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ANTIGUA AND BARBUDA

July 2015

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND POST-PROGRAM MONITORING—PRESS RELEASE; AND STAFF REPORT

In the context of the Staff Report for the 2014 Article IV Consultation and Second Post-Program Monitoring, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its November 24, 2014 consideration of the staff report on issues related to the Article IV Consultation and the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 24, 2014, following discussions that ended on August 29, 2014, 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 November 7, 2014.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2014 Article IV Consultation with Antigua and Barbuda

On November 24, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Antigua and Barbuda.

A modest recovery is underway but macroeconomic indicators are still weak and important vulnerabilities remain. Economic activity in the first half of 2014 showed continuing signs of recovery following real GDP growth of 1.8 percent in 2013. Tourism has performed strongly, with stay-over arrivals up 7.7 percent during the first half of the year. The winter tourist season was the most successful since 2009. Nevertheless, tourist arrivals are still over 5 percent below pre-global crisis (2008) levels while real GDP is 14 percent lower. Commercial bank credit to the private sector was down by 4.4 percent in June 2014 compared with a year ago, as banks continue to deal with high levels of non-performing loans. Inflation remains subdued, reflecting sluggish aggregate demand and the absence of international commodity price pressures. The fiscal stance was eased after the Stand-by Arrangement ended in June 2013 and in the run up to the June 2014 elections. At the same time, scheduled external amortization has more than doubled this year to nearly 3 percent of GDP. With limited financing options, there was a re-emergence of arrears on external debt.

On current trends, growth would remain modest, with risks tilted slightly to the downside. Real GDP would grow by 1.9 percent in 2014 and 1.7 percent in 2015, underpinned by the ongoing recovery in North America and the United Kingdom. Although the government has begun to address its fiscal imbalances, arrears would be projected to grow. Increased cash flow problems for the government and unattended banking system problems represent serious downside risks. On the other hand, the possibility of large inflows from the Citizenship by Investment Program (CIP) and foreign direct investments could significantly improve the outlook. However, these would not obviate the need for important policy adjustments.

Executive Board Assessment[1]

Executive Directors noted that macroeconomic and financial conditions in Antigua and Barbuda remain challenging. While a modest recovery continues, long standing problems in the fiscal and

[1] 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.

banking sectors remain unresolved, including unsustainable public debt, persistent large financing gaps, and high non performing loans and the delay in bank resolution. Directors underscored the need for decisive action to restore fiscal and debt sustainability as a matter of priority. They also emphasized the importance of achieving macroeconomic and financial stability to underpin stronger growth.

Directors noted the urgency of addressing the cash flow problem. They encouraged the authorities to adopt a comprehensive medium term fiscal consolidation program beginning with the upcoming 2015 budget. While welcoming the measures recently taken, they considered that, given limited financing options, additional measures would be required on the revenue side to improve tax collection and administration, and reduce tax incentives while enhancing regional collaboration to avoid tax competition. They also recommended measures to reduce the wage bill, and cut transfers to state owned enterprises and improve their financial performance and oversight more broadly.

Directors stressed that fiscal efforts should continue over the medium term to reform public financial management and strengthen the cash management system. They saw the benefits of a strong fiscal framework, including a fiscal rule prioritizing the reduction of debt to sustainable levels. In this context, Directors recommended using revenues from the CIP to first pay off arrears and reduce debt, while adhering to the highest level of transparency and governance in the administration of the CIP.

Directors welcomed the authorities' intention to expedite the resolution of Antigua and Barbuda Investment Bank. It would be important to ensure that resources are available to fund the resolution while safeguarding fiscal sustainability. Directors looked forward to progress on the asset quality review and legislative reforms in support of the ECCU regional bank resolution strategy.

Directors agreed that boosting growth and employment continues to be a high priority. They advised that the focus be placed on improving cost competitiveness and the investment climate. In this regard, they saw a need for reforms of the energy sector, including the state owned utility company, aimed at reducing energy costs and improving efficiency. Lower labor costs and deeper regional collaboration, particularly on labor market issues, would also help enhance productivity.

Directors welcomed the new government's swift action to settle arrears and commitment to remain current with its obligations to the Fund. Noting the high risk of debt distress, they encouraged the authorities to explore available financing and debt management options.

Antigua and Barbuda: Selected Economic and Financial Indicators, 2011−15

	2011	2012	Est. 2013	Proj. 2014	Proj. 2015
	(Annual percentage change)				
National income and prices					
GDP at constant factor cost	-1.9	3.6	1.8	1.9	1.7
Nominal GDP at market prices	-0.5	6.6	-0.3	3.0	3.7
Consumer prices (e.o.p)	4.0	1.8	1.1	1.4	2.0
	(Percent of GDP)				
Central government					
Primary balance	-1.5	1.1	-1.6	1.6	3.2
Overall balance	-3.6	-1.2	-4.2	-1.3	0.3
Total revenue and grants	20.4	19.8	18.7	20.5	21.7
Total expenditure	24.0	21.0	22.9	21.9	21.5
	(Changes in percent of beginning of period broad money)				
Money and credit					
Net foreign assets	-2.4	4.1	3.4	4.5	0.3
Net domestic assets	1.9	-4.4	0.9	-3.4	-0.2
Of which:					
Net credit to the public sector	0.6	-3.0	2.8	-1.9	-0.6
Credit to the private sector	-3.9	-2.4	-3.4	-1.2	0.4
Broad money	-0.5	-0.4	4.2	1.0	0.2
Average deposit rate (in percent per annum)	3.1	3.1	3.0	…	…
Average lending rate (in percent per annum)	10.1	9.4	9.4	…	…
	(Percent of GDP, unless otherwise indicated)				
External sector					
Current account balance	-10.4	-13.8	-14.1	-15.3	-14.1
Trade balance	-33.2	-35.2	-36.3	-37.9	-36.9
Nonfactor service balance	24.0	23.1	22.9	23.5	23.6
Of which: Gross tourism receipts	27.6	26.5	26.2	26.3	26.6
Overall balance	-0.6	-1.0	-0.7	1.8	0.5
External government debt (end of year)	39.0	36.7	43.1	42.7	40.3
Scheduled external debt service 1/	8.4	5.5	4.1	5.8	4.1
(In percent of exports of goods and services)	17.8	12.2	8.9	12.8	9.0
Memorandum items					
Nominal GDP at market prices (EC$ millions)	3,051	3,253	3,242	3,339	3,462
Gross international reserves					
(In millions of US$)	147	161	202	243	250
(In months of imports)	2.6	2.7	3.3	3.8	3.9
Underlying primary balance (percent of GDP) 2/	-1.5	1.1	-1.6	-0.3	-0.2
Central government debt stock 3/					
(In millions of EC$)	2,820	2,835	3,056	3,245	3,259
(In percent of GDP)	92.4	87.1	94.3	97.2	94.1

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

1/ Includes principal, interest and the stock of external arrears.

2/ Excluding CIP revenue and one-off factors.

3/ Includes central government guarantees of state enterprises' and statutory bodies' debt.

INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND POST-PROGRAM MONITORING

November 7, 2014

KEY ISSUES

Context. The new government that came to power in June 2014 inherited serious fiscal and external payments problems, including arrears to the Fund and other creditors, and unresolved banking sector problems. Moreover, public debt remains at an unsustainable level of close to 100 percent of GDP, while economic activity has been weak with output still well below the level reached at the time of the 2008/09 global financial crisis.

Main policy recommendations

- Implement fiscal measures equivalent to 2.8 percent of GDP in 2015 to tackle cash flow problems and achieve an underlying primary surplus of 3.0 percent of GDP by 2016 to address debt sustainability challenges. Underpin measures with structural fiscal reforms.
- Use Citizenship by Investment Program revenues to pay down arrears and debt and fund bank resolution. The program should be managed in line with the high standards of governance and transparency set out in the law.
- Move expeditiously as planned with the resolution of ABI Bank and support initiatives underway to strengthen the regional bank resolution framework, in particular, the passage of needed legislative reforms.
- Improve competitiveness by moderating labor costs; increasing energy efficiency, including by better performance of the state-owned utility company; and improving the investment climate.

Authorities' views. The authorities broadly agreed with staff's assessment of the economic situation and risks, and its recommendations to reduce fiscal vulnerabilities and strengthen the banking system. They were more optimistic about growth prospects for 2015 based on expectations for substantial FDI. They are opposed to increases in taxes and plan to focus fiscal efforts on cutting recurrent spending. On bank resolution, they wish to work closely with the Fund and World Bank to speedily address outstanding problems. They paid the arrears to the Fund and committed to timely servicing of Fund obligations.

Data provision. Data provision is adequate for surveillance and post-program monitoring although significant areas for improvement remain, in particular on labor market statistics, measurement of arrears, financial information on state-owned enterprises, and national accounts by expenditure components.

Approved By
Adrienne Cheasty (WHD) and Bob Traa (SPR)

The staff team comprised T. Alleyne (Head), S. Acevedo, I. Samake (all WHD); E. Karlsdottir (MCM); and Y. Zhang (SPR). W. Mitchell (Resident Representative) assisted the mission. Mr. K. Silston (OED) attended some meetings. Discussions were held in St. John's during August 18–29, 2014. The mission met with Prime Minister Browne, other government ministers and senior government officials, and representatives of business, banking, and labor. The mission also conducted a number of outreach activities, including appearances on radio and television programs, and co-sponsoring a forum on debt and fiscal challenges with the local chamber of commerce.

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BACKGROUND

1. Political and economic environment. On June 12, 2014, the Antigua and Barbuda Labor Party won a clear victory over the United Progressive Party, which had been in power for ten years. The new government, sworn in on June 13, inherited a difficult economic situation, including weak activity, severe cash flow problems, unsustainable debt, and banking problems.

2. Relations with the Fund. The last Article IV Consultation was completed on October 31, 2012. The Executive Board discussed the First Post-Program Monitoring on April 21, 2014. At that time, Directors noted the significant deterioration of economic performance in the aftermath of the 36-month, SDR67.5 million Stand-by Arrangement (SBA), which ended in June 2013. They stressed that if this situation persisted, growth would continue to be subdued, fiscal pressures would grow, and debt would remain unsustainable. 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.

RECENT DEVELOPMENTS

Since the end of the SBA in June 2013, growth has been modest but macroeconomic management has weakened and serious cash flow problems have emerged.

3. A modest recovery is underway but fiscal and financial sector risks have risen.

- **Economic activity.** Activity in the first half of 2014 showed continuing signs of recovery following real GDP growth of 1.8 percent in 2013 (Figure 1). Tourism has performed strongly, with stay-over arrivals up 7.7 percent during the first half of the year. The winter tourist season was the most successful since 2009. Nevertheless, tourist arrivals are still over 5 percent below pre-global crisis (2008) levels while real GDP is 14 percent lower. Inflation in August stood at 1.7 percent (y-o-y), up from 1.1 percent at end-2013, with higher clothing and energy prices.

- **Public finances.** The fiscal stance was eased substantially in the run-up to the elections (Figure 3). Spending for the first six months of 2014 was up 7.1 percent compared with the same period in 2013, while tax revenue grew by 3.1 percent. For the 12-month period July 2013-June 2014, the primary balance deteriorated to -1.5 percent

Text table 1. Antigua and Barbuda: Fiscal Operations
(Percent of GDP) 1/

	2012	2013		2014
	H2	H1	H2	H1
Total revenue and grants	19.3	18.9	18.4	19.1
Of which: tax revenue	17.6	17.8	17.0	17.9
Total expenditure	20.4	20.8	24.9	21.5
Of which: Primary exp.	18.0	18.9	21.7	18.8
Primary balance	1.3	0.0	-3.2	0.4
Overall balance	-1.1	-1.9	-6.5	-2.4

Sources: Country authorities; and Fund staff estimates.
1/ Semi-annual GDP.

of GDP from +0.6 percent for the July 2012-June 2013 period. Scheduled external amortization has more than doubled this year to nearly 3 percent of GDP from 1¼ percent in 2013, mainly as a result of repayment obligations to the Fund and Paris Club creditors (Box 2). With limited options for external borrowing following the end of the SBA on account of Antigua and Barbuda's already elevated debt levels, external financing was mainly through the accumulation of arrears, which grew by 1.5 percent of GDP in the first half of 2014. Arrears to the Fund emerged in early June as two scheduled payments were missed**.** The new government settled Fund arrears in July and has made subsequent payments on time.

- **Monetary and financial developments.** Both indigenous and foreign banks continue to suffer from weak financial soundness indicators (Figure 4).[1] Non-performing loans stabilized at 14.5 percent of total loans in March 2014 (including ABI Bank). Credit to the private sector, which was down 4.4 percent (y-o-y) in June 2014, has been in decline since 2011. ABI Bank, which has an estimated capital gap of 8 percent of GDP was intervened by the ECCB in 2011 but is still unresolved. An asset quality review (AQR) of all indigenous banks will start in 2014Q4.

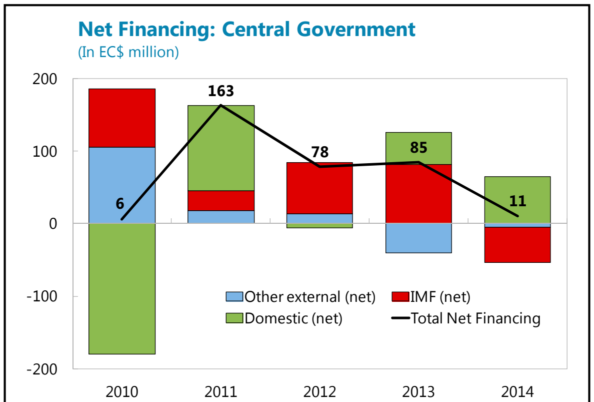
[1] 8 commercial banks operate in Antigua and Barbuda with total assets of 168 percent of GDP at end-March 2014. There are four indigenous banks and four branches/subsidiaries of foreign banks. These two groups have broadly equal shares of deposits, while the indigenous banks have only 35 percent of total assets, reflecting the large negative equity of ABI Bank.

Box 1. Authorities' Responses to Past IMF Policy Recommendations since the 2012 Article IV Consultation

Recommendations	Implementation status
Fiscal policy	
Expenditure rationalization and structural reforms: Seek fiscal saving through more targeted subsidies and transfers; rationalizing public benefit packages; and improving government services through outsourcing, amalgamating departments, and forming a single civil service.	Draft revised public service legislation was prepared and functional reviews of ministries were initiated, with TA support in 2013. However, the need for fiscal saving through effective PFM as initially advised still remains a key fiscal challenge.
Tax reform: Broaden tax base by eliminating exemptions, and carrying out a tax exemption study to identify possible reforms.	Legislation to tax benefits as required under PAYE law was approved. Increased tax compliance of state-owned enterprises was achieved. The compliance rate of professionals with tax obligations was significantly increased. However, the passage of the Tax Administration and Procedures Act is still pending.
Parametric reform in the pension sustem: Raise contribution rate, increase the retirement age, and change the formula for calculating pensionable earnings. Similar measures were recommended for the non-contributory civil service pension scheme.	Comprehensive reform of the social security scheme was approved by the Social Security Board.
SOE oversight and reform: Set up an oversight, institutional and reporting framework for SOEs, commence reviews of selected SOEs to assess fiscal risks.	An oversight unit for SOEs was established in the Ministry of Finance. But few SOEs (on average 6 out 26) are fully (and consistently) complying with the data submission requirement and fiscal risk assessments are still pending.
Financial policy	
Offshore banks and non-bank financial institutions: Need for a more coordinated approach to supervision that takes into account possible links between off-shore institutions and the domestic financial system.	No progress made.
Banking supervision and regulatory reform: Introduce consolidated supervision and prepare a plan to improve regulations for asset classifications, loan loss provisioning, and risk-based supervision. More specifically: (i) passing stand-alone legislation to govern the Financial Services Regulatory Commission (FSRC) which supervises non-banks; and (ii) ECCB to conduct on-site examinations of indigenous banks in Antigua and Barbuda.	Stand-alone legislation to govern the FSRC was approved by the parliament and on-site examinations of indigenous banks have been undertaken. However, further strengthening of supervision is needed.
Swiftly address problem bank resolution.	Valuation report for ABIB concluded in December 2012 and an asset management company to dispose of the impaired assets of ABIB was established in 2013. However, the resolution of ABI Bank is still pending.
Business environment and growth	
Raising productivity in the public sector: Unify established and non-established employee frameworks.	No progress made.
Reform of labor market: Reform policy for hiring temporary or seasonal workers. Produce labor market statistics (non-existent in Antigua and Barbuda).	No progress made.

Box 2. Government Financing

The IMF was a key source of financing during 2010-13. On average, IMF funding accounted for about 68 percent of the government's net financing between 2011 and 2013. However, with the end of the SBA program in June 2013 the IMF is no longer a source of net external financing, with scheduled payments to the IMF amounting to EC$48 million in 2014.



Note: Net Financing = Disbursements - Amortization

Domestic financing, mainly through the Regional Government Securities Market (RGSM), is picking up the slack going forward. By the end of 2014 the government plans to have issued close to EC$214 million in government securities (including some private placements), and repaid about EC$106 million, for net financing of EC$108 million from the RGSM. However, the government is experiencing some difficulties in securing financing from the RGSM; one of its auctions was undersubscribed and another one was cancelled given the uncertainty surrounding the timing and result of the elections. In these circumstances, the authorities have resorted to private placements to surplus quasi-public sector entities such as PDVCAB, the entity that administers the Petrocaribe arrangement, and MBS, the medical benefits fund. In July 2014, the government made two private bond placements totaling about EC$39 million with MBS, PDVCAB, and the National Development Fund, which administers the contributions to the Citizenship by Investment Program (CIP), in part to settle outstanding arrears to the Fund.

OUTLOOK AND RISKS

On current trends, growth would remain modest. However, worsening cash flow problems and unattended banking system problems would increase risks of a crisis. The prospect of large CIP revenues and private investments could significantly improve the outlook but would not obviate the need for significant policy adjustments.

4. **Growth would continue to be modest in 2014–15 (Text table 2).** Growth is projected at 1.9 percent in 2014 and 1.7 percent in 2015. A moderate recovery is expected in the tourism sector, based on the ongoing cyclical recovery in North America and the United Kingdom and the expansion of the airport scheduled to be completed in early 2015, which will allow more flights. At the same time, rising government arrears, ongoing banking system problems, and deteriorating

conditions at key SOEs would undermine confidence and be a drag on growth in the non-tradable sectors of the economy. With aggregate demand still subdued and no international price pressures, inflation would remain low.

5. **Although some fiscal consolidation is envisaged, arrears would be projected to grow (Text table 3).** For 2014 as a whole, the central government primary balance would shift from a deficit of 1.6 percent of GDP in 2013 to surpluses of 1.6 percent in 2014 and 3.2 percent in 2015. The improvement is based on cuts in recurrent expenditure (see paragraph 7). In addition, revenues could increase substantially owing to the new Citizenship by Investment Program (CIP). The underlying primary deficit (i.e., excluding CIP revenues and one-off factors) would narrow to 0.3 percent of GDP in 2014 and 0.2 percent in 2015. However, the improvement in the overall primary balance would not be sufficient to cover elevated debt service obligations, thereby leading to further accumulation of arrears and a financing gap of 0.6 percent of GDP in 2014 and 1.8 percent in 2015. There would be insufficient resources to finance the resolution of ABI Bank.

Text table 2. Antigua and Barbuda, 2013–15 1/

	Actual	Current trends	
	2013	2014	2015
Real sector		*(Percent)*	
Real GDP growth	1.8	1.9	1.7
Inflation (eop)	1.1	1.4	2.0
Public finance		*(Percent of GDP)*	
Primary balance	-1.6	1.6	3.2
Overall balance	-4.2	-1.3	0.3
Public debt	94.3	97.2	94.1
External sector			
Current account deficit	-14.1	-15.3	-14.1
FDI	7.9	11.2	11.2
Reserves 2/	3.3	3.8	3.9

Sources: Country authorities; and Fund staff estimates.
1/ Selected indicators of current trend outlook.
2/ Months of next year imports.

Text table 3. Antigua and Barbuda: Government Finances, 2013–15 (percent of GDP)

	Actual	Current trends	
	2013	2014	2015
Primary balance	-1.6	1.6	3.2
Overall balance	-4.2	-1.3	0.3
Gross fin. requirement	7.5	9.2	8.2
Financing sources	7.5	8.6	6.4
Loan Disbursments	5.8	7.6	6.4
Of which: Govt. securities 1/	1.2	5.8	5.5
Exceptional Financing	1.7	1.0	0.0
Of which: Arrears	1.5	1.5	0.0
Financing gap	0.0	0.6	1.8
Memorandum items:			
Underlying primary balance 2/	-1.6	-0.3	-0.2
Underlying overall balance 2/	-4.2	-3.2	-3.1

Sources: Country authorities; and Fund staff estimates.
1/ Including RGSM, old securities, and statutory deposits.
2/ Excluding CIP revenue and one-off factors.

6. There is significant uncertainty associated with this projection with risks tilted slightly to the downside.[2]

- ***Upside risks.*** The authorities are counting on substantial private investments in the hotel sector. If these were to materialize, growth could turn out to be substantially stronger than projected in 2015 and beyond (Text table 4 and paragraph 26).[3] For example, a new Sandals resort could raise the growth rate by an average of 2 percentage points in 2015–17 (Appendix II). The largest investment project is the proposed Yida resort development which, according to the authorities, would amount to an investment of 160 percent of GDP over ten years. The country's financing windows could be larger than envisaged under the current trend. In particular, the authorities are aggressively seeking new sources of bilateral financing, including from China and Mexico, and exploring options to improve debt management. CIP revenues could also turn out to be larger than projected—the comparable program in St. Kitts and Nevis earns more than 10 percent of GDP for the treasury. In an emergency, to ease a liquidity crunch, PDVCAB, the state-owned company that administers the Petrocaribe arrangement, could liquidate some of its foreign investments and increase its exposure to the government (Appendix III).

Text table 4. Antigua and Barbuda: Government Identified Large Projects in the Pipeline 1/

Projects	Key highlights/Description
Private projects	
Yida project 2/	Hotel and resort 10-year project
Sandals Beaches Hotel	Construction of a 400 room hotel
Half Moon Bay renovation	Sale and renovation
Royal Antigua Hotel	Renovation with upgraded conference facilities
Morris Bay Hotel	Construction of a 80 room hotel, signed MOA
Public projects	
St. John's Harbor 3/	Redevelopment and dredging of St. John's harbor
500 houses construction	500 low-income houses (per year)

Sources: Antigua and Barbuda authorities; and ABLP Manifesto, June 2014.
1/ These projects have not been incorporated in staff's macroeconomic framework due to lack of sufficient information (feasibility, financing, etc), uncertainty about the projects and financing.
2/ US$2 billion (160 percent of GDP) comprising Antigua International Tourism Island Project, Antigua International Special Economic Zone project, and 14 project zones.
3/ St. John's Harbor and Port Development Project comprises Harbor development project; Oasis Class Pier project; and Port project.

- ***Downside risks.*** There is a risk that the projected domestic financing may not be forthcoming. Some investors, in particular, the foreign-owned banks, are reducing their exposure to government debt, while the ability to expand issuance in the regional government securities market is limited. In addition, CIP revenues, given their inherent volatility, are susceptible to a sudden stop; and PDVCAB, which has been a key investor in government securities, would no

[2] See the risk assessment matrix (RAM) as of August 2014, Appendix I.

[3] Staff has not incorporated these projects into the projections because reliable information about their feasibility (including assurance of adequate financing), size, and timing was not available.

longer have resources to purchase government paper if the Petrocaribe arrangement were to end. Tighter funding conditions would worsen the cash flow situation and push up arrears/financing gaps. If arrears to suppliers were to increase or spread to wages and debt service to IFIs and domestic creditors, economic activity could be disrupted, confidence undermined, and nonperforming loans pushed up in an already weak banking system. In this context, the risk of a financial crisis, which already exists as long as bank resolution continues to be delayed, would rise significantly. The main risk from the global economy is a possible protracted period of slower growth in advanced and emerging economies. This would negatively affect domestic growth and worsen external balances through a slowdown in tourism and FDI flows. Heightened geopolitical risks in the Middle East could lead to a sharp rise in international oil prices with possible negative spillovers on domestic growth and the balance of payments.

- ***Authorities' views.*** The authorities were more optimistic about the outlook although they broadly agreed with the risks. They believed that even if a couple of the private projects in the pipeline were to materialize, there would be a significant impact on growth. They were very aware of the risks associated with the CIP, but were confident, given the momentum thus far, that revenues from the program would be strong, at least for the next couple of years.

POLICY DISCUSSIONS

Authorities and staff agreed on the overriding policy issues facing the country, which revolved around three themes: the urgent need for fiscal consolidation and supportive structural reforms; immediate actions to address the fragile banking system; and policies to boost growth and improve competitiveness.

A. The Need for Fiscal Consolidation and Supportive Structural Reforms

Background

7. **The authorities agree on the need for fiscal consolidation.** With public debt close to 100 percent of GDP, serious cash flow problems, and limited financing options, they have taken some early measures to reduce spending but they have not yet outlined any fiscal plan or target for 2014 or 2015. However, they have cut election-related expenditure, and are tightening spending on goods and services (e.g., lowering rents paid by government agencies; terminating or renegotiating service contracts with suppliers), and streamlining and/or cutting transfers (especially to government agencies). The authorities believe that there is a lot of waste in government spending and want to develop their fiscal adjustment efforts in that area. While supporting the government's initiatives, staff indicated that the authorities should ensure that reductions in transfers did not simply move the problem from the central government to state-owned enterprises. Staff also expressed concern that the authorities' measures would take time to fully implement and were unlikely to be sufficient. In particular, fiscal policy was unsustainable since large financing gaps were likely to persist. In addition, debt would remain high; and tackling key issues, such as the resolution of the ABI Bank or the funding of infrastructure investment would be difficult.

Policy Discussions

8. Because the "current trends" scenario above appears unsustainable, staff proposed a medium-term fiscal consolidation plan to address cash flow problems, eliminate the financing gaps, and restore fiscal and debt sustainability (Text table 5).[4] Specifically, the plan would be anchored on achieving a debt to GDP ratio of 60 percent by 2023. This would imply raising the underlying primary surplus by 2.8 percent of GDP to around 2.6 percent of GDP in 2015 and then to 3 percent in 2016 and maintaining it at that level for the next 8 years.[5] Fiscal saving would come mainly from additional expenditure measures, such as lowering the wage bill through attrition and wage restraint, but would also include raising taxes. The primary surplus and the available borrowing room in the regional government securities market would be sufficient to fund the bank resolution process, preliminarily estimated at around 11½ percent of GDP.[6] However, the Debt Sustainability Analysis indicates that debt would remain fragile and highly vulnerable to a variety of shocks, including contingent liabilities and low growth.

9. Staff discussed potential benefits from implementing a strong fiscal adjustment program in the context of a Fund-supported program. In such a scenario, staff's recommended fiscal adjustment in 2015-16 might be somewhat more evenly distributed across the two years. This is because the strong front-loading of the fiscal adjustment in staff's active scenario was, in part, based on the need to close a projected financing gap in the context of limited financing options. On the other hand, a Fund-supported program would increase the likelihood of new financing from IFIs to help close the financing gap. In addition, there would be improved prospects for debt management operations to smooth out debt service payments to bilateral creditors. In any event, the authorities' contingency planning should retain a Fund-supported program as a possible option.

10. To achieve its proposed scenario, staff argued that there was room to significantly increase mobilization of revenues. Antigua and Barbuda has the lowest tax to GDP ratio in the ECCU and staff's analysis suggests that the country has the potential to increase tax collection by around 4 percent of GDP over the medium term (Appendix IV). In this context, and given the need to increase fiscal savings, staff urged the authorities not to follow through on their campaign promise to eliminate the personal income tax. Staff also recommended that the amount of tax incentives be reduced, emphasizing not only the large revenues forgone but also the economic

[4] The macroeconomic projections in Tables 1, 3–5, and 7–10 refer to staff's proposed scenario. Table 2 reflects the current trends scenario.

[5] Under, staff's proposed scenario, growth would be lower in 2015 and 2016 than under current trends because of stronger fiscal consolidation but would be higher over the medium term (Table 1).

[6] A more definitive estimate would be obtained from the planned asset quality reviews of the banks (paragraph 19). The resolution costs comprise filling the capital gap (liabilities minus assets); raising the capital adequacy ratio to the required 8 percent.

Text table 5. Menu of Possible Fiscal Measures, as of 2015 (percent of GDP)		
Fiscal instruments	**Specific measures**	**Proj. yields 1/**
Tax revenue		**0.8**
Personal income tax	Retain the personal income tax (annual saving: up to 1.3 percent of GDP).	...
	Increase compliance of lawyers, doctors, accountants to 50 to 60 percent. Compliance of lawyers, doctors, accountants was raised from 18 percent, 27 percent, and 51 percent in 2011 (respectively) to about 30 percent for lawyers and doctors and 64 for accountants in 2013. Broaden compliance efforts to other professionals (e.g., engineers, real estate agents).	0.2
Value-added tax (ABST), rate	Raise the ABST by 1 percentage point to 16 percent (annual saving: up to 0.5 percent of GDP)	0.3
Gasoline tax	Increase the gasoline tax by 35 cents per gallon (annual saving: up to 0.1 percent of GDP)	0.1
Tax incentive	Gradual streamline of tax incentives, especially discretionary tax exemptions. Total discretionary tax exemptions are estimated at 4.4 percent of GDP ("Antigua and Barbuda: Tax Concessions Study" FAD TA Report, March 2013).	0.3
Tax administration	The passage of the Tax Administration Procedure Act, which is long overdue, could play an important role in improving tax collections and strengthening tax administration.	...
Expenditure cuts		**2.0**
Hiring freeze	Prolong the hiring freeze (annual saving: up to 0.7 percent of GDP). Based on an annual attrition rate of 3.5 percent, budgetary savings would be 0.5 percent of GDP. In addition, a 15 percent reduction in contractual workers would generate savings of 0.1 percent of GDP.	0.6
Wage restraint	Adjusting wages in line with inflation (annual saving: up to 0.2 percent of GDP). More generally continued wage restraint and prolonging the wage freeze would generate an annual saving of up to 0.6 percent of GDP.	0.1
Streamline allowance and other benefits	Streamlining allowances and benefits (annual saving: up to 0.3 percent of GDP). There are over fifteen types of allowances governed by unclear rules at the discretion of line ministers.	0.2
Cut goods and services	Streamline contracts, especially in the area of garbage disposal and sanitation, and repairs and maintenance of roads and buildings (annual saving: up to 0.4 percent of GDP). Savings from renegotiating rental contracts is also possible but this would need to be accompanied by some process of clearing arrears and standardizing rates for office space.	0.2
Reduce transfers	Cuts in transfers to statutory bodies, by reducing the number of SOEs and increasing scrutiny of the remaining entities (annual saving: up to 1.0 percent of GDP). Fiscal savings would come from reduced transfers for board and committee fees; and grants to SOEs (e.g., Investment Authority, CMC, Agriculture Development Corporation, Parks Authority, etc.) while making more efficient use of the funds received.	1.0
1/ Yearly. Conservative compared with the maximum yields as indicated in "Specific measures" column.		

distortions they created and the unhealthy tax competition with other countries in the region.[7] Staff acknowledged that reforms in this area were difficult and best handled via a regional agreement. However, certain countries (e.g., Jamaica, St. Kitts and Nevis, and Grenada) have taken the lead in

[7] Moreover, many of the investments associated with the tax concessions result in increased pressure on the existing infrastructure (e.g., water, sanitation, electricity) but leave the government without the necessary funds to fund expansion.

introducing comprehensive tax reform policies to scale back incentives. In contrast, Antigua and Barbuda passed legislation earlier this year that granted broad tax incentives (i.e., exemption from all import duties, VAT, and income tax, and large concessions on property taxes) for a wide range of new investments.

11. In the area of tax administration, reforms need to improve collection. While efforts had been made to strengthen revenue administration, there are critical challenges to be addressed. Most importantly, staff urged the authorities to pass the Tax Administration and Procedures Act, which is long overdue (structural benchmark in SBA). There is also substantial room to strengthen tax compliance by improving the exchange of information between the Customs and Inland Revenue departments. Finally, staff noted that increased efforts were needed to address the high level of tax arrears, especially by SOEs, which the authorities estimate at 3.2 percent of GDP for ABST (at end-June 2014).

12. The possibility of strong CIP revenues over the next 12 months should not weaken the commitment to undertake strong fiscal adjustment measures. Given the inherent volatility of CIP revenues and the evident cash flow stress, these should first be used for clearing arrears, paying down debt, and funding the resolution of ABI Bank. Over time, the CIP revenues could also be used to build buffers and fund key strategic infrastructure projects. Given the increased international scrutiny on such programs, the CIP should adhere to the highest standards of governance and transparency, including subjecting applicants to targeted AML/CFT measures and publishing regular audited financial accounts of the program. Staff expressed concern that application fees for the CIP in excess of the operating expenses were being retained by the CIP administration unit and not being turned over to the treasury.

13. Structural reforms are needed to underpin the recommended fiscal measures, especially since the fiscal consolidation gains will need to be maintained for several years. The easing of fiscal policy in the lead up to the election exposed several serious weaknesses in public financial management and highlighted the need to strengthen the fiscal policy framework in order to enhance the credibility of the medium-term fiscal consolidation program. Reforms will need to:

- ***Strengthen the revenue forecasting system.*** In recent years, revenue projections have been systematically over-optimistic, ultimately contributing to arrears, the rationing of payments, and poor execution of the budget.

- ***Sort out existing problems in the Free Balance system for tracking revenue and expenditure flows and make it operational across more government agencies.***

- ***Establish a framework to prioritize public investments to ensure that they fit in an overall envelope consistent with restoring debt sustainability.*** In recent years, most of the large capital projects have been undertaken by statutory bodies and it is not clear that they were vetted to ensure that these were the projects with the largest economic and social returns.

- ***Introduce a multi-year fiscal framework and make annual budgets consistent with the framework.*** The 2014 PEFA Report recommended establishing such a framework to guide the government's strategic plan and improve predictability and control in budget execution.

- ***Scale back the use of special warrants, which have undermined the budget as an instrument of fiscal policy, to comply with existing legislation.***

- ***Underpin the framework by a fiscal rule that clearly prioritizes eliminating arrears and reducing debt to sustainable levels and also has strong accountability provisions.*** This is urgently needed given that the existing fiscal anchor, i.e., the ECCU-wide debt target of 60 percent of GDP by 2020, has not proven to be effective and no longer appears feasible.

- ***Undertake a review of the legal framework to enable the (above) PFM reforms and ascertain their consistency with the legal environment.***

14. Staff emphasized the urgency of taking stock of the government's contingent liabilities and implementing policies to improve monitoring and control. It will be important to improve oversight and efficiency of state-owned enterprises (SOEs) to enhance overall fiscal performance (Appendix V)**.** In this regard, stronger enforcement of SOE financial reporting requirements, which were established at the time of the SBA, is required. The state-owned utility company, APUA, is in urgent need of reorganization to address the ongoing build up of arrears and cross debts with various public and private sector entities.[8] In the area of worker compensation, the authorities estimate that outstanding liabilities in the form of deferred payments (such as back pay) amount to at least 3 percent of GDP. The government pension system also should be reformed to contain rapidly rising costs. Some combination of measures to contain the growth of benefits and introduce some form of worker contribution may need to be considered. The existence of potentially large contingent liabilities further underscores the urgent need for a comprehensive fiscal consolidation plan to reduce debt, and to expand the perimeter of the government's fiscal policy plan to encompass the public sector, rather than only the central government.

Authorities' views

15. The authorities were confident that their fiscal consolidation effort would be successful. They acknowledged that some measures, such as closing down certain government agencies, would require strong political commitment. They believe that with the strong increase in economic activity from the private investments that they were counting on, there could be a significant growth in revenues. In addition, they were aggressively exploring options for securing foreign loans and grants and were also actively engaging creditors to restructure some of their debts to lower interest rates and/or extend maturities. At the same time, the authorities were strongly opposed to considering a new Fund-supported program. They believed that the very short maturity of Fund lending would create new cash flow problems down the road.

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[8] According to APUA, central government debt to APUA stood at 12.4 percent of GDP at June 2014.

16. The authorities were opposed to any increase in taxes but outlined a number of initiatives in the area of tax administration. They considered that the tax burden is already too high. They are committed to eventually eliminating the personal income tax but agreed that such a move was not appropriate given the current fiscal situation. The authorities agreed on the need to scale back tax incentives, but argued that this had to be a medium-term process. Because of the difficult economic situation, creating jobs was an overriding political priority and tax incentives were seen as an expedient way to promote this in the short run, notwithstanding the costs. In the area of tax administration, they planned to extend their professionals tax compliance program to real estate agents and engineers. On TAPA, they plan to revisit some aspects of the bill, e.g., the proposal allowing the tax authority to seize bank accounts of tax payers, before re-submitting the bill to parliament. They broadly agreed with staff's recommendation on the use of CIP revenues, noting that the CIP Act prohibited the use of CIP revenues for recurrent spending.

17. On structural fiscal reforms, the authorities acknowledged that there were problems in the cash flow management system. They stated that they were taking steps to iron out problems in the *Free Balance* system and were also implementing recommendations of the 2012 FAD technical assistance, including on establishing a single treasury account. In the meantime, the Ministry of Finance indicated that it was not authorizing any payment requests by ministries for which there was not a previous advance warrant authorization issued by the Ministry of Finance. On the need to strengthen the fiscal framework, they noted that the ECCU's Monetary Council was likely to change the existing fiscal anchor in the near future. The authorities emphasized their intention to turn SOEs, including APUA, into profit centers, reiterating plans to implement reforms and cut government transfers.

B. Strengthening the Banking System

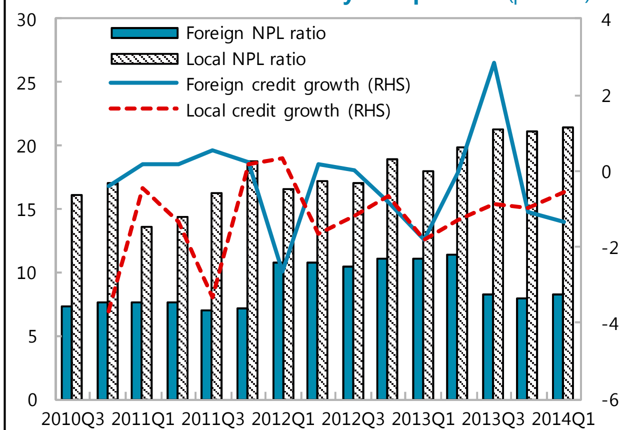
Background

18. The government intends to expedite the long overdue resolution of ABI Bank, which has been in conservatorship for three years. At the Prime Minister's request, Fund and World Bank staff prepared a proposal that involves a good bank-bad bank structure using a purchase and assumption (P&A) framework. The P&A would be followed by the near simultaneous withdrawal of ABI Bank's license, with remaining assets (NPLs) dealt with in receivership by a professional asset manager and liquidator. To address potential liquidity pressures and boost confidence, the government would establish a temporary liquidity facility available to the successor bank. For this purpose, staff recommended using funds from the Citizenship by Investment Program. The government was encouraged to actively seek a stronger investor bank, which would bring credibility to the transaction and contribute to the consolidation of the financial sector. Legislative reforms will be needed, in particular those being prepared in the context of the ECCB/CDB/IMF/WB regional bank resolution strategy.[9]

19. Despite delays, progress has been made in implementing the regional strategy. Agreement has been reached in a number of areas; e.g., on AQR, which will start in 2014Q4; and most legal reforms, with LEG technical assistance. Discussion is ongoing in other areas such as options to resolve insolvent banks on a least-cost basis and upfront recognition of losses.

20. Improving the framework for addressing the large stock of non-performing loans (NPL) will be crucial for successful bank resolution. The difficult economic environment, poor quality of collateral valuations, burdensome foreclosure procedures and limited collection efforts have contributed to slow progress in NPL resolution. The authorities are participating in an ECCB-led task force aimed at unifying legislation, including streamlining the foreclosure process. The IMF is currently providing technical assistance to the ECCB on collateral valuations, with Canadian donor funding. In addition to assisting in establishing the minimum appraisal criteria, education and training on appraisal best practices is being provided to bankers, appraisers, real estate agents, and bank supervisors.

NPL Ratio and Credit Growth by Incorporation (percent)



Source: ECCB.

Policy discussions

21. In designing the proposal for the resolution of ABI Bank, staff emphasized that the outcome must be a healthier and more viable banking system that is resilient to future crises. More specifically: (a) banks should be viable in order to perform a productive financial intermediation function and be seen as secure places for deposits (i.e., healthy and properly regulated); (b) the funding and capital structure needs to be sufficient to provide loans to support economic growth through profitable lending; and (c) the successor bank should not be encumbered with legacy problems such as NPLs and/or large amounts of government debt that are a by-product of resolution. Staff stressed the importance of having in place a comprehensive contingency plan, including an effective communication strategy and adequate liquidity for ABI Bank's successor bank.

[9] A detailed description of the regional strategy can be found in the ECCU Common Policies staff report (pages 32-34). The reforms aim to address regulatory deficiencies indentified by a 2012 Joint ECCB/CDB/IMF/WB Financial Sector Task force, as well as weaknesses and gaps in the bank resolution framework identified by LEG in 2013/14.

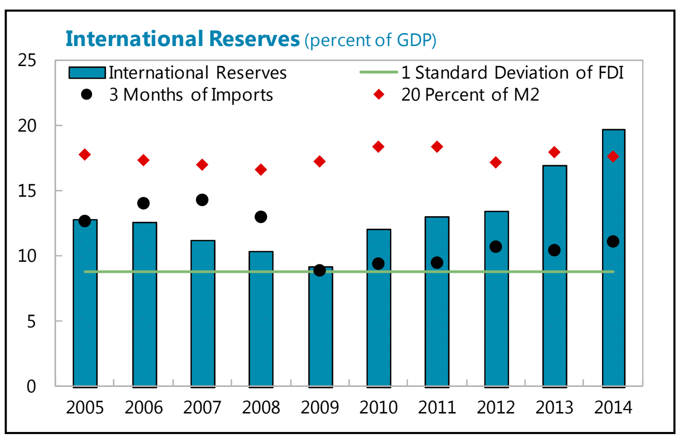
22. Staff urged the authorities, as a member of the ECCB Monetary Council, to avoid delays in the AQR process and quickly finalize the draft legislation being prepared in the context of the regional bank resolution strategy. While the financial situation of ABI Bank was well known, assessing and addressing problems in other banks in Antigua and Barbuda would need to await the results of the AQR. On legislation, staff emphasized the importance of the comprehensive regional reforms currently under preparation.[10] The Antiguan authorities will need to take swift measures at the national level to have the legislation adopted by their Parliament, once approved by the ECCB Monetary Council. In the event that ABI bank is resolved ahead of the passage of regional reforms, interim legislative reforms will be needed.

23. The authorities have made important progress in strengthening the anti-money laundering and countering the financing of terrorism (AML/CFT) framework in compliance with international standards. This was acknowledged in February 2014 by the Caribbean Financial Action Task Force (CFATF). Further efforts should now focus on the compliance and effective implementation of the 2012 FATF standard. In this context, continuous focus needs to be on preventing financial integrity and security risks related to the newly introduced CIP.

24. Authorities' views. The authorities were in broad agreement with the staff's ABI Bank resolution proposal and have requested Fund technical assistance to help in the design and implementation of the strategy. They considered that, from a political and social standpoint, it was crucial to protect all depositors. They also emphasized that since taxpayers were going to fund the cost, they should be able to benefit from any upside on the recovery of the successor institution. In this context, the authorities indicated that, although they had no interest in controlling or managing the successor bank, they would still want a temporary equity stake, which could be sold subsequently to realize capital gains and offset some of the incurred costs.

C. Improving Competitiveness and Reviving Growth

Background



25. Like other tourism-dependent Caribbean countries, growth has been weak in the aftermath of the global crisis, in part owing to competitiveness issues. An examination of CGER-type and EBA methodologies do not point to any significant misalignment of the real effective exchange rate (Box 3). The coverage of international reserves is also adequate according the Fund's various metrics. Nevertheless, staff shares the consensus view among stakeholders in the region of a need

[10] The reforms aim to address regulatory deficiencies indentified by a 2012 Joint CDB/IMF/WB Financial Sector Task force for the ECCU. The Fund is providing technical assistance in drafting the legislation.

to boost competitiveness, in particular, based on various indicators of declining tourism performance over the past decade (Box 3 and Appendix VI). The Caribbean Growth Forum has highlighted the need to improve air, maritime and ICT connectivity, enhance the business climate by facilitating the creation of new businesses, and improve skills and productivity through better training and coordination with labor demand. Another key factor in boosting potential growth will be increasing resilience to natural disasters.

26. As noted, a key pillar in the authorities' growth strategy is attracting large private investment projects in the tourism sector. The authorities expect that the execution of projects in the pipeline will substantially raise growth, first through an increase in construction, and subsequently through an expansion in tourism arrivals and positive spillovers to the rest of the economy, (Text table 4 and Appendix VI).

27. The authorities have also launched an important drive to boost energy efficiency, including by boosting the production of renewable energy. The high cost of energy is a key impediment to doing business (Box 4). Oil imports, which amount to 14 percent of GDP, are also major source of risk, given the volatility of global prices and the country's dependence on Petrocaribe financing. The authorities' *20-20-20* program seeks to reduce energy costs by 20 percent (including through a comprehensive reform and modernization of APUA) and generate 20 percent of energy from renewable sources by 2020. In other areas, the authorities have initiated programs aimed at improving key "*Doing Business*" indicators and building entrepreneurial skills of the small business sector.

Policy recommendations

28. The authorities should prioritize achieving macroeconomic stability and strengthening the banking system in order to establish conditions supportive of growth. Resolving the government's cash flow problems and taking decisive steps to achieving debt sustainability are important not only in their own right but also to create a stable economic environment which will provide long-term confidence to investors. Similarly, cleaning up the banking system will allow it to support growth by mediating funds between savers and investors. Investors need to be assured of a stable, predictable planning horizon, where the banking system is sound, the public finances are healthy, and the government pays its bills on time.

29. Staff supported the authorities' drive to bring new investment to the hotel sector. About 30 percent of the room stock is outdated and needs investment. The government can help speed this process of renovation by not subsidizing troubled hotels with government assistance (allowing them not to pay taxes and utilities). The current owners need to invest or sell the properties to others capable of making the required capital injections, but have reduced incentive to do so while they are receiving government support.

30. To increase cost competitiveness, it will be important to ensure that labor costs are moderated and wage adjustments do not outpace productivity gains. Given Antigua's strong labor union tradition, it is important that unions play a key role in this effort. In addition, an analysis of labor productivity and unit labor costs should be inputs in collective bargaining negotiations. In this context, staff urged the authorities to devote resources to compiling labor market statistics, which are virtually nonexistent, in order to be able to make informed policy decisions. To the extent that public sector wage settlements set the benchmark for the private sector, the government and civil service unions will need to exercise restraint in their negotiations.

31. Initiatives to increase energy efficiency and address other impediments to doing business are welcome. However, on energy policy, staff did not agree with the authorities' plan to have APUA subsidize energy costs while production costs remained above expected post-reform levels. APUA's customers should only realize the gains from reduced energy prices when the efficiency gains are reflected in lower production costs for APUA. Staff cautioned against shutting down the Antigua and Barbuda Investment Authority (ABIA) without properly transferring its duties and services to the appropriate ministry. ABIA was working with key partners in the region such as the Caribbean Growth Forum and Compete Caribbean, and was in the process of setting up a one-stop shop to facilitate registration of businesses and investments in Antigua.

32. Staff urged the authorities to deepen regional collaboration. There is substantial potential to boost productivity and cost efficiency by better coordination on labor market issues, energy policies, disaster insurance, and provision of government services to overcome capacity constraints, and exploit economies of scale.

33. The government should improve physical and macroeconomic resilience to natural disasters and climate change. Small islands are particularly vulnerable to natural disaster and global warming, as Antigua was recently reminded with the encounter with Hurricane Gonzalo in October 2014. The government could work with the World Bank as part of their Small Island States Resilience Initiative, or with the Green Climate Fund to build technical expertise and physical resilience to disasters. At the same time, the government should prioritize lower debt, so that when a disaster strikes the country has enough fiscal space to accommodate reconstruction expenditures.

34. *Authorities' views*. The authorities are counting on substantial private investment in the hotel sector, not only to raise the number of hotel rooms, but also to raise the overall quality of the hotel room stock and increase the overall competitiveness of the Antiguan tourism product. On infrastructure, they are close to completing an expansion of the airport and are also exploring funding options for a major expansion of the ports, which could substantially boost their competitiveness in cruise ship tourism by increasing the size of ships that are capable of docking in the island. They asked for support from the Fund in finding low-interest long-term infrastructure financing and in developing frameworks to facilitate innovative methods of project implementation (e.g., public-private partnerships). To diversify the economy, they want to revive the offshore financial sector and expressed concern that the various global transparency initiatives were becoming excessive and were serving more as trade barriers for small states. They believe that there could be a strong synergy between the offshore sector and the CIP.

Box 3. Competitiveness in Antigua and Barbuda

While standard CGER-type methodologies do not suggest any significant real exchange rate misalignment, other indicators point to competitiveness challenges. The real effective exchange rate (REER) has depreciated by around 7 percent since the first half of 2013, largely driven by inflation differentials. However, the current account deficit has widened since 2012 and remains large. CGER-type methodologies suggest a range of exchange rate misalignment from -4.2 to 4.5 percent. The results from the macroeconomic balance and external stability approaches are underpinned by relatively large current account deficit norms, which reflect the large (negative) net foreign asset position and large oil trade deficit. Due to a lack of data, it is not possible to compute a cost-based REER, but costs of electricity (Box 4) and labor relative to Antigua's competitors are important price indicators of its competitiveness.

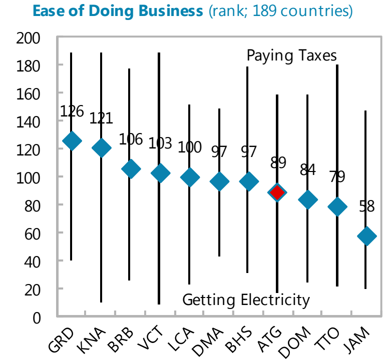
CGER Exchange Rate Assessment Results

	Underlying Current Account Balance (2019)	CGER						
		CA Norms			Estimated Misalignment			
		Macro Balance	External Sustainability	Elasticity	Macro Balance	External Sustainability	Equilibrium Real Exchange Rate	Avg.
Antigua and Barbuda	-11.4	-10.7	-12.6	-0.29	2.5	-4.2	4.5	0.9
Dominica	-13.5	-9.3	-12.8	-0.21	20.0	3.1	-8.0	5.0
Grenada	-17.2	-10.6	-14.9	-0.21	32.3	11.2	-2.4	13.7
St. Kitts and Nevis	-17.2	-6.2	-17.7	-0.17	66.2	-3.1	13.4	25.5
St. Lucia	-12.8	-10.1	-10.3	-0.30	8.8	8.1	13.1	10.0
St. Vincent and the Grens.	-20.0	-10.0	-15.1	-0.17	60.6	30.0	1.4	30.7
ECCU, simple average	**-15.4**	**-9.5**	**-13.9**	**-0.22**	**31.7**	**7.5**	**3.7**	**14.3**

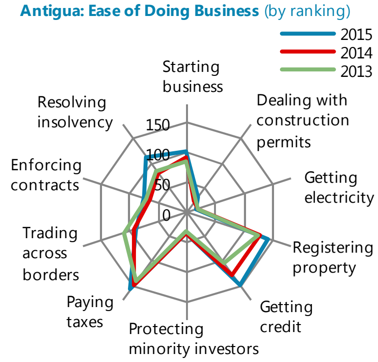
Note: + indicates overvaluation, - indicates undervaluation in the estimated misalignment of the REER.

The overall ease of doing business in Antigua and Barbuda ranks close to the world average but has steadily declined in recent years. Its ranking is above most Caribbean economies and also above the regional (Latin America and Caribbean) average over the past three years. For many years, the areas highlighted as most challenging for doing business have been registering property and paying taxes. In the last couple years, getting credit and resolving insolvencies have emerged as issues, most likely associated with the problems in the banking system. Labor market regulations may also be somewhat of an obstacle to doing business: while indicators of flexibility of working arrangements compare favorably with other Caribbean countries, the cost of dismissal is among the highest in the Caribbean.

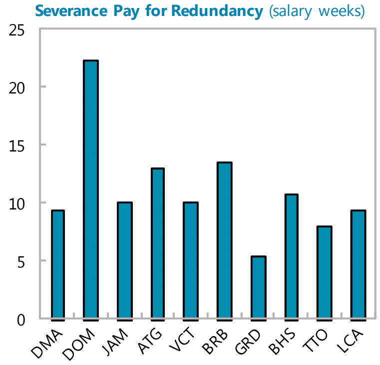
Ease of Doing Business (rank; 189 countries)



Antigua: Ease of Doing Business (by ranking)



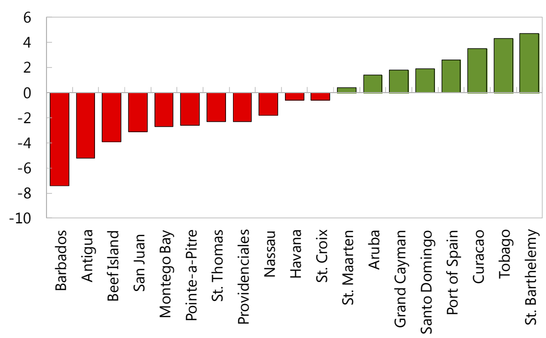
Severance Pay for Redundancy (salary weeks)



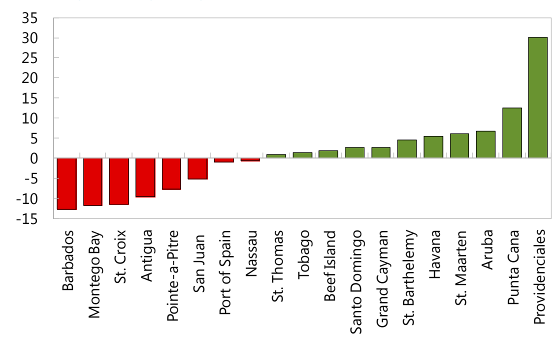
Box 3. Competitiveness in Antigua and Barbuda (Concluded)

Antigua and Barbuda's tourism sector has lost competitiveness with respect to their ECCU and Caribbean peers. This loss took place over the 1990s with Antigua maintaining its ground over the last decade and experiencing some improvement over the last couple of years. However, the industry is still not back to pre-crisis levels. Despite having one of the top 20 airports in the Caribbean in terms of number of flights) Antigua has seen one of the largest declines in flights over the last ten years; and although the situation is improving, 2013 still showed a decline in the number of flights (see charts below and Appendix VI).

Average Growth in Flights, 2004-2013
(In percent, top 20 airports in the Caribbean)



Growth in Flights, 2013
(In percent, top 20 airports in the Caribbean)

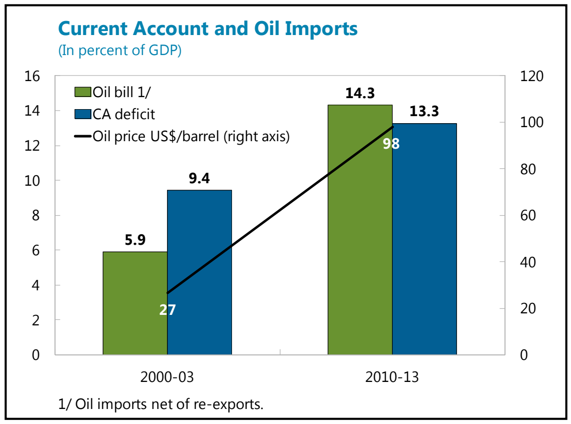


Sources: ECCB; and IMF staff calculations.

However, there are some encouraging developments; despite the troubles in the industry the sector appears to be picking-up. The recent winter season was the best since 2009, airlift is also improving and there is news of more flights for the coming winter season. The new airport terminal building, the new Beaches hotel, and some of the other tourism developments in the pipeline will help improve the attractiveness of Antigua as a tourist destination.

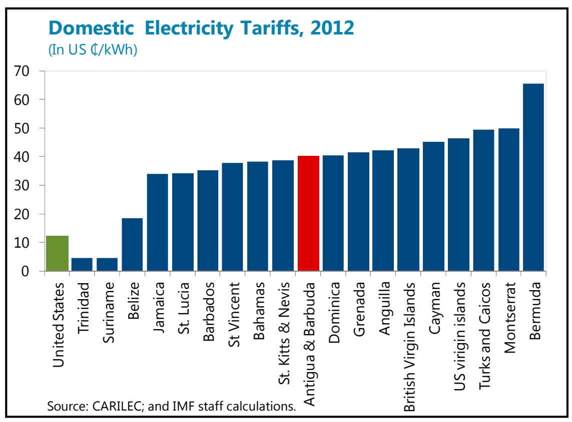
Box 4. High Energy Prices in Antigua and Barbuda

High energy prices have resulted in sizeable economic costs for Antigua and Barbuda. Over the last ten years, the fuel import bill rose from 6 percent of GDP to over 14 percent of GDP on account of rising oil import prices. The increase in the current account deficit over this period can be fully explained by the increase in the oil import bill. The increase in fuel import prices has resulted in high electricity prices for Antiguan consumers. In 2012 the average domestic electricity tariff in Antigua was 40.2 US cents per kWh, almost four times higher than in the United States. This high cost of electricity negatively affects competitiveness, especially in the tourism sector where energy is a key driver of operational costs.



The authorities' *20-20-20* program aims to improve energy efficiency by 20 percent, generate 20 percent of energy from renewable sources, and reduce the carbon footprint by 20 percent by 2020.

- **Renewable Energy:** Currently, renewable energy is less than 1 percent of the total generated in the country. The government intends to increase the use of renewables by encouraging private investment into the sector. To acomplish this it is working on a Renewable Energy Act, and two regulations that will encourage generation of solar energy among residential and small business consumers. The government also plans to explore possible PPPs to set up wind farms and is studying the feasibility of building a waste energy plant. Additionally, the government hopes to install solar panels in all public schools.



- **Energy Efficiency:** System losses due to an old infrastructure are equivalent to 20 percent of electricity generation. The government intends to renovate the transmission and metering of electricity to reduce losses and transfer the savings to customers. They have also signed an program with the World Bank to undertake a comprehensive restructuring of APUA to boost administrative and operational efficiency. The authorities intend to change the tariff structure and the reference prices used. The changes will lower prices and eliminate subsidies, allowing for a complete pass-through of international prices to consumers and full cost recovery. The government is also keen to start charging each ministry by their electricity consumption, which should result in more efficient energy consumption.
- **Carbon footprint:** The government intends to target higher fuel efficiency standards for the transport sector, which should result in a lighter carbon footprint.

POST-PROGRAM MONITORING

35. Antigua and Barbuda's capacity to repay the Fund on schedule is highly uncertain under the current trends scenario. As of September 2014, outstanding debt to the Fund stood at US$ 80.6 million (6.5 percent of GDP and 15.3 percent of external public debt). During 2015–17, debt service to the IMF would constitute 48.8 percent of scheduled external debt service obligations. Under the current trends scenario, arrears on external debt service are projected to continue to accumulate and financing gaps are projected to widen. In this context, there are significant risks that arrears to IFIs, including the Fund, could emerge. Under the staff's proposed scenario, the capacity to repay is substantially enhanced. Nevertheless, risks remain, especially if funding from Petrocaribe or CIP were to be lower than projected. In this context, staff reiterated the importance of fiscal adjustment and exploring debt management options to smooth out the debt service profile.

36. ***Authorities' views.*** The authorities reiterated their commitment to the timely servicing of their Fund obligations and indicated that they would make every feasible effort to meet other external debt service obligations.

STAFF APPRAISAL

37. Macroeconomic performance deteriorated in the 12 months following the end of the SBA in June 2013. The fiscal policy stance was eased leading up to the June 2014 general elections at the same time that debt repayments jumped sharply and external financing opportunities shrunk. The resulting cash flow problem already has resulted in the emergence of arrears on external debt and there have been delays in payments to suppliers. At the same time, longstanding vulnerabilities related to weak growth, the debt overhang, and unresolved banking problems remain. Without significant short-term strengthening, current policies appear unviable.

38. Urgent fiscal measures are needed to address the short-term cash flow problem and accumulation of arrears. The current situation has a negative impact on confidence, threatens the provision of key services, exacerbates the problem of securing funding for the budget, and will raise NPLs, which would worsen the condition of already fragile banks. The authorities have implemented some measures to reduce spending, including on goods and services and transfers. However, given the size of the estimated financing gaps, additional fiscal measures are needed, including reducing the wage bill, improving financial performance of state-owned enterprises, and reducing tax incentives. The uncertainty surrounding ongoing initiatives to raise additional financing and restructure existing debt underscores the importance of preparing contingent fiscal measures.

39. The commitment to restoring debt sustainability over the medium term that began during the SBA needs to be re-invigorated. The debt sustainability analysis, which is based on staff's proposed scenario, points to a high risk of debt distress. Fiscal consolidation measures will need to be sustained over time. The introduction of a multi-year, medium-term budget underpinned by a fiscal rule that clearly prioritizes arrears payments and debt reduction to sustainable levels would help support fiscal consolidation and provide credibility to the authorities' efforts. In addition, further initiatives to strengthen public financial management will be crucial, especially to improve cash flow management and reduce the use of special warrants.

40. Inflows from the CIP should first be used to lower debt pressures. Indeed, the inherent volatility of these revenues dictates that, as specified in law, they should not be used to fund recurrent spending. Moreover, they should not deter the authorities from taking the strong fiscal measures needed to durably restore fiscal sustainability. In this context, CIP revenues should be used first to pay off arrears and lower the debt, and assist in the resolution of ABI Bank. Given the increased international scrutiny on citizenship investment programs, the highest level of governance and transparency should be enforced. In this context, staff strongly recommends that application fees for the CIP be transferred to the treasury.

41. The authorities' commitment to expedite the long-delayed resolution of ABI Bank is welcome. To be able to move ahead in a timely manner, it will be important for the authorities to support the regional bank resolution strategy by approving crucial legislative reforms; and ensure that resources are available to fund the resolution without endangering fiscal sustainability.

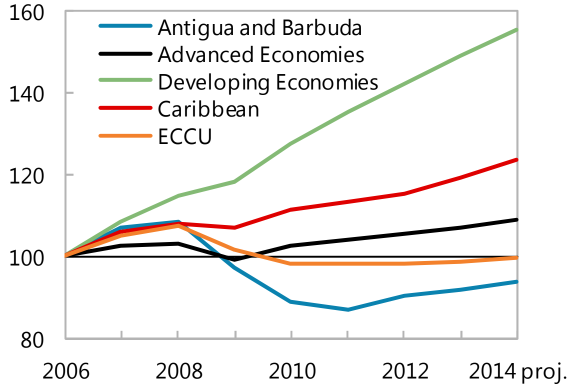
42. The authorities' efforts to re-energize growth by seeking potential investors are commendable. If these projects roll out as planned the positive impact on growth could be substantial. Some of the projects will raise competitiveness in the stay-over and cruise tourism sectors. At the same time, the authorities will need to be vigilant to ensure that labor costs are kept under control and that wage adjustments do not outpace productivity. However, labor market statistics are currently unavailable and need to be produced to guide discussions between policy makers and stakeholders. Improving energy efficiency and increasing the use of renewable energy are crucial to improving cost competitiveness. In this context, there is an urgent need to reform and modernize the state-owned utility company.

43. It is recommended that the next Article IV Consultation be held on the standard 12-month cycle.

Figure 1. Antigua and Barbuda: Real Sector Developments, 2006–14

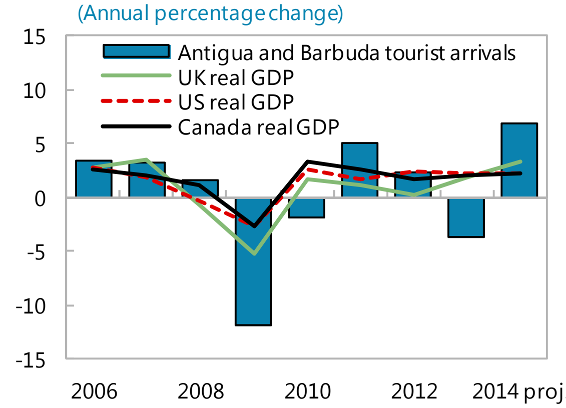
Since the global crisis, growth has lagged behind the rest of the world.

Real GDP
(Index, 2006 = 100)



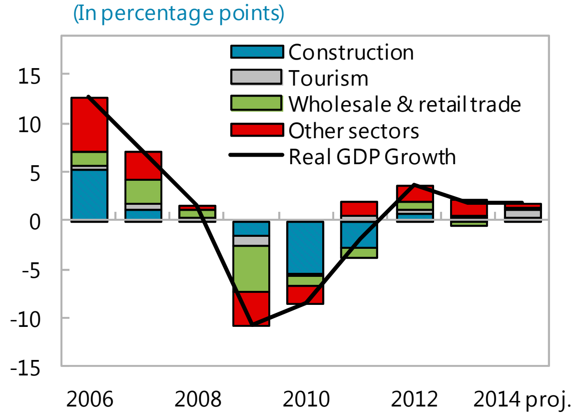
Tourism rebounded in 2014, reflecting the economic recovery in the country's key source markets...

Tourist Arrivals and GDP Growth in Main Markets
(Annual percentage change)



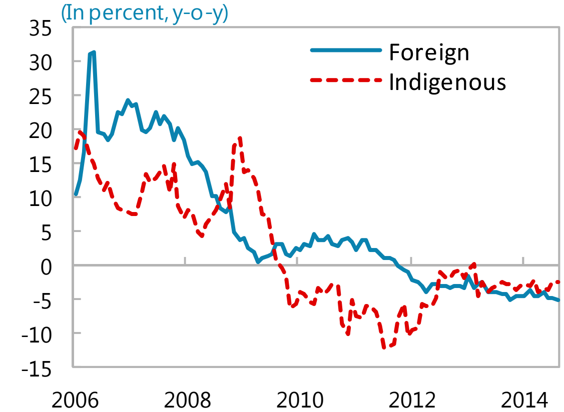
...while the contribution of other sectors to growth was small.

Contribution to Growth
(In percentage points)



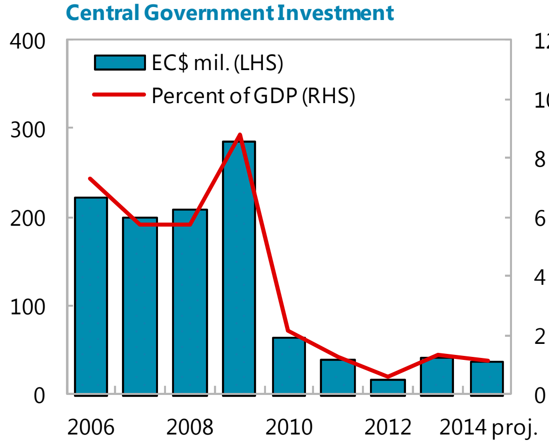
Growth is also being held back by ongoing banking sector problems which have stymied the expansion of credit.

Private Credit Growth by Type of Bank
(In percent, y-o-y)



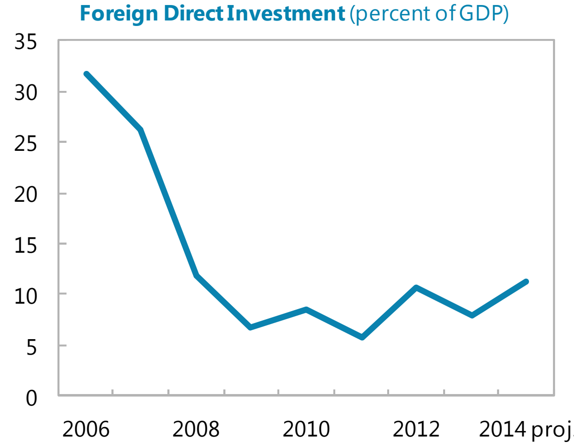
The weak recovery has been associated with a sharp drop in public investment since 2010...

Central Government Investment



... as well as a fall in foreign direct investment.

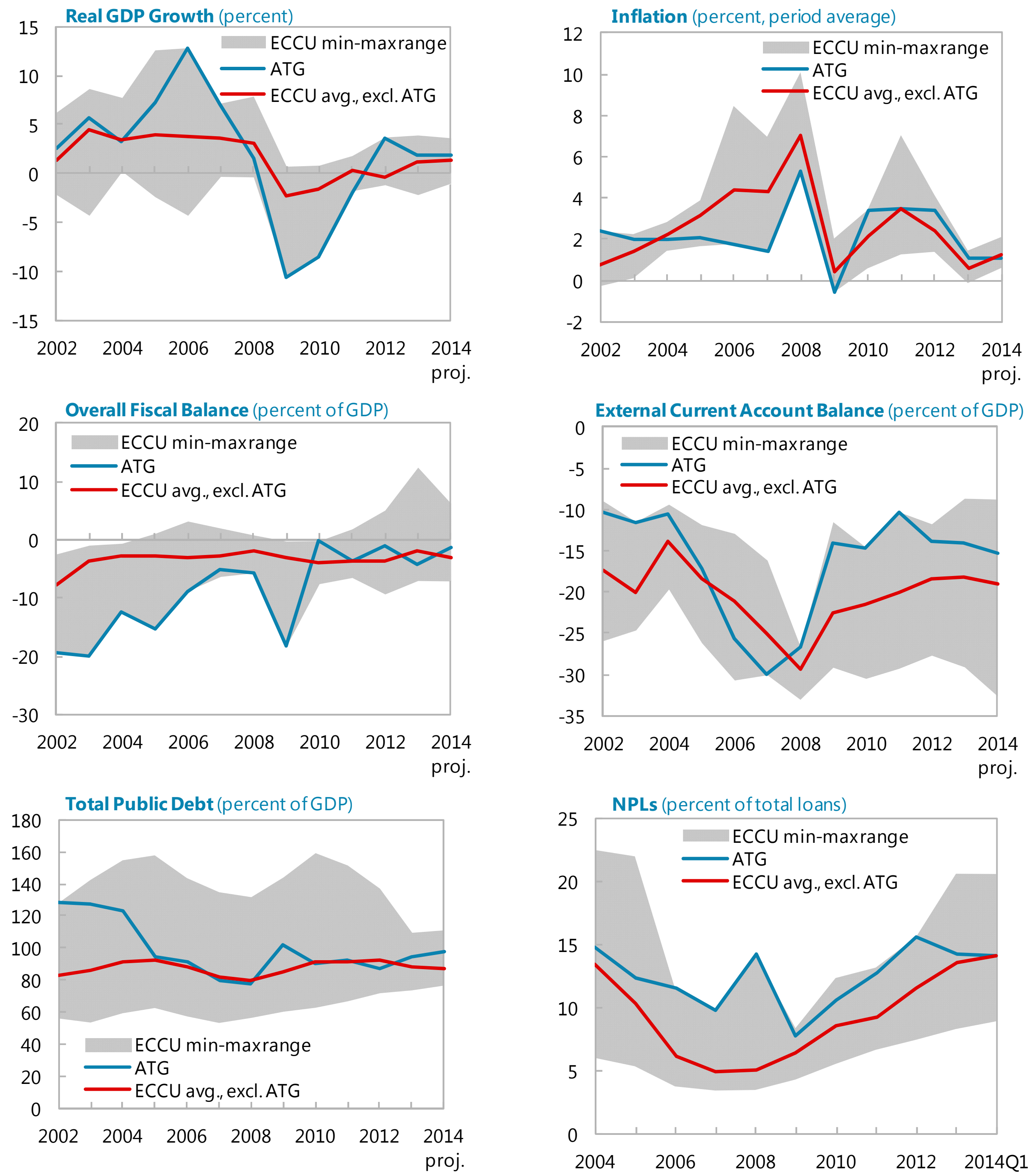
Foreign Direct Investment (percent of GDP)



Sources: ECCB; WEO; country authorities; and IMF staff calculations.

Figure 2. Antigua and Barbuda: Performance Among Peers, 2002–14

In recent years, indicators of economic performance have generally been comparable to those of ECCU peers.

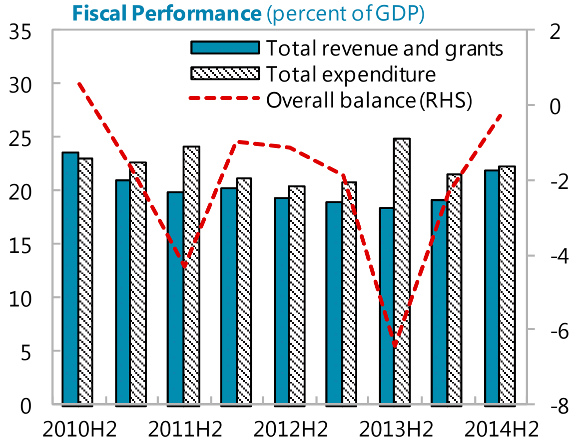


Sources: ECCB; and IMF staff calculations.

Figure 3. Antigua and Barbuda: Fiscal Developments, 2010–14

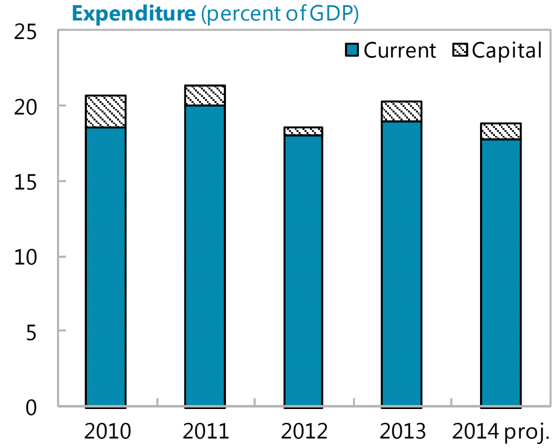
The fiscal stance was eased substantially in 2013 following the end of the SBA.

Fiscal Performance (percent of GDP)



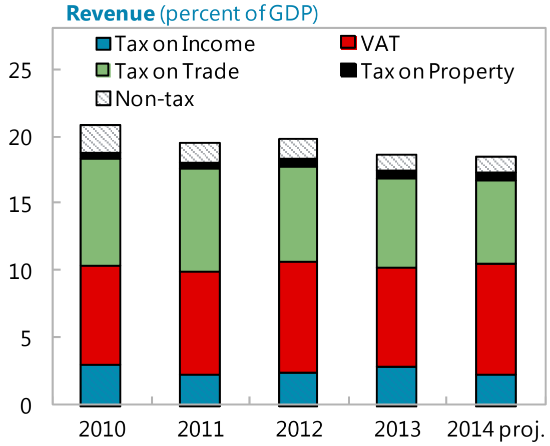
Spending rose in the run up to the June 2014 elections but declined thereafter…

Expenditure (percent of GDP)



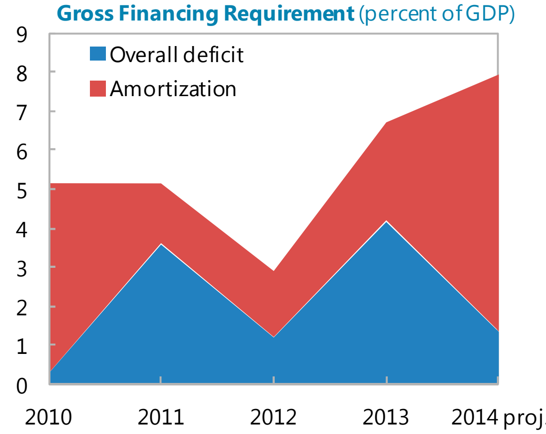
…while tax revenue has continued to decline.

Revenue (percent of GDP)



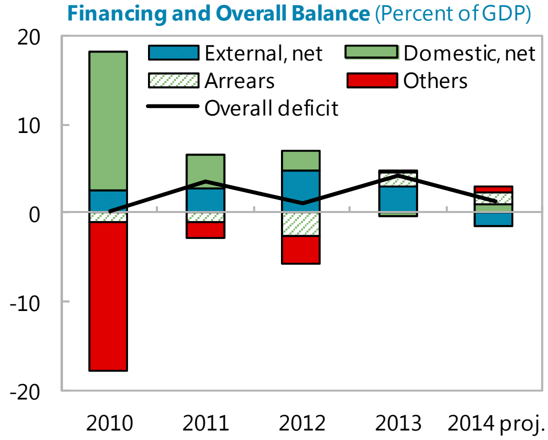
Gross financing requirements have increased recently.

Gross Financing Requirement (percent of GDP)



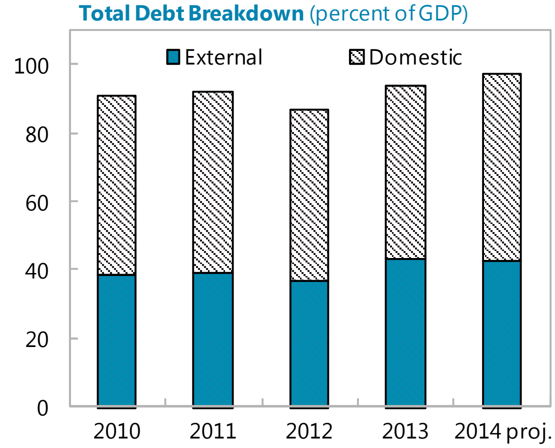
Arrears have emerged as a main source of financing.

Financing and Overall Balance (Percent of GDP)



Meanwhile, public debt has begun to rise again.

Total Debt Breakdown (percent of GDP)

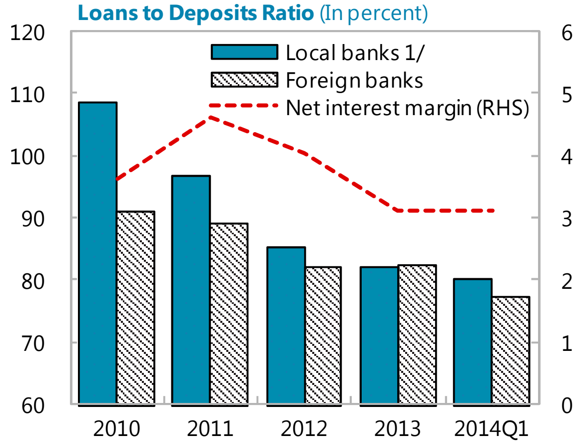


Sources: ECCB; WEO; country authorities; and IMF staff calculations.

Figure 4. Antigua and Barbuda: Banking System Performance, 2010–14 Q1

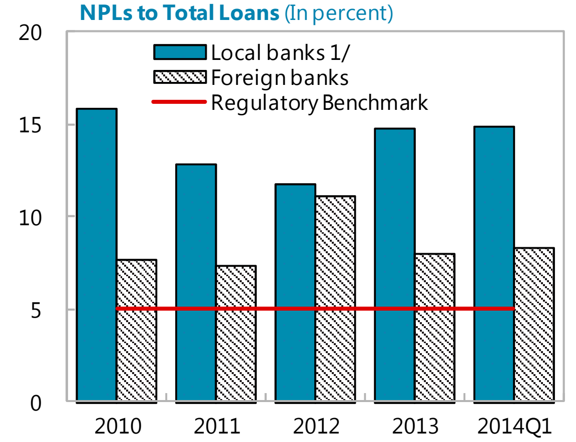
Loans to deposits continue to fall, reflecting negative credit growth.

Loans to Deposits Ratio (In percent)



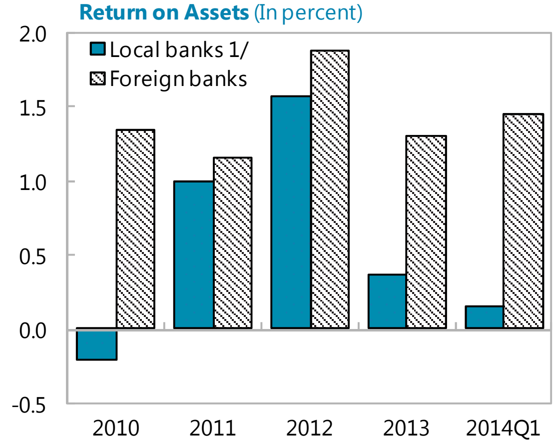
Declining net interest margin, together with high levels of non-performing loans....

NPLs to Total Loans (In percent)



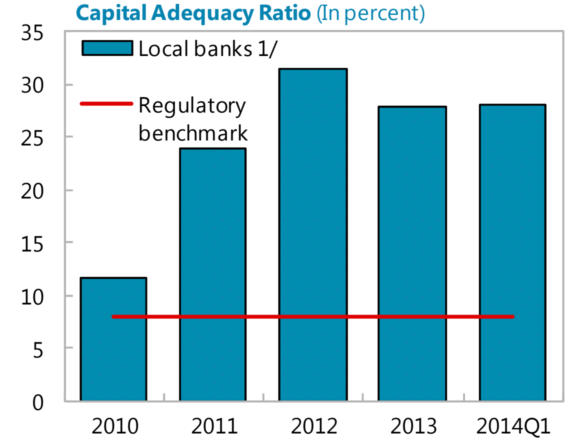
...put profitability under pressure.

Return on Assets (In percent)



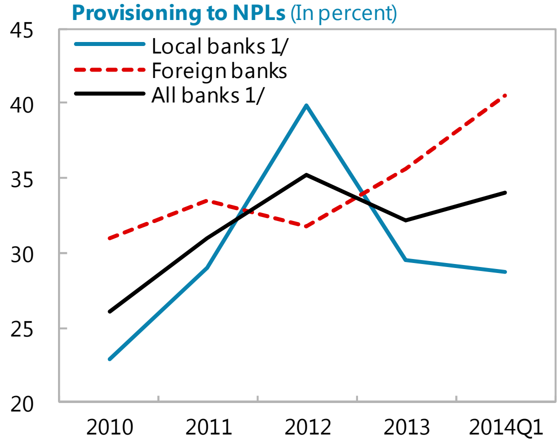
While banks report capital ratios well above the regulatory minimum...

Capital Adequacy Ratio (In percent)



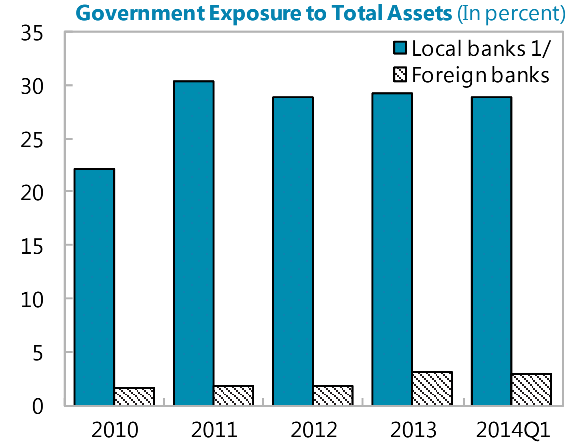
...the low provisioning for NPLs causes concerns of overstatement of capital.

Provisioning to NPLs (In percent)



High exposure to government is another source of vulnerability.

Government Exposure to Total Assets (In percent)

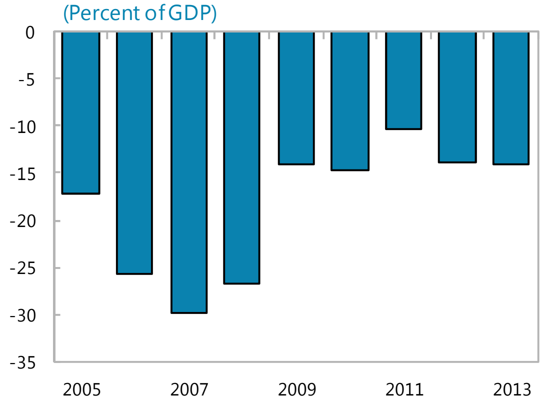


Sources: ECCB; and IMF staff calculations.
1/ Excludes one bank under ECCB conservatorship.

Figure 5. Antigua and Barbuda: External Sector Developments, 2005–13

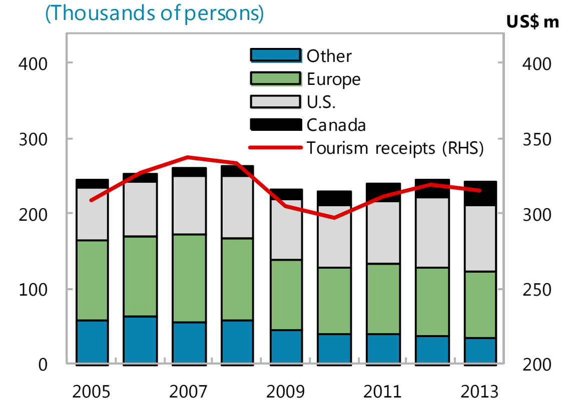
The current account deficit was unchanged in 2013, remaining significantly below the pre-crisis levels…

Current Account Balance
(Percent of GDP)



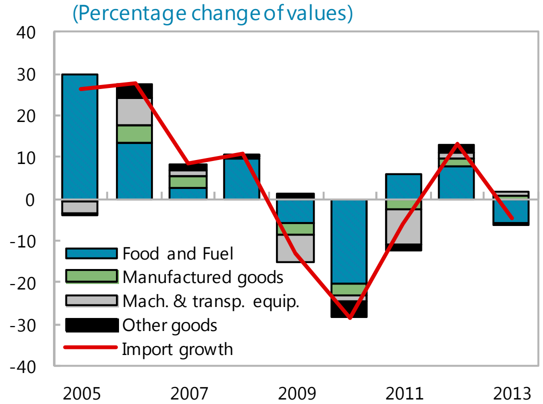
Tourism arrivals and expenditures were virtually flat…

Stay-over Arrivals by Market and Tourism Receipts
(Thousands of persons)



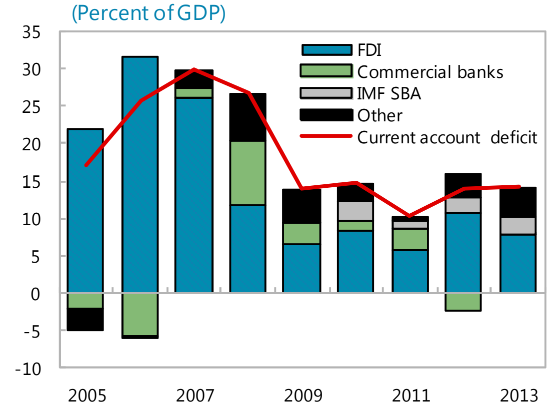
…while imports declined.

Contribution to Import Growth
(Percentage change of values)



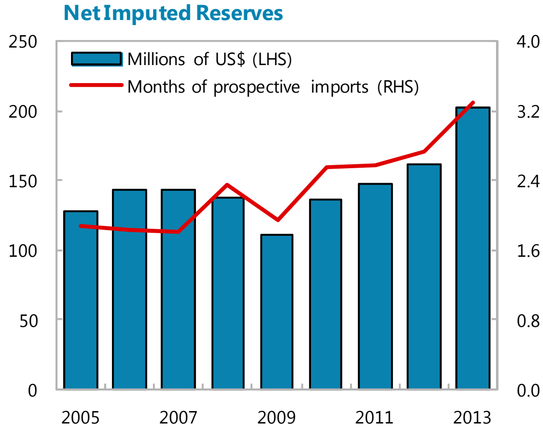
The current account deficit continues to be largely financed by FDI.

Current Account Financing
(Percent of GDP)



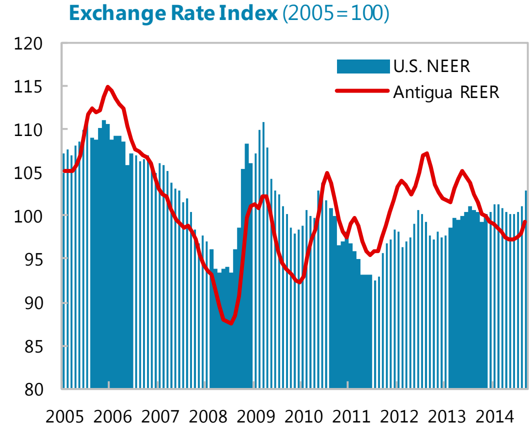
International reserves have risen in recent years, mainly reflecting IMF borrowing.

Net Imputed Reserves



The real effective exchange rate has depreciated sharply recently, owing to lower inflation than trading partners.

Exchange Rate Index (2005=100)



Sources: ECCB; Caribbean Tourism Organization; and IMF staff calculations.

Table 1. Antigua and Barbuda: Selected Economic and Financial Indicators[1]

I. Social and Demographic Indicators, 1999–2011

Area (sq. km)	443	Health (per 1,000 people)	
Arable land (percent of land area)	9.1	Physicians (1999)	0.2
		Hospital beds (2011)	2.1
Population (2012)			
Total	89,069	Education (2012; in percent)	
Annual rate of growth, 1999−2011 (percent a year)	1.0	Adult literacy rate	99
Density (per sq. km.)	202		
		Energy (2012; in millions of US$)	
Population characteristics (2012)		Imports of petroleum products	172.3
Life expectancy at birth (years)	76	Exports of petroleum products	0.5
Crude birth rate (per thousand)	17		
Crude death rate (per thousand)	6	GDP per capita, PPP (2011)	
Poverty level (2005, percent)	18	(in US$)	16,121

II. Selected Economic and Financial Indicators, 2013–20

	Est.	EBS/14/34	Proj.			Proj.			
	2013	2014		2015	2016	2017	2018	2019	2020
National income and prices	(Annual percentage change, unless otherwise indicated)								
GDP at constant factor cost	1.8	2.0	1.9	1.4	1.8	2.5	2.5	2.5	2.5
Nominal GDP at market prices	-0.3	3.1	3.0	3.4	4.2	5.0	5.1	5.1	5.1
Consumer prices (e.o.p)	1.1	1.1	1.4	2.0	2.5	2.5	2.5	2.5	2.5
External sector									
Exports, f.o.b.	14.7	2.8	-11.2	3.7	3.8	4.6	4.7	4.8	4.7
Imports, f.o.b.	4.0	4.7	6.0	3.4	3.1	3.9	4.7	4.8	5.0
Travel receipts (gross)	-1.3	2.8	3.2	5.2	5.4	5.3	5.5	5.6	5.5
Nominal effective exchange rate (e.o.p, depreciation -)	0.4	…	…	…	…	…	…	…	…
Real effective exchange rate (e.o.p, depreciation -)	-2.5	…	…	…	…	…	…	…	…
Money and credit	*(Changes in percent of beginning of period broad money)*								
Net foreign assets	3.4	-0.3	4.5	0.8	0.9	…	…	…	…
Net domestic assets	0.9	5.2	-3.4	0.3	1.9	…	…	…	…
Of which:									
Net credit to the public sector	2.8	13.9	-1.9	-0.6	-0.3	…	…	…	…
Credit to the private sector	-3.4	3.6	-1.2	0.8	2.3	…	…	…	…
Broad money	4.2	4.9	1.0	1.1	2.8	…	…	…	…
Average deposit rate (in percent per annum)	3.0	…	…	…	…	…	…	…	…
Average lending rate (in percent per annum)	9.4	…	…	…	…	…	…	…	…
Central government	*(Percent of GDP)*								
Primary balance	-1.6	-7.0	2.2	-5.6	5.0	4.9	4.9	4.8	4.8
Overall balance	-4.2	-10.4	-0.7	-8.5	1.7	1.8	1.9	2.0	2.0
Total revenue and grants	18.7	22.6	20.5	22.4	21.6	21.5	21.5	21.4	21.4
Total expenditure	22.9	33.1	21.3	30.9	19.9	19.7	19.6	19.4	19.3
Financing	4.2	10.4	0.7	8.5	-1.7	-1.8	-1.9	-2.0	-2.0
External	2.9	-1.0	-1.6	-1.2	-1.5	-1.8	-1.0	-0.5	-0.5
Domestic	-0.4	11.4	0.8	9.8	-0.2	0.0	-0.8	-1.5	-1.5
Change in arrears	1.5	0.0	1.5	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
External sector									
Current account balance	-14.1	-13.1	-15.3	-14.5	-13.6	-13.0	-12.7	-12.4	-12.2
Trade balance	-36.3	-34.6	-38.3	-38.2	-37.8	-37.4	-37.2	-37.2	-37.1
Nonfactor service balance	22.9	23.4	23.9	24.6	25.0	25.2	25.3	25.5	25.7
Of which: Gross tourism receipts	26.2	25.7	26.3	26.8	27.1	27.1	27.3	27.4	27.5
Overall balance	-0.7	0.3	1.8	1.0	1.0	1.2	1.2	1.2	1.2
External government debt (end of year)	43.1	37.0	42.7	41.1	39.1	36.6	35.0	33.9	32.9
Of which: Arrears	1.8	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Scheduled external debt service 2/	4.1	3.6	5.8	4.1	4.6	4.8	4.0	3.6	3.9
(In percent of exports of goods and services)	8.9	8.0	12.7	8.8	9.8	10.2	8.3	7.6	8.2
Memorandum items:									
Gross international reserves of the ECCB (US$ million)	1,169	1,234	1,281	1,285	1,296	1,309	1,326	1,349	…
(In percent of ECCU broad money)	22.6	23.2	23.4	22.6	21.9	21.1	20.5	19.9	…
Antigua & B., gross int. reserves (US$ million)	202	197	243	255	268	284	301	319	338
(In months of prospective imports)	3.2	3.2	3.8	3.8	3.9	3.9	3.9	4.0	…
Nominal GDP at market prices (in millions of EC$)	3,242	3,374	3,339	3,451	3,597	3,778	3,969	4,170	4,380
Central government debt stock (in millions of EC$) 3/	3,056	3,335	3,224	3,543	3,511	3,475	3,434	3,386	3,333
(In percent of GDP) 3/	94.3	98.9	96.6	102.6	97.6	92.0	86.5	81.2	76.1
PDVCAB liabilities (in millions of EC$) 4/	354	372	419	488	555	618	678	734	791
PDVCAB liabilities (in percent of GDP) 4/	10.9	11.0	12.6	14.2	15.4	16.4	17.1	17.6	18.1

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

1/ These projections are based on staff's proposed scenario.

2/ Includes principal, interest and the stock of external arrears.

3/ Includes central government guarantees of state enterprises' and statutory bodies' debt. The debt figures in 2015 include the cost of bank resolution.

4/ PDVCAB is a privately incorporated but wholly government owned entity that administers the PetroCaribe arrangement under which PDVSA - the Venezuelan state oil company - grants between 40-60 percent of fuel imports as a long-term concessional loan.

Table 2. Antigua and Barbuda: Central Government Cash Finances, 2013-15

	2013		Prel. 2014H1	Current trends 2014H2	2014		2015	
	EC$ million	% GDP	EC$ million	EC$ million	EC$ million	% GDP	EC$ million	% GDP
Total revenue and grants	**605.3**	**18.7**	**319.6**	**365.6**	**685.3**	**20.5**	**752.5**	**21.7**
Tax revenue	565.0	17.4	298.9	278.2	577.0	17.3	596.9	17.2
Non-tax revenue	38.7	1.2	10.8	27.1	37.8	1.1	38.3	1.1
Capital revenue	1.6	0.0	10.0	55.0	65.0	1.9	117.3	3.4
Of which: CIP 1/		0.0	10.0	53.7	63.7	1.9	116.0	3.4
Total grants	0.0	0.0	0.0	5.4	5.4	0.2	0.0	0.0
Total expenditure	**740.8**	**22.9**	**359.3**	**370.5**	**729.8**	**21.9**	**743.8**	**21.5**
Wages	275.4	8.5	152.9	149.4	302.3	9.1	303.0	8.8
Employment contributions	24.6	0.8	11.4	11.6	23.0	0.7	23.9	0.7
Goods & serv., incl. utilities	143.2	4.4	61.1	59.0	120.1	3.6	122.8	3.5
Pensions	71.1	2.2	26.6	31.4	58.0	1.7	56.4	1.6
Other transfers	100.7	3.1	44.2	45.1	89.3	2.7	90.0	2.6
Capital expenditure	42.3	1.3	17.5	20.8	38.2	1.1	46.5	1.3
Interest payments	83.5	2.6	45.6	53.3	98.9	3.0	101.2	2.9
External	25.4	0.8	14.9	14.2	29.1	0.9	28.6	0.8
Of which: IMF	3.5	0.1	2.6	2.3	4.9	0.1	3.8	0.1
Domestic	58.1	1.8	30.7	39.2	69.8	2.1	72.6	2.1
Primary balance	**-52.0**	**-1.6**	**6.0**	**48.4**	**54.4**	**1.6**	**109.9**	**3.2**
Underlying primary balance 2/	-52.0	-1.6	-4.0	-5.3	-9.4	-0.3	-6.1	-0.2
Overall balance	**-135.5**	**-4.2**	**-39.6**	**-4.9**	**-44.5**	**-1.3**	**8.7**	**0.3**
Underlying overall balance 2/	-135.5	-4.2	-49.6	-58.6	-108.3	-3.2	-107.3	-3.1
Gross fin. requirement	**241.6**	**7.5**	**144.5**	**162.6**	**307.1**	**9.2**	**285.4**	**8.2**
Fiscal deficit	135.5	4.2	39.6	4.9	44.5	1.3	-8.7	-0.3
Amortization	106.1	3.3	104.9	157.7	262.6	7.9	294.1	8.5
External	41.6	1.3	43.5	47.4	90.8	2.7	90.0	2.6
Of which : IMF	0.0	0.0	21.0	27.4	48.4	1.5	51.4	1.5
Domestic	64.5	2.0	61.4	110.4	171.7	5.1	204.1	5.9
ECCB	33.0	1.0	4.2	14.6	18.9	0.6	10.3	0.3
Banks	0.0	0.0	11.6	35.0	46.6	1.4	16.4	0.5
Govt. securities 3/	31.2	1.0	45.4	60.7	106.1	3.2	175.8	5.1
Other, incl. domestic suppliers	0.2	0.0	0.1	0.1	0.2	0.0	1.6	0.0
Financing sources	**241.7**	**7.5**	**153.7**	**132.7**	**286.5**	**8.6**	**222.5**	**6.4**
Loan Disbursments	187.4	5.8	135.0	117.5	252.5	7.6	222.5	6.4
External	137.0	4.2	4.0	32.8	36.9	1.1	22.1	0.6
Domestic	50.4	1.6	131.0	84.6	215.6	6.5	200.4	5.8
ECCB	5.9	0.2	6.4	0.8	7.2	0.2	0.0	0.0
Banks	7.0	0.2	5.4	4.5	10.0	0.3	10.0	0.3
Govt. securities 3/	37.5	1.2	126.1	67.5	193.6	5.8	190.4	5.5
Other, incl. domestic suppliers	0.0	0.0	0.0	4.9	4.9	0.1	0.0	0.0
Exceptional Financing	54.3	1.7	18.8	15.2	34.0	1.0	0.0	0.0
Arrears accummulation	49.9	1.5	35.0	15.2	50.3	1.5	0.0	0.0
External	7.9	0.2	35.0	15.2	50.3	1.5	0.0	0.0
Amortization	5.3	0.2	26.9	6.6	33.5	1.0	0.0	0.0
Interest	2.6	0.1	8.1	8.7	16.7	0.5	0.0	0.0
Domestic	42.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Change in govt. deposits 4/	4.4	0.1	-16.3	0.0	-16.3	-0.5	0.0	0.0
Financing gap 5/	**0.0**	**0.0**	**-9.2**	**29.9**	**20.6**	**0.6**	**62.9**	**1.8**
Memorandum items:								
Central govt. deposits (gross)	68.7	2.1	85.0	85.0	85.0	2.5	85.0	2.5
Arrears, stock	153.0	4.7	188.0	203.3	203.3	6.1	203.3	5.9
Of which : External	68.2	2.1	103.2	118.4	118.4	3.5	118.4	3.4

Sources: Country authorities; and Fund staff estimates.
1/ CIP processing fees and NDF contributions collected by central government.
2/ Excluding CIP revenue and one-off factors.
3/ Including RGSM, old securities, statutory deposits.
4/ (+) = decrease in deposits; (-) = increase in deposits.
5/ For 2014 H1 figure, statistical discrepancy.

Table 3. Antigua and Barbuda: Central Government Operations, 2013–20[1]

(Millions of Eastern Caribbean dollars)

	Act.	Proj.						
	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue and grants	**605**	**686**	**773**	**777**	**812**	**853**	**893**	**936**
Current revenue	604	615	656	703	737	776	815	856
Tax revenue	565	577	618	665	697	734	771	810
Non-tax revenue	39	38	38	38	40	42	44	46
Capital revenue	0	65	117	75	75	77	78	80
Of which: CIP revenue	…	64	116	73	74	76	77	78
Total grants	0	5	0	0	0	0	0	0
Current grants	0	0	0	0	0	0	0	0
Capital grants	0	5	0	0	0	0	0	0
Total expenditure	**741**	**710**	**1,067**	**716**	**744**	**779**	**810**	**846**
Total primary expenditure	657	611	965	597	627	658	692	727
Primary current expenditure	615	572	927	551	578	607	638	670
Wages and salaries	275	302	284	295	310	326	342	359
Employment contributions 2/	25	23	24	25	26	27	29	30
Goods and services, incl. utilities	143	116	110	115	120	127	133	140
Pensions	71	56	56	58	61	64	68	71
Other transfers	101	75	454	58	60	63	67	70
Of which: Bank resolution cost	0	0	398	…	…	…	…	…
Capital expenditure and net lending	42	38	38	46	49	51	54	56
Interest payments 3/	84	99	102	119	117	121	118	120
External	25	29	29	28	27	26	26	25
Of which: IMF	1	5	4	3	2	1	0	0
Domestic	58	70	73	91	90	95	93	95
Primary balance	**-52**	**75**	**-192**	**181**	**185**	**195**	**202**	**209**
Underlying primary balance 4/	…	11	90	108	111	119	125	131
Overall balance	**-136**	**-24**	**-294**	**62**	**68**	**74**	**83**	**89**
Underlying overall balance 4/	…	-88	-12	-11	-6	-2	6	11
Financing	**136**	**24**	**294**	**-62**	**-68**	**-74**	**-83**	**-89**
External (net)	95	-54	-42	-54	-68	-39	-20	-22
Disbursement	137	37	49	50	51	51	51	55
Of which: IMF	96	0	0	0	0	0	0	0
Amortization	-42	-91	-92	-105	-119	-90	-71	-77
Of which: IMF	-18	-49	-53	-67	-70	-25	0	0
Domestic (net)	-13	28	338	-6	2	-33	-61	-66
ECCB	-18	-12	-10	-7	-7	-7	-6	-6
Banks	4	-37	-6	-3	-20	-21	-19	-20
Government security	…	88	52	7	32	-2	-32	-36
Changes in deposits	…	-16	0	0	0	0	0	0
Others 5/	…	5	302	-3	-4	-4	-4	-4
Change in arrears	50	50	-2	-2	-2	-2	-2	-2
External	8	50	-2	-2	-2	-2	-2	-2
Amortization	5	34	-1	-1	-1	-1	-1	-1
Interest	3	17	-1	-1	-1	-1	-1	-1
Domestic 6/	42	0	0	0	0	0	0	0
Statistical discrepancy	4	0	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0	0
Memorandum items:								
Central government debt stock 7/	2,449	2,603	2,898	2,838	2,772	2,699	2,617	2,530
Central govt. debt (incl. guarantees) 6/ 7/	3,056	3,224	3,543	3,511	3,475	3,434	3,386	3,333
PDVCAB liabilities 8/	354	419	488	555	618	678	734	791
GDP market prices	3,242	3,339	3,451	3,597	3,778	3,969	4,170	4,380

Sources: Country authorities; and Fund staff estimates.

1/ These projections are based on staff's proposed scenario.

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

3/ The projections include interest payments on outstanding arrears.

4/ Excluding CIP revenue and one-off factors (including bank resolution for 2015).

5/ For 2015, figure includes issuance of non-marketable bond for bank resolution.

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

7/ Debt stock in 2014 also includes government recognition of debt of EC$113.5 million (of which: Half-Moon Bay judicial settlement (107.9 million); and Social Security Board (5.6 million)).

8/ PDVCAB is a privately incorporated but wholly government owned entity that administers the PetroCaribe arrangement under which PDVSA - the Venezuelan state oil company - grants between 40-60 percent of fuel imports as a long-term concessional loan.

Table 4. Antigua and Barbuda: Central Government Operations, 2013-20[1]

(Percent of GDP)

	Act.	Proj.						
	2013	2014	2015	2016	2017	2018	2019	2020
Total revenue and grants	**18.7**	**20.5**	**22.4**	**21.6**	**21.5**	**21.5**	**21.4**	**21.4**
Current revenue	18.6	18.4	19.0	19.5	19.5	19.5	19.5	19.5
Tax revenue	17.4	17.3	17.9	18.5	18.5	18.5	18.5	18.5
Non-tax revenue	1.2	1.1	1.1	1.0	1.0	1.0	1.0	1.0
Capital revenue	0.0	2.0	3.4	2.1	2.0	1.9	1.9	1.8
Of which: CIP revenue	…	1.9	3.4	2.0	1.9	1.9	1.8	1.8
Total grants	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Current grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**22.9**	**21.3**	**30.9**	**19.9**	**19.7**	**19.6**	**19.4**	**19.3**
Total primary expenditure	20.3	18.3	28.0	16.6	16.6	16.6	16.6	16.6
Primary current expenditure	19.0	17.1	26.9	15.3	15.3	15.3	15.3	15.3
Wages and salaries	8.5	9.1	8.2	8.2	8.2	8.2	8.2	8.2
Employment contributions 2/	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Goods and services, incl. utilities	4.4	3.5	3.2	3.2	3.2	3.2	3.2	3.2
Pensions	2.2	1.7	1.6	1.6	1.6	1.6	1.6	1.6
Other transfers	3.1	2.2	13.1	1.6	1.6	1.6	1.6	1.6
Of which: Bank resolution cost	…	0.0	11.5	…	…	…	…	…
Capital expenditure and net lending	1.3	1.1	1.1	1.3	1.3	1.3	1.3	1.3
Interest payments 3/	2.6	3.0	3.0	3.3	3.1	3.0	2.8	2.7
External	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.6
Of which: IMF	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Domestic	1.8	2.1	2.1	2.5	2.4	2.4	2.2	2.2
Primary balance	**-1.6**	**2.2**	**-5.6**	**5.0**	**4.9**	**4.9**	**4.8**	**4.8**
Underlying primary balance 4/	…	0.3	2.6	3.0	3.0	3.0	3.0	3.0
Overall balance	**-4.2**	**-0.7**	**-8.5**	**1.7**	**1.8**	**1.9**	**2.0**	**2.0**
Underlying overall balance 4/	…	-2.6	-0.4	-0.3	-0.1	0.0	0.2	0.3
Financing	**4.2**	**0.7**	**8.5**	**-1.7**	**-1.8**	**-1.9**	**-2.0**	**-2.0**
External (net)	2.9	-1.6	-1.2	-1.5	-1.8	-1.0	-0.5	-0.5
Disbursement	4.2	1.1	1.4	1.4	1.4	1.3	1.2	1.3
Of which: IMF	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-1.3	-2.7	-2.7	-2.9	-3.2	-2.3	-1.7	-1.8
Of which: IMF	-0.5	-1.5	-1.5	-1.8	-1.9	-0.6	0.0	0.0
Domestic (net)	-0.4	0.8	9.8	-0.2	0.0	-0.8	-1.5	-1.5
ECCB	-0.5	-0.4	-0.3	-0.2	-0.2	-0.2	-0.1	-0.1
Banks	0.1	-1.1	-0.2	-0.1	-0.5	-0.5	-0.4	-0.5
Government security	…	2.6	1.5	0.2	0.9	0.0	-0.8	-0.8
Changes in deposits	…	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Others 5/	…	0.1	8.8	-0.1	-0.1	-0.1	-0.1	-0.1
Change in arrears	1.5	1.5	0.0	0.0	0.0	0.0	0.0	0.0
External	0.2	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	0.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Domestic 6/	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.1	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
Memorandum items:								
Central government debt stock 7/	75.6	78.0	84.0	78.9	73.4	68.0	62.8	57.8
Central govt. debt (incl. guarantees) 6/ 7/	94.3	96.6	102.6	97.6	92.0	86.5	81.2	76.1
PDVCAB liabilities 8/	10.9	12.6	14.2	15.4	16.4	17.1	17.6	18.1
GDP market prices	3,242	3,339	3,451	3,597	3,778	3,969	4,170	4,380

Sources: Country authorities; and Fund staff estimates.

1/ These projections are based on staff's proposed scenario.

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

3/ The projections include interest payments on outstanding arrears.

4/ Excluding CIP revenue and one-off factors (including bank resolution for 2015).

5/ For 2015, figure includes issuance of non-marketable bond for bank resolution.

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

7/ Debt stock in 2014 also includes government recognition of debt of EC$113.5 million (of which: Half-Moon Bay judicial settlement (107.9 million); and Social Security Board (5.6 million)).

8/ PDVCAB is a privately incorporated but wholly government owned entity that administers the PetroCaribe arrangement under which PDVSA - the Venezuelan state oil company - grants between 40-60 percent of fuel imports as a long-term concessional loan.

Table 5. Antigua and Barbuda: Monetary Survey, 2010-16[1]

	2010	2011	2012	Est. 2013	Proj. 2014	2015	2016
	(Millions of Eastern Caribbean dollars)						
Net foreign assets	**419**	**352**	**465**	**559**	**689**	**712.7**	**738.2**
Antigua & Barbuda, imputed reserves	368	396	435	547	656	688.9	723.3
Commercial banks' net foreign assets	51	-44	30	12	33	23.8	14.9
Net domestic assets	**2,395**	**2,448**	**2,325**	**2,349**	**2,250**	**2,258**	**2,316**
Net credit to public sector	404	419	335	415	361	344	334
Claims on central government (net)	465	544	552	524	475	459	449
ECCB net credit to central government	70	110	109	91	79	69	62
Commercial bank net credit to government	396	434	443	433	396	390	387
Net credit to other public sector	-62	-124	-217	-109	-115	-115	-115
Credit to private sector	2,544	2,433	2,365	2,270	2,235	2,260	2,328
Other items (net)	-553	-405	-376	-335	-346	-346	-346
Monetary liabilities (M2)	**2,814**	**2,800**	**2,790**	**2,908**	**2,939**	**2,971**	**3,054**
Money (M1)	619	604	554	598	606	615	634
Currency circulating outside banks	138	130	122	137	141	145	152
Demand deposits	481	473	432	461	465	470	483
Quasi-money	2,195	2,197	2,236	2,311	2,332	2,355	2,419
Savings deposits	965	996	1,082	1,182	1,193	1,204	1,237
Time deposits	989	996	979	899	907	916	941
Foreign currency deposits	241	205	175	231	233	235	241
	(Change in percent of M2 at beginning of period)						
Net foreign assets	1.2	-2.4	4.1	3.4	4.5	0.8	0.9
Antigua & Barbuda, imputed reserves	2.5	1.0	1.4	4.0	3.8	1.1	1.2
Commercial banks' net foreign assets	-1.3	-3.4	2.7	-0.6	0.7	-0.3	-0.3
Net domestic assets	-0.9	1.9	-4.4	0.9	-3.4	0.3	1.9
Credit to the public sector (net)	-3.2	0.6	-3.0	2.8	-1.9	-0.6	-0.3
Claims on central government	-4.5	2.8	0.3	-1.0	-1.7	-0.6	-0.3
Credit to the rest of the public sector (net)	1.3	-2.2	-3.3	3.9	-0.2	0.0	0.0
Credit to the private sector	0.2	-3.9	-2.4	-3.4	-1.2	0.8	2.3
Other items (net)	2.2	5.3	1.0	1.5	-0.4	0.0	0.0
	(12-month percentage change)						
Broad money	0.3	-0.5	-0.4	4.2	1.0	1.1	2.8
Money (M1)	-1.8	-2.5	-8.2	7.9	1.4	1.5	3.1
Quasi-money	0.9	0.1	1.8	3.3	0.9	1.0	2.7
Memorandum items:							
Income velocity of M2 (percent of M2)	1.1	1.1	1.2	1.1	1.1	1.2	1.2
Credit to the private sector (net)	0.2	-4.4	-2.8	-4.0	-1.5	1.1	3.0
Nominal GDP at market prices (millions of EC$)	3,066	3,051	3,253	3,242	3,339	3,451	3,597

Source: Eastern Caribbean Central Bank; and Fund staff estimates and projections.
1/ These projections are based on staff's proposed scenario.

Table 6. Antigua and Barbuda: Public Sector Debt, 2008-13

(Outstanding debt including arrears; In millions of U.S. dollars, unless noted otherwise)

	2008	2009	2010	2011	2012	Est. 2013
Total public debt 1/	**1,041.0**	**1,236.1**	**1,030.9**	**1,044.4**	**1,049.9**	**1,131.7**
Public sector domestic debt	**618.7**	**804.2**	**591.0**	**603.7**	**608.1**	**613.7**
ECCB	0.0	0.0	0.0	43.0	50.3	43.3
Bank loans	182.3	289.5	308.1	244.6	247.6	249.9
Of which: overdraft	33.1	27.6	16.0	11.9	13.7	11.4
Debt to statutory bodies	324.9	318.1	171.2	168.7	168.0	156.9
Medical Benefit Scheme	102.0	91.9	46.6	46.6	46.6	46.6
Social Security	215.7	218.1	122.2	122.1	121.4	110.3
Board of Education	0.3	1.2	2.0	0.0	0.0	0.0
State Insurance Corporation	6.9	6.9	0.4	0.0	0.0	0.0
Government securities	42.7	32.5	42.9	44.3	48.7	86.4
Supplier credits and others 2/	68.8	164.1	68.8	103.0	93.7	77.3
Public sector external debt	**422.3**	**431.9**	**439.9**	**440.7**	**441.7**	**518.0**
Multilateral	43.5	45.7	76.0	91.8	120.5	159.6
CDB	30.3	33.3	39.1	45.6	48.9	58.6
EEC/EIB	12.4	11.6	4.8	4.1	3.6	2.9
OPEC	0.8	0.8	0.8	0.7	0.6	0.6
IMF	0.0	0.0	31.2	41.5	67.4	97.5
Bilateral	266.7	283.3	288.6	278.3	288.0	333.7
Paris Club	164.0	120.5	97.8	100.4	97.5	102.5
France	28.4	27.8	30.3	31.6	31.9	32.5
Germany	0.5	0.0	0.0	0.0	0.0	0.0
Japan 3/	88.8	34.4	32.4	34.7	36.7	37.1
Netherlands	7.6	7.9	6.8	5.5	5.4	5.7
U.K.	4.8	4.4	2.3	2.2	2.2	2.2
U.S.	33.9	46.0	26.0	26.4	21.2	25.0
Non-Paris Club	102.7	162.8	190.9	177.9	190.5	231.2
Brazil	30.2	22.0	22.7	22.2	22.7	22.7
China	42.1	48.8	90.9	73.1	85.6	125.1
Kuwait	22.5	30.7	20.0	22.4	22.2	22.8
Trinidad and Tobago	4.0	2.1	2.1	2.1	2.1	2.1
Venezuela	3.9	59.2	55.3	58.0	57.9	58.4
Commercial	112.1	102.9	75.3	70.6	33.3	24.7
Memorandum item:						
PDVCAB liabilities 4/	39.2	44.2	60.7	75.2	104.6	118.7

Sources: Country 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.

4/ PDVCAB is a privately incorporated but wholly government owned entity that administers the PetroCaribe arrangement under which PDVSA - the Venezuelan state oil company - grants between 40-60 percent of fuel imports as a long-term concessional loan.

Table 7. Antigua and Barbuda: Balance of Payments, 2012-19[1]

		Est.	Proj.					
	2012	2013	2014	2015	2016	2017	2018	2019
	(Millions of U.S. dollars)							
Current Account	**-166.8**	**-169.4**	**-188.8**	**-185.3**	**-181.1**	**-182.1**	**-186.9**	**-191.7**
Trade balance	-424.5	-435.3	-473.0	-488.7	-503.6	-522.9	-547.5	-573.8
Exports (f.o.b.)	59.0	67.7	60.2	62.4	64.8	67.8	71.0	74.4
Imports (f.o.b.)	483.5	503.1	533.2	551.1	568.4	590.7	618.5	648.2
Non-factor services balance	278.4	274.4	295.0	314.1	333.5	352.0	372.2	394.2
Of which: Gross tourist receipts	319.0	315.0	325.2	342.1	360.5	379.8	400.6	422.9
Income (net)	-51.1	-34.7	-37.6	-38.1	-38.8	-39.5	-40.2	-41.1
Of which: Interest on public sector debt	-9.9	-14.3	-16.6	-16.7	-16.8	-16.8	-16.8	-17.1
Current transfers (net)	30.3	26.2	26.8	27.4	27.9	28.3	28.7	29.0
Capital and Financial Account	**153.0**	**132.1**	**210.7**	**198.1**	**194.4**	**198.8**	**204.5**	**210.4**
Capital grants	2.2	10.0	25.7	43.0	27.1	27.2	28.0	28.4
Migrant transfers (net)	3.6	3.5	3.6	3.7	3.9	4.1	4.3	4.5
Official flows	4.0	1.3	-8.8	-2.5	-4.6	-8.8	1.9	9.5
Portfolio liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public sector loans	4.0	1.3	-8.8	-2.5	-4.6	-8.8	1.9	9.5
Disbursements	10.2	18.3	28.1	34.3	40.7	42.7	43.9	48.7
Amortization (-)	6.2	17.1	36.9	36.8	45.4	51.5	42.0	39.2
Non-official flows	142.8	117.3	190.2	153.8	168.0	176.3	170.3	167.9
Foreign direct investment (net)	129.4	94.7	141.3	154.5	156.0	158.6	166.6	175.0
Portfolio investment (net)	6.7	5.3	4.5	6.4	6.4	6.4	6.4	6.4
Commercial banks	-27.5	2.3	-7.5	3.3	3.3	3.4	-0.1	-0.1
Other private (net)	34.3	15.1	51.9	-10.4	2.3	7.9	-2.5	-13.3
Of which: PDVCAB (net) 2/	31.2	28.9	27.4	30.0	30.0	30.0	30.0	30.0
Errors and omissions	**2.0**	**29.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-11.8**	**-8.0**	**21.9**	**12.7**	**13.3**	**16.6**	**17.6**	**18.6**
Financing	**-14.1**	**-38.3**	**-21.9**	**-12.7**	**-13.3**	**-16.6**	**-17.6**	**-18.6**
Change in imputed reserves (increase -)	-14.5	-41.2	-40.5	-12.1	-12.8	-16.1	-17.0	-18.1
Exceptional financing	0.4	2.9	18.6	-0.6	-0.6	-0.6	-0.6	-0.6
Change in arrears	0.4	2.9	18.6	-0.6	-0.6	-0.6	-0.6	-0.6
Debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing gap	**25.9**	**46.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
IMF financing (gross)	25.9	36.3	0.0	0.0	0.0	0.0	0.0	0.0
CDB financing (gross)	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	*(Percent of GDP, unless otherwise indicated)*							
Current account	**-13.8**	**-14.1**	**-15.3**	**-14.5**	**-13.6**	**-13.0**	**-12.7**	**-12.4**
Of which:								
Gross tourist receipts	26.5	26.2	26.3	26.8	27.1	27.1	27.3	27.4
Export growth (annual percent change)	5.1	14.7	-11.2	3.7	3.8	4.6	4.7	4.8
Import growth (annual percent change)	12.3	4.0	6.0	3.4	3.1	3.9	4.7	4.8
External public sector debt service								
(in percent of exports of goods and services)	3.0	5.7	9.4	8.9	9.9	10.3	8.4	7.6
Foreign direct investment (net)	10.7	7.9	11.4	12.1	11.7	11.3	11.3	11.3
Imputed reserves	13.4	16.9	19.7	20.0	20.1	20.3	20.5	20.7
Gross int. reserves (US$ million)	161.3	202.5	243.0	255.1	267.9	284.0	301.0	319.1
(In months of prospective imports)	2.7	3.2	3.8	3.8	3.9	3.9	3.9	4.0

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

1/ These projections are based on staff's proposed scenario.

2/ Between 40 and 60 percent of the fuel imports from PDVSA is granted as a concessional loan under the PetroCaribe arrangement, which is administered by PDVCAB - a privately incorporated entity wholly owned by the government. The fuel financing flows are treated as private trade credit, although they carry a maturity of 25 years and enjoy an implicit guarantee by the central government.

Table 8. Antigua and Barbuda: Selected Indicators of Vulnerability, 2006-14[1]

	2006	2007	2008	2009	2010	2011	2012	Est. 2013	Proj. 2014
Financial indicators	*(12-month percent change)*								
Broad money	11.1	11.3	2.2	-7.1	0.3	-0.5	-0.4	4.2	1.0
Private sector credit	17.3	13.8	9.2	-0.8	0.2	-4.4	-2.8	-4.0	-1.5
Commercial bank soundness indicators 2/	*(In percent)*								
Capital adequacy ratio 3/	15.1	15.7	16.5	18.4	16.1	24.6	32.4	29.1	29.3
Unsatisfactory assets/total loans	11.5	9.7	14.2	7.8	10.6	12.8	15.6	14.2	14.5
Provision for loan losses/unsatisfactory assets	21.5	20.5	14.7	21.9	26.4	31.9	37.7	58.3	60.3
Net profit before taxes/average assets	2.9	2.6	2.2	1.6	1.0	1.4	1.3	0.6	0.1
Liquid assets/total assets	40.9	42.9	37.0	36.6	32.4	45.8	45.3	45.2	46.9
Gross government exposure/total assets 4/	18.4	20.3	24.7	27.2	28.3	32.3	31.9	34.9	34.4
External indicators	*(12-month percent change)*								
Foreign exchange earnings from tourism	5.6	3.4	-1.2	-8.6	-2.4	4.7	2.3	-1.3	3.2
Merchandise imports	22.9	15.9	3.2	-28.5	-5.2	-5.1	12.3	4.0	6.0
	(Percent of GDP)								
Current account balance	-25.7	-29.9	-26.7	-14.0	-14.7	-10.4	-13.8	-14.1	-15.3
Capital and financial account balance	31.6	31.6	24.5	15.8	1.8	10.9	12.7	11.0	17.0
Of which									
Inward foreign direct investment	31.6	26.2	11.8	6.7	8.5	5.8	10.7	7.9	11.4
Imputed net international reserves									
(In millions of U.S. dollars)	143	144	138	110	136	147	161	202	243
(In percent of broad money)	14.5	13.1	12.3	10.6	13.1	14.2	15.6	18.8	22.3
	(Millions of US$, end of period)								
Commercial banks' net foreign assets	200.4	185.0	65.9	32.4	18.7	-16.4	11.1	4.6	12.1
External public sector debt 5/	408.8	435.9	422.3	431.9	439.9	440.7	441.7	518.0	528.3
	(In percent of exports of goods and services)								
External public sector debt service 6/	6.6	5.6	12.2	6.8	4.7	2.9	3.0	5.7	9.4
External interest payments by public sector 6/	4.1	4.5	4.7	3.8	1.2	1.8	1.8	2.6	2.9
External public sector amortization 6/	2.4	1.1	7.5	2.9	3.5	1.1	1.1	3.1	6.5
Exchange rate (EC$ per US$), end-period	2.7	2.7	2.7	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	7.2	4.2	-2.5	-2.5	-1.5

Sources: ECCB; Ministry of Finance; and Fund staff estimates.
1/ These projections are based on staff's proposed scenario.
2/ Prudential indicators reported by commerical banks, with infrequent onsite verification by the ECCB. 2014 data is up to March.
3/ For indigenous banks only. From 2011 onwards, excludes a bank under ECCB conservatorship.
4/ For indigenous banks only.
5/ Central government and guaranteed debt.
6/ Scheduled.

Table 9. Antigua and Barbuda: External Financing Requirements and Sources, 2012-19[1]

(In millions of U.S. dollars)

		Est.	Proj.					
	2012	2013	2014	2015	2016	2017	2018	2019
A. Gross financing requirements	**180.7**	**210.4**	**221.9**	**241.3**	**233.5**	**238.4**	**248.6**	**262.5**
Current account deficit	166.8	169.4	188.8	185.3	181.1	182.1	186.9	191.7
Amortization (net)	-0.6	-0.3	-7.4	43.9	39.7	40.2	44.6	52.7
Official (public sector and central govt.)	6.2	17.1	36.9	36.8	45.4	51.5	42.0	39.2
of which to official creditors	6.2	17.1	34.4	34.3	42.6	48.8	39.3	36.6
Private sector (net)	-6.8	-17.3	-44.4	7.1	-5.7	-11.3	2.6	13.4
Commercial banks	27.5	-2.3	7.5	-3.3	-3.3	-3.4	0.1	0.1
Other private	-34.3	-15.1	-51.9	10.4	-2.3	-7.9	2.5	13.3
Reserves accumulation (+: increase)	14.5	41.2	40.5	12.1	12.8	16.1	17.0	18.1
B. Sources of Financing	**152.4**	**131.7**	**203.3**	**241.9**	**234.1**	**239.0**	**249.1**	**263.0**
Capital grants and transfers	6.1	13.5	29.4	46.8	31.0	31.3	32.3	33.0
Foreign Direct Investment (net)	129.4	94.7	141.3	154.5	156.0	158.6	166.6	175.0
FDI outflows Abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FDI inflows to Antigua and Barbuda	129.4	94.7	141.3	154.5	156.0	158.6	166.6	175.0
Net inflows of equity and other capital	6.7	5.3	4.5	6.4	6.4	6.4	6.4	6.4
New borrowing (gross)	10.2	18.3	28.1	34.3	40.7	42.7	43.9	48.7
of which public sector	10.2	18.3	28.1	34.3	40.7	42.7	43.9	48.7
C. Financing Gap (A–B)	**28.3**	**78.6**	**18.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**	**-0.6**
i. Errors and omissions	2.0	29.3	0.0	0.0	0.0	0.0	0.0	0.0
ii. Debt forgiveness	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iii. Exceptional external financing 2/	25.9	46.4	18.6	-0.6	-0.6	-0.6	-0.6	-0.6
iv.Residual external financing gap 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Country authorities; ECCB; and Fund staff estimates and projections.
1/ These projections are based on staff's proposed scenario.
2/ Reflects accumulation of arrears in 2014 and repayment of arrears starting in 2015.
3/ Assumes US$ 1 = 0.65797478 SDR.

Table 10. Antigua and Barbuda: Indicators of Capacity to Repay the Fund, 2012-18

		Est.	Proj.				
	2012	2013	2014	2015	2016	2017	2018
			(In millions of SDRs)				
Fund obligations based on existing credit	0.4	5.1	12.9	13.3	16.4	17.1	6.0
Principal	0.0	4.2	11.8	12.7	16.0	16.9	5.9
Charges and interest	0.4	0.9	1.1	0.7	0.4	0.2	0.0
Fund credit outstanding based on existing credit	43.9	63.3	51.5	38.8	22.8	5.9	0.0
Total obligations based on existing and prospective credit							
In millions of U.S. dollars 1/	0.6	7.8	19.2	19.9	24.5	25.5	8.9
In percent of exports of goods and services	0.1	1.4	3.4	3.3	3.9	3.8	1.3
In percent of external debt service 2/	5.8	29.1	35.9	37.2	39.4	37.3	15.1
In percent of GDP	0.1	0.7	1.6	1.6	1.8	1.8	0.6
In percent of quota	3.0	37.7	95.3	98.6	121.6	126.4	44.1
In percent of net international reserves	0.4	3.9	7.9	7.8	9.1	9.0	2.9
Outstanding Fund credit							
In millions of U.S. dollars 1/	67.4	97.5	76.8	57.9	34.0	8.8	0.0
In percent of exports of goods and services	12.5	17.7	13.5	9.7	5.4	1.3	0.0
In percent of external debt service 2/	637.2	362.8	143.4	108.4	54.7	12.9	0.0
In months of imports of goods and services	1.2	1.6	1.2	0.9	0.5	0.1	0.0
In percent of GDP	5.6	8.1	6.2	4.5	2.6	0.6	0.0
In percent of quota	325.0	468.7	381.3	287.5	168.7	43.8	0.0
In percent of net international reserves	41.8	48.2	31.6	22.7	12.7	3.1	0.0
			(In millions of SDRs)				
Net use of Fund credit	16.9	19.4	-11.8	-12.7	-16.0	-16.9	-5.9
Disbursements	16.9	23.6	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	0.0	4.2	11.8	12.7	16.0	16.9	5.9
Memorandum items: 3/			*(In millions of U.S. dollars)*				
Nominal GDP	1,204.7	1,200.6	1,236.5	1,278.2	1,332.2	1,399.3	1,470.0
Exports of goods and services	541.5	550.7	569.9	598.5	629.6	662.7	698.4
External debt service 2/	10.6	26.9	53.6	53.4	62.2	68.3	58.8
Imports of goods and services	687.6	711.5	747.9	773.0	799.7	833.6	873.8
Net imputed international reserves	161.3	202.5	243.0	255.1	267.9	284.0	301.0

Sources: Country authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections.
1/ Assumes US$ 1 = 0.65797478 SDR.
2/ Including prospective repurchases/repayments.
3/ These projections are based on staff's proposed scenario.

Appendix I. Antigua and Barbuda: Risk Assessment Matrix [1]

Source of Risk	Risk Likelihood	Rating	Impact Channel	Policy Advice
Upside risks:				
Large increase in private foreign direct investment in the tourism sector	High	High	Increase in construction activity would substantially boost growth	• Fiscal gains from growth should be saved, to strengthen sustainability
Stronger CIP revenues	Medium	Medium	Increased government fiscal revenues would improve fiscal situation	• Use CIP windfall to clear arrears, pay down debt, and fund ABI resolution
Sustained decline in international commodity prices	Medium	Medium	Improvement of both external balances and competitiveness	• Fiscal gains from growth should be saved, to strengthen sustainability
Downside risks:				
Insufficient fiscal consolidation to address the cash flow problem	High	High	Rising arrears would undermine confidence, increase NPLs, negatively affect growth and financial stability	• Implement staff fiscal adjustment proposal
Sudden loss of confidence in the banking system due to banking system weakness	High	High	Possible full-blown financial crisis	• Develop contingency plans; move quickly to resolve ABI; support regional bank resolution strategy
Protracted period of slower growth in advanced emerging economies	High	Medium	Lower FDI and slowdown in tourism would reduce growth and worsen external balance	• Accelerate structural reforms to increase competitiveness
Heightened geopolitical risks in the Middle East leading to a sharp rise in oil prices, with negative spillovers to global economy	Medium	Medium	Worsening of both external balances and competitiveness	• Boost energy infrastructure investment to diversify energy matrix; accelerate structural reforms to increase competitiveness
Natural disaster	Medium	Medium	Lower growth and worsening of fiscal and external balances	• Implement staff's fiscal adjustment proposal to build buffers; work with the WB , CDB to build resilience to climate change
Deterioration in the terms or level of Petrocaribe's financing	Medium	Medium	A major source of fiscal and BOP financing would be eliminated.	• Implement staff's fiscal adjustment proposal; develop contingency plan for alternative external financing options; adopt reforms to boost energy efficiency

[1] Based on August 2014 Risk Assessment Matrix (RAM). The RAM shows events that could materially alter the outlook (both the current trends and staff's proposal scenarios). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the scenarios projections ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix II. Growth Impact of the Beaches Hotel Project

The *Beaches* hotel that the Sandals group is planning to build in Antigua will entail an investment of about EC$405 million over a period of 18 months starting in mid-2015. Assuming that half of the investment is done in 2015 and half in 2016, and that only 30 percent of the total investment is value added to construction activity, this would imply a real GDP growth rate of 3.3 and 3.6 percent in 2015 and 2016.[1] That is, the direct effect of the *Beaches* construction project on growth could add 1.9 and 1.8 percentage points, respectively, to staff's' growth projections of 1.4 and 1.8 percent for 2015 and 2016.[1]

Once the new hotel is completed and running it will add some 300 high quality rooms to the stock of rooms in Antigua and Barbuda (or about 10 percent). Based on the average occupancy rate of Sandals throughout the Caribbean (including Sandals Antigua) of about 85 percent, that would translate to over 53,000 new tourists per year on the island.[2] This would be reflected in higher growth of tourist arrivals of 12 and 11 percent, respectively, in 2016 and 2017. This would in turn translate into additional real GDP growth of 1.7 and 1.6 percentage points in 2016 and 2017, respectively. Furthermore, airlift to the island would have to be expanded by about 6-7 new flights per week to accommodate the increase in demand. This improved availability of flights and schedules will likely have positive spillovers for the entire tourism industry in the country.

The combined effect of construction activity and tourism, on real GDP growth, of the *Beaches* project would add about 7 percentage points of GDP growth over three years (see table). It clearly points to a considerable upside risk to the staff's growth projections if the *Beaches* project develops as planned. Furthermore, there are other projects that are in the pipeline for the next few years that would add to growth. Those for which MOA's have already being signed include the Yida International investment that will consist of the construction of several hotels, a casino, and a golf course, and the Al Caribi Development Limited investment in a new 80-room hotel in Morris Bay.

Projected Growth Effect of the Beaches Hotel

	2015	2016	2017
Upside growth	**3.3**	**5.3**	**4.1**
Staff's growth proj.	1.4	1.8	2.5
Impact on: 1/			
Total	1.9	3.5	1.6
Construction	1.9	1.8	
Tourism		1.7	1.6

Note: The impact on growth only considers direct effects, not the indirect effects of construction or tourism on other sectors.
1/ Indicates the additional growth in percentage points from the additional construction and tourist activities.

[1] It is assumed that 70 percent of the investment will be directed to purchase additional land and import construction materials and furnishings for the hotel. The resulting impact on growth only considers the direct effect of additional construction on real GDP; hence, accounting for second round effects of the construction sector on other activities (transport, trade, etc) would likely result in a higher growth rate.

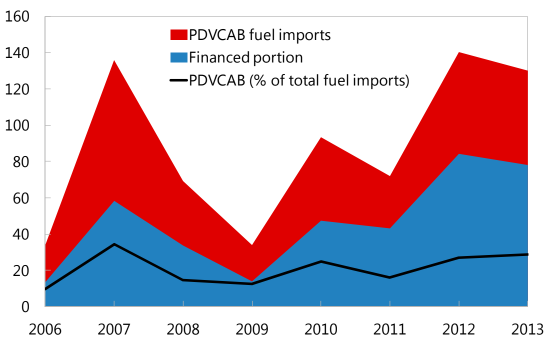
[2] The additional tourist arrivals are based on the assumption that each room is booked for a family of four. Given that *Beaches* is a family vacation hotel this seems to be a reasonable assumption.

Appendix III. PDVCAB Debt and Financing

The governments of Antigua and Barbuda and Venezuela signed the PetroCaribe agreement in 2005. For this purpose the government of Antigua created PDV Caribe Antigua and Barbuda Ltd. (PDVCAB). PDVCAB was set up as a privately incorporated company wholly owned by the government of Antigua and Barbuda and was charged with managing the agreement.

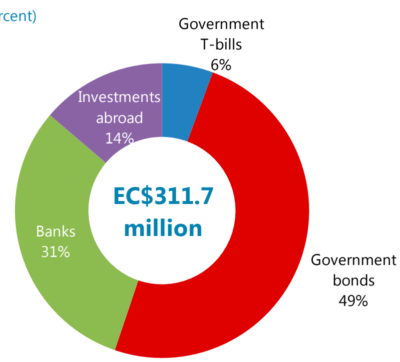
The setup of PetroCaribe in Antigua and Barbuda. PDVCAB imports fuel (diesel, gasoline and jet fuel) from PDVSA and pays upfront only 50 or 40 percent, and the rest is financed over 25 years (with 2 years of grace period) at an annual interest rate of 1 percent.[1] PDVCAB then sells the fuel to the local wholesaler in Antigua (the West Indies Oil Company, WIOC) with a margin of between 3 to 8 percent, and WIOC pays for the entire shipment upfront. With the difference (50 to 60 percent of each shipment) PDVCAB makes investments in domestic government bonds and foreign securities (see below) and from the profits (interest earnings less interest payments) it finances social programs in Antigua and Barbuda.[2]

PDVCAB Fuel Imports
(In EC$ million)



Sources: WIOC, PDVCAB; and IMF staff calculations.

PDVCAB Investments
(In percent)



Sources: PDVCAB; and IMF staff calculations.

PVCAB provides for 20 percent (on average) of total fuel imports to Antigua. PVCAB's imports of fuel started in 2006 with only EC$13.7 million, in 2013 PVCAB imports amounted to EC$130 million, almost 29 percent of total fuel imports for the country. Over the last 3 years PDVCAB imported on average about EC$135 million every year.

PDVCAB's debt to Venezuela stood at EC$395.8 million (or 11.9 percent of GDP) in July 2014. However, PVCAB has assets of EC$311.7 million in T-bills and bonds of the government of Antigua, banks CDs and investments abroad. Since PDVCAB earns, on average,

[1] If the oil price is above US$100 per barrel PDVCAB only has to pay 40 percent of its imports upfront, if it is below that price then it has to pay 50 percent upfront.

[2] PDVCAB has funded eight key programs over the years, with a total spending (up to July 2014) of EC$55.9 million. The programs are; The People's Benefit Program, the Senior Citizens Utility Subsidy Program, the LPG Subsidy to Barbuda (subsidizes the transport of LPG to Barbuda), the National Tennis Centre, the Enterprise Achievement Challenge, the Community Lighting Project, the LED Light Project, and the Youth in Agriculture Empowerment Project.

interest of about 4.6 percent on its investments, the financial situation of the company is sustainable.[3] However, the large exposure of PDVCAB to Antigua's government could pose a problem to the company if the government cannot service its debts on time.

A disruption, conclusion, or change of the agreement entails a serious risk to Antigua and Barbuda. Currently PDVCAB holds 22.3 percent of Antigua's outstanding T-bills in the RGSM market, and 70 percent of its outstanding bonds. It is expected that over the next 5 years PDVCAB will continue to invest significant amounts in Antigua government paper. Furthermore, it finances about 1.9 percent of GDP of the current account deficit. Hence a change, or early termination of the agreement would require new sources of financing for both the government and the balance of payments, or it will require a rapid and large adjustment to government spending and imports.

[3] The 4.6 interest rate is based on very conservative assumptions on the interest PDVAB earns on its investments. By 2021 PDVCAB's assets will match its liabilities, and by 2030 assets would exceed liabilities by 38 percent.

Appendix IV. Antigua and Barbuda and Small States—Tax Efforts and Tax Capacity–Scope for Revenue Mobilization

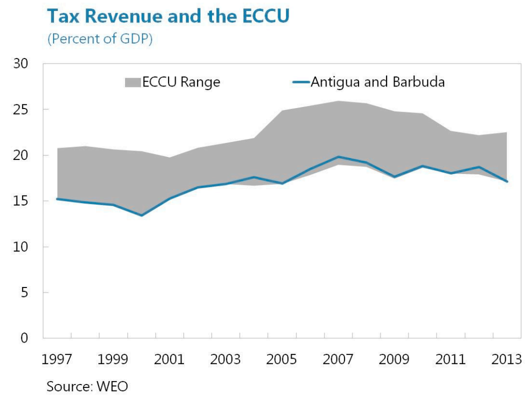
This appendix assesses to what extent tax revenue collection can contribute to fiscal consolidation efforts. It attempts to answer two questions: (i) Retrospectively, to what extent tax collection has been efficient; and (ii) prospectively, by how much could tax revenue contribute to fiscal consolidation efforts? Overall, the results indicate that there is substantial scope for raising tax revenue in small states, including Antigua and Barbuda. Results show that Antigua and Barbuda has the potential to improve its tax collection by around 4 percent of GDP over the medium-term.

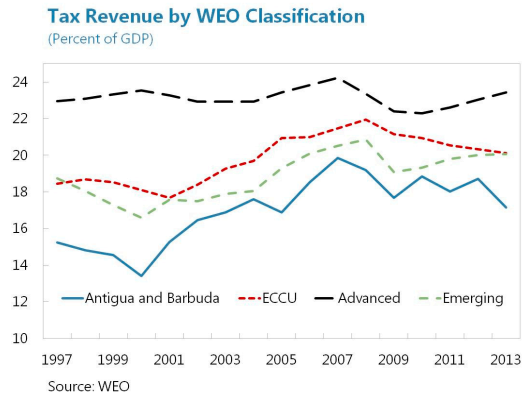
A. Introduction

Despite debt restructuring in 2010 with a reduction in face value, the public debt ratio is still above the pre-global crisis level in 2008. During the 2010–13 SBA, efforts to contain public spending were associated with a significant decline in public investment. Tax revenue collections were lower than program expectations. This was partly due to tax reform implementation lags and lower than projected growth. To reduce public debt and boost growth, the authorities will need to rely more on increasing tax revenue and reducing recurrent spending, while allowing for an increase in public investment.

Antigua and Barbuda's tax revenue to GDP ratio is among the lowest in the ECCU. The country faces limited administrative capacity to raise revenue. At the same time, the proliferation of income tax holidays and other incentives add to the impediments to achieve higher tax collection. As a result, tax revenue collections are likely to be below the country's potential.

The literature on tax capacity and tax effort remains sparse for small states. Furthermore, the fiscal challenges that Antigua and Barbuda are facing call for better understanding of the realism of the country's tax collection effort given its economic fundamentals. To understand what potential Antigua and Barbuda has to increase the revenue, we estimated a range of tax frontiers in panel econometric models and evaluated tax potential and tax capacity for economic groups and individual countries, including Antigua and Barbuda.





The rest of the appendix is organized as follows. Section B will describe the econometric methodology and results and Section C will conclude.

B. Methodology and Results

A benchmark stochastic frontier tax function is developed. This approach measures taxable capacity by regressing the tax revenue to GDP ratio for a sample of countries on explanatory variables that serve as proxies for possible tax bases and other factors that might affect a country's ability to raise tax revenue. A stochastic frontier tax function is defined with a reduced form equation for cross-country panel regression (Coondo et al., 2003; Varsano, 2006). The predicted tax ratio from such a regression is considered a measure of taxable capacity, i.e., tax revenue potential, while the ratio of the actual to the predicted tax ratio is then computed and used as an index of tax effort. The stochastic frontier model is originally based on Aigner, Lovell and Schmidt (1977)[1] as follows:

$$y_{it} = \propto + \beta' x_{it} + v_{it} - u_{it},$$

On the vector of regressors,

$$X_{it}^{'} = [GDPC_{it}, DGPC_{it}, TAX_{it}, EXP_{it}, INF_{it}, AGRI_{it}, POP_{it}, TRADE_{it}, OIL_{it}, GINI_{it}, COR_{it}]$$

GDPC is the natural log of real PPP-adjusted GDP per capita, which is a proxy for the level of development. We also include the square of GDPC to account for non-linearity in the elasticity of tax to income. TAX is the central government tax revenue collection (in percent of GDP), excluding pension contribution. AGRI is the natural log of value added of the agricultural sector, proxy for ease of tax collection–and government intention to provide tax exemptions or subsidies. The GINI coefficient is a proxy for compliance among income classes. EXP is the total expenditure on education (in percent of GDP) as a proxy for the level of education. TRADE (Exports+Imports)/GDP is the degree of openness. CORR is the natural log of the corruption index (high correlation with governance/accountability). INF is the percent change in the consumer price index (annual average,

[1] Aigner, D. J., Lovell, Knox, C.A. and Schmidt, P., 1977, "Formulation and Estimation of Stochastic Frontier Production Function Models," *Journal of Econometrics*, Vol. 6, pp. 21−37.

100=2005). It is a proxy for seigniorage revenue from printing money. POP is the natural log of the level of population.

The error term in the model has two parts. v_{it} is the country's time specific idiosyncratic and stochastic part of the frontier which could be either positive or negative. The second component, u_{it} represents cost inefficiency, and is positive. The model is usually specified in (natural) logs, so the inefficiency term u_{it} is interpreted as the percentage deviation of observed performance or a measure of the country's " failure" to produce the relative maximum level of tax collection.

The typical model procedure consists of predicting and measuring the inefficiency term. Economically, it is defined as the ratio of actual tax revenue to (optimal) stochastic frontier tax revenue (or tax capacity). Hence, the tax effort is given by:

$$Tax\ Effort = TE_{it} = \frac{\exp(\beta^{'}\mathrm{x_{it}} + \mathrm{v_{it}} - \mathrm{u_{it}})}{\exp(\beta^{'}\mathrm{x_{it}} + \mathrm{v_{it}})} = \exp(-\mathrm{u_{it}})$$

The key empirical challenge is to estimate the "inefficiency" term, that is disentangling it from the estimated error terms where

$\varepsilon_{it} = v_{it} \pm u_{it} = y_{it} - \propto - \beta' x_{it}$

To do this, we use the JLMS methodology by Jondrow, Lovell, Materov, and Schmidt (1982).[2]

Estimation results are broadly consistent with the literature. We first estimate a benchmark model with all variables and all countries in the panel.[3] In particular, we include a dummy for each economic group. With the exception of oil-producer countries, the coefficients associated with all other country groupings appear to be significant. Moreover, the coefficients of all variables are generally significant with the expected sign. Overall, the results are in line with findings in the recent literature (Fenochietto *et al.*, 2013, Davoodi *et al.*, 2007), where higher tax potential is associated with higher real output per capita, higher degree of openness, higher quality of institutions, less agricultural value added, and lower inflation. We also estimated other model specifications for each country group. Various panel Bayesian stochastic frontier models that focus on both parametric and non-parametric approaches were explored and the models were selected based on which best fitted the data generation process of each economic grouping.[4] Estimated coefficients for the ECCU, Caribbean, and Small States appear to be in similar ranges. The tax elasticities with respect to

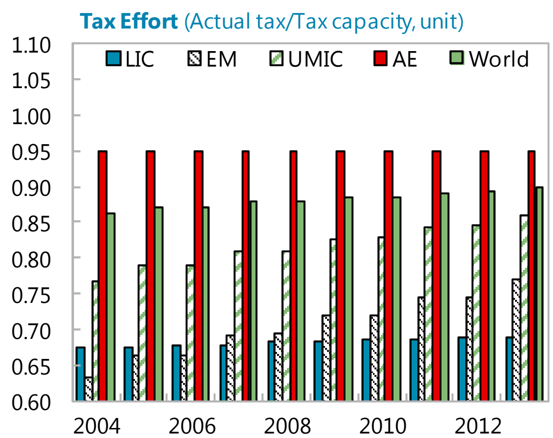
[2] James Jondrow, C. Knox Lovell, Ivan S. Materov and Peter Schmidt; 1982, "On the estimation of technical inefficiency in the stochastic frontier production function model" Journal of Econometrics, 1982, vol. 19, issue 2-3, pages 233-238.

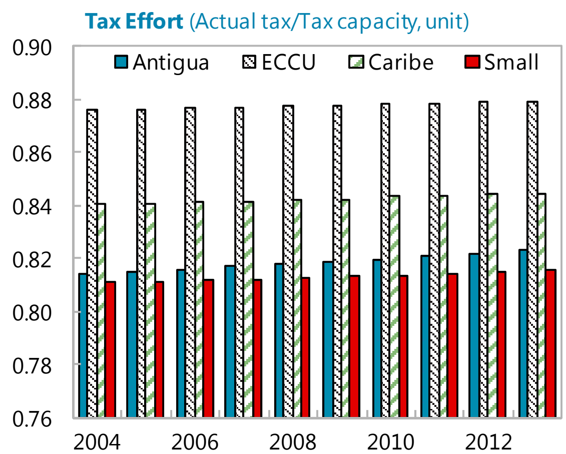
[3] The estimation uses a panel dataset that covers 189 countries over the period 1990–2013, with 59 low-income countries (LIC) , 49 upper-middle-income countries (UMIC), 36 advanced economies (AE), 153 emerging markets (EM), 12 Caribbean countries, 42 small states.

[4] Contrary to the one-size-fits-all approach, the model selection uses various specifications of production possibility fronteirs to help identify the data generation process that best fits each country grouping including: true fixed and random-effect models (Greene, 2005a); maximum likelihood (ML) random-effects time-varying inefficiency effects models (Battese and Coelli, 1995); and ML random-effects flexible time-varying efficiency models (Kumbhakar, 1990).

income per capita for these country groups are relatively low compared to other regions, notably, LIC, EM, AE. Advanced countries are near their tax capacity. Caribbean and Small states could further improve their tax collections by 4.3 percent of GDP to 4.9 percent in the long-run.

Postestimation: Tax Effort, Tax Capacity, and Tax Gap





Antigua and Barbuda's tax capacity has remained broadly stable since 2009. These outcomes reflect partly sluggish tax-related structural reforms. At the same time, actual tax to GDP declined slightly (from 18.8 percent of GDP in 2010 to 17.4 percent of GDP in 2013) reflecting mostly slow growth. As a result, there has been a small increase in the tax gap.

Tax Capacity and Tax Efforts

	Tax-to-revenue[1/] A	Tax potential[2/] B	Tax gap[3/] B-A	Tax Effort A/B
Antigua	18.07	22.01	3.94	0.82
ECCU	20.62	23.47	2.85	0.88
Caribe	20.10	23.83	3.73	0.84
Small	19.33	23.73	4.40	0.81
LIC	15.49	22.52	7.03	0.69
EM	16.86	22.74	5.88	0.74
UMIC	19.52	23.19	3.67	0.84
AE	22.75	23.91	1.15	0.95
World	17.63	19.80	2.16	0.89

1/ Actual central or federal government tax revenue as percent of GDP, excluding social security contributions, states and municipalities.
2/ Estimated tax potential (or tax capacity) as percent of GDP.

3/ As percent of GDP.

C. Concluding Remarks

Overall, there is substantial scope for raising tax revenue in low income countries, emerging market economies, and small states, particularly in Antigua and Barbuda. We find that the country has the potential to further improve its tax collection by 3.9 percent of GDP over the medium-term. More generally, the results show that low levels of income and population, and limited capacity to benefit from economic of scale are the main challenges for small states to substantially raise their tax collection. In addition, efforts to reduce sources of inefficiencies (tax exemptions, inequality, inflation) and increasing tax base could significantly help improve tax revenue collection in small states. In Antigua and Barbuda, in particular, in light of recent mixed performance in implementing structural reforms, the country would need to lift administrative and structural bottlenecks and strong policy commitment to reap the benefit of high tax collection.

Table 1. Panel Stochastic Frontier Tax Function Estimate

	Benchmark		ECCU		Small States		Caribe	
	TRE-TN	TRE-EXP	BC88	BC92	BC88	BC92	BC95	TFE-TN
LGDPPC	1.86***	1.611***	1.3163***	1.2486*	1.202***	1.257***	1.408***	1.395**
	(0.495)	(0.469)	(0.3961)	(0.681)	(0.292)	(0.314)	(0.0132)	(0.543)
L2GDPPC	-0.706*	-0.279	-0.177***	-0.137*	-0.0205	-0.168***	-0.647***	-0.662*
	(0.375)	(0.364)	(4.28e-07)	(0.0799)	(0.0191)	(0.0246)	(0.00838)	(0.340)
LVAD	-0.0196***	-0.0202***	-0.0797*	-0.0646*	-0.0260***	-0.0262***	-0.0362***	-0.0310
	(0.00382)	(0.00389)	(0.0484)	(0.0392)	(0.00206)	(0.00212)	(0.00839)	(0.0261)
CORR	0.112	0.525***	0.411*	0.494*	0.491***	0.483***	0.411***	0.172
	(0.501)	(0.0929)	(0.233)	(0.280)	(0.0920)	(0.0954)	(0.0378)	(0.139)
GINI	-0.375**	-0.376**			-1.426***	-1.424***	-1.15***	-0.0265
	(0.149)	(0.148)			(0.176)	(0.183)	(0.0610)	(0.196)
CPI	-0.653**	-0.690*	-0.803***	-0.872***	-0.791***	-0.611**	-0.720***	-0.780***
	(0.213)	(0.411)	(0.158)	(0.232)	(0.0582)	(0.0732)	(0.00393)	(0.142)
LTRAD	0.200***	0.384***	0.851***	0.853**	0.825***	0.830***	0.831***	0.0896
	(0.0373)	(0.146)	(0.0837)	(0.4136)	-0.112	-0.117	(0.0545)	(0.140)
Oil	0.0258	1.028						
	(0.137)	(0.690)						
Small states	0.104	2.545**						
	(0.282)	(1.231)						
LIC	2.752**	1.908***						
	(1.272)	(0.0877)						
EM	0.203	0.0250*						
	(2.979)	(0.0138)						
AE	0.724*	1.283***						
	(0.438)	(0.0112)						
	-0.0526	4.798***						
	(0.199)	(0.632)						
Constant	-3.035***	-2.768***	11.11	-0.473	-2.769**	-3.004**	-8.697***	
	(0.282)	(0.295)	(9.838)	(15.39)	(1.084)	(1.194)	(0.114)	
Sigma			2.121***	4.506***	7.194***	7.263***		
			(0.474)	(0.268)	(2.189)	(0.412)		
Gamma			5.490***	5.506***	3.97**	17.73***		
			(0.0429)	(0.227)	(1.88)	(4.558)		
Mu	-0.272***		0.1083**	0.203**	0.559***		-2.241***	
	(0.0423)		(0.05067)	(0.095868)	(0.134)		(0.193)	
Eta				0.434**		0.826***		
				(0.205)		(0.1533)		
usigma	2.054***	-5.189***					-3.297**	
	(0.169)	(0.289)					(1.417)	
vsigma	-5.285***	-5.278***					-17.58***	
	(0.222)	(0.211)					(4.119)	
Alpha1								0.0984***
								(0.0278)
Alpha2								0.191***
								(0.0283)
Theta	0.372***	0.372***						
	(0.0174)	(0.0176)						
b								
c								
Observations	1008	1008	84	84	108	108	98	98

Significance ***, **, and * at 1%, 5%, and 10% confidence level, respectively.
BC88= Battese and Coelli (1988), Truncated Normal distribution, maximum liklihood estimate method with invariant inefficiency
BC92= Battese and Coelli (1992), Truncated Normal distribution, maximum liklihood estimate method with time-varying (time decay) inefficiency
BC95= Battese and Coelli (1995), Truncated Normal distribution, maximum liklihood estimate method with time-varying (time decay) inefficiency and local efficiency and heterogeneity (in u and v)
KUMB90=Kumbhakar (1990), Half Normal distribution, maximum liklihood estimate method with time-varying (time decay) inefficiency
TFE-TN= Greene (2005a), True Fixed-Effects truncated normal
TRE-TN= Greene (2005a), True Random-Effects truncated normal distribution
TRE-EXP= Greene (2005a), True Random-Effects exponential distribution
PL81=Pitt and Lee (1981) Half Normal distribution, maximum liklihood estimate method, randome-effects time-invariant inefficiency model

Table 1 (Continued).Panel Stochastic Frontier Tax Function Estimate

	LIC		UMIC		EM		AE	
	KUMB90	TRE_TN	BC88	BC95	BC92	BC95	BC92	PL81
LGDPPC	1.853**	1.612***	1.391***	1.511***	1.912**	1.633**	1.522*	1.847**
	(0.860)	(0.175)	(0.165)	(0.412)	(0.9498)	(0.817)	(0.825)	(0.872)
L2GDPPC	-0.190*	-0.0969***	-0.203***	-0.159***	-0.173***	-0.176***	-0.0494	-0.221***
	(0.0981)	(2.84e-05)	(0.0116)	(0.0506)	(0.0389)	(0.0409)	(0.105)	(0.00640)
LVAD	-0.0259***	-0.0589***	-0.0222***	-0.0332***	-0.0204***	-0.0199***	-0.0370	-0.0609***
	(8.25e-08)	(1.52e-08)	(0.00784)	(0.0113)	(0.00399)	(0.00440)	(0.0376)	(0.00536)
CORR	0.628***	0.519	0.133	0.316**	0.326***	0.393***	0.489**	0.365**
	(0.0542)	(1.512)	(0.0985)	(0.1295)	(0.0918)	(0.0421)	(0.208)	(0.181)
GINI	-0.277	-0.728*	-1.268***	-1.224***	-0.660***	-0.834***	-1.413**	-1.636***
	(0.326)	(0.390)	(0.363)	(0.406)	(0.215)	(0.178)	(0.603)	(0.0317)
CPI	-0.870***	-0.711***	-0.630***	-0.906***	-0.370**	-0.381**	-1.033***	-0.602*
	(0.235)	(0.257)	(0.099)	(0.185)	(0.159)	(0.161)	(0.370)	(0.357)
LTRAD	0.648***	0.544***	0.387	0.579*	0.5332***	0.5821***	0.4685***	0.600***
	(0.247)	(6.64e-05)	(0.356)	(0.304)	(0.1927)	(0.0911)	(0.0450)	(0.04848)
Constant	-2.522***	-2.767***	-15.92	-1.099***	-2.759***	-2.050***	-5.174	15.22
	(0.00231)	(0.220)	(0)	(0.3266)	(0.143)	(0.255)	(0)	(0)
Sigma			0.524*		-2.149***		-2.189	
			(0.270)		(0.191)		(3.828)	
Gamma			4.293***		2.232***		3.914	
			(0.331)		(0.239)		(4.959)	
Mu		-1.501***	3.436***	-11.75***	-5.063***	-5.259***	-0.371	
		(0.506)	(0.382)	(2.156)	(0.301)	(0.243)	(2.210)	
Eta					0.410***		0.293	
					(0.0152)		(0.367)	
usigma		-7.117***		-2.087***		1.516***		0.0813**
		(0.2810)		(0.215)		(0.358)		(0.0379)
vsigma		-8.533***		-3.043***		-3.367***		0.000270**
		(0.3058)		(0.342)		(0.159)		(0.000118)
Alpha1								
Alpha2								
Theta		-0.183***						
		(4.59e-09)						
b	-9.974***							
	(2.057)							
c	5.573***							
	(0.695)							
Observations	360	360	288	288	876	876	220	220

Significance ***, **, and * at 1%, 5%, and 10% confidence level, respectively.
BC88= Battese and Coelli (1988), Truncated Normal distribution, maximum liklihood estimate method with invariant inefficiency
BC92= Battese and Coelli (1992), Truncated Normal distribution, maximum liklihood estimate method with time-varying (time decay) inefficiency
BC95= Battese and Coelli (1995), Truncated Normal distribution, maximum liklihood estimate method with time-varying (time decay) inefficiency and local efficiency and heterogeneity (in u and v)
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TFE-TN= Greene (2005a), True Fixed-Effects truncated normal
TRE-TN= Greene (2005a), True Random-Effects truncated normal distribution
TRE-EXP= Greene (2005a), True Random-Effects exponential distribution
PL81=Pitt and Lee (1981) Half Normal distribution, maximum liklihood estimate method, randome-effects time-invariant inefficiency model

Appendix V. Antigua and Barbuda: Oversight, Cross-Debts, and Fiscal Risks Associated with State-Owned Enterprises

This note attempts to highlight some fiscal risks associated with the continuous weak coverage and oversight of state-owned enterprises (SOEs), and the growing cross-debts among SOEs and central government. The financial difficulties at some SOEs and the recent increase in government guaranteed debt of SOEs is an early warning.

Full coverage and oversight of SOEs in Antigua and Barbuda is challenging. Not all SOEs subject to oversight are complying with the requirement to produce financial statements on a regular and timely basis. This lack of compliance also includes the absence of a systematic approach to identify and monitor the creation, dissolution, or sale of SOEs.[1]

Weak oversight and risk management of the SOEs increases fiscal risks. Only 8 SOEs out of 26 are current on reporting on their financial statements and business plans. The number of SOEs that have submitted their financial statements at the Ministry of Finance declined from 11 in 2009 to 5 in 2012. Since 2013, eight have committed to be current on their reporting obligation (quarterly management reports, annual business plans, and annual report and audited financial statements). *This general lack of compliance and absence of enforcement to impose fiscal discipline at SOEs creates fiscal risks.*

Cross-debts and contingent liabilities have increased recently. Despite the lack of consistent information, preliminary data suggests that cross debts among SOEs and central government are large and significant. For example, at end-June 2014, APUA claimed that it was owed 12.4 percent of GDP from the central government on overdue utility bills. At the same time, claims of Antigua and Barbuda Social Security Board (ABSSB) and the Medical Benefit Scheme (MBS) on the central government with respect to overdue contributions and interest reached 0.3 percent of GDP and 0.5 percent of GDP respectively. In turn, APUA owes the central government about 1.6 percent of GDP on arrears in VAT. Moreover, SOE debt guaranteed by the central government exceeded 18 percent of GDP by June 2014 up from 14 percent of GDP in 2011, partly due to loans contracted by the Airport Authority in 2013. Government guaranteed domestic debt by a number of SOEs has also increased recently, particularly in APUA and Transport Board. The bulk of guaranteed domestic debt is owed to domestic financial institutions. A number of SOEs have been experiencing financial difficulties

Explicit Contingent Liabilities--Debt Guarantees[1/]

	2011	2012	2013	2014
Total	14.0	14.8	17.5	18.3
Domestic	8.8	9.6	10.0	9.9
APUA	0.9	2.1	1.1	1.2
MBS	2.5	2.4	2.3	2.3
Antigua Pier Group	2.2	2.1	2.1	2.0
Transport Board	1.0	0.9	2.4	2.4
St John's Development	0.5	0.4	0.4	0.4
Antigua Port Authority	1.7	1.5	1.4	1.4
Other SOEs	0.1	0.1	0.3	0.2
External	5.2	5.2	7.6	8.4
Airport Authority	3.0	4.5	6.9	7.7
CHAPA	0.7	0.7	0.7	0.7
Development Bank	0.1	0.1	0.0	0.0
Others (incl. APUA)	1.4	0.0	0.0	0.0

1/ Excluding PetroCaribe, Bank Resolution, and Harricane mitigation spending.

[1] Also, the responsibilities of the Ministry of Finance (MoF) with respect to other line ministries are unclear.

including APUA and ABSS.

The financial situation of the ABSSB has started deteriorating since 2013, in part, due to government arrears on contributions and interest. Under current actuarial provisions, the ABSSB system parameters are projected to be unsustainable and the deficit would widen. Currently, the monthly operating deficit of ABSSB is estimated at EC$1.3 million, which was partially offset by changes in contribution rates to private and public sector employees in 2013. The medium-term deficit is likely to persist in the absence of significant changes in the current actuarial parameters, particularly the retirement age.

Financial Operations of the ABSSB (Cash Basis), 2010–14

(Percent of GDP)

	2010	2011	2012	2013	2014 H1
Income	2.5	2.6	2.7	2.8	1.7
Contributions	2.3	2.3	2.4	2.6	1.5
Interest	0.1	0.1	0.2	0.0	0.1
Rental and Mortgages	0.0	0.0	0.0	0.0	0.0
Other Income	0.1	0.2	0.1	0.3	0.1
Expenses	**2.9**	**3.1**	**3.1**	**3.5**	**1.7**
Benefits	**2.6**	**2.8**	**2.8**	**3.1**	**1.5**
Old Age Benefits	2.1	2.3	2.3	2.6	1.3
Invalidity Benefits	0.1	0.1	0.1	0.1	0.0
Survivor Benefits	0.1	0.1	0.1	0.1	0.1
Old Age Assistance	0.0	0.0	0.0	0.0	0.0
Other Benefits	0.2	0.2	0.2	0.2	0.1
Cost of Benefit Provisions	**0.4**	**0.3**	**0.3**	**0.4**	**0.1**
Overal Balance	**-0.4**	**-0.5**	**-0.3**	**-0.6**	**0.0**
Financing	**0.4**	**0.5**	**0.3**	**0.6**	**0.0**
Change in reserves 1/	-0.5	0.4	0.4	0.6	0.4
Sales of Assets	0.0	0.0	0.0	0.0	0.0
Gap or new debt flows	1.0	0.1	-0.1	0.0	-0.4
Memorandom item:					
Government arrears 2/	0.0	0.1	0.1	0.3	0.3

Source: ABSSB.

1/ (+) means decrease.

2/ Government arrears on contributions and interest

The Antigua Public Utility Authority (APUA) is also experiencing financial difficulties. From being a profitable financial centre in the mid-20s, the APUA's cash flow turned negative in 2012 following the liberalization of the sector. As consumers, including central government and many SOEs (e.g., Port Authority, St John's Development, and the Airport Authority) , are not current on their bills, APUA's revenue and cash flow have deteriorated.

Appendix VI. Tourism Sector Competitiveness in Antigua and Barbuda

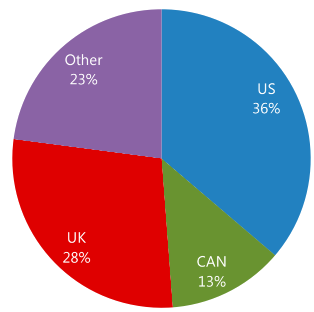
This note seeks to give a broad overview of the tourism sector in Antigua and Barbuda. With tourism being the largest driver of economic activity on the twin island nation it is important to study the general characteristics of the tourism industry in Antigua as well as its performance relative to its ECCU neighbors and the broader Caribbean.

A. Characteristics of the Tourism Sector in Antigua

Tourism is one of the largest sectors in the Antiguan economy accounting for almost 14 percent of real GDP. However, the World Travel and Tourism Council (WTTC) estimates that the total contribution (direct and indirect) of tourism to the economy is about 63 percent of GDP (WTTC, 2014). This ranks Antigua as the country with the sixth largest tourism concentration in the world, surpassed only by Aruba (third place) in the Americas.

The tourism sector in Antigua and Barbuda is concentrated in three markets; the United Sates, the United Kingdom, and Canada. About 77 percent of all stay-over tourist arrivals to Antigua come from these three countries. The US is the largest market with 36 percent of all arrivals followed by the UK. However, over the last couple of years the Canadian market has been growing strongly with the introduction of more direct flights from Canada.

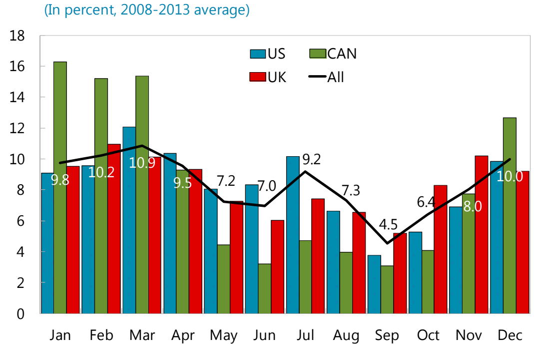
Tourists Arriving to Antigua and Barbuda
(In percent, 2013)



Sources: ECCB; and IMF staff calculations.

Tourist arrivals to Antigua are highly seasonal. The high season accounts for almost 60 percent of all the tourist arrivals in the year; it starts around the end of November and extends until April, usually around Easter. The worst months are September and October when on average only 5 percent of annual tourists arrive to the country. Although, the major markets show a similar pattern of arrivals, the seasonality is more marked in the case of Canada where ¾ of the arrivals come in the high season and very negligible business is seen over the summer.

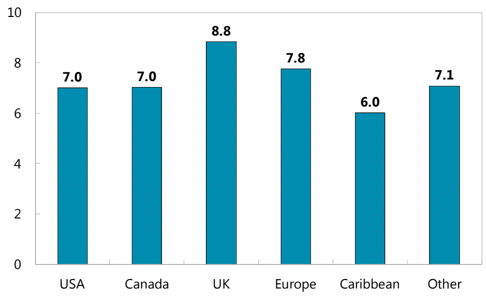
Share of Tourist Arriving Each Month
(In percent, 2008-2013 average)



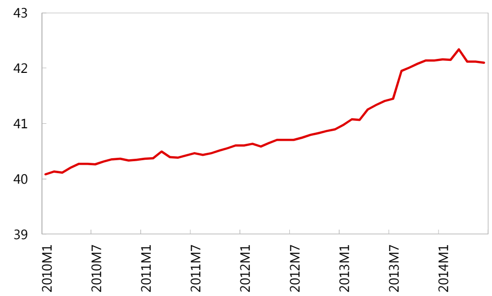
Sources: ECCB; and IMF staff calculations.

The average length of stay in Antigua is about 7 days (a week). But Europeans (7.8 days) in general and UK travelers (8.8 days) in particular tend to stay longer. Hence, their economic impact on Antigua is larger than what is reflected in the stay-over arrivals alone. Although the average age of tourists has been steadily increasing since 2010 the new Beaches hotel that the Sandals Group is planning will likely reverse the trend. Beaches is a family oriented resort (unlike the Sandals brand, which is exclusively for couples) that should bring a lot of new young customers.[1]

Average Stay in Antigua
(In days, 2012-14 period)



Average Age of Tourists
(In years, 12-month moving average)

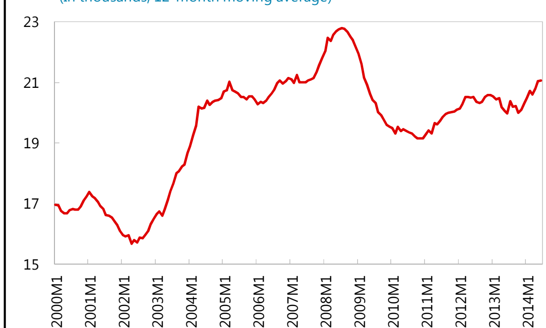


Sources: Antigua Hotels and Tourist Association; amd IMF staff calculations.

B. Performance of the Tourism Sector

The tourism industry suffered an important blow in the aftermath of the global recession. Almost four thousand monthly tourist arrivals disappeared from late 2008 to the end of 2010, and since then the recovery has been slow and prone to reversals. And, although recent evidence indicates that the tourism sector is picking up pace, the level of tourist arrivals is still far below its 2008 peak of almost 23,000 arrivals per month. The recent high season (Nov. 2013 – Apr. 2014) was the most successful since 2009 and the recovery is expected to continue.

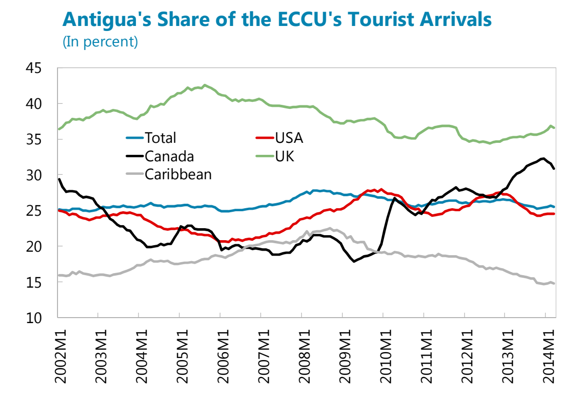
Total Monthly Stay-over Arrivals
(In thousands, 12-month moving average)

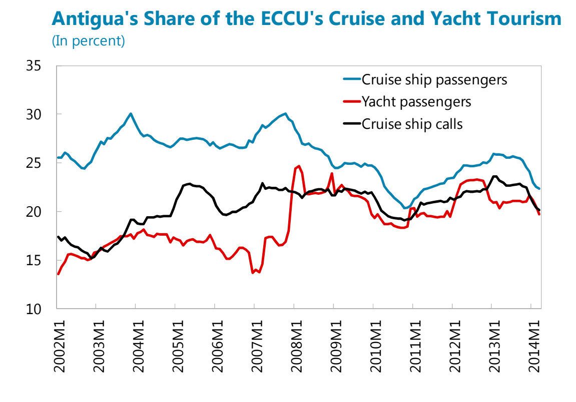


Sources: Caribbean Tourism Organization; and IMF staff calculations.

Antigua has made gains in other markets *vis-a-vis* the ECCU; however, overall its market share has remained flat. Over the last decade Antigua's share of the ECCU tourist arrivals from the UK and other Caribbean countries declined substantially, after an initial expansion. This decline has been compensated mainly by large inroads into the Canadian market where Antigua started to make up for lost ground at around 2009. Another tourism area where Antigua has done comparably well with respect to the region is in yachting. However, Antigua's cruise industry has lost ground in the region particularly in the last year.

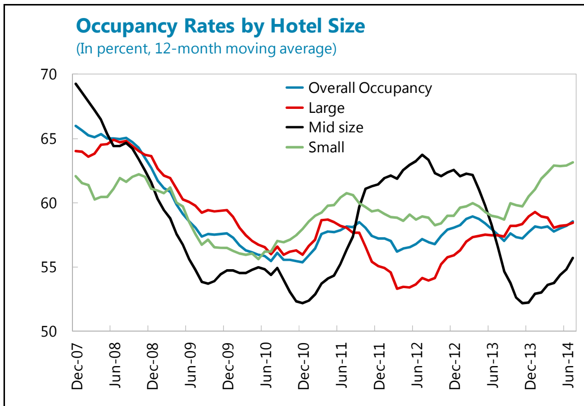
[1] Sandals expects to start construction during the first half of 2015. For an analysis of the potential impact of the new hotel in the Antiguan economy, see Appendix II.

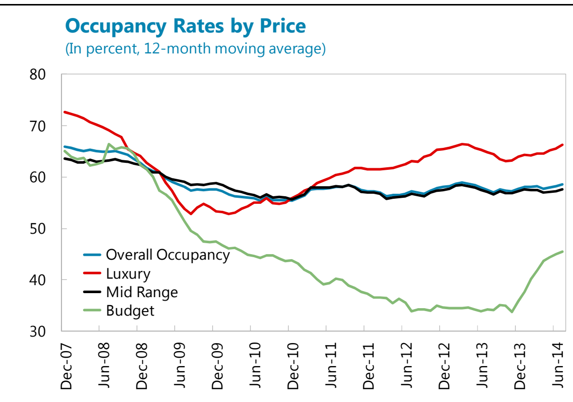




Sources: ECCB; and IMF staff calculations.

Although in general all hotels suffered during the global recession, some hotels (mid-size and budget) did worse. The Antigua Hotels and Tourist Association (AHTA) publishes the occupancy rates of its members classified by size (large, medium, and small) and room rates (luxury, mid-range and budget).[2] The largest drop in occupancy rates during the global recession was experienced by mid size and budget hotels. This last group in particular saw a steady decline in its occupancy up to the end of 2013, when it started to recover. In the meantime most other groups were already recovering by 2011-12, although currently most hotels still have occupancy rates below the pre-crisis level.





Sources: Antigua Hotels and Tourist Association; amd IMF staff calculations.

The current condition of part of the hotel room stock explains the performance of budget hotels. Different stakeholders (government, the AHTA, and other private sector businesses) recognized that almost 30 percent of the room stock is outdated and in dire need of investment, particularly at the lower end of the market, which explains the bad performance of budget hotels. Fortunately, some of those properties are in the process of being renovated or sold to new

[2] Small hotels are those with fewer than 50 rooms, mid size have between 50 and 150 rooms, and large hotels have 150 or more rooms available. The AHTA does not explicitly show the ranges of room rates used to classify hotels by this metric.

investors, but there are still a couple of hotels that will need a strategy to improve their situation going forward.

C. Antigua's Market Share

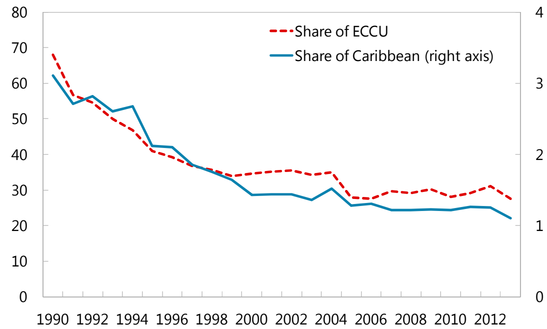
Despite the emerging recovery Antigua's tourism sector has lost competitiveness over the last two decades. Although the share of passengers traveling from the US to the Caribbean has remained somewhat stable since 1990 at around 11 percent of total US passengers traveling abroad, the share of passengers going to Antigua (out of total passengers to the Caribbean) dropped from 3.1 percent in 1990 to 1.3 percent in 2012.[3] This large drop took place during the 90s with Antigua's market shares stabilizing in the last decade. It is important to note that Antigua's tourist arrivals grew during the last decade (especially until 2008) while its market share stagnated. This suggests that the country could have expanded its sector more rapidly if the right infrastructure (i.e. hotel room stock) and prices had been in place.

Antigua has also lost market share with respect to the ECCU. The ECCU only experienced a small drop in its share of US passengers relative to the Caribbean; its share went from 4.6 to 4.0 percent between 1990 and 2012. However, Antigua's share of the tourism market in the ECCU has seen a similar decline as compared to the Caribbean; with a sharp decline in the 1990s stabilizing in the 2000s. Antigua went from having two-thirds of the ECCU market to less than 30 percent. This change mainly reflects the development of the tourism sector in Grenada and St. Kitts. But it is also a consequence of a more aggressive expansion in St. Lucia whose participation doubled to 38 percent of the ECCU market over the last 24 years (see charts below).

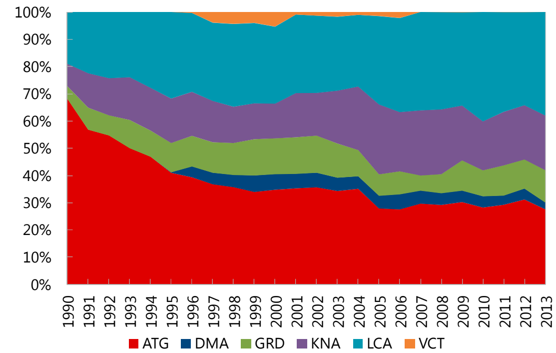
The loss of market share within the ECCU could be exacerbated in the near future. The new international airport in St. Vincent and the Grenadines, expected to be operational by the second half of 2015, will accommodate direct flights from the mainland US, which could rob some of its ECCU neighbors (including Antigua) of a slice of their US market. Given that the US market is the largest source of tourists to Antigua accounting for 36 percent of tourist arrivals, the increased competition from the Vincentian market could further erode the competitive position of Antigua in the region.

[3] The data on US passengers and flights over the period 1990-2013 come from the U.S. Bureau of Transportation Statistics which records all international flight segments that originate or end in a US airport. They report data on passengers, flights, and carriers for each origin-destination airport. It is important to note that it is not possible to identify the final destination of the passengers; the data only show the direct international segment from a US airport to a non-US airport, so it is possible that passengers who fly from the US to Antigua have as a final destination some other country in the sub-region.

Passengers to Antigua from the US
(In percent)



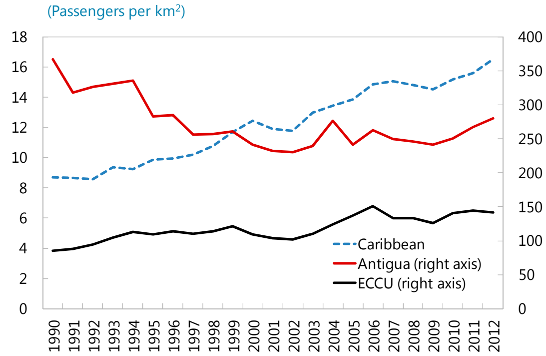
Share of US Passengers to the ECCU
(In percent)



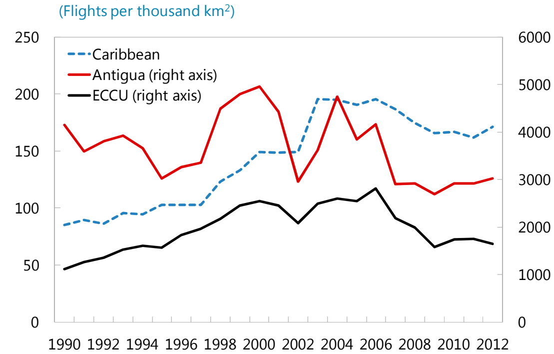
Sources: U.S. Bureau of Transportation Statistics; and IMF staff calculations.

Regardless of the loss in market share Antigua continues to serve more flights and passengers per square kilometer than most other Caribbean countries. Antigua and Barbuda has an area of 440 km^2 and the average ECCU country has an area of 465 km^2 while the typical Caribbean country has an area of almost 20,000 km^2. Therefore, there is an important constraint on the amount of tourists that Antigua, and the ECCU countries, can service compared to larger Caribbean islands. While Antigua received almost 300 passengers a year per km^2 (the ECCU 150) the Caribbean average was only 16 passengers. However, the trend also indicates a loss of competitiveness for Antigua; in 1990 the country received almost 100 passengers per km^2 more than it does today. Most of the decline occurred in the 1990s, and over the past 3 years Antigua has seen some improvement.

US Passengers per Land Size of Destination
(Passengers per km^2)



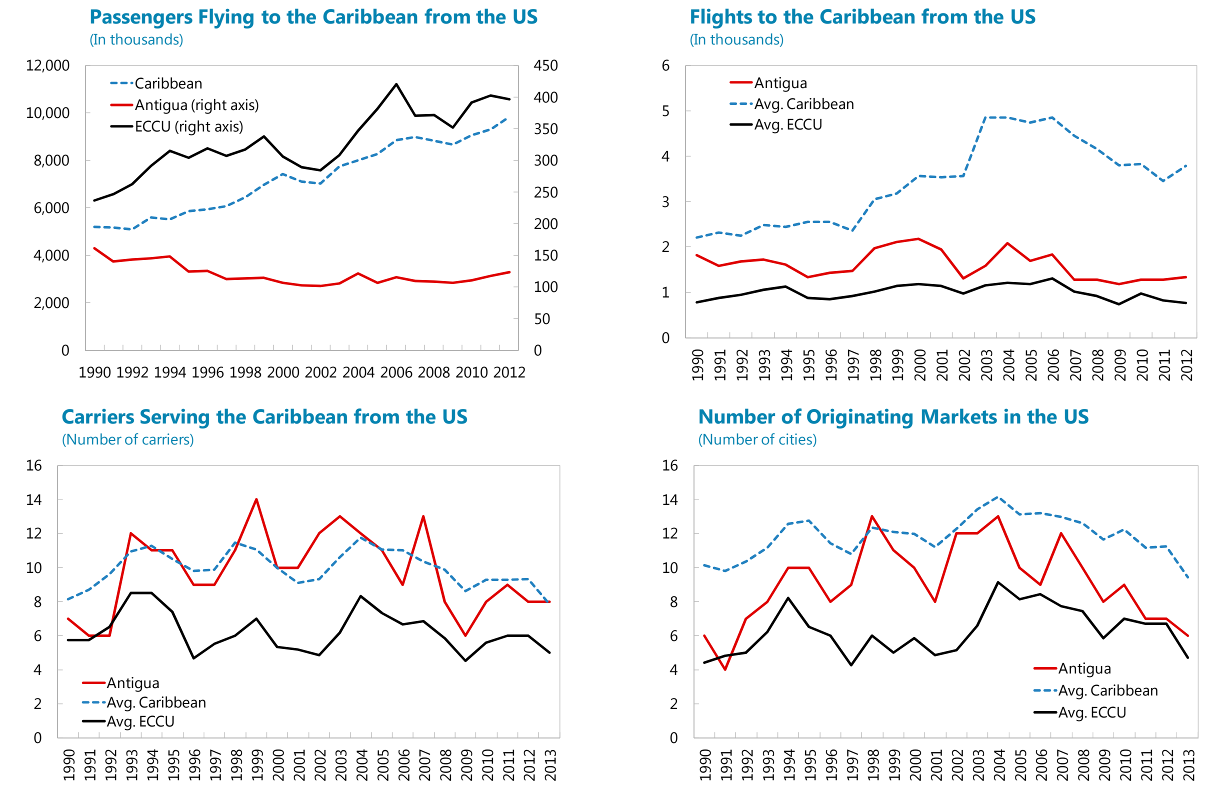
US Flights per Land Size of Destination
(Flights per thousand km^2)



Sources: U.S. Bureau of Transportation Statistics; and IMF staff calculations.

Other indicators of tourism competitiveness also show a deterioration of the tourism sector in Antigua compared to the region (Figure 1). While the ECCU and the Caribbean have steadily gained passengers, the number of people flying to Antigua has remained flat. These trends are also reflected in the number of flights where Antigua has seen no gains, while the Caribbean has. Although, the number of carriers serving Antigua is similar to the Caribbean, and higher than for the average ECCU country, the losses in originating markets within the US (i.e. cities with direct flights to Antigua) after the global recession has been substantial. At its 2004 peak, there were 14 US cities with direct flights to Antigua, but in 2013 there were only 6. The region also lost market access to the US after the crisis, but the losses were larger in Antigua.

Figure 1. US Flights to Antigua, the ECCU and the Caribbean



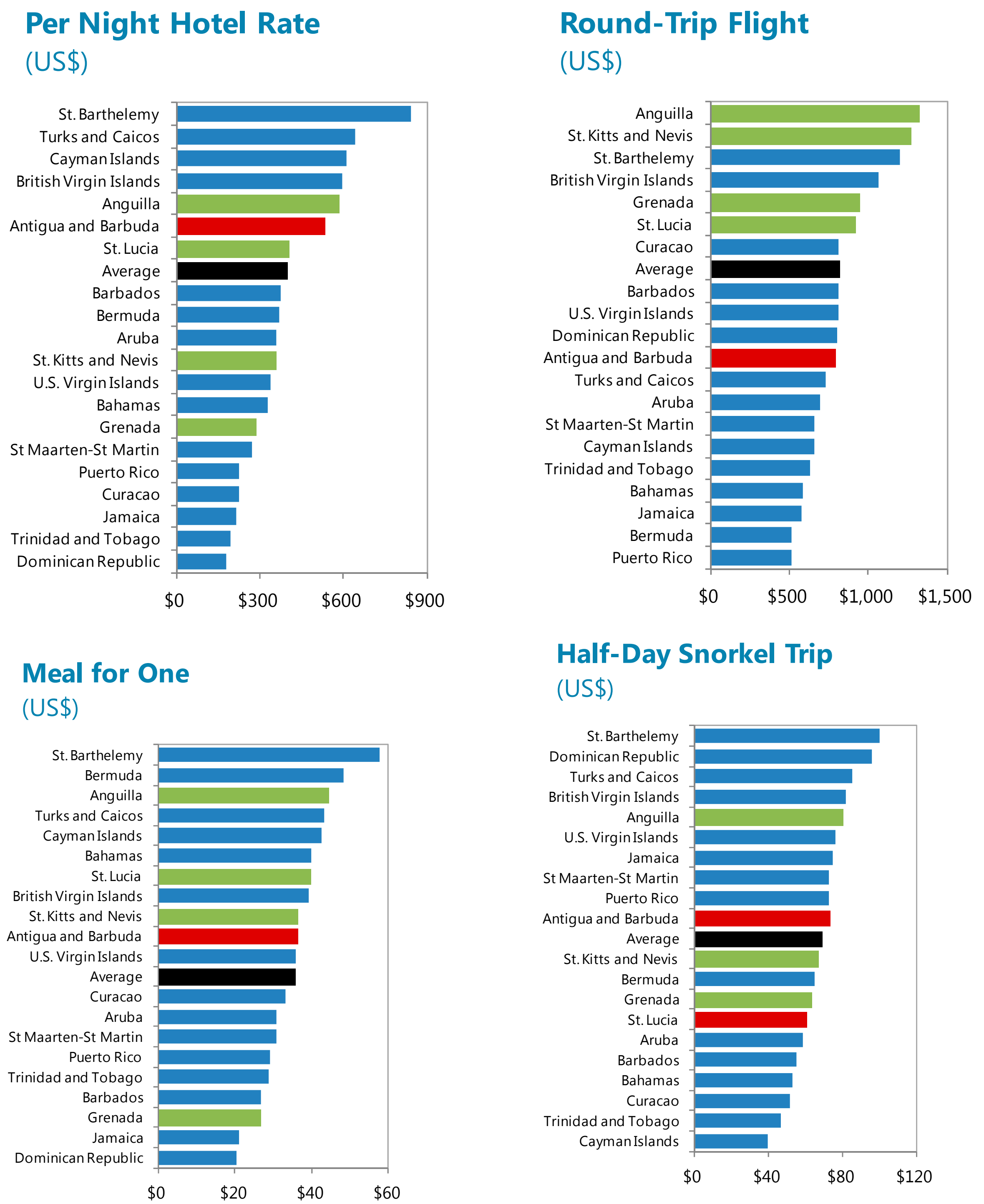
Sources: U.S. Bureau of Transportation Statistics; and IMF staff calculations.

D. Price Competitiveness

In terms of pricing Antigua ranks among the more expensive destinations in the Caribbean. According to TripAdvisor, a one week vacation for one person would cost almost US$5,000 compared to an average of US$3,800 for the Caribbean[4]. Although it is true that Antigua caters to a more upscale market than Jamaica or the Dominican Republic, Antigua is still more expensive than most ECCU countries which tend to attract a similar type of clientele. The only indicator where Antigua ranks better than its ECCU neighbors, and even better than the Caribbean average, is on the cost of a round-trip flight from the US (see Figure 2). While meals and tourism attractions (snorkeling) in Antigua are close to the average, it is the cost of a hotel night (US$526 on average) which results in Antigua being a costlier vacation spot than most countries in the region.

[4] Based on TripAdvisor's TripIndex Caribbean 2014. Costs include a one week vacation for one person between March 1 and April 30, 2014; including 7 hotel nights, dinner for 6 nights, round-trip airfare, and a half day snorkeling trip.

Figure 2. Trip Index Caribbean 2014: Cost of a 1 Week Trip Between March 1 and April 30

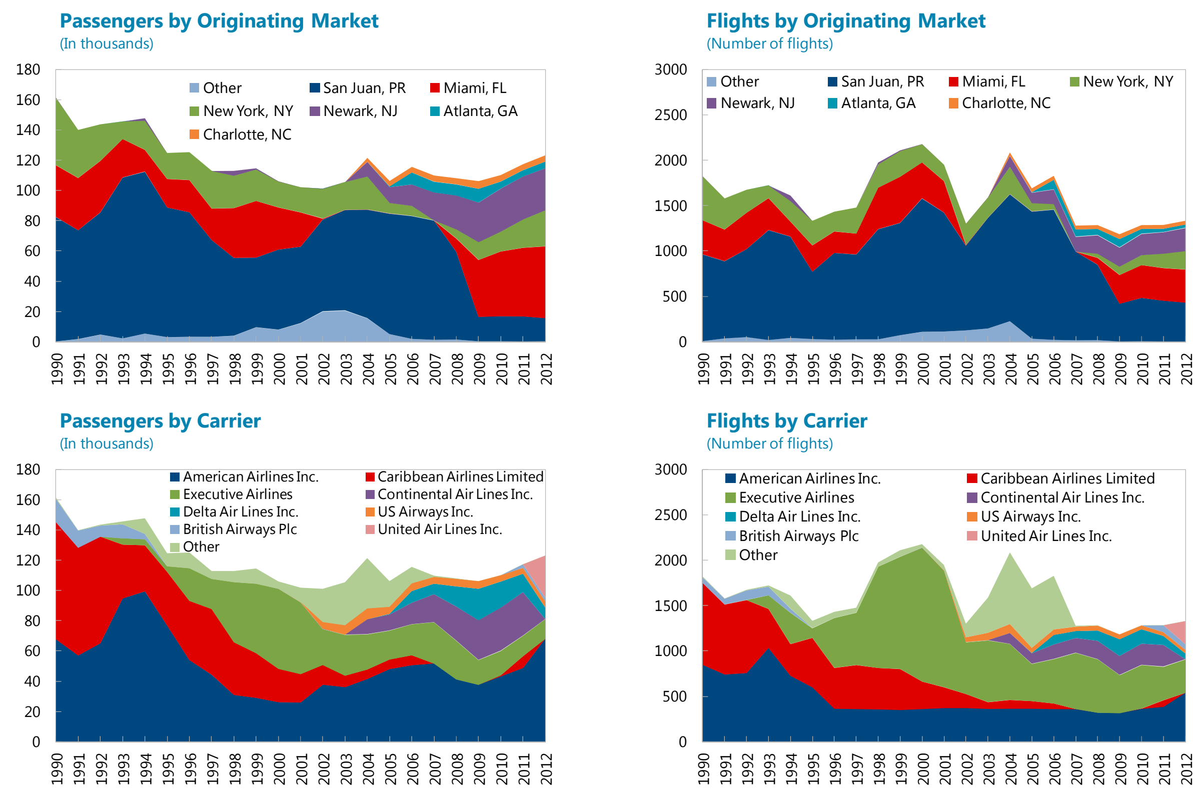


Sources: TripAdvisor (http://ir.tripadvisor.com/releasedetail.cfm?ReleaseID=830341); and IMF staff calculations.

E. Airlines Servicing Antigua

The main airline serving Antigua has been American Airlines (AA), largely from San Juan (Puerto Rico) and lately from Miami. Except for a brief period in the late 1990s, AA has been the airline carrying most US passengers to Antigua. The ebb and flow of the different airlines and markets that Antigua's tourism industry has served in the US since 1990 can be seen in Figure 3. In there it is possible to see the importance of opening new markets like Newark and Atlanta over the last decade. For example, in 2012 Newark accounted for 22.6 percent of the passengers traveling to Antigua, and overall the new routes that started in the middle of the last decade now transport 30 percent of all US passengers to the island. The top two charts in Figure 3 also show the change in AA's Caribbean hub, from when it concentrated its flights in San Juan in 2002-03 (dark blue shade), to when it began to phase out San Juan in favor of Miami in 2008 (red shade).[1] The charts in Figure 3 clearly show it is vital to expand and diversify both airlines and markets. It is critical to keep and open new source markets from within the US as well as extend the network of airlines servicing those markets to reduce dependence and vulnerabilities.

Figure 3. US Flights to Antigua and Barbuda: Airlines and Markets



Sources: U.S. Bureau of Transportation Statistics; and IMF staff calculations.
Note: After the merger of United Air Lines (UA) and Continentatl the flights to Antigua and Barbuda are under the UA carrier.

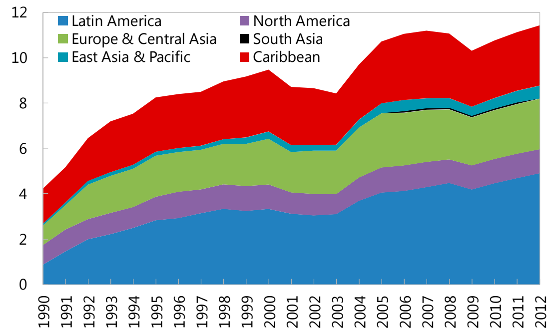
[1] The San Juan AA hub has been closed since the middle of 2013.

The new airport terminal will improve airlift to the country benefitting the entire sector. The current terminal facilities are at full capacity, so there is little scope to add new routes or more flights. Most airlines want to come in between 12 pm and 3 pm because that allows them to go back to their home market in time to make evening connections to domestic airports. However, there is little scope to add flights at this peak time, but the new terminal with its expanded capacity will be able to handle more flights at peak time making Antigua more attractive to existing and prospective airlines. The opening of the Beaches hotel will also improve airlift to the country, to keep the new hotel at the average occupancy rate of the Sandals hotels throughout the Caribbean it is estimated that an additional 6 to 7 weekly flights will be needed (see Appendix II).[2]

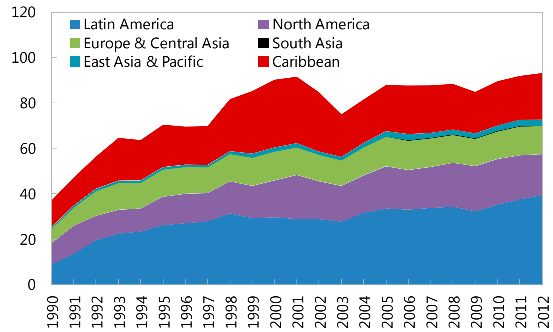
[2] This numbers assume that all other hotels maintain their occupancy levels, that is, the new Beaches hotel attracts new tourist to the island instead of diverting customers from existing hotels.

Figure 4. US Flights by Major Carriers

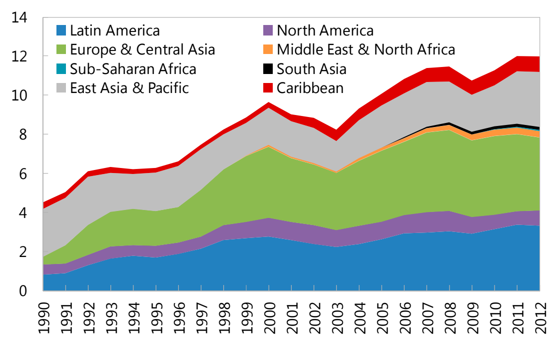
American Airlines Passengers
(In millions)



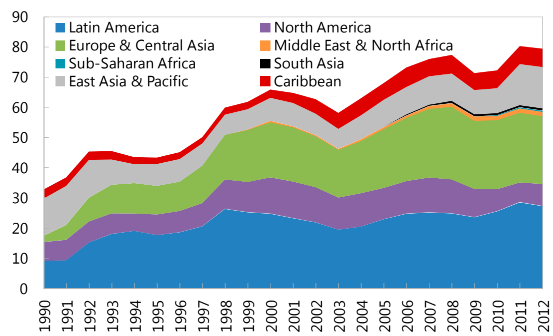
American Airlines Flights
(In thousands)



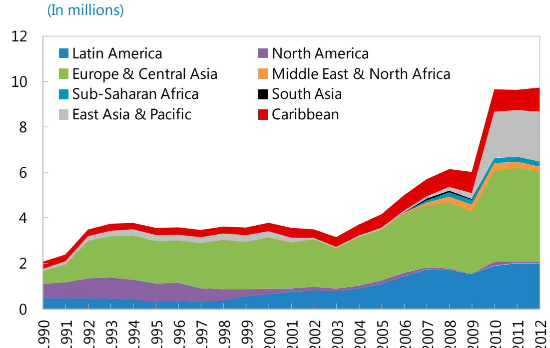
United Air Lines Passengers
(In millions)



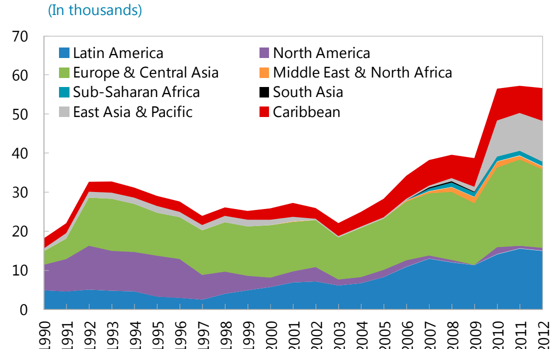
United Air Lines Flights
(In thousands)



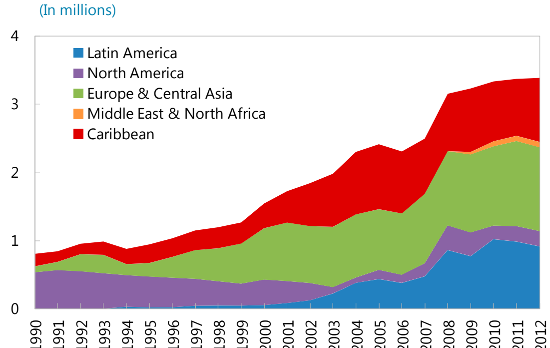
Delta Air Lines Passengers
(In millions)



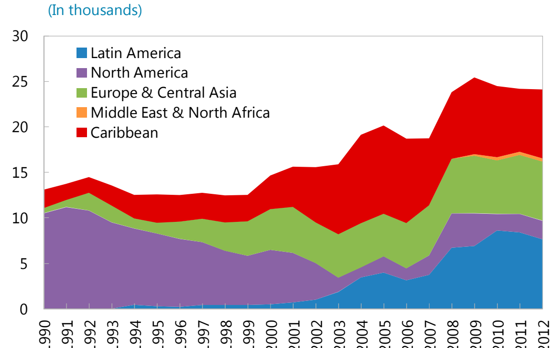
Delta Air Lines Flights
(In thousands)



US Airways Passengers
(In millions)



US Airways Flights
(In thousands)



Sources: U.S. Bureau of Transportation Statistics; and IMF staff calculations.

The dependence of the Caribbean as a whole on one carrier to do most of the airlift to the US could be problematic. In 2013, American Airlines (AA) transported 27 percent of all passengers originating from the US to the Caribbean, and with their recent merger with US Airways that market share would increase to 37 percent. Furthermore, AA and US Airways have 64 percent of the market to the Caribbean among major US carriers.[3] The only major US carrier that had a clear expansion strategy in the Caribbean over the past two decades was US Airways (see Figure 4); the airline doubled its share of flights to the region while increasing the share of passengers too. At the same time all other airlines reduced the share of their operations destined to the Caribbean. Hence, the AA and US Airways merger could curb the pace of expansion of new routes or more frequent flights, and their combined presence in the Caribbean could increase airfare prices.

F. Concluding Remarks

Antigua and Barbuda's tourism sector has lost competitiveness with respect to their ECCU and Caribbean peers. This loss took place over the 1990s with Antigua maintaining its ground over the last decade and experiencing some improvement over the last couple of years. There are some challenges that need to be addressed including a solution to troubled hotels; they will need large investments to bring them up to date; and the improvement of services surrounding the hotel industry (taxi drivers, restaurants, etc) that need upgrading to its physical and human capital. Several stakeholders signaled the need for a sector wide training program in hospitality along the lines of "Team Jamaica" to enhance the quality of all services provided to visitors to the country.

Despite the troubles in the industry the sector appears to be picking up. The recent winter season was the best since 2009, airlift is also improving and there is news of more flights for the coming winter season. The new airport terminal building, the new Beaches hotel, and some of the other tourism developments in the pipeline will help improve the attractiveness of Antigua as a tourist destination.

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World Travel and Tourism Council, 2014, "Travel & Tourism Economic Impact 2014: Antigua and Barbuda," available online: http://www.wttc.org/research/economic-impact-research/country-reports/a/antigua-and-bar

[3] The major US carriers to the Caribbean are American Airlines, Delta Air Lines, United Air Lines and US Airways.

INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND POST-PROGRAM MONITORING—DEBT SUSTAINABILITY ANALYSIS

November 7, 2014

Approved By
Adrienne Cheasty and Bob Traa

Prepared by the Staff of the International Monetary Fund

Antigua and Barbuda's debt remains fragile and highly vulnerable to a variety of shocks, including contingent liabilities, low growth, and unclear fiscal consolidation efforts.[1] *Public sector debt, consolidating central government and SOE debts, is expected to decline to 81.2 percent of GDP by 2019 after climbing to 102.6 percent in 2015 to finance the resolution of the banking system. Large gross financing needs would materialize in 2015 to address the banking problems. The risk of near-term debt distress remains high, given serious cash flow problems, accumulating arrears, and risks of a financial crisis. The size of the fiscal consolidation envisaged is substantial, which highlights the challenge of maintaining the fiscal effort over the medium term.*

[1] By exception, the "baseline" adopted for this DSA explores the staff's proposed scenario, because the staff does not consider the "current trends" scenario as viable (the authorities agree). The authorities have not yet formulated their own medium-term policy scenario, and when they do, this will become the baseline scenario for the DSA. Even with the staff's proposed scenario, the risk of debt distress remains high for some time.

PUBLIC SECTOR DEBT SUSTAINABILITY ANALYSIS

Background[2]

There is one main revision to the DSA compared to the one for the first Post-Program Monitoring Staff Report (EBS/14/34, Supplement 1). Medium-term growth projections have been revised down significantly from 3.5 percent in the previous DSA to 2.5 percent.

Cash flow problems have emerged as the reform effort stalled. Strains on government loan payments are acute and the authorities are having difficulties meeting their current financial obligations. With a rise in amortization payments and limited external financing sources, arrears built up (including temporarily to the Fund) reaching 3.1 percent of GDP by end-June 2014. [3] Although arrears to the Fund have been cleared, future payments are at risk.[4]

Realism of Projections (Figures 1, 2, and 3)

Debt level. The public sector's debt-to-GDP ratio is projected to peak at 102.6 percent in 2015 (from 94.3 percent and 96.6 percent in 2013 and 2014 respectively) and will decline to 81.2 percent by 2019, before reaching the ECCU 60 percent debt target by the year 2023. The projected deterioration of the central government debt ratio in 2014 reflects the settlement of the Half Moon Bay debt.[5] The reduction after 2015 arises from an expected improvement in the primary fiscal balance owed to average annual CIP revenues of about 1.9 percent of GDP and underlying primary balances of 3 percent of GDP starting in 2016. .

Growth. The real GDP projections in 2015–19 have been revised downward. Recent projections of growth outcomes have exhibited reasonable forecast errors, particularly during 2011–13 (Figure 2, top left panel).[6] The macroeconomic forecast is still associated with large uncertainties, tilted slightly to the downside (see Appendix II in the Staff Report).

Fiscal adjustment. Staff projections target an average primary surplus of 4.9 percent of GDP for the period 2016-19, assisted by CIP receipts; the underlying surplus is 3.0 percent. However, in 2015 the

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[2] This DSA uses the Market Access Countries framework; the guidance note of the new DSA framework can be found at: http://www.imf.org/external/np/pp/eng/2013/050913.pdf.

[3] Arrears to Paris Club creditors amounted to US$7 million (or 0.6 percent of GDP) by end-June from US$2.5 million at end-2013 (or 0.2 percent of GDP). Arrears have also emerged vis-à-vis non-Paris Club countries (Venezuela and China) as well as the European Investment Bank and the OPEC Fund for International Development.

[4] Scheduled debt service payments to the Fund have been made through September 2014, secured by a private domestic bond of EC$25 million (0.7 percent of GDP). Payments of US$5.6 million (EC$15.1 million or 0.5 percent of GDP) are due between October and December 2014.

[5] The Half Moon Bay settlement amounts to US$40 million (or 3.2 percent of GDP). The government is waiting for the ruling on their proposed payment schedule.

[6] Systematic biases in projection of key macroeconomic aggregates could undermine the DSA assessment.

government would run a primary deficit of 5.6 percent of GDP, reflecting one-time costs to help resolve ABIB.[7] Achieving these primary balances will be a challenge; the headline fiscal adjustment required by the cyclically-adjusted primary balance (CABP) in Antigua places it at the top decile of world adjustments (see Figure 2).[8] As noted, much of this "adjustment" is the result of windfall revenues from the Citizenship by Investment Program. The underlying primary surplus of around 3 percent of GDP is much lower and would be in the 3rd quartile of world adjustments.

Financing needs. The public sector gross financing needs will almost double to 17.7 percent of GDP in 2015 to finance the bank resolution, but then will quickly return to an average of about 11 percent of GDP for the 2016-19 period.

Interest rate profile. As the bulk of future financing is expected to come from domestic sources the effective interest rate is expected to increase. Through end-2013, the share of public sector external debt stood at 46 percent with an average interest rate of 3.1 percent and maturities ranging from 5 to 20 years. In the meantime, domestic debt carries an average interest rate of 5.8 percent with shorter maturities.

Fan charts. The fan charts in Figure 1 highlight the risks surrounding the DSA projections. While there is the potential for a rapid reduction in the debt to GDP ratio such scenarios have a low probability. Furthermore, when considering that the probability of positive shocks to the primary balance is zero (and the historical data supports this assumption) the asymmetric fan chart shows that risks are mostly tilted to the upside; suggesting that the probability of a higher debt to GDP ratio in 2019 is more likely than a lower debt ratio.

Shocks and Stress Tests (Figures 4 and 5)[9]

The stress tests further highlight deep vulnerabilities of the debt profile to various shocks.

Growth shock. A lower real output growth of 1 standard deviation for 2 years starting in 2014 would have a significant impact on the level of gross debt, which would reach 123.7 percent of GDP in 2016 and although the debt ratio would start to decline afterwards, it would still be above the 2014 level by 2019. This is the result of a deterioration in the primary balance relative to the 2015-16 baseline of about 2.9 percent of GDP. On the other hand, the staff report points to an upside risk to

[7] Excluding the resolution of ABIB the government would have a headline primary surplus of 6 percent of GDP.

[8] That is, of all the fiscal adjustments done in advanced and emerging markets in the period 1990-2011 (for countries with debt above 60 percent of GDP) only 10 percent of those adjustments have been larger as measured by the headline balance than the one envisaged for Antigua under the staff's proposed scenario.

[9] This section discusses the major sources of debt distress. Given Antigua and Barbuda's current and prospective debt structure, the pass-through of the exchange rate is relatively small (compared to growth, fiscal, contingent liability, and interest rate shocks). It should be noted that the exchange rate shock also makes part of the combined shock.

growth stemming from possible large investments in the tourism sector. If these investments were to materialize, the debt to GDP ratio would decline much faster than in the baseline scenario.

Primary balance shock. A shock equivalent to 50 percent of the planned adjustment through 2019 would be equivalent to a deterioration of 2.7 percentage points in the primary balance (from the baseline scenario) in 2015–16. The debt-to-GDP ratio would be about 4.5 percentage points higher than the baseline on average over 2015–19, and gross financing needs would also be about 2.5 percent of GDP higher than the baseline over the same period.

Interest rate shock. This stress test assumes a permanent increase in the nominal interest rate by 200 bps starting in 2015.[10] Higher borrowing costs would slow the decrease in the debt-to-GDP ratio, which ends up 5.3 percentage points higher than in the baseline in 2019, at around 86.6 percent.

Combined macro-fiscal shock. A combination of the above shocks generates unsustainable debt dynamics. In this case, the debt-to-GDP ratio would reach 123.4 percent of GDP in 2019 (from 119 percent of GDP in 2015) and continue to rise thereafter. Similarly, gross financing needs would exceed 25 percent of GDP by 2019.

Contingent liability shock. The sizeable contingent liabilities of the banking and public sector still remain a significant source of risk to debt sustainability. Despite the lack of detailed information, many SOEs are facing debt management and financial problems (e.g. APUA, the Airport Authority, and St John's Hospital). If the government was required to assume 10 percent of banks' total assets (excluding banks recapitalization[11]) through a one-time bail out, the debt-to-GDP ratio would jump to 141.6 percent by 2016 before declining to 128.6 percent by 2019, and gross financing needs would be about 15.8 percentage points above the baseline (on average).[12]

EXTERNAL PUBLIC SECTOR DEBT SUSTAINABILITY ANALYSIS

Gross external financing needs are expected to remain high in the medium term to service the debt from Paris Club and the Fund (Figure 6 and Table 1). External debt was revised upward by 4 percent of GDP in 2013 to account for borrowings from China for the airport terminal. Over the medium term, SOEs debt is assumed to remain around 18.6 percent of GDP to account for their difficult financial situations. This is consistent with the deteriorating current account projection,

[10] It could be associated with market concerns about the credibility of policies to bring down debt that could increase the sovereign risk premium. It is assumed that this higher borrowing cost will not depress growth.

[11] The contingent liabilities associated with bank resolution have already been incorporated into the debt projections starting in 2015.

[12] The DSA framework standard stress test on contingent liabilities assumes 10 percent of banks' assets are borne by the government (directly through non-interest expenditure). The scenario also implies a real GDP growth shock of a 1-standard deviation for 2 years.

growth slowdown and less optimistic outlook of foreign direct investment inflow. Most of the consolidation is expected to be done on domestic debt. While external debt remains resilient to an interest rate and growth shock, it is highly vulnerable to adverse current account or depreciation shocks. Gross external financing needs are expected to remain high, although on a declining path, at about 16 percent of GDP on average in 2014–19 as Antigua and Barbuda starts to service their debt from Paris Club and the Fund.

Conclusion

The analysis indicates that the debt-to-GDP profile under staff's proposed scenario is sustainable but subject to a high risk of debt distress. The debt trajectory shows a steady decline after the banking sector is resolved, but it entails substantial headline fiscal adjustments that will be challenging to sustain over time, and that rely heavily on the volatile Citizenship by Investment revenues. Furthermore, finding the resources to finance the banking system resolution in 2015 will be a challenge, given the government cash flow difficulties; which could be exacerbated if PetroCaribe flows are disrupted. Thus, the outlook for public debt remains fragile and is vulnerable to shocks, particularly contingent liabilities, and growth and fiscal shocks.

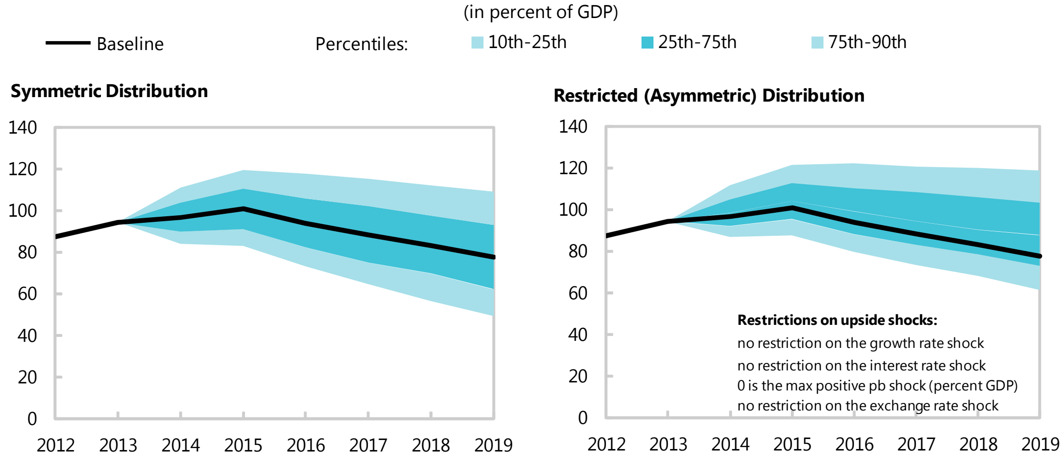
Figure 1. Antigua and Barbuda: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

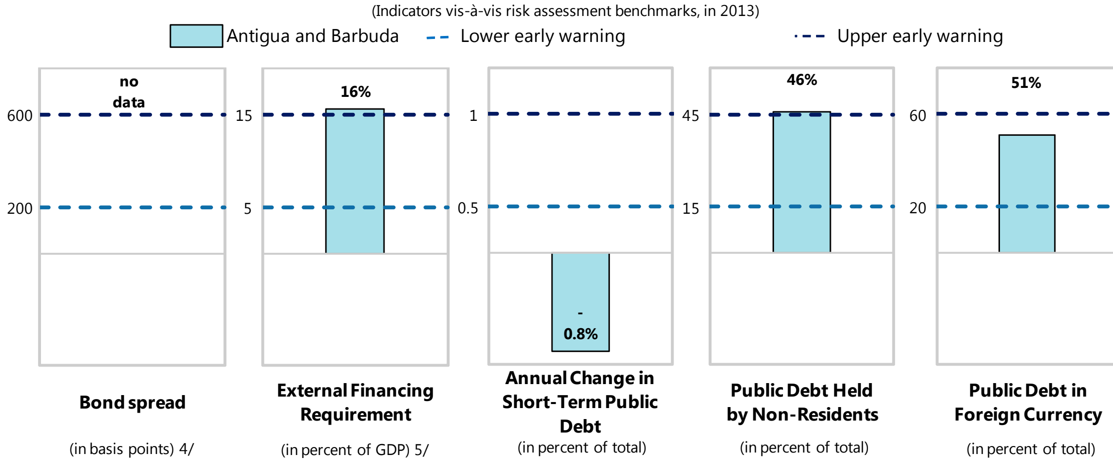
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

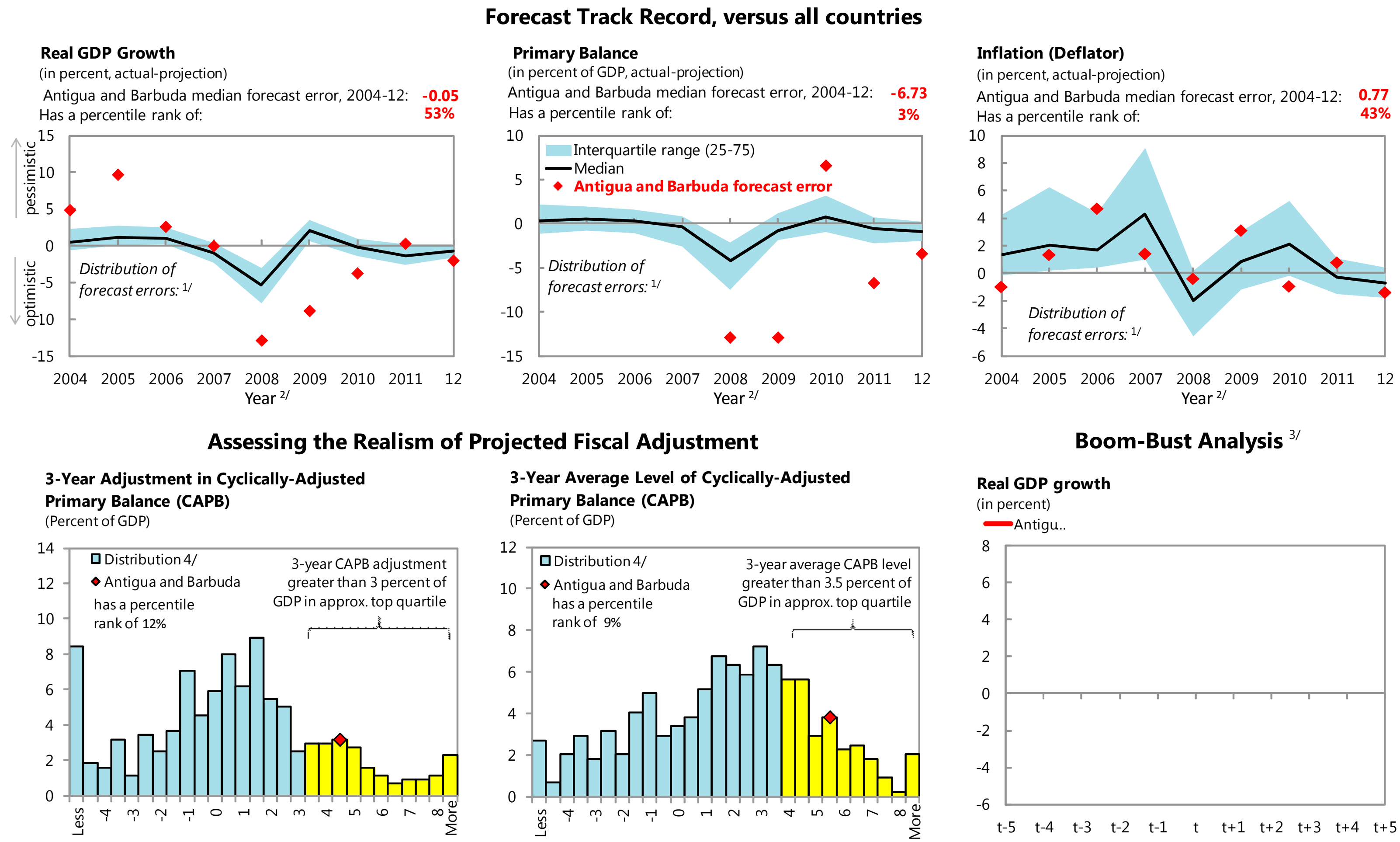
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 24-Mar-14 through 22-Jun-14.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Antigua and Barbuda Public DSA - Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Antigua and Barbuda.

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Antigua and Barbuda: Public Sector Debt Sustainability Analysis (DSA) - Active Scenario

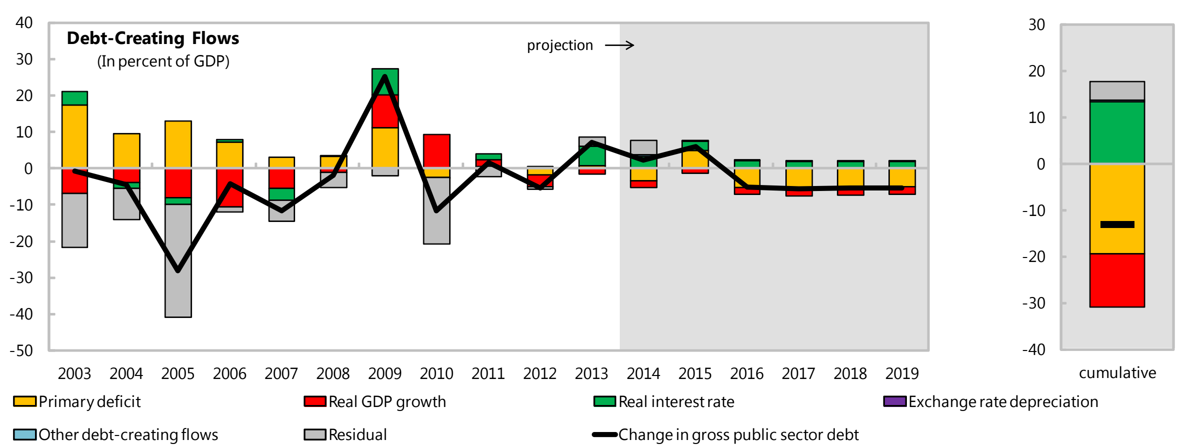
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2003-2011 [2]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	97.6	87.1	94.3	96.6	102.6	97.6	92.0	86.5	81.2
Public gross financing needs	17.1	5.0	11.0	9.5	17.7	10.5	10.7	11.3	11.6
Real GDP growth (in percent)	1.8	3.6	1.8	1.9	1.4	1.8	2.5	2.5	2.5
Inflation (GDP deflator, in percent)	2.3	2.9	-2.1	1.1	1.9	2.4	2.5	2.5	2.5
Nominal GDP growth (in percent)	4.2	6.6	-0.3	3.0	3.4	4.2	5.0	5.1	5.1
Effective interest rate (in percent) [3]	3.1	3.6	3.9	4.7	4.5	4.6	4.6	4.7	4.7

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [8]
Change in gross public sector debt	-4.0	-5.3	7.1	2.3	6.1	-5.0	-5.6	-5.4	-5.3	-13.1	
Identified debt-creating flows	...	-4.6	4.5	-1.5	6.0	-5.1	-5.7	-5.5	-5.4	-17.1	
Primary deficit	6.9	-1.9	0.8	-3.6	5.0	-5.4	-5.2	-5.2	-5.1	-19.5	-0.3
Primary (noninterest) revenue and grants	20.7	19.8	18.7	20.5	22.4	21.6	21.5	21.5	21.4	129.0	
Primary (noninterest) expenditure	27.7	17.9	19.5	17.0	27.4	16.2	16.3	16.3	16.4	109.5	
Automatic debt dynamics [4]	...	-2.6	3.7	1.6	1.1	0.3	-0.4	-0.3	-0.3	1.9	
Interest rate/growth differential [5]	...	-2.6	3.7	1.6	1.1	0.3	-0.4	-0.3	-0.3	1.9	
Of which: real interest rate	...	0.5	5.3	3.3	2.4	2.1	1.9	1.9	1.8	13.3	
Of which: real GDP growth	-1.8	-3.1	-1.6	-1.7	-1.3	-1.8	-2.3	-2.2	-2.1	-11.3	
Exchange rate depreciation [6]	...	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.5	
Increase in Pub. sec. deposits (negative)	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [7]	...	-0.7	2.6	3.8	0.0	0.0	0.0	0.0	0.0	4.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

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

5/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as -g.

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

7/ In 2014 it includes the assumption of the Half Moon Bay liability.

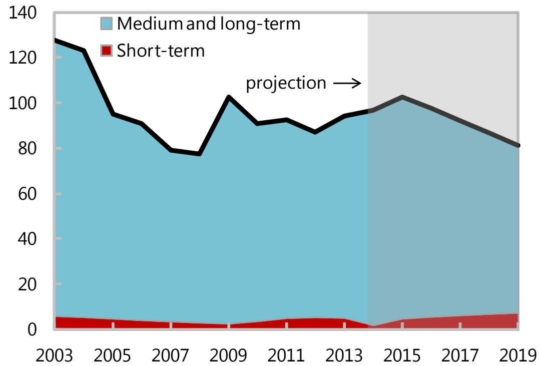
Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

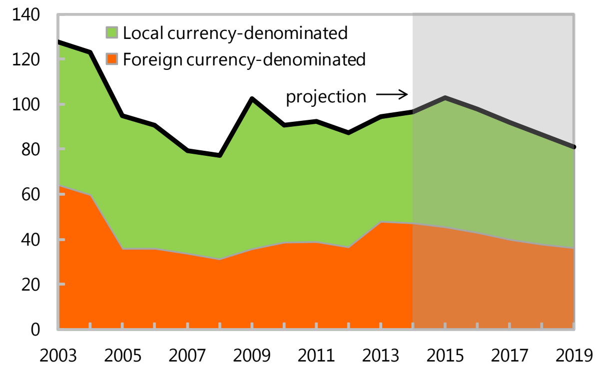
Figure 4. Antigua and Barbuda:Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



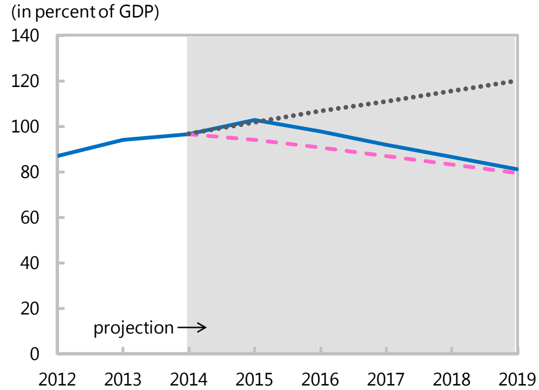
By Currency
(in percent of GDP)



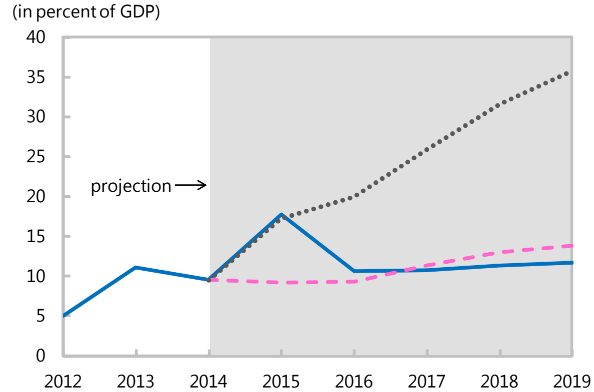
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

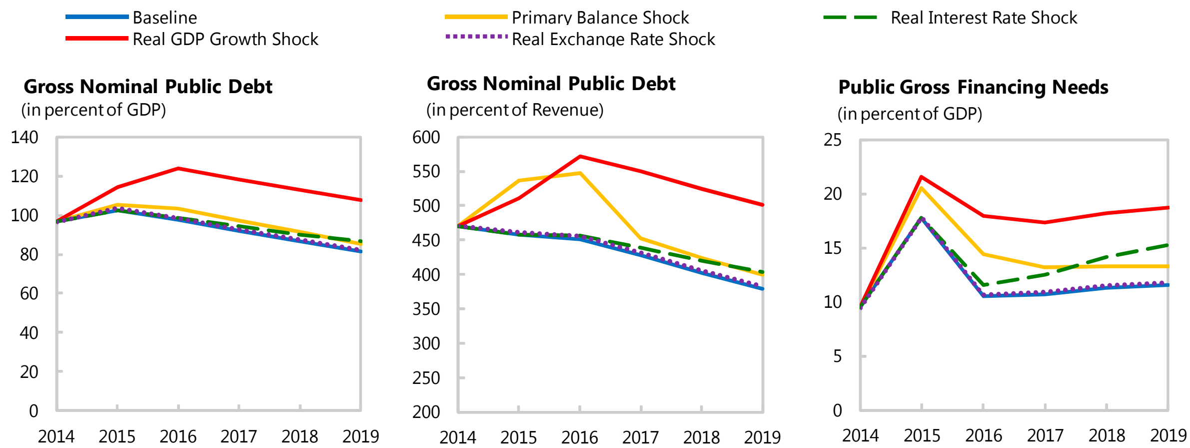
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.9	1.4	1.8	2.5	2.5	2.5
Inflation	1.1	1.9	2.4	2.5	2.5	2.5
Primary Balance	3.6	-5.0	5.4	5.2	5.2	5.1
Effective interest rate	4.7	4.5	4.6	4.6	4.7	4.7
Constant Primary Balance Scenario						
Real GDP growth	1.9	1.4	1.8	2.5	2.5	2.5
Inflation	1.1	1.9	2.4	2.5	2.5	2.5
Primary Balance 1/	3.6	3.6	3.6	3.6	3.6	3.6
Effective interest rate	4.7	4.5	4.6	4.6	4.8	4.8

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.9	1.6	1.6	1.6	1.6	1.6
Inflation	1.1	1.9	2.4	2.5	2.5	2.5
Primary Balance	3.6	-4.4	-4.4	-4.4	-4.4	-4.4
Effective interest rate	4.7	4.5	4.4	4.3	4.3	4.2

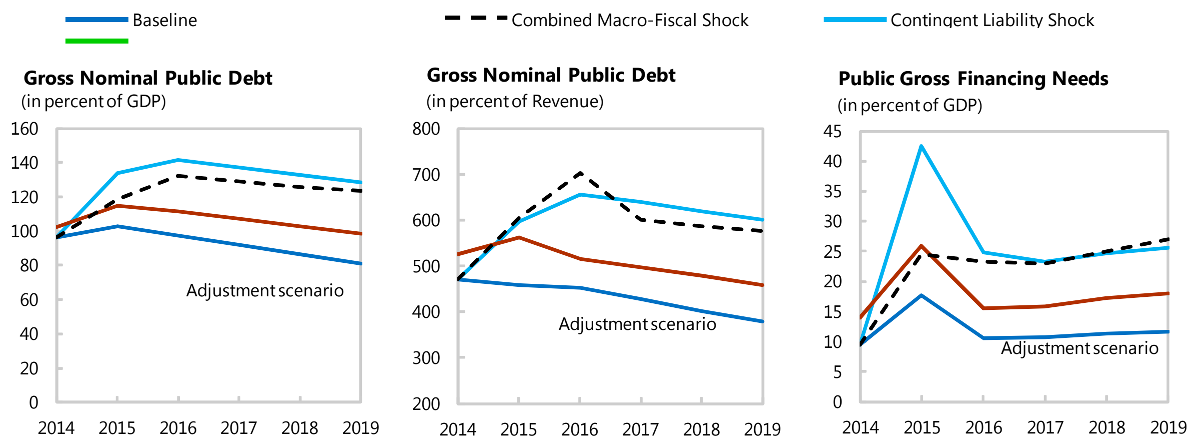
Source: IMF staff.
1/ Primary balance in 2015–19 is adjusted from the assumed ABIB resolution in 2014 (10.4 percent of GDP).

Figure 5. Antigua and Barbuda:Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

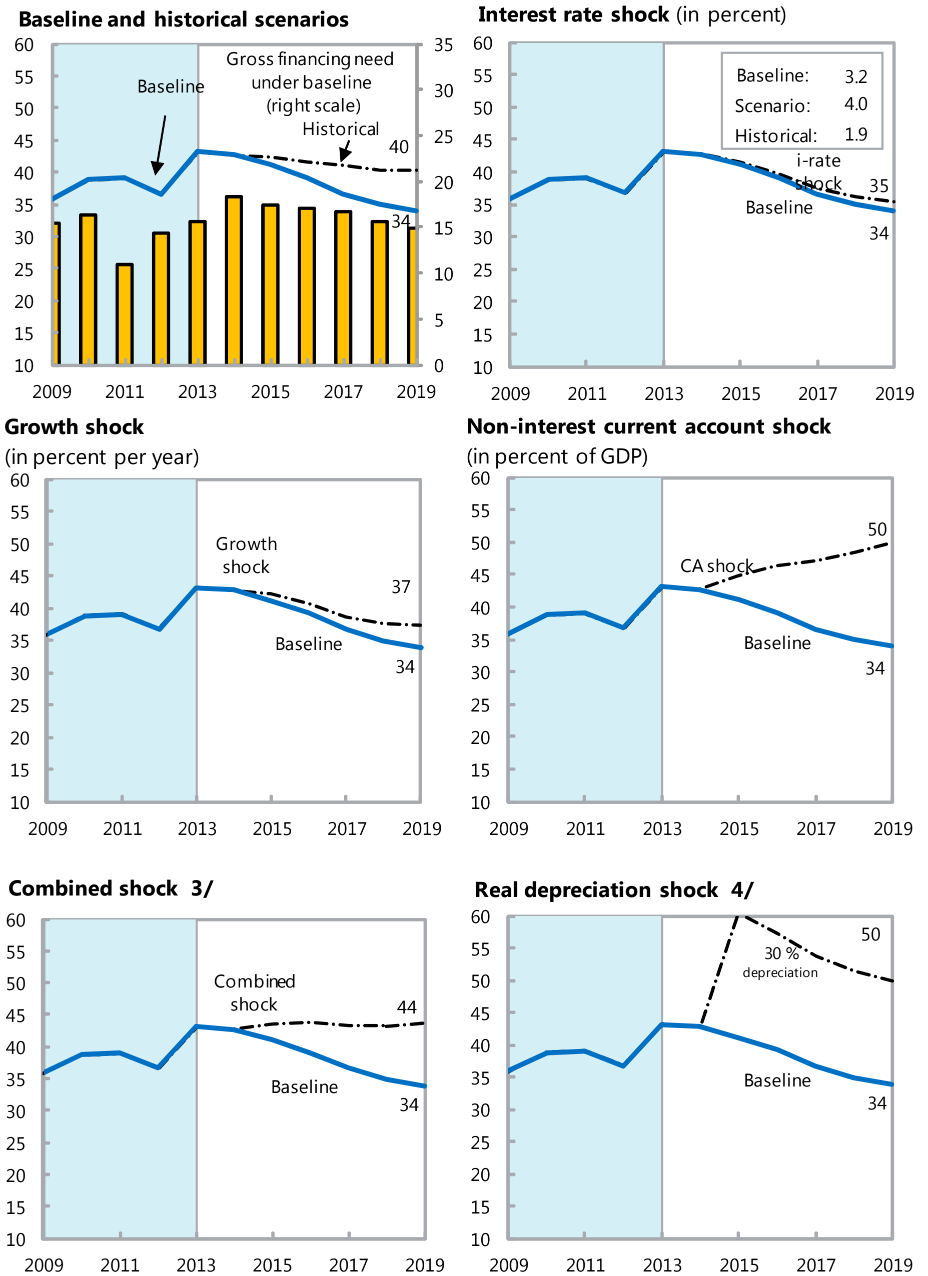
	2014	2015	2016	2017	2018	2019
Primary Balance Shock						
Real GDP growth	1.9	1.4	1.8	3.1	3.1	3.1
Inflation	1.1	1.9	2.4	2.5	2.5	2.5
Primary balance	3.6	-7.7	2.7	5.2	5.2	5.1
Effective interest rate	4.7	4.5	4.7	4.7	4.8	4.8
Real Interest Rate Shock						
Real GDP growth	1.9	1.4	1.8	2.5	2.5	2.5
Inflation	1.1	1.9	2.4	2.5	2.5	2.5
Primary balance	3.6	-5.0	5.4	5.2	5.2	5.1
Effective interest rate	4.7	4.5	5.6	5.9	6.4	6.7
Combined Shock						
Real GDP growth	1.9	-5.7	-5.3	2.5	2.5	2.5
Inflation	1.1	0.2	0.6	2.5	2.5	2.5
Primary balance	3.6	-10.3	-0.5	5.2	5.2	5.1
Effective interest rate	4.7	4.6	5.7	6.3	6.8	7.1

	2014	2015	2016	2017	2018	2019
Real GDP Growth Shock						
Real GDP growth	1.9	-5.7	-5.3	2.5	2.5	2.5
Inflation	1.1	0.2	0.6	2.5	2.5	2.5
Primary balance	3.6	-7.6	2.2	5.2	5.2	5.1
Effective interest rate	4.7	4.5	4.7	4.8	4.8	4.8
Real Exchange Rate Shock						
Real GDP growth	1.9	1.4	1.8	2.5	2.5	2.5
Inflation	1.1	2.8	2.4	2.5	2.5	2.5
Primary balance	3.6	-5.0	5.4	5.2	5.2	5.1
Effective interest rate	4.7	4.6	4.6	4.5	4.7	4.7
Contingent Liability Shock						
Real GDP growth	1.9	-5.7	-5.3	2.5	2.5	2.5
Inflation	1.1	1.9	2.3	2.5	2.5	2.5
Primary balance	3.6	-28.5	5.4	5.2	5.2	5.1
Effective interest rate	4.7	4.7	6.3	5.6	5.7	5.6

Source: IMF staff.

Figure 6. Country: External Debt Sustainability: Bound Tests1/ 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.

Table 1. Country: External Debt Sustainability Framework, 2009-2019

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2009	2010	2011	2012	2013			2014	2015	2016	2017	2018	2019	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	35.8	38.7	39.0	36.7	43.1			**42.7**	**41.1**	**39.1**	**36.6**	**35.0**	**33.9**	**-11.9**
2 Change in external debt	4.5	2.9	0.3	-2.3	6.5			-0.4	-1.6	-2.0	-2.5	-1.6	-1.1	
3 Identified external debt-creating flows (4+8+9)	11.0	8.4	4.8	0.7	6.4			3.1	1.8	1.2	0.8	0.5	0.3	
4 Current account deficit, excluding interest payments	11.9	14.5	10.1	13.5	13.3			13.9	13.2	12.3	11.8	11.6	11.3	
5 Deficit in balance of goods and services	12.0	13.7	9.2	12.1	13.4			14.4	13.7	12.8	12.2	11.9	11.6	
6 Exports	46.6	46.1	47.6	45.0	45.9			46.1	46.8	47.3	47.4	47.5	47.7	
7 Imports	58.6	59.8	56.8	57.1	59.3			60.5	60.5	60.0	59.6	59.4	59.3	
8 Net non-debt creating capital inflows (negative)	-6.7	-8.5	-5.8	-10.7	-7.9			-11.4	-12.1	-11.7	-11.3	-11.3	-11.3	
9 Automatic debt dynamics 1/	5.8	2.4	0.5	-2.1	0.9			0.6	0.7	0.6	0.3	0.3	0.3	
10 Contribution from nominal interest rate	2.1	0.2	0.3	0.4	0.8			1.3	1.3	1.3	1.2	1.1	1.1	
11 Contribution from real GDP growth	3.7	3.2	0.7	-1.3	-0.7			-0.8	-0.6	-0.7	-0.9	-0.9	-0.8	
12 Contribution from price and exchange rate changes 2/	-0.1	-1.0	-0.5	-1.1	0.8			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-6.5	-5.5	-4.6	-3.0	0.1			-3.5	-3.4	-3.2	-3.3	-2.1	-1.3	
External debt-to-exports ratio (in percent)	76.9	84.0	82.0	81.6	94.1			92.7	87.9	82.8	77.3	73.6	71.1	
Gross external financing need (in billions of US dollars) 4/	0.2	0.2	0.1	0.2	0.2			0.2	0.2	0.2	0.2	0.2	0.2	
in percent of GDP	15.4	16.3	10.9	14.4	15.5	10-Year	10-Year	18.3	17.4	17.0	16.7	15.6	15.0	
Scenario with key variables at their historical averages 5/								**42.7**	**42.3**	**41.7**	**41.0**	**40.4**	**40.3**	**-14.8**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	-10.7	-8.5	-1.9	3.6	1.8	1.6	7.1	1.9	1.4	1.8	2.5	2.5	2.5	
GDP deflator in US dollars (change in percent)	0.2	2.9	1.4	2.9	-2.1	2.2	2.2	1.1	1.9	2.4	2.5	2.5	2.5	
Nominal external interest rate (in percent)	6.0	0.6	0.8	1.0	2.2	1.9	1.5	3.2	3.2	3.2	3.2	3.3	3.3	
Growth of exports (US dollar terms, in percent)	-10.2	-6.7	2.7	0.7	1.7	2.0	7.1	3.5	5.0	5.2	5.3	5.4	5.5	
Growth of imports (US dollar terms, in percent)	-25.8	-3.9	-5.5	7.2	3.5	3.7	13.2	5.1	3.4	3.4	4.2	4.8	4.9	
Current account balance, excluding interest payments	-11.9	-14.5	-10.1	-13.5	-13.3	-17.0	7.2	-13.9	-13.2	-12.3	-11.8	-11.6	-11.3	
Net non-debt creating capital inflows	6.7	8.5	5.8	10.7	7.9	14.0	9.2	11.4	12.1	11.7	11.3	11.3	11.3	

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.

INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

November 7, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND POST-PROGRAM MONITORING—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department (in collaboration with other departments and institutions)

CONTENTS

FUND RELATIONS

Antigua and Barbuda: Financial Position in the Fund as of September 30, 2014

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

General Resources Account:	SDR Million	%Quota
Quota	13.50	100.00
Fund holdings of currency (Exchange Rate)	68.31	505.97
Reserve Tranche Position	0.05	0.38

SDR Department:	SDR Million	%Allocation
Net cumulative allocation	12.50	100.00
Holdings	0.07	0.56

Outstanding Purchases and Loans:	SDR Million	%Quota
Stand-by Arrangements	54.84	406.25

Latest Financial Arrangements:

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

Implementation of HIPC Initiative: Not Applicable

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

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

As of August 31, 2014 Antigua and Barbuda has outstanding obligations to the Fund of SDR54.84 million, or 406.3 percent of quota, arising from cumulative disbursements under the Standby Arrangement. The last Article IV Consultation was concluded by the Executive Board on October 17, 2012. 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, public financial management, CPI compilation and balance of payments statistics. 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

(As of July, 2014)

World Bank Group OECS Regional Partnership Strategy: In June 2010, the Board of Executive Directors of the World Bank discussed a joint Bank/IFC Regional Partnership Strategy (RPS or Strategy) for the six independent countries of the Organization of Eastern Caribbean States[1] (OECS). The Strategy covers a five year period (2010-14) which coincides with the duration of the election cycles in all six countries, although the timing of the elections in the countries is not aligned. 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. A Progress Report that assesses the implementation of the Strategy at the mid-term and outlines how the Bank will position itself strategically for the remainder of the RPS period has been presented to the Board in May 2012.

To help build resilience, the Bank Group supports 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 focuses its support on two critical areas: strengthening the

[1] While the OECS comprises six independent countries and three British Overseas Territories, the RPS covers only the six independent countries, namely: Antigua and Barbuda; Dominica; Grenada; St. Kitts and Nevis; Saint Lucia; and St. Vincent and the Grenadines. Excepting St. Vincent and the Grenadines which did not join IFC, all are members of the World Bank Group.

countries' domestic financial sectors and improving access to quality services to create more competitive business environments.

The RPS is also providing 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 program of support entails new commitments totaling up to about US$120 million on IBRD terms for the six independent countries and up to US$73 million of IDA (depending on their Country Policy and Institutional Assessment-CPIA) for the four eligible OECS (Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines) which are also eligible to IDA ("blend" countries).

The WBG is currently working on the new OECS RPS which will cover the period FY15-19, and is expected to be presented to the Board by the end of 2014. The high-level objective of the new RPS will be to contribute to lay the foundations for sustainable inclusive growth, in line with OECS government priorities. In order to achieve this goal, the program is planned to be organized around three main themes. Under the first theme, the WBG is planning to support competitiveness. Growth and job creation in the private sector will be supported both horizontally – by improving the business environment and, in particular, contributing to a sound financial sector – and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (including tourism, agriculture and their respective linkages). The second theme is public sector modernization, with particular focus on public financial management (PFM) and institutional capacity, including for statistical capacity building and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third theme is resilience to systemic vulnerabilities, and focuses on building social, economic, fiscal, and disaster risks resilience.

A. Projects

Currently, the WBG portfolio in Antigua and Barbuda consists only of a US$10 million investment loan, for a Public Sector and Social Transformation (PSST) project, first WBG lending engagement ever in the country, approved on June 5, 2013. The operation is aimed at: (i) strengthening government capacity in managing public policies and the public service; (ii) improve the efficiency of social protection spending through an integrated monitoring and targeting system; and (iii) improve the income and the employability of vulnerable population through temporary employment and training programs.

In addition, there is an active Institutional Development Fund (IDF) grant on Enhancing Efficiency in Personnel Expenditures, which supports activities aimed at achieving a fiscally sustainable wage bill. The Bank also conducted a Social Protection Assessment, for which consultations on the findings and recommendations outlined in the Assessment were carried out in late June 2011.

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK

(As of June 30, 2014)

The Caribbean Development Bank (CDB) has supported the economic and social development of Antigua and Barbuda (AB) since its inception in 1970 by financing priority capital and technical assistance (TA) projects and by engaging in policy dialogue with the Government. Over the years, CDB's involvement with AB has been mainly concerned with activities such as: formulation and implementation of macroeconomic, social and sectoral policies; development of economic and social infrastructure to facilitate growth and economic diversification; and direct and indirect lending to the productive sectors. At the end of June 2014, CDB had approved loans totaling USD136.6 million (mn) to AB, of which USD38.2 mn was undisbursed. Net resource flows to AB have been generally positive but were negative in 2009, 2012 and during the first half of 2014. Table 1 provides a summary of CDB's net resource flows to AB over the period 2009 to the first half of 2014.

Table 1: Caribbean Development Bank's Flows to Antiguan and Barbuda, 2009-2014

(US$ million)

Item	2009	2010	2011	2012	2013	2014[1]
Net Disbursements	0.60	9.41	9.05	(0.43)	10.70	(0.94)
- Disbursements	2.90	11.85	11.98	2.44	14.66	0.49
- Amortizations	2.30	2.44	2.93	2.87	3.96	1.43
Interest, commitment fees and other charges	2.37	1.41	1.62	1.50	2.41	1.16
Net Resource Flows	**(1.77)**	**8.00**	**7.43**	**(1.93)**	**8.29**	**(2.1)**

Source: Caribbean Development Bank.

[1] As at June 30, 2014.

Major current capital projects currently under implementation include the following:

1. Policy-based Loan – intended to support policy and institutional reforms in the areas of macroeconomic management; expenditure and debt management; revenue enhancement; and social transformation. It is also expected to help the Government of Antigua and Barbuda (GOAB) restore fiscal and debt sustainability by closing the financing gap through a combination of financing from the International Monetary Fund and CDB, as well as a comprehensive debt restructuring.

2. Fleet Modernization Project – is a loan to be on lent to LIAT (1974) Limited for use in its fleet modernization, which is expected to result in an improvement in the airline's financial performance and operational efficiency. The age of the fleet of aircraft had posed a significant risk to the airlines viability and the socio-economic benefits accruing to AB and the wider Caribbean, particularly the support provided to the tourism industry.

3. Basic Education Project II – is aimed at enhancing the education sector by improving access quality and effectiveness of education at the pre-primary and secondary levels. It will also entail enhancements of the learning and teaching environments; school management and institutional effectiveness; and planning and management of the sector.

Major TA projects currently under implementation include the following:

1. Functional and Efficiency Reviews of Government Ministries – is intended to provide an analytical framework with recommendations and action plans to assist GOAB to rationalize and restructure the public service to increase efficiency and effectiveness in the delivery of services.

2. Institutional Strengthening of the Framework for Development Planning and Management – is aimed at assisting GOAB to undertake a review of the current development planning framework and make recommendations to strengthen its operation and provide training to staff involved in the planning process.

3. Medium-term Development Strategy – is intended to provide GOAB with a development strategy to guide socio-economic development and accelerate economic growth over the medium-term.

Table 2 provides a summary of CDB's current capital and TA projects under implementation in AB, together with the amounts approved and the undisbursed balances.

Table 2: Current Caribbean Development Bank Projects Under Implementation in Antigua and Babruda[1]

(US$ million)

Item	Approval	Undisbursed
(a) Capital Projects		
Policy-Based Loan	30.0	10.00
Fleet Modernization Project	21.90	14.36
Basic Education Project II	13.51	13.51
(b) Technical Assistance Projects		
Functional and Efficiency Reviews of Government Ministries	0.17	0.17
Institutional Strengthening of the Framework for Development Planning and Management	0.15	0.15
Medium-term Development Strategy	0.04	0.04

Source: Caribbean Development Bank.

[1] As at June 30, 2014.

STATISTICAL ISSUES

(As on November 7, 2014)

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, labor market statistics fiscal, financial information on state-owned enterprises, 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 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 were 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. Source data for commercial banks do not provide the desegregation recommended by the Monetary and Financial Statistics Manual and Compilation Guide. Close coordination between the ECCB and the single regulatory unit

(which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB is currently working in implementing a new reporting system for commercial banks that is envisaged to address the recommendations made by the April 2007 data ROSC mission. It is expected that the new reporting system would be implemented in 2015.
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. On Balance of Payments and International Investment Position, the ECCB has been encouraged to use Microsoft Excel, as an interim solution to process the information. They have agreed and the new forms are scheduled to be implemented in early 2015.
II. Data Standards and Quality
Antigua and Barbuda participates in the Fund's General Data Dissemination System (GDDS) since October 2000. Its metadata is posted the Fund's Dissemination Standards Bulletin Board and updated since October 2, 2002 (http://dsbb.imf.org). 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).* STA staff converted quarterly fiscal data currently available in the ECCB website into the GFSM 2001 format and, with the authorization of the authorities, disseminated this dataset in the *Government Finance Statistics Yearbook* (GFSY, annual data) as well as in the *IFS* (quarterly data). 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 2014)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	Fixed Rate	NA	NA	NA	NA.
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	08/2014	10/10/2014	M	M	M
Reserve/Base Money	08/2014	10/10/2014	M	M	M
Broad Money	08/2014	10/10/2014	M	M	M
Central Bank Balance Sheet	08/2014	10/10/2014	M	M	M
Consolidated Balance Sheet of the Banking System	08/2014	10/10/2014	M	M	M
Interest Rates[2]	08/2014	10/10/2014	M	M	M
Consumer Price Index	09/2014	10/20/2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	06/2014	08/25/2014	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	06/2014	08/22/2014	Q	Q	A
External Current Account Balance	2013	08/22/2014	A	A	A
Exports and Imports of Goods and Services	2013	08/22/2014	A	A	A
GDP/GNP	2013	08/22/2014	A	A	A
Gross External Debt	06/2014	08/22/2014	Q	Q	A

[1] includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

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

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] Central government only.

[5] Including currency and maturity composition.

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