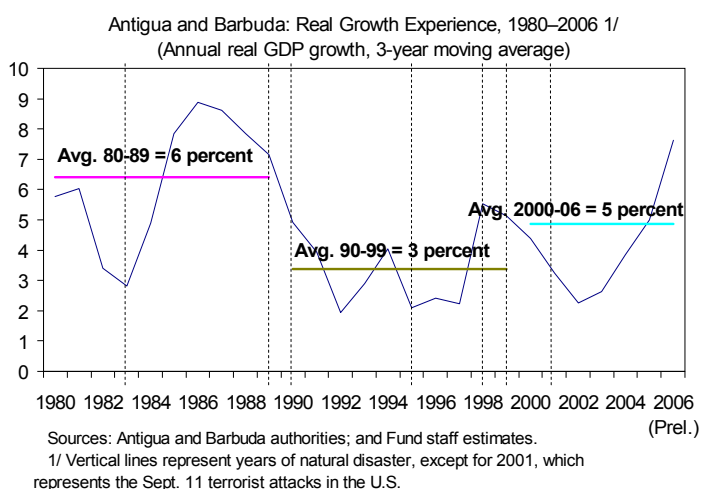


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I. BACKGROUND¹

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



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

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

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

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

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

II. ECONOMIC OUTLOOK AND RISKS

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

Antigua and Barbuda: Selected Economic Indicators, 2004-09

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

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

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

2/ The figure for 2006 is up to August.

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

III. POLICY DISCUSSIONS

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

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

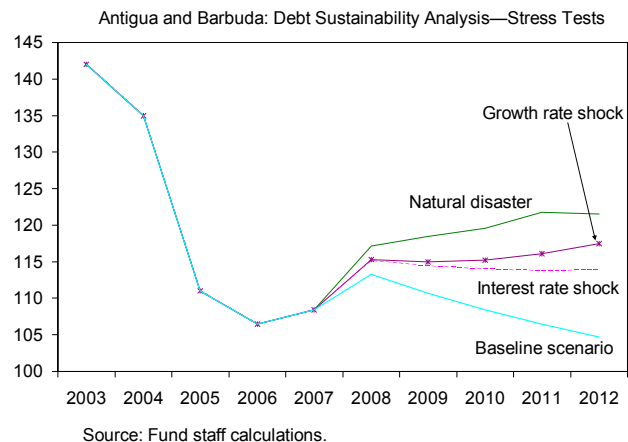
A. Restoring Fiscal Sustainability

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

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

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

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



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

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

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

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

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

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

Source: Fund staff projections.

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

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

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

Antigua and Barbuda: Size of the General Government, 2005

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

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

1/ Data for central government.

2/ Employment data as of 2002.

3/ Employment data as of 2004.

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

5/ Government wage data as of 2004.

B. Debt Strategy

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

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

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

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

C. Addressing Contingent Risks

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

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

D. Enhancing Medium-Term Growth

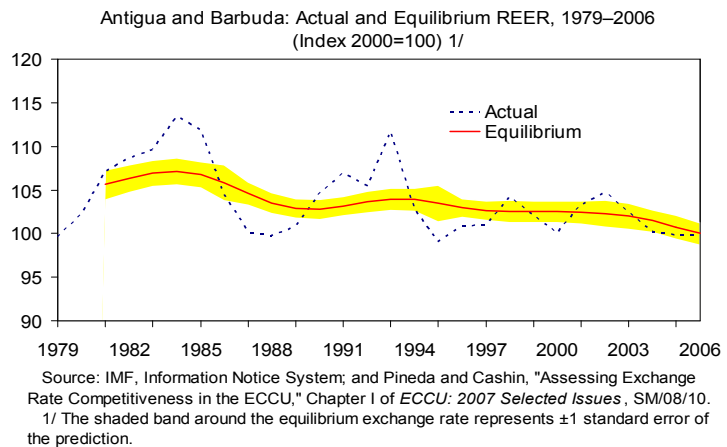
18. **Medium-term growth prospects are broadly favorable, but need to be supported by structural reforms.** The unwinding of construction activity to more normal levels strengthens the case for accelerating structural reforms so as to allow the private sector to take full advantage of the increase in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

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

E. External Competitiveness

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

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



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

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

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

F. Financial Sector Vulnerabilities

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

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

G. Data Issues

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

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

IV. STAFF APPRAISAL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Box 2. PetroCaribe Agreement

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

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

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

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

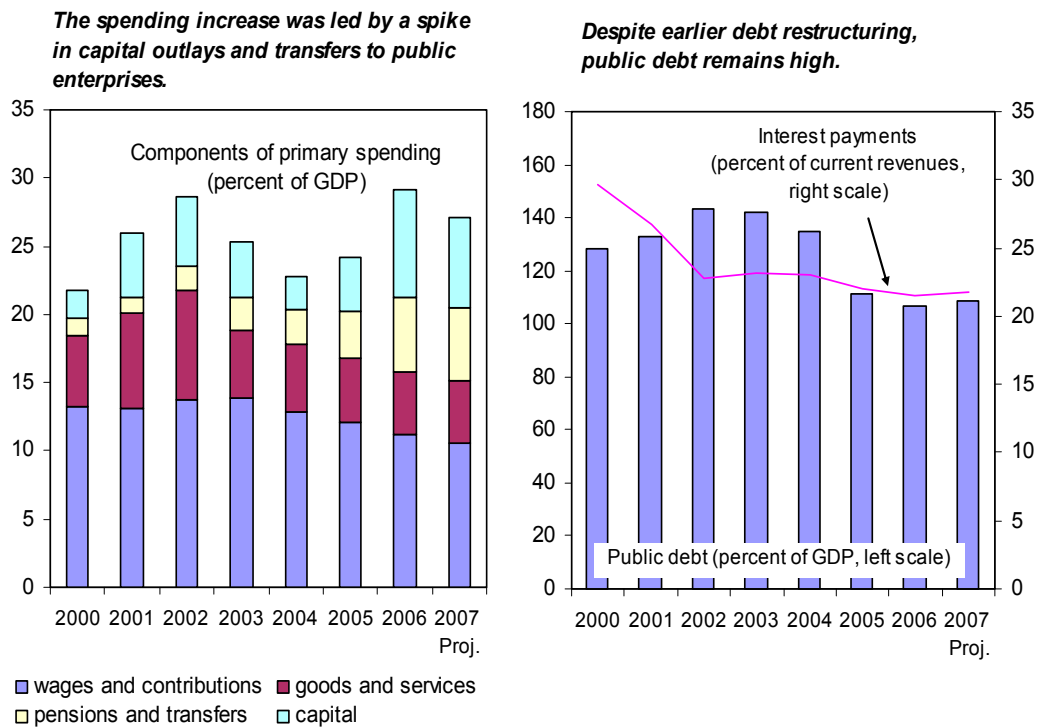
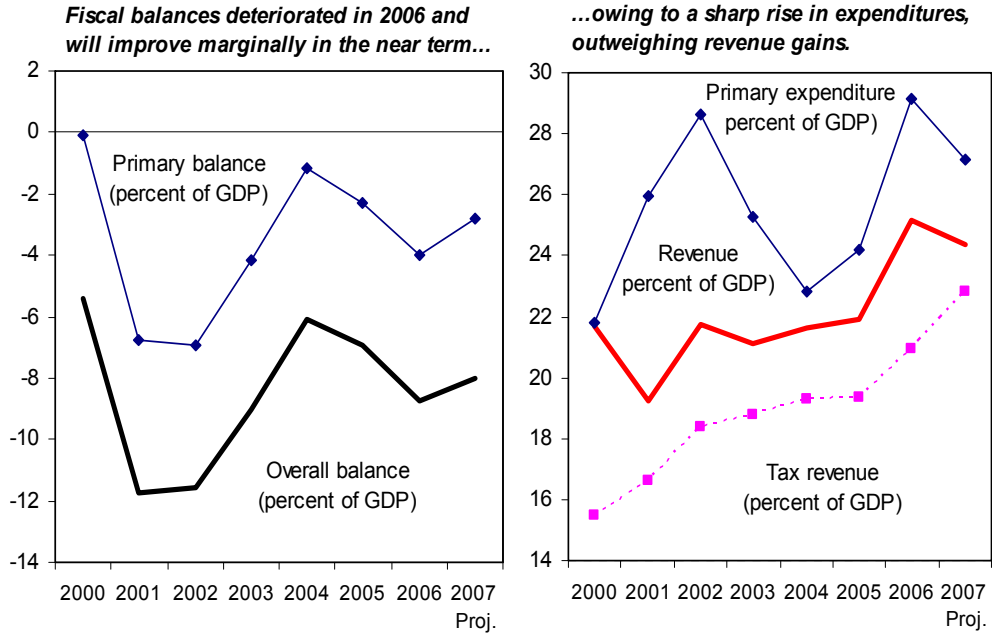
Despite the innovative and transparent vehicle that has been designed for extracting the grant element, some risks remain:

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

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

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

Fiscal imbalances have remained significant.

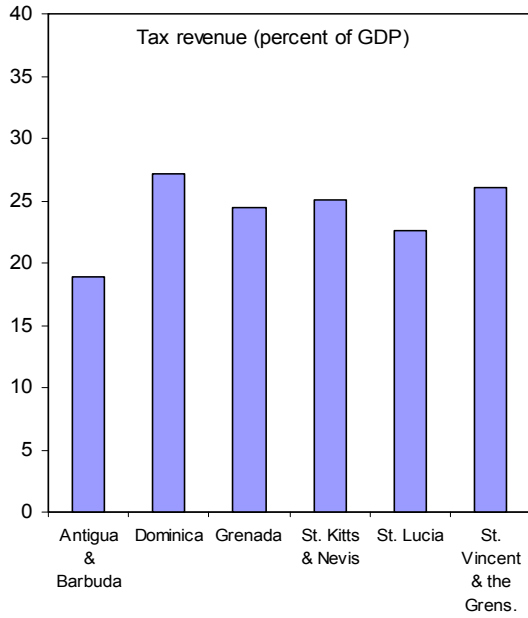


Sources: Antigua and Barbuda authorities; ECCB; IMF World Economic Outlook; and Fund staff calculations.

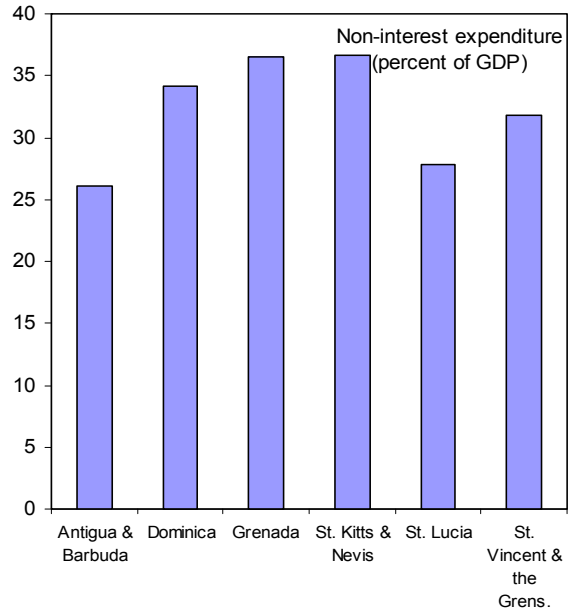
Figure 2. ECCU: Fiscal Performance, Average 2001–06

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

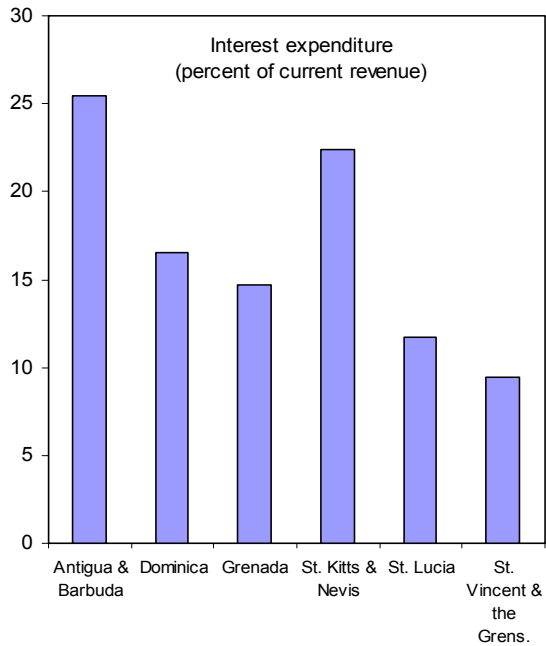
Tax revenue performance has been weaker in Antigua and Barbuda relative to other ECCU countries.



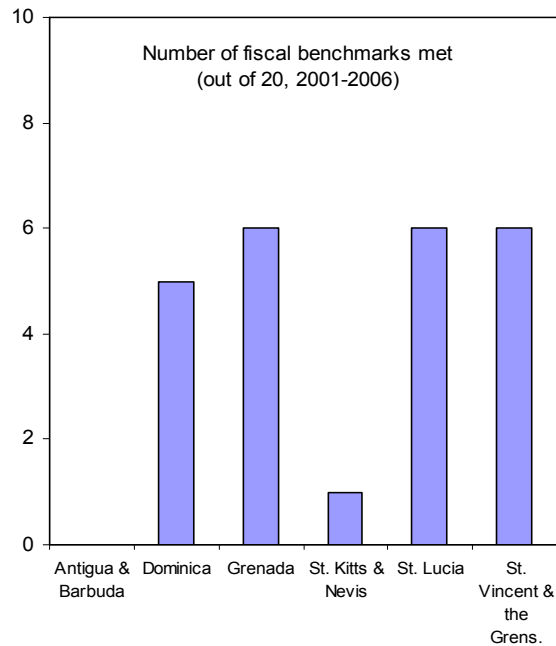
While primary expenditure has also been somewhat lower...



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



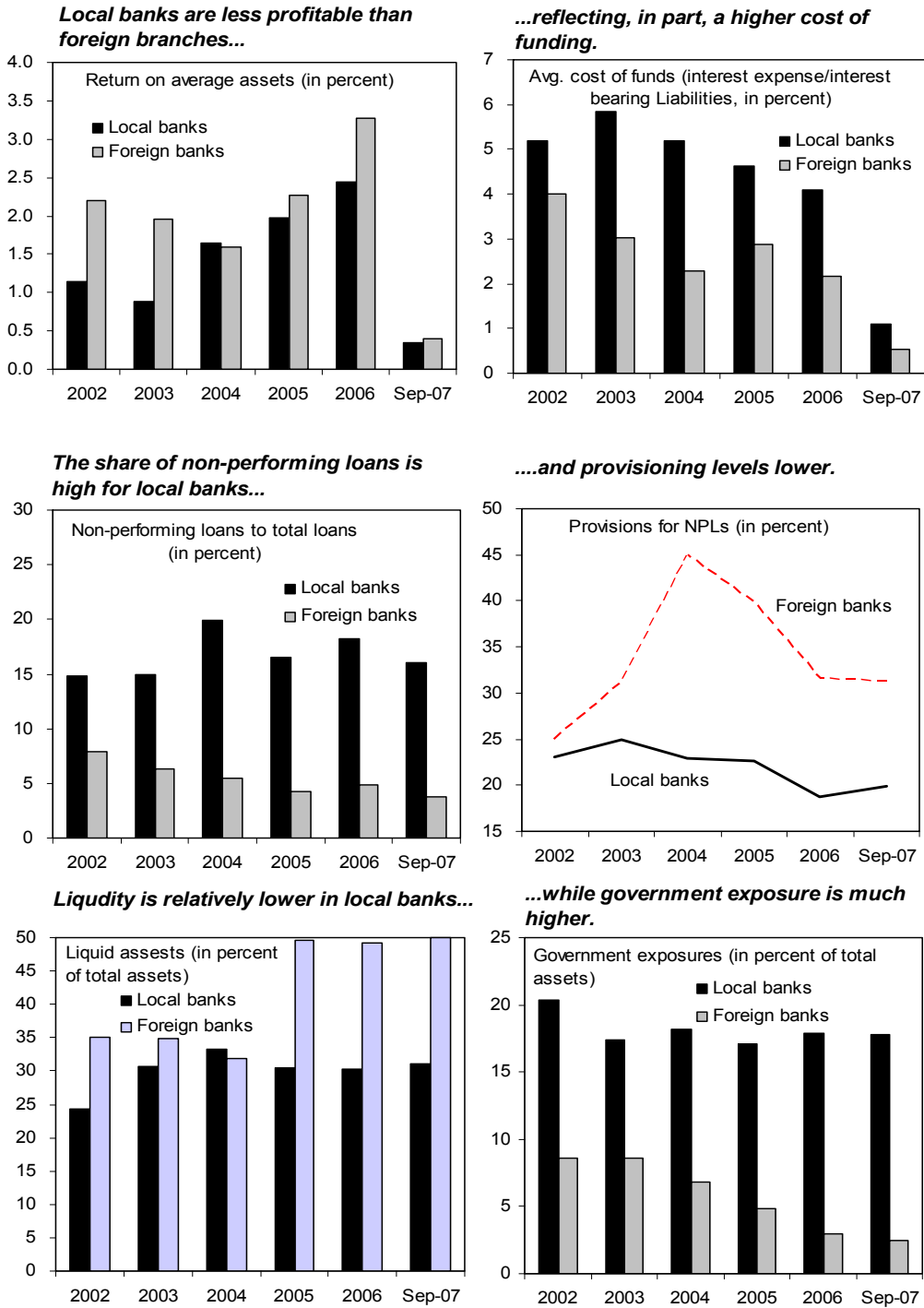
...and Antigua and Barbuda is the only ECCU country to have never met the ECCB's fiscal benchmarks.



Sources: ECCU authorities; and Fund staff estimates.

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

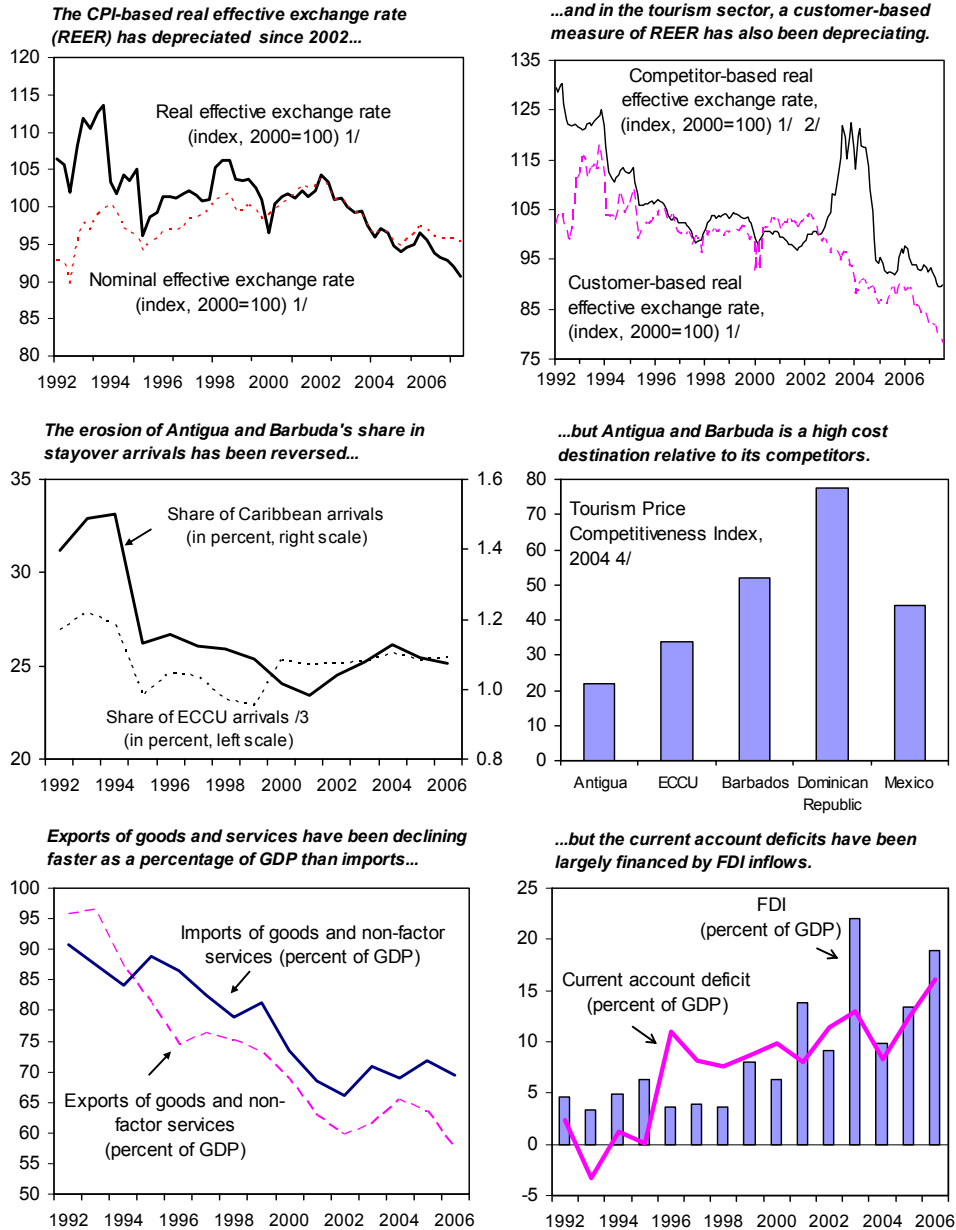
Local banks are less profitable than foreign banks, face higher costs, have lower asset quality and are more exposed to the government.



Sources: ECCB; and Fund staff calculations.

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

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



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

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

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

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

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

Table 1. Antigua and Barbuda: Basic Data

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

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

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

2/ Data for 2007 is up to April 2007.

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

4/ Data for 2005 includes debt relief from Italy.

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

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

Sources: ECCB, and Fund staff projections.

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

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

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

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

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

3/ Includes financing gap.

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

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

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

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

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

3/ Based on 2008 budget estimates.

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

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

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

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

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

9/ Excludes asset sales.

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

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

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

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

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

3/ Based on 2008 budget estimates.

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

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

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

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

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

9/ Excludes asset sales.

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

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

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

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

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

3/ Based on 2008 budget estimates.

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

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

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

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

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

9/ Excludes asset sales.

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

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

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

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

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

3/ Based on 2008 budget estimates.

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

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

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

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

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

9/ Excludes asset sales.

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

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

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

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

2/ This loan is currently under investigation.

3/ Status to be verified.

4/ Excluding debt owed to statutory bodies.

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

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

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

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

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

2/ Locally incorporated banks only.

3/ Central government and guaranteed debt.

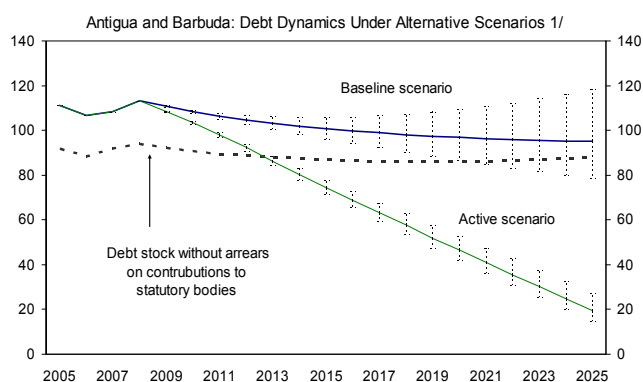
4/ Scheduled.

Annex I: Debt Sustainability Analysis

A. Public Sector DSA

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

Debt sustainability analysis was performed for the baseline as well as the active scenario with the key difference being the strength of fiscal adjustment. To judge the significance of the terms at which financing gaps are filled for debt sustainability, staff computed bands corresponding to “favorable” financing conditions (an interest rate of 6 percent) and “unfavorable” conditions (a rate of 11 percent) around the central assumption of a marginal interest rate of 8½ percent. The scenarios reflect debt reconciliation between central government and statutory bodies conducted in late 2007, but exclude expected regularization of arrears. Arrears are assumed to accrue at contractual interest rates without a reduction of their face value.

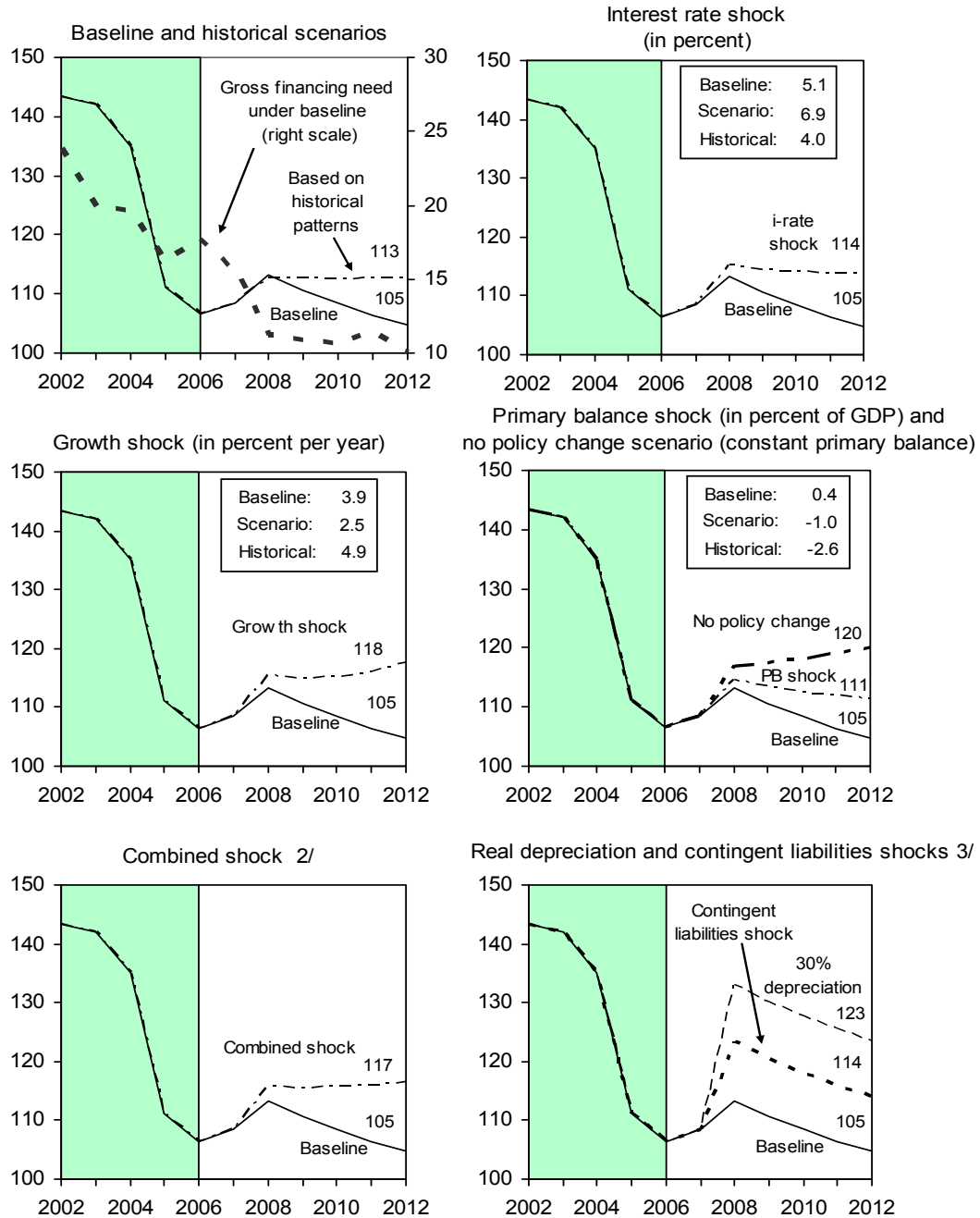


Source: Fund staff calculations.
1/ The GDP path underlying the three scenarios is the same. Upper (lower) bands in active and passive scenarios assume new financing at 11 percent (6 percent).

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. External DSA

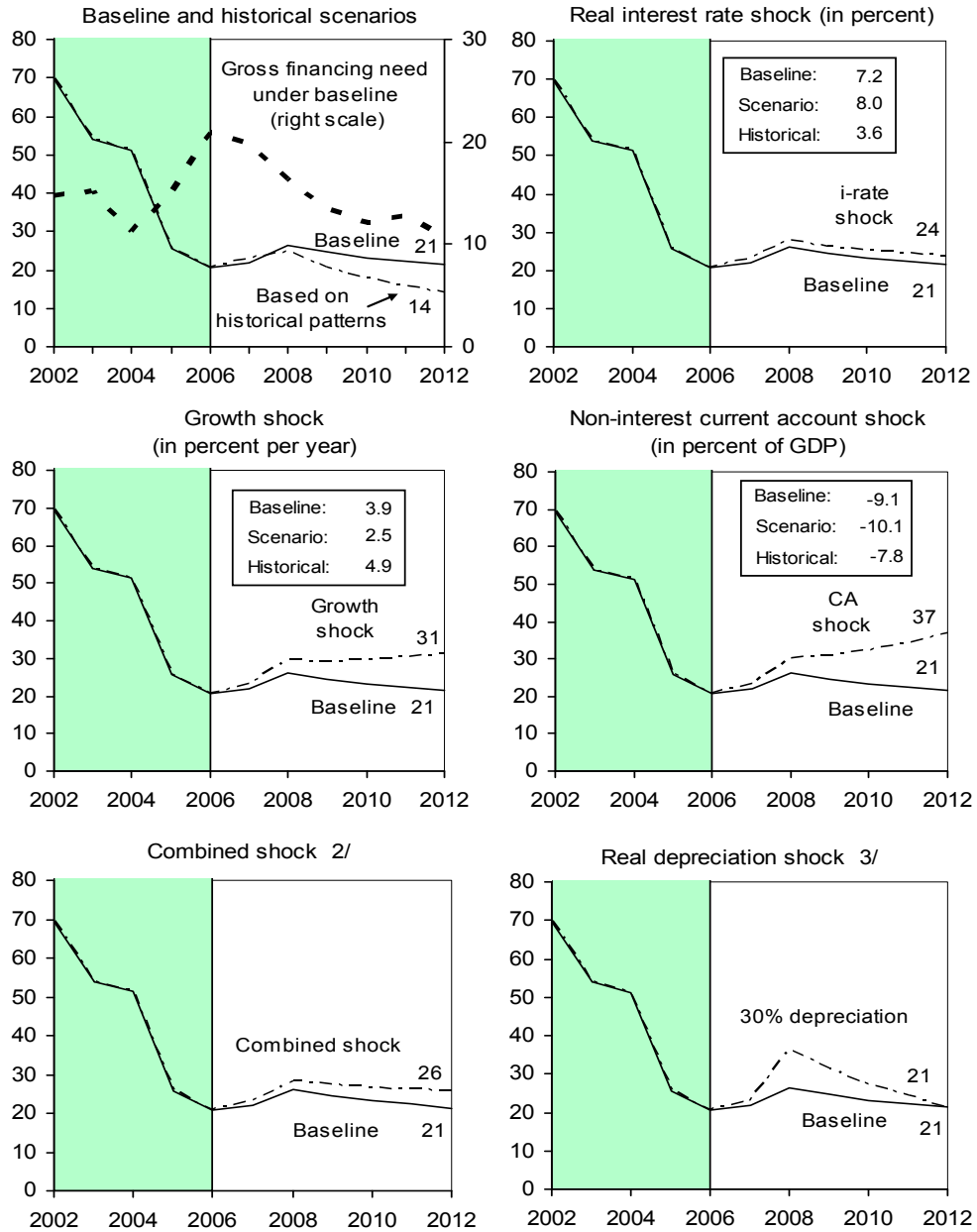
While the absence of data on the international investment position poses a challenge for assessing external debt sustainability, there is no obvious problem of sustainability at current levels of the real exchange rate and the associated medium-term external forecast. At the same time, reducing the public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

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

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

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

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



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

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

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

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

Table I.2. Antigua and Barbuda: External Debt Sustainability Framework, 2002–12
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 1/
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Baseline: external debt 2/	69.6	53.9	51.3	25.6	20.8	21.9	26.3	24.5	23.1	22.4	21.4	-7.5
Change in external debt	7.1	-15.7	-2.5	-25.7	-4.9	1.1	4.4	-1.7	-1.4	-0.7	-1.0	
Identified external debt-creating flows (4+8+9)	-0.2	-14.8	-6.8	-2.8	-5.5	0.6	0.6	0.3	-0.2	-0.7	-1.1	
Current account deficit, excluding interest payments	9.1	10.8	5.8	10.1	13.7	15.1	12.5	9.6	8.2	7.7	7.3	
Deficit in balance of goods and services	6.5	9.6	3.7	8.4	12.0	13.3	10.7	7.8	6.4	5.9	5.5	
Exports	59.6	61.3	65.3	63.4	57.3	55.9	58.5	59.8	61.1	62.0	62.7	
Imports	66.1	70.9	69.0	71.8	69.3	69.2	69.2	67.6	67.6	67.9	68.3	
Net nondebt creating capital inflows (negative)	-9.2	-22.1	-9.8	-13.4	-18.9	-14.7	-13.0	-10.0	-9.0	-9.0	-9.0	
Net foreign direct investment, equity	9.2	22.1	9.8	13.4	18.9	14.7	13.0	10.0	9.0	9.0	9.0	
Net portfolio investment, equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Automatic debt dynamics 3/	-0.2	-3.5	-2.8	0.5	-0.2	0.2	1.1	0.7	0.6	0.6	0.6	
Denominator: 1+g+r+gr	1.0	1.1	1.1	1.0	1.1	1.1	1.0	1.1	1.1	1.1	1.1	
Contribution from nominal interest rate	2.3	2.1	2.4	2.3	2.6	1.4	1.5	1.7	1.6	1.6	1.6	
Contribution from real GDP growth	-1.2	-2.8	-2.5	-2.7	-2.8	-1.2	-0.4	-1.0	-1.0	-1.0	-1.0	
Contribution from price and exchange rate changes 4/	-1.2	-2.9	-2.7	0.8	0.0	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 5/	7.3	-0.9	4.3	-22.9	0.6	0.5	3.8	-2.0	-1.2	-0.1	0.1	
External debt-to-exports ratio (in percent)	116.7	87.8	78.6	40.4	36.2	39.2	44.9	41.0	37.8	36.1	34.1	
Gross external financing need (in billions of US dollars) 6/	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
In percent of GDP	14.7	15.1	11.2	15.0	20.8	19.8	16.4	13.4	12.0	12.6	10.8	
Alternative Scenarios												
Scenario with key variables at their historical averages 7/						23.2	24.6	20.7	17.6	15.6	13.9	-10.0
A natural disaster scenario (a hurricane in 2008) 8/						23.2	30.2	35.2	40.7	40.9	38.1	
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	2.0	4.3	5.2	5.5	12.2	6.1	2.1	4.0	4.5	4.5	4.6	
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
GDP deflator (change in domestic currency)	2.0	4.3	5.2	-1.6	0.0	2.2	1.3	2.4	2.0	2.0	2.0	
GDP deflator in U.S. dollars (change in percent)	2.0	4.3	5.2	-1.6	0.0	2.2	1.3	2.4	2.0	2.0	2.0	
Nominal external interest rate (in percent)	3.8	3.3	4.9	4.7	11.2	14.2	13.7	12.1	12.9	13.5	14.0	
Growth of exports (U.S. dollar terms, in percent)	-3.9	8.1	15.5	3.3	4.2	5.8	8.3	8.8	8.9	8.0	8.0	
Growth of imports (U.S. dollar terms, in percent)	-2.5	12.7	5.6	10.7	11.3	8.3	3.4	3.9	6.5	7.1	7.2	
Current account balance, excluding interest payments	-9.1	-10.8	-5.8	-10.1	-13.7	-15.1	-12.5	-9.6	-8.2	-7.7	-7.3	
Net nondebt creating capital inflows	9.2	22.1	9.8	13.4	18.9	14.7	13.0	10.0	9.0	9.0	9.0	
B. Bound Tests												
B1. Nominal interest rate is at historical average plus one standard deviation						23.2	27.8	26.3	25.1	24.6	23.8	-8.7
B2. Real GDP growth is at historical average minus one standard deviations						23.2	29.4	29.2	29.4	30.4	31.2	-7.0
B3. Non-interest current account is at historical average minus one standard deviations						23.2	30.1	30.9	32.2	34.4	36.6	-6.5
B4. Combination of B1-B3 using 1/2 standard deviation shocks						23.2	28.4	27.3	26.5	26.3	25.8	-8.9
B5. One time 30 percent real depreciation in 2007						23.2	36.4	31.4	27.3	24.2	20.9	-11.7

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

1/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and nondebt inflows in percent of GDP) remain at their levels of the last projection year.

2/ On the net basis. Includes external part of net public sector debt and net external liabilities of the banking system. Debt arising from Petro Caribe agreement is not included because it is offset by term deposits.

3/ Derived as $[r - g - \rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, 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

4/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\epsilon > 0$) and rising inflation (based on GDP deflator).

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

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

7/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both noninterest current account and nondebt inflows in percent of GDP.

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