prospective credit											
In millions of U.S. dollars 2/	0.0	0.0	0.1	0.5	0.2	8.1	19.9	20.6	27.3	26.3	7.2
In percent of exports of goods and services	0.0	0.0	0.0	0.1	0.0	1.3	3.1	3.0	3.7	3.4	12.0
In percent of external debt service 3/	0.0	0.0	0.7	5.8	1.2	27.0	43.4	46.0	50.5	46.4	16.4
In percent of GDP	0.0	0.0	0.0	0.0	0.0	0.7	1.5	1.5	1.9	1.7	0.4
In percent of quota	0.0	0.0	0.7	2.6	1.1	38.9	95.3	98.6	131.0	126.4	34.6
In percent of net international reserves	0.0	0.0	0.1	0.4	0.1	4.4	10.4	10.8	14.3	13.8	3.8
Outstanding Fund credit 3/											
In millions of U.S. dollars 2/	0.0	0.0	31.2	41.5	73.0	97.7	79.5	59.9	33.2	7.2	0.0
In percent of exports of goods and services	0.0	0.0	6.1	7.7	12.9	16.0	12.3	8.7	4.5	0.9	0.0
In percent of external debt service 3/	0.0	0.0	150.8	447.1	369.5	324.9	173.9	134.3	61.5	12.6	0.0
In number of months of imports of goods and services	0.0	0.0	0.9	1.2	1.9	2.3	1.7	1.1	0.6	0.1	0.0
In percent of GDP	0.0	0.0	2.7	3.7	6.2	8.0	6.1	4.4	2.3	0.5	0.0
In percent of quota	0.0	0.0	150.0	200.0	350.0	468.7	381.3	287.5	159.4	34.4	0.0
In percent of net international reserves	0.0	0.0	22.9	28.2	41.3	52.7	41.6	31.4	17.4	3.8	0.0
Net use of Fund credit (in millions of SDRs)	0.0	0.0	20.3	6.8	20.3	16.0	-11.8	-12.7	-17.3	-16.9	-4.6
Disbursements	0.0	0.0	20.3	6.8	20.3	20.3	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	0.0	0.0	0.0	0.0	4.2	11.8	12.7	17.3	16.9	4.6
Memorandum items:											
Nominal GDP (in millions of U.S. dollars)	1,354.6	1,211.5	1,137.5	1,118.3	1,174.0	1,228.7	1,297.6	1,371.7	1,447.9	1,526.4	1,609.4
Exports of goods and services (in millions of U.S. dollars)	617.5	546.1	510.9	536.9	567.4	608.9	646.9	688.3	734.6	784.8	60.0
External debt service (in millions of U.S. dollars) 3/	55.5	41.6	20.7	9.3	19.7	30.1	45.7	44.6	54.1	56.8	44.1
Imports of goods and services (in millions of U.S. dollars)	669.9	527.9	439.6	427.0	461.7	509.8	569.3	629.1	677.2	721.7	8.4
Net imputed international reserves (in millions of U.S. dollars)	138.0	108.2	136.1	147.1	176.5	185.4	190.9	190.9	190.9	190.9	190.9

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 67.5 million (500 percent of quota).

APPENDIX 1. RISK ASSESSMENT MATRIX[1]

Source of Risks	Relative Likelihood	Impact if Realized
1. Intensification of the euro area crisis.	**Medium** • The sovereign debt crisis in the euro-zone remains a key global risk and its intensification could prolong the slowdown in advanced economies.	**High** • Lower tourism receipts and lower FDI could lead to a much lower or negative growth outcome affecting fiscal revenues and the debt ratio.
2. Slower fiscal consolidation.	**Medium** • Implementation of structural reforms has proven challenging due to capacity constraints and political resistance. Political space to implement reforms and maintain fiscal discipline may flag as 2014 elections approach.	**High** • Further debt restructuring might be necessary as flow relief expires in 2017. • Lower confidence would have a negative effect on FDI and private sector investment, further affecting growth.
3. Contingent fiscal liabilities from SOEs and the financial sector.	**High** • The central government has guaranteed external debt of statutory bodies. • Current expenditure was higher than planned in H1 of 2012 due to payments for SOEs' external debt and operational costs. • Central government is final guarantor of deposits in the banking system.	**High** • Materialization of contingent liabilities could further damage the public debt trajectory and investor confidence, crowding out productive capital investment which is already at minimal levels.
4. Weak indigenous banks.	**Medium** • NPLs at indigenous banks have risen since 2009, liquidity has tightened and profitability has fallen.	**High** • A further shock to the already weakened balance sheets of the indigenous banks could lead to the failure of another bank, which would severely damage confidence in the system, and raise fiscal costs.
5. An increase in oil and/or food prices.	**Low** • Geo-political uncertainties could trigger a sharp oil price increase. • Weather shocks could lead to poor harvests and raise the price of staple crops.	**Medium** • Antigua is highly dependent on imports and a simultaneous increase in oil and food prices could put significant pressure on the balance of payments, external financing needs and inflation.
6. A severe hurricane or geological shock.	**Medium** • Data from the Center for Research on the Epidemiology of Natural Disasters suggests a severe natural disaster could be expected to hit one of the ECCU countries once every 2.5 years.	**High** • A severe hurricane or natural disaster could be very destructive and disruptive for Antigua's physical infrastructure, economic activity and public finances.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path discussed in this report (which is the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is staff's subjective assessment of the risks surrounding the baseline. The RAM reflects staff views on the source of risks and overall level of concerns as of the time of discussions with the authorities.

ANNEX 1. LETTER OF INTENT

St. Johns, Antigua
October 17, 2012

Mme. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington DC, 20431

Dear Madame Lagarde,

Our fiscal consolidation program supported by the Stand-by Arrangement (SBA) from the Fund continues to be implemented as envisioned, despite a challenging external and domestic environment. Fiscal consolidation is on track, debt restructuring efforts continue, and we are actively pursuing our structural reform agenda. At the same time, the resolution of ABIB is moving forward and plans are underway to begin to reform the legislative and regulatory environment for the banking sector.

Within this context, Antigua and Barbuda's performance under the SBA continues to be strong. We have met all of the performance criteria under the program for end-June 2012, except for the continuous performance criterion on external arrears, which was missed by a very small amount (0.03 percent of GDP) due to a delay in loan payments of less than a month to the Caribbean Development Bank. Accordingly, we are requesting a waiver of nonobservance for this performance criterion based on the fact that the deviation from the performance criterion was small and temporary. We have also made progress on meeting structural benchmarks under the program. Although some benchmarks have been delayed, decisive action has been taken to move reforms forward, particularly in the area of revenue administration, and we remain committed to the reform agenda in customs, public financial management, and civil service and public enterprise reform. We have also made progress on benchmarks in the financial sector, although there have been some delays related to the need to wait for the conclusion of an updated valuation of ABIB's balance sheet to conclude the resolution of the bank.

With respect to the rest of 2012 and 2013, the government reiterates its commitment to the policies described in our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of May 21, 2012, and the Letter from the Eastern Caribbean Central Bank (ECCB) of May 9, 2012, which encompasses continued fiscal consolidation, laying the groundwork for a gradual reduction in the ratio of debt to GDP, as well as the resolution of ABIB and restructuring and reform of the financial sector. We also remain committed to our structural reform agenda as described in the previous letter of intent with revised timing in the attached table of structural benchmarks. In addition, we remain committed to reaching the fiscal and debt targets in the attached table on performance criteria, which are unchanged from our previous LOI.

The attached MEFP describes recent economic developments and our performance under the program in more detail, and updates our policies, particularly in the area of structural reforms. Fiscal, debt and financial sector policies remain largely as described in our previous MEFP. On the basis of past performance, these policies, and our continued commitment to our fiscal consolidation program, we request completion of the seventh program and financing assurances reviews under the Stand-By Arrangement, and a waiver of applicability of the end-September 2012 performance criteria.

We are confident that the economic and financial policies set forth in the Memorandum of Economic and Financial Policies (MEFP) are adequate to ensure that the objectives of our program are met. However, should there be any unforeseen events or external shocks, the Government of Antigua and Barbuda stands ready to adopt the necessary policies and measures to secure the objectives of the program. The Government of Antigua and Barbuda will consult with the IMF on the adoption of such policies and measures, and in advance of revisions to the policies contained in the above mentioned 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 to intensify existing, trade restrictions for balance of payments purposes, or enter into bilateral payment agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. In line with our commitment to transparency, we authorize the Fund to publish this letter of intent, the MEFP, the Technical Memorandum of Understandings, and the accompanying staff report.

Sincerely yours,

/s/

Hon. Harold Lovell

Minister of Finance, the Economy and Public Administration

Antigua and Barbuda

Attachments: Memorandum of Economic and Financial Policies

Technical Memorandum of Understandings

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2012–2013

I. ECONOMIC DEVELOPMENTS

1. The economy is expected to recover gradually this year after the contraction in the last three years caused by the international financial crisis:

- ***Growth and inflation***. Real economic activity seems to be recovering, driven by a small pickup in tourist and construction activity. Headline inflation has been trending down during the year, from 5.6 percent year-on-year in January 2012 to 3½ percent year-on-year in July.

- ***Balance of payments***. The current account deficit is expected to widen marginally in 2012 (by about ¾ percent of GDP to 11½ percent of GDP) as domestic demand and imports recover with economic activity.

- ***Banking sector***. Banks continue to be challenged by the steep decline in economic activity in the last few years that continues to have a negative effect on their portfolios. The ratio of non-performing loans has increased from 12.8 percent in December 2011 to 13.9 percent in June 2012, but still remains below its peak of 17.7 percent in March, 2009.

II. PERFORMANCE UNDER THE PROGRAM

2. Fiscal performance criteria for end-June under the program were met, although there was a small and temporary breach of the performance criterion on external arrears.

- ***Overall balance***. The performance criterion on the overall deficit of the central government was met exactly (the outcome of a deficit of EC$16 million was equal to the performance criterion). The government met its tax revenue objectives under the program as reforms to the Inland Revenue Department have begun to bear fruit. However, current expenditure was slightly higher than expected due to unexpected payments for government personnel, compensation payments that have been ordered by the Court, and transfers to the statutory bodies (external debt payments guaranteed by the central government, and operational costs for the Port Authority). These were offset by lower capital expenditure and lower interest payments than projected.

- ***Primary balance***. The indicative target on the primary balance was missed by a small margin (0.3 percent of GDP) due to higher current expenditure than envisaged.

- ***External debt and arrears***. The performance criteria on external short term debt and the contracting or guaranteeing of external debt by the non-financial public sector were met. However, the continuous performance criterion on external arrears was breached as arrears of EC$1 million (0.01 percent of GDP) were accumulated due to a payment that was due to the

Caribbean Development Bank in late June that was not paid until early July. We are requesting a waiver for this performance criterion based on the fact that the arrears were very small and paid less than a month after the due date.

- ***Domestic expenditure arrears***. The continuous performance criterion on domestic expenditure arrears was met.

3. We have been implementing our structural reform agenda, although there have been some delays.

- ***Financial sector benchmarks.*** On the financial sector, the ECCB completed the on-site full scope examinations of indigenous banks, but the presentation of strategic plan for the new bank has been delayed until the completion of the updated valuation of ABIB, which was completed in early October 2012. Also the amalgamation of the domestic banking system has been delayed by slower than anticipated progress with finalizing the resolution of ABIB, which is expected in late November 2012. Although the asset management company to dispose of the impaired assets from the ABIB resolution has been incorporated, it is not expected to become fully operational until the resolution of ABIB is complete. The Government will receive assistance from an international accounting firm to flesh out the precise operational structure of the company and develop the appropriate strategy for disposing of the impaired assets.

- ***Internal revenue administration benchmarks***. The activation of garnishment legislation for overdue taxes has been delayed as it was folded into the new Tax Administration and Procedures Act (TAPA), which harmonizes tax laws and is expected to be enacted by end-November, 2012. Compliance of 15 out of 23 State Owned Enterprises (SOEs) with tax obligations was due in June but has been delayed; however, this target is expected to have been met by end-October, and compliance for all 23 SOEs is expected by December. We expect to have met the benchmark for 40 percent of professionals to be compliant with their tax obligations by end-December.

- ***Customs administration benchmarks***. Reform of customs has been delayed. The new HS 2007 customs code was due to be published in the Official Gazette in October, but the valuation/compliance audit on petroleum imports has been postponed awaiting technical assistance, and is now expected to be completed by end-October. The presentation and passage of a New Customs Act is expected by end-October. The completion of a tax expenditure study (due in September 2012) will most likely be delayed until end-October due to the need for significant technical assistance to carry it out.

- ***Public financial management and civil service reform.*** Work has commenced towards activation of the purchase order module of FreeBalance, but technical and hardware challenges have delayed its completion, which is now expected by end October. A strategic plan for the Audit Department has been delayed pending technical assistance which is expected to commence in October 2012. We expect the strategic plan will be adopted by Cabinet by end-November 2012. With the assistance of the PFM resident advisor and technical assistance the Treasury is on target to clear the backlog of Government financial accounts by December 2012. The draft of the new civil service bill has been completed and we are developing a Public Sector and Social Transformation (PSST) project with the World Bank which will support our public sector reform, social protection and active labor market policy objectives. Progress on the functional reviews of ministries was slower than expected due to delays in concluding funding arrangements for the technical assistance. We expect to finalize the terms of reference and commence the process of selecting the consultants before end September 2012 and start the functional reviews by November 2012.

4. The process of resolution of ABIB is being carried forward. An updated valuation is being conducted by an international accounting firm in accordance with terms of reference that were agreed with the Fund as a prior action for the combined fourth, fifth and sixth review. The ECCB and prospective shareholders have agreed to wait until the conclusion of the valuation before transferring assets from ABIB to the new bank. This valuation was concluded in the early October, 2012, allowing the resolution process to be concluded by end- November. In the meantime, the prospective shareholders of the new bank are preparing a strategic management and business plan which will be presented at the time the new bank is licensed.

III. POLICIES FOR THE REST OF 2012 AND 2013

A. Growth and Inflation

5. We continue to project a moderate recovery of the economy for 2012–13. For 2012 we are projecting growth of 1 percent based on a modest pick up in tourism and some construction activity. We are assuming inflation will ease to 3 percent by year-end given the expected softening of fuel prices. For 2013, we are projecting growth of 1.5 percent based on improved external conditions and a consequent improvement in tourism and FDI. Inflation is expected to remain stable at 3 percent in 2013 given forecasts for a reduction in food and fuel prices.

B. Fiscal Policy

6. Fiscal policy will continue to be guided by the policies laid out in our previous MEFP (May 2012). Our fiscal consolidation program is anchored by the objective of reaching a ratio of debt-to-GDP of 60 percent by 2020. For 2012 we have programmed an underlying primary surplus for the central government (excluding the cost of ABIB’s resolution) of 1.7 percent of GDP and an overall deficit of 1.3 percent of GDP. For 2013 the fiscal program is consistent with an adverse scenario for the issuance of a recapitalization bond for ABIB of EC$340 million (10.7 percent of GDP) with a symmetric adjustor that would change the fiscal targets if the resolution turns out to be less costly. Under this adverse scenario, an additional effort for 2013 would target a primary surplus of 3.5 percent of GDP which we estimate is the medium-term primary surplus necessary under this adverse scenario to bring the debt ratio to 60 percent of GDP in 2020.

7. We reiterate our commitment to put in place the fiscal measures necessary to reach our fiscal targets in 2013. We have identified measures that could yield a primary surplus of up to 4 percent of GDP if necessary, including:

- An increase in the specific consumption tax on fuel by 20 cents per gallon (0.3 percent of GDP);
- An increase in the value added tax rate of up to 2 percent (from 15 percent to 17 percent) (0.9 percent of GDP);
- A reduction in transfers to the airport authority based on the collection of new passenger fees (0.4 percent of GDP).

C. Recapitalization Bond

8. The issuance of the recapitalization bond will continue to be guided by the following principles:

- The recapitalization bond will be issued by the Government of Antigua and Barbuda to the new bank when it is licensed and begins operating.

- The issuance of the recapitalization bond shall reflect the analysis of the valuation of the assets presented in the updated valuation. Specifically, the bond will be equal to the difference between the updated valuation of the assets to be transferred and the liabilities to be transferred and will be sufficient to bring the net worth of the new bank to zero.

- If in the process of establishment of the new bank the purchasers decide, in agreement with the ECCB, to value the assets to be transferred at a higher price than suggested in the updated valuation report, this will not affect the value of the recapitalization bond to be issued on the balance sheet of the new bank, and the capitalization of the new bank will be based on the valuation of assets as presented in the updated valuation report.

D. Financial Sector Policies

9. The Eastern Caribbean Central Bank continues to be committed to take the measures described in its letter of May 9, 2012 in a timely manner:

Resolution of ABIB

- **Independent valuation of the assets to be transferred to the new bank.** As mentioned above, a valuation is being undertaken and we expect it to be concluded by the end of October.

- **Strategic plan for the new bank.** This plan is being undertaken and will be presented in the context of the licensing of the new bank, which is expected to take place in November, 2012.

Rest of the Financial System

- **Other indigenous banks.** The ECCB has submitted a plan to restructure the indigenous banking system in the ECCU.

10. As part of the efforts to reduce systemic risk in the ECCU, the ECCB, under the guidance of the monetary council, is in the process of developing plans to revise provisioning regulations and capital adequacy in the ECCU in the medium-term. We continue to follow these developments closely as we regard them as important measures in safeguarding the domestic banking system.

E. Structural Reforms and Social Policies

11. Our structural reform agenda remains unchanged, but there have been delays in implementation (Table 2). We are continuing to move the agenda forward, but have faced challenges in our capacity to implement reforms. Some of these challenges are related to the need for technical assistance, while others are due to technical issues beyond the control of the government. We continue to be committed to the reform agenda and are moving forward as quickly as possible.

F. Program Monitoring

12. Progress in the implementation of policies under this program will be monitored through quarterly reviews and through quantitative criteria, with indicative targets as well as structural benchmarks. The performance criteria and indicative targets are set out in Table 1, and structural benchmarks are presented in Table 2. Definitions for all relevant variables and reporting requirements are contained in the attached Technical Memorandum of Understandings. The eighth, ninth and tenth program and financing assurances reviews are expected to be completed by December 15, 2012, March 15, 2013 and June 6, 2013 respectively.

13. We will adhere to the safeguards policy in the case of Fund budget financing. In accordance with the recommendations of the 2012 safeguards assessment of the ECCB, we will maintain our foreign exchange balances only with the ECCB.

Table 1. Quantitative Performance Criteria and Indicative Targets [1/]

(In millions of Eastern Caribbean dollars)

	End-March 2011		End-June 2011		End-September 2011		End-December 2011 7/		End-June 2012		End-September 2012		End-December 2012		End-March 2013	
	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual	Program	Actual
Performance Criteria																
Central government overall deficit including grants (ceiling) 2/ 3/	8.0	18.5	30.0	26.8	70.0 6/	86.8	79.0 6/	109.7	16.0	16.0	32.0		40.0		-5.3	
Stock of central government external short term debt (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0		0.0	
Central government external arrears accumulation (ceiling) 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.0		0.0		0.0	
Central government budget expenditure arrears accumulation (ceiling) 4/	0.0	-17.0	0.0	-25.2	0.0	3.2	0.0	-21.0	0.0	0.0	0.0		0.0		0.0	
Contracting and guaranteeing of external debt by the nonfinancial public sector (ceiling) 5/			10.0	0.0	10.0	12.0	10.0	12.0	10.0	0.0	10.0		10.0		10.0	
Indicative target																
Central government primary balance including grants (floor) 2/ 3/	26.7	5.7	34.0	6.5	16.0 6/	-32.4	24.0 6/	-46.4	28.2	20.0	38.4		54.5		28.9	

1/ Cumulative within each calendar year.
2/ See the TMU for a description of adjustors.
3/ Assumes all debt restructuring agreements have been concluded.
4/ To be monitored on a continuous basis.
5/ Excludes debt already contracted with IMF and CDB, any development policy loans contracted with the World Bank in 2012, and loans contracted with China Eximbank for airport improvement as described in the framework agreement of Dec. 31, 2010, up to 210 million Chinese yuan.
6/ Adjusted target (including EC$25 million for bank recapitalization), the original program target for the overall deficit was EC$ 45 million (end-September), and EC$ 54 million (end-December).
7/ All end-December 2011 targets are indicative targets.

Table 2. Structural Benchmarks

Action	Timing: Original	Timing: Revised	TA	Status as of: September 2012
Fiscal and Public Sector Reform				
Inland Revenue Department (IRD) and Customs and Excise Department (CED)				
Present legislation to harmonize tax laws and establish revenue court	Dec-12		TA	**On track**. TAPA to receive second and third readings in parliament in October-November.
Activate legislation authorizing garnishment of overdue ABST and personal income taxes	Jun-12	Dec-12	TA	**Delayed** - to be done in conjunction with the TAPA as the provision is folded into the TAPA legislation.
Implement legislation to tax benefits as required under the PAYE law	Apr-12		TA	**Done.**
Increase compliance of 15 out of 23 state-owned enterprises to file all tax returns and remit all taxes or have payment arrangements in place with IRD 2/	Jun-12	Oct-12	TA	**Delayed** - 12 done by end-August, 15 expected to be compliant by end-October.
Increase compliance of 40 percent of professionals with tax obligations	Sep-12	Dec-12	TA	**Delayed -** 70 percent of chartered accountants compliant, but lawyers and doctors still outstanding.
Commence and complete a valuation/ compliance audit on petroleum imports including the required use of dip stick process to reduce contraband	Jun-12	Oct-12	TA	**Delayed** - TA to be provided for a review of current system in September and a petroleum sector control audit in October - recommendations to be made for reforms going forward.
Implement HS2007 code in Customs	Jun-12	Oct-12	TA	**Delayed** - due to be gazetted in October.
New Customs Law presented and passed by Parliament	Sep-12	Oct-12	TA	**Delayed** - under review by Attorney General, revised date by end-October.
Complete a tax expenditure study	Sep-12	Oct-12	TA	**Delayed** - awaiting TA, should be completed by end-October.
Public financial management				
Activate purchase order module in Free Balance to improve commitments control for PSIP projects	Sep-12	Oct-12	TA	**Delayed** - due to technical and hardware problems. Free balance current procedures to apply. Expected to be completed by end-October.
Review external audit department and adopt a strategic development plan	Aug-12	Oct-12	TA	**Delayed** - TA will begin in September, expected to be completed by end-October.
Clear up the FY2007 to FY2010 financial statements backlog	Dec-12		TA	**On track.**
Civil service reform				
Complete draft of revised public service legislation	Sep-12		TA	**Done.**
Initiate functional reviews of ministries not already reviewed	Jul-12	Nov-12	TA	**Delayed** - TOR prepared and being reviewed by World Bank, functional review to start in November.
Public enterprise reform				
Set up an oversight institutional and reporting framework for SOEs	Dec-12		TA	**On track.**
Commence reviews of selected SOEs to assess fiscal risks	Jan-13		TA	**On track.**
Financial Sector Reforms				
ECCB to submit terms of reference for bank valuation (prior action)	May-12			**Done.**
Present to Parliament stand-alone legislation to govern the Financial Services Regulatory Commission (FSRC)	Dec-12			**On track.**
ECCB to provide a strategic plan of action for the new bank	Aug-12	Oct-12		**Delayed** - resolution awaits conclusion of updated valuation, expected in September. Resolution expected in October.
Activate and staff the asset management company to deal with assets from ABIB not transferred	Aug-12	Oct-12		**Delayed** - AMC set up but not staffed or operational, pending resolution of ABIB, expected in October.
ECCB to provide strategic plan for restructuring the indigenous banking system	Aug-12	Oct-12	TA	**Delayed** - plan presented for ECCU but specifics to be provided.
ECCB to conduct on-site examinations of indigenous banks in Antigua and Barbuda	Aug-12			**Done.**

1/ These benchmarks are discussed in Box 4 of EBS/10/96 (05/25/10).
2/ Increase compliance of all 23 SOEs by December 2012.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDINGS

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 Understandings 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 Eastern 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.

I. 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. Nonfinancial 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 Benefit 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.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Central Government's Overall Balance

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, as reported by the consolidated balance sheet of the monetary authorities and commercial banks, including special tranches from the ECCB and bonds issued on the RGSM held by domestic banks;

- **net** nonbank financing as measured by the net changes in holdings of government securities by nonbanks, including bonds issued on the RGSM, 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 central government 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 or principal 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 debt but excluding repayments to the IMF.

10. Measurement of the overall balance for purposes of the performance criterion in 2012 and of the indicative primary surplus in 2012 will exclude the recapitalization bond issued for the resolution of ABIB.

11. The ceiling on the overall deficit of the central government for 2012 will be adjusted:

(i) upward to the extent that grants fall short of the programmed amounts as specified in Table 1 for 2012. Grants are defined as noncompulsory transfers, in cash or in kind, received from other governments or from international organizations;

Table 1. Programmed Disbursements of Grants in 2012
(In EC$ millions)

Quarter	I	II	III	IV
Grants	…	…	…	0.9

Source: Ministry of Finance.

12. The ceiling on the overall deficit of the central government for end-March 2013 will be adjusted according to the size of the bond to be issued to recapitalize ABIB. Denominated in EC$ million, the adjustor for the overall balance at end-March 2013 is determined by the following formula:

Adjustor = $0.0265\ b - 9.01$

where *b* denotes the recapitalization bond (in EC$ million) to be issued by the Government to close the gap between liabilities and assets to be transferred to the new bank, with the value of the assets determined by an independent valuation.[1] The adjusted target will be equal to the programmed target plus the adjustor.

[1] The formula is derived as follows. The adjustor can be expressed as:

(1) $(o - o^b) = (p - i) - (p^b - i^b)$

where o is the overall balance, p is the primary balance, and i is interest payments, and the superscript b denotes the baseline projections for 2013. The revised primary balance (p) is a function of the bond issued to recapitalize ABIB (b) according to the following linear formula:

(2) $p = 0.156\ b + 62.691$

The revised interest payments (i) are also a function of the size of the bond:

(3) $i = 0.05\ b + 77.731$

Substituting equation (2) and (3) into (1), replacing the baseline projections with nominal figures ($p^b - i^b = 116 - 95$) and dividing by 4 to arrive at a quarterly adjustor yields the formula for the adjustor.

13. The ceiling on the overall deficit of the central government for end-March 2013 will be further adjusted **upward** to the extent that grants fall short of the programmed amounts up to EC$6.125 million. Grants are defined as noncompulsory transfers, in cash or in kind, received from other governments or from international organizations.

B. Stock of Central Government Short-Term External Debt

14. The limit on short-term external debt applies to debt owed or guaranteed by the central government of Antigua and Barbuda (see definition in paragraph 18), 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 U.S. dollars at the time the contract or guarantee becomes effective.

C. External Arrears of the Central Government

15. 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 the 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

16. 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, 2011 (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, 2011
(In EC$ millions)

Unpaid checks issued	65.9
Unprocessed claims and pending invoices	176.6
Interest and amortization arrears on domestic debt	65.5
Total stock of arrears	308.0

Source: Ministry of Finance.

E. External Debt Contracted or Guaranteed by the Nonfinancial Public Sector

17. The ceiling on external debt will be applied to contracting or guaranteeing of debt by the nonfinancial public sector. The contracting and guaranteeing of debt will be monitored and reported to the Fund staff by the Debt Management Unit on a monthly basis.

18. This performance criterion applies not only to debt as defined in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements" adopted by the Decision No. 14416-(09/91) of the Executive Board of the IMF, as amended effective December 1, 2009 but also to commitments contracted or guaranteed for which value has not been received:

(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 10(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

19. Excluded from the ceiling are credits from the IMF and credits from the Caribbean Development Bank contracted before March 4, 2011, any development policy loans contracted with the World Bank in 2012, and loans contracted with The Export-Import Bank of China for airport improvement and power plant repair, as described in the loan agreements of September 13, 2011, up to 210 million Chinese yuan and 28.4 million Chinese yuan respectively[2]. Also excluded are all external loans contracted by PDV Caribe under the Petrocaribe program.

20. The contracting of external debt for the purpose of refinancing existing obligations shall be excluded from the ceiling, up to the amount of the existing obligation to be paid.

III. INDICATIVE TARGET ON THE PRIMARY BALANCE OF THE CENTRAL GOVERNMENT

21. **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.

22. **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 primary 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.

[2] As of March 4, 2011, undisbursed balances of CDB loans already contracted with Antigua and Barbuda totaled US$26.5 million.

23. The floor on the primary balance of the central government will be adjusted:

- **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 for 2012; and

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that grants fall short of the programmed amounts as specified in paragraph 13 of this memorandum for 2013; and

- Denominated in EC$ million, the adjustor for the primary balance at end-March 2013 is determined by the following formula:

  Adjustor= $0.039b - 13.26$

  where b denotes the recapitalization bond (in EC$ million) as in the adjustor in paragraph 12.

IV. DATA AND INFORMATION

24. 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.

25. All such information will be provided to Fund staff within 6 weeks 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.

ANNEX II. DEBT SUSTAINABILITY ANALYSIS

1. The current assessment of debt sustainability remains unchanged from the last assessment in May 2012 which concluded that keeping Antigua and Barbuda's debt on a sustainable path is very challenging but possible under the program. Successful restructuring with external and domestic creditors since 2009, combined with fiscal adjustment under the program, helped bring debt on a downward path. The fiscal and financial sector measures included in the previous program reviews will help contain Antigua and Barbuda's risk of debt distress going forward.

2. The macroeconomic outlook and financial environment has remained broadly unchanged since May 2012:

- The growth forecast for 2012 and the medium term, at 1 percent and 3.5 percent respectively, remains unchanged from the previous DSA assessment.
- Inflation is now expected to rise slightly to 3.8 percent in 2012 (3.4 percent in the May 2012 assessment) and fall to around 2.3 percent over the medium term.
- The current account deficit (excluding interest payments) is projected to remain at 10.6 percent of GDP in 2012 and to gradually rise to 15.3 percent of GDP in the medium term.
- The average interest rate on public debt is expected to stay at 3.3 percent in 2012 and rise only slightly to 3.7 percent in the medium term, benefitting from the substantial debt restructuring.
- The issuance of a bond for the resolution of ABIB is kept at the higher end of capitalization estimates (EC$340 million) pending the updated valuation report of KPMG.
- The domestic debt has been adjusted to exclude EC$2.75 million in December 2011 that was double counted.

3. As in the May 2012 assessment, Staff's new DSA takes as a baseline the adverse scenario that entails issuance of a recapitalization bond of EC$340 million (10.7 percent of GDP). Under this scenario, an average primary surplus of 3.5 percent of GDP over the period from 2013 to 2020 would be required to bring the debt to GDP ratio down from a projected 97.7 percent of GDP in 2012 to the target of 60 percent in 2020 (Table 1).

4. Strong fiscal adjustment measures identified in the previous program reviews will put Antigua and Barbuda's public debt on a sustainable path, but considerable risks remain. With the implementation of the fiscal measures identified in the previous reviews to meet the programmed primary surplus under the adverse scenario for the resolution costs, debt would gradually converge to a sustainable level by 2020. The bound tests show that this downward trajectory is relatively resilient to a number of standard shocks, including higher funding costs, fiscal slippages, real depreciation and contingent liabilities shocks, or a combination of these shocks (Figure 1). However, public debt remains vulnerable to a growth shock, which could reverse its downward trajectory. Beyond those risks captured in the bound tests, Antigua and Barbuda's debt sustainability remains vulnerable to external risks, natural disasters, and contingent liability risks from SOEs (Box 3) and the financial sector.

5. External debt service burden and external vulnerabilities have been significantly reduced after successful debt restructuring with external creditors. External debt is now projected to reach just over 20 percent of GDP in 2017, almost half the level in 2011 (Table 2). However, Antigua's gross external financing needs will increase substantially in the next few years, reaching close to 20 percent of GDP in 2017 when the country starts to service the loans from the Paris Club countries. Despite a significant decline in the external debt to GDP ratio over the medium term, vulnerability to shocks will continue to exist. In particular, the external debt trajectory remains highly vulnerable to a current account shock (Figure 2).

6. In conclusion, strict adherence to the fiscal and financial sector measures under the program will be key to maintain debt sustainability in Antigua and Barbuda. Building fiscal buffers for the high financing needs over the medium term and the counter-cyclical policy needs will also be important.

Table 1. Antigua and Barbuda: Public Sector Debt Sustainability Framework, 2007-2017

(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing balance 9/**
1	**Baseline: Public sector debt 1/**	78.8	76.9	102.0	90.6	93.3	**97.7**	**92.7**	**86.9**	**81.4**	**76.3**	**71.6**	**-1.2**
	o/w foreign-currency denominated	33.6	31.2	35.7	38.7	39.4	38.4	38.6	33.8	29.5	24.9	20.5	
2	Change in public sector debt	-11.6	-1.9	25.2	-11.4	2.7	4.4	-5.0	-5.8	-5.5	-5.1	-4.7	
3	Identified debt-creating flows (4+7+12)	-5.8	2.3	29.9	6.9	5.2	4.4	-5.0	-5.8	-5.5	-5.1	-4.7	
4	Primary deficit	1.8	2.9	11.0	-1.8	1.5	-1.7	-3.5	-3.5	-3.5	-3.5	-3.5	
5	Revenue and grants	21.6	21.3	18.6	22.4	20.6	21.1	23.5	22.6	22.5	22.4	22.3	
6	Primary (noninterest) expenditure	23.5	24.2	29.6	20.6	22.2	19.4	20.0	19.1	19.0	18.9	18.9	
7	Automatic debt dynamics 2/	-7.6	-0.6	16.2	8.7	3.7	-1.4	-1.5	-2.3	-2.0	-1.6	-1.3	
8	Contribution from interest rate/growth differential 3/	-7.6	-0.6	16.2	8.7	3.7	-1.4	-1.5	-2.3	-2.0	-1.6	-1.3	
9	Of which contribution from real interest rate	-2.0	0.5	7.1	-0.5	-1.4	-0.5	-0.1	0.5	0.8	1.1	1.3	
10	Of which contribution from real GDP growth	-5.6	-1.2	9.2	9.3	5.0	-0.9	-1.4	-2.8	-2.8	-2.7	-2.5	
11	Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...	
12	Other identified debt-creating flows	0.0	0.0	2.7	0.0	0.0	7.6	0.0	0.0	0.0	0.0	0.0	
13	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	
14	Recognition of implicit or contingent liabilities	0.0	0.0	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
15	Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	7.6	0.0	0.0	0.0	0.0	0.0	
16	Residual, including asset changes (2-3) 5/	-5.8	-4.2	-4.7	-18.3	-2.5	0.0	0.0	0.0	0.0	0.0	0.0	
	Public sector debt-to-revenue ratio 1/	364.4	361.4	547.7	404.0	452.0	462.2	395.2	385.3	362.0	340.6	320.3	
	Gross financing need 6/	4.8	7.9	22.2	6.1	4.8	11.8	-0.7	-0.7	5.8	12.5	19.4	
	in billions of U.S. dollars	0.1	0.1	0.3	0.1	0.1	0.1	0.0	0.0	0.1	0.2	0.3	
	Scenario with key variables at their historical averages 7/						**97.7**	**104.6**	**111.5**	**118.4**	**125.4**	**132.3**	**-0.1**
	Scenario with no policy change (constant primary balance) in 2012-2017						**97.7**	**94.5**	**90.4**	**86.6**	**83.2**	**80.1**	**-1.3**
	Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
	Real GDP growth (in percent)	7.1	1.5	-10.7	-8.5	-5.5	1.0	1.5	3.2	3.4	3.5	3.5	
	Average nominal interest rate on public debt (in percent) 8/	4.0	3.7	8.3	1.9	2.3	3.4	3.0	3.2	3.2	3.5	3.7	
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-2.0	0.8	8.2	-0.7	-1.7	-0.6	-0.1	0.7	1.0	1.6	1.9	
	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)	6.0	3.0	0.1	2.7	4.0	3.9	3.1	2.5	2.2	2.0	1.8	
	Growth of real primary spending (deflated by GDP deflator, in percent)	-7.5	4.6	9.5	-36.5	1.9	-11.6	4.5	-1.5	3.0	3.1	3.2	
	Primary deficit	1.8	2.9	11.0	-1.8	1.5	-1.7	-3.5	-3.5	-3.5	-3.5	-3.5	

1/ Covers central government gross debt.

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

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

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as ae(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.

Table 2. Antigua and Barbuda: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2007	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	33.6	31.2	35.7	38.7	39.4			**38.4**	**38.6**	**33.8**	**29.5**	**24.9**	**20.5**	**-13.7**
2 Change in external debt	-2.2	-2.5	4.5	3.0	0.7			-1.0	0.2	-4.7	-4.3	-4.6	-4.4	
3 Identified external debt-creating flows (4+8+9)	0.5	14.0	16.3	8.1	6.2			5.0	3.7	3.2	3.1	2.6	2.2	
4 Current account deficit, excluding interest payments	30.3	26.6	17.2	14.0	10.4			10.5	11.5	13.6	15.3	15.7	15.6	
5 Deficit in balance of goods and services	-116.8	-115.1	-107.4	-105.8	-105.6			-107.1	-110.5	-112.9	-115.2	-116.7	-117.9	
6 Exports	44.9	45.6	45.1	46.1	48.0			48.3	49.6	49.8	50.1	50.6	51.3	
7 Imports	-72.0	-69.5	-62.4	-59.8	-57.6			-58.7	-60.9	-63.2	-65.2	-66.1	-66.6	
8 Net non-debt creating capital inflows (negative)	-26.1	-11.7	-6.7	-8.5	-5.2			-6.0	-8.0	-10.1	-11.9	-12.8	-13.1	
9 Automatic debt dynamics 1/	-3.7	-0.8	5.8	2.5	1.0			0.4	0.3	-0.3	-0.3	-0.3	-0.3	
10 Contribution from nominal interest rate	0.6	0.6	2.1	0.2	0.3			0.8	0.8	0.9	0.8	0.7	0.6	
11 Contribution from real GDP growth	-2.2	-0.5	3.7	3.2	2.2			-0.4	-0.5	-1.2	-1.1	-1.0	-0.8	
12 Contribution from price and exchange rate changes 2/	-2.0	-1.0	0.0	-0.9	-1.5			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-2.7	-16.5	-11.8	-5.1	-5.5			-6.0	-3.6	-8.0	-7.5	-7.2	-6.7	
External debt-to-exports ratio (in percent)	75.0	68.4	79.1	84.0	82.1			79.5	77.9	68.0	59.0	49.2	39.9	
Gross external financing need (in billions of US dollars) 4/	0.4	0.4	0.2	0.2	0.1			0.1	0.2	0.2	0.3	0.3	0.3	
in percent of GDP	31.4	30.7	20.6	15.9	11.2	10-Year	10-Year	12.2	14.0	17.2	18.6	19.5	19.3	
Scenario with key variables at their historical averages 5/								**38.4**	**37.8**	**32.4**	**27.2**	**22.1**	**17.3**	**-15.0**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	7.1	1.5	-10.7	-8.5	-5.5	1.6	7.6	1.0	1.5	3.2	3.4	3.5	3.5	
GDP deflator in US dollars (change in percent)	6.0	3.0	0.1	2.7	4.0	2.4	1.9	3.9	3.1	2.5	2.2	2.0	1.8	
Nominal external interest rate (in percent)	1.8	1.9	6.0	0.6	0.8	3.2	2.1	2.2	2.2	2.4	2.4	2.4	2.4	
Growth of exports (US dollar terms, in percent)	5.4	6.2	-11.6	-4.1	2.5	2.1	7.5	5.7	7.3	6.2	6.4	6.7	6.8	
Growth of imports (US dollar terms, in percent)	13.9	1.0	-19.8	-10.0	-5.3	3.6	12.9	7.1	8.5	9.7	9.0	7.0	6.2	
Current account balance, excluding interest payments	-30.3	-26.6	-17.2	-14.0	-10.4	-16.9	7.9	-10.5	-11.5	-13.6	-15.3	-15.7	-15.6	
Net non-debt creating capital inflows	26.1	11.7	6.7	8.5	5.2	14.8	9.2	6.0	8.0	10.1	11.9	12.8	13.1	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

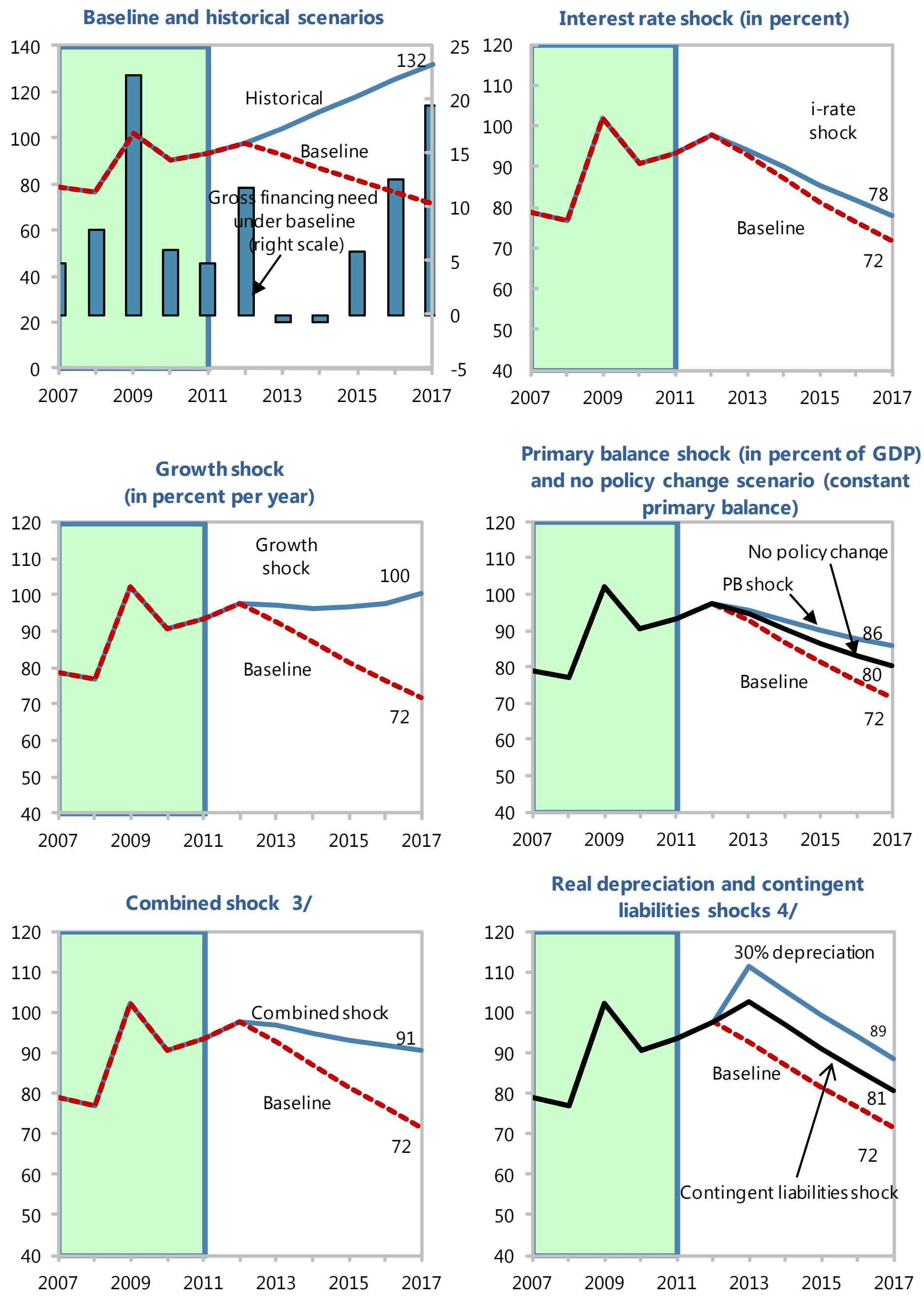
3/ For projection, line includes the impact of price and exchange rate changes.

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.

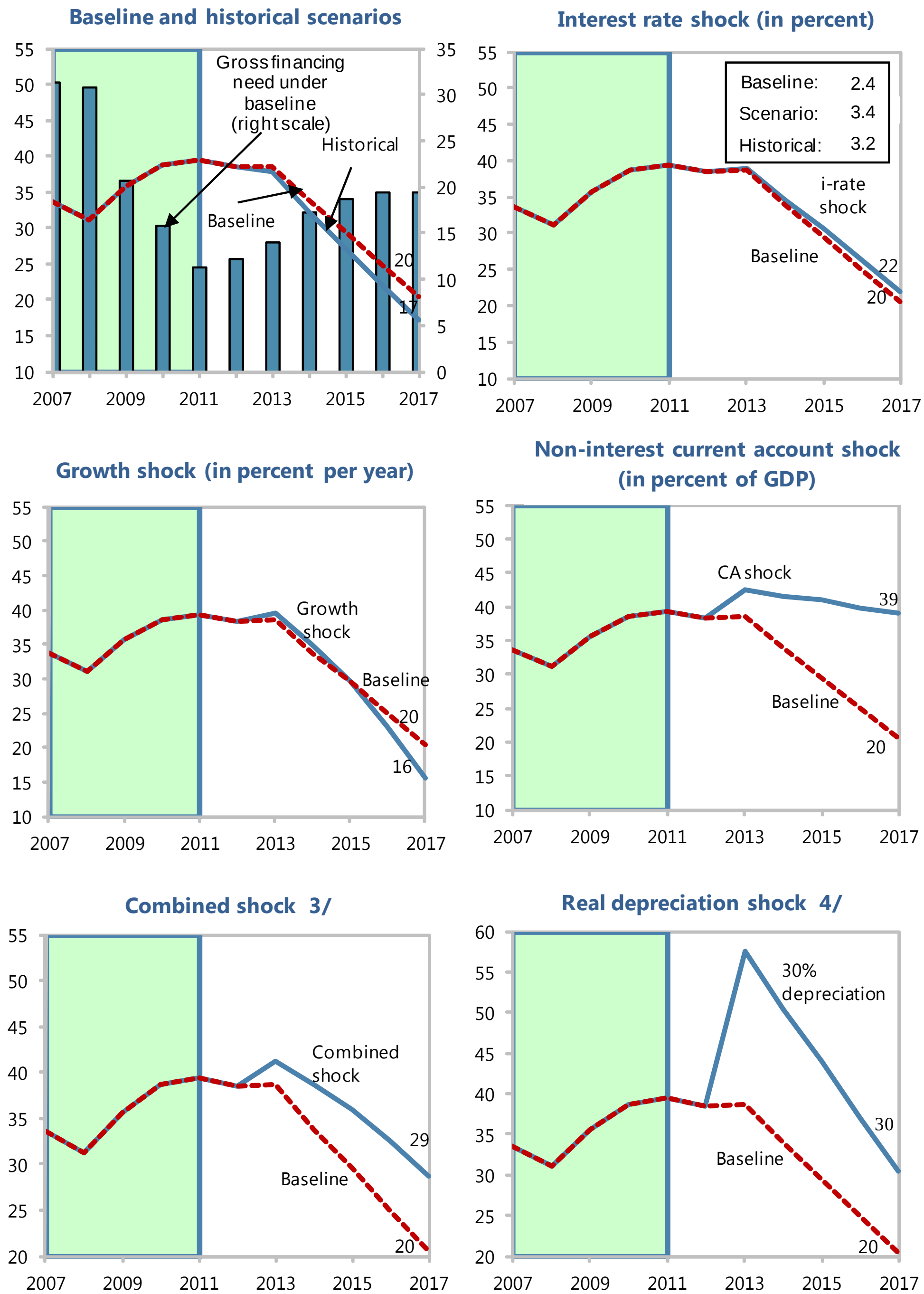
Figure 1. Antigua and Barbuda: Public Debt Sustainability: Bound Tests [1/] [2/]
(Public debt in percent of GDP)



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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 2. Antigua and Barbuda:: External Debt Sustainability: Bound Tests 1/ 2/

(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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

ANNEX III. INFORMATIONAL ANNEX SUMMARY

Fund Relations

Antigua and Barbuda has outstanding obligations to the Fund of SDR 40.50 million, or 300 percent of quota, arising from cumulative disbursements under the Standby Arrangement. The last Article IV Consultation was concluded by the Executive Board on June 7, 2010. Missions from the Caribbean Regional Technical Assistance Centre (CARTAC) and the Fiscal Affairs Department (FAD) have visited Antigua and Barbuda since 2006 to assist in strengthening revenue collection and public financial management.

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. There are currently no active World Bank lending projects in Antigua and Barbuda. However, the Bank is engaged with the authorities in the preparation of a US$7 million investment loan to: (i) strengthen public sector human resource management; (ii) enhance the government's capacity to develop and implement effective social sector policies; and (iii) strengthen and broaden the coverage of vocational training programs to increase employment and retention levels. The project is scheduled to go to the Bank's Board in September 2012.

Relations with the Caribbean Development Bank

The CDB supports the economic and social development of Antigua and Barbuda through policy dialogue, the financing of priority capital projects and technical assistance. As of December 31, 2011, the CDB had approved loans totalling US$102.5 million, with US$13.1 million undisbursed. In December 2009, the CDB Board approved a US$30 million policy based loan to support the government's program of fiscal and administrative reforms. Other projects under implementation include an airport and seaport security enhancement project, and technical assistance projects to strengthen the operations of public Ministries.

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 improvements and identified some shortcomings in the ECCB's monetary statistics, which were addressed in a technical assistance mission in December 2009.

INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

October 16, 2012

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION, SEVENTH REVIEW UNDER THE STAND-BY ARRANGEMENT AND FINANCING ASSURANCES REVIEW, REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION AND REQUEST FOR WAIVER OF APPLICABILITY —INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(In collaboration with other departments).

CONTENTS

ANNEX I. FUND RELATIONS

(As of August 31, 2012)

Antigua and Barbuda: Financial Position in the Fund as of August 31, 2012

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	53.96	399.72
Reserve Tranche Position	0.05	0.38
Lending to the Fund		
Notes Issuance		
Holdings Exchange Rate		

III. SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	12.50	100.00
Holdings	0.29	2.29

IV. Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
Stand-by Arrangements	40.50	300.00

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 07, 2010	Jun 06, 2013	67.50	40.50

VI. Projected Payments to Fund[1/]

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

	Forthcoming				
	2012	2013	2014	2015	2016
Principal		4.22	11.81	12.66	8.44
Charges/Interest	0.11	0.44	0.37	0.23	0.10
Total	0.11	4.66	12.18	12.88	8.54

[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. Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

X. Exchange Rate: 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.

XI. Safeguards Assessment: An update safeguards assessment of the ECCB was completed in April 2012, concluding that adequate safeguards were in place to manage resources, including IMF disbursements.

XII. 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 June 7, 2010. The staff report is EBS/10/96, and its supplements are Supplement 1 (Debt Sustainability Analysis), Supplement 2 (Informational Annex), and Supplement 3 (Draft Public Information Notice).

XIII. 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.

XIV. Technical Assistance (May 2007–May 2012).

Technical Assistance Projects	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Fiscal Affairs Department					
Public Financial Management	0.4		0.2	0.7	0.7
Revenue Administration	0.3	0.1	0.2	4	2
Tax Policy			0.05		
FAD Sub-total	0.7	0.1	0.5	4.7	2.7
LEG					
Fiscal Law and Policy	0.02				0.1
LEG Sub-total	0.02				0.1
MCM					
Capital Market Development and Financial Infrastructure			0.01		
Regulation/Supervision			0.1		
Assets and Liabilituy Management					0.1
Systemic Issues/Crisis Management					0.1
MCM Sub-total			0.1		0.2
STA					
National Accounts	0.02		0.1		
Price Statistics		0.03	0.03	0.01	
STA Sub-total	0.02	0.03	0.13	0.01	
Other TA	0.2	0.1	0.1	0.2	
Grand Total	0.94	0.23	0.83	4.91	3

Source: IMF staff

ANNEX II. RELATIONS WITH THE WORLD BANK GROUP

(As of May 16, 2012)

The World Bank Group's Management presented to its Board the Organization of the Eastern Caribbean States (OECS) Regional Partnership Strategy (RPS) on June 8, 2010. The RPS covers the five year period July 2009—June 2014. It sets forth the terms of engagement of the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC) with the countries of the Eastern Caribbean, sub-regional organizations and other development partners in pursuit of the following strategic objectives: (a) building resilience; and (b) enhancing competitiveness and stimulating growth over the medium term.

To help build resilience, the Bank Group will support interventions aimed at promoting fiscal and debt sustainability, protecting and improving human capital—particularly social safety nets, education and health—and strengthening climate resilience. To help enhance competitiveness and stimulate sustainable growth, it will focus its support on two critical areas: strengthening the countries' domestic financial sectors and improving access to quality services to create more competitive business environments. The Strategy will provide urgent remedial measures to address the crippling effects of the global and regional crises, while supporting key policy reforms that establish a platform for growth in the medium term.

The planned program of support will entail new commitments totaling up to about US$120 million on IBRD terms and up to US$73 million of IDA financing for the six Bank Members of the OECS, including Antigua and Barbuda. IBRD lending to Antigua and Barbuda may be up to US$20 million during the period of the RPS. There are currently no active World Bank lending projects in Antigua and Barbuda.

Projects

The Bank is engaged with the authorities in the preparation of a US$7 million investment loan aimed at: (i) strengthening the management of the public sector and making more efficient use of its human resources; (ii) enhancing the government's capacity to develop coherent and efficient social sector policies and interventions on the basis of evidence; and (iii) strengthening and increasing the coverage of intermediation services and competency-based training programs to enhance their effectiveness in increasing the ability of adults of 18 years and older to find and maintain a job. The project is scheduled to go to the World Bank Board in September 2012.

Economic and Sector Work

Antigua and Barbuda benefits from a comprehensive series of completed, ongoing and planned analytical and advisory activities to support the RPS' two main pillars including: "Towards a New Agenda for Growth" – OECS growth and competitiveness study (2005); a OECS Skills Enhancement Policy Note (2006); a Caribbean Air Transport Report (2006); a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007); an OECS Private Sector Financing Study (2008); the OECS Tourism Backward Linkages Study (2008); the report titled "Caribbean – Accelerating Trade Integration: Policy Options for Sustained Growth, Job Creation and Poverty Reduction" (2009); a study on the Nurse Labor & Education Markets in the English-Speaking CARICOM: Issues and Options for Reform (2009); Caribbean Regional Electricity Supply Options: Toward Greater Security, Renewable and Resilience (2011); and "The Growing Burden of Non-Communicable Diseases in the Eastern Caribbean" (2011).

ANNEX III. RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of March 31, 2012)

The Caribbean Development Bank (CDB) has supported Antigua and Barbuda's economic and social development by providing finance for priority capital and technical assistance (TA) projects and engaging in policy dialogue on major developmental issues. Since its inception in 1970, CDB's involvement in Antigua and Barbuda has included:

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

(b) development of infrastructure to facilitate economic growth and diversification;

(c) improving the skills of the country's human resource base;

(d) providing direct and indirect financing to the agriculture, housing, manufacturing and tourism sectors; and

(e) assisting in emergency disaster relief and rehabilitation.

As of December 31, 2011, CDB had approved one hundred and two point five million United States dollars (USD102.5 million) in loans, contingent loans, equity and grants to Antigua and Barbuda, of which undisbursed balances totaled USD13.1 mn. Table 1 provides a summary of the CDB's cumulative assistance to Antigua and Barbuda by sectors over the period 1970 to 2011. CDB's assistance strategy to Antigua and Barbuda over the period 2010–14 is outlined in the Country Strategy Paper which was approved by the Board of Directors in December 2009.

Table 1. Caribbean Development Bank's Assistance by Sector (Cumulative 1970–2011)

Sector	USD (million)	% of Total
Agriculture, Forestry and Fishing	3.5	3.4
Micro and Small Enterprises	1.0	1.0
Manufacturing	5.7	5.6
Tourism	1.9	1.8
Power and Energy	0.3	0.3
Transportation and Communication	28.5	27.8
Housing	3.5	3.4
Education	19.9	19.4
Multi-sector	38.2	37.3
Total	**102.5**	**100.0**

Source: CDB

Major Projects Currently Under Implementation

1. *Policy-Based Loan* - a three-tranche loan of USD30 million approved in December 2009 to support the Government's programme of fiscal and administrative reforms aimed at improving public sector financial management and creating conditions for overall economic growth and poverty reduction. The undisbursed balance as at end-December 2011 was US$10 million.

2. *Support for the Transformation Process - LIAT (1974 Ltd.)* - the provision of equity to Leeward Islands Internal Airlines (LIAT) by the three major shareholders governments to assist with the financing of activities associated with the financial and institutional restructuring of LIAT for improved commercial viability of the airline. The loan to Antigua and Barbuda of USD21.8 million was approved in June 2007 and the undisbursed balance as at end-December 2011 was US$1.9 million.

3. *Airport and Seaport Security Enhancement Project* - to improve the physical security infrastructure, security screening equipment and levels of training of security personnel at the Vere Bird International Airport and St. John's Deep Water Harbour/Heritage Quay to levels to meet new International Civil Aviation Organisation and International Maritime Organisation standards. This project of USD3.3 million was approved in July 2002 and the undisbursed balance as at end- December 2011 was USD0.5 million.

4. *First Consolidated Line of Credit* - to the Antigua and Barbuda Development Bank approved in May 1997 for onlending to finance mortgages, small and micro-enterprises and student loans. As at end-December 2011, there was an undisbursed balance of US$1.3 million from the approved line of credit of USD4.2 million.

In addition, CDB is providing TA grants to Antigua and Barbuda to:

(a) strengthen the operations of the Statistical Division in the Ministry of Finance, the Economy and Public Administration;

(b) produce an education sector development plan, that would include priority projects for future sector interventions;

(c) conduct functional and efficiency reviews of government ministries to assist the Government to implement rationalisation and restructuring of the public sector; and

(d) support the provision of consultancy services for the E-Government for the Regional Integration Programme, which will promote the efficiency, quality and transparency of public services through the delivery of regionally integrated E-Government applications that apply economies of scale.

Table 2. Caribbean Development Bank's Loan Disbursement (USD million)

	2007	2008	2009	2010	2011	2012[1/]
Net Disbursement	10.91	5.97	0.48	9.23	8.93	(0.34)
Disbursement	12.50	6.85	2.80	11.67	11.86	0.55
Amortisation	1.59	0.88	2.32	2.44	2.93	0.89
Interest and charges	0.97	0.60	2.13	1.32	1.59	0.40
Net Resource Flow	9.94	5.37	(1.65)	7.91	7.34	(0.74)

[1/] As at March 31, 2012

Source: CDB

ANNEX IV. STATISTICAL ISSUES

(As of October 2, 2012)

I. Assessment of Data Adequacy for Surveillance
General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas include the national accounts, fiscal, and balance of payments statistics.
Real Sector Statistics: The national accounts were rebased to a more recent year (2006) in accordance with the methodology of the 1993 *System of National Accounts* in 2010. The rebasing has led to significant improvements in the revised GDP estimates in current and constant prices, along with broader data coverage, conceptual and methodological changes, and improved estimation procedures. The ECCB has started a project for compiling GDP by expenditure category for its member countries (including Antigua and Barbuda) last year. The ECCU also rebased the national CPI to a more recent year (January 2010) and the new index was published in December 2010. The new basket of goods and services (e.g., owner-occupied housing, cell phones, MP3 players, and college tuition and expenses) and expanded samples of outlets improved the CPI by reflecting current patterns in consumer purchases, making it more representative of the entire country. There is no comprehensive labor force survey and thus little coverage of labor market developments. An Annual Wages and Hours Worked Survey for the private sector was conducted in 2003, although the coverage of Barbuda was limited. The latest population census was conducted in 2011 and preliminary results were released in February 2012.
Government finance statistics: Annual and quarterly data on central government finances published by the ECCB are compiled broadly in line with the methodology set out in the 1986 *Government Financial Statistics Manual*. 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)*. Work is in progress in this area.
Monetary statistics: Monetary statistics are compiled by the ECCB on a monthly basis with a lag of six weeks. In November 2009, an STA mission helped the ECCB develop report forms (returns) to collect monetary data from non-bank financial institutions in an effort to 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 these recommendations.

Balance of payments: The ECCB is preparing new BOP survey forms, which will include trade in services and provide a better coverage of foreign direct investment. 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). However, due to delays in updating the software to reflect changes made to the survey form, the launch of the new survey forms has been postponed.

II. Data Standards and Quality

Antigua and Barbuda participates in the Fund's General Data Dissemination System (GDDS) since October 2000. Metadata and plans for improvement for most of the categories (except central government debt, depository corporations survey, and external debt and debt service schedule) have not been updated since December 2010.	A data ROSC mission was conducted in April 2007; however, the report has not been published.

III. Reporting to STA

Annual national account statistics are provided to the IMF for publication in the *International Financial Statistics (IFS)*. Antigua and Barbuda does not report government finance statistics to the IMF for inclusion in the *Government Finance Statistics Yearbook* (GFSY) and the *International Financial Statistics (IFS)*. In July 2006, the ECCB started reporting monetary and financial statistics to the IMF in accordance with the methodology of the *Monetary and Financial Statistics Manual (MFSM 2000)*; the associated data have been published in the *IFS* since September 2006. The ECCB reports annual balance of payments statistics for dissemination in the *Balance of Payments Statistics Yearbook (BOPSY)*. However, Antigua and Barbuda does not report trade data for publication in the *Direction of Trade Statistics Yearbook (DOTS)*.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of October 2, 2012)

	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]	July 2012	9/24/12	M	M	M
Broad Money[3]	July 2012	9/24/12	M	M	M
Central Bank Balance Sheet[3,4]	July 2012	9/24/12	M	M	M
Consolidated Balance Sheet of the Banking System[3,5]	July 2012	9/24/12	M	M	M
Interest Rates[6]	July 2012	9/24/12	M	M	M
Consumer Price Index[7]	March 2012	6/21/12	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]	2011	7/2/12	Q	Q	Q
Exports and Imports of Goods and Services[10]	2011	7/2/12	Q	Q	Q
GDP/GNP[10]	2011	6/18/12	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] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means. 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*.

Press Release No. 12/408
FOR IMMEDIATE RELEASE
November 1, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh Review Under Stand-by Arrangement for Antigua and Barbuda and Approves US$5.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the seventh review of Antigua and Barbuda's economic performance under a program supported by a 36-month Stand-by Arrangement (SBA). The completion of the review allows the immediate disbursement of an amount equivalent to SDR 3.375 million (about US$5.2 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 43.875 million (about US$67.6 million).

In completing the review, the Executive Board approved the authorities' request for a waiver of nonobservance of the performance criterion on the central government external payments arrears. The waiver was granted on the grounds of temporary and minor deviations from the program objectives and the corrective measures undertaken by the authorities. The Executive Board also approved a request for a waiver of applicability for the end-September 2012 performance criteria (PC). This waiver was necessary because the Executive Board meeting was scheduled to take place after end-September but prior to the availability of data to assess the relevant end-September PCs. In addition, data revisions indicate that the reported basis for the Executive Board granting a waiver of the end-September 2011 performance criterion on the central government overall deficit was off by a small amount, which was deemed to be irrelevant from a macroeconomic perspective, and the Executive Board approved the relevant waiver of the related condition.

The SBA was approved on June 7, 2010 (see Press Release No. 10/232), for an original amount of total access equivalent to SDR 81 million (about US$128 million), which was later adjusted pursuant to the authorities' request and consistent with Antigua and Barbuda's lower balance of payments need (see Press Release No. 12/202).

Following the Executive Board's discussion, Mr. Min Zhu, Deputy Managing Director and Acting Chair, made the following statement:

“The economy of Antigua and Barbuda is expected to recover gradually in 2012 after a significant contraction in the last three years, reflecting the global financial crisis. Nevertheless, weaker domestic activity and an uncertain global environment continue to pose a risk for growth prospects, which remain well below their pre-crisis levels.

“In the face of these challenges, the authorities’ have continued to make progress on the fiscal consolidation program through control of expenditures and improvements in revenue administration. All of the performance criteria under the program for end-June 2012 were met, except for a minor and temporary breach of the continuous performance criterion on external arrears. The authorities have continued their successful efforts in debt restructuring to reduce the burden of debt service and lower the level of public debt, although contingent liabilities in state-owned enterprises and the banking sector are presenting challenges.

“The process for resolution of Antigua and Barbuda Investment Bank is at an advanced stage and the authorities are making efforts to conclude the resolution as soon as possible. Measures on banking supervision, bank restructuring and updating the regulatory and legal framework are being planned to maintain the stability of the financial system going forward.

“Continued successful implementation of the program in the fiscal area is key to a steady reduction of the public debt burden and to fiscal sustainability. This calls for sustained fiscal discipline and resolute implementation of structural reforms in revenue administration and public financial management. Fiscal reforms will also enhance the quality of adjustment and provide the space needed to accelerate job- and growth-enhancing expenditures, particularly public infrastructure investment.”

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/21
FOR IMMEDIATE RELEASE
February 19, 2013

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

IMF Executive Board Concludes 2012 Article IV Consultation with Antigua and Barbuda

On October 31, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Antigua and Barbuda.[1]

Background

Antigua and Barbuda is recovering gradually from a deep recession. A sharp contraction in tourism activity and foreign direct investment led to an economic contraction of over 20 percent in the last three years. For 2012, real GDP is expected to grow by 1 percent, based on a modest recovery in tourism, and construction activity related to government initiatives. Weak domestic demand has kept core inflation subdued, and a spike in headline inflation early in 2012, related to the lagged pass-through of high international fuel prices in 2011, has been reversed. Headline inflation is expected to end the year at around the long-term average of 3 percent. The external current account deficit shrank substantially during the crisis along with the contraction in domestic demand and tighter external financing, but with the recovery is expected to widen marginally, from 10¾ percent of GDP in 2011 to 11 ½ percent of GDP in 2012. Downside risks to the near-term outlook have intensified with heightened global uncertainty, and the materialization of fiscal contingent liabilities could further challenge the government's fiscal consolidation program.

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[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.

The banking system felt the effects of the economic contraction. Credit to the private sector has contracted, and the share of non-performing loans has risen. Profitability has weakened with declining credit quality and tighter liquidity at indigenous banks. Nevertheless, the overall banking system remains relatively well capitalized and liquid, providing adequate buffers. In July 2011 the ECCB intervened the Antigua and Barbuda Investment Bank (ABIB) and has held the bank in conservatorship pending resolution. However, progress on the resolution of ABIB and other financial sector measures has been slower than expected.

Fiscal consolidation has progressed despite a very difficult environment. Government revenues have fallen with the decline in economic activity, although they are expected to recover slightly in 2012 due to the authorities' reforms in the Inland Revenue Department. In the face of the contraction in revenue, the authorities adjusted expenditure to reach their fiscal targets by maintaining primary current spending constant and sharply contracting capital spending. Significant fiscal savings also came from lower interest payments, as the authorities successfully pursued debt restructuring on the external front (mainly from the Paris Club) and from domestic creditors. Fiscal consolidation and debt relief led to a decline in the ratio of debt to GDP from over 100 percent in 2009 to around 90 percent in 2011, despite the large contraction in GDP. However, for 2012 the debt ratio is expected to rise again due to the impact of the resolution of ABIB by the government.

The authorities requested IMF financial assistance in support of their fiscal consolidation and economic reform program. The main objective of the authorities' program is to put the public debt firmly on a downward trajectory through fiscal consolidation, debt restructuring and comprehensive reforms in revenue administration and public financial management. The program also focuses on reforms in financial sector supervision and regulation to ensure financial stability. The reform program was designed to catalyze financing from other international and regional financial institutions and created the framework for a successful debt renegotiation. The program is supported by a 36-month Stand-By Arrangement from the IMF which was approved by the Executive Board on June 7, 2010 (see Press Release 10/232 of June 8, 2010).

Executive Board Assessment

Executive Directors welcomed signs of recovery in Antigua and Barbuda's economy after three years of contraction, and commended the authorities' strong commitment to their economic program. Noting the significant challenges still posed by the difficult global and domestic environment, Directors called for continued steadfast implementation of the program. Accelerating structural reforms, especially fiscal and financial sector reforms, will be essential to restore growth and ensure macroeconomic and financial stability.

Directors supported the authorities' commitment to fiscal consolidation and efforts to reduce public debt, with some cautioning that consolidation should not come at the expense of the fragile economic recovery. To ensure fiscal sustainability and create a buffer against shocks, Directors stressed the importance of improved public financial management and expenditure rationalization, without constraining the much-needed capital spending. They stressed that reversing delays in the structural reform agenda, including broadening the tax base, especially by eliminating tax exemptions, would help enhance revenue. Directors also considered reform of the pension system and improved oversight of state-owned enterprises to be important priorities going forward.

Directors underscored the importance of continued efforts to improve financial sector stability. They called for timely resolution of Antigua and Barbuda Investment Bank and other financial sector measures, including operation of the asset management company. Directors stressed the need for stronger supervision of banks and non-bank financial institutions, including through consolidated supervision of financial conglomerates. They urged the authorities to move forward in tightening regulations on asset classification and loan loss provisioning, and introducing risk-based supervision, with more frequent onsite examinations of banks. Directors also stressed the importance of regional cooperation on developing a well-defined bank resolution framework. They encouraged the authorities to continue to improve the AML/CFT supervisory framework.

Directors emphasized that restoring growth must be a priority. Reforms to improve competitiveness, which has been eroded in recent years, and diversify the economy should focus on enhancing productivity, reforming the labor market, and improving the business climate.

Antigua and Barbuda: Selected Economic Indicators

	2008	2009	2010	Prel. 2011	Proj. 2012
	(Annual percentage change)				
Output and prices					
GDP at constant factor cost	1.5	-10.7	-8.5	-5.5	1.0
Nominal GDP at market prices	4.5	-10.6	-6.1	-1.7	5.0
Consumer prices (end of period)	0.7	2.4	2.9	4.0	3.0
External sector					
Exports, f.o.b.	-2.9	-38.8	28.6	-4.1	5.4
Imports, f.o.b.	3.2	-21.2	-14.0	-5.9	8.1
Travel receipts (gross)	-1.1	-8.6	-2.4	4.8	5.8
Nominal effective exchange rate (e.o.p, depreciation -)	7.6	-5.5	8.2	4.6	…
Real effective exchange rate (e.o.p., depreciation -)	4.8	-5.9	7.1	4.0	…
	(In percent of beginning of period broad money)				
Money and Credit					
Net foreign assets	-11.4	-5.7	1.3	-2.2	0.8
Net domestic assets	13.5	5.4	-1.2	2.8	1.6
Net credit to the public sector	5.3	10.7	-3.2	0.4	8.5
Credit to the private sector	7.4	-0.7	0.2	-3.7	0.1
Broad money	2.1	-0.3	0.0	-0.2	3.3
	(In percent of GDP)				
Central government					
Primary balance	-2.9	-11.0	1.8	-1.5	1.7
Overall balance	-5.7	-18.2	-0.3	-3.6	-1.3
Total revenue and grants	21.3	18.6	22.4	20.6	21.1
Total expenditure	27.0	36.8	22.7	24.3	22.4
Financing	5.7	18.2	0.3	3.6	12.0
External	-1.1	4.3	2.5	2.7	6.2
Domestic	6.7	2.8	15.6	3.8	13.3
Change in arrears	2.8	9.4	-1.1	-1.1	-4.4
Valuation adjustments and write-offs	-2.8	1.6	-16.8	-1.8	-3.2
Financing gap	…	0.0	0.0	0.0	0.0
External sector					
Current account balance	-27.2	-19.3	-14.3	-10.7	-11.4
Trade balance	-45.2	-40.7	-35.9	-34.3	-35.4
Nonfactor service balance	21.3	23.4	22.2	24.7	25.0
Of which					
Gross tourism receipts	24.7	25.2	26.2	27.9	28.1
Overall balance	-3.0	-4.2	-1.2	-0.5	-2.3
External government debt (end of year)	31.2	35.7	38.7	39.4	38.4
Of which					
Arrears	12.6	15.2	8.8	7.7	0.0
Scheduled external debt service	5.0	4.6	10.6	8.5	1.7
Memorandum items:					
Gross international reserves of the ECCB					
(In millions of U.S. dollars)	759	801	926	1007	957
(In percent of ECCU broad money)	17	17	20	21	20
Nominal GDP at market prices (in millions of EC$)	3,657	3,271	3,071	3,019	3,170
Central government debt stock 1/					
(In millions of EC$)	2,881	3,337	2,783	2,817	3,096
(In percent of GDP)	77	102	91	93	98

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

1/ Includes central government guarantees of state-owned enterprises' and statutory bodies' debt. From 2012 onwards, the debt figures include the recapitalization bond of EC$340 million and debt renegotiation agreements that reduce debt by 3.2 percent of GDP.