

International Monetary Fund

[Antigua and Barbuda](#)
and the IMF

Antigua and Barbuda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Press Release:
[IMF Executive Board](#)
[Completes Seventh](#)
[Review Under Stand-](#)
[by Arrangement for](#)
[Antigua and Barbuda](#)
[and Approves US\\$5.2](#)
[Million Disbursement](#)
November 1, 2012

October 17, 2012

The following item is a Letter of Intent of the government of Antigua and Barbuda, which describes the policies that Antigua and Barbuda intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Antigua and Barbuda, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

[Country's Policy](#)
[Intentions Documents](#)

E-Mail Notification
[Subscribe](#) or [Modify](#)
your subscription

St. Johns, Antigua
October 17, 2012

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

Dear Madame Lagarde,

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

Within this context, Antigua and Barbuda's performance under the SBA continues to be strong. We have met all of the performance criteria under the program for end-June 2012, except for the continuous performance criterion on external arrears, which was missed by a very small amount (0.01 percent of GDP) due to a delay in loan payments of less than a month to the Caribbean Development Bank. Accordingly, we are requesting a waiver of nonobservance for this performance criterion based on the fact that the deviation from the performance criterion was small and temporary. We have also made progress on meeting structural benchmarks under the program. Although some benchmarks have been delayed, decisive action has been taken to move reforms forward, particularly in the area of revenue administration, and we remain committed to the reform agenda in customs, public financial management, and civil service and public enterprise reform. We have also made progress on benchmarks in the financial sector, although there have been some delays related to the need to wait for the conclusion of an updated valuation of ABIB's balance sheet to conclude the resolution of the bank.

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

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

We are confident that the economic and financial policies set forth in the Memorandum of Economic and Financial Policies (MEFP) are adequate to ensure that the objectives of our program are met. However, should there be any unforeseen events or external shocks, the Government of Antigua and Barbuda stands ready to adopt the necessary policies and measures to secure the objectives of the program. The Government of Antigua and Barbuda will consult with the IMF on the adoption of such policies and measures, and in advance of revisions to the policies contained in the above mentioned MEFP, in accordance with the Fund's policies on such consultations. In addition, the Government of Antigua and Barbuda does not intend to impose new, or to intensify existing, trade restrictions for balance of payments purposes, or enter into bilateral payment agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. In line with our commitment to transparency, we authorize the Fund to publish this letter of intent, the MEFP, the Technical Memorandum of Understandings, and the accompanying staff report.

Sincerely yours,

/s/

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

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understandings

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2012–2013

I. ECONOMIC DEVELOPMENTS

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

- **Growth and inflation.** Real economic activity seems to be recovering, driven by a small pickup in tourist and construction activity. Headline inflation has been trending down during the year, from 5.6 percent year-on-year in January 2012 to 3½ percent year-on-year in July.
- **Balance of payments.** The current account deficit is expected to widen marginally in 2012 (by about ¾ percent of GDP to 11½ percent of GDP) as domestic demand and imports recover with economic activity.
- **Banking sector.** Banks continue to be challenged by the steep decline in economic activity in the last few years that continues to have a negative effect on their portfolios. The ratio of non-performing loans has increased from 12.8 percent in December 2011 to 13.9 percent in June 2012, but still remains below its peak of 17.7 percent in March, 2009.

II. PERFORMANCE UNDER THE PROGRAM

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

- **Overall balance.** The performance criterion on the overall deficit of the central government was met exactly (the outcome of a deficit of EC\$16 million was equal to the performance criterion). The government met its tax revenue objectives under the program as reforms to the Inland Revenue Department have begun to bear fruit. However, current expenditure was slightly higher than expected due to unexpected payments for government personnel, compensation payments that have been ordered by the Court, and transfers to the statutory bodies (external debt payments guaranteed by the central government, and operational costs for the Port Authority). These were offset by lower capital expenditure and lower interest payments than projected.
- **Primary balance.** The indicative target on the primary balance was missed by a small margin (0.3 percent of GDP) due to higher current expenditure than envisaged.
- **External debt and arrears.** The performance criteria on external short term debt and the contracting or guaranteeing of external debt by the non-financial public sector were met. However, the continuous performance criterion on external arrears was breached as arrears of EC\$1 million (0.01 percent of GDP) were accumulated due to a payment that was due to the Caribbean Development Bank in late June that was not paid until early July. We are requesting a

waiver for this performance criterion based on the fact that the arrears were very small and paid less than a month after the due date.

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

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

- **Financial sector benchmarks.** On the financial sector, the ECCB completed the on-site full scope examinations of indigenous banks, but the presentation of strategic plan for the new bank has been delayed until the completion of the updated valuation of ABIB, which was completed in early October 2012. Also the amalgamation of the domestic banking system has been delayed by slower than anticipated progress with finalizing the resolution of ABIB, which is expected in late November 2012. Although the asset management company to dispose of the impaired assets from the ABIB resolution has been incorporated, it is not expected to become fully operational until the resolution of ABIB is complete. The Government will receive assistance from an international accounting firm to flesh out the precise operational structure of the company and develop the appropriate strategy for disposing of the impaired assets.
- **Internal revenue administration benchmarks.** The activation of garnishment legislation for overdue taxes has been delayed as it was folded into the new Tax Administration and Procedures Act (TAPA), which harmonizes tax laws and is expected to be enacted by end-November, 2012. Compliance of 15 out of 23 State Owned Enterprises (SOEs) with tax obligations was due in June but has been delayed; however, this target is expected to have been met by end-October, and compliance for all 23 SOEs is expected by December. We expect to have met the benchmark for 40 percent of professionals to be compliant with their tax obligations by end-December.
- **Customs administration benchmarks.** Reform of customs has been delayed. The new HS 2007 customs code was due to be published in the Official Gazette in October, but the valuation/compliance audit on petroleum imports has been postponed awaiting technical assistance, and is now expected to be completed by end-October. The presentation and passage of a New Customs Act is expected by end-October. The completion of a tax expenditure study (due in September 2012) will most likely be delayed until end-October due to the need for significant technical assistance to carry it out.
- **Public financial management and civil service reform.** Work has commenced towards activation of the purchase order module of FreeBalance, but technical and hardware challenges have delayed its completion, which is now expected by end October. A strategic plan for the Audit Department has been delayed pending technical assistance which is expected to commence in October 2012. We expect the strategic plan will be adopted by Cabinet by end-November 2012. With the assistance of the PFM resident advisor and technical assistance

the Treasury is on target to clear the backlog of Government financial accounts by December 2012. The draft of the new civil service bill has been completed and we are developing a Public Sector and Social Transformation (PSST) project with the World Bank which will support our public sector reform, social protection and active labor market policy objectives. Progress on the functional reviews of ministries was slower than expected due to delays in concluding funding arrangements for the technical assistance. We expect to finalize the terms of reference and commence the process of selecting the consultants before end September 2012 and start the functional reviews by November 2012.

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

III. POLICIES FOR THE REST OF 2012 AND 2013

A. Growth and Inflation

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

B. Fiscal Policy

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

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

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

C. Recapitalization Bond

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

- The recapitalization bond will be issued by the Government of Antigua and Barbuda to the new bank when it is licensed and begins operating.
- The issuance of the recapitalization bond shall reflect the analysis of the valuation of the assets presented in the updated valuation. Specifically, the bond will be equal to the difference between the updated valuation of the assets to be transferred and the liabilities to be transferred and will be sufficient to bring the net worth of the new bank to zero.
- If in the process of establishment of the new bank the purchasers decide, in agreement with the ECCB, to value the assets to be transferred at a higher price than suggested in the updated valuation report, this will not affect the value of the recapitalization bond to be issued on the balance sheet of the new bank, and the capitalization of the new bank will be based on the valuation of assets as presented in the updated valuation report.

D. Financial Sector Policies

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

Resolution of ABIB

- **Independent valuation of the assets to be transferred to the new bank.** As mentioned above, a valuation is being undertaken and we expect it to be concluded by the end of October.
- **Strategic plan for the new bank.** This plan is being undertaken and will be presented in the context of the licensing of the new bank, which is expected to take place in November, 2012.

Rest of the Financial System

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

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

E. Structural Reforms and Social Policies

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

F. Program Monitoring

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

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

Table 1. Quantitative Performance Criteria and Indicative Targets ^{1/}

(In millions of Eastern Caribbean dollars)

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

1/ Cumulative within each calendar year.

2/ See the TMU for a description of adjusters.

3/ Assumes all debt restructuring agreements have been concluded.

4/ To be monitored on a continuous basis.

5/ Excludes debt already contracted with IMF and CDB, any development policy loans contracted with the World Bank in 2012, and loans contracted with China Eximbank for airport improvement as described in the framework agreement of Dec. 31, 2010, up to 210 million Chinese yuan.

6/ Adjusted target (including EC\$25 million for bank recapitalization), the original program target for the overall deficit was EC\$ 45 million (end-September), and EC\$ 54 million (end-December).

7/ All end-December 2011 targets are indicative targets.

Table 2. Structural Benchmarks

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

1/ These benchmarks are discussed in Box 4 of EBS/10/96 (05/25/10).

2/ Increase compliance of all 23 SOEs by December 2012.

TECHNICAL MEMORANDUM OF UNDERSTANDINGS

1. Performance under the Stand-By Arrangement (SBA) will be assessed on the basis of quantitative performance criteria and indicative targets, as well as structural benchmarks. This Technical Memorandum of Understandings presents the definitions of variables set out in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) and the reporting requirements to adequately monitor performance under the program.
2. For the purposes of the program, the exchange rate of the Eastern Caribbean dollar (EC\$) to the U.S. dollar is set at EC\$2.70 = US\$1. Foreign currency accounts denominated in currencies other than the U.S. dollar, excluding SDRs, will be first valued in the U.S. dollar at actual end-of-period exchange rates used by the ECCB to calculate the official exchange rates. SDR-denominated accounts will be valued at the program exchange rate of U.S. dollar 1.5 per SDR.

I. COVERAGE

3. For the purpose of the program, **the central government** will cover all items included in the government budget.
4. **The nonfinancial public sector** is defined as the total central government and nonfinancial public enterprises. Nonfinancial public enterprises consist of Agricultural Development Corporation, Antigua and Barbuda Hospitality Training Institute, Antigua and Barbuda Institute of Continuing Education, Antigua and Barbuda Investment Authority, Antigua and Barbuda Social Security Board of Control, Antigua Barbuda Airport Authority, Antigua Barbuda Bureau of Standards Board, Antigua Barbuda Development Bank, Antigua Barbuda Tourism Authority, Antigua Barbuda Transport Board, Antigua Pier Group Limited, Antigua Port Authority, Antigua Public Utilities Authority, Board of Education 1994 Limited, Central Housing and Planning Authority, Central Marketing Corporation, Development Control Authority, Financial Services Regulatory Commission, Industrial Development Board, Medical Benefit Scheme, Mt. St. John Medical Centre, National Parks Authority, National Solid Waste Management Authority, PDV Caribe, St John's Development Corporation, State Insurance Corporation and Youth Empowerment Corporation.
5. **External debt** is defined as all debt owed to creditors residing outside of Antigua and Barbuda, while domestic debt covers all debt owed to residents of Antigua and Barbuda. All bonds issued at the Regional Government Securities Market (RGSM) will be regarded as domestic debt.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Central Government's Overall Balance

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

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

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

- net domestic bank financing as measured by the change in the domestic banking system credit to the central government, as reported by the consolidated balance sheet of the monetary authorities and commercial banks, including special tranches from the ECCB and bonds issued on the RGSM held by domestic banks;
- **net** nonbank financing as measured by the net changes in holdings of government securities by nonbanks, including bonds issued on the RGSM, and net borrowing from nonbank institutions;
- the change in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid;
- **gross** receipts from divestment are defined as proceeds received from any privatization/divestment; and
- any exceptional financing (including rescheduled principal and interest).

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

- disbursements of project and non-project loans, including securitization;
- proceeds from bonds issued abroad (with an original maturity of one year or greater);
- exceptional financing (including rescheduled principal and interest);
- net changes in central government cash deposits held outside the domestic banking system;
- net changes in short-term external debt excluding exceptional financing (with an original maturity of less than one year);
- any change in arrears on external interest or principal payments and other forms of external expenditures recorded above the line but not paid;

less:

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

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

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

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

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

Quarter	I	II	III	IV
Grants	0.9

Source: Ministry of Finance.

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

$$\text{Adjustor} = 0.0265 b - 9.01$$

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

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

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

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

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

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

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

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

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

B. Stock of Central Government Short-Term External Debt

14. The limit on short-term external debt applies to debt owed or guaranteed by the central government of Antigua and Barbuda (see definition in paragraph 18), with an original maturity of up to and including one year. Excluded from the limit are any rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Normal import credit is understood to be a self-liquidating operation where the proceeds from sales of imports are used to retire the debt. Debt falling within the limit shall be valued in U.S. dollars at the time the contract or guarantee becomes effective.

C. External Arrears of the Central Government

15. The non-accumulation of arrears to external creditors will be a continuous performance criterion under the program. This performance criterion applies to debt contracted or guaranteed by the central government from multilateral or bilateral official creditors. External payment arrears consist of external debt service obligations (principal and interest) falling due after December 31, 2009 that have not been paid at the time due, taking into account the grace periods specified in contractual agreements. Arrears resulting from the nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

D. Budget Expenditure Arrears

16. A ceiling is set on **central government budget expenditure arrears** to domestic private parties, equal to the stock of such arrears as at December 31, 2011 (Table 2). This ceiling will be monitored on a continuous basis. Budget expenditure arrears are defined as the sum of: (1) any invoice that has been received by a spending agency from a supplier of goods, services, and capital goods delivered and verified, and for which payment has not been made within the contractually agreed period, or, in the absence of a grace period, within 60 days; and (2) unpaid wages, pensions, or transfers, pending for longer than 60 days to domestic or foreign residents, irrespective of the currency denomination of the obligation.

(In EC\$ millions)

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

Source: Ministry of Finance.

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

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

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

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

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

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

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

lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

19. Excluded from the ceiling are credits from the IMF and credits from the Caribbean Development Bank contracted before March 4, 2011, any development policy loans contracted with the World Bank in 2012, and loans contracted with The Export-Import Bank of China for airport improvement and power plant repair, as described in the loan agreements of September 13, 2011, up to 210 million Chinese yuan and 28.4 million Chinese yuan respectively². Also excluded are all external loans contracted by PDV Caribe under the Petrocaribe program.

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

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

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

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

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

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

- **downward** (i.e., a smaller primary surplus target would apply) to the extent that grants fall short of the programmed amounts as specified in Table 1 for 2012; and
- **downward** (i.e., a smaller primary surplus target would apply) to the extent that grants fall short of the programmed amounts as specified in paragraph 13 of this memorandum for 2013; and
- Denominated in EC\$ million, the adjustor for the primary balance at end-March 2013 is determined by the following formula:

$$\text{Adjustor} = 0.039b - 13.26$$

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

IV. DATA AND INFORMATION

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

Fiscal sector

- Central government budgetary accounts.
- Current grant inflows.
- Capital expenditure.
- Total disbursements/grant receipts, monthly, disaggregated into: (a) budgetary support (by type—either loans or external “bonds” and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.
- Central government domestic debt data.
- Stock of domestic arrears, including unpaid checks issued, stock of unprocessed claims due and invoices pending; interest and amortization on domestic debt.
- Stock of external arrears (creditor by creditor).
- Detailed (creditor by creditor) monthly external debt report from the Debt Unit in the Ministry of Finance, showing fiscal year-to-date disbursements, amortization, interest payments, and outstanding stocks, for the central government and public enterprises.
- Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

Financial sector

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

25. All such information will be provided to Fund staff within 6 weeks of the end of each month, except for the monetary survey, which will be delivered by the ECCB to Fund staff within 8 weeks of the end of each month.