

INTERNATIONAL MONETARY FUND



Staff Country Reports

Antigua and Barbuda: 2005 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Authorities of Antigua and Barbuda

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2005 Article IV consultation with Antigua and Barbuda, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on September 13, 2005, with the officials of Antigua and Barbuda on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 5, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of December 21, 2005 updating information on recent developments.
- a Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its December 21, 2005 discussion of the staff report that concluded the Article IV consultation.
- a statement by the authorities of Antigua and Barbuda.

The document listed below has been or will be separately released.

Statistical Appendix

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

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INTERNATIONAL MONETARY FUND

ANTIGUA AND BARBUDA

Staff Report for the 2005 Article IV Consultation

Prepared by the Staff Representatives for the 2005 Consultation
with Antigua and Barbuda

Approved by Charles Collyns and Matthew Fisher

December 5, 2005

Economic background. Antigua and Barbuda is a three-island economy in the eastern Caribbean, with a combined land area of 443 square kilometers, population of about 75,000, and per capita GDP of about US\$10,300. It is one of eight members of the Eastern Caribbean Currency Union (ECCU), and accounts for 25 percent of the combined ECCU GDP. The ECCU has a common central bank, the Eastern Caribbean Central Bank (ECCB), and a common currency, the Eastern Caribbean (EC) dollar. The EC dollar has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar since July 1976. Antigua and Barbuda has accepted the obligations of Article VIII, Sections 2, 3, and 4 (Appendix II).

Political situation. Antigua and Barbuda has a bicameral parliament consisting of 17 appointees in the Senate and 17 members of the House of Representatives, who are elected by proportional representation to serve five-year terms. Prime Minister Baldwin Spencer's United Progressive Party (UPP) won the election in March 2004, unseating the Antigua and Barbuda Labor Party (ALP), which had been in power since 1976, prior to independence in 1981. Currently, the UPP has 12 seats, the ALP 4 seats, and the Barbuda People's Movement 1 seat in the House.

2004 Article IV consultation. At the conclusion of the last Article IV consultation on November 15, 2004, Executive Directors welcomed the new administration's resolve to address deep-rooted fiscal imbalances and its openness in discussing difficult issues. Directors called for a large up-front fiscal adjustment as a key step in regaining fiscal balance and clearing arrears. Directors supported the authorities' intention to reintroduce a personal income tax, and encouraged a reduction of exemptions, and strengthened tax administration. Directors urged a comprehensive public sector reform to reduce expenditure and to enhance the efficiency of government service provision. They also stressed the importance of improving the business climate, particularly by addressing longstanding governance issues. The staff report is available at www.imf.org/external/pubs/ft/scr/2004/cr04367.pdf.

2005 Article IV discussions. A staff team comprising D. O. Robinson (Head), J. Chai, P. Khandelwal (all WHD), D. Kovtun (PDR), H. Morsy (FAD), and E. Graham (IBRD) held discussions in St. John's during August 31–September 13, 2005. The mission met with the Cabinet, the Minister of Finance, other senior government officials, the leader of the Opposition, as well as trade union, private sector, and other civil society, representatives. ECCB and Caribbean Development Bank (CDB) staff participated in the discussions. R. Sahay (WHD) and S. Ladd (OED) joined the mission for the final discussions. A joint press conference was held at the conclusion of the consultation.

Statistical issues. Antigua and Barbuda is a participant in the Fund's General Data Dissemination System (GDDS). Major improvements in all areas are needed to facilitate effective surveillance (Appendix V).

Contents	Page
Executive Summary	<u>4</u>
I. Deepening Fiscal Imbalances	<u>5</u>
II. Efforts to Restore Macroeconomic Balance	<u>9</u>
III. Policy Discussions	<u>15</u>
A. Overview	<u>15</u>
B. Macroeconomic Outlook and Policy Framework	<u>17</u>
C. Realizing Growth Potential	<u>20</u>
D. Fiscal Policies	<u>22</u>
E. Transparency and Data Dissemination	<u>25</u>
F. Reducing Vulnerabilities	<u>26</u>
IV. Staff Appraisal	<u>27</u>
 Box	
1. Progress with the Authorities' Economic Program During 2004–05	<u>10</u>
2. Macroeconomic Impact of Higher Global Oil Prices	<u>12</u>
3. How Large is the Public Sector?	<u>13</u>
4. Investment Climate	<u>21</u>
5. Pension Reform	<u>24</u>
 Figures	
1. Macroeconomic Developments, 1980–2004	<u>6</u>
2. Fiscal and Debt Developments, 1990–2004	<u>7</u>
3. Banking System Developments, 1998–2005	<u>16</u>
4. Tourism Competitiveness, 1990–2004	<u>18</u>
 Tables	
1. Basic Data	<u>30</u>
2. Central Government Operations (Active)	<u>31</u>
3. Central Government Operations (Active)	<u>32</u>
4. Central Government Operations (Passive)	<u>33</u>
5. Central Government Operations (Passive)	<u>34</u>
6. Structure of Public Sector Debt, 2004–05	<u>35</u>
7. Balance of Payments (Active Scenario)	<u>36</u>
8. Balance of Payments (Passive Scenario)	<u>37</u>
9. Monetary Survey	<u>38</u>
10. Medium-Term Summary	<u>39</u>
11. Selected Indicators of Vulnerability	<u>40</u>

Appendices

I. Medium-Term Outlook and Debt Sustainability	41
II. Relations with the Fund	48
III. Relations with the World Bank Group.....	50
IV. Relations with the Caribbean Development Bank	51
V. Statistical Issues	52

EXECUTIVE SUMMARY

Background

- **Antigua and Barbuda has the highest per-capita income in the ECCU region, but has lived with very high public debt, weak institutions, and widespread arrears for many years.** Public sector debt built up rapidly during the 1980's as the economy moved out of sugar into tourism. Exogenous shocks—five major hurricanes in the 1990's—and the use of the public sector as employer of last resort exacerbated fiscal imbalances that were financed by the accumulation of arrears. Inefficient government services, limited infrastructure investment, and governance issues, served to weaken the business environment.
- **The United Progressive Party, elected into office in March 2004 after 27 years in opposition, has launched an extensive reform agenda.** Measures have focused on: improving governance and transparency; strengthening the business environment; improving fiscal balances through an ambitious tax reform; and enhancing social programs.
- **Despite the structural changes, growth slowed in 2005 due to temporary factors, and fiscal outcomes deteriorated.** Tourist arrivals have declined in the first half of the year, but growth is expected to rebound as construction activity accelerates ahead of the 2007 Cricket World Cup. Revenues have strengthened, but government expenditure increased due to new social programs, higher capital expenditures in advance of the 2007 Cricket World Cup, and an increase in the number of ministries. Arrears have continued to accumulate.

Policy Discussions

- **Restoring fiscal and debt sustainability with sustained growth will require continued efforts to strengthen the business environment, improve fiscal balances, and reduce vulnerabilities.**
- **Raising growth potential will require additional efforts in a number of areas,** including: strengthening the investment climate; re-evaluating the investment incentive regime; enhancing the flexibility of labor markets; and trade facilitation.
- **Civil service reform and improvements in tax administration will be key to achieving fiscal sustainability.** The central government currently employs about 40 percent of the labor force. The government has launched a voluntary severance scheme to facilitate downsizing, but it will be important to ensure that an appropriate skill mix is retained. The sweeping tax reform has placed a heavy burden on tax administration and capacity at the tax collection agencies needs to be enhanced to ensure that increased revenues materialize.
- **Vulnerabilities to exogenous shocks are high, but the greatest risks may stem from delays in domestic policy reforms.** Even with a large fiscal adjustment and robust growth, public debt is likely to remain high for a number of years pointing to the need for enhanced mitigation activities and strengthened financial sector supervision.

I. DEEPENING FISCAL IMBALANCES

1. **Antigua and Barbuda has the highest income level in the ECCU, but has lived with very high debt, weak institutions, and—unlike the other ECCU countries—widespread arrears for more than two decades** (Figures 1 and 2). Antigua and Barbuda was the first ECCU country to transition out of its traditional agricultural product (sugar), developing a tourism industry in the 1970s and 1980s. Public sector debt rose rapidly, reaching 120 percent of GDP in 1990, due to substantial public sector investments—in many cases conducted in a nontransparent manner—in tourism infrastructure. The situation was exacerbated by a series of exogenous shocks—five major hurricanes hit Antigua and Barbuda in the 1990s, as well as the September 11 shock to tourism and a contraction in the offshore sector as regulations were tightened and following the U.S. ban on internet gaming. Despite significant debt relief from creditors in the mid-1990s, fiscal imbalances widened steadily. As access to official financing dried up, the government borrowed from banks and individual investors, secured by earmarked revenues, and arrears—to domestic and external creditors, social security contributions, and domestic suppliers—mounted, averaging 7½ percent of GDP a year in 1990–2003.¹

ECCU Countries: Macroeconomic Comparison, 2004

	Antigua & Barbuda	Dominica	Grenada	St. Kitts & Nevis	St. Lucia	St. Vincent & the Grenadines
Nominal GDP per capita (US\$)	10,317	3,962	4,205	8,889	4,748	3,801
Share of ECCU GDP in percent	26.4	8.7	14.1	13.2	24.6	13.0
(In percent of GDP unless otherwise noted)						
Real sector						
Tourism receipts	41.2	22.2	18.2	25.5	42.7	23.7
Value-added in agriculture	3.6	17.8	9.8	5.1	5.5	10.9
Fiscal Indicators						
Public sector debt	102.0	112.8	129.5	177.2	67.9	78.9
<i>Of which</i>						
Arrears 1/	48.6	n.a.	1.8	0.0	0.0	0.0
Tax revenue	19.3	28.5	23.6	25.4	24.3	25.1
<i>Of which</i>						
Earmarked	5.0	0.0	0.0	0.0	0.0	0.0
Wage bill (in percent of tax revenue)	58.5	47.7	53.7	56.7	50.9	52.9
Central government capital expenditure	2.5	8.5	8.0	10.7	7.8	7.3
Public Sector Investment Program (PSIP) 2/	No	Yes	Yes	No	Yes	Yes

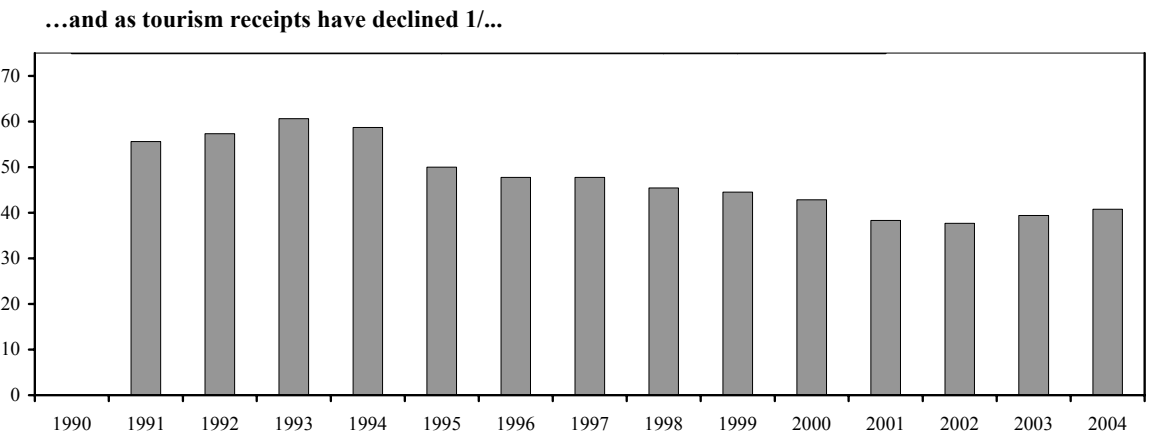
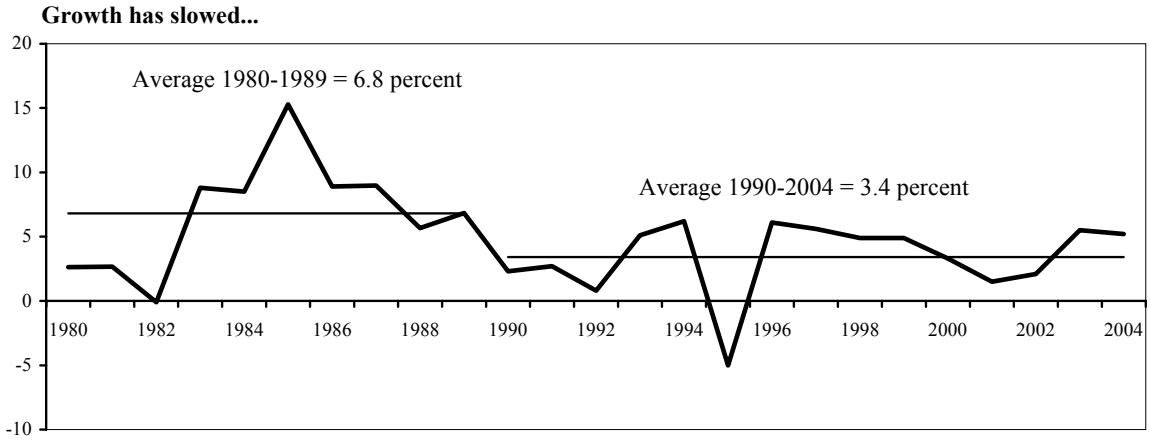
Sources: Country authorities; ECCB; and Fund staff estimates.

1/ For Dominica, the magnitude of arrears is pending the resolution of its debt restructuring.

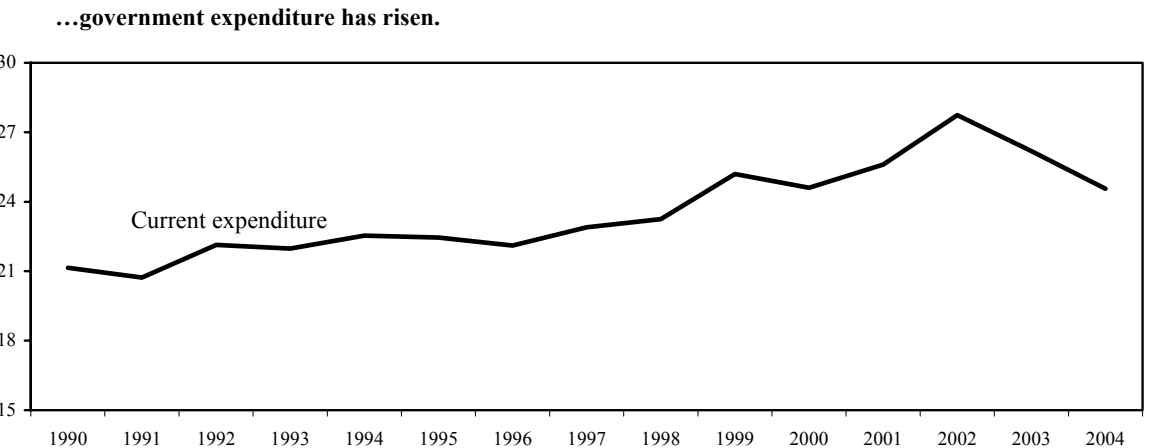
2/ For St. Kitts and Nevis, Nevis has a PSIP but St. Kitts does not.

¹ From 1999–2004 official disbursements to Antigua and Barbuda averaged ¾ percent of GDP a year, compared to 4 percent of GDP a year in St. Kitts and Nevis, which has a similar income level and is the only other ECCU country that is not PRGF-eligible.

Figure 1. Antigua and Barbuda: Macroeconomic Developments, 1980–2004
(In percent of GDP, unless otherwise denoted)

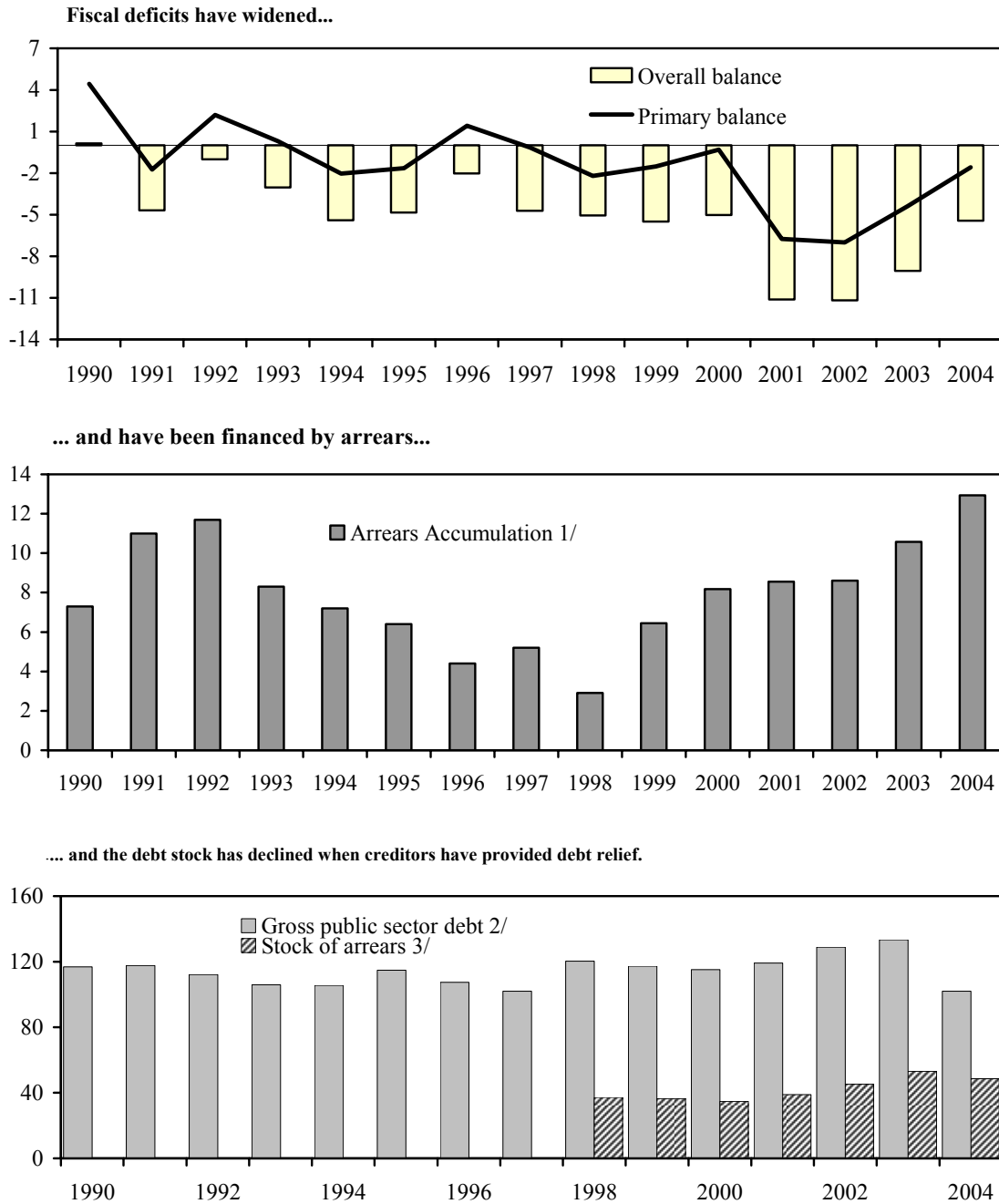


1/ Data prior to 1991 are not available.



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

Figure 2. Antigua and Barbuda: Fiscal and Debt Developments, 1990–2004
(In percent of GDP, unless otherwise noted)



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

1/ Data before 1999 refer to arrears accumulation in the consolidated public sector. Arrears accumulation for 2004 excludes the impact of debt relief.

2/ Estimates of gross public sector debt include arrears.

3/ Data before 1998 are not available.

2. Despite the budgetary pressures, social indicators remained strong as steps were taken to protect social spending and to prevent unemployment. Off-budget entities—

such as the Board of Education which provides free school textbooks and university scholarships and the Medical Benefits Scheme which provides free pharmaceuticals—were created and funded by special levies. The public sector was used as employer of last resort—central government employment has reached 40 percent of the labor force—and ensuring timely wage and pension payments was afforded the highest priority.

ECCU: Selected Socio-Economic Indicators, 2005

	Human Dev. Index Ranking	Life Expectancy 1/	Illiteracy 2/
Antigua and Barbuda	60	75	13
Dominica	70	77	4
Grenada	66	73	6
St. Kitts and Nevis	49	72	2
St. Lucia	76	74	10
St. Vincent and the Grenadines	87	73	11

Sources: UNDP; WDI, World Bank; and national authorities.

1/ Numbers are for 2003, in years.

2/ Percentage of population aged 15 years and over in 2001.

3. The deteriorating fiscal situation has significantly impacted economic performance and prospects:

- *Governance concerns have hampered private sector development.* Investors—including those providing financing to the government—have been able to negotiate substantial discretionary concessions. The perceived absence of a level playing field has resulted in erratic FDI flows, driven by just one or two investors.

- *Extensive concessions have significantly eroded tax bases, requiring higher rates to achieve revenue goals.* The resulting pattern of effective tax rates on goods and services is quite arbitrary and distorts economic behavior.

ECCU: Marginal Effective Tax Rate 1/
(In percent)

	Without Tax Holidays	With Tax Holidays
Antigua and Barbuda	47.8	-7.0
Dominica	40.2	1.4
Grenada	34.1	-2.9
St. Kitts and Nevis	42.7	0.6
St. Lucia	43.8	0.0
St. Vincent and the Grenadines	37.9	0.1

Source: IMF Working Paper (2006) “*Tax Incentives and Investment in the Eastern Caribbean*” by Sebastian Sosa, available at <http://www.imf.org/external/pubs/ft/wp/2006/wp0623.pdf>.

1/ Difference between the expected pre-tax and after-tax return on a new marginal investment.

- *Limited public infrastructure investments, low quality government services, and arrears to domestic suppliers and creditors, have constrained growth.* Sixty percent of government revenue goes toward wages and salaries and another third to debt service, leaving little room for essential government services such as roads.

- *Fiscal institutions are very weak.* Expenditure commitments routinely went unmet, making the budget largely meaningless. Prior to 2005, the budget was never approved prior to the beginning of the fiscal year. Budget execution is impeded by extensive earmarking of revenues (about 25 percent of tax revenues at end-2004) and the fragmentation of the budget due to the creation of off-budget entities with their own revenue streams and limited oversight.

- *There is a clear risk of a disorderly adjustment.* High debt, an economy dominated by tourism, frequent natural disasters, lack of access to capital markets, and emerging pressures on the social security system, point to significant risks going forward that, absent a significant policy change, the government may not be able to meet priority expenditures in a timely manner.

II. EFFORTS TO RESTORE MACROECONOMIC BALANCE

4. **The United Progressive Party (UPP), elected into office in March 2004, has initiated an extensive reform agenda** (Box 1). With wage arrears emerging in late 2003, fiscal mismanagement and governance concerns became central issues in the elections. The UPP’s policy agenda—first elaborated in the 2005 budget, entitled “Foundation for a Fresh Start”—reflects campaign promises to enhance governance, strengthen fiscal accounts and institutions, and improve social conditions, including by increases in pensions and the introduction of free school uniform and school meals programs.

5. **Following strong growth in 2003–04, economic activity is estimated to have slowed in 2005.** The tourism sector has cooled, with stay-over arrivals falling by 5 percent in the first half of 2005, partly a reflection of one-off factors—two major hotels are undergoing renovations and a spike in tourism due to the 2004 English cricket tour. Construction activity has accelerated with the onset of a number of projects linked to the 2007 Cricket World Cup.

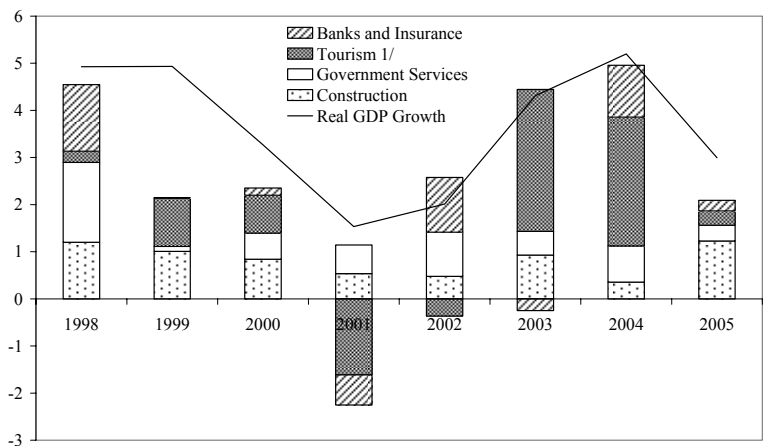
6. **Inflation has been low, but is rising due to the impact of global oil prices.** Despite an increase in the costs of imported goods and utility tariffs stemming from the rising global oil prices, overall CPI inflation has been very low reflecting a combination of the regional Currency Board

Antigua and Barbuda: Selected Economic Indicators
(12-month percentage change)

	2001	2002	2003	Prel. 2004	Proj. 2005
Real GDP	1.5	2.0	4.3	5.2	3.0
CPI, period average	-0.4	1.8	2.8	1.3	1.3
Real effective exchange rate (depreciation-) 1/	3.6	-0.6	-6.0	-4.4	-2.2
Stayover arrivals	-6.6	1.7	9.5	12.0	-2.0

Sources: Antigua and Barbuda authorities; and Fund staff estimates.
1/ The figure for 2005 is up to June.

Sectoral Contributions to Real GDP Growth
(in percent)



Sources: Antigua and Barbuda authorities; ECCB; and Fund staff estimates and projections.
1/ Tourism sector includes hotels and restaurants, wholesale and retail trade, and transportation.

Box 1. Progress with the Authorities' Economic Program During 2004–05

Strengthened governance and transparency

- A Freedom of Information Act, an Integrity in Public Life Act, and an Anti-Corruption Act have been passed to raise accountability and integrity in government. An Integrity Commission has been appointed and ministers are now required to disclose personal assets.
- Increased transparency and communication with the public on key policy challenges. Consultations have been held with stakeholders prior to the introduction of key measures, such as the PIT and Antigua and Barbuda Sales Tax (ABST). Transparency in relations with the Fund has increased via press conferences and publication of staff reports.
- The 2005 budget was submitted to parliament in November and approved in early December, prior to the beginning of the fiscal year.
- The granting of discretionary concessions was suspended in June, 2005.

Support to private sector activity

- Established the Antigua and Barbuda Investment Authority under the prime minister's office, to foster private sector investment. A new Investment Code has been prepared, with technical assistance from FIAS.
- Lowered the corporate income tax rate from 35 percent to 30 percent from January 1, 2005.
- Established an EC\$10 million fund for small businesses.

Improvement in fiscal balances

- The personal income tax (PIT) was reintroduced in April 2005.
- Moving the property tax to a market value-based system, effective January 1, 2006.
- Introduction of the ABST (a VAT-type tax) announced for the second quarter of 2006. A White Paper was published in September describing the broad features of the tax.
- Public sector transformation to increase the efficiency of government service provision and reduce the size of the civil service. Ghost workers have been eliminated from the payroll, and retirement ages have been enforced.
- A formal public sector investment program mechanism has been introduced to permit a more rational and transparent allocation of capital expenditures.

Regularizing relations with creditors

- A donor-financed debt strategist has been hired to work with the Debt Coordinating Committee to formulate options for regularizing relations with all creditors.
- Bilateral negotiations have been concluded with certain creditors.

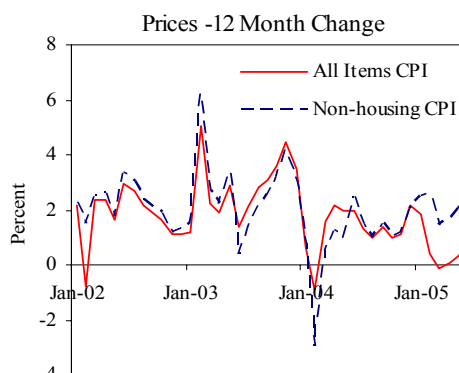
Enhancing social programs

- Minimum pensions for the civil service and social security scheme were increased effective January 1, 2005, to EC\$750 and EC\$350, from EC\$500 and EC\$150, respectively. Further increases are planned.
- Free school meals and free school uniform programs have been introduced.

Arrangement (CBA), limited adjustment of domestic petroleum prices, and a sharp fall in the housing component of the CPI—partly due to declining mortgage interest rates. Inflation is expected to rise following recent increases in domestic petroleum prices (Box 2).

7. Fiscal outcomes strengthened in 2004, but are projected to deteriorate in 2005 despite improved revenue collections. A

combination of a reduction in capital spending and some improvement in revenues following a tightening of the concessions regime resulted in a closing of the primary deficit to 1½ percent of GDP in 2004. Data for the first half of 2005 point to a widening fiscal deficit. Revenues have performed well—the reintroduction of the PIT and further reductions in concessions have more than offset the lowering of the corporate income tax rate and the loss of oil revenues. However, expenditures have increased sharply due to the implementation of new social programs, higher capital expenditures in advance of the 2007 Cricket World Cup (partly grant financed), and an increase in the number of ministries (raising both employment and expenditure on goods and services). Only partial data are available on statutory bodies and public enterprises, which play a significant role in the economy (Box 3).



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

Antigua and Barbuda: Selected Fiscal Indicators, 2001–2005

	2001	2002	2003	Prel. 2004	Proj. 2005
(Central government, in percent of GDP)					
Total revenue and grants	19.2	21.7	21.1	21.6	22.8
Total expenditure and net lending	30.3	32.9	30.2	27.1	29.6
Capital expenditure	4.7	5.1	4.0	2.5	4.1
Current balance	-6.9	-7.3	-5.2	-3.2	-3.7
Overall balance (after grants)	-11.1	-11.2	-9.0	-5.4	-6.7
Primary balance	-6.8	-7.0	-4.4	-1.6	-3.4
Financing gap 1/	...	...	...	...	4.7
Arrears accumulation 2/	8.6	8.6	10.6	12.9	5.3
Central government debt 3/	108.8	119.2	124.5	93.2	95.5
Public sector debt 3/	119.1	128.9	133.4	102.0	104.7

Sources: Antigua and Barbuda authorities, CARTAC, and Fund staff estimates.

1/ The gap is expected to be filled through new arrears.

2/ Includes debt service arrears, unpaid vouchers to suppliers, personnel payables, and unpaid contributions to Social Security, Medical Benefits, and Board of Education. The figure for 2004 excludes the clearing of arrears through debt relief. The figure for 2005 is up to June.

3/ Includes arrears.

Box 2. Macroeconomic Impact Of Higher Global Oil Prices

Retail prices of petroleum-based products have been adjusted only infrequently in Antigua and Barbuda, with limited pass-through to consumers. A flexible pricing regime—incorporating a fixed margin for distributors, a specific consumption tax, and an ad valorem import levy—was introduced in April 2003, but was abandoned in February 2004.

Rising world fuel prices and fixed domestic retail prices resulted in falling government revenues, but a significant adjustment in domestic petroleum prices in October has halted the revenue loss. Domestic retail prices have been smoothed by reducing the consumption tax to absorb the increases in imported petroleum prices. The revenue foregone is estimated at more than EC\$1 million a month during the first half of 2005 (over 1 percent of GDP on an annual basis). In October, subsequent to the mission, the retail prices of gasoline and diesel were raised from EC\$9.30 and EC\$9.31 per imperial gallon to EC\$11.89 and EC\$10.44, respectively. This increase is estimated to have addressed the revenue loss from petroleum products at the time.

The petroleum product import bill has doubled since 2003. The impact of higher import prices has been compounded by the absence of adjustment in domestic consumption—assuming a price elasticity of oil demand of -0.25, flexible pricing could have reduced oil imports in 2004 by around 0.5 percent of GDP.¹

Antigua and Barbuda: Macroeconomic Balances

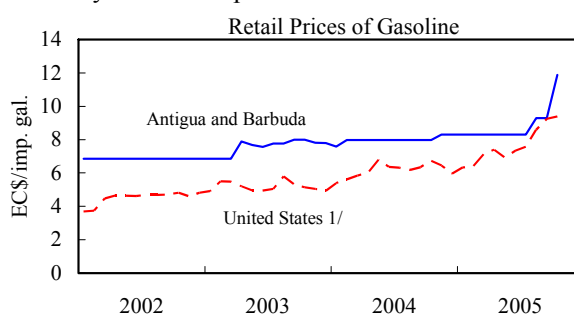
	2003	Est. 2004	Proj. 2005
(in percent of GDP)			
Imports of petroleum products 1/	4.8	6.7	9.4
Government revenues from petroleum product:	1.7	1.4	1.1
Memo items:			
Volume ('000 barrels) 1/	985	1151	1174
World oil price increase (in percent) 2/	15.8	30.7	43.6

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

1/ Estimates include gasoline, diesel, fuel oil and LPG.

2/ Average of three spot prices: Dated Brent, West Texas

Intermediate, and the Dubai Fateh.



Sources: Antigua and Barbuda authorities; US Department of Energy, and Fund staff estimates.

1/ Average retail price across all grades, all formulations.

The impact on inflation has been modest, but will increase following the recent domestic petroleum price adjustments. Staff estimate that the 43 percent increase in petroleum prices since the beginning of 2005 could ultimately add about 2 percent to the CPI.

The impact on growth appears to have been modest. While country-specific factors have resulted in a slowdown in tourism in Antigua and Barbuda, tourism in the Caribbean region has continued to grow, albeit at a slower pace—stayover arrivals increased by 3 percent in the first half of 2005, after growing by 5 percent during 2004.

¹ Estimates for a group of non-OECD countries from D. Gately and H. Huntington, (2002), “The Asymmetric Effects of Changes in Price and Income on Energy and Oil Demand,” The Energy Journal, 23(1), pp 19–55.

Box 3. How Large is the Public Sector?

Limited data availability prevent the presentation of the fiscal accounts on a consolidated basis, but data for 2003 (in several cases unaudited) suggest that the overall public sector is much larger than the central government. Consolidated public sector revenues are double the level of the central government, and public sector capital expenditures amounted to 7 percent of GDP, significantly higher than the 4 percent of GDP implemented by the central government. Public enterprises generate an overall surplus and carry a small amount of debt (about 10 percent of GDP), while the statutory bodies are financed by special levies.

Antigua and Barbuda: Consolidated Public Sector Accounts, 2003

(In percent of GDP)

	Central Government	Statutory Bodies 1/		Public Enterprises 3/	Total 4/
		Social Security 2/	Other		
Total revenue and grants	21.1	3.2	3.3	14.0	39.9
Total expenditure	30.2	2.0	3.3	12.0	45.7
Current expenditure	26.2	...	3.2	10.1	37.9
Wages and salaries	12.3	...	0.3	0.8	13.3
Capital expenditure	4.0	...	1.2	1.8	7.0
Transfer to government	...	...	0.8	0.0	0.9
Primary balance	-4.4	1.2	0.0	2.6	-0.6
Overall balance	-9.0	1.2	0.0	2.0	-5.8

Sources: Statutory bodies and public enterprises, and Fund staff calculations.

1/ Include Social Security Board, Medical Benefits Scheme, and the Board of Education.

2/ Revenue includes accrued contributions and income from investment assets.

3/ Include Port Authority, Public Utility Authority, St. John's Development Corp., Central Housing and Planning Authority, and Central Marketing Corp.

4/ Nets out the amount of central government contributions to the statutory bodies in 2003.

8. **Deficits continue to be financed by arrears, but the debt stock fell due to debt relief.** Apart from domestic earmarked loans and a short-term revolving credit provided by domestic banks, creditors have generally not received scheduled payments in a timely manner for several years. Substantial arrears have accumulated on government contributions to the statutory bodies. Negotiations with creditors have produced significant debt relief: the Italian Government agreed to clear loans (including outstanding arrears) totaling US\$196 million (26 percent of GDP) through cash payments of US\$14.2 million; and domestic banks have reduced the interest rates on government obligations by 1–3 percentage points.²

9. **The external current account deficit has narrowed to around 11 percent of GDP, financed by FDI.**³ Despite the increased oil import bill, the trade deficit declined in 2004, possibly reflecting the impact of the real depreciation of the EC dollar since 2002. Service receipts have wavered in 2005 as tourism slowed.

10. **High money demand growth, a reduction in exposure to the government, and limited domestic lending opportunities, have resulted in the further accumulation of foreign assets.** Net credit to the public sector has declined, as commercial banks roughly maintained their gross exposures to the central government while public enterprise deposits rose. As broad money demand grew in line with economic activity, the additional liquidity has been channeled into foreign assets as credit to the private sector

Antigua and Barbuda: Structure of Public Sector Debt, end-2004

	Stock of debt		Of which Arrears	
	Millions of U.S. dollars	Percent of GDP	Millions of U.S. dollars	Percent of GDP
Total public sector debt 1/	835.3	102.0	398.0	48.6
External	385.2	47.0	140.1	17.1
Central government	335.0	40.9	110.3	13.5
Multilateral	9.8	1.2	3.7	0.5
Official bilateral	95.9	11.7	39.6	4.8
U.S.	24.5	3.0	15.2	1.9
France	26.5	3.2	11.5	1.4
Kuwait	15.3	1.9	4.0	0.5
Commercial	229.3	28.0	67.0	8.2
Other public sector 2/	50.3	6.1	29.8	3.6
Domestic	450.1	55.0	257.8	31.5
Central government	428.6	52.3	253.9	31.0
Bank loans and overdrafts	128.9	15.7	4.3	0.5
Unpaid contributions 3/	161.8	19.8	161.8	19.8
Government securities	81.8	10.0	31.7	3.9
Supplier credits	33.4	4.1	33.4	4.1
Other public sector 2/	21.5	2.6	3.9	0.5

Sources: Antigua and Barbuda authorities and Fund staff estimates.

1/ Includes arrears.

2/ Includes government guarantees extended to public enterprises and private sector.

3/ Unpaid contributions to social security scheme, medical benefits scheme, and the Board of Education.

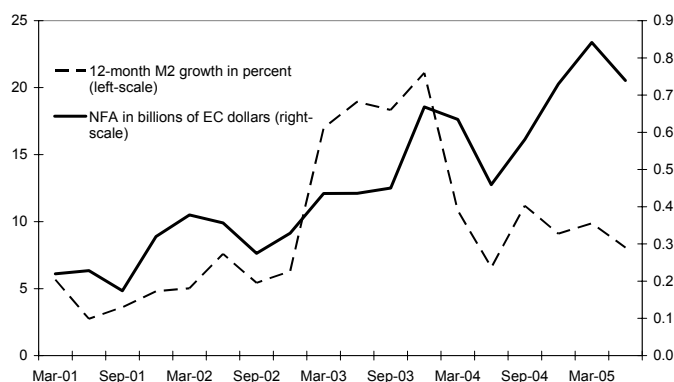
Antigua and Barbuda: Selected External Indicators

	2001	2002	2003	Prel. 2004	Proj. 2005
	(in percent of GDP)				
Current account	-8.9	-15.7	-14.2	-10.8	-11.6
Trade balance	-39.5	-41.3	-40.9	-39.5	-38.9
Gross tourism receipts	38.3	38.1	39.8	41.2	39.4
Foreign direct investment, net	13.9	9.2	22.1	9.0	9.0
Memorandum item:					
Outstanding external public debt 1/	66.6	73.2	76.5	47.0	47.7
Of which					
External arrears 1/	14.5	19.0	23.7	17.1	17.6

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

1/ The figures for 2005 are as of June.

Money Growth and Net Foreign Assets



Sources: ECCB; and Fund staff estimates.

² An agreement has also been reached with a commercial creditor to clear a US\$29 million obligation, though the precise terms and implied debt relief are not yet available.

³ Balance of payments data are particularly weak—only partial trade data have been compiled since 1991 and the coverage of other balance of payments flows is incomplete.

has increased only gradually and with some reduction in interest rates (principally on mortgages).

11. **Financial soundness indicators are mixed** (Figure 3). Locally licensed banks account for half of total banking system assets. While their capital adequacy ratio is above the 8 percent prudential requirement, provisioning levels are relatively low, and asset quality is weak—NPLs significantly exceed the prudential target of 5 percent and government exposures are very high.

12. **Progress has been made in addressing the issues raised in the Basle Core Principles (BCP) assessment of the offshore banking system.**⁴ The BCP assessment found the offshore banking sector to be compliant or largely compliant with 16 of 23 applicable principles. Amendments to the International Business Corporations Act were approved in 2004, and new regulations and guidelines were issued by the Financial Services Regulatory Commission (FSRC) to address issues identified with respect to the power of the offshore supervisor, rules on reporting, accounting, risk management, and internal controls, the licensing of offshore captive banks, and introducing a risk-based capital regime.

III. POLICY DISCUSSIONS

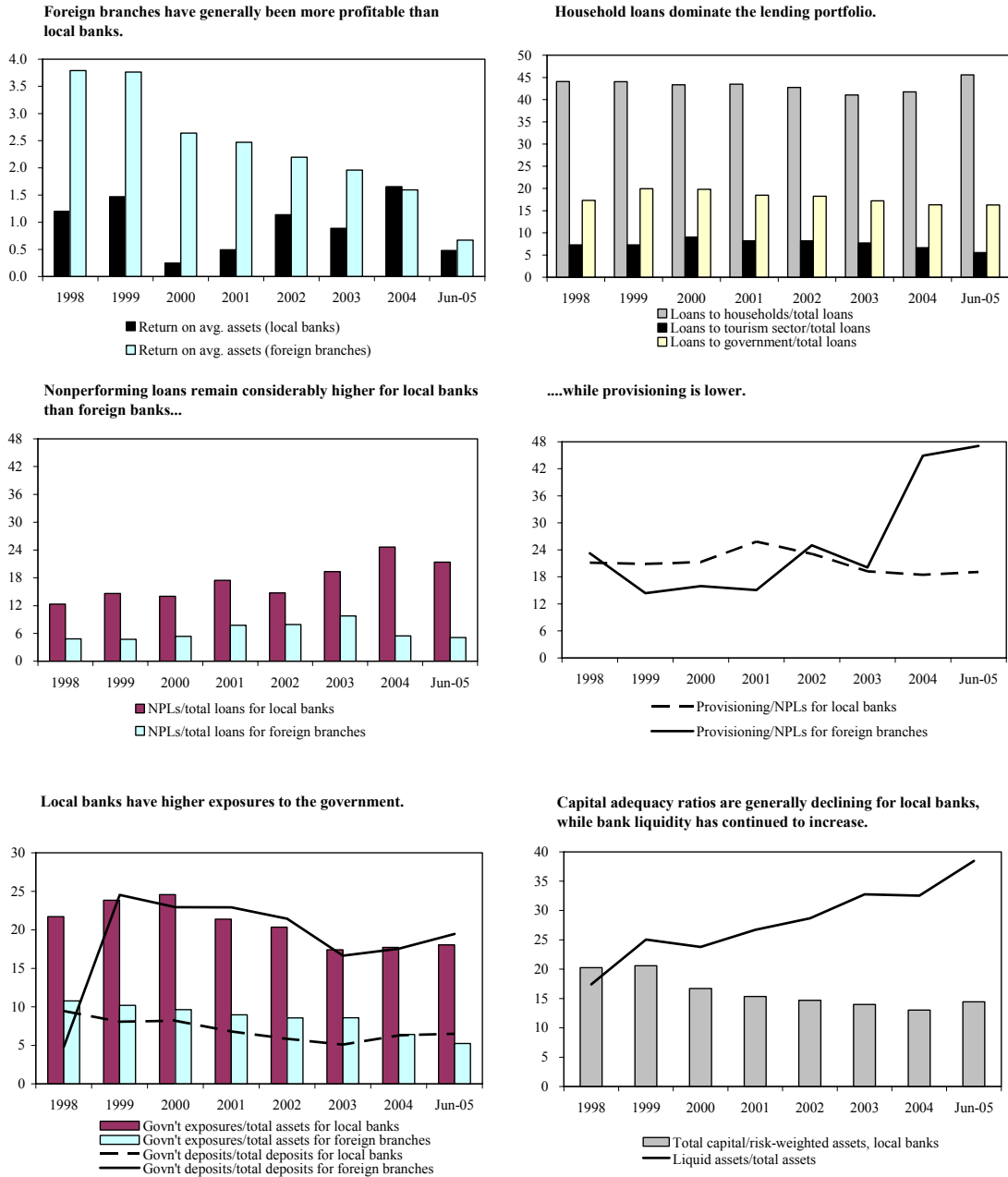
A. Overview

13. **While wide-ranging structural reforms have been implemented, these have yet to translate into improved growth or fiscal outcomes.** During the past year, an ambitious legislative agenda has been adopted that has improved the governance framework, enhanced transparency in the provision of investment incentives, and modernized the tax system. Growth, however, has slowed as private sector investment has yet to respond to the improved business climate. While fiscal revenues have increased, the impact has been more than offset by the lack of expenditure control.

14. **In the discussions, the authorities reiterated their commitment to addressing the economic challenges, but noted the complexity of balancing economic prerogatives with social concerns.** There remains a broad policy consensus with staff on the key measures that need to be undertaken, but the authorities noted that the containment of expenditure had proven difficult. While expressing their determination to achieve a fundamental transformation of the public sector—including rationalizing the civil service—the authorities stressed the need to ensure that reforms were achieved with minimum social dislocation.

⁴ The BCP assessment was conducted in conjunction with the ECCU regional FSAP held in September and October 2003 (the FSSA is available at www.imf.org/external/pubs/ft/scr/2004/cr04293.pdf). The Report on the Observance of Standards and Codes (ROSC) for the BCP assessment of the offshore banking sector in Antigua and Barbuda is available at www.imf.org/external/pubs/ft/scr/2004/cr04366.pdf.

Figure 3. Antigua and Barbuda: Banking System Developments, 1998–2005 1/
(In percent; end of period unless noted otherwise)



Sources: ECCB; and Fund staff calculations.

1/ The figures for 2005 are as of end-June and un-annualized.

15. **The authorities' agenda contains many elements discussed in earlier Article IV consultations.** The authorities noted their appreciation for the Fund's assistance in presenting and discussing policy options which has helped hone their agenda, particularly in the design of the tax reform and the debt strategy. Remaining differences largely concern the pace of reform—the authorities have very rapidly introduced an extensive tax reform in order to have the key legislative changes in place early in the political cycle, while the staff proposed a more gradual introduction in order to reduce the pressure on administrative capacity. Substantial technical assistance has been provided by CARTAC, the Fund, and some donors to facilitate the authorities' reform efforts. Discussions with the staff have also been much more transparent: the 2004 Article IV staff report was published for the first time; joint press conferences with the minister of finance were held at the conclusion of Article IV missions and during the ECCU regional discussions; and seminars on some of the background papers for the ECCU regional discussions were open to the public.

B. Macroeconomic Outlook and Policy Framework

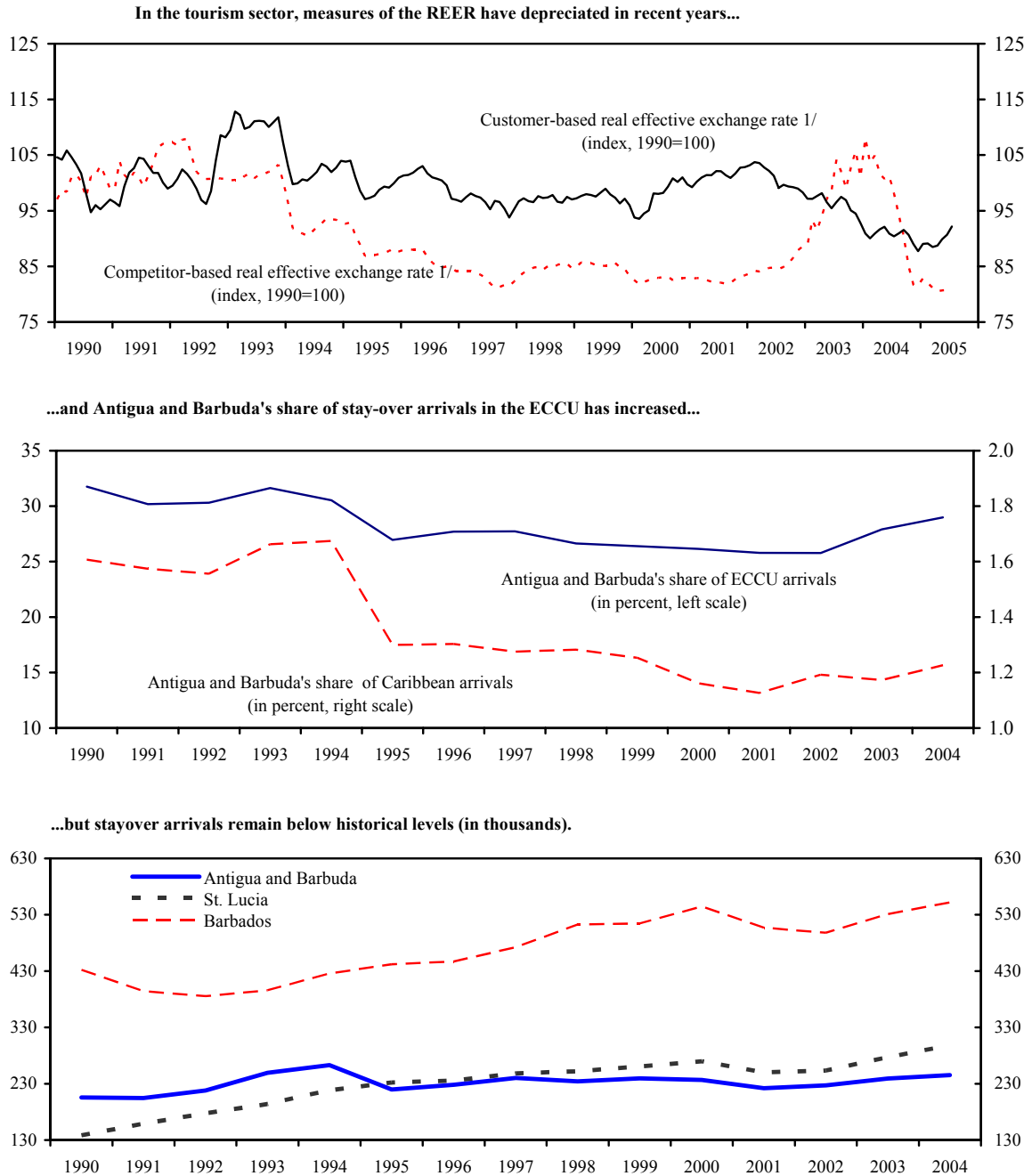
16. **Growth prospects for the coming years are strong, potentially generating labor shortages.** The combination of the initiation of the construction of a new cricket stadium (funded by a grant from China) and a series of tourism sector projects already under discussion is likely to underpin growth for the next few years. Indeed, the authorities considered that growth could be significantly stronger than the 4 percent average projected for the medium term by the staff, depending on how rapidly the projects currently under preparation were implemented. If growth does accelerate, it is likely that, as elsewhere in the region, it would be necessary to import labor in the construction industry.

17. **Available indicators suggest an improvement in competitiveness, though productivity could be increased by advancing the structural reform agenda** (Figure 4). Due to the CBA, the real depreciation of the U.S. dollar since end-2001 has resulted in a large depreciation of the real effective exchange rate and Antigua and Barbuda's tourism market share has increased. The authorities acknowledge that Antigua and Barbuda is a high-cost destination but stressed that the decline in tourism arrivals witnessed in the first half of 2005 was due to temporary factors—including two large hotels undergoing renovations—with many hotels experiencing unusually high occupancy ratios.⁵ It was agreed that competitiveness issues could best be addressed through structural reforms to raise productivity rather than through a change in the regional exchange rate peg which was unlikely to yield significant benefits.⁶

⁵ Preliminary data provided by the Antiguan Hotel and Tourism Association suggest that occupancy rates in the first quarter of 2005 were 79 percent, up from 67 percent in the first quarter of 2004.

⁶ See also the ECCU regional reports (IMF Country Report Nos. 05/304 and 05/305) discussed at the Executive Board on July 13, 2005.

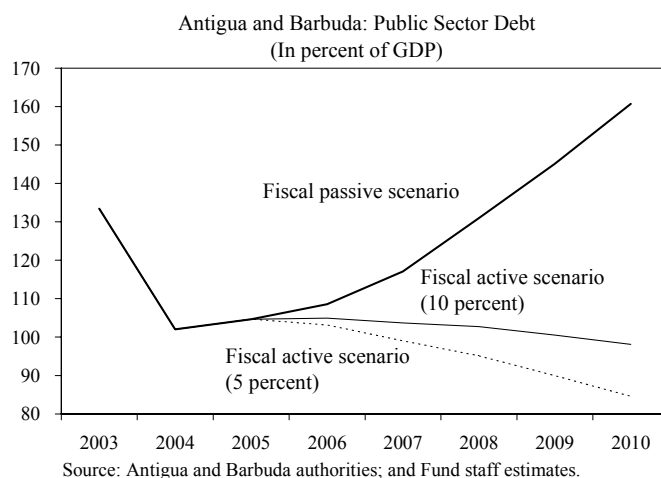
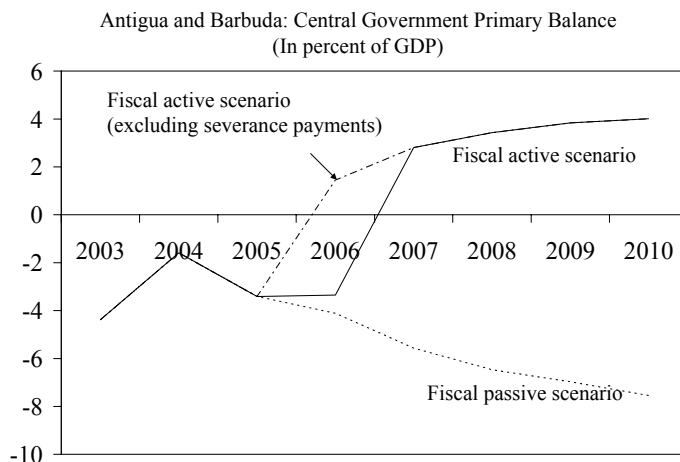
Figure 4. Antigua and Barbuda: Tourism Competitiveness, 1990–2004



Sources: Antigua and Barbuda authorities; ECCB; Caribbean Tourism Organization; and Fund staff calculations.

1/ An increase (decrease) indicates an appreciation (depreciation).

18. **Even with an acceleration in growth, achieving fiscal and debt sustainability will require a large and sustained improvement in the fiscal stance.**⁷ Staff estimates suggest that, if fully implemented, the authorities' fiscal reform agenda could deliver a primary surplus of about 4 percent of GDP by the end of the decade. The terms of the regularization of arrears and for accessing new financing critically determine the debt path going forward: at an interest rate of 10 percent, debt would decline only very gradually; if the authorities are able to secure financing at a lower interest rate, such as 5 percent, debt would decline more rapidly.⁸ Absent policy adjustment, the fiscal imbalances would continue to deteriorate, financed by further debt accumulation and arrears build-up, serving to depress growth. The authorities broadly agreed with the staff's scenarios, noting that many of the policy changes underlying the active scenario were already underway.



19. **The authorities indicated that all options were being explored to reduce debt to a manageable level—including debt relief, asset sales, new financing, and additional fiscal adjustment.** Policy options for regularizing the outstanding stock of arrears are being developed by the Debt Coordination Committee, with the assistance of international financial advisors. While bilateral negotiations have been initiated with key creditors, the authorities noted that they intend to approach remaining creditors as a group, with due consideration for intercreditor equity. Domestic commercial banks have already contributed by reducing the interest rate on government obligations, but staff noted that further reductions may be needed as part of the regularization strategy. Steps to facilitate access to capital markets were underway, including the preparation of Amendments to legislation to permit entry on the Regional Government Securities Market. In terms of asset sales, staff recommended that a

⁷ The medium term scenarios are detailed in Appendix I.

⁸ Given the anticipated increase in global interest rates, the assumption of a fixed 10 percent interest rate on new borrowing would imply that spreads on Antiguan instruments decline gradually through time, consistent with a reduction in the risk premium following a demonstrated improvement in the payments record.

list of government property be drawn up with a view to ensuring that assets are being managed appropriately and as a precursor to privatization.

C. Realizing Growth Potential

20. **Notwithstanding the favorable outlook, efforts are underway to further improve the business environment.** It was agreed that reforms are needed in a broad range of areas to address issues raised in recent studies of the investment climate (Box 4), and the authorities are currently focusing on:

- *Strengthening the investment climate.* The authorities noted that the new Investment Act and the Investment Authority were designed to foster private sector investment—both domestic and foreign.⁹ The Investment Authority would provide investors with information on regulations, facilitate land purchases, and ensure a more transparent environment for investors. Staff agreed that the Investment Authority could play a useful role, but noted that it was important to provide it with sufficient powers to implement its mandate and reduce the burden on potential investors.
- *Reinvigorating the offshore sector.* The authorities noted that the development of the offshore sector—which had been emerging as a new growth sector that provided well-paying, high-skilled jobs—continued to be impeded by the failure to resolve the trade dispute with the U.S. on internet gaming, despite WTO rulings in their favor. They emphasized their commitment to maintaining the sector in full compliance with international norms, noting the favorable BCP assessment of the offshore banking sector, subsequent progress in strengthening the regulation of the entire offshore sector, and ongoing work to develop an AML/CFT regulatory framework for nonbanking financial services such as gaming, casinos, and money transmission agents.
- *Trade facilitation and liberalization.* The authorities noted that the ongoing Customs Renewal Programme would significantly reduce processing time at Customs, lowering the cost of doing business. The mission welcomed this initiative and encouraged further progress in trade liberalization through the removal of remaining quantitative restrictions and licensing requirements, except where justified on the basis of health or security concerns.

⁹ Antigua and Barbuda became a member of MIGA in September 2005.

Box 4. Investment Climate

Recent studies by the World Bank, USAID and Caribbean Rim Investment Initiative identified several structural rigidities that adversely affect the business climate:

Labor market rigidities. Wage costs are high, as is labor protection in the form of severance pay. Other concerns include aspects of the labor regime which make it easy for workers to file industrial disputes, and a cumbersome and discretionary process for granting work permits to foreign workers.

Real estate market. The government owns over 55 percent of the land in Antigua. The process of leasing or purchasing land from government requires Cabinet approval—foreigners

also need Cabinet approval for land transaction with the private market. The system is cumbersome, nontransparent, discretionary, and discriminates against foreigners. In addition, reliable information on the real estate market is limited.

Inefficiencies and high costs of utility services. Utility services in Antigua (except international telephone services) are provided by a monopolistic public enterprise. Electricity tariffs are high, with complex tariff structures. Application procedures for obtaining connections are lengthy and complicated. Reliability of infrastructure is a concern and investors often develop their own facilities.

Trade barriers. Import licenses are required for a number of commodities, and have been used to impose quantitative restrictions on imports. The system for issuing licenses can be discretionary and time-consuming. The complex structure of CARICOM's common external tariff, uneven implementation, prevalent multiple surcharges and exemptions, and high customs service charges make customs processing complicated and costly.

Lack of timely data and information. Reliable and timely information on key macroeconomic variables such as growth, fiscal performance, public debt, trade, labor market is unavailable. Other areas in need of improved information dissemination include regulations governing investment incentives, and procedures for business licensing and registration.

	Selected Indicators of Labor Markets		
	Av. Hourly Wage USD, Construction	Difficulty of Firing Index 1/	Firing Costs Index 2/
ECCU			
Antigua and Barbuda	4.1	30	73
Dominica	2.3	60	57
Grenada	3.0	60	28
St. Kitts and Nevis	5.3	20	62
St. Lucia	...	30	108
St. Vincent and the Grenadines	2.5	30	42
Other upper middle income countries	2.0	22	38
Mauritius	1.3	50	15

Sources: OECS: Towards a New Agenda for Growth, and Doing Business Indicators, World Bank; Mauritius authorities; and Fund staff estimates.

1/ Based on regulations governing worker dismissal procedures.

2/ Weeks of pay in severance and notice prior to worker dismissal after twenty years of employment.

	Selected Caribbean Countries: Electricity Cost, 2005	
	Residential	Commercial
	(Per kWh, in US dollars)	
Antigua and Barbuda	0.32	0.35
Grenada	0.27	0.29
St. Kitts and Nevis	0.14	0.16
St. Vincent and the Grenadines	0.28	0.27
Jamaica	0.12	...
Guyana	0.27	...
Barbados	0.21	...

Sources: Country authorities.

D. Fiscal Policies

2006 Budget

21. **Staff recommended that the 2006 budget target a primary surplus of 1½ percent of GDP (excluding the costs of severance packages).** This would represent a significant but feasible adjustment—close to 5 percent of GDP in the primary balance over the expected outcome for 2005, and a substantial step toward the restoration of fiscal and debt sustainability over the medium term.

Antigua and Barbuda: Policy Options for 2006

	(In millions of E.C. dollar)	(In percent of GDP)
Improving tax administration	13-26	0.5-1.0
Introducing ABST	8-77	0.3-3.0
Reintroducing flexible fuel pricing	21-30	0.8-1.2
Introducing excise tax	5-15	0.2-0.6
Eliminating discretionary concessions	30-50	1.2-2.0
Transforming public service	50	2.0
Curtailing goods and services	3-28	0.1-1.1
Curtailing school meals program	26-45	1.0-1.8
Eliminating further increases in minimum pension	2-5	0.1-0.2

22. **The authorities were at an early stage in developing their budget targets for 2006, but there was broad agreement that a substantial fiscal improvement was needed**

for 2006 and on the measures that would deliver such an improvement. Revenues would rise as a result of measures already introduced in 2005 and the ABST. There was also agreement on the need to revisit the petroleum pricing regime. In terms of expenditures, the authorities noted that a key priority for 2006 was to implement a public sector transformation program to enable a rationalization of the civil service through a voluntary severance scheme, to yield both fiscal savings and enhance the efficiency of the provision of government services.

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

Revenues

23. **The overhaul of the tax system is well underway, and will be largely completed once the ABST is introduced.** While key parameters of the ABST were still under discussion, a White Paper describing the ABST and the taxes that it would replace was published in September and public consultations with key stakeholders have been held. Given the short timeframe for its introduction, it was agreed that the tax should be kept as simple as possible (both for the benefit of taxpayers as well as to ease administration) and, at least initially, be restricted to a small number of large taxpayers.

24. **Strengthening administrative capacity at the tax collection agencies will be key to ensuring that increased revenues materialize.** The rapid introduction of the PIT, the modernized property tax, and the ABST has placed a heavy burden on administrative capacity. The staff noted that there was a need to ensure that the tax collection agencies had the necessary resources, including an appropriate skill mix—for example, that there were sufficient auditors and IT professionals—to ensure the effective implementation of the new legislation and to absorb the technical assistance being provided by donors.

Expenditure

25. **A Public Sector Transformation, based on a voluntary severance scheme and enhanced productivity, is under preparation.** The authorities noted that management consultants were examining options for achieving efficiency gains in existing processes. At the same time, a voluntary severance scheme—comprising a combination of lump sum severance payments, training options, and access to small business loans—is under preparation.¹⁰ The staff stressed the need to ensure that an appropriate skill mix was retained and that new hiring be strictly limited to situations where specific skills, not already available within the public sector, were required. Over the medium term, staff encouraged a comprehensive review of the role of the government in the economy, including the core services to be provided by the government, streamlining the number and structure of ministries, and alternative service delivery options. In addition, options for linking wage increases to productivity improvements or other performance indicators should be considered to provide the necessary incentives for the most skilled workers to remain.

26. **The staff encouraged the consolidation of existing social programs into a social safety net targeted to the needs of the most vulnerable groups.** A series of untargeted social programs had been introduced that were both expensive and not necessarily meeting the needs of the most vulnerable groups. The staff noted that the poverty assessment being undertaken should be used to identify the most vulnerable groups and their needs. The authorities agreed with the desirability of addressing the needs of the most vulnerable groups—particularly given the increases in domestic petroleum prices and downsizing of the civil service. They noted that the free school meals program and the free school uniforms program met important social objectives, but that options for containing the costs of the programs—limiting administrative bureaucracy, and possibly introducing a cost-recovery element for the school meals program—were under consideration.

27. **Pension systems—both social security and civil service—need to be re-examined in order to ensure medium-term viability** (Box 5). The authorities concurred with the need for pension reform and the policy options presented, but noted that it would take time to build public support. The staff acknowledged that these were difficult reforms but stressed that delaying the needed changes would only make the ultimate adjustment larger. The staff urged that additional increases to minimum pensions should be granted only after a clear strategy for ensuring the viability of the pension schemes is developed.

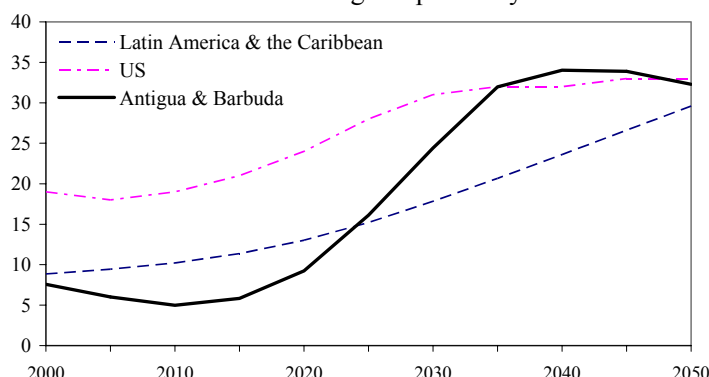
¹⁰ The fiscal projections assume, in line with the indications from focus group studies undertaken by the government, that about 1,800 civil servants participate in the scheme, implying annual wage bill savings of about EC\$50 million, but upfront severance payments of EC\$80–120 million.

Box 5. Pension Reform

The combination of a weak balance sheet and population aging is placing increasing pressure on the viability of the Antigua and Barbuda Social Security Scheme (ABSSS). The ABSSS has started to incur small deficits on a cash basis (0.1 percent of GDP in 2004)—largely due to government arrears on current contributions and interest obligations—and, absent reforms to the pension system, the long-term sustainability of the ABSSS needs to be kept under careful review.

Existing demographic trends plus the maturing of the pension scheme imply a dramatic increase in the dependency ratio over the coming decades.

Selected Countries: Old Age Dependency Ratio 1/



Source: UN.: "World Population Prospect: The 2004 Revision Population Database"
1/ The ratio of population aged 65 years and older to population aged 15-64 years.

Expenditure on civil service pensions, which government retirees receive in addition to ABSSS pensions, is high and rapidly increasing. Civil service pensions are noncontributory. Combined civil service and ABSSS pensions can reach 117 percent of pre-retirement salaries. Budgetary expenditures on civil service pensions amounted to 2 percent of GDP in 2005, but are projected to rise to 5 percent of GDP by 2020 as the number of eligible civil service retirees increases.

Policy options for strengthening the pension systems would bring them closer into line with those in the broader Caribbean:

- A gradual increase in the retirement age.
- Higher contributions for social security pensions.
- Reduce administrative costs, through centralizing the collection of social contributions, other payroll taxes, and income taxes, or by integrating the administrative and investment functions of social security systems at the ECCU level.
- Regularize financial relations between the government and the ABSSS.
- International diversification of the ABSSS's investment portfolio.
- Introduce employee contributions for civil service pensions.
- Eliminate dual pensions, by either capping the combined benefits from civil service and social security pensions or by paying the civil service pension only for the period until the retiree is eligible for the social security pension.

Caribbean Countries: Selected Pension System Parameters, 2004

	Retirement Age		Social Security Contribution Rate			Administrative Costs as % of Contributions
	Civil Service	Social Security	Insured Person	Employer	Total	
Antigua and Barbuda	60	60	3	5	8	16
Dominica	60	60	3	7	10	16
Grenada	60	60	4	5	9	12
St. Kitts and Nevis	55	62	5	6	11	15
St. Lucia	55	61	5	5	10	13
St. Vincent and the Grenadines	55	60	2.5	3.55	6.05	17
Barbados	60	65	6.82	7.57	14.39	6
Jamaica (M/F)	65/60	70/65	2.5	2.5	5	12
Trinidad	55	65	2.8	5.6	8.4	7

Sources: U.S. Social Security Administration, ILO, Social Security in The English-speaking Caribbean, and IMF country desks.

28. **Strengthened expenditure control, including over capital expenditures, would ensure a more rational allocation of fiscal resources.** The authorities acknowledged that existing procedures for keeping expenditure commitments in line with available resources had proven ineffective. Consequently, revisions to the Finance and Audit Act were under preparation that would seek to impart greater accountability at the level of the line ministries. They also noted that a formal PSIP mechanism was being introduced with clear procedures for establishing priorities, enabling better sequencing of projects in line with institutional capacity and the flow of funds, and requiring at least a minimal impact analysis. The staff welcomed these steps and urged the use of the PSIP framework for the 2006 budget.

E. Transparency and Data Dissemination

29. **The authorities reiterated their commitment to enhancing transparency in government.** Staff welcomed the improvements in transparency that had occurred and proposed a number of additional steps that could foster a better public understanding of the ongoing fiscal reforms, including:

- Publishing a quarterly or semiannual economic review containing preliminary budget outcomes and other macroeconomic indicators, to supplement the quarterly reviews prepared by the ECCB;
- Identifying in the budget the one-off costs of reforms, such as severance payments, that result in a temporary deterioration in current fiscal outcomes while strengthening medium-term prospects;
- Including multiyear budget projections in the budget documentation to clearly demonstrate the underlying fiscal situation; and
- Producing a consolidated government budget in addition to the central government budget to provide a clearer and more transparent assessment of the role of the government in the economy.

30. **The authorities agreed that increased data dissemination would support their policy agenda, but noted the need to ensure the quality of data released.** It was agreed that data quality was an important constraint, and the authorities noted that they are seeking technical assistance from CARTAC and other donors to strengthen all areas of statistics. A key priority is to introduce a regular survey of living conditions to monitor progress and identify emerging problems.

F. Reducing Vulnerabilities

31. Vulnerabilities to exogenous shocks are high, but the greatest risks may stem from delays in domestic policy reforms.

The staff's debt sustainability analysis identifies several scenarios under which the achievement of fiscal and debt sustainability would be significantly delayed or prove elusive (see Appendix I).

32. The key role of tourism makes the economy vulnerable to a downturn in the global economy or a security event.

As evidenced by the depth of the downturn in 2001/02, a tourism shock can substantially impact the economy. Policy options are limited, though diversifying the customer base and developing niche markets could mitigate a location-specific shock.

33. Antigua and Barbuda has been one of the most hurricane-prone countries in the world, underscoring the

need to give a high priority to disaster preparedness. Since being hit by four major hurricanes in 1995–99, Antigua and Barbuda has been spared by recent hurricanes. The staff recommended increased enforcement of building codes and encouraging home-owners to obtain insurance. The regulation of the insurance sector should also be strengthened to ensure a sufficient degree of contract certainty and better protection for policyholders. Antigua and Barbuda could also benefit from participation in regional initiatives, such as the World Bank's Catastrophic Risk Insurance Project, which are designed to pool insurance risk across countries.

Public Debt in 2010 under alternative scenarios
(in percent of GDP)

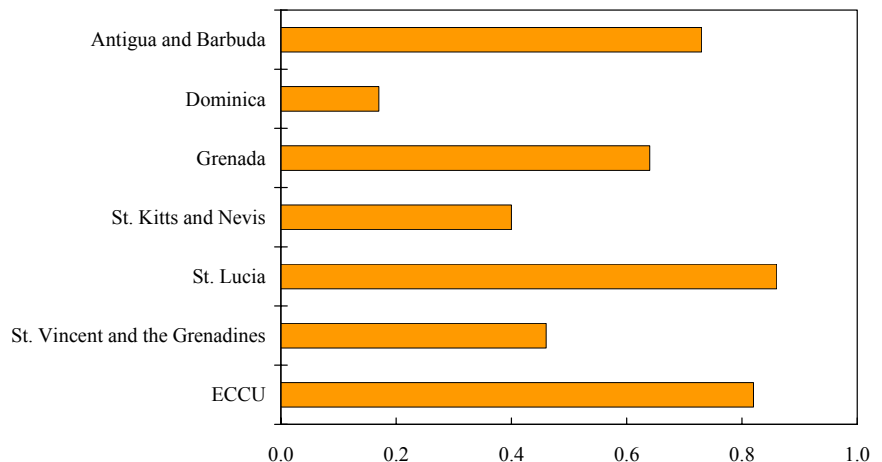
	2010
Active adjustment scenario	98.1
An increase in interest rates by 100 basis points from 2006	102.3
Scenario with key variables at historical averages	119.3
Permanent decline in growth by 2.8 percent in 2006 1/	124.6
Natural disaster (hurricane in 2006) 2/	150.4
No policy adjustment	160.7

Source: Fund staff projections.

1/ Real GDP growth is at historical average minus one standard deviation beginning in 2006.

2/ GDP and primary fiscal balance paths are set to the median impact of 12 large natural disasters in the ECCU.

ECCU: Correlation Between Domestic Output and World Output



Source: Cashin, P. and P. Wang, 2005, Macroeconomic Fluctuations in the Eastern Caribbean Currency Union, IMF Country Report No. 05/305, Eastern Caribbean Currency Union—Selected Issues.

34. **Vulnerability to regional shocks has been low, reflecting limited cross-border financial and trade linkages.** While there is a risk of contagion from a general confidence effect in the region, the ECCB's external reserve coverage has risen in recent years and there has been no apparent impact on financial sector confidence from the ongoing debt restructurings in Dominica and Grenada.

ECCU: Cross Border Linkages

	Financial 1/		Trade 2/
	Gross Claims on Other ECCU Public Sectors	Net Claims on Other ECCU Banks	Exports of Goods to ECCU
	(In percent of bank assets)		(Percent of GDP)
Antigua and Barbuda	0.6	-0.7	0.4
Dominica	2.8	14.8	3.5
Grenada	1.5	5.8	2.3
St. Kitts and Nevis	1.9	-5.9	0.4
St. Lucia	1.4	1.1	1.1
St. Vincent and the Grenadines	3.4	8.5	3.8

Sources: World Bank; Eastern Caribbean Central Bank; and Fund staff estimates.

1/ December 2004.

2/ Average, 1998–2004.

35. **Strengthening the prudential and regulatory framework for banks would reduce vulnerabilities to adverse shocks.** Stress tests conducted by the staff highlight the impairment of government obligations or increased loan losses as the key risks to bank balance sheets. Recently approved Amendments to the Uniform Banking Act—that would permit the implementation of revised prudential guidelines on capital adequacy, risk-based supervision, and corporate governance standards—should help strengthen the effectiveness of banking supervision and the staff urged their timely implementation.

IV. STAFF APPRAISAL

36. **The authorities have made a strong start in advancing their policy agenda to address the deep-rooted economic problems.** Important legislative changes have been introduced in the past year in many areas, including governance and transparency, tax reform, and the investment climate.

37. **Despite the important structural changes, macroeconomic imbalances have yet to close appreciably.** Growth has slowed, due to temporary factors. However, an acceleration in activity is anticipated due to a construction boom associated with preparations for the 2007 Cricket World Cup together with renewed growth in tourism. Tax revenues have risen following the reintroduction of the PIT, but expenditures have also risen due to expanded social programs and an increase in the number of ministries. Consequently, there has been little progress in reducing the primary deficit and substantial arrears continue to be incurred.

38. **Achieving macroeconomic stability and sustained growth will require improving the business environment, closing fiscal imbalances, and reducing vulnerabilities.** These reforms are mutually reinforcing and it is important that progress be made in each area. Closing the fiscal imbalances will be key, not just for enabling normal budget execution but for supporting growth through the provision of quality government services and providing a stable tax environment going forward.

39. **The strong near-term growth outlook provides a window to address structural impediments to raising longer-term growth prospects.** Reducing distortions and governance issues stemming from the existing investment incentive regime by moving to a transparent rules-based system, further liberalizing the trade regime, enhancing the efficiency of Customs to reduce processing time, and easing labor market rigidities would contribute to achieving growth potential. The depreciation of the U.S. dollar in the last few years has provided some breathing room, but productivity growth will be key to maintaining competitiveness.

40. **Sustaining the fiscal effort to ensure progress toward fiscal and debt sustainability will require greater focus on controlling expenditures.** The fiscal effort during 2005 has been driven by tax reform, with expenditure reforms delayed and new expenditure initiatives serving to increase fiscal imbalances. The expenditure slippages—particularly the increase in the number of ministries—are worrisome as the government has to do its part in the fiscal adjustment by bringing expenditures to a sustainable level in order to maintain support from taxpayers. Key measures include:

- Transforming the public sector into a modern efficient civil service that delivers quality government services.
- Improving expenditure control mechanisms to enhance accountability for ensuring that expenditure commitments correspond to budgetary allocations and are consistent with available resources, including through developing a system for expenditure prioritization.
- Strengthening the Public Sector Investment Program to ensure that all capital projects are effectively evaluated and prioritized.
- Addressing emerging concerns about the long-term viability of the pension system, including the separate pensions provided for retired civil servants.

41. **The ongoing tax reform should generate a more equitable and efficient tax system, but implementation will be key to ensuring that the benefits materialize.** The PIT is already contributing significant revenues, as should the ABST once it is introduced. Given the rapid pace at which the new legislation has been introduced, it is inevitable that tax administration capacity is being stretched and it is imperative that the tax collection agencies are provided with appropriately skilled staff. It will also be critical for the government to be resolute in denying requests for special exemptions from the new taxes—such exemptions

serve to erode the tax base and would signal that, as previously, tax obligations are negotiable with adverse effects on the investment climate. Recent increases in domestic petroleum products have stemmed the revenue loss, but the formal adoption of a transparent pricing formula with full pass-through of global oil price fluctuations would avoid the need for discrete adjustments and ensure that appropriate incentives are provided to consumers of petroleum products.

42. **Normalizing relations with creditors would represent a major step forward for Antigua and Barbuda.** Clearing longstanding arrears and establishing a reputation as a reliable counterpart would facilitate access to regular financing sources. The decision to hire financial advisors is welcome but once a strategy has been developed it is important to advance quickly to the implementation stage. In the meantime, the authorities are encouraged to maintain an open dialogue with creditors in order that a cooperative solution can be found.

43. **Significant vulnerabilities to exogenous shocks highlight the need to focus on contingency planning and mitigation activities.** The frequency and intensity of recent hurricane seasons reinforces the need to maintain disaster mitigation efforts and to ensure appropriate insurance coverage of key public sector assets. Given its key role in the recovery from natural disasters, supervision of the insurance sector could also be enhanced.

44. **The high level of nonperforming loans and substantial exposure to the public sector reinforce the need to carefully monitor developments in the financial sector.** The recent approval of the Amendments to the Uniform Banking Act is an important step toward strengthening supervision of the banking system and should be implemented soon. The continuing progress in enhancing the regulation of the offshore sector should strengthen the stability of the financial system.

45. **The greatest risk could come from domestic policy slippages, making it critical that support for the reforms be maintained.** To this end, continued efforts to enhance transparency and improve data dissemination, particularly over fiscal operations, would facilitate informed debate on available policy options and help generate consensus for needed reforms. Establishing a well-targeted social safety net is an important component of the reform strategy, to ensure that vulnerable groups are protected.

46. **It is recommended that Antigua and Barbuda remain on the standard 12-month Article IV consultation cycle.**

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	164
Population (2001)		Education (2001; in percent)	
Total (thousand)	75	Adult literacy rate	87
Annual rate of growth, 1991-2001 (percent a year)	1.0	Energy (2004; in millions of US\$)	
Density (per sq. km.)	171	Imports of petroleum products	78
GDP per capita (US\$), 2004	10,317	Exports of petroleum products	0
Population characteristics (1999)		GDP (2004)	
Life expectancy at birth (years)	75	(in millions of ECS)	2,211
Crude birth rate (per thousand)	19	(in millions of US\$)	819
Crude death rate (per thousand)	8		

II. Selected Economic and Financial Indicators, 2000–2006

	2000	2001	2002	2003	Est. 2004	Proj. 2005	2006
(Annual percentage changes, unless otherwise specified)							
National income and prices							
GDP at constant factor cost	3.3	1.5	2.0	4.3	5.2	3.0	4.0
Nominal GDP at market prices	4.1	4.7	1.0	5.1	8.6	4.6	8.8
GDP deflator at factor cost	0.6	2.6	-0.1	0.3	1.2	1.7	4.6
Consumer prices (period average)	-0.6	-0.4	1.8	2.8	1.3	1.3	4.1
External sector							
Exports, f.o.b.	39.9	-22.4	-3.3	14.5	23.0	7.7	12.1
Imports, f.o.b.	-2.9	-6.2	4.5	5.2	7.3	3.6	12.3
Travel receipts (gross)	0.2	-6.4	0.6	9.5	12.6	0.0	8.5
Nominal effective exchange rate (period ave., depreciation -) 1/	4.9	2.8	-1.8	-6.7	-4.9	-2.3	...
Real effective exchange rate (period ave., depreciation -) 1/	2.1	3.6	-0.6	-6.0	-4.4	-2.2	...
(Contribution to broad money growth)							
Money and credit							
Net foreign assets	-9.6	12.6	0.6	21.9	3.3	6.6	8.2
Net domestic assets	15.3	-7.8	5.7	-0.8	5.8	2.7	3.5
Net credit to the public sector	2.0	-1.8	0.3	3.0	-1.9	-1.7	0.0
Credit to the private sector	8.5	2.9	7.5	2.2	1.6	3.9	3.5
Broad money	5.7	4.8	6.3	21.1	9.1	9.3	11.7
Average deposit rate (in percent per annum) 1/	5.0	4.5	4.4	4.9	4.4	4.1	...
Average lending rate (in percent per annum) 1/	12.2	11.6	11.4	12.8	12.3	12.2	...
(In percent of GDP)							
Central government							
Primary balance	-0.3	-6.8	-7.0	-4.4	-1.6	-3.4	-3.4
Overall balance	-5.0	-11.1	-11.2	-9.0	-5.4	-6.7	-8.1
Total revenue and grants	21.7	19.2	21.7	21.1	21.6	22.8	27.0
Total expenditure and net lending	26.7	30.3	32.9	30.2	27.1	29.6	35.2
Identified financing	10.5	10.6	7.4	7.6	9.5	2.0	-2.9
External	2.0	5.2	1.5	1.6	-25.1	-1.4	-3.0
Domestic	8.5	5.4	5.9	6.0	10.0	3.4	0.2
Statistical discrepancy	-5.5	0.5	3.8	1.4	-4.1	...	...
Financing gap	...	...	...	...	...	4.7	11.0
External sector							
Current account balance	-9.7	-8.9	-15.7	-14.2	-10.8	-11.6	-13.7
Trade balance	-42.7	-39.5	-41.3	-40.9	-39.5	-38.9	-40.1
Service balance	38.2	32.8	30.6	30.0	33.2	30.9	30.7
Of which: gross tourism receipts	42.8	38.3	38.1	39.8	41.2	39.4	39.3
Overall balance	-7.8	-0.9	-1.6	0.5	-19.6	-4.8	6.0
External public debt (end of year)	66.2	66.6	73.2	76.5	47.0	47.7	51.8
Of which: arrears	12.7	14.5	19.0	23.7	17.1	17.6	...
Scheduled external debt service (in percent of exports of goods and services)	8.6	8.5	8.4	9.0	39.3	7.5	8.3
Gross international reserves of the ECCB (in millions of U.S. dollars)	384	446	505	540	632	...	...
(in percent of ECCU broad money)	17.1	18.9	20.1	19.8	20.4	...	...
Nominal GDP at market prices (in millions of ECS)	1,832	1,918	1,938	2,036	2,211	2,313	2,517

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

1/ Numbers are as of end-June 2005.

Table 2. Antigua and Barbuda: Central Government Operations (Active)
(In millions of Eastern Caribbean dollars)

	2002	2003	Baseline		Active Proj.				
			Est. 2004	Proj. 2005	2006	2007	2008	2009	2010
Total revenue and grants	421	430	478	528	680	680	737	790	845
Current revenue	396	427	472	502	612	680	737	790	845
<i>Of which</i>									
Tax revenue	357	383	427	456	564	631	686	736	788
Capital revenue	0	0	0	0	0	0	0	0	0
Capital grants	25	3	6	26	68	0	0	0	0
Total expenditure	638	614	598	684	885	788	836	884	938
Current expenditure	538	533	543	588	746	695	724	765	811
Wages and salaries	237	250	250	253	198	204	210	223	237
Employment contributions 1/	31	34	33	33	26	27	28	30	32
Goods and services, incl. utilities	153	101	108	125	156	147	147	152	160
Interest payments 2/	81	95	85	77	121	183	196	208	220
External	37	41	38	25	53	94	108	120	131
Domestic	44	54	47	52	68	88	88	88	88
Pensions	23	31	33	42	46	51	57	64	72
Other transfers 3/	14	23	34	58	198	83	87	89	91
<i>Of which</i>									
Severances	...	...	...	...	120	...	...	...	...
Capital expenditure and net lending	100	81	55	96	140	93	112	119	126
Current account balance	-142	-106	-71	-86	-133	-14	12	25	34
Primary balance	-136	-89	-35	-79	-84	75	96	114	127
Overall balance	-217	-184	-120	-156	-205	-108	-100	-94	-93
Identified financing	144	155	211	46	-72	-88	-81	-81	-79
External (net) 4/	29	32	-556	-32	-76	-92	-86	-85	-83
Increase in arrears	49	63	-101	28	-407	0	0	0	0
Amortization	24	33	47	15	-199	0	0	0	0
Interest	25	30	-148	14	-207	0	0	0	0
External borrowing	-21	-31	-455	-60	331	-92	-86	-85	-83
Disbursement	65	16	44	21	407	0	0	0	0
Amortization	-86	-47	-499	-82	-76	-92	-86	-85	-83
Domestic (net) 4/	115	123	222	78	4	4	4	4	4
Increase in arrears 5/	118	152	210	95	-781	0	0	0	0
ECCB	-8	-2	-1	0	0	0	0	0	0
Banks and others	2	-30	-9	-35	781	0	0	0	0
Asset sales	3	3	22	18	4	4	4	4	4
Debt relief 6/	...	...	545	...	...	...	...	...	...
Statistical discrepancy	73	29	-91	...	...	...	...	...	...
Financing gap 7/	...	...	...	110	277	195	181	175	172

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

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

2/ The projections include 10 percent interest payment on new borrowing to regularize outstanding arrears and fill financing gap.

3/ Includes a transfer to the Ministry of Tourism to fund off-budgetary tourism promoting activities.

4/ The figures for 2006 reflect the regularization of outstanding arrears.

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

6/ From the Italian Government and a commercial creditor in 2004.

7/ Assumed to be filled through the issuance of long-term bonds with a 10 percent coupon rate.

Table 3. Antigua and Barbuda: Central Government Operations (Active)

(In percent of GDP)

	2002	2003	Baseline		Active Proj.				
			Est. 2004	Proj. 2005	2006	2007	2008	2009	2010
Total revenue and grants	21.7	21.1	21.6	22.8	27.0	25.5	26.3	26.6	26.7
Current revenue	20.4	21.0	21.3	21.7	24.3	25.5	26.3	26.6	26.7
<i>Of which</i>									
Tax revenue	18.4	18.8	19.3	19.7	22.4	23.7	24.5	24.8	24.9
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	1.3	0.2	0.3	1.1	2.7	0.0	0.0	0.0	0.0
Total expenditure and net lending	32.9	30.2	27.1	29.6	35.2	29.5	29.9	29.7	29.7
Current expenditure	27.7	26.2	24.6	25.4	29.6	26.0	25.9	25.7	25.7
Wages and salaries	12.2	12.3	11.3	10.9	7.9	7.6	7.5	7.5	7.5
Employment contributions 1/	1.6	1.7	1.5	1.4	1.0	1.0	1.0	1.0	1.0
Goods and services, incl. utilities	7.9	4.9	4.9	5.4	6.2	5.5	5.2	5.1	5.1
Interest payments 2/	4.2	4.7	3.8	3.3	4.8	6.8	7.0	7.0	6.9
External	1.9	2.0	1.7	1.1	2.1	3.5	3.8	4.0	4.2
Domestic	2.3	2.7	2.1	2.2	2.7	3.3	3.2	3.0	2.8
Pensions	1.2	1.5	1.5	1.8	1.8	1.9	2.0	2.1	2.3
Other transfers 3/	0.7	1.1	1.5	2.5	7.9	3.1	3.1	3.0	2.9
<i>Of which</i>									
Severances	...	...	...	...	4.8	...	...	...	...
Capital expenditure and net lending	5.1	4.0	2.5	4.1	5.5	3.5	4.0	4.0	4.0
Current account balance	-7.3	-5.2	-3.2	-3.7	-5.3	-0.5	0.4	0.8	1.1
Primary balance	-7.0	-4.4	-1.6	-3.4	-3.4	2.8	3.4	3.8	4.0
Overall balance	-11.2	-9.0	-5.4	-6.7	-8.1	-4.0	-3.6	-3.2	-2.9
Identified financing	7.4	7.6	9.5	2.0	-2.9	-3.3	-2.9	-2.7	-2.5
External (net) 4/	1.5	1.6	-25.1	-1.4	-3.0	-3.4	-3.1	-2.9	-2.6
Increase in arrears	2.5	3.1	-4.6	1.2	-16.2	0.0	0.0	0.0	0.0
Amortization	1.2	1.6	2.1	0.6	-7.9	0.0	0.0	0.0	0.0
Interest	1.3	1.5	-6.7	0.6	-8.2	0.0	0.0	0.0	0.0
External borrowing (net)	-1.1	-1.5	-20.6	-2.6	13.1	-3.4	-3.1	-2.9	-2.6
Disbursement	3.3	0.8	2.0	0.9	16.2	0.0	0.0	0.0	0.0
Amortization	-4.4	-2.3	-22.6	-3.5	-3.0	-3.4	-3.1	-2.9	-2.6
Domestic (net) 4/	5.9	6.0	10.0	3.4	0.2	0.2	0.2	0.1	0.1
Increase in arrears 5/	6.1	7.5	9.5	4.1	-31.0	0.0	0.0	0.0	0.0
ECCB (net)	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks and others (net)	0.1	-1.5	-0.4	-1.5	31.0	0.0	0.0	0.0	0.0
Asset sales	0.2	0.1	1.0	0.8	0.2	0.2	0.2	0.1	0.1
Debt relief 6/	...	...	24.6	...	...	...	...	...	...
Statistical discrepancy	3.8	1.4	-4.1	...	...	...	...	...	...
Financing gap 7/	...	...	...	4.7	11.0	7.3	6.5	5.9	5.4
Memorandum items:									
Total central government debt 8/	119.0	124.5	93.2	95.5	99.5	97.9	96.8	94.4	91.7
Total public sector debt 8/	128.8	133.4	102.0	104.7	104.9	103.7	102.7	100.5	98.1

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

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

2/ The projections include 10 percent interest payment on new borrowing to regularize outstanding arrears and fill financing gap.

3/ Includes a transfer to the Ministry of Tourism to fund off-budgetary tourism promoting activities.

4/ The figures for 2006 reflect the regularization of outstanding arrears.

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

6/ From the Italian Government and a commercial creditor in 2004.

7/ Assumed to be filled through the issuance of long-term bonds with a 10 percent coupon rate.

8/ Includes arrears.

Table 4. Antigua and Barbuda: Central Government Operations (Passive)

(In millions of Eastern Caribbean dollars)

	2002	2003	Baseline		Passive Proj.				
			Est. 2004	Proj. 2005	2006	2007	2008	2009	2010
Total revenue and grants	421	430	478	528	609	574	577	591	604
Current revenue	396	427	472	502	541	574	577	591	604
<i>Of which</i>									
Tax revenue	357	383	427	456	494	525	528	541	554
Capital revenue	0	0	0	0	0	0	0	0	0
Capital grants	25	3	6	26	68	0	0	0	0
Total expenditure	638	614	598	684	851	904	968	1041	1123
Current expenditure	538	533	543	588	712	814	877	947	1026
Wages and salaries	237	250	250	253	258	268	279	291	302
Employment contributions 1/	31	34	33	33	30	31	33	34	35
Goods and services, incl. utilities	153	101	108	125	156	171	176	185	193
Interest payments 2/	81	95	85	77	141	186	222	263	310
External	37	41	38	25	73	98	134	175	222
Domestic	44	54	47	52	68	88	88	88	88
Pensions	23	31	33	42	49	55	61	67	76
Other transfer 3/	14	23	34	58	78	102	106	107	109
<i>Of which</i>									
Severances	...	...	...	...	...	...	...	...	...
Capital expenditure and net lending	100	81	55	96	140	90	92	94	97
Current account balance	-142	-106	-71	-86	-171	-240	-300	-356	-422
Primary balance	-136	-89	-35	-79	-101	-144	-169	-187	-208
Overall balance	-217	-184	-120	-156	-242	-330	-391	-450	-519
Identified financing	144	155	211	46	-72	-88	-81	-81	-79
External (net) 4/	29	32	-556	-32	-76	-92	-86	-85	-83
Increase in arrears	49	63	-101	28	-407	0	0	0	0
Amortization	24	33	47	15	-199	0	0	0	0
Interest	25	30	-148	14	-207	0	0	0	0
External borrowing	-21	-31	-455	-60	331	-92	-86	-85	-83
Disbursement	65	16	44	21	407	0	0	0	0
Amortization	-86	-47	-499	-82	-76	-92	-86	-85	-83
Domestic (net) 4/	115	123	222	78	4	4	4	4	4
Increase in arrears 5/	118	152	210	95	-781	0	0	0	0
ECCB	-8	-2	-1	0	0	0	0	0	0
Banks and others	2	-30	-9	-35	781	0	0	0	0
Asset sales	3	3	22	18	4	4	4	4	4
Debt relief 6/	...	...	545	...	...	...	...	...	...
Statistical discrepancy	73	29	-91	...	...	...	...	...	...
Financing gap 7/	...	...	...	110	314	418	473	531	597

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

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

2/ The projections include 10 percent interest payment on new borrowing to regularize outstanding arrears and fill financing gap.

3/ Includes a transfer to the Ministry of Tourism to fund off-budgetary tourism promoting activities.

4/ The figures for 2006 reflect the regularization of outstanding arrears.

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

6/ From the Italian Government and a commercial creditor in 2004.

7/ Assumed to be filled through the issuance of long-term bonds with a 10 percent coupon rate.

Table 5. Antigua and Barbuda: Central Government Operations (Passive)
(In percent of GDP)

	2002	2003	Baseline		Passive Proj.				
			Est. 2004	Proj. 2005	2006	2007	2008	2009	2010
Total revenue and grants	21.7	21.1	21.6	22.8	24.7	22.2	22.0	22.0	21.9
Current revenue	20.4	21.0	21.3	21.7	21.9	22.2	22.0	22.0	21.9
<i>Of which</i>									
Tax revenue	18.4	18.8	19.3	19.7	20.0	20.3	20.2	20.2	20.1
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital grants	1.3	0.2	0.3	1.1	2.7	0.0	0.0	0.0	0.0
Total expenditure and net lending	32.9	30.2	27.1	29.6	34.5	35.0	37.0	38.8	40.7
Current expenditure	27.7	26.2	24.6	25.4	28.8	31.5	33.5	35.3	37.2
Wages and salaries	12.2	12.3	11.3	10.9	10.5	10.4	10.7	10.8	11.0
Employment contributions 1/	1.6	1.7	1.5	1.4	1.2	1.2	1.2	1.3	1.3
Goods and services, incl. utilities	7.9	4.9	4.9	5.4	6.3	6.6	6.7	6.9	7.0
Interest payments 2/	4.2	4.7	3.8	3.3	5.7	7.2	8.5	9.8	11.2
External	1.9	2.0	1.7	1.1	3.0	3.8	5.1	6.5	8.0
Domestic	2.3	2.7	2.1	2.2	2.8	3.4	3.4	3.3	3.2
Pensions	1.2	1.5	1.5	1.8	2.0	2.1	2.3	2.5	2.7
Other transfers 3/	0.7	1.1	1.5	2.5	3.2	3.9	4.0	4.0	4.0
<i>Of which</i>									
Severances	...	...	...	...	...	...	...	...	...
Capital expenditure and net lending	5.1	4.0	2.5	4.1	5.7	3.5	3.5	3.5	3.5
Current account balance	-7.3	-5.2	-3.2	-3.7	-6.9	-9.3	-11.4	-13.3	-15.3
Primary balance	-7.0	-4.4	-1.6	-3.4	-4.1	-5.6	-6.5	-7.0	-7.5
Overall balance	-11.2	-9.0	-5.4	-6.7	-9.8	-12.8	-14.9	-16.8	-18.8
Identified financing	7.4	7.6	9.5	2.0	-2.9	-3.4	-3.1	-3.0	-2.9
External (net) 4/	1.5	1.6	-25.1	-1.4	-3.1	-3.6	-3.3	-3.2	-3.0
Increase in arrears	2.5	3.1	-4.6	1.2	-16.5	0.0	0.0	0.0	0.0
Amortization	1.2	1.6	2.1	0.6	-8.1	0.0	0.0	0.0	0.0
Interest	1.3	1.5	-6.7	0.6	-8.4	0.0	0.0	0.0	0.0
External borrowing (net)	-1.1	-1.5	-20.6	-2.6	13.4	-3.6	-3.3	-3.2	-3.0
Disbursement	3.3	0.8	2.0	0.9	16.5	0.0	0.0	0.0	0.0
Amortization	-4.4	-2.3	-22.6	-3.5	-3.1	-3.6	-3.3	-3.2	-3.0
Domestic (net) 4/	5.9	6.0	10.0	3.4	0.2	0.2	0.2	0.2	0.2
Increase in arrears 5/	6.1	7.5	9.5	4.1	-31.6	0.0	0.0	0.0	0.0
ECCB (net)	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks and others (net)	0.1	-1.5	-0.4	-1.5	31.6	0.0	0.0	0.0	0.0
Asset sales	0.2	0.1	1.0	0.8	0.2	0.2	0.2	0.2	0.2
Debt relief 6/	...	...	24.6	...	...	...	...	...	...
Statistical discrepancy	3.8	1.4	-4.1	...	...	...	...	...	...
Financing gap 7/	...	...	...	4.7	12.7	16.2	18.1	19.8	21.6
Memorandum items:									
Total central government debt 8/	119.0	124.5	93.2	95.5	103.0	111.1	124.6	138.3	153.3
Total public sector debt 8/	128.8	133.4	102.0	104.7	108.6	117.1	131.0	145.1	160.7

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

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

2/ The projections include 10 percent interest payment on new borrowing to regularize outstanding arrears and fill financing gap.

3/ Includes a transfer to the Ministry of Tourism to fund off-budgetary tourism promoting activities.

4/ The figures for 2006 reflect the regularization of outstanding arrears.

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

6/ From the Italian Government and a commercial creditor in 2004.

7/ Assumed to be filled through the issuance of long-term bonds with a 10 percent coupon rate.

8/ Includes arrears.

Table 6. Antigua and Barbuda: Structure of Public Sector Debt, 2004–05

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

	End-2004			End-June 2005		
	Stock	Percent of		Stock	Percent of	
		Total Debt	GDP		Total Debt	GDP
Total public sector debt 1/	835.3	100.0	102.0	874.7	100.0	102.1
Total external public debt	385.2	46.1	47.0	386.5	44.2	45.1
A. Central government	335.0	40.1	40.9	336.5	38.5	39.3
1. Multilateral, total	9.8	1.2	1.2	8.9	1.0	1.0
CDB	1.3	0.2	0.2	1.1	0.1	0.1
EEC/EIB	6.8	0.8	0.8	6.2	0.7	0.7
OPEC	1.6	0.2	0.2	1.7	0.2	0.2
2. Official bilateral, total	95.9	11.5	11.7	103.8	11.9	12.1
<i>Of which</i>						
Kuwait	15.3	1.8	1.9	15.6	1.8	1.8
China	7.5	0.9	0.9	15.4	1.8	1.8
U.S.	24.5	2.9	3.0	24.8	2.8	2.9
U.K.	5.7	0.7	0.7	5.3	0.6	0.6
Germany	7.1	0.8	0.9	6.5	0.7	0.8
France	26.5	3.2	3.2	26.8	3.1	3.1
3. Commercial, total	229.3	27.4	28.0	223.8	25.6	26.1
IHI Debt Settlement Company	92.3	11.1	11.3	91.2	10.4	10.7
Stanford Financial Group Limited	58.7	7.0	7.2	58.6	6.7	6.8
Banco do Brasil	41.4	5.0	5.1	42.6	4.9	5.0
Others	36.9	4.4	4.5	31.3	3.6	3.7
B. Other public sector 2/	50.3	6.0	6.1	50.1	5.7	5.8
<i>Of which</i>						
CDB	8.7	1.0	1.1	8.6	1.0	1.0
Royal Merchant Bank & Finance Ltd.	21.5	2.6	2.6	22.0	2.5	2.6
Total domestic public debt	450.1	53.9	55.0	488.2	55.8	57.0
A. Central government	428.6	51.3	52.3	457.0	52.2	53.3
Bank loans and overdrafts	128.9	15.4	15.7	122.6	14.0	14.3
Unpaid contributions	161.8	19.4	19.8	167.9	19.2	19.6
Government securities	81.8	9.8	10.0	83.1	9.5	9.7
Supplier credits	33.4	4.0	4.1	54.3	6.2	6.3
Others	22.7	2.7	2.8	29.1	3.3	3.4
B. Other public sector 2/	21.5	2.6	2.6	31.2	3.6	3.6

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

1/ Includes arrears.

2/ Includes government guarantees extended to public enterprises and private sector.

Table 7. Antigua and Barbuda: Balance of Payments (Active Scenario)

	2002	Prel. 2003	Est. 2004	Active Proj.					
				2005	2006	2007	2008	2009	2010
(In millions of U.S. dollars)									
Current account	-112	-107	-88	-99	-128	-128	-126	-126	-125
Trade balance	-296	-308	-324	-333	-374	-394	-405	-432	-459
Exports (f.o.b.) 1/	39	45	55	60	67	73	78	83	90
Imports (f.o.b.) 1/	336	353	379	393	441	467	484	515	549
Services balance	220	226	272	264	286	321	338	369	400
<i>Of which</i>									
Gross tourist receipts	274	300	338	338	367	402	421	453	488
Income (net)	-41	-39	-45	-39	-50	-65	-70	-75	-79
<i>Of which</i>									
Interest obligations	14	15	15	9	19	35	40	44	49
Current transfers (net)	6	13	9	9	10	10	11	11	12
Capital and financial account	91	76	-97	58	183	65	66	67	67
Official	13	-9	-167	-13	148	-34	-32	-32	-31
Capital grants	9	1	4	10	25	0	0	0	0
Borrowing	4	-10	-172	-22	122	-34	-32	-32	-31
Disbursements	26	16	18	8	151	0	0	0	0
Amortization (-)	22	26	189	30	28	34	32	32	31
Nonofficial	78	85	70	71	36	99	98	98	98
Foreign direct investment (net)	66	166	74	77	84	94	99	105	111
Portfolio investment (net)	-3	2	7	0	0	0	0	0	0
Commercial banks	5	-99	-17	-40	-60	-5	-5	-10	-15
Other private (net)	11	16	6	34	12	11	4	4	1
Errors and omissions	10	35	25	0	0	0	0	0	0
Overall balance	-11	4	-161	-41	56	-63	-60	-60	-59
Financing	11	-4	161	0	-158	-9	-7	-5	-5
Change in imputed reserves (increase -)	-8	-26	-6	-10	-8	-9	-7	-5	-5
Change in government foreign assets	0	0	0	0	0	0	0	0	0
Exceptional financing 2/	19	22	167	10	-151	0	0	0	0
Increase in arrears	19	22	-34	10	-151	0	0	0	0
Debt forgiveness	0	0	202	0	0	0	0	0	0
Financing gap	...	...	...	41	103	72	67	65	64
(In percent of GDP)									
Current account	-15.7	-14.2	-10.8	-11.6	-13.7	-13.0	-12.2	-11.5	-10.7
<i>Of which</i>									
Trade balance	-41.3	-40.9	-39.5	-38.9	-40.1	-39.9	-39.1	-39.2	-39.2
Merchandise imports	46.8	46.8	46.3	45.8	47.3	47.3	46.6	46.8	46.9
Gross tourist receipts	38.1	39.8	41.2	39.4	39.3	40.7	40.6	41.1	41.6
Capital and financial account	12.7	10.1	-11.9	6.8	19.7	6.6	6.4	6.1	5.7
<i>Of which</i>									
Official disbursements (net)	0.6	-1.3	-20.9	-2.6	13.1	-3.4	-3.1	-2.9	-2.6
Direct investment	9.2	22.1	9.0	9.0	9.0	9.5	9.5	9.5	9.5
Errors and omissions	1.3	4.7	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.6	0.5	-19.7	-4.8	6.0	-6.4	-5.8	-5.4	-5.0
Financing	1.6	-0.5	19.7	4.8	-6.0	6.4	5.8	5.4	5.0
Change in imputed reserves (increase -)	-1.1	-3.5	-0.8	-1.2	-0.8	-1.0	-0.7	-0.5	-0.4
Change in government foreign assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	2.6	3.0	20.4	1.2	-16.2	0.0	0.0	0.0	0.0
Increase in arrears	2.6	3.0	-4.2	1.2	-16.2	0.0	0.0	0.0	0.0
Debt forgiveness	0.0	0.0	24.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	...	...	4.7	11.0	7.3	6.5	5.9	5.4
Memorandum items:									
Outstanding external debt 3/	73.2	76.5	47.0	47.7	51.8	52.7	53.6	53.6	53.2
External debt service obligations (In percent of exports of goods and services)	8.4	9.0	39.4	7.5	8.3	11.1	10.9	10.7	10.3

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

1/ Based on ECCB estimates.

2/ Includes debt relief from the Italian Government and a commercial creditor during 2004, and assumes the clearance of arrears in 2006 through the issuance of a long-term bond carrying 10 percent interest.

3/ Includes arrears and financing gap.

Table 8. Antigua and Barbuda: Balance of Payments (Passive Scenario)

	2002	Prel.	Est.	Passive Proj.					
		2003	2004	2005	2006	2007	2008	2009	2010
(In millions of U.S. dollars)									
Current account	-112	-107	-88	-99	-123	-130	-144	-162	-184
Trade balance	-296	-308	-324	-333	-359	-376	-377	-386	-397
Exports (f.o.b.) 1/	39	45	55	60	64	67	67	69	71
Imports (f.o.b.) 1/	336	353	379	393	423	443	444	455	468
Services balance	220	226	272	264	276	303	302	309	315
<i>Of which</i>									
Gross tourist receipts	274	300	338	338	355	383	385	394	403
Income (net)	-41	-39	-45	-39	-50	-67	-80	-95	-113
<i>Of which</i>									
Interest obligations	14	15	15	9	19	36	49	65	82
Current transfers (net)	6	13	9	9	10	10	10	10	11
Capital and financial account	91	76	-97	58	160	-23	-29	-33	-36
Official	13	-9	-167	-13	148	-34	-32	-32	-31
Capital grants	9	1	4	10	25	0	0	0	0
Borrowing	4	-10	-172	-22	122	-34	-32	-32	-31
Disbursements	26	16	18	8	151	0	0	0	0
Amortization (-)	22	26	189	30	28	34	32	32	31
Nonofficial	78	85	70	71	12	11	3	-1	-5
Foreign direct investment (net)	66	166	74	77	73	67	68	65	66
Portfolio investment (net)	-3	2	7	0	0	0	0	0	0
Commercial banks	5	-99	-17	-40	-30	-30	-30	-30	-30
Other private (net)	11	16	6	34	-31	-26	-35	-36	-41
Errors and omissions	10	35	25	0	0	0	0	0	0
Overall balance	-11	4	-161	-41	36	-153	-173	-195	-219
Financing	11	-4	161	0	-153	-2	-2	-2	-2
Change in imputed reserves (increase -)	-8	-26	-6	-10	-2	-2	-2	-2	-2
Change in government foreign assets	0	0	0	0	0	0	0	0	0
Exceptional financing 2/	19	22	167	10	-151	0	0	0	0
Increase in arrears	19	22	-34	10	-151	0	0	0	0
Debt forgiveness	0	0	202	0	0	0	0	0	0
Financing gap	...	...	...	41	116	155	175	197	221
(In percent of GDP)									
Current account	-15.7	-14.2	-10.8	-11.6	-13.5	-13.5	-14.8	-16.3	-18.0
<i>Of which</i>									
Trade balance	-41.3	-40.9	-39.5	-38.9	-39.3	-39.3	-38.8	-38.8	-38.8
Merchandise imports	46.8	46.8	46.3	45.8	46.3	46.3	45.8	45.8	45.8
Gross tourist receipts	38.1	39.8	41.2	39.4	38.9	40.1	39.7	39.6	39.4
Capital and financial account	12.7	10.1	-11.9	6.8	17.5	-2.4	-3.0	-3.3	-3.5
<i>Of which</i>									
Official disbursements (net)	0.6	-1.3	-20.9	-2.6	13.4	-3.6	-3.3	-3.2	-3.0
Direct investment	9.2	22.1	9.0	9.0	8.0	7.0	7.0	6.5	6.5
Errors and omissions	1.3	4.7	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-1.6	0.5	-19.7	-4.8	4.0	-16.0	-17.8	-19.6	-21.5
Financing	1.6	-0.5	19.7	4.8	-4.0	16.0	17.8	19.6	21.5
Change in imputed reserves (increase -)	-1.1	-3.5	-0.8	-1.2	-0.2	-0.2	-0.2	-0.2	-0.2
Change in government foreign assets	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	2.6	3.0	20.4	1.2	-16.5	0.0	0.0	0.0	0.0
Increase in arrears	2.6	3.0	-4.2	1.2	-16.5	0.0	0.0	0.0	0.0
Debt forgiveness	0.0	0.0	24.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	...	...	...	4.7	12.7	16.2	18.1	19.8	21.6
Memorandum items:									
Outstanding external debt 3/	73.2	76.5	47.0	47.7	54.3	64.5	78.5	93.1	109.2
External debt service obligations (In percent of exports of goods and services)	8.4	9.0	39.4	7.5	8.6	11.9	13.6	15.8	18.1

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

1/ Based on ECCB estimates.

2/ Includes debt relief from the Italian Government and a commercial creditor during 2004, and assumes the clearance of arrears in 2006 through the issuance of a long-term bond carrying 10 percent interest.

3/ Includes arrears and financing gap.

Table 9. Antigua and Barbuda: Monetary Survey

	2002	2003	2004	June 2005	Baseline Proj. 2005	Proj. Passive 2006	Active 2006
(In millions of Eastern Caribbean dollars, at end of period)							
Net foreign assets	329	668	730	739	865	951	1,047
ECCB imputed reserves	237	307	324	342	351	357	372
Commercial banks' net foreign assets	92	361	405	397	513	594	675
Net domestic assets	1,216	1,203	1,311	1,357	1,367	1,430	1,446
Net credit to public sector (net)	80	126	89	52	55	55	55
Claims on central government (net)	294	293	268	257	233	233	233
ECCB net credit to central government	26	26	21	22	21	21	21
Commercial bank net credit to government	268	266	247	235	212	212	212
Net credit to other public sector	-214	-167	-178	-204	-178	-178	-178
Credit to private sector	1,457	1,492	1,522	1,556	1,602	1,665	1,681
Other items (net)	-320	-414	-300	-251	-290	-290	-290
Monetary liabilities (M2)	1,545	1,871	2,041	2,097	2,232	2,381	2,493
Money (M1)	308	370	444	486	518	552	564
Currency circulating outside banks	88	99	113	107	114	122	125
Demand deposits	220	271	331	379	403	430	439
Quasi-money	1,237	1,502	1,597	1,611	1,714	1,829	1,929
Savings deposits	525	577	683	724	770	822	874
Time deposits	595	818	780	766	815	870	912
Foreign currency deposits	117	107	134	121	129	137	144
(12-month percentage change)							
Credit to the public sector (net)	5.7	57.5	-28.7	-32.2	-38.8	0.0	0.0
Credit to the private sector (net)	8.0	2.4	2.0	3.3	5.2	3.9	4.9
Broad money	6.3	21.1	9.1	8.1	9.3	6.7	11.7
Money (M1)	0.3	20.0	20.2	31.2	16.5	6.7	8.9
Quasi-money	7.9	21.4	6.4	2.6	7.3	6.7	12.6
(12-month change in percent of M2 at the beginning of the period)							
Net foreign assets	0.6	21.9	3.3	14.4	6.6	3.9	8.2
ECCB imputed reserves	1.5	4.6	0.9	3.8	1.3	0.2	0.9
Commercial banks' net foreign assets	-0.9	17.4	2.4	10.6	5.3	3.6	7.3
Net domestic assets	5.7	-0.8	5.8	-6.4	2.7	2.8	3.5
Credit to the public sector (net)	0.3	3.0	-1.9	-1.3	-1.7	0.0	0.0
Claims on central government	0.3	-0.1	-1.3	-0.2	-1.7	0.0	0.0
Credit to the rest of the public sector (net)	0.0	3.1	-0.6	-1.1	0.0	0.0	0.0
Private sector	7.5	2.2	1.6	2.6	3.9	2.8	3.5
Other items (net)	-2.1	-6.1	6.1	-9.3	0.5	0.0	0.0
Memorandum item:							
Income velocity of M2	1.3	1.2	1.1	...	1.1	1.1	1.1

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

Table 10. Antigua and Barbuda: Medium-Term Summary

	2003	Prel. 2004	2005	2006	Proj. 2007	2008	2009	2010
I. Active Scenario								
(Annual percentage change)								
Real sector indicators								
GDP at constant factor cost	4.3	5.2	3.0	4.0	4.3	3.6	4.5	4.5
Nominal GDP at market price	5.1	8.6	4.6	8.8	6.0	5.0	6.2	6.4
Consumer prices (average)	2.8	1.3	1.3	4.1	2.0	2.0	2.0	2.0
(In percent of GDP at market prices)								
Fiscal indicators								
Current revenue	21.0	21.3	21.7	24.3	25.5	26.3	26.6	26.7
<i>Of which</i>								
Tax revenue	18.8	19.3	19.7	22.4	23.7	24.5	24.8	24.9
Current expenditure	26.2	24.6	25.4	29.6	26.0	25.9	25.7	25.7
<i>Of which</i>								
Interest obligations	4.7	3.8	3.3	4.8	6.8	7.0	7.0	6.9
Current balance	-5.2	-3.2	-3.7	-5.3	-0.5	0.4	0.8	1.1
Primary balance	-4.4	-1.6	-3.4	-3.4	2.8	3.4	3.8	4.0
Overall balance	-9.0	-5.4	-6.7	-8.1	-4.0	-3.6	-3.2	-2.9
Financing gap	...	...	4.7	11.0	7.3	6.5	5.9	5.4
External sector indicators								
Current account balance	-14.2	-10.8	-11.6	-13.7	-13.0	-12.2	-11.5	-10.7
<i>Of which</i>								
Tourist receipts	39.8	41.2	39.4	39.3	40.7	40.6	41.1	41.6
Capital and financial account balance	10.1	-11.9	6.8	19.7	6.7	6.4	6.1	5.7
Overall balance	0.5	-19.6	-4.8	6.0	-6.4	-5.8	-5.4	-5.0
External public debt (end of year) 2/	76.5	47.0	47.7	51.8	52.7	53.6	53.6	53.2
Total public debt (end of year) 2/	133.4	102.0	104.7	103.1	99.0	95.1	90.0	84.6
II. Passive Scenario								
(Annual percentage change)								
Real sector indicators								
GDP at constant factor cost	4.3	5.2	3.0	3.0	3.1	0.0	1.0	1.0
Nominal GDP at market price	5.1	8.6	4.6	6.7	4.7	1.3	2.6	2.8
Consumer prices (average)	2.8	1.3	1.3	3.0	2.0	2.0	2.0	2.0
(In percent of GDP at market prices)								
Fiscal indicators 1/								
Current revenue	21.0	21.3	21.7	21.9	22.2	22.0	22.0	21.9
<i>Of which</i>								
Tax revenue	18.8	19.3	19.7	20.0	20.3	20.2	20.2	20.1
Current expenditure	26.2	24.6	25.4	28.8	31.5	33.5	35.3	37.2
<i>Of which</i>								
Interest obligations	4.7	3.8	3.3	5.7	7.2	8.5	9.8	11.2
Current balance	-5.2	-3.2	-3.7	-6.9	-9.3	-11.4	-13.3	-15.3
Primary balance	-4.4	-1.6	-3.4	-4.1	-5.6	-6.5	-7.0	-7.5
Overall balance	-9.0	-5.4	-6.7	-9.8	-12.8	-14.9	-16.8	-18.8
Financing gap	...	...	4.7	12.7	16.2	18.1	19.8	21.6
External indicators								
Current account balance	-14.2	-10.8	-11.6	-13.6	-13.6	-14.9	-16.3	-18.0
<i>Of which</i>								
Tourist receipts	39.8	41.2	39.4	38.9	40.1	39.7	39.6	39.4
Capital and financial account balance	10.1	-11.9	6.8	17.5	-2.4	-3.0	-3.2	-3.4
Overall balance	0.5	-19.6	-4.8	4.0	-16.0	-17.8	-19.6	-21.5
External public debt (end of year) 2/	76.5	47.0	47.7	54.3	64.5	78.5	93.1	109.2
Total public debt (end of year) 2/	133.4	102.0	104.7	108.6	117.1	131.0	145.1	160.7

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

1/ Central government only.

2/ Includes arrears. The projections assume a debt regularization in 2006 and include new borrowing (at 10 percent interest) to fill the central government's financing gap.

Table 11. Antigua and Barbuda: Selected Indicators of Vulnerability

	1999	2000	2001	2002	2003	Prel. 2004	Proj. 2005
Financial indicators							
Broad money (12-month percent change)	10.5	5.7	4.8	6.3	21.1	9.1	9.3
Private sector credit (12-month percent change)	8.4	9.4	3.1	8.0	2.4	2.0	5.2
Commercial bank soundness indicators (in percent) 1/							
Capital adequacy ratio 2/	20.6	16.7	15.3	14.7	13.4	12.5	14.4
Unsatisfactory assets/total loans	9.2	9.3	12.4	11.3	14.4	14.8	13.1
Provision for loan losses/unsatisfactory assets	19.1	19.6	22.3	23.8	19.5	23.5	24.7
Net profit before taxes/average assets	2.7	1.6	1.6	1.7	1.5	1.6	0.6
Liquid assets/total assets	25.1	23.8	26.7	28.7	32.3	32.4	38.5
Gross government exposure/total capital 2/	183.3	236.5	225.3	216.6	193.0	231.2	211.2
External indicators							
Foreign exchange earnings from tourism 3/ (12-month percent change)	3.0	0.2	-6.4	0.6	9.5	12.6	0.0
Merchandise imports (12-month percent change in U.S. dollars)	9.9	-2.9	-6.2	4.5	5.2	7.3	3.6
Capital and financial account balance (percent of GDP)	9.0	7.9	9.5	12.7	10.1	-11.9	6.8
<i>Of which</i>							
Inward foreign direct investment	7.9	7.5	13.9	9.2	22.1	9.0	9.0
Imputed net international reserves 4/							
In millions of U.S. dollars	69.7	63.5	79.7	87.6	113.7	120.1	130.1
In percent of broad money	14.4	12.4	14.8	15.3	16.4	15.9	15.9
Commercial banks' net foreign assets (US\$ millions, end of period)	30.6	-9.7	38.8	34.2	133.6	150.2	190.2
External public debt (US\$ millions, end-period)	415.9	449.3	473.0	525.8	576.7	385.2	408.3
External public debt service (in percent of exports of goods and services) 5/	5.6	8.6	8.5	8.4	9.0	39.3	7.5
External interest payments (in percent of exports of goods and services) 5/	3.1	3.8	3.2	3.3	3.4	2.8	1.7
External amortization (in percent of exports of goods and services) 5/	2.5	4.9	5.3	5.1	5.7	36.6	5.8
Exchange rate (E.C. dollars per U.S. dollar), end-period	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real effective exchange rate appreciation (+) (period average, percentage change) 1/	0.4	2.1	3.7	-0.5	-6.0	-4.4	-2.2

Sources: Eastern Caribbean Central Bank; Ministry of Finance; and Fund staff estimates.

1/ Figure for 2005 is for end-June.

2/ Domestically licensed banks only.

3/ Based on average daily expenditures by visitors arriving by air and import-weighted export unit values from partner.

4/ ECCU aggregates.

5/ Scheduled.

Medium-Term Outlook and Debt Sustainability

As of June 2005, Antigua's stock of external and domestic public and publicly guaranteed debt amounted to about 105 percent of GDP, of which about a half is in arrears. Thus, prospects for achieving a more manageable fiscal and debt positions over the medium term will depend critically on the growth path, sustaining a strong fiscal adjustment, and the terms at which relations with creditors are regularized and on which new financing is available.

Three fiscal scenarios were considered—two active scenarios and a passive scenario.

Active scenarios. Ongoing structural reforms to strengthen the investment climate permit growth to converge gradually over the medium term to the estimated growth potential of 5 percent a year. Fiscal measures—including strengthening tax administration, so that the legislative changes generate higher revenues, and progress with downsizing the public sector—result in a primary surplus of 4 percent of GDP over the medium term.

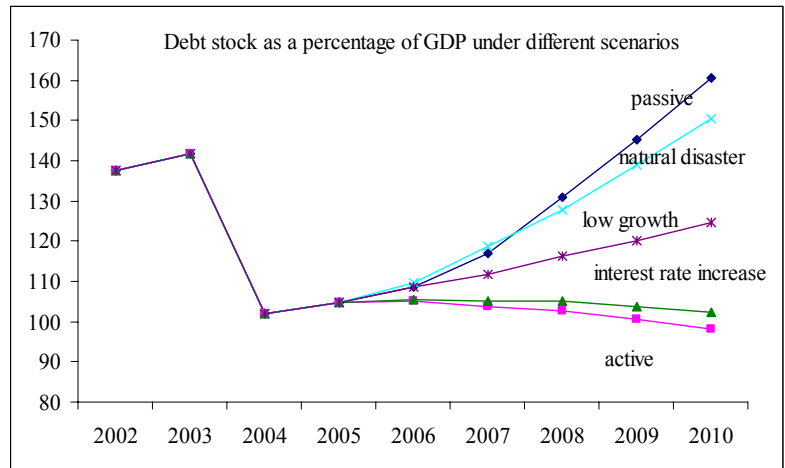
- In the first scenario, arrears on external as well as domestic debt are assumed to be regularized during the second half of 2006 through an exchange of both principal and interest arrears for a new bond carrying an interest rate of 10 percent with a ten-year maturity. It is assumed that remaining financing needs are met through external borrowing at the same 10 percent interest rate. On this scenario, debt declines, but only very gradually with gross financing needs remaining large.
- In the second scenario, it is assumed that the government is able to negotiate a lower interest rate on the regularization and that any necessary new financing—gross financing needs are much lower under this scenario—is available at the same 5 percent interest rate. In this case, debt declines much more rapidly.

Passive scenario. No additional reforms are undertaken, resulting in the fiscal balances gradually deteriorating. Growth slows, following the temporary spike associated with the Cricket World Cup, declining to just 1 percent by the end of the decade. Regularization is assumed to occur at an interest rate of 10 percent, but large and growing financing gaps place debt on an explosive path.

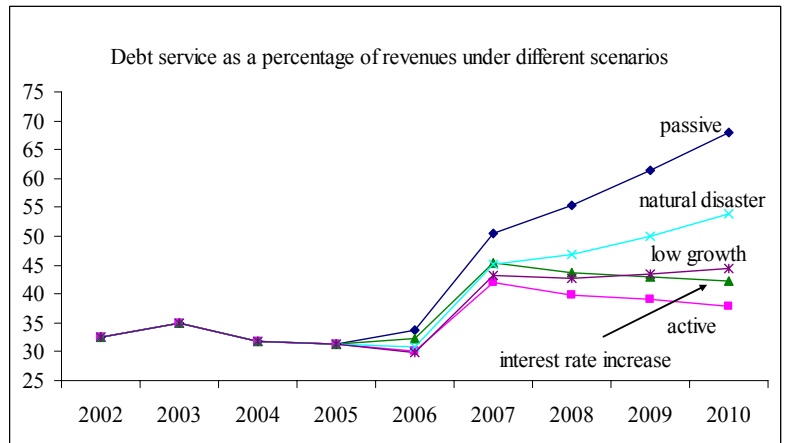
Even with the fiscal adjustment programmed in the active scenario (at 10 percent interest rate), the stock of public debt declines very slowly to about 98 percent of GDP by 2010. Thus, the medium-term outlook is subject to a number of significant risks, including: (i) a natural disaster such as a hurricane; (ii) a decline in growth; and (iii) an increase in interest rates.

- **A natural disaster.** A possible hurricane is one of the most significant risks to the outlook. A large but plausible shock clearly sets the debt stock on an unsustainable path. The risk is illustrated by a scenario in which Antigua experiences a strong hurricane in 2006. Growth, the current account and the fiscal deficit are set to paths

consistent with median responses of these variables to the 12 largest natural disasters in ECCU countries (IMF Working Paper 04/224, *Macroeconomic Implications of Natural Disasters in the Caribbean*, by T. Rasmussen). As a result, the stock of public debt reaches 150 percent of GDP by 2010.



- Low economic growth.** Similarly to a hurricane, low economic growth may set the public debt on an unsustainable path. Assuming a permanent reduction in the rate of growth by 2.8 percent (a half of the standard deviation of historical growth) beginning in 2006, the stock of public debt steadily increases to about 125 percent of GDP in 2010.



- Higher interest rates.** An across-the-board increase in interest rates by 100 basis points starting in 2006 raises the debt service in percent of revenue and slows the decline of the debt stock.

Antigua and Barbuda: Public Sector Debt Sustainability
(in percent of GDP, unless indicated otherwise)

	2002	2003	Projections						
			2004	2005	2006	2007	2008	2009	2010
Passive: no policy change 1/									
Real GDP growth (percent)	2.2	5.5	5.2	3.0	3.0	3.1	0.0	1.0	1.0
Central government overall balance	-11.2	-9.0	-5.4	-6.7	-9.8	-12.8	-14.9	-16.8	-18.8
Total revenue and grants	21.7	21.1	21.6	22.8	24.7	22.2	22.0	22.0	21.9
Total expenditure and net-lending	32.9	30.2	27.1	29.6	34.5	35.0	37.0	38.8	40.7
Of which: interest	4.2	4.7	3.8	3.3298	5.7	7.2	8.5	9.8	11.2
Central government primary balance	-7.0	-4.4	-1.6	-3.4	-4.1	-5.6	-6.5	-7.0	-7.5
Public sector debt stock	128.9	133.4	102.0	104.7	108.6	117.1	131.0	145.1	160.7
Debt service (in percent of revenue)	32.6	35.1	31.7	31.2	33.7	50.4	55.4	61.5	68.0
Active scenario (5 percent)									
Real GDP growth (percent)	2.2	5.5	5.2	3.0	4.0	4.3	3.6	4.5	4.5
Central government overall balance	-11.2	-9.0	-5.4	-6.7	-6.3	-1.1	-0.4	0.2	0.6
Total revenue and grants	21.7	21.1	21.6	22.8	27.0	25.5	26.3	26.6	26.7
Total expenditure and net-lending	32.9	30.2	27.1	29.6	33.4	26.6	26.7	26.3	26.1
Of which: interest	4.2	4.7	3.8	3.3	3.0	3.9	3.8	3.6	3.4
Central government primary balance	-7.0	-4.4	-1.6	-3.4	-3.4	2.8	3.4	3.8	4.0
Public sector debt stock	128.9	133.4	102.0	104.7	103.1	99.0	95.1	90.0	84.6
Debt service (in percent of revenue)	32.6	35.1	31.7	31.2	23.5	30.5	27.8	26.2	24.5
Active scenario (10 percent)									
Real GDP growth (percent)	2.2	5.5	5.2	3.0	4.0	4.3	3.6	4.5	4.5
Central government overall balance	-11.2	-9.0	-5.4	-6.7	-8.1	-4.0	-3.6	-3.2	-2.9
Total revenue and grants	21.7	21.1	21.6	22.8	27.0	25.5	26.3	26.6	26.7
Total expenditure and net-lending	32.9	30.2	27.1	29.6	35.2	29.5	29.9	29.7	29.7
Of which: interest	4.2	4.7	3.8	3.3	4.8	6.8	7.0	7.0	6.9
Central government primary balance	-7.0	-4.4	-1.6	-3.4	-3.4	2.8	3.4	3.8	4.0
Public sector debt stock	128.9	133.4	102.0	104.7	104.9	103.7	102.7	100.5	98.1
Debt service (in percent of revenue)	32.6	35.1	31.7	31.2	30.2	41.9	39.9	39.0	37.9
Active scenario: (11 percent)									
Real GDP growth (percent)	2.2	5.5	5.2	3.0	4.0	4.3	3.6	4.5	4.5
Central government overall balance	-11.2	-9.0	-5.4	-6.7	-8.7	-5.0	-4.5	-4.0	-3.6
Total revenue and grants	21.7	21.1	21.6	22.8	26.9	25.4	26.2	26.5	26.6
Total expenditure and net-lending	32.9	30.2	27.1	29.6	35.6	30.3	30.8	30.5	30.2
Of which: interest	4.2	4.7	3.8	3.3	5.3	7.7	7.9	8.0	8.0
Central government primary balance	-7.0	-4.4	-1.6	-3.4	-3.5	2.7	3.4	4.0	4.4
Public sector debt stock	128.9	133.4	102.0	104.7	105.5	105.1	105.1	103.8	102.3
Debt service (in percent of revenue)	32.6	35.1	31.7	31.2	32.3	45.4	43.6	43.0	42.1
Active scenario: Natural disaster (hurricane) in 2006 1/									
Real GDP growth (percent)	2.2	5.5	5.2	3.0	0.8	2.3	1.6	1.1	1.1
Central government overall balance	-11.2	-9.0	-5.4	-6.7	-9.5	-12.5	-12.0	-13.4	-14.4
Total revenue and grants	21.7	21.1	21.6	22.8	27.0	25.5	26.3	26.6	26.7
Total expenditure and net-lending	32.9	30.2	27.1	29.6	36.6	38.0	38.3	40.0	41.1
Of which: interest	4.2	4.7	3.8	3.3	5.1	7.6	8.5	9.3	10.3
Central government primary balance	-7.0	-4.4	-1.6	-3.4	-4.4	-4.9	-3.5	-4.0	-4.0
Public sector debt stock	128.9	133.4	102.0	104.7	109.6	118.8	128.0	138.9	150.4
Debt service (in percent of revenue)	32.6	35.1	31.7	31.2	30.7	45.2	46.9	50.0	53.8
Active scenario: low growth 1/									
Real GDP growth (percent)	2.2	5.5	5.2	3.0	1.2	1.5	0.8	1.6	1.7
Central government overall balance	-11.2	-9.0	-5.4	-6.7	-9.1	-5.7	-6.3	-6.9	-7.8
Total revenue and grants	21.7	21.1	21.6	22.8	27.0	25.5	26.3	26.6	26.7
Total expenditure and net-lending	32.9	30.2	27.1	29.6	36.1	31.2	32.6	33.5	34.6
Of which: interest	4.2	4.7	3.8	3.3	4.9	7.3	7.8	8.1	8.5
Central government primary balance	-7.0	-4.4	-1.6	-3.4	-4.1	1.6	1.5	1.2	0.7
Public sector debt stock	128.9	133.4	102.0	104.7	108.6	111.7	116.1	120.0	124.6
Debt service (in percent of revenue)	32.6	35.1	31.7	31.2	29.8	43.1	42.6	43.5	44.4

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

1/ New borrowing to clear arrears at 10 percent interest rate.

Table 13. Antigua and Barbuda: External Debt Sustainability Framework, 2000-2010
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						Debt-stabilizing non-interest current account 7/ -8.6	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
Baseline: External debt	66.2	66.6	73.2	76.5	47.0	47.7	51.8	52.7	53.6	53.6	53.2		
Change in external debt	2.4	0.4	6.7	3.2	-29.4	0.6	4.1	1.0	0.9	-0.1	-0.4		
Identified external debt-creating flows (4+8+9)	-0.1	-7.6	5.1	-11.8	-3.0	1.3	3.0	1.4	0.9	-0.2	-1.0		
Current account deficit, excluding interest payments	7.1	6.9	13.7	12.2	9.1	10.6	11.7	9.5	8.4	7.5	6.6		
Deficit in balance of goods and services	4.5	6.7	10.7	10.9	6.3	8.0	9.4	7.4	6.5	5.7	5.0		
Exports	68.9	62.4	60.0	60.1	63.2	61.1	61.1	63.1	63.4	64.5	65.6		
Imports	73.5	69.1	70.6	71.0	69.5	69.1	70.5	70.5	69.9	70.2	70.6		
Net non-debt creating capital inflows (negative)	-7.5	-13.9	-9.2	-22.1	-9.0	-9.0	-9.0	-9.5	-9.5	-9.5	-9.5		
Automatic debt dynamics 1/	0.2	-0.7	0.6	-1.9	-3.0	-0.3	0.3	1.4	2.0	1.8	1.9		
Contribution from nominal interest rate	2.6	2.0	1.9	2.0	1.8	1.1	2.1	3.5	3.8	4.0	4.2		
Contribution from real GDP growth	-2.0	-1.0	-1.4	-3.8	-3.7	-1.3	-1.8	-2.1	-1.8	-2.3	-2.3		
Contribution from price and exchange rate changes 2/	-0.4	-1.7	0.0	-0.1	-1.1	...	...	...	...	...	...
Residual, incl. change in gross foreign assets (2-3) 3/	2.5	7.9	1.5	15.0	-26.5	-0.6	1.1	-0.5	0.0	0.2	0.6		
External debt-to-exports ratio (in percent)	96.1	106.8	122.1	127.3	74.5	78.1	84.7	83.6	84.6	83.1	81.1		
Gross external financing need (in billions of US dollars) 4/	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2		
in percent of GDP	13.1	12.2	18.7	17.6	14.1	15.1	16.7	16.5	15.3	14.4	13.4		
A. Alternative Scenarios													
A1. Key variables at their historical averages 5/						47.7	51.9	53.1	54.6	56.5	59.0	-9.3	
A2. Natural disaster scenario 6/						47.7	65.1	80.0	94.6	103.5	113.7	-3.0	
							10-Year Historical Average	10-Year Standard Deviation					
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.3	1.5	2.1	5.5	5.2	1.8	5.7	3.0	4.0	4.3	3.6	4.5	4.5
GDP deflator in US dollars (change in percent)	0.6	2.6	-0.1	0.1	1.4	1.6	1.3	1.7	4.6	1.6	1.3	1.6	1.8
Nominal external interest rate (in percent)	4.2	3.1	3.0	2.9	2.5	2.5	1.1	2.4	4.7	7.2	7.6	8.0	8.3
Growth of exports (US dollar terms, in percent)	-1.4	-5.3	-2.8	5.2	14.2	6.2	35.6	1.1	9.0	9.4	5.5	7.9	8.2
Growth of imports (US dollar terms, in percent)	-5.7	-1.5	3.3	5.6	6.4	1.6	4.4	3.9	11.1	6.0	4.0	6.7	6.9
Current account balance, excluding interest payments	-7.1	-6.9	-13.7	-12.2	-9.1	-10.0	4.3	-10.6	-11.7	-9.5	-8.4	-7.5	-6.6
Net non-debt creating capital inflows	7.5	13.9	9.2	22.1	9.0	8.8	5.6	9.0	9.0	9.5	9.5	9.5	9.5
B. Bound Tests													
B1. Interest rates increased by 100 points						47.7	52.0	53.2	54.4	54.6	54.5		
B2. Real GDP growth is at historical average minus one half of the standard deviation						47.7	52.9	54.9	56.6	57.2	57.3	-8.3	
B3. Non-interest current account is at historical average minus one half of the standard deviation						47.7	53.9	57.1	60.2	62.4	64.3	-8.4	
B4. Combination of shocks using 1/2 standard deviation shocks 8/						47.7	53.5	56.2	58.9	60.4	61.7	-8.1	

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

ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

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

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

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

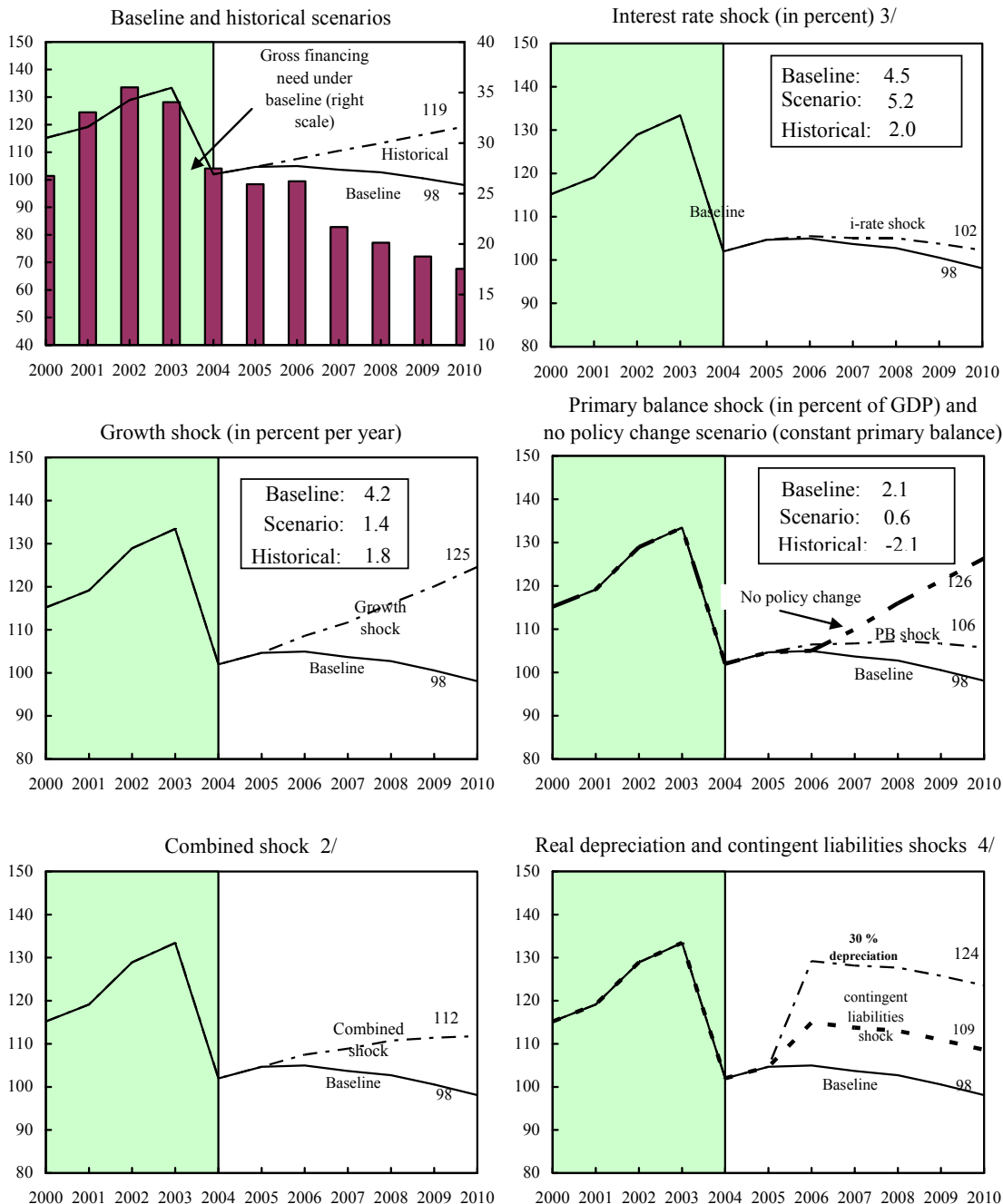
5/ The key variables include real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows as percentages of GDP.

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

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

8/ Combines B2,B3 and an interest rate shock equal to 1/4 of the historical standard deviation.

Figure 5. Antigua and Barbuda: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

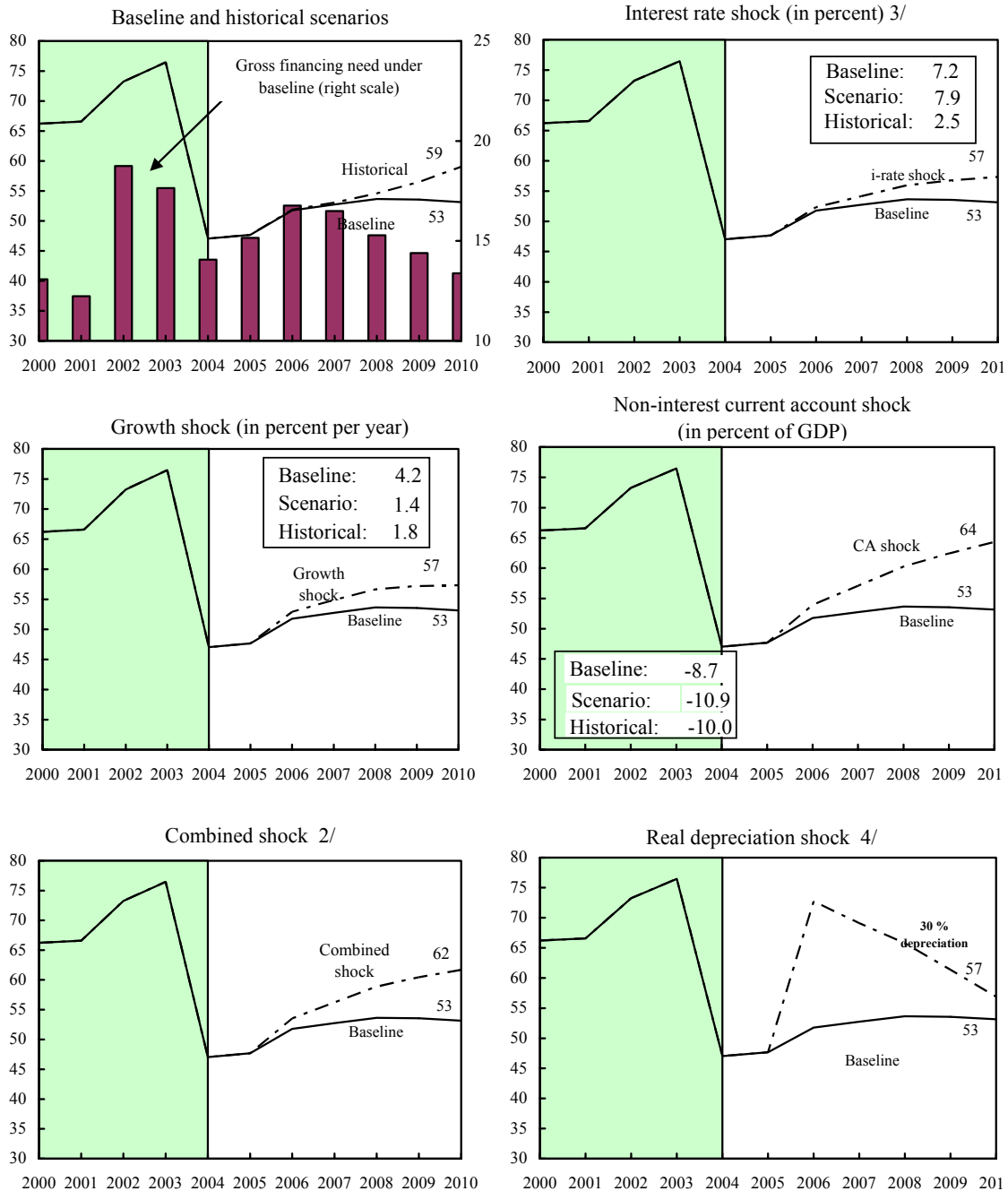
1/ Baseline refers to the active adjustment scenario. Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical 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/ All interest rates increased by 100 basis points. The legend shows real interest rates.

4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2006, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Figure 6. Antigua and Barbuda: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Baseline refers to the active adjustment scenario. 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/ All interest rates increased by 100 basis points.

4/ One-time real depreciation of 30 percent occurs in 2006.

ANTIGUA AND BARBUDA: FUND RELATIONS

As of October 31, 2005

I.	Membership Status:	Joined February 25, 1982; Article VIII	
II.	General Resources Account:	<u>SDR million</u>	<u>Percent of Quota</u>
	Quota	13.50	100.0
	Fund Holdings of Currency	13.50	99.99
	Reserve Position in Fund	0.01	0.05
III.	SDR Department:	<u>SDR million</u>	<u>Percent of Allocation</u>
	Holdings	0.01	n.a.
IV.	Outstanding Purchases and Loans:	None	
V.	Financial Arrangements:	None	
VI.	Projected Obligations to Fund:	None	
VII.	Exchange Arrangements:		

Antigua and Barbuda is a member of the Eastern Caribbean Central Bank (ECCB), which manages monetary policy and the exchange system for its eight members. The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar since July 1976. In practice, the ECCB has operated like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent.

Antigua and Barbuda accepted the obligations of Article VIII, Sections 2, 3, and 4 in November 1983. It maintains an exchange system free from restrictions on the making of payments and transfers for current international transactions.

VIII. Article IV Consultation:

Antigua and Barbuda is on the standard 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on November 15, 2004. The staff report is IMF Country Report No. 04/367, and the accompanying statistical appendix is IMF Country Report No. 04/369.

IX. FSAP Participation, ROSCs, and OFC Assessments:

Antigua and Barbuda participated in the regional ECCU FSAP conducted in September and October 2003. The FSSA is available at www.imf.org/external/pubs/ft/scr/2004/cr04293.pdf. A ROSC for a BCP assessment of Antigua and Barbuda's offshore banking sector is www.imf.org/external/pubs/ft/scr/2004/cr04366.pdf.

X. Technical Assistance:

FAD	Public expenditure control	February 2004
FAD	Pension reform	May 2005
FAD	VAT sensitivity study	May–June 2005
LEG	Tax legislation on personal income tax	January–March 2005
LEG	Tax legislation on VAT	April–November 2005

CARTAC has been providing extensive technical assistance to Antigua and Barbuda to assist the authorities in undertaking tax reforms—including the introduction of personal income tax and preparations for the Antigua and Barbuda Sales Tax (a simplified VAT)—as well as public expenditure management, including the introduction of a public sector investment program. In addition, CARTAC provides technical assistance through the Structural Adjustment Technical Assistance Program (SATAP). The most recent SATAP mission took place in April 2005.

ANTIGUA AND BARBUDA: RELATIONS WITH THE WORLD BANK GROUP
As of October 14, 2005

The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY 2006–09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management.

The CAS, which covers the period FY 2006–09, includes lending to Antigua and Barbuda under a high case scenario. Under the High Case lending scenario (triggered by successful implementation of a stabilization program monitored *inter alia* by the IMF) US\$10 million is planned for investment lending and/or Development Policy Lending to support policy reform efforts in the areas of growth and competitiveness (including interventions on Public Sector Modernization and Public Utilities Reform).

Antigua and Barbuda will also benefit from participation in the Catastrophe Risk Insurance project financed through on-lending, which will strive to deepen insurance markets to allow for the improved sharing of insurable and uninsurable risks among the public sector, private sector, international insurance industry, international capital markets and the domestic 'self-insured' population. A GEF-funded Mainstreaming Adaptation to Climate Change Environmental Protection project, which seeks to assist in the incorporation of climate change concerns in sector and regional planning for the OECS nations and to identify critical vulnerabilities, is also planned. Additionally, Antigua and Barbuda will benefit from ongoing and planned analytical and advisory activities to support the two pillars of the CAS. These analytical activities include: Caribbean Air Transport Rationalization study, a Caribbean Skills and Curriculum Study, Caribbean Recent Economic Developments in Infrastructure study, Caribbean Financial Sector and Regulation report, Caribbean Social Protection Strategy Review and a regional study on Crime, Violence and Exclusion.

The previous CAS, which covered the period FY 2002–06, did not include any lending to Antigua and Barbuda.

ANTIGUA AND BARBUDA: RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK
(As of October 19, 2005)

The Caribbean Development Bank (CDB) supports the economic and social development of Antigua and Barbuda through the financing of priority capital projects and technical assistance (TA) and policy dialogue on major developmental issues. CDB's involvement with Antigua and Barbuda has covered such areas as:

- Formulation and implementation of macroeconomic social and sectoral policies geared towards providing a framework for sustainable economic growth;

- Development of infrastructure to facilitate private sector investment;

- Development of human resource to facilitate economic growth and diversification;

- Direct and indirect lending to agriculture, tourism and manufacturing; and

- Emergency disaster rehabilitation.

Sector	In millions of US dollars	In percent of total
Agriculture	3.5	8.6
Micro and small enterprise	5.7	14.0
Manufacturing	1	2.5
Tourism	1.8	4.4
Power and energy	0.3	0.7
Transportation	3.5	8.6
Housing	3.5	8.6
Education	14.7	36.0
Multi-sector	6.8	16.7
Total	40.8	100.0

Source: CDB

Major projects under implementation include:

- Provision of a consolidated line of credit to the Antigua and Barbuda Development Bank to assist in its lending activities to the housing, education, and micro and small enterprise sectors;
- A basic education project to assist in improving the learning environment at the secondary level, institutional strengthening of the Ministry of Education, and improving the quality of education delivery;
- An airport and seaport security enhancement project to assist in upgrading security at the key air and sea ports to meet revised international standards; and
- Poverty assessment project—part of a wider regional program—to be completed during the first half of 2006.

However, institutional weaknesses and Antigua and Barbuda government's periodic default on debt service payments to CDB resulted in delays in disbursements. As of July 2005, Antigua and Barbuda's total overdue debt service stood at US\$0.73 million and the undrawn balance totaled US\$8.04 million.

ANTIGUA AND BARBUDA: STATISTICAL ISSUES

Antigua and Barbuda has been a participant in the General Data Dissemination System (GDSD) since October 2000. Its statistical database is deficient in coverage and quality, preventing an accurate assessment of the flows of funds within and among sectors in the economy. There are significant problems with real, fiscal, and balance of payments data.

1. Real sector

National accounts compilation has been plagued by the continued absence of trade data since 1991. This has had a serious impact on the estimation of value added in some sectors, especially construction and wholesale and retail trade. For construction, alternative data sources include building applications approved annually and the government's public sector investment projects. Wholesale and retail trade estimates are inflated based on movements in the CPI and patterns of consumer spending.

The consumer price index uses as its weights data from a Household Income and Expenditure Survey conducted during February 1998–January 1999. However, the survey and price collection exclude Barbuda. There is no comprehensive labor force survey and thus little coverage of the labor market developments. An Annual Wages and Hours Worked Survey for the private sector was conducted in 2003, though the coverage of Barbuda was limited. Results of the 2001 population census have been analyzed and published.

2. Government finance

Annual and quarterly data on central government finances published by the ECCB are broadly in line with the methodology set up in the 1986 GFS Manual. However, Antigua and Barbuda has not been reporting statistical information in recent years to STA for inclusion in the GFS Yearbook and IFS publications, which needs to be rectified.

3. Monetary statistics

Monetary statistics are compiled by the ECCB on a monthly basis with a lag of six weeks. The data are reported to the Fund regularly. The monetary survey, however, does not include the accounts of credit unions that accept demand and other deposits. The ECCB is taking steps to collect reliable data on credit unions.

4. Balance of payments

Balance of payments statistics are provided to STA by the ECCB. These data are reported on an annual basis only and are not reported in the format recommended in the fifth edition of the IMF's Balance of Payments Manual (1993). Reporting of data on reserves and external debt is in accordance with Antigua and Barbuda's participation in the GDSD. The latest data published in the International Financial Statistics are for 2002.

ANTIGUA AND BARBUDA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of November 14, 2005)

	Date of latest observation	Date received	Frequency of Data ¹	Frequency of Reporting ¹	Frequency of publication ¹
Exchange Rates	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	March 2005	5/26/05	M	Q	Q
Reserve/Base Money	August 2005	10/18/05	M	Q	Q
Broad Money	August 2005	10/18/05	M	Q	Q
Central Bank Balance Sheet	August 2005	10/18/05	M	Q	Q
Consolidated Balance Sheet of the Banking System	August 2005	10/18/05	M	Q	Q
Interest Rates ³	August 2005	10/18/05	M	Q	Q
Consumer Price Index	Dec. 2004	3/16/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁴ —General Government ⁵	Dec. 2004	5/10/05	Q	Q	A
Stocks of Central Government and Central Government-Guaranteed Debt ⁶	Dec. 2004	5/10/05	A	A	A
External Current Account Balance	Dec. 2004	3/16/05	A	A	A
Exports and Imports of Goods and Services	Dec. 2004	3/16/05	M	M	Q
GDP/GNP	Dec. 2004	5/10/05	A	A	A
Gross External Debt	Dec. 2004	5/10/05	A	A	A

¹ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

³ Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic bank, and domestic nonbank financing.

⁵ Central government only.

⁶ Including currency and maturity composition.

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**Statement by the IMF Staff Representative
December 21, 2005**

1. This statement provides additional information that has become available since the circulation of the staff report. It does not alter the thrust of the staff appraisal.

Macroeconomic Developments and Prospects

2. **The authorities have revised their growth projection for 2005 to 5 percent from 4 percent previously, on account of a more rapid than expected pick up in construction activity.** However, tourism outcomes remain weak—data through end-September indicate a 5.5 percent decline in stayover arrivals by air relative to the same period of 2004—and staff's GDP projection remains unchanged relative to the staff report.

3. **Inflation has risen following the recent increases in domestic petroleum prices.** The CPI increased by 2.2 percent in the 12 months ending October 2005. The increase in the CPI excluding accommodation was 4.3 percent.

Policy Developments

4. **Additional information on the authorities' policy agenda for 2006 has been provided in the context of the Throne Speech (delivered on November 18) and the Budget Speech (delivered on November 30).** The 2006 Budget is now being debated in Parliament. Key policy commitments—which are broadly in line with information provided in the staff report—include:

- The Antigua and Barbuda Sales Tax is to be introduced in the second quarter of 2006, replacing a number of existing taxes but projected to generate additional revenue of around 1½ percent of GDP in 2006.
- A modern Property Tax is to be effective on January 1, 2006. Following an audit conducted during 2005, the number of properties included in the property tax registry has increased by 75 percent.
- Petroleum products are to be priced in line with the common approach to achieving increased flexibility being developed throughout the ECCU.
- A voluntary severance scheme for civil servants has been announced, with applications due by February 28, 2006. The package includes a lump-sum payment based on years of service plus grants for training.
- Spending on the school meals program will be limited to EC\$5 million, by targeting the program to nine primary schools in 2006.

- The public sector debt stock is to be reduced to less than 80 percent of GDP by end-2007, compared to 105 percent of GDP at end-2005.
- Amendments to the Labor Code and Industrial Court Act are under preparation to provide a better balance between the rights and obligations of employees and employers, reasonable recognition of long service by employees, and to respond to the need for a regulatory climate conducive to investment and business viability.
- Liberalization of the telecommunications sector to ensure competition and support development of the IT service sector and the transition to e-Government. The removal of the monopoly operating license on providing landline international calls has been announced, effective January 1, 2006.



INTERNATIONAL MONETARY FUND

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Public Information Notice (PIN) No. 06/9
FOR IMMEDIATE RELEASE
February 1, 2006

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

IMF Executive Board Concludes 2005 Article IV Consultation with Antigua and Barbuda

On December 21, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Antigua and Barbuda.¹

Background

Antigua and Barbuda has lived with high debt, weak institutions, and substantial arrears for many years. Public sector debt rose rapidly in the 1980's as the economy moved out of sugar into tourism. Exacerbated by a series of exogenous shocks—five major hurricanes hit Antigua and Barbuda during the 1990's—fiscal imbalances widened, financed by the accumulation of arrears, and the public sector was used as the employer of last resort when growth slowed.

Since 2004, significant reforms have been introduced. In particular, governance has been strengthened through the approval of the Integrity in Public Life Act and the Anti-Corruption Act, the granting of discretionary tax concessions has been suspended, the tax system has been overhauled, and social programs expanded.

Following strong growth in 2003–04, economic activity is estimated to have slowed in 2005—the tourism sector has cooled, partly due to one-off factors, but growth is expected to rebound as construction activity accelerates ahead of the 2007 Cricket World Cup. Inflation has been low, but is anticipated to rise due to the impact of global oil price increases.

After strengthening in 2004, data for the first half of 2005 point to a widening fiscal deficit. A combination of a reduction in capital spending and some improvement in revenues

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

following a tightening of the concessions regime resulted in a closing of the primary deficit to 1½ percent of GDP in 2004. Revenues have performed well following the reintroduction of the Personal Income Tax, but expenditures have increased due to the implementation of new social programs, higher capital expenditures in preparation for the 2007 Cricket World Cup, and an increase in the number of ministries. Arrears continue to accumulate, but the debt stock fell following debt relief provided by the Italian Government.

The external current account deficit has narrowed to around 11 percent of GDP, financed by foreign direct investment. Foreign assets of the banking system have risen as a result of high money demand growth, a reduction in bank exposure to the government, and limited domestic lending opportunities.

Progress has been made in addressing the issues raised in the Basle Core Principles (BCP) assessment of the offshore banking system.² Amendments to the International Business Corporations Act were approved in 2004, and new regulations and guidelines were issued by the Financial Services Regulatory Commission (FSRC).

Executive Board Assessment

Directors commended the authorities for their strong start in addressing Antigua and Barbuda's deep-rooted economic problems. Important legislative and structural changes have been introduced, including politically difficult tax reforms, and measures aimed at improving governance, transparency, and the investment climate. However, important macroeconomic imbalances persist, and in this context, Directors welcomed the authorities' active engagement with the staff and efforts to raise public awareness regarding the need for the sustained implementation of further reforms. Improving the business environment, closing fiscal imbalances, and reducing vulnerabilities will be key to attracting private investment and strengthening economic prospects. Directors also observed that a regional approach is needed to significantly reduce tax concessions and discourage a destructive competition for investments.

Directors urged the authorities to take advantage of the strong near-term growth prospects to pursue structural reforms to raise longer-term growth. They recommended improving governance and transparency, moving to a rules-based investment incentive system, further liberalizing the trade regime, enhancing the efficiency of Customs, and introducing greater flexibility into the labor market.

Directors called for a greater focus on controlling expenditures to ensure progress toward fiscal and debt sustainability. They expressed regret that expenditure slippages, in particular the expansion in the number of Ministries, had offset the revenue improvements achieved by the tax reform during 2005. They stressed the importance of the government

² The BCP assessment was conducted in conjunction with the Eastern Caribbean Currency Union regional FSAP held in September and October 2003. The Report on the Observance of Standards and Codes (ROSC) for the BCP assessment of the offshore banking sector in Antigua and Barbuda is available at www.imf.org/external/pubs/ft/scr/2004/cr04366.pdf.

demonstrating its resolve to cut spending in order to maintain support from taxpayers for the fiscal reform. Directors welcomed the recently launched voluntary severance scheme, but noted the importance of retaining an adequate skill mix to transform the public sector into a modern and efficient civil service. Additional steps are needed to improve expenditure control mechanisms, to strengthen the Public Sector Investment Program, and to address emerging concerns about the long-term viability of the pension system, including the separate pensions provided for retired civil servants.

Directors emphasized that the ongoing tax reform should foster the creation of a more equitable and efficient tax system. At the same time, strengthening tax administration will be key to ensuring that the benefits of the reform materialize, and they supported the authorities' request for further Fund technical assistance in this area. Directors urged the authorities to deny requests for special tax exemptions. They recommended the adoption of a transparent petroleum product pricing formula with a full pass-through of global oil price fluctuations, which would avoid the need for discrete adjustments and provide appropriate incentives for consumers.

Directors noted that clearing longstanding arrears and establishing a reputation as a reliable counterpart will be key steps in reestablishing the country's access to capital markets. They welcomed the hiring of financial advisors to assist in the design of the strategy to regularize relations with creditors. Directors encouraged the authorities to maintain an open dialogue with creditors to facilitate the identification of a cooperative solution.

Directors considered that significant vulnerabilities to exogenous shocks highlight the need to focus on contingency planning and disaster mitigation efforts. They urged the authorities to ensure appropriate insurance coverage of key public sector assets, and to enhance supervision of the insurance sector.

Directors called for careful monitoring of developments in the financial sector in light of the high level of nonperforming loans and substantial exposure to the public sector. They welcomed the recent approval of the Amendments to the Uniform Banking Act, and urged their prompt implementation. Directors noted the progress made in strengthening the regulation and supervision of the offshore sector, and the need for continued efforts to ensure the stability of the financial system.

Directors stressed the importance of sustaining public support for the reform efforts in order to prevent domestic policy slippages. While significant advances have been made in strengthening transparency and governance, Directors noted that further steps, including enhanced data dissemination, would help generate consensus for needed reforms. The development and public discussion of medium-term fiscal projections could facilitate public understanding of available policy choices and generate support for the authorities' efforts to achieve fiscal and debt sustainability. Directors supported the establishment of a well-targeted social safety net to ensure that vulnerable groups are protected. Directors encouraged the authorities to work toward providing more timely and accurate economic data in order to support effective policy making.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report for the Article IV consultation with Antigua and Barbuda may be made available at a later stage if the authorities consent.

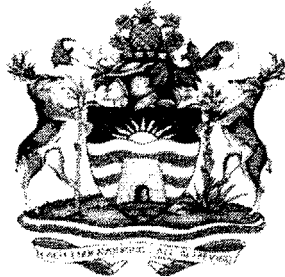
Antigua and Barbuda: Selected Economic and Financial Indicators, 2000–2005

	2000	2001	2002	2003	Prel. 2004	Proj. 2005
(Annual percentage changes, unless otherwise specified)						
National income and prices						
GDP at constant factor cost	3.3	1.5	2.0	4.3	5.2	3.0
Nominal GDP at market prices	4.1	4.7	1.0	5.1	8.6	4.6
GDP deflator at factor cost	0.6	2.6	-0.1	0.3	1.2	1.7
Consumer prices (end of period)	0.5	1.0	2.2	1.5	1.5	1.5
Consumer prices (period average)	-0.6	-0.4	1.8	2.8	1.3	1.3
External sector						
Exports, f.o.b.	39.9	-22.4	-3.3	14.5	23.0	7.7
Imports, f.o.b.	-2.9	-6.2	4.5	5.2	7.3	3.6
Travel receipts (gross)	0.2	-6.4	0.6	9.5	12.6	0.0
Nominal effective exchange rate (period ave., depreciation -) 1/	4.9	2.8	-1.8	-6.7	-4.9	-2.3
Real effective exchange rate (period ave., depreciation -) 1/	2.1	3.6	-0.6	-6.0	-4.4	-2.2
(Contribution to broad money growth)						
Money and credit						
Net foreign assets	-9.6	12.6	0.6	21.9	3.3	6.6
Net domestic assets	15.3	-7.8	5.7	-0.8	5.8	2.7
Net credit to the public sector	2.0	-1.8	0.3	3.0	-1.9	-1.7
Credit to the private sector	8.5	2.9	7.5	2.2	1.6	3.9
Broad money	5.7	4.8	6.3	21.1	9.1	9.3
Average deposit rate (in percent per annum) 1/	5.0	4.5	4.4	4.9	4.4	4.1
Average lending rate (in percent per annum) 1/	12.2	11.6	11.4	12.8	12.3	12.2
(In percent of GDP)						
Central government						
Primary balance	-0.3	-6.8	-7.0	-4.4	-1.6	-3.4
Overall balance	-5.0	-11.1	-11.2	-9.0	-5.4	-6.7
Total revenue and grants	21.7	19.2	21.7	21.1	21.6	22.8
Total expenditure and net lending	26.7	30.3	32.9	30.2	27.1	29.6
Identified financing	10.5	10.6	7.4	7.6	9.5	2.0
External	2.0	5.2	1.5	1.6	-25.1	-1.4
Domestic	8.5	5.4	5.9	6.0	10.0	3.4
Statistical discrepancy	-5.5	0.5	3.8	1.4	-4.1	...
Financing gap	...	...	...	...	...	4.7
External sector						
Current account balance	-9.7	-8.9	-15.7	-14.2	-10.8	-11.6
Trade balance	-42.7	-39.5	-41.3	-40.9	-39.5	-38.9
Service balance	38.2	32.8	30.6	30.0	33.2	30.9
<i>Of which:</i> gross tourism receipts	42.8	38.3	38.1	39.8	41.2	39.4
Overall balance	-7.8	-0.9	-1.6	0.5	-19.6	-4.8
External public debt (end of year)	66.2	66.6	73.2	76.5	47.0	47.7
<i>Of which:</i> arrears	12.7	14.5	19.0	23.7	17.1	17.6
Scheduled external debt service (in percent of exports of goods and services)	8.6	8.5	8.4	9.0	39.3	7.5
Gross international reserves of the ECCB (in millions of U.S. dollars)	384	446	505	540	632	...
(in percent of ECCU broad money)	17.1	18.9	20.1	19.8	20.4	...
Nominal GDP at market prices (in millions of EC\$)	1,832	1,918	1,938	2,036	2,211	2,313

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

1/ Numbers are as of end-June 2005.

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GOVERNMENT OF ANTIGUA AN BARBUDA

ARTICLE IV MISSION 2005:
STATEMENT BY THE GOVERNMENT OF ANTIGUA AND BARBUDA
ON THE IMF STAFF REPORT

The Government of Antigua and Barbuda is very grateful for the IMF staff's thorough analysis of Antigua and Barbuda's economy. The team's support for the work being undertaken by the Government and its assistance within the context of the Article IV assessment was very much appreciated by the Government. Further, the Government wishes to emphasize that the IMF team held discussions with representatives from a wide cross-section of the public sector, private sector and civil society during the course of its Mission in Antigua and Barbuda. In the spirit of transparency, the Government again held a joint press conference with the Fund staff to facilitate interaction with the media. The Government is also grateful for the visit by Deputy Managing Director Carstens in December 2005 and appreciates the expressed support for the ongoing efforts to address the various macroeconomic challenges facing Antigua and Barbuda.

We agree with the reports assessment that the key policy challenges facing the Government are promoting private sector led growth while at the same time correcting the longstanding fiscal imbalances and improving debt sustainability. The Government and the Fund staff agree on many specific policy issues related to effectively addressing the aforementioned challenges. However, in some instances, the Government wishes to pursue a slower pace of reform than recommended in the staff report particularly in areas where public consultation and buy in would facilitate the reform process. In other areas, such as tax reform, the Government has taken action at a faster pace than suggested by the Fund.

While the Government generally agrees with the assessment made by the staff on the economic outlook for Antigua and Barbuda, there are some areas where the Government is of the view that the outlook is more positive than indicated in the staff report. In terms of projections for economic growth – where the Fund forecasts real economic growth at 3 and 4 percent for 2005 and 2006 respectively – the Government's outlook is more positive particularly in light of ongoing private and public sector projects in preparation for Cricket World Cup 2007. This position by the Government is supported by estimates prepared by the Eastern Caribbean Central Bank which projects economic growth at 5.68 percent for 2005 and over 13 percent for 2006. The Government recognizes that the projections made by the Fund staff were made in advance of the availability of information on various projects to be undertaken in 2006, particularly in the private sector, in which investments of over US\$800 million are anticipated.

With respect to fiscal performance, the Government expects that the fiscal deficit for 2005 will remain closer to performance in 2004 instead of deteriorating as projected by the staff. This would be facilitated by strong revenue performance, reduction in expenditure on goods and services and a reduction of interest payments due to the coming into force of the agreement for debt forgiveness between the Government of Antigua and Barbuda and the Italian Government. For 2006, despite the planned increase in capital expenditure, the Government expects that the trend of improved fiscal performance would continue.

In 2006, the Government intends to pursue further structural changes on the revenue side and also on the expenditure side. The Budget Statement, which was presented on November 30th 2005, outlined the various measures and programmes to be undertaken in 2006. In terms of interventions on the revenue side, the Government will introduce the Antigua Barbuda Sales Tax which is essentially a value added tax. The assistance and recommendations of the Fund in this area was much appreciated by the Government and we have taken on board many of the recommendations made by the Fund staff on the design of this tax measure.

The Government also recognizes the need to enhance tax administration through legislative reforms and capacity building in the revenue collection agencies. With the assistance of the Caribbean Regional Technical Assistance Centre (CARTAC), the Government has commenced this process, with particular emphasis on the Customs and Inland Revenue Departments. Enhancement of tax administration in Antigua and Barbuda, however, will require further interventions to improve capacity within these key departments and the Government hopes that the Fund and multilateral development and donor agencies would be receptive to requests for assistance in this area.

With respect to expenditure control, the Government has commenced the process of implementing a number of programmes aimed at curtailing public expenditure. This is particularly important since the attainment of fiscal and debt sustainability hinges on improved expenditure management and more productive public expenditure. One key element of the Government's intervention on the expenditure side is the introduction of a voluntary separation and early retirement package which is intended to generate savings on the public sector wage bill of EC\$50 million per year. In addition, the Government with the assistance of CARTAC and the Eastern Caribbean Economic Management Programme (ECEMP) is implementing a cash management and commitment control programme which should facilitate better management of disbursements and eventually eliminate domestic arrears. Further, the Government, again with the assistance of CARTAC, has implemented a strategy for the formulation and management of the Public Sector Investment Programme.

To meet the challenge of ensuring debt sustainability, the Government has commenced the process of developing a strategy for improved debt management and debt restructuring. This effort was made possible through financial assistance from the Canadian International Development Agency (CIDA) and is being undertaken by an international debt advisory firm. It is expected that this strategy will assist the Government in addressing the significant arrears on debt and also should facilitate the reduction in the debt stock to a more sustainable level. Given the importance of debt

sustainability to the macroeconomic well-being of any country, the Government is very committed to this programme and is hopeful that the international and donor communities would support Antigua and Barbuda's efforts in this area.

In an effort to promote private sector investment and to create an environment that is conducive to private sector-led growth, the Government intends to establish an Antigua Barbuda Investment Authority (ABIA) which will serve as a one-stop-shop for facilitating and promoting indigenous and foreign investment. Antigua and Barbuda has also become a member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group. In addition, the Government has undertaken programmes for the promotion of small business development and intends to introduce a Small Business Development Act in 2006. The Government has also entered into an arrangement with the US Government through the United States Agency for International Development (USAID) in an effort to promote private sector development and enhanced competitiveness.

The Government fully agrees with the Fund that there is a need for more accurate, relevant and timely data. This is particularly important in the public policy decision making process. As such, the Government intends to focus on enhancing statistical capacity and would welcome any assistance from the Fund or the donor community.

Finally, the Government of Antigua and Barbuda welcomes frank and open discussion with the staff of the Fund and the wider multilateral and donor communities on the macroeconomic issues facing the economy. The Government finds these interactions very useful and intends to continue to make full use of the technical expertise of the Fund. We will continue to give consideration to the advice provided by the staff of the Fund as we seek to develop policies that would transform the economy of Antigua and Barbuda.